

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: SCS HB 286(RES)
 (S) Publish Date: 5/5/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Production Tax Credits RDU Tax and Treasury
 Component Tax
 Sponsor Rep. Samuels
 Requester Senate Resources Component No. 2476

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	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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	*	*	*	*	*	*

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)

This fiscal note only treats the tax related sections, sections 2 - 8.

This bill improves the AS 43.55.025 (production tax) exploration credit program enacted in 2003 in several important ways. It creates new rules in the Cook Inlet more appropriate for encouraging exploration in a well-explored, mature basin. It extends the time available for performing work that will qualify for the credit out to 2010 for everywhere except the North Slope. This should be particularly important in the Alaska Peninsula area where DNR has proposed a lease sale for the fall of 2005, as well as areas with exploration licenses. Finally, the bill introduces clarifying language about when the 20% , 40 % (and lack of opportunity for an 80%) credit apply. (continued on next page)

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 Division Tax Division Date/Time 5/5/05 8:12 AM
 Approved by: Jerry Burnett, Special Assistant to the Commissioner Date 5/5/2005
 Agency Department of Revenue

ANALYSIS CONTINUATION

Although the credit will decrease state revenues in the short term, it should increase them over the long term. However it is impossible to predict with any certainty the exact size of either effect. Some of the considerations affecting revenues:

Given the infrastructure already developed in the Cook Inlet, minimum fields sizes smaller than 10 million barrels or 40 billion cubic feet of gas may be economic to develop. More typical fields in the Cook Inlet would be 20 million barrels of oil and 200 bcf of gas. Though it may take several years to bring into production, state revenue (royalty production tax, property tax and corporate income tax) from such an oil field would average 50 million dollars for its first producing decade. Gas fields can be brought on more quickly, and such a typical gas field could average \$180 million dollars in state revenue over its first decade. Thus if this program results in one or more typical incremental production opportunities from the Cook Inlet it will more than pay for itself.

At levels of exploration seen over the past several years, the 20 million dollar cap will kick in between 3 and 4 years from now. If there is incremental exploration, the cap will be reached earlier.

In the Alaska Peninsula, while we expect wells to be drilled from onshore facilities, given the remoteness of the region and the lack of infrastructure, we assume that on average these wells will qualify for a 30% credit, half qualifying for the 40% and half qualifying for the 20% credit. Thus we estimate \$7 million dollars a year in credits if there is sufficient Alaska Peninsula exploration. The credit might promote higher bidding (and thus state revenues) in the lease sale. We estimate the minimum economic fields size to be between 100 million and 200 million barrels of oil. Such a field, if discovered and developed, could yield about \$500 million dollars in state revenues over the first decade of production. Thus, if successful, the program will pay off more than an order of magnitude more than its costs.

Section 2 rewrites the statutory language to clear up confusion that has arisen over the original language. It makes clear that there are only four possible situations:

- (1) Well work more than three miles from an existing well, but not more than 25 miles from a unit that qualifies for a 20% credit,
- (2) Well work more than 25 miles from an existing unit but not more than 3 miles from an existing well that qualifies for a 20% credit (although this portion of the credit expires June 30, 2007),
- (3) Well work that is both 25 miles from an existing unit and 3 miles from an existing well that qualifies for a 40% credit, and
- (4) Seismic work not associated with a well that qualifies for a 40 % credit.

There is no way to combine these to get an 80% credit for any given dollar outlay.

Section 3 does two things. It extends the sunset of the existing credit from 2007 to 2010 for all work performed south of the Brooks Range. In the Cook Inlet, while also extending the sunset to 2010, section 3 also sets new rules, effective July 1 2005, more appropriate for a mature basin like the Cook Inlet.

Section 4 harmonizes statute section (c) with the section one rewrites, and for the Cook Inlet introduces the notion that if the commissioner of DNR certifies that the target is separate exploration target, the well work qualifies for the credits as though it were three miles from another well – even though it may be closer.

Section 5 also has language that harmonizes statute section (d) with the other changes, and for the Cook Inlet reduces the qualifying distance from an existing unit from 25 miles to 10 miles.

Section 6 harmonizes section (e) with the earlier changes.

Section 7 clarifies the process whereby a Cook Inlet explorer can get the required certification from the commissioner of DNR to qualify for the credit with a separate exploration target. It also further limits the total of special Cook Inlet credit to 20 million dollars.

Section 8 sets forth several definitions pertinent to Cook Inlet.