

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2272 SCOMM 93: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 1993

U.S.C. § 3717(a)(1) and (2). Interest on an overdue payment shall be paid in the same manner as the payment on which it accrued.

Reservations of Rights

30. This Agreement is the result of a compromise and does not constitute an admission of liability by any Party to this Agreement. Except as expressly stated in this Agreement, each Party reserves against all persons or entities all rights, claims or defenses available to it relating to or arising from the Oil Spill. Except as expressly stated in this Agreement, nothing in this Agreement is intended to affect legally the claims, if any, of any person or entity not a Party to this Agreement.

31. Nothing in this Agreement creates, nor shall it be construed as creating, any claim in favor of any person not a Party to this Agreement.

32. Except as explicitly stated herein, nothing in this Agreement alters, amends, modifies, or, in any way, affects the legal rights and duties of the Governments, on the one hand, and Alyeska or the Alyeska Owner Companies, on the other hand, under the Exxon Consent Decree.

33. Nothing in this Agreement alters, amends, modifies, or, in any way, affects the legal rights and duties under the following judgments or agreements:

(a) the Memorandum of Agreement and Consent Decree entered into between the United States and the State in United

States of America v. State of Alaska, Civil Action No. A91-081 CIV and approved by this Court in August 1991;

(b) the Agreement between the State of Alaska, the United States and Plaintiffs entered in The Native Village of Chenega Bay, et al. v. State of Alaska, 3AN-91-2344 Civil and approved and entered as a Final Judgment by the Alaska Superior Court in February 1992;

(c) the Consent Decree and Stipulation of Dismissal entered into between Alaska Natives and Native Interests, the United States and the State of Alaska in The Native Village of Chenega Bay, et al. v. The United States of America and The State of Alaska, Case No. A91-454 CIV and approved by this Court on January 17, 1992;

(d) the Agreement between the TAPL Fund and the State made on February 24, 1992 which contains mutual releases and covenants not to sue subject to an exception for AS 43.75 revenues specified therein and the Stipulation of Dismissal with Prejudice and Order executed by the United States and the TAPL Fund on February 13, 1992; and

(e) the State's Right-of-Way Lease for Trans-Alaska Pipeline and the United States' Grant and Agreement of Right-of-Way for Trans-Alaska Pipeline.

34. Except as explicitly stated herein, nothing in this Agreement alters, amends, modifies, or, in any way, affects the legal rights and duties of the Governments, on the one hand, and

Exxon Corporation or Exxon Shipping Company, on the other hand, under the Exxon Consent Decree.

Notices and Submittals

35. Whenever, under the terms of this Consent Decree, written notice is required to be given by one Party to another, it shall be directed to the individuals and addresses specified below, unless those individuals or their successors give notice of changes to the other Parties in writing.

As to the State of Alaska:

Attorney General
State of Alaska
Pouch K
Juneau, Alaska 99811

Supervising Attorney
Environmental Section
Department of Law
1031 W. Fourth Street, Suite 200
Anchorage, Alaska 99501

As to the United States:

Chief, Admiralty and Aviation Branch
Civil Division
U.S. Department of Justice
P.O. Box 14271
Washington, D.C. 20044-4271

As to Alyeska and the Alyeska Owner Companies:

Office of the President
Alyeska Pipeline Service Company
1835 South Bragaw Street
Anchorage, Alaska 99512

General Counsel
Alyeska Pipeline Service Company
1835 South Bragaw Street
Anchorage, Alaska 99512

To each of the Alyeska Owner Companies, at addresses to be supplied by Alyeska.

Election to Terminate

36. Any Party may elect to terminate this Agreement if: (a) a final judicial determination is made by any court of competent jurisdiction that this Agreement will not be approved and entered without modification; or (b) such court modifies this Agreement in a manner materially adverse to that Party prior to or contemporaneously with a final judicial determination approving this Agreement as modified. A Party electing to terminate this Agreement pursuant to this paragraph must do so within 10 days after an event specified in the preceding sentence, and shall immediately notify the other Parties of such election in writing by hand delivery, facsimile, or overnight mail. Termination of this Agreement by one Party shall effect termination as to all Parties. For purposes of this paragraph, "termination" and "terminate" shall mean the cessation, as of the date of notice of such termination, of any and all rights, obligations, releases, covenants, and indemnities under this Agreement.

Entry of Final Judgment

37. This Court finds that this Agreement is fundamentally fair, just and reasonable and directs that this consent decree be entered as a final judgment with respect to the claims against Alyeska, the Alyeska Owner Companies, Exxon Corporation and Exxon Shipping Company in State of Alaska v. Exxon Corporation, et al., Case No. A92-175 CIV. This Court directs that this consent

decree be entered as a final judgment in United States of America
v. Exxon Corporation, et al., Case No. A91-082 CIV.

Retention of Jurisdiction

38. The Court shall retain jurisdiction of this matter for the purpose of entering such further orders, direction, or relief as may be appropriate for the construction, implementation, or enforcement of this Agreement.

Miscellaneous

39. This Agreement can be modified only with the express written consent of the Parties to the Agreement and the approval of the Court.

40. Each undersigned representative of a Party to this Agreement certifies that he or she is fully authorized to enter into the terms and conditions of this Agreement and to execute and legally bind such Party to this Agreement.

THE FOREGOING Agreement and Consent Decree between the United States of America and the State of Alaska, on the one hand, and Alyeska and the Alyeska Owner Companies, on the other hand, is heraby APPROVED AND ENTERED THIS 25 DAY OF November, 1992.


Honorable H. Russel Holland
United States District Judge
District of Alaska

BURN, PEASE
& KURTZ
PROFESSIONAL CORPORATION
610 D STREET
ANCHORAGE, AK 99501
(907) 276-6100

AGREEMENT AND CONSENT DECREE
[SIGNATURE]

FOR THE STATE OF ALASKA

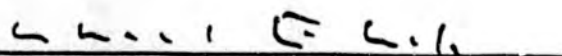
Date:

11-25-92


WALTER J. HICKEL
Governor
State of Alaska

Date:

11.25.92


CHARLES E. COLE
Attorney General
State of Alaska
Pouch K
Juneau, Alaska 99811

FOR THE UNITED STATES OF AMERICA

Date:

Nov 25, '92


STUART M. GERSON
Assistant Attorney General
Civil Division
U.S. Department of Justice
Washington, D.C. 20530

FOR ALYESKA AND THE ALYESKA OWNER COMPANIES

Date: November 25, 1992

ALYESKA PIPELINE SERVICE COMPANY

By: [Signature]
Its: General Counsel

Date: November 25, 1992

AMERADA/HESS PIPELINE CORPORATION

By: [Signature]
Its: Attorney in Fact

Date: November 25, 1992

ARCO TRANSPORTATION ALASKA, INC.

By: [Signature]
Its: Attorney in Fact

Date: November 25, 1992

BP PIPELINES (ALASKA), INC.

By: [Signature]
Its: Attorney in Fact

Date: November 25, 1992

EXXON PIPELINE COMPANY

By: [Signature]
Its: Attorney in Fact

Date: November 25, 1992

MOBIL ALASKA PIPELINE COMPANY

By: [Signature]
Its: Attorney in Fact

Date: November 25, 1992

PHILLIPS ALASKA PIPELINE
CORPORATION

By: *Gregory P. Stone*
Its: Attorney in Fact

Date: November 25, 1992

UNOCAL PIPELINE COMPANY

By: *Gregory P. Stone*
Its: Attorney in Fact

Date: November 25, 1992

Gregory P. Stone for
RONALD L. OLSON
Munger, Colles & Olson
355 South Grand Avenue
Los Angeles, California 90071
Attorney for Alyeska and
Alyeska Owner Companies
(except Exxon Pipeline Company)

Date: November 25, 1992

Randall J. Weddle
RANDALL J. WEDDLE
Faulkner, Banfield, Doogan &
Holmes, P.C.
550 W. 7th Avenue, Suite 1000
Anchorage, Alaska 99501
Attorney for Exxon Pipeline
Company

APPENDIX A

The settlement provides for the construction of docks and response storage facilities at Tatitlek and Chenega and the pre-positioning of oil spill response equipment at both locations. The exact nature of these projects cannot be known without more investigation and planning. Nevertheless, it is intended that these facilities be constructed in such a way as to facilitate the effective response to an oil spill in Prince William Sound.

As currently proposed, the docks at Tatitlek and Chenega would be constructed on land acquired from the villages, with title to the land and facilities and the responsibility for maintenance given to the villages or State as deemed appropriate by the State. The docks would be suitable for oil spill response use as well as limited use by the ferry MV Bartlett and would permit the loading and unloading of passengers, light cargo and, if appropriate, vehicles. The facilities should be designed to support oil spill response vessels, including the new oil spill response ferry vessel now being designed.

The proposed docks consist of a pier head platform and 12 foot wide causeway and would be lighted for nighttime operations. Berthing and mooring dolphins and fenders would be provided. The dock would be useable throughout the tidal range. A one acre gravel pad would be created at the base of the dock. The total combined estimated cost of these projects would be about \$14.5 million, including the cost of constructing and stocking associated storage facilities with spill response equipment (e.g. boom and absorbent pads). Ownership of this response equipment would reside with Alyeska.

a. Tatitlek: The dock at Tatitlek would be located at the east end of the village and would require construction of a one quarter mile access road.

b. Chenega: The dock at Chenega would be located at the west end of the village and could use existing roads. The Chenega dock would be in the vicinity of the old saltery which is a major environmental concern of the people of Chenega, the State and the United States. The saltery contains asbestos and partially filled abandoned fuel oil storage tanks. It is in complete disrepair. The proximity of the saltery, coupled with the environmental hazard it presents, mandates that strong consideration be given to removal in conjunction with construction of the dock or associated pad.

APPENDIX B

In the event of a spill in Prince William Sound, particularly in the southwestern portion near Hinchinbrook, it would be useful to have the option of utilizing Cordova for staging response efforts. While Cordova has good air transport facilities, there is, at present, no available deep water port and little in available staging areas. Currently there is a proposal to create such a port at Shepard Point, about six miles outside of Cordova.

Connecting the port with Cordova requires rehabilitation of about two miles of existing road and construction of about 4.8 miles of new road, including a bridge across Humpback Creek. The road would run primarily across Eyak Corporation land. Eyak is supportive of the project. The proposed project includes the construction of the road to Shepard Point and a response staging area and the pre-positioning of boom and other response equipment.

In addition to the oil spill response benefits of this project, the proposed road would allow for the lightering of tourists into Cordova from tour vessels.

APPENDIX C

Of all of the restoration projects considered for funding from the EXXON VALDEZ oil spill Joint Trust Fund, the most public support has been generated for the acquisition of in-holdings in Kachemak Bay State Park which are scheduled to be logged. A number of proposals have surfaced for financing such a buyout, but have fallen short of the amount needed to complete the purchase. It is believed that the sum proposed for this project, combined with funds from other sources, would eventually be sufficient to complete the transaction.

The proposed buyback includes lands surrounding Peterson, China Poot and Neptune Bays. Acquisition of these lands would provide a significant benefit to the natural resources and people affected by the spill. In particular, the lands acquired provide habitat for species which utilize old growth forests, such as marbled murrelets. The shorelines of these bays contain numerous archeological sites, including house pits, rock shelters and middens. More than 6000 bald eagles winter annually in Kachemak Bay, with many using the lands in question. The sand bars and islands of China Poot Bay are regularly utilized haul out sites for harbor seals. In addition, Kachemak Bay provides recreational opportunities for many Alaskans and tourists who visit the southern Kenai Peninsula and is the scenic background for the Homer area.

APPENDIX D

In conjunction with creation of the Valdez Emergency Response Center, the United States Coast Guard and the Alaska Department of Environmental Conservation will be provided space for use as a communications center. This project will provide the funds to equip that space for the agencies so as to enhance the management of an oil spill response. The exact equipment to be purchased will be designated after further planning, but includes computer systems, software, facsimile machines, copier, communications console and miscellaneous furniture.

SCOMM

93:8

DRAFT October 25, 1993**PROPOSED CS FOR HOUSE BILL NO. 199 (O&G)****A BILL
FOR AN ACT ENTITLED**

"An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses and to oil and gas leases in certain areas of the state and providing for an effective date."

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

1 Section 1. AS 38 is amended by adding new sections to read:

2
3 **ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.**

4
5 **Sec. 38.05.131. APPLICABILITY; DETERMINATION;**
6 **REGULATIONS.** (a) Unless specifically provided otherwise in AS
7 38.05.132 - 38.05.134, the provisions of AS 38.05.005 - 38.05.040,
8 38.05.180, 38.05.182 - 38.05.184, and 38.05.920 - 38.05.990 apply to the
9 issuance of oil and gas exploration licenses and leases under AS
10 38.05.132 - 38.05.134.

11
12 (b) The provisions of AS 38.05.131 - 38.05.134 do not apply to land

13
14 (1) north of the Umiat baseline; and

15
16 (2) in the vicinity of Cook Inlet that is within the area bounded
17 by

18
19 (A) the north boundary of Township 17 North, Seward
20 Meridian;

21
22 (B) the Seward Meridian;

23
24 (C) the south boundary of Township 7 South, Seward

1 Meridian; and

2
3 (D) the west boundary of Range 19 West, Seward
4 Meridian.

5
6 (c) The commissioner shall make preliminary written determinations
7 of the state land that may be subject to the provision of AS 38.05.132.
8 The determinations shall be given public notice using the methods
9 described in AS 38.05.945(b). After completion of the comment period
10 and evaluation of the comments received, the commissioner shall
11 issue a written determination of the state land that is subject to the
12 provisions of AS 38.05.132.

13
14 (d) The commissioner may adopt regulations necessary to implement
15 AS 38.05.131 - 38.05.134.

16
17
18 Sec. 38.05.132. OIL AND GAS EXPLORATION LICENSE. (a)
19 To encourage exploration for oil and gas on state land, the
20 commissioner may issue oil and gas exploration licenses.

21
22 (b) An oil and gas exploration license issued under this section
23 gives the licensee:

24
25 (1) the exclusive right to explore, for a term not to exceed
26 10 years, for deposits of oil and gas on unleased state land described
27 in the exploration license unless the land is earlier relinquished,
28 removed, or deleted under (d) of this section; and

29
30 (2) the option to convert the exploration license for all or
31 part of the state land, except the land that is deleted or removed
32 from the land described in the exploration license under (d) of this
33 section, into an oil and gas lease upon fulfillment of the work
34 commitments contained in the exploration license.

35
36 (c) An exploration license awarded under this section

37
38 (1) is not subject to the acreage limitations imposed by AS
39 38.05.140(c) or 38.05.180(m);
40

1 (2) may cover an area of not less than 20,000 acres nor
2 contain more than 500,000 acres, that must be reasonably compact
3 and contiguous;
4

5 (3) must be conditioned upon an obligation to perform a
6 specified work commitment, in total for the term of the license,
7 expressed in dollars of direct exploration expenditures;
8

9 (4) must require that a minimum of 25-percent of the
10 specified work commitment must be completed on or before the
11 fourth anniversary of the effective date of the issuance of the
12 exploration license. Failure to meet this requirement shall result in
13 forfeiture of the license.
14

15 For the purpose conditioning a license as required by paragraph (3),
16

17 (A) "direct exploration expenditure" means cash
18 expenses undertaken in performance of a specified work
19 commitment under the provisions of AS 38.05.131 - 38.05.134
20 and necessarily incurred by the licensee in the permitting,
21 mobilization, conducting, demobilization, and evaluation of
22 geophysical and geological surveys, or the drilling, logging,
23 coring, testing, and evaluation of exploratory oil and gas
24 wells, the term:
25

26 (i) includes direct labor costs, including the cost of
27 benefits for employees directly associated with the work
28 commitment programs, the cost of renting or leasing
29 equipment from parties not affiliated with the licensee,
30 the reasonable costs of maintaining and operating
31 equipment, payments to consultants and independent
32 contractors not affiliated with the licensee, and costs of
33 materials and supplies;
34

35 (ii) does not include noncash expenses such as
36 depreciation and reserves, interest or other costs of
37 borrowed funds, return on investment, overhead
38 insurance or bond premiums, or any other expense that is
39 unreasonable or that the licensee has not incurred to
40 satisfy the licensee's work commitment;

1
2 (B) "work commitment" includes the drilling of one or
3 more exploration wells or the gathering of data as described in
4 4(A), or both;

5
6 (5) must be conditioned upon the posting of a bond or
7 other security acceptable to the commissioner in favor of the state
8 and subject to the following requirements:

9
10 (A) the bond or other security must be renewed annually;

11
12 (B) the annual bond or other security shall be calculated
13 as: the entire work commitment expressed in dollars, less the
14 cumulative expenditures as of the last day of the most recent project-
15 year, divided by the number of years remaining in the term of the
16 exploration license;

17
18 (6) is subject to an annual review and revocation if the
19 commissioner determines that the licensee has failed to provide or
20 maintain in effect the bond or other surety required by (5) of this
21 subsection;

22
23 (7) must be conditioned upon payment of a nonrefundable
24 oil and gas exploration license fee, the amount of which may be set
25 by the commissioner, provided, however, such fee may not be more
26 than \$1 per acre or fraction thereof for each acre of land that is
27 subject to the exploration license;

28
29 (8) must be conditioned upon an agreement that
30 exploration expenditures are subject to audit by the commissioner.

31
32 (d) The area within an exploration license awarded under this
33 section may be relinquished, removed, or deleted from the license.
34 Relinquishment, removal, or deletion of any area from the state land
35 described in the exploration license terminates the licensee's rights
36 under AS 38.05.131 - 38.05.134 in the area that is relinquished,
37 removed or deleted. A relinquishment, removal, or deletion of a
38 portion of the area described in the exploration license must be in
39 areas that are reasonably compact and contiguous. The areas
40 relinquished from the state land described in the exploration license

1 shall be areas identified by the licensee but, if the licensee fails to
2 identify sufficient area, the commissioner may identify any
3 additional acreage required to be removed or deleted from the area
4 then under license to meet the requirements of this subsection.
5 Unless, on or before the fourth anniversary of the effective date of
6 the issuance of the exploration license, 50-percent of the approved
7 work commitment, expressed in dollars of expenditure, has been
8 completed, then,
9

10 (1) 25 percent of the area must be relinquished, removed,
11 or deleted on the fourth anniversary of the effective date of the
12 issuance of the exploration license;
13

14 (2) an additional 10 percent of the remaining acreage
15 must be removed or deleted on each of the succeeding anniversaries
16 of the effective date of the issuance of the exploration license to a
17 maximum of 50% of the original license acreage.
18

19 (e) If, immediately before the beginning of the period for
20 annual review of the bond or other security under (c)(5) of this
21 section, the licensee fails to provide or maintain in effect the bond or
22 other security required by (c) of this section for the period covered by
23 the annual renewal and the commissioner revokes the exploration
24 license, the bond or other security then in effect for the licensee's
25 obligations under the exploration license is forfeited to the state.
26

27 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures
28 in this section apply to the issuance of an oil and gas exploration
29 license under AS 38.05.132.
30

31 (b) The licensing process is initiated by the commissioner
32 preparing, or a prospective licensee submitting to the commissioner,
33 a proposal that identifies a specific area to be subject to the
34 exploration license, proposes specific minimum work commitments,
35 and states that the licensee has met the minimum qualifications for a
36 licensee as established by regulations adopted by the commissioner. A
37 prospective licensee may initiate a proposal only in response to a call
38 for proposals by the commissioner or during a period specified in
39 regulation adopted by the commissioner. The regulations must
40 provide for at least one period for that purpose during each calendar

1 year.

2
3 (c) If the commissioner initiates the licensing process under (b)
4 of this section, the commissioner shall publish notice of the
5 commissioner's proposal in order to solicit comments and competing
6 proposals.

7
8 (d) Within 30 days after receipt of a proposal from a
9 prospective licensee under (b) of this section, the commissioner shall
10 either reject it in a written decision or give public notice of the intent
11 to evaluate further the acceptability of the proposal. The
12 commissioner shall solicit comments on a proposal for which public
13 notice is given under this subsection, and shall request competing
14 proposals.

15
16 (e) The commissioner may make a written request to a
17 prospective licensee for additional information on the prospective
18 licensee's proposal. The commissioner shall keep confidential
19 information described in AS 38.05.035(a)(9) that is voluntarily
20 provided, and for which the applicant has made a written request
21 that such information remain confidential.

22
23 (f) After considering proposals not rejected under (d) of this
24 section and public comment on those proposals, the commissioner
25 shall issue a written finding addressing all matters set out in AS
26 38.05.035(e) and (g), except for AS 38.05.035(g)(1)(K). If the finding
27 concludes that the state's best interests would be served by issuing an
28 oil and gas exploration license, the finding must (1) describe the
29 limitations, stipulations, conditions, or changes from the initiating
30 proposal or competing proposals that are required to make the
31 issuance of the exploration license conform to the best interests of
32 the state, and (2) if only one proposal was submitted, identify the
33 prospective licensee whom the commissioner finds should be issued
34 the exploration license. The commissioner shall attach to the finding
35 a copy of the exploration license to be issued and the form of lease
36 that will be used for any portion of the exploration license area
37 subsequently converted to an oil and gas lease under AS 38.05.134.

38
39 (g) If only one prospective licensee submits a proposal and the
40 finding under (f) of this section concludes that an exploration license

1 should be issued to that prospective licensee, the prospective licensee
2 has 30 days after issuance of the finding within which to accept or
3 reject the issuance of the exploration license, as limited or
4 conditioned by the terms contained in the finding. The exploration
5 license to be issued and the form of lease that will be used must be
6 attached to that finding.
7

8 (h) If competing proposals are submitted, and the
9 commissioner's finding under (f) of this section concludes that an oil
10 and gas exploration license should be issued, the commissioner shall
11 issue a request for competitive sealed bids, under procedures
12 adopted by the commissioner by regulation, to determine which
13 prospective licensee should be issued the exploration license. The
14 finding provided to the prospective licensees under (f) of this section
15 must contain notice that (1) the commissioner intends to request
16 competitive sealed bids, (2) a prospective licensee who intends to
17 participate in the bidding must notify the commissioner in writing by
18 the date specified in the notice, and (3) a prospective licensee's notice
19 of intent to participate in the bidding constitutes acceptance of
20 issuance of the exploration license, as limited or conditioned by the
21 terms contained in the finding and by the exploration license to be
22 issued and the form of lease to be used if the prospective licensee is
23 the successful bidder. The successful bidder is the prospective
24 licensee who submits the highest bid in terms of the minimum work
25 commitment dollar amount.
26
27

28 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee
29 requests and the commissioner determines that the work
30 commitment obligation set out in an oil and gas exploration license
31 issued under AS 38.05.132 has been met, the commissioner shall
32 convert to one or more oil and gas leases all or part, as the licensee
33 may indicate, of the area described in the exploration license that
34 remains after relinquishments, removals, or deletions required by AS
35 38.05.132(d). A lease issued under this section
36

37 (1) is subject to the acreage limitations imposed by AS
38 38.05.140(c);
39

40 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

1
2 (3) must be conditioned upon a royalty in amount or value
3 of not less than 12.5 percent of production;
4

5 (4) must include an annual rent of \$3 per acre or fraction
6 of an acre initially paid to the state at inception of the lease and
7 payable annually after that until the income to the state from royalty
8 under that lease exceeds the rental income to the state under that
9 lease for that year; and
10

11 (5) is subject to other conditions and obligations that are
12 specified in the lease.
13
14

15 * Sec. 1. AS 38.05.135(a) is amended to read:
16

17 (a) Except as otherwise provided, valuable mineral deposits in
18 land belonging to the state shall be open to exploration,
19 development, and the extraction of minerals. All land together with
20 tide, submerged, or shoreland, to which the state holds title to or to
21 which the state may become entitled, may be obtained by permit or
22 lease for the purpose of exploration, development, and the
23 extraction of minerals. Except as specifically limited by AS 38.05.131
24 - 38.05.181 land may be withheld from lease application on a first-
25 come, first-served basis, and offered only on a competitive basis
26 when determined by the commissioner to be in the best interests of
27 the state. In unproved areas, the commissioner may offer additional
28 incentives, including a reduction of royalty to a minimum of five
29 percent in the case of oil and gas, and other terms in and granting a
30 permit or lease for exploration and development whenever it
31 appears to be in the best interests of the state to do so.
32
33
34
35

36 * Sec. 2 AS 38.05.180(d) is amended to read:
37

38 The commissioner may issue oil and gas leases in an area that
39 has not been included in a leasing program submitted, in accordance
40 with (b) of this section, to the legislature if the land to be leased:

1
2 (1) was previously subject to a valid state or federal oil
3 and gas lease;
4

5 (2) is contiguous to land already under state, federal or
6 private lease and the commissioner makes a written finding, after
7 hearing, that leasing of the land would result in a substantial
8 probability of early evaluation and development of the land to be
9 leased;
10

11 (3) is adjacent to land owned or controlled by another
12 party on which a discovery of commercial quantities of oil or gas has
13 been made, and the commissioner finds, after hearing, that there is a
14 reasonable probability that the land to be leased contains oil or gas in
15 communication with oil or gas discovered on the land of the other
16 party;
17

18 (4) is adjacent to land included in the federal five-year
19 Outer Continental Shelf leasing program under 43 U.S.C. 1344, and
20 the commissioner makes a written finding, after hearing, that
21 coordinated or simultaneous leasing with the federal government is
22 in the public interest; or
23

24 (5) is the subject of an oil and gas exploration license
25 under AS 38.05.131 - 38.05.134.
26
27

28 * Sec. 3. AS 38.05.180(f) is amended to read:
29

30 (f) Except as provided by AS 38.05.131 - 38.05.134 the
31 commissioner may issue oil and gas leases on state land to the
32 highest responsible qualified bidder determined by competitive
33 bidding under regulations adopted by the commissioner. Bidding
34 may be by sealed bid or according to any other bidding procedure the
35 commissioner determines is in the best interests of the state.
36 Whenever, under any of the leasing methods listed in this subsection,
37 a royalty share is reserved to the state, it shall be delivered in
38 pipeline quality and free of all lease or unit expenses, including but
39 not limited to separation, cleaning, dehydration, gathering, salt
40 water disposal, and preparation for transportation off the lease or

1 unit area. Following a pre-sale analysis, the commissioner may
2 choose one of the following leasing methods:

3
4 (1) a cash bonus bid with a fixed royalty share reserved to
5 the state of not less than 12.5 [12 1/2] percent in amount or value of
6 the production removed or sold from the lease;

7
8 (2) a cash bonus bid with a fixed royalty share reserved to
9 the state of not less than 12.5 [12 1/2] percent in amount or value of
10 the production removed or sold from the lease and a fixed share of
11 the net profit derived from the lease of not less than 30 percent
12 reserved to the state;

13
14 (3) a fixed cash bonus with a royalty share reserved to the
15 state as the bid variable but no less than 12.5 [12 1/2] percent in
16 amount or value of the production removed or sold from the lease;

17
18 (4) a fixed cash bonus with a share of the net profit
19 derived from the lease reserved to the state as the bid variable;

20
21
22 (5) a fixed cash bonus with a fixed royalty share reserved
23 to the state on not less than 12.5 [12 1/2] percent in amount or value
24 of the production removed or sold from the lease with the share of
25 the net profit derived from the lease reserved to the state as a bid
26 variable;

27
28 (6) a cash bonus bid with a fixed royalty share reserved to
29 the state based on a sliding scale according to the volume of
30 production or other factor but in no event less than 12.5 [12 1/2]
31 percent in amount or value of the production removed or sold from
32 the lease;

33
34 (7) a fixed cash bonus with a royalty share reserved to the
35 state based on a sliding scale according to the volume of production
36 or other factor as the bid variable but not less than 12.5 [12 1/2]
37 percent in amount or value of the production removed or sold from
38 the lease.

39
40 * Sec. 4. AS 38.05.945(a) is amended to read:

1
2 (a) This section establishes the requirements for notice given by
3 the department for the following actions:
4

5 (1) classification or reclassification of state land under AS
6 38.05.300 and the closing of land to mineral leasing or entry under AS
7 38.05.185;
8

9 (2) zoning of land under applicable law;
10

11 (3) a decision under AS 38.05.035(e) or 38.05.132
12 -38.05.134 regarding the sale, lease or disposal of an interest in state
13 land or resources;
14

15 (4) a competitive disposal of an interest in state land or
16 resources after final decision under AS 38.05.035(e);
17

18 (5) a public hearing under AS 38.05.856(b);
19

20 (6) a preliminary finding under AS 38.05.035(e) and
21 38.05.855(c) concerning sites for aquatic farms and related
22 hatcheries.
23
24
25

26 *Sec. 5. ADDITIONAL EXCLUDED AREA. In addition to the area
27 designated in AS 38.05.131(b), added by sec.1 of this Act, the provisions of
28 AS 38.05.131 - 38.05.134, added by sec.1 of this Act do not apply to land
29 within proposed Competitive Oil and Gas Lease Sales 80, 87, and 88, as
30 the area to be offered in each of those proposed competitive oil and gas
31 lease sales was delineated in the Five-Year Oil and Gas Leasing Program
32 prepared by the Department of Natural Resources and dated January
33 1993. However, the exclusion of the land is any one of those lease sales
34 that is required by this section ceases on the date the land described in the
35 lease sale is first offered for competitive oil and gas leasing under AS
36 38.05.180, and that the land is thereafter subject to the provisions of AS
37 38.05.131 -38.05.134, added by sec. 1 of this Act.
38

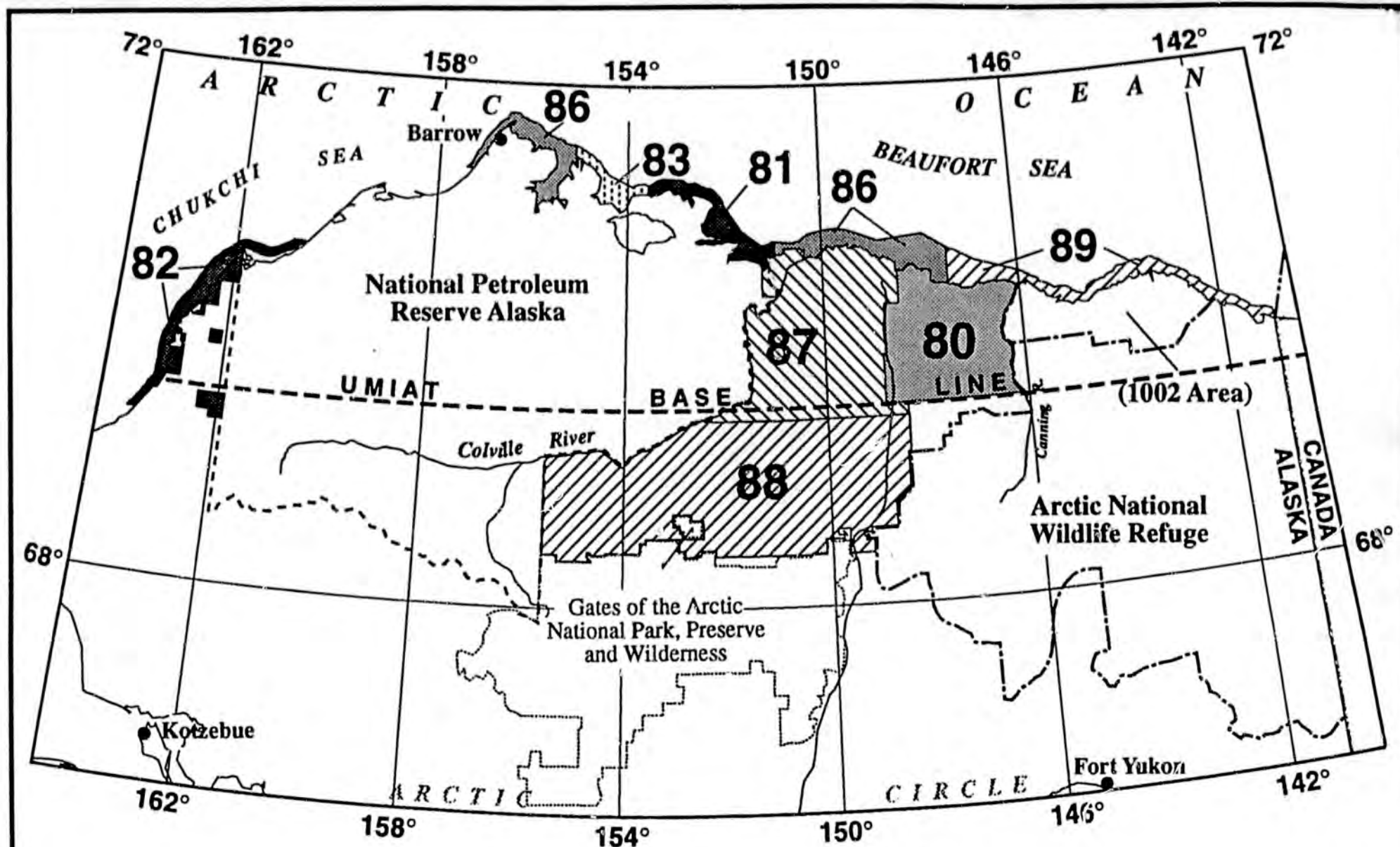
39
40 * Sec. 6. REGULATIONS. The commissioner of natural resources may

1 proceed to adopt regulations necessary to implement AS 38.05.131
2 -38.05.134, added by sec.1 of this Act. The regulations take effect under AS
3 44.62 (Administrative Procedure Act), but not before the effective date of
4 secs. 1 - 9 of this Act.
5

6 * Sec. 7. AS 38.05.020(b)(5) is amended to read:
7

8 (5) notwithstanding the provisions of any other section of this
9 chapter, grant an extension of the time within which payments due on any
10 license or lease or sale of state land, minerals, or materials may be made,
11 including payment of rental and royalties, on a finding that compliance
12 with the requirements is or was prevented by reason or war, riots, or acts
13 of God;
14

15
16
17 * Sec. 8. Section 6 of this Act takes effect immediately under AS
18 01.10.070(c).



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
----	-------



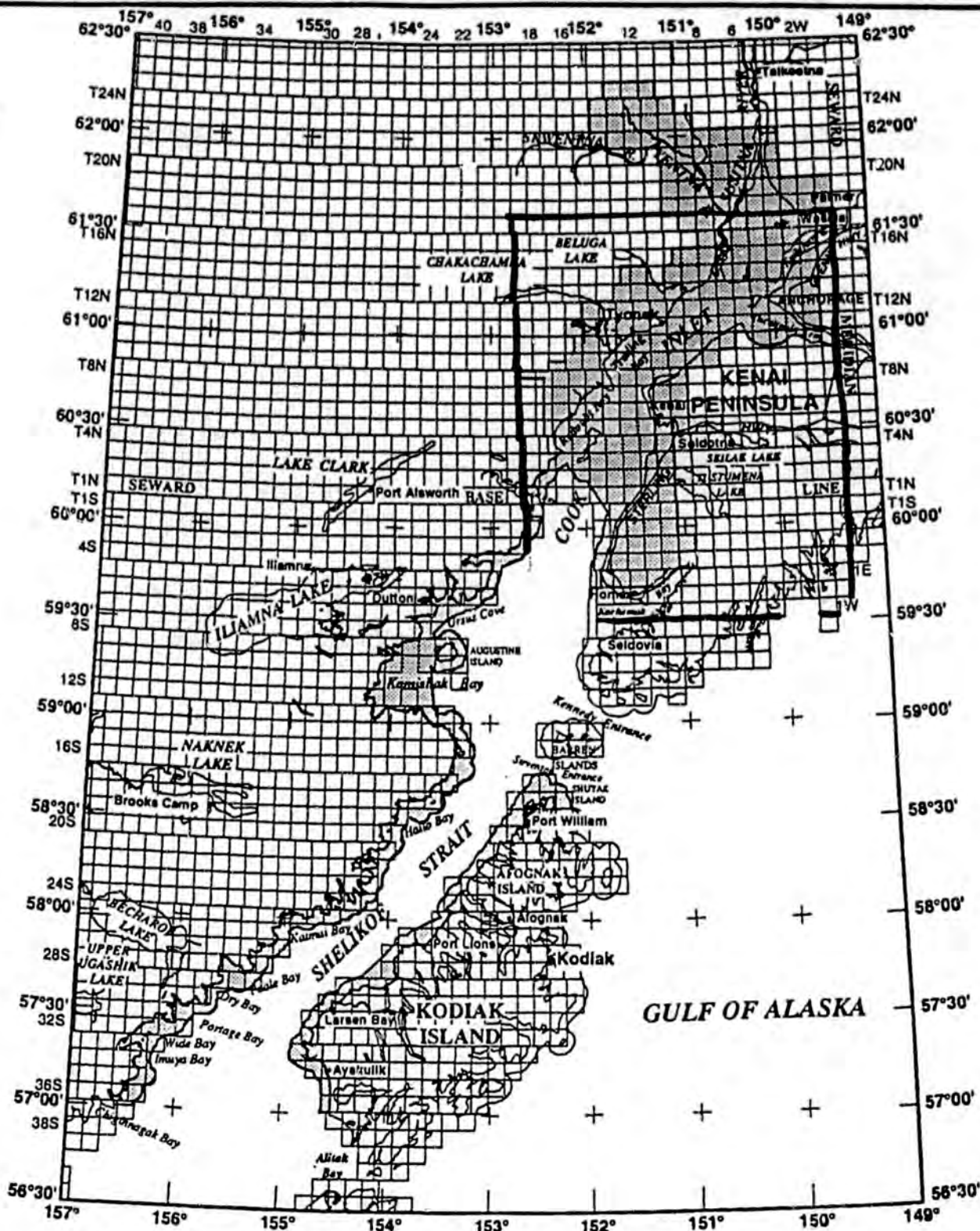
Sale	Date
87	4-97
88	7-97
89	11-97



Scale 1: 5,000,000 Approx.

0 100 200 Miles

11/93



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
PROPOSED OIL AND GAS LEASE SALE 85
COOK INLET / SHELIKOF STRAIT

SCALE 1: 3,500,000 ONE INCH = 56 MILES approx.

0 50 100 200 Miles

DIRECTOR, DIVISION OF OIL AND GAS

JAMES E. EASON *[Signature]*

PETRO. GEOPHYSICIST,
JAMES HANSEN *[Signature]*

DRAWN

BY: M.P. &
O.D.S.

CHECKED
BY: *[Signature]*

DATE APPROVED

12-21-92

BASE MAP: TRANSPOSED FROM
U.T.M. PROJECTIONS BY U.S.G.S.
REDRAWN IN AUTOCAD AND
CLARIS CAD.

NOTE: NO DECISION HAS YET
BEEN MADE ON WHETHER THE
STATE WILL HOLD THIS LEASE
SALE. THE STATE IS GATHERING
SOCIAL ENVIRONMENTAL &
ECONOMIC INFORMATION (IN)
WHICH TO BASE A DECISION.



Proposed Sale Area



Industry leaders agree on oil exploration plan

By Tim Bradner
Alaska Journal of Commerce

The oil industry has come together on legislation setting up an "exploration licensing" program for Alaska, after rare public disagreement between the companies earlier this year blocked the proposal.

"I believe we do now have state and industry consensus," said Ken Boyd, deputy director of the State Division of Oil and Gas.

Last spring, the industry split over a bill proposed by Gov. Walter Hickel that would set up a licensing procedure for exploration on state lands, as a supplement to the existing state oil and gas leasing system.

The plan would allow an oil ex-

plorer to get an exclusive right to explore over relatively large blocks of state land, based on a negotiated commitment to invest specified amounts in drilling and geophysical work.

If a discovery was made, the company could then apply and get a conventional state lease on the property.

The system, common in most countries and used here by Alaska Native corporations on private lands, avoids a major problem companies often have under Alaska's current leasing system, which involves leases of about 5,000 acres. Often, leases over a geologic prospect are held by several companies.

If the prospect is marginal, or in a relatively unexplored area, a company interested in drilling might have con-

siderable problems getting all the lease owners to commit money to an exploration program.

The license proposal avoids that by allowing one company with a new geological theory to propose a plan to the state and gain access to a larger block of acreage, to test several prospects.

Arco Alaska Inc., a major Alaska producer, developed the idea, modeled on similar programs in other countries. In areas with marginal geologic potential, it will speed exploration and the discovery of oil, Arco argued. But most others in the industry opposed it, and the bill went nowhere in the Legislature. Over the summer, Boyd and his staff worked with the companies in developing al-

ternative language that would bring consensus. Unless the entire industry signed off on the deal, Department of Natural Resources Commissioner Harry Noah would not support the bill, Boyd warned the companies.

The latest draft is now being reviewed by Noah, and will be presented by the department at a Nov. 12 meeting of the House Special Committee on Oil and Gas, chaired by Rep. Joe Green, R-Anchorage.

"There's always something in compromise like this that the companies don't like, which gives me a good feeling," Boyd said. "It means no one got all that they wanted. They had to compromise. Everyone supported this thing in broad concept, but argued over the details."

State, industry negotiated differences in exploration proposal

By Tim Bradner
Alaska Journal of Commerce

Some of the biggest differences among the oil companies on state exploration licensing proposals were actually resolved last spring. The tide turned when Arco reluctantly agreed to a version of the bill that excluded existing North Slope and Cook Inlet producing areas from the program.

The change was made by the Senate Oil and Gas Committee when it moved its version of the bill out of committee.

But other problems remained. One was providing for a bond, cash that would be deposited with the state as security that the work promised by an exploring oil company would actually be carried out.

Early versions of the bill required the bond to be the same amount as the investment promised under the work commitment. If a company pro-

posed a \$10 million program over the 10-year life of the license, the cash bond filed with the state would be \$10 million.

Arco pushed that approach vigorously, arguing that with a lot of money at risk in the bond, it would be a very strong disincentive for a company to walk away from its commitment.

Others vigorously opposed the idea. Independents like Stewart Petroleum Co., an Alaska-based company, and even some major companies, proposed a smaller bond that might be more affordable in times of low oil prices and tight cash flow.

The compromise eventually worked out involved an explorer posting a bond each year equal to the amount of the commitment divided by the number of years remaining in the license. Money committed to work that year could also be deducted from the bond, according to Jim Hansen, leasing/evaluations manager for the Division of Oil and Gas.

An area of sharp disagreement between the industry and the Division of Oil and Gas, in which the division ultimately prevailed, involved a requirement for companies to relinquish lands during the license period if they are not exploring.

The latest version of the bill requires 25 percent of the land to be given back in the fourth year of a 10-year license, if a company has not spent at least 50 percent of its promised commitment. After that, the company must give back 10 percent of its lands each year, if the exploration program is not proceeding as planned.

Requiring half the money to be spent by the fourth year, "is an incentive for the companies to get busy and do work early," said Haynes.

Although some of the companies had vigorously opposed the relinquishment requirement, the division strongly supported it.

"There's nothing exotic about it. It's textbook stuff," that is common in

most lands licensing-type agreements, Haynes said, including contracts Alaska Native corporations now have with oil companies.

The division supported the idea because it wanted insurance not only that work would get done, which is encouraged by the cash bond, but also that it would be done aggressively.

What the state didn't want was an agreement that allowed companies to "warehouse" land and wait until the final year before spending money, Boyd said.

The argument made by the companies against the idea, particularly by Arco, was that the provision forced the explorers into a kind of artificial schedule imposed by the government.

The whole idea of licensing, they maintained, was to be able to turn exploration teams loose on a large block of state lands to explore in the most effective manner, which may or may not fit the schedule the state desired.

BUSINESS

Bills aim to speed oil exploration

Licensing, data exchange plans hoped to offset Prudhoe decline

By IAN MADER
The Associated Press

JUNEAU — The Hickel administration has proposed legislation that it says would promote quicker exploration of the state's oil reserves.

One bill would allow oil companies to apply for licenses to explore large tracts at once, bypassing the need to collect enough contiguous smaller tracts at state lease auctions to make exploration practical.

Under Senate Bill 150 and House Bill 199, a company would get a large-area license by committing to do the exploration soon and posting a bond to guarantee the work.

Ken Boyd, deputy director of the state Oil and Gas Division, said auctions often leave several contiguous tracts in the hands of different companies, which would have to team up for exploration. They often do not agree on when to start drilling.

Licensing would remove that delay, he said. "There's no hemming and hawing. You put down your bond and away you go."

Competition would not end under licensing, he said. Once a company applied for a license, other companies could make counterproposals to the state. State officials would choose the best proposal. If the company found oil, it would have the option

to lease the land.

Arco Alaska Inc., the biggest supporter of "exploration licensing," says the idea could help make Alaska more attractive to new oil companies and those that have been leaving the state for foreign prospects.

"We think it will attract new investors by cutting as much as a decade from the time required to find and develop a new Alaska oil field," Arco vice president James M. Davis told the Juneau Chamber of Commerce last week.

BP Exploration (Alaska) Inc. says it

Please see D-6, LICENSING

LICENSING: Hoped to entice more oil firms

Continued from Page D-4

prefers the competitive lease process for known oil-rich areas such as the North Slope and Cook Inlet, but would support licensing for basins in interior Alaska.

Rep. Joe Green, R-Anchorage and chairman of the House Oil and Gas Committee, said a company's support for the idea "will depend how cash-rich they are at the moment."

Arco apparently has the cash. The company says it will spend \$900 million on Alaska exploration in the next five years.

BP recently slashed its Alaska operations and has not announced an exploration spending plan, but has said it will drill three wells this year and take part in a fourth.

Boyd said the legislation is not necessarily intended for the North Slope, and that the natural resources commissioner could say that licensing would only apply in remote basins in interior Alaska.

BP spokesman Tom Williams said the company would not support the bill unless it had more provisions to guarantee millions of acres of unleased North Slope land would not be licensed in large blocks.

"We like the bidding process," Williams said. "In large-block licensing there's enough blanks to be filled in that we just don't know."

Smaller companies have worried that they won't have enough capital to apply for a large-block license, Boyd said. Unless such companies team up with others, they probably should not be drilling in the interior anyway, he said.

"I don't want somebody to go out into a basin and not be financially responsible to do the work," Boyd said. "Unfortunately, Alaska is not a good place for the smaller independents. It's remote, it's large, it's cold."

The commitment to exploration also will prevent speculators from holding potential oil fields for years, Boyd said.

Rep. John Davies, D-Fairbanks, said he's concerned the speedy timetable under licensing might compromise public review that would examine environmental effects and look at alternative uses for the land.

"It seems to me that both Arco and BP have announced increased exploration in the next decade," he said. "I'm skeptical as to whether we really need any incentives."

Under another Hickel proposal, the state would pay up to half of a company's exploration costs on non-state lands in exchange for data that could shed light on the prospects for nearby state land, Boyd said.

Under SB151 and HB200, the state would use that information to market the nearby state land, Boyd said.

"Any information we can get on these strange interior basins, so much the better," Boyd said.

Green said both proposals could help offset the decline in Prudhoe Bay oil production.

"OK, we've driven a lot of oil companies out with unstable taxing," Green said. "These measures say: Look, we're trying to come up with ways of enticing you back into the state."

COOK INLET REGION, INC

March 22, 1993

Representative Joe Green
House of Representatives
Chairman, House Special Committee on Oil & Gas
State Capitol
Juneau, Alaska 99801

Dear Representative Green:

I appreciate the opportunity to present a written testimony regarding HB199 on behalf of Cook Inlet Region, Inc. (CIRI), the Alaska Native regional corporation for the Cook Inlet area. CIRI is owned by approximately 6,500 Athabascan, Eskimo and Aleut shareholders. CIRI's principal lines of business are natural resource development (oil and gas, minerals, coal and timber), real estate, oilfield services, and broadcast radio and television. Today I would like to focus on the area of oil and gas.

CIRI owns and manages 924,000 acres of surface estate and 1.6 million acres of subsurface estate in Alaska, and has been active in Alaska's oil and gas industry for over fifteen years. CIRI and its wholly-owned subsidiary CIRI Production Company hold various royalty and working interests in several producing a prospective oil and gas fields on the Kenai Peninsula and Alaska's North Slope. A primary emphasis of CIRI's strategy for economic growth is the continued development of its natural resource holdings. Such development benefits CIRI and businesses throughout the state. As one example, under the sharing provisions of Section 7(i) of the Alaska Native Claims Settlement Act, CIRI has distributed over \$120 million to other Native corporations across Alaska. Millions more dollars have been injected into the economy in the form of shareholder dividends. Most of these distributions resulted from the production of oil and gas. However, just like the state, CIRI's oil and gas reserves are declining. And like the state, we must find new sources of production if we are to continue our significant economic role.

In light of the changing realities in the oil and gas industry, and world economics, we believe it is both appropriate and advisable for the legislature to consider certain new and innovative approaches to oil and gas leasing and development. Last year, the state took a historic step when lands in the Nuiqsut area of the North Slope were leased under joint agreement between the State of Alaska and Arctic Slope Regional Corporation. We believe there may be other situations in which cross-assignment of interests between the state and Native landowners could substantially enhance the chances for successful leasing and development of both

Statement of Gerald Booth
March 22, 1993
page 2

the state and private lands. Because of CIRI's land pattern on the Kenai Peninsula, we would be particularly interested in pursuing such a concept with the state. CIRI has also worked closely with other private landowners and the state of Alaska in the effort to extend the state's Exploration Incentive Credit program to all lands in Alaska. CIRI supports the comments of the Alaska Federation of Natives regarding HB 200.

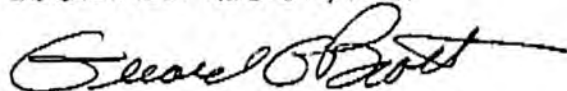
In addition, you have before you today HB199 which would allow companies to explore large, untested blocks of land through an exploration license issued by the state. This is a departure from the traditional competitive leasing approach for state lands, but it is not an unfamiliar concept to Native corporations. For years on our own lands, we have worked with companies under exploration agreements whereby prospective areas could be later converted to lease.

Fundamentally, this concept is market driven, whereby industry would advise the state which lands are of interest, thus potentially reducing the time in which to acquire lands for exploration when capital and expertise ~~is~~ available and focused on a particular area. The concept is designed to supplement, not replace, the state's current competitive leasing program. CIRI supports the basic concept of large block exploration and exploration licensing, and we will be pleased to work with the legislature as you consider and refine the present legislation with respect to areas to be included or excluded, time periods for licensing and leasing, relationship of the program to adjacent landowners, etc.

In closing, I appreciate the opportunity to provide our comments to the House Oil and Gas Committee. Carefully crafted, the legislation currently being considered by the committee can help stimulate additional exploration of Alaska's future potential oil and gas resources. As an Alaska Native corporation, CIRI has a special relationship to Alaska's future. Even in today's highly mobile society, fifty years from now, the majority of our shareholders will still call Alaska home. This is where our economic future must be secured. Thank you.

Sincerely,

COOK INLET REGION, INC.



Gerald G. Booth
Vice President, Energy and Minerals

STATEMENT OF BP EXPLORATION (ALASKA) INC.

TO THE

HOUSE SPECIAL OIL & GAS COMMITTEE

REGARDING

HOUSE BILL NO. 199

March 22, 1993

Mr. Chairman, Members of the Committee. Good afternoon. My name is John Ringstad, and I am Associate Director, Government Affairs for BP Exploration (Alaska) Inc. Thank you for this opportunity to appear before you today to present BP's views on HB 199, the Governor's large-block licensing bill.

HB 199 would make state lands available for oil and gas exploration and development under a very different approach from the system of competitive oil and gas lease sales that Alaska has used since 1959. Under the leasing system, state land is made available in relatively small parcels of not more than 5,760 acres. In contrast, the licensing system proposed in HB 199 would make land available for exploration in blocks of up to 500,000 acres apiece. Instead of bonus bidding, the new licenses would be awarded competitively on the basis of how much exploration work a would-be licensee promises to do. The bidder promising the most work in a license area would win the license for that area. If the licensee makes a discovery, he would have the right to lease the portion of the license area encompassing the discovery. In its basic approach, this new licensing program is very much like the oil and gas "concessions" that most nations around the world employ to get oil and gas exploration and development.

BP supports the idea of large-block licensing for the relatively unexplored areas of Alaska. While BP's exploration focus is on the North Slope and will remain there, we believe that the licensing approach could facilitate the exploration of the so-called "interior basins" in Alaska -- basically, all of the state outside of the Cook Inlet basin and the North Slope. We applaud the Governor and those in his Administration who worked to develop this bill, for breaking out of the "traditional" mindset that 30 years of using the same practice can cause, and for having the willingness to propose a new system that they think will work better than leasing.

However, despite our support for the general idea of large-block licensing for the relatively unexplored areas of Alaska, we *oppose* HB 199 as currently written. We have three specific matters of concern: 1) its application to the North Slope, 2) the oral outcry auction provision and 3) the exemption which allows the warehousing of acreage.

Our first concern is that HB 199 would allow licensing on the North Slope, particularly in the planning areas for the remaining state lease sales scheduled for the Slope. We believe the State's interests would be harmed, not helped, by allowing the currently planned lease sales to be cast aside in favor of a licensing program. Lease sales bring in cash bonuses; the licensing program would not. Unlike lease sales in unexplored areas, which bring in minimum bonuses, the recent state lease sales on the Slope show there is enough interest to make the bonuses there substantial. Thus, to stop using lease sales on the Slope would represent a significant cash cost to the State. For licensing to be justified, therefore, it has to be great enough to offset this cost.

The chief advantages that licensing offers are the possibility of more exploration and earlier exploration, but we doubt that licensing would deliver very much of either advantage on the Slope. There is already more exploration interest on the Slope than anywhere else in the state, and the Slope is likely to end up being just as thoroughly explored under conventional leasing as it would with large-block licensing. Moreover, it is not clear that licensing would bring about exploration on the Slope any faster than conventional leasing would. It is expected that exploration drilling under a licensing program would begin as early as two years after a license is issued. But our Cascade well that we are drilling this year is on land we leased only *two* years ago -- in 1991. We also plan to drill our Yukon Gold well later this year, and it, too, is on a lease issued in 1991. ARCO's Cave Bear well, scheduled to be drilled next year, is on land they leased just last year. So, even though it is sometimes true that exploratory drilling doesn't begin until eight or nine years after a lease is issued, it is also true that much of the current exploratory drilling on the Slope is occurring as soon after a lease sale as it would under a large-block licensing program.

There is one more thing you should consider before letting the Slope be opened up to large-block licensing. Conventional leasing allows companies to come in and bid for leases even though they do not plan to operate the leases

they may acquire. They are, in effect, investors rather than operators. The licensing program, in contrast, gives a tremendous advantage to any companies who are already operators in the vicinity of a license, because they already have a base of operations there and have working knowledge and experience with the area. On the Slope, there are two dominant operators. Is it good state policy to let one, or both, "lock up" the rest of the Slope under a licensing program? Or would it be better to continue letting other companies have a chance for a piece of the action, as they do with conventional lease sales? For BP's part, we are not afraid of having more competition, but welcome it.

I said earlier that BP has three concerns about HB 199, and so far I've only talked about one.

The second concern is about the nature of the auction for a large-block license. HB 199 calls for an "oral outcry" auction -- that is, the bidders are all in a room together and each one keeps bidding higher and higher about how much exploratory work it will do, until finally no one is willing to bid any higher and the license goes to the last, and highest, bidder. This is a singular departure from the way similar "concessions" are offered elsewhere around the world. The usual method is with sealed written bids that are submitted in advance, much the same way bonus bids are submitted to Alaska in its competitive oil and gas lease sales. The system of sealed bids in advance makes everyone bid on the basis of their best view of the prospect, and it is likely to attract more participants in the auction than the "oral outcry." BP prefers sealed bids.

Our third concern is about whether a lease being carved out of a license area counts against the State's limits on how much acreage a company may have under lease at one time. HB 199, at lines 8 and 9 on page 5, specifically exempts such a lease from the acreage limits. We see no reason for the State to give such an exemption.

The acreage limits were enacted as part of the original state Land Act in 1959 in order to prevent companies from "warehousing" large numbers of leases. The State wanted companies to either explore and develop the leases they got, or else surrender them back to the State. This is shown by the fact that leases in an exploration unit or a development unit are not counted against the acreage limit. With a unit, the State knows there is a plan, and has to approve that plan,

either to explore the leases or to develop and produce the leases , depending on the type of unit.

If you think about it for a moment, there is no reason for such an exemption even from a license-holder's point of view. Why would a license-holder be trying to get a lease for part of his license area in the first place? Because he either has found something there or has good reason for believing something is there. But in either case, there is no reason why he cannot put the lease into a unit if he doesn't want it to count against his acreage limits. And if he does unitize the lease, then the State will continue to have assurance that there are real plans for further exploration and/or development for that lease. BP believes a lease being carved out of a license area should count against the acreage limits.

In summary, then, BP supports the general idea of large-block licensing for the relatively unexplored areas of Alaska. But we oppose HB 199 in its present form because it does not deal adequately with the issue of licensing on the North Slope. We are also seriously concerned about the provisions in HB 199 to use an "oral outcry" auction instead of sealed bids, and about its exemption from the anti-warehousing acreage limits for leases carved out of a license area. With corrections in these areas, we would welcome HB 199 as a progressive new approach for encouraging oil and gas exploration in Alaska.

Thank you, Mr. Chairman, for this opportunity to present this statement to the Committee today.

FISCAL NOTE

STATE OF ALASKA 1993 LEGISLATIVE SESSION

No. 1
 Bill Version: HB 199
 (H) Publish Date: 3/5/93

Revision Date: _____ Dept. Affected: Revenue
 Title: Oil & Gas Exploration Licenses and Leases 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:						
----------------------	--	--	--	--	--	--

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: \$ 0.00

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Rod R. Maurant Phone: 465-2300
 Division: Commissioner's Office Date: 3/2/93
 Approved by Commissioner: Darel J. Rexwinkel Date: 3/2/93
 Agency: _____

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Position Paper
Department of Natural Resources
Exploration Licensing Legislation
HB 199 & SB 150

The Exploration Licensing Bill allows the State to offer large tracts of land (up to 500,000 acres) to potential licensees, with the option of later converting part (or all) of the license to lease, contingent upon the successful completion of the required work commitments. Exclusive licenses will be granted to the company submitting the most comprehensive work plan as expressed in dollars of work commitment.

A bond covering the proposed work commitment expense is required, and will be forfeited for that portion of the work that is not completed. The same Best Interest Finding procedures that are currently used for competitive leasing under the state's Five Year leasing program, and the public process that is part of the Finding, remains in-place for exploration licensing. At the end of the license period a lease covering some (or all) of the license area may be awarded.

The Department of Natural Resources will administer this program as it administers competitive lease sales under the existing Five Year Oil and Gas leasing program. The Departments of Fish and Game, Environmental Conservation and Law, as well as other interested local, state and federal agencies, will be involved in the Best Interest Finding. In addition, there will be ample opportunity for public review and comment on the award of proposed licenses, as well as on the terms and conditions of those licenses and any resulting leases.

Governor Hickel's proposal in HB 199 and SB 150 expands the exploration options available in, but does not replace, competitive leasing under the existing Five Year program. Its main purpose is to get companies working in areas of the State that have drawn little (or no) attention under the current leasing program. Similar license/lease programs are offered by most countries worldwide.

The Governor's goal is to get more money "into the ground." The State makes the majority of its income from royalties and severance taxes on oil and gas production, not bonuses and lease rentals. In order to obtain new royalties and severance taxes, we must have new oil being explored for and produced. The only way to find new reserves that may eventually be produced is to have companies actually drilling wells. This bill is intended to expedite the exploration process, which, hopefully, will lead to new commercial discoveries of oil and gas.

Oil and gas exploration always means money and jobs. Likewise, increasing the opportunity to explore and develop new areas can only mean more money and more jobs. Exploring the remaining "underexplored" basins in the state will certainly provide jobs during the exploration phase—jobs for all sorts of people—from geologists to camp cooks. If discoveries are made, more jobs will be created and new revenues will accrue from taxes and royalties. These jobs will be created in geographically diverse areas of the state, contributing to the expansion and diversification of the state's economy.

WALTER J. HICKEL
GOVERNOR



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

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

48199

March 5, 1993

*The Honorable Ramona L. Barnes
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182*

Dear Speaker Barnes:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.

The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.

Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the

ORIGINAL

COMMITTEE COPY

The Honorable Ramona L. Barnes

March 5, 1993

Page 2

HB 199

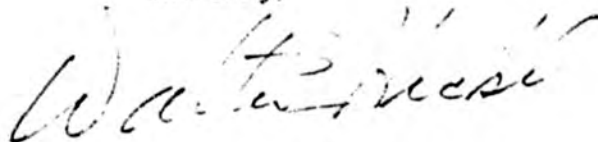
acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaska's remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,

A handwritten signature in dark ink, appearing to read "Walter J. Hickel", written in a cursive style.

Walter J. Hickel
Governor

ARCO Alaska, Inc.

Exploration Licensing Testimony

Mr. Chairman, members of the House Oil and Gas Committee, my name is Jim Davis: I am Senior Vice President of Exploration for ARCO Alaska, Inc..

I am pleased to testify in support of HB 199, Exploration Licensing. We believe that this supplement to the state's leasing program can invigorate exploration for oil and gas. It can do this by substantially reducing the time required to acquire secure title to enough land to justify exploration activities while meeting all environmental laws and regulations.

I know that Mr. Jim Eason, Director of the Oil and Gas Division at the Department of Natural Resources, provided the committee with a very complete review and analysis of the legislation at the hearing last Tuesday. Therefore, I would like to pick up from there and address three points. First, I would like to review how this bill came to be. I think that this will help us see the policy choices facing the state. Next, I would like to supplement the remarks you heard last week from DNR about the contents of the bill. Finally, I would like to address the main objections that I

have been hearing and explain why they don't change our support for this bill.

Development of the Exploration Licensing Bill

A little over a year ago, I sat in joint hearings before this body and introduced the concept of exploration licensing. Many of you may recall that there was general concern then that exploration in Alaska was declining and that oil companies were scaling back or ending their operations; presumably in favor of more attractive overseas prospects. I must admit that I was also feeling a sense of loneliness as I tried to interest prospective partners to join with ARCO in drilling Kuvlum in the Beaufort Sea; we now see that it turned out to be a discovery.

At that time, the legislature asked us to talk about ways in which exploration in Alaska could be stimulated. As we developed ideas, we considered various options. Standing back and looking at exploration in Alaska, we recognized that it is a very costly and high risk venture. We thought about ways the state could reduce our direct exploration investment. It was tempting to think of tax credits, because they have proven in other countries, such as Canada, to be very effective in stimulating drilling. However, we concluded that the state would not be able to

bear these upfront costs, especially in light of the fiscal gap crisis it is facing.

The other alternative that we examined was reducing the time required to find and develop oil. We then focused on the state leasing program. Here we found real possibilities to shorten exploration time. For example, under the present leasing system, it can take five to ten years to accumulate enough of a land position to justify the high expense of an exploratory well. This puts Alaska at a competitive disadvantage with foreign countries, and this is one reason we see other oil companies leaving Alaska and investing abroad. We need now to level the playing field. Two activities which take time are waiting first for a prospect to move through the five year leasing schedule, and then developing a consolidated ownership out of the patchwork of individual lease ownership covering the prospect. Even more uncertain is consolidation of ownership on adjacent leases after a discovery. So we believe that speeding up the process of securing title would help the state's goal of invigorating exploration.

We found some interesting ideas in methods used by many foreign countries. In these countries, development rights are given after government chooses the specific work proposal that will most likely yield discovery and development.

The basic concept for exploration licensing in Alaska came from this approach. We felt that the existing lease process could be supplemented with licensing based upon work commitments, public disclosure, and competition. By the way, this approach has also been used in the U.S. as well as other countries, so this is not an untested concept.

Key Aspects of the Bill

Let me next supplement Mr. Eason's testimony by highlighting the major aspects of the bill.

An exploration license is applicable to unleased land. A prospective licensee (or the state) identifies an area not to exceed 500,000 acres and proposes a work program, expressed in dollars, to be conducted over a time period of not more than 10 years. If the state does not reject the proposal, it then solicits competitive proposals. Since the original proposal is a matter of public record, and in order to not put the original proposer at a disadvantage, an oral auction is held to determine the prospective licensee that is willing to make the greatest work commitment, again, expressed as total dollars. During this process, the state makes a best interest finding before awarding the license. At the time that the license is awarded, the terms of the subsequent leases are established. In addition, the licensee posts a performance bond that reverts to the state for all

committed work not completed by the end of the license term. The bond is critical in that it provides the incentive to do real work.

After getting all of the normal environmental and other permits, the new licensee conducts the work. Upon completion of the work, the licensee, at its option, converts all or part of the license area to appropriate sized leases.

This conversion to smaller leases is critical to keeping licensing from becoming a vehicle for land speculation. It allows the state to take back leases after the primary term expires, where no development potential is shown. Therefore, the leases would be administered just as they are today. The bill provides for leases acquired through licensing to not be subject to the current 500,000 acre chargeability limits.

To summarize, the bill is really quite simple in its concept. Its main purpose is to shorten the time required to explore. It gives a secure land position in return for a bonded work commitment. It relies on market competition to prevent abuse or giveaways. And it provides protections to the state by allowing the Commissioner to reject any proposal and revert to the existing leasing program.

Major Objections to the Bill

Let me now respond to the major arguments that I have heard against this bill. Foremost, I can't understand why others would not see that it's in the State's interest to get exploration moving: to find and develop oil and gas as quickly as possible. In that light, maybe this bill should be titled the Exploration Work Commitment Bill. That title captures for me the fact that while land is being acquired, the real effect of licensing is to get exploration work done. All of the criticisms or amendments that I have heard serve to weaken or dilute the goal of speeding up exploration. Let me illustrate by looking at these objections one at a time.

I hear some say that the leasing system is working fine and that no license bill is needed. Yes, leasing does happen and clearly the state and the industry have benefited. But I would rather say that benefits have not come because of leasing: discovering and developing Prudhoe, for example, had much more to do with the quality of the reservoir than the effectiveness of the leasing system. Further, revenues to the state from bonuses and rental have amounted to less than 1% of total revenues from 1981 through 1992. Clearly the state benefits most from discovery and development. To me, a way to supplement the lease system with a faster process such as licensing is needed.

A more specific complaint is that the bill should exclude broad portions of the North Slope and Cook Inlet from licensing. The reason, I'm told, is that licensing is only needed in "frontier" areas. Let me offer two thoughts on this. First is that we agree that this should be a frontier area bill: but we think that licensing should be available for both intellectual as well as geographic frontiers. Our Cook Inlet discovery, the first in 25 years, is a good example of this. Most basins go through cycles of discoveries. Cook Inlet is now in its second cycle. We rethought the geologic concepts in Cook Inlet and by applying them found oil in an area that industry had all but abandoned. There is land in both the Cook Inlet and on the North Slope that has been leased and returned to the state, or offered for sale and not bought. These areas are intellectual frontiers and when new concepts are developed, these areas should be available for licensing.

The second thought is that the Arctic North Slope is a particularly poor choice for blanket exclusion. This is because new sources of oil are needed to keep TAPS running as long as possible. Crude rate through TAPS will be declining significantly over the next ten years and modifications such as shutting down pump stations will be needed. Over time, it will be more and more expensive to bring TAPS capacity back up. New discoveries will have

to bear those costs. As time proceeds, discoveries will have to be larger and larger to justify TAPS investments. I just don't think that we can expect to find larger and larger fields. We must try to find as many smaller sized fields as soon as possible to maximize the economic efficiency of TAPS and to keep rate from declining as quickly. There is an added benefit that the longer TAPS operations continue, more oil will be produced from existing fields like Prudhoe and Kuparuk. Exploration Licensing is especially applicable on the North Slope because we have only a limited window of opportunity.

The performance bond has also been criticized as being too onerous. But it would be a mistake to provide relief from bonding. The reality is that Alaskan exploration is high risk and high cost. Nothing has changed for players without the financial ability or interest in licensing. They can continue to participate through existing leasing. Or they can form joint ventures with others and seek licenses. Loosening the bond requirement encourages speculation, not exploration. And holding land without exploring is of no benefit to the state.

The oral outcry form of bidding has been criticized as not being viable. We see oral auctions as protection for the person who submits the initial proposal, which may be subject to partial disclosure. The originator may be

disadvantaged during bidding by competitors having that information. The argument against oral auction is that it will be too complex. But it is really fairly simple. After the state has solicited and evaluated proposals, it develops a common basis for the bidding and the competitors bid a work commitment in terms of dollar amount. There really is not anything unworkable here. Also, this concept is not new, its been utilized in numerous countries for many years.

As I mentioned earlier, one of the fundamental protections for the state and the industry is the existence of market competition. One of the most disturbing arguments I've heard against this is that some companies will not use licensing because they have only limited funds for Alaska. In essence, these people are saying that the state should not speed up the pace of exploring for and discovering oil until they are prepared to reinvest in Alaska. This is probably because they have better foreign opportunities. This demonstrates that Alaska is at a competitive disadvantage as I mentioned earlier. Exploration Licensing will help level the playing field by making Alaska more attractive for exploration.

Critics of this legislation are quick to point out that ARCO has committed nearly 1 billion dollars to an active, ongoing 5-year exploration program and that exploration

licensing is not fair to other companies who have not made such commitments. But we should remember that the goal of this legislation is to have a process which speeds up exploration and which creates competition for making work commitments. Just the introduction of this bill has created a climate of competition within the industry. And that's good for the state. I presume that other companies will seek and win licenses. I hope that ARCO can also benefit from licensing. But I also hope that the state benefits from licensing, because that will mean that exploration in Alaska has been reinvigorated.

I would be happy to respond to any questions that you might have.

State of Alaska Revenues

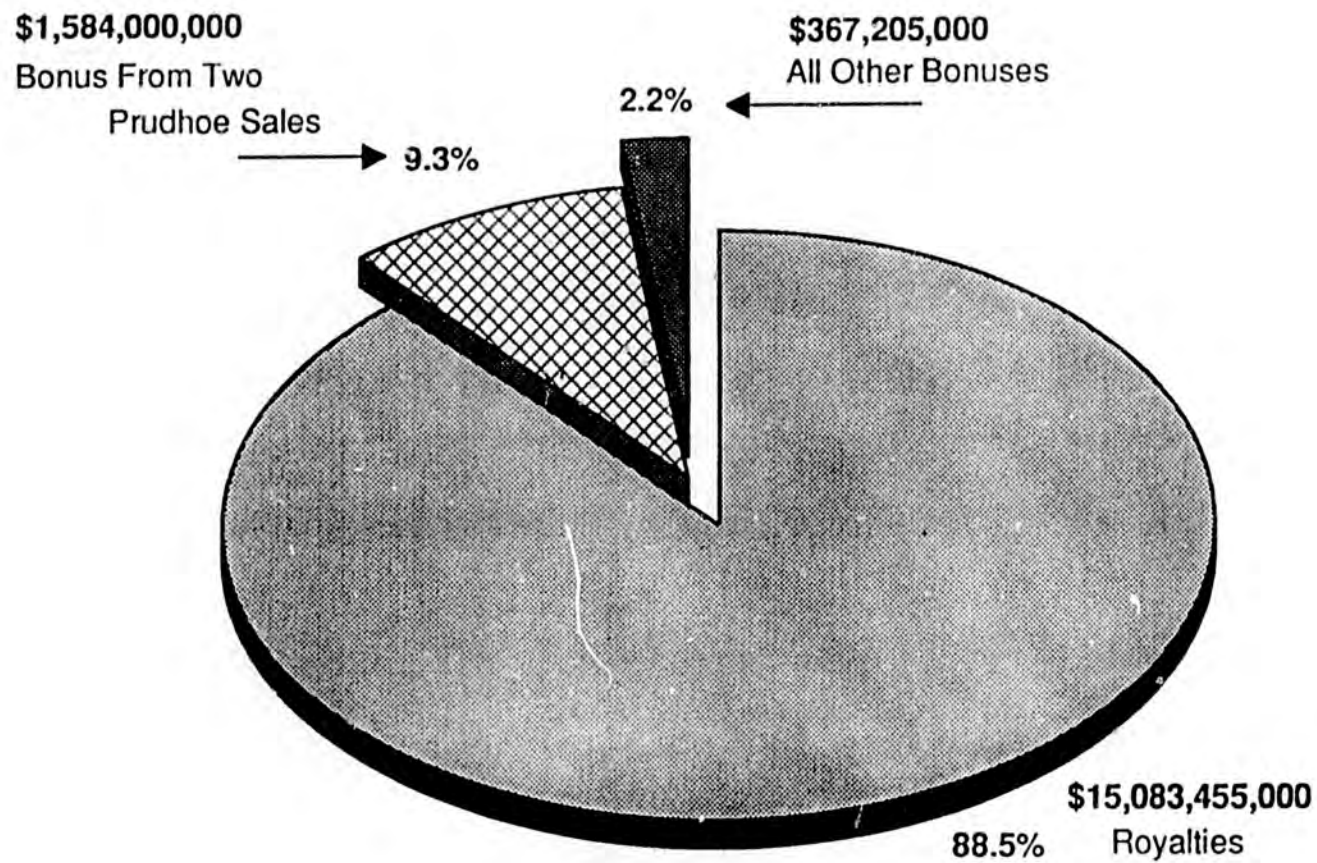
\$ Millions

<u>Fiscal Year</u>	<u>Oil & Gas Severance Tax</u>	+	<u>Oil & Gas Gross Royalties</u>	+	<u>Lease Bonus Sales</u>	+	<u>Petroleum: Other Tax & Settlements</u>	=	<u>Total Petroleum Revenues</u>
1959-69	9		29		96		89		223
1970	8		19		900		12		939
1971	11		24		0		12		47
1972	11		25		0		12		48
1973	12		24		4		11		50
1974	15		29		25		12		80
1975	27		40		1		23		90
1976	28		43		0		320		392
1977	24		46		0		421		491
1978	108		199		0		185		492
1979	174		332		0		399		906
1980	507		918		457		720		2,601
1981	1,170		1,502		14		1,011		3,697
1982	1,582		1,553		10		838		3,983
1983	1,494		1,447		73		443		3,457
1984	1,393		1,409		17		418		3,237
1985	1,389		1,390		24		321		3,124
1986	1,108		1,098		70		753		3,029
1987	649		592		1		337		1,578
1988	819		954		11		607		2,391
1989	699		819		23		533		2,074
1990	1,002		1,004		0		385		2,391
1991	1,285		1,293		38		690		3,306
1992	1,053		936		5		628		2,622
	<u>14,573</u>		<u>15,724</u>		<u>1,770</u>		<u>9,181</u>		<u>41,248</u>

Source: Alaska Dept. of Revenue, Revenue Sources Book, Fall 1992

AK rev 59-92 1/29/93

Comparison of Royalties and Bonuses FY'65-FY'92



SCOMM

93:9

WALTER J. HICKEL
GOVERNOR



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

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB200

March 5, 1993

The Honorable Ramona L. Barnes
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Barnes:

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.

COMMITTEE COPY

The Honorable Ramona L. Barnes

March 5, 1993

Page 2

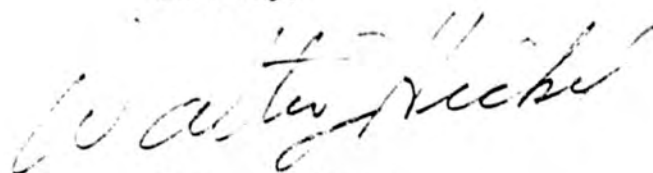
48200

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, appearing to read "Walter J. Hickel".

Walter J. Hickel
Governor

Alaska Federation of Natives, Inc.

March 22, 1993

Senator Loren Leman, Chairman
Senate Special Committee
on Oil and Gas
Alaska State Legislature
State Capitol, MS 3100
Juneau, Alaska 99801-1182

Representative Joe Green, Chairman
House Special Committee
on Oil and Gas
Alaska State Legislature
State Capitol, MS 3100
Juneau, Alaska 99801-1182

Dear Senator Leman and Representative Green:

The purpose of this letter is to convey comments on exploration incentive credit bills HB 200 and SB 151. Both bills have been offered by Governor Hickel and are presently before your respective Special Committees on oil and gas.

These comments are offered on behalf of the Alaska Federation of Natives Land Committee. The Committee is composed of land and resource managers from ANCSA regional and village corporations. The Committee advises the full AFN Board of Directors on policy issues affecting the Alaska Native Claims Settlement Act and related land and resource management interests. Formally established eight years ago as a working Committee of the Board, several of the Committee's membership represent ANCSA corporations that have a direct involvement in oil and gas activities.

The Alaska Federation of Natives supports HB 200/SB 151 with the exception of language in Section 1, Subsection (e) which restricts the amount of credits available to certain exploration activities on private land to 25 percent of eligible costs. It is the Federation's position that the maximum amount of an EIC available to exploration activities on private land should be consistent with the 50 percent maximum applied to activities on state land.

We believe that the affects of court cases, in particular United States v. Utah and State of Alaska v. United States, have expanded the state's interest in oil and gas substantially beyond that interest derived from state land selections. Under liberal standards of navigability handed down by the court the state stands to gain ownership in approximately three million acres of submerged lands. A substantial

portion of private and federal lands in unexplored sedimentary basins contain water bodies which will prove to be navigable and thus come under state ownership. It is reasonable to assume that the exploration of a number of private upland tracts in unexplored sedimentary basins will provide substantial benefits to the state. A discovery in such a case could provide the state with a combination of royalty and tax revenues.

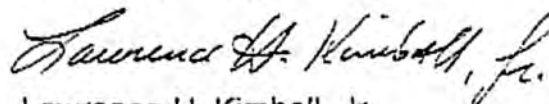
We suggest that the new pattern of state ownership created by submerged lands conveyances increases state interests in remote areas. Since the degree of state interest is likely to vary from tract to tract it seems logical that credit maximums be consistent at 50 percent of eligible costs so as to maximize state options if the Commissioner finds state interest to be substantial. Under the proposed bills the Commissioner will have discretion in assessing state interest and thus the actual applied percentage of allowable credits. Maintaining a 25 percent maximum for activities on private land may prove to be a disincentive for small private developers, thus discouraging exploration activity in an area that could yield high returns to the state. Regardless of the maximum percentage established, the Commissioner has considerable discretion in establishing the percentage allowed. You need simply to review past allocations under the existing program to realize that percentages allocated have been limited in almost all cases.

We disagree with the state's argument that data gathered from adjacent, more remote lands will have less relevance to the interpretation and evaluation of state-owned lands. I also disagree that benefits which flow from exploration on privately-owned lands will accrue primarily to the private landowner. These arguments may be valid if state interest is narrowly viewed as generating from state land selections. However, that is not the case. The map depicting state ownership has changed. Owning submerged lands in every portion of the state that has navigable water makes the state a potential oil and gas owner in every upland discovery.

The AFN Land Committee respectfully urge your Committee to consider amending House Bill 200/Senate Bill 151 to establish an exploration incentive credit maximum of 50 percent for eligible costs relating to activities performed on land not owned by the state.

Thank you.

Sincerely,
AFN LAND COMMITTEE



Lawrence H. Kimball, Jr.
Chairman

Position Paper
Department of Natural Resources
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.

FISCAL NOTE

STATE OF ALASKA 1993 LEGISLATIVE SESSION

No. 1Bill Version: HB 200(H) Publish Date: 3/5/93

Revision Date:

Title: Oil & Gas Exploration Incentive CreditsDept. Affected: RevenueBRU: Revenue OperationsComponent: Oil & Gas Audit DivisionSponsor: GovernorRequestor: GovernorCOMPONENT SERIAL NO. 115**Expenditures/Revenues:**

(Thousands of Dollars)

	FY94	FY95	FY96	FY97	FY98	FY99
OPERATING						
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. MourantDivision: Commissioner's OfficeApproved by Commissioner: Darrel J. RexwinkelAgency: RevenuePhone: 465-2300Date: 3/2/93Date: 3/2/93

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Doyon, Limited

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Toll Free in Alaska: 1-800-478-4755

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.

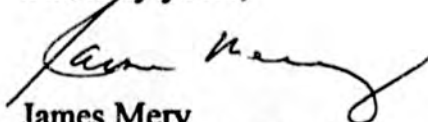
The above considerations clearly illustrate that the State, private and federal interests are often intertwined and the relevance of data gathered from private and federal lands can be just as valuable to the State as data from its own uplands. Yet HB200/SB151 unnecessarily restricts the commissioner's 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.

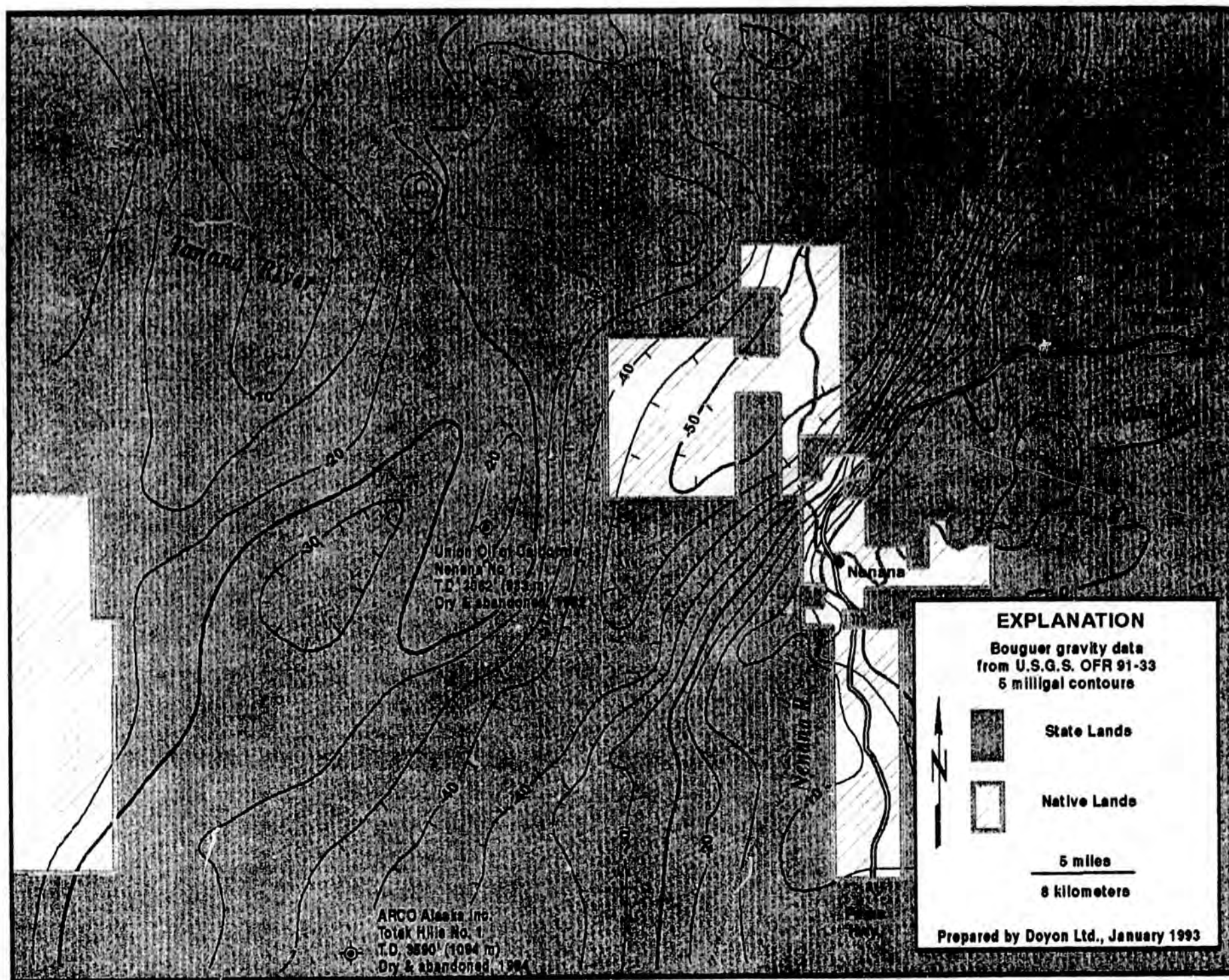
Sincerely yours,



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.



Prepared by Doyon Ltd., January 1993



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



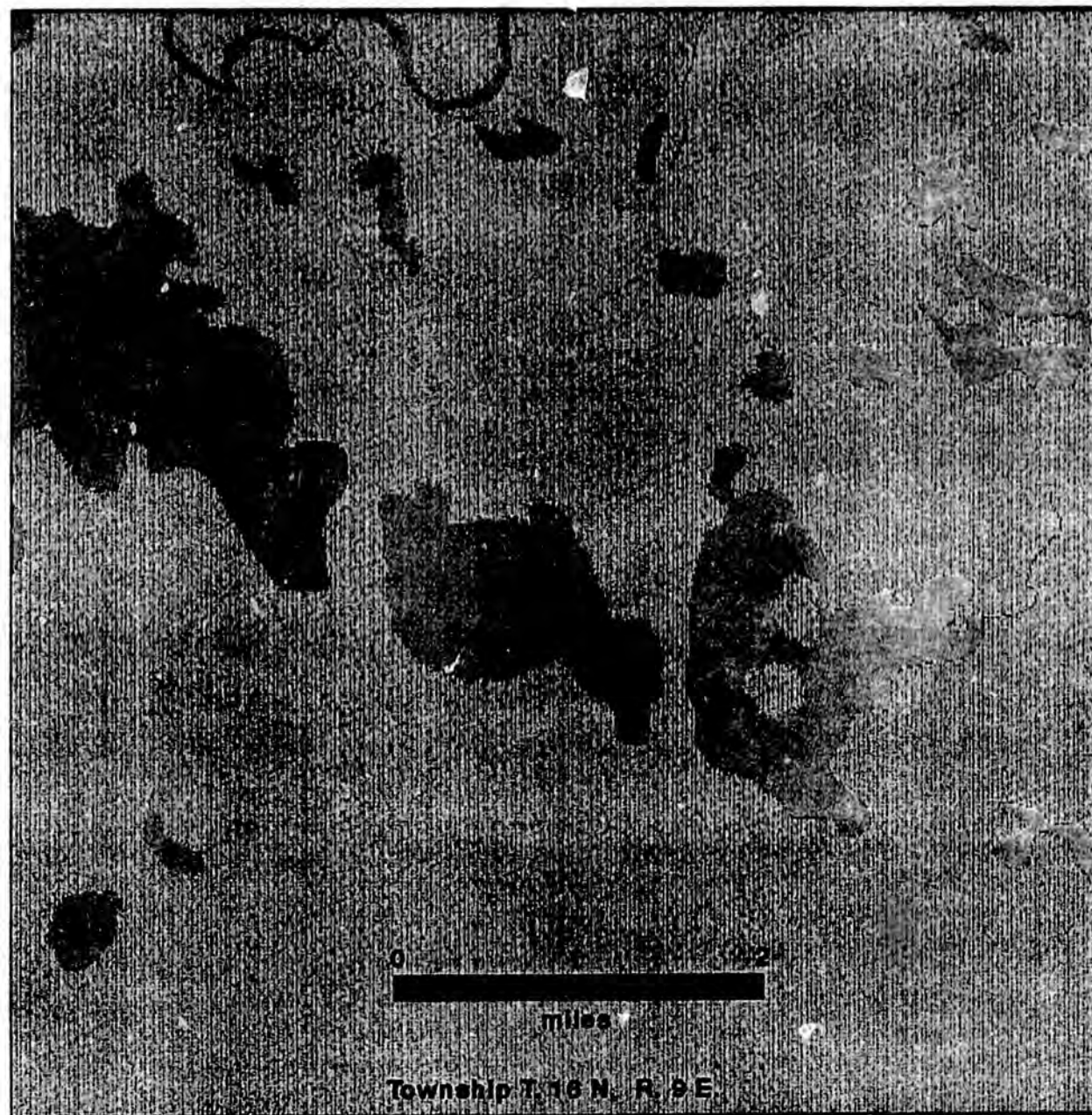
Total Area	22,950
Uplands	19,138
Aquatic Lands	3,812

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%

SCOMM

93:10

file HB 276

March 4, 1994

Representative Joe Green
Chairman, Oil & Gas Committee

Dear Joe,

After hearing the testimony via tele-conference on March 3, 1994, from the Commissioner of the DEC, I am convinced more than ever that HB 276 should become law.

The Commissioner stated that a fisherman might cheat by pouring oil on a net, yet at the same time he said he didn't understand why the DEC couldn't trace the origin of the oil. I wondered about this since 1988. Could there ever be a dishonest person in the DEC or the Coast Guard for the benefit of oil related people?

The person or persons who spilled the oil committed a crime a hundred times worse than what the Commissioner claimed a fisherman might do. Not only did the person or persons do damage to several fishermen on Kalgin Island, but they damaged the environment.

I ask you, should we close our banks and do nothing if a banker has easy access and steals money? I feel this is a just comparison that the Commissioner has related to us. He said that it would be too easy for the fishermen to cheat. I would like to remind you that cheating can be done, and is, in all facets of life. Please vote for HB276.

Thank you,

Jim Hermon

James S. Hermon
P.O. Box 451
Palmer, AK 99645

House Oil & Gas Committee
HB 276
March 3, 1994

Mr. Chairman, members of the Committee:

My name is Beverly Ward, I'm director of Government Relations for ARCO Alaska, Inc.

Thank you for the opportunity to comment on HB 276.

It will probably come as no surprise that ARCO is opposed to expanding the uses for which the oil and hazardous substances spill response fund can be used.

The spill response fund is primarily funded by a tax on crude oil production, a tax that currently generates about \$26 million per year. The industry has paid over \$112 million into the fund to date.

One of the reasons the spill response fund has never been able to reach the \$50 million cap, and thus have the surcharge suspended, is that additional uses of the fund have been authorized by previous legislatures. While some of these uses are clearly appropriate, other uses are more questionable.

For more than a year the Legislature, the Administration, the oil industry and the public have been dealing with legislation which would rein in the spending from this fund and allow the \$50 million cap to be achieved. HB 276 would be inconsistent with those efforts.

In a time of declining state revenues this fund is becoming a target for more and more spending.

New ferries for the marine highway system, new drinking water wells in the Bush, leaking underground storage tank clean up: all of these needs are real. But, where does it all stop? It should stop with HB 276.

We urge you to not pass HB 276. We urge you not to expand the uses of the fund.

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB 276

Revision Date: _____
Title: Expanding the use of the OHSRRF
Sponsor: Larson by Request
Requestor: House Oil and Gas Committee

Department Affected: Environmental Conservation
BRU: Spill Prevention and Response
Component: Government Preparedness & Response

COMPONENT SERIAL NO. _____

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	*					

CAPITAL	*					
---------	---	--	--	--	--	--

REVENUE						
FUND SOURCE:						

FUNDING:

1002 FEDERAL RECEIPTS						
1003 GF MATCH						
1004 GF						
1005 GF/PROGRAM RECPT						
1006 GF/MHTIA						
OTHER	*					
TOTAL						

POSITIONS:

FULL-TIME	*					
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: \$

ANALYSIS: (Attach a separate page if necessary.)

*It is impossible to determine with any accuracy the fiscal impact since the department has no current information on how often commercial fishing gear is fouled by a release, or what would constitute a reasonable average cost for replacement.

Prepared by: Bob Poe, Director
Division: Information & Administrative Services

Phone: 465-5010
Date: 2/24/94

Approved by Commissioner: [Signature]
Agency: Department of Environmental Conservation

Date: 2/24/94

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STATE OF ALASKA

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 5800
FORT RICHARDSON, AK 99505-5800
PHONE: (907) 428-6000

OFFICE OF THE COMMISSIONER

October 25, 1993

The Honorable Joseph P. Green
Alaska House of Representatives
Chairman, House Oil & Gas Committee
716 West 4th Avenue
Anchorage, Alaska 99501

*Jeff -
any comments?*

Dear Representative Green:

As Commissioner of the Department of Military and Veterans Affairs, I am responding to your written query of October 13, 1993, to the Division of Emergency Services regarding HB 297 "An Act reassigning responsibility for the oil and hazardous substance response corps and for the emergency response depots to the Department of Environmental Conservation", (Attachment 1).

We support the proposed transfer of responsibilities to DEC, as also contained in CSSB 33 (Attachment 2) and HB 304 (Attachment 3).

I would correspondingly request your support of the transfer of the State Emergency Response Commission from the Department of Environmental Conservation to the Department of Military and Veterans Affairs as contained in Attachments 2 and 3. As you are aware, the Division of Emergency Services, within the Alaska Disaster Act (AS 26.23), has a longstanding and distinguished relationship with local government for disaster preparedness, emergency planning and training, response and recovery activities associated with disasters, as recognized by the Alaska Oil Spill Commission.

It is beneficial to the State-local government relationship to consolidate Natural and Technological disaster preparedness, planning and training with a single, experienced agency as is the Division of Emergency Services.

Thank you for the opportunity to comment on HB 297 and I look forward to your support of CSSB 33 and HB 304.

Sincerely,

Hugh L. Cox III
Hugh L. Cox III
Commissioner

HLC:EPM:lb
Attachments: as stated
c:\wpfiles\erv\green.ltr

E.Z

Alaska State Legislature

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DISTRICT 10



CHAIR, OIL & GAS COMMITTEE
VICE CHAIR, LABOR & COMMERCE
COMMITTEE
JUDICIARY COMMITTEE
RESOURCES COMMITTEE
INTERNATIONAL TRADE & TOURISM
COMMITTEE
ECONOMIC TASK FORCE

Representative Joe Green

October 13, 1993

Mr. Irvin Martin, Director
Division of Emergency Services
Department of Military & Veterans Affairs
P.O. Box 5750
Ft. Richardson, Alaska 99505-0750

Mr. Martin,

As you probably know, the House Oil & Gas Committee, which I chair, has introduced HB 297 "An Act reassigning responsibility for the oil and hazardous substance response corps and for the emergency response depots to the Department of Environmental Conservation."

As the title of the bill indicates, this legislation would remove from DES the responsibility for managing the oil spill depots and corps. Accordingly, I would like to know how you, as director of DES, feel about this proposed change in policy.

A hearing on HB 297 will be held early next month, so I would appreciate hearing from you at your earliest convenience.

Thank you.

Sincerely,

A handwritten signature in dark ink, appearing to read "Joe Green", written over a horizontal line.

Representative Joseph P. Green, Chairman
House Oil & Gas Committee