

Brodley

Introduced: 2/5/86
Referred: Finance

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 HOUSE BILL NO. 545

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil production tax; and
7 providing for an effective date."

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

9 * Section 1. AS 43.55.013(b) is amended to read:

10 (b) (1) The economic limit factor for oil production of a lease
11 or property shall be computed according to the following formula:

$$\frac{(1 - [PEL/TP]) \exp \{ (37,000,000 \times WD) / [PEL \times TP / \text{Days}] \}}{(1 - [PEL/TP]) \exp \{ (460 \times WD) / PEL \}}$$

14 where: PEL = the monthly production rate at the economic limit;

15 TP = the total production during the month for
16 which the tax is to be paid;

17 WD = the total number of well days in the
18 month for which the tax is to be paid; [AND]

19 Days = the number of days in the month for which
20 the tax is to be paid; and

21 where "exp" indicates that the expression following it is an exponent.

22 (2) IF, FOR ANY MONTH DURING THE FIRST 10 YEARS FOLLOWING
23 THE COMMENCEMENT OF COMMERCIAL OIL PRODUCTION OF A LEASE OR PROPERTY,
24 THE ECONOMIC LIMIT FACTOR FOR OIL PRODUCTION OF THAT LEASE OR PROPERTY
25 COMPUTED UNDER (1) OF THIS SUBSECTION IS 0.7 OR LESS, THEN THAT FACTOR
26 SHALL BE APPLIED.

27 (3) IF, FOR ANY MONTH DURING THE FIRST 10 YEARS FOLLOWING
28 THE COMMENCEMENT OF COMMERCIAL OIL PRODUCTION OF A LEASE OR PROPERTY,
29 THE ECONOMIC LIMIT FACTOR FOR OIL PRODUCTION OF THAT LEASE OR PROPERTY

1 COMPUTED UNDER (1) OF THIS SUBSECTION IS GREATER THAN 0.7, THEN THE
2 ECONOMIC LIMIT FACTOR IS ONE.

3 (4) THE ECONOMIC LIMIT FACTOR FOR OIL PRODUCTION OF A LEASE
4 OR PROPERTY AFTER THE FIRST 10 YEARS FOLLOWING THE COMMENCEMENT OF
5 COMMERCIAL OIL PRODUCTION SHALL BE COMPUTED AND APPLIED UNDER (1) OF
6 THIS SUBSECTION.]

7 * Sec. 7. This Act takes effect July 1, 1987.
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ALASKA STATE LEGISLATURE

..14th. Legislature .SECOND Session

HOUSE ..BILL..... NO. .545...

By ..THE FINANCE COMMITTEE....

"An Act relating to the oil production tax; and providing for an effective date."

~~oil production tax~~

Introduced in the House .2/5....., 19. 86

HISTORY IN THE HOUSE

19 86

Feb 5

Read first time and referred to Committee on

FINANCE

Reported back with recommendation that

Read second time and

Read third time and

PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused

Reconsideration
PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused
Reported correctly engrossed
Signed by Speaker
Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused

Reconsideration
PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused
Reported correctly engrossed
Signed by President
Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19

Received from Senate

Concurred in Senate amendment thus adopting:
VOTE

Failed to concur in Senate amendment; asked Senate to recede
VOTE

Senate receded from amendment
VOTE

Senate failed to recede from amendment
VOTE

CC appointed by House

CC appointed by Senate

CC adopted by House
VOTE

CC adopted by Senate
VOTE

To enrolling
Reported correctly enrolled
Sent to Governor

..... by Governor

Filed with Lt. Governor

Chapter No.

MEMORANDUM

State of Alaska

TO: The Honorable Bill Sheffield
Governor

DATE: February 13, 1986

FILE NO: 86F-482

TELEPHONE NO: 465-3568

FROM: Tom Chester ^{TC} Principal Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Oil Shares

Attached is an updated and revised oil shares analysis. It contains no substantive changes from the one you received dated January 9, 1986.

TC/dmc

Attachment

cc: Representative Sam Cotten
Alaska State Legislature

Ray Gillespie, Chief of Staff
Jim Ayers, Director, Legislative Relations
Office of the Governor

Vince Wright, Chief, Research Section
Department of Revenue

**STATE, FEDERAL AND INDUSTRY SHARES OF ALASKA OIL RESOURCE
INCOME: ACTUAL FOR FISCAL '82-'84, ESTIMATED FOR FISCAL '85**
(millions of dollars except as noted)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Fiscal year	Total Revenue	State Royalty	Sever. Conser. tax	Total Prop. tax	Total Oper. Costs	Total Deprec.	Total Acquis. Costs	Windfall Profits Tax
1982	\$16,456	\$1,553	\$1,581	\$276	\$940	\$602	\$1	\$2,018
1983	\$15,470	\$1,448	\$1,494	\$307	\$1,101	\$780	\$1	\$1,018
1984	\$14,955	\$1,409	\$1,393	\$358	\$1,259	\$998	\$1	\$412
1985	\$15,136	\$1,390	\$1,389	\$397	\$1,449	\$1,093	\$1	\$70

	[9]	[10]	[11]	[12]	[13]	[14]	[15]	[16]
Fiscal Year	Uncap. Interest Expense	Explore. Costs	Admin. Costs	Other Deducs.	Total Deducs.	State Taxable Net Income	Corp. Petrol Income Tax	Federal Taxable Income
1982	\$721	\$191	\$236	\$149	\$7,916	\$8,539	\$669	\$7,870
1983	\$676	\$204	\$252	\$142	\$7,023	\$8,446	\$236	\$8,210
1984	\$614	\$219	\$265	\$136	\$6,666	\$8,289	\$265	\$8,024
1985	\$566	\$234	\$278	\$130	\$6,594	\$8,542	\$169	\$8,373

	[17]	[18]	[19]	[20]	[21]	[22]	[23]
Fiscal Year	Federal Corp. Income Tax	Oil Industry Alaska Profits	Total Federal Tax	Total State Tax & Royalty	----Share of Oil Income----		
					State	Federal	Industry
1982	\$2,142	\$5,728	\$4,160	\$4,079	29%	30%	41%
1983	\$2,131	\$6,079	\$3,149	\$3,485	27%	25%	48%
1984	\$2,368	\$5,656	\$2,780	\$3,425	29%	23%	48%
1985	\$2,433	\$5,940	\$2,503	\$3,345	28%	21%	50%

SOURCES AND FORMULAS --

Column [1]: Vincent Wright, chief of research, to Mary Nordale, Commissioner of Revenue, Memorandum of October 31, 1985, Table 3.

Columns [2] & [3]: January 1986 DOR Revenue Sources, p. 39.

Columns [4] to [14]: Vincent Wright, loc. cit.

Column [15]: Revenue Sources, p. 39.

Column [16]: column [14] - column [15].

Column [17]: column [16] * (production-weighted average tax rate -- 1982 = .279; 1983 = .274; 1984 = .294; 1985 = .294). Company effective rates for '82-84 from R. McIntire and R. Folen, "Corporate Income Taxes in the Reagan Years," Oct. 1984, pp. 32-36; '85 estimated by OMB.

Column [18]: column [16] - column [17].

Column [19]: column [8] + column [17].

Column [20]: sum of columns [2], [3], [4], and [15].

Column [21]: (column [18])/(sum of columns [18], [19], and [20]).

Column [22]: (column [19])/(sum of columns [18], [19], and [20]).

Column [23]: (column [20])/(sum of columns [18], [19], and [20]).

Office of Management and Budget
Division of Strategic Planning
revised February 13, 1986

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

February 25, 1986

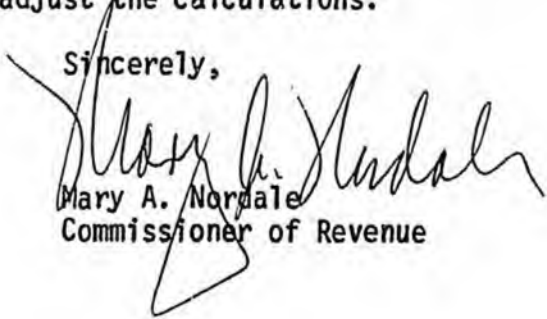
Mr. Larry M. Smedley
Exxon Company, U.S.A.
P.O. box 6601
Anchorage, AK 99502-0601

Dear Mr. Smedley:

This will acknowledge your letter of February 20. The Department of Revenue has attempted to quantify possible production diminution. That other factors, not possible to quantify through data available to the department, may affect production is a matter best addressed by those in whose possession the decision-making authority exists.

I would urge those who believe the department's analysis to be in error to furnish the House Committee on Finance and, thus, the Department of Revenue the necessary information to adjust the calculations.

Sincerely,



Mary A. Nordale
Commissioner of Revenue

MAN:m11

cc: Members, House Finance Committee

EXXON COMPANY, U.S.A.

P.O. BOX 6601 • ANCHORAGE, ALASKA 99502-0601 (907) 561-5331

ALASKA OPERATIONS
WESTERN DIVISION

LARRY M. SMEDLEY
AREA MANAGER

February 20, 1986

Commissioner Mary A. Nordale
Alaska Department of Revenue
Pouch S
Juneau, Alaska 99811

Dear Commissioner Nordale:

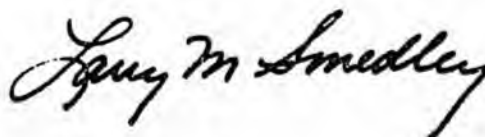
This is in reference to the Alaska Department of Revenue's fiscal note on H.B. 545 which was released at last Friday's House Finance Committee hearing. As I indicated during the hearing, the finding in the fiscal note that H.B. 545 would result in a production loss of only 22 million barrels at Prudhoe Bay significantly understates the potential impact of the bill.

As we pointed out during the hearing, H.B. 545 will significantly increase severance taxes on production from major fields in Alaska by a modification in the economic limit factor. This change in the ELF would have a negative impact on marginal project development in these fields. At Prudhoe Bay alone, over 10 billion barrels will be left unrecovered under the current production plan. Although no one knows how much of this remaining oil can be recovered through sophisticated recovery techniques which are continually being developed and refined, a very significant volume is at risk. Future additional recovery projects will be very costly and marginal economically. Additional costs such as the proposed tax increase will place such marginal projects in jeopardy.

While the fiscal note recognized a negative production impact of H.B. 545 on the planned enhanced oil recovery project at Prudhoe Bay, the barrel calculation is not correct. Moreover, the fiscal note did not consider other additional recovery projects at Prudhoe Bay which would be affected. For example, drilling wells on closer spacing and in thinner oil columns and other projects involving new technologies would also be adversely impacted by H.B. 545. Because of these deficiencies, the Department of Revenue's estimates should be considered only a qualitative indicator of the adverse impact of H.B. 545 on future oil recovery. Mr. Logsdon suggested this via teleconference during the hearing.

In order to avoid further confusion regarding this matter, I urge you to write a supplementary note to the House Finance Committee pointing out the limitations of the fiscal note on H.B. 545. I would be happy to discuss this with you in greater detail at your convenience.

Sincerely,



LMS/THG3/342:vh
cc: House Finance Committee

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7 * Sec. 2. This Act takes effect July 1, 1987.