

SCOMM

93:19

FISCAL NOTE

No. 1

STATE OF ALASKA 1993 LEGISLATIVE SESSION

BI

Bill Version: SB151

(S) Publish Date: 3-5-93

Revision Date:

Dept. Affected:

Revenue

Title:

Oil & Gas Exploration Incentive Credits

BRU:

Revenue Operations

Component:

Oil & Gas Audit Division

Sponsor: Governor

Requestor: Governor

COMPONENT SERIAL NO. 115

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
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						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE:						
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: \$

ANALYSIS: (Attach a separate page if necessary)

* Over the 15 year term exploration credits could total between \$0 and \$50 million. It is impossible to predict the actual year of amount.

Prepared by:

Rod R. Maurant

Division:

Commissioner's Office

Approved by Commissioner:

Darrel J. Rexwinkel

Agency:

Revenue

Phone: 465-2300

Date: 3/2/93

Date: 3/2/93

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**STATE OF ALASKA
1993 LEGISLATIVE SESSION**

FISCAL NOTE

No. 2

Bill Y on: SB 151

(S) Publish Date: 3-5-93

Revision Date Original Department Affected: Natural Resources
 Title: "An Act providing for exploration incentive
credits for certain activities on certain land in the state" BRU: Resource Development
 Sponsor: Senate Rules for the Governor Components: Oil & Gas Development
 Requestor: _____ Component Serial No. 439

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
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	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE fund source:	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: \$ No fiscal impact anticipated

ANALYSIS:

(Attach a separate page if necessary)

As the fiscal note indicates, there is no fiscal impact to the Department of Natural Resources related to this proposed bill. There would be, however, a potential reduction in the revenue stream to the state which should be reflected in the fiscal note prepared by the Department of Revenue.

Prepared by: Jim Eason, Director Phone: 762-2547
 Division: Oil & Gas Development Date: 2-Mar-93
 Approved by Commissioner: Glenn A. Olds Date: 2-Mar-93
 Agency: Department of Natural Resources

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HB200
SB 151

March 25, 1993

SENT VIA FAX

Senator Loren Leman, Chairman
Senate Special Committee on Oil and Gas
State Capitol
Juneau, AK 99801-1182

Representative Joe Green, Chairman
House Special Committee on Oil and Gas
State Capitol
Juneau, AK 99801-1182

Dear Senator Leman and Representative Green:

Last week in a letter dated March 18, 1993 we registered our concerns regarding the identical exploration incentive credit bills pending in the Senate and House Special Committees on Oil and Gas (HB200/SB151). Our comments were directed at confidentiality of data and the disparate treatment of state, private and federal lands. A copy of our letter (without enclosures) follows.

With today's letter we offer suggested amendments which we believe would remedy the problems we see with the two bills (using SB151, draft SB0151a, as a reference):

Page 2, line 19. Delete sentence beginning at line 19 which ends on line 22.

Page 2, line 23. Delete "other".

Page 2, line 27. Delete "those", insert "geophysical"; after the word "data" add "not obtained from a stratigraphic test well or exploratory well".

Comment: Preserves drilling data status quo; drilling data under SB151/HB200, regardless of associated land ownership, would be treated as is drilling data under the existing exploration incentive credit program. Unlike the existing program, allows DNR to release geophysical data gathered from surface programs, but not downhole data. Under current state law there is a mechanism for release of drilling data, but not for surface geophysical data. SB151/HB200 would allow for such a release under certain conditions.

March 25, 1993

Page 2 of 2

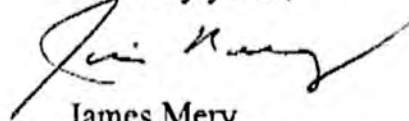
Page 3, line 3. End sentence at "costs"; delete remainder of sentence, through line 5.

Comment: Removes arbitrary distinction among landowners; grants DNR commissioner discretion to weigh fully the State's interests before approving credits of up to fifty percent of eligible costs.

For your convenience we have enclosed copies of pages two and three of SB151 which have been marked up to show the above suggested changes.

We appreciate your consideration of this important matter.

Sincerely yours,



James Mery
Senior Vice President
Lands and Natural Resources

Enclosures

xc: Senator Halford
Senator Sharp
Senator Adams
Senator Salo
Senator Miller
Senator Frank
Senator Georgianna Lincoln
Representative Kott
Representative Olberg
Representative Davis
Representative Sanders
Representative Sitton
Representative Mackie
Representative Williams
Morris Thompson, President, Doyon, Ltd.

(b) An exploration incentive credit extended under (a) of this section may be applied against

(1) a payment or obligation against which a 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 may be extended under (a) of this section to a qualified applicant if

(1) application for the exploration incentive credit is made by the qualified applicant to the commissioner and is approved before drilling or geophysical work commences;

(2) all geophysical work is performed, and all stratigraphic test wells or exploratory wells are drilled, after the effective date of this section and before July 1, 2003; and

(3) copies of all raw and processed data derived from drilling a stratigraphic test well or exploratory well or performing geophysical work are provided by the qualified applicant to the commissioner within 30 days after the completion, abandonment, or suspension of the well or completion of the geophysical work.

(d) ~~Data derived from drilling a stratigraphic test well or exploratory well that is provided to the commissioner under (c)(3) of this section shall be kept confidential for 24 months after receipt by the commissioner unless the owner of the well gives written permission to the state to release the well data at an earlier date. The provisions of AS 38.05.035(a)(9)(C) apply to ~~other~~ data provided to the commissioner under (c)(3) of this section, except that the commissioner, under appropriate confidentiality provisions and without preference or discrimination, may display to all interested third parties, but may not distribute or transfer in hard copy or electronic form, these data with respect to all land if the commissioner determines that the limited disclosure is necessary to further the interest of the state in evaluating or developing its land.~~

geophysical

(e) The amount of an exploration incentive credit extended under (a) of this section is determined by the commissioner and must be based on eligible costs.

not obtained from a stratigraphic test well or exploratory well

1 approved by the commissioner, of performing geophysical work, drilling a stratigraphic
2 test well, and drilling an exploratory well. The amount of an exploration incentive
3 credit may not exceed 50 percent of eligible costs, ~~relating to activities performed on~~
4 ~~state owned land and 25 percent of eligible costs relating to activities performed on~~
5 ~~land in the state not owned by the state.~~

6 (f) The amount of an exploration incentive credit extended under (a) of this
7 section may not exceed \$5,000,000 per eligible project, as defined by the
8 commissioner by regulation. The total of all credits extended by the commissioner
9 under (a) of this section may not exceed \$50,000,000.

10 (g) An exploration incentive credit must be used within five years after it is
11 extended under (a) of this section, and may be assigned by the qualified applicant to
12 any other person for the purposes described in (b) of this section.

13 (h) Amounts due the permanent fund under AS 37.13.010 shall be calculated
14 before the application of a credit extended under (a) of this section.

15 Sec. 41.09.170. REGULATIONS. The commissioner may adopt regulations
16 necessary to implement AS 41.09.100 - 41.09.190.

17 Sec. 41.09.180. RELATIONSHIP TO AS 38.05. Nothing in AS 41.09.100 -
18 41.09.190 affects the exploration incentive credit system provided for in
19 AS 38.05.180(i).

20 Sec. 41.09.190. DEFINITIONS. In AS 41.09.100 - 41.09.190,

21 (1) "eligible costs" means those direct costs incurred for activities in
22 support of an exploration program, based upon the footage drilled or miles surveyed,
23 that are reasonable in amount for the area of the state in which a well is drilled or
24 geophysical activity is conducted;

25 (2) "exploratory well" means a well drilled for the purpose of oil and
26 gas exploration that is

27 (A) located three or more miles from another well drilled for
28 oil and gas, with all distances measured as the horizontal distance between
29 exploration targets (bottom hole distance); or

30 (B) within three miles of a well drilled for oil and gas, but tests
31 potential hydrocarbon traps that the commissioner, after analyzing evidence



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March 18, 1993

Senator Loren Leman
Chairman
Senate Special Committee on Oil and Gas
State Capitol
Juneau, Alaska 99801-1182

Representative Joe Green
Chairman
House Special Committee on Oil and Gas
State Capitol
Juneau, Alaska 99801-1182

Dear Senator Leman and Representative Green:

The purpose of this letter is to provide comments on the identical exploration incentive credits bills offered by the Governor and presently being considered by the House and Senate Special Committees on Oil and Gas (HB200/SB151).

These comments are offered on behalf of Doyon, Limited. Doyon is the largest private land owner in Alaska and has over 13,000 shareholders, most of whom are resident in the state. Doyon's major business activities include natural resource development of its own lands and North Slope oil field drilling through its wholly owned subsidiary Doyon Drilling, Inc.

BACKGROUND

Doyon, the State of Alaska and the federal government collectively have extensive land holdings in several sedimentary basins in Interior Alaska with oil and gas development potential. Indeed, Doyon has worked very hard in recent years to attract oil company exploration dollars to its lands, with only limited success. The same can be said for some of the state lands in these basins. It is our real world experience that the financial and geological risks associated with these underexplored and often undrilled basins in Alaska cannot compete with opportunities overseas where governments offer a virtual menu of financial incentives to explore risky areas. The Hickel Administration seemingly agrees with that notion.

Given this common ground, we and other private landowners worked closely last year with Commissioner Heinze and supported exploration incentive legislation similar in purpose to HB200/SB151, i.e., extension of the state's existing exploration incentive credit program (available only for state owned lands under oil and gas leases) to all lands in the state, be they private, federal or unleased state lands. That bill passed the Senate 18-0 and its House counterpart was making its way through that body when the session ended.

We note that several significant and ill advised changes have been made to HB200/SB151, when compared to last year's proposed legislation. As explained more fully in the paragraphs that follow, it is our opinion that these changes will have the effect of making the bill unattractive, at best, with respect to drilling activities on eligible state lands. It will be useless for most federal and private lands. Moreover, the disparate treatment of federal and private lands is a display of arbitrariness based on a less than full understanding of the State's financial and land ownership interests associated with oil and gas development.

CONFIDENTIALITY

In a very significant departure from both the State's current exploration incentive program and last year's proposed legislation, HB200/SB151 would require drilling data be made public after two years. Under the current program, that decision is properly left to the statutorily limited discretion of the Department of Natural Resources through the Alaska Oil and Gas Conservation Commission which may extend the confidentiality period upon certain showings. See, AS 31.05.0359(c). It is noteworthy that the Alaska Supreme Court recently affirmed the principle that during this period of confidentiality state government has full access to the drilling data and may use it internally for all proprietary purposes such as planning. See, *State of Alaska v. Arctic Slope Regional Corporation, et al.*, Opinion No. 3776, November 22, 1991.

As you know, drilling an exploration or stratigraphic test well in a remote, rank wildcat area of Alaska is a very expensive and risky investment. But the returns could be handsome. That is why the State is proposing to "invest" in this kind of drilling on a limited basis by means of tax and royalty credits of up to fifty percent of drilling costs.

Yet for most if not all of the targeted areas, we do not think that the State will be able to find a drilling "partner" if downhole data is automatically made public within two years. One obvious purpose of investing private, risk capital is to gain a competitive advantage. Why would one drill in the first instance if valuable information will be given to the competition before advantage is obtained and utilized? The current exploration incentive program embraces these considerations and strikes the appropriate balance between public and private interests; so should HB200/SB151.

ARBITRARY ALLOCATION OF AMOUNT OF AVAILABLE CREDITS

In working with Commissioner Heinze on last year's exploration credit bill we had the opportunity to explain the full breadth of the State's economic interests in oil and gas production from private and federal lands. Certain facts are often overlooked which can lead to narrow, erroneous conclusions and shortsighted public policy. We believe that our discussions with Commissioner Heinze on these matters played a major role in his decision to include in last year's bill the availability of a fifty percent (maximum) credit to all lands, not just those owned by the State of Alaska as now proposed in HB200/SB 151.

In those discussions, several points were made.

1. The several state production taxes are paid regardless of landownership. On private lands the royalty owner and the producer both pay production taxes (the State as royalty owner does not).
2. The State will receive ninety percent of all oil and gas revenues from federal lands (with the possible exception of ANWR which is not a target of the proposed program).

3. Private lands in certain basins are sometimes adjacent to State uplands. The Nenana and Minchumina Basins are good examples. And, the most prospective acreage in a basin can be a combination of State and private lands. See the enclosed map depicting land ownership and gravity information of the Nenana Basin (enclosure no. 1). The oval feature and the area surrounding it northwest of Nenana is prospective for natural gas and possibly oil. It would be highly unlikely that drilling of a discovery well on private lands would not have a major, positive impact on development of adjacent State lands. The same can probably be said for federal lands adjacent to State lands.
4. The State owns the oil and gas beneath submerged lands covered by waters navigable at time of Statehood. Substantial percentages of federal and private lands in underexplored sedimentary basins are covered by waterbodies which the State claims to be navigable. Enclosed are map examples of several townships in the Yukon Flats Basin near Birch Creek which are representative of larger waterbodies within federal and private lands there (enclosures 2, 3, and 4). It is worthwhile considering that were discoveries made in the Yukon Flats, where there are no State uplands, production could very well come from a combination of private and federal uplands together with State submerged lands. It is not an unreasonable scenario to project that the State could be the big winner in an area such as the Yukon Flats, all without owning any uplands.
5. Private lands in some basins are often adjacent to federal lands (and State submerged lands within those federal lands). The major private landowners, the Native corporations, are well suited to the task of persuading the federal government to open federal lands to oil and gas leasing if discoveries are made on Native lands. Likely production economics would provide the incentive to do so, along with additional job opportunities for shareholders and the obvious fact that State oil and gas revenues however derived are good for all citizens of the State.
6. Developers often prefer to drill on private land because bureaucratic delays and regulatory hurdles are perceived to be less onerous, thereby accelerating exploration and development of an area with any number of State oil and gas ownership and other economic interests.

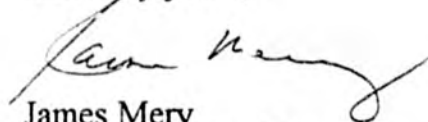
The above considerations clearly illustrate that the State, private and federal interests are often intertwined and the relevance of data gathered from private and federal lands can be just as valuable to the State as data from its own uplands. Yet HB200/SB151 unnecessarily restricts the commissioner's discretion to make those judgements by arbitrarily limiting the amount of tax and royalty credit to a maximum of twenty-five percent of drilling costs on private and federal lands.

Doubtless, there may be occasions where the alignment of interests is such that a credit of greater than twenty-five percent for drilling on private lands will not be warranted. But in other situations, the State's best interests could very well be best served by just such an allocation. The commissioner should be given the discretion to make those determinations.

SUMMARY

We respectfully request that the committees consider making two amendments to HB200/SB151. First, the confidentiality provisions should be made consistent with and not deviate from the current exploration incentive program. Second, the maximum tax and royalty credit of fifty percent of well costs should be made available for projects drilled on any and all lands. Thank you for taking the time to consider our opinions.

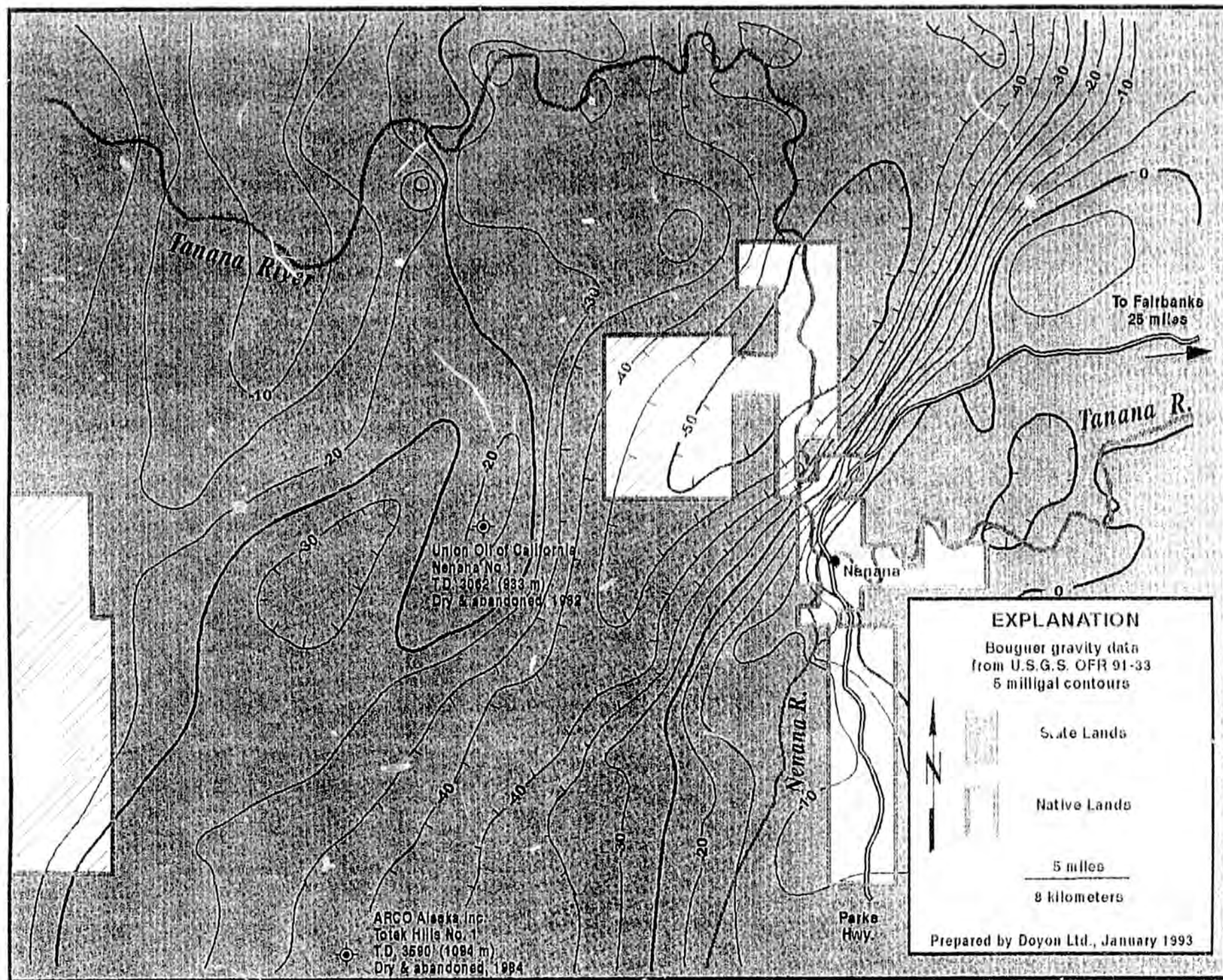
Sincerely yours,

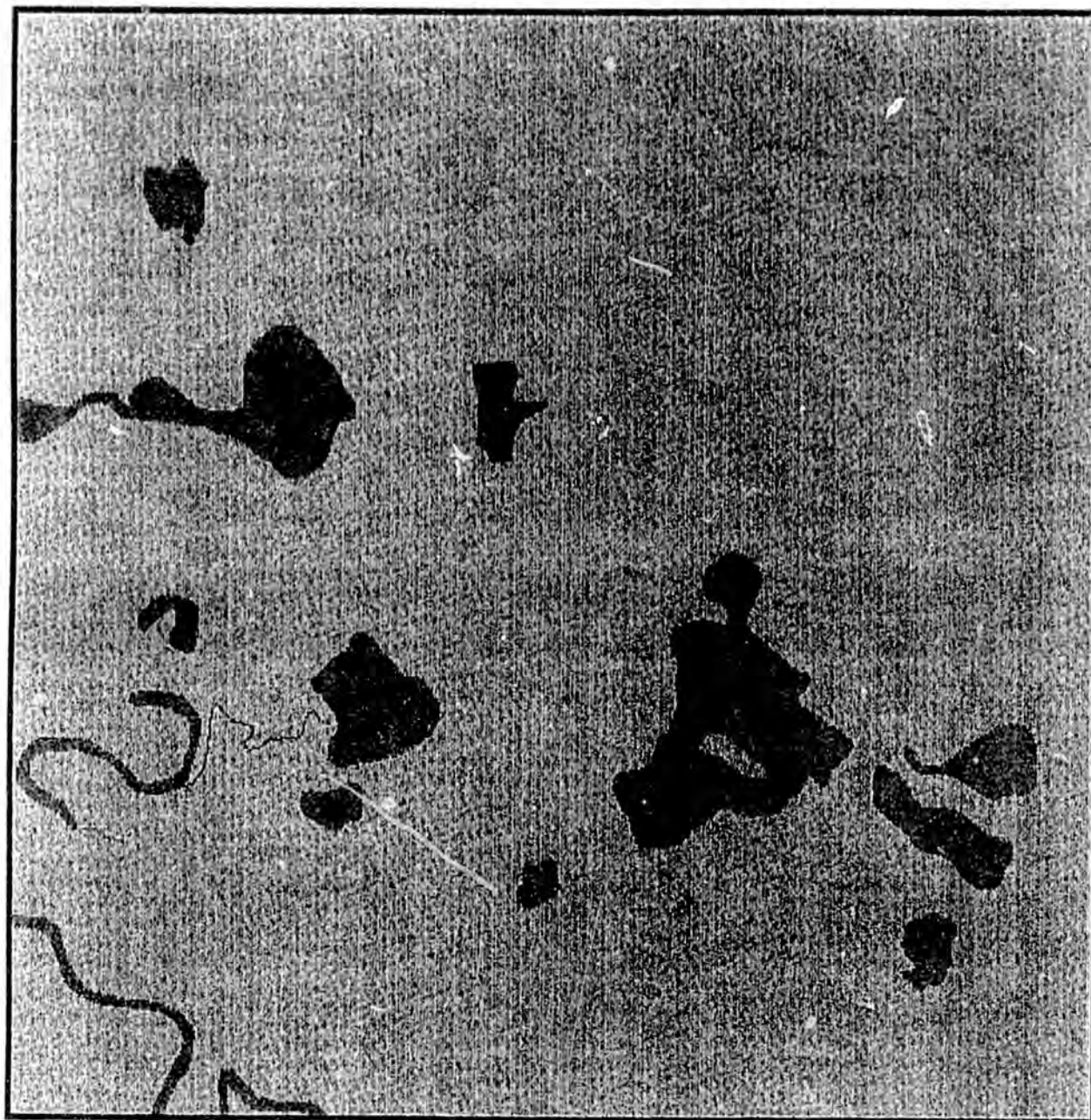


James Mery
Senior Vice President
Lands and Natural Resources

enclosures (4)

xc: Rep. Bill Williams, Chairman, House Resources Committee
Sen. Mike Miller, Chairman, Senate Resources Committee
Sen. Georgianna Lincoln
Sen. Bert Sharpe
Sen. Steve Frank
Rep. Irene Nicholia
Rep. Joe Sitton
Glenn Olds, Commissioner, DNR
Raga Elim, Special Assistant, DNR
Jim Eason, Director, DNR, Div. O&G
Morris Thompson, President, Doyon, Ltd.





BIRCH CREEK BLOCK

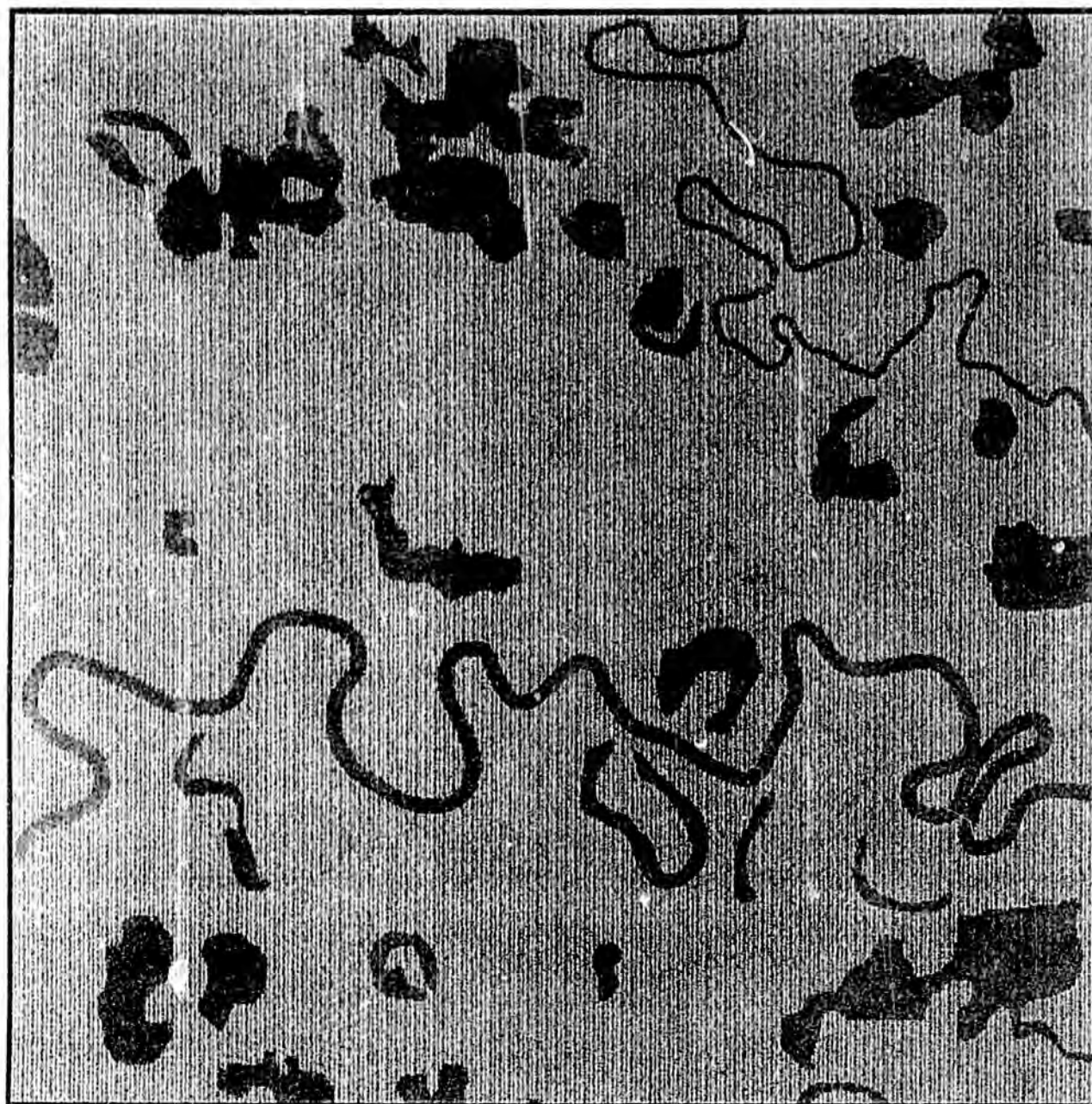


Total Area	22,853
Uplands	21,047
Aquatic Lands	1,806

RATIO:	
Upland	92%
Aquatic Land	8%



Township T. 18 N. R. 10 E.



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.



BIRCH CREEK BLOCK



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

RATIO:

Upland	83%
Aquatic Land	17%

FOUNDED 1975

Resource Development Council

for Alaska, Inc.

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RDC Testimony on SB151 in House Oil and Gas Committee, January 31, 1994:

Chairman Green and members of the Committee, on behalf of the Resource Development Council for Alaska, Inc. (RDC), thank you for the opportunity to testify in support of SB151, "an act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

Most people think of oil and gas from a production or development standpoint, but exploration is the lifeblood of the oil and gas industry. Exploration is the basis for development, with huge up front costs, many unknowns, and a high risk of failure. Alaska, although it is considered a premier oil and gas region, is still largely unexplored. Acreage is increasingly off-limits, or not offered for exploration.

SB151 will encourage exploration, broaden the scope of the present leasing program, encourage initial prospecting and give a true incentive to explore Alaska, including non-state lands.

RDC believes this bill:

- Encourages new players in exploring for Alaska's oil and gas resources.
- Encourages prospecting for small local targets, such as village natural gas.
- Enhances the value of nearby or adjacent state lands.
- Maximizes the odds of discovery since it will encourage exploration on the best geological targets regardless of land ownership.
- Provides a long-term economic strategy for a more stable resource development climate, making the state less dependent on mega-projects, which is less risky, more sound policy.

It should be noted that the state will receive severance taxes on development on any lands, so the state stands to benefit regardless of the location of any find.

In conclusion (and especially in light of recent judicial rulings on oil and gas lease sales), SB151 sends a clear signal that oil and gas is still viewed by many, including the Legislature and the Administration, as a key component of Alaska's long-term future.

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To Rep. Joe Green

From RDC



Resource Development Council

for Alaska, Inc.

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Congressman Don Young

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of pages 4

To Rep. Joe Green

From Billie Gull

Amendment to SB 151

January 31, 1994

IN THE HOUSE OIL & GAS COMMITTEE

Page 2, Line 14, after "July 1," delete "2003" and insert "2004".

Passed

Governor Hickel's Exploration Incentive Credit Bill

HB 200 & SB 151

The Exploration Incentive Credit Bill extends a program that already exists on State lands to all lands in the State. It provides a means for the State to obtain exploration data to which it would not normally be entitled. It may also encourage exploration on lands that will enhance the exploration of adjacent or nearby State lands.

Exploration Incentive Credits (EICs) are currently offered by the State as a means to encourage exploration on State lands. Under AS 38.05.180(i), the Commissioner of Natural resources may authorize the use of incentive credits to encourage exploration of state leases through either geophysical work or the drilling of a well. Geophysical EICs can be earned if the work is performed during the two seasons immediately preceding an announced lease sale on land included within the sale area, and if the geophysical work is made public following the sale. Drilling EICs are based on the footage drilled and the region in which the well is situated. The decision whether or not to offer credits is sale specific and is determined by evaluating the perceived geologic potential of the sale area as well as the perceived cost of exploration.

Under the current program, credits may not exceed 50 percent of the cost of drilling or geophysical work. Credits may be used during a limited period established by the commissioner and may be assigned during that period. Credits may be applied against oil and gas royalties and lease rentals or taxes payable under AS 43.55. A credit must not exceed 50 percent of the payment toward which it is being applied. Amounts due the Alaska Permanent Fund must be calculated before the application of credits.

Governor Hickel's proposal in HB 200 and SB 151 is to expand the current EIC program to all areas of the state, with certain modifications and restrictions. This new legislation provides an amount of \$50 million that may be used over a period of ten years, with each individual project capped at \$5 million. Credits of up to 50 percent on state-owned land and 25 percent on non state-owned land will be allowed. In contrast, the current EIC program has no time limit and no cap. The new legislation also provides for credits to be applied against income and other taxes in addition to the severance tax. The credits remain transferable under the provisions of this bill and, as with the current plan, amounts due the Permanent Fund must be calculated prior to application of any credits.

All data acquired under the EICs must be submitted to the commissioner. Well data will be held confidential for 24 months after submission, but no extension of this period of confidentiality will be allowed (i.e. all well data will become public 24 months after submission unless the company gives permission to release it sooner). Geophysical data will be allowed to be shown, but not transferred to, any interested party.

The Governor recognizes that activities on lands adjacent to, or nearby, State lands may significantly affect State land. This new legislation allows the commissioner discretion to provide credits to obtain data that the State otherwise would not be able to get. The State, by statute, can now get all seismic data gathered on State land only—but has no mechanism to obtain data on non-state owned land. The data obtained as a result of this legislation will enhance our knowledge of State lands, and the geophysical data may be used as a marketing tool to attract investors to State land.

Reasons to hold our ground on data confidentiality portion of EIC bill

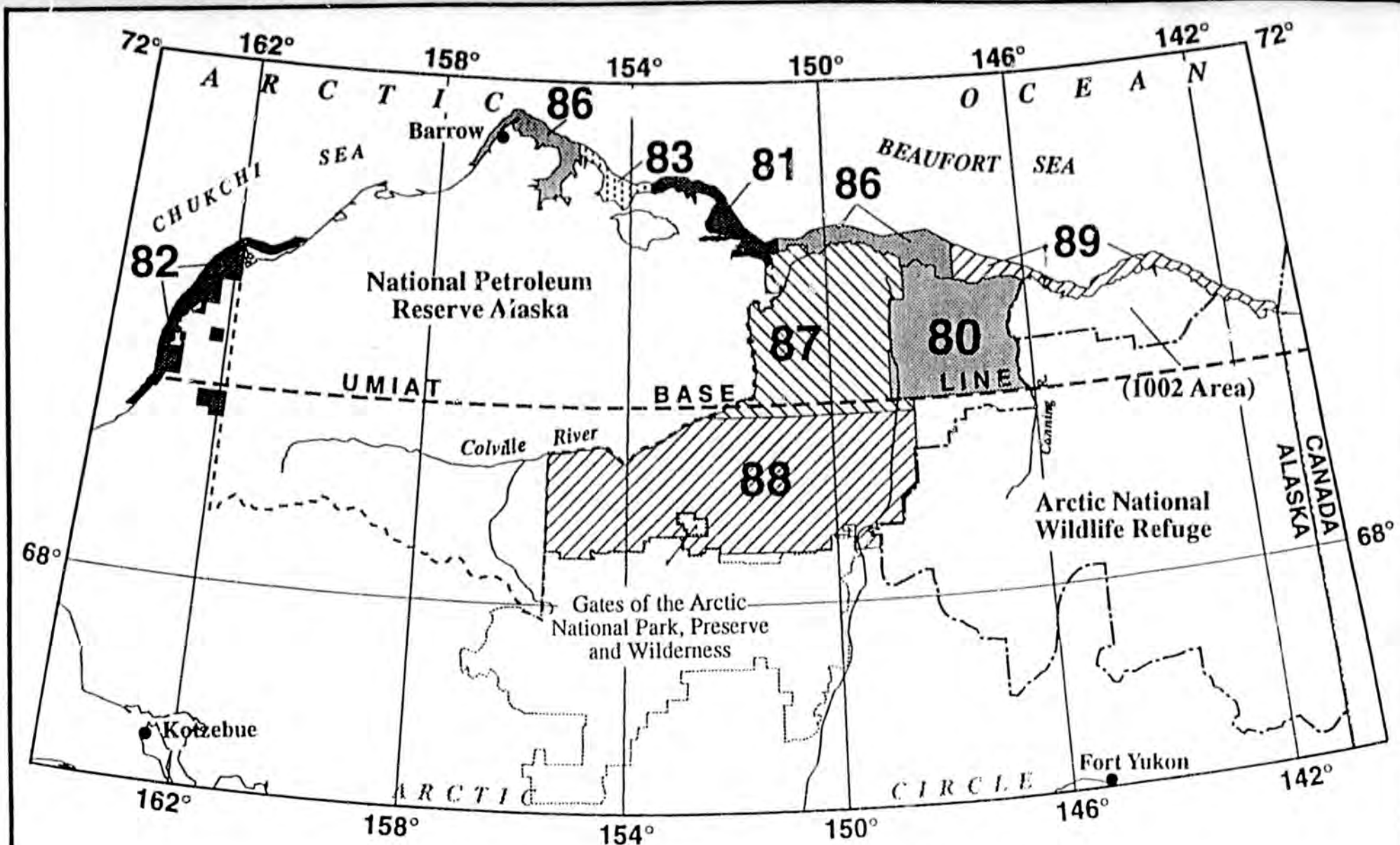
- Under current statute—on State land— we keep wells confidential for 2 years after receipt, but there are provisions for extended confidentiality. The major test for extended confidentiality is the location of the well with respect to adjacent (within 3 miles) unleased State land. Other wells (those that don't meet the 3 mile test) may be considered for extended confidentiality on a case-by-case basis. There has to be an exceptionally strong reason to grant this extension. Geophysical data EIC conditions are spelled out in Title 38, but the bottom line is that any geophysical data that receives an EIC must be released to the public after the lease sale. No EIC for geophysical data has ever been requested.

- The EIC Bill says that wells will be held confidential for two years and then released with no opportunity for extended confidentiality. Some groups would like to see the extended confidentiality provision remain. It should NOT because:

- The state is offering this credit, in large measure, to obtain data to which it would not normally be entitled. We intend to offer this credit ONLY in cases where we believe the data will benefit the understanding of state lands. If we pay some costs of obtaining this data we want to be able to use it as we see fit—that may include showing it to others for "marketing" purposes. Remember, the private land-owner will be able to do whatever it wants with the data. But, if we agree to extended confidentiality the state will be foreclosed from using the data in ways it may wish to. Further, how would the state be able to set the terms of extended confidentiality since we have no "standing" on private land. The data could conceivably be forced to be held confidential indefinitely while the land owner could do what it pleases with the data. If the private land owner wants to hold their data confidential they should NOT ask for a credit.

- The state would actually prefer to remove extended confidentiality from the statutes that cover state land. Bills to that effect have been entered in the past, supported by the administration, but failed to pass. Thus it is the intent of the state that extended confidentiality be removed in all cases.

Regarding the geophysical data—the state will show, but not distribute these data. This is much like computer software (you can show it but not give it away). This benefits the state and the contractor since the contractor will make his profit on additional sales; giving the data away negates any benefit the contractor may receive. The state maintains the right to show the data to anyone and everyone, so our purposes are served as well. I don't believe there has been any opposition to this.



North Slope Areas Proposed For Leasing

Sale	Date
80	11-94



Sale	Date
81	4-95
82	7-95
83	11-95



86	11-96
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Sale	Date
87	4-97
88	7-97
89	11-97



Scale 1: 5,000,000 Approx.

0 100 200 Miles

11/93

COMPARISON OF HB199, OCTOBER 25 DRAFT & PROPOSED HSE O&G CS (VERSION "I")

Prepared by O&G Committee Staff 1-28-94

	HB 199	October 25 Draft	Proposed O&G CS (version "I")
Geographical Restrictions	All state land with insufficient geological or geophysical information, unleased state land and land previously available for lease is available for exploration licensing.	Land north of the Umiat Baseline, certain areas of Cook Inlet, and the areas defined in pending lease sales 80, 87 & 88 are excluded. Other state land is available.	Land north of the Umiat Baseline, certain areas of Cook Inlet, and the areas defined in pending lease sales 80, 87 & 88 are excluded. Other state land is available.
Minimum Work Commitments	Must fulfill work commitment by the end of the license term.	Must complete at least 25% of work commitment by end of the 4th year.	Must complete at least 25% of work commitment by end of the 4th year.
Relinquishment	No requishment provisions.	No relinquishment required if 50% of work commitment is completed by end of 4th year. If 50% not completed by end of 4th year, 25% of the original acreage must be surrendered, with an additional 10% of the remaining acreage surrendered each year - to a maximum of 50%.	No relinquishment required if 50% of work commitment is completed by end of 4th year. If 50% not completed by end of 4th year, 25% of the original acreage must be surrendered, with an additional 10% of the remaining acreage surrendered each year - to a maximum of 50%.
Bonding	Bonding required for the total work commitment. If work commitment not completed, forfeit remaining amount of bond.	Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of license years remaining.	Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of license years remaining.
Competitive Bidding	Oral outcry auction. Bid awarded to highest work commitment expressed in dollars.	Competitive sealed bids. Award goes to highest dollar-amount work commitment. Allowed expenditures are defined by statute. (Depreciation, interest & insurance premiums are NOT allowed as an expense. Drilling, logging, testing and evaluating oil & gas wells are allowed as an expense.)	Competitive sealed bids. Award goes to highest dollar-amount work commitment. Allowed expenditures are defined by statute. (Depreciation, interest, & insurance premiums are NOT allowed as an expense. Drilling, logging, testing and evaluating oil & gas wells are allowed as an expense.)
Acreage Chargeability	License area of not more than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with 30,000 tracts. Not subject to AS 38.05.140(c) acreage limitations. Annual rental is \$3 per acre.	License area of not less than 20,000 acres, and not more than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with standard tract size. Subject to acreage limitations of AS 38.05.140(c). Annual rental is \$3 per acre. <i>for converted to lease</i>	License area of not less than 20,000 acres, and not more than 500,000 acres. Upon fulfillment of work commitment all or part of area can be converted to lease, with standard tract size. Subject to acreage limitations of AS38.05.140(c). Annual rental is \$3 per acre.

WALTER J. HICKEL
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P. O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500

March 5, 1993

*The Honorable Rick Halford
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182*

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill providing for monetary incentives in the form of certain credits to be applied against taxes and other obligations to the state for oil- and gas-related geophysical and exploratory activities performed by a qualified applicant. This bill should provide a valuable tool for the state to encourage oil and gas exploration in Alaska.

The bill amends AS 41 by adding a new chapter, 09. The bill would permit a qualified applicant to receive certain credits that could be used to offset taxes, royalties, or bonuses due the state, if the applicant performed certain defined exploratory work. The bill does not require that the exploratory work be done exclusively on state land, since development on other land also benefits the state in the form of additional jobs, increased economic activity, and development of infrastructure. The bill, though, allows a credit not to exceed 50 percent of the eligible direct costs of activities performed on state-owned land as opposed to 25 percent of those costs on other land, to encourage development on state land. The applicant would be able to assign the credit to any other entity, including banks and security holders. The commissioner of natural resources is authorized to grant up to a total of \$50 million for all incentive credits to applicants under this program, with no single project receiving more than \$5,000,000 in credits.

The Honorable Rick Halford

March 5, 1993

Page 2

The applicant also must submit to the commissioner copies of all data derived from the exploratory activity.

The commissioner may display, but not distribute or transfer, certain geophysical data to others to generate interest in development of state oil and gas reserves. The bill provides protection for confidential data submitted similar to that already existing in other state laws for oil and gas exploration information submitted to the state.

I urge your prompt and favorable consideration of this bill.

Sincerely,

A handwritten signature in cursive script, reading "Walter J. Hickel". The signature is written in dark ink and is positioned above the printed name and title.

Walter J. Hickel
Governor

April 22, 1993

EXCUSED: 0 ABSENT: 0

Jacko, Kelly, Leman, Miller, Pearce,

Kerttula, Lincoln, Little, Salo, Zharoff

to "Nay".

"Nay".

to "Nay".

se failed.

consideration.

145(STA) am was read the third time.

FOR SENATE BILL NO. 145(STA)
 position of state medical examiner; and
 certificates" pass the Senate?" The
 ing result:

EXCUSED: 0 ABSENT: 0

, Ellis, Frank, Halford, Jacko, Kelly,
 , Pearce, Phillips, Rieger,

BILL NO. 145(STA) am passed the

145(STA) am was referred to the

read the third time.

April 22, 1993

1675

SB 151

The question being: "Shall SENATE BILL NO. 151 "An Act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date" pass the Senate?" The roll was taken with the following result:

SB 151

Third Reading - Final Passage

Effective Dates

YEAS: 14 NAYS: 6 EXCUSED: 0 ABSENT: 0

Yeas: Donley, Frank, Halford, Jacko, Kelly, Leman, Little, Miller,
 Pearce, Phillips, Rieger, Salo, Sharp, Taylor

Nays: Adams, Duncan, Ellis, Kerttula, Lincoln, Zharoff

and so, SENATE BILL NO. 151 passed the Senate.

Senator Taylor moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clauses. Without objection, it was so ordered.

Senator Jacko gave notice of reconsideration.

SB 198

SENATE BILL NO. 198 was read the third time.

The question being: "Shall SENATE BILL NO. 198 "An Act exempting certain activities of the Department of Transportation and Public Facilities from the regulation provisions of the Administrative Procedure Act and allowing other procedures for those activities; and providing for an effective date" pass the Senate?" The roll was taken with the following result:

SB 198

Third Reading - Final Passage

Effective Date