

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: SCS HB 286(RES)
 (S) Publish Date: 5/5/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Value of Royalty on Gas Production RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rep. Samuels
 Requester Senate Finance Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	***Indeterminate					
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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)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Section 1 of this bill amends AS 38.05.180(aa), a statute that relates to the royalty value of gas sold to a gas or electric utility that serves the general public. Under the state's oil and gas leases, a producer-lessee must pay the state royalties-in-value (cash) or royalties-in-kind (oil or gas). If the producer pays the gas royalty in-value, meaning that the producer sells the gas to its customer and then tenders a payment to the state, the producer is liable under the lease for a royalty value that is the higher of the producer's actual sales price (less certain allowed deductions) or the average royalty values for other producers in the same area based on their sales.

Under current law, AS 38.05.180(aa) provides that a gas producer can apply to the Commissioner of the Department of Natural Resources (the department) to have its royalty gas valued at its contract sales price to the utility.
 (Continued on next page)

Prepared by: Mark D. Myers, Director Phone 269-8800
 Division Oil and Gas Date/Time 5/5/2005
 Approved by: Tom Irwin, Commissioner Date 5/5/2005
 Agency Natural Resources

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BILL NO. SCS HB 286(RES)

ANALYSIS CONTINUATION

If the Commissioner approves the application, the state gives up the higher of value under the lease, relating to the average sales prices received by other producers as noted above. To obtain approval under AS 38.05.180(aa), the producer must present a negotiated, third-party arm's length contract for the Commissioner's consideration.

Section 1 would change current law to allow a producer-lessee that transfers its gas to an affiliated utility to apply for AS 38.05.180(aa) treatment. Under the bill, if a producer-lessee has an internal transfer price for gas consumed by its utility approved for ratemaking purposes by the Regulatory Commission of Alaska, it could apply to the department to have its transfer price used as its royalty value. In the absence of HB 286, the department would use the higher of value to determine the royalty value.

This bill (sections 2-8) would also extend the sunset date until 2010 on oil and gas exploration credits against production tax (SB 185, CH 59, SLA 03) for all areas south of 68 degrees, 15 minutes North latitude (south of the Brooks Range). It also amends the qualifications for work done in the Cook Inlet sedimentary basin.

***Indeterminate. Section 1: The department is unable to determine whether enacting HB 286, section 1 would have a negative fiscal impact on the state. If the transfer price were used for the royalty value, as the bill would permit with department approval, the impact would be negative if the transfer price was lower than the average of other producers' royalty values.

Indeterminate. Sections 2 - 8: The proposed Alaska Peninsula sale is tentatively scheduled for fall of 2005. An extension of the sunset deadline to the proposed Alaska Peninsula sale area may encourage additional or higher competitive bids, although these additional revenues are impossible to predict or quantify.