

# FISCAL NOTE

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

Bill Version LL0647  
Fiscal Note Number \_\_\_\_\_  
( ) Publish Date \_\_\_\_\_

Identifier (file name) LL0647-DNR-DOG-1-14-13 Dept. Affected Natural Resources  
Title Production Tax on Oil and Gas Appropriation Oil & Gas  
Allocation Oil & Gas  
Sponsor Rules by Request of the Governor  
Requester Governor OMB Component Number 439

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY14 Appropriation Requested	Included in Governor's FY14 Request	Out-Year Cost Estimates					
			FY14	FY15	FY16	FY17	FY18	FY19
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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)							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES	***		***	***	***	***	***

Estimated SUPPLEMENTAL (FY13) operating costs \_\_\_\_\_ (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY14) costs \_\_\_\_\_ (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**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If yes, by what date are the regulations to be adopted, amended, or repealed?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 Discuss details in analysis section.

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

Initial Version.

Prepared by Bill Barron, Director  
Division Division of Oil and Gas  
Approved by Daniel S. Sullivan, Commissioner  
Department of Natural Resources

Phone 269-8800  
Date/Time 1/14/13 5:00 PM  
Date 1/14/2013

**FISCAL NOTE ANALYSIS**

**STATE OF ALASKA  
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**BILL NO. LL0647**

**Analysis**

LL0647 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.

This bill 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 shifts incentives away from spending and provides new incentives to reward new production. 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

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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.