

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3122 SCOMM 144: HOUSE SPECIAL COMMITTEE ON OIL & GAS 2005-2006

1 pipeline (such as the case with APLC). CIGGS has been a private pipeline with no
2 third-party shippers so there has been no historical business reason for the
3 transportation component to be separately calculated, identified or charged. Marathon's
4 argument is a convenient use of circumstance but it is not convincing.

5 After carefully considering the facts and arguments presented by the
6 parties, we conclude that CIGGS furnishes gas by transmission to the public for
7 compensation within the meaning of AS 42.05.990(4)(D).

8 Under AS 42.05.990(4) any company owning a pipeline or system that
9 furnishes natural gas by transmission to the public for compensation is a public utility.
10 Both Unocal Alaska and Marathon own an interest in CIGGS. Therefore, we find
11 Unocal Alaska and Marathon are public utilities subject to our jurisdiction under
12 AS 42.05.

13 This determination is consistent with the decision in Docket U-70-73 that
14 Unocal Alaska and Marathon, as owners of KNPL, were subject to jurisdiction under
15 AS 42.05 as public utilities.⁵⁴ Marathon argued that the KNPL decision is an anomaly
16 and that the consistently applied modern regulatory practice is not to require certification
17 for producers who use their upstream pipe to move gas destined for sale to public
18 utilities.⁵⁵

19 We strongly disagree. We believe the KNPL decision correctly interprets
20 the statute and, further, that it provides us with a viable strategy to consider in
21 determining the level of regulation we choose to assert over CIGGS. In that decision,
22 the APUC acknowledged:

23 ⁵⁴1 APUC 281 (1971) (Order U-70-73(2), dated September 28, 1971). Docket
24 U-70-73 is titled *In the Matter of the Certification of UNION OIL COMPANY and*
25 *MARATHON OIL COMPANY*.

26 ⁵⁵Marathon Reply Brief at 5.

1 the reluctance of the Applicants to submit all of their pipeline operations to
2 regulation as a public utility, particularly in view of the extremely small
3 percentage of the total pipeline capacity dedicated to public utility service.
4 On the other hand, the Commission must recognize its obligation to
5 protect the interest of all ultimate utility customers who depend on the
6 Applicants for the gas they use regardless of the fact that their usage is
7 only a minuscule part of the gas transmitted by the Pipeline.⁵⁶

8 Thirty-four years later, we still have an obligation to protect the interest of
9 all ultimate utility customers who depend on CIGGS for natural gas. ENSTAR made
10 clear its concern that "no matter what this Commission determines in this docket, that it
11 not do anything that reduces the existing flow of gas over CIGGS, especially the flow of
12 gas to utilities like ENSTAR."⁵⁷ ENSTAR stated that it has "relied on the fact that its
13 supplier Marathon owns capacity on CIGGS and is free to use that capacity to serve
14 ENSTAR's requirements, regardless of any other demand."⁵⁸ ENSTAR stated that
15 curtailment of ENSTAR's residential and commercial customers is not practical.
16 ENSTAR asked that, if we regulate CIGGS, we "do so in a way that preserves the
17 capacity rights of the existing shippers and their customers, and provides a utility priority
18 (applicable to both utilities and shippers who supply utilities) in the event of a capacity
19 constraint."⁵⁹

20 Marathon pointed out that "[t]here are not substantial volumes of pipeline
21 quality gas accessible to CIGGS that are not moving to market already. The small
22 volumes that have been identified could be moved by private carriage arrangements."⁶⁰

23 ⁵⁶1 APUC 281, 283 (1971) (Order U-70-73(2), dated September 28, 1971).

24 ⁵⁷ENSTAR's Opening Memorandum on Question No. 1 at 2, filed
25 March 22, 2005.

26 ⁵⁸*Id.* at 3.

⁵⁹*Id.* at 3-4.

⁶⁰Marathon Brief at 14.

1 Marathon further warned us to consider the substantial costs that would be imposed (by
2 regulation) both in dollars and in lost gas production and describes in detail the
3 modifications which might need to be made to the pipeline in terms of measurement and
4 control facilities.⁶¹ Marathon concludes that the end result would be counterproductive
5 to the public interest, which it describes is to maximize gas production in Cook Inlet.⁶²

6 We take these arguments seriously and, as a result, will be mindful to rest
7 the mantle of regulation appropriately around this pipeline. Fortunately, regulation
8 under AS 42.05 is flexible and we have a great deal of discretion to act in the public
9 interest.⁶³ We can protect the interests of the public — utilities and utility customers,
10 gas producers and consumers, gas buyers and sellers — by regulating CIGGS to the
11 exact extent necessary to achieve that protection without overburdening the CIGGS
12 Owners. We seek balance; the parties need to seek balance; and we will continue to
13 maintain a firm hand guiding this process. By this initial decision, we do not subject
14 Marathon or Unocal Alaska to a "panoply of burdensome, costly, inappropriate,
15 inapplicable and unnecessary regulation."⁶⁴

16
17
18
19
20
21
22 ⁶¹/d. at 16.

23 ⁶²/d. at 17.

24 ⁶³Under AS 42.05.711(d) we can exempt the owners of CIGGS from some or all
25 of the provisions of AS 42.05 if it is in the public interest to do so.

26 ⁶⁴Marathon Reply Brief at 3.

1 To further that objective, we grant Marathon and Unocal Alaska a
2 temporary exemption from all the provisions of AS 42.05 while we complete Phase One
3 of these proceedings.

4 **ORDER**

5 THE COMMISSION FURTHER ORDERS:

6 1. The owners of the Cook Inlet Gas Gathering System, Marathon Oil
7 Company and Union Oil Company of California, are public utilities subject to the
8 jurisdiction of this Commission.

9 2. Marathon Oil Company and Union Oil Company of California are
10 granted a temporary exemption under AS 42.05.711(d) from all provisions of AS 42.05,
11 pending further order of this Commission.

12 DATED AND EFFECTIVE at Anchorage, Alaska, this 22nd day of April, 2005.

13 BY DIRECTION OF THE COMMISSION
14 (Commissioners Dave Harbour and
15 James S. Strandberg, not participating.)
16
17

18 (SEAL)
19
20
21
22
23
24
25
26

1 STATE OF ALASKA

2 THE REGULATORY COMMISSION OF ALASKA

3 Before Commissioners:

Kate Giard, Chairman
Dave Harbour
Mark K. Johnson
Anthony A. Price
James S. Strandberg

7 In the Matter of the Formal Complaint Filed by)
8 Agrium U.S. Inc. Against MARATHON OIL)
COMPANY and Union Oil Company of California)

P-04-20

ORDER NO. 6

10 In the Matter of the Formal Complaint Filed by)
11 Agrium U.S. Inc. Against MARATHON OIL)
COMPANY and Union Oil Company of California)

U-05-20

ORDER NO. 4

12 ORDER DENYING JOINT PETITION FOR PARTIAL
13 RECONSIDERATION AND SCHEDULING PREHEARING
14 CONFERENCE

15 BY THE COMMISSION:

16 Summary

17 We deny the joint petition filed by Agrium,¹ Aurora Gas² and the State³ for
18 partial reconsideration of Order P-04-20(3)/U-05-20(1).⁴ We schedule a prehearing
19 conference.

21 _____
22 ¹Agrium U.S. Inc. (Agrium).

23 ²Aurora Gas, LLC (Aurora Gas).

24 ³The State of Alaska (the State).

25 ⁴Order P-04-20(3)/U-05-20(1), *Order Granting Intervention, Defining Adjudicatory*
26 *Process, Opening New Docket, Establishing Procedural Schedule and Denying Motion*
for Clarification, dated March 7, 2005.

Background

In Order P-04-20(3)/U-05-20(1), we required sequential briefing on six questions raised in Agrium's formal complaint⁵ against Marathon Oil Company (Marathon) and Union Oil Company of California (Unocal Alaska). We established a schedule for briefing and for filing specific information with us over a nine-month period from March to November 2005. Agrium, the State, and Aurora Gas (the Petitioners) jointly petitioned us to reconsider our Order and

1. consolidate and expedite the briefing and discovery schedules for Questions 2, 3, 4 and 6;
2. set a complete and expedited procedural schedule for Question 5; and
3. require such additional disclosures or discovery as the parties may request.⁶

Marathon and Unocal Alaska responded.⁷

Discussion

Petitioners stated that this proceeding would be more efficient if certain issues were considered simultaneously rather than sequentially and that sequential consideration of the issues ignores the overlap among them. Petitioners contended that

⁵Agrium U.S. Inc.'s Formal Complaint Against Marathon Oil Company and Union Oil Company of California for Their Ongoing Violations of the Alaska Public Utilities Regulatory Act and the Alaska Pipeline Act Through Providing Unregulated Transportation Service and Refusing to Provide Regulated Transportation Service Through the Cook Inlet Gas Gathering System, filed October 1, 2004 (Complaint).

⁶Joint Petition for Partial Reconsideration of Order Defining Adjudicatory Process and Establishing Procedural Schedule, filed March 29, 2005 (Joint Petition).

⁷Response of Marathon Oil Company to Joint Petition for Partial Reconsideration of Order Defining Adjudicatory Process and Establishing Procedural Schedule, filed April 11, 2005 (Marathon Response); Partial Opposition of Union Oil Company of California to Joint Petition for Partial Reconsideration of Order Defining Adjudicatory Process and Establishing Procedural Schedule, filed April 8, 2005 (Unocal Alaska Response).

1 Question 5, relating to common carriage under the Pipeline Act, involves a number of
2 fact-based issues that require different treatment than the other Questions. Petitioners
3 asked us to handle Question 5 in a more traditional way, with discovery followed by
4 briefing on legal matters and a hearing on any remaining factual matters. Petitioners
5 also asked us to schedule a prehearing conference to establish an expedited procedural
6 schedule for the resolution of Question 5. Further, Petitioners reserved the right to
7 request additional discovery upon a showing of good cause.

8 Marathon opposed establishment of an expedited schedule. Marathon
9 stated that the expedited procedures, with the enhanced discovery sought by
10 Petitioners, threaten to transform this investigation from a focused manageable process
11 into an all-consuming regulatory drill.⁸ Marathon also opposed the expedited schedule
12 because Marathon is currently involved in two other proceedings pending before us,
13 one of which is already on an expedited schedule.⁹ Marathon stated it cannot
14 simultaneously respond to these proceedings and others on the Petitioners' requested
15 schedule.¹⁰ Marathon concluded that expedited schedules in one or more of the
16 proceedings would also interfere, perhaps fatally, with reasonable efforts to settle any of
17 them.¹¹ Marathon opposed the request to create third party discovery rights.¹²

18
19 ⁸Marathon Response at 2.

20 ⁹In addition to these Dockets, Marathon is participating in Docket U-04-81, and
21 Docket P-04-12. Docket U-04-81 is titled *In the Matter of the Protest by AURORA GAS,*
22 *LLC, Against BELUGA PIPE LINE COMPANY for Rates BELUGA PIPE LINE*
23 *COMPANY Charges for the Transportation of Natural Gas.* Docket P-04-12 is titled *In*
the Matter of the Consideration of TL2- 689 and First Supplemental TL2- 689, filed by
MARATHON OIL COMPANY d/b/a KENAI NIKISKI PIPELINE.

24 ¹⁰Marathon Response at 5.

25 ¹¹*Id.*

26 ¹²*Id.*

1 Marathon stated that Order P-04-20(3)/U-05-20(1) precisely identified reasonable
2 requirements for information we need. Marathon opposed "any attempt to allow Agrium
3 and others to turn this case into a burdensome and uncontrolled fishing expedition into
4 the business of the CIGGS owners."¹³

5 Unocal Alaska responded that it did not necessarily oppose consolidating
6 for briefing certain of the issues, and requested that, if we decide to make any
7 modifications to the procedural schedule, we require the parties to engage in an
8 informal settlement conference supervised by a settlement judge we appoint. Unocal
9 Alaska stated its belief the issues in these Dockets can be settled if all parties take the
10 time and effort to do so. Unocal Alaska stated that, while other cases have been settled
11 on the eve of trial, this proceeding can be resolved earlier in the process before
12 extensive and prolonged pre-trial proceedings are incurred.¹⁴ Unocal Alaska further
13 requested that any new dates be established through a prehearing conference. Like
14 Marathon, Unocal Alaska stated that it is involved in a number of proceedings at the
15 moment and expressed the need to coordinate demands on it. Unocal Alaska
16 expressed concern that if we establish new and expedited dates without taking into
17 account the demands on the parties, we could unfairly prejudice the ability of the
18 Marathon and Unocal Alaska to adequately prepare for and respond to our concerns.
19 Unocal Alaska concluded that a prehearing conference will enable all parties,
20 interactively, to work out a schedule that accounts for other demands.¹⁵

21 Unocal Alaska opposed Petitioners' request for additional disclosures or
22 discovery. Unocal Alaska stated that the need for us to take a strong role remains as

23 ¹³/d. at 6.

24 ¹⁴Unocal Alaska Response at 3.

25 ¹⁵/d. at 4-5.

1 important now as ever. Unocal Alaska stated we should retain the provisions of Order
2 P-04-20(3)/U-05-20(1) dealing with discovery in any subsequent order in this Docket.¹⁶
3 Unocal Alaska did ask that, if we decide to expand discovery, we also extend the
4 schedule in order to permit Marathon and Unocal Alaska to handle any expanded
5 discovery requirements in an orderly and deliberate manner.

6 The petition for partial reconsideration of Order P-04-20(3)/U-05-20(1)
7 (CIGGS Procedural Order) was filed pursuant to 3 AAC 48.105 which states in part:

8 Within 15 days after an order of the commission is served, a party
9 may file a petition for reconsideration of that order setting out
10 specifically the grounds upon which the petitioner believes the
order is unreasonable, erroneous, unlawful, or otherwise defective.

11 Petitioners filed the Petition on March 29, 2005, one business day after
12 the reconsideration period had passed. Even assuming the Petition was filed timely,
13 Petitioners failed to provide any support for an argument that our Order was
14 unreasonable, erroneous, unlawful, or otherwise defective. Rather, Petitioners merely
15 express a preference for an expedited pleading schedule and expanded discovery
16 opportunities. This is an insufficient basis for us to grant reconsideration. Therefore,
17 we deny the petition for partial reconsideration.

18 We find Unocal Alaska's comments made in response to the Petition give
19 us sufficient reason to schedule a prehearing conference. Unocal Alaska did not
20 necessarily oppose the request to consolidate for briefing certain of the issues identified
21 in these Dockets. Unocal Alaska also asserted that if we appoint a settlement judge,
22 through diligent effort the parties could agree on terms and conditions of service which
23 serve all of their interests. We concur that it is appropriate to consider the merits of
24

25 ¹⁶*Id.* at 6.
26

1 appointing a settlement judge and also to discuss whether there is sufficient reason to
2 consolidate issues in the pleading cycle.

3 We schedule a prehearing conference for May 4, 2005 at 2 p.m. Parties
4 are instructed to be prepared to discuss their recommendations, if any, for the
5 consolidation of the pleading schedule and any settlement procedures they would like to
6 have established in these Dockets. We believe that early communication and any
7 agreements they form will make the prehearing conference activities more efficient.

8 **ORDER**

9 THE COMMISSION FURTHER ORDERS:

10 1. The joint petition for partial reconsideration filed by Agrium U.S. Inc.;
11 Aurora Gas, LLC; and the State of Alaska on March 29, 2005, is denied.

12 2. A prehearing conference is scheduled to convene at 2 p.m.,
13 May 4, 2005 in the East Hearing Room of the Regulatory Commission of Alaska, 701
14 West Eighth Avenue, Suite 300, Anchorage, Alaska.¹⁷

15 DATED AND EFFECTIVE at Anchorage, Alaska, this 27th day of April, 2005.

16 BY DIRECTION OF THE COMMISSION

17
18 (SEAL)
19
20
21

22 ¹⁷Any party wishing to appear telephonically at the status conference must advise
23 us, in writing, by 4 p.m., May 2, 2005, and provide a telephone number where it may be
24 reached for that appearance.

25 If you are a person with a disability who may need a special accommodation,
26 auxiliary aid, or service or alternative communication format in order to participate in this
status conference, please contact Joyce McGowan at 1-907-276-6222 or TTY
1-907-276-4533, by 4 p.m., May 2, 2005, to make the necessary arrangements.

SCOMM

1 44:13



REPRESENTATIVE RALPH SAMUELS

HOUSE DISTRICT 29

Sponsor Statement HB 286

"An Act amending the manner of determining the royalty received by the state on gas production by directing the commissioner of natural resources to accept, under certain circumstances, the transfer price of the gas if established by transfer price order of the Regulatory Commission of Alaska; and providing for an effective date."

Anchorage Municipal Light and Power is proposing a housekeeping amendment to AS 38.05.180(aa). The amendment will allow the Department of Natural Resources to use the transfer price for gas set by the Regulatory Commission of Alaska to value the State's share of royalty gas. The amendment reflects language as proposed by ML&P and modified at DNR's request. DNR does not oppose this amendment.

Since 1986, Alaska utilities have been able to use the price set in their long-term gas purchase contracts as the value for royalty gas values.

ML&P has used (aa) for the gas ML&P uses from its share of the Beluga River Field. DNR agreed to let ML&P continue to receive (aa) treatment based on the ML&P/Shell contract even after ML&P bought Shell's interest in the field. But that contract expires at the end of 2005. While ML&P's share in the Beluga River Field will assure ML&P of a supply of gas, in the absence of the proposed legislation, ML&P will not be able to continue to receive (aa) treatment for its gas.

The proposed legislation adds language that allows DNR to use the gas transfer price set by the RCA much like DNR uses the contract price for gas. The transfer price is the rate ML&P is required to charge itself for the Beluga Field gas it uses. The proposed amendment allows DNR to give (aa) treatment not only to an arms-length gas supply contract, but also to RCA-approved orders setting the transfer price when a utility uses its own natural gas.

The proposed amendment is consistent with the purpose of the original law. It will allow ML&P to continue to receive the benefits the Legislature intended to provide to consumers. It assures that rigorous and fair regulatory process will be used to set the price for royalty gas. The fiscal impact will be minimal compared to the (aa) treatment ML&P presently receives. This amendment will help ensure that Anchorage electric consumers have certainty and stability in their electric rates.

Email: Representative_Ralph_Samuels@legis.state.ak.us

Session: Alaska State Capitol, Juneau, Alaska 99801-1182 • **Phone:** (907) 465-2095 **Fax:** (907) 465-3810
Interim: 716 W. 4th Ave., Anchorage, Alaska 99501-2133 • **Phone:** (907) 269-0240 **Fax:** (907) 269-0242

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB286-DNR-O&G-04-27-
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Value of Royalty on Gas Production RDU Resource Development
Component Oil and Gas Development
Sponsor Rep. Samuels
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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	***Indeterminate
-------------------------------	-------------------------

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

Check 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 amends AS 38.05.180(aa), a statute that relates to the royalty value of gas sold to a gas or electric utility that serves the general public. Under the state's oil and gas leases, a producer-lessee must pay the state royalties-in-value (cash) or royalties-in-kind (oil or gas). If the producer pays the gas royalty in-value, meaning that the producer sells the gas to its customer and then tenders a payment to the state, the producer is liable under the lease for a royalty value that is the higher of the producer's actual sales price (less certain allowed deductions) or the average royalty values for other producers in the same area based on their sales.

Under current law, AS 38.05.180(aa) provides that a gas producer can apply to the Commissioner of the Department of Natural Resources (the department) to have its royalty gas valued at its contract sales price

Prepared by: Mark D. Myers, Director Phone 269-8800
Division Oil and Gas Date/Time 4/27/2005
Approved by: Tom Irwin, Commissioner Date 4/27/2005
Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HB286-DNR-O&G-0

ANALYSIS CONTINUATION

If the Commissioner approves the application, the state gives up the higher of value under the lease, relating to the average sales prices received by other producers as noted above. To obtain approval under AS 38.05.180(aa), the producer must present a negotiated, third-party arm's length contract for the Commissioner's consideration.

HB 286 would change current law to allow a producer-lessee that transfers its gas to an affiliated utility to apply for AS 38.05.180(aa) treatment. Under the bill, if a producer-lessee has an internal transfer price for gas consumed by its utility approved for ratemaking purposes by the Regulatory Commission of Alaska, it could apply to the department to have its transfer price used as its royalty value. In the absence of HB 286, the department would use the higher of value to determine the royalty value. Since there would be no negotiated, arm's length third-party contract for the producer-lessee's internally consumed gas, the higher of value would be the average of the other producers' royalty values.

***Indeterminate. The department is unable to determine whether enacting HB 286 would have a negative or positive fiscal impact on the state. If the transfer price were used for the royalty value, as the bill would permit with department approval, the impact would be negative if the transfer price was lower than the average of other producers' royalty values. However, the fiscal impact would be positive if the transfer price was higher than the average of other producers' royalty values.

SCOMM

144:14



USIBELLI COAL MINE, INC.

PO Box 1000 • Healy, Alaska 99743
Telephone (907) 683-2226 • Facsimile (907) 683-2253

May 3, 2005

Representative Vic Kohring
Chair, House Special Committee on Oil and Gas
State Capitol (MS3100)
Juneau, AK 99801-1182

Re: HB 297

Dear Representative Kohring

Usibelli Coal Mine, Inc. as applicant for the Healy Basin gas only Exploration License Application ADL # 390606, located approximately 100 miles south of Fairbanks, Alaska, hereby express's support for the provisions of HB 297 that relate to the extension of the effective date for certain Exploration Incentive Credits applicable in the State of Alaska under AS 43.55.025. Usibelli Coal Mine, Inc. supports the extension of the provisions for this program through June 30, 2010, which allows for credits that may be claimed for certain oil and gas exploration expenses incurred in the state, and applied against production taxes.

As an applicant for over 200,000 acres of Exploration License area in the Healy Basin, Usibelli Coal Mine, Inc. views the extension of this program as a critical factor that will significantly contribute toward the exploration of this unexplored basin with potential shallow gas and coal bed methane resources. The extension would allow an opportunity for exploration in this basin to qualify under the program, which would otherwise have been lost, due to the delays in processing our original 2003 lease applications under the subsequently suspended Shallow Gas Leasing program. Usibelli Coal Mine, Inc. views the economic benefits of such exploration expenditures as not only positive to the local and regional economies, but critical to increasing the possibility that commercially viable gas resources could be successfully located and developed in this basin. Any such development and production would have further economic benefits to the local, regional and state economies.

Sincerely,

Steve W. Denton
VP Business Development

RED DOG MINE

Teck Cominco Alaska currently holds 4 State of Alaska shallow gas leases in the vicinity of the Red Dog mine. The gas resource in this area has more risks to development than more conventional gas resources in other regions of Alaska as it is a new resource type to the State. Any encouragement the legislature can provide will encourage exploration and potential development of this resource. Initial exploration will be completed on private land that if successful would immediately expand onto the adjoining State leases. If the initial exploration area just north of the mine is positive, drilling could expand to the area some 8 miles north on State leases.

Legislation to extend the State's gas exploration tax credit program to 2010 would provide a time frame that Teck Cominco Alaska and its partner the NANA Regional Corporation could use to pursue the development of this gas resource. Benefits to Alaskans would include royalties from the State lands; if developed, could free up fuel storage at the State owned Delong Mountain Transportation System port that could be used to reduce fuel costs for Northwest Alaska; and, this could potentially reduce the amount of subsidy the State provides to the region to assist in keeping fuel costs somewhat manageable.

24-LS0998\G
Chenoweth
5/3/05

CS FOR HOUSE BILL NO. 297(O&G)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered:
Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON OIL AND GAS

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 DOES
4 NOT EXCEED 40 PERCENT OF THE TOTAL EXPLORATION
5 EXPENDITURES];

6 (3) 40 percent of the total exploration expenditures that qualify
7 under (b), (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, 2007, 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, and except that an exploration expenditure, in whole or in
18 part, south of 68 degrees, 15 minutes, North latitude, and not part of a Cook Inlet
19 prospect must be incurred for work performed on or after July 1, 2003, and
20 before July 1, 2010, and

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

23 (2) if for an exploration well,

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

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

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

1 after the date the well was spudded;

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

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

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

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

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

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

16 (A) for an exploration well other than a well that is
17 described in (B) of this paragraph, the well must be [THAT IS] located and
18 drilled in such a manner that the bottom hole is located not less than three
19 miles away from the bottom hole of a preexisting suspended, completed, or
20 abandoned oil or gas well; in this subparagraph [PARAGRAPH],
21 "preexisting" means a well that was spudded more than 150 days but less than
22 35 years before the exploration well was spudded;

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

1 relevant, constitute a distinctly separate exploration target.

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

3 (d) To be eligible for the [AN ADDITIONAL] 20 percent production tax
4 credit authorized by (a)(2) of this section or the 40 percent production tax credit
5 authorized by (a)(3) of this section, an exploration expenditure must

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

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

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

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

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

17 (2) be for seismic exploration; and

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

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

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

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

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

29 (A) to notify the Department of Natural Resources, within 30
30 days after completion of seismic or geophysical data processing, completion of
31 a well, or filing of a claim for credit, whichever is the latest, for which

1 exploration costs are claimed, of the date of completion and submit a report to
2 that department describing the processing sequence and providing a list of data
3 sets available; if, under (c)(2)(B) of this section, an explorer submits a
4 claim for a credit for expenditures for an exploration well that is located
5 within three miles of a well already drilled for oil and gas, in addition to
6 the submissions required under (1) of this subsection, the explorer shall
7 submit the information necessary for the commissioner of natural
8 resources to evaluate the validity of the explorer's claim that the well is
9 directed at a distinctly separate exploration target, and the commissioner
10 of natural resources shall, upon receipt of all evidence sufficient for the
11 commissioner to evaluate the explorer's claim, make that determination
12 within 60 days;

13 (B) to provide to the Department of Natural Resources, within
14 30 days after the date of a request, specific data sets, ancillary data, and reports
15 identified in (A) of this paragraph;

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

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

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

26 (5) if the department is satisfied that the explorer's claimed
27 expenditures are qualified under this section, the department shall issue to the explorer
28 a production tax credit certificate for the amount of credit to be allowed against
29 production taxes due under this chapter; however, notwithstanding any other
30 provision of this section, the department may not issue to an explorer a
31 production tax credit certificate if the total of production tax credits submitted

1 for Cook Inlet production, based on exploration expenditures for work
2 performed during the period described in (b) of this section for that production,
3 that have been approved by the department exceeds \$20,000,000.

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

5 (k) In this section,

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

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

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

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

15 (l) The provisions of this section do not apply to the Arctic National Wildlife
16 Refuge.

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

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 297
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title Production Tax Credits RDU Tax and Treasury
Component Tax
Sponsor (H) O&G
Requester (H) O&G 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	*	*	*	*	*	*

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

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2005) cost: 0.0

Check 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)

HB 297 (in so far as it reflects the unamended Finance committee substitute for HB 71) improves the AS 43.55.025 (production tax) exploration credit program enacted in 2003 in several important ways. It creates new rules in the Cook Inlet more appropriate for encouraging exploration in a well explored mature basin. It extends the time available for performing work that will qualify for the credit out to 2010 for everywhere except the North Slope. This should be particularly important in the Alaska Peninsula area where DNR has proposed a lease sale for the fall of 2005, as well as areas with exploration licenses. Finally, the bill introduces clarifying language about when the 20% , 40 % (and lack of opportunity for an 80%) credit apply. (continued on next page)

Prepared by: Dan Dickinson & Greg Bidwell Phone 269-6620
Division Tax Division Date/Time 5/4/05 10:36 AM
Approved by: Tom Boutin, Deputy Commissioner Date 5/4/2005
Agency Revenue

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HB 297

ANALYSIS CONTINUATION

Although the credit will decrease revenues in the short term, it should increase them over the long term, though it is impossible to predict with any certainty the exact size of either effect.

Given the infrastructure already developed in the Cook Line, minimum fields sizes smaller than 10 million barrels or 40 billion cubic feet of gas may be economic to develop. More typical fields in the Cook Inlet would be 20 million barrels of oil and 200 bcf of gas. Though it may take several years to bring into production, state revenue (royalty production tax, property tax and corporate income tax) from such an oil field would average 50 million dollars for its first producing decade. Gas fields can be brought on more quickly, and such a typical gas field could average \$180 million dollars in state revenue over its first decade. Thus if this program results in one or more typical incremental production opportunities from the Cook Inlet it will more than pay for itself.

At levels of exploration seen over the past several years, the 20 million dollar cap will kick in between 3 and 4 years from now. If there is incremental exploration, the cap will be reached earlier.

In the Alaska Peninsula, while we expect wells to be drilled from onshore facilities, given the remoteness of the region and the lack of infrastructure, we assume that on average these wells will qualify for a 30% credit, half qualifying for the 40% and half qualifying for the 20% credit. Thus we estimate \$7 million dollars a year in credits if there is sufficient Alaska Peninsula exploration. The credit might promote higher bidding (and thus state revenues) in the lease sale. We estimate the minimum economic fields size to be between 100 million and 200 million barrels of oil. Such a field, if discovered and developed, could yield about \$500 million dollars in state revenues over the first decade of production. Thus, if successful, the program will pay off more than an order of magnitude more than its costs.

Section 1 rewrites the statutory language to clear up confusion that has arisen over the original language. It makes clear that there are only four possible situations:

- (1) Well work more than three miles from an existing well, but not more than 25 miles from a unit that qualifies for a 20% credit,
- (2) Well work more than 25 miles from an existing unit but not more than 3 miles from an existing well that qualifies for a 20% credit,
- (3) Well work that is both 25 miles from an existing unit and 3 miles from an existing well that qualifies for a 40% credit, and
- (4) Seismic work that qualifies for a 40 % credit.

There is no way to combine these to get an 80% credit for any given dollar outlay.

Section 2 does two things. It extends the sunset of the existing credit from 2007 to 2010 for all work performed south of the Brooks Range. In the Cook Inlet, while also extending the sunset to 2010, section 2 also sets new rules, effective July 1 2005, more appropriate for a mature basin like the Cook Inlet.

Section 3 makes some changes to make the section one rewrites more precise, and for the Cook Inlet introduces the notion that if the commissioner of DNR certifies that the target is separate exploration target, the well work qualifies for the credits as though it were three miles from another well – even though it may be closer.

Section 4 also makes some changes to make the section one rewrites more precise, and for the Cook Inlet reduces the qualifying distance from an existing unit from 25 miles to 10 miles.

Section 5 changes a single phrase to make the section one rewrites more precise.

Section 6 clarifies the process whereby a Cook Inlet explorer can get the required certification from the commissioner of DNR to qualify for the credit with a separate exploration target. It also further limits the total of special Cook Inlet credit to 20 million dollars.

Section 7 sets forth several definitions pertinent to Cook Inlet.

Section 8 exempts work in the Arctic National Wildlife Refuge from qualifying for the credit.

ALASKA STATE LEGISLATURE



Interim:

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

Session:

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

REPRESENTATIVE VIC KOHRING DISTRICT 14

House Bill 297 Sponsor Statement

House Bill 297 extends the January 1, 2007 sunset date on oil and gas credits for exploration expenses, to be applied against production taxes for development in Cook Inlet. The new expiration date will be July 1, 2010.

This legislation extends these credits for exploration wells and seismic data to all areas of the state south of 68 degrees, 15 minutes, North latitude, (south of North Slope foothills)

The tax credits are intended to act as an incentive to encourage greater oil and gas exploration, especially in high prospect areas of the state. They are particularly important to Southcentral Alaska, where existing gas reserves are expected to be largely depleted within a decade. With this extension many of the most promising areas will now have additional incentives explore for oil and gas.

There is a zero fiscal note associated with this legislation.

HB 71

Summary:

- **Makes changes to AS 43.55.025 – Tax Credits for Oil and Gas Exploration or Gas only Exploration.**
 - **Extends the current Exploration Credit (EC) an additional three years only limited to the Alaska Peninsula.**
 - **Would also make technical amendments to clarify the EC.**

Background:

- This tax credit incentive was passed in 2003.
- Applies to all onshore lands in Alaska and state submerged lands with certain limitations:
 - **Cannot be in a unit as of May 13, 2003**
 - **Twenty percent of exploration well drilling costs if greater than 3 miles from a well or Twenty percent of exploration well drillings costs if more than 25 miles from a unit boundary as delineated on July 1, 2003 (forty percent if both).**
 - **Forty percent of seismic costs as long as outside a unit.**
- Can drill multiple qualifying wells in the same drilling season within 3 miles of each other.
- Currently sunsets July 1, 2007.

Proposed Amendments:

- **Would extend the current sunset from 2007 to 2010 only for the Alaska Peninsula (onshore acreage and state waters only).**
- **This extension is appropriate for the proposed Alaska Peninsula sale area.**
 - **There are currently no facilities or infrastructure in the area.**
 - **There is no modern seismic data in the area.**
 - **Activity in the area would be true wildcat exploration.**
 - **Because there is no leased acreage in the area, an EC in this area would make it more likely that industry would be willing to bid more on the leases.**
 - **As a result of the exploration, the state would receive data which it would be able to release after 10 years.**
 - **The proposed sale is tentatively scheduled for late 2005. It is not expected that leases would be issued until sometime in 2006. It is unlikely with the currently 2007 deadline that exploration activity in the proposed Alaska Peninsula sale would qualify for this EC.**

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.

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



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

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

HB 71
LL 43

January 11, 2005

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

Dear Speaker Harris:

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

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

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

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

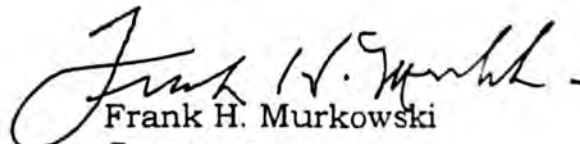
The Honorable John Harris
January 11, 2005
Page 2

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

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

I urge your support of this important legislation.

Sincerely yours,


Frank H. Murkowski
Governor

Enclosure

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



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

Bristol Bay Borough

October 22, 2003

RECEIVED
OCT 27 2003

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

DIVISION OF
OIL AND GAS

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

Commissioner Irwin:

Please consider the following comments from the Bristol Bay Borough:

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

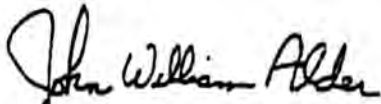
DEPARTMENT OF
NATURAL RESOURCES

Comments and Resolutions

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,

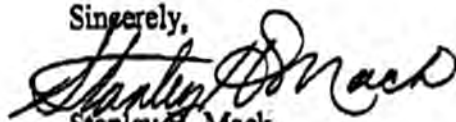
The Assembly of the Aleutians East Borough wants to thank you and your team for the presentation on October 7, 2003. Even though the weather did not allow everyone to get to Cold Bay, the Assembly's comments after the meeting included their appreciation of your efforts to brief the Assembly and the residents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

RECEIVED

OCT 16 2003

DIVISION OF
OIL AND GAS

☐ CLERK/PLANNER
P.O. BOX 349
SAND POINT, AK 99681
(907) 383-2899
(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: aeabanc@go.net

☐ FINANCE DIRECTOR
P.O. BOX 46
KING COVE, AK 99612
(907) 497-2588
(907) 487-2388 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 31 2003DIVISION 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 Areawide 2005 Oil & Gas Lease Sale

Dear Mr. Galvin:

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

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

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

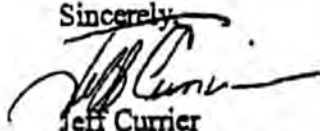
Finally, the Lake and Peninsula Borough supports onshore exploration and development but are concerned that the Best Interest Findings developed from this "call for comment period" also apparently apply to the 1.5 million acres of offshore acreage included in the lease sale, and further, that those findings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

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

By supporting the current lease sale proposal, the resulting exploration and possible development of onshore sites within the next 5 years, we want to 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

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

FAX NO. 9072698938

P. 09

JUL-02-03 WED 01:37 PM

FAX NO. 2898904

P. 08/27



Bristol Bay Native Corporation

Enriching Our Native Way of Life

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

4184
UP
TS

VIA FEDEX & FAX: (907) 465-3532

June 26, 2003

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

Fax Received
JUN 26 2003
Office of the Governor

Subject: Support for Leasing Program in the Bristol Bay Region

Dear Governor Murkowski:

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

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

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

If you have any questions, please call me at 1-800-478-3602.

Sincerely,

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

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

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

P.O. Box 189
NAKNEK, ALASKA 99533

www.theborough.com



TELEPHONE
(907) 245-4224
FAX
(907) 245-6633

Bristol Bay Borough

BRISTOL BAY BOROUGH RESOLUTION 2002-02

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

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

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

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

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

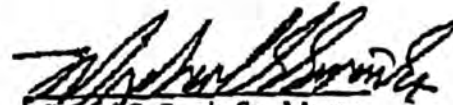
WHEREAS, Senator Stevens in recent conversations with Bristol Bay Borough officials and before the Alaska State Legislature indicated a willingness to petition Congress to add funding to the United State Geologic Survey in order to enable regional oil & gas assessments throughout rural Alaska and;

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

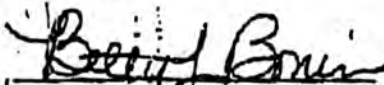
FEB 07 2002 5:15PM OF LHSERJET, SKUU.

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

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

9072763924

T-213 P.02/02 Job-240



King Salmon Tribe

People of the Village

P.O. BOX 68 KING SALMON, AK 99613
TEL: 907/246-3553 FAX: 907/246-3449
E-MAIL: ksaivo@bristolbay.com

September 15, 2003

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

VIA FACSIMILE: 907/276-3924

Dear Mr. President:

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

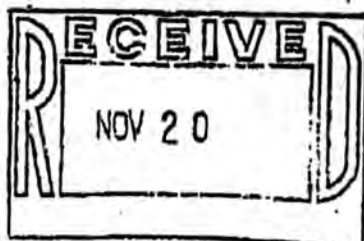
The village of King Salmon is in support of developing our oil and gas reserves both onshore and offshore and developing our mineral deposits here in Bristol Bay. We also support ground transportation from King Salmon to Anchorage so that we can reduce transportation costs to promote economic opportunities.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

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

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

Sincerely,

Ralph Angasua, 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
L. C. C. P.
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 NEWHALENTRIBAL@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.

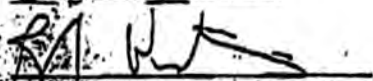
NOW THEREFORE BE IT RESOLVED, that the Newhalen Tribal Council hereby authorizes the Tribal President, with the assistance of the Tribal Administrator, to serve as the lead point of contact for all correspondence related to the development of the Pebble Copper mine, including all correspondence related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

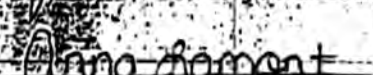
BE IT FURTHER RESOLVED, that the Newhalen Tribal Council hereby directs the Tribal President to forward a letter to all appropriate governmental, public and private sector entities notifying them of Newhalen Tribal Council's interest in being actively involved, informed, and consulted regarding matters 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 Wassillie, President of the Newhalen Tribal Council, or his designee, hereby authorized to sign and or negotiate any terms, or conditions, or modifications to this "638" contract with the Bureau of Indians Affairs.

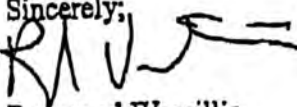
This resolution was duly considered and adopted at the general meeting of the Newhalen Tribal Council called and convened this 12 day of Nov, 2003 by a vote of 6 in favor and 0 against 0 abstain.


Raymond Wassillie, President


Anna Lamont, Secretary

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

Sincerely,


Raymond Wassilie
President

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

FAX NO. 9072698938

P. 15

APR-23-03 WED 07:30 AM

FAX NO. 2228804

P. 04

2832
JP

CITY OF ALEKNAGIK

P.O. Box 98, MAIN STREET
ALEKNAGIK, ALASKA 99555-0033
PHONE 907-842-5959 OR 842-2528
FAX 907-842-2107
EMAIL: cityalek@mshtl.com

April 11, 2003

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

RECEIVED

APR 16 2003

GOVERNOR'S OFFICE

RE: Oil and Gas Development in Bristol Bay

Dear Governor Murkowski:

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

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

Sincerely,



Chris Chuckwuk
Mayor

Enclosure: Resolution 03-11

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

APR-23-03 WED 07:31 AM

FAX NO. 2078904

P. 05

CITY OF ALEKNAGIK
RESOLUTION 03-11

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

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

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

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

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

FAX NO. 9072698938

P. 17

APR-23-03 WED 07:31 AM

FAX NO. 9078804

P. 08

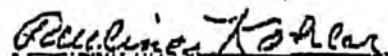
Alaska State Legislature to assist in moving the OCS sales schedule up from 2011 to 2004 or as earliest as possible.

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

SIGNED:


Chris Chackwuk, 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:

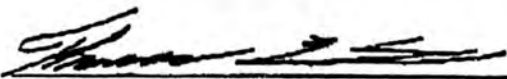
- The term of this MOU will be for five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- To the extent consistent with their respective interests and statutory or regulatory responsibilities, or corporate responsibilities,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

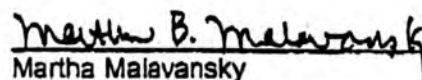
- This MOU may be terminated within thirty(30) days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.
- Others may become party to this MOU upon written consent of the Parties.

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

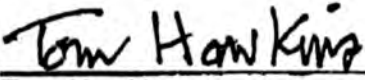
- The term of this MOU will be five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- This MOU may be terminated with thirty days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.

- 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

Kent Dawson Company

INCORPORATED

Representative Vic Kohring, Chair
House Special Committee on Oil & Gas

Representative Kohring,

Attached is a statement of support from my client Andex Resources of the Nenana Basin project to portions of HB 297 that relate to the extension of the effective date for certain Exploration Incentive Credits.

Sincerely,



V. Kent Dawson

Statement of Support

May 3, 2005

Andex Resources, L.L.C., Arctic Slope Regional Corporation, Doyon Ltd. and Usibelli Energy, LLC, as Participants in the Nenana Basin oil and gas exploration project located approximately 50 miles west of Fairbanks, Alaska, hereby express their support for the provisions of HB 297 that relate to the extension of the effective date for certain Exploration Incentive Credits applicable in the State of Alaska under AS 43.55.025. The Participants stand in support of the extension of the provisions for this program through June 30, 2010, which allows for credits that may be claimed for certain oil and gas exploration expenses incurred in the state, and applied against oil and gas properties production (severance) taxes.

As interest holders in over 500,000 acres of Exploration License and oil and gas lease areas in the Nenana Basin, the Participants view the extension of this program as a critical factor that will significantly contribute toward the continued exploration of this under-explored frontier basin. The Participants further view the economic benefits of such continued exploration expenditures, as not only positive to the local and regional economies, but critical to increasing the possibility that commercially viable oil and gas resources could be successfully located and developed in this basin. Any such development and production would have significant further economic benefits to the local, regional and state economies.

SCOMM

1444:15

Oil & Gas Permitting

William Van Dyke,
Acting Director
Division of Oil and Gas

January 17, 2006



Alaska Department of
**Natural
Resources**

<http://www.dog.dnr.state.ak.us/oil/>

Oil and Gas Permitting

- If oil or gas activities are on state leases or will access state resources, then an authorization from the Division of Oil and Gas is required.
- In addition, oil and gas activities will require a number of permits from federal, state, and local agencies.

Oil and Gas Permitting

Division of Oil & Gas Permits

- Geophysical Exploration Permits
- Project Plan of Operation Approvals
 - Describes all related project facilities and activities
 - Demonstrates compliance with Lease Mitigation Measures
 - Identifies Lease Area Surface Owners
 - Broad Public Notice
 - 30- or 50- Day Review Schedule
 - 17- or 30-Day Comment Period
 - Division review addresses new issues, mitigation and bonding requirements

Oil and Gas Permitting

Automation of DO&G Permits

- **DOGMA (Div. of Oil & Gas Management Applications) in progress**
 - Beta-Testing of On-Line Permit Application planned for February-March 2006
 - Full On-Line Permit Application Launch planned for April-May 2006
 - Full automation includes adjudication processes, record-keeping and reporting

Oil and Gas Permitting

Non-DO&G Permits That May Be Required

- **Federal Permits**

- Federal Land Owner (BLM, MMS)
- Corps of Engineers – Wetlands or Discharge into “Waters of the U.S.”
- EPA – NPDES (If there is a significant discharge)
- Any of these may trigger the need for an EIS or and EA

- **Other State Permits**

- AOGCC – Permit to Drill any oil or gas well
- ACMP Consistency Determination (DNR-OPMP)
- Water Use Permit or Material Sales (DNR-DMLW)
- Habita Permit (DNR-OHMP)
- Spill Response Contingency Plan/Air Quality/Wastewater/Solid Waste Disposal (DEC)

- **Local Permits - Borough Zoning**

Alaska Oil and Gas Activities

William Van Dyke,
Acting Director
Division of Oil and Gas

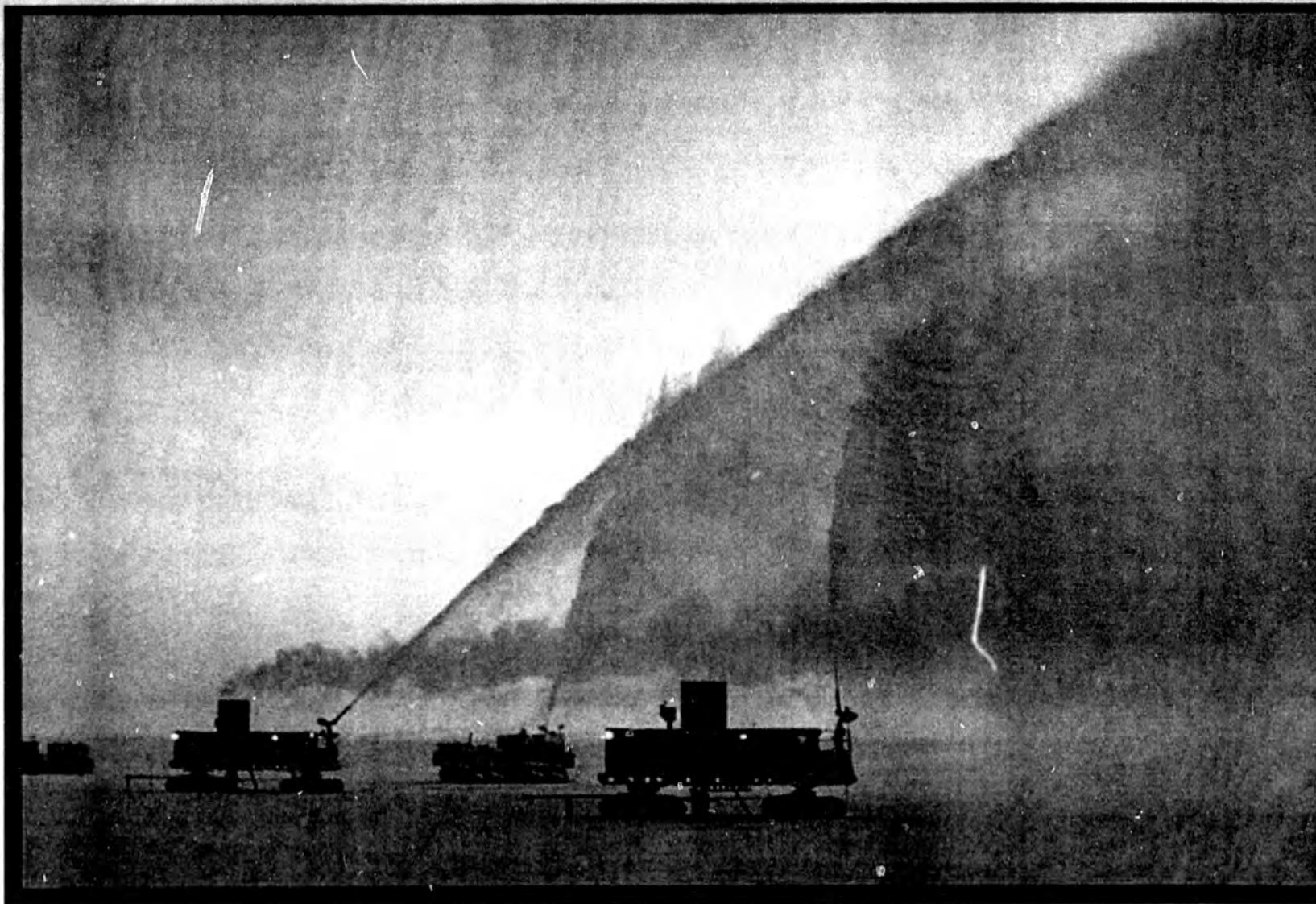
January 17, 2006



Alaska Department of
**Natural
Resources**

<http://www.dog.dnr.state.ak.us/oil/>

Director's Introduction



The State Revenue Pie

Petroleum Revenue Sources, (FY 2005)

**Total Royalties, Bonuses, Rents & Settlements:
\$1,905.4 Million**

General Fund Royalties, Bonuses & Rents:¹
\$1,419.6 Million

Royalties to Permanent Fund & School Fund:¹
\$485.8 Million

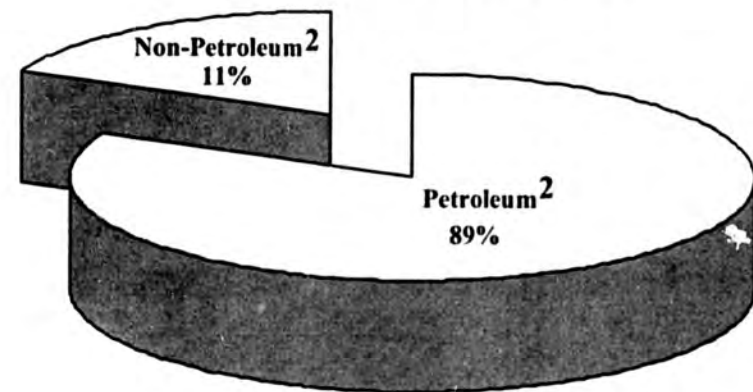
**Taxes:
\$1,429.7 Million²**

(Oil & Gas Property Tax + Income Tax + Severance Tax)

¹ Includes Federally shared rentals + royalties

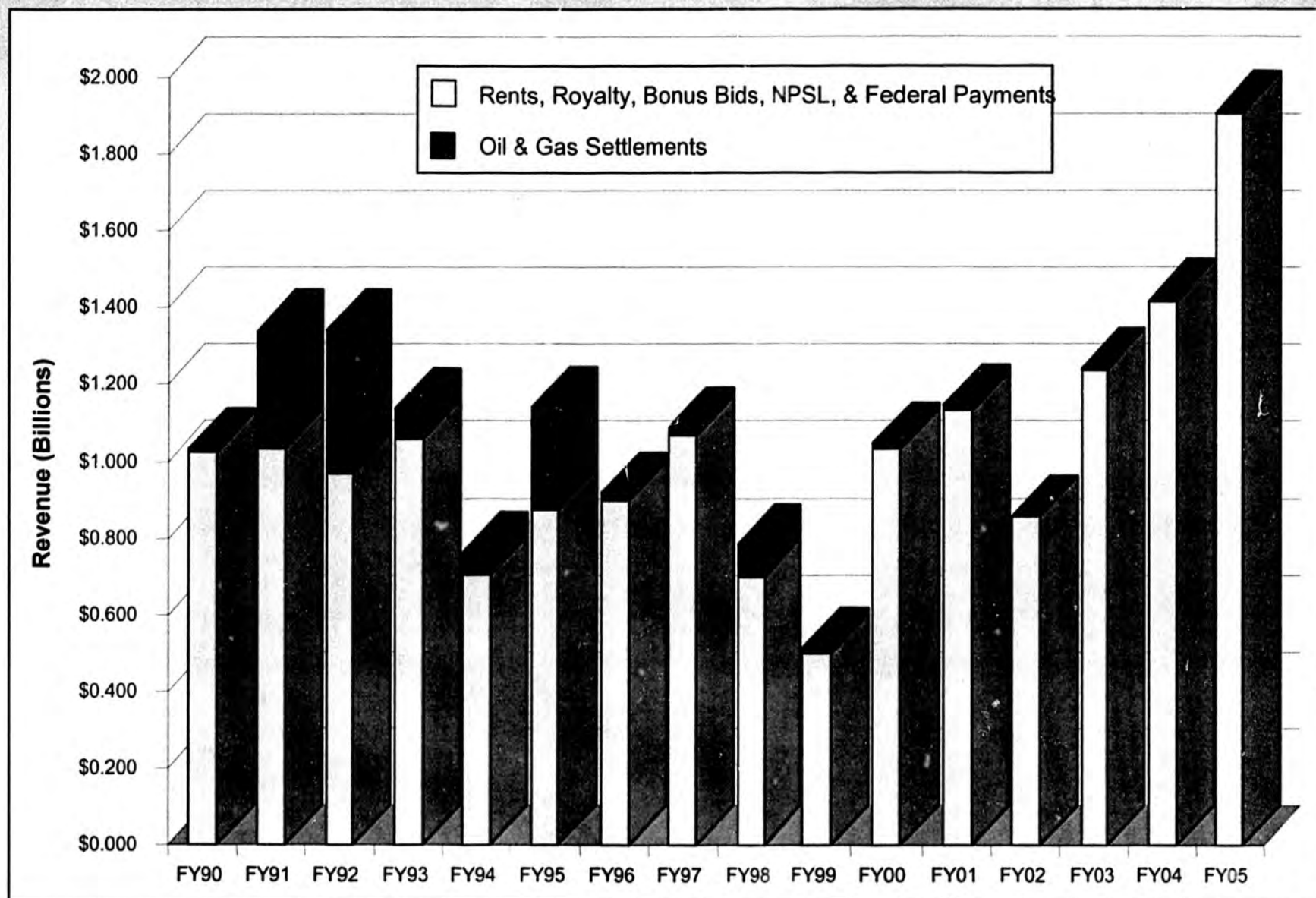
² Source: DOR Preliminary Fall 2005 Revenue Sources Book

FY 2005 Unrestricted Revenue

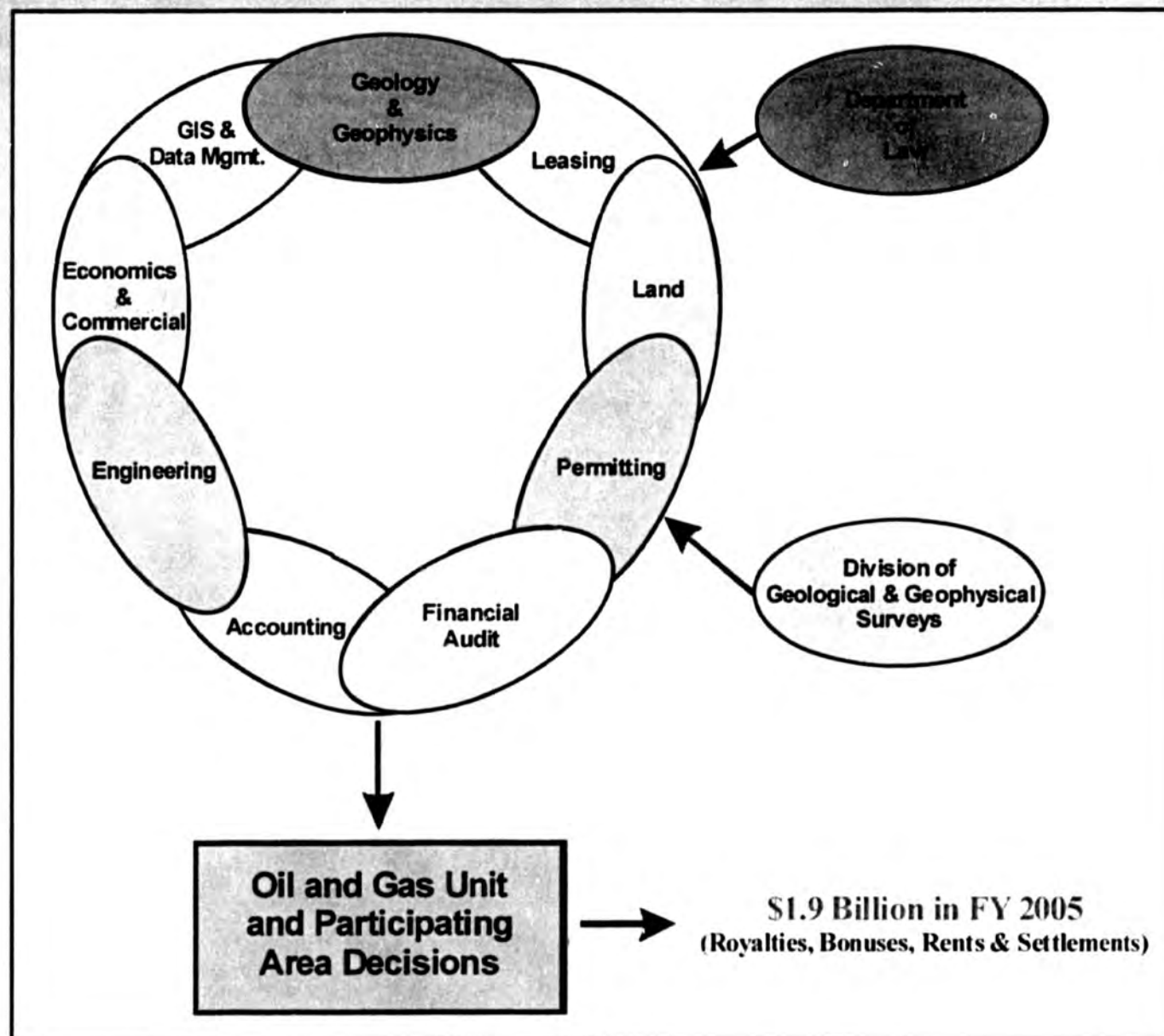


Fiscal Year Oil and Gas Revenue from State Lands

Fiscal Years 1990 through 2005



Division of Oil & Gas Organization Links Affect the Bottom Line and the Calendar



Division of Oil and Gas

Continuing Projects

December, 2005

- **Conduct 5 Lease Sales per year**
- Exploration licensing
- Royalty accounting
- Production accounting
- Data management and GIS systems
- Royalty-in-kind sales
- Royalty reduction requests
- **Viscous oil and other issues related to marginal field development**
- Audits and royalty/Net Profit Share settlements
- Royalty reopeners
- Resource evaluation for new units, new and revised participating areas, lease sale areas, and new lease sale areas
- Satellite field development-facility sharing arrangements
- Lease administration-assignments, title and rental
- New units and unit administration
- **Cook Inlet gas—storage, incentives, royalty terms**
- Pipeline tariffs including TAPS
- Permitting for exploration and development activities
- Inspections of oil and gas activities on state lands
- Public information to parties interested in Alaska
- **Promoting Alaskan oil and gas opportunities**
- Assist new entrants in start up activities
- Collaboration with DGGs--Gas hydrate research, oil and gas field work
- **ANS Gasline**
- In-state gas proposals relating to the ANS gasline
- Cook Inlet jack up rig cost sharing
- **Cook Inlet DR&R-platforms and pipelines**
- TAPS quality bank methodology
- Review technical data submittals and obtain data as required by Revenue's PTC Exploration Incentive Credit programs
- Staff and technical support of DGGs energy program (field work, analytical effort, publication support)
- **Facilitating reasonable access to existing infrastructure for explorers**
- Coordinating and collaborating with federal oil and gas managers such as BLM and MMS
- Working with local governments on permitting and zoning concerns
- Evaluating the prospects for geothermal energy production
- Crafting new 10-year best interest findings for our lease sales – beginning in 2007
- Administrative and IT support
- Recruiting and training

DO&G Project Workload and Staffing

- Start Up funding approved in late FY 05 continuing through end of FY 06.
- Staff hired and incorporated into Division's project structure.
- Request that continuation funding be included in Division's budget for FY 07.
- Increment/Conversion request approved by Governor.

Division Highlights

- Royalty Accounting staff collected approximately \$2.1 billion in revenue in CY 2005
 - \$1.1 billion in royalty-in-value
 - \$997 million from royalty-in-kind sales
 - \$23 million in state's share of federal rents and royalties
- Leasing/Permitting staff currently administer more than 1,200 leases covering 4.1 million acres generating over \$6 million in rental income annually and 3 exploration licenses covering 1.3 million acres.
- Audit staff completed 13 state and federal audits during the past 18 months resulting in the collection of \$6.1 million in additional revenue, have 10 audits under way, and 13 audits yet to be scheduled.
- Commercial staff recently completed the first half of a Royalty Settlement Agreement reopener with ExxonMobil which could result in up to \$26 million in retroactive revenue adjustments to the state, with the second half of the reopener currently under way.
- Unit staff currently manage 42 units with 64 active participating areas, with 5 new units recently approved.

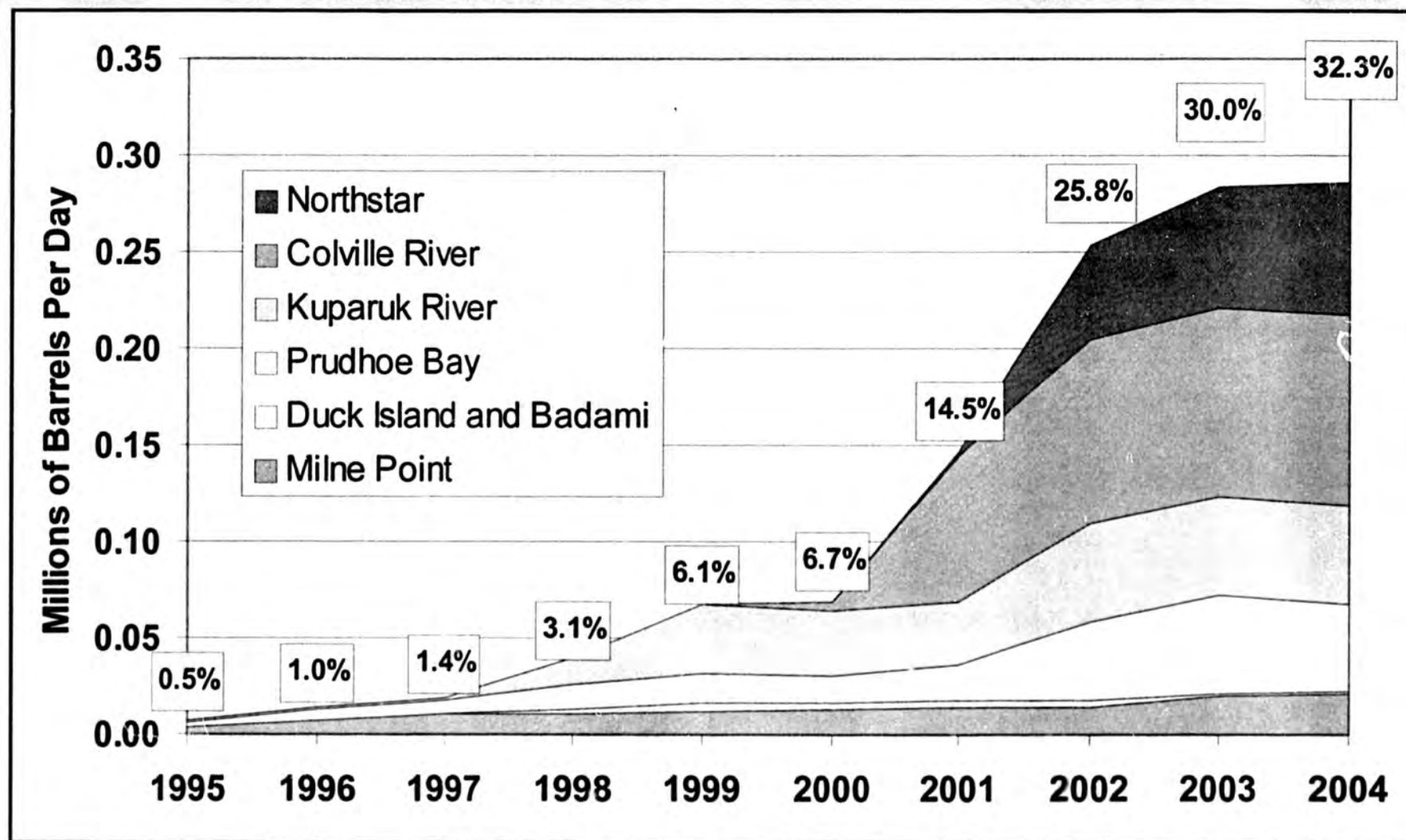
Division Highlights

- Leasing/Permitting staff process over one thousand assignments of interests in oil and gas leases annually.
- Royalty Accounting staff processed nearly 6,000 production reports and reconciled more than 20,000 royalty transactions in CY 2005.
- Leasing/Permitting staff conduct 5 areawide lease sales annually, with the last 5 sales resulting in \$18 million in bonus bids received and completed the first Alaska Peninsula competitive oil and gas lease sale in October, 2005.
- Resource Evaluation staff completed geologic & geophysical evaluation of state oil and gas acreage in support of one new areawide lease sale, two new exploration licenses, and dozens of unit and lease actions.
- Unit, Commercial and Resource Evaluation staff recently completed the economic and geologic evaluation of a royalty modification for the Oooguruk Unit covering an oil accumulation that has lain dormant for about 20 years and successfully negotiated royalty terms acceptable to the applicant and state which should result in the accumulation being brought into production. A second royalty modification request is pending.
- Division staff recently completed the negotiation and issuance of the first gas storage lease on state land. A second gas storage lease application is pending.

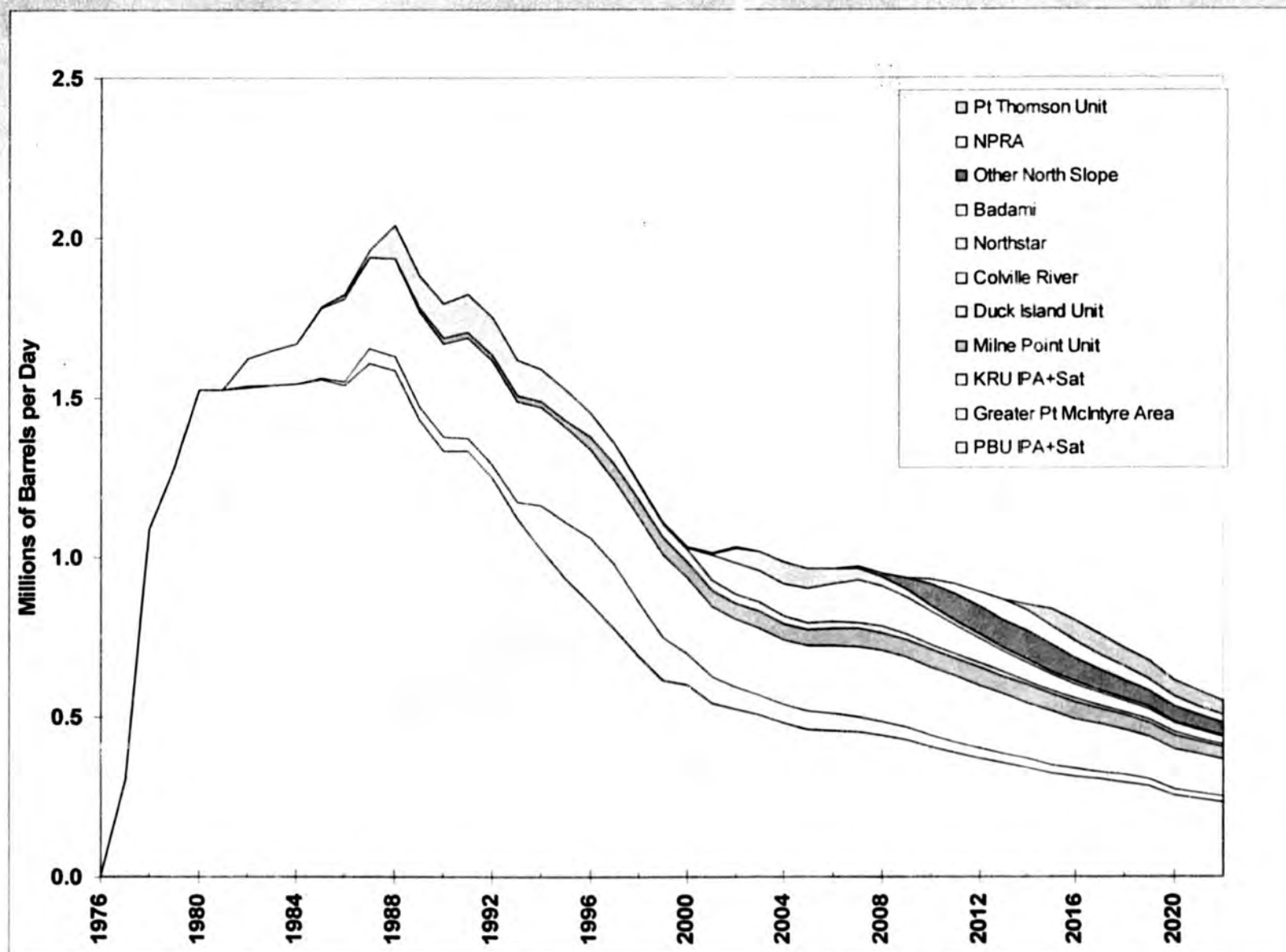
Royalty Settlement Reopener

- The ExxonMobil RSA reopener is in its second “phase.”
 - The first phase resolved a dispute between the State and ExxonMobil over the royalty calculation of Destination Value for ANS oil.
 - The State won a unanimous decision from the arbitration panel and ExxonMobil will add \$21.7 million in royalty for 2001- 2004. The difference between the State’s and ExxonMobil’s competing proposals was \$4.3 million.
 - The second phase is a dispute over the amount deducted for Marine Transportation Costs.
 - If the State wins the second phase ExxonMobil will deduct \$8.0 million for the period 2001- 2004. In dispute is a difference of \$4.2 million.
 - There are also royalty revenues from RIK oil sale at stake.
- The State may also face a new RSA reopener during FY 07 if ConocoPhillips or the State triggers the “Limited Reopener” provision in the settlement.

Incremental North Slope Oil Production since 1995 by Unit



Historic and Projected Oil Production 1976-2022



Oil and Gas Incentives

Royalty Reduction:

- AS 38.05.180(j) Royalty Reduction: Applies to leases on state land. Reduction can be as low as 5 percent royalty for new production or as low as 3 percent for producing or shut in.
- Reduction in royalties to as low as 5 percent for oil produced from certain Cook Inlet platforms should production fall below certain levels (AS 38.05.180(f)(6)). This was an effort to extend the life on Cook Inlet platforms by making it more economic to remain in operation.

Exploration Incentive Credits:

- Exploration Incentive Credit under AS 38.05.180(i). Allows up to 50 percent of drilling costs on Conventional Leases; up to 50 percent of seismic costs on unleased state land.
- Exploration Incentive Credit under AS 41.09.010. Allows up to 50 percent of drilling and seismic costs on unleased and licensed lands; up to 25 percent on federal and private lands.

Discovery Royalty:

- AS 38.05.180(f)(4) Cook Inlet Sedimentary Basin. Five percent royalty for ten years.
- AS 38.05.180(f)(5) Applies to the following Cook Inlet fields: Falls Creek, Nicolai Creek, Starichkof, North Fork, Redoubt Shoals, & West Forelands. Five percent royalty on first 25 MM bbls for 10 years or five percent royalty on first 35 BCF for 10 years.

Oil and Gas Incentives

Tax Incentives:

- Exploration Tax Credits to encourage exploration in frontier areas (AS 43.55.025).
 - Covers as much as 40 percent of the drilling costs of exploration wells and 40 percent of seismic costs.
 - The sunset on this incentive was recently extended until 2010 for certain areas.
- AS 43.20.043: Available for all leased and unleased state, federal, and private lands south of 68th Degree latitude. Ten percent of capital investment and ten percent of the annual cost incurred by the taxpayer for qualified services in the state during each tax year for which a credit is allowable for a qualified capital investment.

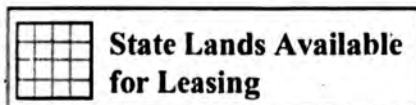
State of Alaska Areawide Oil & Gas Lease Sales

- Annual lease sales
 - May: Cook Inlet & North Slope Foothills
 - October: North Slope & Beaufort Sea
(2005 sales delayed to 1st Quarter 2006)
 - October: Alaska Peninsula
- Lease Sizes: up to 5,760 acres
- Maximum non-unitized State acreage under lease
 - Offshore – 500,000 acres
 - Onshore – 750,000 acres
- Term of lease: 5 to 10 years
- Annual rentals: \$1/acre initially, increasing annually by 50¢/acre to maximum of \$3/acre in 5th year.

Alaska Oil and Gas Leasing Program

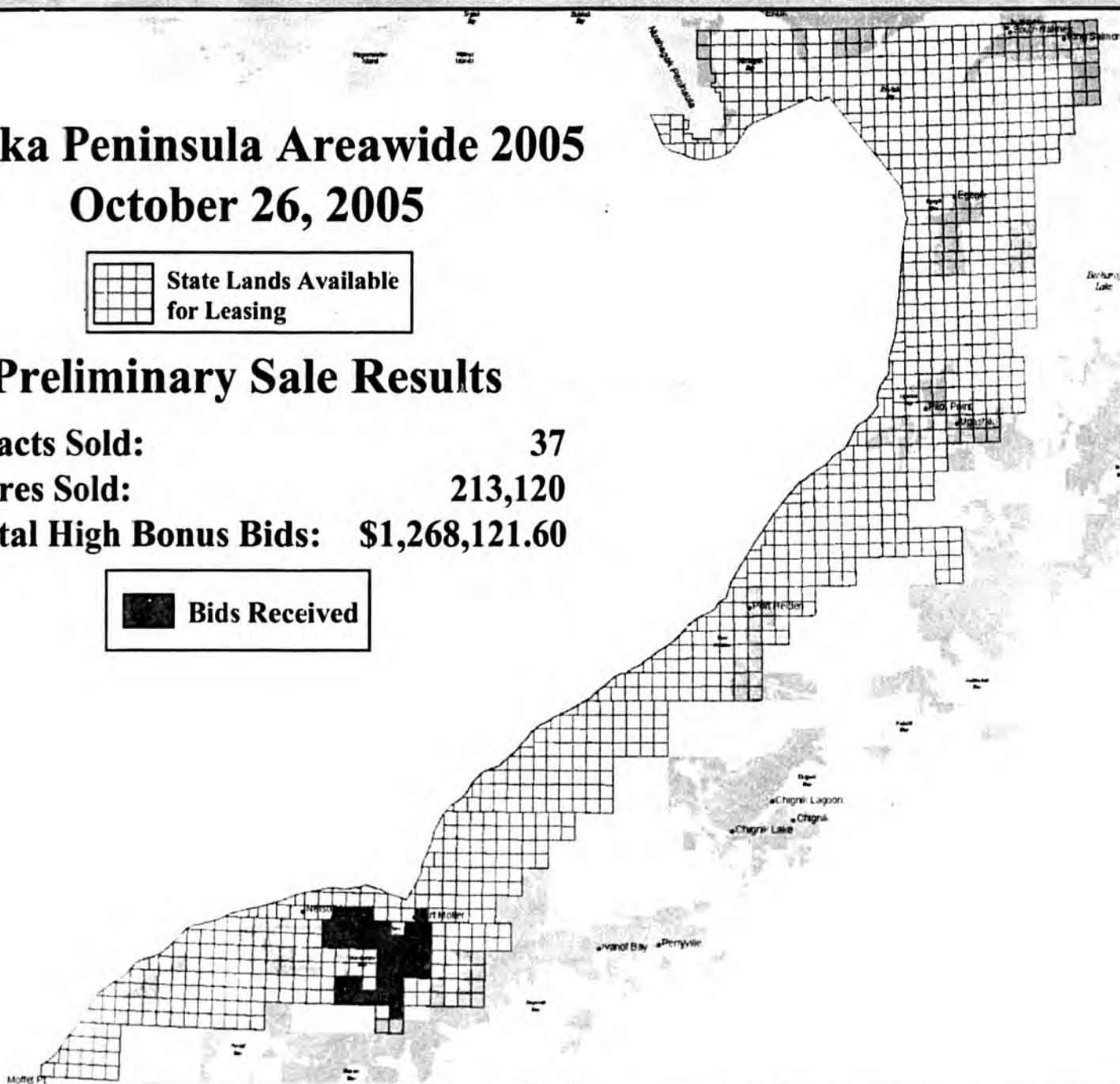
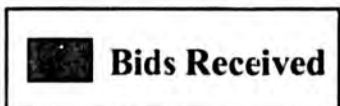


Alaska Peninsula Areawide 2005
October 26, 2005



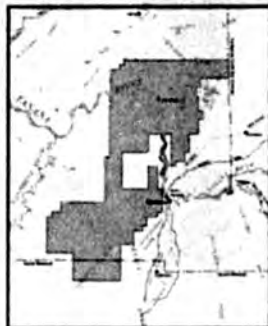
Preliminary Sale Results

Tracts Sold:	37
Acres Sold:	213,120
Total High Bonus Bids:	\$1,268,121.60



Exploration Licensing Program

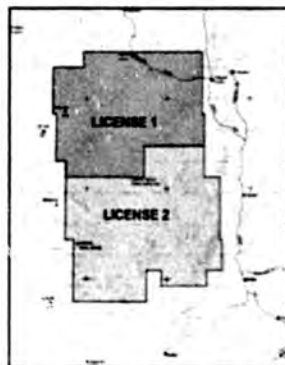
Issued Licenses



Nenana

Nenana Basin

Licensee: Andex Resources
Size: 483,175 Acres

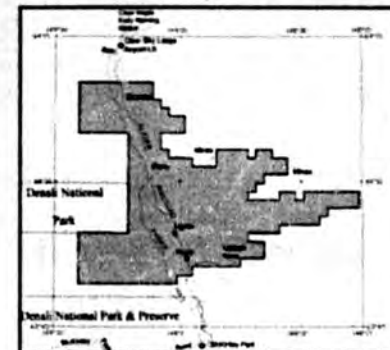


Susitna

Susitna Basin License 1
Licensee - Forest Oil Corp.
386,207 Acres
Susitna Basin License 2
Licensee - Forest Oil Corp.
471,474 Acres

- Proposals accepted during month of April
- Exclusive right to explore for oil and/or gas
- Work commitment, expressed in \$\$
- No rental fees during term of license
- One-time \$1/acre licensing fee
- Right to convert to oil & gas leases
(Exercised in Copper River License Area)

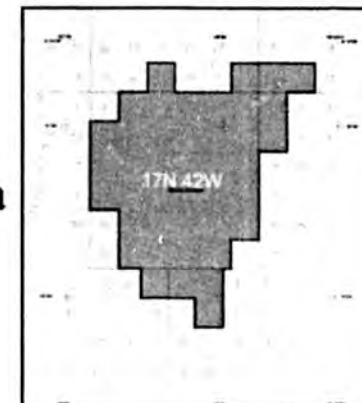
Proposed Licenses



Healy

Healy Basin

Licensee: Usibelli Coal Mine
Size: 209,000 Acres



Holitna

Holitna Basin

Licensee: Holitna Energy
Size: 26,000 Acres