FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version	**CSSB145(RES)**
Fiscal Note Number	
() Publish Date	

Identifier (file name)	SB145CS(RES)-DNR-DOG-03-28-12	Dept. Affected	Natural Resources
Title	Oil/Gas Production Tax Credits: Nenana	Appropriation	Oil and Gas
		Allocation	Oil and Gas
Sponsor	Sen. Wagoner		
Requester	(S)RES	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	193.4		193.4	193.4	193.4	96.7	
Travel							
Services	11.0		11.0	11.0	11.0	5.5	
Commodities	7.0						
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**211.4**	**0.0**	**204.4**	**204.4**	**204.4**	**102.2**	**0.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	211.4		204.4	204.4	204.4	102.2	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
	TOTAL	**211.4**	**0.0**	**204.4**	**204.4**	**204.4**	**102.2**	**0.0**

POSITIONS							
Full-time	**2**		2	2	2	1	0
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)

The Senate Resources committee substitute for SB 145 includes 5 more areas eligible for tax incentives program for exploration activities. Seismic exploration activities were also added to the exploration wells as eligible activities for tax credits. CSSB145 also adds a new section on production tax for commercial finds of oil or gas production south of 68 degrees, other than Cook Inlet.

Prepared by	William C. Barron, Director	Phone	(907) 269-8800
Division	Division of Oil and Gas	Date/Time	3/28/12 4:00 PM
Approved by	Daniel Sullivan, Commissioner	Date	3/28/2012
	Department of Natural Resources		

(Revised 1/17/2012 OMB)

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSSB145(RES)

Analysis

The impact of CSSB 145(RES) on state royalties is indeterminate. The impact is dependent on a commercial discovery being made on state lands, and the frontier areas contain lands for which the State owns the mineral rights.

Section 2 of CSSB 145(RES) would put a four percent gross tax ceiling on the current net tax for the first seven years of production from a field that is not on the North Slope, nor in the Cook Inlet, nor selling gas for use in-state. The impact of this section on state royalty revenue is indeterminate. Depending on the field's profitability, the four percent gross tax might be less than the current net tax. Despite the tax liability under current tax law for such a field already being reduced by the non-transferable tax credits available under AS 43.55.024(a) and (c) (if applicable), the four percent ceiling might improve the economics of field development.

Section 3 establishes for exploration activity within six frontier areas in Alaska two new credits: a credit for seismic work and a credit for drilling exploration wells. The credit for seismic activity provides for a credit equal to 75% of the cost of the seismic work or $7.5 million, whichever is less, for the first four seismic exploration projects in those frontier areas. Not more than one seismic program can be undertaken for a given frontier area. The credit for exploration well drilling provides a credit equal to 80% of the cost of the well or $22.5 million, whichever is less, for the four wells drilled in the six frontier areas. Not more than two wells can be drilled in a given frontier area. These two credits cannot be taken in conjunction with the qualified capital expenditure credit or carried-forward annual loss credit. The credit applies to exploration on state, private lands and onshore federal lands.

The 75% seismic and 80% well exploration credits provides a more generous tax benefit than is currently available for new entrant explorers in Alaska. Now, the new entrant explorer could receive at most a 65% tax benefit comprised of a 40% credit for a remote well drilled (or for seismic of a remote area) and a carried-forward annual loss credit of 25% under AS 43.55.023(b). This higher up-front tax benefit, all else equal, should encourage exploration by new entrants in some of the six frontier areas identified in the bill.

In the frontier areas denoted by the new AS 43.55.025(p)(5) and (p)(6), the Egegik and Port Moller basins, DNR holds annual Alaska Peninsula area lease sales. The area has moderate to high potential for gas and low to moderate potential for oil. The State has not received any bids for leases in this area over the last three lease sales. To the extent the more generous tax benefits there encourage lease bidding, drilling, and seismic work in the Alaska Peninsula, the State might eventually receive more revenue from bonus bids and royalties from that area.

The frontier area denoted by (p)(2), or the Fairbanks area, includes the Nenana basin, where Doyon currently has an exploration license with the State. To the extent the more generous tax benefits there encourage drilling and seismic work in the Nenana basin, the State may eventually receive more royalty revenue as the exploration licenses there are converted to leases.

Some of the frontier areas contain land whose mineral rights are owned by private landowners or the federal government. The prospective acreage in the Yukon Flats basin contained in the Fairbanks frontier area is on land owned by Native corporations. Similarly, while the State has a mineral interest in offshore lands up to the three mile limit for frontier areas denoted by (p)(1), Kotzebue, and (p)(3), Emmonak, the State lacks a substantial mineral interest on-shore in these frontier areas.

The Copper River basin is also identified and although there is a significant state land base, the area is mostly federal US Park Service lands. There are no state exploration licenses in the area; however, approximately ten to twelve exploration wells have been drilled in the area.

STATE OF ALASKA **BILL NO.** CSSB145(RES)
2012 LEGISLATIVE SESSION

Analysis Continued

Section 5 of the bill provides for some administrative responsibilities for DNR. A person wanting to receive a credit must obtain the approval of DNR for undertaking the seismic or drilling program, and DNR has 60 days or as soon as practical to evaluate the proposed expenditure. DNR's written evaluation must take into account a number of factors concerning the operator and proposed exploration. DNR must also find that the proposed work is located in a specified frontier basin. DNR must also ensure that data is collected on the exploration work, and, if applicable, obtain the agreement of a private landowner for public release of the data under AS 43.55.025(i).

DNR must make a best interests finding regarding the proposed work program after examining a variety of factors. DNR must also find that the proposed work is located in a specified frontier basin. The division is requesting two new NRS III positions (range 18, step C) to address the anticipated increase in well drilling and seismic activities in frontier areas and a potential influx in processing of exploration licenses. Other budgeted items include mandatory position costs, office equipment, and office space expenses.

Resource evaluation work such as serving as contacts for several stages of necessary correspondence between the operator, Division of Oil and Gas, and Department of Revenue; inventorying and checking completeness of data submitted; assisting in loading and conducting quality control on seismic and well data; monitoring release schedule; and helping coordinate the transfer of DNR data to Alaska Oil and Gas Conservation Commission for public distribution would also be required. Assuming this program is not amended or extended, the staffing increases could be reduced in FY17 and 18.