Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number:
() Publish Date:

Identifier: SB021CS(FIN)amS-DNR-DOG-3-22-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Finance

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2014**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

None							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

The committee subsitute adopted by the Senate Finance Committee, which was amended on the Senate Floor. No changes were made that affect the Department of Natural Resources except for references to bill sections.

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Division Oil and Gas Date: 03/21/2013 04:00 PM
Approved By: Daniel S. Sullivan, Commissioner Date: 03/22/13
Department of Natural Resources

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. CSSB21(FIN)amS

Analysis

CSSB21(FIN)amS reforms the oil and gas production tax system in Alaska. This bill will not result in any procedural changes in how the Division of Oil and Gas operates and therefore the Department of Natural Resources (DNR) does not anticipate any fiscal impact to the Department's operating budget.

CSSB21(FIN)amS proposes to improve Alaska's competitiveness and encourage producers to invest more by simplifying the oil and gas production tax system. First, this bill repeals the progressive tax structure, which will help encourage the type of long-term planning and investment needed to promote new investment in new production in Alaska. Further, this bill attempts to shift incentives away from spending and provides new incentives to reward new production.

Section 29 amends the gross revenue exclusion (GRE) from 30% of the gross value at the point of production to 20% of the gross value at the point of production for 10 years following the commencement of production from the well. The GRE applies to production from leases or properties containing land that is north of 68 degrees North latitude and meets one or more of the three criteria: (1) is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced from a participating area established after December 31,2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) is produced from a well that has been accurately metered and measured by the operator to the satisfaction of the commissioner, and the producer demonstrates to DNR that the well drains a reservoir or portion of a reservoir that DNR has certified was not contributing to production before January 1, 2013 and the producer demonstrates that the volume produced was subject to certification by DNR. This section also clarifies that the GRE may not reduce the gross value at the point of production below zero.

At forecasted price ranges, overall government take and marginal tax rates are reduced materially. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise. The fiscal impact on royalty revenue is an indeterminate positive.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. CSSB21(FIN)amS

Analysis Continued

Differences in Royalty Revenues from New Production Scenarios in $Millions*

*Note: These scenarios are based on Department of Revenue modeling.

At Forecasted Production

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$	120	$0	$0	$0	$0	$0	$0
$	100	$0	$0	$0	$0	$0	$0
$	90	$0	$0	$0	$0	$0	$0

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$120	$0	$0	$0	$12	$24	$35
$100	$0	$0	$0	$10	$20	$29
$90	$0	$0	$0	$9	$17	$26

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of $500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$120	$57	$106	$147	$181	$212	$179
$100	$47	$87	$120	$148	$173	$146
$90	$42	$77	$107	$132	$154	$130

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day and declining at a rate of 15% per year. Development costs for each well assumed to be $20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$120	$111	$213	$307	$433	$557	$533
$100	$91	$174	$251	$354	$455	$435
$90	$81	$155	$223	$314	$404	$386

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of $5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new 50-million barrel field.