ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2933 SCOMM 128: HOUSE SPEC.COMM. ON OIL AND GAS, 2001-02

ALASKA GAS STUDY ASSUMPTIONS FOR FAIR AND USEFUL COMPARISONS

When a comparative analysis is done, it is important that the assumptions of the various cases are treated in a similar manner in order to ensure that the final product is a fair representation of the facts and that it will actually be useful for making decisions. Listed below are some principles which should be used in comparing the alternatives for Alaska gasline options.

1. If tax breaks or price supports are considered for one project, they should be assumed to apply to all.
2. In supplying the US with Alaskan natural gas, overland routes and LNG delivery should be treated equally. If the US market can accommodate 4.5 billion cubic feet per day, it could also accommodate large scale LNG deliveries to the US west coast. That would allow the diversion of Rocky Mountain and other gas to the Midwest and eastern markets.
3. The ramp up rates need to be treated in a similar manner, or if they are not, substantiated evidence should be supplied to justify the difference. For example, if an overland route is assumed to operate immediately at full production of 30 million tons per year, and the LNG project is assumed to ramp up at only 2 million tons per year (Roger Mark's model) that would be a totally false comparison.
4. The projects analyzed should be those as described by the proponents of the projects, and cost estimates they have completed should be reviewed and used for the analysis.
5. Gas to liquids (GTL) analysis should be considered both on the North Slope and at tidewater, with consideration given to the effect of tidewater GTL production on the economics of the delivering pipeline.
6. The use of nataural gas products other than methane, such as the Williams proposal for an ethane based petrochemical plant and other possible products should be included in the analysis.
7. The impacts of the various projects on oil production should be included in the analysis.
8. The analysis should compare the cost difference of the various projects in delivering North Slope natural gas to Southcentral and coastal Alaska.

Perhaps these are not completely the correct guidelines for this study, but it seems these would be a useful starting point for a discussion on what the assumptions should be on the front end of the study rather than criticizing it later when it is done and the money has already been spent.

Supplied by Yukon Pacific Corporation

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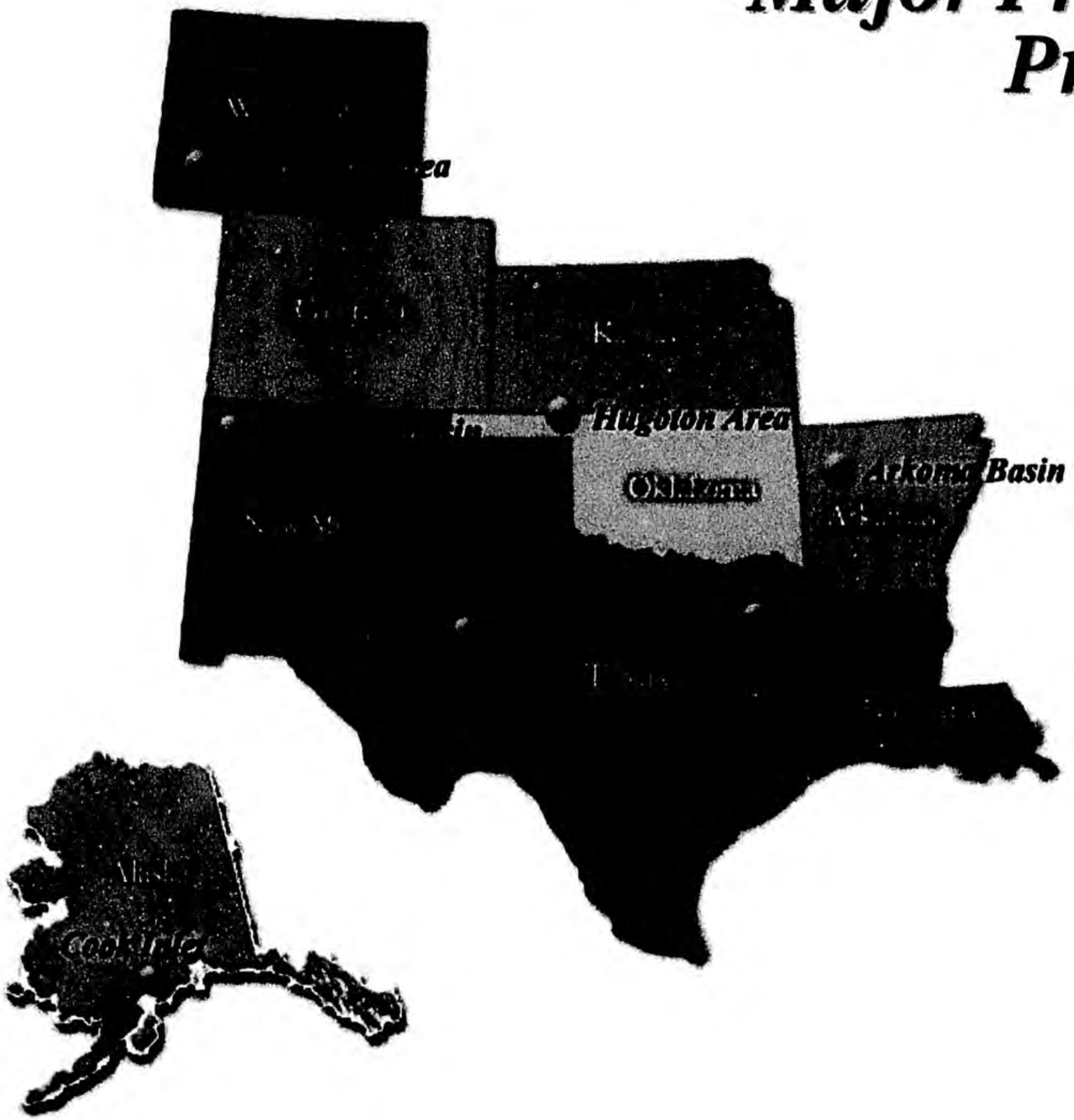
XTO ENERGY

THE LEADER IN GROWTH & VALUE

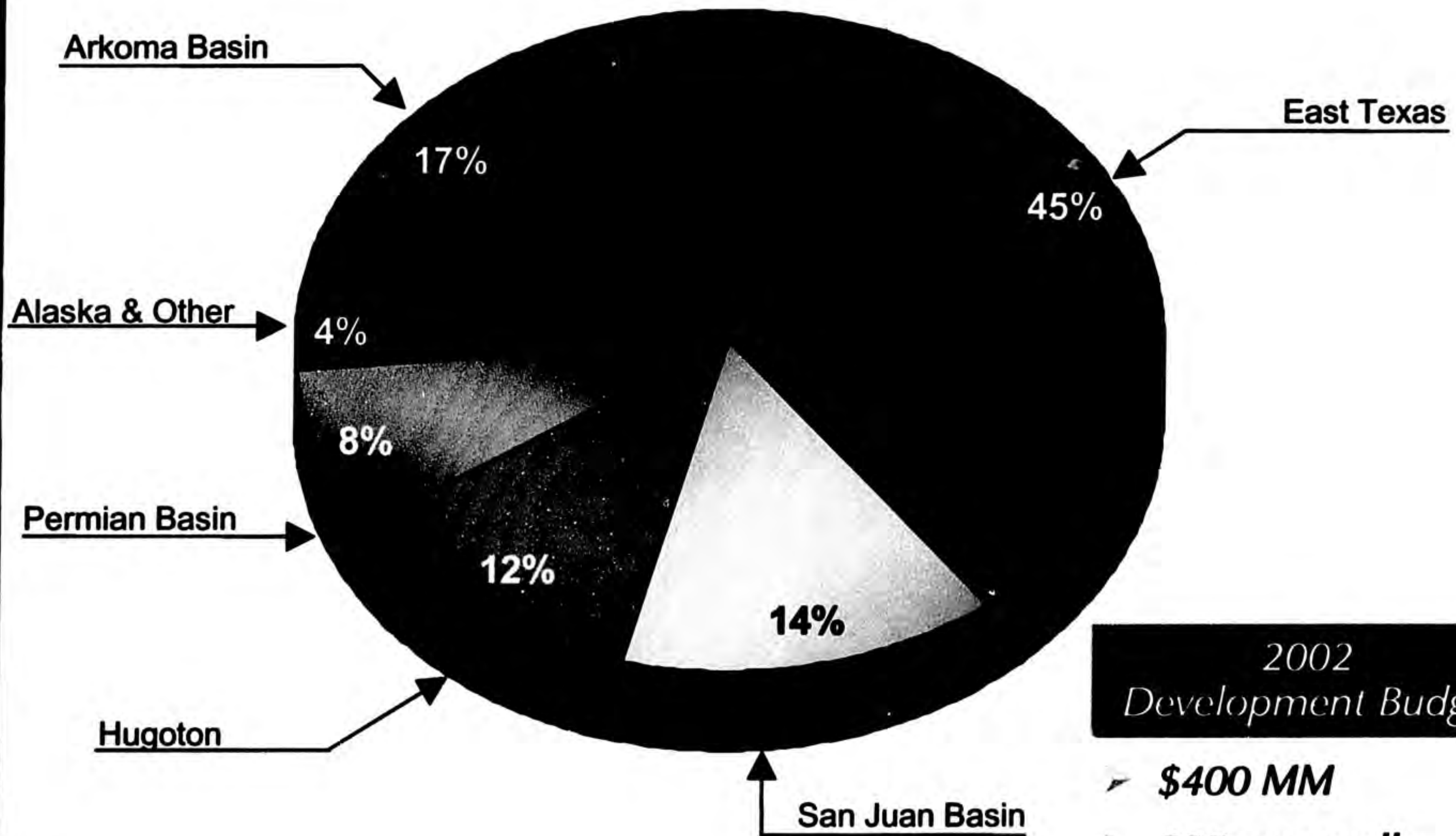
Alaska House Oil & Gas Committee
Juneau, Alaska
March 22, 2002

Major Producing Properties



Major Producing Areas

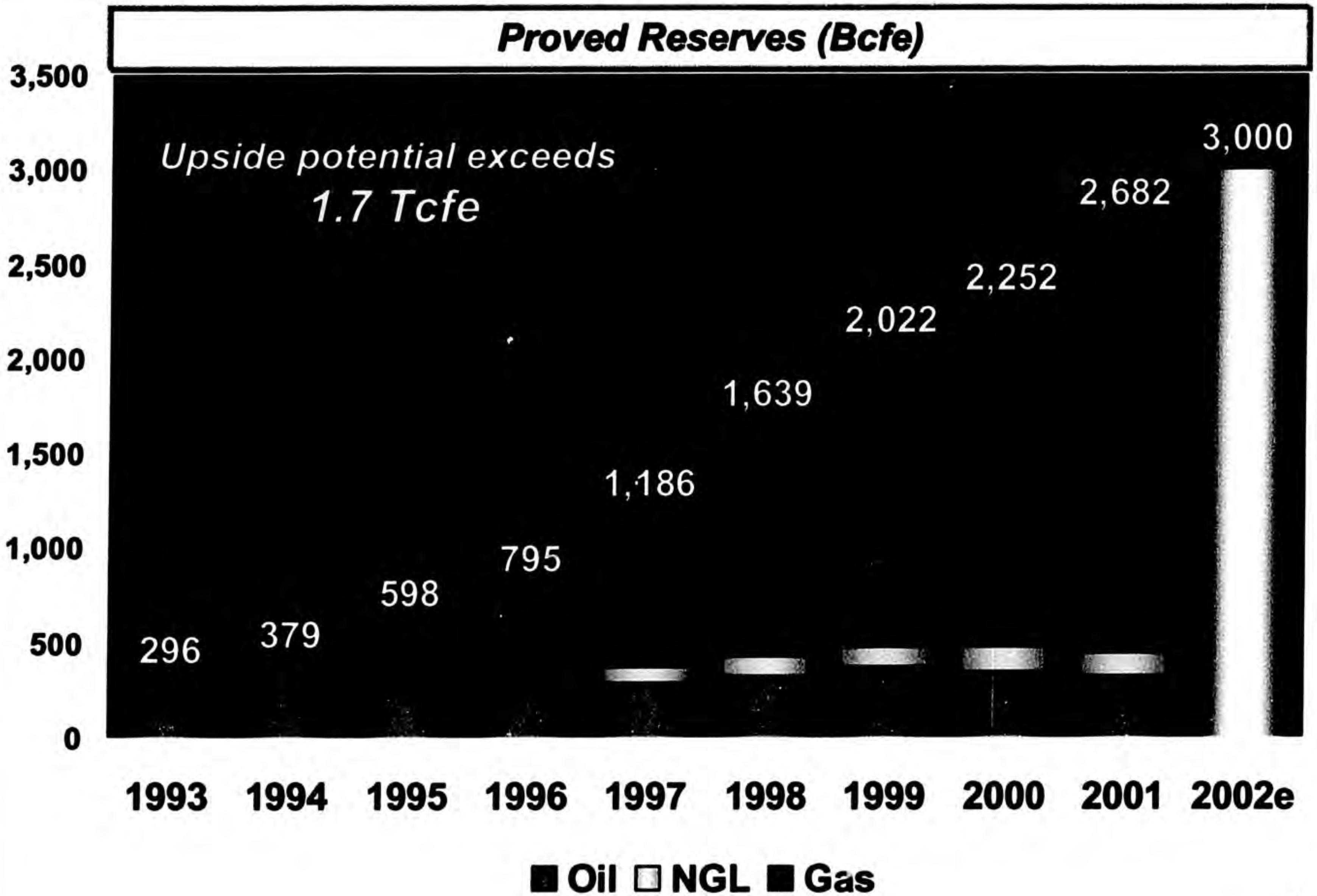
Proved Reserves



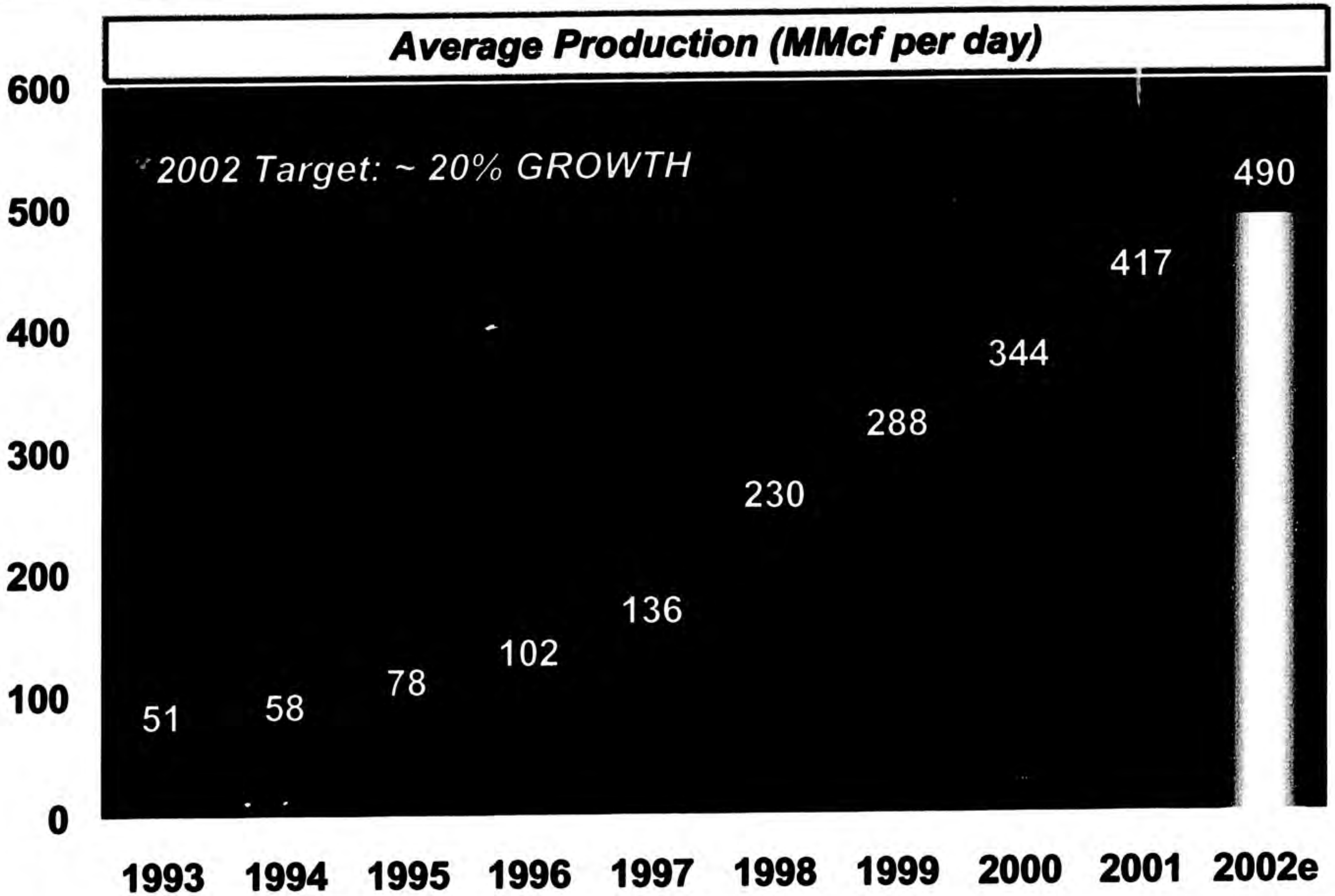
2002
Development Budget

- $400 MM
- 295 new wells
- 515 workovers

Reserve Profile

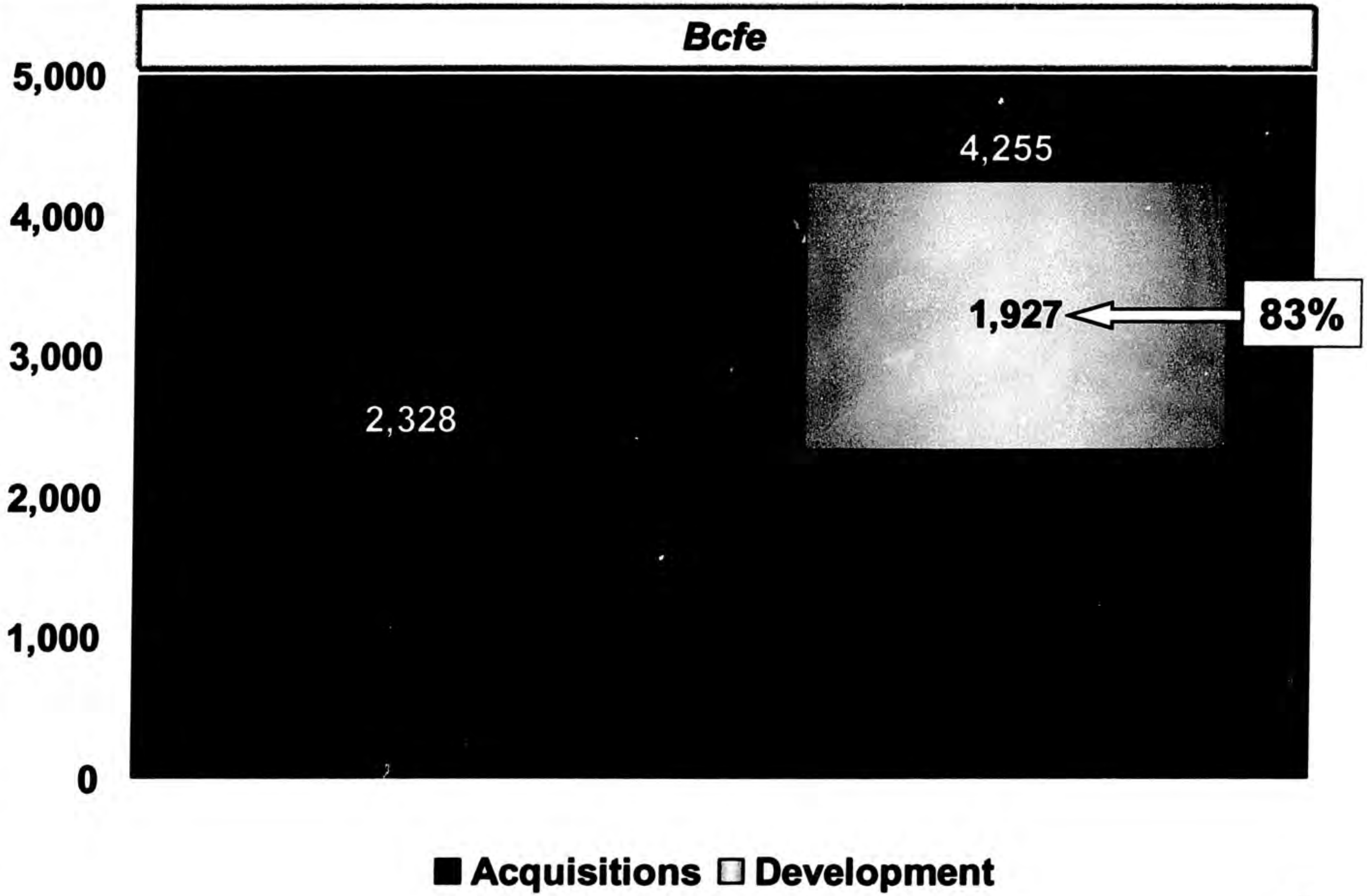


Gas Production Profile



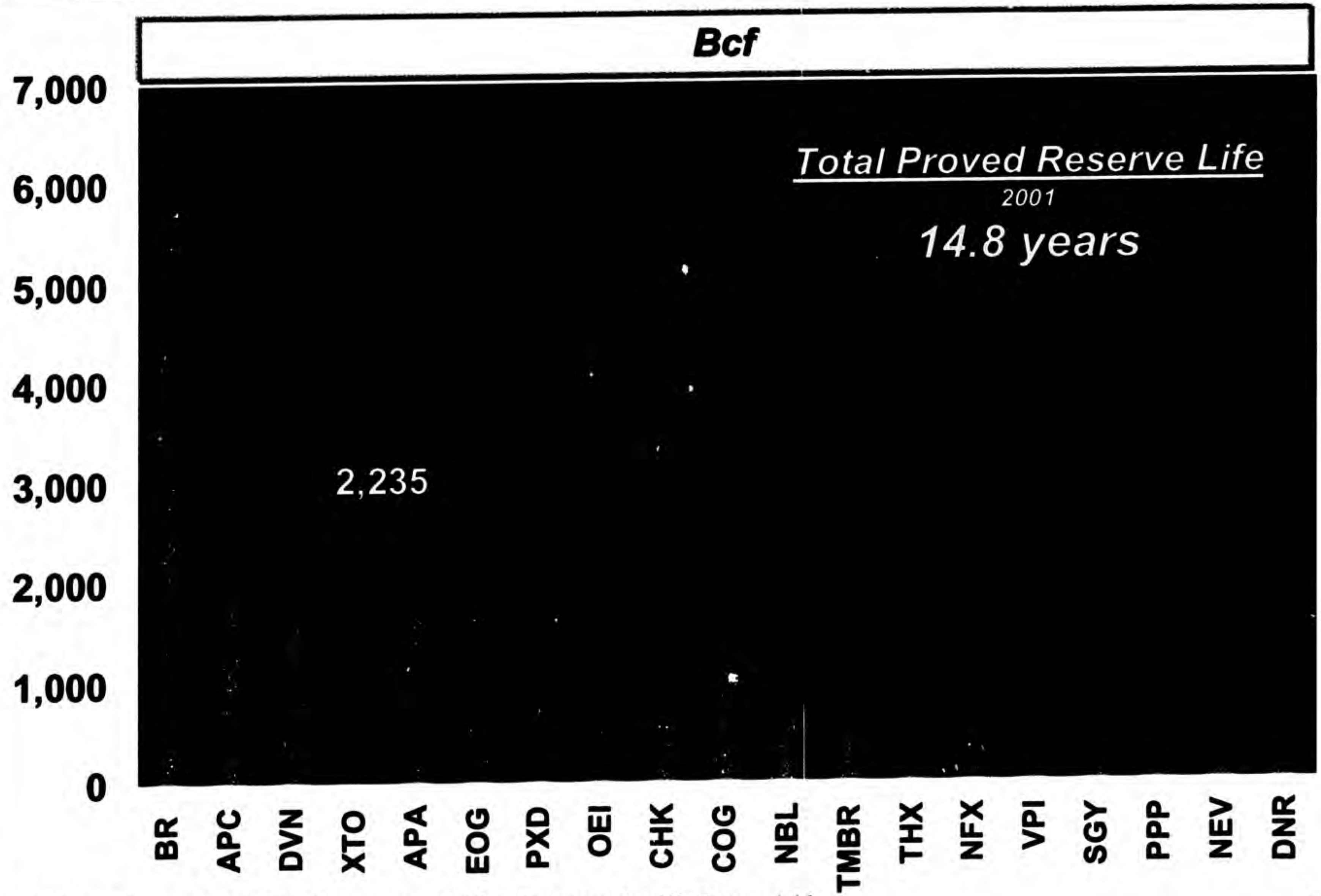
XTO Machine: Acquire & Exploit

Development Reserves Added 1986 - 2001



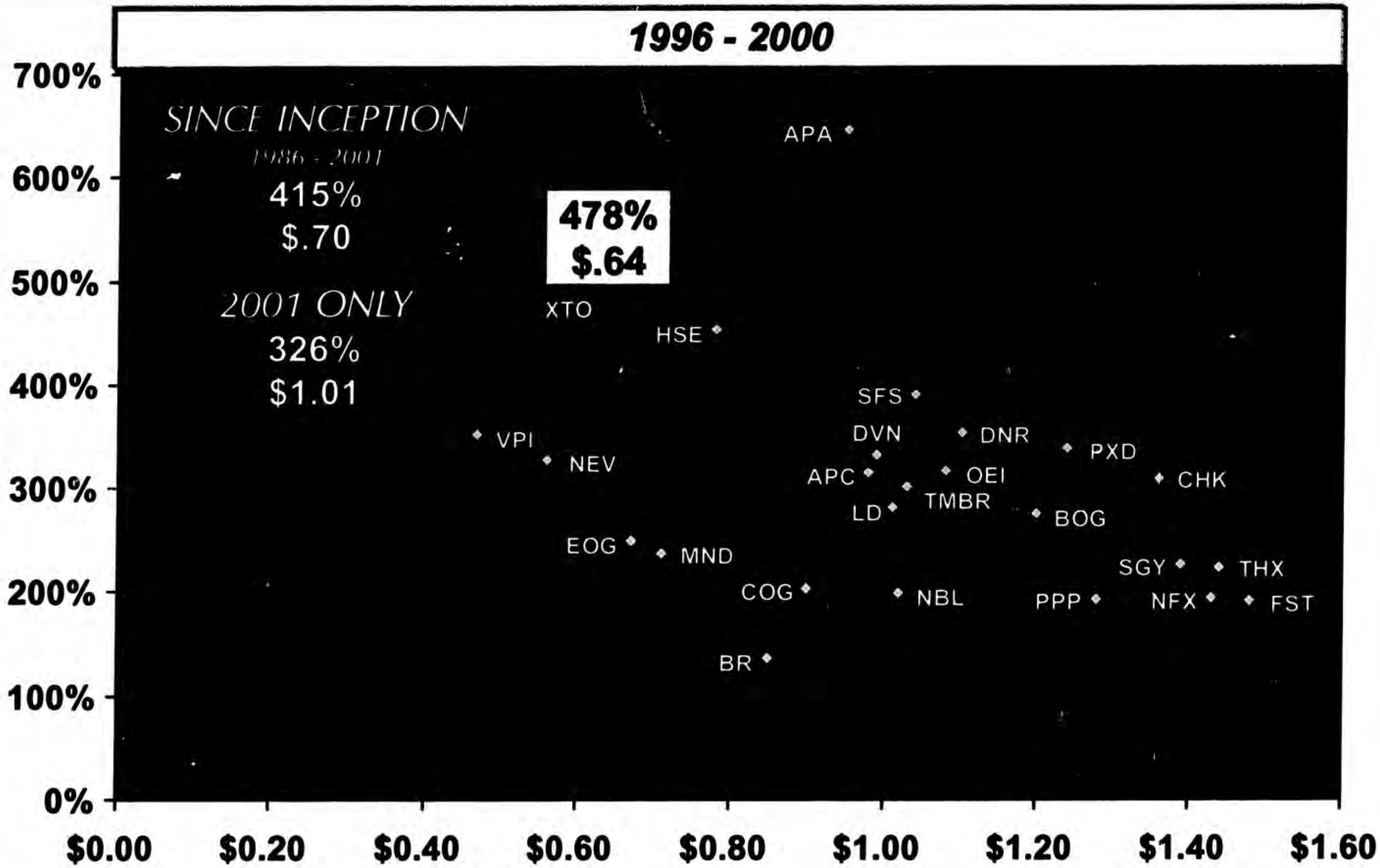
Domestic Natural Gas Reserves

*Total Proved at December 31, 2000**



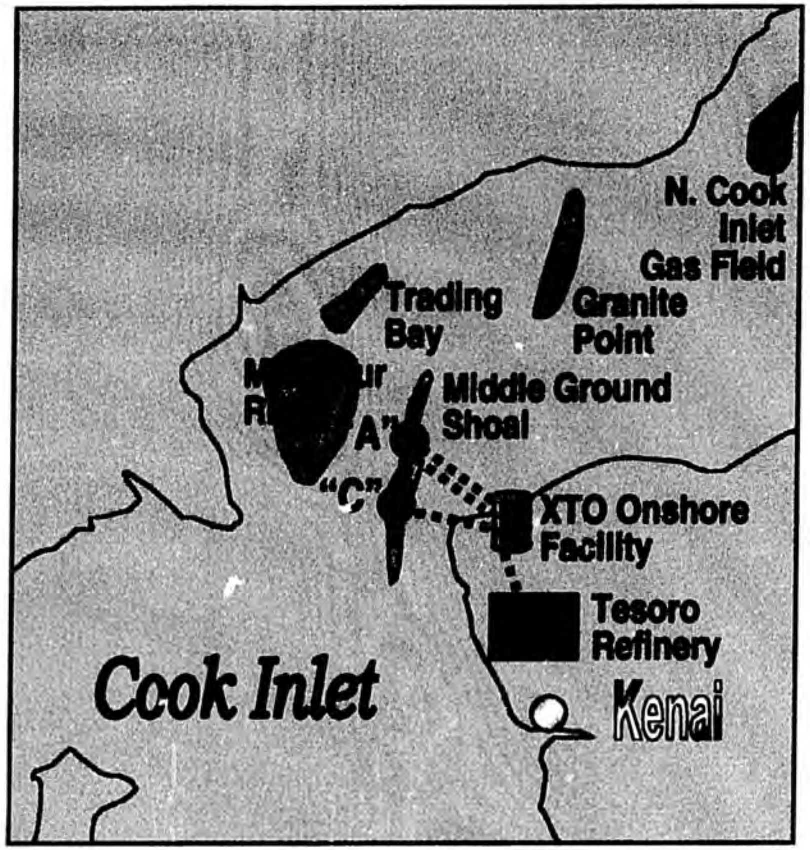
* XTO pro forma for YE2001 reserves, DVN pro forma for MND acquisition

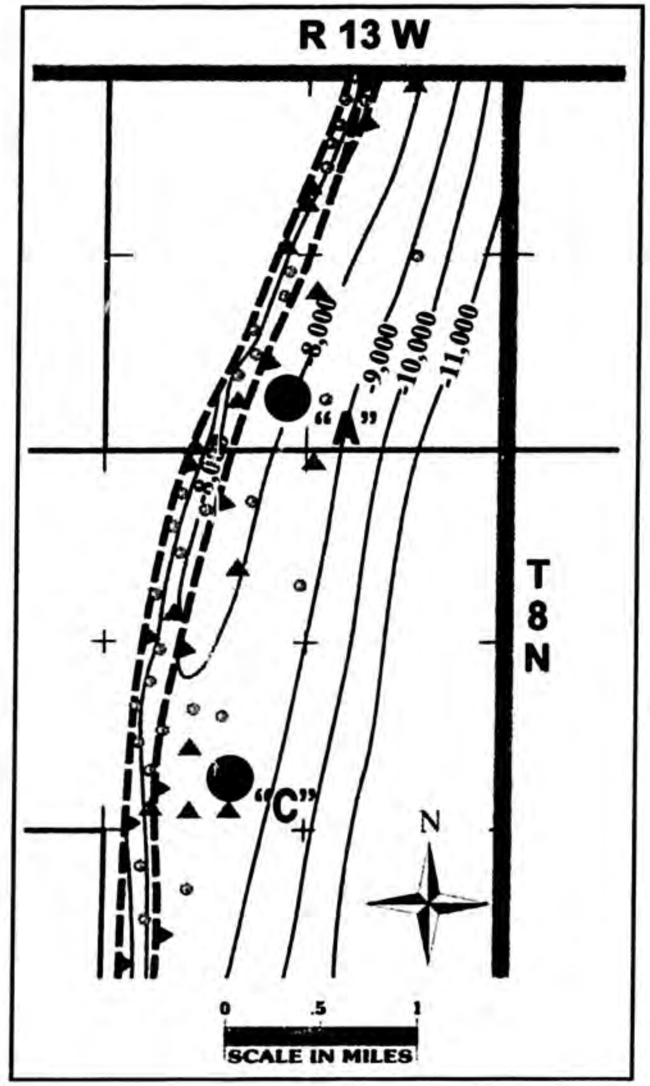
Global Reserve Replacement
vs. All-in Finding Costs

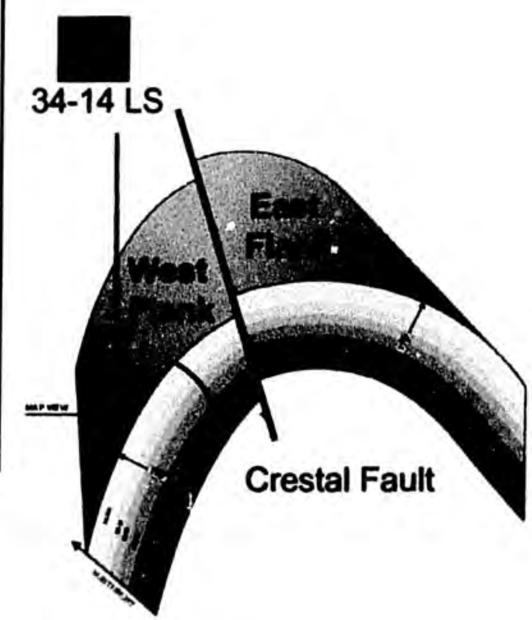


Source: Howard Weil

Alaska's Cook Inlet

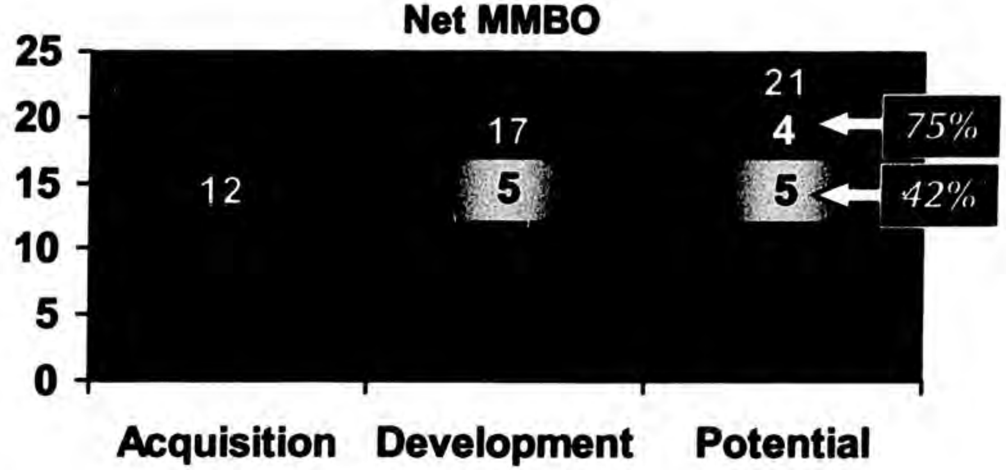




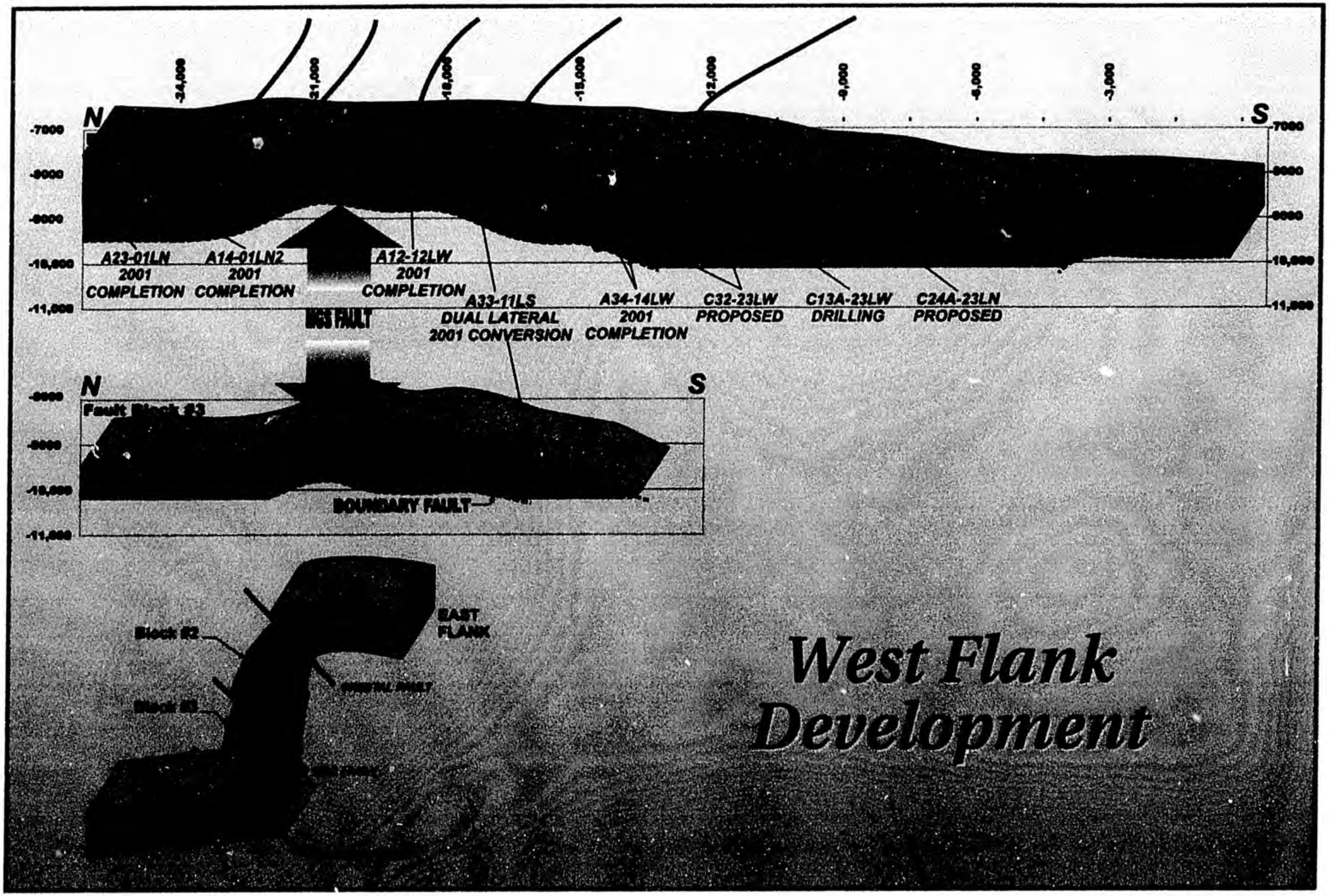


Middle Ground Shoal

Acquired from Shell in 1998

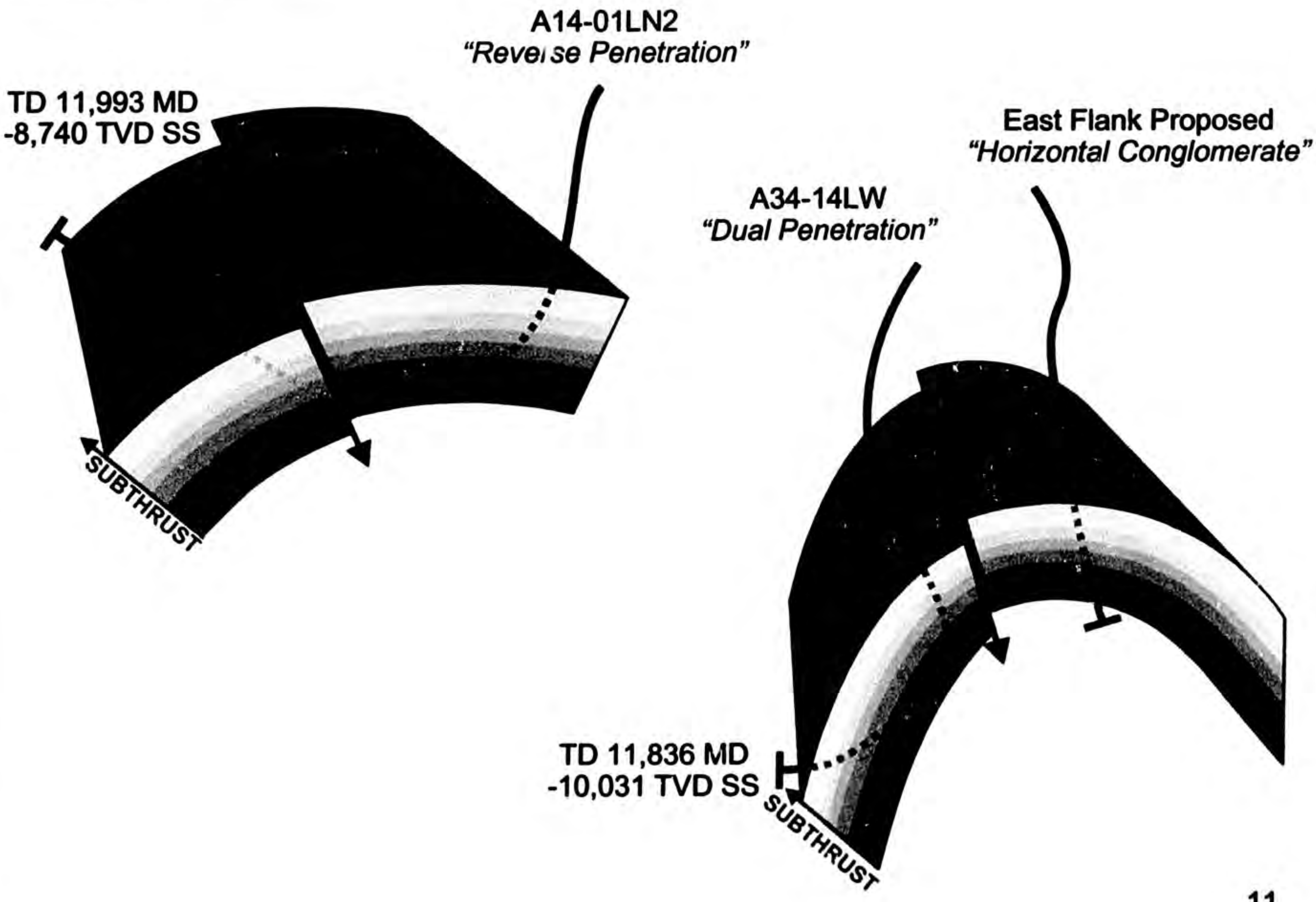


- Development to date
  - converted 3 wells to injection
  - drilled 5 horizontal/high angle sidetracks
    - avg. IP 500 BOPD
  - completed West Flank simulation study
  - East Flank simulation study underway
- 3 additional West Flank wells planned for 2002
  - cost: $3 - $4 MM/well
  - reserves: 500 to 1,000 MBO/well
- Early stages of waterflood response in West Flank
  - A33-11 LS converted early January - inj. 1,800 BWPD


-24,000
-21,000
-18,000
-15,000
-12,000
-9,000
-6,000
-3,000
N
S
-7000
-8000
-9000
-10,000
-11,000
A23-01LN
2001
COMPLETION
A14-01LN2
2001
COMPLETION
A12-12LW
2001
COMPLETION
A33-11LS
DUAL LATERAL
2001 CONVERSION
A34-14LW
2001
COMPLETION
C32-23LW
PROPOSED
C13A-23LW
DRILLING
C24A-23LN
PROPOSED
MGS FAULT
Fault Block #3
BOUNDARY FAULT
Block #2
Block #3
EAST
FLANK
West Flank
Development

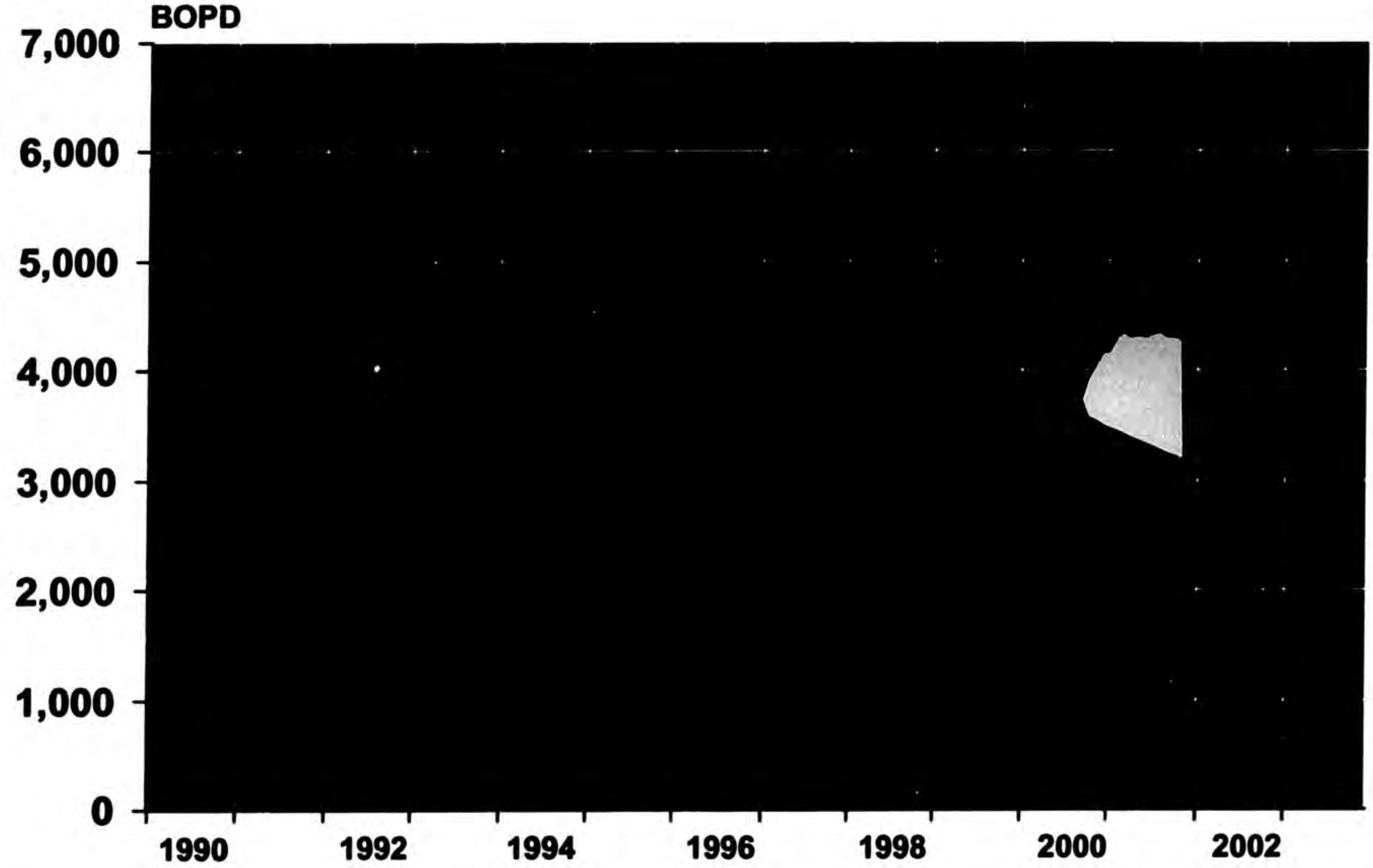
Middle Ground Shoal

Well Types



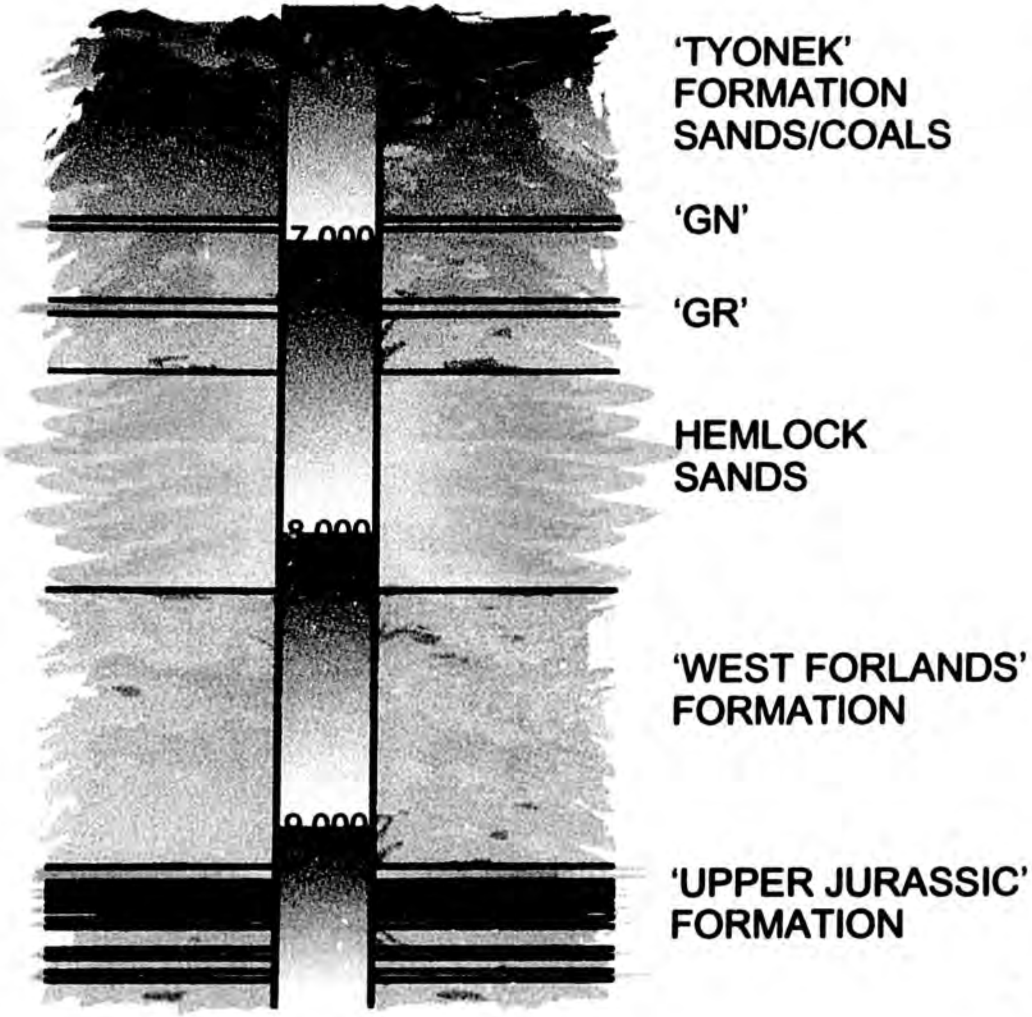
Middle Ground Shoal

Gross Operated Production



Middle Ground Shoal

Jurassic Potential



- Possible 'deeper pool' potential
- Fractured Jurassic Shale w/ laminated sandstone
- Primary source rock for Hemlock/Tyonek oils in the Cook Inlet
- Marathon tested Jurassic at McArthur River Field to the NW of MGS in 1990
  - flow rates as high as 3,000 BOPD
  - formation damage
- Unocal will drill a horizontal Jurassic test at McArthur River Field late 2002
  - oil-based mud and slotted liner for formation damage
- Possible locations/wellbores currently being evaluated

Xpect great things

SCOMM

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CURRENT INCENTIVES	CONVENTIONAL LEASES	UNLEASED STATE LAND	LICENSED LAND	SNG LEASES	FEDERAL & PRIVATE LAND
Exploration Incentive Credits (EIC)					
AS38.05.180(i) -- no sunset	up to 50% of drilling costs	up to 50% of seismic costs	N/A	up to 50% of drilling costs	N/A
AS41.09.010 -- expires 7-1-2004	N/A	up to 50% of drilling & seismic costs	up to 50% of drilling & seismic costs	N/A	up to 25% of drilling & seismic costs
Royalty Reduction AS38.05.180(j)	as low as 5% if not yet in production	No*	(Applies after conversion to Lease)	as low as 5% if not yet in production	N/A
expires 7-1-2015	as low as 3% if producing or shut-in	No*	(Applies after conversion to lease)	as low as 3% if producing or shut-in	N/A
Discovery Royalty					
For Cook Inlet only AS38.05.180(f)(4)	5% royalty for 10 yrs	No*	(In limited area after conversion: T18N)	(Applies to limited area: T18N)	N/A
no sunset					
For the following fields only: AS38.05.180(f)(5)	5% on 1st 25 MM bbls for 10 yrs	N/A	N/A	N/A	N/A
Falls Creek, Nicolai Creek, North Fork, Point	5% on 1st 35 BCF for 10 yrs	N/A	N/A	N/A	N/A
Starichkof, Redoubt Shoals, & West Foreland					
expires 1-1-2004					
Pre-1969 leases only, statewide	5% royalty for 10 yrs	N/A	N/A	N/A	N/A
ELF (Economic Limit Factor) -- AS43.55.013	Yes	No*	(Applies after conversion to Lease)	Yes	Yes
Contract Gas Price With a Utility vs	Value of state's royalty share	No*	(Applies after conversion to Lease)	Value of state's royalty share	Value of state's royalty share
Royalty Value AS38.05.180(aa)	equals gas contract price			equals gas contract price	equals gas contract price
INCENTIVES AS PART OF A PROGRAM					
			Up to 500,000 acres per license		
Exploration Licensing AS38.05.132	N/A	N/A	No bonus bids	N/A	N/A
			One-time $1/acre license fee		
			No annual rentals		
Shallow Gas Leasing AS38.05.177	N/A	N/A	N/A	$500 application fee	N/A
				$.50/acre annual rental	
				6.25% royalty	
PROPOSED CHANGES TO INCENTIVES					
HB307 -- Extending Expiration Date for EICs	N/A	Yes	Yes	N/A	Yes
Under AS41.09.010 to 7-1-2007					
HB308 -- Extending Discovery Royalty under	Yes	No*	(Applies after conversion to lease)	Yes	N/A
AS38.05.180(f)(4) to Tanana River basin					
HB220 -- Corporate Income Tax Credit	Credit = 10% of CapInvest.& 100% of	Credit = 10% of CapInvest.& 100% of	Credit = 10% of CapInvest.& 100% of	Credit = 10% of CapInvest.& 100% of	Credit = 10% of CapInvest.& 100% of
Incentive Under AS43.20.	cost incurred (labor, seismic & assoc.	cost incurred (labor, seismic & assoc.	cost incurred (labor, seismic & assoc.	cost incurred (labor, seismic & assoc.	cost incurred (labor, seismic & assoc.
expires 1-1-2012	services), up to 50% of annual tax	services), up to 50% of annual tax	services), up to 50% of annual tax	services), up to 50% of annual tax	services), up to 50% of annual tax
	liability for expl.& develop. of less than	liability for expl.& develop. of less than	liability for expl.& develop. of less than	liability for expl. & develop. of	liability for expl.& develop. of less than
	150 bbls/day or unlimited amt. of gas.	150 bbls/day or unlimited amt. of gas.	150 bbls/day or unlimited amt. of gas.	unlimited amt. of gas.	150 bbls/day or unlimited amt. of gas.
HB394 -- Royalty Reduction under	Reduces royalty floor from 5% to	No*	(Applies after conversion to Lease)	Reduces royalty floor from 5% to	N/A
AS38.05.180(j): Removes sunset provision	3.125% and from 3% to 1.25%			3.125% and from 3% to 1.25%	

NOTE: No* -- means Not In Production; This chart does not reflect all tax incentive programs or proposed changes to incentives -- Consult DOR for additional information.

EXPLORATION INCENTIVE CREDITS
AS 38.05.180(i)
Report Month: October 2001

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon Company USA	10/05/83	$6,197,625.00
		Sohio Alaska Petro.	12/07/83	4,152,408.75
		BP Alaska Exploration	10/05/83	2,045,216.25
344010	Leffingwell	ARCO Alaska Inc.	10/02/84	$3,706,000.00
		Unocal	10/02/84	3,706,000.00
344033	J-1 Well	Exxon Company USA	10/31/84	$5,119,500.00
355005	Long Island Well	Exxon Company USA	11/14/84	$1,367,738.00
		Sohio Alaska Petroleum	11/14/84	1,378,076.00
345130	Totek Hills	ARCO Alaska Inc.	08/02/85	$715,530.81
355037	Colville Delta #1	Texaco Inc.	07/09/86	$952,179.00
		Amerada Hess	07/08/86	888,594.00
		Diamond Shamrock (Maxus)	07/08/86	100,128.00
		Rosewood Resources	07/08/86	12,662.00
		Hunt Petroleum Co.	07/08/86 (1)	8,866.36
		BP Alaska Exploration	02/31/87	475,631.00
		Mobil	02/05/87	432,511.00
364478 (2)	Colville Delta Area AHC 25-13-6 #1 Well	Amerada Hess	10/12/87 (3)	$140,071.13
		Texaco Inc.	10/12/87 (4)	771,743.46
		Maxus Exploration	10/12/87 (5)	100,297.41
		Rosewood Resources	10/12/87 (6)	4,111.82
355038 (2)	Colville Delta #2	Amerada Hess	10/28/87	$757,731.46
		Texaco Inc.	10/28/87	898,563.40
		BP Alaska Exploration	10/28/88	423,982.26
355039 (2)	Colville Delta #3	Amerada Hess	10/28/87 (7)	$ 0.00
		Texaco Inc.	10/28/87 (8)	0.00
		BP Alaska Exploration	10/28/87 (9)	63,228.39
		Union Texas Petroleum	10/28/87 (10)	14,097.50
344176	Gyr #1	ARCO Alaska, Inc.	11/15/90 (11)	$699,302.43
		Amerada Hess	11/15/90 (11)	732,804.63
		Conoco	11/15/90 (12)	732,804.62
355021	NW Milne #1	Conoco	07/10/92 (13)	$1,371,691.42
		Conoco	02/09/93	660,321.00
375044	Sequoia #1	Conoco	07/10/92 (13)	$275,521.32
		Petrofina	07/10/92 (14)	227,594.08
		Conoco	02/09/93	16,333.56
		Petrofina	02/09/93	19,963.24

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
375076	Cirque #2	ARCO Alaska, Inc.	02/09/93 (15)	$845,018.43
375108	Tarn #1	ARCO Alaska, Inc.	02/09/93 (16)	$727,939.95
355036	Kalubik #1	ARCO Alaska, Inc.	02/09/93 (17)	$2,599,602.13
		ARCO Alaska Inc. (UTP)	03/04/93	250,822.50
		ARCO Alaska Inc. (UTP)	04/22/93	11,779.91
372104	Fiord #1	ARCO Alaska Inc. (UTP)	02/09/93 (18)	$1,811,218.84
		ARCO Alaska Inc.	03/04/93	191,018.62
372006	Tulaga #1	ARCO Alaska Inc.	03/25/93 (19)	$1,241,177.00
355011	Jones Island #1	ARCO Alaska Inc.	07/12/93	$2,160,000.00
		ARCO Alaska Inc. (UTP)	07/20/93 (20)	1,910,175.00
375133	Cascade Well #1	BP Exploration (AK) Inc	04/04/94 (21)	$893,245.73
375061	Yukon Gold #1	BP Exploration (AK) Inc	08/08/94 (22)(23)	$2,394,546.77
		Union Oil Co. of Cal (H)	08/23/94 (24)	487.240.46

TOTAL EICs GRANTED TO-DATE: $54,692,614.64

(1) Hunt's EIC balance reduced through a commissioner's decision dated March 18, 1998. Hunt made a subsequent payment in April 1998.
(2) Colville Delta wells were settled through the Colville Delta EIC settlement agreement dated 12/31/98.
(3) Amerada Hess EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/29/99.
(4) Texaco's EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/28/99.
(5) Maxus' EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/26/99.
(6) Rosewood's EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/7/99.
(7) Amerada Hess EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/29/99.
(8) Texaco's EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/28/99.
(9) BP's EIC balance reduced through an EIC settlement agreement and subsequent payment on 12/31/98.
(10) Union Texas' EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/29/99.
(11) ARCO and Amerada's EIC balances reduced through an EIC audit and subsequent payment in February 1997.
(12) Conoco's EIC balance reduced through an EIC audit and subsequent payment in March 1997.
(13) Conoco's EIC balance reduced through an EIC audit and subsequent payment in July 1997.
(14) $125,190.33 of EIC expired for Petrofina on March 31, 1996.
(15) ARCO's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
(16) ARCO's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
(17) ARCO's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
(18) ARCO's EIC balance increased through an EIC audit and subsequent payment in December 1997.
(19) Union Texas (ARCO) EIC balance reduced through an EIC audit and subsequent payment on 8/18/98.
(20) Union Texas (ARCO) EIC balance reduced through an EIC audit and subsequent payment on 8/18/98.
(21) BP's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
(22) BP's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
(23) BP's EIC balance reduced through an EIC audit and subsequent payment on 12/31/98.
(24) Union's EIC balance reduced through an EIC audit and subsequent payment in July 1998.

Source: Alaska Department of Natural Resources, Division of Oil and Gas

Royalty Relief Program

- AS 38.05.180(j) [HB 207 1995]
- Allows commissioner to modify royalty to allow for production that would not otherwise be economically feasible, for fields:
- (A) Not yet in production
- (B) Producing; to prolong the economic life
- (C) Shut-in; to reestablish production

(A) Fields Not Yet in Production

- Field or pool must be sufficiently delineated to conduct the analysis
- Field has not previously produced
- 5% royalty floor

(B) Producing Fields

- To prolong the economic life of an oil or gas field as costs per barrel increase
- 3% royalty floor

(C) Shut-in Fields

- To reestablish production of shut-in oil or gas
- 3% royalty floor

Royalty Relief for All Field Types

- Lessee's application must be clear and convincing that relief is in the best interest of the state
- Relief mechanism must adjust percentage based on price and may also adjust based on production.

Royalty Reduction Actions

- 1990 Conoco application for Milne Point
  - Application denied, BP purchased leases and they are in production
- 1997 Unocal application for 10 platforms in Cook Inlet
  - Unocal did not continue to pursue application
- 1999 Phillips application for Tyonek Deep in Cook Inlet
  - Phillips did not continue to pursue application

COOK INLET DISCOVERY ROYALTY

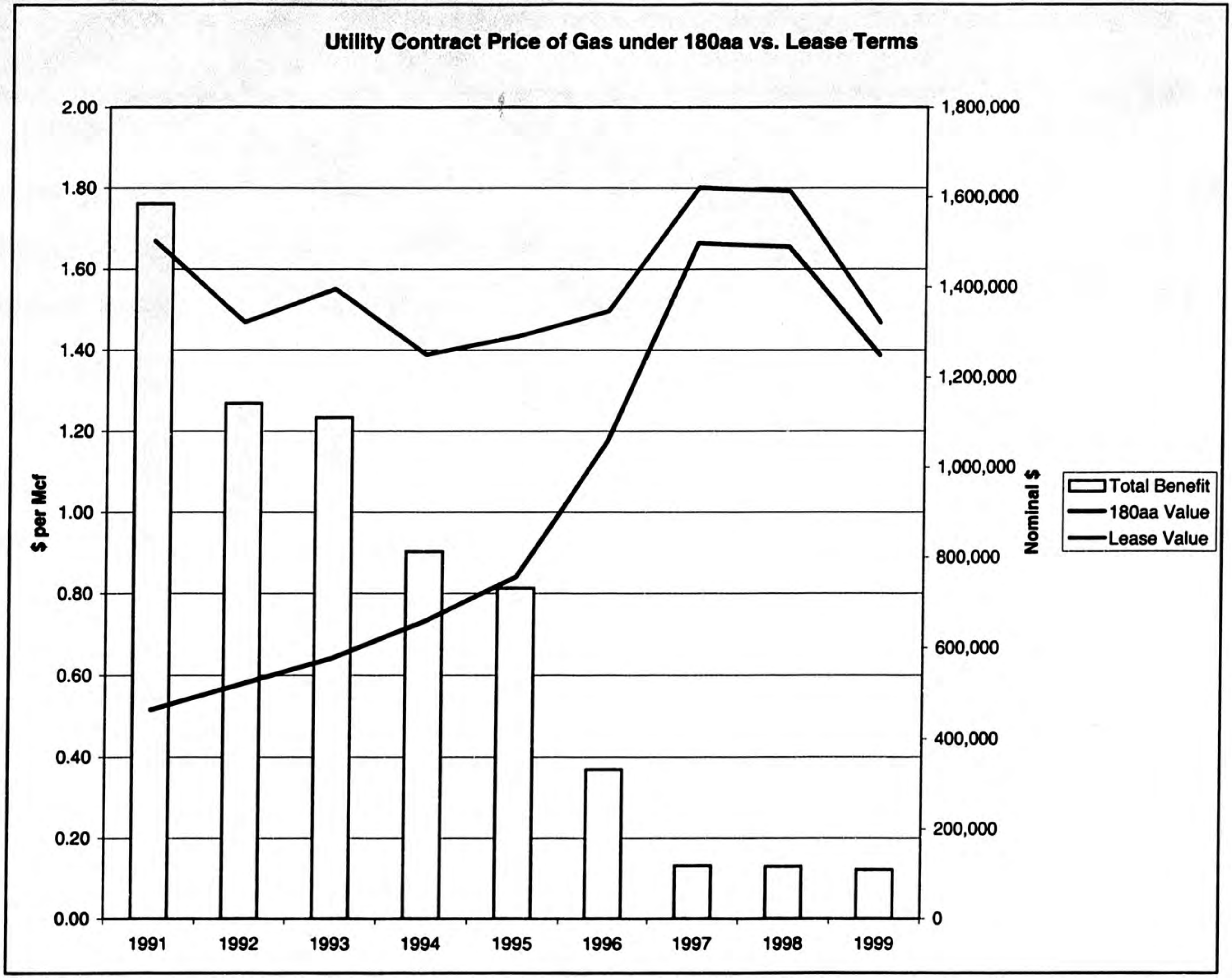
Repealed 1969, but retained in approximately 33 pre-1969 lease agreements

AREA	Applicant	Well Name	Well Number	Discovery Date	Effective Date	Production Date	Expiration Date	Months Actually Reduced	Status of Application	Lessees (Current)	Field Name	Fluid Type	Comments
CI	SOCAL	FALLS CK U (43-1)	1	4/10/1961	5/1/1961		4/30/1971		Granted	Chevron, ARCO	Falls Creek	Gas	Discovery royalty granted, but not used. Therefore no commencement date.
CI	PAN AM	MGS STATE 17595	1	6/10/1962	6/10/1962	5/1/1966	6/10/1972	73	Granted	AMOCO, Getty, Phillips	Middle Ground Shoal	Gas	SRS Group also sought discovery royalty for its MGS State #1 well. Pan American Petroleum prevailed.
CI	PAN AM	COOK INLET ST 17589	1A	8/21/1962	9/1/1962	3/1/1969	8/31/1972	42	Granted	Phillips	N Cook Inlet	Gas	SRS Group also sought discovery royalty for its North Cook Inlet #1 well. Pan American Petroleum prevailed.
CI	SOCAL	BELUGA RIV U 212-35	1	12/1/1962	1/1/1963	3/1/1968	1/1/1973	58	Granted	Chevron, ARCO, Shell	Beluga River	Gas	
CI	MOBIL	GRANITE POINT	1	5/16/1965	6/1/1965	5/1/1967	5/31/1975	93	Granted	Mobil, UNOCAL	Granite Point	Oil	
CI	UNOCAL	TRADING BAY	1A	6/17/1965	6/1/1965	1/1/1967	5/31/1975	97	Granted	UNOCAL, Marathon	Trading Bay	Oil	
CI	UNOCAL	GRAYLING	1A	9/29/1965	10/1/1965	10/1/1967	10/1/1975	93	Granted	UNOCAL, Marathon	McArthur River	Oil	Initially denied on 1/26/1966. Later granted & confirmed on 10/31/68.
CI	TEXACO	NICOLAI CREEK	1A	4/28/1966	5/1/1966	10/1/1968	4/30/1976	48	Granted	Texaco, Superior	Nicolai Creek	Gas	No production after 1972 (field shut-in).
CI	TEXACO	TRADING BAY STATE	1	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	n.a.		Oil & Gas	
CI	SHELL	MGS STATE/SRS	1	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	n.a.	Middle Ground Shoal	Gas	
CI	ARCO	WEST FORELAND	3	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	n.a.	Foreland	Oil	Denial appealed, but upheld by commissioner on 10/31/68.
CI	PAN AM	REDOUBT SHOAL UNIT	2	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	n.a.	Redoubt Shoal	Oil	Initial applicaton denied sometime in 1969. Appeal dated 2/19/69 was also denied.
CI	ARCO	TRADING BAY STATE	1	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	n.a.	Ivan Bering	Oil	Denial appealed by ARCO, but upheld by commissoner on 12/3/70.
CI	SHELL	SRS STATE	1	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	n.a.			
CI	PAN AM	NORTH REDOUBT ST	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	McArthur River	Oil	No potential test was conducted. No discovery certification application filed.
CI	SHELL	FORELANDS CHANNEL	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.			No potential test conducted. No discovery certification application filed.
CI	SHELL	NORTH COOK INLET	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	N Cook Inlet	Gas	Pan American Petroleum also sought discovery royalty for its Cook Inlet 17589 #1 well and prevailed.
CI	UNOCAL	KUSTATAN	1-A	n.a.	n.a.	n.a.	n.a.	n.a.	Withdrawn	n.a.			Application withdrawn in Dec. 1968 before any State action

NORTH SLOPE DISCOVERY ROYALTY

Repealed 1969, but retained in approximately 274 pre-1969 lease agreements

AREA	Applicant	Well Name	Well Number	Discovery Date	Effective Date	Production Date	Expiration Date	Months Actually Reduced	Status of Application	Lessees (Current)	Field Name	Fluid Type	Comments
NS	ARCO	PRUDHOE BAY STATE	1	12/19/1967	1/1/1968	6/20/1977	12/31/1979	6	Granted	ARCO, Exxon	Prudhoe Bay	Oil & Gas	Prudhoe Bay discovery well.
NS	ARCO-BP	UGNU	1	4/7/1969	5/1/1969		4/30/1979		Granted	ARCO, BP	Kuparuk River	Oil	Initially denied 10/1/70. Followijng appeal the court instituted retroactive discovery royalty reduction.
NS	BP	SAG DELTA 34633	4	2/14/1978	3/1/1978		2/29/1988		Granted	BP	Endicott	Oil	
NS	BP	NIAKUK	5	3/7/1985	4/1/1985		3/31/1995		Granted	BP	Niakuk	Oil	
NS	ARCO	PT MCINTYRE (P1-02)	3	3/22/1988	4/1/1988		3/31/1998		Granted	ARCO, Exxon	Pt. McIntyre	Oil	
NS	ARCO	BERGSCHRUND	1	3/27/1994	4/1/1994		3/31/2004		Granted	ARCO, Anadarko, UTP	Alpine	Oil	
NS	CONOCO	MILNE POINT UNIT	G-1	n.a.	n.a.	n.a.	n.a.	n.a.	Denied	BP, Oxy	Schrader Bluff	Oil	Denial appealed, but upheld by commissioner, DNR.
NS	PHILLIPS AK.	SAMBUCA	1	n.a.	n.a.	n.a.	n.a.	n.a.	Denied. Appeal Pending	Phillips, Exxon, Chevron	Midnight Sun	Oil	Denial appealed, but upheld by commissioner, DNR. Applicant now seeking trial.
NS	MOBIL	KUPARUK STATE	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	Prudhoe Bay(?)	Oil	Expired unused after 10 years.
NS	ARCO	N PRUDHOE BAY ST	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	N Prudhoe	Oil	Full application procedure never completed, expired after 10 years.
NS	BP	PUT RIVER (M-1)	01-11-12	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.		Oil	Full application procedure never completed, expired after 10 years.
NS	CHEVRON	SIMPSON LAGOON	32-14A	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.		Oil	Full application procedure never completed, expired after 10 years.
NS	CHEVRON	KAVEARAK POINT	32-25	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	Milne Point	Oil	Full application procedure never completed, expired after 10 years.
NS	HAMILTON BROTHERS	PT STORKERSEN	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	Pt. Storkersen	Oil	Full application procedure never completed, expired after 10 years.
NS	BP	NIAKUK	2A	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.			Full application procedure never completed, expired after 10 years.
NS	BP	SAG DELTA 33-12-16	1	n.a.	n.a.	n.a.	n.a.	n.a.	Incomplete	n.a.	Lisburne	Oil	Full application procedure never completed, expired after 10 years.
NS	BP	SAG DELTA 35-12-16	3	n.a.	n.a.	n.a.	n.a.	n.a.	Withdrawn	n.a.	Endicott	Oil	Withdrawn to pursue Sag Delta #4 discovery royalty application for same field & lease. Sag Delta #4 granted.
NS	ARCO	WEST GOLDHILL (2F-20)	1	n.a.	n.a.	n.a.	n.a.	n.a.		n.a.	Goldhill	Oil	
NS	ARCO	WEST BEACH	5	n.a.	n.a.	n.a.	n.a.	n.a.		n.a.	Cabana	Oil & Gas	



Utility Contract Price of Gas under 180aa vs. Lease Terms
$ per Mcf
Nominal $
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
1991
1992
1993
1994
1995
1996
1997
1998
1999
Total Benefit
180aa Value
Lease Value

Exploration Licensing

LICENSES ISSUED

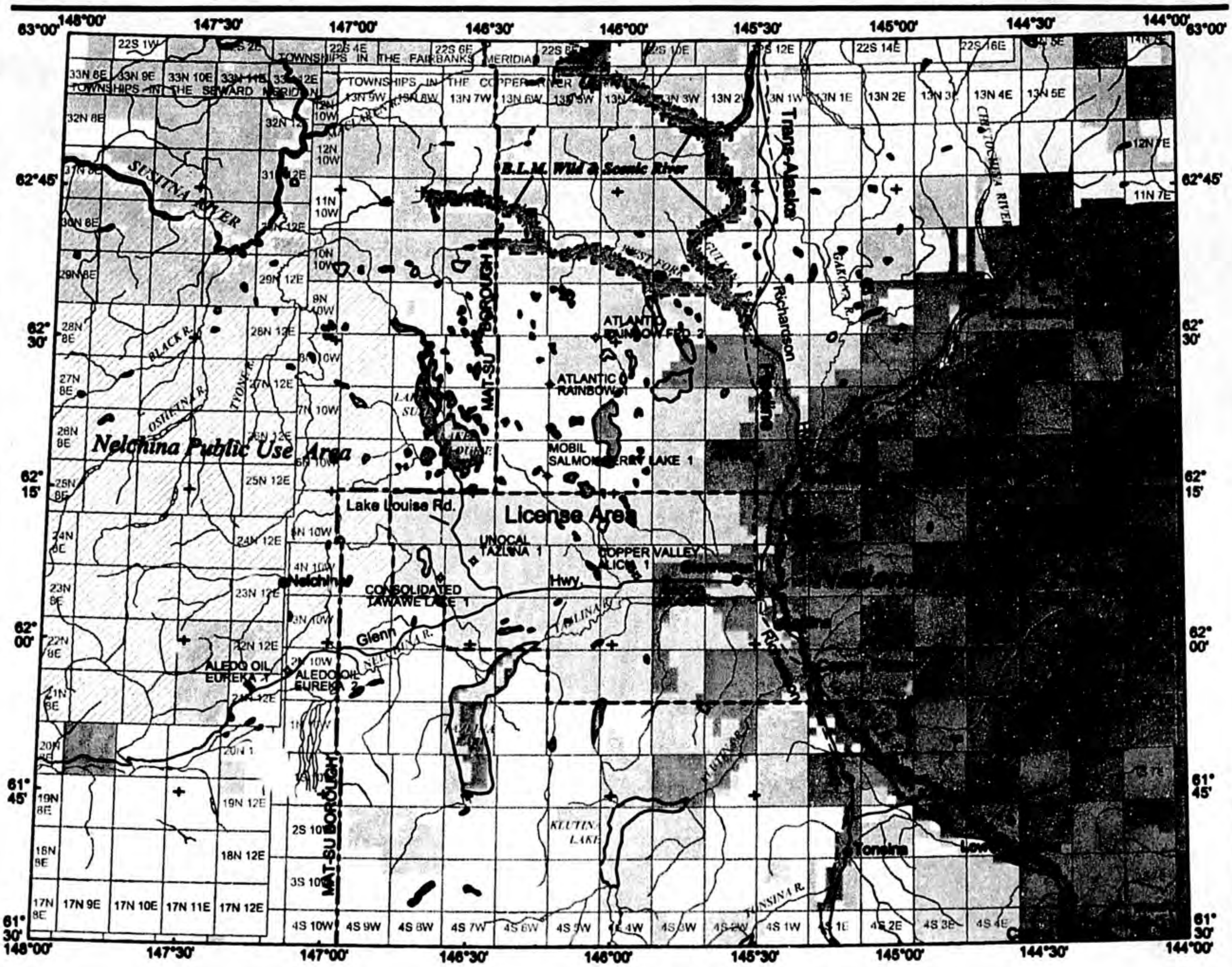
Location	Date Issued	Acres	Work Commitment	Licensee	Term
Copper River Basin	10/1/2000	318,756	$1,420,000	Forest Oil Corp.	5 Yrs

LICENSES PROPOSED

Location	Date to be Issued	Acres	Proposed Work Commitment	Licensee	Term
Susitna Basin Area 1	6/1/2002	399,360	$2,520,000	Forest Oil Corp.	7 Yrs*
Susitna Basin Area 2	6/1/2002	474,420	$3,000,000	Forest Oil Corp.	7 Yrs*
Nenana Basin	10/1/2002	499,840**	$2,525,000	Andex Resources	TBD

* Licensee may request a 3-year extension beyond the initial 7-year term
** Estimated acreage; title work has not been completed

NOTE: Nenana basin preliminary finding and Susitna basin final finding are scheduled to be released this month (April)



Copper River Basin Exploration License: General Land Status

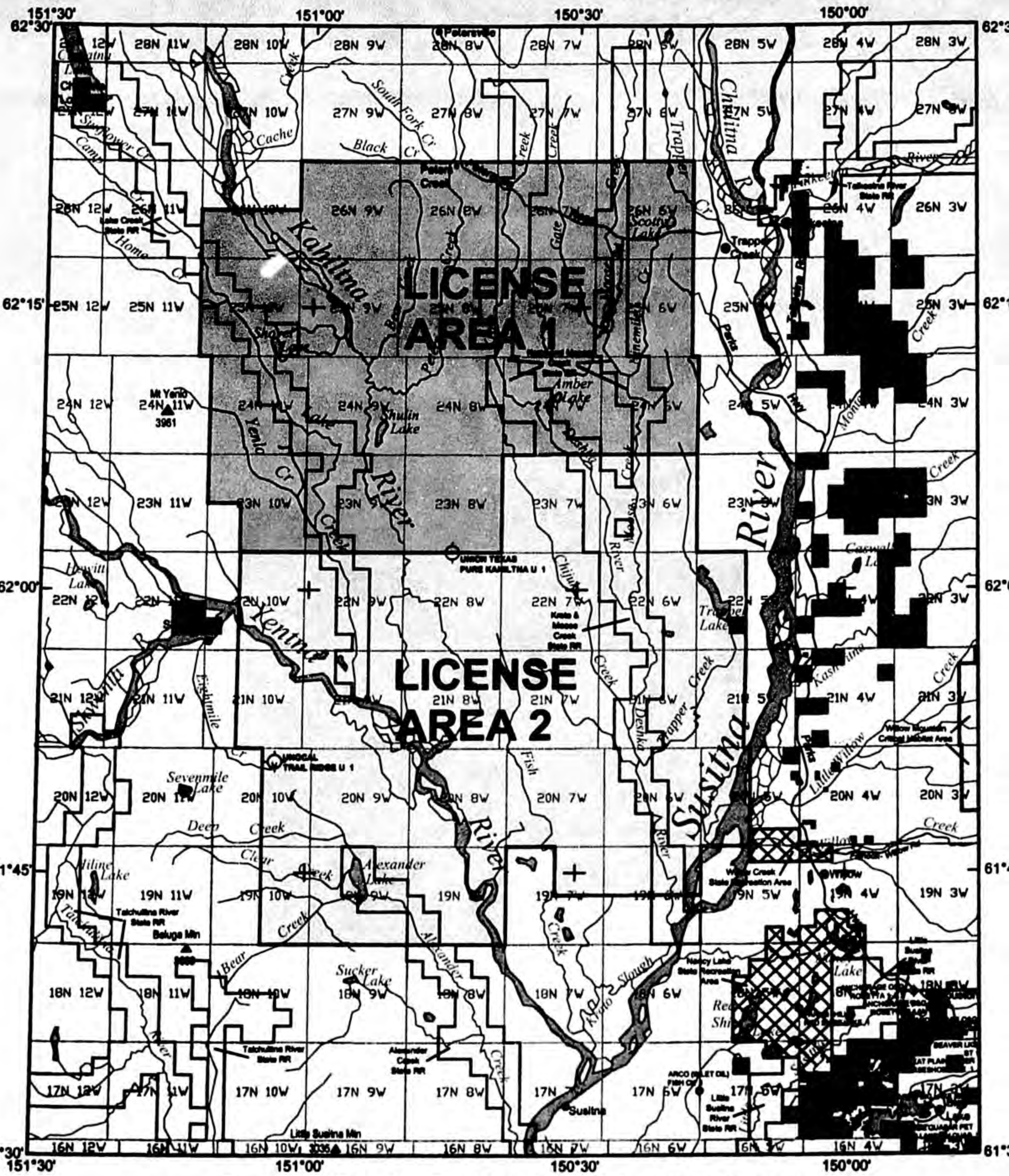
License Area = B.L.M. Lands = Exploration Well = ⋄

Federal Designated Area = Native Corporation Lands =
(ANCSA Pat. or Interim Conveyed)

SCALE 1:250,000 One Inch = 4 Miles Approx.
5 0 5 10 15 20 25 Miles

Source: ADNR LRIS, AK Gen. Land Status, 2/00.

Albers Equal-Area Conic Projection, 1927 North American Datum, Clarke 1866 ellipsoid with a central meridian of 146°, origin latitude of 50°, northern parallel of 65°, and southern parallel of 55°.
Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas. ADNR, DO&G 6/00, Rev. 7/00



Susitna Basin Exploration License Areas

License Areas =
No Surface Entry =
State Multiple Use, Parks =
State Critical Habitat =
Mental Health =
Native Lands =

Map Area

SCALE 1:190,000 ONE INCH = 3 Miles Approx.

10 0 10 20 30 Miles

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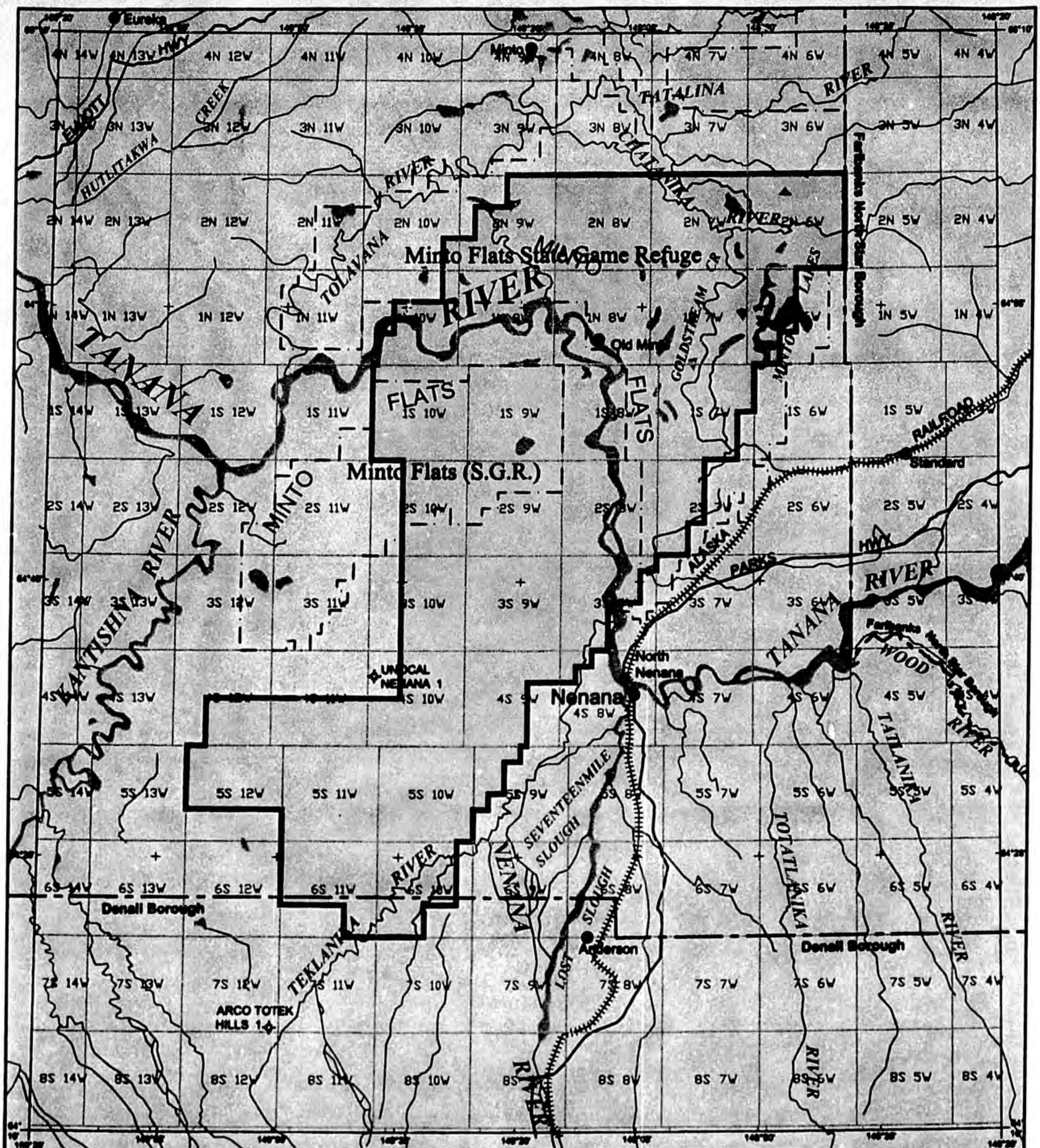
Albers Equal-Area Conic Projection, 1927 North American Datum, Clarke 1866 ellipsoid with a central meridian of 150° 37' 30", origin latitude of 50°, northern parallel of 65°, and southern parallel of 55°

3/02



Proposed Nenana Basin Exploration License Area

Map Area

Proposed License Area =

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

10 0 10 20 30 Miles

10 0 10 20 30 Kilometers

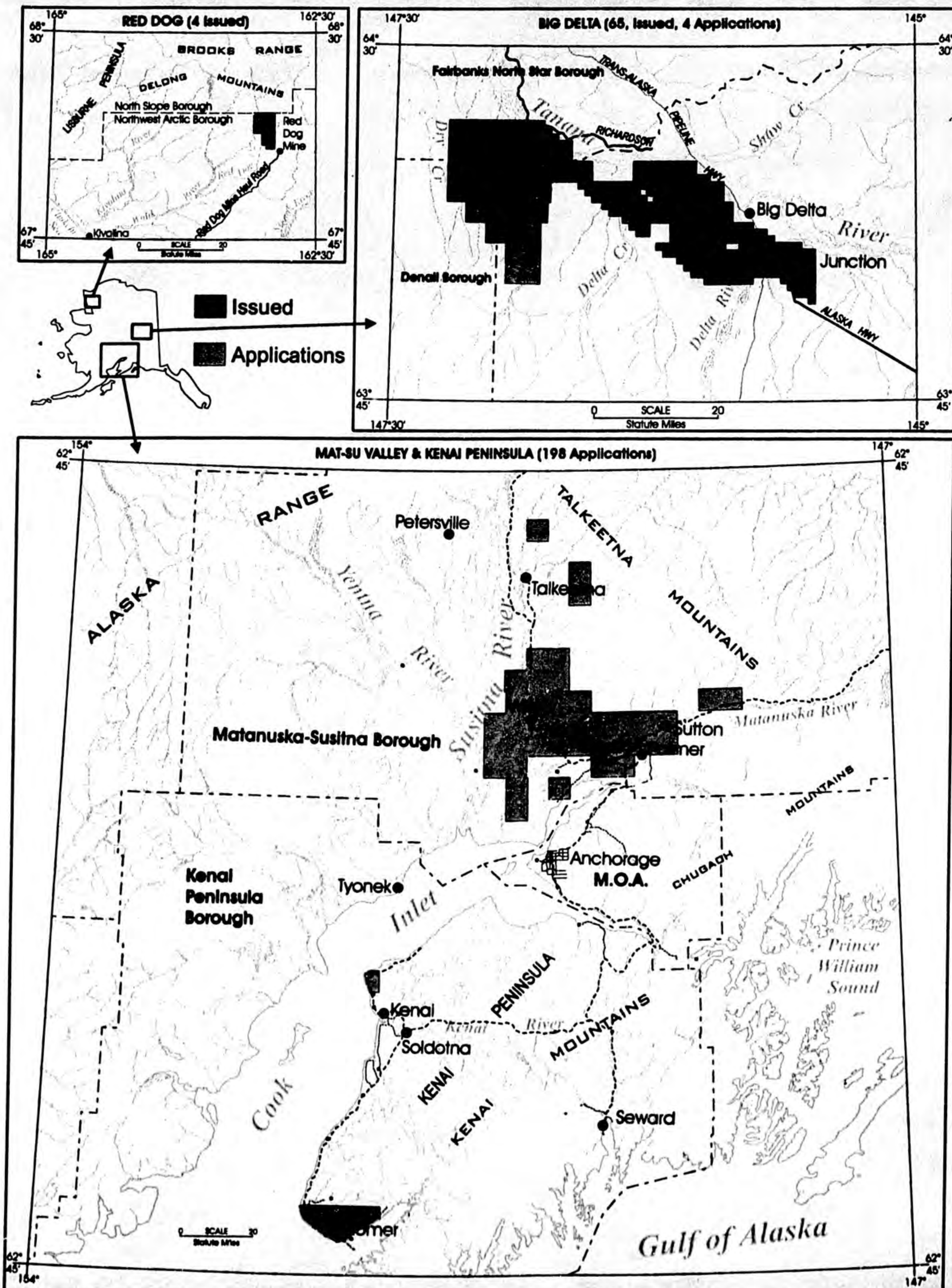
Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.

Albers Equal-Area Conic Projection, 1927 North American Datum, Clarke 1866 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 4/02

Shallow Natural Gas Leasing



SCOMM

128:21

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB9
() Publish Date:

Revision Date/Time (Note if correction):
Title: Stranded Gas Development Project
Sponsor: Representative Green
Requester: (H) Oil & Gas

Dept. Affected: Natural Resources
BRU: Oil & Gas Development
Component: Oil & Gas Development
Component Number: #439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
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 (Specify Type)						
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2001) cost: none

POSITIONS

Full-time						
Part-time						
Temporary						

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

There is no anticipated fiscal impact to DNR associated with implementation of this legislation.

Prepared by: Mark Myers, Director
Phone 269-8800
Division: Oil & Gas
Date/Time 1/29/01 2:49 PM
Approved by: Pat Pourchot
Date 1/29/01 2:49 PM
Agency: Natural Resources

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(Rev 11/2000 OMB)

file: hb9/hb9
printed: 01/29/2001/2:50 PM

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 9
() Publish Date:

Revision Date/Time (Note if correction):
Title: Stranded Gas Development Project
Sponsor: Representative Green
Requester: House Oil & Gas Committee

Dept. Affected: Revenue
BRU: Administration/Support
Component: Commissioner's Office
Component Number: 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	89.0	89.0				
Travel	20.0	25.0				
Contractual	150.0	200.0				
Supplies						
Equipment	2.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**261.5**	**314.0**	**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	111.5	114.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Statutorily Designated Receipts	150.0	200.0				
TOTAL	**261.5**	**314.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation would amend the Stranded Gas Development Act (HB393 Finance of the 1998 session) to eliminate the provision limiting the Act to only liquefied natural gas projects. This would allow natural gas and gas-to-liquid projects to be included under the Act. It should be noted, however, that AS 43.82.170 sets a June 30, 2001, deadline for applications under the Act, which would not be amended by this legislation.

The Act allows the Department of Revenue under AS 43.82.240 to recover the costs of contracting with an independent consultant to assist the state in evaluating applications submitted under the Act. Those statutorily designated program receipts are shown above. However, the Act does not allow the state to seek reimbursement from a project applicant for any other costs. The department would hire a project manager for the estimated two years of negotiations, and the personnel services, travel and equipment expenses for that position and other commissioner's office expenses are shown in the fiscal note as general fund money.

Prepared by: Larry Persily, Deputy Commissioner — Phone 465-5469
Division: Department of Revenue — Date/Time 1 p.m., Jan. 27, 2001
Approved by: Wilson Condon, Commissioner — Date Jan. 28, 2001
Agency: Department of Revenue

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ANCHORAGE, ALASKA [illegible]
(907) [illegible]
(907) [illegible] FAX

Alaska State Legislature

Representative Joe Green
District [illegible]

CHAIRMAN, LEGISLATIVE COUNCIL
VICE CHAIR, ECONOMIC DEVELOPMENT, TRADE & TOURISM
MEMBER, RESOURCES
MEMBER, ETHICS
MEMBER, MILITARY & VETERANS AFFAIRS

BUDGET SUBCOMMITTEES:
ALASKA COURT SYSTEM
DEPT. OF CORRECTIONS
DEPT. OF LAW

Sponsor Statement
HB 9 – Amendments to the Alaska Stranded Gas Development Act

HB 9 expands the applicability of AS 43.82.100 which has the effect of allowing the sponsor of a project *other than* a liquefied natural gas transportation system to apply to the commissioner to make payments in lieu of taxes.

In 1998 the legislature passed HB 393 (codified at AS 43.82 as the Alaska Stranded Gas Development Act) allowing the Commissioner of Revenue to negotiate terms for the payment of taxes on a project to export liquefied natural gas (LNG). At the time, the most likely scenario for the development of North Slope natural gas was thought to be the export of LNG to Asia. Under the price regime of the day, legislators and producers saw such a measure as a way to make the development of a pipeline more attractive.

In the months since HB 393 was signed into law, supplies of natural gas for domestic use have not kept pace with demand, triggering an increase in the price. These new, higher prices have improved the economics for the delivery of Alaska North Slope gas to domestic users via a pipeline through Canada. By amending AS 43.82 to expand the definition of a "qualified project", sponsors of a pipeline to the "lower 48" will be able to negotiate a fiscal regime with the state that promotes, instead of hinders, a pipeline project.

Alaska State Legislature

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CHAIRMAN, LEGISLATIVE COUNCIL
VICE CHAIR, ECONOMIC DEVELOPMENT, TRADE & TOURISM
MEMBER, RESOURCES
MEMBER, ETHICS
MEMBER, MILITARY & VETERANS AFFAIRS

BUDGET SUBCOMMITTEES:
ALASKA COURT SYSTEM
DEPT. OF CORRECTIONS
DEPT. OF LAW

Representative Joe Green
District 10

Sectional Description
HB 9 – Amending the Alaska Stranded Gas Development Act

Section 1 – Amends AS 43.82.100 by deleting the requirement that a qualified project "is a project for the export of liquefied natural gas." This amendment has the effect of allowing the commissioner to qualify a pipeline project that delivers a product other than liquefied natural gas.

Section 2 – Immediate effective date.

Session:
State Capitol
Juneau, AK 99801
(907) 465-3878
(907) 465-3265

Interim:
600 E. Railroad Ave. #1
Wasilla, AK 99654
(907) 376-4866
(907) 373-4724

House Special Committee on Oil & Gas

MEMORANDUM

DATE: **January 31, 2001**

TO: **Oil & Gas Committee Members**

FROM: **Rep. Scott Ogan, Chairman**

RE: **HB 393**

Attached you will find a copy of HB 393 which was signed into law on June 18, 1998. This bill allows the Commissioner to negotiate payments in lieu of taxes to facilitate construction of a LNG line to Valdez. The genesis of this legislation was the Van Meurs Report, which stated that the project was not viable without these concessions. Legislation in our committee (HB 9 & HB 38) propose to sweep all natural gas projects into this category without any findings by consultants or the administration, that these concessions are necessary for the project to be viable. Both bills would include gas to liquids as well as an Alaskan Highway project to the Lower 48.

I feel that a presentation on GTL technology is in order before a decision is made to pass this bill out of committee.

Representative Scott Ogan

SCOMM

128:22

HB 38

TONY KNOWLES
GOVERNOR
governor@gov.state.ak.us

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
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January 8, 2001

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

Alaska must ensure that our fiscal regime is an incentive to the commercialization of our natural gas, not an impediment. To provide the State with the appropriate tools to achieve this goal I am transmitting this bill to amend the Alaska Stranded Gas Development Act to allow any potentially successful natural gas project to take advantage of the provisions of that Act.

The Alaska Stranded Gas Development Act (Act) allows the commissioner of the Department of Revenue to negotiate a contract for payments in lieu of taxes for a certain type of project that will develop the enormous natural gas resources of Alaska's North Slope.

The potential benefits of the current program are limited to liquefied natural gas ("LNG") projects. Developments in the international natural gas marketplace — particularly the recent energy price increases in North America — suggest that other projects may be viable in advance of the type of LNG project the Act was initially designed to support. This bill would expand the scope of the Act to cover other forms of gas development, such as a natural gas pipeline through Canada along the Alaska Highway or an in-state gas-to-liquids facility.

Although this Act, with the amendments I propose, grants certain authorities to executive agencies, any proposed changes to tax policy would require legislative ratification.

The only other change proposed by this bill is to extend the application deadline for this program for a limited time.

I urge your prompt and favorable action on this measure.

Sincerely,

Tony Knowles
Governor

HB 38

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 38
(H) Publish Date: 01/08/01

Revision Date/Time:
Dept Affect Natural Resources

Title: Stranded Gas Development Act
Gasline or GTL
BRU: Oil & Gas Development
Component Oil & Gas Development

Sponsor: Rules Committee
Requestor: Governor
Component No. #439

Expenditures/Revenues (Thousands of Dollars)
Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
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
CHANGE IN REVENUES (fund	0.0	0.0	0.0	0.0	0.0	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 (FY2001) co 0.0

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)*

There is no anticipated fiscal impact associated with implementation of this legislation.

Prepared by: Ken Boyd, Director Phone : 907-269-8800
Division: Oil & Gas Date : 15-Nov-00
Approved by Commissioner:
Pat Pourchot Date: 15-Nov-00
Agency: Natural Resources

For distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 38
() Publish Date:

Revision Date/Time (Note if correction): Jan. 27, 2001, 2 p.m.
Title: Alaska Stranded Gas Development
Sponsor: Rules Committee
Requester: Governor

Dept. Affected: Revenue
BRU: Administration/Support
Component: Commissioner's Office
Component Number: 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	89.0	89.0				
Travel	20.0	25.0				
Contractual	150.0	200.0				
Supplies						
Equipment	2.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**261.5**	**314.0**	**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	111.5	114.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Statutorily Designated Receipts	150.0	200.0				
TOTAL	**261.5**	**314.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation would amend the Stranded Gas Development Act (HB393 Finance of the 1998 session) to eliminate the provision limiting the Act to only liquefied natural gas projects. This would allow natural gas and gas-to-liquid projects to be included under the Act. This legislation also would extend the project application deadline under the act (AS 43.82.170) from June 30, 2001, to Dec. 31, 2001.

The Act allows the Department of Revenue under AS 43.82.240 to recover the costs of contracting with an independent consultant to assist the state in evaluating applications submitted under the Act. Those statutorily designated program receipts are shown above. However, the Act does not allow the state to seek reimbursement from a project applicant for any other costs. The department would hire a project manager for the estimated two years of negotiations, and the personnel services, travel and equipment expenses for that position and other commissioner's office expenses are shown in the fiscal note as general fund money.

Prepared by: Larry Persily, Deputy Commissioner — Phone 465-5469
Division: Department of Revenue — Date/Time 1 p.m., Jan. 27, 2001
Approved by: Wilson Condon, Commissioner — Date Jan. 28, 2001
Agency: Department of Revenue

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(Rev 1/26/2000 OMB)

SCOMM

128:23

LEGAL SERVICES

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

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

MEMORANDUM January 22, 2001

SUBJECT: House Bill 83, relating to natural gas pipelines, defining by statute a statement of policy for development and transportation of state natural gas reserves, and making a series of specific additions and amendments intended to implement a strategy for development, use, and control of one or more projects to develop and transport the state's natural gas resources -- sectional analysis. (Work Order No. 22-LS0322\J)

TO: Representative Scott Ogan, Chair
House Special Committee on Oil and Gas

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Article VIII, section 1, Constitution of the State of Alaska, sets out a statement of policy applicable to state resources:

> **Statement of Policy.** It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.

while a companion provision, article VIII, section 2, establishes general authority for the disposition and conservation of those resources with the legislature to the end that the legislature act "for the maximum benefit of [the State's] people."

Bill section 1 amends a companion statutory statement of policy, AS 38.05.910, a part of the Alaska Land Act (AS 38.05), by extending an interpretation of these two constitutional provisions as they apply to "a project or projects to develop and transport the state's substantial natural gas resources." The interpretation, after acknowledging that "out-of-state market driven commercial demand" will drive extraction of the natural gas resource, speaks to the development and transportation of the gas in these reserves, or a portion of it, in a way that fulfills the constitutional statements of policy, by

-- identifying in-state industrial and domestic uses, expanded employment opportunities, and an enhanced tax base;

-- declaring that the development and transportation for the domestic North American market should not foreclose other uses of a portion of the gas reserves in interstate and international commerce; and

-- stating that the development and transportation project should safeguard the state's natural environment to the maximum extent possible.

The specific application of the statutory policy statement is set out in the following bill sections.

Bill section 2: This bill section makes amendments to the statute under which the commissioner of natural resources makes determinations under the Alaska Right-of-Way Leasing Act (AS 38.35) to require that, as part of an evaluation of whether or not use of the right-of-way for which a natural gas pipeline applicant has made application,

-- the submission must comply with the general principles and strategies prescribed in bill section 1;

-- the applicant will contract with contractors and firms in the state in the work to be performed; and

-- in addition to the standard "local hire" requirements already generally applicable, the applicant voluntarily agrees to use best efforts to employ state residents.

Bill section 3: This section makes a conforming amendment to another subsection of AS 38.35.100(b), part of the Alaska Right-of-Way Leasing Act, to incorporate material added to AS 38.35.100(a) as matter that the commissioner of natural resources shall consider in making a determination on an application submitted under the Act.

Bill sections 4 and 6: AS 42.06, the state's "Pipeline Act," prescribes the regulatory authority of the Regulatory Commission of Alaska (formerly the Alaska Public Utilities Commission) over pipelines relating to intrastate transportation activities. Last year, in ch. 56, SLA 2000, the Legislature modified the authority of the Commission as to its regulation of a North Slope natural gas pipeline carrier, with particular attention to development of standards and procedures applicable to determine the capacity of a North Slope natural gas pipeline at construction. The bill now proposes, in its ***section 4*** to revise the standard to require the Commission to have a North Slope natural gas pipeline to be designed and constructed with additional capacity to meet reasonably foreseeable in-state demands for gas and, in ***section 6***, repealing a subsection by which the Commission was to determine for the carrier's certificate of public convenience and necessity the pipeline's capacity based principally on contracted commitments for the purchase of the North Slope natural gas.

Bill section 5: AS 43.82, the state's "Stranded Gas Development Act," added by sec. 3, ch. 104, SLA 1998, was intended to provide the commissioner of revenue authority to negotiate on a range of topics in order to secure the early development of projects to commercialize the state's stranded natural gas resources. The amendment made by this bill section amends the definition of a "qualified project" as to which the commissioner may enter into negotiations to delete a requirement that the project be one for the "export of liquefied natural gas" and revises one of the two remaining standards to require compliance with the strategies identified in AS 38.05.910(b) (bill section 1).

Bill section 7 gives the measure an immediate effective date.

JBC:glc
01-042.glc

REPRESENTATIVE SCOTT OGAN **Alaska State Legislature**

House District 27 • Palmer • Greater Palmer • Sutton • Chickaloon • Sheep Mountain

******For Immediate Release ******

January 19, 2001

Gas Bill Maximizes Benefits

A bill supporting a natural gas line that maximizes benefits to Alaskans was introduced today by the House Special Committee on Oil and Gas. Chairman Representative Scott Ogan said the first priority is to make sure that Alaskans get the most out of any project and route put forth. "Our constitution is very clear. Our natural resources must be developed for maximum use consistent with the public interest. As elected officials we are stewards entrusted to oversee the allocation and development of those resources. The Constitution specifically requires that the legislature develop our resources for the maximum benefit of its people.

Various routes have been discussed for the proposed gas pipeline. Ogan wants to see a full range of options considered. " We should not assume that one line, one route, is the only option at this point. The corporations have a responsibility to maximize benefits to shareholders and I think they understand that we have a Constitutional responsibility to do the same for our stakeholders, the residents of Alaska. I am confident that we can find synergies that meet the mutual interests of both the public and private sector," said Ogan.

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For additional info: 907-465-3878

Interim: 600 E. Railroad Ave. #1, Wasilla, AK 99654 • **Session: State Capitol, Juneau, AK 99801 465-3878**
(907) 376-4866 Fax (907) 373-4724 **1 (800) 862-3878 Fax (907) 465-3265**

REPRESENTATIVE SCOTT OGAN — **Alaska State Legislature**

House District 27 • Palmer • Greater Palmer • Sutton • Chickaloon • Sheep Mountain

FOR IMMEDIATE RELEASE: Jan. 19, 2001

Highway Pipeline Best Use of Slope Gas

HB 83 Fulfills Constitutional Mandate with Southern Route

(JUNEAU) – Saying a pipeline along the Alaska Highway will bring Alaskans the maximum benefit from North Slope natural gas development, Rep. Scott Ogan (R-Palmer), chair of the Oil and Gas Committee, today introduced a committee bill to require such gas to be delivered to market along this route.

"The Alaska Constitution's statement of policy on natural resources clearly says the Legislature has the obligation to develop resources consistent with the public interest, and to the maximum benefit of the people," Ogan said. "It's clear that Alaska's interests are best served by a southern route, and this bill puts that into law."

House Bill 83 also requires that a gas pipeline constructed along the highway must have the built-in capacity to allow easy construction of a future spur line that could provide North Slope gas to consumers and industry in Southcentral Alaska, and supply facilities in Valdez to produce liquefied natural gas (LNG) for export to other markets, Ogan said. It includes additional provisions encouraging pipeline developers, as much as legally possible, to give Alaskans the jobs and contracts associated with pipeline construction and operation.

"We must keep an open mind, and make sure that we can take advantage of whatever technologies ultimately can bring the maximum benefit of this gas for Alaskans," he said.

The bill reflects the Republican-led Majority's desire to take advantage of the soaring prices and diminishing supplies of natural gas to start bringing Alaska's 35 trillion cubic feet of efficient, clean-burning gas to market. While it places into statute the state's insistence that a pipeline go through Alaska instead of Canada's Mackenzie River Delta, the bill is also intended as a vehicle to spur discussion of a full range of development options, Ogan said.

"The corporations have a responsibility to their shareholders to maximize the benefits of their oil and gas leases" Ogan said. "I think they understand that we in the Legislature have an obligation to do the same on behalf of our stakeholders, the people of Alaska. I think we can find synergies that meet the mutual interests of both the public and private sectors."

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Broadcasters note: Comments are available on the Majority Actuality Line 1-800-478-6540

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ARTICLE VII.
HEALTH, EDUCATION AND WELFARE.

SECTION 1. PUBLIC EDUCATION. The legislature shall by general law establish and maintain a system of public schools open to all children of the State, and may provide for other public educational institutions. Schools and institutions so established shall be free from sectarian control. No money shall be paid from public funds for the direct benefit of any religious or other private educational institution.

SECTION 2. STATE UNIVERSITY. The University of Alaska is hereby established as the state university and constituted a body corporate. It shall have title to all real and personal property now or hereafter set aside for or conveyed to it. Its property shall be administered and disposed of according to law.

SECTION 3. BOARD OF REGENTS OF UNIVERSITY. The University of Alaska shall be governed by a board of regents. The regents shall be appointed by the governor, subject to confirmation by a majority of the members of the legislature in joint session. The board shall, in accordance with law, formulate policy and appoint the president of the university. He shall be the executive officer of the board.

SECTION 4. PUBLIC HEALTH. The legislature shall provide for the promotion and protection of public health.

SECTION 5. PUBLIC WELFARE. The legislature shall provide for public welfare.

ARTICLE VIII.
NATURAL RESOURCES.

SECTION 1. STATEMENT OF POLICY. It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.

SECTION 2. GENERAL AUTHORITY. The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.

SECTION 3. COMMON USE. Wherever occurring in their natural state, fish, wildlife, and waters are reserved to the people for common use.

SECTION 4. SUSTAINED YIELD. Fish, forests, wildlife, grasslands, and all other replenishable resources belonging to the State shall be utilized, developed, and maintained on the sustained yield principle, subject to preferences among beneficial uses.

SECTION 5. FACILITIES AND IMPROVEMENTS. The legislature may provide for facilities, improvements, and services to assure greater utilization, development, reclamation, and settlement of lands, and to assure fuller utilization and development of the fisheries, wildlife, and waters.

SECTION 6. STATE PUBLIC DOMAIN. Lands and interests therein, including submerged and tidal lands, possessed or acquired by the State, and not used or intended exclusively for governmental purposes, constitute the state public domain. The legislature shall provide for the selection of lands granted to the State by the United States, and for the administration of the state public domain.

SECTION 7. SPECIAL PURPOSE SITES. The legislature may provide for the acquisition of sites, objects, and areas of natural beauty or of historic, cultural, recreational, or scientific value. It may reserve them from the public domain and provide for their administration and preservation for the use, enjoyment, and welfare of the people.

SECTION 8. LEASES. The legislature may provide for the leasing of, and the issuance of permits for exploration of, any part of the public domain or interest therein, subject to reasonable concurrent uses. Leases and permits shall provide, among other conditions, for payment by the party at fault for damage or injury arising from noncompliance with terms governing concurrent use, and for forfeiture in the event of breach of conditions.

SECTION 9. SALES AND GRANTS. Subject to the provisions of this section, the legislature may provide for the sale or grant of state lands, or interests therein, and establish sales procedures. All sales or grants shall contain such reservations to the State of all resources as may be required by Congress or the State and shall provide for access to these resources. Reservation of access shall not unnecessarily impair the owners' use, prevent the control of trespass, or preclude compensation for damages.

SECTION 10. PUBLIC NOTICE. No disposals or leases of state lands, or interests therein, shall be made without prior public notice and other safeguards of the public interest as may be prescribed by law.

SECTION 11. MINERAL RIGHTS. Discovery and appropriation shall be the basis for establishing a right in those minerals reserved to the State which, upon the date of ratification of this constitution by the people of Alaska, were subject to location under the federal mining laws. Prior discovery, location, and filing, as prescribed by law, shall establish a prior right to these minerals and also a prior right to permits, leases, and transferable licenses for their extraction. Continuation of these rights shall depend upon the performance of annual labor, or the payment of fees, rents, or royalties, or upon other requirements as may be prescribed by law. Surface uses of land by a mineral claimant shall be limited to those necessary for the extraction or basic processing of the mineral deposits, or for both. Discovery and appropriation shall initiate a right, subject to further requirements of law, to patent of mineral lands if authorized by the State and not prohibited by Congress. The provisions of this section shall apply to all other minerals reserved to the State which by law are declared subject to appropriation.

SECTION 12. MINERAL LEASES AND PERMITS. The legislature shall provide for the issuance, types and terms of leases for coal, oil, gas, oil shale, sodium, phosphate, potash, sulfur, pumice, and other minerals as may be prescribed by law. Leases and permits giving the exclusive right of exploration for these minerals for specific periods and areas, subject to reasonable concurrent exploration as to different classes of minerals, may be authorized by law. Like leases and permits giving the exclusive right of prospecting by geophysical, geochemical, and similar methods for all minerals may also be authorized by law.

SECTION 13. WATER RIGHTS. All surface and subsurface waters reserved to the people for common use, except mineral and medicinal waters, are subject to appropriation. Priority of appropriation shall give prior right. Except for public water supply, an appropriation of water shall be limited to stated purposes and subject to preferences among beneficial uses, concurrent or otherwise, as prescribed by law, and to the general reservation of fish and wildlife.

SECTION 14. ACCESS TO NAVIGABLE WATERS. Free access to the navigable or public waters of the State, as defined by the legislature, shall not be denied any citizen of the United States or resident of the State, except that the legislature may by general law regulate and limit such access for other beneficial uses or public purposes.

SECTION 15. NO EXCLUSIVE RIGHT OF FISHERY. No exclusive right or special privilege of fishery shall be created or authorized in the natural waters of the State. This section does not restrict the power of the State to limit entry

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 83
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Resources Development
Sponsor: Special Committee on Oil & Gas
Requester: (H) O&G

Dept. Affected: Natural Resources
BRU: Oil & Gas Development
Component: Oil & Gas Development
Component Number: #439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	48.0					
Travel	12.0					
Contractual	163.0	227.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**223.0**	**227.0**	**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	223.0	227.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	**223.0**	**227.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2001) cost: 105.0

POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill could affect the state's royalty share and the administration of the division's programs. First, it sets forth a policy that gas be available to meet in-state demands. The division has requested $88,000 to study in-state demand for gas and the effect of declining Cook Inlet resources. The division would need at least that amount to ensure that the policy of this bill is met in any pipeline proposal.

Second, the bill sets forth a policy of ensuring the maximum contribution to the development of job opportunities. To do this, it is important that the pipeline be located close to gas resources within Alaska. The division requests $467,000 to study Alaska gas resources. The division would need at least that amount to ensure that the policy of this bill is met.

Third, it is unclear whether the policy is to maintain the existing industrial energy source base or to allow for increasing that base. Which of these two policies apply could dramatically affect the sizing of the pipe and thereby affect the royalty share if the pipe is dramatically oversized. Either choice run counter to the requirement that a "low-cost" supply be maintained especially when ANS gas supply cost is compared to existing Cook Inlet supplies.

Prepared by: Mark Myers, Director — Phone 269-8800
Division: Oil & Gas — Date/Time 30-Jan-01
Approved by: Pat Pourchot — Date 30-Jan-01
Agency: Natural Resources

For distribution information, call the Governor's Legislative Office

(Rev 11/2000 OMB)

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB83
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Resources Development
Sponsor: Special Committee on Oil & Gas
Requester: (H) O&G

Dept. Affected: Natural Resources
BRU: Oil & Gas Development
Component: Pipeline Coordinator
Component Number: #1191

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
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 (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: none

POSITIONS

Full-time						
Part-time						
Temporary						

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

The bill would require that additional analyses be performed by the State Pipeline Coordinator's Office before the Commissioner could grant right-of-way leases. While the requirement would create an additional workload, we are presuming that the incremental work, and therefore costs, would be minimal.

Prepared by: Bill Britt, State Pipeline Coordinator — Phone 271-3061
Division: State Pipeline Coordinator's Office — Date/Time 30-Jan-01
Approved by: Pat Pourchot — Date 30-Jan-01
Agency: Natural Resources

For distribution information, call the Governor's Legislative Office

(Rev 11/2000 OMB)

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 83
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Resources Development
Sponsor: House Committee on Oil & Gas
Requester: House Committee on Oil & Gas

Dept. Affected: Revenue
BRU: Administration and Support
Component: Commissioner's Office
Component Number: 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	89.0	89.0				
Travel	20.0	25.0				
Contractual	150.0	200.0				
Supplies	2.5					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**261.5**	**314.0**	**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	111.5	114.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Statutorily Designated Receipts	150.0	200.0				
TOTAL	**261.5**	**314.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

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

As it pertains to the Department of Revenue, this legislation would amend the Stranded Gas Development Act (HB393 Finance of the 1998 session) to eliminate the provision limiting the Act to only liquefied natural gas projects. This would allow natural gas and gas-to-liquid projects to be included under the Act. It should be noted, however, that AS 43.82.170 sets a June 30, 2001, deadline for applications under the Act, which would not be amended by this legislation.

The Act allows the department under AS 43.82.240 to recover the costs of contracting with an independent consultant to assist the state in evaluating applications submitted under the Act. Those statutorily designated program receipts are shown above. However, the Act does not allow the state to seek reimbursement from an applicant for any other costs. The department would hire a project manager for the estimated two years of negotiations, and the personnel services, travel and equipment expenses for that position and other commissioner's office expenses are shown in the fiscal note as general fund money.

The other aspects of this legislation do not affect the Department of Revenue's role under the Stranded Gas Development Act.

Prepared by: Larry Persily, Deputy Commissioner — Phone 465-5469
Division: Department of Revenue — Date/Time 2 p.m., Jan. 27, 2001
Approved by: Wilson Condon, Commissioner — Date Jan. 28, 2001
Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office

(Rev 1/26/2000 OMB)

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128:24

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SS HB 190
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Pipeline Incentive/Gas Tax
Sponsor: Representative Whitaker
Requester: (H) O&G

Dept. Affected: Natural Resources
BRU: Oil & Gas Development
Component: Oil & Gas Development
Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	**	**	**	**	**	**

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2001) cost: none

Check this box (X) if funding for this bill is included in the Governor's FY2002 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

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

* It is not possible at this time to calculate operating expenditures associated with implementation of this legislation for the following reason. It is unclear which agency will be responsible for evaluating industry data to determine if a situation of "proven gas reserves" exists as defined by proposed AS 43.58.395(5), or if the lessee's estimate of volume is correct.

** A property tax on gas reserves could have a chilling effect on industry's efforts to explore for new gas deposits. It could also discourage the bidding for leases on state land, and exploration for oil if gas was likely to be found.

Prepared by: Mark D. Myers Phone 269-8800
Division: Oil and Gas Date/Time 26-Apr-01
Approved by: Pat Pourchot Date 26-Apr-01
Agency: Natural Resources

For distribution information, call the Governor's Legislative Office

(Rev 11/2000 OMB)

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SS HB 190
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Pipeline Incentive / Gas Tax
Sponsor: Representative Whitaker
Requester: House Oil & Gas Committee

Dept. Affected: Revenue
BRU: Operations
Component: Tax Division
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
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 (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

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

** It is not possible at this time to determine property tax revenue to the state under this legislation.

(See attached sheet for more information.)

Prepared by: Dan Dickinson, Director
Division: Tax Division
Phone: 269-1033
Date/Time: April 24, 2001, 9 a.m.

Approved by: Larry Persily, Deputy Commissioner
Agency: Department of Revenue
Date: 04/24/2001

For distribution information, call the Governor's Legislative Office

(Rev 2/7/2001 OMB)

Department of Revenue fiscal note and bill analysis
SS HB 190 – April 24, 2001

This legislation would require North Slope oil and gas producers to pay a property tax on natural gas reserves unless the producers contract by Dec. 31, 2003 to deliver natural gas to a "qualified bona fide purchaser" for delivery under a contract of at least 20 years starting no later than Dec. 31, 2007.

Before discussing the revenue potential of the legislation, the department sees a conflict between AS 43.58.210(b) of this legislation that sets the tax rate at 2 cents per 1,000 cubic feet of gas and AS 43.58,230 of this legislation, which directs the department to assess the gas at "its full and true value." The legislation defines "full and true value" as the "estimated price that the taxable property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer." For the purposes of this bill analysis, the department assumes it would assess the natural gas reserves at 2 cents per 1,000 cubic feet instead of following the statutory definition of "full and true value."

Using the Department of Natural Resources' estimate of approximately 31 trillion cubic feet of gas reserves on state leases, the annual property tax bill to North Slope lease holders would be $620 million at 2 cents per 1,000 cubic feet. The legislation, however, exempts from taxation that volume of gas needed for reinjection for enhanced recovery of oil (as determined by the Alaska Oil and Gas Conservation Commission) and that volume of gas consumed in North Slope production operations.

If, for example, one-third of the gas reserves were needed for reinjection and operations, the property tax bill would be $415 million a year. If that were the case, the revenue likely would exceed what the state could expect to receive in property tax, severance tax and corporate income tax and royalties from a natural gas project, forcing the state to question whether it would be money ahead with the property tax revenue on stranded gas reserves instead of promoting a natural gas development project.

It also is possible that the gas reserves property tax could act as a disincentive to oil and gas exploration if producers viewed any new gas discoveries as a potential tax liability.

Alaska State Legislature

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Statement Before House Special Committee on Oil and Gas
Lori Backes, Chief of Staff
Office of Representative Jim Whitaker

HB 190 - Alaska Natural Gas Pipeline Incentive Act

"Mr. Chairman, Members of the Committee, my name is Lori Backes, I am Legislative Aide to Representative Jim Whitaker, who asked me to make a brief statement before you today.

The sponsor of HB 190 requested at the time this bill was introduced, and has maintained since then, that it not be heard unless, after appropriate testimony, a vote be taken by the committee for passage or against passage.

The sponsor's position has not changed. However, Representative Whitaker recognizes the Chairman's prerogative and therefore does not object to HB 190 being heard.

That concludes my statement. I have not been authorized by the sponsor to answer questions from the committee."

Alaska State Legislature

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SPONSOR STATEMENT

HB 190
ALASKA NATURAL GAS PIPELINE INCENTIVE ACT

For many years, the State of Alaska has relied heavily on the production of oil to foster its livelihood, provide opportunities for its people, and generate revenues to ensure continued prosperity. We have all seen and enjoyed the positive effects of oil development. However, low oil prices, reduced production, and potential field depletion adversely affect the state's ability to provide a secure future for its people.

As of the end of the last century, December 31st, 1999, through political subdivisions of state and local governments, the people of Alaska accrued roughly $55 Billion dollars in taxes, royalties and settlements from the oil industry. In addition, the industry has provided enormous employment opportunities, infrastructure growth opportunities, and a host of other positive benefits to the state.

While Alaska has enjoyed many positive benefits from production of its oil resources, the industry has profited greatly as well, earning approximately $65 Billion dollars in pre-federal tax revenues from Alaskan operations. The industry's Alaskan operations also have provided for their West Coast refinery and petro-chemical feed stocks.

As we face an enormous budget deficit, we must look beyond our reliance on oil production, budget cutting, and taxation as the only means of ensuring a long-term fiscal solution. It is incumbent upon the leaders of this state to recognize that further resource development is critical in order to secure an additional and substantial revenue stream to the State of Alaska.

Conservatively, 35 trillion cubic feet of natural gas reserves have been identified on the North Slope, and estimates of 100 tcf of reserves yet to be proven are realistic. The failure of the Legislature to insist upon commercialization of this vital resource as a valuable commodity is in direct conflict with the provisions of the Constitution of the State of Alaska.

Article VIII, sec. 1, Constitution of the State of Alaska, provides that it is the policy of the state to encourage the settlement of its land and the development of its resources by making them available <u>for maximum use consistent with the public interest</u>.

Article VIII, sec. 2, Constitution of the State of Alaska, requires the legislature to provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters, <u>for the maximum benefit of its people</u>.

The resource of greatest value associated with economic growth now available to Alaska is North Slope natural gas.

The past months have shown a critical need for new supply to the "Lower 48", and recently, representatives of the Asian gas markets have expressed immediate interest in contracting for the purchase of North Slope natural gas.

Despite repeated efforts on the part of Alaska's Legislature, Administration, and Municipalities to encourage an Alaskan gas pipeline, the producers continue to favor their competing projects around the world. The latest news of the involvement of Phillips Petroleum and Chevron in projects to bring LNG from <u>Australia</u> to the U.S., and the possibility that BP will be in a position to bring LNG to the U.S. market from <u>Egypt</u>, further exemplifies the propensity of major leaseholders on the North Slope to subordinate an Alaskan project to their holdings elsewhere for reasons of internal best interest economics.

The time has come for Alaska's legislature to send a clear and compelling message to the producers: we will meet our constitutional obligation and insist that Alaska's resources be developed in a manner that is in the maximum best interest of the people of the State of Alaska.

To that end, HB 190 will levy a tax on North Slope natural gas in an amount that will provide an economic incentive to the producers to expedite an Alaskan project.

Firstly, HB 190 encourages development of our resources by applying a tax rate of $.02 per mcf to the natural gas resource under lease on the North Slope if certain performance benchmarks are not met.

The gas reserves tax does not take effect if the leaseholders secure specific benchmark requirements. By December 31, 2003, the leaseholders must have signed agreements to sell a minimum of 500,000,000 mcf per year for at least a 20 year period. If the 2003 benchmark is met, the gas reserves tax does not take effect until December 31, 2007. On this date, if North Slope natural gas is delivered to market, the gas reserves tax is permanently removed from the statutes. These benchmarks are reasonable and achievable.

Secondly, HB 190 inserts specific language into leases upon initial contract, renewal or transfer of leases, which requires the sale of natural gas when certain conditions are met. The current lease language requires only general efforts for development. We must be more specific regarding reasonable expectations for natural gas development.

Finally, HB 190 provides for an option under which North Slope leaseholders may surrender rights held in land under lease in order to avoid liability under the act.

Office of Rep. Whitaker
L. Backes
03/20/01

Alaska State Legislature

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SSHB 190 Sectional Analysis

The bill (1) provides for levy and collection of a tax on certain North Slope natural gas in place under circumstances in which the gas is not timely developed, and (2) sets limits on the authority of the commissioner of natural resources to issue or extend an oil and gas lease unless the lessee complies with requirements relating to the development and sale of North Slope natural gas.

Bill Section 1: An uncodified provision, gives the measure a short title.

Bill Section 2: Also uncodified, sets out legislative findings and a statement of legislative intent for the measure.

Bill Section 3: AS38.05.180 (m) sets out the terms and conditions relating to the duration of an oil and gas lease both upon initial issuance of the lease and for the extension of the lease when oil or gas is produced in paying quantities. The insertions at page 3, lines 9-13 (for lease extensions) and at page 3, lines 16-19 (for leases initially issued) add an additional requirement prohibiting issuance or extension, as appropriate, of a lease without a commitment by the lessee or prospective lessee "to contract to sell the gas [produced from the lease]...to a qualified bona fide purchaser." The section also, at the top of page 4, supplies a definition for the term "qualified bona fide purchaser."

Bill Section 4: The bill section provides for levy and collection of the gas reserves tax --

--**AS 43.58.210** imposes the levy as an annual tax and sets the tax rate ($0.02 per mcf);

--**AS 43.58.220** defines the property subject to the tax as North Slope leases with proven gas reserves;

--**AS43.58.230** sets the standard for assessment of the value of the gas reserves;

--**AS43.58.240 - 43.58.300** are "boilerplate" provisions that spell out how the gas reserves property assessment roll shall be prepared and prescribes the procedures that attend preparation and submission of the tax return and payment of the tax;

> **--AS43.58.310** applies the general remedy of distraint on property as an enforcement remedy;
>
> **--AS43.58.320** authorizes adoption of implementing regulations for the tax; and
>
> --**AS 43.58.395** sets out necessary definitions for terms used in the chapter.

Bill Section 5: The section allows for the surrender of the land held under lease to avoid tax liability, if the surrender takes place no later than December 31, 2003.

Bill Section 6: The section sets a first condition on the taking effect of the gas reserves tax: the tax is to take effect ***unless*** the terms of the condition are met--

> ...no later than December 31, 2003, not less than 500,000,000,000 cubic feet of North Slope natural gas,that is undeveloped on the effective date of this section, is annually committed by contract for sale and timely delivery as commercially marketable gas to a qualified bona fide purchaser, not for enhanced recovery operations, for a contract term of at least 20 years, with delivery scheduled to begin no later than December 31, 2007.

If the condition is met, the tax does not take effect.

Bill Section 7: The section sets an alternate condition on the taking effect of the gas reserves tax: the tax is to take effect if the provisions of the tax have not taken effect at an earlier time and ***unless*** the terms of the following condition are met--

> ...no later than December 31, 2007, the cubic feet of North Slope natural gas...that is undeveloped on the effective date of this section, that has been committed by contract for sale and timely delivery as commercially marketable gas as required by sec. 6 of this Act is deliverable as provided by the appropriate terms of the contract.

If this condition is met, the tax does not take effect.

Bill Section 8: In the event a question arises as to compliance with either of the appropriate conditions that keeps the reserves tax from taking effect, this provision gives "any qualified voter" standing to challenge a decision by the commissioner of revenue not to give effect to the tax. The language draws upon the text of similar authority set out in article VI, section 11, Constitution of the State of Alaska, the basis for enforcement of legislative redistricting.

Bill Section 9: Under this section, if, because the appropriate conditions are complied with, the reserves tax does not take effect, the revisor of statutes is directed to repeal the provisions of the tax.

Bill Section 10: **gives the first condition giving effect to the gas reserves tax a January 2004, effective date.**

Bill Section 11: **gives the alternate condition giving effect to the gas reserves tax a January 1, 2008, effective date.**

Except for the bill section setting out conditional provisions that would cause the tax to take effect in 2004 or 2008, other sections of the measure take effect 90 days after becoming law.

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Wasilla, AK 99654
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House Special Committee on Oil & Gas

MEMORANDUM

DATE: **April 25, 2001**

TO: **All Oil & Gas Committee Members**

FROM: **Representative Scott Ogan, Chairman**

RE: **Question given to Jack Chenoweth, Legal Services**

Question posed to Jack Chenoweth, Legislative Legal Services:

Under what circumstances can the state take a lease back?

Have we ever taken a lease back?

Is Point Thompson a good example?

Please see attached answer.

Subject: Oil/gas lease termination
Date: Tue, 24 Apr 2001 16:58:54 -0800
From: Jack Chenoweth <Jack_Chenoweth@legis.state.ak.us>
Organization: Alaska State Legislature
To: Linda Hay <Linda_Hay@legis.state.ak.us>

There is one statute, AS 38.05.180(m), that makes reference to termination "by reason of cessation of production"; I take that to be the downside reference to mention made earlier in subsection (m) as to providing for "automatic [extension] if and for so long thereafter as oil or gas is produced in paying quantities . . .". In other words, under the statute, so long as you're producing "oil or gas" in paying quantities, the initial lease is to be extended; if production ceases--or, I would guess--if production never initiated, the lease is subject to termination.

That looks to me to be the only statutory reference to "terminate" or "termination" in the language of existing AS 38.05.180, the section generally governing oil and gas leasing. (The matter of lease termination is more extensively addressed in AS 38.05.177, the 1996 addition addressing shallow natural gas leases.)

There are references in several departmental administrative regulations, most notably under 11 AAC 83.700, relating to termination ***for failure to adhere to a work commitment under the lease***, but the citation of authority is to AS 38.05.020, the section generally setting out the authority and duties of the commissioner, and to AS 38.05.180 without specifying any subsection within the section.

Again, because former Governor Hickel disclosed that he had seriously contemplated taking action to terminate (but ultimately did not), it would be interesting to know (1) what the basis of the action that he contemplated actually was and (2) whether he was advised that there were legal barriers to pursuing that action. I am not at all familiar with the details of his considering this issue, but I'll bet it would be an interesting story.

Jack Chenoweth

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
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State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM February 16, 2001

SUBJECT: Transmittal of copy of April 4, 2000, letter of former Governor Walter J. Hickel endorsing consideration of gas reserves tax

TO: Representative Scott Ogan

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Enclosed is a copy of the letter of last year from former Governor Hickel endorsing House Special Oil and Gas Committee deliberations on a gas reserves tax (HB 399, 21st Legislature, Second Session). The letter also mentions actions contemplated, but not taken, with respect to termination of the Point Thompson leases.

JBC:glc
01-159.glc

Enclosure

Walter J. Hickel

Box 101700
Anchorage, Alaska 99510-1700
907-276-7400

April 4, 2000

Representative Jim Whittaker, Chairman
House Special Committee on Oil and Gas
Alaska State Capitol
Juneau, AK

BY FAX (907) 465-2070

Dear Jim,

I would like to congratulate you and the Committee for giving serious consideration to additional incentives the State of Alaska can offer its leaseholders to commercialize Alaska North Slope Natural Gas.

As I see it, the state has three major options as an owner:

- *It can work with the producers and pipeline companies to promote gas sales. It should do this by continuing the state offices abroad, supporting the property tax exemption option proposed by the Mayor's group, and otherwise working to improve project economics and market interest.*
- *It can take back the gas interest if it determines the gas producers are not fulfilling their leasehold commitment. I considered this option as Governor with the Point Thompson leases, but as far as I know, the option has not been used with any of our major untapped gas fields at present.*
- *It can charge a tax on gas reserves that are not produced, reflecting the argument that the gas is more valuable "in the ground" than "in the market" in competition with supplies leaseholders sell from other areas.*

Your bill, HB 399, puts the third option in place and strengthens the second option. I hope a reserve tax never needs to be used, but it is high time – given the fact gas was discovered over 30 years ago – that the option is there. Other nations have much stronger "disincentives" to a lack of production, and I believe that is part of the reason producers put us off as an option for the Asia marketplace.

With best regards,

Wally

Walter J. Hickel

Walter J. Hickel

Box 101700
Anchorage, Alaska 99510-1700
907-276-7400

Distributed By
Representative Scott Ogan
District 27

March 23, 2001

The Honorable Scott Ogan
Alaska State House of Representatives
State Capitol (MS 3100)
Juneau, AK 99801-1182

FAX 907-465-3265

Dear Representative Ogan,

While I had hoped to visit you and the House Special Committee on Oil and Gas before the end of March, I'm not able to do so because I'm traveling to Moscow for a meeting of Northern Forum leaders. Nevertheless, I want to compliment you and the Committee on its efforts to understand where Alaska stands in world markets for natural gas.

Any successful gas project requires willing buyers, willing sellers, willing transporters, and financing. My work in this area has been to try to bring those elements together, and I hope your committee can do the same.

If I were there, I would make three points.

First, Alaska has to look out for its own interests. In the late 1970s, an overland project failed – but not before Alaska's efforts helped Canadian reserves get to market. If overland was the best way to go, we would have an oil pipeline to Bellingham today. We don't. Tidewater gives us the most options, and while we can pursue an overland route, we can't allow the tidewater option to be ignored by the state or the producers. We must aggressively pursue Asian markets, and that means ensuring that a gas supply is independently offered for sale. So far, that has not been done. Instead, we're telling the Asian market we're not ready to sell.

Second, I've attached an excerpt from a talk the late Senator Bob Bartlett gave to Alaska's Constitutional Convention. He warned about companies with assets Outside Alaska warehousing assets they acquire in Alaska. Of course, no oil company would admit that they are warehousing gas, or keeping it out of the market because it has other supplies available. But a state owner of such a large resource has to protect itself, because it could happen. It is clear to me we haven't protected ourselves.

What do we do? We must be tough. Our options range from a reserve tax to taking back the resource for non-performance. Neither of these options would be necessary if a sufficient gas supply to serve the LNG route were committed to an independent marketing effort.

Third, we must learn our lessons from the oil line: Unless structured correctly, a pipeline owned by producers is likely to result in tariff, royalty, and tax disputes because of a conflict in incentives between profits from transportation and profits from wellhead production. Since TAPS began, the state has had to collect close to $10 billion in dispute because of the way the Trans-Alaska Pipeline was structured. Two options could help head off similar disputes on gas. First may be requiring an independent transportation company to carry the gas. Second may be having the state take an ownership interest in the pipeline at least equal to its royalty interest in the gas. Ken Thompson's trading hub idea also has merit in heading off this kind of conflict.

At least two transport companies have invested millions of dollars designing and permitting systems to deliver North Slope gas. The state is doing nothing I'm aware of to help bring these investors together with the producers.

I look forward to further discussion with you on my return. I'm doing what I can, as an individual, to urge producers, transporters, buyers, and financiers to get together. The state must help to do the same.

If this letter is presented to your Committee in my absence, Mead Treadwell – who works with me – can attempt to answer any questions you have.

With best regards.

Sincerely,

Wally

Walter J. Hickel

Enc.

Excerpt from

MEETING THE CHALLENGE
By
Delegate E. L. Bartlett

Alaska Constitutional Convention
University of Alaska
November 8, 1955

. . .

The various bills for statehood enabling legislation which have been introduced in the Congress in recent years have uniformly called for large grants of land from the United States public domain to be made to the State of Alaska. The figure mentioned has been in excess of 100 million acres, an area roughly equal to the total land area of the State of California. The 100 million acre figure would appear to be approximately the figure which will finally be adopted.

The State of Alaska would choose almost all this acreage from the lands not included in present federal reservations and withdrawals, or which is otherwise unappropriated. The 100 million plus acres represent a veritable empire, a wealth of land and resources never before conferred on any state, saving only Texas which, upon its entry into the Union, was allowed to retain all its public lands. Alaska will receive also, in addition to the 100 million acre plus grant, an uncounted but tremendous acreage of submerged lands, land which under decisions of the Supreme Court of the United States have been held in trust for the future state. These submerged lands include lands under the beds of navigable rivers, lakes, and streams; the tidelands proper; and the submerged soils of the marginal sea out to the three-mile limit.

. . .

Two very real dangers are present. The first, and most obvious, danger is that of exploitation under the thin disguise of development. The taking of Alaska's mineral resources without leaving some reasonable return for the support of Alaska governmental services and the use of all the people of Alaska will mean a betrayal in the administration of the people's wealth. The second danger is that outside interests, determined to stifle any development in Alaska which might compete with their activities elsewhere, will attempt to acquire great areas of Alaska's public lands in order NOT to develop them until such time as, in their omnipotence and the pursuance of their own interests, they see fit. If large areas of Alaska's patrimony are turned over to such corporations the people of Alaska may be even more the losers than if the lands had been exploited.