

# FISCAL NOTE

**STATE OF ALASKA  
2010 LEGISLATIVE SESSION**

Fiscal Note Number: 3 \*\*CORRECTED\*\*  
 Bill Version: HB 337  
 (H) Publish Date: 3/9/10

Identifier (file name): HB337-REV-TAX-02-12-10

Title: Oil and Gas Tax Adjustments

Dept. Affected: Revenue  
 RDU: Taxation and Treasury

Sponsor: Rules  
 Requester: Request of the Governor

Component: Tax Division

Component Number: 2476

**Expenditures/Revenues**

(Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
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>
<b>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>

\*\*\* See Analysis Section for Additional Information \*\*\*

**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<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>

Estimate of any current year (FY2010) cost: \*\*\*

**POSITIONS**

Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

See Attached.

Prepared by: Cherie Nienhuis and Dan Stickel, Petroleum Economists  
 Division: Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone 907-269-1019  
 Date/Time 2/08/10; 12:13pm  
 Date 2/12/10; 12:26pm

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**ANALYSIS CONTINUATION****Bill Language:**

This bill makes four refinements to Alaska's oil and gas production tax. The refinements and the revenue impact of each are discussed below:

**1. Increased credits for well related expenditures:** This bill would modify AS 43.55.025 to allow a 30 percent credit against production tax for exploratory well expenditures and most development well expenditures. For wells more than 25 miles outside of existing units (or more than 10 miles outside of Cook Inlet units) the credit is 40 percent of exploratory well expenditures. These credits would also be an increase in credits for well related expenditures. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to well related operating expenditures as well as capital expenditures. This provision would take effect July 1, 2010.

Under current projected spending and production levels, revenues would be estimated to be reduced by \$325 million in FY 2011, \$335 million in FY 2012, and \$350 million in FY 2013-2016. However, the Department of Revenue provides an indeterminate fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

**2. Removing reinvestment requirement for state purchase of capital credits:** For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

**3. Capital credits no longer required to be spread over two years:** Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entire 20 percent credit could be applied in the year it is earned. This is retroactive to January 1, 2010.

There is a revenue reduction for FY 2010 of \$120 million because of the immediate effective date of the changes to spreading of capital credits. For FY 2011-FY 2013, the revenue reduction from changes to the spreading of capital credits will be about \$50 million per year. For FY 2014 and beyond, the revenue impacts will be negligible.

**4. Interest waived for changes in tax liability as a result of retroactive regulations changes:** Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

\*\*\* We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are include in our revenue estimates for this fiscal note.

**Expenditures:**

The Department will be able to implement the provisions of this bill using existing resources.

# FISCAL NOTE

**STATE OF ALASKA  
2010 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: HB 337  
 (H) Publish Date: 2/10/10

Identifier (file name): LL1057-DNR-OG-02-08-2010  
 Title: Oil and Gas Tax Amendments  
 Dept. Affected: Natural Resources  
 Sponsor: Rules Committee  
 RDU: Resource Development  
 Requester: Governor  
 Component: Oil and Gas Development  
 Component Number: 439

**Expenditures/Revenues**

(Thousands of Dollars)

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

	Appropriation Required		Information				
	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
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>CAPITAL EXPENDITURES</b>							
<b>CHANGE IN REVENUES ( )</b>							

**FUND SOURCE**

(Thousands of Dollars)

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<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>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

**ANALYSIS:** *(Attach a separate page if necessary)*

The bill will, first, change the current provision under AS 43.55.023(b) that only half the various tax credits could be taken in any one year. This limitation spreads the benefits of the credit out over a couple of years, thereby diluting the incentive that the credit provides to the extent that a producer/investor must wait before receiving the full benefit of the credit. This bill would also accelerate most investor's receipt of the full value of the credit. Second, the bill would extend the current 30% credit provided under 43.55.025 to include development drilling (this credit is available now only for exploration wells drilled beyond three-miles of another well. This credit will reduce the taxpayer's tax liability and, other things being equal, contribute to improved economics for development drilling. Finally, the bill allows a small producer to monetize the credit more easily by eliminating the requirement that the producer spend additional money before receiving the credit monies.

The effect on royalty revenue is an indeterminant positive.

Prepared by: Kevin Banks, Director Phone 269-8800  
 Division: Oil and Gas Date/Time 2/8/10 3:00 PM  
 Approved by: Tom Irwin, Commissioner Date 2/8/2010  
Natural Resources

(Revised 11/6/2009 OMB)

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ANALYSIS CONTINUATION

In these three ways, the bill will encourage additional investment in oil and gas development in Alaska, leading to an expected increase in the amount of oil and gas produced from State lands. This should increase the amount of royalty revenue collected, the exact amount of this increase is indeterminate. This bill also requires that the producer submit to the DNR within 30 days of the request for a credit under AS 43.55.025 data on development well activity under Section 9. While the DNR currently reviews seismic and exploration well information, the requirement to look at development wells as well may take additional staff time. However, we think we will be able to undertake this review with current staff.

# FISCAL NOTE

**STATE OF ALASKA  
2010 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 337  
 (H) Publish Date: 2/10/10

Identifier (file name): 1057-DOA-AOGCC-01-27-10  
 Title: Relating to interest on certain underpayments...for Oil and Gas production tax...  
 Sponsor: Rules Committee  
 Requester: Governor  
 Dept. Affected: Admin  
 RDU: AOGCC  
 Component: AOGCC  
 Component Number: 2010

**Expenditures/Revenues**

(Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous		0.0	0.0	0.0	0.0	0.0	0.0	0.0
<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>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>								

**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Interagency Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<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>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

Any additional activity that industry would undertake in areas the Alaska Oil and Gas Conservation Commission regulates because of this bill would be part of ongoing agency responsibilities and any additional workload would be managed by existing staff. The agency therefore submits a zero fiscal note.

Prepared by: Jody J. Colombie, Special Assistant I  
 Division: Alaska Oil and Gas Conservation Commission  
 Approved by: Rachael Petro, Deputy Commissioner  
Department of Administration

Phone (907) 793-1221  
 Date/Time 1/27/10 4:00 PM  
 Date 1/27/2010

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