

12283

HOUSE RES

**Pages 48-49 (Response to Slides 40 and 41)**

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**Page 51 (Conclusions – The Failure of Pasteurization)**

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**Page 52 (Conclusions – Comparing Raw Milk to Pasteurized Milk)**

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**Page 53 (Conclusions – Comparing Raw Milk to Other Foods)**

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**Page 56 (Response to Slide 43)**

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**Page 57 (Response to Slide 44)**

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**Page 59 (Response to Slide 45)**

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**Page 60 (Response to Slide 46)**

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**Page 61 (Response to Slide 47)**

Cerbulis J and Farrell HM Jr. Xanthine Oxidase Activity in Dairy Products. *J Dairy Sci.* 1977;60(2):170-176.

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**Page 63 (Response to Slide 49)**

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**Page 64 (Response to Slide 50)**

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**Page 65 (Response to Slide 51)**

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**Page 67 (Response to Slide 53)**

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**Page 70 (Response to Slide 56)**

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**Page 71 (Response to Slide 57)**

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**Page 73 (Response to Slide 59)**

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**Page 74 (Response to Slide 61)**

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**Page 76 (Response to Slide 62)**

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**HB**

**370**



**Debra Higgins**

---

**From:** Rowland, Mindy B (GOV) [mindy.rowland@alaska.gov]

**Sent:** Monday, March 03, 2008 10:03 AM

**To:** Debra Higgins

**Subject:** RE: Fiscal Notes for CSHB 370

OK

Thanks Debbie. Sending the CS is really helpful.

The DNR fiscal note you have is still applicable. I'll let you know whether the LAW note will change.

Let me know if you have any questions.

-Mindy

*Mindy Rowland*

Deputy Legislative Director  
Office of Governor Sarah Palin  
465-4021

**Debra Higgins**

---

**From:** Rowland, Mindy B (GOV) [mindy.rowland@alaska.gov]  
**Sent:** Monday, March 03, 2008 10:52 AM  
**To:** Debra Higgins  
**Subject:** HB 370 Update

OK

Hi Debbie,

I just heard back from the Dept. of Law. The changes in the Resources CS do not necessitate a revised fiscal note.

Let me know if you have any questions.

Thanks  
Mindy

*Mindy Rowland*  
Deputy Legislative Director  
Office of Governor Sarah Palin.  
465-4021

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HB370  
( ) Publish Date: \_\_\_\_\_

Identifier (file name): HB370-DNR-FirePrep-02-20-08 Dept. Affected: Natural Resources  
Title: Protection of Forested Land RDU: Statewide Fire Suppression  
Component: Fire Suppression Preparedness  
Sponsor: Representative Kelly  
Requester: H RES Component Number: 2705

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

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

	Appropriation Required	Information					
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2008) cost: 0.0

**POSITIONS**

Full-time	0	0	0	0	0	0	0
Part-time	0	0	0	0	0	0	0
Temporary	0	0	0	0	0	0	0

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

This bill will revise Alaska Statute to allow for consideration of other values in addition to those of the natural resources when making fire management decisions. Since its inception in the mid 1980s, the Alaska Interagency Wildland Fire Management Plan (AIWFMP) has guided the Division of Forestry in identifying land where aggressive fire suppression will lead to the protection of life and property, as well as natural resource values. This statute will align DNR authority with these pre-planned suppression actions under the AIWFMP and allow wildland fire managers to consider all values, both natural and man made, when making wildland fire management decisions. Since the AIWFMP is already in place and identifies where fires will be suppressed to protect life and property, this statutory authority revision/clarification will not result any additional fiscal responsibility on the Department of Natural Resources.

Prepared by: Lynn Wilcock  
Division: Forestry  
Approved by: Tom Irwin, Commissioner  
Natural Resources

Phone (907) 451-2675  
Date/Time: February 20, 2008  
Date: February 20, 2008

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: HB370-LAW-CIV-02-27-08  
 Bill Version: HB370  
 () Publish Date: \_\_\_\_\_

Identifier (file name): \_\_\_\_\_ Dept. Affected: LAW  
 Title An Act relating to "wildland" fires. RDU Civil  
 Component Natural Resources  
 Sponsor REPRESENTATIVE(s) KELLY  
 Requester HOUSE RESOURCES Component Number \_\_\_\_\_

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

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2008) cost: 0.0

**POSITIONS**

Full-time								
Part-time								
Temporary								

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

HB 370 changes the term "forest fire" to "wildland fire" in applicable statutes to more closely reflect the reality that Alaska also has tundra fires. Second, it allows DNR to consider the value of all resources at risk when engaging in fire prevention and response planning, rather than being limited to considering only natural resources.

The department does not expect a significant fiscal impact as a result of this bill.

Prepared by: Robert Meiners, Administrative Services Manager  
 Division: Administrative Services Division  
 Approved by: Talis Colberg, Attorney General  
Department of Law

Phone 907-465-5427  
 Date/Time 2/27/08 1:55 PM  
 Date 2/27/2008

# Alaska State Legislature

## Juneau

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## Member

House Finance Committee  
Legislative Budget & Audit

## **Representative Mike Kelly**

*House District 7*

### SPONSOR STATEMENT HB 370

HB 370 allows the Department of Natural Resources (DNR) to include cabins, lodges and other structures owned privately, by the state or by a municipality in their wildland fire management decisions. Under existing statute, DNR is mandated to "provide protection, commensurate with the value of the resources at risk, for the natural resources and watersheds on land that is owned privately, by the state, or by a municipality." This language implies that fire management decisions and appropriate fire management response will be based solely on the value of the natural resources that are threatened by wildland fire and not the structural and cultural resource values.

HB 370 would align statute with the Alaska Interagency Wildland Fire Management Plan (AIWFMP), which has been in effect since 1985, and states that "all fire management decisions by land manager/owner(s) will be based on values warranting protection, protection capabilities, firefighter safety and/or land and resource management needs." The AIWFMP provides a means to categorize and prioritize fires in order to maximize efficient use of fire suppression resources.

It is clear that the AIWFMP intends that fire managers consider all values at risk from wildland fire in their management decision making. Since implementation of the AIFMP, DNR has made decisions on the level of suppression response based on the existence of cultural or man-made values, in addition to the value of natural resources. This would appear to be in conflict with the intent language in AS 41.15.010. State of Alaska fire managers have considered all values in categorizing State, private, and municipal land within the context of the AIWFMP. This statute revision would align the statute with the AIWFMP to allow for a comprehensive direction for fire managers to make decisions about protection levels to more accurately incorporate all that the State of Alaska and its residents value, including natural resources.

# Alaska State Legislature

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**Representative Mike Kelly**  
House District 7

## **Sectional Analysis – HB 370**

***"Relating to forested land management and protection from wildland fires; changing the term 'forest fire' to 'wildland fire' where it appears in statute."***

**Section 1:** Amends AS 19.40.010, regarding public highways, to refer to 'wildland fire' rather than 'forest fire'.

**Section 2:** Amends AS 33.30.191, regarding employment of prison inmates, to refer to 'wildland fire' rather than 'forest fire'.

**Section 3:** Clarifies the intent in AS 41.15.010, to allow for the protection of all values at risk – from wildland fires and other destructive agents – when making wildland fire management decisions. Deletes the more narrow terms 'value of the resources' and 'natural resources and watersheds,' and broadens the protection safety net.

**Section 4:** Amends language in AS 41.15.040, right of entry to control and suppress fires, including changing the term 'forest fires' to 'wildland fire.'

**Section 5:** Changes the term under definitions in AS 41.15.170, from 'forest fire' to 'wildland fire' leaving the definition unchanged.

**Section 6:** The bill has an immediate effect date.

# Alaska State Legislature

## Juneau

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Audit

## **Representative Mike Kelly**

House District 7

### **Sectional Analysis -- HB 370**

***"Relating to forested land management and protection from wildland fires; changing the term 'forest fire' to 'wildland fire' where it appears in statute."***

**Section 1:** Amends AS 19.40.010, regarding public highways, to refer to 'wildland fire' rather than 'forest fire'.

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**Section 4:** Amends language in AS 41.15.040, right of entry to control and suppress fires, including changing the term 'forest fires' to 'wildland fire.'

**Section 5:** Changes the term under definitions in AS 41.15.170, from 'forest fire' to 'wildland fire' leaving the definition unchanged.

**Section 6:** The bill has an immediate effect date.



## Briefing:

### Fire Statute Authority Clarification

September 2007

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF FORESTRY

**Background.** Under existing statute, the Department of Natural Resources (DNR) is mandated to "provide protection, commensurate with the value of the resources at risk, for the natural resources and watersheds on land that is owned privately, by the state, or by a municipality." This language implies that fire management decisions and appropriate fire management response will be based on the value of the natural resources that are threatened by wildland fire.

The Attorney General's (AG) office examined the Division of Forestry's (DOF) statutory responsibility for fire protection. In his response, the AG affirmed that "DNR's decision-making focuses on the risk to natural resources, rather than to cabins, etc." This response goes further to say that "it would take new statutory language for DNR to address the complaints that areas with cabins and lodges are ... slated for 'limited protection,' because to do so, DNR would need to incorporate the value of developed private property into its decision-making."

#### **Recommendation for Statute Revision: Amend AS 41.15.010**

This proposal would revise AS 41.15.010 to allow for consideration of all resource values, both natural and cultural, when making wildland fire management decisions on state, private, or municipal lands.

**Current Statute:** *It is the intent of AS 41.15.010 - 41.15.170 to provide protection, commensurate with the value of the resources at risk, for the natural resources and watersheds on land that is owned privately, by the state, or by a municipality.*

**Proposed Revised Statute:** *It is the intent of AS 41.15.010 – 41.15.170 to provide protection from wildland fire and other destructive agents, commensurate with the values [OF THE RESOURCES] at risk. [FOR THE NATURAL RESOURCES AND WATERSHEDS] on land that is owned privately, by the state, or by a municipality.<sup>1</sup>*

The updated language would also align statute with the Alaska Interagency Wildland Fire Management Plan (AIWFMP), which has been in effect since 1985, and states that "all fire management decisions by land manager/owner(s) (will be) based on values warranting protection, protection capabilities, firefighter safety and/or land and resource management needs." The AIWFMP provides a means to categorize and prioritize fires in order to maximize efficient use of fire suppression resources. It also states "this categorization and ensuing prioritization ensures that: (1) human life, private property, and identified resources receive an appropriate level of protection with available firefighting resources, (2) the cost of the suppression effort is commensurate with values identified for protection, and (3) the ability of land manager owner(s) to achieve their individual management objectives is optimized."

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<sup>1</sup> new text underline and bold. *[DELETED TEXT BRACKETED AND CAPITALIZED]*

It is clear that the AIWFMP intends that fire managers consider all values at risk from wildland fire in their management decision making. Since implementation of the AIFMP, DNR has made decisions on the level of suppression response based on the existence of cultural or man-made values, in addition to the value of natural resources. This would appear to be in conflict with the intent language in AS 41.15.010. State of Alaska fire managers have considered all values in categorizing State, private, and municipal land within the context of the AIWFMP. This statute revision would align the statute with the AIWFMP to allow for a comprehensive direction for fire managers to make decisions about protection levels to more accurately incorporate all that the State of Alaska and its residents value, including natural resources.

Additionally, there is conflict between the State's wildland fire statutory authority for wildland fire management and public safety policy for protection from fire as defined in Public Safety Statute. This statute reads:

*Sec. 18.70.320. Policy.*

*It is the policy of the state to protect its residents and their property from the ravages of fire...The legislature finds that fire is a constant threat and that homes, places of employment, modes of transportation, and our natural resources need a system of fire protection that is based on the most current, practical standards and educational principles.*

This revision of 41.15 the Natural Resource Statute, would allow for fire management decisions to include property protection as a consideration and would align wildland fire management statutory authority with other State law.

**Contact Information:**

	Work	Home	Cell
Chris Maisch, State Forester	451-2666	455-6359	590-3190
Dean Brown, Deputy State Forester	269-8476	376-2895	440-4052
Lynn Wilcock, Chief of Fire and Aviation	451-2675	488-7173	590-3686
Tom Kurth, Fire Operations Forester	356-5850	479-2919	590-3184

**From:** Jennifer Yuhas [mailto:jyahas@co.fairbanks.ak.us]  
**Sent:** Monday, February 25, 2008 4:12 PM  
**To:** Derek Miller; Lesh, Melanie G (DNR)  
**Cc:** chris\_maisch@dnr.state.ak.us; Wilcock, Lynn R (DNR); Tom Kurth  
**Subject:** HB370

February 25, 2008

House Resource Committee  
State Capitol  
Juneau, Alaska

Dear Members of the House Resource Committee:

This letter is to **thank Representative Mike Kelly for the sponsorship of HB 370 - PROTECTION OF FORESTED LAND**, and ask your **support for passage** of this legislation.

HB 370 allows the Alaska Division of Forestry to better serve the residents of our State and aligns the mission of the Division with the functional expectations of the communities it serves by **allowing for fire management decisions to include property protection as a consideration**.

**Wildland fire management statutory authority must be aligned with other State law.** The Fairbanks North Star Borough can attest to the necessity of this revision following the past several fire seasons, most notably the 2004 Boundary Fire. **Cur Borough depends on the cooperative efforts of the Division of Forestry in the most serious instances of life and safety.**

Please do not hesitate to contact our Legislative Liaison staff, Jennifer Yuhas, regarding our support of this legislation. She may be reached at (907) 459-1302 or [jyahas@co.fairbanks.ak.us](mailto:jyahas@co.fairbanks.ak.us).

Sincerely,

/s/  
Jim Whitaker, Mayor

JW:jy-csm

ALASKA STATE LEGISLATURE  
House Resources Committee

**Carl Gatto, Co-Chair**

State Capitol Building, Room 108  
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**Craig Johnson, Co-Chair**

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**FAX**

<b>To:</b> Don Bullock, Leg Legal Services	<b>From:</b> Debra Higgins
<b>Fax:</b> 2029	<b>Phone:</b> 3715
<b>Date:</b> February 29, 2008	<b>CC:</b>
<b>Re:</b> HB 370 w/ amendments	<b>Pages with Cover:</b> 2

HB 370 passed out of House Resources Committee today with the following amendments:

#1) 25-LS1359/C.1 (please see attached)

#2) Page 3, line 14:

Delete: "and"

Insert: "or"

A final CS for HB 370(RES) is OK –

Thanks.  
Debra

The information contained in this fax is CONFIDENTIAL and/or privileged. This fax is intended to be reviewed initially by only the individual named above. If the reader of this transmittal page is not the intended recipient or a representative of the intended recipient, you are hereby notified that any review, dissemination, or copying of this fax or the information contained herein is prohibited. If you have received this fax in error, please immediately notify the sender by telephone and return this fax to the sender at the above address.

approved  
2/29/08

25-LS1359.C.1  
Bullock  
2/28/08

AMENDMENT # 1

OFFERED IN THE HOUSE

• TO: HB 370

1 Page 3, line 19, following "(2)":

2 Insert "destructive agent" means an insect, pathogen, or other environmental  
3 agent that causes damage to a forest resource;

4 (3)"

5

6 Page 3, line 21:

7 Delete "(3)"

8 Insert "(4) [(3)]"

Amend #2

Pg 3, Line 14

delete "and"

insert "or"

approved  
2-29-08

Wilson

AMENDMENT

OFFERED IN THE HOUSE

TO: HB 370

1 Page 3, line 19, following "(2)":

2 Insert "destructive agent" means an insect, pathogen, or other environmental  
3 agent that causes damage to a forest resource;

4 (3)"

5

6 Page 3, line 21:

7 Delete "(3)"

8 Insert "(4) [(3)]"

# Alaska State Legislature

## Juneau

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Juneau, AK 99801-1182  
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## Member

House Finance Committee  
Legislative Budget & Audit

## Representative Mike Kelly

*House District 7*

### MEMORANDUM

**To:** Representative Craig Johnson – Co-Chair, Resources Committee

**From:** Representative Mike Kelly

A handwritten signature in black ink, appearing to be "MK", enclosed in a circle.

**Date:** February 22, 2008

**Re:** Committee Hearing Request – HB 370 (RES) "An Act relating to forested land management and protection from wildland fire and other destructive agents; changing the term 'forest fire' to 'wildland fire' where it appears in the Alaska Statutes; and providing for an effective date."  
.....

I respectfully request that HB 370 (RES) be scheduled for a hearing. I have included a sponsor statement, the bill, a sectional analysis, fiscal notes and other items of evidentiary support.

If you have any questions or comments, or require additional material please feel free to contact me at extension 4076 or my staff, Derek Miller at extension 6879.

**HB**

**20001**

**(10/29/07)**

ALASKA STATE LEGISLATURE  
House Resources Committee

**Carl Gatto, Co-Chair**

State Capitol Building, Room 108  
Juneau, AK 99801-1182  
(907) 465-3743  
FAX (907) 465-2381  
Rep\_Carl\_Gatto@legis.state.ak.us



**Craig Johnson, Co-Chair**

State Capitol Building, Room 126  
Juneau, AK 99801-1182  
(907) 465-4993  
FAX (907) 465-3872  
Rep\_Craig\_Johnson@legis.state.ak.us

**House Resources Committee Agenda**

**Monday, October 29<sup>th</sup>, 1:00 p.m. House Finance  
Committee Room 519**

CSHB 2001(O&G) Oil and Gas Tax Amendments

Teleconferenced

Don Bullock, Legislative Legal and  
Steve Porter, Contract Consultant to LB&A

Presentation by the Administration,  
~~Revenue Commissioner Pat Galvin~~ and  
Deputy Commissioner Marcia Davis, *Dept. of Revenue*

*Jerry Burnett, ———, Dept. of Revenue*

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
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## MEMORANDUM

October 29, 2007

**SUBJECT:** Overview of CSHB 2001(O&G) (CSHB 2001(O&G);  
Work Order No. 25-GH0014\L)

**TO:** Representative Carl Gatto  
Chair of House Resources Committee

**FROM:** Donald M. Bullock Jr.  
Legislative Counsel

You requested a copy of the notes I used when appearing before your committee today. What follows are the notes I used, which are really nothing more than a rough outline I used to trigger my memory. Therefore, it should not be treated as a full and complete analysis of CSHB 2001(O&G).

You will have received or will soon receive a sectional summary of the bill prepared by Alpheus Bullard, Legislative Counsel. Note that any sectional summary and my rough notes should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

To put these notes in perspective, I prepared these notes as a basis for introducing the committee to the major subject areas of the bill -- the tax, deductions for lease expenditures, credits, and tools for auditing and administering the petroleum production tax. The notes do not address or describe every section of the bill. My intention was to offer enough of an overview to give the committee members a general introduction to the issues and explain how the bill generally addresses those issues. My notes are very rough and were customized for my purposes.

Again, the best authority for what the bill says and means is the bill itself. If you need an understanding of the policy beyond sections of the bill, I refer you to the administration for the sections that originally appeared in HB 2001, and to the members of the House Special Committee on Oil and Gas for sections that were modified or added in that committee.

I am sure there are other disclaimers and cautionary statements that should apply. Please use these notes only as a general guideline and not as interpretive statements.

Notes for an overview of CSHB 2001(O&G) for presentation to House Resources

Overall concepts of the PPT:

**Tax**, including the tax rate, progressivity, and tax caps (AS 43.55.011)

**Expenditures**, those lease expenditures (AS 43.55.165) that reduce the gross value at the point of production (AS 43.55.150) to determine the production tax value of oil and gas (AS 43.55.165)

**Credits**, change in the transitional investment expenditure credits to reduce the claw-back period to 3 years

**Audit and verification** of the information on a return and the correct amount of tax that is due, including exempt auditors, requiring additional information from producers and explorers, and sharing information between the Department of Revenue and the Department of Natural Resources. This part also includes the expansion of the period in which a production tax may be assessed to 6 years

**The Tax**

**New Progressive Tax base on gross value at the point of production (AS 43.55.150)**

The current progressivity in AS 43.55.011(g) is repealed in sec. 38 of the bill

On January 1, 2008, there is a new progressive tax

The bill offers a new progressive tax in AS 43.55.011(o) added in sec. 18 of the bill

based on gross value at the point of production

triggered when the gross value at the point of production is greater than

\$50

.225 multiplied by the gross value at the point of production of taxable oil and gas and in turn multiplied by the difference between the value of a BTU equivalent barrel produced from the lease or property, and \$50

e.g. If the actual production gross value at the point of production is \$70, the multiplier is 20, the difference between \$70 and \$50

Conforming amendments to refer to AS 43.55.011(o) rather than to the repealed progressivity in AS 43.55.011(g) include:

**Sections 14 (AS 43.55.011(j))**

**16 (AS 43.55.011(l))**

**17 (AS 43.55.011(m))**

**19 (AS 43.55.020(a))**

**20 (AS 43.55.020(d))**

**New tax caps to benefit new gas outside of Cook Inlet and South of 68 degrees North**

AS 43.55.011(p) is added in sec. 18

Applies only to gas produced from a lease of property for which the start of regular deliveries of marketable gas is after Dec. 31, 2007

**Expenditures**

Revised rules for expenditures and new exclusions in AS 43.55.165(a) (sec. 32), AS 43.55.165(e) (sec 33)

Sec. 32 gives Department new authority to identify allowable lease expenditures; repeals AS 43.55.165(c) and (d) effective 4/1/2006, which looked at the unit agreement and unit billings for determining allowable lease expenditures

Sec. 33 disallows lease expenditures that relate to breaking the law or violating a lease provision

Sec 33 is also aimed at the SB 80/HB 128 corrosion repair cost issue, where costs necessitated by negligent maintenance would be disallowed

Sec. 33 disallows costs related to a topping plant

Secs. 32 and 33 are from the gov's bill

requires a spill or slow flow as a trigger for looking at whether the costs should be disallowed

**Credits**

**Sec. 24** AS 43.55.023(i) changes the period for transitional investment expenditures that can be taken as a credit to a three rather than five year period. The new period is after March 31, 2003 and before April 1, 2006 (the effective date of the PPT)

Retroactive to 4/1/2006

**Audit and Information**

**Provide more time for an audit.**

The period for making assessments is expanded from 3 to 6 years by new section.

The new section, AS 43.55.075, is in sec. 29 with a conforming provision in sec.

13

**Exempt service auditors:**

Sec. 9 would make oil and gas tax auditors and royalty auditors exempt

Sec. 40 provides transition

**More information from the producers and explorers:**

New information requirements from the producers and explorers in sec. 26 (AS 43.55.030(a)), sec. 27 (AS 43.55.030(e)), new section AS 43.55.040 added by sec. 28

information required even if no tax is due

**Information sharing between Departments**

Secs. 1 - 8, 10, 12

**Publication of information**

Sec. 35 (AS 43.55.890) which authorize revenue to disclose some tax information provided that the information is an aggregation of 3 or more producers

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSHB2001(O&G)  
 ( ) Publish Date: \_\_\_\_\_

Identifier (file name): CSHB2001(O&G)-DOR-TAX-10-29-07 Dept. Affected: Revenue 04  
 Title An Act relating to the production tax on oil and gas.. RDU Taxation and Treasury  
 Component Tax Division  
 Sponsor Governor  
 Requester House Resources Component Number 2476

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

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel								
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2	5.2
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>

<b>CAPITAL EXPENDITURES</b>								
-----------------------------	--	--	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>		<b>227,000.0</b>	<b>161,000.0</b>	<b>251,000.0</b>	<b>459,000.0</b>	<b>487,000.0</b>	<b>337,000.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>645.9</b>

Estimate of any current year (FY2008) cost: 3,409.2

**POSITIONS**

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

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

This bill makes two economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following changes to the current system: First, it calculates the progressivity surcharge as the difference between the per barrel gross revenue at the point of production and \$50, at a rate of 0.225%, which applies to gross revenue at the point of production. Second, it eliminates the period by which past investments are recognized in the transition investment expenditure credits (AS 43.55.023(i)) from April 1, 2001 to April 1, 2003.

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis  
 Division: Tax Division  
 Approved by: Jerry Burnett  
Department of Revenue

Phone 269-6628  
 Date/Time 10/29/07 9:00 AM  
 Date 10/29/2007

## FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(O&G)

### ANALYSIS CONTINUATION

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

**Personal Services:** The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulty the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

**Contractual:** Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

**Current FY2008 costs:** The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$216,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

**FISCAL NOTE**

**STATE OF ALASKA  
2008 LEGISLATIVE SESSION**

**BILL NO. CSHB2001(O&G)**

**ANALYSIS CONTINUATION**

**Estimated Production Tax Revenues, PPT and ACES, at  
Various Prices (in \$millions nominal)**

***Fall 2007 DOR Official Forecast Prices***

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (O&G)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,007	92
2009	64.55	66.30	1,693	1,920	227
2010	60.05	63.40	1,531	1,693	161
2011	59.70	64.75	1,670	1,920	251
2012	59.55	66.35	1,746	2,205	459
2013	58.90	67.45	1,647	2,134	487
2014	58.25	68.55	1,642	1,979	337

DOR Forecast nominal prices rounded to the nearest \$0.05

***\$60 per barrel in REAL dollars***

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (O&G)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,088	38
2009	60.00	61.65	1,435	1,575	141
2010	60.00	63.35	1,562	1,717	155
2011	60.00	65.09	1,695	1,951	256
2012	60.00	66.88	1,783	2,253	470
2013	60.00	68.72	1,733	2,248	515
2014	60.00	70.61	1,776	2,160	384

***\$80 per barrel in REAL dollars***

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (O&G)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	2,777	127
2009	80.00	82.20	3,031	3,465	434
2010	80.00	84.46	3,266	3,730	464
2011	80.00	86.78	3,481	4,090	609
2012	80.00	89.17	3,668	4,513	845
2013	80.00	91.62	3,619	4,526	906
2014	80.00	94.14	3,690	4,494	805

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 2001  
 (H) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOA-DAS-10-17-07 Dept. Affected: Administration  
 Title: An Act relating to the production tax on oil and gas... RDU: Centralized Admin. Services  
 Component: Office of the Commissioner  
 Sponsor: Governor  
 Requester: \_\_\_\_\_ Component Number: 45

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

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>								

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2008) cost: \_\_\_\_\_

**POSITIONS**

Full-time								
Part-time								
Temporary								

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

This legislation has no fiscal impact on the Department of Administration.

Prepared by: Eric Swanson Phone 465-5655  
 Division: Administrative Services Date/Time: \_\_\_\_\_  
 Approved by: Annette Kreitzer Date Oct. 12, 2007  
Commissioner

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: HB 2001  
 (H) Publish Date: 10/18/07

Identifier (file name): #773-08-0014-DNR-10-17-07 Dept. Affected: Natural Resources  
 Title: ACES RDU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: Rules Committee  
 Requester: Governor Component Number: 439

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

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

	Appropriation Required		Information				
	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>							
Personal Services	303.5	0.0	303.5	303.5	303.5	303.5	303.5
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>303.5</b>	<b>0.0</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>

<b>CAPITAL EXPENDITURES</b>							
-----------------------------	--	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>							
-------------------------------	--	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	303.5	0.0	303.5	303.5	303.5	303.5	303.5
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>303.5</b>	<b>0.0</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>

Estimate of any current year (FY2008) cost: 177.0

**POSITIONS**

Full-time							
Part-time							
Temporary							

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

This bill would amend the oil and gas production tax under AS 43.55 to increase the base tax rate from 22.5% to 25% of net income and have the index-based progressive tax apply when net income per barrel exceeded \$30 rather than the current \$40 per barrel. In addition, this bill would change the minimum tax that currently applies to taxable income generated from North Slope fields, and which, for ANS West Coast prices above \$25 per barrel, is now 4% of gross receipts at the lease boundary. The bill would increase the minimum tax rate to 10 percent gross, but apply this minimum tax only to large North Slope legacy units (Prudhoe Bay Unit and the Kuparuk River Unit). This minimum tax would also prevent these legacy field owners from using credits or deductions generated at these fields to lower their tax burden elsewhere when the minimum tax applies. In addition, the bill allows for tax credits on future work rather than previous work and expands the current exploration incentive credit program to include as many wells that can be drilled in two drilling seasons. It also restricts capital expense deductions to scheduled maintenance and would implement audit and information sharing provisions.

Prepared by: Kevin Banks, Acting Director  
 Division: Oil and Gas  
 Approved by: Tom Irwin, Commissioner  
Natural Resources

Phone 269-8800  
 Date/Time 10/17/2007  
 Date 10/17/2007

**FISCAL NOTE #2**

**STATE OF ALASKA  
2008 LEGISLATIVE SESSION**

**BILL NO. HB 2001**

**ANALYSIS CONTINUATION**

**\*\*Indeterminate Positive:** The royalty revenue impact to the State of ACES is indeterminate, but most likely positive. ACES improves the economics for new entrants or small Alaska producers, but decreases the attractiveness of investments in legacy fields.

Improvement in new entrant/small producer economics: ACES improves the economics of investing in Alaska for new entrants and small Alaska producers, an improvement that should lead to more investment and resulting royalty revenue. For new entrants and small producers, capital spent to find and develop oil or gas resources will generate a carried-forward annual loss credit of 25 percent rather than the current 20 percent AS 43.055.023(b).

Also, for new entrants and small Alaska producers, the transferable credits (the carried-forward annual loss credit and the 20 percent qualified expenditure credit (AS 43.55.023(a)) will be worth more under ACES. Small producers have indicated that they have been unable to sell their credits to larger tax payers. Under AS 43.55.028, ACES establishes an oil and gas tax credit fund that will help ensure these new and small producers will receive full value for these transferable credits.

Without the fund, the small producer or new entrant may have to carry-forward their credits until they have tax liability. By providing full value up-front for these credits, ACES improves the internal rate of return (IRR) by three to six percent at \$40 per barrel ANS WC.

As a partial offset to this incentive, ACES increases the tax rate from 22.5 to 25.0 percent; has the progressive, index-based, rate kicking in at a lower level; and has credits being spread over two years rather than one. However, on balance, ACES will improve new project economics for new entrants and small Alaska producers.

Decrease in attractiveness of investments in legacy fields: ACES will decrease the attractiveness of investments made by larger, existing producers for three reasons: the higher tax rate, the elimination of the Transition Investment Expenditure (TIE) credit, and the 10 percent minimum tax on legacy fields.

First, ACES increases the tax rate from 22.5 percent to 25.0 percent. In addition, the progressive, index-based rate will start at a lower (\$30) net value per barrel, but escalate at a lower rate (0.20 percent rather than 0.25 percent. Second, by eliminating the TIE credit, new capital spending by existing producers will no longer increase the ability of those producers to take the TIE credit by 10 percent of the capital invested. Third, at lower prices (prices far below where they are today) the minimum 10 percent gross tax applies, lowering or postponing the ability to take the capital expenditure credits. The floor also could eliminate the ability to use deductions generated by new spending to decrease tax liability. If the producers in these legacy fields (Prudhoe Bay Unit and Kuparuk River Unit) believe there is a good chance that prices will decline or costs will increase to the point where the floor applies, they might invest less in additional reserves in these legacy fields.

If these measures (the higher rate, the TIE credit elimination, and the 10 percent floor) cause less investment by existing producers to add reserves, the State will receive less in royalty.

Personal Services: Sections 10 and 67 would reclassify the current oil and gas auditors to exempt status employees. DO&G currently has seven oil and gas auditor positions. The total salary/benefit costs for these seven employees currently equals approximately \$849,147. An increase to exempt status is estimated to cost up to an additional \$303,500 in FY09. The FY08 amount of \$177,000 covers an estimated 7-months at the higher rate.

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
Bill Version: HB 2001  
(H) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOR-TAX-10-17-07 Dept. Affected: Revenue 04  
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treasury  
Component: Tax Division  
Sponsor: Governor  
Requester: \_\_\_\_\_ Component Number: 2476

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

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel								
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2	5.2
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>

<b>CAPITAL EXPENDITURES</b>								
-----------------------------	--	--	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>		<b>675,000.0</b>	<b>603,000.0</b>	<b>589,000.0</b>	<b>624,000.0</b>	<b>597,000.0</b>	<b>416,000.0</b>
-------------------------------	--	------------------	------------------	------------------	------------------	------------------	------------------

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>645.9</b>

Estimate of any current year (FY2008) cost: 3,409.2

**POSITIONS**

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

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

This bill makes significant changes to the state's current petroleum profits tax. The tax proposal, also known as the Clear and Equitable Share (ACES) plan, like the current tax system, taxes the net value of petroleum resources. The ACES proposal makes the following changes to the tax system: raises the tax rate to 25% on net profits of oil and gas production subject to a 10% floor on legacy fields; adjusts the progressive tax feature to trigger at \$30 net value (annual) and rise at two-tenths of a percent per dollar; eliminates the transitional investment expenditures "TIE" credits; requires that capital costs be taken as credits over two years, rather than immediately; addresses the "corrosion" expense issue; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; expands exploration incentive credit program to cover two field seasons; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

Prepared by: Cherie Nienhuis, Roger Marks, Johanna Bales  
Division: Tax Division  
Approved by: Jerry Burnett  
Department of Revenue

Phone: 269-6628  
Date/Time: 10/17/07 12:00 AM  
Date: 10/17/2007

## FISCAL NOTE #3

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. HB 2001

### ANALYSIS CONTINUATION

The tax proposal would also authorize a fund to be established for the purpose of purchasing tax credit certificates. The fund would receive 10% - 15% of total production tax revenues annually (roughly \$150 million to \$300 million); up to \$250 million of fund revenues would be paid to purchase credits in any given year.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

**Personal Services:** The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

**Contractual:** Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

**Current FY2008 costs:** The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE #3

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. HB 2001

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES, at  
Various Prices (in \$millions)**

*Fall 2007 DOR Official Forecast Prices*

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,330	415
2009	64.55	66.30	1,693	2,369	675
2010	60.05	63.40	1,531	2,134	603
2011	59.70	64.75	1,670	2,258	589
2012	59.55	66.35	1,746	2,370	624
2013	58.90	67.45	1,647	2,244	597
2014	58.25	68.55	1,642	2,058	416

DOR Forecast nominal prices rounded to the nearest \$0.05

*\$60 per barrel in REAL dollars*

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,421	371
2009	60.00	61.65	1,435	1,977	542
2010	60.00	63.35	1,562	2,170	608
2011	60.00	65.09	1,695	2,291	596
2012	60.00	66.88	1,783	2,414	631
2013	60.00	68.72	1,733	2,347	614
2014	60.00	70.61	1,776	2,218	442

*\$80 per barrel in REAL dollars*

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	3,089	438
2009	80.00	82.20	3,031	3,717	686
2010	80.00	84.46	3,266	3,988	722
2011	80.00	86.78	3,481	4,189	708
2012	80.00	89.17	3,668	4,404	736
2013	80.00	91.62	3,619	4,327	708
2014	80.00	94.14	3,690	4,204	514

2

Provision	ACES	SEN CS E	House CS K
Leg intent re statute of limitation	1	X	x
DNR info to DOR	2	1	1
- Same	3	2	2
-Same	4	3	3
DNR- conform	5	4	4
-same	6	5	5
-same	7	6	6
-same	8	7	7
-same	9	8	8
Exempt DOR/DNR auditors	10	9	9
DNR- conform	11	10	10
DOR- Confid. Info release	12	11	11
DOR info to DNR	13	12	12
TIE credit- 06 to 07 vesting	X	13	X
Ref to 6 yr stat of limit.	14	X	13
.011(e) tax rate	15	X	X
.011(f) 10% legacy floor (replaced 4% floor)	16	X	X
.011(g) 25% rate w/.20 price index	17	X	X
.011(h) annual prog. \$30 trigger	18	X	X
.011(j) conforming	19	X	X
.011(j) reference new (o) CI gas	X	X	14
.011(k) conforming	20	X	X
.011(k)- reference new (o) OI oil	X	X	15
.011(m)-conforming CI lease expenditures	21	X	X
.011(m) reference new (o)	X	X	16
.011(o) .225% tax per 1\$ over \$50	X	X	17
.011(p) ELF ceiling on Middle earth	X	X	17
.020(a)- rewrite	22	X	X
.020(a) reference new .011(o)	X	X	18
.020(d) conform	23	X	X
.020(d) reference new .011(o)	X	X	19
.020(g) conform, clarify year	24	X	X
.020(g) clarify year mt begins run IRS over pay	X	X	20
.020(h) conform, clarify year	25	X	X
.020(h) clarify year mt begins run IRS over	X	X	21
.023(a) 2 yr cap credit use, legacy limit, exploration data rights	26	X	X
.023(b) 25% loss carry forward, leg. Limit	27	X	X
.023(d) Cap cost credit certif. ref annual statements.	23	X	X
.023(d) ref annual statements	X	X	22
.023(e) conforming	29	X	X
.023(g) conforming	30	X	X
.023(i) TIE credit past costs since 3-31-03	X	X	23

PROD TAX

Method of paying 1/2 INO and

Capital credits

#4 Tech unit .011 & add (o) reference

Technical #3 Amend fix language

New (P) FBX Nat'l Gas Amend #2

Provision	ACES	SEN CS E	House CS K
.023(l) tax exempt entity-no credits	31	X	X <i>Amnt #1 -</i>
.024(a) conforming .011(f)	32	X	X
.024(c) conforming .011(f)	33	X	X
.024(e) conforming .011(f)	34	X	X
.024(g) conforming .011(f)	35	X	X
.025(a) EIC	36	X	X
.025(b) EIC	37	X	X
.025(c) EIC	38	X	X
.025(f) EIC	39	X	X
.025(g) EIC	40	X	X
.025(g) EIC	40	X	X
.025(h) EIC	41	X	X
.025(i) EIC	42	X	X
.025(k) EIC	43	X	X
.025(l) EIC	44	X	X
.028 New O&G tax credit fund	45	X	X
.030(a) Producer Annual report	46	14	24
.030(d) Penalty for no report	47	15	X
.030(e) Non-producer annual report, monthly reports	48	16	25
.040(5) DOR right to forecast info	49	17	26
.040(6) penalty for no forecast info	49	17	X
.075- six yr stat of limitation	50	X	27
.110 Electronic filing, payments	51	18	28
.160(a) production valuation changes	52	X	X
.160(a)- ?? <i>conforming</i>	X	X	29
.160(b) conforming	53	X	X
.160(e) rewrite carried forward loss	54	X	X
.160(f) allocation leasehold expenditures	55	X	X
.165(a) QLE are what are "in" not "out"	56	19	X
.165(a) - ?? <i>conforming</i>	X	X	30
.165(b) rewrite factors for determining Lease Expenditures	57	20	X
.165(e) Excluded lease expenditures- DDR, Corrosion, COTP	58	21	31
.165(h) cost allocation	59	X	X
.170(a) conform deletion of .165(c) and (d)	60	22	32
.890- Public Disclosure	61	23	33
.900 Definitions (4)	62	X	X
.900 Definitions (2)	X	24	34
Repeal .023(f)	63	X	X
Repeal .165(c) and (d)	64	25	35
Repeal .011(l), .023(i), .160(c)	65	X	X

*Samuelly unapproved*

*EIC credits*

*Production valuation*

*Leasehold Expenditures Upstream*

Provision	ACES	SEN CS E	House CS K
Repeal .011(l)	X	26	X
Repeal .011(g) (progressivity), .011(h) (trigger price), .011(l), .160(c)	X	X	36
Uncodified- Applicability (various sections) (each bill different)	66	27	37
Uncodified- Exempt Auditors, bargaining units	67	28	38
Regs Retroactive (each bill different) 4/1/06 - Lease Exp. 1/1/07(A)	68	29	39
Application to Pending Applications	69	X	X
DNR Regulations	70	30	40
Retroactivity of Provisions (each bill different)	71	31	41
Provisions Effective 1-1-08 (each bill different)	72	32	42
Provisions effective immediately	73	33	43

**HB**

**20001**

**(10/30/07)**

**Alaska State Legislature  
HOUSE RESOURCE COMMITTEE  
AGENDA**

**Tuesday, October 30<sup>th</sup>**  
**House Finance Committee Room 519**

**9:00 a.m. – 3:00 p.m.**

HB 2001 Oil and Gas Tax Amendments

Presentation by the Administration:

Revenue Commissioner Pat Galvin and

Deputy Commissioner Marcia Davis

*Mike Williams, DOR - 4 CN, DOR*

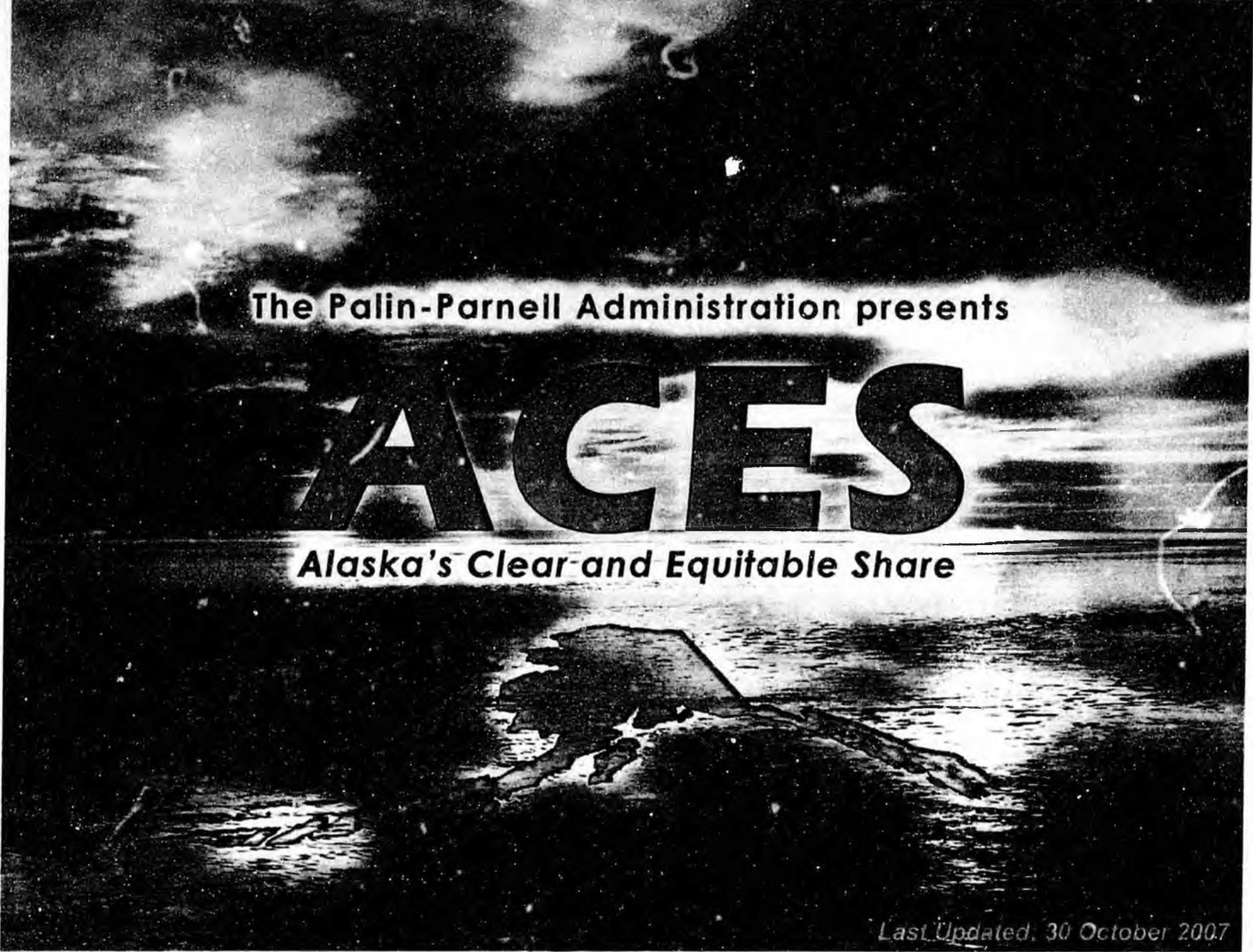
① Dan Dickinson, Consultant, Legislative Budget and Audit

*Rick Zugeris Gaffney Kline*

**6:30 p.m. Public Hearing**      **Teleconferenced**

✓ Public Testimony

↓ Bob George, GK



The Palin-Parnell Administration presents

# ACES

Alaska's Clear and Equitable Share

*Last Updated: 30 October 2007*

**ACES**

Alaska's Clear and Equitable Share

# Transportation Deductions

Antony Scott

Commercial Analyst, DNR

October 30, 2007

## Overview

# ACES

Alaska's Clear and Equitable Share

- Current law
- The commercial reality
- Some problems
- Potential remedies

- Gross value at point of production determined by subtracting “reasonable costs of transportation” from market prices
- “Reasonable costs” = “actual costs”
- “Actual costs” have historically been understood as FERC/RCA tariffs
- Exception for affiliate transactions, but only if “there are other reasonable modes of transportation” → exception is never met!

## Transportation Deductions (Oil Pipelines)

# ACES

Alaska's Clear and Equitable Share

- Deductions have historically relied on rates sanctioned by regulatory bodies
- Typically, this “sanction” does not reflect a regulatory determination
- Rather, the regulatory bodies have “blessed” settlement agreements between the state and the pipeline owner

**Why does state base its tax policy for pipeline transportation deductions on pipeline rate litigation?**

- MMS doesn't when pipeline is owned by producing affiliates.
  - They adopt a method promulgated through regulation

# Pipeline Transportation Deductions



Alaska's Clear and Equitable Share

- Key reasons for state to avoid relying on regulatory process in setting tax value
  - Creates uncertainty: While litigation drags on tax value not fully known
  - Inefficient: Regulatory process unlikely to work well absent arms-length commercially sophisticated parties

# TAPS Tariffs Example



## Background:

- TAPS rates are currently ~\$5/bbl, set under a 1985-era settlement agreement between the State and the TAPS owners
- Rates don't appear to reflect "actual costs"
  - RCA determined that actual costs ~\$2/bbl
  - FERC Administrative Law Judge determined that actual costs ~\$2/bbl
- While litigation continues, State continues to allow a ~\$5/bbl transportation deduction

## TAPS Tariffs Example

# ACES

Alaska's Clear and Equitable Share

### Indicative Value of “Tariffs by DOR”

- Assume:
  - TAPS tariffs are \$3/Bbl too high
  - 760,000 Bbls/day
  - Production tax rate of 22.5%
  - All barrels are shipped on affiliated transportation
- Then production tax value to state of setting tariffs for affiliate transactions is **~\$160 million/year**

# Transportation Deductions (Gas Pipelines)



- Gas pipelines typically built on basis of “negotiated rates” between shippers and pipelines
- FERC typically gives no scrutiny as to whether the negotiated rates are a “fair” bargain between shipper and pipeline
- If Producers end up owning the gas pipeline, then they can negotiate rates with themselves

**Why would the state want to set its tax policy for transportation deductions on the basis of a non-arms length deal that state can't even litigate?**

- Experience on TAPS suggests it would be unwise
- No compelling need to do so

## The Key to a Remedy

# ACES

Alaska's Clear and Equitable Share

- At present, state is arguably forced to live with non-arms length transactions because it is never the case that “there are other reasonable modes of transportation”
- DOR could follow MMS’ lead and establish regulations that determine appropriate cost deductions for non arms-length transactions on pipelines
- Cleanup language needed to ensure that the arms-length shippers – who really do have “actual costs” of the posted tariffs – are not forced to use the DOR-established tax deduction

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# **Alaska's Equitable Share**

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**Some Further Thoughts  
30 October 2007**



# Topics

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- **What is the risk of raising state revenue share on the existing producing reservoirs?**
  - Look at AOGA, BP and other industry data
- **What are the goals or drivers for Alaska's Petroleum Fiscal System?**
  - List what we have discerned since arriving in Juneau
- **From a 50,000 foot viewpoint, what fiscal system structure accomplishes the above goals with a minimal need for intervention?**

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# The Tipping Point

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# Where is the tipping point?

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- **Quite legitimately several legislators have asked their advisors and the companies how far is just right and how far is too far?**
  - The companies have complex decision making processes with many external factors at play and can't articulate what impact a change in Alaska taxes will have
    - Rock (Prospectivity) trumps Scissors (Fiscal) - Chevron
    - *Scissors (Fiscal) cut Paper (Profit)*
    - *Paper (Buy Reserves) covers Rock (Develop Reserves)*
  - Consultants acknowledge that taxes are but one of many factors that control decision making, and cannot say with certainty what tax rate is just right



# Testing the Tipping Point

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- **We can read lines, and between the lines, of industry testimony to construct a picture of the Alaskan investment climate**
  - AOGA letter which reflects “the full consensus of the members of the AOGA Tax Committee, with no dissent”
  - BP’s very detailed presentation on Prudhoe Bay area
  - Conoco’s useful insight on project economics
  - And other information supplied by Anadarko, Chevron, Exxon and Pioneer.
- **Details presented were then double checked against annual reports, SEC filings, analyst presentations and other company press releases where available**



# Overall Observations

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- **We agree with industry that there is significant upside in reducing the decline from existing producing assets**
- **The economics of reinvestment in producing assets on the North Slope are extremely profitable**
  - Evaluated with actual costs, production and prices as reported by BP
  - Profitable even when tested against various stress points





# AOGA Testimony – Recent Success

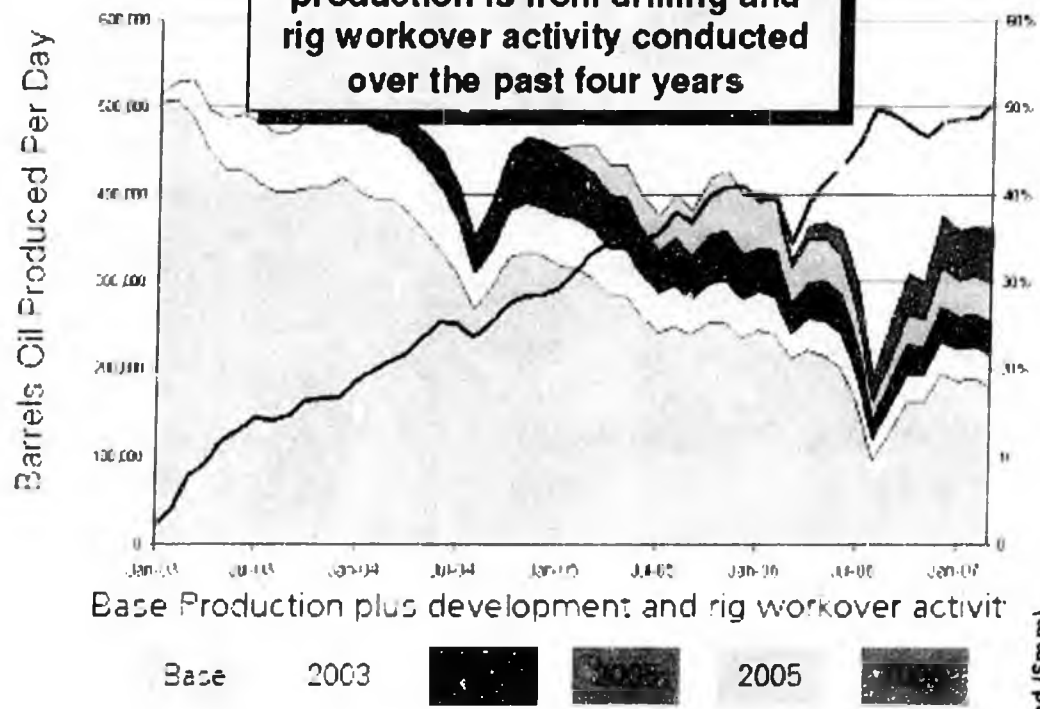
This gets us to investment in currently producing fields. Fortunately, there are investments that can be made, and are being made, in these fields to slow their decline. In the short term, this is in-fill drilling — that is, drilling new wells into the portions of a reservoir that are between the wells that have already been drilled. This accelerates the drainage of oil from the rock that currently lies in between existing wells. In-fill drilling last year contributed some 70,000 barrels a day to production from the Prudhoe Bay field. To put this into perspective, a 70,000 barrel per day field would be the 4<sup>th</sup> largest stand-alone field on the North Slope today.

- **AOGA noted that North Slope field life could be extended up to another 25 years with continued investment**
- **The oil companies achieved 70,000 bpd of additional production from the 2006 drilling program in Prudhoe Bay.**



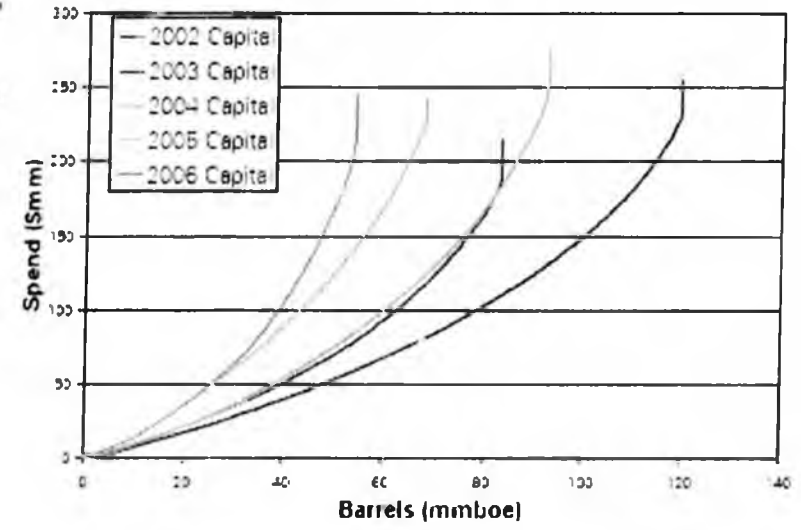
# BP's infill drilling program

**50% Of GPB's current oil production is from drilling and rig workover activity conducted over the past four years**



## Observations?

**GPB Well Investments 2002-2006**



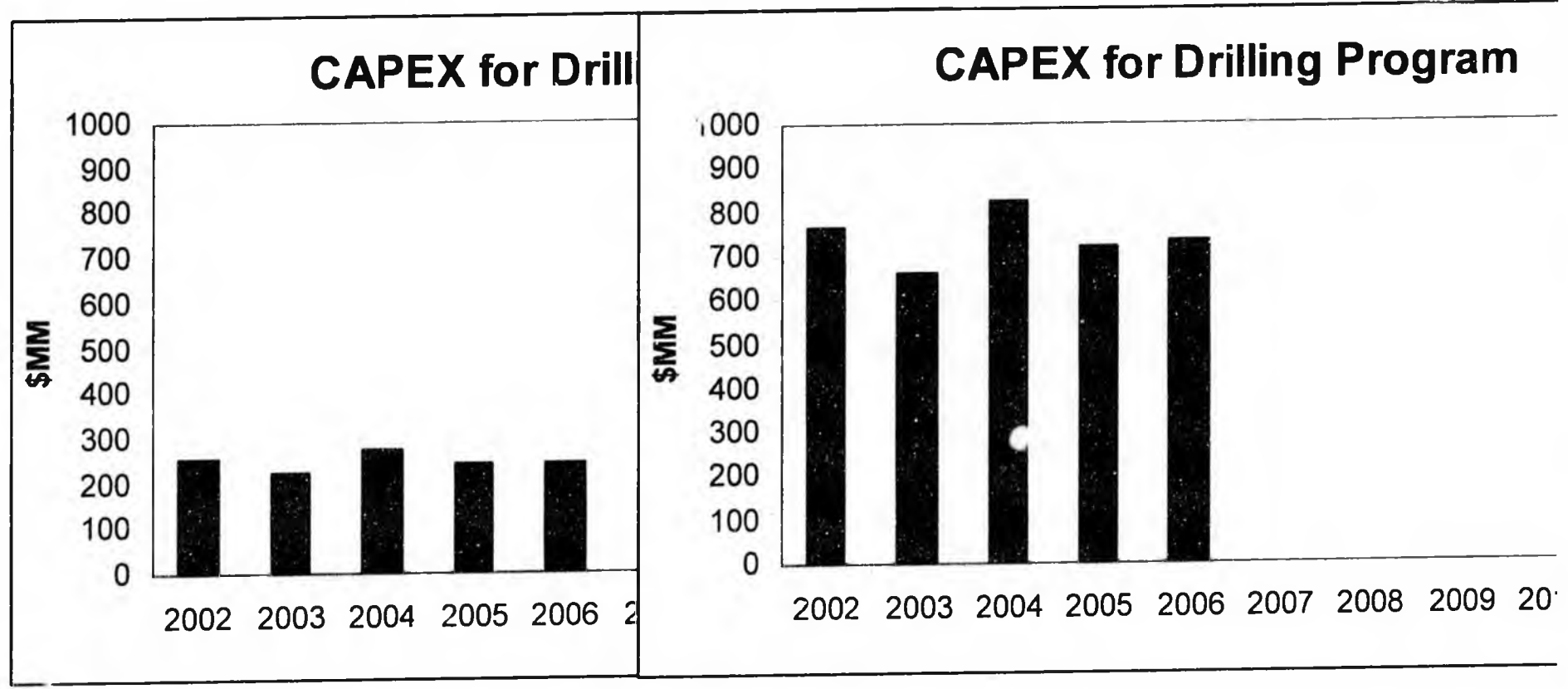
BP House testimony page 12





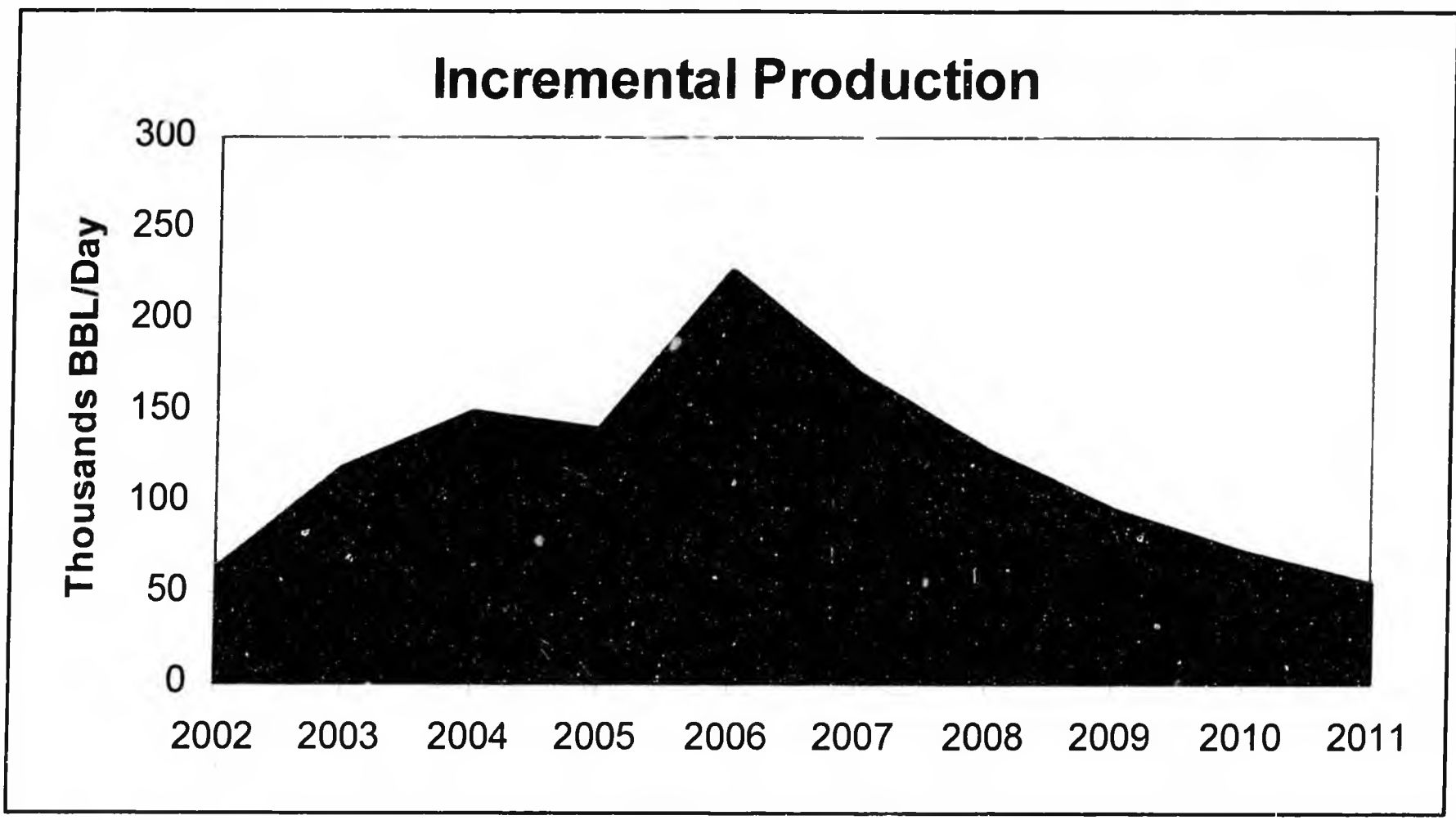
# 5 Year Prudhoe Drilling Program

- Drilling capex – 300% for added facilities/injection





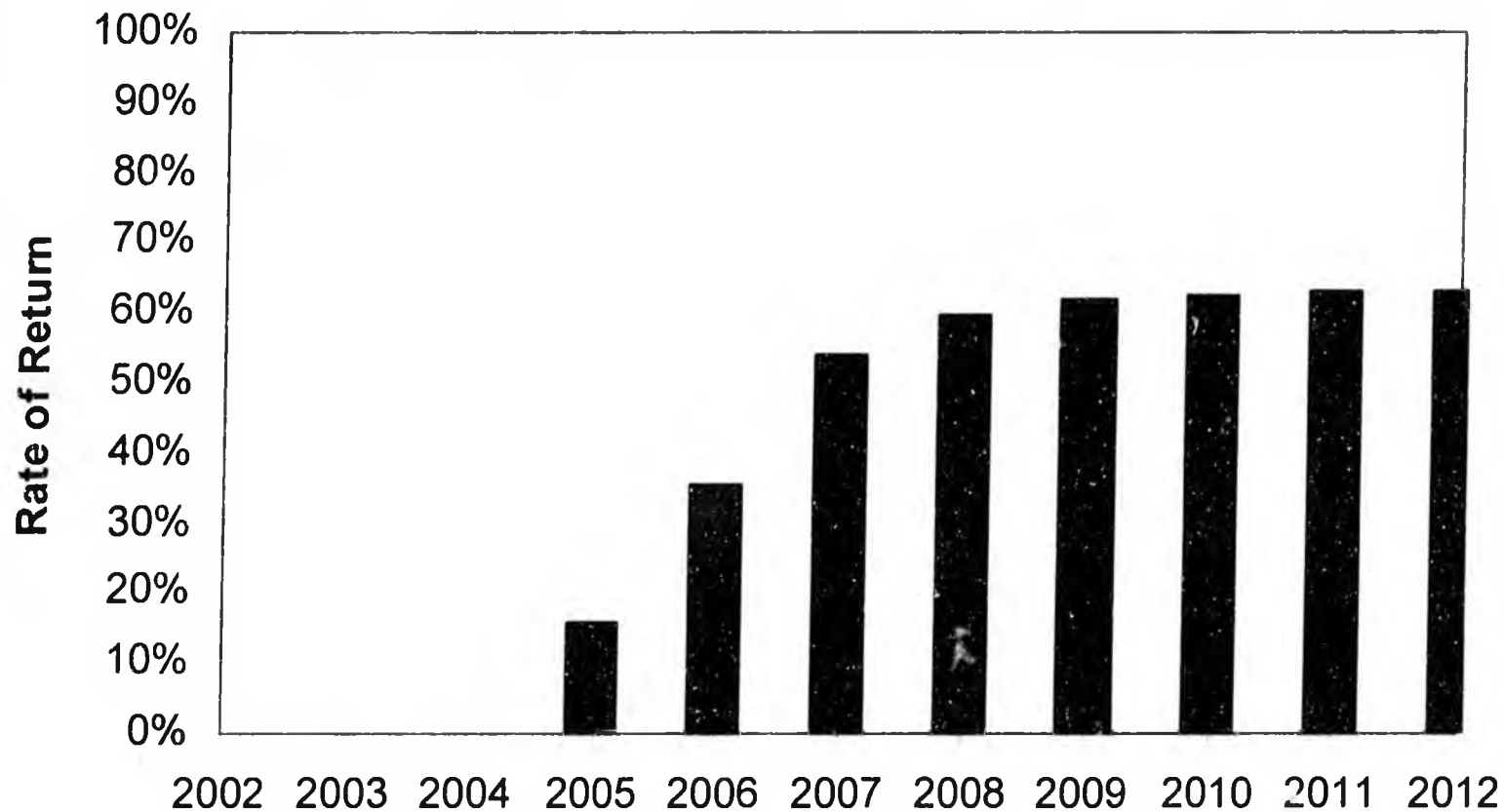
# BP – Prudhoe Bay





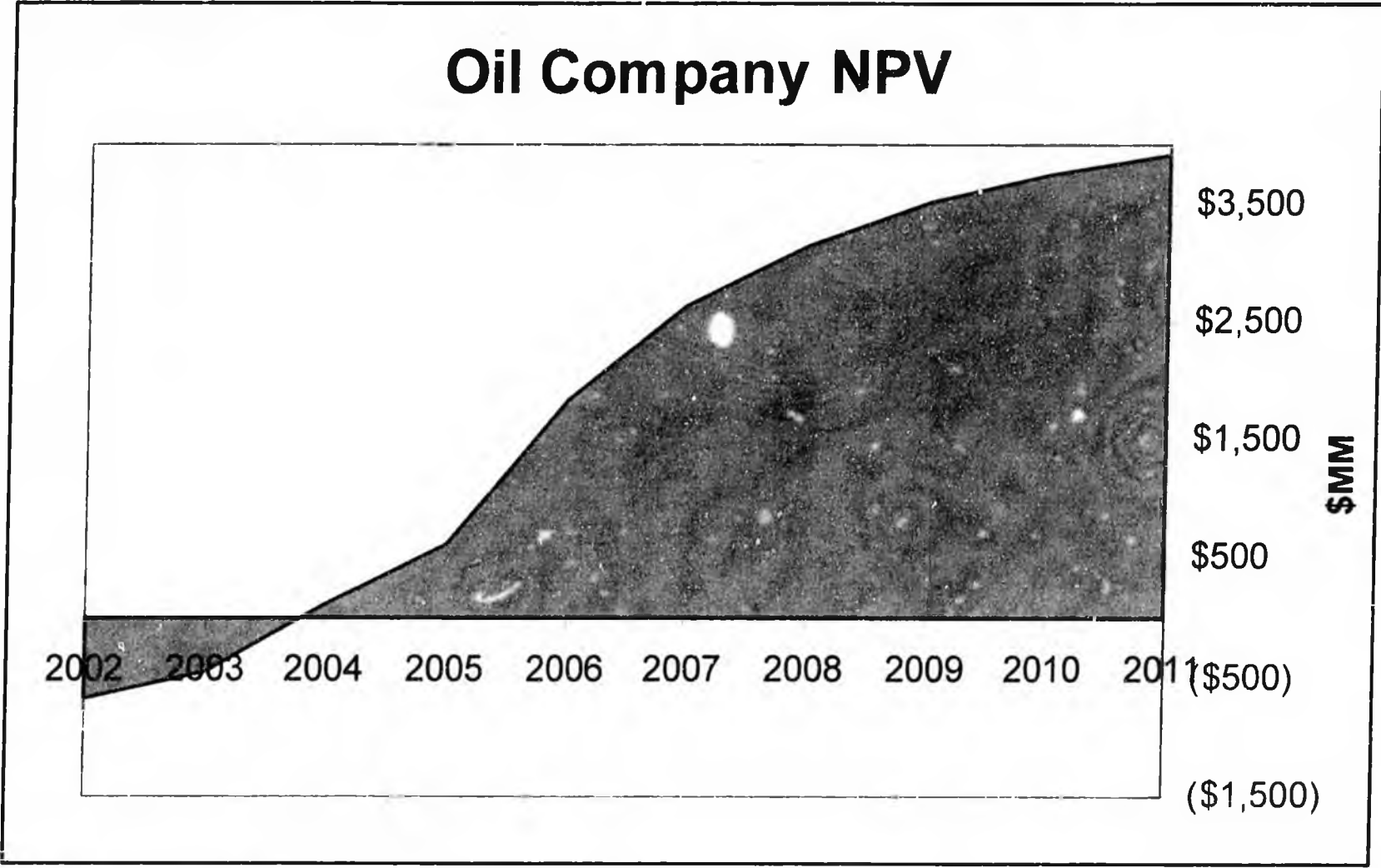
# BP Prudhoe Bay

## Oil Company After Tax IRR





# BP Prudhoe Bay





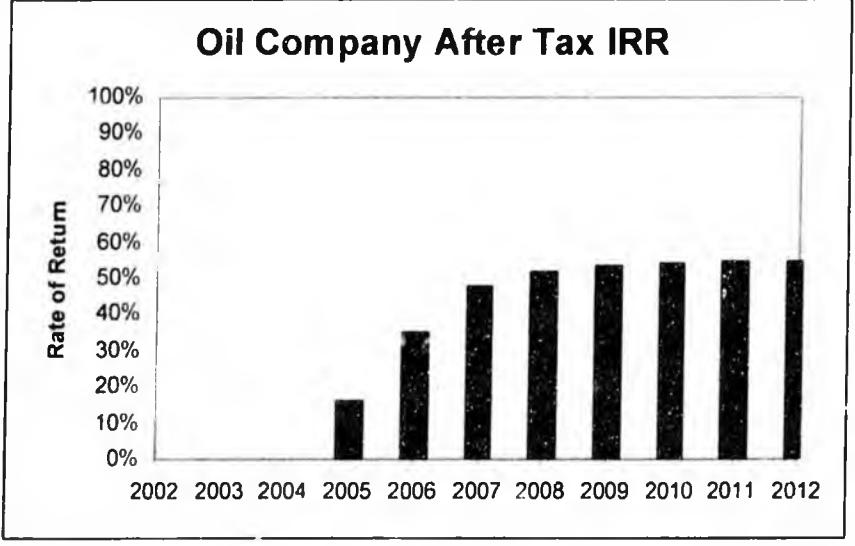
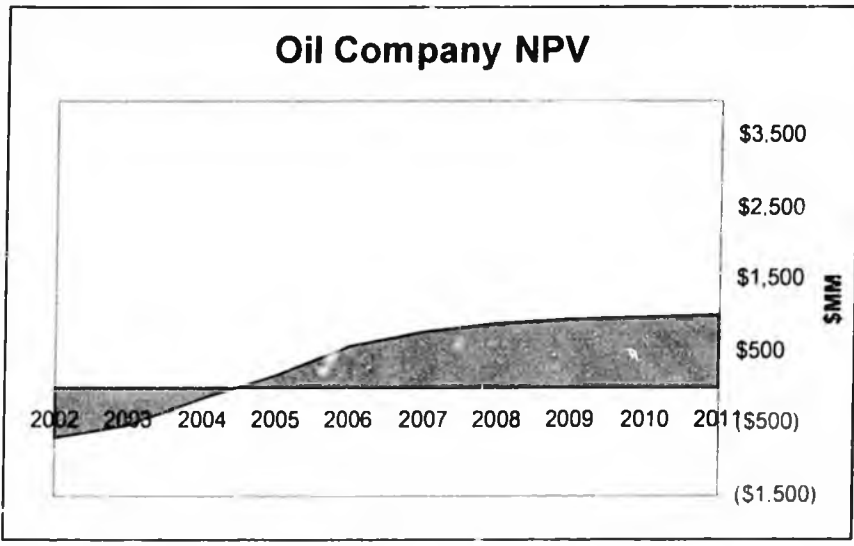
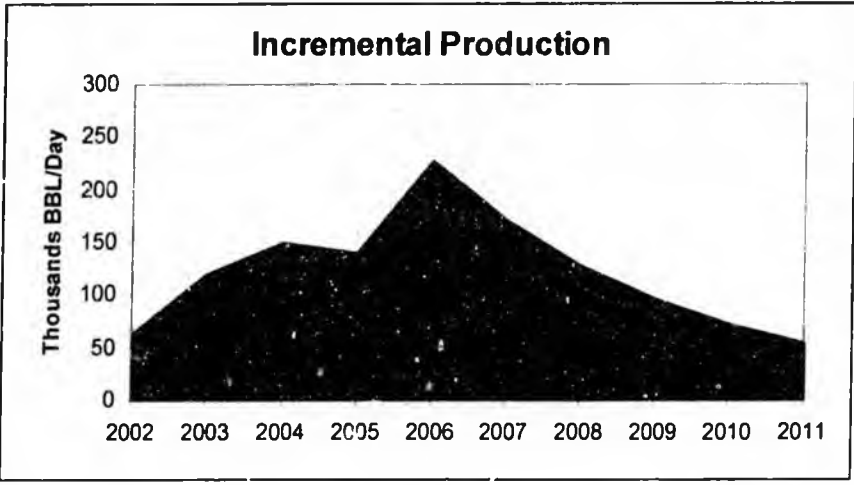
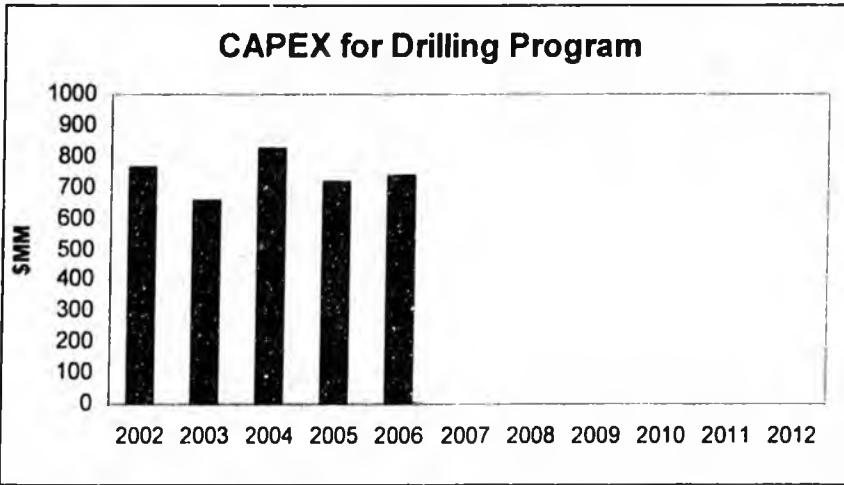
# Robust drilling program

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- **Remains profitable at:**
  - 300% capex
  - 200% opex
  - 25% discount rate
  - \$50 ANS
  - High progressivity



# Overly Stressed Case



**Model**

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# North Slope Potential

## Production Drives Revenue



Decline Rate	15%	<b>6%</b>	3%
Produced Barrels	1.3 bn	3.9 bn	7.5 bn
Industry Investment	\$5 bn	\$25 bn	\$70 bn
		<b>Status quo</b>	

- **Built a generic model based on the above barrels and investments**
  - Used indicated decline rates
  - 250,000 bpd abandonment rate



# Under PPT

## Production Drives Revenue



Decline Rate	15%	<b>6%</b>	3%
Produced Barrels	1.3 bn	3.9 bn	7.5 bn
Industry Investment	\$5 bn	\$25 bn	\$70 bn

**Status quo**

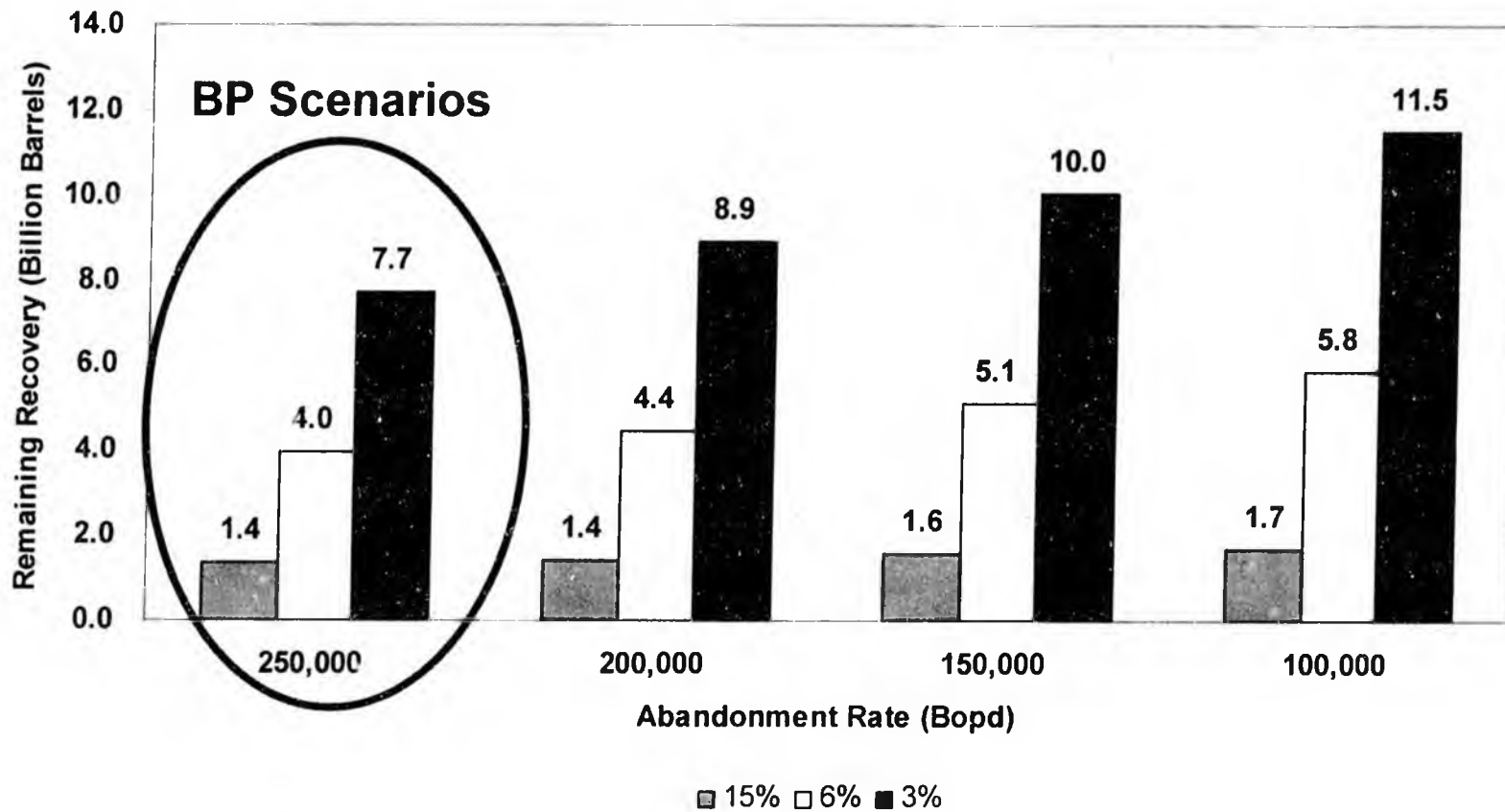
- |                 |               |               |                |
|-----------------|---------------|---------------|----------------|
| • NPV10 = \$Bn  | • \$15 - \$20 | • \$30 - \$40 | • \$35 - \$45  |
| • NPV0 = \$Bn   | • \$22 - \$27 | • \$55 - \$75 | • \$90 - \$125 |
| • NPV0 = \$/bbl | • \$15 - \$20 | • \$14 - \$19 | • \$12 - \$17  |

~ \$80/bbl WTI, \$70/bbl NS



# North Slope Abandonment

Impact Of Abandonment Rate On North Slope Recovery





# Summary

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- **Oil Company must show “reasonable certainty” about future spending to be able to book reserves**
  - There is pressure in the market place to declare ‘proved reserves’ as soon as feasible -- important to shareholder and analyst growth expectations
  - If the production volumes associated with the 6% and 3% decline scenarios have already been booked as proved reserves, then to **not** undertake the continuing investments would require a significant write down of reserves
- **Drilling program is so profitable that under even the most extreme net tax structure, oil companies would want to continue their reinvestment program.**

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# Goals

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