

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2284 SCOMM 94 SENATE SPECIAL COMMITTEE ON OIL & GAS, 1993-94 854

Submitted by: Sen. Bert Stump Bill on oil drilling gets more suspicious

Last April I reported here on a suspicious new bill in the Legislature that would change the way Alaska's oil rights are sold. Things are getting even more suspicious.

The bill was introduced by Gov. Walter Hickel in both the House and Senate. As originally written by the governor, it would allow oil companies to nominate virtually all unleased state land for exploration licenses, which would be sold at a public oral auction, with the bids being a "work commitment" of proposed drilling expressed in a dollar value.

Companies could buy oil drilling rights on up to 500,000 acres of state land this way. The governor's bill required the buyers to post a bond equal to the value of the work commitment offered for the lease, which would be forfeited along with the drilling rights if the company didn't do the work in the time specified.

As I noted last year, there are a number of things wrong with this.

Obviously nobody but the major oil companies can afford to post such huge a bond. The state would be unlikely to cancel the license and take the bond if the company doesn't do the promised work because it would just be tied up in court for decades, like the overdue

oil taxes only now being settled.

The effect of Hickel's proposal would be to let the large oil companies tie up huge tracts of Alaskan land indefinitely, locking out smaller competitors.

Currently the rights to develop oil on state land are sold through a leasing system. An area is put on a lease sale schedule five years in advance, potential buyers indicate their interest in what they want sold, and perhaps drill wells to get geologic data to guide their bidding.

Then they submit sealed bids for the tracts they want. The royalties and condition of the leases are set out in advance, and the tracts are sold for a cash "bonus" payment. These bids are opened and read in public, and the high bidder gets each tract.

This system isn't perfect, but it's brought us \$1.8 billion in lease bonuses on 10 million acres of state land since 1959, and has led to development that paid the state \$40 billion more in royalties and taxes.

Last year Senate committees amended Hickel's proposal several ways. They exempted most North Slope lands and areas in current lease sales, and the hotter parts of Cook Inlet. They also reduced the



Fred
Pratt

bond to only 10 percent of each current year's "work commitment."

Senators also weakened the part of the bill requiring oil companies to relinquish their oil exploration licenses if they fail to do work commitments.

Finally, the Senate replaced the oral auction with a sealed bid auction. This is another gift to the large oil companies, since it would prevent a public setting of the value of our state oil lands.

The Senate version of the bill, SB 150, came up at the end of the legislative session and failed on a nine-to-eleven vote, two short of passage.

All four Fairbanks and Interior legislators voted against it.

It was held for reconsideration, and was awaiting that vote on the Senate secretary's desk when the session ended.

Since then there has been a lot of activity to swing two votes and pass SB 150.

A draft of a revised bill surfaced in October. It was touted to the Senate Special Committee on Oil and Gas this week by officials of the Department of Natural Resources.

DNR's bill weakens the relinquishment provisions even more, allowing oil companies to keep all their rights even if they do only half the promised work in four years. If they do nothing at all, they still get to keep at least one-quarter.

The new bill would also require licenses cover at least 20,000 acres, equivalent to more than three existing leases.

What raised my suspicions even higher was the close match between what DNR proposed and amendments suggested to senators by the Alaska Oil and Gas Association, the industry's lobbying arm in Alaska.

This is the kind of thing that gives Cliff Burglin credibility when he complains that DNR runs like a subsidiary of the major oil companies.

Burglin strongly opposed SB 150 in the hearing this week, noting that the companies seeking the change are laying off Alaskans and moving to other areas overseas. He charge

the bill gives them a way to tie up the best potential oil and gas lands in our state until they might want to return.

Burglin also made the very valid point that the state is probably courting another fight with the Mental Health Trust with such a huge land action.

What I found most curious was the consideration of a new draft bill and amendments by a committee that doesn't even have the bill before it. I'm no parliamentarian, but it's clear the next action open on SB 150 is to bring it up for a reconsideration vote, and it can't be amended while it's on the Senate secretary's desk.

Like I noted last year, every time we've done something like this for the oil companies, we've been sorry. The last time Anchorage Republicans controlled both houses of the Alaska Legislature, in 1981, we got the "Economic Limit Factor" or ELF revision lowering our severance taxes, and it cost us hundreds of millions of dollar in lost income before it could be repealed.

If not the current leasing system that doesn't work, it's the way the system is being run.

Free-lance journalist Fred Pratt has been covering Alaska business politics for the past 18 years.

Given at 1-25-94 OIL+GAS WORK SESSION
RE: CS SB 150 (FIN)am

Cliff Burglin

May 14, 1993

EXPLORATION LICENSING:

Definition: Special interest legislation solely for the benefit of multinational oil companies at the expense of, all other Alaskans.

Exploration licensing has not resulted in more jobs in Alaska for the natives in the native corporations. It has not resulted in accelerated exploration or production on native lands. It has not made individual natives ~~more~~ financially independent. It has not resulted in more income and better quality of life for the native people in general. In short, after over twenty years of exploration licensing by native corporations, there have been no commercial oil fields. However, most of the native corporations' forty four million acres have been closed to exploration by any entities but the major oil companies or wealthy independents.

As far as other countries go, it is true that licensing of large tracts by wealthy oil companies is the prevailing scheme of things. This has resulted in nearly total corruption of leadership in these countries and dire poverty for the citizens. Saudi Arabia's government controls all of the oil land. Most of it's up to ten million barrels per day is marketed by the largest oil company in the world, ARAMCO, an acronym for Arabian American Oil Company. It is composed of Saudi Arabia, Exxon, Texaco, Mobil and Chevron.

Russia and it's commonwealth nations in the past and now are negotiating licensing concessions. Since oil was discovered in imperial socialist Russia it has passed from the hands of wealthy concessionaires to the Russian communist government. Both have contributed mightily to the downfall of Russia's most vital industry. The environmental degradation in Russia is planet threatening. All caused by communist government and large land owners and multinationals corporations.

No one takes care of the land like individual owners or makes it more productive and beautiful. Don't forget that wealthy individuals and corporations and corrupt socialistic governments brought about the destruction of Russia as a powerful economic self sufficient nation. Like Alaska, Russia is endowed with every renewable and nonrenewable resource known on the face of the earth.

Fred Pratt has been criticized for his April 30th article in the Fairbanks Daily News Miner. The criticisms are self serving and omit several pertinent facts.

In a May 5th letter to the editor, Mr. Williams of BP states: "Fred Pratt should at least read the oil licensing bill before condemning it as he did in his column of April 30. Contrary to

what he wrote, exploration licensing will not replace the present system of competitive oil and gas leases, it would be in addition to leases." Common sense would tell anyone that the licensing areas would, by the very act, be closed to any other leasing system for up to twenty years. And in fact would become the private, exclusive area of exploration for the major oil companies. As I have said before, and it is a matter of public record, that every commissioner of Natural Resources has delegated his or her authority to the director for the Division of Oil and Gas, who has been for the past several years an ex-Arco employee.

Mr. Williams goes on to make the point that the bill has been awarded to make licensing more competitive. But he does not mention that the only competition would be among multibillion dollar corporations who don't even have to post a bond.

Probably the phoniest argument that oil companies use for exploration licensing is that it will save on exploration costs. These costs are already factored into their yearly budgets for the current year and future years. Unless you are willing to believe that multinational billion dollar oil companies operate on a day to day, hand to mouth basis. Furthermore, even in bad years, these major oil companies make hundreds of millions to billions of dollars in profit. Study their financial statements and read their press releases. Of course, if the legislature and governor of the State of Alaska are willing to turn over millions of acres worth billions of dollars to them as a gift, they will gladly accept. At the same time, the Alaska government will deprive over 500,000 Alaskans use of the property, probably forever.

Another fact that major oil companies neglected to mention, is that they pass all worldwide costs of doing business on to their customers. Anyone, which is everyone, who uses oil or gas products is familiar with this process.

If BP, Arco and Exxon want to go look for oil elsewhere, let them. They know that Alaska is the most secure, prolific source of domestic supply. Exxon makes great press releases of spending 80% of their exploration budget overseas. What Exxon doesn't tell Alaskans is that they participate with Arco; in most cases on a fifty-fifty basis with any Arco discoveries on the North Slope. And are not about to leave Alaska.

It was very disappointing and discouraging to interested Alaskan voters to learn that Senators Sharp, Miller and Frank had considered voting for this "license-to-steal" bill under any conditions. They know better.



BP EXPLORATION

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 561-5111

Date: January 26, 1994

To: Annette Kreitzer, Staff
Senate Special Committee on Oil and Gas

From: E.P. (Pete) Zseleczy, Jr.
Land Manager, BP
564-5083

The proposed amendment to CSSB150 allowing license areas of less than 20,000 acres in certain circumstances causes BP concern for the following reasons. Although BP supports large block licensing for certain areas of the state, we do not support legislation which could be substituted for the existing competitive oil and gas lease sale process.

By allowing licenses to be granted for tracts constituting fewer than 20,000 acres, the legislation will be ignoring the original intent of the bill. That intent was to provide for a supplemental process to competitive bidding, but only for large tracts on which substantial work programs will be conducted. The intent for small tracts was to continue the existing competitive lease sale program.

Thank you for this opportunity to express our concern.

With Prudhoe Bay on decline, the State must look to the development of other oil and gas resources to have any hope of maintaining revenue and spending levels even close to those that currently exist. You know that spending cuts and new taxes cannot alone make up the fiscal gap.

I am absolutely convinced that responsible oil and gas development can occur on state lands with minimal if any environmental impact given the current technology available in the oil industry. As I am sure you are aware, the technology and impact minimization techniques practiced on the North Slope are second to none on the entire planet.

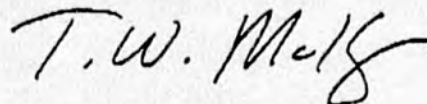
This program will help accelerate the leasing and exploration process, which in turn will reap dividends for the State. To meet current budget demands, we are cutting spending, borrowing from reserves, and considering a variety of taxes. The exploration licensing program presented by SB-150 and HB 199 will help to alleviate these budget shortfalls, and prevent us from rapidly spending our children's savings accounts on excessive government in the next couple of years.

Oil and gas development is a long term process, and the time to start is now with our major source of revenue at Prudhoe Bay on its long predicted decline. Numerous oil companies have left Alaska, and I have personally read where one of the programs foreign governments are using to entice capital and development is large block leasing programs such as this.

I urge you to support the large-block licensing program established by this legislation. Please let me know where you stand on this important issue.

I appreciate the opportunity to prepare and submit this letter to your committee. I look forward to hearing from you.

Sincerely,



Thomas W. McKay, P.E.
District 17 Chairman
Republican Party of Alaska
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(907) 349-9380 (H)

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Juneau, AK 99811-0001

House Speaker Flamona Barnes, House District 22
House Majority Leader Gail Phillips, House District 7
Representative Sean Pamell, House District 17
Representative Joe Green, House District 10
Representative Mark Hanley, House District 12
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Senate President Rick Halford, Senate Seat M
Senate Majority Leader Robin Taylor, Senate Seat A
Senator Steve Rieger, Senate Seat I
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Exploration Licensing

Testimony by V. M. Withington
2840 Pelican Dr. - Anch, AK

I want to thank this committee for letting me present written comment on HB-199/SB150.

Only a few short years ago, the Trans-Alaska Pipeline carried 2.1 million barrels of oil a day. Today, North Slope production has dropped to only 1.6 million barrels daily. This loss is equivalent to losing 5 Pt. Macintyre size oil fields!

HB-199/SB150 is a bill that offers high potential for both Alaska and the oil and gas industry. It will attract investment to our state, target state lands of interest to the industry, and accelerate the finding new oil and gas fields. These factors are important because our existing fields are maturing.

Alaska is a resource state, 85% of state revenues are a result of oil production. These revenues have given us tremendous prosperity. If we are to sustain this prosperity, we must replace this declining production with new fields. This requires exploration. More importantly, it requires legislation that will make Alaska attractive to the industry.

As you review this and other important oil and gas legislation this session, ask yourself these questions. Of the companies currently operating oil and gas fields today, how many are aggressively exploring within Alaska? Of those companies that have left in recent years, how many do you expect to return and explore? Not many. Not unless Alaska's business climate changes for the better.

Alaska is virtually unexplored, yet U.S. oil companies are now investing twice as much of their exploration and production capital overseas than domestically. I believe that Exploration Licensing can help bring these companies back to our state. Pass this bill in the next session, and you will send a signal to the industry.

If Alaska seriously wants oil industry companies to return and work in Alaska.

Alaska has to improve the business climate.

Alaska must pass HB-199/SB-150.

Thank you again for the opportunity to present this written testimony.

to Annette in Sen Lerman's Office

465-3810

SB150

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DEC 1 1993

11-30-93

George C. Berry

P.O. Box 81590

Fairbanks, AK 99708

Alaska Legislator,

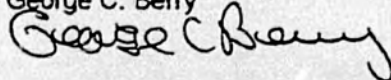
Enclosed you will find two copies of recent articles by Mr. C. Burglin and Ms. M. Bauman. My concerns are that the proposed revival of Arco's large lease tract legislation, if passed, will only continue to concentrate the financial stranglehold the 3 Major's (Arco, B-P, Exxon) have upon the citizens of Alaska whom you represent. We should instead, be leasing tracts that small/independent producers can compete on to fully realize the capitalist free enterprise system which our nation's history shows works best for the citizens and government alike. The continued high profits of the major Alaska oil producers should indicate they do not need, special competitive bid/leasing protection only to control more acreage and continue to monopolize the citizens and state by financial manipulations. Mr. Finesberg's findings point out the true cost of environmental and daily maintenance to be miniscule with respect to overall net revenues of the TAPS system. It seems that many corporate CEO'S like to use the phrase "THE BIG PICTURE" when looking to scrutinize cost of the front line workers and/or proper and adequate maintenance but continue to run managerially void as the recent BLM audit points out. I expect that you, as a citizen legislator, will hold these Majors and the other multinationals accountable to the same moral and legal promises as other business in the state.

I have sent these copies to help convey the concerns of a long time citizen and a 15 year front line TAPS worker in hopes it will provide a constructive criticism on pending legislation you will be addressing in the next legislature.

Thank You for taking the time to read my concerns and the findings of others as attached..

Sincerely

George C. Berry



cc: Editor - Daily News

Editor - Fairbanks Daily Newsminer

C. Burglin

M. Bauman

Oil analyst reports Slope profits top \$3 billion yearly

By Margaret Bauman
Alaska Journal of Commerce

Debated expenditures of \$150 million for spill prevention and environmental mitigation measures would reduce oil industry profits in the year 2000 by a mere one cent a barrel, a researcher says.

That compares with total after-tax profits in excess of \$5 per barrel, said Richard A. Fineberg, a former state oil and gas analyst, who based his conclusions on assumed oil prices at \$19 a barrel.

"I don't make any pretense to having a crystal ball," Fineberg said in an interview, "but when you take the annual average of oil prices, it is very steady."

Fineberg, a Fairbanks resident, said he relied heavily on state documents in preparing his report. "I'm very grateful (to the state) for making public information available where it can do so without violating taxpayer confidentiality," he said.

In a paper prepared for delivery at the 15th annual North American Conference of the International Association for Energy Economics in Seattle Oct. 11-13, Fineberg estimated after-tax profits from North Slope production and pipeline operations exceed \$3 billion annually.

"If these operations were controlled by one firm (in fact, three companies control more than 90 percent of Alaska's production and pipeline facilities), that company would rank among the five most profitable industrial corporations in the nation," Fineberg said.

The 800-mile trans-Alaska pipeline currently accounts for about one-fourth of U.S. domestic crude oil production and is the lifeblood of the state's economy.

"A straight-forward approach to

have ample room to make additional environmental expenditures, if warranted, despite public pronouncements to the contrary by industry officials."

Fineberg reviewed costs of equipment to reduce the amount of toxic benzene vented by oil tankers at the Valdez marine terminal and to buy special escort vessels known as tractor tugs, which have been judged superior to conventional tugs in dealing with spills hazardous to the environment.

Fineberg notes that James Hermiller, then president of Alyeska Pipeline Service Co., argued against a resolution by Prince William Sound Regional Citizen's Advisory Council, which wanted Alyeska to install a

vapor recovery system to capture and incinerate gasses vented when tankers deballast and load at Valdez.

Hermiller cited current regulations that do not require the venting system, current health risk information, and the \$120 million cost as the driving factors in his rejection of the petition. The two tractor tugs would cost approximately \$25 million.

Fineberg concluded that the vapor recovery system could be purchased at a cost of about 4 percent of one year's after-tax profits and the tractor tugs for less than 1 percent of these profits.

Fineberg said the tractor tugs are being used at Louisiana offshore oil projects and have been ordered for Puget Sound and San Francisco Bay.

In a speech to the Anchorage Chamber of Commerce Jan. 6, 1992, Hermiller warned that North Slope production was declining. "If the state imposes excessive financial burdens on the owners of the production going through the line or on the pipeline system itself, the line will close sooner than later," he said. At that time

Hermiller cited the vapor recovery system he later rejected as an example of a cost Alyeska should not be asked to bear until unacceptable harm was done to the environment or the public health.

Arco Alaska Inc. spokeswoman Susan Reed declined comment on Fineberg's report, saying she had not read it.

But Tom Williams, a spokesman for BP Exploration (Alaska) Inc., questioned Fineberg's study, saying the industry was not convinced the safeguards were proven. Williams said it was an issue of unnecessary regulations.

"He's tilting at the wrong windmill," Williams said. "The question is, is this (an environmental problem) that should be addressed? We're never making so much money that we can just afford to waste it."

Williams said oil industry executives discuss the cost of environmental safeguards in public speeches to make a case that requirements could harm the state's economy by speeding the pipeline's demise.

The Associated Press contributed to this story.



(1975) SEATTLE POST-INTELLIGENCER, FROM AMERICA, 1984/85



Cliff Burglin at large

Oil and Gas Lease Sale #57 was held on September 22, 1993 by the State of Alaska Department of Natural Resources, Division of Oil and Gas.

The technical employees of the DNR, the commissioners, the head of the Division of Oil and Gas, petroleum engineers, geologists, research analysts, statistical technicians and many others get paid upwards of \$75,000 dollars per year plus benefits.

They would come under the classification of "rich" as defined by President Clinton.

Acreage for all proposed state sales is nominated by a gang of ten to fifteen multinational corporations and large, multibillion dollar independents, and approved by the well overpaid state technical people, some of whom have been on the state payroll for over fifteen years.

Sale #57 consisted of over one million acres. Despite the fact that all of this acreage was on the North Slope and had been nominated by the major oil companies, it did not re-

ceive one bid. Alaskans might ask, "Why did they (the multinationals) nominate it if they weren't going to bid on it?" Why do the state experts not know enough to decide what is potentially valuable? They are certainly paid enough, and all claim to be well qualified experts in their fields.

One reason for the lack of bidding is that at least three of the largest explorers and bidders are over their state acreage limits.

Any bid that Arco, BP or Exxon makes on state acreage is illegal. As they are the primary operators and producers of most of the state's one million six hundred thousand barrels per day, they may have been interested, but they cannot acquire more state leases. Legally, that is.

The lease terms were fairly reasonable. Minimum bid was \$5.00 dollars per acre, with 12 1/2% overriding royalty to the state and an initial term of ten years.

For a measly \$5 million dollars, these or any other oil companies could have picked up over one million acres in one of the

world's greatest producing petroleum basins. These are the same companies that are and have been flaring (wasting) \$2 million dollars worth of gas per day for many months.

These also are the same companies that have persuaded Governor Hickel and the majority of the state legislators to give them 500,000 acre chunks of the state's best land for no money down and a lot of empty promises.

They have even written the enabling legislation. WHY DO ALASKANS NEED A LEGISLATURE OR GOVERNMENT THAT CANNOT EVEN DRAFT ITS OWN LEGISLATION? Or a Department of Natural Resources? Or a revenue department that is so ignorant that it can't compute the number of tankers and their capacities loading out of Valdez. This would give the state government an accurate account of the daily production.

The University of Alaska is a land grant University. It is asking the state for one million acres with mineral rights. Why not give the University their million acres, instead of the do nothing, bid

nothing oil companies who are laying off workers and leaving the state for other countries and taking their money and their jobs with them?

Why not let the mental health people select productive state land? Both the University of Alaska and the Mental Health should have preference over the oil companies.

Neither entity should trust the DNR to manage their land. The DNR is not working for the people of the State of Alaska. This department is working for big oil. And getting overpaid by Alaskans for destroying our economy. Unfortunately, our Governor and our selected representatives are ready, willing and able to give away the state's resources for a few thousand dollars in campaign contributions and guaranteed re-election.

(Cliff Burglin is a life-long Alaskan who majored in economics at Washington State University and the University of Alaska. He has been active in business and resource industries in the State of Alaska for over 40 years.)

CITIZENS VOICE

Q. What would you recommend to increase voter turnout?



North Pole
Independent

January 18, 1994

Alaska State Legislature
Senate Special Committee on Oil and Gas
Public Hearing
Legislative Information Office
Anchorage, Alaska

JAN 25 1993

Re: Exploration Licensing
Public Testimony
SB-150 / HB-199

Dear Senators:

I urge you to support Large Block Exploration Licensing as one way to attract oil industry investment in the State of Alaska. As an oil industry explorer, I have seen first hand, the hundreds of millions of dollars the industry spends attempting to find commercial quantities of oil and gas here in Alaska. It is a tremendously challenging task, and the industry needs State support to continue the search.

With the beginning of this Session, you are now seeing what many fiscal conservatives have been clamoring about for years, the decline in state revenue caused by a combination of excessive spending, oil production decline, and depressed oil prices. It should be clear that incentives are in order, now more than ever, to attract industry exploration dollars to Alaska given this depressed industry outlook.

How many more oil company departures from Alaska would you like to see? Will it take major industry layoffs before this Legislature will take substantive action to help the industry? Virtually every wealth producing sector of Alaska industry is showing employment decline. This is documented in State labor statistics. Think of how many oil companies have left Alaska already: Chevron, Amoco, Texaco, Conoco, a large part of Shell's operation.

As I understand it, SB-150 and HB-199 would allow a large block oil and gas leasing program to be established in Alaska. Given the stated and documented position of the Democratic Clinton Administration against ANWR development, it is obvious that the State of Alaska must forge ahead with pro-development policies on State lands. One way to accomplish this is through the leasing program presented by this legislation.

By the way, I hope you noticed that Al Gore and Bruce Babbitt are evidently succeeding in their mission to re-invent government and lock up Alaska by planning to close several Department of the Interior offices in Alaska. Newspaper reports reveal plans to close or severely curtail operations in the Bureau of Mines, Minerals Management Service, and U.S. Geological Survey offices in Alaska.

With Prudhoe Bay on decline, the State must look to the development of other oil and gas resources to have any hope of maintaining revenue and spending levels even close to those that currently exist. You know that spending cuts and new taxes cannot alone make up the fiscal gap.

I am absolutely convinced that responsible oil and gas development can occur on state lands with minimal if any environmental impact given the current technology available in the oil industry. As I am sure you are aware, the technology and impact minimization techniques practiced on the North Slope are second to none on the entire planet.

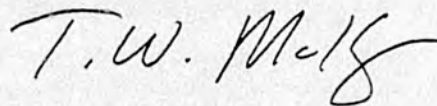
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I urge you to support the large-block licensing program established by this legislation. Please let me know where you stand on this important issue.

I appreciate the opportunity to prepare and submit this letter to your committee. I look forward to hearing from you.

Sincerely,

A handwritten signature in dark ink, appearing to read "T.W. McKay". The signature is fluid and cursive, with the first and last names clearly legible.

Thomas W. McKay, P.E.
District 17 Chairman
Republican Party of Alaska
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House Majority Leader Gail Phillips, House District 7
Representative Sean Parnell, House District 17
Representative Joe Green, House District 10
Representative Mark Hanley, House District 12
State Capitol
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Senate President Rick Halford, Senate Seat M
Senate Majority Leader Robin Taylor, Senate Seat A
Senator Steve Rieger, Senate Seat I
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January 18, 1994

Alaska State Legislature
Senate Special Committee on Oil and Gas
Public Hearing
Legislative Information Office
Anchorage, Alaska

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Public Testimony
SB-150 / HB-199

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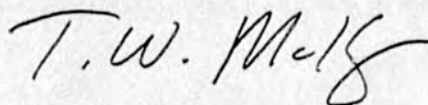
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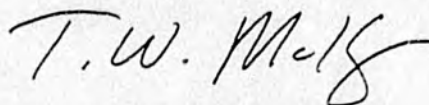
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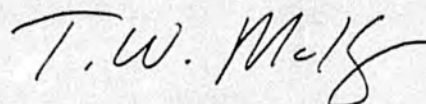
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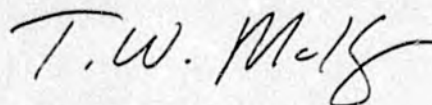
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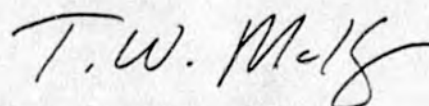
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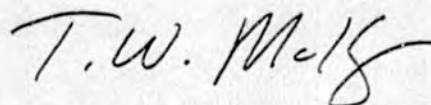
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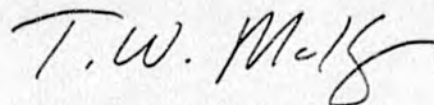
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Juneau, AK 99801-1182

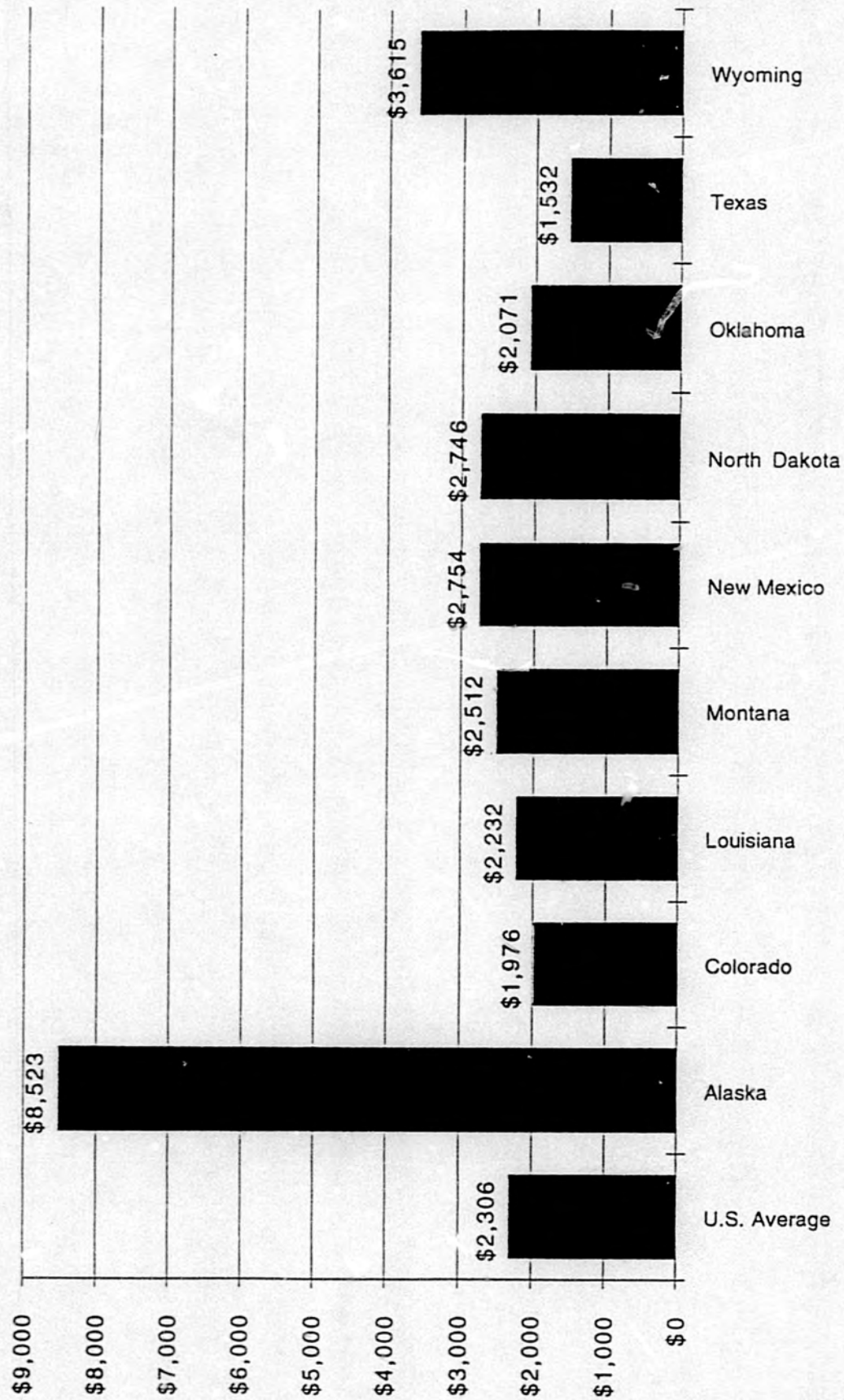
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Anchorage, AK 99510-0040

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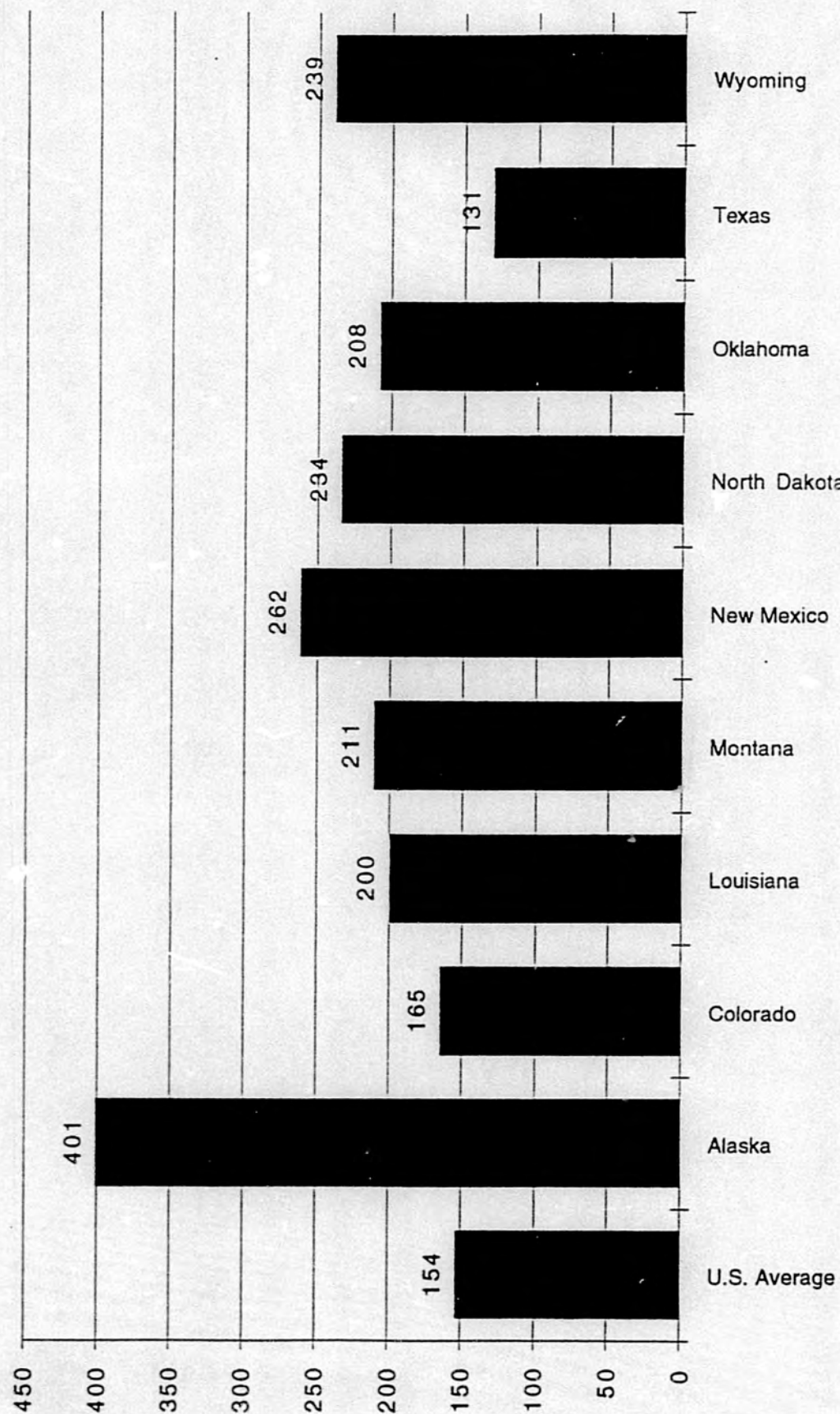
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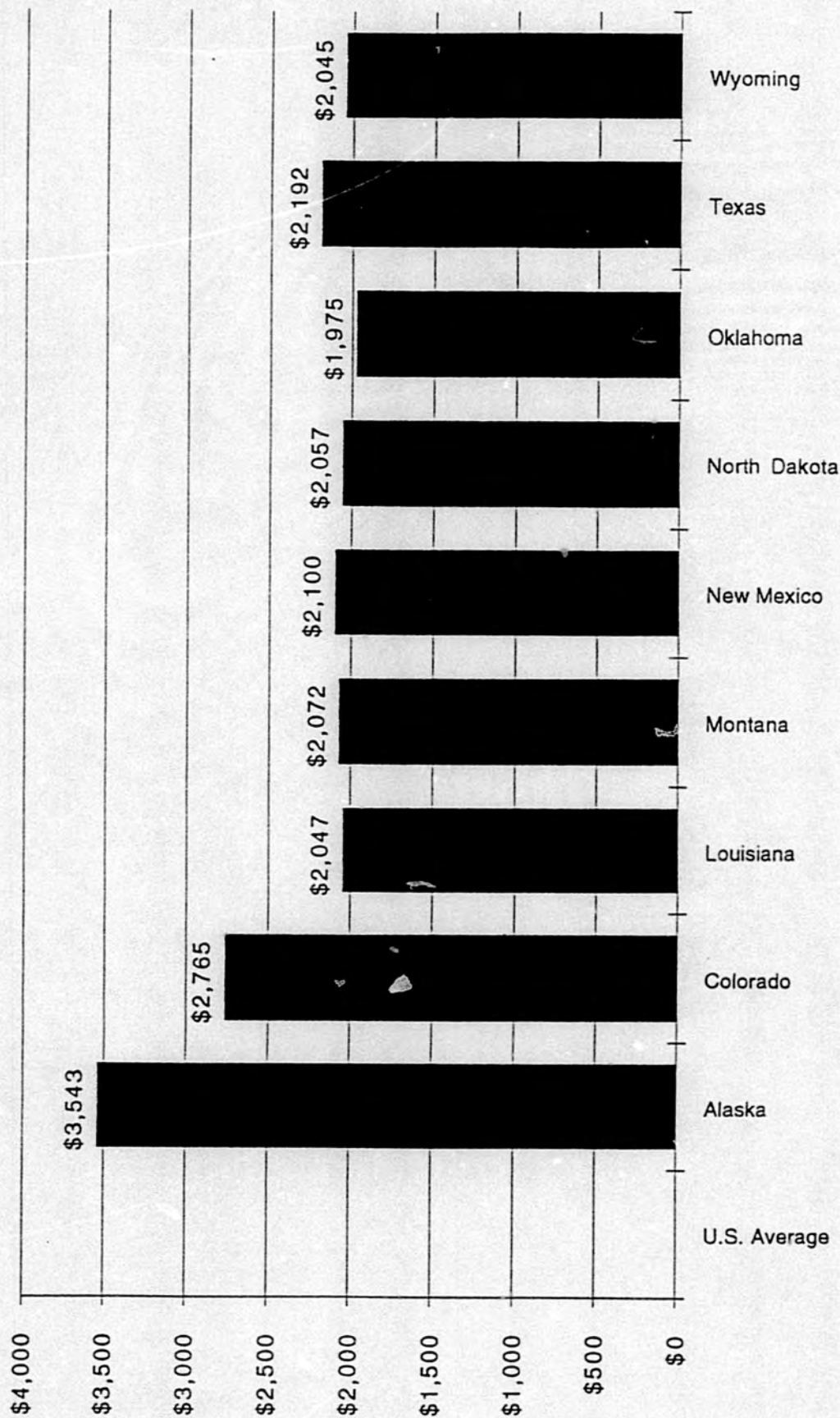
Per Capita State Expenditures -- Total



State Employees per 10,000 Population

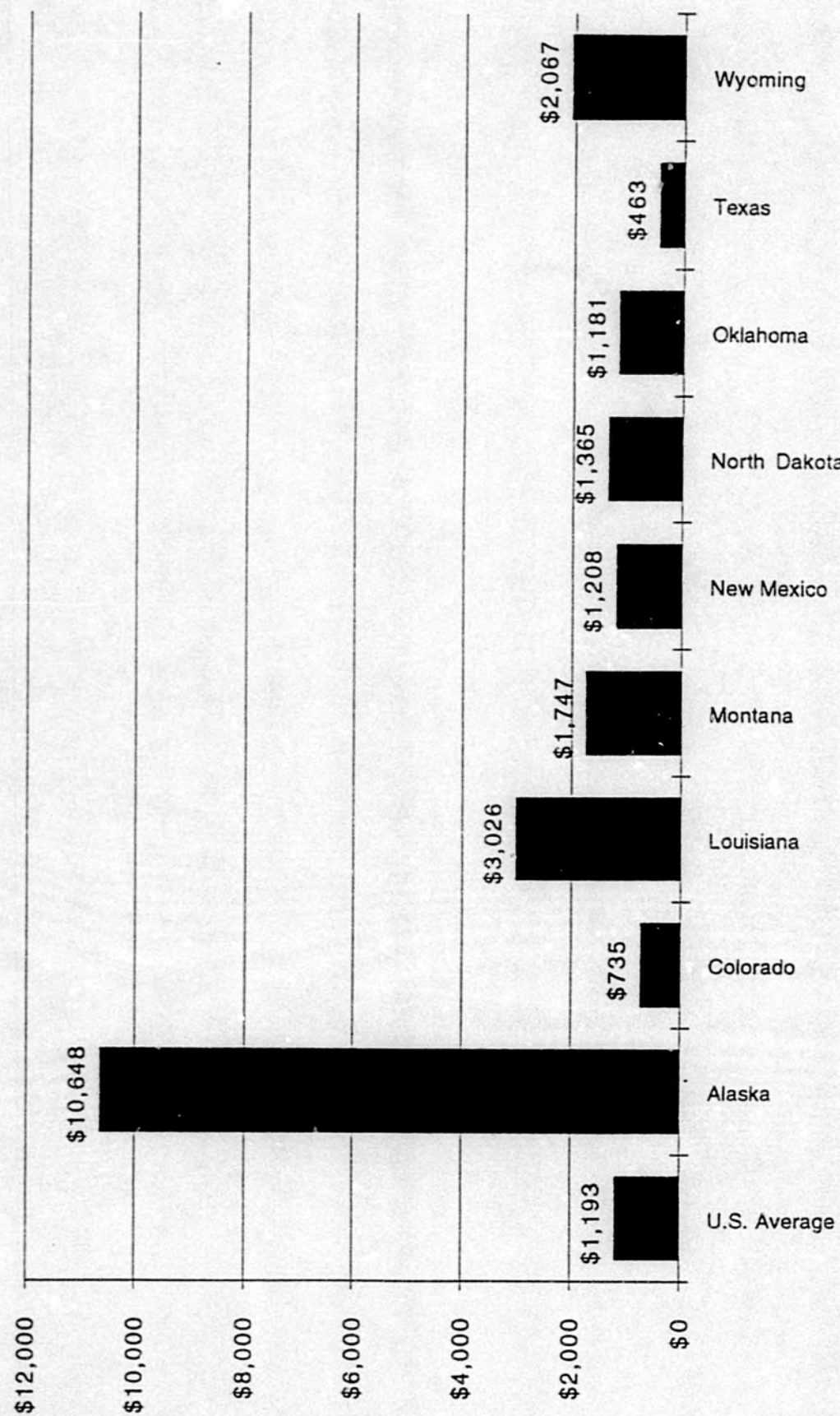


Average Monthly Earnings -- State Employees

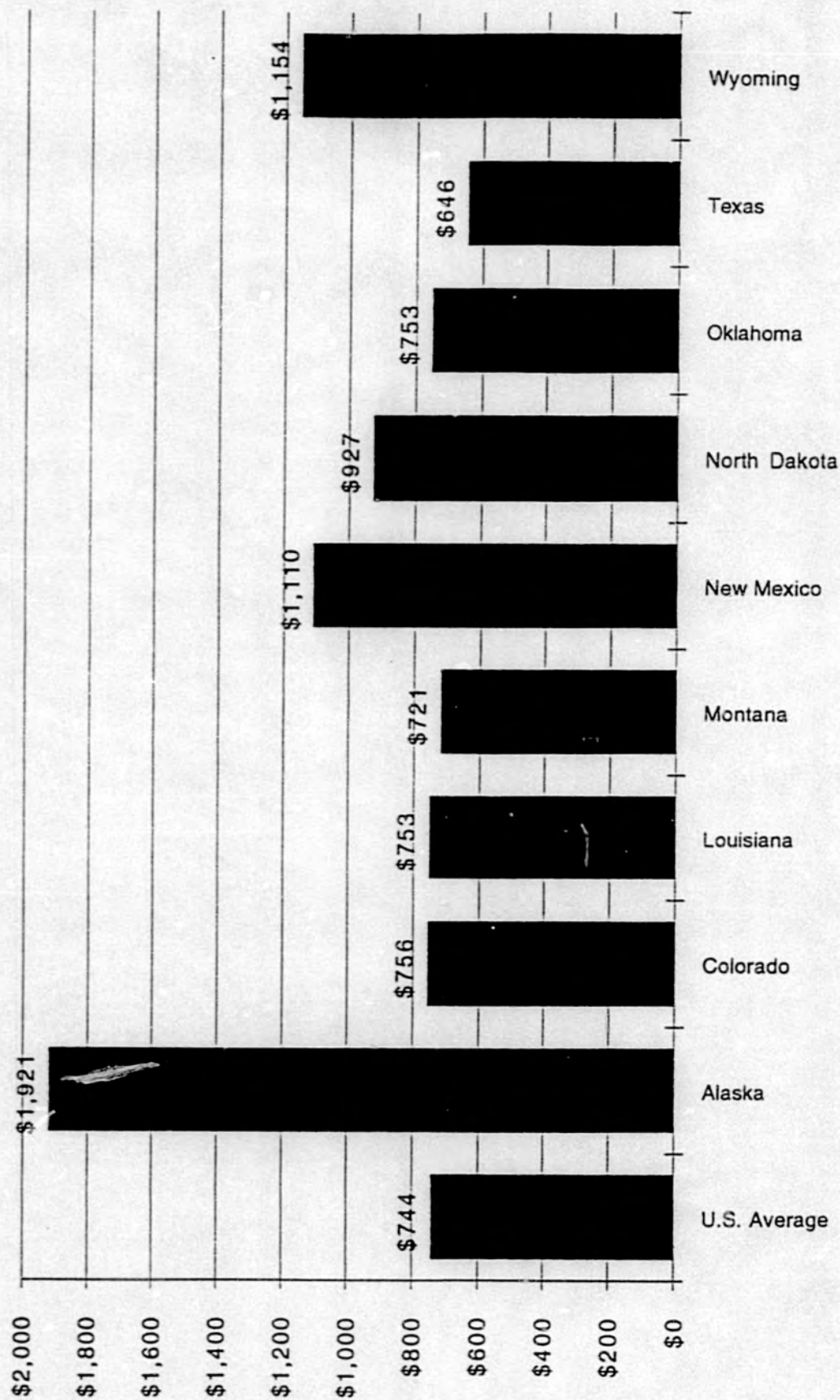


Bureau of Census 1990

Per Capita State Expenditures -- Outstanding Debt

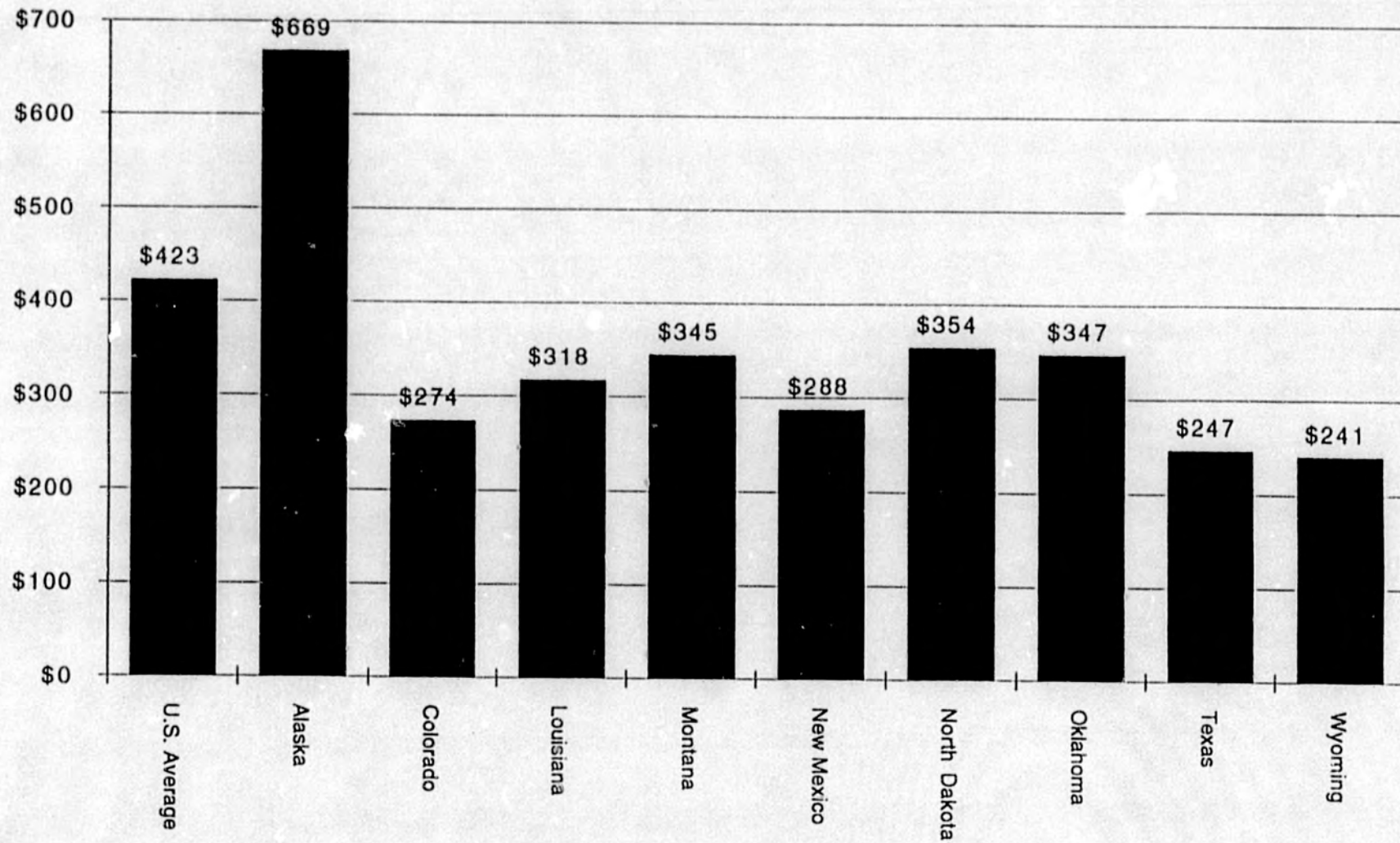


Per Capita State Expenditures -- Education

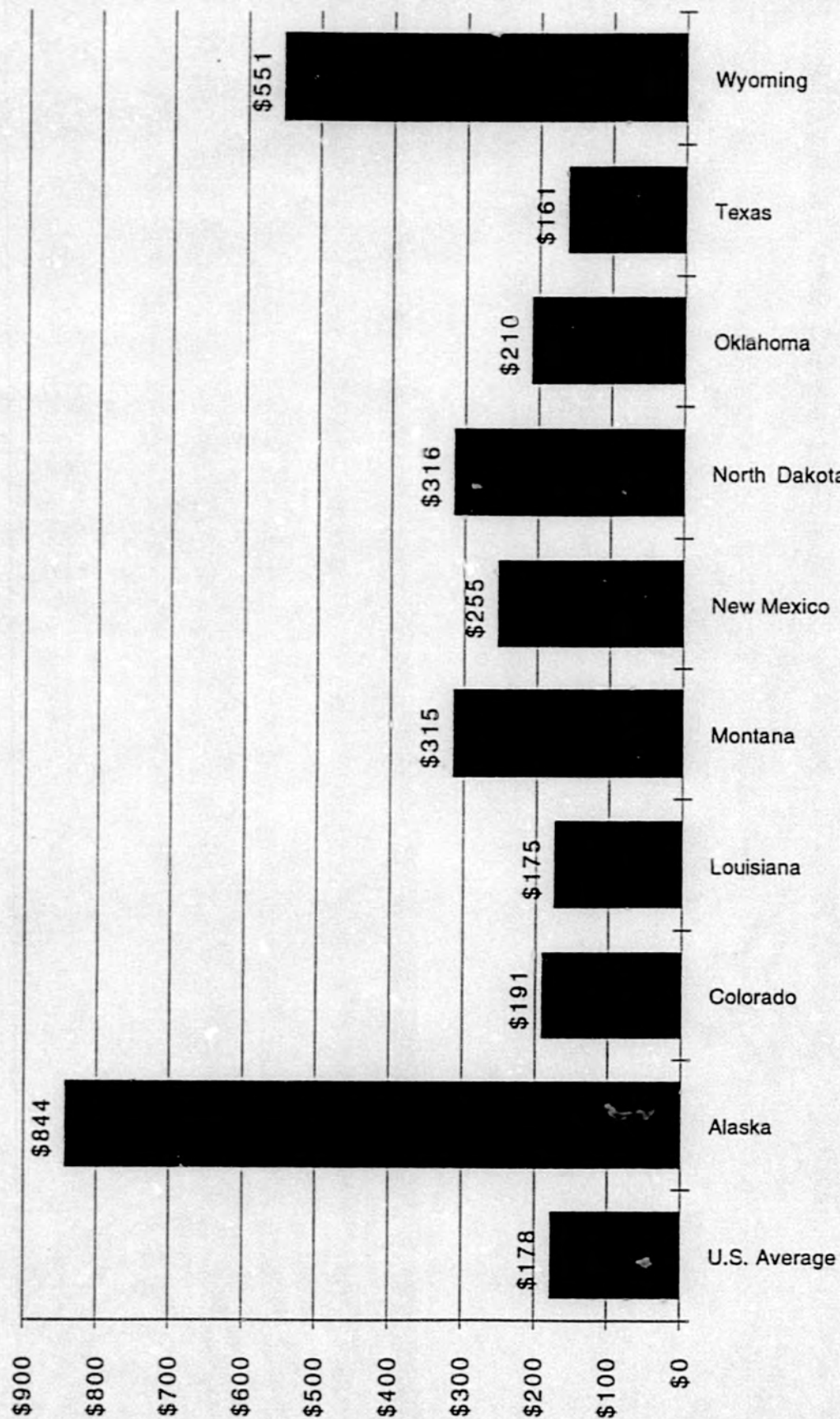


Bureau of Census 1990

Per Capita State Expenditures -- Public Welfare

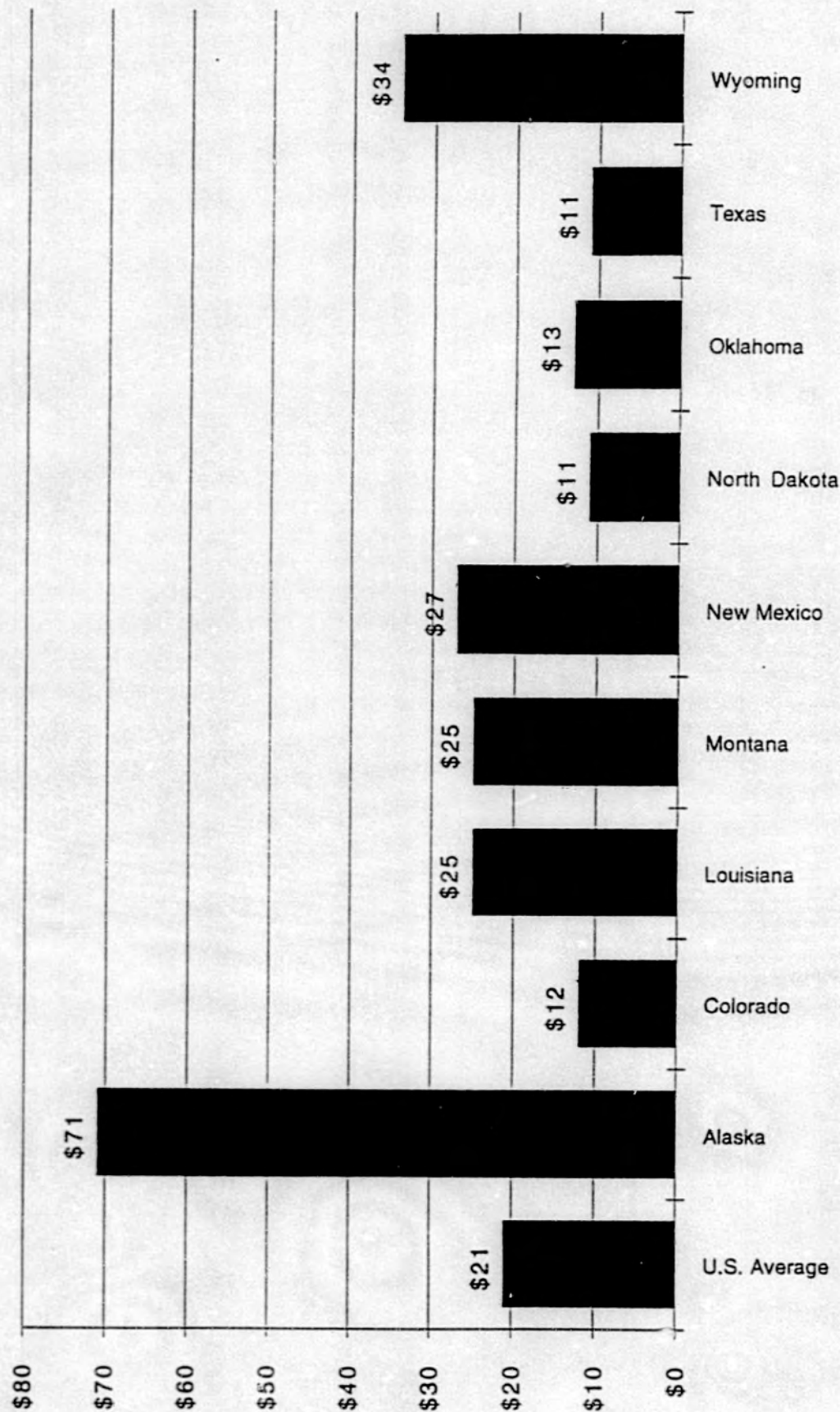


Per Capita State Expenditures -- Highways



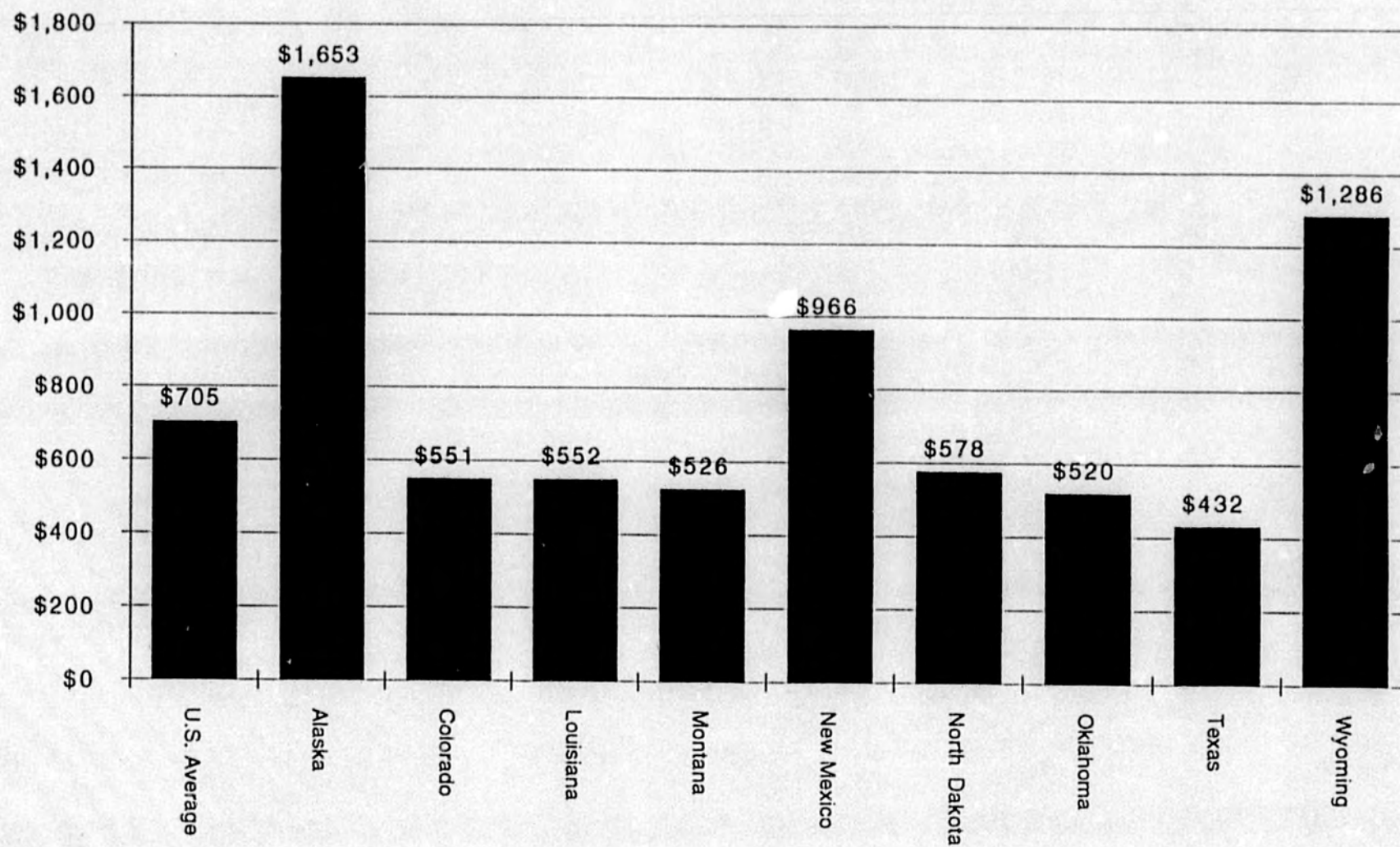
Bureau of Census 1990

Per Capita State Expenditures -- Police



Bureau of Census 1990

Per Capita State Expenditures -- Intergovernmental Expenditures



SCOMM

94:11

FISCAL NOTE

No. 2STATE OF ALASKA
1993 LEGISLATIVE SESSIONBill Y on: SB 151(S) Publish Date: 3-5-93

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

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE fund source:	0.0	0.0	0.0	0.0	0.0	0.0
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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	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

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

ANALYSIS:

(Attach a separate page if necessary)

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

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

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... Resources ...

HB-113: Raw fish tax value

Legislation to close loopholes in the determination of the value of fisheries resources moved to House Finance from the Resources Committee, Feb. 24. HB 113, sponsored by the House Special Committee on Fisheries, would include bonus payments for fuel, supplies, ice, tendering, delivery and any other indirect considerations paid to harvesters beside the specific price for fish when the total value is determined. That amount is the basis for raw fish tax revenues split between local governments and the state. The Department of Revenue anticipates a \$550,000 increase in raw fish taxes statewide if the bill is passed. Ray Gillespie, lobbyist for aquaculture associations in Prince William Sound, Cook Inlet and Southeast, said those organizations and their supporting harvester groups support the bill as a method to clamp down on small numbers of fishers or harvesters who evade full payment of taxes.

King salmon tag will boost tours

Charter fishing boat operators in communities served by cruise ships could get a boost from legislation that would cut the price of a one-day king salmon tags for nonresidents to \$5. Legislation passed in 1992 mandates purchase of the tag, in addition to a fishing license, by anyone fishing for kings. Tag fees were set at \$10 for residents and \$20 for nonresidents with revenue to be used for king salmon enhancement projects. HB 140 would encourage one day visiting anglers to buy the four or six hour charter outings offered as part of day-long stops on cruise ship tours, according to sponsor Rep. Bill Hudson (R-Juneau). Although the bill also drops the price of three-day nonresident tags to \$15, Hudson says it is "revenue neutral" because it increases the fee to \$30 for season-long nonresident tags. House majority leader Gail Phillips (R-Homer), whose district includes several Kenai Peninsula cruise ship ports, is a strong supporter of the bill. HB-140 moved from House Resources to the Finance Committee on Feb. 24.

Miners want mapping: A top mining industry priority is \$2 million (now in the governor's budget) to the Division of Geological and Geophysical Survey for airborne geophysical mapping, along with geological and geochemical surveys on state lands.

Hudson's fish marketing bill

United Fishermen of Alaska is considering, but has declined to immediately endorse, a draft proposal by Rep. Bill Hudson (R-Juneau) to tax themselves an additional one percent of catch value to fund a domestic salmon marketing program. Among changes it wants to see in the as-yet-unintroduced bill is equal representation on the board of the Alaska Seafood Marketing Institute, which would house the promotion effort.

UFA also rejected the Department of Environmental Conservation's request for support for mandatory vessel inspection legislation. Fishers agree that sanitation/product safety is a critical element of modern marketing, but complain that they get saddled with the inspections and fees while poor product handling by processors and especially retailers is the cause of consumer concerns.

Fishers' contribution: UFA's economic research indicate fish taxes, license fees and salmon enhancement and marketing assessments totaled \$90 million in FY 1991, while spending on fisheries management and marketing was \$32.5 million.

Exploration incentives bill in this week?

The long-awaited governor's bill on oil exploration incentives should be in the hopper this week. Reportedly it will exclude Cook Inlet basin and the North Slope, which has been a matter of dispute within the industry (ARCO, which originated the idea, wanted the slope and the inlet included; other companies want it to apply only to undeveloped basins). The bill would put in statute an option for a concession-type exploration system where a company could commit to an exploration plan across a wide area, spending money in drilling instead of competitive bonus bids. Smaller acreage around any discoveries could then be leased. Also included in the bill is an expansion of the existing Exploration Incentive Credit, a program where limited credits of state tax and royalty payments can be applied to drilling and geophysical work. Legislators may strip the tax incentive section, which passed the Senate last year as a separate bill, from the large block leasing bill, placing it into separate legislation



Alaska State Legislature
House of Representatives
Office of the Chief Clerk

Official Business

State Capitol, Rm 214
Juneau, AK 99801-1182
(907) 465-3725

CONCUR

April 28, 1994

MESSAGE TO THE SENATE

MR. PRESIDENT:

The House has passed SENATE BILL NO. 151 with the following amendment:

HCS FOR SENATE BILL NO. 151(FIN) am H

"An Act providing for oil and gas exploration incentive credits for certain activities on certain land in the state; and providing for an effective date."

and it is transmitted for consideration.

Suzi Lowell
Chief Clerk

Sen. Halford
Sen. Taylor

SENATE FINAL PASSAGE ON
JOURNAL PAGE # 1675 4-22-93
1715 4-23-93 (RECON:)
FISCAL NOTE: 0

Sen. Pearce, Co-Ch., Finance
Sen. Frank, Co-Ch., Finance

Alaska State Legislature

Legislative Research Agency



130 Seward Street, Suite 218
Juneau, Alaska 99801-2196

Phone: (907) 465-3991
Fax: (907) 463-3351

March 26, 1993

MEMORANDUM

TO: Senator Loren Leman
FROM: Gordon S. Harrison, Director 
RE: Oil and Gas Tax Incentives

MAR 26 1993

You asked about past and present tax incentive programs in Alaska that pertain to the oil and gas industry, including construction of processing facilities.

The only two tax incentive programs we can locate are those under AS 38.05.180(i) and AS 43.20.042 (copies attached). It is our understanding that although AS 43.20.042 is still on the books, it is no longer effective because the federal investment tax credit was repealed. The credit program for exploratory wells under AS 38.05.180(i) began in 1983. To date, some \$41 million in credits have been allowed on a total of 12 wells. Bills are currently before the legislature which would expand this exploratory credit program (HB 200 and SB 151).

You asked about the possibility that a tax incentive program of some kind was used by Standard Oil when it built the small refinery at Nikiski. Construction of that plant was begun in June 1962. We read back issues of the trade magazine *Alaska Construction and Oil* from the early to late 1960s, and none of the several articles about construction of refining and processing plants on the Kenai Peninsula during that period mention any tax incentive program (the state's 5 percent discovery royalty was mentioned). The Kenai Peninsula Borough may at some time have offered special property tax treatment to industrial taxpayers who were contemplating new construction or expansion. However, the borough was not incorporated until 1964, so property tax incentives could not have been a factor in the construction of the Standard Oil refinery.

If you have any questions about this information, please call.

Attachment

before the last day of the taxable year. (§ 1 ch 153 SLA 1975; § 1 SLA 1975; am § 3 ch 22 SLA 1980; am § 10 ch 1 SSSLA 1980; § 1 ch 2 SSSLA 1980; am § 1 ch 117 SLA 1981; am § 3 ch 60 SLA 1981; am § 3 ch 58 SLA 1987; am § 3 ch 68 SLA 1987)

t of amendments. — The first amendment added subsection (j). Second 1987 amendment substituted "26 U.S.C. 27" for "26 U.S.C. 33" in subsection (a).

NOTES TO DECISIONS

Section (b) does not incorporate general binding contract rule. *Wien v. Alaska, Inc. v. Department of Revenue*, 752 P.2d 1087 (Alaska 1988). Cited in *Gulf Oil Corp. v. State, Dep't of Revenue*, 752 P.2d 983 (Alaska 1988).

43.20.037. [Repealed, § 50 ch 83 SLA 1980.]

43.20.038 — 43.20.039. Residential fuel and residential fuel production credits. [Repealed, § 10 ch 1 SSSLA 1980.]

43.20.040. Income from sources in the state. (a) In this section, income from sources in the state includes income from real or tangible personal property located in the

state of whatever nature from a business, trade or profession engaged in a business situs in the state and compensation for services rendered in the state;

income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business situs in the

state, including rentals and royalties for the use of or for the privilege of using, patents, copyrights, secret processes and formulas, good trademarks, trade brands, franchises, and other property having a taxable or business situs in the state.

In this section, income is from a source having a taxable or business situs in the state if it is derived from

owning or operating business facilities or property in the state; conducting business, farming, or fishing operations in the state; [Repealed, § 10 ch 1 SSSLA 1980.]

a partnership which transacts business in the state;

a corporation which transacts business in the state which has been required to file federal returns under subchapter S of the Internal Revenue Code;

[Repealed, § 10 ch 1 SSSLA 1980.]

engaging in any other activity from which income is received, derived or derived in the state.

(c) The receipt of income derived solely from interest earned on property in the state does not alone establish a taxable or business situs in the state. (§ 5 B ch 115 SLA 1949; am § 1 ch 132 SLA 1951; am § 2 ch 188 SLA 1955; am § 7 ch 70 SLA 1975; am § 10 ch 1 SSSLA 1980 and § 9 ch 2 SSSLA 1980)

Cross references. — For legislative findings and purpose of the 1980 amendments, see § 1, ch. 1, SSSLA 1980, and § 1, ch. 2, SSSLA 1980, in the Temporary and Special Acts.

NOTES TO DECISIONS

Alaska can constitutionally levy tax on net income of seamen engaged in interstate and foreign commerce, where the tax is levied only on that portion of the seamen's net income which is attributed to their activity within the boundaries of the State of Alaska. *Alaska v. Petronia*, 69 Wash. 2d 460, 418 P.2d 755 (1966). Stated in *Cogan v. State, Dep't of Revenue*, 657 P.2d 396 (Alaska 1983).

Sec. 43.20.042. Special industrial incentive investment tax credits. (a) Subject to (c) of this section, for purposes of calculating eligible taxes the taxpayer may apply as a credit against eligible taxes the following percentage of the investment credit allowed as to federal taxes under 26 U.S.C. 38 (Internal Revenue Code) on only the first \$250,000,000 of qualified investment in the state for each taxable year after December 31, 1984, for a gas processing project: (1) 100 percent on the first \$50,000,000 of qualified investment; (2) 80 percent on qualified investment over \$50,000,000 but not exceeding \$100,000,000; (3) 70 percent on qualified investment over \$100,000,000 but not exceeding \$150,000,000; (4) 60 percent on qualified investment over \$150,000,000 but not exceeding \$200,000,000; and (5) 40 percent on qualified investment over \$200,000,000 but not exceeding \$250,000,000. A credit may not be allowed under this subsection for an investment credit that is allowed as to federal taxes for leased property by reason of 26 U.S.C. 168(f)(8) (Internal Revenue Code). In this subsection, "gas processing project" means the integrated plant, facilities, and equipment, including pollution control equipment, used for preparation of consumer or transportation gas, or for conditioning, fractionation, storage, handling or processing of a product, other than crude oil, of an oil or gas well, into liquefied natural gas, methanol, ammonia, urea, olefins, propanes, butanes, polymers and intermediate hydrocarbon products; it does not include a pipeline from oil and gas wells to or from a plant and facilities.

(b) Subject to (c) of this section, for purposes of calculating eligible taxes the taxpayer may apply as a credit against eligible taxes the following percentage of the investment credit allowed as to federal taxes under 26 U.S.C. 38 (Internal Revenue Code) on only the first \$250,000,000 of qualified investment in the state for each taxable year after December 31, 1984, for exploration, drilling of wells, develop-

ment, or mining of the minerals and other natural deposits listed in 26 U.S.C. 613(b) (Internal Revenue Code) other than sand or gravel unless the mining of sand or gravel is ancillary to a mining development involving a qualified natural deposit other than sand or gravel: (1) 100 percent on the first \$50,000,000 of qualified investment; (2) 80 percent on qualified investment over \$50,000,000 but not exceeding \$100,000,000; (3) 70 percent on qualified investment over \$100,000,000 but not exceeding \$150,000,000; (4) 60 percent on qualified investment over \$150,000,000 but not exceeding \$200,000,000; and (5) 40 percent on qualified investment over \$200,000,000 but not exceeding \$250,000,000. A credit may not be allowed under this subsection for any investment credit that is allowed as to federal taxes for leased property by reason of 26 U.S.C. 168(f)(8) (Internal Revenue Code). In this subsection, "mining" has the meaning given in 26 U.S.C. 613(c)(2) (Internal Revenue Code).

(c) A taxpayer may not claim an investment tax credit under (a) or (b) of this section unless the gas processing project or mining project began operation and production after December 31, 1984. A gas processing or mining project is considered to have begun operation and production when the first product or mineral is produced that is ultimately either sold or transferred for further processing or ultimate use.

(d) A taxpayer may not claim an additional investment tax credit under AS 43.20.036(b) for an investment for which a special industrial incentive investment tax credit is claimed under (a) or (b) of this section.

(e) If a taxpayer making an investment that qualifies for the investment tax credit under this section is a member of a group of affiliated corporations filing a consolidated return under the provisions of this chapter, the amount of the investment tax credit that may be claimed on the consolidated return is limited to the amount the taxpayer making the qualified investment would have been eligible to claim had a consolidated return not been filed.

(f) The investment tax credit per taxable year allowed by (a) and (b) of this section may not exceed 60 percent of the eligible tax liability. Any unused portion of the investment tax credit shall be subject to the carry forward provisions in 26 U.S.C. 46(b)(3) (Internal Revenue Code) except that the unused credit may not be carried forward to tax years beginning after December 31, 1999.

(g) Except as provided in (f) of this section, a tax credit under this section may not be claimed on investments made after December 31, 1994.

(h) In this section "eligible taxes" means the total tax liability of a taxpayer for the annual taxes due under the provisions of this chapter and AS 43.65. (§ 4 ch 60 SLA 1984)

Sec. 43.20.045. Proration of part-year resident and nonresident individual credits. [Repealed, § 10 ch 1 SSSLA 1980.]

Article 2. Allocation and Apportionment

Section	Section
51. Income from sources in the state of nonresident partners	71. Transportation carriers
65. Allocation and apportionment	72. Oil and gas production

NOTES TO DECISIONS

Former law construed. — For case law construing provisions of the former Uniform Division of Income for Tax Purposes Act, AS 43.20.050 State, Dep't of Revenue v. Co., 676 P.2d 595 (Alaska).

Collateral references. — 71 Am. Jur. 2d, State and Local Taxation, §§ 456, 470-472. 85 C.J.S., Taxation, §§

Sec. 43.20.050. Taxpayer liable. [Repealed, § 13 ch 70]

Sec. 43.20.051. Income from sources in the state of nonresident partners. In determining the source of a nonresident partner's income, effect may not be given to a provision in the partnership agreement that

(1) characterizes payments to the partner as being for the use of capital;

(2) allocates to the partner, as income or gain from sources in the state, a greater proportion of the partner's distributive partnership income or gain than the ratio of partnership gain from sources outside the state to partnership income from all sources; or

(3) allocates to the partner a greater proportion of a partner's item of loss or deduction connected to Alaska sources than the partner's proportionate share, for federal income tax purposes other than loss or education generally. (§ 8 ch 70 SLA 1975)

Sec. 43.20.060. Direct allocation. [Repealed, § 13 ch 70]

(i) The commissioner may provide for the establishment of an exploration incentive credit system under which a lessee of state land drilling an exploratory well on that land may earn credits based upon the footage drilled and the region in which the well is situated. The commissioner may also provide for credits to be earned by persons performing geophysical work on state land, if that work is performed during the two seasons immediately preceding an announced lease sale and on land included within the sale area and the geophysical information is made public following the sale. Credits may not exceed 50 percent of the cost of the 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 (1) oil and gas royalty and rental payments payable to the state or (2) taxes payable under AS 43.55. A credit may not exceed 50 percent of the payment toward which it is being applied. Amounts due the Alaska permanent fund (AS 37.13.010) shall be calculated before the application of credits under this subsection.

(j) To prolong the economic life of an oil and gas field, the commissioner shall adopt regulations for all bidding methods to allow reduction of royalty on leases within the field to compensate for increasing costs in the later stages of production decline. The commissioner may not grant a reduction of royalty until two years' initial production from the field has occurred and each lessee requesting the reduction has made a clear showing that the revenue from all hydrocarbons produced from the field is insufficient to produce a reasonable rate of return with respect to that lessee's total investment in the field.

(k) The commissioner shall define all terms and adopt all regulations necessary for a reasonable understanding and evaluation of a particular bidding method before the public announcement of the terms of proposed sale employing that method.

(l) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade current royalty production from a field for a like amount, kind, and quality of future production, on the condition that the state receives back its stored or traded royalty share during the first half of the estimated field life or no later than 15 years after start of production, whichever is sooner.

(m) An oil and gas lease must cover a reasonably compact area not exceeding 5,760 acres, and may be for a maximum period of 10 years, except that the commissioner may issue a lease for a period not less than five years upon a finding that it is in the best interests of the state. An oil and gas lease shall be automatically extended if and for so long thereafter as oil or gas is produced in paying quantities from

03/23/93
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PUBLIC HEARING

SENATE SPECIAL COMMITTEE ON OIL AND GAS

LOCATION:FAIRBANKS

SB 151

MR.

HUGH

DOOGAN

TESTIFY



Doyon, Limited

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

MAR 22 1993

March 18, 1993

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

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

Dear Senator Leman and Representative Green:

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

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

BACKGROUND

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

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

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

CONFIDENTIALITY

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

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

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

ARBITRARY ALLOCATION OF AMOUNT OF AVAILABLE CREDITS

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

In those discussions, several points were made.

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

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

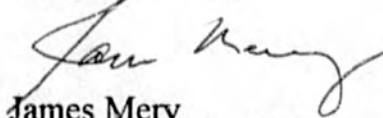
The above considerations clearly illustrate that the State, private and federal interests are often intertwined and the relevance of data gathered from private and federal lands can be just as valuable to the State as data from its own uplands. Yet HB200/SB151 unnecessarily restricts the commissioner's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

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

SUMMARY

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

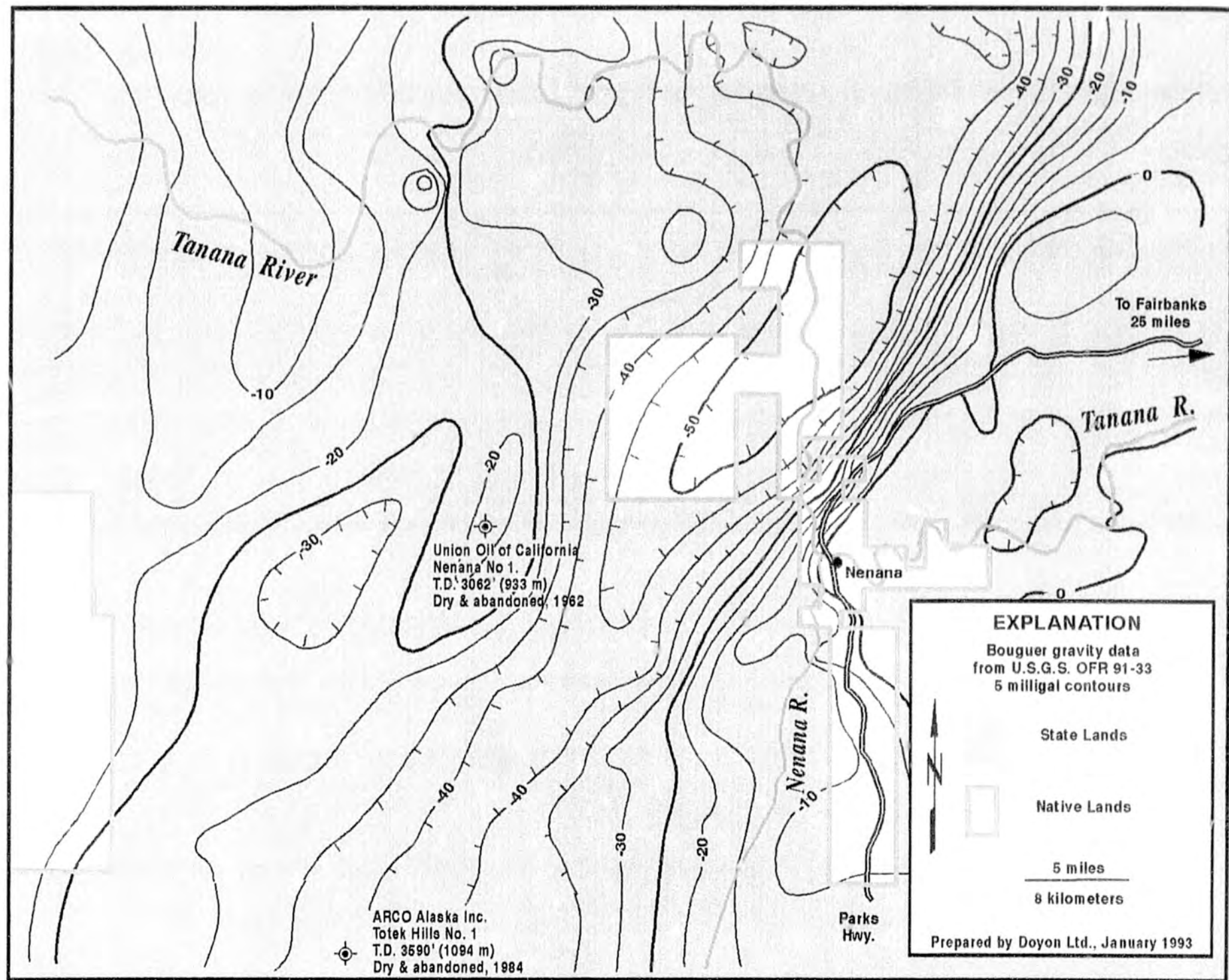
Sincerely yours,

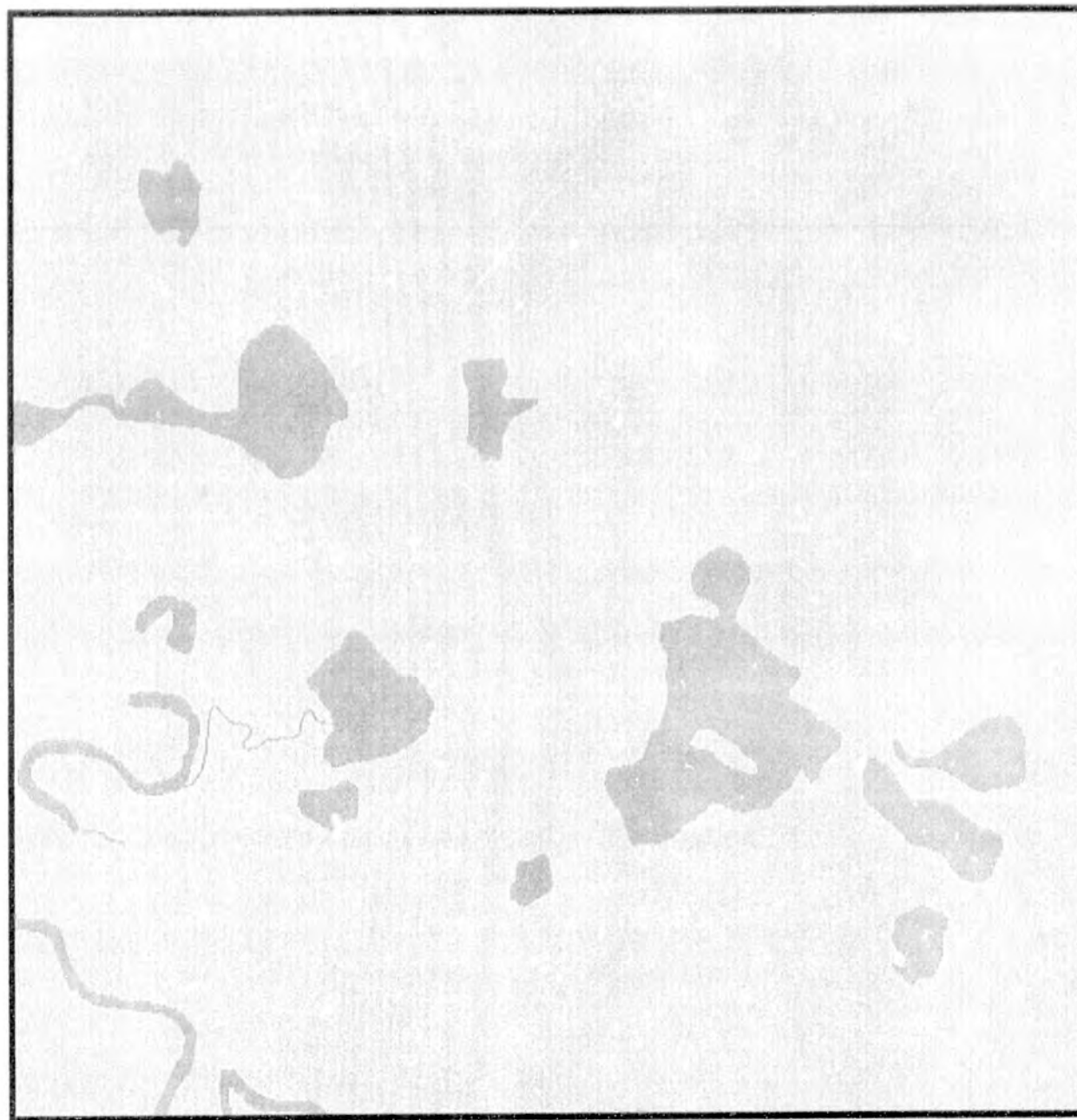


James Mery
Senior Vice President
Lands and Natural Resources

enclosures (4)

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



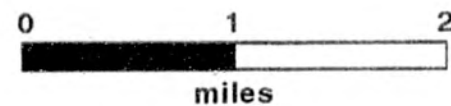


BIRCH CREEK BLOCK



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

RATIO:	
Upland	92%
Aquatic Land	8%



Township T. 18 N. R. 10 E.



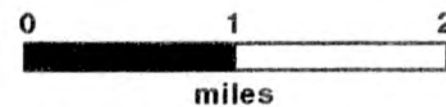
BIRCH CREEK BLOCK



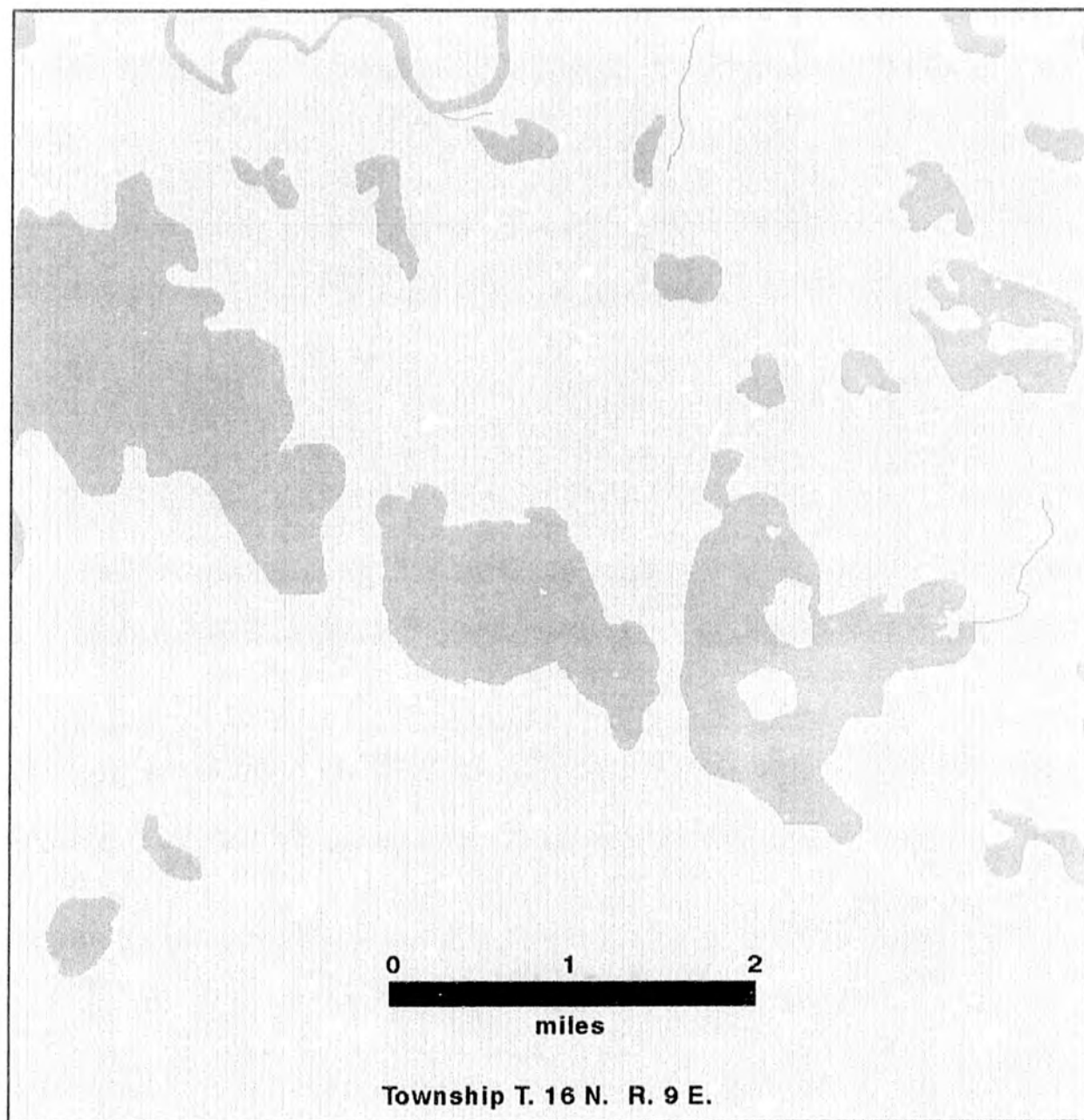
Total Area	22,950
Uplands	19,138
Aquatic Lands	3,812

RATIO:

Upland	83%
Aquatic Land	17%



Township T. 17 N. R. 7 E.



BIRCH CREEK BLOCK



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

RATIO:	
Upland	83%
Aquatic Land	17%

Alaska Federation of Natives, Inc.

March 23, 1993

MAR 25 1993

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

Dear Representative Green:

As follow up to my March 22 comments on House Bill 200 and subsequent discussion with Mr. Jeff Logan of your staff, I offer the following as suggested amendments to the bill.

Maximum Percent of Credit Allowed

Page 3, line 3 - end the sentence after the word "costs". Omit the remainder of the sentence through line 5.

This amendment would have the effect of providing a maximum credit of 50 percent of eligible costs on all land on which eligible activities are performed.

It would omit the proposed discrimination between state and private land in the current language.

History of the EIC program indicates that seldom, if ever, has the state allowed in excess of 30 percent of eligible costs. Under HB 200 the state retains considerable discretion in defining eligible costs and applying the percentage of credit. However, remote sedimentary basins that are infiltrated with state owned submerged lands may offer a situation whereby state interest is enhanced to the degree where a credit percentage in excess of 25 percent is warranted. At a minimum, options to the state would be increased if, in such a case, the maximum credit percent allowable was raised to 50 percent. Certainly making the allowable percentage in the proposed expanded program consistent with that of the current program creates no disadvantage to the state.

Page 2

Confidentially of Data

Page 2, line 19 - omit the sentence beginning on line 19 and ending on line 22.

Line 22 - omit the word "other", replace it with the word "all".

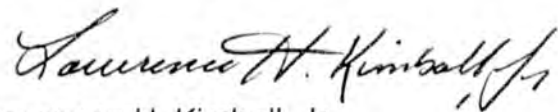
Line 27 - omit the word "those", replace it with the word "geophysical".

Please refer to comments submitted by Jim Mery of Doyon, Ltd. for an explanation of this suggested amendment.

A copy of HB 200 with the suggested amendments is enclosed.

Thank you.

Sincerely,
AFN LAND COMMITTEE

A handwritten signature in cursive script, reading "Lawrence H. Kimball, Jr.", with a stylized flourish at the end.

Lawrence H. Kimball, Jr.
Chairman

HOUSE BILL NO. 200

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 3/5/93

Referred: House Special Committee on Oil and Gas, Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for oil and gas exploration incentive credits for certain
2 activities on certain land in the state; and providing for an effective date."

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

4 * Section 1. AS 41 is amended by adding a new chapter to read:

5 CHAPTER 09. OIL AND GAS EXPLORATION INCENTIVE CREDITS.

6 Sec. 41.09.100. EXPLORATION INCENTIVE CREDITS. (a) Under an
7 incentive program distinct from the exploration incentive credit authorized by
8 AS 38.05.180(i), the commissioner may extend to a qualified applicant an exploration
9 incentive credit for each of the following activities performed on land in the state,
10 regardless of whether the land is state-owned land:

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

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

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

(2) taxes payable under AS 43.20; and

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

(c) An exploration incentive credit may be extended under (a) of this section to a qualified applicant if

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

submitted by the qualified applicant and any other information, determines constitute a distinctly separate exploration target;

(3) "geophysical work"

(A) means all geophysical data gathering methods used in hydrocarbon exploration;

(B) includes seismic, gravity, magnetic, and electromagnetic measurements;

(4) "qualified applicant" means

(A) a natural person who is at least 18 years of age;

(B) a corporation qualified to do business in Alaska;

(C) a legal guardian or trustee of a qualified natural person described in (A) of this paragraph;

(D) any association of persons listed in (A) - (C) of this paragraph

(5) "stratigraphic test well" means a well that is not intended to encounter an oil or gas accumulation and that is drilled to a sufficient depth to measure the geological, geophysical, and engineering parameters used for determining an area's oil and gas potential.

* Sec. 2. REGULATIONS. The commissioner of natural resources may proceed to adopt regulations necessary to implement this Act. The regulations take effect under the Administrative Procedure Act (AS 44.62), but not before the effective date of sec. 1 of this Act.

* Sec. 3. Section 2 of this Act takes effect immediately under AS 01.10.070(c).

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

MAR 26 1993

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 Committees' 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.

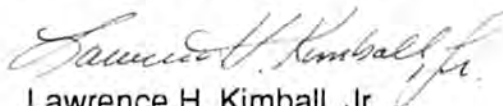
We suggest that the new pattern of state ownership created by submerged lands conveyances increases state interests in remote areas. Since the degree of state interest is likely to vary from tract to tract it seems logical that credit maximums be consistent at 50 percent of eligible costs so as to maximize 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

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

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

(907)762-2547

March 16, 1993

The Honorable Al Adams
Alaska State Legislature
Capitol Bldg., Room 417
Juneau, Alaska 99801-1182

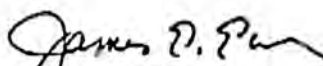
Dear Senator Adams:

This letter is in response to your request that we explain the basis for the decision to limit the state's participation in the funding of EICs to 25 percent of eligible costs for the drilling of wells or the gathering of geophysical data on privately-owned lands.

The reasons for limiting the state's participation to one-half that of its participation on state-owned lands are twofold. First, by their very nature, data gathered from adjacent or more remote lands will have less relevance to the interpretation and evaluation of state-owned lands. Second, the benefits which may flow from earlier exploration of privately-owned lands will accrue primarily to the private landowner. For example, any leasing and subsequent development that may occur will yield bonuses, annual rentals and, hopefully, royalties to the landowner. However, the state will not share in those revenues. It may, if discoveries occur, share in severance taxes, depending upon the size of any discoveries made and their relative productivity. Since there is a disproportionate sharing of benefits, the decision was made to reduce the state's participation accordingly. However, as a matter of policy, it was determined that it is appropriate to provide some incentive to encourage the evaluation and, hopefully, the development of all potential oil and gas lands within the state.

I hope this is responsive to your concerns. If you have additional questions, please feel free to call.

Sincerely,


James E. Eason
Directorcc: Glenn A. Olds, Commissioner, DNR
Raga Elim, Special Assistant, DNR
Charles Cole, Attorney General

Post-It™ brand fax transmittal memo 7671 # of pages 1

To	Annette Kreitzer	From	J. Eason
Co.		Co.	
Dept.		Phone #	
Fax #		Fax #	

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 782-2553

(907)762-2547

SB151

March 24, 1993

Senator Loren Leman, Chairman
Senate Special Committee on Oil and Gas
State Capitol, Room 113
Juneau, Alaska 99801-1182

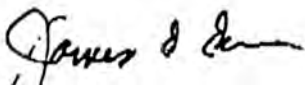
Dear Senator Leman:

Thank you once again for the opportunity to discuss the proposed Exploration Licensing Legislation, H.B. 199, and the Exploration Incentive Credit legislation, H.B. 200, with your committee last evening.

One of your questions dealt with the past usage of Exploration Incentive Credits under the provision of AS 38.05.180(i), and focused specifically on the value of past credits. In reliance of my memory, I indicated that I believed that we had certified approximately \$38.0 million in credits since the 1979 joint State/Federal Beaufort Sea Sale.

I apologize that my memory was not correct. In fact, the total of EICs certified as of November 1992 was \$40.9 million. I have enclosed a summary of those EICs from the 1993 edition of our Five Year Leasing Program document. If you or other members of the committee have any additional questions or require more background information in your consideration of either of these bills, please do not hesitate to call.

Sincerely,


James E. Eason
Director

cc: Members of the Senate Oil and Gas Committee
Raga Elim, Special Assistant, DNR
Ken Boyd, Deputy Director, DO&G
Jim Hansen, Chief Petroleum Geophysicist, DO&G

BIDDING AND EXPLORATION INCENTIVES

Bidding Terms

Alaska has adopted leasing terms designed to encourage the exploration of its lands for hydrocarbon potential. Minimum bids for state leases have ranged from a low of \$1 an acre to a high of \$25 an acre. In addition, Alaska has generous lease terms, offering ten year leases on the North Slope and leases of seven to ten years in length in Cook Inlet.

Exploration Incentive Credits

Exploration Incentive Credits (EICs) may be offered by the state as a means to encourage exploration. Under AS 38.05.180(i), the commissioner 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 information is made public following the sale. Drilling EICs are based upon the footage drilled and the region in which the well is situated.

Credits may not exceed 50 percent of the cost of the 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 (1) oil and gas royalties and rentals payable to the state or (2) taxes payable under AS 43.55. A credit may not exceed 50 percent of the payment toward which it is being applied. Amounts due the Alaska permanent fund (AS 37.13.010) must be calculated before the application of credits. In most cases, the state has used EICs to offset the disincentives implicit in contingency payments, such as net profit shares, that are in addition to the royalty obligation.

The decision whether or not to use these 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.

Since the state began offering exploration incentive credits, twelve exploratory wells qualifying for EICs have been drilled on state lands. To date, credits totaling approximately \$40.9 million have been claimed by lessees. Cost data for all twelve EIC wells are summarized in the table on page 58.

EXPLORATION INCENTIVE CREDITS

Report Month: November 1992

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon	10/05/83	\$6,197,625.00
		Standard Alaska	12/27/83	4,152,408.75
		BP/Æ	10/05/83	2,045,216.25
344010	Leifingwell	Arco	10/02/84	3,706,000.00
		Union	10/02/84	3,706,000.00
344033	J-1 Well	Exxon	10/31/84	5,119,500.00
355005	Long Island Well	Exxon	11/14/84	1,378,076.00
		Standard Alaska	11/14/84	1,378,076.00
245126	Totek Hills	Arco Alaska	08/02/85	715,530.81
355037	Colville Delta #1	Texaco	07/09/86	637,500.00
		Amerada Hess	07/09/86	888,594.00
		Diamond Shamrock (A)	07/09/86	100,128.00
		Mobil	02/05/87	432,511.00
		Placid Oil (C)	07/09/86	314,679.00
		Union Texas (B)	07/09/86	475,631.00
		Rosewood Resources	07/09/86	12,662.00
		Hunt Pet Co.	07/09/86	11,213.00
364478	Colville Delta Area AHC 25-13-6 #1 Well	Amerada Hess	10/12/87	677,853.00
		Union Texas (G)	10/12/87	508,390.00
		Texaco	10/12/87	225,951.00
		Maxus Expl. (G)	10/12/87	146,757.41
		Placid Oil	10/12/87	129,115.00
		Rosewood Res.	10/12/87	21,360.00
		Hunt Pet Co. (G)	10/12/87	18,987.00
		Texaco (B)	02/01/88	79,193.59
355038	Colville Delta #2	Amerada Hess	10/28/87	757,731.46
		Union Texas (G)	10/28/87	205,106.95
		Texaco	10/28/87	273,475.93
		Maxus Expl. (F)	10/28/87	273,475.93
		Placid Oil (H)	10/28/87	423,982.26
		Rosewood Res. (D)	10/28/87	77,561.49
		Hut Pet Co. (G)	10/28/87	68,943.50
355039	Colville Delta #3	Amerada Hess	10/28/87	364,048.13
		Union Texas (G)	10/28/87	91,012.03
		Texaco	10/28/87	364,048.13
		Maxus Expl. (G)	10/28/87	364,048.13
		Placid Oil (II)	10/28/87	178,918.37
		Rosewood Res. (D)	10/28/87	34,416.31
		Hut Pet Co. (G)	10/28/87	30,592.28
344176	Gyr #1	Arco Alaska, Inc.	11/15/90	719,560.56
		Conoco	11/15/90	761,481.20
		Amerada Hess	11/15/90	761,481.20
355021	NW Milne #1	Conoco	7/10/92	1,440,243.90
375044	Sequoia #1	Conoco	7/10/92	288,641.79
		Petrofina	7/10/92	352,784.41
GRAND TOTAL				\$40,910,511.77

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

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

State of Alaska
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

DIRECTOR'S OFFICE
3601 C Street, Suite 1380
Anchorage, Alaska 99503

(907)762-2547 phone
(907)562-3852 fax

FAX TRANSMITTAL

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TOTAL PAGES (including transmittal sheet): 5

FROM: Jim Eason

COMMENTS: _____

...

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BUSINESS

SATURDAY, April 24, 1993

ANCHORAGE DAILY NEWS

SECTION C

THE MARKETPLACE

Markets in brief

March 23, 1993

DOW (Industrials)



NYSE



S&P 500



NASDAQ



DOW JONES AVERAGES

	Open	High	Low	Close	Chg.
30 Ind	3414.04	3448.08	3385.67	3413.77	-15.40

Senate OKs remote-oil subsidy

By IAN MADER
The Associated Press

JUNEAU — The Senate has passed a bill that would allow the state to promote oil exploration on unleased lands by subsidizing up to 50 percent of a company's exploration costs.

The credits could be used to make it more attractive to explore in remote, untapped areas, particularly basins in interior Alaska, state officials say.

The amount paid by the state would be decided by the natural resources commissioner on a case-by-case basis, with no single project getting more than \$5 million. The state now offers such credits on leased lands in

exchange for speedy exploration.

Some environmentalists say the state should not be subsidizing any oil company activity. They also say they fear oil development in the Interior could cause major environmental problems.

Senate Bill 151, requested by Gov. Wally Hickel, passed 14-6 without debate Thursday, and was to be sent to the House pending a possible reconsideration vote.

The state would receive information from all such exploration projects, regardless of whether they are on state land. The state now is entitled to see

such data only for test drilling and seismological work on state land.

Ken Boyd, deputy director of the state Division of Oil and Gas, said the credits could be awarded based on how much the state stood to gain from the information, which could shed light on the prospects of nearby land.

The state would be able to offer up to 50 percent of the cost of exploration on state-owned land, and up to 25 percent on other land.

David van den Berg of the Northern Alaska Environmental Center in Fairbanks said he is

wary of any subsidy for oil companies.

"This establishes a potentially ugly precedent," he said. "Our basic reaction to incentives is: Give incentives to other companies, too. Ranching cockroaches could probably be viable with such incentives."

Environmentalists are less worried about the effects of the exploration than the effects of a discovery, van den Berg said.

"I think they would be conscientious about leaving a small footprint. But to us, it just means if you find stuff out in Minchumina, where's the nearest pipeline? What's going to happen then?"

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

No. 1

STATE OF ALASKA 1993 LEGISLATIVE SESSION

BI

Bill Version: SB151

(S) Publish Date: 3-5-93

Revision Date:

Title: Oil & Gas Exploration Incentive Credits

Dept. Affected: Revenue

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: \$ _____

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. Mourant

Phone: 465-2300

Division:

Commissioner's Office

Date: 3/2/93

Approved by Commissioner:

Darrel J. Rexwinkel

Date: 3/2/93

Agency:

Revenue

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