SCOMM

94:11

No. 2

FISCAL NOTE

Bill Version: SB 151

(S) Publish Date: 3-5-93

STATE OF ALASKA
1993 LEGISLATIVE SESSION

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
REVENUE fund source:	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

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

ANALYSIS: (Attach a separate page if necessary)

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

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

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

[redacted] on call the Governor's Legislative Office

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 in1992 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

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: ø

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

MAR 2 6 1993

TO: Senator Loren Leman

FROM: Gordon S. Harrison, Director

RE: **Oil and Gas Tax Incentives**

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

efore 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;) ch 2 SSSLA 1980; am § 1 ch 117 SLA 1981; am § 3 ch 60 SLA am § 3 ch 58 SLA 1987; am § 3 ch 68 SLA 1987)

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

NOTES TO DECISIONS

ection (b) does not incorporate eral binding contract rule. Wien iska, Inc. v. Department of Reve- 17 P.2d 1087 (Alaska 1982). 'ied in State, Dep't of Revenue v. Alaska Pulp Am., Inc., 674 P.2d 268 (Alaska 1983).

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.]

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 [Repealed, § 10 ch 1 SSSLA 1980.]

. 43.20.040. Income from sources in the state. (a) In this er income from sources in the state includes

income from real or tangible personal property located in the

income of whatever nature from a business, trade or profession g a business situs in the state and compensation for services red in the state;

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

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

In this section, income is from a source having a taxable or ness 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 ed to file federal returns under subchapter S of the Internal Reve- Code;

[Repealed, § 10 ch 1 SSSLA 1980.]

engaging in any other activity from which income is received, zed 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, development, 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 n[...] dividual credits. [Repealed, § 10 ch 1 SSSLA 1980.]

Article 2. Allocation and Apportionmen[t]

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 (Alask[...]

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 7[...]

Sec. 43.20.051. Income from sources in the state [...] dent partners. In determining the source of a nonresid[...] income, effect may not be given to a provision in the [...] agreement that

(1) characterizes payments to the partner as being fo[...] for the use of capital;

(2) allocates to the partner, as income or gain from sou[...] the state, a greater proportion of the partner's distributi[...] partnership income or gain than the ratio of partnershi[...] gain from sources outside the state to partnership income [...] all sources; or

(3) allocates to the partner a greater proportion of a [...] item of loss or deduction connected to Alaska sources th[...] ner's proportionate share, for federal income tax purposes[...] ship 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 LEGISLATIVE TELECONFERENCE NETWORK SYSTEM LTN1150
17:21:58 PARTICIPANT LIST (ALL PARTICIPANTS) BY:FBX
TCN:30427 SCHEDULED FOR:03/23/93 17:00 TO 18:30 FOR:FBX
PUBLIC HEARING SENATE SPECIAL COMMITTEE ON OIL AND GAS

LOCATION:FAIRBANKS
SB 151 MR. HUGH DOOGAN TESTIFY

Doyon, Limited

Doyon Building
201 First Avenue
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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

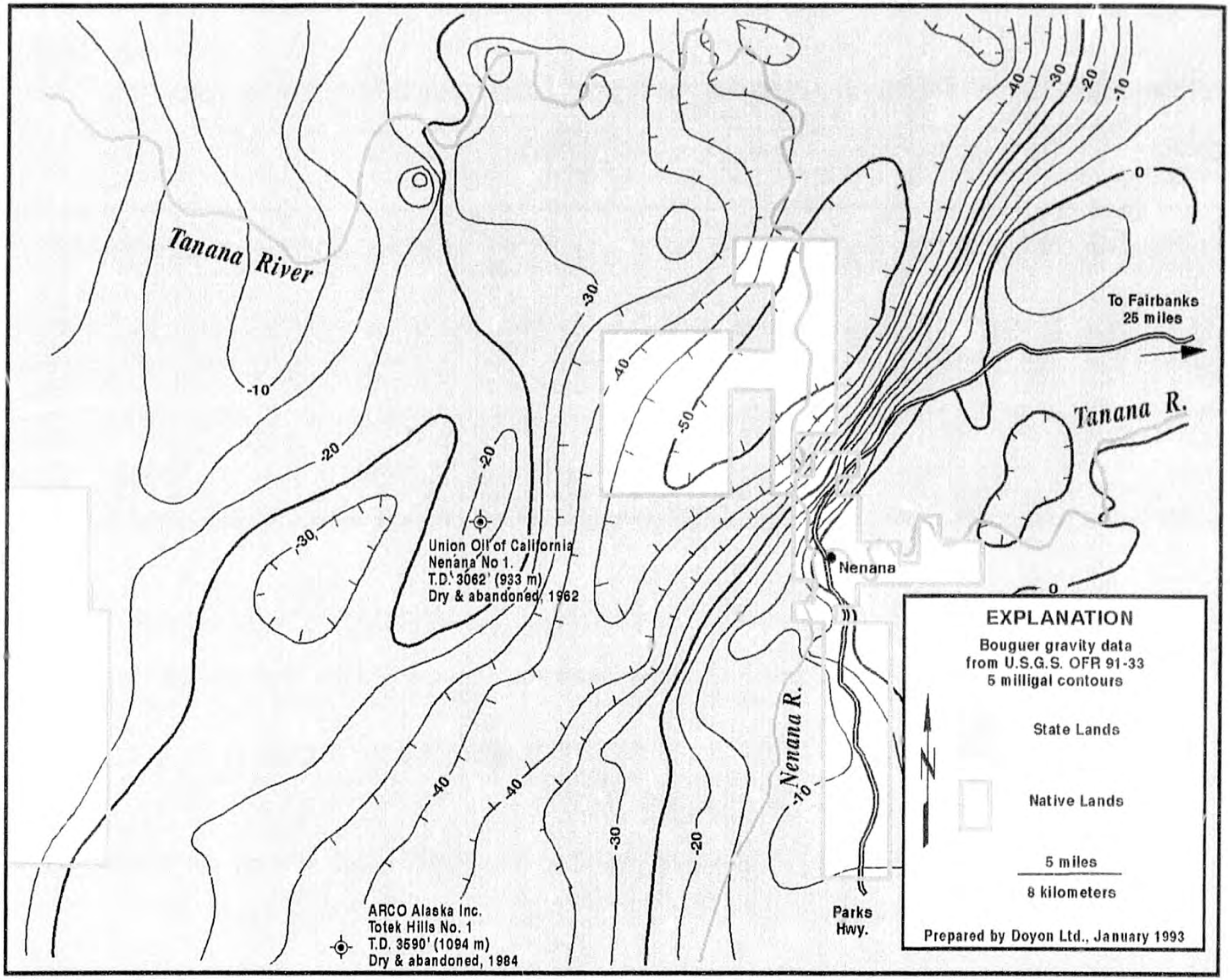
We respectfully request that the committees consider making two amendments to HB200/SB151. First, the confidentiality provisions should be made consistent with and not deviate from the current exploration incentive program. Second, the maximum tax and royalty credit of fifty percent of well costs should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

Sincerely yours,

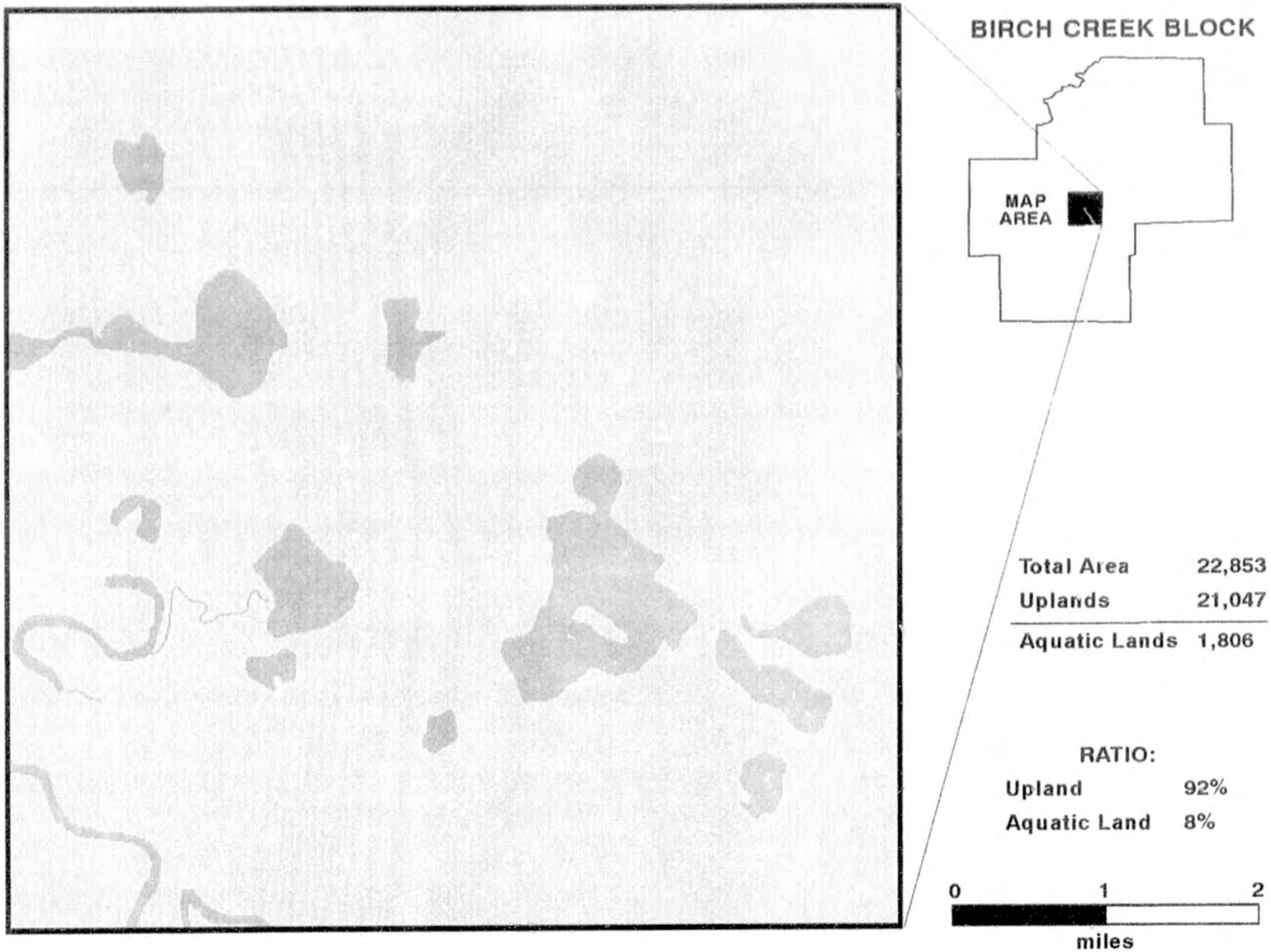
James Mery
Senior Vice President
Lands and Natural Resources

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.



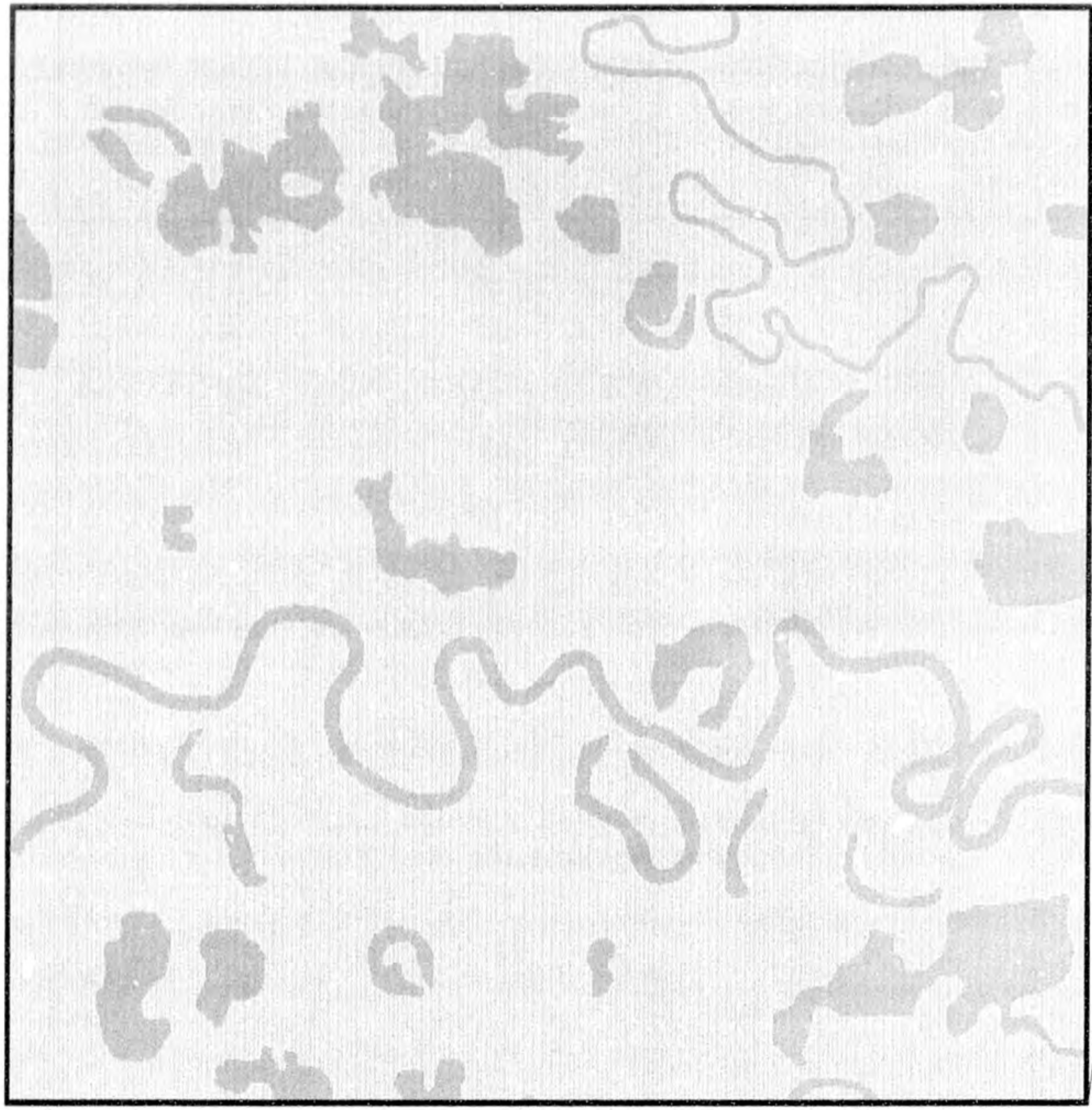
Enclosure No. 1



Township T. 18 N. R. 10 E.

Enclosure No. 2

BIRCH CREEK BLOCK



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

RATIO:

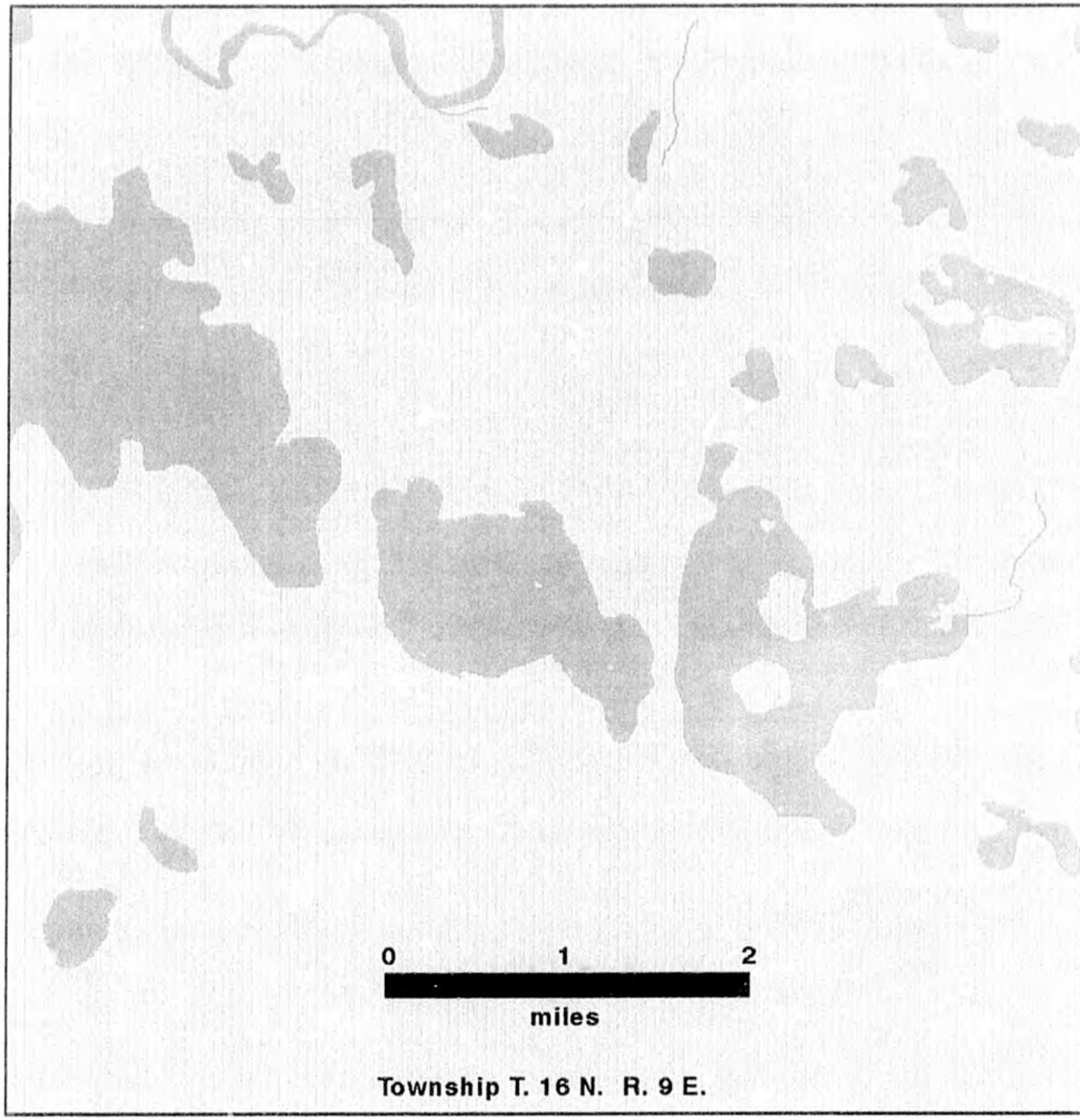
Upland	83%
Aquatic Land	17%

0 1 2

miles

Township T. 17 N. R. 7 E.

Enclosure No. 3



BIRCH CREEK BLOCK

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

RATIO:

Upland	83%
Aquatic Land	17%

Enclosure No. 4

Alaska Federation of Natives, Inc.

March 23, 1993 MAR 2 6 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.

<u>Maximum Percent of Credit Allowed</u>

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.

1577 "C" Street, Suite 100 □ Anchorage, Alaska 99501 □ Ph.(907) 274-3611 FAX (907) 276-7989

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

Lawrence H. Kimball, Jr.

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

"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."

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

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

CHAPTER 09. OIL AND GAS EXPLORATION INCENTIVE CREDITS.

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

(1) geophysical work on land that is not subject to a credit under AS 38.05.180(i);

(2) drilling a stratigraphic test well; and

(3) drilling an exploratory well.

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

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

(2) taxes payable under AS 43.20; and

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

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

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

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

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

(d) Data derived from drilling a stratigraphic test well or exploratory well that is provided to the commissioner under (c)(3) of this section shall be kept confidential for 24 months after receipt by the commissioner unless the owner of the well gives written permission to the state to release the well data at an earlier date. The provisions of AS 38.05.035(a)(9)(C) apply to other all 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, those geophysical 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.

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

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

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

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

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

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

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

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

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

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

(B) within three miles of a well drilled for oil and gas, but tests 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

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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 respectively 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.

Lawrence H. Kimball, Jr.
Chairman

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

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

(907)762-2547

SB151

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
James E. Eason
Director

Post-It™ brand fax transmittal memo 7671	# of pages ▸ 1
To Annette Kreitzer	From Jim Eason
Co.	Co.
Dept.	Phone #
Fax #	Fax #

cc: Glenn A. Olds, Commissioner, DNR
Raga Elim, Special Assistant, DNR
Charles Cole, Attorney General

031693aa.jc

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
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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

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

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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
		BPAE	10/05/83	2,045,216.25
344010	Leffingwell	Arco	10/02/84	3,706,000.00
		Union	10/02/84	3,706,000.00
344033	J-1 Well	Exxon	10/31/84	5,119,500.00
355005	Long Island Well	Exxon	11/14/84	1,378,076.00
		Standard Alaska	11/14/84	1,378,076.00
245126	Toløk 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 (H)	10/28/87	178,918.37
		Rosewood Res. (D)	10/28/87	34,416.31
		Hut Pet Co. (G)	10/28/87	30,592.28
344176	Gyr #1	Arco Alaska, Inc.	11/15/90	719,560.56
		Conoco	11/15/90	761,481.20
		Amerada Hess	11/15/90	761,481.20
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

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■ THE HARDER THEY FALL: Japan's automakers / C-2 ■ WALL STREET: Weekly wrap-up / C-5

BUSINESS

SATURDAY, April 24, 1993 ANCHORAGE DAILY NEWS SECTION C

THE MARKETPLACE

Markets in brief

March 23, 1993

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: SB 151
(S) Publish Date: 3-5-93

Revision Date:		Dept. Affected:	Revenue
Title:	Oil & Gas Exploration Incentive Credits	BRU:	Revenue Operations
		Component:	Oil & Gas Audit Division
Sponsor:	Governor		
Requestor:	Governor	COMPONENT SERIAL NO.	115

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE FUND SOURCE:	*	*	*	*	*	*

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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SB 151: FISCAL NOTE: Revenue

WALTER J. HICKEL
GOVERNOR

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

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 5, 1993

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

Dear Mr. President:

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

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

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

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

I urge your prompt and favorable consideration of this bill.

Sincerely,

Walter J. Hickel

Walter J. Hickel
Governor