

**ALASKA LEGISLATURE**

**2694**

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

*Please Call Joyce at 2156*

"An Act relating to the longevity bonus program; and providing for an effective date."

CS FOR SENATE BILL NO. 185 (FIN)

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land, and for a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state."

Representative Berkowitz observed that the incentives were being made available without adequate knowledge of the level of exploration throughout the state. He suggested that not being able to address all concerns within the available time constraints was limiting. He ///

Representative Berkowitz MOVED Amendment #1, by Representative Berkowitz and Representative Kerttula. Co-Chair Williams OBJECTED.

In response to a question by Co-Chair Harris, Representative Berkowitz stated that the Department had been apprised of the changes proposed by the amendment. He pointed out that the amendment requires a comprehensive plan and report from Department of Natural Resources regarding oil exploration. He maintained that the areas contained in the amendment needed further study.

Representative Whitaker asked that his name be added to the amendment.

Commissioner, Department of Revenue stated that his original understanding was that report was required about the bill at hand. He commented that the report indicated by the amendment was more comprehensive than anticipated. He asked about the detail of the report.

Representative Berkowitz MOVED to AMEND the Amendment to delete the word "comprehensive" from lines 11 and 13. Co-Chair Williams OBJECTED.

Representative Hawker noted that "plan" indicated that there was not sufficient intent at this point. He MOVED to AMEND the amendment to change plan to "feasibility".

The Commissioner suggested a wording to the amendment.

- (2) an analysis of the impact of pipeline tariffs on independent oil producers;
- (3) an analysis of the costs of access to facilities and infrastructure.

**Revenue impact from exploration  
incentive credit for different field  
analog (in millions of dollars)**  
(Alpine and Tam analog in NPR-A, Meltwater  
analog on state lands)

	Alpine analog (one 485 mmbbl discovery)	Tam analog (four 114 mmbbl discovery)	Meltwater analog (eight 57 mmbbl discovery)
2004	\$ (51.0)	\$ (51.0)	\$ (51.0)
2005	(68.0)	(68.0)	(68.0)
2006	(68.0)	(68.0)	(68.0)
2007	(68.0)	(68.0)	(68.0)
2008	92.3	17.9	9.8
2009	184.7	35.9	29.5
2010	184.7	53.8	49.1
2011	177.4	70.1	68.7
2012	152.0	82.1	86.2
2013	130.6	94.1	101.8
2014	115.9	104.1	115.6
2015	99.8	110.0	127.9
2016	86.2	102.6	129.1
2017	74.6	93.5	119.2
2018	64.6	82.1	108.3
2019	56.2	72.2	96.3
2020	48.9	63.6	85.7
<b>Total</b>	<b>\$ 1,212.7</b>	<b>\$ 730.1</b>	<b>\$ 872.3</b>
<b>IRR</b>	<b>33.83%</b>	<b>17.44%</b>	<b>18.28%</b>
<b>Total Credit</b>	<b>\$ (255.0)</b>	<b>\$ (255.0)</b>	<b>\$ (255.0)</b>

DOR  
5/15/2003

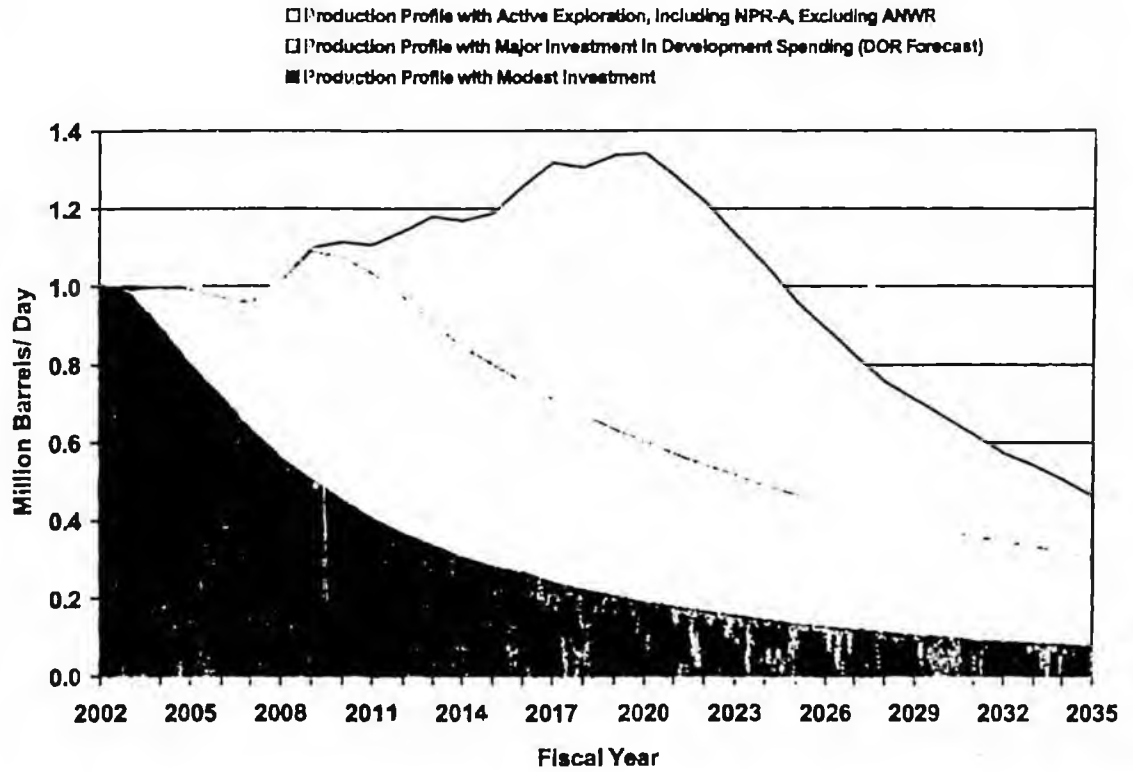
May 12, 2003

Cost of Exploration

Azerbaijan	\$ 0.05
Canada, Northwest Terr	\$ 0.10
Australia	\$ 0.18
Norway	\$ 0.22
Qatar	\$ 0.22
Brunei	\$ 0.25
Malaysia	\$ 0.30
Canada, Nova Scotia	\$ 0.35
Oman	\$ 0.35
Venezuela - Orinoco Belt	\$ 0.35
Indonesia	\$ 0.38
Thailand	\$ 0.45, less depending on level of production
Colombia	\$ 0.45
Trinidad & Tobago	\$ 0.45
Abu Dhabi	\$ 0.50
Kazakhstan	\$ 0.55, some agreements much less
Alberta	\$ 0.58
China	\$ 0.60, less depending on level of production
United Kingdom	\$ 0.60
Sakhalin, Russia	\$ 0.62, much less depending on level of production
US Gulf of Mexico	\$ 0.65
Alaska - Current	\$ 0.65

Source: Pedro van Meurs

Figure 3. ANS Production Forecast  
Modest Investment vs. Significant Investment vs. New Discoveries



### Attracting and Monitoring Investment Dollars.

Additions to North Slope production can come in two ways: 1) recovering a greater proportion of the oil in already discovered fields, or 2) discovering new fields or satellites to discovered fields. Over the next decade we project that adequate spending on discovered fields would maintain North Slope production near the million-barrels-a-day level. To keep production at or above a million barrels a day in the following decade, however, companies will have to discover new fields and new satellites to existing fields this decade. Then as discovered field production spending declines, companies will have to spend more money to bring production online from new satellites and new fields.

The figure on the next page illustrates the relationship between investment dollars spent to find and develop oil on the North Slope and the vitality of the oil industry in Alaska over the next two decades and beyond.

- If North Slope producers invest only at the level required to maintain the safety and integrity of the current production infrastructure, the dark-colored dotted area reflects the likely production profile.
- If the companies involved invest significantly to produce oil that has already been discovered, then the production forecast reflected by the light and dark dotted areas is, we believe, the likely profile. Our current revenue forecast is based upon this production profile.
- If immediate, substantial, successful and continuing exploration occurs, the top line volume profile — or more — may be attainable.
- Finally, even if exploration investments and successes are less than these optimistic hopes, unexpected additional discoveries would add to our forecast projections.

For discovered fields, we believe it will cost \$3 per barrel to drill the necessary wells and provide the infrastructure to produce the additional 4.7 billion barrels of discovered North Slope oil requiring substantial investment. (These are the 4.7 billion barrels of the 8.5 billion barrels already discovered on the slope that require significant investment, as opposed to the 3.8 billion barrels that could be produced with more moderate investments in the operations, safety and integrity of the facilities.) Therefore, to fully replace the 365 million barrels of reserves (1 million barrels per day) produced each year, the companies must spend around \$1.1 billion per year (\$3 per barrel x 365 million barrels).<sup>(6)</sup> In addition, the companies must spend \$300 million per year in LTO capital just to preserve the safety and integrity of their facilities and to maintain a base flow of oil.

For undiscovered fields, and to maintain at least a million barrels a day of production in the following decade, new fields will need to be discovered this decade at a projected finding cost of \$1 per barrel.

(6) As development spending on discovered fields declines, development spending on newly discovered fields must increase to maintain production levels.

**SB**

**185**

SFIN

FILE

# SENATE FINANCE COMMITTEE REPORT

DATE: 5/7/03

FURTHER:

DATE TURNED  
IN TO OFFICE:

REPORTED OFF  
 MAY 14 2003  
 SENATE FINANCE  
 COMMITTEE  
14 May 2003

Finance Committee considered

SENATE BILL NO. 185

## SB 185 ROYALTY REDUCTION ON CERTAIN OIL

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land."

and recommends:

- be replaced with \_\_\_\_\_ CS SB 185 (FIN)
- adopt previous \_\_\_\_\_ CS CS forthcoming (\_\_\_\_\_)
- 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#
DNR	7/3/03		✓	
Revenue	3/1/03	107.9		

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>John T. ...</i>	✓			
<i>...</i>			✓	
<i>...</i>			✓	
<i>...</i>	✓			
<i>Ben Stevens</i>	✓			
COCHAIR: <i>Linda Green</i>	✓			
COCHAIR: <i>Lisa ...</i>	✓			

MAY 14 2003

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: CSSB185(FIN)  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Royalty Reduction / BRU Revenue Operations  
Production Tax Credit Component Tax Division  
Sponsor Senator Wagoner  
Requester Senate Finance 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	81.9	81.9	81.9	81.9	81.9	81.9
Travel	10.0	10.0	10.0	10.0	10.0	10.0
Contractual	10.0	1.0	1.0	1.0	1.0	1.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>107.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	**	**	**	**	**	**
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	107.9	93.9	93.9	93.9	93.9	93.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
<b>TOTAL</b>	<b>107.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</b>	<b>93.9</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	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
  
\*\* See attachment for analysis

Prepared by: Dan Dickinson, Director Phone 269-1033  
Division: Tax Division Date/Time 5/11/03 12:11 PM  
Approved by: Bill Corbus, Commissioner Date 5/11/2003  
Agency: Department of Revenue

This legislation is intended to provide financial incentives for increased oil and gas exploration in Alaska.

The Department of Revenue's fiscal note deals only with the changes to AS 43.55 (oil and gas production tax) and not the changes in this legislation to AS 38.05 (royalties), which are addressed by the Department of Natural Resources.

This legislation creates a 20% credit against oil and gas production taxes for exploration wells drilled more than three miles from other wells, and a second 20% production tax credit for exploration wells drilled more than 25 miles from established units (including Point Thomson). The second credit may be additive to the first, for a maximum 40% production tax credit. In addition, this legislation creates a 40% credit against oil and gas production taxes for seismic operations outside of existing units.

Oil and gas exploration spending in Alaska totals approximately \$200 million per year. This is in addition to maintenance and operations spending, development costs of new wells, and the cost of enhancing existing production.

For purposes of this discussion, the Department assumes 75% of current total exploration expenditures would be eligible for the 20% production credit and that 30% of total exploration expenditures would be eligible for the 40% credit. This would create a reduction in revenues of approximately \$50 million per year (a 20% credit against 75% of \$200 million a year, or \$30 million, plus a 40% credit against 25% of \$200 million a year, or \$20 million per year).

If the credit doubles the amount of exploration at the same ratio, the annual reduction in oil and gas production tax revenues to the state would total \$100 million per year. However, if the exploration leads to further production, there could be additional royalties, oil production taxes, oil and gas property taxes and corporate income taxes totaling hundreds of millions of dollars in subsequent years. During the four years the exploration credit in this legislation would be available, there likely would be minimal new revenues to offset the revenue loss, with significant new production likely to start flowing after the credit has expired.

This credit brings Alaska more in line with international competitive practices, removing a disincentive for exploration in Alaska relative to other oil regions.

### **Operating Expenses**

This new credit will require one Revenue Auditor V to write emergency regulations in time for the 2003-2004 winter drilling season and to audit between \$200 million and \$400 million of activity per year.

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
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# FISCAL NOTE

IMPROVED COPY  
 MAY 14 2003  
 SENATE FINANCE  
 DIVISION

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: DRAFT  
 Bill Version: CSSB185(FIN) wk dr  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): 5/9/2003 Dept. Affected: Natural Resources  
 Title: Royalty Reduction on Certain Oil BRU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: Wagoner  
 Requester: Senate Finance 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	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009

CHANGE IN REVENUES (1004)	(436.9)	(847.4)	(1042.1)	(938.6)	(561.5)	(485.1)
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**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 SB 185 amends AS 38.05.180(f)(5) to permit reduced royalty rates to as low as 5 percent for oil production from submerged lands in Cook Inlet. This royalty reduction would apply primarily to oil produced from offshore platforms and is tied to the daily rate of oil production. While SB 185 will result in a net loss in state revenues, it is expected to extend the field or platform life, thereby increasing future field or platform production and revenues in the out-years beyond what is likely to occur otherwise. Cumulative estimated net royalty revenue lost over the six-year forecast horizon FY 2004-09 is estimated to be (\$4,312) thousand or about (\$719) thousand per year (undiscounted). These estimates include cumulative undiscounted royalty revenue benefits of about \$800 thousand (\$570 thousand when discounted) from field-life extension that could arise as a result of royalty relief of the type offered in SB 185. These fiscal impacts do not consider the broader employment and regional economic effects from extended platform life. Also, field-life extension also provides an opportunity for additional exploration from existing platforms.

Prepared by: Mark D. Myers Phone 269-8802  
 Division: Oil and Gas Date/Time 5/9/2003  
 Approved by: Tom Irwin, Commissioner Date 5/9/2003  
 Agency: Natural Resources

## FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSSB185(FIN) wk dr

### ANALYSIS CONTINUATION

SB 185 recognizes three broad groups of platforms, distinguished primarily by economic attributes associated with the degree of water handling and water injection. Platforms with major water handling and/or injection include: Dolly, Grayling, King Salmon, Steelhead, and Monopod. When oil production on these platforms falls below 1,200 barrels of oil per day (BPD) for at least one calendar quarter as certified by AOGCC, then the royalty percentage associated with that production would fall from whatever rate applies under the lease to a rate of 5 percent "for as long as the volume of oil produced from the platform remains less than 1,200 barrels a day." If average production from the field or platform that had declined below 1,200 BPD rises above this threshold for a period of at least one calendar quarter, then the bill provides for a schedule of up-ward royalty adjustments to production beyond the one-quarter term.

Platforms that presently employ moderate water handling and/or injection include those associated with the Middle Ground Shoal Field: Baker, Dillon, XTO.A and XTO.C. SB 185 contemplates 975 barrels of oil per day as the economic limit rate of production for this group of moderate water-handling platforms. Platform oil production below this threshold would trigger royalty reduction from whatever rate applies under the lease to a rate of 5 percent. Stepwise upward adjustments in the royalty percentage, similar to those described above apply as oil production recovers to a rate of 1,350 BPD for a sustained period of at least one calendar quarter.

Platforms that do not presently employ substantial water handling and/or injection include: Granite Point, Anna, and Bruce in the Granite Point Field. SB 185 provides for 750 barrels of oil per day as the economic limit rate of production for this group of platforms that would trigger royalty reduction from whatever rate applies under the lease to 5 percent. Royalty percentage upward adjustments, similar to those described under the 1,200 BPD threshold apply when oil production recovers for a sustained period of at least one calendar quarter. Note, the 750 BPD economic-limit rate of production also, applies to the West McArthur River field.

Over the past three-to-four decades, fifteen offshore, oil-production platforms have facilitated oil and gas operations in six offshore oil fields in the Cook Inlet Basin. Oil production on most of these platforms began around 1965-to-1967. The Osprey Platform, owned by Forest Oil, started continuous oil production in December 2002. Oil production from the Spark and Spurr platforms was shut-in in January 1992 and July 1992, respectively. The Dillon Platform, which served the Middle Ground Shoal oil field since September 1967, was shut-in by Unocal in January 2003. At present, twelve platforms support oil-production operations in the Cook Inlet Basin.

Three of the twelve active platforms currently produce oil at daily rates below the 750 barrels of oil per day (BPD) threshold contained in SB 185. These platforms, and the dates that corresponding production fell below 750 BPD are:

Platform	Field	Operator	Gross Production FY2002 / FY2003 (BPD)	Date Production falls below 750 BPD
Bruce	Granite Point	Unocal	619 / 476	July 1987
Dillon	Middle Ground Shoal	Unocal	423 / 374	March 1987
Baker	Middle Ground Shoal	Unocal	723 / 558	June 2002

The royalty revenue loss to the state would be approximately \$1.03 million FY 2002 and \$0.9 million in FY 2003 had SB 185 been in effect during these periods.

Several platforms would be expected to trigger royalty relief under SB 185 during the FY2004 – FY2009 forecast horizon. If the rates of platform production continue to follow the historic patterns of decline, then the rate of production is expected to fall below 1,200 BPD for the King Salmon Platform in August 2004 and Steelhead in April 2005; platform production for XTO.C is expected to fall below 750 BPD in February 2004, as indicated in the following table:

Platform	Field	Operator	Gross Production (BPD) FY2002 / FY2003	Expected Date Production falls below	
				975 BPD	1,200 BPD
King Salmon	McArthur River	Unocal	7,468 / 3,891		Aug 2004
Steelhead	McArthur River	Unocal	1,914 / 1,584		April 2005
XTO.C	Middle Ground Shoal	XTO	1,047 / 1,099	Feb 2004	

## FISCAL NOTE

STATE OF ALASKA  
2603 LEGISLATIVE SESSION

BILL NO.

CSSB185(FIN) wk or

### ANALYSIS CONTINUATION

The Dillon platform was shut-in in January 2003 and Baker is subject to imminent shut-in based on representations made by Unocal. These platforms are assumed to be shut-in for purposes of the forward fiscal impact analysis. The value of Cook Inlet crude oil in future years is assumed to be \$20.00 per barrel. The estimated cumulative gross royalty revenue loss is (\$5.1) million undiscounted over the six-year forecast period (equals (\$4.1) million when discounted at 8% per year), based on the difference between expected royalty revenue with and without the provisions contained in SB 185, not counting potential incremental production from extended field or platform life. When the cash-flow impact of royalty reduction under SB 185 is taken into account, delayed platform shut-in is expected for four platforms (including Bruce, described above) during the forecast horizon. The shut-in deferment would range between 2 and 14 months for a given platform. The resulting shut-in delays would generate between 500-to-900 thousand barrels of total incremental production (includes working-interest and royalty), of which approximately one-third would occur in the FY 2005-06 timeframe. The remainder of incremental production would occur during FY 2008-09 and beyond. The cumulative, upside royalty impact of the expected incremental production would range between \$400-to-\$800 thousand, depending on assumptions regarding threshold rates of production, discounting, and timing of ultimate platform shut-in.

Taking all short- and long-run factors into consideration, the overall royalty revenue impact of SB 185 would be approximately (\$4.3) million [(\$5.1) million in royalty foregone plus about \$0.8 million in royalty gain from extended platform life] or about (\$719) thousand per year (net) over the six-year period, FY 2004-2009. Note that these fiscal impacts do not consider the broader employment and regional economic effects from extended platform life.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

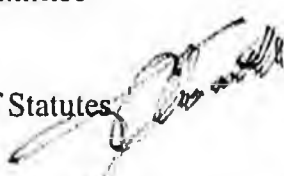
## MEMORANDUM

May 14, 2003

**SUBJECT:** Adm. nal change to CSSB 185 (Finance)  
(Work Order No. 23-LS0926\U)

**TO:** Mindy Rowland  
Senate Finance Committee

**FROM:** Jack Chenoweth  
Assistant Revisor of Statutes



At the request of Senator Wagoner's staff, at page 5, line 17, I changed "commission" to "commissioner" to correct our error. There is backup in the drafting file to what became amendment I.1 indicating that "commissioner" -- the reference is to the commissioner of natural resources -- and not "commission" -- presumably the reference would have been to the Alaska Oil and Gas Conservation Commission -- was intended.

Please share this with the Senate Finance Co-Chairs as appropriate.

JBC:lmb  
03-208.lmb

cc: Senator Wagoner

adopted

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percent of the total exploration expenditures; or

(2) 40 percent of the total exploration expenditures that qualify under (b) and (e) of this section, for a total production tax credit that does not exceed 40 percent of the total qualified exploration expenditures.

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed on or after July 1, 2003, and before July 1, 2007, and

(1) may be for seismic or geophysical exploration costs not connected with a specific well;

(2) if for an exploration well,

(A) must be incurred by an explorer that holds an interest in the exploration well for which the production tax credit is claimed;

(B) may be for either an oil or gas discovery well or a dry hole;

and

(C) must be for goods, services, or rentals of personal property reasonably required for the surface preparation, drilling, casing, cementing, and logging of an exploration well, and, in the case of a dry hole, for the expenses required for abandonment if the well is abandoned within 18 months after the date the well was spudded;

(3) may not be for testing, ~~cementing~~, stimulation, or completion costs; administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; or other costs that are generally recognized as indirect costs or financing costs; and

←  
delete

(4) may not be incurred for an exploration well or seismic exploration that is included in a plan of exploration or a plan of development for any unit on May 13, 2003.

(c) To be eligible for a 20 percent production tax credit, exploration expenditures must

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

(2) be for an exploration well that is located and drilled in such a

**CS FOR SENATE BILL NO. 185(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Offered:**

**Referred:**

**Sponsor(s): SENATOR WAGONER**

*Pls. proof  
OK sp*

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet**  
2 **submerged land, and for a credit for certain exploration expenses against oil and gas**  
3 **properties production taxes on oil and gas produced from a lease or property in the**  
4 **state."**

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

6 **\* Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

7 (j) The commission shall certify to the Department of Natural Resources the  
8 volume of oil production from a field or platform for the purposes of  
9 AS 38.05.180(f)(6)(A), (C), (E), and (G).

10 **\* Sec. 2.** AS 38.05.180(f) is amended by adding a new paragraph to read:

11 (6) notwithstanding and in lieu of a requirement in the leasing method  
12 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases  
13 unitized as described in (p) of this section, leases subject to an agreement described in  
14 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

1 an oil field located offshore in Cook Inlet on which an oil production platform  
2 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the  
3 field located offshore in Cook Inlet and described in (G) of this paragraph,

4 (A) shall pay a royalty of five percent on oil produced from the  
5 platform if oil production that equaled or exceeded a volume of 1,200 barrels a  
6 day declines to less than that amount for a period of at least one calendar  
7 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for  
8 as long as the volume of oil produced from the platform remains less than  
9 1,200 barrels a day; the provisions of this subparagraph apply to

10 (i) Dolly;

11 (ii) Grayling;

12 (iii) King Salmon;

13 (iv) Steelhead; and

14 (v) Monopod;

15 (B) shall pay a royalty calculated under this subparagraph if the  
16 volume of oil produced from the platform that was certified by the Alaska Oil  
17 and Gas Conservation Commission under (A) of this paragraph later increases  
18 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a  
19 period of at least one calendar quarter; until the royalty rate determined under  
20 this subparagraph applies, the royalty continues to be calculated under (A) of  
21 this paragraph; on and after the first day of the month following the month the  
22 increased production exceeds the period specified in this subparagraph, the  
23 royalty payable under this subparagraph is

24 (i) for production of at least 1,200 barrels a day but not  
25 more than 1,300 barrels a day - seven percent;

26 (ii) for production of more than 1,300 barrels a day but  
27 not more than 1,400 barrels a day - 8.5 percent;

28 (iii) for production of more than 1,400 barrels a day but  
29 not more than 1,500 barrels a day - 10 percent; and

30 (iv) for production of more than 1,500 barrels a day -  
31 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the  
2 platform if oil production that equaled or exceeded a volume of 975 barrels a  
3 day declines to less than that amount for a period of at least one calendar  
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for  
5 as long as the volume of oil produced from the platform remains less than 975  
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;  
8 (ii) Dillon;  
9 (iii) XTO.A; and  
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the  
12 volume of oil produced from the platform that was certified by the Alaska Oil  
13 and Gas Conservation Commission under (C) of this paragraph later increases  
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a  
15 period of at least one calendar quarter; until the royalty rate determined under  
16 this subparagraph applies, the royalty continues to be calculated under (C) of  
17 this paragraph; on and after the first day of the month following the month the  
18 increased production exceeds the period specified in this subparagraph, the  
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not  
21 more than 1,100 barrels a day - seven percent;  
22 (ii) for production of more than 1,100 barrels a day but  
23 not more than 1,200 barrels a day - 8.5 percent;  
24 (iii) for production of more than 1,200 barrels a day but  
25 not more than 1,350 barrels a day - 10 percent; and  
26 (iv) for production of more than 1,350 barrels a day -  
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the  
29 platform if oil production that equaled or exceeded a volume of 750 barrels a  
30 day declines to less than that amount for a period of at least one calendar  
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750  
2 barrels a day; the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the  
7 volume of oil produced from the platform that was certified by the Alaska Oil  
8 and Gas Conservation Commission under (E) of this paragraph later increases  
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a  
10 period of at least one calendar quarter; until the royalty rate determined under  
11 this subparagraph applies, the royalty continues to be calculated under (E) of  
12 this paragraph; on and after the first day of the month following the month the  
13 increased production exceeds the period specified in this subparagraph, the  
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not  
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but  
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but  
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -  
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the  
24 field if oil production that equaled or exceeded a volume of 750 barrels a day  
25 declines to less than that amount for a period of at least one calendar quarter,  
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long  
27 as the volume of oil produced from the field remains less than 750 barrels a  
28 day; the provisions of this subparagraph apply to the West McArthur River  
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the  
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to  
 2 750 or more barrels a day and remains at 750 or more barrels a day for a period  
 3 of at least one calendar quarter; until the royalty rate determined under this  
 4 subparagraph applies, the royalty continues to be calculated under (G) of this  
 5 paragraph; on and after the first day of the month following the month the  
 6 increased production exceeds the period specified in this subparagraph, the  
 7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not  
 9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but  
 11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but  
 13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -  
 15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in  
 17 (A) - (H) of this paragraph only if the commissioner determines that the  
 18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the  
 20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due  
 22 to mechanical or other choke-back factors, temporary shutdowns or  
 23 decreased production due to environmental or facility constraints, or  
 24 market conditions.

25 \* **Sec. 3.** AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms  
 27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a  
 28 credit against the tax due under this chapter is allowed in an amount equal to

29 (1) 20 percent of the total exploration expenditures that qualify under  
 30 (b) and (c) of this section, 20 percent of the total exploration expenditures that qualify  
 31 under (b) and (d) of this section, or both, for a total credit that does not exceed 40

tech.  
correction

1 percent of the total exploration expenditures; or

2 (2) 40 percent of the total exploration expenditures that qualify under  
3 (b) and (e) of this section, for a total production tax credit that does not exceed 40  
4 percent of the total qualified exploration expenditures.

5 (b) To qualify for the production tax credit under (a) of this section, an  
6 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
7 and before July 1, 2007, and

8 (1) may be for seismic or geophysical exploration costs not connected  
9 with a specific well;

10 (2) if for an exploration well,

11 (A) must be incurred by an explorer that holds an interest in the  
12 exploration well for which the production tax credit is claimed;

13 (B) may be for either an oil or gas discovery well or a dry hole;  
14 and

15 (C) must be for goods, services, or rentals of personal property  
16 reasonably required for the surface preparation, drilling, casing, cementing,  
17 and logging of an exploration well, and, in the case of a dry hole, for the  
18 expenses required for abandonment if the well is abandoned within 18 months  
19 after the date the well was spudded;

20 (3) may not be for testing, stimulation, or completion costs;  
21 administration, supervision, engineering, or lease operating costs; geological or  
22 management costs; community relations or environmental costs; bonuses, taxes, or  
23 other payments to governments related to the well; or other costs that are generally  
24 recognized as indirect costs or financing costs; and

25 (4) may not be incurred for an exploration well or seismic exploration  
26 that is included in a plan of exploration or a plan of development for any unit on  
27 May 13, 2003.

28 (c) To be eligible for a 20 percent production tax credit, exploration  
29 expenditures must

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

31 (2) be for an exploration well that is located and drilled in such a

Amend  
#1  
deleted  
"cementing"

1 manner that the bottom hole is located not less than three miles away from the bottom  
2 hole of a preexisting suspended, completed, or abandoned oil or gas well; in this  
3 paragraph, "preexisting" means a well that was spudded not less than 150 days before  
4 the exploration well was spudded;

5 (d) To be eligible for an additional 20 percent production tax credit, an  
6 exploration expenditure must

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

8 (2) be for an exploration well that is located not less than 25 miles  
9 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a  
10 plan of development.

11 (e) To be eligible for the 40 percent production tax credit in (a) of this section,  
12 the exploration expenditure must

13 (1) qualify under (b) of this section;

14 (2) be for seismic exploration; and

15 (3) have been conducted outside the boundaries of a production unit or  
16 an exploration unit; however, the amount of the expenditure that is otherwise eligible  
17 under this subsection is reduced proportionately by the portion of the seismic  
18 exploration activity that crossed into a production unit or an exploration unit.

19 (f) For a production tax credit under this section,

20 (1) an explorer shall, in a form prescribed by the department, claim the  
21 credit and submit information sufficient to demonstrate to the department's satisfaction  
22 that the claimed exploration expenditures qualify under this section;

23 (2) an explorer shall agree, in writing,

24 (A) to notify the Department of Natural Resources, within 30  
25 days after completion of seismic or geophysical data processing or completion  
26 of a well for which exploration costs are claimed, of the date of completion and  
27 submit a report to that department describing the processing sequence and  
28 providing a list of data sets available;

29 (B) to provide to the Department of Natural Resources, within  
30 30 days after the date of a request, specific data sets, ancillary data, and reports  
31 identified in (A) of this paragraph;

1 (C) that, notwithstanding any provision of AS 38, information  
2 provided under this paragraph will be held confidential by the Department of  
3 Natural Resources for 10 years following the completion date, at which time  
4 that department will release the information after 30 days' public notice;

5 (3) if the claimed expenditures are for an exploration well and if more  
6 than one explorer holds an interest in that well, each explorer may claim an amount of  
7 credit that is proportional to the explorer's interest in the exploration well;

8 (4) the department may exercise the full extent of its powers as though  
9 the explorer were a taxpayer under this title, in order to verify that the claimed  
10 expenditures are qualified exploration expenditures under this section; and

11 (5) if the department is satisfied that the explorer's claimed  
12 expenditures are qualified under this section, the department shall issue to the explorer  
13 a production tax credit certificate for the amount of credit to be allowed against  
14 production taxes due under this chapter.

15 (g) An explorer may transfer, convey, or sell its production tax credit  
16 certificate to any person, and any person who receives a production tax credit  
17 certificate may also transfer, convey, or sell the certificate.

18 (h) A producer that purchases a production tax credit certificate may apply the  
19 credits against its production tax liability under this chapter. Regardless of the price  
20 the producer paid for the certificate, the producer may receive a credit against its  
21 production tax liability for the full amount of the credit, but for not more than the  
22 amount for which the certificate is issued. A production tax credit allowed under this  
23 section may not be applied more than once.

24 (i) For a production tax credit under this section,

25 (1) the amount of the credit that may be applied against the production  
26 tax for each tax month may not exceed the total production tax liability of the taxpayer  
27 applying the credit for the same month; and

28 (2) an amount of the production tax credit that is greater than the total  
29 tax liability of the taxpayer applying the credit for a tax month may be carried forward  
30 and applied against the taxpayer's production tax liability in one or more immediately  
31 following months.

1 (j) Notwithstanding any other provision of this title, of AS 31.05, or of  
2 AS 40.25.100, the department shall provide to the Department of Natural Resources  
3 information submitted with a claim under this section to support the eligibility of an  
4 exploration expenditure, including seismic exploration data and well data, and any  
5 information described in (f)(2) of this section received by the department.

6 (k) In this section, "explorer" means a person who, in exploring for new oil or  
7 gas reserves, incurs expenditures.



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### FAX COVER SHEET

DATE: 14 May 2003 TIME: 10:50 am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 2

FROM: MINDY ROWLAND  
SENATE FINANCE COMMITTEE SECRETARY  
PHONE: 465-4935  
FAX: 465-2187

NOTES: Final Please  
CS SB 185 23-LS0926\5  
Chenoweth 5/14/03  
plus attached amendment

SENATE FINANCE COMMITTEE  
5/14/2003 COMMITTEE ACTION

<b>Bill Number</b>	SB 185		
<b>Amendment</b>	CS 8"5" as amended		
<b>Motion</b>	report out		
<b><u>Motion by</u></b>	Taylor		
<b><u>Objection by</u></b>	Taylor		
<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>			

adopted 5/13/03

WORK DRAFT

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WORK DRAFT

23-LS0926\Q  
Chenoweth  
5/13/03

**CS FOR SENATE BILL NO. 185( )**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY**

**Offered:  
Referred:**

**Sponsor(s): SENATOR WAGONER**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act providing for a reduction of royalty on certain oil produced from Cook Inlet  
2 submerged land, and for a credit for certain exploration expenses against oil and gas  
3 properties production taxes on oil and gas produced from a lease or property in the  
4 state."

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

6 \* **Section. 1.** AS 31.05.030 is amended by adding a new subsection to read:

7 (j) The commission shall certify to the Department of Natural Resources the  
8 volume of oil production from a field or platform for the purposes of  
9 AS 38.05.180(f)(5)(A), (C), (E), and (G).

10 \* **Sec. 2.** AS 38.05.180(f) is amended by adding a new paragraph to read:

11 (6) notwithstanding and in lieu of a requirement in the leasing method  
12 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases  
13 unitized as described in (p) of this section, leases subject to an agreement described in  
14 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

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an oil field located offshore in Cook Inlet on which an oil production platform specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the field located offshore in Cook Inlet and described in (G) of this paragraph,

(A) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 1,200 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 1,200 barrels a day; the provisions of this subparagraph apply to

- (i) Dolly;
- (ii) Grayling;
- (iii) King Salmon;
- (iv) Steelhead; and
- (v) Monopod;

(B) shall pay a royalty calculated under this subparagraph if the volume of oil produced from the platform that was certified by the Alaska Oil and Gas Conservation Commission under (A) of this paragraph later increases to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a period of at least one calendar quarter; until the royalty rate determined under this subparagraph applies, the royalty continues to be calculated under (A) of this paragraph; on and after the first day of the month following the month the increased production exceeds the period specified in this subparagraph, the royalty payable under this subparagraph is

- (i) for production of at least 1,200 barrels a day but not more than 1,300 barrels a day - seven percent;
- (ii) for production of more than 1,300 barrels a day but not more than 1,400 barrels a day - 8.5 percent;
- (iii) for production of more than 1,400 barrels a day but not more than 1,500 barrels a day - 10 percent; and
- (iv) for production of more than 1,500 barrels a day - 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the  
2 platform if oil production that equaled or exceeded a volume of 975 barrels a  
3 day declines to less than that amount for a period of at least one calendar  
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for  
5 as long as the volume of oil produced from the platform remains less than 975  
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;  
8 (ii) Dillon;  
9 (iii) XTO.A; and  
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the  
12 volume of oil produced from the platform that was certified by the Alaska Oil  
13 and Gas Conservation Commission under (C) of this paragraph later increases  
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a  
15 period of at least one calendar quarter; until the royalty rate determined under  
16 this subparagraph applies, the royalty continues to be calculated under (C) of  
17 this paragraph; on and after the first day of the month following the month the  
18 increased production exceeds the period specified in this subparagraph, the  
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not  
21 more than 1,100 barrels a day - seven percent;  
22 (ii) for production of more than 1,100 barrels a day but  
23 not more than 1,200 barrels a day - 8.5 percent;  
24 (iii) for production of more than 1,200 barrels a day but  
25 not more than 1,350 barrels a day - 10 percent; and  
26 (iv) for production of more than 1,350 barrels a day -  
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the  
29 platform if oil production that equaled or exceeded a volume of 750 barrels a  
30 day declines to less than that amount for a period of at least one calendar  
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750  
2 barrels a day; the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the  
7 volume of oil produced from the platform that was certified by the Alaska Oil  
8 and Gas Conservation Commission under (E) of this paragraph later increases  
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a  
10 period of at least one calendar quarter; until the royalty rate determined under  
11 this subparagraph applies, the royalty continues to be calculated under (E) of  
12 this paragraph; on and after the first day of the month following the month the  
13 increased production exceeds the period specified in this subparagraph, the  
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not  
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but  
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but  
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -  
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the  
24 field if oil production that equaled or exceeded a volume of 750 barrels a day  
25 declines to less than that amount for a period of at least one calendar quarter,  
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long  
27 as the volume of oil produced from the field remains less than 750 barrels a  
28 day; the provisions of this subparagraph apply to the West McArthur River  
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the  
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to  
2 750 or more barrels a day and remains at 750 or more barrels a day for a period  
3 of at least one calendar quarter; until the royalty rate determined under this  
4 subparagraph applies, the royalty continues to be calculated under (G) of this  
5 paragraph; on and after the first day of the month following the month the  
6 increased production exceeds the period specified in this subparagraph, the  
7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not  
9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but  
11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but  
13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -  
15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in  
17 (A) - (H) of this paragraph only if the commission determines that the  
18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the  
20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due  
22 to mechanical or other choke-back factors, temporary shutdowns or  
23 decreased production due to environmental or facility constraints, or  
24 market conditions.

25 \* **Sec. 3.** AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms  
27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a  
28 credit against the tax due under this chapter is allowed in an amount equal to 20  
29 percent of the total exploration expenditures that qualify under (b) and (c) of this  
30 section and an additional 20 percent of the total exploration expenditures that qualify  
31 under (b) and (d) of this section, or in an amount equal to 40 percent of the total

1 exploration expenditures that qualify under (b) and (e) of this section, for a total  
2 production tax credit that does not exceed 40 percent of the total qualified exploration  
3 expenditures.

4 (b) To qualify for the production tax credit under (a) of this section, an  
5 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
6 and before July 1, 2007, and

7 (1) may be for seismic or geophysical exploration costs not connected  
8 with a specific well;

9 (2) if for an exploration well,

10 (A) must be incurred by an explorer that holds an interest in the  
11 exploration well for which the production tax credit is claimed;

12 (B) may be for either an oil or gas discovery well or a dry hole;  
13 and

14 (C) must be for goods, services, or rentals of personal property  
15 reasonably required for the surface preparation, drilling, casing, and logging of  
16 an exploration well, and, in the case of a dry hole, for the expenses required for  
17 abandonment;

18 (3) may not be for testing, cementing, stimulation, or completion costs;  
19 administration, supervision, engineering, or lease operating costs; geological or  
20 management costs; community relations or environmental costs; taxes or other  
21 payments to governments related to the well; or other costs that are generally  
22 recognized as indirect costs or financing costs; and

23 (4) may not be incurred for an exploration well or seismic exploration  
24 that is included in a plan of exploration or a plan of development for any unit in the  
25 state at the time the expense is incurred.

26 (c) To be eligible for a 20 percent production tax credit, exploration  
27 expenditures must

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

29 (2) be for an exploration well that is located and drilled in such a  
30 manner that neither the bore hole nor any part of the bore hole is at any time located  
31 less than three miles away from any part of a bore hole of a preexisting suspended,

1 completed, or abandoned oil or gas well.

2 (d) To be eligible for an additional 20 percent production tax credit, an  
3 exploration expenditure must

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

5 (2) be for an exploration well that is located not less than 25 miles  
6 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a  
7 plan of development.

8 (e) To be eligible for the 40 percent production tax credit in (a) of this section,  
9 the exploration expenditure must

10 (1) be for seismic exploration;

11 (2) qualify under (b) of this section; and

12 (3) have been conducted outside the boundaries of a production unit or  
13 an exploration unit; however, the amount of the expenditure that is otherwise eligible  
14 under this subsection is reduced proportionately by the portion of the seismic  
15 exploration activity that crossed into a production unit or an exploration unit.

16 (f) For a production tax credit under this section,

17 (1) an explorer shall, in a form prescribed by the department, claim the  
18 credit and submit information sufficient to demonstrate to the department's satisfaction  
19 that the claimed exploration expenditures qualify under this section;

20 (2) an explorer shall agree, in writing,

21 (A) to notify the Department of Natural Resources, within 30  
22 days after completion of seismic or geophysical data processing for a well for  
23 which exploration costs are claimed, of the date of completion and submit a  
24 report to that department describing the processing sequence and providing a  
25 list of data sets available;

26 (B) to provide to the Department of Natural Resources, within  
27 30 days after the date of a request, specific data sets, ancillary data, and reports  
28 identified in (A) of this paragraph;

29 (C) that, notwithstanding any provision of AS 38, information  
30 provided under this paragraph will be held confidential by the Department of  
31 Natural Resources for 10 years following the completion date, at which time

1 that department will release the information after 30 days' public notice;

2 (3) if the claimed expenditures are for an exploration well and if more  
3 than one explorer holds an interest in that well, each explorer may claim an amount of  
4 credit that is proportional to the explorer's interest in the exploration well;

5 (4) the department may exercise the full extent of its powers as though  
6 the explorer were a taxpayer under this title, in order to verify that the claimed  
7 expenditures are qualified exploration expenditures under this section; and

8 (5) if the department is satisfied that the explorer's claimed  
9 expenditures are qualified under this section, the department shall issue to the explorer  
10 a production tax credit certificate for the amount of credit to be allowed against  
11 production taxes due under this chapter.

12 (g) An explorer may transfer, convey, or sell its production tax credit  
13 certificate to any person, and any person who receives a production tax credit  
14 certificate may also transfer, convey, or sell the certificate.

15 (h) A producer that purchases a production tax credit certificate may apply the  
16 credits against its production tax liability under this chapter. Regardless of the price  
17 the producer paid for the certificate, the producer may receive a credit against its  
18 production tax liability for the full amount of the credit, but for not more than the  
19 amount for which the certificate is issued. A production tax credit allowed under this  
20 section may not be applied more than once.

21 (i) For a production tax credit under this section,

22 (1) the amount of the credit that may be applied against the production  
23 tax for each tax month may not exceed the total production tax liability of the taxpayer  
24 applying the credit for the same month; and

25 (2) an amount of the production tax credit that is greater than the total  
26 tax liability of the taxpayer applying the credit for a tax month may be carried forward  
27 and applied against the taxpayer's production tax liability in one or more immediately  
28 following months.

29 (j) Notwithstanding any other provision of this title, of AS 31.05, or of  
30 AS 40.25.100, the department shall provide to the Department of Natural Resources  
31 information submitted with a claim under this section to support the eligibility of an

1 exploration expenditure, including seismic exploration data and well data, and any  
2 information described in (f)(2) of this section received by the department.

3 (k) In this section, "explorer" means a person who, in exploring for new oil or  
4 gas reserves, incurs expenditures.

Adopted 5/14/03

(and amended)  
WORK DRAFT

23-LS0926\S

Chenoweth

5/14/03

**CS FOR SENATE BILL NO. 185( )**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY**

**Offered:  
Referred:**

**Sponsor(s): SENATOR WAGONER**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act providing for a reduction of royalty on certain oil produced from Cook Inlet  
2 submerged land, and for a credit for certain exploration expenses against oil and gas  
3 properties production taxes on oil and gas produced from a lease or property in the  
4 state."

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

6 \* **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

7 (j) The commission shall certify to the Department of Natural Resources the  
8 volume of oil production from a field or platform for the purposes of  
9 AS 38.05.180(f)(6)(A), (C), (E), and (G).

10 \* **Sec. 2.** AS 38.05.180(f) is amended by adding a new paragraph to read:

11 (6) notwithstanding and in lieu of a requirement in the leasing method  
12 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases  
13 unitized as described in (p) of this section, leases subject to an agreement described in  
14 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

1 an oil field located offshore in Cook Inlet on which an oil production platform  
2 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the  
3 field located offshore in Cook Inlet and described in (G) of this paragraph,

4 (A) shall pay a royalty of five percent on oil produced from the  
5 platform if oil production that equaled or exceeded a volume of 1,200 barrels a  
6 day declines to less than that amount for a period of at least one calendar  
7 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for  
8 as long as the volume of oil produced from the platform remains less than  
9 1,200 barrels a day; the provisions of this subparagraph apply to

10 (i) Dolly;

11 (ii) Grayling;

12 (iii) King Salmon;

13 (iv) Steelhead; and

14 (v) Monopod;

15 (B) shall pay a royalty calculated under this subparagraph if the  
16 volume of oil produced from the platform that was certified by the Alaska Oil  
17 and Gas Conservation Commission under (A) of this paragraph later increases  
18 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a  
19 period of at least one calendar quarter; until the royalty rate determined under  
20 this subparagraph applies, the royalty continues to be calculated under (A) of  
21 this paragraph; on and after the first day of the month following the month the  
22 increased production exceeds the period specified in this subparagraph, the  
23 royalty payable under this subparagraph is

24 (i) for production of at least 1,200 barrels a day but not  
25 more than 1,300 barrels a day - seven percent;

26 (ii) for production of more than 1,300 barrels a day but  
27 not more than 1,400 barrels a day - 8.5 percent;

28 (iii) for production of more than 1,400 barrels a day but  
29 not more than 1,500 barrels a day - 10 percent; and

30 (iv) for production of more than 1,500 barrels a day -  
31 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the  
2 platform if oil production that equaled or exceeded a volume of 975 barrels a  
3 day declines to less than that amount for a period of at least one calendar  
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for  
5 as long as the volume of oil produced from the platform remains less than 975  
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;  
8 (ii) Dillon;  
9 (iii) XTO.A; and  
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the  
12 volume of oil produced from the platform that was certified by the Alaska Oil  
13 and Gas Conservation Commission under (C) of this paragraph later increases  
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a  
15 period of at least one calendar quarter; until the royalty rate determined under  
16 this subparagraph applies, the royalty continues to be calculated under (C) of  
17 this paragraph; on and after the first day of the month following the month the  
18 increased production exceeds the period specified in this subparagraph, the  
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not  
21 more than 1,100 barrels a day - seven percent;  
22 (ii) for production of more than 1,100 barrels a day but  
23 not more than 1,200 barrels a day - 8.5 percent;  
24 (iii) for production of more than 1,200 barrels a day but  
25 not more than 1,350 barrels a day - 10 percent; and  
26 (iv) for production of more than 1,350 barrels a day -  
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the  
29 platform if oil production that equaled or exceeded a volume of 750 barrels a  
30 day declines to less than that amount for a period of at least one calendar  
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750  
2 barrels a day; the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the  
7 volume of oil produced from the platform that was certified by the Alaska Oil  
8 and Gas Conservation Commission under (E) of this paragraph later increases  
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a  
10 period of at least one calendar quarter; until the royalty rate determined under  
11 this subparagraph applies, the royalty continues to be calculated under (E) of  
12 this paragraph; on and after the first day of the month following the month the  
13 increased production exceeds the period specified in this subparagraph, the  
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not  
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but  
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but  
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -  
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the  
24 field if oil production that equaled or exceeded a volume of 750 barrels a day  
25 declines to less than that amount for a period of at least one calendar quarter,  
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long  
27 as the volume of oil produced from the field remains less than 750 barrels a  
28 day; the provisions of this subparagraph apply to the West McArthur River  
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the  
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to  
2 750 or more barrels a day and remains at 750 or more barrels a day for a period  
3 of at least one calendar quarter; until the royalty rate determined under this  
4 subparagraph applies, the royalty continues to be calculated under (G) of this  
5 paragraph; on and after the first day of the month following the month the  
6 increased production exceeds the period specified in this subparagraph, the  
7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not  
9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but  
11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but  
13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -  
15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in  
17 (A) - (H) of this paragraph only if the commission determines that the  
18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the  
20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due  
22 to mechanical or other choke-back factors, temporary shutdowns or  
23 decreased production due to environmental or facility constraints, or  
24 market conditions.

25 \* **Sec. 3.** AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms  
27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a  
28 credit against the tax due under this chapter is allowed in an amount equal to

29 (1) 20 percent of the total exploration expenditures that qualify under  
30 (b) and (c) of this section, 20 percent of the total exploration expenditures that qualify  
31 under (b) and (d) of this section, or both, for a total credit that does not exceed 40

1 percent of the total exploration expenditures; or

2 (2) 40 percent of the total exploration expenditures that qualify under  
3 (b) and (e) of this section, for a total production tax credit that does not exceed 40  
4 percent of the total qualified exploration expenditures.

5 (b) To qualify for the production tax credit under (a) of this section, an  
6 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
7 and before July 1, 2007, and

8 (1) may be for seismic or geophysical exploration costs not connected  
9 with a specific well;

10 (2) if for an exploration well,

11 (A) must be incurred by an explorer that holds an interest in the  
12 exploration well for which the production tax credit is claimed;

13 (B) may be for either an oil or gas discovery well or a dry hole:  
14 and

15 (C) must be for goods, services, or rentals of personal property  
16 reasonably required for the surface preparation, drilling, casing, cementing,  
17 and logging of an exploration well, and, in the case of a dry hole, for the  
18 expenses required for abandonment if the well is abandoned within 18 months  
19 after the date the well was spudded;

20 (3) may not be for testing, cementing, stimulation, or completion costs;  
21 administration, supervision, engineering, or lease operating costs; geological or  
22 management costs; community relations or environmental costs; bonuses, taxes, or  
23 other payments to governments related to the well; or other costs that are generally  
24 recognized as indirect costs or financing costs; and

25 (4) may not be incurred for an exploration well or seismic exploration  
26 that is included in a plan of exploration or a plan of development for any unit on  
27 May 13, 2003.

28 (c) To be eligible for a 20 percent production tax credit, exploration  
29 expenditures must

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

31 (2) be for an exploration well that is located and drilled in such a

1 manner that the bottom hole is located not less than three miles away from the bottom  
2 hole of a preexisting suspended, completed, or abandoned oil or gas well; in this  
3 paragraph, "preexisting" means a well that was spudded not less than 150 days before  
4 the exploration well was spudded;

5 (d) To be eligible for an additional 20 percent production tax credit, an  
6 exploration expenditure must

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

8 (2) be for an exploration well that is located not less than 25 miles  
9 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a  
10 plan of development.

11 (e) To be eligible for the 40 percent production tax credit in (a) of this section,  
12 the exploration expenditure must

13 (1) qualify under (b) of this section;

14 (2) be for seismic exploration; and

15 (3) have been conducted outside the boundaries of a production unit or  
16 an exploration unit; however, the amount of the expenditure that is otherwise eligible  
17 under this subsection is reduced proportionately by the portion of the seismic  
18 exploration activity that crossed into a production unit or an exploration unit.

19 (f) For a production tax credit under this section,

20 (1) an explorer shall, in a form prescribed by the department, claim the  
21 credit and submit information sufficient to demonstrate to the department's satisfaction  
22 that the claimed exploration expenditures qualify under this section;

23 (2) an explorer shall agree, in writing,

24 (A) to notify the Department of Natural Resources, within 30  
25 days after completion of seismic or geophysical data processing or completion  
26 of a well for which exploration costs are claimed, of the date of completion and  
27 submit a report to that department describing the processing sequence and  
28 providing a list of data sets available;

29 (B) to provide to the Department of Natural Resources, within  
30 30 days after the date of a request, specific data sets, ancillary data, and reports  
31 identified in (A) of this paragraph;

1 (C) that, notwithstanding any provision of AS 38, information  
2 provided under this paragraph will be held confidential by the Department of  
3 Natural Resources for 10 years following the completion date, at which time  
4 that department will release the information after 30 days' public notice;

5 (3) if the claimed expenditures are for an exploration well and if more  
6 than one explorer holds an interest in that well, each explorer may claim an amount of  
7 credit that is proportional to the explorer's interest in the exploration well;

8 (4) the department may exercise the full extent of its powers as though  
9 the explorer were a taxpayer under this title, in order to verify that the claimed  
10 expenditures are qualified exploration expenditures under this section; and

11 (5) if the department is satisfied that the explorer's claimed  
12 expenditures are qualified under this section, the department shall issue to the explorer  
13 a production tax credit certificate for the amount of credit to be allowed against  
14 production taxes due under this chapter.

15 (g) An explorer may transfer, convey, or sell its production tax credit  
16 certificate to any person, and any person who receives a production tax credit  
17 certificate may also transfer, convey, or sell the certificate.

18 (h) A producer that purchases a production tax credit certificate may apply the  
19 credits against its production tax liability under this chapter. Regardless of the price  
20 the producer paid for the certificate, the producer may receive a credit against its  
21 production tax liability for the full amount of the credit, but for not more than the  
22 amount for which the certificate is issued. A production tax credit allowed under this  
23 section may not be applied more than once.

24 (i) For a production tax credit under this section,

25 (1) the amount of the credit that may be applied against the production  
26 tax for each tax month may not exceed the total production tax liability of the taxpayer  
27 applying the credit for the same month; and

28 (2) an amount of the production tax credit that is greater than the total  
29 tax liability of the taxpayer applying the credit for a tax month may be carried forward  
30 and applied against the taxpayer's production tax liability in one or more immediately  
31 following months.

1 (j) Notwithstanding any other provision of this title, of AS 31.05, or of  
2 AS 40.25.100, the department shall provide to the Department of Natural Resources  
3 information submitted with a claim under this section to support the eligibility of an  
4 exploration expenditure, including seismic exploration data and well data, and any  
5 information described in (f)(2) of this section received by the department.

6 (k) In this section, "explorer" means a person who, in exploring for new oil or  
7 gas reserves, incurs expenditures.



# ALASKA STATE LEGISLATURE

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SENATOR THOMAS H. WAGONER  
CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE  
VICE-CHAIR, SENATE RESOURCES COMMITTEE

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## **SPONSOR STATEMENT** **SB – 185: ROYALTY REDUCTION ON CERTAIN OIL**

SB 185 amends statutes to provide for reduction of royalty on oil produced in certain Cook Inlet fields and platforms as they near the end of their production capability.

The intent of the legislation is to provide a monetary incentive in the form of royalty relief to maximize production from old fields and extend the longevity of Cook Inlet oil platforms.

In return, there is continued employment in the area rather than a loss of jobs due to abandonment of the fields.

There is also more production than would otherwise be realized because the fields will have become more economical due to the reduced costs. That results in more oil production than would have originally been realized, and subsequently more unexpected royalty revenues, even at a reduced rate.

Encouraging production in these marginal fields will extend their life by a minimum of 18 to 24 months – a considerable extension of employment opportunities in the Cook Inlet basin.

SS SB 185 S(FIN) 5-08-03 mj

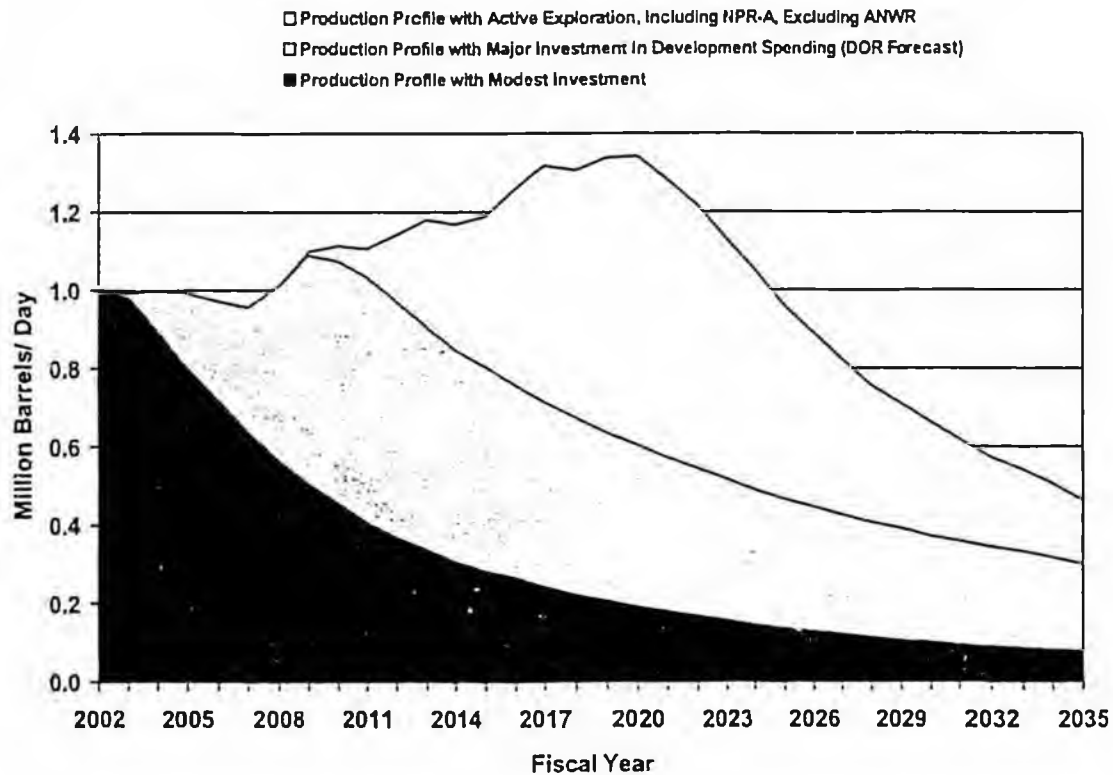
Provided by  
 Senator Wilkie  
 5/13/03

May 12, 2003

Cost of Exploration

Azerbaijan	\$ 0.05
Canada, Northwest Terr	\$ 0.10
Australia	\$ 0.18
Norway	\$ 0.22
Qatar	\$ 0.22
Brunei	\$ 0.25
Malaysia	\$ 0.30
Canada, Nova Scotia	\$ 0.35
Oman	\$ 0.35
Venezuela - Orinoco Belt	\$ 0.35
Indonesia	\$ 0.38
Thailand	\$ 0.45, less depending on level of production
Colombia	\$ 0.45
Trinidad & Tobago	\$ 0.45
Abu Dhabi	\$ 0.50
Kazakhstan	\$ 0.55, some agreements much less
Alberta	\$ 0.58
China	\$ 0.60, less depending on level of production
United Kingdom	\$ 0.60
Sakhalin, Russia	\$ 0.62, much less depending on level of production
US Gulf of Mexico	\$ 0.65
<b>Alaska - Current</b>	<b>\$ 0.65</b>

**Figure 3. ANS Production Forecast  
Modest Investment vs. Significant Investment vs. New Discoveries**



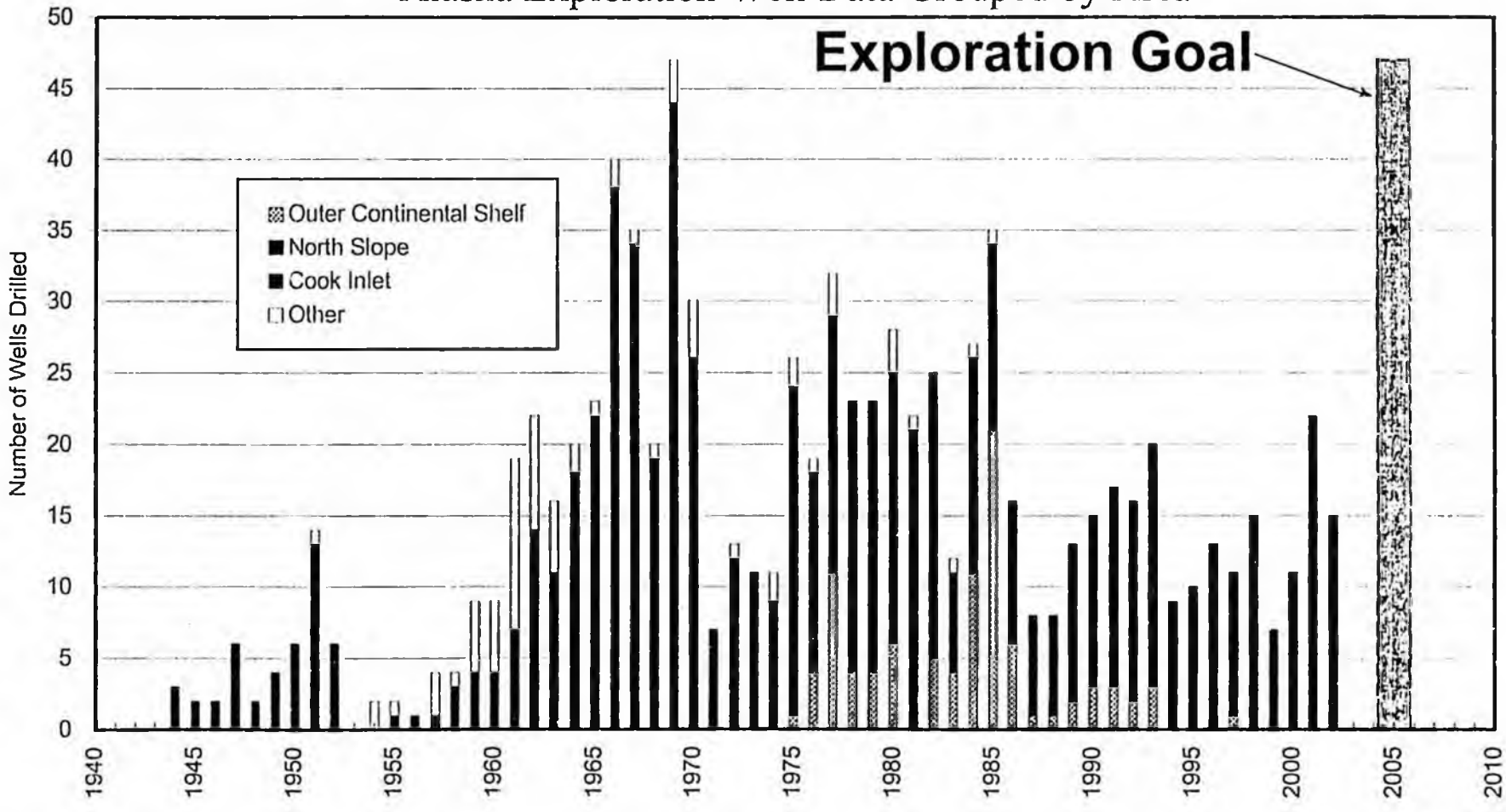
For discovered fields, we believe it will cost \$3 per barrel to drill the necessary wells and provide the infrastructure to produce the additional 4.7 billion barrels of discovered North Slope oil requiring substantial investment. (These are the 4.7 billion barrels of the 8.5 billion barrels already discovered on the slope that require significant investment, as opposed to the 3.8 billion barrels that could be produced with more moderate investments in the operations, safety and integrity of the facilities.) Therefore, to fully replace the 365 million barrels of reserves (1 million barrels per day) produced each year, the companies must spend around \$1.1 billion per year (\$3 per barrel x 365 million barrels).<sup>(6)</sup> In addition, the companies must spend \$300 million per year in LTO capital just to preserve the safety and integrity of their facilities and to maintain a base flow of oil.

For undiscovered fields, and to maintain at least a million barrels a day of production in the following decade, new fields will need to be discovered this decade at a projected finding cost of \$1 per barrel.

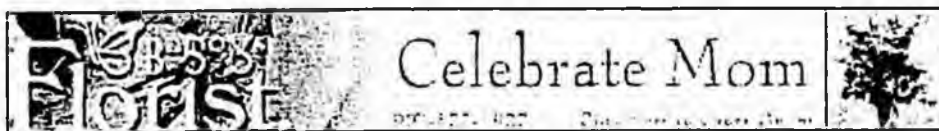
(6) As development spending on discovered fields declines, development spending on newly discovered fields must increase to maintain production levels.

**In Order to Increase Alaskan Oil Production the Number of Exploration Wells Drilled per Year Must Dramatically Increase.**

Alaska Exploration Well Data Grouped by Area



**Number of Alaskan Exploration Wells Drilled per Year**

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**BP expects new data to improve oil exploration****PRUDHOE BAY: Seismic survey will update information gathered earlier and areas never studied.**By KRISTEN NELSON  
Petroleum News*(Published: May 8, 2003)*

BP Exploration (Alaska) Inc. has completed a seismic survey over most of the Prudhoe Bay reservoir, updating seismic data from the 1980s and '90s, and shooting areas at Deadhorse never before surveyed.

Gordon Pospisil, field-wide depletion and forecasting manager for Greater Prudhoe Bay, said that even though the company had seismic data over most of the area, it was older technology.

Newer technology uses a network of geophones, Pospisil said, and "you get information from all the different angles ... that allows you to build a three-dimensional picture of these layers."

In the past, he said, we might be able to see something -- like a fault -- as little as 80-feet thick, but using new technology and a higher density of signal receivers, "now we can see something that's down in the 40- to 50-foot thick zone."

The new seismic data will help BP better understand what the remaining oil targets are throughout Prudhoe Bay, Pospisil said.

The seismic survey has just been completed, he said, and between now and September it will be processed and used to create new cross sections and maps. After that, he said, "we'll be generating field-wide maps and starting to influence the wells that we're drilling."

"We'll have on the order of 200 wells that will benefit from this new, improved picture," Pospisil said. "We'll drill better and different wells than we would have without the data."

Those penetrations, which Pospisil characterized as "200 -- plus or minus 50," will be drilled over the next five to eight years.

The purpose of the survey, he said, is to improve the quality of future wells. BP has been drilling 50 to 70 new wells a year in Prudhoe Bay, mostly sidetracking wells that have played out or have reached low oil rates either because natural gas has migrated to the well bore or water has broken through from offset water injectors.

"So we're actually sidetracking to new targets within the same region where we can identify higher oil saturation," Pospisil said.

Prudhoe has about 1,300 wells.

The seismic survey covered 180 square miles and included all of the facilities at Prudhoe Bay and the Deadhorse Airport, which has never been surveyed because of logistics problems involving airport operations. Seismic surveys were also shot through the town of Deadhorse itself, where many oil-service companies are based.

Pospisi estimates that the unsurveyed area was probably 600 to 800 acres, "several well spacings where we didn't have information."

Since this is all within Prudhoe Bay and within the footprint of the existing facilities, targets identified can be reached from existing pads. The improved imaging, he said, "lends itself to what we now understand is a game of pursuing smaller and smaller targets ... the remaining interval areas that haven't been swept effectively."

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# Alaska King Crab

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## **Modest interest expressed during oil, gas lease sale**

**TRACTS: Companies spend nearly \$1 million for 119,440 acres.**

By RICHARD RICHTMYER  
Anchorage Daily News

*(Published: May 8, 2003)*

A sale of oil and gas leases in Cook Inlet and the North Slope Foothills drew moderate interest Wednesday as companies and independent speculators bid \$923,675 for 28 tracts covering 109,440 acres.

All but one of the tracts were in and around Cook Inlet, where Prodigy Alaska was the high bidder, picking up seven of them for \$415,385. Forest Oil, Marathon Oil, Pelican Hill Oil & Gas and Unocal also bought leases, as did four groups of independent investors.

"Those are the major players in Cook Inlet," said James Hansen, lease sales manager at the state Oil and Gas Division, which conducted the sale.

The state holds oil and gas sales each year, putting all the acreage that's not under lease up for bids.

Bidding was scattered for tracts all through the Inlet, both offshore and onshore, and most of the larger ones were adjacent to areas already claimed.

For its part, Prodigy Alaska bought seven leases covering 20,000 acres in the northern part of the Inlet to add to the 10,200 acres it picked up two years ago, according to Mark Landt, vice president of land and new-business development for the Dallas-based company.

The leases Prodigy now holds, in an area it calls the Northern Lights Anticline, had been held by Arco and Phillips in the early 1990s, and 16 wells have been drilled in the region over the past 40 years, according to Landt.

Forest Oil picked up three tracts for a total of \$56,396.

One of them is onshore near its off-shore Redoubt Shoal field, according to Gary Carlson, Forest Oil's senior vice president in charge of Alaska operations.

Redoubt Shoal, near the Kustatan River on the Inlet's west shore, is thought to contain more than 100 million barrels of oil, making it one of the most significant discoveries in years.

The two other tracts are north of Forest Oil's prospect in Middle Ground Shoal, which is eastern Cook Inlet about 10 miles north of Nikiski, Carlson said.

Independent speculators picked up 12 tracts.

Dan Donkel, who held the leases for the Redoubt Shoal field until he sold them in 1996, said he won nine out of the 10 tracts he bid for, and he picked them all up for \$5 an acre, which is the lowest allowable bid.

"I had a real good day," Donkel said.

Three of the tracts Donkel won were onshore, directly south of the Kenai gas fields. He also bought the leases for a series of tracts along the north coast of Nikiski.

Only one lease sold Wednesday was in the North Slope Foothills, where EnCana Oil & Gas was the sole bidder, picking up 5,760 acres for \$36,576.

Wednesday was the third time the state has sold leases in the North Slope Foothills, according to Hansen. The first was in 2001, when it sold 170 tracts. Last year, oil explorers bought 46 tracts, he said.

Anadarko and PetroCanada are the largest lease holders.

The area, on the north side of the Brooks Range between the Gates of the Arctic National Park and the Arctic National Wildlife Reserve, is thought to have large reserves of natural gas.

The tempered interest in Wednesday's sale could be because of limitations in the amount of leases any single company can hold, and uncertainty about whether and when a proposed multibillion-dollar North Slope natural gas pipeline will be built, Hansen said.

Daily News reporter Richard Richtmyer can be reached at [richtmyer@adn.com](mailto:richtmyer@adn.com) or 257-4344.

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# ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER  
CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE  
VICE-CHAIR, SENATE RESOURCES COMMITTEE

## SECTIONAL ANALYSIS SB - 185: ROYALTY REDUCTION ON CERTAIN OIL

**Section 1.** Amends existing statute by inserting new subsection (6) for certain platforms in Cook Inlet.

- (6) Provides for lessee operating in certain cook inlet fields to
- (A) Pay royalty of 5% if production that equaled or exceeded 1,200 barrels a day declines to less than that for at least one quarter, for platforms:
    - (i) Dolly;
    - (ii) Grayling
    - (iii) King Salmon;
    - (iv) Steelhead; and
    - (v) Monopod;
  - (B) Pay royalty on (A) according to following schedule if volume later increases to 1,200 or more barrels a day and remains there for a least one quarter
    - (i) 7% for 1,200 to 1,300 barrels per day
    - (ii) 8.5% for 1,300 to 1,400 barrels per day
    - (iii) 10% for 1,400 to 1,500 barrels per day
    - (iv) 12.5% for more than 1,500 barrels per day
  - (C) Pay royalty of 5% if production that equaled or exceeded 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, for platforms:
    - (i) Granite Point;
    - (ii) Anna;
    - (iii) Bruce;
    - (iv) Baker;
    - (v) Dillon;
    - (vi) XTO.A; and
    - (vii) XTO.C;

SA CSSB 185 – continued

- (D) Pay royalty on (C) according to following schedule if volume later increases to 750 or more barrels a day and remains there for at least one quarter,
  - (i) 7% for 750 to 850 barrels per day
  - (ii) 8.5% for 850 to 1,000 barrels per day
  - (iii) 10% for 1,000 to 1,200 barrels per day
  - (iv) 12.5% for more than 1,200 barrels per day
  
- (E) Pay royalty of 5% if production that equaled or exceeded 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, for the West McArthur River field;
  
- (F) Pay royalty on rigs in (E) according to following schedule if volume later increases to 750 or more barrels a day and remains there for at least one quarter,
  - (i) 7% for 750 to 850 barrels per day
  - (ii) 8.5% for 850 to 1,000 barrels per day
  - (iii) 10% for 1,000 to 1,200 barrels per day
  - (iv) 12.5% for more than 1,200 barrels per day
  
- (G) Specific requirement for obtaining royalty adjustment only when production reduction is calculated on:
  - (i) Average daily production during calendar quarter, based on reservoir conditions, and
  - (ii) No considering productions declines for mechanical or other temporary shutdowns, or market conditions.

# LEGAL SERVICES

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## MEMORANDUM

May 13, 2003

**SUBJECT:** Draft CSSB 185 ( ) (Work Order No. 23-LS0926\Q)

**TO:** Senator Tom Wagoner

**FROM:** Jack Chenoweth  
Assistant Revisor of Statutes

This draft incorporates amendments I.1, I.2, the content of my memo to Senate Finance Co-Chairs Green and Wilken on which you were copied, and the content of an amendment setting out new material that was provided by the Department of Law/Governor's Office and dated 5/13/03 at 10:10 a.m.

The amendments and memo were incorporated into the draft amended only to maintain consistency of subparagraph references.

The Department of Law/Governor's Office material is incorporated substantially as offered. The second clause of the bill title covers the addition of the new material and sets out the full name of the tax, the provisions of which are amended. The remainder of the material supplied appears as new bill section 3, in which

-- I changed the section designation to "AS 43.55.025" in order to keep available the section number as assigned in the material available for future use for other amendments bearing on the severance tax;

-- in subsection (a), I changed the "production start" date to refer to production "on or after" the date indicated so that activity undertaken on that first day qualifies;

-- in subsection (b), the "start" date for the credit is revised to read "work performed *on or* after July 1, 2003, and before *July 1, 2007*," so that activity undertaken on the first-referenced date supports the claim of the credit but not activity undertaken on the last-referenced.

Other changes are made to conform to provisions of the Drafting Manual and are not intended to alter substantive meaning.

I did not change date references. *It seems to me that the "July 1, 2004" reference at page 5, line 26, may be inconsistent with the "July 1, 2003" reference appearing on*

Senator Tom Wagoner

May 13, 2003

Page 2

*page 6, line 3, and that the earlier reference should be conformed, but that is the Governor's office's call.*

Do you want to include in the bill any provision addressing the right of an explorer or a purchaser of the credit to use any remaining portion of the credit after June 30, 2007, the last day on which qualifying activity may be taken to support the claim of the credit?

JBC:med

03-530.med

**SITE: OFFNETS**

**COMMITTEE: Senate Finance**

**DATE: 5/13/03**

**SUBJECT OF MEETING: HB185**

**UPDATE #: 1**



## PLEASE SIGN IN

**P R I N T YOUR NAME**

**ADDRESS (MAILING & ZIP)**

**REPRESENTING**

**DO YOU WANT  
TO TESTIFY?  
Y or N**

<b>P R I N T YOUR NAME</b>	<b>ADDRESS (MAILING &amp; ZIP)</b>	<b>REPRESENTING</b>	<b>DO YOU WANT TO TESTIFY? Y or N</b>
<b>Doug Shultz</b>			<b>Y SB185</b>
Email address:			
<b>Div. Oil &amp; Gas</b>			<b>Answer Questions</b>
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

**SITE: OFFNETS**

**COMMITTEE: Senate Finance**

**DATE: 5/13/03**

**SUBJECT OF MEETING: HB185**

**UPDATE #: 2**



# PLEASE SIGN IN

**P R I N T YOUR NAME**

**ADDRESS (MAILING & ZIP)**

**REPRESENTING**

**DO YOU WANT  
TO TESTIFY?  
Y OR N**

<b>P R I N T YOUR NAME</b>	<b>ADDRESS (MAILING &amp; ZIP)</b>	<b>REPRESENTING</b>	<b>DO YOU WANT TO TESTIFY? Y OR N</b>
<b>Kevin Tabler</b>			<b>Y SB185</b>
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SENATE FINANCE COMMITTEE

SIGN-IN

SB 185-ROYALTY REDUCTION ON CERTAIN OIL

NAME: BILL CORBOS Subject/Bill No: 185

Co./Dept./Title: Comm, DEPT of REVI Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: Dan Dickinson Subject/Bill No: 185

Co./Dept./Title: Director Tax Division, DOR Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

**SITE: Oilfrets**

**COMMITTEE: SFIN**

**DATE: 5/14/03**

**SUBJECT OF MEETING:**

SB185

**UPDATE #:**



# PLEASE SIGN IN

**PLEASE PRINT:**

**DO YOU WANT**

**NAME**

**ADDRESS (MAILING & ZIP)**

**REPRESENTING**

**TO TESTIFY?**

**Y or N**

<b>Oil &amp; Gas</b>			<b>Ans. ?'s</b>
✓ <b>Kevin Tabler</b>			<b>Y</b>

SENATE FINANCE COMMITTEE

SIGN-IN

SB 185-ROYALTY REDUCTION ON CERTAIN OIL

NAME: Dan Dickensen Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: Director, Tax Division Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: MARK MYERS Subject/Bill No: 185  
Co./Dept./Title: DNR / OIL & GAS Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 4/11/03

FURTHER:

Date of 5-Day Notice: 24 Hour Rule  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 5-7-03

Resources Committee considered      SENATE BILL NO. 185

### SB 185 ROYALTY REDUCTION ON CERTAIN OIL

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land."

and recommends:

- be replaced with \_\_\_\_\_ CS SB 185 (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#
DNR	5/7/03	✓		1

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

Elton  
Dyson  
Lincoln  
Wagoner  
Seekins  
B. Stevens  
Ogan

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
CHAIR: <i>[Signature]</i>	✓			



pg 7, line 2

delete:

"preexisting suspended"  
4

"or abandoned"

following "well;"

insert:

certified by the  
as capable of

**SB**

**192**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: May 15, 2003

FURTHER REFERRALS:

Date of Committee Action: 5/16/03

The FINANCE Committee considered:

CSSB 192(L&C)

**CS FOR SENATE BILL NO. 192(L&C)**

**DOLWD TEACHERS AND TRAINING PROGRAMS**

"An Act relating to teachers and training programs in the Department of Labor and Workforce Development, to the placement in the exempt service of certified teachers employed by the Department of Labor and Workforce Development, to their eligibility to participate in the Teachers' Retirement System of Alaska, and to the functions of the Alaska Workforce Investment Board regarding the Kotzebue Technical Center and the Alaska Vocational Technical Center; relating to local workforce investment areas and boards; repealing the business incentive training program; and providing for an effective date."

Recommends it be replaced with  HCS or  CS for SB 192 (LTC)  
 For Senate Bills with new title:  Technical Title  New Title: HCR  Same Title  New Title

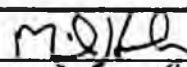
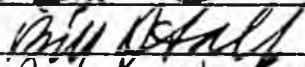

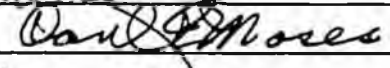

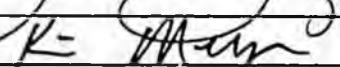
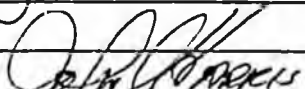

- attach amendments
- add new referral to \_\_\_\_\_ Committee
- Letter of Intent \_\_\_\_\_ Committee

List of Abbrev for Depts.:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- ISS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
DLWED		✓		

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Hawken	✓			
	STOLTZ			✓	
	KERTHILA			✓	
	MOSES			✓	
	FOSTER	X			
	May	✓			
Chair: 	Harris	✓			
Chair: 	Williams	✓			

# FISCAL NOTE

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

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSSB 192(L&C)  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Department: Labor and Workforce Development  
 Title: DOL Teachers and Training Programs BRU: Business Partnerships  
 Component: Business Services  
 Sponsor: Senator Gary Stevens  
 Requester: Senate L&C Component Number: 2658

**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	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims	(190.0)	(350.0)	(350.0)	(350.0)	(350.0)	(350.0)
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>(240.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>

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

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

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	(240.0)	(400.0)	(400.0)	(400.0)	(400.0)	(400.0)
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>(240.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>	<b>(400.0)</b>

Estimate of any current year (FY2003) cost: None

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)

Section 1 of this bill will allow certified teachers employed by the Department of Labor and Workforce Development to remain in the Teachers' Retirement System. Section 2 amends the Alaska Workforce Investment Board membership by eliminating membership by Alaska's two Local Workforce Investment Boards (LWIBs). Section 6 of this legislation deletes AS 23.15.651c and AS 23.15.660 (2) which eliminates the two LWIBs. Because some costs will continue into the first half of FY 04 the savings from elimination of the LWIBs and related administrative support is estimated to be only 240.0 of federal funds in the first year. We expect this federal administrative savings to increase to 400.0 in FY 05 and subsequent years.

Prepared by: Katherine Farnham, Executive Director Phone: 269-7490  
 Division: Division of Business Partnerships Date/Time: 5/7/03 11:50 AM  
 Approved by: Greg O'Claray, Commissioner Date: 05/07/03  
 Agency: Department of Labor and Workforce Development

For distribution information, call the Governor's Legislative Office

**SESSION ADDRESS:**  
Alaska State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-4925  
Fax: (907) 465-3517  
Toll Free: 1-800-821-4925

# *Senator Gary Stevens*

## *Alaska State Legislature*

**INTERIM ADDRESS:**  
112 Mill Bay Road  
Kodiak, Alaska 99615  
(907) 486-4925  
Fax: (907) 486-5264

### **Sectional Analysis for CSSB 192**

Section 1 AS 14.25.220 (42) Amends language so that teachers in the Alaska Department of Labor and Workforce Development will be Teachers Retirement System (TRS) eligible (Important that since AVTEC teachers are currently in TRS they stay in TRS even though they are moving to the Department of Labor)

Section 2 Conforming language for Workforce Investment Board so that there is one Workforce Investment Board.

Section 3 Adds Kotzebue Technical Center and AVTEC as programs within the Department of Labor and not the Department of Education any longer.

Section 4 Conforming language for one Workforce Investment Board.

Section 5 Amends language to so that existing teachers at AVTEC and skill centers that are exempt positions remain exempt positions.

Section 6 Repeals statutory language so that there is one Workforce Investment Board. Also repeals the Business Incentive Training Program, which has not been funded for many years.



Letter in  
Support

*Great careers for Alaska's future*

April 24, 2003

Senator Fred Dyson  
Alaska State Legislature  
State Capitol  
Juneau, Alaska 99811

Dear Senator Dyson,

I am writing to you today in support of SB 192. Senate Bill 192 is an important part of the overall effort needed to insure an effective transition of the Alaska Vocational Technical Center (AVTEC) from the Department of Education & Early Development to the Department of Labor and Workforce Development (DOLWD). This legislation will allow certificated instructional staff currently employed at AVTEC to remain in the Teacher Retirement System (TRS) after the transition to DOLWD. AVTEC employs some of the highest quality and technically competent instructors in Alaska. Many of these are mid-career professionals who have earned ten or more years of TRS member service. These instructors should be held harmless and allowed to remain in the TRS as AVTEC transitions to DOLWD. I appreciate your serious consideration of this bill and would be happy to answer any questions you might have on the impact it will have for AVTEC.

Sincerely,

Fred W. Esposito  
Director

**SESSION ADDRESS:**  
Alaska State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-4925  
Fax: (907) 465-3517  
Toll Free: 1-800-821-4925

# *Senator Gary Stevens*

## *Alaska State Legislature*

**INTERIM ADDRESS:**  
112 Mill Bay Road  
Kodiak, Alaska 99615  
(907) 486-4925  
Fax: (907) 486-5264

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### **SPONSOR STATEMENT-CSSB 192 (L&C)** (Updated May 8, 2003)

This year, Governor Murkowski has proposed transferring the Alaska Vocational Technical Center (AVTEC) from the Department of Education and Early Development to the Alaska Department of Labor and Workforce Development. While the transfer of the school will be accomplished through the FY 2004 budget process, Senate Bill 192 will allow the transfer to occur with minimal disruption to the staff and operation of the school.

SB 192 would specifically grant statutory authority to the Department of Labor and Workforce Development to employ teachers who are members of the Teachers Retirement System (TRS) and would enable current AVTEC instructional staff to remain members of the TRS after AVTEC transfers to the Department of Labor and Workforce Development. It also would allow future AVTEC instructional staff to become TRS members. Without this bill, the current teachers at AVTEC would need to transfer to the Public Employees Retirement System (PERS). This would not only be unfair to employees who were originally hired under the TRS system, but it would hamstring AVTEC management in their teacher recruitment efforts. The management of AVTEC has found it advantageous to offer a TRS retirement benefit as an incentive to attract experienced teachers to accept employment at AVTEC. It would be a disincentive to experienced teachers who have accrued years of TRS membership at other educational institutions in the state to consider employment at AVTEC under PERS.

SB 192 also would make amendments to clarify that AVTEC and the Kotzebue Technical Center will continue to be under the oversight, planning, and coordination responsibilities of the Alaska Workforce Investment Board (AWIB) through the Department of Labor and Workforce Development.

At the request of the Department of Labor and Workforce Development, the Senate Labor and Commerce Committee passed a committee substitute that also amends AS 23.15.550(a) relating to the local workforce investment area and boards. This action will consolidate the workforce investment area and boards to one, allowing for the more efficient operation of the Alaska Workforce Investment Board and enable the State of Alaska to better meet the goals of the federal Workforce Investment Act.

The committee substitute also makes changes to AS 23.15.645(b) and repeals the business incentive program which has not been funded for many years

In summary, this bill would implement good public policy by facilitating the transfer of AVTEC from one agency to another, allowing employees to remain in TRS, by giving management a tool to attract quality employees, and by clarifying the authorities and responsibilities of AWIB.

I urge your prompt consideration and passage of this important bill.

**SB**

**194**

SFIN

FILE

## SENATE FINANCE COMMITTEE REPORT

DATE: 5/16/03

FURTHER:

MAY 01 2004

DATE TURNED  
IN TO OFFICE: March 1, 2004

Finance Committee considered

SENATE BILL NO. 194

### SB 194 LIQUOR DELIVERED TO HOTELS/CRUISE SHIPS

"An Act authorizing delivery of up to two bottles of distilled spirits to a cruise ship passenger or hotel guest."

and recommends:

- be replaced with \_\_\_\_\_ CS SB 194 (FIN)
- adopt previous \_\_\_\_\_ CS CS Earth Comm (\_\_\_\_\_)
- 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#
ABC / DPS	1/12/04		✓	

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
Ben Stuenkel	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>			✓	
COCHAIR: <i>[Signature]</i>				

# FISCAL NOTE

MAY 01 2004

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SB194-DPS-ABC-1-12-04  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Public Safety  
 Title Liquor Delivered to Hotels/Cruise Ships RDU Statewide Support  
 Component Alcoholic Beverage Control Board  
 Sponsor Senator G. Stevens  
 Requester Senate Finance Component No. 2690

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

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0

<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
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<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>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill pertains to delivery of up to two bottles of distilled spirits to a cruise ship, passenger, or hotel guest.

The legislation would have no fiscal impact on the Alcoholic Beverage Control Board.

Prepared by: Douglas B. Griffin Phone 269-0350  
 Division Alcoholic Beverage Control Board Date/Time 1/12/04 3:31 PM  
 Approved by: Commissioner William Tandeske Date 1/12/2004  
 Agency Department of Public Safety

ADOPTED

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-LS1015\D  
Luckhaupt  
2/27/04

CS FOR SENATE BILL NO. 194( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY

Offered:  
Referred:

Sponsor(s): SENATOR GARY STEVENS

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing delivery of up to two bottles of distilled spirits and 40 ounces of  
2 beer to a cruise ship passenger or hotel guest."

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

4 \* Section 1. AS 04.11.150(i) is amended to read:

5 (i) A package store license authorizes the licensee to deliver not more than  
6 two bottles of wine or champagne, not more than two bottles of distilled spirits, and  
7 not more than 40 ounces of beer in a gift basket with a floral arrangement to a cruise  
8 ship passenger or a hotel guest. The wine, [OR] champagne, distilled spirits, or beer  
9 for delivery may be purchased from a package store licensee by a florist or gift basket  
10 establishment with a state business license that designates the business as a florist or  
11 gift basket establishment. The package store licensee shall keep on file a copy of the  
12 Alaska business license of a florist or gift basket establishment to which the licensee  
13 sells wine, [OR] champagne, distilled spirits, or beer for delivery to third persons by  
14 the package store. The package store must keep a written record of each delivery

1 made under this subsection for a period of at least one year, including the name of the  
2 business purchasing the wine, [OR] champagne, distilled spirits. or beer and the  
3 name of the person to whom the delivery is made. A delivery under this subsection  
4 must be made by the licensee or an employee or agent of the licensee who has  
5 completed alcohol server training as required under AS 04.21.025. The board shall  
6 issue a permit to each licensee authorized to deliver wine, [OR] champagne, distilled  
7 spirits, or beer under this subsection and may by regulation impose an administrative  
8 fee for the cost of issuing the permit.

SENATE FINANCE  
COMMITTEE

Amendment Number: #1  
Bill Number: SB 194  
Sponsor: Olson Date: 2/27/04  
Logged In By: Mindy

AMENDMENT

IN SENATE FINANCE

By Olson

TO SB 194

Page 1, line 4: Insert new section 1 to read:

“This Act shall be known as the Gary Stevens two-pack act of 2004.”

Renumber following sections.

SENATE FINANCE COMMITTEE  
2/27/2004 COMMITTEE ACTION

Bill Number	SB 194		
Amendment	#1		
Motion	adopt		
<u>Motion by</u>	Olson		
<u>Objection by</u>			
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Senator Olson			
Senator Stevens			
Co-Chair Green			
Co-Chair Wilken			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	WITHDRAWN		