

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSSSHB 28(O&G)  
 (H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): 2/19/2003 Dept. Affected: Natural Resources  
 Title: Oil & Gas Royalty Modification BRU: Oil and Gas Development  
 Component: Oil and Gas Development  
 Sponsor: Kohring, Rokeberg  
 Requester: House Oil and Gas Component No. 439

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>	<b>**See Analysis Below**</b>					
-------------------------------	-------------------------------	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<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>

Estimate of any current year (FY2003) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 \*\*HB 28 would provide a number of amendments to AS 38.05.180(j) which addresses oil and gas royalty modifications. The amendment adding the language "portion of field or pool" could result in a negative fiscal impact to the state.

Under the current statutes, the Commissioner may modify royalties to allow for production from an oil or gas field or pool. At any given point of development or production, all oil and gas fields or pools contain a portion that is uneconomic in spite of the overall field or pool profitability. HB 28 expands AS 38.05.180(j) from "an oil or gas field or pool" to "a portion of a field or pool." Granting royalty relief for a portion of a pool creates an incentive for lessees to reallocate oil and gas to the portion of a pool benefiting from the reduced royalty rate. It also increases the workload and oversight responsibilities

Prepared by: Mark D. Myers Phone 269-8800  
 Division: Oil and Gas Date/Time 2/19/2003  
 Approved by: Tom Irwin, Commissioner Date 2/19/2003  
 Agency: Natural Resources

**FISCAL NOTE #1**

**STATE OF ALASKA  
2003 LEGISLATIVE SESSION**

**BILL NO. CSSSHB 28(O&G)**

**ANALYSIS CONTINUATION**

for the Division, which would then be required to assure proper allocation to the various parts of a single pool. In addition to problems of hydrocarbon allocation, there would be problems associated with cost allocation when assessing the request for royalty relief. Moreover, HB 28 opens the door to every oil or gas reservoir in the state being eligible for a royalty reduction. While it is not possible to accurately predict what the fiscal impact of this language could be to the state's royalty revenues, it will be a negative impact.