2-10-78

Alaska - O+G Acreage Holdings

COMPANY	ACRES
Amoco	126, 134.64
ARCO	411, 482.68
BP Alaska	103, 218.99
Beard Oil	71, 260.49
Chevron	126, 493.55
Elias Sousa	140, 071.58
Exxon	158, 627.73
Marathon Oil	71, 538.36
Mobil	120, 375.19
Phillips Pet.	250, 748.38
Sohio Pet.	135, 588.28
Texaco	156, 027.63
Union	293, 712.05
Getty	29, 857.30
Shell Oil	40, 603.10
Sun Oil	27, 453.87

AGO 546738

CHAPTER 26

AN ACT

RELATING TO STATE LANDS; REQUIRING THE COMMISSIONER OF PUBLIC LANDS TO RESERVE CERTAIN RIGHTS TO THE STATE IN LEASES OR OTHER CONVEYANCES OF STATE LANDS GRANTING ANY INTEREST IN OR RIGHTS TO MINERALS OF WHATSOEVER KIND, INCLUDING OIL AND GAS; PROVIDING FOR A WAIVER OF THE REQUIRED RESERVATION; PROVIDING FOR DISPOSAL OF RESERVED MINERALS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

Section 1. COMMISSIONER OF PUBLIC LANDS TO RESERVE CERTAIN RIGHTS TO THE STATE IN LEASES OR OTHER CONVEYANCES OF ANY MINERAL INTERESTS OR RIGHTS TO MINERALS IN STATE LANDS.--In any lease or other conveyance of state lands granting any interest in or rights to minerals of whatsoever kind, including oil and gas, in those lands executed by the commissioner of public lands after the effective date of this section, the following reservation of rights to the state shall be made: "The state has a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or part of any minerals (specify the minerals) that may be produced from the lands covered by this lease (or other conveyance).".

Section 2. WAIVER OF REQUIREMENTS FOR RESERVATION OF RIGHTS IN LEASES OR CONVEYANCE FOR SPECIFIC MINERALS--PROCEDURES FOR WAIVER.--

A. The commissioner of public lands may waive by written order the reservation of rights required under Section 1 of this act in respect to any specific mineral, other than fossil fuels, for which

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approved March 9, 1973

AGO 546739

there is no significant consumptive use within the state, but such order may be made only:

(1) after written notice is mailed by certified mail at least twenty days before the hearing required by Paragraph (3) of this subsection to the governor;

(2) after notice of the hearing required by Paragraph (3) of this subsection is posted in the same manner as notice of public sale of mineral leases is required to be posted under Section 7-9-34 NMSA 1953;

(3) after a public hearing on the issue of waiver under this subsection has been held by the commissioner of public lands or his designated representative in accordance with procedures adopted by the commissioner of public lands; and

(4) if the commissioner of public lands finds after considering the evidence produced at the hearing that a waiver of the provision would be in the best interests of the trust beneficiaries considering long-range and short-range benefits.

B. A waiver granted under Subsection A of this section shall be limited to a definite period of time not to exceed five years. Waivers may be renewed by the commissioner but only after following the procedure required under Subsection A of this section.

Section 3. DISPOSAL OF MINERALS BY COMMISSIONER OF PUBLIC LANDS.--The commissioner of public lands shall dispose of any minerals reserved under this act at the best price available in order to gain the maximum benefit for the trust beneficiaries.

TESTIMONY ON
ALASKA LEASING POLICY BILL
(H.B. 854)

BY

ROD L. BOANE

ALASKA DISTRICT MANAGER

EXXON COMPANY, U.S.A.

BEFORE THE

STATE OF ALASKA

SENATE RESOURCES COMMITTEE

JUNEAU, ALASKA

MAY 22, 1978

AGD 546659

MADAM CHAIRMAN AND MEMBERS OF THE COMMITTEE --

I AM ROD L. BOANE, DISTRICT MANAGER FOR THE ALASKA EXPLORATION DISTRICT OF EXXON COMPANY, U.S.A. I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY AND PRESENT THE VIEWS OF MY COMPANY CONCERNING THE PROPOSED LEASING POLICY BILL.

FIRST, LET ME SAY THAT EXXON BELIEVES THE EXISTING PROVISIONS OF SECTION 38.05.180 OF THE ALASKA STATUTES ARE QUITE SATISFACTORY IN ADMINISTERING ADEQUATE CONTROL OVER EXPLORATORY AND DEVELOPMENT ACTIVITIES ON STATE LEASES. FURTHERMORE, THE EXISTING LEASING PROVISIONS HAVE BEEN VERY SUCCESSFUL IN PROVIDING THE INCENTIVE FOR THE PETROLEUM INDUSTRY TO DISCOVER PRUDHOE BAY, THE LARGEST OIL FIELD IN NORTH AMERICA, PLUS FOUR OTHER MAJOR OIL FIELDS INCLUDED IN THE TOP 100 OIL FIELDS IN THE U.S. IN OTHER WORDS, THE SUCCESS OF THE CURRENT SYSTEM IS AN ESTABLISHED FACT, AND IS A TRIBUTE TO THE FORESIGHT OF THE FIRST LEGISLATURE WHICH ENACTED THE PRESENT LEASING ACT SOME EIGHTEEN YEARS AGO. INSTEAD OF REPEALING THE PRESENT LEASING SYSTEM, WHAT IS NEEDED TO REJUVENATE EXPLORATION ACTIVITY IN ALASKA IS A RESTORATION OF COMPETITIVE LEASE SALES UNDER THE CURRENT PROVISIONS OF AS 38.05.180. THEREFORE, WE DO NOT BELIEVE THESE NEW AMENDMENTS TO THE STATUTES ARE NEEDED TO PROTECT THE PUBLIC INTEREST. ON THE CONTRARY, WE THINK THE PROPOSED AMENDMENTS WOULD CREATE UNNECESSARILY INVOLVED AND CUMBERSOME PROCEDURES THAT WILL NEITHER FOSTER NEEDED EXPLORATION NOR BENEFIT THE STATE OF ALASKA. ALTHOUGH WE TAKE EXCEPTION TO MANY OF THE FEATURES OF THE PROPOSED

AMENDMENTS, IN THE INTEREST OF TIME, I INTEND TO DISCUSS ONLY THE MORE TROUBLESOME PROVISIONS, WITH PARTICULAR EMPHASIS ON THE PROPOSED BIDDING METHODS.

EXXON BELIEVES THAT THE BEST METHOD FOR AWARDING LEASES IS ON A CASH BONUS BASIS WITH A FIXED ROYALTY WHICH IS IN THE CURRENT LAW. THIS SYSTEM HAS SEVERAL ADVANTAGES WHICH I WOULD LIKE TO REVIEW.

FIRST, THE SUCCESSFUL BIDDER SEES VERY STRONG INCENTIVES TO EXPLORE AND DEVELOP RAPIDLY AND TO RECOVER THE MAXIMUM ECONOMIC VOLUME OF HYDROCARBONS. THIS IS NECESSARY IN ORDER FOR HIM TO MAXIMIZE THE RETURN ON THE CASH BONUS INVESTED.

SECOND, UNDER THE CASH BONUS SYSTEM, THE STATE BEARS NONE OF THE RISK THAT COMMERCIAL RESERVES WILL NOT BE FOUND. THIS RISK IS PLACED DIRECTLY ON INDUSTRY WHERE IT BELONGS. THIS IS A PARTICULARLY CRITICAL CONCEPT IN A FRONTIER PROVINCE SUCH AS ALASKA WHERE VERY LITTLE EXPLORATORY DRILLING HAS OCCURRED AND THUS VERY LITTLE IS KNOWN ABOUT THE OIL AND GAS POTENTIAL OF MOST OF THE STATE. THE GULF OF ALASKA HISTORY SHOULD PROVE THIS POINT AS, THUS FAR, NO COMMERCIAL DISCOVERY HAS BEEN MADE. ANOTHER EXAMPLE OF THIS POINT IS THE NORTH SLOPE SALE OF 1969.

THIRD, UNDER THE CASH BONUS SYSTEM THERE IS NO POSSIBLE WAY THAT THE AWARDS WILL BE MADE IN AN ARBITRARY MANNER SINCE THE HIGHEST BID IS OBVIOUS. THIS IS NOT THE CASE FOR OTHER SYSTEMS WHICH WE WILL DISCUSS LATER.

FINALLY, THE SYSTEM IS SIMPLE AND INEXPENSIVE TO ADMINISTER. THE STATE WOULD NOT HAVE TO EXPAND ITS STAFF TO CONTINUE THE CASH BONUS SYSTEM, WHEREAS OTHER SYSTEMS WILL REQUIRE A LARGER STAFF. THE INTEGRITY OF THE SYSTEM WOULD NOT BE AFFECTED BY FUTURE EVENTS SUCH AS REDUCTION OF ROYALTY OR DETERMINATION OF OPERATORY EFFICIENCY. THESE PROBLEMS WILL BE DISCUSSED LATER.

PROPONENTS OF ALTERNATE BIDDING HAVE STATED THAT CASH BONUS BIDDING DOES NOT ENSURE THE PUBLIC A FAIR RETURN ON ACREAGE LEASED. THEY ALSO ARGUE THAT CASH BONUS BIDDING REDUCES COMPETITION. WE DISAGREE WITH THESE STATEMENTS, AND I'LL DISCUSS GULF OF MEXICO EXPERIENCE WHICH IS THE BASIS FOR OUR CONCLUSIONS. IT SHOULD BE NOTED THAT IN A HIGH COST, HIGH RISK ENVIRONMENT, COMPETITION WILL REMAIN HIGH ONLY IF THE POTENTIAL FOR HIGH REWARD EXISTS. THIS ALLOWS THE FEW SUCCESSES TO COVER THE COSTS OF THE MANY FAILURES.

THE GULF OF MEXICO IS ONE AREA THAT HAS HAD ENOUGH SALES, DISCOVERIES, AND PRODUCTION TO ALLOW AN EVALUATION OF THE CASH BONUS SYSTEM. DATA PUBLISHED BY THE U.S.G.S. SHOWS THAT THE GOVERNMENT HAS RECEIVED AN EXCELLENT RETURN. FROM 1953 THROUGH 1976, BONUSES, RENT, AND ROYALTY PAID TO THE U.S. GOVERNMENT HAVE AMOUNTED TO 83% OF THE TOTAL OCS REVENUE. NUMEROUS STUDIES HAVE BEEN CONDUCTED THAT INDICATE THAT INDUSTRY RETURN ON OCS OPERATIONS IS ABOUT 7%.

Source	Date Issued	Period Covered	DCF - % BFIT	DCF - % AFIT
Barrow, T.D.	1967	1951-65		7.0
DOE Tech. Bull. 5	1970	1965-67	5.6	
Nanz, R. H.	1975	1964-73		5.0
Nanz, R. H.	1976	1945-73		7.0
Mead, W. J.	1977	1954-55	7.5	
DOI	1975	1954-68	9.0	
Bybee, R. W.	1970	1954-69		6.0

These studies indicate that industry has not earned an excessive return.

For this same time period, new bidders have been successful in purchasing acreage in all but 3 of the 24 general sales. A total of 172 companies have been successful in purchasing acreage in the OCS (as of 1/1/77). This does not support the claim that cash bonus bidding restricts competition. It is also difficult to conclude that an industry which is earning a 7% rate of return is non-competitive. In fact, this would lead one to draw the conclusion that competition for OCS leases under the cash bonus system has been intense.

Now I would like to compare the alternate bidding methods proposed in this legislation to the current system of cash bonus bidding with fixed royalty. Basically, the proposed alternative bidding methods fall into two categories. The first category involved some form of royalty bidding. The second category uses some

FORM OF NET-PROFIT BIDDING. BOTH CATEGORIES REQUIRE A CASH BONUS, EITHER AS A BID VARIABLE OR A FIXED AMOUNT. LET'S FIRST EXAMINE THE ROYALTY BIDDING SYSTEMS.

(1) IT IS NOT UNCOMMON FOR OPERATORS TO DISCOVER RESERVES OF LESSER MAGNITUDE THAN ANTICIPATED. WITH HIGHER ROYALTY, WHICH WOULD BE EXPECTED UNDER A ROYALTY BID SYSTEM, SOME OF THESE DISCOVERIES COULD NOT BE DEVELOPED PROFITABLY UNLESS THE STATE AGREED TO ACCEPT A LOWER ROYALTY THAN ORIGINALLY BID. DOWNWARD ADJUSTMENT IN ROYALTY RATE PRIOR TO ANY DEVELOPMENT WOULD BE DIFFICULT TO ADMINISTER AND COULD UNDERMINE THE INTEGRITY OF THIS BIDDING SYSTEM. SECTION 38.05.180(J) ALLOWS THE COMMISSIONER TO ADOPT REGULATIONS FOR REDUCTION OF ROYALTY AFTER TWO YEARS OF PRODUCTION. THIS WILL NOT ALLOW DEVELOPMENT OF MARGINAL RESERVES SINCE NO PRUDENT OPERATOR WILL DEVELOP A PROPERTY KNOWING THAT IT WILL BE UNECONOMICAL, BUT IN HOPES OF OBTAINING A LOWER ROYALTY AFTER TWO YEARS.

(2) WITH ROYALTY BIDDING, THE SUCCESSFUL BIDDER DOES NOT HAVE A STRONG INCENTIVE FOR RAPID EXPLORATION AND DEVELOPMENT SINCE FRONT-END CASH INVESTMENT IS SMALL. SPECULATORS COULD THEREFORE SEE INCENTIVES TO ACQUIRE LEASEHOLD INTEREST, AND THEN DELAY EXPLORATORY DRILLING IN HOPES THAT OTHER NEARBY OPERATORS WILL CONDUCT EXPLORATION. IF THESE OPERATORS ARE SUCCESSFUL, THE SPECULATORS CAN CASH IN WITH MINIMAL RISK. THIS SITUATION WOULD OBVIOUSLY RESULT IN DELAYED EXPLORATION AND DEVELOPMENT ACTIVITIES.

(3) WITH EXCLUSIVE ROYALTY BIDDING, THE PUBLIC BEARS THE MAJOR PORTION OF THE EXPLORATION RISK BECAUSE IF THE TRACT DOESN'T CONTAIN COMMERCIAL HYDROCARBON RESERVES, AS THE MAJORITY WILL NOT, THE PUBLIC RECEIVES NO COMPENSATION WHATEVER. WE STRONGLY BELIEVE THAT RISK-TAKING AND ITS ASSOCIATED REWARDS OR LOSSES ARE MORE PROPERLY THE PROVINCE OF PRIVATE ENTERPRISE.

ANOTHER ROYALTY BIDDING SYSTEM INVOLVES SLIDING SCALE ROYALTY WHICH CAN EITHER BE THE BID VARIABLE OR USED IN COMBINATION WITH A CASH BONUS BID. IN THE CASE WHERE THE SLIDING SCALE ROYALTY IS THE BID VARIABLE, IT WILL BE EXTREMELY DIFFICULT TO COMPARE BIDS UNLESS YOU KNOW THE TOTAL RESERVES, THE PRICE AT WHICH PRODUCTION WOULD BE SOLD, AND THE RATE OF PRODUCTION. SHOULD PRODUCTION BE ESTABLISHED, SLIDING ROYALTY COULD CAUSE WIDELY DIFFERING POSITIONS TO DEVELOP BETWEEN OPERATORS AND THE STATE. IN AN EFFORT TO MAXIMIZE ITS INCOME, THE STATE COULD REQUIRE OPERATORS TO MAKE INVESTMENTS FOR PRODUCTION INCREASES WHICH WOULD EARN A MARGINAL OR SUBMARGINAL RETURN. THIS COULD RESULT IN PREMATURE ABANDONMENT OF THE PROPERTY. ALSO, UNITIZATION OF TRACTS WITH DIFFERENT ROYALTY BASES OR SLIDING SCALE TRACTS WITH CASH BONUS TRACTS WOULD BE A VERY COMPLEX AND DIFFICULT JOB AND COULD DELAY DEVELOPMENT OF A DISCOVERY.

NOW LET'S LOOK AT THE SECOND BIDDING CATEGORY, A PROFIT-SHARING SYSTEM, WHICH HAS MOST OF THE SAME ADVERSE CHARACTERISTICS AS ROYALTY BIDDING, BUT WITH FOUR ADDED COMPLICATIONS AND DISADVANTAGES.

(1) USING NET PROFITS WILL BE MUCH LIKE SELECTING A CONTRACTOR TO PERFORM A JOB ON A COST-PLUS BASIS. THE OPERATING EFFICIENCY OF THE BIDDER COULD BECOME AN IMPORTANT CONSIDERATION IN DETERMINING WHICH OF SEVERAL BIDDERS HAD SUBMITTED THE HIGH BID INASMUCH AS THE PROCEEDS TO BE RECEIVED BY THE PUBLIC WOULD BE A DIRECT FUNCTION OF THE EFFICIENCY OF THE OPERATOR. THUS, THE SUCCESSFUL BIDDER WOULD NO LONGER BE OBVIOUS. SINCE THE RELATIVE OPERATING EFFICIENCY OF COMPANIES CANNOT BE DETERMINED QUANTITATIVELY, THE COMMISSIONER COULD BE VULNERABLE TO CHARGES THAT BID AWARDS WERE BEING MADE IN AN ARBITRARY OR DISCRIMINATORY MANNER. THIS WOULD AFFECT THE INTEGRITY OF THE SYSTEM AS WAS PREVIOUSLY MENTIONED.

(2) A PROFIT-SHARING SYSTEM WOULD BE DIFFICULT AND COSTLY TO ADMINISTER. A LARGE ADMINISTRATIVE ORGANIZATION WOULD LIKELY BE ESTABLISHED TO AUDIT AND MONITOR THE CONTINUING ACTIVITIES OF LESSEES. DISCRETIONARY JUDGMENTS WOULD BE REQUIRED BY THE STATE WITH REGARD TO WHAT COSTS WERE TO BE INCLUDED OR REJECTED IN THE PROFIT BASE.

(3) A PROFIT-SHARING SYSTEM WOULD SIGNIFICANTLY REDUCE THE INCENTIVE FOR A SUCCESSFUL BIDDER TO OPERATE AT MAXIMUM EFFICIENCY. ANY PRUDENT OPERATOR UTILIZES A PRIORITY SYSTEM WHEN RESTRAINTS OF EITHER MANPOWER OR MATERIALS CREATE LIMITATIONS. WHEN THESE RESTRAINTS EXIST, NET-PROFIT TRACTS WILL HAVE LOW PRIORITY. THE RESULT - REDUCTION OF EFFICIENCY. IT WOULD REDUCE THE INCENTIVE FOR EARLY DEVELOPMENT OF TECHNOLOGY BY INDUSTRY. UNDER A PROFIT-

SHARING SYSTEM, TECHNOLOGY WILL ONLY BE DEVELOPED WHEN IT IS NEEDED AND THE COSTS OF THIS DEVELOPMENT WOULD BE SHARED WITH THE STATE. THIS WOULD LEAD TO DELAYS IN DEVELOPMENT OF NEEDED RESERVES.

(4) MOST IMPORTANT, SHARING IN NET PROFITS WOULD SIGNAL THE STATE'S ENTRY INTO THE PRODUCTION PHASE OF THE OIL BUSINESS. IT MIGHT BE POLITICALLY AND ECONOMICALLY DIFFICULT FOR THE STATE NOT TO BE DEEPLY INVOLVED IN DECISIONS ABOUT DAY TO DAY OPERATIONS AND THEREBY BECOME AN OPERATING PARTNER. THIS TYPE OF INVOLVEMENT WOULD REQUIRE A LARGE TECHNICAL STAFF TO BE EMPLOYED BY THE STATE. THIS STEP BY THE STATE WOULD WEAKEN THE PRIVATE ENTERPRISE SYSTEM WITHIN THE OIL INDUSTRY AND DIMINISH FREE ENTERPRISE IN THE STATE OVERALL.

NOW I WOULD LIKE TO DISCUSS A FEW OTHER PROVISIONS WHICH GIVE US CONCERN.

(1) AS38.05.180(z) RIGHT TO PURCHASE - THE PROVISION GIVES THE STATE THE RIGHT TO PURCHASE A SPECIFIED VOLUME OF OIL AND GAS. THE VAGUENESS OF THIS PROVISION MAKES IT VERY ONEROUS TO THE INDUSTRY. THE PROVISION DOES NOT SPECIFY WHEN THE ACTUAL QUANTITY WILL BE SPECIFIED. WILL IT BE PUBLISHED AT THE TIME THE LEASE SALE SCHEDULE IS PUBLISHED? IF IT IS NOT, AN OPERATOR MAY RUN THE RISK OF OBTAINING GEOPHYSICAL DATA IN PREPARATION FOR THE SALE AND THEN FINDING HE'S NOT INTERESTED WHEN THE STATE THROUGH ITS OPTION TO PURCHASE PRODUCTION, DEPRIVES HIM THE FREEDOM TO MARKET AND/OR USE THE PRODUCTION HE HOPES TO DEVELOP.

IT WOULD APPEAR THAT A SPECIFIED VOLUME COULD RANGE FROM THE STATE'S ROYALTY SHARE UP TO A MAXIMUM OF 100%. BASED ON PRIOR VERSIONS OF THE BILL, IT SEEMS REASONABLE TO ASSUME THAT THE STATE'S PRIMARY INTEREST IS IN PURCHASING A LARGE PORTION OF THE GAS.

HOWEVER, THE PRESENT AND POTENTIAL SUPPLIES OF GAS WITHIN ALASKA FAR EXCEED REASONABLY ANTICIPATED DEMANDS BY THE STATE RESIDENTS. THEREFORE, TO FIND A MARKET, THIS GAS WILL HAVE TO MOVE INTO INTERSTATE COMMERCE. THIS REQUIREMENT, THAT THE STATE COULD REMOVE THE GAS FROM THE MARKET, COULD SEVERELY HAMPER A PRODUCER'S ABILITY TO MARKET THE RESERVES. WITHOUT A REASONABLE EXPECTATION THAT GAS CAN BE MARKETED, THERE IS GREATLY REDUCED INCENTIVE TO EXPLORE.

IT WOULD ALSO RETARD DEVELOPMENT OF NATURAL GAS FOR STATE RESIDENTS. THE RISK THAT THE GAS COULD BE DIVERTED WOULD HAVE SIGNIFICANT IMPACT ON VENTURES TO INSTALL GAS TRANSPORTATION SYSTEMS.

IN ADDITION TO THESE CONCERNS, IT RAISES OTHER QUESTIONS SUCH AS:

1. DETERMINATION OF FAIR MARKET VALUE
2. TIMING AND RATE OF PRODUCTION - COULD THE STATE CONTROL THESE TO SATISFY THEIR OWN REQUIREMENTS OR DESIRES?

(2) <u>AS38.05.180(N) LEASE TERM</u> - A FIVE-YEAR PRIMARY LEASE TERM IS VERY RESTRICTIVE IN ALASKA. THE REMOTE LOCATION OF MOST

PROSPECTS, RUGGED TERRAIN, SHORT CONSTRUCTION SEASON, AND REDUCED DRILLING SEASON, EITHER NECESSARY OR IMPOSED, MAKE COMPLETION OF THE EXPLORATION CYCLE A DIFFICULT AND TIME-CONSUMING PROCESS. ONCE A DISCOVERY IS MADE, ADDITIONAL DRILLING IS REQUIRED BEFORE AN ESTIMATE OF THE FIELD SIZE CAN BE MADE. ALL OF THE PREVIOUSLY MENTIONED FACTORS AFFECT THIS DRILLING TOO. ONCE THE LENGTHY PROCESS OF DISCOVERING A FIELD AND ESTABLISHING ITS COMMERCIALITY IS COMPLETE, THE LONG DEVELOPMENT PHASE MUST BEGIN. WE STRONGLY RECOMMEND THAT THE 10-YEAR LEASE TERM BE RETAINED.

(3) AS38.05.140(c) UPLANDS ACREAGE LIMITATION - THE PROPOSED 300,000-ACRE LIMITATION ON ALL LANDS OTHER THAN TIDE AND SUBMERGED LANDS IS RESTRICTIVE COMPARED WITH THE CURRENT 500,000-ACRE LIMITATION IN A STATE LIKE ALASKA WHICH HAS SO MANY FRONTIER INTERIOR BASINS TO EXPLORE. IN A HOSTILE HIGH COST ENVIRONMENT SUCH AS ALASKA, A LARGE BLOCK OF ACREAGE MAY BE NECESSARY IN ORDER TO JUSTIFY EXPLORATION. WE BELIEVE THE PROPOSED 300,000-ACRE LIMITATION WOULD REDUCE THE INCENTIVE OF AN OPERATOR TO EXPLORE THESE FRONTIER INTERIOR BASINS AND STRONGLY RECOMMEND MAINTENANCE OF THE CURRENT 500,000-ACRE LIMITATION.

(4) AS38.05.180(y) JOINT BIDDING - THE PROVISION ALLOWING THE COMMISSIONER TO RESTRICT JOINT BIDDING, IF HE SO DESIRES, COULD PROHIBIT THE INVOLVEMENT OF SOME COMPANIES MOST CAPABLE OF OPERATING IN THE ALASKAN ENVIRONMENT.

A STUDY WAS PERFORMED BY THE UNIVERSITY OF SOUTHERN CALIFORNIA AND THE USGS TO DETERMINE THE EFFECTS OF RESTRICTING MAJORS

FROM BIDDING JOINTLY IN THE OCS. THEY CONCLUDED THAT ON THE AVERAGE, THIS RESTRICTION RESULTED IN MORE BIDS PER LEASE BY THE MAJORS. THE STUDY ALSO SHOWED THAT THE NUMBER OF BIDS BY NON-MAJORS EITHER BIDDING ALONE OR IN COMBINES NOT INCLUDING A MAJOR, DECREASED SHARPLY. ("STATISTICAL ANALYSIS OF SOLO AND JOINT BIDS FOR FEDERAL OFFSHORE OIL AND GAS LEASES", SPE #6517 BY ELMER L. DOUGHERTY AND JOHN LOHRENZ.) FROM THIS DATA, IT DOES NOT APPEAR THAT THE RESTRICTION OF JOINT BIDDING BY MAJORS HAS RESULTED IN ANY INCREASED COMPETITION BY THE NON-MAJORS.

(5) AS38.05.180(i) INCENTIVE CREDIT - THIS PROVISION ALLOWS THE COMMISSIONER TO ESTABLISH AN EXPLORATION INCENTIVE CREDIT SYSTEM. IN ORDER TO OBTAIN CREDIT FOR GEOPHYSICAL WORK, THE OPERATOR MUST RELEASE THE INFORMATION TO THE PUBLIC FOLLOWING THE SALE. WE OBJECT TO THE REQUIREMENT FOR RELEASE OF THIS DATA.

THE PROVISION DOES NOT ESTABLISH A TIME REQUIREMENT FOR THE RELEASE OF THIS DATA. I ASSUME THE RELEASE WOULD BE REQUIRED BEFORE ANY CREDIT COULD BE RECEIVED. RELEASE OF THIS DATA COULD COST AN OPERATOR ANY COMPETITIVE EDGE WHICH HE MIGHT HAVE ON LEASING ACREAGE THAT IS RELEASED BY A LESSEE AND RENOMINATED. IN ADDITION, RELEASE OF THIS DATA TO THE PUBLIC COULD RESULT IN THE DISCLOSURE OF PROPRIETARY RECORDING TECHNIQUES AND THEREFORE RESULT IN THE POSSIBLE LOSS OF A TECHNOLOGICAL ADVANTAGE.

IN CLOSING, I WOULD LIKE TO REITERATE THAT EXXON BELIEVES THE CURRENT LEASING STATUTES AND THE IMPLEMENTING REGULATIONS

HAVE SERVED THE STATE AND INDUSTRY WELL AND DO NOT NEED TO BE CHANGED.

THIS CONCLUDES MY PREPARED TESTIMONY, AND I WILL BE HAPPY TO ANSWER ANY QUESTIONS WHICH YOU MAY HAVE.

* * * * *

ALASKA OIL AND GAS ASSOCIATION TESTIMONY on CSHB 854
Senate Resources Committee
May 24, 1978

I am KEITH ARNOLD, Public Affairs Manager for the Alaska Oil and Gas Association, a trade association whose 25 member companies are engaged in or have an interest in oil and gas activities in Alaska, including exploration, production, transmission, refining and marketing.

The basic position of our Association is that because Alaska's present leasing system has worked well for the state, major changes--such as those proposed in the bill before you--should be subjected to the most careful, deliberate study possible. We believe this has not yet been accomplished The current law is sufficient. It has encouraged industry to lease, explore, discover and develop oil and gas resources with confidence, and sometimes success.

Our remarks will attempt to highlight provisions of the bill we consider particularly counterproductive. We understand several companies will comment individually on the bill and that specific suggestions reflecting individual views may be offered.

We have several areas of particular concern to call to your attention and we will try to identify them as briefly as possible:

The item on page one, line 27, paragraph (b), calls for annual legislative review of the Commissioner's leasing program. Traditionally it has been the function of the Administrative branch of state governments to administer the use of state lands. The annual submission of the leasing program to the legislature would seem to presuppose

further modification of the leasing program. We believe that the program should be administered totally on the basis of its merits and it should remain out of the political arena.

Next please refer to page 3, paragraph (f). We favor the traditional method of wellhead pricing and are opposed in principle to the state receving a free ride on the gathering systems and high grading of the oil or gas. The very essence of a reserved royalty share is that the mineral estate owner keeps a portion of whatever is found and produced from the leased land. Such reserved shares become possessory immediately at the point shares can be reduced to physical possession, i.e., at the wellhead. Whatever the quality of the production, the royalty share is the property of the royalty owner to be disposed of in accordance with the terms of the lease contract. A shifting of the royalty owner's share of costs to the lessee of the expense of processing for market, and preparation for transportation off the lease will necessitate an attendant reduction in the bid to cover the greatest potential cost which could occur in the event of production.

Various leasing methods are also proposed in paragraph (f). In advocating a move away from bonus bidding one should consider that the risk burden is being shifted from the oil industry to the public, that the rate of exploration and development is being impeded, and that the growth of state agencies to administer and audit such systems is inevitable.

Our member companies prefer the cash bonus bid and fixed royalty arrangement. This method historically has generated the greatest dollar value to the state. Tracts receiving abnormally high royalty bids are not the first to be explored or developed and are held, in many instances, for speculation. This same premise also applies to "net profits."

Regarding Section 38.05.180 (j), we concur with the ability (authority) of the Commissioner to reduce the royalty in the interest of conservation and to encourage the greatest ultimate recovery of oil or gas. However, we believe a requirement that the Commissioner find a need for such reduction, based on two years of uneconomic production, is wasteful. Two years is too long.

Section (k), on page 6, gives the Commissioner authority to defer payment of any part of a cash bonus bid for a period of five years. Such a provision would encourage speculation with the state's assets by parties who have no intention of conducting expensive exploration programs but rather, hope to capitalize on any enhancement in value caused by the work of others in the vicinity of their lease. This is not in the best interest of the state.

It is common knowledge that Alaska is a high-cost, high-risk area for our industry. Exploration and drilling seasons are short. For these reasons, we respectfully request that you give favorable attention to the retention of the ten-year primary term for leases.

If cash bonus/fixed royalty is adopted as the bidding method and the 10 year term remains in the Law, the benefits to the state will be greater, in the long-run, than the experimentation proposed in CSHB 854.

Sections (n) and (o), dealing with rentals, are both counter productive and regressive. Alaska is already a high-cost, high-risk area. The prospect of substantial rental increases during the primary term of the lease can only discourage exploration interest in Alaska--not encourage it. The extra expense for rentals will have to be compensated for by lower bid totals. Further, these high fixed costs will lessen the amount of cash flow dollars that otherwise would be available for exploration work. Subsection (o) alters substantially the nature of the ordinary rental provisions in oil and gas leases. The rental to be paid under these provisions is no longer a delay rental. Also, there is no provision for credit or set-off of "rental" paid during those three years against the state's income from production. Consequently, we find ourselves in the absurd situation during the first three years of production, paying the state both a rental and royalty payment at the same time. This means, we are paying for the privilege of deferred drilling, after drilling operations have been completed and in addition, paying production income during this same period of time.

Section 38.05.180(y) would restrict joint bidding and should be deleted. Joint bidding can very well be to the advantage of the

AGO 546654

state as it tends to increase the size of the bids submitted and facilitates the exploration process. See, for example, the paper in the November 1976 issue of "Journal of Petroleum Technology" in which the authors conclude that "joint bidders tend to bid on more sought-after (and apparently more valuable) leases and that they tend to bid higher, on the average, than solo-bidding 'competitors.' Industry testimony before the U.S. Senate has indicated that since the first OCS sale in 1954, 172 companies have purchased OCS leases. Forty-two percent of these leases were not purchased by the major companies.

Depending on the content of the regulations adopted, this section may violate Article 8, Section 17, of the Alaska Constitution. This Constitutional provision requires that laws and regulations governing the use or disposal of natural resources must apply equally to all persons "similarly situated."

A provision giving the state the right to purchase a specified volume of oil and gas (Section 38.05.180(z)) would, in our opinion, be considered objectionable to any potential participant at a state lease sale whether a major oil company or the smallest independent. It virtually eliminates the lessee's ability to use a gas sales contract as a method of financing. A discoverer of a gas field could find it impossible to market the discovered reserves. This would inevitably result in a disincentive to explore with adverse results for both the state, as owner of the resource, and for its residents whose needs for fuel could be drastically affected.

As our Association has previously testified at public hearings dealing with similar provisions in proposed amendments to the Alaska Administrative Code, we believe that a provision in paragraph (aa) for state access to a lessee's exploration data constitutes an invasion of industry's proprietary property for the sole purpose of enabling the state to decide whether the area in which the exploring party is working should or should not be thrown open to his competition. It should be obvious that this can only result in a substantial reduction in incentive to undertake exploration work in the future, the performance of which is significantly in the state's best interest.

If the section is to be considered applicable to existing exploration data, then the Commissioner's access, and utilization thereof, is almost certainly an unconstitutional taking of a valuable private property.

The proposed bill also would amend Section 38.05.140(c) to reduce the upland acreage limitation from 500,000 to 300,000 acres. In Alaska, where there are large areas of state lands which are potentially eligible for bid, a 500,000 acre limitation, which the present statute contemplates, is not unreasonable. The effect of a 300,000 acre limitation would clearly be to limit the participation of those individuals who are most active in exploration business in Alaska, i.e., those individuals who have historically submitted the highest bids to the state. It is not at all clear why the state would seek to discourage, rather than to encourage, the continued

AGO 546656

involveme of those individuals in Alaska. Further, this section's applicability to the holding of existing lessees--requiring them to reduce their holding within 10 years--is an unconstitutional taking of leasehold estates.

In summary we offer the following:

We believe the existing law has worked very well over the last 18 years to protect the interests of all the citizens of the State of Alaska. The present law provides important public benefits that are seriously lacking in the proposed bill, such as:

(a) protection to the state from having to take "exploration risk" when selling leases;

(b) assurance the state will get the fair market value of what the state offers for sale by utilizing a proven unhampered competitive, free-enterprise open market system;

(c) ease of administration minimizing the number of state employees and overhead expense;

(d) assurance that all citizens, bot individual and corporate, are treated equally under the law;

(e) legislative and judicial history that gives relative stability in interpretation and operation;

(f) allowance of latitude to lease lands in low interest or high-risk areas non-competitively to avoid the bureaucratic expense of competitive sales;

(g) and recognition that the geological and geophysical data gleaned from an exploration operation is the 'stock-in-trade' of the explorationist and is proprietary in a competitive industry. The present law also recognizes that forced disclosure of proprietary data will discourage exploration. Research and development to find better methods of obtaining usable data will also suffer.

In conclusion, we strongly urge retention of leasing procedures that exist under present regulations. The effect of the sweeping provisions of CSHB 854 should be studied carefully before further consideration is given to the measure. We urge that you do not adopt CSHB 854.

It is our belief that the current method is not only fair to industry but also is in the best interest of the people of the State of Alaska.

Thank you.

THE MINES AND MINERALS ACT

GEOPHYSICAL INCENTIVE PROGRAM REGULATION, 1978

(filed April 26, 1978)

1 In this regulation

(a) "certificate" means a certificate issued for a program under this regulation;

(b) "Department" means the Department of Energy and Natural Resources;

(c) "foothills area", "green area", "yellow area" and "plains area" mean the respective areas of Alberta described in Schedule C to this regulation;

(d) "geophysical incentive program" means a program certified by the Minister as an incentive program under this regulation;

(e) "geophysical information and data" means all field data, field reports and the standard processed sections that are stacked after filtering and correction for statics and normal moveout;

(f) "Geophysical Regulations" means the Geophysical Regulations filed as Alberta Regulation 26/59, as amended;

(g) "licence" means a licence issued pursuant to Part 9 of The Mines and Minerals Act;

(h) "licensee" means the holder of a licence under which a program is conducted;

(i) "line" means a portion of a program;

(j) "minimum subsurface coverage" means the coverage obtained when seismic pulses generated from not less than 6 different energy source positions in the yellow area and plains area or 12 different energy source positions in the green area and foothills area are reflected from a subsurface point;

(k) "Minister" means the Minister of Energy and Natural Resources;

(l) "permit" means a permit to operate geophysical equipment issued pursuant to the Geophysical Regulations;

(m) "program" means a survey conducted by the use of the geophysical prospecting technique known as the seismic reflection method for the purpose of exploring for petroleum or natural gas or both.

AGO 546630

2 This regulation applies to a program for which an application for a certificate is received by the Minister before April 1, 1980.

3 (1) A licensee may, in accordance with this regulation, apply to the Minister to have a program certified as a geophysical incentive program.

(2) The application shall be submitted by the licensee and shall be in Form of Schedule A to this regulation.

(3) Where a program qualifies as a geophysical incentive program, the Minister shall issue a certificate for the program in Form 2 of Schedule A to this regulation.

(4) A copy of the certificate shall be sent to the licensee.

4 A certificate is subject to the following conditions:

(a) that the licensee shall allow the Minister, or any person authorized by the Minister for the purpose, to have access to any field data or field reports obtained by the licensee or his representatives during the course of conducting the program, and

(b) that the licensee and his representatives shall render to the Minister or the person authorized by him under clause (a) such assistance as may be necessary for the purposes of enabling the Minister or that person to inspect the field data or field reports.

5 (1) Within 120 days of completing a geophysical incentive program, or on or before August 1, 1980, whichever is earlier, the licensee shall submit to the Minister a final report on the program in Form 3 of Schedule A to this regulation.

(2) A final report submitted by the licensee under subsection (1) shall be accompanied by a copy of the computer stacking diagram for each line in the program.

(3) The final report on a geophysical incentive program shall be made on behalf of the licensee by a professional geophysicist within the meaning of The Engineering and Related Professions Act.

(4) At any time following submission to the Minister of the final report on a geophysical incentive program, the licensee shall make available to the Department upon request all geophysical information and data obtained from the program.

6 Subject to subsection (3), where a geophysical incentive program

(a) is conducted under a certificate for which an application is received by the Minister after March 31, 1978, and before April 1, 1980,

(b) is completed to the satisfaction of the Minister, and

(c) is reported on within the time and in the manner prescribed by section 5,

the Minister shall

(d) determine a credit for the program in accordance with Schedule B to this regulation, and

(e) notify the licensee of the credit as determined.

(2) The mileage upon which a determination of credit for a geophysical incentive program is based shall never exceed the number of miles of minimum subsurface coverage approved for the program, but where the number of miles of minimum subsurface coverage in a geophysical incentive program as determined from the final report and computer stacking diagrams is less than the mileage approved for the program, the Minister shall base his determination of credit for the program upon the size of the program as ascertained from the computer stacking diagrams.

(3) The Minister shall not determine a credit for a program under subsection (1) where he is satisfied that

(a) the program fails to meet minimum subsurface coverage,

(b) the program is not conducted in accordance with generally accepted standards of geophysical practice, or

(c) the recording of the program has commenced before a certificate for the program is issued under section 3.

(4) Subsection 3(c) does not apply to a geophysical incentive program for which an application for certification is received by the Minister during April, 1978.

(5) When submitting a final report on a program under section 5, the licensee shall inform the Minister in writing as to the manner of allocation of the credit among the persons specified by the licensee as being participants who have contributed to the actual cost of conducting the program and, subject to subsection (6) and section 7, the credit shall be allocated and established in the records of the Department accordingly.

(6) If the licensee fails to comply with subsection (5), the credit shall be established in the records of the Department in the name of the licensee.

7 Notwithstanding sections 6 and 9, the Minister may withhold from establishment in the records of the Department or from utilization, 25% of the credit determined by the Minister for a geophysical incentive program until the Minister receives evidence satisfactory to him that the program was conducted in accordance with the Geophysical Regulations, and that the surface of the land on which the program was conducted has been adequately reclaimed.

8 (1) Subject to subsection (2), credit established in the records of the Department under section 6 is not transferable.

(2) Any credit held in the records of the Department in the name of a licensee or of a party to whom credit has been allocated under section 6 may be transferred to any other person where that person provides evidence satisfactory to the Minister

(a) that he has acquired the assets and liabilities of the licensee or party in whose name the credit is being held, and

(b) that the licensee or party in whose name the credit is being held has ceased to carry on business in Alberta, or, being a corporation, is dissolved or is struck off the register pursuant to The Companies Act.

9 (1) Credit established in the records of the Department pursuant to section 6 may, upon the written request of the holder thereof, and subject to procedures established by the Department, be applied in satisfaction of

(a) money payable by him with respect to any applications made and agreements made or entered into under Part 5 of The Mines and Minerals Act,

(b) royalty payable on petroleum and natural gas obtained pursuant to an agreement made or entered into under Part 5 of The Mines and Minerals Act,

(c) interest on money payable under any agreement made or entered into under Part 5 of The Mines and Minerals Act, or

(d) taxes levied under The Freehold Mineral Taxation Act on petroleum or natural gas rights,

and becoming due and payable on or before December 31, 1987.

(2) Where a licensee submits a request to the Minister for the monetary equivalent of the credit being held in the name of the licensee in the records of the Department and provides evidence satisfactory to the Minister that he is neither the registered owner under The Land Titles Act of a petroleum or natural gas right as defined in The Freehold Mineral Taxation Act nor the holder of an agreement under Part 5 of The Mines and Minerals Act, the Minister may pay to the licensee upon submission of the request the monetary equivalent of the credit.

10 (1) It is a condition of every certificate that geophysical information and data obtained pursuant to the geophysical incentive program for which the certificate is issued shall be made available by the licensee under whose licence the program was conducted 3 years after the date upon which the geophysical incentive program is certified

(a) to any person requesting the data in writing within 20 days after receipt by the licensee of the written request for the data and thereafter for a period of not less than 5 years, and

(b) at a cost to that person of

(i) $300.00 for each mile of minimum subsurface coverage in the yellow area or plains area to which the geophysical information and data to be acquired relates,

(ii) $600.00 for each mile of minimum subsurface coverage in the green area to which the geophysical information and data to be acquired relates, and

(iii) $900.00 for each mile of minimum subsurface coverage in the foothills area to which the geophysical information and data to be acquired relates,

and of the expense of reproducing the geophysical information and data requested.

(2) The minimum amount of geophysical information and data which may be purchased pursuant to a written request under subsection (1) shall be the lesser of the geophysical information and data relating to

(a) 5 miles of minimum subsurface coverage, or

(b) the minimum subsurface coverage in a line.

(3) If a licensee, within the 3-year period referred to in subsection (1),

(a) withdraws from Alberta and ceases carrying on business in Alberta, or

(b) being a corporation, is dissolved or is struck off the register pursuant to The Companies Act,

he shall place in trust with a person approved by the Minister all the geophysical information and data obtained pursuant to geophysical incentive programs that were conducted under his licence until the 3-year period has expired, and thereafter for an additional period of 5 years, and any credit held in the name of the licensee in the records of the Department shall be cancelled.

11 (1) Where geophysical information and data obtained from a geophysical incentive program for which no credit is determined by the Minister under this regulation is not made available in accordance with section 10 by the licensee, the Minister may cancel

(a) his licence,

(b) his permit, and

(c) any credit held in his name in the records of the Department.

(2) Where geophysical information and data obtained from a geophysical incentive program for which credit is established in the records of the Department is not made available in accordance with section 10 by the licensee, the Minister may cancel

(a) his licence,

(b) his permit,

(c) any credit established for the program in the records of the Department, and

(d) any credit held in the records of the Department in the name of the licensee.

12 Any of the powers of the Minister under this regulation may be exercised by any employee of the Department authorized in writing by the Minister for that purpose.

Form 1
(Section 3)

APPLICATION FOR CERTIFICATION OF A PROGRAM AS A
GEOPHYSICAL INCENTIVE PROGRAM

DATE:

NAME OF LICENSEE: _____

ADDRESS: _____

LICENCE NO. _____

LICENSEE REPRESENTATIVE: _____

TELEPHONE NO. _____

NAME OF PERMITTEE: _____

ADDRESS: _____

PERMIT NO. _____ PARTY NO. _____

PROGRAM NO. _____

PROGRAM RECORDING TO COMMENCE: _____

ANTICIPATED PROGRAM RECORDING COMPLETION DATE: _____

ENERGY SOURCE: _____

SOURCE SPACING (FEET): _____

RECEIVER SPACING (FEET): _____

NUMBER OF TRACES: _____

	yellow-plains	green	foothills
MILES PLANNED (APPROX.):	_____	_____	_____
INCENTIVE ANTICIPATED (APPROX.):	_____	_____	_____
TOTAL INCENTIVE ANTICIPATED:	_____	_____	_____

_____
Licensee

(Note: Application must be accompanied by a map or maps on a scale of not less than 1" = 1 mile.)

AGO 546637

Form 2

(Section 3)

CERTIFICATE NUMBER _____

DATE: _____

NAME OF LICENSEE: _____

ADDRESS: _____

LICENCE NO. _____ PERMIT NO. _____

PROGRAM NO. _____

MAXIMUM MILEAGE APPROVED _____

_____

for MINISTER OF ENERGY AND NATURAL RESOURCES

SCHEDULE A

Form 3
(Section 5)

FINAL REPORT

LICENSEE: _____

LICENCE NO. _____

ADDRESS: _____

PROGRAM CERTIFICATE NO. _____ PROGRAM CERTIFICATE DATE _____

RECORDING COMMENCEMENT DATE _____ RECORDING COMPLETION DATE _____

PERMITTEE: _____

PERMIT NO: _____

ADDRESS: _____ PARTY NO: _____

RECORDING COMMENCEMENT DATE _____ RECORDING COMPLETION DATE _____

AMPLIFIER MAKE _____ MODEL _____ NO. OF TRACES _____ (24) _____ (48) _____ (Other)

SOURCE INTERVAL _____ RECEIVER INTERVAL _____ SOURCE TYPE _____

	yellow-plains	green	foothills
No. of miles of minimum subsurface coverage.	$250 x 1 x	$250 x 2 x	$250 x 3 x
(Accurate to two significant decimals)			
Credit (in dollars) applied for	= $	= $	= $

Total $_____

I, the undersigned, certify that I am qualified to report on this program and have personal knowledge of and attest to the accuracy of the above report.

_____ _____

Signature and Seal of Professional Geophysicist *A.P.E.G.G.A. Class*

(Note: Must be accompanied by a map or maps on a scale of not less than 1" = 1 mile showing location of data recorded. A final report must be completed for each program.)

AGO 546639

SCHEDULE B

DETERMINATION OF CREDIT

The credit in dollars for a geophysical incentive program, shall be calculated in accordance with the following equation:

$$\text{Credit (In dollars)} = 250 KM$$

where K is the incentive factor for the area of Alberta described in Schedule C in which the geophysical incentive program was conducted,

and

M is the number of miles of minimum subsurface coverage in the area.

Incentive Factors

For the purposes of section 6 and this Schedule, the incentive factors established for the areas of Alberta described in Schedule C are as follows:

(a) 1 for the yellow area and the plains area,

(b) 2 for the green area, and

(c) 3 for the foothills area.

FOOTHILLS AREA

The Foothills Area consists of the lands in Alberta listed below and those lands within Alberta located south and west of the listed lands:

Township 1, Range 24; Township 2, Range 25; Township 3, Range 26; Township 4, Range 27; Township 5, Range 28; and Townships 6 to 11 inclusive, Range 29, all west of the 4th Meridian;

and

Townships 12 and 13, Range 1; Townships 14 to 20 inclusive, Range 2; Townships 21 and 22, Range 3; Townships 23 to 28 inclusive, Range 4; Townships 29 and 30, Range 5; Townships 31 to 34 inclusive, Range 6; Townships 35 and 36, Range 7; Township 37, Range 8; Township 38, Range 9; Townships 39 and 40, Range 10; Township 41, Range 11, 12 and 13 inclusive; Township 42, Range 14; Township 43, Ranges 15 and 16; Township 44, Range 17; Townships 45 and 46, Range 18; Townships 47 and 48, Range 19; Township 48, Range 20; Township 49, Ranges 21 and 22; Township 50, Range 23; Townships 51 and 52, Range 24; Townships 53 and 54, Range 25, Township 54, Range 26; Townships 55 and 56, Range 27, all west of the 5th meridian;

and

Township 56, Range 1; Townships 57 and 58, Range 2; Township 58, Range 3; Townships 59 and 60, Range 4; Township 60, Ranges 5 and 6; Township 61, Ranges 7 and 8; Township 62, Ranges 9 and 10; Township 63, Range 11; Townships 64 and 65, Range 12;and Township 66, Ranges 13 and 14, all west of the 6th meridian.

GREEN AREA

The green area consists of that part of Alberta in which public lands are classified as forest land not available for agricultural development other than grazing by an order of the Minister pursuant to Section 12 of The Public Lands Act effective to November 30, 1974, but does not include those lands described in this Schedule as the Foothills Area.

YELLOW AREA

The yellow area consists of that part of Alberta in which public lands are classified as being adaptable to any kind of disposition by an order of the Minister pursuant to Section 12 of The Public Lands Act effective to November 30, 1974.

PLAINS AREA

The plains area consists of the remaining lands in Alberta not described in the Foothills Area, the Green Area or the Yellow Area.

HOUSE JOURNAL

LETTER OF INTENT

CSHB 854 (RESOURCES)

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature

Dear Mr. Speaker:

The Resources Committee substitute for House Bill 854 makes numerous changes in the legislation as proposed by the Governor. Two of these changes involve the deletion of the following language:

1. Subsection (f) on page 6.

2. In subsection (j) the following sentence (at the top of page 8 in the original bill) - "The commissioner may provide by regulation and in the lease that the lessee may earn production rights only to the depth drilled at the beginning of production from the lease."

The record should show that the committee's intent in deleting these two items was not to limit the discretion of the Commissioner of Natural Resources in these areas, but simply the result of its determination that the authority in both of these areas is implied, and does not require special authorizing language in the bill.

Alvin Osterback

Alvin Osterback, Chairman
House Resources Committee

Date: 4/14/78

AGO 546642

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

June 16, 1978

SUBJECT: Suggested Technical Amendments to HB 854

TO: The Free Conference Committee on HB 854

FROM: Gregg K. Erickson
Director of Research

We suggest that you may wish to consider the following technical amendments to the oil and gas leasing bill. Page and line numbers referred to SCS CS HB 854 (2nd Rules).

P.#- SIDE
By SIDE ANALYSIS

p. 2

1. Page 2, lines 9-13: Delete the word "and" on Line 9 and substitute the word "or". Insert a period after the word "issued" on line 10, and delete all remaining material on lines 10-13.

The change suggested above is unnecessary if the House's position on legislative review is accepted by the Free Conference Committee. However, if the provision for legislative review is deleted, as was the case in the Senate bill, the change suggested here would appear to eliminate possible confusion over the legislature's roll, and would eliminate any doubt concerning whether an area proposed in the third (but not the fourth) year preceding leasing, could be leased.

p. 6

2. Page 4, lines 23 and 25: Delete the last sentence in subsection (h) and substitute the following material, "The Commissioner may waive a work commitment, or portion of it if, based on the results of exploration in the area surrounding lease, a lease holder demonstrates that there is a substantial probability that the lease is incapable of producing oil or gas."

We believe this language to be a clearer expression of what we understand to be the intent of this sentence.

p. 17

3. Page 12, line 19; Delete the word "this" and substitute "the leasing program submitted to the first session of the 11th Legislature."

Administration officials have suggested that restatement rather than the use of the pronoun would eliminate any possible confusion on this subsection.

GKE:fc

AGO 546629+