FISCAL NOTE

STATE OF ALASKA
2013 LEGISLATIVE SESSION

Bill Version	HB 72
Fiscal Note Number	2
(H) Publish Date	1/16/13

Identifier (file name)	LL0647-DNR-DOG-1-14-13	Dept. Affected	Natural Resources
Title	Production Tax on Oil and Gas	Appropriation	Oil & Gas
		Allocation	Oil & Gas
Sponsor	Rules by Request of the Governor		
Requester	Governor	OMB Component Number	439

Expenditures/Revenues (Thousands of Dollars)

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

	FY14 Appropriation Requested	Included in Governor's FY14 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY14**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
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**

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 (FY13) operating costs ________ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY14) costs ________ *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended, or repealed? N/A Discuss details in analysis section.

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

Initial Version.

Prepared by	Bill Barron, Director	Phone	269-8800
Division	Division of Oil and Gas	Date/Time	1/14/13 5:00 PM
Approved by	Daniel S. Sullivan, Commissioner	Date	1/14/2013
	Department of Natural Resources		

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HB 72

Analysis

LL0647 reforms the oil and gas production tax system in Alaska. This bill will not result in any procedural changes in how the Division of Oil and Gas operates and therefore the Department of Natural Resources (DNR) does not anticipate any fiscal impact to the Department's operating budget.

This bill proposes to improve Alaska's competitiveness and encourage producers to invest more by simplifying the oil and gas production tax system. First, this bill repeals the progressive tax structure, which will help encourage the type of long-term planning and investment needed to promote new investment in new production in Alaska. Further, this bill shifts incentives away from spending and provides new incentives to reward new production. At forecasted price ranges, overall government take and marginal tax rates are reduced materially. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise.

The fiscal impact on royalty revenue is an indeterminate positive.

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA **BILL NO. HB 72**
2013 LEGISLATIVE SESSION

Analysis Continued

Differences in Royalty Revenues from New Production Scenarios in $Millions*

*Note: These scenarios are based on Department of Revenue modeling.

At Forecasted Production

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$	120	$0	$0	$0	$0	$0	$0
$	100	$0	$0	$0	$0	$0	$0
$	90	$0	$0	$0	$0	$0	$0

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$120	$0	$0	$0	$12	$24	$35
$100	$0	$0	$0	$10	$20	$29
$90	$0	$0	$0	$9	$17	$26

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of $500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$120	$57	$106	$147	$181	$212	$179
$100	$47	$87	$120	$148	$173	$146
$90	$42	$77	$107	$132	$154	$130

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day and declining at a rate of 15% per year. Development costs for each well assumed to be $20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$120	$111	$213	$307	$433	$557	$533
$100	$91	$174	$251	$354	$455	$435
$90	$81	$155	$223	$314	$404	$386

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of $5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new 50-million barrel field.