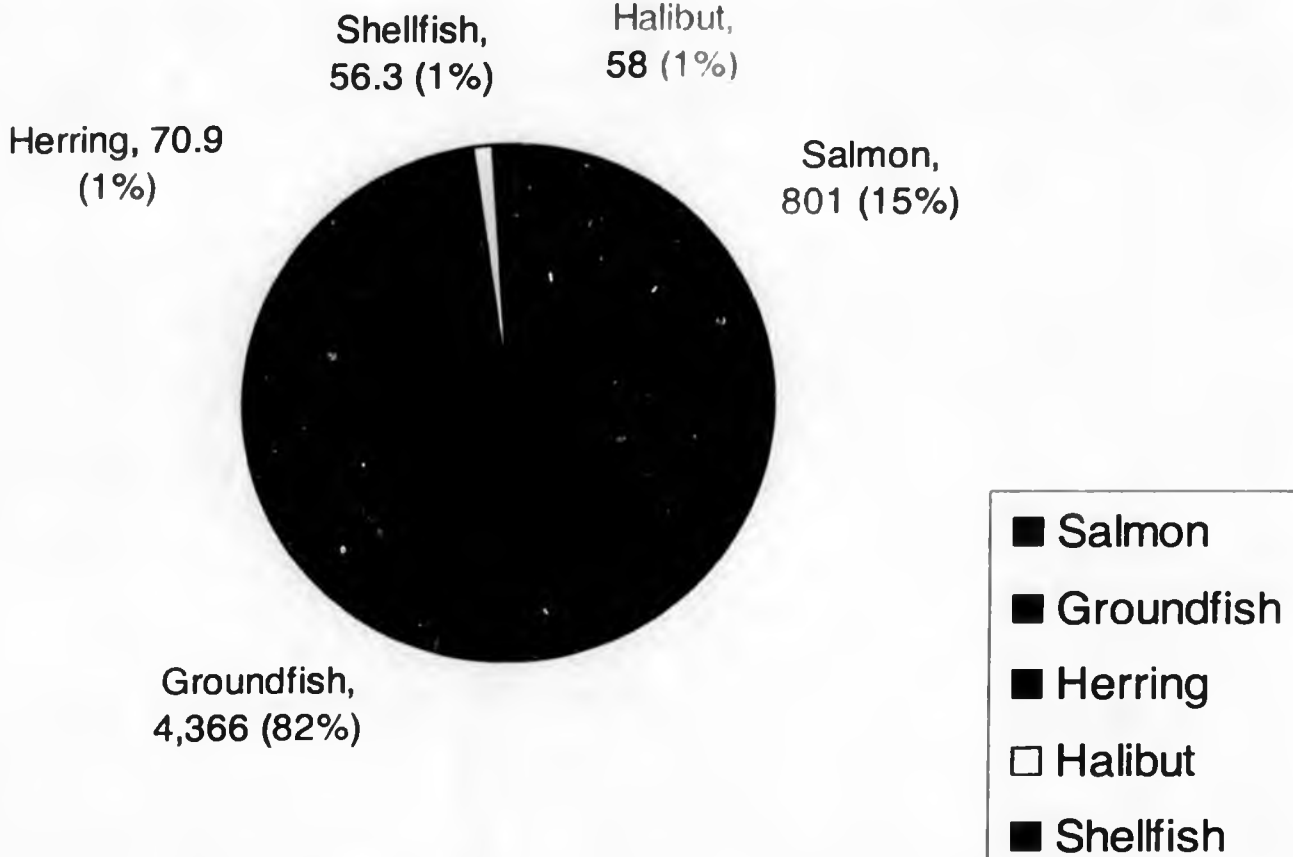




11943 SENATE RESOURCES

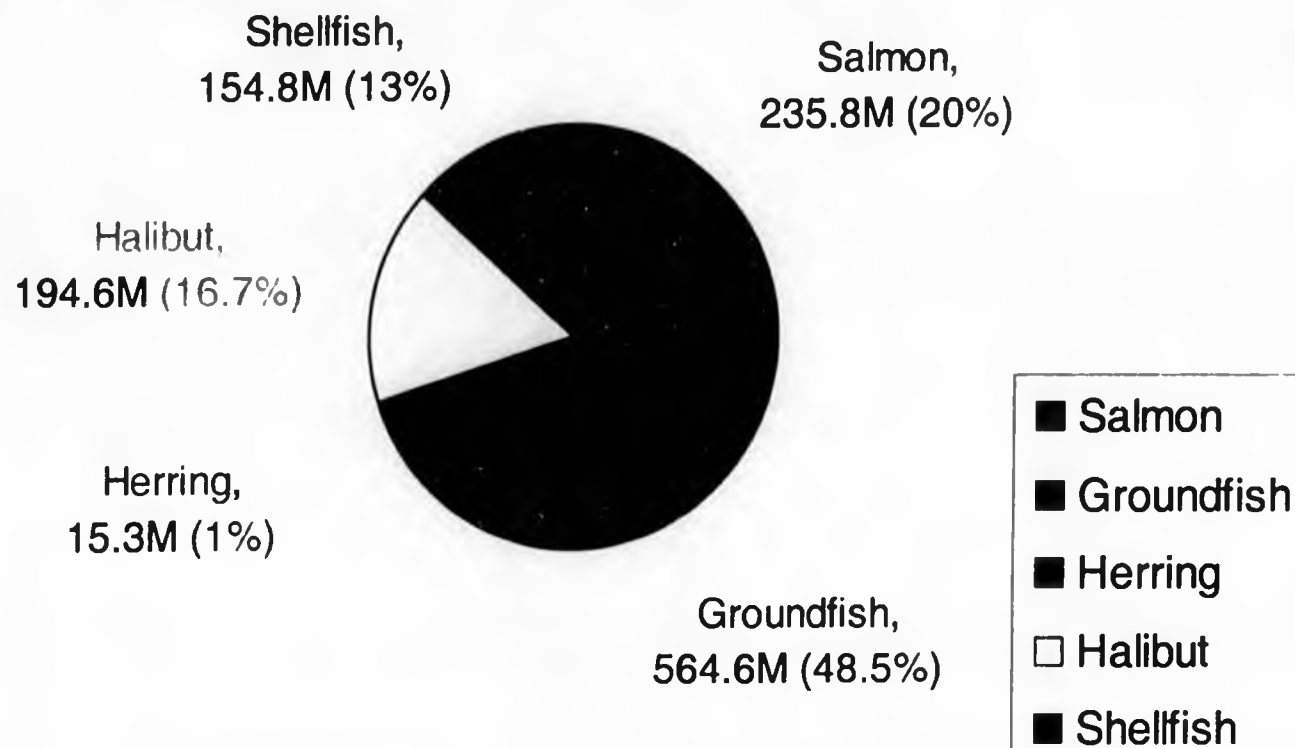
Statewide Fisheries

**2004 Alaska Commercial Fisheries Harvest
(millions of pounds & percentage of total)**



Statewide Fisheries

2004 Alaska Commercial Fisheries Exvessel Values
(M=millions of dollars & percentage of total)



**Alaska Department of Fish and Game
Division of Commercial Fisheries**

Doug Mecum, Director

Online: www.cf.adfg.state.ak.us

Information: cf_info@fishgame.state.ak.us

Alaska Department of Fish & Game
Division of Wildlife Conservation

Overview



Alaska Division of Wildlife Conservation
Office of the Director
P.O. Box 25526
Juneau, Alaska 99802-5526
907-465-4190

WILDLIFE

Division of Wildlife Conservation

The Game Division was established in 1960 as one of three original divisions of the department. The name was changed to the Division of Wildlife Conservation in 1989.

The Division of Wildlife Conservation consists of the headquarters office in Juneau, and four regional offices located in Douglas, Anchorage, Fairbanks, and Nome. There are also 23 area offices located throughout the state, giving the division a strong presence in rural Alaska. The division has about 230 employees. Of these, 6% are in leadership or managerial positions, 19% are in administrative positions, 49% are biologists, 15% are wildlife technicians, 11% are involved in biometrics or other technical fields.

Staff in regional and area offices are responsible for most of the wildlife research and management activities within their respective regions. Additionally, there are five statewide programs: Waterfowl Management, Marine Mammal Research, Information Management, Nongame, and Hunter Information and Training.

Funding for the division comes primarily from two major sources – sales of Alaska hunting and trapping licenses, and the Federal Aid in Wildlife Restoration program. This program collects a 10% federal excise tax on firearms, ammunition, and archery equipment. These tax dollars are returned to state fish and game agencies to help pay for wildlife management and research programs. Other division funds are derived from the sale of waterfowl conservation stamps and permit application fees. In 2000, the division began to receive funds from another federal source (State Wildlife Grants) for management of species that are not hunted or trapped and for wildlife education. The division also receives substantial funding from Congress for research on some marine mammals. The total authorized budget for the division in FY'05 was about \$30 million.

Major Programs

WILDLIFE MANAGEMENT AND RESEARCH

Wildlife management involves a wide variety of biological and administrative activities. Management biologists, primarily in area offices, collect information on wildlife population size, trends, productivity, and levels of mortality from hunting and natural causes. They also serve as a point of contact with the public on wildlife management issues, assess public interests and needs, sell hunting and trapping licenses, issue harvest tags and permits, make public presentations, deal with nuisance and injured wildlife, and provide information and recommendations to supervisors. Management biologists compile and analyze biological information and present it to the Board of Game so it can establish population-based, ecologically sound, and socially responsible hunting and trapping regulations.

The division supports a staff of wildlife research biologists in order to collect information related to specific ecological questions or concerns. This information enables us to more effectively and responsibly manage and conserve wildlife populations and their habitats. Research projects cover a wide range of objectives, from collecting site-specific data for management decisions to understanding complex ecological relationships. Research efforts are generally developed and applied with the goal of maintaining or improving our ability to manage Alaska's wildlife resources.

Big Game Management and Research

The division expends most of its human and financial resources on big game management and research. Since most of our revenue has been derived from the sale of Alaska hunting licenses and tags to big game hunters, this has been a necessary and appropriate emphasis. Moose, caribou, deer, and brown bears are the big game species that receive the most public use, and they have received the most management and research attention.

We conduct wildlife surveys annually. For the larger moose and caribou populations, specific population estimates are conducted roughly every three years using the latest scientific techniques. Dall sheep, mountain goats, elk, bison, and muskoxen are periodically surveyed to measure population status, trends, and productivity. Black and brown bear populations are difficult to estimate because they often live in heavily vegetated areas in the summer and den during winter. For bears, we obtain population information from intensive research projects in selected areas, and we are developing methods to extrapolate this information to larger areas. In addition, we conduct research to 1) develop techniques to better estimate wildlife populations, 2) improve our understanding of wildlife-habitat relationships, and 3) improve our understanding of predator-prey relationships.

Intensive Management

During the last two years, the division has made significant progress in implementing active management programs promulgated by the Board of Game under the intensive management statute. In the winter of 2003-2004, wolf reduction programs began in Unit 19D east (McGrath) and Unit 13 (Nelchina Basin). In late 2004, new programs in Unit 16B (west side of Cook Inlet) and Unit 19A (mid-Kuskokwim) were added, and a fifth program in Units 12/20E will begin in early 2005. For the first time, a brown bear control program was authorized by the Board of Game at its meeting in November 2004. The purpose of all of these programs is to allow important moose and caribou populations that are presently held at low densities to be able to grow and provide an increased harvestable surplus for hunters.

Small Game Management

Hunting small game, such as ptarmigan, grouse, and snowshoe hares, is a popular activity for many hunters in Alaska, including an increasing number of non-residents. Populations of most species of small game are cyclic, fluctuating between low and high levels. The division monitors general population levels through trend counts in key areas, incidental observations during surveys for other species, and by talking with hunters. We have a program to improve ruffed grouse habitat in Interior and Southcentral Alaska by manipulating aspen stands, and have successfully transplanted ruffed grouse from Interior to Southcentral Alaska.

Furbearer Management

Nineteen species of furbearers are trapped in Alaska, with trapping effort partly a function of pelt value in the fur trade. We use aerial sampling techniques to estimate population levels of wolverines, wolves, foxes, and lynx in selected areas, which we extrapolate to other areas with similar habitats. Harvest information is collected from fur export records, fur buyer records, and fur sealing reports for those species for which the law requires "sealing" by department staff or other designated persons. An annual survey is distributed to about 1,500 trappers to provide additional insight about the relative abundance and trends of Alaska's furbearers. Presently, we have a few research projects focused on furbearers, including one to develop better techniques for estimating population size and trends of wolves, coyotes, foxes, and wolverines, and another to improve our understanding of marten habitat associations and population dynamics associated with forest management.

Waterfowl Management

The division has a strong interest in the management of migratory game birds and exerts its own management jurisdiction as well as participating in the federal waterfowl regulatory process. Alaska's wetland habitats and the multitude of ducks, geese, cranes, snipe, and other birds produced here are of critical importance to the state. Migratory birds provide food, recreation, and economic benefits to Alaskans.

Our Waterfowl Program collects information on important waterfowl populations; monitors important migratory game bird issues, including habitat development proposals; and participates in the migratory game bird hunting regulation process through the Pacific Flyway Study Committee/Council and other agencies and organizations involved in setting migratory game bird hunting regulations. The Waterfowl Program makes up the state's technical staff to the Alaska Migratory Bird Co-management Council, which is the body responsible for developing spring subsistence regulation proposals under an amendment to the Migratory Bird Treaty.

Nongame Management and Research

More than 80% of Alaska's 275 regularly occurring species of birds are not hunted, as are more than half of Alaska's 90 mammal species and all eight of its amphibian species. Using new federal funds, the division has begun to collect baseline information on a handful of species about which little is known or evidence suggests declines may be occurring. The intent of this program is to prevent additional species from being listed as threatened or endangered.

Marine Mammal Management and Research

The federal government assumed management of marine mammals in Alaska in 1972 with passage of the Marine Mammal Protection Act; however, the division maintains a strong presence in marine mammal conservation because of its great importance to Alaska. The majority of funding for the division's marine mammal research efforts comes from federal sources obtained through grants. This program conducts numerous long-term, nationally and internationally recognized research projects. The results of these projects have substantially increased our knowledge of the biology and ecology of Alaska's marine mammals, which has subsequently: 1) improved the understanding of how marine mammals interact with commercial fisheries; 2) provided important information to Alaska Natives for their subsistence use of marine mammals; 3) been integrated with wildlife viewing programs that provide the public with opportunities to view and photograph marine mammals; and 4) provided a credible, objective source of information for organizations concerned about the impacts of various human activities on marine mammals.

Wildlife Habitat – Wildland Fire Management

Diverse, productive habitat is a prerequisite for healthy wildlife populations. Historically, periodic burning by wildland fires has been the main influence responsible for maintaining quality habitat for wildlife in many parts of the state. However, settlement and development by humans creates an increased need for fire protection, which ultimately reduces the land's ability to sustain diverse, productive wildlife populations, at the same time that human demand for wildlife is increasing. Since the department, for the most part, is not a land manager, the division works with other natural resource managers and agencies to implement appropriate fire ecology programs. We also work with other agencies and private organizations to implement programs designed to restore or enhance habitat conditions for wildlife, and conduct research to evaluate the efficacy of various habitat management techniques.

Hunter Information and Training

Our Hunter Information and Training program is responsible for providing education and information to hunters to increase hunter safety and knowledge, and decrease the wounding loss of game. The program is divided into two main efforts, classes and clinics. A formal system of hunter education classes qualifies successful students to hunt in areas where hunter education certification is required. This certification is valid in other states where hunter education is a prerequisite to hunt. Additionally, there are specialized hunter education courses, taught by volunteers, for archery and muzzle-loading firearms that make hunters eligible to participate in hunts restricted to these types of equipment. The second area of emphasis is a system of hunter clinics presented on a variety of subjects. Clinics increase hunter knowledge, effectiveness, and satisfaction while reducing conflicts among user groups.

The division operates three shooting ranges, the Rabbit Creek Rifle Range in Anchorage, an indoor range in Fairbanks, and a new indoor range in Juneau. These shooting ranges provide training for hunter education classes and a place for the public to enjoy shooting.

State Wildlife Refuges, Critical Habitat Areas and Sanctuaries

The Alaska Department of Fish and Game manages 31 state wildlife refuges, critical habitat areas, and wildlife sanctuaries, known as special areas, for the protection of fish and wildlife, their habitats, and public use of the areas. Although the Department of Natural Resources retains land ownership of refuges along with other state lands, as well as the ultimate land management authority, our department manages these special areas to provide high-quality habitat for fish or wildlife populations. With a few exceptions, hunting, fishing, trapping, and other recreational activities are encouraged, so long as they are in keeping with the primary reason for establishing each special area. Notable special areas overseen by the division include Walrus Island State Game Sanctuary, McNeil River State Game Sanctuary and Refuge, Anchorage Coastal State Wildlife Refuge, Creamer's Field Migratory Waterfowl Refuge, Mendenhall Wetlands State Game Refuge, Stan Price State Wildlife Sanctuary (Pack Creek).

Information Management

Our Information Management program provides centralized data processing, statistical, and computer programming support services to the division's wildlife management and research programs. It is the clearinghouse and central repository for big game and furbearer harvest information. This program administers and conducts the lottery for all Drawing Permit Hunts in Alaska, and administers the Tier II Subsistence Permit Hunt scoring and allocation system for the department. The program also supports the regulatory process by providing a liaison between the activities of the Alaska Board of Game, the division, and the public, and has the central role in supporting and communicating regulatory process activities within the division. Information Management also provides GIS-based data analyses and digital mapping capabilities for the division.

Public Service

Public service is an important part of the division's mission and function. Regional and area personnel regularly respond to questions and requests for information on a variety of topics, from wildlife hunting and trapping regulations, to hunting and viewing opportunities, to general wildlife questions and nuisance wildlife complaints. Our staff also provide hunting licenses at many offices, along with big game harvest tags and permits.

Information and Education

Educational opportunities are among the most frequently requested services we provide to the public. Education is an integral component of effective wildlife management and people appreciate and value wildlife more when they understand more about it. Educating the public about wildlife and wildlife management techniques increases their involvement in conservation, and also helps improve compliance with wildlife laws and regulations. Our current programs include outdoors skills clinics and public presentations. Programs within the school system include Project WILD, a program targeted at K-12 teachers and their students, and the Alaska Wildlife Curriculum, consisting of Alaska-based information that complements national curricula.

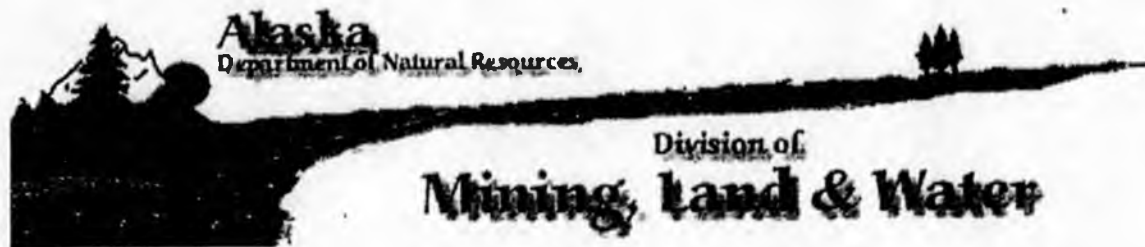
**OVERVIEW:
DEPT. OF
NATURAL
RESOURCES,
2005**

Need
UPDATE
1-12-05

State of Alaska
Department of Natural Resources
Division of Mining, Land and Water

FY 2006 Budget Overview

Tom Irwin, Commissioner
Robert M. Loeffler, Director
January 2005



Department of Natural Resources
Division of Mining, Land and Water

RESPONSIBILITIES

- **Authorize the Use and Protection of Alaska's Land — Maximum Use Consistent With The Public Interest.**
Authorizations made by the Division are fundamental to all resource industries in the state. For example:
 - *Oil and Gas*: exploration, ice roads, support facility leases, and camps
 - *Mining*: Claims, leases, access, and plans of operation
 - *Timber*: Log-transfer sites, access, and support camps
 - *Commercial Fishing*: leases and water for processors, shore-fishery leases
 - *Tourism*: lodge sites and access

- **Acquire and Defend the State's Title**
 - Acquire the state's land from the federal government
 - Defends state title (RS 2477; navigable waters; other easements; other defense)
 - Maintain Clear Title (fundamental to oil and gas sales; forestry; land sales.)

- **Land Sales — Individuals and Municipal Conveyance**
 - Land Sales to individual Alaskans
 - Municipal Conveyance

- **Water rights**
 - Provides water property rights and temporary use to citizens and industry.
 - Provide hydrologic information to applicants and state government.

REVENUE-BASED BUDGET

The Division produces revenue:

- FY 04 **Revenues: \$15.2 million**
- FY 04 **Cost: \$13.3 million** (General Fund Cost \$8.6 million)

Revenues include lease payments, mining rentals, land sales, and material sales. It does not include sources such as taxes, oil and gas royalties, or timber stumpage that the Division helps create, but that are received through other divisions. In FY 06, the Division expects to take in \$17.4 million in fees, rents royalties, principal and interest. The general fund cost is \$10.1 million, with a total cost from all sources of \$17.1 million.

Not all components provide a return to the state. The *Claims, Permits, And Leases* component and the *Land Sales and Municipal Entitlement* components generate more in revenues than they cost to operate. The remaining components provide basic services for Alaskans that do not generate revenue.

ORGANIZATION — 5 BUDGET COMPONENTS

1. Claims, Permits and Leases

This component provides authorization for use of state land. Its work is fundamental to every resource industry in the state. The work costs government less than it generates in revenue. In FY 06 this component is expected to cost \$9 million but will generate over \$10 million in revenue.

2. Land Sales and Municipal Entitlements

Selling state land should generate a profit. It does. The sale of state land more than funds the program, plus provides for the funds for the municipal entitlement program. (The cost of this component is \$4.0 million; estimate revenues for FY 05 is \$5.8 million)

3. Title Acquisition and Defense

Acquiring and defending the title to state land is a basic responsibility of the state. It does not directly generate income, though it is the basis for almost all income generated in the state. The cost is \$1.9 million; revenues are only 0.75 million most of which are interagency and federal receipts.

4. Water Development

This component provides water rights, Alaska's hydrologic survey, and a dam safety program. The cost of this program is \$1.6 million; revenues are \$0.6 million.

5. Director's Office

This component directs the operation of the Division, which was once three separate divisions with individual directors.

Division of Mining, Land and Water

Overview: Cost, Funding Source, and Revenue

(in Thousand Dollars; FY 2006 Budget)

AUTHORIZED	Director's Office	Claims, Permits & Leases	Title Acquisition & Defense	Land Sales & Municipal Entitlements	Water Development	TOTAL
Budget for each Component (by Funding Source)						
Federal Funds	\$ -	\$ 955.4	\$ -	\$ 96.8	\$ 40.9	\$ 1,093.1
GF Match	-	193.7	-	-	-	193.7
General Fund	408.0	3,199.9	1,146.5	-	990.1	5,744.5
Program Receipts	-	2,598.7	-	-	81.6	2,680.3
Other receipts, incl SDPR	20.2	2,195.1	750.0	129.6	512.4	3,607.3
IA & IA Oil/Haz	20.2	468.5	50.0	55.0	166.7	760.4
Rcpt Svcs	-	-	-	-	249.2	249.2
Pfund Rcpts	-	1,320.0	-	-	-	1,320.0
Shorefish	-	343.9	-	-	-	343.9
SDPR/CIP Rcpts	-	62.7	700.0	74.6	96.5	933.8
Land Disposal	-	-	-	3,807.4	-	3,807.4
<i>Subtotal: General Fund & Program Receipts</i>	<i>408.0</i>	<i>7,312.3</i>	<i>1,146.5</i>	<i>-</i>	<i>1,320.9</i>	<i>10,187.7</i>
Total Cost:	\$ 428.2	\$ 9,142.8	\$ 1,896.5	\$ 4,033.8	\$ 1,625.0	\$ 17,126.3
Revenue Generated by each Component						
ESTIMATED Revenues						
Fees, Rent, Royalty, Principal & Interest1:	\$ -	\$ 8,296.0	\$ -	\$ 5,600.0	\$ 326.8	\$ 14,222.8
Federal Revenue	-	955.4	-	96.8	40.9	1,093.1
Other Revenue	20.2	875.1	750.0	129.6	267.2	2,042.1
Total Revenue:	\$ 20.2	\$ 10,126.5	\$ 750.0	\$ 5,826.4	\$ 634.9	\$ 17,358.0

Division of Mining, Land and Water
Overview of Project Costs and Revenues
FY 2006 Budget

(Figures in Thousand Dollars)

Claims, Permits, & Leases	<u>FY06 Mgmt</u>	<u>FY06 Projected</u>	<u>Actual FY04</u>	Land Sales & Municipal Entitlements	<u>FY06</u>	<u>FY06</u>	<u>Actual FY04</u>
	<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>		<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>
Land Permits				Land Sales to Individual Alaskans		\$ 5,800.0	\$ 6,247.7
Upland and Tideland Permits	1,521.3	\$ 387.6	\$ 343.6	New Land Sales	2,942.0		
Trapping Cabins	See Note 1	\$ 0.5	\$ 0.3	Existing Land Sale Contracts	383.5		
Commercial Recreation Permits	See Note 1	\$ 180.1	\$ 150.1	Preference Rights	43.9	\$ 55.6	\$ 27.0
Land Leases				Special Projects	83.8	\$ 126.8	\$ 18.2
Upland and Tideland Leases	1,671.4	\$ 2,000.0	\$ 1,882.1	Municipal Entitlements	580.6	\$ 44.0	\$ 42.0
Recreation Facilities Development Lease	See Note 2	See Note 2	See Note 2	Total:	\$ 4,033.8	\$ 5,826.4	\$ 6,334.9
Aquatic Farm Lease	86.4	\$ 52.0	\$ 50.7				
Set Net Leases	289.1	\$ 349.4	\$ 307.7				
Public & Charitable Use	155.0	\$ 45.0	\$ 40.6	Title Acquisit'n & Defense	<u>FY06 Mgmt</u>	<u>FY06</u>	<u>Actual FY04</u>
Log Transfer Facilities	104.0	\$ 306.2	\$ 306.2		<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>
Mineral Sales	534.8	720.0	667.1	Acquire Land	975.0	\$ 700.0	\$ -
Easement Management				Provide Title Reports	296.4		
Assertion/General Management	460.9	\$ -	\$ 51.7	Issue Conveyance Documents	151.6		\$ -
Vacations Requests	200.9	\$ 3.0	\$ -	Title Defense/Incl Navigability	396.6	\$ 50.0	\$ 35.7
Rights-of-Way	1,145.4	\$ 362.7	\$ 277.9	Maintain Records of State Ownership	76.9		
Misc. Land Authorizations				Total Cost:	\$ 1,896.5	\$ 750.0	\$ 35.7
Plat Approval - Unorganized Borough	132.4	\$ 27.0	\$ 32.9				
Interagency Land Management Assignment	193.4	\$ -	\$ -	Water Development	<u>FY06</u>	<u>FY06</u>	<u>Actual FY04</u>
Mining Permits and Leases					<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>
Mineral Property Managmnt	467.9	\$ 4,600.0	\$ 3,731.8	Water Management (Water Rights)	828.3	\$ 355.8	\$ 219.9
General Mine Permitting	773.4	\$ 50.0	\$ 44.0	Hydologic Survey	625.4	\$ 157.1	\$ 96.1
Coal Regulatory	374.1	\$ 297.1	\$ 193.4	Dam Safety	171.3	\$ 122.0	\$ 66.8
Coal Abandoned Mine Land	569.5	\$ 569.5	\$ 452.2	Total:	\$ 1,625.0	\$ 634.9	\$ 382.6
Special Projects	147.9	\$ 196.4	\$ 124.8				
General Public Contact	315.0	\$ -	\$ -				
Total:	\$ 9,142.8	\$ 10,126.5	\$ 8,457.1				

Note 1. The cost for Trapping Cabins and Commercial Recreation Permits are included in the Upland and Tideland Permits cost.

Note 2: The cost and revenues for the Recreation Facility Development Lease Program is not broken out separately. It is included in the amount for upland and tideland leases.

DIVISION INITIATIVES

Settling Land Ownership/Defending State's Rights

Uncertainty over land title frustrates development. Finalizing land ownership so that Alaskans citizens and industry can work with the final owner is an important initiative of the Division. It includes multiple programs:

1. **BLM 2009.** BLM 2009 is an ambitious program to accomplish the land transfers promised by the federal government to Native Corporations, Native Allottees, and the state by 2009. This is our promised land — not just promised to Alaskans by the Statehood Act, but promised to Alaskan Natives by ANCSA and various Native Allotment bills. Alaska is still owed 15 million acres out of our 105-million acre entitlement. Native Corporations are owed over 8 million acres out of their 44-million acre entitlement, and Allottees are owed over 2,700 parcels. In addition, the BLM needs to survey and issue patent to over 80 million acres owed to the state and ANCSA corporations.

The Division is the primary state agency working with BLM on this effort. DMLW is responsible for setting the priorities for the state's remaining 15 million acres, directing BLM's transfer of the land, reviewing all BLM conveyance decisions and title documents, and maintaining state land title records. DMLW reviews all ANCSA transfers by BLM to ensure that state interests are protected, such as ensuring that access easements to public lands (under ANCSA Section 17(b)) are reserved and state navigable waters are recognized. DMLW plays a major role in resolving the transfer of Native Allotments, particularly where lands were erroneously transferred to the state and need to be returned to the allottee.

2. **RS 2477.** DMLW is responsible for asserting ownership of and managing state owned RS 2477 rights-of-way. DMLW staff identify and frequently assert the state's ownership of RS 2477 routes when access problems arise.

Unfortunately, the only way to get RS 2477 rights recognized by the federal government is through court. Federal law requires that the state give a 180-day notice to the federal government before filing quiet title action in court. That notice has been given on 13 routes. DNR is working with the Department of Law to actually file actions this spring on three RS 2477 routes in the vicinity of Coldfoot to Chandalar Lake. DMLW staff provide the research and documentation required to file these lawsuits.

3. Navigable Waters (Recordable Disclaimers). Alaska received title to its Navigable Waters at statehood. Until recently, confirming that title required a long and expensive litigation against the federal government. As a result, between statehood and 2003, the state only confirmed title to 13 waterbodies. BLM's new process for Recordable Disclaimers provides a much more efficient alternative.

To date, DNR has submitted 13 applications to BLM for these Disclaimers. The applications include 21 Rivers and 10 Lakes. Alaska is the only state in the nation to have received a Recordable Disclaimer. BLM has issued disclaimers in response to three applications: the Black River, the Kvichak River and Lake Illiamna (approximately 752,000 acres), and Klutina River and Lake.

By the end of FY 05, DNR expects to have submitted 25-30 applications.

4. Municipal Entitlements. DNR transfers state land to municipalities to provide for an economic base. Municipalities have the right to select some of the State's best land for development. In 2001, DNR had a 600,000-acre backlog, and was conveying entitlements at only 12,500 acres/yr — a 50-year backlog! Since that time the Division has embarked significantly accelerated conveyance. In FY 06, we hope to convey 120,000 acres, and to clear the backlog within a decade.

5. 260,000-acre University Land Conveyance. The Governor is expected to announce legislation to implement the intent of the 260,000-acre University Land Conveyance passed as Senate Bill 7 in 2001. This legislation would efficiently convey the specific acreage to the University, to resolve the conveyance in a quick and cost-effective manner. It would finalize conveyance within three years rather than the decades long, expensive process anticipated for SB 7.

Tundra Travel: Extending the Winter North Slope Oil Exploration Season

Over the last three decades, the winter oil exploration on the North Slope has decreased by half. Extending the winter exploration season in an environmentally responsible manner is an important challenge for the Division, the oil industry, and for Alaska.

The Division is responsible for authorizing oil exploration outside of the oil leases. The winter exploration season is open for general travel when the ground is sufficient hard to protect the tundra. IN the 1970s, this policy provided for an exploration season 208-days long. In 2002, the season was only 103 days long. The exploration is now too short, and a serious impediment to oil exploration.

In 2003, the Division began a scientific peer-reviewed study designed to extend the winter exploration season in an environmentally responsible manner. On December 3rd, the Governor announced the results. The study shows that revised criteria for opening the tundra would allow a three- to six-week increase in the season. While, the new criteria will be implemented this year, monitoring in FY 06 will be required to confirm the results of the study, and to adapt DNR's policy to the results of monitoring and to industry's changing technology.

Mining Exploration and Development

Evaluating and permitting Alaska's expanding hard-rock mining industry is an opportunity for Alaskan and a challenge for the Division.

Gold prices have increased from a low of less than \$250 per ounce in 2001 to over \$425 per ounce today. The prices have revitalized the placer industry, and expanded exploration and permitting of the state's large mines. Never in Alaska's history has the state had the opportunity to evaluate, permit or revise so many major mines:

- Fort Knox: Evaluating the Gil Extension
- Kensington Gold Mine: Final EIS and permitting now underway
- Donlin Creek Gold Mine: Continued Exploration or Initiating of Mine Permitting
- Pebble Copper Project: Continued Exploration and Background Data Collection.
- Red Dog Mine: Revision of the Reclamation Plan and Bonding
- Coal: Possible Expansion of the industry at Healy or Cook Inlet.
- Illinois Creek Gold Mine: Final Reclamation Close-out

Land Disposal

DNR is implementing Alaska's largest land sale program in 20 years. It is the largest since the early 1980s, (when the budget for the program was approximately \$20 million in today's dollars). Today, DNR has over 20,000 acres for sale at any DNR office or over the internet.

Remote Recreation Cabin Program. DNR offers the opportunity for Alaskans to stake their own land. Each year, DNR offers the opportunity to stake 250 lots under this program.

Subdivision/Pre-surveyed Lots. In FY 05, DNR offered 100 pre-surveyed lots. This amount will increase to 200 lots in FY 06 and 300 lots in FY 07 and future years.

The land sale program makes money for the state. While it costs money to put land up for sale, the program more than returns its cost. Land sale revenue has increased from approximately \$2 million in FY 01 to \$5.3 million in FY 04.

Permits and Leases

The Division is continuously looking for means to improve its service to Alaskans who seek permits, leases, and other authorizations to use state land. The Division is working on new computer techniques to make its adjudicators more efficient, and continuously revises policies and regulations to improve service. There is no individual new policy or technique that is expected to rise to the level of legislative interest, the Division's responsibility to efficiently provide authorizations to Alaskans, and to do so in an environmentally responsible manner that protects the state's interest is a major function of the Division.

The FY 05 and FY 06 budgets include funding for a Revenue Backlog Project. This project will assign three staff to work on that part of the Division's backlog that actually produces revenue to the state. The Division expects that over these two fiscal years, the revenue brought into the Division will more than cover the cost.

OVERVIEW OF PROPOSED INCREMENTS

Service to the Mining Industry

- \$349,900 General Fund
- \$ 62,700 General Fund Match
- \$ 80,000 Inter-Agency Receipts

Metal Prices Mean More Claim Staking and More Mining. The resurgence in metal prices combined with an improved business climate and regulatory improvements has led to a significant rise in mineral claim staking, mineral exploration, and mining activities. In FY 04, the Division processed over 4,000 claims on state land. This is the largest number since 1999. Most of these claims staked were the large ¼-section MTRSC claims. Thus, more acreage is being staked than in any year in the past. Through FY 05, we expect to have almost 2.5 million acres of state land under mining claim. This is more acreage than in any time in recent history.

Staffing still at 1990s Levels. Mining staff has been relatively unchanged since the early 1990s, when Alaska had a much smaller industry and far fewer state mining claims than exists today. At that time, the state had an active placer industry but the Division was involved with no large mines. Today, we have a healthy placer industry and the same staff must provide service to an expanding suite of large mines: Red Dog, Greens Creek, Fort Knox, True North, and Pogo. Within the next few years we hope to see Donlin Creek, Gill and perhaps the Pebble Copper mine in permitting.

An Increment To Maintain Appropriate Service For The Mining Industry. The Division does not have staff to adequately support the current level of mining activity. Without adequate staff, permitting of large mine projects will suffer, permitting times for exploration and placer mining applications will lengthen, and staff will be unable to adequately assure compliance with permit conditions in the field. Finally, without this increment, times to process mining claims will increase.

The six positions proposed in this increment are expected to be appropriate to support permitting and compliance with large mine operations; to ensure that field staff adequately visit each placer mining district; and to decrease mining claim processing times back to the 2-3 weeks that were achieved a few years ago.

This increment does not specifically return more income than it costs. That is, the addition of additional staff for permitting and field compliance does not automatically bring in more money. However, the mining industry much more than pays the state its government management cost, and this increment is necessary to provide an appropriate level of service to Alaskan citizens and the industry.

Land Disposal Land Surveyors

- **\$195,800 Land Disposal Income Fund**

The Division is requesting two additional land surveyors to meet the land sale performance goals funded in a previous increment. In FY 04, the legislature funded an increment to increase land offerings in one of the Division's land sale programs: specifically to increase offerings from 100 pre-surveyed parcels, which has been the historical performance measure, to 200 lots in FY 06, and then 300 in FY 07 and subsequent years. Unfortunately, the Division underestimated the survey burden on that this created on Division Surveyors. Currently, despite the fact that most survey work is performed by private contractors, managing the survey and road-building contracts has created a bottleneck in the subdivision development process. The addition of two surveyors will clear the bottleneck.

Even with this increment, offering and sale of these lots will more than pay the cost of developing them. This is a revenue-producing increment because it will result in a long-term income stream from land sales.

Water Management — Change in Fund Source

- **Decrement: \$300,000 Receipt-supported Services**
- **Increment: \$300,000 General Fund**

Last year, the legislature made a technical change in the Water Management budget that did not work out. Specifically, last year the legislature transferred \$300,000 from general funds to receipt supported services in the Water Management Component. This change required the Division to raise fees to generate this additional \$300,000 in revenue. Unfortunately, state law prevents DNR from collecting this additional revenue.

The 2001 Legislature had a long discussion with DNR about how much should be charged for its water program. The legislature recognized the problem created by inadequate staff in the water program. The discussion focused on how much of the water program should rely on general funds, and how much through fees. The legislature's solution was CSHB 185(FIN) enacted in law as Chapter 100 SLA 01. That law directed DNR to raise fees to support the staff needed for the water rights program. However, to protect the public, the law included an upper limit on what DNR may charge for water rights applications. That statutory limit is, "the estimated average reasonable direct cost incurred...in providing the...service" (AS 37.10.052(a)). The Division is currently in the process of developing regulations to raise fees to the limit of the average reasonable direct cost. However, the statute does not allow DNR to raise fees to pay the full cost of processing water rights for residential users, for processing the backlog of water rights permits, to cover unusually complex or contentious applications or to cover any overhead costs. The increased revenue from the revised fees are expected to fall approximately \$113,000 short of the receipt-supported services expected *before* the \$300,000 fund switch. That switch is, therefore, effectively a budget reduction of \$300,000 because DNR cannot, under state law, increase fees to cover this cost. Such a reduction would eliminate the Division's ability to process all applications received in a

year. It would eliminate the Division's ability to meet the performance measure of achieving processing a typical water right application within 60 days, and a typical temporary water use application within 30 days. Therefore, DNR is requesting to have this funding switched back to the General Fund.

**OVERVIEW:
DEPT. OF
NATURAL
RESOURCES,
2006**

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**Alaska Department of Natural Resources
Joint House and Senate Resources Overview**



STATE OF ALASKA

Frank H. Murkowski, Governor

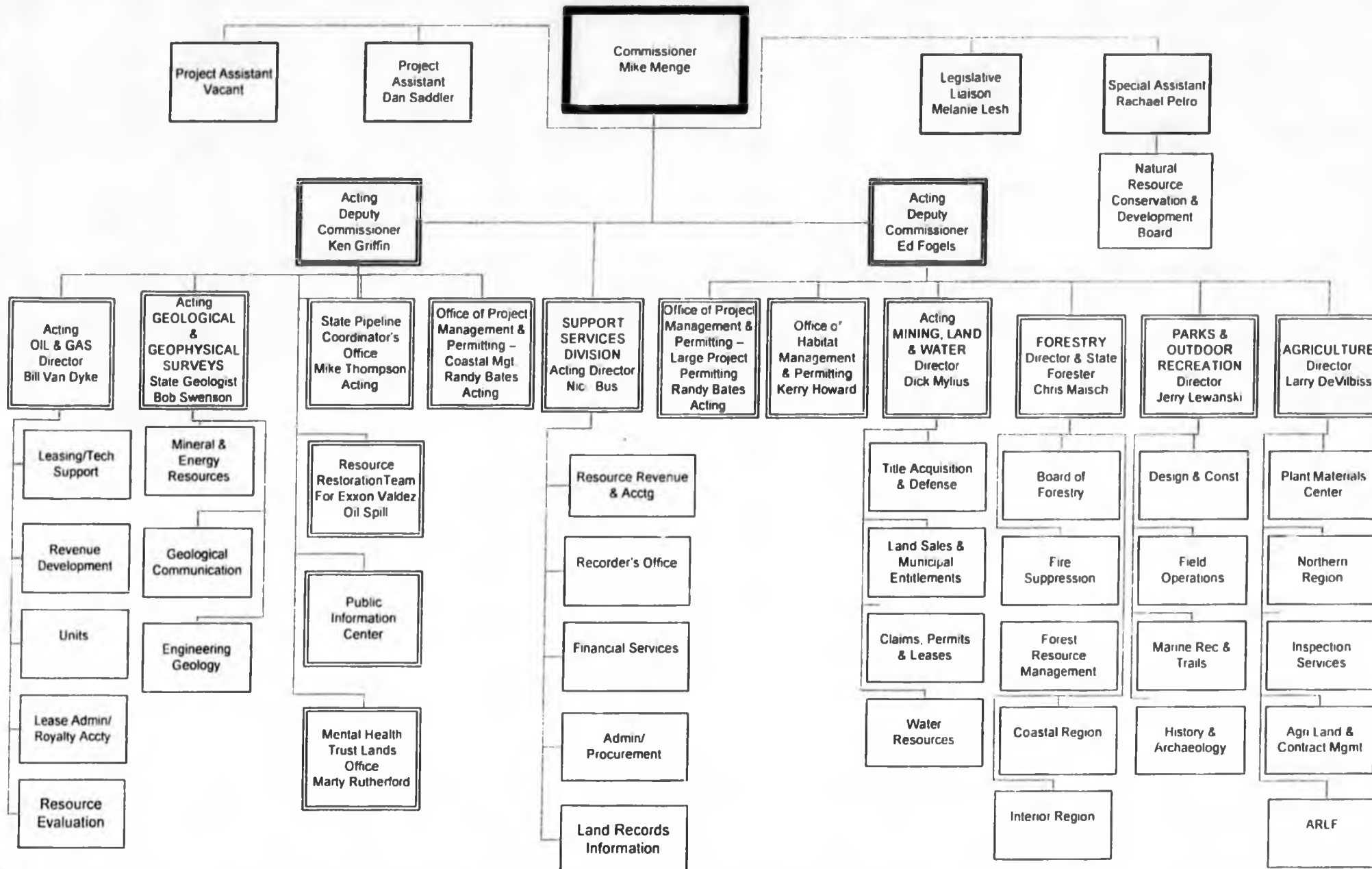
DEPARTMENT OF NATURAL RESOURCES

Michael L. Menge, Commissioner

January 18, 2006

Copies of this document are available from DNR Commissioner's Office, Attn: Nico Bus 465-2406

Department of Natural Resources As of January 9, 2006



**OVERVIEW OF THE DEPARTMENT OF NATURAL RESOURCES
PRESENTED TO THE
JOINT RESOURCE-COMMITTEES
WEDNESDAY, JANUARY 18, 2006**

INTRODUCTION

Chairman Wagoner and Co-Chairs Ramras and Samuels, and members of the House and Senate Resources Committees.

For the record, my name is Mike Menge. I am the Commissioner-Designee of the Department of Natural Resources. With me today are:

- Ed Fogels and Ken Griffin, my Deputy Commissioners
- Melanie Lesh, Special Assistant and Legislative Liaison
- Rachael Petro, Special Assistant
- William Van Dyke, Director Division of Oil & Gas
- Kerry Howard, Director of the Office of Habitat Management and Permitting
- Chris Maisch, Director of the Division of Forestry
- Jerry Lewanski, Director of the Division of Parks
- Dick Mylius, Director Division of Mining Land & Water
- Nico Bus, Director of Support Services
- Randy Bates, Director of the Office of Project Management & Permitting

Other staff are listening in from Anchorage & Fairbanks by teleconference.

Thank you for the opportunity to talk with you about the Department of Natural Resources. I am excited by the prospect of working with you this legislative

session. We have many opportunities as well as challenges before us. There is much we can accomplish. Our common goal of ensuring that the best interests of Alaskans are protected will serve us all well when dealing with the tough issues ahead of us.

The information presented in this Overview will give you an understanding of the breadth of resource issues and size of management responsibilities that the department deals with on a day-to-day basis. However, I will only be able to touch on the big issues with the short time we have today. If you need more information, our Division Directors are available for individual presentations. We would be happy to schedule those with you.

MISSION

The department's mission is to *develop, conserve, and maximize the use of Alaska's natural resources consistent with the public interest.*

Missions and Measures

We believe that DNR should be treated as a business – DNR is the business arm of the state. We understand that we are accountable to the legislature and citizens of Alaska and have established missions and measures that we follow. The only way that we can know whether we are succeeding is to see the results. Thus, we keep track of these missions and measures and update the information quarterly on the Governor's website (<http://www.gov.state.ak.us/omb/results/index.php>).

End Results

Achieving results for Alaskans is what resource development is all about and we seek to achieve the following:

1. Encourage resource development that creates Alaskan jobs and ensures economic growth in all regions of the State.
2. Ensure resource development planning, management and new project approvals are based on sound science, prudent management, and responsive and meaningful public involvement.
3. Ensure resource sustainability and multiple use, including recreational enjoyment of the resource base.
4. Streamline natural resource leasing, sales, and permitting processes.

DNR recognizes that businesses come to Alaska based on business plans that meet their rate of return expectations, provide for the best cash flow, and offer the greatest security. Alaska competes in the world market for business – especially natural resource business. And, as you know, resource development is Alaska's economic engine!

The Administration understands that it has a major role in creating a positive business environment for the economic engine. Support can come in a variety of ways, such as providing certainty and reliability in processes and timing, or by eliminating duplication of procedures and unnecessary standards and regulations. Too often, such procedures increase a project's costs, but do not contribute to meaningful environmental protection. Support for business also means coming to the table to help solve issues so that good projects can move forward.

As the Governor mentioned in his State of the State address, the key to Alaska's future is the responsible development of our resource wealth. You'll recall he listed the State's Oil & Gas reserves; The Tongass National Forests, our state's largest; the tremendous mineral wealth of our vast deposits of gold, silver, copper, coal,

and molybdenum, and our large and spectacular land base. DNR plays a role in supporting the industries involved in all of these resources.

The State's most important new project is the Alaska gas pipeline. I have been personally and deeply involved with this project. I am confident we will deliver on the promise of a future secured by the gas pipeline. The negotiations have resumed and they will continue here in Juneau until completed. This project will be explained in great detail once we reach agreement so I won't spend much time on this now.

As part of these negotiations, the Governor has stood fast on what is called "Our Covenant for Alaska" linking the gas contract with long overdue reforms to the oil tax system. You can expect to see a gas pipeline contract that protects the public interest, returns maximum revenues to the state, and provides good job opportunities for Alaskans.

As the Governor stated the oil and gas pipelines will anchor our future. And along with the oil and gas that will be produced from existing fields, there are huge undiscovered resources of oil and gas to be developed on Alaska's rich North Slope, particularly on the coastal plain of the Arctic National Wildlife Refuge, NPRA, and in the Foothills of the Brooks Range.

INITIATIVES

Significant progress is being achieved on promoting a positive business environment in Alaska. I will provide a quick update on some of the initiatives.

The **Alaska Coastal Management Program** was moved to DNR to streamline the process and make it more objective and accountable. The Alaska Coastal Zone Management Program changes were submitted on time and were approved by NOAA on December 29, 2005.

The functions of the **Habitat Division** were also moved to DNR's Office of Habitat Management and Permitting to facilitate permitting. Since that move, 99% of all Title 41 applications were approved, either as-is or with appropriate conditions to protect habitat, and the average permit issuance time is just 15 days, state-wide. OHMP also continues to work closely with ADF&G on large projects, and it is important to note that none of OHMP's decisions on these major projects have been elevated between our two agencies.

The State's **Large Mine Permitting team**, headed by DNK, has been a major success story. DNR not only manages and coordinates the activities of this inter-agency team, but participates as a technical reviewer of mine projects. The effectiveness of this team approach can be seen clearly in the fact that Alaska has been one of the few states that has successfully permitted new mines in recent years. DNR's large mine permitting roles have been enhanced and extended to all large project permitting, including Oil and Gas. Does it work? One new company progressed from lease issuance to permits in hand for a North Slope offshore well in three months and a well drilled in less than a year – a significant accomplishment, thanks to a unified effort by several divisions.

Through legislation you passed in 2003 DNR was designated as Lead Agency on Permitting for resource development. This has provided for enhanced interagency

cooperation, improved consolidation of responsibilities, and cleared an additional path for efficiently advancing resource development.

RESOURCE ISSUES AND PROJECTS

Significant work is being done across the department. I'll take the remaining portion of my time to highlight some of the activities.

Oil and Gas

We appreciate the legislative support for the added staff in our Oil & Gas Division. This allowed us to build up our staff and meet the workload demands in the expansion of oil & gas units, which is shifting from management of a few large fields, to management of many smaller fields. Each field requires a significant staffing commitment from the state to optimize its revenue potential and meet its lease requirements. Our oil & gas leasing and exploration licensing activities have grown and need to be adequately staffed. We need the staff to maximize the State's return on investment when developing our oil & gas resources.

DNR's Division of Oil and Gas, along with its Division of Geological and Geophysical Surveys conducted field work to further evaluate the potential for oil and gas on the Alaska Peninsula and to make the information available to the public. Results to date are very encouraging. We are starting to see significant industry interest. The Alaska Peninsula lease sale started from discussions with Alaska Peninsula residents and the Governor early in 2003. At the October 2005 oil and gas lease sale, the state sold 37 Tracts and collected \$1.2 million in bonus

bids. The area is remote and lacks modern subsurface seismic surveys. It will take a little time to build significant industry interest.

The participation by two majors, 14 independents, and eight individuals in our last five lease sales and the potential addition of Pioneer Natural Resources Alaska and Kerr-McGee -- both in partnership with Eni ("eh-nee") as new operators and producers on the North Slope -- are clear indications that the state's efforts to encourage oil and gas companies to enter the Alaska market are bringing results. Companies are voting with their pocket books and saying Alaska is a good place to invest.

Tundra Travel

One of the serious problems facing oil and gas exploration on the North Slope is that the winter season for cross-tundra travel is becoming shorter. In fact, it had been effectively cut in half since the early 1970s. This change has increased exploration costs. To help solve this problem, DNR's Division of Mining, Land and Water with the appreciated support of several companies, worked with the US Department of Energy and scientists at Yale University to conduct scientifically valid research to extend the season without compromising the environment.

As a result of their work, in the last two seasons DNR was able to open the coastal plain to travel earlier than previous years.

Mining

Alaska mining industry now has Red Dog, Greens Creek, Usibelli, Ft. Knox, and True North -- a tremendous foundation to build on. Pogo is nearing completion of construction and production of the first bar of gold is very close. A Grand

Opening is planned for June 5th! Kensington is still in the early stages of development. Other major mine development projects on the horizon, include Donlin Creek, Rock Creek, Chuitna Coal, Pebble Gold and Copper, and Nixon Fork.

The total value of mineral development added \$1.6 billion to the Alaskan economy. Staking and exploration activity is at an all-time high and metal prices for base and precious metals are at historic highs.

Timber Management

The Administration has focused significant efforts towards saving the Southeast Alaska timber industry. The Division of Forestry has worked hard to provide state owned timber as a "bridge" to mills and processors until federal timber sales are again made available in significant volumes. Support of the value-added timber industry is essential to maximizing employment and providing economic stimulus in the region during this transition period. Work is continuing on revitalizing the Alaska Timber Industry. We are preparing a Memorandum of Understanding with the Forest Service calculated to have state and federal foresters working together to make more economically viable timber available.

In the Interior, the "New Growth Prospectus for the Forest Products Industry" is attracting potential investors. This public and private partnership is promoting the forest resources of the region, with emphasis on the hardwoods, paper birch and aspen. Plans for an updated forest inventory will enhance this effort and additional marketing efforts will continue.

In addition, OHMP has issued a General Permit that pre-approves most culvert installations in resident fish streams associated with timber operations. The use of this General Permit is voluntary, but it is another tool that the industry can use.

Land Sales

Private land rights are important to resource development. Getting State lands into private Alaskan ownership is one of DNR's priorities. Each sale must comply with land use plans, public notice requirements, competitive bids, platting board requirements, surveys, title searches, and best-interest findings that take into account competing resource potential, access, wildlife, and other concerns. FY05 Revenues for Land Sales was over \$6.0 million. Through an increased subdivision program and the remote recreation cabin program, DNR offered more new land for sale to the public than at any time during the past 20 years.

Municipal Entitlements

FY06 is shaping up to be a record year for DNR transfers of land to municipalities. DNR recently approved transfer of 215,000 acres to the Northwest Arctic Borough, the largest acreage ever transferred by DNR at one time. DNR transfers land to municipalities to provide an economic base and land for community needs. This is often the land that is most suitable and has the best access for private ownership. The total grant to date is over 1.3 million acres. DNR has transferred management authority to over 800,000 acres, leaving a little over one-half million acres to process and approve. In FY05 we completed the Aleutian East Borough Entitlement and in FY06 we hope to complete the entitlements for the Lake and Peninsula and the Matanuska-Susitna boroughs.

BLM 2009 and Other Land Transfers

The federal Bureau of Land Management is accelerating land transfers to Alaska Native Allottees, the Alaska Native Corporations, and the State. As part of this process, in September DNR submitted revised priorities to BLM for 14 million acres still to be transferred to the state under Statehood Act land entitlements. DNR is also working to transfer title to the 250,000 acres that the Legislature granted to the University last session.

Recordable Disclaimers for Beds of Navigable Waters

The State filed Recordable Disclaimers with BLM for 26 rivers and 15 lakes since FY04. As of October 2005, BLM issued disclaimers for 15 rivers and 11 lakes. These disclaimers do not transfer any land to the State of Alaska that we don't already own. This is simply an administrative process that allows BLM to formally disclaim any title interest in the beds of these state-owned navigable waters and clears the cloud on the state's title.

RS 2477s

We tried the recordable disclaimer process with RS 2477s but were not successful. The Attorney General's office filed for two routes in Coldfoot and Chandalar Lake areas, with the intent to obtain quiet title action in court to protect Alaska land rights.

Parks

About 4 million visitors come to our Parks every year. Alaskans love our parks – about 80 percent of our visitors are Alaskans. We know the value and benefit of our parks and our goal is to keep them open. The Governor hopes to expand the market for independent travelers and our State Parks play a key role in this. Hence

you will see an expanded emphasis on repairing long-overdue deferred maintenance in the Governor's budget for our Parks Units. In the Operating Budget we will discuss with you our experience of pushing the collection of more receipts in our parks and the dependency that created in our operating budget and what happens if we do not meet our targets.

The Department of Natural Resources and its Division of Parks and Outdoor Recreation have begun the process of developing a strategic plan, (the last one was written in 1971) that will, among other issues, address goals of financial stability and operations that reflect *common sense community* values.

Agriculture

Promotion of Alaska Grown agricultural products were at an all-time high this year with introductions to new markets such as military commissaries throughout the state.

The Agriculture Revolving Loan Fund (ARLF) continues to serve the industry well and sale of repossessed assets continue to strengthen the fund for future agriculture business investments. The ARLF owns and manages several agricultural businesses and is working to return those businesses to the private sector. The ARLF board is currently working on selling Mt. McKinley Meat and Sausage. The board and the Division are working with industry and the Legislature to ensure the transition from state operations back to private enterprise goes smoothly.

The Division of Agriculture is helping expand Alaska's 100 million dollar timber industry by forging new export certification protocols which will make it easier and cheaper to export timber to markets like China.

Fire Management

The calendar year 2005 was a much better year for Alaska than 2004, when we saw 6.4 million of the state burn. But 2005 was still the third-largest fire season on record with 4.6 million acres burning. Again, there were no lives lost or serious injuries and structure losses were kept to a minimum.

Land sales and development are facilitating an increase in urban interface, where more homes, cabins, subdivisions, and businesses are locating further into the remote areas of Alaska. Drier climates, earlier and later fire seasons, significant increases in lightning strikes, limited-modified-full protection issues, and costs require continual review of the approach to fires. Our response can range from the one extreme of putting all fires out, with resulting increases in fuel sources, to the other extreme of letting all fires burn themselves out. The Administration is reviewing all fire policies again this year. Also Alaskans should learn all they can about the Fire Wise program, which teaches landowners how to give their homes the best chance to survive during a wildland fire.

CONCLUSION

In closing, I recognize that we have many opportunities and challenges ahead of us. We in DNR look forward to working with you in the Legislature so that – together-- we can meet the many challenges and opportunities ahead of us, and create the resource wealth necessary to provide for the State's needs in the years to come.

Thank you.

PROFIT SHARING PRODUCTION TAX

Presentation to the Senate and
House Resources Committee

January 18, 2006

FISCAL SYSTEM OF ALASKA

The fiscal system applicable to oil and gas of Alaska consists primarily of four components:

- Royalties
- Production tax (severance tax, "ELF")
- Property tax
- State corporate income tax

Additionally, there is federal corporate income tax.

This presentation is about proposed changes in the production tax.

CURRENT PRODUCTION TAX

The current production tax for oil is 12.25% net of royalty for the first five years of production and 15% thereafter. These percentages are multiplied by the Economic Limit Factor (between 0 and 1). The ELF lowers the production tax rate for smaller fields and fields with low productivity wells.

CURRENT PRODUCTION TAX

$$ELF = \left[1 - \frac{(300 \times \text{wells})}{\text{volume}} \right]^{\left[\left(\frac{150,000}{\text{volume}} \right)^{1.53333} \right]}$$

"wells" is the number of producing wells in the field; "volume" is the total daily production for the field

Well Prod	Wells	Volume	ELF
bopd		bopd	
300	2000	600000	0.00
300	500	150000	0.00
1500	100	150000	0.80
1500	20	30000	0.07
6000	5	30000	0.55

An ELF of 0.00 means that the production tax is zero. However, royalties, property tax and corporate income tax remain payable.

CURRENT PRODUCTION TAX

The current version of the production tax ("ELF") was introduced in 1989. The formula reflects economic conditions in 1989 when oil prices were in the \$ 14 - \$ 17 per barrel range and the values of 300 bopd for well productivity and 150,000 bopd for field productivity represented reasonable economic benchmarks.

Also the formula did not contemplate the subsequent development of a variety of satellite fields.

While the production tax stimulated the development of a variety of marginal fields, the benchmarks are now outdated.

Therefore, an overhaul of the production tax is in the interest of the State.

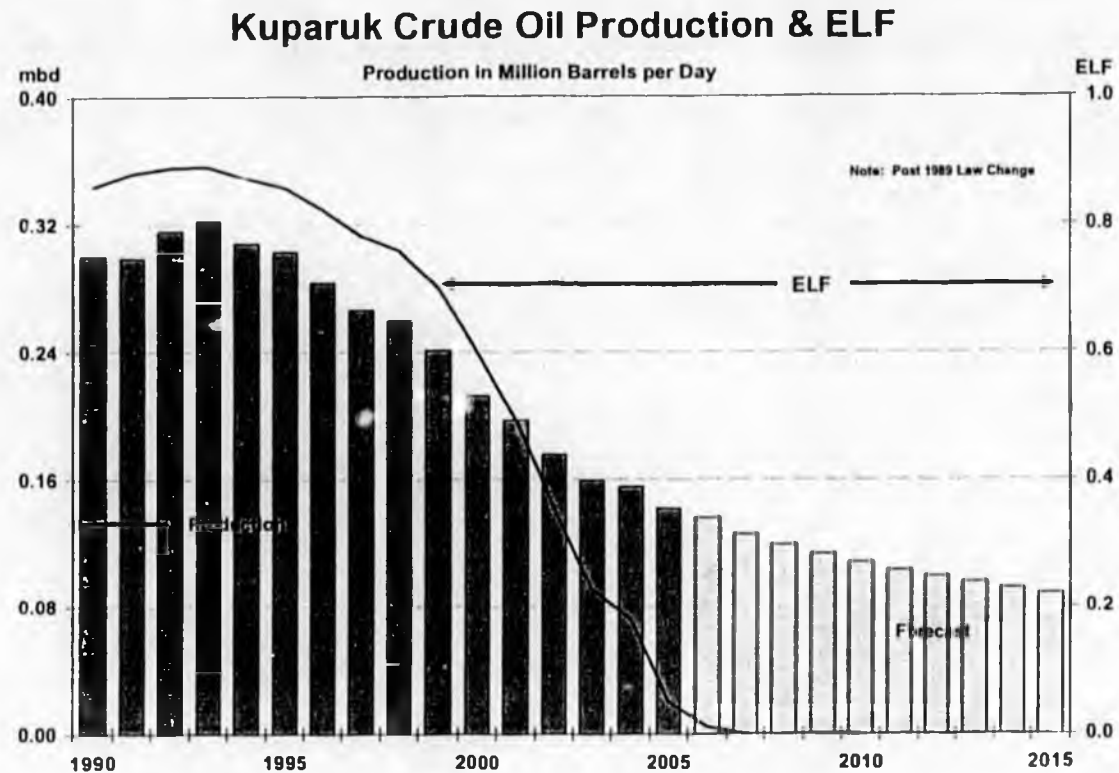
CURRENT PRODUCTION TAX

The production tax has serious deficiencies:

- ELF is no longer rational in relation to well productivity and field production.
- ELF is not responding reasonably in case of field production decline
- ELF does not provide a reasonable balance under a range of oil prices
- ELF does not provide a sufficient incentive for re-investment

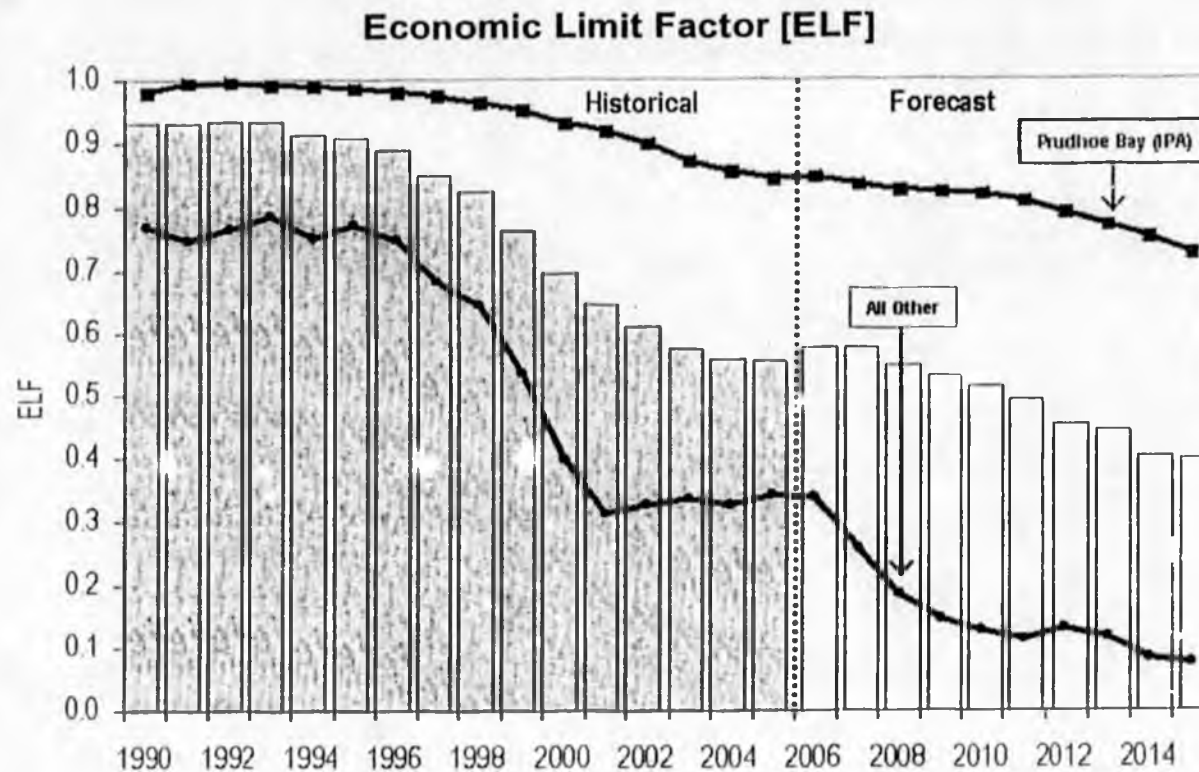
CURRENT PRODUCTION TAX

ELF is declining faster than production in some fields.



CURRENT PRODUCTION TAX

ELF is declining faster than production in some fields.



PROFIT SHARE CONCEPT

The Governor proposes a profit sharing production tax ("PPT") which is a complete replacement of the current ELF based version of the production tax on oil and gas.

The PPT will be a law of general application.

PPT

The PPT is calculated as a tax rate multiplied by the corporate cash flow from production in Alaska from oil and gas, with tax credits to encourage investments.

It is a consolidated tax at the corporate level.

PPT

The cash flow is calculated as:

Gross production revenues (net of royalties) based on wellhead prices, less the producer's lease expenditures:

- oil and gas capital expenditures (excluding the main pipeline)
- oil and gas operating expenditures
- property taxes

PPT

There will be tax credits to encourage investment based on a percentage of the amount of the investment

Losses in any year can be converted to tax credits by multiplying the amount of the loss with the tax rate.

Tax credits can be transferred and traded

Explorers and independents will be able to monetize part of their investments immediately, thereby strongly encouraging exploration.

PPT

Another important purpose of the tax credits is to create a progressive tax.

Progressive taxes can be created in different ways: tax credits, uplifts, IRR payout systems, sliding scales, etc.

Tax credits were selected as the mechanism for the PPT because this is most advantageous to explorers and new entrants.

PPT

There will be features to provide a favorable tax structure for explorers and independents and encourage exploration and new entrants.

PPT

The proposed PPT:

- Is based on actual economics and generates tax when there are reasonable profits
- Provides a reasonable balance between the State and producers over a wide range of oil prices
- Strongly encourages investment and re-investment in the State.
- Protects and encourages explorers and independents

PPT Rate

The PPT tax rate and the tax credit rates will be proposed in the near future.

General principle is that the overall revenues to the State must be significantly higher at today's prices.

At low prices, the state revenues will be less than the current system, which provides a fair adjustment relative to market conditions.

For average prices, companies making low levels of investment will pay significantly more than the current system, while strong investors will pay an amount that could be less, depending on level of investment.

International Experience

The PPT is a profit based system. There are two ways in which profit based systems are implemented around the world:

- Based on taxation systems paid in cash (similar to the PPT):

These are in use in more than 25 jurisdictions

- Based on production sharing systems

These are in use in more than 50 countries.

The large oil companies, including those operating in Alaska, work in many of these countries.

International Experience

Examples of taxation based systems similar to the PPT proposal:

Algeria, Australia, Bolivia, Brazil, Canada (Alberta, Newfoundland, NWT), Denmark, Namibia, Norway, PNG, Saudi Arabia, Senegal, Thailand, Trinidad&Tobago, Tunisia, United Kingdom and Venezuela.

International Experience

Examples of production sharing systems:

Angola, Azerbaijan, China, Egypt, India, Indonesia, Kazakhstan, Libya, Malaysia, Nigeria, Qatar, Russia, Vietnam and Yemen.

PPT and Resource Development

The enhanced incentives to invest in exploration and development through the PPT as well as the gas line investment will create a new environment whereby Alaska will be considered by many petroleum companies a new core area for petroleum investment and increased oil and gas production.

Conclusion

The current ELF based production tax is completely outdated, is a regressive tax and is no longer in the interest of Alaska.

Therefore the Governor proposes that Alaska adopts a profits based system that will provide on average for a higher government take for Alaska. It is a progressive tax with a strong incentives for investment and exploration. It will attract new entrants to Alaska.

**OVERVIEW:
DIVISION
OF
OIL & GAS
1/31/05**

Alaska Oil and Gas Activities

Presented to
The Senate Resources Committee
January 31, 2005

Mark D. Myers, Director
State of Alaska
Department of Natural Resources
Division of Oil and Gas



Alaska Department of
**Natural
Resources**

<http://www.dog.dnr.state.ak.us/oil>

Briefing Agenda

- **Introduction**

- Revenue and Production Levels
- Exploration and Development Activities

- **Major Issues**

- Gasline Update
- Promoting New Investments
- Commercial Issues
- Coalbed Methane
- Questions/Discussion

The State Revenue Pie

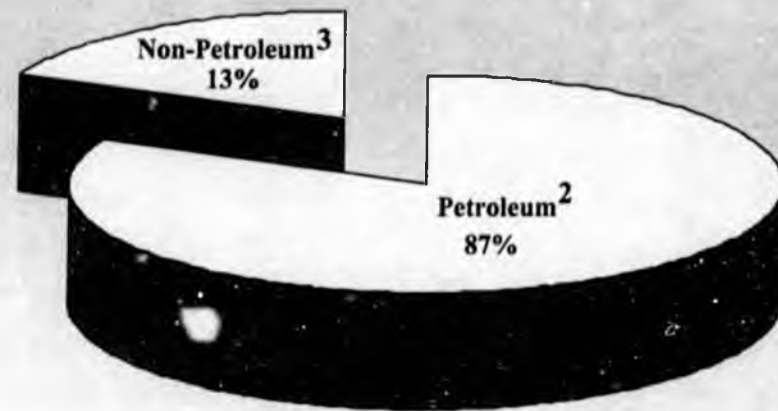
Petroleum Revenue Sources, (FY 2004, Estimate)

**Total Royalties, Bonuses, Rents & Settlements:
\$1,417.8 Million**

General Fund Royalties, Bonuses & Rents:¹
\$1,056.0 Million

Royalties to Permanent Fund & School Fund:
\$361.8 Million

FY 2004 Unrestricted Revenue



Taxes:

\$998.0 Million²

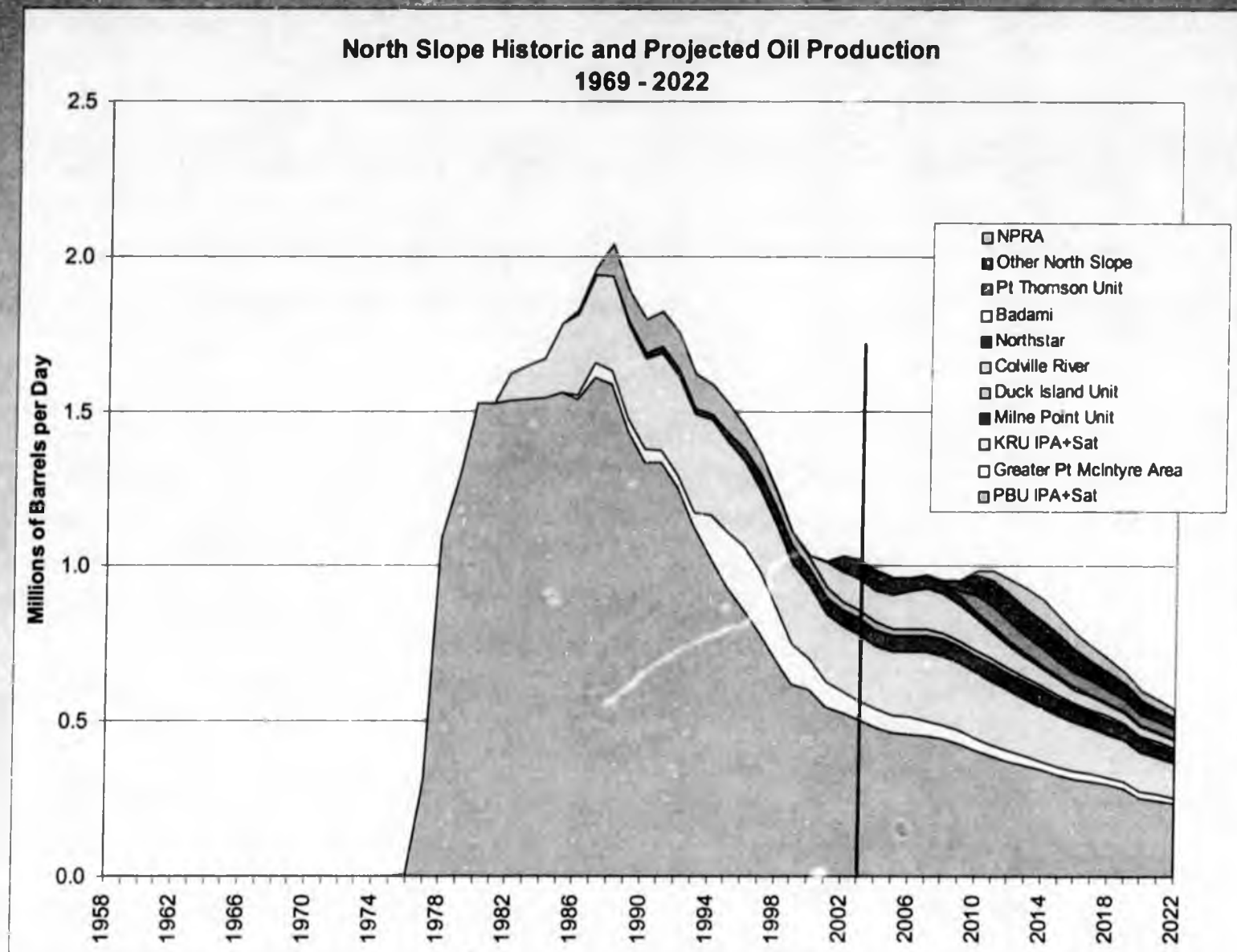
(Oil & Gas Property Tax + Income Tax + Severance Tax)

¹ includes Federally shared rentals + royalties

² Source: DOR Spring 2004 Revenue Sources Book

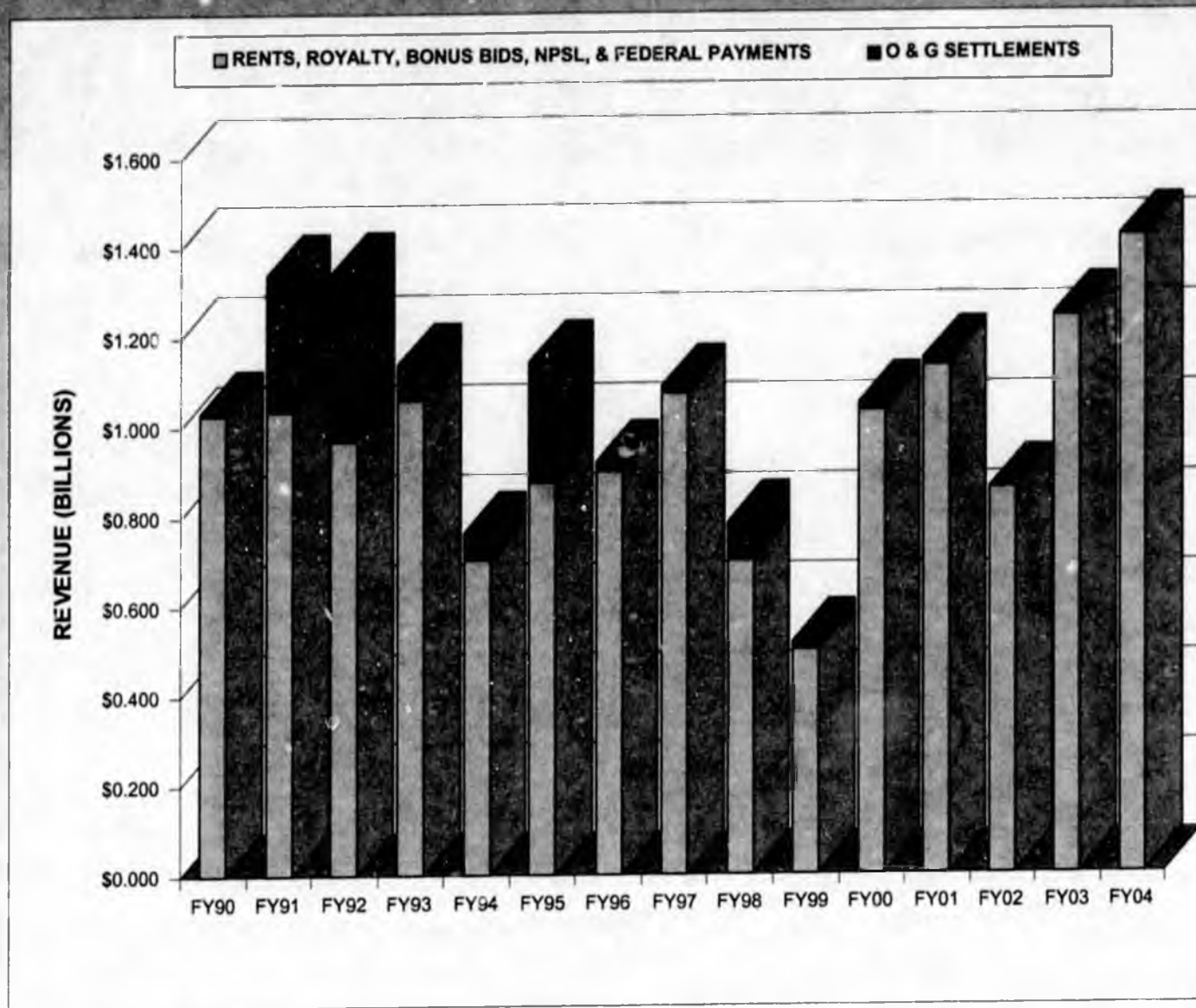
³ Source: DOR Spring 2004 Revenue Sources Book

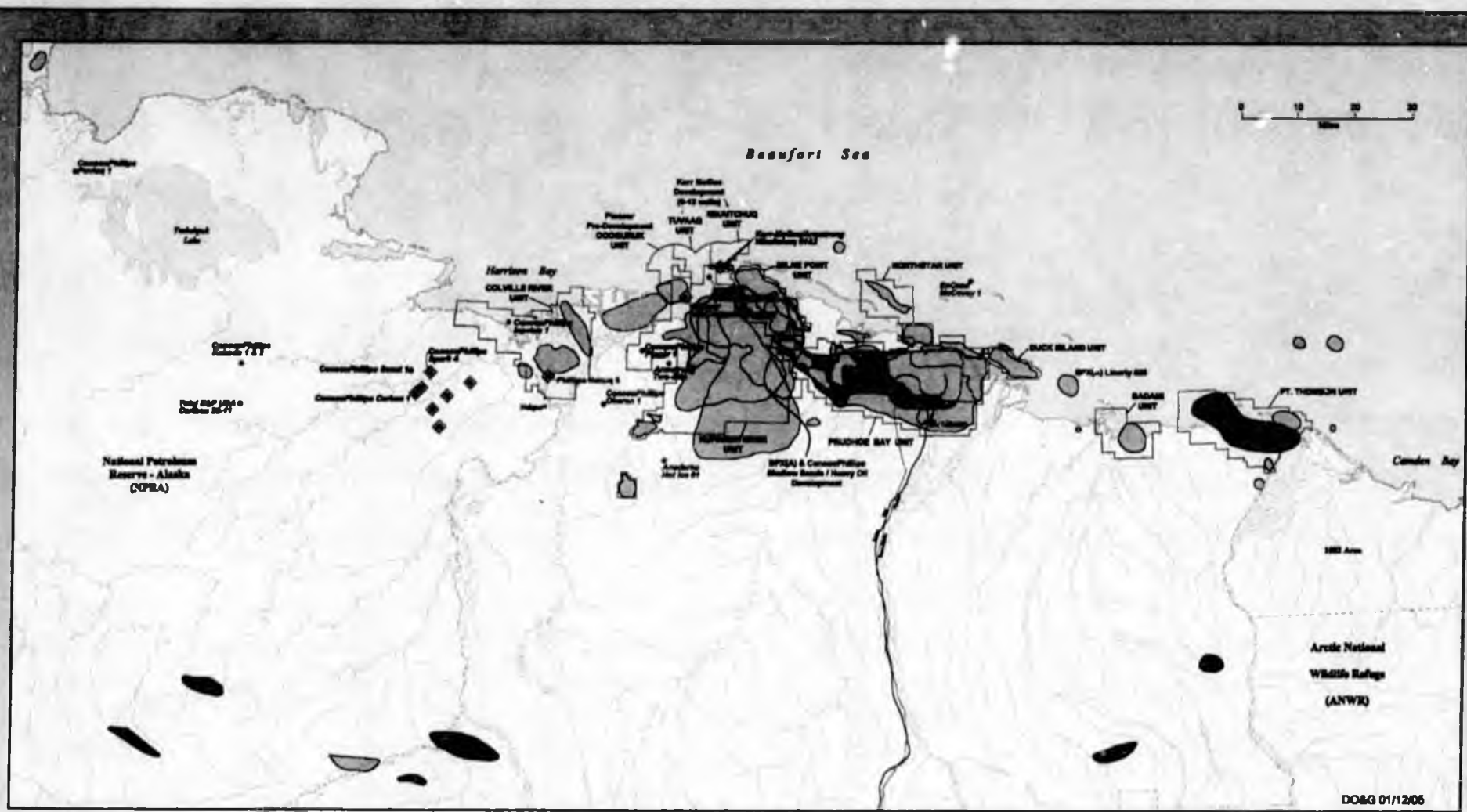
Historic and Projected Oil Production 1969-2022



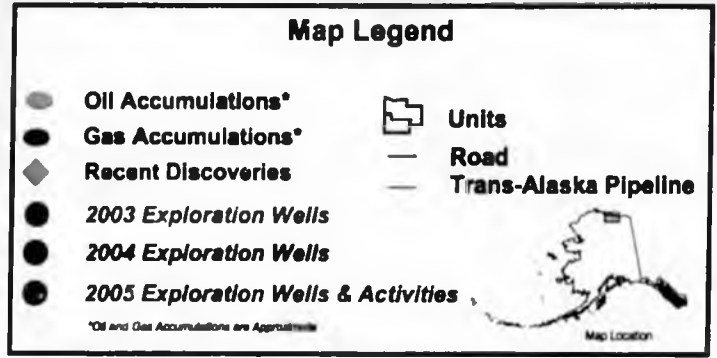
Fiscal Year Oil and Gas Revenue From State Lands

Fiscal Years 1990 through 2004





North Slope Oil & Gas Activities & Discoveries January 2005



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jrc/cjb 01/05

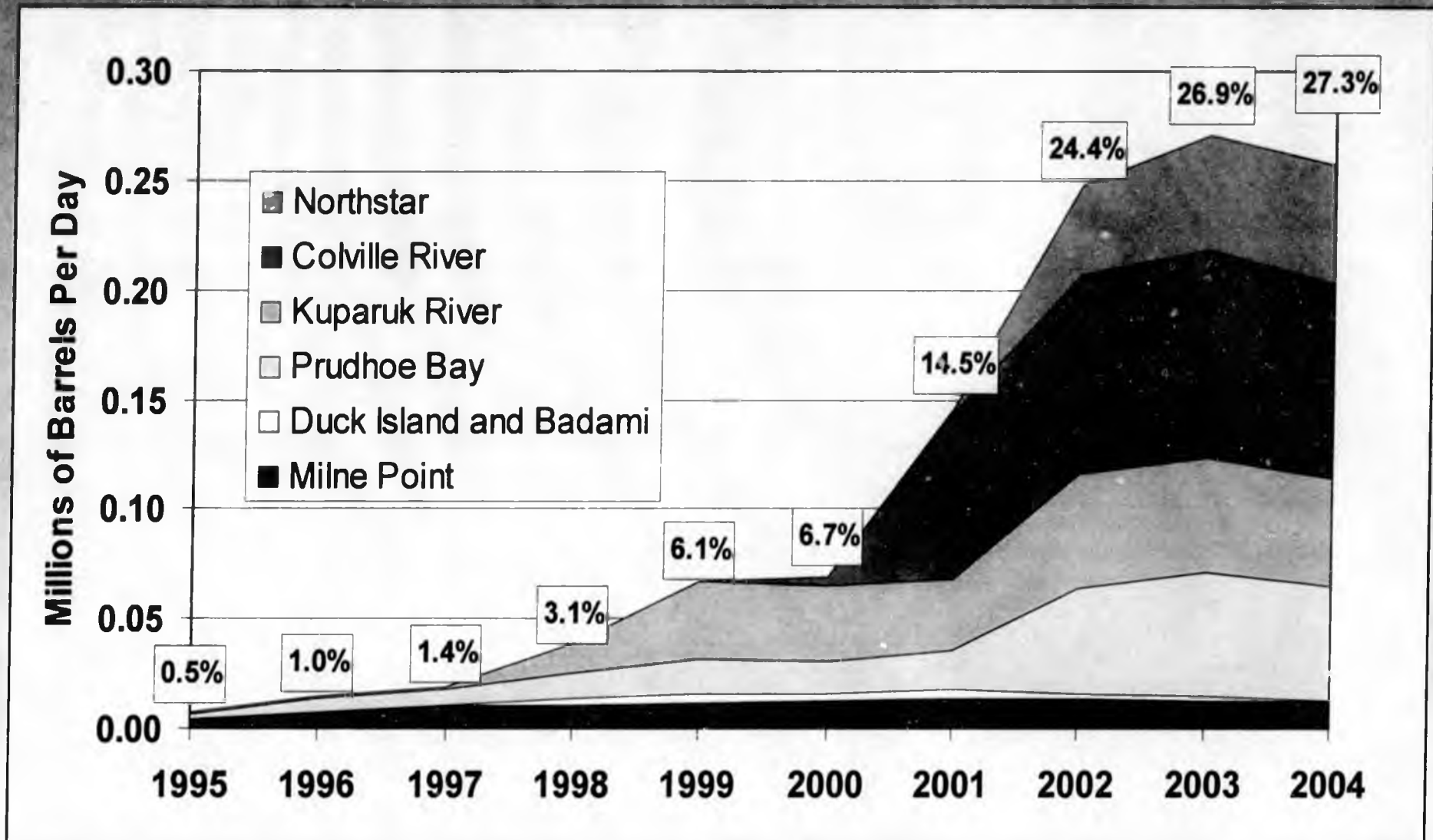
North Slope Development Activities

2004-2005

Northern Alaska

Project Name	Status	Expected Start-Up Date	Estimated Reserves or Expected Production
PBU Oil Rim - field gas offtake expansion w/ increases miscible injectant for EOR	Projects Underway	2003-2004	10,000-15,000 BOPD
PBU Pt. McIntyre PM2 to GCI Project	Pt. McIntyre PM2 production to GCI	Mar-04	8,000 - 10,000 BOPD increase
PBU Borealis	Development continuing/PA expansion submitted second quarter 2004	Producing	35,000 BOPD
Shallow Sands/ Heavy Oil (West Sak/Schrader Bluff)	Development continuing	Producing	1.0 - 1.5BBO recoverable 140MBOPD by 2010 (est) 30,000+ BOPD New
KRU Palm (DS-3S)	Development continuing	2002 (Nov.)	35 MMBO 16,000 bbls. oil/day
CRU Fiord	Technical studies, permitting, EIS or EA	2006	10,000-20,000 BOPD
CRU Nanuq	Technical studies, permitting, EIS or EA	2006	10,000-20,000 BOPD
CRU ACX-1: Various Facility Expansion Projects: Upgrades to Oil & Gas Processing Capacity; Produced Water System and Handling. Seawater Injection System	Projects Underway	4th Qtr 2004	5,000 - 10,000 BOPD increment
CRU ACX-2: Further capacity increases to Oil Processing & Seawater Injection Systems	Planning / Some Early Acceleration	3rd Qtr 2005	25,000 - 30,000 BOPD increment
Nikaitchuk/Tuvaak Development	Planning 6-10 development wells	2004-05	Not disclosed
Point Thomson	Begin development drilling by June 2006, must have 7 wells & approved PA by June 2008	2008	75,000 bbls. condensate/day
Liberty Development	EIS for artificial drilling/development island	2007	120MMBO recoverable (est)

Incremental North Slope Oil Production since 1995 by Unit



Note: Percentage figures show fraction of incremental oil since 1995, as a proportion of total North Slope production by year.

Sources: AOGCC and ADNR.