

**ALASKA LEGISLATURE**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996**

1341

85

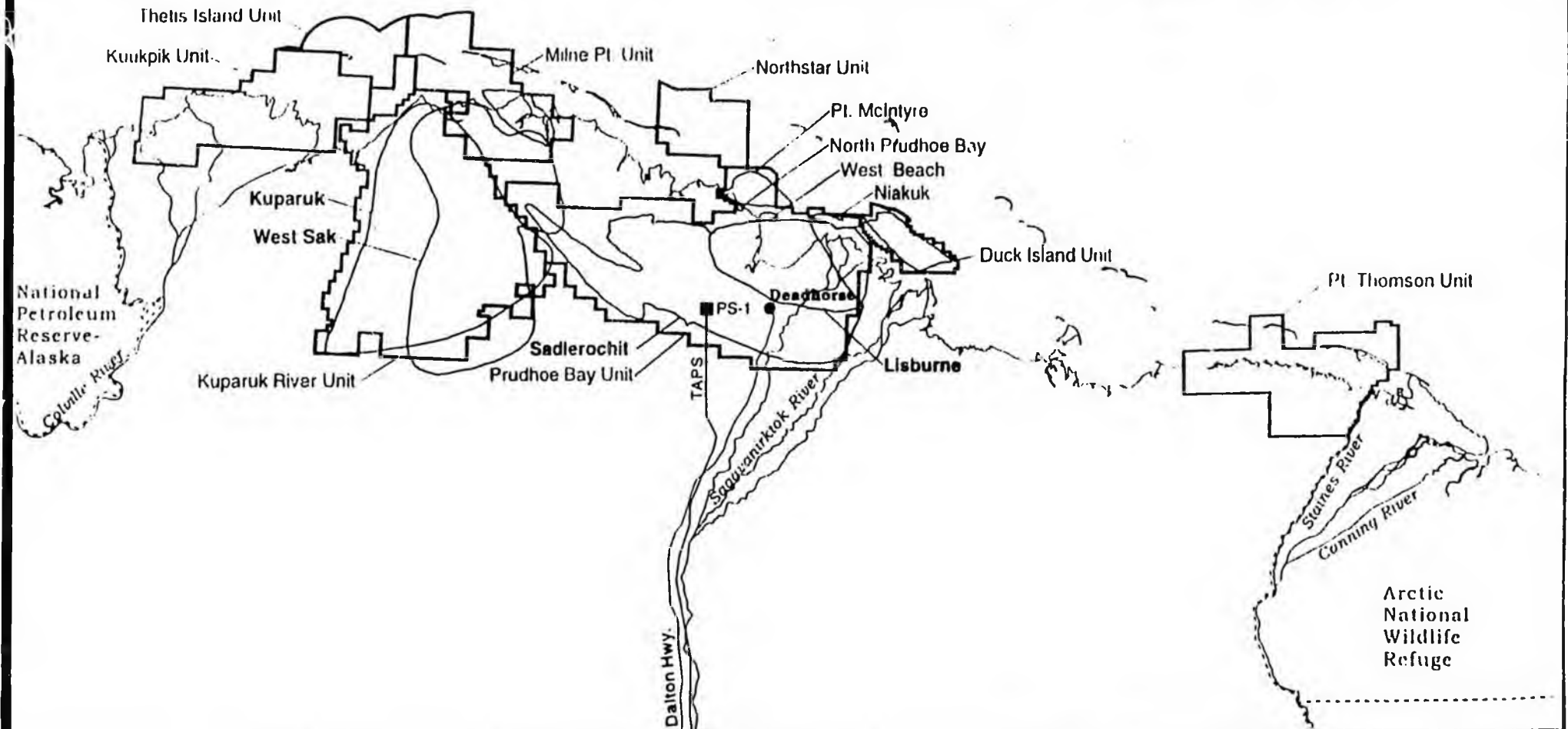
# NORTH SLOPE OIL & GAS MAP

ALASKA DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL AND GAS  
MARCH 1995

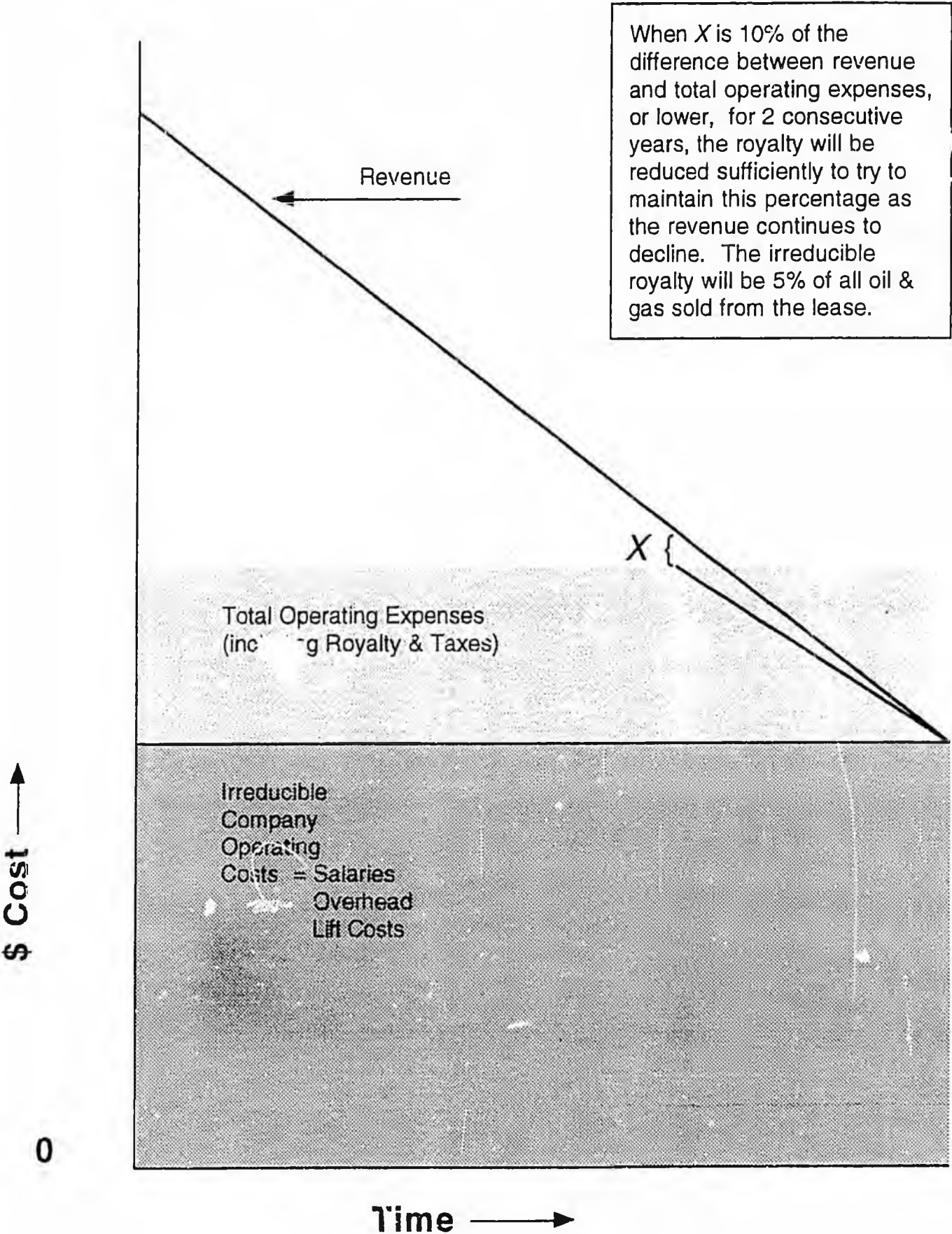
- Pool Boundaries
- Unit Boundaries
- PS 1 Pump Station #1



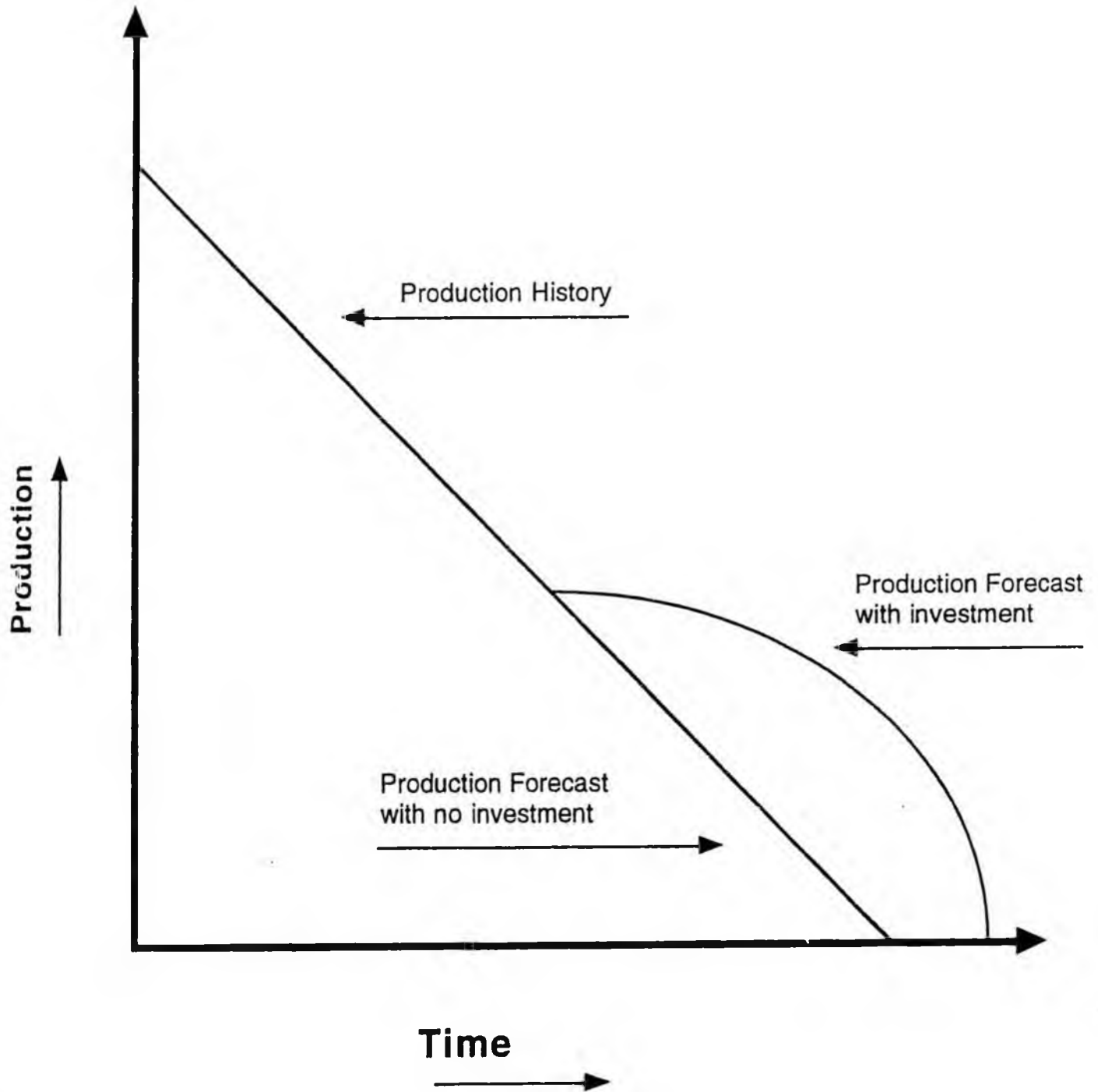
Beaufort Sea



# Mature Fields Illustration #1



## Mature Field Illustration # 2



## Testimony on CSHB 207 (O&G) before the House Resources Committee

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March 23, 1995

### I. Overview

CSHB 207 (O&G) and CSHB 207 (3/23/95 Work Draft 9-GH0039AK) have significant substantive defects that would seriously hamper the efforts of the State of Alaska to manage this important resource wisely and in the best interests of all Alaskans. Even if those problems were corrected, a strong material case for easing the state's existing royalty relief provisions has not been made.

### II. Comments on Specific Provisions of CSHB 207 (O&G)

For the specific reasons described below, I believe the committee substitute and the work draft before you are misguided. CSHB 207 (O&G) would make a bad bill worse by adding to a bill that deliberately shields the Commissioner's actions from the public review that normally safeguards the public interest provisions giving the Commissioner of Natural Resources new powers to grant royalty relief that are ill-conceived and unprecedented.

*(Heading page and line numbers refer to CSHB 207 [O&G]; asterisk [\*] indicates language in the O&G CS that does not appear in the original bill; parentheses at end of paragraph indicates position in 3/23/95 Work Draft #9-GH0039AK; italicized comments refer to language in that work draft only.)*

A. Page 1, line 10. This measure destroys regulations governing existing royalty relief provisions that provide rational limits to arbitrary or unwise administrative action. *(Work Draft, page 2, line 4.)*

B. Page 2, lines 6, 11. In view of the fact that industry statements about profitability fly in the face of every published report of which I am aware,<sup>1</sup> criteria

<sup>1</sup> Last May, in an "Open Letter to the People of Alaska" published in major Alaskan newspapers, BP Alaska President John Morgan stated that BP has paid more in taxes and royalties than it has taken out in profits or cash flow. This statement flies in the face of every public study of which I am aware. See: Deakin (1989), Oil Industry Profitability in Alaska, 1969 through 1987, p.2 (industry profit \$42.6 billion, state share \$29.3 billion); Legislative Research Agency (1993), Distribution of Income from Alaska Oil and Gas Operations . . . p. 14 (1985 industry net income \$5.6 billion, 1985 state net revenue \$3.3 billion); Fineberg (1992), p. 43, Alaska North Slope Oil Profits . . . (1991 West Coast industry profits \$4.95 per barrel, state share \$3.82); Wilson-Gilletic (1994), Consequences of Exporting Alaska Crude Oil, p. 36 (April 1994 West Coast major field

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for economic feasibility should be clearly defined and part of the public record. This bill does the opposite. (*Work Draft, page 2, lines 15-16, 20-21 and 23.*)

C. Page 2, lines 7-9. Section 1(B) would appear to allow royalty relief "to prolong the life" of any field, regardless of profitability. Clearly, royalty relief would accomplish this statutory purpose. But whether or not such relief is necessary to prolong production is an altogether different -- and arguable -- proposition.

(*Work Draft, page 2, lines 17-21. The attempted cure to this problem couples "increase" with the phrase "is sufficient to" at line 20; this does not make sense. [See also B., above.]*)

D. Page 2, lines 15, 22. The legislation's reliance on the requirement that the Commissioner must find such relief in the best interest of the state is so broad as to be virtually meaningless. It is generally assumed as a matter of law that public officials act in the best interest of the state unless it is proven to the contrary. In this case, because the material is held confidential and virtually unappealable, this bill fails to ensure that royalty relief will be in the state's "best interests." (*Work Draft, page 2, line 27; page 3, line 4.*)

E. Page 2, lines 27-29.\* This portion mandates consideration of factors such as capital investment in the field but may be read to exclude investment in pipelines, which are a major factor affecting both the development of new fields and the continued production in existing fields. Moreover, guaranteed profits to the pipeline owners are a significant factor influencing production decisions that this language arguably requires the Commissioner to ignore.

(*Work Draft, page 2, lines 10-12. The work draft resolves this ambiguity by excluding consideration of factors such as pipeline economics. The State may choose to forego consideration of significant portions of the economic rent; industry officials, responsible to stockholders to maximize their profits, will not make this mistake.*)

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wellhead profits \$2.66 per barrel, state share \$2.63 per barrel [excludes estimated TAPS industry profits of \$1.00 per barrel v. state taxes of approximately \$0.30 per barrel]). BP has refused repeated requests to put on the public record information that would substantiate its claim. (Copies of correspondence with BP and additional information on profitability provided to House Oil & Gas Committee March 16, 1995; see testimony of Richard A. Fineberg).

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F. Page 3, lines 6-11.\* Subpar. (5)(a) sets a potentially dangerous precedent by encouraging companies to trade properties in declining production to avoid disclosing relevant facts of production economics to the state.

*(Work Draft, page 3, lines 17-19. Language cures this defect.)*

G. Page 3, lines 12-13. The requirement that the Commissioner shall hold application material confidential at industry request contravenes the state's sunshine laws, common sense and jurisprudence. In 1992 the Alaska judge who has probably reviewed more oil industry documents than any other specifically ruled, on his own initiative, that such a blanket grant of confidentiality was not justified. In view of the clearly established right of the public to know what its officials are doing, he said, the industry must make a showing that it is necessary to hold documents confidential.<sup>2</sup> *(Work Draft, page 3, lines 20-21.)*

H. Page 3, lines 16-17. It is easy to see why the industry would like to remove judicial review; in view of the long history of increased revenues the state has obtained through the courts, one wonders why the stewards of public resources would recommend this course of action. *(Work Draft page 3, lines 23-25.)*

I. Page 3, lines 18-24.\* Apparently throwing in the towel on a 20-year endeavor to attain the expertise in the state system to protect the public interest in the inevitable and perfectly legitimate dialogic between the industry and the stewards of the public interest, this bill sets up an unprecedented system in which the Commissioner will rely instead on a contractor to the industry. *(Work Draft, page 3, lines 27 through page 4, line 2.)*

J. Page 3, lines 28-31 and p. 4, through line 18.\* In groping for some group to bless the Commissioner's actions, the CS relies on approval by 3 of 5 members of a group called the Royalty Oil and Gas Development Advisory Board. The Royalty Oil and Gas Development Advisory Board appears to be a rubber stamp. Further, with all due respect, the submission of the near-moribund Royalty Oil and Gas Development Advisory Board finding to legislative leaders

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<sup>2</sup> "Memorandum Opinion and Order No. 92-71 (Denying Motions by BP Exploration [Alaska], Inc. for Continued in camera Treatment of Certain Documents in Court Record)," ANS Royalty Litigation, 1JU-77-847 Civil, May 27, 1992 (19 pp.). The court specifically refused to hold material confidential merely at the request of the industry because "the public's right to know what the executive branch is about" outweighed the industry's speculative assertion of possible damage resulting from the release of information about its business.

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hardly substitutes for thorough executive review before a course of action is recommended.<sup>3</sup>

*(Work Draft, page 4, lines 7-24, I do not believe AOGCC has the resources or economic background to evaluate such a proposal; from the phrase "if any" at line 13, it appears that the AOGCC response does not have to be in writing.)*

### C. Production Forecasts Demonstrate This Bill May Be Unnecessary

On reviewing North Slope production forecasts for 1985, 1990 and 1995, a clear trend is evident: the North Slope production decline, although real, consistently plays out in a more benign manner than forecasted. If you compare 1985 forecasts to the current forecast through 2010, you will find that we now expect to produce 3.75 billion more barrels of oil through 2010 than forecasted in 1985. Put otherwise: Over the last ten years, the current tax and royalty regime has generated five years more of production at two million barrels per day than was forecasted in 1985. Every two years, we booked an additional year of forecasted production at TAPS' maximum throughput. This trend of increasing production (i.e., slowed decline in production) was established in the face of declining prices. Most importantly, the phenomenon of increasing production continues today, despite dire predictions by the industry in the late 1980's that we had seen the last of such increases.<sup>4</sup>

### D. Conclusions

It is self-evident that any bill that increases industry revenue at the expense of the State Treasury will tend to stimulate production. The industry will, of course, advocate such a measure. But it remains to be demonstrated that this legislation is necessary, or

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<sup>3</sup> According to the Dept. of Natural Resources, the Royalty Oil and Gas Development Advisory Board has met twice in the last five years, has no chair and may have one vacancy (one member's seat has expired). It is my understanding that since the mid-1980's this board, of which the Commissioner of DNR is a non-voting sixth member, has always supported the department's actions unanimously.

<sup>4</sup> Based on Dept. of Natural Resources forecasts (see: Richard A. Fineberg, Alaska North Slope Production Prospects: Preliminary Analysis [a report prepared for the Northern Alaska Environmental Center, et al.], Feb. 22, 1995). For past warnings that production increases would not continue, see Richard A. Fineberg, An Overview of North Slope Production Prospects, 1990-2010 (prepared for the Alaska State Legislature), Dec. 15, 1990), pp. 23-28, and North Slope Profits and Production Prospects [prepared for the Alaska State Legislature], Nov. 12, 1992, pp. 13-14.

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that it reflects the wise stewardship of public resources mandated by the Alaska Constitution. Particularly in view of the well-documented history of abuses of confidentiality that have found their way into the public record<sup>5</sup> and current disagreement over the basic facts of North Slope profitability,<sup>6</sup> it makes little sense to allow the lessees, at their own initiative, to prevent the bases for granting royalty relief from seeing the light of day.<sup>7</sup> Even if that rather astounding defect — and the others listed above — were corrected, the case for the proposed incentives would have yet to be made.

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<sup>5</sup> In a current case whose very existence would be hidden from the public had Exxon Corp. not been required to make some documents public in the United States Tax Court, Exxon is asking for retroactive tax deductions that the Internal Revenue Service has said could ultimately be worth \$18 to 25 billion if applied to all North Slope producers. Exxon argues that ultimate abandonment of costs of Prudhoe Bay are deductible for federal tax years 1977 through 1984 under federal tax law because those claims are both knowable and fixed (United States Tax Court Dockets No. 18618-89 and 18432-90). In December 1994, the Alaska Oil & Gas Association recommended that the state should clarify what it might require for the abandonment of Prudhoe Bay. Ironically, Exxon was identified as the lead source for that recommendation ("AOGA Briefing Paper: Lease Closure," presented to Knowles-Ulmer Transition Team Dec. 28, 1994). The blatant contradiction between Exxon's position in separate arenas is indicative of the kind of inconsistency that can contaminate public policy made under the cloak of confidentiality.

A second example of public policy abuses flourishing behind the veil of confidentiality is the 1985 TAPS tariff settlement. Due to confidentiality, key elements of that sorry record were not available to the public until after the settlement had been formally approved. In one instance during the latter stages of the TAPS saga, the Governor was briefed on an erroneous document that was subsequently removed from files and replaced with an altered document, in apparent violation of Alaska statutes. (See Richard A. Fineberg, The 1985 TAPS Settlement: A Case Study in the Effects of Confidentiality on Information Available to Decision Makers in Oil and Gas Revenue Disputes (prepared for the Alaska State Legislature), Feb. 5, 1990), pp. 30-36. For a later study of a TAPS settlement defect with enormous state and federal revenue consequences that was mis-stated and therefore overlooked during the flawed 1985 settlement review process, see Richard A. Fineberg, Hidden Billions: The TAPS DR&R Provision (report prepared for Stan Stephens, Valdez, Alaska), August 21, 1992.

<sup>6</sup> See note 1, above.

<sup>7</sup> As the U.S. Supreme Court has observed, "People do not demand infallibility from their institutions, but it is difficult for them to accept what they are prohibited from observing." (*Richmond Newspapers, Inc. v. Virginia*, 448 U.S. 555, 572 [1980]; quoted in Memorandum 92-71, *op. cit.*, cover page). To accomplish his well-intentioned desire to reduce needless litigation, the Governor might consider introducing legislation that puts more information on the public record — not less.

Table Y-1.

Research Associates 2/95

1985 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)  
(000 bbls)

(000 Barrels per day)

Year	Eteld>=	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W. Sak	Beaufort	Total
1995		575	145	65		70	10	100	<=====		965 000 bpd
1996		510	120	60		65	0	125	<=====		880 "
1997		460	100	55		60		125	<=====		800 "
1998		420	80	50		55		125	<=====		730 "
1999		380	75	40		50		125	<=====		670 "
2000		340	65	30		45		120	<=====		600 "
2001		300	55	20		40		115	<=====		530 "
2002		270	50	10		20		110	<=====		460 "
2003		240	40	0		10		105	<=====		395 "
2004		210	35			0		100	<=====		345 "
2005		180	30					95	<=====		305 "
2006		160	25					90	<=====		275 "
2007		140	20					80	<=====		240 "
2008		110	15					70	<=====		195 "
2009		80	10					60	<=====		150 "
2010		50	0					50	<=====		100 "
<b>Total Barrels:</b>		<b>1,615,125</b>	<b>315,725</b>	<b>120,450</b>	<b>0</b>	<b>151,475</b>	<b>3,650</b>	<b>582,175</b>	<=====		<b>2,788,600 (000 bbls.)</b>

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," January 1985, p. 13 (Table 2.2: Estimated Availability of N. Slope Oil For Sale).

Research Associates 2/95

Table V.-2.

1990 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)  
(000 bbls)

Year	100 Barrels per day:										Total
	Field =>	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Niagak	W.Sak	Beaufort	
											1,251 000 bpd
1995		857	190	37	60	65	10	20	12		1,149 "
1996		789	175	34	54	60	8	17	12		1,057 "
1997		726	150	31	49	55	7	14	25		958 "
1998		668	125	28	44	50	6	12	25	0	893 "
1999		614	105	25	39	45	5	10	50	60	863 "
2000		553	90	21	35	40	5	9	50		
											785 "
2001		498	75	19	32	20	5	7	75	51	695 "
2002		448	65	13	29	10	0	6	75	49	642 "
2003		403	55	9	26	0		5	100	44	580 "
2004		363	45	5	23			5	100	39	567 "
2005		326	35	0	21				150	35	515 "
2006		284	30		19				150	32	468 "
2007		247	25		17				150	29	426 "
2008		215	20		15				150	26	426 "
2009		187	15		14				140	23	379 "
2010		163	10		12				120	21	326 "
<b>Total Barrels:</b>		<b>2,679,465</b>	<b>441,650</b>	<b>81,030</b>	<b>178,485</b>	<b>125,925</b>	<b>16,790</b>	<b>38,325</b>	<b>505,160</b>	<b>150,380</b>	<b>4,217,310 (060 bbls.)</b>

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," January 1990, p. 10 (Table 2.2: Production Forecast and Available Royalty Oil).

Research Associates 2/95

Table V.3.

1995 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)  
(000 bbls)

000 Barrels per day:

Year	Field =>	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt	Other	W. Sak	Beaufort	Total
1995		980	310	20	115	94	30	23		0	1,572 000 bpd
1996		921	305	20	115	83	40	23			1,507 "
1997		857	300	20	109	72	40	22			1,420 "
1998		788	300	18	98	63	45	22			1,334 "
1999		717	295	15	88	55	50	19	0		1,239 "
2000		646	285	13	79	47	45	16	6		1,137 "
2001		581	256	10	71	40	40	14	21		1,033 "
2002		523	231	10	64	34	36	11	27		936 "
2003		471	208	10	61	29	33	10	25		847 "
2004		423	187	10	54	24	30	9	26		763 "
2005		381	168	10	46	21	27	7	35		695 "
2006		343	143	10	39	18	24	6	59		642 "
2007		309	122	9	33	16	20	5	58		572 "
2008		278	103	8	28	13	17		49		496 "
2009		250	88	7	24	10	15		41		435 "
2010		225	75	6	21		12		35		374 "
<b>Total Barrels:</b>		<b>3,172,945</b>	<b>1,232,240</b>	<b>71,540</b>	<b>381,425</b>	<b>225,935</b>	<b>183,960</b>	<b>68,255</b>	<b>139,430</b>	<b>0</b>	<b>5,475,730 (000 bbls.)</b>

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," February 1995 (in press). (Table 2A: Estimated Availability of N. Slope Oil For Sale).

Table V-4

Research Associates 2/95

## 1985 North Slope Production Forecast for 1986-94 v. Actual Production (ADNR)

(000 Barrels)

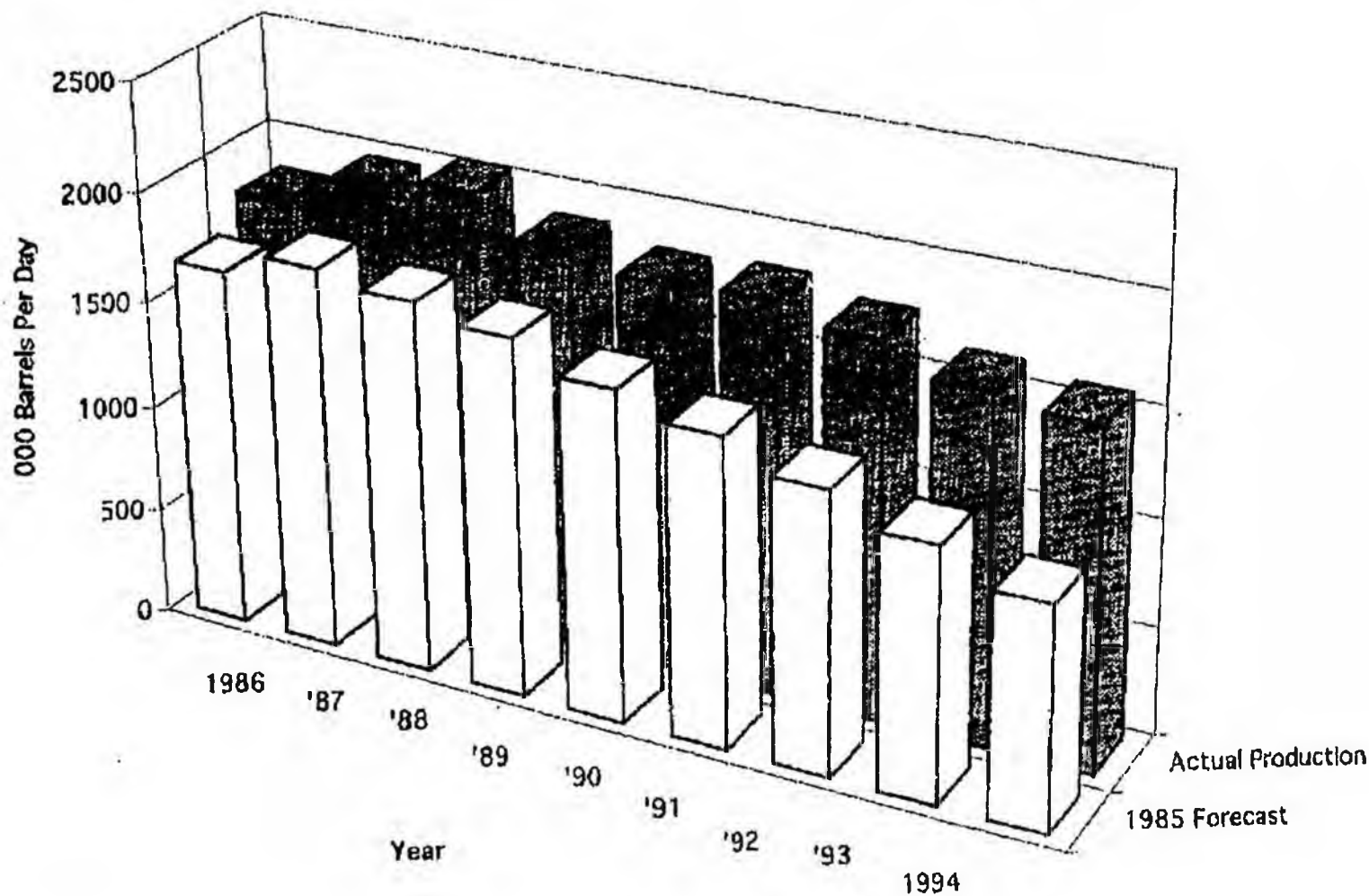
1985 Production Forecast (1)										
Barrels per day:										
Field:	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1986	1,500	180	0	0	0	0	0	<=====		1,680 000 bpd
1987	1,475	180	75		0	30	30	<=====		1,790 000 bpd
1988	1,325	200	100		50	30	30	<=====		1,735 000 bpd
1989	1,175	200	120		100	25	50	<=====		1,670 000 bpd
1990	1,050	200	120		100	20	50	<=====		1,540 000 bpd
1991	950	200	120		100	15	50	<=====		1,435 000 bpd
1992	850	200	90		100	13	50	<=====		1,305 000 bpd
1993	750	200	75		85	10	50	<=====		1,170 000 bpd
1994	650	170	70		75	10	50	<=====		1,025 000 bpd
<b>Total Barrels:</b>	<b>3,549,675</b>	<b>631,450</b>	<b>281,050</b>	<b>0</b>	<b>222,650</b>	<b>56,575</b>	<b>131,400</b>	<=====		<b>4,872,750 000 Bbl. (Forecast)</b>
Actual Production (2)										
Field:	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1986	1,539	260	10		0	13		<=====		1,822 000 bpd
1987	1,608	284	46		24	0		<=====		1,962 000 bpd
1988	1,585	304	40		103	0		<=====		2,033 000 bpd
1989	1,427	297	41		98	5		<=====		1,868 000 bpd
1990	1,340	294	43		106	18		<=====		1,801 000 bpd
1991	1,333	311	40		117	20		<=====		1,822 000 bpd
1992	1,251	325	38	0	118	19		<=====		1,751 000 bpd
1993	1,126	316	27	21	112	19	0	<=====		1,619 000 bpd
1994	1,024	305	22	97	97	18	9	<=====		1,572 000 bpd
<b>Total Barrels:</b>	<b>4,465,457</b>	<b>983,919</b>	<b>111,941</b>	<b>42,857</b>	<b>282,405</b>	<b>40,899</b>	<b>3,463</b>	<=====		<b>5,930,941 000 Bbl. (Actual)</b>

(1) Alaska Dept. of Natural Resources, "Historical and Projected Oil &amp; Gas Consumption," January 1985, p. 13 (Table 2: Estimated Availability of N. Slope Oil For Sale).

(2) Alaska Dept. of Natural Resources, "Historical and Projected Oil &amp; Gas Consumption," February 1995 (in press), (Table 3: Historical Oil Production).

Graph V.-1

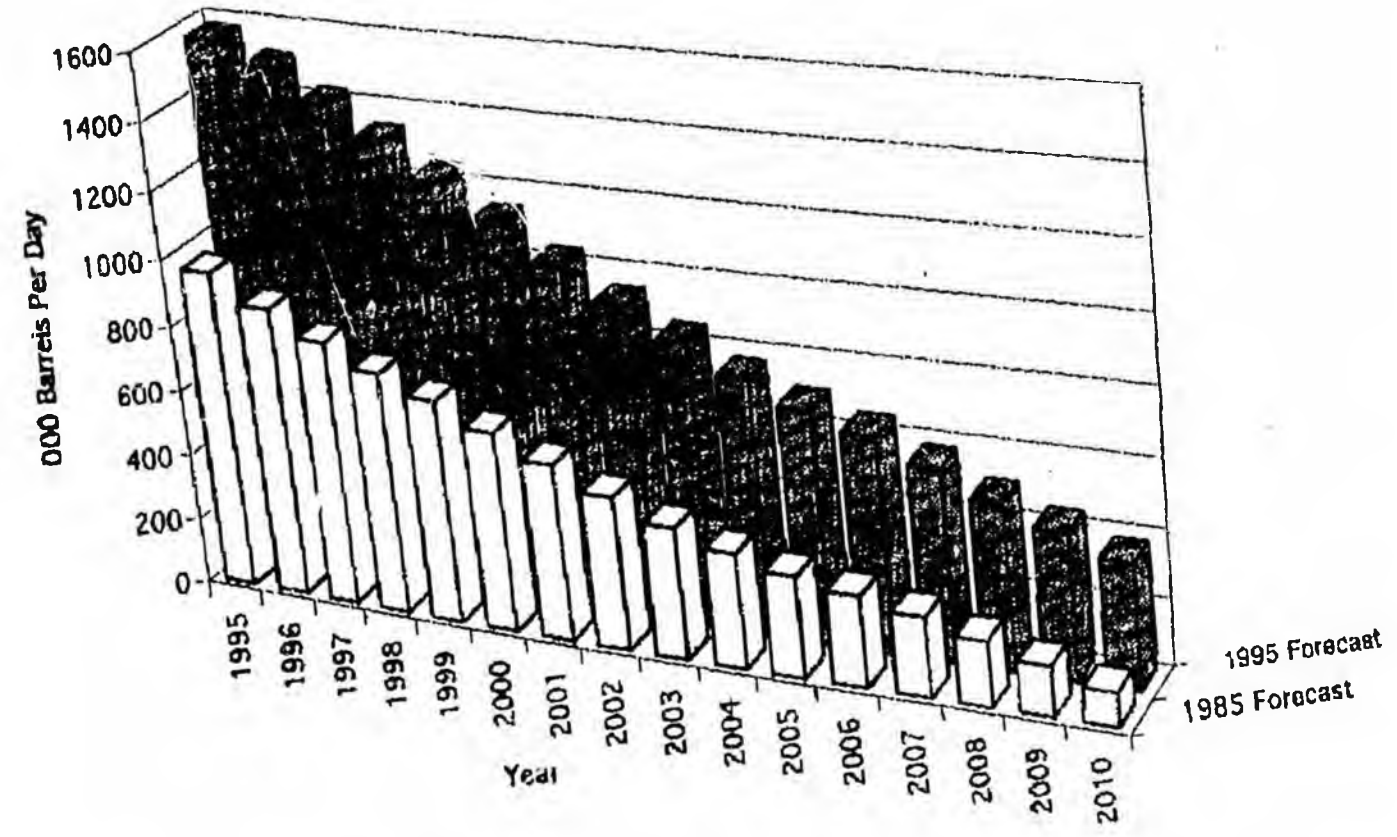
North Slope Production, 1986-1994: 1985 Forecast v. Actual



Source: Alaska Dept. of Natural Resources  
(See Table V.-4)

Graph V.-2

### North Slope Production Forecasts, 1995-2010 (1985 v. 1995 Forecast)



Source: Alaska Dept. of Natural Resources  
(See Tables V.-1, V.-3)

\*\*\*EIID\*\*\*



BP EXPLORATION

BP Exploration (Alaska) Inc.  
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(907) 561-5111

March 3, 1995

Mr. Richard Fineberg  
P. O. Box 416  
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Dear Mr. Fineberg:

This letter is in response to your request during our telephone conversation of February 15th. that I confirm in writing that BP does not intend to respond to your last set of questions regarding the company's accounting for its Alaskan profits for the 1977-93 period.

The financial information included in John Morgan's "Open Letter to the People of Alaska" was derived from the published financial statements of the Standard Oil Company and the British Petroleum Company plc for the period 1977-93. It was necessary to restate some of these data because Sohio and BP's results from Alaska operations are not reported separately in the companies' published financial statements. For the most part this restatement involved the separate identification the profits, cash flow and tax payments associated with BP's share of TAPS and the separation of the companies' financial results from exploration and production in Alaska from those results in the rest of the world. This source data was derived in accordance with generally accepted accounting principles and we believe it provides a fair basis for comparison with the financial results of other enterprises.

We appreciate your interest in BP. However, we believe we have provided to you all the public information available to our investor and public constituencies and do not intend to provide additional information.

Sincerely,

Paul D. Wessells  
Director of Tax

PDW/jp

cc: John Morgan  
Jim Palmer

## Testimony to the House Oil & Gas Committee on HB 207

Richard A. Fineberg  
Research Associates  
P.O. Box 416  
Ester, Alaska 99725

March 15, 1995

**A. A strong substantive case for easing the state's existing royalty relief provisions, as the Administration proposes in HB 207, has yet to be made.**

At this point we appear to be making policy not on substantive information, but on empty rhetoric. Consider production trends and profitability.

1. Production Trends. On reviewing North Slope production forecasts for 1985, 1990 and 1995, a clear trend is evident: the North Slope production decline, although real, consistently plays out in a more benign manner than forecasted. If you compare 1985 forecasts to the current forecast through 2010, you will find that we now expect to produce 3.75 billion more barrels of oil through 2010 than forecasted in 1985. Put otherwise: Over the last ten years, the current tax and royalty regime has generated five years more of production at two million barrels per day than was forecasted in 1985. Every two years, we booked an additional year of forecasted production at TAPS' maximum throughput. This trend of increasing production (i.e., slowed decline in production) was established in the face of declining prices. Most importantly, the phenomenon of increasing production continues today, despite dire predictions by the industry in the late 1980's that we had seen the last of such increases.<sup>1</sup>

2. Profitability. We are told repeatedly that "[t]he target is to get Arco Alaska and BP Exploration to divert exploration and production dollars from foreign areas and put them into marginal areas on the North Slope."<sup>2</sup> But the dialogue is bereft of facts. We are being asked to buy (or trade away) a pig in a poke. The economics of North Slope production are unique and dimly understood. Arco's North Slope profits are so unusual, in fact, that in considering the flight of domestic capital in 1991, a First Boston report isolated Arco's results from other companies in a separate box. In that same study, BP

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<sup>1</sup> Based on Dept. of Natural Resources forecasts (see: Richard A. Fineberg, Alaska North Slope Production Prospects: Preliminary Analysis [a report prepared for the Northern Alaska Environmental Center, et al.], Feb. 22, 1995).

<sup>2</sup> "Tapping New Oil," Anchorage Times, March 2, 1995, p. B-7.

was alone among the internationals in bucking the trend of greater returns overseas than in the U.S.<sup>3</sup> In Alaska, we just don't get it. Consider the color, front-page graph in the Anchorage Daily News last spring showing a slide in Arco Alaska's profits from \$700 million in 1990 to \$225 million in 1993. The graph excluded Arco's Alaska pipeline profits, estimated at over \$100 million per year. Even more important, the accompanying story failed to note that in 1993 Arco's Lower-48 and overseas production endeavors lost \$180 million. Far from being a millstone around Arco's neck, from this perspective Alaska appears to be Arco's lifeboat.

In fact, N. Slope profitability is apparently sufficient to induce the consistent production increases (i.e., slowed decline) identified above. But the public dialogue in this area is blunted because North Slope producers steadfastly refuse to disclose information that would justify its petition for royalty relief and other goodies.<sup>4</sup>

#### **B. HB 207 contains serious structural defects**

1. I believe that it is not wise to grant royalty reduction without providing for clear and unambiguous clarification on the public record of the necessity for that assistance. Instead of making the case for royalty relief public, the bill calls for the crucial information to be held confidential at the request of the lessee. In a 1992 decision, the Alaska judge who has probably reviewed more confidential oil industry documents than any other ruled that the producer's efforts to bar public access to documents batch-stamped "confidential" without review both unwarranted and contrary to the public interest.<sup>5</sup> It has been clearly and convincingly documented in other North Slope revenue disputes that public policy evils flourish where confidentiality erodes the

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<sup>3</sup> First Boston Equity Research, "Assessing the Domestic Operations of International Oil Companies: Explaining the Exodus of Capital," September 5, 1991, pp. 2-13. (See Richard A. Fineberg, North Slope Profits and Production Prospects [prepared for the Alaska State Legislature], Nov. 12, 1991, pp. 25-27.)

<sup>4</sup> Last May, in an "Open Letter to the People of Alaska" published in major Alaskan newspapers, BP Alaska President John Morgan stated that BP has paid more in taxes and royalties than it has taken out in profits or cash flow. This statement flies in the face of every public study of which I am aware. BP has refused repeated requests to put on the public record information that would substantiate its claim (see attached letters).

<sup>5</sup> "Memorandum Opinion and Order No. 92-71 (Denying Motions by BP Exploration [Alaska], Inc. for Continued in camera Treatment of Certain Documents in Court Record)," ANS Royalty Litigation, 1JU 77-847 Civil, May 27, 1992 (19 pp.). The court specifically refused to hold material confidential merely at the request of the industry because "the public's right to know what the executive branch is about" outweighed the industry's speculative assertion of possible damage resulting from the release of information about its business.

checks and balances and balances that normally protect the public interest and keep the public process on a steady course.<sup>6</sup>

2. At this time the terms "economically feasible" and "commercially viable" are the subject of some dispute in the public policy arena, while the term "best interest" is, at best, an overly broad term.

3. In my estimation, no valid public purpose is served by granting relief without appealability.

### C. The current approach to incentives is flawed.

In the policy arena, where the mission is to protect the public interest in both the revenue stream and the environment, industry desires must be balanced against these concerns. To do this, measures such as royalty relief should be viewed in their broad administrative and economic context. Two factors here are particularly worth noting: The companies that bid on these leases did so with the expectation that they would pay the nominal royalty they now wish to reduce. Second, producers look at the bottom line. To effect balanced public policy, it is necessary to consider measures such

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<sup>6</sup> In a current case whose very existence would be hidden from the public had Exxon Corp. not been required to make some documents public in the United States Tax Court, Exxon is asking for retroactive tax deductions that the Internal Revenue Service has said could ultimately be worth \$18 to 25 billion if applied to all North Slope producers. Exxon argues that ultimate abandonment of costs of Prudhoe Bay are deductible for federal tax years 1977 through 1984 under federal tax law because those claims are both knowable and fixed (United States Tax Court Dockets No. 18618-89 and 18432-90). In December 1994, the Alaska Oil & Gas Association recommended that the state should clarify what it might require for the abandonment of Prudhoe Bay. Ironically, Exxon was identified as the lead source for that recommendation ("AOGA Briefing Paper: Lease Closure," presented to Knowles-Timer Transition Team Dec. 28, 1994). The blatant contradiction between Exxon's position in separate arenas is indicative of the kind of shoddiness that takes place under the cloak of confidentiality.

A second example of public policy abuses flourishing behind the veil of confidentiality is the 1985 TAPS tariff settlement. Due to confidentiality, key elements of that sorry record were not available to the public until after the settlement had been formally approved. In one instance during the latter stages of the TAPS saga, the Governor was briefed on an erroneous document that was subsequently removed from files and replaced with an altered document, in apparent violation of Alaska statutes. (See Richard A. Fineberg, The 1985 TAPS Settlement: A Case Study in the Effects of Confidentiality on Information Available to Decision Makers in Oil and Gas Revenue Disputes (prepared for the Alaska State Legislature), Feb. 5, 1990), pp. 30-36. For a later study of a TAPS settlement defect with enormous state and federal revenue consequences that was mis-stated and consequently overlooked during the flawed 1985 settlement review process, see Richard A. Fineberg, Hidden Billions: The TAPS DR&R Provision (report prepared for Sam Stephens, Valdez, Alaska), August 21, 1992.

as royalty relief in the context of the tax and pipeline regulatory regimes, where powerful incentives for development of marginal fields already exist.

In the tax regime, Milne Point, Niakuk, Lisburne and several satellite fields are already virtually exempt from production taxes at current prices, thanks to the working of the modified Economic Limit Factor (ELF) the industry so staunchly opposed in 1989.

Regarding pipelines: There was discussion in committee Wednesday of BP's success at Milne Point without royalty relief. One might ask, why is BP increasing production at Milne Point when Conoco (who traded the property to BP in 1993) apparently could not make a go of it? The most obvious difference between the two companies is this: Conoco was the lone North Slope field operator that did not share ownership of TAPS. Consequently, Conoco paid BP approximately \$1.00 per barrel in pipeline profits for every barrel of oil that it produced. While discussion of pipeline economics is beyond the scope of this hearing, I submit that one of the most important factors affecting North Slope development may be the control and operation of TAPS.

#### D. Concluding Remarks

It is self-evident that any bill that increases industry revenue at the expense of the State Treasury will tend to stimulate production. The industry will, of course, advocate such a measure. But even if the rather astounding provision that automatically grants confidentiality at lessee (producer) request were removed or replaced with language that guarantees public access to information necessary to evaluation of public policy, it remains to be demonstrated that this legislation is necessary, or that it reflects the wise stewardship of public resources mandated by the Alaska Constitution.

In view of the well-documented history of abuses of confidentiality that have found their way into the public record, it makes little sense to allow the lessees, at their own initiative, to prevent these materials from seeing the light of day.<sup>7</sup> Were that defect corrected, the case for the proposed incentives would have yet to be made.

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<sup>7</sup> As the U.S. Supreme Court has observed, "People do not demand infallibility from their institutions, but it is difficult for them to accept what they are prohibited from observing." (*Richmond Newspapers, Inc. v. Virginia*, 448 U.S. 555, 572 [1980]); quoted in Memorandum 92-71, *op. cit.*, cover page). To accomplish his well-intentioned desire to reduce needless litigation, the Governor might consider introducing legislation that puts more information on the public record — not less.

From the desk of

**Richard A. Fineberg**  
**Ester, Alaska 99725**

**P.O. Box 416**  
Phone / Fax (907) 479-7778

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*Return Receipt Requested*

January 17, 1995

John C. Morgan, President  
BP Exploration  
P.O. Box 196612  
900 E. Benson Blvd.  
Anchorage, Alaska 99519-6612

[COPY]

Dear Mr. Morgan:

More than seven months after I wrote you concerning assertions about North Slope profits you published in various Alaska newspapers in a May 12 "Open Letter to the People of Alaska," I am still waiting for substantive reply. In that open letter, you stated:

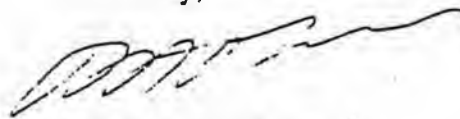
*BP has paid \$20 billion to the state in taxes and royalties since 1977. This exceeds our total profits and cash flow from Alaska for the period.*

Your statement appears to contradict all systematic published analyses of North Slope profitability of which I am aware.<sup>1</sup> I therefore asked you May 14 to document your claim. To help identify the differences in existing estimates, I submitted my year-by-year breakdown of estimated production and pipeline profits and a line-by-line worksheet establishing the basis for my most recent (1993) profit estimates. I requested your equivalent figures, as well as your analysis of the significant differences.

You responded July 14 with a short letter repeating that BP paid more in taxes and royalties than it earned in Alaska from 1977 through 1993. You lowered your estimated state taxes and royalty payments to \$19.3 billion, which you compared to "after tax book income for Alaska in 1977-93" of \$17.6 billion. You also stated that BP disagrees with my figures and those of a 1989 profitability study by Edward Deakin, C.P.A., then Price-Waterhouse Professor of Petroleum Accounting, University of Texas. For the second time, on July 25 I requested substantive information, noting that your letter did not provide documentation for your revised numbers or deal with the specific differences between your figures and the two tables I had presented. I received no response.

Careful analysis indicates that the North Slope continues to be one of the most profitable industrial ventures in the United States. Following my letters of May 14 and July 25, 1994, again I ask your cooperation in providing the public with accurate, sourceable data capable of supporting intelligent public policy debate on North Slope development policy.

Sincerely,



Richard A. Fineberg

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<sup>1</sup> For example: Deakin (1989), *Oil Industry Profitability in Alaska, 1969...1987*, p.2 (1969-87 industry profit \$42.6 billion, state share \$29.3 billion); Legislative Research Agency (1993), *Distribution of Income from Alaska Oil and Gas Operations...*, p. 14 (1985 industry net income \$5.6 billion, state net revenue \$3.3 billion); Fineberg (1992), p. 43, *Alaska North Slope Oil Profits...* (1991 West Coast industry profits \$4.95 per barrel, state share \$3.82); Wilson-Gillette (1994), *Consequences of Exporting Alaska Crude Oil*, p. 36 (April 1994 West Coast major field wellhead profits \$2.66 per barrel, state share \$2.63 [excludes estimated TAPS industry profits of \$1.00 per barrel v. state taxes of approximately \$0.30]).

Testimony to the House Finance Committee on CSHB 207(RES)

Richard A. Fineberg  
Research Associates  
P.O. Box 416  
Ester, Alaska 99725

April 5, 1995

**A. A strong substantive case for easing the state's existing royalty relief provisions, as proposed in all versions of HB 207 to date, has yet to be made.**

1. Production Trends. On reviewing state North Slope production forecasts for 1985, 1990 and 1995, a clear trend is evident: the North Slope production decline, although real, consistently plays out in a more benign manner than forecasted. Comparing 1985 forecasts to the current forecast through 2010, you will find that we now expect to produce 3.75 billion more barrels of oil through 2010 than forecasted in 1985. Put otherwise: Over the last ten years, the current tax and royalty regime has generated five years more of production at two million barrels per day than was forecasted in 1985. Every two years, we booked an additional year of forecasted production at TAPS' maximum throughput. This trend of increasing production (i.e., slowed decline in production) was established under the current tax and royalty regime and in the face of declining prices. This phenomenon of increasing production continues today, despite dire predictions by the industry in the late 1980's that we had seen the last of such increases.<sup>1</sup>

2. Comments on Production Trends. Reviewing the data presented above, one analyst commented that these data suggest that "[forecasters tend] to under-forecast production from large, well-known fields and overestimate the production from smaller or undeveloped fields."<sup>2</sup> The commentator looked only at historical data; to extrapolate from past data alone may over-weight the assumption that the future will be like the past. Because long-range forecasting is a risky business (that's one of the reasons forecasters tend to build in conservatism), I shortened my time-frame to consider production forecast totals through the year 2000. Regrouped Table 1-A, attached, covers 1985 through 2000

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<sup>1</sup> See attached tables V-1 through V-4 and graphs V-1 through V-4 summarizing Dept. of Natural Resources forecasts (Richard A. Fineberg, Alaska North Slope Production Prospects: Preliminary Analysis [a report prepared for the Northern Alaska Environmental Center, et al.], Feb. 22, 1995).

<sup>2</sup> Alaska Budget Report, 3/22/95, pp. 3-4.

and suggests that state forecasters tend to under-forecast production from producing fields but over-estimate production from some undiscovered or undeveloped fields. The regrouped analysis indicates that of the five major fields producing now that were recognized in 1985, four showed increases in real and forecasted production, while only one — Lisburne — showed decline. Another significant point emerges from the regrouping: The overestimation of undeveloped fields for this period was almost balanced by the underestimation of Pt. McIntyre, which was developed without royalty relief. This discussion indicates the importance of choosing carefully the parameters of analysis. For example, I chose 1985, 1990 and 1995 for forecast analysis because it gave me two completed five-year blocks of production data, starting with the last year before oil prices crash. If a strong, substantive case for royalty relief is to be made, I believe these basic data indicate that a much closer look should be taken at the potential production and revenue effects of royalty relief on specific prospects such as Badami, North Star and West Sak .

3. Profitability. We are told repeatedly that "[t]he target is to get Arco Alaska and BP Exploration to divert exploration and production dollars from foreign areas and put them into marginal areas on the North Slope."<sup>3</sup> This dialogue is wierdly bereft of facts. Alaska's interaction with its meal-ticket and the economics of North Slope production are unique and dimly understood. Arco's North Slope profits are so unusual, in fact, that in considering the flight of domestic capital in 1991, a First Boston report isolated Arco's results from other companies in a separate box. In that same study, BP was alone among the internationals in bucking the trend of greater returns overseas than in the U.S.<sup>4</sup> In Alaska, we just don't get it. Consider the big, front-page presentation in the Anchorage Daily News last spring, one of many on the hard times theme. That one had a color graph showing a slide in Arco Alaska's profits from \$700 million in 1990 to \$225 million in 1993. The graph excluded Arco's Alaska pipeline profits, estimated at over \$100 million per year. Even more important, the story failed to note that in 1993 Arco's Lower-48 and overseas production endeavors lost \$180 million. Far from being a millstone around Arco's neck, from this perspective Alaska appears to be Arco's lifeboat.

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<sup>3</sup> "Tapping New Oil," Anchorage Times, March 2, 1995, p. B-7.

<sup>4</sup> First Boston Equity Research, "Assessing the Domestic Operations of International Oil Companies: Explaining the Exodus of Capital," September 5, 1991, pp. 2-13. (See Richard A. Fineberg, North Slope Profits and Production Prospects [prepared for the Alaska State Legislature], Nov. 12, 1992, pp. 25-27.)

In fact, N. Slope profitability is apparently sufficient to induce the consistent production increases (i.e., slowed decline) identified above. But the public dialogue in this area is blunted because North Slope producers steadfastly refuse to disclose information that would justify its position.<sup>5</sup>

#### B. HB 207 contains serious structural defects

I believe it is unwise to grant royalty reduction without providing for clear and unambiguous clarification on the public record of the necessity for that assistance. Instead, CSHB 207 (RES) deliberately shields the actions of the Commissioner of Natural Resources from the public review that normally safeguards the public interest provisions giving the Commissioner of Natural Resources new powers to grant royalty relief that are ill-conceived and unprecedented. It has been clearly and convincingly documented in other North Slope revenue disputes that public policy evils flourish where confidentiality erodes the checks and balances and balances that normally protect the public interest and keep the public process on a steady course.<sup>6</sup>

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<sup>5</sup> Last May, in an "Open Letter to the People of Alaska" published in major Alaskan newspapers, BP Alaska President John Morgan stated that BP has paid more in taxes and royalties than it has taken out in profits or cash flow. This statement flies in the face of every public study of which I am aware. BP has refused repeated requests to put on the public record information that would substantiate its claim. (See attached correspondence; in 1992 and again in 1993, the importance of BP's refusal to provide clear public data on its North Slope operations were clearly delineated for the Legislature in my 1992 report, North Slope Profits and Production Prospects [prepared under contract to the Senate Finance Committee], Nov. 12, 1992, and by the Legislative Research Agency, Distribution of Income from Alaska Oil and Gas Operations . . . [Report No. 93.001], Sept. 15, 1993.)

<sup>6</sup> In a current case whose very existence would be hidden from the public had Exxon Corp. not been required to make some documents public in the United States Tax Court, Exxon is asking for retroactive tax deductions that the Internal Revenue Service has said could ultimately be worth \$18 to 25 billion if applied to all North Slope producers. Exxon argues that ultimate abandonment of costs of Prudhoe Bay are deductible for federal tax years 1977 through 1984 under federal tax law because those claims are both knowable and fixed (United States Tax Court Dockets No. 18618-89 and 18432-90). In December 1994, the Alaska Oil & Gas Association recommended that the state should clarify what it might require for the abandonment of Prudhoe Bay. Ironically, Exxon was identified as the lead source for that recommendation ("AOGA Briefing Paper: Lease Closure," presented to Knowles-Ulmer Transition Team Dec. 28, 1994). The blatant contradiction between Exxon's position in separate arenas is indicative of the kind of games that takes place under the cloak of confidentiality.

A second example of public policy abuses flourishing behind the veil of confidentiality is the 1985 TAPS tariff settlement. Due to confidentiality, key elements of that sorry record were not available to the public until after the settlement had been formally approved. In one instance during the latter stages of the TAPS saga, the Governor was briefed on an erroneous document that was subsequently removed from files and replaced with an altered document, in apparent violation of Alaska statutes. (See Richard A. Fineberg, The 1985 TAPS Settlement: A Case Study in the Effects of Confidentiality on Information Available to Decision Makers in Oil and Gas Revenue Disputes (prepared for the Alaska State Legislature), Feb. 5, 1990), pp. 30-36. For a later study of a TAPS settlement defect with enormous state and federal revenue consequences that was mis-stated and consequently overlooked during the flawed 1985 settlement review process, see Richard A. Fineberg,

1. Procedures for Royalty Relief Should Be Clearly Framed and the Need for Royalty Relief Should Be Clear to the Owners of the Resource. (CSHB 207[RES] Page 2, line 1.) Particularly in view of the production trends discussed above and the fact that industry statements about profitability fly in the face of every published report of which I am aware,<sup>7</sup> the process, the criteria and the case for royalty relief should be clearly defined and the case should be part of the public record. This bill does the opposite. For example, where the existing statute requires regulations to make procedures clear, this bill removes that requirement.

2. Economic Considerations Should Include Analysis of Pipeline Profits. (CSHB 207[RES], Page 3, lines 2-7.) This bill mandates consideration of factors such as capital investment in the field but may be read to exclude investment in pipelines, which are a major factor affecting both the development of new fields and the continued production in existing fields. Moreover, guaranteed profits to the pipeline owners are a significant factor influencing production decisions that this language arguably requires the Commissioner to ignore. You may choose to ignore this important aspect of North Slope production economics; prospective producers will not.

3. Blanket Confidentiality. (CSHB 207[RES], Page 3, lines 23-24.) The requirement that the Commissioner shall hold application material confidential at industry request contravenes the state's sunshine laws, common sense and jurisprudence. The Alaska judge who has probably reviewed more oil industry documents than any other has ruled against blanket grants of confidentiality on industry request. In view of the clearly established right of the public to know what its officials are doing, he said, the industry should make a showing that it is

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Hidden Billions: The TAPS DR&R Provision (report prepared for Stan Stephens, Valdez, Alaska), August 21, 1992.

<sup>7</sup> See: Deakin (1989), Oil Industry Profitability in Alaska, 1969 through 1987, p.2 (industry profit \$42.6 billion, state share \$29.3 billion); Legislative Research Agency (1993), Distribution of Income from Alaska Oil and Gas Operations . . . , p. 14 (1985 industry net income \$5.6 billion, 1985 state net revenue \$3.3 billion); Fineberg (1992), p. 43, Alaska North Slope Oil Profits . . . (1991 West Coast industry profits \$4.95 per barrel, state share \$3.82); Wilson-Gillette (1994), Consequences of Exporting Alaska Crude Oil, p. 36 (April 1994 West Coast major field wellhead profits \$2.66 per barrel, state share \$2.63 per barrel [excludes estimated TAPS industry profits of \$1.00 per barrel v. state taxes of approximately \$0.30 per barrel]).

necessary to hold documents confidential.<sup>8</sup> As recently as 1990, after careful review in three committees and despite strong industry opposition, the Alaska State House voted unanimously to prohibit oil and gas settlements from extending confidentiality beyond that already required by law.<sup>9</sup> This bill reverses both precedents.

4. Contractor Analysis. (CSHB 207[RES], Page 3, line 25 through Page 4, line 1.) Apparently throwing in the towel on a 20-year endeavor to attain the expertise in the state system to protect the public interest in the inevitable dialogue between the industry and the stewards of the public interest, this bill sets up an unprecedented system in which the Commissioner will rely instead on a contractor to the industry.

5. Judicial Review. (CSHB 207[RES], Page 4, line 31 through Page 5, line 1.) It is easy to see why the industry would like to remove judicial review; in view of the long history of increased revenues the state has obtained through the courts, one wonders why the stewards of public resources would recommend this course of action.

### **C. The current approach to incentives is flawed.**

In the policy arena, where the mission is to protect the public interest in both the revenue stream and the environment, industry desires must be balanced against these concerns. It is self-evident that any bill that increases industry revenue at the expense of the State Treasury will tend to stimulate production. The industry will, of course, advocate such a measure. But even if the startling provision that automatically grants confidentiality at lessee (producer) request were removed or replaced with language

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<sup>8</sup> The court specifically refused to hold material confidential merely at the request of the industry, without a showing for the need for confidentiality, because "the public's right to know what the executive branch is about" outweighed the industry's speculative assertion of possible damage resulting from the release of information about its business. "Memorandum Opinion and Order No. 92-71 (Denying Motions by BP Exploration [Alaska], Inc. for Continued in camera Treatment of Certain Documents in Court Record)," ANS Royalty Litigation, 1JU-77-847 Civil, May 27, 1992 (19 pp.). The judge reaffirmed that order last month. "Order [Denying Motions to File Documents Under Seal]", ANS Royalty Litigation, 1JU-77-847 Civil, March 20, 1995.

<sup>9</sup> HB 541, 1990. Majority and minority members of the current House Finance Committee voted for the provision limiting settlement confidentiality.

that guarantees public access to information necessary to evaluation of public policy, it remains to be demonstrated that this legislation is necessary, or that it reflects the wise stewardship of public resources mandated by the Alaska Constitution. In view of the well-documented history of abuses of confidentiality that have found their way into the public record, it makes little sense to allow the lessees, at their own initiative, to prevent these materials from seeing the light of day.<sup>10</sup>

Even if the defects discussed above were corrected, the case for the proposed incentives would have yet to be made.

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<sup>10</sup> As the U.S. Supreme Court has observed, "People do not demand infallibility from their institutions, but it is difficult for them to accept what they are prohibited from observing." (Richmond Newspapers, Inc. v. Virginia, 448 U.S. 555, 572 [1980]; quoted in Memorandum 92-71, op. cit., cover page). To accomplish the Governor's well-intentioned desire to reduce needless litigation, the Legislature might consider introducing legislation that puts more information on the public record — not less.

Table Y-1.

Research Associates 2/95

1985 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)

(000 bbls)

000 Barrels per day:

Year	Field $\geq$	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1995		575	145	65		70	10	100	<=====		965 000 bpd
1996		510	120	60		65	0	125	<=====		880 "
1997		460	100	55		60		125	<=====		800 "
1998		420	80	50		55		125	<=====		730 "
1999		380	75	40		50		125	<=====		670 "
2000		340	65	30		45		120	<=====		600 "
2001		300	55	20		40		115	<=====		530 "
2002		270	50	10		20		110	<=====		460 "
2003		240	40	0		10		105	<=====		395 "
2004		210	35			0		100	<=====		345 "
2005		180	30					95	<=====		305 "
2006		160	25					90	<=====		275 "
2007		140	20					80	<=====		240 "
2008		110	15					70	<=====		195 "
2009		80	10					60	<=====		150 "
2010		50	0					50	<=====		100 "
Total Barrels:		1,615,125	315,725	120,450	0	151,475	3,650	582,175	<=====		<b>2,788,600 (000 bbls.)</b>

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil &amp; Gas Consumption," January 1985, p. 13 (Table 2.2: Estimated Availability of N. Slope Oil For Sale).

Table V-2.

1990 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)  
(000 bbls)

<i>(000 Barrels per day)</i>											
Year	Field =>	Pudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Niakuk	W. Sak	Beaufort	Total
1995		857	190	37	60	65	10	20	12		1,251 000 bpd
1996		789	175	34	54	60	8	17	12		1,149 "
1997		726	150	31	49	55	7	14	25		1,057 "
1998		668	125	28	44	50	6	12	25		958 "
1999		614	105	25	39	45	5	10	50	0	893 "
2000		553	90	21	35	40	5	9	50	60	863 "
2001		498	75	19	32	20	5	7	75	54	785 "
2002		418	65	13	29	10	0	6	75	49	695 "
2003		403	55	9	26	0		5	100	44	612 "
2004		363	45	5	23			5	100	39	580 "
2005		326	35	0	21			0	150	35	567 "
2006		284	30		19				150	32	515 "
2007		247	25		17				150	29	468 "
2008		215	20		15				150	26	426 "
2009		187	15		14				140	23	379 "
2010		163	10		12				120	21	326 "
<b>Total Barrels:</b>		<b>2,679,465</b>	<b>441,650</b>	<b>81,030</b>	<b>178,485</b>	<b>125,925</b>	<b>16,790</b>	<b>38,325</b>	<b>505,160</b>	<b>150,380</b>	<b>4,217,210 (000 bbls.)</b>

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," January 1990, p. 10 (Table 2.2: Production Forecast and Available Royalty Oil).

Table Y-3.

Research Associates 2/95

1995 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)  
(000 bbls)

000 Barrels per day:

Year	Eldredge	Prudhoe	Kuparuk	Lisburne	Pt McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1995		980	310	20	115	94	30	23		0	1,572 000 bpd
1996		921	305	20	115	83	40	23			1,507 "
1997		857	300	20	109	72	40	22			1,420 "
1998		788	300	18	98	63	45	22			1,334 "
1999		717	295	15	88	55	50	19	0		1,239 "
2000		646	285	13	79	47	45	16	6		1,137 "
2001		581	256	10	71	40	40	14	21		1,033 "
2002		523	231	10	64	34	36	11	27		936 "
2003		471	208	10	61	29	33	10	25		847 "
2004		423	187	10	54	24	30	9	26		763 "
2005		381	168	10	46	21	27	7	35		695 "
2006		343	143	10	39	18	24	6	59		612 "
2007		309	122	9	33	16	20	5	58		572 "
2008		278	103	8	28	13	17		49		496 "
2009		250	88	7	24	10	15		41		435 "
2010		225	75	6	21		12		35		374 "
<b>Total Barrels:</b>		<b>3,172,945</b>	<b>1,232,240</b>	<b>71,540</b>	<b>381,425</b>	<b>225,935</b>	<b>183,960</b>	<b>68,255</b>	<b>139,430</b>	<b>0</b>	<b>5,475,730 (000 bbls.)</b>

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," February 1995 (in press). (Table 2A: Estimated Availability of N. Slope Oil For Sale).

Table V-4.

Research Associates 2/95

## 1985 North Slope Production Forecast for 1986-94 v. Actual Production (ADNR)

(000 Barrels)

## 1985 Production Forecast (1)

Barrels per day:

Field:	Prudhoe	Kuparuk	Lisburne	Pt McIntyre	Endicott	Milne Pt.	Other	W.Sak.	Beaufort	Total	
1986	1,500	180	0	0	0	0	0	<=====		1,680	000 bpd
1987	1,475	180	75		0	30	30	<=====		1,790	000 bpd
1988	1,325	200	100		50	30	30	<=====		1,735	000 bpd
1989	1,175	200	120		100	25	50	<=====		1,670	000 bpd
1990	1,050	200	120		100	20	50	<=====		1,510	000 bpd
1991	950		120		100	15	50	<=====		1,435	000 bpd
1992	850		90		100	15	50	<=====		1,305	000 bpd
1993	750	200	75		85	10	50	<=====		1,170	000 bpd
1994	650	170	70		75	10	50	<=====		1,025	000 bpd
<b>Total Barrels:</b>	<b>3,519,625</b>	<b>631,450</b>	<b>281,050</b>	<b>0</b>	<b>222,650</b>	<b>56,575</b>	<b>131,400</b>	<=====		<b>4,872,750</b>	<b>000 Bbl. (Forecast)</b>

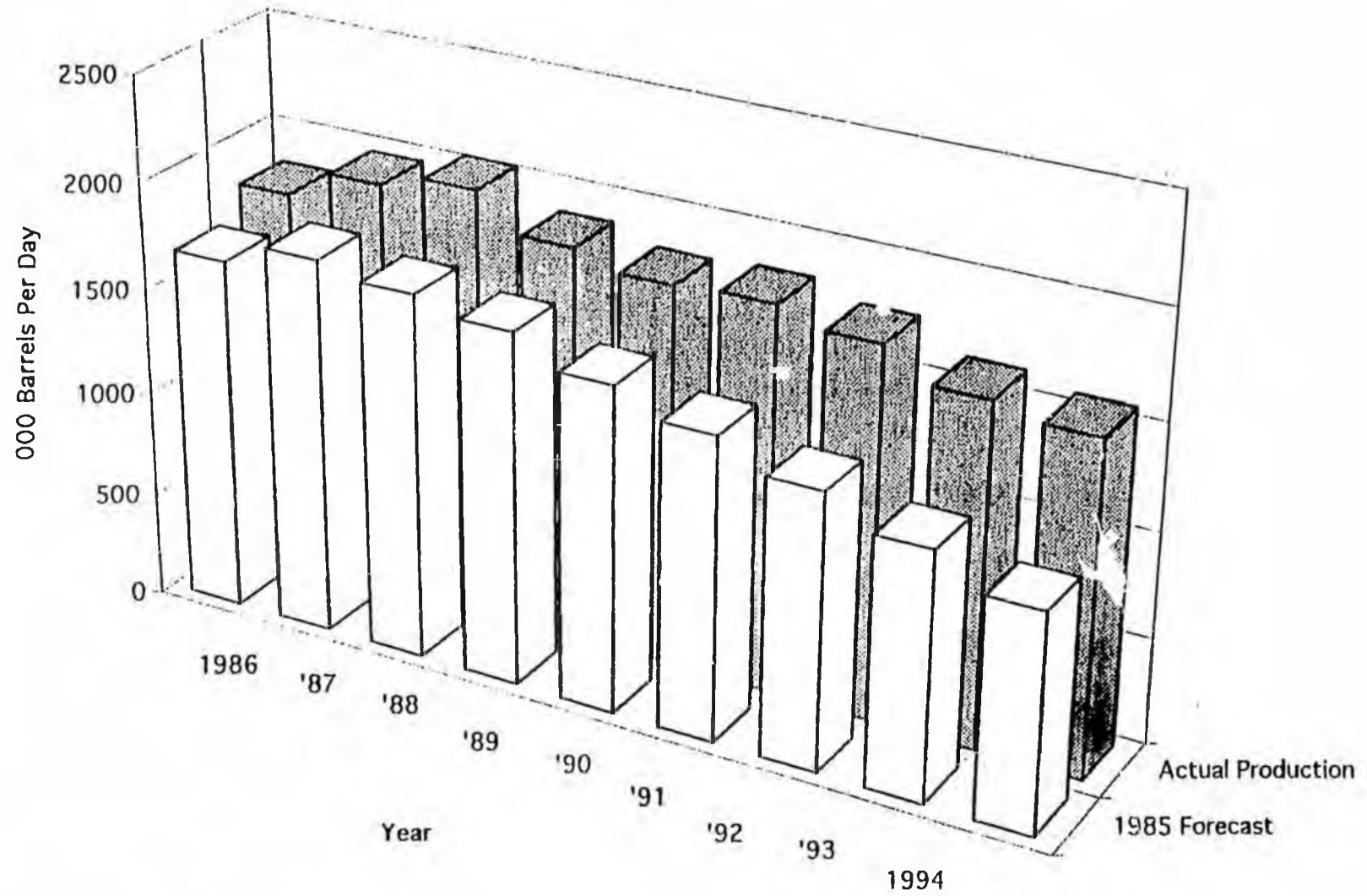
## Actual Production (2)

Field:	Prudhoe	Kuparuk	Lisburne	Pt McIntyre	Endicott	Milne Pt.	Other	W.Sak.	Beaufort	Total	
1986	1,530	260	10		0	13		<=====		1,822	000 bpd
1987	1,608	284	46		24	0		<=====		1,962	000 bpd
1988	1,585	304	40		103	0		<=====		2,033	000 bpd
1989	1,427	297	41		98	5		<=====		1,868	000 bpd
1990	1,340	294	43		106	18		<=====		1,801	000 bpd
1991	1,333	311	40		117	20		<=====		1,822	000 bpd
1992	1,251	325	38	0	118	19		<=====		1,751	000 bpd
1993	1,126	316	27	21	112	19	0	<=====		1,619	000 bpd
1994	1,024	305	22	97	97	18	9	<=====		1,572	000 bpd
<b>Total Barrels:</b>	<b>4,465,457</b>	<b>983,919</b>	<b>111,941</b>	<b>42,857</b>	<b>282,405</b>	<b>40,899</b>	<b>3,463</b>	<=====		<b>5,930,941</b>	<b>000 Bbl. (Actual)</b>

(1) Alaska Dept. of Natural Resources, "Historical and Projected Oil &amp; Gas Consumption," January 1985, p. 13 (Table 2.2: Estimated Availability of N. Slope Oil For Sale).

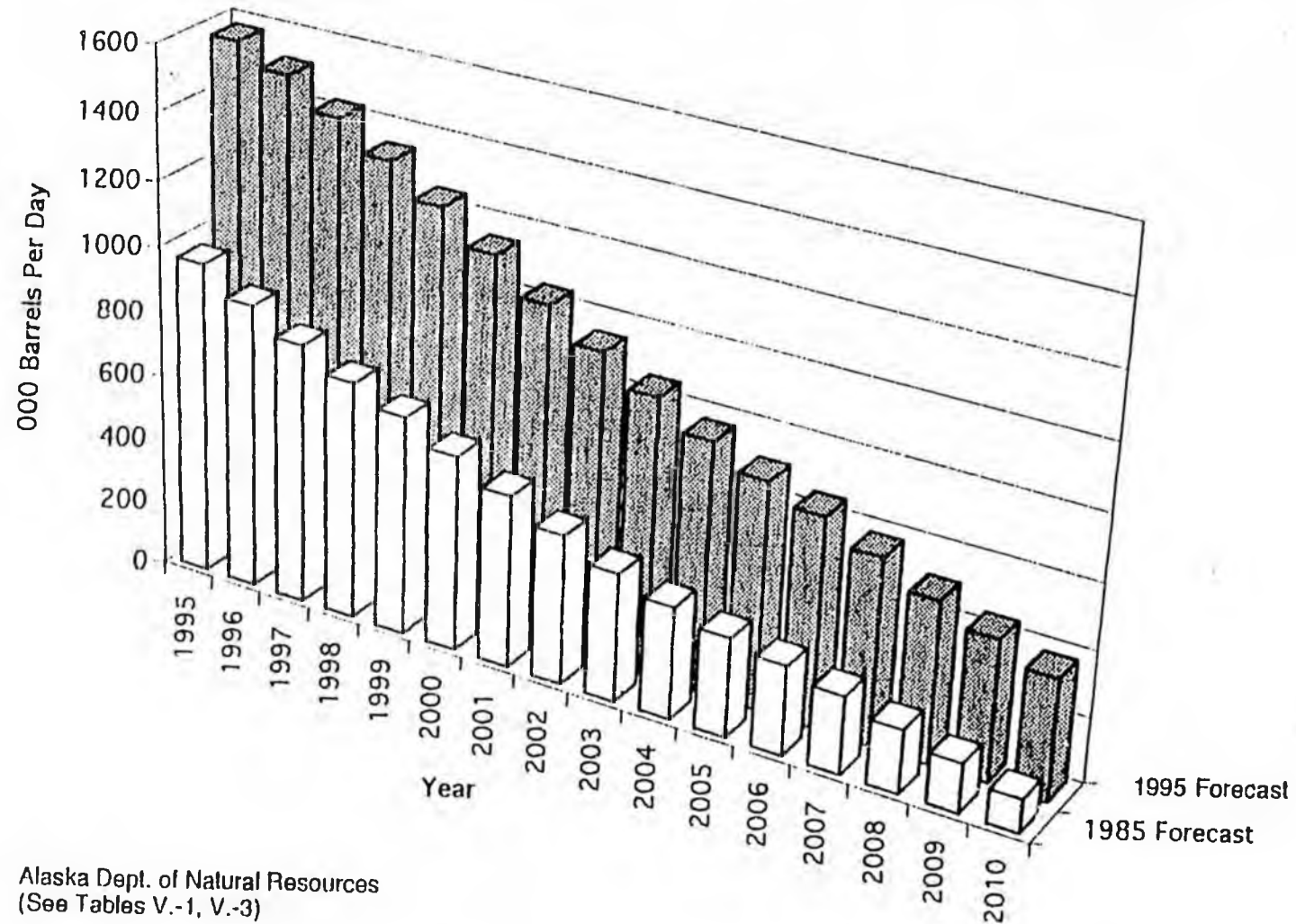
(2) Alaska Dept. of Natural Resources, "Historical and Projected Oil &amp; Gas Consumption," February 1995 (in press), (Table 3: Historical Oil Production).

North Slope Production, 1986-1994: 1985 Forecast v. Actual



Source: Alaska Dept. of Natural Resources  
(See Table V.-4)

North Slope Production Forecasts, 1995-2010 (1985 v. 1995 Forecast)



Source: Alaska Dept. of Natural Resources  
(See Tables V.-1, V.-3)

[Rev.]

## Regrouped Analysis of 1985 and 1995 DNR Production Forecasts for 1986-2000

Fields	(A)	(B)	(C)	(D)	(E)
	000 barrels			Percent (rounded)	
	1985 Forecast	1986-94 Actual + 1995 Forecast for 1995-2000	Net Change (Col. [B] - Col. [A])	Contribution to Forecast change	Col. (C) as % of Col. (A)
Prudhoe & Kuparuk	5,374,625	7,896,276	2,521,651	106.9%	46.9%
Other Fields:					
Endicott	348,575	433,515	84,940	3.6%	24.4%
Milne Pt.	60,225	132,149	71,924	3.0%	119.4%
Pt. McIntyre	0	263,317	263,317	11.2%	n.a.
Lisburne	390,550	150,631	(239,919)	(10.2%)	(61.4%)
Other*	394,200	51,278	(342,922)	(14.5%)	(87.0%)
Total Barrels, 1985-2000	6,568,175	8,927,166	2,358,991	100.0%	35.9%

\* Niakuk, W. Sak and Beaufort Sea included in this category.

From: Department of Natural Resources, Historical and Projected Oil & Gas Consumption, 1985 and 1995  
(Reprinted in Alaska North Slope Production Prospects: Preliminary Analysis)

3/27/95 Table 1

[Rev.]

Research Associates 3/27/95

Analysis of 1985 and 1995 DNR Production Forecasts for 1986-2000

	(A)	(B)	(C)	(D)	(E)
	000 barrels			Percent (rounded)	
<i>Fields</i>	<i>1985 Forecast</i>	<i>1986-94 Actual + 1995 Forecast for 1995-2000</i>	<i>Net Change (Col. [B] - Col. [A])</i>	<i>Contribution to Forecast change</i>	<i>Col. (C) as % of Col. (A)</i>
Prudhoe & Kuparuk	5,374,625	7,896,276	2,521,651	106.9%	46.9%
Lisb., Pt. McInt., Endcrt., M. Pt.	799,350	979,612	180,262	7.6%	22.6%
Unidentified*	394,200	51,278	(342,922)	(14.5%)	(87.0%)
Total Barrels, 1985-2000	6,568,175	8,927,166	2,358,991	100.0%	35.9%

\* Niakuk, W. Sak and Beaufort Sea included in this category.

From: Department of Natural Resources, Historical and Projected Oil & Gas Consumption, 1985 and 1995  
(Reprinted in Alaska North Slope Production Prospects: Preliminary Analysis)

**HB**

**2017**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 5/6/95

FURTHER:

DATE TURNED INTO OFFICE: 5/11/95

The Finance Committee considered CS FOR HOUSE BILL NO. 207(FIN) am

Adjustments to royalty reserved to the state to encourage otherwise uneconomic production of oil and gas; EFD.

and recommends:

- be replaced with S CS CS HB 207 (FIN)
- adopt previous      CS      (      )
- attached amendment(s)
- adopt Letter of Intent by      Committee
- further referral to the      Committee

- Senate Bill:
- same title
  - new title
- House Bill:
- same title
  - technical change
  - new: SCR#

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓	<i>[Signature]</i>	✓		
		<i>[Signature]</i>	✓		
		<i>[Signature]</i>	✓		
Co-Chair:		Co-Chair: <i>[Signature]</i>	✓		
Co-Chair:		Co-Chair: <i>[Signature]</i>	✓		

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal


**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

#2	DOR	4/23/95	0	
#3	DRR	5/1/95		105.3
#4	DOR	3/5/95		I

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

No. 2  
 Version: HB 207  
 (H) Publish Date: 2/27/95

STATE OF ALASKA  
 1995 LEGISLATIVE SESSION SFC 5-11-95

REPORTED OUT OF

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Reduce Royalty Share/Hold Permanent Fund BRU: APFC  
 Component: APFC  
 Sponsor: GOV  
 Requester: GOV COMPONENT SERIAL NO. 109

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

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY95) cost: \$ \_\_\_\_\_

**POSITIONS**

FULL-TIME						
PART-TIME						
TEMPORARY						

No additional costs or significant impact is anticipated with the implementation of this proposed legislation upon the Alaska Permanent Fund Corporation.

Prepared by: Martin Pihl, Acting Executive Director Phone: 465-2047  
 Division: APFC Date: 2/23/95  
 Approved by: \_\_\_\_\_  
 Commissioner: Deborah Vogt Date: 2/23/95  
 Agency: Revenue

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# FISCAL NOTE

No. 3 Corrected

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

REPORTED OUT OF

Bill Version: HB 207

(H) Publish Date: 3/8/95

Revision Date: Original 5-11-95 Dept Affected: Natural Resources  
 Title: An Act relating to adjustments to royalty reserved to BRU: Resource Development  
the state to encourage otherwise uneconomic production of oil and ... Component: Oil & Gas Development  
 Sponsor: House Rules Committee  
 Requestor: Governor Knowles Component Serial No. 439

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	90.5	94.0	97.5	101.2	105.0	108.9
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	5.0	5.0	5.0	5.0	5.0	5.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>105.5</b>	<b>109.0</b>	<b>112.5</b>	<b>116.2</b>	<b>120.0</b>	<b>123.9</b>
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ( )	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	105.5	109.0	112.5	116.2	120.0	123.9
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>105.5</b>	<b>109.0</b>	<b>112.5</b>	<b>116.2</b>	<b>120.0</b>	<b>123.9</b>

Estimate of any current year (FY95) cost: \$ None

POSITIONS						
FULL-TIME	11	11	11	11	11	11
PART-TIME	01	01	01	01	01	01
TEMPORARY	01	01	01	01	01	01

ANALYSIS: (Attach a separate page if necessary)

SEE ATTACHED

Prepared by: Ken Boyd, Acting Director *Ken Boyd* Phone: 762-2547  
 Division: Oil & Gas Date: 3-Mar-95  
 Approved by Commissioner: *John Knowles* Date: 3-7-95  
 Agency: Natural Resources

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ATTACHMENT FOR FISCAL NOTE - HB207  
REDUCE ROYALTY SHARE/HOLD PERMANENT FUND "HARMLESS"

Implementation of this legislation will create an increased workload for the Division of Oil & Gas. We anticipate that some of the applications will be analyzed within the Division and many will require analysis by third parties (the bill provides that third-party costs will be paid for by the companies). Because of the extremely sensitive and confidential nature of the data a considerable amount of interaction between the third-party contractor and the state will be needed. Furthermore, the bill requires that applicants make a clear and convincing showing of the need for royalty reduction, so the Division will need to evaluate the economic, geological and engineering data submitted for compliance with the law prior to seeking the assistance of a third party.

Because this legislation contains provisions that may cause the terms of the application to vary over time, any approved application will need to be monitored on a continuing basis. We expect this program to have broad appeal, however, we cannot anticipate how many applications will be submitted or when they will be submitted.

An exempt Petroleum Engineer, Range 26A, will provide the broad background that will be needed to evaluate these proposals effectively. This position will need to be skilled not only in Petroleum Engineering, but will also need to have extensive knowledge of petroleum geology and petroleum economics. The salary cost of this position will be approximately \$90.6 the first year, including benefits. Additional, minor expenses such as travel, contractual and supplies will be required which we estimate will not exceed \$15.0. This position and the associated costs are our estimates of the funding needed to get the program started; if many applications are received, other positions may be required. We assume that each application will take between 4-6 employee-months to evaluate.

This legislation will effect state operating revenues in an unquantifiable manner (the Permanent Fund share is not affected by this legislation). This legislation gives the commissioner authority to grant royalty reduction which, on its face, would seem to indicate a decrease in revenue. However, since the purpose of this legislation is to promote development of fields that would not otherwise be produced, the net effect on state revenues should be positive. As a result of this legislation we are gaining new revenues based on this new production (albeit at a somewhat reduced rate from currently producing fields).

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BI

Revision Date: 3/14/95 Dept. Affected: Revenue  
 Title: Adjustments to Oil and Gas Royalty BRU: Revenue Operations  
 Component: Oil & Gas Audit  
 Sponsor: (H) Rules  
 Requirer: Governor COMPONENT SERIAL NO. 115

### Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )	*****See Analysis*****					
------------------------	------------------------	--	--	--	--	--

### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY95) cost: \$ \_\_\_\_\_

### POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

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

This Bill would grant the Commissioner of Natural Resources broad authority to reduce the royalty terms of an oil and gas lease if such reduction would allow new commercial development, prolong field life, or reestablish commercial production from idle leases. The reduction could be no greater than the percentage required to deposit royalty income under the initial lease terms into the permanent fund. The net impact of this provision will be to insure that the permanent fund share under the original lease terms will be covered in the event of reduction in royalty rate. In theory, the ability to grant royalty relief should raise the cash bids on new leases.

New production from this royalty reduction would most likely pay little severance tax because the Economic Limit Factor is designed to provide almost total tax relief to the kind of marginal fields this legislation is aimed at benefiting. Each new barrel of production would be subject to the \$.05/bbl or \$.03/bbl hazardous release surcharge (depending on the balance in the 470 fund) and the \$.004/bbl conservation tax. The impact on the corporate income tax would be too small to measure because of the world-wide apportioned tax base and since bid definition these fields would have marginal profitability.

Prepared by: Chuck Loasdon Phone: 277-5627  
 Division: Oil and Gas Audit Division Date: 3/14/95  
 Approved by Commissioner: Deborah Vcol Date: 2/15/95  
 Agency: Revenue

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Failed 5/11/95

A M E N D M E N T

OFFERED IN THE SENATE  
TO: SCS CSHB 207(RES)

SENATE FINANCE  
COMMITTEE  
Amendment Number: #1  
Bill Number: SCS CSHB 207C.FIN  
Sponsor: Phillips Date: 5/9/95  
Logged In By: JPK

1 Page 3, following line 25:

2 Insert a new subparagraph to read:

3 "(C) under this subsection unless the commissioner and the  
4 lessee or lessees applying for the royalty decrease or other adjustment  
5 agree that the decrease or other adjustment may take effect only if not  
6 disapproved under (12)(D) of this subsection and the commissioner first  
7 submits the decrease or other adjustment under that provision:"

8 Page 7, following line 29:

9 Insert a new subparagraph to read:

10 "(D) submit a final findings and determination made under  
11 (B) or approved by the governor under (C) to the presiding officer of each  
12 house of the legislature: if the legislature is in session at the time of  
13 submission and does not act within 50 days after the close of the public  
14 comment period under (8)(B) or (C) of this subsection to disapprove the  
15 commissioner's proposed final findings and determination by enacting  
16 legislation, the commissioner shall issue a final findings and  
17 determination: if the legislature is not in session, the Legislative Budget  
18 and Audit Committee shall review and approve or disapprove proposed  
19 final findings and determinations: if the Legislative Budget and Audit  
20 Committee does not act within 50 days after the close of the public  
21 comment period under (8) of this subsection to disapprove, by majority  
22 vote of the committee's full membership, the commissioner's proposed  
23 final findings and determinations, the commissioner shall issue a final  
24 findings and determination:"

1 Reletter the following subparagraph accordingly.

2 Page 7, line 31:

3 Delete "(B) or (C)"

4 Insert "(B) - (D)"

Page 3, Line 9, delete all material and replace with:

(C) for a modification under (1)(A) of this subsection, set out the terms and conditions, which

(i) must include a schedule based on price or value of the hydrocarbons produced; the schedule must provide for an increase in royalty percentage resulting from an increase in price from the base assumptions that is equal to or greater than the decrease in royalty percentage that would result from an equivalent decrease in price from the base assumptions; and

(ii) may include, in addition to the schedule specified in (i) of this subparagraph, a further adjustment to the schedule based on ultimate recovery from the field or pool;

(D) for a modification under (1)(B) or (1)(C) of this subsection, set out the terms and conditions, which may include

SENATE FINANCE  
COMMITTEE  
Amendment Number: 2  
Bill Number: SCS CS113207 (FIN)  
Sponsor: Rieger Date: 5/9/95  
Logged In By: JAC

Fail.  
5/11/95

Any reduction of royalty receipts as a result of the commissioner's decision to decrease or otherwise adjust a royalty under (1) (A), (B) or (C) of <sup>this</sup> ~~the~~ subsection shall be apportioned to the revenues deposited to the General Fund and the Permanent Fund so as to maintain, to the full extent practicable, the revenue stream that otherwise would have been deposited to the Permanent Fund.

SENATE FINANCE  
COMMITTEE

Amendment Number: 3  
Bill Number: SCS CH HB 207 (FIN)  
Sponsor: Herl Ford Date: 5/11/95  
Logged In By: [Signature]

Adopted 5/11/95

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

Page 2, line 3:

After "otherwise"  
Delete "adjust"  
Insert "modify"

SENATE FINANCE  
COMMITTEE

Amendment Number: 4  
Bill Number: SCS 17B207(FIN)  
Sponsor: Admiral - Date: 5/11/95  
Logged in by: HW

AMENDMENT

SENATE FINANCE  
COMMITTEE

Amendment Number: 5  
Bill Number: SCS HB 207 (FIN)  
Sponsor: Admiral Date: 5/11/58  
Logged In By: [Signature]

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

Page 2, line 12:  
After "subsection;"  
Delete "and"

Page 2, line 14:  
After "sale;"  
Insert "and"

Page 2, line 15  
Before "(B)"  
Insert "(iii) oil or gas production from the field or pool would not otherwise  
be economically feasible;"

fail

Fail  
5/11/95

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

Page 3, lines 7 -15:  
After "price"  
Delete "or value ... under the modification"

SENATE FINANCE  
COMMITTEE  
Amendment Number: 6  
Bill Number: SCS HD 207 (FIN)  
Sponsor: Artemis Date: 5/11/95  
Logged In By: [Signature]

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

Page 3, lines 7 -15:  
After "price"  
Delete "or value ... under the modification"

SENATE FINANCE  
COMMITTEE  
Amendment Number: 6  
Bill Number: SCS HD 207 (FIN)  
Sponsor: Admiral Date: 5/16/95  
Logged In By: JJK

Deletes: line 7... after VALUE thru  
the semicolon.

Adopted 5/11/95

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

SENATE FINANCE  
COMMITTEE  
Amendment Number: 7  
Bill Number: SCS HB 207 (FIN)  
Sponsor: Adams Date: 5/11/95  
Logged In By: [Signature]

Page 3, line 18:  
After "on"  
Delete "ultimate recovery"  
Insert "production rate or volume"

Amend. to the Amend.

Adopted  
5/11-95

Pg 3, line 17 delete as

Insert "which must meet the conditions"

Adopted 5/11/95

WORK DRAFT

WORK DRAFT

WORK DRAFT

Adopted Amend:

9-GH0039\X  
Chenoweth/Finley  
5/11/95

- ① pg 4 - line 17 "may" to "shall"
- ② pg 3 - line 7 after price "." remove the rest of the language
- ③ Amend #4
- ④ Amend #7 — Amended - See Attached

SENATE CS FOR CS FOR HOUSE BILL NO. 207( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:  
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to adjustments to royalty reserved to the state to encourage  
 2 otherwise uneconomic production of oil and gas; and providing for an effective  
 3 date."

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

5 \* Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

6 (33) contracts between the Department of Natural Resources and  
 7 contractors qualified to evaluate hydrocarbon development, production, transportation,  
 8 and economics, to assist the commissioner of natural resources in evaluating applications  
 9 for oil and gas royalty increases or decreases or other oil and gas royalty adjustments,  
 10 and evaluating the related financial and technical data, entered into under  
 11 AS 38.05.180(j).

12 \* Sec. 2. AS 38.05.180(j) is amended to read:

13 (j) The [TO PROLONG THE ECONOMIC LIFE OF AN OIL AND GAS  
 14 FIELD OR TO REESTABLISH COMMERCIAL PRODUCTION OF SHUT-IN OIL OR

1 GAS THAT WOULD NOT OTHERWISE BE ECONOMICALLY FEASIBLE, THE)  
2 commissioner

3 (1) may provide for an increase or decrease or otherwise adjust  
4 [SHALL ADOPT REGULATIONS TO ALLOW REDUCTION OF] royalty on  
5 individual leases, leases unitized as described in (p) of this section, leases subject to  
6 an agreement described in (s) or (t) of this section, or interests unitized under  
7 AS 31.05; the commissioner may act under this subsection to modify the royalty

8 (A) after the effective date of this Act and not later than  
9 July 1, 2000, to allow for production from an oil or gas field or pool if

10 (i) the oil or gas field or pool has been delineated  
11 sufficiently to allow the commissioner to conduct the analyses and  
12 make the findings required by this subsection; and

13 (ii) the field or pool has not previously produced oil or  
14 gas for sale;

15 (B) to prolong the economic life of an oil or gas field or pool  
16 as costs per barrel or barrel equivalent increase such that future production  
17 would not otherwise be economically feasible; or

18 (C) to reestablish production of shut-in oil or gas that would  
19 not otherwise be economically feasible;

20 (2) [. THE COMMISSIONER] may not grant a [REDUCTION OF]  
21 royalty modification unless the lessee or lessees requesting the modification make  
22 [REDUCTION MAKES] a clear and convincing showing that a modification of royalty  
23 meets the requirements of this subsection and is in the best interests of the state;

24 (3) shall

25 (A) [THE REVENUE FROM THE LESSEE'S SHARE OF ALL  
26 HYDROCARBONS PRODUCED FROM THE FIELD IS AND IS LIKELY TO  
27 CONTINUE TO BE INSUFFICIENT TO PRODUCE A REASONABLE RATE  
28 OF RETURN WITH RESPECT TO THE LESSEE'S TOTAL INVESTMENT IN  
29 THE FIELD. THE COMMISSIONER MAY] condition any [A] royalty  
30 modification [REDUCTION] granted under this subsection in any way necessary  
31 to protect the state's best interests;

32 (B) describe, in the findings and determinations required by

1 this subsection, the relevant factors, including price, projected production  
2 rate or volume, predicted ultimate recovery, and development, operating,  
3 and transportation costs, upon which the modification is based:

4 (C) for a modification under (1)(A) of this subsection, set out  
5 the terms and conditions, which

6 (i) must include a mechanism for adjusting royalty  
7 percentage based on price or value of the hydrocarbons produced;  
8 the mechanism must provide for an increase in royalty percentage  
9 resulting from an increase in price from the base assumptions that,  
10 at a minimum, fully compensates for any decreases in royalty  
11 percentage resulting from a decrease in price from the base  
12 assumptions; it is the intent of this provision that the value of the  
13 potential percentage increases under the mechanism will, at a  
14 minimum, fully compensate for any negative risks the state assumed  
15 under the modification; and

16 (ii) may include, in addition to the royalty percentage  
17 adjustment based on price as specified in (i) of this subparagraph,  
18 a further adjustment based on ultimate recovery from the field or  
19 pool; and

20 (D) for a modification under (1)(B) or (1)(C) of this  
21 subsection, set out the terms and conditions, which may include  
22 substitution of a sliding scale royalty or other mechanism to modify the  
23 royalty if there is a change in the relevant factors, such as price, projected  
24 production rate or volume, predicted ultimate recovery, and development,  
25 operating, and transportation costs, upon which the modification is based:

26 (4) may not grant a royalty modification for a field or pool

27 (A) under (1)(A) of this subsection if the royalty modification  
28 for the field or pool would establish a royalty rate of less than five percent  
29 in amount or value of the production removed or sold from a lease or leases  
30 covering the field or pool;

31 (B) under (1)(B) or (1)(C) of this subsection if the royalty  
32 modification for the field or pool would establish a royalty rate of less than

1 three percent in amount or value of the production removed or sold from a  
2 lease or leases covering the field or pool;

3 (5) may not grant a royalty modification under this subsection  
4 without including an explicit condition that the royalty modification is not  
5 assignable without the prior written approval of the commissioner; the  
6 commissioner shall, in the preliminary and final findings and determinations, set out  
7 the conditions under which the royalty modification may be assigned;

8 (6) shall require the lessee or lessees to submit, with the application  
9 for the royalty modification, financial and technical data that demonstrate that the  
10 requirements of this subsection are met; the commissioner shall

11 (A) require disclosure of the financial and technical data  
12 related to development, production, and transportation of oil and gas from  
13 the field or pool that are necessary to make a determination as to whether  
14 or not to grant the request for royalty modification; and

15 (B) keep the data described in (A) of this paragraph  
16 confidential under AS 38.05.035(a)(9) at the request of the lessee or lessees  
17 making application for the royalty modification; the confidential data may  
18 be disclosed by the commissioner to legislators who sign an appropriate  
19 confidentiality agreement, to the legislative auditor, the director of the  
20 division of legislative finance, and the permanent employees of their  
21 respective divisions, and to agents or contractors of the legislative auditor or  
22 the legislative finance division director who are engaged under contract to  
23 evaluate the royalty modification;

24 (7) may require the lessee or lessees making application for the  
25 royalty modification to pay for the services of an independent contractor, qualified  
26 to evaluate hydrocarbon development, production, transportation, and economics,  
27 who is selected by the commissioner to assist the commissioner in evaluating the  
28 application and financial and technical data; selection of an independent contractor  
29 under this paragraph is not subject to AS 36.30;

30 (8) shall

31 (A) make and publish a preliminary findings and  
32 determination on the royalty modification application; if the preliminary

shall

1 findings and determination concerns a royalty modification under (1)(A)  
2 of this subsection, the preliminary findings and determination shall also be  
3 presented to the governor for the governor's approval or disapproval: the  
4 governor may not delegate a determination to approve or disapprove a  
5 preliminary findings and determination under this subparagraph:

6 (B) for a royalty modification under (1)(A) of this  
7 subsection, if the governor approves the preliminary findings and  
8 determination under (A) of this paragraph.

9 (i) give reasonable public notice of the preliminary  
10 findings and determination;

11 (ii) concurrently with the issuance of the public  
12 notice, unless directed by the Legislative Budget and Audit  
13 Committee to do otherwise, make available copies of the  
14 commissioner's preliminary findings and determination on the  
15 royalty modification application and the supporting financial and  
16 technical data, including the work papers, analyses, and  
17 recommendations of any contractors retained under (7) of this  
18 subsection, to persons authorized under (6)(B) of this subsection to  
19 review the data; and

20 (iii) invite public comment on the preliminary  
21 findings and determination during a 30-day period for receipt of  
22 public comment;

23 (C) for a royalty modification under (1)(B) or (C) of this  
24 subsection, if the preliminary findings and determination approves a  
25 royalty modification.

26 (i) give reasonable public notice of the preliminary  
27 findings and determination; and

28 (ii) invite public comment on the preliminary findings  
29 and determination during a 30-day period for receipt of public  
30 comment;

31 (9) shall address in any findings and determinations required under  
32 this subsection the reasonably foreseeable effects of the proposed royalty

1 modification on the state's revenue:

2 (10) shall offer to appear before the Legislative Budget and Audit  
3 Committee to provide the committee a review of the commissioner's preliminary  
4 findings and determination on the royalty modification application and the  
5 supporting financial and technical data; if the Legislative Budget and Audit  
6 Committee accepts the commissioner's offer, the committee shall give notice of the  
7 committee's meeting to all members of the legislature; if, under (6)(B) of this  
8 subsection, the financial and technical data must be kept confidential at the  
9 request of a lessee or lessees making application for the royalty modification, the  
10 commissioner may appear before the committee in executive session;

11 (11) shall make copies of the preliminary findings and determination  
12 available to

13 (A) the presiding officer of each house [INTEREST,  
14 INCLUDING RESTORATION OF THE STATE'S ROYALTY SHARE IN THE  
15 EVENT OF AN INCREASE IN THE PRICE OF OIL OR GAS. BEFORE  
16 APPROVING A ROYALTY REDUCTION, THE COMMISSIONER SHALL  
17 MAKE A WRITTEN FINDING THAT THE STATE HAS OBTAINED THE  
18 MAXIMUM POSSIBLE ECONOMIC RETURN THAT IS COMPATIBLE  
19 WITH ALLOWING A REASONABLE RATE OF ECONOMIC RETURN FOR  
20 THE LESSEE, AND SEND COPIES OF THE FINDING TO ALL MEMBERS]  
21 of the legislature;

22 (B) the chairs of the legislature's standing committees on  
23 resources; and

24 (C) the chairs of the legislature's special committees on oil  
25 and gas, if any;

26 (12) shall, within 30 days after the close of the public comment  
27 period under (8) of this subsection,

28 (A) prepare a summary of the public response to the  
29 commissioner's preliminary findings and determination;

30 (B) make a final findings and determination and present it  
31 to the governor for the governor's approval or disapproval; the governor  
32 may not delegate a decision to approve or disapprove a final findings and

1 determination presented under this subparagraph; the commissioner's final  
2 findings and determination regarding a royalty modification, if approved  
3 by the governor, is, as to the lessee or lessees applying for the royalty  
4 modification, final and not appealable to the court:

5 (C) transmit a copy of the final findings and determination  
6 prepared under (B) of this paragraph to the lessee or lessees making  
7 application for the royalty modification;

8 (D) with the consent of the lessee or lessees applying for the  
9 royalty modification, amend the lease or unitization agreement of the lessee  
10 or lessees applying for the royalty modification consistent with the  
11 commissioner's approved final findings and determination; and

12 (E) make copies of the final findings and determination  
13 available to each person who submitted comment under (8) of this subsection  
14 and who has filed a request for the copies;

15 (13) is not limited by the provisions of AS 38.05.134(3) or (f) of this  
16 section in the commissioner's determination under this subsection.

17 \* Sec. 3. AS 38.05.180(p) is amended to read:

18 (p) To conserve the natural resources of all or a part of an oil or gas pool, field,  
19 or like area, the lessees and their representatives may unite with each other, or jointly  
20 or separately with others, in collectively adopting or operating under a cooperative or a  
21 unit plan of development or operation of the pool, field, or like area, or a part of it, when  
22 determined and certified by the commissioner to be necessary or advisable in the public  
23 interest. The commissioner may, with the consent of the holders of leases involved,  
24 establish, change, or revoke drilling, producing, and royalty requirements of the leases  
25 and adopt regulations with reference to the leases, with like consent on the part of the  
26 lessees, in connection with the institution and operation of a cooperative or unit plan as  
27 the commissioner determines necessary or proper to secure the proper protection of the  
28 public interest. The commissioner may not decrease royalty on leases in connection  
29 with a cooperative or unit plan except as provided in (i) of this section. The  
30 commissioner may require oil and gas leases issued under this section to contain a  
31 provision requiring the lessee to operate under a reasonable cooperative or unit plan, and  
32 may prescribe a plan under which the lessee must operate. The plan must adequately

1 protect all parties in interest, including the state.

2 \* Sec. 4. AS 38.05.180(s) is amended to read:

3 (s) When separate tracts cannot be individually developed and operated in  
4 conformity with an established well-spacing or development program, a lease, or a  
5 portion of a lease, may be pooled with other land, whether or not owned by the state,  
6 under a communication or drilling agreement providing for an apportionment of  
7 production or royalties among the separate tracts of land comprising the drilling or  
8 spacing unit when determined by the commissioner to be in the public interest.  
9 Operations or production under the agreement are considered as operations or production  
10 as to each lease committed to the agreement. The commissioner may not decrease  
11 royalty on leases in connection with a communication or drilling agreement except  
12 as provided in (j) of this section.

13 \* Sec. 5. AS 38.05.180(t) is amended to read:

14 (t) The commissioner may prescribe conditions and approve, on conditions,  
15 drilling, or development contracts made by one or more lessees of oil or gas leases, with  
16 one or more persons, when, in the discretion of the commissioner, the conservation of  
17 natural resources or the public convenience or necessity requires it or the interests of the  
18 state are best served. All leases operated under approved drilling or development  
19 contracts and interests under them, are excepted in determining holding or control under  
20 AS 38.05.140. The commissioner may not decrease royalty on a lease or leases that  
21 are subject to a drilling or development contract except as provided in (j) of this  
22 section.

23 \* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

SENATE FINANCE  
COMMITTEE

Amendment Number: 5  
Bill Number: SCS HR 207(FIN)  
Sponsor: Admiral Date: 5/11/95  
Logged In By: ME

Fail  
5/11/95

Page 2, line 12:  
After "subsection;"  
Delete "and"

Page 2, line 14:  
After "sale;"  
Insert "and"

Page 2, line 15  
Before "(B)"  
Insert "(iii) oil or gas production from the field or pool would not otherwise  
be economically feasible;"

*Filed*

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

Page 3, lines 7 -15:  
After "price"  
Delete "or value ... under the modification"

SENATE FINANCE  
COMMITTEE  
Amendment Number: 6  
Bill Number: SCS HD 207 (FIN)  
Sponsor: Admin Date: 3/10/95  
Logged In By: JM

Adopted 5/11/95

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

SENATE FINANCE  
COMMITTEE  
Amendment Number: 7  
Bill Number: SCS HB 207 (FIN)  
Sponsor: Admiral Date: 5/11/95  
Logged In By: [Signature]

Page 3, line 18:  
After "on"  
Delete "ultimate recovery"  
Insert "production rate or volume"

Adopted 5/11/95  
Amended (delete as)  
insert after price  
which must meet the  
conditions . . . . .

*Adopted 5/11/95*  
WORK DRAFT

9-GH0039X  
Chenoweth/Finley  
5/11/95

SENATE CS FOR CS FOR HOUSE BILL NO. 207( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:  
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to adjustments to royalty reserved to the state to encourage  
2 otherwise uneconomic production of oil and gas; and providing for an effective  
3 date."

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

5 \* Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

6 (33) contracts between the Department of Natural Resources and  
7 contractors qualified to evaluate hydrocarbon development, production, transportation,  
8 and economics, to assist the commissioner of natural resources in evaluating applications  
9 for oil ~~and~~ gas royalty increases or decreases or other oil and gas royalty adjustments,  
10 and evaluating the related financial and technical data, entered into under  
11 AS 38.05.180(j).

12 \* Sec. 2. AS 38.05.180(j) is amended to read:

13 (j) The [TO PROLONG THE ECONOMIC LIFE OF AN OIL AND GAS  
14 FIELD OR TO REESTABLISH COMMERCIAL PRODUCTION OF SHUT-IN OIL OR

1 GAS THAT WOULD NOT OTHERWISE BE ECONOMICALLY FEASIBLE, THE]  
2 commissioner

3 (1) may provide for an increase or decrease or otherwise adjust  
4 [SHALL -ADOPT REGULATIONS TO ALLOW REDUCTION OF] royalty on  
5 individual leases, leases unitized as described in (p) of this section, leases subject to  
6 an agreement described in (s) or (t) of this section, or interests unitized under  
7 AS 31.05; the commissioner may act under this subsection to modify the royalty

8 (A) after the effective date of this Act and not later than  
9 July 1, 2000, to allow for production from an oil or gas field or pool if

10 (i) the oil or gas field or pool has been delineated  
11 sufficiently to allow the commissioner to conduct the analyses and  
12 make the findings required by this subsection; and

13 (ii) the field or pool has not previously produced oil or  
14 gas for sale;

15 (B) to prolong the economic life of an oil or gas field or pool  
16 as costs per barrel or barrel equivalent increase such that future production  
17 would not otherwise be economically feasible; or

18 (C) to reestablish production of shut-in oil or gas that would  
19 not otherwise be economically feasible;

20 (2) [. THE COMMISSIONER] may not grant a [REDUCTION OF]  
21 royalty modification unless the lessee or lessees requesting the modification make  
22 [REDUCTION MAKES] a clear and convincing showing that a modification of royalty  
23 meets the requirements of this subsection and is in the best interests of the state;

24 (3) shall

25 (A) [THE REVENUE FROM THE LESSEE'S SHARE OF ALL  
26 ~~HYDROCARBONS~~ PRODUCED FROM THE FIELD IS AND IS LIKELY TO  
27 ~~CONTINUE~~ TO BE INSUFFICIENT TO PRODUCE A REASONABLE RATE  
28 OF RETURN WITH RESPECT TO THE LESSEE'S TOTAL INVESTMENT IN  
29 THE FIELD. THE COMMISSIONER MAY] condition any [A] royalty  
30 modification [REDUCTION] granted under this subsection in any way necessary  
31 to protect the state's best interests;

32 (B) describe, in the findings and determinations required by

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this subsection, the relevant factors, including price, projected production rate or volume, predicted ultimate recovery, and development, operating, and transportation costs, upon which the modification is based:

(C) for a modification under (1)(A) of this subsection, set out the terms and conditions, which

(i) must include a mechanism for adjusting royalty percentage based on price, or value of the hydrocarbons produced; the mechanism must provide for an increase in royalty percentage resulting from an increase in price from the base assumptions that, at a minimum, fully compensates for any decreases in royalty percentage resulting from a decrease in price from the base assumptions; it is the intent of this provision that the value of the potential percentage increases under the mechanism will, at a minimum, fully compensate for any negative risks the state assumed under the modification; and

(ii) may include, in addition to the royalty percentage adjustment based on price as specified in (i) of this subparagraph, a further adjustment based on ultimate recovery from the field or pool; and

*Production Rate ~~or~~ Volume*

(D) for a modification under (1)(B) or (1)(C) of this subsection, set out the terms and conditions, which may include substitution of a sliding scale royalty or other mechanism to modify the royalty if there is a change in the relevant factors, such as price, projected production rate or volume, predicted ultimate recovery, and development, operating, and transportation costs, upon which the modification is based:

(4) may not grant a royalty modification for a field or pool

(A) under (1)(A) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than five percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(B) under (1)(B) or (1)(C) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than

*delete*

1 three percent in amount or value of the production removed or sold from a  
2 lease or leases covering the field or pool;

3 (5) may not grant a royalty modification under this subsection  
4 without including an explicit condition that the royalty modification is not  
5 assignable without the prior written approval of the commissioner; the  
6 commissioner shall, in the preliminary and final findings and determinations, set out  
7 the conditions under which the royalty modification may be assigned;

8 (6) shall require the lessee or lessees to submit, with the application  
9 for the royalty modification, financial and technical data that demonstrate that the  
10 requirements of this subsection are met; the commissioner shall

11 (A) require disclosure of the financial and technical data  
12 related to development, production, and transportation of oil and gas from  
13 the field or pool that are necessary to make a determination as to whether  
14 or not to grant the request for royalty modification; and

15 (B) keep the data described in (A) of this paragraph  
16 confidential under AS 38.05.035(a)(9) at the request of the lessee or lessees  
17 making application for the royalty modification; the confidential data may  
18 be disclosed by the commissioner to legislators who sign an appropriate  
19 confidentiality agreement, to the legislative auditor, the director of the  
20 division of legislative finance, and the permanent employees of their  
21 respective divisions, and to agents or contractors of the legislative auditor or  
22 the legislative finance division director who are engaged under contract to  
23 evaluate the royalty modification;

24 (7) may require the lessee or lessees making application for the  
25 royalty modification to pay for the services of an independent contractor, qualified  
26 to evaluate hydrocarbon development, production, transportation, and economics,  
27 who is selected by the commissioner to assist the commissioner in evaluating the  
28 application and financial and technical data; selection of an independent contractor  
29 under this paragraph is not subject to AS 36.30;

30 (8) shall

31 (A) make and publish a preliminary findings and  
32 determination on the royalty modification application; if the preliminary

Shall  
Adopted  
5/11/95

1 findings and determination concerns a royalty modification under (1)(A)  
2 of this subsection, the preliminary findings and determination shall also be  
3 presented to the governor for the governor's approval or disapproval; the  
4 governor may not delegate a determination to approve or disapprove a  
5 preliminary findings and determination under this subparagraph:

6 (B) for a royalty modification under (1)(A) of this  
7 subsection, if the governor approves the preliminary findings and  
8 determination under (A) of this paragraph,

9 (i) give reasonable public notice of the preliminary  
10 findings and determination;

11 (ii) concurrently with the issuance of the public  
12 notice, unless directed by the Legislative Budget and Audit  
13 Committee to do otherwise, make available copies of the  
14 commissioner's preliminary findings and determination on the  
15 royalty modification application and the supporting financial and  
16 technical data, including the work papers, analyses, and  
17 recommendations of any contractors retained under (7) of this  
18 subsection, to persons authorized under (6)(B) of this subsection to  
19 review the data; and

20 (iii) invite public comment on the preliminary  
21 findings and determination during a 30-day period for receipt of  
22 public comment;

23 (C) for a royalty modification under (1)(B) or (C) of this  
24 subsection, if the preliminary findings and determination approves a  
25 royalty modification,

26 (i) give reasonable public notice of the preliminary  
27 findings and determination; and

28 (ii) invite public comment on the preliminary findings  
29 and determination during a 30-day period for receipt of public  
30 comment;

31 (9) shall address in any findings and determinations required under  
32 this subsection the reasonably foreseeable effects of the proposed royalty

1 modification on the state's revenue:

2 (10) shall offer to appear before the Legislative Budget and Audit  
3 Committee to provide the committee a review of the commissioner's preliminary  
4 findings and determination on the royalty modification application and the  
5 supporting financial and technical data; if the Legislative Budget and Audit  
6 Committee accepts the commissioner's offer, the committee shall give notice of the  
7 committee's meeting to all members of the legislature; if, under (6)(B) of this  
8 subsection, the financial and technical data must be kept confidential at the  
9 request of a lessee or lessees making application for the royalty modification, the  
10 commissioner may appear before the committee in executive session;

11 (11) shall make copies of the preliminary findings and determination  
12 available to

13 (A) the presiding officer of each house [INTEREST,  
14 INCLUDING RESTORATION OF THE STATE'S ROYALTY SHARE IN THE  
15 EVENT OF AN INCREASE IN THE PRICE OF OIL OR GAS. BEFORE  
16 APPROVING A ROYALTY REDUCTION, THE COMMISSIONER SHALL  
17 MAKE A WRITTEN FINDING THAT THE STATE HAS OBTAINED THE  
18 MAXIMUM POSSIBLE ECONOMIC RETURN THAT IS COMPATIBLE  
19 WITH ALLOWING A REASONABLE RATE OF ECONOMIC RETURN FOR  
20 THE LESSEE, AND SEND COPIES OF THE FINDING TO ALL MEMBERS]  
21 of the legislature;

22 (B) the chairs of the legislature's standing committees on  
23 resources; and

24 (C) the chairs of the legislature's special committees on oil  
25 and gas, if any;

26 (12) shall, within 30 days after the close of the public comment  
27 period under (8) of this subsection,

28 (A) prepare a summary of the public response to the  
29 commissioner's preliminary findings and determination;

30 (B) make a final findings and determination and present it  
31 to the governor for the governor's approval or disapproval; the governor  
32 may not delegate a decision to approve or disapprove a final findings and

1 determination presented under this subparagraph; the commissioner's final  
 2 findings and determination regarding a royalty modification, if approved  
 3 by the governor, is, as to the lessee or lessees applying for the royalty  
 4 modification, final and not appealable to the court:

5 (C) transmit a copy of the final findings and determination  
 6 prepared under (B) of this paragraph to the lessee or lessees making  
 7 application for the royalty modification:

8 (D) with the consent of the lessee or lessees applying for the  
 9 royalty modification, amend the lease or unitization agreement of the lessee  
 10 or lessees applying for the royalty modification consistent with the  
 11 commissioner's approved final findings and determination; and

12 (E) make copies of the final findings and determination  
 13 available to each person who submitted comment under (8) of this subsection  
 14 and who has filed a request for the copies:

15 (13) is not limited by the provisions of AS 38.05.134(3) or (f) of this  
 16 section in the commissioner's determination under this subsection.

17 \* Sec. 3. AS 38.05.180(p) is amended to read:

18 (p) To conserve the natural resources of all or a part of an oil or gas pool, field,  
 19 or like area, the lessees and their representatives may unite with each other, or jointly  
 20 or separately with others, in collectively adopting or operating under a cooperative or a  
 21 unit plan of development or operation of the pool, field, or like area, or a part of it, when  
 22 determined and certified by the commissioner to be necessary or advisable in the public  
 23 interest. The commissioner may, with the consent of the holders of leases involved,  
 24 establish, change, or revoke drilling, producing, and royalty requirements of the leases  
 25 and adopt regulations with reference to the leases, with like consent on the part of the  
 26 lessees, in connection with the institution and operation of a cooperative or unit plan as  
 27 the commissioner determines necessary or proper to secure the proper protection of the  
 28 public interest. The commissioner may not decrease royalty on leases in connection  
 29 with a cooperative or unit plan except as provided in (j) of this section. The  
 30 commissioner may require oil and gas leases issued under this section to contain a  
 31 provision requiring the lessee to operate under a reasonable cooperative or unit plan, and  
 32 may prescribe a plan under which the lessee must operate. The plan must adequately

1 protect all parties in interest, including the state.

2 \* Sec. 4. AS 38.05.180(s) is amended to read:

3 (s) When separate tracts cannot be individually developed and operated in  
4 conformity with an established well-spacing or development program, a lease, or a  
5 portion of a lease, may be pooled with other land, whether or not owned by the state,  
6 under a communication or drilling agreement providing for an apportionment of  
7 production or royalties among the separate tracts of land comprising the drilling or  
8 spacing unit when determined by the commissioner to be in the public interest.  
9 Operations or production under the agreement are considered as operations or production  
10 as to each lease committed to the agreement. The commissioner may not decrease  
11 royalty on leases in connection with a communication or drilling agreement except  
12 as provided in (i) of this section.

13 \* Sec. 5. AS 38.05.180(t) is amended to read:

14 (t) The commissioner may prescribe conditions and approve, on conditions,  
15 drilling, or development contracts made by one or more lessees of oil or gas leases, with  
16 one or more persons, when, in the discretion of the commissioner, the conservation of  
17 natural resources or the public convenience or necessity requires it or the interests of the  
18 state are best served. All leases operated under approved drilling or development  
19 contracts and interests under them, are excepted in determining holding or control under  
20 AS 38.05.140. The commissioner may not decrease royalty on a lease or leases that  
21 are subject to a drilling or development contract except as provided in (i) of this  
22 section.

23 \* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

Deleted  
Failed  
5/11/95

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207(FIN)

Page 2, Line 8 - 9:

After "(A)"

Delete "after the effective date ... July 1, 2000,"

Before "allow"

Capitalize "T" in "to"

SENATE FINANCE  
COMMITTEE

Amendment Number: 8

Bill Number: SCS HB 207(FIN)X

Sponsor: Zharoff Date: 5/11/95

Logged In By: JJA

*With Drawn*

SENATE FINANCE  
COMMITTEE

Amendment Number: 9  
Bill Number: SCS HB 207 (FIN)  
Sponsor: Z. Howard Date: 5/11/95  
Logged In By: [Signature]

AMENDMENT

OFFERED IN THE SENATE  
TO: SCS CSHB 207 (FIN)

Page 4, line 32 - Page 5, line 10:  
After "application"  
Delete all material  
Insert ",give reasonable public notice of the preliminary findings and determination, and invite public comment on the preliminary findings and determination during a 30-day period for receipt of public comment;"

Page 5, line 11:  
Delete "(ii)"  
Insert "(B)"

Page 5, line 19:  
Delete "and"

Page 5, lines 20 - 30:  
Delete all material

Page 6, line 30 - page 7, 3:  
After "determination"  
Delete "and ... governor,"

Page 7, line 3  
Before "is"  
Insert "which"

# A FAX

## Alaska State Legislature

Date: 5-12-95

To: Anch. L.I.O. for Pat Flood

Fax #: 258-1269 Phone #: 258-8111

From: Senate Finance

Phone #: 465-2618

Re: JCS CSMB 207 (Fin)

Please hold the attached bill for  
pick up by Mr. Flood

Following this page, please find 8 pages(s). If this does not reach you in full, please inform us ASAP.



## THANK YOU

A M E N D M E N T

OFFERED IN THE SENATE  
TO: SCS CSHB 207(RES)

SENATE FINANCE  
COMMITTEE  
Amendment Number: 3  
Bill Number: HB 207  
Sponsor: Bieger Date: 5/8/95  
Logged In By: JJR

- 1 Page 2, line 3:
  - 2 Delete "an increase or decrease or otherwise adjust"
  - 3 Insert "a modification of"
  
- 4 Page 2, lines 7 and 8:
  - 5 Delete "increase, decrease, or otherwise adjust"
  - 6 Insert "modify"
  
- 7 Page 2, line 13, after "subsection:":
  - 8 Insert "and"
  
- 9 Page 2, line 15:
  - 10 Delete "and"
  
- 11 Page 2, lines 16 - 17:
  - 12 Delete all material.
  
- 13 Page 2, line 24:
  - 14 Delete "increase, decrease, or other adjustment"
  - 15 Insert "modification"
  
- 16 Page 2, line 25:
  - 17 Delete "increase, decrease, or other adjustment"
  - 18 Insert "modification"

1 Page 2, lines 25 - 26:

2 Delete "clear and convincing showing that an increase, decrease, or other  
3 adjustment"

4 Insert "clear showing; that a modification"

5 Page 3, line 2:

6 Delete "increase, decrease, or other adjustment"

7 Insert "modification"

8 Page 3, lines 4 - 15:

9 Delete all material and insert:

10 "(B) describe, in the findings and determinations required  
11 by this subsection for a royalty modification described in (1)(A) of this  
12 subsection, the assumptions, including price, projected production rate or  
13 volume, predicted ultimate recovery, and development, operating, and  
14 transportation costs, upon which the modification is based, and set out the  
15 terms and conditions of the modification, which

16 (i) must include a schedule based on price or value  
17 of the hydrocarbons produced; the schedule must provide for an  
18 increase in royalty revenue to the state from the field or pool,  
19 resulting from an increase in price from the base assumptions, that  
20 is greater than the decrease in royalty revenue that would result  
21 from an equivalent decrease in price from the base assumptions;  
22 and

23 (ii) may include, in addition to the schedule specified  
24 in (i) of this subparagraph, a further adjustment to the schedule  
25 based on ultimate recovery; the further adjustment must provide  
26 for an increase in royalty percentage if the ultimate recovery was  
27 higher than the base assumptions and the modification was based  
28 on a finding that the field or pool was not economic and would not  
29 be developed under the base assumptions, and the modification  
30 included a change to the royalty under the base assumptions;

1                    (C) describe, in the findings and determinations required  
 2                    by this subsection for a royalty modification described in (1)(B) or (C) of  
 3                    this subsection, the assumptions, including price, projected production  
 4                    rate or volume, and operating and transportation costs, upon which the  
 5                    modification is based, and set out the terms and conditions of the  
 6                    modification, which must include a schedule based on price or value of the  
 7                    hydrocarbons produced; the schedule must be in the form of a higher  
 8                    royalty percentage and an allowance of some portion of field production  
 9                    costs as a deduction from wellhead value before calculation of royalty;"

10 Page 3, line 16:

11            Delete "increase, decrease, or other adjustment"

12            Insert "modification"

13 Page 3, lines 18 - 19:

14            Delete "increase, decrease, or adjustment"

15            Insert "modification"

16 Page 3, lines 22 - 25:

17            Delete all material and insert:

18                                    "(B) under (1)(B) or (1)(C) of this subsection unless, under  
 19                                    the base case assumptions, the average field operating costs are greater  
 20                                    than 80 percent of the average wellhead value in the field or pool over the  
 21                                    life of the base case assumptions;"

22 Page 3, line 26:

23            Delete "increase, decrease, or other adjustment"

24            Insert "modification"

25 Page 3, line 28:

26            Delete "increase, decrease, or other adjustment"

27            Insert "modification"

1 Page 3, line 30:

2 Delete "and convincing"

3 Page 4, line 2:

4 Delete "increase, decrease, or other adjustment"

5 Insert "modification"

6 Page 4, lines 8 - 9:

7 Delete "increase, decrease, or other adjustment"

8 Insert "modification"

9 Page 4, lines 12 - 13:

10 Delete "increase or decrease or other royalty adjustment"

11 Insert "modification"

12 Page 4, lines 20 - 21:

13 Delete "increase, decrease, or other royalty adjustment"

14 Insert "modification"

15 Page 4, line 24:

16 Delete "increase, decrease, or other adjustment"

17 Insert "modification"

18 Page 4, line 32:

19 Delete "increase, decrease, or other adjustment"

20 Insert "modification"

21 Page 5, line 1, after "application:", through line 30:

22 Delete all material and insert:

23 "(B) in addition, if the preliminary findings and  
 24 determination proposes a royalty modification, the preliminary findings  
 25 and determination shall also be presented to the governor for the

1 governor's approval or disapproval; the governor may not delegate a  
 2 determination to approve or disapprove a preliminary findings and  
 3 determination under this subparagraph; if the governor approves the  
 4 preliminary findings and determination.

5 (i) give reasonable public notice of the preliminary  
 6 findings and determination;

7 (ii) concurrently with the issuance of the public  
 8 notice, if directed by the Legislative Budget and Audit Committee,  
 9 make available copies of the commissioner's preliminary findings  
 10 and determination on the royalty modification application and the  
 11 supporting financial and technical data, including the work papers,  
 12 analyses, and recommendations of any contractors retained under  
 13 (7) of this subsection, to persons authorized under (6)(b) of this  
 14 subsection to review the data; and

15 (iii) invite public comment on the preliminary  
 16 findings and determination during a 30-day period for receipt of  
 17 public comment;"

18 Page 6, lines 2 - 3:

19 Delete "increase, decrease, or other adjustment"

20 Insert "modification"

21 Page 6, lines 4 - 5:

22 Delete "increase, decrease, or other adjustment"

23 Insert "modification."

24 Page 6, lines 6 - 12:

25 Delete ", and the steps taken by the commissioner in conditioning the royalty  
 26 increase, decrease, or other adjustment to assure that anticipated investments or other  
 27 beneficial spending within the state occur;

28 (C) the projected effects of the proposed royalty increase,  
 29 decrease, or other adjustment on the employment of Alaskans and the use

1 of in-state contractors and suppliers"

2 Reletter the following subparagraph accordingly.

3 Page 6, lines 13 - 15:

4 Delete "increase, decrease, or adjustment upon existing and potential new oil and  
5 gas exploration and development, and upon"

6 Insert "modification on"

7 Page 6, lines 18 - 19:

8 Delete "on a day that is not earlier than 10 days and not later than 20 days after  
9 giving public notice under (8) of this subsection."

10 Page 6, line 21:

11 Delete "increase, decrease, or other adjustment"

12 Insert "modification"

13 Page 6, lines 26 - 27:

14 Delete "increase or decrease or other royalty adjustment"

15 Insert "modification"

16 Page 7, lines 16 - 29:

17 Delete all material and insert:

18 "(B) make a final findings and determination and present  
19 it to the governor for the governor's approval or disapproval; the  
20 governor may not delegate a decision to approve or disapprove a final  
21 findings and decision presented under this subparagraph; the  
22 commissioner's final findings and determination regarding a royalty  
23 modification prepared under this subparagraph, if approved by the  
24 governor, is, as to the lessee or lessees applying for the royalty  
25 modification, final and not appealable to the court;"

1 Reletter the following subparagraphs accordingly.

2 Page 7, line 31:

3 Delete "or (C)"

4 Page 7, line 32:

5 Delete "increase, decrease, or other adjustment"

6 Insert "modification"

7 Page 8, line 2:

8 Delete "increase, decrease, or other adjustment"

9 Insert "modification"

10 Page 8, line 4:

11 Delete "increase, decrease, or other adjustment"

12 Insert "modification"

5-8-95  
② Removed  
Gov.

SENATE FINANCE  
COMMITTEE

Amendment Number: 4

Bill Number: HB 207

Sponsor: Zharov Date: 5/8/95

Logged In By: JH

by Zharov

To SCS CS HB 207 (Res)

Page 4 line 31

delete "(A)"

Page 5 Line 1-25

delete - "is the preliminary ...  
... or other adjustment"

page 5 line 26

delete (i) add ,

Page 5 line 27

delete ~~is~~ ; add ,

Page 5 line 28

delete (ii)

Page 7 lines 16-18

delete - "except as ... subsection"

Page 7 lines 20-29

delete - all of subsection (c)

SENATE FINANCE  
COMMITTEE

Amendment Number: 5

Bill Number: HB 207

Sponsor: Zharov Date: 5/24/95

Logged In By: JM

5-8-95  
② Remove  
eff. date  
Sunset

by Zharov

0 - SCS CSHB 207 (Res)

page 2

lines - 9 & 10

Delete - "after the effective  
date of this Act and  
not later than July 1, 2000"

A M E N D M E N T

OFFERED IN THE SENATE

TO: SCS CSHB 207(RES)

SENATE FINANCE  
COMMITTEE

Amendment Number: #1  
Bill Number: SCS CSHB 207(FIN)  
Sponsor: Phillips Date: 5/9/95  
Logged In By: JK

1 Page 3, following line 25:

2 Insert a new subparagraph to read:

3 "(C) under this subsection unless the commissioner and the  
4 lessee or lessees applying for the royalty decrease or other adjustment  
5 agree that the decrease or other adjustment may take effect only if not  
6 disapproved under (12)(D) of this subsection and the commissioner first  
7 submits the decrease or other adjustment under that provision:"

8 Page 7, following line 29:

9 Insert a new subparagraph to read:

10 "(D) submit a final findings and determination made under  
11 (B) or approved by the governor under (C) to the presiding officer of each  
12 house of the legislature: if the legislature is in session at the time of  
13 submission and does not act within 50 days after the close of the public  
14 comment period under (8)(B) or (C) of this subsection to disapprove the  
15 commissioner's proposed final findings and determination by enacting  
16 legislation, the commissioner shall issue a final findings and  
17 determination: if the legislature is not in session, the Legislative Budget  
18 and Audit Committee shall review and approve or disapprove proposed  
19 final findings and determinations: if the Legislative Budget and Audit  
20 Committee does not act within 50 days after the close of the public  
21 comment period under (8) of this subsection to disapprove, by majority  
22 vote of the committee's full membership, the commissioner's proposed  
23 final findings and determinations, the commissioner shall issue a final  
24 findings and determination:"

1 Reletter the following subparagraph accordingly.

2 Page 7, line 31:

3 Delete "(B) or (C)"

4 Insert "(B) - (D)"

9-GH0039L ✓  
Chenoweth  
5/9/95

SENATE CS FOR CS FOR HOUSE BILL NO. 207(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST 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 adjustments to royalty reserved to the state to encourage  
2 otherwise uneconomic production of oil and gas; and providing for an effective  
3 date."

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

5 \* Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

6 (33) contracts between the Department of Natural Resources and  
7 contractors qualified to evaluate hydrocarbon development, production, transportation,  
8 and economics, to assist the commissioner of natural resources in evaluating applications  
9 for oil and gas royalty increases or decreases or other oil and gas royalty adjustments,  
10 and evaluating the related financial and technical data, entered into under  
11 AS 38.05.180(j).

12 \* Sec. 2. AS 38.05.180(j) is amended to read:

13 (j) The [TO PROLONG THE ECONOMIC LIFE OF AN OIL AND GAS  
14 FIELD OR TO REESTABLISH COMMERCIAL PRODUCTION OF SHUT-IN OIL OR