Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number:
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Identifier: SB021CS(RES)-DOR-TAX-02-26-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Resources

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2014**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
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 (Operating Only)

None							
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 (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/14

Why this fiscal note differs from previous version:

Version N. Committee substitute made amendments to the previous version, the details of which require lengthy explanation.

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Division: Tax Division   Date: 02/26/2013 08:00 AM
Approved By: Bryan D. Butcher, Commissioner   Date: 02/26/13
Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA **BILL NO.** SB 21 CS (RES)
2013 LEGISLATIVE SESSION

Analysis

Operating expenditures: This bill limits the provision that the State of Alaska purchase transferable tax credit certificates for credits earned from leases or properties that contain land that is north of 68 degrees North latitude to credits based on expenditures incurred before January 1, 2014. The operating portion of the long-term fiscal plan anticipates an average of $400 million in refundable credits through 2023. It is anticipated that the limitation of this provision would reduce those future appropriations, beginning in FY 2015.

Regulations: The bill does not direct DOR to adopt new regulations to implement its provisions, but existing regulations may need to be amended to conform to changes in eligibility for redeemable tax credits, and to account for repeal of some sections. There may be additional regulations required, but not before January 1, 2014.

*****The revenue impact of this bill is an estimate based on Fall 2012 Forecast.**
This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed separately below. The effective date of each of the bill's provisions listed below is January 1, 2014, with the exception of provision 7, which is effective for expenditures beginning January 1, 2013.

1. The progressive portion of the production tax at AS 43.55.011(g) is repealed. Based on our Fall 2012 forecast, this change decreases production tax revenue over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

2. The production tax rate under AS 43.55.011(e) has been increased to a tax rate of 35% of production tax value. Based on our Fall 2012 forecast, this change increases production tax revenue over the forecast period analyzed from this portion of the tax. Please see detailed summary table on page 4 of this fiscal note.

3. Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 on leases or properties that contain land north of 68 degrees North latitude. Based on our Fall 2012 forecast, this change increases production tax revenue annually over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

4. Companies that incur net losses from leases or properties that contain land north of 68 degrees North latitude will earn a credit of 35% of those losses to be carried forward for a maximum period of ten years. These net loss carry-forwards will increase at an annual rate of 15% beginning on January 1 of the second calendar year following the year of the loss. The revenue impact of this provision is confidential under our forecast, however, the impact is expected to be minimal.

5. A gross revenue exclusion (GRE) of 30% of the gross value at the point of production is applicable to production from certain areas. The GRE applies to production from leases or properties containing land that is north of 68 degrees North latitude and meets one or more of three criteria: (1) is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced from a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had been in a participating area established before December 31, 2011; or (3) is produced from an area not in a participating area prior to December 31, 2011 and added to an existing participating area DNR after December 31, 2011. This provision is intended to incentivize future production and the revenue impact of this provision based on the current production forecast is indeterminate.

6. The small producer credit at AS 43.55.024 is extended to the later of 2022 or the ninth calendar year after the calendar year that the producer first has commercial production. This provision extends the small producer credit six years from the original sunset date of 2016. The revenue impact based on the current revenue forecast is minimal.

7. The provision requiring that credits be taken over two years is eliminated. This provision would result in companies using credits earlier than they would without this change, and except for the time value of money impact, it is revenue neutral. This provision applies to expenditures after December 31, 2012.

(Analysis continued on following pages)

Analysis Continued

8. The community revenue sharing fund is amended to allow the legislature to make appropriations from the tax revenue collected under AS 43.20, as opposed to revenue collected under AS 43.55.011(g). The impact of this provision is indeterminate.

9. An allowance of $5 per taxable barrel may be applied against a producer's production tax liability. The allowance is not transferable, cannot be carried forward, and cannot reduce the producer's tax liability to less than zero. Please see detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.

10. A credit of 10% of qualified oil and gas industry service expenditures may be applied to tax liabilities under AS 43.20 in amounts up to $10 million per taxpayer per year. The credit applies to qualified oil and gas service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of 3 years or more. Any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to seven years or transferred. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may range from -$50 million to -$100 million annually. The revenue impact of this provision is indeterminate.

11. An Oil and Gas Competitiveness Review Board is established in the Department of Revenue. The board will be tasked with collecting and evaluating data on oil and gas development and providing recommendations to the Legislature annually on proposed changes to the state's oil and gas fiscal regime.

12. The exploration incentive credit at AS 43.55.025(b) has been extended to 2022 and the requirements regarding proximity to other wells has been repealed. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may range up to -$100 million annually. The revenue impact of this provision is indeterminate.

Analysis Continued

Provisions in CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-$800	-$1,500	-$1,700	-$1,800	-$1,750	-$1,650
2. Base tax rate changed to 35% of production tax value	$550	$1,075	$1,100	$1,075	$1,025	$975
3. Limitation of credits for qualified capital expenditures for North Slope	$300	$700	$650	$550	$475	$400
4. Net operating loss credit rate increased to 35%, carried forward and increased at 15% per year	Indeterminate up to -$50 million annually under Fall 2012 forecast					
5. Gross revenue exclusion for certain areas						
6. Small producer credit extended to 2022	$0	$0	$0	-$25	-$25	-$50
7. Provision requiring credits be taken over 2 year eliminated[2]	-$250	$0	$0	$0	$0	$0
8. Amendment to the community revenue sharing fund	Indeterminate					
9. Allowance of $5 per taxable barrel	-$425	-$825	-$775	-$750	-$700	-$675
10. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly -$50 million to -$100 million annually)					
11. Oil and Gas Competitiveness Review Board	$0	$0	$0	$0	$0	$0
12. Exploration incentive credit extended to 2022; requirements changed[3]	Indeterminate (possibly up to -$100 million annually)					
Total Revenue Impact	**-$650 to -$750**	**-$600 to -$800**	**-$775 to -$975**	**-$1000 to -$1200**	**-$1025 to -$1225**	**-$1050 to -$1250**
Impact on Operating Budget of Limitation of qualified capital expenditures for North Slope[4]	-$150	$250	$250	$250	$250	$250
Total Fiscal Impact[4]	**-$800 to -$900**	**-$350 to -$550**	**-$525 to -$725**	**-$750 to -$950**	**-$775 to -$975**	**-$800 to -$1000**

[1]The impacts listed are based on production and prices as forecasted in our Fall 2012 revenue forecast. The forecasted oil prices are between $109.61 and $118.29.
All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2]Provision 7 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $400 million, with $250 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3]Provision 12 above, which extends and changes requirements for exploration incentive credits, would increase both credits applied against tax liability and credits available for refund. To simplify presentation, the entire impact is shown here as a revenue impact.

[4]"Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope.

Analysis Continued

Differences in General Fund Unrestricted Revenue under Proposed Bill from Current Tax System in $Millions*

*Note: These hypothetical examples of additional production assess the impact from the **change in tax rates, capital and NOL credits, and per-barrel allowance only** and do not attempt to quantify impacts of other parts of the bill, such as the removal of the credit split, the impact on the long-range budget, changes to exploration credits, or the new service industry credit. **All estimates shown here are produced using a scenario model that may provide slightly different numbers than the full revenue model, although all numbers fall within reasonable bounds of acceptable error.**

At Forecasted Production

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$90	$25	$275	$225	$125	$0	$0
$100	-$125	-$25	-$50	-$175	-$275	-$250
$120	-$675	-$975	-$1,025	-$1,125	-$1,150	-$1,075

All additional production scenarios below compare additional production under the proposed bill to ACES without the additional production.

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
$90	$25	$275	$225	$125	$25	$25
$100	-$125	-$25	-$50	-$175	-$250	-$225
$120	-$675	-$975	-$1,025	-$1,100	-$1,125	-$1,050

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
$90	$75	$450	$500	$475	$550	$475
$100	-$75	$200	$275	$275	$375	$300
$120	-$600	-$700	-$575	-$525	-$325	-$400

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day declining at 9% beginning in FY 2014, with a maximum production rate of 60,000 barrels per day for a total of 140 million barrels. 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
$90	-$25	$350	$525	$700	$1,325	$1,225
$100	-$150	$150	$375	$575	$1,250	$1,175
$120	-$650	-$650	-$325	-$25	$825	$750

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.