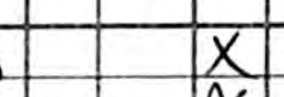
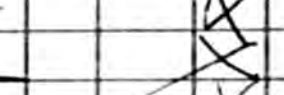


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Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
		SAMUELS			X	
Bertie Gardner		Gardner			X	
~~Bertie Gardner~~		~~Kerthue~~			X	
~~Phyllis Johnson~~		~~Orlston~~			X	
Kathy		Roksbury			X	
Chair: 		Lehman				
Chair: 		Lehman				

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 ()	***					
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (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						
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CHANGE IN REVENUES ()	See Analysis					
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (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

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.

Alaska Support Industry

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THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

May 2, 2005

The Honorable Thomas Wagoner
Alaska State Senate
Chair, Senate Resources Committee
State Capitol, Room 427
Juneau, AK 99801-1182

Re: Request to testify in opposition to Amendment #1 to
HB 71, Oil & Gas Exploration Credit and Lease Terms.

Dear Senator Wagoner:

On behalf of the Board of Directors of the Alaska Support Industry Alliance, I would like express our opposition to Amendment #1 to HB 71 as adopted on the House floor Thursday morning, April 28, 2005. While we believe the amendment represents significant legal challenges at both the State and Federal levels, what was most disconcerting was the way the amendment was introduced on the House floor without opportunity for public debate. Therefore, we respectfully appreciate you and your committee for providing such an opportunity to testify.

Our main concern with the amendment is that it raises serious constitutional issues in that it attempts to allow the State to unilaterally change the terms and conditions of both the existing oil and gas leases and unit agreements. The amendment raises the fundamental question as to the ability of any party to rely upon the representations of the State when entering into commercial transactions. This can effectively set Alaska on a future path of litigation for impairment of contracts on all oil and gas leases thereby destroying investor confidence in Alaska.

We look forward to the opportunity to testify in greater detail during today's public hearing.

Sincerely,

Larry Houle
General Manager
907.563.2226

Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907) 272-1481 Fax: (907) 279-8114

Testimony of the Alaska Oil and Gas Association Regarding CSHB 71(FIN) am

**Senate Resources Committee
May 2, 2005**

Mr. Chairman, Members of the Committee. For the record my name is Judy Brady, and I am the Executive Director of the Alaska Oil and Gas Association. AOGA is an industry trade association whose 18 members represent the great majority of the petroleum industry in Alaska. I am here today to testify about House Bill 71 on behalf of AOGA's membership, who have approved this testimony.

Until it was amended on the floor of the House last Thursday, HB 71 was a fairly straightforward bill to extend the availability of exploration tax-credits under AS 43.55.025 so they could be earned by exploration activities in the Cook Inlet area and the Bristol Bay area, as well as the North Slope outside of ANWR. AOGA supported HB 71 because it would encourage oil and gas exploration in the state, and exploration is one of four principal strategies available for sustaining oil production at current levels despite the ongoing natural decline of the fields as they are depleted. The three other strategies, as you well know, are (1) ongoing development of existing fields to slow their natural rate of decline, (2) development of satellite fields to use available capacity in existing production infrastructure, and (3) development of the huge resource of viscous oil — well over 20 billion barrels in place — that is already known to exist.

Last Thursday's House floor amendment inserted Bill Sections 1 and 2 into the version of the Bill that is now before you, and changed the title of HB 71 to reflect these two new Bill Sections. Bill Section 2 is the portion of the amendment having true significance and substance, and Section 1 is just a laundry list of factors attempting to justify what Section 2 would do.

Bill Section 2 would amend the state oil and gas leasing statute, AS 38.05.180, by adding a new subsection (hh) to it. This new subsection would purport to mandate how existing state oil and gas leases are to be interpreted and applied, by forging a novel test from a smorgasboard of disparate phrases and concepts from leases, unit agreements and Lower 48 cases. The result is something that is unprecedented, unfair and contrary to commercial realities. This is nothing less than an effort to unilaterally rewrite the lease obligations between lessee and lessor in a material way.

It is difficult to express adequately how deeply troubled AOGA is by the House floor amendment to HB 71 and how strongly we oppose it. Our opposition comes at several levels of analysis.

First, we are troubled by the way in which the entire committee-referral process was circumvented through a floor amendment. The amendment radically altered the Bill by adding important and controversial substance to it that no House committee had had any opportunity to hear and consider, whether in the context of HB 71 or any other Bill this Session. Moreover, Section 7 in Article I of the Alaska Constitution guarantees that "[t]he right of all persons to fair and just treatment in the course of legislative and executive investigations shall not be infringed." Even if the Legislature had the authority to to rewrite the terms of our oil and gas leases, it would not constitute the "fair and just treatment" to do it without notice and opportunity to be heard.

Second, by enacting subsection (hh) to prescribe what the oil and gas leases mean and how they are to be interpreted and applied, the amendment attempts unconstitutionally to usurp the function and authority of the Judicial Branch. Under the "Separation of Powers Doctrine" the Legislative Branch writes the laws, the Executive Branch carries them out, and the Judicial Branch interprets what they mean. The Judiciary's exclusive role of determining the meaning of disputed terminology applies also to the contracts that the State may enter into. It is for the Judicial Branch, not the Legislative Branch, to determine what the leases mean and how they should be applied in a given set of circumstances.

Third, the interpretation prescribed under subsection (hh) for existing oil and gas leases would materially alter the terms and conditions of those leases. Each oil and gas lease is a contract between the State and the lessee or lessees under that lease. The contractual terms and conditions in those leases — and the duties and obligations that the parties owe to one another under the leases, whatever they might be — cannot be altered by either party unilaterally. It requires mutual agreement for any change. When the State attempts to exercise its sovereign powers to alter materially the terms and conditions of a contract — and particularly a contract that it itself has entered into — it is impairing the obligations of that contract in violation of the "Contract Impairments Clause" in Section 15 in Article I of the Alaska Constitution and Section 10 in Article I of the United States Constitution.

Fourth, even if subsection (hh) could constitutionally do what it purports to do, consider the precedent that would be created. If the terms of existing oil and gas lease contracts can be rewritten by prescribing how the key provisions in those leases are to be "clarif[ied] and interpret[ed]," But if this can be done with state oil and gas lease contracts, it can be done for any other kind of state contract as well.

Right now the Murkowski Administration is striving to negotiate a contract under the Alaska Stranded Gas Development Act in order to eliminate a major source of potential risk for a Gas Pipeline Project. This is the risk the State might otherwise change its fiscal "rules of the game" once the Gas Pipeline is built. The industry recalls well that, once pipe was ordered in 1969 to build the trans-Alaska oil pipeline, Alaska changed its tax laws for that pipeline and the Prudhoe Bay field at least a dozen times in the 1970 – 1978 period. Thus, eliminating this risk through a Stranded Gas contract is one of the most important things, if not the most important one, that the State can do to help the Gas Pipeline Project move forward. But now, if the Legis-

lature passes HB 71 with this subsection (hh) in it, you would be telling anyone who might otherwise be willing to develop the Project that the fiscal certainty under a Stranded Gas contract might not be all that "certain" after all — you would be telling them that future legislatures might alter the terms and obligations under that contract through the expedient of enacting legislation like subsection (hh) purporting to interpret and clarify what the Stranded Gas contract means.

Is it really the intent and desire of this Legislature to eviscerate the Stranded Gas Development Act and set the Gas Pipeline back like this? We think not, and we doubt the members of the House intended to do so either. But to avoid that very thing, Bill Sections 1 and 2 of the version of HB 71 before this Committee need to come out.

AOGA supported, and would support now, CSHB 71(FIN) as it read before the House floor amendment. But that amendment is unsupportable, and its enactment would create a legal precedent of the gravest danger not only to the oil and gas industry's contractual relationships with the State, but also for any other parties with significant contractual relationships with the State as well.

Thank you, Mr. Chairman, for this opportunity to testify to you.

Clarity - durability

**BP Testimony
Senate Resources Committee
HB 71**

Mr. Chairman, members of the Committee, my name is Ken Konrad. I am Senior Vice President for BP Alaska and responsible for BP's ongoing ANS gas commercialization efforts.

Thank-you for the opportunity to testify today regarding HB 71.

We are deeply disappointed with both the process and the content associated with the amendment to HB 71 that was passed on the House floor April 28th.

We would ask that this committee remove that amendment to preserve an otherwise supportable bill or failing that, kill the bill in its entirety.

The amendment was introduced on the House floor and passed without any prior discussion or committee work.

It seems that advisors creating the amendment were able to slip a very bad idea into legislation under cover of darkness.

Lest there be doubt, this amendment is bad for a gas pipeline project and bad for the Alaska oil and gas business. And it sets an ugly precedent for business in Alaska generally.

Government manipulation of prior contracts

The amendment effectively seeks to alter existing contracts entered between the State and leaseholders.

It would make government the all powerful decision-maker regarding project development, determining what level of profitability is "acceptable" regardless of the risks involved.

This misguided, "government knows best" approach is inconsistent with America's market based society, and, we hope, inconsistent with this committee's view of the role of government.

It suggests that government, and government alone, should be able to force investors into a multi-billion dollar project that is by all accounts a project with significant risk. Of course, the amendment does not suggest compensating investors when the government's assumptions in its all knowing economic model are wrong.

The amendment hands the critical roles of investment evaluation and field regulation directly to the Commissioner of the Department of Natural Resources, in an entirely one-sided process. Here's how it would work:

The commissioner would use a State developed economic model to determine whether a private company **MUST** invest in a project, and **WHEN** that investment must occur. With the aid of a state-determined price forecast and a state-determined cost assessment, the Commissioner determines project scope and timing.

Using an average historical rate of return figure as a benchmark for specific projects is a fundamentally flawed approach that fails to recognize unique risk / return characteristics inherent in every individual project.

But it is the Commissioner who determines the appropriate Rate of Return hurdle rate for the investors, and tells them when to move forward with a project. Regardless of the investor's own views on risk and reward and regardless of investment criteria actually used by industry!

Are we still in America?

It is not surprising that no other state has anything remotely similar to what is contained in this amendment.

It is unprecedented – in large part because it is in direct conflict with basic State and Federal constitutional principles.

State and Federal Constitutional Issues

The HB 71 amendment violates basic State and Federal constitutional prohibitions against legislative "Impairment of Contracts". This fundamental principle intended to ensure the sanctity of contracts is a cornerstone of the U.S. economic system.

It prevents governments from using their power to roll rough-shod over agreements that have been made with private entities. It ensures that free market principles are upheld, and that no government can choose to ignore its own contractual rights and obligations.

The amendment seeks to strip away the lessees' ability to evaluate and act on investment decisions. Changing the rights and obligations of the lessee's years after the contract was entered fails this most basic constitutional premise.

This legislative effort to alter contracts after the fact sends a chilling signal to industry at the very time we are looking for clarity and durability through a fiscal contract for gas development.

The amendment also violates fundamental government separation of powers principles by infringing the role of courts in adjudicating contracts.

We would suggest the Chairman request a balanced and thoughtful legal evaluation of this bill from the Department of Law.

An amendment made by lawyers for lawyers

Given the clear constitutional issues raised, it is safe to assume that any effort to actually invoke the amendment to challenge existing lease contract would spark a marathon of litigation. As a matter of fact, some have suggested this bill should be renamed, "the Lifetime Employment for Lawyers Act".

While a contract dispute on its own could be expected to result in significant litigation – the HB 71 amendment adds yet a couple more layers of litigation.

The first step would be constitutional challenges through State courts. Then, more litigation as similar issues are addressed through a variety of federal courts.

And while the lawyers are doing just fine – the gas project itself languishes.

Contrast to SGDA process

It is particularly surprising to see the language contained in the amendment because it is so inconsistent with the sound and thoughtful approach that was previously developed by the legislature and supported by industry.

The Legislature re-authorized the Stranded Gas Development Act in 2003.

We began informal discussions with the state shortly thereafter and in January, 2004 BP, ConocoPhillips and ExxonMobil submitted the first SGDA application received by the state.

Just two months after the U.S. congress passed the gas pipeline legislation, BP, ConocoPhillips and ExxonMobil submitted a detailed and comprehensive proposal to the State that would allow a gas project to advance to the next phase of activity.

The proposal embraced the governor's desire for direct state participation in the project.

The opportunity for gas commercialization is at our doorstep. Detailed discussions with the state are ongoing.

It should be clear that we are doing exactly what that legislation intended: negotiating toward a clear and durable fiscal contract that enhances the prospects for a commercially viable Alaska gas pipeline project.

Let's Pretend.....

Please indulge me in a game of pretend to help illuminate the absurd nature of this amendment.

Let's pretend this committee votes to support this amendment and other Senate committees do likewise and the amendment is ultimately passed into law.

Let's pretend the Commissioner of Natural resources at some point in the future decides to take steps to implement this new change to prior contracts.

Let's pretend that when the constitutionality of this amendment is challenged through the State court system and all appeals are finally exhausted, that the State Supreme court does not rule this amendment as unconstitutional.

Let's pretend that when the constitutionality of this amendment is subsequently challenged through the Federal court system and all appeals are exhausted, that Federal courts allow the amendment to stand.

Now let's pretend that having survived these constitutional challenges that the State is able to prevail in the inevitable litigation over the lease contract itself.

After many years of hard work and many court victories, let's pretend all the lawyers retire very comfortably at some far away paradise.

And we may as well pretend that though this period of endless litigation centered on the very essence of the sanctity of contracts, investors continue to confidently invest billions of dollars on other oil and gas investments uninterrupted – after all we are just pretending.

Now, let's pretend industry actually begins to invest in the project as mandated by the then state government.

Let's pretend the costs the state had assumed in its economic model are exceeded by \$5 billion. Would the state reimburse investors for the States poor assumption on cost?

Or let's pretend the gas prices assumed in the state economic model proved overly optimistic. Would the State pay investors the difference?

Or the project was delayed due to regulatory problems in Canada – would the State pay the costs of delay?

What fiscal regime would the State assume in its economic model? What if it changed after the state had forced the investment on industry?

Perhaps the prevailing attitude is, "Who cares about those questions. Someone else can figure them out once there's a pipeline in the ground."

We can't imagine that this body would hold such an attitude, because it would indicate a cavalier, short-sighted, anti-market mind-set, wrapped in a cheap costume that has been spray-painted, "Best for Alaska".

Well, some things can be camouflaged with spray paint. But we don't think anyone can disguise fundamental challenges to the American system of free enterprise and the rule of law. Such challenges are just too ugly.

Bad process -

In the short period of time since this amendment crawled out of the shadows on April 28, we have had an opportunity to discuss with many legislators what this amendment actually means.

It has become very clear that few Members in the House appreciated the full meaning or wide ranging consequences of the amendment when the vote was held.

This is not entirely surprising given that there was no prior debate, no prior discussion and no prior committee work in advance of the very sudden House floor vote.

Just before the floor vote, advisors whispered in hushed tones that this amendment would ensure a gas pipeline would be built.

Whispers of - "Trust me, this will help get us a gas pipeline"

Trusting and well intentioned representatives, with no time to find out otherwise, did as they were advised.

I have attached a transcript of the House floor discussion prior to the vote in its entirety to my testimony for reference. It illuminates the totality of discussion on this amendment prior to the vote.

Ugly process, ugly amendment.

Mr. Chairman, members of the committee, the amendment to HB 71 is a ridiculous, unworkable, unhelpful, unconstitutional approach that will at best set the stage for years and years of litigation.

It creates an immensely dangerous precedent that has implications for all leases and all contracts, including the gas pipeline contract currently under negotiation.

For all of Alaska industry, the bill casts serious doubt on the sanctity of ANY contract at ANY time.

I urge this committee to strip this amendment from an otherwise sound bill.

I would urge this committee to not simply bury this bill to let it die but to stand up and take a definitive and overwhelming vote to overturn this amendment.....

I would urge this committee to let the private sector know that Alaska is not closed for business

Let investors know that contracts actually mean something in Alaska.

Thank-you. I would be pleased to answer any questions.

Transcript of House Floor Session 4/28/05
HB 71 Reconsideration to consider Amendment #1

Representative Samuels: Thank you Mr. Speaker. At this time I wish to bring up my vote on reconsideration on HB 71.

Speaker: Reconsideration has been asked for on House Bill 71. Madam clerk, would you please read the title for the third and final time.

Clerk: Committee Substitute for House Bill 71 Finance An Act extending and amending the requirements applicable to the credit that may be claimed for certain oil and gas exploration expenses incurred in Cook Inlet against oil and gas properties production (severance) taxes, and amending the credit against those taxes for certain exploration expenditures from leases or properties in the state; and providing for an effective date.

Speaker: Representative Samuels.

Rep. Samuels: Thank you Mr. Speaker. I move and ask unanimous consent that we move back to second reading for the purpose of a specific amendment, that being Amendment #1.

Speaker: Without objection we will go back to second reading for the purpose of a specific amendment. Representative Samuels.

Rep. Samuels: Thank you Mr. Speaker. I move Amendment #1.

Speaker: Is there objection? Hearing no objection.

Member: Object.

Speaker: Oh, there is objection. Representative Samuels.

Representative Samuels: Thank you Mr. Speaker. Amendment #1 which you have in front of you the first couple of pages are kind of why we got there. The crux of it is on page 3, section 2, it starts at line 7. And what this does is, in our leases as we heard from one of the Administration attorneys last year, there are terms in there which are not defined and what this Amendment does is simply define those terms such as "reasonably profitable". And my belief is that this provides clarity for all parties concerned. And the last thing that anybody wants to do, and I believe in my very heart that this will not happen, is that we will not end up in litigation but if we do end up in litigation, then which branch of government do you want defining those terms? Do you want the people of Alaska through their elected representatives in the legislative branch defining those terms or do you want a judge defining those terms? And, what we've done here is we've defined those terms and the crux of the Amendment is to do that. And I can go into more detail but generally speaking we are having definition of terms. We are not changing any conditions of a lease; we are not changing any remedies available; we're simply defining the terms of the lease right now. Thank you.

Speaker: Is there any.. is the objection still maintained?

Rep. Meyer: Thank you Mr. Speaker. Mr. Speaker just a question for the sponsor of the Amendment, does this pertain to all future leases or does this pertain to leases that have already been issued? And I guess if it is retroactive, is there some legal concerns there that if somebody made a bid for a certain lease and the terms were such and now we're changing them, that could cause a problem. I think this is good and would be fine for future leases but I'm concerned with it if it is retroactive.

Rep. Samuels: Thank you. Certainly for future leases and the way that I view this it is defining the terms of a current lease. Now, if we end up in litigation it will be one of the hundred points that a judge would then determine that. And if it's determined that we cannot determine that, at least a judge would know what we thought. I don't think we can lose by doing this at all. We're defining the terms that are not defined at the current time in statute.

Speaker: Any other debate?

Rep. Rokeberg: Mr. Speaker, I'm appreciative of the co-chair of Resources in bringing this forward for our attention. It is a significant issue. We recently received some information from outside council regarding these issues. But I, like the co-chair of Finance, am concerned about its impact on current versus future leases. I do agree with the co-chair of Resources that it clearly would have an impact on future leases and I'm very concerned about the legal impacts with the amount of litigation that might be generated by doing this now, because the body of law, the common law, is defining the terms under the current leases. So if the courts are going to accept these newer definitions, I find that somewhat troublesome. I'd have to defer to some members of the bar from this body to assist on seeking some clarity on this issue. But what's more concerning to me Mr. Speaker is the issue contained on page 3 lines 30 through 31 where we're developing a benchmark for profitability trying to be precise with an arithmetic formula based on 10-year averaging of a basket of companies in terms of what's "reasonable profit". I'm not sure this is doable. As a businessman and an investor I'm used to looking at some of these types of standards and I'm concerned that we can actually compute reasonable profitability from this type of arithmetic formula. Each company and each concern, each sector of the economy has different hurdle rates and different percentages that they consider adequate and reasonable returns. Clearly the bill calls for and makes the distinctions for regulated provisions of the petroleum industry ... uh, seeks to establish another benchmark here, I'm not sure this is the right one. So whereas I applaud the spirit of this to give some clarity here, I'm not sure we're doing more harm than good. So I'd like to get some response.

Speaker: Is there further debate on Amendment #1?

Rep. Hawker: Thank you Mr. Speaker. I guess I rise in puzzlement over this Amendment. I'm a little concerned with the lengthy section of findings. These would be conclusions, statements of fact that we're going to place into the permanent record and I'm not a lawyer but I understand that these do become very important if an issue ever is brought. These are statements of legislative conclusion. I see a lot of findings here are very consistent with a presentation we did here earlier, last week in the Labor and Commerce committee or, I mean, in the LB&A committee, but I believe we only heard one side of the story and I believe some of these facts may be subject to a legitimate dispute or alternate opinion because we all know what happens when we put two lawyers in a room. So I really don't know how or what to do with this

Amendment but I was just wondering if the maker of the Amendment can assure me that these are in fact facts and not matters of legal conclusion that do have an alternative interpretation. Thank you Mr. Speaker.

Speaker: Further debate on Amendment #1? Are you ready for the Question?

Rep. Samuels: Thank you. Very briefly in wrap up, I believe that this just clarifies what we think that the law is currently. And when it comes to the intent language, we just wanted to have some language in there that explains why we were trying to do what we were doing. That was the intent of having the intent language so we would have some context for the definition of that.

Rep. Meyer: Mr. Speaker, this bothers me a bit in the sense that, you know, when you go into a lease thinking the terms are such and such and you spend millions of dollars on that lease and then all of a sudden we decide well, we don't agree with those terms and conditions so we're going to change them retroactively, I'm not sure that's a good business practice. I certainly don't have a problem with making this for any future leases. We have a lot more leases to sell and so I'd like to have just a minute to talk to the sponsor of this Amendment to see if we could make it effective today and not make it retroactive.

Speaker: Brief at ease. House come back to order. All you oil guys come back to order. Is there any other debate on Amendment #1 to House Bill 71? (Come to order; sit down Norman).

Rep. Meyer: Thank you Mr. Speaker. Mr. Speaker, I appreciate the opportunity to take to the sponsor about this. I think that potentially this has some far-reaching legal and commerce implications that we don't know what those are and we can't really have a committee hearing on this on the House floor. And I am a little disappointed that this issue wasn't brought before a committee where we could have had adequate discussion so that we could, you know, talk to the economists and talk to the attorneys that the sponsor's talked to that the rest of us haven't. So, since this is being sprung on us like this, I'm just not comfortable with it so I'll be voting "no".

Speaker: Further debate? Are you ready for the question? The question is, shall Amendment #1 pass the House? Members please vote. Madam Clerk, please lock the role. Does any member

wish to change his or her vote? Rep. Gatto? Rep. Gatto from yea to nay. Any other member wish to change his or her vote? Madam Clerk.

Clerk: 28 yeas, 11 nays.

Speaker: So, with a vote of 28 yeas and 11 nays, Amendment #1 has passed the House. So we're back in third reading. Is there any further debate on the bill under reconsideration?

Rep. Kerttula: Thank you Mr. Speaker. Amendment notwithstanding, the bill still has major, major problems. The underlying bill now gives incentives throughout the entire state south of the foothills and when you're trying to incentivise, you really need to understand what you need to do so that you make it an incentive. And this is just a willy-nilly approach. It's too broad and it's not a good bill at this point. Thank you.

Speaker: Further debate on the bill?

Rep. Chenault: Thank you Mr. Speaker. I might disagree with the previous speaker about being willy-nilly. I think that what we've done here is try to open up Alaska and try to get exploration going in other areas. The Cook Inlet area has been well explored. There are areas that haven't been and the incentives are intended to provide exploration corporations the ability in the market place today to go out and actually hopefully find more gas for local consumers and value added business. While I agree with the previous speaker that there may be some issues there that maybe we need to continue to work on, and I've talked with her about them and we will continue to do that, I think that, for the most part, this does affect a lot of the areas in the state and a lot of the basins and basins that we don't know for sure what's there. But the only way we're ever going to know what's there is to get people out there drilling. And if it takes an incentive to get them out there producing our reserves then I'm willing to go there so I'd ask the body to support. Thank you Mr. Speaker.

Speaker: Further debate on the bill?

Rep. Meyer: Thank you Mr. Speaker. I almost forgot because you always tell me to sit down and be quiet, but I do potentially have a conflict of interest on this because the company that I work for when I'm not here could take advantage of it.

Speaker: Further debate?

Rep. Hawker: Thank you Mr. Speaker. I thank the previous speaker for reminding me of my duties. I also need to declare a conflict of interest because members of my family are employed in the oil and gas industry.

Speaker: There is objection. You'll be required to vote. All members having any connection to the oil industry will get a blanket having to vote. [brief at ease] Okay, are you ready for the question? The question is shall Committee Substitute for House Bill 71 Finance amended pass the House under reconsideration. Members may proceed to vote. Madam Clerk, please lock the roll. Does any member wish to change his or her vote? Madam Clerk.

Clerk: 32 yeas, 4 nays.

Speaker: So, by a vote of 32 yeas, 4 nays CS for HB 71 Finance Amended has passed the House under reconsideration.

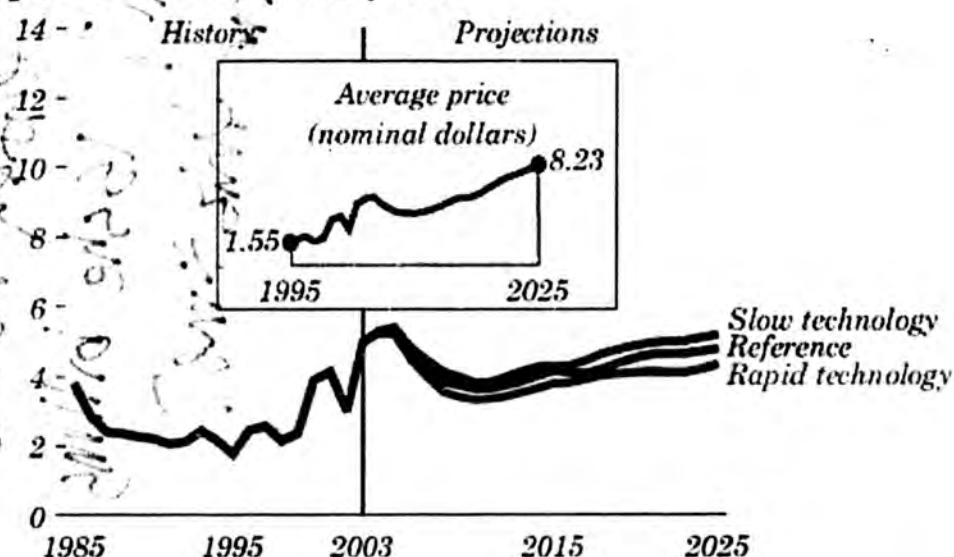
[Without objection the roll call vote on the bill became the vote on the effective date clause]



Home > Forecasts > Annual Energy Outlook > Figure 87

Annual Energy Outlook 2005 with Projections to 2025

Figure 87. Lower 48 natural gas wellhead prices in three cases, 1985-2025 (2003 dollars per thousand cubic feet)



History: Energy Information Administration, Annual Energy Review 2003, DOE/EIA-0384(2003) (Washington, DC, September 2004). Projections: AEO2005 National Energy Modeling System, runs AEO2005.D102004A, OGLTEC05.D102704A, and OGHTEC05.D102704A.

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URL: http://www.eia.doe.gov/oiaf/aeo/figure_87.html

Is she getting paid
to testify in this
Bill? Is she billing
for this time?

“Reasonably Profitable” Legislation
HB 71, Sections 1 and 2
Testimony of Bonnie Robson, Consultant to Legislative Budget & Audit,
Before the Senate Resources Committee
May 2, 2005

On April 20, counsel for the Administration testified before the Legislative Budget & Audit Committee about a bargain struck when the State leased its lands at Prudhoe Bay and Point Thomson. The bargain, he said, was that the State relinquished 7/8ths of production, retaining only 1/8th to itself as royalty; in exchange, the lessees promised to develop and market the State's oil and gas when “reasonably profitable” to do so. However, HB 71 does not resolve any dispute the lessees may raise over whether the obligation to develop and market exists, but simply defines “reasonably profitable” and related terms. The definition only gets used if the obligation does, in fact, exist. Also, if the obligation does, in fact, exist, the proposed legislation sets a time clock for getting Alaska gas to market—seven years from the date of administrative decision—because time is money—substantially more than \$1 billion per year to the State at current gas prices.

This legislation is otherwise modest in its ambitions. It uses average prices and average returns. It does not create a new obligation if one does not already exist. It does not create new remedies for breach of existing obligations. It simply defines an undefined term in both old and new oil and gas leases and unit agreements, rather than leaving that definition to other branches of government. It

gives the Administration guidance on a tool it already has and can choose to use, or not, in getting North Slope gas to market. And, if and when the Administration chooses to use that tool, it sets a seven-year clock on getting gas to market. The seven-year clock, when and if used, is intended to assure not just the promise of a pipeline or an option on changes to tax and royalties terms in the event a pipeline is built, but the pipeline itself, at the earliest reasonable date, bringing jobs to Alaskans, affordable energy to Alaskans and Americans, and billions of dollars to the State and its municipalities before declining oil revenues diminish our northern way of life.

For those who wish to explore further some of the legal underpinnings of the lessees' duty to develop and market gas, the next page of these prepared remarks sets forth a sample of the explicit language contained in the State's oil and gas leases, the Prudhoe Bay unit agreement, and the Pt. Thomson unit agreement:

Is There a Legal Obligation to Develop and Market Gas When "Reasonably Profitable"?

- Spencer Hosie testified that there is an obligation implied in oil and gas leases: to develop and market oil and gas when "reasonably profitable."
- The State's oil and gas lease agreements and Prudhoe Bay and Pt. Thomson unit agreements also contain explicit language to the same or similar effect. Examples follow:
- **The Leases state:**
 - The lessee is granted the exclusive right to state lands "for the sole and only purposes of exploration, development, production, processing and marketing oil, gas, and associated substances produced therewith, and of installing pipe lines and structures . . . to find, produce, save, store, treat, process, transport, take care of and market all such substances" (DL-1, para. 1)
 - "This lease contemplates the reasonable development of said land for oil and gas as the facts may justify." (DL-1, para. 19)
 - "DILIGENCE Lessee shall exercise reasonable diligence in . . . producing" (DL-1, para. 20)
- **The Prudhoe Bay Unit Agreement states:**
 - "To the end that Unitized Substances economically recoverable may be increased . . . , Working Interest Owners shall with due diligence develop the Unit Area in accordance with good . . . production practices. Such . . . production practices shall include a plan of development and operation . . . designed to efficiently and economically produce Unitized Substances." (Sec. 4.2)
 - "Rate of Prospecting, Development and Production. The Director [of the State of Alaska's Division of Lands, i.e. DNR] is hereby vested with authority to alter or modify from time to time the quantity and rate of production . . . limited to alteration or modification in the public interest" (Sec. 4.3)
- **The Pt. Thomson Unit Agreement states:**
 - "PLAN OF FURTHER DEVELOPMENT AND OPERATION. . . . Any plan . . . shall be as complete and adequate as the Director may determine to be necessary for timely development . . . of the oil and gas resources of the unitized area" (Para. 10)
 - "Rate of Prospecting, Development and Production. The Director is hereby vested with authority to alter or modify from time to time the quantity and rate of production . . . limited to alteration or modification in the public interest" (Para. 21)
- **But this legislation does not attempt to resolve any dispute over whether the obligation exists.** This legislation simply interprets "reasonably profitable" and related terms where the obligation is found to exist.

Again, this legislation does not attempt to resolve any dispute over whether the obligation to develop and market gas exists when it is "reasonably profitable" to do so. This legislation simply interprets "reasonably profitable" and related terms where the obligation is found to exist. It allows the legislature to voice its opinion on a level of profit above which the legislature expects the oil and gas lessees who have signed a contract giving them the exclusive right to develop and market gas from state lands are expected to do just that—develop and market the gas, even if they would prefer to defer their investment in Alaska until a later day.

How does the legislation interpret "reasonably profitable"? The short answer is: a minimum of a 14% return on capital for production and processing operations, and the FERC-regulated rate for pipeline operations. But let us also discuss the long answer. The legislation does not use the figure "14%." Instead, it allows the Administration to select a sample group of oil and gas companies and use a simple average of the sample group's most recent ten year average return on capital employed. The Administration has discretion in selecting an appropriate sample group for the project under consideration, but for purposes of discussion today, we assume that the Administration chooses to use a group consisting of the four largest international petroleum companies and the three largest Alaskan oil and gas companies. For this sample group, the most recent ten-year simple average of returns on capital employed is 14%, as the following exhibit shows:

Overall Company Return on Capital Employed:
Top 4 International Petroleum Companies and Conoco Phillips

Company	Actual										Past 10 Years
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
ExxonMobil	13.7%	14.5%	16.6%	13.7%	12.1%	22.0%	19.2%	13.9%	18.1%	23.8%	16.8%
Royal Dutch Shell	12.3%	12.2%	12.8%	9.2%	12.5%	21.8%	20.2%	14.4%	14.4%	18.4%	14.8%
BP	14.9%	17.2%	18.7%	9.3%	12.7%	16.3%	17.4%	11.3%	13.5%	16.5%	14.8%
ChevronTexaco	11.2%	14.3%	15.2%	6.9%	9.6%	21.3%	8.5%	3.5%	16.2%	25.0%	13.2%
ConocoPhillips	11.2%	14.0%	12.8%	5.7%	7.1%	16.2%	8.3%	3.7%	9.8%	14.3%	10.3%
Average	12.7%	14.4%	15.2%	9.0%	10.8%	19.5%	14.7%	9.4%	14.4%	19.6%	14.0%

But what does a 14% return on capital mean? It does not mean 14% return on shareholders' equity, unless the North Slope producers choose to finance their operations with 100% equity—the most expensive form of capital. It means some rate higher than 14%, and possibly as high as 46%, in light of the federal loan guarantee available on up to 80% of the debt used to finance not only a gas pipeline, but also North Slope production operations and a new gas treatment plant to be built at Prudhoe Bay. We turn to another graphic to demonstrate what a 14% return on capital may mean for an Alaska natural gas pipeline project:

How Are Investments Made?

$$\begin{array}{rcl}
 & X\% & \text{Debt (cheap)} \\
 + & Y\% & \text{Equity (expensive)} \\
 = & 100\% & \text{Capital}
 \end{array}$$

If Capital Earns 14%, How Much Does Equity Earn?

Debt Is Repaid At Cost

$$\begin{array}{rcl}
 & 0\% & \text{Debt} \\
 + & 100\% & \text{Equity} \\
 = & 14\% & \text{Return on Equity}
 \end{array}$$

$$\begin{array}{rcl}
 & 50\% & \text{Debt at 6\%} \\
 + & 50\% & \text{Equity} \\
 = & 22\% & \text{Return on Equity}
 \end{array}$$

$$\begin{array}{rcl}
 & 80\% & \text{Debt at 6\%} \\
 + & 20\% & \text{Equity} \\
 = & 46\% & \text{Return on Equity}
 \end{array}$$

We are accustomed to hearing that an Alaska natural gas pipeline project is a high-risk project, entitled to a high rate of return, but some may argue that the rate of return allowed under this legislation is too rich. Why? First, the federal government has significantly reduced the risks and costs of the project. The federal government will provide loan guarantees for the project, allow accelerated depreciation of the pipeline over seven years rather than fifteen years, and extend tax credits for the new gas treatment plant to be built at Prudhoe Bay.

Second, the majority of gas filling this pipeline will come from the proven reserves at Prudhoe Bay. Prudhoe gas has been explored for (and found), developed, and is being produced at the rate of 8 billion cubic feet per day (though that gas is now being reinjected into the ground). Production at Prudhoe Bay should not be considered high-risk, when compared to many of the risks voluntarily undertaken by large oil and gas companies. Yet the reward—the return—included in this legislation is based on average returns earned by companies that, among other things, invest in exploration or wildcat operations—and sometimes lose it all, not just the return on capital, but the capital itself.

In fairness, it must be said that the rate of return allowed under this legislation may encompass not only the high exploration risk faced by vertically-integrated oil and gas companies, but the relatively low returns those same companies earn on certain downstream operations. Still, we think it strikes the

right balance, and, in fact, will be viewed as too generous by some when they recognize that the Administration may be limited in its ability to enforce the lessees' duty to develop and market gas where the return on equity is less than 46%. For those who see the returns discussed today as not generous enough, remember that the Administration will have discretion in selecting the sample group of oil and gas companies whose returns are included in the simple average of returns, and it may choose to use only upstream companies, or only production companies, or any other grouping of companies—as long as the companies are oil and gas companies—in getting to a fair and equitable result under the particular facts then at hand.

Some will also argue that the uncertainty as to future gas prices imposes a level of risk not adequately compensated for by the returns built into this legislation. Their argument may have been well founded in prior times. In prior times, abundant supply and slack demand made for modest commodity prices. In prior times—in fact, in 1998 when the Stranded Gas Development Act first became law—the only project then envisioned was a LNG project, without a possible Jones Act exemption, and without possible benefits of tax exempt status. In prior times, there was no federal loan guarantee for the project, accelerated depreciation for the pipeline, or tax credits for a new gas treatment plant at Prudhoe Bay.

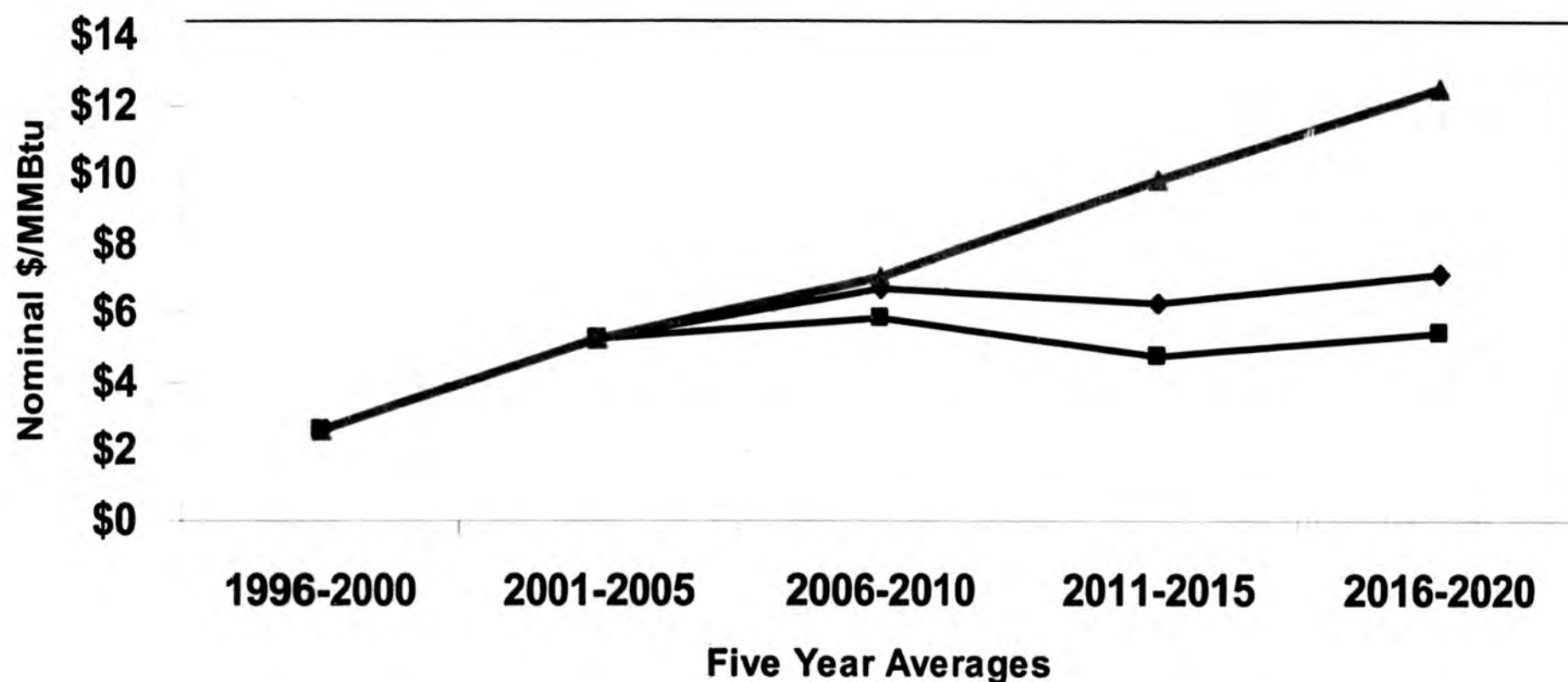
But let us look at the current risk that future commodity prices will not cover the estimated costs for an Alaska natural gas pipeline project, including a regulated rate of return on regulated assets, and an adequate return at the wellhead for the lessees' gas. We could examine this risk using the Administration's economic model developed under the Stranded Gas Act. That model has been built at significant expense with the assistance of outside expertise. It is tailor-made for an Alaska natural gas pipeline project and accounts for the volumes of gas at issue, the market impacts of introducing Alaskan gas, the estimated costs of the project, the effect of future supply and demand on commodity prices, and the time value of money, among other things. Unfortunately, the Administration's model is confidential at this time and neither its inputs nor outputs can be disclosed in this hearing. However, publicly available data can provide a rough sense of whether the range of uncertainty surrounding future gas prices makes the minimum rate of return included in this legislation inadequate.

First, let's look at publicly available forecasts of future gas prices. We mention here two sets of forecasts, one by government, one by industry. The government forecasts come from the federal Energy Information Administration, or EIA. The industry forecasts come from the American Gas Foundation. There are limitations on comparing these forecasts to the costs we will discuss in a moment—imperfect matches on the time value of money and the location of gas

sales, among others—but the comparison will allow you to get a rough sense of the difference between projected revenues and projected costs, on average, over time.

A single page from the American Gas Foundation forecast is included here, and additional materials from both the EIA and American Gas Foundation are included at the end of these prepared remarks:

Actual and Projected Natural Gas Prices (Henry Hub)



—◆— Expected Policies —■— Expanded Policies —▲— Existing Policies

As you can see, gas prices are expected to exceed \$4.50/mmbtu under any scenario.

Next, we turn to data the three largest North Slope lessees released on "costs," which include—if memory serves correctly, a 12% return on equity invested in the pipeline itself. After these North Slope lessees spent \$125 million studying a gas pipeline project, their best estimate was that the average toll—covering a new gas treatment plant at Prudhoe Bay, new pipe not only to Alberta, but all the way to Chicago, and extraction facilities for the removal of valuable gas liquids—would total \$2.39/mcf. With the +/- 20% uncertainty modeled by these lessees, \$2.39/mcf became a range of \$1.90 - \$2.85/mcf, as shown in the attached exhibit:

Capital Costs / Tolls

	Southern Route	Northern Route
Capital Cost ('01, \$billion)		
Gas Treatment Plant	2.6	2.6
Alaska to Alberta	11.6	10.8
Alberta to Market	4.6	4.6
NGL Extraction Facilities	0.6	0.6
<i>Alaska Project Share</i>	<i>19.4</i>	<i>18.6</i>
<i>Mackenzie Delta Share</i>	<i>-</i>	<i>1.4</i>
<i>Uncertainty</i>	<i>+/- 20%</i>	<i>+/- 20%</i>
Sales Gas Rate (bcfd)		
Alaska	4.3	4.3
Mackenzie Delta	-	1.0
Total	4.3	5.3
Project Toll (\$/mcf)		
Gas Treatment Plant	0.41	0.41
Alaska to Alberta	1.36	1.28
Alberta to Market	0.62	0.62
<i>Toll to Market</i>	<i>2.39</i>	<i>2.31</i>
<i>Range</i>	<i>1.90 - 2.85</i>	<i>1.85 - 2.75</i>

In looking at this exhibit, bear in mind that \$1.90 - \$2.85/mcf is not the same as \$1.90 - \$2.85/mmbtu, and mmbtu's are how gas is sold. Prudhoe Bay and Pt. Thomson gas is rich in liquids, and contains more than 1,000 btus per cubic foot. We do not know exactly how much more—that information is not public—but at 1,070 btus/cf, the range for tolls drops to \$1.78 - \$2.66/mmbtu. At 1,120 btus/cf, the range for tolls drops to \$1.70 - \$2.54/mmbtu. And, to repeat, that range covers a +/- 20% uncertainty and already includes profit on the lion's share of project costs.

Is \$1.70 - \$2.54/mmbtu or \$1.78 - \$2.66/mmbtu or \$1.90 - \$2.85/mcf the right range for project costs? We cannot tell you in total, in public. But we can tell you that those calculations were made by the lessees before tax credits for the gas treatment plant, federal loan guarantees, and accelerated depreciation on the pipeline became available, and the range should drop on that account. The calculations also assume new pipe would be built all the way to Chicago, yet, more probably, Alaska gas will travel from Alberta to the Lower 48 in existing pipelines and expansions of existing pipelines, a cheaper alternative. In fairness, we mention that these cost-savings undoubtedly are offset to some degree by increased steel prices. But remember the cost range given for tolls already includes a return—or profit—for the pipeline, facilities for the extraction of NGLs, and the new gas treatment plant at Prudhoe Bay. You may want to ask one of the lessees here

today, but my recollection is that their figures included repayment of debt at cost and a return on equity for regulated assets at 12% per year.

So what is the bottom line? Prices are expected to average in excess of \$4.50/mmbtu on costs of less than \$3.00/mmbtu. And the difference between prices and costs is indicative of wellhead value. Again, we caution you this is very rough math. The real math we must keep confidential, but we are not here to mislead you today.

One criticism that has been levied at the proposed legislation is that it is based on forecasts and estimates, and that is true; we cannot know the future in advance of the future. The legislation is similar, in this regard, to the analysis contemplated under the Stranded Gas Development Act, AS 43.82, and the analysis performed by the Department of Natural Resources when examining applications for royalty reduction under AS 38.05.180(j). Oil and gas companies also base their business decisions on commodity price forecasts and cost estimates for future projects. Forecasts and estimates are the way business is done by both industry and government.

A second and related criticism is that the State rather than the lessees forecasts prices and estimates costs under the proposed legislation. However, the lessees have repeatedly indicated in other contexts that they will not share their price forecasts with the State or with each other, and they will not share their

gasline economic models either. They have shared cost information from their \$125 million study, and that information is reflected in the Administration's gasline economic model. This legislation allows the Administration, if it so chooses, to recognize lessees' reticence to share certain information, not force that issue, but still enforce the lessees' obligation to develop and market gas when reasonably profitable. Additionally, the Administration is already the arbiter of when the Prudhoe Bay and Pt. Thomson lessees must produce gas; both the Prudhoe Bay and Pt. Thomson unit agreements state that the Director of the Division of Lands—that is the Department of Natural Resources—"is vested with authority to alter or modify from time to time the quantity and rate of production . . . limited to alteration or modification in the public interest" Otherwise stated, DNR is the decision-maker now and remains the decision-maker under this legislation (subject, of course, to reversal by the court system for abuse of discretion). The lessees may not appreciate that DNR, rather than the lessees or the court system, is vested with primary responsibility for decision-making on this issue, but they granted DNR that authority decades ago when they signed the unit agreements. This legislation does nothing to alter the original bargain over the party vested with control.

Speaking of the court system, some argue that the proposed legislation promotes litigation. It does not. Understanding exactly how this legislation works

should ease concerns. First, it lets the Administration determine whether it thinks there is, in fact, a preexisting duty under the State's oil and gas leases and unit agreements for the lessees to develop and market gas when reasonably profitable. If the Administration concludes such a duty exists, it can choose to enforce that duty or not, now or later. If, say, negotiations under the Stranded Gas Development Act reach an impasse, the Administration may choose to enforce the duty, subject, of course, to finding that production and marketing of the lessees' gas would return at least a reasonable profit to the lessees. The Administration, because of the Stranded Gas Act negotiations, is already sitting on a large body of information from which it could draw conclusions about whether a gas pipeline project would be "reasonably profitable." However, before drawing conclusions, it is apt to wait until the next annual deadline for the lessees' submission of their proposed plan of development for the Prudhoe Bay unit. Same thing for the Pt. Thomson unit. However, I'll continue with the Prudhoe Bay unit as my example. So, to repeat, before drawing conclusions, DNR is apt to wait until the next annual deadline for the lessees' submission of their proposed plan of development for the Prudhoe Bay unit. Or maybe DNR would immediately send a letter to the Prudhoe Bay lessees, advising them that when their next proposed plan of development is up for review, DNR intends to make a determination on whether development and marketing of Prudhoe Bay gas would be reasonably profitable. In either case,

when the lessees submit their next annual proposed plan of development, that proposed plan, together with supporting documentation and other information within the possession of DNR or requested from the lessees by DNR, would be reviewed, analyzed, and evaluated. Assuming the lessees' proposed plan of development did not commit to produce and market gas within seven years, DNR's decision on the proposed plan would most likely condition approval of the proposed plan on a firm commitment to develop and market the gas in specified minimum quantities by a certain date. The lessees could accept DNR's conditions, and proceed to develop and market their gas, or they could reject the conditions. If the lessees rejected DNR's conditions, their current plan of development would expire, putting the unit in default for operating without an approved plan. At this stage, litigation is likely, but no more likely because "reasonably profitable" has been defined as a minimum of a 14% return on capital than because some other standard was used by DNR in determining what constitutes a "reasonable profit."

If there is litigation, the lessees have suggested that they may claim that the legislation is unconstitutional when applied to Prudhoe Bay and Pt. Thomson because it changes preexisting contract terms. Again, we think the legislation does not change preexisting contract terms and will be constitutional as applied. As previously mentioned, the legislation simply defines in a reasonable way terms that are currently undefined. It provides guidance to DNR on what "reasonably

profitable" means. But I will not, as I sit here today, guarantee you that the Alaska Supreme Court will find this legislation constitutional. Still, we believe that the legislation can be applied in a constitutional manner, and, in any case, it is a vehicle for sharing with the Administration the Legislature's thoughts on what constitutes "reasonably profitable" and the time frame within which a gas pipeline should be built.

On a related note, the legislation's definition of "reasonably profitable" is intended to rise and fall independently of the seven-year clock contained in the legislation. Thus, on the chance a court strikes down the definition of "reasonably profitable" provided in this legislation, and instead uses some other definition that is nonetheless met by the facts of the case, the seven year clock still runs from the date of DNR's initial determination. Hence, lessees are encouraged to spend their time after issuance of DNR's determination working on a gas pipeline project rather than litigating, particularly if those lessees estimate project profits that would meet any court-imposed standard of "reasonably profitable."

Before closing, the seven year clock should be discussed in a little more detail. Seven years is the period two of the three gasline project proponen's tell us they need to bring North Slope gas to market. A longer time period could be included in this legislation to encompass the preferences of the third project proponent, however, time is money—a lot of money. Every year's delay costs the

State and its municipalities hundreds of millions of dollars per dollar of wellhead value. At current gas prices, the cost of each year's delay will exceed \$1 billion and could exceed \$2 billion.

What happens, then, if the lessees use their best efforts to develop and market the gas in seven years, but for some reason all of us can sympathize with, it takes them eight or nine years? First, the State and municipalities are out the hundreds of millions or billions of dollars, regardless of good intent and unforeseeable circumstances. Second, the State can choose not to pursue remedies that might be available. Third, the lessees are sure to argue force majeure or "Acts of God," a term that is already defined under existing agreements and in the unit regulations.

In summary, this legislation does not create a new obligation if one does not already exist. It does not create new remedies for breach of existing obligations. It simply defines undefined terms in both old and new oil and gas leases and unit agreements, rather than leaving those definitions to other branches of government. It gives the Administration guidance on a tool it already has and can choose to use, or not, in getting North Slope gas to market. And, if and when the Administration chooses to use that tool, it sets a seven-year clock on getting gas to market. We believe the legislation is reasonable and appropriate for the current circumstances.

AMENDMENT

OFFERED IN THE HOUSE
TO: CSHB 71(W&M)

BY REPRESENTATIVE ROKEBERG

- 1 Page 1, line 10, following "gas only lease,":
- 2 Insert **"if the oil and gas lease or gas only lease was entered into by the state under**
- 3 **AS 38.05.131 - 38.05.134, 38.05.177, or 38.05.180,"**

**Notice of Public Hearing
STATE OF ALASKA
Alaska Oil and Gas Conservation Commission**

Re: Inquiry into potential revision of gas offtake limit for the Prudhoe Oil Pool,
Prudhoe Bay Field

Pursuant to AS 31.05.030(b), the Alaska Oil and Gas Conservation Commission will hold a public hearing at 9:00 a.m. on Thursday, March 3, 2005, to aid in its consideration of potential revisions to Rule 9 of Conservation Order No. 341D, which currently establishes the gas offtake limit for the Prudhoe Oil Pool.

Rule 9, which was adopted in 1977, limits the maximum annual average gas offtake to "2.7 billion standard cubic feet per day, which contemplates an annual average gas pipeline delivery sales rate of 2.0 billion standard cubic feet per day of pipeline quality gas when treating and transportation facilities are available."

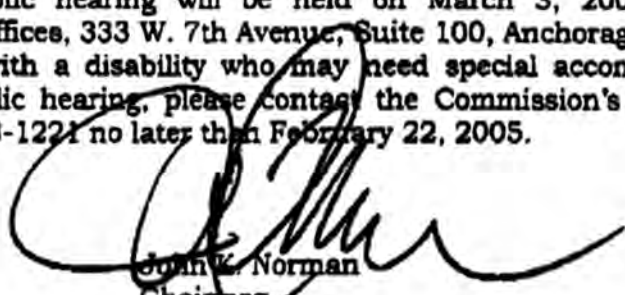
Rule 9 was enacted based on the information available prior to commencement of regular production from the Prudhoe Oil Pool. Production has now been ongoing for 27 years and in that time considerable changes in the reservoir depletion plan and the information available have occurred. The Commission wishes to consider whether the current provisions of Rule 9 should be updated. As part of this inquiry the Commission plans to hold a series of hearings to gather and examine relevant information.

The Commission contemplates that among other things, this inquiry will address:

- The impact of the allowable gas offtake rate upon total hydrocarbon recovery.
- The impact the timing of gas sales will have upon total hydrocarbon recovery.
- Depletion plans including mitigation measures to minimize losses and to avoid waste of hydrocarbon resources.

The Commission's initial hearing will address the current availability of information relating to these issues, additional information needs, a means for obtaining needed information to the extent not currently available, and the elements and timing of a work plan to carry out this inquiry, including evaluation of a depletion plan to ensure that waste of hydrocarbon resources will not occur.

The initial public hearing will be held on March 3, 2005 at 9:00 am at the Commission's offices, 333 W. 7th Avenue, Suite 100, Anchorage, Alaska 99501. If you are a person with a disability who may need special accommodations in order to attend the public hearing, please contact the Commission's Special Assistant Jody Colomby at 793-1221 no later than February 22, 2005.


John K. Norman
Chairman

Published Date: January 26, 2005
Anchorage Daily News
AD #02514029

January 30, 2005
Journal Commerce
AD #02514030

**Alaska Oil and Gas Conservation Commission**333 West 7th Avenue, Suite 100

Anchorage, AK 99501-3539

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Fax Transmission

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To: Charlsse MillettFax #: 907-465-3818Rep. Vic Kohring's officeFrom: Linda BergDate: 02/28/2005Phone #: 907-793-1239Subject: Rule 9 Notice of Public HearingPages (including
cover sheet): 2

Message: Charlsse,

Dan Seamount requests that you add this to the handout materials.

Linda *LB**for tomorrow*

If you do not receive all the pages or have any problems with
this fax, please call for assistance at (907) 793-1223.

AMENDMENT 2

OFFERED IN THE HOUSE
TO: CS HB 71 ()

BY REPRESENTATIVE

adopted

1 **Page 2, line 1**
2 Following: "under"
3 Delete: [(b) AND]
4 Insert: (b) and

5
6 **Page 2, line 3**
7 Following: "under"
8 Delete: [(b) AND]
9 Insert: (b) and

10
11 **Page 2, line 7**
12 Following: "under"
13 Insert: (b),

14
15 **Page 2, line 9**
16 Following: "under"
17 Delete: [(b) AND]
18 Insert: (b) and

19
20
21
22
23
24

AMENDMENT \

OFFERED IN THE HOUSE
TO: CS HB 71 ()

BY REPRESENTATIVE

adopted

1 **Page 2, lines 13-17**

2 **Delete All Material**

3 **Insert New Material**

4 (b) To qualify for the production tax credit under (a) of this section, an
5 exploration expenditure must be incurred for work performed on or after July 1,
6 2003, and before July 1, 2007, except that an exploration expenditure, in whole or in
7 part, south of 68 degrees, 15 minutes, North latitude must be incurred for work
8 performed before July 1, 2010, and

9

10 **Page 6, line 12**

11 **Following: "do not apply to"**

12 **Delete:** "taxes applicable under this chapter attributable to production from oil and
13 gas produced from an oil and gas lease, or to gas produced from a gas only lease,
14 located north of 68 degrees, 15 minutes, North latitude"

15

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24-GH1040P
Chenoweth
4/15/05

CS FOR HOUSE BILL NO. 71()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act extending and amending the requirements applicable to the credit that may be**
2 **claimed for certain oil and gas exploration expenses incurred in Cook Inlet against oil**
3 **and gas properties production (severance) taxes, and amending the credit against those**
4 **taxes for certain exploration expenditures from leases or properties in the state; and**
5 **providing for an effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

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

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

13 (1) 20 percent of the total exploration expenditures that qualify **only**

1 under [(b) AND] (c) of this section;

2 (2) [,] 20 percent of the total exploration expenditures that qualify **only**
3 under [(b) AND] (d) of this section [, OR BOTH, FOR A TOTAL CREDIT THAT
4 DOES NOT EXCEED 40 PERCENT OF THE TOTAL EXPLORATION
5 EXPENDITURES];

6 (3) 40 percent of the total exploration expenditures that qualify
7 under both (c) and (d) of this section; or

8 (4) [(2)] 40 percent of the total exploration expenditures that qualify
9 **only** under [(b) AND] (e) of this section [, FOR A TOTAL PRODUCTION TAX
10 CREDIT THAT DOES NOT EXCEED 40 PERCENT OF THE TOTAL QUALIFIED
11 EXPLORATION EXPENDITURES].

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

13 (b) To qualify for the production tax credit under (a) of this section, an
14 exploration expenditure must be incurred for work performed on or after July 1, 2003,
15 and before July 1, 2010, except that an exploration expenditure for a Cook Inlet
16 prospect must be incurred for work performed on or after July 1, 2005, and
17 before July 1, 2010 [2007], and

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

20 (2) if for an exploration well,

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

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

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

30 (3) may not be for testing, stimulation, or completion costs;
31 administration, supervision, engineering, or lease operating costs; geological or

1 management costs; community relations or environmental costs; bonuses, taxes, or
2 other payments to governments related to the well; or other costs that are generally
3 recognized as indirect costs or financing costs; and

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

7 * Sec. 3. AS 43.55.025(c) is amended to read:

8 (c) To be eligible for the [A] 20 percent production tax credit authorized by
9 (a)(1) of this section or the 40 percent production tax credit authorized by (a)(3)
10 of this section, exploration expenditures must

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

12 (2) be for an exploration well, subject to the following:

13 (A) for an exploration well other than a well that is
14 described in (B) of this paragraph, the well must be [THAT IS] located and
15 drilled in such a manner that the bottom hole is located not less than three
16 miles away from the bottom hole of a preexisting suspended, completed, or
17 abandoned oil or gas well; in this subparagraph [PARAGRAPH],
18 "preexisting" means a well that was spudded more than 150 days but less than
19 35 years before the exploration well was spudded;

20 (B) for an exploration well that explores a Cook Inlet
21 prospect, the well must be located at least three miles from any other well
22 drilled for oil and gas with all distances measured as the horizontal
23 distance between exploration targets, except that the exploration well that
24 is located within three miles of a well drilled for oil and gas qualifies for
25 the tax credit authorized by this subsection if the exploration well tests
26 potential hydrocarbon traps that the commissioner of natural resources
27 determines, after analyzing evidence submitted by the explorer and from
28 other information that the commissioner of natural resources determines
29 relevant, constitute a distinctly separate exploration target.

30 * Sec. 4. AS 43.55.025(d) is amended to read:

31 (d) To be eligible for the [AN ADDITIONAL] 20 percent production tax

credit authorized by (a)(2) of this section or the 40 percent production tax credit authorized by (a)(3) of this section, an exploration expenditure must

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

(2) be for an exploration well that is located not less than 25 miles outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development, except that for an exploration well for a Cook Inlet prospect to qualify under this paragraph, the exploration well must be located not less than 10 miles outside the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development.

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

(e) To be eligible for the 40 percent production tax credit authorized by (a)(4) [IN (a)] of this section, the exploration expenditure must

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

(2) be for seismic exploration; and

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

* Sec. 6. AS 43.55.025(f) is amended to read:

(f) For a production tax credit under this section,

(1) an explorer shall, in a form prescribed by the department and within six months of the completion of the exploration activity, claim the credit and submit information sufficient to demonstrate to the department's satisfaction that the claimed exploration expenditures qualify under this section;

(2) an explorer shall agree, in writing,

(A) to notify the Department of Natural Resources, within 30 days after completion of seismic or geophysical data processing, completion of a well, or filing of a claim for credit, whichever is the latest, for which exploration costs are claimed, of the date of completion and submit a report to that department describing the processing sequence and providing a list of data sets available; if, under (c)(2)(B) of this section, an explorer submits a

1 claim for a credit for expenditures for an exploration well that is located
2 within three miles of a well already drilled for oil and gas, in addition to
3 the submissions required under (1) of this subsection, the explorer shall
4 submit the information necessary for the commissioner of natural
5 resources to evaluate the validity of the explorer's claim that the well is
6 directed at a distinctly separate exploration target, and the commissioner
7 of natural resources shall, upon receipt of all evidence sufficient for the
8 commissioner to evaluate the explorer's claim, make that determination
9 within 60 days;

10 (B) to provide to the Department of Natural Resources, within
11 30 days after the date of a request, specific data sets, ancillary data, and reports
12 identified in (A) of this paragraph;

13 (C) that, notwithstanding any provision of AS 38, information
14 provided under this paragraph will be held confidential by the Department of
15 Natural Resources for 10 years following the completion date, at which time
16 that department will release the information after 30 days' public notice;

17 (3) if more than one explorer holds an interest in a well or seismic
18 exploration, each explorer may claim an amount of credit that is proportional to the
19 explorer's cost incurred;

20 (4) the department may exercise the full extent of its powers as though
21 the explorer were a taxpayer under this title, in order to verify that the claimed
22 expenditures are qualified exploration expenditures under this section; and

23 (5) if the department is satisfied that the explorer's claimed
24 expenditures are qualified under this section, the department shall issue to the explorer
25 a production tax credit certificate for the amount of credit to be allowed against
26 production taxes due under this chapter; however, notwithstanding any other
27 provision of this section, the department may not issue to an explorer a
28 production tax credit certificate if the total of production tax credits submitted
29 for Cook Inlet production, based on exploration expenditures for work
30 performed during the period described in (b) of this section for that production,
31 that have been approved by the department exceeds \$20,000,000.

1 * Sec. 7. AS 43.55.025(k) is amended to read:

2 (k) In this section,

3 (1) "Cook Inlet production" means oil or gas production from the
4 Cook Inlet sedimentary basin, as that term is defined by regulation adopted to
5 implement AS 38.05.180(f)(4);

6 (2) "Cook Inlet prospect" means a location within the Cook Inlet
7 sedimentary basin, as that term is defined by regulation adopted to implement
8 AS 38.05.180(f)(4);

9 (3) "explorer" means a person who, in exploring for new oil or gas
10 reserves, incurs expenditures.

11 * Sec. 8. AS 43.55.025 is amended by adding a new subsection to read:

12 (l) The provisions of this section do not apply to taxes applicable under this
13 chapter attributable to production from oil and gas produced from an oil and gas lease,
14 or to gas produced from a gas only lease, located north of 68 degrees, 15 minutes,
15 North latitude or on the Arctic National Wildlife Refuge.

16 * Sec. 9. This Act takes effect immediately under AS 01.10.070(c).

State of Alaska
Department of Natural Resource
Division of Oil & Gas
550 West 7th Avenue, Suite 800
Anchorage, AK 99501-3560
(907) 269-8800



Fax Cover Sheet

TO:	Charisse M. Dett	PHONE:	
COMPANY:	2 Rep. Kohring	FAX NO.:	465-3818
FROM:	maire	PHONE:	269-8802

DATE: 14 Feb 2005		FAX NO.:
TIME:		

CC:	

Number of pages including cover sheet: 23

☐ **Urgent**

☐ **For Review**☐ **Please Comment**

☐ **As You Requested**

FYI

Message:

[illegible]

AN ACT

1 Providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land,
2 and for a credit for certain exploration expenses against oil and gas properties production
3 taxes on oil and gas produced from a lease or property in the state.

4

5 * **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

6 (j) The commission shall certify to the Department of Natural Resources the
7 volume of oil production from a field or platform for the purposes of
8 AS 38.05.180(f)(6)(A), (C), (E), and (G).

9 * **Sec. 2.** AS 38.05.180(f) is amended by adding a new paragraph to read:

10 (6) notwithstanding and in lieu of a requirement in the leasing method
11 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
12 unitized as described in (p) of this section, leases subject to an agreement described in
13 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of

1 an oil field located offshore in Cook Inlet on which an oil production platform
2 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the
3 field located offshore in Cook Inlet and described in (G) of this paragraph,

4 (A) shall pay a royalty of five percent on oil produced from the
5 platform if oil production that equaled or exceeded a volume of 1,200 barrels a
6 day declines to less than that amount for a period of at least one calendar
7 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
8 as long as the volume of oil produced from the platform remains less than
9 1,200 barrels a day; the provisions of this subparagraph apply to

- 10 (i) Dolly;
- 11 (ii) Grayling;
- 12 (iii) King Salmon;
- 13 (iv) Steelhead; and
- 14 (v) Monopod;

15 (B) shall pay a royalty calculated under this subparagraph if the
16 volume of oil produced from the platform that was certified by the Alaska Oil
17 and Gas Conservation Commission under (A) of this paragraph later increases
18 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a
19 period of at least one calendar quarter; until the royalty rate determined under
20 this subparagraph applies, the royalty continues to be calculated under (A) of
21 this paragraph; on and after the first day of the month following the month the
22 increased production exceeds the period specified in this subparagraph, the
23 royalty payable under this subparagraph is

- 24 (i) for production of at least 1,200 barrels a day but not
25 more than 1,300 barrels a day - seven percent;
- 26 (ii) for production of more than 1,300 barrels a day but
27 not more than 1,400 barrels a day - 8.5 percent;
- 28 (iii) for production of more than 1,400 barrels a day but
29 not more than 1,500 barrels a day - 10 percent; and
- 30 (iv) for production of more than 1,500 barrels a day -
31 12.5 percent;

1 (C) shall pay a royalty of five percent on oil produced from the
2 platform if oil production that equaled or exceeded a volume of 975 barrels a
3 day declines to less than that amount for a period of at least one calendar
4 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
5 as long as the volume of oil produced from the platform remains less than 975
6 barrels a day; the provisions of this subparagraph apply to

- 7 (i) Baker;
8 (ii) Dillon;
9 (iii) XTO.A; and
10 (iv) XTO.C;

11 (D) shall pay a royalty calculated under this subparagraph if the
12 volume of oil produced from the platform that was certified by the Alaska Oil
13 and Gas Conservation Commission under (C) of this paragraph later increases
14 to 975 or more barrels a day and remains at 975 or more barrels a day for a
15 period of at least one calendar quarter; until the royalty rate determined under
16 this subparagraph applies, the royalty continues to be calculated under (C) of
17 this paragraph; on and after the first day of the month following the month the
18 increased production exceeds the period specified in this subparagraph, the
19 royalty payable under this subparagraph is

- 20 (i) for production of at least 975 barrels a day but not
21 more than 1,100 barrels a day - seven percent;
22 (ii) for production of more than 1,100 barrels a day but
23 not more than 1,200 barrels a day - 8.5 percent;
24 (iii) for production of more than 1,200 barrels a day but
25 not more than 1,350 barrels a day - 10 percent; and
26 (iv) for production of more than 1,350 barrels a day -
27 12.5 percent;

28 (E) shall pay a royalty of five percent on oil produced from the
29 platform if oil production that equaled or exceeded a volume of 750 barrels a
30 day declines to less than that amount for a period of at least one calendar
31 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for

1 as long as the volume of oil produced from the platform remains less than 750
2 barrels a day: the provisions of this subparagraph apply to

3 (i) Granite Point;

4 (ii) Anna; and

5 (iii) Bruce;

6 (F) shall pay a royalty calculated under this subparagraph if the
7 volume of oil produced from the platform that was certified by the Alaska Oil
8 and Gas Conservation Commission under (E) of this paragraph later increases
9 to 750 or more barrels a day and remains at 750 or more barrels a day for a
10 period of at least one calendar quarter; until the royalty rate determined under
11 this subparagraph applies, the royalty continues to be calculated under (E) of
12 this paragraph; on and after the first day of the month following the month the
13 increased production exceeds the period specified in this subparagraph, the
14 royalty payable under this subparagraph is

15 (i) for production of at least 750 barrels a day but not
16 more than 850 barrels a day - seven percent;

17 (ii) for production of more than 850 barrels a day but
18 not more than 1,000 barrels a day - 8.5 percent;

19 (iii) for production of more than 1,000 barrels a day but
20 not more than 1,200 barrels a day - 10 percent; and

21 (iv) for production of more than 1,200 barrels a day -
22 12.5 percent;

23 (G) shall pay a royalty of five percent on oil produced from the
24 field if oil production that equaled or exceeded a volume of 750 barrels a day
25 declines to less than that amount for a period of at least one calendar quarter,
26 as certified by the Alaska Oil and Gas Conservation Commission, for as long
27 as the volume of oil produced from the field remains less than 750 barrels a
28 day; the provisions of this subparagraph apply to the West McArthur River
29 field;

30 (H) shall pay a royalty calculated under this subparagraph if the
31 volume of oil produced from the field that was certified by the Alaska Oil and

1 Gas Conservation Commission under (G) of this paragraph later increases to
2 750 or more barrels a day and remains at 750 or more barrels a day for a period
3 of at least one calendar quarter; until the royalty rate determined under this
4 subparagraph applies, the royalty continues to be calculated under (G) of this
5 paragraph; on and after the first day of the month following the month the
6 increased production exceeds the period specified in this subparagraph, the
7 royalty payable under this subparagraph is

8 (i) for production of at least 750 barrels a day but not
9 more than 850 barrels a day - seven percent;

10 (ii) for production of more than 850 barrels a day but
11 not more than 1,000 barrels a day - 8.5 percent;

12 (iii) for production of more than 1,000 barrels a day but
13 not more than 1,200 barrels a day - 10 percent; and

14 (iv) for production of more than 1,200 barrels a day -
15 12.5 percent; and

16 (I) may obtain the benefits of the royalty adjustments set out in
17 (A) - (H) of this paragraph only if the commissioner determines that the
18 reduction in production from the platform or the field is

19 (i) based on the average daily production during the
20 calendar quarter based on reservoir conditions; and

21 (ii) not the result of short-term production declines due
22 to mechanical or other choke-back factors, temporary shutdowns or
23 decreased production due to environmental or facility constraints, or
24 market conditions.

25 * Sec. 3. AS 43.55 is amended by adding a new section to read:

26 **Sec. 43.55.025. Oil and gas exploration tax credit.** (a) Subject to the terms
27 and conditions of this section, on oil and gas produced on or after July 1, 2004, a
28 credit against the tax due under this chapter is allowed in an amount equal to

29 (1) 20 percent of the total exploration expenditures that qualify under
30 (b) and (c) of this section, 20 percent of the total exploration expenditures that qualify
31 under (b) and (d) of this section, or both, for a total credit that does not exceed 40

1 percent of the total exploration expenditures; or

2 (2) 40 percent of the total exploration expenditures that qualify under
3 (b) and (c) of this section, for a total production tax credit that does not exceed 40
4 percent of the total qualified exploration expenditures.

5 (b) To qualify for the production tax credit under (a) of this section, an
6 exploration expenditure must be incurred for work performed on or after July 1, 2003,
7 and before July 1, 2007, and

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

10 (2) if for an exploration well.

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

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

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

20 (3) may not be for testing, stimulation, or completion costs;
21 administration, supervision, engineering, or lease operating costs; geological or
22 management costs; community relations or environmental costs; bonuses, taxes, or
23 other payments to governments related to the well; or other costs that are generally
24 recognized as indirect costs or financing costs; and

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

28 (c) To be eligible for a 20 percent production tax credit, exploration
29 expenditures must

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

31 (2) be for an exploration well that is located and drilled in such a

1 manner that the bottom hole is located not less than three miles away from the bottom
2 hole of a preexisting suspended, completed, or abandoned oil or gas well; in this
3 paragraph, "preexisting" means a well that was spudded more than 150 days but less
4 than 35 years before the exploration well was spudded.

5 (d) To be eligible for an additional 20 percent production tax credit, an
6 exploration expenditure must

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

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

11 (e) To be eligible for the 40 percent production tax credit in (a) of this section,
12 the exploration expenditure must

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

14 (2) be for seismic exploration; and

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

19 (f) For a production tax credit under this section,

20 (1) an explorer shall, in a form prescribed by the department and
21 within six months of the completion of the exploration activity, claim the credit and
22 submit information sufficient to demonstrate to the department's satisfaction that the
23 claimed exploration expenditures qualify under this section;

24 (2) an explorer shall agree, in writing,

25 (A) to notify the Department of Natural Resources, within 30
26 days after completion of seismic or geophysical data processing, completion of
27 a well, or filing of a claim for credit, whichever is the latest, for which
28 exploration costs are claimed, of the date of completion and submit a report to
29 that department describing the processing sequence and providing a list of data
30 sets available;

31 (B) to provide to the Department of Natural Resources, within

1 30 days after the date of a request, specific data sets, ancillary data, and reports
2 identified in (A) of this paragraph;

3 (C) that, notwithstanding any provision of AS 38, information
4 provided under this paragraph will be held confidential by the Department of
5 Natural Resources for 10 years following the completion date, at which time
6 that department will release the information after 30 days' public notice;

7 (3) if more than one explorer holds an interest in a well or seismic
8 exploration, each explorer may claim an amount of credit that is proportional to the
9 explorer's cost incurred;

10 (4) the department may exercise the full extent of its powers as though
11 the explorer were a taxpayer under this title, in order to verify that the claimed
12 expenditures are qualified exploration expenditures under this section; and

13 (5) if the department is satisfied that the explorer's claimed
14 expenditures are qualified under this section, the department shall issue to the explorer
15 a production tax credit certificate for the amount of credit to be allowed against
16 production taxes due under this chapter.

17 (g) An explorer may transfer, convey, or sell its production tax credit
18 certificate to any person, and any person who receives a production tax credit
19 certificate may also transfer, convey, or sell the certificate.

20 (h) A producer that purchases a production tax credit certificate may apply the
21 credits against its production tax liability under this chapter. Regardless of the price
22 the producer paid for the certificate, the producer may receive a credit against its
23 production tax liability for the full amount of the credit, but for not more than the
24 amount for which the certificate is issued. A production tax credit allowed under this
25 section may not be applied more than once.

26 (i) For a production tax credit under this section,

27 (1) the amount of the credit that may be applied against the production
28 tax for each tax month may not exceed the total production tax liability of the taxpayer
29 applying the credit for the same month; and

30 (2) an amount of the production tax credit that is greater than the total
31 tax liability of the taxpayer applying the credit for a tax month may be carried forward

1 and applied against the taxpayer's production tax liability in one or more immediately
2 following months.

3 (j) Notwithstanding any other provision of this title, of AS 31.05, or of
4 AS 40.25.100, the department shall provide to the Department of Natural Resources
5 information submitted with a claim under this section to support the eligibility of an
6 exploration expenditure, including seismic exploration data and well data, and any
7 information described in (f)(2) of this section received by the department.

8 (k) In this section, "explorer" means a person who, in exploring for new oil or
9 gas reserves, incurs expenditures.

State of Alaska**Department of Natural Resource****Division of Oil & Gas**550 West 7th Avenue, Suite 800

Anchorage, AK 99501-3560

(907) 269-8800

**Fax Cover Sheet**

TO:	<i>Jerry Burnett</i>	PHONE:	
COMPANY:	<i>DOR</i>	FAX NO.:	<i>465-2389</i>
FROM:	<i>Marie Crosley</i>	PHONE:	<i>269-8802</i>

FAX NO.:	
DATE: <i>10 Feb 2005</i>	TIME:

CC:

Number of pages including cover sheet: 23☐ Urgent☐ For Review☐ Please Comment☐ As You Requested☐ FYI

Message:

Sorry, I have been tied up in meetings. This is what was faxed to Ginny at Rep. Weyhrauch's office today.

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



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

Bristol Bay Borough

October 22, 2003

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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

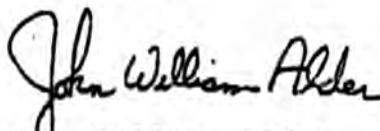
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COMMISSIONER'S OFFICE
ANCHORAGE

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,

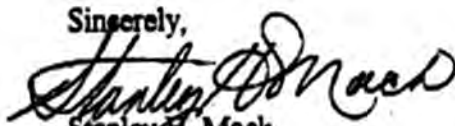
The Assembly of the Aleutians East Borough wants to thank you and your team for the presentation on October 7, 2003. Even though the weather did not allow everyone to get to Cold Bay, the Assembly's comments after the meeting included their appreciation of your efforts to brief the Assembly and the residents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

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OCT 16 2003

DIVISION OF
OIL AND GAS

☐ CLERK/PLANNER
P.O. BOX 349
SAND POINT, AK 99661
(907) 383-2696
(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: aeabarc@gcl.net

☐ FINANCE DIRECTOR
P.O. BOX 49
KING COVE, AK 99612
(907) 497-2588
(907) 497-2386 FAX
e-mail: aeabfinance@aol.com

**Lake and Peninsula Borough**

P.O. Box 495

King Salmon, Alaska 99613

Telephone: (907) 246-3421

Fax: (907) 246-6602

**RECEIVED**

OCT 9 2 2003

DIVISION OF
OIL AND GAS

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 Arcawide 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 Chignik, 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.

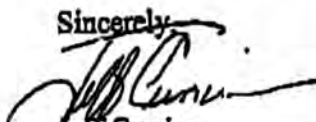
Finally, the Lake and Peninsula Borough supports onshore exploration and development but are concerned that the Best Interest Findings developed from this "call for comment period" also apparently apply to the 1.5 million acres of offshore acreage included in the lease sale, and further, that those findings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

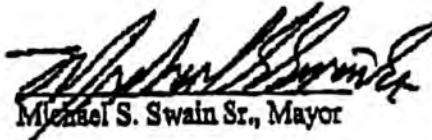
WHEREAS, the interest was significant enough for the private sector to invest considerable capital in seismic and actual drilling exploration and;

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,

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

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FAX NO. 2898904

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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

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 1-800-478-3602.

Sincerely,

Paul G. Roehl
V.P., Land & Resources

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

Post-It® Fax Note	7871	Date	6/26/03	Page	2 of 2
To	GAY MURKOWSKI	From	Paul Roehl		
On Behalf	State of Alaska	Co.	BBNC		
Phone #		Phone #			
Fax #	(907) 465-3532	Fax #			



King Salmon Tribe

People of the Village

P.O. BOX 86 KING SALMON, AK 99613
TEL: 907/246-3553 FAX: 907/246-3449
E-MAIL: ksn@bristolbay.com

September 15, 2003

Bristol Bay Native Corporation
800 Cordova Street
Suite 280
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 know 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.

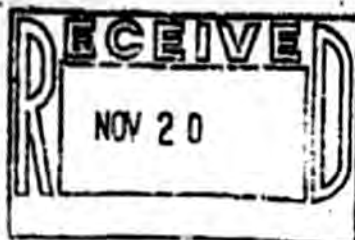
The village of King Salmon is in support of developing our oil and gas reserves both onshore and offshore and developing our mineral deposits here in Bristol Bay. We also support ground transportation from King Salmon to Anchorage so that we can reduce transportation costs to promote economic opportunities. 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 Angasen, 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
EPA OFFICE
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

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.

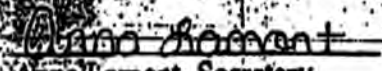
BE IT FURTHER RESOLVED, that the Newhalen Tribal Council hereby directs the Tribal President to forward a letter to all appropriate governmental, public and private sector entities notifying them of Newhalen Tribal Council's interest in being actively involved, informed, and consulted regarding matters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

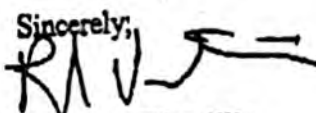
This resolution was duly considered and adopted at the general meeting of the Newhalen Tribal Council called and convened this 12 day of Nov, 2003 by a vote of 6 in favor and 0 against 0 abstain.


Raymond Wassilie, 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,



Raymond Wassillie
President

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APR-23-03 WED 07:30 AM

FAX NO. 9072898938

FAX NO. 2228904

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CITY OF ALEKNAGIK

P.O. Box 33, MAIN STREET
ALEKNAGIK, ALASKA 99555-0033
PHONE: 907-842-5953 OR 842-2528
FAX: 907-842-2107
EMAIL: cityalek@aushpl.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

**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 led 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.

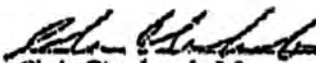
NOW THEREFORE BE IT RESOLVED that the City Council of the City of Aleknagik that the City of Aleknagik strongly supports oil and gas exploration and development in the Bristol Bay region provided maximum protection be given to the fishery resources and that exploration and development be done in an environmental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

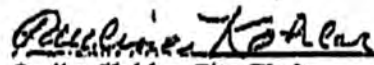
Alaska State Legislature to assist in moving the OCS sales schedule up from 2011 to 2004 or as earliest as possible.

PASSED AND APPROVED this 2 day of April, 2003 at Aleknagik, Alaska.

SIGNED:


Chris Cluckwuk, Mayor

ATTEST:


Pauline Kohler, City Clerk

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:

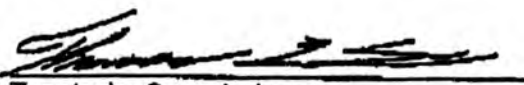
- The term of this MOU will be for five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- To the extent consistent with their respective interests and statutory or regulatory responsibilities, or corporate responsibilities, 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

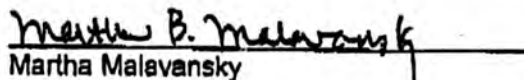
- This MOU may be terminated within thirty(30) days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.
- Others may become party to this MOU upon written consent of the Parties.

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 lease sales, 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 leasesales 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

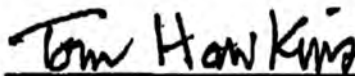
- The term of this MOU will be five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- This MOU may be terminated with thirty days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.

- 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

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB071HCS(W&M)-DNR-
 () Publish Date: _____

Revision Date/Time (Note if correction): 2-15-05 Dept. Affected: Natural Resources
 Title: Credit for certain exploration expenses against RDU: Resource Development
oil and gas properties production taxes on oil and gas ... Component: Oil & Gas Development
 Sponsor: Rules by Request of Governor
 Requester: House Oil and Gas Component No. 439

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 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						
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CHANGE IN REVENUES ()	***					
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FUND SOURCE

(Thousands of Dollars)

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

Estimate of any current year (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: Mark Myers, Director Phone: 269-8800
 Division: Oil & Gas Date/Time: 2/14/2005
 Approved by: Tom Irwin, Commissioner Date: 2/15/2005
 Agency: Natural Resources

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.



LAWS OF ALASKA

2003

Source

HCS CSSB 185(O&G) am H

Chapter No.

AN ACT

Providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land, and for 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.

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

THE ACT FOLLOWS ON PAGE 1

Enrolled SB 185

STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

House Bill 71 is intended to encourage exploration and development of one of the largest undeveloped onshore oil and gas fields remaining in Alaska, outside of the north slope. Development of this field has the potential to bring stable, high paying, year round jobs to an area which has traditionally relied on a seasonal commercial fishing economy. Gas from this field can provide an efficient relatively low cost energy source for heating and the production of electricity to the Alaska Peninsula area. Oil and gas development can provide transportation infrastructure and lower the cost of living in this area. Local residents and commercial interests including native corporations in the Alaska Peninsula area support development of the gas and oil resources in this area.

The exploration credit enacted last year provides oil and gas explorers a credit against their production taxes of (1) 20% of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20% of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit, or (3) 40% of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Once approved, the credit or any remaining portion of it can be either carried forward month to month until fully applied, or sold or transferred to another taxpayer and applied to Alaskan production tax liabilities. The work must be performed between July 1, 2003 and July 1, 2007. In general allowable expenses include the direct costs of the work performed and exclude overhead, administration and environmental costs.

This bill extends the period for performing qualifying exploration work for the tax credit until July 1, 2010, for exploration in the proposed Alaska Peninsula competitive oil and gas area wide lease sale area. Exploration as a result of that lease sale is not expected to occur until after the expiration of the current production tax credit on July 1, 2007, therefore we are proposing extending the qualifying period four years.

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

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

Estimate of any current year (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