

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2475 SCOMM 104: HOUSE SPEC. COMM. OIL & GAS, 1997-98



PHILLIPS PETROLEUM COMPANY

P.O. BOX 1967
HOUSTON, TEXAS 77251-1967

EXPLORATION AND PRODUCTION GROUP

6330 WEST LOOP SOUTH
BELLAIRE, TEXAS 77401
PHILLIPS BUILDING

1,101,101, TELECOPY COVER SHEET 1,101,101,1

DATE: April 15, 1997TO: Pat CarterFROM: J. P. JohnsonCOMPANY: Alaska StateCOMPANY: Phillips - E&PADDRESS: LegislatureRM. 1116 PHONE #. 713-669-2968DEPT: Fax # 907-465-2833

HOUSTON, TEXAS

CITY/STATE: Anchorage, AKFAX # 713-669-7004WE ARE SENDING 3 PAGES OF TEXT. (INCLUDING THIS COVER SHEET)

ADDITIONAL MESSAGE: As you requested, Following
is a copy of my testimony in the
Oil and Gas Committee Hearing this morning.

Jim Johnson

THANK YOU!

My name is Jim Johnson. I am the Onshore Area Manager in Phillips North America Partnership Operations Group in Houston. I have responsibility within my group for the properties which contain Phillips North Slope gas reserves, such as Prudhoe Bay and Point Thomson Unit.

Phillips Petroleum's interest and involvement with a North Slope Gas project would come about in several ways. First, we are an interest owner in North Slope Gas. We have an interest in Prudhoe Bay Unit, where along with our 1.88% interest in the oil rim, we have a .26% in the gas cap. We have much larger interest of 12% in the Point Thomson unit.

And, as you may know, Phillips is the majority owner and operator of the Kenai, Alaska LNG facilities; the first LNG project to export LNG into Asia and North America's first and only existing base load LNG operation. The Kenai, Alaska facilities were the first to achieve 27 years of reliable uninterrupted LNG deliveries into Asia and have brought significant benefits to the State in the form of jobs and revenues.

Phillips is supportive of the efforts to facilitate the North Slope LNG project. Consequently, Phillips would be interested in evaluating opportunities to participate in the Trans Alaska Gas Line project as well as opportunities related to potential participation in the LNG liquifaction facilities and shipping elements.

Phillips has examined North Slope gas production, and based on current information we believe that the potential exists for this to be economic. Further refinement, decisions, and action will be needed on several items to bring about a final conclusion in this regard:

- North Slope gas field deliverability and costs
- Costs of required pipelines and other facilities
- Tax and regulatory structure
- Marketing arrangements and prices for the LNG

With our interest in Point Thomson and our past experience in LNG, we have been in a position to study a number of aspects of these with a good perspective. I would like to comment further on what we feel are some key items.

In the Point Thomson Unit, Phillips has been actively participating along with the operator Exxon and other interest owners in studies to better define the reserves, producibility, and development scenarios of that field. Results in studies currently underway have been encouraging in indicating that potential reserves and production from this field may be better than previously indicated, although it is too early at this point to define specific numbers.

Phillips believes that the Point Thomson gas condensate field could play a pivotal role in facilitating the North Slope LNG project. Point Thomson gas reserves could give the North

Slope pipeline project considerable additional flexibility and viability. It could supply early gas supplies needed to accelerate the potential start up date for the project to coincide with the earliest market opportunities. Point Thomson could be developed to supply significant gas volumes in plenty of time to be ahead of the pipeline. This would allow you to have both early start up of the project to capture market opportunities as well as allowing high recycling of Prudhoe Bay gas to continue for a longer time to benefit oil recovery. Also, Point Thomson could augment PBU gas deliverability in the longer course of the project. Point Thomson, along with any other gas producing fields, could provide the synergy that should yield better economics for everyone.

Finally, having had 27 years experience in marketing LNG into Asia, Phillips concurs that a market "window" for the North Slope LNG project could open as early as 2005 and that competition among supply projects for these markets is and will be fierce. This being the case, Phillips supports the House Oil and Gas Committee efforts to facilitate timely definition of the project structure and, hence, its credibility in the marketplace.

Sponsor Statement

HJR 35

Encouraging federal legislation to improve federal fiscal terms for a trans-Alaska gas pipeline.

HJR 35 is a statement by the 20th Alaska Legislature urging Alaska's congressional delegation to enact legislation that would seek to improve the competitiveness of the trans-Alaska gas pipeline.

The State of Alaska recently commissioned a report, by Dr. Pedro Van Meurs, on the economic viability of the trans-Alaska gas line. Dr. Van Meurs found that the project would need some state and federal fiscal adjustments in order to stimulate the project investment structure. **HJR 35** will encourage Alaska's congressional delegation to sponsor the fiscal legislation necessary to complete the federal portion of the fiscal package.

There is already ample justification to adopt favorable legislation for the gas line from a federal perspective. The trans-Alaska gas line project would establish a substantial new source of taxable income. Billions of dollars would be generated in federal corporate income tax. Based on a scenario of \$3.50 per million cubic feet (mcf) and an estimated cost of \$12 billion the project would generate approximately \$26.7 billion in tax income for the federal government over a 30 year period. The project could also improve the United States trade deficit with Asian countries.

We have heard, repeatedly, that the Asian market window for natural gas sales will begin around 2005. The Asian market is eager to purchase north slope gas and Alaska must proceed immediately with the gas project if we are to participate in this market window. Fierce competition among suppliers is expected from foreign gas projects and therefore Alaska needs to offer a coordinated proposal at a competitive price. Given the short time frame for establishing an economically viable project, it is important to begin the formation of a fiscal platform as soon as possible. By coordinating our efforts we will shorten the timetable needed to bring this project on line and thereby increase Alaska's ability to establish a place in the competitive LNG market.

The need for a unified message from Alaska is critical in portraying fiscal and political stability as well as instilling confidence within the Asian marketplace. It is imperative that the Federal government, State of Alaska, and Local governments work together toward a unified position that will enhance the economic competitiveness to bring this project from concept into actuality. **HJR 35** will assist in that capacity.

House Bill 250/Senate Bill 174: An Act establishing a North Slope Gas Commercialization Team to develop recommendations regarding a North Slope gas project; and providing for an effective date.

Section 1. Findings.

Sets out findings regarding North Slope gas reserves, need for tax and royalty changes to increase the competitiveness of the proposed North Slope gas project, need for project cost reductions, recently signed Memoranda of Understanding, and appropriateness for a North Slope Gas Commercialization Team.

Section 2. North Slope Gas Commercialization Team: Report.

Establishes North Slope Gas Commercialization Team. Members are Commissioners of Revenue, Natural Resources, Commerce & Economic Development and Labor, the Attorney General and other members to be appointed by the Governor. The team has the responsibility for analyzing relevant information regarding ways to improve the economic feasibility and competitiveness of the project. The team shall prepare a report including recommended contractual and legislative changes necessary to assist the project. Report to be delivered by February 13, 1998; or, if work so not completed, team shall provide interim report by February 13, 1998, along with discussion of remaining work to be done and reasons for need for additional time.

Section 3. Meetings and Records.

The North Slope Gas Commercialization Team, while it is clearly a public entity, is not a "public body" within the meaning of the public meetings act. The North Slope Gas Commercialization Team may keep some documents confidential.

Section 4. Legal Assistance.

The Department of Law shall provide legal assistance to the North Slope Gas Commercialization Team.

Section 5. Permanent Record Retention; Confidentiality.

On or before the date the final report is issued, the North Slope Gas Commercialization Team shall transfer all records related to the Team's work to the Department of Revenue. The Department of Revenue shall continue to keep confidential any documents that were required to be kept confidential under Section 3 of the Act.

Section 6.

Repeal provisions.

Section 7.

Effective immediately.

TONY KNOWLES
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

April 28, 1997

Ans d.....

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801

Dear Speaker Phillips:

Re: HB250, North Slope Gas Commercialization Team

Thank you for your interest and concerns raised in your April 22nd letter regarding HB 250, the bill I introduced on the proposed North Slope gas project. I consider this legislation to be of high priority this session because of its great potential for advancing one of the most exciting prospects for Alaskan jobs and future state revenues.

First, you are concerned the North Slope Gas Commercialization Team does not have a clearly identified goal to work toward. As you well know, economic viability is a constantly moving target. In today's circumstances, a project might be viable, while in tomorrow's circumstances, it might not be. We are trying to develop a state fiscal system which, in combination with improvements in other factors such as capitol costs and federal fiscal changes, would result in a combined project risk and rate of return comparable to the most attractive worldwide greenfield LNG projects.

Second, you are concerned that, since there is no existing project sponsor structure for the project, the Commercialization Team will not have a distinct group of people with whom to negotiate. I agree that the commercial entities interested in the Alaska project will need to organize themselves to facilitate negotiations. However, I do not believe it is necessary or advisable for the State to participate in that process. Representatives from the Far East markets have consistently and staunchly suggested to us the government should not be involved in dictating any of the commercial aspects of the project.

The Honorable Gail Phillips

April 28, 1997

Page 2

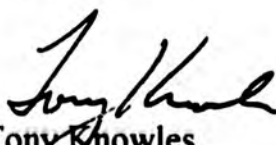
I suggest the Commercialization Team negotiate with any parties that come forward and request to be involved in the process. Clearly, gas owners and non-gas owners will have different interests in different segments of the process. I hope the Team will be able to include the appropriate interested parties at the appropriate times.

Third, you are concerned with the February 13, 1998 deadline, and the accompanying release clause which permits the Commercialization Team to submit its final report later than that date. I agree we can't let too much time pass before providing a final package of recommendations to the legislature. I am concerned we are asking the Commercialization Team to do a tremendous amount of work between now and next year. However, I support your suggestion to move the date the Commercialization Team reports to me and the Alaska Legislature to January 12, and removing the release clause.

Finally, you expressed concern about the size of the fiscal note accompanying the bill. The people who have been spending the most time on this effort for my Administration, Wil Condon, John Shively, and Bruce Botelho, have been doing so in addition to other large responsibilities. For us to do a responsible job in protecting the public interest in our negotiations with potential project sponsors, our staff will need additional resources. The fiscal note includes a small amount for staff support and travel, along with money for a consultant to address the socioeconomic impacts of the project on our state, and a consultant to continue to advise the state on important fiscal matters. I believe, in fact, this is the bare minimum we can get by with and still do a responsible job. We will supply the appropriate committees with additional budget details in support of the fiscal note.

I hope this response adequately addresses your concerns and that you will work to secure passage of this important legislation this session.

Sincerely,



Tony Knowles
Governor

TONY KNOWLES
GOVERNOR

P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3300
Fax (907) 465-3632

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 11, 1997

The Honorable Mike Miller
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Mike
Dear President Miller:

Developing our enormous North Slope natural gas resources is a significant opportunity for creating Alaska jobs and providing a secure economic base upon which to build Alaska's future. This bill I transmit today establishes the North Slope Gas Commercialization Team to identify and develop steps the state can take, in cooperation with the North Slope leaseholders and other potential sponsors, to make a North Slope gas project a reality.

To date, the development of North Slope natural gas resources has not been economically feasible or competitive with alternative sources of energy. North Slope leaseholders estimate a \$15 billion cost for the facilities to develop these resources, including a gas conditioning plant, an 800-mile pipeline, a liquefaction plant to convert natural gas into liquefied natural gas (LNG), LNG storage facilities, and LNG tankers.

There is relatively little the state can do to reduce the capital costs of a North Slope gas project. There are steps the state can take to improve a project's economic feasibility and competitiveness. The state has received guidance from a report commissioned by the Department of Revenue. This report reviews Alaska's tax and royalty structure, evaluates the competitiveness of the project internationally, and recommends in general terms possible modifications to the state's tax and royalty structure to improve the economic feasibility and competitiveness of a project.

The Administration also has received guidance from the legislature. In House Concurrent Resolution 1, the legislature requested the governor and North Slope gas resource leaseholders develop a contract to execute with sponsors of an LNG project, as well as appropriate enabling legislation. The contract and legislation would establish the nature, degree, and duration of the fiscal terms that would best facilitate a project.

The Honorable Mike Miller
April 11, 1997
Page 2

This bill creates the administrative structure necessary to evaluate recommended changes to the tax and royalty system and carry out the wishes of the legislature as expressed in HCR 1. The North Slope Gas Commercialization Team would determine how to improve the economic feasibility and competitiveness of a North Slope gas project while protecting the public interest. The team also could help develop legislation to enable the state to enter into the contract, provide a stable fiscal and regulatory structure for the project, aid permitting, ensure a maximum number of Alaska residents and Alaska businesses are hired to construct and operate the project, protect the environment, health and safety of workers and the public, and provide natural gas to Alaska communities.

This bill is an important step forward in developing Alaska's North Slope natural gas resources. I urge your prompt consideration and passage of this bill.

Sincerely,

A handwritten signature in dark ink, appearing to read "Tony Knowles", written in a cursive style.

Tony Knowles
Governor



ALASKA STATE LEGISLATURE

SPEAKER OF THE HOUSE GAIL PHILLIPS

April 22, 1997

The Honorable Tony Knowles
Governor, State of Alaska
PO Box 110001
Juneau, Alaska 99811-0001

RE: North Slope Gas Commercialization Team

Dear Governor Knowles:

Thank you for your continued support and work on the trans-Alaska Gas Line. This project will provide thousands of jobs for Alaskans and help propel Alaska into the 21st century. However, the introduction of H.R. 250 has raised some concerns within the Legislature.

One of the main concerns is that the Commercialization Team does not have a defined goal to work toward. The team is tasked with attempting to identify terms within the state fiscal structure to enhance the economics of the project in order to make it economically viable. I would suggest that the bill should define a target for economic feasibility. This will give the team a goal that should enhance the likelihood of success.

Potential project sponsors, who have voluntarily declared an interest and who continue to show interest in the project, will be critical to the success of the Commercialization Team. The project sponsors will likely have differing goals and I believe that the process would be assisted if the potential sponsors began the formation of a sponsor structure with which the Commercialization Team could begin negotiations. To attempt to negotiate with each individual potential sponsor would be unnecessarily cumbersome and almost certainly doom the Team to failure.

I am also concerned with some of the language contained in Section 2 (e). Specifically, the deadline of February 13, and the language that gives the Commercialization Team the alternative to not have their work completed by the proposed deadline – "...except if the North slope Gas Commercialization Team determines that additional work needs to be done to develop a comprehensive set of recommendations, the team shall, by February 13, 1998, provide to the Governor and the legislature an interim report on the work that the team has completed, the work remaining to be done, the reasons for the additional time

needed, and the anticipated date on which the final report will be provided to the Governor and notification of the report's availability will be provided to the Legislature." This language will likely guarantee that the Commercialization Team will miss the deadline and I strongly suggest that it be removed from the bill. As we both know, deadlines can be extremely effective as a motivational tool. I would also suggest the date be amended to the first day of the legislative session, January 12, 1998.

There is also a great deal of concern over the fiscal note. The current fiscal note appears to be unnecessarily high since all of the team members already work for the state.

In closing, I respectfully request that you address the following concerns as soon as possible.

- What will the Commercialization Team use as a target to determine commercial viability?
- Who will the Commercialization Team negotiate fiscal terms with?
- A firm deadline of January 12, 1998 without the extension clause.
- Explanation of the large fiscal note.

Given the lateness in the legislative session I respectfully ask that you respond to this letter on or before the end of the day Thursday, April 24, 1997. Thank you for your consideration and I await your timely response.

Sincerely,



Representative Gail Phillips
Speaker of the House

cc: Representative Ramona Barnes, Chair, House World Trade Committee
Representative Mark Hodgins, Chair, House Oil & Gas Committee
Representative Scott Ogan, Co-Chair, House Resources Committee
Representative Bill Hudson, Co-Chair, House Resources Committee
Representative Mark Hanley, Co-Chair, House Finance Committee
Representative Gene Therriault, Co-Chair, House Finance Committee
Senator Rick Halford, Chair, Senate Resources Committee
Senator Drue Pearce, Co-Chair, Senate Finance Committee
Senator Burt Sharp, Co-Chair, Senate Finance Committee

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

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

April 18, 1997

SUBJECT: Draft CSHB 250 (): confidential records considerations (Work Order No. 20-GH0110B)

TO: Representative Mark Hodgins
ATTN: Pat Carter

FROM: Jack Chenoweth
Legislative Counsel

If there were no bill or no provision in this bill addressing the disclosure of otherwise confidential information, then it appears to me that --

-- under AS 38.05.036(b), information relating to royalty and net profits paid by lessees, that may be examined or audited by the Department of Revenue, thereafter is to be held confidential by the Department of Revenue "to the extent required under oil and gas agreements, contracts, or leases, or by [AS 38.05] or AS 43.05.230;

-- AS 09.25.100 speaks of the confidentiality of certain information in the possession of the Department of Revenue and the disclosure of that information when production is required "in an official investigation", though "official investigation" is not defined;

-- the Department of Law has concluded that AS 43.05.230, in conjunction with AS 09.25.100, permits disclosure of confidential tax records--presumably this extends to records relating to royalty and net profit payments, too--to members of the Legislature (Opinion of the Attorney General, January 12, 1989, copy enclosed);

-- there seems to be at least a tacit understanding that confidential information may be disclosed to legislators under certain circumstances if only because AS 24.60.060 makes the unauthorized disclosure of information made confidential by law and obtained by a legislator or legislative employee in the course of official duties both an ethics violation and the subject of possible criminal prosecution (AS 11.56.860, misuse of confidential information punishable as a class A misdemeanor).

Representative Mark Hodgins

April 18, 1997

Page 2

All of this does, of course, concern itself with information made confidential by law--particularly information relating to taxes and to royalty and net profits payments. Our earlier phone discussion, and sec. 3(c) of the bill draft, also touched on the degree of protection offered for "proprietary information." "Proprietary information" is not a term that appears in the Public Records provisions, AS 09.25.100 - 09.25.220, nor in the Alaska Land Act, AS 38.05, nor in the tax title, AS 43. So it looks to me that proprietary information would not enjoy treatment on the same basis as information obtained in the course of administration of tax laws and of royalty and net profit payment arrangements on leases. Also, please note that there is no fixed definition of "proprietary information" in either the Alaska Statutes or in regulations implementing and interpreting existing statutes, and without a certain definition there may be disagreement as whether particular information is or is not truly "proprietary".

JBC:glc

97-456.glc

Enclosure

SCOMM

104:8



COMMITTEE:

DATE: February 12, 1998

Subject of meeting:

HB 274 - OIL & GAS CONSERVATION COMMISSION

SIGN-IN

PLEASE PRINT!

NAME

A

PHONE

REPRESENTING

**DO YOU
WANT TO
TESTIFY ?**

[illegible]

0-LS0998VL

Glover

2/11/98

CS FOR HOUSE BILL NO. 274()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): REPRESENTATIVE GREEN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the qualifications of the members of the Alaska Oil and Gas
2 Conservation Commission; and providing for an effective date."

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

4 * Section 1. AS 31.05.005(a) is amended to read:

5 (a) There is created as an independent quasi-judicial agency of the state the
6 Alaska Oil and Gas Conservation Commission, composed of three commissioners
7 appointed by the governor and confirmed by the legislature in joint session. Before
8 making an appointment, the governor may solicit the recommendations of
9 professional or industry representatives for appointment of a commissioner.

10 * Sec. 2. AS 31.05.009 is amended to read:

11 Sec. 31.05.009. Qualifications of members. Members shall be qualified as
12 follows:

13 (1) one member shall be a LEAVE IN [DELETED TEXT] [LICENSED PROFESSIONAL]
14 engineer who

1 (A) holds a certificate of registration as an engineer under
2 AS 08.48 and, under regulations adopted to implement that chapter, has
3 qualified as a petroleum engineer; or

4 (B) has earned a degree from a university [WITH
5 EDUCATIONAL AND PROFESSIONAL BACKGROUND] in the field of
6 ██████████ engineering and has at least 10 years of professional subsurface
7 experience in the oil and gas industry in drilling, well operations, reservoir
8 engineering, or a combination thereof; for the purposes of this
9 subparagraph, a person meets the requirement of earning a degree in the
10 field of ██████████ engineering if the person obtains an undergraduate or
11 graduate degree in ██████████ engineering that meets the requirements for
12 program accreditation by the Engineering Accreditation Commission of the
13 Accreditation Board for Engineering and Technology ^{including and} completing
14 ██████████ ^{work} course specific to petroleum engineering
15 that illustrate application of engineering principles to the problems
16 encountered and methods used in the petroleum industry, including
17 drilling, production, reservoir engineering, fluid flow through subsurface
18 formations, and hydrocarbon transportation;

19 (2) one member shall be a geologist who

20 (A) holds a certification as a professional geologist under
21 AS 08.02.011; or

22 (B) has earned a degree in the field of geology from a
23 university accredited in the field of geology and has a minimum of 10
24 years professional experience in the [WITH EDUCATIONAL AND
25 PROFESSIONAL BACKGROUND IN THE] field of petroleum geology; and

26 (3) one member who need not be certified, trained, or [AND]
27 experienced in either the field [FIELDS] of petroleum engineering or the field of
28 petroleum geology.

29 * Sec. 3. APPLICABILITY. The provisions of AS 31.05.009, as amended by sec. 2 of this
30 Act, apply to persons appointed under AS 31.05.009 on and after the effective date of this
31 Act.

1

* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. HB 274

Revision Date: (Note if correction)
Title: "An Act relating to the qualifications of the members of the Alaska Oil and Gas Conservation Commission..."
Sponsor: Representative Green
Requestor: House Special Committee on Oil and Gas

Department Affected: Administration
BRU: Alaska Oil and Gas Conservation Commission
Component: Alaska Oil and Gas Conservation Commission
COMPONENT SERIAL NO. 2010

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

FUND SOURCE:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 98) cost: \$ none

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

This bill will not have a financial impact on the day to day operation of the AOGCC. However, it may severely restrict the ability to recruit for the engineer position. Currently, the statutory language is simple and straight forward. It provides that "one member shall be a licensed professional engineer with educational and professional background in the field of petroleum engineering." The language proposed in this bill is very restrictive and limits the pool of engineers from which to choose a commissioner. AS 39.05.100 requires appointment of Alaska residents to boards and commissions. In 1996 the Department of Labor reports that 579 people earned wages in the field of petroleum engineering in Alaska. Of those, the Department of Commerce has licensed only 71 in Alaska, 35 of the licensed engineers list an Alaska address on their registration but this does not mean that they are actually residents of the state. This pool shrinks to 25 when the degree requirements contained in the bill are also taken into consideration.

Prepared by: David Koivuniemi
Division: Department of Administration

Phone: 465-2200
Date: _____

Approved by Commissioner: Mark Boyer
Agency: Department of Administration

Date: 2/4/98

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STATE OF ALASKA

FISCAL NOTE

1998 LEGISLATIVE SESSION

BILL NO. HB 274

ANALYSIS: (continued)

The other concern that this bill raises is the amount of pay for the commissioners. Currently, the engineer seat on the commission pays \$80,244 whereas the AVERAGE pay for petroleum engineers is \$111,222 (from the Department of Labor average 1996 earnings for petroleum engineers that worked in Alaska in all four quarters of 1996). The commission may have to ask for an increase in salaries in order to recruit and retain a petroleum engineer which would also necessitate an increase in salary for the other members of the commission which will require additional funding in the future.

UAF Course Descriptions of Petroleum, Mechanical, and Civil Engineering

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year</u>
PETROLEUM ENGINEERING	PETE 104 Survey of Energy Industries	PETE 205 Intro to Petroleum Drilling and Production PETE 211 Drilling Laboratory	PETE 301 Reservoir Rock & Fluid PETE 302 Well Logging PETE 303 Reservoir Rock & Fluid Lab	PETE 407 Petro Production Engineering PETE 411 Drilling Fluids Lab PETE 421 Reservoir Characteristics PETE 426 Drilling Engineering PETE 431 Natural Gas Engineering PETE 456 Petro Evaluation and Economic Decisions PETE 466 Petroleum Recovery Methods PETE 476 Petro Reservoir Engineering PETE 478 Well Test Analysis PETE 481 Well Completions and Stimulation Design PETE 487 Petroleum Project Design PETE 489 Reservoir Simulation
MECHANICAL ENGINEERING			ME 302 Mechanical Design I ME 313 Mechanical Engineering Thermodynamics ME 321 Industrial Processes ME 334 Elements of Material Science/Engineering	ME 403 Mechanical Design II ME 404 Stress Analysis ME 408 Dynamics of Systems ME 409 Controls ME 414 Thermal Systems Design ME 415 Thermal Systems Lab ME 416 Design of Mechanical Equipment for the Petr ME 441 Heat and Mass Transfer ME 450 Theory of Flight ME 451 Aerodynamics ME 452 Intro to Astrodynamics ME 453 Propulsion Systems ME 458 Energy and the Environment ME 464 Corrosion Engineering ME 487 Design Project
CIVIL ENGINEERING	CE 112 Elementary Surveying		CE 326 Intro to Geotechnical Engineering CE 334 Properties of Materials CE 344 Water Resources Engineering	CE 400 EIT Exam CE 402 Intro to Transportation Engineering CE 403 Traffic Engineering CE 404 Highway Engineering CE 415 Advanced Surveying CE 416 Boundary Surveying CE 422 Foundation Engineering CE 423 Intro to Earthquake Engineering CE 425 Advanced Soil Mechanics CE 431 Structural Engineering I CE 432 Structural Engineering II CE 433 Reinforced Concrete Design CE 434 Timber Design CE 438 Design of Engineering Systems CE 441 Environmental Engineering CE 442 Environmental Engineering II CE 445 Engineering Hydrology CE 470 Civil Engineering Internship

0-LS0998VH

Glover

12/5/97

CS FOR HOUSE BILL NO. 274()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): REPRESENTATIVE GREEN

A BILL

FOR AN ACT ENTITLED

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2 Conservation Commission; and providing for an effective date."

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

4 * Section 1. AS 31.05.009 is amended to read:

5 Sec. 31.05.009. Qualifications of members. Members shall be qualified as
6 follows:

7 (1) one member shall be a person who

8 (A) holds a certificate of registration as an engineer under

9 (i) AS 08.48 and, under regulations adopted to
10 implement that chapter, has qualified as a petroleum [LICENSED
11 PROFESSIONAL] engineer; or

12 (ii) the laws and regulations of another state,
13 territory, or possession of the United States, the District of
14 Columbia, or a foreign country; has been registered as a petroleum

1 engineer in the other jurisdiction; and has completed arctic
2 engineering requirements established by regulation of the State
3 Board of Registration for Architects, Engineers, and Land
4 Surveyors for registration under AS 08.48.191(b), if any;

5 (B) has earned a degree from an accredited university
6 [WITH EDUCATIONAL AND PROFESSIONAL BACKGROUND] in the
7 field of petroleum engineering; for the purposes of this subparagraph, a
8 person meets the requirement of earning a degree in the field of petroleum
9 engineering if the person obtains an undergraduate or graduate degree in
10 petroleum engineering that meets the requirements for program
11 accreditation by the Engineering Accreditation Commission of the
12 Accreditation Board for Engineering and Technology and that requires
13 successful completion of courses specific to petroleum engineering that
14 illustrate application of appropriate engineering principles to the problems
15 normally encountered in the petroleum industry in the activities of drilling,
16 production, reservoir engineering, or a combination thereof; and

17 (C) has a minimum of five years of professional experience
18 in the field of petroleum engineering;

19 (2) one member shall be a geologist who

20 (A) holds a certification as a professional geologist under
21 AS 08.02.011;

22 (B) has earned a degree in the field of geology from an
23 accredited university; and

24 (C) has a minimum of five years of [WITH EDUCATIONAL
25 AND] professional experience [BACKGROUND] in the field of petroleum
26 geology;

27 (3) one member need not be trained and experienced in the fields of
28 petroleum engineering or petroleum geology.

29 * Sec. 2. APPLICABILITY. The provisions of AS 31.05.009, amended by sec. 1 of this
30 Act, apply to persons appointed under AS 31.05.009 on and after the effective date of this
31 Act.

1 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature

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CHAIRMAN, JOINT COMMITTEE
VICE CHAIRMAN, HEALTH, EDUCATION
& SOCIAL SERVICES COMMITTEE
MEMBER, RESOURCES COMMITTEE
FINANCE SUBCOMMITTEE
DEPT. OF COMMERCE & ECONOMIC
DEVELOPMENT
ALASKA COURT SYSTEM

Representative Joe Green
District 10

Sponsor Statement

HB 274 - Qualifications for service on the AOGCC

From statehood until November 1995, the group responsible for oil and gas conservation in Alaska included a petroleum engineer. Performance of the core functions for which the present-day Alaska Oil and Gas Conservation Commission (AOGCC) is charged - prevention of waste, protection of cor. elative rights, and maximization of recovery - requires among other things, a thorough understanding of porosity, permeability, stratigraphy, faulting, reservoir pressure, and reservoir drive mechanism(s). These are the core disciplines of petroleum engineering, and require the technical analysis that only a qualified petroleum engineer can provide. Unfortunately, since November 1995, the commission, which represents the people of the State of Alaska, has not had the benefit of a qualified petroleum engineer, appointed by the Governor, and confirmed by the legislature, as required by statute, to participate in the oversight of these types of conservation operations.

HB 274 clarifies the statutory requirements for service on the AOGCC. As written, one member of the commission will be required to be registered as a petroleum engineer, have education in the field of petroleum engineering, and have experience in the field of petroleum engineering. Additionally, one member will be required to hold a certificate as petroleum geologist, have earned a degree in the field of geology from an accredited university, and have field experience in the field of petroleum geology.

Alaska has been blessed with wealth derived from our hydrocarbon resources. In order to continue this flow of wealth, we must have qualified, capable people conserve and manage our resources to the highest possible standards. HB 274 is an attempt, not to establish that high standard, but rather, to establish the floor below which we will never go again.

oil and gas conservation commission

Commission History

The Alaska Oil and Gas Conservation Act (1955) created the Alaska Oil and Gas Conservation Commission (AOGCC or Commission). The Commission was composed of the Governor of the Territory of Alaska, the Territorial Commissioner of Mines, and the Territorial Highway Engineer. Rules and regulations governing Commission activities became effective on October 1, 1958.

Under the State Organization Act of 1959, the Oil and Gas Conservation Commission was abolished, its function and authority transferred to the Department of Natural Resources, Division of Mines and Minerals. A group within the department was designated to hold hearings and issue decisions on oil and gas matters. This group was the Alaska Oil and Gas Conservation Committee which consisted of the Director of the Division of Mines and Minerals (Chairman), the State Petroleum Geologist, the State Petroleum Engineer, and the Deputy Commissioner of the Department of Natural Resources.

In 1968 the Division of Oil and Gas was created within the Department of Natural Resources. The new division arose from the Petroleum Branch of the Division of Mines and Minerals. The Alaska Oil and Gas Committee was placed within the new division, and consisted of the Director, Chief Petroleum Geologist, and Chief Petroleum Engineer. In 1976 the word "conservation" was added to the division's title, and it became the Division of Oil and Gas Conservation.

With the advent of production from Prudhoe Bay in 1977, the Legislature became concerned that there was the appearance of a conflict of interest with the Department of Natural Resources, an owner of oil and gas rights, also acting as the regulator of other owners of oil and gas rights. To obviate its concern, the Legislature amended AS 31.05 by Chapter 158, SLA 1978 to restore the Commission, effective January 1, 1979, as an independent quasi-judicial agency within the executive branch of the state. Initially, the new Commission was housed within the Department of Natural Resources, but in 1980 it was transferred to the Department of Commerce and Economic Development. More recently, Governor Hickel transferred the Commission to the Department of Administration on February 17, 1994.

oil and gas conservation commission

Core Services

- Prevent waste of Alaska's oil and gas resources
- Protect correlative rights of the mineral interest owner
- Maximize recovery of oil and gas for the benefit of Alaska's citizens
- Protect freshwater from contamination by oil/gas/mud during drilling, production, and abandonment operations
- Administer Alaska's Underground Injection Control program for oil and gas wells
- Inspect oil field drilling, production, metering, and abandonment activities
- Evaluate, modify, and approve drilling and workover operations
- Evaluate, modify, and approve oil pool development rules
- Adjudicate disputes between owners
- Maintain state production records
- Maintain well history files and well records

Customers

- Oil and gas industry ● Concerned citizens and organizations ● Alaska Department of Natural Resources ● Alaska Department of Revenue ● U.S. Department of the Interior ● U.S. Environmental Protection Agency

SCOMM

104:9

James E. Eason

Oil and Gas Operations, Management and Policy

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March 11, 1998

Representative Mark Hodgins, Chairman
House Special Committee on Oil and Gas
Alaska State Legislature
State Capitol (MS) 3100
Juneau, Alaska 99801-1182

Dear Representative Hodgins:

I wanted to take the opportunity to reply to several concerns and/or requests for additional information made by members of the House Special Committee on Oil and Gas during the committee's hearing on H.B. 380 last Thursday, March 5, 1998. A listing of the additional information requested and concerns expressed is provided below:

- a list of the wells and pools involved in the six fields which would be candidates for royalty reduction under H.B. 380, a summary of the discovery history for each field and an estimate of each field's reserves;
- concern that stipulating a 10 year royalty reduction term could potentially lead to accelerated production of the field(s), and thus to waste of the resources;
- concern over the potential for "double dipping" of royalty reduction under both the provisions of H.B. 380 and AS 38.05.180(d)(4)(A), the current royalty reduction statute;
- concern over whether assignment of affected leases would be possible; and
- concern over the need to include a sliding scale formula based upon price variations to assure that lessees do not receive an unexpected windfall at the State's expense

Each of these issues is discussed below.

History of Each Field—Wells Drilled, Productive Intervals and Estimated Reserves¹

1. Falls Creek:

The Falls Creek gas field, is located on the Kenai Peninsula near Clam Gulch. There have been four wells drilled on or near the Falls Creek structure. The discovery well, Falls Creek No. 1, was completed in April 1961. The discovery well tested gas at a rate of 1.8 million cubic feet (mcf) per day from the Tyonek Formation at a depth of approximately 7,600 feet. A subsequent well drilled about four miles to the southwest of the initial well in 1966, the Falls Creek No. 2 well, was a dry hole. In 1973, Chevron drilled the 43-6 well

¹ Except for Redoubt Shoal field reserves, all reserve estimates are from the draft 1997 report entitled "Historical and Projected Oil and Gas Consumption", Alaska Department of Natural Resources, Division of Oil and Gas.

about 2,000 feet east of the Falls Creek No. 1 well. This well, which was located off structure, also was dry. In 1996, Marathon drilled the Corea Creek No. 1 well on the west flank of the Falls Creek structure. The Corea Creek well was plugged and abandoned. Gas reserves are estimated to be 12 billion cubic feet (bcf).

2. Nicolai Creek:

The Nicolai Creek gas field is located on the west side of Cook Inlet near the northwest corner of Trading Bay. The discovery well, Texaco's Nicolai Creek State No. 1-A well, discovered gas in both the Beluga and Tyonek Formations. A total of seven wells have been drilled in the area, with three of those wells being dry holes. Three of the seven wells encountered gas, and one well encountered oil. Estimated gas reserves are 2 billion cubic feet (bcf).

3. North Fork:

The North Fork gas field is located onshore, east of Anchor Point and north of Homer. Only one well has been drilled in the field, the Chevron North Fork No. 41-35 well, which was completed in 1965. The well tested gas from a zone in the Tyonek Formation. Other wells in the vicinity of the North Fork structure have been dry holes. The nearest existing gas pipeline is more than 50 miles away. Estimated gas reserves are 12 billion cubic feet (bcf).

4. Redoubt Shoal:

The Redoubt Shoal oil field is located offshore, to the east of the West Foreland and west of the Port of Nikiski. Six exploratory wells have been drilled in the unit area. Those wells include:

- Pan Am Redoubt Shoal St. 22064 No. 1 (June 1967), which was plugged and abandoned as a dry hole;
- Tenneco St. 36465 No. 1 (November 1967), which was plugged and abandoned as a dry hole with oil shows;
- Pan Am Redoubt Shoal St. 29690 No. 1 (December 1967), which recovered minor amounts of oil from the Hemlock Formation;
- Pan Am Redoubt Shoal Unit 29690 No. 2 (September 1968), which tested 1291 barrels of oil per day from the Hemlock Formation, and is the discovery well for the Redoubt Shoal field;
- Union Redoubt Bay Unit No. 1 (October 1976), which failed to recover significant quantities of oil although numerous drill stem tests were conducted in the well; and
- Mobil South McArthur River No. 1A (December 1982), which was plugged and abandoned as a dry hole.

The Division of Oil and Gas has not published oil reserves estimates for the Redoubt Shoal field. However, the engineering firm of Netherland, Sewell and Associates completed an independent assessment of the field in February of this year, using all available well data and the 3D seismic survey completed in the fall of 1997 to determine proven reserves for Securities and Exchange Commission reporting purposes. The firm's estimate of proven oil reserves at the Redoubt Shoal field is 8.9 million barrels.

5. Starichkof:

The Starichkof oil field is located offshore and about six miles north of Anchor Point. The discovery well, the Pennzoil Starichkof No. 1 well, was drilled in 1967. A second well drilled later that year two miles north of the discovery location, the Starichkof State Unit No. 1 well, was plugged and abandoned. The discovery well tested 57 barrels of oil per day.

6. West Foreland:

The West Foreland gas field is located on the shoreline of the West Foreland, west of the Port of Nikiski. The field was discovered in 1962 by the Pan Am West Foreland No. 1 well. Pan American Oil subsequently drilled the West Foreland Unit No. 1 well about four miles to the north and the West Foreland Unit No. 2 well about to the north without finding gas. Estimated gas reserves are 20 billion cubic feet (bcf).

The 10 Year Term and Its Potential to Cause Waste

Concern was expressed about the possibility that, given the limited period of eligibility, a company might produce a field too fast in order to increase its benefits from reduced royalty payments. Amending the bill to allow for extension of the 10 year period for this eventuality is not necessary. One of the Alaska Oil and Gas Conservation Commission's ("AOGCC's") primary responsibilities is monitoring development and production from the state's oil and gas fields to assure that wasteful operations do not occur. That independent agency's oversight will assure that field development plans are consistent with the goals of preventing waste and maximizing recovery of the resources.

Potential for "Double Dipping" of Royalty Reduction

Royalty reduction under the provisions of H.B. 380 would obviate the need for royalty reduction under AS 38.05.180(d)(4)(A) during the 10 year period of eligibility under the proposed bill. Thus, as a practical matter, there could be no "double dipping" during that period. If the royalty obligation was already five percent under H.B. 380, a reduction to five percent under AS 38.05.180(d)(4)(A) would not further reduce the royalty rate. As the bill is drafted, however, it is conceivable that a field eligible for royalty reduction under its provisions could produce for 10 years at the five percent royalty rate, and thereafter, could qualify for continued royalty reduction under the provisions of AS 38.05.180(d)(4)(A). The only circumstances where that could happen, however, are instances in which the commissioner of the Department of Natural Resources makes an affirmative finding, based on the merits and under the stringent conditions of H.B. 207, that continued reduction was both appropriate and in the state's best interests.

Assignment of Lease Interests in Candidate Fields

Passage of H.B. 380 will establish a short period to qualify for royalty reduction, with eligibility ending on December 31, 2003. If production from a candidate field has not begun by that time, lessees holding interests in the field forfeit the opportunity to qualify. Under its terms, the bill is designed to insure that lessees either diligently pursue development or lose the potential benefit of paying the reduced royalties. Under these circumstances, it is entirely possible that the incentive provided by H.B. 380 may be insufficient to promote development of some or all of the candidate fields by their current owners, yet may lead to assignments of lease interests to others who are willing to pursue development.

The Need for a Sliding Scale, Price-Based Formula or Price Cap

For the following reasons, amendment of H.B. 380 to provide for pre-determined caps on the volumes of oil and gas qualifying for reduced royalty is preferable to using a sliding scale, price-based formula or price caps for determining royalties:

- each of the six fields has remained undeveloped for 30+ years, through wide ranges of prices, suggesting that short term spikes in prices, in and of themselves, are insufficient to spur production;
- applying volume limits equally to all the fields is the simplest, most direct way of implementing the incentive;
- fluctuating prices could lead to frequent activation and deactivation of royalty reduction, which could negatively impact long-term planning and investment decisions critical to a field's development; while
- a simplified incentive program will facilitate lessees' planning for capital allocation and minimize administrative costs for both the State and the lessees.

Based on the results of prior exploration, none of the field's potentially benefiting from passage of H.B. 380 are likely to have unexpectedly large reserves. Both the reserve estimates of the Division of Oil and Gas and those of Netherland, Sewell and Associates support this conclusion. As further evidence of the perceptions of others, including former and current lessees, more than three decades have passed since these discoveries were made—without development having occurred. Under these circumstances, the simplest and most direct incentive has the greatest likelihood of producing the desired effects.

In closing, Mr. Chairman, I believe passage of H.B. 380 has the potential to re-energize Cook Inlet exploration and development, and to extend the productive life of older producing fields. It would also encourage participation by a broad range of interests, including major oil companies, independent oil companies and local individuals in the development of the shut-in resources. On behalf of Forcenergy, I appreciate the careful review and consideration which you and members of your committee have given the bill, and I urge your continued support in passing the bill from the committee.

Sincerely,



James E. Eason

cc: Senator Drue Pearce
Representative Mark Hodgins
Members of the House Special Committee on Oil and Gas
Commissioner John Shively, DNR
Director Ken Boyd, DO&G

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To: Honorable Members, House Special Committee on Oil and Gas
From: Kay Brown, executive director, Alaska Conservation Voice
Subject: comments on HB 380, Cook Inlet oil and gas royalty reductions
Date: March 12, 1998

Thank you for the opportunity to comment on HB 380, which proposes Cook Inlet oil and gas royalty reductions. The Alaska Conservation Voice supports a fair return to the public treasury and Alaska's citizens from the leasing and development of state-owned oil and gas resources. We oppose HB 380 because it would unnecessarily diminish the state's return and possibly encourage the early export of gas that is likely to be needed for local use.

HB 380 proposes to reduce the state's royalty — from 12.5% to 5% — without adequate justification. It covers six Cook Inlet fields already discovered (Falls Creek, Nicolai Creek, North Fork, Point Starichkof, Redoubt Shoal, and West Foreland).

What is the compelling need for such carefully defined special consideration? What would be the extent of state revenue losses? Who owns the fields that might benefit? Why are these particular fields singled out for royalty relief?

If these fields were truly uneconomic, royalty relief could be considered and granted under statutory provisions already in place. Why give this blanket royalty relief without demonstrated need as proposed in HB 380?

The legislation presumes the state should reduce the royalty to get the resource extraction going by 2004. Why expedite production of gas that likely will be needed for local uses? Alaskans throughout the railbelt depend on Cook Inlet gas for electricity and heat. Less than one-third of Cook Inlet gas production is used for residential gas and electric power generation, and the rest is exported. Current projections indicate that additional Cook Inlet gas will be needed for local use around 2007.

The terms of competitively-bid leases should not be altered lightly. Prudent practice should be to enforce the terms of leases, exercising the state's option to take back non-performing leases and non-producing wells and put them out for competitive bid again. It is troubling that more and more leasees are attempting to gain concessions in their leases from the Legislature, circumventing the competitive process and undermining the sanctity of leasing agreements.

The legislation is unclear on whether the 5% reduced royalty would apply to any new horizons or discreet formations that might be discovered within these "fields" in the future. What definition of "field" would apply?

Thank you for taking a careful look at these and other issues that have been raised. We urge you not to make unnecessary concessions adverse to the interests of Alaskans.

Thank you for considering our views.

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

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PHONE: (907) 269-8800

March 11, 1998

Senator Rick Halford, Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801

Dear Senator Halford:

I would like to take this opportunity to offer some comments on SB256/HB 380 (bill) and to respond to the March 4 letter to you from James Eason. His letter misrepresents the division's position on the bill's fiscal effects and is somewhat "factually disadvantaged." Moreover, what is clear now that was not clear from the letter is that Mr. Eason is working for Forcenergy on the bill.

The bill's principal goal is not "to develop new sources of natural gas to help offset potential supply shortages which have been forecasted to occur in the next 10-11 years." As the representative of Marathon testified before both the Senate Resource Committee and the House Special Committee on Oil and Gas (committee), "[n]ew markets for uncommitted natural gas reserves are not available for the next several years, making it difficult to economically justify near term drilling expenditures [and] this Bill ... will [not] be enough to stimulate significant activity for natural gas development in the near future." Even Enstar acknowledges that it already has under contract enough gas to meet its demand through 2002. In the near future, the bill's only effect on the gas market will likely be the substitution of five percent royalty gas for 12.5 percent royalty gas. The picture that emerges strongly suggests that the bill's principal goal is to grant Forcenergy a royalty reduction for oil production from the Redoubt Unit, whether it is needed or not and without any economic or technical analysis.

About a year ago Forcenergy approached the division about forming a new unit, the Redoubt Unit. Two of the leases in the proposed unit would expire if they were not put into the unit and could be released in the next competitive lease sale. The division agreed to form the unit and extend the leases because the division believed, based on Forcenergy's representations, that Forcenergy would rapidly attempt to develop the leases under the existing lease terms, specifically the 12.5 percent royalty terms. Indeed, Forcenergy committed to shoot a 3-D seismic survey over the area and process it by the end of 1997, evaluate the data by the 1st quarter of this year, and drill a well by the end of 1999 or commit to construct a production platform by the end of 2001. The division always understood that Forcenergy could apply for royalty reduction under the statute amended by HB 207 where it would be required to show by "clear and convincing" evidence that "production ... would not be otherwise economically feasible."

"Develop, Conserve and Enhance Natural Resources for Present and Future Alaskans"

It is disconcerting that Mr. Eason would be critical of the assumptions made in the division's fiscal note. First, Mr. Eason has recognized that making such a financial estimate "is difficult when all the information is on the table [and is] virtually impossible when neither reserves, nor the cost to produce those reserves are [available]." This latter situation is precisely what the division confronted in preparing the fiscal note and the reason for its caveat. "It is impossible to quantify the fiscal effect of this bill" Nevertheless, the division attempted, in good faith, to inform the legislature of the bill's possible financial consequences. Given the paucity of the data, the division stands by its fiscal note.

Next, by referring to a decline curve for the Hemlock Oil Pool, Mr. Eason criticizes the division's use of flat production. Again, the division was merely trying to give an idea of the magnitude of potential loss to the state. For this type of analysis, a flat decline curve over a specified range of production is perfectly acceptable. The division is well aware of how fields decline. Interestingly, Mr. Eason's depletion table is very misleading. It starts 10 years AFTER the start of production—in the first year of decline. The Hemlock's production graph shows that for the first 10 years there was NO production decline. The division can provide the exact numbers if you want them, but if the complete production history is considered, then the range of reduction is virtually identical to that presented in the division's fiscal note. Without better information, all anyone can do is speculate about the shape of a field's decline curve. What one can say with certainty, however, is that the bill creates an incentive to produce the field as rapidly as possible to minimize the decline curve in the field's early years.

Finally, Mr. Eason criticizes the fiscal note by selectively picking and choosing parts of the division's analysis. Page 3 of the letter starts: "If one adopts the division's highest production rate" What it should say is that: "The author of this letter has chosen to adopt the division's highest production rate and ignore the rest of the division's analysis." The fiscal note provides two ranges of production and suggests that Cook Inlet oil fields would often fit somewhere in this range. Again, the division stands by its fiscal note, fully recognizing the uncertainties in these types of analyses.

Mr. Eason's letter also attempts to rationalize the bill's terms by equating them to those of two other recent bills. First, he suggests that the bill's terms are consistent with the recent royalty reduction bill, HB 207. Both do have a five per cent royalty rate provision. But, the bill's provision is a five percent ceiling while HB 207's provision is a five percent floor. Under the bill, the royalty cannot be increased during the ten year holiday. Moreover, this bill guts HB 207's protections: (1) a clear showing of necessity; (2) protection of the state's interest; and (3) upside potential for the state. As Representative Rokeberg noted, this bill is just an end run around HB 207.

Next, Mr. Eason attempts to link this bill to the recent discovery royalty bill because neither provides for changing economic conditions. But, they cannot be equated. The discovery royalty bill is intended to reward companies who risk substantial dollars drilling rank wildcat exploration wells and then act diligently to bring that field into production. This bill rewards those who had the good fortune to own the leases in question at the time of the bill's passage for bringing known oil and gas accumulations into production. This bill gives a bigger reward (because it applies to all pools within a field as opposed to a pool within a field) for a longer time (because the ten year period runs from the date of first production rather than from the date of discovery) to those who take less risk. Something is wrong with this picture. Mr. Eason's comparison of the bill's terms with these other two bills merely veils the arbitrariness of the bill's terms.

One of the key provisions in HB 207 is that royalty relief cannot be granted unless there is a clear and convincing showing that without the relief the oil or gas production "would not otherwise be economically feasible." The bill grants relief whether or not the field needs relief. Mr. Eason suggests that one should assume that the showing has been made because fields that were discovered 30 years ago and are still not developed must ("it seems axiomatic") need royalty reduction. Apparently, not all the fields that were discovered 30 years ago need relief since only the six fields in the Committee Substitute are permitted this relief, even if other fields may meet the same criteria. Furthermore, all six fields must need identical amounts of relief over the same amount of time since the bill provides no options. Although these fields may have been discovered 30 years ago, the leases that comprise the two oil fields (Redoubt and Pt. Starichkof) were recently issued. Forcenergy recently acquired the Redoubt leases and applied for the Redoubt Unit within the past year. Arco, Anadarko and Forcenergy bought Pt. Starichkof leases in the last few lease sales. If they did not think these prospects were profitable bearing a 12.5 percent royalty, then why buy the leases and why form the Redoubt Unit?

As I outlined in my March 2 letter to Representative Hodgins, the recent Phillips press release regarding their new discovery (Tyonck Deep) indicates that that field is economic and states "[e]ngineering studies have been initiated for design of pipeline and production facilities capable of processing 5,000 barrels of oil per day as early as mid-1999." Perhaps "leveraging additional exploration and development in the vicinity of new infrastructure" does not require a 60% royalty reduction.

Moreover, the notion that a known accumulation, which has not been developed for twenty to thirty years, is uneconomic has been refuted. Technological advances and cost saving measures have more than offset declining oil prices in real terms. On the Alaska North Slope, for example, the minimum economic field size continues to be reduced. Between 1991 and 1996, operating expenses were reduced from \$2.29 per barrel to \$1.54 per barrel (a 33% reduction), development well costs were reduced from \$3.0 million per well to \$2.0 million per well (a 33% reduction), and well hook-up costs were reduced from \$1.5 million per well to \$0.6 million per well (a 60% reduction). Between 1996 and 1997, development well costs were reduced further reduced from \$2.0 million to \$1.7 million (another 15% reduction in one year). These costs are in "dollars of the day," and considering inflation over this period, these reductions are, to quote Arco, "even more dramatic."

Although the division does not possess similar statistics for the Cook Inlet, industry has also been recently reducing costs in the Cook Inlet and expects to continue to reduce costs over, at least, the next several years. Moreover, 3-D seismic and extended reach drilling has enabled the industry to drill "smarter" wells giving more reductions. "Smarter" means fewer wells drilled with a greater precision than could have been achieved even five years ago. 3-D seismic not only provides the explorationist a clearer view of the subsurface, it provides the production manager a tool to drill more efficient development wells. 3-D seismic also assists in designing water floods and other production enhancing techniques to maximize benefit and minimize cost.

Given these technological advances and cost saving measures, one must question the need for additional incentives in the Cook Inlet. Today the Cook Inlet is a busy place (see enclosures) with a lot of drilling and seismic activity. We have had two successful recent lease sales and exploration activities are the highest since Arco's work at Sunfish five years ago. The division expects this pace to continue for the near term.

In addition to these two factors, this high level of activity can be attributed to a favorable business climate. This favorable climate exists, in large part, due to an ongoing series of

new legislation that has improved the state's stature in the world oil marketplace. Areawide leasing and discovery royalty are two examples. It may be wise to give these new technologies, cost saving measures, and new programs a chance to work before committing the state to any additional, and potentially unnecessary, financial obligation.

If the legislature nevertheless believes that an incentive is warranted, the division urges the legislature to select terms that are not, to use the Senate sponsor's word "arbitrary," and that provide for the "maximum benefit of [Alaska's] people" as the Alaska constitution requires. A bill that gives us away too much royalty does not benefit Alaska's citizens. It does not create Alaska jobs or provide local taxes since they would be created anyway. It increases profit for a company and revenues for the federal government at the state's expense.

If the legislature desires simple terms with certain relief, it should do so only after careful analysis. It is true, for example, that the federal Deepwater Royalty Relief Act has helped promote development in the Gulf of Mexico. But the terms were not adopted arbitrarily. They were only adopted after analysis of the costs and benefits to the federal government. The terms recognize that distance from the infrastructure and water depth increases costs and the act's royalty volume cap varies with depth. The forty million barrel cap in the committee substitute is a step in the right direction, but it does not recognize the significant difference in cost between onshore and offshore development in the Cook Inlet.

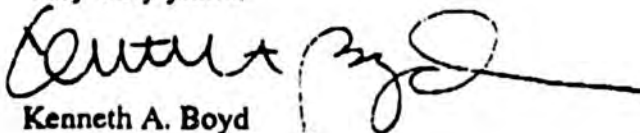
Moreover, it does not protect the state's interest if oil prices rise. The bill will either:

1. not reduce costs enough to get Redoubt developed;
2. reduce costs, but Redoubt would have been developed anyway; or
3. reduce costs such that Redoubt could be developed when it would not have otherwise been developed

If the latter is the case, consider this. Based on today's oil prices, the proposed sixty percent reduction in royalty equates to about a ninety cent per barrel reduction in oil price. In essence, Forcenergy is telling the legislature that they could develop Redoubt, but only if oil prices went up ninety cents. If the legislature reduces the royalty, and oil prices rise ninety cents, should the royalty return to 12.5 percent? If oil prices increase \$1.80 over today's prices, should the state share in that upside? If oil prices rise from the current \$12 level to the \$22 level of just last year, should the state share in that upside?

I am available to answer any questions you or members of the Committee may have.

Very truly yours,


Kenneth A. Boyd
Director

Enclosures

cc: Senator Drue Pearce
Representative Mark Hodgins

Cook Inlet Recent Activity

- **State Lease Sale 85A-W (re-offer) set for late February.**
 - Sale 85A was held in December 1996
 - Included over one million acres, drew \$3 million in bids
 - Joint DNR-Mental Health Lands Trust Sale
- **North Middle Ground Shoal Unit established 1996.**
- **Redoubt Unit established, Forcenergy is operator.**
- **Forcenergy bought all of Stewart Petroleum assets.**
- **UNOCAL has proposed formation of Pioneer Unit.**
- **Growth Resources exploring for coalbed methane.**
 - 3 shallow wells have permit-to-drills and are spudded
 - Locations are near Houston in south-central Alaska
- **Ninilchik area 2D , Upper Cook Inlet offshore 3D and Swanson River 3D surveys completed in 1997.**

Cook Inlet - Future Activity

- **Forcenergy plans gas exploration well, Coffee Creek #1.**
West of Pretty Creek Field on CIRI land
- **Forcenergy plans drilling Boulder Shoal prospect.**
Adjacent to West McArthur River Unit.
- **Frontier Petroleum plans gas exploration well, Aegis #1.**
Onshore west of Trading Bay Field
- **Anadarko has proposed a well, Lone Creek #1.**
Near Tyonek on Moquawkie (surface)/CIRI (subsurface) land
- **Phillips plans more drilling for Tyonek Deep accumulation.**
Formerly known as Sunfish
Located at a level below North Cook Inlet gas field
Results of latest delineation well non-commercial
- **N Middle Ground Shoal 3D/2D survey planned for later in 1998**

CS FOR HOUSE BILL NO. 380()**IN THE LEGISLATURE OF THE STATE OF ALASKA****TWENTIETH LEGISLATURE - SECOND SESSION****BY****Offered:****Referred:****Sponsor(s): REPRESENTATIVE HODGINS****A BILL****FOR AN ACT ENTITLED**

1 "An Act relating to a temporary reduction of royalty on oil and gas produced
2 for sale from fields within the Cook Inlet sedimentary basin where production is
3 commenced in fields that have been discovered and undeveloped or that have been
4 shut in."

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

6 * **Section 1.** AS 38.05.180(f) is amended by adding a new paragraph to read:

7 (5) notwithstanding and in lieu of a requirement in the leasing method
8 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
9 unitized as described in (p) of this section, leases subject to an agreement described
10 in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or
11 part of an oil or gas field identified in this section [IN THE COOK INLET
12 SEDIMENTARY BASIN DISCOVERED BEFORE JANUARY 1, 1988, THAT HAS
13 BEEN UNDEVELOPED OR SHUT IN FROM JANUARY 1, 1988, THROUGH
14 DECEMBER 31, 1997, AND THAT, BEFORE JANUARY 1, 2004, BEGINS

1 PRODUCING FOR SALE PREVIOUSLY UNDEVELOPED OR SHUT-IN OIL OR
2 GAS.] shall, provided production for sale begins before January 1, 2004, pay a
3 royalty of five percent on [ALL PRODUCTION OF OIL OR GAS] the first 35
4 million barrels of oil and the first 35 billion cubic feet of gas produced for sale
5 from that oil or gas field that occurs in the 10 years following the date on which the
6 production for sale [OF PREVIOUSLY UNDEVELOPED OR SHUT-IN OIL OR
7 GAS] commences [FROM THAT FIELD]. The fields eligible for royalty reduction
8 pursuant to this section, all of which are located within the Cook Inlet
9 sedimentary basin, were discovered before January 1, 1988, and have been
10 undeveloped or shut in from at least January 1, 1988, through December 31, 1997,
11 are:

- 12 (1) Falls Creek;
- 13 (2) Nicolai Creek;
- 14 (3) North Fork;
- 15 (4) Point Starichkof;
- 16 (5) Redoubt Shoal; and
- 17 (6) West Foreland.

**OWNERSHIP OF SHUT-IN AND UNDEVELOPED
COOK INLET OIL AND GAS FIELDS
IDENTIFIED AS POTENTIALLY QUALIFYING
FOR TEMPORARY ROYALTY REDUCTION
UNDER THE PROVISIONS OF
SENATE BILL 256 / HOUSE BILL 380**

Field	Type	Discovered	Affected Lessees *
Falls Creek	Gas	1961	ARCO Alaska (50%); Cliff Burglin (22%); Other Private Individuals (28%)
Nicolai Creek	Gas	1966	UNOCAL (50%); Marathon (50%)
North Fork	Gas	1965	Gas-Pro Alaska (64.721%); ARCO Alaska (27.375%); and Marathon (7.904%)
Pt. Starichkof	Oil	1967	Mobil (25%); Pennzoil (25%); Placid (16.07143%); Rosewood Resources (4.726890%); Hunt Petroleum Corp. (4.201680); and Forcenergy Inc (25%)
Redoubt Shoal	Oil	1968	Forcenergy Inc (70%); UNOCAL(30%) **
West Foreland	Gas	1962	Forcenergy Inc (100%) ***

* For those fields which are within approved units—Falls Creek, Nicolai Creek, North Fork and Redoubt Shoal fields—includes both the identity of the Working Interest Owners (WIOs) and their respective ownership interests in the State of Alaska leases within the unit. For Pt. Starichkof Field, which is not unitized, WIOs and ownership interest percentages noted are for the lease upon which the discovery well was drilled. Additional delineation drilling in all fields may confirm reserves extending beneath adjacent leases. Accordingly, lessees in addition to those noted above may potentially be affected by expedited delineation and production of these fields.

** Forcenergy Inc currently holds 100% Working Interest in the Redoubt Unit. However, under the terms of an agreement between the companies, UNOCAL has the option, which it is expected to exercise, to acquire a 30% Working Interest in the unit.

*** The discovery well for the West Foreland Field is located onshore on a federal lease held by Phillips Petroleum Company. However, there is evidence to suggest that the gas accumulation confirmed by the discovery well may extend offshore onto one or more leases owned by Forcenergy Inc.

ALASKA HOUSE SPECIAL COMMITTEE ON OIL AND GAS**PUBLIC COMMENT ON HB380****MARATHON OIL COMPANY****February 26, 1998**

Good morning Chairman Hodgins and members of the House Special Committee on Oil and Gas. My name is John Miesse and I am here today representing Marathon Oil Company. As most of you know, Marathon has been an operator in the Cook Inlet Area for over 30 years. We appreciate your interest and support of the oil and gas industry in the Cook Inlet area. I'd like to take a few moments to comment on House Bill 380, which is intended to provide an incentive for oil and gas development in Cook Inlet from fields that have previously been undeveloped or shut-in.

Marathon supports House Bill 380 and believes that in the long term, this incentive will have a positive economic impact on the State of Alaska and the local communities. I would like to point out however, that we believe this Bill would have a more immediate impact on undeveloped or shut-in oil fields because of the readily available market for this product. The ultimate incentive for adding additional reserve capacity, whether it be oil or natural gas, is the availability of ready and stable markets. While such a market is certainly available for new oil reserves in the Cook Inlet area, the same cannot be said for natural gas. New markets for uncommitted natural gas reserves are not available for the next several years, making it difficult to economically justify near term drilling expenditures. Although this Bill will provide some economic benefit to the industry, we don't believe by itself, will be enough to stimulate significant activity for natural gas development in the near future.

I would now like to ask the committee to consider points of clarification that we believe are needed in House Bill 380. It is our understanding that the intent of this legislation is to provide the temporary relief to fields that have been undeveloped "or" shut-in. We would like clarification on

the definition of undeveloped. Specifically we would like to know if a field that has produced periodically over the last few years, but requires additional drilling to fully develop the field, would be eligible for the temporary royalty relief. Also we would like to clarify that royalty relief would apply to either a re-entry of an existing well or a new well needed to recover undeveloped reserves. Again, we understand the intent of the proposed legislation is to address these scenarios, but we would appreciate the Department's review to make sure the language is explicit.

In closing, many of the oil and gas producing states enacted similar incentives for oil and gas development in the early 1990's. These states have found the programs to be beneficial to all stakeholders involved and have maintained those programs. We believe incentive programs such as House Bill 380 will also lead to economic gain for our communities and the State, but we recognize that market availability is probably the overriding incentive for our industry to look for new oil or gas reserves. Therefore, we believe you will see a more immediate impact on the undeveloped oil fields in the Cook Inlet area as a result of this proposed incentive.

Thank you for the opportunity to share these comments with you today. I will be glad to answer any questions you might have.

**TESTIMONY
OF
MR. GARY E. CARLSON, VICE PRESIDENT
FORCENERGY INC
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
FEBRUARY 26, 1998 – 10:00 AM**

Mr. Chairman, and members of the Committee, for the record my name is Gary E. Carlson. I am Vice President of Forcenergy Inc and manager of Forcenergy's Alaska division. Forcenergy is an independent oil and gas company that is a relative newcomer to Alaska oil and gas exploration and development. We have only been here for about fifteen months, so some members of the Committee may not be too familiar with who we are and what we have accomplished to date.

I would like to take a few moments to review some of our recent accomplishments and ongoing projects, because I believe they reflect a commitment of resources and revenue to finding new reserves, prolonging Cook Inlet's existing oil and gas production and employing new technology both to locate and to develop smaller and more economically challenging oil and gas accumulation. Don't get me wrong, we would love to find a substantial resource, but we can't count on it.

Forcenergy's financial commitments in Alaska to date total more than \$180 million. This includes acquisitions, seismic projects, and drilling.

- We purchased Marathon Oil Company's crude oil properties in Cook Inlet, as well as its interests in the Prudhoe Bay Field on the North Slope;**
- purchased Marathon Oil Company's interest in the Cook Inlet Pipeline System, thus providing Forcenergy with an ownership interest in the established Cook Inlet oil and gas transportation infrastructure;**
- purchased new Cook Inlet leases in competitive oil and gas lease sales held by both the State of Alaska and the federal Minerals Management Services;**

- purchased the leases overlying the Redoubt Shoal Field, a field which was discovered in 1968, but which has remained undeveloped since that time;
- purchased Stewart Petroleum's West McArthur River Unit property, and are continuing operations in that field to enhance oil production and to establish new reserves;
- purchased leases held by Trading Bay Energy;
- committed to spend \$30 million for a joint account with Unocal for acquisitions, wells, and seismic; and in turn received access to their extensive database.

We opened an office currently staffed with 22 Forcenergy employees. Eighteen of these employees were already Alaska residents; 3 are reruns (like myself), and one was recruited from out of state. We also make liberal use of local contractors and consultants. Since early spring of 1997, we have contracted seismic crews; in the Inlet until ice drove us out for the season, and on frozen ground onshore. This includes two state-of-the-art 3D surveys. Our total expenditures to date for seismic activities approximate \$10 million.

Currently, we are drilling our second and third wells in the area. Two of the three wells are on state acreage.

Collectively, these actions reflect Forcenergy's long-term commitment to Alaska, as well as its belief that Cook Inlet continues to provide opportunities for additional discoveries and development – particularly for companies that are innovative, technically adept and willing to accept the challenge and risk of exploring for smaller and smaller accumulations. That optimism is tempered, however, by the realization that, as production from the area's producing oil and gas fields declines, new production must be found and brought to market as quickly as possible if we are to maintain the area's infrastructure.

We believe that Cook Inlet's shut-in oil and gas fields can play a key role in deferring production decline and in spurring new exploration and development. Accordingly, we are supportive of the proposed legislation, and believe that it can provide an effective incentive for encouraging production from Cook Inlet's shut-in and undeveloped fields, many of which were discovered more than thirty years ago. We are also encouraged by your consideration of this legislation which, if passed, will further level the playing field in Cook Inlet. By applying equally to fields in which there is diverse ownership interests, including independents like ourselves, majors such as ARCO, Phillips and Marathon, and small local companies such as Gas Pro and individual Alaskans; the proposed legislation will serve to encourage broader participation in the development and production of the fields eligible for royalty reduction under House Bill 380.

In addition to possibly stimulating the development of several known, undeveloped oil and gas fields, House Bill 380 also has the potential to leverage additional exploration and development in the vicinity of new infrastructure, including pipelines and associated facilities, required to develop those fields. Any new oil and gas production resulting from the development of these fields will in turn reduce the average cost of producing existing reserves, and will extend the economic life of both existing and new Cook Inlet production and transportation infrastructure.

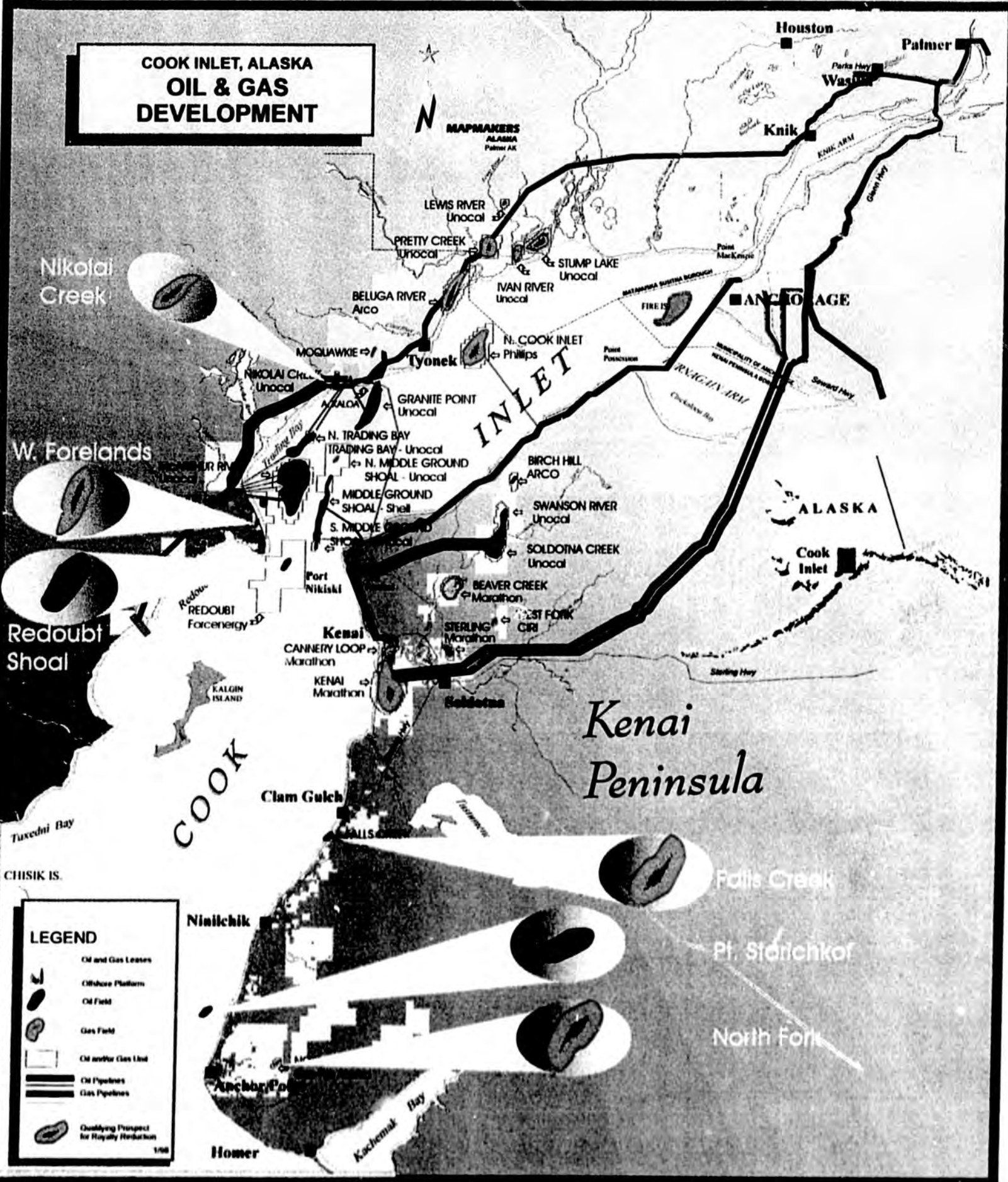
We believe that House Bill 380 represents a straight forward, effective means of responding to several disturbing trends associated with Cook Inlet oil and gas production, including; 1) the continued decline of oil production, from a historical high of more than 82 million barrels per year in 1970 to less than 14.6 million barrels per year in 1996; 2) the associated decline in employment related to the oil and gas industry, as well as declining state and local taxes and royalties from Cook Inlet production; 3) the advanced depletion of Cook Inlet's principal producing oil fields, most of which now are more than 90% depleted; and 4) the approaching depletion of many of Cook Inlet's producing gas fields.

The proposed legislation provides an incentive for lessees owning leases overlying previously discovered oil or gas fields in the Cook Inlet basin, which have remained undeveloped or shut-in from at least January 1, 1988 through December 31, 1997, to develop those fields as rapidly as possible. In return, for new oil or gas production from those fields begun before January 1, 2004, lessees would pay a reduced royalty of 5%, instead of the 12-1/2% specified in the lease, for a period of 10 years following the date on which production begins. By its terms, however, House Bill 380 assures that the State stands to gain also.

By establishing a short period of eligibility – ending on December 31, 2003 – House Bill 380 ensures that lessees diligently pursue development of those fields or forfeit the opportunity to pay reduced royalties. By limiting the period of reduced royalty payments from qualifying fields to 10 years following the beginning of production, the legislation provides a reasonable and measurable limit to the state's foregone royalties in exchange for oil and gas production that may otherwise not occur. Both the State and all Cook Inlet lessees stand to gain from extensions to existing infrastructure which may result from the development of fields which are eligible under House Bill 380.

In closing, Forcenergy supports House Bill 380, and urges the members of the Committee to support its passage. This concludes my prepared testimony, but I will be happy to answer any questions that the members of the Committee may have.

**COOK INLET, ALASKA
OIL & GAS
DEVELOPMENT**



FISCAL NOTE

STATE OF ALASKA 1998 LEGISLATIVE SESSION

BILL NO. HB380

Revision Date:

Dept Affected: Natural Resources

Title: An Act relating to a temporary reduction of
royalty on oil and gas produced ... from ... Cook Inlet ...

BRU: Resource Development

Component: Oil & Gas Development

Sponsor: Rep. Hodgins

Requestor: (H) O & G

Component Serial No. #439

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES (fund code)	0.0	?	?	?	?	?
---------------------------------------	-----	---	---	---	---	---

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: \$ none

POSITIONS

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

ANALYSIS:

(Attach a separate page if necessary)

It is impossible to quantify the fiscal effect of this bill since some critical terms are not defined and no economic analysis has been provided.

Following on page 2 is an example of what we believe would be the fiscal impact of this bill on one particular project.

Prepared by: Ken Boyd, Director

Division: Oil & Gas

Approved by Commissioner: [Signature]

Agency: Natural Resources

Phone: 269-8800

Date: 20-Feb-98

Date: 2-20-98

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HB380 Fiscal Analysis continued...

The State and an oil company have recently negotiated the creation of the Redoubt Unit in Cook Inlet. This Unit includes several abandoned wells and contains "undeveloped" oil and thus clearly, in our view, meets the criteria of the bill. This unit was created with the understanding that royalties would be 12.5%. There was never any discussion of reducing royalties as a condition of forming the Unit (although the company could APPLY for royalty reduction under HB-207). The company never indicated that royalty relief would be necessary to develop the Unit. The fiscal consequence of HB380 on the Redoubt Unit is:

1) If we assume 500 bbl/day production per well, \$10/bbl oil price:

$500 \text{ bbl/day} \times \$10/\text{bbl} \times 12.5\% = \$625/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$2.28 \text{ million/well}$

$500 \text{ bbl/day} \times \$10/\text{bbl} \times 5\% = \$250/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$910 \text{ thousand/well}$

The State will receive \$1.37 million fewer royalty dollars at 500 bbl/day per well.

2) If we assume 1,000 bbl/day production per well, \$10/bbl oil price:

$1,000 \text{ bbl/day} \times \$10/\text{bbl} \times 12.5\% = \$1,250/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$4.56 \text{ million/well}$

$1,000 \text{ bbl/day} \times \$10/\text{bbl} \times 5\% = \$500/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$1.8 \text{ million/well}$

The State will receive \$2.7 million fewer royalty dollars at 1,000 bbl/day per well.

Production per well will likely be somewhere between these two numbers, so the State will forfeit between \$1.37 million and \$2.7 million per well for just the Redoubt Unit.

Assuming (conservatively) that 10 wells are in production the State will "contribute" between \$14 and \$27 million to this project in the form of an unrequested royalty reduction.

Similar examples could be prepared for other fields. Estimates for reductions of royalty payments for gas are more difficult to prepare. But unless and until there are new markets for gas (and assuming the markets are not over-supplied) the 5% royalty gas will merely displace 12.5% royalty gas.

In general, for all production to which this bill applies, the State will receive $(12.5\% - 5\%) = 7.5\%$ fewer royalty dollars. This is a 60% royalty reduction given without any economic analysis or justification.

ALASKA STATE LEGISLATURE

Session:

State Capitol
Juneau, Alaska 99801-1182
(907) 465-3779 - Phone
(907) 465-2833 - Fax



Interim:

145 Main St. Loop Suite 221
Kenai, Alaska 99611
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REPRESENTATIVE MARK D. HODGINS House District 9

SPONSOR STATEMENT HB 380

Reduce Royalty on Cook Inlet Oil & Gas

The intent of House Bill 380 is to encourage the development of gas reserves within the Cook Inlet sedimentary basin. New gas reserves developed as a result of the proposed legislation could be instrumental in maintaining reliable and economically priced gas supplies for South-central consumers, including residential and commercial users.

In addition to stimulating the development of several known undeveloped fields, many of which were discovered more than 30 years ago, House Bill 380 has the potential to leverage additional exploration and development in the vicinity of new infrastructure, including pipelines and associated facilities, required to develop those known fields. Any new oil and gas production resulting from the development of these fields will in turn reduce the average cost of producing existing reserves, and extend the economic life of both existing and new Cook Inlet production and transportation infrastructure.

Under the terms of the proposed legislation, lessees owning leases overlying previously discovered oil or gas fields in the Cook Inlet basin which have remained undeveloped or shut-in from at least January 1, 1988 through December 31, 1997, would have an incentive to develop those fields as rapidly as possible. The legislation would provide that, for oil and gas produced from undeveloped or shut-in fields brought into production before January 1, 2004, lessees would pay a reduced royalty of five percent, instead of the 12 1/2 percent specified in the lease, for a period of 10 years following the date on which oil or gas production begins.

By establishing a short period of eligibility—ending on December 31, 2003 – House Bill 380 ensures that lessees diligently pursue development or forfeit the opportunity to pay reduced royalties. By limiting the period of reduced royalty payments from qualifying fields to 10 years following the beginning of production, the legislation provides a reasonable and measurable limit to the state's foregone royalties in exchange for oil and gas production that may otherwise not occur. The state's royalties from currently producing Cook Inlet oil and gas fields will not be effected by House Bill 380.

By encouraging the development of existing uneconomic oil and gas fields, House Bill 380 will benefit the state and local economies through taxation and royalties, encourage future development of new oil & gas discoveries by lowering the costs of industry infrastructure, as well as taking care of job #1 - providing jobs for Alaskans.



COMMITTEE:

DATE: March 5, 1998

Subject of meeting:

OIL

SIGN-IN

NAME _____

~~ADDRESS (MAILING / ZIP)~~

PHONE

REPRESENTING

**DO YOU
WANT TO
TESTIFY?**

[illegible]



COMMITTEE:

HOUSE OIL & GAS

DATE: February 26, 1998

SIGN-IN

Subject of meeting:

HB 393 - DEVELOP STRANDED GAS RESOURCES

PLEASE PRINT!

NAME

ADDRESS (MAILING / ZIP)

PHONE

REPRESENTING

DO YOU WANT TO TESTIFY ?

[illegible]



COMMITTEE:

HOUSE OIL & GAS

DATE: February 26, 1998

Subject of meeting:

HB 380 - REDUCE ROYALTY ON COOK INLET OIL & GAS

SIGN-IN

PLEASE PRINT!

NAME _____

ADDRESS (MAILING / ZIP)

PHONE

REPRESENTING

DO YOU WANT TO TESTIFY?

[illegible]

Analysis for Fiscal Note SB 256 2/23/98

It is impossible to quantify the fiscal effect of this bill since some critical terms are not defined and no economic analysis has been provided.

Following is an example of what we believe would be the fiscal impact of this bill on the particular projects shown on the sponsor's map. We provide some examples for typical oil and gas projects in Cook Inlet and extrapolate these to the various fields.

The State and an oil company have recently negotiated the creation of the Redoubt Unit in Cook Inlet. This Unit includes several abandoned wells and contains "undeveloped" oil and thus clearly, in our view, meets the criteria of the bill. This unit was created with the understanding that royalties would be 12.5%. There was never any discussion of reducing royalties as a condition of forming the Unit (although the company could APPLY for royalty reduction under HB-207). The company never indicated that royalty relief would be necessary to develop the Unit. The fiscal consequence of SB-256 on the Redoubt Unit is:

Assume 500-1,000 bbl/day production per well, \$10/bbl oil price.

$500 \text{ bbl/day} \times \$10/\text{bbl} \times 12.5\% = \$625/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$2.28 \text{ million/well}$
 $500 \text{ bbl/day} \times \$10/\text{bbl} \times 5\% = \$250/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$910 \text{ thousand/well}$

The State will receive \$1.37 million fewer royalty dollars at 500 bbl/day per well.

$1,000 \text{ bbl/day} \times \$10/\text{bbl} \times 12.5\% = \$1,250/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$4.56 \text{ million/well}$
 $1,000 \text{ bbl/day} \times \$10/\text{bbl} \times 5\% = \$500/\text{day} \times 365 \text{ days} \times 10 \text{ years} = \$1.8 \text{ million/well}$

The State will receive \$2.7 million fewer royalty dollars at 1,000 bbl/day per well.

Production per well will likely be somewhere between these two numbers, so the State will forfeit between \$1.37 million and \$2.7 million per well for just the Redoubt Unit.

Assuming (conservatively) that 10 wells are in production the State will "contribute" between \$14 and \$27 million to this project in the form of an unrequested royalty reduction.

Following the examples for oil, here are two similar analyses for gas using the following assumptions:

Two flow rates:

Case 1	1MMcf/d	1 million cubic feet per day = 1,000 mcf/d
Case 2	5MMcf/d	5 million cubic feet per day = 5,000 mcf/d

Gas price \$1.50/mcf This is the Cook Inlet average price

Case 1

$1,000 \text{ mcf/d} \times 365 \text{ days} \times \$1.50/\text{mcf} \times (.125 - .05) = \$41,062/\text{year/well}$

In ten years = \$410,620/well

This is probably the minimum economic case.

Case 2:

$5,000 \text{ mcf/d} \times 365 \text{ days} \times \$1.50/\text{mcf} \times (.125 - .05) = \$205,312/\text{year}/\text{well}$

In ten years = \$2,053,120/well

This case would be typical of the North Fork, Falls Creek and West Forelands fields.

Assuming the 4 gas fields on the map are one-well fields then the state would forego about \$8 million (4 x \$2 million) in royalties over the ten year period of the royalty reduction.

Assuming the 2 oil fields on the map produce at a rate of 10,000bbl/day the state will forego about \$54 million in royalties over the ten year period of the royalty reduction.

Total for the fields on the map is \$62 million for the program.

THIS ASSUMES THAT NO OTHER FIELDS OTHER THAN THOSE SHOWN ON THE MAP QUALIFY FOR THE REDUCTION.

In general, for all production to which this bill applies, the State will receive (12.5% - 5%) = 7.5% fewer royalty dollars. This is a 60% royalty reduction given without any economic analysis or justification.

PROPOSED CS FOR HB 380 (O&G)

Section 1. AS 38.05.180 (f) is amended by adding a new paragraph to read:

(5) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil or gas field **identified in this section**, *[in the cook inlet sedimentary basin discovered before January 1, 1998, that has been undeveloped or shut in from January 1, 1988, through December 31, 1997, and that, before January 1, 2004, begins producing for sale previously undeveloped or shut in oil or gas,]* shall, **provided production for sale begins before January 1, 2004**, pay a royalty of five percent on *[all production of oil & gas]* **the first 40 million barrels of oil and the first 35 billion cubic feet of gas produced** for sale from that oil or gas field that occurs in the 10 years following the date on which the production for sale *[of previously undeveloped or shut in oil & gas]* commences *[from that field]*. **The fields eligible for royalty reduction pursuant to this section, all of which are located within the Cook Inlet sedimentary basin, were discovered before January 1, 1988, and have been undeveloped or shut in from at least January 1, 1988, through December 31, 1997, are:**

- 1) Falls Creek ;**
- 2) Nicolai Creek;**
- 3) North Fork;**
- 4) Point Starichkof;**
- 5) Redoubt Shoal; and**
- 6) West Foreland.**

New text underlined *[Deleted text bracketed]*

Oil and Gas Operations, Management and Policy
8611 Leeper Circle
Anchorage, Alaska 99504

Telephone (907) 337-3515
Facsimile (907) 333-9087

March 4, 1998

Senator Rick Halford, Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol (MS) 3100
Juneau, Alaska 99801-1182

Dear Senator Halford:

I wanted to take this opportunity to reply to several concerns posed by Ken Boyd, Director of the Division of Oil and Gas ("division"), in his February 20, 1998 letter to you regarding S.B. 256. Mr. Boyd's concerns were related to 1) the lack of a provision in the bill to account for changing conditions to protect the State's "upside" interests, 2) the basis for the selection of the royalty rate and term of eligibility used in the bill—five percent for 10 years, 3) a question regarding whether or not all fields and all lessees were similarly situated with regard to economic need, and 4) his desire to clarify which fields are potential candidates for royalty reduction under the proposed legislation. In addition to addressing each of these concerns, I have provided some comments that might be helpful in your evaluation of the division's document entitled "Analysis for Fiscal Note S.B. 256 2/23/96".

Five percent was selected as the floor to provide consistency with the minimum royalty provisions of the state's current discovery royalty program, AS 38.05.180(f)(4), which was enacted in 1996. Five percent also was adopted as the floor by the legislature for royalty reduction under AS 38.05.180(j)(4)(A), the existing statute governing royalty reduction. A 10 year period was selected to provide a reasonable amount of time for royalty relief, on the presumption that production rates and ultimate recovery are likely to be relatively small compared with currently producing Cook Inlet oil and gas fields. The 10 year period is also consistent with the period of royalty reduction applicable under the State's current royalty reduction statute.

The economic requirements of all companies having interests in the fields which may be developed under the proposed legislation are not equal. However, based upon the fact that more than three decades have passed since those fields were discovered, without commercial development of the resources, suggests that, regardless of any individual company's specific economic requirements, royalty reduction may be required to encourage development of these fields. Given the paucity of information about the potential reserves in these fields, it is questionable that applicants could provide the information required under H.B. 207 [AS 38.05.180(j)(4)(A)] to persuade the Commissioner of Natural Resources that royalty reduction is appropriate, although it seems axiomatic that the passage of thirty years without development demonstrates the need for relief.

The fact that S.B. 256 contains no provision to accommodate changing economic conditions is not unique. For example, the legislature made the policy choice in enacting the current discovery royalty statute in 1996 that, in the interest of encouraging new exploration and development in Cook Inlet, a five percent royalty for a 10 year period was appropriate for all new discoveries, regardless of their size. S.B. 256 is intended to provide the same incentive for another class of fields, those which have been discovered, but have not been developed and produced because of their perceived economics.

As a matter of policy, if the legislature wants to limit potential benefits which a lessee might realize if its reserves turn out to be considerably higher than expected, a simple and straight-forward way of doing that would be to amend the bill to limit the volume of oil and gas to which relief would apply. Similarly, to alleviate concerns that the bill may be construed to apply to fields other than those for which it is intended, the bill could be amended to define an explicit list of candidate fields.

In reviewing the division's February 23rd analysis of its Fiscal Note for S.B. 256, you may want to consider the following points. Oil production rates decline over time. Therefore, projecting a constant production rate for 10 years, as the analysis does, overstates the volume, and thus the value, of the state's royalty share. As a result, by implication, the "loss" to the State if it receives a five percent royalty instead of a 12-1/2 percent royalty is also overstated. The rate of decline can vary for a variety of reasons, and the initiation of decline can be deferred by such initiatives as waterflooding, reinjection of produced gas and other measures—if there are sufficient reserves to justify the large capital investments required to do so. However, production decline cannot be avoided, and any estimate of production should reflect that reality.

The attached illustration reflects the decline curve for the Hemlock Oil Pool in the McArthur River Field.¹ During the early development of this field, five rigs were employed in drilling wells from three platforms to develop the oil reserves. In addition, waterflooding was initiated at the beginning of field life to prolong the production plateau—something that less economic fields may not be able to afford. As illustrated, since decline began in 1976, it has continued at a rate of about 16 percent per year, a rate which is a realistic minimum rate for Cook Inlet oil reservoirs. The table below demonstrates the effect of adjusting the division's assumed production profile for the two oil fields to reflect this conservative decline profile, assuming no secondary recovery.

<u>Year</u>	<u>Volume (bbls)</u>	<u>Gross Value (\$)</u>	<u>5%</u>	<u>7.5%</u>
1	3,650,000	36,500,000	1,825,000	2,737,500
2	3,066,000	30,660,000	1,533,000	2,299,500
3	2,575,440	25,754,400	1,287,720	1,931,581
4	2,163,373	21,633,730	1,081,686	1,622,530
5	1,817,233	18,172,330	908,617	1,362,925
6	1,526,476	15,264,760	763,238	1,144,857
7	1,282,240	12,822,400	641,120	961,680
8	1,077,082	10,770,820	538,541	807,812
9	904,749	9,047,490	452,375	678,562
10	759,989	7,599,890	379,995	569,992
	18,822,582	188,225,820	9,411,292	14,116,945

¹ Alaska Oil and Gas Conservation Commission, 1996 Annual Report, page 82.

If one adopts the division's highest assumed oil production rate—1,000 bbls/day—and the division's "conservative" number of 10 wells per field, but adjusts for a decline of 16 percent per year, a different picture emerges. The projected value of "foregone" royalties per field is about \$14.2 million, instead of the \$27 million estimated by the division. More importantly the table highlights something that is missing from the division's analysis—the \$9.4 million value of the five percent royalty received by the State, which, based upon the evidence of more than 30 years of non-development, might not otherwise occur.

The division's analysis also does not address the bill's potential for leveraging additional exploration and development in the vicinity of new infrastructure. That infrastructure could include roads, platforms, pipelines and associated facilities, all of which could effectively reduce the average cost of producing existing reserves, and extend the economic life of existing and new Cook Inlet production and transportation infrastructure. While these benefits may be hard to quantify, no one can seriously doubt their value. Nor, in my opinion, should they be discounted.

As I have said before, I believe S.B. 256 is an important bill which has the potential to re-energize Cook Inlet exploration and development, and to encourage the participation of a broader range of interests, including major oil companies, independent oil companies and local individuals in that development. I urge your careful consideration and support, as well as that of other members of the Resources Committee, for the bill.

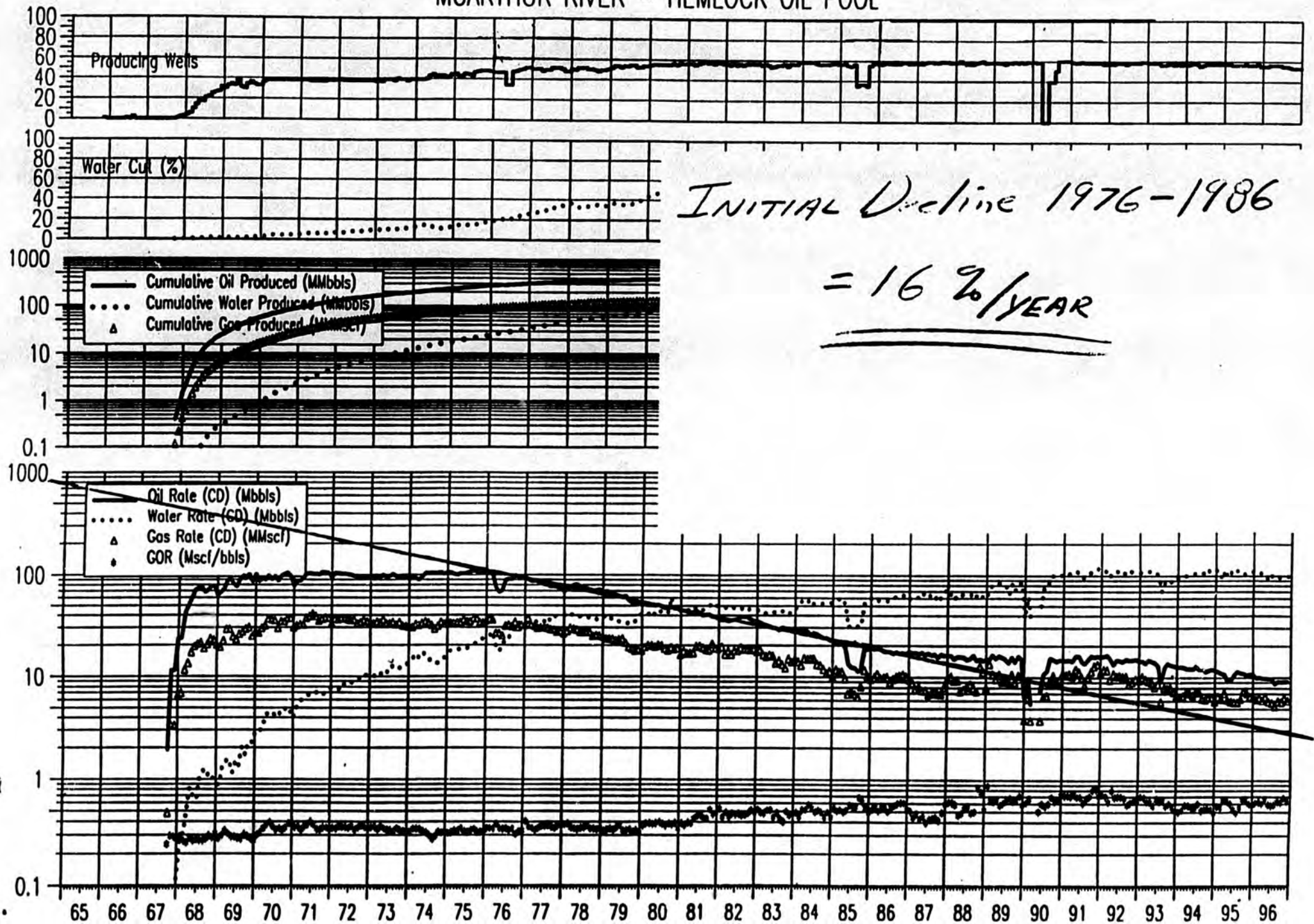
Sincerely,



James E. Eason

cc: Senator Drue Pearce
Representative Mark Hodgins
Commissioner John Shively
Director Ken Boyd

MCARTHUR RIVER - HEMLOCK OIL POOL



State of Alaska
Department of Natural Resources
Division of Oil and Gas

Sale Results Summary

Date of Sale: February 24, 1998

Preliminary Report

Competitive Oil and Gas Lease Sale: Sale 85A-W, Cook Inlet Exempt Reoffer

Bidding Method: Cash Bonus Bid, Fixed Royalty
 Minimum Bid: \$5.00 per Acre

Tracts Offered: 157 Acreage Offered: 757,878.13
 Tracts Sold: 24 Acreage Sold: 98,010.77

Total Number of Valid Bids 35

Total High Bonus Bids: \$828,807.37

Total Exposed (Sum of All Valid \$944,873.71

Average High Bonus Bid Per Acre: \$8.46

Highest Bid:	\$62,265.60
Tract Number:	117
Submitted By:	Forcenergy 50 / Unocal 50

Highest Bid/Acre:	\$27.00
Tract Number:	116
Submitted By:	Sexton 75 / Burglin 25

Bidder Company or Group Name	Number of Tracts Bid On	Total of All Bids	Number of Tracts Won	Total of High Bids
Forcenergy 50 / Unocal 50	10	\$449,563.19	9	\$445,639.99
Forcenergy Inc.	3	\$108,874.25	3	\$108,874.25
Marathon Oil Company	1	\$27,069.54	1	\$27,069.54
Monte J. Allen	1	\$28,895.77	1	\$28,895.77
Sexton 75 / Burglin 25	4	\$72,674.00	3	\$67,529.00
Vondra 75 / Burglin 25	6	\$104,971.48	3	\$54,558.00
Wagner 50 / Allen 50	1	\$42,938.22	1	\$42,938.22
Wagner 50 / Gilbertson 50	9	\$109,887.26	3	\$53,302.60

State of Alaska
Department of Natural Resources
Division of Oil and Gas

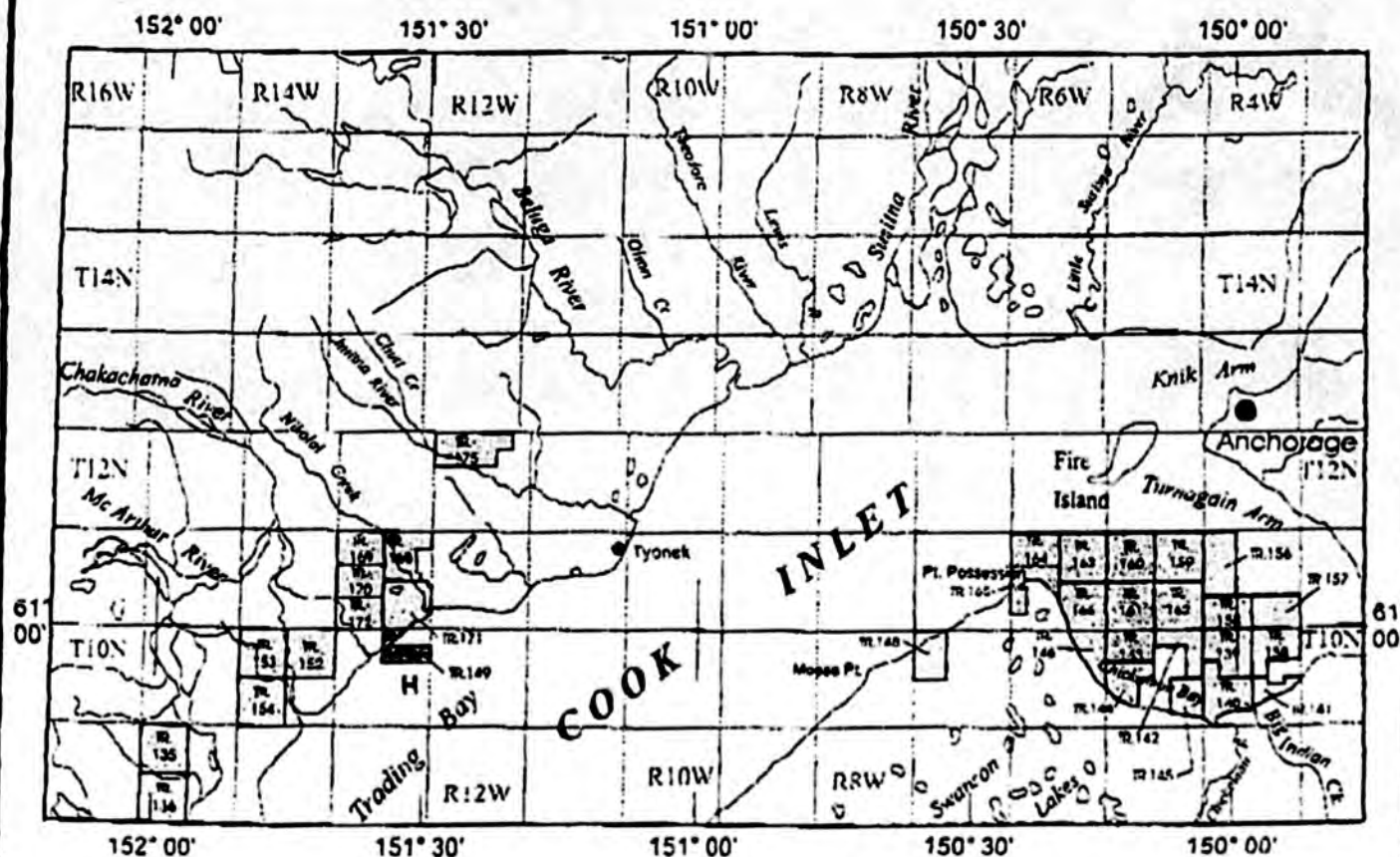
Winning Bids

Date of Sale: February 24, 1998

Preliminary Report

Competitive Oil and Gas Lease Sale: Sale 85A-W, Cook Inlet Exempt Reoffer

Tract Number	ADL Number	Acreage	Amount	Bid / Acre	Bidder Name
040	388740	2,475.80	\$23,520.10	\$9.50	Wagner 50 / Gilbertson 50
041	388741	2,400.00	\$22,800.00	\$9.50	Wagner 50 / Gilbertson 50
043	388743	735.00	\$6,982.50	\$9.50	Wagner 50 / Gilbertson 50
065	388765	1,817.37	\$12,726.00	\$7.00	Vondra 75 / Burglin 25
066	388766	2,946.37	\$20,629.00	\$7.00	Sexton 75 / Burglin 25
067	388767	1,100.16	\$7,707.00	\$7.01	Vondra 75 / Burglin 25
070	388770	2,532.23	\$27,069.54	\$10.69	Marathon Oil Company
091	388791	5,747.59	\$28,895.77	\$5.03	Monte J. Allen
094	388794	1,480.87	\$29,620.00	\$20.00	Sexton 75 / Burglin 25
096	388796	4,874.43	\$34,125.00	\$7.00	Vondra 75 / Burglin 25
097	388797	5,760.00	\$36,979.20	\$6.42	Forcenergy 50 / Unocal 50
098	388798	5,706.00	\$54,834.66	\$9.61	Forcenergy 50 / Unocal 50
101	388801	5,706.00	\$42,938.22	\$7.53	Wagner 50 / Allen 50
108	388808	5,760.00	\$41,529.60	\$7.21	Forcenergy Inc.
116	388816	640.00	\$17,280.00	\$27.00	Sexton 75 / Burglin 25
117	388817	5,760.00	\$62,765.60	\$10.81	Forcenergy 50 / Unocal 50
118	388818	5,760.00	\$49,824.00	\$8.65	Forcenergy Inc.
119	388819	5,675.00	\$57,544.50	\$10.14	Forcenergy 50 / Unocal 50
120	388820	5,691.00	\$46,267.83	\$8.13	Forcenergy 50 / Unocal 50
123	388823	5,760.00	\$58,809.60	\$10.21	Forcenergy 50 / Unocal 50
126	388826	5,760.00	\$41,414.40	\$7.19	Forcenergy 50 / Unocal 50
128	388828	5,660.00	\$40,695.40	\$7.19	Forcenergy 50 / Unocal 50
129	388829	5,760.00	\$46,828.80	\$8.13	Forcenergy 50 / Unocal 50
149	388849	2,502.95	\$17,520.65	\$7.00	Forcenergy Inc.



Sale Results

APPARENT HIGH BIDDERS = **[REDACTED]**

A = Marathon Oil Company	F = Forcenergy Inc./Union Oil
B = Lewis E. Vondra/C. Burglin	Company of California
C = Richard E. Wagner/Dan R. Gilbertson	G = Richard E. Wagner/Monte J. Allen
D = Michael R. Sexton/C. Burglin	H = Forcenergy Inc.
E = Monte J. Allen	

MAP INDEX



STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES DIVISION OF OIL AND GAS OIL AND GAS LEASE SALE 85A-W COOK INLET REOFFER FINAL SALE AREA MAP

SCALE 1:700,000 ONE INCH EQUALS 11.3 MILES APPROX.
0 5 10 15 MILES

DIRECTOR, DIV. OF OIL & GAS

KENNETH A. BOYD

PETROLEUM GEOPHYSICIST

JAMES HANSEN

DRAWN BY:

O.D.S.

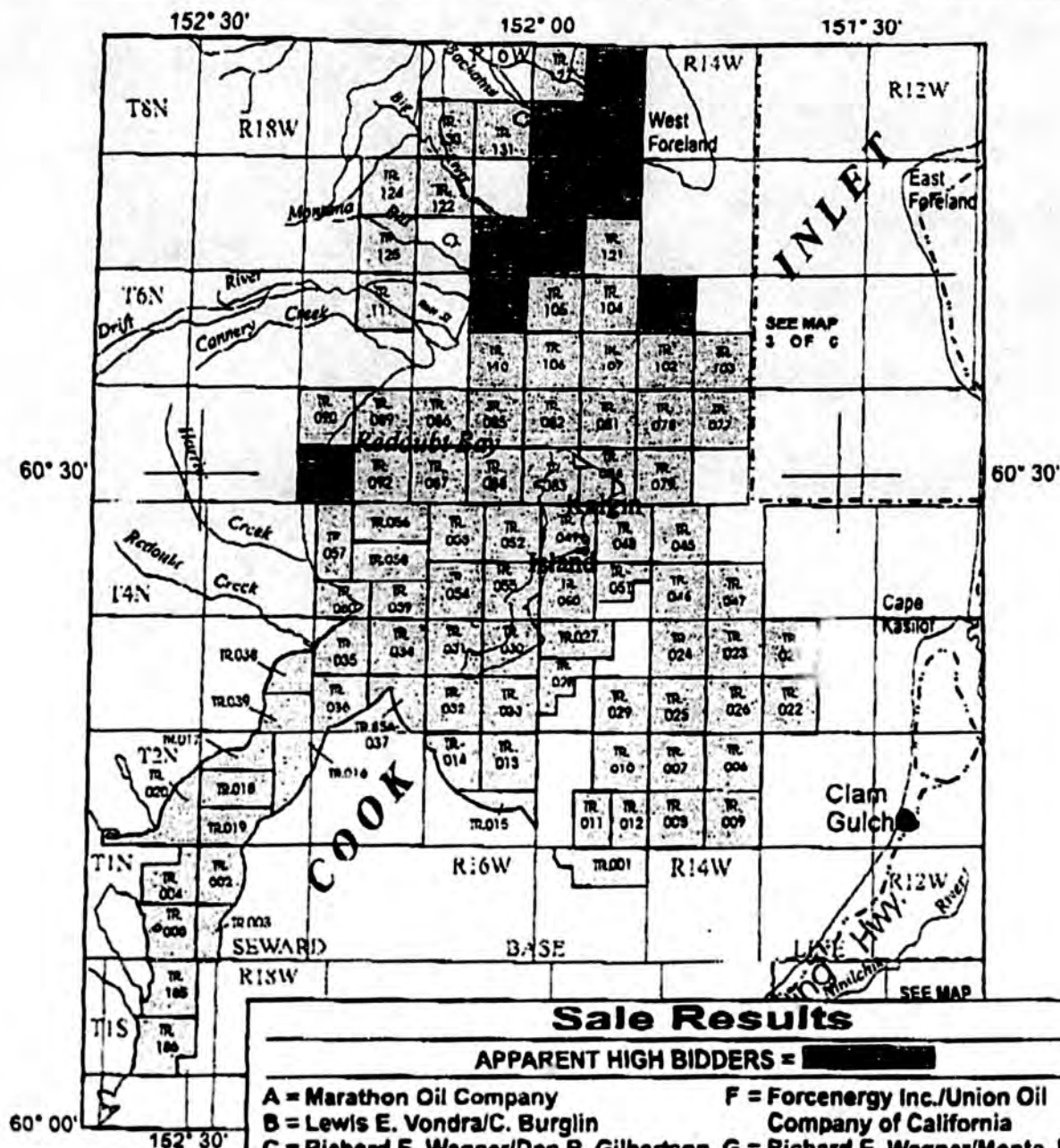
CHECKED BY:

DATE APPROVED 2/24/98

Albers Equal-Area Conic Projection
Based On The Clark 1866 Ellipsoid
Central Meridian -150 00
Origin Latitude 50 00

NOTE: THIS MAP IS NOT AN
OFFICIAL TRACT MAP, BUT
IS FOR INFORMATIONAL
PURPOSES ONLY. A SET OF
OFFICIAL TRACT MAPS IS
AVAILABLE AT THE DEPARTMENT
OF NATURAL RESOURCES,
DIVISION OF OIL & GAS,
3801 C STREET, SUITE 1300,
ANCHORAGE, ALASKA 99503
(907) 269-8805

FINAL SALE AREA MAP NO.1 OF 4



MAP INDEX



STATE OF ALASKA
 DEPARTMENT OF NATURAL RESOURCES
 DIVISION OF OIL AND GAS
 OIL AND GAS LEASE SALE 85A-W
 COOK INLET REOFFER FINAL SALE AREA MAP

SCALE 1:570,000 ONE INCH EQUALS 9 MILES APPROX.

15 MILES

DIRECTOR, DIV. OF OIL & GAS
 KENNETH A. BOYD

PETROLEUM GEOPHYSICIST
 JAMES HANSEN

DRAWN BY:
 O.D.S.

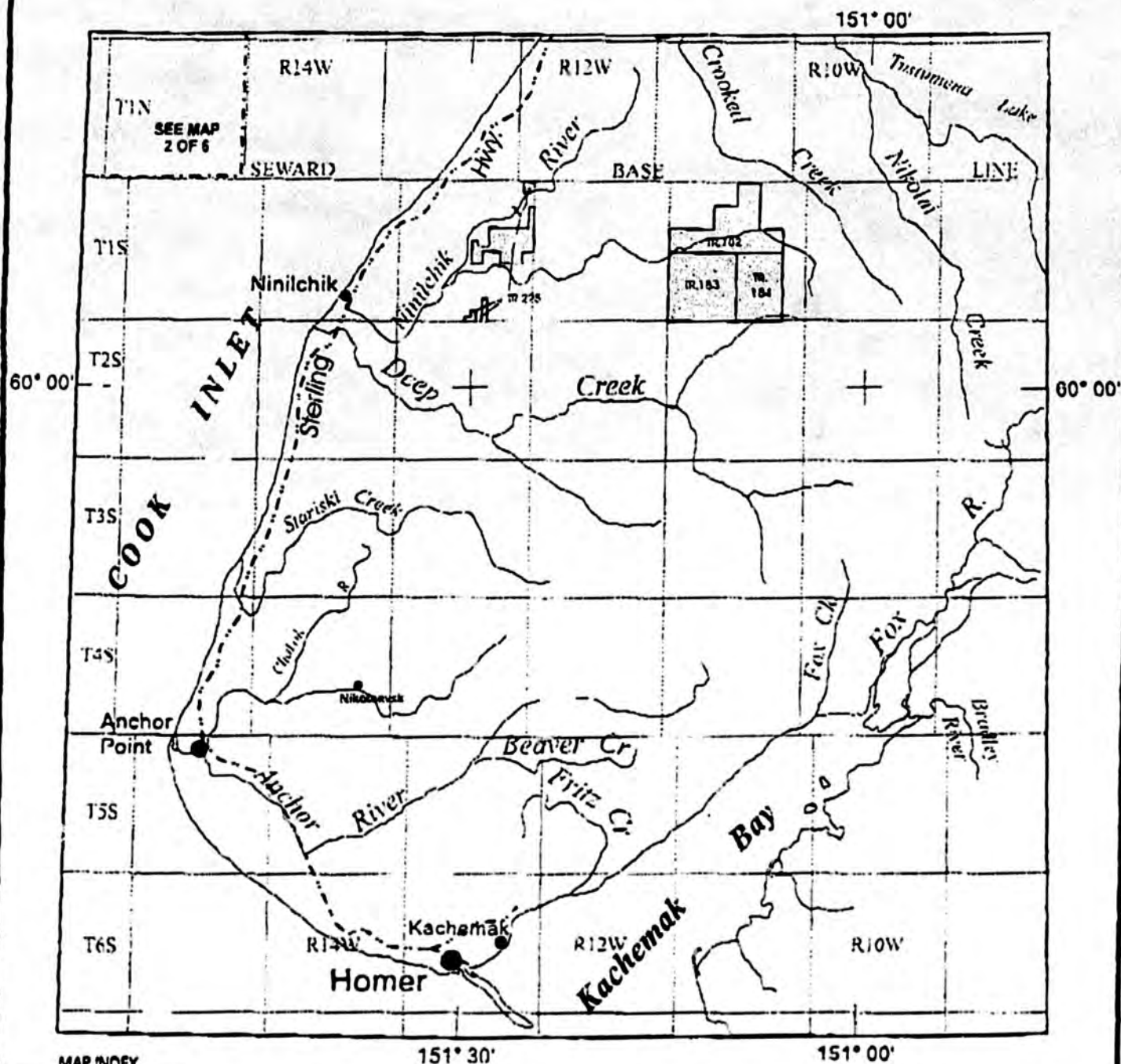
CHECKED BY:

DATE APPROVED: 2/24/98

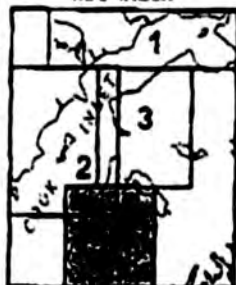
Albers Equal-Area Conic Projection
 Based On The Clark 1866 Ellipsoid
 Central Meridian: -150.00
 Origin: Latitude: 60.00

NOTE: THIS MAP IS NOT AN OFFICIAL TRACT MAP, BUT IS FOR INFORMATIONAL PURPOSES ONLY. A SET OF OFFICIAL TRACT MAPS IS AVAILABLE AT THE DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL & GAS, 3601 C STREET, SUITE 1380, ANCHORAGE, ALASKA 99503 (907) 269-6000

FINAL SALE AREA MAP NO. 2 OF 4



MAP INDEX



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
OIL AND GAS LEASE SALE 85A-W
COOK INLET REOFFER FINAL SALE AREA MAP

SCALE: 1"=400,000' ONE INCH EQUALS 6.7 MILES APPROX.

0 5 10 15 MI. PR.

DIRECTOR, DIV. OF OIL & GAS
KENNETH A. BOYD
PETROLEUM GEOPHYSICIST
JAMES HANSEN

DRAWN BY:
O.D.S.

CHECKED BY:

DATE APPROVED: 2/24/98

Albers Equal-Area Conic Projection
Based On The Clark 1866 Ellipsoid
Central Meridian: -150.00
Origin Latitude: 50.00

NOTE: THIS MAP IS NOT AN
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(907) 269-8805

FINAL SALE AREA MAP NO. 4 OF 4

SCOMM

104:10

Revision Date: February 13, 1998 Correction

Title: Develop Stranded Gas Resources

Dept. Affected:

Revenue

BRU:

Administration and Support

Component:

Commissioner's Office

Sponsor: Rules

Requestor: Governor

COMPONENT SERIAL NO.

123

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	81.6	82.7	84.0	85.3	86.6	87.9
TRAVEL	30.0	30.0	30.0	30.0	30.0	30.0
CONTRACTUAL	375.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	5.0	5.0	5.0	5.0	5.0	5.0
TOTAL OPERATING	491.6	117.7	119.0	120.3	121.6	122.9

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

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

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*** 191.6	117.7	119.0	120.3	121.6	122.9
1001 CBRF						
1048 University of AK receipts						
Other	300.0					
TOTAL	491.6	117.7	119.0	120.3	121.6	122.9

Estimate of any current year cost \$

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

*** The legislation as currently drafted allows for the \$300,000 in contractual costs to be recovered from future applicants. This bill could be modified to provide that all costs would be borne by an applicant.

See Attached

Prepared by:

Mary Marshburn, Roger Marks

Division:

Office of the Commissioner

Approved by Commissioner:

Wilson L. Condon

Agency:

Revenue

Phone: 343-9242

Date: February 13, 1998

Date: February 13, 1998

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AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 393(O&G), Draft Version ~~"K"~~ "L"

1 Page 2, line 19, following "tankers":

2 Insert "although experimental research is being conducted on other
3 alternative technologies such as gas to liquids, this technology is not yet
4 commercially viable; if this research results in a commercially viable technology,
5 and, after economic analysis by the state of the application of this technology, it is
6 shown that local or state tax or regulatory changes are necessary to commercialize
7 an Alaska project using this technology, then this technology may be considered in
8 regard to this legislation."

AMENDMENT ^H#13 ADOPTED

3/24/98

OFFERED IN THE HOUSE

BY REPRESENTATIVE BUNDE

TO: CSHB 393(0&G), Draft version "B"

- 1 Refers to Page 18, Line 26 of the CS
- 2 Amendment #1, page 4, line 12 – Following "public disclosure or"
- 3 Insert "public disclosure"
- 4 Refers to Page 18, Line 30 of the CS
- 5 Amendment #1, page 4, line 17 – Following "information"
- 6 Delete "and"
- 7 Insert "or"

AMENDMENT #1*MOVED BY COMMITTEE ON 3/24/98***OFFERED IN THE HOUSE****TO: CSHB 393(O&G), Draft Version "B"**

- 1 **Page 4, line 12:**
- 2 Delete "enter into"
- 3 Insert "develop"

- 4 **Page 4, line 14:**
- 5 Delete "is an"
- 6 Insert "will result in contracts that are an"

- 7 **Page 4, line 16:**
- 8 Delete "enter into"
- 9 Insert "develop"

- 10 **Page 4, line 18:**
- 11 Delete "is"
- 12 Insert "will result in contracts that are"

- 13 **Page 5, line 1, following "state":**
- 14 Insert "developed"

- 15 **Page 5, line 4:**
- 16 Delete "entered into"
- 17 Insert "developed"

- 18 **Page 5, line 7, following "contract":**
- 19 Insert "developed"

1 Page 5, line 14:

2 Delete "negotiated"

3 Insert "developed"

4 Page 5, line 17:

5 Delete "negotiated"

6 Insert "developed"

7 Page 5, line 18:

8 Delete "commissioner of revenue"

9 Insert "governor"

10 Page 5, line 19:

11 Delete "as provided in this Act"

12 Page 5, line 21, following "contract":

13 Insert "developed under this Act"

14 Page 5, line 22:

15 Delete "under this Act"

16 Page 6, line 14:

17 Delete "enter into a"

18 Insert "negotiate terms for inclusion in a proposed"

19 Page 7, line 18, following "for":

20 Insert "development of"

21 Page 8, line 8:

22 Delete "plan"

23 Insert "detailed description of options"

- 1 Page 8, line 10:
- 2 Delete "plan"
- 3 Insert "detailed description of options"
- 4 Page 10, line 20:
- 5 Delete "enters into a contract"
- 6 Insert "submits a contract to the governor"
- 7 Page 10, line 24:
- 8 Delete "under AS 43.82.020"
- 9 Page 10, line 29:
- 10 Delete "; or"
- 11 Insert "; and"
- 12 Page 13, line 22:
- 13 Delete "entered into"
- 14 Insert "developed"
- 15 Page 16, line 14:
- 16 Delete "(a) A contract"
- 17 Insert "The term of a contract developed"
- 18 Page 16, line 15:
- 19 Delete "entered into for a term"
- 20 Insert "for"
- 21 Page 16, lines 19 - 23:
- 22 Delete all material.
- 23 Page 16, line 27:
- 24 Delete "or a contract under AS 43.82.020"

- 1 Page 16, following line 31:
- 2 Insert a new subsection to read:
- 3 "(b) A contract developed under this chapter may provide for the assignment
- 4 to or withdrawal of a qualified sponsor or member of a qualified sponsor group."
- 5 Renumber the following subsections accordingly.
- 6 Page 17, line 1:
- 7 Delete "or contract"
- 8 Page 17, line 15:
- 9 Delete "condition of"
- 10 Insert "term in"
- 11 Page 18, line 26, following "disclosure":
- 12 Insert "or is not in the long-term fiscal interests of the state"
Public Disclosure
- 13 Page 18, line 29:
- 14 Delete "and"
- 15 Insert ","
- 16 Page 18, line 30, following "information":
- 17 Insert ", ~~and~~ to protect the long-term fiscal interests of the state"
OR
- 18 Page 20, lines 21 - 23:
- 19 Delete all material.
- 20 Insert "submit the contract to the governor."
- 21 Page 21, lines 4 - 8:
- 22 Delete all material.
- 23 Insert "previously submitted a proposed contract to the governor, the"

- 1 Page 21, line 9:
 - 2 Delete "existing"
 - 3 Insert "currently proposed"

- 4 Page 21, line 10, following "the":
 - 5 Insert "previously"

- 6 Page 22, line 27:
 - 7 Delete ", under"

- 8 Page 22, lines 28 - 29:
 - 9 Delete all material.
 - 10 Insert "submit the contract to the governor."

- 11 Page 22, line 31:
 - 12 Delete all material.
 - 13 Insert "section"

- 14 Page 23, lines 2 - 3:
 - 15 Delete "The commissioner may not execute a contract developed under this chapter
 - 16 and a"
 - 17 Insert "The governor may transmit a contract developed under this chapter to the
 - 18 legislature together with a request for authorization to execute the contract. A"

- 19 Page 23, line 5:
 - 20 Delete "commissioner"
 - 21 Insert "governor"

- 22 Page 23, lines 15 - 16:
 - 23 Delete all material.
 - 24 Insert "commissioner shall include terms in a contract developed under AS 43.82.020
 - 25 that provide for administrative termination of a party's rights, under the procedures and

- 1 conditions of this section, if the party has"
- 2 Page 24, lines 6 - 7:
 - 3 Delete "entered into"
 - 4 Insert "developed"
- 5 Page 24, line 11:
 - 6 Delete "executes"
 - 7 Insert "develops"
- 8 Page 24, line 15:
 - 9 Delete "require as a condition of"
 - 10 Insert "include a term in"
- 11 Page 24, line 22:
 - 12 Delete "each of the affected municipalities"
 - 13 Insert "a municipality"
- 14 Page 25, line 27:
 - 15 Delete "entered into"
 - 16 Insert "developed"
- 17 Page 25, line 29, following "contract":
 - 18 Insert "developed"
- 19 Page 26, line 2, following "contract":
 - 20 Insert "developed"
- 21 Page 26, line 7, following "state":
 - 22 Insert "developed"
- 23 Page 26, line 11, following "contract":

- 1 Insert "developed"
- 2 Page 26, line 17:
- 3 Delete "for which it is"
- 4 Insert "that the commissioner of revenue"
- 5 Page 26, lines 18 - 20:
- 6 Delete all material.
- 7 Insert "expects will be restricted from imposing a tax, or a portion of a tax, as a result
- 8 of implementation of a contract developed under this chapter"
- 9 Page 26, line 26:
- 10 Delete "area to"
- 11 Insert "distance within"
- 12 Page 26, lines 26 - 27:
- 13 Delete "party to a contract under AS 43.82.020 is"
- 14 Insert "person may be"
- 15 Page 27, line 11:
- 16 Delete "uneconomic or uncompetitive to develop"
- 17 Insert "not being marketed due to prevailing cost or price conditions"
- 18 Page 27, line 12, following "determined":
- 19 Insert "by an economic analysis"
- 20 Delete ";
- 21 Insert "."
- 22 Page 27, lines 13 - 15:
- 23 Delete all material.
- 24 Page 27, line 23:

1 Delete "with the commissioner of revenue under AS 43.82.020"

2 Insert "approved by the legislature as a result of submission of a proposed contract
3 developed under AS 43.82"

4 Page 27, lines 30 - 31:

5 Delete "with the commissioner of revenue under AS 43.82.020"

6 Insert "approved by the legislature as a result of submission of a proposed contract
7 developed under AS 43.82"

8 Page 28, lines 7 - 8:

9 Delete "under AS 43.82.020 with the commissioner"

10 Insert "approved by the legislature as a result of submission of a proposed contract
11 developed under AS 43.82"

12 Page 28, lines 15 - 16:

13 Delete "with the commissioner under AS 43.82.020"

14 Insert "approved by the legislature as a result of submission of a proposed contract
15 developed under AS 43.82"