

SB

145

<TARGET><BILL>SB 145</BILL><SUBJECT>SB
145</SUBJECT><COMM>SRES27</COMM></TARGET>



ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

Co-Chair: Senate Resources Committee

Member: C&RA Committee
Member: Regulatory Review

Member: LB&A Committee
Member: World Trade

Official Business

Session: January - May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828 Fax: 907-465-4779

Interim: May - December
145 Main Street Loop, Suite 226
Kenai, AK 99611
Phone: 907-283-7996 Fax: 907-283-8127

MEMORANDUM

To: Senators Wagoner and Paskvan
Co-Chairs, Senate Resources Committee

From: Senator Wagoner *TW*

Date: February 4, 2012

Re: SB 145 Oil/Gas Production Tax Credits: Nenana

I respectfully request a hearing on SB 145 before the Senate Resources Committee to be scheduled at your earliest convenience.

SB 145 is designed to incentivize exploration drilling in the underexplored Nenana Basin by offering tax credits for the first three wells drilled in the basin that meet certain requirements.

Attached please find supporting documentation including:

- SB 145 Oil/Gas Production Tax Credits: Nenana (LS1078\M)
- Sponsor Statement
- Sectional, explaining the changes SB 145 would make to current law
- CS for SB 145 (LS1078\B)
- Explanation of Changes Made by CS for SB 145

Any questions may be directed to the following staff person in my office:

Margaret Dowling
465-4899

SB 145 Testifiers

To Answer Committee Member Questions both Wednesday and Friday:

Off Net; Both days:

DNR

Paul Decker, Petroleum Geologist I, Oil & Gas
269-8791 / 267-2344

Kyle Smith, Natural Resource Spec V, Oil & Gas
269-8802

DOR

Matt Fonder, Director, Tax Division
269-6620

Lennie Dees, Audit Master, Tax-Production Audit Group
269-6624

John Larsen, Audit Master, Tax-Production Audit Group
269-8436

DOL

Susan Pollard, Attorney, Civil – oil gas/mining
465-3600

Industry / Native Regional Corporation – Invited Testimony for Wednesday

LIVE: (no power-point)

James Mery – Doyon Limited, Senior Vice President, Lands and Natural Resources
459-2039 / 360-1234
10 Mins Max

Lance Miller, Ph.D.,(Geologist), Vice pres. of resources, NANA regional corp.
265-4360 / 321-4470
10 Mins Max

Elizabeth Hensley, Corporate & Public Policy Liaison
265-3774
5 Mins Max

Possible Public Testimony on Friday:

OFF NET:

Marie Greene, CEO Pres., North West Leadership Team (WALT)



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Sponsor Statement

SB 145 "An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin"

SB 145 is designed to attract exploration drilling in the underexplored Nenana Basin through tax credit incentives. The Nenana Basin has shown great potential, but has remained underdeveloped due to complications associated with its remote location. At a time when economic growth and development in the Interior is crippled by high energy prices and the lack of reliable energy supplies, this legislation will strongly encourage companies to invest in this high potential, frontier basin, located just 50 miles from Fairbanks. SB 145 has the potential to not only benefit the Interior but, at a time when the state is struggling to supply natural gas to Alaskans along the railbelt and oil to the pipeline, SB 145 has the potential to benefit all Alaskans.

SB 145 is intended to quicken the pace of exploration by rewarding the credits to the first three persons to drill an exploration well to a depth greater than 8,000 feet. The credits are structured as follows:

- The first person that drills an exploration well is credited 100 percent of costs, or \$25 million, whichever is less;
- The second exploration well drilled is entitled to a credit of 90 percent, or up to \$22.5 million, whichever is less;
- The third exploration well is credited at 80 percent, or up to \$20 million, whichever is less.

If the exploration results in sustained oil and/or gas production from a reservoir discovered by the drilling, then 50 percent of the credits awarded will be repaid to the state.

The Nenana basin has a high potential for production of gas and possibly oil. SB 145 provides the incentives needed for exploration in this basin. Should a discovery be made, the new resource will benefit the regional economy and support businesses and families who are suffering from high energy costs and unreliable supplies.



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Sectional

SB 145 "An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin."

Section 1. Amends AS 43.55.025(a) to add reference to a new subsection "n"

Section 2. Adds a new subsection to AS 43.55.025, which provides that the first three drillers, who may be affiliated, that drill an exploration well for the purpose of discovering oil or gas in the Nenana Basin are eligible for tax credits. The well depth must be greater than 8,000 feet, but a shallower well of no less than 5,000 feet may be authorized by the commissioner of natural resources before drilling commences. The new subsection includes a payback provision, which is triggered upon sustained production from a reservoir discovered by the exploration well, and structures the tax credits as follows:

- The first person that drills an exploration well is credited 100 percent of costs, or \$25 million, whichever is less;
- The second exploration well drilled is entitled to a credit of 90 percent, or up to \$22.5 million, whichever is less;
- The third exploration well is credited at 80 percent, or up to \$20 million, whichever is less.



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Amended Sectional

SB 145 "An Act providing for a credit against the oil and gas production tax for costs incurred for conducting seismic exploration and drilling certain oil or natural gas exploration wells in certain basins; and providing a special tax rate for new oil or gas production south of 68 degrees North latitude."

The Work Draft CSSB 145, (Version 27-LS1078\D) makes one change from Work Draft CSSB 145 (Version 27-LS1078\I) as follows:

Section 5. Changes the period during which the Department of Natural Resources will keep seismic data confidential under S 43.55.025(f)(2) from ten years to two for those persons who apply for a production tax credit under the new provision of subsection (o).

CS FOR SENATE BILL NO. 145()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY

**Offered:
Referred:**

Sponsor(s): SENATORS WAGONER AND COGHILL, Thomas

A BILL

FOR AN ACT ENTITLED

1 **"An Act providing for a credit against the oil and gas production tax for costs incurred**
2 **for conducting seismic exploration and drilling certain oil or natural gas exploration**
3 **wells in certain basins; and providing a special tax rate for new oil or gas production**
4 **south of 68 degrees North latitude."**

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

6 *** Section 1.** AS 43.55.011(e) is amended to read:

7 (e) There is levied on the producer of oil or gas a tax for all oil and gas
8 produced each calendar year from each lease or property in the state, less any oil and
9 gas the ownership or right to which is exempt from taxation or, constitutes a
10 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]
11 (o), **and (p)** of this section, the tax is equal to the sum of

12 (1) the annual production tax value of the taxable oil and gas as
13 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

14 (2) the sum, over all months of the calendar year, of the tax amounts

1 determined under (g) of this section.

2 * **Sec. 2.** AS 43.55.011 is amended by adding a new subsection to read:

3 (p) After December 31, 2012, for the seven years immediately following the
4 commencement of commercial production from a lease or property or unit that did not
5 have oil or gas production before January 1, 2013, the levy of tax under this section
6 for oil and gas produced south of 68 degrees North latitude, other than gas subject to
7 (i) or (j) of this section, gas subject to (o) of this section, or oil subject to (k) of this
8 section, is four percent of the gross value at the point of production.

9 * **Sec. 3.** AS 43.55.025(a) is amended to read:

10 (a) Subject to the terms and conditions of this section, a credit against the
11 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that
12 qualify under (b) of this section in an amount equal to one of the following:

13 (1) 30 percent of the total exploration expenditures that qualify only
14 under (b) and (c) of this section;

15 (2) 30 percent of the total exploration expenditures that qualify only
16 under (b) and (d) of this section;

17 (3) 40 percent of the total exploration expenditures that qualify under
18 (b), (c), and (d) of this section;

19 (4) 40 percent of the total exploration expenditures that qualify only
20 under (b) and (e) of this section; [OR]

21 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
22 section, of the total exploration expenditures described in (b)(1) and (2) of this section
23 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
24 section;

25 (6) the lesser of \$22,500,000 or 80 percent of the total exploration
26 drilling expenditures described in (n) of this section and that qualify under (b)
27 and (c) of this section; or

28 (7) the lesser of \$7,500,000 or 75 percent of the total seismic
29 exploration expenditures described in (o) of this section and that qualify under
30 (b) of this section.

31 * **Sec. 4.** AS 43.55.025(c) is amended to read:

1 (c) To be eligible for a [THE 30 PERCENT] production tax credit authorized
2 by (a)(1), (3), or (6) of this section [OR THE 40 PERCENT PRODUCTION TAX
3 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
4 must

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

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

7 (A) before the well is spudded,

8 (i) the explorer shall submit to the commissioner of
9 natural resources the information necessary to determine whether the
10 geological objective of the well is a potential oil or gas trap that is
11 distinctly separate from any trap that has been tested by a preexisting
12 well;

13 (ii) at the time of the submittal of information under (i)
14 of this subparagraph, the commissioner of natural resources may
15 request from the explorer that specific data sets, ancillary data, and
16 reports including all results, and copies of well data collected and data
17 analyses for the well be provided to the Department of Natural
18 Resources upon completion of the drilling; in this sub-subparagraph,
19 well data include all analyses conducted on physical material, and well
20 logs collected from the well and sample analyses; testing geophysical
21 and velocity data including vertical seismic profiles and check shot
22 surveys; testing data and analyses; age data; geochemical analyses; and
23 access to tangible material; and

24 (iii) the commissioner of natural resources must make
25 an affirmative determination as to whether the geological objective of
26 the well is a potential oil or gas trap that is distinctly separate from any
27 trap that has been tested by a preexisting well and what information
28 under (ii) of this subparagraph must be submitted by the explorer after
29 completion, abandonment, or suspension under AS 31.05.030; the
30 commissioner of natural resources shall make that determination within
31 60 days after receiving all the necessary information from the explorer

1 based on the information received and on other information the
2 commissioner of natural resources considers relevant;

3 (B) for an exploration well other than a well to explore a Cook
4 Inlet prospect, the well must be located and drilled in such a manner that the
5 bottom hole is located not less than three miles away from the bottom hole of a
6 preexisting well drilled for oil or gas, irrespective of whether the preexisting
7 well has been completed, suspended, or abandoned;

8 (C) after completion, suspension, or abandonment under
9 AS 31.05.030 of the exploration well, the commissioner of natural resources
10 must determine that the well was consistent with achieving the explorer's
11 stated geological objective.

12 * **Sec. 5.** AS 43.55.025 is amended by adding new subsections to read:

13 (n) The persons that drill the first four exploration wells in the state and within
14 the areas described in (p) of this section on state or private lands for the purpose of
15 discovering oil or gas that penetrate and evaluate a prospect in a basin described in (p)
16 of this section are eligible for a credit under (a)(6) of this section. A credit under this
17 subsection may not be taken for more than two exploration wells in a single area
18 described in (p)(1) - (6) of this section. Exploration expenditures eligible for the credit
19 in this subsection must be incurred for work performed after June 1, 2012. A person
20 planning to drill an exploration well on private land and to apply for a credit under this
21 subsection shall obtain written consent from the owner of the oil and gas interest for
22 the full public release of all well data after the expiration of the confidentiality period
23 applicable to information collected under (f) of this section and in conjunction with
24 and compliance with the data submission requirements in (f)(2) of this section. The
25 written consent of the owner of the oil and gas interest must be submitted to the
26 commissioner of natural resources before approval of the proposed exploration well.
27 In addition to the requirements in (c) of this section and submission of the written
28 consent of the owner of the oil and gas interest, a person planning to drill an
29 exploration well shall obtain approval from the commissioner of natural resources
30 before the well is spudded. The commissioner of natural resources shall make a
31 written determination approving or rejecting an exploration well within 60 days after

1 receiving the request for approval or as soon as is practicable thereafter. Before
2 approving the exploration well, the commissioner of natural resources shall consider
3 the following: the location of the well; the proximity to a community in need of a local
4 energy source; the proximity of existing infrastructure; the experience and safety
5 record of the explorer in conducting operations in remote or roadless areas; the
6 projected cost schedule; whether seismic mapping and seismic data sufficiently
7 identify a particular trap for exploration; whether the targeted and planned depth and
8 range are designed to penetrate and fully evaluate the hydrocarbon potential of the
9 proposed prospect and reach the level below which economic hydrocarbon reservoirs
10 are likely to be found, or reach 12,000 feet or more true vertical depth; and whether
11 the exploration plan provides for a full evaluation of the wellbore below surface casing
12 to the depth of the well. Whether the exploration well for which a credit is requested
13 under this subsection is located within an area and a basin described under (p) of this
14 section shall be determined by the commissioner of natural resources and reported to
15 the commissioner. A taxpayer that obtains a credit under this subsection may not claim
16 a tax credit under AS 43.55.023 or another provision in this section for the same
17 exploration expenditure.

18 (o) The persons that conduct the first four seismic exploration projects in the
19 state and within the areas described in (p) of this section for the purpose of discovering
20 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit
21 under this subsection may not be taken for more than one seismic exploration project
22 in a single area described in (p)(1) - (6) of this section. Exploration expenditures
23 eligible for the credit in this subsection must be incurred for work performed after
24 June 1, 2012. A person planning to conduct a seismic exploration project on private
25 land and to apply for a credit under this subsection shall obtain written consent from
26 the owner of the oil and gas interest for the full public release of all geophysical data
27 and compliance with the data submission requirements in (f)(2) of this section.
28 Notwithstanding (f)(2)(C)(ii) of this section, to qualify for a credit under this
29 subsection, a person shall submit the written consent of the owner of the oil and gas
30 interest for the release of data if applicable, and all data required under (f)(2) of this
31 section to the Department of Natural Resources and shall agree in writing that all

1 seismic data requirements submitted under the requirements of (f)(2) of this section
 2 may be made public two years after receiving a credit under this subsection. A person
 3 intending to qualify for the tax credit under this subsection shall obtain approval from
 4 the commissioner of natural resources before the commencement of the seismic
 5 exploration activities. The commissioner of natural resources shall make a written
 6 determination approving or rejecting a seismic project within 60 days after receiving
 7 the request for approval or as soon as is practicable thereafter. Before approving a
 8 seismic exploration project, the commissioner shall consider the following: the
 9 location of the project; the projected cost schedule; the data acquisition and data
 10 processing plan; the reasons for choosing the particular area for seismic exploration;
 11 and the experience and safety record of the person in conducting seismic exploration
 12 operations in remote or roadless areas. Whether the seismic exploration project for
 13 which a credit is requested under this subsection is located in a basin described in (p)
 14 of this section shall be determined by the commissioner of natural resources and
 15 reported to the commissioner. A taxpayer that obtains a credit under this subsection
 16 may not claim a tax credit under AS 43.55.023 or another provision in this section for
 17 the same exploration expenditure.

18 (p) The activity that is the basis for a credit claimed under (a)(6) and (n) of
 19 this section or (a)(7) and (o) of this section must be for the exploration of a basin and
 20 within the following areas whose central points are determined using the World
 21 Geographic System of 1984 datum,

- 22 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
 23 West;
- 24 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
 25 West;
- 26 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
 27 West;
- 28 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
 29 West;
- 30 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
 31 West;

1
2

(6) 100 miles from 56.005988 degrees North, -160.56083 degrees
West.

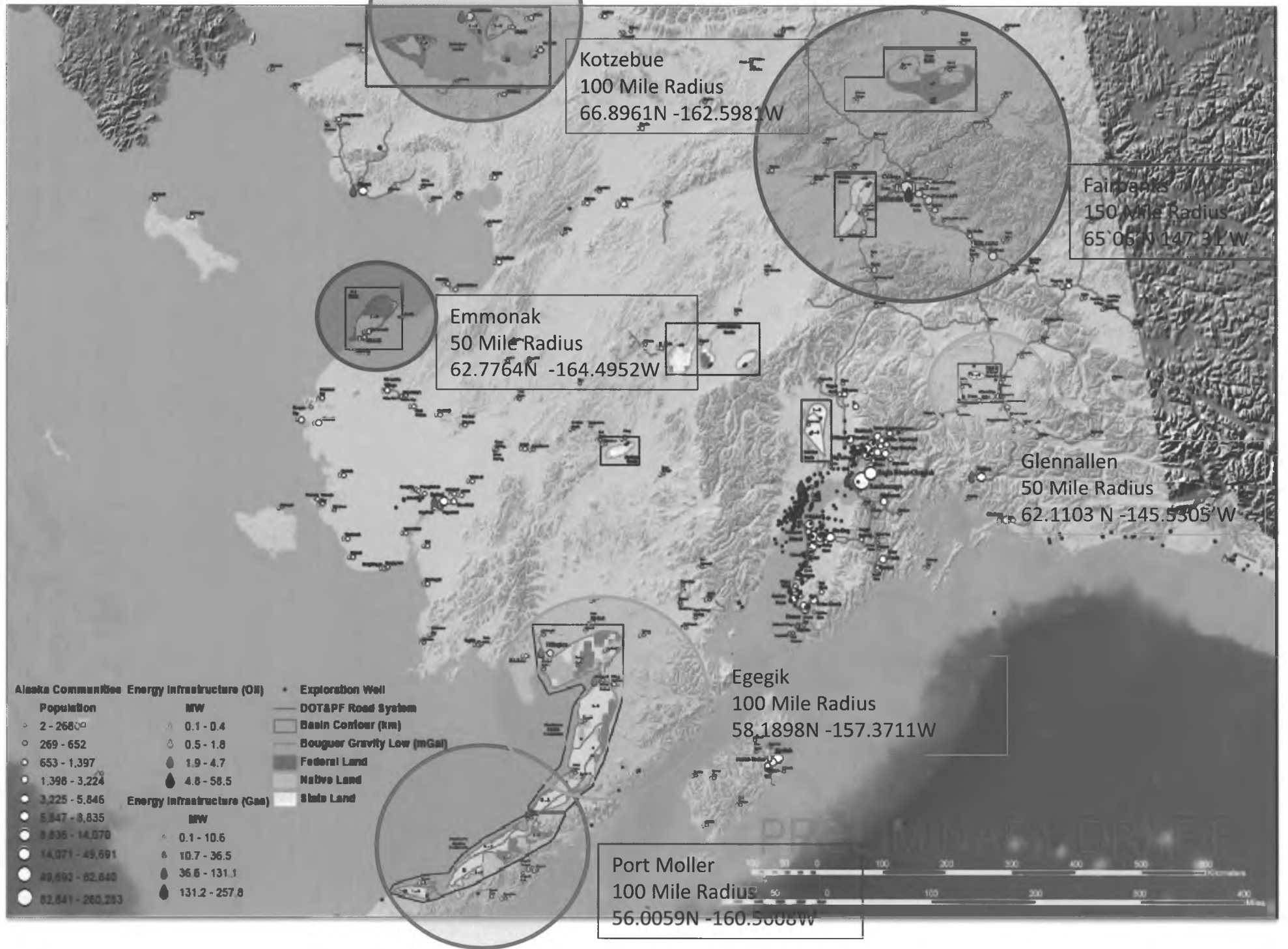
Cost of Energy in Northwest Alaska

The following table shows prices residents are paying for energy, including gasoline, stove oil and propane to heat their homes, and for diesel-generated electricity, as of February, 2012:

Village	Gasoline/gallon	Stove Oil/gallon	Propane/23 gallon	Electric/Kwh
Kotzebue	\$7.35	\$7.50	\$186.79	\$.4144
Ambler	\$8.95	\$9.50	\$285	\$.6805
Kobuk	\$10.46	\$9.30	\$270	\$.87
Shungnak	\$9.59	\$9.59	\$330	\$.9235
Kiana	\$7.50	\$7.00	\$270	\$.6835
Noorvik	\$8.07	\$7.31	\$278	\$.6489
Selawik	\$7.00	\$6.80	\$264.55	\$.6567
Buckland	\$6.25	\$7.00	\$271	\$.4741
Deering	\$6.30	\$6.25	\$285	\$.7047
Kivalina	\$6.72	\$6.55	\$285	\$.6785
Noatak	\$8.99	\$8.99	\$311	\$.7826

The average cost of one gallon of gas in our region is \$7.92. The village of Kobuk has the highest price at \$10.46 per gallon. Buckland enjoys the least costly rate at \$6.25 per gallon.

PROVIDED FOR SB 145; 3-28-12 *MAA*



Kotzebue
100 Mile Radius
66.8961N -162.5981W

Fairbanks
150 Mile Radius
65°06' N 147°31' W

Emmonak
50 Mile Radius
62.7764N -164.4952W

Glennallen
50 Mile Radius
62.1103 N -145.5305° W

Egegik
100 Mile Radius
58.1898N -157.3711W

Port Moller
100 Mile Radius
56.0059N -160.5608W

- Alaska Communities**
- | | | |
|--------------------|------------------------------------|------------------------------|
| Population | Oil | Exploration Well |
| ○ 2 - 268 | ○ 0.1 - 0.4 | ● |
| ○ 269 - 652 | ○ 0.5 - 1.8 | — DOT&PF Road System |
| ○ 653 - 1,397 | ○ 1.9 - 4.7 | □ Basin Contour (Nm) |
| ○ 1,398 - 3,224 | ○ 4.8 - 58.5 | — Bouguer Gravity Low (mGal) |
| ○ 3,225 - 5,846 | | ■ Federal Land |
| ○ 5,847 - 8,835 | Energy Infrastructure (Gas) | ■ Native Land |
| ○ 8,836 - 14,070 | MW | ■ State Land |
| ○ 14,071 - 49,691 | ○ 0.1 - 10.6 | |
| ○ 49,692 - 82,840 | ○ 10.7 - 36.5 | |
| ○ 82,841 - 260,283 | ○ 36.6 - 131.1 | |
| | ○ 131.2 - 257.8 | |





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Sponsor Statement

CSSB 145 (Res) *"An Act providing for a credit against the oil and gas production tax for costs incurred for conducting seismic exploration and drilling certain oil or natural gas exploration wells in certain basins."*

CSSB 145 is designed to attract exploration drilling and seismic exploration in remote areas of Alaska with some proximity to communities in need of a local energy source. These remote areas show promise of holding hydrocarbons, but are underexplored due to complications and costs associated with accessing and developing these remote locations. Because they are underexplored, or even unexplored, they have provided scant geological information to either the state or possible investors. At a time when economic growth and development in many regions of Alaska are crippled by high energy prices and the lack of reliable energy supplies, this legislation will provide needed encouragement to independent companies and landowners otherwise hesitant to invest in exploration projects near energy challenged communities. For example, the Fairbanks community spends over \$660 million per year on space heating, yet is located just 50 miles away from the Nenana Basin, a geologic basin that has shown strong potential to be a source for oil and gas. All that is needed to develop this potential resource is investors. Like tax credits used in other regions in the state, CSSB 145 tax credits for frontier basins will attract those needed investors.

CSSB 145 provides to the first four persons that perform seismic exploration in four different areas identified in the bill a credit in the amount of \$7,500,000 or 75% of the total seismic exploration expenditures, whichever is less. The first four exploration well drillers to drill within the areas described in the bill will receive \$22,500,000 or 80% of the total exploration drilling expenses, whichever is less. No more than two wells in a single designated area may qualify for the credit. In exchange for the tax credit, explorers must agree to meet certain criteria before commencing exploration that will assure the state that the project is sound, and they must agree to provide to the state specific data acquired through the project.

By providing meaningful tax credits to the first four exploration drillers to drill in these remote areas, and the first four seismic projects to be completed, CSSB 145 will hasten exploration in specific remote basins that the Department of Natural Resources has identified may hold oil and gas reserves. The exploration incentives in CSSB 145 will benefit the Interior and other regions of the state faced with crippling high-energy costs and benefit the state by providing information needed to better define potential resources and further attract investment and exploration in these remote areas.

CS FOR SENATE BILL NO. 145()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATORS WAGONER AND COGHILL, Thomas

A BILL
FOR AN ACT ENTITLED

1 **"An Act providing for a credit against the oil and gas production tax for costs incurred**
2 **for conducting seismic exploration and drilling certain oil or natural gas exploration**
3 **wells in certain basins; and providing a special tax rate for new oil or gas production**
4 **south of 68 degrees North latitude."**

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

6 *** Section 1.** AS 43.55.011(e) is amended to read:

7 (e) There is levied on the producer of oil or gas a tax for all oil and gas
8 produced each calendar year from each lease or property in the state, less any oil and
9 gas the ownership or right to which is exempt from taxation or constitutes a
10 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]
11 (o), and (p) of this section, the tax is equal to the sum of

12 (1) the annual production tax value of the taxable oil and gas as
13 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

14 (2) the sum, over all months of the calendar year, of the tax amounts

1 determined under (g) of this section.

2 * **Sec. 2.** AS 43.55.011 is amended by adding a new subsection to read:

3 (p) After December 31, 2012, for the seven years immediately following the
4 commencement of commercial production from a lease or property or unit that did not
5 have oil or gas production before January 1, 2013, the levy of tax under this section
6 for oil and gas produced south of 68 degrees North latitude, other than gas subject to
7 (i) or (j) of this section, gas subject to (o) of this section, or oil subject to (k) of this
8 section, is four percent of the gross value at the point of production.

9 * **Sec. 3.** AS 43.55.025(a) is amended to read:

10 (a) Subject to the terms and conditions of this section, a credit against the
11 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that
12 qualify under (b) of this section in an amount equal to one of the following:

13 (1) 30 percent of the total exploration expenditures that qualify only
14 under (b) and (c) of this section;

15 (2) 30 percent of the total exploration expenditures that qualify only
16 under (b) and (d) of this section;

17 (3) 40 percent of the total exploration expenditures that qualify under
18 (b), (c), and (d) of this section;

19 (4) 40 percent of the total exploration expenditures that qualify only
20 under (b) and (e) of this section; [OR]

21 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
22 section, of the total exploration expenditures described in (b)(1) and (2) of this section
23 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
24 section;

25 **(6) the lesser of \$22,500,000 or 80 percent of the total exploration**
26 **drilling expenditures described in (n) of this section and that qualify under (b)**
27 **and (c) of this section; or**

28 **(7) the lesser of \$7,500,000 or 75 percent of the total seismic**
29 **exploration expenditures described in (o) of this section and that qualify under**
30 **(b) of this section.**

31 * **Sec. 4.** AS 43.55.025(c) is amended to read:

1 (c) To be eligible for a [THE 30 PERCENT] production tax credit authorized
2 by (a)(1), (3), or (6) of this section [OR THE 40 PERCENT PRODUCTION TAX
3 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
4 must

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

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

7 (A) before the well is spudded,

8 (i) the explorer shall submit to the commissioner of
9 natural resources the information necessary to determine whether the
10 geological objective of the well is a potential oil or gas trap that is
11 distinctly separate from any trap that has been tested by a preexisting
12 well;

13 (ii) at the time of the submittal of information under (i)
14 of this subparagraph, the commissioner of natural resources may
15 request from the explorer that specific data sets, ancillary data, and
16 reports including all results, and copies of well data collected and data
17 analyses for the well be provided to the Department of Natural
18 Resources upon completion of the drilling; in this sub-subparagraph,
19 well data include all analyses conducted on physical material, and well
20 logs collected from the well and sample analyses; testing geophysical
21 and velocity data including vertical seismic profiles and check shot
22 surveys; testing data and analyses; age data; geochemical analyses; and
23 access to tangible material; and

24 (iii) the commissioner of natural resources must make
25 an affirmative determination as to whether the geological objective of
26 the well is a potential oil or gas trap that is distinctly separate from any
27 trap that has been tested by a preexisting well and what information
28 under (ii) of this subparagraph must be submitted by the explorer after
29 completion, abandonment, or suspension under AS 31.05.030; the
30 commissioner of natural resources shall make that determination within
31 60 days after receiving all the necessary information from the explorer

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based on the information received and on other information the commissioner of natural resources considers relevant;

(B) for an exploration well other than a well to explore a Cook Inlet prospect, the well must be located and drilled in such a manner that the bottom hole is located not less than three miles away from the bottom hole of a preexisting well drilled for oil or gas, irrespective of whether the preexisting well has been completed, suspended, or abandoned;

(C) after completion, suspension, or abandonment under AS 31.05.030 of the exploration well, the commissioner of natural resources must determine that the well was consistent with achieving the explorer's stated geological objective.

* **Sec. 5.** AS 43.55.025 is amended by adding new subsections to read:

(n) The persons that drill the first four exploration wells in the state and within the areas described in (p) of this section on state or private lands for the purpose of discovering oil or gas that penetrate and evaluate a prospect in a basin described in (p) of this section are eligible for a credit under (a)(6) of this section. A credit under this subsection may not be taken for more than two exploration wells in a single area described in (p)(1) - (6) of this section. Exploration expenditures eligible for the credit in this subsection must be incurred for work performed after June 1, 2012. A person planning to drill an exploration well on private land and to obtain a credit under this subsection shall obtain written consent from the owner of the oil and gas interest for the full public release of all well data after the expiration of the confidentiality period applicable to information collected under (f) of this section and in conjunction with and compliance with the data submission requirements in (f)(2) of this section. The written consent of the owner of the oil and gas interest must be submitted to the commissioner of natural resources before approval of the proposed exploration well. In addition to the requirements in (c) of this section and submission of the written consent of the owner of the oil and gas interest, a person planning to drill an exploration well shall obtain approval from the commissioner of natural resources before the well is spudded. The commissioner of natural resources shall approve or reject an exploration well within 60 days after receiving the request for approval or as

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1 soon as is practicable thereafter. Before approving the exploration well, the
2 commissioner of natural resources shall consider the following: the location of the
3 well; the proximity to a community in need of a local energy source; the proximity of
4 existing infrastructure; the experience and safety record of the explorer in conducting
5 operations in remote or roadless areas; the projected cost schedule; whether seismic
6 mapping and seismic data sufficiently identify a particular trap for exploration;
7 whether the targeted and planned depth and range are designed to penetrate and fully
8 evaluate the hydrocarbon potential of the proposed prospect and reach the level below
9 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or
10 more true vertical depth; and whether the exploration plan provides for a full
11 evaluation of the wellbore below surface casing to the depth of the well. Whether the
12 exploration well for which a credit is requested under this subsection is located within
13 an area and a basin described under (p) of this section shall be determined by the
14 commissioner of natural resources and reported to the commissioner. A taxpayer that
15 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023
16 or another provision in this section for the same exploration expenditure.

17 (o) The persons that conduct the first four seismic exploration projects in the
18 state and within the areas described in (p) of this section for the purpose of discovering
19 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit
20 under this subsection may not be taken for more than one seismic exploration project
21 in a single area described in (p)(1) - (6) of this section. Exploration expenditures
22 eligible for the credit in this subsection must be incurred for work performed after
23 June 1, 2012. A person planning to conduct a seismic exploration project on private
24 land and to obtain a credit under this subsection shall obtain written consent from the
25 owner of the oil and gas interest for the full public release of all geophysical data and
26 compliance with the data submission requirements in (f)(2) of this section. To qualify
27 for a credit under this subsection, a person shall submit the written consent of the
28 owner of the oil and gas interest for the release of data if applicable, and all data
29 required under (f)(2) of this section to the Department of Natural Resources and shall
30 agree in writing that all seismic data requirements submitted under the requirements of
31 (f)(2) of this section may be made public after the expiration of the confidentiality

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period applicable to information collected under (f)(2) of this section. A person intending to qualify for the tax credit under this subsection shall obtain approval from the commissioner of natural resources before the commencement of the seismic exploration activities. The commissioner of natural resources shall approve or reject a seismic project within 60 days after receiving the request for approval or as soon as is practicable thereafter. Before approving a seismic exploration project, the commissioner shall consider the following: the location of the project; the projected cost schedule; the data acquisition and data processing plan; the reasons for choosing the particular area for seismic exploration; and the experience and safety record of the person in conducting seismic exploration operations in remote or roadless areas. Whether the seismic exploration project for which a credit is requested under this subsection is located in a basin described in (p) of this section shall be determined by the commissioner of natural resources and reported to the commissioner. A taxpayer that obtains a credit under this subsection may not claim a tax credit under AS 43.55.023 or another provision in this section for the same exploration expenditure.

(p) The activity that is the basis for a credit claimed under (a)(6) and (n) of this section or (a)(7) and (o) of this section must be for the exploration of a basin and within the following areas whose central points are determined using the World Geographic System of 1984 datum,

(1) 100 miles from 66.896128 degrees North, -162.598187 degrees West;

(2) 150 miles from 64.839474 degrees North, -147.72094 degrees West;

(3) 50 miles from 62.776428 degrees North, -164.495201 degrees West;

(4) 50 miles from 62.110357 degrees North, -145.530551 degrees West;

(5) 100 miles from 58.189868 degrees North, -157.371104 degrees West;

(6) 100 miles from 56.005988 degrees North, -160.56083 degrees

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West.



Official Business

ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

Co-Chair: Senate Resources Committee

Member: C&RA Committee

Member: LB&A Committee

Member: Regulatory Review

Member: World Trade

Session: January – May

State Capitol, #427

Juneau, AK 99801

Phone: 907-465-2828 Fax: 907-465-4779

Interim: May – December

145 Main Street Loop, Suite 226

Kenai, AK 99611

Phone: 907-283-7996 Fax: 907-283-8127

Sectional

SB 145 *“An Act providing for a credit against the oil and gas production tax for costs incurred for conducting seismic exploration and drilling certain oil or natural gas exploration wells in certain basins; and providing a special tax rate for new oil or gas production south of 68 degrees North latitude.”*

Section 1. Amends AS 43.55.011(e) to add reference to a new subsection (p).

Section 2. Adds a new subsection(p) to AS 43.55.011 that provides a four percent of the gross value at the point of production tax rate after December 31, 2012 for the seven years immediately following the commencement of commercial production from a lease of property or a unit that did not have oil or gas production before January 1, 2013, and that is not gas subject to AS 43.55.011 (i), (j) or (o) or oil subject to (k).

Section 3. Amends AS 43.55.025(a) to add a new subsection (6) that allows a production tax credit for exploration drilling expenditures, described in a new subsection (n), that qualify under (b) and (c) of AS 43.55.025 in the amount of 80% of the total expenditures or \$22.5 million, whichever is less; and adds a new subsection (7) that allows a production tax credit for seismic exploration expenditures, described in a new subsection (o), that qualify under (b) of AS 43.55.025 in the amount of 75% of the total seismic exploration expenditures or \$7.5 million, whichever is less.

Section 4. Makes a conforming change to AS 43.55.025(c) to include the new subsection (6)

Section 5. Adds a new subsection (n) to AS 43.55.025 providing that the first four exploration drillers that drill an exploration well on state or private land, within the areas identified in subsection (p), are eligible for tax credits described under (a)(6). Specifies that a credit may not be taken for more than two wells in a single area described in (p) and work must be performed after June 1, 2012. Provides that if the well is on private land, the driller shall obtain written consent from the owner of the oil and gas interest for the full public release of all well data after the expiration of the confidentiality period provided under subsection (f) and submit that consent to DNR before approval of the proposed well.

In addition to the requirements of (c), adds that the explorer shall obtain approval from DNR before the well is spudded, and gives the commissioner 60 days to

approve the request, based on consideration of certain factors that will help validate the soundness of the proposed exploration plan and its likelihood of success.

Clarifies that a taxpayer taking a credit under this section may not stack the credit with other credits allowed under AS 43.55.023.

Adds a new subsection (o) to AS 43.55.025 providing that the first four seismic exploration projects in the state that are within the areas identified in (p) are eligible for the credits under (a)(7). Specifies that a credit may not be taken for more than one seismic project in a single area described in (p) and work must be performed after June 1, 2012. Provides that if the seismic is on private land, the driller shall obtain written consent from the owner of the oil and gas interest for the full public release of all seismic data after the expiration of the confidentiality period provided under subsection (f)(2) and submit that consent to DNR before approval of the proposed seismic project.

Further provides that the explorer shall obtain approval from DNR before the seismic exploration project commences, and gives the commissioner 60 days to approve the request, based on consideration of certain factors that will help validate the soundness of the proposed exploration plan and its likelihood of success.

Clarifies that a taxpayer taking a credit under this section may not stack the credit with other credits allowed under AS 43.55.023.

Adds a new subsection (p) that lists six areas within the state where exploration projects may be conducted and qualify for the tax credits under (a)(6) and (a)(7).

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSSB145(RES)
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB145CS(RES)-DNR-DOG-03-28-12 Dept. Affected Natural Resources
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Oil and Gas
 Allocation Oil and Gas
 Sponsor Sen. Wagoner
 Requester (S)RES OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services	193.4		193.4	193.4	193.4	193.4	96.7	
Travel								
Services	11.0		11.0	11.0	11.0	11.0	5.5	
Commodities	7.0							
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	211.4	0.0	204.4	204.4	204.4	204.4	102.2	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	211.4	204.4	204.4	204.4	204.4	102.2	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		211.4	0.0	204.4	204.4	204.4	102.2	0.0

POSITIONS								
Full-time		2	2	2	2	1	0	
Part-time								
Temporary								

CHANGE IN REVENUES	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

The Senate Resources committee substitute for SB 145 includes 5 more areas eligible for tax incentives program for exploration activities. Seismic exploration activities were also added to the exploration wells as eligible activities for tax credits. CSSB145 also adds a new section on production tax for commercial finds of oil or gas production south of 68 degrees, other than Cook Inlet.

Prepared by William C. Barron, Director
 Division Division of Oil and Gas
 Approved by Daniel Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8800
 Date/Time 3/28/12 4:00 PM
 Date 3/28/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSSB145(RES)

Analysis

The impact of CSSB 145(RES) on state royalties is indeterminate. The impact is dependent on a commercial discovery being made on state lands, and the frontier areas contain lands for which the State owns the mineral rights.

Section 2 of CSSB 145(RES) would put a four percent gross tax ceiling on the current net tax for the first seven years of production from a field that is not on the North Slope, nor in the Cook Inlet, nor selling gas for use in-state. The impact of this section on state royalty revenue is indeterminate. Depending on the field's profitability, the four percent gross tax might be less than the current net tax. Despite the tax liability under current tax law for such a field already being reduced by the non-transferable tax credits available under AS 43.55.024(a) and (c) (if applicable), the four percent ceiling might improve the economics of field development.

Section 3 establishes for exploration activity within six frontier areas in Alaska two new credits: a credit for seismic work and a credit for drilling exploration wells. The credit for seismic activity provides for a credit equal to 75% of the cost of the seismic work or \$7.5 million, whichever is less, for the first four seismic exploration projects in those frontier areas. Not more than one seismic program can be undertaken for a given frontier area. The credit for exploration well drilling provides a credit equal to 80% of the cost of the well or \$22.5 million, whichever is less, for the four wells drilled in the six frontier areas. Not more than two wells can be drilled in a given frontier area. These two credits cannot be taken in conjunction with the qualified capital expenditure credit or carried-forward annual loss credit. The credit applies to exploration on state, private lands and onshore federal lands.

The 75% seismic and 80% well exploration credits provides a more generous tax benefit than is currently available for new entrant explorers in Alaska. Now, the new entrant explorer could receive at most a 65% tax benefit comprised of a 40% credit for a remote well drilled (or for seismic of a remote area) and a carried-forward annual loss credit of 25% under AS 43.55.023(b). This higher up-front tax benefit, all else equal, should encourage exploration by new entrants in some of the six frontier areas identified in the bill.

In the frontier areas denoted by the new AS 43.55.025(p)(5) and (p)(6), the Egegik and Port Moller basins, DNR holds annual Alaska Peninsula area lease sales. The area has moderate to high potential for gas and low to moderate potential for oil. The State has not received any bids for leases in this area over the last three lease sales. To the extent the more generous tax benefits there encourage lease bidding, drilling, and seismic work in the Alaska Peninsula, the State might eventually receive more revenue from bonus bids and royalties from that area.

The frontier area denoted by (p)(2), or the Fairbanks area, includes the Nenana basin, where Doyon currently has an exploration license with the State. To the extent the more generous tax benefits there encourage drilling and seismic work in the Nenana basin, the State may eventually receive more royalty revenue as the exploration licenses there are converted to leases.

Some of the frontier areas contain land whose mineral rights are owned by private landowners or the federal government. The prospective acreage in the Yukon Flats basin contained in the Fairbanks frontier area is on land owned by Native corporations. Similarly, while the State has a mineral interest in offshore lands up to the three mile limit for frontier areas denoted by (p)(1), Kotzebue, and (p)(3), Emmonak, the State lacks a substantial mineral interest on-shore in these frontier areas.

The Copper River basin is also identified and although there is a significant state land base, the area is mostly federal US Park Service lands. There are no state exploration licenses in the area; however, approximately ten to twelve exploration wells have been drilled in the area.

FISCAL NOTE

Analysis Continued

Section 5 of the bill provides for some administrative responsibilities for DNR. A person wanting to receive a credit must obtain the approval of DNR for undertaking the seismic or drilling program, and DNR has 60 days or as soon as practical to evaluate the proposed expenditure. DNR's written evaluation must take into account a number of factors concerning the operator and proposed exploration. DNR must also find that the proposed work is located in a specified frontier basin. DNR must also ensure that data is collected on the exploration work, and, if applicable, obtain the agreement of a private landowner for public release of the data under AS 43.55.025(i).

DNR must make a best interests finding regarding the proposed work program after examining a variety of factors. DNR must also find that the proposed work is located in a specified frontier basin. The division is requesting two new NRS III positions (range 18, step C) to address the anticipated increase in well drilling and seismic activities in frontier areas and a potential influx in processing of exploration licenses. Other budgeted items include mandatory position costs, office equipment, and office space expenses.

Resource evaluation work such as serving as contacts for several stages of necessary correspondence between the operator, Division of Oil and Gas, and Department of Revenue; inventorying and checking completeness of data submitted; assisting in loading and conducting quality control on seismic and well data; monitoring release schedule; and helping coordinate the transfer of DNR data to Alaska Oil and Gas Conservation Commission for public distribution would also be required. Assuming this program is not amended or extended, the staffing increases could be reduced in FY17 and 18.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSSB 145 (RES)
 Fiscal Note Number 2
 () Publish Date _____

Identifier (file name) SB145CS(RES)-DOR-TAX-03-29-12 Dept. Affected Revenue
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Taxation and Treasury
 Allocation Tax
 Sponsor Senators Wagoner, Coghill, and Thomas
 Requester SEN RES OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***	***
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Estimated **SUPPLEMENTAL (FY12) operating costs** _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY13) costs** _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Updated for CS version D.

Prepared by Lennie Dees / Audit Master
 Division Tax
 Approved by Alicia Egan, Legislative Liaison
Department of Revenue

Phone 907-269-1019
 Date/Time 3/29/12 8:15 AM
 Date 3/29/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSSB 145 (RES)

Analysis

The revenue impact of this bill is indeterminate.

This bill adds new subsections (a)(6), (a)(7), (n), (o), and (p) to AS 43.55.025. Subsections (n) and (o) authorize production tax credits for drilling 4 exploration wells and conducting 4 seismic exploration projects in the 6 areas, or basins, identified in new subsection (p) of the bill. The new credit amounts are defined in subsections (a)(6) and (a)(7). Subsection (a)(6) authorizes a credit which is the lesser of \$22.5 million or 80% of the exploration drilling expenditures for each well described in subsection (n) that qualify under subsections (b), (c) and (p) of AS 43.55.025. Subsection (a)(7) authorizes a credit which is the lesser of \$7.5 million or 75% of each seismic exploration project described in (o) that qualify under subsections (b) and (p) of AS 43.55.025. Only expenditures occurring after June 1, 2012 and before July 1, 2016 qualify under the bill.

The bill also adds a new subsection (p) to AS 43.55.011. This new subsection states that, for a period of seven years following the commencement of commercial production from a lease or property or unit south of 68 degrees North latitude (but not including Cook Inlet) that did not have oil or gas production prior to January 1, 2013, the tax rate for any new production in these areas would be 4% of the gross value at the point of production.

The fiscal impact of this bill is indeterminate. If four qualifying wells are drilled for the maximum allowed credit for each well of \$22.5 million, the financial impact to the state would be \$90 million. If four qualifying seismic exploration projects are conducted at the maximum allowed credit of \$7.5 million, the financial impact to the state would be \$30 million for a total of impact of \$120 million if all credits proposed in the bill are earned.

The Department of Revenue could administer the provisions of this bill with existing resources.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SB 145
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB145-DOR-TAX-03-28-12 Dept. Affected Revenue
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Taxation and Treasury
 Allocation Tax
 Sponsor Senators Wagoner, Coghill, and Thomas
 Requester (S) RES OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***
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Estimated **SUPPLEMENTAL (FY12) operating costs** _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY13) costs** _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is the initial version of the bill.

Prepared by Lennie Dees / Audit Master
 Division Tax
 Approved by Alicia Egan, Legislative Liaison
Department of Revenue

Phone 907-269-6624
 Date/Time 3/28/12 10:15 AM
 Date 3/28/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB 145

Analysis

The revenue impact of this bill is indeterminate.

The bill amends subsection (a)(5) of AS 43.55.025 by adding reference to new section (n).

Section (n) establishes tax credits for drilling 3 oil or natural gas exploration wells in the Nenana Basin. This bill rewards to the first three persons that qualify, tax credits equaling 100%, 90% and 80% of the first \$25 million in exploration well expenditures.

The language states that the first person to drill the well qualifies for the credit. One person or affiliate can obtain all three credits.

The Commissioner of Natural Resources has to authorize a well less than 8,000 feet but not less than 5,000 feet.

The bill does contain some provisions for payback of 50% of the credit for any well resulting in sustained production.

A taxpayer claiming a tax credit under this subsection may not claim a tax credit under AS 43.55.023 or another provision in this section for the same exploration expenditure.

This bill authorizes credits up to \$67.5 million maximum, for all three wells.

The Department of Revenue can administer the provisions of this bill with existing resources.



ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

Co-Chair: Senate Resources Committee

Member: C&RA Committee
Member: Regulatory Review

Member: LB&A Committee
Member: World Trade

Official Business

Session: January - May
State Capitol, #427
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Phone: 907-283-7996 Fax: 907-283-8127

DATE: April 3, 2012
TO: Leg. Legal
FROM: Mary Jackson
RE: Final Committee Bills - SB 145 & SB 219

The Senate Resources Committee met on April 2 and acted on SB 145 and SB 219.

Please provide a CS for those bills, per the Committee's actions, as follows:

SB 145 – adopted the following amendments to Draft CS SB 145 version \D:
27-LS1078\D.3 offered by Wielechowski & French (Amend #1)
27-LS1078\D.5 offered by French
French amended from "four" years to "five" years, no objection by committee. Amended amendment was no objection.

SB 219 – adopted the following amendments to version \A
27-GS2717A.1 offered by Wagoner
27-GS2717A.2 offered by French
27-GS2717A.4 offered by French
27-GS2717A.6 offered by Wielechowski

AMENDMENT #1

OFFERED IN THE SENATE BY SENATORS WIELECHOWSKI AND
TO: CSSB 145(), Draft Version "D" FRENCH

1 Page 1, line 3, following "**basins**";:

2 Insert "**relating to certain nontransferable oil and gas production tax credits**;"

3

4 Page 2, following line 8:

5 Insert a new bill section to read:

6 "*** Sec. 3.** AS 43.55.024(b) is amended to read:

7 (b) A producer may not take a tax credit under (a) of this section for any
8 calendar year after the later of

9 (1) **2021** [2016]; or

10 (2) the ninth calendar year after the calendar year during which the
11 producer first has commercial oil or gas production before May 1, **2021** [2016], from
12 at least one lease or property in the state outside the Cook Inlet sedimentary basin, no
13 part of which is north of 68 degrees North latitude, if the producer did not have
14 commercial oil or gas production from a lease or property in the state outside the Cook
15 Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, before
16 April 1, 2006."

17

18 Renumber the following bill sections accordingly.

AMENDMENT #2

OFFERED IN THE SENATE BY SENATORS WIELECHOWSKI AND
TO: CSSB 145(), Draft Version "D" FRENCH

1 Page 1, line 3:

2 Delete "and"

3 Insert "relating to information concerning oil and gas taxes, including information
4 that must be provided in order to claim an oil and gas production tax credit for those
5 expenditures, and to the disclosure of that information;"

6

7 Page 1, line 4, following "latitude":

8 Insert "; and providing for an effective date"

9

10 Page 7, following line 2:

11 Insert new bill sections to read:

12 "** Sec. 6. AS 43.55.030(a) is amended to read:

13 (a) A producer that produces oil or gas from a lease or property in the state
14 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
15 for that oil or gas, shall file with the department on March 31 of the following year a
16 statement, under oath, in a form prescribed by the department, giving, with other
17 information required by the department under a regulation adopted by the
18 department, the following:

19 (1) a description of each lease or property from which oil or gas was
20 produced, by name, legal description, lease number, or accounting codes assigned by
21 the department;

22 (2) the names of the producer and, if different, the person paying the
23 tax, if any;

1 (3) the gross amount of oil and the gross amount of gas produced from
2 each lease or property, and the percentage of the gross amount of oil and gas owned by
3 the producer;

4 (4) the gross value at the point of production of the oil and of the gas
5 produced from each lease or property owned by the producer and the costs of
6 transportation of the oil and gas;

7 (5) the name of the first purchaser and the price received for the oil and
8 for the gas, unless relieved from this requirement in whole or in part by the
9 department;

10 (6) the producer's qualified capital expenditures, as defined in
11 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other
12 payments or credits under AS 43.55.170;

13 (7) the production tax values of the oil and gas under AS 43.55.160;

14 (8) any claims for tax credits to be applied; [AND]

15 (9) calculations showing the amounts, if any, that were or are due
16 under AS 43.55.020(a) and interest on any underpayment or overpayment; **and**

17 **(10) for each expenditure that is the basis for a credit claimed**
18 **under AS 43.55.023 or 43.55.025, a description of the expenditure, a detailed**
19 **description of the purpose of the expenditure, and a description of the lease or**
20 **property for which the expenditure was incurred; notwithstanding**
21 **AS 40.25.100(a) and AS 43.05.230(a), information submitted under this**
22 **paragraph may be disclosed to the public and shall be disclosed to the legislature**
23 **in a report submitted within 10 days after the convening of the next regular**
24 **legislative session following the date a statement is filed under this subsection.**

25 * Sec. 7. AS 43.55.030(e) is amended to read:

26 (e) An explorer or producer that incurs a lease expenditure under
27 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
28 year but does not produce oil or gas from a lease or property in the state during the
29 calendar year shall file with the department on March 31 of the following year a
30 statement, under oath, in a form prescribed by the department, giving, with other
31 information required **by the department under a regulation adopted by the**

1 **department**, the following:

2 (1) the producer's qualified capital expenditures, as defined in
3 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other
4 payments or credits under AS 43.55.170; [AND]

5 (2) if the explorer or producer receives a payment or credit under
6 AS 43.55.170, calculations showing whether the explorer or producer is liable for a
7 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount; **and**

8 **(3) for each expenditure that is the basis for a credit claimed under**
9 **AS 43.55.023 or 43.55.025, a description of the expenditure, a detailed description**
10 **of the purpose of the expenditure, and a description of the lease or property for**
11 **which the expenditure was incurred; notwithstanding AS 40.25.100(a) and**
12 **AS 43.05.230(a), information submitted under this paragraph may be disclosed to**
13 **the public and shall be disclosed to the legislature in a report submitted within 10**
14 **days after the convening of the next regular legislative session following the date**
15 **a statement is filed under this subsection.**

16 * **Sec. 8.** Sections 6 and 7 of this Act take effect July 1, 2012."

AMENDMENT 3

By Senator French

OFFERED IN THE SENATE

TO: CSSB 145(), Draft Version "D"

- 1 Page 2, line 3:
- 2 Delete "seven"
- 3 Insert "~~four~~
five"

State of Alaska
Department of Revenue

Commissioner Bryan Butcher



SEAN PARNELL, GOVERNOR
333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99811-0400
Phone: (907) 465-2300
Fax: (907) 465-2389

The Honorable Joe Paskvan
The Honorable Tom Wagoner
Co-Chairs, Senate Resources Committee
Alaska State Legislature
Juneau AK, 99801

March 30, 2012

SUBJECT: Response to March 26, 2012 email from Senator Wielechowski's office

Dear Senators Paskvan and Wagoner:

Thank you for the opportunity to provide the Senate Resources Committee our response to the question received by Senator Wielechowski's office. The question and response follows.

Can a combination of tax deduction plus credit plus reduction of tax rate on other profits (due to reduced per-barrel profits reducing statewide progressivity) be more than 100%? Is that allowable under statute or is there some limit on how much benefit a producer can accrue from increased investment?

In order to properly respond to the question, I believe it is necessary to consider two different scenarios regarding additional investment dollars. The first scenario will involve a producer that currently has production from an existing "segment" within the state and the second will address the question from the perspective of a producer/explorer with activities from a "segment" within the state that currently has no production.

Scenario 1- Costs Incurred from a Segment Currently in Production:

First, recall if you will, that Alaska's oil and gas production tax liability is calculated on a "lease or property" basis which is sometimes referred to as "segments". For a segment that is currently in production, and, if under a "net tax" system (as compared to a "gross tax" system), one considers allowable and deductible lease expenditures to be a "tax benefit", then I believe that it is possible that the combined effect of lease expenditure deductions, a lower progressivity rate, and tax credits could result in a tax benefit that is greater than the amount invested. However, it should be noted that this effect would be somewhat offset by the additional revenues created from the investment and the state's increasing take as the price of oil or gas rises.

Scenario 2- Costs Incurred from a Segment that is not Currently Producing:

Under Alaska oil & gas production tax laws, expenditures for a segment are "ring-fenced" to each particular segment, i.e., those expenditures associated with a particular segment cannot be

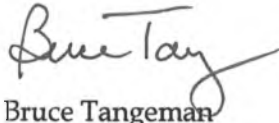
Co-Chairs, Senate Resources Committee
March 29, 2012
Page 2

used outside the segment. Therefore, in regards to expenditures made under the language as proposed in both HB 276 and SB 145 the costs potentially incurred would apply only to those basins described in the proposed legislation. Additionally, the costs incurred would be confined to the segments in which those expenditures were made, specifically to the "Middle Earth" area that is south of 68 degrees North Latitude and no part of which includes the Cook Inlet Sedimentary basin.

For a segment that is not yet in production there would be no revenues against which to offset the lease expenditures. The lease expenditures in this scenario would essentially be "lost" as (i) not applicable against any revenues from the segment, (ii) not "re-locatable" or able to be applied against a different segment, and (iii) not eligible for any additional credits, including the carried-forward annual loss credit under AS 43.55.023(b). Note that the language as proposed in both bills specifically excludes the realization of any additional credits under either "AS 43.55.023 or another provision in this section" [AS 43.55.025]. Therefore, a company's "tax benefit" from a segment that currently has no production would be limited to the amount of the credit as proposed in either HB 276 or SB 145.

We hope our response fully addresses the question.

Sincerely,



Bruce Tangeman
Deputy Commissioner

cc: The Honorable Bill Wielechowski, Vice Chair, Senate Resources Committee
The Honorable Bert Stedman, Senate Resources Committee Member
The Honorable Lesil McGuire, Senate Resources Committee Member
The Honorable Hollis French, Senate Resources Committee Member
The Honorable Gary Stevens, Senate Resources Committee Member

Tanana Chiefs Conference

Chief Peter John Tribal Building

122 First Avenue, Suite 600

Fairbanks, Alaska 99701-4897

(907) 452-8251 Fax: (907) 459-3850

February 9, 2012

SUBREGIONS

UPPER

KUSKOKWIM

McGrath
Medfra
Nikolai
Takotna
Telida

Senator Thomas Wagoner
Alaska State Capital, Room 427
Juneau, AK 99801

Fax 465-4779

LOWER YUKON

Anvik
Grayling
Holy Cross
Shageluk

RE: Support for SB 145 - Tax Credit for Nenana Basin Exploration

Dear Senator Wagoner:

UPPER TANANA

Dor Lake
Eagle
Healy Lake
Northway
Tanacross
Tetlin
Tok

I am writing to support SB 145 which would extend a tax credit to the Nenana Basin to make exploration more affordable. The Nenana Traditional Council is supportive of the bill because it will potentially create local jobs and economic development for the community.

Our mission for the Tanana Chiefs Conference region is to provide a unified voice advancing tribal governments, *economic and social development*, promote physical and mental wellness, education opportunities and protect language, traditional and cultural values.

YUKON FLATS

Arctic Village
Beaver
Birch Creek
Canyon Village
Chalkyitsik
Circle
Fort Yukon
Venetie

In order for our communities to thrive in the future, we must take advantage of opportunities today that will increase employment and economic stability. Our villages are in a financial crisis as the cost of living goes up exponentially and the per capita income remains the same. We must aggressively seek economic development opportunities in our region, especially if they are in rural areas. Of course, we support development only when our subsistence resources will not be harmed.

YUKON KOYUKUK

Galena
Huslia
Kallag
Koyukuk
Nulato
Ruby

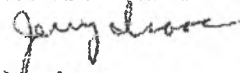
Senator Wagoner, you explained the potential impact very well in your sponsor statement: "SB 145 provides the incentives needed for exploration in this basin. Should a discovery be made, the new resource will benefit the regional economy and support businesses and families who are suffering from high energy costs and unreliable supplies."

On behalf of the Tanana Chiefs Conference region, I offer my support for SB 145. I hope your colleagues in the Alaska State Legislature will realize the importance of this bill and pass it without delay.

Thank you for your work to extend opportunities to rural Alaska.

Sincerely,

TANANA CHIEFS CONFERENCE



Jerry Isaac
President

YUKON TANANA

Alatna
Allakaket
Evansville
Fairbanks
Hughes
Lake
Minchumina
Manley Hot
Springs
Minto
Nenana
Rampart
Stevens Village
Tanana

Tanana Chiefs Conference is a unified voice advancing Tribal governments, economic and social development, promoting physical and mental wellness, educational opportunities and protecting language, traditional and cultural values.



Interior Alaska – The “Place” To Do Business

100 Cushman St., Suite 102 | Fairbanks, Alaska 99701-4665
ph (907) 452-1105 | fax (907) 456-6968 | www.FairbanksChamber.org

March 19, 2012

Members of the Alaska Interior Delegation
Alaska State Capitol
Juneau, Alaska 99801

RE: High Cost of Energy

Dear Members of the Interior Delegation,

The Board of Directors of the Greater Fairbanks Chamber of Commerce appreciates the work that you are doing to address the high cost of energy in the Interior, the Chamber's number one priority this legislative session. Our bi-weekly teleconferences have ensured that the Chamber is informed and engaged regarding the multiple and occasionally conflicting legislative activities taking place in Juneau that impact our community.

The purpose of this letter is to emphasize and clarify the collective priorities of the Chamber in reducing the high cost of energy that is severely impacting our residential and business communities. After thorough review of the bills and appropriations currently being addressed this session, the Chamber provides the following recommendations for your consideration.

For the near term (less than 5 years) gas trucking project(s) from the North Slope and gas storage tax credits are the quickest approaches to bring affordable natural gas to the Interior. Immediate actions for longer term solutions include House Bill 9 and exploration tax credits. The top recommendations are summarized below:

1. Capital funding for liquefaction and vaporization facilities that are necessary to supply natural gas to the Interior of Alaska.
2. Legislation providing gas storage tax credits are critical components of supplying gas to the Interior. This methodology has been used in the South-central region to meet storage needs. The same approach and parity should be used for Interior storage needs.
3. The new version of House Bill 9 aligns with the Chamber's ongoing priority for getting reasonably priced gas to the Interior. We strongly support the work being done on a gas pipeline and will work diligently to ensure the issues, such as fair tariffs, will be addressed without preventing passage of the bill.
4. Legislation that provides tax credits for oil and gas exploration in frontier basins is an important piece of the long term energy picture for the Interior.
5. The expansion of a distribution system, as well as low cost energy conversion loans, will prove to be valuable once movement has occurred addressing the supply of natural gas.

INVESTORS

DIAMOND

BP Exploration
 ConocoPhillips
 ExxonMobil
 Fairbanks Daily News-Miner
 Fairbanks Memorial Hospital & Denali Center
 Flint Hills Resources Alaska
 Mt. McKinley Bank
 Santina's Flowers & Gifts

PLATINUM

Alyeska Pipeline Service Co.
 Carlson Center
 Doyon, Limited
 Fred Meyer Stores
 Golden Heart Utilities
 Wells Fargo Bank Alaska

GOLD

Birchwood Homes
 Denali State Bank
 Design Alaska
 Doyon Utilities LLC
 First National Bank Alaska
 GCI
 Kinross-Fort Knox Mine
 Lynden
 MAC Federal Credit Union
 Northrim Bank
 Sumitomo Metal Mining Pogo LI
 Usibelli Coal Mine

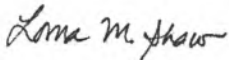
SILVER

ACS
 Alaska Airlines
 Alaska Railroad
 Alaska USA
 AT&T
 Dr. Christopher Henry – Henry Orthodontics
 Everts Air Cargo, Everts Air AK
 Exclusive Paving/Univ. Redi-Mix
 Fairbanks Natural Gas
 Flowline Alaska
 Fountainhead Hotels
 General Teamsters Local 959
 GVEA
 Hale & Associates, Inc.
 J.L. Properties, Inc.
 Key Bank
 Personnel Plus
 Shell Exploration & Production (Spirit of Alaska FCU)
 Tanana Valley Clinic
 TDL Staffing
 TOTE
 Tower Hill Mines-Livengood Gol Project
 WAL-MART Stores, Inc.
 Yukon Title Company

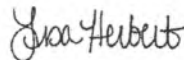
In addition to the above recommendations, the Chamber continues to support forward movement on the Susitna/Watana Dam project and the re-start of the Healy Clean Coal Plant (HCCP). Specifically, the hydroelectric energy project is a valuable investment for the state to ensure stable electric rates for the next 100 years. The scope of the project however, should be designed for maximum benefit for the ratepayers of the Interior. Both the Susitna/Watana Dam project and HCCP would provide significant energy relief for the Interior.

We respectfully urge the Interior Delegation to act collectively in support of our recommendations.

Thank you again for your hard work,



Lorna Shaw
Board of Directors, Chair



Lisa Herbert
Executive Director



Brian Newton
Government Relations Committee, Chair



Bob Shefchik
Energy Committee, Chair

The Honorable Governor Parnell
Senator Gary Stevens, Senate President
Senator Kevin Meyer, Majority Leader
Senator Lyman Hoffman, Co-Chair Finance
Senator Bert Stedman, Co-Chair Finance
Representative Mike Chenault, Speaker
Representative Alan Austerman, Majority Leader
Representative Beth Kerttula, Minority Leader
Representative Bill Stoltze, Co-Chair Finance
Representative Bill Thomas, Co-Chair Finance
Fairbanks North Star Borough Assembly
Fairbanks City Council
North Pole City Council
Membership of the Greater Fairbanks Chamber of Commerce
Alaska State Chamber of Commerce
Anchorage Chamber of Commerce
Consumer Energy Alliance – Alaska
Alaska Support Industry Alliance
Alaska Oil & Gas Association



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

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Senator Mark Begich
Senator Lisa Murkowski
Congressman Don Young
Governor Sean Parnell

March 12, 2012

Co-Chairs Feige and Seaton
House Resources Committee
Alaska State Legislature
State Capitol Building
Juneau, AK 99801

Re: House Resources Hearing on CS HB 276 - Oil and Gas Tax Credits

Dear Co-Chairs Feige and Seaton and Members of House Resources:

The Resource Development Council (RDC) writes to express support for CS HB 276, oil and gas tax credits in areas south of the Brooks Range to outside the Cook Inlet basin, including the Nenana and Selawik basins.

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

RDC supports the much needed development of oil and gas resources in Interior and western Alaska, regions that relies heavily on high priced heating fuel. Much of the area under consideration is near existing infrastructure, and Fairbanks, which could be a practical market for the oil and gas.

Not only is it a top priority for RDC to advocate for tax policy and incentives that enhance the State of Alaska's competitiveness for all industries, but also to support measures to reverse the Alaska oil and gas production decline. This includes legislation that results in new exploration and development.

Additionally, oil and gas exploration and production in Interior and rural Alaska would provide other benefits, such as new, well-paying jobs, and increased tax and royalty income to the state.

Thank you for the opportunity to comment.

Sincerely,

Marleanna Hall
Projects Coordinator
Resource Development Council

Jeff Stepp

From: Ken Alper
Sent: Friday, March 30, 2012 6:19 PM
To: Sen. Bill Wielechowski; Sen. Hollis French; Sen. Joe Paskvan
Cc: Michelle Sydeman; Lisa Weissler; Jeff Stepp; Rep. Beth Kerttula
Subject: followup to concerns with SB145\D (frontier areas)

Senators

Following-up the email I sent you all yesterday, I want to offer a couple of small corrections based on what came from the hearing. There's always something new to learn about the tax statutes.

I was listening to the testimony of the person from Revenue (was that John Larson?) and a couple of things weren't quite clear.

The way the "production tax value" statute is written (43.55.160), taxable PTV is already broken into "areas" of the state:

- A) Oil and gas from the North Slope, excluding gas used in-state
- B) Oil and gas from outside both the North Slope and Cook Inlet, excluding gas used in state
- C) Oil from Cook Inlet
- D) Gas from Cook Inlet
- E) Gas from outside Cook Inlet but used in state

Mr. Larson is correct, the PTV is calculated separately for each of these areas, and lease expenditures can't migrate from one to another.

In each of the "areas", PTV can't be less than zero.

For purposes of calculating progressivity, the five PTV's are combined to create a single, average per-barrel PTV. (AS 43.55.011(g)).

If in any individual "area," PTV would be less than zero, zero is used in the "averaging" calculation and the lease expenditures that would have made the calculation negative can instead be turned into the loss-carry-forward 25% credit.

So- revisiting my explanation from yesterday:

- 1) The \$80 million Cook Inlet Gas subsidy is not precisely due to Cook Inlet costs being deducted from North Slope PTV.

It's actually due to Cook Inlet Gas PTV diluting the per-barrel North Slope PTV. Even though the Cook Inlet oil and gas are paying the alternative "ELF" tax, PTV is still calculated for purposes of averaging it into the statewide progressivity calculation. And because of the low value to the gas, there is a significant dilution effect.

- 2) The Doyon / Nenana 10,000 bbl/day example doesn't change much. The ACES scenario is the same:

\$110 oil price, \$10 transport, \$20 opex, \$20 capex for \$60 /bbl PTV.

Under ACES, they would pay production taxes of about \$70 million on production tax value of about \$190 million.

(\$60 x 10,000 x 365 x 0.875 to exempt the royalty oil x 37% tax rate.

From this we subtract capital credits of \$14 million, so \$56 million total in production tax.

They would be eligible for the small producer and middle earth credit (\$18 million between them), so in the end would pay about \$38 million.

The 4% gross tax scenario starts out the same, with \$13 million.

(\$100 gross value at the point of production x 10,000 x 365 x 0.875 to remove the royalty oil x 4%).

The small producer, etc. credits would bring this to zero.

What changes is: \$128 million in lease expenditures (not \$146 million as I said yesterday because I forgot to exclude the royalty barrels) could not be deducted against profits elsewhere, but could be used for a 25% loss-carry-forward credit of \$32 million, and capital credits of \$14 million could be converted to tax credit certificates. It would still be a severe negative to the treasury, \$46 million in this example.

I think it's a matter of wording the question to Revenue:

"Despite the alternative gross tax, could lease expenditures on that field be turned into a loss-carry-forward credit?"

If he says, no, ask where in statute it says that.

"Despite the alternative gross tax, would the producers be eligible for qualified capital expenditure credits, and would they be able to use them to apply for transferrable tax credit certificates?"

One additional point- the \$45 million royalty I calculated would not necessarily be the state's revenue. If the development was on private or native corporation land, royalty would go to the landowners. The state does, however, collect a 5% tax on private oil royalties, or about \$2.25 million (AS 43.55.011(i)) in this scenario.

Another question had to do with provisions being limited to "south of 68 degrees."

The 4% "new field" tax would only apply south of 68, so new North Slope developments such as Repsol or Great Bear are pursuing would not be impacted by the provision. They would, however, apply to new Cook Inlet fields including, for example, Furie's Kitchen Lights discoveries (the "jack up rig gas.") Again, the ELF-based alternative tax for Cook Inlet is scheduled to sunset in 2022.

Regards

-Ken

Ken Alper

Office of Representative Beth Kerttula
District 3- Juneau
Capitol Room 404
Juneau, AK 99811
(907) 465-4766
direct line 465-4875

From: Michelle Sydeman
Sent: Thursday, March 29, 2012 7:08 PM
To: Ken Alper
Subject: RE: concerns with SB145\D (frontier areas)

Excellent!!!!!!!

From: Ken Alper
Sent: Thursday, March 29, 2012 7:07 PM
To: Sen. Bill Wielechowski; Sen. Hollis French; Sen. Joe Paskvan
Cc: Michelle Sydeman; Lisa Weissler; Jeff Stepp; Rep. Beth Kerttula
Subject: concerns with SB145\D (frontier areas)

Senators

I've just had the opportunity to read the work draft CS for the "frontier areas tax credits" bill.

I'm not going to address my concerns with the frontier credits themselves, although I believe there is the possibility that they could be "stacked" with a tax deduction, leading to state participation of greater than 100% of a producer's costs (this is also true of the existing "stampede" credit in Cook Inlet.)

Jeff Stepp

From: Ken Alper
Sent: Thursday, March 29, 2012 7:07 PM
To: Sen. Bill Wielechowski; Sen. Hollis French; Sen. Joe Paskvan
Cc: Michelle Sydeman; Lisa Weissler; Jeff Stepp; Rep. Beth Kerttula
Subject: concerns with SB145\D (frontier areas)

Senators

I've just had the opportunity to read the work draft CS for the "frontier areas tax credits" bill.

I'm not going to address my concerns with the frontier credits themselves, although I believe there is the possibility that they could be "stacked" with a tax deduction, leading to state participation of greater than 100% of a producer's costs (this is also true of the existing "stampede" credit in Cook Inlet.)

What I want to bring your attention to is the 4% "alternative gross tax" described in Section 2 of the bill. The problem here is, oil that would fall into that category would still be subject to other portions of the ACES statute.

Specifically, lease expenditures would still be deductible from a company's taxable income elsewhere in the state, and

qualified capital expenditures would still be eligible for the standard 20% capital credit.

In real terms, this means that we would almost without question be paying these companies to produce oil.

The current alternative lower tax for Cook Inlet, described in AS 43.55.011(j) and (k), suffers from this same problem.

I have in-hand a memo from Commissioner Butcher to Senator Stedman that quantifies the value of Cook Inlet's production costs being deducted from North Slope oil taxes; the current cost to the state is \$80 million / year.

This is the reason why the "decoupling" bills combined both Cook Inlet gas and oil into the "oil" side of the decouple, so as not to inadvertently raise taxes on ConocoPhillips.

It should also be noted that the alternative Cook Inlet tax rates are scheduled to sunset in 2022; this new 4% gross rate does not have a sunset.

You should also note that the bill is written to include any new field, not just fields in a so-called "frontier" area. I recall Mr. Armstrong from Armstrong Oil was lobbying a couple of years ago for a 7% gross tax on his new fields, currently being explored by Repsol. This provision would give him 4%.

Also, any "new" producer would likely be eligible for the "small producer credit" (AS 43.55.024(c) and (d)) and, if in a frontier area, the "middle earth" credit (AS 43.55.024(a) and (b)).

These are non-transferrable and must be used in one year, but would likely more than zero-out a 4% gross tax on a small field in the interior such as Doyon is hoping to develop.

To use a rough example: Assume Doyon finds 10,000 / day field in Nenana.

It will cost them a bit more to develop and ship than oil on the North Slope, so assume in the projected price environment they profit \$60 / barrel.

(\$110 value, \$10 transport, \$20 opex, \$20 capex)

Under ACES, they would pay production taxes of about \$70 million on production tax value of about \$190 million.

(\$60 x 10,000 x 365 x 0.875 to exempt the royalty oil x 37% tax rate.

From this we subtract capital credits of \$14 million, so \$56 million total in production tax.

They would be eligible for the small producer and middle earth credit (\$18 million between them), so in the end would pay about \$38 million.

Under the 4% gross tax scenario, that same field would pay taxes of \$13 million.

(\$100 gross value at the point of production x 10,000 x 365 x 0.875 to remove the royalty oil).

The small producer, etc. credits would bring this to zero.

\$146 million in lease expenditures could be deducted against profits elsewhere or used for a 25% loss-carry-forward credit of \$36 million, and capital credits of \$14 million could be sold to the state.

It would be severe negative to the treasury, \$50 million in this example.

(In either example, royalty income would be about \$45 million).

If the Senate truly wants to go with an alternative tax rate for new fields, I would strongly recommend that the bill be clearly written to disqualify any associated lease expenditures and capital expenditures from their statewide tax calculations.

However, this approach opens the problem that arose with the Governor's HB110 (which has a 15% base net tax rate for new field for the first seven years). Namely- the difficulty of cost allocation among fields for the purpose of calculating production tax value.

Recall that our lack of any "ringfence" is widely cited as one of the strongest and most welcoming provisions of our production tax code.

Thank you for your time.

I am at your service if you want any additional information or analysis.

-Ken

Ken Alper

Office of Representative Beth Kerttula

District 3- Juneau

Capitol Room 404

Juneau, AK 99811

(907) 465-4766

direct line 465-4875

Jeff Stepp

From: Michelle Sydeman
Sent: Thursday, March 29, 2012 6:33 PM
To: Sen. Bill Wielechowski; Sen. Hollis French
Cc: Lisa Weissler; Ken Alper; Jeff Stepp
Subject: SB 145: No need to provide an in-state rate for local use of gas

If gas from Nenana or other "frontier areas" were to be used in-state, it would already enjoy an extremely low tax rate. The rate would be about \$.18/mcf. (This is the rate gas was taxed at in Cook Inlet under ELF in 2006, before PPT passed.) So there is no need to provide a special in-state tax rate for frontier areas as it exists already.

There are other problems with the proposed 4% gross tax in SB 145, which Ken Alper will send you an email about. It could result in a negative tax (as exists in Cook Inlet) because companies could write off frontier area costs against taxes elsewhere in the state and claim the 20% capital credit. Ken will be more articulate on this topic.

Given that Bert is working on incentives for new oil development, this idea is looking increasingly bad.

Michelle

Jeff Stepp

From: Michelle Sydeman
Sent: Thursday, March 29, 2012 5:46 PM
To: Jeff Stepp
Subject: FW: Quick question re ACES

I have been trying since Monday to get this question answered. Figured it was a simple one. Thought you would be interested in this email chain.

From: Larsen, John M (DOR) [<mailto:john.larsen@alaska.gov>]
Sent: Thursday, March 29, 2012 5:43 PM
To: Michelle Sydeman
Cc: Sen. Bill Wielechowski
Subject: RE: Quick question re ACES

Michelle/Senator Wielechowski

As I'm sure we're all aware, there are not many easy answers to what may even appear to be rather "simple" questions regarding Alaska's oil and gas tax structure. I just want you to know that I have discussed your question(s) internally with Deputy Commissioner Tangeman and we are working on a providing a response that we hope will address your concerns. I cannot currently commit to a time but hope to have this to you by sometime tomorrow morning.

Respectfully,

From: Michelle Sydeman [mailto:Michelle_Sydeman@legis.state.ak.us]
Sent: Thursday, March 29, 2012 4:31 PM
To: Larsen, John M (DOR)
Cc: Wielechowski, Bill (LAA)
Subject: FW: Quick question re ACES

Hi John,

This is to follow-up on our brief conversation.

The question essentially is if a company invests an additional \$100 in an exploration project with today's oil prices, could that company see a reduction in its taxes of more than \$100 through the combined effects of tax deductions, a lower progressivity rate, and tax credits? Is that possible under our current tax system?

Senator Wielechowski is hoping for a clear answer to this question and is more grateful for your upcoming response.

Michelle
465-6881

From: Michelle Sydeman
Sent: Monday, March 26, 2012 3:36 PM
To: john.larsen@alaska.gov
Subject: FW: Quick question re ACES

John,

should probably clarify my question:

Can a combination of tax deduction plus credit plus reduction of tax rate on other profits (due to reduced per-barrel profits reducing statewide progressivity) be more than 100%? Is that allowable under statute or is there some limit on how much benefit a producer can accrue from increased investment?

Thanks,

Michelle

From: Michelle Sydeman

Sent: Monday, March 26, 2012 2:39 PM

To: john.larsen@alaska.gov

Cc: Sen. Bill Wielechowski

Subject: Quick question re ACES

Hi john,

Can a producer's tax liability be reduced by more than 100% of the cost of a particular investment by combining a large tax credit with deductions for expenditures when oil prices are high? In other words, if there's an 80% exploration credit taken by a producer during a time when the production tax rate is 45%, could that producer get tax relief equal to more than their investment?

Thanks,

Michelle Sydeman

Office of Senator Bill Wielechowski



State Capital Bldg. Rm 101

907.465.6881

A HUNT FOR GIANT OIL AND GAS RESERVES



Northwest Alaska, LLC & NANA Regional Corp.

NORTHWEST ALASKA OIL AND GAS PLAY

Southern Chukchi Sea – Onshore Kotzebue Basin



~2.2 million mineral acres (NANA fee)

~30 prospects: 3,000-9,000' depth

Most-likely risked reserves of 9 premier prospects:

3.1 billion barrels oil-equivalent

READY TO DRILL 2012

Northwest Alaska, LLC & NANA Regional Corp.



Project Summary

The Kotzebue Basin may contain giant oil and gas reserves. Located offshore under the southern Chukchi Sea and onshore in northwest Alaska, it is one of the major sedimentary basins of North America, with 20,000 feet or more of Tertiary and Cretaceous basin-fill. The basin is about the same size as the prolific Alaska Cooke Inlet Basin (cumulative 10 TCFG) and is interpreted to have a petroleum system similar to that of the Cooke, including:

- a self-sourcing biogenic (microbial) gas system associated with thick Tertiary nonmarine coals and carbonaceous mudstones that are in the present-day biogenic gas window at 0-6,000 feet, and
- a thermogenic oil-gas system in deeper basinal source areas between 6,000-20,000+ feet

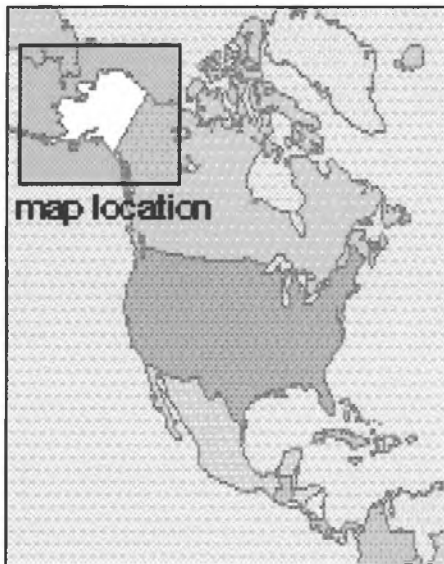
In the 1970s, SOCAL collected a vast amount of data in the area and drilled two stratigraphic test wells that encountered thick, highly-prospective sequences of interbedded sandstone, conglomerate, mudstone and coal, with oil and gas shows. These stratigraphic test wells did not evaluate prospects, but did demonstrate that hydrocarbons are present and that the components critical for major hydrocarbon accumulations are also present – thick and highly porous and permeable reservoirs (sandstone and conglomerate), source (mudstone and coal), seal (mudstone), and large potential traps (structural and stratigraphic). There is also potential in fractured and weathered basement reservoirs, and in shallow traps sealed by permafrost.

Approximately thirty prospects are identified, some of which are immense, potential giants. The Cape Espenberg Prospect, located near the cape, is a shallow anticlinal dome with approximately 70 square miles of structural closure. The Amaouk Creek Prospect, located north of the Kobuk Delta, is an anticline with approximately 30 square miles of structural closure. These two prospects are assigned most-likely risked recoverable reserves of 1.65 billion barrels oil equivalent.

NANA Regional Corporation controls the onshore portion of the basin (mineral interests covering 2.2 million acres) and is working jointly with NW Alaska, LLC to advance the exploration and development project. These companies are seeking one or more additional significant partners to join the project.

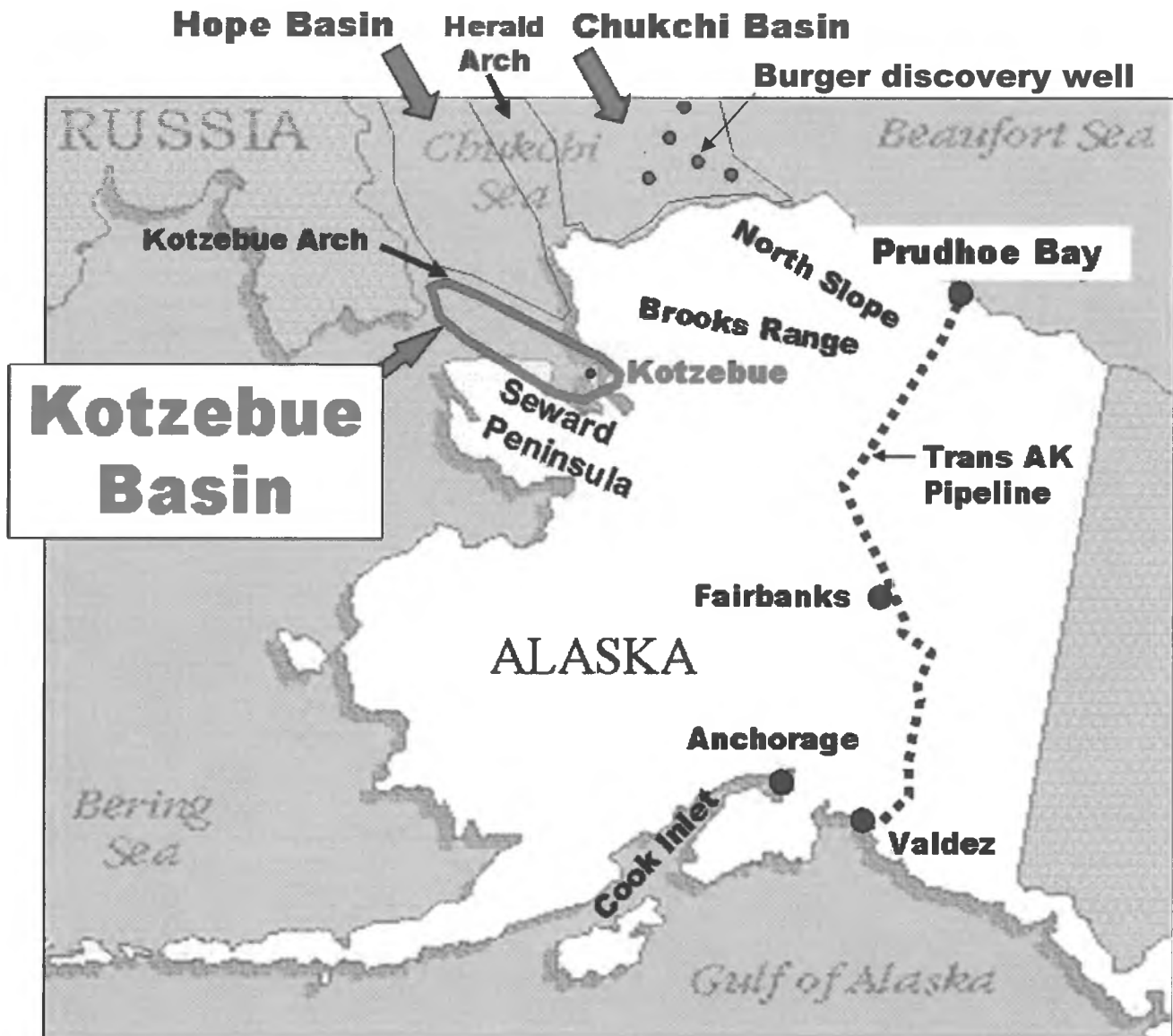
Important Notice: The data provided here are believed to be valid, and the interpretations are considered to represent reasonable judgment. However, NW Alaska LLC, NANA Regional Corporation and their associates, advisors and consultants, do not warrant the validity of the data and interpretations and shall not be liable for any losses or damages that stem from their use. Oil and gas exploration projects have intrinsic risks, including but not limited to loss of an entire investment. Actual project results may be substantially different from those postulated here. This oil and gas play is appropriate for sophisticated companies and individuals with significant experience in the petroleum industry, who should conduct their own evaluation of the data and risks. This is a nonexclusive offering, subject to prior sale, and may be withdrawn by the presenting parties at any time.

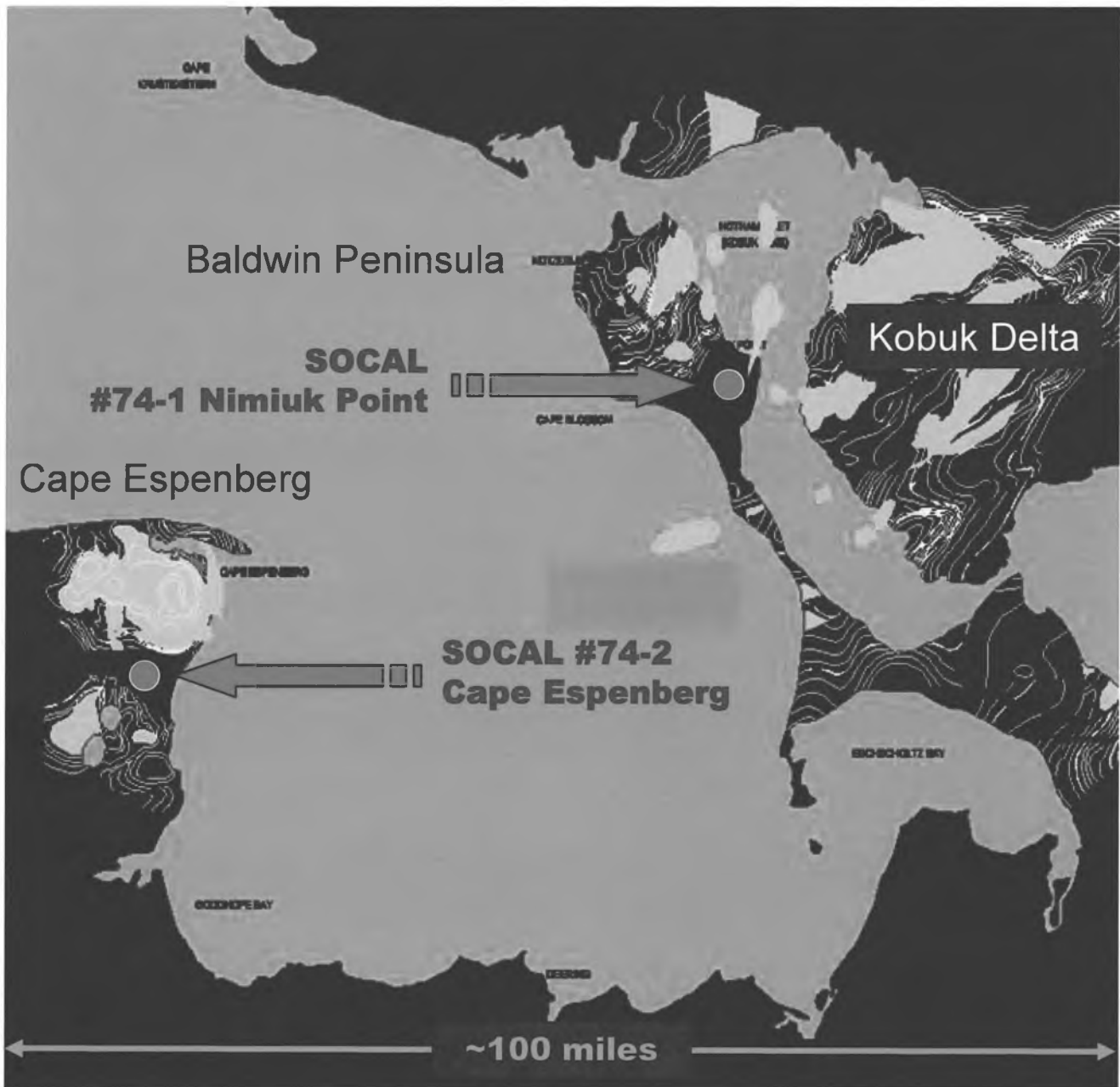
Northwest Alaska, LLC & NANA Regional Corp.



The Kotzebue Basin is located primarily offshore under the southern Chukchi Sea, and also onshore under the lands of the NANA Regional Corporation. The oil and gas play is onshore, under NANA's 2.2 million mineral acres.

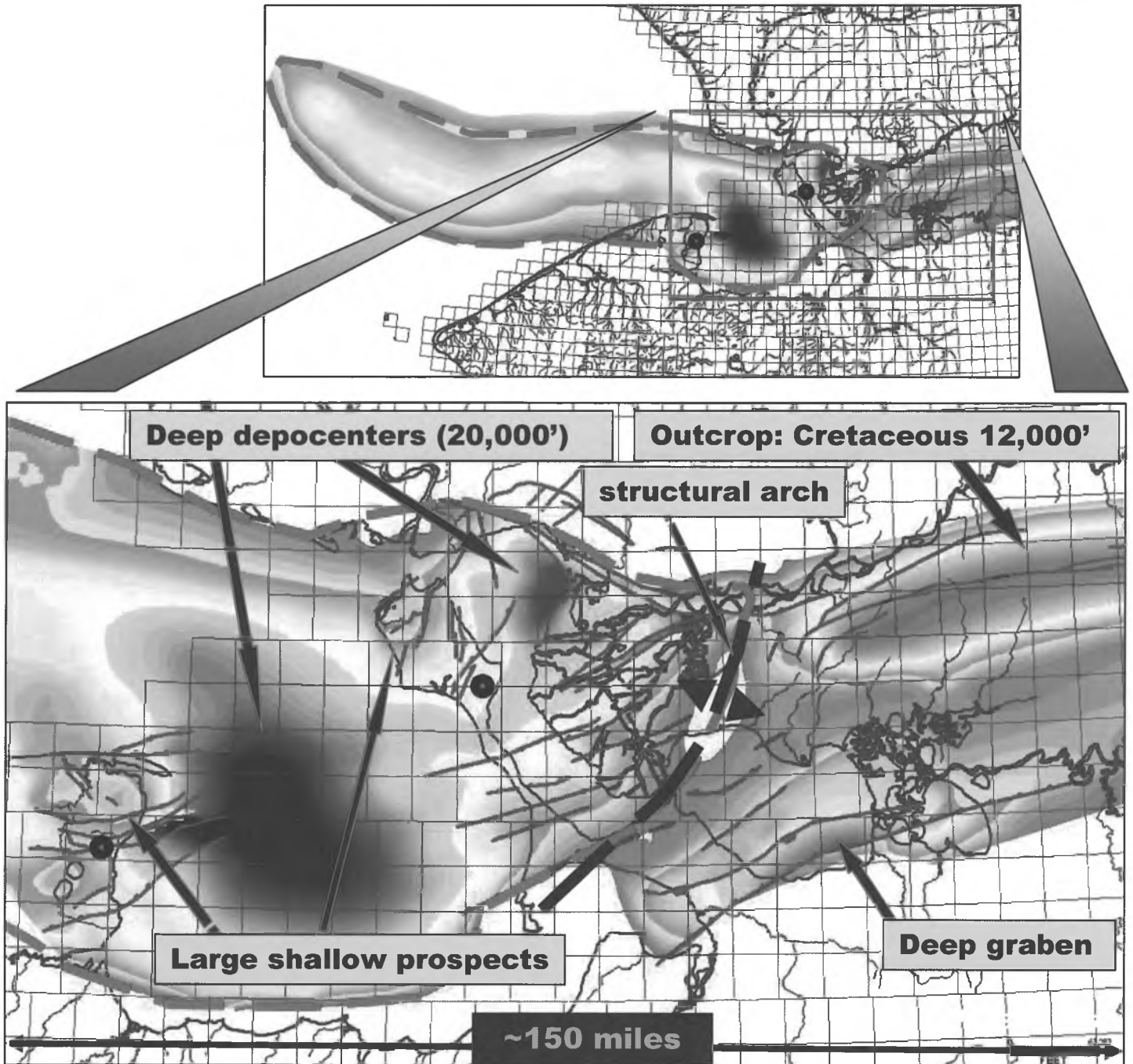
The basin is 350 miles long by 80 miles wide, and it contains 20,000 feet or more of Tertiary and Cretaceous basin-fill. Structural arches and sub-basins separate the Kotzebue Basin from the greater Chukchi Basin to the north, where significant oil-gas reserves have been discovered and billions of dollars spent on federal leases.





Shown here are areas of land (black), water (blue), petroleum prospects (orange) and the locations of the two stratigraphic test wells (red dots). Note that prospects occur primarily in three land areas: Cape Espenberg, the Kobuk Delta and the Baldwin Peninsula.

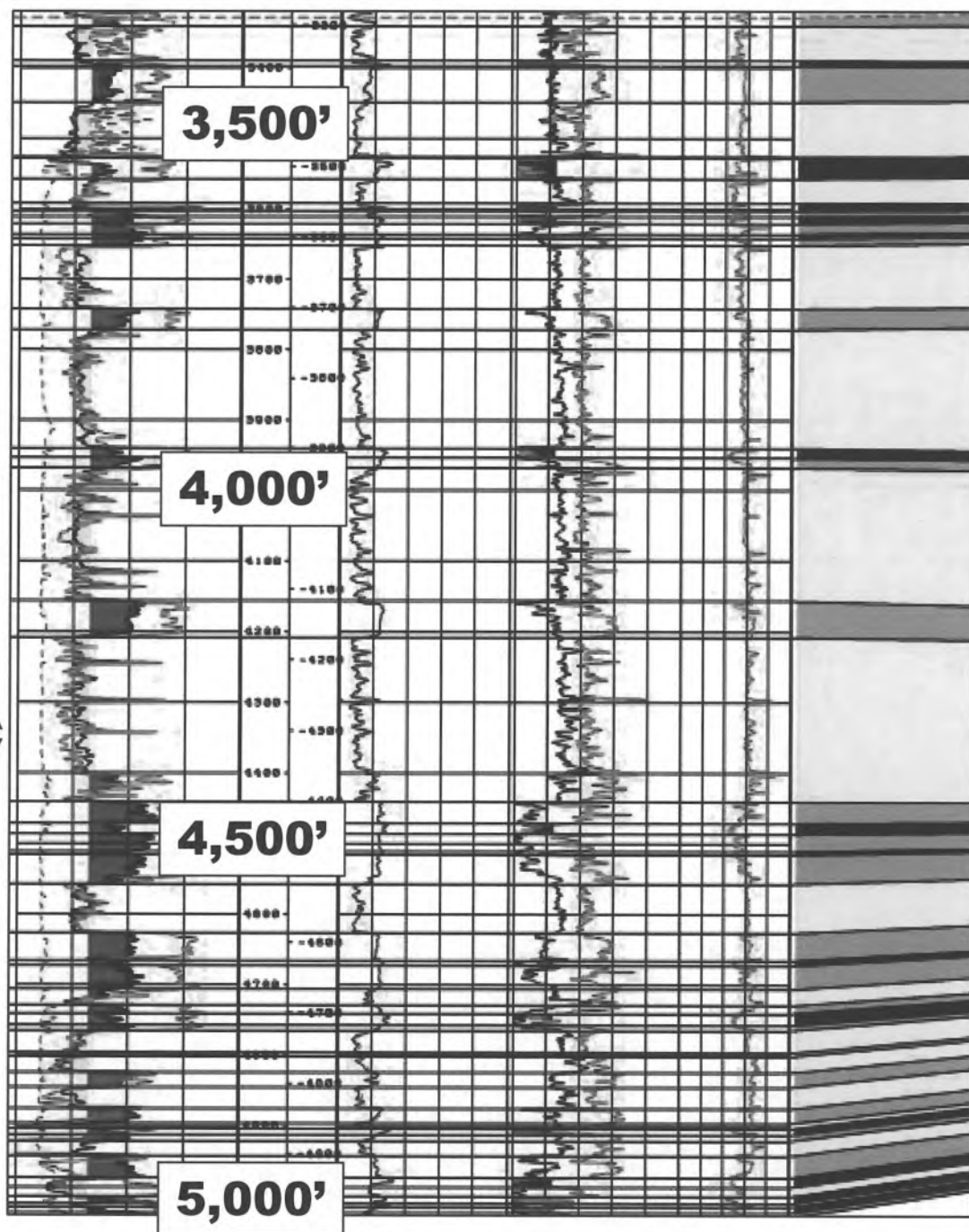
Northwest Alaska, LLC & NANA Regional Corp.



Shown here is a Time Structure Map of Top Acoustic Basement (Paleozoic). Dark blue areas have approximately 20,000 feet of Tertiary and probably Cretaceous basin-fill above basement, grading to shallow areas in dark red. Note locations of large shallow prospects at Cape Espenberg and the Baldwin Peninsula, two major deep depocenters, a shallow structural arch on the east flank of the basin, and location of outcrops of 12,000' of Cretaceous. Locations of the two stratigraphic test wells also shown.



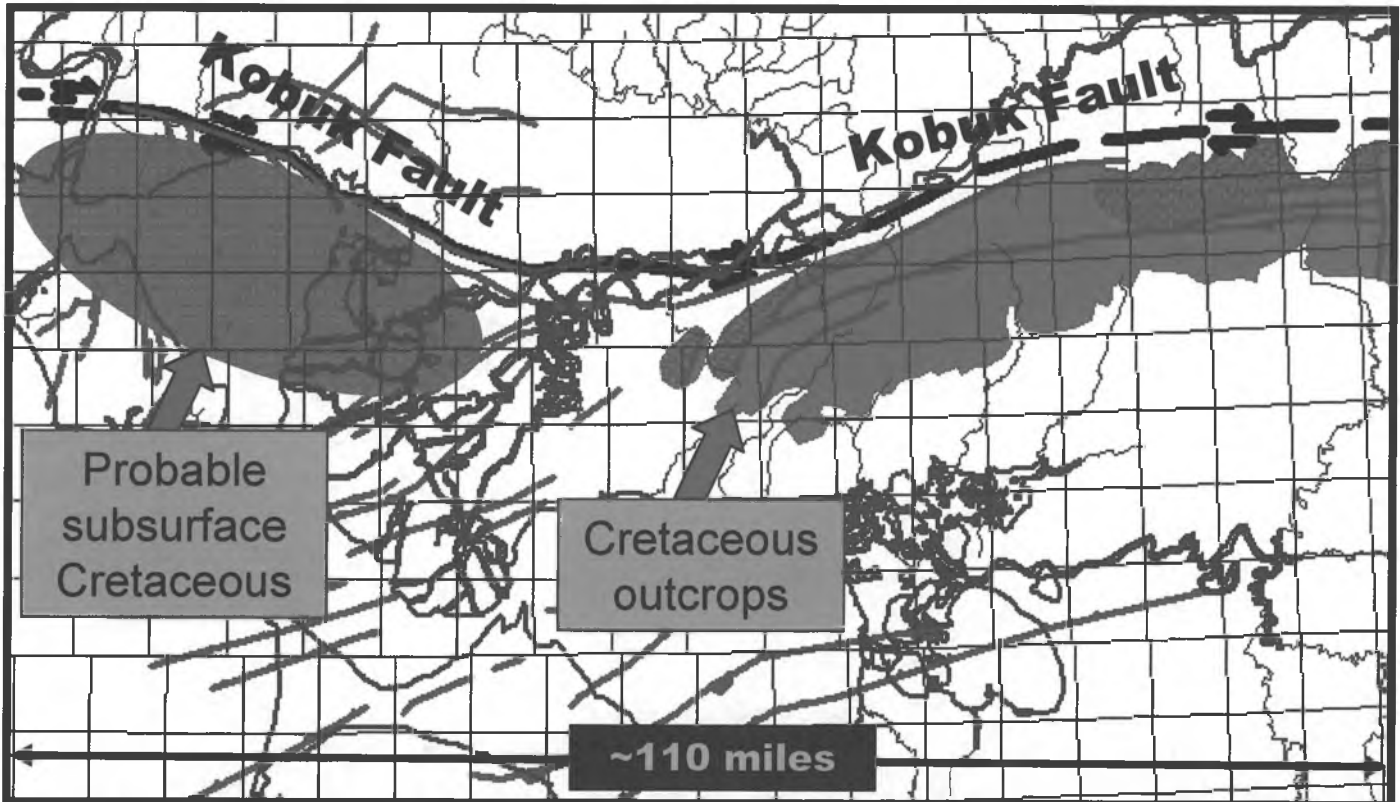
100 ft \updownarrow



Shown here is an example of a highly-prospective interval that was drilled in one of the stratigraphic test wells. It is a 1,700 foot thick interval of Eocene-Oligocene strata, comprised of thick, stacked sandstone reservoir targets (yellow), stacked layers of mudstone source and seal beds (brown), and layers of coal source rocks (black). There are about 15 distinct sand bodies (reservoir targets), 10-200 feet thick each. This is a primarily nonmarine fluvial sequence, probably a mixture of low sinuosity braided and high sinuosity meandering systems.

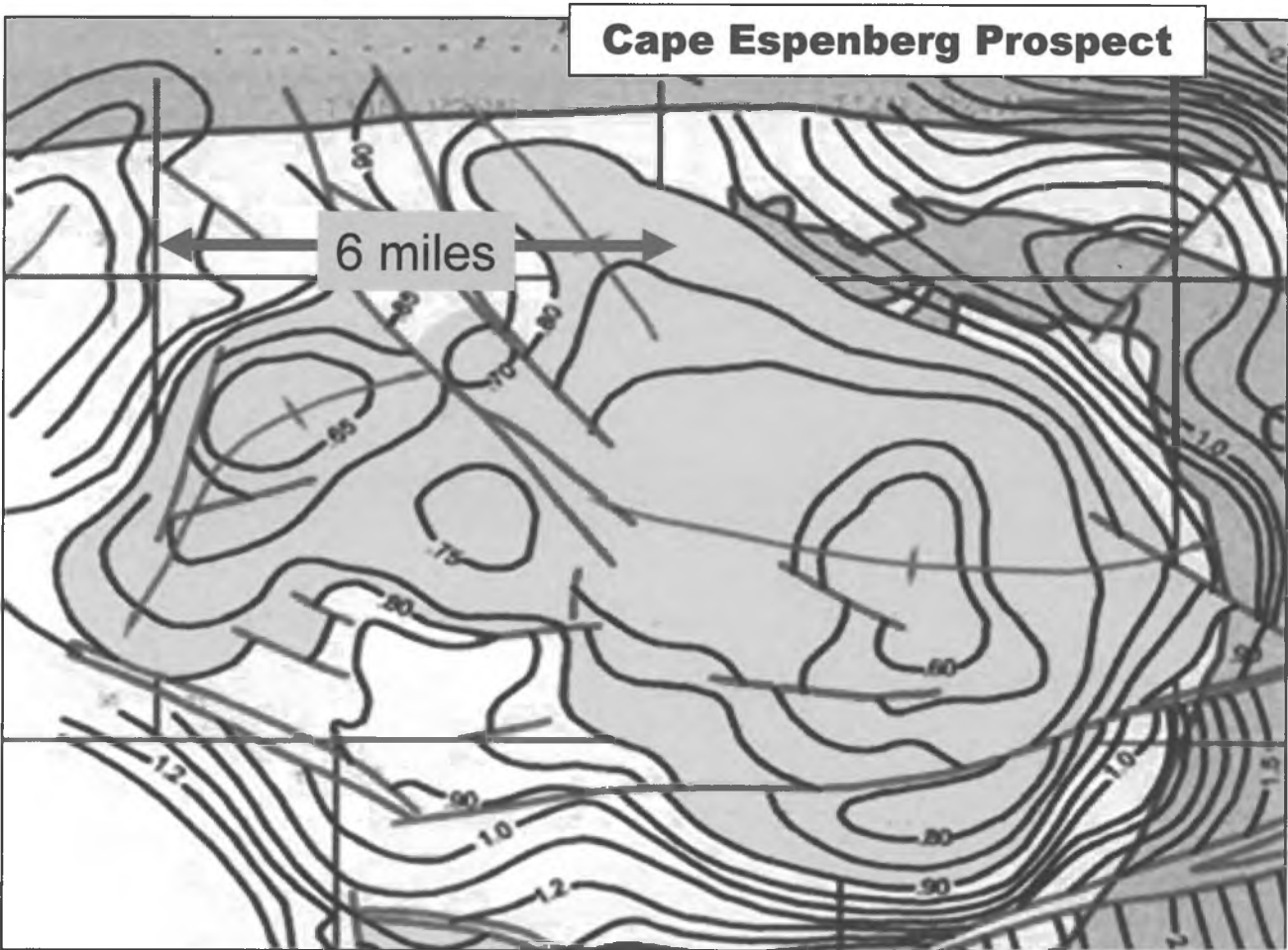
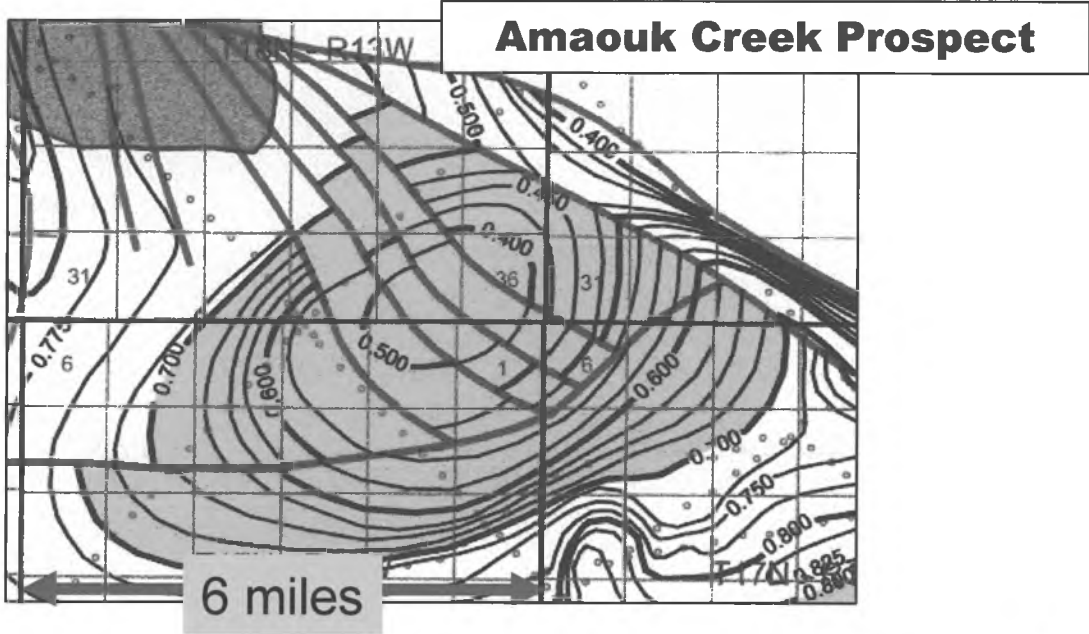
Northwest Alaska, LLC & NANA Regional Corp.

Approximately 12,000 feet of Cretaceous sedimentary rocks are present in outcrops located about 12 miles east of the Kotzebue Basin (e.g., in the Hockley Hill area). The Cretaceous outcrops occur primarily on the down-dropped, southern side of the major right-lateral Kobuk fault and, based on seismic interpretation, also occur in the Kotzebue Basin. Cretaceous strata provide reservoir targets (sandstone and conglomerate), oil and gas source rocks (mudstone, shale, limestone, coal) and seals (shale and mudstone). Photos are of local outcrops of Cretaceous rocks.



A HUNT FOR GIANT OIL AND GAS RESERVES

- Structure maps of two of the premier prospects
- Both maps at same horizontal scale



A HUNT FOR GIANT OIL AND GAS RESERVES

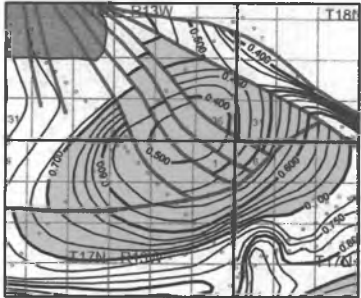


- Comparison of the Cape Espenberg and Amaouk Creek prospects with two partial-analogue giant gas fields – the Kenai and Beluga River gas fields, Cooke Inlet Basin, Alaska
- All maps at same horizontal scale

Cape Espenberg Prospect



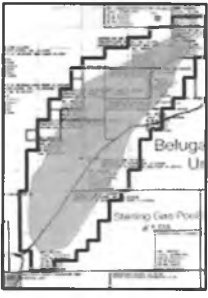
Amaouk Creek Prospect



**Kenai Gas Field
Top Beluga Fm.
Cum.: 2.4 TCF**

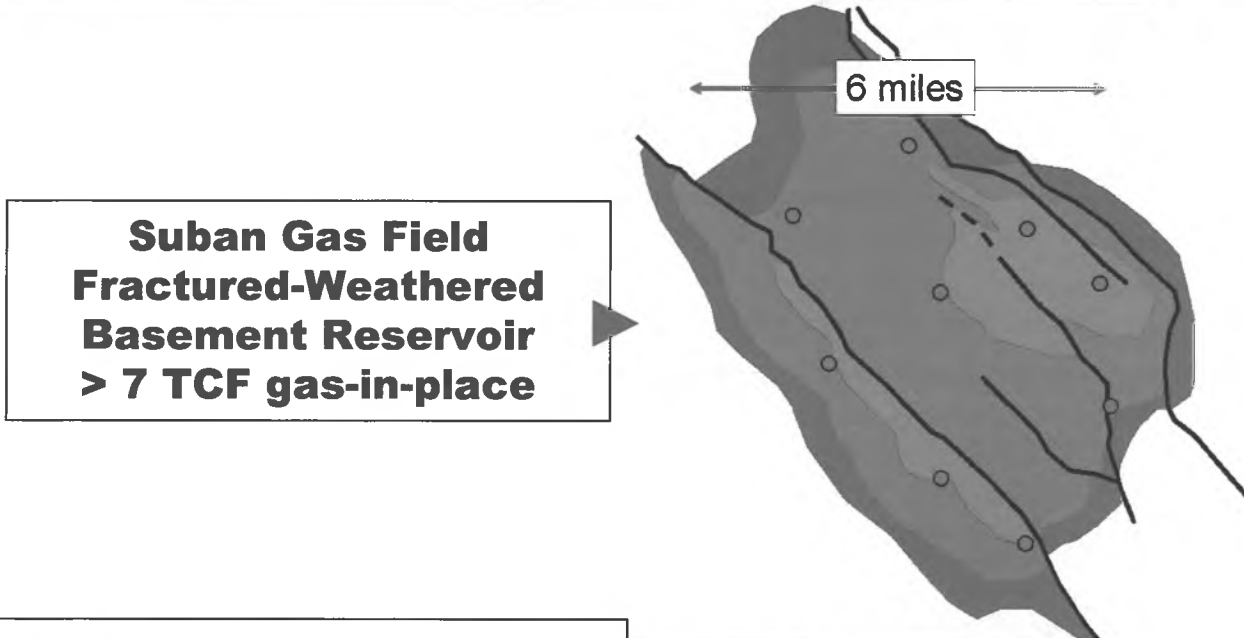


**Beluga River Gas Field
Top Sterling Fm.
Cum.: 1.2 TCF**

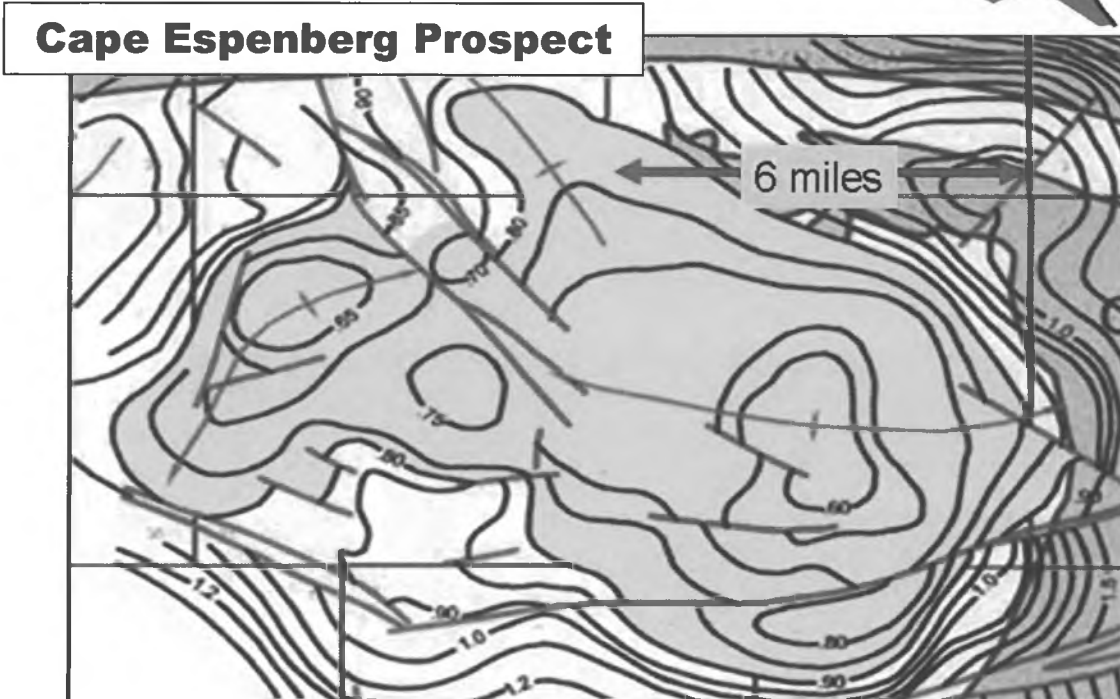


A HUNT FOR GIANT OIL AND GAS RESERVES

- **Comparison of the Cape Espenberg Prospect with the partial-analogue giant Suban Gas Field, South Sumatra Basin, Indonesia**
- **Both maps at same horizontal scale**



**Suban Gas Field
Fractured-Weathered
Basement Reservoir
> 7 TCF gas-in-place**



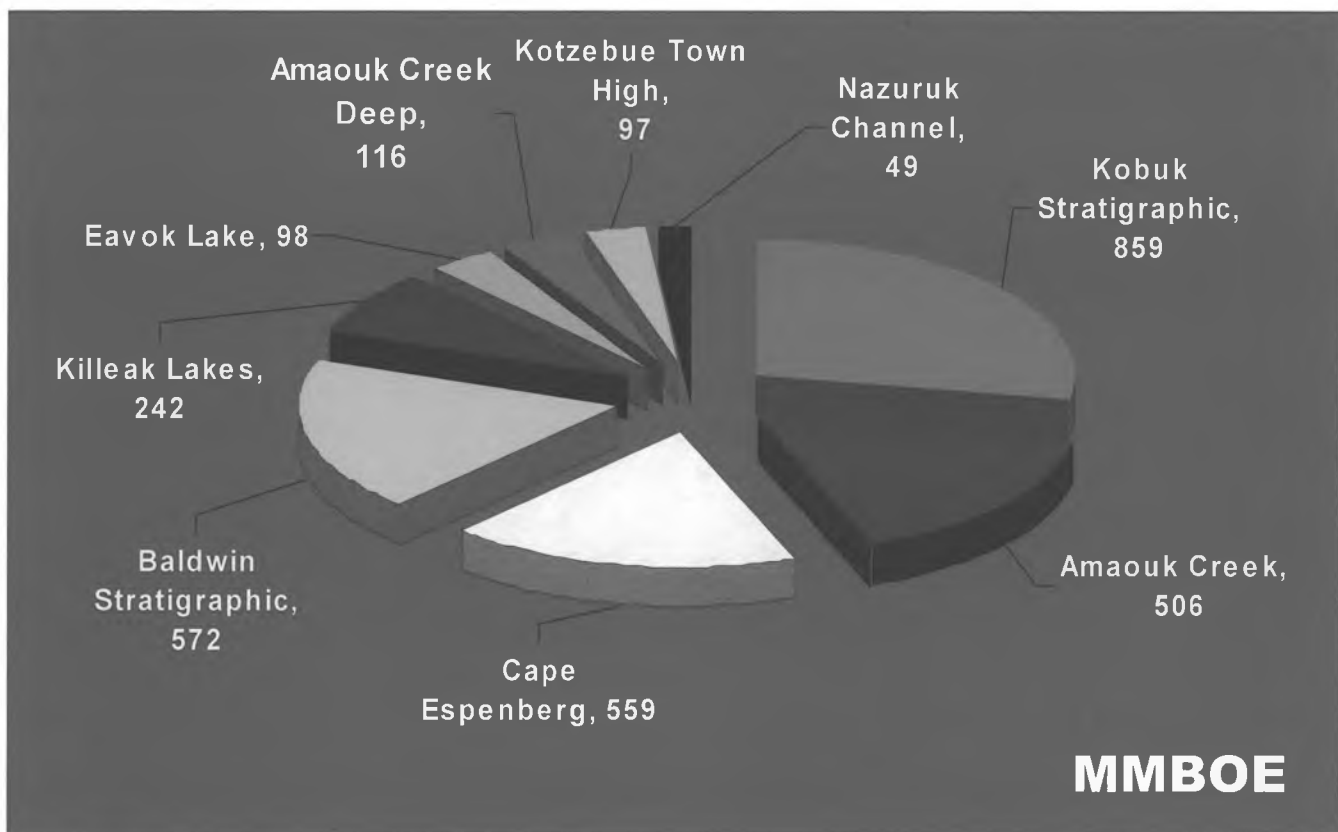
Cape Espenberg Prospect

In addition to primary reservoir targets in stacked Tertiary sandstones, this prospect has deeper, secondary reservoir targets in Paleozoic (pre-Late Devonian) rocks, including limestone, dolomite, marble, schist and quartzite, which were subaerially exposed and weathered for millions of years. The Paleozoic has immense potential as weathered and/or fractured reservoir, similar to the that at the partial-analogue giant Suban Field (> 7 TCF original gas-in-place), although the Suban structure appears to be smaller.

A HUNT FOR GIANT OIL AND GAS RESERVES



**For nine premier prospects:
Risky, most-likely, recoverable reserves:
2.8 billion barrels oil + 1.9 trillion cubic feet gas
or
3.1 billion barrels oil-equivalent**



A HUNT FOR GIANT OIL AND GAS RESERVES



Northwest Alaska, LLC & NANA Regional Corp.

NORTHWEST ALASKA OIL AND GAS PLAY

Southern Chukchi Sea – Onshore Kotzebue Basin

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Terry Eschner (consulting geologist)
Sarlan Resources Inc. (president)
P.O. Box 4587, Englewood, Colorado, USA 80155
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tbeschner@aol.com



Geology and Hydrocarbon Potential of the Kotzebue (including Selawik) Basin, Northwest Alaska

Lance Kilvagiaq Miller and Elizabeth Saagulik Hensley
NANA Regional Corporation, Inc.

Kotzebue Basin Location



- ▶ Basin 350 x 80 miles
- ▶ Onshore NW AK and offshore Chukchi Sea
- ▶ Separated from Hope Basin by Kotzebue Arch
- ▶ Depocenters ~ 20,000 ft Tertiary & probably Cretaceous



Basin Comparison



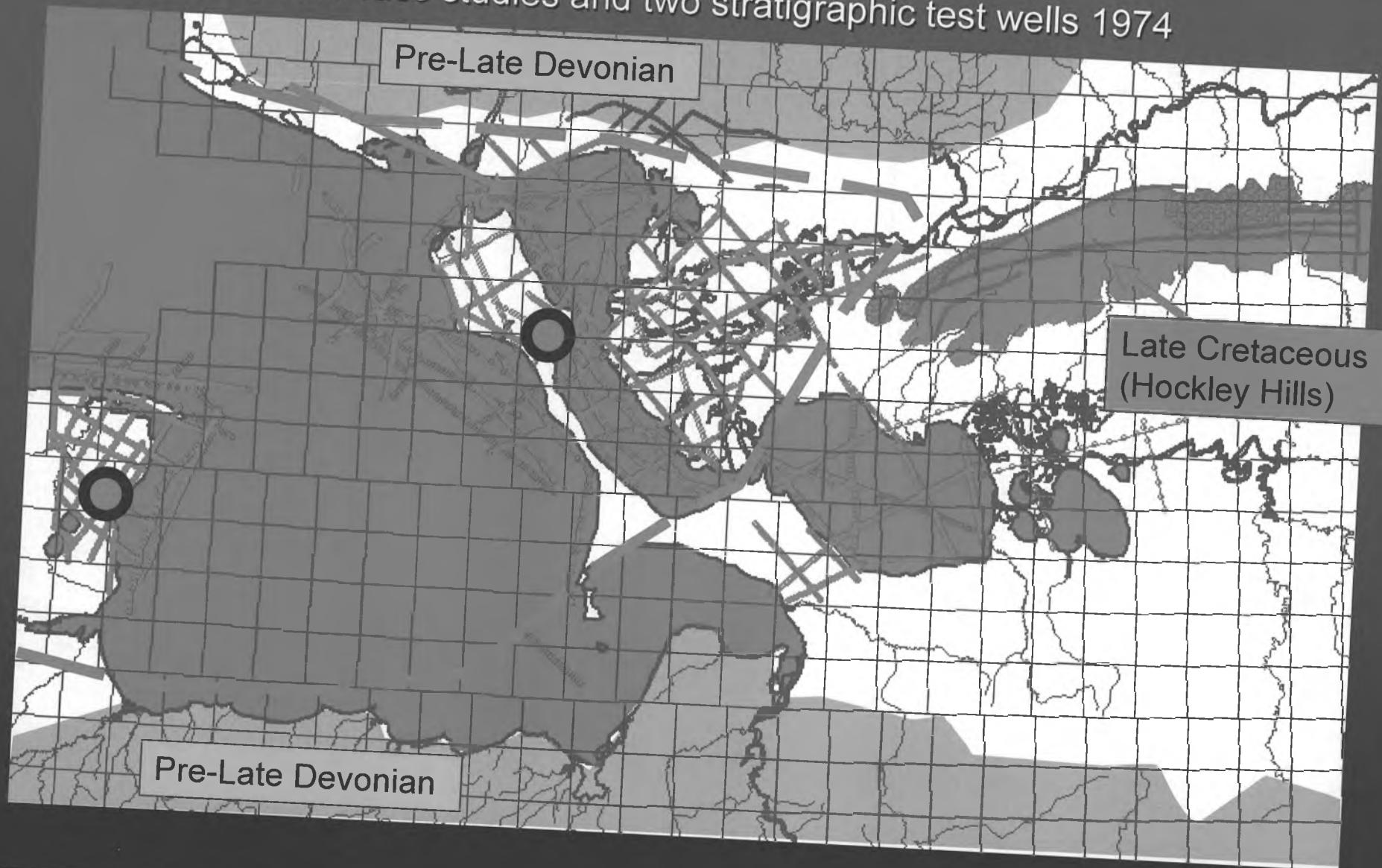
▶ Kotzebue Basin

▶ Cook Inlet Basin

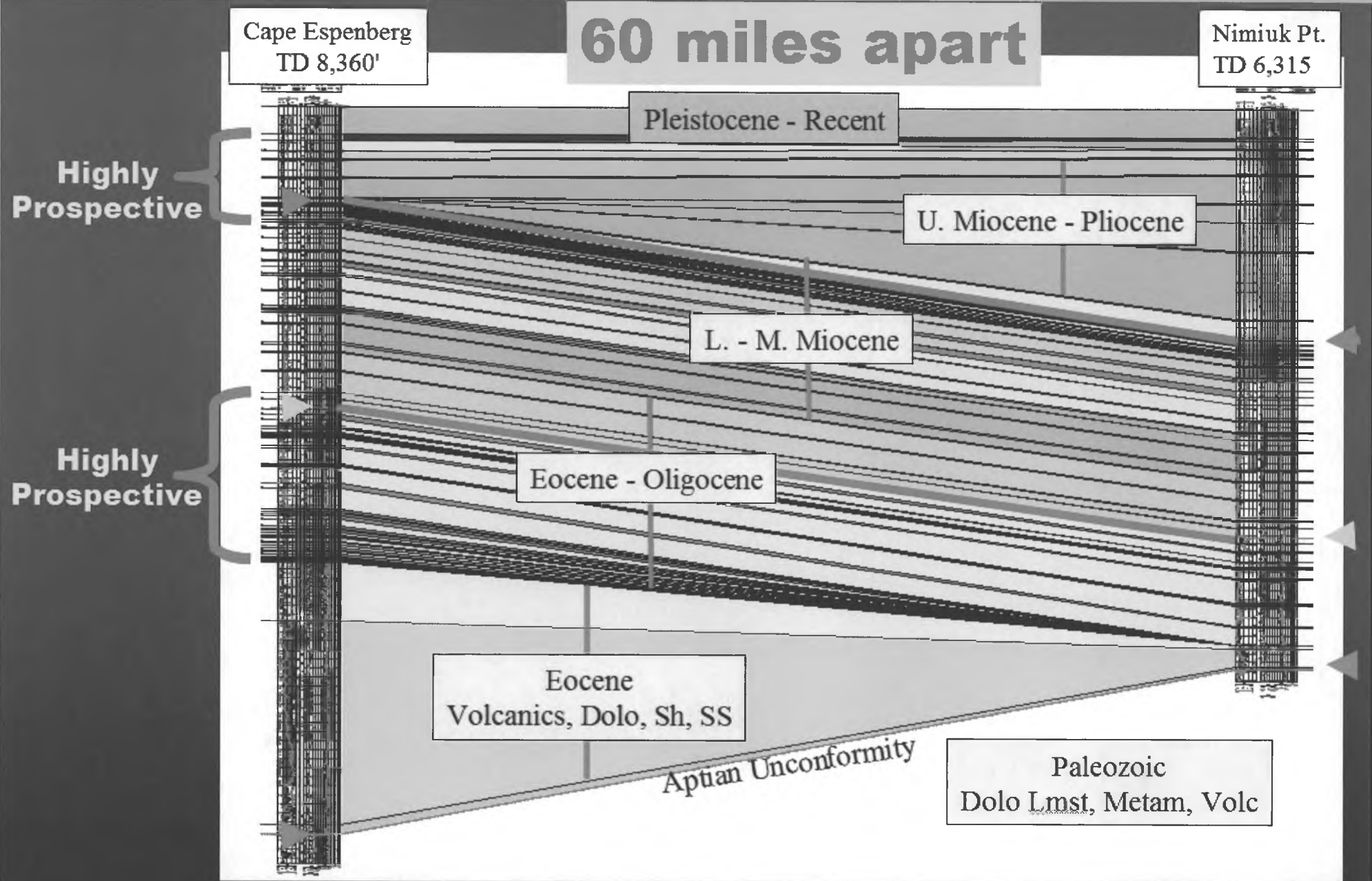
Base map from USGS: Geologic Map of North America

Exploration History and Data

- ▶ SOCAL (now Chevron): frontier exploration - early to mid 1970s
- ▶ 1500 miles 2D seismic, gravity and aeromagnetic data
- ▶ Outcrop and subsurface studies and two stratigraphic test wells 1974



Primary Reservoir Targets



Basin Overview

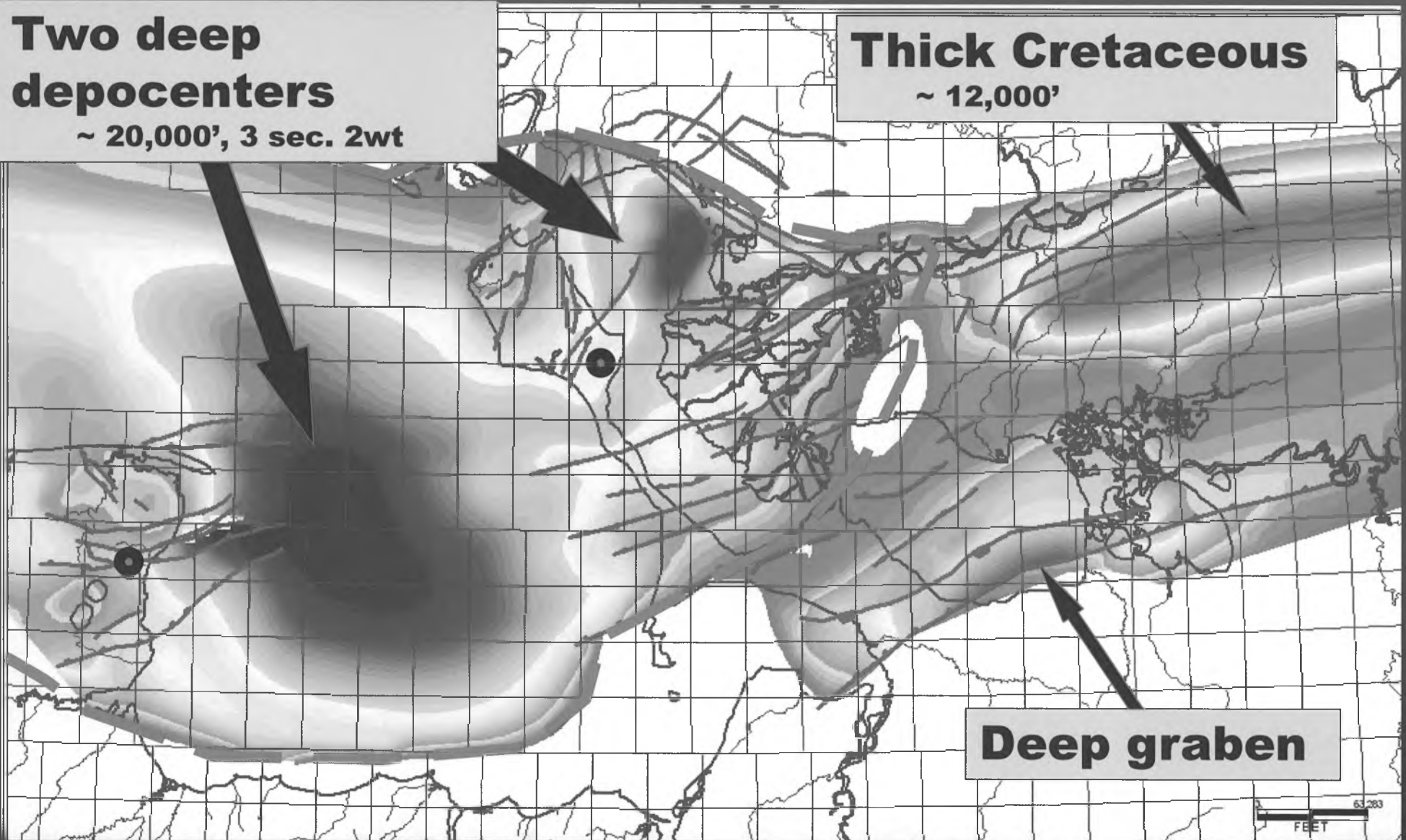
▶ Time Structure: Top Acoustic Basement

Two deep depocenters

~ 20,000', 3 sec. 2wt

Thick Cretaceous

~ 12,000'

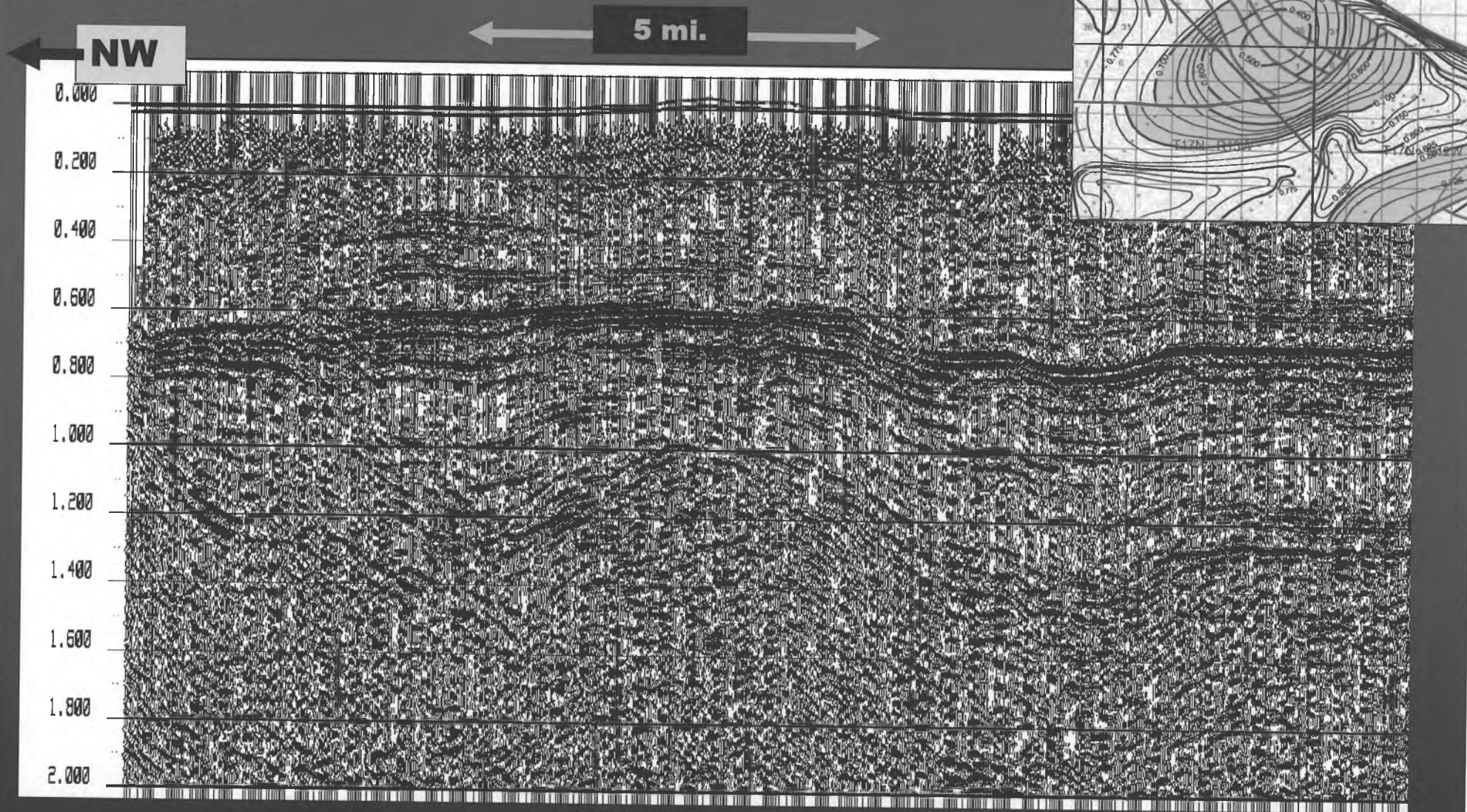


★ 2 of the 30 Prospects



Amaouk Creek Prospect

▶ PSTM

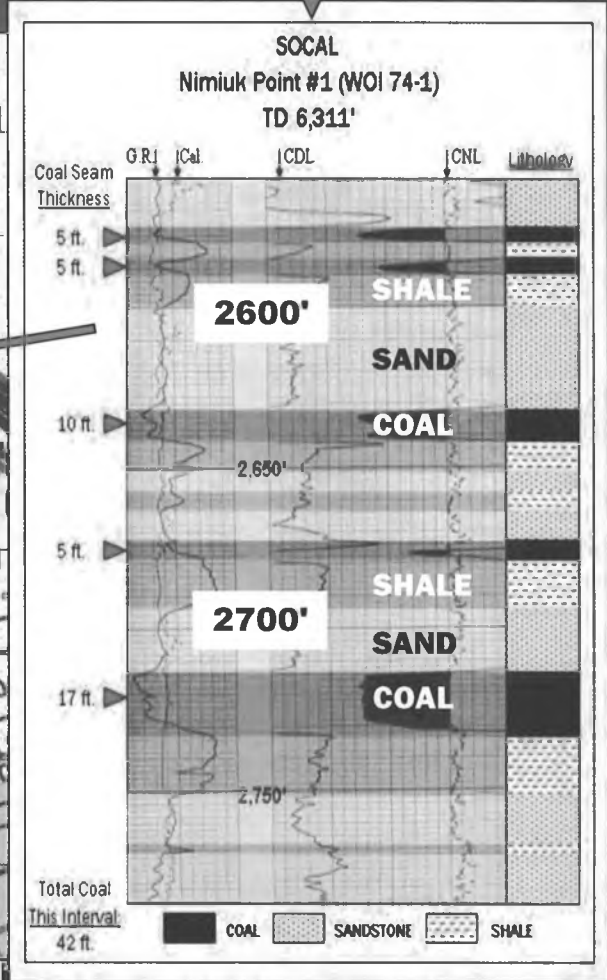
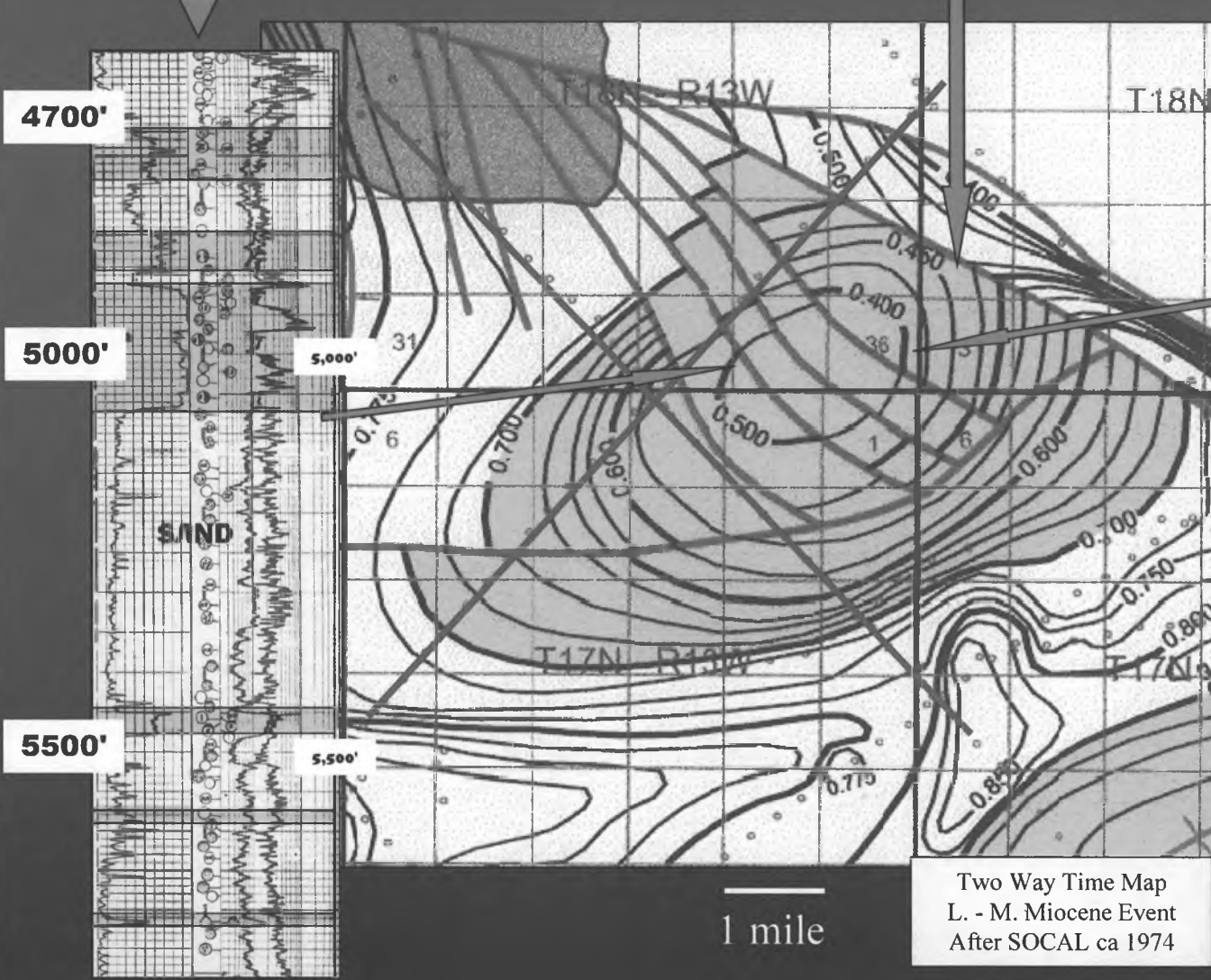


Amaouk Creek Prospect

Eocene - Oligocene Objectives

27 square miles closure

Miocene Objectives

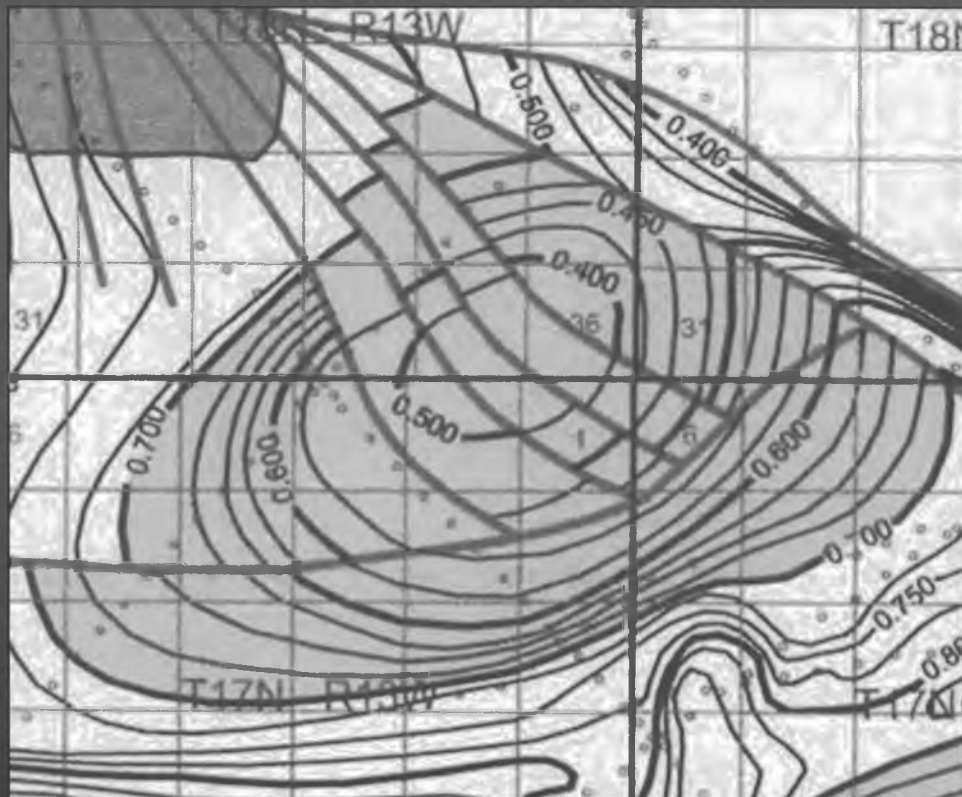


Two Way Time Map
L. - M. Miocene Event
After SOCAL ca 1974

Amaouk Creek Prospect: Comparison to Partial Analogue

Cook Inlet Gas Fields

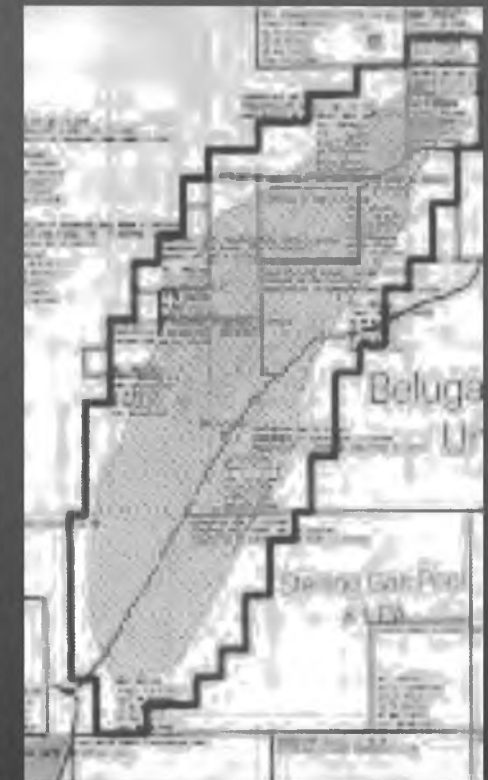
Amaouk Creek Prospect



**Kenai Gas Field
Structure Map
Top Beluga Fm.
Cum.: 2.4 TCF**



**Beluga River Gas Field
Structure Map
Top Sterling Fm.
Cum.: 1.2 TCF**



Maps at same horizontal scale

Key Points

- ▶ Major unexplored deep (20,000') sedimentary basin
 - ▶ similar in size to Cook Inlet & San Joaquin-Sacramento Basins
- ▶ Potential significant petroleum producing province
- ▶ Favorable hydrocarbon system
- ▶ Many large targets – structural and stratigraphic
- ▶ Has proved difficult to attract exploration financing
- ▶ This is a wildcat play
- ▶ Incentives will help with local, regional and perhaps statewide energy solutions

Contacts

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lance.miller@nana.com

Elizabeth Saagulik Hensley, J.D.

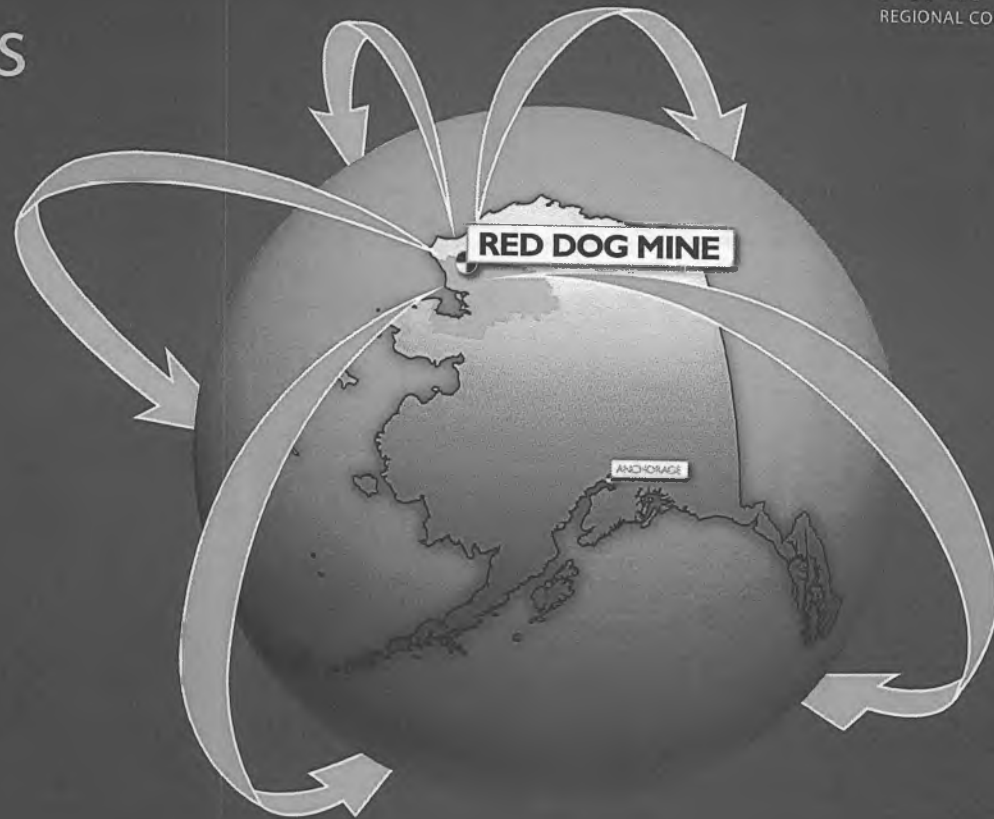
Corporate & Public Policy Liaison

Direct: 907-265-3774

elizabeth.hensley@nana.com

REDDOG e x p o r t s

- 73%** (2010) of US Zinc mine production
- 82%** of Alaska's mineral export
- 4.4%** of global zinc production
- ~25%** of Alaska's export in 2010 was due to Red Dog



25% in \$

Kotzebue Basin Location



Kotzebue Basin

- ▶ Basin 350 x 80 miles
- ▶ Onshore NW AK and offshore Chukchi Sea
- ▶ Separated from Hope Basin by Kotzebue Arch
- ▶ Depocenters ~ 20,000 ft Tertiary & probably Cretaceous

Nenana and Yukon Flats Basins

