

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSSB 192(RES)
 Fiscal Note Number 1
 (S) Publish Date 3/5/12

Identifier (file name) SB192-DNR-DOG-02-10-12 Dept. Affected Dept. of Natural Resources
 Title OIL AND GAS PRODUCTION TAX RATES Appropriation Oil and Gas
 Allocation Oil and Gas
 Sponsor Senate Resources Committee
 Requester Senate Resources Committee OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

| | FY13 Appropriation Requested | Included in Governor's FY13 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|------------------------------------|--|-------------------------|------------|------------|------------|------------|------------|
| | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | | | | | | | | |
| Travel | | | | | | | | |
| Services | | | | | | | | |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants, Benefits | | | | | | | | |
| Miscellaneous | | | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

FUND SOURCE (Thousands of Dollars)

| | | | | | | | | |
|--------------|------------------|------------|------------|------------|------------|------------|------------|------------|
| 1002 | Federal Receipts | | | | | | | |
| 1003 | GF Match | | | | | | | |
| 1004 | GF | | | | | | | |
| 1005 | GF/Prgm (DGF) | | | | | | | |
| 1037 | GF/MH (UGF) | | | | | | | |
| 1178 | temp code (UGF) | | | | | | | |
| TOTAL | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

CHANGE IN REVENUES

| | | | | | | | |
|--|-----|-----|-----|-----|-----|-----|-----|
| | *** | *** | *** | *** | *** | *** | *** |
|--|-----|-----|-----|-----|-----|-----|-----|

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is the initial fiscal note version for SB 192.

Prepared by William C. Barron, Director
 Division Division of Oil and Gas
 Approved by Daniel Sullivan, Commissioner
Department of Natural Resources

Phone 907-269-8800
 Date/Time 02-10-12 12:00pm
 Date 2/10/2012

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Analysis

SB 192 modifies the computation of the progressive element of the production tax rate to arrive at higher tax rates when production tax value per barrel of oil equivalent is higher than \$92.50. To understand the modification, a recap of the existing system is required.

“Production tax value” per barrel should not be confused with “price”; under the current production tax statute, production tax value is the netback value of oil less the operator’s per barrel operating and capital costs. Currently, the tax rate under AS 43.55.011(e) starts at 25%; after production tax value per barrel exceeds \$30, the tax rate increases 0.4% for every additional dollar until production tax value per barrel reaches \$92.50. At that point the tax rate increase drops to 0.1% for each additional dollar. At \$92.50, the production tax rate is 50%. After 20% capital credits are applied, the effective tax rate drops. (If capital costs per barrel are assumed to be \$10 per barrel, then the effective tax rate would be around 48%.) The marginal tax rate, or the change in tax receipts divided by the change in profits, is around 86% when profits per barrel increase from \$91.50 to \$92.50. The high marginal tax rate is due to the increase in tax rate being applied against all the production tax value, not just the increment of profit generated by the one dollar increase in production tax value per barrel.

SB 192 amends AS 43.55.011(g) so that the tax rate continues to increase at 0.4% even when production tax value per barrel exceeds \$92.50. At higher profit per barrel levels, SB 192 would increase average and marginal tax rates. If production tax value per barrel reached \$110, the average production tax rate would be 57% rather than 51.75%. The marginal tax rate would be over 100% rather than 60%. For marginal tax rates exceeding 100%, a producer could increase after-tax profits by losing a dollar of before tax profits, either through incurring higher costs or forfeiting higher value.

All else equal, SB 192 will likely have an indeterminate negative impact on royalty revenue as it will make potential investments on the North Slope less attractive. Examining an investment in a project as a stand-alone venture (rather than an attempt to lower taxes due to the high marginal tax rates discussed above), SB 192 will lower the expected profitability of a project if a developer believes there is a possibility that during the project the production tax value per barrel will exceed \$92.50. If an investor believes that it is likely oil prices will be at current levels or higher in the future, then for a potential conventional small satellite development using representative cost and production profiles, a third or more of the expected net present value of a project might be lost due to the higher tax rate.