

ALASKA LEGISLATURE COMMITTEE REPORTS 2007 2008 2009 2010

12257 HOUSE RES

If HB 128 passes the question of what costs are deductible becomes open at each audit. Auditors will be obligated to test each "cost" submitted against a standard of "improperly maintained" or "diminished capacity". This simply is not workable. The determination is not even related to an incident – such as an unpermitted spill – but rather to the act of "repair and replacement".

I will paraphrase the same comments to you as we provided to the Department of Revenue during the hearings on the first regulations under the PPT:

"We want to avoid long years of court battles over the application and interpretation of the statute and regulations. We experienced enough of those battles in the 1970s, '80s and early '90s. What we need to avoid a repetition of that hard experience are statutes and regulations that will give clear answers to the questions of what the taxable value of oil and gas is and which costs are deductible in determining that value."

We strongly believe that HB 128 is a step backward in achieving effective clarity in the PPT.

One final observation: There is consensus that Alaska's future challenge is focused on declining oil and gas production, and about how this decline can be slowed. If North Slope production continues to decline at 6.5% a year as it has steadily been doing since the early 1990s, it will be down to 400,000 barrels a day by the end of 2017. It is this reality that drives the need for a gas pipeline and the need for new oil production as the continued base of Alaska's economy. It is this reality that led legislators to take an entirely new approach to oil and gas tax – one that would encourage investment and production by sharing some of the cost. This does not translate into taking a smaller share than the State should have – it is about encouraging more production so the State continues getting its share. HB 128 goes in the wrong direction from this prudent tax policy. For all these reasons, then, AOGA opposes HB 128, and we respectfully urge you not to move it out of your committee.

Thank you again for this opportunity to testify today.



**Board of Directors, Anchorage Chamber of Commerce
Resolution 2006/07-06**

In Opposition to changes to the Petroleum Production Tax, SB80 and HB 128

WHEREAS the Anchorage Chamber of Commerce is, by definition, an organization designed to protect and promote the interests of business; and

WHEREAS, on April 7, 2006, the Anchorage Chamber Board of Directors publicly stated "an effective, petroleum production tax [PPT] should accomplish several goals including:

- a. shifting to the worldwide standard of a production profits tax structure is expected to generate increased revenue for the state of Alaska;
- b. providing a basis for fiscal stability for the oil and gas industry thereby encouraging gas pipeline construction;
- c. addressing the interests of both large and small producers;
- d. encouraging investment in technology and infrastructure to maximize North Slope oil production;
- e. creating an environment that encourages exploration and development of all of Alaska's oil and gas resource base;
- f. stirring economic development which, in turn, will provide new jobs and new business opportunities;" and

WHEREAS, the Anchorage Chamber of Commerce Board of Directors supported the PPT as outlined above, recognizing an increase of more than \$1 billion in taxes, nearly tripling taxes previously paid by the oil and gas industry; and

WHEREAS, the enacted PPT legislation allowed deductions for operating costs from taxes, a 20-percent tax credit for capital investments, and language that disallowed deductions arising from fraud, willful misconduct, or gross negligence; and

WHEREAS, the Anchorage Chamber of Commerce recognizes the need for an additional \$2-\$3 billion in investment in the North Slope to meet the production demands of the Alaska Department of Revenue's forecast; and

WHEREAS, a stable regulatory climate is a necessary component of any city or state encouraging business investment; and

WHEREAS, as proposed, SB80 and HB 128 change the tax structure of the PPT passed by the Legislature less than one-year ago aiming to disallow energy companies from deducting expenses incurred from improper facility maintenance; and

WHEREAS, as written, SB80 and HB 128 do not include definitions for "improper maintenance", among other terms; and

WHEREAS, the Alaska Departments of Environmental Conservation, Department of Natural Resources, and the Alaska Oil and Gas Commission have separately documented concerns about their respective ability to implement such ambiguous law; and

WHEREAS, the proposed legislation subjects the State of Alaska and production companies to lengthy and costly lawsuits that could distract from other projects.

NOW THEREFORE BE IT RESOLVED the Anchorage Chamber of Commerce is opposed to proposed legislation changing the substance of the Petroleum Production Tax;

AND BE IT FURTHER RESOLVED that:

1. Senate Bill 80 and House Bill 128 are not only bad law but also bad business practice and should not be passed by the Legislature.
2. The promulgation of state tax law changes to punish businesses for operational mistakes is unconscionable.
3. The Legislature should set tax law, not attempt to be the enforcer. Such is the purview of the executive branch of the government.
4. Punitive tax law changes after the offending fact sets a disturbing trend in government regulation of business.
5. If passed in its current form, SB 80 and HB 128 should be vetoed by the Governor.

AND BE IT FURTHER RESOLVED that this resolution be sent to members of the State of Alaska Legislature, State of Alaska Governor Palin, Anchorage Mayor Begich, Alaska Oil & Gas Association, Resource Development Council, Alaska Support Industry Alliance, chambers of commerce statewide, and the 1,200 member businesses who comprise the Anchorage Chamber.

Approved the 16 day of March 2006.



Willam J. Evans, 2006-07 Chair



Stacy Schubert, President

AMENDMENT #1

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

- 1 Page 3, lines 22 - 23:
- 2 Delete "the standard practices of the industry"
- 3 Insert "good oil field practice"

BP Presentation to the House Resources Committee

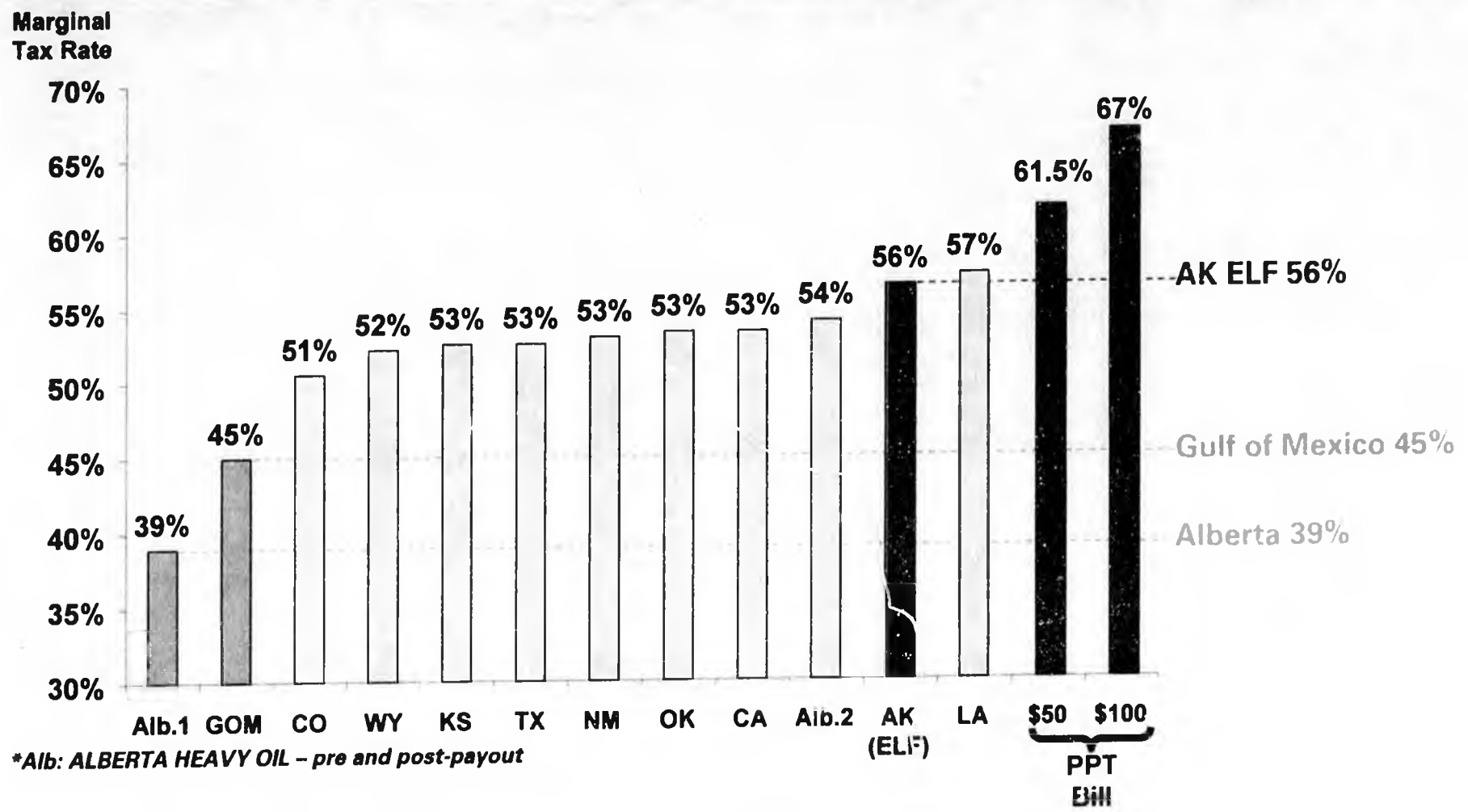
Juneau, March 23rd 2007



- PPT is working for the State of Alaska:
 - Pieces fit together and the taxpayers can comply
 - BP's 2006 production tax nearly tripled from ELF to PPT
- Will Alaska attract sufficient investment to stem production decline?
 - PPT has greater incentives for investment than the ELF
 - But we believe the rate is too high to be optimal for the State
- HB 128 would introduce unnecessary uncertainty
 - Potential ambiguity with existing provisions
 - Unnecessary: \$0.30/bbl exclusion addressed the same concern
- Five year period to review success of PPT (AS 43.55.180)



Alaska has adopted the highest marginal tax rate in the North America



Alberta & Gulf of Mexico are booming while Alaska production is declining



THE ALLIANCE

...for responsible development of Alaska's Oil, Gas & Mineral Resources

300 West Benson Blvd., Suite 200 • Anchorage, AK 99503 • Phone (907) 563-2228 • Fax (907) 561-8870

FAXED APRIL 30, 2007

The Honorable Craig Johnson, Co-Chairman
House Resources Committee
Alaska State Legislature
State Capitol (MS 3101)
Juneau, Alaska 99801-1182

Dear Representative Johnson,

The Alaska Support Industry Alliance, a trade association whose 400 members provide goods and services to Alaska's oil, gas and mining industries and more than 30,000 jobs for Alaskans, would like to express our opposition to House Bill 128. We believe the bill is unnecessary, unfair and premature. It will accomplish little but to spawn disputes and uncertainty, and it will be a further disincentive to the long-term oil and gas investment that's the lifeblood of Alaska's economy. We urge you not to pass it out of the Senate Finance Committee.

The bill is unnecessary. Current legislation already denies tax credits for lease expenditures resulting from fraud, willful misconduct or gross negligence, and disallows costs related to spills.

The bill is unfair, and would result in double taxation. The flat 30-cent-per-barrel tax credit exclusion in the new Petroleum Production Tax (PPT) explicitly was intended to cover all maintenance expenditures - those resulting from "proper" and "improper" maintenance. HB 128's additional exclusion for costs incurred due to "improper maintenance" constitutes double taxation. Producers across the board are denied deductions for maintenance costs under the umbrella of the 30-cent-per-barrel provision of the PPT, then would be denied additional tax credits on a case-by-case basis for some of the same maintenance expenditures under HB 128.

The bill is a petri dish for tax disputes. Terms in HB 128 such as "improper" maintenance and "diminished" capacity are vague and undefined, leaving interpretation in the hands of several commissioners, headed by the commissioner of Revenue. By contrast, the 30-cent provision offers clarity and certainty. We may not like it, but at least everyone understands the rules.

Alliance opposition to HB 128
Page 2

The bill is premature. It's been less than a year since the legislature retroactively imposed the largest tax increase in Alaska's history on North Slope producers, roughly tripling severance taxes. Regulations for the new PPT haven't even been drafted yet, and HB 128 proponents already want to change it. The Alliance believes additional changes at this time will further undermine Alaska's reputation as a stable and predictable place to invest, resulting in fewer jobs and business opportunities for Alaskans.

HB 128 may seem like prudent politics to some, but it's poor public policy. The Alliance opposes this proposed legislation and urges you not to move it out of your House Resources subcommittee. Thank you for your consideration.

Sincerely,

Paul Laird

Paul Laird
General Manager

Debra Higgins

From: Christopher Clark [Christopher_Clark@gov.state.ak.us]
Sent: Thursday, April 26, 2007 10:45 AM
To: 'Bailey, Frank (Dept. of Admin)'
Cc: Sharon Long; 'Shannon Devon'; Norman, John K (DOA); Mary Jackson; Rep. Kurt Olson; Konrad Jackson; Heath Hilyard; Debra Higgins; Sen. Tom Wagoner
Subject: Wanted: New fiscal note from AOGCC for SB 80
Attachments: John_Norman.vcf

Buongiorno, Frank!

Senate Resources plans to remove the Alaska Oil and Gas Conservation Commission from its version of SB 80, according to committee aide Sharon Long. See her e-mail below.

Please have the agency prepare a zero fiscal note to reflect that change. We may also want to be ready to produce a similar one for HB 128, the companion bill, that is now in House Resources, provided, of course, that committee takes similar action.

Thank you.

Chris

From: Sharon Long [mailto:Sharon_Long@legis.state.ak.us]
Sent: Thursday, April 26, 2007 8:47 AM
To: Christopher Clark
Subject: FW: sb 80/ HB 128

Hi Chris, This will likely move out of SRES on Friday. However, (don't you just LOVE the "however") The AOGCC will no longer be in it (they're subsumed in the Pipeline Systems Integrity Ofc) so their Fiscal note will go to zero. Sooooooo, if you're in the mood, a zero-note from AOGCC? Or, am I getting Too far out there?
Cheerio deario,
sjl

From: Mary Jackson
Sent: Thursday, April 26, 2007 8:08 AM
To: Sharon Long
Subject: FW: sb 80/ HB 128

fyi

mj

From: John Norman [mailto:John_Norman@admin.state.ak.us]
Sent: Wednesday, April 25, 2007 12:20 PM
To: Mary Jackson
Cc: Konrad Jackson; Cathy P Foerster; Dan T Seamount; Jody J Colombie
Subject: Re: sb 80/ HB 128

That is correct. Any consultation we provide as part of the PSIO working group will be part of our

4/26/2007

ongoing responsibilities with no additional fiscal impact on AOGCC.

John

Mary Jackson wrote:

just double-checking.

if the amendment to insert psio is approved, aogcc would not be named in the body of the bill.

so... you would not have any fiscal note on this bill.

am i correct?

mary j

REVISED FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: SB080-DOA-AOGCC 4-26-07
 Bill Version: SB080
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title Oil and Gas Production Tax RDU AOGCC
 Component AOGCC
 Sponsor Senators Wagoner, Therriault, Dyson, et al.
 Requester Senate Resource Component No. 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1162 AOGCC Receipts	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Any consultation we provide as part of the Petroleum Systems Integrity Office (PSIO) working group will be part of our ongoing responsibilities at the Alaska Oil and Gas Conservation Commission (AOGCC). Therefore there will be no additional fiscal impact on the agency with the passing of this bill.

Prepared by: Jody J. Colombie, Special Assistant I
 Division: Alaska Oil and Gas Conservation Commission
 Approved by: Rachael Petro, Deputy Commissioner
 Agency: Department of Administration

Phone 793-1221
 Date/Time 4/26/07 3pm
 Date 4/26/07

ALASKA DEPARTMENT OF REVENUE
News Release

www.revenue.state.ak.us

Sarah Palin, Governor
Patrick Galvin, Commissioner

P.O. Box 110400
Juneau, Alaska 99811-C 100
Telephone: 907.465.2300
Fax: 907.465.2389

Date: April 3, 2007

FOR IMMEDIATE RELEASE

*Media Contact: Jerry Burnett, Legislative Liaison, 907.465.2312
Marcia Davis, Deputy Commissioner, 907.465.2301*

New Production Tax Nets Increased Revenues For Alaska

\$813 million received by state from tax change made last August.

Yesterday was the deadline for the taxpayers' "true-up" payments for any additional production tax liability for the period of April 1, 2006 through December 31, 2006. The true-up payments received by the Department totaled about \$813 million, which represents the increase in revenues as a result of PPT. Since January 1, 2007, taxpayers have been required to calculate their production tax liability under PPT, and no further "true up" payments will be required.

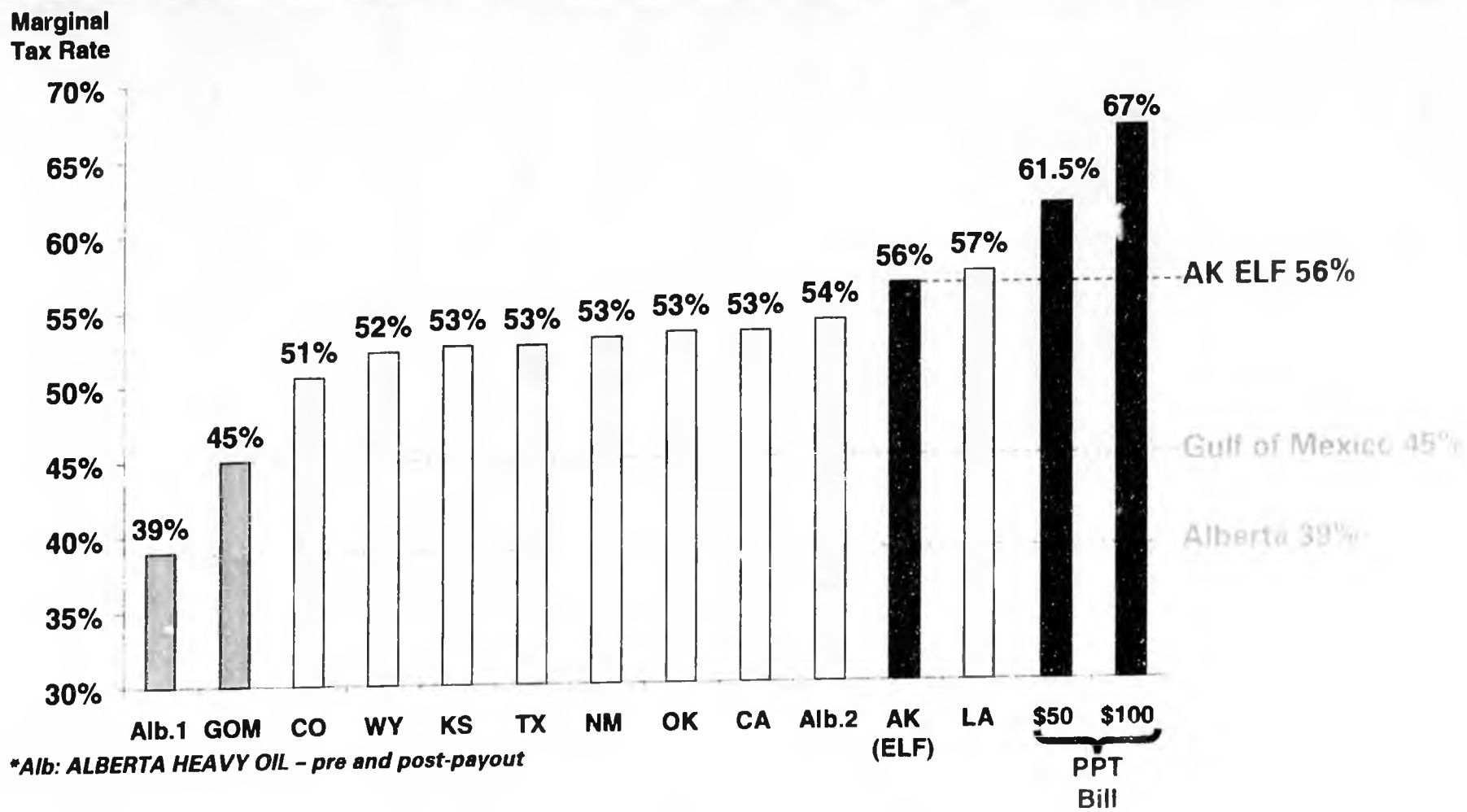
The Department had anticipated total payments of around \$950 million, however, the Department's job of estimating the PPT "true up" payments required a complex model with multiple moving parts. The model needed to not only forecast the probable PPT tax, including new credits and classes of cost deductions, but to also estimate the ELF payments that would be made. On top of this challenge came the unique complexities of 2006, with the backdrop of unusual production losses and higher costs at Prudhoe Bay Unit. We are now reviewing the tax returns submitted with the payments and will have a better understanding of why the actual payments were lower than anticipated once these have been fully analyzed. Future years will not have the complexity of 2006, in which both the former production tax system (ELF) and the PPT need to be modeled, offset, and their interactions anticipated. Based on the information contained in the PPT tax returns we receive, we will be looking closely at our models to continually improve our revenue forecasting ability. However, because of the nature of a net profits tax, decision makers can anticipate greater volatility in revenue forecasts under the PPT system as compared to the ELF system - perhaps as much as a 5% to 10% error factor.

Production Tax amounts are subject to audit for three years and refund claims for three years after a return is filed. Please note that information about the amounts paid by individual taxpayers is confidential by statute.

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Alberta & Gulf of Mexico are booming while Alaska production is declining

BP Presentation to the House Resources Committee

Juneau, March 28th 2007



- PPT is working for the State of Alaska:
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- Five year period to review success of PPT (AS 43.55.180)

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Anchorage Daily News

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Time won't stop for oil tax bill**INCHING ALONG: After 11 weeks, complex measure slips out of first committee.**By SABRA AYRES
Anchorage Daily News*(Published: April 28, 2007)*

JUNEAU -- The bill seemed a sure thing when it was introduced 11 weeks ago with 38 of Alaska's 60 lawmakers' signatures supporting it.

The bill would close a perceived loophole in the state's new oil production tax law by barring oil companies from taking deductions for costs related to the repair or replacement of improperly maintained oil fields or equipment.

But the bill has made slow progress. With less than three weeks before the Legislature adjourns, the bill passed out of its first committee Friday.

The legislation came just days after BP announced it planned to deduct \$11 million in costs associated with replacing corroded Prudhoe Bay pipelines that caused the North Slope's largest oil spill ever early last year and caused a partial shutdown of the huge oil field last August.

Sen. Tom Wagoner and Rep. Kurt Olson, both Republicans from Kenai, introduced companion bills in February, with 17 senators and 19 House members co-sponsoring identical versions of the bill.

Gov. Sarah Palin has also said she supports the bill's passage.

"There is an expectation from the administration's part that we are going to close up any loophole there on the taxation issue, the deferred maintenance issue," Palin said Friday.

But despite the flood of bipartisan support, lawmakers have made slow progress on the bill, a frustration for the original sponsors.

Both the House and Senate Resources Committees have struggled with the bill's complex language and how to define "improper maintenance."

Adding to the complexity is the governor's creation of a new office within the Department of Revenue that will oversee pipeline integrity. How this bill, if it passes, will impact that office's role and regulations remains a difficult question, said Sen. Lesil McGuire, R-Anchorage, a member of the Resources Committee.

While most lawmakers signed on have indicated they still support the bill's passage in some form, at least one House member, Rep. Peggy Wilson, R-Wrangell, withdrew her name.

House Resources Co-Chair Carl Gatto, R-Palmer, who has indicated he would like to see some version of the bill pass this year, has asked a special subcommittee to look closely at the bill and return to the full committee next week.

Passing the bill by the end of the legislative session, which closes on May 16, could be difficult.

Lawmakers are still working through several key pieces of legislation, including the governor's gas pipeline bill, the Alaska Gasline Inducement Act, ethics bills and the state budget.

"I'm very worried about the bill's passing," Wagoner said. "We don't know why it's being held up."

The Senate Resources Committee on Friday amended the bill to allow companies that are found to have improperly maintained fields or equipment the right to deduct costs associated with the shutdown of production, but not the repairs or replacements.

"Ten years from now, do we want to be facing an operator who is practicing good oil field practices, has a worker who makes a mistake, and then can't take out the costs of shutting down its production?" McGuire said. "If the word gets out that if you make a common mistake you shouldn't shut down, I think that's sending the wrong message."

Wagoner and Sen. Bill Wielechowski, D-Anchorage, disagreed with the amendment, saying it would cause the state to pay for producers' negligence.

"I think we should be offering an incentive for companies to practice good oil field production," Wielechowski said.

Daily News reporter Sabra Ayres can be reached at sayres@adn.com or 1-907-586-1531.

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AMENDMENT

Same as
Conceptual # 4
fr 5/02

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 128(O&G)

1 Page 4, line 1, following "equipment":

2 Insert ";

3 (20) costs related to the maintenance of oil and gas facilities,
4 equipment, and infrastructure that are incurred as a result of a violation of a
5 regulation adopted by the person in the Department of Natural Resources who is
6 the lead person for exercising oversight over the maintenance of oil and gas
7 facilities, equipment, and infrastructure in the state"

8

9 Page 4, lines 4 - 5:

10 Delete all material and insert:

11 "APPLICABILITY. (a) AS 43.55.165(c)(19), as enacted in sec. 1 of this Act, applies
12 to oil and gas produced after March 31, 2006.

13 (b) AS 43.55.165(e)(20), as enacted in sec. 1 of this Act, applies to oil and gas
14 produced after the effective date of the regulations described in sec. 5 of this Act."

15

16 Page 4, line 20:

17 Delete "Section 1 of this Act"

18 Insert "AS 43.55.165(e)(19), as enacted in sec. 1 of this Act,"

19

20 Page 4, line 21:

21 Delete all material and insert:

22 "* Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
23 read:

1 **CONDITIONAL EFFECT; NOTICE.** (a) AS 43.55.165(e)(20), as enacted in sec. 1 of
2 this Act, takes effect only if the person in the Department of Natural Resources who is the
3 lead person for exercising oversight over the maintenance of oil and gas facilities, equipment,
4 and infrastructure in the state adopts regulations related to the maintenance of oil and gas
5 facilities, equipment, and infrastructure in the state.

6 (b) The commissioner of natural resources shall notify the revisor of statutes of the
7 effective date of the regulations described in (a) of this section.

8 * **Sec. 6.** If AS 43.55.165(e)(20), as enacted in sec. 1 of this Act, takes effect, it takes effect
9 on the effective date of the regulations described in sec. 5 of this Act.

10 * **Sec. 7.** Except as provided in sec. 6 of this Act, this Act takes effect immediately under
11 AS 01.10.070(c)."

ALASKA STATE LEGISLATURE
House Resources Committee

Carl Gatto, Co-Chair

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Rep_Craig_Johnson@legis.state.ak.us

FAX

To: Don Bullock, Legislative Legal **From:** Debra Higgins
Fax: 2029 **Phone:**
Date: May 4, 2007 **CC:**
Re: Amendments for HB 128
Pages with Cover: 6

Don,
The House Resources committee adopted the attached amendments for CSHB 128(O&G), 25-LS0561K .
They are k.1 and k.2; conceptual amendments 1 and 2, as amended, (both are similar to ones in SB 80); and
conceptual amendment 4.

For Conceptual Amendment 2 – the amendments were:

Line 8-9 of conceptual amendment 2.

Delete: "the design, construction, testing, operating, and maintaining"

Insert: "testing operation and maintenance"

For Conceptual Amendment 4:

Page 2, line 3, new subsection (8) #20

Insert: "(8) costs incurred as a result of an action or inaction in violation of regulation or procedures adopted by
the Petroleum Systems Integrity Office or other appropriate agency;"

Renumber subsequent subsections accordingly.

I need to get these to you sooner. If you have any questions, my number is 3715.

Thanks,
Debbie

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

- 1 Page 3, lines 22 - 23:
- 2 Delete "the standard practices of the industry"
- 3 Insert "good oil field practice"

Adopted in HR Resources
committee on 3/23/07

PA 1/2

25-LS0561K.2
Bullock
3/21/07

AMENDMENT ~~1123~~

adopted
5/02/07

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

1 Page 4, lines 9 - 10:

2 Delete "lease expenditures that may not be deducted"

3 Insert "costs that may not be treated as lease expenditures or claimed as a credit based
4 on costs that may not be claimed as lease expenditures"

5

6 Page 4, line 10:

7 Delete "AS 43.55.165(e), as amended"

8 Insert "AS 43.55.165(e)(19), as enacted"

9

10 Page 4, line 13, following "AS 43.55.020(a)":

11 Insert "before the effective date of this Act"

12

13 Page 4, line 15:

14 Delete "lease expenditures that may not be deducted"

15 Insert "costs that may not be treated as lease expenditures or attributable to a credit
16 based on costs that may not be claimed as lease expenditures"

17 Delete "AS 43.55.165(e) as amended"

18 Insert "AS 43.55.165(e)(19), as enacted"

19

20 Page 4, following line 17:

21 Insert a new subsection to read:

22 "(c) Interest on an additional amount of tax due under (a) of this section or on
23 the amount of the underpayment of an installment under (b) of this section does not

Pg 2/2

25-LS0561\K.2

1 begin to accrue until 90 days after the effective date of this Act."

CONCEPTUAL AMENDMENT 1

~~#~~
adopted

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

1 Page 3, lines 21 - 22:

2 Delete "Alaska Oil and Gas Conservation Commission"

3 Insert "person in the Department of Natural Resources who is the lead person for
4 exercising oversight over the maintenance of oil and gas facilities, equipment, and
infrastructure in the state"

adopted
5/04/07

CONCEPTUAL AMENDMENT 2

*adopted
as amended
with conceptual amendments
2-2 and 2-3.
5/02/07*

OFFERED IN THE HOUSE

TO: CSHB 128(O&G) (Version 25-LS0561\K)

1 Add a new paragraph (4) to AS 43.55.165(j):

2 (4) "improper maintenance" is defined as any maintenance that is not
3 consistent with good oil field practice.

5 Add a new paragraph (5) to AS 43.55.165(j):

6 (5) "good oil field practice" is defined as a practice that is generally
7 accepted to be good, safe and efficient in carrying out oil field operations,
8 including, but is not limited to, ^{testing operation and maintenance} ~~the design, construction, testing, operating, and~~
9 ~~maintaining~~ of production, processing and transportation facilities and equipment,
10 consistent with standards such as the American Petroleum Institute (API) or
11 American Society for Testing and Materials (ASTM), federal regulations,
12 maintenance programs consistent with the program requirements set forth by the
13 person in the Department of Natural Resources who is the lead person for
14 exercising oversight over the maintenance of oil and gas facilities, equipment,
15 and infrastructure in the state, or other applicable standards for the production,
16 processing and transportation of oil, gas, produced water, and other fluids.

Debra Higgins

From: Christopher Clark [Christopher_Clark@gov.state.ak.us]
Sent: Monday, April 09 2007 11:34 AM
To: Debra Higgins; Heath Hilyard
Cc: 'Shannon Devon'; 'Bailey, Frank (Dept. of Admin)'; Rep. Kurt Olson; Konrad Jackson
Subject: New, smaller fiscal note for HB 128 from Administration-Alaska Oil and Gas Conservation Commission

Follow Up Flag: Follow up
Flag Status: Completed
Attachments: HB128-DOA-AOGCC 3-9-07.pdf

Greetings, Heath and Debra.

Attached please find an updated fiscal note from Administration-Alaska Oil and Gas Conservation Commission for HB 128, Rep. Kurt Olson's bill relating to allowable lease expenditures for the purpose of determining the production tax value of oil and gas for the purposes of the oil and gas production tax.

This fiscal note is smaller than the one that the agency prepared for the original version of that measure.

Christopher Clark
Deputy Legislative Director
Governor Sarah Palin
(907) 465-3994

Debra Higgins

From: Christopher Clark [Christopher_Clark@gov.state.ak.us]
Sent: Friday, April 27, 2007 8:22 PM
To: Heath Hilyard; Debra Higgins
Cc: 'Shannon Devon'; 'Bailey, Frank (Dept. of Admin)'; Norman, John K (DOA); 'Colombie, Jody'; Rep. Kurt Olson; Konrad Jackson
Subject: New fiscal note for HB 128 from AOGCC
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Greetings, Heath and Debra.

Attached please find a new fiscal note from Administration-Alaska Oil and Gas Conservation Commission for HB 128, Rep. Kurt Olson's bill relating to allowable lease expenditures for the purpose of determining the production tax value of oil and gas for the purposes of the oil and gas production tax.

This is for your committee's consideration ONLY if House Resources chooses to do what Senate Resources did today with the companion bill, SB 80. That committee removed the Alaska Oil and Gas Conservation Commission from the measure. The attached fiscal note mirrors the one the agency prepared for SB 80 to reflect that change.

Any questions? If so, give me a shout.

And have a good weekend.

Christopher Clark
Deputy Legislative Director
Governor Sarah Palin
(907) 465-3994

HB 128

Schedule

5/04

confirmations for Monday, 5/07

K.4 -

#19 - if we delete, don't need judiciary referral.

w/19 - Judiciary Referral

Cuttlerberg - move - bill before
Seaton amend. #6

Delete sub. (19)

Y N

W	E
R	K
Se	Gu
	Jo
	GA

Referral to Judiciary -
motion: CS HB 128^{vk} as amended
be moved

w/ recommendation to ~~Speaker~~ Speaker
rescind

~~John~~

Motion

Judiciary referral?

Y N

7-1

S

Gu

R

~~R~~

K

E

GA

J

~~John~~

Motion

CS HB 128 (06) K

as amended

with attached rec'd fiscal notes

HB 94

MIKE EBERHARDT

HR # 21

as amended

Recommendations from sub committee

- 1) Judiciary Committee referral
- 2) Retro activity was discussed

Amendments

- #1 Conceptual Amendment #1 - adopted
- new fiscal note
- #2 Conceptual Amendment #2 - adopted as amended
#1 - failed
#2 pg 1, line 8 delete "the design, construction,"
#3 pg 1, line 8 delete ", " between testing operating
- ~~#3 Conceptual Amendment #3~~
- #3 K.2, Bullock 3/2/07 adopted
- #4 Conceptual amendment (2:50:50) adopted
2:53:25
- #5

CONCEPTUAL AMENDMENT 1

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

1 Page 3, lines 21 - 22:

Delete "Alaska Oil and Gas Conservation Commission"

2 Insert "person in the Department of Natural Resources who is the lead person for
3 exercising oversight over the maintenance of oil and gas facilities, equipment, and
4 infrastructure in the state"

AMENDMENT

~~B~~ 1-A

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

- 1 Page 3, lines 22 - 23:
- 2 Delete "the standard practices of the industry"
- 3 Insert "good oil field practice"

Adopted in HR Resources
committee on 3/23/07

CONCEPTUAL AMENDMENT 1

#1
adopted

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

1 Page 3, lines 21 - 22:

Delete "Alaska Oil and Gas Conservation Commission"

- 2 Insert "person in the Department of Natural Resources who is the lead person for
3 exercising oversight over the maintenance of oil and gas facilities, equipment, and
4 infrastructure in the state"

adopted
5/04/07

Konrad Jackson

From: John Norman [John_Norman@admin.state.ak.us]
Sent: Wednesday, April 25, 2007 11:36 AM
To: Konrad Jackson
Cc: Cathy P Foerster; Dan T Seamount; Kevin R Banks
Subject: Re: HB 128 / SB 80 Amendments
Attachments: John_Norman.vcf

Dear Konrad,

We believe this amendment will simplify and improve the bill. AOGCC is one of the agencies named in Administrative Order No. 234 so we will still be able to provide advice and recommendations to Revenue through PSIO with DNR as lead agency. This will allow us to supply expertise from our area of regulatory oversight within a framework that facilitates coordination with other state agencies.

Thanks for checking with us and please let me know if you or Representative Olson have questions.

John

Konrad Jackson wrote:

Dear Mr. Norman,

As with Senator Wagoner's proposed amendment to SB 80 that would remove the AOGCC and replace it with the PSIO, Representative Olson will be offering the same amendment to HB 128 in House Resources.

I wanted to drop a quick note to inform you of his intentions and get any comments you may have in regards to this amendment.

Thank you for your time.

Konrad Jackson
Staff to Representative Kurt Olson
Phone: 907-465-2693
Fax: 907-465-3835

4/30/2007



Sarah Palin
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 18th, 2007

ADMINISTRATIVE ORDER NO. 234

I, Sarah Palin, Governor of the State of Alaska, under the authority of art. III, secs. 1 and 24, of the Alaska Constitution, and AS 44.17.060, name the commissioner of the Department of Natural Resources as the coordinator of oversight of facilities, equipment, infrastructure, and activities designed to explore for, produce, process, or transport oil and natural gas from, across, or within state oil and natural gas units or leases. This Order authorizes and directs increased and assertive oversight activities on state oil and natural gas units and leases by the Department of Natural Resources. These oversight activities include all activities relating to all facilities, equipment, and infrastructure. This Order also provides for coordination among state agencies of oversight on oil and natural gas matters on state land.

Nothing in this Order affects the authorities or responsibilities of state agencies with permitting, authorization, or oversight authority over oil and natural gas activities on state oil and natural gas units and leases, including advocacy by the Department of Law before the Federal Energy Regulatory Commission and state regulatory commissions, the development of fiscal terms under AS 43.82 or any later-enacted statute on development of such fiscal terms, or construction and maintenance of surface and air transportation infrastructure by the Department of Transportation and Public Facilities under other legal authority.

FINDINGS

1. It is in the best interests of the people of this state and the nation that oil and natural gas exploration, production, and transportation facilities within this state be designed, constructed, operated, and maintained in a safe and environmentally sound manner. Oversight by state agencies with legal jurisdiction over the facilities, equipment, infrastructure, and activities designed to produce and transport oil and natural gas must be efficient, effective, and capable of ensuring compliance with state law.
2. It is in the best interests of the people of this state and the nation that oil and natural gas infrastructure in this state be designed, constructed, operated, and maintained to minimize the economic impacts to ongoing functions of state government caused by unplanned interruptions or reductions in oil and natural gas production in this state.
3. It is in the best interests of the people of this state and the nation that oil and natural gas infrastructure be maintained to avoid premature abandonment, which would

cause waste of the state's resources.

4. It is in the best interests of the people of this state to utilize existing state government structures and processes to the maximum extent possible, and to effectively coordinate all state resources associated with oversight of facilities, equipment, infrastructure, and activities designed to produce oil and natural gas from state oil and natural gas units and leases.
5. The Department of Natural Resources has the authority under AS 38.05 and AS 44.37.020(a), and under state oil and natural gas leases, to exercise oversight of all oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases.

ORDER

To further these findings, I, Sarah Palin, Governor of the State of Alaska, order and declare the following:

1. In regard to matters other than those relating to the development, and adoption or issuance, of regulations, standards, permits or other authorizations under federal, state, or local law, or to facilities subject to the United States Federal Highway Administration or the United State's Federal Aviation Administration oversight, the commissioner of the Department of Natural Resources is the lead official for communication and coordination with appropriate federal agencies, and with local governments, related to oversight of oil and natural gas exploration, production, and transportation on state oil and natural gas units and leases. The commissioner of the Department of Natural Resources may delegate duties under this Order to a qualified designee from the Department of Natural Resources.
2. The commissioner of the Department of Natural Resources is the lead official for communication and coordination among the following Designated Agencies regarding oil and natural gas infrastructure and activities on state oil and natural gas units and leases: Department of Environmental Conservation; Department of Fish and Game; Department of Public Safety; Department of Revenue; Department of Transportation and Public Facilities; Department of Labor and Workforce Development; Department of Law; Department of Natural Resources; Alaska Oil and Gas Conservation Commission; and the director in the Governor's Office in Washington, D.C.
3. The commissioner shall establish a Petroleum Systems Integrity Office (PSIO) and designate a Petroleum Systems Integrity Office Coordinator (PSIOC). The PSIOC is the lead state official in exercising oversight of the maintenance of facilities, equipment, and infrastructure for the sustained production and transportation of oil and natural gas resources in this state, including such facilities, equipment, and infrastructure not currently within the jurisdiction of a Designated Agency.
4. Each Designated Agency shall appoint a Liaison Officer who shall report to the head of that Designated Agency. The Liaison Officer shall coordinate with the PSIOC. Liaison officers shall serve as the primary point of contact representing their respective Designated Agency.
5. The PSIOC shall establish, conduct, and coordinate through the Liaison Officers a process to comprehensively assess current state agency jurisdictions, standards, and

practices on matters subject to this Order. That assessment shall identify all state agencies' detailed statutory and regulatory authority and practices; any gaps in statutes, regulations, resources, practices, or oversight regarding oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases; and the risks associated with any gaps. Analysis done under this paragraph is intended to preclude duplication of effort, and provide a comprehensive and cost-effective approach to determine the appropriate state oversight of oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases.

6. The PSIOC shall lead the interagency effort, through the Liaison Officers, to evaluate industry oversight of oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases. Designated agencies, to the extent authorized through existing legal authorities, shall require the industry businesses to provide a comprehensive description of current practices that includes the quality control, quality assurance, monitoring, inspection, and other practices the business uses to ensure the integrity and reliability of oil and natural gas facilities, equipment, infrastructure, and activities. The PSIOC shall coordinate the review of these evaluations and descriptions, identify gaps, and seek remedial action. The PSIOC shall make recommendations to the commissioner of the Department of Natural Resources regarding enforcement actions by the Department of Natural Resources and cases to be referred to other state, local, or federal agencies for appropriate civil or criminal penalties available under the law.
7. On an ongoing basis, the PSIOC shall coordinate the oversight activities of the PSIO with the Designated Agencies. The Designated Agencies shall participate in interagency activities led by the PSIO and provide other technical assistance as requested by the PSIO.
8. Unless contrary to any dispute resolution process in statute or regulation, in the event of an interagency dispute between Designated Agencies regarding a matter covered under this Order, Liaison Officers shall raise the issue to the PSIOC, who shall resolve the interagency dispute to the maximum extent possible in accordance with law. If the interagency dispute cannot be resolved by the PSIOC, the matter shall be elevated to the affected Designated Agency heads and the commissioner of the Department of Natural Resources. If an interagency dispute cannot be resolved by the affected Designated Agency heads and the commissioner of the Department of Natural Resources, the matter shall be elevated to the governor.
9. Consistent with AS 44.23.020, the attorney general, as legal advisor for the state, shall provide legal services to the PSIO, the PSIOC, and all Designated Agencies.
10. This Order is for administrative purposes only. It neither creates any third-party rights nor modifies the statutory and regulatory authority of Designated Agencies.
11. The PSIOC shall submit to the commissioner of the Department of Natural Resources and to the governor periodic progress reports that summarize evaluation, coordination, review, and oversight activities done under this Order and accomplishment of those activities.

DEFINITIONS

In this Order,

1. "Designated Agencies" means the Department of Environmental Conservation; Department of Fish and Game; Department of Public Safety; Department of Revenue; Department of Transportation and Public Facilities; Department of Labor and Workforce Development; Department of Law; Department of Natural Resources; Alaska Oil and Gas Conservation Commission; and the director in the Governor's Office in Washington, D.C.;
2. "equipment" means machinery that is not a permanent fixture, is located on either a state oil and natural gas unit or lease, and is used to operate, construct, clean, or otherwise service oil and natural gas infrastructure and facilities;
3. "exploration facility" has the meaning given in AS 46.04.900;
4. "facilities" includes exploration facilities, oil terminal facilities, and production facilities;
5. "infrastructure" means all oil and natural gas pipelines, both onshore and offshore, including production facilities, line pipe, valves, and other appurtenances connected to line pipe, pumping units, and fabricated assemblies associated with pumping units, flow lines, separation facilities such as gathering centers and flow stations; transmission pipeline; above-ground oil storage tanks; oil or natural gas processing facilities, including seawater and produced water facilities; and all offshore platforms intended for use in oil and natural gas exploration or production
6. "Liaison Officer" means an officer or employee from a Designated Agency appointed to represent and report to the head of that Designated Agency and to serve as the primary point of contact between that Designated Agency and the PSIO and PSIOC;
7. "oil terminal facility" has the meaning given in AS 46.04.900;
8. "production facility" has the meaning given in AS 46.04.900;
9. "PSIO" means the Petroleum Systems Integrity Office established under this Order;
10. "PSIOC" means the Petroleum Systems Integrity Office Coordinator designated under this Order;
11. "transmission pipeline" has the meaning given in 18 AAC 75.990.

REVOCATION OF AND RELATIONSHIP TO OTHER ADMINISTRATIVE ORDERS

Administrative Order No. 229 is revoked. This Order supplements Administrative Order Nos. 134 and 187 and shall be interpreted as being complementary to those Orders. Unless contrary to any dispute resolution process in statute or regulation, any conflict among the Orders shall be resolved by the heads of the affected Designated State Agencies; if an interagency disagreement remains, the governor will resolve the conflict.

This Order takes effect immediately.

DATED at Juneau, Alaska, this 18th day of April, 2007.

/s/Sarah Palin
Governor

WWW.GOV.STATE.AK.US

Administrative Orders 201-present | Contact the Governor | Webmaster | State of Alaska

CONCEPTUAL AMENDMENT 2

OFFERED IN THE HOUSE

TO: CSHB 128(O&G) (Version 25-LS0561\K)

*adopted
as amended
with conceptual amendments
2-2 and 2-3.
5/02/07*

1 Add a new paragraph (4) to AS 43.55.165(j):

2 (4) "improper maintenance" is defined as any maintenance that is not
3 consistent with good oil field practice.

4
5 Add a new paragraph (5) to AS 43.55.165(j):

6 (5) "good oil field practice" is defined as a practice that is generally
7 accepted to be good, safe and efficient in carrying out oil field operations,
8 including, but is not limited to, ^{testing operation and maintenance} ~~the design, construction, testing, operating, and~~
9 ~~maintaining~~ of production, processing and transportation facilities and equipment,
10 consistent with standards such as the American Petroleum Institute (API) or
11 American Society for Testing and Materials (ASTM), federal regulations,
12 maintenance programs consistent with the program requirements set forth by the
13 person in the Department of Natural Resources who is the lead person for
14 exercising oversight over the maintenance of oil and gas facilities, equipment,
15 and infrastructure in the state, or other applicable standards for the production,
16 processing and transportation of oil, gas, produced water, and other fluids.

CONCEPTUAL AMENDMENT 2

#2

as amended
with #2 & #3

9/02/07

OFFERED IN THE HOUSE

TO: CSHB 128(O&G) (Version 25-LS0561\K)

1 Add a new paragraph (4) to AS 43.55.165(j):

2 (4) "improper maintenance" is defined as any maintenance that is not
3 consistent with good oil field practice.

4

5 Add a new paragraph (5) to AS 43.55.165(j):

6 (5) "good oil field practice" is defined as a practice that is generally
7 accepted to be good, safe and efficient in carrying out oil field operations,

8 including but is not limited to, the design, construction, ~~testing, operating, and~~
9 maintaining of production, processing and transportation facilities and equipment,

and maintenance

passed #2
INSERT "testing operation"

Assess
#3

10 consistent with standards such as the American Petroleum Institute (API) or
11 American Society for Testing and Materials (ASTM), federal regulations,
12 maintenance programs consistent with the program requirements set forth by the
13 person in the Department of Natural Resources who is the lead person for
14 exercising oversight over the maintenance of oil and gas facilities, equipment,
15 and infrastructure in the state, or other applicable standards for the production,
16 processing and transportation of oil, gas, produced water, and other fluids.

LEGAL SERVICES

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

(907) 465-3887 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

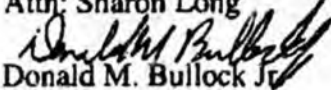
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 4, 2007

SUBJECT: Amendments M.1 and M.2 to CSSB 80(), Draft Version "M"
(Work Order No. 25-LS0425M.1 and M.2)

TO: Senator Charlie Huggins
Chair of the Senate Resources Committee
Attn: Sharon Long

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You faxed over two amendments to CSSB 80(), currently before your committee, and asked about the effect of the amendments on the bill and existing law.

Amendment 25-LS0425M.1

Amendment M.1 replaces "the standard practices of the industry" with "good oil field practice". This amendment was requested by the administration as a better standard for the commissioner to take into consideration when determining whether the repair or replacement of property or equipment was related to no maintenance or improper maintenance.

"Good oil field practice" is described in the *Manual of Oil and Gas Terms*¹ as:

A term occasionally used to indicate that operations are carried out in a proper and workmanlike manner. It has been used in the same way as the phrase "everything is A.P.I.," which refers to the American Petroleum Institute's set of standards covering aspects of petroleum operations.

The State of California has used the term in a regulation relating to oil field facilities and equipment maintenance. That part of the regulation describing "good oilfield practice"² is as follows:³

¹ Howard R. Williams & Charles J. Meyers, *Manual of Oil and Gas Terms* at 495 (12th ed., 2003).

² The California regulation uses "oilfield" rather than "oil field."

³ 14 CCR 1774 (2007).

(e) Pipelines shall be designed, constructed, tested, operated, and maintained in accordance with *good oil field practice* and applicable standards, such as the American Petroleum Institute (API) (API Rec. Prac. 1110, 3rd Ed., Dec. 1991, and API Spec. effective 1990) or American Society for Testing and Materials (ASTM) (ASTM Designation Stand. Spec., 1991), Code of Federal Regulations 49, Part 192, or other applicable standards for the transportation of oil, gas, produced water, and other fluids.

Good oilfield practice includes, but is not limited to:

(1) Utilization of preventative methods such as cathodic protection and corrosion inhibitors, as appropriate, to minimize external and internal corrosion.

(2) Employment, where practical, of equipment such as low-pressure alarms and safety shut-down devices to minimize spill volume in the event of a leak.

(3) Evaluating the applicability of locating any new pipelines or parts of a pipeline system that are being relocated or replaced above ground.

The use of pipe clamps or screw-in plugs are not considered good oilfield practice for permanent repair of pipeline leaks.

[Emphasis added.]

One reason that I have found it difficult to describe the standard for the maintenance of oil and gas production facilities is that Alaska seems to be unique, or within a very limited group,⁴ that get involved with production costs upstream from the point of production. This was a new concept introduced as part of the petroleum production tax (PPT) legislation. When taxes are based on the value at the point of production, which is the general rule for production taxes, upstream costs are not a factor. Thus, there is little law on the categorization of costs. A reference to "good oil field practice" will provide at least some guidance to the Department of Revenue when it is establishing an acceptable level of maintenance for which a deduction of cost is allowed, and then the disallowance of costs when the maintenance is absent or improper.

So far as the bill relates to existing law, the bill adds a paragraph to AS 43.55.165(c). That subsection describes costs that may not be deducted as lease expenditures when computing the taxable value of oil and gas production. The amendment merely provides

⁴ I have not found another state that allows a deduction for upstream production costs for the purpose of calculating a tax on oil and gas production.

Senator Charlie Huggins

April 4, 2007

Page 3

additional direction to the commissioner of revenue when the commissioner is determining which expenditures relating to an oil and gas lease are deductible.

Amendment 25-LS0425M.2

Amendment M.2 makes technical and not substantive corrections to the bill. Page 1, lines 2 - 4 and 14 - 16, clarify those costs that are not deductible.

Page 1, lines 7 - 8 and 17 - 18, change the reference to the specific paragraph added by the bill rather than referring to the amendment of the entire subsection.

Page 1, lines 6 - 18, clarify language in the uncodified sections of the bill.

Page 1, line 2 through page 2, line 1, adds a subsection to the transitional provision explaining when interest would apply to an underpayment of a tax or installment payment resulting from the enactment of the bill.

If I may be of further assistance, please advise.

DMB:ljw
07-194.ljw

Heath Hilyard

From: Dennis Denney [ddenney@spe.org]
Sent: Monday, March 26, 2007 10:41 AM
To: Heath Hilyard
Subject: good oilfield practice

Hello Heath.

Here is what I found.

"good oilfield practice: a practice that is generally accepted to be good, safe, and efficient in carrying out oilfield operations"

From: Hyne, N.J. 1991. *Dictionary of Petroleum Exploration, Drilling, & Production*. Tulsa, Oklahoma: PennWell Books 224.

As you mentioned, it is a very general term.

Regards,

Dennis Denney
Technology Editor, *JPT*
222 Palisades Creek Drive
Richardson, TX 75080
972.952.9340

The March 2007 issue of *JPT Online* is posted at <http://www.spe.org/jpt>. Remind your colleagues that full-length copies of SPE papers synopsised in *JPT* are available online free to SPE members for 2 months.



5/10/07

Amendment #1

Am. # ~~1~~ 1 to 2

Section

failed

Conceptual
Amendment
#2

V	N
S	Gu
R	E
J	K
	W
	GA

FAILED

~~delete~~
pt, L 8 -

~~after including~~
delete", but is not. and]

~~to~~ ~~to~~ ~~to~~ ~~to~~ ~~to~~

Wilson ^{Conceptual} #2 to 2
 delete: p91, line 8 - ~~the~~
 [the design, construction,

Y	N
R	G
Gn	
K	
E	
S	
J	

adopted

Conceptual
 #2 + #3 TO
 Conceptual
 Amendment #2
 #2 - adopted
 #3 - adopted

also Conceptual #3 to 2

change p91, line 8

~~testing, operating, and maintaining~~
 [testing, operating, and maintaining]

~~testing operation~~

^{insert} "testing operation & maintenance"

(#2) # 2:29:18, 2:31:10
 [the design, construction]

adopted

#3 2:38:55

2:39:--

AMENDMENT #3

*adopted
5/02/07*

OFFERED IN THE HOUSE
TO: CSHB 128(O&G)

1 Page 4, lines 9 - 10:

2 Delete "lease expenditures that may not be deducted"

3 Insert "costs that may not be treated as lease expenditures or claimed as a credit based
4 on costs that may not be claimed as lease expenditures"

5

6 Page 4, line 10:

7 Delete "AS 43.55.165(e), as amended"

8 Insert "AS 43.55.165(e)(19), as enacted"

9

10 Page 4, line 13, following "AS 43.55.020(a)":

11 Insert "before the effective date of this Act"

12

13 Page 4, line 15:

14 Delete "lease expenditures that may not be deducted"

15 Insert "costs that may not be treated as lease expenditures or attributable to a credit
16 based on costs that may not be claimed as lease expenditures"

17 Delete "AS 43.55.165(e) as amended"

18 Insert "AS 43.55.165(e)(19), as enacted"

19

20 Page 4, following line 17:

21 Insert a new subsection to read:

22 "(c) Interest on an additional amount of tax due under (a) of this section or on
23 the amount of the underpayment of an installment under (b) of this section does not

1 begin to accrue until 90 days after the effective date of this Act."

Debra Higgins

Amendment

From: Julie Koehler
Sent: Wednesday, May 02, 2007 4:20 PM
To: Debra Higgins
Subject: Rep. Seaton's Conceptual Amendment 4 today

#4

Debbie

Here is the amendment:

REPRESENTATIVE SEATON Conceptual Amendment 4 on page 2, new subsection (8), line 3, as follows:

costs incurred as a result of an action or inaction in violation of regulation or procedures adopted by the ~~pipeline safety integrity organization~~ or other appropriate agency.

Remember ^{subsequent} subsection accordingly.

The time when he read this in full the second time is 2:53:25, it might be stated more clearly here. Also, it would be "paragraph" (8), not "subsection" (8). And I think he may mean the "Petroleum Systems Integrity Office" when he says "pipeline safety integrity organization".

Julie Koehler
Committee Secretary
House Records, x2251

pg 2, line 3
new

4 New
advised
Conceptual
(Section)

(8) Costs incurred
as a result of action
or inaction of
adopted by PSIC
or other agency

adopted

8 — 19
Remember accordingly

#5

Amendment to
CSNB 128 (0+6)

Johnson

#5
new amend.

~~De~~
Pg 4, line 20

delete "RETROACTIVITY"

Failed

Failed

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R	G
E	P
H	K
	S
	Ga

CONCEPTUAL AMENDMENT 2

OFFERED IN THE HOUSE

TO: CSHB 128(O&G) (Version 25-LS0561K)

Fails
3-5

1 Add a new paragraph (4) to AS 43.55.165(j):

2 (4) "improper maintenance" is defined as any maintenance that is not
3 consistent with good oil field practice.

4

5 Add a new paragraph (5) to AS 43.55.165(j):

6 (5) "good oil field practice" is defined as a practice that is generally

7 accepted to be good, safe and efficient in carrying out oil field operations,

8 including, but is not limited to, the design, construction, testing, operating, and

testing, operations & maintenance

9 maintaining of production, processing and transportation facilities and equipment,

10 consistent with standards such as the American Petroleum Institute (API) or

11 American Society for Testing and Materials (ASTM), federal regulations,

12 maintenance programs consistent with the program requirements set forth by the

13 person in the Department of Natural Resources who is the lead person for

14 exercising oversight over the maintenance of oil and gas facilities, equipment,

15 and infrastructure in the state, or other applicable standards for the production,

16 processing and transportation of oil, gas, produced water, and other fluids.

Heath Hilyard

From: Dennis Denney [ddenney@spe.org]
Sent: Monday, March 26, 2007 10:41 AM
To: Heath Hilyard
Subject: good oilfield practice

Hello Heath.

Here is what I found.

"good oilfield practice: a practice that is generally accepted to be good, safe, and efficient in carrying out oilfield operations"

From: Hyne, N.J. 1991. *Dictionary of Petroleum Exploration, Drilling, & Production*. Tulsa, Oklahoma: PennWell Books 224.

As you mentioned, it is a very general term.

Regards,

Dennis Denney
Technology Editor, *JPT*
222 Palisades Creek Drive
Richardson, TX 75080
972.952.9340

The March 2007 issue of *JPT Online* is posted at <http://www.spe.org/jpt>. Remind your colleagues that full-length copies of SPE papers synopsisized in *JPT* are available online free to SPE members for 2 months.



CSTB 123 (ots)

Bill failed

	1	23
Gu		SR
K		5
E		
Gu		

Bill failed to

Guthrie
part of com

HB

128

(FILE 2)

HOUSE COMMITTEE REPORT

(9)

Date Referred to Committee: March 5, 2007

FURTHER REFERRALS: Finance

Date of Committee Action: 5/04/07

The RESOURCES Committee considered:

HB 128

HOUSE BILL NO. 128

OIL & GAS PRODUCTION TAX: EXPENDITURES

"An Act relating to allowable lease expenditures for the purpose of determining the production tax value of oil and gas for the purposes of the oil and gas production tax; and providing for an effective date."

Recommends it be replaced with HCS or CS for HB 128 (RES)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LWF
 LAW
 LEG
 MVA
 DNR
 DPS
 REV
 DOT
 UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
ADM		✓		
ADM				✓

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DEC	1			✓
ADM	2	✓		
REV	3	✓		

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
<i>Paul K. Seaton</i>	SEATON				X
<i>Bo Edgmon</i>	EDGMON			X	
<i>John Johnson</i>	JOHNSON				X
<i>Bob Ross</i>	ROSS				X
<i>Peggy Wilson</i>	WILSON				X
Chair: <i>Craig Johnson</i>	Johnson				X
Chair: <i>Tom Gatto</i>	Gatto	X			

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

- 1 Page 3, lines 22 - 23:
- 2 Delete "the standard practices of the inuustry"
- 3 Insert "good oil field practice"

Adopted in HRES
3/23

AMENDMENT #1

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

- 1 Page 3, lines 22 - 23:
- 2 Delete "the standard practices of the industry"
- 3 Insert "good oil field practice"

5-21-07

Jonathan Iverson

Kevin Banks

Rob Beutz

Don Bullock → Rep. Seaton
question

ak

HB 128

Trevor Fulton

From: Jonathan Iversen [jonathan_iversen@revenue.state.ak.us]
Sent: Thursday, March 22, 2007 4:59 PM
To: Rep. Craig Johnson; Rep. Carl Gatto
Subject: Good oil field practice
Attachments: Good oil field practice.doc; goodoilfield.pdf

Per our conversation today, attached are a couple of definitions we found for good oil field practice.
Thanks,
Jon Iversen

U.S.

California Department of Conservation:

14 CCR § 1774

(e) Pipelines shall be designed, constructed, tested, operated, and maintained in accordance with good oil field practice and applicable standards, such as the American Petroleum Institute (API) (API Rec. Prac. 1110, 3rd Ed., Dec. 1991, and API Spec. effective 1990) or American Society for Testing and Materials (ASTM) (ASTM Designation Stand. Spec., 1991), Code of Federal Regulations 49, Part 192, or other applicable standards for the transportation of oil, gas, produced water, and other fluids.

Good oilfield practice includes, but is not limited to:

- (1) Utilization of preventative methods such as cathodic protection and corrosion inhibitors, as appropriate, to minimize external and internal corrosion.
- (2) Employment, where practical, of equipment such as low-pressure alarms and safety shut-down devices to minimize spill volume in the event of a leak.
- (3) Evaluating the applicability of locating any new pipelines or parts of a pipeline system that are being relocated or replaced above ground.

The use of pipe clamps or screw-in plugs are not considered good oilfield practice for permanent repair of pipeline leaks.

International:

Albania:

1. good oil field practices means practices which are generally accepted in the international petroleum industry as good, safe, economical and efficient."

The second looks like it was adopted by the European Union in regulations this year in the "Hydrocarbons Prospecting, Exploration and Exploitation law"

2. good oil field practices means all those activities that are generally accepted as good, safe, and efficient in the carrying on of hydrocarbon operations, and in accordance with generally accepted practices in the international petroleum industry.

CONCEPTUAL AMENDMENT 1

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

1 Page 3, lines 21 - 22:

Delete "Alaska Oil and Gas Conservation Commission"

2 Insert "person in the Department of Natural Resources who is the lead person for
3 exercising oversight over the maintenance of oil and gas facilities, equipment, and
4 infrastructure in the state"

Konrad Jackson

From: John Norman [John_Norman@admin.state.ak.us]
Sent: Wednesday, April 25, 2007 11:36 AM
To: Konrad Jackson
Cc: Cathy P Foerster; Dan T Seamount; Kevin R Banks
Subject: Re: HB 128 / SB 80 Amendments
Attachments: John_Norman.vcf

Dear Konrad,

We believe this amendment will simplify and improve the bill. AOGCC is one of the agencies named in Administrative Order No. 234 so we will still be able to provide advice and recommendations to Revenue through PSIO with DNR as lead agency. This will allow us to supply expertise from our area of regulatory oversight within a framework that facilitates coordination with other state agencies.

Thanks for checking with us and please let me know if you or Representative Olson have questions.

John

Konrad Jackson wrote:

Dear Mr. Norman,

As with Senator Wagoner's proposed amendment to SB 80 that would remove the AOGCC and replace it with the PSIO, Representative Olson will be offering the same amendment to HB 128 in House Resources.

I wanted to drop a quick note to inform you of his intentions and get any comments you may have in regards to this amendment.

Thank you for your time.

Konrad Jackson
Staff to Representative Kurt Olson
Phone: 907-465-2693
Fax: 907-465-3835

4/25/2007



Sarah Palin
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 18th, 2007

ADMINISTRATIVE ORDER NO. 234

I, Sarah Palin, Governor of the State of Alaska, under the authority of art. III, secs. 1 and 24, of the Alaska Constitution, and AS 44.17.060, name the commissioner of the Department of Natural Resources as the coordinator of oversight of facilities, equipment, infrastructure, and activities designed to explore for, produce, process, or transport oil and natural gas from, across, or within state oil and natural gas units or leases. This Order authorizes and directs increased and assertive oversight activities on state oil and natural gas units and leases by the Department of Natural Resources. These oversight activities include all activities relating to all facilities, equipment, and infrastructure. This Order also provides for coordination among state agencies of oversight on oil and natural gas matters on state land.

Nothing in this Order affects the authorities or responsibilities of state agencies with permitting, authorization, or oversight authority over oil and natural gas activities on state oil and natural gas units and leases, including advocacy by the Department of Law before the Federal Energy Regulatory Commission and state regulatory commissions, the development of fiscal terms under AS 43.82 or any later-enacted statute on development of such fiscal terms, or construction and maintenance of surface and air transportation infrastructure by the Department of Transportation and Public Facilities under other legal authority.

FINDINGS

1. It is in the best interests of the people of this state and the nation that oil and natural gas exploration, production, and transportation facilities within this state be designed, constructed, operated, and maintained in a safe and environmentally sound manner. Oversight by state agencies with legal jurisdiction over the facilities, equipment, infrastructure, and activities designed to produce and transport oil and natural gas must be efficient, effective, and capable of ensuring compliance with state law.
2. It is in the best interests of the people of this state and the nation that oil and natural gas infrastructure in this state be designed, constructed, operated, and maintained to minimize the economic impacts to ongoing functions of state government caused by unplanned interruptions or reductions in oil and natural gas production in this state.
3. It is in the best interests of the people of this state and the nation that oil and natural gas infrastructure be maintained to avoid premature abandonment, which would

cause waste of the state's resources.

4. It is in the best interests of the people of this state to utilize existing state government structures and processes to the maximum extent possible, and to effectively coordinate all state resources associated with oversight of facilities, equipment, infrastructure, and activities designed to produce oil and natural gas from state oil and natural gas units and leases.
5. The Department of Natural Resources has the authority under AS 38.05 and AS 44.37.020(a), and under state oil and natural gas leases, to exercise oversight of all oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases.

ORDER

To further these findings, I, Sarah Palin, Governor of the State of Alaska, order and declare the following:

1. In regard to matters other than those relating to the development, and adoption or issuance, of regulations, standards, permits or other authorizations under federal, state, or local law, or to facilities subject to the United States Federal Highway Administration or the United State's Federal Aviation Administration oversight, the commissioner of the Department of Natural Resources is the lead official for communication and coordination with appropriate federal agencies, and with local governments, related to oversight of oil and natural gas exploration, production, and transportation on state oil and natural gas units and leases. The commissioner of the Department of Natural Resources may delegate duties under this Order to a qualified designee from the Department of Natural Resources.
2. The commissioner of the Department of Natural Resources is the lead official for communication and coordination among the following Designated Agencies regarding oil and natural gas infrastructure and activities on state oil and natural gas units and leases: Department of Environmental Conservation; Department of Fish and Game; Department of Public Safety; Department of Revenue; Department of Transportation and Public Facilities; Department of Labor and Workforce Development; Department of Law; Department of Natural Resources; Alaska Oil and Gas Conservation Commission; and the director in the Governor's Office in Washington, D.C.
3. The commissioner shall establish a Petroleum Systems Integrity Office (PSIO) and designate a Petroleum Systems Integrity Office Coordinator (PSIOC). The PSIOC is the lead state official in exercising oversight of the maintenance of facilities, equipment, and infrastructure for the sustained production and transportation of oil and natural gas resources in this state, including such facilities, equipment, and infrastructure not currently within the jurisdiction of a Designated Agency.
4. Each Designated Agency shall appoint a Liaison Officer who shall report to the head of that Designated Agency. The Liaison Officer shall coordinate with the PSIOC. Liaison officers shall serve as the primary point of contact representing their respective Designated Agency.
5. The PSIOC shall establish, conduct, and coordinate through the Liaison Officers a process to comprehensively assess current state agency jurisdictions, standards, and

practices on matters subject to this Order. That assessment shall identify all state agencies' detailed statutory and regulatory authority and practices; any gaps in statutes, regulations, resources, practices, or oversight regarding oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases; and the risks associated with any gaps. Analysis done under this paragraph is intended to preclude duplication of effort, and provide a comprehensive and cost-effective approach to determine the appropriate state oversight of oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases.

6. The PSIOC shall lead the interagency effort, through the Liaison Officers, to evaluate industry oversight of oil and natural gas facilities, equipment, infrastructure, and activities on state oil and natural gas units and leases. Designated agencies, to the extent authorized through existing legal authorities, shall require the industry businesses to provide a comprehensive description of current practices that includes the quality control, quality assurance, monitoring, inspection, and other practices the business uses to ensure the integrity and reliability of oil and natural gas facilities, equipment, infrastructure, and activities. The PSIOC shall coordinate the review of these evaluations and descriptions, identify gaps, and seek remedial action. The PSIOC shall make recommendations to the commissioner of the Department of Natural Resources regarding enforcement actions by the Department of Natural Resources and cases to be referred to other state, local, or federal agencies for appropriate civil or criminal penalties available under the law.
7. On an ongoing basis, the PSIOC shall coordinate the oversight activities of the PSIO with the Designated Agencies. The Designated Agencies shall participate in interagency activities led by the PSIO and provide other technical assistance as requested by the PSIO.
8. Unless contrary to any dispute resolution process in statute or regulation, in the event of an interagency dispute between Designated Agencies regarding a matter covered under this Order, Liaison Officers shall raise the issue to the PSIOC, who shall resolve the interagency dispute to the maximum extent possible in accordance with law. If the interagency dispute cannot be resolved by the PSIOC, the matter shall be elevated to the affected Designated Agency heads and the commissioner of the Department of Natural Resources. If an interagency dispute cannot be resolved by the affected Designated Agency heads and the commissioner of the Department of Natural Resources, the matter shall be elevated to the governor.
9. Consistent with AS 44.23.020, the attorney general, as legal advisor for the state, shall provide legal services to the PSIO, the PSIOC, and all Designated Agencies.
10. This Order is for administrative purposes only. It neither creates any third-party rights nor modifies the statutory and regulatory authority of Designated Agencies.
11. The PSIOC shall submit to the commissioner of the Department of Natural Resources and to the governor periodic progress reports that summarize evaluation, coordination, review, and oversight activities done under this Order and accomplishment of those activities.

DEFINITIONS

In this Order,

1. "Designated Agencies" means the Department of Environmental Conservation; Department of Fish and Game; Department of Public Safety; Department of Revenue; Department of Transportation and Public Facilities; Department of Labor and Workforce Development; Department of Law; Department of Natural Resources; Alaska Oil and Gas Conservation Commission; and the director in the Governor's Office in Washington, D.C.;
2. "equipment" means machinery that is not a permanent fixture, is located on either a state oil and natural gas unit or lease, and is used to operate, construct, clean, or otherwise service oil and natural gas infrastructure and facilities;
3. "exploration facility" has the meaning given in AS 46.04.900;
4. "facilities" includes exploration facilities, oil terminal facilities, and production facilities;
5. "infrastructure" means all oil and natural gas pipelines, both onshore and offshore, including production facilities, line pipe, valves, and other appurtenances connected to line pipe, pumping units, and fabricated assemblies associated with pumping units, flow lines, separation facilities such as gathering centers and flow stations; transmission pipeline; above-ground oil storage tanks; oil or natural gas processing facilities, including seawater and produced water facilities; and all offshore platforms intended for use in oil and natural gas exploration or production
6. "Liaison Officer" means an officer or employee from a Designated Agency appointed to represent and report to the head of that Designated Agency and to serve as the primary point of contact between that Designated Agency and the PSIO and PSIOC;
7. "oil terminal facility" has the meaning given in AS 46.04.900;
8. "production facility" has the meaning given in AS 46.04.900;
9. "PSIO" means the Petroleum Systems Integrity Office established under this Order;
10. "PSIOC" means the Petroleum Systems Integrity Office Coordinator designated under this Order;
11. "transmission pipeline" has the meaning given in 18 AAC 75.990.

REVOCATION OF AND RELATIONSHIP TO OTHER ADMINISTRATIVE ORDERS

Administrative Order No. 229 is revoked. This Order supplements Administrative Order Nos. 134 and 187 and shall be interpreted as being complementary to those Orders. Unless contrary to any dispute resolution process in statute or regulation, any conflict among the Orders shall be resolved by the heads of the affected Designated State Agencies; if an interagency disagreement remains, the governor will resolve the conflict.

This Order takes effect immediately.

DATED at Juneau, Alaska, this 18th day of April, 2007.

/s/Sarah Palin
Governor

WWW.GOV.STATE.AK.US

[Administrative Orders 201-present](#) | [Contact the Governor](#) | [Webmaster](#) | [State of Alaska](#)

CONCEPTUAL AMENDMENT 2

OFFERED IN THE HOUSE

TO: CSHB 128(O&G) (Version 25-LS0561K)

1 Add a new paragraph (4) to AS 43.55.165(j):

2 (4) "improper maintenance" is defined as any maintenance that is not
3 consistent with good oil field practice.

4

5 Add a new paragraph (5) to AS 43.55.165(j):

6 (5) "good oil field practice" is defined as a practice that is generally
7 accepted to be good, safe and efficient in carrying out oil field operations,
8 including, but is not limited to, the design, construction, testing, operating, and
9 maintaining of production, processing and transportation facilities and equipment,
10 consistent with standards such as the American Petroleum Institute (API) or
11 American Society for Testing and Materials (ASTM), federal regulations,
12 maintenance programs consistent with the program requirements set forth by the
13 person in the Department of Natural Resources who is the lead person for
14 exercising oversight over the maintenance of oil and gas facilities, equipment,
15 and infrastructure in the state, or other applicable standards for the production,
16 processing and transportation of oil, gas, produced water, and other fluids.

Heath Hilyard

From: Dennis Denney [ddenney@spe.org]
Sent: Monday, March 26, 2007 10:41 AM
To: Heath Hilyard
Subject: good oilfield practice

Hello Heath.

Here is what I found.

"good oilfield practice: a practice that is generally accepted to be good, safe, and efficient in carrying out oilfield operations"

From: Hyne, N.J. 1991. *Dictionary of Petroleum Exploration, Drilling, & Production*. Tulsa, Oklahoma: PennWell Books 224.

As you mentioned, it is a very general term.

Regards,

Dennis Denney
Technology Editor, *JPT*
222 Palisades Creek Drive
Richardson, TX 75080
972.952.9340

The March 2007 issue of *JPT Online* is posted at <http://www.spe.org/jpt>. Remind your colleagues that full-length copies of SPE papers synopsisized in *JPT* are available online free to SPE members for 2 months.



A M E N D M E N T

OFFERED IN THE HOUSE

TO: CSHB 128(O&G)

1 Page 4, lines 9 - 10:

2 Delete "lease expenditures that may not be deducted"

3 Insert "costs that may not be treated as lease expenditures or claimed as a credit based
4 on costs that may not be claimed as lease expenditures"

5

6 Page 4, line 10:

7 Delete "AS 43.55.165(e), as amended"

8 Insert "AS 43.55.165(e)(19), as enacted"

9

10 Page 4, line 13, following "AS 43.55.020(a)":

11 Insert "before the effective date of this Act"

12

13 Page 4, line 15:

14 Delete "lease expenditures that may not be deducted"

15 Insert "costs that may not be treated as lease expenditures or attributable to a credit
16 based on costs that may not be claimed as lease expenditures"

17 Delete "AS 43.55.165(e) as amended"

18 Insert "AS 43.55.165(e)(19), as enacted"

19

20 Page 4, following line 17:

21 Insert a new subsection to read:

22 "(c) Interest on an additional amount of tax due under (a) of this section or on
23 the amount of the underpayment of an installment under (b) of this section does not

1 begin to accrue until 90 days after the effective date of this Act."

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 128(O&G)

1 Page 4, line 1, following "equipment":

2 Insert ";

3 (20) costs related to the maintenance of oil and gas facilities,
4 equipment, and infrastructure that are incurred as a result of a violation of a
5 regulation adopted by the person in the Department of Natural Resources who is
6 the lead person for exercising oversight over the maintenance of oil and gas
7 facilities, equipment, and infrastructure in the state"

8

9 Page 4, lines 4 - 5:

10 Delete all material and insert:

11 "APPLICABILITY. (a) AS 43.55.165(e)(19), as enacted in sec. 1 of this Act, applies
12 to oil and gas produced after March 31, 2006.

13 (b) AS 43.55.165(e)(20), as enacted in sec. 1 of this Act, applies to oil and gas
14 produced after the effective date of the regulations described in sec. 5 of this Act."

15

16 Page 4, line 20:

17 Delete "Section 1 of this Act"

18 Insert "AS 43.55.165(e)(19), as enacted in sec. 1 of this Act,"

19

20 Page 4, line 21:

21 Delete all material and insert:

22 "** Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
23 read:

1 CONDITIONAL EFFECT; NOTICE. (a) AS 43.55.165(e)(20), as enacted in sec. 1 of
2 this Act, takes effect only if the person in the Department of Natural Resources who is the
3 lead person for exercising oversight over the maintenance of oil and gas facilities, equipment,
4 and infrastructure in the state adopts regulations related to the maintenance of oil and gas
5 facilities, equipment, and infrastructure in the state.

6 (b) The commissioner of natural resources shall notify the revisor of statutes of the
7 effective date of the regulations described in (a) of this section.

8 * **Sec. 6.** If AS 43.55.165(e)(20), as enacted in sec. 1 of this Act, takes effect, it takes effect
9 on the effective date of the regulations described in sec. 5 of this Act.

10 * **Sec. 7.** Except as provided in sec. 6 of this Act, this Act takes effect immediately under
11 AS 01.10.070(c)."

ALASKA STATE LEGISLATURE

REPRESENTATIVE KURT OLSON

- Chair, Labor and Commerce
- Vice-Chair, Oil and Gas
- Member, Community and Regional Affairs

Session: January – May
State Capitol
Juneau, AK 99801-1182
Phone: 907-465-2693
Fax: 907-465-3835



Interim: May – December
145 Main Street Loop, Ste 221
Kenai, AK 99611
Phone: 907-283-2690
Fax: 907-283-2763

Official Business

Sponsor Statement

HB 128 – Disallows PPT Reductions for Improperly Maintained Facilities

HB 128 cleans up language and closes a loophole in the recently passed Petroleum Production Tax (PPT) legislation.

As currently written, producers may deduct or use as credits, expenses for repairs made to infrastructure that has been improperly maintained. Once HB128 is enacted, deductions or credits against the PPT for these types of repairs will be subject to review and approval.

This bill instructs the Commissioner of the Revenue to consult with the Commissioner of the DEC and the Chair of AOGCC. Relying on standard practices of the industry, they will determine the portion of the costs related to repair or replacement of improperly maintained property or equipment available for deduction or use as a credit

This concept came forward as an amendment in the Senate Resources Committee in early August of 2006. The ongoing corrosion problem currently experienced by BP serves to emphasize the importance of this change in statute.

The responsibility for the expenses related to repairs made to improperly maintained infrastructure should not lie with the State of Alaska.

I respectfully ask for your support of this bill.

ALASKA STATE LEGISLATURE

REPRESENTATIVE KURT OLSON

- Chair, Labor and Commerce
- Vice-Chair, Oil and Gas
- Member, Community and Regional Affairs

Session: January – May
State Capitol
Juneau, AK 99801-1182
Phone: 907-465-2693
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Interim: May – December
145 Main Street Loop, Ste 221
Kenai, AK 99611
Phone: 907-283-2690
Fax: 907-283-2763

Official Business

Sectional Analysis

HB 128 - Disallows PPT Reductions for Improperly Maintained Facilities

Section 1: amends AS 43.55.165(e) which establishes lease expenditures not available for use as credits or deductions to the Petroleum Production Tax (PPT).

New subsection (19) establishes new language regarding costs related to the repair and replacement of improperly maintained property or equipment.

These costs are subject to review by the Commissioner of The Department of Revenue, the Commissioner of the Department of Environmental Conservation and the chair of the Alaska Oil and Gas Conservation Commission, relying on industry standards.

Section 2: provides for applicability to the oil and gas produced after March 31, 2006, as with the PPT.

Section 3: provides for transitional language for payment of additional taxes or installment payment due as a result of disallowing any expenditure set out in Section 1.

Section 4: provides for retroactive date to the same period as the PPT.

ALASKA STATE LEGISLATURE

REPRESENTATIVE KURT OLSON

- Chair, Labor and Commerce
- Vice-Chair, Oil and Gas
- Member, Community and Regional Affairs

Session: January – May
State Capitol
Juneau, AK 99801-1182
Phone: 907-465-2693
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Interim: May – December
145 Main Street Loop, Ste 221
Kenai, AK 99611
Phone: 907-283-2690
Fax: 907-283-2763

Official Business

TO: Representative Carl Gatto, Co-Chair
House Resources Committee

FROM: Representative Kurt Olson

A handwritten signature in black ink, appearing to read "K. Olson".

DATE: March 1, 2007

RE: Hearing on CSHB 128(O&G)

I respectfully request a hearing in the House Resources Committee on CSHB 128(O&G), An Act relating to allowable lease expenditures available for use as credits and deductions from oil and gas production tax, pending referral, at your earliest convenience.

Attached please find a copy of CSHB 128(O&G) and a sponsor statement. Additional information will follow once this bill passes from the House Special Committee on Oil & Gas.

If you need any further information or have any questions, please contact my staff, Konrad Jackson.

Thank you for your attention to this request.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 128(O&G)
(H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Dept of Environmental Conservation
Title: OIL & GAS PRODUCTION TAX: EXPENDITURES RDU: Spill Prevention and Response
Sponsor: Oslo et al Component: Director's Office
Requester: House Special Committee on Oil and Gas Component No.: 1392

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
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 (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

No additional costs are expected with this legislation.

Prepared by: Larry Dietrick Phone 465-5250
Division: Spill Prevention and Response Date/Time 2/20/07 4:00 PM
Approved by: Larry Hartig Date 2/20/2007
Agency: Department of Environmental Conservation

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB128(O&G)
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: Oil and Gas Production Tax RDU: AOGCC
 Component: AOGCC
 Sponsor: Representatives Olson, Harris, Ramras, et. Al.
 Requester: House Oil and Gas Component No.: 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	250.0	250.0	250.0	250.0	250.0	250.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	250.0	250.0	250.0	250.0	250.0	250.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1162 AOGCC Receipts	250.0	250.0	250.0	250.0	250.0	250.0
TOTAL	250.0	250.0	250.0	250.0	250.0	250.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If HB128 is passed the AOGCC in conjunction with other State agencies would be charged with determining whether the lease expenditures incurred for repair, replacement, or incremental operating expenses were as a result of a lack of or improper maintenance of property or equipment. The Commission would also need authority under AS 31.05.030 to implement these need responsibilities.

1 contract Engineering Investigator for 2/3 of year, which equals \$250,000 a year.

Prepared by: Jody J. Colombie, Special Assistant I
 Division: Alaska Oil and Gas Conservation Commission
 Approved by: Rachael Petro, Deputy Commissioner
 Agency: Department of Administration

Phone 465-2200
 Date/Time 2/28/07 9:39 AM
 Date 2/28/07 10:00 AM

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 128(O&G)
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Oil & Gas Production Tax: Expenditures RDU Taxation and Treasury
 Component Tax Division
 Sponsor Representative Olson
 Requester (H) Oil and Gas Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual	124.9	124.9	124.9	124.9	124.9	124.9
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	124.9	124.9	124.9	124.9	124.9	124.9

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	124.9	124.9	124.9	124.9	124.9	124.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	124.9	124.9	124.9	124.9	124.9	124.9

Estimate of any current year (FY2007) cost: 31.2

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*This bill would add certain costs relating to improperly maintained property or equipment to the list of costs that do not qualify as lease expenditures under AS 43.55.165, the petroleum profits production tax system. Under the bill, the commissioner of revenue, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission, would determine whether costs are specifically disallowed under this provision. The provision would disallow any costs incurred to (1) repair or replace improperly maintained property or equipment; and/or (2) maintain the operational capability of facilities or equipment that are either shut down or are diminished in capacity. The bill effective date is retroactive to April 1, 2006 - the effective date of the petroleum profits tax (PPT).

Prepared by: Jon Iversen and Cherie Nienhuis Phone 269-1033
 Division Tax Date/Time 2/22/07 11:00 AM
 Approved by: Jerry Burnett Date 2/22/2007
 Agency Department of Revenue

FISCAL NOTE #3

**STATE OF ALASKA
2007 LEGISLATIVE SESSION**

BILL NO. CSHB 128(O&G)

ANALYSIS CONTINUATION

The impact this bill would have on petroleum tax revenues is indeterminate. Costs identified as disallowed under this bill could be categorized as either operating costs or capital costs. The PPT authorizes eligible operating costs to be deducted from the petroleum profits tax at a rate of 22.5%; the PPT authorizes capital costs to be both deducted at a rate of 22.5% and credited at a rate of 20%, for a combined production tax savings of 42.5%. Any set of disallowed costs is likely to be split between these two categories in a way that is distinct from that of another set of costs.

Administering this legislation would require one full-time equivalent (FTE) with expertise in oil and gas industry practices on the level of a petroleum engineer. The department currently contracts with a petroleum engineer for five years at a cost of \$624,650, or \$124,930 per year, for technical support related to petroleum production. It is anticipated that the department would be required to carry a second contract of this magnitude or greater in order to fulfill the requirements of this legislation.

REVISED FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 128(RES)
 (H) Publish Date: 5/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title Oil and Gas Production Tax RDU AOGCC
 Component AOGCC
 Sponsor Representatives Olson, Harris, Ramras, et al.
 Requester House Oil and Gas Component No. 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1162 AOGCC Receipts	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Any consultation we provide as part of the Petroleum Systems Integrity Office (PSIO) working group will be part of our ongoing responsibilities at the Alaska Oil and Gas Conservation Commission (AOGCC). Therefore there will be no additional fiscal impact on this agency with the passing of this bill.

Prepared by: Jody J. Colombie, Special Assistant I
 Division: Alaska Oil and Gas Conservation Commission
 Approved by: Rachael Petro, Deputy Commissioner
 Agency: Department of Administration

Phone 793-1221
 Date/Time 4/26/07 3pm
 Date 4/27/07

REVISED FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSHB 128(RES)
 (H) Publish Date: 5/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: Oil and Gas Production Tax RDU: AOGCC
 Component: AOGCC
 Sponsor: Representatives Olson, Harris, Ramras, et al.
 Requester: House Oil and Gas Component No.: 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	50.0	50.0	40.0	30.0	20.0	20.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	50.0	50.0	40.0	30.0	20.0	20.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1032 AOGCC Receipts	50.0	50.0	40.0	30.0	20.0	20.0
TOTAL	50.0	50.0	40.0	30.0	20.0	20.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If HB 128 is passed, the Alaska Oil and Gas Conservation Commission, in conjunction with other State agencies, would be charged with determining whether a taxpayer followed standard industry practices for purposes of eligibility for deductions of costs related to the repair and replacement of improperly maintained property or equipment.

The estimate in this fiscal note is based upon our understanding that the work we may be called upon to perform will be within our traditional area of regulatory oversight (i.e., downhole and at the wellhead); and, that the Petroleum Systems Integrity Office (PSIO) will provide consultation and conduct investigations at the point where our jurisdiction ends.

Prepared by: Jody J. Colombie, Special Assistant I Phone 793-1221
 Division: Alaska Oil and Gas Conservation Commission Date/Time 3/9/07 10:30 AM
 Approved by: Rachael Petro, Deputy Commissioner Date 3/9/2007
 Agency: Department of Administration