

# FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

Bill Version CSSB 192(FIN)  
Fiscal Note Number 3  
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Identifier (file name) CSSB192(FIN)-DNR-O&G-04-06-12 Dept. Affected Natural Resources  
Title Oil and Gas Production Tax Rate Appropriation Oil and Gas  
Allocation Oil and Gas  
Sponsor Senate Resources Committee  
Requester Senate Finance 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
<b>OPERATING EXPENDITURES</b>								
Personal Services	743.4	0.0	743.4	743.4	441.2	441.2	441.2	
Travel								
Services	139.0		139.0	99.0	47.5	47.5	47.5	
Commodities	75.0							
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>957.4</b>	<b>0.0</b>	<b>882.4</b>	<b>842.4</b>	<b>488.7</b>	<b>488.7</b>	<b>488.7</b>	

**FUND SOURCE** (Thousands of Dollars)

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
1002 Federal Receipts							
1003 GF Match							
1004 GF	957.4		882.4	842.4	488.7	488.7	488.7
1005 GF/Prgm (DGF)							
1037 GF/MH (UGF)							
1178 temp code (UGF)							
<b>TOTAL</b>	<b>957.4</b>	<b>0.0</b>	<b>882.4</b>	<b>842.4</b>	<b>488.7</b>	<b>488.7</b>	<b>488.7</b>

**POSITIONS**

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Full-time	8	0	8	8	5	5	5
Part-time							
Temporary							

**CHANGE IN REVENUES**

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
	***	***	***	***	***	***	***

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)**

The Senate Finance committee substitute moves the petroleum information management system from the Department of Administration to the Department of Revenue. The Division of Oil and Gas develops, stores, and maintains much of the information identified for inclusion in the system.

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Approved by Daniel Sullivan, Commissioner  
Department of Natural Resources

Phone 907-269-8800  
Date/Time 4/6/12 5:00 PM  
Date 4/6/2012

**Analysis**

**CSSB 192 version U has an indeterminate impact on state royalty revenue.** There are tax benefits for new fields, and for old fields at certain price and cost combinations. However, at low oil prices or at high operating costs, the proposed tax incentives become burdens. It is difficult to determine whether the proposed changes will increase or decrease oil production, and therefore, royalty revenue to the State.

Section 10 amends AS 31.05 by adding a new section (AS 44.25.025) which requires the Department of Revenue (DOR) to develop and maintain an electronic petroleum information management system (PIMS) to archive state oil and gas information. The system will only include non-confidential information identified in this bill and other information identified in section 10 relating to oil and gas exploration, development, and production. The Division of Oil and Gas (DO&G) collects and maintains much of the information and materials listed in the proposed bill.

DO&G will be a major contributor to the petroleum management system - likely designing, developing, and maintaining the system and associated materials. DO&G currently houses the following information on: 1) unit and joint operating agreements, 2) state oil and gas exploration licenses and oil and gas leases, 3) exploration activities including seismic data, drilling reports, logs, geological models and maps, 4) development activities including development plans minus expenditure projections and reservoir characteristics, 5) facility maps and studies, and 6) abandonment plans and progress reports. DO&G will conceivably have a role in contributing other information DOR needs for oil and gas exploration, development, and production. DO&G stores and maintains more than 40 years of information from Alaska's oil and gas activities. We find the directives in the proposed bill to initiate a significant undertaking by our department and others involved in supplying the requested information.

It is assumed our information will need to be re-integrated into new formats compatible with a sophisticated system easily navigated by the public. The DOR and DO&G data collection and management systems may be different in scale and scope, and synchronizing the systems will take considerable resources. In some cases, information could be linked or transferred to the PIMS site quickly; however, the information requested in the bill will demand extensive time and resources to adapt, redact, and restructure records and materials before inclusion in the PIMS.

Developing and maintaining a petroleum information management system will not likely provide any more information to the public than is currently available from our division. Non-confidential oil and gas information is currently available on DO&G's website or upon request in electronic and hard copy formats. We estimate the proposed bill will initially require eight new FTEs in the division and funds necessary to hire contractors for information technology work.

The division would need five new natural resources specialists (2 NRS II and 3 NRS III) with one administrative assistant (range 12) and two analysts (range 20) for IT functions during build-out starting in FY13. In addition to staff increases, approximately \$75,000 in funding for software, licenses, and back-up systems is needed. Storage for DO&G seismic data (2-3 terrabytes) would need to be contracted to electronic storage provider which could cost hundreds of thousands of dollars annually. After the system build-out and population, we should be able to maintain the system with 4-5 FTEs. We project roughly \$75,000 for contract services in FY13 and FY 14, \$35,000 in FY15, and potentially no funds thereafter. Since we are not forecasting additional state revenue for these sections of the proposed bill, the significant costs incurred in developing and maintaining a new location for DO&G information results in a negative fiscal impact to the state for years to come.