

ALASKA STATE LEGISLATURE

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Sponsor Statement*

SB 192: OIL AND GAS PRODUCTION TAX RATES

"An Act relating to the oil and gas production tax; and providing for an effective date."

Senate Bill 192 makes a change to the progressive tax rate portion of the production tax at AS 43.55.011(g) by removing the second trigger of the progressive tax rate calculation that lowers the progressive tax rate to 0.1% on production tax values of \$92.50 and greater. The bill also removes the statutory maximum tax rate of 75% under the production tax statutes. The bill retains the initial trigger of \$30 in production tax value at which point the progressive tax rate is calculated as 0.4% per dollar increase in production tax value.

Given the Department of Revenue's Fall 2011 oil price, production, and lease expenditure forecast through FY 2017, the tax rate changes from this bill are not projected to have a direct revenue impact. The Fall 2011 forecast through the time period covered by this fiscal note (FY 2018) range from \$106 per barrel to close to \$110 per barrel for Alaska North Slope crude oil. Combined with anticipated production levels and lease expenditure projections, DOR's forecast does not anticipate production tax values meeting or exceeding \$92.50 per barrel. Therefore, based on DOR's most recent forecast, the progressivity rate changes in this bill will not impact revenue expectations.

If oil prices were to increase, or if production were to increase with no corresponding increase in lease expenditures, production tax rates, and therefore revenue, could be increased from this bill. With current production levels, and current transport costs and lease expenditure levels, much of North Slope crude oil would be subject to a production tax increase at \$120 - \$130 per barrel (ANS WC) and above. Without a maximum production tax rate, tax rates could continue to escalate until they exceed 100%. Marginal government take exceeds 100% at approximately \$140 per barrel, when holding all other assumptions constant. This means that at \$140 per barrel, the government would take more than 100% of every dollar that the oil price increases.

The bill has an effective date of January 1, 2013.

*Source: Department of Revenue Tax Division Fiscal Note