Fiscal Note

State of Alaska
2013 Legislative Session

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

Identifier: SB021CS(RES)-DNR-DOG-2-27-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Resources

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If yes, by what date are the regulations to be adopted, amended or repealed?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:

A committee substitute was adopted by the Senate Resources Committee. Sections 19 and 20 were added that modify AS43.55.025 relating to the Exploration Incentive Credit.

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Division: Oil and Gas — Date: 02/27/2013 10:00 AM
Approved By: Daniel S. Sullivan, Commissioner — Date: 02/27/13
Department of Natural Resources

FISCAL NOTE ANALYSIS

STATE OF ALASKA **BILL NO.** CSSB21(RES)
2013 LEGISLATIVE SESSION

Analysis

CSSB21(RES) 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(RES) 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 19 of CSSB21(RES) extends the sunset date of the exploration incentive credit from 2016 to 2022. Section 20 eliminates the 3 mile exclusion zone around pre-existing wells and the Division of Oil and Gas would be responsible for assessing whether or not the wells drilled are in a separate trap. DNR anticipates that there will be more wells that would qualify for the 30 percent or 40 percent credit with the removal of this 3 mile zone.

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.

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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.