

**State of Alaska**  
Department of Revenue  
*Commissioner's Office*



**SARAH PALIN, GOVERNOR**

333 Willoughby Avenue, 11<sup>th</sup> Floor

P.O. Box 110400

Juneau, Alaska 99811-0405

Phone: (907) 465-2300

Fax: (907) 465-2394

November 5, 2007

The Honorable Ralph Samuels  
Chair, Legislative Budget & Audit Committee  
State Capitol, Room 204  
Juneau, AK 99801-3100

The Honorable Carl Gatto  
Co-Chair, House Resources Committee  
State Capitol, Room 108  
Juneau, AK 99801-3100

The Honorable Craig Johnson  
Co-Chair, House Resources Committee  
State Capitol, Room 126  
Juneau, AK 99801-3100

Cc: All Members, House Resources Committee

Re: Information Requested by Legislative Budget & Audit Committee dated 11-2-07

Dear Representatives Samuels, Gatto and Johnson:

I am writing in response to the above titled memorandum referring to the highlighted items that were outstanding questions from the Legislative Budget & Audit Committee relating to CS HB 2001(O&G).

Page 3, top of page- Requests information relating to the .025 Exploration Credit program.

- 1) How many .025 Exploration Credit applications have been received since inception?  
Department of Revenue has received 12 applications for wells and 13 for seismic projects for a total of 25.
- 2) How many wells exploratory wells were drilled in the state over this same time period?  
Out of a total of 83 exploration wells statewide, 12 exploratory wells were drilled in connection with the .025 Exploration Credit program, and 69 wells were drilled outside of the .025 Exploration Credit program.
- 3) How much seismic was shot during the same time period:
  - a. Offshore state land-
  - b. Offshore federal land-
  - c. Onshore state land
  - d. NPRA
  - e. Inside Unit boundaries
  - f. Outside Unit boundaries

Historical information on seismic activities in the state for which DNR has a record is being aggregated and will be supplied when available.

Page 3- Questions 17-23 relating to September 4, 2007 Presentation materials.

These questions request details relating to preliminary modeling that was done as of September 4. Since September 4, this modeling was superseded by substantially refined and expanded models. It is this latter class of models that were used to provide the economic analyses during the weeks leading up to the start of the Special Session and during the Special Session. If the Committee would like more information about the models used prior to Special Session, we will be happy to provide it after our current economic work in support of the Special Session is completed. We are also available to respond to questions about the models that have been made available and are being used to support the economic analyses during this special session.

Page 4, Question 26 relating to Exploration Incentives

Please provide a history of all requests for exploration credits and which were denied and which were granted for the following two exploration incentive programs:

AS 38.05.180(i)

AS 41.09.010 (1994-2007)

**AS 38.05.180(i)**

Exploration incentive credits are only awarded for qualifying wells or G & G activity on state land. From 1983 through 1994, 22 wells have received EIC's. 17 of the wells received EIC's in the amount of \$51,813,093.45. See link to EIC's awarded by well and lessee at

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

Three other wells received about \$9 million in EIC's, but the state made audit recoveries of about \$4.4 of the EIC's (relating to Colville Delta wells #2, #25 1, and 3). Of the remaining two wells, one was a Colville Delta #1 sidetrack well. There have been no applications for G & G EIC's. The 22 wells are mostly North Slope and Foothills wells. Most of the EIC's for the wells have been audited. The entities receiving the EIC's include major oil producers, including Exxon (about \$13 million in EIC's), BP/Sohio (\$12 million), and ARCO (\$14.6 million). EIC's were denied to three wells under AS 38.05.180(i), all ARCO wells, including Alpine #1, Fiord #3 and Kuukpik #3. No EIC's have been awarded since 1994 under AS 38.05.180(i).

**AS 41.09.010 (1994-2007)**

EIC's are available under this statute on all land in Alaska (i.e., it does not have to be state land). Only one application has been received, and it was denied, relating to a well in Cook Inlet at Corea Creek (the denial was on September 29, 1995). In addition, Teck Cominco wanted AS 41.09 EIC on a gas well on NANA land, but was not eligible for EIC because it did not seek pre-approval for the EIC as required under the statute.

Page 4 Question 27- Tradeable Credits

Please provide specific information on the rate at which credits are being traded.

The Department of Revenue does not formally receive any reports of the price at which transferable credits are being sold or purchased. The price at which a credit is sold by a taxpayer is known only by the taxpayer and the purchaser of the tax credit. Taxpayers have voluntarily and informally advised the department of the price at which they ultimately were able to sell their

tax credits. That range is from \$.90 to full price. If the legislature desires to know more about the rate at which these credits are being sold, we would encourage them to speak directly with the taxpayers that are incurring capital credits but have no current production or tax liability against which these credits can be used.

Page 4, Question 28- Total Petroleum Revenues; What are the fall 2007 statistics for the following:

- a. Corporate Petroleum Tax
- b. Petroleum Property Tax
- c. Oil and Gas Royalties
- d. Bonuses, Rents, and Interest
- e. Deposits to the CBRF

The following are the statistics requested:

**Unrestricted Oil Revenue (in millions)**

Petroleum Property Taxes (State Share)	\$	65.6
Corporate Income Taxes (Petroleum)	\$	594.4
Production Taxes (Including Hazardous Release Surcharge)	\$	2,292.3
Royalties (Including Bonuses and Interest)		
Oil and Gas Royalties	\$	1,583.8
Bonuses and Interest	\$	<u>29.2</u>
Subtotal Royalties (Including Bonuses and Interest)	\$	1,613.0

**Total Unrestricted Oil Revenue** **\$ 4,565.3**

**Restricted Oil Revenue**

Royalties to Permanent Fund & School Fund (Including Bonuses and Interest)	\$	545.7
Settlements to CBRF	\$	113.6
NPRA Royalties, Rents & Bonuses	\$	12.8

**Total Restricted Oil Revenue** **\$ 672.1**

**Total Restricted & Unrestricted Oil Revenue** **\$ 5,237.4**

**Note**

Data are preliminary and may not match final data published in the Fall 2007 Revenue Sources Book.

Includes both restricted and unrestricted revenue

Letter to Representatives Gatto and Johnson  
November 5, 2007  
Page 4 of 4

Data Request dated 10-21-07- Request for the Fall 2007 Revenue Sources Book.  
The Fall 2007 Revenue Sources Book will be available in December 2007.

Data Request dated 10-23-07- Profile of forecasted credits taken over years in revenue forecast model, for .024 credits (middle earth \$6 million, and small producer \$12 million) and the 40% .025 credits (Exploration Incentive Credits). This information was previously requested and supplied to LB&A's economic consultant, Mr. Barry Pulliam EconOne.

Sincerely,

A handwritten signature in cursive script that reads "Marcia Davis".

Marcia Davis, Deputy Commissioner  
Department of Revenue