

**ALASKA LEGISLATURE**

**992**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1993-1994**

66

States of America v. State of Alaska, Civil Action No. A91-081 CIV and approved by this Court in August 1991;

(b) the Agreement between the State of Alaska, the United States and Plaintiffs entered in The Native Village of Chenega Bay, et al. v. State of Alaska, 3AN-91-2344 Civil and approved and entered as a Final Judgment by the Alaska Superior Court in February 1992;

(c) the Consent Decree and Stipulation of Dismissal entered into between Alaska Natives and Native Interests, the United States and the State of Alaska in The Native Village of Chenega Bay, et al. v. The United States of America and The State of Alaska, Case No. A91-454 CIV and approved by this Court on January 17, 1992;

(d) the Agreement between the TAPL Fund and the State made on February 24, 1992 which contains mutual releases and covenants not to sue subject to an exception for AS 43.75 revenues specified therein and the Stipulation of Dismissal with Prejudice and Order executed by the United States and the TAPL Fund on February 17, 1992; and

(e) the State's Right-of-Way Lease for Trans-Alaska Pipeline and the United States' Grant and Agreement of Right-of-Way for Trans-Alaska Pipeline.

34. Except as explicitly stated herein, nothing in this Agreement alters, amends, modifies, or, in any way, affects the legal rights and duties of the Governments, on the one hand, and

Exxon Corporation or Exxon Shipping Company, on the other hand, under the Exxon Consent Decree.

Notices and Submittals

35. Whenever, under the terms of this Consent Decree, written notice is required to be given by one Party to another, it shall be directed to the individuals and addresses specified below, unless those individuals or their successors give notice of changes to the other Parties in writing.

As to the State of Alaska:

Attorney General  
State of Alaska  
Pouch K  
Juneau, Alaska 99811

Supervising Attorney  
Environmental Section  
Department of Law  
1031 W. Fourth Street, Suite 200  
Anchorage, Alaska 99501

As to the United States:

Chief, Admiralty and Aviation Branch  
Civil Division  
U.S. Department of Justice  
P.O. Box 14271  
Washington, D.C. 20044-4271

As to Alyeska and the Alyeska Owner Companies:

Office of the President  
Alyeska Pipeline Service Company  
1835 South Bragaw Street  
Anchorage, Alaska 99512

General Counsel  
Alyeska Pipeline Service Company  
1835 South Bragaw Street  
Anchorage, Alaska 99512

To each of the Alyeska Owner Companies, at addresses to be supplied by Alyeska.

#### Election to Terminate

36. Any Party may elect to terminate this Agreement if: (a) a final judicial determination is made by any court of competent jurisdiction that this Agreement will not be approved and entered without modification; or (b) such court modifies this Agreement in a manner materially adverse to that Party prior to or contemporaneously with a final judicial determination approving this Agreement as modified. A Party electing to terminate this Agreement pursuant to this paragraph must do so within 10 days after an event specified in the preceding sentence, and shall immediately notify the other Parties of such election in writing by hand delivery, facsimile, or overnight mail. Termination of this Agreement by one Party shall effect termination as to all Parties. For purposes of this paragraph, "termination" and "terminate" shall mean the cessation, as of the date of notice of such termination, of any and all rights, obligations, releases, covenants, and indemnities under this Agreement.

#### Entry of Final Judgment

37. This Court finds that this Agreement is fundamentally fair, just and reasonable and directs that this consent decree be entered as a final judgment with respect to the claims against Alyeska, the Alyeska Owner Companies, Exxon Corporation and Exxon Shipping Company in State of Alaska v. Exxon Corporation, et al., Case No. A92-175 CIV. This Court directs that this consent

decree be entered as a final judgment in United States of America  
v. Exxon Corporation, et al., Case No. A91-082 CIV.

Retention of Jurisdiction

38. The Court shall retain jurisdiction of this matter for the purpose of entering such further orders, direction, or relief as may be appropriate for the construction, implementation, or enforcement of this Agreement.

Miscellaneous

39. This Agreement can be modified only with the express written consent of the Parties to the Agreement and the approval of the Court.

40. Each undersigned representative of a Party to this Agreement certifies that he or she is fully authorized to enter into the terms and conditions of this Agreement and to execute and legally bind such Party to this Agreement.

THE FOREGOING Agreement and Consent Decree between the United States of America and the State of Alaska, on the one hand, and Alyeska and the Alyeska Owner Companies, on the other hand, is hereby APPROVED AND ENTERED THIS 25 DAY OF November, 1992.



Honorable H. Russel Holland  
United States District Judge  
District of Alaska

BURN, PEASE  
& KURTZ  
ATTORNEYS AT LAW  
610 N STREET  
ANCHORAGE, AK 99501  
(907) 278-4100

FOR THE STATE OF ALASKA

Date: 11-25-92 Walter J. Hickel  
WALTER J. HICKEL  
Governor  
State of Alaska

Date: 11.25.92 Charles E. Cole  
CHARLES E. COLE  
Attorney General  
State of Alaska  
Pouch K  
Juneau, Alaska 99811

FOR THE UNITED STATES OF AMERICA

Date: Nov 25, '92 Stuart M. Gerson  
STUART M. GERSON  
Assistant Attorney General  
Civil Division  
U.S. Department of Justice  
Washington, D.C. 20530

FOR ALYESKA AND THE ALYESKA OWNER COMPANIES

Date: November 25, 1992 ALYESKA PIPELINE SERVICE COMPANY  
BY: [Signature]  
Its: General Counsel

Date: November 25, 1992 AMERADA/HESS PIPELINE CORPORATION  
BY: [Signature]  
Its: Attorney in Fact

Date: November 25, 1992 ARCO TRANSPORTATION ALASKA, INC.  
BY: [Signature]  
Its: Attorney in Fact

Date: November 25, 1992 BP PIPELINES (ALASKA), INC.  
BY: [Signature]  
Its: Attorney in Fact

Date: November 25, 1992 EXXON PIPELINE COMPANY  
BY: [Signature]  
Its: Attorney in Fact

Date: November 25, 1992 MOBIL ALASKA PIPELINE COMPANY  
BY: [Signature]  
Its: Attorney in Fact

Date: November 25, 1992

PHILLIPS ALASKA PIPELINE CORPORATION

By: *Gregory P. Stone*  
ITSP / Attorney in Fact

Date: November 25, 1992

UNOCAL PIPELINE COMPANY

By: *Gregory P. Stone*  
ITSP / Attorney in Fact

Date: November 25, 1992

*Gregory P. Stone* for  
RONALD J. OLSON  
Munger, Colles & Olson  
355 South Grand Avenue  
Los Angeles, California 90071  
Attorney for Alyeska and  
Alyeska Owner Companies  
(except Exxon Pipeline Company)

Date: November 25, 1992

*Randall J. Weddle*  
RANDALL J. WEDDLE  
Faulkner, Banfield, Doogan &  
Holmes, P.C.  
550 W. 7th Avenue, Suite 1000  
Anchorage, Alaska 99501  
Attorney for Exxon Pipeline  
Company

BURR. PEASE  
& KURTZ  
PROFESSIONAL CORPORATION  
610 N STREET  
ANCHORAGE, AK 99501  
(907) 278-6100

## APPENDIX A

The settlement provides for the construction of docks and response storage facilities at Tatitlek and Chenega and the pre-positioning of oil spill response equipment at both locations. The exact nature of these projects cannot be known without more investigation and planning. Nevertheless, it is intended that these facilities be constructed in such a way as to facilitate the effective response to an oil spill in Prince William Sound.

As currently proposed, the docks at Tatitlek and Chenega would be constructed on land acquired from the villages, with title to the land and facilities and the responsibility for maintenance given to the villages or State as deemed appropriate by the State. The docks would be suitable for oil spill response use as well as limited use by the ferry MV Bartlett and would permit the loading and unloading of passengers, light cargo and, if appropriate, vehicles. The facilities should be designed to support oil spill response vessels, including the new oil spill response ferry vessel now being designed.

The proposed docks consist of a pier head platform and 12 foot wide causeway and would be lighted for nighttime operations. Berthing and mooring dolphins and fenders would be provided. The dock would be useable throughout the tidal range. A one acre gravel pad would be created at the base of the dock. The total combined estimated cost of these projects would be about \$14.5 million, including the cost of constructing and stocking associated storage facilities with spill response equipment (e.g. boom and absorbent pads). Ownership of this response equipment would reside with Alyeska.

a. Tatitlek: The dock at Tatitlek would be located at the east end of the village and would require construction of a one quarter mile access road.

b. Chenega: The dock at Chenega would be located at the west end of the village and could use existing roads. The Chenega dock would be in the vicinity of the old saltery which is a major environmental concern of the people of Chenega, the State and the United States. The saltery contains asbestos and partially filled abandoned fuel oil storage tanks. It is in complete disrepair. The proximity of the saltery, coupled with the environmental hazard it presents, mandates that strong consideration be given to removal in conjunction with construction of the dock or associated pad.

## APPENDIX B

In the event of a spill in Prince William Sound, particularly in the southwestern portion near Hinchinbrook, it would be useful to have the option of utilizing Cordova for staging response efforts. While Cordova has good air transport facilities, there is, at present, no available deep water port and little in available staging areas. Currently there is a proposal to create such a port at Shepard Point, about six miles outside of Cordova.

Connecting the port with Cordova requires rehabilitation of about two miles of existing road and construction of about 4.8 miles of new road, including a bridge across Humpback Creek. The road would run primarily across Eyak Corporation land. Eyak is supportive of the project. The proposed project includes the construction of the road to Shepard Point and a response staging area and the pre-positioning of boom and other response equipment.

In addition to the oil spill response benefits of this project, the proposed road would allow for the lightering of tourists into Cordova from tour vessels.

## APPENDIX C

Of all of the restoration projects considered for funding from the EXXON VALDEZ oil spill Joint Trust Fund, the most public support has been generated for the acquisition of in-holdings in Kachemak Bay State Park which are scheduled to be logged. A number of proposals have surfaced for financing such a buyout, but have fallen short of the amount needed to complete the purchase. It is believed that the sum proposed for this project, combined with funds from other sources, would eventually be sufficient to complete the transaction.

The proposed buyback includes lands surrounding Peterson, China Poot and Neptune Bays. Acquisition of these lands would provide a significant benefit to the natural resources and people affected by the spill. In particular, the lands acquired provide habitat for species which utilize old growth forests, such as marbled murrelets. The shorelines of these bays contain numerous archeological sites, including house pits, rock shelters and middens. More than 6000 bald eagles winter annually in Kachemak Bay, with many using the lands in question. The sand bars and islands of China Poot Bay are regularly utilized haul out sites for harbor seals. In addition, Kachemak Bay provides recreational opportunities for many Alaskans and tourists who visit the southern Kenai Peninsula and is the scenic background for the Homer area.

APPENDIX D

In conjunction with creation of the Valdez Emergency Response Center, the United States Coast Guard and the Alaska Department of Environmental Conservation will be provided space for use as a communications center. This project will provide the funds to equip that space for the agencies so as to enhance the management of an oil spill response. The exact equipment to be purchased will be designated after further planning, but includes computer systems, software, facsimile machines, copier, communications console and miscellaneous furniture.

**HVB**

**1988**

**HFIN**

**FILE**



FISCAL NOTE

STATE OF ALASKA  
1993 LEGISLATIVE SESSION

No. 1  
Bill Version: HR 198  
(H) Publish Date: 3/26/93

Revision Date: N/A  
Title: Regional Economic Assistance Program  
Sponsor: Representative Foster  
Requestor: Representative Foster

Department Affected: Commerce and Economic Development  
BRU: Economic Development  
Component: N/A  
COMPONENT SERIAL NO. \_\_\_\_\_

EXPENDITURES/REVENUES:

| OPERATING         | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 | FY 99 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES |       |       |       |       |       |       |
| TRAVEL            |       |       |       |       |       |       |
| CONTRACTUAL       |       |       |       |       |       |       |
| SUPPLIES          |       |       |       |       |       |       |
| EQUIPMENT         |       |       |       |       |       |       |
| LAND & STRUCTURES |       |       |       |       |       |       |
| GRANTS, CLAIMS    | 750.0 | 750.0 | 750.0 | 750.0 | 0.0   | 0.0   |
| MISCELLANEOUS     |       |       |       |       |       |       |
| TOTAL OPERATING   | 750.0 | 750.0 | 750.0 | 750.0 | 0.0   | 0.0   |

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| CAPITAL |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

|                         |  |  |  |  |  |  |
|-------------------------|--|--|--|--|--|--|
| REVENUE<br>FUND SOURCE: |  |  |  |  |  |  |
|-------------------------|--|--|--|--|--|--|

FUNDING:

|                          |       |       |       |       |     |     |
|--------------------------|-------|-------|-------|-------|-----|-----|
| 1002 Federal Receipts    |       |       |       |       |     |     |
| 1003 GF Match            |       |       |       |       |     |     |
| 1004 GF                  | 750.0 | 750.0 | 750.0 | 750.0 | 0.0 | 0.0 |
| 1005 GF/Program Receipts |       |       |       |       |     |     |
| 1006 GFMHTIA             |       |       |       |       |     |     |
| OTHER                    |       |       |       |       |     |     |
| TOTAL                    | 750.0 | 750.0 | 750.0 | 750.0 | 0.0 | 0.0 |

POSITIONS:

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| FULL-TIME |  |  |  |  |  |  |
| PART-TIME |  |  |  |  |  |  |
| TEMPORARY |  |  |  |  |  |  |

Estimate of current year (FY 93) impact: N/A

ANALYSIS: (Attach a separate page if necessary.)  
See attached.

Prepared by: Tom Lawson, Section Chief, Business & Regional Dev.  
Division: Economic Development

Phone: 465-2017  
Date: \_\_\_\_\_

Approved by Commissioner: Paul Fuhs  
Agency: Commerce and Economic Development

Date: 3/8/93

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From: Stephan H. Williams at (907) 276-2109  
To: Steve Hartung, MarkAir at #266-6824

04-19-93 05:33 pm  
003 of 015

THE SUPERIOR COURT FOR THE STATE OF ALASKA  
THIRD JUDICIAL DISTRICT AT ANCHORAGE

FRONTIER FLYING SERVICE, INC.,  
CAPE SMYTHE AIR SERVICE, INC.,  
MARKAIR EXPRESS, INC.,  
and MARKAIR, INC.,

Plaintiffs,

vs.

FRANK G. TURPIN, COMMISSIONER  
of the ALASKA DEPARTMENT OF  
TRANSPORTATION AND PUBLIC  
FACILITIES, the ALASKA  
DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES,  
and the STATE OF ALASKA,

Defendants.

Case No. 3AN-91-8086 Civil

STIPULATION CONCERNING JUDGMENT AMOUNTS  
AND AWARD OF CIVIL RULE 82 ATTORNEY'S FEES

The Court's March 12, 1993, Order Granting Plaintiffs' Motion For Partial Summary Judgment invalidated the rural airport landing fee scheme ("Scheme") adopted by the defendants. That Order also provided for the entry of judgment in favor of plaintiffs Frontier Flying Service, Inc., Cape Smythe Air Service, Inc., MarkAir Express, Inc., and MarkAir, Inc., for the amounts of the landing fees that they paid under the Scheme, plus statutory prejudgment interest.

STEPHAN H. WILLIAMS  
ATTORNEY-AT-LAW

500 L Street, Suite 403  
Anchorage, Alaska 99501  
(907) 276-8022

STIPULATION CONCERNING JUDGMENT AMOUNTS  
Page 1

MAY-3-93 MON 14:51

DOTPF COMMISSIONER

FAX NO. 9070000300  
FAX NO. 9072666824

P. 03

From: Stephan H. Williams at #(907) 276-2109  
To: Steve Hartung, MarkAir at #766-6024

04-15-93 05:34 PM  
004 of 015

The defendants and the plaintiffs stipulate that the following amounts, the principal fee payments and statutory prejudgment interest through March 31, 1993, may be used for purposes of entry of judgments in plaintiffs' favor:

| Plaintiff                     | Fees Paid    | Prejudgment Interest Through 3/31/93 | TOTAL Through 3/31/93 |
|-------------------------------|--------------|--------------------------------------|-----------------------|
| FRONTIER FLYING SERVICE, INC. | \$5,794.75   | \$313.22                             | \$6,107.97            |
| CAPE SMYTHE AIR SERVICE, INC. | \$33,410.80  | \$2,776.69                           | \$36,187.29           |
| MARKAIR EXPRESS, INC.         | \$151,700.00 | \$12,920.11                          | \$164,620.11          |
| MARKAIR, INC.                 | \$585,952.85 | \$46,721.44                          | \$632,674.29          |

In addition, the following are agreed to be the appropriate per diem prejudgment interest amounts to be added for each day after March 31, 1993, until the date judgments are actually entered for each plaintiff:

|                               |          |
|-------------------------------|----------|
| FRONTIER FLYING SERVICE, INC. | \$1.87   |
| CAPE SMYTHE AIR SERVICE, INC. | \$9.61   |
| MARKAIR EXPRESS, INC.         | \$43.84  |
| MARKAIR, INC.                 | \$162.81 |

Copies of work sheets with prejudgment interest calculations for each plaintiff are attached as Exhibits 1 through 4 to this stipulation, for the Court's information and review.

The judgments filed with this Stipulation have been approved as to form by counsel for the defendants. As those judgments indicate, the parties have further agreed that the Court

STEPHAN H. WILLIAMS  
ATTORNEY AT LAW

200 L. Drive, Suite 400  
Andersom, Alaska 99501  
1007 276-6032

STIPULATION CONCERNING JUDGMENT AMOUNTS  
Page 2

MAY-3-93 MON 14:52

DUIPF COMMISSIONER  
MARKHIR

FHA NO. 9010000000

FAX NO. 9072666824

P. 04

04-19-93 05:35 pm  
005 of 015

From: Stephan H. Williams at (907) 276-2109  
To: Steve Hartung, Markhir at 256-6824

may award attorney's fees to plaintiffs based on the application of Civil Rule 82(a)(1)'s schedule for fee awards in cases that are contested "Without Trial," without the need for plaintiffs to move for the award of such fees.

RESPECTFULLY SUBMITTED this 19th day of April, 1993, at Anchorage, Alaska.

LAW OFFICE OF STEPHAN WILLIAMS

*Stephan H. Williams*  
By: Stephan H. Williams

Attorney for Plaintiffs

BRUCE M. BOTELHO  
DEPUTY ATTORNEY GENERAL

*Carolyn E. Jones*  
By: Carolyn E. Jones  
Assistant Attorney General

CERTIFICATE OF MAILING

I, Stephan H. Williams, hereby certify that a copy of the foregoing Stipulation was served this 19th day of April, 1993, by first class mail, on the following counsel of record for the proposed intervenors in this action:

Mr. James N. Reeves  
Bogle & Gates  
1021 West 4th Avenue, Suite 800  
Anchorage, Alaska 99501

*Stephan H. Williams*  
Stephan H. Williams

STEPHAN H. WILLIAMS  
ATTORNEY-AT-LAW

500 E. St. Ste. 400  
Anchorage, Alaska 99501  
(907) 276-2122

STIPULATION CONCERNING JUDGMENT AMOUNTS  
Page 3

# Alaska Airlines

April 23, 1993

The Honorable Bert Sharp, Chairman  
Senate Transportation Committee  
State Capitol, Room 514  
Juneau, AK 99801

Via FAX (907) 465-2070

Dear Senator Sharp:

I want to convey to you the strong support of Alaska Airlines, Inc. for Senate Bill 198 in its current unamended version.

Since 1985, the rates and fees paid by the airlines serving Anchorage and Fairbanks Airports have been established and adjusted periodically in accordance with a lease and operating agreement negotiated between the carriers and the State DOTPF. The formulas contained in these agreements are consistent with and typical of the practice at major airports throughout the country.

Exempting the International airports from the regulatory requirements of those mandated by recent court action for the rural airport fee schedules is very important to the orderly and efficient operation of both Anchorage and Fairbanks. The additional burden created by this process would not be in the best interest of the airports or the citizens of Alaska.

~~Additionally, there are serious legal questions about the conflict that failure to exempt international airports would create with the airline operating agreements at those airports.~~ We have maintained an excellent working relationship with DOTPF and the management of Anchorage and Fairbanks Airports. We are opposed to introducing a cumbersome regulatory process into our rate setting mechanism.

Thank you for your consideration of our comments. If you have any questions, please call me at (206) 431-3805 or our Staff Vice President of Properties and Facilities, Clifford T. Argue, at (206) 433-3184. Mr. Argue is Chairman of the Anchorage/Fairbanks Airlines Airport Affairs Committees and is most knowledgeable of the finances and agreements at the two airports.

Sincerely,

ALASKA AIRLINES, INC.



Robert J. O'Neil  
Vice President  
Public Affairs

/pc

MAY 3-93 MON 14:55

DOT/PT COMMISSIONER  
TEL: 1-907-243-6848

FILE NO. 0010000000  
Apr 22, 93

17:28 No.020 P.02



April 22, 1993

The Honorable Richard Foster  
Alaska House of Representatives  
Juneau, Alaska

Dear Mr. Foster:

*PenAir* is a signatory carrier at the Anchorage International Airport and has been operating in Alaska for more than 35 years. We support SB 198 and feel the bill is necessary to allow the international airports to continue to operate efficiently and to adjust to the changing conditions in revenue requirements.

Sincerely,

A handwritten signature in cursive script that reads "Orin Seybert".

Orin Seybert  
President

SPONSOR STATEMENT

~~HB 198~~

"AN ACT RELATING TO THE ALASKA REGIONAL ECONOMIC ASSISTANCE PROGRAM; AND PROVIDING FOR AN EFFECTIVE DATE."

REPRESENTATIVE FOSTER

The ARDOR (Alaska Regional Development Organizations) program was established in statute in 1988, and with implementing regulations, became effective in early 1989. Thirteen ARDORS have since been designated, and it is anticipated a fourteenth ARDOR will be organized in the Matanuska-Susitna Borough.

Currently, the statute requires each ARDOR receive no more than \$50.0 per year which must be matched on a one-to-one basis with nonstate funds. HB198 will allow state grant funding of up to \$100.0 per ARDOR and authorizes the department to establish, by regulation, the amount of matching funds required based upon the capacity of each ARDOR to generate nonstate sources of funding.

The department envisions a matching fund formula easing the match requirements, and allowing rural areas access to the program. Rural ARDORS would be given the opportunity to lead their regions toward economic self-sufficiency thereby benefiting all of Alaska.

HB 198: "An Act relating to the Alaska regional economic assistance program."

The department is neutral on the passage of this bill.

The ARDOR (Alaska Regional Development Organizations) program was established in statute in 1988 and with implementing regulations became effective in early 1989. Since then 13 ARDORs have been designated, eight in the last two years. An anticipated fourteenth ARDOR is being organized in the Matanuska-Susitna Borough. Currently, the statute (AS 44.33.026) requires that each ARDOR receive no more than \$50.0 per year which must be matched on a one-to-one basis with nonstate funds. This legislation amends the statute to allow state grant funding of up to \$100.0 per ARDOR and authorizes the department to establish by regulation the amount of matching funds required based on the capacity of each ARDOR to generate money from non-state sources.

If this legislation is passed, the department envisions a matching fund formula that would ease match requirements and especially favor rural areas. A total of \$1,400.0/year would be necessary for the 13 existing ARDORs and one anticipated new ARDOR.

*Paul Fuhs*  
Paul Fuhs, Commissioner

2/12/93  
Date

dgl/116pp.ed



KENAI PENINSULA BOROUGH

**ECONOMIC  
DEVELOPMENT  
DISTRICT, INC.**

## ARDOR Report to Legislative Delegation

The Kenai Peninsula Borough Economic Development District (EDD) was honored in 1992 by the U.S. Economic Development Administration (U.S. EDA) as the Outstanding Local Economic Development Program in the Seattle Region (Alaska, Washington, Oregon, Idaho, California, Arizona, Nevada, Hawaii, and Pacific Islands). This recognition stands as a credit to the vision of the Alaska State Legislature which set in motion a local/state partnership for economic development through the Alaska Regional Development Organization Program (ARDOR). In the spring of 1989, EDD became the first organization designated as an ARDOR.

### Projects: Past and Present

The goal of the EDD is to foster economic growth by developing and implementing a Borough-wide economic development program which is designed to retain and create employment opportunities for Borough residents and complement community and individual development initiatives. The EDD has successfully packaged a variety of projects which respond to this goal.

Examples of *past projects* include the following:

- ✓ • Played key role in close to \$10 million in U.S. EDA assisted public works projects, with over 900 jobs to be retained and created when full potential of projects realized (1988-92).
- ✓ • Managed nationally acclaimed media campaign to mitigate tourism impact of Exxon-Valdez oil spill (1989).
- ✓ • Received Congressional approval for Customs Port-of-Entry (1990). (Project on hold)
  - Prepared Cook Inlet Gas Study resulting in visit of five groups of high ranking Korean government and industry officials (1989).
  - Facilitated contacts between Ssangyong Oil of Korea and Stewart Petroleum leading to successful drilling of wildcat oil well (1990-91).
  - Provided leadership to establish the Kenai Peninsula Tourism Marketing Council (1991).
  - Organized and administered Small Business Finance Task Force and Governor's Conference on Small Business Delegation.
  - Provided business development training to 475 persons and on-on-one consultations to 410 persons in cooperation with the Small Business Development Center/UAA (1989-91).

Examples of *current projects* include the following:

- Managing the Health Care Advisory Council which has been given an "Innovation Award" by the National Association of Development Organizations for its activities toward development of a local health care program.
- Managing the Timber Resource Utilization Task Force which has investigated options for utilization of timber lost to the spruce bark beetle infestation.
- Managing the Shellfish Task Force which is investigating the potential of large-scale shellfish mariculture within the Kenai Peninsula Borough.
- Facilitating sister government activities between the Borough and the City of Akita, Japan.
- Providing business training and one-on-one consultations through in-house Business Assistance Program (established in 1992).
- Establishing a \$280,000 local revolving loan fund to provide higher risk business loans.
- Facilitating the establishment of a Resource Conservation and Development District (RC&D) to strengthen community development outreach to small communities through funds sought from the U.S. Soil Conservation Service.

### Funding Leveraged

Each year since an ARDOR grant has been received (\$47,500 for FY 93), these funds have been combined with \$295,000 in local and federal dollars to provide basic program funding. In addition, ARDOR dollars to the EDD leverage funding for special projects which are designed to support specific activities or industries. In FY 93 special projects are expected to bring in \$415,000 and include: Timber Resource Utilization- \$85,000; Health Care Advisory Council- \$53,000; Shellfish- \$32,000; and, Revolving Loan Fund- \$245,000 (final approvals pending).

### Legislative Action Opportunities

- ARDOR Funding- Financial participation of the ARDOR Program is a critical element of the EDD's budget. Were the basic State grant to ARDORs increased, the EDD would have additional leveraging power to bring in federal and foundation grants.
- Health Care Advisory Council- The Council is framing a request to the Legislative committees for funding of a local health care reform demonstration. This demonstration could be used to validate whether reform would be successful if implemented on a state-wide basis.
- Shellfish Industry Development- Cited by the Shellfish Task Force as key ingredients toward the development of the shellfish industry are in-state research, hatchery, and nursery facilities. It is anticipated that legislation will be proposed through State agencies and industry organizations which will assist in the establishment of these facilities.
- Timber Resource Utilization- The development of a timber products industry requires State leadership toward utilization of its lands in partnership with municipal and private entities.
- Positive Performance Incentives- A system of positive incentives for business and industry performance needs to be considered for replacement of current regulatory system disincentives.
- Tourism Development- Reinstatement of Tourism Attraction Development (TAD) grants would provide the area communities with needed marketing capacity.

**НВВ**

**199**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred: February 28, 1994

FURTHER REFERRALS:

Date of Committee Action: 3/1/94

The FINANCE Committee considered:

HB 199

HOUSE BILL NO. 199

OIL & GAS EXPLORATION LICENSES/LEASES

"An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 199 (O.G.)  the same title

a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note \_\_\_\_\_

zero fiscal note(s) DNR 2/9/94 ; ~~\_\_\_\_\_~~

| SIGNING DO PASS                 | DP | OTHER RECOMMENDATIONS  | DNP | NR | AM |
|---------------------------------|----|------------------------|-----|----|----|
| <i>Ronald J. Larson</i> Larson  | X  | <i>Kay Brown</i> Brown |     |    | ✓  |
| <i>Mark Hanley</i> Hanley       | X  |                        |     |    |    |
| <i>Terry Martin</i> Martin      | X  |                        |     |    |    |
| <i>Sean P. Farrell</i> Farrell  | X  |                        |     |    |    |
| <i>Tom Theriault</i> Theriault  | X  |                        |     |    |    |
| <i>Richard J. Foster</i> Foster | X  |                        |     |    |    |
| <i>Edward P. McLean</i> McLean  | X  |                        |     |    |    |
|                                 |    |                        |     |    |    |
|                                 |    |                        |     |    |    |
|                                 |    |                        |     |    |    |
|                                 |    |                        |     |    |    |

*Edward P. McLean* *Ronald J. Larson*  
 CO CHAIRMAN'S SIGNATURE  
*McLean* *Larson*

# FISCAL NOTE

STATE OF ALASKA  
1993 LEGISLATIVE SESSION

No. 1  
Bill Version: HB 199  
(H) Publish Date: 3/5/93

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
Title: Oil & Gas Exploration Licenses and Leases BRU: Revenue Operations  
Component: Oil & Gas Audit Division  
Sponsor: Governor  
Requestor: Governor COMPONENT SERIAL NO. 115

**Expenditures/Revenues:** (Thousands of Dollars)

|                   | FY94 | FY95 | FY96 | FY97 | FY98 | FY99 |
|-------------------|------|------|------|------|------|------|
| OPERATING         |      |      |      |      |      |      |
| PERSONAL SERVICES |      |      |      |      |      |      |
| TRAVEL            |      |      |      |      |      |      |
| CONTRACTUAL       |      |      |      |      |      |      |
| SUPPLIES          |      |      |      |      |      |      |
| EQUIPMENT         |      |      |      |      |      |      |
| LAND & STRUCTURES |      |      |      |      |      |      |
| GRANTS, CLAIMS    |      |      |      |      |      |      |
| MISCELLANEOUS     |      |      |      |      |      |      |
| TOTAL OPERATING   | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| CAPITAL |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

|                      |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|
| REVENUE FUND SOURCE: |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|

**FUNDING:** (Thousands of Dollars)

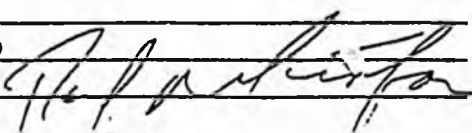
|                          |     |     |     |     |     |     |
|--------------------------|-----|-----|-----|-----|-----|-----|
| 1002 Federal Receipts    |     |     |     |     |     |     |
| 1003 GF Match            |     |     |     |     |     |     |
| 1004 GF                  |     |     |     |     |     |     |
| 1005 GF/Program Receipts |     |     |     |     |     |     |
| 1006 GF/MHTIA            |     |     |     |     |     |     |
| Other                    |     |     |     |     |     |     |
| TOT. L                   | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

**POSITIONS:**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| FULL-TIME |  |  |  |  |  |  |
| PART-TIME |  |  |  |  |  |  |
| TEMPORARY |  |  |  |  |  |  |

Estimate of current year (FY93) impact: \$ 0.00

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Rod R. Mourant Phone: 465-2300  
Division: Commissioner's Office Date: 3/2/93  
Approved by Commissioner: Darrel J. Rexwinkel  Date: 3/2/93  
Agency: \_\_\_\_\_

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# FISCAL NOTE

No. 2

Bill Version: CSHB 199 (O&G)

BILL (H) Publish Date: 2/9/94

STATE OF ALASKA

1994 LEGISLATIVE SESSION

Revision Date: 7-Feb-94 Dept Affected: Natural Resources  
 Title: "An Act providing for oil and gas exploration  
licenses, and oil and gas leases, in certain areas of the state..." BRU: Resource Development  
 Sponsor: House Rules by request of the Governor Component: Oil & Gas Development  
 Requestor: House Oil & Gas Component Serial No. 439

**Expenditures/Revenues**

(Thousands of Dollars)

| OPERATING EXPENDITURES        | FY95 | FY96 | FY97 | FY98 | FY99 | FY00 |
|-------------------------------|------|------|------|------|------|------|
| PERSONAL SERVICES             |      |      |      |      |      |      |
| TRAVEL                        |      |      |      |      |      |      |
| CONTRACTUAL                   |      |      |      |      |      |      |
| SUPPLIES                      |      |      |      |      |      |      |
| EQUIPMENT                     |      |      |      |      |      |      |
| LAND & STRUCTURES             |      |      |      |      |      |      |
| GRANTS, CLAIMS                |      |      |      |      |      |      |
| MISCELLANEOUS                 |      |      |      |      |      |      |
| <b>TOTAL OPERATING</b>        | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| <b>CAPITAL EXPENDITURES</b>   | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| <b>CHANGE IN REVENUES ( )</b> | 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/Program Receipts |     |     |     |     |     |     |
| 1006 GF/MHTIA            |     |     |     |     |     |     |
| Other                    |     |     |     |     |     |     |
| <b>TOTAL</b>             | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY94) cost: \$ None

**POSITIONS**

|           |   |   |   |   |   |   |
|-----------|---|---|---|---|---|---|
| FULL-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| PART-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY | 0 | 0 | 0 | 0 | 0 | 0 |

**ANALYSIS:**

(Attach a separate page if necessary)

The zero fiscal note is predicated on the Division of Oil & Gas being funded to the full level of the Governor's budget request. The Division of Oil & Gas will be the primary administrators of this program and need to be fully staffed to accomplish this task.

Prepared by: Jim Eason, Director Phone: 762-2548  
 Division: Oil & Gas Date: 7-Feb-94  
 Approved by Commissioner: Harry A. Noah Date: 7-Feb-94  
 Agency: Natural Resources

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*Withdrawn*

AMENDMENT

*II*

OFFERED IN THE HOUSE  
TO: CSHB 199(O&G)

BY REPRESENTATIVE BROWN

Page 2, line 27:

Delete "and"

Page 3, line 3, after "Seward Meridian":

Insert "; and

(3) the area described in AS 38.05.140(f)"

AMENDMENT III  
\* (amended) adopt

Failed

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSHB 199(O&G)

Page 3, line 9, after "AS 38.05.132.":

Insert "The commissioner may, at any time after issuance of a written determination under this subsection, revise the description of the land that may be <sup>OFFERED UNDER</sup> [subject to] the provisions of AS 38.05.132 based upon the commissioner's receipt of new information."

Failed

(2-6)

AMENDMENT I

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSHB 199(O&G)

Page 6, line 29, after "The regulations":

Delete "must"

Insert "may"

AMENDMENT 4 Failed

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSHB 199(O&G)

Page 8, lines 26 - 27:

Delete all material and insert:

"(3) must be conditioned upon payment to the state of a fixed royalty share

(A) of not less than 12.5 percent in amount or value of the production removed or sold from the lease;

(B) of not less than 12.5 percent in amount or value of the production removed or sold from the lease and a fixed share of the net profit derived from the lease of not less than 30 percent reserved to the state; or

(C) based on a sliding scale according to the volume of production or other factor but in no event less than 12.5 percent in amount or value of the production removed or sold from the lease;"

**Amendment to CSHB 199 (Oil and Gas)**

# 5

Failed

Page 3

between lines 3 and 4, insert a new sub-section to read:

"(3) tide and submerged lands"

---

**Purpose and effect of amendment:**

Licensing for oil and gas exploration would not apply to Alaska's marine areas if the amendment were to be adopted.

**Rationale:**

1) Licensing very large areas for oil exploration makes it even more difficult for the department and the public to determine what impacts may occur and where they will happen

Reasonably detailed information on potential impacts is necessary if the best interest determinations and consistency findings are to have any validity.

This detail may become vague when up to 500,000 acres (say, a parcel that is 20 miles wide and almost 40 miles long) is being considered.

The present leasing law has a well-publicized schedule, and deals with much smaller areas. This allows a more focused review, necessary in the sensitive marine environment.

Back-up

**ALASKA OIL AND GAS ASSOCIATION  
POSITION  
ON  
LARGE BLOCK EXPLORATION LICENSING LEGISLATION  
(HB 199/SB 150)**

The Alaska Oil and Gas Association (AOGA) is a trade association whose member companies account for the majority of oil and gas exploration, production, transportation and marketing activities in Alaska.

AOGA believes that large block licensing is an attractive addition to the State's leasing program to accelerate exploration and potential development of Alaska's frontier areas.

The Association has established the following position on large block exploration licensing legislation:

- AOGA supports a large block licensing program that does not apply to lands (1) north of the Umiat baseline; (2) lands south of the Umiat baseline that are within proposed Competitive Oil and Gas Lease Sales 80, 87 and 88 prior to the initial sale; and (3) in the vicinity of Cook Inlet that are within the area bounded by the north boundary of Township 17 North S.M., the Seward Meridian, the south boundary of Township 7 South S.M., and the west boundary of Range 19 West S.M.
- AOGA supports a program in which a license is conditioned upon the posting of an annual bond or other security in favor of the state and in which the annual bond or other security is calculated as the entire work commitment expressed in dollars less the cumulative expenditures as of the last day of the most recent project-year, divided by the remaining years of the exploration license.
- AOGA supports a competitive program in which all licenses are awarded on the basis of written, sealed bids for total dollar work commitment. The commissioner should adopt regulations to evaluate competing proposals.

**AOGA Position on HB 199/SB 150**

Page 2

- AOGA supports a program in which conversion from license to lease is under existing state leasing statutes AS 38.05.180 (j)-(m), (o)-(u), and (x)-(z), and upon conversion, such a lease is subject to the acreage chargeability of AS 38.05.140(c).
- AOGA supports a program in which any relinquishment of the License area does not occur before the fourth anniversary of the License and each year thereafter is a percentage relinquishment of the remaining License area not to exceed 50 percent of the original License area. As an incentive for early evaluation of a License area, AOGA believes no relinquishment should be required if the Licensee has expended 50 percent of the approved work commitment by the fourth anniversary of the License.

The House Oil and Gas Committee Substitute for HB 199 is consistent with the AOGA position on exploration licensing legislation. AOGA supports CSHB 199.

**AOGA MEMBERS:**

Amerada Hess Corporation  
Anadarko Petroleum Corporation  
ARCO Alaska, Inc.  
BP Exploration (Alaska), Inc.  
Chevron U.S.A. Inc.  
Cook Inlet Region, Inc.  
Exxon Company, U.S.A.  
MAPCO Alaska Petroleum Inc.  
Marathon Oil Company

Mobil Oil Corporation  
Petrofina Delaware, Inc.  
Petro Star, Inc.  
Phillips Petroleum Company  
Rowan Companies, Inc.  
Shell Western E&P Inc.  
Texaco Inc.  
Union Texas Petroleum Alaska Corp.  
UNOCAL

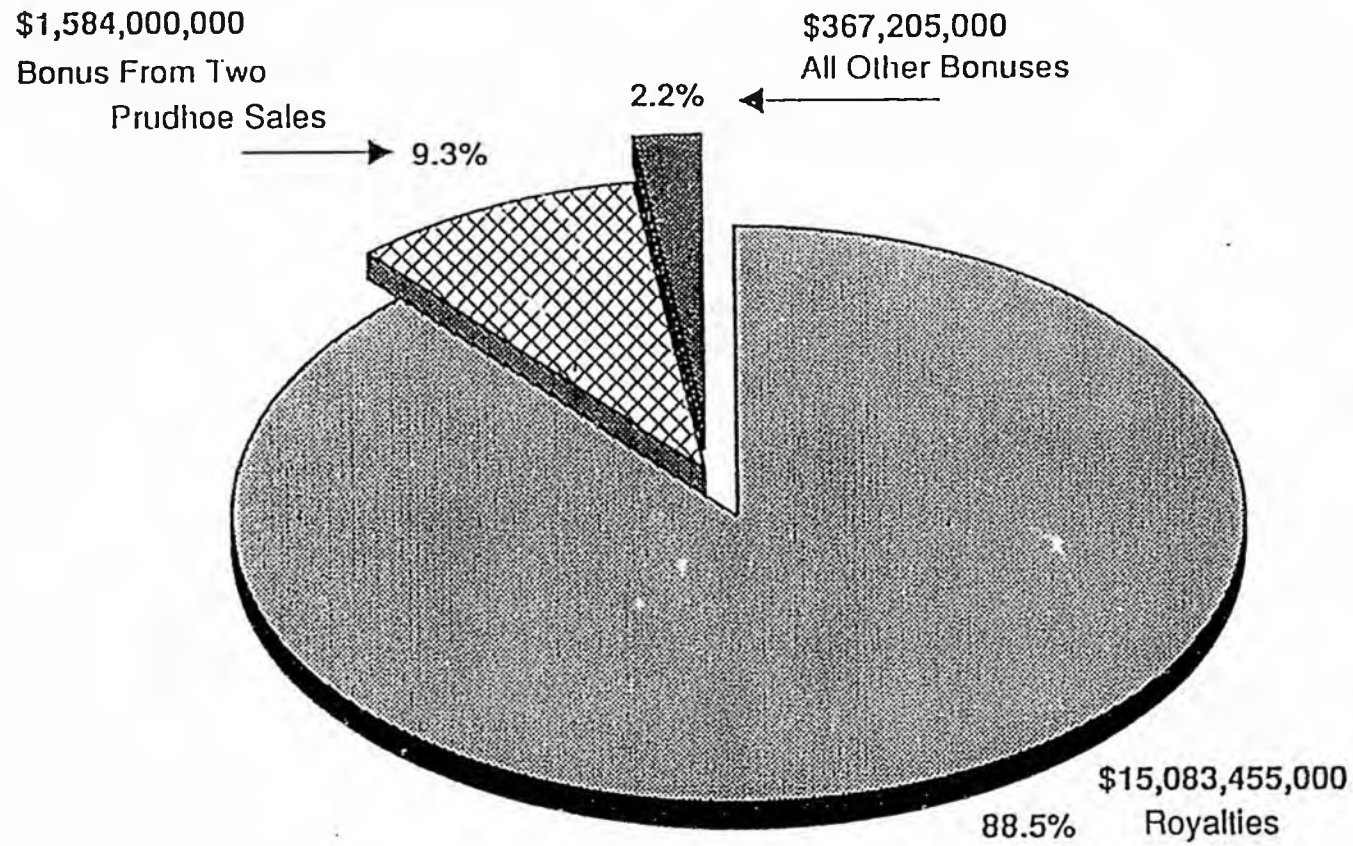
Exploration Licensing - 1/18/94

(CSHB 199) Version I

ARCO supports the October 25 DNR version as a strong, frontier licensing bill. We particularly want to point out its strengths in providing a level playing field for potential competitors.

- 1) The bonding formulation strikes an appropriate balance amongst a variety of interests to provide equal financial footing for bidders and solid protection of the State's interest.
- 2) Leases are achieved only after the entire work commitment is completed, which minimizes chances for speculation.
- 3) The bonding and relinquishment provisions provide incentives to conduct the work early and vigorously.
- 4) The bonding provisions allows the licensee the maximum flexibility to pursue a work program that makes sense.
- 5) The licensing supplements, and also dovetails into the proven state leasing system, providing licensees with maximum certainty of the long term rules.
- 6) Finally, the winning bid, in any competition is selected based upon the objective standards of total dollar amount using sealed bids.

### Comparison of Royalties and Bonuses FY'65-FY'92



WALTER J. HICKEL  
GOVERNOR



P. O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

LB 199

March 5, 1993

*The Honorable Ramona L. Barnes  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182*

*Dear Speaker Barnes:*

*Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.*

*The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.*

*Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the*

~~ORIGINAL~~

COMMITTEE COPY

The Honorable Ramona L. Barnes

March 5, 1993

Page 2

HB 199

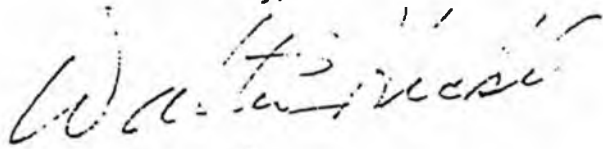
acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaska's remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,



Walter J. Hickel  
Governor

Context

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(13) "park and recreation land" means land chiefly valuable for public park and recreation use:

(14) "preference right forest lease" means a lease granted to a lessee whose United States Forest Service term special use permit was cancelled to allow the land under permit to be selected by the state:

(15) "preference right grazing lease" means a grazing lease granted to a lessee whose federal grazing lease was cancelled to allow the land under lease to be selected by the state:

(16) "public water" means navigable water and all other water, whether inland or coastal, fresh or salt, that is reasonably suitable for public use and utility, habitat for fish and wildlife in which there is a public interest, or migration and spawning of fish in which there is a public interest;

(17) "rule of approximation" is the rule which is applied in determining whether or not a lease complies with the area limits set forth in this chapter and regulations adopted under it and in keeping the boundaries of leased land coincidental with legal subdivisions; under the rule, if the area covered by a lease in excess of the permitted maximum is smaller than the area of any deficiency that would result by eliminating from the lease the smallest legal subdivision covered by the lease or application for lease, the excess area will be permitted to remain in the lease; if the excess area is greater than the deficient area would be, then the smallest legal subdivision will be eliminated from the lease;

(18) "shoreland" means land belonging to the state which is covered by nontidal water that is navigable under the laws of the United States up to ordinary high water mark as modified by accretion, erosion, or reliction;

(19) "state land" or "land" means all land, including shore, tide and submerged land, or resources belonging to or acquired by the state;

(20) "submerged land" means land covered by tidal water between the line of mean low water and seaward to a distance of three geographical miles or further as may hereafter be properly claimed by the state;

(21) "tideland" means and that is periodically covered by tidal water between the elevation of mean high water and mean low water;

(22) "timber land" and "material land" mean state land chiefly valuable for materials, including, but not limited to, sand, stone, gravel, pumice, common clay, or timber and other forest products;

(23) "university land"

(A) means

(i) all sections 33 reserved to the university under 38 Stat. 1214, as amended;

(ii) all land granted to or reserved for the benefit of the university that retains its designation as university land;

# BUSINESS

## Bills aim to speed oil exploration

### Licensing, data exchange plans hoped to offset Prudhoe decline

By IAN MADER  
The Associated Press

JUNEAU — The Hickel administration has proposed legislation that it says would promote quicker exploration of the state's oil reserves.

One bill would allow oil companies to apply for licenses to explore large tracts at once, bypassing the need to collect enough contiguous smaller tracts at state lease auctions to make exploration practical.

Under Senate Bill 150 and House Bill 199, a company would get a large-area license by committing to do the exploration soon and posting a bond to guarantee the work.

Ken Boyd, deputy director of the state Oil and Gas Division, said auctions often leave several contiguous tracts in the hands of different companies, which would have to team up for exploration. They often do not agree on when to start drilling.

Licensing would remove that delay, he said. "There's no hemming and hawing. You put down your bond and away you go."

Competition would not end under licensing, he said. Once a company applied for a license, other companies could make counterproposals to the state. State officials would choose the best proposal. If the company found oil, it would have the option

to lease the land.

Arco Alaska Inc., the biggest supporter of "exploration licensing," says the idea could help make Alaska more attractive to new oil companies and those that have been leaving the state for foreign prospects.

"We think it will attract new investors by cutting as much as a decade from the time required to find and develop a new Alaska oil field," Arco vice president James M. Davis told the Juneau Chamber of Commerce last week.

BP Exploration (Alaska) Inc. says it

Please see D-6, LICENSING

## LICENSING: Hoped to entice more oil firms

Continued from Page D-4

prefers the competitive lease process for known oil-rich areas such as the North Slope and Cook Inlet, but would support licensing for basins in interior Alaska.

Rep. Joe Green, R-Anchorage and chairman of the House Oil and Gas Committee, said a company's support for the idea "will depend how cash-rich they are at the moment."

Arco apparently has the cash. The company says it will spend \$900 million on Alaska exploration in the next five years.

BP recently slashed its Alaska operations and has not announced an exploration spending plan, but has said it will drill three wells this year and take part in a fourth.

Boyd said the legislation is not necessarily intended for the North Slope, and that the natural resources commissioner could say that licensing would only apply in remote basins in interior Alaska.

BP spokesman Tom Williams said the company would not support the bill unless it had more provisions to guarantee millions of acres of unleased North Slope land would not be licensed in large blocks.

"We like the bidding process," Williams said. "In large-block licensing there's enough blanks to be filled in that we just don't know."

Smaller companies have worried that they won't have enough capital to apply for a large-block license, Boyd said. Unless such companies team up with others, they probably should not be drilling in the interior anyway, he said.

"I don't want somebody to go out into a basin and not be financially responsible to do the work," Boyd said. "Unfortunately, Alaska is not a good place for the smaller independents. It's remote, it's large, it's cold."

"The commitment to exploration also will prevent speculators from holding potential oil fields for years," Boyd said.

Rep. John Davies, D-Fairbanks, said he's concerned the speedy timetable under licensing might compromise public review that would examine environmental effects and look at alternative uses for the land.

"It seems to me that both Arco and BP have announced increased exploration in the next decade," he said. "I'm skeptical as to whether we really need any incentives."

Under another Hickel proposal, the state would pay up to half of a company's exploration costs on non-state lands in exchange for data that could shed light on the prospects for nearby state land, Boyd said.

Under SB151 and HB200, the state would use that information to market the nearby state land, Boyd said.

"Any information we can get on these strange interior basins, so much the better," Boyd said.

Green said both proposals could help offset the decline in Prudhoe Bay oil production.

"OK, we've driven a lot of oil companies out with unstable pricing," Green said. "These measures say, 'Look, we're trying to come up with ways of enticing you back into the state.'"

COMPARISON OF HB199, OCTOBER 25 DRAFT  
& PROPOSED HSE O&G CS (VERSION "I")

Prepared by O&G Committee Staff 1-28-94

|                             | HB 199   | October 25 Draft   | Proposed O&G CS<br>(version "I")  |
|-----------------------------|--|--|---|
| Geograph<br>Restricti       | All state land with insufficient geological or geophysical information, unleased state land and land previously available for lease is available for exploration licensing.  | Land north of the Umiat Baseline, certain areas of Cook Inlet, and the areas defined in pending lease sales 80, 87 & 88 are excluded. Other state land is available.   | Land north of the Umiat Baseline, certain areas of Cook Inlet, and the areas defined in pending lease sales 80, 87 & 88 are excluded. Other state land is available.  |
| Minimum Work<br>Commitments | Must fulfill work commitment by the end of the license term.   | Must complete at least 25% of work commitment by end of the 4th year.  | Must complete at least 25% of work commitment by end of the 4th year.   |
| Relinquishment              | No requishment provisions.   | No relinquishment required if 50% of work commitment is completed by end of 4th year. If 50% not completed by end of 4th year, 25% of the original acreage must be surrendered, with an additional 10% of the remaining acreage surrendered each year - to a maximum of 50%.                 | No relinquishment required if 50% of work commitment is completed by end of 4th year. If 50% not completed by end of 4th year, 25% of the original acreage must be surrendered, with an additional 10% of the remaining acreage surrendered each year - to a maximum of 50%.                  |
| Bonding                     | Bonding required for the total work commitment. If work commitment not completed, forfeit remaining amount of bond.  | Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of license years remaining.  | Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of license years remaining.   |
| Competitive<br>Bidding      | Oral outcry auction. Bid awarded to highest work commitment expressed in dollars.  | Competitive sealed bids. Award goes to highest dollar-amount work commitment. Allowed expenditures are defined by statute. (Depreciation, interest & insurance premiums are NOT allowed as an expense. Drilling, logging, testing and evaluating oil & gas wells are allowed as an expense.) | Competitive sealed bids. Award goes to highest dollar-amount work commitment. Allowed expenditures are defined by statute. (Depreciation, interest, & insurance premiums are NOT allowed as an expense. Drilling, logging, testing and evaluating oil & gas wells are allowed as an expense.) |
| Acreage<br>Chargeability    | License area of not more than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with 30,000 tracts. Not subject to AS 38.05.140(c) acreage limitations. Annual rental is \$3 per acre. | License area of not <i>less</i> than 20,000 acres, and not <i>more</i> than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with standard tract size. Subject to acreage limitations of AS 38.05.140(c). Annual rental is \$3 per acre.    | License area of not <i>less</i> than 20,000 acres, and not <i>more</i> than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with standard tract size. Subject to acreage limitations of AS38.05.140(c). Annual rental is \$3 per acre       |

## Exploration License

### Summary

#### OBJECTIVE

- ENCOURAGE MORE EXPLORATION
- MINIMIZE DIRECT COST TO STATE
- SHORTEN TIME TO DISCOVERIES
- REDUCE RISK/COSTS OF EXPLORATION
- DISCOURAGE LAND SPECULATION
- MAINTAIN COMPETITION FOR STATE RESOURCES

#### CONCEPT

- SUPPLEMENTS LEASING PROGRAM
- LICENSE GRANTED FOR ACTIVITY COMMITMENT
- COMMITMENT SECURED BY PERFORMANCE BOND
- LEASE CONVERSION UPON WORK COMPLETION
- LEASE TERMS ATTACHED TO LICENSE

#### PROCEDURE

- UNLEASED STATE LAND IDENTIFIED
- EXPLORATION EXPENDITURES PROPOSED
- COMPETITIVE PROPOSALS INVITED
- SELECTION/BEST INTEREST FINDING MADE
- LICENSE/LEASE TERMS FINALIZED
- ACTIVITY PERMITS ACQUIRED
- ACTIVITY CONDUCTED
- LICENSE CONVERTED TO LEASES

## EXPLORATION LICENSING

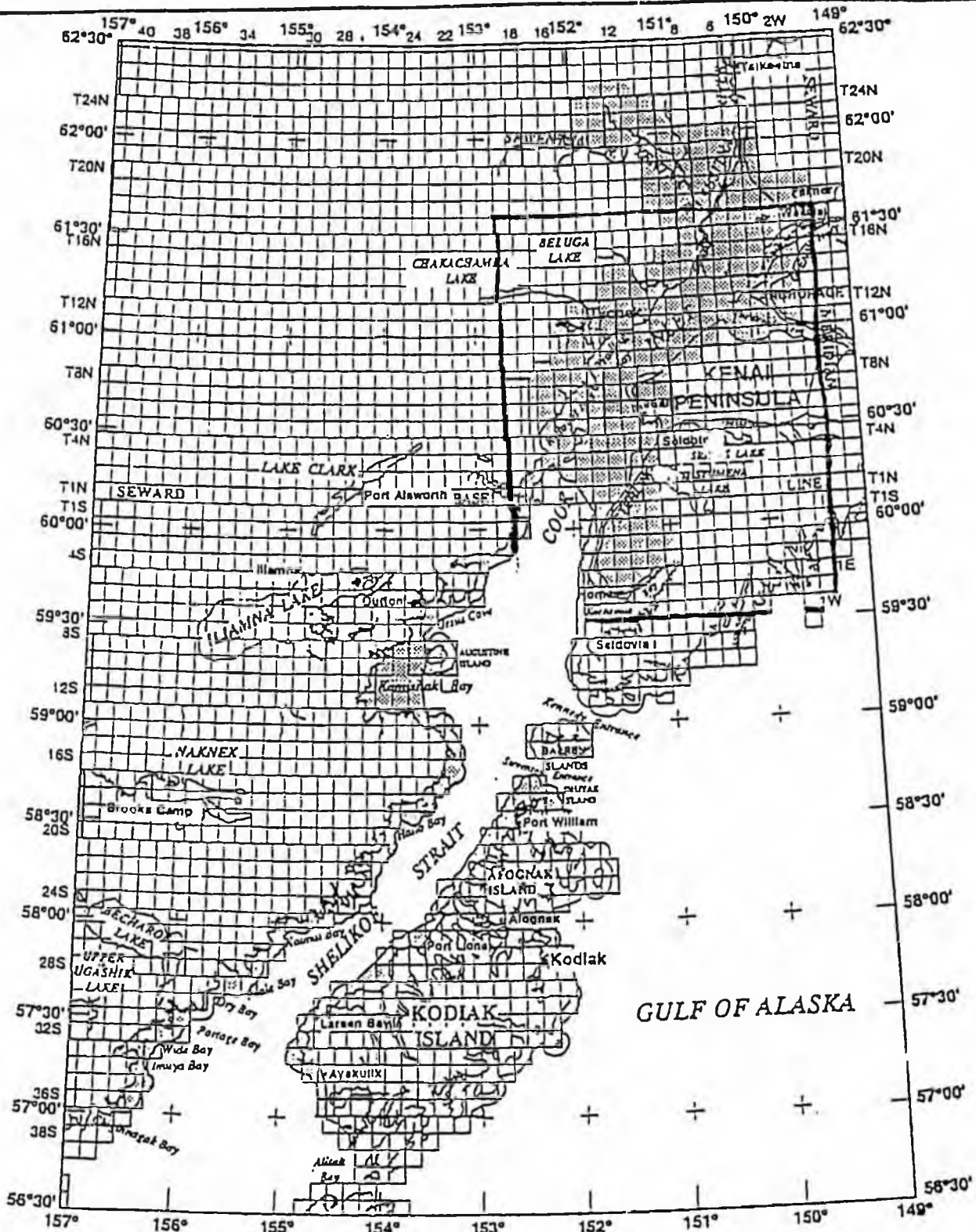
### KEY ASPECTS

#### PROTECTS STATE'S INTEREST

- ENOUGH TIME FOR COMPETITION TO MATURE
- STATE CAN REJECT ANY PROPOSAL
- SUPPLEMENTS EXISTING LEASE PROGRAM
- LICENSE CONVERTS TO SMALLER LEASES
  - EXISTING RULES THEN APPLY
- PUBLIC BEST INTEREST FINDING MADE
- PERFORMANCE BOND ENSURES WORK GETS DONE
- SHIFTS ANALYSIS TO INDUSTRY
- COMMERCIAL DEVELOPMENT YIELDS ROYALTY TAXES

#### ENCOURAGES EXPLORATION/DEVELOPMENT

- CAPITAL GOES TO ACTIVITY NOT BONUS/RENTAL
- SHORTENS TIME FOR EXPLORATION
- FITS WITH TAPS INFRASTRUCTURE TIMING
- LAND SIZE FITS WITH EXPLORATION
- SECURITY OF TITLE ACHIEVED
- OWNERSHIP WORKED OUT AHEAD OF DISCOVERY
- REDUCED COSTS/RISKS



STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL AND GAS

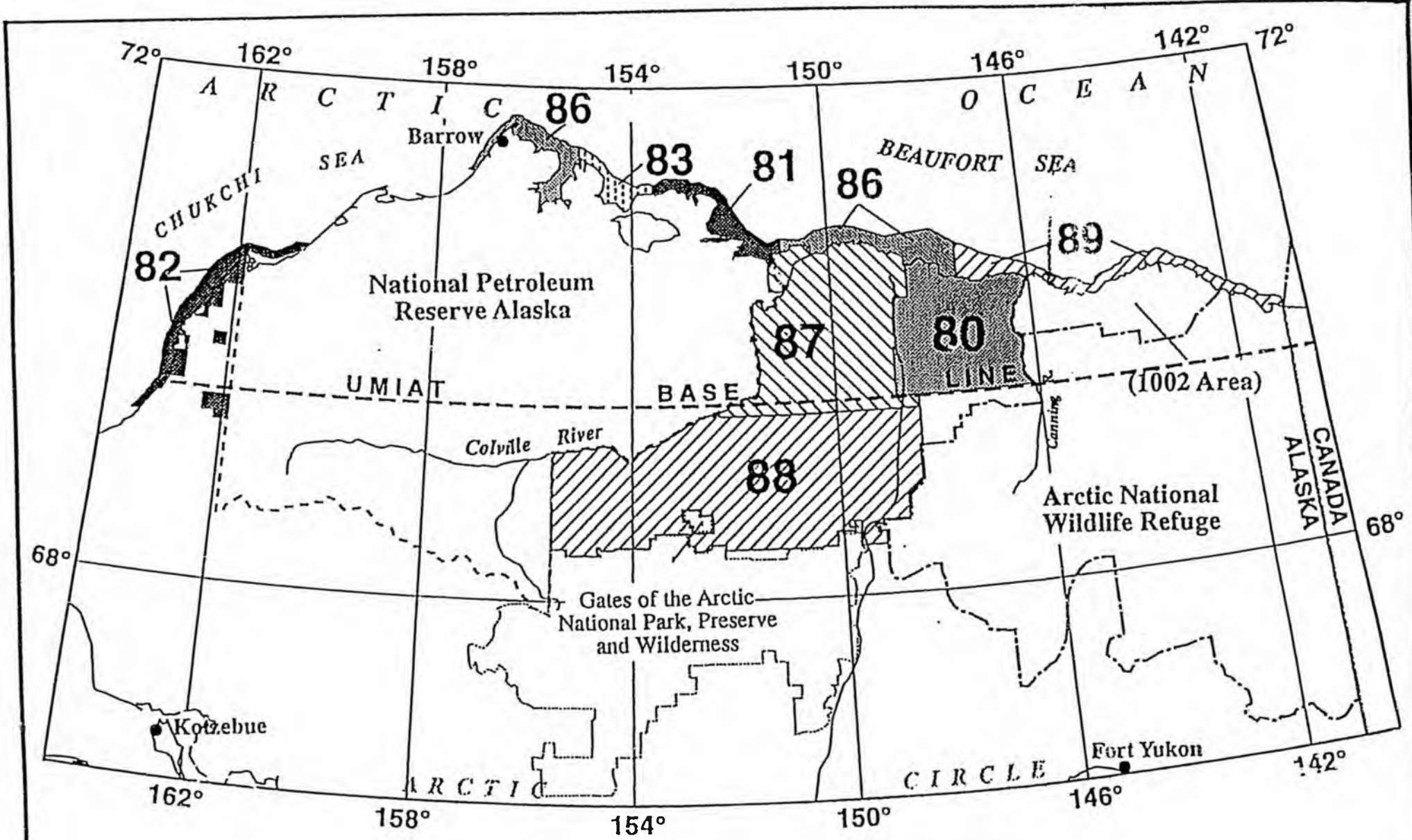
## PROPOSED OIL AND GAS LEASE SALE 85 COOK INLET / SHELIKOF STRAIT

SCALE 1: 3,500,000 ONE INCH = 56 MILES approx.  
0 10 100 200 Miles

|  |   |
|--|---|
| DIRECTOR, DIVISION OF OIL AND GAS<br>JAMES E. EASON <i>[Signature]</i> | DRAWN BY: M.P. & O.D.S.<br>DATE APPROVED: 12-21-92  |
| PETRO. GEOPHYSICIST,<br>JAMES HANSEN <i>[Signature]</i>                | CHECKED BY: <i>[Signature]</i><br>BASE MAP: TRANSPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD. |

NOTE: NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.





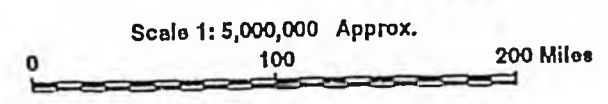
### North Slope Areas Proposed For Leasing

| Sale | Date  |
|------|-------|
| 80   | 11-94 |

| Sale | Date  |
|------|-------|
| 81   | 4-95  |
| 82   | 7-95  |
| 83   | 11-95 |

| Sale | Date  |
|------|-------|
| 87   | 4-97  |
| 88   | 7-97  |
| 89   | 11-97 |

|    |       |
|----|-------|
| 86 | 11-96 |
|----|-------|



11/93

## State of Alaska Revenues

\$ Millions

| Fiscal<br>Year | Oil & Gas<br>Severance<br>Tax | + | Oil & Gas<br>Gross<br>Royalties | + | Lease<br>Bonus<br>Sales | + | Petroleum:<br>Other Tax &<br>Settlements | = | Total<br>Petroleum<br>Revenues |
|----------------|-------------------------------|---|---------------------------------|---|-------------------------|---|--|---|--------------------------------|
| 1959-69        | 9                             |   | 29                              |   | 96                      |   | 89                                       |   | 223                            |
| 1970           | 8                             |   | 19                              |   | 900                     |   | 12                                       |   | 939                            |
| 1971           | 11                            |   | 24                              |   | 0                       |   | 12                                       |   | 47                             |
| 1972           | 11                            |   | 25                              |   | 0                       |   | 12                                       |   | 48                             |
| 1973           | 12                            |   | 24                              |   | 4                       |   | 11                                       |   | 50                             |
| 1974           | 15                            |   | 29                              |   | 25                      |   | 12                                       |   | 80                             |
| 1975           | 27                            |   | 40                              |   | 1                       |   | 23                                       |   | 90                             |
| 1976           | 28                            |   | 43                              |   | 0                       |   | 320                                      |   | 392                            |
| 1977           | 24                            |   | 46                              |   | 0                       |   | 421                                      |   | 491                            |
| 1978           | 108                           |   | 199                             |   | 0                       |   | 185                                      |   | 492                            |
| 1979           | 174                           |   | 332                             |   | 0                       |   | 399                                      |   | 906                            |
| 1980           | 507                           |   | 918                             |   | 457                     |   | 720                                      |   | 2,601                          |
| 1981           | 1,170                         |   | 1,502                           |   | 14                      |   | 1,011                                    |   | 3,697                          |
| 1982           | 1,582                         |   | 1,553                           |   | 10                      |   | 838                                      |   | 3,983                          |
| 1983           | 1,494                         |   | 1,447                           |   | 73                      |   | 443                                      |   | 3,457                          |
| 1984           | 1,393                         |   | 1,409                           |   | 17                      |   | 418                                      |   | 3,237                          |
| 1985           | 1,389                         |   | 1,390                           |   | 24                      |   | 321                                      |   | 3,124                          |
| 1986           | 1,108                         |   | 1,098                           |   | 70                      |   | 753                                      |   | 3,029                          |
| 1987           | 649                           |   | 592                             |   | 1                       |   | 337                                      |   | 1,578                          |
| 1988           | 819                           |   | 954                             |   | 11                      |   | 607                                      |   | 2,391                          |
| 1989           | 699                           |   | 819                             |   | 23                      |   | 533                                      |   | 2,074                          |
| 1990           | 1,002                         |   | 1,004                           |   | 0                       |   | 385                                      |   | 2,391                          |
| 1991           | 1,285                         |   | 1,293                           |   | 38                      |   | 690                                      |   | 3,306                          |
| 1992           | 1,053                         |   | 936                             |   | 5                       |   | 628                                      |   | 2,622                          |
|                | <u>14,573</u>                 |   | <u>15,724</u>                   |   | <u>1,770</u>            |   | <u>9,181</u>                             |   | <u>41,248</u>                  |

Source: Alaska Dept. of Revenue, Revenue Sources Book, Fall 1992

ALASKA POLICY FORUM : A paid message for Alaskans about oil and the economy

LEGISLATIVE DIGEST Aug/SEPT 93

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|  |                  |
|--|------------------|
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| Fax # 258-8171                           | Fax # 561-4577   |

# Bangladesh does it. Greenland does it. Mongolia does it.

There's probably lots of undiscovered oil in Alaska, enough to keep the trans-Alaska pipeline operating for years after our known North Slope fields run down.

But we'll never produce it unless we find it.

And we'll never find it if we don't drill.

We need to stimulate more oil exploration, in all parts of Alaska.

To do this, we need a new tool added to our existing state oil and gas leasing program. It's a concept new to Alaska, but commonly used for years overseas, and even by Alaska Native corporations on private lands in Alaska.

A proposal to create that tool, as a supplement to Alaska's existing leasing program, is now before the state legislature.

"Exploration licensing" has been used for years in at least 63 countries, including the U.S.

All over the world, variations of exploration licensing are used. From Abu Dhabi and Dubai; to Angola, and Chad; Argentina to Columbia, Ecuador and Costa Rica; China and India to Ireland, Denmark and Greece, exploration licensing is used to stimulate new oil exploration. Mongolia and Greenland have just adopted it. The U.S. government uses it on certain federal lands.

Basically, exploration licensing gives an oil company the right to explore in large blocks of land, which gives the company's geologists the flexibility to test new theories of how oil is deposited deep underground.

It streamlines the process of exploration by making large areas of land available sooner than under the state's current leasing system,

All over the world, variations of exploration licensing are used. From Abu Dhabi and Dubai; to Angola, and Chad; Argentina to Columbia, Ecuador and Costa Rica; China and India to Ireland.

## A paid message for Alaskans about oil and the economy

and without changing environmental requirements.

It is also "market driven." The companies can tell the state which lands they are interested in exploring. The state doesn't have to guess what acreage the industry is interested in acquiring.

ARCO Alaska's recent discoveries on the North Slope and in Cook Inlet show what just one company can do when it turns its exploration staff loose to test new geologic theories.

Those theories led directly to new oil finds in the Sunfish discovery in the inlet and on the Colville River delta of the North Slope.

We need a lot of companies like ARCO exploring.

Senate Bill 150 and House Bill 199, now in advanced stages of consideration in the legislature, would provide the tool to get more companies exploring in Alaska.

Exploration licensing streamlines the process of exploration by making large areas of land available sooner than under the state's current leasing system, and without changing environmental requirements.

There's nothing wrong with Alaska's current leasing system. It works fine in parts of the state with known oil discoveries and production.

But it doesn't do much to attract exploration dollars into high-risk, unknown parts of the state, where there is geologic potential but no previous discoveries.

Exploration licensing is designed precisely for these new, unknown areas.

Our current system leases tracts in relatively small sizes, about 5,600 acres, and in competitive "bonus bid" sales. These are auctions where the winner is the company, or group of companies, that offers the largest cash "bonus" payment to the government, in addition to paying rentals on the lease and royalties from any production.

The problem with small lease tracts is that it takes time for companies to consolidate land rights over several geologic targets its geologists are interested in, which which are usually broadly dispersed in a new, unexplored basin.

(Continued next page)

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*(Continued from preceding page)* That's because competitive bidding can create complex lease ownership over geologic prospects. If different companies wind up owning small-size leases over a prospect with marginal potential, it may take years to negotiate the complex agreements needed to finance the drilling of a well. That often happens under Alaska's current leasing system.

Another problem with competitive bonus-bid sales, in new and unexplored regions, is that it puts money into the government's treasury that could have gone for drilling wells. In the long term, drilling wells and finding new oil will make much more money for the public treasury.

A better approach in frontier areas is to give exploration companies, either by themselves or in groups, the opportunity to get a "hunting license" over a larger area.

That's the idea behind the legislation now pending in Juneau.

Companies whose exploration staffs have new ideas can propose an exploration program to the State of Alaska. The Commissioner of Natural Resources would be free to invite competing proposals, and then choose which group offers the best exploration proposal.

A performance bond, or some other instrument, guarantees to the state that the exploration work promised will get done. All existing environmental laws will apply.

When the proposed work is done, the explorers have the option of converting their discovery into a conventional state oil and gas lease. That gives them the incentive to invest in exploration.

After a discovery, the state has the option to bring its current leasing system into play, leasing nearby unleased acreage under competitive bonus bids.

Another problem with competitive bonus-bid sales, in new and unexplored regions, is that it puts money into the government's treasury that could have gone for drilling.

Exploration licensing can speed up the discovery and development of new oil fields, generating new revenues for the state.

## A paid message for Alaskans about oil and the economy

In the legislature, the problems in SB-150 and HB-199 are being worked out. It's no surprise that there are differences of opinion over a new idea like exploration licensing. There are differences between the major oil companies operating in Alaska, and concerns by independent oil companies and small investors who fear being "locked out" of exploration licensing. Most differences between oil companies have been worked out, and other concerns are

being addressed by the legislature. The senate version of the bill, SB-150, has already gone through substantial modifications. Legislative committees will consider both bills again in 1994. Among problems still being worked out is the bonding provision, which is intended to guarantee that exploration commitments are actually carried out. The bond needs to be large enough to provide a serious penalty to a company that abandons its commitment to explore. But it also must be structured to allow smaller companies, not just large oil firms, to participate in exploration licensing.

Another problem is "relinquishment" of acreage, where a certain amount of acreage in a license is given up each year as an exploration program proceeds. This is intended to guarantee a company will aggressively explore, and not just "warehouse" acreage.

But there are differing views. Some feel it will do the opposite, and encourage warehousing (the feature may become an incentive to accumulate more acreage than is really needed). Another problem: Periodic review of ongoing exploration by state officials. The State of Alaska needs some mechanism to oversee the progress of exploration under licenses, but some in industry worry that this could inject bureaucratic, or political, meddling. Exploration licensing can speed up the discovery and development of new oil fields, generating new revenues for the state and economic opportunities for Alaskan businesses and workers. The whole idea of licensing is to turn the explorers loose to find oil.

In the legislature, the problems in SB-150 and HB-199 are being worked out. It's no surprise that there are differences of opinion over a new idea like exploration licensing.

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(Continued next page)

A paid message for Alaskans about oil and the economy

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since 1971.*

## Around the world, exploration licensing is the way things are done

*(Continued from preceding page)* Exploration licensing is really the normal method for exploring for oil and gas. It is used by the U.S. government on certain federal lands, and even in Alaska, by Alaska Native corporations, on their own private lands.

Here are the countries around the world that allow exploration licenses on large blocks of land:

|                    |                     |
|--------------------|---------------------|
| Abu Dhabi          | Israel              |
| Algeria            | Italy               |
| Angola             | Ivory Coast         |
| Argentina          | Jamaica             |
| Australia          | Jordan              |
| Bahamas            | Kenya               |
| Bangladesh         | South Korea         |
| Belize             | Malaysia            |
| Benin              | Malta               |
| Bolivia            | Morocco             |
| Burma              | Netherland Antilles |
| Chad               | Nicaragua           |
| Chile              | Niger               |
| China              | Nigeria             |
| Columbia           | Panama              |
| Costa Rica         | Paraguay            |
| Denmark            | Portugal            |
| Dominican Republic | Qatar               |
| Dubai              | Ras Al-Khaimab      |
| Ecuador            | Somali              |
| Egypt              | Sudan               |
| Fiji               | Switzerland         |
| French Guiana      | Syria               |
| Gambia             | Taiwan              |
| Greece             | Tunisia             |
| Greenland          | Turkey              |
| Guatemala          | Umm al-Qaiwain      |
| Haiti              | United States       |
| Honduras           | Uruguay             |
| India              | Vietnam             |
| Ireland            | Zaire               |

## A paid message for Alaskans about oil and the economy

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### Part Two: Exploration Incentive Tax Credits

In addition to licensing, Alaska has another tool to encourage new exploration, particularly by smaller companies. The program, DNR's Exploration Incentive Credit (EIC) system is already in existence. It allows, on certain leases, explorers to apply for a credit against tax or royalty paid to the state of up to 50% of drilling and geophysical costs on new exploration.

Modeled after Alberta's successful tax credit system, it has been law since the late 1970s, and was implemented by DNR in the 1980s. It has been underutilized because its scope is limited to just state lands and it can be administered only through the present leasing system. Nonetheless, the system has helped in at least two new discoveries on the North Slope.

What is proposed in Senate Bill 151 and House Bill 200 is an expansion of the EIC program that would broaden its scope to include federal and private lands, thus making it more usable by explorers, including smaller Alaska-based companies, exploring for oil outside the present state leasing system.

Another problem has been that the program allows credits only where they have been provided for ahead of time in leases, before those leases were issued. SB-151 and HB-200 make it possible for companies to petition the commissioner of DNR for tax credits after the lease is in place or, in the case of non-state lands, where there is no state lease involved.

Including non-state lands makes sense because on both federal and private lands the state still receives severance taxes. In fact, under present law, 90% of oil and gas tax revenues from federal land go the state, and just 10% are remitted to the federal government.

Unexplored basins often include a combination state, private and federal lands. Therefore, if a successful prospect is drilled on private or federal land, it could yield tax revenues, as well as enhance the value of nearby state lands.

SB-151 and HB-200 would impose a \$50 million "cap" on the EIC program. It would be in effect for 10 years, after which the legislature would evaluate the program.

What is proposed in SB 151 and HB 200 is an expansion of the Exploration Incentive Credits program that would broaden its scope to include federal and private lands.

If a successful prospect is drilled on federal or private land, it could yield tax revenues, as well as enhance the value of nearby state lands.

In fact, under present law, 90% of oil and gas tax revenues from federal lands go to the state, and just 10% are remitted to the federal government.

## A paid message for Alaskans about oil and the economy

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### Conclusion

The bad news is, the decline of Prudhoe Bay production has begun, as has the exodus of the petroleum industry from Alaska. This pattern reflects a national trend. US oil companies are going outside the country with their exploration and development capital, and domestic production is in decline.

The good news is, our state lawmakers can do something about it. Alaska is largely unexplored, and most of what has been explored was

done by using now out-dated concepts and technology. Government and oil industry experts believe Alaska has vast quantities of oil that is recoverable at today's prices. Some oil companies, including some with significant investments in Alaska's petroleum infrastructure, are interested in stepping up exploration activity in Alaska. They are pushing for an updated licensing program that will allow them to do just that. Others want an extension of the EIC program to provide further incentive for exploration.

The enhancement of our oil and gas leasing program proposed in the legislation should be viewed as part of a long-term economic strategy to create a stable economic base for Alaska. The problem of revenue shortfalls is attributed to declining oil production from the Prudhoe Bay field. But the real source of the problem is Alaska's historical reliance on megaprojects.

Our good fortune in the past has limited our vision of the future. We want to believe in the discovery of a second Prudhoe Bay, in ANWR, in gas and water pipelines. We hope for grandiose projects to secure our economic future, instead of creating state policy that is conducive to long-term, sustained development of more modest resources, such as smaller oil fields. The result has been a boom and bust economy.

At its peak, Prudhoe Bay was responsible for 25% of all the oil produced in the US. It accounts for 80% of Alaska's oil production. Fields of this size are rare, and it's the only one discovered to date in the Western Hemisphere.

It would be less risky to have several smaller fields in production at any one time, with new ones coming on-line as production from existing fields declines. As mentioned earlier, exploration for new discoveries has declined in recent years. Alaska has just one, possibly two, new fields scheduled to come on-line under current economic conditions.

Increased exploration will probably not yield another Prudhoe Bay and hence singlehandedly recharge Alaska's economy or solve the state's fiscal shortfalls, but it can make a very important economic contribution for years to come.

We hope for grandiose projects to secure our economic future, instead of creating state policy that is conducive to long-term, sustained development of more modest resources, such as smaller oil fields.

ALDEZ STAR  
JAN 5, 94

## OPINION

**CLIFF BURGLIN**

*At Large*



by Cliff Burglin  
Special To The Star

The legislature convenes January 10. Balancing the budget with less oil income will be high on the legislative agenda.

Isn't it amazing that the Governor and the majority of the legislators only consider raising taxes or adding taxes as the only means to make state ends meet.

Despite billions of acres of federal and state land that could and should produce billions of dollar worth of oil, gas and minerals that would make Alaska the wealthiest piece of real estate on the face of the earth, all the Governor and the legislators and our two, statewide "Daily News" papers can think of or talk about is raising and imposing taxes on Alaska's minimum wage workers and the middle class small businesses and their employees.

The Governor and the legislators don't even discuss putting more land into private hands or leasing oil and gas basins that would bring in tens of millions of dollars per year in rentals and production. Plus jobs. Jobs by the thousands.

The only effort to bring more land into exploration is HB199, the so called "licensing bill" that would cost Alaska even more money by paying the major oil companies from the state coffers to take all of Alaska's last, best onshore and offshore state oil basins. This licensing bill would legalize the corruption of the multinational oil companies and the state government.

This bill (HB199) allows companies at no cost, except for attorney's fees, to take millions of acres of the best state land and tie it up for decades.

Basically, these contracts would be negotiated by one man, the head of the Division of Oil and Gas. Who also turns out to be an ex Arco employee. Arco, as I have pointed out, has written HB 199. Governor Hickel is using all of his formidable powers to push it through the legislature into law. If this bill becomes law, Alaskans might just as well deed the state over to the multinational oil cartel.

It will mean fewer jobs, higher costs, lower pay, and will close off all of the licensed land to any other activity. Just as the North Slope oil fields and the pipeline corridor already are.

No one but multinational personnel will be able to hunt, fish, snowmachine, backpack, or sightsee on any of these contract licensing areas: The oil company security, backed by the state police, will take care of trespassers. Every Alaska citizen would become a trespasser. Is this the future that we have promised our children and their children? A Police State run by the multinational oil companies and their professional econ-hypocrite, multinational, Alaskan accomplices.

In case you missed one of my columns, the private environmentalists have a yearly budget of \$1 billion \$180 million dollars and answer to no one. Contrary to popular belief, their main purpose is to protect the multinational corporations from competition. Eco hypocrites get most of their money from multinational corporations and their affiliate foundation and families.

Alaskan should not become too concerned about Arco's 15 thousand gallon oil spill. Oil is a natural product and there are oil seeps throughout the state of Alaska that naturally spill this much oil every month.

Two large seeps are in the Barrow and Umiat area. There are thousands more throughout the state. Maybe the Governor and the legislature should pass a law against their favorite girl friend (Mother nature).

By this time, Alaskans should know that no laws can keep or prevent a multinational oil company from having careless accidents.

Alaskans, we don't need higher taxes, or more taxes or fees. We need a Governor and legislators who will not sell us out to the major oil companies, the non-Alaskans eco hypocrites, and the overpaid, too numerous, state bureaucrats.

Feel free to send a copy of any of my articles to Governor Hickel or your legislators.

## A citizen's position on HB199/SB150

Gregory J. Garrels  
1176 Broadview Drive  
Fairbanks, Alaska 99712-1849  
February 20, 1994

As a citizen I find myself quite concerned about the exploration licensing provisions contained in House Bill 199 and Senate Bill 150. It would appear that the declared purpose of the bills is to provide a way to prove out the levels of resources in areas of the state that have not been fully explored as to resource content. I have some concerns as to the true reason for these provisions. In many of the places where it has been used, exploration licensing has not been terribly successful in bringing product to market. It would appear that the provisions of these bills would allow a large company to prevent productive use of large tracts of land for long periods of time at relatively little expense. A company will not often enter into an expensive out and out lease unless it has plans to actually do something with the area in question.

### An Inflated Ambition

The president of a great corporation went into a dry-goods shop and saw a placard which read:

"If You Don't See What You Want Ask For It"

Approaching the shopkeeper, who had been narrowly observing him as he read the placard, he was about to speak, when the shopkeeper called to a salesman:

"John, show this gentleman the earth."

— Ambrose Bierce in Fractured Fables

The determination of the level of the work requirements is very vague. It appears quite easy for very large companies to insure that no local or small operators are able to participate. They can simply up the ante beyond what the smaller competition can bear. Having done so, they don't have to accomplish anything toward the goal of proving out resources for 4 years, and then must only do half of what they originally proposed in order to keep the land tied up for the duration of the license plus any extensions that the all powerful commissioner may decide to grant them. What about disputes over the amount of work commitment that has been completed? It would seem likely that a very large corporation with tremendous legal assets at hand would have only to dispute the level of work that has been done or not done, and then tie the whole matter up in court while the land remains unproductive, and of course is not competing with that company's assets that are in production elsewhere. The 20,000 acre low limit on size also serves to prevent small operators from participating. It is no secret that the major oil companies have moved many of their operations overseas. While they may or may not be terribly interested in expanding their operations in Alaska at this juncture, they would most certainly be interested in preventing anyone else from competing with them. It would be pure naivety to disregard this possibility. Indeed, I see this as the main reason for the major oil companies' support of these bills. Let us be cautious that we are not, like the shopkeeper, saying, "Mr. Noah, show these gentlemen Alaska."

What about conflicts with the Mental Health Trust? Generating a conflict and causing a protracted litigation would also be a marvelously effective way for a large outfit to lock up a great

Cliff Burglin

February 25, 1994

I have a request to make of each and everyone of my readers. Please go to your local Legislative Information Office (LIO) and ask for a copy of House Bill 199 and Senate Bill 150. Read and study these bills and discuss them with your Representative and Senator. The chances are good that few legislators have ever read these bills and fewer yet have studied them. It is extremely doubtful if ten percent of the total legislature knows what effect the passage of these bills in any form will have on every Alaskan citizen.

Ask the owners and editors of your local paper to print a copy. Demand to know what his or her stand is.

This legislation will determine the economic future of this state. If either of these bills are passed in any form, Alaskans will have no future.

Prices of energy products will be high. Wages in every sector of Alaska's economy will be low. Competition will be non-existent. The only choice of jobs in Alaska will be with federal, state or local government, multinational corporations, or minimum wage jobs with banks, small businesses or fast food chains. All Alaskans are getting a taste of the future now. If these bills are passed, Alaska's economy will get worse.

You readers need to understand the implications of this legislation even if your legislators and the news media do not know or care.

This legislation has been prepared and is being powered by over a dozen of the worlds largest oil companies. It has been well prepared and thoughtfully organized and authored. The multinational oil companies are sneaking this evil legislation through with the help of Governor Mickel (the sponsor). The oil companies are curtailing their Alaskan operations. The bills will ensure that no one else can develop.

It is moving through the legislature faster than Tommy Moe in the downhill race in Lillehammer.

Please read and study the legislation and contact your local legislators and the Governor's Office. Time is short.

By the way, did you know that Governor Mickel is in Russia meeting with Russia's top economist? He evidently feels that he (Governor Mickel) can make communism work. Governor Mickel was elected and ran as an independent. Not as a cross between an "owner state" socialist and a communist masquerading as an advocate for freedom and opportunity for all Alaskans.

HB 199 and SB 150 are two of the worst pieces of legislation that have ever been proposed. If enacted, this legislation will wipe out all access to Alaska's land. There are no safeguards or oversight provisions.

This legislation will turn over all of Alaska's major economic resource (oil and gas) to the same corporations that the State of Alaska is now suing for having underpaid their taxes for 25 years to the tune of \$6 to \$10 billion dollars.

The very same state employees who have allowed this to happen will be in charge of administrating the vague guidelines in this legislation. None of these state administrators are elected.

The very least affect that the passage of this legislation in any form will be that most of Alaska's land will be tied up in endless litigation.

Alaskans, we need to stop these bills.

To Resource Committee  
Alaska Delegation

My name is Clifford Burglin. I represent at least 500 people in the Fairbanks area.

I am opposed to HB 199 in any form for the following reasons:

Amerada Hess; Amoco (alias Standard of Indiana); Arco; BP; Chevron (alias Standard Oil Company of California and also a part of the Saudi-Aramco consortium that markets eight to ten million barrels per day of Saudi oil); Conoco; Exxon (alias Standard Oil of New Jersey and also part of Saudi-Aramco consortium); Marathon; Mobil (also known as Standard Oil Company of New York and also part of Saudi-Aramco consortium); Murphy Oil; Petrofina; Phillips Petroleum; Texaco (also a partner in the Aramco consortium); Union-Texas and Unocal all own and have under lease three to four million acres in the State of Alaska that they have not fully explored or developed.

You legislators can find this information on any status map which should be readily available from the Department of Natural Resources.

I also keep track, on a daily basis, of oil industry activity throughout the world. For instance, how many of you legislators know that BP, Alaska's largest producer has recently discovered five hundred million to a billion barrels of oil in the North Sea with Shell Oil as their partner?

BP also has discovered in excess of one billion barrels of oil in Columbia, which is much closer to their Gulf of Mexico refineries than is Alaskan oil.

These companies are the ones who are pressuring you to pass HB 199 not so that they can increase development and exploration in Alaska, but only to keep any competition out. The proponents of this bill claim that it will increase revenue to the State of Alaska, provide jobs and help find more oil. The main reason the above companies promote this legislation is to make sure that no other companies or individuals will have access to state land.

It is true that they have these exploration licensing agreements in other countries. It is also true that the citizens of these other countries standard of living is among the lowest in the world. The rulers are rich and their people are poor.

If this Alaska legislature passes this bill in any form, the oil companies will have no need for any of you or us. You will have given them absolute and complete control of the states land and resources, both surface and subsurface.

If you pass the bill or anything like it, you will find the companies that have been financing your campaigns will not be so

generous in handing out their money for your re-election. You will be representatives of a state that no longer controls its own land and resources. Alaska will be like a corporation that no longer has any land and resource assets.

Another point that I would like to make is that the people who will be administering the licensing program are in the Department of Natural Resources, a department that has proven itself to be unstable, unreliable and incompetent. An example of this instability is that during the Hickel administration there have been three commissioners in three years.

Another point to make is that the reason production in Alaska is declining is not for lack of discoveries. Alaska could produce another two million barrels per day. It is because of the worldwide oil glut and the non competitive price of Alaskan oil due to the high overhead of the producing companies and lack of competition. BP's overseas discoveries only add to Alaska's non competitiveness, these are other good reasons not to let these companies have more of Alaska's land.

It will take great courage for you legislators to stand up to the multinational oil companies on behalf of the people who elected you. If you don't kill this bill and any other bill like it, you will have destroyed the productive economy of Alaska for all time.

A copy of this newsletter is being faxed to all of the news media in the state of Alaska.

WALTER J. HICKEL, GOVERNOR

**DEPT. OF NATURAL RESOURCES**

DIVISION OF OIL AND GAS

P.O. BOX 107034  
ANCHORAGE, ALASKA 99510-7034  
PHONE: (907) 762-2553

(907)762-2548

March 10, 1994

The Honorable Ron Larson  
Co-Chairman, House Finance Committee  
Alaska State Legislature  
State Capitol, Room 502  
Juneau, Alaska 99801-1182

Dear Representative Larson:

First, I am sorry I was unable to participate in the Finance Committee hearing this morning regarding HB-199. The telephone is a marvelous means of communicating—when it works. In any case, I hope to be “tuned-in” at tomorrow’s hearing.

Through Jerry Gallagher, DNR’s legislative liaison, I understand there were several issues raised for which committee members requested additional information. Following are the questions (as I understand them) and my responses:

Question 1: Does the Bristol Bay “exclusion” apply to the licensing program?

Answer: Absolutely. Areas off-limits to leasing are also off-limits to licensing since the ultimate “product” of licensing is a lease.

Question 2: What is the public notice process at the license-to-lease transition?

Answer: There is none because ALL the public processes (Best Interest Finding, ACMP review, public notice and hearings etc.) are done PRIOR to issuing the license. The lease will be attached to the license so the terms and conditions of the lease—including any mitigating measures—will be known to the potential licensee prior to accepting the license. All the requirements for permits, Plans of Exploration etc., remain intact.

Question 3: What is the purpose of Section 5? (This question may have been more specific, but I’ll try to explain what I think is the question)

Answer: Section 5 is the recognition that Exploration Licensing is “different” than our current method of competitive leasing. For example, there is no “cash bonus” in exploration licensing so methods of leasing that use bonus bidding do not apply. The minimum royalty provisions DO remain as part of licensing with a royalty rate “. . . in amount or value of not less than 12.5 per cent of production.” [38.05.134 (3): (Page 8, line

The Honorable Ron Larson  
Co-Chairman, House Finance Committee  
March 10, 1994  
Page 2

26-27)]. The Commissioner thus has the ability to set the royalty rate at any value above 12.5%—the same as in our conventional leasing program.

Question 4: How many licenses can be issued or held?

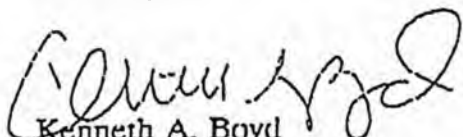
Answer: There is no limit to the number of licenses that may be issued, nor is there any limit to the number of licenses any company may hold. The acreage limitations of AS 38.05.140(c) or 38.05.180(m) do not apply to licenses, however, the limits of 38.05.140(c) DO apply to leases subsequently converted from the license area.

We see no need to limit the number of licenses because Exploration Licensing, unlike our current lease program, REQUIRES work to be done. Under our current system any number of leases may be held (up to the acreage cap) but no work HAS to be done. At the end of the term of the lease, if no wells certified capable of production exist on the lease, then the lease reverts to the state. Exploration Licensing REQUIRES that a minimum of 25% of the total work commitment must be accomplished in the first four years or the bond in-place is forfeited and the license is lost. The more licenses issued, the more exploration work that will get done. The more exploration work that is done, the greater the likelihood of a discovery.

Remember that the majority of State income is derived from royalties and taxes, not bonuses and rent. To get more royalties and taxes we must have new discoveries. Exploration Licensing provides the means to get more exploration dollars "into the ground" and this increases the chances for new discoveries to be made.

I hope this answers the questions. I will be pleased to respond to any further questions the committee members may have.

Sincerely,

  
Kenneth A. Boyd  
Deputy Director

cc: House Finance Committee members

Position Paper  
Department of Natural Resources  
Exploration Licensing Legislation  
HB 199 & SB 150

The Exploration Licensing Bill allows the State to offer large tracts of land (up to 500,000 acres) to potential licensees, with the option of later converting part (or all) of the license to lease, contingent upon the successful completion of the required work commitments. Exclusive licenses will be granted to the company submitting the most comprehensive work plan as expressed in dollars of work commitment.

A bond covering the proposed work commitment expense is required, and will be forfeited for that portion of the work that is not completed. The same Best Interest Finding procedures that are currently used for competitive leasing under the state's Five Year leasing program, and the public process that is part of the Finding, remains in-place for exploration licensing. At the end of the license period a lease covering some (or all) of the license area may be awarded.

The Department of Natural Resources will administer this program as it administers competitive lease sales under the existing Five Year Oil and Gas leasing program. The Departments of Fish and Game, Environmental Conservation and Law, as well as other interested local, state and federal agencies, will be involved in the Best Interest Finding. In addition, there will be ample opportunity for public review and comment on the award of proposed licenses, as well as on the terms and conditions of those licenses and any resulting leases.

Governor Hickel's proposal in HB 199 and SB 150 expands the exploration options available in, but does not replace, competitive leasing under the existing Five Year program. Its main purpose is to get companies working in areas of the State that have drawn little (or no) attention under the current leasing program. Similar license/lease programs are offered by most countries worldwide.

The Governor's goal is to get more money "into the ground." The State makes the majority of its income from royalties and severance taxes on oil and gas production, not bonuses and lease rentals. In order to obtain new royalties and severance taxes, we must have new oil being explored for and produced. The only way to find new reserves that may eventually be produced is to have companies actually drilling wells. This bill is intended to expedite the exploration process, which, hopefully, will lead to new commercial discoveries of oil and gas.

Oil and gas exploration always means money and jobs. Likewise, increasing the opportunity to explore and develop new areas can only mean more money and more jobs. Exploring the remaining "underexplored" basins in the state will certainly provide jobs during the exploration phase—jobs for all sorts of people—from geologists to camp cooks. If discoveries are made, more jobs will be created and new revenues will accrue from taxes and royalties. These jobs will be created in geographically diverse areas of the state, contributing to the expansion and diversification of the state's economy.

**HB**

**199**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/18/94

FURTHER:

DATE TURNED INTO OFFICE: 4-12-94

Finance Committee considered CS FOR HOUSE BILL NO. 199(O&G) am

"An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses, and to oil and gas leases in certain areas of the state; and providing for an effective date."

and recommends:

replace with S CS CSHB 199 (FINANCE)  same title  
 or  adopt previous \_\_\_\_\_ CS \_\_\_\_\_  new title  
 attaches amendment(s)  technical title change (HB only)

*reports it back as follows*

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

do pass

do not pass

no recommendation

individual recommendations

**NEW FISCAL NOTES**

| Department | Date | Zero | Fiscal |
|------------|------|------|--------|
|            |      |      |        |
|            |      |      |        |
|            |      |      |        |
|            |      |      |        |
|            |      |      |        |
|            |      |      |        |

**PREVIOUS FISCAL NOTES**

| Department | Date   | Zero                                | Fiscal |
|------------|--------|-------------------------------------|--------|
| DNR        | 2/7/94 | <input checked="" type="checkbox"/> |        |
|            |        |                                     |        |
|            |        |                                     |        |
|            |        |                                     |        |
|            |        |                                     |        |
|            |        |                                     |        |

Appropriation No Fiscal Note

**DO PASS:**

Alton Rini  
Tom Kelly

**OTHER RECOMMENDATIONS:**

Kevin D. Nor  
Barry King N.R.

1. Irue / Co-Chair 10/22/94  
 Co-Chair: Signature/Recommendation

2. Shawn N.R.  
 Co-Chair: Signature/Recommendation

# FISCAL NOTE

No. 2

Bill Version: CSHB 199 (O&G)

BILL (H) Publish Date: 2/9/94

**STATE OF ALASKA  
1994 LEGISLATIVE SESSION**

Revision Date: 7-Feb-94 Dept Affected: Natural Resources  
 Title: "An Act providing for oil and gas exploration  
licenses, and oil and gas leases, incertain areas of the state..." BRU: Resource Development  
 Sponsor: House Rules by request of the Governor Component: Oil & Gas Development  
 Requestor: House Oil & Gas Component Serial No. 439

**Expenditures/Revenues (Thousands of Dollars)**

| OPERATING EXPENDITURES        | FY95 | FY96 | FY97 | FY98 | FY99 | FY00 |
|-------------------------------|------|------|------|------|------|------|
| PERSONAL SERVICES             |      |      |      |      |      |      |
| TRAVEL                        |      |      |      |      |      |      |
| CONTRACTUAL                   |      |      |      |      |      |      |
| SUPPLIES                      |      |      |      |      |      |      |
| EQUIPMENT                     |      |      |      |      |      |      |
| LAND & STRUCTURES             |      |      |      |      |      |      |
| GRANTS, CLAIMS                |      |      |      |      |      |      |
| MISCELLANEOUS                 |      |      |      |      |      |      |
| <b>TOTAL OPERATING</b>        | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| <b>CAPITAL EXPENDITURES</b>   | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| <b>CHANGE IN REVENUES ( )</b> | 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/Program Receipts |     |     |     |     |     |     |
| 1006 GF/MHTIA            |     |     |     |     |     |     |
| Other                    |     |     |     |     |     |     |
| <b>TOTAL</b>             | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY94) cost: \$ None

**POSITIONS**

|           |   |   |   |   |   |   |
|-----------|---|---|---|---|---|---|
| FULL-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| PART-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY | 0 | 0 | 0 | 0 | 0 | 0 |

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

The zero fiscal note is predicated on the Division of Oil & Gas being funded to the full level of the Governor's budget request. The Division of Oil & Gas will be the primary administrators of this program and need to be fully staffed to accomplish this task.

Prepared by: Jim Eason, Director Phone: 762-2548  
 Division: Oil & Gas Date: 7-Feb-94  
 Approved by Commissioner: Harry A. Noah Date: 7-Feb-94  
 Agency: Natural Resources

COMMITTEE COPY

4-12-94

8-GH1012Q ✓  
Chenoweth  
3/22/94

*US 01012Q*

ADOPTED

SENATE CS FOR CS FOR HOUSE BILL NO. 199(FIN)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the exploration and production of oil and gas and related  
2 hydrocarbons, to oil and gas exploration licenses, and to oil and gas leases in  
3 certain areas of the state; and providing for an effective date."

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

5 \* Section 1. AS 38.05.020(b) is amended to read:

6 (b) The commissioner may

7 (1) establish reasonable procedures and adopt reasonable regulations  
8 necessary to carry out this chapter and, whenever necessary, issue directives or orders  
9 to the director to carry out specific functions and duties; regulations adopted by the  
10 commissioner shall be adopted under AS 44.62 ([THE] Administrative Procedure Act)  
11 [(AS 44.62)]; orders by the commissioner classifying land, issued after January 3,  
12 1959, are not required to be adopted under AS 44.62 ([THE] Administrative Procedure  
13 Act) [(AS 44.62)];

14 (2) enter into agreements considered necessary to carry out the purposes

1 of this chapter, including agreements with federal and state agencies;

2 (3) review any order or action of the director;

3 (4) exercise the powers and do the acts necessary to carry out the  
4 provisions and objectives of this chapter;

5 (5) notwithstanding the provisions of any other section of this chapter,  
grant an extension of the time within which payments due on any exploration license,  
7 lease, or sale of state land, minerals, or materials may be made, including payment of  
8 rental and royalties, on a finding that compliance with the requirements is or was  
9 prevented by reason of war, riots, or acts of God;

10 (6) classify tracts for agricultural uses and require the prequalification,  
11 including the submission of conservation plans, development plans, or other plans,  
12 schedules, or programs, of persons who apply to participate in an agricultural  
13 development project under AS 44.33.475;

14 (7) waive, postpone, or otherwise modify the development requirements  
15 of a contract for the sale of agricultural land if

16 (A) the land is inaccessible by road; and

17 (B) transportation, marketing, and development costs render the  
18 required development uneconomic.

19 \* Sec. 2. AS 38.05 is amended by adding new sections to read:

20 ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.

21 Sec. 38.05.131. APPLICABILITY; DETERMINATION; REGULATIONS. (a)

22 Unless specifically provided otherwise in AS 38.05.132 - 38.05.134, the provisions of  
23 AS 38.05.005 - 38.05.040, 38.05.140(f), 38.05.180, 38.05.182 - 38.05.184, and  
24 38.05.920 - 38.05.990 apply to the issuance of oil and gas exploration licenses and  
25 leases under AS 38.05.132 - 38.05.134.

26 (b) The provisions of AS 38.05.131 - 38.05.134 do not apply to land

27 (1) north of the Umiat baseline; and

28 (2) in the vicinity of Cook Inlet that is within the area bounded by

29 (A) the north boundary of Township 17 North, Seward  
30 Meridian;

31 (B) the Seward Meridian;

1 (C) the south boundary of Township 7 South, Seward Meridian;  
2 and

3 (D) the west boundary of Range 19 West, Seward Meridian.

4 (c) The commissioner shall make preliminary written determinations of the  
5 state land that may be subject to the provisions of AS 38.05.132. The determinations  
6 shall be given public notice using the methods described in AS 38.05.945(b). After  
7 completion of the comment period and evaluation of the comments received, the  
8 commissioner shall issue a written determination of the state land that is subject to the  
9 provisions of AS 38.05.132.

10 (d) The commissioner may adopt regulations necessary to implement  
11 AS 38.05.131 - 38.05.134.

12 (e) The commissioner may not issue exploration licenses to a licensee so that,  
13 at any one time, the licensee holds exploration licenses on more than 2,000,000 acres.

14 Sec. 38.05.132. OIL AND GAS EXPLORATION LICENSE. (a) To  
15 encourage exploration for oil and gas on state land, the commissioner may issue oil  
16 and gas exploration licenses.

17 (b) An oil and gas exploration license issued under this section gives the  
18 licensee

19 (1) the exclusive right to explore, for a term not to exceed 10 years, for  
20 deposits of oil and gas on unleased state land described in the exploration license  
21 unless the exploration license is terminated under (d)(1) of this section or the land is  
22 earlier relinquished, removed, or deleted under (d)(2) of this section; and

23 (2) unless the exploration license is terminated under (d)(1) of this  
24 section, the option to convert the exploration license for all or part of the state land,  
25 except the land that is deleted or removed from the land described in the exploration  
26 license under (d)(2) of this section, into an oil and gas lease upon fulfillment of the  
27 work commitments contained in the exploration license.

28 (c) An exploration license awarded under this section

29 (1) is not subject to the acreage limitations imposed by AS 38.05.140(c)  
30 or 38.05.180(m);

31 (2) may cover, subject to the maximum acreage limitation on

1 exploration licenses by one licensee under AS 38.05.131(e), an area of not less than  
2 20,000 acres and not more than 500,000 acres, that must be reasonably compact and  
3 contiguous;

4 (3) must be conditioned upon an obligation to perform a specified work  
5 commitment, in total for the term of the license, expressed in dollars of direct  
6 exploration expenditures; the specified work commitment must include a requirement  
7 that the licensee complete at least 25 percent of the licensee's total specified work  
8 commitment by the fourth anniversary of the effective date of the issuance of the oil  
9 and gas exploration license;

10 (4) must be conditioned upon the posting of a bond or other security  
11 acceptable to the commissioner, in favor of the state and subject to the following  
12 requirements:

13 (A) the bond or other security must be renewed annually;

14 (B) the annual bond or other security shall be calculated as the  
15 entire work commitment expressed in dollars, less the cumulative direct  
16 exploration expenditures of the licensee as of the last day of the most recent  
17 project year, divided by the number of years remaining in the term of the  
18 exploration license;

19 (5) is subject to an annual review and revocation if the commissioner  
20 determines that the licensee has failed to provide or maintain in effect the bond or  
21 other security required by (4) of this subsection;

22 (6) must be conditioned upon the licensee's payment to the state of a  
23 nonrefundable oil and gas exploration license fee <sup>B</sup> in an amount determined by the  
24 commissioner, ~~not to exceed~~ \$1 for each acre of land or fraction of each acre that is  
25 subject to the exploration license; and

26 (7) must be conditioned upon an agreement that exploration  
27 expenditures are subject to audit by the commissioner.

28 (d) If, on the fourth anniversary of the effective date of the issuance of the  
29 exploration license awarded under this section,

30 (1) the licensee has not completed at least 25 percent of the licensee's  
31 total specified work commitment, as measured by the licensee's direct exploration

X

Amend  
#5  
LS

1 expenditures, the exploration license terminates;

2 (2) the licensee has completed at least 25 percent but has not completed  
3 at least 50 percent of the licensee's total specified work commitment, as measured by  
4 the licensee's direct exploration expenditure, the commissioner shall remove or delete  
5 or shall require the licensee to relinquish a portion of the area within the exploration  
6 license; relinquishment, removal, or deletion of an area from the state land described  
7 in the exploration license terminates the licensee's rights under AS 38.05.131 -  
8 38.05.134 in the area that is relinquished, removed, or deleted; a relinquishment,  
9 removal, or deletion of a portion of the area described in the exploration license must  
10 be in areas that are reasonably compact and contiguous; the areas relinquished from  
11 the state land described in the exploration license must be areas identified by the  
12 licensee but, if the licensee fails to identify sufficient area, the commissioner may  
13 identify any additional acreage required to be removed or deleted from the area under  
14 license to meet the requirements of this subsection; within the area described in the  
15 exploration license issued under (a) - (c) of this section,

16 (A) 25 percent must be relinquished, removed, or deleted not  
17 later than the fourth anniversary of the effective date of the issuance of the  
18 exploration license;

19 (B) an additional 10 percent of the acreage remaining after  
20 relinquishment, removal, or deletion of acreage required by (A) of this  
21 paragraph and by previous relinquishments, removals, or deletions under this  
22 paragraph must be removed or deleted on each of the succeeding anniversaries  
23 of the effective date of the issuance of the exploration license;

24 (C) the cumulative total of the acreage relinquished, removed,  
25 or deleted under (A) and (B) of this paragraph may not be required to exceed  
26 50 percent of the area awarded within the original exploration license area.

27 (e) If, immediately before the beginning of the period for annual renewal of  
28 the bond or other security under (c)(4)(A) of this section, the licensee fails to provide  
29 or maintain in effect the bond or other security required by (c) of this section for the  
30 period covered by the annual renewal and the commissioner revokes the exploration  
31 license, the bond or other security then in effect for the licensee's obligations under

1 the exploration license is forfeited to the state.

2 (f) In this section,

3 (1) "direct exploration expenditure" means cash expenses undertaken  
4 in performance of a specified work commitment under the provisions of AS 38.05.131  
5 - 38.05.134 and necessarily incurred by the licensee in the permitting, mobilization,  
6 conducting, demobilization, and evaluation of geophysical and geological surveys, or  
7 the drilling, logging, coring, testing, and evaluation of oil and gas wells: the term

8 (A) includes direct labor costs, including the cost of benefits,  
9 for employees directly associated with the work commitment programs, the cost  
10 of renting or leasing equipment from parties not affiliated with the licensee, the  
11 reasonable costs of maintaining and operating equipment, payments to  
12 consultants and independent contractors not affiliated with the licensee, and  
13 costs of materials and supplies;

14 (B) does not include noncash expenses such as depreciation and  
15 reserves, interest or other costs of borrowed funds, return on investment,  
16 overhead, insurance or bond premiums, or any other expense that is  
17 unreasonable or that the licensee has not incurred to satisfy the licensee's work  
18 commitment;

19 (2) "work commitment" includes the drilling of one or more exploration  
20 wells or the gathering of data from activities described in (f)(1) of this section, or both.

21 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures in this section  
22 apply to the issuance of an oil and gas exploration license under AS 38.05.132.

23 (b) The licensing process is initiated by the commissioner preparing, or a  
24 prospective licensee submitting to the commissioner, a proposal that identifies a  
25 specific area to be subject to the exploration license, proposes specific minimum work  
26 commitments, and states the minimum qualifications for a licensee as established by  
27 regulations adopted by the commissioner. A prospective licensee may initiate a  
28 proposal only in response to a call for proposals by the commissioner or during a  
29 period specified in regulations adopted by the commissioner. The regulations must  
30 provide for at least one period for that purpose during each calendar year.

31 (c) If the commissioner initiates the licensing process under (b) of this section,

1 the commissioner shall publish notice of the commissioner's proposal in order to solicit  
2 comments and competing proposals.

3 (d) Within 30 days after receipt of a proposal from a prospective licensee  
4 under (b) of this section, the commissioner shall either reject it in a written decision  
5 or give public notice of the intent to evaluate the acceptability of the proposal. The  
6 commissioner shall solicit comments on a proposal for which public notice is given  
7 under this subsection, and shall request competing proposals.

8 (e) The commissioner may make a written request to a prospective licensee for  
9 additional information on the prospective licensee's proposal. The commissioner shall  
10 keep confidential information described in AS 38.05.035(?) (9) that is voluntarily  
11 provided if the prospective licensee has made a written request that the information  
12 remain confidential.

13 (f) After considering proposals not rejected under (d) of this section and public  
14 comment on those proposals, the commissioner shall issue a written finding addressing  
15 all matters set out in AS 38.05.035(e) and (g), except for AS 38.05.035(g)(1)(K). If  
16 the finding concludes that the state's best interests would be served by issuing an oil  
17 and gas exploration license, the finding must (1) describe the limitations, stipulations,  
18 conditions, or changes from the initiating proposal or competing proposals that are  
19 required to make the issuance of the exploration license conform to the best interests  
20 of the state, and (2) if only one proposal was submitted, identify the prospective  
21 licensee whom the commissioner finds should be issued the exploration license. The  
22 commissioner shall attach to the finding a copy of the exploration license to be issued  
23 and the form of lease that will be used for any portion of the exploration license area  
24 subsequently converted to an oil and gas lease under AS 38.05.134.

25 (g) If only one prospective licensee submits a proposal and the finding under  
26 (f) of this section concludes that an exploration license should be issued to that  
27 prospective licensee, the prospective licensee has 30 days after issuance of the finding  
28 within which to accept or reject the issuance of the exploration license, as limited or  
29 conditioned by the terms contained in the finding. The exploration license to be issued  
30 and the form of lease that will be used must be attached to that finding. The  
31 prospective licensee must accept or reject the issuance of the exploration license in

1 writing.

2 (h) If competing proposals are submitted, and the commissioner's finding  
3 under (f) of this section concludes that an oil and gas exploration license should be  
4 issued, the commissioner shall issue a request for competitive sealed bids, under  
5 procedures adopted by the commissioner by regulation, to determine which prospective  
6 licensee should be issued the exploration license. The finding provided to the  
7 prospective licensees and the public under (f) of this section must contain notice that  
8 (1) the commissioner intends to request competitive sealed bids, (2) a prospective  
9 licensee who intends to participate in the bidding must notify the commissioner in  
10 writing by the date specified in the notice, and (3) a prospective licensee's notice of  
11 intent to participate in the bidding constitutes acceptance of issuance of the exploration  
12 license, as limited or conditioned by the terms contained in the finding and by the  
13 exploration license to be issued and the form of lease to be used that have been  
14 attached to that finding, if the prospective licensee is the successful bidder. The  
15 successful bidder is the prospective licensee who submits the highest bid in terms of  
16 the minimum work commitment dollar amount.

17 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the  
18 commissioner determines that the work commitment obligation set out in an oil and  
19 gas exploration license issued under AS 38.05.132 has been met, the commissioner  
20 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,  
21 of the area described in the exploration license that remains after the relinquishments,  
22 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this  
23 section

24 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

25 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

26 (3) must be conditioned upon a royalty in amount or value of not less  
27 than 12.5 percent of production;

28 (4) must include an annual rent of \$3 per acre or fraction of an acre  
29 initially paid to the state at inception of the lease and payable annually after that until  
30 the income to the state from royalty under that lease exceeds the rental income to the  
31 state under that lease for that year; and

1 (5) is subject to other conditions and obligations that are specified in  
2 the lease.

3 \* Sec. 3. AS 38.05.135(a) is amended to read:

4 (a) Except as otherwise provided, valuable mineral deposits in land belonging  
5 to the state shall be open to exploration, development, and the extraction of minerals.  
6 All land, together with tide, submerged, or shoreland, to which the state holds title to  
7 or to which the state may become entitled, may be obtained by permit or lease for the  
8 purpose of exploration, development, and the extraction of minerals. Except as  
9 specifically limited by AS 38.05.131 - 38.05.181 [AS 38.05.135 - 38.05.181], land may  
10 be withheld from lease application on a first-come, first-served basis, and offered only  
11 on a competitive bid basis when determined by the commissioner to be in the best  
12 interests of the state. [In unproven areas the commissioner may offer additional  
13 incentives, including a reduction of royalty to a minimum of five percent in the case  
14 of oil and gas, and other terms in and granting a permit or lease for exploration and  
15 development whenever it appears to be in the best interests of the state to do so.]

16 \* Sec. 4. AS 38.05.140(f) is amended to read:

17 (f) The submerged and shoreland lying north of 57 degrees, 30 minutes north  
18 latitude and east of 159 degrees, 49 minutes west longitude within the Bristol Bay  
19 drainage are designated as the Bristol Bay Fisheries Reserve. Within the Bristol Bay  
20 Fisheries Reserve no surface entry permit to develop an oil or gas lease or oil and gas  
21 exploration license may be issued on state owned or controlled land until the  
22 legislature by appropriate resolution specifically finds that the entry will not constitute  
23 danger to the fishery.

24 \* Sec. 5. AS 38.05.180(d) is amended to read:

25 (d) The commissioner may issue oil and gas leases in an area that has not been  
26 included in a leasing program submitted, in accordance with (b) of this section, to the  
27 legislature if the land to be leased

28 (1) [THE LAND TO BE LEASED] was previously subject to a valid  
29 state or federal oil and gas lease; [OR]

30 (2) [THE LAND TO BE LEASED] is contiguous to land already under  
31 state, federal or private lease and the commissioner makes a written finding, after

1 hearing, that leasing of the land would result in a substantial probability of early  
2 evaluation and development of the land to be leased; [OR]

3 (3) [THE LAND TO BE LEASED] is adjacent to land owned or  
4 controlled by another party on which a discovery of commercial quantities of oil or  
5 gas has been made, and the commissioner finds, after hearing, that there is a  
6 reasonable probability that the land to be leased contains oil or gas in communication  
7 with the oil or gas discovered on the land of the other party; [OR]

8 (4) [THE LAND TO BE LEASED] is adjacent to land included in the  
9 federal five-year Outer Continental Shelf leasing program under 43 U.S.C. 1344, and  
10 the commissioner makes a written finding, after hearing, that coordinated or  
11 simultaneous leasing with the federal government is in the public interest; or

12 (5) is the subject of an oil and gas exploration license issued under  
13 AS 38.05.131 - 38.05.134.

14 \* Sec. 6. AS 38.05.180(f) is amended to read:

15 (f) Except as provided by AS 38.05.131 - 38.05.134, the [THE]  
16 commissioner may issue oil and gas leases on state land to the highest responsible  
17 qualified bidder determined by competitive bidding under regulations adopted by the  
18 commissioner. Bidding may be by sealed bid or according to any other bidding  
19 procedure the commissioner determines is in the best interests of the state. Whenever,  
20 under any of the leasing methods listed in this subsection, a royalty share is reserved  
21 to the state, it shall be delivered in pipeline quality and free of all lease or unit  
22 expenses, including but not limited to separation, cleaning, dehydration, gathering, salt  
23 water disposal, and preparation for transportation off the lease or unit area. Following  
24 a pre-sale analysis, the commissioner may choose at least one of the following leasing  
25 methods:

26 (1) a cash bonus bid with a fixed royalty share reserved to the state of  
27 not less than 12.5 [12 1/2] percent in amount or value of the production removed or  
28 sold from the lease;

29 (2) a cash bonus bid with a fixed royalty share reserved to the state of  
30 not less than 12.5 [12 1/2] percent in amount or value of the production removed or  
31 sold from the lease and a fixed share of the net profit derived from the lease of not

1 less than 30 percent reserved to the state;

2 (3) a fixed cash bonus with a royalty share reserved to the state as the  
3 bid variable but no less than 12.5 [12 1/2] percent in amount or value of the  
4 production removed or sold from the lease;

5 (4) a fixed cash bonus with the share of the net profit derived from the  
6 lease reserved to the state as the bid variable;

7 (5) a fixed cash bonus with a fixed royalty share reserved to the state  
8 of not less than 12.5 [12 1/2] percent in amount or value of the production removed  
9 or sold from the lease with the share of the net profit derived from the lease reserved  
10 to the state as the bid variable;

11 (6) a cash bonus bid with a fixed royalty share reserved to the state  
12 based on a sliding scale according to the volume of production or other factor but in  
13 no event less than 12.5 [12 1/2] percent in amount or value of the production removed  
14 or sold from the lease;

15 (7) a fixed cash bonus with a royalty share reserved to the state based  
16 on a sliding scale according to the volume of production or other factor as the bid  
17 variable but not less than 12.5 [12 1/2] percent in amount or value of the production  
18 removed or sold from the lease.

19 \* Sec. 7. AS 38.05.945(a) is amended to read:

20 (a) This section establishes the requirements for notice given by the department  
21 for the following actions:

22 (1) classification or reclassification of state land under AS 38.05.300  
23 and the closing of land to mineral leasing or entry under AS 38.05.185;

24 (2) zoning of land under applicable law;

25 (3) a decision under AS 38.05.035(e) or 38.05.132 - 38.05.134  
26 regarding the sale, lease, or disposal of an interest in state land or resources;

27 (4) a competitive disposal of an interest in state land or resources after  
28 final decision under AS 38.05.035(e);

29 (5) a public hearing under AS 38.05.856(b);

30 (6) a preliminary finding under AS 38.05.035(e) and 38.05.855(c)  
31 concerning sites for aquatic farms and related hatcheries.

1     \* **Sec. 8. ADDITIONAL EXCLUDED AREA.** In addition to the area designated in  
2 AS 38.05.131(b), added by sec. 2 of this Act, the provisions of AS 38.05.131 - 38.05.134,  
3 added by sec. 2 of this Act, do not apply to land within proposed Competitive Oil and Gas  
4 Lease Sales 80, 87, and 88, as the area to be offered in each of those proposed competitive  
5 oil and gas lease sales was delineated in the Five-Year Oil and Gas Leasing Program prepared  
6 by the Department of Natural Resources and dated January 1993. However, the exclusion of  
7 the land in any one of those lease sales that is required by this section ceases on the date the  
8 land described in the lease sale is first offered for competitive oil and gas leasing under  
9 AS 38.05.180, and that land is thereafter subject to the provisions of AS 38.05.131 -  
10 38.05.134, added by sec. 2 of this Act.

11     \* **Sec. 9. REGULATIONS.** The commissioner of natural resources may proceed to adopt  
12 regulations necessary to implement AS 38.05.131 - 38.05.134, added by sec. 2 of this Act.  
13 The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the  
14 effective date of secs. 1 - 8 of this Act.

15     \* **Sec. 10.** Section 9 of this Act takes effect immediately under AS 01.10.070(c).

*withdrawn*

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR KERTTULA

TO: CSHB 199(O&G) am

Page 8, following line 20:

Insert a new subsection to read:

"(i) The commissioner may not issue an exploration license under (g) or (h) of this section unless the prospective licensee has paid to the state

(1) all taxes due the state under AS 43; and

(2) all royalty payments due the state under this chapter."

Page 8, line 21, after "LEASE.":

Insert "(a)"

Page 9, following line 6:

Insert a new subsection to read:

"(b) The commissioner may not convert an oil and gas exploration license to a lease under (a) of this section unless the licensee has paid to the state

(1) all taxes due the state under AS 43; and

(2) all royalty payments due the state under this chapter."

SENATE FINANCE  
COMMITTEE  
Amendment Number: 1  
Bill Number: 199  
Sponsor: Kerttula Date: 4/9/94  
Logged In By: (Bm)