

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 217(RES)
 (H) Publish Date: 3/17/10

Identifier (file name): CSHB 217-DNR-O&G-02-17-10 Dept. Affected: Natural Resources
 Title In-state Gas Production Tax RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rep. Neuman
 Requester House Resources Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	Appropriation Required	Information					
	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
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	0.0

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()				Indeterminate negative			
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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 Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill would define gas "used as feedstock in a manufacturing process creating an end product in the state" as gas "used in the state" for purposes of AS 43.55, even if that end product was exported out of state. Examples of such export projects include the manufacture of fertilizer in a plant like the Agrium plant in Nikiski and liquid hydrocarbon fuels, i.e., jet fuel, diesel, heating fuel, in a gas-to-liquids (GTL) plant. A taxpayer selling feedstock gas to these manufacturers would enjoy a tax per-mcf that would not exceed \$0.18.

The in-state tax limit applied to sales of gas to in-state manufacturers may affect a producer's decision about whether to sell North Slope gas in-state as opposed to an export gas pipeline. The range of royalty revenue impacts may be illustrated with three examples: First, if the sales to in-state manufacturers of export products were less than say 500 mmcf, there may

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ANALYSIS CONTINUATION

be only a small impact on royalty revenue because there will still be sufficient gas for an export gas pipeline. There will also be royalty revenues associated with sales to in-state manufacturers. In this case, in-state manufacturing projects complement an export pipeline.

Second, if substantial volumes of gas subject to the tax benefit under HB 217 go to in-state manufactures of export products could compete for gas that would otherwise be shipped in an export pipeline. In this case, lost royalty revenue associated with a decrease in sales volumes of gas in an export pipeline are not made up by sales of gas to the in-state manufacturers of export products. For example, a GTL plant built in Valdez or Southcentral Alaska to make low-sulfur diesel fuel for export might require a billion cubic feet per day of gas to make 100,000 barrels of product per day to achieve economies of scale. If gas for a GTL plant were committed before design and construction of the pipeline, redirecting a billion cubic feet of gas from an export line to Alberta to a GTL plant in Valdez, would cost the state in royalty revenue on an NPV5 basis around \$400 million due to the higher tariffs on the remaining gas going to Alberta. (Not included in this estimate is the royalty revenue that the state would receive from sales to the GTL project .)

Third, should the tax benefit of HB 217 cause taxpayers to abandon an export pipeline in favor of in-state sales to export projects, the impact on royalty revenue will be substantial. (Furthermore, HB 217 would mean that ALL of the future North Slope gas production would be taxed at just \$0.18 per mcf). A 4.5 bcf/day gas export pipeline could, assuming a \$8.70/mmBtu price for gas in 2020 yield a netback price of around \$5.00 per mmBtu, and an income stream of over a billion dollars a year in royalty revenues. A GTL project at around \$100,000 per barrel/day capacity (2010 dollars) would equate to over a \$50 per barrel GTL processing fee, and would yield a lower netback of around \$3.00 per mmBtu. Not only would the netback be lower, the total per-day production of gas would be as little as one-quarter that of an export pipeline.

The relative economics might change: the cost of in-state manufacturing projects (like a GTL plant) might come down, the price of export products might command a sufficient premium to generate a higher netback price of North Slope gas than that realized from an export pipeline. For these reasons, the impact on State royalty revenue is indeterminate negative.