

LEGAL SERVICES

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MEMORANDUM

March 9, 2012

SUBJECT: Sectional summary for CSSB 192(RES), relating to the oil and gas production tax (Work Order No. 27-LS1305\E)

TO: Senator Joe Paskvan
Co-Chair of the Senate Resources Committee
Attn: Jeff Stepp

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

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill 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.

Section 1. Amends AS 29.60.850(b) to conform to the decoupling of certain gas production from oil production¹ for tax purposes and the repeal and reenactment of the minimum tax on certain oil and gas production.

Section 2. Amends AS 31.05.030 by adding a new subsection that requires the Alaska Oil and Gas Conservation Commission (AOGCC) to develop and maintain the petroleum information management system.

Section 3. Adds AS 31.05.031 to AS 31.05 to provide for the development and maintenance of the petroleum information management system. Describes the information to be included and requires the Department of Natural Resources, the Department of Revenue, and the Department of Labor and Workforce Development to work with AOGCC to include relevant information from each department in the

¹ Under the decoupling of oil and gas production in the bill, the progressive part of the tax rate is split so that the production of oil, gas in the Cook Inlet sedimentary basin, and gas produced outside of Cook Inlet and used in the state is subject to one set of rates, and all other gas production is subject to a different set of rates. See the amendments to AS 43.55.011(e) in sec. 5, AS 43.55.011(g) in sec. 7, and new subsection AS 43.55.011(g) in sec. 8 of the bill.

petroleum information management system. Provides that the petroleum information management system shall be accessible by the public.

Section 4. Amends AS 31.05.093(c) to exclude the operating costs for the petroleum information management system from the operating costs of AOGCC for the purpose of determining regulatory cost charges.

Section 5. Amends AS 43.55.011(e) to conform to the decoupling of the progressive part of the production tax on oil, gas produced in the Cook Inlet sedimentary basin, and gas produced outside of Cook Inlet and used in the state, from the progressive part of the production tax applicable to other gas.

Section 6. Repeals and reenacts AS 43.55.011(f) to set a minimum tax of 10 percent of the gross value at the point of production for certain areas with historical production of 1,000,000,000 BTU equivalent barrels of oil or gas and average daily oil and gas production for the most recent calendar year of more than 100,000 BTU equivalent barrels.

Section 7. Amends AS 43.55.011(g) to limit the application of the progressive tax under the subsection to oil, gas produced in the Cook Inlet sedimentary basin, and gas produced outside of the Cook Inlet sedimentary basin and used in the state. This section also changes the first level of the progressive tax to apply to an average production tax of not more \$101.43 and lowers the tax rate for the first level to 0.35 percent for each dollar of average production tax value above \$30. The second level is amended to apply to average production tax value of \$101.43 or more and sets the maximum tax rate for the second level to 35 percent, a reduction from 50 percent.

Section 8. Adds a new subsection to AS 43.55.011 with the same tax rates in AS 43.55.011(g), but provides that those tax rates apply to gas not subject to tax under AS 43.55.011(g).

Section 9. Repeals and reenacts AS 43.55.020(a) to conform to AS 43.55.011(f) as repealed and reenacted in sec. 6 of the bill, the amendment to AS 43.55.011(g) in sec. 7 of the bill, and AS 43.55.011(p) in sec. 8 of the bill.

Section 10. Amends AS 43.55.020(d) to conform to the amendment to AS 43.55.011(g) in sec. 7 of the bill, and AS 43.55.011(p) in sec. 8 of the bill.

Section 11. Amends AS 43.55.160(a) by making the determination of annual and monthly production tax values subject to AS 43.55.162, a new section added by sec. 12 of the bill. Confirms the determination of production tax values to the amendment to AS 43.55.011(g) in sec. 7 of the bill, and AS 43.55.011(p) in sec. 8 of the bill.

Section 12. Amends AS 43.55.160 by adding three subsections to describe the allocation of lease expenditures to oil or gas production or exploration in different areas in the state.

Section 13. Adds a new section to AS 43.55 -- AS 43.55.162 -- that offers a producer a \$10 a barrel reduction in production tax value for each barrel of oil delivered to the Trans Alaska Pipeline System that is above the base volume that is determined for the previous calendar year. The section also provides that the average monthly production tax value used for determining the tax rate under AS 43.55.011(g) shall be calculated before applying the reduction on production tax value allowed for increased production.

Section 14. Amends AS 43.55.165(h) to require the Department of Revenue to allocate lease expenditures between oil and gas production based on the gross value at the point of production of the oil and gas.

Section 15. Adds a new subsection to AS 43.55.170 that requires the Department of Revenue to adopt regulations that provide for reasonable methods of allocating adjustments to lease expenditures, payments, and credits between different categories of oil and gas production and between leases and properties.

Section 16. Adds a new section to uncodified law to require AOGCC to develop and implement a work plan for the development of the petroleum management system so that the system is operational before 2014.

Section 17. Adds a new section to uncodified law that states that the reduction in production tax value under AS 43.55.162 in sec. 13 of the bill applies to qualifying oil produced after December 31, 2012.

Section 18. Provides a January 1, 2013 effective date.

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