

SCOMM

128:27

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: _____

HB 307

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: _____

Natural Resources

Title: Oil/Gas Exploration Incentive Credit

BRU: _____

Oil and Gas Developmen

Component: _____

Oil and Gas Developmen

Sponsor: Rep. Fate

Requester: (H) Oil and Gas

Component Number: _____

439

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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						
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CHANGE IN REVENUES ()	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil
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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 (FY2002) cost: _____

none

Check this box (X) if funding for this bill is included in the Governor's FY2003 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill extends the deadline for completion of activity qualifying for exploration incentive credits under AS 41.09.010 until July 1, 2007. The credits may be applied against royalties, rentals, taxes, and bonus bids. These credits may also be assigned to other companies so that they may be applied to their royalties, rentals, taxes, and bonus bids. However, under AS 41.09.010(f), a credit may not exceed \$5 million per eligible project and the entire program may not exceed \$30 million. Within one basin a single exploration program could cost as much as \$30 million.

Prepared by: Mark D. Myers, Director

Division: Oil and Gas

Approved by: Pat Pourchot

Agency: Natural Resources

Phone 269-8800

Date/Time 30-Jan-02

Date 30-Jan-02

ANALYSIS: (continued)

The DNR Commissioner has discretion whether to grant EICs. If he does decide to grant EICs, he may grant anywhere between 10 percent and 50 percent on state land and between 10 percent and 25 percent on non-state lands.

*If the program is fully utilized, the state could grant as much as \$30 million in credits that would normally be deposited in the general fund.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 307
 () Publish Date: _____

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

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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						
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CHANGE IN REVENUES ()	0.0	0.0	See Analysis-----			
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The exploration incentive credit in statute is designed to accelerate the exploration of state oil and gas leases and to acquire geological and geophysical information on state, federal and private land. This credit is approved at the discretion of the Commissioner of Natural Resources. The credit is transferable, so that it would have value to entities that do not have current royalty obligations or tax liabilities as well as to those that do.

This bill would delay the sunset provision in the current law from an expiration date of June 30, 2004 to June 30, 2007. No exploration credits have been applied against corporate income tax (AS 43.20) or royalties under the current law. The maximum amount of credits that can be taken is \$30 million. The revenue effect of this bill would therefore be between \$0 and \$30 million.

Prepared by: Chuck Logsdon, Petroleum Economist Phone 269-1019
 Division: Tax Division Date/Time 1/30/02 3:25 PM
 Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002
 Agency: Department of Revenue

REPRESENTATIVE
HUGH "BUD" FATE

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, AK 99701
(907)488-0862
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Alaska State Legislature



House Of Representatives

SPONSOR STATEMENT

HB 307

OIL/GAS EXPLORATION INCENTIVE CREDIT

House Bill 307 will extend the exploration incentive credit for petroleum for an additional three (3) years. This will allow for further exploration into the possibility of natural gas and oil in the Tanana River Drainage Basin.

There is presently renewed interest in exploring for natural gas in the above described basin near Nenana. This simply extends its sunset provision from 2004 to 2007.

While in session:

State Capitol
Juneau, Alaska
99801-1182
(907)465-4976
Fax: (907)465-3883

House District 33

MEMORANDUM:

Alaska State Legislature

**REPRESENTATIVE
HUGH "BUD" FATE**

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While in session:

State Capitol
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Fax: (907)465-3883

House Of Representatives

House District 33

To: Representative Ogan

From: Representative Fate

Concerning: House Bill 307

Date: January 24, 2002

I would like to request a hearing for House Bill 307, "An Act delaying to June 30, 2007, the last date by which hydrocarbon exploration geophysical work must be performed or drilling of a stratigraphic test well or exploratory well must be completed in order for a person to qualify for an exploration incentive credit." in the House Special Committee on Oil and Gas at your earliest possible convenience.

I have attached relevant information for the back up packet. Thank you for your assistance.

Via Facsimile (907) 488-4271
Number of Pages: 2
To: Ms. Sharon Clark
From: Jim Dodson

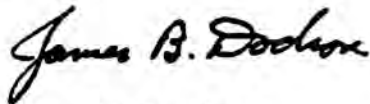
Dear Ms. Clark:

Pursuant to a conversation I had with Bob Evans, I am sending you the following page outlining the changes to Alaska law which my company, Andex Resources, L.L.C., believes would be incentives to natural gas exploration within central Alaska and the Fairbanks area. Andex is a privately funded natural gas and oil exploration company headquartered in Houston, with offices in Denver and Oklahoma City.

Our company has filed with the Alaska Department of Natural Resources for an oil and gas exploration license on approximately 500,000 acres of State lands in the Nenana Basin, west-southwest of the city of Fairbanks. We believe that the Nenana Basin has significant potential to provide a supply of natural gas to the city of Fairbanks and the surrounding area. The area is however, not a producing oil and gas province, and the financial risks associated with natural gas exploration in that basin are therefore very high. The proposals on the next page would reduce those financial risks of exploration and increase the rewards of success to act as incentives to exploratory drilling.

Thank you for your consideration of this matter. I can be reached at (303) 244-1020 and my address is: Andex Resources, L.L.C., 707 17th Street, Suite 3150, Denver, CO 80202.

Sincerely,

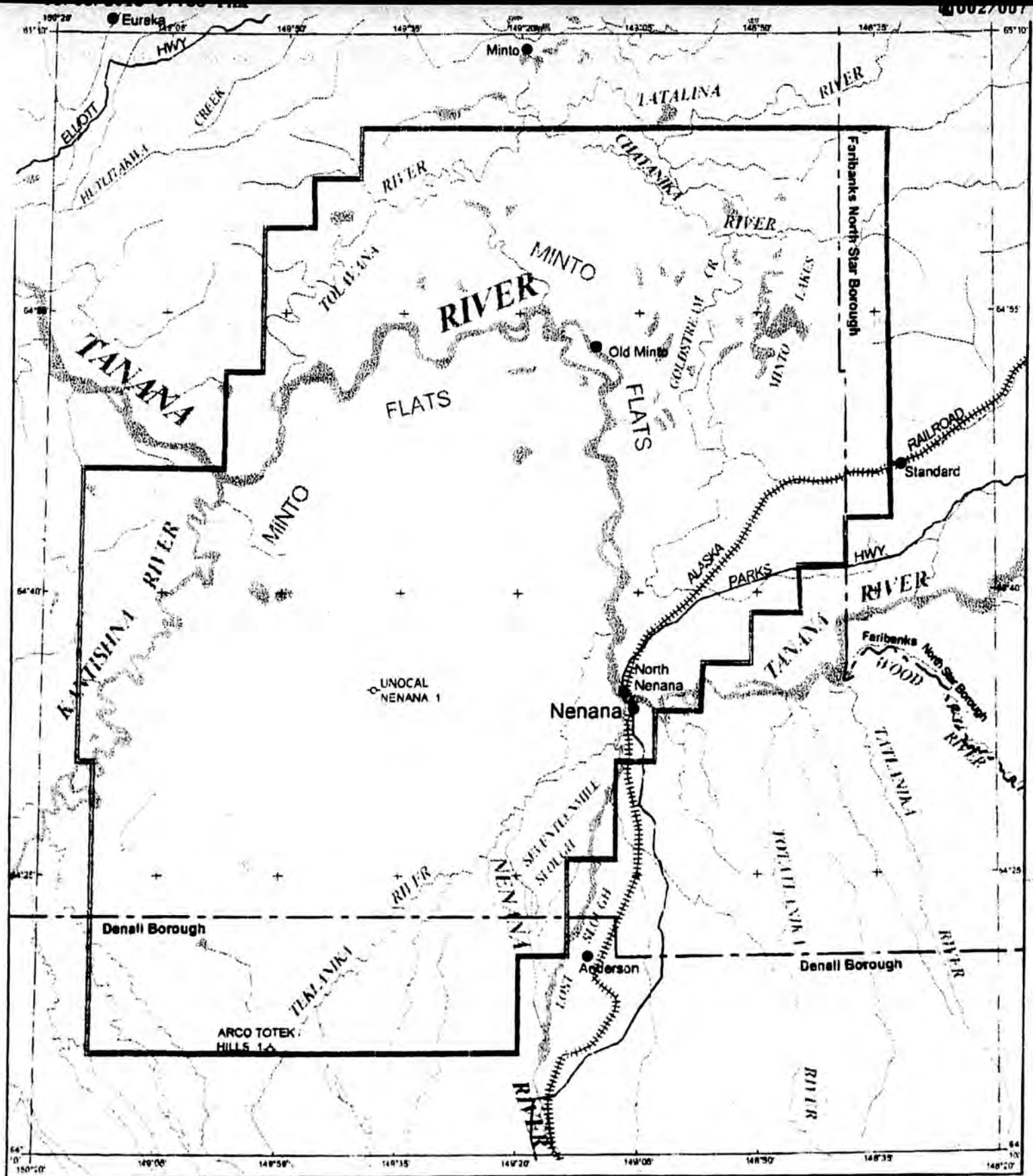


James B. Dodson
Executive Vice-President

Background Information

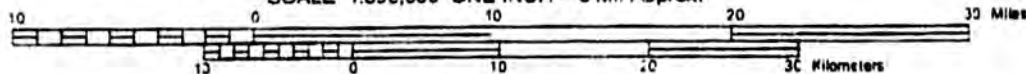
The development of natural gas resources in the Fairbanks, Alaska area could be assisted by two changes to Alaska law. The pertinent statutes and the changes to those statutes which would help to develop natural gas in central Alaska are as follows:

- 1) AS 41.09.010 provides for exploration incentive credits (EIC's) to be granted to parties who explore for natural gas within interior basins of Alaska. The EIC's created by this statute create an added incentive for interior Alaska exploration and could reduce the financial risk of exploration for an oil and gas company. This statute has a sunset provision of July 1, 2004. A three year extension of this statute would grant companies interested in central Alaskan exploration more time to qualify for the exploration incentive credits, which would make them more likely to take on the financial risks of drilling exploratory wells.
- 2) AS 38.05.180(f)(4) provides a reduced royalty for new discoveries of oil or natural gas in the Cook Inlet Region as a way of stimulating exploration activity that could increase the supply of natural gas to the Anchorage area. It reduces the royalty on a state lease on which a new discovery is made from 12.5% down to 5% for the first 10 years of production from that lease. This royalty reduction only applies within the Cook Inlet Sedimentary Basin. Amending this statute to grant equal dignity to the sedimentary basins of interior Alaska would act as a powerful incentive to companies interested in exploring for oil and natural gas in central Alaska.



Nenana Basin Study Area

SCALE 1:500,000 ONE INCH = 8 Mi. Approx.



Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.
 Albers Equal-Area Conic Projection, 1927 North American Datum. Gage 1886 ellipsoid with a central meridian of 149° 20' 00", origin latitude of 50°, northern parallel of 65° and southern parallel of 55°.
 This is not an official tract map, but is for informational purposes only. DNR makes no claim as to its accuracy.

ADNR 4/01



Andex close to Nenana deal, gas could go to Anchorage

By Kay Cashman

PNA Publisher

Jim Dodson, executive vice president of Andex Resources LLC of Houston, told PNA that his firm is "very close to a deal with Doyon" to explore and develop the oil and gas resources of approximately 38,000 acres in the Nenana sedimentary basin in Interior Alaska.

The privately owned independent is also working with the state for an exploration license in the basin. Dodson said Doyon Ltd. was instrumental in getting Andex interested in what geologists view as a gas-prone area.

"The Andex license application is for several hundred thousand acres in the basin. Our land is in a fairly strategic location in the deepest part of the basin. We're an island within state land," Doyon Vice President of Lands and Natural Resources Jim Mery told PNA.

"Doyon has been a tremendous source of information for us. We couldn't have put together the picture we have — the picture that made us go after this deal — without Doyon," he said.

Two right-of-ways to Anchorage

The Nenana basin, which Doyon Ltd. documents said could hold reserves "on the order of 250 million barrels of recoverable oil and 250 Bcf to 1 Tcf of recoverable gas," was explored by ARCO Alaska in the early 1980s. ARCO drilled a well in the basin in 1984 but dropped its plans for further exploration when oil prices collapsed, Mery said.

It has enough gas, Dodson believes, to meet market demands for Fairbanks and possibly Anchorage: "We see a home heating market in Fairbanks and an electric generation market. We also see a market for supplanting diesel and other fuels to Interior mines. It's a 30 million to 50 million cubic feet a day market (for natural gas) in the Interior. ...

"If we found a significant gas discovery up there we could seriously look at supplying Anchorage," Dodson added.

"By Alaska standards the Nenana basin is not that far from Anchorage. ... We're south of the Brooks Range and there are two rights of way that could be used for a pipeline between the basin and Anchorage

— the highway and the railroad.”

Seismic winter of 2002-2003

Andex's work commitment is confidential, Dodson said. “There won't be any seismic or geophysical work this winter. We expect to shoot our first seismic in the winter of 2002-2003.”

Andex is a good choice for development in the basin, Mery said. Mark Myers, director of the state Division of Oil and Gas, agreed with him.

Both men pointed to the fact that the company is well-funded, involved with other projects in Alaska and looking to get even more involved in the state. (See articles in this issue about Netricity and the Slugger unit.)

“We have been working with them for over a year and gotten to know them very well. A lot of them are old Shell Oil people. ... Andex's president, Ernie LaFleur, was head of Alaska exploration for Shell. I am very impressed with their geology staff,” Mery said.

Native issues

Andex appears sensitive to the Native issues that surround any development in the Nenana basin, Mery said.

“While we at Doyon are supportive of oil and gas in this area, we are still very committed to making sure that the state in its best interest finding process for Andex's exploration license has all the information in front of it to make sure that the appropriate mitigation measures can be taken to avoid negative impacts on the area. ...

Mery said there are a “number of youth cultural camps and other educational activities centered out of old Minto village on the Tanana River, as well as important hunting, trapping and fishing that takes place on numerous lakes in the Minto Flats, all of which would be in the general area of the possible exploration and would have to be taken into consideration.

Alaska office a possibility

The focus of Andex's exploration will be gas, Dodson said.

“When industry explored the basin in the early '80s, their focus was oil but they knew it was a gas-prone basin and thought there was also a good shot at oil. Andex's focus is gas. We'd be happy if we found oil, but our focus is traditional natural gas,” he said.

An Alaska office is something “we may have one of these days, depending how big our business in Alaska gets,” Dodson said.