

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSHB 2001(RES)
 (H) Publish Date: 11/6/07

Identifier (file name): HB2001CSRES-DNR-O&G-11-06-07 Dept. Affected: Natural Resources
 Title Oil and Gas Tax Amendments RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rules Committee
 Requester House Finance 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		303.5	303.5	303.5	303.5	303.5
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	303.5		303.5	303.5	303.5	303.5	303.5

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()	**Indeterminate Positive						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	303.5		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. The bill has the progressivity surcharge increasing at 0.2% per dollar between the per barrel net revenue and \$30; 0.3% between \$30 and \$40; 0.4% between \$50 to \$60; and 0.5% as it goes over \$60. The bill also eliminates the period by which past investments are recognized in the transition investment expenditure credits (AS 43.55.023(i)) from April 1, 2001 to April 1, 2003. In calculating transportation deductions, pipeline tariffs are based on actual and reasonable rates. Some EICs credits are increased from 20% to 30%.

Administrative changes to the current tax system include changes in the administration of EICs under AS 43.55.025 relating to the kind of information that EIC applicants must provide to the state and the time that this information may be kept confidential.

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 Division Oil and Gas Date/Time 11/6/2007
 Approved by: Tom Irwin, Commissioner Date 11/6/2007
Natural Resources

FISCAL NOTE #5

**STATE OF ALASKA
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BILL NO. CSHB 2001(RES)

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.

As an offset and incentive, the bill would have a fund created that would buy back the credits from small producers (less than 50,000 barrels a day) but payouts are capped at \$25,000,000. Because of this cap, the value of the production tax transferable credits (the Qualified Capital Expenditure credits (AS 43.55.023(a)), the loss carry-forward credit (AS 43.55.023(c)), and EICs (AS 43.55.025) will remain the same as under existing law.

Taken together and comparing the House Resources committee bill with the existing AS 43.55 means that a North Slope oil development project's value (the net present value at a 15% discount rate) to the new entrant will be less. At \$40 per barrel (ANS West Coast), the NPV goes down about 10% for these new entrant's projects. Existing producers will see a bigger decrease in the NPV of their new capital investments at \$40 per barrel because the TIE credit is eliminated. At higher prices (between \$50 and \$85), the higher tax rate will lower project net present values by as much as 35% but the remaining project NPVs at these higher prices will be high enough to still attract investment. These new investments will lead to more production and royalty revenue.

This bill also excludes certain types of costs from being deductible lease expenditures when determining net income. Expenses relating to criminal negligence and dismantlement, removal & restoration (DR&R) costs would no longer be deductible lease expenditure. The impact of these exclusions are unknown and not estimated here.

Personal Services: This bill 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.