

ADVISORY BOARD ON GOVERNMENT EMPLOYMENT, 2000-2000 8672

11987 SENATE RESOURCES

What Will the Industry Say?

- **“A deal is a deal.”**

Article IX, Section 1, Alaska State Constitution: “The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided by this article.”

What Will the Industry Say?

- **“A deal is a deal.”**

In conversations between Hugh Malone and industry leaders in 1981, when the original ELF was crafted, the idea was to allow industry and the State to have equal portions of the oil revenue.

Testimony of Greg Erickson before the House Resources Committee, February 10, 1989 at pp 24-26.

10 MR. MALONE:

11 You don't think the State should collect approximately,
12 whatever it is, 30% -- what percent do you think they
13 should collect?

14 MR. TAYLOR:

15 Something a little lower than it is now. About half
16 the income taxes for instance. I don't know - 20, 27,

17 20%
28%. I think it would be much more fair for the
industry and the State to get about the same share out
of Prudhoe Bay even though we are paying the expenses
and we made the investment - but that's all past history.

23 that when the taxes are higher than your take-home pay
24 that's pretty discriminatory.

25

J&R Associates

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10000 10000 10000 10000 10000 10000 10000 10000 10000 10000

What Will the Industry Say?

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MR. MALONE:

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So you think it should be brought down to the point
5 where the State and the industry get roughly equal
6 shares in this. You like that better?

5

6

7

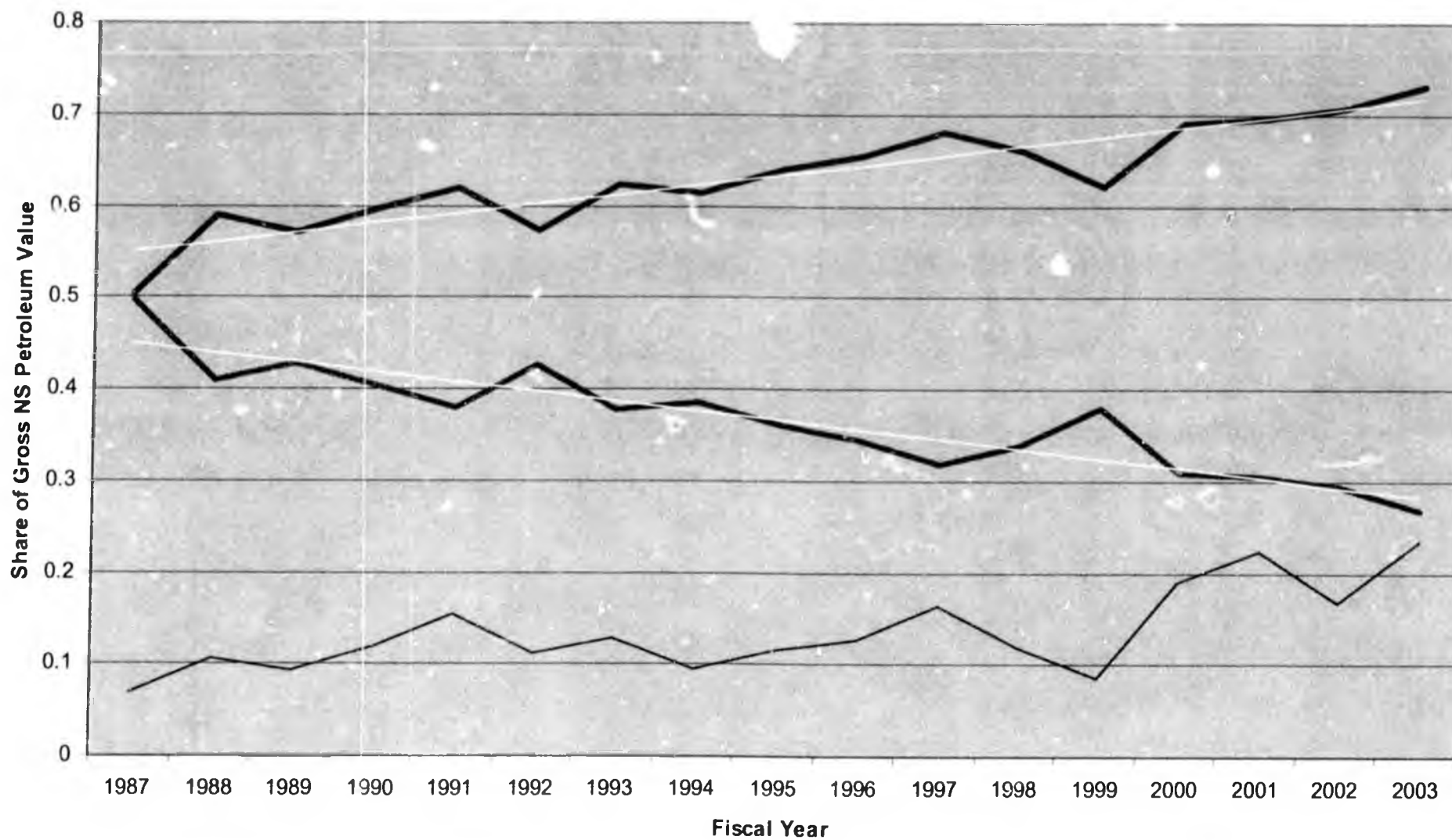
MR. TAYLOR:

8

Yes, sir.

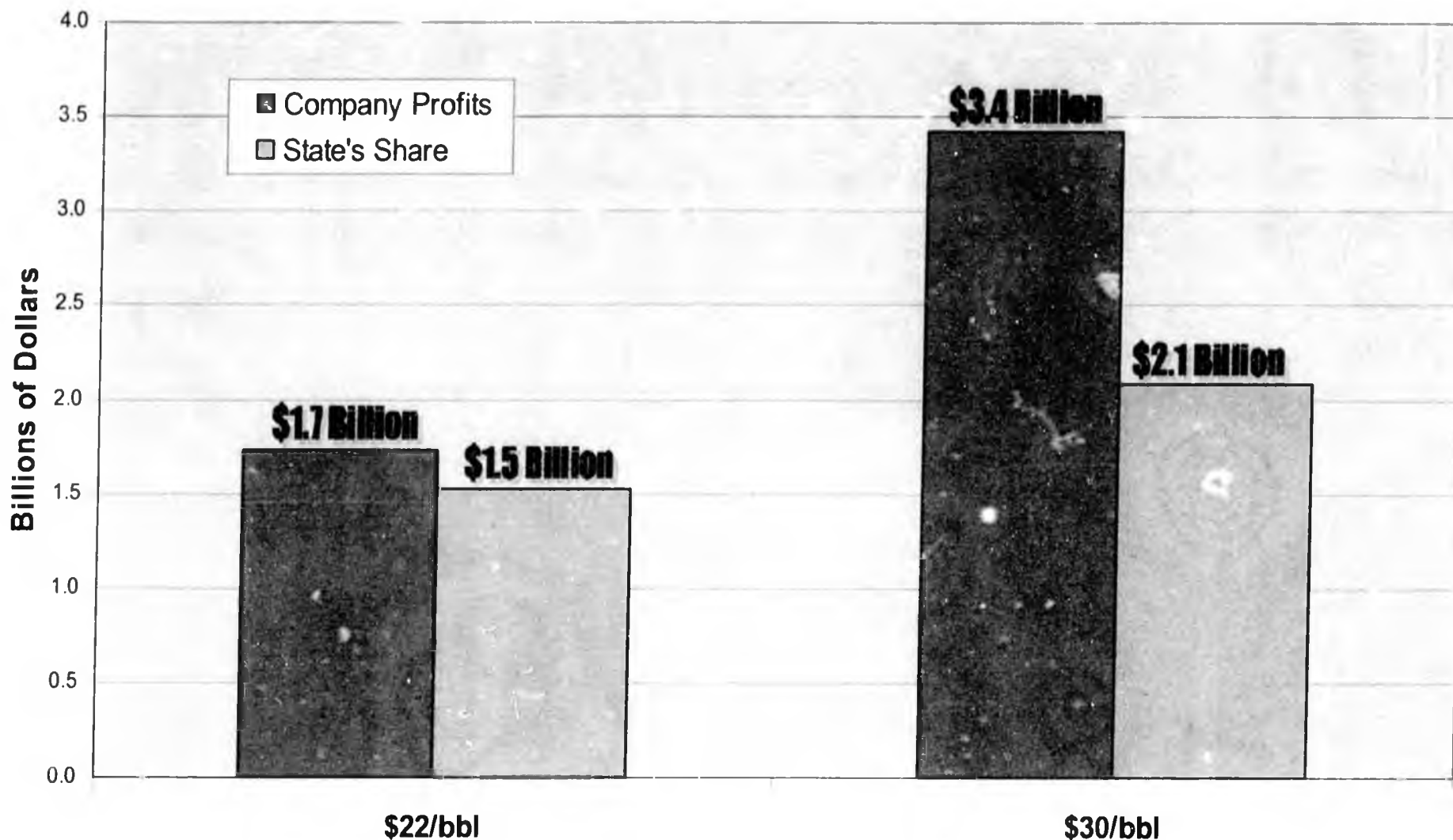
Exchange between Rep. Hugh Malone and Monte Taylor,
Alaska Operations Manager for Exxon

Industry and Alaska's Benefit from NS Petroleum Against Oil Prices (1987-2003)



— State — Industry — NS Oil Wellhead Value

Comparison Between Oil Company Profits and State Revenue: Current Law



Statistics provided by Alaska Dept. of Revenue

What Will the Industry Say?

- **“Tax increases will kill development”**

The real issue is the “net” effect.

Increasing tax rates may decrease new investment and production, but it will also increase state revenues. The real analysis is to compare the increase in revenues with the decrease in investment.

What if we do nothing?



Production Tax Revenue

- **By 2013, the average ELF will fall to .27, meaning the average production tax will fall to 4.05% (before aggregation).**
- **2003: \$599 million in production taxes.**
- **2013: \$180 million.**

Production Tax Revenue

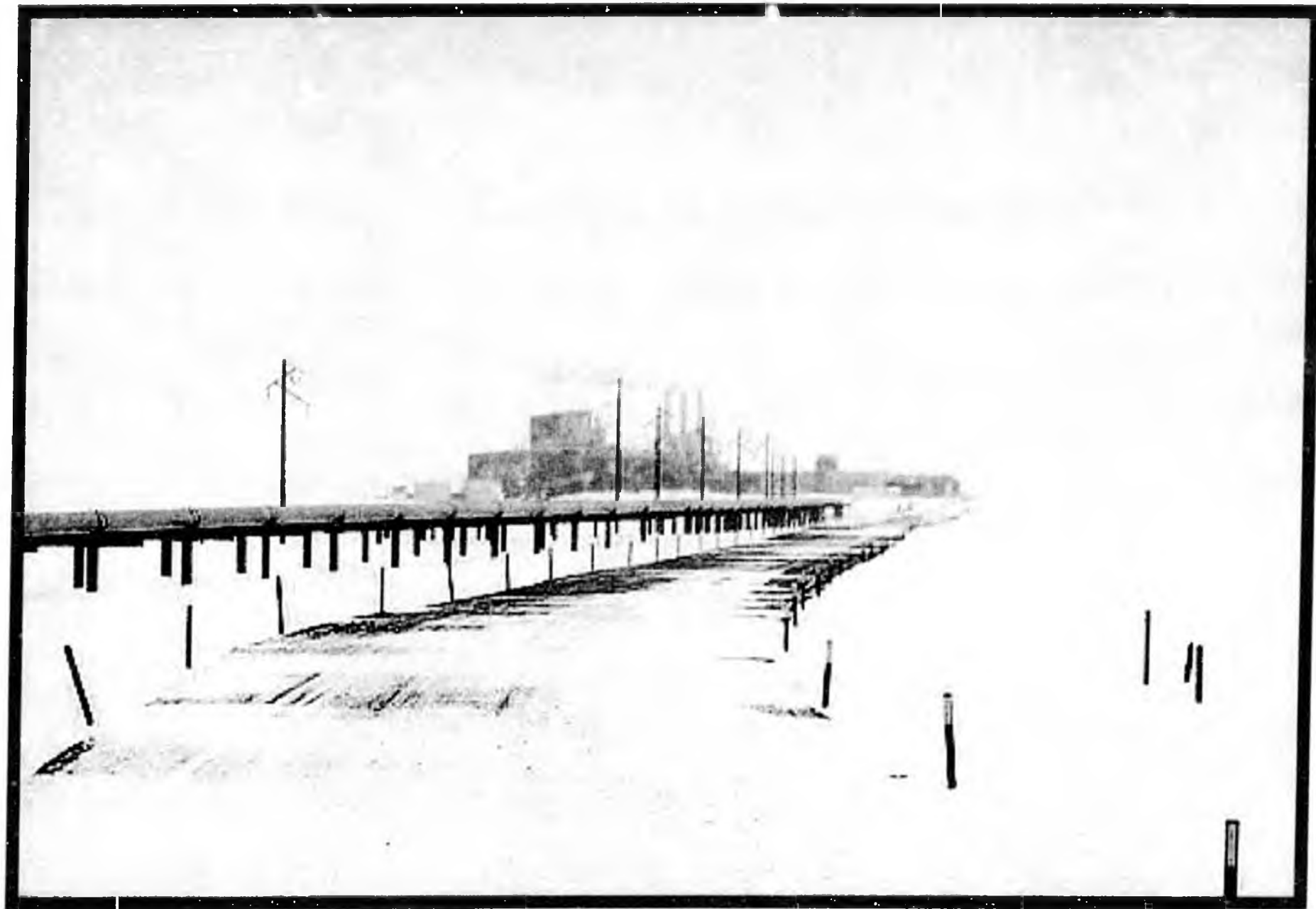
- Under this bill, the State would gain:
 - an additional \$90 million at \$22/bbl.
 - an additional \$400 million at \$30/bbl.
 - an additional \$886 million at \$38/bbl.
 - an additional \$1.363 billion at \$50/bbl.(with aggregation at Prudhoe).

Conclusion

- The bill lowers taxes at low prices
- The bill allocates the burden of the tax with information
- The bill calls for production tax relief where it is justified.

Conclusion

- It is better to address this issue now, when there is no immediate crisis.
- It is better to take an incremental approach, rather than a wholesale “shelf the ELF” approach.
- It is better to give the oil industry certainty during the planning and design phases of the gas pipeline.



Alaska's Current Oil and Gas Fiscal System

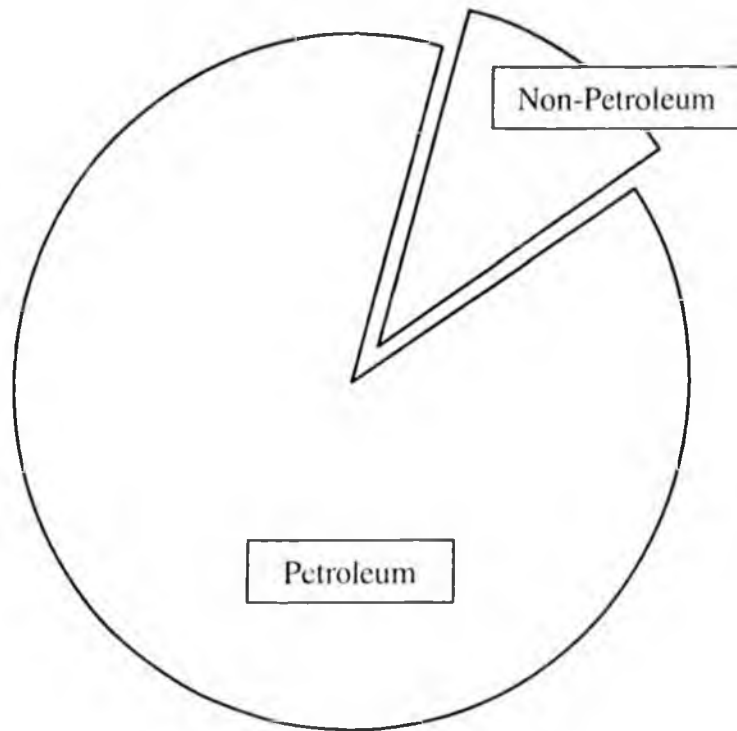
March 18, 2005

1

AOGA

Oil & Gas: Vital to Alaska

FY05 Unrestricted Revenue



“Oil revenue will provide at least 75% of forecasted Unrestricted General Purpose Revenue through FY 2014. Two elements are critical to the oil revenue forecast: price and volume.”

Fall 2004 Revenue Sources Book

Present System's Four Elements

| | <u>FY2004 Actuals (\$millions)</u> | |
|-----------------------------------|------------------------------------|-------------------|
| | <u>To General Fund</u> | <u>To "Other"</u> |
| Royalty | 1,043.6 | 485.2 |
| Production Tax | 651.9 | - |
| Property Tax | 47.3 | 218.7 |
| Oil & Gas Corp. Income Tax | <u>298.8</u> | <u>-</u> a |
| TOTAL | 2,041.6 | 703.9 |
| ALL OIL & GAS PAYMENTS | 2,745.5 | |

(Royalty "Other" is the Permanent Fund; property tax "Other" is municipalities taxing the same property.)

Point No. 1

Even if ELF makes the production tax zero for a field, the field –

- **pays full royalty to the State**
- **pays full property taxes on its facilities**
- **contributes fully to the owners' income taxes**
- **increases the netback value by lowering tariffs**
- **creates Alaska jobs**

Production Tax

- A tax on the act of producing oil, gas
- **Tax = ELF × Base Rate × Gross Resource Value**
 - **Gross Resource Value = Netback × Taxable Volume**
 - **Base Rate: gas 10%; oil 12¼% 1st 5 yr, then 15%**
 - **ELF: a field-specific number from zero to one**

Oil ELF is based on field size and well productivity; larger fields have larger ELF's and higher tax rates, as do fields with more productive wells; smaller fields and ones with low well productivity have smaller ELF's and lower tax rates. Gas ELF is based on well productivity only

Netback Methodology



| | |
|-------------------------------|----------------------|
| West Coast Spot Price | \$25.00 |
| Marine Transportation | (1.61) |
| TAPS | <u>(3.05)</u> |
| Netback at Pump Stn. 1 | \$20.34 |

Why Have an ELF?

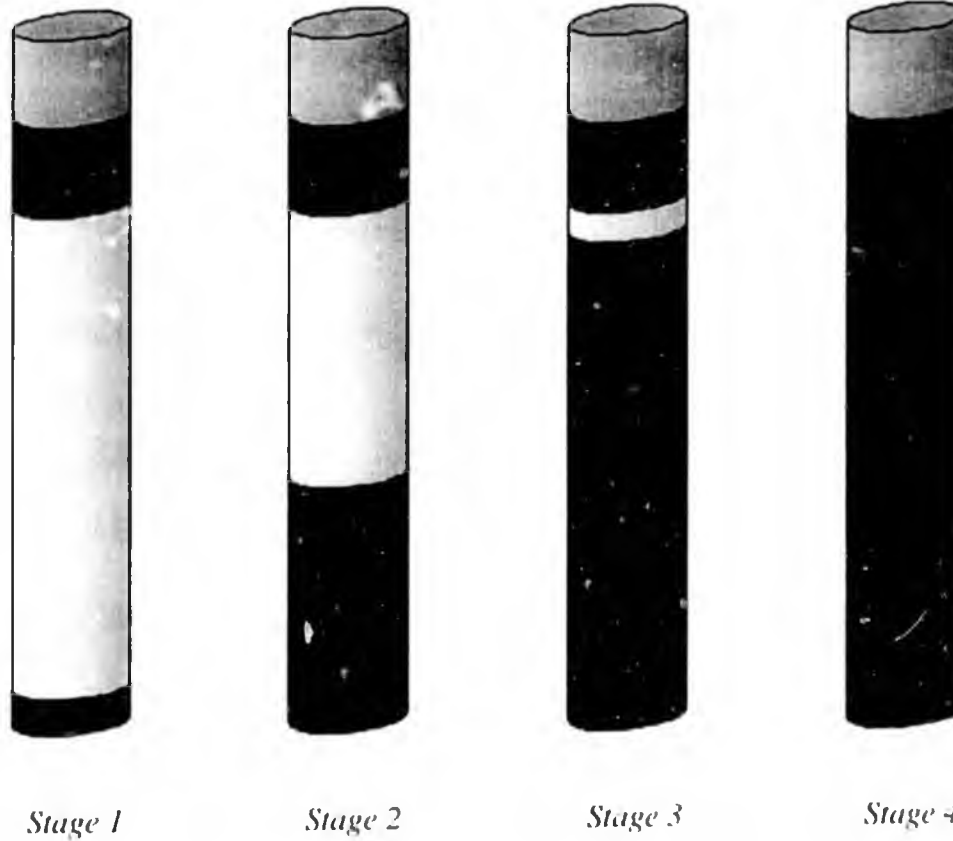
To allow a high-rate production tax early in a typical field's life, while avoiding the adverse consequences as the field is depleted

The Adverse Consequences of a High Rate

“As operating costs rise during the life of the field, the profit margin shrinks. At some point the total production costs overtake the value of the oil or gas produced, and production can then be continued only by operating at a loss. As one of the costs of doing business, the production tax contributes to the total costs and tends to hasten the time when this break-even point (called the economic limit) is reached.”

DOR, Alaska's Oil and Gas Tax Structure: A Study with Recommendations for Improvement (Feb. 1977), p. V-21 (emphasis added)

The Adverse Consequences of a High Rate



March 18, 2005

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AOGA

Producers' Responses to the "Squeeze"

- **"Do nothing" stage**
- **"Drive for efficiency" stage**
- **"Harvest" stage**
- **"Running in the red" stage**

“[T]he Department of Revenue recommends an Economic Limit Factor (ELF), based on the ratio of the rate at the true economic limit to the current production, as a mechanism for scaling down the tax rate as the production declines toward the economic limit.”

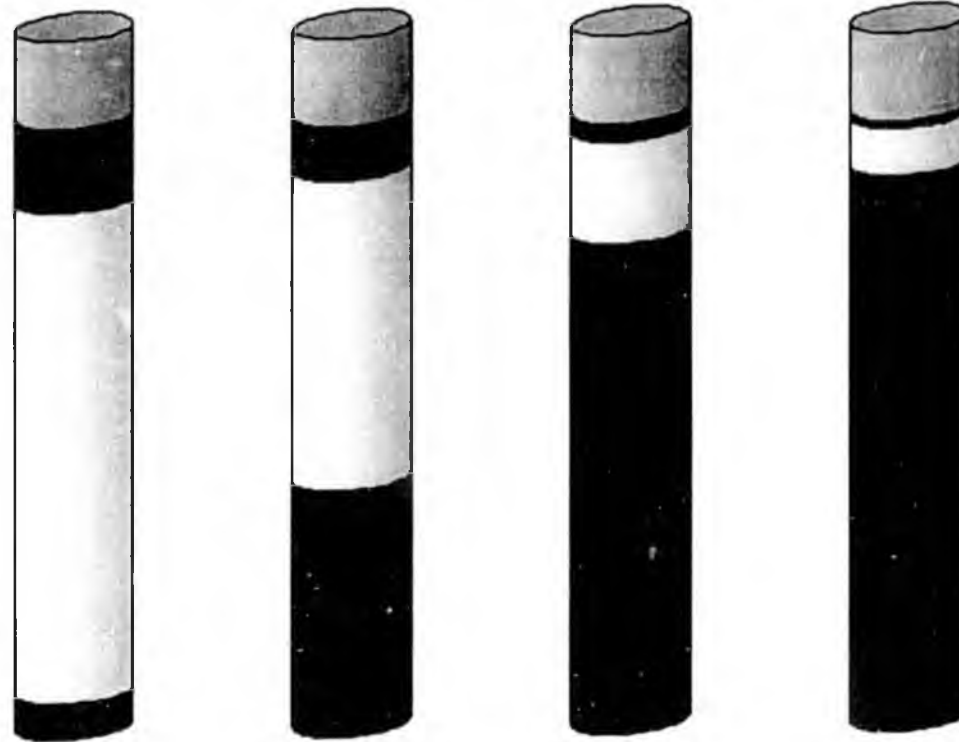
DOR, Alaska's Oil and Gas Tax Structure: A Study with Recommendations for Improvement (Feb. 1977), p. VI-17

$$\left(1 - \frac{PEL}{TP}\right)$$

PEL = Production at Economic Limit

TP = Total Production in tax period

How ELF Avoided the Adverse Consequences



Stage 1

Stage 2

Stage 3

Stage 4

March 18, 2005

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Point No. 2

ELF was enacted in 1977 over industry's strenuous objections

- **Why object? ELF allowed effective tax rate for Prudhoe Bay to be increased to ~11.7% from ~7.8%**

How the Oil ELF was Changed in 1989

1977 formula was driven by “well productivity”

1989 added “field size” (total daily production) to the formula

- **Larger fields have larger ELF's, higher tax rates**
- **Smaller fields have smaller ELF's, lower tax rates**
- **“Field size” is the dominant factor in the formula**

Reasons Given in 1989 for the ELF Change

- 1. To get more revenue**

Reasons Given in 1989 for the ELF Change

2. To give an incentive for small fields

“Marginal fields are fields with either relatively low per well productivity or relatively low daily production.”

*DOR, Response to Questions from House Resources Committee – HB 118
(February 21, 1989), p. 1 (emphasis added)*

Reasons Given in 1989 for the ELF Change

3. To give an incentive for West Sak viscous oil

“[T]he new ELF will increase drilling production and employment at the truly marginal fields ... and, let’s hope someday, West Sak In those fields the severance tax, under HB 118, will either be sharply reduced or eliminated entirely. That’s a pro-development impact on those fields.”

Tape HRC 89-121, side 1 (February 10, 1989), testimony of Gregg Erickson, Senior Economist, Division of Policy, Office of the Governor (transcript), p. 10

Reasons Given in 1989 for the ELF Change

4. Prudhoe Bay & Kuparuk could afford it

What legislators were told the change would do

1. Reduce rates for all fields except Prudhoe Bay & Kuparuk

“[For] marginal fields, ...the severance tax, under HB 118, will either be sharply reduced or eliminated entirely.”

Tape HRC 89-121, side 1 (February 10, 1989), testimony of Gregg Erickson, Senior Economist, Division of Policy, Office of the Governor (transcript), p. 10 (emphasis added)

“In Alaska the marginal fields are the six Cook Inlet fields ... [and] Milne Point, Lisburne, Endicott, Niakuk, West Sak, Point Thomson, Seal Island, and probably any other field that will be discovered in Alaska.”

DOR, *Response to Questions from House Resources Committee - HB 118* (February 21, 1989), p. 1 (emphasis added)

What legislators were told the change would do

2. Tax rates for some fields could go to zero under the new ELF that weren't zero under the old ELF

“[For] marginal fields, ...the severance tax, under HB 118, will either be sharply reduced or eliminated entirely.”

Tape HRC 89-121, side 1 (February 10, 1989), testimony of Gregg Erickson, Senior Economist, Division of Policy, Office of the Governor (transcript), p. 10 (emphasis added)

What legislators were told the change would do

3. Smaller fields pay less tax even with the same well productivity as larger fields

What legislators were told the change would do

4. State revenue gains from changing the ELF

- Projected cumulative effect through FY2010**

| | |
|--------------------|------------------------|
| Prudhoe Bay | \$2.500 billion |
| Kuparuk | 0.391 billion |
| All others | (0.200 billion) |
| Net | \$2.691 billion |

Point No. 3

The 1989 ELF change has worked exactly the way legislators were told it would work

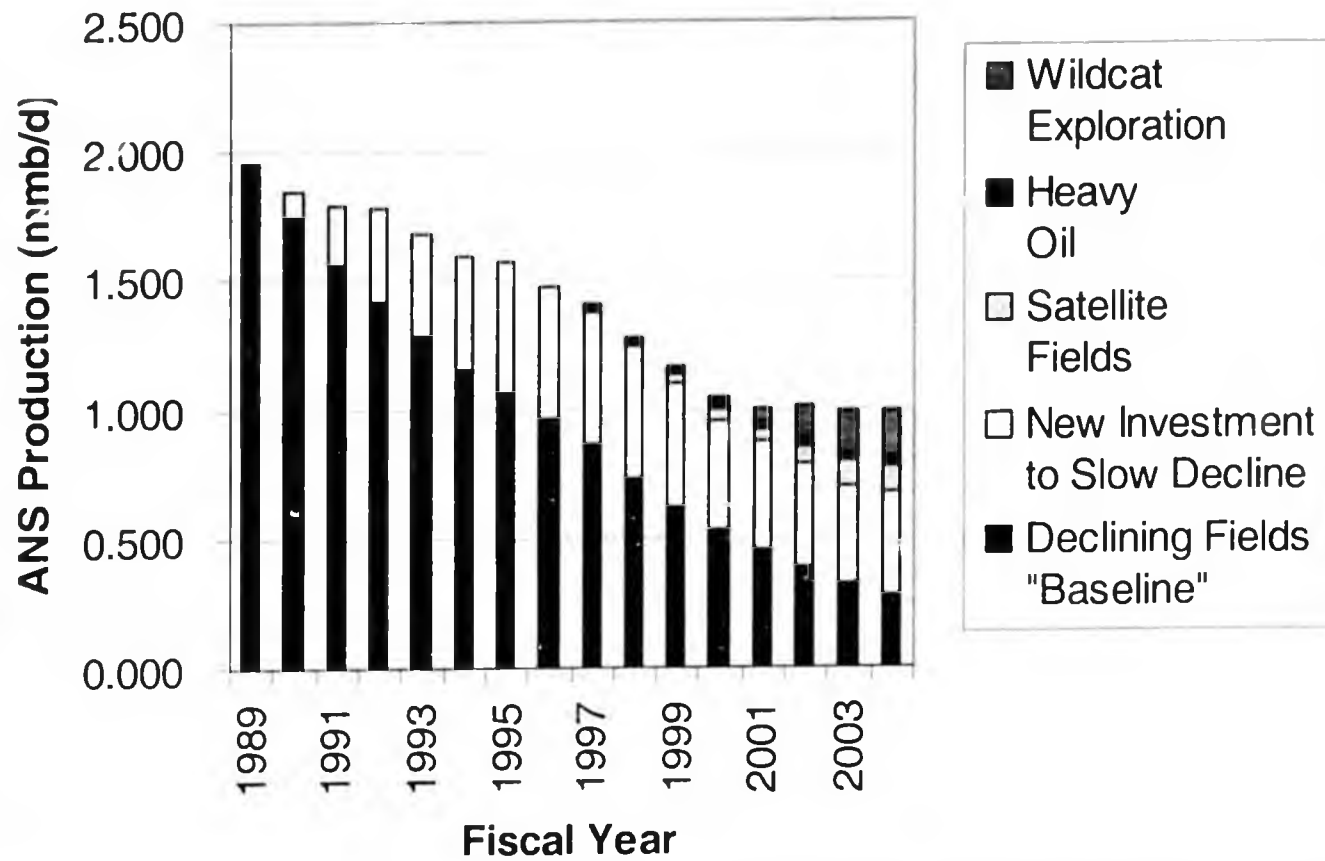
- **Prudhoe & Kuparuk still have higher production tax**
- **Some fields don't pay production tax**
- **Small fields pay less even with same well productivity**
- **State already is over \$2.7 billion ahead (net)**

Point No. 4

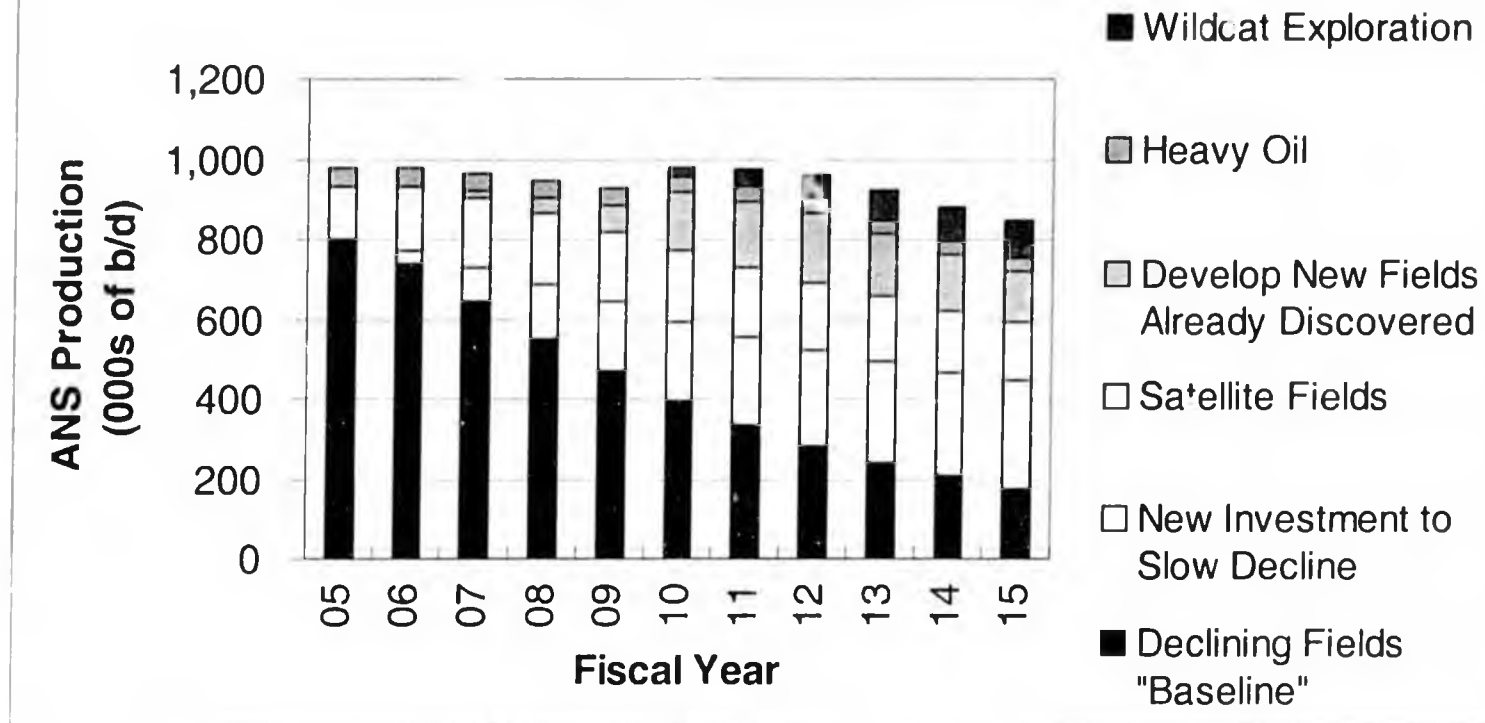
1989 ELF change was enacted over industry's strenuous objections

- **Why? Major tax increase for Prudhoe Bay & Kuparuk**

Historical Effects on ANS Production from Different Kinds of Investment



Contributions of Different Kinds of Investments in Additional Oil Production



SOURCE: DOR Spring 2004 Revenue Source Book, p. A5. "Historical and Projected Crude Oil Production".

Wildcat = "NPRA" production

Heavy Oil = "Milne Point" production (a simplifying assumption in the absence of published projections by DOR for West Sak production in other units)

New Fields Already Discovered = "Fiord" + "Point Thomson" + "Liberty" + "Nanuk" + "Known Onshore" + "Known Offshore" production

Satellites = "PBU-Satellite" + "KRU-Satellite" production

Declining Fields "Baseline" = "Prudhoe Bay" + "Kuparuk" + "Endicott" + "GPMA" production declining at 15%/yr starting in mid-2006, plus "Alpine" and "Northstar" production without adjustment from DOR's forecast

New Investment to Slow Decline = difference between Prudhoe/Kuparuk/Endicott/GPMA "baseline" above and DOR's forecasted production from them

Point No. 5

More investment is CRUCIAL

Different kinds of oil investment have different economic profiles

A given tax change promises to impact different classes of oil investment differently

Any change must be carefully examined for “unintended consequences”

What the Governor's ELF Decision Did

Lumped 6 smaller fields within the Prudhoe Bay Unit with the main Prudhoe Bay Field (aggregation)

Because of the "field size" component of the ELF formula, aggregating the fields increased the ELF and tax rate for all of them

Two of the 6 fields aggregated with the main Prudhoe Bay field are West Sak viscous oil

Recent Legislative Proposals – HB63/SB50

AOGA Opposes Passage of HB63/SB50

- Industry views these proposals as a structural tax increase at all price levels except extremely low ones
- Imposes a 27.5% structural tax increase at DOR's expected \$25.50 price
- Raises the maximum tax rate by 67% (from 15% to 25%)
- 5% minimum imposes a heavy burden on satellite development
- Fails to protect significant amounts of viscous oil (West Sak)
- Proposed without analysis of the consequences for investments
- Makes Alaska less competitive

SB

53

Senate Resources

April 13, 2005

SB 53 Materials List

- 2-16-05 Letter from Commissioner Corbus: 1 page
- Q & A from Department: 1 page
- SB 53: 5 page
- #1 Fiscal Note: DOR 1-11-05: 2 pages
- #2 Fiscal Note: DNR 12-8-04: 1 page

There were substantial backup materials in the March 2 packet, including MOU's and support documents.

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 111 0
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

February 16, 2005

The Honorable Tom Wagoner,
Chair – Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Re: SB 53 AK PENINSULA OIL & GAS LEASE SALE; TAXES

Dear Chairman Wagoner:

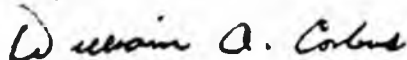
Senate Bill 53 was introduced by the Senate Rules Committee by request of the Governor on January 12 and referred to the Senate Resources Committee.

Senate Bill 53 extends from July 1, 2007 to July 1, 2010 the deadline for making qualified exploration expenditures under new AS 43.55.025 (passed in 2004) in the Bristol Bay area. Leases in the Bristol Bay (Alaska Peninsula) Competitive Oil and Gas Lease Sale are not expected to be issued prior to the spring of 2006. Production expenditures on these leases thus will most likely be made after July 1, 2007 and will not qualify for tax credits under the current law.

I respectfully request that SB 53 be scheduled for a hearing before your committee at your earliest convenience.

If you need assistance or information, please do not hesitate to contact Jerry Burnett at 465-2302.

Very truly yours,



William A. Corbus
Commissioner

Production Tax Credit for Exploration Expenditures (SB 53)

What exploration expenditures qualify for the tax credit?

43.55.025(a)(1)

- 20% of exploration expenditures for a well 3 miles from an existing well
OR
- 20% of exploration expenditures for a well 25 miles outside a unit
OR
- Both, which means 40% of exploration expenditures for a well that is 3 miles from an existing well and 25 miles outside the unit

43.55.025(a)(2)

- 40% of seismic not associated with a well

What tax can they be credited against?

43.55.025(a)

Tax on production after July 1, 2004

When must these expenditures be made?

43.55.025(b)

- Statewide between July 1, 2003 and July 1, 2007
- AK Peninsula between July 1, 2003 and July 1, 2010

What types of exploration expenditures qualify?

43.55.025(b)(1)

Seismic or geophysical exploration not connected to a well

43.55.025(b)(2)

Exploration well

- reasonably required costs for goods, services, and rentals to prepare and drill.
- costs associated with abandonment of dry holes within 18 months.

43.55.025(b)(3)

Exclusions: testing, stimulation, completion costs, admin, supervision, engineering, operating costs, bonuses, taxes, indirect or financing costs. Work included in a unit plan as of May 13, 2003.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 53
 (S) Publish Date: 1/12/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Credit for Certain Exploration Expenses RDU: Revenue Operations
Against Oil & Gas Properties Production Taxes Component: Tax Division
 Sponsor: Rules Committee
 Requester: Governor Component No.: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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 |

| | | | | | | |
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| CAPITAL EXPENDITURES | | | | | | |
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| 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 (Specify Type--Do not abbreviate) | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY2005) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

| | | | | | | |
|-----------|--|--|--|--|--|--|
| Full-time | | | | | | |
| Part-time | | | | | | |
| Temporary | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

Currently the State plans to hold a Bristol Bay lease sale in October of 2005 assuming a favorable preliminary best interests finding. If bids are received and accepted at this lease sale, leases would be issued in spring 2006, with exploration of this region beginning that summer, FY 2007-FY2008. It is possible that 1 to 2 wells per year will be drilled on average over the period 2007 to 2009. Wells will be drilled from onshore facilities, but given the remoteness of the area and lack of infrastructure, we estimate that the wells could cost roughly \$15 million per well. We assume that on average these wells would qualify for a production tax credit equal to 30% of qualified costs, half qualifying for the 40% credit and half for the 20% credit. (continued on Pg 2)

Prepared by: Tom Boutin Phone: _____
 Division: Department of Revenue Date/Time: 1/11/05 2:59 PM
 Approved by: Tom Boutin Date: 1/11/2005
 Agency: Department of Revenue

ANALYSIS CONTINUATION

As a result the credit would be worth around \$7 million per year to the exploration firms from fiscal year 2008 through fiscal year 2010 (assuming a year lag between exploration expense and claiming of the credit). The adoption of this severance tax credit could yield revenue in two ways. First, the existence of an exploration credit over the period of likely exploration could prompt companies to participate in a lease sale when they otherwise would not. Currently, the State does not include any revenue from the lease sale in its revenue forecast. Such a lease sale could yield around \$10 million if bids were based on the possibility of finding a field containing a minimum economic field size of between 100 and 200 million barrels of oil. Such a field, if discovered and developed, would yield about \$50 million dollars a year in revenue (royalty, severance tax, and corporate income tax) over the first 10 years of production.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: SB 53
 (S) Publish Date: 1/12/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Extending Exploration Credit against RDU: Resource Development
Production Tax Component: Oil & Gas Development
 Sponsor: Rules
 Requester: Governor Component No.: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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 |

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| CAPITAL EXPENDITURES | | | | | | |
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| CHANGE IN REVENUES () | *** | | | | | |
|-------------------------------|-----|--|--|--|--|--|

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| Other (Specify Type--Do not abbreviate) | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY2005) cost: 00
 Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

| | | | | | | |
|-----------|--|--|--|--|--|--|
| Full-time | | | | | | |
| Part-time | | | | | | |
| Temporary | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

This bill extends the sunset date on the oil and gas exploration credit against production tax (SB185, CH59, SLA03) only for the proposed Alaska Peninsula sale area. The proposed Alaska Peninsula sale is tentatively scheduled for fall of 2005. It is anticipated that leases would not be issued until spring 2006. It is likely that exploration expenditures on these leases would occur after the current July 1, 2007 deadline, in which case they would not be credited against future production taxes unless the current statute is amended.

** An extension of the sunset deadline to the proposed sale area may encourage additional or higher competitive bids, although these additional revenues are impossible to predict or quantify.

Prepared by: Janet Baxter Phone: 465-4730
 Division: Commissioner's Office Date/Time: 12/8/2004
 Approved by: Tom Irwin Date: 12/8/2004
 Agency: Natural Resources

SB 53

Summary:

- Makes changes to AS 43.55.025 – Tax Credits for Oil and Gas Exploration or Gas only Exploration.
 - Extends the current Exploration Credit (EC) an additional three years only limited to the Alaska Peninsula.
 - Would also make technical amendments to clarify the EC.

Background:

- This tax credit incentive was passed in 2003.
- Applies to all onshore lands in Alaska and state submerged lands with certain limitations:
 - Cannot be in a unit as of May 13, 2003
 - Twenty percent of exploration well drilling costs if greater than 3 miles from a well or Twenty percent of exploration well drillings costs if more than 25 miles from a unit boundary as delineated on July 1, 2003 (forty percent if both).
 - Forty percent of seismic costs as long as outside a unit.
- Can drill multiple qualifying wells in the same drilling season within 3 miles of each other.
- Currently sunsets July 1, 2007.

Proposed Amendments:

- Would extend the current sunset from 2007 to 2010 only for the Alaska Peninsula (onshore acreage and state waters only).
- This extension is appropriate for the proposed Alaska Peninsula sale area.
 - There are currently no facilities or infrastructure in the area.
 - There is no modern seismic data in the area.
 - Activity in the area would be true wildcat exploration.
 - Because there is no leased acreage in the area, an EC in this area would make it more likely that industry would be willing to bid more on the leases.
 - As a result of the exploration, the state would receive data which it would be able to release after 10 years.
 - The proposed sale is tentatively scheduled for late 2005. It is not expected that leases would be issued until sometime in 2006. It is unlikely with the currently 2007 deadline that exploration activity in the proposed Alaska Peninsula sale would qualify for this EC.

THE FOLLOWING DOCUMENT HAS NOT
BEEN FILMED BUT IS AVAILABLE IN THE
ORIGINAL FILE.

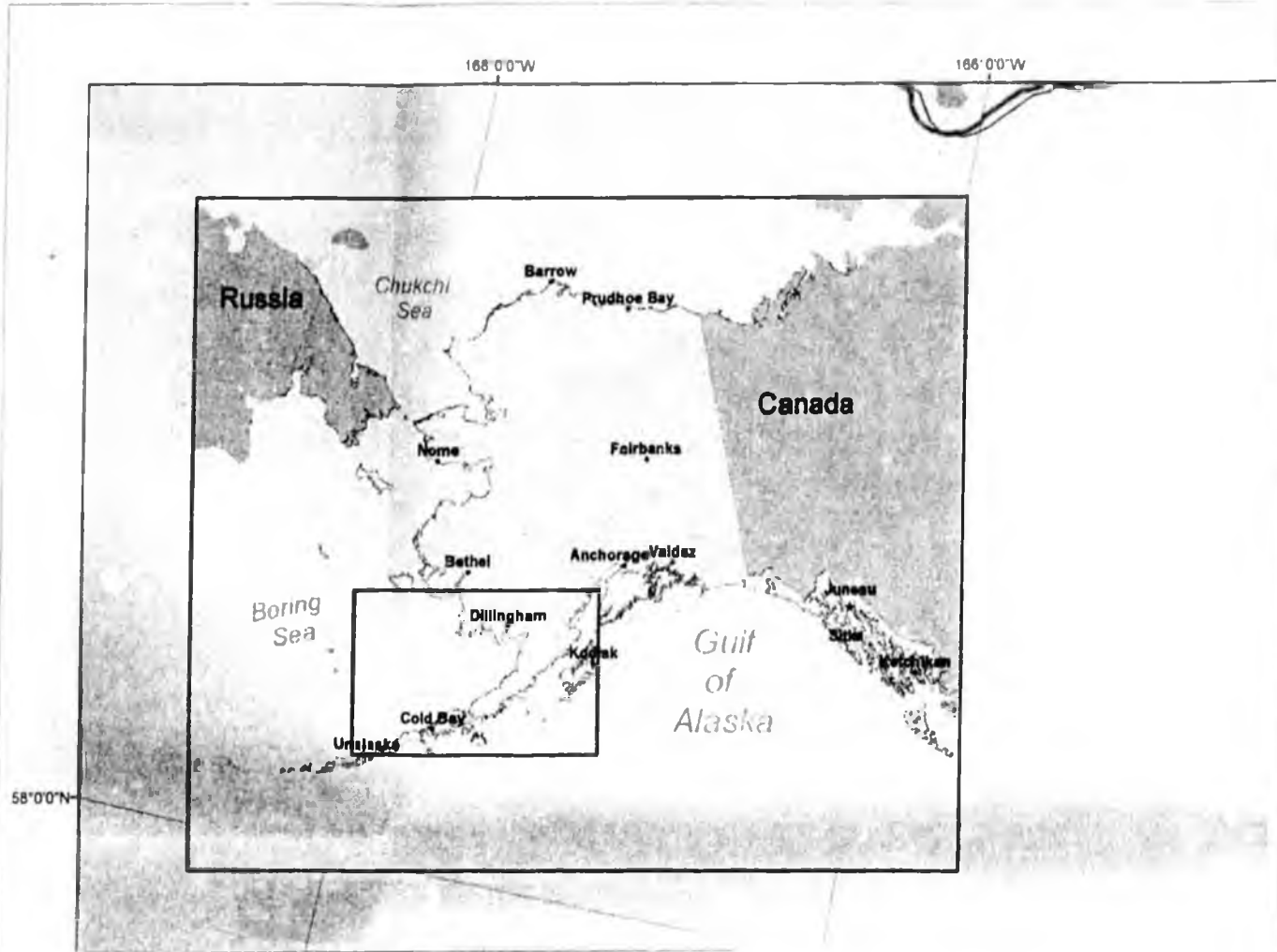
Bristol Bay Region and Alaska Peninsula Oil and Gas Programs

Map Created by:

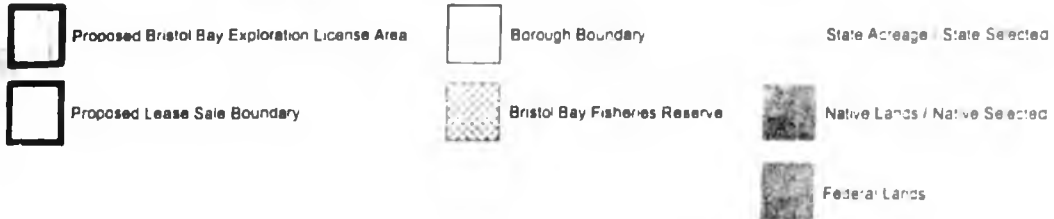
State of Alaska
 Department of Natural Resources
 Division of Oil and Gas

Alaska Peninsula
 Oil and Gas Resource Series
 Plate 1 of 4






February 2005



Map Features



Oil & Gas Wells

-  Drill Hole
-  Plugged & Abandoned
-  Plugged & Abandoned - Oil Show
-  Plugged & Abandoned - Oil and Gas Show
-  Plugged & Abandoned - Gas Show

Indicators of Petroleum

-  Gas Seep
-  Oil Seep
-  Oil-bearing Outcrop

THE FOLLOWING DOCUMENT HAS NOT
BEEN FILMED BUT IS AVAILABLE IN THE
ORIGINAL FILE.

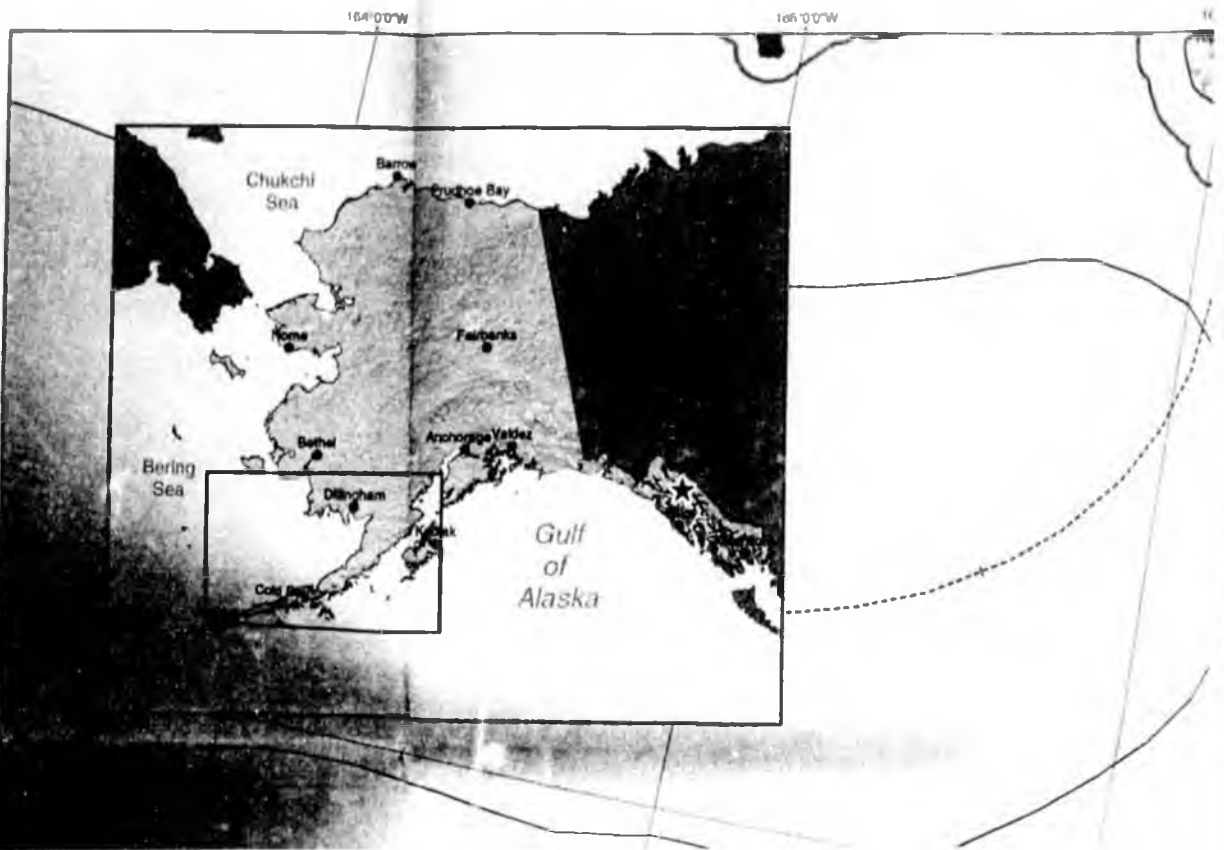
Regional Geology for the Bristol Bay Region and Alaska Peninsula

Map created by:

State of Alaska
Department of Natural Resources
Division of Oil and Gas

Alaska Peninsula
Oil and Gas Resource Series
Plate 2 of 4

January 2004



Oil and Gas Wells

- Drill Hole
- ◊ Plugged & Abandoned
- ◊ Plugged & Abandoned - Oil Show
- ◊ Plugged & Abandoned - Oil and Gas Show
- ◊ Plugged & Abandoned - Gas Show

Indicators of Petroleum

- ▲ Gas Seep
- Oil Seep
- Oil-bearing Outcrop
- A Approximate location of reported indication
- D Reported indication regarded as doubtful or disproved on basis of field examination by the U.S. Geological Survey
- H Reported indication not examined by the U.S. Geological Survey
- U Reported indication regarded as doubtful because location is in unfavorable geologic setting

Minerals & Geohazards

- ▲ Volcanoes
- ✕ Metalliferous Load Deposits
- Coalfields
- Placer Deposits

Alaska Peninsula Geologic Structure

- ~ Anticline - Certain
- ~ Anticline - Inferred
- ~ Anticline - Concealed
- ~ Syncline - Certain
- ~ Syncline - Inferred
- ~ Syncline - Concealed
- ~ Dikes and Sills
- ~ Fault
- ~ Fault - Inferred
- ~ Fold
- ~ Normal Fault
- ~ Normal Fault - Inferred
- ~ Thrust Fault
- ~ Thrust Fault - Inferred

Sedimentary Basins (Kirschner 2002)

- 0 km - 1 km
- 1 km - 3 km
- 3 km - 5 km
- > 5 km

Administrative Boundaries & Infrastructure

- Proposed Exploration License Area
- Proposed Lease Sale Boundary
- ~ AK State Ownership: 3 Mile Limit

Towns & Villages

- Population > 1000
- Population < 1000

SB 53

Summary:

- Makes changes to AS 43.55.025 – Tax Credits for Oil and Gas Exploration or Gas only Exploration.
 - Extends the current Exploration Credit (EC) an additional three years only limited to the Alaska Peninsula.
 - Would also make technical amendments to clarify the EC.

Background:

- This tax credit incentive was passed in 2003.
- Applies to all onshore lands in Alaska and state submerged lands with certain limitations:
 - Cannot be in a unit as of May 13, 2003
 - Twenty percent of exploration well drilling costs if greater than 3 miles from a well or Twenty percent of exploration well drillings costs if more than 25 miles from a unit boundary as delineated on July 1, 2003 (forty percent if both).
 - Forty percent of seismic costs as long as outside a unit.
- Can drill multiple qualifying wells in the same drilling season within 3 miles of each other.
- Currently sunsets July 1, 2007.

Proposed Amendments:

- Would extend the current sunset from 2007 to 2010 only for the Alaska Peninsula (onshore acreage and state waters only).
- This extension is appropriate for the proposed Alaska Peninsula sale area.
 - There are currently no facilities or infrastructure in the area.
 - There is no modern seismic data in the area.
 - Activity in the area would be true wildcat exploration.
 - Because there is no leased acreage in the area, a EC in this area would make it more likely that industry would be willing to bid more on the leases.
 - As a result of the exploration, the state would receive data which it would be able to release after 10 years.
 - The proposed sale is tentatively scheduled for late 2005. It is not expected that leases would be issued until sometime in 2006. It is unlikely with the currently 2007 deadline that exploration activity in the proposed Alaska Peninsula sale would qualify for this EC.

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Senate Resources

March 2, 2005

Bob
SB 53 Packet – materials

- Governor's Transmittal Letter – 1 pages
- SB 53 Q & A: rcvd from department – 1 page
- Bill (5 pages)
- Fiscal Note #1 REV (2 pages)
- Fiscal Note #2 DNR (1 page)
- MOU – Aleut Corporation (3 pages)
- MOU – Bristol Bay Native Corporation (3 pages)
- Support Letter - Bristol Bay Borough – 2 pages
- Resolution - Bristol Bay Borough – 2 pages
- Support Letter - Aleutians East Borough – 1 page
- Support Letter - Lake & Peninsula Borough – 2 pages
- Support Letter f- Bristol Bay Native Corporation – 1 page
- Support Letter - King Salmon Tribe – 1 page
- Support Letter - Newhalen Tribal Council – 2 pages
- Resolution - Newhalen Tribal Council – 2 pages
- Support Letter - City of Aleknagik – 1 page
- Resolution - City of Aleknagik – 2 pages

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE (907) 465-2389

February 16, 2005

The Honorable Tom Wagoner,
Chair – Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Re: SB 53 AK PENINSULA OIL & GAS LEASE SALE; TAXES

Dear Chairman Wagoner:

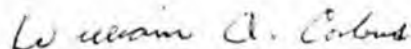
Senate Bill 53 was introduced by the Senate Rules Committee by request of the Governor on January 12 and referred to the Senate Resources Committee.

Senate Bill 53 extends from July 1, 2007 to July 1, 2010 the deadline for making qualified exploration expenditures under new AS 43.55.025 (passed in 2004) in the Bristol Bay area. Leases in the Bristol Bay (Alaska Peninsula) Competitive Oil and Gas Lease Sale are not expected to be issued prior to the spring of 2006. Production expenditures on these leases thus will most likely be made after July 1, 2007 and will not qualify for tax credits under the current law.

I respectfully request that SB 53 be scheduled for a hearing before your committee at your earliest convenience.

If you need assistance or information, please do not hesitate to contact Jerry Burnett at 465-2302.

Very truly yours,



William A. Corbus
Commissioner

Production Tax Credit for Exploration Expenditures (SB 53)

What exploration expenditures qualify for the tax credit?

43.55.025(a)(1)

- 20% of exploration expenditures for a well 3 miles from an existing well
OR
- 20% of exploration expenditures for a well 25 miles outside a unit
OR
- Both, which means 40% of exploration expenditures for a well that is 3 miles from an existing well and 25 miles outside the unit

43.55.025(a)(2)

- 40% of seismic not associated with a well

What tax can they be credited against?

43.55.025(a)

Tax on production after July 1, 2004

When must these expenditures be made?

43.55.025(b)

- Statewide between July 1, 2003 and July 1, 2007
- AK Peninsula between July 1, 2003 and July 1, 2010

What types of exploration expenditures qualify?

43.55.025(b)(1)

Seismic or geophysical exploration not connected to a well

43.55.025(b)(2)

Exploration well

- reasonably required costs for goods, services, and rentals to prepare and drill.
- costs associated with abandonment of dry holes within 18 months.

43.55.025(b)(3)

Exclusions: testing, stimulation, completion costs, admin, supervision, engineering, operating costs, bonuses, taxes, indirect or financing costs.
Work included in a unit plan as of May 13, 2003.

MEMORANDUM OF UNDERSTANDING**Between****ALASKA DEPARTMENT OF NATURAL RESOURCES****And****THE ALEUT CORPORATION****To****HOLD CONCURRENT OIL AND GAS LEASE SALES OF STATE AND TAC
LAND IN THE ALEUT REGION &
TO FACILITATE CONSTRUCTION OF A TRANSPORTATION
INFRASTRUCTURE THAT WILL SUPPORT THESE DEVELOPMENT
PROJECTS**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and The Aleut Corporation (TAC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and TAC is responsible for managing its 1.572 million acre mineral estate on behalf of its 3,250 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin including portions of the Aleut region on the Alaska peninsula has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Any discoveries of, and subsequent development of, commercial quantities of oil, gas, & mineral deposits in the Aleut region should benefit both the State of Alaska and TAC's shareholders.
- D. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent landowners to have similar land management and leasing programs in place.
- E. With TAC's support, the Alaska Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant to further evaluate the oil and gas potential of the Bristol Bay basin.
- F. The development of transportation infrastructure, as recommended by the Southwest Alaska Regional Transportation Plan, such as deep water ports, roads and airports, along the Alaska Peninsula should make oil, gas, and other mineral prospects more accessible, and thereby more economically feasible to explore and develop.

- G. The Alaska DNR, TAC, and BLM have been working collaboratively to rationalize ANCSA 17(b) and RS 2477 access issues.
- H. The Alaska DNR, TAC, and BLM have been working collaboratively to revoke obsolete federal land withdrawals in the Bristol Bay region.
- I. TAC supports the construction of an access road from Cold Bay to King Cove.

Agreements:

- The term of this MOU will be for five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- To the extent consistent with their respective interests and statutory or regulatory responsibilities, or corporate responsibilities, the Parties will work cooperatively to ensure that exploration and development activities are consistent with the land management and development plans of both Parties.
- The Parties agree that they will cooperate to ensure all development projects in the Aleut region are pursued in an environmentally responsible manner with maximum efforts to minimize impacts to fishery resources.
- TAC and the State of Alaska will work cooperatively to re-open offshore oil and gas prospects to exploration.
- Where reasonable to do so, the Parties will endeavor to synchronize the timing of their oil and gas-leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities.
- The Parties will communicate their development goals to other interested parties in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent legally permissible, information generated pursuant to this MOU may be kept confidential when requested in writing by a party to this MOU. Information released by a party to this MOU must credit the source of the information.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):

DNR Commissioner
 State of Alaska DNR
 550 W. 7th Ave., Suite 1400
 Anchorage, AK 99501-3561

Chief Executive Officer
 The Aleut Corporation
 4000 Old Seward Hwy, #300
 Anchorage, AK 99503

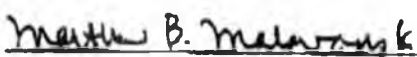
- This MOU may be terminated within thirty(30) days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.
- Others may become party to this MOU upon written consent of the Parties.

Approved:



Tom Irwin, Commissioner
Alaska Dept. of Natural Resources

12/18/03
Date



Martha Malavansky
President, TAC

12/18/03
Date

MEMORANDUM OF UNDERSTANDING**Between****ALASKA DEPARTMENT OF NATURAL RESOURCES****And****BRISTOL BAY NATIVE CORPORATION****To****FACILITATE OIL AND GAS LEASE SALES ON STATE AND BBNC LAND IN
THE BRISTOL BAY REGION**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and the Bristol Bay Native Corporation (BBNC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and BBNC is responsible for managing its 3.1 million acre mineral estate on behalf of its 7,100 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Exploration of oil and gas resources is a vital component to stimulating the local economy and providing jobs and economic opportunities in the region.
- D. The discovery of commercial quantities of oil and gas would provide an opportunity for low cost energy in the region, further stimulating the local economy.
- E. Any discoveries of commercial quantities of oil and gas in the Bristol Bay region will benefit both BBNC's shareholders and the State of Alaska, so it is in the best interest of the Parties to encourage exploration for such resources.
- F. BBNC has requested that the State facilitate on-shore oil and gas exploration in the region by holding annual areawide lease sales, beginning as soon as possible.
- G. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent

landowners to have similar land management and leasing programs in place.

- H. With BBNC's support, the DNR's Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant (\$150,000 of cash and in-kind contributions to be provided by BBNC) to further evaluate the oil and gas potential of the Bristol Bay basin.

Agreements:

The Parties agree to the following provisions:

- The Parties will work cooperatively to facilitate oil and gas leasesales of state and BBNC lands in the region to be held as soon as feasible.
- The Parties will cooperate to ensure all development projects in the Bristol Bay region will be pursued in an environmentally responsible manner and will minimize impacts to fishery resources.
- The Parties will work cooperatively to convince the federal government to re-open federal offshore oil and gas prospects in the region to exploration.
- The Parties will endeavor to synchronize the timing of their oil and gas leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities in the region.
- The Parties will communicate their development goals to other interested entities in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent allowable by statutes and regulations, the Parties will share information that will assist in accomplishing the objectives of this agreement.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):

DNR Commissioner
State of Alaska
550 W. 7th Ave., Suite 1450
Anchorage, AK 99501

Chief Executive Officer
Bristol Bay Native Corporation
800 Cordova Street
Anchorage, AK 99501

- The term of this MOU will be five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- This MOU may be terminated with thirty days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.

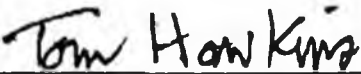
- Others may become party to this MOU upon written consent of the Parties.

Approved:



Thomas E. Irwin, Commissioner
Alaska Dept. of Natural Resources

7/10/03
Date



Tom Hawkins
SRVP & COO, BBNC

7.10.03
Date

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

October 22, 2003

RECEIVED
OCT 27 2003

Commissioner Tom Irwin
Department of Natural Resources
550 W 7th Avenue, Suite 1400
Anchorage, Alaska 99501

DIVISION OF
OIL AND GAS

RE: Bristol Bay Region: Oil and Gas Programs
Public Comments - Due October 30, 2003

Commissioner Irwin:

Please consider the following comments from the Bristol Bay Borough:

1. The Bristol Bay Borough Assembly is in strong support of the State of Alaska's recent efforts to advance oil & gas exploration in the Bristol Bay region.
2. The Bristol Bay Borough is committed to finalizing a Memorandum of Understanding with the Alaska Department of Natural Resources outlining critical areas of interest with respect to regional oil & gas development and outstanding municipal lands issues.
3. The Bristol Bay Borough is supportive of the continued public outreach evidenced to date by the State of Alaska on the Bristol Bay oil & gas exploration initiative and anticipates that this outreach effort will remain constant throughout the proposed development timeline.

DEPARTMENT OF
NATURAL RESOURCES

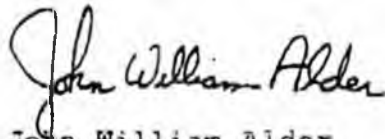
OCT 24 2003

COMMISSIONER'S OFFICE
ANCHORAGE

Letter to Commissioner Irwin
October 22, 2003
Page 2

4. The residents of the Bristol Bay Borough are heavily dependent upon the robust regional fish & wildlife resources for subsistence needs. While the Bristol Bay Borough Assembly is in support of resource development, all development must proceed with due diligence in order to minimize potential negative impacts to the fish & wildlife resources.
5. Local knowledge of regional environmental conditions and fish & wildlife characteristics is one of our greatest resources in the Bristol Bay region. Accordingly, the Bristol Bay Borough recommends that all state agencies proceed throughout the oil & gas development process in a method that relies heavily upon local input. Any subcommittees or advisory panels empowered by the state should include local knowledgeable residents.
6. The Bristol Bay region has long suffered from seasonally sporadic employment. The regional oil & gas development initiative offers an exciting departure from the long winter season low employment cycle. The Bristol Bay Borough Assembly strongly urges the State of Alaska to continue in its expressed commitment to channel oil & gas employment training through the newly established Southwest Alaska Vocational Education Center (SAVEC) in King Salmon thereby enabling optimal local hire during exploration and development of potential oil & gas prospects.

Sincerely,



John William Alder
Borough Manager

cc: Mayor Michael Swain
Borough Assembly members

P.O. Box 189
NAKNEK, ALASKA 99633

www.theborough.com



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

BRISTOL BAY BOROUGH RESOLUTION 2002-02

A RESOLUTION SUPPORTING OIL & GAS EXPLORATION ON NATIVE CORPORATION LANDS NEAR BRISTOL BAY BOROUGH

WHEREAS, Bristol Bay Borough and Communities throughout Western Alaska face difficult economic conditions due in part to high costs of living, high costs of energy and depressed fish prices and;

WHEREAS, all refined petroleum products required to operate home heating furnaces, electrical generators, cannery retorts and fish harvesting vessels are imported into the region and stored, both at very high costs and;

WHEREAS, the oil & gas industry has in the past expressed interest in exploring for reserves on the Alaska Peninsula on or near lands currently owned by the Alaska Peninsula Corporation and Bristol Bay Native Corporation as well as other lands in the region and;


WHEREAS, the interest was significant enough for the private sector to invest considerable capital in seismic and actual drilling exploration and;

WHEREAS, Senator Stevens in recent conversations with Bristol Bay Borough officials and before the Alaska State Legislature indicated a willingness to petition Congress to add funding to the United State Geologic Survey in order to enable regional oil & gas assessments throughout rural Alaska and;

WHEREAS, potential development of oil & gas reserves on the Alaska Peninsula would likely yield direct benefits to the Bristol Bay Borough, borough residents and businesses and economic development efforts to revive our ailing economy and,

NOW THEREFORE BE IT RESOLVED, that the Bristol Bay Borough Assembly strongly encourages the local & regional Bristol Bay ANCSA corporations to work closely with the Borough, private sector oil & gas firms and the Congressional delegation in the wise development of our natural oil & gas resources in an effort to optimize benefits to the overall Bristol Bay region and State of Alaska.

PASSED AND APPROVED, by a duly constituted quorum of the Bristol Bay Borough Assembly on this 4th day of February, 2002.


Michael S. Swain Sr., Mayor

ATTEST:


Betty J. Borja, Borough Clerk

ALEUTIANS EAST BOROUGH

SERVING THE COMMUNITIES OF

■ KING COVE ■ SAND POINT ■ AKUTAN ■ COLD BAY ■ FALSE PASS ■ NELSON LAGOON

October 14, 2003

James Hansen,
Leasing Manager
Division of Oil & Gas
Department of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, AK 99501

Ref.: Proposed Alaska Peninsula & Bristol Bay
Oil & Gas Leasing Program

Dear Mr. Hansen,

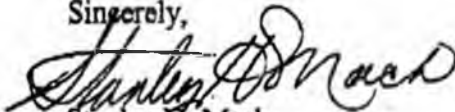
The Assembly of the Aleutians East Borough wants to thank you and your team for the presentation on October 7, 2003. Even though the weather did not allow everyone to get to Cold Bay, the Assembly's comments after the meeting included their appreciation of your efforts to brief the Assembly and the residents of the Aleutians East Borough.

First, it is the Borough's understanding that if there is Best Interest Finding, all development will take place within the State's jurisdiction and that there will be no development off shore. Furthermore, the Borough understands that the majority of the development will likely be on State owned land. Second, the concerns voiced by the people of Nelson Lagoon are symptomatic of the concerns of the majority of the Aleutians East Borough's residents. They were:

1. We need to protect our fish and game resources.
2. We need local jobs and employment at all stages of development. This must be at all levels, management, technical and labor, union and non union, should oil or gas be produced within the Aleutians East Borough.
3. We need any and all exploration sites returned to their original nature.

To this end, the Assembly passed a motion supporting the State of Alaska's efforts to conduct a Best Interest Finding process for the proposed oil & gas leasing program on the Alaska Peninsula.

Sincerely,


Stanley A. Mack
Mayor

RECEIVED

OCT 16 2003

DIVISION OF
OIL AND GAS

CLERK/PLANNER
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SAND POINT, AK 99661
(907) 383-2699
(907) 383-3488 FAX
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(907) 276-7569 FAX
e-mail: aeabanc@aci.net

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(907) 497-2386 FAX
e-mail: aeblfinance@aol.com