

**ALASKA LEGISLATURE**

**2494**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004**

60

capped at 50% of a company's corporate income tax liability. Perhaps most importantly, the credit will only apply to successful exploration and development projects. No reward will be granted to dry holes.

By providing incentives for successful exploration and development, Cook Inlet natural gas reserves should increase, meaning additional royalty, severance and ad valorem income to the state of Alaska. Increased natural gas reserves in Cook Inlet will also ensure an adequate supply for southcentral communities, utilities and industrial operations, meaning stable jobs and tax revenues for the region.

The bottom line is this — current exploration activity in Cook Inlet is not sufficient to meet future demand for low priced natural gas. HB61 will help provide an attractive business environment for companies looking to increase leasing, drilling and construction activities in Cook Inlet. It is timely and well-conceived legislation and we believe it deserves the committee's support.

Thank you, Mr. Chairman for the opportunity to testify this afternoon.

J. Scott Jepsen  
Cook Inlet Asset Manager

P.O. Box 100360 - ATO 1420  
Anchorage, AK 99510-0360  
Phone 907-263-4348

The logo for ConocoPhillips, featuring the word "ConocoPhillips" in a bold, sans-serif font with a stylized oil drop icon above the "o" in "Phillips".

Feb. 27, 2003

Representative Vic Kohring  
Chairman, House Oil and Gas Committee  
Alaska State Capitol, Room 24  
Juneau, Alaska 99801

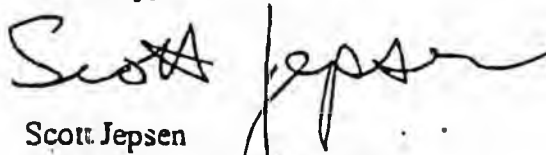
Re: House Bill 61

Dear Rep. Kohring:

ConocoPhillips Alaska would like to express our support for HB 61 - An Act Establishing Oil and Gas Tax Credits for Certain Exploration and Development Projects. We believe that passage of this bill has the potential to spur additional efforts to explore for oil, and in particular gas, in places like Cook Inlet and the surrounding area that have not seen much exploration in recent years.

Thank you for your continued support for our efforts in Alaska. If you have any questions, please call me at (907) 263-4348.

Sincerely,

A handwritten signature in black ink that reads "Scott Jepsen".

Scott Jepsen  
Cook Inlet Asset Manager  
ConocoPhillips Alaska, Inc.

Cc: Rep. Chenault  
Rep. Kelly Wolf

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 61(O&G)  
 (H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Natural Resources  
 Title Oil and Gas Tax Credit for Exploration. BRU Oil and Gas Development  
 Component Oil and Gas Development  
 Sponsor Chenault, Kohring, Wolf  
 Requester House Oil and Gas Component No. 439

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

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

| OPERATING EXPENDITURES | FY 2004    | FY 2005    | FY 2006    | FY 2007    | FY 2008    | FY 2009    |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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                |            |            |            |            |            |            |
| 1037 GF/Mental Health                   |            |            |            |            |            |            |
| Other (Specify Type--Do not abbreviate) |            |            |            |            |            |            |
| <b>TOTAL</b>                            | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

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

HB 61 would authorize the Dept. of Revenue to grant credits against a taxpayer's state corporate income tax liability for certain oil or gas exploration and development investments made in the state.

Prepared by: Mark D. Myers Phone 269-8800  
 Division: Oil and Gas Date/Time 2/4/03 7:46 AM  
 Approved by: Tom Irwin, Commissioner Date 2/4/2003  
 Agency: Natural Resources

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSHB 61(O&G)  
(H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Oil and Gas Tax Credit BRU Revenue Operations  
for Exploration / Development Component Tax Division  
Sponsor Representative Chenault  
Requester House Committee on Oil and Gas Component No. 2476

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

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

| OPERATING EXPENDITURES | FY 2004    | FY 2005    | FY 2006    | FY 2007    | FY 2008    | FY 2009    |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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> | <i>See Analysis</i> |
|-------------------------------|---------------------|

**FUND SOURCE** (Thousands of Dollars)

|   |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts                   |            |            |            |            |            |            |
| 1003 GF Match                           |            |            |            |            |            |            |
| 1004 GF                                 |            |            |            |            |            |            |
| 1005 GF/Program Receipts                |            |            |            |            |            |            |
| 1037 GF/Mental Health                   |            |            |            |            |            |            |
| Other (Specify Type--Do not abbreviate) |            |            |            |            |            |            |
| <b>TOTAL</b>                            | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

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

This bill is intended to promote the exploration and development of natural gas south of the Brooks Range, particularly in Cook Inlet. This bill allows a tax credit equal to 10 percent of qualified capital investment -- as well as annual labor, seismic and associated costs -- related to gas exploration and development work to be applied against corporate income tax (AS 43.20) for up to 50% of a corporation's total tax liability. The credit applies only to gas exploration and development of reserves south of the Brooks Range. The credit can only be taken if the reserves produce gas for sale and delivery.

Corporations could use their tax credits under this legislation to reduce taxes paid to the state for North Slope production or production from elsewhere in the state.

Oil and gas corporate income tax collections in FY 2003 and FY 2004 are currently projected at \$160 million and \$200 million per year, respectively.

Prepared by: Chuck Logsdon, Chief Petroleum Economist Phone \_\_\_\_\_  
Division Tax Division Date/Time 3/11/03 9:46 AM  
Approved by: Larry Persily, Deputy Commissioner Date 3/11/2003  
Agency Department of Revenue

FISCAL NOTE #2

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 61(O&G)

ANALYSIS CONTINUATION

It is not easy to evaluate the overall revenue effect of a tax credit. On the plus side, if exploration activity discovers developable reserves, the state could receive royalty and production taxes that more than offset the revenue loss due to the tax credit. And the availability of the credit could enhance the attractiveness of exploring for new oil and gas resources, which may or may not result in creditable expenditures depending on whether discovery and development occurs.

The credit is targeted to natural gas exploration and development activity south of the Brooks Range, while the bulk of current oil and gas corporate income tax against which this credit could potentially be taken is from production and transportation of high-value oil on the North Slope. As a result, an oil and gas corporation that has profitable operations on the North Slope could, by investing in development outside of the Slope, reduce its total oil and gas corporate income tax liability through this new credit provision.

The key state revenue issue with regard to this tax credit is the extent to which the additional incentive is needed to encourage exploration and development. Natural gas price levels are critical in determining the commercial incentive to explore and develop. Natural gas prices probably will be a bigger factor in a commercial venture than the tax credits in this legislation, but this tax credit provision could also play a factor in a corporate decision to invest in exploration and development. A risk to the state is if high gas prices spur development on their own, regardless of the tax credit, the state could be in the position of providing a tax credit that is no longer necessary to promote development.

**CS FOR HOUSE BILL NO. 61(RES)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY THE HOUSE RESOURCES COMMITTEE**

**Offered: 3/31/03**  
**Referred: Finance**

**Sponsor(s): REPRESENTATIVES CHENAULT, Kohring, Wolf**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act establishing an exploration and development incentive tax credit for persons  
2 engaged in the exploration for and development of gas for sale and delivery without  
3 reference to volume from a lease or property in the state; and providing for an effective  
4 date."

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

6 \* **Section 1.** AS 43.20 is amended by adding a new section to read:

7 **Sec. 43.20.043. Gas exploration and development tax credit.** (a) Subject to  
8 the terms and conditions of this section, and in addition to any other credit authorized  
9 to the taxpayer by this chapter, a taxpayer engaging in the exploration for and  
10 development of gas may apply as a credit against the state tax liability that may be  
11 imposed on the taxpayer under this chapter, for a tax year beginning after  
12 December 31, 2002,

- 13 (1) 10 percent of the taxpayer's qualified capital investment; and  
14 (2) 10 percent of the annual cost incurred by the taxpayer for qualified

1 services in the state during each tax year for which a credit is allowable for a qualified  
2 capital investment under (1) of this subsection.

3 (b) Expenditures qualifying for the taxpayer's qualified investment credit  
4 under (a)(1) of this section must be

5 (1) cash expenditures or binding payment agreements entered into after  
6 June 30, 2003; and

7 (2) made for assets first placed in service in the state during the tax  
8 year in which the credit is claimed; for purposes of this paragraph, "placed in service  
9 in the state" means ~~only~~ the first use of the qualified investment ~~is~~ in this state; if the  
10 property on which the claim of the credit is based has been used elsewhere in the tax  
11 year of acquisition and is brought to this state during that year or a subsequent year,  
12 the property does not qualify for the investment credit.

13 (c) The credit per tax year allowed by (a) of this section may not exceed 50  
14 percent of the taxpayer's total tax liability, including all taxes, but shall be calculated  
15 before the application of any other credits allowed under this chapter. An unused  
16 portion of the credit for the tax year

17 (1) may be carried forward into one or more of the following tax years,  
18 except that the unused credit from one tax year may not be carried forward for more  
19 than five following tax years;

20 (2) shall be applied to the taxpayer's tax liability under this chapter  
21 during the following tax year before allowance of a credit allowed by (a) of this  
22 section for that following tax year.

23 (d) To obtain the credit allowed by this section, the taxpayer shall, with the  
24 taxpayer's tax return, submit, on a form prescribed by the department, information that  
25 demonstrates that the taxpayer is eligible for the credit and evidence of the expenses  
26 that are the basis of the claim of the credit. The taxpayer has the burden of  
27 demonstrating compliance with the requirements of this section to entitle the taxpayer  
28 to the claim of and the amount of the credit.

29 (e) A taxpayer entitled to a credit under this section

30 (1) may not convey, assign, or transfer the credit to another taxpayer or  
31 business entity unless the conveyance, assignment, or transfer of the credit is part of

1 the conveyance, assignment, or transfer of the taxpayer's business;

2 (2) forfeits the credit to which the taxpayer is entitled during the tax  
3 year and any carryover of it under (c) of this section, but does not forfeit the portion of  
4 the credit that accrued in a previous taxable year that may be carried over under (c) of  
5 this section, if the taxpayer

6 (A) disposes of the qualified capital investment;

7 (B) takes the qualified investment out of service; or

8 (C) transfers the qualified investment out of this state.

9 (f) A taxpayer is not entitled to a credit under this section for expenditures  
10 made or incurred for the qualified capital investment or for qualified services made for  
11 exploration and development of gas that occur in the area of Alaska lying north of 68  
12 degrees North latitude.

13 (g) A taxpayer who obtains a credit under this section may not claim a tax  
14 credit or royalty modification provided for under any other title. However, a taxpayer  
15 may, at the taxpayer's election, forgo a credit under this section in order to continue to  
16 qualify for a credit provided for in another title.

17 (h) For purposes of determining allowable credits under this section, the  
18 department shall allow only expenditures and payments that are not inconsistent with  
19 the expenditures authorized under 26 U.S.C. (Internal Revenue Code) for exploration  
20 and development of natural resources.

21 (i) In this section,

22 (1) "qualified capital investment" means a cash expenditure or binding  
23 payment agreement, as described in (b)(1) of this section, for real property or tangible  
24 personal property used in this state in the exploration and development of gas reserves  
25 in a gas reservoir for which there has not been commercial production if the reserves  
26 produce gas for sale and delivery; in this paragraph, "property" includes

27 (A) property used in the operation or maintenance of facilities  
28 for exploration or development of gas;

29 (B) property that is placed in use under a capitalized lease or an  
30 operating lease; and

31 (C) the following property used for the exploration and

1 development of gas:

2 (i) machinery, appliances, supplies, and equipment;

3 (ii) drilling rigs, wells, gathering lines and transmission  
4 lines, pumping stations, compressor stations, power plants, topping  
5 plants, and processing units;

6 (iii) roads, docks and other port facilities, and helicopter  
7 pads;

8 (iv) maintenance equipment and facilities, and  
9 maintenance camps and other related facilities; and

10 (v) communications facilities owned by a person whose  
11 principal business in the state is the exploration for or development of  
12 gas and whose operation of the communications facilities directly  
13 relates to the conduct of that business;

14 (2) "qualified services"

15 (A) means expenditures for labor, seismic, and other services  
16 that are directly applicable to a qualified capital investment;

17 (B) does not include lease operating expenses.

18 \* Sec. 2. AS 43.20.043 is repealed.

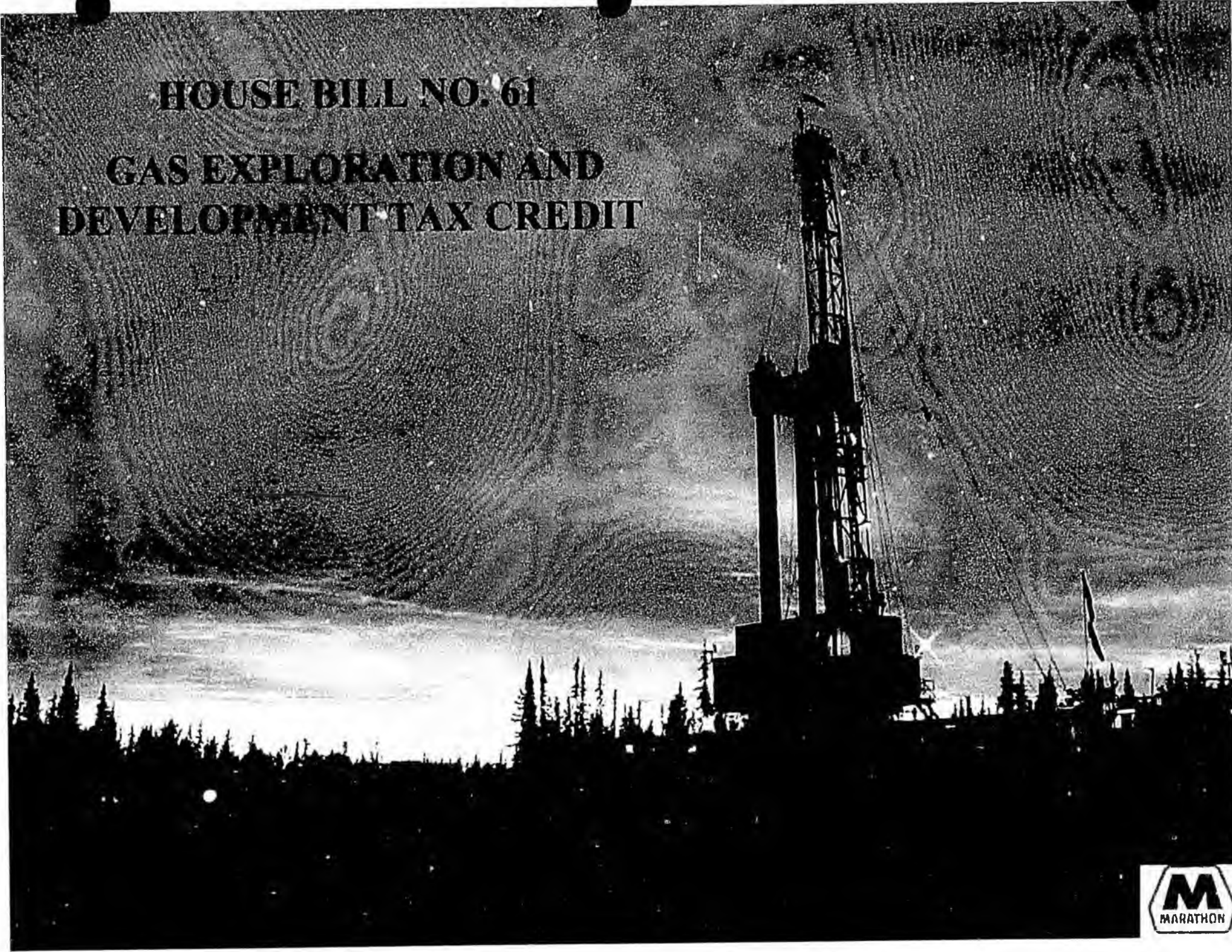
19 \* Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to  
20 read:

21 CLAIM OF GAS EXPLORATION AND DEVELOPMENT TAX CREDIT  
22 CONTINUED. A taxpayer who, on the effective date of repeal of AS 43.20.043 by sec. 2 of  
23 this Act, claims the balance of any unused portion of the gas exploration and development tax  
24 credit as a carry-forward under AS 43.20.043(c), may, notwithstanding the repeal of that  
25 subsection, continue to claim the balance of the credit until the claim of the credit is exhausted  
26 or until the tax year ending December 31, 2017, whichever occurs earlier. The provisions of  
27 AS 43.20.043 as they read on the day immediately preceding the effective date of the repeal  
28 of that section apply to the claim of the credit if carried forward under this section.

29 \* Sec. 4. Section 2 of this Act takes effect January 1, 2013.

30 \* Sec. 5. Except as provided in sec. 4 of this Act, this Act takes effect immediately under  
31 AS 01.10.070(c).

**HOUSE BILL NO. 61**  
**GAS EXPLORATION AND**  
**DEVELOPMENT TAX CREDIT**





## HB 61 – What Does it Do

- Draws more E&P Investments to Alaska
- Creates income tax credit to encourage exploration and development of gas reserves south of Brooks Range
- Primary focus is on Cook Inlet, but applies to other Alaska basins
- Focus is on natural gas.
- Levels the playing field somewhat with other exploration opportunities around the world.



## HB 61 – How Does it Work?

- Applies to 10% of Qualified Capital Investment
- Applies to 10% of Qualified Expense
- May offset no more than 50% of corporate income tax in any one year (up to five additional years)
- Only applies to successful efforts.
- Incentive can be factored into project economics.

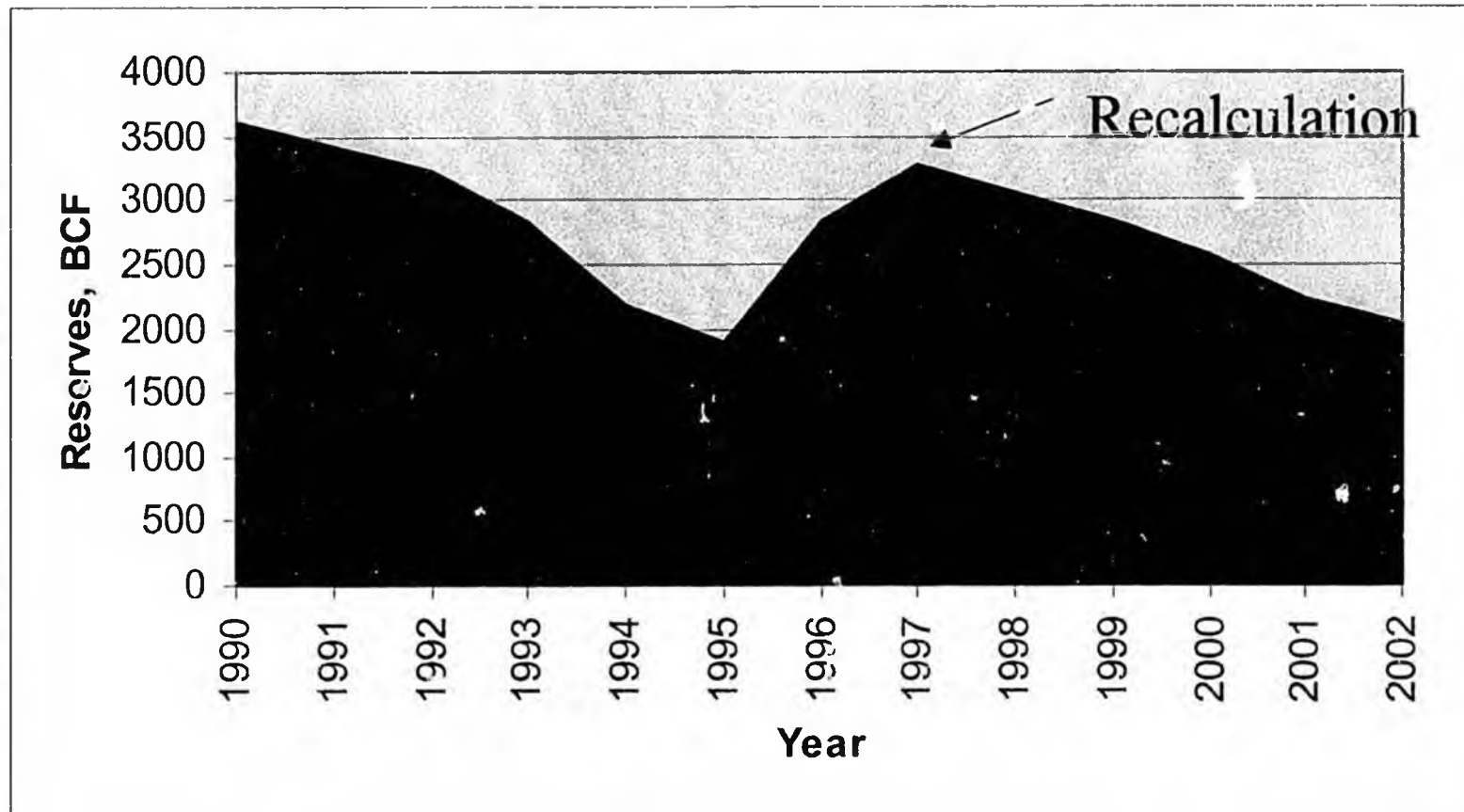


## HB 61 – Why is it needed?

- Currently there is not enough Alaska E&P Activity
- Natural Gas Reserves have been and are continuing to decline in the Cook Inlet.
  - Current Cook Inlet proven natural gas reserves are estimated at 2 TCF
    - (Based on DNR DOG 2002 report, less 2002 production)
- Despite recent increase in Cook Inlet exploration activity, reserves are not being replaced on an annual basis



## Cook Inlet Proven Gas Reserves



Source: Alaska DNR

April 23, 2003

*Testimony of John A Barnes to House  
Finance Committee*



## HB 61 – Why is it needed?

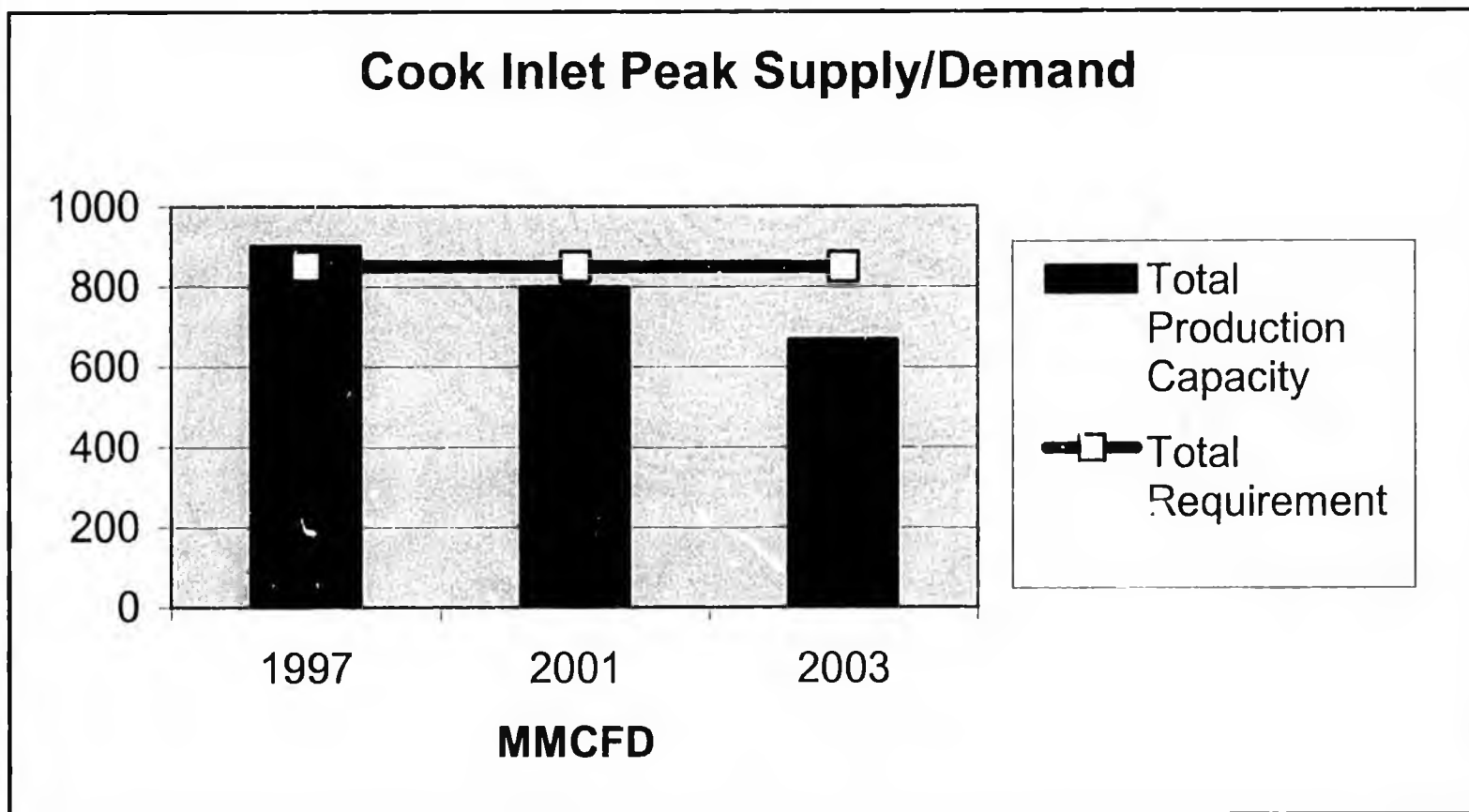
- Cook Inlet deliverability has declined over last several years.



# Marathon Oil Company



## HB 61 – Why is it needed?



April 23, 2003

*Testimony of John A Barnes to House  
Finance Committee*



# Marathon Oil Company



## HB 61 – Why is it needed?

- Supply and demand rationalization is occurring.
  - Not enough gas to feed low price consumer.
  - Gas price increasing
    - Enstar average gas cost (WACOG) \$2.55/mcf
    - Most recent Enstar contract gas price \$2.75 to Henry Hub
    - Henry Hub recently over \$9.00/mcf



## Cook Inlet Reserves & Resources

- Current proven reserves – 2000 BCF
  - Approximately 10 year production life, assuming no decline.
- Potential Gas Committee Resource Estimates
  - Probable Reserves – 1050 BCF
  - Possible Reserves – 2100 BCF



## Impacts to State of Alaska

- Stimulates Cook Inlet, and potentially other basin exploration.
- Aids in maintaining Cook Inlet 200+ BCF/year production.
  - Equivalent to a 13<sup>th</sup> month of North Slope Production.
- Provides gas for Cook Inlet utilities, industrials, jobs, royalties, taxes.



## Fiscal Impact to State of Alaska

- Incentive will be clearly positive to State of Alaska, factors are...
  - How many developments will be incentivized?
  - How much gas will be discovered?
  - What will be the gas sales price (royalty value)?
  - How much will be spent for exploration and development?
  - Successful efforts driven – no incentives for dry holes



## Fiscal Impact to State of Alaska

- Conceptual Estimate of Impact, assumptions:
  - Varied field size from 0 to 500 BCF
  - Development Cost \$0.50/mcf
  - Royalty – 12.5%
  - Severance Tax – 7.5%
  - Ad valorem – 2.7%
  - Gas sales price - \$2.50/mcf



# Marathon Oil Company



## Fiscal Impact to State of Alaska

| Field Size (BCF) | Development Cost | Tax Credit   | Gross Revenue     | Royalty (12.5%) | Severance (7.5%) | Ad Val       | Total Tax     |
|------------------|------------------|--------------|-------------------|-----------------|------------------|--------------|---------------|
| 0                | 0                | 0            | 0                 | 0               | 0                | 0            | 0             |
| 50               | \$25,000,000     | \$2,500,000  | \$125,000,000.0   | \$15,625,000    | \$9,375,000      | \$1,050,000  | \$26,050,000  |
| 100              | \$50,000,000     | \$5,000,000  | \$250,000,000.0   | \$31,250,000    | \$18,750,000     | \$2,100,000  | \$52,100,000  |
| 150              | \$75,000,000     | \$7,500,000  | \$375,000,000.0   | \$46,875,000    | \$28,125,000     | \$3,150,000  | \$78,150,000  |
| 200              | \$100,000,000    | \$10,000,000 | \$500,000,000.0   | \$62,500,000    | \$37,500,000     | \$4,200,000  | \$104,200,000 |
| 250              | \$125,000,000    | \$12,500,000 | \$625,000,000.0   | \$78,125,000    | \$46,875,000     | \$5,250,000  | \$130,250,000 |
| 300              | \$150,000,000    | \$15,000,000 | \$750,000,000.0   | \$93,750,000    | \$56,250,000     | \$6,300,000  | \$156,300,000 |
| 350              | \$175,000,000    | \$17,500,000 | \$875,000,000.0   | \$109,375,000   | \$65,625,000     | \$7,350,000  | \$182,350,000 |
| 400              | \$200,000,000    | \$20,000,000 | \$1,000,000,000.0 | \$125,000,000   | \$75,000,000     | \$8,400,000  | \$208,400,000 |
| 450              | \$225,000,000    | \$22,500,000 | \$1,125,000,000.0 | \$140,625,000   | \$84,375,000     | \$9,450,000  | \$234,450,000 |
| 500              | \$250,000,000    | \$25,000,000 | \$1,250,000,000.0 | \$156,250,000   | \$93,750,000     | \$10,500,000 | \$260,500,000 |

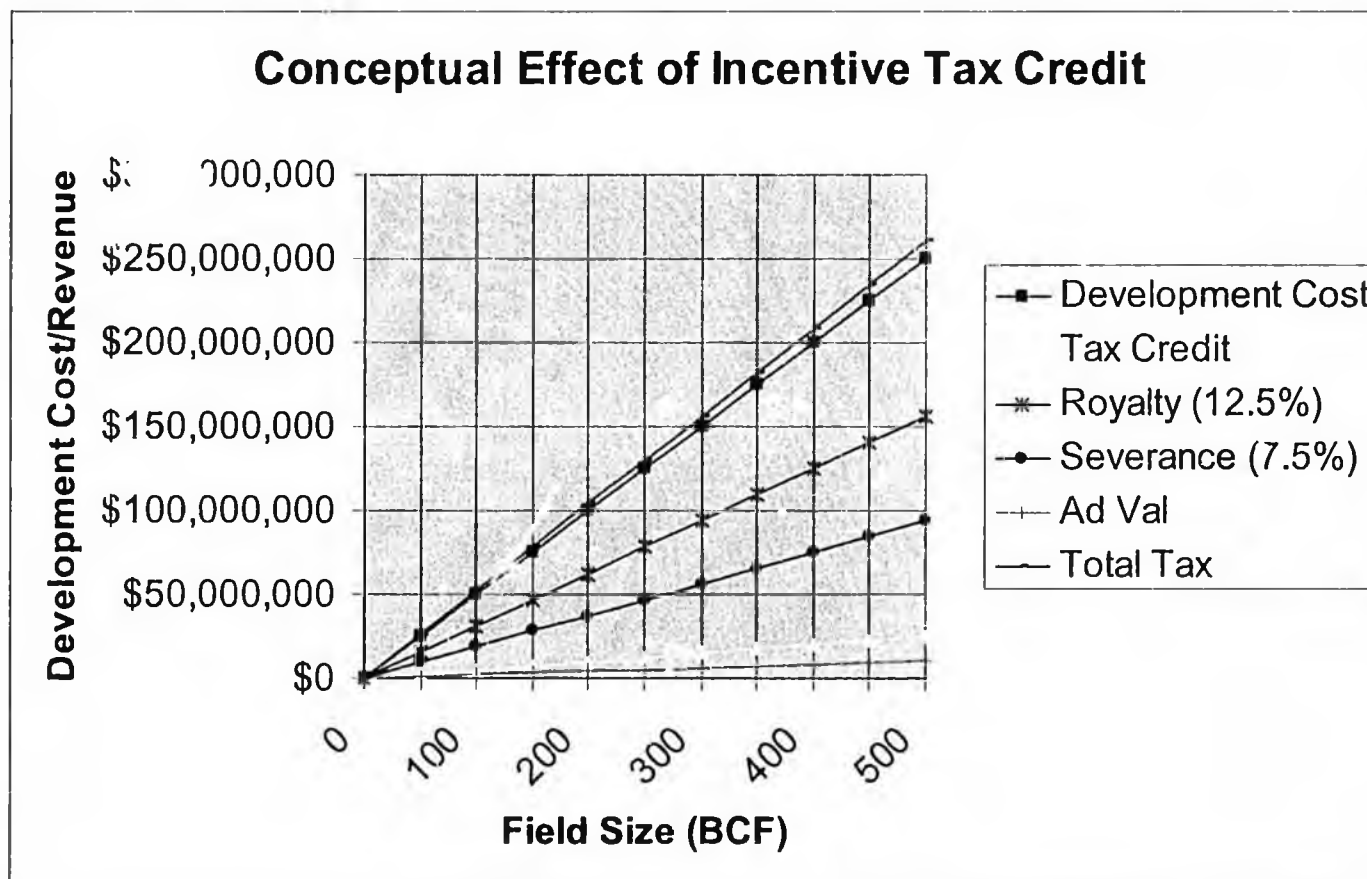
April 23, 2003

*Testimony of John A Barnes to House  
Finance Committee*

13



## Fiscal Impact to State of Alaska



April 23, 2003

Testimony of John A Barnes to House  
Finance Committee



## HB 61 – Conclusions

- Based on conceptual model, State of Alaska receives from \$3 to \$10 additional revenue for each \$1 of tax credit.
- Credit is needed now!
  - Not enough exploration in Cook Inlet to meet demand.
  - Other areas of state need exploration and development.
  - New discoveries will take a minimum of 3 years to bring to first gas



## HB 61 – Success Measures

- Increased Lease Activity
- Increased Drilling Rig Activity
- Increased Construction Activity
- Increased Production and Deliverability
- Credits Applied to Income Tax
  - For every dollar of credit approximately **TEN DOLLARS** were spent successfully developing new reserves, and ultimately paying new taxes!

John A. Barnes, P.E.  
Alaska Business Unit Manager



**Marathon Oil Company**

P.O. Box 196168  
Anchorage, AK 99519-6168  
Telephone 907/564-6400  
FAX 907/564-6489  
Email [jabarnes@marathonoil.com](mailto:jabarnes@marathonoil.com)

**HB**

**61**

**SFIN**

**FILE**

REPORTED OUT  
MAY 15 2003  
SENATE FINANCE COMMITTEE

SENATE FINANCE COMMITTEE REPORT

DATE: 5/9/03

FURTHER:

DATE TURNED IN TO OFFICE: 15 May 2003

Finance Committee considered CS FOR HOUSE BILL NO. 61(FIN)

HB 61 OIL & GAS TAX CREDIT FOR EXPLORATION/DEV

"An Act establishing an exploration and development incentive tax credit for operators and working interest owners directly engaged in the exploration for and development of gas for sale and delivery without reference to volume from a lease or property in the state; and providing for an effective date."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous S CS CS HB61 (RES)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # \_\_\_\_\_

NEW FISCAL NOTE(S):

| Department | Date | Fiscal | Zero | FN# |
|------------|------|--------|------|-----|
|            |      |        |      |     |
|            |      |        |      |     |
|            |      |        |      |     |
|            |      |        |      |     |
|            |      |        |      |     |

PREVIOUS FISCAL NOTE(S):

| Department | Date   | Fiscal | Zero | FN# |
|------------|--------|--------|------|-----|
| Revenue    | 3/1/02 |        | ✓    | #2  |
| DNR        | 2/4/03 |        | ✓    | #1  |
|            |        |        |      |     |
|            |        |        |      |     |
|            |        |        |      |     |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS: | DO PASS | DO NOT PASS | NO REC | AMEND |
|---------------------------------|---------|-------------|--------|-------|
| <i>John Taylor</i>              | ✓       |             |        |       |
| <i>William P. Gibson</i>        |         |             | ✓      |       |
| <i>L. O. Blum</i>               |         |             | ✓      |       |
| <i>Ben Stevens</i>              | ✓       |             |        |       |
| <i>Don Hill</i>                 |         |             | ✓      |       |
| COCHAIR:                        |         |             |        |       |
| COCHAIR: <i>Gregg Hill</i>      | ✓       |             |        |       |

MAY 15 2003

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSHB 61(O&G)  
(H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Natural Resources  
Title: Oil and Gas Tax Credit for Exploration. BRU: Oil and Gas Development  
Component: Oil and Gas Development  
Sponsor: Chenault, Kohring, Wolf  
Requester: House Oil and Gas Component No.: 439

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

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

| OPERATING EXPENDITURES | FY 2004    | FY 2005    | FY 2006    | FY 2007    | FY 2008    | FY 2009    |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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> |

|                      |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|

|                        |  |  |  |  |  |  |
|------------------------|--|--|--|--|--|--|
| CHANGE IN REVENUES ( ) |  |  |  |  |  |  |
|------------------------|--|--|--|--|--|--|

**FUND SOURCE** (Thousands of Dollars)

|   |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts                   |            |            |            |            |            |            |
| 1003 GF Match                           |            |            |            |            |            |            |
| 1004 GF                                 |            |            |            |            |            |            |
| 1005 GF/Program Receipts                |            |            |            |            |            |            |
| 1037 GF/Mental Health                   |            |            |            |            |            |            |
| Other (Specify Type--Do not abbreviate) |            |            |            |            |            |            |
| <b>TOTAL</b>                            | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2003) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

**ANALYSIS:** (Attach a separate page if necessary)  
HB 61 would authorize the Dept. of Revenue to grant credits against a taxpayer's state corporate income tax liability for certain oil or gas exploration and development investments made in the state.

Prepared by: Mark D. Myers Phone 269-8800  
Division: Oil and Gas Date/Time 2/4/03 7:46 AM  
Approved by: Tom Irwin, Commissioner Date 2/4/2003  
Agency: Natural Resources

MAY 15 2003

SENATE FINANCE COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSHB 61(O&G)  
(H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Oil and Gas Tax Credit BRU Revenue Operations  
for Exploration / Development Component Tax Division  
Sponsor Representative Chenault  
Requester House Committee on Oil and Gas Component No. 2476

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

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

| OPERATING EXPENDITURES | FY 2004    | FY 2005    | FY 2006    | FY 2007    | FY 2008    | FY 2009    |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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> | <i>See Analysis</i> |
|-------------------------------|---------------------|

**FUND SOURCE** (Thousands of Dollars)

|   |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts                   |            |            |            |            |            |            |
| 1003 GF Match                           |            |            |            |            |            |            |
| 1004 GF                                 |            |            |            |            |            |            |
| 1005 GF/Program Receipts                |            |            |            |            |            |            |
| 1037 GF/Mental Health                   |            |            |            |            |            |            |
| Other (Specify Type--Do not abbreviate) |            |            |            |            |            |            |
| <b>TOTAL</b>                            | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2003) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

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

This bill is intended to promote the exploration and development of natural gas south of the Brooks Range, particularly in Cook Inlet. This bill allows a tax credit equal to 10 percent of qualified capital investment -- as well as annual labor, seismic and associated costs -- related to gas exploration and development work to be applied against corporate income tax (AS 43.20) for up to 50% of a corporation's total tax liability. The credit applies only to gas exploration and development of reserves south of the Brooks Range. The credit can only be taken if the reserves produce gas for sale and delivery.

Corporations could use their tax credits under this legislation to reduce taxes paid to the state for North Slope production or production from elsewhere in the state.

Oil and gas corporate income tax collections in FY 2003 and FY 2004 are currently projected at \$160 million and \$200 million per year, respectively.

Prepared by: Chuck Logsdon, Chief Petroleum Economist Phone \_\_\_\_\_  
Division Tax Division Date/Time 3/11/03 9:46 AM  
Approved by: Larry Persily, Deputy Commissioner Date 3/11/2003  
Agency Department of Revenue

FISCAL NOTE #2

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 61(O&G)

ANALYSIS CONTINUATION

It is not easy to evaluate the overall revenue effect of a tax credit. On the plus side, if exploration activity discovers developable reserves, the state could receive royalty and production taxes that more than offset the revenue loss due to the tax credit. And the availability of the credit could enhance the attractiveness of exploring for new oil and gas resources, which may or may not result in creditable expenditures depending on whether discovery and development occurs.

The credit is targeted to natural gas exploration and development activity south of the Brooks Range, while the bulk of current oil and gas corporate income tax against which this credit could potentially be taken is from production and transportation of high-value oil on the North Slope. As a result, an oil and gas corporation that has profitable operations on the North Slope could, by investing in development outside of the Slope, reduce its total oil and gas corporate income tax liability through this new credit provision.

The key state revenue issue with regard to this tax credit is the extent to which the additional incentive is needed to encourage exploration and development. Natural gas price levels are critical in determining the commercial incentive to explore and develop. Natural gas prices probably will be a bigger factor in a commercial venture than the tax credits in this legislation, but this tax credit provision could also play a factor in a corporate decision to invest in exploration and development. A risk to the state is if high gas prices spur development on their own, regardless of the tax credit, the state could be in the position of providing a tax credit that is no longer necessary to promote development.

SENATE FINANCE  
COMMITTEE  
Amendment Number: #1  
Bill Number: HB 61  
Sponsor: Olson Date: 5/12/03  
Logged In By: Mindy

AMENDMENT

BY: SENATOR OLSON

IN SENATE FINANCE COMMITTEE

To: SCS CSHB 61 (RES)

Page 3, line 13. After "latitude",

Insert "and east of meridian 156 degrees".

Page 3, line 14. After "latitude",

Insert "and east of meridian 156 degrees".

SENATE FINANCE COMMITTEE  
5/12/2003 COMMITTEE ACTION

|                                   |           |                    |          |
|-----------------------------------|-----------|--------------------|----------|
| <b>Bill Number</b>                | HB 61     |                    |          |
| <b>Amendment</b>                  | #1        |                    |          |
| <b>Motion</b>                     | adopt     |                    |          |
| <b><u>Motion by</u></b>           | Olson     |                    |          |
| <b><u>Objection by</u></b>        | Wilken    |                    |          |
| <b><u>Removed</u></b>             |           |                    |          |
| <b><u>Second Objection by</u></b> |           |                    |          |
| <b><u>Committee Member</u></b>    | <b>Y</b>  | <b><u>Vote</u></b> | <b>N</b> |
| Senator Stevens                   |           |                    |          |
| Senator Taylor                    |           |                    |          |
| Senator Bunde                     |           |                    |          |
| Senator Hoffman                   |           |                    |          |
| Senator Olson                     |           |                    |          |
| Co-Chair Green                    |           |                    |          |
| Co-Chair Wilken                   |           |                    |          |
|                                   |           |                    |          |
| <b><u>Tally</u></b>               |           |                    |          |
| Yea                               |           |                    |          |
| Nay                               |           |                    |          |
| Absent                            |           |                    |          |
|                                   |           |                    |          |
| <b><u>MOTION</u></b>              | Withdrawn |                    |          |

on 5/15

# STATE OF ALASKA

REPRESENTATIVE  
MIKE CHENAULT

Official Business

Interim:  
145 Main St. Loop, Second Floor  
Kenai, Alaska 99611  
(907) 283-7223  
Fax: (907) 283-3075

Session:  
Capitol Building, Room 432  
Juneau, Alaska 99801-1182  
(907) 465-3779  
Toll Free: (800) 469-3779  
Fax: (907) 465-2833

## HOUSE OF REPRESENTATIVES

### Sponsor Statement HB 61

HB 61 creates a new income tax credit to encourage increased exploration and development of natural gas reserves south of the Brooks Range. To qualify for the credit, operators must successfully drill and develop reserves that produce natural gas for sale and delivery. This is a successful efforts bill which means that no credits will be given for dry holes.

The Cook Inlet continues to have great potential for additional natural gas development. Other Alaska basins outside of the North Slope have similar potential. However, the combination of exploration risk, high development costs and historic low natural gas prices has created a disincentive to drill for new reserves as compared to other areas of the world. By providing a credit for successful efforts, more exploration will occur in Southern Alaska leading to much needed new natural gas reserves. This will benefit all residents and businesses at no direct cost to the state.

In addition to the benefit of developing new gas reserves, increased Cook Inlet drilling will also aid the general economic status on the Kenai Peninsula and in Anchorage as well as other areas of Alaska. Moreover, increased tax revenue from additional gas production will more than offset any fiscal impact from the proposed credit.

СЕРИЯ  
ЭКСПИ  
ПРОМАН





## HB 61 – What Does it Do

- Creates income tax credit to encourage exploration and development of gas reserves south of Brooks Range
- Primary focus is on Cook Inlet, but applies to other basins
- Focus is on natural gas.
- Levels the playing field somewhat with other exploration opportunities around the world.
- Draws more E&P Capital to Cook Inlet



# Marathon Oil Company



## HB 61 – How Does it Work?

- Applies to 10% of Qualified Capital Investment
- Applies to 10% of Qualified Expense
- May offset no more than 50% of corporate income tax in any one year (up to five additional years)
- Only applies to successful efforts.
- Incentive can be factored into project economics.



## HB 61 – Why is it needed?

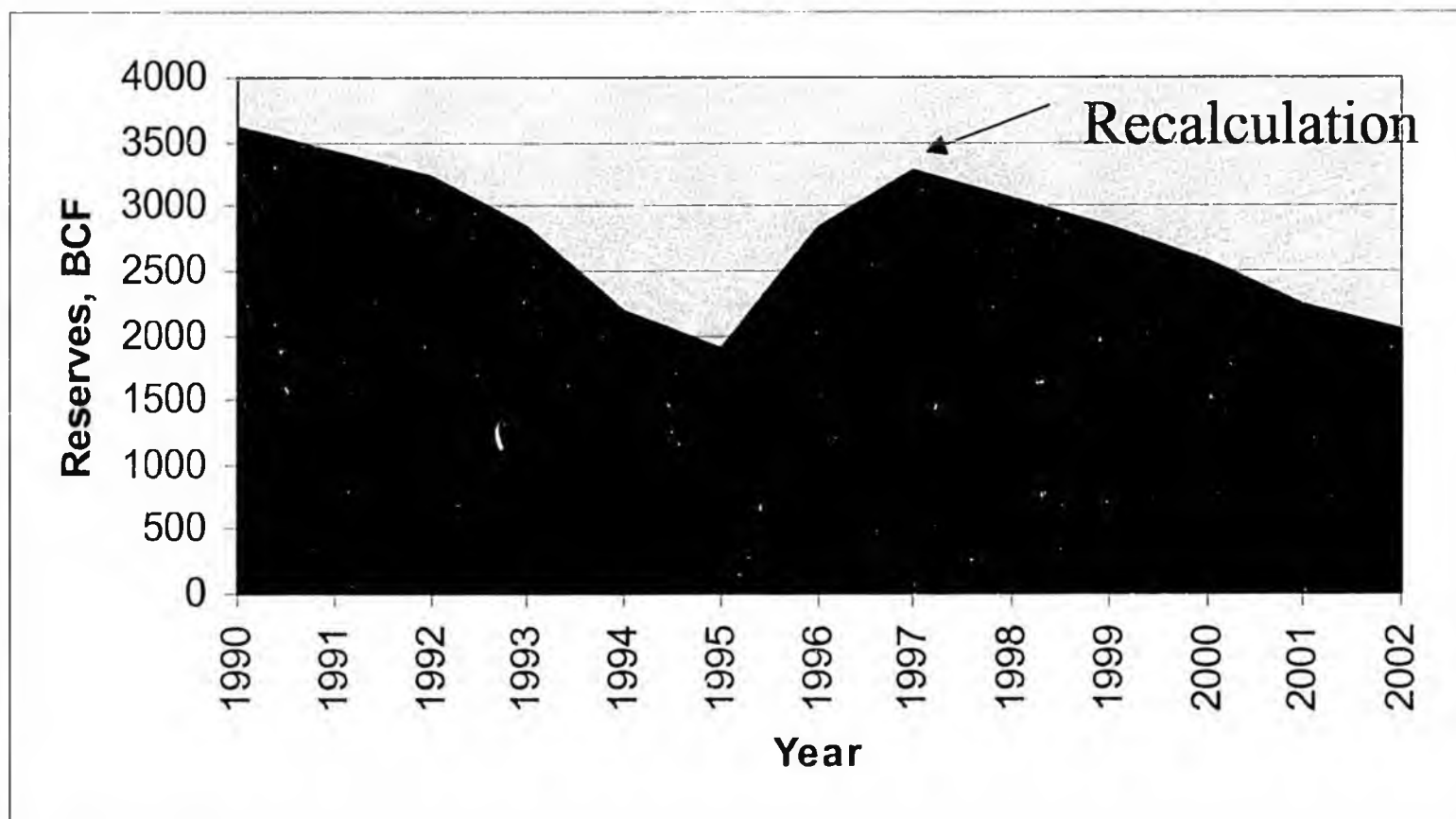
- Natural Gas Reserves have been and are continuing to decline in the Cook Inlet.
  - Current Cook Inlet proven natural gas reserves are estimated at 2 TCF
    - (Based on DNR DOG 2002 report, less 2002 production)
- Despite recent increase in Cook Inlet exploration activity, reserves are not being replaced on an annual basis



# Marathon Oil Company



## Cook Inlet Proven Gas Reserves



Source: Alaska DNR

March 26, 2003

*Testimony of John A Barnes to House  
Resources Committee*



# Marathon Oil Company



## HB 61 – Why is it needed?

- Cook Inlet deliverability has declined over last several years.

March 26, 2003

*Testimony of John A Barnes to House  
Resources Committee*

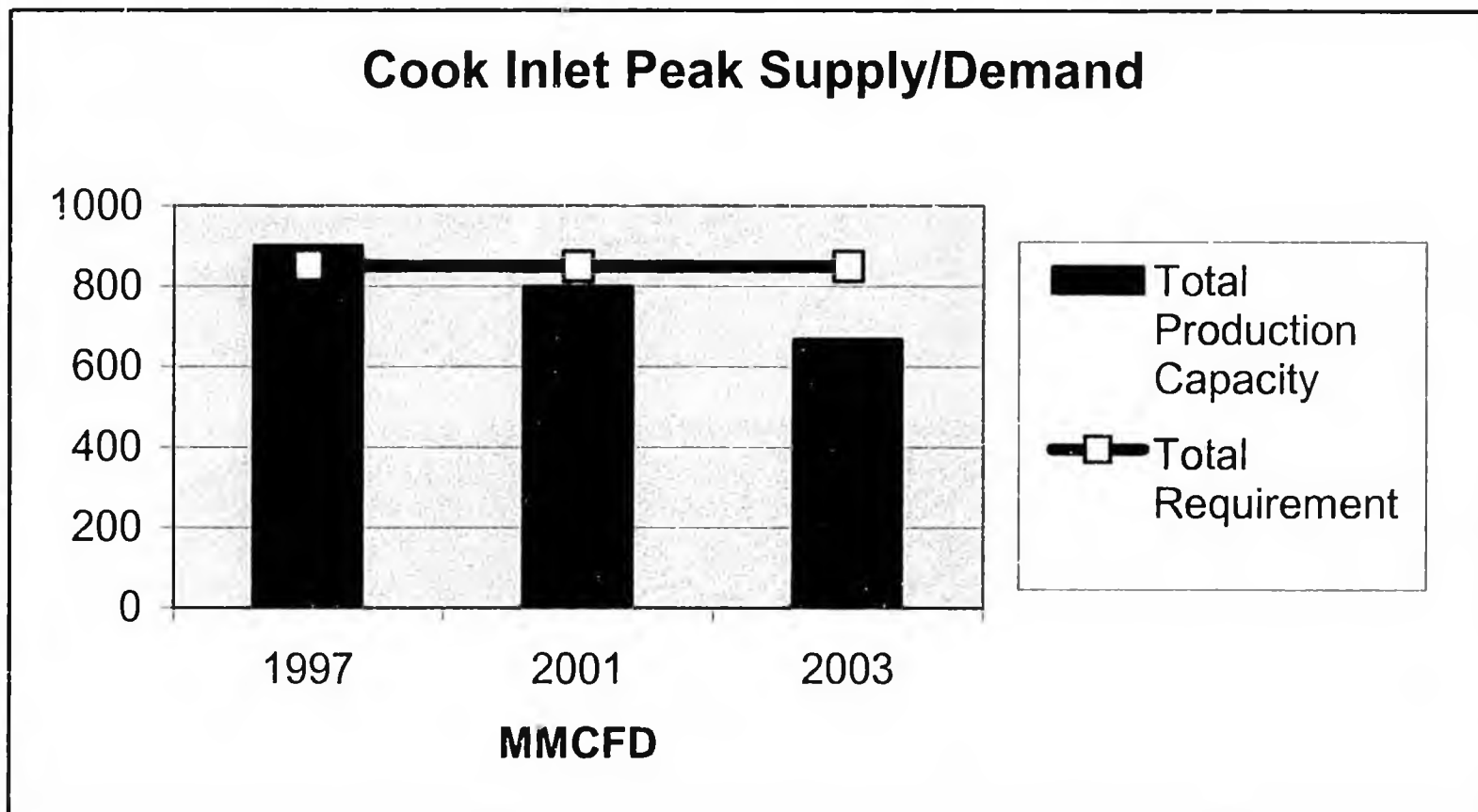
6



# Marathon Oil Company



## HB 61 – Why is it needed?



March 26, 2003

*Testimony of John A Barnes to House  
Resources Committee*



## HB 61 – Why is it needed?

- Supply and demand rationalization is occurring.
  - Not enough gas to feed low price consumer.
  - Gas price increasing
    - Enstar average gas cost (WACOG) \$2.55/mcf
    - Most recent Enstar contract gas price \$2.75 to Henry Hub
    - Henry Hub recently over \$9.00/mcf



## Cook Inlet Reserves & Resources

- Current proven reserves – 2000 BCF
  - Approximately 10 year production life, assuming no decline.
- Potential Gas Committee Resource Estimates
  - Probable Reserves – 1050 BCF
  - Possible Reserves – 2100 BCF



## Impacts to State of Alaska

- Stimulates Cook Inlet, and potentially other basin exploration.
- Aids in maintaining Cook Inlet 200+ BCF/year production.
  - Equivalent to a 13<sup>th</sup> month of North Slope Production.
- Provides gas for Cook Inlet utilities, industrials, jobs, royalties, taxes.



## Fiscal Impact to State of Alaska

- Incentive will be clearly positive to State of Alaska, factors are...
  - How many developments will be incentivized?
  - How much gas will be discovered?
  - What will be the gas sales price (royalty value)?
  - How much will be spent for exploration and development?
  - Successful efforts driven – no incentives for dry holes



## Fiscal Impact to State of Alaska

- Conceptual Estimate of Impact, assumptions:
  - Varied field size from 0 to 500 BCF
  - Development Cost \$0.50/mcf
  - Royalty – 12.5%
  - Severance Tax – 7.5%
  - Ad valorem – 2.7%
  - Gas sales price - \$2.50/mcf



# Marathon Oil Company



## Fiscal Impact to State of Alaska

| Field Size (BCF) | Development Cost | Tax Credit   | Gross Revenue     | Royalty (12.5%) | Severance (7.5%) | Ad Val       | Total Tax     |
|------------------|------------------|--------------|-------------------|-----------------|------------------|--------------|---------------|
| 0                | 0                | 0            | 0                 | 0               | 0                | 0            | 0             |
| 50               | \$25,000,000     | \$2,500,000  | \$125,000,000.0   | \$15,625,000    | \$9,375,000      | \$1,050,000  | \$26,050,000  |
| 100              | \$50,000,000     | \$5,000,000  | \$250,000,000.0   | \$31,250,000    | \$18,750,000     | \$2,100,000  | \$52,100,000  |
| 150              | \$75,000,000     | \$7,500,000  | \$375,000,000.0   | \$46,875,000    | \$28,125,000     | \$3,150,000  | \$78,150,000  |
| 200              | \$100,000,000    | \$10,000,000 | \$500,000,000.0   | \$62,500,000    | \$37,500,000     | \$4,200,000  | \$104,200,000 |
| 250              | \$125,000,000    | \$12,500,000 | \$625,000,000.0   | \$78,125,000    | \$46,875,000     | \$5,250,000  | \$130,250,000 |
| 300              | \$150,000,000    | \$15,000,000 | \$750,000,000.0   | \$93,750,000    | \$56,250,000     | \$6,300,000  | \$156,300,000 |
| 350              | \$175,000,000    | \$17,500,000 | \$875,000,000.0   | \$109,375,000   | \$65,625,000     | \$7,350,000  | \$182,350,000 |
| 400              | \$200,000,000    | \$20,000,000 | \$1,000,000,000.0 | \$125,000,000   | \$75,000,000     | \$8,400,000  | \$208,100,000 |
| 450              | \$225,000,000    | \$22,500,000 | \$1,125,000,000.0 | \$140,625,000   | \$84,375,000     | \$9,450,000  | \$234,450,000 |
| 500              | \$250,000,000    | \$25,000,000 | \$1,250,000,000.0 | \$156,250,000   | \$93,750,000     | \$10,500,000 | \$260,500,000 |

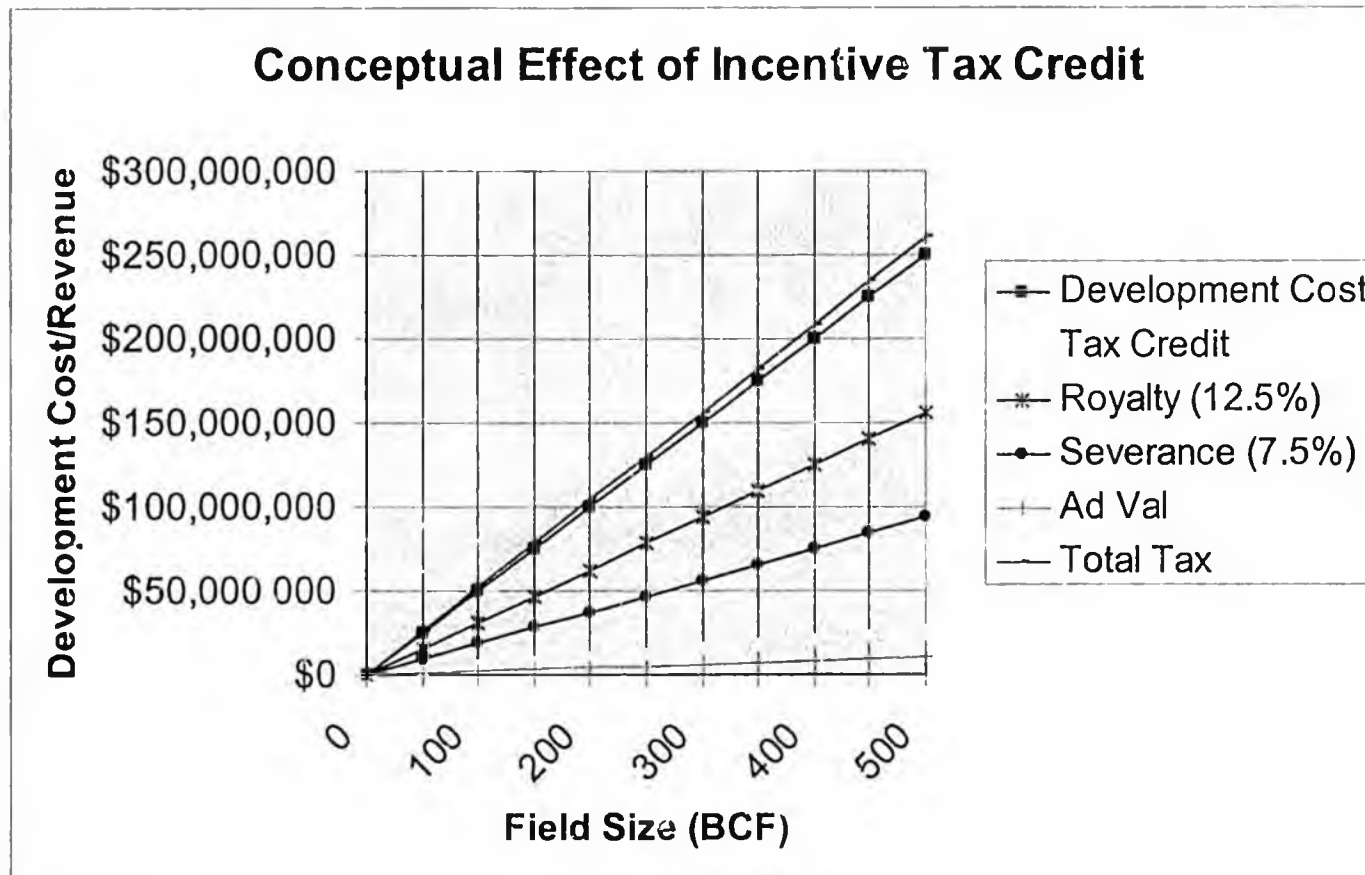
March 26, 2003

*Testimony of John A Barnes to House  
Resources Committee*

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## Fiscal Impact to State of Alaska





## HB 61 – Conclusions

- Based on conceptual model, total tax take from one (incentivized) development covers tax credit for about 10 equivalent fields.
- Credit is needed now!
  - Not enough exploration in Cook Inlet to meet demand.
  - New discoveries will take a minimum of 3 years to bring to first gas



# Marathon Oil Company



## HB 61 – Success Measures

- Increased Lease Activity
- Increased Drilling Rig Activity
- Increased Construction Activity
- Increased Production and Deliverability
- Credits Applied to Income Tax
  - For every dollar of credit approximately **TEN DOLLARS** were spent successfully developing new reserves, and ultimately paying new taxes!

**John A. Barnes, P.E.**  
Alaska Business Unit Manager



**Marathon Oil Company**

P.O. Box 196168  
Anchorage, AK 99519-6168  
Telephone 907/564-6400  
FAX 907/564-6489  
Email [jabarnes@marathonoil.com](mailto:jabarnes@marathonoil.com)

Oilfield Services

3940 Arctic Boulevard  
Suite 300  
Anchorage, Alaska 99503-5711  
(907) 273-1700  
Fax (907) 561-8317

**Schlumberger**

Representative Mike Chenault  
House of Representatives  
Alaska State Capitol, Room 502  
Juneau, AK 99801-1182

Re: House Bill 61 (O&G)

Dear Representative Chenault:

This letter is in support of the Act establishing an exploration and development tax credit for persons engaged in the exploration and development of gas south of the Brooks Range in the state of Alaska (HB 61).

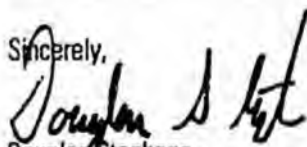
Schlumberger Technology Corporation is a Delaware company with substantial oilfield services operations in Alaska, where we presently employ approximately 500 people, the vast majority of whom are residents of the state, where we have operated for the past 35 years. The services we provide assist Operating Companies, during the exploration, development and production phases of oil and gas exploration.

Alaska's gas exploration and production activities are in need of economic stimulus in order for the state to realize its potential in energy development. The incentives provided by proposed HB 61 are designed to deliver to the State's economy this needed stimulus, with the expected result of increased employment and increased consumer and business spending. The stimulus provided by HB 61 would apply not only to new gas exploration, but also to other economic benefits realizable with respect to marginal reservoirs, which may be discovered while exploring for gas.

HB 61 creates an incentive tax credit to increase exploration and development of natural gas in the Cook Inlet and other prospective Alaskan basins south of the Brook Range. The Cook Inlet reserves have continued to decline over time, due in large part to high exploration and production costs. The Cook Inlet (and the Kenai peninsula) is a mature oil province, where the economics of developing cost effective energy sources have changed, hence the incentive for undertaking additional exploration activity which would result from the passage of HB 61 is critical to the long term viability of the State's gas market, a key component of the Cook Inlet, Kenai and Alaska economies.

Accordingly, we trust you will give your support to HB 61.

Sincerely,

  
Douglas Stephens  
General Manager  
Schlumberger Alaska



J. Scott Jepsen  
Cook Inlet Asset Manager

P.O. Box 100360 -- ATO 1420  
Anchorage, AK 99510-0360  
Phone 907-263-4348

Feb. 27, 2003

Representative Vic Kohring  
Chairman, House Oil and Gas Committee  
Alaska State Capitol, Room 24  
Juneau, Alaska 99801

Re: House Bill 61

Dear Rep. Kohring:

ConocoPhillips Alaska would like to express our support for HB 61 -- An Act Establishing Oil and Gas Tax Credits for Certain Exploration and Development Projects. We believe that passage of this bill has the potential to spur additional efforts to explore for oil, and in particular gas, in places like Cook Inlet and the surrounding area that have not seen much exploration in recent years.

Thank you for your continued support for our efforts in Alaska. If you have any questions, please call me at (907) 263-4348.

Sincerely,

A handwritten signature in black ink that reads "Scott Jepsen". The signature is written in a cursive style with a large, sweeping "S" and "J".

Scott Jepsen  
Cook Inlet Asset Manager  
ConocoPhillips Alaska, Inc.

Cc: Rep. Chenault  
Rep. Kelly Wolf

## SENATE COMMITTEE REPORT

DATE: 5/2/03

FURTHER:

DATE TURNED  
IN TO OFFICE: 5-8-03

Resources Committee considered CS FOR HOUSE BILL NO. 61(FIN)

### HB 61 OIL & GAS TAX CREDIT FOR EXPLORATION/DEV

"An Act establishing an exploration and development incentive tax credit for operators and working interest owners directly engaged in the exploration for and development of gas for sale and delivery without reference to volume from a lease or property in the state; and providing for an effective date."

and recommends:

be replaced with S CS CS HB 61 (RES)

adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)

attached amendment(s)

adopt Letter of Intent by \_\_\_\_\_ Committee

further referral to \_\_\_\_\_ Committee

**Senate Bill:**

same title  
 new title

**House Bill:**

same title  
 technical title  
 new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

| Department | Date | Fiscal | Zero | FN# |
|------------|------|--------|------|-----|
|            |      |        |      |     |
|            |      |        |      |     |
|            |      |        |      |     |
|            |      |        |      |     |
|            |      |        |      |     |

**PREVIOUS FISCAL NOTE(S):**

| Department | Date    | Fiscal | Zero | FN# |
|------------|---------|--------|------|-----|
| REV        | 3/11/03 |        | ✓    | 2   |
| DOR        | 2/4/03  |        | ✓    | 1   |
|            |         |        |      |     |
|            |         |        |      |     |
|            |         |        |      |     |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS:  | DO PASS | DO NOT PASS | NO REC | AMEND |
|----------------------------------|---------|-------------|--------|-------|
| Seekins <i>Salph Seekins</i>     | ✓       |             |        |       |
| B. Stevens <i>Ben Stevens</i>    | ✓       |             |        |       |
| wagoner <i>Thomas H. Wagoner</i> | ✓       |             |        |       |
| Lincoln <i>Debra J. Lincoln</i>  |         |             | ✓      |       |
|                                  |         |             |        |       |
| CHAIR: <i>Scott Ogan</i>         | ✓       |             |        |       |

Seekins  
B. Stevens  
wagoner  
Lincoln  
  
Ogan







**HB**

**67**

**HFIN**

**FILE**



217 Second Street, Suite 200 • Juneau, Alaska 99801  
Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

February 18, 2003

Representative Holm, Co-Chair  
Representative Masek, Co-Chair  
Transportation Committee  
State Capitol, Room 101  
Juneau, AK 99801

Re: HB 67

Dear Representatives,

The AML Public Works and Infrastructure Subcommittee reviewed HB 67 and recommends against its adoption.

This summer a number of public and private organizations worked on a compromise that took into consideration all of the aspects of this complex issue. The result is Administrative Order 199. I believe that all of the public and private groups involved in the discussions support working with new procedures.

Sincerely

Kevin Ritchie  
Executive Director



## Position Paper on Force Account Construction

ABC Alaska believes in a system of free enterprise and open competition. This premise is generally embraced by the State of Alaska as evidenced by the language existing in Alaska Statutes AS 19.10.170 and AS 35.15.010 which state it is the general policy of the state to require construction under bid contract in accordance with the state procurement code. Additionally, Alaska Statutes require: "A contractor or subcontractor who performs work on public construction in the state, as defined by AS 36.95.010, shall pay not less than the current prevailing rate of wages for work of a similar nature in the region in which the work is done."

The intent of the Legislature is clear: public works ought regularly to be constructed in compliance with state procurement code and shall be regulated by "Little Davis Bacon" laws establishing prevailing wage rates. Force Account Construction by the state subverts this intent, bypassing the competitive bid process inherent in the state procurement code and hiring its own forces to complete construction work at sub-standard wages.

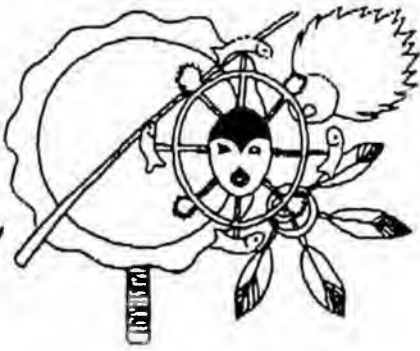
The two compelling arguments for Force Account Construction are cost savings and local hire. The cost savings are claimed by reduced labor costs and by the fact that the state does not have to make a profit. The payment of lower than prevailing wage has been used as the justification for avoiding federal procurement law by citing reduced project costs. In effect, the state is paying sub-standard construction wages on government work, eliminating opportunities for private sector employers who would be required to conform to federal Davis-Bacon or Little Davis Bacon regulations on that same work. In short, this practice places the state in direct competition with private sector employers, a practice in direct conflict with privatization goals that have been expressed by the legislature over the past several years.

It may be argued that the published prevailing wage does not reflect local conditions. If this is the case, there is a mechanism in place to address the variation. 8 AAC 30.050 states "*A region may be subdivided into zones if the commissioner determines that the prevailing wage rate has local variations within the region...*" and "*Special prevailing wage rate determinations may be requested for special projects or special worker classifications, if the work to be performed does not conform to traditional public construction for which a prevailing wage rate has been established under (a) of this section.*" This would be in keeping with the intent of the Legislature and also protect the rights of the workers.

The contention that the state does not have to make a profit and therefore can operate at a lower cost is also misleading. While the state may not include a risk factor in its estimate, risk is still there. Delays and cost overruns will be borne solely by the state. Under bid contract, these risks and costs are borne by the contractor. The state will have no incentive for cost control and innovation as is routine in the competitive bid process. The notion that the State can compete with private industry on a level playing field is highly questionable and again flies directly in the face of the state privatization goal.

The local hire issue is also compelling and should not be ignored. Again, local residents are best served by a level playing field. Providing an accurate prevailing wage and including "helpers" in the job classifications will allow local residents the best opportunity to compete in the marketplace.

Senate Bill No. 40 and House Bill No. 67 will help limit the State's ability to engage in force account construction. The same language should be added to AS 44.33.300 and we, as a community, should then focus our efforts on improving the implementation of existing prevailing wage regulations to provide opportunities for local hire in a free and open competitive bidding environment.



## Nunakauyak Traditional Council

### TO ALL ALASKA STATE LEGISLATURES

Senator John Cowdery under Senate Bill 40 and Representative Jim Holm under House Bill 67 have introduced the bills which will affect the capital projects by "Force Account" in which we know will have devastating impact in our region and local economy.

With limitation on State-funded projects to no more than \$250,000 will not support local economy whatsoever. This limitation and phasing out construction jobs under force account will not help high unemployment rate in rural communities. Big construction companies and non-residents will only benefit from construction jobs instead..

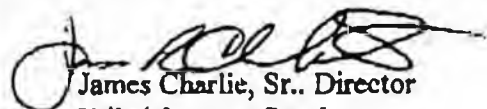
Villages do not even have economic base in which to support their own projects whether they are funded by the State or Federal government. The tribes or Tribal organizations have exercised their right to govern themselves by handling projects under force account thereby guaranteeing jobs to local residents who are jobless and have families to support. Big construction firms from outside of or even those based in Alaska do not always have that guarantee and instead bring in crews with them. This type of construction project do not support local economy.

The Alaska State Legislatures would be more lenient to its constituent's needs and well-being by helping them to protect their interest and allow them to continue to handle their own projects under force account. As a long time Tribal Council employee, I see many benefits that local force account projects provides to those who took part in construction projects which also help provide local economy little by little.

On the behalf of Nunakauyak Traditional Council (NTC) and many tribal governments and tribal organizations within AVCP/Calista region, I would like to humbly ask Senator Cowdery and Representative Holm to listen and reconsider or withdraw their bills immediately.

Last but not least, I would like to ask all Alaska State Legislatures to vote these bills down if the bills are not withdrawn by its original authors.

ON THE BEHALF OF NUNAKAUYAK TRADITIONAL COUNCIL

  
James Charlie, Sr., Director  
Tribal Support Services

cc: Mr. David B. Tim, NTC Chairman  
Editor, The Delta Discovery  
Editor, The Tundra Drums



# NOME JOINT UTILITY SYSTEM

a component unit of **CITY OF NOME**

P.O. Box 70 • Nome, Alaska 99762 • (907) 443-NJUS • Fax (907) 443-6336

February 28, 2003

The Honorable Rep. Richard Foster  
**ALASKA STATE LEGISLATURE**  
Juneau

Dear Rep. Foster:


Utilizing force account construction has allowed numerous quality improvements to be made to municipal services in Nome. The City and Utility have successfully completed tens of millions of dollars of projects. By using force account, we have been able to keep more money in the community, in the form of wages, rental of equipment and other local purchases.

In all cases in recent years, our employees have been represented by organized labor. We have negotiated a compensation package that fairly balances the needs of both labor and the community.

We would urge the legislature to retain the ability for government units in Alaska to utilize force account construction and are opposed to any action which would place limitations on the size of force account projects.

Thank you for your time.

Sincerely,

  
John K. Handeland, General Manager  
NOME JOINT UTILITY SYSTEM

cc: Utility Board  
Nome Common Council

THE  
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DOCUMENT(S)  
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POOR  
ORIGINAL  
COPIES

**NATIVE VILLAGE OF TUNUNAK  
TUNUNAK IRA COUNCIL  
PO BOX 77; TUNUNAK, ALASKA 99681  
PHONE: (907) 652-6527 FAX: (907) 652-6011**

---

**TO: ALASKA STATE LEGISLATORS**

Date: March 12, 2003

**FROM: James G. James, Tribal Administrator**



**Re: Senate Bill 40 and House Bill 67**

**MESSAGE:**

Once again the construction of capital projects by force account within the State of Alaska has been put into place in question.

The Bill which has been sponsored by Senator John Cowdery and Representative Jim Holm would limit the construction of state funded capital projects by force account to those projects under \$250,000.00.

It will have a big impact especially to rural areas in which the majority of village members are in dire need of jobs and economic opportunities because of high costs of living.

I have seen many of our people that are in need to feed their baby and to clothe them with proper clothings during harsh winter months. A can of evaporated milk costs \$1.55 per can and the baby formula can costs nearly \$20.00 or more depending on the price market up. The clothings price are devastating compare to Anchorage prices. Although, people that are on welfare or on any assistance through State and Federal Assistance programs are just a quarter worth.

We urge you not to pass those two bills because it won't help the real Alaskans who needs it the most.

Thank You.

**Subject:** [Fwd: Force Accounting SB40 & HB67]  
**Date:** Wed, 26 Feb 2003 11:14:38 -0900  
**From:** Senator Donny Olson <Senator\_Donny\_Olson@Legis.state.ak.us>  
**Organization:** Alaska State Legislature  
**To:** Haven Harris <Haven\_Harris@legis.state.ak.us>

---

**Subject:** Force Accounting SB40 & HB67  
**Date:** Wed, 26 Feb 2003 10:25:05 -0900  
**From:** "Boniface Chikigak" <bchikigak@msn.com>  
**To:** Senator\_Donny\_Olson@legis.state.ak.us

Here in the bush villages the use of force accounting is very important to accomplish some projects.

On behalf of the Alakanuk Tribal Council and the Native Village of Alakanuk, I fully support the use of force accounting.

The Alakanuk Tribal Council is pursuing to improve the road conditions and to develop more roads in the future so that the much needed housing projects can be build.

Thank you for pushing to keep the force accounting alive!

---

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**KOTLIK TRADITIONAL COUNCIL  
PO BOX 20210  
KOTLIK, ALASKA 99620  
Phone (907) 899-4326/4836 FAX (907) 899-4790**

3 March 2003

The Honorable Richard Foster  
State Capitol, Suite 410  
Juneau, Alaska 99801-1182

FAX (907) 465-~~4831~~ 32 42

Re: SENATE BILL 40 and HOUSE BILL 67

Dear Representative Foster:

This memo is to let you know that we denounce the above hostile bills because if they are passed it requires all state funded projects to be contracted and divert possible local income to outside companies. We have our very own members to construct any structure in our communities. These people are skilled and some that can become skilled. We need our own work forces. Local force account is very important to us and it helps our economy.

We request your assistance in opposing these two bills. If they are passed, it will also take our portion, if not all, our self-sufficiency and self-determination.

Quyenaqpuk!

Joseph P. Mike  
President

*Joseph P. Mike*  
JPM/pgs

## St. Mary's Airport Road Rehabilitation Final Completion Summary Report

During the summers of 2001 and 2002, work was conducted to rehabilitate the St. Mary's Airport Road. The job consisted of rehabilitating approximately 8.1 kilometers of access road from the St. Mary's Airport to the post office in the City of St. Mary's. The existing road was reconstructed to provide a two-lane road 7.2 meters from shoulder to shoulder. A surface course was placed on the road to finish the project. Alaska Department of Transportation and Public Facilities' (ADOT) employees were used in completing the project by Force Account. Total cost of the project was \$2,470,000.

Work during the summer of 2001 included clearing, excavating and removing inappropriate material, placing pipe, and the placing of base and sub-base courses. Work extended from May 1 through the end of September and was conducted by local residents of St. Mary's, who were hired as temporary state employees.

To complete the work in 2001, 17 local residents were hired. Over the summer they worked a total of 9,618 hours, of which 2,847 hours were overtime. Total payroll for these employees was \$259,067. Training was provided for 13 of those employees through the Alaska Vocational Technical Center for obtaining Commercial Drivers Licenses. All of these obtained their CDL's through this process. Jobs by these employees included operating CAT Loaders, CAT Dozers, Dump Trucks and Rock Trucks. DOT foreman duties, administration and materials testing costs during this time period accounted for \$232,200.

Through a Memorandum of Understanding between the City of St. Mary's and the ADOT, St. Mary's provided equipment, mechanic/oiler services and fuel for the project. Through this memorandum, the City of St. Mary's was paid \$449,600 for equipment, \$103,630 for fuel and \$40,820 for mechanic/oiler services. Equipment used through the Memorandum of Understanding was new to the community and was retained by them after the project was finished. In addition, the City of St. Mary's received \$415,000 for aggregate that was taken from the city aggregate source.

Work during the summer of 2002 consisted of clearing, embankment construction and stabilization, grade raises, placing surface course and calcium chloride, installing delineators and reconditioning the borrow pits. The Maintenance and Operations Department of ADOT managed this phase of the project, due to their expertise in doing high float surfacing. However, it turned out that acceptable aggregate for conducting high float operations could not be produced on site and was too expensive to barge in to the project. Instead, surface material available was placed and conditioned in place, with calcium chloride applied as a binder/dust suppressant.

From May 31, 2002 through January 15, 2003, seven local residents were hired under M & O's management. Over the summer they worked a total of 1,027.50 hours of regular time, 545 hours of overtime and 200 hours of double time for a total of 1,772.5 hours. With M & O overhead and foreman personnel included, the total payroll for these

employees was \$100,331.45. Construction personnel charged an additional \$11,861.91 to the project over the same time period.

During the summer of 2002, the City of St. Mary's provided the following fuel, equipment, mechanic and oiler services and aggregate. Fuel charges from the City of St. Mary's totaled \$13,817.22. Equipment charges from the City of St. Mary's totaled \$84,427.85. Oiler and mechanic services that were provided totaled \$7,000.00. Aggregate purchases totaled \$309,307.25 including a \$500 gravel road access fee.



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*Emmonak Tribal Council*

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P.O. BOX 126  
EMMONAK, ALASKA 99581  
(907) 949-1720  
FAX (907) 949-1384

March 05, 2003

Representative Mary Kapsner  
State Capitol, Room 424  
Juneau, Alaska 99801-1182

Re: Force Accounting SB40/HB67 And any other issues:

Dear Representative Mary Kapsner:

The Native Village of Emmonak and the City of Emmonak fully supports the use of Force Accounting here and in the surrounding villages that utilize Force Account through SB40/HB67 in the Federal Government sections.

The high cost of Projects utilizing Force Accounts is one way to get projects done within Native Villages and through the Whole State of Alaska that have Capitol Projects.

Your assistance is vital for the whole State of Alaska in pursuing to keep the Force Account open for the Native villages and for the whole State of Alaska.

Our support is with your request Representative Mary Kapsner and in best regards.  
Thank - you.

Sincerely,

Emmonak Tribal Council  
President Joe Augustine

Emmonak Tribal Council  
Secretary Roberta Charles

Emmonak Tribal Council  
Administrator Wilbur Hootch

Cc: ETC - files

**NATIVE VILLAGE OF TUNUNAK  
TUNUNAK IRA COUNCIL  
PO BOX 77; TUNUNAK, ALASKA 99681  
PHONE: (907) 652-6527 FAX: (907) 652-6011**

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**TO: ALASKA STATE LEGISLATORS**

Date: March 12, 2003

**FROM: James G. James, Tribal Administrator**



**Re: Senate Bill 40 and House Bill 67**

**MESSAGE:**

Once again the construction of capital projects by force account within the State of Alaska has been put into place in question.

The Bill which has been sponsored by Senator John Cowdery and Representative Jim Holm would limit the construction of state funded capital projects by force account to those projects under \$250,000.00.

It will have a big impact especially to rural areas in which the majority of village members are in dire need of jobs and economic opportunities because of high costs of living.

I have seen many of our people that are in need to feed their baby and to clothe them with proper clothings during harsh winter months. A can of evaporated milk costs \$1.55 per can and the baby formula can costs nearly \$20.00 or more depending on the price market up. The clothings price are devastating compare to Anchorage prices. Although, people that are on welfare or on any assistance through State and Federal Assistance programs are just a quarter worth.

We urge you not to pass those two bills because it won't help the real Alaskans who needs it the most.  
Thank You.

**NIGHTMUTE TRADITIONAL COUNCIL**

**P.O. Box 9021  
Nightmute, AK 99690  
Phone (907) 647-6215 Fax 6112**

March 12, 2003

**TO: ALASKA STATE LEGISLATURES HOUSE & SENATE**

**FROM: JOE POST, PRESIDENT**

**RE: SENATE BILL 40 AND HOUSE BILL 67**

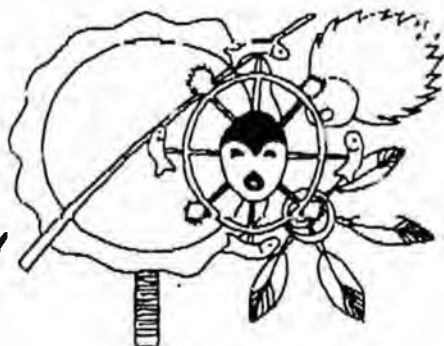
The construction of capital projects by Force Account in rural Alaska has created an option of income from the ongoing fisheries disasters. The State of Alaska has done little to improve the economy in rural Alaska and the Senate Bill 40 & House Bill 67 if passed will further impact the distressed state of rural Alaska.

We have shown our ability to carry out capital projects by Force Account and retain local income. Force Account projects have also shown the positive effects of local hire by renewed interest in job retraining. Voting against the two bills will keep the number of people on welfare & unemployment low. With the rising cost of living already high in rural Alaska and the Governor proposing budget cuts & taxes, it only makes sense to keep these bills from passing.

These two bills are divisive and ignorant to the rural economy that needs more growth. Thank You for your time and consideration.

Sincerely,

  
Joseph Post, President  
Nightmute Traditional Council



## Nunakauyak Traditional Council

TO ALL ALASKA STATE LEGISLATURES

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Last but not least, I would like to ask all Alaska State Legislatures to vote these bills down if the bills are not withdrawn by its original authors.

ON THE BEHALF OF NUNAKAUYAK TRADITIONAL COUNCIL

  
James Charlie, Sr., Director  
Tribal Support Services

cc: Mr. David B. Tim, NTC Chairman  
Editor, The Delta Discovery  
Editor, The Tundra Drums

March 5, 2003

Representative Mary Kapsner  
State Capitol, Room 424  
Juneau, AK 99801-1182

Dear Representative Mary Kapsner,

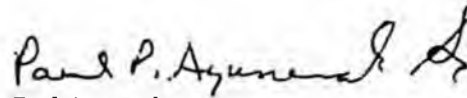
SUBJECT: FORCE ACCOUNTING SB40/HB67

The Alakanuk Tribal Council and the Native Village of Alakanuk fully support the use of force accounting here in the bush villages.

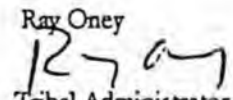
The high cost of accomplishing some projects in the communities, utilizing the force accounting is one way to get projects done in the bush villages.

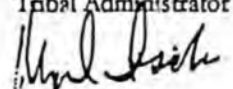
Thank you for pushing to keep the force accounting alive.

Sincerely,

  
Paul Ayunerak

Tribal President

Ray Oney  
  
Tribal Administrator

  
Marcel Isidore

Tribal Council Member

Cc: Alakanuk Tribal Council

Files