

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3091 SCOMM 14.2: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

SENSITIVITY WITH DIFFERENT FOR FY 2007

Sales Price (\$/Bbl)	\$35.00	\$36.00	\$37.00	\$38.00	\$39.00	\$40.00	\$41.00	\$42.00	\$43.00	\$44.00	\$45.00	\$46.00	\$47.00
Transportation Cost to Market (\$/Bbl)	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93
Wellhead Price (\$/Bbl)	\$29.07	\$30.07	\$31.07	\$32.07	\$33.07	\$34.07	\$35.07	\$36.07	\$37.07	\$38.07	\$39.07	\$40.07	\$41.07
ANS Production (oil and NGL) (Million Bbl)	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843
Production Value (Million \$)	8939.0	9246.6	9554.1	9861.6	10169.1	10476.7	10784.2	11091.7	11399.3	11706.8	12014.3	12321.8	12629.4
Production Costs (\$/Bbl)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Production Costs (Million \$)	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9
State Revenue + Muni Oil Property (Millions \$)	2350.6	2415.6	2480.7	2545.7	2610.7	2675.7	2740.8	2805.8	2870.8	2935.8	3000.9	3065.9	3130.9
Severance Tax (Inc Haz Release)	620.8	641.8	662.8	683.9	704.9	726.0	747.0	768.0	789.1	810.1	831.2	852.2	873.2
wtd avg severance tax rate	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%
wtd avg Economic Limit Factor (ELF)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
per bbl severance tax	\$2.02	\$2.09	\$2.16	\$2.22	\$2.29	\$2.36	\$2.43	\$2.50	\$2.57	\$2.63	\$2.70	\$2.77	\$2.84
Gross Royalty	1092.4	1130.8	1169.2	1207.6	1246.0	1284.4	1322.8	1361.1	1399.5	1437.9	1476.3	1514.7	1553.1
wtd avg royalty rate	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%
wtd avg field costs	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
per bbl royalty	\$3.55	\$3.68	\$3.80	\$3.93	\$4.05	\$4.18	\$4.30	\$4.43	\$4.55	\$4.68	\$4.80	\$4.93	\$5.05
Property Tax State Share	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00
Property Tax Muni Share	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
property tax per bbl	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Total State Income Tax	\$399.20	\$404.80	\$410.40	\$416.00	\$421.60	\$427.20	\$432.80	\$438.40	\$444.00	\$449.60	\$455.20	\$460.80	\$466.40
Income Tax Production	357.3	362.9	368.5	374.1	379.7	385.3	390.9	396.5	402.1	407.7	413.3	418.9	424.5
State Income Tax TAPS	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
TAPS tax allowance (Millions \$)	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37
TAPS after tax margin	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83
TAPS deferred return	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64
Federal Revenue (Millions \$)	1788.5	1873.4	1958.2	2043.1	2128.0	2212.9	2297.7	2382.6	2467.5	2552.4	2637.2	2722.1	2807.0
Percentage Total	24.0%	24.1%	24.3%	24.4%	24.5%	24.6%	24.7%	24.8%	24.9%	25.0%	25.0%	25.1%	25.2%
Company Net Revenue (Millions \$)	3314.9	3472.5	3630.1	3787.7	3945.4	4103.0	4260.6	4418.2	4575.9	4733.5	4891.1	5048.7	5206.4
Percentage Total	44.5%	44.7%	45.0%	45.2%	45.4%	45.6%	45.8%	46.0%	46.2%	46.3%	46.5%	46.6%	46.7%
State Revenue + Muni Share Oil Property (Mil	2350.6	2415.6	2480.7	2545.7	2610.7	2675.7	2740.8	2805.8	2870.8	2935.8	3000.9	3065.9	3130.9
Percentage Total	31.5%	31.1%	30.7%	30.4%	30.1%	29.8%	29.5%	29.2%	29.0%	28.7%	28.5%	28.3%	28.1%
Total Revenue Shared State, Federal, Compa	7,453.9	7,761.5	8,069.0	8,376.5	8,684.0	8,991.6	9,299.1	9,606.6	9,914.2	10,221.7	10,529.2	10,836.7	11,144.3
(If Revenue Shared is negative then state rev are less than the total revenue losses by stat													

SENSITIVITY WITH DIFFERENT FOR FY 2007

Sales Price (\$/Bbl)	\$48.00	\$49.00	\$50.00	\$51.00	\$52.00	\$53.00	\$54.00	\$55.00	\$56.00	\$57.00	\$58.00	\$59.00	\$60.00
Transportation Cost to Market (\$/Bbl)	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93
Wellhead Price (\$/Bbl)	\$42.07	\$43.07	\$44.07	\$45.07	\$46.07	\$47.07	\$48.07	\$49.07	\$50.07	\$51.07	\$52.07	\$53.07	\$54.07
ANS Production (oil and NGL) (Million Bbl)	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843
Production Value (Million \$)	12936.9	13244.4	13551.9	13859.5	14167.0	14474.5	14782.1	15089.6	15397.1	15704.6	16012.2	16319.7	16627.2
Production Costs (\$/Bbl)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Production Costs (Million \$)	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9
State Revenue + Muni Oil Property (Millions \$)	3195.9	3261.0	3326.0	3391.0	3456.0	3521.1	3586.1	3651.1	3716.1	3781.2	3846.2	3911.2	3976.2
Severance Tax (Inc Haz Release)	894.3	915.3	936.3	957.4	978.4	999.5	1020.5	1041.5	1062.6	1083.6	1104.7	1125.7	1146.7
wtd avg severance tax rate	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%
wtd avg Economic Limit Factor (ELF)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
per bbl severance tax	\$2.91	\$2.98	\$3.04	\$3.11	\$3.18	\$3.25	\$3.32	\$3.39	\$3.46	\$3.52	\$3.59	\$3.66	\$3.73
Gross Royalty	1591.5	1629.9	1668.2	1706.6	1745.0	1783.4	1821.8	1860.2	1898.6	1937.0	1975.3	2013.7	2052.1
wtd avg royalty rate	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%
wtd avg field costs	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
per bbl royalty	\$5.18	\$5.30	\$5.42	\$5.55	\$5.67	\$5.80	\$5.92	\$6.05	\$6.17	\$6.30	\$6.42	\$6.55	\$6.67
Property Tax State Share	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00
Property Tax Muni Share	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
property tax per bbl	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Total State Income Tax	\$472.00	\$477.60	\$483.20	\$488.80	\$494.40	\$500.00	\$505.60	\$511.20	\$516.80	\$522.40	\$528.00	\$533.60	\$539.20
Income Tax Production	430.1	435.7	441.3	446.9	452.5	458.1	463.7	469.3	474.9	480.5	486.1	491.7	497.3
State Income Tax TAPS	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
TAPS tax allowance (Millions \$)	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37
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TAPS deferred return	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64
Federal Revenue (Millions \$)	2891.9	2976.7	3061.6	3146.5	3231.4	3316.2	3401.1	3486.0	3570.9	3655.7	3740.6	3825.5	3910.4
Percentage Total	25.3%	25.3%	25.4%	25.4%	25.5%	25.5%	25.6%	25.6%	25.7%	25.7%	25.7%	25.8%	25.8%
Company Net Revenue (Millions \$)	5364.0	5521.6	5679.3	5836.9	5994.5	6152.1	6309.8	6467.4	6625.0	6782.6	6940.3	7097.9	7255.5
Percentage Total	46.8%	47.0%	47.1%	47.2%	47.3%	47.4%	47.5%	47.5%	47.6%	47.7%	47.8%	47.8%	47.9%
State Revenue + Muni Share Oil Property (Mil	3195.9	3261.0	3326.0	3391.0	3456.0	3521.1	3586.1	3651.1	3716.1	3781.2	3846.2	3911.2	3976.2
Percentage Total	27.9%	27.7%	27.6%	27.4%	27.3%	27.1%	27.0%	26.8%	26.7%	26.6%	26.5%	26.4%	26.3%
Total Revenue Shared State, Federal, Compa (If Revenue Shared is negative then state rev are less than the total revenue losses by stat	11,451.8	11,759.3	12,066.9	12,374.4	12,681.9	12,989.4	13,297.0	13,604.5	13,912.0	14,219.6	14,527.1	14,834.6	15,142.1

ALASKA STATE LEGISLATURE



JAN 18 2006

REPRESENTATIVE LES GARA

MEMORANDUM

DATE: January 17, 2006
TO: House Ways and Means Committee Members
FROM: Rep. Les Gara
RE: Follow up on Committee Questions on HB63

There was a question asked in the January 13 HB63 hearing that I wanted to follow up on.

Rep. Gruenberg asked for information about how Alaska's tax rates and oil company profitability compares to other countries. I have attached the public portion of last year's Wood Mackenzie study. This study shows Alaska's taxes on companies are low compared to other areas of the world, and that company profits here are higher than elsewhere.

I've also attached a recent article from *The Economist* that gives examples of tax rates in other countries.

Thank you for your consideration.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Oil and gas

Till the pipes squeal

Overnight

M...

Mr Brown says that Britain will benefit from low taxes compared with other countries – oil and gas producers in Norway, for example, face a net marginal rate of 76%, while countries such as Libya and

boosted receipts from North Sea oil. Whether or not this improvement can be sustained is moot. Most analysts reckon that there is a hole of at least £10 billion in the public finances. Judging by the measures Mr Brown announced this week, he agrees with them. But it seems that he will not fill the hole with a similar-sized tax increase in his 2006 budget. Instead he has taken a swipe at North Sea oil producers, helping himself to a further £2 billion a year. The move has infuriated oil companies (see box).

► boosted receipts from North Sea oil.

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More unexpectedly, the chancellor intends to squeeze spending from spring 2008, when the next set of expenditure plans comes into effect. Current spending will grow in real terms by 1.9% a year in the three years to 2010-11, somewhat less than likely economic growth. The resulting squeeze will deliver spending in five years' time that is some £8 billion less, in today's money, than was previously expected, according to the Institute for Fiscal Studies, an independent think-tank.

Mr Brown is writing the third act of his lengthy stint as chancellor. In the first, from 1997 to 1999, he controlled spending rigorously and pushed up taxes. In the second, which started in 2000, he pumped up spending and ran big deficits, despite a substantial tax increase in his 2002 budget.

Now the prudent-turned-prodigal chancellor plans to clamp down on spending in the second half of this parliament, when he expects to be prime minister.

Mr Brown cannot claim a return to prudence, however. For one thing, he is taking a risk by postponing the harsh medicine, since it leaves him with little room for manoeuvre if things go wrong meanwhile. For another, his forecasts assume that economic slowdown has opened up plenty of spare capacity, which will allow strong recovery in 2007 and 2008.

This optimistic view is not shared by the OECD, which said in a survey of the British economy in October that "output remains close to capacity". And Mr Brown has again altered the dates of the cycle over which the golden rule is assessed, so that it extends for 12 years to 2008-09. This latest change has robbed it of what little credibility remained to it as a guide to his fiscal performance.

Despite these risks, the political attractions of the chancellor's strategy are clear. It will be much harder for the Conservatives to argue for lower taxes if Mr Brown is already tightening spending budgets and seeking better value for money in public services. As long as the economy avoids a recession, Mr Brown will still be a formidable foe at the next election. ■

Child care

A faltering start

A pet programme for poor families may not be doing much good

FOR parents of pre-school children in Abbey, a poor neighbourhood in Cambridge, Monday means Baby Rhyme Time. On Tuesday, it's swimming; on Wednesday, messy play; on Thursday, a pregnancy support group. And on Friday, parents can drop their toddlers off at a creche and get advice on benefits.

Take the train from Cambridge into London and you arrive at Kings Cross station. Nearby, there's a nursery with nearly 120 subsidised places, some reserved for children with special needs. Residents can use a parents' centre offering everything from yoga for mothers to baby massage. It all sounds jolly, and potentially useful – and the activities are all free.

But will local children go on to do better in school, or grow up more employable and less likely to turn to crime? These are the grand claims behind Sure Start, the government's flagship programme to provide child care, early-years education and parental support in the most deprived areas of England.

Deprivation does its damage pretty fast: by the time poor children are two or three years old, they are outperformed by rich ones in verbal ability and social functioning. So helping them early would seem crucial. Since Sure Start was launched in 1999, 524 local programmes have opened, £3.1 billion (\$5.4 billion) has been spent ►



Less Sure than they should be

WOOD MACKENZIE

GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

(EXCERPT)

Alaska's Profitability – Full Cycle, Post Government Take

Rate of Return (IRR – Nominal)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	15/49	14/52	14/53
Alaska's IRR	18.09%	23.57%	29.11%
Global Average IRR	15.20%	18.94%	23.07%

Full Cycle Government Take

Full Cycle Gov't Take (% Of Pre-Take Net Cash Flow, Undiscounted)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	33/54	24/54	19/55
Take on AK Production	71.70%	63.63%	58.40%
Global Ave. Take	70.86%	70.26%	73.34%

SCOMM

142:16

HOUSE COMMITTEE REPORT

Date Referred to Committee: January 12, 2005

FURTHER REFERRALS: Oil and Gas
Resources
Finance

Date of Committee Action: Feb. 11, 2005

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered:

HB 71

HOUSE BILL NO. 71

AK PENINSULA OIL & GAS LEASE SALE; TAXES

"An Act relating to a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state; relating to the deadline for certain exploration expenditures used as credits against production tax on oil and gas produced from a lease or property in the Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004; and providing for an effective date."

Recommends it be replaced with [] HCS or [☒] CS for H.B. 71 (W & M)
For Senate Bills with new title: [] Technical Title [] New Title: HCR _____ [] Same Title [☒] New Title

- ☐ attach amendments
☐ add new referral to _____ Committee
☐ Letter of Intent _____ Committee

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

Signing <u>with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
Roggy Wilson	Wilson				X
Carl E. Moses	MOSES	X			
Mrs. Gruenberg	Gruenberg	✓			
B. Wyhahn	Weyhrauch	✓			
Chair:	Weyhrauch				
Chair:					

24-GH1040\G
Chenoweth
1/17/05

CS FOR HOUSE BILL NO. 71(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a credit for certain exploration expenses against oil and gas
2 properties production taxes on oil and gas produced from a lease or property in the
3 state; relating to the deadline for certain exploration expenditures used as credits
4 against the production tax on oil and gas produced from a lease or property in the
5 Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004; and
6 providing for an effective date."

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

8 * Section 1. AS 43.55.025(a) is amended to read:

9 (a) Subject to the terms and conditions of this section, on oil and gas produced
10 from an oil and gas lease, or on gas produced from a gas only lease, on or after July 1,
11 2004, a credit against the production tax due under this chapter is allowed for
12 exploration expenditures that qualify under (b) of this section in an amount equal
13 to

(1) 20 percent of the total exploration expenditures that qualify under [(b) AND] (c) of this section or [,] 20 percent of the total exploration expenditures that qualify under [(b) AND] (d) of this section, or both, for a total **production tax** credit that does not exceed 40 percent of the total exploration expenditures that qualify under this paragraph; and [; OR]

(2) 40 percent of the total exploration expenditures that qualify under [(b) AND] (e) of this section [, FOR A TOTAL PRODUCTION TAX CREDIT THAT DOES NOT EXCEED 40 PERCENT OF THE TOTAL QUALIFIED EXPLORATION EXPENDITURES].

* Sec. 2. AS 43.55.025(b) is amended to read:

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed on or after July 1, 2003, and before July 1, 2007, or on or after July 1, 2003, and before July 1, 2010, for exploration expenditures incurred in the Alaska Peninsula competitive oil and gas areawide lease sale area, and

(1) may be for seismic or geophysical exploration costs not connected with a specific well;

(2) if for an exploration well,

(A) must be incurred by an explorer that holds an interest in the exploration well for which the production tax credit is claimed;

(B) may be for either an oil or gas discovery well or a dry hole; and

(C) must be for goods, services, or rentals of personal property reasonably required for the surface preparation, drilling, casing, cementing, and logging of an exploration well, and, in the case of a dry hole, for the expenses required for abandonment if the well is abandoned within 18 months after the date the well was spudded;

(3) may not be for testing, stimulation, or completion costs; administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; or other costs that are generally

1 recognized as indirect costs or financing costs; and

2 (4) may not be incurred for an exploration well or seismic exploration
3 that is included in a plan of exploration or a plan of development for any unit on
4 May 13, 2003.

5 * Sec. 3. AS 43.55.025(d) is amended to read:

6 (d) To be eligible for a [AN ADDITIONAL] 20 percent production tax credit,
7 an exploration expenditure must

8 (1) qualify under (b) of this section; and

9 (2) be for an exploration well that is located not less than 25 miles
10 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a
11 plan of development.

12 * Sec. 4. AS 43.55.025(e) is amended to read:

13 (e) To be eligible for the 40 percent production tax credit in (a)(2) [(a)] of this
14 section, the exploration expenditure must

15 (1) qualify under (b) of this section;

16 (2) be for seismic exploration; and

17 (3) have been conducted outside the boundaries of a production unit or
18 an exploration unit; however, the amount of the expenditure that is otherwise eligible
19 under this subsection is reduced proportionately by the portion of the seismic
20 exploration activity that crossed into a production unit or an exploration unit.

21 * Sec. 5. AS 43.55 is amended by adding a new section to read:

22 **Sec. 43.55.028. Legal description of Alaska Peninsula competitive oil and**
23 **gas areawide lease sale area.** For purposes of AS 43.55.025(b), the following
24 comprises the area of the Alaska Peninsula competitive oil and gas areawide lease
25 sale:

26 (1) Township 17 South, Ranges 44 - 58 West, Seward Meridian;

27 (2) Township 18 South, Ranges 44 - 58 West, Seward Meridian;

28 (3) Township 19 South, Ranges 44 - 58 West, Seward Meridian;

29 (4) Township 20 South, Ranges 45 - 61 West, Seward Meridian;

30 (5) Township 21 South, Ranges 46 - 54 West, Seward Meridian;

31 (6) Township 21 South, Ranges 57 - 61 West, Seward Meridian;

- 1 (7) Township 22 South, Ranges 47 - 53 West, Seward Meridian;
- 2 (8) Township 22 South, Ranges 58 - 61 West, Seward Meridian;
- 3 (9) Township 23 South, Ranges 47 - 52 West, Seward Meridian;
- 4 (10) Township 24 South, Ranges 47 - 52 West, Seward Meridian;
- 5 (11) Township 25 South, Ranges 47 - 52 West, Seward Meridian;
- 6 (12) Township 26 South, Ranges 47 - 53 West, Seward Meridian;
- 7 (13) Township 27 South, Ranges 47 - 53 West, Seward Meridian;
- 8 (14) Township 28 South, Ranges 48 - 53 West, Seward Meridian;
- 9 (15) Township 29 South, Ranges 48 - 54 West, Seward Meridian;
- 10 (16) Township 30 South, Ranges 48 - 55 West, Seward Meridian;
- 11 (17) Township 31 South, Ranges 49 - 56 West, Seward Meridian;
- 12 (18) Township 32 South, Ranges 51 - 57 West, Seward Meridian;
- 13 (19) Township 33 South, Ranges 52 - 58 West, Seward Meridian;
- 14 (20) Township 34 South, Ranges 53 - 59 West, Seward Meridian;
- 15 (21) Township 35 South, Ranges 51 - 59 West, Seward Meridian;
- 16 (22) Township 36 South, Ranges 51 - 52 West, Seward Meridian;
- 17 (23) Township 36 South, Ranges 55 - 60 West, Seward Meridian;
- 18 (24) Township 37 South, Ranges 57 - 62 West, Seward Meridian;
- 19 (25) Township 38 South, Ranges 58 - 63 West, Seward Meridian;
- 20 (26) Township 39 South, Ranges 59 - 64 West, Seward Meridian;
- 21 (27) Township 40 South, Ranges 59 - 65 West, Seward Meridian;
- 22 (28) Township 41 South, Ranges 63 - 68 West, Seward Meridian;
- 23 (29) Township 42 South, Ranges 63 - 69 West, Seward Meridian;
- 24 (30) Township 43 South, Ranges 65 - 70 West, Seward Meridian;
- 25 (31) Township 44 South, Ranges 65 - 71 West, Seward Meridian;
- 26 (32) Township 45 South, Ranges 67 - 72 West, Seward Meridian;
- 27 (33) Township 46 South, Ranges 68 - 73 West, Seward Meridian;
- 28 (34) Township 47 South, Ranges 69 - 78 West, Seward Meridian;
- 29 (35) Township 48 South, Ranges 70 - 81 West, Seward Meridian;
- 30 (36) Township 49 South, Ranges 70 - 83 West, Seward Meridian;
- 31 (37) Township 50 South, Ranges 71 - 84 West, Seward Meridian;

1 (38) Township 51 South, Ranges 71 - 85 West, Seward Meridian;

2 (39) Township 52 South, Ranges 74 - 75 West, Seward Meridian;

3 (40) Township 52 South, Ranges 79 - 86 West, Seward Meridian;

4 (41) Township 53 South, Ranges 85 - 87 West, Seward Meridian;

5 (42) Township 54 South, Ranges 85 - 87 West, Seward Meridian;

6 (43) any adjustment to (1) - (42) of this section as described in the

7 Department of Natural Resources' final written finding of best interest made under

8 AS 38.05.035.

9 * **Sec. 6.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 CONTINGENT EFFECT OF SECTIONS. (a) Sections 2 and 5 of this Act take effect
12 only if the commissioner of natural resources finds that the requirements of AS 38.05.035(e)
13 and (g) are met and the Alaska Peninsula competitive oil and gas areawide lease sale occurs.

14 (b) The commissioner of natural resources shall promptly notify the revisor of statutes
15 that the lease sale described in (a) of this section has occurred.

16 * **Sec. 7.** If secs. 2 and 5 of this Act take effect under sec. 6 of this Act, they take effect the
17 day the commissioner of natural resources notifies the revisor of statutes that the lease sale
18 described in sec. 6 of this Act has occurred.

19 * **Sec. 8.** Except as provided in sec. 7 of this Act, this Act takes effect immediately under
20 AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 71
(H) Publish Date: 1/12/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Extending Exploration Credit against RDU Resource Development
Production Tax Component Oil & Gas Development
Sponsor Rules
Requester Governor Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 (FY2005) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill extends the sunset date on the oil and gas exploration credit against production tax (SB185, CH59, SLA03) only for the proposed Alaska Peninsula sale area. The proposed Alaska Peninsula sale is tentatively scheduled for fall of 2005. It is anticipated that leases would not be issued until spring 2006. It is likely that exploration expenditures on these leases would occur after the current July 1, 2007 deadline, in which case they would not be credited against future production taxes unless the current statute is amended.

*** An extension of the sunset deadline to the proposed sale area may encourage additional or higher competitive bids, although these additional revenues are impossible to predict or quantify.

Prepared by: Janet Baxter Phone 465-4730
Division: Commissioner's Office Date/Time 12/8/2004
Approved by: Tom Irwin Date 12/8/2004
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HB 71
(H) Publish Date: 1/12/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Credit for Certain Exploration Expenses RDU Revenue Operations
Against Oil & Gas Properties Production Taxes Component Tax Division
Sponsor Rules Committee
Requester Governor Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Currently the State plans to hold a Bristol Bay lease sale in October of 2005 assuming a favorable preliminary best interests finding. If bids are received and accepted at this lease sale, leases would be issued in spring 2006, with exploration of this region beginning that summer, FY 2007-FY2008. It is possible that 1 to 2 wells per year will be drilled on average over the period 2007 to 2009. Wells will be drilled from onshore facilities, but given the remoteness of the area and lack of infrastructure, we estimate that the wells could cost roughly \$15 million per well. We assume that on average these wells would qualify for a production tax credit equal to 30% of qualified costs, half qualifying for the 40% credit and half for the 20% credit. (continued on Pg 2)

Prepared by: Tom Boutin Phone: _____
Division: Department of Revenue Date/Time: 1/11/05 2:59 PM
Approved by: Tom Boutin Date: 1/11/2005
Agency: Department of Revenue

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HB 71
Fiscal Note #2

ANALYSIS CONTINUATION

As a result the credit would be worth around \$7 million per year to the exploration firms from fiscal year 2008 through fiscal year 2010 (assuming a year lag between exploration expense and claiming of the credit). The adoption of this severance tax credit could yield revenue in two ways. First, the existence of an exploration credit over the period of likely exploration could prompt companies to participate in a lease sale when they otherwise would not. Currently, the State does not include any revenue from the lease sale in its revenue forecast. Such a lease sale could yield around \$10 million if bids were based on the possibility of finding a field containing a minimum economic field size of between 100 and 200 million barrels of oil. Such a field, if discovered and developed, would yield about \$50 million dollars a year in revenue (royalty, severance tax, and corporate income tax) over the first 10 years of production.

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 17, 2005

SUBJECT: Draft House Ways & Means Committee Substitute for House Bill 71 [CSHB 71(W&M)] prepared solely for the purpose of conformity with Legislative Drafting Manual (Work Order No. 24-GH1040\G)

TO: Representative Bruce Weyhrauch, Chair
House Special Committee on Ways and Means

FROM: Jack Chenoweth
Assistant Revisor 

Ginny Austerman has asked this office to prepare a draft committee substitute that conforms House Bill 71, a governor's bill, to the requirements of the Legislative Drafting Manual.

These are the changes to HB 71 that are incorporated into the draft committee substitute:

-- page 2, line 15: I have deleted reference in the amendment to a permanent law provision of a reference to "section 5 of this Act". Our practice, with a very limited number of exceptions made where it is not possible to substitute an appropriate permanent law cross-reference, has been to omit temporary law bill section references in the body of permanent law.

-- page 3, line 27 through page 5, line 6:

Based on examples appearing in AS 16.20.036(a)(10) and AS 16.20.615(a), I have omitted the first reference to "West" in the legal description of the range numbers of the land proposed for inclusion in the Alaska Peninsula Competitive Oil and Gas Areawide Lease Sale Area.

I have also opted to recommend that the legal description of the areawide lease sale area be incorporated as an addition to the permanent law. The test of whether the provision should be treated as permanent law or as temporary law, as recommended in the administration bill, turns on language in the Legislative Drafting Manual directing that "[b]ills creating uncodified law are generally . . . most laws of a temporary or special character." Drafting Manual at page 23. While the provision in question might be treated as "special [in] character," in point of fact the description of the withdrawn areawide oil and gas lease sale may hold the land and water areas in that status for a longer period than most provisions that are typically treated as "temporary."

Representative Bruce Weyhrauch
January 17, 2005
Page 2

Finally, I would propose that the legal description, codified, not appear as part of AS 43.55.025, a provision that is already fairly technical, but that it stand apart in a section of its own.

-- page 5, following line 13: Bill section 7 makes the contingently effective amendments to AS 43.55.025(b) [bill section 2] and the legal description of the proposed Alaska Peninsula Competitive Oil and Gas Areawide Lease Sale Area [bill section 5] effective "the day the commissioner of natural resources notifies the revisor of statutes that the lease sale . . . has occurred." There is no corresponding duty or obligation imposed on the commissioner to transmit that report. Section 6(b), new in the draft committee substitute, adds that obligation.

*

There are some other potential problems with the bill that I am unable to address, which the committee may want to question the administration representative(s) who appear to testify on it:

--page 1, line 5: The bill title refers to "expenditures" claimed as credits "on production tax on oil and gas produced from a lease sale . . . after July 1, 2004," but the authorization in the body of the bill, at page 2, lines 13 - 15, refers to activity occurring on or after July 1, 2003; should the title date reference be conformed? It is the opinion of at least one of the revising attorneys in that office that it should.

-- page 3, line 10: In the text of bill section 3, eligibility is extended for the second 20 percent credit covering an exploration well located within 25 miles outside of the outer boundary, as delineated on July 1, 2003, of a unit that is under a plan of development. If exploration wells associated with, but located outside the proposed Alaska Peninsula Competitive Oil and Gas Areawide Lease Sale Area are intended to be covered by this provision, does the fact that the outer boundary might not have been delineated by that date prevent eligibility? Should the date be altered?

Finally, as a policy consideration -- you do understand, do you not, that the change of the "or" to "and" on page 2, line 5 of the measure as introduced allows for a doubling of the potential cumulation of expenditures that may be claimed as credits from the 40 percent maximum of current law to a possible maximum of 80 percent.

JBC:jad
05-015.jad

Enclosure

4871

FRANK H. MURKOWSKI
GOVERNOR

GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

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

January 11, 2005

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

Dear Speaker Harris:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to a credit for certain exploration expenses against oil and gas properties production taxes on oil and gas produced from a lease or property in the state and relating to the deadline for certain exploration expenditures used as credits against production tax on oil and gas produced from a lease or property in the Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004.

The Bristol Bay area is one of the largest onshore tracts in Alaska to potentially open for oil and gas leasing in the last 20 years. The northerly portion of the basin is believed to be gas prone. Extending the timeframe for exploration incentives will benefit the residents of the region with the potential for a natural gas supply that could lower their fishing costs, provide heat for their homes and result in less expensive power.

In the interest of providing tax incentives to encourage exploration in Alaska, new AS 43.55.025, which allows oil producers to credit exploration expenditures against production tax on oil and gas produced after July 1, 2004, was added in the 2003 session (HCS CSSB 185(O&G) am H; ch. 59, SLA 2003 (effective September 9, 2003)).

In order to qualify for the production tax credit under that statute, exploration expenditures must be incurred on or after July 1, 2003, and before July 1, 2007. It has become apparent that the July 1, 2007, deadline will come too soon for oil producers that obtain leases in the proposed Bristol Bay (Alaska Peninsula) Competitive Oil and Gas Areawide Lease Sale Area described in ch. 9, SLA 2004 (which took effect March 18, 2004). In this proposed lease sale area, the Department of Natural Resources anticipates that leases would

The Honorable John Harris

January 11, 2005

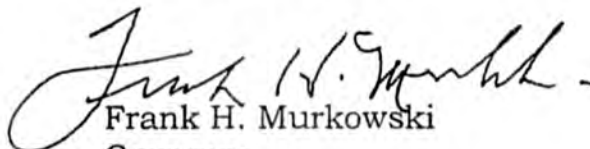
Page 2

not be issued until the spring of 2006. Given this timetable, it is likely that exploration expenditures on these leases would occur after July 1, 2007, in which case they could not be credited against future production taxes.

In order to provide similar tax incentives to the bidders on these proposed oil and gas leases, this bill would extend the deadline for exploration expenditures in the proposed Bristol Bay (Alaska Peninsula) competitive oil and gas areawide lease sale area to July 1, 2010. This bill also would make some minor technical changes to AS 43.55.025 to clarify the intent and harmonize terms used in that recently enacted section.

I urge your support of this important legislation.

Sincerely yours,


Frank H. Murkowski
Governor

Enclosure

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

October 22, 2003

RECEIVED
OCT 27 2003

Commissioner Tom Irwin
Department of Natural Resources
550 W 7th Avenue, Suite 1400
Anchorage, Alaska 99501

DIVISION OF
OIL AND GAS

RE: Bristol Bay Region: Oil and Gas Programs
Public Comments - Due October 30, 2003

Commissioner Irwin:

Please consider the following comments from the Bristol Bay Borough:

1. The Bristol Bay Borough Assembly is in strong support of the State of Alaska's recent efforts to advance oil & gas exploration in the Bristol Bay region.
2. The Bristol Bay Borough is committed to finalizing a Memorandum of Understanding with the Alaska Department of Natural Resources outlining critical areas of interest with respect to regional oil & gas development and outstanding municipal lands issues.
3. The Bristol Bay Borough is supportive of the continued public outreach evidenced to date by the State of Alaska on the Bristol Bay oil & gas exploration initiative and anticipates that this outreach effort will remain constant throughout the proposed development timeline.

DEPARTMENT OF
NATURAL RESOURCES

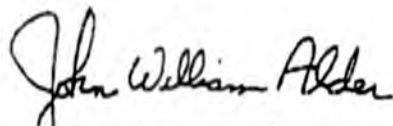
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COMMISSIONER'S OFFICE

Letter to Commissioner Irwin
October 22, 2003
Page 2

4. The residents of the Bristol Bay Borough are heavily dependent upon the robust regional fish & wildlife resources for subsistence needs. While the Bristol Bay Borough Assembly is in support of resource development, all development must proceed with due diligence in order to minimize potential negative impacts to the fish & wildlife resources.
5. Local knowledge of regional environmental conditions and fish & wildlife characteristics is one of our greatest resources in the Bristol Bay region. Accordingly, the Bristol Bay Borough recommends that all state agencies proceed throughout the oil & gas development process in a method that relies heavily upon local input. Any subcommittees or advisory panels empowered by the state should include local knowledgeable residents.
6. The Bristol Bay region has long suffered from seasonally sporadic employment. The regional oil & gas development initiative offers an exciting departure from the long winter season low employment cycle. The Bristol Bay Borough Assembly strongly urges the State of Alaska to continue in its expressed commitment to channel oil & gas employment training through the newly established Southwest Alaska Vocational Education Center (SAVEC) in King Salmon thereby enabling optimal local hire during exploration and development of potential oil & gas prospects.

Sincerely,



John William Alder
Borough Manager

cc: Mayor Michael Swain
Borough Assembly members

ALEUTIANS EAST BOROUGH

SERVING THE COMMUNITIES OF

■ KING COVE ■ SAND POINT ■ AKUTAN ■ COLD BAY ■ FALSE PASS ■ NELSON LAGOON

October 14, 2003

James Hansen,
Leasing Manager
Division of Oil & Gas
Department of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, AK 99501

Ref.: Proposed Alaska Peninsula & Bristol Bay
Oil & Gas Leasing Program

Dear Mr. Hansen,

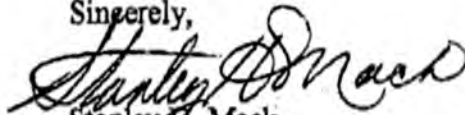
The Assembly of the Aleutians East Borough wants to thank you and your team for the presentation on October 7, 2003. Even though the weather did not allow everyone to get to Cold Bay, the Assembly's comments after the meeting included their appreciation of your efforts to brief the Assembly and the residents of the Aleutians East Borough.

First, it is the Borough's understanding that if there is Best Interest Finding, all development will take place within the State's jurisdiction and that there will be no development off shore. Furthermore, the Borough understands that the majority of the development will likely be on State owned land. Second, the concerns voiced by the people of Nelson Lagoon are symptomatic of the concerns of the majority of the Aleutians East Borough's residents. They were:

1. We need to protect our fish and game resources.
2. We need local jobs and employment at all stages of development. This must be at all levels, management, technical and labor, union and non union, should oil or gas be produced within the Aleutians East Borough.
3. We need any and all exploration sites returned to their original nature.

To this end, the Assembly passed a motion supporting the State of Alaska's efforts to conduct a Best Interest Finding process for the proposed oil & gas leasing program on the Alaska Peninsula.

Sincerely,


Stanley H. Mack
Mayor

RECEIVED

OCT 16 2003

DIVISION OF
OIL AND GAS

☐ CLERK/PLANNER
P.O. BOX 349
SAND POINT, AK 99681
(907) 383-2699
(907) 383-3496 FAX
e-mail: AEBCLERK@aol.com

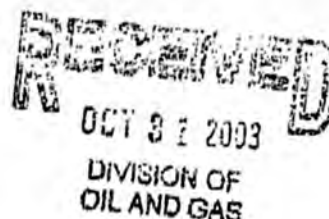
☐ BOROUGH ADMINISTRATOR
3380 C STREET, SUITE 205
ANCHORAGE, AK 99503-3952
(907) 274-7555
(907) 276-7569 FAX
e-mail: aebanc@gol.net

☐ FINANCE DIRECTOR
P.O. BOX 49
KING COVE, AK 99612
(907) 497-2588
(907) 497-2388 FAX
e-mail: aebfinance@aol.com

*Lake and Peninsula Borough*

P.O. Box 495
King Salmon, Alaska 99613

Telephone: (907) 246-3421
Fax: (907) 246-6602



October 27, 2003

Patrick Galvin, Petroleum Land Manager
Division of Oil & Gas
550 W 7th Ave, Suite 800
Anchorage, Alaska 99501-3560

RE: Call for Comments, AK Peninsula Areawide 2005 Oil & Gas Lease Sale

Dear Mr. Galvin:

First, we would like to thank the Governor, the Governors staff and those within DNR's Oil & Gas Division for the recognition of the extra attention required "to get the word out" to those who live on the Alaska Peninsula concerning the upcoming oil and gas lease sales. There are many communication gaps in bush Alaska making your task that much more difficult.

The regional meetings in Dillingham, Bristol Bay Borough (Naknek) and in the Lake & Peninsula Borough offices (King Salmon) were instrumental in ensuring accurate information is "passed along" to others. However, due to the size of the Lake and Peninsula Borough and the steep transportation costs to travel between villages, some over 1 hour away from King Salmon by plane, I would encourage you consider additional informational meetings to be held in Port Heiden, Iliamna, and the Chigniks, ASAP. We will be glad to provide you with local contacts for those communities.

Lake & Peninsula Borough responded earlier to Mr. James Hansen's request for information providing copies of the borough's latest Community Economic Development Strategies document. Additionally, community profile maps will soon be available (expected by June 2004) on-line at DCED's website of all the villages within the Borough. These maps will contain several layers of information readily accessible by the user. Local information pertaining to sensitive cultural areas, traditional hunting or gathering areas and local historic sites are included on most community maps (local preference so not every village map contains this information). These maps will no doubt prove to be invaluable relating to potential exploration that might be considered in close proximity to a village.

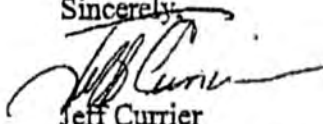
Finally, the Lake and Peninsula Borough supports onshore exploration and development but are concerned that the Best Interest Findings developed from this "call for comment period" also apparently apply to the 1.5 million acres of offshore acreage included in the lease sale, and further, that those findings are valid 10 years out.

We want to make it perfectly clear that while we are in support of onshore exploration and leasing, "the jury is still out" in most Borough villages when it comes to offshore exploration. I suspect much more information and discussion with the village leaders around the Bay will be required before offshore activities receive a majority of local support.

By supporting the current lease sale proposal, the resulting exploration and possible development of onshore sites within the next 5 years, we want to ensue we do not lose the ability to consider through separate actions, any potential exploration and development of offshore acreage in the future.

Thank you for the opportunity to provide this input. Please feel free to contact me as may be necessary.

Sincerely,



Jeff Currier
Borough Manager

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

BRISTOL BAY BOROUGH RESOLUTION 2002-02

A RESOLUTION SUPPORTING OIL & GAS EXPLORATION ON NATIVE CORPORTATION LANDS NEAR BRISTOL BAY BOROUGH

WHEREAS, Bristol Bay Borough and Communities throughout Western Alaska face difficult economic conditions due in part to high costs of living, high costs of energy and depressed fish prices and;

WHEREAS, all refined petroleum products required to operate home heating furnaces, electrical generators, cannery retorts and fish harvesting vessels are imported into the region and stored, both at very high costs and;

WHEREAS, the oil & gas industry has in the past expressed interest in exploring for reserves on the Alaska Peninsula on or near lands currently owned by the Alaska Peninsula Corporation and Bristol Bay Native Corporation as well as other lands in the region and;

WHEREAS, the interest was significant enough for the private sector to invest considerable capital in seismic and actual drilling exploration and;

WHEREAS, Senator Stevens in recent conversations with Bristol Bay Borough officials and before the Alaska State Legislature indicated a willingness to petition Congress to add funding to the United State Geologic Survey in order to enable regional oil & gas assessments throughout rural Alaska and;

WHEREAS, potential development of oil & gas reserves on the Alaska Peninsula would likely yield direct benefits to the Bristol Bay Borough, borough residents and businesses and economic development efforts to revive our ailing economy and,

FEB-10-2005 THU 10:01 AM SOA DOG

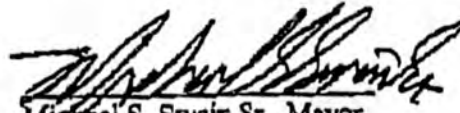
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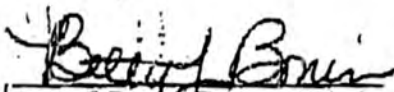
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NOW THEREFORE BE IT RESOLVED, that the Bristol Bay Borough Assembly strongly encourages the local & regional Bristol Bay ANCSA corporations to work closely with the Borough, private sector oil & gas firms and the Congressional delegation in the wise development of our natural oil & gas resources in an effort to optimize benefits to the overall Bristol Bay region and State of Alaska.

PASSED AND APPROVED, by a duly constituted quorum of the Bristol Bay Borough Assembly on this 4th day of February, 2002.


Michael S. Swain Sr., Mayor

ATTEST:


Betty J. Bonin, Borough Clerk

FEB-10-2005 THU 10:01 AM SOA DOG

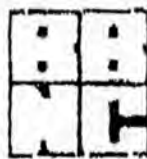
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Bristol Bay Native Corporation

Enriching Our Native Way of Life

800 Cordova Street, Suite 200 / Anchorage, Alaska 99501-6299 / (907) 278-3602 / fax (907) 276-3924

4184
JP
TS

VIA FEDEX & FAX: (907) 465-3532

June 26, 2003

Honorable Frank Murkowski, Governor
P.O. Box 110001
Juneau, Alaska 99811

Fax Received
JUN 26 2003
Office of the Governor

Subject: **Support for Leasing Program in the Bristol Bay Region**

Dear Governor Murkowski:

Residents of the Bristol Bay region sorely need your help in order for them to help themselves. We need you to institute an oil and gas leasing program in Bristol Bay. We've compared and contrasted the pros and cons of exploration licensing and leasing, and we believe that, for several reasons, the State's best option is to put its uplands on the leasing schedule.

First, the "leasing notice" is announced to a wider audience than the exploration licensing notice is. Second, leasing, since it includes rental, bonus, and minimum work commitment terms, generally generates more revenue and more information for the State. Lastly, the land leased can be more than the 500,000-acre "cap" imposed by the exploration-licensing program, and this may be more desirable from the industry's standpoint.

BBNC has embarked on a mission to reinvigorate the environmentally responsible exploration for, and development of, oil and gas resources in Bristol Bay. We've also received the blessing, by resolution, of several Bay-area organizations that recognize the need for more jobs and cheaper energy. I've attached copies of the fourteen resolutions I've received so far, which include both regional and village-level organizations.

If you have any questions, please call me at 1-800-478-9602.

Sincerely,

Paul C. Rushl
V.P., Land & Resources

Cc: Tom Irwin, DNR Commissioner
Randy Ruiderich, AOGCC Commissioner
Mark Myers, DOG Director
BBNC Board of Directors

Post-It® Fax Note	7671	Date	6/26/03	Page	2
To	Gov. Murkowski	From	Paul Rushl		
Co/Dapt.	State of Alaska	Co.	BBNC		
Phone #		Phone #			
Fax #	(907) 465-3532	Fax #			

SEP-25-03 15:28 From:BRISTOL BAY NATIVE CORPORATION

9072763924

T-213 P.02/02 Job-240



King Salmon Tribe

People of the Village

P.O. BOX 68 KING SALMON, AK 99613

TEL: 907/246-3553 FAX: 907/246-3449

E-MAIL: kstivo@bristolbay.com

September 15, 2003

Bristol Bay Native Corporation
800 Cordova Street
Suite 200
Anchorage, AK 99501-6299

VIA FACSIMILE: 907/276-3924

Dear Mr. President:

As you know, Bristol Bay has been faced with economic failure year after year, due to the low return of salmon and the low prices paid to the fisherman. Because of the failure in our fishery, our people are faced with having to live in poverty. We can no longer pretend that our fisheries will be, as we knew it. Other than fishing, most of our people in our villages have very few economic opportunities. As a result, we have friends and family fighting amongst themselves for these limited jobs. Until there are economic changes in place, we will forever be faced with economic despair because there are no other means to provide for ourselves other than what we have today. We need economic diversity.

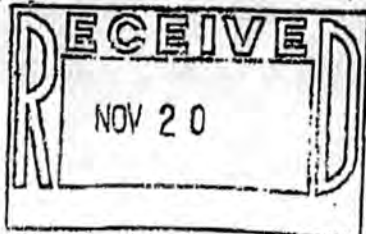
The village of King Salmon is in support of developing our oil and gas reserves both onshore and offshore and developing our mineral deposits here in Bristol Bay. We also support ground transportation from King Salmon to Anchorage so that we can reduce transportation costs to promote economic opportunities. This would also reduce the cost of living in our villages and region. Whether any of these development issues take place remains to be seen. However, we cannot continue to impoverish our people because of differences of opinions in regards to economic development.

It is unfair of people and organizations who criticize development in our region when in fact they offer no solutions to address our current short and long-term needs. In addition, many people who are opposed to economic development have good paying jobs, or work and live outside our region. Yet, many try to dictate what is best for us and our villages.

In closing, the village of King Salmon asks that we all put aside any differences that we may have of economic development in Bristol Bay. Our people deserve more than having to live in poverty and the consideration of going on welfare.

Sincerely,

Ralph Angasan, Sr.
President



NEWHALEN TRIBAL COUNCIL
100 POWER LANE
P.O. BOX 207
NEWHALEN, AK 99606
PHONE (907) 571-1410 OR (907) 571-1317
FAX (907) 571-1537
EMAIL NEWHALENTRIBAL@STARBAND.NET

November 12, 2003

Fred Angasan
Bristol Bay Native Association
P.O. Box 310
Dillingham, Alaska 99576

NOV 25 2003
OIL AND GAS

Re: Native Village of Newhalen Statement of Interest

Dear Mr. Angasan;

The Newhalen Tribal Council has become increasingly aware of potential resource development activities within our area. In particular, we are aware of the increasing interest in the Pebble Copper mine. We believe resource development has the ability to bring economic opportunities to our community. However, we are concerned that improper management, poor planning and the lack of consideration of our local concerns can adversely affect our interests.

- On November 12, 2003 the Newhalen Tribal Council discussed our understanding of the potential commercial viability of the Pebble Copper mine. In addition, we discussed our understanding of the State of Alaska's Roads to Resources program and the current efforts to revise the Bristol Bay Area Plan. Through our discussion we identified the need to ensure the opportunity for active participation, effective public involvement and cooperative consultation regarding these matters.

We are writing to notify you that we have identified Joanne Wassillie as the primary point of contact for the Native Village of Newhalen. Joanne can be reach at:

Joanne Wassillie, Administrator
Newhalen Tribal Council
P.O. Box 207
Newhalen, Alaska 99606
(907) 571-1410 (907) 571-1537 fax

- We request that you add our designated point of contact to all public/stakeholder distribution lists so that the Newhalen Tribal Council will receive adequate advance notice of all upcoming public meetings related to the development of the Pebble Copper mine, including planning efforts by the State of Alaska to promote natural resource development within our region.

Newhalen Tribal Council
100 Power lane
P.O. Box 207
Newhalen, AK 99606
phone (907) 571-1410 or (907) 571-1317
Fax (907) 571-1537
EMAIL NEWHALENTTRIBAL@STARBAND.NET

RESOLUTION 03-24

**A RESOLUTION OF THE NEWHALEN TRIBAL COUNCIL FOR
DEVELOPING AND MAINTAINING AN ACTIVE VOICE AND PARTNERSHIP
WITH ALL APPROPRIATE GOVERNMENTAL, PUBLIC AND PRIVATE
SECTOR ENTITIES FOR THE SUSTAINABLE DEVELOPMENT OF
NATURAL RESOURCES AND FOR RELATED PURPOSES.**

WHEREAS: the Native Village of Newhalen is a federally recognized tribal government possessing the powers of a sovereign entity and the rights of self-determination; and

WHEREAS: the Newhalen Tribal Council is the governing body for the Native Village of Newhalen and is authorized and responsible to protect its members, property, resources and interests; and

WHEREAS: the protection of the health, safety, and welfare of our tribal members, families and village is critical to the exercise of tribal self-governance and self-determination; and

WHEREAS: the tribal members of Newhalen rely on subsistence resources and the subsistence way of life which is essential to meet the nutritional, cultural and traditional needs and values of the tribe; and

WHEREAS: the health, productivity and availability of our subsistence resources are critical to the health, safety and welfare of our tribal members, families and village; and

WHEREAS: the development of natural resources, including mining, oil and gas development, and associated transportation infrastructure, may adversely affect the health, safety and welfare of our tribal members, families and village, and the subsistence resources we rely on, if not properly planned, designed, sited, operated, managed or maintained; and

WHEREAS: proper planning, design, siting, operation, and management of development projects, and all associated activities and infrastructure, requires the active involvement, cooperation, coordination and consultation at all levels (tribal, federal, state, local and international governments and private and public sectors); and

FEB-10-2005 THU 10:03 AM SOA DOG

FAX NO. 9072698938

P. 15

APR-23-03 WED 07:30 AM

FAX NO. 2278904

P. 04

2832
JP

CITY OF ALEKNAGIK

P.O. Box 99, MAIN STREET
ALEKNAGIK, ALASKA 99555-0099
PHONE: 907-842-5953 OR 842-2528
FAX: 907-842-2107
EMAIL: cityalekn@nushtel.com

April 11, 2003

Governor Frank H. Murkowski
Office of the Governor
3rd Floor State Capital, Mail Stop 0001
P.O. Box 110001
Juneau, Alaska 99811-0001

RECEIVED

APR 16 2003

GOVERNOR'S OFFICE

RE: Oil and Gas Development in Bristol Bay

Dear Governor Murkowski:

The City Council of the City of Aleknagik passed Resolution 03-11 supporting OCS 92 lease sales for oil and gas development in Bristol Bay at their regularly meeting on April 8, 2003. The City of Aleknagik supports economic development, local jobs, lower energy costs, less dependence on foreign oil, and protection of the fisheries and environment.

Please support oil and gas development in Bristol Bay and help to move up the OCS sales from 2011 to the earliest possible date. Thank you for your time and favorable consideration.

Sincerely,



Chris Chuckwuk
Mayor

Enclosure: Resolution 03-11

cc: Senator Ted Stevens
Senator Laura Murkowski
Congressman Don Young
Alaska State Legislature
Paul Roehl, Bristol Bay Native Corporation

APR-23-03 WED 07:31 AM

FAX NO. 2228904

P. 05

CITY OF ALEKNAGIK
RESOLUTION 03-11

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ALEKNAGIK
SUPPORTING OCS 92 LEASE SALES FOR OIL AND GAS DEVELOPMENT IN
BRISTOL BAY.

WHEREAS, Outer Continental Shelf (OCS) Sale 92, which occurred in October 1988, garnered nearly \$96 million in oil and gas bids for 122,000 acres contained in 23 leases; and

WHEREAS, the lease sale happened at a time when the price for sockeye salmon was high (up to \$2.60/lb.) and the price for oil was relatively low (\$17.30/bbl.); and

WHEREAS, the high commercial value of salmon in the late 1980's, coupled with the threat posed by the oil industry to salmon and wildlife habitat (particularly after the March 1989 Exxon Valdez oil spill), resulted in widespread opposition to the OCS 92 lease sales, and eventually lead to the cancellation of those lease sales and the return of the bid proceeds to the respective oil companies; and

WHEREAS, lease sale area OCS 92 is not scheduled to be revisited by the U.S. Minerals Management Service until 2011; and

WHEREAS, the environmentally responsible exploration for, and development of, Bristol Bay oil and gas resources could create needed high-paying, rewarding jobs for the people of the region, especially given the recent, disastrous Bristol Bay commercial salmon seasons; and

WHEREAS development of these oil and gas resources could also result in substantially reduced heating and energy costs for residents in the Bristol Bay region, and could enhance the competitiveness of the Bristol Bay commercial salmon and other industries, such as mining; and

WHEREAS, given the rising tensions in the Middle East, it is becoming increasingly clear that America's dependence on foreign oil imports is highly undesirable, both from a strategic and domestic standpoint.

NOW THEREFORE BE IT RESOLVED that the City Council of the City of Aleknagik that the City of Aleknagik strongly supports oil and gas exploration and development in the Bristol Bay region provided maximum protection be given to the fishery resources and that exploration and development be done in an environmental manner; and

BE IT FURTHER RESOLVED that the City of Aleknagik supports immediate exploration and development of the OCS 92 area and request the assistance of Senator Stevens, Senator Murkowski, Congressman Young, Governor Murkowski, and the

FEB-10-2005 THU 10:03 AM SOA DOG

FAX NO. 9072698938

P. 17

APR-23-03 WED 07:31 AM

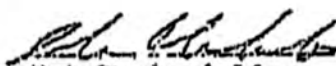
FAX NO. 9078804

P. 08

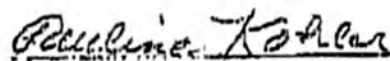
Alaska State Legislature to assist in moving the OCS sales schedule up from 2011 to 2004 or as earliest as possible.

PASSED AND APPROVED this 7 day of April, 2003 at Aleknagik, Alaska.

SIGNED:


Chris Chickwuk, Mayor

ATTEST:


Pauline Kohler, City Clerk

WHEREAS: the Tribal Council is aware that Northern Dynasty Minerals Limited is actively accessing the economic viability of the Pebble Copper mine which is considered to be one of the largest copper-gold deposits in the world; and

WHEREAS: the Tribal Council is aware that the Pebble Copper mine is being considered under the Department of Transportation & Public Facilities 'Roads to Resources' program and that Department of Natural Resource is revising the Bristol Bay Area Plan which governs resource management on state land; and

WHEREAS: the Tribal Council wishes to ensure its active involvement, participation and consultation through governmental, public and political processes to ensure protection of tribal interests and rights and the protection of the health, safety and welfare of our tribal members, families and village.

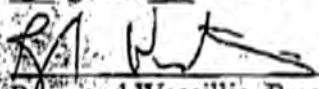
NOW THEREFORE BE IT RESOLVED, that the Newhalen Tribal Council hereby authorizes the Tribal President, with the assistance of the Tribal Administrator, to serve as the lead point of contact for all correspondence related to the development of the Pebble Copper mine, including all correspondence related to the state's Roads to Resource program and the Bristol Bay Area Plan revisions.

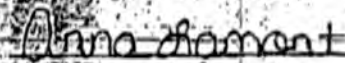
BE IT FURTHER RESOLVED, that the Newhalen Tribal Council hereby directs the Tribal President to forward a letter to all appropriate governmental, public and private sector entities notifying them of Newhalen Tribal Council's interest in being actively involved, informed, and consulted regarding matters related to the development of the Pebble Copper mine and associated activities.

BE IT FURTHER RESOLVED, that this resolution is intended for the stated purpose of establishing and fostering cooperative relationships with Tribal, State, Federal and local governments and private and public sector entities and should not be used as an approval or disapproval of the Pebble Copper mine, and shall not be interpreted in any way to diminish the protected rights and interests and unique legal status of the Native Village of Newhalen as a federally recognized tribe.

BE IT FURTHER RESOLVED, that Mr. Raymond Wassillie, President of the Newhalen Tribal Council, or his designee, hereby authorized to sign and or negotiate any terms, or conditions, or modifications to this "638" contract with the Bureau of Indians Affairs.

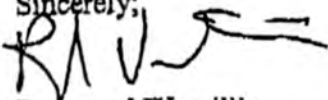
This resolution was duly considered and adopted at the general meeting of the Newhalen Tribal Council called and convened this 12 day of Nov, 2003 by a vote of 6 in favor and 0 against 0 abstain.


Raymond Wassillie, President


Anna Lamont, Secretary

The Newhalen Tribal Council wishes to establish and foster on-going cooperative relationships with those governmental, public and private sector entities associated with the potential development of the Pebble Copper mine to ensure the interests of the Native Village of Newhalen are protected. We look forward to working with you in the future and if we can be of any assistance please contact Joanne.

Sincerely,

A handwritten signature in dark ink, appearing to read 'RW' followed by a stylized flourish.

Raymond Wassilie
President

MEMORANDUM OF UNDERSTANDING**Between****ALASKA DEPARTMENT OF NATURAL RESOURCES****And****THE ALEUT CORPORATION****To****HOLD CONCURRENT OIL AND GAS LEASE SALES OF STATE AND TAC
LAND IN THE ALEUT REGION &
TO FACILITATE CONSTRUCTION OF A TRANSPORTATION
INFRASTRUCTURE THAT WILL SUPPORT THESE DEVELOPMENT
PROJECTS**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and The Aleut Corporation (TAC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and TAC is responsible for managing its 1.572 million acre mineral estate on behalf of its 3,250 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin including portions of the Aleut region on the Alaska peninsula has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Any discoveries of, and subsequent development of, commercial quantities of oil, gas, & mineral deposits in the Aleut region should benefit both the State of Alaska and TAC's shareholders.
- D. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent landowners to have similar land management and leasing programs in place.
- E. With TAC's support, the Alaska Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant to further evaluate the oil and gas potential of the Bristol Bay basin.
- F. The development of transportation infrastructure, as recommended by the Southwest Alaska Regional Transportation Plan, such as deep water ports, roads and airports, along the Alaska Peninsula should make oil, gas, and other mineral prospects more accessible, and thereby more economically feasible to explore and develop.

- G. The Alaska DNR, TAC, and BLM have been working collaboratively to rationalize ANCSA 17(b) and RS 2477 access issues.
- H. The Alaska DNR, TAC, and BLM have been working collaboratively to revoke obsolete federal land withdrawals in the Bristol Bay region.
- I. TAC supports the construction of an access road from Cold Bay to King Cove.

Agreements:

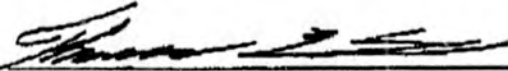
- The term of this MOU will be for five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- To the extent consistent with their respective interests and statutory or regulatory responsibilities, or corporate responsibilities, the Parties will work cooperatively to ensure that exploration and development activities are consistent with the land management and development plans of both Parties.
- The Parties agree that they will cooperate to ensure all development projects in the Aleut region are pursued in an environmentally responsible manner with maximum efforts to minimize impacts to fishery resources.
- TAC and the State of Alaska will work cooperatively to re-open offshore oil and gas prospects to exploration.
- Where reasonable to do so, the Parties will endeavor to synchronize the timing of their oil and gas-leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities.
- The Parties will communicate their development goals to other interested parties in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent legally permissible, information generated pursuant to this MOU may be kept confidential when requested in writing by a party to this MOU. Information released by a party to this MOU must credit the source of the information.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):

DNR Commissioner
State of Alaska DNR
550 W. 7th Ave., Suite 1400
Anchorage, AK 99501-3561

Chief Executive Officer
The Aleut Corporation
4000 Old Seward Hwy, #300
Anchorage, AK 99503

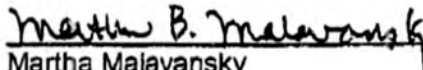
- This MOU may be terminated within thirty(30) days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.
- Others may become party to this MOU upon written consent of the Parties.

Approved:



Tom Irwin, Commissioner
Alaska Dept. of Natural Resources

12/18/03
Date



Martha Malavansky
President, TAC

12/18/03
Date

MEMORANDUM OF UNDERSTANDING**Between****ALASKA DEPARTMENT OF NATURAL RESOURCES****And****BRISTOL BAY NATIVE CORPORATION****To****FACILITATE OIL AND GAS LEASE SALES ON STATE AND BBNC LAND IN
THE BRISTOL BAY REGION**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and the Bristol Bay Native Corporation (BBNC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and BBNC is responsible for managing its 3.1 million acre mineral estate on behalf of its 7,100 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Exploration of oil and gas resources is a vital component to stimulating the local economy and providing jobs and economic opportunities in the region.
- D. The discovery of commercial quantities of oil and gas would provide an opportunity for low cost energy in the region, further stimulating the local economy.
- E. Any discoveries of commercial quantities of oil and gas in the Bristol Bay region will benefit both BBNC's shareholders and the State of Alaska, so it is in the best interest of the Parties to encourage exploration for such resources.
- F. BBNC has requested that the State facilitate on-shore oil and gas exploration in the region by holding annual areawide leasesales, beginning as soon as possible.
- G. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent

landowners to have similar land management and leasing programs in place.

- H. With BBNC's support, the DNR's Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant (\$150,000 of cash and in-kind contributions to be provided by BBNC) to further evaluate the oil and gas potential of the Bristol Bay basin.

Agreements:

The Parties agree to the following provisions:

- The Parties will work cooperatively to facilitate oil and gas leases of state and BBNC lands in the region to be held as soon as feasible.
- The Parties will cooperate to ensure all development projects in the Bristol Bay region will be pursued in an environmentally responsible manner and will minimize impacts to fishery resources.
- The Parties will work cooperatively to convince the federal government to re-open federal offshore oil and gas prospects in the region to exploration.
- The Parties will endeavor to synchronize the timing of their oil and gas leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities in the region.
- The Parties will communicate their development goals to other interested entities in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent allowable by statutes and regulations, the Parties will share information that will assist in accomplishing the objectives of this agreement.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):

DNR Commissioner
State of Alaska
550 W. 7th Ave., Suite 1450
Anchorage, AK 99501

Chief Executive Officer
Bristol Bay Native Corporation
800 Cordova Street
Anchorage, AK 99501

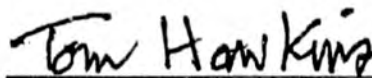
- The term of this MOU will be five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- This MOU may be terminated with thirty days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.

- Others may become party to this MOU upon written consent of the Parties.

Approved:


Thomas E. Irwin, Commissioner
Alaska Dept. of Natural Resources

7/10/03
Date


Tom Hawkins
SRVP & COO, BBNC

7.10.03
Date

SCOMM

142:17

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 143

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected:

Revenue 04

Title Policy on General Fund Revenue Shortfall

RDU ALL

Component

Sponsor House Ways and Means

Requester House Ways and Means

Component No.

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There are no additional administrative costs associated with this bill.

Prepared by: Jerry Burnett

Division: Special Assistant to the Commissioner

Approved by: Tomas Boutin Deputy Commissioner

Agency: Department of Revenue

Phone 465-2302

Date/Time 2/24/05 3:51 PM

Date 2/24/2005

House Bill 143

A Policy on General Fund Revenue Shortfall

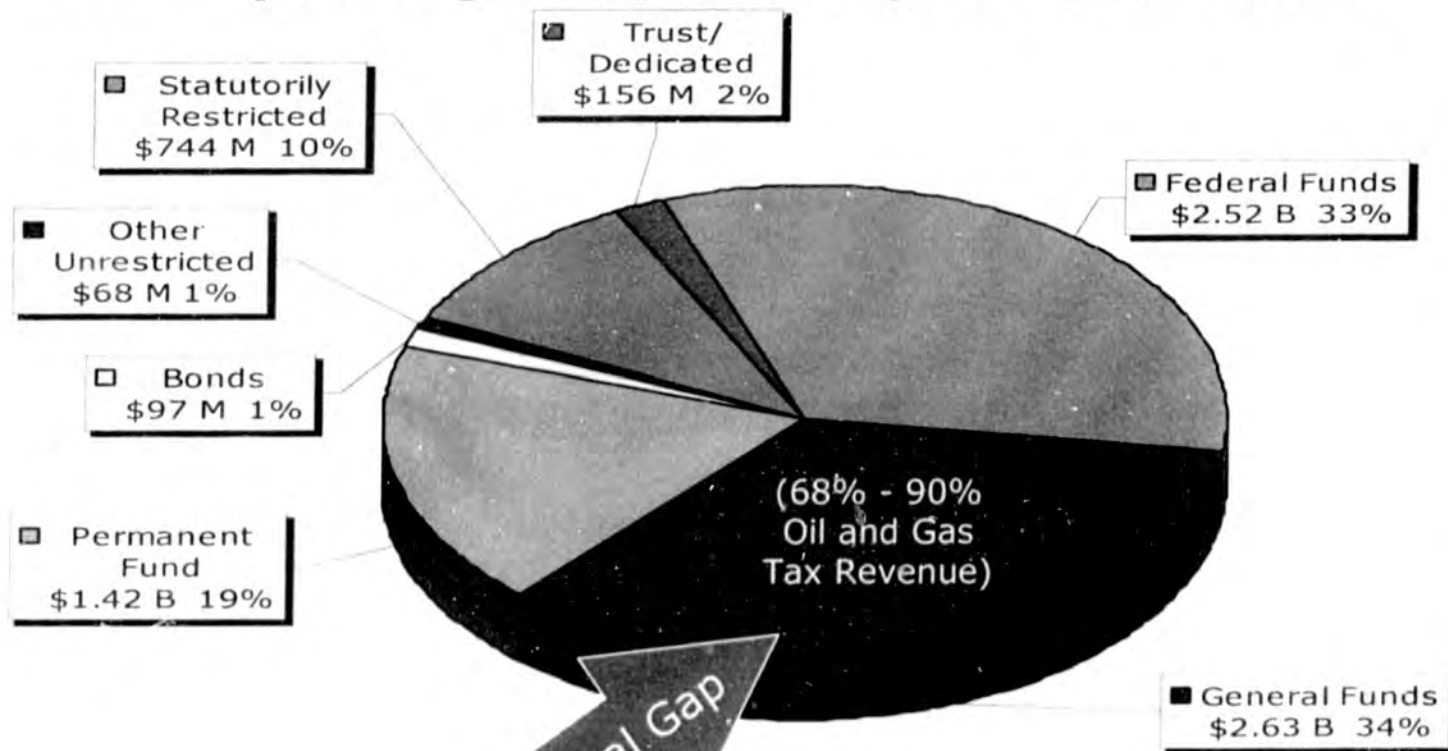
"It is the policy of the State of Alaska that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account."

AS 37.07.010 *Executive Budget Act*

HB 143
says

Why? Where's the problem?

FY06 Operating & Capital Budgets - \$7.6 Billion

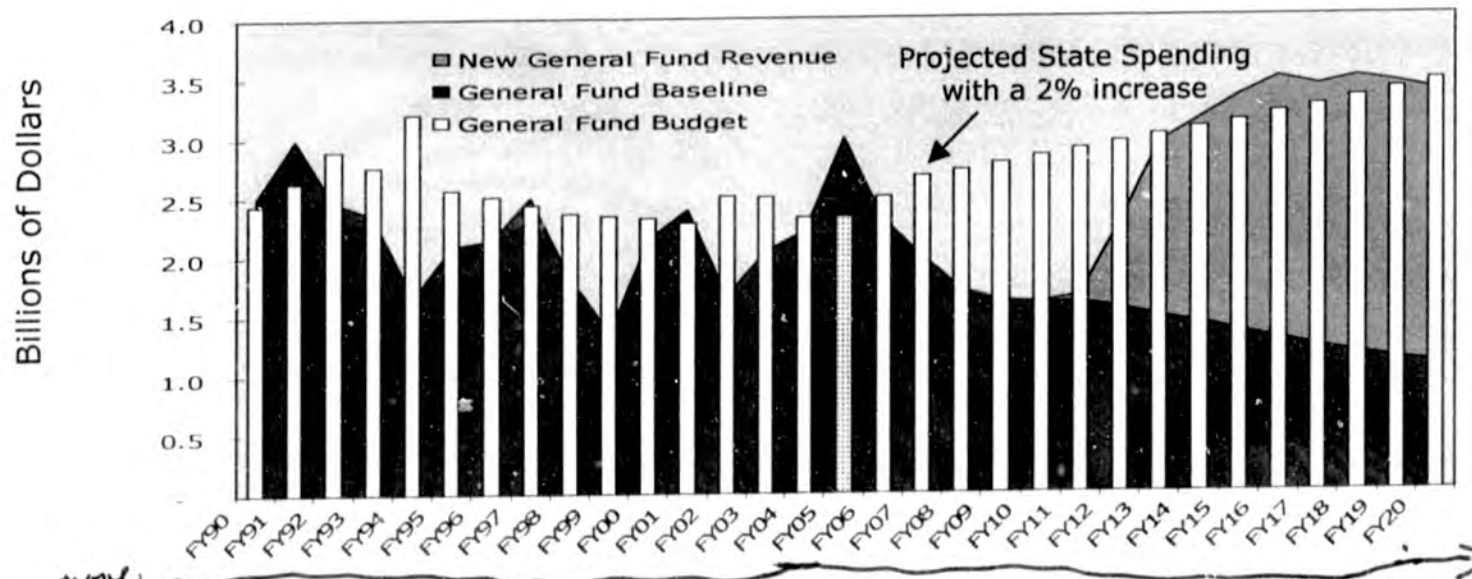


FY06 Budget as proposed by Governor Murkowski

Source: Legislative Finance

Home of the Fiscal Gap

... What's the problem?



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments.

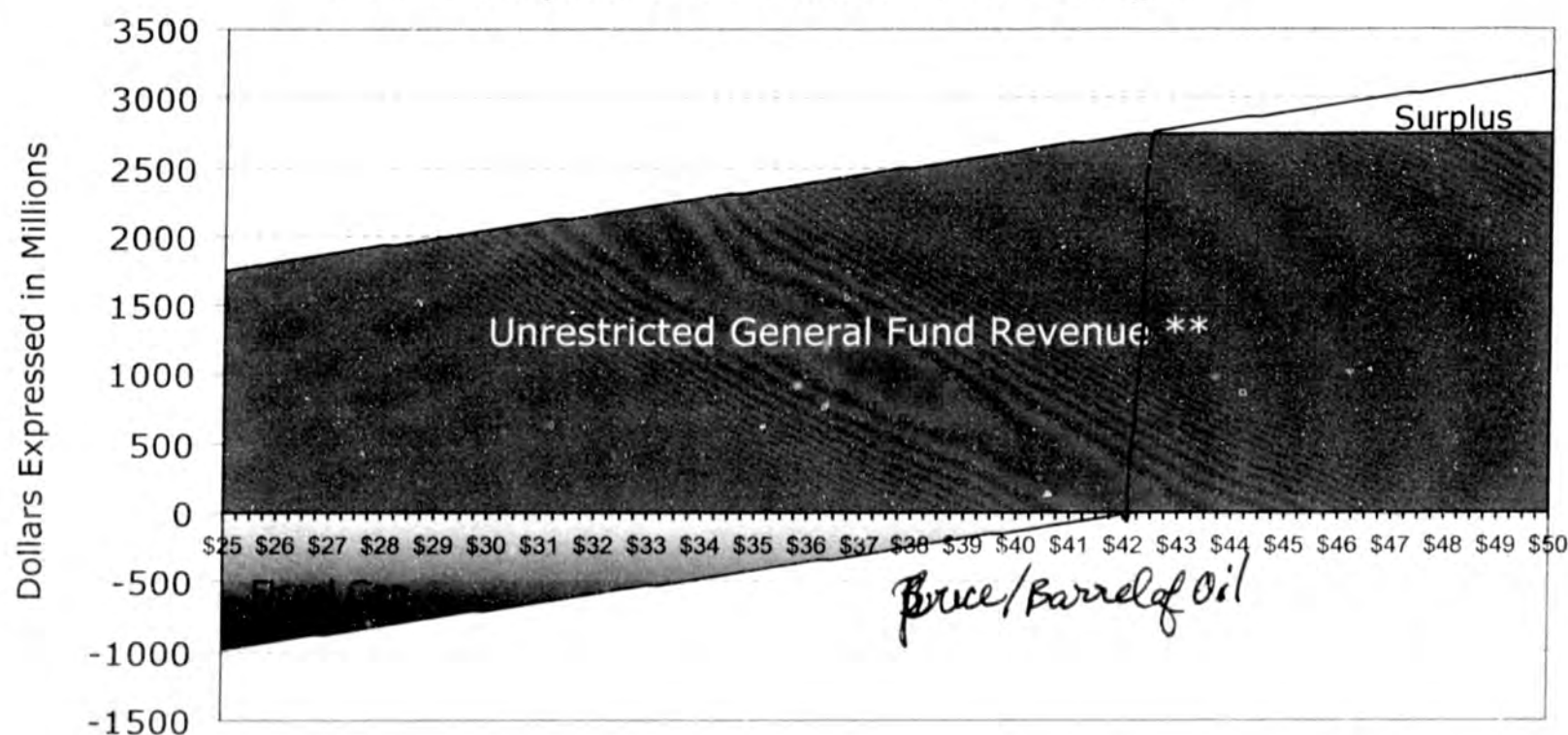
Source: Legislative Finance

General Fund revenue can be less than
General Fund expenditures.

... and things can change quickly

"For the Good or for the Bad"

FY06 Proposed General Fund Budget *



* Assumes the Governor's proposed budget plus \$117.5 million for FY06 PERS/TRS costs and \$80 for new legislation/supplemental.

** Includes revenues not directly affected by fluctuations in oil prices. Assumes DOR Fall 2004 production projection of .932 million barrels per day

Source: Legislative Finance

. . . and they have

**ALASKA CONSTITUTION
ARTICLE IX**

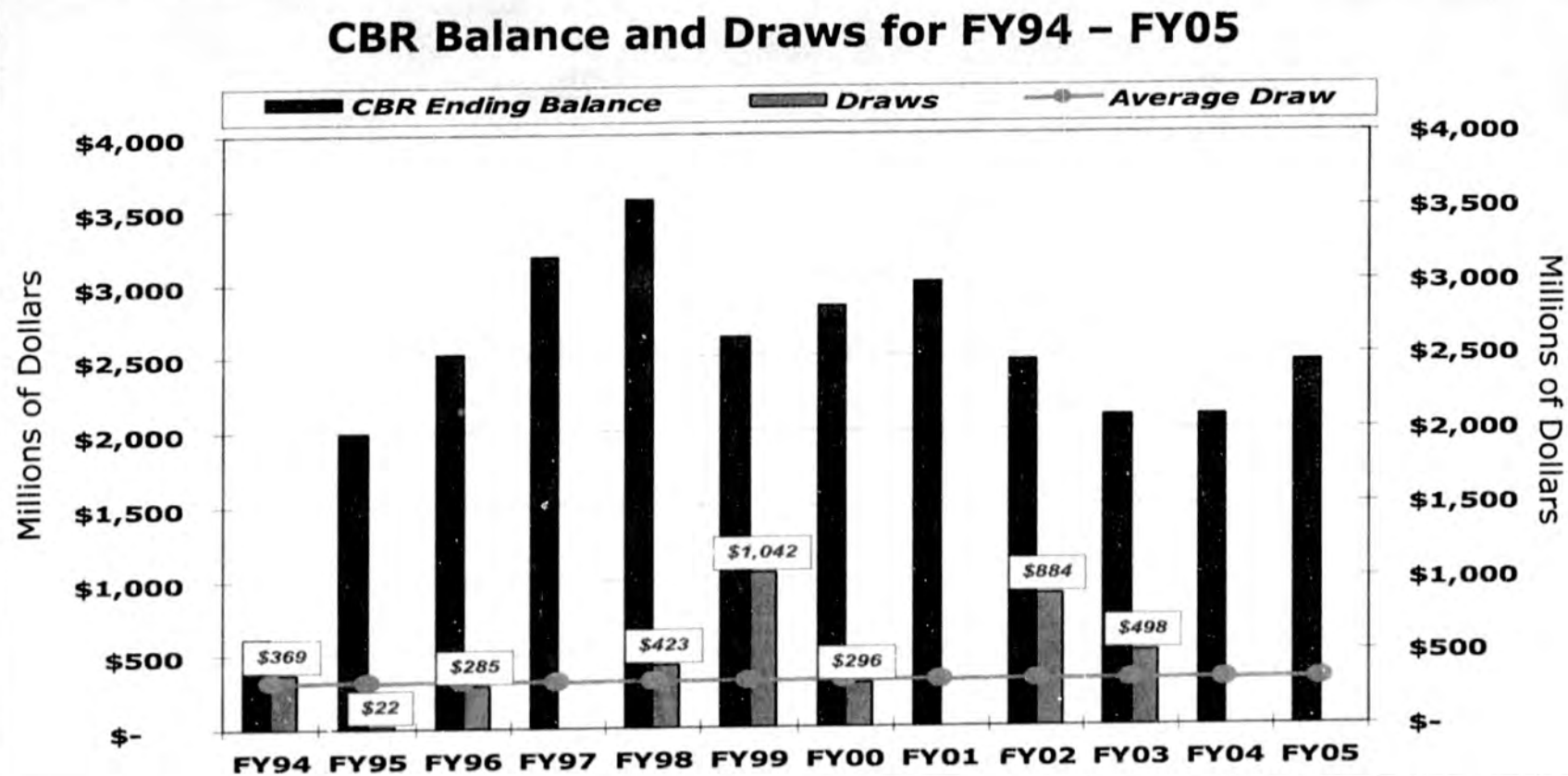
Section 17. Budget Reserve Fund (a)

There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the state after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments of bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. . . . Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

Voters approved amendment in 1990.

- The CBR has been used to fill the fiscal gap 8 out of 12 years.
- Approximately \$5.5 billion has been withdrawn.
- The state has deposited into the CBR \$5.6 billion and earned \$1.6 billion in interest.

... for example

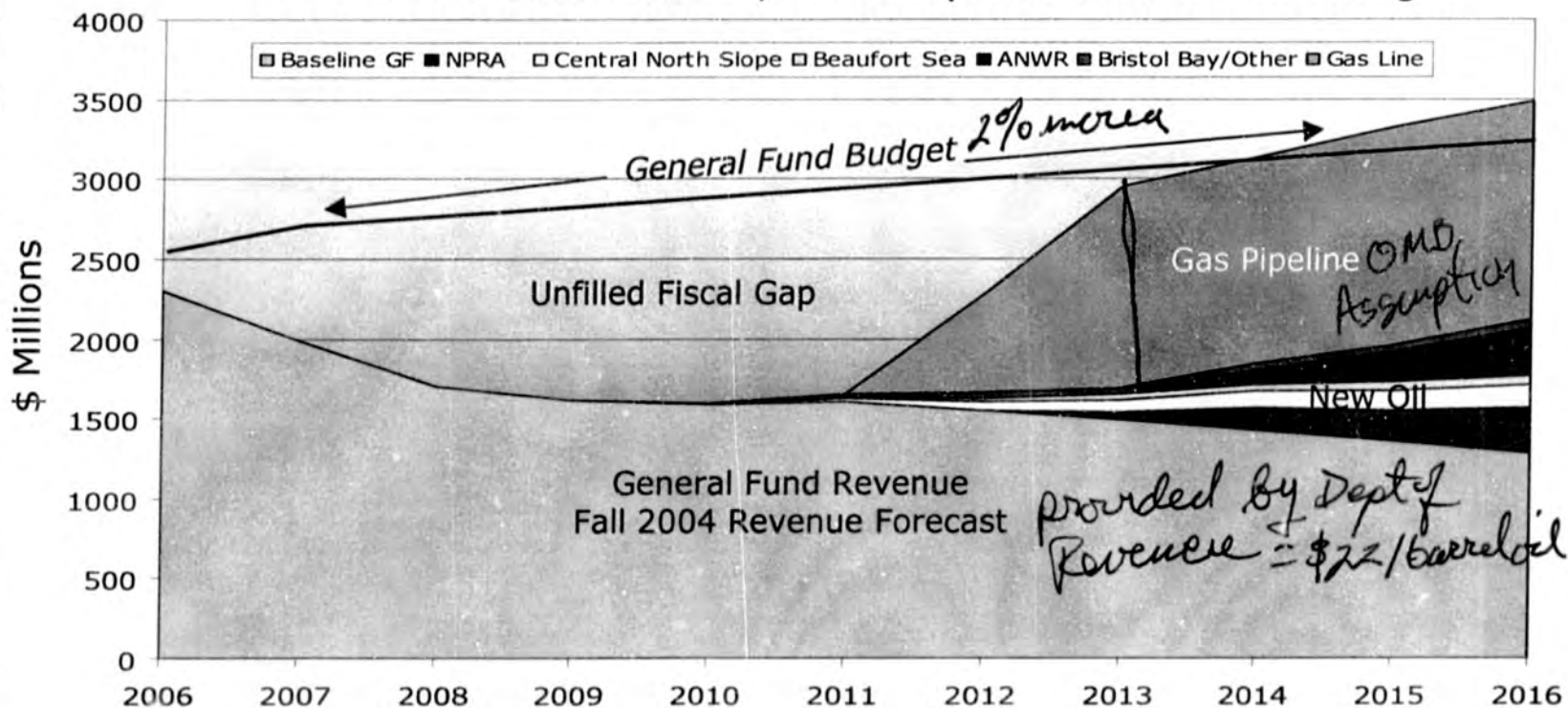


Source: Legislative Finance

- Draw 8 out of 12 years
- Average draw \$318 M
- Current balance \$2.1 B

Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

Source: Office of Management and Budget

Several Pots of Money



Reduce State Spending
(Save a \$, Earn a \$)

Income Tax
(\$600 M)



Corporation Tax
(\$50-\$100 M)



Other Revenue
(Tobacco Tax, Alcohol Tax,
Fisheries Tax, Car Rental
Tax, Studded Tire Fee, etc.)



Sales Tax
(\$200-\$300 M)

Alaska Perm Fund Financial Projections
December, 2004

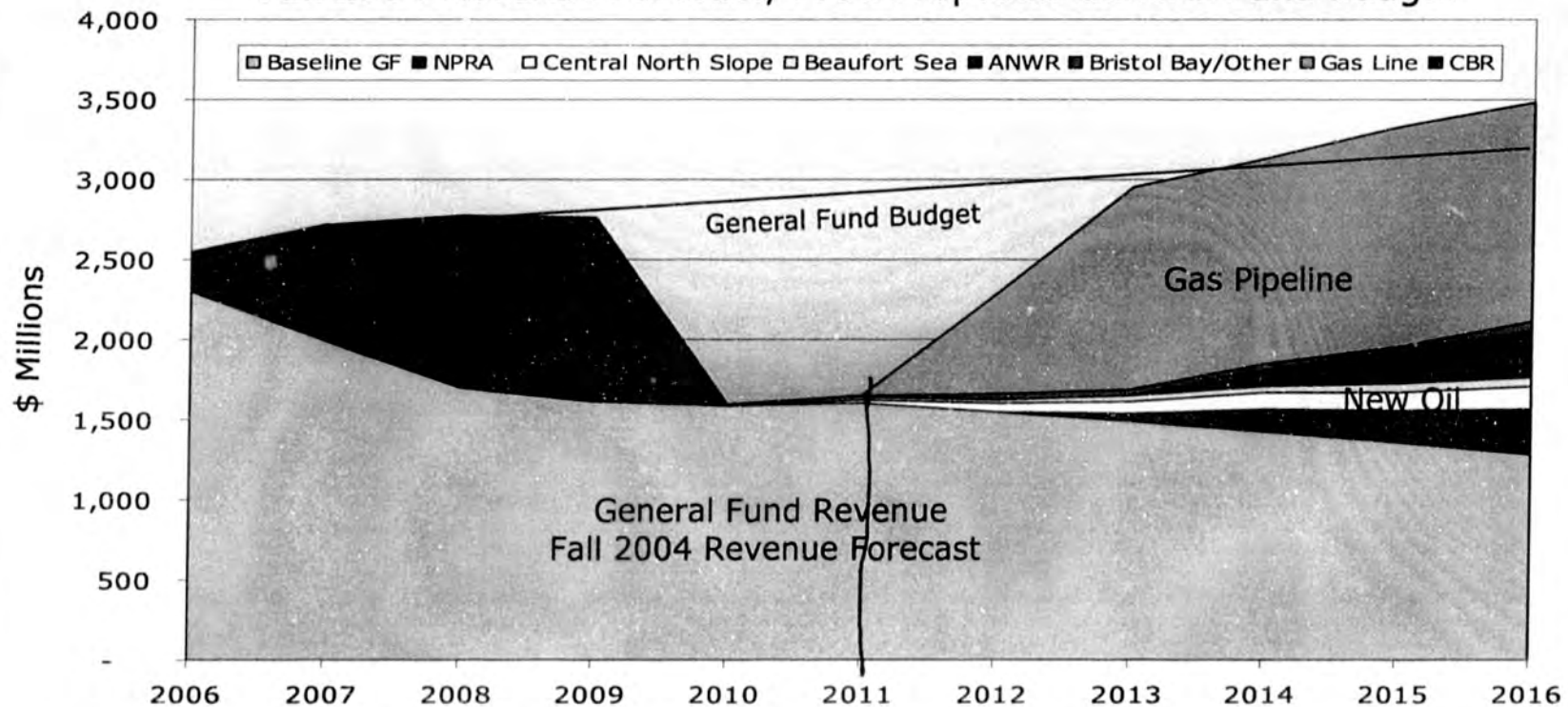
CBR
(\$2.1 B)
(Constitutional Budget Reserve)



... why not just the CBR?

Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget

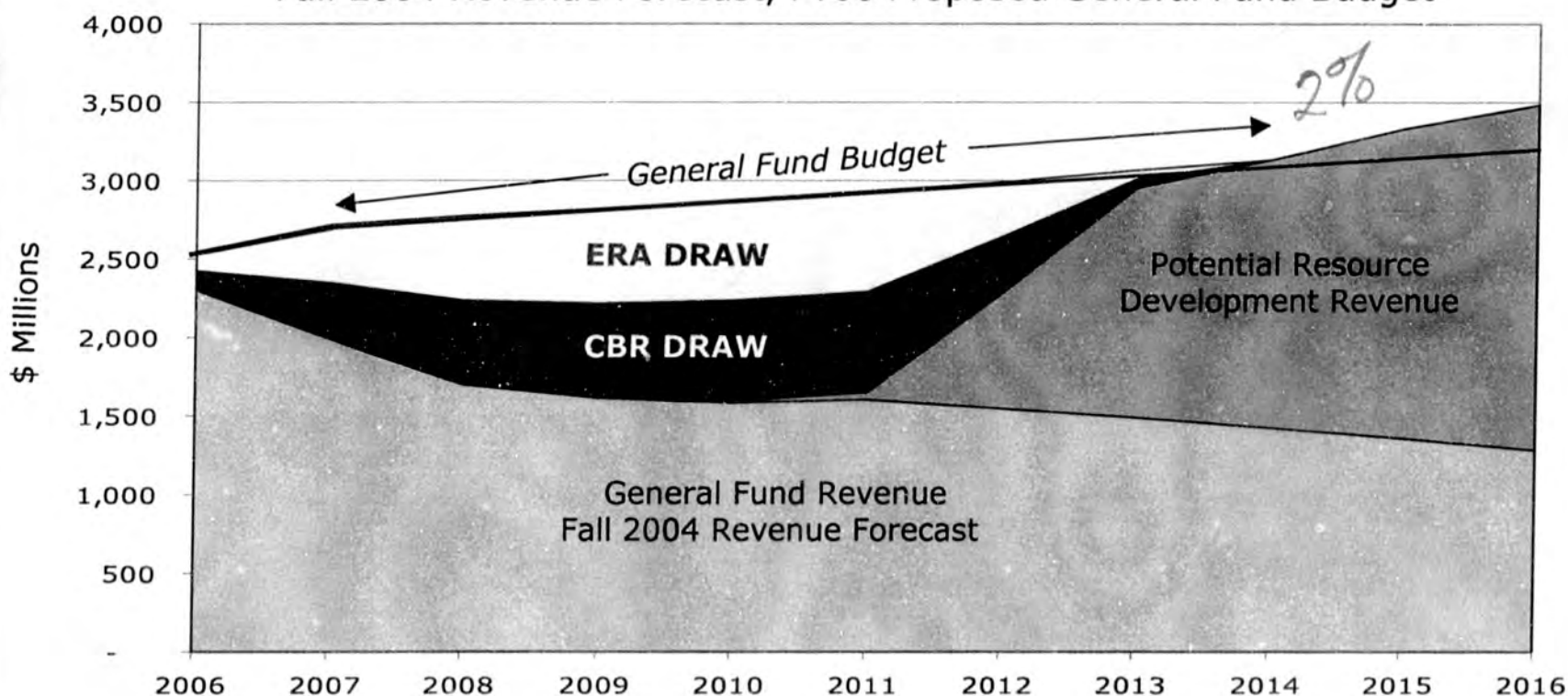


\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

Source: Legislative Finance and OMB (Based-on Fall 2004 Revenue Forecast)

Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

Source: Legislative Finance and OMB (Based on Fall 2004 Revenue Forecast)

... but can we?

***An Alaskan's
Guide to the Permanent Fund***

The Fund would help create an investment base to continually generate future income. When oil ran out, Alaska would still have a major source of state revenues. Alaskans could use these revenues to pay the costs of basic government services, or for whatever purposes future generations of Alaskans decided.

Each year, the Fund would channel a significant portion of the oil revenues away from the legislature. Less state income reduces the opportunity for excessive state spending.

The Fund would transform non-renewable oil wealth into a renewable source of wealth for future generations of Alaskans.

Yes, We Can!!!!!!

The Earnings Reserve Account, a result of wise investment of our Permanent Fund, has been and still is available to the legislature by a simple majority vote of 21-11.

PF financial projections say . . .

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of December 31, 2004

Projections will extend ten years, and are based on best available information (\$ in millions)

*As of Dec. 2004, statutory net income is trending to end the fiscal year more than 25% below the mid case.

Reserved Fund Balance - Principal										Unreserved Fund Balance										TOTAL FUND BALANCE	
FY	FY-Begin Contrib. Balance	Appropriations ⁽¹⁾	Dedicated State Revenues	Inflation Proofing	FY-End Balance	Unrealized Gain (Loss)		FY-End Reserved Balance	Acct. Net Income ⁽²⁾	Statutory Net Income ⁽³⁾	Distributions of Statutory Net Income			Realized Earnings Account			FY	FY-End Balance			
						Net Change	FY-End Balance				Dividends	Inflation Proofing	General Fund	Net Change	FY-End Balance						
77-98	0	6,734	6,250	5,533	18,517	3,971	3,971	22,288	20,683	18,667	7,589	5,533	268	1,389	1,389	77-98	1,389				
99	18,517	41	155	288	19,001	(430)	3,541	22,544	2,148	2,544	1,045	288	3	1,201	2,590	99	2,590				
00	19,001	264	326	423	20,014	(12)	3,529	22,543	2,249	2,222	1,172	423	3	382	2,972	00	2,972				
01	20,014	8	339	686	21,047	(2,146)	1,383	22,430	(924)	1,199	886	686	4	(988)	2,264	01	2,264				
02	21,047	(23) ⁽²⁾	258	602	21,884	(878)	505	22,389	(617)	257	926	602	5	(1,248)	1,136	02	1,136				
03	21,884	354 ⁽³⁾	398	352	22,988	601	1,106	24,094	963	355	691	352	0	(1,035)	100	03	100				
04	22,988	(339) ⁽⁴⁾	353	524 ⁽⁵⁾	23,526	1,909	3,015	26,541	3,434	1,502	581	170 ⁽⁶⁾	0	759	859	04	859				
05	23,526	19	476	624	24,645	(2,996)	19	24,664	(1,509)	1,468	502	624	0	342	1,201	05	1,201				
06	23,526	21	476	624	24,647	(2,022)	993	25,640	(94)	1,907 [*]	548	624	0	735	1,594	06	1,594				
07	23,526	27	476	624	24,653	(453)	2,562	27,215	2,048	2,474	608	624	0	1,242	2,101	07	2,101				
08	23,526	28	476	624	24,654	1,069	4,084	28,738	4,187	3,090	672	624	0	1,794	2,653	08	2,653				
09	23,526	31	476	624	24,657	2,125	5,140	29,796	5,765	3,609	727	624	0	2,239	3,118	09	3,118				
10	24,653	21	356	650	25,681	180	2,742	28,423	2,190	1,988	690	650	0	648	2,749	10	2,749				
11	25,681	23	312	676	26,691	191	2,834	29,625	2,328	2,114	885	676	0	553	3,302	11	3,302				
12	26,691	24	245	700	27,660	202	3,136	30,796	2,457	2,231	1,082	700	0	448	3,750	12	3,750				
13	27,660	26	231	725	28,643	212	3,348	31,991	2,578	2,340	1,170	725	0	445	4,195	13	4,195				
14	28,643	28	230	751	29,651	223	3,571	33,222	2,701	2,451	1,168	751	0	532	4,727	14	4,727				
15	29,651	30	231	777	30,689	234	3,805	34,494	2,834	2,570	1,229	777	0	564	5,291	15	5,291				
16	30,689	32	224	804	31,740	246	4,051	35,799	2,972	2,694	1,290	804	0	600	5,891	16	5,891				
17	31,740	34	215	831	32,829	258	4,308	37,137	3,114	2,822	1,352	831	0	639	6,531	17	6,531				
18	32,829	37	206	859	33,930	270	4,579	38,509	3,263	2,956	1,417	859	0	680	7,210	18	7,210				
19	33,930	39	195	887	35,051	284	4,862	39,914	3,417	3,094	1,484	887	0	722	7,933	19	7,933				
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Income year-to-date as of December 31, 2004

FY05 Statutory net income	
Interest, dividends, real estate & other income	\$ 419.4
Realized gains on the sale of invested assets	404.8
Less operating expenses	(22.6)
Statutory net income	\$ 801.6

FY05 GAAP (accounting) net income	
Statutory net income	\$ 801.6
Adjustment for unrealized gains (losses) on invested assets	1,571.6
Accounting net income (loss)	\$ 2,373.2

For more information see www.apfc.org

Notes to financial results and projections FY77 - FY15:

⁽¹⁾ Special general fund and earnings reserve appropriations to principal, royalty settlement earnings transferred to principal per AS 37.13.145(d), and other miscellaneous appropriations to principal.

⁽²⁾ Final adjustment to principal based on reconciliation of State of Alaska v. Amerinda Hess et al royalty case.

⁽³⁾ FY03 Senate Bill 100 transferred \$354 million from realized earnings account to principal.

⁽⁴⁾ Senate Bill 283 defines the FY03 special appropriation of \$354 as pre FY04 inflation proofing and appropriates the remaining \$170 million needed to fully inflation proof contributions and appropriations in FY04. An additional \$15 million in settlement earnings (earnings above inflation) is appropriated to principal per AS 37.13.145(d).

⁽⁵⁾ Statutory inflation proofing for FY04 is based on the inflation rate of 2.28%, or \$524 million (\$354 million pre inflation proofing plus \$170 million FY04 appropriation).

⁽⁶⁾ Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings. Statutory net income is realized earnings less settlement earnings and is used to calculate the annual dividend transfer.

⁽⁷⁾ Total Fund equals reserved fund balance plus the realized earnings account.

⁽⁸⁾ Based on 2004 Callan capital market assumptions and a range of expected returns based on the probability of the return outcomes.

⁽⁹⁾ Based on 2004 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary from projections.

PERFORMANCE SUMMARY		Current Month	Last 3 Months	Fiscal 0 Y-T-D #	Calendar 0 Y-T-D #	Last 12 Months	Last 3 Years	Last 6 Years
(preliminary as of December 31, 2004)								
Alaska CDs	0.18%	0.48%	0.85%	1.55%	1.55%	1.87%	3.12%	
Domestic Fixed Income	0.94%	1.01%	1.13%	4.27%	4.27%	6.11%	7.56%	
Non-Domestic Fixed Income	1.23%	6.74%	10.69%	9.99%	9.99%	12.12%	8.09%	
Domestic Equities	3.57%	10.50%	7.67%	12.12%	12.12%	5.18%	-0.58%	
Non-Domestic Equities	4.25%	14.54%	15.22%	17.81%	17.81%	11.15%	-0.74%	
Real Estate	3.03%	8.82%	14.12%	20.74%	20.74%	15.17%	14.42%	
Absolute Return	N/A	1.90%						
Total Fund	2.77%	8.05%	8.70%	11.39%	11.39%	8.32%	4.56%	
Total Fund Return Benchmark	2.67%	7.90%	8.76%	11.64%	11.64%	8.15%	3.93%	

December 31, 2004

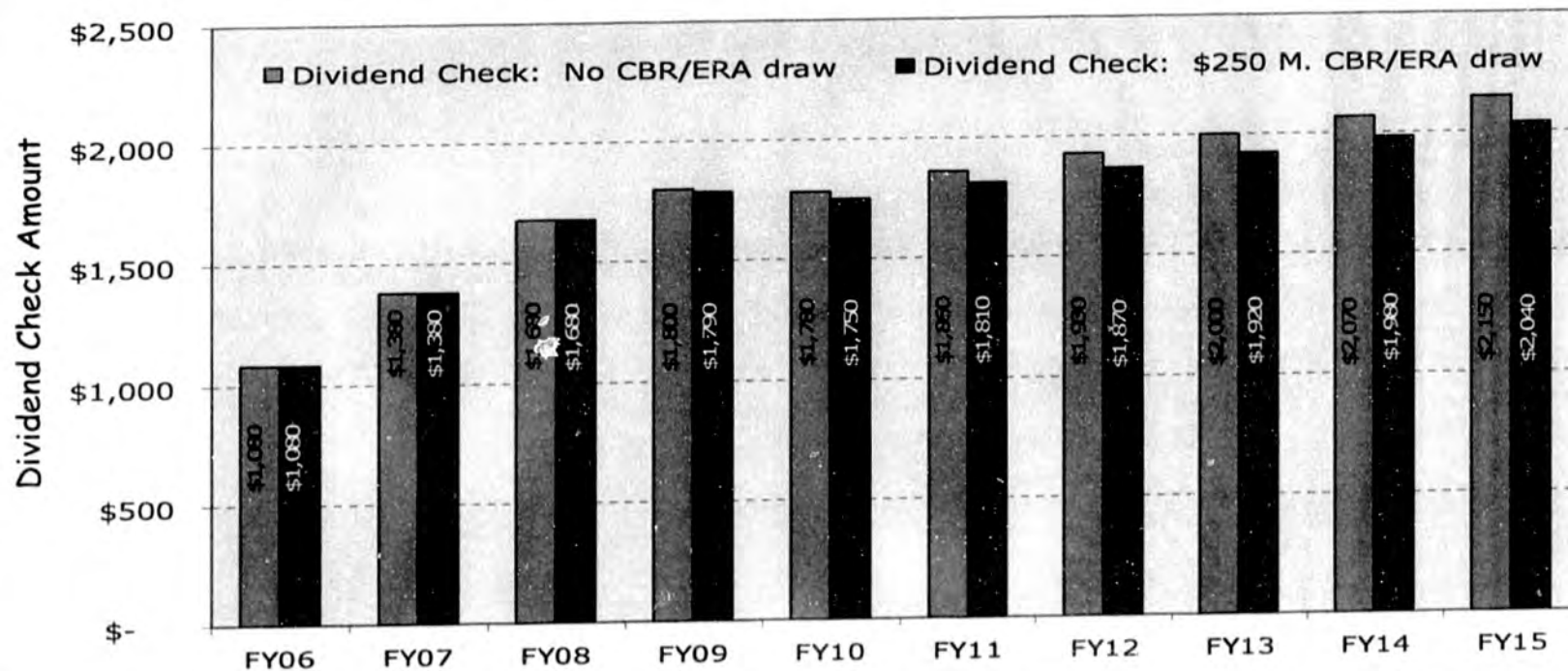
How much less is my PFD if the Legislature draws
\$250 M from the ERA each year?

Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$2	\$4	\$7	\$12	\$18	\$25	\$31	\$38	\$44
300	150	\$0	\$2	\$5	\$11	\$18	\$27	\$37	\$47	\$56	\$66
400	200	\$0	\$3	\$7	\$14	\$24	\$36	\$49	\$62	\$75	\$88
500	250	\$0	\$3	\$9	\$18	\$30	\$45	\$61	\$77	\$93	\$110
600	300	\$0	\$4	\$11	\$21	\$36	\$54	\$73	\$93	\$112	\$132
700	350	\$0	\$4	\$12	\$25	\$42	\$63	\$85	\$108	\$131	\$154
800	400	\$0	\$5	\$14	\$28	\$48	\$72	\$98	\$123	\$149	\$176
900	450	\$0	\$6	\$16	\$32	\$54	\$81	\$110	\$139	\$168	\$199
1,000	500	\$0	\$6	\$18	\$35	\$60	\$90	\$122	\$154	\$187	\$221

Source: Legislative Finance (Based on 7.6% rate of return, Perm Fund Financial Projections, Dec. 31, 2004)

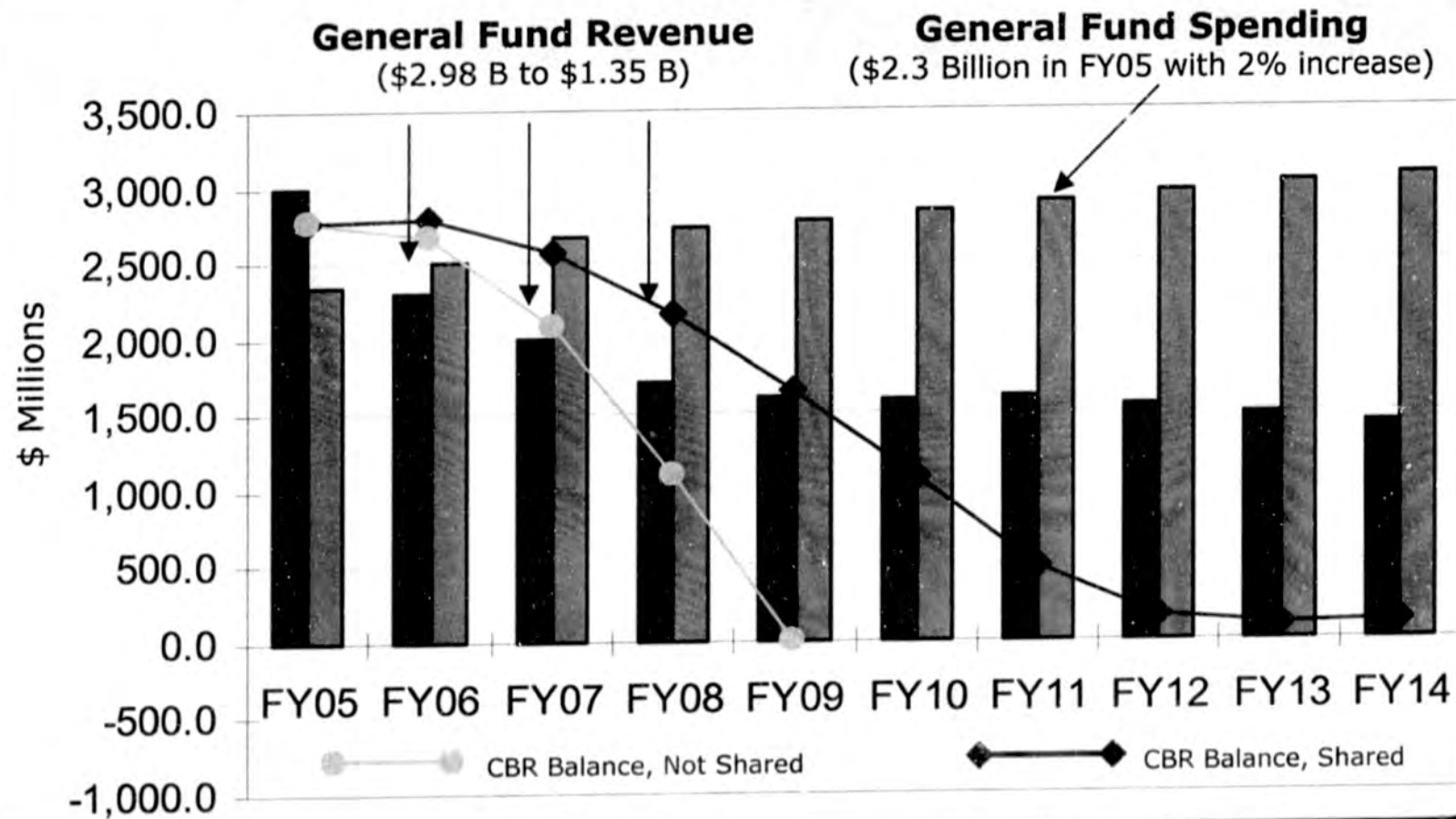
... how does this compare to status quo?

How much less is my PFD if the Legislature draws \$250 M from the ERA every year for 10 years?



Source: Legislative Finance

Answer: In five years, it's 30 less. In ten years, it's \$110 less. 14



Source: Legislative Finance - expected CBR return @ 4.7% plus expected settlements

SCOMM

142:18

HOUSE COMMITTEE REPC T

Date Referred to Committee: March 17, 2005

FURTHER REFERRALS: Oil and Gas Resources

Date of Committee Action: Feb 3, 2006

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered:

HB 223

HOUSE BILL NO. 223

NATURAL GAS PIPELINE INCENTIVE/ GAS TAX

"An Act levying a tax on certain known resources of natural gas, conditionally repealing the levy of that tax, and authorizing a credit for payments of that tax against amounts due under the oil and gas properties production (severance) tax if requirements relating to the sale and delivery of the natural gas are met; and providing for an effective date."

Recommends it be replaced with ☐ HCS or ☐ CS for _____ (_____)

For Senate Bills with new title: ☐ Technical Title ☐ New Title: HCR_____ ☐ Same Title ☐ New Title

[] attach amendments

[] add new referral to _____ Committee

1	Letter of Intent	Committee
---	------------------	-----------

List of
Abbrev
for

Depts.:

ADM

CED

COR

CRT

EED

DEC

DFG

GOV

HSS

LEG
LAWLAW
 & MEDICINELWF
MVA

DNR

DNR
DPS

REV

DOT

UA

1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 26

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Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
~~Peggy Wilson~~	~~WILSON~~				✓	
~~Paul Seaton~~	~~SAMUELS~~				X	
~~Mark Frenenberg~~	~~SEATON~~				X	
	Frenenberg	✓				
Chair: Blythe	Weyhrauch					X
Chair:						



REPRESENTATIVE ERIC CROFT

Memorandum

TO: House Ways and Means Committee,
Representative Bruce Weyhrauch, Chair

FROM: Representative Eric Croft

DATE: April 26, 2005

RE: HB 223—Re-injection and duty to develop

In yesterday's hearing, Representative Samuels asked two important questions concerning the Gasline Now Act that warrant further explanation.

1. Is gas used for re-injection to enhance oil recovery exempt from the fee?

No. Gas used for re-injection can still be sold at a later date, and there are non-marketable gasses that can be used for maintaining well pressure. The Gasline Now Act bases the determination of the amount of gas subject to the fee on the methodology set out by Exxon in 1997 in a letter to the Alaska Oil and Gas Conservation Commission in which Exxon describes how it determines the amount of "hydrocarbon gas available for major gas sales." In this methodology, non-hydrocarbon gas, mostly carbon dioxide, is not included in the amount of "hydrocarbon gas available for major gas sales." This non-hydrocarbon gas can be successfully used for re-injection to enhance oil recovery and to maintain well pressure and will not be subject to the fee. If a producer chooses instead to use a portion of the "hydrocarbon gas available for major gas sales" for re-injection, then that gas will still be subject to the fee.

2. Is the lessees' duty to *find* or to *develop* resources under lease?

According to oil and gas attorney Spencer Hosie who is under contract with the state, a lease can be terminated not only for a failure to find resources, as Michael Hurley of Conoco Philips stated, but also for failure to develop the resources. To overcome the failure to develop issue, the state can either bring a lawsuit or implement a more direct incentive to get the lessees to develop our gas. Because lawsuits take years to reach a verdict, they are an ineffective means to keep the producers from delaying the gasline. The Gasline Now Act gives the producers an imminent reason to stop delaying its construction, and it helps the state pay for the infrastructure and other necessary services in the build-up to gasline construction.



FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 223
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title: An Act Relating to the Taxation of Natural RDU Taxation and Treasury
Gas Reserves Component Tax Division
Sponsor Cro. Crawford
Requester House Committee on Ways and Means Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

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

CHANGE IN REVENUES ()	1,010,280	1,010,280	1,010,280	1,010,280	1,010,280	1,010,280
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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	*	*	*	*	*	*

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*See note on page 2.

This bill seeks to create a new tax to be levied on Alaska's known gas resources as defined in, and subject to the exemptions of, the bill. Estimates of gas resources have yet to be determined, however, according to the Department of Natural Resources, Division of Oil and Gas 2004 Annual Report, about 33,676 billion cubic feet of natural gas could be subject to the tax under the proposal. The tax would be repealed when the gas on which the tax is levied is transported to market.

Assuming 33,676 billion cubic feet are subject to the tax, a \$.03 tax on each 1,000 cubic feet of natural gas would yield revenues of approximately \$1,010 million per year until the gas is transported to market under conditions specified in the bill. When a gas export project is complete and the gas is marketed,

Prepared by: Robynn Wilson, Michael Williams, and Cherie Nienhuis Phone 269-1019
Division: Tax Division Date/Time 1/4/06 4:00 PM
Approved by: Tom Boutin, Deputy Commissioner Date 1/6/2006
Agency: Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB 223

ANALYSIS CONTINUATION

lessees will be allowed to claim a credit for certain of the taxes paid under this legislation with the following limitations: (1) In any year, the credit is limited to half of the lessee's production taxes on gas exported from the slope; (2) Taxes paid pursuant to this legislation before the lessee made an irrevocable commitment to either ship or sell the gas do not qualify for the credit; and (3) Any credit not used by 2030 expires.

*Administration costs are difficult to estimate. On its face, it could be a very simple tax to administer, requiring about 1/4 of a tax technician a year and some time from the State Petroleum Property Assessor. The bill specifies that DOR will determine the volume of taxable gas after consultation with the Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. Having three agencies involved in the determination of gas reserve estimates may unduly complicate the already uncertain science of reserve estimation and could result in legal challenges. *The bill specifies that no taxes will be levied on reserves of less than one trillion cubic feet, and there are at least two fields where reserves are estimated to be just about one trillion cubic feet, which could trigger an expensive conflict about whether taxes of \$30 million a year were owed for each field.* Combining this with other potential legal challenges, the defense of the assessment could run very high.

At a minimum, the DOR State Petroleum Property Assessor would need \$100,000 per year for contract expertise and administrative review for the purpose of determining taxable gas volumes. A tax technician at \$14,000 (.25 FTE) per year would also be required. Expenses in the first year of implementation are estimated to be \$50,000 for DOR personnel and \$85,000 for support from the Department of Law in the development and establishment of regulations.

The above costs do not cover expenses incurred as a result of legal challenges.

Once the gas is being marketed, there will be additional costs incurred by the department for the purpose of determining the amount of credit to be applied to production tax liabilities. It is highly unlikely that these costs will be incurred prior to FY2012; therefore, these costs do not appear on this fiscal note.

Alaska State Legislature
House of Representatives



Representative Harry Crawford -- District 21
Representative Eric Croft -- District 25

HB 223—The Gasline Now Act

The Gasline Now Act is a useful tool for encouraging construction of a North Slope gas pipeline by charging a fee to gas producers for not producing Alaska's gas and refusing to ship gas or build a gas pipeline.

Once it's built, the Gasline Now Act goes away.

The fee ends when gas first flows through a pipeline, either an All-Alaska line or the Canadian line, with at least 2.0 billion cubic feet per day (bcfd) from the North Slope to a commercial market.

Any producer can get all of their fees back if they commit to sell or ship gas.

A producer can get a credit for fees paid under the Gasline Now Act if the producer makes a commitment to sell or ship gas down the pipeline that actually gets built.

The credit will be applied against the production tax owed by the producer for gas shipped down the pipeline.

The earlier they commit, the more credit they earn.

The credit is equal to the amount of fees paid from the time the producer makes the commitment to sell or ship until the gasline is built.

The credit will be applied against no more than 50% of the producer's production tax until the year 2030 or until the total amount of credit is repaid, whichever comes first.

A producer can avoid the fees altogether.

Any producer unwilling to ship their gas down a pipeline can relinquish its taxable leases back to the state for re-lease to a producer willing to cooperate in the pipeline process.

The Gasline Now Act will encourage exploration.

The fee only applies to gas in units leased before 2002 that have more than 1 trillion cubic feet (tcf) of known gas resource (Prudhoe Bay and Point Thompson). The fee does not apply to new gas finds regardless of size. Currently, explorers have little incentive to search for gas because there is no way to get any gas to market. HB 223 gives an incentive to build a pipeline that will provide all North Slope producers a way to get gas to market and thereby encourage them to look for more.

The amount of taxable gas is determined with a formula set out by Exxon in 1997 to determine the quantity of marketable gas in a lease. It only includes gas that should be marketed but does not include natural gas liquids shipped down the TAPS pipeline, gas used to power production facilities or gas used for re-injection to enhance oil recovery.

The Gasline Now Act creates a stable fiscal structure for both industry and Alaska

By attaching the credit to a producer's production tax, producers can count on a reduced and stable tax rate until 2030. The credit will smooth any future changes in the severance tax by lessening the blow to producers of future tax increases.

The Gasline Now Act will stabilize Alaska's fiscal situation by bringing in \$600-900 million in gasline revenue starting in 2007 to pay for increased demands on state services during pipeline construction. Money from the Gasline Now Act can be used for new schools, roads and public safety officers and can be invested to provide a cushion for the state in future economic down years.

Alaska State Legislature

House of Representatives



Representative Harry Crawford -- District 21

Representative Eric Croft -- District 25

HB 223 Gasline Now Act

Details

Section 1. Creates the storage fee.

Sec. 43.58.210. Tax on known gas resources.

- \$0.03 per mcf
- Estimated \$960 million in annual revenue

Sec. 43.58.220. Property subject to tax.

- (a) – The fee applies to “known gas resources” excepting gas described below.
- (b) – The fee does not apply to:
 - gas hydrates
 - Coal bed methane or other non-conventional gas
 - CO₂ or other non-hydrocarbon gas
 - Undiscovered gas within a lease
 - Gas used for fuel to run the facilities on the lease
 - The five year limit prevents a lessee from deducting estimate amounts of gas to be used for fuel for the life of the lease
 - Gas liquids shipped down TAPS.
- (c) – The fee only applies to gas in leases that meet certain criteria.
 - Only gas that has been discovered but not marketed for ten years will be taxed.
 - Gas must be in a lease that was in a state approved unit before 2002 (the fee will not apply to new exploration).
 - Gas must be in a unit with at least 1 trillion cubic feet of gas.

Sec. 43.58.230. Determination of volume of taxable gas.

- (a) – Revenue will consult with DNR and AOGCC to determine the amount of taxable gas each year.
- (b) – If the lessees within a unit can agree on how to allocate the taxable gas, then the Dept. of Revenue will use those allocations.

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- (c) – If the lessees cannot agree to allocations, then Revenue can allocate in one of the following ways:
 - Revenue and lessees come to an allocation agreement
 - Based on gas in place under each specific lease
 - Based on how much gas is left in the unit
 - Based on surface area each lessee hold within the unit
- (d) – Revenue can let DNR or AOGCC allocate the taxable gas

Sec. 43.58.240. Returns and payment of tax.

- (a) through (e) Describes the method of payment and other technicalities of submitting returns and making the fee payments to the state.

Sec. 43.58.250. Regulations.

- Directs the Department of Revenue to adopt regulations to address
 - Preparing lists of property to be taxed,
 - Noticing lessees the amount of gas to be taxed,
 - Procedures for appeal, putting the burden of proof on the appellant, and
 - Certification of the final tax roll and any supplemental tax rolls.

Sec. 43.58.295. Definitions.

- Creates definition of "known gas resources."
- Defines other terms for the purpose of this act.

Section 2. Creates the credit.

Sec. 43.55.027. Credit against tax as it applies to certain natural gas production.

- (a) –Allows a credit against the lessee's severance taxes due for the fees charged in the Gasline Now Act.
- (b) –Allows lessees to claim and take the credit.
- (c) –Fees paid under the Gasline Now Act can begin to be repaid after the pipeline is built as long as:
 - (1) the lessee has agreed to sell or ship gas
 - (2) the pipeline they agreed to sell to or ship on is the pipeline that is in operation, and
 - (3) the agreement that made the lessee eligible for the credit is actually the agreement it is shipping under.
- (d) –Defines the total amount of credit allowed and how much can be repaid at a time.
 - (1) The credit is applied against the lessee's monthly severance tax payment.
 - (2) Each month, the credit can be no more than 50% of the severance owed in that month.

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- (3) The amount of credit allowed as the amount of money a lessee pays to the state after they make a qualifying agreement to ship or sell the gas until the pipeline is built.
- (e) –The credit ends at the end of the year 2030 whether or not all of the fees paid in have been refunded.
- (f) –Conforms the definition of lessee to the other sections of the bill.

Section 3. Termination of the Gasline Now Act.

- The Gasline Now Act fee sections are repealed upon completion of a 2bcf/day gas pipeline or combination of pipelines from the North Slope to either tidewater or the North American natural gas pipeline system.
- The credit provisions are not repealed.

Section 4. Surrender lease option.

- A lessee can avoid paying the fees under the Gasline Now Act for a particular lease if it gives that lease back to the state before the end of the calendar year 2006.

Section 5. Severability.

- This act is severable.

Section 6. Effective Date of the termination of the Gasline Now Act.

- See section 3.

Section 7. Effective date of lease surrender.

- A lessee can surrender its lease immediately upon passage of this act.

Section 8. Effective date of other sections.

- The Gasline Now Act takes effect January 1, 2007 so as to allow lessees time to prepare the shipping or sales agreements that would qualify them for the credit.



REPRESENTATIVE ERIC CROFT

Memorandum

TO: House Ways and Means Committee,
Representative Bruce Weyhrauch, Chair

FROM: Representative Eric Croft

DATE: April 26, 2005

RE: HB 223—Re-injection and duty to develop

In yesterday's hearing, Representative Samuels asked two important questions concerning the Gasline Now Act that warrant further explanation.

1. Is gas used for re-injection to enhance oil recovery exempt from the fee?

No. Gas used for re-injection can still be sold at a later date, and there are non-marketable gasses that can be used for maintaining well pressure. The Gasline Now Act bases the determination of the amount of gas subject to the fee on the methodology set out by Exxon in 1997 in a letter to the Alaska Oil and Gas Conservation Commission in which Exxon describes how it determines the amount of "hydrocarbon gas available for major gas sales." In this methodology, non-hydrocarbon gas, mostly carbon dioxide, is not included in the amount of "hydrocarbon gas available for major gas sales." This non-hydrocarbon gas can be successfully used for re-injection to enhance oil recovery and to maintain well pressure and will not be subject to the fee. If a producer chooses instead to use a portion of the "hydrocarbon gas available for major gas sales" for re-injection, then that gas will still be subject to the fee.

2. Is the lessees' duty to *find* or to *develop* resources under lease?

According to oil and gas attorney Spencer Hosie who is under contract with the state, a lease can be terminated not only for a failure to find resources, as Michael Hurley of Conoco Philips stated, but also for failure to develop the resources. To overcome the failure to develop issue, the state can either bring a lawsuit or implement a more direct incentive to get the lessees to develop our gas. Because lawsuits take years to reach a verdict, they are an ineffective means to keep the producers from delaying the gasline. The Gasline Now Act gives the producers an imminent reason to stop delaying its construction, and it helps the state pay for the infrastructure and other necessary services in the build-up to gasline construction.



Gas Revenue Endowment Fund (GREF)
Pro-forma Operating Model (in millions unless noted)

Assumptions (production and tax estimates provided by DOR with full disclaimer)

Chicago gas price (\$/mmBtu)	varies
Sale volume (bcf)	4.5
Lease volume (bcf)	4.712
Royalty	12.5%
Severance	10.0%

First production	2012
Full production	2013
POMV	5.0% 5 year average
GREF Earnings	8.0%
ELF	80% - 90%

Year	Deposit to GREF			GREF Earnings			GREF POMV			GREF Balance		
	\$4.00	\$5.00	\$6.00	\$4.00	\$5.00	\$6.00	\$4.00	\$5.00	\$6.00	\$4.00	\$5.00	\$6.00
2007	0	0	0							0	0	0
2008	0	0	0	0	0	0				0	0	0
2009	0	0	0	0	0	0				0	0	0
2010	0	0	0	0	0	0				0	0	0
2011	0	0	0	0	0	0				0	0	0
2012	298	473	649	0	0	0				298	473	649
2013	618	984	1,349	24	38	52				940	1,495	2,050
2014	620	985	1,351	75	120	164	(15)	(24)	(32)	1,620	2,576	3,532
2015	621	987	1,354	130	206	283	(31)	(49)	(67)	2,340	3,720	5,102
2016	622	989	1,356	187	298	408	(48)	(76)	(104)	3,101	4,930	6,762
2017	624	992	1,360	248	394	541	(65)	(103)	(142)	3,908	6,214	8,521
2018	625	994	1,363	313	497	682	(83)	(132)	(181)	4,763	7,573	10,385
2019	627	996	1,366	381	606	831	(119)	(189)	(260)	5,652	8,985	12,322
2020	628	999	1,370	452	719	986	(157)	(250)	(343)	6,575	10,453	14,335
2021	630	1,002	1,374	526	836	1,147	(198)	(314)	(431)	7,533	11,977	16,425
2022	632	1,005	1,378	603	958	1,314	(240)	(382)	(523)	8,528	13,559	18,593
2023	634	1,008	1,382	682	1,085	1,487	(284)	(452)	(620)	9,560	15,199	20,843
2024	636	1,011	1,386	765	1,216	1,667	(331)	(525)	(721)	10,630	16,901	23,176
2025	638	1,014	1,390	850	1,352	1,854	(378)	(602)	(825)	11,740	18,665	25,595
2026	640	1,017	1,395	939	1,493	2,048	(428)	(681)	(934)	12,891	20,494	28,104
2027	642	1,021	1,399	1,031	1,640	2,248	(480)	(763)	(1,046)	14,084	22,392	30,704
2028	644	1,024	1,404	1,127	1,791	2,456	(533)	(848)	(1,163)	15,322	24,359	33,402
2029	646	1,028	1,409	1,226	1,949	2,672	(589)	(937)	(1,284)	16,604	26,399	36,199
2030	648	1,031	1,414	1,328	2,112	2,896	(647)	(1,028)	(1,410)	17,934	28,514	39,099
2031	651	1,035	1,419	1,435	2,281	3,128	(706)	(1,123)	(1,540)	19,313	30,707	42,106
2032	653	1,039	1,424	1,545	2,457	3,368	(768)	(1,222)	(1,675)	20,743	32,981	45,223
2033	656	1,042	1,429	1,659	2,638	3,618	(833)	(1,324)	(1,815)	22,226	35,338	48,455
Total deposits	13,633	21,676	29,721									
Final fund bal.	22,226	35,338	48,455									

Gasline Now Act's Ability to Bridge the Gap

