

SCOMM

128:28

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 308
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Oil / Gas Leases; BRU Revenue Operations
Discovery Royalty 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 ()	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 discovery royalty provision in statute reduces the state royalty rate to 5% for qualified discoveries of oil and gas. This bill would extend the discovery royalty provisions of existing law, which apply to Cook Inlet, to the Tanana River drainage. The reduced royalty applies to the production from the pool attributed to the lease on which the discovery well was drilled and is for a period of 10 years from the date of discovery.

It is not known at this time how many, if any, pools of economically recoverable reserves of oil or gas there are in the Tanana River drainage. We also don't know whether this bill is necessary to cause exploration wells to be drilled. For these reasons it is not easy to predict what effect this bill would have on revenues. At gas prices around \$2.00/mcf, annual royalty revenues would be reduced by \$550,000 for every discovery lease well producing 10,000 mcf of gas per day. At oil prices of \$15/bbl at the wellhead, annual royalty revenues would be reduced by \$4 million for every 10,000 barrels of oil produced per day from the discovery lease.

Prepared by: Chuck Logsdon, Petroleum Economist Phone _____
 Division: Tax Division Date/Time 1/30/02 3:18 PM
 Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002
 Agency: Department of Revenue

FISCAL NOTE

**STATE OF ALASKA
2002 LEGISLATIVE SESSION**

Fiscal Note Number:

Bill Version:

HB 308

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected:

Natural Resources

Title: Oil/Gas Leases; Discovery Royalty 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 ()	See Revenue Impact Analysis Below
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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)

HB 308 would reduce the royalty rate from 12.5 percent to 5 percent for leases in the Tanana River drainage basin. The 5 percent discovery royalty rate would apply to all production of oil or gas from that pool for a period of 10 years from the date of discovery.

It is not known at this time how many, if any, pools of economically recoverable oil and gas reserves exist in the Tanana River drainage basin. DNR also doesn't know whether HB 308 is necessary to cause exploration wells to be drilled. For these reasons it is not easy to predict what effect this bill would have on revenues. Continued.

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)

At gas prices around \$2.00/mcf, royalty revenues would be reduced by \$5.5 million for every discovery lease well producing 10,000 mcf of gas per day produced over the 10 year period. However, the presumed market for gas produced from the Tanana River basin is Fairbanks. Gas is currently delivered in LNG form at \$8 mcf creating a very lucrative market for commercial gas development.

At oil prices of \$15/bbl at the wellhead, royalty revenues would be reduced by \$40 million for every 10,000 barrels of oil produced per day from the discovery lease over the 10 year period.

REPRESENTATIVE
HUGH "BUD" FATE

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Alaska State Legislature



House Of Representatives

While in session:

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

House District 33

SPONSOR STATEMENT

HB 308

OIL/GAS LEASES; DISCOVERY ROYALTY CREDIT

House Bill 308 will provide that a royalty discovery credit such as allowed for Cook Inlet oil and gas will be made available to the Tanana River Drainage Basin. This allows companies drilling for oil and gas in the area near Nenana to be on the same royalty footing with those companies producing in Cook Inlet.

Once again, interest in this basin is being dusted off and new information and technology raises the potential for oil and gas discovery in the Tanana River Drainage Basin. This will also be a huge boost the rural Alaskan economy and to the economy of the state as a whole if oil and gas are actually found in commercial quantities.

MEMORANDUM:

Alaska State Legislature

**REPRESENTATIVE
HUGH "BUD" FATE**

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House Of Representatives

House District 33

To: Representative Ogan

From: Representative Fate

Concerning: House Bill 308

Date: January 24, 2002

I would like to request a hearing for House Bill 308, "An Act extending to discoveries of oil or gas in the Tanana River drainage basin the discovery royalty credits that are authorized for lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool and for licensees under oil and gas exploration licenses making the first discovery of oil or gas in an oil or gas pool that convert those licenses to oil and gas leases." 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

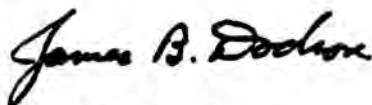
Dear Ms. Clark:

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.

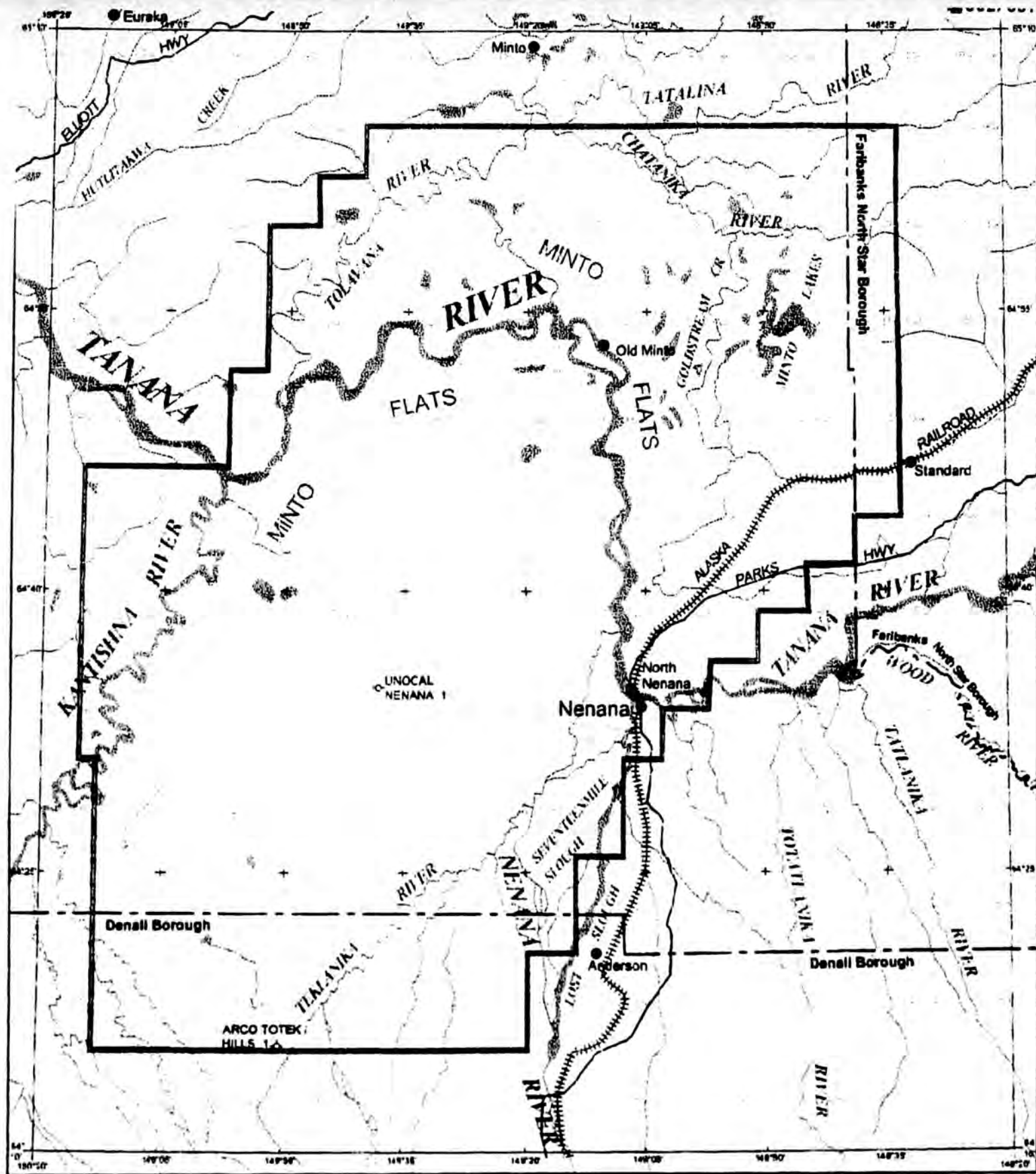
Sincerely,



James B. Dodson
Executive Vice-President

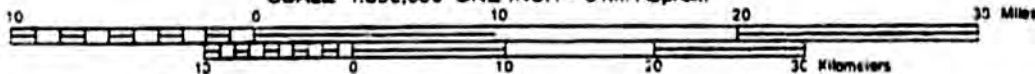
The development of natural gas resources in the Fairbanks, Alaska area could be assisted by two changes to Alaska law. The pertinent statutes and the changes to those statutes which would help to develop natural gas in central Alaska are as follows:

- 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. Central meridian of 149° 20' 07", origin latitude of 50°, northern parallel of 65° and southern parallel of 55°.
 This is not an official tax map, but is for informational purposes only. DNR makes no claim as to its accuracy.

ADNR 4/01