

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 2001
 (H) Publish Date: 10/18/07

Identifier (file name): #773-08-0014-DNR-10-17-07 Dept. Affected: Natural Resources
 Title: ACES RDU: Resource Development
 Component: Oil and Gas Development
 Sponsor: Rules Committee
 Requester: Governor Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information					
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services	303.5	0.0	303.5	303.5	303.5	303.5	303.5
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	303.5	0.0	303.5	303.5	303.5	303.5	303.5

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	303.5	0.0	303.5	303.5	303.5	303.5	303.5
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	303.5	0.0	303.5	303.5	303.5	303.5	303.5

Estimate of any current year (FY2008) cost: 177.0

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill would amend the oil and gas production tax under AS 43.55 to increase the base tax rate from 22.5% to 25% of net income and have the index-based progressive tax apply when net income per barrel exceeded \$30 rather than the current \$40 per barrel. In addition, this bill would change the minimum tax that currently applies to taxable income generated from North Slope fields, and which, for ANS West Coast prices above \$25 per barrel, is now 4% of gross receipts at the lease boundary. The bill would increase the minimum tax rate to 10 percent gross, but apply this minimum tax only to large North Slope legacy units (Prudhoe Bay Unit and the Kuparuk River Unit). This minimum tax would also prevent these legacy field owners from using credits or deductions generated at these fields to lower their tax burden elsewhere when the minimum tax applies. In addition, the bill allows for tax credits on future work rather than previous work and expands the current exploration incentive credit program to include as many wells that can be drilled in two drilling seasons. It also restricts capital expense deductions to scheduled maintenance and would implement audit and information sharing provisions.

Prepared by: Kevin Banks, Acting Director Phone 269-8800
 Division: Oil and Gas Date/Time 10/17/2007
 Approved by: Tom Irwin, Commissioner Date 10/17/2007
Natural Resources

FISCAL NOTE #2

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. HB 2001

ANALYSIS CONTINUATION

****Indeterminate Positive:** The royalty revenue impact to the State of ACES is indeterminate, but most likely positive. ACES improves the economics for new entrants or small Alaska producers, but decreases the attractiveness of investments in legacy fields.

Improvement in new entrant/small producer economics: ACES improves the economics of investing in Alaska for new entrants and small Alaska producers, an improvement that should lead to more investment and resulting royalty revenue. For new entrants and small producers, capital spent to find and develop oil or gas resources will generate a carried-forward annual loss credit of 25 percent rather than the current 20 percent AS 43.055.023(b).

Also, for new entrants and small Alaska producers, the transferable credits (the carried-forward annual loss credit and the 20 percent qualified expenditure credit (AS 43.55.023(a))) will be worth more under ACES. Small producers have indicated that they have been unable to sell their credits to larger tax payers. Under AS 43.55.028, ACES establishes an oil and gas tax credit fund that will help ensure these new and small producers will receive full value for these transferable credits.

Without the fund, the small producer or new entrant may have to carry-forward their credits until they have tax liability. By providing full value up-front for these credits, ACES improves the internal rate of return (IRR) by three to six percent at \$40 per barrel ANS WC.

As a partial offset to this incentive, ACES increases the tax rate from 22.5 to 25.0 percent; has the progressive, index-based, rate kicking in at a lower level; and has credits being spread over two years rather than one. However, on balance, ACES will improve new project economics for new entrants and small Alaska producers.

Decrease in attractiveness of investments in legacy fields: ACES will decrease the attractiveness of investments made by larger, existing producers for three reasons: the higher tax rate, the elimination of the Transition Investment Expenditure (TIE) credit, and the 10 percent minimum tax on legacy fields.

First, ACES increases the tax rate from 22.5 percent to 25.0 percent. In addition, the progressive, index-based rate will start at a lower (\$30) net value per barrel, but escalate at a lower rate (0.20 percent rather than 0.25 percent). Second, by eliminating the TIE credit, new capital spending by existing producers will no longer increase the ability of those producers to take the TIE credit by 10 percent of the capital invested. Third, at lower prices (prices far below where they are today) the minimum 10 percent gross tax applies, lowering or postponing the ability to take the capital expenditure credits. The floor also could eliminate the ability to use deductions generated by new spending to decrease tax liability. If the producers in these legacy fields (Prudhoe Bay Unit and Kuparuk River Unit) believe there is a good chance that prices will decline or costs will increase to the point where the floor applies, they might invest less in additional reserves in these legacy fields.

If these measures (the higher rate, the TIE credit elimination, and the 10 percent floor) cause less investment by existing producers to add reserves, the State will receive less in royalty.

Personal Services: Sections 10 and 67 would reclassify the current oil and gas auditors to exempt status employees. DO&G currently has seven oil and gas auditor positions. The total salary/benefit costs for these seven employees currently equals approximately \$849,147. An increase to exempt status is estimated to cost up to an additional \$303,500 in FY09. The FY08 amount of \$177,000 covers an estimated 7-months at the higher rate.