



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas
Anchorage Office

550 W. 7th Avenue Suite 1100
Anchorage, Alaska 99501-3560
Main: 907.269.8800
Fax: 907.269.8939

Representative Geran Tarr
State Capital
Juneau, AK 99801
Rep.Geran.Tarr@akleg.gov

Dear Representative Tarr,

In response to your recent questions regarding the value of tax credit derived seismic data received by DNR and potential industry impacts of data confidentiality changes as proposed in HB247, I offer the following responses.

- 1.) "...During your testimony you indicated you had a rough estimate of the dollar value of the 2D and 3D seismic data the Department of Natural Resources receives from companies who qualify for certain credits. Can you provide this information to the committee?"
 - o In preparation for Senator Giessel's Tax Credit Working Group meetings held during the last interim period, the Division compiled data on the total number of 2D line miles and 3D square miles of seismic data acquired under the exploration tax credit programs that deliver data to the Division of Oil and Gas, namely the AS 43.55.023(a)(2), AS 43.55.023(I)(2), AS 43.55.025. The Division looked at the period from 2004 through 2014 and focused on data acquired in all three areas of the state: Cook Inlet, North Slope and Frontier/Interior basins. The totals only include data associated with a tax credit and does not include the in-unit data acquired or any data that companies acquired and for which they did not claim a tax credit.
 - o In determining a "value" for the data, the Division looked just at what it would cost the state to hire a contractor to go gather the data in the field, just as companies would do. We were able to calculate these "acquisition costs" by simply using an average estimated cost figure per line mile (2D) or square mile (3D) for each area, and for either onshore or offshore data acquisition. Therefore, our acquisition cost number does NOT include the cost of permitting the field surveys or the cost of data processing. Data processing can be very expensive depending upon the intended application -- often as much as 40-50% again the cost of acquiring the data.
 - o The breakdown of data-mile totals associated with tax credit programs in the period 2004 -2014 and estimated acquisition cost is as follows:
 - o North Slope:
 - o 2D data (onshore & shorezone ice) = ~870 line miles of data
 - o 3D data (onshore & shorezone ice) = ~9,945 square miles
 - o Total estimated "acquisition" cost (2D + 3D) = \$1.98 billion dollars
 - o Cook Inlet:
 - o 2D data (onshore & offshore) = ~725 line miles
 - o 3D data (onshore & offshore) = ~660 square miles
 - o Total estimated "acquisition" cost (2D + 3D) = \$266 million dollars
 - o Frontier/Interior Basin Areas:
 - o 2D data (all onshore) = ~1,220 line miles
 - o 3D data (all onshore) = ~340 square miles
 - o Total estimated "acquisition" cost (2D + 3D) = \$367 million dollars

2.) "...Additionally, in your opinion as director of the Oil and Gas Division of the Department of Natural Resources, what taxpayer information can be made public without jeopardizing the industry?"

This is a hard question to address as DOG can only speculate about what is potentially harmful to a company. So, I'll try for a general response.

Section 8 of HB247, as written, does not change the release terms for *technical (seismic or well) data*, though it does release taxpayer confidential financial information. It would add a subsection to AS 43.55.230 that would let the public know who is receiving exploration or development credits, the dollar amount they are getting, and a description of the activity that generated the credit. Currently, the DNR has the ability (through AS 43.55.025) to publish a basic list of who acquired data and where, and what kind of data is slated for release to the public at the appropriate time. Seismic data on that list will go public 10 years after receipt by DNR and well data will go public in 2 years. This provision would be extended under 43.55.023 (by Section 22) in HB247.

It is most likely that industry is going to object to the release of the financial information proposed in Section 8. Companies hold their financial information confidential for a number of important reasons. Public companies' valuations are determined by several factors, not the least of which is related to their stockholders' expectations for the company in the future. There are standards of practice for reporting financial data about a company so that investors have a common basis of reference about a company's performance. Reporting partial financial information or reporting financial information in a non-standard way could negatively influence the market value of a company, as the partial or non-standard reporting can be inadvertently misleading or create confusion about how the reported information fits into the company's overall performance. Given that many companies conduct their business on a global scale – not just in AK – it is possible that releasing information about just AK activities/expenditures could expose a strategy or future plans that a company may have and which they do not wish their competitors to know about.

The industry will object to the state requiring and publicizing information that the state does not need to do its job as regulator or to promote the state's resources. The state has a responsibility to gather the data that we need to do our job, carefully protect the information we require, and only use it in a meaningful way to accomplish our job. For example, the fact that companies are required to submit confidential (trade secret) exploration data to DNR does NOT mean that DNR owns that data. DNR merely holds the data under conditions of strict confidentiality until, and only if, it can later be released under the provisions of a statutory program like the exploration credit programs. The delayed release of the tax credit data, for example, is aimed at enabling the companies to realize the economic benefits of their exploration investments. This protection helps prevent the public release of the data from discouraging exploration investments in the state. If a company is somehow prevented from or inhibited in its ability to realize a reasonable return on their investments, they will invest elsewhere.

I hope this information is helpful. The Division is happy to assist should you require additional clarification.

Sincerely,



Corri A. Feige
Director