

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

Offered: 4/22/77  
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 103 (Finance) am(failed S)

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 10.5 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 \$.55 per barrel of  
25 taxable oil produced from the lease or property for all oil defined  
26 as "lower tier oil" under the provisions of the Energy Policy and  
27 Conservation Act of 1975 (P.L. 94-163), as amended, and \$.75 per barrel  
28 of all other taxable oil produced from the lease or property, both as  
29 adjusted by Sec. 12 of this chapter.

1 (d) When the cents-per-barrel amount calculated under (c) of this  
2 section is greater than the percentage-of-value amount calculated under  
3 (b) of this section, an amount not less than \$.05 for each barrel of  
4 taxable oil produced shall be paid by the state out of its  
5 royalties from the oil whenever payment by the state is required under  
6 the revenue-sharing provisions of sec. 9 of the Alaska Native Claims  
7 Settlement Act (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.)  
8 into the Alaska Native Fund, until all amounts paid in the fund equal  
9 \$500,000,000.

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

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

$$21 \quad (1 - [\text{PEL}/\text{TP}]) \exp ([300 \times \text{WD}]/\text{PEL})$$

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

23 TP = total production during the month for which the tax  
24 is to be paid;

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

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

28 (b) The economic limit factor for gas production of a lease or  
29 property equals one minus the ratio of the monthly production rate at

1 the economic limit to the production during the month for which the tax  
2 is to be paid.

3 (c) The monthly production rate at the economic limit for a lease  
4 or property is presumed to be 100 barrels times the number of well days  
5 for the lease or property during the month for which the tax is to be  
6 paid. The taxpayer may rebut this presumption at a formal hearing  
7 under AS 43.05.420 by providing clear and convincing evidence of a  
8 different monthly production rate at the economic limit for the lease  
9 or property. The hearing shall be held before February 15 of the year  
10 or within six months after commencement of oil production for a lease  
11 or property. The monthly production rate at the economic limit for  
12 the lease or property based upon the clear and convincing evidence  
13 of the taxpayer shall be calculated by dividing the value determined  
14 under (e) of this section into the average monthly direct operating  
15 cost determined under (d) of this section and shall be used for purposes  
16 of this section for all oil production during that calendar year from  
17 the lease or property.

18 (d) The average monthly direct operating cost for oil production  
19 operations of the lease or property shall be determined based on the  
20 number of months operated during the preceding 12-month period. The  
21 direct operating costs include production supplies, purchased fuel,  
22 routine maintenance, and wages and benefits of employees working on the  
23 production operations. The direct operating costs do not include  
24 capital expenditures, tangible or intangible drilling expenses, costs of  
25 well workovers, costs for replacement or repairs (other than routine  
26 maintenance), depreciation or amortization, taxes, insurance, overhead,  
27 money paid or set aside (or booked as being paid or set aside) to cover  
28 the cost of terminating the oil production operations of the lease or  
29 property, or any other cost not directly related to the oil production

1 operations of the lease or property.

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

5 (f) Before February 15 of each year or within six months after  
6 commencement of gas production for a lease or property, the department  
7 shall notify the producer of gas of the monthly production rate at the  
8 economic limit for each lease or property in the state for that year.  
9 The monthly production rate at the economic limit for a lease or property  
10 shall be determined at a formal hearing under AS 43.05.240 and must be  
11 established by clear and convincing evidence presented by the taxpayer  
12 at that hearing. The monthly production rate at the economic limit for  
13 the lease or property based upon the clear and convincing evidence of  
14 the taxpayer shall be calculated by dividing the value determined under  
15 (h) of this section into the average monthly direct operating cost  
16 determined under (g) of this section.

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

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

4 (i) The department may aggregate two or more leases or properties  
5 (or portions of them), for purposes of determining economic limit  
6 factors under this section and applying them to sec. 11 of this chapter,  
7 when economically interdependent oil or gas production operations are  
8 not confined to a single lease or property. The department may also  
9 segregate a lease or property into two or more parts, for purposes of  
10 determining economic limit factors under this section and applying them  
11 under sec. 11 of this chapter, when two or more economically independent  
12 oil or gas production operations are being conducted on it.

13 (j) A determination of the monthly production rate at the economic  
14 limit for a lease or property is retroactive to January 1 of the current  
15 year. For production of a lease or property commencing after January 1,  
16 the determination of the monthly production rate at the economic limit  
17 for that lease or property made within six months after the commencement  
18 of production is retroactive to the commencement of production.

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

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

4 (c) The cents-per-Mcf amount equals \$.064 per thousand cubic feet  
5 of taxable gas produced from the lease or property as adjusted by sec.  
6 12 of this chapter.

7 Sec. 43.55.017. RELATION TO OTHER TAXES. (a) Except as provided  
8 in this chapter and in ch. 58 of this title, the taxes imposed by this  
9 chapter are in place of all taxes now imposed by the state or any of its  
10 municipalities, and neither the state nor a municipality may impose a  
11 tax upon

12 (1) producing oil or gas leases;  
13 (2) oil or gas produced or extracted in the state;  
14 (3) the value of intangible drilling and exploration ex-  
15 penses.

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

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

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

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

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

29 (1) a description of the lease or property from which the oil

1 or gas was produced [REMOVED OR SOLD], by name, legal description, lease  
2 number or by accounting code numbers assigned to the department;

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

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

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

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

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

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

14 \* Sec. 7. AS 43.55.010, 43.55.015 and 43.55.140(10) and (11) are re-  
15 pealed.

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