FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version	**HB276**
Fiscal Note Number	
Publish Date	

Identifier (file name)	HB276-DNR-O&G-01-28-12	Dept. Affected	Department of Natural Resources
Title	OIL/GAS PRODUCTION TAX CREDITS: NENANA	Appropriation	Oil and Gas
		Allocation	Oil and Gas
Sponsor	Representative Thompson		
Requester	House Resources Committee	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							
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		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
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 (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)

Initial Version, not applicable

Prepared by	William C. Barron	Phone	269-7493
Division	Division of Oil and Gas	Date/Time	1/28/12 12:00 AM
Approved by	Daniel Sullivan	Date	1/28/2012
	Department of Natural Resources		

(Revised 8/17/2011 OMB)

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB276

Analysis

HB 276 modifies AS 43.55.025 to provide for a credit for drilling the first three exploration wells in the Nenana Basin that target a deeper stratum.

The credit would be equal to 100% of the cost of the first exploration well, 90% for the second, and 80% for the third. The maximum well expenditure eligible for the credit would be $25 million per well. Under section 2, this credit would be in lieu of any tax credit under AS 43.55.023. If the wells drilled resulted in sustained commercial production, the taxpayer would have to pay back half the amount of the credit received in monthly installments over a 10-year period, or 10% of gross receipts, whichever is less.

This credit is more generous than the credits currently available to an explorer in the Nenana Basin under AS 43.55.023. In the event that the exploration well does not result in a commercial find, the credits reimburse the explorer for virtually all of the costs of the wells. If a commercial find is made, then the explorer recovers virtually all the capital up-front, as the explorer only has to pay back half the amount of the credit in monthly installments over the first 10 years of production.

The impact on royalties is indeterminate positive. It is dependent on a commercial discovery being made. HB 276 will probably make such a discovery more likely. Up to now, the wells that have been drilled in the Nenana Basin have targeted shallower strata. Deeper strata appear to be more gas prospective, but are more expensive to drill. If a commercial discovery is made, the State will likely receive royalty revenue. Currently, the State is the predominant owner of the mineral estate in the Nenana Basin, owning 1.25 million acres. The State issued an exploration license in the area covering almost 500,000 acres that expires in October of 2012. The State will not receive any direct revenues from this licensed area until it is converted to a lease.

Under HB 276, the Department has some direct administrative tasks to perform. The DNR must verify that the location of the well is in the Nenana Basin, and verify that the well has reached the required depth (8,000 feet). DNR can also authorize wells to be drilled to less than 8,000 feet (but more than 5,000 feet). The DNR must also verify that a well has resulted in sustained production of oil or gas, which then kicks in the pay back obligation. If a commercial find is made, the DNR will also have to convert the exploration license to a lease, and also perform tasks associated with permitting and leasing. These tasks are part of DNR's ongoing operations and thus no additional fiscal impact is expected.