

**ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672**

**8756 HOUSE RESOURCES**

## COLDFOOT

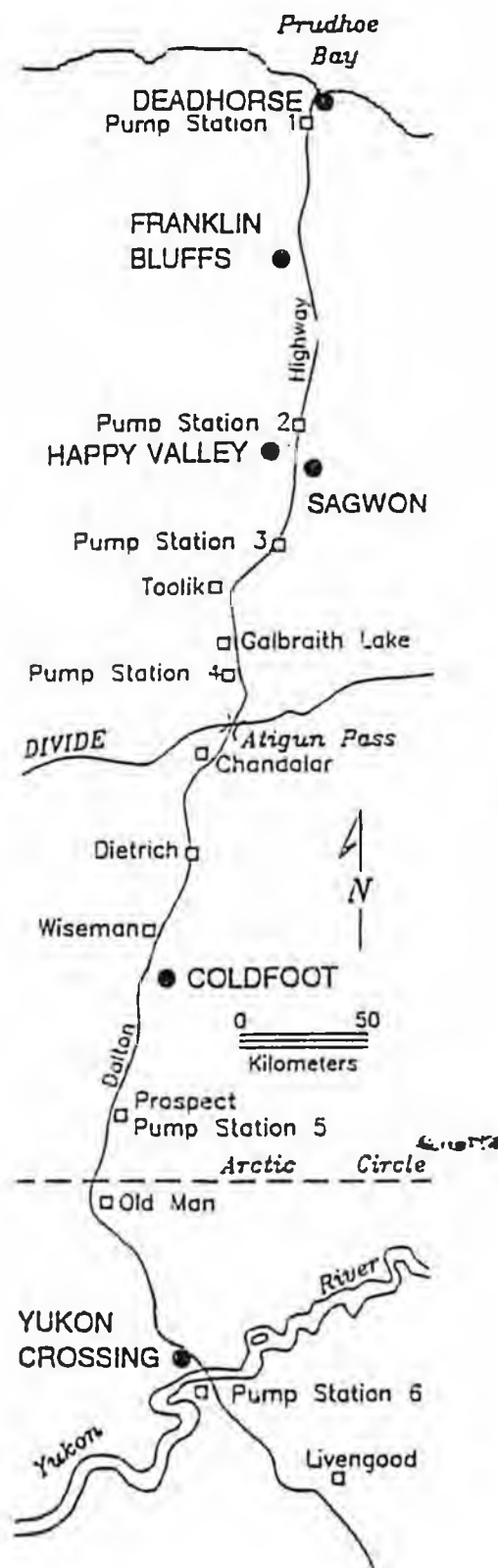
**Coldfoot Services Lease** This 33 acre lease is located on the Dalton Highway approximately midway between Fairbanks and Prudhoe Bay. This site is used as a truck stop, motel, cafe, and garage. According to the lease agreement, the lessee, Petro Star Inc., must provide the following services: fuel, emergency road service, emergency lodging, and food. This lease was originally issued by the Bureau of Land Management before the land was transferred to the state. This site cannot be expanded and other leases cannot be issued due to the prohibition in AS 19.40.200.

## HAPPY VALLEY

The Happy Valley pad was created by Alyeska during the construction of the Trans-Alaska Pipeline for a construction camp and airstrip. Prior to state receiving title, as many as 15 permits plus a BLM administrative cabin were located on this site. Ten active BLM authorizations were transferred to the state. Eight of these were associated with big game guide operations and the remaining two sites were staging areas for the Departments of Fish & Game and Public Safety (Fish & Wildlife Protection). All but two of the guide authorizations expired on December 31, 1993. These and other operators are interested in future authorizations for use of the site. The guides have expressed concern that if the municipal entitlement selection is granted to the borough, no permits would be allowed for big game guides. Until the municipal entitlement application is adjudicated, the division will issue one-year permits to authorize guide sites at Happy Valley.

## FRANKLIN BLUFFS

**Western Geophysical Company** has been issued a 10 year negotiated lease effective August 1, 1997. This lease supports of oil and gas activities on the North Slope.



Additionally, the Northern Region issues one-year land use permits to oil field service companies to use the Franklin Bluffs pad for equipment staging. For instance, Unocal was issued a permit on November 30, 1993 to use a portion of the pad to support the Amethyst exploration project.

## DEADHORSE

**North Slope Borough Landfill** The current Oxbow Landfill is near capacity. The NSB has identified another landfill location south of Deadhorse near the airport. The NSB has been operating the existing Oxbow Landfill since the early 1980's. This landfill may contain many toxic and hazardous materials used at Prudhoe Bay. The NSB originally applied to lease this site; however, a lease was not issued. Since this site was included in the NSB Municipal Entitlement applications, the entitlement was adjudicated and a patent presented to the borough. This patent was rejected by the NSB, presumably due to the liability of owning a landfill with hazardous materials. The Department believes the NSB is still liable for any hazardous materials that may have been placed in the landfill. While the Department is supportive of the proposed landfill, it will require the borough to have ownership of the site prior to operating the new landfill to limit the state's liability. The Department of Environmental Conservation is presently reviewing the close-out plan for the Oxbow Landfill and is also reviewing the operations plan for the proposed landfill. The new landfill may not be authorized due to the prohibition in AS 19.40.200 unless the borough selects the site as part of its municipal entitlement.

**Deadhorse Airport Improvements** An application for a 500,000 cubic yard material sale under AS 38.05.810 was received on February 9, 1993 from the Department of Transportation and Public Facilities. The purpose of the material sale was to repair and make improvements to the airport at Deadhorse. The proposed material site is located two miles south of the airport on the west side of the Dalton Highway. During an interagency meeting with the North Slope Borough, the option was discussed to co-locate the material site with the new landfill. At the present time, this material sale can not be issued because of the prohibition in AS 19.40.200. The Division of Land, in consultation with the Department of Transportation and its Assistant Attorney General, have concluded that further action regarding the material sale must be suspended until the statute is amended to allow this activity to occur.

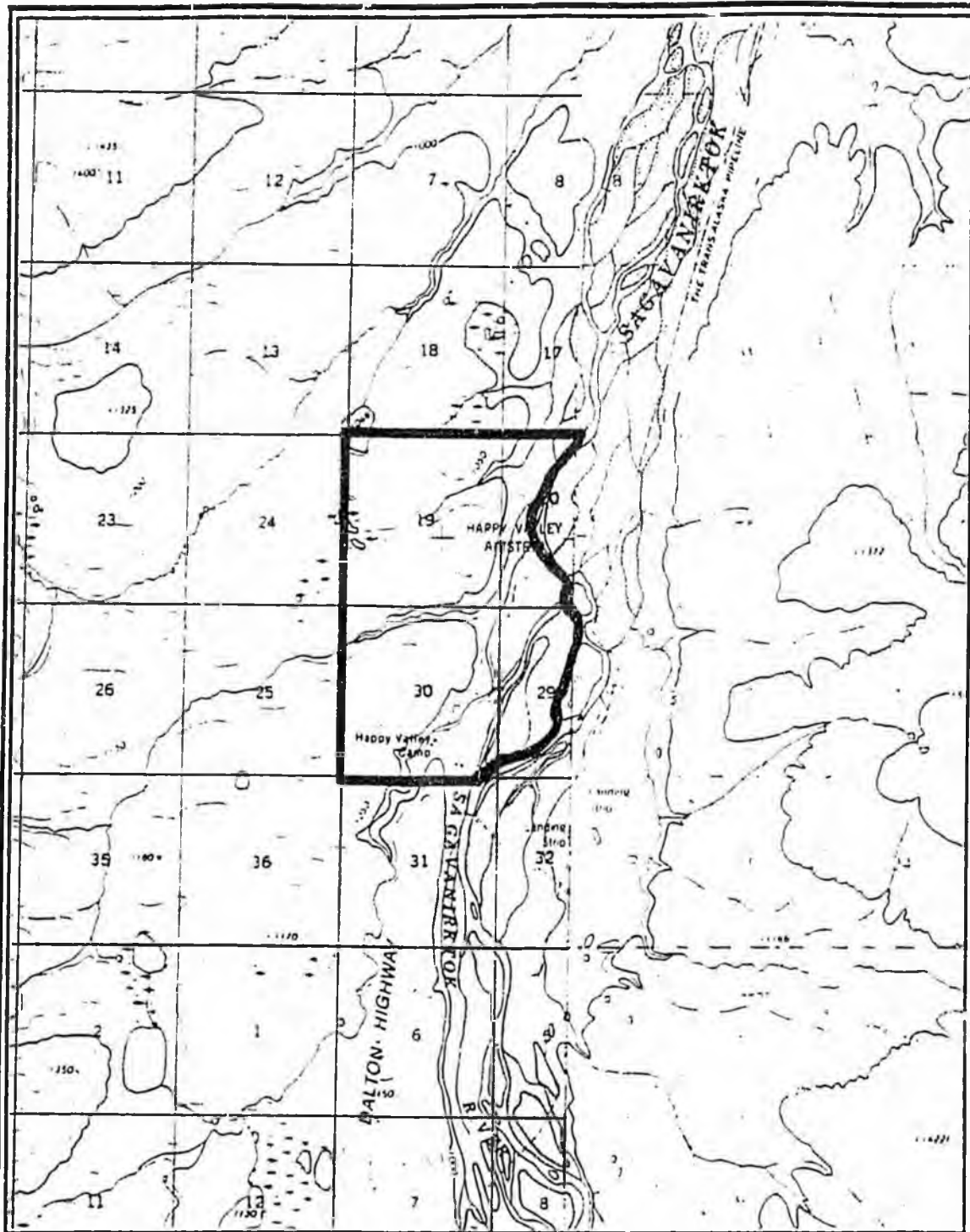
**Service Company (North Slope) Leases** The Northern Region has 62 service company lessees occupying 70 lease tracts at Deadhorse. These 62 lessees pay lease rentals that total \$227,515 per year. Thirty four of these leases have a history of chronic pollution and contamination. The Northern Region staff are working with these lessees, oil and gas production companies, the Prudhoe Bay Environmental Alliance (PBEA), and the Department of Environmental Conservation to remediate these tracts.

- 34 leases are **voluntarily complying with clean up requirements:**  
     18 completed cleanups within the last four years, and  
     16 are in the process of cleanup.
- 8 leases have been **terminated for failure to comply** with the lease terms and conditions.
- **16,800 tons of scrap metal have been removed** from these leases over the past three years and backhauled to the lower 48. **7,000 additional tons**, including two old drill rigs, were removed in 1993. This is equivalent to 300 large truck loads. This backhaul was coordinated by the oil and gas industry and the PBEA.
- **41,250 gallons of toxic or hazardous wastes have been removed** to date from these leases and transported to hazardous waste disposal sites in the Lower 48.

**Lease Administration** The Northern Region has recently augmented its role in the management of north slope lease tracts by assuming the contract administration duties associated with the leases. This function was previously administered in Anchorage. In addition to field compliance work, the resource officers staff issue, (re)assign and terminate the leases. While these additional duties will consume a substantial portion of the staff's time, it is believed that it will increase efficiency and add continuity to the administration of the lease tracts and better serve the public and lessees.

**Clean-up Methods** The North Slope has been the proving grounds for a variety of new site remediation technology for contaminated land in Alaska.

- In-situ bioremediation, using applications of fertilizer and tilling to aerate
- In-situ bioremediation, using air sparging
- Ex-situ bioremediation (Soil and gravel are placed on a liner to allow soil temperatures to increase more rapidly. Otherwise, soil and gravel are managed in similar fashion as in-situ bioremediation.)
- Thermal remediation
- Soil washing with steam



BOUNDARY MAP  
 Map sheets Sagavanirktok A-3  
 and A-4

Scale in Miles

Within T. 3 S., R. 14 E.  
 Umiat Meridian



# HAPPY VALLEY DEVELOPMENT NODE



# Alaska State Legislature

SENATOR

**MIKE MILLER**

Mailing Address:

119 N. Cushman, Suite 101

Fairbanks, Alaska 99701

Ph: (907) 488-0862

Fax: (907) 488-4271

White in Juneau

State Capitol

Juneau, Alaska

99801-1182

Ph: (907) 465-4976

Fax: (907) 465-3883

## Senate

Senate District O

To: Representative Joe Green, Chair  
House Resources Committee

From: Senator Mike Miller

Re: CSSB 93(Res) - Dalton Highway Land Disposals

Date: March 28, 1995

I would like to request that Senate Bill 93 (Disposal of Land Along the Dalton Highway) be scheduled for a hearing in the House Resources Committee at your earliest convenience. Thank you for your assistance.



**Alaska Environmental Lobby, Inc.**

P.O. Box 22151 Juneau, Alaska 99802

Phone: 907-463-3366

Fax: 907-463-3312

---

## **The Alaska Environmental Lobby Opposes SB 93: Disposal of Land Along the Dalton Highway**

The original intent of the "Dalton Highway", the Haul Road, was to serve as an access corridor and supply line for the Trans-Alaska Pipeline. This is still the only reasonable economic function for this expensive, albeit important road.

The expensive is derived from many factors: If we have private land we are under an obligation to protect it - Fish and Wildlife agents and Alaska State Troopers are already overburdened. They will need more resources if they will be expected to encompass the Haul Road into their jurisdiction. Also, in this era of frugal state attitudes and lower economic resources we need to consider every cost incurred in every decision.

Preserving the original intent and expanding it to include the upcoming Trans-Alaska Gas Pipeline demands that the state concentrate its efforts to responsibly manage all aspects of this valuable transportation corridor. This means that **opening the Haul Road for any peripheral development, actions which are unrelated to and most probably interfering with corridor usage, is irresponsible and expensive.**



**YUKON  
PACIFIC  
CORPORATION**  
TRANS-ALASKA GAS SYSTEM

**JEFF B. LOWENFELS**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

March 24, 1995

The Honorable Gail Phillips  
Speaker of the House  
House of Representatives  
Juneau, Alaska

Via Fax: 465-3472

Dear Speaker <sup>bail</sup>Phillips;

I'm writing to ask that you consider the following points as you deliberate Senate Bill 93. Our concern, in short, is that a major land use planning decision may be made by the Legislature without proper consideration of how future demands on the Dalton Highway -- specifically the intensive, multi-year construction requirements of Yukon Pacific's massive \$14 billion Trans-Alaska Gas System (TAGS) pipeline -- will also be accommodated.

As you are aware, TAGS will involve the construction of a 42" diameter natural gas pipeline paralleling the existing TAPS oil pipeline from Prudhoe Bay to Valdez. In addition, 3 large compressor stations will be built along the route to move natural gas south. Over half of the 800-mile-long pipeline and 2 of the compressor stations will be constructed north of Fairbanks along the Dalton Highway. Obviously this effort will involve an enormous amount of traffic over several years to deliver the materials and personnel necessary to complete these facilities.

Although we understand and acknowledge that TAGS is not a "reality" yet, I think you will concur that its prospects have never been brighter. It is with this in mind that we respectfully urge the House of Representatives to delay any action on SB 93 until the Legislature has been provided with a detailed analysis of the combined impacts and compatibility of the land disposal action contemplated in SB 93 and the logistical demands inherent in the construction of TAGS.

Finally, I would encourage all Legislators to arrange for a thorough briefing on the TAGS project (we are always available to travel to Juneau on short notice) so that they are not only

informed about our progress and the potential TAGS represents to Alaska but also the need to consider legislation like SB 93 in the context of this major undertaking.

Sincerely,



50324102 JBL

HOUSE RESOURCES COMMITTEE  
 Roll Call and Members' Bill Votes

\* Indicates first public hearing)

Room 124, Capitol Bldg.

Mon., Wed. ~~Thu.~~

Date: <sup>10</sup> 4-~~1~~-95

Tape# 95-47 Joint \_\_\_\_\_

Time: 8:17 (am/pm) Time Adjourned: 10:10 (am/pm)

| ROLL CALL:          | PRES  | ABS   | TIME AR     | _____ | _____ | _____ |
|---------------------|-------|-------|-------------|-------|-------|-------|
| Rep. Joe Green      | ✓     | _____ | _____       | _____ | _____ | _____ |
| Rep. Bill Williams  | ✓     | _____ | _____       | _____ | _____ | _____ |
| Rep. Scott Ogan     | ✓     | _____ | _____       | _____ | _____ | _____ |
| Rep. Alan Austerman | ✓     | _____ | _____       | _____ | _____ | _____ |
| Rep. Ramona Barnes  | _____ | _____ | <u>9:08</u> | _____ | _____ | _____ |
| Rep. John Davies    | _____ | _____ | <u>8:37</u> | _____ | _____ | _____ |
| Rep. Pete Kott      | ✓     | _____ | _____       | _____ | _____ | _____ |
| Rep. Eileen MacLean | _____ | _____ | _____       | _____ | _____ | _____ |
| Rep. Irene Nicholia | _____ | _____ | <u>9:00</u> | _____ | _____ | _____ |

Other Legislators Present \_\_\_\_\_

AGENDA:

| Bill No.      | Short Title                                     | Action Taken              |
|---------------|---|---------------------------|
| <u>HB 191</u> | <u>Management of State Land and Resources</u>   | <u>Out</u>                |
| <u>SB 93</u>  | <u>Disposal of Land Along the Dalton Hwy.</u>   | <u>Heard &amp; Held</u>   |
| <u>HB 279</u> | <u>Municipal River Habitat Tax Credit</u>       | <u>CSHB 279 (RES) Out</u> |
| <u>HB 258</u> | <u>Hunting/Fish License Vendor Compensation</u> | <u>NOT HEARD</u>          |
| <u>SR 12</u>  | <u>U.S. Forest Service Plans</u>                | <u>Out</u>                |

OTHER

LEGISLATIVE REFERENCE LIBRARY

LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3808  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 400  
Juneau, Alaska 99801-2105

Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

House Resources

4-10-95 8:17am

Tape #95-47

SB 93

PR-ICPSMSG54I - OUTPUT Number 0169 has printed at destination NET L302  
 04/10/95 LEGISLATIVE TELECONFERENCE NETWORK LTN1404  
 09:26:21 N CONFERENCE DISPLAY PAGE 04 - VOLUNTEER & OFF-NET SITES L300  
 TCN 50566 (C) T/C DATE: 04/10/95 TIME: 08:00 to 10:00 STATUS: 5 IN-PROG

BAR  
 SOL  
 FBY

| * LIO          | VTS            | NAME                | ADDRESS              | CONTACT                | TELEPHONE               |
|----------------|----------------|---------------------|----------------------|------------------------|-------------------------|
| <del>ZZZ</del> | <del>OF1</del> | <del>OFFNET 1</del> | <del>ANCHORAGE</del> | <del>RON SWANSON</del> | <del>907 762 2692</del> |
| →              | ZZZ            | OF2                 | STEVENS VILLAGE      | chief RANDY MAYO       | 907 478 7228            |
| →              | ZZZ            | OF3                 | ALAKAKET             | VALERIE BERGMAN        | 907 968 2241            |
| →              | ZZZ            | OF4                 | RAMPART              | SHEILA WOOD            | 907 358 3312            |
|                | ZZZ            | OF5                 | SOLDOTNA             | BOROUGH MAYOR          | 907 262 8609            |

you know crossing area  
 99774

TOM BOEDEKER  
 Kenai Peninsula Borough Attorney 144 N. Benclaf, Soldotna 99669  
 262-4141

04/10/95 LEGISLATIVE TELECONFERENCE NETWORK SYSTEM LTN1150  
 08:23:20 PARTICIPANT LIST (ALL PARTICIPANTS) BY:BAR  
 TCN:50566 SCHEDULED FOR:04/10/95 08:00 TO 10:00 FOR:BAR  
 PUBLIC HEARING HOUSE RESOURCES

LOCATION:BARROW  
 SB 93 MS. DEE OLIN HOFFMAN NSB PLANNING DPTTESTIFY  
 P.O. Box 69 Barrow 99723 852-0320

04/10/95 LEGISLATIVE TELECONFERENCE NETWORK SYSTEM LTN1150  
 09:23:50 PARTICIPANT LIST (ALL PARTICIPANTS) BY:FBX  
 TCN:50566 SCHEDULED FOR:04/10/95 08:00 TO 10:00 FOR:FBX  
 PUBLIC HEARING HOUSE RESOURCES

LOCATION:FAIRBANKS  
 SB 93 MR. GEORGE YASKA TCC TESTIFY  
 122 1st Ave. Ste 600  
 dit w/office Tanani checks 99701  
 452-3755

HOUSE RESOURCES COMMITTEE



Alaska State Legislature  
House of Representatives

DATE: 4-7-95

PLACE: ROOM 124

SUBJECT OF MEETING:  
 HB 191 - Management of State Land + Resources  
 SB 93 - Disposal of Land Along the Dalton Hwy.  
 HB 279 - Municipal River Habitat Tax Credit  
 HB 258 - Hunting/Fish License Under Compensation

| NAME        | REPRESENTING | BUSINESS/PERSONAL MAILING ADDRESS | ZIP   | (H) PHONE | (W) PHONE | DO YOU WANT TO TESTIFY?          |   | WHAT SUBJECT/ WHICH BILL? |
|-------------|--------------|-----------------------------------|-------|-----------|-----------|----------------------------------|---|---------------------------|
| Sara Hansen |              | AEL PO BOX 22151 Juneau           | 99801 |           | 463-5366  | <input checked="" type="radio"/> | N | SB 93                     |
| Mike Miller |              |                                   |       |           |           | <input type="radio"/>            | N | SB 93                     |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |
|             |              |                                   |       |           |           | <input type="radio"/>            | N |                           |

**S B**

**1 1 2**

FISCAL NOTE

Bill Version: CS SB112 (RES)

(S) Publish Date: 3-29-96

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Discovery Royalty Credit BRU: Revenue Operations  
 Component: Oil and Gas Audit  
 Sponsor: (S) Resources  
 Requestor: (S) Rules COMPONENT SERIAL NO. 115

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING EXPENDITURES | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 |
|------------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES      |       |       |       |       |       |       |
| TRAVEL                 |       |       |       |       |       |       |
| CONTRACTUAL            |       |       |       |       |       |       |
| SUPPLIES               |       |       |       |       |       |       |
| EQUIPMENT              |       |       |       |       |       |       |
| LAND & STRUCTURES      |       |       |       |       |       |       |
| GRANTS, CLAIMS         |       |       |       |       |       |       |
| MISCELLANEOUS          |       |       |       |       |       |       |
| TOTAL OPERATING        | .     | .     | .     | .     | .     | .     |

|                      |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|

|                        |                          |
|------------------------|--------------------------|
| CHANGE IN REVENUES ( ) | ..... See Analysis ..... |
|------------------------|--------------------------|

FUND SOURCE (Thousands of Dollars)

|                          |   |   |   |   |   |   |
|--------------------------|---|---|---|---|---|---|
| 1002 Federal Receipts    |   |   |   |   |   |   |
| 1003 GF Match            |   |   |   |   |   |   |
| 1004 GF                  |   |   |   |   |   |   |
| 1005 GF/Program Receipts |   |   |   |   |   |   |
| 1037 GF/Mental Health    |   |   |   |   |   |   |
| Other                    |   |   |   |   |   |   |
| TOTAL                    | . | . | . | . | . | . |

Estimate of any current year (FY96) cost \$ \_\_\_\_\_

POSITIONS:

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| FULL-TIME |  |  |  |  |  |  |
| PART-TIME |  |  |  |  |  |  |
| TEMPORARY |  |  |  |  |  |  |

ANALYSIS: (Attach a separate page if necessary)

This bill would grant a royalty rate of 5 percent to all oil and gas produced from the lease from which a discovery was made for a period of ten years following the date of discovery.

The revenue impact would depend on the size of the discovery and the timing of the development of the discovered oil and gas accumulation.

See attached analysis for potential revenue loss.

Prepared by: Chuck Logsdon Phone: 277-5627  
 Division: Oil and Gas Audit Date: March 28, 1996  
 Approved by Commissioner: Wilson Date: March 28, 1996  
 Agency: Department of Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

Fiscal Note Analysis  
CSSB 112 (RES)

This bill would grant a discovery royalty rate of 5% for production from a previously undiscovered oil or gas pool attributed to and under a lease in the Cook Inlet sedimentary basin for 10 years following the date of discovery of that pool. This would apply to oil discovered in the Cook Inlet 180 days following the enactment of the bill.

The revenue impact would depend on the size of the discovery and the timing of development of the discovered oil and gas accumulation. The following hypothetical Cook Inlet example would be indicative of the cost of the lower discovery royalty rate.

Oil = 2 wells \* 250 bbl/day/well \* 365 \* \$15/bbl \* (.125 - .05) = \$205,000 per year

Gas = 1 well \* 10,000/mcf/well \* 365 \* \$2.25/mcf \* (.125 - .05) = \$616,000 per year

# FISCAL NOTE

No. 3

**STATE OF ALASKA**  
**1996 LEGISLATIVE SESSION**

Bill Version: CS SB 112 (RES)  
(S) Publish Date: 3-25-96

Revision Date: Original Dept Affected: Natural Resources  
 Title: An Act establishing a discovery royalty credit BRU: Resource Development  
 for the lessees of state land drilling exploratory wells and... Component: Oil & Gas Development  
 Sponsor: Senate Resources  
 Requestor: Senate Finance Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

| OPERATING EXPENDITURES        | FY97        | FY98        | FY99        | FY00        | FY01        | FY02        |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| PERSONAL SERVICES             | 91.0        | 91.0        | 91.0        | 91.0        | 91.0        | 91.0        |
| TRAVEL                        |             |             |             |             |             |             |
| CONTRACTUAL                   |             |             |             |             |             |             |
| SUPPLIES                      |             |             |             |             |             |             |
| EQUIPMENT                     |             |             |             |             |             |             |
| LAND & STRUCTURES             |             |             |             |             |             |             |
| GRANTS, CLAIMS                |             |             |             |             |             |             |
| MISCELLANEOUS                 |             |             |             |             |             |             |
| <b>TOTAL OPERATING</b>        | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> |
| <b>CAPITAL EXPENDITURES</b>   | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  |
| <b>CHANGE IN REVENUES ( )</b> |             |             |             |             |             |             |

FUND SOURCE (Thousands of Dollars)

|                          |             |             |             |             |             |             |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1002 Federal Receipts    |             |             |             |             |             |             |
| 1003 GF Match            |             |             |             |             |             |             |
| 1004 GF                  | 91.0        | 91.0        | 91.0        | 91.0        | 91.0        | 91.0        |
| 1005 GF/Program Receipts |             |             |             |             |             |             |
| 1006 GF/MHTIA            |             |             |             |             |             |             |
| Other                    |             |             |             |             |             |             |
| <b>TOTAL</b>             | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> | <b>91.0</b> |

Estimate of any current year (FY96) 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)

This bill reinstates Discovery Royalty (which was repealed in 1969) as a means to reduce royalty payments under certain conditions for leases in Cook Inlet Sedimentary Basin.

It is apparent that the discovery royalty incentive has previously been geared toward frontier exploration. In frontier areas, the geologic risk of drilling an unsuccessful well is high, since little geological information is available to the operator prior to drilling. The element of risk was used by the state as an important yard stick for determining eligibility in some previous discovery royalty decisions in Cook Inlet. Cook Inlet was a frontier basin in the 1950's and 1960's. However, today, due to a long history of exploration and production, geologists consider Cook Inlet a mature petroleum province. Almost all wells drilled on state land in Cook Inlet are drilled in close proximity to other wells containing known oil or gas and should be considered step-out wells and not wildcat exploration wells. Step-out wells have relatively low exploration risk when compared to wildcat exploration wells.

Prepared by: Ken Boyd, Director Phone: 269-8800  
 Division: Oil & Gas Date: 22-Mar-96  
 Approved by Commissioner: [Signature] Date: 22-Mar-96  
 Agency: Natural Resources

FISCAL ANALYSIS CSSB112(RES) continued...

Based on past experience, SB 112 will be very difficult to administer. Due to the issuance of pre-1970 conditional leases and the holding of other pre-1970 leases by unitization, the state has many current leases that still have a contractual right to a discovery royalty under the repealed program. As of January 1995, the state has 340 active leases that currently retain the discovery royalty provision, and the Division of Oil and Gas still actively manages the program. Under the previous discovery royalty program, thirteen applications were made for wells in Cook Inlet Basin, eight of which were granted and five were denied. Many of these applications were granted or denied only after years of litigation.

Although SB 112 attempts to eliminate many of the administrative problems with the old discovery royalty program, certain significant problems are inherent with both the repealed program and SB 112. These problems were recognized as far back as 1962 and remain today. It is doubtful that new regulations could eliminate the problems faced in the earlier program.

It is unlikely that the Division can draft regulations under the time constraints imposed by the bill.

Analysis of discovery royalty applications is a very time consuming process and will require the addition of one Petroleum Geologist.



# Alaska State Legislature

## Senate Resources Committee

State Capitol  
Juneau AK 99801

Official Business

Sponsor Statement for:

Senate Bili 112: Discovery Royalty

When SB 112 was introduced by the Senate Resources Committee it was written for discussion purposes as the law had been when it was repealed in 1969 (1, CH 65 SLA 1969), recognizing that such terms as "in commercial quantities", "geologic structure" and "first discovery" would have to be discussed regarding their current relevance.

These vague terms resulted in litigation over the previous discovery royalty program. The committee has worked closely with the Department of Natural Resources and industry to write legislation that narrows the opportunity for litigation over who is awarded a discovery royalty under this proposal.

The new program is intended to reward not only the first person to drill a well resulting in a new discovery, but that person must also complete the well - resulting in production. The discovery royalty provision is available to all Cook Inlet Sedimentary Basin future leases and to non-producing, non-unitized leases entered into before the effective date of the act.

Lessees with leases under the old discovery royalty program may choose either that program or the new program, but not both.

It is the sponsor's intent that this legislation will encourage new activity in the Cook Inlet region.

(11)  
Date Referred to Committee: April 29, 1996

HOUSE COMMITTEE REPORT

FURTHER REFERRALS:

Date of Committee Action: 5/1/96

The FINANCE Committee considered:

CSSB 112(RES)

CS FOR SENATE BILL NO. 112(RES)

DISCOVERY ROYALTY CREDIT

"An Act establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool in the Cook Inlet sedimentary basin."

recommends it be replaced with the following committee substitute HCS CS SB 112 (FIN)  the same title  a new title

additional referral to \_\_\_\_\_ Committee

attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): \_\_\_\_\_ (Dept)

APPROVES PREVIOUS: \_\_\_\_\_ (Dept/Date)

fiscal note(s) \_\_\_\_\_

fiscal note(s) REV 3/29/96

PNR 3/25/96

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

| SIGNING WITH RECOMMENDATIONS | DP | DNP | NR | AM |
|------------------------------|----|-----|----|----|
| <i>Richard Foster</i>        | X  |     |    |    |
| <i>Aldon Mulder</i>          | X  |     |    |    |
| <i>Terri Martin</i>          | X  |     |    |    |
| <i>Sean Parnell</i>          | X  |     |    |    |
| <i>Tam Brown</i>             |    |     |    | X  |
| <i>Pat Kelly</i>             | X  |     |    |    |
| <i>John Grissendint</i>      |    |     |    | X  |
| <i>Mike Nainvre</i>          |    |     |    | X  |
|                              |    |     |    |    |
|                              |    |     |    |    |
|                              |    |     |    |    |

CHAIR'S SIGNATURE \_\_\_\_\_

*Richard Foster*

(9)

Date Referred to Committee: April 2, 1996

FURTHER REFERRALS:

Finance

Date of Committee Action: 4-29-96

The RESOURCES Committee considered:

CSSB 112(RES)

CS FOR SENATE BILL NO. 112(RES)

DISCOVERY ROYALTY CREDIT

"An Act establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool in the Cook Inlet sedimentary basin."

recommends it be replaced with the following committee substitute HCS CSSB 112 (RES)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_ APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_  
 fiscal note(s) \_\_\_\_\_ (2)  fiscal note(s) Senate DNR 3-25-96  
REU (indeterminate) 3-29-96

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

| SIGNING WITH RECOMMENDATIONS |           | DP  | DNP | NR  | AM  |
|------------------------------|-----------|-----|-----|-----|-----|
| <i>Joe Davies</i>            | DAVIES    |     |     |     | X   |
| <i>W.K. Williams</i>         | Williams  | X   |     |     |     |
| <i>Joe Green</i>             | Green     | ✓   |     |     |     |
| <i>Alan Ogan</i>             | Ogan      | ✓   |     |     |     |
| <i>Alan Austerman</i>        | Austerman |     |     | X   |     |
| <i>Pete Kott</i>             | Kott      |     |     | X   |     |
|                              |           |     |     |     |     |
|                              |           | (3) |     | (2) | (1) |

CO- CHAIR'S SIGNATURE *[Signature]*

AMENDMENT

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

1 Page 2, line 3, following "issued":

2       Insert "after the effective date of this act"

3 Page 4, lines 17 - 24

4       Delete all material

5       Re-number accordingly

A M E N D M E N T

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

- 1 Page 3, line 31, following "that is":
- 2 Delete "180 days"
- 3 Insert "one year"

AMENDMENT

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

1 Page 4, line 12:

2 Delete "(A)"

3 Page 5, line 6, following "paragraph":

4 Delete "; and"

5 Insert "."

6 Page 5, lines 7-13:

7 Delete all material

AMENDMENT

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

- 1 Page 3, line 31, following "that is":
- 2 Delete "180 days"
- 3 Insert "one year"

AMENDMENT

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

1 Page 4, line 12:

2 Delete "(A)"

3 Page 5, line 6, following "paragraph":

4 Delete "; and"

5 Insert "."

6 Page 5, lines 7-13:

7 Delete all material

9-LS0808\O  
Chenoweth  
4/27/96

HOUSE CS FOR CS FOR SENATE BILL NO. 112(RES)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered:  
Referred:

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing a discovery royalty credit for the lessees of state land  
2 drilling exploratory wells and making the first discovery of oil or gas in an  
3 oil or gas pool in the Cook Inlet sedimentary basin."

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

5 \* Section 1. AS 38.05.134 is amended to read:

6       Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the  
7 commissioner determines that the work commitment obligation set out in an oil and  
8 gas exploration license issued under AS 38.05.132 has been met, the commissioner  
9 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,  
10 of the area described in the exploration license that remains after the relinquishments,  
11 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this  
12 section

13                   (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

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

1 (3) must be conditioned upon a royalty in amount or value of not less  
2 than 12.5 percent of production, except that the lessee who, proceeding under  
3 AS 38.05.131 - 38.05.134, under a lease issued in the Cook Inlet sedimentary basin  
4 who is the first to file with the commissioner a nonconfidential sworn statement  
5 claiming to be the first to have drilled a well discovering oil or gas in a previously  
6 undiscovered oil or gas pool and who is certified by the commissioner within one  
7 year of completion of that discovery well to have drilled a well in that pool that  
8 is capable of producing in paying quantities, as that term is defined in  
9 AS 38.05.180(f)(4), shall pay a royalty of five percent on all production of oil or  
10 gas from that pool attributable to that lease for a period of 10 years following the  
11 date of completion of the discovery well in that pool, and thereafter the royalty  
12 pavable on all production of oil or gas from the pool attributable to that lease  
13 shall be determined and pavable as specified in the lease: the payment of the five  
14 percent royalty under this paragraph is authorized only to a holder of a lease who  
15 meets the requirements of AS 38.05.180(f)(4);

16 (4) must include an annual rent of \$3 per acre or fraction of an acre  
17 initially paid to the state at inception of the lease and payable annually after that until  
18 the income to the state from royalty under that lease exceeds the rental income to the  
19 state under that lease for that year; and

20 (5) is subject to other conditions and obligations that are specified in  
21 the lease.

22 \* Sec. 2. AS 38.05.180(f) is amended to read:

23 (f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may  
24 issue oil and gas leases on state land to the highest responsible qualified bidder as  
25 follows:

26 (1) the commissioner shall issue an oil and gas lease to the  
27 successful bidder determined by competitive bidding under regulations adopted by the  
28 commissioner; bidding [. BIDDING] may be by sealed bid or according to any other  
29 bidding procedure the commissioner determines is in the best interests of the state;

30 (2) whenever [. WHENEVER], under any of the leasing methods  
31 listed in this subsection, a royalty share is reserved to the state, it shall be delivered

1 in pipeline quality and free of all lease or unit expenses, including but not limited to  
2 separation, cleaning, dehydration, gathering, salt water disposal, and preparation for  
3 transportation off the lease or unit area;

4 (3) following [. FOLLOWING] a pre-sale analysis, the commissioner  
5 may choose at least one of the following leasing methods:

6 (A) [(1)] a cash bonus bid with a fixed royalty share reserved  
7 to the state of not less than 12.5 percent in amount or value of the production  
8 removed or sold from the lease;

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

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

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

18 (E) [(5)] a fixed cash bonus with a fixed royalty share reserved  
19 to the state of not less than 12.5 percent in amount or value of the production  
20 removed or sold from the lease with the share of the net profit derived from  
21 the lease reserved to the state as the bid variable;

22 (F) [(6)] a cash bonus bid with a fixed royalty share reserved  
23 to the state based on a sliding scale according to the volume of production or  
24 other factor but in no event less than 12.5 percent in amount or value of the  
25 production removed or sold from the lease;

26 (G) [(7)] a fixed cash bonus with a royalty share reserved to the  
27 state based on a sliding scale according to the volume of production or other  
28 factor as the bid variable but not less than 12.5 percent in amount or value of  
29 the production removed or sold from the lease;

30 (4) notwithstanding a requirement in the leasing method chosen of  
31 a minimum fixed royalty share, on and after a date that is 180 days following the

let  
al  
or  
he  
ed  
a  
le  
re  
on  
id  
is  
is  
in  
ir  
te  
re  
re  
it  
it  
in  
e  
s  
s  
e  
h  
d  
r

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13

AS 38.05.180(a) in effect before May 6, 1969; and

(iv) the commissioner shall adopt regulations setting out the standards, criteria, and definitions of terms that apply to implement the filing of applications for, and the review and certification of, discovery oil and gas royalty certifications under this paragraph; and

(B) "paving quantities" means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities.

## COOK INLET DISCOVERY ROYALTY APPLICATIONS

| <u>Name of Well</u>        | <u>Lessee (present names)</u> | <u>ADL Number</u> | <u>Date of Discovery</u> | <u>First Affidavit or claim of discovery</u> | <u>Date of written decision granting discovery royalty</u> | <u>Effective date of the 10-year discovery royalty</u> | <u>Commencement of commercial production</u> | <u>Date 12 1/2% royalty replaced 5% discovery royalty rate</u> | <u>Period royalty actually reduced</u> |
|----------------------------|-------------------------------|-------------------|--------------------------|--|--|--|--|--|--|
| Falls Creek Unit No. 1     | Chevron ARCO                  | 00590             | 4/10/61                  | 12/3/63                                      | 2/18/64  | 5/1/61   | None   | No royalty ever paid   | Never used                             |
| Middle Ground Shoal No. 1  | AMOCO Getty Phillips          | 17595             | 6/10/62                  | 11/12/62                                     | 1/15/63  | 6/10/62  | 5/66   | 6/10/72  | 6 years 1 month                        |
| Cook Inlet State No. 1     | Phillips                      | 17589             | 8/21/62                  | 11/12/62                                     | 11/24/64   | 9/1/62   | 3/69   | 9/72   | 3 years 6 months                       |
| Beluga River Unit No. 1    | Chevron ARCO Shell            | 17599             | 12/1/62                  | 9/17/63                                      | 12/19/62   | 1/1/63   | 3/68   | 1/73   | 4 years 10 months                      |
| Granite Point No. 1        | Mobil Union                   | 18761             | 5/16/65                  | 5/21/65                                      | 9/14/65  | 6/1/65   | 5/67   | 6/75   | 8 years 1 month                        |
| Trading Bay No. 1-A        | Union Marathon                | 18731             | 5/23/65                  | 6/18/65                                      | 8/27/65  | 6/1/65   | 1/67   | 6/75   | 8 years 5 months                       |
| Grayling No. 1-A           | Union Marathon                | 17594             | 9/29/65                  | 10/28/65                                     | 1/19/82  | 10/1/65  | 10/67  | 10/75  | 8 years 1 month                        |
| Nicholai Creek State No. 1 | Texaco Superior               | 17598             | 4/28/66                  | 5/23/66                                      | 8/19/66  | 5/1/66   | 10/68  | No production after 1972                                       | About 4 years                          |

## APPLICATIONS DENIED

| <u>Name of Well</u>         | <u>ADL Number</u> |
|-----------------------------|-------------------|
| Trading Bay No. 1 and No. 2 | 17597             |
| Shell Middle Ground Shoal   | 18754             |
| W. Foreland Unit No. 3      | 18777             |
| Redoubt Shoal No. 2         | 29690             |
| Trading Bay State No. 1     | 35431             |

**NORTH SLOPE  
DISCOVERY ROYALTY APPLICATIONS**

| <u>Lease ADL</u> | <u>Well Name</u>     | <u>Field Name</u> | <u>Applicant</u> | <u>Date of Application</u> | <u>Status of Application</u> |
|------------------|----------------------|-------------------|------------------|----------------------------|------------------------------|
| 28303            | Prudhoe Bay State #1 | Prudhoe Bay       | ARCO             | 3/12/68                    | Granted                      |
| 25633            | Ugnu #1              | Kuparuk           | ARCO-BP          | 4/7/69                     | Granted                      |
| 34633            | Sag Delta #4         | Endicott          | BP               | 2/14/78                    | Granted                      |
| 34635            | Niakuk #5            | Niakuk            | BP               | 4/7/85                     | Granted                      |
| 28297            | Pt. McIntyre #3      | Pt. McIntyre      | ARCO             | 5/12/89                    | Granted                      |
| 25906            | Milne Point G-1      | Milne Point       | Conoco           | 12/7/89                    | Denied                       |

**Note:**

Between 1968 and 1977 nine additional notice of discovery applications were filed, but the applicants never completed the full application procedure. Those nine applications are now expired.

FACTS RE: FORMER DISCOVERY ROYALTY

Former Definition

5% royalty for any production from a lease in the first 10 years following the discovery of oil and gas in commercial quantities in a geologic structure.

Timeline

1937 - 1946, 1950 - 1958: Regulations under Federal Mineral Leasing Act establish discovery royalty for Alaska only.

1959: Alaska Land Act codifies federal regulation language into state statute; state lease form copies statute's language.

1962: Cook Inlet drilling races result in two blowouts: 45 days; 14 months. State grants discovery royalty for both.

1963: State regulations adopted.

1969: State legislature abolishes discovery royalty (ch 65, SLA 1969).

Contentious

Many disputes, some over leases that never produced during the discovery royalty period.

Three Alaska Supreme Court decisions re: discovery royalty:

- Pan American, 455 P.2d 12 (Alaska 1969) (challenge by competitor)
- Union Oil, 526 P.2d 1357 (Alaska 1974) (denial of certification)
- Union Oil, 574 P.2d 1266 (Alaska 1978) (denial of certification)

Many administrative decisions by DNR.

Litigation / Administrative Appeal Issues

What constitutes "first discovery", and is spud date relevant?

What are "commercial quantities", and is a controlled well test necessary?

What is a "geologic structure?"

What is the "discovery date?"

Does a discovery royalty apply to production from all zones in a lease?

## ISSUES RE: REINSTATEMENT OF DISCOVERY ROYALTY

The merits of reinstating the discovery royalty should be evaluated in the context of incentives for all the stages of exploration and production:

- Vigorous acquisition of land interests that give the right to explore for oil and gas.
- Prompt exploration of acquired land.
- Early production of discovered fields.
- Full production from declining reservoirs.

Discovery Royalty was a method of encouraging early production of discovered accumulations. It supplemented the leases' fixed primary term as a method of encouraging production. The Administration's efforts to amend AS 38.05.180(j) - royalty reduction - would encourage production of marginal fields.

Discovery Royalty in Alaska was contentious, provoking strife between competing lessees, and between lessees and the State. Discovery Royalty, in comparison to the conflict it provoked, was arguably of low effectiveness. Lessees could not count on receiving a discovery royalty.

Discovery royalty proposal could be modified to encourage vigorous acquisition, exploration and production of state lands without the ambiguities inherent in the former discovery royalty:

- Blanket 5% royalty for the 10 year primary term of new leases.
- Fixed 5% royalty for the first five years of production from any leases located more than 5 miles from existing production.
- Fixed 5% royalty for the first five years of production from any new unit located more than 5 miles from existing production.

The former discovery royalty statute was implemented by regulations establishing application procedures and defining various relevant terms. Should any new statute address these issues, or leave them for regulation?

The former discovery royalty statute was made effective by lease provisions. Should any new provisions be available for current leases, or only for leases issued in the future?



## KENAI PENINSULA BOROUGH

144 N. BINKLEY · GOLDOTNA, ALASKA 99669-7599  
BUSINESS (907) 262-4441 FAX (907) 262-1892

DON GILMAN  
MAYOR

### POSITION PAPER - CS SB 112 (RES)

#### DISCOVERY ROYALTY CREDITS

The Kenai Peninsula Borough Assembly and administration supports CSSB 112 (Res) with minimum modifications, in that, the bill should cover lease holders and discovery royalty be effective upon the effective date of the bill. We do not support a "retro-activity" section which would cover current leases which are in production upon or prior to the effective date clause.

This bill is critical to the future of the Borough at a time when oil and gas exploration is almost non-existent compared to the activity in the 1960's which help create what we enjoy in the Borough today.

The State of Alaska had a discovery royalty program in effect throughout the 1960's and was later repealed because of new discoveries in the North Slope. It is very important to us that a royalty program be reinstated and this bill does just that, at a time when encouragement is needed to renew industry activity in the Cook Inlet Basin.

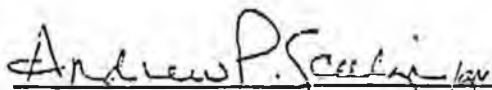
We seek your support in passage of this legislation. Independents can function in the State of Alaska and create the much needed job opportunities for our skilled residents as well as give hope to local suppliers and contractors that the Kenai Peninsula Borough can have a stable future for further investment opportunity.

Kenai Peninsula Borough



Don Gilman, Borough Mayor

  
Date



Andrew P. Scalzi, Assembly President

  
Date

COOK INLET BASIN

DATA SUMMARY

FOR

STATE OF ALASKA HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

RE: SENATE BILL 112



COOK INLET BASIN

DATA SUMMARY

FOR

STATE OF ALASKA HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

RE: SENATE BILL 112

APRIL 22, 1996

TABLE OF CONTENTS

PART I: Cook Inlet Basin-Data Summary

Map of Basin

PART II:

Discovery rates and historical oil & gas reserves. (Discussion)

Graph comparing drilling and discovery rates during 1959 - 1969 and subsequent years. (PLATE "A")

Bar chart showing oil & gas reserves discovered prior to, during and after "discovery royalty" provision. (PLATE "B")

PART III:

Estimate of remaining undiscovered oil & gas reserves (Discussion)

Bar chart - PLATE "C": Estimated Undiscovered Oil & Gas Reserves - Cook Inlet Basin.

PART IV:

Estimate of ultimate State of Alaska royalty values attributable to undiscovered oil & gas reserves. (Discussion)

TABLE "A": Estimated Value to State of Alaska Royalties on Undiscovered Oil & Gas Reserves - Cook Inlet Basin.

PART V:

Ancillary economic benefits to increased exploratory well rate. (Discussion)

PART VI:

Summary and Conclusions

Data sources

COOK INLET BASIN

DATA SUMMARY

FOR

STATE OF ALASKA HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

RE: SENATE BILL 112

APRIL 22, 1996

PART I

1. BASIN DESCRIPTION

The Cook Inlet Basin is an intermontane sedimentary basin trending NE-SW, bounded by the Southern Alaska Range and the Chugach Mountains and is roughly coextensive with the present Cook Inlet waters and immediately surrounding terrain.

It is an important hydrocarbon producing area containing numerous individual oil and gas fields.

2. BASIN SIZE

It is approximately 200 x 70 miles and contains 9,000,000 (+/-) surface acres.

3. OIL & GAS FIELDS

(Oil) 7 producing fields  
(Gas) 22 total fields (11 producing; 11 shut-in)

4. ESTIMATED TOTAL  
PROVED  
RECOVERABLE  
RESERVES

(Oil) 1.35 Billion Bbls. (BBO)  
(Gas) 6.6 Trillion Cu. Ft. (TCF)

5. ESTIMATED  
REMAINING PROVED  
RECOVERABLE  
RESERVES

(Oil) 120 million BO (MMBO)  
(Gas) 1.9 TCF

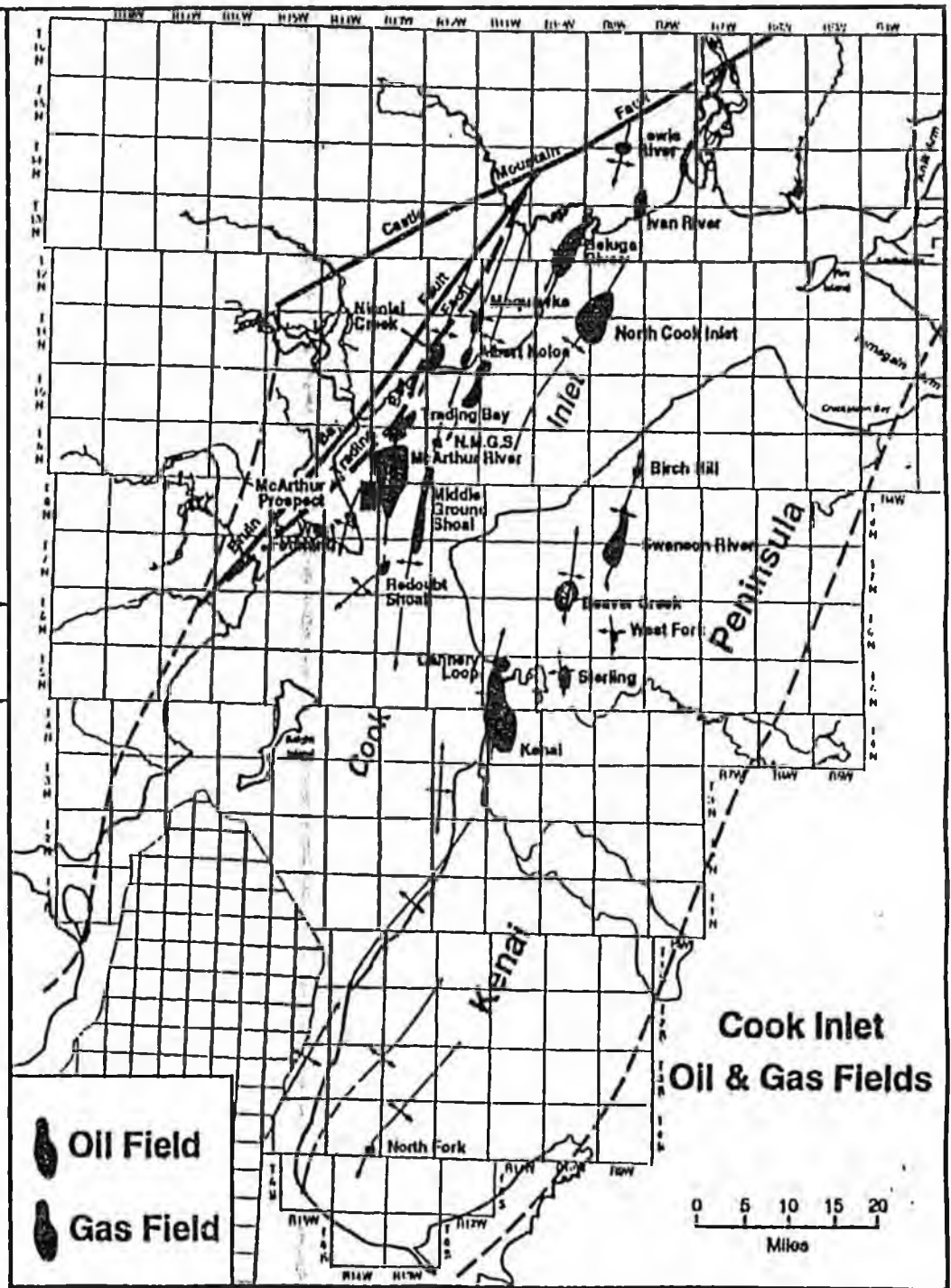
6. ESTIMATED  
UNDISCOVERED OIL  
& GAS RESERVES

(Oil) 1.00 Billion Bbls (BBO)  
(Gas) 2.0 TCF



**Alaska Vicinity Map**

**Oil & Gas Fields  
of the  
Cook Inlet Basin  
Alaska, USA**



## PART II

### Cook Inlet Basin - Discovery Rates & Historical Oil & Gas Reserves

PLATE "A" is appended comparing yearly exploratory wells drilled during the "discovery royalty" period of 1959 - 1969 versus the recent period of 1985 - 1995. During the "discovery royalty" period a total of 174 exploratory wells were drilled; in the latter, "non-discovery royalty" period 16 were drilled. This represents a decrease in exploration of 92%.

The appended PLATE "B": COOK INLET PRODUCING OIL FIELDS illustrates that prior to 1959, one field, Swanson River, was discovered with estimated ultimate reserves of 235 MMBO. During the "discovery royalty" period (1959-69) discoveries were made with an estimated ultimate recovery of 1,060 (1.06 BBO). Subsequent to 1969, two discoveries have been made which will aggregate less than 30 MMBO.

Note also that the fields discovered in 1957 - 1969 are approximately 91% depleted.

# Plate "A"

## Cook Inlet Exploratory Wells

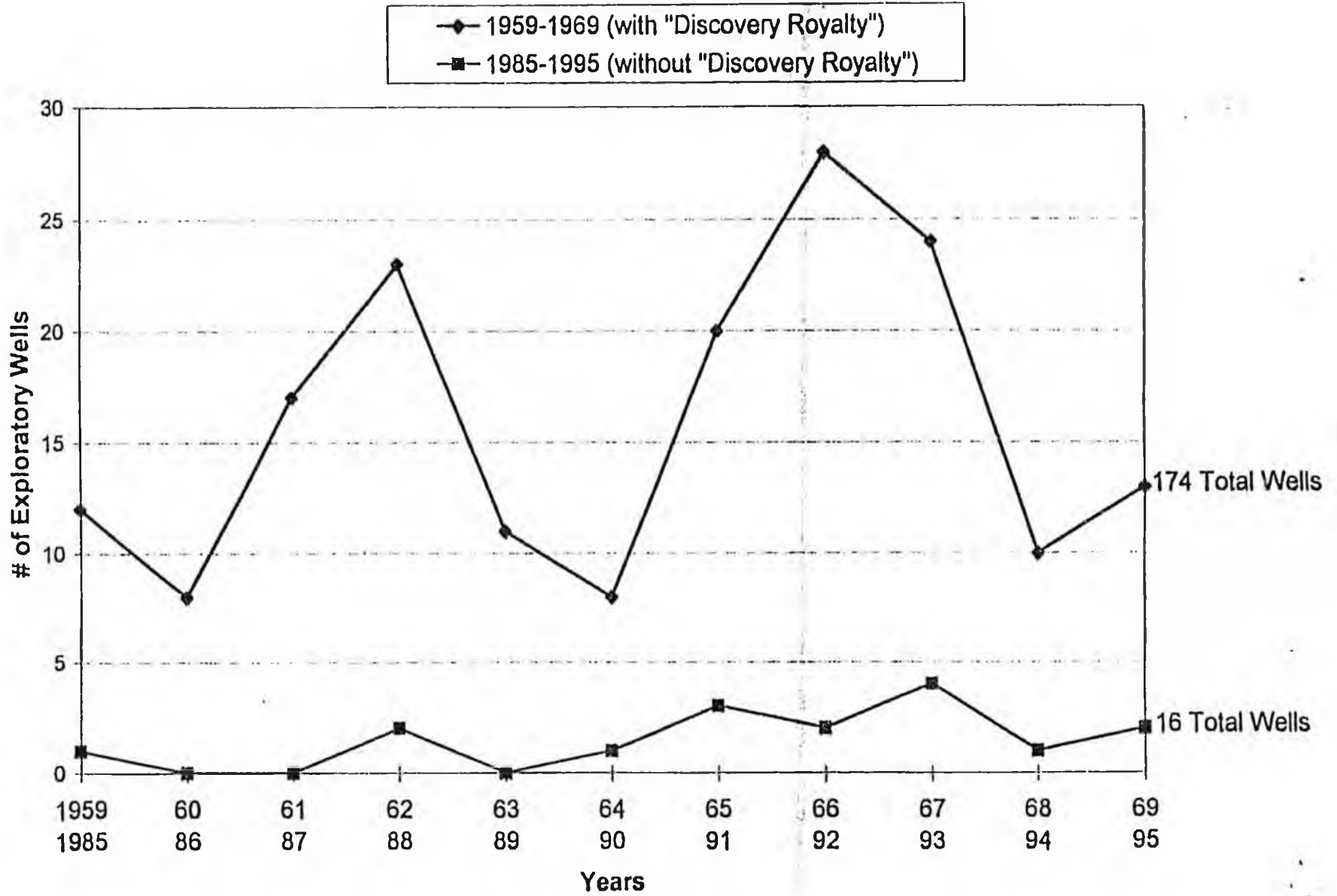
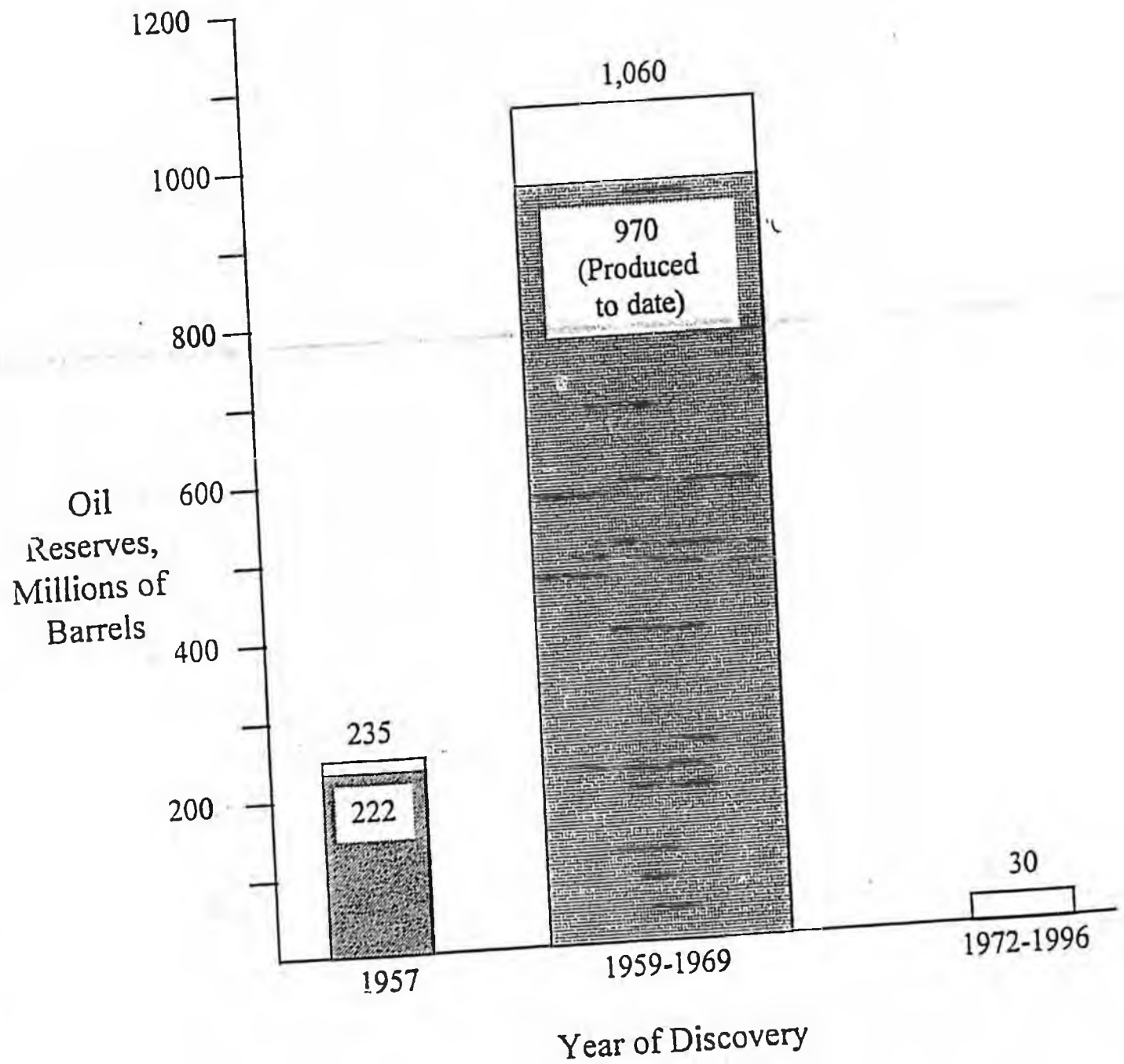


Plate "B"  
Cook Inlet  
Producing Oil Fields



### PART III

#### Estimate of Undiscovered Oil & Gas Reserves

Geological estimates of undiscovered basinal reserves include basic estimates of: basin size and volume of potential reservoir rock, further quantified by consideration of: reservoir quality, volume of potential source beds, hydrocarbon content and thermal maturity of the source rocks, structural history of the basin and any known post-depositional or diagenetic changes in the reservoir rocks.

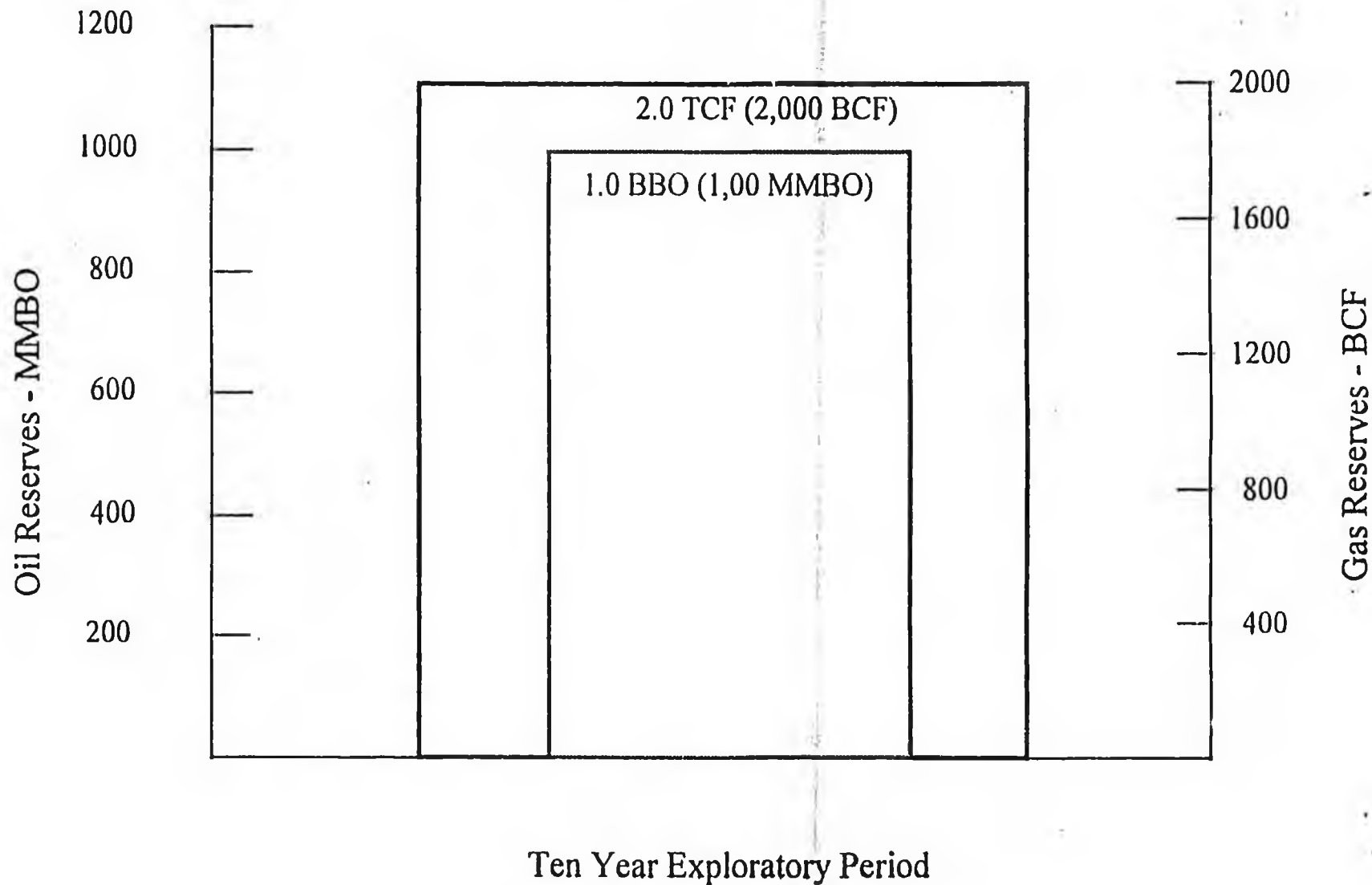
Various studies incorporating some or all of these parameters have been made and it is a generally held opinion that the Cook Inlet generating process, or "oil kitchen" generated considerably more hydrocarbons than can be accounted for in presently known resources. The unaccounted for or undiscovered portion of these reserves will not be found primarily in large, easily identifiable structural traps, but will be concentrated in more subtle traps: stratigraphic pinchouts, sub-thrust fault blocks, and diagenetically influenced reservoirs.

Exploration for these reserves will require a deeper geological understanding of historical basin processes, utilization of sophisticated seismic and other exploration systems and innovative drilling and completion techniques.

This will be an expensive search but the technology and will exists to do it. Only in this manner will these reservoirs be found.

Based upon private studies it is estimated that a reasonable figure of expectation for undiscovered oil and gas reserves is: 1.0 BBO and 2.0 TCFC. This would represent a replacement of 74% of the known oil reserves and 30% of the gas produced to date.

Plate "C"  
Estimated Undiscovered Oil & Gas Reserves  
Cook Inlet Basin



## PART IV

### Estimate of State of Alaska Royalty Values Attributable to Undiscovered Oil & Gas Reserves

Assuming that the estimate of 1.0 BBO and 2.0 TCFC (PART III, supra) is reached, and an average constant well-head price of \$15.00 per barrel for oil and \$1.70 per MCF of gas is maintained, these reserves would have a gross undiscounted value of \$15.0 billion to the oil and \$3.4 billion to the gas for a total of \$18.4 billion.

However, only a portion of the wells drilled would constitute "discovery wells"; based upon estimates of future field (and discovery tract) size, it is estimated that the "discovery royalty" of 5% would apply to no more than 20% of all wells drilled.

TABLE "A" is appended setting forth Alaska royalty calculations for oil and gas reserves both "discovery royalty" and "regular royalty".

Note that the average royalty percentage received by the State of Alaska would be 11%. The total calculated value of these oil and gas royalties is: \$2.024 Billion.

Table "A"

Estimated Value to State of Alaska  
Royalties on Undiscovered Oil Gas  
Reserves - Cook Inlet Basin

| ITEM  | OIL             | GAS           |
|---|-----------------|---------------|
| Total Reserves  | 1.0 BBO         | 2.0 TCF       |
| Gross Value (Revenue)<br>(\$15/BO and \$1.70/MCF)           | \$15.0 Billion  | \$3.4 Billion |
| Alaska Royalty<br>On 20% "Discovery"<br>Portion (5%)        | \$150 Million   | \$34 Million  |
| Alaska Royalty<br>On 80% "Non-Discovery"<br>Portion (12.5%) | \$1.5 Billion   | \$340 Million |
| Total Alaska Royalty<br>(Gross Undiscounted Value)          | \$1.650 Billion | \$374 Million |
| Average Alaska Royalty                                      | 11%             | 11%           |
| Total Value Alaska<br>Oil & Gas Royalty                     | \$2.024 Billion |               |

## PART V

### Ancillary Economic Benefits to Increased Exploratory Well Rate

The most obvious benefit to increased drilling is the creation of immediate jobs in and around the drilling operation. This would include primary drilling personnel and, as wells were brought on line, would also include personnel for production operations. At all times, support jobs (e.g. camp cook and catering, road maintenance, etc) would become available. These positions would be filled by local Alaskans.

The economy will benefit from injections of new dollars into the (local) capital stream and of course, real economic value will be created and tax bases increased.

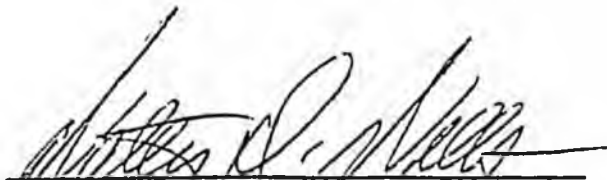
It is estimated that each well drilled will create approximately 75 new jobs each of which will receive an average of \$60,000 (+/-) per year. Each calendar year of drilling activity per rig can therefore be anticipated to provide \$4,500,000 in real capital infusion, or approximately \$1,875,000 per individual well. This amounts to a total of \$28,125,000 (+/-) in direct payroll attributable to 15 exploratory wells.

## PART VI

### Summary & Conclusions

From the foregoing data it may be concluded that:

- 1) The Cook Inlet Basin is an important Alaskan hydrocarbon producing basin.
- 2) Presently known oil reserves of 1.35 Billion Barrels of Oil (BBO) are approximately 91% depleted.
- 3) During the years 1959 - 1969 a "discovery royalty" provision was in effect. During this period approximately 81% of the known reserves were discovered.
- 4) Discovery rates are tied directly to exploratory well rates. During 1959 - 1969 a total of 174 exploratory wells were drilled resulting in oil discoveries aggregating in excess of 1 Billion barrels of oil. During the recent period of 1985 - 1995 a total of 16 exploratory wells were drilled (a decrease of 92%) resulting in discoveries aggregating only 30 MMBO
- 5) It is estimated that the Cook Inlet Basin contains undiscovered reserves aggregating at least 1.0 BBO and 2.0 TCFG.
- 6) State of Alaska royalties received from these reserves would total approximately \$2.024 Billion.
- 7) Substantial economic benefits will accrue to local economies. Each exploratory well drilled will create approximately 75 new jobs and approximately \$1,875,000 in capital infusion on the local level.



WALTER D. WELLS

**CERTIFIED PETROLEUM GEOLOGIST**

American Association of Petroleum Geologists - CPG #3214  
American Institute of Professional Geologists - CPG #6993  
Alaska - CPG #AA-307

### Data Sources

Field discovery dates were taken from the: 1994 Statistical Report Alaska Oil & Gas Conservation Commission.

Production data and estimates of remaining discovered reserves were taken from the: March, 1995 Historical and Protected Oil & Gas Consumption - Alaska Department of Natural Resources - Division of Oil & Gas.



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y, State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

March 11, 1986

MEMORANDUM

TO: Representative Andre Marrou  
FROM: *G. Keiser*  
Gretchen Keiser  
Legislative Analyst  
RE: Oil and Gas Discovery Royalty Incentive  
Research Request 86-126

You requested us to provide information about a former provision in State statute which allowed a lessee to pay a reduced royalty on production for ten years following the discovery of commercial quantities of oil or gas. Specifically, you wanted to know:

- when and why the provision was dropped;
- how successful the provision was with respect to encouraging exploration;
- State revenue "lost" because of the reduced royalty; and
- State revenue ultimately gained because of the production of commercial quantities which would otherwise not have been discovered.

Brief History of the Discovery Royalty

The so called "discovery royalty" provision was dropped from Alaska Statute in 1969 (§ 1, Ch. 65, SLA 1969). Prior to its deletion, the provision was as follows:

"...the holder of a lease who drills and makes the first discovery of oil or gas in commercial quantities in a geologic structure shall pay a royalty on all production under the lease of five percent for 10 years following the date of discovery and thereafter the royalty rate shall be not less than 12-1/2 percent..." [AS 38.05.180(a)]

Representative Marrou  
March 11, 1986  
Page Three

the first place.<sup>1</sup> In other words, the provision generally affected the timing of drilling in a prospective area after the decision to explore had been made.

The Cook Inlet discoveries listed in Attachment A occurred during the period of extensive oil and gas exploration of the many separate geologic structures in the region. It appears unlikely that the discovery royalty provision was instrumental in encouraging exploration beyond what was already warranted based on preliminary geophysical investigations.

The discovery royalty did provide some incentive to develop, produce and market discovered commercial quantities of oil or gas as quickly as possible. However, the incentive to produce was quite small because the reduced royalty provision applied only to the single lease where the discovery occurred. In the initial unitization covering the 63 leases in the Kuparuk River Unit, for example, only 0.0206 percent of the oil produced was allocated to the discovery lease.<sup>2</sup> Generally, hydrocarbon quality, ease of extraction, the cost of transportation, and market value were much more significant factors in the decision to develop an oil or gas field.

In 1978, a provision for exploration incentive credits was included in the extensive revision of Alaska's oil and gas leasing statute [Alaska Statute 38.05.180(i)]. The Commissioner of the Department of Natural Resources can provide credits--of up to 50 percent of the cost of exploratory drilling or geophysical work--to be applied against royalties, rentals or severance taxes payable to the State. According to Ed Phillips, Petroleum Economist for the department, the current exploration incentive credits (EICs) provide a much more significant inducement to drill than the old discovery royalty provision. Not only are EICs applicable to any exploratory well drilled by a lessee, but partners in the exploratory well (who may or may not be owners of that specific lease) may also receive EICs proportional to their involvement. The EICs provide for immediate recovery of a sizable portion of the exploratory costs (e.g. 30 to 40 percent) because the credits can be applied existing rental, royalty, or severance tax obligations.

---

<sup>1</sup>Affidavit of C.V. "Chat" Chatterton (Commissioner of the Alaska Oil and Gas Conservation Commission) in the Kuparuk River discovery royalty court case (BP Alaska et. al. v. State of Alaska).

<sup>2</sup>Affidavit of Ed Phillips (Petroleum Economist for the Alaska Department of Natural Resources) in BP Alaska et. al. v. State of Alaska.

ATTACHMENT A

Discovery Wells Granted the State Discovery Royalty Provision  
(Department of Law)

| <u>Name of Well</u>         | <u>Lessee (present names)</u> | <u>ADL No.</u> | <u>Date of Discovery</u> | <u>First Affidavit or claim of discovery</u> | <u>Date of written decision granting discovery royalty</u> | <u>Effective date of the 10-year discovery royalty</u> | <u>Commencement of commercial production</u> | <u>Date 12 1/2 royalty replaced 5 1/2 discovery royalty rate</u> | <u>Period royalty actually reduced</u> |
|-----------------------------|-------------------------------|----------------|--------------------------|--|--|--|--|--|--|
| Falls Creek Unit No. 1      | Chevron ARCO                  | 00590          | 4-10-61                  | 12-3-63                                      | 2-18-64  | 5-1-61   | none <sup>7</sup>                            | no royalty ever paid   | never used                             |
| Middle Ground Shoal No. 1   | AMOCO Getty Phillips          | 17595          | 6-10-62                  | 11-12-62                                     | 1-15-63  | 6-10-62  | 5-66 <sup>8</sup>                            | 6-10-72 <sup>12</sup>  | 6 years, 1 month <sup>12</sup>         |
| C. Inlet State No. 1        | Phillips                      | 17509          | 8-21-62                  | 11-12-62                                     | 11-24-64   | 9-1-62   | 3-69 <sup>8</sup>                            | 9-72   | 3 years, 6 months                      |
| Beluga River Unit No. 1     | Chevron ARCO Shell            | 17599          | 12-1-62                  | 9-17-63                                      | 12-19-62   | 1-1-63   | 3-68 <sup>8</sup>                            | 1-73   | 4 years, 10 months                     |
| Granite Point No. 1         | Nobis Union                   | 18761          | 5-16-65                  | 5-21-65                                      | 9-14-65  | 6-1-65   | 5-67 <sup>9</sup>                            | 6-75   | 8 years, 1 month                       |
| Trading Bay No. 1-A         | Union Marathon                | 18731          | 5-23-65                  | 6-18-65                                      | 8-27-65  | 6-1-65   | 1-67 <sup>10</sup>                           | 6-75   | 8 years, 5 months                      |
| Crayling No. 1-A            | Union Marathon                | 17594          | 9-29-65 <sup>2</sup>     | 10-28-65                                     | 1-19-82  | 10-1-65  | 10-67 <sup>10</sup>                          | 10-75 <sup>10</sup>  | 8 years, 1 month <sup>10</sup>         |
| Red Inlet Creek State No. 1 | Texaco Superior               | 17598          | 4-28-66                  | 5-23-66                                      | 8-19-66  | 5-1-66   | 10-68 <sup>8</sup>                           | no production <sup>13</sup> after 1972                           | no more than about 4 years             |
| Prudhoe Bay State No. 1     | ARCO Exxon                    | 28303          | 12-19-67 <sup>3</sup>    | 3-26-68                                      | 4-7-69   | 1-1-68   | 6-20-77 <sup>10</sup>                        | 1/78   | 6 months, 11 days                      |
| Sign No. 1                  | BP, Sohio ARCO                | 25633          | 4-7-69                   | 9-15-69                                      | 11-12-82   | 5-1-69   | 12-13-81 <sup>11</sup>                       | 12 1/2 royalty paid from 12-13-81, the first date of production  | never used                             |

EXHIBIT NO. 2  
PAGE 1 OF 2

ATTACHMENT B

Exploration Incentive Credits Certified  
by the State of Alaska

EXPLORATION INCENTIVE CREDITS  
 Report Month: August 1985

| ADL         | WELL             | COMPANY     | CERTIFICATION<br>DATE | TOTAL<br>AMOUNT |
|-------------|------------------|-------------|-----------------------|-----------------|
| 343109      | G-2 Well         | Exxon       | 10/5/83               | \$6,197,625.00  |
|             |                  | Sohio       | 12/27/83              | \$4,152,408.75  |
|             |                  | BP&E        | 10/5/83               | \$2,045,216.25  |
| 344010      | Leffingwell      | Arco        | 10/2/84               | \$3,706,000.00  |
|             |                  | Union       | 10/2/84               | \$3,706,000.00  |
| 344033      | J-1 well         | Exxon       | 10/31/84              | \$5,119,500.00  |
| 355005      | Long Island Well | Exxon       | 11/14/84              | \$1,378,076.00  |
|             |                  | Sohio       | 11/14/84              | \$1,378,076.00  |
| 345126      | Totek Hills      | Arco Alaska | 8/02/85               | \$715,530.81    |
| GRAND TOTAL |                  |             |                       | \$28,398,432.81 |

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



Stewart Petroleum Company

Denali Towers North, Suite 1300  
2550 Denali Street, Anchorage, Alaska 99503  
(907) 277-4004 • FAX (907) 274-0424

TESTIMONY  
of  
WILLIAM R STEWART  
before the  
OIL AND GAS POLICY COUNCIL

MAY 25, 1995

Chairman Wunnicke and members of the Oil & Gas Policy Council, my name is Bill Stewart, President of Stewart Petroleum Company. I have 26 years of oil and gas industry experience in Alaska. Our company is a small Alaska based independent oil and gas exploration and production company active in Alaska and seven other states. Our primary area of interest within Alaska is Cook Inlet Basin. In late 1991, we were fortunate in discovering the West McArthur River Oil Field, a field of significant size on the west side of Cook Inlet. We are in the development stage at the present time. With a pipeline system in place, production of two wells is underway and a third well is currently drilling below 14,000' from an onshore location to an offshore bottom hole location.

According to available information, we are the first independent to establish commercial oil production in Alaska in modern times. (I say "modern times" because oil production was established by independents much earlier at Katalla in 1902. The field produced low gravity crude until their on-site refinery burned in 1933.) In fact, it may interest you to know that about 60 wells have been drilled here by independents, including the first well in Alaska. That well was drilled by a group of independents in 1898 on the Iniskin Peninsula utilizing cable tools and undoubtedly following up on natural oil seeps that still exist there today.

Back to modern times, I feel qualified because of my Alaska experience to discuss why we have very few independents here and what might attract more of them to the State. In general terms, I believe we have very few independents here for three basic reasons. Those reasons are Alaska's natural obstacles, its man-made obstacles and its high operating costs.

### 1. Natural Obstacles

The natural obstacles include the obvious factors of climate, remoteness, and logistics. These are significant problems faced by both independents and major companies but they can be handled through proper planning. Without proper planning Alaska is very unforgiving. Independents without experience here fear these obstacles.

### 2. Man-made Obstacles

The man-made obstacles include lack of available lands (due to scarcity of fee lands, massive public interest land withdrawals in the form of riders to the Alaska Native Claims Settlement Act of 1971 and a State leasing system

which is restricted to competitive leasing only) as well as the regulatory rain forest which exists here. I mentioned earlier that we operate in seven other states. None of those states even begin to approach the kind of governmental micro management of oil and gas operations that we have here. Independent companies much larger than mine are afraid of the process and choose not to operate here.

### 3. High Operating Costs

The high operating costs are a function of both the natural obstacles and the man-made obstacles mentioned. I'm not sure which is the greatest contributor to these costs. Investment in our own project at West McArthur River exceeds \$50 million since 1991. Significant returns are just now beginning to be realized.

Fortunately, the story is not all bad at this point. I'm encouraged by the efforts of Governor Knowles toward attracting industry investment in Alaska and in forming this Council. I'm encouraged by the efforts of Commissioner Burden to streamline ADEC. I'm also encouraged by the oil and gas incentive programs being explored by the Alaska Legislature. At this point I would like to suggest several possible incentive programs, which may or may not be of interest to major companies, but which would definitely be of interest to independents, as follows:

#### 1. Royalty Reduction (Existing Fields)

I've been travelling for the past couple of weeks but I understand a final revision of the royalty reduction bill (HB 207) has passed both the House, and the Senate and is awaiting signature by the Governor. Basically, I feel that while the reasoning behind that legislation is to be commended, it is (as a practical matter) far too complex.

It's the sort of thing that endless audits and lawsuits are made of. While both major companies and the State of Alaska are perhaps well equipped for endless audits and lawsuits, independents are not.

If the opportunity should arise again, I would support a much simpler approach to royalty reduction. Such an approach would involve a predetermined formula based on production much like the ELF formula which has been in place for years. ELF effectively reduces the tax burden for smaller fields by application of the predetermined formula. A similar arrangement for royalty reduction would be a tremendous incentive for new activity for companies large and small who are operating smaller fields, at least small by Alaska standards.

## 2. Discovery Royalty

The State of Alaska had a discovery royalty program in effect until its abolishment in the early 1970's. Under the program, royalty burden (on the discovery lease only) was reduced from 12.5% to 5% for a period of ten years. Any and all wells located on the lease received the reduction. Perhaps this program or some variation thereof could be reinstated. The incentive created would result in more aggressive development schedules. Coordination with the Royalty Reduction Program discussed earlier would be involved.

## 3. Acreage Availability

At about the same time the discovery royalty program ceased to be, all State lands were classified for competitive bid only and prior non-competitive

programs were eliminated. The Federal government and many oil producing states maintain non-competitive leasing programs. The mentality in Alaska has been to maximize lease bonuses. It can be better for both industry and State if those dollars go into exploration and development activities resulting in long term production of oil and gas. Non-competitive programs could include openings for over-the-counter filing in relatively unexplored areas and a simultaneous filing program similar to the Federal program in other states. Parcels which do not receive bids at competitive sale could be reclassified non-competitive. It is always possible that new geological thinking will evolve and result in new activity on such parcels.

#### 4. Simplification of Permitting

I mentioned Alaska's regulatory rain forest earlier. The permitting system is overwhelming and often involves interagency conflict. Our operation has involved more than 40 permits to date and numerous field inspections both announced and unannounced. The system deters activity by the independent sector. Changing the system will not be easy. A "lead agency" concept for oil and gas may be a solution but not if it is simply another layer of regulation. The lead agency (probably Alaska Oil & Gas Conservation Commission) would eliminate or replace the existing permitting functions of other agencies and provide "one stop shopping" for industry. Also, reasonable time limits for issuance or rejection of a permit are needed. Considerable resistance to those concepts will be received from middle and lower level officials in the agencies. It is our experience that, while the Governor and the department heads may be working toward positive changes, the message does not filter down to the lower levels. We have

experienced on a number of occasions in our permitting efforts that the lower level officials do not simply "carry out policy" as would be expected. They "make policy" and that policy is usually "stop" or "no". These officials, of course, do not have the "answerability" of the elected or appointed officials above.

#### 5. Reduce DEC Financial Responsibilities Requirements

These requirements were created in the wake of the Exxon Valdez incident. Even with the reductions enacted in 1994 by the Legislature, the required coverages are very hard to come by for a small company, especially with the "Direct Access" provision required under insurance policies. By the way, we have elected to exceed the required coverages at West McArthur River but that was a business decision which may not be applicable in all cases.

#### 6. Development Funding Programs

With Alaska's high cost of operating, State funding for development activities could significantly encourage exploration and hopefully more discoveries by the independent sector. A development loan program, which would be available only after discovery in paying quantities and would not be for exploration purposes, would encourage aggressive development and benefit both the State of Alaska and industry. I know from experience that oil and gas operations do not fit the AIDA programs. A new funding mechanism would be required.

As indicated earlier, our project at West McArthur River has involved more than \$50 million in investment to date. During periods of drilling, approximately 40

full time on-site jobs are created together with approximately 20 support jobs in Anchorage and Kenai. Pipeline construction involved approximately 30 full time on-site jobs and 15 support jobs. After full development of the field, about 15 permanent on-site and support jobs will be involved in the producing operation. In addition to the taxes and royalties involved, the employment created by operations such as ours can only be good for Alaska's economy.

Despite the obstacles, independents can function in Alaska, but these types of incentives are needed. As an independent producer, we are in touch with many other independent producers. There are roughly 10,000 members in IPAA, the Independent Petroleum Association of America. Most of the IPAA members will never venture to Alaska, but in the wake of our success, we are beginning to hear expressions of interest from quite a few.

Thank you for inviting me to appear today. We look forward to continued work with the Council and we are prepared to assist with specific language to accomplish these suggested changes. In the meantime, I'll try to answer any questions you may have.

STEWART PETROLEUM COMPANY

By: 

W. R. Stewart, President

May 25, 1995 .

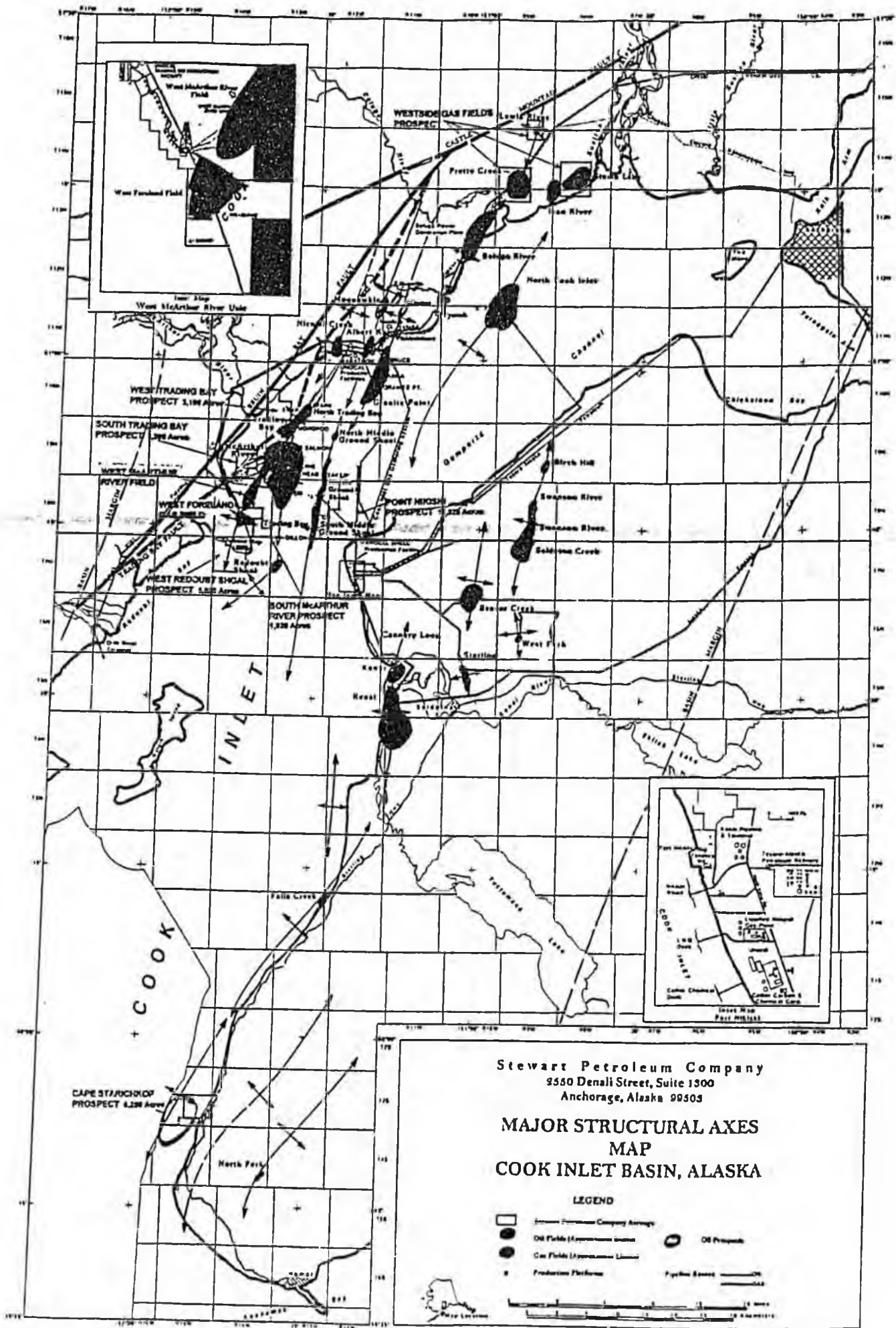
North Slope  
Discovery Royalty Applications

| Well No. | Well Name               | Field Name          | Applicant         | Date of Application | Status of Application  |
|----------|-------------------------|---------------------|-------------------|---------------------|------------------------|
| 20303    | Prudhoe State # 1       | Prudhoe Bay         | ARCO              | March 12, 1968      | Granted                |
| 23263    | Luparuk State # 1       | Prudhoe Bay         | Hobbs             | December 25, 1968   | Dormant(10-years over) |
| 25873    | Lynn # 1                | Luparuk             | ARCO-BP           | April 7, 1969       | Granted                |
| 27270    | Ko: River SP 01-11-12   | Prudhoe Bay         | BP                | July 30, 1969       | Dormant(10-years over) |
| 25514    | Simpson Lagoon 22-144   | Luparuk / Milne Pt. | Chevron           | September 1, 1969   | Dormant(10-years over) |
| 25519    | Lavearak Point          | Milne Point         | Chevron           | October 9, 1969     | Dormant(10-years over) |
| 31623    | Point Storliensen # 1   | Undefined           | Hamilton Brothers | November 25, 1969   | Dormant(10-years over) |
| 31624    | North Prudhoe Bay St.=1 | Undefined           | ARCO              | March 31, 1970      | Dormant(10-years over) |
| 31633    | Sag Delta #3            | Endicott            | BP                | March 31, 1977      | Withdrawn by Applicant |
| 31625    | Hiakuk #2-A             | Hiakuk              | BP                | April 11, 1977      | Dormant(10-years over) |
| 31634    | Sag Delta # 1           | Lisburne            | BP                | June 10, 1977       | Dormant(10-years over) |
| 31633    | Sag Delta # 4           | Endicott            | BP                | February 14, 1978   | Active                 |
| 11535    | Hiakuk # 5              | Hiakuk              | CP                | April 7, 1985       | Active                 |

DRAFT

Information compiled April, 1988  
William Van Dyke  
Division of Oil and Gas

Date \_\_\_\_\_



**SB**

**147**

HOUSE COMMITTEE REPORT

(9)  
Date Referred: April 13, 1995

FURTHER REFERRALS:

Date of Committee Action: 4/25/95

The RESOURCES Committee considered:

SB 147

SENATE BILL NO. 147

MUNICIPAL RIVER HABITAT TAX CREDIT

"An Act relating to a municipal river habitat protection tax credit."

recommends it be replaced with the following committee substitute HCSSB 147 (RES)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_ APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_  
 fiscal note(s) \_\_\_\_\_  fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) F+G 4-10-95

| SIGNING WITH RECOMMENDATIONS | DP | DNP | NR | AM |
|------------------------------|----|-----|----|----|
| <i>Alan Quate</i>            |    |     | ✓  |    |
| <i>W.R. Williams</i>         | ✓  |     |    |    |
| <i>Smith</i>                 | ✓  |     |    |    |
| <i>Joseph [unclear]</i>      | ✓  |     |    |    |
| <i>John [unclear]</i>        |    |     | ✓  |    |
|                              |    |     |    |    |
|                              |    |     |    |    |
|                              |    |     |    |    |
|                              |    |     |    |    |
|                              |    |     |    |    |

CHAIR'S SIGNATURE *Joseph [unclear]*

# Alaska State Legislature

SENATOR  
JOHN TORGERSON  
DISTRICT D



Senate

SESSION ADDRESS  
STATE CAPITOL, ROOM 427  
JUNEAU, ALASKA 99801-1182  
(907) 485-2828  
FAX (907) 485-4779

## S.B. 147 - Municipal River Habitat Tax Credit Sponsor Statement

HB 306 was enacted in 1994. That legislation provided the authority for a municipality to establish, by ordinance, a Kenai river habitat protection credit against property taxes. The current statute requires the Department of Fish and Game to develop criteria for accomplishing the tax credits and the department is also responsible for reviewing and certifying land owner applications.

This bill, SB 147, revises the review and certification process. The bill provides for the Commissioner of the Department to approve criteria set forth in an ordinance developed by the municipality. Also, the Department would no longer be required to review and then certify the land owner applications. The municipality will be responsible for the process, based on the criteria established in the ordinance.

# Alaska State Legislature

SENATOR  
JOHN TORGERSON  
DISTRICT D



Senate

SESSION ADDRESS  
STATE CAPITOL, ROOM 427  
JUNEAU, ALASKA 99801-1182  
(907) 465-2828  
FAX (907) 465-4779

## S.B. 147 - Municipal River Habitat Tax Credit Sectional Analysis

Sec. 1: Amends subsection (b) by deletion of language requiring credits to be certified by the Department of Fish and Game.

Sec. 2: Adds new subsection (d), establishing that the municipal ordinance is the vehicle for certification of the credits, subject to the approval of the Commissioner of Fish and Game.

Sec. 3: Repeals subsection (c), language which requires the Department of Fish and Game to certify, and the criteria under which it is would be certified.

# DEPARTMENT OF FISH AND GAME POSITION PAPER

BILL No: SB147

SPONSOR: Senator Torgerson

DIVISION: Habitat and Restoration

DEPARTMENT POSITION: Support SB147 with sponsor clarification of Sec. 2. AS 29.45.046(d) intent.

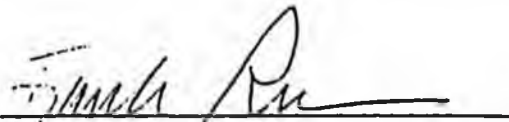
SB147 deletes the existing AS 29.45.046(b) requirement that the ADF&G prepare and adopt regulations for a fish habitat protection and restoration tax credit program for the Kenai River. It also eliminates the requirement that the department review each application and inspect and certify each project to determine if the project qualifies for a tax credit under the regulations. These are positive changes. Although a higher level of habitat protection would have been provided if the department could have developed regulations with criteria for projects which restore or protect fish habitat, and department habitat biologists had been able to review each project application, and inspect each completed project to insure that the project met the criteria for a tax credit, the department was never provided with staff or funding for either of these tasks.

SB147 adds a new section (d) which requires the Commissioner of ADF&G to review and approve draft Kenai River tax credit ordinances prepared by the Kenai Peninsula Borough Assembly within 60 days of receipt of the ordinance. It further requires the ADF&G to approve the ordinance "if the improvements for which a credit is authorized aid in protecting or restoring habitat as required under this section without regard to the scope of the protection or restoration that would be achieved by the improvements." The requirement that ADF&G review and approve a draft ordinance to ensure that projects that receive tax credits will truly provide a commensurate level of habitat protection and restoration seems like a reasonable cost-effective compromise between writing the tax credit regulations and inspecting each project, versus no participation. This amendment would provide department habitat and fisheries specialists with an opportunity to review the draft ordinance and determine if the taxes foregone by the borough as credits for habitat protection and restoration would actually buy a commensurate amount of habitat protection or restoration.

DEPARTMENT OF FISH AND GAME  
POSITION PAPER  
CONTINUATION PAGE FOR SB147

The intent of the section that requires the department to approve the ordinance "without regard to the scope of the protection or restoration that would be achieved by the improvement," is not clear. One interpretation would be that the department would be expected to approve the ordinance even if it believed that a type of very costly tax incentive project would only provide a small amount of habitat protection or restoration. Because it seems unlikely that this is what the bill sponsors intended, they may want to rewrite this section to clarify its intent.

COMMISSIONER'S SIGNATURE



DATE

7.6.95



BILL ANALYSIS

|  |                                     |   |                              |
|--|-------------------------------------|---|------------------------------|
| DEPARTMENT<br>Department of Fish and Game  | DIVISION<br>Habitat and Restoration | BILL NUMBER<br>SB147                        | SPONSOR<br>Senator Torgerson |
| SHORT TITLE OF BILL<br>An Act relating to a municipal river habitat protection tax credit. |                                     |   |                              |
| DEPARTMENT POSITION<br>Support   |                                     |   |                              |
| PREPARED BY<br>Ellen Fritts <i>gllm Fritts</i>   | DATE<br>04/03/95                    | COMMISSIONER'S SIGNATURE<br><i>Frank...</i> | DATE<br>4-6-95               |

SUMMARY

|  |   |
|--|---|
| OTHER AGENCIES AFFECTED BY BILL<br>Department of Natural Resources<br>Kenai Peninsula Borough<br>Cities of Kenai, Soldotna, and Cooper Landing | CONSTITUENT GROUP(S) AFFECTED BY BILL<br>Sport fishermen<br>Landowners<br>Commercial fishermen<br>Kenai Peninsula Borough residents |
| ORGANIZATIONAL SUPPORT FOR BILL<br>None known  | ORGANIZATIONAL OPPOSITION TO BILL<br>None known   |

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

SB147 amends AS 29.45.046(b) to eliminate the existing requirements that: (1) the Alaska Department of Fish and Game (ADF&G) develop regulations with criteria for projects that would qualify for a Kenai Peninsula Borough tax credit, and (2) obligate the department to review each application and inspect and certify that each tax credit project constructed meets tax credit criteria. A new section is added which requires ADF&G to review and approve a habitat protection tax credit ordinance adopted by the Kenai Peninsula Borough.

ANALYSIS OF BILL/PROGRAM EFFECTS

See attached sheet.

AMENDMENTS PROPOSED

Sponsor should rewrite Sec 2. AS 29.45.046(d) lines 12-16 to clarify what criteria they want the Commissioner to use in approving a tax credit ordinance.

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS

## ANALYSIS OF BILL/PROGRAM EFFECTS

SB147 deletes the existing AS 29.45.046(b) requirement that the ADF&G prepare and adopt regulations for a fish habitat protection and restoration tax credit program for the Kenai River. It also eliminates the requirement that the department review each application and inspect and certify each project to determine if the project qualifies for a tax credit under the regulations. These are positive changes. Although a higher level of habitat protection would have been provided if the department could have developed regulations with criteria for projects which restore or protect fish habitat, and department habitat biologists had been able to review each project application, and inspect each completed project to insure that the project met the criteria for a tax credit, the department was never provided with staff or funding for either of these tasks.

SB147 adds a new section (d) which requires the Commissioner of ADF&G to review and approve draft Kenai River tax credit ordinances prepared by the Kenai Peninsula Borough Assembly within 60 days of receipt of the ordinance. It further requires the ADF&G to approve the ordinance "if the improvements for which a credit is authorized aid in protecting or restoring habitat as required under this section without regard to the scope of the protection or restoration that would be achieved by the improvements." The requirement that ADF&G review and approve a draft ordinance to ensure that projects that receive tax credits will truly provide a commensurate level of habitat protection and restoration seems like a reasonable cost-effective compromise between writing the tax credit regulations and inspecting each project, versus no participation. This amendment will provide department habitat and fisheries specialists with an opportunity to review the draft ordinance and determine if the taxes foregone by the borough as credits for habitat protection and restoration will actually buy a commensurate amount of habitat protection or restoration.

The intent of the section that requires the department to approve the ordinance "without regard to the scope of the protection or restoration that would be achieved by the improvement," is not clear. One interpretation would be that the department would be expected to approve the ordinance even if it believed that a type of very costly tax incentive project would only provide a small amount of habitat protection or restoration. Because it seems unlikely that this is what the bill sponsors intended, they may want to rewrite this section to clarify its intent.

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB147

Revision Date: \_\_\_\_\_ Dept. Affected: Fish and Game  
 Title: An Act relating to a municipal river habitat BRU: Habitat and Restoration  
protection tax credit Component: Habitat  
 Sponsor: Senator Torgerson  
 Requester: Resources COMPONENT SERIAL NO. 486

**Expenditures/Revenues** (Thousands of Dollars)

| OPERATING EXPENDITURES        | FY 96      | FY 97      | FY 98      | FY 99      | FY 00      | FY 01      |
|-------------------------------|------------|------------|------------|------------|------------|------------|
| PERSONAL SERVICES             | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| TRAVEL                        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| CONTRACTUAL                   | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| SUPPLIES                      | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| EQUIPMENT                     | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| LAND & STRUCTURES             | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| GRANTS, CLAIMS                | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| MISCELLANEOUS                 | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| <b>TOTAL OPERATING</b>        | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |
|                               |            |            |            |            |            |            |
| <b>CAPITAL EXPENDITURES</b>   | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
|                               |            |            |            |            |            |            |
| <b>CHANGE IN REVENUES ( )</b> | 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                  |            |            |            |            |            |            |
| 1005 GF/Program Receipts |            |            |            |            |            |            |
| 1006 GF/MHTIA            |            |            |            |            |            |            |
| Other                    |            |            |            |            |            |            |
| <b>TOTAL</b>             | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

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

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| FULL-TIME |  |  |  |  |  |  |
| PART-TIME |  |  |  |  |  |  |
| TEMPORARY |  |  |  |  |  |  |

**ANALYSIS:** (Attach a separate page if necessary)

SB147 amends AS 29.45.046(b) to eliminate existing requirements that the Alaska Department of Fish and Game prepare habitat tax credit regulation for the Kenai River, and that the department inspect projects to make sure that they meet the criteria. SB147 adds a new requirement that the department review and approve the Kenai Peninsula Borough's tax credit ordinance within 60 days of receipt.

The department does not believe that review of the borough's tax credit ordinance will entail substantial cost to the department. Therefore a zero fiscal note is recommended.

Prepared by: Ellen Fritts, Acting Director  
 Division: Habitat and Restoration  
 Approved by Commissioner: [Signature]  
 Agency: Department of Fish and Game

Phone: 465-4105  
 Date: \_\_\_\_\_  
 Date: 4.6.95

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information, call the Governor's Legislative Office

# FISCAL NOTE

Revision Date: April 6, 1995 Dept. Affected: Community & Regional Affairs  
 Title: An Act relating to a municipal river BRU: none  
habitat protection tax credit Component none  
 Sponsor: Senator Torgerson  
 Requestor: Senate Resource COMPONENT SERIAL NO. \_\_\_\_\_

Expenditures/Revenues: (Thousands of Dollars)

|                   | FY 96 | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 |
|-------------------|-------|-------|-------|-------|-------|-------|
| OPERATING         |       |       |       |       |       |       |
| PERSONAL SERVICES |       |       |       |       |       |       |
| TRAVEL            |       |       |       |       |       |       |
| CONTRACTUAL       |       |       |       |       |       |       |
| SUPPLIES          |       |       |       |       |       |       |
| EQUIPMENT         |       |       |       |       |       |       |
| LAND & STRUCTURES |       |       |       |       |       |       |
| GRANTS, CLAIMS    |       |       |       |       |       |       |
| MISCELLANEOUS     |       |       |       |       |       |       |
| TOTAL OPERATING   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| CAPITAL           | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |

REVENUE FUND SOURCE: \_\_\_\_\_

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current (FY94) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

This legislation amends legislation passed last year which provides for tax credits for municipalities which have provisions for river habitat protection. The law applies only to the Kenai River. The amendment would relieve the Department of Fish and Game from the requirement of certifying the habitat improvement. Under the proposed legislation, ADFG would also have to approve ordinances passed by a municipality in this regard. These changes have no effect on DCRA and, consequently, no fiscal impact.

Prepared by: Remond Henderson, Director *Remond Henderson* Phone: 465-4708  
 Division: Division of Administrative Services Date: 4/6/95  
 Approved by Commissioner: *Mike DeWan* Date: 4/6/95  
 Agency: Community & Regional Affairs

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office



## KENAI PENINSULA BOROUGH

144 N. BINKLEY SOLDOTNA, ALASKA 99669-7599  
BUSINESS (907) 262-4441 FAX (907) 262-1892

DON GILMAN  
MAYOR

April 6, 1995

The Honorable Loren Leman, Chairman  
Senate Resources Committee  
State Capitol  
Juneau, AK 99801

Re: HB 279: Municipal River Habitat Tax Credit  
SB 147: Municipal River Habitat Tax Credit

Dear Sir:

The Kenai Peninsula Borough supports the enactment of HB 279, and its companion Senate Bill 147. The Legislature in its last session enacted a provision for an optional tax credit for improvements that protected or restored habitat in the Kenai River. However, in order to implement the tax credit program protecting the Kenai River, regulations had to be adopted by the Alaska Department of Fish & Game defining improvements that qualified as being protective or restorative. This requirement for the adoption of regulations has delayed the process and complicated the matter. The intent of having the Alaska Department of Fish & Game adopt regulations was to bring expertise into the matter so that the credit would be granted only for protective or restorative improvements. Cities and boroughs generally do not have staff who can address those issues. At the same time, the legislation sought to insure that municipalities did not choose to grant credits under the guise of the improvement being a protective measure. We think the proposed change in these bills will accomplish the original objective of allowing municipalities to provide an incentive for protection of the Kenai River without the cumbersome process of the Alaska Department of Fish & Game having to adopt regulations.

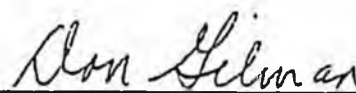
The proposed changes would eliminate the regulations and allow a local government to define improvements and measures which it deems would be protective or restorative. The ordinance defining these eligible activities would be subject to review by the Commissioner of Alaska Department of Fish & Game. The Commissioner's review would be to determine that the eligible improvements in an ordinance were protective or restorative. It would allow the municipality to define the eligible improvements in its ordinance with oversight to insure that the program is limited to protective and restorative improvements. This allows the expertise of the Alaska Department of Fish & Game to be utilized by the municipality in crafting the ordinance and a final review by the Commissioner before the ordinance goes into

— **SUPPORT** —

The Honorable Loren Leman  
April 6, 1995  
Page 2

effect. The Commissioner's involvement would not look at the extent of the credit or the choice of activities to be granted the credit other than to determine whether they were truly protective measures or not.

KENAI PENINSULA BOROUGH



---

Don Gilman, Mayor

DG:bl

cc: Senator J. Torgerson

# STATE OF ALASKA

## DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 25525  
JUNEAU, ALASKA 99802-5526  
PHONE: (907) 465-4100

August 8, 1994

The Honorable Don Gilman  
Mayor  
Kenai Peninsula Borough  
144 North Binkley  
Soldotna, AK 99669-7599



Dear Mayor Gilman:

Thank you for your leadership in getting HB 306 passed by the legislature. This statute will provide an important tax incentive for private property owners to protect and restore valuable habitat that produces our Kenai River fisheries, which are so important to the economy of the Kenai Peninsula and the state.

As you know, the Kenai Peninsula Borough will have to develop a local ordinance, and the Alaska Department of Fish and Game (ADF&G) will need to develop regulations to implement this statute. The department would like to coordinate the development of these regulations with the borough. This will require that department staff work closely with borough staff to formulate criteria, forms, and procedures for this process. We will need to hold public workshops to get the landowners' perspective and acceptance and public hearings will be required to adopt the regulations. I anticipate that the development of good regulations will require considerable staff time.

Because of the downsizing of state government, ADF&G does not have funds for the senior staff person needed to begin development of these regulations at this time, however we are actively looking for funding to provide the necessary support for the HB 306 regulations and hope to begin full scale work soon. In the interim, the Habitat and Restoration Division, which has responsibility for the regulations plans to contact the borough in the near future to begin the scoping and background work for the project. Please let me know who in the borough we should contact to begin developing a coordinated approach to implementing HB 306.

Thank you for all your help on this and other Kenai River issues. We look forward to working with you on the successful implementation of the tax incentive program.

Sincerely,

Carl L. Rosier  
Commissioner



SUPPORT

# Alaska State Legislature

SENATOR  
JOHN TORGERSON  
DISTRICT D



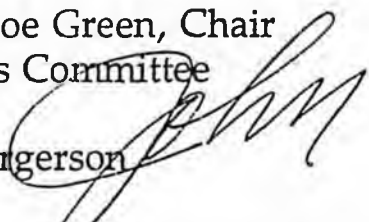
Senate

SESSION ADDRESS  
STATE CAPITOL, ROOM 427  
JUNEAU, ALASKA 99801-1182  
(907) 465-2828  
FAX (907) 465-4779

## MEMORANDUM

DATE: April 20, 1995

TO: Representative Joe Green, Chair  
House Resources Committee

FROM: Senator John Torgerson 

RE: Scheduling S.B. 147 Municipal River Habitat Tax Credit

This is to request that you schedule Senate Bill 147, regarding Municipal River Habitat Tax Credits, before the House Resources Committee.

Attached, find information regarding the bill; a sponsor statement, the sectional analysis, and support letters.

Thank you in advance for your time and consideration.

**SB**

**162**

# ALASKA STATE LEGISLATURE

*Interim:*

600 East Railroad Avenue  
Wasilla, Alaska 99654  
(907) 376-3370  
(907) 376-3157 Fax

*Session:*

State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-6600  
Fax (907) 465-3805

## SENATOR LYDA GREEN

SENATE DISTRICT N

### Sponsor Statement

#### Senate Bill 162

Senate Bill 162 amends Alaska Statute Title 38 with regard to agricultural land disposal and utilization. The proposed changes are designed to help facilitate the growth, stability and economic viability of agriculture as a renewable resource industry for Alaska.

This legislation expands the state's ability to convey interests in land classified for agricultural purposes that the state has conveyed or may convey. Currently, the state conveys agricultural interest only and the state retains all other interests. With the passage of SB 162, the state shall convey fee simple title, subject to certain restrictive covenants that would underpin the use of the land for agricultural purposes. This change would allow owners of agricultural parcels the opportunity to obtain financing from other than the state.

Agricultural land disposal represents a cost effective means of transferring public land into private ownership. Increased private ownership expands the local tax base and reduces revenue sharing needs while promoting community development and supporting infrastructure development for a variety of other resource uses, i.e., public recreation, mining and transportation. Other provisions of SB 162 aid future land disposals in two ways: by allowing the use of a site-specific plan to support a land classification for new commercial agricultural projects, and by authorizing the sale of Ag land in parcels or tracts by aliquot parts.

The remaining provisions of the bill emphasize a greater level of autonomy for the individual agribusiness owner, while ensuring the states interests are protected. The bill also reduces the state's direct control over individual farm development and utilization and allows Ag land owners the ability to make business decisions responsive to the economic factors of the marketplace and their individual circumstances.

SB 162 redefines the state's role in agricultural land disposal and development to better enhance economic development opportunities. Its passage will allow the state of Alaska to reap the benefits of agriculture as an economically viable and expanding resource industry. I respectfully request your support of SB 162.

# ALASKA STATE LEGISLATURE

*Interim:*

600 East Railroad Avenue  
Wasilla, Alaska 99654  
(907) 376-3370  
(907) 376-3157 Fax

*Session:*

State Capitol  
Juneau, Alaska 99801-1162  
(907) 465-6600  
Fax (907) 465-3805

## SENATOR LYDA GREEN

SENATE DISTRICT N

### MEMORANDUM

TO: Representative Joe Green, Chairman  
Representative Bill Williams, Chairman  
House Resources Committee

FROM: Senator Lyda Green *Lyda Green*

DATE: February 28, 1996

SUBJECT: Senate Bill 162 hearing request

=====

I respectfully request that you schedule Senate Bill 162, relating to agricultural land, for a hearing in the House Resources Committee at your earliest convenience. CSSB162(FIN) passed the Senate February 26th by a vote of 16 yeas - 4 nays.

Attached you will find a sponsor statement, sectional analysis and other appropriate back-up information. If you have any questions or are in need of further information please let me know.

Thank you for your consideration.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

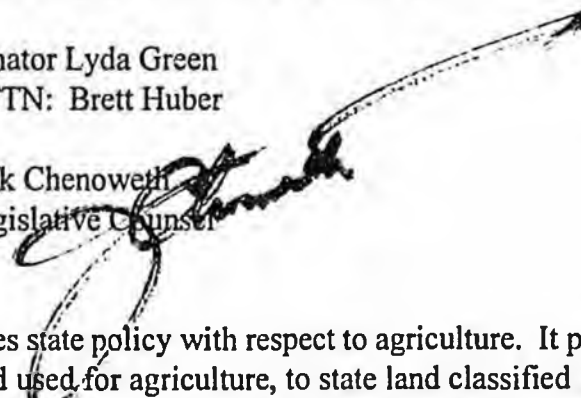
## MEMORANDUM

February 13, 1996

**SUBJECT:** Draft CSSB 162 (Finance), relating to agriculture, to state land used for agriculture and to state land classified for agricultural purposes, to state agricultural programs, and to related matters -- sectional analysis (Work Order No. 9-LS1021\O)

**TO:** Senator Lyda Green  
ATTN: Brett Huber

**FROM:** Jack Chenoweth  
Legislative Counsel



The bill generally addresses state policy with respect to agriculture. It proposes changes in laws bearing on state land used for agriculture, to state land classified for agricultural use purposes, to laws under which the state conducts its agricultural program, and to statutes addressing closely related matters. Its principal thrust is to change the interests in land classified for agricultural purposes that the state has conveyed or may convey. If the measure becomes law, it contemplates that the state would convey fee simple title subject only to certain restrictive covenants that would underpin use of the land for agricultural purposes. Action based on alleged breach of the conditions of the covenants would be the sole enforcement mechanism available to the commissioner of natural resources, on behalf of the state, to protect the land used or classified for agriculture against inconsistent or non-authorized uses.

The measure's provisions may be roughly grouped into seven areas:

- (1) Substitution of conveyance or transfer of fee simple title for conveyance or transfer of only the rights in the land for agricultural purposes.
- (2) Land classification issues relating to agricultural land.
- (3) Survey issues relating to agricultural land.
- (4) Installment sale issues relating to agricultural land.
- (5) Amendments eliminating limitations and similar prequalification requirements that may be imposed by the commissioner with respect to agricultural land.

(6) Technical changes.

(7) Transitional provisions.

Because of the wide-ranging nature of the bill, let me present the discussion of these provisions topically rather than sequentially.

**Substitution of conveyance or transfer of fee simple title:**

**Bill section 1:** This "statement of legislative intent" makes clear the objective of the measure's principal operative provision, the amendment of AS 38.05.321(a) by bill section 9, that

. . . for state land classified as agricultural land, the state [shall] convey fee title subject to a covenant running with the land that limits use of the land for agricultural purposes.

**Bill section 9:** Under existing AS 38.05.321(a), disposal of state land that has been classified for agricultural purposes disposes only of "rights for agricultural purposes," the state retaining all other rights. This bill section eliminates that limitation and substitutes for it a general conveyance, coupled with the requirement that the instrument of conveyance contains certain covenants respecting the subsequent use of that land. The covenants' provisions are those limiting the use of the land to agricultural purposes and allowing subdivision of the land into not more than four parcels of at least 40 acres, with certain additional limitations.

**Bill section 10** modifies AS 38.05.321(b) by eliminating from current law the limitation that, for land classified as agricultural land that is later selected by a municipality in the exercise of land selection rights set out in AS 29.18, only "rights in the land for agricultural purposes may be transferred" to the municipality, with all other interests in the land retained by the state.

**Land classification issues:**

AS 38.04.065(h) currently permits the commissioner of natural resources to make land classifications on the basis of site-specific plans for many purposes when no regional plan has yet been adopted. However, under that subsection, use of a site-specific plan will not support a land classification for "a new commercial agricultural project." **Bill section 3** amends AS 38.04.065(h) to eliminate the current exception against use of a site-specific plan to support a land classification for a new commercial agricultural project in that subsection.