

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: HB 498
 (H) Publish Date: 4/12/06

Revision Date/Time (Note if correction): _____ Dept. Affected: revenue
 Title An Act authorizing tax credits against the RDU Tax and Treasury
production tax on oil and gas Component Tax
 Sponsor Rules Committee
 Requester _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	378.2	385.8	393.5	401.3	409.4	417.6
Travel						
Contractual	200.0	200.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	578.2	585.8	393.5	401.3	409.4	417.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	See analysis section.					
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	578.2	585.8	393.5	401.3	409.4	417.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	578.2	585.8	393.5	401.3	409.4	417.6

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would authorize tax credits of 15% against the oil and gas production tax for qualified expenditures on challenged or nonconventional oil or gas, and tax credits of 25% on expenditures for nonconventional or renewable energy resources. These credits would be in addition to credits under AS 43.55.024 and AS 43.55.025 for the same qualified expenditure. Expenditures are qualified if they are ordinary and necessary for research, development, or production of challenged or nonconventional oil or gas, or for research, development, or demonstration of new technology as certified by the department. The Department believes these would include not only qualified capital expenditures, but also non-capital expenditures, and research and development (R&D) costs incurred out of state. The bill becomes effective only if the current Legislature passes a production tax based on a percentage of value. The effective date would be the later of the effective date of such an Act, or July 1, 2006.

Prepared by: Robynn Wilson, Michael Williams, Roger Marks, and Cherie Nier Phone 269-6634
 Division Tax Division Date/Time 4/10/06 11:00 AM
 Approved by: Jerry Burnett Date 4/10/2006
 Agency Department of Revenue

FISCAL NOTE #2

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BILL NO. HB 498

ANALYSIS CONTINUATION

The figures in the table below reflect the reductions in production tax revenues from the bill under the Department of Revenue's Spring 2006 forecast prices, and at higher prices. The Department's long-term price forecast is for \$25.50/bbl ANS West Coast beginning in FY 2009. The Department's economic model assumes that investment for challenged oil is significantly reduced at prices under \$30, and production is subsequently reduced.

The following fields are believed to contain challenged oil: West Sak, Polaris, Orion, Lisburne, Tabasco, and Schrader Bluff. (Currently this totals about 90,000 barrels per day.) In addition, enhanced oil recovery (EOR) expenditures extract both conventional and challenged oil. At this time there no known expenditures anticipated for either nonconventional oil or gas, or nonconventional or renewable energy sources.

The cost assumptions are as follows:

- \$1/bbl on-going capital
- \$5.33/bbl developmental capital
- \$5/bbl operating cost
- \$433 million annually EOR
- \$333 million annually R&D

The table shows the 2006-2012 reductions in production tax from the bill, at volumes associated with the Department's price forecast, and at high prices (above \$30/bbl). These revenues are net of the additions to the state corporate income tax associated with the reduced production taxes, and their subsequent deductibility.

Operating expenditures include costs for 3 additional positions for auditors: 1 O & G Revenue Auditor IV (Range 22) and 2 O & G Revenue Auditor III's (Range 20). In addition, we request 1 additional position for a Engineering Geologist (Range 22) to certify challenged and nonconventional oil or gas and nonconventional or renewable energy sources. Personal Services reflect a 2% yearly increase.

Contractual expenses include \$200,000 in both FY 07 and FY 08 for help in writing regulations.

Fiscal Year	Revenue Reduction DOR Forecast (\$millions)	Revenue Reduction High Prices (\$millions)
2007	138	157
2008	142	162
2009	134	166
2010	133	171
2011	131	175
2012	130	176