

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2995 SCOMM-133: HOUSE SPECIAL COMMITTEE ON OIL & GAS 2003-04



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William J. Carter

Signature of Camera Operator

8/11/2005

Date

SCOMM 133: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 2003-04

MEMBERS:

REPRESENTATIVE VIC KOHRING, CHAIR
REPRESENTATIVE MIKE CHENAULT, VICE-CHAIR
REPRESENTATIVE HUGH FATE
REPRESENTATIVE LESIL MCGUIRE
REPRESENTATIVE NORMAN ROKEBERG
REPRESENTATIVE HARRY CRAWFORD
REPRESENTATIVE BETH KERTTULA

Established by HR 5, 2003.

Contents: 22 files. 35 tapes are also available of meetings held
1/30/03 - 4/1/04.

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SCOMM 133: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 2003-04

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ALASKA STATE LEGISLATURE

Interim:

600 East Railroad Avenue
Wasilla, Alaska 99654
(907) 373-1842
Fax (907) 373-4729



Session:

State Capitol Building
Juneau, Alaska 99801-1182
(907) 465-2186
Fax (907) 465-3818

REPRESENTATIVE VIC KOHRING DISTRICT 14

SPONSOR STATEMENT

SSHB 28

House Bill 28 will take a royalty adjustment system that has not been used and put in its place an understandable and usable adjustment method for fields that might otherwise prove to be uneconomic. It will provide a usable system for reduction of royalties belonging to Alaska so that the State can encourage production of oil and gas fields that might be marginal or not economically feasible were it not for such reductions.

As has been pointed out so many times, in this global market, Alaska needs to remain competitive in order to encourage development of its oil and gas resources. Development of these resources will provide a broader economic base, more employment for Alaskans and a safer, more stable environment for all concerned.

The 19th Alaska Legislature amended AS 38.05.180(j) and put in place, the current system. Unfortunately, the calculation contained in the current law is arguably unintelligible to many. The implementation of the current statute is too limiting in the flexibility allowed to the Commissioner to craft a deal acceptable to individuals and in the best interest of Alaska. Additionally, the process review put forth in the 1995 legislation is too burdensome and costly for the private sector and thus discourages people from making application. The end result is that oil is left in the ground that could be extracted and adding to the State's economic base.

Although the idea behind HB 28 is not new, it sets forth an understandable modification formula; protecting the public's interest in such proceedings and maintaining the public's ability to comment on the preliminary findings and determination made by the Commissioner. This legislation further maintains the involvement of the Legislature through the Legislative Budget and Audit Committee, a committee that holds meetings year round. HB 28 is consistent with the Governor's goal of increasing oil and gas production and increasing Alaska's resource revenue.

LEGAL SERVICES

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

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

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

MEMORANDUM

February 14, 2003

SUBJECT: Draft SSHB 28 -- sectional analysis
(Work Order No. 23-LS0177\D)

TO: Representative Vic Kohring

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Per Ben Grenn's request, set out below is an overview by bill section of draft SSHB 28, a measure relating to adjustments to royalty reserved to the state to encourage otherwise uneconomic production of oil and gas. The bill, as introduced, would replace the text of current AS 38.05.180(j). That subsection was last amended for other than stylistic reasons by ch. 85, SLA 1995 (SCS CSHB 207 (Finance) am S of the 1995 regular session). Proposed in this bill is replacement of much, but not all, of the current text of subsection (j) with the text of a House-passed predecessor version of the 1995 Act, CSHB 207 (Finance) am. The bill also makes conforming changes in three related subsections of AS 38.05.180.

Bill section 1. The provisions set out a series of changes to subsection (j). The principal substantive changes are as follows:

Paragraph (1) -- circumstances allowing for royalty modification:

-- at page 1, lines 6 and 7: explicit authority to change royalty by "an increase or decrease" is here deleted, retaining only the more generic reference to "modification";

-- at page 1, line 13 - page 2, line 3: the condition on modification that tied to authorization or reauthorization by law in a preceding 10 year period is removed as is the July 1, 2015, cutoff date authorizing royalty modifications;

-- at page 2, lines 12 - 14, 17 - 19, and 20 - 21: with respect to an oil or gas field or pool or portion of an oil or gas field or pool, additional conditions, all relating to a determination on the part of the commissioner of natural resources of economic "feasibility", are added for circumstances involving requests for royalty reductions involving new production, or for those sought "to prolong the economic life" of a field or pool or portion of either when decreasing oil or gas prices influence future production, or for those sought to reestablish production of shut-in oil or gas production;

Paragraph (2) -- showing required; applicable standard:

-- at page 2, lines 22 - 25: no substantive change is made in this paragraph; the insertion and deletion restores the choice of term first set out in the 1995 House-passed version;

Paragraph (3) -- conditions to be attached to requested royalty modification:

-- at page 2, line 26 - page 4, line 4: explicit authority to change royalty by "an increase or decrease or other modification" is added; specific detailed requirements relating to descriptions accompanying findings that support a royalty modification and detailed terms and conditions applicable to a modification, distinguishing in their terms as between modification of royalty to support new production versus modification relating to prolonging the life of a field or pool or modification to reestablish production of shut-in oil or gas, are replaced by a more generic, universally applicable, single standard ("*sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors . . .*"); the standard described is not new but its invariable application to *all* royalty modification-related change requests apparently would be;

Paragraph (4) -- limits on royalty modification:

-- at page 4, lines 5 - 14: modifies the application of the terms of the existing condition of paragraph (4) to have it apply only in the event of a royalty "reduction"; limits on the amount of the royalty that may be determined for new production versus modification relating to prolonging the life of a field or pool, or modification to reestablish production of shut-in oil or gas set out in current law are retained;

Paragraph (5) -- assignability of royalty modification:

-- at page 4, lines 15 - 21: eliminates the requirement of existing paragraph (5) that a royalty modification must be accompanied by a provision allowing the royalty modification to be assigned only with consent of the commissioner of natural resources;

Existing paragraph (6) -- procedures applicable to supporting data:

-- at page 4, line 22 - page 5, line 14: revises the text on public disclosure of information submitted to support an applicant's request for a reduction of royalty;

Existing paragraph (7) -- hiring and use of consultants:

-- at page 5, lines 15 - 23: revises the set of circumstances under which the commissioner may require evaluation by an independent contractor to limit it to instances of requested royalty reductions,

Existing paragraph (8) -- preliminary findings and determination; public notice and comment; procedures applicable to preliminary approval of governor and legislative review:

-- at page 5, beginning at line 24: amends the set of circumstances under which the commissioner must make and publish preliminary findings to limit it to instances of requested royalty reductions, and substitutes a common, more simplified public notice and comment process for all applications;

Existing paragraph (9) -- disclosure of the effects of royalty reduction:

-- at page 7, lines 1 - 4: eliminates the requirement of existing paragraph (9) obligating the commissioner of natural resources to include in the findings "the reasonably foreseeable effects of the proposed royalty modification on the state's revenue";

Existing paragraph (10) -- opportunity for and procedures applicable to Legislative Budget and Audit Committee review of preliminary findings and determination:

-- at page 7, lines 5 - 17: reinserts a deadline for the commissioner's appearance before the Legislative Budget and Audit Committee and eliminates explicit authority for the commissioner to appear before the committee in an executive session insofar as discussion may involve disclosure to the committee of confidential financial and technical data that support the commissioner's preliminary findings and determination;

Existing paragraph (11) -- transmittal of preliminary determination to legislature:

-- at page 7, lines 18 - 24: although renumbered, no change is made in this paragraph;

Existing paragraph (12) -- final action:

-- at page 7, beginning at line 25: eliminates the requirement that the governor approve the final findings and determination that are prepared by the commissioner; makes other word changes consistent with amendments set out earlier in the bill;

Existing paragraph (13) -- certain related provisions made inapplicable to limit the commissioner's authority to modify royalty under subsection (j):

-- at page 8, lines 19 and 20: no change is made in this paragraph.¹

¹ The provisions referenced in the text of this paragraph provide as follows:

Sec. 38.05.134. Conversion to lease. If the licensee requests and the commissioner determines that the work commitment obligation set out in an oil

and gas exploration license issued under AS 38.05.132 has been met, the commissioner shall convert to one or more oil and gas leases all or part, as the licensee may indicate, of the area described in the exploration license that remains after the relinquishments, removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this section

(3) must be conditioned upon a royalty in amount or value of not less than 12.5 percent of production, except that the lessee who, proceeding under AS 38.05.131 - 38.05.134, under a lease issued in the Cook Inlet sedimentary basin who is the first to file with the commissioner a nonconfidential sworn statement claiming to be the first to have drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and who is certified by the commissioner within one year of completion of that discovery well to have drilled a well in that pool that is capable of producing in paying quantities shall pay a royalty of five percent on all production of oil or gas from that pool attributable to that lease for a period of 10 years following the date of discovery of that pool, and thereafter the royalty payable on all production of oil or gas from the pool attributable to that lease shall be determined and payable as specified in the lease; the payment of the five percent royalty under this paragraph is authorized only to a holder of a lease who meets the requirements of AS 38.05.180(f)(4);

[AS 38.05.180. *Oil and gas leasing.*] (f) Except as provided by AS 38.05.131 - 38.05.134 and 38.05.177, the commissioner may issue oil and gas leases on state land to the highest responsible qualified bidder as follows:

(1) the commissioner shall issue an oil and gas lease to the successful bidder determined by competitive bidding under regulations adopted by the commissioner; bidding may be by sealed bid or according to any other bidding procedure the commissioner determines is in the best interests of the state;

(2) whenever, under any of the leasing methods listed in this subsection, a royalty share is reserved to the state, it shall be delivered in pipeline quality and free of all lease or unit expenses, including but not limited to separation, cleaning, dehydration, gathering, salt water disposal, and preparation for transportation off the lease or unit area;

(3) following a pre-sale analysis, the commissioner may choose at least one of the following leasing methods:
of not less than 12.5 percent in amount or value of the production removed or sold from the lease;

(A) a cash bonus bid with a fixed royalty share reserved to the state;

(B) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease and a fixed share of the net profit derived from the lease of not less than 30 percent reserved to the state;

(C) a fixed cash bonus with a royalty share reserved to the state as the bid variable but no less than 12.5 percent in amount or value of the production removed or sold from the lease;

(D) a fixed cash bonus with the share of the net profit derived from the lease reserved to the state as the bid variable;

(E) a fixed cash bonus with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease with the share of the net profit derived from the lease reserved to the state as the bid variable;

(F) a cash bonus bid with a fixed royalty share reserved to the state based on a sliding scale according to the volume of production or other factor but in no event less than 12.5 percent in amount or value of the production removed or sold from the lease;

(G) a fixed cash bonus with a royalty share reserved to the state based on a sliding scale according to the volume of production or other factor as the bid variable but not less than 12.5 percent in amount or value of the production removed or sold from the lease;

(4) notwithstanding a requirement in the leasing method chosen of a minimum fixed royalty share, on and after March 3, 1997, the lessee under a lease issued in the Cook Inlet sedimentary basin who is the first to file with the commissioner a nonconfidential sworn statement claiming to be the first to have drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and who is certified by the commissioner within one year of completion of that discovery well to have drilled a well in that pool that is capable of producing in paying quantities shall pay a royalty of five percent on all production of oil or gas from that pool attributable to that lease for a period of 10 years following the date of discovery of that pool, and thereafter the royalty payable on all production of oil or gas from the pool attributable to that lease shall be determined and payable as specified in the lease; for purposes of this paragraph, the reduced royalty authorized by this paragraph is subject to the following:

(A) only one reduction of royalty authorized by this paragraph may be allowed on each lease that qualifies for reduction of royalty under this paragraph;

(B) if, under this paragraph, application is made for a royalty reduction for a lease that was entered into before March 3, 1997, the commissioner may approve the application only if, on that date, the lease was a nonproducing lease that was not committed to a unit approved by the commissioner under (m) of this section, that is not part of a unit

Bill sections 2 - 4. These provisions make conforming amendments to subsections (p), (s), and (t) of AS 38.05.180, substituting "reduce royalty" for "decrease royalty" in places indicated.

Bill section 5. Under the referenced paragraph², there is in the State Procurement Code an exemption for contracts with experts retained by the commissioner of natural

under (p) or (q) of this section, and that has not been made part of a unit under AS 31.05;

(C) if application for a royalty reduction is made under this paragraph for a lease on which a discovery royalty was claimed or may be claimed under the discovery royalty provisions of former AS 38.05.180(a) in effect before May 6, 1969, the commissioner shall disallow the application under this paragraph unless the applicant waives the right to claim the right to a reduced royalty under the discovery royalty provisions of former AS 38.05.180(a) in effect before May 6, 1969; and

(D) the commissioner shall adopt regulations setting out the standards, criteria, and definitions of terms that apply to implement the filing of applications for, and the review and certification of, discovery oil and gas royalty certifications under this paragraph;

(5) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil or gas field identified in this section that has been granted approval of a written plan submitted to the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i) shall, subject to (dd) of this section, pay a royalty of five percent on the first 25,000,000 barrels of oil and the first 35,000,000,000 cubic feet of gas produced for sale from that field that occurs in the 10 years following the date on which the production for sale commences; the fields eligible for royalty reduction under this paragraph, all of which are located within the Cook Inlet sedimentary basin, were discovered before January 1, 1988, and have been undeveloped or shut in from at least January 1, 1988, through December 31, 1997, are

- (A) Falls Creek;
- (B) Nicolai Creek;
- (C) North Fork;
- (D) Point Starichkof;
- (E) Redoubt Shoal; and
- (F) West Foreland.

² The text of the material to be repealed, paragraph (33) of AS 36.30.850(b), reads as follows:

resources to help evaluate the request for a royalty modification. One of the changes made in the bill shifts the contracting obligation from the department to the applicant. Repeal of the paragraph would eliminate the Procurement Code exemption for the retention of experts.

Bill section 6 gives the measure an immediate effective date.

JBC:med
03-152.med

(b) This chapter (i.e. the State Procurement Code) applies to every expenditure of state money by the state, acting through an agency, under a contract, except that this chapter does not apply to

. . . .

(33) contracts between the Department of Natural Resources and contractors qualified to evaluate hydrocarbon development, production, transportation, and economics, to assist the commissioner of natural resources in evaluating applications for oil and gas royalty increases or decreases or other oil and gas royalty adjustments, and evaluating the related financial and technical data, entered into under AS 38.05.180(j);

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: SS HB 28
() Publish Date: _____

Revision Date/Time (Note if correction): 2/19/2003 Dept. Affected: Natural Resources
Title Oil & Gas Royalty Modification BRU Oil and Gas Development
Component Oil and Gas Development
Sponsor Kohring, Rokeberg
Requester House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

CHANGE IN REVENUES ()	**See Analysis Below**
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

****HB 28 would provide a number of amendments to AS 38.05.180(j) which addresses oil and gas royalty modifications. The amendment adding the language "portion of field or pool" could result in a negative fiscal impact to the state.**

Under the current statutes, the Commissioner may modify royalties to allow for production from an oil or gas field or pool. At any given point of development or production, all oil and gas fields or pools contain a portion that is uneconomic in spite of the overall field or pool profitability. HB 28 expands AS 38.05.180(j) from "an oil or gas field or pool" to "a portion of a field or pool." Granting royalty relief for a portion of a pool creates an incentive for lessees to reallocate oil and gas to the portion of a pool benefiting from the reduced royalty rate. It also increases the workload and oversight responsibilities

Prepared by: Mark D. Myers Phone 269-8800
Division Oil and Gas Date/Time 2/19/2003
Approved by: Tom Irwin, Commissioner Date 2/19/2003
Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. SS HB 28

ANALYSIS CONTINUATION

for the Division, which would then be required to assure proper allocation to the various parts of a single pool. In addition to problems of hydrocarbon allocation, there would be problems associated with cost allocation when assessing the request for royalty relief. Moreover, HB 28 opens the door to every oil or gas reservoir in the state being eligible for a royalty reduction. While it is not possible to accurately predict what the fiscal impact of this language could be to the state's royalty revenues, it will be a negative impact.

SCOMM

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To	Ben	From	Lena
Co.	House add 6	Co.	CS HB 57
Dept.	packet.	Phone #	6890
Fax #	3818	Fax #	

WORK DRAFT

WORK DRAFT

23-LS0303V
Chenoweth
2/25/03

CS FOR HOUSE BILL NO. 57()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAUULT, Whitaker

A BILL
FOR AN ACT ENTITLED

1 "An Act amending the manner of determining the royalty received by the state on gas
2 production as it relates to the manufacture of certain value-added products."

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

4 * Section 1. AS 38.05.180(aa) is amended to read:

5 (aa) Within 90 days after the written request of a lessee of a lease issued under
6 this section or of a lessee of federal land from which the state is entitled under
7 applicable federal law to receive a share of the royalty on gas production, the
8 commissioner shall enter into an agreement with the lessee to use or accept the price
9 for the gas established in the contract between the lessee and a gas or electric utility,
10 or between the lessee and a manufacturer of agricultural chemicals, as
11 appropriate, as the value of the state's royalty share of gas production sold by the
12 lessee under the contract

13 (1) but only if

14 (A) for a contract between the lessee and a gas or electric

WORK DRAFT

WORK DRAFT

23-LS0303M

1 utility, the primary function of the utility with which the lessee has entered
2 into the contract is to provide, either directly or by selling at wholesale to
3 another utility, gas or electricity to the general public, including residential
4 consumers, within the utilities' service areas, and the utility with which the
5 lessee has entered into the contract is not an affiliated interest, as that term is
6 defined in AS 42.05.990, with the lessee or with a subsequent purchaser of
7 more than 10 percent of the utility's gas or electricity; or

8 (B) for a contract between the lessee and a manufacturer of
9 agricultural chemicals, the primary function of the manufacturer is to
10 engage in the production of a value-added product, and the manufacturer
11 with which the lessee has entered into the contract is not affiliated with the
12 lessee or with a subsequent purchaser of more than 10 percent of the
13 manufacturer's value-added product; for purposes of this subparagraph,
14 the parties to a contract or purchase are affiliated if, in the judgment of
15 the commissioner, one of the parties to the contract or purchase exercises
16 substantial influence over the policies and actions of the other as
17 evidenced by relationship based on common ownership or family interest
18 or by action taken in concert without regard to whether that influence is
19 based upon stockholdings, stockholders, officers, or directors; and

20 (2) unless the commissioner makes a written finding, based on clear
21 and convincing evidence, that

22 (A) the contract price is unreasonably low;

23 (B) the prospective reduction in royalty receipts would not be
24 balanced in a contract entered into for a circumstance described

25 (i) in (1)(A) of this subsection by increased benefits to
26 in-state gas and electric consumers; or

27 (ii) in (1)(B) of this subsection by employment
28 opportunities or other tangible benefits to the state;

29 (C) the lessee and the utility or manufacturer of agricultural
30 chemicals, as appropriate, are related in management, ownership, or other
31 aspect; and

WORK DRAFT

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23-LS0303U

1 (D) the contract price is not in the best interest of the state.

2 * Sec. 2. AS 38.05.180(bb)(2) is amended to read:

3 (2) "price for the gas established in the contract" includes tax
4 reimbursement amounts, deliverability and other charges, and other forms of
5 consideration paid by the gas or electric utility or by the manufacturer of
6 agricultural chemicals, as appropriate, under the contract;

7 * Sec. 3. AS 38.05.180(bb) is amended by adding a new paragraph to read:

8 (4) "manufacturer of agricultural chemicals" means a person that is a
9 business entity primarily engaging in the manufacturing of nitrogenous and phosphatic
10 based fertilizers, mixed fertilizers, pesticides, and similar chemicals for agricultural
11 purposes.

STATE OF ALASKA

REPRESENTATIVE
MIKE CHENAULT

Interim:
145 Main St. Loop, Second Floor
Kenai, Alaska 99611
(907) 283-7223
Fax: (907) 283-3075



HOUSE OF REPRESENTATIVES

Official Business

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SPONSOR STATEMENT **HOUSE BILL 57**

This bill proposes to add "manufacturer" as a further entity that may claim that benefit of the contract price as the basis for determining royalty due to the state of the gas production.

Fred A Miller
52380 Lisburne St
52380 Lisburne St
Kenai AK 99611-9361

34-870-N Statewide

Distribution	Affiliation	Reg Voter
		Y

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

I am president of the Nikiski Chamber and Community Council. The passage of HB57 is necessary for the economic well-being of my community. It is important for keeping the Agrium plant operational. We need to keep the jobs we have and create opportunities for more jobs. Do your part! Thank you.

Forrest A Pipkin
PO Box 1734
Kenai AK 99611

35-090-R Statewide

Distribution	Affiliation	Reg Voter
	Agrium	U

XXXXXXXXXX

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

I am an employee of Agrium Nitrogen Operations one of the state's premier value added industries; a cornerstone of the central Kenai Peninsula economy. The passage of HB57 is critical to keeping our plant operational in the years ahead.

Amy M Manuel
Po Box 107
Po Box 107
Kenai AK 99611-0107

33-700-R Statewide

Distribution	Affiliation	Reg Voter
		Y

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

I am an employee of Agrium Kenai Nitrogen Operations one of the state's premier value added industries; a cornerstone of the central Kenai Peninsula economy. The passage of HB57 is critical to keeping our plant operational in the years ahead.

Carol A Anderson
Po Box 7077
Po Box 7077
Nikiski AK 99635-7077

34-840-R Statewide

Distribution	Affiliation	Reg Voter
		Y

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

Our plant not only employs 300 people but was the Exporter of the Year in 2002. We add value to one of AK's natural resources as well as helping the U.S. balance of trade. Please encourage our continued operation. I'm content in Kenai burning wood eating grouse as in the 40's but most others aren't.

Judy E Phillips
53244 Josephine Way
53244 Josephine Way
Kenai AK 99611-9631

34-870-N Statewide

Distribution	Affiliation	Reg Voter
		Y

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

I am an employee of Agrium Kenai Nitrogen Operations one of the state's premier value added industries. Agrium is a cornerstone of the central Kenai Peninsula economy. Passage of HB57 is critical to keeping our plant operating and critical to the economic health of the Kenai Peninsula.

Robin G Bogard
Po Box 7362
Po Box 7362
Nikiski AK 99635-7362

34-840-R Statewide

Distribution	Affiliation	Reg Voter
		Y

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

In order to sustain the economy and promote jobs on the Kenai Peninsula I urge your support for HB57. This bill will encourage sensible resource development in our communities and help to assure jobs for our families. Thank you.

David E Coombes
211 Crest Dr
211 Crest Dr
Soldotna AK 99669-7425

33-750-R Statewide

Distribution	Affiliation	Reg Voter
		Y

Date POM Sent	Constituency	Bill Number	Response	Subject
01/29/2003	Non	HB 57	Supports	

HB57 helps industry on the Kenai Peninsula. Our economy depends on facilities like Agrium whose operation would be enhanced by this bill. This is good for our community. Please adopt HB57.

SCOMM

133:3

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Sponsor Statement HB 61

HB 61 creates a new income tax credit to encourage increased exploration and development of natural gas reserves south of the Brooks Range. To qualify for the credit, operators must successfully drill and develop hydrocarbon reserves that produce gas for sale and delivery. The credit can offset no more than 50% of an operator's annual income tax liability and would be effective for a period of ten years.

The tax credit would amount to 10% of qualified capital investment (and 100% of services) for each year. For example, an operator who spends \$20 million in a given year successfully developing natural gas reserves would receive an income tax credit of \$2 million -- applicable up to one-half of its income tax liability for that year. Credits in excess of 50% of the operator's income tax liability can be carried forward to future years. No credits will be given for dry holes or for development of crude oil reserves.

The Cook Inlet region continues to have great potential for additional natural gas production as do other areas outside of the North Slope. However, the combination of high development costs and relatively low natural gas prices, create a disincentive to drill for new gas reserves in this area compared to other places. By providing a credit for successful exploration efforts, more drilling will occur in Southern Alaska leading to much-needed new natural gas reserves. This will benefit all residents and businesses at little cost to the state.

In addition to the benefit of developing new gas reserves, increased Cook Inlet drilling will also aid the general economic status on the Kenai Peninsula and in Anchorage as well as other areas of the Alaska. Moreover, increased tax revenue from additional hydrocarbon production should largely mitigate any fiscal impact of the proposed credit.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 61
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Oil and Gas Tax Credit for Exploration. BRU Oil and Gas Development
 Component Oil and Gas Development
 Sponsor Chenault, Kohring, Wolf
 Requester House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 61 would authorize the Dept. of Revenue to grant credits against a taxpayer's state corporate income tax liability for certain oil or gas exploration and development investments made in the state.

Prepared by: Mark D. Myers Phone 269-8800
 Division Oil and Gas Date/Time 2/4/03 7:46 AM
 Approved by: Tom Irwin, Commissioner Date 2/4/2003
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 61
() Publish Date: _____

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

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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 ()	See Analysis
-------------------------------	---------------------

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill allows a tax credit equal to 10 percent of qualified capital investment **and** 100 percent of annual labor, seismic and associated costs related to oil and gas exploration and development work to be applied against corporate income tax (AS 43.20) for up to 50% of a corporation's total tax liability. The credit applies only to oil and gas exploration and development of reserves south of the Brooks Range. The credit can only be taken if the reserves produce less than 150 barrels of oil per day or produce gas for sale and delivery.

Further analysis follows on Page 2. Although the tax credit in this bill is intended to assist in the exploration and development of smaller fields outside the North Slope, corporations could use their tax credits under this legislation to reduce taxes paid to the state for North Slope production. This could reduce state revenues, although the question remains whether the gain from new oil and gas production would offset the loss from the tax credits.

Oil and gas corporate income tax collections in FY 2003 and FY 2004 are currently projected at \$160 and \$200 million per year, respectively.

Prepared by: Chuck Logsdon, Chief Petroleum Economist Phone 269-1019
Division Tax Division Date/Time 2/3/03 2:05 PM
Approved by: Larry Persily, Deputy Commissioner Date 2/3/2003
Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. HB 61

ANALYSIS CONTINUATION

It is not easy to evaluate the overall revenue effect of this proposed tax credit. On the plus side, if exploration activity discovers developable reserves, the state could receive royalty and production taxes that could more than offset the revenue loss due to the tax credit. The availability of the credit could enhance the attractiveness of exploring for new oil and gas resources, though the effect of the credit would differ depending whether the corporation had a tax liability that it could reduce by using the credits.

The credit is targeted to exploration and development south of the Brooks Range, while the bulk of current oil and gas corporate income tax against which this credit could be taken is from production of high-value oil on the North Slope. Furthermore, the credit is focused on the development of much lower-valued natural gas or extremely small oil reserves. As a result, an oil and gas corporation that has profitable operations on the North Slope could, with enough qualifying expenditures south of the Brooks Range, reduce its total oil and gas corporate income tax liability by up to 50% under this legislation. Additionally, an oil and gas corporation that does not currently have any activities in Cook Inlet could buy into an existing Cook Inlet operation if for no other reason than to qualify for the tax credits while also hoping to find new oil and gas reserves.

The key state revenue issue with regard to this tax credit is the extent to which the additional incentive is needed to encourage exploration and development. Existing statute, AS 38.180(f)(5), allows a specific royalty reduction to 5% on the first 35 million mcf of gas and 25 million barrels of oil produced from a number of Cook Inlet oil and gas fields including Falls Creek, Nicolai Creek, North Fork, Point Starichkof, Redoubt Shoal and West Foreland. The commissioner of Natural Resources also has the ability to reduce the royalty rates on any field in the state for which the producers can demonstrate that this is necessary to make the production economic. The Cook Inlet also currently benefits from a discovery royalty provision under AS 38.05.180(f)(4) and the ability to apply for an exploration incentive credit under AS 38.05.180 and AS 41.09.010.

NOTE: There is an issue in the bill with respect to the oil production limit to qualify for the credit. Section (g)(1) that limits the credit to "reserves that produce less than 150 barrels of oil a day..." is vague with respect to the time period for which this limit is calculated. If this is an annual average or some other measure, it should be stated as such -- or there will be alternative interpretations as to how to calculate the limit that would potentially have revenue consequences.

LEGAL SERVICES

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

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

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

MEMORANDUM

February 3, 2003

SUBJECT: House Bill 61, establishing an exploration and development tax incentive tax credit for persons engaged in the exploration for and development of less than 150 barrels of oil or gas for sale and delivery without reference to volume from a lease or property in the state -- sectional analysis (Work Order No. 23-LS0270\A)

TO: Representative Vic Kohring, Chair
House Special Oil and Gas Committee

FROM: Jack Chenoweth
Assistant Revisor of Statute 

The bill proposes to add, for the period before its repeal, provision for an oil and gas exploration and development incentive tax credit against the taxpayer's tax liability under the Alaska Net Income Tax Act (AS 43.20).

Bill section 1: This bill provision adds a new codified section, AS 43.20.043, that authorizes the credit and establishes its limitations:

-- subsection (a) authorizes the tax credit, applicable to any tax year beginning after 2002, against tax liability due under the Alaska Net Income Tax Act (AS 43.20); the amount of the allowable credit is based on 10 percent of the taxpayer's "qualified capital investment" (later defined) and 100 percent of the "qualified services" (also later defined) incurred by the taxpayer relating to a qualified capital investment;

-- subsection (b) sets parameters on what may qualify as a "qualified capital investment": those include cash expenditures or binding payment agreements made after December 31, 2002, for assets first placed in service during the tax year, as that phrase is defined in paragraph (2) of this subsection;

-- subsection (c) sets a maximum limit that may be claimed as a credit against the taxpayer's Net Income Tax liability: that limit is set at 50 percent of liability; expenditures that qualify for the credit in excess of the limit may be carried forward and applied in later tax years until exhausted or for not more than five years;

-- subsection (d) sets out the procedural requirements for claiming the credit and assigns the burden of proof for entitlement to the credit;

-- subsection (e) sets out conditions on what may be done with a credit to which the taxpayer becomes entitled, under threat of forfeiture of any portion of an unused credit carry-forward;

-- subsection (f) imposes a geographic limitation on activity that may qualify for the credit: the credit is not available if an otherwise satisfactory "qualified capital investment" or "qualified services" associated with that investment occur north of 68 degree North latitude (generally, Alaska's Arctic Slope);

-- subsection (g) defines applicable key terms: it is within the definition that the substantive limitation of "property used . . . in the exploration and development of oil and gas reserves" is capped at production of oil of less than 150 barrels per day (though investment for recovery of gas for sale and delivery is set without limitation as to amount).

Bill section 2 repeals the oil and gas exploration and development incentive tax credit.

Bill section 3: This transitional provision is included so that a taxpayer, entitled by AS 43.20.043 to a full five-year period in which to claim as a carry-forward any unused portion of the tax credit, may make the claim on or after January 1, 2013 (the date set in **bill section 5** for repeal of the authority to claim the credit), until the earlier of the date on which any unused portion of the carry-over is exhausted or until December 31, 2017 (the day before the fifth anniversary of the credit's repeal). In other words, a taxpayer basing a claim of credit on qualifying improvements or services made as late as December 31, 2012, may have the full five years to exhaust its use.

Bill section 4 is included so that claims of the credit may apply to qualified investment made on or after January 1, 2003, the start of the current tax year.

Bill section 5 sets the effective date of the repeal of the credit at January 1, 2013.

Bill section 6, an effective date provision for the bill, gives the substantive provisions of the measure an immediate effective date.

61

ANALYSIS

This bill allows a tax credit of 10 percent of qualified capital investment and 100 percent of annual labor, seismic and associated service costs related to a corporation's qualified oil and gas exploration south of the Brooks Range. The credit would be applied against corporate income taxes (AS 43.20), and would be limited to 50% of a corporation's tax liability in any one year. The credit would only be allowed for oil reserves that produce less than 150 barrels of oil per day or for any gas reserves that produce any volume - large or small - of gas for sale and delivery.

The state oil and gas corporate income tax in FY 2001 brought in \$338 million. FY 2002 collections are projected at \$150 million, due to lower oil prices. If corporations were able to accumulate enough exploration and development credits under the legislation, the state's corporate tax revenue could be cut in half in any given year.

It is difficult to evaluate the overall revenue effect of a tax credit. If exploration activity leads to the discovery of new reserves that go into production, then the state would receive new royalty and production taxes that may or may not offset the revenue loss due to the tax credit.

The bulk of the oil and gas industry's current state corporate tax liability is from production of high-value oil on the North Slope, while the credit is primarily focused on the development of much lower-value natural gas reserves. Although most of the taxable oil and gas corporate income is earned north of the Brooks Range, only qualifying exploration and development expenditures south of the Brooks Range could be taken against total oil and gas corporate tax liability. For example, an oil and gas corporation that already has operations in Cook Inlet and the North Slope could, with enough qualifying expenditures, reduce its total oil and gas corporate income tax liability by 50%. Additionally, an oil and gas corporation that does not currently have any activities in Cook Inlet could buy into an existing Cook Inlet operation and thus qualify for the credits.

The key issue to tax credits is the extent to which the additional incentive is needed to make a project economic. The current law, AS 38.180(f)(5), already allows a specific royalty reduction to 5% on the first 35 million mcf of gas and 25 million barrels of oil produced from a number of Cook Inlet fields: Falls Creek, Nicolai Creek, North Fork, Point Starichkof, Redoubt Shoal and West Foreland. The commissioner of Natural Resources also has the ability to reduce the royalty rates on any field in the state for which the producers can demonstrate that it is necessary to make the production economic. Cook Inlet fields also currently benefit from a discovery royalty provision in AS 38.05.180(f)(4) and the ability to apply for an exploration incentive credit in AS 38.05.180 and AS 41.09.010.

This bill allows the credit without regard to the specific economics of development.

Supplemental Edition
1999

Changes and Additions to the 1998 Edition

Investments in Energy Security

State Incentives to Maximize Oil and Gas Recovery



**Interstate Oil and Gas
Compact Commission**



*The
Energy Council*

ALABAMA (continued)

Citation: Act 96-277, House Bill No. 54; amends Ala. Code §§ 40-20-2(a) and 9-17-25 (1975)

Effective date: July 1, 1996

UPDATED Gilbertown Field Project, Geological Survey of Alabama

Investigators have concluded a three-year program called, "Area Balance and Strain in an Extensional Fault System: Strategies for Improved Oil Recovery in Fractured Chalk, Gilbertown Field, Southwestern Alabama." The program developed new balanced structural models that were applied to fractured reservoirs in extensional growth-fault systems and helped guide redevelopment of Gilbertown Field where oil production has declined to marginally economic levels. The program was 50% supported by federal funds and 50% supported by the Geological Survey of Alabama and the University of Alabama.

Effective Date: March 1996; through September 1998

Goals: To develop and apply advanced structural theory to fractured oil reservoirs and to suggest ways that oil recovery can be improved.

Impact: Interest in this program by operators in the Gulf Coast region has been strong, and results are being disseminated through a vigorous technology transfer program. Results have provided an unprecedented view of the geometry, kinematics and reservoir characteristics of fractured chalk in the eastern Gulf Coast basin and the first production wells have been drilled since 1985.

Core and Sample Library, Geological Survey and State Oil and Gas Board

The Geological Survey of Alabama maintains a core and well sample library that includes cuttings from 4,000 oil and gas wells, core from 1,700 oil and gas wells, cuttings from 2,800 water and stratigraphic test wells and core from 350 industrial mineral core holes. Rules and regulations of the State Oil and Gas Board require that exploration companies submit cores and drill cuttings following the completion of wells. Rule 400-1-3-.10 of the Code of Alabama (1975) states in part that "A complete set of cuttings, correctly labeled and identified as to depth, shall be filed with the Board within 30 days from the time of completion of any well unless otherwise approved by the Supervisor. If cores are taken, a complete set of cores, either whole or at least quarter slabs, correctly labeled and identified as to depth, shall be filed with the Board within six months from the time of completion of any well unless otherwise approved by the Supervisor." The facility has four viewing rooms for use by operators and researchers.

Goals: Encourage oil and gas production by making useful data available to producers. Counteract the loss of infrastructure in the independent industry.

ALASKA

NEW Cook Inlet Royalty Reduction

Firms shall pay a royalty of 5% on the first 25,000,000 barrels (25mmbbls) of oil and the first 35,000,000 Mcf of gas (35 Bcf) produced for sale from that field that occurs 10 years following production. Production must begin prior to January 1, 2004. Fields eligible are Falls Creek, Nicolas Creek, North Fork, Point Starichkof, Redoubt Shoal and West Foreland.

Effective Date: August 8, 1998 *End date:* Ten years after production begins. Production

ALASKA (continued)

must begin prior to January 1, 2004.

Goal: To initiate production from undeveloped or shut-in oil and gas fields in the Cook Inlet that were discovered prior to January 1, 1998, and have been undeveloped or shut-in from at least December 31, 1997.

Active Supporters: Industry and legislature

NEW Areawide Lease Sales

Provide an established time each year that acreage within a geographical region will be available for lease. This will increase the number of lease sales conducted by the state.

Effective date: January 1, 1997 *End date:* Ongoing

Goal: To allow companies to plan and develop their exploration strategies and budgets years in advance. This will result in more efficient exploration and earlier development of oil and gas resources.

Active Supporters: Industry, Gov. Knowles, legislature

Stranded Gas Development Act

This is not a strict incentive but rather an authorization for redesign of portions of Alaska's tax system. The Law authorizes the Commissioner of Revenue, via an application process, to negotiate contracts with project sponsors to provide fiscal terms to improve the economic feasibility of developing Alaska's stranded gas resources for a liquefied natural gas export project. It allows fiscal arrangements to be tailored to the specific economics of a project. Those arrangements must be consistent with the long-term fiscal interests of the state. The state's 12.5% royalty share is unchanged.

Goal: Development of Alaska's North Slope gas reserves for an LNG export project.

Supporters: The legislation was submitted by the governor of Alaska. It is supported by the Alaska Legislature and by private industry.

Oil and Gas Policy Council

The Oil and Gas Policy Council, created by Alaska Gov. Tony Knowles, consists of oil and gas industry representatives, state officials and representatives from labor, the environmental community and business. The council meets four times each year to develop recommendations to the governor about oil and gas policy. The council focuses on bringing new development into Alaska and sharing information.

Economic Limitation Factor

The severance tax rates for oil and gas are reduced by a field's Economic Limitation Factor (ELF). During the life of a field, production income diminishes while some operating costs remain fixed. At some point the total costs including operating costs, royalties and production taxes will exceed gross revenue and the field becomes unprofitable. This is called the economic limit. As production diminishes, the tax rate on the field decreases as well. The ELF provides for lower tax rates based on daily per well production and the productivity of the field.

Citation: Alaska Stat. 43.55.012

Effective date: 1989

Goals: Keep fields in production as they decline and encourage operators to drill development wells.

Impact: Severance tax rate is effectively zero in all but the very largest oil fields in Alaska.

ALASKA (continued)

Enhanced Oil Recovery and Idle Wells

Enhanced oil recovery projects receive a 50% severance tax reduction on incremental production. Wells inactive for 12 consecutive months receive total severance tax exemption for all restored production from any zone previously productive. Incremental production in an active field due to new research technology has total severance tax exemption. This tax reduction does not apply to natural gas.

Citation: H.B. 1314

Shallow Gas Leasing

Over-the-counter leases are available specifically for the development of coalbed methane and shallow (less than 3000 feet) gas sands. There is no bonus payment to the state and annual rental payments are kept at 50 cents per acre. A reduced royalty of 6.25%, rather than 12.5%, applies if the shallow gas is sold to a local utility. The royalty reduction applies only if the shallow gas is not in direct competition with higher royalty, deeper gas. The bond requirement is \$25,000, rather than \$1 million for other gas drilling.

Citation: Alaska Stat. 38.05.177

Effective date: Adopted July 1996, no sunset

Goal: To locate local sources of gas that can be delivered to consumers in remote areas at less cost than alternative energy sources.

Active Supporters: Industry, native corporations and rural utilities

Impact: Jim Haynes, Alaska Division of Oil and Gas, has reviewed the effectiveness of this incentive.

Exploration Incentive Credit

Operators drilling on state lands may earn Exploration Incentive Credit (EIC) based on footage drilled and the region in which drilling takes place. Credits may be as high as 50% of eligible costs if performed on state land, and as high as 25% of eligible costs if performed on federal land or private land. Work must be performed within two years of the lease sale, and geophysical data from these activities must be made public after the sale.

Citation: Alaska Stat. 38.05.180(1)

Effective date: November 9, 1979

Goal: To encourage exploration on state land.

Impact: A reported \$60 million in credits have been claimed. Twenty wells have been drilled, including one discovery.

The Commissioner of Natural Resources may grant an EIC for exploratory drilling, stratigraphic test well drilling, and for geophysical work on other lands within the state (this includes federal as well as private land owned by Native Alaskan regional corporations formed under the Alaska Native Claims Settlement Act). Wells must be drilled three or more miles from another well or within three miles of an oil or gas well when the commissioner finds that they are drilled in separate exploration targets. Credits may be as high as 50% for wells drilled on federal land, and 25% for wells on private land. The amount of drilling credits is based on feet drilled. Exploration data remains confidential for two years. The amount of credit may not exceed \$5 million per project, and the total of credits may not exceed \$30 million.

Citation: Alaska Stat. 41.09.010

Effective date: July 7, 1994, through July 7, 2004

Goals: To encourage exploration in remote parts of the state and to provide a means for the state to obtain exploration data from state, federal and certain private lands.

Active Supporters: Division of Oil and Gas, Department of Natural Resources and industry

Impact: Not yet known.

ALASKA (continued)

Exploration License Program

The Exploration License Program (ELP) offers large unexplored areas of Alaska for exploration. The license confers the exclusive right to explore, for up to ten years, areas between 10,000 and 500,000 acres in size. Applicants bid on the license, and the applicant willing to spend the most on exploration wins the license fee. No licensee may hold more than 2 million acres under license at any given time.

Citation: Alaska Stat. 38.05.131-134

Effective date: 1996

Goal: To encourage exploration in Alaska's interior and unexplored areas (not applicable to the Alaskan North Slope or Cook Inlet, which are known oil and gas provinces)

Impact: One application was received but later withdrawn. It is still too early to judge.

Cook Inlet Discovery Royalty

Permits the granting of discovery royalty for wells in the Cook Inlet Sedimentary Basin that have discovered oil or gas in a previously undiscovered oil or gas pool, provided the wells are capable of producing in payable quantities. The discovery royalty is set at 5% for 10 years following the date of discovery.

Citation: Alaska Stat. 38.05.134

Effective date: July 1996

End date: Ongoing

Goal: To encourage exploration for oil and gas in the Cook Inlet.

Active Supporters: Alaska legislature, small Cook Inlet exploration & production firms

Royalty Reduction

If a delineated field or pool has not previously produced, the royalty can be lowered to 5%. If an existing producing field or pool, the royalty may be reduced to 3% in order to prolong its economic life as costs per barrel increase. The royalty may also be reduced to 3% to establish production of shut-in oil or gas.

Citation: Alaska Stat. 38.05.180

Effective date: July 1995; through July 1, 2015

Goal: To encourage otherwise uneconomic production of oil and gas.

Active Supporters: Industry, Alaska Department of Natural Resources Division of Oil and Gas.

Note: A notice of proposed changes in regulations of the Alaska Oil and Gas Conservation Commission was published in October 1996. Proposed changes would comprehensively revise existing oil and gas regulations. Proposed regulations may be obtained by writing the AOGCC, 3001 Porcupine Drive, Anchorage, Alaska 99501-3192.

ARIZONA

Property Tax Reduction

The Property Tax Reform and Reduction Act, passed by the 42nd Legislature in July 1996, reduced the property tax assessment ratio for all real and personal property used by producing oil, gas and geothermal interests to 28% of full cash value from 100%. The tax rate will decrease an additional 1% per year until holding at 25% in 2000 and thereafter.

Citation: Amendment to § 15-971-A-3(c), Ariz. Rev. Stat. Ann.

Effective date: 1996 tax year; no sunset

SCOMM

133:4

House Bill 69 Senate
Resources Presentation
(February 24, 2003)

- Thank you Mr. Chairman.
- House Bill 69 helps streamline the permitting process for companies who wish to drill for shallow natural gas.
- The Alaska Oil & Gas Conservation Commission grants permits, but has found it difficult to grant them **quickly** because the current system was designed to regulate conventional deep, high-pressure wells, not shallow gas wells.
- Shallow gas drilling is **far** different than drilling with conventional oil wells, yet permits are held to the **same** standards—meaning an applicant must meet the conditions required for deep oil well drilling, many of which don't apply to shallow gas.
- I wish to briefly talk about the differences between the two types of wells. With shallow gas, it's typically in depths as little as several hundred feet. Well casings are small, pressure is very low and air is used instead of drilling fluids (very similar to a common water well) and typically takes two to three days to drill. In comparison, North Slope oil and gas wells are drilled miles into the ground with high pressure and drilling muds, often taking months to complete.
- Thus, comparing these two drilling methods is like comparing apples to oranges. The **problem** is simple shallow gas wells are held to the **same** permitting rules as the more complex oil wells—and that's what this bill attempts to correct.

- House Bill 69 gives the commission authority to grant a **variance** on rules that don't apply to shallow gas. In other words, exempt gas drillers from requirements that only deal with conventional oil wells, not shallow gas wells.
- At present, the commission **does not** have this ability in existing law, so their hands are tied. So we're giving them a tool to grant variances when needed to speed up the process of drilling for shallow gas.
- It's also important to understand what this bill will **not** do. It will not waive any of the Department of Natural Resource's public notification requirements prior to a well being drilled nor will it waive public notification for issuing a lease for drilling on private property. Rather, this bill focuses on granting waivers on **technical** matters.
- The result of this bill should be **much** less time for a company to be authorized to begin drilling—a process that currently can take months, involve dozens, sometimes hundreds of pages of documents, and cost a lot of money. It's expected this new law will streamline the process down to a day or two along with a few pages of documentation (similar to Colorado and other states).
- Another benefit of shallow gas development is how it may help **rural** Alaska. We've always struggled with funding the Power Cost Equilization program. There are 37 villages identified by the Alaska Dept. of Geologic & Geophysical Survey with nearby coal deposits that likely hold shallow gas. These could provide a cheap source of clean energy for generating electricity and heating homes and make villages less dependent on expensive diesel fuel subsidies.

1. Improve upon

- Our state has the largest proven coal deposits in North America and therefore **huge** potential for coal bed gas, a form of shallow gas. In the Cook Inlet Basin alone, there's estimated to be enough potential gas to supply the **entire** United States at its current rate of consumption for the next eight years.
- The legislation has a zero fiscal note, and has previously passed two House committees and the House Floor without a single no vote.
- This bill is very important for further development of the shallow gas industry in Alaska, and I would appreciate your consideration.
- Thank you.

LEGAL SERVICES

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

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

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

MEMORANDUM

January 29, 2003

SUBJECT: House Bill 69, relating to the regulation of shallow natural gas leasing and closely related energy projects; and providing for an effective date -- sectional analysis (Work Order No. 23-LS0428\A)

TO: Representative Vic Kohring

FROM: Jack Chenoweth
Assistant Revisor of Statutes



Under AS 31.05, the Alaska Oil and Gas Conservation Commission regulates a wide range of activities involving the production of natural gas. The chapter contemplates that the full commission, or a quorum of it, will take final action in all matters under its jurisdiction.

This measure concerns itself with respect to the commission's oversight of shallow natural gas (coal bed methane) from a single well or single field. **Bill section 1** provides that "where operations [involving shallow natural gas/coal bed methane exploration or development] might be unduly delayed," a member of the commission's professional staff who has been designated by the commission to do so could "approve a variance from the commission's regulations that apply to [the] well or field without conforming to requirements of [AS 31.05.060(b)]," the notice and hearing provisions of the section involving the full commission. In addition, the language of the section sets out the two standards or conditions under which the variance may be granted or withheld and describes the circumstances under which an exemption from a requirement of a commission-approved regulation may be given.

Bill section 2 gives the measure an immediate effective date.

JBC:med
03-078.med

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FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 69
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act relating to regulation of shallow BRU Alaska Oil & Gas Cons. Com
natural gas Component Alaska Oil & Gas Cons. Com
Sponsor Rep. Kohring
Requester (H) Spec Committee on Oil & Gas Component No. 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1007 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type--Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Zero fiscal impact.

Prepared by: Cammy Taylor
Division: Alaska Oil and Gas Conservation Commission
Approved by: Mike Miller by Stephen D. Sings
Agency: Department of Administration

Phone: _____
Date/Time: 2/6/03 10:56 AM
Date: 2/6/2003

Friday, November 24, 2002

Valley gas wells show promise

CEO: Evergreen might double Cook Inlet reserves

By SCOTT CHRISTIANSEN
Frontiersman reporter

HOUSTON — Last week Colorado-based gas driller Evergreen Resources Inc. made its biggest media push in Alaska since it started exploring for coal-bed methane in August with a visit from Evergreen CEO Mark Sexton and an invitation for reporters to visit a drilling site in Houston.

Sexton told reporters that Evergreen might double the amount of natural gas available for the South-central Alaska market. The company's target is methane gas inside coal seams that are generally shallower than 2,500 feet underground.

"We know that vast quantities of gas exist in these coal seams," Sexton said. "If we are successful, we'll be able to produce 50 percent of the gas [in the coal beds]."

The company holds 100 percent working interest in about 63,000 acres around Cook Inlet, acquired through deals with the state of Alaska, the Alaska Mental Health Lands Trust and two other energy companies — UNOCAL and Ocean Energy — that previously acquired gas rights in the area. Evergreen specializes in coal-bed methane, which industry publications call easy to find but difficult to produce.

Sexton — who once worked for Amoco — told reporters that it's not uncommon for large energy companies to fail at coal-bed methane production only to have a smaller specialist such as Evergreen follow in their tracks and succeed.

Evergreen's Alaska Projects Manager John Tanigawa has been in the state for two years and has been making presentations to local community groups and working on permitting with the state of Alaska. Tanigawa said community members often want to know if the gas wells will affect surface water — such as Loon Lake just north of last Wednesday's media



Evergreen Resources CEO Mark Sexton talked to reporters at a drilling site in Houston last week. The company is excited about coal-bed methane prospects that Sexton said might double the known reserves for the Southcentral Alaska natural gas market.

tour — or affect the water tables that homeowners' wells draw from.

"Shales are impermeable, meaning that you can't flow water through them," Tanigawa said. "There exists several shale zones in between the fresh water aquifers and where we are [prospecting for gas]. The proof is in the pudding. Loon Lake is still unharmed, and nobody's ground water has been effected."

The subsurface layers are made up of gravel, shale and coal, according to Tanigawa, who said the layers alternate but that there is no particular pattern to their sequence. Tanigawa said Evergreen has drilled a water monitoring well with each pilot well cluster.

So far, the company has drilled eight wells in two pilot clusters as was required by the state when Ever-

green acquired gas leases. The real answers as to whether or not Evergreen will produce gas at a profit will come next spring when the company completes the exploration wells.

To complete each well, workers will fracture the coal seams by pumping a nitrogen-based foam down the well under pressure. The fractures will extend several hundred feet from the well. Foam is then used to carry sand down the well and fill the fractures so they won't collapse.

Coal-bed methane gas sometimes exists in a deep water table similar to the way carbonation gas exists in beer. A pump placed deep in the well will be used to draw the gas/water mix up the well. Company officials say the wells can't blow out. Wells at Evergreen's successful Raton Basin field in southern Colorado run at pressures as

low as 10 psi, according to Sexton.

Evergreen's permits allow the company to drill to 3,000 feet. Sexton may not know for sure if the wells will be profitable yet, but he's excited about the Susitna Valley prospects and the information gleaned so far.

"There's 80 to 150 feet of coal in these wells, which is plenty to work with," Sexton said. "The potential exists for this to be really big, to double the known reserves."

If Evergreen is successful, the company plans to market the gas locally to Enstar or other utility companies.

Sexton was also one of a group of presenters at who spoke about new prospects for Alaska at the annual conference of the non-profit business organization Resource Development Council for Alaska in Anchorage last week.

2015/11/24/02
The Frontiersman

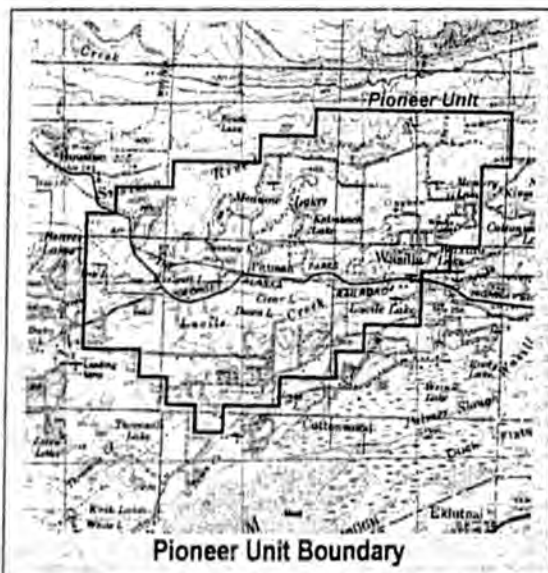
Fact Sheet

Evergreen Resources Alaska & the Pioneer Unit

Evergreen Resources Alaska Corp is a Mat-Su Valley based independent energy company focused on exploring for coal bed methane gas in Alaska. In April 2001, we purchased the 72,000 acre Pioneer Unit from Unocal and Ocean Energy. This unit is located between the towns of Wasilla, Houston and Big Lake as shown in the figure to the right.

Evergreen Resources Alaska is a wholly owned subsidiary of Evergreen Resources, Inc.. While the Alaskan subsidiary is less than one year old, the parent company was founded in 1981 and is headquartered in Denver, Colorado. We trade in the New York Stock Exchange under the symbol EVG. Our website address is www.EvergreenGas.com.

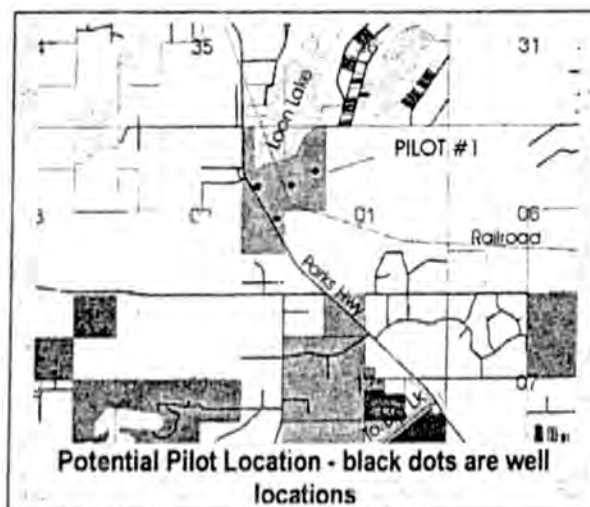
Our relationship with the community and with our landowner neighbors is extremely important to us. In our most active area, the Raton Basin of southern Colorado, we received several awards from the Colorado Oil and Gas Conservation Commission, specifically citing Community Relations. Last year, we also received the *Environmental Stewardship* award from Governor Tony Knowles who chairs the Interstate Oil and Gas Compact Commission. A former recipient is ARCO for their North Slope development. Evergreen is known for our ability to develop natural gas in close proximity to houses.



Our Plan

Evergreen plans to drill eight wells in the valley to explore for coal bed methane natural gas beginning in August 2002. These wells are separated in two groups called pilots with each pilot having four wells. One of the pilots is located 1.5 miles northwest of the intersection of the Parks Highway and the Big Lake Turnoff, as shown in the figure to the right. In this figure, the proposed well locations are shown as four black dots. This pilot area is located on a 148 acre parcel owned by a private party who has agreed to site wells on his property. Evergreen makes every reasonable effort to ensure that this exploration program imparts minimal impact to our neighbors.

Since we are permitting more pilots than are needed for this year's program, these wells may not be drilled in 2002.



Coal bed Methane

Coal bed methane is simply the extraction of methane gas from coal seams. The process of producing methane from coal consists of drilling, and completing wells – just like traditional oilfield operations – however, as you will see below, you may want to reconsider what natural gas development looks like. Evergreen is known for our low impact and environmentally friendly way we conduct our exploration. Methane is a gas and is the primary component of the natural gas that heats our homes, produces electricity and makes fertilizer and liquefied natural gas (LNG) on the Kenai Peninsula. Our targets are the Tyonek formation coals at depths from 1,000 to less than 3,000 ft.

Site Preparation, Drilling, Completing, and Production Testing

Evergreen is recognized as an industry leader in coal bed methane exploration and development. We have developed one of the most successful coal bed methane plays in the Raton Basin of Southern Colorado. We plan to use our own state of the art drilling, cementing, completion and production equipment in Alaska. This equipment is designed for the specific requirements of coal bed methane and work is accomplished quickly and in an environmentally friendly manner. So that you know what is involved, described on the next page are the four steps involved with our program.

EVERGREEN

Fact Sheet (continued)

1. **Site Preparation** consists of clearing a 175 by 200 foot pad, digging a pit and lining it with impermeable plastic for the temporary storage of drill cuttings, and setting 12-inch steel conductor pipe to approximately 100-200 feet. This pad is a fraction of the size currently used in the industry. A local water well contractor will set the conductor pipe using air (versus mud) as the drilling fluid. Roads will also be constructed. This work will take roughly 4 to 5 days per site.

2. **Drilling** is accomplished using Evergreen's own high tech drilling equipment shown in the adjacent figure. As this photo illustrates, Evergreen's uses a modified truck mounted water well drilling rig, and not the derrick type rigs used in typical oil and gas operations. Air is used as the drilling fluid instead of mud. Evergreen's drilling times are roughly 3 days instead of 3 weeks/months required by derrick type rigs. For these reasons, neighbors view our drilling operations more like water well drilling than they do traditional oilfield operations. The shallow fresh water aquifer is completely protected using two strings of steel pipe sealed with cement. This is a 24-hour a day operation.



Evergreen's Drilling equipment is a Modified Water Well Drilling Rig

3. **Well Completion** is a process that allows the gas and water to be produced from the coals to the well bore. In this process, the coal seams are fracture stimulated (frac), a process where nitrogen gas, gelled water and sand are injected into the formation to enhance the well's ability to produce. Evergreen will utilize its own equipment to fracture stimulate the wells. By volume, the majority of the fluids pumped into the coals consist of inert nitrogen gas. The well completion process takes approximately 3 days per well, of which the frac takes approximately 9 hours.



Evergreen Frac Equipment - uses mostly nitrogen gas

4. **Production Testing** is a period of at least 9 months where we pump water from the well to determine how much gas is produced from the coals. We use a progressive cavity pump to bring the water from the coal to the surface where it is temporarily stored in above ground tanks. Water trucks will visit the site daily to remove the water from the tanks for disposal at an already approved injection well. A straight-six cylinder natural gas or propane motor will be used to power the pump. Noise emitted from this process is minimal - similar to that of an idling car. Due to winter operations, the engine will be enclosed in a small shed further reducing any noise. Small amounts of methane natural gas, typical for beginning stages of coal bed methane development, will be measured and vented to the atmosphere in accordance with state regulations. Some of this methane may be used to keep the well site locations from freezing. If the pump fails, we will change the pump using equipment similar to the drill rig.



Water Pump and gas Engine



Water Truck

More Information

For more information, contact Scott Ogan, Public Relations Consultant at 907-841-6259 or Bill Vallee, Consulting Landman at 907-333-1277 or John Tanigawa, Alaska Projects Manager at 907-841-0000 or 907-357-8130.

EVERGREEN

Well Location

Pilot number 1 is located on a 148-acre parcel of land located in sections 1 and 2 of township 17 North and 3 West. The site is 8.5 miles west of the city of Waskita and 3.5 miles Southeast of the city of Houston. This is 1.5 miles northwest of the intersection of the Parks Highway and the Big Lake Turnoff.

Shown on both maps are black circles or red rectangles showing the proposed well locations. We have spent time with the landowner and believe these locations are within 50 to 100 ft of their final position. These locations however, may be changed.

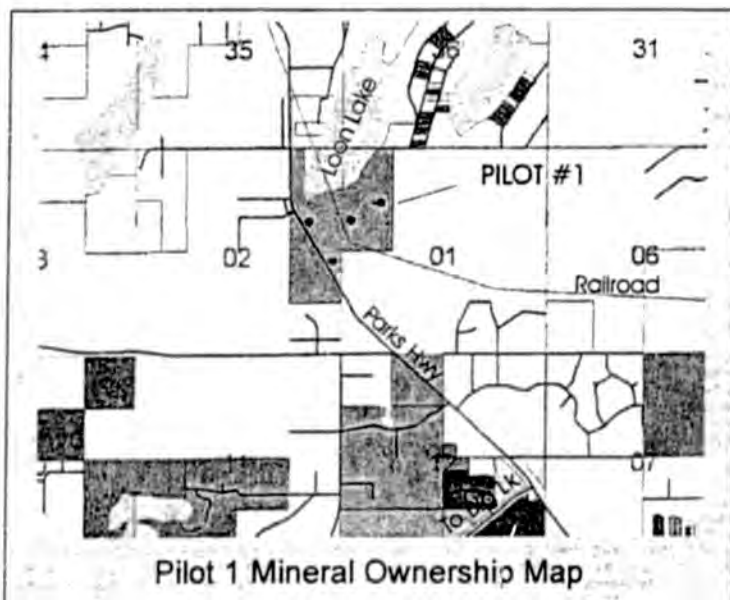
Of the four wells, two parallel the Parks Highway. Both wells will be placed roughly 225 feet from the centerline of the Parks Highway. This is roughly 75 feet in the trees. The remaining two wells, located in the west half of the northwest quarter of section 1, are positioned approximately 650 feet from Loon Lake. In all cases, trees will obscure these well pads from the public view. Further these spruce trees dampen noise that come from our operations. Wells will not be closer than 500 ft from the lake.

The figure to the right is a satellite image taken in April 2002 of the same area. In this image, well pads are shown as rectangles. Size of these rectangles is 200 feet by 175 feet. No wetlands, streams or lakes are disturbed by this activity. All activities are outside of the set back buffer to Loon Lake, which is located on the northern edge of the lease.

The light green lines are the existing yet unimproved roads on the property. Part of this road includes an orphaned railroad crossing. Evergreen plans to use all or a portion of these roads, however, actual access is at the discretion of the landowner. Access to this lease is from the Parks Highway, which runs through the lease.

Legal Description

W/2 of NW/4 of Section 1 township 17 north range 3 west (except for portions in Loon Lake)
E/2 of the NE/4 of Section 2 township 17 north range 3 west (except for portions in Loon Lake)
NE/4 of SE/4 of Section 2 township 17 north range 3 west, all are Seward Meridian.



Questions & Answers

Will my water well be affected by your exploration?

No. We set two strings of steel casing, sealed from top to bottom with cement, to ensure that your fresh water is protected. Further we drill with air to eliminate groundwater contamination.

What do you mean by the term "Exploration Wells"?

Exploration wells are designed to test the coal's ability to produce methane natural gas. During exploration, wells are drilled close together to minimize the time to testing period. Following the exploration phase, the wells will either be plugged and abandoned and the land recovered according to state regulations, or further exploration and development may occur.

Can Evergreen hook-up natural gas to my house?

No. Evergreen is not a regulated utility in the state of Alaska and we cannot sell natural gas directly to consumers. If the wells are economic, then we plan to sell natural gas to Enstar, the local gas utility.

Does the coal bed methane exploration make much noise?

No, not compared to conventional oil field operations. Since our drilling operations use water well drilling equipment, the noise that you hear is similar to a neighbor drilling a water well. The total time to drill each well is roughly 72 hours (3 days) and of that time, actual drilling occurs for 30-40 hours. When we complete wells, you will hear the diesel engines from our pumps for a total of 6 to 9 hours over a one or two day period. During production testing, you may hear the enclosed six-cylinder natural gas engine that powers our pump or a water truck that unloads water from the temporary water tank. Also during the testing period, you may hear us replacing a pump.

What does Evergreen do to protect the Environment?

Evergreen uses the latest equipment and technology to perform our work in an environmentally safe manner. To begin with, Evergreen uses newly developed air drilling technology. Using air, we eliminate the majority of the drilling wastes generated in the drilling process. We can also drill the wells much faster than conventional wells - on the order of several days instead of several weeks or months. Second, the amount of land we require in our activities is a fraction of the size required by conventional operations. With regard to our produced water, we inject it into a state approved water disposal well. Finally, we produce and use methane natural gas in our operations. Natural gas is arguably, the cleanest and most viable fuel source currently available.

Why is Evergreen the "Recognized Leader in Coal bed Methane Technology"?

Evergreen receives this industry recognition because of our success record developing coal bed methane. We receive awards for our ability to develop this type of resource in close proximity to developed areas. Further, we consistently lead the industry in several industry benchmarks including, lowest finding and development costs, highest reserve replacement through drilling, and highest full cycle economics.

Does Coal bed methane smell like some oil and gas operations?

No. Coal bed methane produces mostly methane. Methane is odorless, colorless and is lighter than air. This is very different from some conventional reservoirs that have hydrogen sulfide gas, or other aromatic hydrocarbons.

Can there be a blow out?

No. Evergreen employees specialized equipment to ensure that these wells remain in control at all times.

Can there be an oil spill?

No. No oil spill can occur since no oil is produced.

What is in it for me?

In the long run, locally produced natural gas will benefit the entire state, especially, the Mat-Su Valley. This gas source can replace the diminishing supply in the Cook Inlet. If our exploration program is successful, then development may mean more wells. Along with these wells come jobs, a diversified property tax base, and of course, more money to the State's Permanent Fund.

EVERGREEN

ALASKA STATE LEGISLATURE

Interim:

600 East Railroad Avenue
Wasilla, Alaska 99654
(907) 373-1842
Fax (907) 373-4729



Session:

State Capitol Building
Juneau, Alaska 99801-1182
(907) 465-2186
Fax (907) 465-3818

REPRESENTATIVE VIC KOHRING DISTRICT 14

SPONSOR STATEMENT

HB 69

House Bill 69 is legislation that clarifies the Alaska Oil and Gas Conservation Commission's (AOGCC) authority to regulate the state's shallow and unconventional natural gas resources, including allowing for variances from AOGCC's general regulatory requirements in certain cases. Alaska possesses tremendous shallow natural gas resources, such as shallow coal bed methane gas. Production involves extraction of methane gas from coal deposits lying at relatively shallow depths of about 3,000 feet. In Cook Inlet alone, there is an estimated 1.5 trillion tons of coal, with an estimated 200 trillion cubic feet of coal bed methane. Two hundred trillion cubic feet of gas is enough to supply U.S. natural gas requirements for more than eight years. The entire state has coal-bed methane resources estimated at 1,000 trillion cubic feet, not including natural gas from tight sands also in place across Alaska.

Statewide, these resources are abundant and widely distributed. They hold the promise of bringing a much cleaner, locally-produced, alternative energy source to areas of rural Alaska long dependent upon diesel or fuel oil barged in from distant sources for heat and power. Production of coal-bed methane and other forms of shallow natural gas development also has little effect on the environment. A typical well is drilled in two to three days, and advanced drilling technology uses simple air to drill a well, greatly reducing drilling wastes. Further, wells are lined and cemented from top to bottom which protects groundwater, and as no oil is present, there is no risk of an oil spill. Once in production, the "footprint" of a typical well is less than one acre.

Despite such promise and benefits, shallow natural gas and coal bed methane are still expensive to develop. Such projects are very sensitive to development and production costs which include the costs of safety and excessive regulations. Shallow natural gas is being regulated as though it is a deep hole, high-pressured reservoir such as on the North Slope. In fact, shallow gas wells are more like low-pressure water wells that produce gas. Therefore, the purpose of HB 69 is to ensure that the AOGCC has the authority and discretion necessary to regulate such projects in an appropriate manner, suited specifically to the nature and characteristics of shallow natural gas development projects, while also providing for human safety and environmental protection.

SCOMM

133:5

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 113
(H) Publish Date: 2/19/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Environmental Conservation
Title: Cplan Renewal BRU: Spill Prevention and Response
Sponsor: Governor Murkowski Component: Industry Preparedness &
Requester: Resources Component No.: 1922
Pipeline Operations

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time	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)

This bill changes the time between oil spill contingency plan approvals from the current three years to five years. Plans are required of operators of oil terminals, pipelines, exploration and production facilities, oil tank vessels, nontank vessels, oil barges, and railroad tank cars.

This bill furthers the goal of permit streamlining and complements initiatives currently being undertaken by DEC to shift emphasis away from the administrative review and approval process, which can often become bogged down in legal and adjudicatory challenges from third parties, to actual inspection and verification of response capability, which falls under the purview of DEC's enforcement authority.

Continued on Page 2

Prepared by: Larry Dietrick, Director Phone: 465-5250
Division: Spill Prevention and Response Date/Time: 2/11/03 4:49 PM
Approved by: Kurt Fredriksson Date: 2/11/2003
Agency: Department of Environmental Conservation

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. HB 113

ANALYSIS CONTINUATION

Continuation from Page 1

The application, review and approval process for oil spill prevention and contingency plans has become unnecessarily burdensome to applicants and DEC. The ability to prevent and respond to spills will be improved by increasing the capacity to conduct on-site regulated facility and vessel inspections, spill drills and exercises, technical assistance, and interaction with regulated operators to enhance response preparedness.

The bill supports the Governor's goal of fostering clarity and certainty through clear and consistently applied industry requirements and providing a stable and predictable permitting process.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 113
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Law
 Title "An Act extending the renewal period for oil BRU Civil Division
discharge and contingency plans; . . ." Component Environmental Law
 Sponsor Rules Committee by Request of the Governor
 Requester House Special Committee on Oil and Gas Component No. 2092

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill extends the renewal period for oil discharge prevention and contingency plans (c-plans) from three to five years. Passage of this legislation is not anticipated to have a fiscal impact on the Department of Law. The department currently spends considerable time defending and advising the Department of Environmental Conservation on c-plan adjudications and appeals. The number and complexity of these challenges has steadily increased over time. The overall increase in the number and size of these challenges has been driven by the agendas of third-party litigants and the expanding availability of funding for these litigants. Extending the c-plan renewal cycle may reduce the rate of growth of this workload, but passage of this legislation may not result in an overall reduction of workload for the department in the area of c-plan adjudications and litigation.

Prepared by: Joan M. Kasson Phone (907) 465-5370
 Division Attorney General's Office Date/Time 2/26/03 4:36 PM
 Approved by: Kathryn Daughhetee for Gregg D. Renkes, Attorney General Date 2/26/2003
 Agency Department of Law

House Oil and Gas Special Committee

House Bill 113

"An Act extending the renewal period for oil discharge prevention and contingency plans"

Testimony of Larry Dietrick

*Alaska Department of Environmental Conservation
Division of Spill Prevention and Response*

February 27, 2003

This bill supports the Governor's goal of improving regulatory efficiency by reducing the administrative burden while improving spill prevention, preparedness and protection of the environment.

House Bill 113 will streamline the states permitting process by lengthening the time for renewal of Oil Discharge Prevention and Contingency Plans from the current three years to five years.

A five year-year renewal period will streamline the contingency review process for industry while maintaining Alaska's strong spill prevention and response standards.

Focusing on the actual testing of oil spill prevention and response preparedness through in-the-field inspections, drills, and exercises is our most effective means of ensuring spill prevention and response readiness and protection of the environment.

Oil Discharge Prevention and Contingency Plans are public noticed, reviewed and approved by the Department of Environmental Conservation.

Oil Discharge Prevention and Contingency Plans are required for operators of oil terminals, refineries, crude oil transmission pipelines, oil exploration and production facilities, oil tank vessels, oil barges, nontank vessels of over 400 gross tons, and railroad tank cars.

There are multiple benefits from the change proposed by the bill.

The bill furthers the goal of permit streamlining with no loss of environmental protection, and complements initiatives currently being undertaken by the Department to shift the emphasis away from the administrative review and approval process to field verification of response capability.

The bill will significantly reduce the administrative burden on the regulated community and will shift the emphasis from paperwork to performance.

The reduction in paperwork will increase the ability of operators and the Department to focus on spill prevention and facility operation.

The change will allow operators more time to make practical enhancements to their spill prevention and response capabilities.

The change will improve environmental protection and preparedness through increased field presence and the ability to work directly with operators to ensure response readiness through on-site facility and vessel inspections, spill drills and exercises.

The change will make the state renewal cycle consistent with the five year renewal cycle for federal oil spill contingency plans required under the Oil Pollution Act of 1990, as well as those of other West Coast states.

7
7
FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB113
P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

February 18, 2003

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill extending the renewal period for oil discharge prevention and contingency plans under AS 46.04.030 and 46.04.055 from three years to five years.

AS 46.04.030 requires that all operators of oil terminals, pipelines, exploration or production facilities, tank vessels, and oil barges have an approved oil discharge prevention and contingency plan in order to operate. AS 46.04.055 requires that operators of nontank vessels over 400 gross tons and railroad tank cars transporting oil also have an approved oil discharge prevention and contingency plan. Current law requires that these contingency plans be renewed every three years.

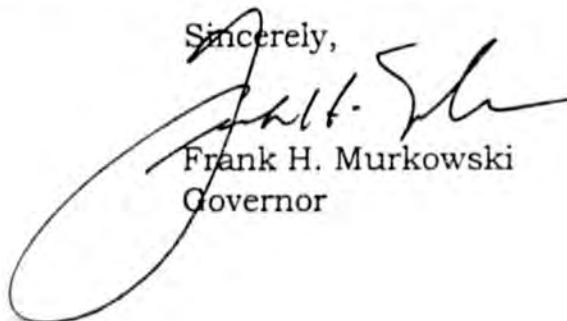
In contrast, federal oil spill response plans are reviewed and renewed every five years. However, there is no requirement that state contingency plans match the federal renewal cycle.

A five-year renewal period will streamline the review for both the state and industry, while maintaining Alaska's strong oil spill prevention and response standards. Focusing on the actual testing of oil spill prevention and response

readiness through in-the-field inspections, drills, and exercises is our most effective means of ensuring spill prevention and response readiness.

I urge your prompt and favorable action on this measure.

Sincerely,

A large, stylized handwritten signature in dark ink, likely belonging to Frank H. Murkowski. The signature is fluid and cursive, with a large loop at the bottom left.

Frank H. Murkowski
Governor

1 Amendment _____

2
3
4 OFFERED IN THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

5 BY _____

6 TO: HB 113

7
8
9 Page 1, following line 10:

10 Insert a new bill section to read:

11 ** Sec. 2 The uncodified law of the State of Alaska is amended by adding a new section
12 to read:

13 TRANSITION. Notwithstanding any contrary provision of AS 46.04, including the
14 review procedures in AS 46.04.030, and the regulations adopted under AS 46.04, the expiration
15 date of an oil discharge prevention and contingency plan approved by the Department of
16 Environmental Conservation before the effective date of this Act shall be extended for two years,
17 or for a shorter period if a shorter period is requested by the holder of the approved plan, if

18 (1) the plan is still in effect on the day before the effective date of this Act; and

19 (2) the Department of Environmental Conservation has not given a notice of
20 violation of AS 46.04.030 to the holder of the plan that has not been corrected to the satisfaction
21 of the Department of Environmental Conservation.

22
23 Renumber remaining sections accordingly.

24

SCOMM

133:6

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 198
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Royalty Reduction on Certain Oil BRU Resource Development
Component Oil and Gas Development
Sponsor Kohring, Rokeberg
Requester House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	(220.9)	(358.5)	(591.4)	(589.5)	(561.5)	(485.1)
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 198 amends AS 38.05.180(f)(5) to permit reduced royalty rates to as low as 5 percent for oil production from submerged lands in Cook Inlet. This royalty reduction would apply primarily to oil produced from offshore platforms and is tied to the daily rate of oil production. While HB 198 will result in a net loss in state revenues, it is expected to extend the field or platform life, thereby increasing future field or platform production and revenues in the out-years beyond what is likely to occur otherwise. Cumulative estimated net royalty revenue lost over the six-year forecast horizon FY 2004-09 is estimated to be (\$2,807) thousand or about (\$468) thousand per year (undiscounted). These estimates include cumulative undiscounted royalty revenue benefits of about \$800 thousand (\$570 thousand when discounted) from field-life extension that could arise as a result of royalty relief of the type offered in HB 198. These fiscal impacts do not consider the broader employment and regional economic effects from extended platform life. Also, field-life extension also provides an opportunity for additional exploration from existing platforms.

Prepared by: Mark D. Myers Phone 269-8802
Division Oil and Gas Date/Time 4/23/2003
Approved by: Tom Irwin, Commissioner Date 4/23/2003
Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. HB 198

ANALYSIS CONTINUATION

HB 198 recognizes two broad groups of platforms, distinguished primarily by economic attributes associated with the degree of water handling and water injection. Platforms with major water handling and/or injection include: Dolly, Grayling, King Salmon, Steelhead, and Monopod. When oil production on these platforms falls below 1,200 barrels of oil per day (BPD) for at least one calendar quarter as certified by AOGCC, then the royalty percentage associated with that production would fall from whatever rate applies under the lease to a rate of 5 percent "for as long as the volume of oil produced from the platform remains less than 1,200 barrels a day." If average production from the field or platform that had declined below 1,200 BPD rises above this threshold for a period of at least one calendar quarter, then the bill provides for a schedule of up-ward royalty adjustments to production beyond the one-quarter term.

Platforms that do not presently employ substantial water handling and/or injection include: Granite Point, Anna, Bruce, Baker, Dillon, XTO.A and XTO.C. HB 198 provides for 750 barrels of oil per day as the economic limit rate of production for this group of platforms that would trigger royalty reduction from whatever rate applies under the lease to 5 percent. Royalty percentage upward adjustments, similar to those described under the 1,200 BPD threshold apply when oil production recovers for a sustained period of at least one calendar quarter. Note, the 750 BPD economic-limit rate of production also, applies to the West McArthur River field.

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

Three of the twelve active platforms currently produce oil at daily rates below the 750 barrels of oil per day (BPD) threshold contained in HB 198. These platforms, and the dates that corresponding production fell below 750 BPD are:

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

The royalty revenue loss to the state would be approximately \$1.03 million FY 2002 and \$0.9 million in FY 2003 had HB 198 been in effect during these periods.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO.

HB 198

ANALYSIS CONTINUATION

Several platforms would be expected to trigger royalty relief under HB 198 during the FY2004 – FY2009 forecast horizon. If the rates of platform production continue to follow the historic patterns of decline, then the rate of production is expected to fall below 1,200 BPD for the King Salmon Platform in August 2004 and Steelhead in April 2005; platform production for XTO.C is expected to fall below 750 BPD in May 2007, as indicated in the following table:

Platform	Field	Operator	Gross Production (BPD) FY2002 / FY2003	Expected Date Production falls below	
				750 BPD	1,200 BPD
King Salmon	McArthur River	Unocal	7,468 / 3,891		Aug 2004
Steelhead	McArthur River	Unocal	1,914 / 1,584		April 2005
XTO.C	Middle Ground Shoal	XTO	1,047 / 1,099	May 2007	

The Dillon platform was shut-in in January 2003 and Baker is subject to imminent shut-in based on representations made by Unocal. These platforms are assumed to be shut-in for purposes of the forward fiscal impact analysis. The value of Cook Inlet crude oil in future years is assumed to be \$20.00 per barrel. The estimated cumulative gross royalty revenue loss is (\$3.6) million undiscounted over the six-year forecast period (equals (\$2.8) million when discounted at 8% per year), based on the difference between expected royalty revenue with and without the provisions contained in HB 198, not counting potential incremental production from extended field or platform life. When the cash-flow impact of royalty reduction under HB 198 is taken into account, delayed platform shut-in is expected for four platforms (including Bruce, described above) during the forecast horizon. The shut-in deferment would range between 2 and 14 months for a given platform. The resulting shut-in delays would generate between 500-to-700 thousand barrels of total incremental production (includes working-interest and royalty), of which approximately one-third would occur in the FY 2005-06 timeframe. The remainder of incremental production would occur during FY 2008-09 and beyond. The cumulative, upside royalty impact of the expected incremental production would range between \$400-to-\$800 thousand, depending on assumptions regarding threshold rates of production, discounting, and timing of ultimate platform shut-in.

Taking all short- and long-run factors into consideration, the overall royalty revenue impact of HB 198 would be approximately (\$2.8) million [(\$3.6) million in royalty foregone plus about \$0.8 million in royalty gain from extended platform life] or about (\$468) thousand per year (net) over the six-year period, FY 2004-2009. Note that these fiscal impacts do not consider the broader employment and regional economic effects from extended platform life.

SCOMM

133:7

STATE OF ALASKA

**REPRESENTATIVE
MIKE CHENAULT**

Official Business

Interim:
145 Main St. Loop, Second Floor
Kenai, Alaska 99611
(907) 283-7223
Fax: (907) 283-3075



HOUSE OF REPRESENTATIVES

Session:
Capitol Building, Room 432
Juneau, Alaska 99801-1182
(907) 465-3779
Toll Free: (800) 469-3779
Fax: (907) 465-2833

SPONSOR STATEMENT HB 204

In 2000 the Alaska State Legislature amended the Alaska Pipeline Act to make provisions for the operation of a North Slope Gas Pipeline. One of the provisions was to allow for two classes of transportation services, firm and interruptible.

When the 2000 amendments were enacted the North Slope Gas Pipeline was the only gas transportation pipeline in the state proposing to provide such service. There is now a pipeline in the Cook Inlet, the Kenai Kachemak Pipeline (KKPL) that proposes to provide a similar transportation service in its Cook Inlet service area.

In a recent ruling (KKPL) requested the Regulatory Commission of Alaska (RCA) to authorize it to provide these "firm" and "interruptible" services. The commission has yet to issue a final ruling, but has raised the question of whether or not a contract carriage for gas pipelines elsewhere in the state of Alaska was permissible, given the recent amendment that was apparently exclusive to transportation of gas on the North Slope of Alaska.

This legislation is intended to resolve the question raised by the RCA.

The Bill amends the provisions regarding "firm" and "interruptible" service to make them available to any natural gas pipeline carrier operating in the state. It also adds the definitions of a "natural gas pipeline" and "natural gas pipeline carrier".

1 We therefore conditionally grant KKPL a certificate of public convenience
2 and necessity. The certificate will be issued when Marathon and a financially
3 acceptable entity on behalf of GUT file unconditional guarantees for KKPL to construct,
4 operate, maintain and terminate the Kenai Kachemak Pipeline.²⁶

5
6 C. Based on the current record, can we determine whether the proposed pipeline tariff,
7 including the rates, rules and regulations satisfies AS 42.06?

8 Under AS 42.06.250 and 3 AAC 48.620, a pipeline carrier application for a
9 new certificate of public convenience and necessity must contain a proposed tariff.
10 KKPL provided an updated tariff in its testimony.²⁷ The proposed tariff includes
11 separate estimated rates for firm transportation service and for interruptible
12 transportation service. This type of tariff structure is termed contract carriage.

13
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17
18
19 ²⁶ In its application, KKPL asked for authority to construct additional receipt and
20 delivery points within its defined service area as may be requested from time to time by
21 shippers or other persons. AS 42.06.140(a)(8), however, provides that the
22 "Commission . . . shall require permits for the construction, enlargement in size or
23 operating capacity, extension, connection and interconnection, operation or
24 abandonment of any oil or gas pipeline facility or facilities, subject to necessary and
25 reasonable terms, conditions and limitations. . . ."

26 Therefore, in conditionally guaranteeing KKPL a certificate of public convenience
and necessity, we do not approve KKPL's request for blanket authority to connect
additional receipt and delivery points without further commission review.

²⁷ See T-2, Ex. EJJ-2.

1 Contract carriage has not been previously allowed under AS 42.06. The
2 Alaska legislature, however, recently amended AS 42.06.350²⁸ to allow for contract
3 carriage for the transportation of gas on the North Slope of Alaska. This amendment
4 raises the following legal issue: *Is contract carriage for gas pipelines elsewhere in the*
5 *State of Alaska permissible?* The facts of this case also raise a policy question: *Should*
6 *contract carriage be allowed when a pipeline is owned by affiliates of the*
7 *producers/shippers?* These two issues are of first impression and of sufficient
8 importance to the State of Alaska that on the limited record before us we are unwilling to
9 resolve them at this time.

10
11 ²⁸Sec. 350 of AS 42.06 provides:

12 (a) Under regulations adopted by the commission, every intrastate oil or gas
13 pipeline carrier shall file with the commission, within the time and in the form
14 designated by the commission, all rates, tariffs, charges, classifications,
15 rules, regulations, terms, and conditions pertaining to service provided under
16 the certificate, and shall maintain copies on file at its principal business office
17 and at places designated by the commission, available to, and subject to
18 inspection by, the general public on demand.

19 (b) The commission may reject the filing of all or part of a tariff that does not
20 comply with the form or filing regulations of the commission or that is not
21 consistent with this chapter or the regulations of the commission. A tariff or
22 provision so rejected is void.

23 (c) In its tariff filed with the commission under (a) of this section, a North
24 Slope natural gas pipeline carrier may charge separate rates for firm
25 transportation service and for interruptible transportation service. A North
26 Slope natural gas pipeline carrier

(1) may, in addition, impose a reservation fee or similar charge for
reservation of capacity in a North Slope natural gas pipeline as a
condition of providing firm transportation service; the reservation
fee or charge imposed by the carrier may not include any variable
costs or fixed costs that are not attributable to the provision of firm
transportation service;

(2) may not impose a reservation fee or similar charge for
reservation of capacity in a North Slope natural gas pipeline for
interruptible transportation service.

LEGAL SERVICES

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

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

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

MEMORANDUM

March 20, 2003

SUBJECT: House Bill 204, relating to the regulation of natural gas pipelines under the Pipeline Act (AS 42.06) -- sectional analysis.
(Work Order No 23-LS0695\D)

TO: Representative Mike Chenault

FROM: Jack Chenoweth
Assistant Revisor of Statutes 

Traditionally, natural gas pipelines were regulated as "common carriers." "Common carriers" are public utilities for hire in which the transporter is obligated by law to provide service to all interested parties without discrimination. For a common carrier, if the pipeline capacity is reached, the common carrier must accept all gas tendered for transport and offer service ratably to all shippers in proportion to the amounts of transportable product they offer.

Following recent precedents established for federal interstate regulation of natural gas pipeline facilities, Chapter 56, SLA 2000, modified state regulatory oversight of natural gas pipelines that are planned to carry gas from the North Slope to meet export commitments generally to ensure that restrictions under state common carrier regulations are inapplicable to that gas. That measure speaks to oversight by the Regulatory Commission of Alaska of in-state movement of natural gas. By RCA oversight as a "contract carrier," the pipeline would be regulated in order to sell to its customers only pipeline transportation services. Natural gas as a salable commodity would be separated or unbundled from its transportation. This formal separation of gas from its transmission is institutionalized in "contract carriage."

So that other in-state pipelines may have the benefit of the form of contract carrier regulation established in the 2000 Act for North Slope natural gas, House Bill 204 (1) removes from certain provisions enacted by that 2000 Act limiting references to "North Slope" and (2) adds two related definitions.

Bill section 1. Removal of references to "North Slope" from AS 42.06.350(c), relating to tariff filings with the Regulatory Commission of Alaska, would allow other natural gas pipeline carriers to charge separate rates, on a contract basis, to persons arranging to transport natural gas by pipeline on a "firm" basis and persons arranging to transport on an "interruptible" basis.

Representative Mike Chenault
March 20, 2003
Page 2

Bill sections 2 and 3. Definitions of the terms "firm transportation service" and "interruptible transportation service" used in the Pipeline Act are amended to remove reference to "North Slope" in the phrase "North Slope natural gas."¹

Bill section 4 supplies definitions for terms used in the bill sections earlier amended.

JBC:med
03-329.med

¹ Generally speaking, the term "firm transportation service" refers to an assigned pipeline capacity or comparable capacity that can be called upon to serve customer requirements on a reliable basis. It gives the holder of the contract the right to capacity and transportation in the pipeline facility for the entire life of the contract, and allows the holder to request shipment of natural gas up to the maximum reserved capacity.

By contrast, the term "interruptible gas service" indicates that natural gas transportation services may be interrupted or suspended consistent with the terms and conditions of the tariff. It gives, for example, the holder of the contract a right to ship a specified volume of natural gas within a specified period, but the timing of delivery may be determined by the pipeline company according to the availability of the pipeline facility's capacity.

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FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 204
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Regulation of Natural Gas Pipelines BRU: Resource Development
Sponsor: Chenault Component: Oil and Gas Development
Requester: House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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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—Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 204 would modify the Alaska Pipeline Act (AS 42.06.055-.640) to allow for contract carriage on all natural gas pipelines over which the State has jurisdiction. At present, only a pipeline bringing North Slope gas to outside markets can clearly offer contract carriage service. All other gas pipelines under the Pipeline Act must provide service as common carriers.

** It is difficult to predict the effects that this bill might have on revenues, because it is difficult to predict the effects of contract carriage pipelines on gas exploration and development.

Continued on next page.

Prepared by: Mark D. Myers Phone: 289-8800
Division: Oil and Gas Date/Time: 3/26/2003
Approved by: Tom Irwin, Commissioner Date: 3/26/2003
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. HB 264

ANALYSIS CONTINUATION

For pipelines that are owned by non-affiliated pipeline companies, contract carriage could reduce uncertainty of future throughput. This would reduce capital costs, which in turn could encourage pipeline construction and facilitate gas exploration and development. However, for pipelines that are owned by affiliated producers, contract carriage may not provide greater assurance of throughput; the pipeline company may know the volumes that its affiliated producer wants to ship. Meanwhile, contract carriage on a pipeline owned by an affiliated producer could potentially be used to impede pipeline access for non-affiliated producers. This could hinder natural gas exploration and development and ultimately result in a negative fiscal impact for the State.

SCOMM

133:8

HB 246

- Current statutes (AS 38.05.140(c)) limit oil and gas lessees to a total of:
 - 500,000 acres on tide and submerged land
 - 500,000 acres on all land other than tide and submerged land.
- Many operating oil and gas companies are already either at the acreage limited by statute or close to the limit. The bulk of this acreage is located on the North Slope and Beaufort Sea.
- DNR, during the last few years, has been encouraging the exploration of frontier areas such as the North Slope Foothills.
- By increasing the maximum onshore acreage to 750,000 but limiting the 250,000 acre increase to south of the Umiat Meridian, companies would be able to lease and explore acreage in some of Alaska's frontier basins while still maintaining their interests on the North Slope.
- There will be positive revenue impact to the state from additional bonus bids, rentals, and eventually, production royalties, although, it is impossible to accurately predict at this time what this increase in revenues might be.

FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB 244
P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

April 3, 2003

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would amend AS 38.05.140(c) to increase the upland acreage limit for oil and gas leases from 500,000 acres to 750,000 acres, except for land north of the Umiat Meridian baseline.

Currently, under AS 38.05.140(c) oil and gas lessees may hold not more than a total of 500,000 acres on tide and submerged land and no more than 500,000 acres on uplands. While oil and gas leases with certified wells and those included within units are excluded from these acreage limitations, many operating oil and gas companies are already either at the existing 500,000 acre limitation or close to it. The bulk of this acreage is located on the North Slope and Beaufort Sea.

In the past few years, the Department of Natural Resources has been encouraging exploration of frontier areas such as the North Slope foothills. The bill would increase the maximum upland acreage to 750,000, of which no more than 500,000 acres could be located north of the Umiat Meridian baseline. Thus, companies would be able to lease and explore acreage in Alaska's frontier basins while still maintaining their interests on the North Slope.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature of Frank H. Murkowski in dark ink.
Frank H. Murkowski
Governor

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 246
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Limit on Oil & Gas Lease Acreage BRU Resource Development
 Component Oil and Gas Development
 Sponsor House Rules
 Requester House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

CHANGE IN REVENUES (1004)	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

By increasing the maximum onshore acreage to 750,000 but limiting the 250,000 acreage increase to south of the Umiat Meridian Baseline, companies would be able to lease and explore acreage in some of Alaska's frontier basins while still maintaining their interests on the North Slope.

** There will be positive revenue impact to the state from additional bonus bids, rentals, and eventually, production royalties. It is impossible to accurately predict at this time what this increase in revenues might be.

Prepared by: Mark D. Myers Phone 269-8800
 Division: Oil and Gas Date/Time 4/22/2003
 Approved by: Tom Irwin, Commissioner Date 4/22/2003
 Agency: Natural Resources