FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version	**HB280**
Fiscal Note Number	
() Publish Date	

Identifier (file name)	HB280-DNR-O&G-02-10-12	Dept. Affected	Department of Natural Resources
Title	OIL & GAS CREDITS: KOTZEBUE/SELAWIK	Appropriation	Oil and Gas
		Allocation	Oil and Gas
Sponsor	Rep. Joule, Millett, and Chenault		
Requester	House Resources Committee	OMB Component Number	439

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY13**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
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		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
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 (FY12) operating costs 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is the initial fiscal note for HB 280.

Prepared by	William C. Barron, Director	Phone	907-269-8800
Division	Division of Oil and Gas	Date/Time	2/10/12 5:00 PM
Approved by	Daniel Sullivan, Commissioner	Date	2/10/2012
	Department of Natural Resources		

FISCAL NOTE

STATE OF ALASKA **BILL NO.** HB280
2012 LEGISLATIVE SESSION

Analysis

HB 280 modifies AS 43.55.025 to provide a production tax credit for drilling the first three exploration wells in the Kotzebue and Selawik basin.

The credit would be equal to 100% of the cost of the first exploration well, 90% for the second well, and 80% for the third well. The maximum well expenditure eligible for the credit would be $30 million per well. The credit would be in lieu of any tax credit under AS 43.55.023 for the exploration expenditure. If the wells drilled result in sustained production of oil or gas, 50% of the credit must be paid back over a 10-year period in equal installments.

The credit is more generous than the credits currently available to an explorer in the Kotzebue and Selawik basins under AS 43.55.023. In the event that the exploration well does not result in a commercial find, the credits reimburse the explorer for virtually all of the costs of the wells. If a commercial find is made, the explorer will recover most of their capital up-front, and only has to pay back half of the amount of the credit over the first 10 years of production. The pay-back requirement is not limited to a percentage of gross receipts, but is to be made in equal installments.

The impact on state royalties is indeterminate. A positive or negative impact is dependent upon 1) a commercial discovery being made and 2) whether the discovery and subsequent production is on state lands. The two previous wells drilled in the basin elicited no oil or gas. The Kotzebue/Selawik basin prospects appear to be onshore where there is little state land. In the basin area, onshore land ownership is mostly a mix of native corporation and federal lands. Oil or gas production outside state land generally prohibits the state from collecting royalties. However, if a discovery is made on federal land, the State and impacted communities might receive a share of the federal royalty.

Under HB 280, the Department has some direct administrative tasks to perform. The DNR must verify that the location of the well is the Kotzebue or Selawik basin, and verify that the well has reached the required depth of 2,000 feet. DNR can authorize wells to be drilled to less than 2,000 feet. The DNR must also verify that a well has reached a sustained production of oil or gas, which then triggers in the pay back obligation. These activities are within the normal scope of work for the Division of Oil and Gas; therefore, we expect no new positions or additional expenditures.