

Original sponsor: Rules Committee by request
of the Legislative Council
(for the Subcommittee on Oil
and Gas Leasing and Taxing
Policies)

Offered: 4/20/77
Referred: Finance

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 103

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act concerning the oil and gas properties produc-
7 tion tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.55 is amended by adding new sections to read:

10 Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon the
11 producer of oil a tax for all oil produced from each lease or property
12 in the state, less any oil the ownership or right to which is exempt
13 from taxation. The tax is equal to either the percentage-of-value
14 amount calculated under (b) of this section or the cents-per-barrel
15 amount calculated under (c) of this section, whichever is greater,
16 multiplied by the economic limit factor determined for the oil produc-
17 tion of the lease or property under sec. 13 of this chapter. If the
18 amounts calculated under (b) and (c) of this section are equal, the
19 amount calculated under (b) of this section shall be treated as if it
20 were the greater for purposes of this section.

21 (b) The percentage-of-value amount equals 12.5 per cent of the
22 gross value at the point of production of taxable oil produced from the
23 lease or property.

24 (c) The cents-per-barrel amount equals \$.65 per barrel of taxable
25 oil produced from the lease or property, as adjusted by sec. 12 of this
26 chapter.

27 (d) When the cents-per-barrel amount calculated under (c) of this
28 section is greater than the percentage-of-value amount calculated under
29 (b) of this section, an amount not less than \$.05 for each barrel of

1 taxable oil produced shall be paid by the state out of its
2 royalties from the oil whenever payment by the state is required under
3 the revenue-sharing provisions of sec. 9 of the Alaska Native Claims
4 Settlement Act (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.)
5 into the Alaska Native Fund, until all amounts paid in the fund equal
6 \$500,000,000.

7 Sec. 43.55.012. ADJUSTMENTS IN TAX RATES. The cents-per-barrel
8 amount set out in sec. 11(c) of this chapter applies to oil of 27
9 degrees API gravity. For each degree of API gravity less than 27
10 degrees the cents-per-barrel amount shall be reduced by \$.005 and for
11 each degree of API gravity greater than 27 degrees the cents-per-barrel
12 amount shall be increased by \$.005 except that oil above 40 degrees API
13 gravity shall be taxed as 40 degree oil. In applying the gravity ad-
14 justment under this subsection, fractional degrees of API gravity shall
15 be disregarded.

16 Sec. 43.55.013. ECONOMIC LIMIT FACTOR. (a) The economic limit
17 factor for oil production of a lease or property equals

$$18 \quad (1 - [PEL/TP]) \exp ([300 \times WD]/PEL)$$

19 Where: PEL = the production rate at the economic limit;

20 TP = total production during the month for which the tax
21 is to be paid;

22 WD = the total number of well days in the month for which
23 the tax is to be paid; and

24 Where "exp" indicates that the expression following it is an exponent.

25 (b) The economic limit factor for gas production of a lease or
26 property equals one minus the ratio of the monthly production rate at
27 the economic limit to the production during the month for which the tax
28 is to be paid.

29 (c) The monthly production rate at the economic limit for a lease

1 or property is presumed to be 100 barrels times the number of well days
2 for the lease or property during the month for which the tax is to be
3 paid, unless the taxpayer at a formal hearing under AS 43.05.240 pro-
4 vides clear and convincing evidence of a different monthly production
5 rate at the economic limit for the lease or property. The monthly
6 production rate at the economic limit for the lease or property based
7 upon the clear and convincing evidence of the taxpayer shall be calcu-
8 lated by dividing the value determined under (e) of this section into
9 the average monthly direct operating cost determined under (d) of this
10 section.

11 (d) The average monthly direct operating cost for oil production
12 operations of the lease or property shall be determined based on the
13 number of months operated during the preceding 12-month period. The
14 direct operating costs include drilling supplies, fuel, routine mainte-
15 nance, and wages and benefits of employees working on the production
16 operations. The direct operating costs do not include capital expendi-
17 tures, tangible or intangible drilling expenses, costs of well work-
18 overs, costs for replacement or repairs (other than routine maintenance),
19 depreciation or amortization, taxes, insurance, overhead, money paid or
20 set aside (or booked as being paid or set aside) to cover the cost of
21 terminating the oil production operations of the lease or property, or
22 any other cost not directly related to the oil production operations of
23 the lease or property.

24 (e) For the purposes of this chapter, the gross value of oil shall
25 be calculated as provided in sec. 150 of this chapter, and the gross
26 value of gas shall be calculated as provided in (h) of this section.

27 (f) Before February 15 of each year or within six months after
28 commencement of production for a lease or property, the department shall
29 notify the producer of gas of the monthly production rate at the economic

1 limit for each lease or property in the state for that year. The
2 monthly production rate at the economic limit for a lease or property
3 shall be determined at a formal hearing under AS 43.05.240 and must be
4 established by clear and convincing evidence presented by the taxpayer
5 at that hearing. The monthly production rate at the economic limit for
6 the lease or property based upon the clear and convincing evidence of
7 the taxpayer shall be calculated by dividing the value determined under
8 (h) of this section into the average monthly direct operating cost
9 determined under (g) of this section.

10 (g) The average monthly direct operating cost for gas production
11 operations of the lease or property shall be determined based on the
12 number of months operated during the preceding 12-month period. The
13 direct operating costs include drilling supplies, fuel, routine mainte-
14 nance, and wages and benefits of employees working on the production
15 operations. The direct operating costs do not include capital expendi-
16 tures, tangible or intangible drilling expenses, costs of well work-
17 overs, costs for replacement or repairs (other than routine maintenance),
18 depreciation or amortization, taxes, insurance, overhead, money paid or
19 set aside (or booked as being paid or set aside) to cover the cost of
20 terminating the gas production operations of the lease or property, or
21 any other cost not directly related to the gas production operations of
22 the lease or property.

23 (h) The value at the point of production of gas produced from the
24 lease or property shall be determined on the basis of the highest price
25 paid for gas of like quality and pressure in the same field.

26 (i) The department may aggregate two or more leases or properties
27 (or portions of them), for purposes of determining economic limit
28 factors under this section and applying them to sec. 11 of this chapter,
29 when economically interdependent oil or gas production operations are

1 not confined to a single lease or property. The department may also
2 segregate a lease or property into two or more parts, for purposes of
3 determining economic limit factors under this section and applying them
4 under sec. 11 of this chapter, when two or more economically independent
5 oil or gas production operations are being conducted on it.

6 (j) A determination of the monthly production rate at the economic
7 limit for a lease or property is retroactive to January 1 of the current
8 year. For production of a lease or property commencing after January 1,
9 the determination of the monthly production rate at the economic limit
10 for that lease or property made within six months after the commencement
11 of production is retroactive to the commencement of production.

12 Sec. 43.55.016. GAS PRODUCTION TAX. (a) There is levied upon the
13 producer of gas a tax for all gas produced from each lease or property
14 in the state, less any gas the ownership or right to which is exempt
15 from taxation. The tax is equal to either the percentage-of-value
16 amount calculated under (b) of this section or the cents-per-Mcf amount
17 calculated under (c) of this section, whichever is greater, multiplied
18 by the economic limit factor determined for gas production of the lease
19 or property under sec. 13 of this chapter. If the amounts calculated
20 under (b) and (c) of this section are equal, the amount calculated under
21 (b) of this section shall be treated as if it were the greater for
22 purposes of this section.

23 (b) The percentage-of-value amount equals 10 per cent of the gross
24 value at the point of production of the taxable gas produced from the
25 lease or property.

26 (c) The cents-per-Mcf amount equals \$.064 per thousand cubic feet
27 of taxable gas produced from the lease or property as adjusted by sec.
28 12 of this chapter.

29 Sec. 43.55.017. RELATION TO OTHER TAXES. (a) Except as provided

1 in this chapter and in ch. 58 of this title, the taxes imposed by this
2 chapter are in place of all taxes now imposed by the state or any of its
3 municipalities, and neither the state nor a municipality may impose a
4 tax upon

5 (1) producing oil or gas leases;

6 (2) oil or gas produced or extracted in the state;

7 (3) the value of intangible drilling and exploration ex-
8 penses.

9 (b) The taxes imposed by this chapter are in place of all taxes
10 imposed by a municipality upon oil or gas in place or nonproducing oil
11 or gas leases or properties.

12 (c) The taxes imposed by this chapter are not in place of the tax
13 imposed by ch. 57 of this title or income taxes, franchise taxes or
14 taxes upon the retail sale of oil or gas products.

15 * Sec. 2. AS 43.55.020(a) is amended to read:

16 (a) The gross production tax on oil or gas shall be paid monthly.
17 The tax is due on the 20th [LAST] day of each calendar month on oil or
18 gas produced [REMOVED OR SOLD] from each lease or property during the
19 preceding month. If the tax is not paid before the end of the month in
20 which it becomes due, the tax becomes delinquent.

21 * Sec. 3. AS 43.55.030(a)(1) is amended to read:

22 (1) a description of the lease or property from which the oil
23 or gas was produced [REMOVED OR SOLD], by name, legal description, lease
24 number or by accounting code numbers assigned to the department;

25 * Sec. 4. AS 43.55.030(a)(3) is amended to read:

26 (3) the gross amount of oil or gas produced [REMOVED OR SOLD]
27 from the lease or property, and the percentage of the gross amount owned
28 by each producer for whom the tax is paid;

29 * Sec. 5. AS 43.55.030(a)(4) is amended to read:

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(4) the total value of the oil or gas produced [REMOVED OR SOLD] from the lease or property owned by each producer for whom the tax is paid; and

* Sec. 6. AS 43.55.140 is amended by adding a new paragraph to read:

(12) "well days" means the number of days in which a well is operating during a month.

* Sec. 7. AS 43.55.010, 43.55.015 and 43.55.140(10) and (11) are repealed.

* Sec. 8. This Act takes effect July 1, 1977 and applies to production during the month of July, 1977, and succeeding months.

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