

SCOMM

78:36

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSIONBILL NO. CSSB 302(O&G)Revision Date: 4/15/92Department Affected: Natural ResourcesTitle: Strat. Test Well CreditsBRU: Petroleum Management

Component: _____

Sponsor: Senate Rules (for Governor)Requestor: Senate Resources

COMPONENT SERIAL NO.

4	3	9
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
FUND SOURCE:						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
FUND SOURCE:						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: -0-

ANALYSIS: (Attach a separate page if necessary.)

Would allow up to \$50 million in credits against royalty and tax payments for geophysical work or wells after the enactment date of this bill, for providing information to the state.

Prepared By: Carol WilsonPhone: 4/15/92Division: Commissioner's OfficeDate: 4/15/92

Approved by Commissioner:

Harold C. HeigAgency: Natural ResourcesDate: 4/15/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

Rev 10/7/91

Page 1 of 1

STATE OF ALASKA

1992 LEGISLATIVE SESSION

BILL NO. SB 302Revision Date: January 21, 1992Department Affected: Natural ResourcesTitle: Stratigraphic Test Well CreditsBRU: Natural ResourcesComponents: Petroleum ManagementSponsor: Rules for GovernorRequestor: Senate Oil & GasCOMPONENT SERIAL NO. 439

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
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						
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REVENUE						
Funding Source:						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
Funding Source:						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of Current year impact: -0-

ANALYSIS: (Attach a separate page if necessary)

Would allow up to \$20 million in credits against royalty and tax payments for drilling stratigraphic test wells and providing the information to the state.

Prepared by: Carol Wilson Phone: 465-2400
 Division: Commissioner's Office Date: 21-Jan-92

Approved by Commissioner: Harold C. Heinze Date: 21-Jan-92
 Agency: Department of Natural Resources

Distribution (by preparer) : Legislative Finance, legislative Sponsor, Requestor, OMB,
 & Impacted Agency(ies).

FISCAL NOTE

No. 1Bill Version: SB 302(S) Publish Date: 5/17/91STATE OF ALASKA
1991 LEGISLATIVE SESSIONRevision Date: _____ Department Affected: Natural ResourcesTitle: Stratigraphic Test Well Credits BRU: Petroleum Management

Component: _____

Sponsor: Rules for GovernorRequestor: _____ COMPONENT SERIAL NO. 439

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	0	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: -0-

ANALYSIS: (Attach a separate page if necessary.)

Would allow up to \$20 million in credits against royalty and tax payments for drilling stratigraphic test wells and providing the information to the state.

Prepared By: Carol Wilson Phone: 465-2400Division: Commissioner's Office Date: 5/9/91Approved by Commissioner: Harold C. HeinzeAgency: Natural Resources Date: 5/9/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

Bill Version: SB 302
(S) Publish Date: 5/17/91

STATE OF ALASKA 1991 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Revenue/Natural Resources
Title: "An Act related to credits against certain payments due the state, ..." BRU: Revenue Operations
Component: Oil & Gas Audit
Sponsor: Rules Committee by request of Governor
Requestor: _____ COMPONENT SERIAL NO.

1	1	5
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
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REVENUE	- - - (\$0)	(\$20mm)	- 0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	- - - (\$0)	(\$20mm)	- 0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL	- - - (\$0)	(\$20mm)	- 0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.)

(see attachment)

Prepared By: Roger Marks Phone: 277-5627
Division: Oil & Gas Audit Date: 5/10/91
Approved by Commissioner: [Signature]
Agency: _____ Date: 5-13-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Analysis:

"An act relating to credits against certain payments due the state, earned by drilling stratigraphic test wells on unleased land; and providing for an effective date."

This bill would give exploratory incentive credits, in the form of reductions in existing royalty or tax obligations to the state, for drilling stratigraphic test wells (or conducting other similar testing) on unleased state acreage. Under the Alaska Statehood Act the state must complete its land selections by January 1994. This bill provides drilling incentives so that the state would have more information on resource potential for making its selections. Stratigraphic test wells are drilled off structure and are explicitly designed not to find oil, but to gather geological information on the area. Usually companies pool funds to make such tests.

The credit would only be available for work done between July 1, 1991, and March 1, 1993. There is a \$20 million cap on total credits that can be granted for all work. Credits cannot exceed 50 percent of the cost of the work, and a credit cannot exceed 50 percent of the payment toward which it is being applied.

It is possible that the entire \$20 million ceiling would not be reached and the direct cost to the state would be less. The bill is targeted toward interior basins whose resource potential is poor to moderate. Therefore the expected return from testing may still not be sufficient to justify testing, even with the credit. No such tests have been performed without the credit over the last several years. The estimated cost of a stratigraphic test well is approximately \$8 million. Therefore it would take five such wells to obtain the \$20 million limit.

Alaska State Legislature

Senate Committee on Oil and Gas

Senator Sam Cotten, Chairman
Senator Drue Pearce, Vice-Chairman
Senator Bettye Fahrenkamp
Senator Lyman F. Hoffman
Senator Dick Shultz



P. O. Box V, State Capital
Juneau, AK 99811
(907) 465-3711

MEMORANDUM

TO: Senator Dick Eliason
Senate President

FROM: Senator Sam Cotten 
Chairman, Senate Committee on Oil & Gas

DATE: January 15, 1992

RE: SB 302

Please refer Senate Bill 302 (An act relating to credits against certain payments due the state, earned by drilling stratigraphic test wells on unleased land) back to the Senate Oil and Gas Committee. As you recall the bill was waived late in the session in order to give the commissioner an opportunity to attempt to get the legislative enacted before the end of 1991 session. I believe the prudent thing to do now is to refer the bill back to the Oil and Gas Committee for hearings.

The bill is currently before the Senate Finance Committee. I have checked with the chairmen of the Senate Finance Committee and they agree that this would be a proper course of action.

Thank you for your consideration.

Sam:

SB 302

Some thoughts on this bill -- other than the confidentiality one I already expressed.

-- The bill mixes up the state's proprietary function with its sovereign function, in that it gives credits to both taxes and royalties. The bill is really a land-owner kind of deal -- since it is just STATE land that you can get credit for.

-- In fact, I think the bill is INVALID because of this mixing of functions. The state can offer investment tax credits, in order to encourage development and maybe eventually get some tax revenue. But if it does so, it must offer the credits to EVERYBODY, not just those drilling on STATE land (i.e., federal & private land). Obviously, to amend this bill to do so would raise industry concerns about sharing with the state information from private or federal lands.

-- If the purpose is (as it appears) to find out more about STATE land for the state's purposes as a LANDLORD, then the credit should go only to the state's landlord share -- royalties. I think if this bill is going anywhere, and you don't want to see it go down (or get broadened) in litigation, it should be amended to make the credit only apply to royalties.

-- The commissioner of DNR has sole authority to grant TAX credits. Some way, it seems like Revenue should be involved. Problem resolved if you take tax out.

-- A person may "assign" their tax or royalty credits. Presumably, that means if Sun Oil drills and never has a royalty or tax, it can sell its credit to BP. This sort of makes sense -- that way new players will see the benefit of the bill even if they don't find anything. But, because of this, the \$20 million will probably get spent.

-- There is no mechanism for determining what is a royalty credit and what is a tax credit. Presumably, the DNR commissioner can unilaterally decide that it is all royalty credit or all tax credit. Problem resolved if you take tax out.



not enough time in 1 1/2 yrs.
for submitting
good idea - not enough money \$20m

2/4/92

10 yrs - up to \$50m.

oil & gas interest not just on state lands
severance tax.
royalties.

- new players
- new areas
- community wells

1) if ~~state does~~

if private does it - will be economical

2) privates - twice as much for your work

state not in business of managing oil & gas drilling

SENATOR LYMAN F. HOFFMAN

BOX V

JUNEAU, AK 99811

PH. #465-4453

TELEFAX #465-4523

TELEFAX COVER SHEET

DATE:

2/12/92

Number of sheets 8
including cover sheet.

TO:

James Mery FAX #

ADDRESS:

Doyon - 456-6785

Jim - taken look at these
and see what you think.
I'll also FAX a copy to
John Rense.

Molly McLamm

SENATOR LYMAN F. HOFFMAN

BOX V

JUNEAU, AK 99811

PH. #465-4453

TELEFAX #465-4523

TELEFAX COVER SHEET

DATE: 2/12/92

Number of sheets 8
including cover sheet.

TO: John Rense

ADDRESS:

NANA ^{FAX #} 265-4123

John - take a look at these
and see what you think.

I'll also FAX a copy to
Jim Mery.

Molly McCammon



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

May 17, 1991

302

The Honorable Richard I. Eliason
President of the Senate
P.O. Box V
Juneau, AK 99811

Dear President Eliason:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to credits for drilling stratigraphic test wells. The bill authorizes the commissioner of natural resources to extend exploration incentive credits under AS 38.05.180(i) to persons drilling stratigraphic test wells between July 1, 1991 and July 1, 1993 on land in the state.

Currently, AS 38.05.180(i) permits the commissioner to grant oil and gas lessees credits against royalty and tax payments due the state. The credits are limited to one-half of a lessee's costs for drilling an exploratory well or performing geophysical work.

The purpose of the new credits is to encourage the drilling of stratigraphic test wells on land not currently under oil or gas lease. In an effort to obtain information that would help the state complete, by January 1994, its selection of land under the Alaska Statehood Act, all the major oil and gas companies operating in the state have already been asked to consider drilling stratigraphic test wells on unleased land; none are motivated in the absence of credits.

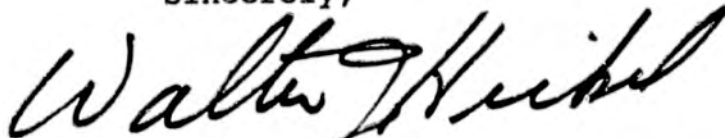
The bill requires the driller to provide the state with well data before a credit is approved. This assures that no credit will be granted unless the state receives, in exchange for the credit, information bearing on the selection of land under the Alaska Statehood Act.

The total of all credits granted for drilling stratigraphic test wells may not exceed \$20,000,000. If drillers' costs approved for credit exceed \$20,000,000, then \$20,000,000 in credits would be pro-rated among the drillers on the basis of approved costs.

The Honorable Richard Eliason - 2 -

AS 38.05.180(i) is rewritten by the bill to prevent that subsection from becoming unduly cumbersome through the addition of the language providing for the new credits. No substantive change has been made in the existing provisions.

Sincerely,

A handwritten signature in black ink, reading "Walter J. Hickel". The signature is written in a cursive, flowing style with a large initial "W" and a prominent "H".

Walter J. Hickel
Governor



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

Senator Cotton:

SB 302 Stratigraphic test wells - State selects the site and many companies share the test well expense - The state shares information as gathered - Kennerly says, big help in land selection of 20 million acres, only three years left, tell the President referral to you Bruce Kendall would speed it up.

Alaska State Legislature

Senator Sam Cotten Chairman
Senator Drue Pearce, Vice-Chairman
Senator Shirley Craft
Senator Lyman F. Hoffman
Senator Dick Shultz



State Capitol
Juneau, AK 99801-1182
(907) 465-3711

Senate Committee on Oil and Gas

Senate Special Committee on Oil and Gas
SB 302 - Exploration Incentive Credits
January 28, 1992

Primary purposes of the bill are:

- 1) provide geological information to the state for land selection and
- 2) encourage oil and gas development in the undeveloped Interior basins of Alaska.

Participants must file for credits by September 1993.

Credits can be up to 50 percent of drilling costs.

Resulting data/information must be provided to DNR commissioner 30 days after drilling.

Total of all program credits can not exceed \$20 million. If so, divided between participants in proportion to costs.

Credits are transferable--can be sold with leases-- and apply to taxes and royalties and rents.

2. To receive credits, the exploration must be completed no more than two years before a lease sale.

Unclear points for questions:

- What lands are eligible for credits--state, federal, private? All of these?
- Is the timeframe realistic or is it too short?
- Has industry expressed any interest in the program?
- What happens to currently outstanding credits?
- What happens June 30, 1993 when these credits expire?
- Chenoweth wonders what the "hidden agenda" is w/ this bill? because opens more questions than answers?

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

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

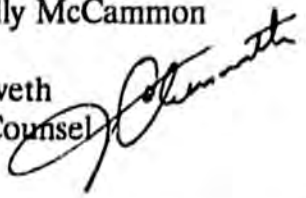
240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

April 7, 1992

SUBJECT: Amendment to Senate Bill 302 (Work Order No. 7GS-0108/A.2, 4/7/92 revision))

TO: Senator Lyman Hoffman
ATTN: Molly McCammon

FROM: Jack Chenoweth
Legislative Counsel 

I am transmitting a revision of the amendment to which Commissioner Heinze took exception.

Let me note, first, that, as to the difference of opinion with respect to the language of the title, the title I supplied in the earlier amendment--and in this one--accurately reflects the substance of the bill. If you will look at the material you furnished, you will see that the credit was to be available for activities "**performed on land in the state**". That is what the department asked for, and that is what you got. Constitutionally, the bill title must reflect the substance of the measure. So I cannot make the title say "on any land in the state as to which the state may receive royalty, etc." when in fact the language of the bill offered to me for my attention says otherwise.

I've rearranged subsections and added a cross-reference that should make the "shall give an exploration incentive credit" more comprehensible in context. If we go with "may grant" as was suggested, how will an applicant who jumps through all the necessary hoops know whether he or she will secure the credit? When all the conditions and circumstances have been met, should that decision still be discretionary with the commissioner? I thought not. If you as sponsor or the committee disagrees, I'll change it.

Note the inclusion of "raw and processed" modifying data. Since you acknowledge that "raw and processed" essentially covers "all" data--that is, the data obtained is either "raw" or it is "processed"--then, as a drafting matter, the addition of these adjectives is superfluous.

JC:gc
92-285.glc

specific type of data

"interpretive" data is not covered.

TO Jack Chenoweth - legal services.
From Molly McCannan

need for 1:30 O+G hearing
changes to amendment to SB 302
4/6/92 version

* in sec 38.95.300 (a) change shall to may
on p.1

* p. 2 - ^{section} (2) add "raw and processed"
before data (this would thus
exclude "interpretive" data)

* section (3) - delete "for eligibility"

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

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

240 Main Street, Suite 500
Juneau, Alaska 99801-2101

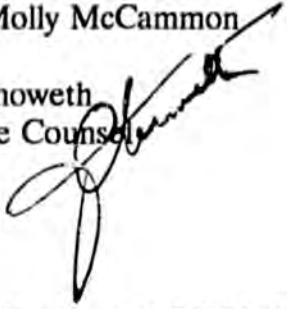
MEMORANDUM

February 7, 1992

SUBJECT: Exploration incentive credit, amendment to SB 302 (Work Order No. 7-GS0108\A.1)

TO: Senator Lyman Hoffman
ATTN: Molly McCammon

FROM: Jack Chenoweth
Legislative Counsel



Enclosed with this memo are

- (1) a draft amendment (designated 7-GS0108\A.1); and
 - (2) the same amendment with line numbers down the left margin (designated 7-GS0108\A.a).
- this one is faded.*

This office does not normally produce amendments with line numbers. This particular assignment, however, requires some explanation, and I want to highlight points by reference to specific page and line number.

Your instruction to produce "amendments" to expand the existing exploration incentive credits as they relate to geophysical work and to include for the credit certain stratigraphic test well activity, as these both apply to "all lands in the state, regardless of ownership," effectively takes this topic out of AS 38.05 (the chapter applicable just to state-owned land) and requires that it be treated in a different manner. I have opted, first, to combine all the matter into one amendment and, then, to assign the matter a title, chapter, and section number elsewhere in AS 38 so that the provision cannot be interpreted to apply solely to state-owned land.

Because of the very significant changes that you have requested, rather than try to further revise the governor's bill, I have decided to "start over." You will see that this amendment effectively guts the original bill and replaces the substantive provisions (all but the effective date section) with this new material.

5

Senator Lyman Hoffman
February 7, 1992
Page 2

I propose, in this amendment, to set up this exploration credit as one that is in addition to the current credit authorized by AS 38.05.180(i). This bill does not otherwise affect credits under sec. 180(i).

The bill title change [page 1, lines 3 - 7 of the amendment] summarizes the material set out in the balance of the amendment.

Let me now address the handling of each of the points specifically requested in your February 6 memo.

You asked that this amendment "expand the stratigraphic test well provision to include geophysical work." The current geophysical work credit of sec. 180(i) is not affected by this amendment. Rather, in addition to that credit, a geophysical work credit is authorized on page 1, lines 16 and 17, to the extent that the credit claimant has not already received the benefit of the existing credit under current law.

Your request asks that the amendment "extend to 10 years the time period for stratigraphic test wells and geographic work." You will find this point partially addressed--for stratigraphic wells--on page 2, line 1. As to "geographic work," the authority to claim of the credit would continue to be guided and governed by sec. 180(i); all this amendment proposes to do is expand the land base against which the credit may be claimed to land other than state land.

Your February 6 request directs that the cap be increased from \$20 million to \$50 million. Subsection (e) of the amendment, page 2, lines 17 - 20, does that.

Your request asks that the credit be claimable, as well, to state income taxes and "as bid chits at State oil and gas lease sales." The change at page 1, line 22 addresses the income tax element. I haven't a clue as to what anyone might mean by "bid chits at State oil and gas lease sales," so I've merely identified this in a line [page 1, line 23] with the certain knowledge that you will tell me more specifically what should be done with this element.

The key provision of your request asks that the office "clarify that stratigraphic test wells and geophysical program provisions apply to all lands in the state, regardless of ownership." The language of page 1, line 15 ("for work performed on land in the state") is intended to respond to this point.

Finally, your request asks for inclusion of a confidentiality provision. This appears at page 2, lines 4 and 5. Check to see if it provides the degree of protection you intended.

In other respects, I drew from the bill submitted late last session by Governor Hickel. So, for example, the "application" language of page 2, lines 6 - 8, the specific

Senator Lyman Hoffman
February 7, 1992
Page 3

limitations of the incentive credit set out at page 2, lines 9 - 16, the proration of credits feature of page 2, lines 18 - 20, and the permanent fund adjustment element of page 2, lines 21 - 22 are drawn from the original bill.

In addition to the unknown meaning of use of the credit as chits in state oil and gas bids, there are some other problems. For example, under sec. 180(i), the existing geophysical work exploration incentive credit may be claimed and used only within a limited period determined with reference to the state lease sale. But that kind of limitation has no applicability in situations in which credit may be claimed for geophysical work not performed on state-owned lands, but rather on private lands.

In the language set out in this amendment, credits for all applicants under this section would be limited to \$50 million. But there are no effective time constraints on the claim of credit for geophysical work in that there is no benchmark date to file a claim based on that work. So I can foresee that geophysical work claims could come trickling in for an indefinite period.

This, of course, raises the question of how the commissioner of natural resources would ever keep control of the various credits claimed and used under this provision. I could foresee that a major company or several major companies could present credit claims early in the decade amounting to \$40 million, all of which are allowed and used up. Then, late in the ten-year long window period, another \$40 million of claims is presented. How does the commissioner prorate the total of \$80 million of claims against the \$50 million of credits authorized after a substantial portion of the credits are approved and used? Under the circumstances, it seems to me that, for credits that may be claimed, taxpayers and others would be well advised to move fast, claim exploration incentive credits early, and use them as soon as possible. But maybe that's the way this is intended to work.

I think that should do it. Sorry that this is so complicated. However, for the reasons noted, the subject does deserve your further attention.

JBC:mi
92-020.mai

Enclosures



Senator Lyman F. Hoffman

Alaska State Senate

P.O. Box V • Juneau, Alaska 99801 • (907) 465-4453

District M

Anchorage

Alaska

Barrow

Bethel

Chitina

Chitina

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MEMORANDUM

TO: Tamara Cook, Director
Legislative Legal Services

FROM: Senator Lyman F. Hoffman

DATE: February 6, 1992

RE: Amendments to SB302

I would like amendments drafted to SB 302 to do the following:

- Expand the stratigraphic test well provision to include geophysical work.
- Extend to 10 years the time period for stratigraphic test wells and geophysical work.
- Increase to \$50 million the cap on stratigraphic test wells and geophysical work.
- Allow use of credits as bids chits at State oil and gas lease sales and against State income taxes.
- Clarify that stratigraphic test well and geophysical program provisions apply to all lands in the state, regardless of ownership.
- Provide for confidentiality of data submitted to DNR in a manner similar to provisions governing data submitted to Alaska Oil and Gas Conservation Commission; allow DNR use for internal planning and proprietary purposes, including land selection.

If you need further information, please contact my aide Molly McCammon at 4453.

38.05.180(i);

(2) drilling of stratigraphic test wells; or

(3) drilling of exploratory wells.

(b) Exploration incentive credits authorized by this section may be applied against

(1) a payment or obligation against which the credits authorized by AS 38.05.180(i) may be claimed;

(2) taxes payable under AS 43.20; and

(3) oil and gas bonus payments payable to the state.

(c) Exploration incentive credits authorized by (a) of this section are available only if

(1) the geophysical or drilling costs are incurred after the effective date of this Act and before July 1, 2002;

(2) copies of all raw and processed data derived from drilling a well or performing geophysical work are made available to the commissioner within 30 days following its availability. The provisions of AS 38.05.035 (a)(9)(C) apply to data obtained by the commissioner under this paragraph, except that the commissioner may in his discretion make such geophysical data available to third parties if he determines that such action is necessary to generate interest in the affected state lands; and

(3) ^{application for} ~~eligibility for~~ credit is approved by the commissioner before drilling or geophysical work commences.

(d) Exploration incentive credits authorized by this section may not exceed 50 percent of the cost of

(1) geophysical work performed;

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

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

240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

January 30, 1992

SUBJECT: Some thoughts on Senate Bill 302

TO: Senator Sam Cotten
ATTN: Ginny Fay

FROM: Jack Chenoweth
Legislative Counsel

Enclosed is a redraft of the bill using a modified "amended to read" format. In the draft, the underlined material that is also highlighted in **bold** is entirely new material. All unbolded underlining and bracketing reflects drafting changes that are the consequence of the reformatting of the material in AS 38.05.180(i). This form of presentation may make it a little easier to see just exactly what is new in the measure.

Substantively, it appears that this bill would add to the existing credit of AS 38.05.-180(i) persons drilling stratigraphic test wells on unleased state land.

Some thoughts to share with you and the committee:

1. Check the dates that appear in the bill: I assume that, since the governor's transmittal letter for this measure (Senate Journal, pp. 1392, 1393) says that the bill's justification relates to completion of final Statehood Act land selections by January 3, 1994, the 1993 deadlines set out in (i)(5) of the bill ought not to be changed. However, as a drafting matter, since a year has elapsed since the bill was offered, you may want to either clarify that the well drilling occurred after July 1, 1991 (i.e. rewrite to read "the well was drilled . . ." or "commencement of the well began . . ." "after June 30, 1991, and before July 1, 1993" or something to indicate that the legislature knew that this measure had retroactive effect). Alternatively, if the change is intended to limit operation of the new material to future stratigraphic drilling, then remove the July 1, 1991, reference and substitute "after the effective date of this Act."
2. Consider retroactivity: If this measure in fact is intended now to have a retroactive effect, you probably need to stick in a new bill section to explicitly accomplish that. If you don't, you raise a question about whether wells drilled after

June 30, 1991, and before the effective date of this Act earn the credit under existing law or under this Act.

3. Consider how the parts of this bill fit--or do not fit--together: As I read the bill, the credit is independently available to three sets of people: (1) certain lessees drilling exploratory wells [proposed (i)(1)(A)]; (2) persons performing certain geophysical work [proposed (i)(1)(B)]; and (3) persons drilling certain test wells [proposed (i)(1)(C)]. Assuming my reading is accurate --

-- Are the "exploration incentive credits" of (i)(2) only available to certain lessees drilling exploratory wells under (i)(1)(A)? If so, the bill ought to say that.

-- Are the "credits for geophysical work" recognized by (i)(4) only available to persons performing geophysical work on state land as described in (i)(1)(B)? If so, the bill needs to say that.

-- Are the credits for stratigraphic test wells authorized by (i)(5) only available to persons identified under (i)(1)(C)? If so, the bill should say that.

4. Watch the fine print:

First, the \$20,000,000 ceiling of (i)(6) applies only to drillers of stratigraphic test wells. It is not a ceiling on all credits authorized under subsection (i). Current law places no limit on credit claims of lessees drilling exploratory wells or persons performing geophysical work.

Second, appreciate that the existing credit program runs only to those engaged in activity on "state land" while the stratigraphic test well credit in this bill is extended to "unleased land in the state." "Unleased land in the state" is a different descriptor than "[unleased] state land." Obviously, this change is consistent with the governor's efforts to use the credit as a device by which the state may obtain additional information bearing on Statehood Act land selections.

As a drafting matter, it seems to me that the result sought by the administration could be as readily achieved by avoiding any amendment of AS 38.05.180(i) and substituting an uncodified bill that reads substantially as follows:

* **Section 1. EXTENSION OF EXPLORATION INCENTIVE CREDIT SYSTEM.** In addition to the credits authorized by AS 38.05.-180(i), the commissioner of natural resources may extend the exploration incentive credit system authorized by that subsection to persons drilling stratigraphic test wells on unleased land in the state. A credit

authorized by this section is subject to AS 38.05.180(i) and is subject to the following additional limitations:

(1) a credit under this section for drilling costs for a stratigraphic well is only available if

(A) the well was drilled between 1991, and July 1, 1993;

(B) copies of all data, including geologic data, derived from drilling the well are made available to the owner within 30 days following its availability to the driller of record; and

(C) an application for eligibility to participate is filed before drilling commences and an application for credits is filed no later than September 1, 1993; and

(2) the total of all credits granted for the drilling of stratigraphic test wells under this section may not exceed \$20,000,000; if drillers' costs approved for credits exceed that amount, credits of \$20,000,000 shall be prorated among the drillers on the basis of approved costs.

* **Sec. 2.** This Act is retroactive to July 1, 1991.

* **Sec. 3.** Section 1 of this Act is repealed September 1, 1993.

* **Sec. 4.** Notwithstanding the repeal of section 1 of this Act, a credit authorized by that section shall continue in effect until it has been used under applicable law.

* **Sec. 5.** This Act takes effect immediately under AS 01.10.070(c).

The principal obstacle to this redraft may be the requirement that the effective date provisions in it--sections 3 and 5--require a two-thirds vote. But, of course, the governor's bill also has an effective date provision.

JBC:gc
92-074.glc

Enclosure

Post-It™ brand fax transmittal memo 7671		# of pages 2
To: Carol Wilson	From: Molly McLean	
Co. DNR	Co. Sen Hoffman	
Dept.	Phone 465-4453	
Fax # 586-2754	Fax # 465-4523	

This is the intent.

7-GS0108A.3 ✓
Chenoweth
04/09/92

NDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: SB 302

Page 1, line 1, after "An Act" through line 2:

Delete all material and insert:

"relating to exploration incentive credits for geophysical work and for the drilling of exploratory and stratigraphic test wells on land in the state and providing that the credits may be deducted from rentals, royalties, bonuses, or taxes due the state; and providing for an effective date."

Page 1, line 4, after " * Section 1.", through page 3, line 1:

Delete all material and insert:

"AS 38.95 is amended by adding a new section to read:

ARTICLE 7. EXPLORATION INCENTIVE CREDITS.

Sec. 38.95.300. EXPLORATION INCENTIVE CREDITS. (a) In addition to the exploration incentive credit authorized by AS 38.05.180(i), the commissioner may give an exploration incentive credit for each of the following activities performed on land in the state:

- (1) geophysical work on land that is not subject to a credit under AS 38.05.180(i);
- (2) drilling a stratigraphic test well; and
- (3) drilling an exploratory well.

(b) An exploration incentive credit authorized by (a) of this section may be applied against

- (1) a payment or obligation against which the credit authorized by AS 38.05.180(i) may be claimed;
- (2) taxes payable under AS 43.20; and
- (3) oil and gas bonus payments due the state under AS 38.05.180(f).

(c) An exploration incentive credit authorized by (a) of this section is available only if

- (1) a stratigraphic test well or exploratory well is drilled after the effective date

of this Act and before July 1, 2002;

(2) copies of all raw and processed data derived from drilling a stratigraphic test well or exploratory well or performing geophysical work are made available to the commissioner within 30 days following its availability; the provisions of AS 38.05.035(a)(9)(C) apply to raw and processed data obtained by the commissioner under this paragraph, except that the commissioner may, in the commissioner's discretion, make the raw and processed data available to third parties if the commissioner determines that disclosure of the raw and processed data is necessary to generate interest in the affected state land; and

(3) application for the credit is made to the commissioner and is approved by the commissioner before the drilling or geophysical work commences.

(d) An exploration incentive credit authorized by (a) of this section shall be based on costs approved by the commissioner, and may not exceed 50 percent of the costs of

- (1) geophysical work performed;
- (2) drilling the stratigraphic test well; or
- (3) drilling the exploratory well.

(e) The total of all credits approved by the commissioner under this section may not exceed \$50,000,000. Credits shall be used during a limited period established by the commissioner and may be assigned ~~as authorized by AS 38.05.180(3)~~ during that period.

(f) Amounts due the permanent fund under AS 37.13.010 shall be calculated before the application of credits under this section.

(g) In this section, "commissioner" means the commissioner of natural resources."

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: SB 302

Page 1, line 1, after "An Act" through line 2:

Delete all material and insert:

"relating to exploration incentive credits for geophysical work and for the drilling of exploratory and stratigraphic test wells on land in the state and providing that the credits may be deducted from rentals, royalties, bonuses, or taxes due the state; and providing for an effective date.""

Page 1, line 4, after " * Section 1.", through page 3, line 1:

Delete all material and insert:

"AS 38.95 is amended by adding a new section to read:

ARTICLE 7. EXPLORATION INCENTIVE CREDITS.

Sec. 38.95.300. EXPLORATION INCENTIVE CREDITS. (a) In addition to the exploration incentive credit authorized by AS 38.05.180(i), the commissioner may give an exploration incentive credit for each of the following activities performed on land in the state:

- (1) geophysical work on land that is not subject to a credit under AS 38.05.180(i);
- (2) drilling a stratigraphic test well; and
- (3) drilling an exploratory well.

(b) An exploration incentive credit authorized by (a) of this section may be applied against

- (1) a payment or obligation against which the credit authorized by AS 38.05.180(i) may be claimed;
- (2) taxes payable under AS 43.20; and
- (3) oil and gas bonus payments due the state under AS 38.05.180(f).

(c) An exploration incentive credit authorized by (a) of this section is available only if

- (1) a stratigraphic test well or exploratory well is drilled after the effective date

of this Act and before July 1, 2002;

(2) copies of all raw and processed data derived from drilling a stratigraphic test well or exploratory well or performing geophysical work are made available to the commissioner within 30 days following its availability; the provisions of AS 38.05.035(a)(9)(C) apply to ~~raw and processed~~ data obtained by the commissioner under this paragraph, except that the commissioner may, in the commissioner's discretion, make the raw and processed data available to third parties if the commissioner determines that disclosure of the raw and processed data is necessary to generate interest in the affected state land; and

(3) application for the credit is made to the commissioner and is approved by the commissioner before the drilling or geophysical work commences.

(d) An exploration incentive credit authorized by (a) of this section shall be based on costs approved by the commissioner, and may not exceed 50 percent of the costs of

- (1) geophysical work performed;
- (2) drilling the stratigraphic test well; or
- (3) drilling the exploratory well.

(e) The total of all credits approved by the commissioner under this section may not exceed \$50,000,000. Credits shall be used during a limited period established by the commissioner and may be assigned as authorized by AS 38.05.180(i) during that period.

(f) Amounts due the permanent fund under AS 37.13.010 shall be calculated before the application of credits under this section.

(g) In this section, "commissioner" means the commissioner of natural resources."

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: SB 302

Page 1, line 1, after "An Act" through line 2:

Delete all material and insert:

"relating to exploration incentive credits for geophysical work and for the drilling of exploratory and stratigraphic test wells on land in the state and providing that the credits may be deducted from rentals, royalties, bonuses, or taxes due the state; and providing for an effective date.""

Page 1, line 4, after " * Section 1.", through page 3, line 1:

Delete all material and insert:

"AS 38.95 is amended by adding a new section to read:

ARTICLE 7. EXPLORATION INCENTIVE CREDITS.

Sec. 38.95.300. EXPLORATION INCENTIVE CREDITS. (a) In addition to the exploration incentive credit authorized by AS 38.05.180(i), the commissioner ^{may} ~~shall~~ give an exploration incentive credit for each of the following activities performed on land in the state:

- (1) geophysical work on land that is not subject to a credit under AS 38.05.180(i);
- (2) drilling a stratigraphic test well; and
- (3) drilling an exploratory well.

(b) An exploration incentive credit authorized by (a) of this section may be applied against

- (1) a payment or obligation against which the credit authorized by AS 38.05.180(i) may be claimed;
- (2) taxes payable under AS 43.20; and
- (3) oil and gas bonus payments due the state under AS 38.05.180(f).

(c) An exploration incentive credit authorized by (a) of this section is available only if

- (1) a stratigraphic test well or exploratory well is drilled after the effective date

of this Act and before July 1, 2002;

(2) copies of all data derived from drilling a stratigraphic test well or exploratory well or performing geophysical work are made available to the commissioner within 30 days following its availability; the provisions of AS 38.05.035(a)(9)(C) apply to data obtained by the commissioner under this paragraph, except that the commissioner may, in the commissioner's discretion, make the data available to third parties if the commissioner determines that disclosure of the data is necessary to generate interest in the affected state lands; and

(3) application for eligibility for the credit is made to the commissioner and is approved by the commissioner before the drilling or geophysical work commences.

(d) An exploration incentive credit authorized by (a) of this section shall be based on costs approved by the commissioner, and may not exceed 50 percent of the costs of

- (1) geophysical work performed;
- (2) drilling the stratigraphic test well, or
- (3) drilling the exploratory well.;

(e) The total of all credits approved by the commissioner under this section may not exceed \$50,000,000. Credits shall be used during a limited period established by the commissioner and may be assigned as authorized by AS 38.05.180(i) during that period.

(f) Amounts due the permanent fund under AS 37.13.010 shall be calculated before the application of credits under this section.

(g) In this section "commissioner" means the commissioner of natural resources."

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: SB 302

Page 1, line 1, after "An Act" through line 2:

Delete all material and insert:

"relating to exploration incentive credits for geophysical work and for the drilling of exploratory and stratigraphic test wells on land in the state and providing that the credits may be deducted from rentals, royalties, bonuses, or taxes due the state; and providing for an effective date.""

Page 1, line 4, after " * Section 1.", through page 3, line 1:

Delete all material and insert:

"AS 38.95 is amended by adding a new section to read:

ARTICLE 7. EXPLORATION INCENTIVE CREDITS.

Sec. 38.95.300. EXPLORATION INCENTIVE CREDITS. (a) In addition to the exploration incentive credit authorized by AS 38.05.180(i), the commissioner ^(MAY) shall give an exploration incentive credit for each of the following activities performed on land in the state:

- (1) geophysical work on land that is not subject to a credit under AS 38.05.180(i);
- (2) drilling a stratigraphic test well; and
- (3) drilling an exploratory well.

(b) An exploration incentive credit authorized by (a) of this section may be applied against

(1) a payment or obligation against which the credit authorized by AS 38.05.180(i) may be claimed;

(2) taxes payable under AS 43.20; and

(3) oil and gas bonus payments due the state under AS 38.05.180(f).

(c) An exploration incentive credit authorized by (a) of this section is available only if

(1) a stratigraphic test well or exploratory well is drilled after the effective date

of this Act and before July 1, 2002;

(2) copies of all data derived from drilling a stratigraphic test well or exploratory well or performing geophysical work are made available to the commissioner within 30 days following its availability; the provisions of AS 38.05.035(a)(9)(C) apply to data obtained by the commissioner under this paragraph, except that the commissioner may, in the commissioner's discretion, make the data available to third parties if the commissioner determines that disclosure of the data is necessary to generate interest in the affected state lands; and

(3) application for eligibility for the credit is made to the commissioner and is approved by the commissioner before the drilling or geophysical work commences.

(d) An exploration incentive credit authorized by (a) of this section shall be based on costs approved by the commissioner, and may not exceed 50 percent of the costs of

- (1) geophysical work performed;
- (2) drilling the stratigraphic test well, or
- (3) drilling the exploratory well.;

(e) The total of all credits approved by the commissioner under this section may not exceed \$50,000,000. Credits shall be used during a limited period established by the commissioner and may be assigned as authorized by AS 38.05.180(i) during that period.

(f) Amounts due the permanent fund under AS 37.13.010 shall be calculated before the application of credits under this section.

(g) In this section "commissioner" means the commissioner of natural resources."

AMENDMENT BY SENATOR HOFFMAN TO SB 302

This amendment does the following:

- P. 1, lines 1 - 7: changes title of bill.
- P. 1, line 9 through p. 2, line 22: completely replaces Section 1 to:
 - * Expand credits to include work done on all lands in the state, including geophysical work and drilling a stratigraphic test well.
 - * Allows credit to be applied against state oil and gas bids, oil and gas royalty and rental payments payable to the state, and taxes payable under 43.55 (oil production tax) and 43.20 (corporate income tax).
 - * Credit is good for next 10 years, and may not exceed 50% of the costs of the work for which the credit is sought.
 - * The total of all credits may not exceed \$50 million.

The goal of the Governor's bill is to have a 2-year credit program to encourage exploration so that the state will have better information in which to complete its land selections. The intent of the proposed amendment is to expand the Governor's bill in order to encourage exploration work in areas of the state that have oil and gas potential, but are not considered large enough prospects to attract the interest of the major oil companies.

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: SB 302

1 Page 1, line 1, after "An Act" through line 2:

2 Delete all material and insert:

3 "expanding the exploration incentive credits to include geophysical work on private land in
4 the state, and identifying additional taxes and payments due the state against which the
5 credits may be claimed; authorizing exploration incentive credits earned by drilling
6 stratigraphic test wells on land in the state to be applied against certain payments due the
7 state; and providing for an effective date.""
8

9 Page 1, line 4, after " * Section 1.", through page 3, line 1:

10 Delete all material and insert:

11 "AS 38.95 is amended by adding a new section to read:

12 ARTICLE 7. EXPLORATION INCENTIVE CREDITS.

13 Sec. 38.95.300. EXPLORATION INCENTIVE CREDITS. (a) In addition to the
14 exploration incentive credit authorized by AS 38.05.180(i), each of the following is entitled to
15 a credit under this section for work performed on land in the state:

16 (1) a person performing geophysical work if the person has not already received
17 a credit under AS 38.05.180(i) for performing that geophysical work on state land; and

18 (2) a person drilling a stratigraphic test well.

19 (b) An exploration incentive credit authorized by this section may be applied against

20 (1) a payment or obligation against which the credit authorized by
21 AS 38.05.180(i) may be claimed;

22 (2) taxes payable under AS 13.20; and

23 (3) state oil and gas bids.

24 (c) An exploration incentive credit authorized by (a)(2) of this section is available only

25 if

1 (1) the well is drilled after the effective date of this Act and before July 1, 2002;
2 (2) copies of all data, including interpreted data, derived from drilling the well
3 are made available to the commissioner of natural resources within 30 days following its
4 availability to the driller of the well; the provisions of AS 38.05.035(a)(9)(C) apply to data
5 obtained by the commissioner of natural resources under this paragraph; and
6 (3) application for eligibility for the credit is made to the commissioner of natural
7 resources before drilling commences, and application for the credit is filed no later than two years
8 after the abandoned well is plugged;
9 (d) An exploration incentive credit authorized by this section
10 (1) may not exceed 50 percent of
11 (A) the expenses or costs of geophysical work performed if the credit is
12 sought under (a)(1) of this section;
13 (B) the cost of drilling a stratigraphic test well if the credit is sought under
14 (a)(2) of this section;
15 (2) shall be used during a limited period established by the commissioner of
16 natural resources and may be assigned as authorized by AS 38.05.180(i) during that period.
17 (e) The total of all credits approved by the commissioner of natural resources under this
18 section may not exceed \$50,000,000. If claims for credits under this subsection exceed
19 \$50,000,000, the commissioner of natural resources shall prorate the credits among the applicants
20 for the credits based on expenses and costs that are approved by the commissioner.
21 (f) Amounts due the permanent fund under AS 37.13.010 shall be calculated before the
22 application of credits under this section."

April 3, 1992

DISCUSSION DRAFT - JOINT VERSION

AMENDMENT TO SB-302

Page 1, Line 1, after "An Act" through line 2:

Delete all material and insert:

". . . relating to exploration incentive credits for geophysical work and for the drilling of exploration and stratigraphic test wells on any land in the state as to which the state may receive royalty, bonus, taxes or other revenues; and providing for an effective date."

Page 1, Line 4, after "* Section 1.", through page 3, line 1:

Delete all material and insert:

"AS 38.95 is amended by adding a new section to read:

ARTICLE 7. EXPLORATION INCENTIVE CREDITS. (a)

In addition to the exploration incentive credits authorized by AS 38.05.180(i), the commissioner may make exploration incentive credits available for each of the following activities performed on land in the state:

- (1) geophysical work on lands not subject to credit under AS

38.05.180(i);

(2) drilling of stratigraphic test wells; or

(3) drilling of exploratory wells.

(b) Exploration incentive credits authorized by this section may be applied against

(1) a payment or obligation against which the credits authorized by AS 38.05.180(i) may be claimed;

(2) taxes payable under AS 43.20; and

(3) oil and gas bonus payments payable to the state.

(c) Exploration incentive credits authorized by (a) of this section are available only if

(1) the geophysical or drilling costs are incurred after the effective date of this Act and before July 1, 2002;

(2) copies of all raw and processed data derived from drilling a well or performing geophysical work are made available to the commissioner within 30 days following its availability. The provisions of AS 38-05.035 (a)(9)(C) apply to data obtained by the commissioner under this paragraph, except that the commissioner may in his discretion make such geophysical data available to third parties if he determines that such action is necessary to generate interest in the affected state lands; and

(3) eligibility for credit is approved by the commissioner before drilling or geophysical work commences.

(d) Exploration incentive credits authorized by this section may not exceed 50 percent of the cost of

(1) geophysical work performed;

(2) drilling a stratigraphic test well; or

(3) drilling an exploratory well.

(e) Total credits approved by the commissioner under this section may not exceed \$50,000,000. All credits under this section shall be based on costs that are approved by the commissioner. Credits approved by the commissioner may be used during a limited period established by the commissioner and may be assigned during that period.

(f) Amounts due the permanent fund (AS 37.10.010) shall be calculated before the application of credits under this section.

March 23, 1992

DRAFT

PROPOSED AMENDMENT TO SB-302

Page 1, line 1, after "An Act" through line 2:

Delete all material and insert:

"... relating to exploration incentive credits for geophysical work and for the drilling of stratigraphic test wells on any land in the State as to which the State may receive royalty, bonus, taxes or other revenues, and providing for an effective date."

Page 1, Line 4, after "Section 1.", through page 3, line 1:

Delete all material and insert:

AS 38.95 is amended by adding a new section to read:

ARTICLE 7. EXPLORATION INCENTIVE CREDITS. (a)

In addition to the exploration incentive credits authorized by AS 38.05.180(i), the commissioner may make exploration incentive credits available for each of the following types of work performed on land in the state;

(1) geophysical work, if the person performing the work has not already received a credit under AS 38.05.180(i) for performing that geophysical work on state land; and

(2) drilling of stratigraphic test wells.

(b) Exploration incentive credits authorized by this section may be applied against

(1) a payment or obligation against which the credits authorized by AS 38.05.180(i) may be claimed;

(2) taxes payable under AS 43.20; and

(3) oil and gas bonus payments payable to the state.

(c) Exploration incentive credits authorized by (a) (1) and (2) of this section are available only if

(1) the geophysical or drilling costs are incurred after the effective date of this Act and before July 1, 2002;

(2) copies of all data, including interpreted data (if credit is sought for costs of interpretation) derived from drilling a well or performing geophysical work are made available to the commissioner within 30 days following its availability; the provisions of AS 38.05.035(a)(9)(C) apply to data obtained by the commissioner under this paragraph, except that the commissioner may in his discretion make geophysical data available to a third party if he determines that such action is necessary to generate interest in the affected state lands; and

(3) application for eligibility for credit is made to the commissioner before drilling or geophysical work commences.

(d) Exploration incentive credits authorized by this section may not exceed 50 percent of

(1) the cost of geophysical work performed; or

(2) the cost of drilling a stratigraphic test well.

(e) The total of stratigraphic test well credits approved by the commissioner under this section may not exceed \$50,000,000. All credits under this section shall be based on costs that are approved by the commissioner. Credits approved by the commissioner may be used during a limited period established by the commissioner and by be assigned during that period.

(f) Amounts due the permanent fund (AS 37.10.010) shall be calculated before the application of credits under this section.

7-GS0108ND
Chenoweth
4/13/92

*Lyman - latest version -
everyone agrees.*

CS FOR SENATE BILL NO. 302 ()

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to exploration incentive credits for geophysical work and for the drilling
2 of exploratory and stratigraphic test wells on land in the state and providing that the
3 credits may be deducted from rentals, royalties, bonuses, or taxes due the state; and
4 providing for an effective date."

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

6 * Section 1. AS 38.95 is amended by adding a new section to read:

7 ARTICLE 7. EXPLORATION INCENTIVE CREDITS.

8 Sec. 38.95.300. EXPLORATION INCENTIVE CREDITS. (a) In addition to the
9 exploration incentive credit authorized by AS 38.05.180(i), the commissioner may give an
10 exploration incentive credit for each of the following activities performed on land in the state:

- 11 (1) geophysical work on land that is not subject to a credit under AS 38.05.180(i);
12 (2) drilling a stratigraphic test well; and
13 (3) drilling an exploratory well.

14 (b) An exploration incentive credit authorized by (a) of this section may be applied

1 against

2 (1) a payment or obligation against which the credit authorized by
3 AS 38.05.180(i) may be claimed;

4 (2) taxes payable under AS 43.20; and

5 (3) oil and gas bonus payments due the state under AS 38.05.180(f).

6 (c) An exploration incentive credit authorized by (a) of this section is available only if

7 (1) a stratigraphic test well or exploratory well is drilled after the effective date
8 of this Act and before July 1, 2002;

9 (2) copies of all raw and processed data derived from drilling a stratigraphic test
10 well or exploratory well or performing geophysical work are made available to the commissioner
11 within 30 days following its availability; the provisions of AS 38.05.035(a)(9)(C) apply to data
12 obtained by the commissioner under this paragraph, except that the commissioner may, in the
13 commissioner's discretion, make that data available to third parties if the commissioner
14 determines that disclosure of the data is necessary to generate interest in the affected state land;
15 and

16 (3) application for the credit is made to the commissioner and is approved by the
17 commissioner before the drilling or geophysical work commences.

18 (d) An exploration incentive credit authorized by (a) of this section shall be based on
19 costs approved by the commissioner, and may not exceed 50 percent of the costs of

20 (1) geophysical work performed;

21 (2) drilling the stratigraphic test well; or

22 (3) drilling the exploratory well.

23 (e) The total of all credits approved by the commissioner under this section may not
24 exceed \$50,000,000. Credits shall be used during a limited period established by the
25 commissioner and may be assigned during that period.

26 (f) Amounts due the permanent fund under AS 37.13.010 shall be calculated before the
27 application of credits under this section.

28 (g) In this section, "commissioner" means the commissioner of natural resources.

29 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

7-LS1954D✓
Chenoweth
2/12/92

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - SECOND SESSION

BY SENATOR ADAMS

Introduced:
Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act expanding the credits against certain payments due the state for geophysical work
2 on land in the state, authorizing credits against certain payments due the state earned by
3 drilling stratigraphic test wells on land in the state, and amending the taxes and payments
4 against which the credits may be claimed; and providing for an effective date."

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

6 * Section 1. AS 38.05.180(i) is repealed and reenacted to read:

7 (i) The commissioner may provide for the establishment of an exploration incentive credit
8 system, under which

9 (1) subject to the limitations of this subsection, exploration incentive credits may
10 be made available to

11 (A) a lessee of state land drilling an exploratory well on that land;

12 (B) a person performing geophysical work on state land;

13 (C) a person drilling stratigraphic test wells or performing geophysical
14 work on land in the state;

- 1 (2) exploration incentive credits may be applied against
2 (A) oil and gas bonus, royalty, and rental payments payable to the state;
3 or
4 (B) taxes payable under AS 43.20 or AS 43.55;
5 (3) credits for the drilling of an exploratory well must be based upon the footage
6 drilled and the region in which the well is drilled;
7 (4) credits for geophysical work on state land are only available if
8 (A) the work is performed during the two seasons immediately preceding
9 an announced lease sale;
10 (B) the work is performed on land included within the lease sale area; and
11 (C) the geophysical information is made public following the lease sale;
12 (5) credits for drilling costs for a stratigraphic test well or for geophysical work
13 performed under (1)(C) of this section are only available if
14 (A) the well is drilled or the geophysical work is performed after the
15 effective date of this Act and before July 1, 2001; and
16 (B) copies of all data, including interpreted data, derived from drilling the
17 well or the geophysical work are made available to the commissioner within 30 days
18 following its availability to the driller of the well; the provisions of AS 38.05.035(a)(9)(C)
19 apply to data obtained by the commissioner under this subparagraph;
20 (6) the total of all credits granted for the drilling of stratigraphic test wells may
21 not exceed \$50,000,000; if drillers' costs approved for credits exceed that amount, credits of
22 \$50,000,000 shall be prorated among the drillers on the basis of approved costs;
23 (7) credits may not exceed 50 percent of the cost of drilling an exploratory or
24 stratigraphic test well, or performing geophysical work; a credit may not exceed 50 percent of
25 the payment toward which it is being applied;
26 (8) credits approved by the commissioner may be used during a limited period
27 established by the commissioner and may be assigned during that period;
28 (9) amounts due the permanent fund under AS 37.13.010 shall be calculated
29 before the application of credits under this subsection.

30 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

7-LS8000A
Chenoweth
1/30/92

BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - SECOND SESSION

BY

Introduced:
Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act

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

3 * Section . AS 38.05.180(i) is amended to read:

4 (i) The commissioner may provide for the establishment of an exploration incentive credit
5 system, under which

6 (1) subject to the limitations of this subsection, exploration incentive credits
7 may be made available to

8 (A) a lessee of state land drilling an exploratory well on that land;9 (B) a person performing geophysical work on state land; or

10 (C) a person drilling stratigraphic test wells on unleased land in the
11 state;

12 (2) exploration incentive credits may be applied against13 (A) oil and gas royalty and rental payments payable to the state; or14 (B) taxes payable under AS 43.55;

1 (3) credits for the drilling of an exploratory well must be [MAY EARN CREDITS]
2 based upon the footage drilled and the region in which the well is drilled;

3 (4) [SITUATED. THE COMMISSIONER MAY ALSO PROVIDE FOR] credits
4 for [TO BE EARNED BY PERSONS PERFORMING] geophysical work are only available [ON
5 STATE LAND,] if

6 (A) the [THAT] work is performed during the two seasons immediately
7 preceding an announced lease sale;

8 (B) the work is performed [AND] on land included within the lease sale
9 area; and

10 (C) the geophysical information is made public following the lease sale;

11 (5) credits for drilling costs for a stratigraphic test well are only available if

12 (A) the well is drilled between July 1, 1991, and July 1, 1993;

13 (B) copies of all data, including interpreted data, derived from drilling
14 the well are made available to the commissioner within 30 days following its
15 availability to the driller of the well; and

16 (C) an application for eligibility to participate is filed before drilling
17 commences and an application for credits is filed no later than September 1, 1993;

18 (6) the total of all credits granted for the drilling of stratigraphic test wells
19 may not exceed \$20,000,000; if drillers' costs approved for credits exceed that amount,
20 credits of \$20,000,000 shall be prorated among the drillers on the basis of approved costs;

21 (7) credits [. CREDITS] may not exceed 50 percent of the cost of [THE] drilling
22 an exploratory or stratigraphic test well, or performing geophysical work; a [. CREDITS MAY
23 BE USED DURING A LIMITED PERIOD ESTABLISHED BY THE COMMISSIONER AND
24 MAY BE ASSIGNED DURING THAT PERIOD. CREDITS MAY BE APPLIED AGAINST (1)
25 OIL AND GAS ROYALTY AND RENTAL PAYMENTS PAYABLE TO THE STATE OR (2)
26 TAXES PAYABLE UNDER AS 43.55. A] credit may not exceed 50 percent of the payment
27 toward which it is being applied;

28 (8) credits approved by the commissioner may be used during a limited period
29 established by the commissioner and may be assigned during that period;

30 (9) amounts [. AMOUNTS] due the Alaska permanent fund (AS 37.13.010) shall
31 be calculated before the application of credits under this subsection.

Alaska Department of Natural Resources

Division of Oil and Gas

Briefing Before the Senate Oil and Gas Committee

January 28, 1992

SENATE BILL NO. 302

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 5/17/91

Referred: O&G, Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to credits against certain payments due the state, earned by drilling
2 stratigraphic test wells on unleased land; and providing for an effective date."

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

4 * Section 1. AS 38.05.180(i) is repealed and reenacted to read:

5 (i) The commissioner may provide for the establishment of an exploration incentive credit
6 system, under which

7 (1) subject to the limitations of this subsection, exploration incentive
8 credits may be made available to

9 (A) a lessee of state land drilling an exploratory well on
10 that land;

11 (B) a person performing geophysical work on state land; or

12 (C) a person drilling stratigraphic test wells on unleased
13 land in the state;

14 (2) exploration incentive credits may be applied against

1 (A) oil and gas royalty and rental payments payable to the
2 state; or

3 (B) taxes payable under AS 43.55;

4 (3) credits for the drilling of an exploratory well must be based upon the
5 footage drilled and the region in which the well is drilled;

6 (4) credits for geophysical work are only available if

7 (A) the work is performed during the two seasons
8 immediately preceding an announced lease sale;

9 (B) the work is performed on land included within the lease
10 sale area; and

11 (C) the geophysical information is made public following
12 the lease sale;

13 (5) credits for drilling costs for a stratigraphic test well are only available
14 if

15 (A) the well is drilled between July 1, 1991 and July 1,
16 1993;

17 (B) copies of all data, including interpreted data, derived
18 from drilling the well are made available to the commissioner within 30
19 days following its availability to the driller of the well; and

20 (C) an application for eligibility to participate is filed
21 before drilling commences and an application for credits is filed no later
22 than September 1, 1993;

23 (6) the total of all credits granted for the drilling of stratigraphic test wells
24 may not exceed \$20,000,000; if drillers' costs approved for credits exceed that amount,
25 credits of \$20,000,000 shall be prorated among the drillers on the basis of approved costs;

26 (7) credits may not exceed 50 percent of the cost of drilling an exploratory
27 or stratigraphic test well, or performing geophysical work; a credit may not exceed 50
28 percent of the payment toward which it is being applied;

29 (8) credits approved by the commissioner may be used during a limited
30 period established by the commissioner and may be assigned during that period;

31 (9) amounts due the Alaska permanent fund (AS 37.13.010) shall be

- 1 calculated before the application of credits under this subsection.
- 2 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

HH FYI
CC CW → bill file
WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 762-2553

(907)762-2547

July 3, 1991

The Honorable Mike Navarre
Alaska State Legislature
P. O. Box 169
Kenai, Alaska 99611

COMMISSIONER'S OFFICE
JUNEAU

JUL 08 1991

DEPARTMENT OF
NATURAL RESOURCES

Dear Representative Navarre:

Thank you for inquiring about the proposed legislation (HB 339/SB 302) ^{file} which would enable the State to apply Exploration Incentive Credits to stratigraphic test wells. I have tried to address each question you have asked as fully as possible. However, should you have any other concerns, don't hesitate to ask.

1. The purpose of the proposed stratigraphic test well(s), possibly with accompanying seismic, is to give the state subsurface information important for evaluating the hydrocarbon potential of one or more interior sedimentary basins. Very little is known about the subsurface geology of the state's interior basins. As the state moves forward with its final selection of BLM lands for conveyance, stratigraphic tests in these basins will provide important information as to their resource potential. One company has suggested a well that would be drilled to approximately 6500 feet using a slim-hole core rig. EICs for such a well would total about \$4 million.

2. Stratigraphic tests are regularly performed by industry, with all the OCS basins in Alaska being drilled one or more times before actual leasing. The only stratigraphic test to have been drilled on state land was the Reindeer Island well drilled prior to the joint Federal-State Lease Sale in 1979. In this particular case, the offshore leasing benefitted more from the information this well generated. In any case, the well provided important subsurface information used to evaluate surrounding state and federal acreage.

3. Currently no specific well locations have been proposed by industry, although the Department of Natural Resources is encouraging activity in the interior basins.

4. The attached table listing the EICs paid to date lists only exploratory wells. To date, EICs have not been paid for geophysical work. As of the moment only one company, MAXUS, is getting any money from the state for old EICs. Most of its credits were assigned. MAXUS gets about \$19 thousand per month for its outstanding EICs credited towards rents. MAXUS has no royalties or taxes to pay.

As to direct benefits to the state in the form of new or enhanced production, there are none to date. However, an oil discovery in the Colville Delta area was the result of an EIC well followed by three additional EIC wells in the area. No development plans have been announced to date. Indirect benefits include increased bonus bids on EIC tracts and

July 3, 1991

information obtained from drilling these wells. Theoretically, the companies are adjusting their bonus bid for leases where EICs apply for an amount that would approximate the real value of the EIC.

The state is sharing in the geological risk of a dry hole, however, and has to pay for it. Without the EIC, the risks are shared disproportionately. Furthermore, since the intention of the EIC is to encourage exploration in areas that are not very prospective (areas with a high dry hole risk), it should not be too surprising that many of the EIC wells drilled have not led to immediate development. In the areas where EIC wells have been drilled, the information from these wells has been used by the state to evaluate the surrounding lands.

5. Exploration and development costs in Alaska are among the highest in the world. The EIC program is intended to mitigate these costs and to provide a mechanism whereby the risks of prospecting here are shared between the lessee and the state. Industry has drilled 10 wells under the program that might not have been drilled (or would not have been drilled at the time) without EICs. Information from these wells may have devalued some property, but even bad news has value.

6. The Federal government does not have an EIC program.

7. The ability of one firm to assign its EICs to another is an extremely important aspect of the program. An EIC is devalued (and, hence, the price initially received for it by the state in the form of a higher bonus bid) if it can be sold to only one customer, i.e., the state. By allowing firms to sell their EICs through assignments, a recipient can expect to receive full value for the EIC, appropriately discounted to reflect the time value of money and any transaction costs. By allowing firms to assign EICs, companies that don't currently own any producing state oil leases still benefit, and benefit in a timely way. Any restrictions placed on the assignment of EICs will reduce their value by reducing their liquidity. The state would ultimately receive less in bonus bids for EIC leases and the incentive to explore would be reduced.

I hope this helps. As you can see, benefits from a program such as the EIC are difficult to express in dollars, and the real benefits may be yet to come. If you have any further questions, we will be happy to meet with you.

Sincerely,


James Eason
Director

Attachment

cc: Harold C. Heinze, Commissioner, DNR ✓

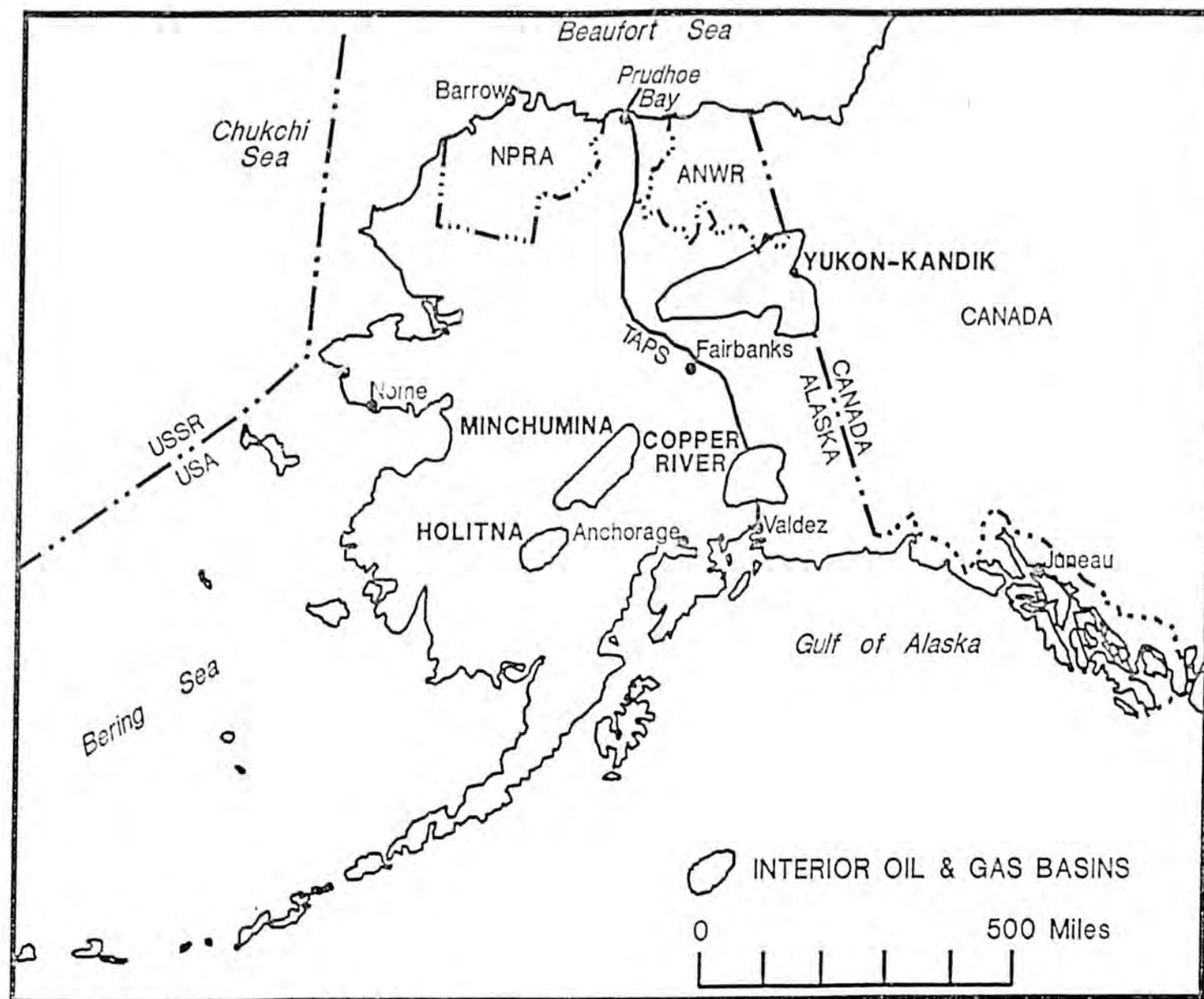
EXPLORATION INCENTIVE CREDITS

Report Month: November 1990

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon	10/05/83	56,197,625.00
		Standard Alaska	12/27/83	4,152,408.75
		BPAE	10/05/83	2,045,216.25
344010	Leffingwell	Arco	10/02/84	3,706,000.00
		Union	10/02/84	3,706,000.00
344033	J-1 Well	Exxon	10/31/84	5,119,500.00
355005	Long Island Well	Exxon	11/14/84	1,378,076.00
		Standard Alaska	11/14/84	1,378,076.00
245126	Totek Hills	Arco Alaska	08/02/85	715,530.81
355037	Colville Delta #1	Texaco	07/09/86	637,500.00
		Amerada Hess	07/09/86	888,594.00
		Diamond Shamrock (A)	07/09/86	100,128.00
		Mobil	02/05/87	432,511.00
		Placid Oil (C)	07/09/86	314,679.00
		Union Texas (B)	07/09/86	475,631.00
		Rosewood Resources	07/09/86	12,662.00
		Hunt Pet Co.	07/09/86	11,213.00
364478	Colville Delta Area AHC 25-13-6 #1 Well	Amerada Hess	10/12/87	677,853.00
		Union Texas (G)	10/12/87	508,390.00
		Texaco	10/12/87	225,951.00
		Maxus Expl. (G)	10/12/87	146,757.41
		Placid Oil	10/12/87	129,115.00
		Rosewood Res.	10/12/87	21,360.00
		Hunt Pet Co. (G)	10/12/87	18,987.00
		Texaco (E)	02/01/88	79,193.59
355038	Colville Delta #2	Amerada Hess	10/28/87	757,731.46
		Union Texas (G)	10/28/87	205,106.95
		Texaco	10/28/87	273,475.93
		Maxus Expl. (F)	10/28/87	273,475.93
		Placid Oil (H)	10/28/87	423,982.26
		Rosewood Res. (D)	10/28/87	77,561.49
		Hut Pet Co. (G)	10/28/87	68,943.50
355039	Colville Delta #3	Amerada Hess	10/28/87	364,048.13
		Union Texas (G)	10/28/87	91,012.03
		Texaco	10/28/87	364,048.13
		Maxus Expl. (G)	10/28/87	364,048.13
		Placid Oil (H)	10/28/87	178,918.37
		Rosewood Res. (D)	10/28/87	34,416.31
		Hut Pet Co. (G)	10/28/87	30,592.28
344176	Gyr #1	Arco Alaska, Inc.	11/15/90	719,560.56
		Conoco	11/15/90	761,481.20
		Amerada Hess	11/15/90	761,481.20
GRAND TOTAL				\$38,828,841.67

- (A) Assigned \$432,511 of EIC to Mobil Oil Corp. effective 02/05/87
 (B) Assigned entire EIC to BP Alaska effective 02/03/87
 (C) Assigned entire EIC to Texaco Inc. effective 03/31/87
 (D) Assigned entire EIC to Texaco Producing Inc. effective 01/01/88
 (E) Assigned \$79,193.59 of EIC to Texaco Producing Inc. effective 02/01/88
 (F) Assigned entire EIC to Texaco Producing Inc. effective 02/01/88
 (G) Assigned entire EIC to Texaco Producing Inc. effective 05/17/88
 (H) Assigned entire EIC to Standard Alaska effective 05/17/88

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



STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

WALTER J. HICKEL, GOVERNOR

P.O. BOX K—STATE CAPITOL
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600
FAX: (907) 463-5295

May 9, 1991

M E M O R A N D U M

TO: Honorable Walter J. Hickel
Governor

FROM: Charles E. Cole *for*
Attorney General

RE: Attached draft bill on credits for
drilling stratigraphic test wells
Our file: 773-91-0108

As requested by your legislative staff assistant, Lori Nottingham, attached is a draft bill that provides for credits for drilling stratigraphic test wells. The state must complete its selection of land under the Alaska Statehood Act by January 1994. In an effort to ascertain the value of land available for selection, the commissioner of the Department of Natural Resources is seeking the assistance of private enterprise. Specifically, the commissioner is encouraging oil companies to drill stratigraphic test wells on unleased land; data generated by drilling these wells could help the state select land with oil and gas potential.

shared

The commissioner has corresponded and met with representatives of the major oil companies operating in the state. The companies approached have indicated that they are unwilling to shoulder the entire risk of drilling wells on land where no right exists to produce a discovery. However, several companies have expressed interest if the cost of drilling stratigraphic test wells is paid by the state, or at least partially offset against royalties and taxes due the state. The attached draft bill proposes drilling cost credits to provide the necessary incentive.

Also attached is a draft transmittal letter to the legislature for your review. When you have approved the draft we

Hon. Walter J. Hickel, Governor
Our file: 773-91-0108

May 9, 1991
Page 2

will prepare the bill in final form for introduction. Into which house should it be introduced?

Distribution by Governor's Legislative Office:

D. Max Hodel, Chief of Staff
Office of the Governor

Hon. Harold Heinze, Commissioner
Department of Natural Resources

Hon. Lee Fisher, Commissioner
Department of Revenue

Shelby Stastny, Director, OMB
Office of the Governor

DRAFT TRANSMITTAL LETTER

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to credits for drilling stratigraphic test wells. The bill authorizes the commissioner of natural resources to extend exploration incentive credits under AS 38.05.180(i) to persons drilling stratigraphic test wells between July 1, 1991 and March 1, 1993 on land in the state.

Currently, AS 38.05.180(i) permits the commissioner to grant oil and gas lessees credits against royalty and tax payments due the state. The credits are limited to one-half of a lessee's costs for drilling an exploratory well or performing geophysical work.

OK
The purpose of the new credits is to encourage the drilling of stratigraphic test wells on land not currently under oil or gas lease. In an effort to obtain information that would help the state complete, by January 1994, its selection of land under the Alaska Statehood Act, all the major oil and gas companies operating in the state have already been asked to consider drilling stratigraphic test wells on unleased land; none are motivated in the absence of credits.

The bill requires the driller to provide the state with well data before a credit is approved. This assures that no credit will be granted unless the state receives, in exchange for the credit, information bearing on the selection of land under the Alaska

Statehood Act.

The total of all credits granted for drilling stratigraphic test wells may not exceed \$20,000,000. If drillers' costs approved for credit exceed \$20,000,000, then \$20,000,000 in credits would be pro-rated among the drillers on the basis of approved costs.

AS 38.05.180(i) is rewritten by the bill to prevent that subsection from becoming unduly cumbersome through the addition of the language providing for the new credits. No substantive change has been made in the existing provisions.

Sincerely,

Walter J. Hickel
Governor

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JFW
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Litt

SENATE BILL NO. 302

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to credits against certain payments due the state, earned by drilling
2 stratigraphic test wells on unleased land; and providing for an effective date."

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

4 * Section 1. AS 38.05.180(i) is repealed and reenacted to read:

5 (i) The commissioner may provide for the establishment of an exploration incentive credit
6 system, under which

7 (1) subject to the limitations of this subsection, exploration incentive
8 credits may be made available to

9 (A) a lessee of state land drilling an exploratory well on
10 that land;

11 (B) a person performing geophysical work on state land; or

12 (C) a person drilling stratigraphic test wells on unleased
13 land in the state;

14 (2) exploration incentive credits may be applied against

- 1 (A) oil and gas royalty and rental payments payable to the
2 state; or
3 (B) taxes payable under AS 43.55;
4 (3) credits for the drilling of an exploratory well must be based upon the
5 footage drilled and the region in which the well is drilled;
6 (4) credits for geophysical work are only available if
7 (A) the work is performed during the two seasons
8 immediately preceding an announced lease sale;
9 (B) the work is performed on land included within the lease
10 sale area; and
11 (C) the geophysical information is made public following
12 the lease sale;
13 (5) credits for drilling costs for a stratigraphic test well are only available
14 if
15 (A) the well is drilled between July 1, 1991 and July 1,
16 1993;
17 (B) copies of all data, including interpreted data, derived
18 from drilling the well are made available to the commissioner within 30
19 days following its availability to the driller of the well; and
20 (C) an application for eligibility to participate is filed
21 before drilling commences and an application for credits is filed no later
22 than September 1, 1993;
23 (6) the total of all credits granted for the drilling of stratigraphic test wells
24 may not exceed \$20,000,000; if drillers' costs approved for credits exceed that amount,
25 credits of \$20,000,000 shall be prorated among the drillers on the basis of approved costs;
26 (7) credits may not exceed 50 percent of the cost of drilling an exploratory
27 or stratigraphic test well, or performing geophysical work; a credit may not exceed 50
28 percent of the payment toward which it is being applied;
29 (8) credits approved by the commissioner may be used during a limited
30 period established by the commissioner and may be assigned during that period;
31 (9) amounts due the Alaska permanent fund (AS 37.13.010) shall be

- 1 calculated before the application of credits under this subsection.
- 2 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FACSIMILE: (907) 586-2754

January 24, 1992

The Honorable Sam Cotten, Chair
Senate Special Committee for Oil and Gas
State Capitol
Juneau, AK 99811-1182

Dear Senator Cotten:

Subject: Senate Bill 302, relating to incentive credits for drilling stratigraphic test wells.

Position: The Department of Natural Resources supports this bill. It's enactment will allow the state to obtain subsurface information critical to choosing the best possible land for the state's remaining 20 million acre entitlement. As an added benefit, this bill will encourage industry to begin exploration of poorly understood interior basins.

Background: The purpose of this bill is to encourage the drilling of stratigraphic test wells on land not currently under oil or gas lease. The state needs subsurface information to better evaluate the hydrocarbon potential of interior sedimentary basins. The bill requires the driller to provide the state with well data before a credit may be considered for approval. This assures that no credit will be given unless the state receives information related to state land selections in return.

Currently, the department may grant oil and gas exploration incentive credits against royalty and tax payments due the state. The credits are limited to one-half of a lessee's costs for drilling an exploratory well or performing geophysical work on state oil and gas leases. This bill extends the exploration incentive program under 38.05.180 (i) to all land in the state until September 1, 1993.

Recommendation: To ensure the state has sufficient information to select land that meets the economic needs of Alaskans, now and in the future, support this bill.

Sincerely,


Harold C. Heinze
Commissioner

cc: Committee Members
Paul Fuhs, Legislative Liaison, Office of the Governor
Jim Eason, Director, Division of Oil and Gas

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 762-2553

February 3, 1992

Molly

Senator Lyman F. Hoffman
Room 510, Capitol
P.O. Box V
Juneau, Alaska 99811

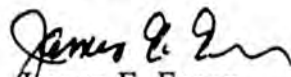
Dear Senator Hoffman:

Reenactment of AS 38.05.180(i), as provided for in House Bill No. 339, is intended to provide an incentive to encourage industry to begin the exploration of poorly understood sedimentary basins within the interior. This division supports that legislation; enactment will allow the state to obtain information necessary for choosing the best possible land for the state's final selection. In addition, it may serve to focus industry attention toward new areas of hydrocarbon potential.

Adoption of the proposed amendment would not reduce the opportunity for agency and public review and comment which precedes approval of a Plan of Operation or Land Use Permit on state lands. As structured, this legislation would require the same public review that is normally associated with our permitting procedures. In addition, while not required by law or regulation, it is my intention to provide public notice of any incentive-related activity as provided by AS 38.05.945(b).

Thank you for your interest and concern in this important matter. Should you have further questions or comments, please feel free to call either me or Jim Hansen; we will respond promptly.

Sincerely,


James E. Eason
Director

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 762-2553

January 24, 1992

The Honorable Sam Cotten
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Cotten:

I appreciate the fact that you have scheduled a hearing on SB 302, concerning exploration incentive credits (EICs) for stratigraphic test wells, early in the legislative session. This bill demands immediate attention due to the relatively short time left for industry to drill one or more wells in order to take advantage of these proposed credits.

Please understand that the primary purpose of this bill is not simply to provide additional geophysical information to the state. Rather, it is to encourage companies, with relatively little expense on their part, to gather subsurface data from one or more of the state's poorly understood interior basins. To date, only minimal exploration has been done in these basins, and several have seen no drilling activity. This bill provides an opportunity for oil companies to get into these basins and gather information critical to determining their resource potential. If the bill is passed, and if companies then decide to take advantage of its provisions, the time limit serves two purposes--it gets the companies working in these basins now, and the information gained can be utilized in the state's land selection process.

Without these EICs it is doubtful that industry will be in any hurry to jump into an interior basin for which there is currently little information. Oil companies have, in general, not shown much interest in previous oil and gas lease sales scheduled for some of these basins. EICs encourage accelerated drilling. On the North Slope, where companies have earned nearly \$39 million in credits, a number of those wells most likely would not have been drilled as soon as they had, since the time limit for applying for an EIC is considerably shorter than the term of the lease.

You suggest that the provisions of this bill be applied only to state royalties. This bill simply amends AS 38.05.180(i) by adding stratigraphic test wells on unleased state lands. Therefore, allowing these credits to be applied to oil and gas royalty and rental payments or to taxes payable under AS 43.55 should remain the same.

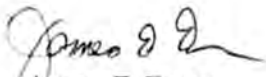
The Honorable Sam Cotten
January 24, 1992
Page 2

As to your question of the number of tests initiated in Alaska since 1980, there have been none on state lands. The last one was the Reindeer Island Well in the Beaufort Sea, drilled in preparation for the 1979 Joint State/Federal sale. There have, however, been five stratigraphic tests in federal waters off Alaska since 1980--one during that year and four in 1982.

Conventional exploratory drilling remains active in the North Slope and Cook Inlet Basin, with a number of wells proposed for this winter drilling season. Ten wells have been permitted so far and two of these are currently active; none have EICs. Generally, as the price of oil increases, one can expect the level of drilling activity to also increase. However, oil companies are more apt to be spending their exploration dollars in these two producing regions. Unless oil prices undergo major escalation and remain at relatively high levels companies will stay clear of the interior basins. Providing EICs for stratigraphic test wells is one way in which the state can entice companies to expand their exploration efforts into these remote areas.

Please contact me if you have any further questions.

Sincerely,


James E. Eason
Director

cc: Harold C. Heinze

EIC SALES

Sale 43/43A Beaufort Sea/Colville River Delta/Prudhoe Bay Uplands May 22, 1984

Tracts

EIC

43A-76 - 78
43A-79 - 84

\$ 1,200/ft drilled to 30% of well costs, 1st well/tract, 10 yr limit
\$375/ft drilled to 30% of well costs, 1st well/tract, 10 yr limit

Sale 65 Beaufort Sea

June 4, 1991

All tracts

\$1,000/ft drilled up to 15% of well costs, 1st well/tract, 5yr limit

Sale 67A Cook Inlet Exempt

January 29, 1991

All tracts

\$200/ft drilled to 20% of well costs, 1 well /tract, 3 yr limit

Sale 70A Kuparuk Uplands Exempt

January 29, 1991

All tracts

\$300/ft drilled to 20% of well costs, 1 well /tract, 5 yr limit

Sale 74 Cook Inlet

September 24, 1991

All tracts

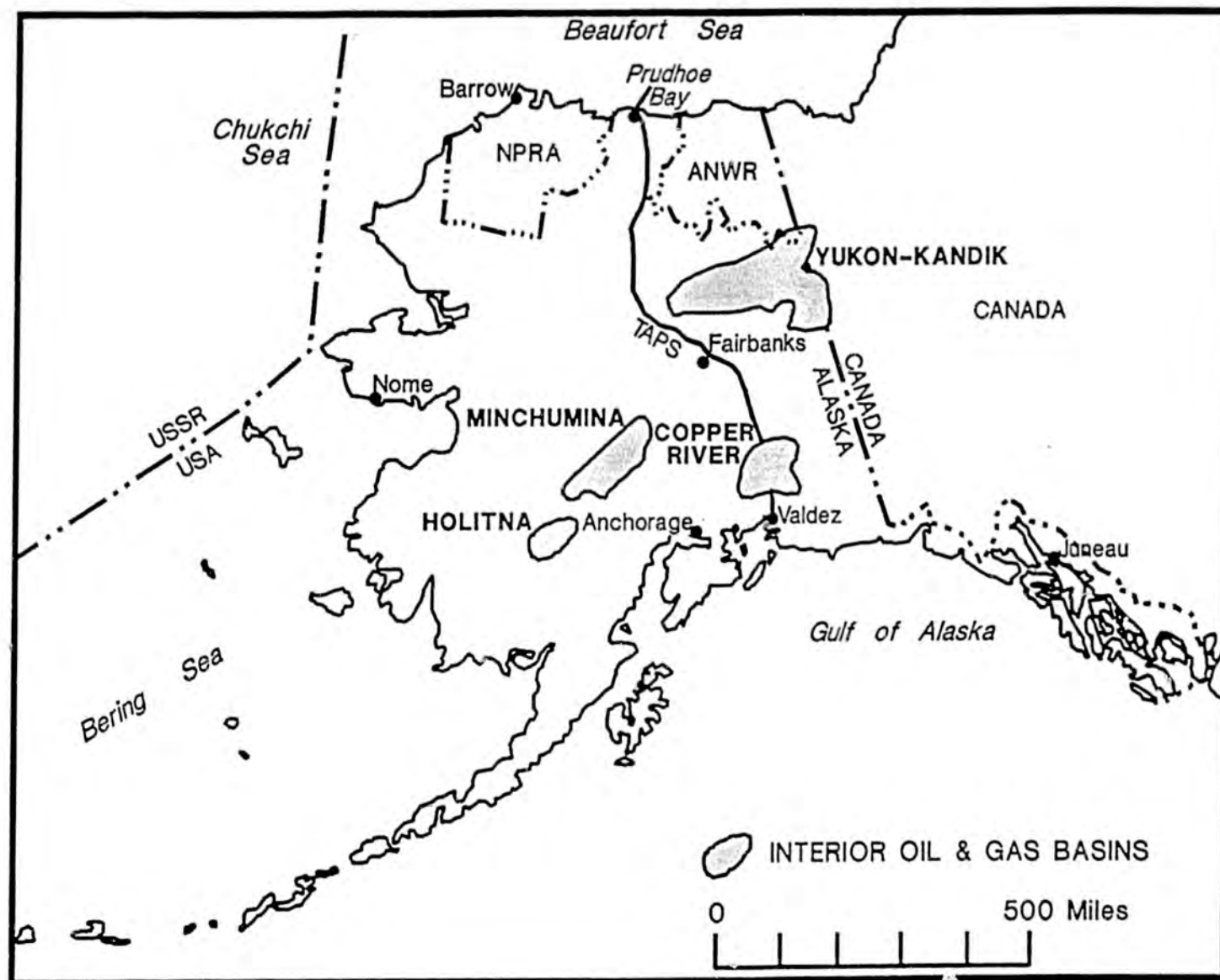
\$200/ft drilled to 20% of well costs, 1 well /tract, 3 yr limit

EXPLORATION INCENTIVE CREDITS
Report Month: February 1992

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon	10/05/83	\$6,197,625.00
		Standard Alaska	12/27/83	4,152,408.75
		BPAE	10/05/83	2,045,216.25
344010	Leffingwell	Arco	10/02/84	3,706,000.00
		Union	10/02/84	3,706,000.00
344033	J-1 Well	Exxon	10/31/84	5,119,500.00
355005	Long Island Well	Exxon	11/14/84	1,378,076.00
		Standard Alaska	11/14/84	1,378,076.00
245126	Totek Hills	Arco Alaska	08/02/85	715,530.81
355037	Colville Delta #1	Texaco	07/09/86	637,500.00
		Amerada Hess	07/09/86	888,594.00
		Diamond Shamrock (A)	07/09/86	100,128.00
		Mobil	02/05/87	432,511.00
		Placid Oil (C)	07/09/86	314,679.00
		Union Texas (B)	07/09/86	475,631.00
		Rosewood Resources	07/09/86	12,662.00
		Hunt Pet Co.	07/09/86	11,213.00
364478	Colville Delta Area AHC 25-13-6 #1 Well	Amerada Hess	10/12/87	677,853.00
		Union Texas (G)	10/12/87	508,390.00
		Texaco	10/12/87	225,951.00
		Maxus Expl. (G)	10/12/87	146,757.41
		Placid Oil	10/12/87	129,115.00
		Rosewood Res.	10/12/87	21,360.00
		Hunt Pet Co. (G)	10/12/87	18,987.00
		Texaco (E)	02/01/88	79,193.59
355038	Colville Delta #2	Amerada Hess	10/28/87	757,731.46
		Union Texas (G)	10/28/87	205,106.95
		Texaco	10/28/87	273,475.93
		Maxus Expl. (F)	10/28/87	273,475.93
		Placid Oil (H)	10/28/87	423,982.26
		Rosewood Res. (D)	10/28/87	77,561.49
		Hut Pet Co. (G)	10/28/87	68,943.50
355039	Colville Delta #3	Amerada Hess	10/28/87	364,048.13
		Union Texas (G)	10/28/87	91,012.03
		Texaco	10/28/87	364,048.13
		Maxus Expl. (G)	10/28/87	364,048.13
		Placid Oil (H)	10/28/87	178,918.37
		Rosewood Res. (D)	10/28/87	34,416.31
		Hut Pet Co. (G)	10/28/87	30,592.28
344176	Gyr #1	Arco Alaska, Inc.	11/ /90	719,560.56
		Conoco	11/ /90	761,481.20
		Amerada Hess	11/ /90	761,481.20
		Arco Alaska, Inc.	01/92	16,151.00
		Conoco	01/92	9,479.94
		Amerada Hess	01/92	9,479.93
GRAND TOTAL				\$38,863,952.54

- (A) Assigned \$432,511 of EIC to Mobil Oil Corp. effective 02/05/87
 (B) Assigned entire EIC to BP Alaska effective 02/03/87
 (C) Assigned entire EIC to Texaco Inc. effective 03/31/87
 (D) Assigned entire EIC to Texaco Producing Inc. effective 01/01/88
 (E) Assigned \$79,193.59 of EIC to Texaco Producing Inc. effective 02/01/88
 (F) Assigned entire EIC to Texaco Producing Inc. effective 02/01/88
 (G) Assigned entire EIC to Texaco Producing Inc. effective 05/17/88
 (H) Assigned entire EIC to Standard Alaska effective 05/17/88

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



Strategic petroleum reserve

A stockpile of oil stored for use in the event of an embargo by petroleum exporting countries. See Holcombe, "Strategic Petroleum Reserve," 26 *Oil & Gas Tax Q.* 457 (1978).

Stratigraphic test hole

A "hole drilled for stratigraphic information, including lithology (facies), porosity and permeability. It is drilled to penetrate a potentially productive zone, and thus may result in production. This may be a slim hole (not likely), a core hole (today most are drilled with a rock bit and then electric-logged rather than cored), and those structure tests that do not stop short of the expected producing zone or zones." Report of the Committee on Regulatory Practices for Stratigraphic Test Holes, 17 *Interstate Oil Compact Bull.* 43 (Dec. 1958). See TREATISE § 1.02.

On-Structure Deep Stratigraphic Test Wells, 87 I.D. 517 (Oct. 29, 1980), ruled that deep stratigraphic tests, on or off structures potentially holding oil or gas, are "geological explorations" authorized by the OUTER CONTINENTAL SHELF LANDS ACT OF 1953 (*q.v.*), and that the Secretary of the Interior could authorize permittees to conduct such tests on a structure before it was leased. The opinion reported widespread agreement on four points:

"First, a stratigraphic test is an accepted form of geological exploration. Second, its purpose is to gather geological information on the stratigraphy of an area believed capable of holding commercially valuable accumulations of oil or gas. Third, a stratigraphic test is most effective when it is drilled into this area. Fourth, oil or gas (called a 'hydrocarbon show') is the most reliable form of geological information on the presence of oil or gas."

See also, SEISMIC SHOT HOLE; SLIM HOLE; STRUCTURE TEST HOLE.

Stratigraphic trap

A reservoir, capable of holding oil or gas, formed from a change in the character of reservoir rock from a break in its continuity. For example, the loss of porosity and permeability in a tight sandstone updip forms a stratigraphic trap. Such a trap is much harder to locate than a STRUCTURAL TRAP (*q.v.*), because it is not readily revealed by geological or geographical surveys. See TREATISE § 102.

See also, COMBINATION TRAP; FAULT TRAP.

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HYPOTHETICAL: Oil production from an Interior or Central Arctic sedimentary basin where all uplands and associated mineral interests are owned in separate parts by the federal government and Native corporations. No State of Alaska uplands are involved.

QUESTIONS: How significant are potential revenues to the state which would be associated with such production? And, among the federal government, State of Alaska and Native corporations, which would receive the greatest share of direct revenues?

ANSWERS: Although there are many variables and scenarios, the modest example set forth below illustrates that direct revenues to the State of Alaska would be considerable. The State of Alaska would receive a multiple of the revenues received by Native corporations or the federal government.

E X A M P L E

Location:

Yukon Flats Basin, approximately 70-90 miles from TAPS.

Ownership:

Productive acreage is a combination of (1) federal and Native corporation uplands and submerged lands beneath non-navigable waterbodies, and (2) State of Alaska submerged lands beneath navigable waters. The state would own 100% of the oil and attendant revenues associated with the submerged lands beneath all navigable waters within both the federal and private lands. The State also would receive 90% of all bonuses, rentals and royalties from the federal uplands; for this reason, the remaining 10% federal interest will be ignored in the calculations below.

Because of the large number of waterbodies on federal and private lands in the Yukon Flats Basin and because of the 90% federal sharing requirement, assume that each of the State of Alaska and the Native corporations would receive 50% of all royalty revenues. Current upland ownership status, when overlaid by DNR's own oil and gas basin map, would seem to validate the reasonableness of this order of magnitude example. Other examples, some even more favorable to the state, could be applied to the Yukon Flats, Central Arctic and other Interior basins.

Production:

100,000 barrels per day, 36.5 million barrels per year. As a frame of reference, Endicott produces about 100,000 barrels per day.

Royalty Rate:

12.5%; no calculation of bonuses or rentals, or state income taxes or multiplier values, though possibly substantial.

Wellhead or Gross Value:

\$12 per barrel.

Revenues:

	Millions of \$ per year		
	<u>State</u>	<u>Private</u>	<u>Producers</u>
Royalty	27.4	27.4	(54.8)
Production Tax	41	(2.7)	(38.3)
Cons. Surcharge	1.7	(.1)	(1.6)
EP&PTP Taxes	10	-0-	(10)
Cons. Tax	.2	(.01)	(.2)
Yearly Totals	80.3	24.6	(104.9)

Notes:

1. Native corporations and state royalty shares of yearly production: 2,281,250 barrels each (6.25% x 36,500,000 barrels)
2. State royalty share free of production, conservation surcharge and conservation taxes; AS 43.55.900(13)
3. Yearly shares of production (private and producers) not exempt from production, conservation surcharge and conservation taxes: 34,218,750 barrels (2,281,250 private barrels plus 31,937,500 producers barrels)
4. Production tax at 10% of wellhead value, representing application of an economic limit factor similar to the one used at Endicott; AS 43.55.011, AS 43.55.013
5. Conservation surcharge at \$0.05 per barrel; AS 43.55.200
6. EP&PTP taxes at 20 mills on facilities of \$500 million; AS 43.56.018
7. Conservation tax at 5 mills per barrel; AS 43.57.010

ARCO

Laid off 250 of 2,800 Alaskan employees.

Enacted cutbacks and consolidations in 1991.

Consolidation of North Slope operations laid off about 50 employees between the two (BP and ARCO), and an additional 100 by contractors.

Bilhartz cited rising costs, declining production and the flight of oil industry capital overseas, "In 1985, the 18 largest U.S. oil companies spent 40% of their capital finding and developing foreign oil, by 1990 that percentage had doubled to 80%

Davis: "If that well (Kuvlum/Maktar) isn't drilled this year . . . could mean the end of activity in the Eastern Beaufort for the foreseeable future."

Amoco

Closed down Alaska operations eliminating 62 jobs, making it the 5th oil company to announce consolidation or closure.

Moved its Denver staff to Houston.

Completed its Galahad exploration well in October and sees no reason to stay in Alaska.

AOGA

Committees have been cut from 18 to 5, reflecting drastic cuts in the budget.

Alliance

Webb: Expecting a 50% decrease in membership over the next year.

Alyeska

We are headed for a steep decline in oil flowing through the line in the next decade.

Will adjust by making mechanical adjustments, facility closures and personnel reorganization and reduction.

If ANWR were opened it would take 10-years to reach commercial production.

Absent ANWR, the pipeline might have to shut down by 2009.

The revenue impact for Alaska will be significant.

State revenue sources say that oil will have to rise to \$65/bbl (adjusted for inflation).

1992 intermittent idling of a pump station; in the following two to three years, permanently shutting down one or two pump stations.

May close one of the four berths at Valdez.

A state that has a reputation for excesses, such as non-productive regulation, does not encourage further investment by individuals who have the choice of doing business elsewhere.

BP

Consolidation of efforts on the North Slope; ultimately another 50 to 100 persons to be laid off.

To eliminate 420 jobs w/i three years; 170 this June.

Dropped the Kuvlum/Maktar project in the eastern Beaufort Sea "cold".

Hickel and Senate President Eliason blame overregulation and failure to open ANWR.

House Speaker Gussendorf blamed industry flight to other countries.

Announced intention to cut its 2,500 contractors and vendors in half over the next few years.

Declining production and increasing costs is forcing the company to change the way it does business.

Contractors blame a lethargic Alaska Legislature and an anti-oil bias in Washington.

Legislators need to recognize the impact their laws, rules and regulations have.

With low oil prices and an unfavorable regulatory environment, oil companies are now looking elsewhere.

Enacted cutbacks and consolidations in 1991.

Cut its 1,437 employees by 35 during the first half of the year.

Intends to introduce cost-cutting ideas that have proved successful in the Lower-48.

Chevron

(and Texaco) Droppped plans to explore for crude on Alaska's OCS reflecting industry's growinig frustration with governmental policies and regulations.

Had planned on drilling its Canvasback prospect near Barrow. Cook: "That's deader than a doornail this year."

Could become the next company to pull out of the state.

Closed its Nikiski refinery in June due to increased expenses of complying with new oil spill regulations and potential costs should a spill occur.

The company's employment base has dwindled from 200 to 5.

Will soon offer a severance package to employees in an effort to reduce its U.S. exploration staff.

Eliminating 20 jobs and slicing \$31.5 million in assessed value from the borough's tax base.

Will spend \$500-million over the next three years for exploration and development (**GONE, without comment**).

To cut 2,500 jobs this year and scale back production at its biggest refinery.

500 will be laid off in Port Arthur, Texas.

Plans to sell domestic oil and gas fields.

Conoco

Rig 27E may be stacked, taken out of service. Stacking the rig would force its crew of 200 to find jobs elsewhere.

EXXON

EXXON USA Exploration merged with the International Group, resulting in a down-sizing of approximately 35%. Additional cuts are expected in July. The USA Production is anticipating a severance/retirement package on 4/15 with expectations of a minimal cut of 10%

Marathon	Shutting down a second platform in the Cook Inlet (Spurr, 250-bbl/day). Close its section of the Granite Point production facility due to sagging oil prices, high transportation costs, increased environmental liabilities, pending oil spill regulations and federal process safety regulations. Shutting down production of its Sparks platform (350 bbl/day). One platform worker and six on-shore employees will be transferred. Planning for a 10% cut through a retirement/severance package.
Pennzoil	Closing its domestic exploration operations to concentrate on foreign drilling and development.
Phillips	Layoff of 1,100, not to affect operations in Alaska. Plans to spend 16% less in 1992. Will allocate more of its money to overseas exploration and production.
Shell	To close down all Alaska operation. Eliminating 60 jobs. All Alaska interests for sale.
Texaco	(and Chevron) Dropped plans to explore for crude on Alaska's OCS reflecting industry's growing frustration with governmental policies and regulations. Had hoped to launch a major exploration program in the Chukchi Sea, but was forced to delay . . . after negotiations with state officials . . . broke down." Nelson: "We have no drillable prospects in Alaska."
Unocal	To shut down its Dillon platform (250 bbls/day) in the southern

Cook Inlet.

Yukon-Pacific

Delayed construction on its \$13.1 billion pipeline.

To lay off 20.

Miscellaneous

Each \$1 drop in oil prices over the year means a loss of \$150 million to Alaska.

Venezuela evicted Shell and Exxon a decade ago. Recently invited companies to bring in investment capital and undertake exploration activities. 200 responded!

135 Alaska oil field workers laid off because of rising oil and natural gas imports. Drilling employees who become "totally or partially separated" from their jobs are eligible for cash benefits under the Trade Act of 1974.

Low rig count signals trouble for oil industry. Rig counts now at the lowest point since records have been kept (since 1940). Experts feel that fewer rigs are looking now than at any time since 1901. The nation increasingly relies on less costly oil from abroad.

Independent operators stifled by state regulations, high bonding requirements, infrequent lease sales and high minimum bonus bids.

U.S. oil production in the lower-48 fell in 1991 to the lowest level in 40-years as prices and other factors pushed more companies overseas. Domestic production continues to fall at the rate of 300,000 bbl/day, with 1/3 of the drop coming from Alaska.

For the first time in years there may be no exploratory drilling on Alaska's OCS.

**Doyon, Limited**

Doyon Building
201 First Avenue
Fairbanks, Alaska 99701
Tel: (907) 452-4755 Fax: (907) 456-6785
Toll Free in Alaska: 1-800-478-4755

SENT VIA FAX: (907) 465-4523

February 5, 1992

Mr. Mike Smith
c/o Senator Lyman Hoffman
Alaska State Legislature
Post Office Box V
State Capitol
Juneau, Alaska 99811

Dear Mike:

Thanks for your time and assistance yesterday regarding SB302, the exploration incentive credit bill. Enclosed are a couple of memos from my files regarding SB302 which re-iterate many of the points John Rense and I discussed with you. I hope you find them helpful. I trust you will get copies to Molly McCammon for me.

Thanks again.

Very Truly Yours,

James Mery
Senior Vice President
Lands and Natural Resources

Enclosures

SB302/HB339

SUBJECT: Oil and gas exploration incentive credits (EIC)

Repeals and reenacts AS 38.05.180(i) which is the current EIC program.

Current program applies to those lands owned by the State of Alaska which are subject to existing oil and gas leases; credits of up to 50% of the cost of geophysical work and exploratory wells, within certain restrictions, are allowed against oil and gas royalties and production taxes otherwise owed to the State of Alaska.

SB302 and its identical counterpart HB339 purport to extend the current EIC program so to allow credits to be earned for drilling stratigraphic test wells on all lands in the state, including federal and private lands. Credits of up to \$20 million could be earned for stratigraphic test wells drilled between July 1, 1991 and July 1, 1993 after which the stratigraphic test well provision lapses. Copies of all downhole data must be submitted to the State before credits would be granted.

The objective of this proposed legislation is to provide geologic information which the State could use in its Statehood Act land selection process. The deadline for State land selections is early January, 1994.

COMMENTS:

The objective of the bills is laudable. It is unfortunate that similar legislation was not introduced several years ago. However, is doubtful that much will be gained from passage of SB302/HB339 as now written.

All or major portions of several sedimentary basins are untested, including Mid-Tanana, Minchumina, Holitna, Hope, Copper River and Yukon-Kandik. Were SB302/HB339 to become law in 1992, only one year of the program would remain. Normal time constraints on company budget approvals and governmental agency permitting likely will preclude the drilling of more than one or two wells, at best, providing limited test data for portions of only one or two basins. A likely case is that no wells would be drilled. The lack of any apparent limitations on the public disclosure of data submitted to DNR is a serious problem for industry.

RECOMMENDATIONS:

The stratigraphic test well objective of the bills should be expanded. Its scope should be broader than the State land selection process. The bills should provide appropriate financial incentives over a reasonable period of time in order to get industry to properly test the many undrilled but promising areas of the state.

Current State oil and gas policy focuses narrowly on royalty and production tax receipts from State uplands. With an expanded EIC program the State would manage and encourage the development of its substantial economic interests in hydrocarbon production from all lands in Alaska, be they owned by the State, federal government or private interests.

Royalties and production taxes from new oil production on State owned uplands are only part of any future State revenue picture. Direct State revenues flowing from new production on federal and private lands also will be substantial, even from basins where the State owns little of the uplands.

The State will receive 90% of all revenues associated with oil development on federal lands, with ANWR being a possible exception. The formidable State taxes tied to production of oil and gas apply to all lands in Alaska, regardless of ownership. And, the State of Alaska's ownership of 100% of the oil and gas beneath navigable waters on federal and private lands could be significant.

An expanded objective for SB302/HB339 can be achieved with the following changes:

- * Expand the stratigraphic test well provision to include geophysical work (an often critical precursor to drilling)
- * Extend to 10 years the time period for stratigraphic test wells and geophysical work
- * Increase to \$50 million the cap on stratigraphic test wells and geophysical work (with the result being \$100 million spent exploring)
- * Allow use of credits as bids chits at State oil and gas lease sales and against State income taxes
- * Clarify that stratigraphic test well and geophysical program provisions apply to all lands in the state, regardless of ownership
- * Provide for confidentiality of data submitted to DNR in a manner similar to provisions governing data submitted to Alaska Oil and Gas Conservation Commission; allow DNR use for internal planning and proprietary purposes, including land selection

SUBJECT: Oil and gas exploration incentive credits (EIC)

Repeals and reenacts AS 38.05.180(i) which is the current EIC program.

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WORK DRAFT

WORK DRAFT

WORK DRAFT

7-LS1956A
Chapman
1/5/92

SENATE BILL NO.
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - SECOND SESSION

BY SENATOR ADAMS

Introduced:
Referred:**A BILL****FOR AN ACT ENTITLED .**

1 "An Act expanding the credits against certain payments due the state for geophysical work
2 on land in the state, authorizing credits against certain payments due the state earned by
3 drilling stratigraphic test wells on land in the state, and amending the taxes and payments
4 against which the credits may be claimed; and providing for an effective date."

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

6 * Section 1. AS 35.05.180(j) is repealed and reenacted to read:

7 (j) The commissioner may provide for the establishment of an exploration incentive credit
8 system, under which

9 (1) subject to the limitations of this subsection, exploration incentive credits may
10 be made available to

11 (A) a lessee of state land drilling an exploratory well on that land;

12 (B) a person performing geophysical work on ~~land in the state~~ state land

13 (C) a person drilling stratigraphic test wells on land in the state;

14 (2) exploration incentive credits may be applied against

on performing
geophysical work

-1-

New Text Underlined (DELETED TEXT BRACKETED)

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WORK DRAFT

WORK DRAFT

- ✓ 1 (A) oil and ~~gas~~^{BONUS} royalty and rental payments payable to the state;
- ✓ 2 (B) taxes payable under AS 43.20 or AS 43.55;
- ✓ 3 ~~the state shall not be liable for the cost of the drilling of an exploratory well~~
- 4 (3) credits for the drilling of an exploratory well must be based upon the footage
- 5 drilled and the region in which the well is drilled;
- ✓ 6 (4) credits for geophysical work ^{on state land} are only available if
- 7 (A) the work is performed during the two seasons immediately preceding
- 8 an announced lease sale;
- 9 (B) the work is performed on land included within the lease sale area; and
- ✓ 10 ^{or geophysical work under (4)(C) above} (C) the geophysical information is made public following the lease sale;
- 11 (5) credits for drilling costs for a stratigraphic test well are only available if
- 12 (A) the well is drilled ^{on state land} after the effective date of this Act and before July 1,
- 13 2001; ^{or geophysical work is performed}
- 14 (B) copies of all data, including interpreted data, derived from drilling the
- 15 well are made available to the commissioner within 30 days following its availability to
- 16 the driller of the well; the provisions of AS 38.05.035(a)(9)(C) apply to data obtained by
- 17 the commissioner under this subparagraph; and
- ✓ 18 ^{Per's can fix this} (C) an application for eligibility to participate is filed before drilling
- 19 commences and an application for credits is filed no later than two years after the
- 20 abandoned well is plugged;
- 21 (6) the total of all credits granted for the drilling of stratigraphic test wells may
- 22 not exceed \$50,000,000; if drillers' costs approved for credits exceed that amount, credits of
- 23 \$50,000,000 shall be prorated among the drillers on the basis of approved costs;
- 24 (7) credits may not exceed 50 percent of the cost of drilling an exploratory or
- 25 stratigraphic test well, or performing geophysical work; a credit may not exceed 50 percent of
- 26 the payment toward which it is being applied;
- 27 (8) credits approved by the commissioner may be used during a limited period
- 28 established by the commissioner and may be assigned during that period;
- 29 (9) amounts due the permanent fund under AS 37.13.010 shall be calculated
- 30 before the application of credits under this subsection.
- 31 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Alaska Legislative Digest

An Inside View of Alaska Policy

PUBLISHERS:

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Anchorage, AK 99507

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February 1, 1992
No.3/92

A problem that can't go away!

How do we build our schools ?

Lawmakers are putting the issue of how to construct public schools back on the table. The perimeters of the issue are being framed in the House Education and Social Services Committee (HESS), which last week gathered up related bills and assigned them to a special HESS subcommittee composed of Anchorage Rep. Bettye Davis (Chair), Ketchikan Rep. Cheri Davis, and Anchorage Rep. Mark Hanley. Included in the package of subcommittee bills is a \$759.3-million catch-up bonding measure by Fairbanks Rep. Mark Boyer, designed virtually to fund the whole DOE list, another Boyer bill that would pay 100% of past district debt service, and a Boyer sponsored resolution to create a constitutional amendment dedicating a stream of revenue to pay off the "catch-up" package of bonds. Also joining the Boyer package in the HESS subcommittee was HB-290, by HESS Co-chair Pat Carney, that would establish again a state support program for local school bonds at a 70% level. The Carney bill is a companion measure to an identical bill in the Senate by Senate Finance Co-chair Jalmar Kertulla. Sen. Paul Fischer has also submitted SB-318, for school bonds on the Senate side.

The Boyer package is innovative and far reaching, and perhaps not realistic at this point, but Boyer also is first to stress the first purpose of his package is to smoke out a broad variety of issues and get them on the discussion table. (Continued top page 8)

\$63,000 School Unit

The House passed SB-7, authorizing a \$63,000 instructional unit on a 30 to 9 vote Thursday, then reconsidered the bill. Since the House was not in session Friday, SB-7 should be up for a reconsideration vote Monday of this week. The \$63,000 unit is essentially an overdue inflationary adjustment in the State School Foundation Act.

But the catch is lawmakers are worried about where the money will come from as revenues tighten. The figure is also \$3,000 less than most districts wanted, and represents the first adjustment since 1987, when the entire school formula was overhauled.

(Continued bottom page 8)

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*****Bond "101" course planned by Finance committees Feb. 12 to review bond options and problems. (Check for teleconference?)**

Heard in the halls . . .

Kathy Allen, campaign guru for Cowper, several Knowles campaigns, and now running a campaign consulting business in the Pacific Northwest, was in Juneau last week. The question is to see "who?" Allen recently managed a successful congressional campaign.

... Local Government/Schools ...

Early retirement program reopened?

Early retirement incentive legislation, SB-337, was reported out by Senate State Affairs. Next stop is Senate HESS. Sen. Jim Duncan's bill would reopen the retirement incentive program. The bill establishes the window for state employee application as July 31, 1992 through October 31, 1992, with retirement by July 1, 1993. The teachers window would be June 30, 1992 through December 31, 1992, with retirement at the end of the teacher contract year. Amendments in State Affairs fixed the state retirement window to coincide with the end of the fiscal year, another amendment would eliminate credit for military service time, and a third administration amendment would prohibit a retired employee from entering a personal services contract with the state (an exception was made for the university). The amendments now mean the Hickel administration supports HB-337.

Bush may be exempt from battery recycling

A bill requiring retail outlets selling new lead acid batteries to accept old ones for recycling will likely be amended this week to exempt rural regions without barge service or road access, which offer practical means of shipping out dead batteries. (Air carriers now ship batteries only under special packaging.) Outlets selling batteries for vehicles and airplanes would be required to accept the old one for recycling, regardless of place of origin, under a proposal introduced by Rep. Fran Ulmer of Juneau. HB 389 would stop short of forcing retailers to take a battery when not selling a new one.

The bill came to its first committee hearing Jan. 30 with administration support and backing from some rural areas and the state's only battery manufacturer. HB 389 would allow retailers charge \$5 or more if a new battery is purchased without return of an old one. The charge would be refunded if the old battery was returned within six months. Ulmer said HB 389 could eventually be expanded to all areas of the state, and include recycling of the thousands of batteries abandoned around the state. Rep. Georgianna Lincoln, citing problems with the bill, said communities like her Rampart home, connected with the outside world mostly by air, could become dead battery "stock-piles" under the bill. Ulmer said the bill could be amended to exclude regions not served by road or barge service from its requirements.

School labor PERA bills move

Sen Jim Duncan's SB-16, which would continue in force a two-year old law allowing teachers the right strike, and access to labor bargaining process under Title 23 (PERA), moved from Senate Labor and Commerce to the Senate HESS Committee. HESS has already scheduled the measure for hearing this week.

In the House, their version of the same bill, HB-68 by Rep. Mark Boyer, emerged from House HESS compromised with a "three year sunset" provision. The original law, passed several years ago SB-15, carried a sunset in 1992. The sunset would lapse teacher negotiations back under Education Title 14. The issue is making some lawmakers uneasy, with a bushel full of school issues to wrestle with this year. The issue has a long history, living for over 15-years as a quest by teachers for 'binding arbitration' as a means of final resolution in school labor negotiations. However, when the issue looked like it had a chance to pass in 1989 and 1990, the measure got turned into a bill allowing teachers the 'right to strike' by moving school employees under PERA.

It now appears some sort of version of SB-16 or HB-68, will pass keeping teachers in PERA. The more pertinent issue will be whether it carries a sunset provision and how long the sunset period is, and whether the measure is acceptable to the Hickel administration. Commissioner Jerry Covey strongly opposed the bill on behalf of the administration, but Covey did not invoke any intentions in the name of the governor.

Pointed messages for schools

On boarding schools: HESS Co-Chair Georgianna Lincoln made clear to Education Commissioner Covey last week in overview hearings that rural lawmakers may not rush to join the charge to build more Mt. Edgecumbe type boarding schools. She praised the Mt. Edgecumbe program, but sent the Hickel Administration the message to proceed cautiously.

On tenure linkages: Likewise ex-school board veteran Bettye Davis last week put the Commissioner on notice she wasn't buying into the commissioner's effort to link PERA labor issues with tenure issue.

*extend to 5 yrs.
up to \$50 m!*

*Dayton - many
copying
UNANIM*

AFN priority

Tax, royalty credits on stratigraphic wells

DNR's plan to lure new exploration drilling

Last week the administration's SB-302 — exploration incentives for stratigraphic test wells — was up before Senate Oil and Gas Committee, and was also discussed in a Dept. of Natural Resources overview before House Resources Committee. Commissioner Harold Heinze is pushing the bill as a top DNR priority for this session because information shared with the state through test stratigraphic drilling in largely unexplored sedimentary basins will help DNR make the remaining 20 million acres of land selections, which must be completed in the next two years. Essentially, the bill adds language to the existing state tax and royalty exploration incentive program — AS 38.05.180(i) — to give DNR authority to offer incentives for stratigraphic tests drilled on unleased state lands. Oil and gas companies have used the EIC program to drill several key exploratory wells. Some \$39 million in credits have been used since the program was implemented, and DNR credits the program with more than one oil discovery. Under the program, companies can credit certain drilling and geophysical costs against state royalty or taxes from other Alaska production.

Stratigraphic wells drilled not to find oil, but to gain key geologic information

Under the current statute, Exploration Incentive Credits (EICs) can be granted only when they are announced as part of a specific oil and gas lease sale, and can be used only in exploration drilling on those leases. The change in SB-302 would include stratigraphic wells on unleased land. These are drilled to gain regional geologic information, not to find oil. The goal is to gather geologic data that will help geologists plan later exploratory wells aimed at finding oil and gas.

Typically, a group of petroleum companies fund a stratigraphic test. The geologic data is shared among the participants. Commissioner Heinze's plan is to encourage "strat" tests in selected unexplored Alaska basins with the EIC program. While there is now a fair amount of exploration drilling on the North Slope and Cook Inlet basins, which already support oil production, there has been little drilling in several other large sedimentary basins, mostly in Interior Alaska. A few exploration wells have been drilled in some areas, such as the Kandik area in the upper Yukon, but millions of acres in other basins have seen no drilling. Gravity surveys show geologists that sediments in many areas have sufficient thickness to support oil and gas formations. What they don't know, and which only drilling can reveal, is whether rocks that can contain oil exist. Once that is known, geophysical surveys will show the presence of structural formations, and a test well is drilled, hopefully finding petroleum. Industry is unlikely to drill these regional wells, and Heinze hopes the EIC credits will add enough boost to get several drilled. DNR already has some proposals for low-budget tests if the EIC credits are allowed. In return for credits, DNR would share in the geologic information. SB-302 provides that EICs can be earned for stratigraphic tests only until July 1, 1993.

Minerals Commission recommendations

The annual Alaska Minerals Commission report is to the legislature. Recommendations include a multi-year capital appropriation for regional geophysical and geological mapping, a permanent exemption of taxation on resources in place, for the governor to order DEC to implement placer mining discharge mixing zone regulations, for the governor to order state agencies to assert state rights on RS2477 historic rights-of-way across federal lands, and for new land reclamation regulations to conform to the enabling statute in the definition of "stable condition" and the performance standards in statute, rather than adding new design standards, such as specific topsoil or revegetation techniques.

... Status of Bills ...

Key Senate Bills Introduced

- SPONSOR SUB SB-292 (Hoffman) Goodnews Bay closure to mining To RES, FIN
- SB-369: Ratify agree litigation state & ASRC / land exchange (Gov) To Oil & Gas, RCS, FIN
- SB-370: Involuntary dissolution of Native corporations (Adams)..... To C&RA, JUD
- SB-371: Education programs, disabled children (Gov) To HESS, FIN
- SB-373: Loan guarantee, subsidy assistive technology (See SB-377)(Duncan) To HESS & FIN
- SB-374: Investment pools for public entities (by Gov) To CRA & FIN
- SB-375: Law enforcement officers hold guide license (Hoffman) To SA & RCS
- SB-376: Act re: insurance revision (by L&C Committee)..... To L&C, JUD
- SB-377: Loan guarantee, assistive tech (by Duncan) (Also see SB-373) To HESS & FIN

Senate finance subcommittee schedules

Operating agencies

- Dept. of Administration 3:30 p.m. Beltz Room 211
- Feb. 4 - Alaska Public Broadcast Commission, RATNET, APOC
- Feb. 6 - Longevity Bonus, Pioneers' Homes, Older Alaskans' Commission
- Feb. 11 - Public Defender, Public Advocacy, Permanency Planning Panel
- Feb. 13 - Personnel, Labor Relat & Retir Benefits

Heard in the Halls ...

New revenue commissioner Darrel Rexwinkel reportedly is jawboning Standard & Poors and Moody's rating services in an effort to boost the state's bond rating. But it's a tough sell. Alaska has enjoyed good ratings mainly because of the Permanent Fund, which the rating services see as an ultimate fallback under a disaster fiscal scenario. Now, however, it's working the other way: Looking at oil production trends, ratings analysts have somehow convinced themselves that Alaskans will eventually tap the fund, which diminishes its "confidence" value in boosting the state's rating. Rexwinkel's interest is not so much in aiding state bonds, but in helping municipalities, whose ratings tend to move up or down in tandem with the state's.

Senate Committee Action

- SB-335 (Gov. Council on Handicapped) RLS to Calender
- SB-329 (est. Alaska State Pension Investment Board) SA to FIN
- SB-330 (exemption resources-in-place, municipal property taxes) RES to FIN
- SB-335 (Gov. Council on Handicapped, definition of developmentally disabled) HESS to RLS
- SB-80, Re: Eligibility under teachers retirement (FIN "mixed rec") To RLS
- SB-324: Report on earnings of Alaska Marine Hwy (TRANS "do pass") To FIN
- SB-325: Approp. ferries, vessel replacement fund (TRANS "do pass") To FIN
- SB-325: Ak State Pension Investment Board (FIN "do pass") To RLS
- SB-330: Muni taxation resources "in place" (FIN CS "do pass") To RLS

Heard in the Halls...

In testimony before House Resources and Senate Oil and Gas on his oil exploration incentive bill, DNR Commissioner Heinze painted a picture of cooperation with private Native corporation landowners. But word is that relations are anything but that. When regional corporation land managers met with DNR to discuss their ideas, mainly of extending the incentive test well program to Native lands, the reception was anything but warm. Also: Legislators, miners and environmentalists are laying for Heinze over reports he will introduce a bill excluding private lands from state land reclamation requirements put into law two years ago. Miners and Native corporations want to be included in the state program, mainly to preclude federal regulation. Heinze excluded them by regulation, and reportedly now wants to codify that in statute.

Salmon labeling

Rep. Cliff Davidson has put together an unusual letter, signed by all 60-lawmakers, appealing to the Alaska Congressional delegation to push federal implementation of consumer legislation that would label salmon by species and origin.

... Status of Bills ...

New House Bills, Resolutions

- HB-416: Ratify land exchange agreement state and ASRC (Gov) To RCS, JUD & FIN
- HB-417: Loan auth of the Ak Indus & Export Auth (Choquette/Baker)..... To TRANS, L&C, FIN
- HB-418: Require employers certain minors work break (MacLean) To L&C, FIN
- HB-419: Educ program children with disabilities, other exceptional (Gov) To HESS & FIN
- HB-420: Expand authority corrections contract for facilities (Gov) To HESS, JUD, FIN
- HB-421: State investment officer comply with AS 39:50 (Gov) To SA & FIN
- HB-422: Revoc drivers license, and privilege to obtain a license (Gov) To TRANS, JUD, FIN
- HB-423: Bulk fuel storage facilities grant program (Ivan) To CRA, L&C, FIN
- HB-424: State contracts for goods/services (Parnell) To L&C, SA
- HB-425: Insurance regulation (Labor & Comm Comm.) To L&C, JUD
- HB-426: Workers' comp, student work study (B. Davis) To HESS, L&C, JUD
- HB-427: Approp., distribution of pink salmon to public (Ellis) To L&C, FIN
- HB-428: Permanent Fund dividends (Gruenberg) To SA, FIN
- HB-429: Powers of Board of Game (Sharp) To RES, JUD, FIN
- HB-430: Creamer's Field Migratory Waterfowl Refuge (Sharp) To RES, FIN
- HCR-47: Task force to revise state school funding formula (R. Phillips) To HESS & FIN
- HJR-64: Asking feds mandatory seafood inspection (Jacko) To RCS

House Committee Action

- HB-155 Remodeling facilities make accessible handicapped (SA CS "do pass") To HESS
- HB-157: Spl. approp to barrier free remodeling fund (SA CS "no rec") To HESS
- HB-373: Exemption munny property taxation "in place" resources (CRA CS "do pass") To FIN

House Floor Action

- HB-31: Re: applicants for licensure as pharmacists Passed 38 to 0
- HB-247: Re: licensure as dentists Passed 30 to 0

... Business ...

SB-104: Business loss from condemnation

The Department of Transportation and Public Facilities (DOTPF) is prepared to put up a major fight to stop or make changes in legislation that would make Alaska the country's leader in compensation to businesses for non-property losses resulting from condemnation proceedings. SB 104, sponsored by Sen. Pat Kodey (D-Anch.) "would have a chilling effect on transportation," according to DOTPF right-of-way chief Jeff Ottesen. It would also cost the state an estimated \$3.1 million in expenses that could not be paid by federal highway funds and threaten lengthy delays on construction projects.

But supporters of the bill say it will correct a long standing inequity by forcing the state to pay for profits lost by a business resulting from public project work even when no property was taken by the state. SB 104 would require the state to deposit an estimated compensation amount for lost business. If businesses and state did not agree on that amount, the question would be directed to a court-appointed master for an informal hearing. Continued disagreement would result in a formal trial. The bill also requires expedited proceedings on the determination of just compensation and prohibits a court from granting right of entry until the deposited amount for compensation is sufficient. Ottesen agreed that the current \$20,000 limit on compensation to businesses forced to close or relocate by condemnation proceedings is "paltry," though DOT has not proposed an alternate cap and none is set in the bill. But the department charges that the bill arose from two condemnation cases involving two Anchorage service stations which should not be the basis for sweeping changes in what it sees as policies that are working well.

California's law on this issue is the national standard among the few that exist. Where that statute allows a business owner to file a claim for lost business upon notification of plans for a public works project, SB 104 would require the state to prepare an appraisal before any negotiations begin. While California's law requires a business owner to take reasonable steps to preserve his or her business's "goodwill," SB 104 puts no burden on the owner to attempt to minimize losses, critics say. Also, a California business must prove loss of goodwill while the Alaska business would have no burden, they argue.

... Business ...

Donley: More public review of regulations

The Hickel administration will strongly oppose legislation that would require a second round of public advertisement — and second opportunity for public comment—if proposed regulations are substantially changed during administrative processing after existing public notice and comment periods are completed. Introduced through the House Judiciary Committee, HB 328 was prepared by chairman Dave Donley (D-Anch.) in response to a "parade of complaints." Donley charged that, instead of crossing "t's" and dotting "i's," agency bureaucrats intentionally make "big, substantive changes" to new or amended regulations so that the final product is significantly different from what is discussed at public hearings.

Hickel legislative liaison Paul Fuhs said the concept was good, but that legislators already complain that regulations do not move through the administrative process quickly enough. HB 328 faces "real problems" with the administration, he said. A Department of Law spokeswoman said the bill would slow the operation of government and be a disservice to the public. A Department of Fish and Game spokesman emphasized that the short period between meetings of the Fish or Game Boards and the start of hunting or fishing seasons they regulate could delay important resource management changes for a full year. In response, Donley agreed that the citizen involvement in those hearing processes was reason to exempt that department's regulations from the bill's requirements. Committee members briefly discussed whether to exempt the Department of Education on the same grounds, but rejected the idea. The bill is being held in committee until Donley prepares the fish and game amendment.

Heard in the Halls ...

Word is that the hefty workman's compensation and insurance regulation bills now in the hopper won't move very far this session. Both are highly technical, and interest groups will demand careful review, particularly in workman's comp.

Legislators cool to dedicated fuel tax

The administration's dedicated fund for transportation got a cool reception before House Transportation, in that committee's initial hearing on the plan. Approval for a November ballot initiative on a constitutional amendment establishing a dedicated fund for state fuel taxes is the top priority of the Dept. of Transportation and Public Facilities (DOTPF) this year. Clyde Stoltzfus, assistant to Commissioner Frank Turpin, said the department will not seek an increase in motor fuel taxes during the current session, although Alaska's eight cent per gallon gasoline tax is the lowest in the country and has not been increased since 1961. The average state gas tax is 18 cents.

DOT plans transferring roads to locals

DOTPF also presented its long-range transportation plan, in which a major element, besides the dedicated fund, is transfer of some road maintenance responsibility to local governments and sharing of decision-making and revenues. Stoltzfus promoted the dedicated fund as a way to provide "stability over time" for maintenance. If approved, gasoline taxes would be used only for roadways, aviation fuel taxes for airports and marine fuel taxes for ports and harbors. Speaking later before Juneau businessmen, Turpin pointed out that \$3 million in marine fuel taxes are now used for other government purposes. Under the dedicated fund, all the money would go to ports and harbor work.

Hudson: Try summer-only tax hike

Committee members were more interested in hiking the fuels tax than in the dedicated fund proposal, and were sceptical of the idea that state money would match local responsibility for transportation facilities. Rep. Gene Kubina warns constituents against accepting state program responsibility based on the state's track record of never providing adequate funding. Rep. Bill Hudson said many legislators would oppose a dedicated fund because it reduces lawmakers' year-to-year line-item control over the budget. Hudson suggested DOTPF consider seeking a summertime/seasonal fuels tax increase that would make visitors pay for increased transportation system uses, then give residents a price break in the winter.

... Resources ...

Fisheries bill up in House committee

Three bills to help Alaska's ailing salmon industry made their first committee appearances Jan. 30, with sponsors' explanations before the House Labor & Commerce Committee. All three measures aim to improve salmon sales through marketing and new product development by new or existing organizations. No action was taken by the committee, which scheduled a public testimony session on the trio for Feb. 5.

Kubina: New salmon marketing group

HB 358, sponsored by Rep. Gene Kubina of Valdez, creates the Alaska Salmon Marketing Association (ASMA), a fisherman-controlled board that disperses grants to regional committees for marketing and product development. Committees in Southeast, Prince William Sound, Cook Inlet, Kodiak Island, Bristol Bay and the Arctic-Yukon-Kuskokwim regions would be formed if limited-entry permit holders there voted to assess themselves a tax of one percent of the sale value of their salmon catch. The tax would fund grants and operation of ASMA.

Kubina was a member of the governor's Salmon Marketing Task Force that released its own recommendations on Jan. 24. HB 358 did not win endorsement by that task force, and found little support from the labor and commerce committee. Rep. Robin Taylor of Wrangell suggested the marketing association was "in essence a conspiracy" to control prices and might violate federal anti-trust and monopoly laws.

Hudson's HB-414 tinkers with ASMI

HB 414, sponsored by Juneau's Rep. Bill Hudson, both changes and provides more stable funding for the Alaska Seafood Marketing Institute (ASMI). The change would increase by two the number of fishermen on ASMI's already large board of directors, increasing it to 20. Fishermen's organizations suggest the change in board makeup would have little practical effect, since processors would still control the board with 12 seats. Hudson, who headed ASMI from 1983-86, countered that his idea would promote greater awareness of the business/marketing side of fishing among fishermen and would help warm the traditionally cool relationship between processors and fishermen. Like Kubina's measure, Hudson's would impose a one percent tax on salmon sales, in this case for annual appropriation by the legislature to fund ASMI.

New salmon tax for marketing (Cont.)

Even that amount could vary greatly. The value of 1990's salmon harvest was over \$700,000 million while 1991's gross sales produced slightly more than \$300 million. ASMI currently operates on a combination of a processor's self-imposed tax and increasingly uncertain state funding and federal grants. Its activities would remain the same under HB 414. Hudson's bill would sunset in three years when, he suggested optimistically, the state of the salmon industry would be more secure.

Davidson: Endowment for fish research

Kodiak's Rep. Cliff Davidson's bills create, in HB 400, a Commercial Fisheries Development Endowment for the Alaska Fisheries Development Foundation (AFDF). Funding would be with a \$5 million appropriation in a separate bill, HB 401. The legislation provides a ten-year no interest loan for AFDF. Like ASMI, AFDF faces uncertain income levels from state and federal government sources. Despite a much lower public profile, the fisheries development foundation, created in 1977 with a \$100,000 state grant, is highly regarded in the seafood industry for its research work. Its efforts in product development helped create the multi-million dollar pollock industry. AFDF director Mel Munson testified in support of Davidson's proposals, and said only the approximate \$400,000 in annual interest from the \$5 million grant would be used for operations, so that the principle would be preserved for repayment in the year 2003.

ASMI, fishermen: No position yet on bills

ASMI director Kim Elton declined to take a position on any of the bills, but suggested the quickest way to help the industry and most efficient use of state funds would be through existing entities rather than new creations. Surprisingly, United Fishermen of Alaska director Greg Seider declined to state a position on any of the bills. He did emphasize the need for help for an industry he described as "adrift on the sea."

Oilfield regulation: As predicted in last week's Digest, legislation expanding the Alaska Oil and Gas Conservation Commission's power to regulate economic waste in field development was introduced. It is HB-433, by Rep. Kay Brown with co-sponsors Ellis, Koponen, Boyer, Ulmer and Navarre.

Schools: Going back to bonding, debt ?

(Continued from top page 1) Inherent in the package of legislation accumulating in the HESS subcommittee is whether the state should go back to bonding for any of its public needs, and how much capacity to bond the state has in a declining revenue situation and under criteria acceptable to bond buyers. In addition, lawmakers must assess the basic question of whether a single method of school construction funding is possible to apply to the state's three very different school systems —borough systems, single site city districts, and the state's rural REAA systems. Next, lawmakers must consider whether the DOE school construction priority system is salvageable amidst urban and rural difference, and further whether the system can be made to fit a bonding system that must run the gauntlet of statewide voter approval. The current system adopted several years ago in HB-37 represents an effort to fund all statewide school construction by a single method --fair to all. But urban districts complain that the system is stacked against their interests, which is a problem of building to 'house' new students in faster growing districts. The allegation is that the DOE system by giving priority recognition to life/health/safety measures, works to the advantage of rural areas. While priority for life/health/safety can be well argued, the net result is a politically and regionally unbalanced priority list that offers little motivation for lawmakers to dig a little deeper and fund further down the list.

Required 'early posting' of salmon prices

A bill that would require salmon buyers to publish proposed prices 120 days before a season opened, and actual prices when the season is underway, got a cool reception during an introductory House Resources hearing last week. Rep. George Jacko of Pedro Bay, himself a Bristol Bay fisherman, introduced HB-369 to "encourage serious price discussions" between processors and fishermen prior to the start of a season. Jacko based the preseason announcement date on a state law that allows the Department of Labor to begin mediating price disputes 120 days before a season begins if one-third of the involved fishermen petition for the assistance. He also received a memo from legislative legal counsel indicating the legislature can force price publication under their authority to regulate state trade and commerce. Pacific Seafood Processors Association lobbyist Rick Lauber said HB 369 may surpass practical limits on government involvement in the marketplace. If the bill were passed, processors would simply post low prices and make adjustments later, he said. The bill does not prohibit changes in the posting, but carries a \$1,000 fine for failure to publish a price.

Following SB-7 is CSHB-25 --the school appropriation bill

(Continued from bottom page 1) SB-7 represents an "authorization," meaning an appropriation bills must follow. Such an appropriation could come with the budget, but the House strategy (and probably the Senate) will be to approve the school appropriation in a separate bill "passed early," allowing lawmakers time to react to a gubernatorial veto. The appropriation bill was scheduled in House Finance last week, but was delayed and is due to come up again this week. The House Finance version of CSHB-25 will appropriate at the \$63,000 level. House HESS will also have up HB-316 in their committee, with that committee approving an identical figure to CSHB-25, which will allow CSHB-25 to head for Rules Committee and floor action with no referral back to HESS. However, CSHB-25 will have to work its way through the Senate.

Alaska Legislative Digest

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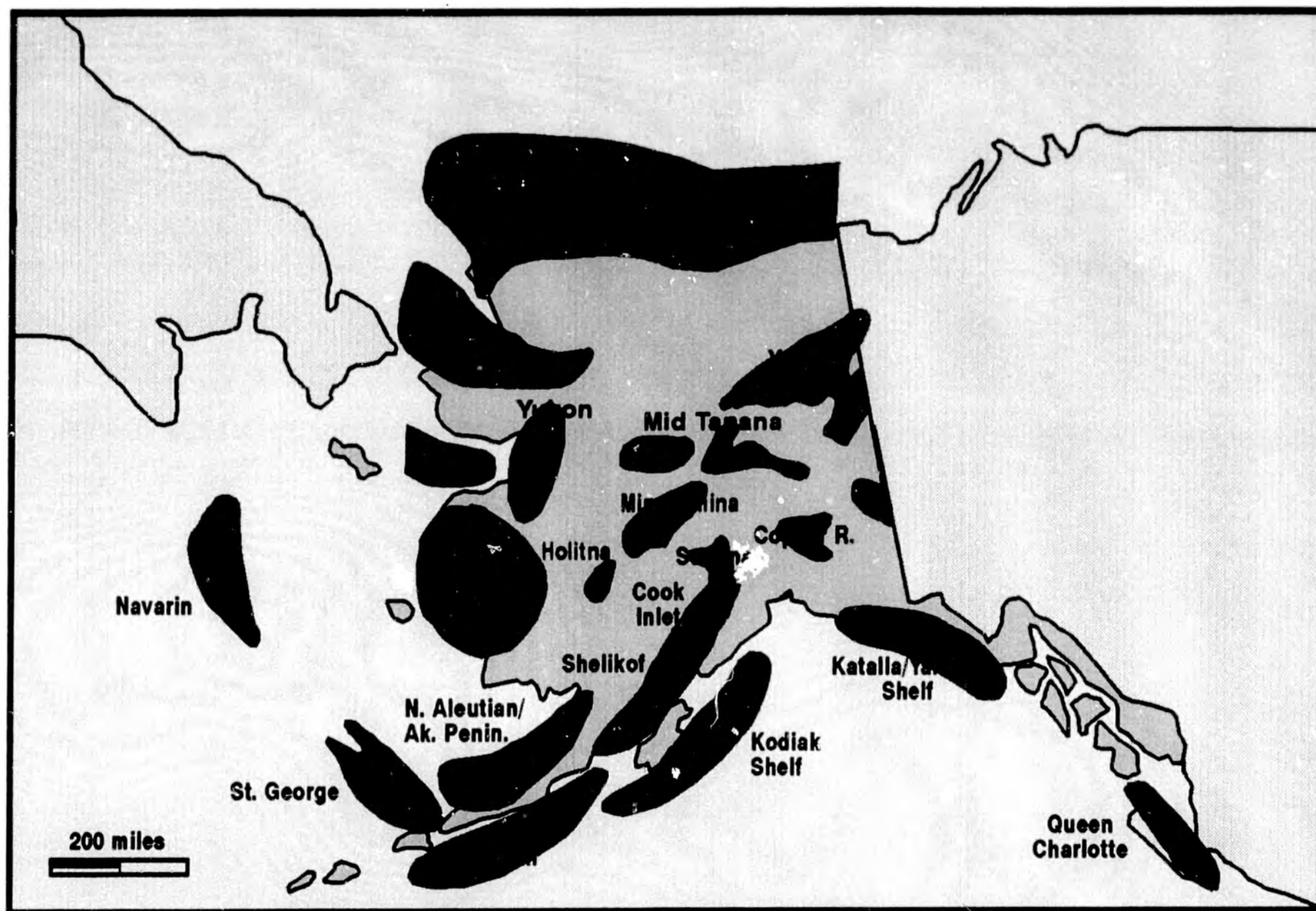
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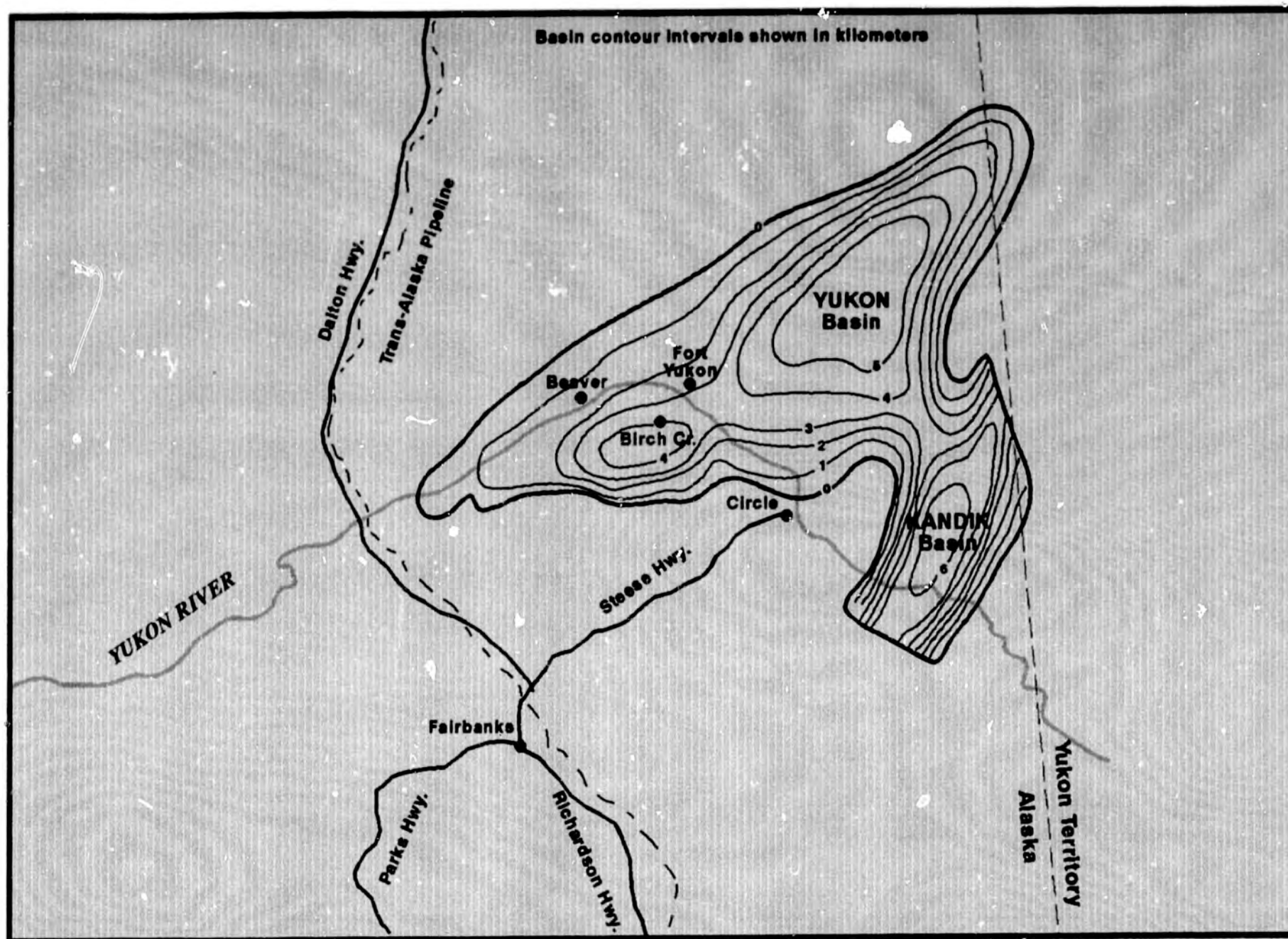
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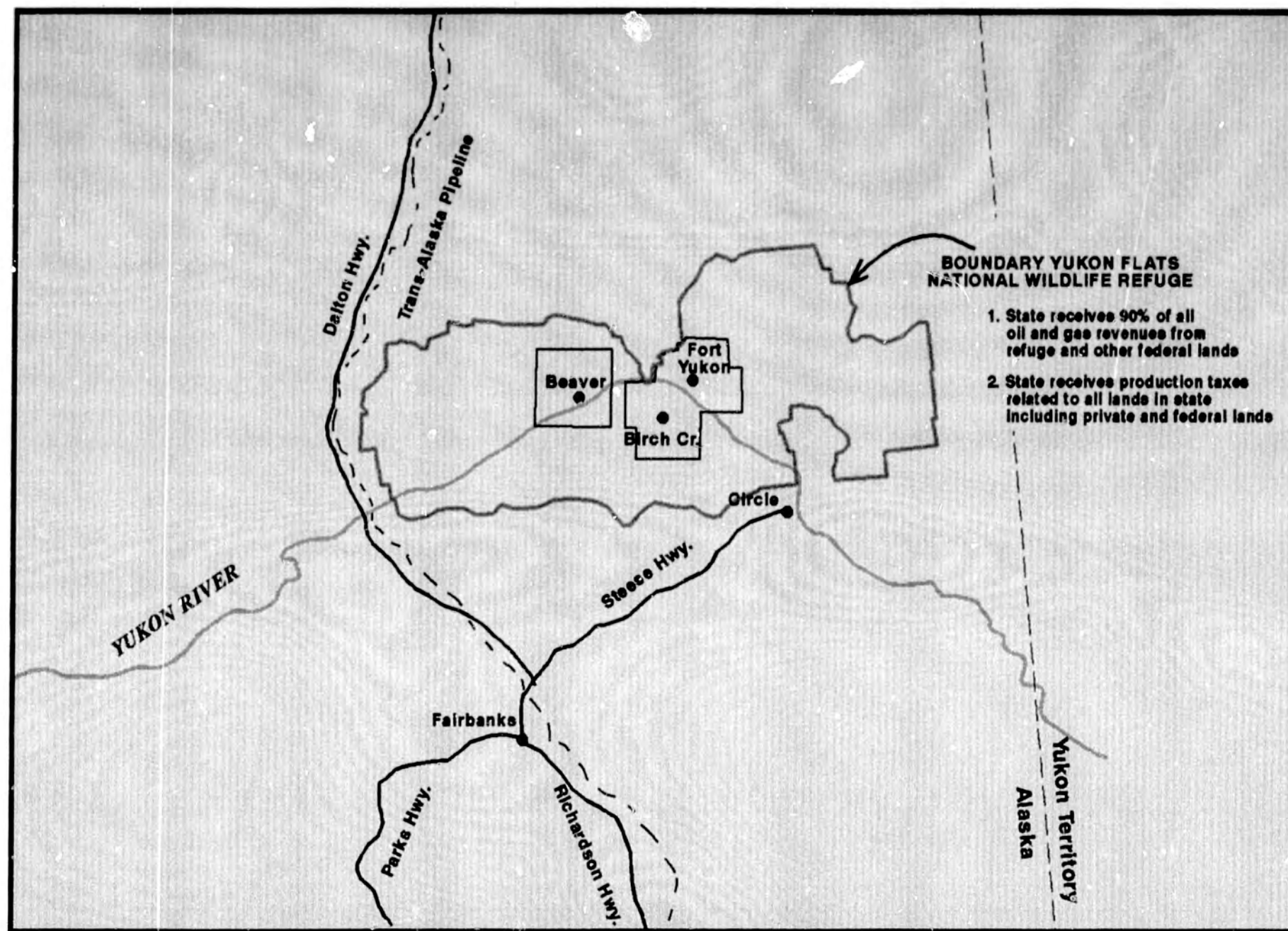
**EXAMPLE OF STATE OF ALASKA'S
ECONOMIC INTERESTS IN PETROLEUM PRODUCTION
FROM PRIVATE AND FEDERAL LANDS**



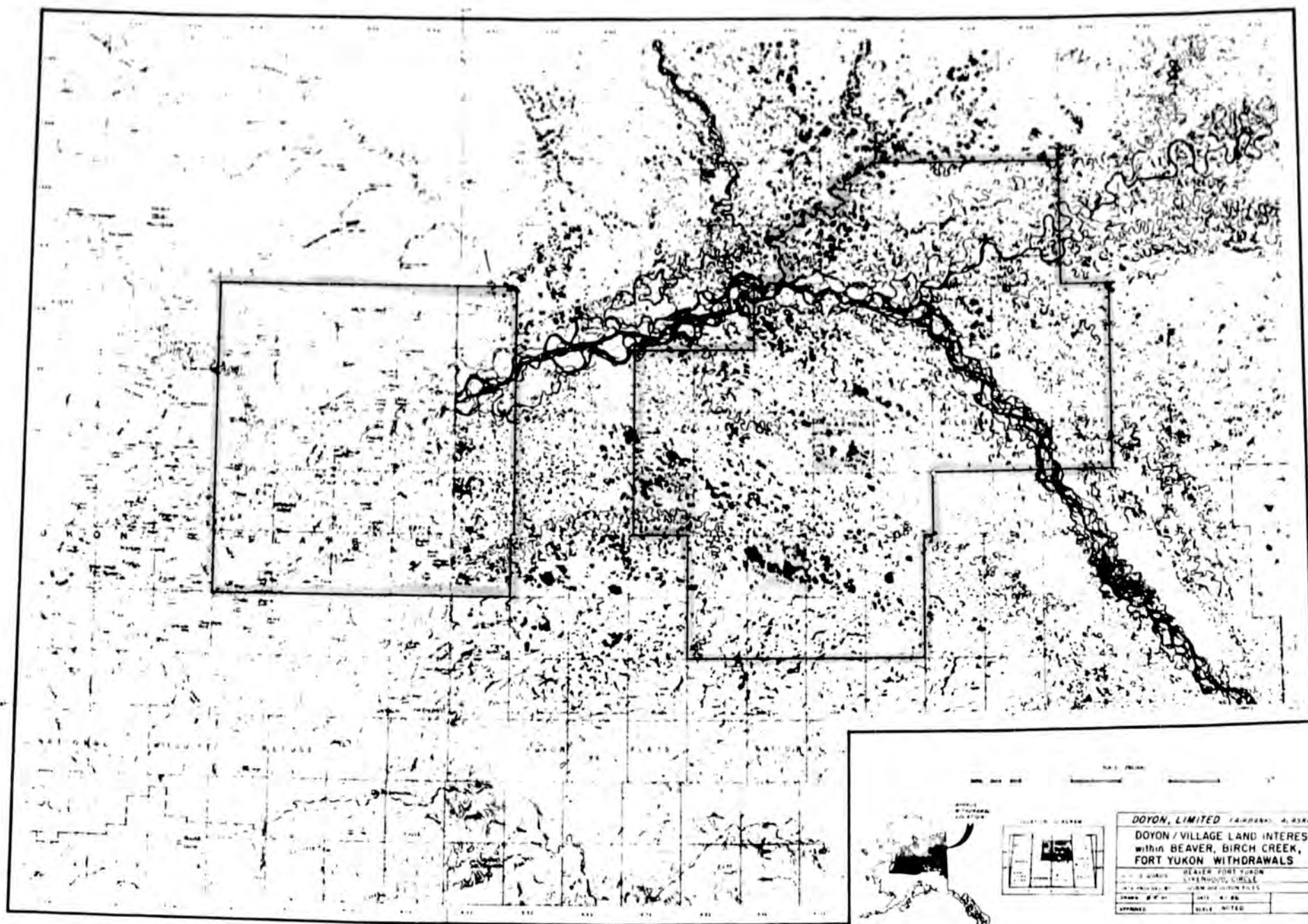
SEDIMENTARY BASINS

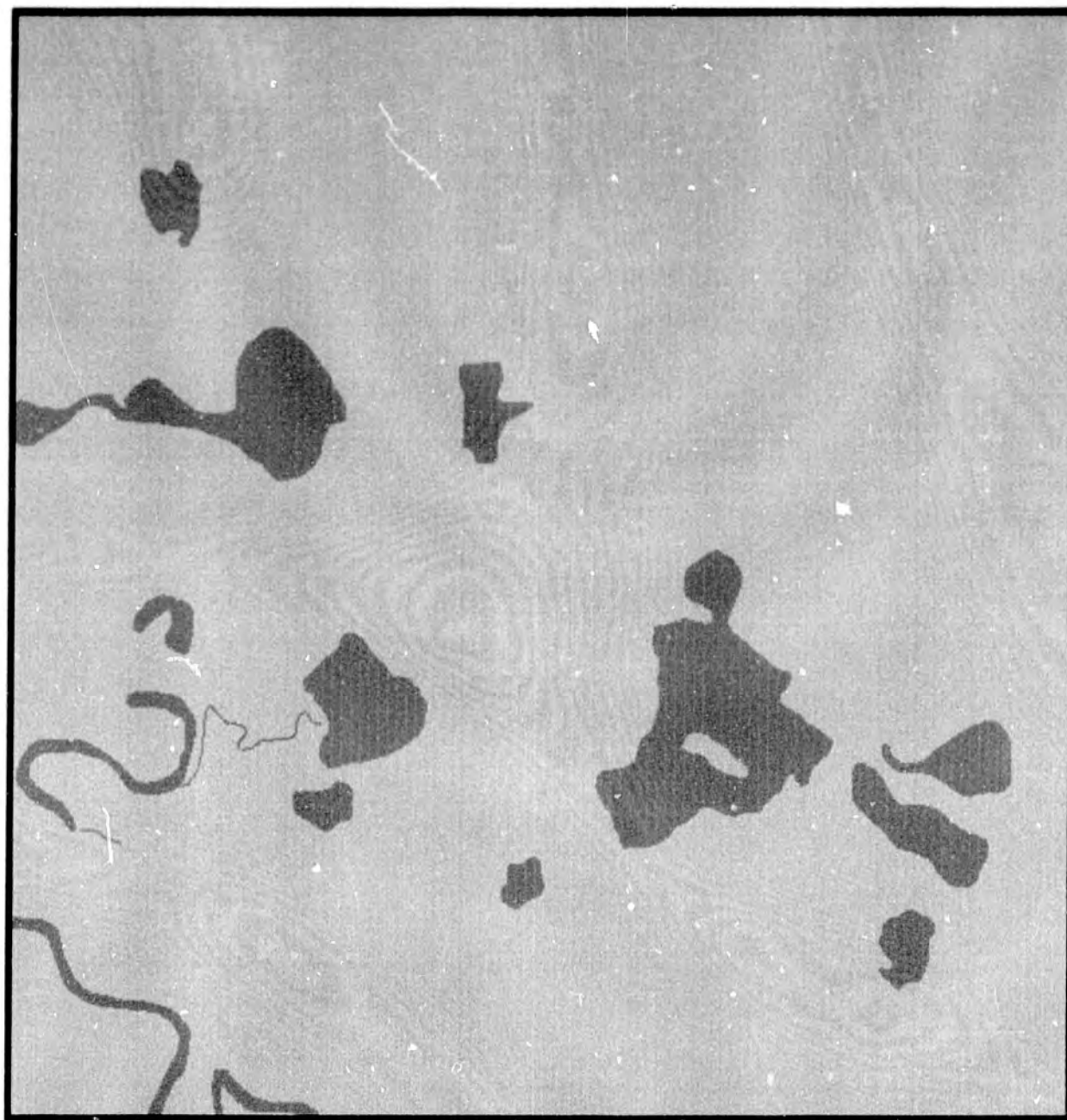


YUKON / KANDIK BASINS



CERTAIN PRIVATE LANDS WITHIN YUKON FLATS N.W.R. AND YUKON KANDIK BASINS





**FORT YUKON
BIRCH CREEK BLOCK**



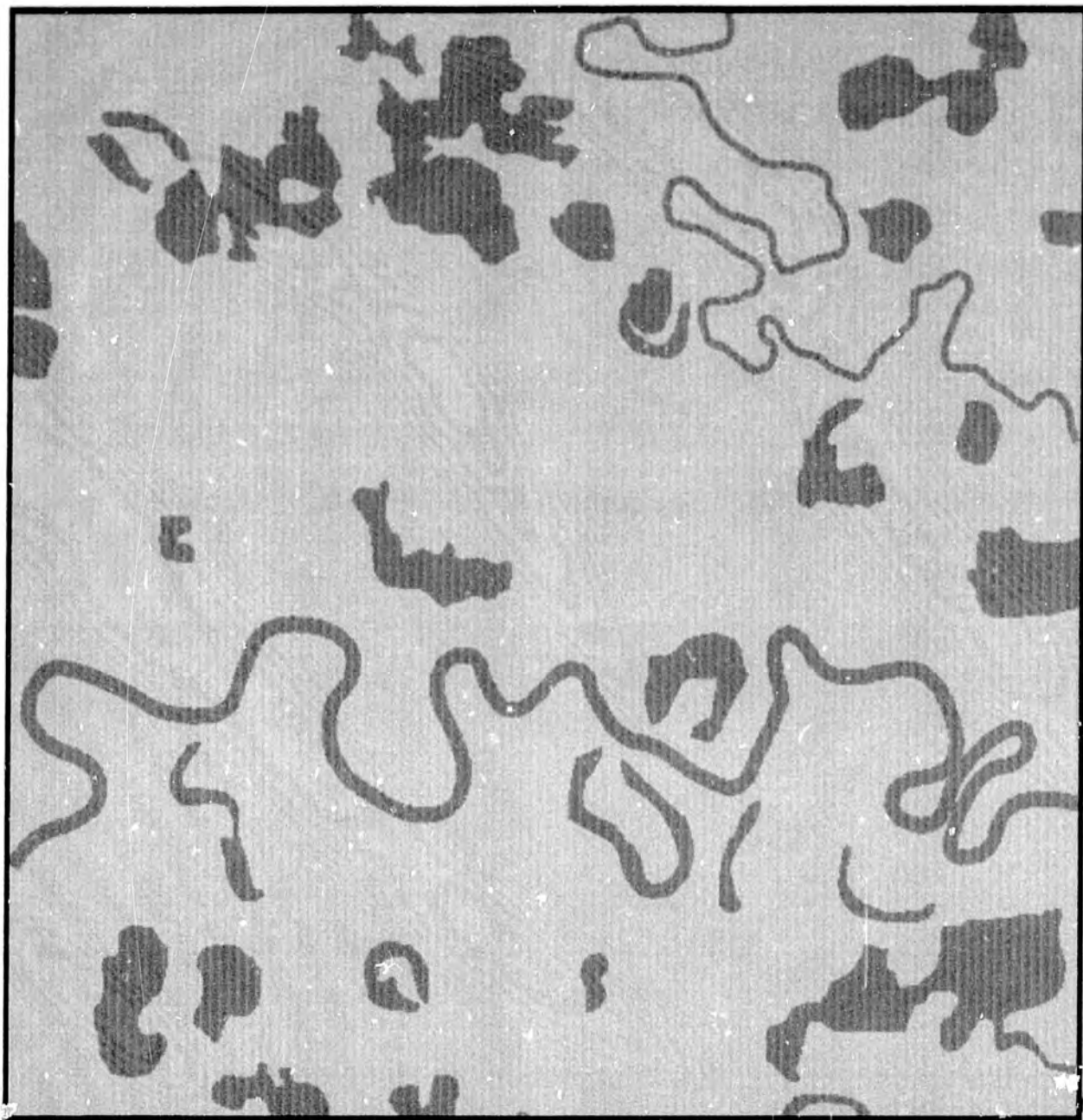
Total Area	22,853
Uplands	21,047
Aquatic Lands	1,806

RATIO:

Upland	92%
Aquatic Land	8%



Township T. 18 N. R. 10 E.



**FORT YUKON
BIRCH CREEK BLOCK**

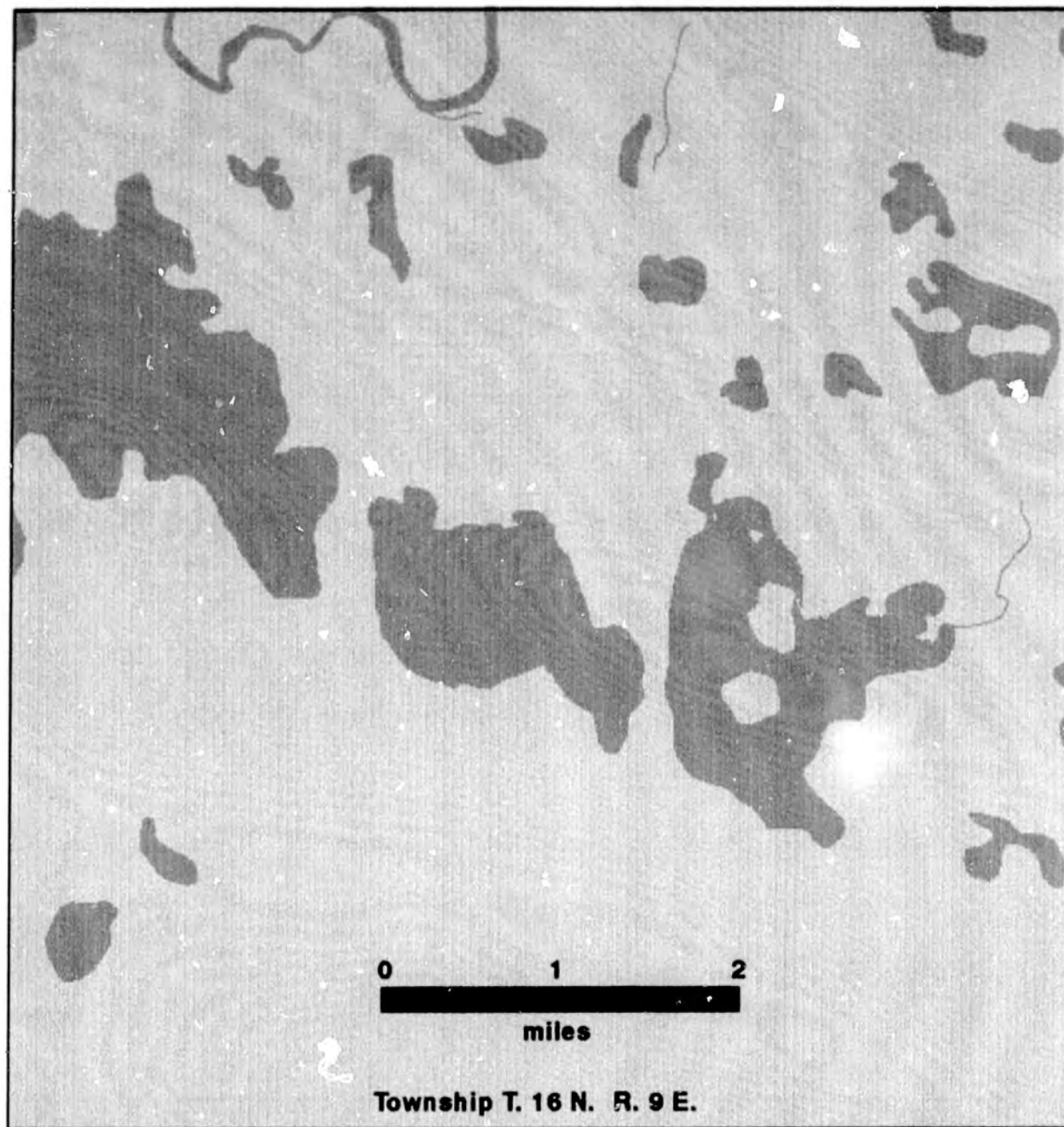


Total Area	22,950
Uplands	19,138
Aquatic Lands	3,812

RATIO:	
Upland	83%
Aquatic Land	17%



Township T. 17 N. R. 7 E.



**FORT YUKON
BIRCH CREEK BLOCK**



Total Area	22,919
Uplands	19,118
Aquatic Lands	3,801

RATIO:	
Upland	83%
Aquatic Land	17%

ANALYSIS OF AQUATIC LANDS IN SAMPLE TOWNSHIPS

(AREAS ARE IN ACRES)

TOWNSHIP	RANGE	TOTAL AREA	UPLAND AREA	AQUATIC LAND AREA	PERCENTAGE OF UPLANDS	PERCENTAGE OF AQUATIC LANDS
T16	R9	22,919	19,118	3,801	83%	17%
T17	R7	22,950	19,138	3,812	83%	17%
T18	R10	22,853	21,047	1,806	92%	8%

CRITERIA:

- WATER BODIES GREATER THAN 20 ACRES
- FLOWING RIVERS AND STREAMS

HYPOTHETICAL REVENUE CALCULATIONS

Location:

Yukon Flats Basin, approximately 70-90 miles from TAPS.

Ownership:

Productive acreage is a combination of (1) federal and Native corporation uplands and submerged lands beneath non-navigable waterbodies, and (2) State of Alaska submerged lands beneath navigable waters. The state would own 100% of the oil and attendant revenues associated with the submerged lands beneath all navigable waters within both the federal and private lands. The State also would receive 90% of all bonuses, rentals and royalties from the federal uplands; for this reason, the remaining 10% federal interest will be ignored in the calculations below.

Because of the large number of waterbodies on federal and private lands in the Yukon Flats Basin and because of the 90% federal sharing requirement, assume that each of the State of Alaska and the Native corporations would receive 50% of all royalty revenues. Current upland ownership status, when overlaid by DNR's own oil and gas basin map, would seem to validate the reasonableness of this order of magnitude example. Other examples, some even more favorable to the state, could be applied to the Yukon Flats, Central Arctic and other Interior basins.

Production:

100,000 barrels per day, 36.5 million barrels per year. As a frame of reference, Endicott produces about 100,000 barrels per day.

Royalty Rate:

12.5%; no calculation of bonuses or rentals, or state income taxes or multiplier values, though possibly substantial.

Wellhead or Gross Value:

\$12 per barrel.

Revenues:

Millions of \$ per year

	<u>State</u>	<u>Private</u>	<u>Producers</u>
Royalty	27.4	27.4	(54.8)
Production Tax	41	(2.7)	(38.3)
Cons. Surcharge	1.7	(.1)	(1.6)
EP&PTP Taxes	10	-0-	(10)
Cons. Tax	.2	(.01)	(.2)
Yearly Totals	80.3	24.6	(104.9)

Notes:

1. Native corporations and state royalty shares of yearly production: 2,281,250 barrels each (6.25% x 36,500,000 barrels)
2. State royalty share free of production, conservation surcharge and conservation taxes; AS 43.55.900(13)
3. Yearly shares of production (private and producers) not exempt from production, conservation surcharge and conservation taxes: 34,218,750 barrels (2,281,250 private barrels plus 31,937,500 producers barrels)
4. Production tax at 10% of wellhead value, representing application of an economic limit factor similar to the one used at Endicott; AS 43.55.011, AS 43.55.013
5. Conservation surcharge at \$0.05 per barrel; AS 43.55.200
6. EP&PTP taxes at 20 mills on facilities of \$500 million; AS 43.56.018
7. Conservation tax at 5 mills per barrel; AS 43.57.010

AneboVage

TESTIFIER

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1. JAMES HANSEN/DIV OF OIL & GAS	PO BOX 107034 99510	762-2588	SB302

2.

3.

4.

5.

OBSERVER

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1.			