

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2329 SCOMM 96: HOUSE SPEC. COMM. ON OIL & GAS, 1995-1996

Potential "Project Partnering"



Whatever the New Tax/Royalty Regime Decided for Alaska
— **There May Still be Projects on the Non Competitive Margin**

For Those Projects Where the State's New Changes Aren't Enough
— **ARCO Will Propose a "Project Partnering" Approach**

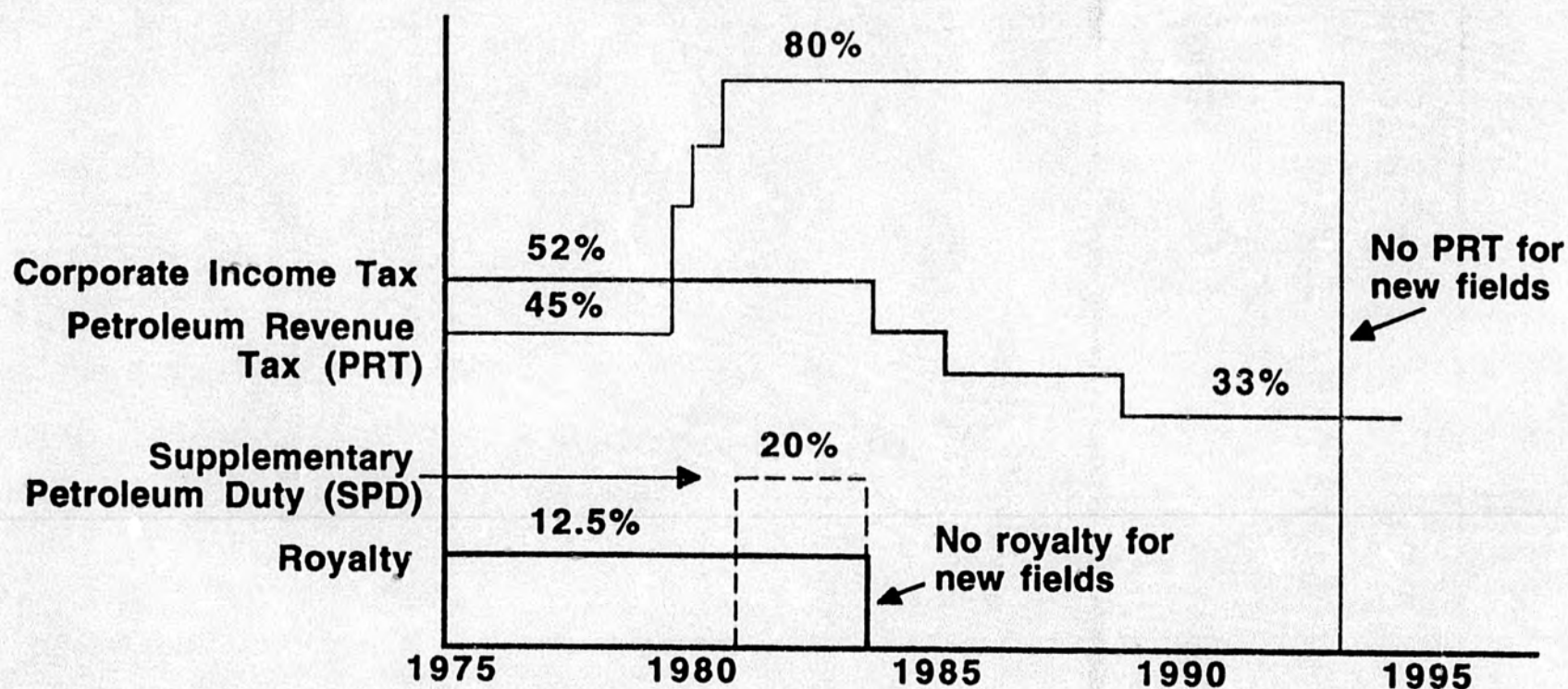
ARCO Would Come Forward With Information Shared Openly
— **The State Would Decide**

Potential Categories of Projects For This "Project Partnering" Process

- **New Marginal Exploration** (eg, Lease Sale 79)
- **Marginal Development, New Field** (eg, West Colville)
- **Marginal Development, Existing Field** (eg, West Sak)
- **Fields Near Abandonment** (eg, Cook Inlet or Kenai)

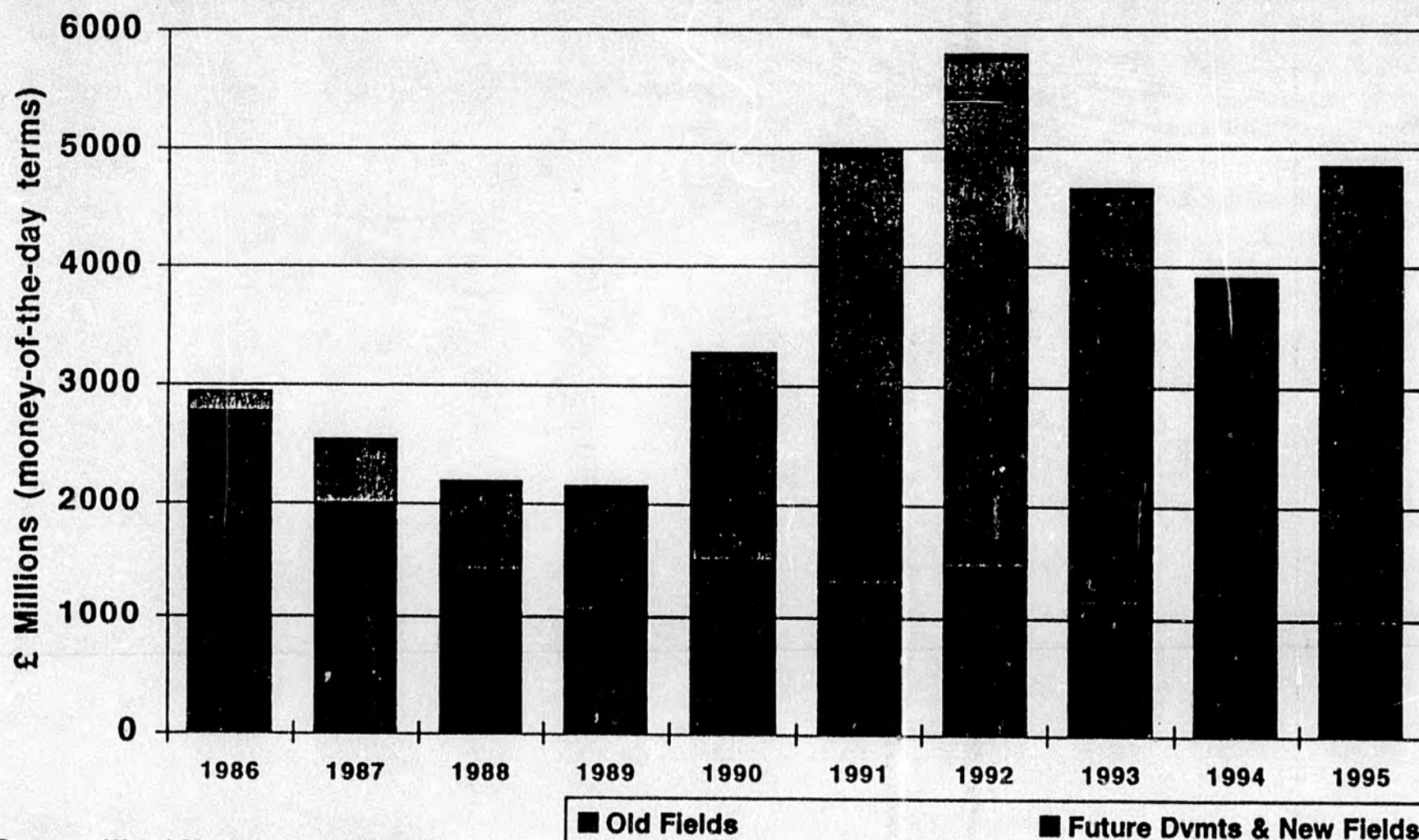
U.K. Taxation History Overview (New Fields)

AND safe **Low Cost & Long Term**



Capital Expenditures U.K. North Sea

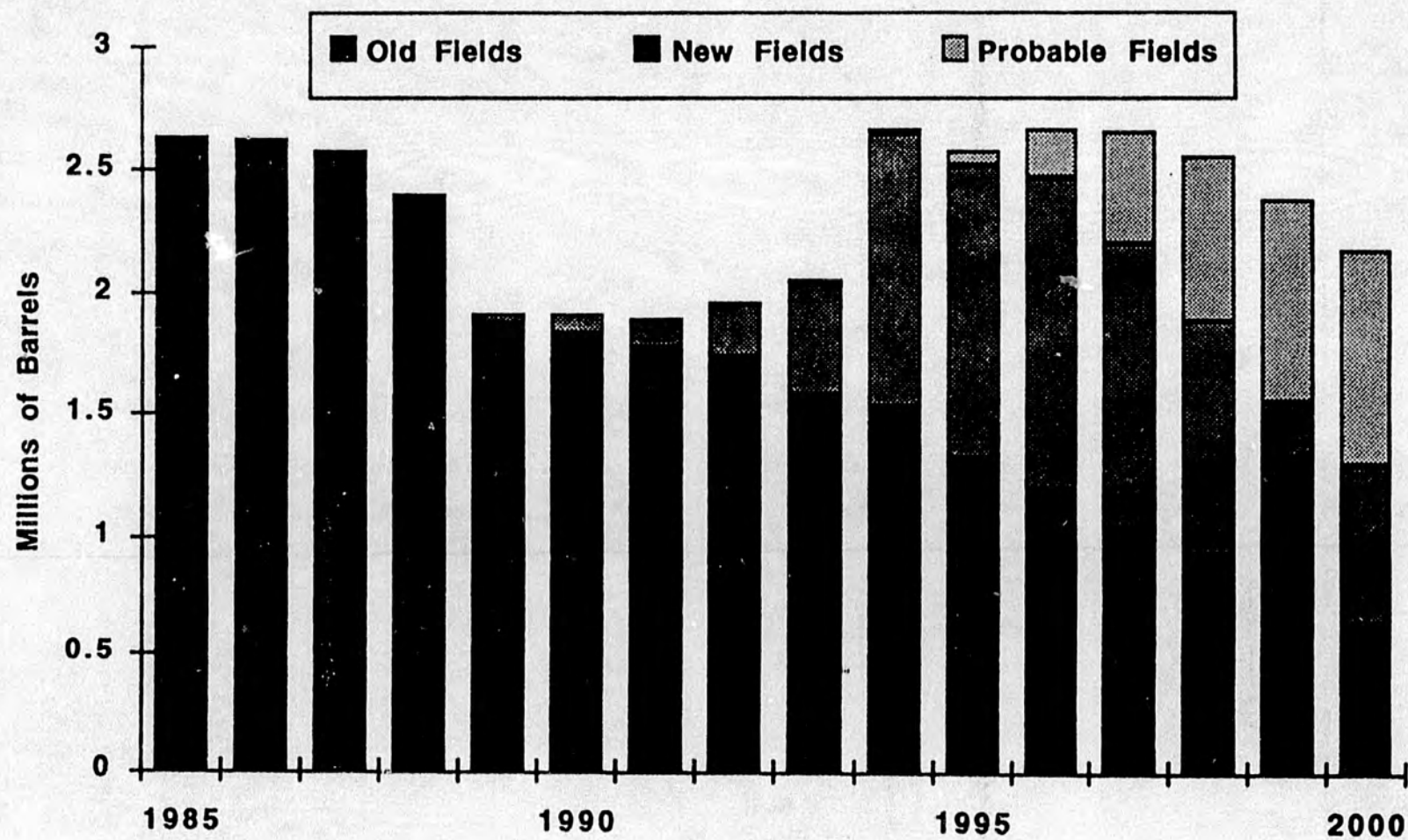
safe **Low Cost
& Long Term**



Source: Wood Mackenzie, April 1994

UK North Sea Production Profile

safe Low Cost
& Long Term



**Testimony
of
J. Ken Thompson
President, ARCO Alaska, Inc.
to
the
House Resources Committee
February 15, 1995**

Slide 1: Agenda

- Hello. For the record, I'm Ken Thompson, President of ARCO Alaska, Inc.
- Pleasure to be here. Thanks for opportunity to testify.
- Here today to talk about common goals shared by ARCO Alaska and the state.... and what its going to take to achieve our goals.
- I'll be sharing information about what other oil provinces are doing to boost production and create jobs for local residents. And I'll talk about some steps we can take today and in the future..... to ensure that oil and gas investment opportunities in Alaska remain competitive. When I'm done, I hope you'll be persuaded that the state can make a difference..... that the state can change the economic equation for marginal oil accumulations on the North Slope.

Slide 2: Common goals

- State and ARCO share common goals.
- The first is to mitigate the production decline now occurring in existing fields through the discovery and development of new oil accumulations and the development of marginal horizons in existing fields.

- Second..... we need the incremental revenue that will be derived from new production.

- Let me underscore the words "New Production." ARCO is not seeking changes in the tax or royalty treatment of existing production. Instead, we're asking that the state be willing and able to consider changes in the regulatory, tax and royalty treatment of marginal projects which can't go forward without such consideration. In short..... we must work together to turn zeroes into positive numbers.... which show up on our balance sheet and in your treasury. Or as was said on a recent Juneau news report..... half a loaf is better than none.

- If we can turn zeroes into positive numbers..... then you'll have the opportunity to increase Permanent Fund contributions over what they would otherwise be.... while maintaining current contribution rates.

- Finally.... we want to create jobs and economic opportunity for Alaskans. Those who work in our industry and those who don't.

- The only way to reach these common goals is through sustained oil and gas development. That means:

- Continued exploration of Alaska
- Development of marginal oil accumulations
- And by extending the economic lives of existing fields.

- To have sustained oil and gas development we must be competitive.

- Companies like ARCO must reduce costs through improved operating practices and development of new, more cost effective technologies.

- And the state must be willing and able to consider changes in the tax, royalty and regulatory treatment of proposed oil and gas

projects when change is necessary to turn a zero.... into new production..... new revenues..... and new jobs.

- We both have parts to play.
- There's a lot at stake.
- 85 percent of current state revenue dependent on oil production. According to state projections.... North Slope oil production will decrease more than 30 percent over next five years.

Slide 3: World fiscal regimes more competitive

- Other countries are turning zeroes into jobs, production..... and incremental revenue.
- Norway abolished royalties on new fields in 1986 and removed sliding scale state participation in new leases in 1992.
- Australia introduced a Resource Rent Tax in 1985 for offshore projects.
- Venezuela cut the income tax rate for heavy crude development from 67 to 34 percent. Removed onerous tax provisions for multinational firms and improved bidding structure for operating contracts for marginal fields.
- In Alberta, Canada fiscal reformations led to oil & gas industry turnaround after the 1986 crash.
- Why all this change? Simple. Oil Prices are down and have been down for some time. Investment capital is in short supply and there is an abundance of oil and gas investment opportunities available.
- Mr. Chairman... members of the committee I'm an here today as one of Alaska's oldest and best customers. We've been doing business here more than 40 years. It's been a tremendous relationship. I like shopping in your store. I like the merchandise

you carry. I want to keep shopping here. But a giant discount warehouse has moved in across the street. The merchandise is excellent.... and the terms are better. To survive.... to prosper.... Alaska and the companies that do business here must meet that competition.

Slide 4 – UK fiscal history

- This graph shows how the United Kingdom has moved, incrementally.... and systematically to ensure the continued competitiveness of the North Sea.
- In 1984 they eliminated royalties on new fields.
- In 1993 they eliminated the Petroleum Revenue Tax, which is similar to Alaska's severance tax on new fields.
- Today....depends on 33 percent corporate income tax to collect incremental revenue on new production.

Slide 5 -- Fiscal regime comparison as of 1994

- This slide compares fiscal regimes in UK, offshore Australia and Alaska.
- All have corporate income taxes. In Alaska combined state and federal take is about 39 percent. (35% federal plus 9.4% state equals 39% total because of deductibility of state taxes on federal returns.)
- Of the three.... only Alaska has royalty, severance and ad valorem on new fields.
- Now, you've had a look at the competition. Now.... what can we do to ensure that oil and gas investment in Alaska remains competitive with opportunities elsewhere in the world?

Slide 6 - Summary of world wide fiscal regime comparisons

- During 1994, Petroconsultants surveyed the oil and gas fiscal regimes in 70 countries.
- Survey shows that 18 of the 22 nations with production greater than 200 M bopd rely on production or profit sharing arrangements to derive revenue from oil and gas production.
- Alaska, and the United States are not among the 18. Alaska and the United States are among only three countries which still employ a fixed rate royalty.

Slide 7 - What it takes

- Industry, state must work together to create competitive environment.
- Industry must focus on keeping cost structure low.
- State -- faced with declining production and revenues -- faces many of the same challenges. We support efforts to gradually balance spending with revenues, closing fiscal gap and achieving soft landing.
- Encouraged by what we're hearing from Administration, Legislature about budget discipline. Closing fiscal gap will increase investor confidence in Alaska.... and give us confidence that any incentives you provide today..... will be honored tomorrow.
- State must develop a more competitive tax and royalty structure for new fields. Alaska must meet the competition.
- Finally, the state must be willing and able to consider alternative business arrangements when necessary for marginal projects. Current regulations may not provide necessary flexibility.

Slide 8 -- Immediate actions

- I know that many of you are eager to take immediate action to improve Alaska's competitiveness. I'm encouraged by your enthusiasm and willingness to consider positive change. However, we must move carefully, coordinate among the legislature, the administration and industry and ensure that the steps we take are the right steps and will be effective.

- That's why I'm recommending today that your first step be a comprehensive review of the incentives the Legislature has already approved.

- Are they being used effectively? Are they being used in the way you intended? Are they obtaining the results you expected?

- **Exploration Incentive Credits:** State has exploration incentive credit program. DNR still grappling with how to administer. Rules, guidelines unclear as to what qualifies, what doesn't. In fact, regulations don't exist yet.

- In the last year, we've approached DNR three times. We've been turned down three times. We're concerned about the final form these regulations will take and believe that in order to be effective, the incentive must apply to a broad range wells.

- For example.... any well that meets the IRS / SEC definition for an exploratory well. Simple, straightforward application of exploration incentive credits could increase the number of exploratory wells drilled in Alaska every year, attract outside capital to Alaska and increase the likelihood of additional commercial oil discoveries.

- **Lease Sale / Land Access:** Existing program not working well. State having difficult time maintaining sale schedule. Even when sales occur, lawsuits likely. Increased certainty created by HB 308 appreciated. The administration and legislature worked well together to enact that law.

- **Discovery Royalty Credit:** Currently covers only the lease on which the discovery well is drilled. Good for ten years from date of discovery. Time required to permit, develop Alaska

discoveries reduces value / incentive of this credit. This credit would provide more of an incentive if, for example, the credit were applied for five years from date initial production and / or were applied to leases covering the entire discovery. This would make investment in the new fields more attractive because the credit would lower our up front development costs.

SUPPORT FLEXIBILITY DNR ROYALTY RELIEF

- **Prolonging Economic Life:** Statutes allow DNR to reduce royalty in specific circumstances on fields nearing the end of their productive, economic lives. However, this relief is difficult to attain. Companies sometimes required to jump through impossible hoops. For example, one Cook Inlet operator was asked to provide detailed cost records back to field discovery. The company couldn't provide those records because it didn't have them. It had purchased the field from another operator. And yet, that was the reason the royalty reduction was declined.
- **Lease Sale Terms:** Existing lease sale program not working. Number of bidders participating in sales is half what it was six years ago. Your old customers aren't coming in the door anymore. They are going where the deals are better, the returns are higher.
- Lease sale bonus bids not major source of revenue for state, especially when compared to severance, royalties. Revenue results from production. State should be doing all it can to encourage evaluation and exploration of its lands.
- Existing law gives DNR authority to vary lease terms, relying less on bonus bids and offering more attractive royalty terms.... net profit share royalties, for example, in place of fixed percentage.
- In fact, we have proposed a net-profit share royalty for State Lease Sale 79 scheduled later this year. We think this approach will increase interest and participation in the lease sale.

- **Smaller Discoveries:** Exploration may yield discoveries which are too small or too marginal during periods of low oil prices to carry the royalty rate under which they were originally leased. DNR has flexibility to reduce royalties in certain circumstances. However, that authority may not extend to new discoveries.

- There should be a means through which the state can help bring these fields on production by reducing the royalty burden. We need a mechanism which allows us to ask for royalty relief and the state to grant it if the state deems action necessary and beneficial.

- **Federal Tax Incentives:** As you saw earlier.... in the UK, Australia, Alaska comparison..... Alaska is the only jurisdiction in which industry is taxed by multiple jurisdictions. There have been some discussions of federal incentives for the oil and gas industry. We would urge you to express your support for those proposals.

- State support of efforts to open ANWR and lift the Export Ban are also necessary.

COMPETITIVENESS

- Finally, we urge you to support and participate in a broad-based process to develop recommendations aimed at enhancing Alaska's international competitiveness.

Slide 9: Next steps

- Making the changes necessary to keep Alaska competitive will not be simple or easy. The initiatives the state undertakes must be chosen carefully, through an open, public, bi-partisan process which involves the legislature, the administration and the industry.

- We must ensure that the steps we take are the right steps. We must understand the competition. We must know and understand what other oil provinces are doing to attract oil industry investment.

- Only then can the administration and the legislature begin to develop options.
- This process will take time. I know that many are eager to act today. But this is far too important a process to hurry along. We must build public consensus if this effort is to succeed.
- I know concern has been expressed that variable or sliding scale royalty rates would adversely impact contributions to the Permanent Fund.
- Again..... I'd ask you to remember that the changes we're asking you to consider are changes designed to turn oil accumulations which are zeroes today --- into jobs, production and additional revenues. Contributions to the Permanent Fund will be higher than they would otherwise be.
- You..... as legislators will decide how to allocate incremental revenues from incremental production.

Slide 10: Conceptual "fixed / variable" royalty

- This slide shows one of the options available to you. The vertical axis is the royalty percentage. Here the royalty percentage increases as a function of oil price, well productivity or field size..... increasing from a low of 6.25 percent ramping up to percentages which would exceed the traditional 12.5 percent.

That's the variable portion of the royalty.

- The shaded area shows the contribution to the Permanent Fund. For this illustration..... we've set the minimum contribution at 6.25 percent, which is the prescribed contribution for production from leases issued since 1979.

As you can see..... the permanent fund contributions could be protected.... and even enhanced if the royalty rate exceeded 12.5 percent because of high oil prices or the discovery of a very large field.

Slide 11: Project partnering

- No matter what the oil price is..... no matter what the state's ultimate tax and royalty regime..... there may be projects on the margin.
- ARCO will look for ways to make these projects happen..... by lowering their cost....developing new technology..... reducing their scope. Those efforts may not always be successful.
- If we can't make a project work on our own ... we may ask you to help us find innovative ways to make the project happen.
- We envision a process in which we explain the project.... in which we explain the economics.... in which we lay our cards on the table. Then it's up to the state to evaluate the data and determine whether the proposal offered is in the state's best interest.
- West Sak might fall into this category.
- We are re-evaluating West Sak at this time. Our goal is to find a way to begin West Sak production at current and expected oil prices. This is a difficult challenge. It will take new technology, and continued reduction in our operating costs. We don't know if we can get there from here.
- If we can't, we may be coming to you with a proposal. We'd like to think the state is willing and able to consider and implement new ideas for making West Sak happen.
- The state can make a difference. State can change the economic equation for marginal oil accumulations in Alaska. I'd like to close this presentation by showing you what can happen..... what did happen in the UK.
- Other areas which might benefit from project partnering are the Lease Sale 79 area, the Western Colville and for fields near

abandonment..... which would not impact ARCO, but might help some Cook Inlet operators.

Slide 12: Capital expenditures UK

- This slide shows capital investment in the UK after the UK began turning zeroes into positive numbers by reducing the tax and royalty burden on new fields...
- The slide shows that \$45 billion has flowed to the UK North Sea for development of new fields. 23 new fields have come on production since 1985. Twelve new fields are scheduled to come on line this year. That's 35 new fields.....

Slide 13: UK North Sea production

- Production from new fields totals more than 1 million barrels a day and accounts for 40 percent of UK North Sea production. UK North Sea production is at record levels.
- The UK changed the economic equation for new, marginal North Sea fields.
- If we work together.....the legislature, the administration and the industry..... we can do it here.

SCOMM

96:9

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. HB 207

Revision Date: 3/14/95 Dept. Affected: Revenue
Title: Adjustments to Oil and Gas Royalty BRU: Revenue Operations
Sponsor: (H) Rules Component: Oil & Gas Audit
Requester: Governor COMPONENT SERIAL NO. 115

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*****See Analysis*****
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FUND SOURCE

(Thousands of Dollars)

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

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This Bill would grant the Commissioner of Natural Resources broad authority to reduce the royalty terms of an oil and gas lease if such reduction would allow new commercial development, prolong field life, or reestablish commercial production from idle leases. The reduction could be no greater than the percentage required to deposit royalty income under the initial lease terms into the permanent fund. The net impact of this provision will be to insure that the permanent fund share under the original lease terms will be covered in the event of reduction in royalty rate. In theory, the ability to grant royalty relief should raise the cash bids on new leases.

New production from this royalty reduction would most likely pay little severance tax because the Economic Limit Factor is designed to provide almost total tax relief to the kind of marginal fields this legislation is aimed at benefiting. Each new barrel of production would be subject to the \$.05/bbl or \$.03/bbl hazardous release surcharge (depending on the balance in the 470 fund) and the \$.004/bbl conservation tax. The impact on the corporate income tax would be too small to measure because of the world-wide apportioned tax base and since hft definition these fields would have marginal profitability.

Prepared by: Chuck Logsdon Phone: 277-5627
Division: Oil and Gas Audit Division Date: 3/14/95
Approved by Commissioner: Deborah Vogt Date: 3/15/95
Agency: Revenue

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FISCAL NOTE

No. 3*Corrected*Bill Version: HB 207(H) Publish Date: 3/8/95

STATE OF ALASKA

1995 LEGISLATIVE SESSION

Revision Date: OriginalDept Affected: Natural ResourcesTitle: An Act relating to adjustments to royalty reserved to the state to encourage otherwise uneconomic production of oil and ...BRU: Resource DevelopmentComponent: Oil & Gas DevelopmentSponsor: House Rules CommitteeRequestor: Governor KnowlesComponent Serial No. 439

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	90.6	94.0	97.5	101.2	105.0	108.9
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	5.0	5.0	5.0	5.0	5.0	5.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	105.6	109.0	112.5	116.2	120.0	123.9
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	105.6	109.0	112.5	116.2	120.0	123.9
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	105.6	109.0	112.5	116.2	120.0	123.9

Estimate of any current year (FY95) cost: \$

None

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

SEE ATTACHED

Prepared by: Ken Boyd, Acting DirectorPhone: 762-2547Division: Oil & GasDate: 3-Mar-95Approved by Commissioner: *John Stively*Date: 3-7-95Agency: Natural Resources

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COMMITTEE COPY

ATTACHMENT FOR FISCAL NOTE - HB207
REDUCE ROYALTY SHARE/HOLD PERMANENT FUND "HARMLESS"

Implementation of this legislation will create an increased workload for the Division of Oil & Gas. We anticipate that some of the applications will be analyzed within the Division and many will require analysis by third parties (the bill provides that third-party costs will be paid for by the companies). Because of the extremely sensitive and confidential nature of the data a considerable amount of interaction between the third-party contractor and the state will be needed.

Furthermore, the bill requires that applicants make a clear and convincing showing of the need for royalty reduction, so the Division will need to evaluate the economic, geological and engineering data submitted for compliance with the law prior to seeking the assistance of a third party.

Because this legislation contains provisions that may cause the terms of the application to vary over time, any approved application will need to be monitored on a continuing basis. We expect this program to have broad appeal, however, we cannot anticipate how many applications will be submitted or when they will be submitted.

An exempt Petroleum Engineer, Range 26A, will provide the broad background that will be needed to evaluate these proposals effectively. This position will need to be skilled not only in Petroleum Engineering, but will also need to have extensive knowledge of petroleum geology and petroleum economics. The salary cost of this position will be approximately \$90.6 the first year, including benefits. Additional, minor expenses such as travel, contractual and supplies will be required which we estimate will not exceed \$15.0. This position and the associated costs are our estimates of the funding needed to get the program started; if many applications are received, other positions may be required. We assume that each application will take between 4-6 employee-months to evaluate.

This legislation will effect state operating revenues in an unquantifiable manner (the Permanent Fund share is not affected by this legislation). This legislation gives the commissioner authority to grant royalty reduction which, on its face, would seem to indicate a decrease in revenue. However, since the purpose of this legislation is to promote development of fields that would not otherwise be produced, the net effect on state revenues should be positive. As a result of this legislation we are gaining new revenues based on this new production (albeit at a somewhat reduced rate from currently producing fields).

FISCAL NOTE

STATE OF ALASKA

BILL NO. HB207

1995 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources
 Title: An Act relating to adjustments to royalty reserved to BRU: Resource Development
the state to encourage otherwise uneconomic production of oil and ... Component: Oil & Gas Development
 Sponsor: House Rules Committee
 Requestor: Governor Knowles Component Serial No. 439

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
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LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
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CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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(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

Estimate of any current year (FY95) cost: \$ None

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

SEE ATTACHED

Prepared by: Ken Boyd, Acting Director Phone: 762-2547
 Division: Oil & Gas Date: 3-Mar-95
 Approved by Commissioner: [Signature] Date: 3-6-95
 Agency: Natural Resources

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FISCAL NOTE

No. 3

Bill Version: HB 207

(H) Publish Date: 2/27/95

STATE OF ALASKA

1995 LEGISLATIVE SESSION

Revision Date: Original

Dept Affected: Natural Resources

Title: Reduce royalty share/hold permanent
fund "harmless"

BRU: Resource Development

Component: Oil & Gas Development

Sponsor:

Requestor: Governor

Component Serial No.

439

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
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TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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Estimate of any current year (FY95) cost: \$

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FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

SEE ATTACHED

Prepared by: Ken Boyd, Acting Director

Division: Oil & Gas

Approved by Commissioner: John Smith

Agency: Natural Resources

Phone: 762-2547

Date: 22-Feb-95

Date: 2-12-95

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Implementation of this legislation will create an increased workload for the Division of Oil & Gas. We anticipate that some of the applications will be analyzed within the Division and many will require analysis by third parties (the bill provides that third-party costs will be paid for by the companies). Because of the extremely sensitive and confidential nature of the data a considerable amount of interaction between the third-party contractor and the state will be needed. Furthermore, the bill requires that applicants make a clear and convincing showing of the need for royalty reduction, so the Division will need to evaluate the economic, geological and engineering data submitted for compliance with the law prior to seeking the assistance of a third party.

Because this legislation contains provisions that may cause the terms of the application to vary over time, any approved application will need to be monitored on a continuing basis. We expect this program to have broad appeal, however, we cannot anticipate how many applications will be submitted or when they will be submitted.

An exempt Petroleum Engineer, Range 26A, will provide the broad background that will be needed to evaluate these proposals effectively. This position will need to be skilled not only in Petroleum Engineering, but will also need to have extensive knowledge of petroleum geology and petroleum economics. The salary cost of this position will be approximately \$90.6 the first year, including benefits. Additional, minor expenses such as travel, contractual and supplies will be required which we estimate will not exceed \$15.0. This position and the associated costs are our estimates of the funding needed to get the program started; if many applications are received, other positions may be required. We assume that each application will take between 4-6 employee-months to evaluate.

This legislation will effect state operating revenues in an unquantifiable manner (the Permanent Fund share is not affected by this legislation). This legislation gives the commissioner authority to grant royalty reduction which, on its face, would seem to indicate a decrease in revenue. However, since the purpose of this legislation is to promote development of fields that would not otherwise be produced, the net effect on state revenues should be positive. As a result of this legislation we are gaining new revenues based on this new production (albeit at a somewhat reduced rate from currently producing fields).

FISCAL NOTE

No. 2

Version: HB 207

(H) Publish Date: 2/27/95

STATE OF ALASKA 1995 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: Revenue
Title: Reduce Royalty Share/Hold Permanent Fund BRU: APFC
Sponsor: GOV Component: APFC
Requester: GOV COMPONENT SERIAL NO. 109

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
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 EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE

(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

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

No additional costs or significant impact is anticipated with the implementation of this proposed legislation upon the Alaska Permanent Fund Corporation.

Prepared by: Martin Pihl, Acting Executive Director
Division: APFC
Approved by: Deborah Vogt
Commissioner: Revenue
Agency: Revenue

Phone: 465-2047
Date: 2/23/95
Date: 2/23/95

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Oil + Gas

~~HOUSE SPECIAL COMMITTEE ON FISHERIES~~

DATE: 3/7/95

PLACE: Rm 124

SUBJECT OF MEETING:

HB207 - Royalty Reductions
HB209 - " " " "
" Work Session "

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
PATRICK COUGHLIN	State	Attorney General's Office 1031 W 4th Ave Anchorage, AK 995	99501	249-6207	269-5255	Y	N
Bill Van Dyke	State DNR	DNR / DO + G 3601 C Street Suite 1380 Anchorage AK			7622550	Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N

B

F USE COMMITTEE REPORT

3/22/95

(7)

Date Referred: February 27, 1995

FURTHER REFERRALS:

Resources
Finance

Date of Committee Action: _____

The HOUSE SPECIAL COMMITTEE ON OIL AND GAS Committee considered:HB 207

HOUSE BILL NO. 207

ADJUSTMENTS TO OIL AND GAS ROYALTIES

"An Act relating to adjustments to royalty reserved to the state to encourage otherwise uneconomic production of oil and gas; relating to the depositing of royalties and royalty sale proceeds in the Alaska permanent fund; and providing for an effective date."

recommends it be replaced

with the following committee substitute

CS HB 207 (O+G)

[] the same title

[X] a new title

[] additional referral to _____ Committee

[] attached amendment(s)

ADOPTS: Oil & Gas Letter of Intent

ATTACHES NEW FISCAL NOTE(S):

(Dept)

APPROVES PREVIOUS:

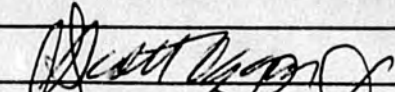
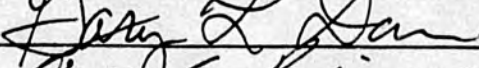
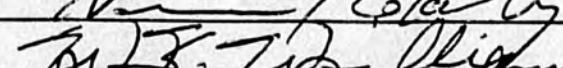
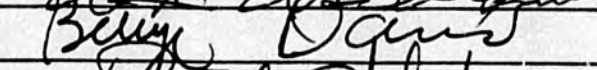
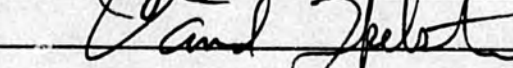
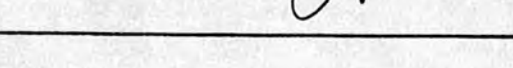
(Dept/Date)

[X] fiscal note(s)

REV (indeterminate)

fiscal note(s)

DNR 3/8/95[] zero fiscal note(s)[X] zero fiscal note(s)REVENUE 2/27/95

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	Ogan	✓			
	G. Davis			✓	
	Brice	✓			
	Rokeberg	✓			
	Williams	✓			✓
	B. Davis	✓			
	Finkelstein				✓

CHAIR'S SIGNATURE


 Rokeberg

Oil's Legislative Outlook

Some difficult issues must be resolved between the Alaska Legislature and the state's oil and gas industries.

By Ray Tyson

Looking ahead, 1995 could prove to be a critical year for Alaska's oil and gas industries as the spotlight turns to a new governor and legislature once again faced with eroding petroleum and budget gaps.

And with the lion's share of state income coming from royalties and taxes on North Slope crude production, industry has plenty reason to be concerned. The main theme of this year's legislative session promises to be taxes — and more taxes.

"Back taxes, future taxes, tax regulations, confusion in tax interpretation, and use of taxes collected are going to be the key issues," projects Jeff Lowenfels, an Anchorage attorney and vice president of Yukon Pacific Corp.

In addition to the tax issue, expect industry to seek government incentives for development of so-called "marginal" fields, or fields companies say cannot otherwise be developed because of Alaska's weak oil-price environment, competition and other factors.

"I think there is going to be heightened discussion about whether we are doing enough ... for oil and gas companies, or regardless of what we do whether that would be enough," says Jim Eason, director of the Alaska Department of Natural Resources' oil and gas division.

However, state lawmakers and the governor shouldn't have any difficulty figuring out what companies want in 1995.

Aggravating Attitudes

The dilemma facing the petroleum industry was clearly echoed last year by Gaffney, Cline & Associates, an international oil and gas consulting firm hired by the state to assess the Alaska industry. Gaffney concluded industry here was in a state of "near-crisis" and that the problem was being compounded by taxes, regulations and government attitude toward industry.

Roger Herrera, an Anchorage-based industry consultant, believes Alaska's problem runs much deeper than the tax issue or the want of state incentives. He says oil companies and the state need to start communicating, suggesting the new governor and company representatives meet every two weeks to "chat" about their problems.

"It's that old adage that if there's a will, there's a way," Herrera says. "If you really want to come to a solution, you can do it without going through all of the excruciating pain of changing laws."

What Herrera and others are suggesting is that a fundamental change in relationship between industry and government must first occur if Alaska is going to resolve its problem with declining oil production and dwindling state income.

"Even if you could take 24 different laws and regulations and change them all, you wouldn't end up with the (desired) result," Herrera says. "So often when you mess around with the language of rules and regulations, you enhance one thing and then it's used against you in some other way."



Clark James Mishler

The oil industry seeks a new relationship with state government.

Increasing Incentives

Nevertheless, there no doubt will be some pushing and shoving in the legislative arena this year over specific industry incentives designed to raise North Slope oil production, which has slipped from a peak of just over 2 million barrels a day in 1988 to the current rate of just under 1.6 million barrels a day.

For example, Anchorage Rep. Joe Green, chairman of the House Oil and Gas Committee, is working on a legislative package that would give

companies tax breaks for drilling wells to extract oil that otherwise would be uneconomical to produce. Additional incentives might be offered for Enhanced Oil Recovery projects, such as reservoir water-flooding, a technique used to push oil toward producing wells.

Meanwhile, BP Exploration (Alaska) Inc., the state's largest producer, says it will likely pursue royalty or tax reliefs for at least two marginal North Slope fields — the Schrader Bluff field at Milne Point and the remote, undeveloped Badami field east of Prudhoe Bay.

"There is a real need for the state to have a fiscal pathway to get out of its difficulties. It's a real drag on our ability — and other folks, too — to get investments."

JIM PALMER
BP EXPLORATION

"Badami must compete for funds with projects in the Gulf of Mexico and indeed with projects around the world," explains Dick Oliver, BP Exploration's chief executive officer. "We have to make decisions like that not only about Badami, but about all the other investment opportunities we have — here and everywhere else."

The Back-Tax Debate

However, Alaska's oil and gas industry appears to be most concerned about government's spending habits in the wake of declining production and its hot pursuit of back oil taxes to make ends meet. Companies say they want more "clarity" and "certainty" on their tax obligations, a major stumbling block when it comes time to negotiate with their parent companies for Alaska investment capital.

As of mid-November, Alaska producers had already shelled out almost \$4 billion in settlements for tax and royalty claims, some dating

back as far as 1977, the year North Slope crude began to flow.

Collection of back taxes has been placed in a reserve account, which lawmakers have used to balance the state budget — a practice that has made companies nervous.

"There's a need for the state to have a fiscal pathway to get out of its difficulties. It's a drag on our ability — and other folks, too — to get investments," says Jim Palmer, BP Exploration's director of external affairs.

For the first time in more than a

dozen years, the state Department of Revenue last year overhauled its tax regulations in an effort to resolve some of the problem. While commending the state for working with industry on the issue, however, the Alaska Oil & Gas Association (AOGA) concluded the new regulations fell "just short of achieving a major breakthrough in tax reform."

Perhaps the biggest industry complaint over the years stems from how the revenue department values crude oil and its lengthy and complicated



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President • ARCO Alaska, Inc.

Dave Pritchard • President
Alyeska Pipeline Service Company

Paul Kelly • Vice President
Rowan Companies

John Morgan • President
BP Exploration (Alaska) Inc.

Ernie Cade • Chairman
American Association of Blacks in Energy

Eric Ball • Senior Vice President
Willis Corroon

The Honorable Ted Stevens
Senator

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House Oil and Gas Committee

House Bill No. 207

Testimony of Nancy Schoephoester
Government Relations, ARCO Alaska, Inc.
March 9, 1995

Mr. Chairman, members of the House Oil and Gas Committee, my name is Nancy Schoephoester and I am a representative of ARCO Alaska, Inc. Thank you for the opportunity to come before this committee to speak in support of House Bill No. 207 relating to oil and gas royalty adjustments.

We believe that Alaska and the oil and gas industry share common goals, namely jobs and economic opportunity for Alaskans. However, in order to achieve these common goals, we need 1)to mitigate the production decline now occurring in existing fields through the discovery and development of new oil accumulations and the development of marginal horizons in existing fields, and 2)the incremental revenue that will be derived from new production is needed.

The only way to reach these common goals is through sustained oil and gas development. That means:

- Continued exploration of Alaska
- Development of marginal oil accumulations
- And by extending the economic lives of existing fields.

To have sustained oil and gas development we must be competitive in a global economy. That means that companies like ARCO must reduce costs through improved operating practices and development of new, more cost effective technologies. And the state must be willing and able to consider changes in the tax, royalty and regulatory treatment of proposed oil and gas projects. These changes can result in new production, new revenues, and new jobs.

Oil Prices are down and have been down for some time. Investment capital is in short supply and there is an abundance of oil and gas investment opportunities available. Alaska is competing in the world market for investment dollars and must provide incentives to encourage the flow of some of those dollars into the state. We support HB 207 as a step in that

direction, and we believe that it is a good first step in that this legislation may encourage oil and gas production from marginal fields which would otherwise be considered uneconomic.

Time is of the essence in showing a willingness for the state and industry to work together. We would like to see legislation passed this session. We believe that HB 207 is not in any way an overhaul of state oil and gas statutes, but rather a tool to help us accomplish increased production and revenues. This legislation would provide royalty relief in three cases - 1) on new and existing fields which have been delineated but not previously produced, 2) as per barrel or barrel equivalent costs increase in the later stages of production decline, and 3) to reestablish commercial production of shut-in oil or gas that would not otherwise be economically feasible. ARCO believes that the state and the oil and gas industry can come to terms to create a mutually satisfactory climate to allow us to reach our common goals - a win/win situation.

In closing, I would like to thank the House Oil and Gas Committee for devoting the necessary time and energy to work on this bill, and for your consideration of this legislation in such a timely fashion.

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MEMORANDUM

March 8, 1995

SUBJECT: Deposits of royalties and royalty sale proceeds in the permanent fund
(HB 207)

TO: Representative Rokeberg, Chair
House Special Committee on Oil and Gas

FROM: Tamara Brandt Cook *TBC*
Director of Legal Services

HB 207 permits the Commissioner of Natural Resources to grant reductions in mineral royalties in certain cases. AS 37.13.010 is amended under sec. 1 of the bill to require deposits into the permanent fund to be made at the level that would have applied without a reduction in cases where royalties are reduced. You have asked whether this amendment is constitutionally required. I cannot think of a constitutionally based argument that would require this.

Article IX, sec. 15 of the state constitution requires that at least 25 per cent of the money "received by the State" from certain mineral sources be placed in the permanent fund. The amount that must be reserved to the fund depends upon actual state receipts. If HB 207 is enacted it may be that royalties will be reduced in some cases from the levels that currently exist. While this could change the amount received by the State, all that the constitution requires is that at least the set percentage of whatever amount is, indeed, received go to the permanent fund.

TBC:glc:klb
95-201.glc



Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035
Phone 907/276-0700 Fax 276-3887

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Testimony of Resource Development Council on HB 207

An Act relating to the reduction of royalties reserved to the state to encourage production of oil and gas from marginal fields
House Oil and Gas Committee
March 15, 1995

Good afternoon. My name is Carl Portman, Communications Director of the Resource Development Council for Alaska, Inc. On behalf of RDC, thank you for the opportunity to testify on HB 207.

RDC is a proponent of a strong oil and gas industry and has worked to advance incentives that will encourage the industry to explore for new oil fields in Alaska and to bring into production existing reserves. Oil revenues account for more than 80 percent of state revenues and one in every three jobs in Alaska. As oil production and revenues decline, so will the number of Alaska jobs supported by petroleum revenues.

Current forecast scenarios indicate Alaska oil production will decline to about half of today's current levels by 2006. Half of the oil production projected for 2000 and beyond, however, is based on investments yet to be made. As a result, the outlook could be worse than current projections if investments are cut.

Alaska is at a competitive disadvantage in attracting capital investments because of high transportation, exploration and development costs, long lead times, crude oil characteristics that discount North Slope oil compared to other crudes and a state revenue structure that takes a bigger share of profits. What Alaska needs is a strategy to counter these disadvantages, to make Alaska more competitive in the world market so that more dollars are invested here.

HB 207 is a step in the right direction. Through a reduction in royalties, this bill would encourage otherwise uneconomic production from marginal fields and prolong the production life of declining fields. And this is important because much of Alaska's future production will come from marginal fields. There are a number of undeveloped North Slope oil accumulations, many of which would be in production if they were located in the Lower 48. But in Alaska, high costs, combined with low oil prices, make them uneconomic.

HB 207, however, would encourage the state and the industry to work together to change the economic equation for marginal fields. With passage of HB 207, Alaska's ability to compete for investment capital would improve, as would the prospects for a stable economy with steady, well-paying jobs. The benefits to Alaska are obvious -- new jobs, more production and long-term additions to the tax base for state and local property taxes.

HB 207 sends a clear signal to the board rooms of London, Los Angeles and Houston that Alaska aims to be competitive in the world market to attract the investments necessary to develop its oil and gas potential. It provides the Department of Natural Resources with the flexibility needed in working with investors on a case-by-case basis to make new development a reality. This bill will make a difference in attracting investment capital to Alaska -- instead of it going elsewhere.

HB 207 will help get marginal fields into production -- fields that might otherwise go untapped or would be shut-in without a royalty reduction. Without HB 207, there would be no revenues from these fields.

RDC believes this bill provides adequate safeguards to protect the state's best interests. HB 207 would require the lessee to make a clear and convincing case that a royalty reduction is necessary and is in the best interest of the state. It also provides that if relevant factors change in the future the Commissioner of Natural Resources may raise the royalties that were previously reduced.

Thank you for the opportunity to comment on HB 207.



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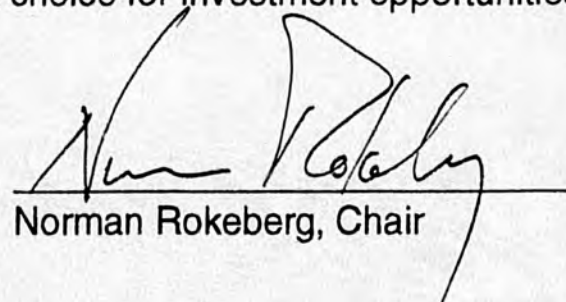
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Letter of Intent HB 207

In amending AS 38.05.180 (j) it is the intent of the House Special Committee on Oil and Gas to encourage the oil and gas industry in Alaska to develop uneconomic marginal oil and gas fields. Modification of the statutes will encourage future petroleum development in Alaska. The climate for additional capital investment will improve the State of Alaska's ability to compete in a world wide market. The legislation creates an incentive for industry to select Alaska as a place to invest. Continued investment in Alaska will produce quality jobs for Alaskans and an additional source of revenue for the State of Alaska.

Oversight by the Royalty Oil and Gas Development Advisory Board will insure that the State of Alaska's best interests are protected. A stronger definition of a delineated field was included to remove ambiguities. A sliding scale royalty or other mechanism on undeveloped fields has been included for use by the Commissioner of Natural Resources when the price of oil or gas changes. The relevant factors of proved reserves, well productivity or capital investment were elevated to a higher level of consideration if production would not otherwise be economically feasible for a field, pool, or portion of a field or pool.

A better relationship between the State of Alaska and Alaska's primary industry will enable Alaska to be the first choice for investment opportunities.



Norman Rokeberg, Chair

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

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

July 2, 1992

Mr. L. R. Dartez
Production Manager
Alaska Region
Domestic Production
Marathon Oil Company
P. O. Box 190168
Anchorage, AK 99519-5311

cc:

7/9/92
LLV - (VIA FAX)

ORIGINAL MA → CE

RE: North Trading Bay Unit
Suspension of Operations

Dear Mr. Dartez:

Marathon Oil Company applied for a suspension of production or operations of the North Trading Bay Unit in accordance with 11 AAC 82.670. A suspension of operations of the North Trading Bay Unit is approved on the condition that Marathon commit to the schedule of activities set out in its June 22, 1992 letter.

Preliminary Engineering and Design	<u>Commence</u>
Procurement and Construction Planning	January 1993
Recomplete and Test Wells	June 1993
Begin Construction	Spring 1994
Start Gas Production	Spring 1994
	Fall 1994

This constitutes more than two years suspension of production from the unit. Hopefully the conversion to gas production will go smoothly. Annual updates to the unit plan of development will be required.

We will not require abandonment of the Spurr Platform, subsea pipelines and Granite Point Production Facilities at this time. However, planning for the inevitable abandonment of the facilities is critical, as Mr. Watson stated in this March 23rd letter.

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MARATHON OIL CO.
Production Manager
Alaska Region

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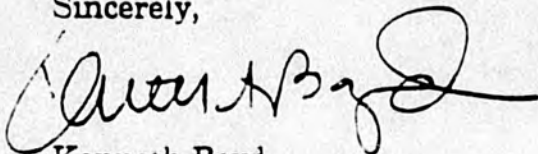
Marathon Oil Company
North Trading Bay Unit
Suspension of Operations
July 2, 1992
Page 2

"A major undertaking during this suspension period will be the evaluation of abandonment options for Spark, Spurr and Granite Point Production Facility. This evaluation will attempt to optimize method and timing of abandonment. As no platform has been abandoned in the Cook Inlet to date, much research needs to be done prior to abandoning the first structure."

We are willing to work with you to develop an acceptable plan and schedule for abandonment, and expect that it will require review and approval by other departments of the state as well as local and federal agencies. This is anticipated to be a lengthy process. Please contact Jim Haynes, Manager of our Permitting Unit to coordinate review of the draft abandonment plan. The draft plan is due on January 1, 1993.

The 19th Plan of Development and Operations for the North Trading Bay Unit, as amended on March 20, 1992 is approved. In accordance with 11 AAC 83.343.(4)(c) "The unit plan of development must be updated and submitted to the commissioner for approval at least 90 days before the expiration date of the previously approved plan, as set out in that plan." The 20th Plan of Development and Operations for the North Trading Bay Unit will be due on or before October 1, 1992.

Sincerely,



Kenneth Boyd
Acting Director

cc: Nancy Cress, Royalty Accounting

cdw/ntbu2

(52)

STEVE COWPER, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

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July, 17 1990

Marathon Oil Company
P. O. Box 190168
Anchorage, Alaska 99519

Attention: Bradley G. Penn
Area Landman

Subject: North Trading Bay Unit
Royalty Reduction Application

Dear Mr. Penn:

The Division of Oil and Gas is in receipt of your July 2, 1990 letter concerning the North Trading Bay Unit Royalty Reduction Application. Your letter requests that the division respond to the following questions:

- 1) Please indicate what specific economic data and in what form it should be presented for ARCO's and Texaco's past ownership of the leases;
- 2) Direction on the suitability of the Texaco data submitted with the July 2, 1990 letter;
- 3) Justification of the need for the rate of return information from ARCO and Texaco.

I believe the answers to the first two questions are provided in the division's letter of March 28, 1990 to Mr. A. R. Kukla and the attachment to that letter, Information Sheet on Applications for Royalty Reduction. The data submitted in support of a royalty reduction application must comply with the existing statutes and regulations. The Information Sheet constitutes the division's current interpretation of what existing law requires, either explicitly or implicitly, and provides royalty reduction applicants with the basic information of what the division can and must receive before it will process an application for royalty reduction.

- The answer to the third question is also addressed in the March 28, 1990 letter to Mr. Kukla and the existing statutes and regulations. AS 38.05.180(j) provides

3

Mr. Bradley G. Penn
July 18, 1990
Page 2

...[E]ach lessee requesting the reduction [must make] 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 lessees' total investment in the field.

(Emphasis added).

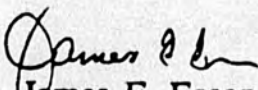
11 AAC 83.185(a)(4) states that an application for royalty reduction must

contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease, including all royalties and overriding royalties and all income from all produced minerals from the lease; ...

(Emphasis added).

Since Marathon is the applicant for royalty reduction, Marathon must satisfy the existing statutes and regulations with respect to its application. As the division interprets AS 38.05.180(j) and 11 AAC 83.185(a)(4), Marathon must submit complete revenue, cost, and expense data for not only Marathon but also ARCO and Texaco; however, only Marathon needs to submit rate of return information.

Sincerely,


James E. Eason
Director

cc: Ken Boyd
Nancy Cress
Bonnie Johannsen
Bill Van Dyke

ntbu.royalred.txt

4

Alaska Region
Domestic Production



P.O. Box 190168
Anchorage, Alaska 99519
Telephone 907/561-5311

July 2, 1990

Mr. James E. Eason
Director
Division of Oil and Gas
Department of Natural Resources
P. O. Box 7034
Anchorage, AK 99510-7034

Subject: North Trading Bay Unit Royalty Reduction Application

Dear Mr. Eason,

Pursuant to your letter of March 28, 1990 we submit the following response and questions for further clarification of our Royalty Reduction Application of July 18, 1989 for the North Trading Bay Unit. In an attempt to clarify our stance I will give a brief history of the project.

In March of 1989 Marathon personnel met with you and your staff concerning the initial application for royalty reduction. After items such as past production, operating costs, and net earning of previous owners was discussed Marathon prepared information for the application. A draft application was submitted for review by your staff in May of 1989. After incorporating the comments on that draft a Royalty Reduction Application was submitted in July, 1989.

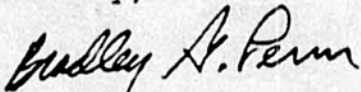
A primary item of discussion, one which Marathon predicated the preparation of the application on, was the need and ability to get financial data from past owners. While Marathon is able to provide economic and cost analysis for these leases under Marathon ownership, it has been unable to acquire the necessary information for past operating costs and net earnings except those which were submitted by Texaco in 1982 and 1983.

(5)

Mr. James E. Eason
July 2, 1990
Page 2

A considerable amount of time and effort went in to preparing the Royalty Reduction Application from Marathon's ownership forward. To prevent unnecessary expenditures of manpower, we are asking that you respond to questions of past economic data. Please indicate what specific economic data and in what form it should be presented for ARCO's and Texaco's past ownership. Direction on the suitability of the Texaco data is requested. Please justify the need for rate of a return for ARCO and Texaco ownership. After this information is received, Marathon will continue with the application update.

Sincerely,



Bradley G. Penn
Area Landman

BGP/cl
NTBU/10

cc: R. J. Murphy
R. J. Barnwell
G. A. Stapleton
S. K. Watson
CEF 801



✓ 66.
STEVE COWPER GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

PO BOX 7034
ANCHORAGE, ALASKA 99510-7034

RECEIVED

1990

March 28, 1990

OFF Field File # 801
Well File # _____
Other _____
Active Ret. _____
INACTIVE PRI: _____

Mr. A.R. Kukla
Marathon Oil Company
P. O. Box 190168
Anchorage, AK 99519

Re: North Trading Bay Unit Royalty Reduction Application

Dear Mr. Kukla:

I have received the July 18, 1989 royalty reduction application submitted by Marathon Oil Company for the North Trading Bay Unit. While staff have previously met to discuss the application, this letter is the first written response to your request for royalty reduction.

Your cover letter states that the application is being submitted pursuant to AS 38.05.180(j). AS 38.05.180(j) provides:

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 lessees' total investment in the field.

11 AAC 83.185(a), promulgated under AS 38.05.180(j), states:

An application for a reduction of royalty on leases under AS 38.05.180(j) must comply with 11 AAC 88.105 and

(7)

March 28, 1990

(1) state all the facts entitling the applicant to relief;

(2) state the location and status of all past and present activities on the lease;

(3) include a detailed report of all production during the six months preceding the filing of the application;

(4) contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease, including all royalties and overriding royalties and all income from all produced minerals from the lease; and

(5) include an agreement by the applicant to defray the cost of publishing a notice as provided by (b) of this section.

(Emphasis added). The royalty reduction application submitted by Marathon is incomplete for a number of reasons, including the following. First, under AS 38.05.180(j), Marathon must submit data on its total investment in the field, which it has not done. Also, that statute implies that Marathon must submit data on its actual rate of return, state what it believes a reasonable rate of return to be, and show that the royalty reduction requested will result in a rate of return no greater than that reasonable rate of return; this Marathon has not done. Furthermore, AS 38.05.180(j) provides for a royalty reduction in the event of increasing costs and an inadequate rate of return. For the Spurr Platform, Marathon has submitted data for a period of less than one year. This, obviously, is not a long enough period to document increasing costs or calculate a representative rate of return.

Second, 11 AAC 83.185(a)(4) requires that the application contain "a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease . . . and all income from all produced minerals from the lease." Marathon has provided some information on income and expenses for the period it has been the lessee, but not for the entire life of the leases. And the expense and income information provided does not qualify as "detailed." For example, the charts submitted as part of the application start with "net revenue." Yet no data is provided on gross revenue, and on the amount and nature of expenses deducted to arrive at "net revenue." Another significant example of the lack of detail is found in Marathon's failure to separately state individual categories of operating expenses.

Third, Marathon acquired an interest in the Spark Platform in

(E)

Mr. A.R. Kukla
Marathon Oil Company

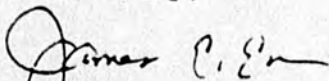
3

March 28, 1990

May, 1984. I understand that Marathon was previously informed that its application need only provide for the period 1986 to present, which it did. Marathon is required to provide figures for the entire life of the lease, and certainly for the entire period Marathon has had an interest in the Sparks Platform.

I have enclosed for your review a copy of the Division's recently prepared Information Sheet on Applications for Royalty Reduction. This Information Sheet constitutes the Division's interpretation of what it can and must receive under AS 38.05.180(j) and 11 AAC 83.185(a)(4) before it will process an application for royalty reduction. I encourage Marathon to revise and resubmit its application after correcting the deficiencies noted in this letter and reviewing the Information Sheet. When a complete application is received, a public hearing on the application will be scheduled, and a notice of hearing published. I also anticipate that the State will audit Marathon's records before granting or denying the application.

Sincerely,



James E. Eason
Director

JE

Enclosure (Information Sheet)

(9)

INFORMATION SHEET ON
APPLICATIONS FOR ROYALTY REDUCTION

CONTENTS OF APPLICATION. (a) An application for royalty reduction under A.S. 38.05.180(j) and 11 AAC 83.185 must comply with the requirements of 11 AAC 88.105.

(b) Three copies of the application must be filed with the office of the director of the division of oil and gas, department of natural resources.

(c) Unless waived by the commissioner of the department of natural resources, the application must include for the leasehold which is the subject of the application:

(1) a statement of all facts entitling the applicant to the relief requested;

(2) the ADL number and location of the lease;

(3) a map and written description of the existing, proposed, and adjoining oil and gas operations;

(4) records and estimates of each year's quantity and quality of oil and gas production for the entire life of the lease, both historical and projected;

(5) a comparison of the timing, quantity, quality, and location of oil and gas production in the event relief is granted vis-a-vis the timing, quantity, quality, and location of oil and gas production in the event relief is denied;

(6) detailed annual financial statements (limited to the subject lease) for each year's income, expenses, assets, and liabilities for the entire life of the lease, both historical and projected;

(7) the report of a certified public accountant which identifies and explains any deviations from generally accepted accounting principles made in the historical portion of the statement required by paragraph (c)(6);

(8) a statement of future action intended or expected to significantly affect income, expenses, assets, or liabilities;

(9) copies of all of the applicant's estimates of oil prices, gas prices, and/or taxes generated within the five years preceding the filing of the application;

(10) copies of all of the applicant's authorizations for expenditures generated within the five years preceding the filing of the application, including all supporting documents (e.g. discounted cash flows, decision memoranda, etc.);

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(11) a statement of, and supporting calculations for:

(A) the rate of return on the applicant's investment in the leased premises from the date of lease until date of application;

(B) the projected rate of return for the entire life of the lease in the event that the relief requested is denied; and

(C) the projected rate of return for the entire life of the lease in the event that the relief requested is granted;

(12) a statement of efforts made to obtain monetary or other concessions from creditors, overriding royalty interest owners, and purchasers of oil and gas produced from the leasehold;

(13) copies of any operating agreement, overriding royalty agreement, or agreement for the sale of oil or gas produced from the leasehold;

(14) the applicant's certification that, using current standard industry operating procedures, both the oil and the gas are economically unrecoverable without royalty relief;

(15) the applicant's certification that all accounting, financial, tax, geologic, geophysics, and engineering data submitted with the application is accurate and complete; and

(16) all other information and documents as requested by the commissioner.

(d) Any page of the application containing information which is privileged from disclosure to the public by federal or state law may be labelled "PRIVILEGED - DO NOT DISCLOSE" by the applicant. For each page so labelled, the applicant must identify the law which is the basis of its claim of privilege. If the claim of privilege is valid, the state shall not make the privileged information as set forth on the labelled page available to the public without the consent of the applicant. The application must segregate privileged and nonprivileged information so that the disclosure of nonprivileged information is not hindered by the presence of the "PRIVILEGED" label on the page on which it appears.

ACCOUNTING PRACTICES. Financial data shall be calculated and presented in a manner consistent with the State of Alaska Department of Revenue regulations governing taxable income from oil and gas production, 15 AAC 21.100 et. seq., with generally accepted accounting principles (GAAP), and with the principles of the Council of Petroleum Accounting Society (COPAS). Where the regulations, GAAP, and/or COPAS conflict, the regulations shall prevail over GAAP and COPAS, and GAAP shall prevail over COPAS.

(11)

PROJECTED FIGURES. The applicant requesting a royalty reduction must provide projections of production, income, expenses, assets, liabilities, and rates of return that extend through the entire estimated life of the lease.

INSPECTION OF BOOKS AND RECORDS. After an application for relief has been filed, the state is entitled to, but not obligated to, inspect, copy, and audit the books and records of the applicant for the purpose of deciding whether to grant or deny the application. The option to inspect books and records does not relieve the applicant of its obligation to file a complete and accurate application.

(12)

A. Kukla
Production Manager
Alaska Region
Domestic Production



Marathon
Oil Company

P.O. Box 190168
Anchorage, Alaska 99519
Telephone 907/561-5311

July 18, 1989

Lennie Boston Gorsuch
Commissioner, Department of Natural Resources
P. O. Box 107034
Anchorage AK 99510-7034

Dear Commissioner Gorsuch:

ROYALTY REDUCTION APPLICATION FOR THE NORTH TRADING BAY UNIT

Marathon Oil Company respectfully submits the attached application for royalty reduction pursuant to Alaska Statute 38.05.180(j) for state leases ADL 17597, ADL 18776, and ADL 35431. The North Trading Bay Unit encompasses these leases which are produced from the Spark and Spurr (formerly Texaco "A") platforms. These platforms were installed in 1968, and production has continued up to the present.

Pursuant to the criteria under the Alaska Statutes, Marathon requests this royalty reduction to prolong the economic life of the oil and gas field on said platforms within the North Trading Bay Unit. The data presented for operation of the two platforms show the revenue generated has been and is currently insufficient to produce a reasonable rate of return on investment.

Sincerely,

A. R. Kukla

\DOCS\DE6\DKK25
BGP:mh
Enclosure

CEF Field File # 801
Well File # _____
Other _____
Active Ret. 5 yr
Inactive Ret. _____

(13)

ROYALTY REDUCTION APPLICATION FOR NORTH TRADING BAY UNIT LEASES

Purpose

Marathon Oil Company respectfully submits this application for royalty reduction pursuant to Alaska Statute 38.05.180(j) for state leases ADL 17597, ADL 18776, and ADL 35431 as shown in Exhibit 1. A royalty reduction of 7.5% is requested in order to prolong the economic life of production from the two platforms, the Spark and the Spurr (formerly Texaco "A") located in the Cook Inlet. The location of the platforms, wellbores and lease information are presented in Exhibit 2. The following discussion, along with data presented, will support the reasoning for this request.

This application is for all existing production and reserves allocated to state leases ADL 17597, 18776, and 35431. Marathon proposes a review of royalty reduction relief every five years.

The applicant agrees to defray the costs of publishing a notice under 11 AAC 83.185(b).

Unit History

The development of the North Trading Bay Unit occurred from two platforms, the Spark and the "A". The platforms were installed in 1968 and have undergone changes of ownership. Most of the initial development was completed prior to unitization. Effective July 1, 1971, the state of Alaska approved the Unit Agreement for the North Trading Bay Unit between Atlantic Richfield Company, as Operator, Texaco, Inc. and the Superior Oil Company.

The prime intent of that Unit Agreement was to provide for the further orderly development of the Hemlock and "G" Formations of the North Trading Unit area through a water injection and pressure maintenance program. The two platforms in the Unit, operated by Arco, were the Spark and the "A" platforms. Installation of waterflood treating and injection equipment on the Spark platform was completed in 1971. Pressure maintenance by water injection was commenced in February 1972 and continued until March 1981 for the Spark platform. Water injection and pressure maintenance ended in May 1977 for the "A" platform. The production from both platforms is transported by pipeline to the Granite Point Production Facility for processing and handling. In 1977 the sub-operatorship of the "A" platform was assigned to Texaco, Inc. and the name of the platform was changed to Texaco "A".

On May 8, 1984, Marathon acquired Arco's interest in the Spark platform, became the sub-operator, and was elected the Operator for the North Trading Bay Unit area. Effective February 1, 1985, the Superior Oil Company merged with Mobil Oil Corporation.

In a letter dated October 30, 1985, Texaco USA proposed abandonment of all wells producing from the Spark platform. Subsequently, in a letter dated February 24, 1986, Mobil Exploration Producing North America proposed abandonment of the Spark platform wells. Marathon did not approve abandonment, and pursuant to §13.4 of the Unit Operating Agreement, Texaco assigned its interest effective December 31, 1985, and Mobil assigned its interest effective April 14, 1986 to Marathon. These assignments gave Marathon a 100% working interest

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in the Spark platform and all production from the wells then producing from the platform.

Effective August 1, 1988, Texaco and Mobil assigned their respective interests in the Texaco "A" platform to Unocal. Subsequently, Unocal assigned a 50% interest to Marathon for the Texaco "A" platform and lease. Effective September 1, 1988, the Texaco "A" platform name was changed to the Spurr platform, and Marathon was designated sub-operator of the platform.

Statement of Facts - Spark Platform

The Spark platform is located in Township 10 North, Range 13 West, Section 26, Seward Meridian. The platform operating expenses and revenue data is summarized in Table 1 and detailed in Exhibit 3. The Spark platform production and income are depicted on Figure 1. The information presented in Exhibit 3 is since Marathon obtained a 100% interest in the Spark platform.

The total net production from the Spark platform is 450,567 barrels and the total net income is -\$1,156,085 since acquisition of 100% interest in 1986. The total royalty paid the state of Alaska on the unit production since 1986 for the Spark platform totals \$1,040,821, as shown in Table 1 and in Exhibit 4. The net income from original acquisition in 1984 until April 1986 was -\$2,117,402; therefore, the total net income for Spark platform is -\$3,273,487.

The net income and breakdown of operating expenses for the Spark platform are presented in Exhibit 3 which shows the historical data in detail. The numbers are presented as net revenue and operating expenses for Marathon from 1986, when Marathon obtained Texaco Inc.'s and Mobil Exploration and Production North America's interests. At the present time, Marathon has a 100% interest in the oil produced from the Spark platform, as indicated in Exhibit 1 of this application and the unit operating agreement.

History - Spark Platform

The Spark platform was installed by Arco in mid-1968. Production began in January, 1969. Total cumulative oil production is 17,174,147 barrels as of January 31, 1989. Marathon obtained an interest in the Spark platform effective May 1, 1984 and took over sub-operatorship at that time. The total cumulative production since acquisition has been 611,964 barrels. Total production for the last six months (November through April) has been 60,183 barrels or an average of 10,037 barrels per month. The average daily production rate is depicted in Figure 1. A review of the approved plans of development filed with the Alaska Oil and Gas Conservation Commission provide a historical perspective of the lease, unit, and platform activities from the commencement of production.

At present, there are four (4) producing wells on the Spark platform. Production rates for each well are submitted to the State of Alaska Oil and Gas Conservation Commission on the monthly production report. Platform location, wellbore course, and productive interval intercepts are presented on Exhibit 2. Allocation of production in the North Trading Bay Unit was originally based on

(15)

surface acreage Basic Participating Interest. Allocation of production on Spark platform was subsequently amended by letter agreement. All oil from existing completions is allocated to Marathon from the Spark platform. The four wells contributing to Spark platform production are S-1RD, S-2RD, S-8 and S-9. The productive interval for S-1RD and S-8 straddle the lease boundary for ADL 17597 and ADL 35431. The productive interval for S-2RD straddles the lease boundary for ADL 17597 and ADL 18776. The productive interval for S-9 is within the lease boundary of ADL 17597. For this and other reasons, the production is considered unit production and allocated to the Spark platform.

Statement of Facts - Spurr Platform

The Spurr platform is located in Township 10 North, Range 13 West, Section 34, Seward Meridian. The platform was obtained from Texaco, Inc. and Mobil Exploration and Production North America August 1, 1988. The net income and operating expense data is summarized in Tables 2 and 3, depicted in Figure 2, and supported in Exhibits 5 and 6. The Spurr Platform royalty information is presented in Table 2 and Exhibit 6. The Spurr platform production can be divided into three specific areas: unit oil, non-unit oil, and unit gas. The Spurr platform production and income for the last nine months are summarized on Table 2. The Spurr platform gas production and income are summarized in Table 3 and depicted on Figure 3.

The total net production attributed to Marathon from the Spurr Platform is 52,472 barrels of oil and 71,112 MCF of unit gas for the nine months for which Marathon Oil Company has acquired and operated the Spurr platform. This breaks down to 35,886 barrels of unit oil and 16,586 barrels of non-unit oil for the nine-month period. The total net income is -\$12,518 (oil and gas) since acquisition in August 1988. The total royalty paid the state since August 1988 for Spurr platform production totals \$113,176, as shown on Table 2 and in Exhibit 6. The gas produced from the Spurr platform is used for fuel gas on lease. Additional gas from the Cook Inlet Gas Gathering System is treated at Granite Point Production Facility and transported to the platforms for additional fuel gas use for said platforms, as shown on Table 3 and depicted in Figure 3. Severance tax and associated royalty are paid on the additional fuel use gas delivered to the platforms from other off-lease sources. The North Trading Bay platforms are presently fuel gas deficient. Marathon anticipates initiating expense charges associated with this fuel gas at a rate of \$1.20/MCF. These expenses will increase the direct operating expenses by approximately \$40,000 per month. The income and breakdown of expenses for the Spurr platform are presented in Exhibit 5, which shows the production and economic data for the last six months in detail. The numbers are presented as net revenue and operating expenses. Marathon and Union obtained an interest in the lease and platform in August 1988. At the present time, Marathon has a 100% interest in unit oil produced from the Spurr platform and a 50% interest in the non-unit oil and all gas produced from the Spurr platform, as indicated in Exhibit 1 of this application and the unit operating agreement.

History Spurr Platform

The Spurr platform was installed in May of 1968, and production began in September of 1968. Total cumulative production is approximately 9,607,915

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barrels of oil and 3,414,080 MCF of gas as of January 31, 1989. Marathon Oil Company and Union of California purchased the Spurr platform and state lease ADL 17597 effective August 1, 1988. Marathon assumed sub-operatorship of the platform effective September 1, 1988. The total net cumulative production since acquisition has been 53,475 barrels of oil and 606,009 MCF of natural gas. These figures coincide with the detailed statement of production for the last nine months. A review of the approved plans of development filed with the Alaska Department of Natural Resources, Division of Oil and Gas, provide a historical perspective of the lease, unit and non-unit and platform activities from commencement of production. At present, there are eight producing wells from the Spurr platform. There are four unit oil wells and one unit gas well and three non-unit oil wells. Production rates for each well are submitted to the Alaska Oil and Gas Conservation Commission on the monthly production report. Platform and wellbore locations are presented on Exhibit 2. The allocation of production was originally based on the North Trading Bay Unit Operating Agreement, but has subsequently been amended by letter agreement between the parties. All unit oil is allocated to Marathon 100%. All unit gas and non-unit oil will be allocated on a 50-50 basis between Marathon and Union. The four unit oil wells are TS-1, TS-6, TS-8 and TS-9. The unit gas well is TS-3RD. The non-unit oil wells are TS-2, TS-4 and TS-7. All wells are producing from state lease ADL 17597.

Summary

This information is presented for leases, and more specifically the two platforms, for a time period since Marathon and others have acquired the facilities. The reason for presenting the data in this manner is based on the availability of previous owners' data and the relevance of such data to Marathon's investment. The operating income is based on net oil production sales. The royalty is computed on oil sales. Marathon and Union purchased the platforms at different dates, as stated previously. For investment purposes the investments have yet to pay out, but there is further sub-thrust oil potential on the leases as well as undeveloped gas reserves potential. Marathon is currently evaluating the potential for sub-thrust and gas development from both platforms.

The monthly production facilities direct expenses include a credit for treating and disposing of water produced at Amoco's Bruce and Anna platforms and Union's Granite Point platform. This credit is calculated by multiplying total barrels treated times \$.60/bbl. Marathon treats approximately 12,000 bbls/ month for Amoco and Union, resulting in a net monthly credit of approximately \$6,500 to the onshore facilities. Any reduction in the amount of water treated and processed would increase direct operating expenses proportionally.

The costs of gas well TS-3RD are included as direct platform expenses for the following reason. These platform costs were not allocated to the well on a working interest basis, but are based on equivalent hydrocarbon production (6 MCF = 1 bbl). This allocation was necessitated by a letter agreement between Marathon and Union which specified how platform costs would be shared.

Royalty Reduction Application
North Trading Bay Unit
Page 5

The royalty reduction application request is based on the operating income losses from both platforms for a time period since Marathon has acquired the facilities. It is anticipated that royalty relief will be beneficial in lengthening the productive life of the platforms as well as aid in evaluating future resource potential. Although the information in this application is provided by Marathon Oil Company, a royalty reduction result would also benefit Unocal's working interest in the North Trading Bay Unit.

The current estimates for abandoning the two platforms is \$11 million to \$15 million each.

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(18)



LOS ANGELES DIVISION
LAND DEPARTMENT

PETROLEUM PRODUCTS

TEXACO
U.S.A.
A DIVISION OF TEXACO INC.
3350 WILSHIRE BOULEVARD
P. O. BOX 3758
LOS ANGELES, CA 90061
213-739-7100

August 20, 1982

#215699: ADL 17597
NORTH TRADING BAY FIELD - ALASKA

Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Attention: Mr. John Katz, Commissioner

Gentlemen:

Texaco Inc. respectfully requests a reduction of royalty on the Texaco-Superior Platform "A" wells located in the North Trading Bay Field in the Cook Inlet. The Alaska Statutes, 38.05.180 (j), provide for this reduction for the purpose of prolonging the economic life of an oil and/or gas field to compensate for the increasing costs in the later stages of production decline. Such is the case with the wells producing from Platform "A" on the lands within oil and gas lease ADL 17597, located in Township 10 North, Range 13 West, Seward Meridian, Sections 14, 15, 22, 23, 27, 28, 33 and 34.

The information in the attached Exhibit "A" clearly shows the revenue from the producing portion of the subject lease is insufficient to produce a reasonable rate of return with respect to our total investment in the lease.

Platform "A" was installed in April, 1968 and the drilling phase was completed in November, 1969. There are no plans at this time for any additional drilling. The initial production was about 5,000 barrels of oil per day from eight wells.

At the present time two wells are shut in (T/S #8 and #9), two wells are on Reda pumps (T/S #1 and #2), three wells are on gas lift (T/S #4, #6 and #7), and one well has been converted to a gas well (T/S #3).

The total production for the first six months of 1982 was 44,159 barrels of oil and 135,656 barrels of water. The production for July was 8,794 barrels of oil and 28,426 barrels of water.

August 20, 1982

The production for each month is as follows:

<u>MONTH</u>	<u>BBLS. OF OIL</u>	<u>BBLS. OF WATER</u>
January, 1982	12,361	26,048
February, 1982	6,125	12,951
March, 1982	2,874	13,624
April, 1982	6,448	23,381
May, 1982	9,298	34,112
June, 1982	7,053	25,540

Consequently, Texaco hereby requests that the royalty rate of 12½ percent on subject lease be reduced to a rate of 5 percent in order to attempt to prolong the economic life of this lease.

Enclosed is the filing fee of \$20.00 required by Section 11 AAC 88.105(7) and Texaco agrees to defray the costs of publishing the notice required by Section 11 AAC 83.185(b) of the leasing regulations.

Any notice relative to our application for royalty relief may be sent to Texaco Inc., 3350 Wilshire Blvd., Los Angeles, CA 90010, Attention: Division Land Manager. If there are any questions or any additional information needed, please contact the undersigned at Area Code 907, 278-9611.

Very truly yours,

TEXACO Inc.

Ethel H. Nelson

Ethel H. Nelson

Advanced Exploration Land Representative

EHN:bjs

Enclosure

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PLATFORM "A" ~
LEASE ACQUISITION, DRILLING AND PLATFORM
DESIGN, ETC. COSTS*

DRILLING

Total W. I. IDC Cost	\$ 3,126,830
Total W. I. Investment Cost	680,932
Total W. I. Lease Acquisition Cost	383,038

PLATFORM

Total W. I. Investment Cost	<u>6,157,284</u>
GRAND TOTAL	\$10,348,084

*These costs were not included with Operating costs shown on previous page.

BJC
JM3/e4

(21)



RECEIVED

OCT 14 1982

DIV. OF MINERALS & ENERGY MGMT.
ANCHORAGE, ALASKA

October 8, 1982

TEXACO INC.
P. O. BOX 4-1579
ANCHORAGE, ALASKA 99509

#215699: ADL 17597
NORTH TRADING BAY FIELD
ALASKA

Division of Minerals
& Energy Management
Pouch 7-005
Anchorage, AK 99510

Attention: Ms. Kay Brown, Director

Gentlemen:

Attached is the additional information we discussed at the time of filing our application for reduction of royalty on the Texaco-Superior Platform "A" wells. This information, along with information submitted with our August 20 letter, shows the revenue from the producing portion of the lease is insufficient to produce a reasonable rate of return with respect to our total investment in the lease.

We apologize for the delay in submitting this information. If there are any questions or any additional information needed, please contact the undersigned at 278-9611.

Very truly yours,

TEXACO Inc.

Ethel H. Nelson
Advanced Exploration Land Representative

EHN:bjs

Enclosures

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Report gross or total gross?

PLATFORM "A" COOK INLET ALASKA
COST, EARNINGS, AND PRODUCTION

<u>YEAR</u>	<u>GROSS W.I. BBLs</u>	<u>GROSS EARNINGS</u>	<u>GROSS OPR. COST</u>	<u>NET EARNINGS</u>
1968	260,884	\$ 637,872	\$ 20,868	\$ 617,004
1969	1,690,736	4,349,932	703,900	3,646,032
1970	1,039,384	2,606,636	945,353	1,661,283
1971	743,000	2,300,122	493,851	1,806,271
1972	1,133,592	3,110,870	1,512,765	1,598,105
1973	933,488	2,921,200	2,336,317	584,883
1974	890,326	3,916,114	2,122,594	1,793,520
1975	671,538	2,932,770	2,654,522	278,248
1976	488,522	2,184,022	3,571,086	-1,387,064
1977	97,668	461,780	1,182,885	- 721,105
1978	159,466	\$1,202,298	\$ 938,174	\$ 264,124
1979	154,322	1,813,108	3,423,790	-1,610,682
1980*	136,212	1,711,176	1,864,502	- 153,326
1981*	120,218	3,426,298	2,709,098	717,200
1982 (6 mos.)	45,148 (90,200)	1,403,520 (2,807,040)	1,688,122 (3,376,244)	- 284,602
TOTAL	8,564,504	34,977,718	26,167,827	8,809,891

*This data includes Windfall Profits Tax where appropriate.

BJC
JM5/a5
9-27-82

copy

23

EXHIBIT "A"

PLATFORM "A" COOK INLET ALASKA
COST, EARNINGS, AND PRODUCTION

<u>YEAR</u>	<u>GROSS W.I. BBLs</u>	<u>GROSS EARNINGS</u>	<u>GROSS OPR. COST</u>	<u>NET EARNINGS</u>
1978	159,466	\$1,202,298	\$ 938,174	\$264,124
1979	154,322	1,813,108	3,423,790	-1,610,682
1980*	136,212	1,711,176	1,864,502	- 153,326
1981*	120,218	3,426,298	2,709,098	717,200
1982* (6 mos.)	45,148	1,403,520	1,688,122	- 284,602

*This data includes Windfall Profits Tax

BJC
JM5/a5
8-20-82

(24)

TEXACO/SUPERIOR PLATFORM "A"
Gross Production

<u>YEAR</u>	<u>OIL</u> <u>(bbls)</u>	<u>GAS</u> <u>(mcf)</u>	<u>WATER</u> <u>(bbls)</u>
1982	92,915	430,228	253,445
1983	94,387	650,904	233,315
1984	78,844	643,414	365,206
1985	112,593	441,371	401,552
1986	104,551	407,888	310,821
1987	105,543	466,232	248,081
1988(Jan.-July)	65,320	149,453	165,257

9153337

W/23

25

Immediate Actions for the Short Term



Review / Support Flexibility in DNR to Provide Royalty Relief

- **Smaller Discoveries**
- **Prolonging Economic Life**
- **Lease Sale Terms**

[HB-207, SB-101]

Review / Clarify Legislative Intent for Application of Existing Incentives

- **Exploration Incentive Credits**
- **Lease Sale Schedule**
- **Discovery Royalty Credit**

Support Calls for Federal Tax Incentives for Oil and Gas Development

Next Steps for the Long Term



Implement the Process Described Below to Examine Alaska's Long Term International Competitive Position and Recommend Alternative Proposals for Legislative Consideration

- **Legislative / Administrative / Industry Cooperation**
- **Focus First on Gathering Information on Competitive Fiscal Regimes**
- **Develop a Broad Range of Options**
- **Narrow Finally to Specific Proposals for Legislative Action**

Current Plans

- **Oil and Gas Policy Council**
- **Tax Royalty Conference**
- **96 Legislative Agenda**

TESTIMONY ON HB207 BEFORE THE HOUSE OIL & GAS COMMITTEE

Mr. Chairman, and members of the committee, My name is Bradley G. Penn, Advanced Landman for Marathon Oil Company in Anchorage.

Marathon appreciates the efforts of the legislature to develop incentives to encourage investment for development of marginal fields and to extend the life of mature fields .

Marathon has previously testified to the Senate Oil and Gas Committee that there are current legislation and regulations providing for royalty relief, however, this legislation has been ineffective in providing royalty relief.

I would like to provide the committee with Marathon's experience at royalty reduction.

1982-TEXACO application, state requires more economic data, Texaco does not pursue.

1988- Marathon and Unocal purchase Texaco "A" Platform from Texaco.

1989- July Marathon applies for royalty reduction.

1990 March DNR responds that the expenses and costs from the lease. DNR interprets to be previous owners, Marathon did predicate the application on ability to provide the data during its ownership.

1990-July Marathon requests clarification and justification.

1990-July DNR responds that Marathon has to provide "complete revenue, cost, and expense data for not only Marathon but also ARCO and Texaco; however, only Marathon need to submit rate of return information.

1992- June In the Plan of Development for the North Trading Bay Unit Marathon ask for a suspension of Operations and Production.

The oil production from the platform became uneconomical. The state may have extended the productive life of the oil production on the platforms had a royalty reduction been less burdensome to obtain. Thus extending the income stream to the state and the jobs associated with operating the platform and production facility.

Based on our experience we request that the data requested be from the applicant during their ownership. The proposed language reads " The lessee shall be required to submit data, for a royalty reduction application, for the two year time period preceding an application, it has owned an economic interest in the field."

It appears that HB 207 does not solve the problem of the discretion of the commissioner or the director of the DNR. Perhaps some other avenue of appeal could be provided, such as judicial review.

We believe there should be a sliding scale royalty based on product price increases and operating costs would be more suitable than the apparently arbitrary ability of the commissioner to "increase or otherwise modify the state's royalty share.."

Marathon appreciates the committees efforts and those of the legislature to encourage new investment and provide relief for mature fields in the state.

Testimony of

**Paul Wessells
Director, Tax**

BP Exploration (Alaska) Inc.

to the

House Oil & Gas Committee

**Juneau, Alaska
March 15, 1995**

Good afternoon, Mr. Chairman. My name is Paul Wessells, and I am Director of Tax for BP Exploration (Alaska) Inc. Thank you for the opportunity to testify on behalf of BP regarding HB 207.

BP supports HB 207 and encourages this Legislature to enact the bill. This bill represents a very positive step along the road to development of the State's marginal new oil fields and marginal projects within existing fields. It is our belief that initiatives such as HB 207 signal a new spirit of cooperation between the oil industry and state government, and it is a joint effort that will be required for the State to fully realize the value of its oil and gas resources.

In what manner does HB 207 promote full development of the State's resources? First, it clarifies the existing statute by specifying that new developments - that is, properties that have never produced oil and gas - may qualify for royalty reduction. Second, the bill provides that relief may be granted with respect to individual leases, rather than solely as part of a unit application.

The bill takes additional steps to protect the public interest by assuring that the Commissioner of Natural Resources will receive the financial and technical information necessary to allow a reasoned judgment on the merits of an application, and by requiring that the cost of third party professional assistance to the Commissioner in analyzing the application be borne by the applicant. In addition, the public interest is served by the provision in the bill that the State may condition a reduction in royalty on a readjustment at a later time if the circumstances which supported the grant of the reduction change.

It is this last aspect of the bill that makes it clear that it is not just about reducing the royalty obligations of producers in the absolute sense. Indeed, it is entirely possible that a royalty adjustment program negotiated by the State and a leaseholder will lead to greater royalty payments over the full life of a property.

We in BP believe that HB 207 will make it possible for the State and the oil industry to devise, through open sharing of information and good faith negotiation, methods for sharing the risks of developing marginal properties. It is imperative that we capture the potential of these properties to assure a strong and stable industry and a strong and stable Alaskan economy.

Thank you for the opportunity to testify.

TO: Shirley Armstrong
90 Rep. N. Rockefeller
465-2040

FR: R. A. Finckel

(6 pages + cover)

IF the chair is taking testimony,
I would like to present the
enclosed tomorrow.

Testimony to the House Oil & Gas Committee on HB 207

Richard A. Fineberg
Research Associates
P.O. Box 416
Ester, Alaska 99725

March 15, 1995

A. A strong substantive case for easing the state's existing royalty relief provisions, as the Administration proposes in HB 207, has yet to be made.

At this point we appear to be making policy not on substantive information, but on empty rhetoric. Consider production trends and profitability.

1. Production Trends. On reviewing North Slope production forecasts for 1985, 1990 and 1995, a clear trend is evident: the North Slope production decline, although real, consistently plays out in a more benign manner than forecasted. If you compare 1985 forecasts to the current forecast through 2010, you will find that we now expect to produce 3.75 billion more barrels of oil through 2010 than forecasted in 1985. Put otherwise: Over the last ten years, the current tax and royalty regime has generated five years more of production at two million barrels per day than was forecasted in 1985. Every two years, we booked an additional year of forecasted production at TAPS' maximum throughput. This trend of increasing production (i.e., slowed decline in production) was established in the face of declining prices. Most importantly, the phenomenon of increasing production continues today, despite dire predictions by the industry in the late 1980's that we had seen the last of such increases.¹

2. Profitability. We are told repeatedly that "[t]he target is to get Arco Alaska and BP Exploration to divert exploration and production dollars from foreign areas and put them into marginal areas on the North Slope."² But the dialogue is bereft of facts. We are being asked to buy (or trade away) a pig in a poke. The economics of North Slope production are unique and dimly understood. Arco's North Slope profits are so unusual, in fact, that in considering the flight of domestic capital in 1991, a First Boston report isolated Arco's results from other companies in a separate box. In that same study, BP

¹ Based on Dept. of Natural Resources forecasts (see: Richard A. Fineberg, Alaska North Slope Production Prospects: Preliminary Analysis [a report prepared for the Northern Alaska Environmental Center, et al.], Feb. 22, 1995).

² "Tapping New Oil," Anchorage Times, March 2, 1995, p. B-7.

*Fineberg / Testimony on HB 207 (House Oil & Gas Committee)
March 15, 1995 (Page 2)*

was alone among the internationals in bucking the trend of greater returns overseas than in the U.S.³ In Alaska, we just don't get it. Consider the color, front-page graph in the Anchorage Daily News last spring showing a slide in Arco Alaska's profits from \$700 million in 1990 to \$225 million in 1993. The graph excluded Arco's Alaska pipeline profits, estimated at over \$100 million per year. Even more important, the accompanying story failed to note that in 1993 Arco's Lower-48 and overseas production endeavors lost \$180 million. Far from being a millstone around Arco's neck, from this perspective Alaska appears to be Arco's lifeboat.

In fact, N. Slope profitability is apparently sufficient to induce the consistent production increases (i.e., slowed decline) identified above. But the public dialogue in this area is blunted because North Slope producers steadfastly refuse to disclose information that would justify its petition for royalty relief and other goodies.⁴

B. HB 207 contains serious structural defects

1. I believe that it is not wise to grant royalty reduction without providing for clear and unambiguous clarification on the public record of the necessity for that assistance. Instead of making the case for royalty relief public, the bill calls for the crucial information to be held confidential at the request of the lessee. In a 1992 decision, the Alaska judge who has probably reviewed more confidential oil industry documents than any other ruled that the producer's efforts to bar public access to documents batch-stamped "confidential" without review both unwarranted and contrary to the public interest.⁵ It has been clearly and convincingly documented in other North Slope revenue disputes that public policy evils flourish where confidentiality erodes the

³ First Boston Equity Research, "Assessing the Domestic Operations of International Oil Companies: Explaining the Exodus of Capital," September 5, 1991, pp. 2-13. (See Richard A. Fineberg, North Slope Profits and Production Prospects [prepared for the Alaska State Legislature], Nov. 12, 1991, pp. 25-27.)

⁴ Last May, in an "Open Letter to the People of Alaska" published in major Alaskan newspapers, BP Alaska President John Morgan stated that BP has paid more in taxes and royalties than it has taken out in profits or cash flow. This statement flies in the face of every public study of which I am aware. BP has refused repeated requests to put on the public record information that would substantiate its claim (see attached letters).

⁵ "Memorandum Opinion and Order No. 92-71 (Denying Motions by BP Exploration [Alaska], Inc. for Continued in camera Treatment of Certain Documents in Court Record)," ANS Royalty Litigation, 1JU-77-847 Civil, May 27, 1992 (19 pp.). The court specifically refused to hold material confidential merely at the request of the industry because "the public's right to know what the executive branch is about" outweighed the industry's speculative assertion of possible damage resulting from the release of information about its business.

*Fineberg / Testimony on IIB 207 (House Oil & Gas Committee)
March 15, 1995 (Page 3)*

checks and balances and balances that normally protect the public interest and keep the public process on a steady course.⁶

2. At this time the terms "economically feasible" and "commercially viable" are the subject of some dispute in the public policy arena, while the term "best interest" is, at best, an overly broad term.

3. In my estimation, no valid public purpose is served by granting relief without appealability.

C. The current approach to incentives is flawed.

In the policy arena, where the mission is to protect the public interest in both the revenue stream and the environment, industry desires must be balanced against these concerns. To do this, measures such as royalty relief should be viewed in their broad administrative and economic context. Two factors here are particularly worth noting: The companies that bid on these leases did so with the expectation that they would pay the nominal royalty they now wish to reduce. Second, producers look at the bottom line. To effect balanced public policy, it is necessary to consider measures such

⁶ In a current case whose very existence would be hidden from the public had Exxon Corp. not been required to make some documents public in the United States Tax Court, Exxon is asking for retroactive tax deductions that the Internal Revenue Service has said could ultimately be worth \$18 to 25 billion if applied to all North Slope producers. Exxon argues that ultimate abandonment of costs of Prudhoe Bay are deductible for federal tax years 1977 through 1984 under federal tax law because those claims are both knowable and fixed (United States Tax Court Dockets No. 18618-89 and 18432-90). In December 1994, the Alaska Oil & Gas Association recommended that the state should clarify what it might require for the abandonment of Prudhoe Bay. Ironically, Exxon was identified as the lead source for that recommendation ("AOGA Briefing Paper: Lease Closure," presented to Knowles-Ulmer Transition Team Dec. 28, 1994). The blatant contradiction between Exxon's position in separate arenas is indicative of the kind of skullduggery that takes place under the cloak of confidentiality.

A second example of public policy abuses flourishing behind the veil of confidentiality is the 1985 TAPS tariff settlement. Due to confidentiality, key elements of that sorry record were not available to the public until after the settlement had been formally approved. In one instance during the latter stages of the TAPS saga, the Governor was briefed on an erroneous document that was subsequently removed from files and replaced with an altered document, in apparent violation of Alaska statutes. (See Richard A. Fineberg, The 1985 TAPS Settlement: A Case Study in the Effects of Confidentiality on Information Available to Decision Makers in Oil and Gas Revenue Disputes (prepared for the Alaska State Legislature), Feb. 5, 1990), pp. 30-36. For a later study of a TAPS settlement defect with enormous state and federal revenue consequences that was mis-stated and consequently overlooked during the flawed 1985 settlement review process, see Richard A. Fineberg, Hidden Billions: The TAPS DR&R Provision (report prepared for Stan Stephens, Valdez, Alaska), August 21, 1992.

*Fineberg / Testimony on HB 207 (House Oil & Gas Committee)
March 15, 1995 (Page 4)*

as royalty relief in the context of the tax and pipeline regulatory regimes, where powerful incentives for development of marginal fields already exist.

In the tax regime, Milne Point, Niakuk, Lisburne and several satellite fields are already virtually exempt from production taxes at current prices, thanks to the working of the modified Economic Limit Factor (ELF) the industry so staunchly opposed in 1989.

Regarding pipelines: There was discussion in committee Wednesday of BP's success at Milne Point without royalty relief. One might ask, why is BP was increasing production at Milne Point when Conoco (who traded the property to BP in 1993) apparently could not make a go of it? The most obvious difference between the two companies is this: Conoco was the lone North Slope field operator that did not share ownership of TAPS. Consequently, Conoco paid BP approximately \$1.00 per barrel in pipeline profits for every barrel of oil that it produced. While discussion of pipeline economics is beyond the scope of this hearing, I submit that one of the most important factors affecting North Slope development may be the control and operation of TAPS.

D. Concluding Remarks

It is self-evident that any bill that increases industry revenue at the expense of the State Treasury will tend to stimulate production. The industry will, of course, advocate such a measure. But even if the rather astounding provision that automatically grants confidentiality at lessee (producer) request were removed or replaced with language that guarantees public access to information necessary to evaluation of public policy, it remains to be demonstrated that this legislation is necessary, or that it reflects the wise stewardship of public resources mandated by the Alaska Constitution.

In view of the well-documented history of abuses of confidentiality that have found their way into the public record, it makes little sense to allow the lessees, at their own initiative, to prevent these materials from seeing the light of day.⁷ Were that defect corrected, the case for the proposed incentives would have yet to be made.

⁷ As the U.S. Supreme Court has observed, "People do not demand infallibility from their institutions, but it is difficult for them to accept what they are prohibited from observing." (*Richmond Newspapers, Inc. v. Virginia*, 448 U.S. 555, 572 [1980]; quoted in Memorandum 92-71, *op. cit.*, cover page). To accomplish his well-intentioned desire to reduce needless litigation, the Governor might consider introducing legislation that puts more information on the public record — not less.

From the desk of

Richard A. Fineberg
Ester, Alaska 99725

P.O. Box 416

Phone / Fax (907) 479-7778

Return Receipt Requested

January 17, 1995

John C. Morgan, President
BP Exploration
P.O. Box 196612
900 E. Benson Blvd.
Anchorage, Alaska 99519-6612

[COPY]

Dear Mr. Morgan:

More than seven months after I wrote you concerning assertions about North Slope profits you published in various Alaska newspapers in a May 12 "Open Letter to the People of Alaska," I am still waiting for substantive reply. In that open letter, you stated:

BP has paid \$20 billion to the state in taxes and royalties since 1977. This exceeds our total profits and cash flow from Alaska for the period.

Your statement appears to contradict all systematic published analyses of North Slope profitability of which I am aware.¹ I therefore asked you May 14 to document your claim. To help identify the differences in existing estimates, I submitted my year-by-year breakdown of estimated production and pipeline profits and a line-by-line worksheet establishing the basis for my most recent (1993) profit estimates. I requested your equivalent figures, as well as your analysis of the significant differences.

You responded July 14 with a short letter repeating that BP paid more in taxes and royalties than it earned in Alaska from 1977 through 1993. You lowered your estimated state taxes and royalty payments to \$19.3 billion, which you compared to "after tax book income for Alaska in 1977-93" of \$17.6 billion. You also stated that BP disagrees with my figures and those of a 1989 profitability study by Edward Deakin, C.P.A., then Price-Waterhouse Professor of Petroleum Accounting, University of Texas. For the second time, on July 25 I requested substantive information, noting that your letter did not provide documentation for your revised numbers or deal with the specific differences between your figures and the two tables I had presented. I received no response.

Careful analysis indicates that the North Slope continues to be one of the most profitable industrial ventures in the United States. Following my letters of May 14 and July 25, 1994, again I ask your cooperation in providing the public with accurate, sourceable data capable of supporting intelligent public policy debate on North Slope development policy.

Sincerely,



Richard A. Fineberg

¹ For example: Deakin (1989), *Oil Industry Profitability in Alaska, 1969-1987*, p.2 (1969-87 industry profit \$42.6 billion, state share \$29.3 billion); Legislative Research Agency (1993), *Distribution of Income from Alaska Oil and Gas Operations*, p. 14 (1985 industry net income \$5.6 billion, state net revenue \$3.3 billion); Fineberg (1992), p. 43, *Alaska North Slope Oil Profits*, (1991 West Coast industry profits \$4.95 per barrel, state share \$3.82); Wilson-Gillette (1994), *Consequences of Exporting Alaska Crude Oil*, p. 36 (April 1994 West Coast major field wellhead profits \$2.66 per barrel, state share \$2.63 [excludes estimated TAPS industry profits of \$1.00 per barrel v. state taxes of approximately \$0.30]).

**BP EXPLORATION**

BP Exploration (Alaska) Inc.
200 East Benson Boulevard
P.O. Box 106612
Anchorage, Alaska 99519-0612
(907) 561-5111

March 3, 1995

Mr. Richard Fineberg
P. O. Box 416
Ester, Alaska 99725

Dear Mr. Fineberg:

This letter is in response to your request during our telephone conversation of February 15th, that I confirm in writing that BP does not intend to respond to your last set of questions regarding the company's accounting for its Alaskan profits for the 1977-93 period.

The financial information included in John Morgan's "Open Letter to the People of Alaska" was derived from the published financial statements of the Standard Oil Company and the British Petroleum Company plc for the period 1977-93. It was necessary to restate some of these data because Sohio and BP's results from Alaska operations are not reported separately in the companies' published financial statements. For the most part this restatement involved the separate identification the profits, cash flow and tax payments associated with BP's share of TAPS and the separation of the companies' financial results from exploration and production in Alaska from those results in the rest of the world. This source data was derived in accordance with generally accepted accounting principles and we believe it provides a fair basis for comparison with the financial results of other enterprises.

We appreciate your interest in BP. However, we believe we have provided to you all the public information available to our investor and public constituencies and do not intend to provide additional information.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul D. Wessells".

Paul D. Wessells
Director of Tax

PDW/jp

cc: John Morgan
Jim Palmer

Table V-4.

Research Associates 2/95

1985 North Slope Production Forecast for 1986-94 v. Actual Production (ADNR)

(000 Barrels)

1985 Production Forecast (1)

Barrels per day:

Field:	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1986	1,500	180	0	0	0	0	0	<=====		1,680 000 bpd
1987	1,475	180	75		0	30	30	<=====		1,790 000 bpd
1988	1,325	200	100		50	30	30	<=====		1,735 000 bpd
1989	1,175	200	120		100	25	50	<=====		1,670 000 bpd
1990	1,050	200	120		100	20	50	<=====		1,540 000 bpd
1991	950	200	120		100	15	50	<=====		1,435 000 bpd
1992	850	200	90		100	15	50	<=====		1,305 000 bpd
1993	750	200	75		85	10	50	<=====		1,170 000 bpd
1994	650	170	70		75	10	50	<=====		1,025 000 bpd
Total Barrels:	3,549,625	631,450	281,050	0	222,650	56,575	131,400	<=====		4,872,750 000 Bbl. (Forecast)

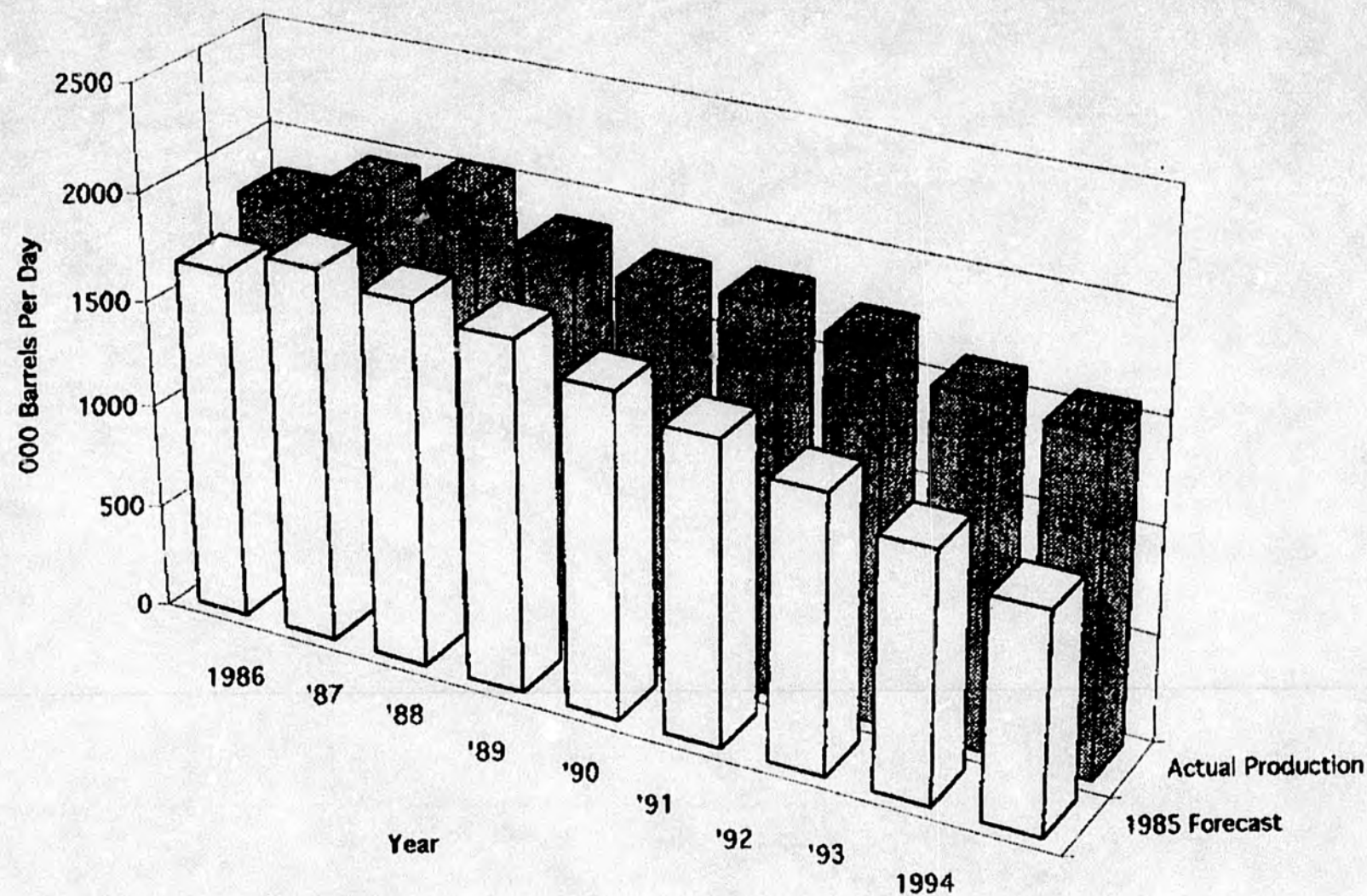
Actual Production (2)

Field:	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1986	1,539	260	10		0	13		<=====		1,822 000 bpd
1987	1,608	284	46		24	0		<=====		1,962 000 bpd
1988	1,585	304	40		103	0		<=====		2,033 000 bpd
1989	1,427	297	41		98	5		<=====		1,868 000 bpd
1990	1,340	294	43		106	18		<=====		1,801 000 bpd
1991	1,333	311	40		117	20		<=====		1,822 000 bpd
1992	1,251	325	38	0	118	19		<=====		1,751 000 bpd
1993	1,126	316	27	21	112	19	0	<=====		1,619 000 bpd
1994	1,024	305	22	97	97	18	9	<=====		1,572 000 bpd
Total Barrels:	4,465,457	983,919	111,941	42,857	282,405	40,899	3,463	<=====		5,930,941 000 Bbl. (Actual)

(1) Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," January 1985, p. 13 (Table 2.2: Estimated Availability of N. Slope Oil For Sale).

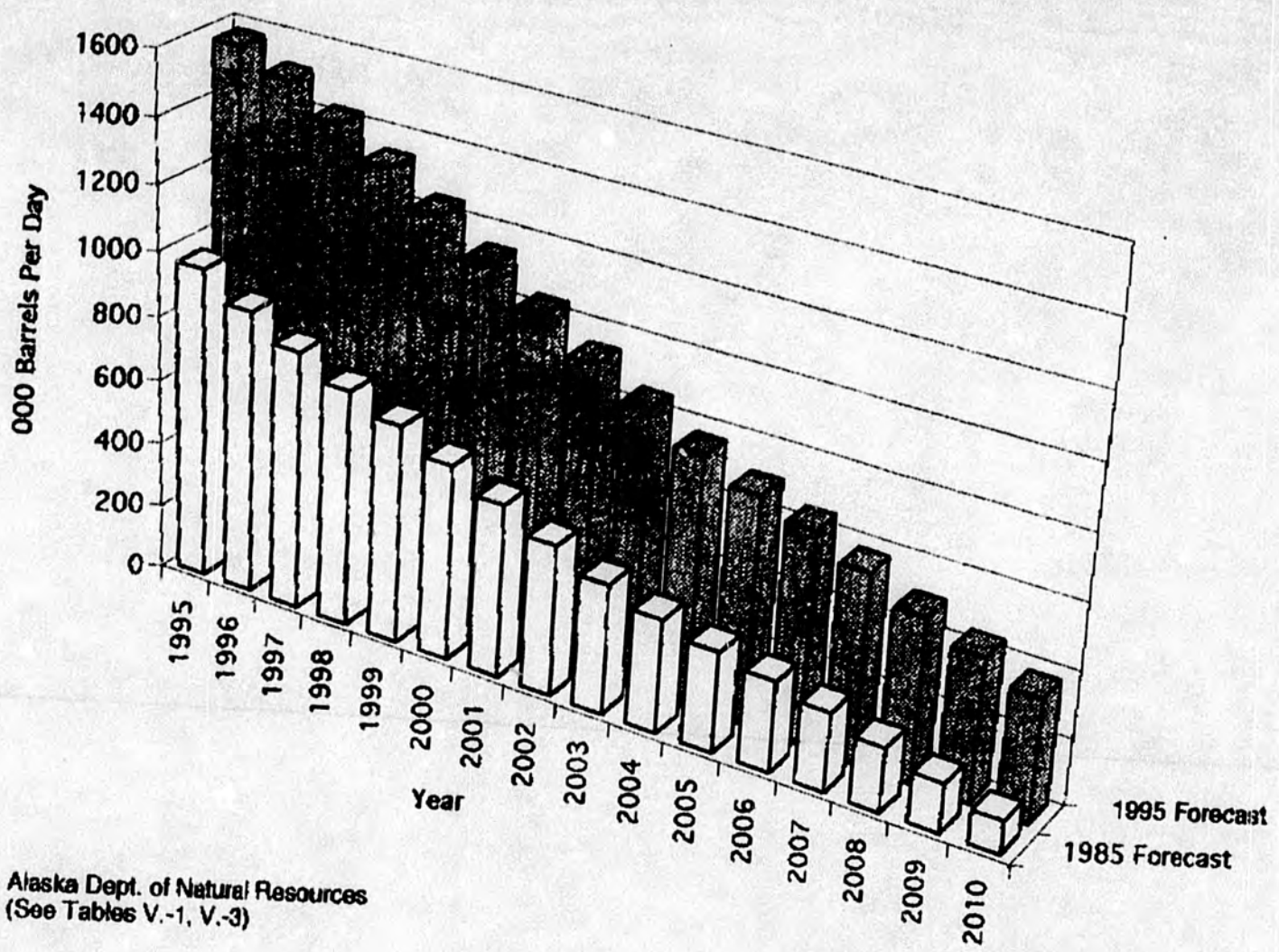
(2) Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," February 1995 (in press), (Table 3: Historical Oil Production).

North Slope Production, 1986-1994: 1985 Forecast v. Actual



Source: Alaska Dept. of Natural Resources
(See Table V.-4)

North Slope Production Forecasts, 1995-2010 (1985 v. 1995 Forecast)



Source: Alaska Dept. of Natural Resources
(See Tables V.-1, V.-3)

03.16.1995 09:11

Table V-1.

Research Associates 2/95

1985 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)
(000 bbls)

000 Barrels per day:

Year	Field =>	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1995		575	145	65		70	10	100	<=====		965 000 bpd
1996		510	120	60		65	0	125	<=====		880 "
1997		460	100	55		60		125	<=====		800 "
1998		420	80	50		55		125	<=====		730 "
1999		380	75	40		50		125	<=====		670 "
2000		340	65	30		45		120	<=====		600 "
2001		300	55	20		40		115	<=====		530 "
2002		270	50	10		20		110	<=====		460 "
2003		240	40	0		10		105	<=====		395 "
2004		210	35			0		100	<=====		345 "
2005		180	30					95	<=====		305 "
2006		160	25					90	<=====		275 "
2007		140	20					80	<=====		240 "
2008		110	15					70	<=====		195 "
2009		80	10					60	<=====		150 "
2010		50	0					50	<=====		100 "
Total Barrels:		1,615,125	315,725	120,450	0	151,475	3,650	582,175	<=====		2,788,600 (000 bbls.)

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," January 1985, p. 13 (Table 2.2: Estimated Availability of N. Slope Oil For Sale).

Table V-2

Research Associates 2/95

1990 Production Forecast for 1995-2010 (Alaska Dept. of Natural Resources)
(000 bbls)

000 Barrels per day:											
Year	Field =>	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Endicott	Milne Pt.	Niakuk	W Sak	Beaufort	Total
1995		857	190	37	60	65	10	20	12		1,251 000 bpd
1996		789	175	34	54	60	8	17	12		1,149 "
1997		726	150	31	49	55	7	14	25		1,057 "
1998		668	125	28	44	50	6	12	25		958 "
1999		614	105	25	39	45	5	10	50	0	893 "
2000		553	90	21	35	40	5	9	50	60	863 "
2001		498	75	19	32	20	5	7	75	54	785 "
2002		448	65	13	29	10	0	6	75	49	695 "
2003		403	55	9	26	0		5	100	44	642 "
2004		363	45	5	23			5	100	39	580 "
2005		326	35	0	21			0	150	35	567 "
2006		284	30		19				150	32	515 "
2007		247	25		17				150	29	468 "
2008		215	20		15				150	26	426 "
2009		187	15		14				140	23	379 "
2010		163	10		12				120	21	326 "
Total Barrels:		2,679,465	441,650	81,030	178,485	125,925	16,790	38,325	505,160	150,380	4,217,210 (000 bbls.)

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," January 1990, p. 10 (Table 2.2: Production Forecast and Available Royalty Oil).

Table V.-3

Research Associates 2/95

1995 Production Forecast for 1995-2019 (Alaska Dept. of Natural Resources)

(000 bbls)

000 Barrels per day:

Year	Field =>	Prudhoe	Kuparuk	Lisburne	Pt. McIntyre	Indicott	Milne Pt.	Other	W.Sak	Beaufort	Total
1995		980	310	20	115	94	30	23		0	1,572 000 bpd
1996		921	305	20	115	83	40	23			1,507 "
1997		857	300	20	109	72	40	22			1,420 "
1998		788	300	18	98	63	45	22			1,334 "
1999		717	295	15	88	55	50	19	0		1,239 "
2000		646	285	13	79	47	45	16	6		1,137 "
2001		581	256	10	71	40	40	14	21		1,033 "
2002		523	231	10	64	34	36	11	27		936 "
2003		471	208	10	61	29	33	10	25		847 "
2004		423	187	10	54	24	30	9	26		763 "
2005		381	168	10	46	21	27	7	35		695 "
2006		343	143	10	39	18	24	6	59		642 "
2007		309	122	9	33	16	20	5	58		572 "
2008		278	103	8	28	13	17		49		496 "
2009		250	88	7	24	10	15		41		435 "
2010		225	75	6	21		12		35		374 "
Total Barrels:		3,172,945	1,232,240	71,540	381,425	225,935	183,960	68,255	139,430	0	5,475,730 (000 bbls.)

Source: Alaska Dept. of Natural Resources, "Historical and Projected Oil & Gas Consumption," February 1995 (in press), (Table 2A: Estimated Availability of N. Slope Oil For Sale).

Representative Norman Rokeberg

MEMORANDUM

TO: House Oil & Gas Committee Members

FROM: Representative Norman Rokeberg

DATE: March 7, 1995

SUBJECT: Royalty Reduction Incentive

How has 38.05.180 changed since statehood? Have royalty reductions been done in the past on old fields? Senator Leman has introduced legislation that reinstates a royalty provision that used to be on the books.

Explain what a delineated field is and what would be an acceptable measure? Do we need a definition?

It is clear from comments and legal reviews by three previous Commissioners of Natural Resources that the commissioner does not have the authority to reduce royalty on new fields until they have been in production for 2 years.

Should we delete what appears to be a Permanent Fund Hold Harmless provision which is a detriment to the revenues of the general fund? No

Is there any legal reason it is in the bill?

HB 207 is not clear as to whether it covers old and new fields, Section 2 Page 2, Lines 28-31? Yes both are covered

Why do we want a royalty reduction?

What kind of royalty reduction - sliding scale reduction that is tied to the price of oil?

Should the formula be stated in the bill?

Is the process of royalty reductions the stumbling block?

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What is the effect of royalty reduction on the income stream of the State of Alaska? Can the state afford to reduce its royalty share? Is the benefit of reducing Alaska's royalty share greater than the loss of revenue to the State?

Is tax clarity and tax stability a greater incentive? (All industry representatives in their presentations 2/1/95 to the Senate Resources Committee reiterated their concerns over and over again regarding tax stability and tax clarity, as well as the state getting its budget under control.)

Would it be better to decrease the severance tax?

Which is more important eliminating or reducing the State's royalty on old field marginal properties that are at an economic crossroads or reducing up front royalties on new, unknown fields?

Should the decision to grant a royalty reduction be accomplished by Commissioners of DNR, REV and Law? With the appeal oversight resting with the AGOCC?

What about a sunset provision?

Should the royalty formula be evaluated every 5 years?

Should the royalty formula be indexed?

How do we protect the integrity of the bid leasing program? We do not want successful bidders coming back later for a royalty reduction? (How do we protect bidding procedures?)

How does is an application reviewed by the commissioner on a unitized field, will all the partners get the same royalty reduction or does each partner has to submit an application? In section 2 of HB 207 will all partners on a unitized application be considered one application and have to present confidential data?

Is there a way to retain some of the current language in section 2 or conform it to HB 207? Reasonable Rate of Return on page 2

Should we put criteria in the bill that outlines the types of items that should be covered in the commissioner's best interest finding?

Ogan's questions:

Is there a fee for making a royalty reduction application? If not, could one be devised to offset the costs to the state for the extra work involved in a royalty reduction request?

The Fiscal Note attached to the bill indicates that one new person will be required?