

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: HCS CSSB 21(FIN)
 Fiscal Note Number: 12
 (H) Publish Date: 4/12/13

Identifier: SB021HCSCS(FIN)-DNR-DOG-4-11-13
 Title: OIL AND GAS PRODUCTION TAX
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: House Finance

Department: Department of Natural Resources
 Appropriation: Oil & Gas
 Allocation: Oil & Gas
 OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
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 (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

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 If yes, by what date are the regulations to be adopted, amended or repealed?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

Why this fiscal note differs from previous version:

The committee substitute adopted by the House Finance Committee adds that the Gross Revenue Exclusion does not apply to gas produced before 2022 that is used in the state. The HCS CSSB21(FIN) also adds a new subsection AS 43.55.160(g), which reduces the gross value at the point of production by an additional 10% if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5%.

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Division:	Commissioner's Office	Date:	04/11/2013 10:00 PM
Approved By:	Daniel S. Sullivan, Commissioner	Date:	04/11/13
	Department of Natural Resources		

FISCAL NOTE ANALYSIS #12

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB 21(FIN)

Analysis

HCS CSSB21(FIN) 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.

HCS CSSB21(FIN) improves Alaska's competitiveness and encourages producers to invest more by simplifying the oil and gas production tax system. First, this bill repeals the progressivity feature of the tax structure, which will help encourage the type of long-term planning and investment needed to promote new investment in production in Alaska. Further, this bill shifts incentives away from spending and provides new incentives to reward new production.

This bill also amends AS 43.55.025(a)(6) and (m) to clarify that in order to qualify for the alternative tax credit for oil and gas exploration, DNR's approval must be based on criteria established in AS 43.55.025(c)(1), (c)(2)(A), and (c)(2)(C) thereby removing the 3-mile exclusion for areas classified in AS 43.55.025(o), known as "Middle Earth".

A new subsection AS 43.55.160(f) provides the gross revenue exclusion (GRE) for 20% of the gross value at the point of production for 10 years following the commencement of production from the well. The GRE applies to production from leases or properties containing land that is north of 68 degrees North latitude and meets one or more of the three criteria: (1) is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced from a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by DNR on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. HCS CSSB21(FIN) adds that this subsection does not apply to gas produced before 2022 that is used in the state. This section also clarifies that the GRE may not reduce the gross value at the point of production below zero.

A new subsection AS 43.55.160(g) states that on and after January 1, 2014, in addition to the reduction under AS 43.55.160(f), the gross value at the point of production of oil or gas produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003, is reduced by 10% if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5% in amount or value of the production removed or sold from the lease.

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.

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.