

HB

124

(11)

**MINUTE REPORT**

Date referred: 3/4/87

FURTHER REFERRALS:

DATE: 3/19/87  
HB 124

The Finance Committee has considered

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

**RECOMMENDS:**

- replace with \_\_\_\_\_  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(s):**

- fiscal impact <sup>replaces</sup> <sub>fiscal note published 2/11/87</sub>
- zero fiscal note
- zero with analysis
- same as previous fiscal note published \_\_\_\_\_
- same as previous zero fiscal note published \_\_\_\_\_

**SIGNING DO PASS:**

ADAMS Joe Adams

GOLL John Goll

BOYER Mark Boyer

WACK-AMMER Charles Wack-Ammer

DAVIS Mike Davis

BROWN Tay Brown

**SIGNING OTHER RECOMMENDATIONS:**

POURCHOT Paul Pourchot no rec

FRANK Steve Frank no rec.

LARSON Ronald Larson No Rec.

RIEGER Steve Rieger

Robert P. Adams  
Chairman's signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

*replacement  
fiscal note*

REQUEST \_\_\_\_\_

Bill Version: HB 124  
Publish Date: \_\_\_\_\_

Revision Date: 2/17/87  
Title: Relating to the Oil and Gas  
Conservation Tax  
Sponsor: Rules Committee  
Requestor: Governor

Agency Affected: Revenue  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	408	1561	1501	1391	1341	1241

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

This bill would increase the conservation tax on oil production from 1.25 mills per barrel to 4.0 mills per barrel. At the same time a conservation tax would be levied on natural gas production at the rate of 4.0 mills for every 50,000 cubic feet. This proposed change would increase State revenues by approximately \$1.5 million per year. This analysis assumes an effective date of March 1, 1987.

Prepared By: Charles L. Logsdon *Charles L. Logsdon* Phone: 276-5364  
Division: Research/Revenue Date: 2/17/87

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: \_\_\_\_\_  
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 124

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

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

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

9 \* Section 1. AS 43.57.010 is amended to read:

10 Sec. 43.57.010. OIL AND GAS [REGULATION AND] CONSERVATION TAX.

11 (a) Every [THERE IS LEVIED UPON THE] producer of oil and gas shall  
12 pay a tax of four mills per [ONE-EIGHTH OF ONE CENT ON EACH] barrel of  
13 oil and per 50,000 cubic feet of natural gas removed from or sold on  
14 [FROM] each lease or property in the state, less any part the owner-  
15 ship or right to which is exempt from taxation.

16 (b) The tax is in addition to and must [SHALL] be [ADMINISTERED  
17 AND] paid in the same manner as the taxes imposed by AS 43.55. Pro-  
18 ducers of oil and gas shall [ARE REQUIRED TO] make reports of produc-  
19 tion in the same manner and under the same penalties as required by AS  
20 43.55.

21 (c) Proceeds from the tax must [SHALL] be paid into the general  
22 fund. The commissioner of administration shall separately account for  
23 all proceeds of the tax deposited in the general fund.

24 \* Sec. 2. This Act takes effect immediately in accordance with AS 01.-  
25 10.070(c).

No. 1  
Wrong one

# STATE OF ALASKA 1987 LEGISLATIVE SESSION FISCAL NOTE

Bill version: HB 124  
Publish Date: 2/11/87

### REQUEST

Bill/Resolution No.: 773-87-0074  
Title: An Act relating to the Oil and Gas Conservation Tax

Sponsor: RUTES  
Requestor: GOVERNOR  
Date of Request: \_\_\_\_\_

### FISCAL DETAIL

Agency Affected: Oil & Gas Conservation Com.  
BRU: \_\_\_\_\_

Components: \_\_\_\_\_

### EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0					

CAPITAL	0					
---------	---	--	--	--	--	--

REVENUE		2402.8	2212.9	1927.5	1684.9	1373.6
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Loss by AS 43.57 repeal                      745.2      685.9      596.7      520.9      462.8

### FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

### POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary  
Based on November '86 production record, Prudhoe Oil Pool and Kuparak Oil Pool initiating a production decline rate of 15% starting July 1, 1987; Lisbourne Oil Pool on stream July 1, 1987 at 100,000 b/d; and Endicott Oil Pool on stream July 1, 1986 at 100,000 b/d.

Prepared by: Chat Chatterton *Chat Chatterton/bbb* Phone: 279-1433  
Division: \_\_\_\_\_ Date: \_\_\_\_\_

Approved by Commissioner: *[Signature]* Date: 11/24/86  
Agency: \_\_\_\_\_

### Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Rec'd 3-31-87  
R.O. 3-19-87

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: HB 124  
Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_  
Revision Date: 3/26/87  
Title: Relating to the Oil and Gas Conservation Tax  
Sponsor: Rules Committee  
Requestor: Governor

Agency Affected: \_\_\_\_\_  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPEATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	415	1694	1704	1628	1492	1449

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

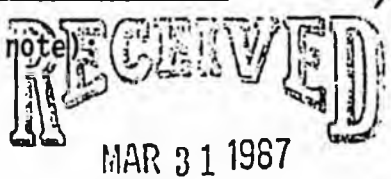
ANALYSIS: Attach a separate page if necessary

This bill would increase the conservation tax on oil production from 1.25 mills per barrel to 4.0 mills per barrel. At the same time a conservation tax would be levied on natural gas production at the rate of 4.0 mills for every 50,000 cubic feet. This proposed change would increase State revenues by approximately \$1.5 million per year. This analysis assumes an effective date of March 1, 1987. The numbers are based on our March 1987 forecast.

Prepared By: Charles Logsdon Phone: 276-5364  
Division: Research/Revenue Date: 3/26/87

Approved by Commissioner: Hugh Malone Date: 3/27/87  
Agency: Department of Revenue

- Distribution (by Agency preparing fiscal note)
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary



STEVE COWPER  
GOVERNOR

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 10, 1987

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the oil and gas conservation tax.

The primary purpose of the bill is to adjust the existing oil and gas conservation tax in AS 43.57.010 to provide enough additional revenue to the state to cover the amount of the operating costs of the Alaska Oil and Gas Conservation Commission ("commission"). An oil and gas conservation tax is included in most of the conservation Acts of the 30 oil and gas producing states. The tax would be in the amount of four mills per barrel of crude oil and 50,000 cubic feet of natural gas. Proceeds from the tax would be placed in the general fund. The commission has calculated that approximately \$2,680,000 would be collected annually if this bill were enacted.

The concept of a tax related to oil and gas conservation activities is not new to the state. Section 15, ch. 40, SLA 1955, which created the commission, provided funding by levying a tax on the gross amount of oil and gas produced. The tax rate was then five mills per barrel of oil and per 50,000 cubic feet of natural gas. After statehood, sec. 15 became AS 31.05.130 and 31.05.140.

The original tax was repealed effective July 1, 1970, by ch. 247, SLA 1970.

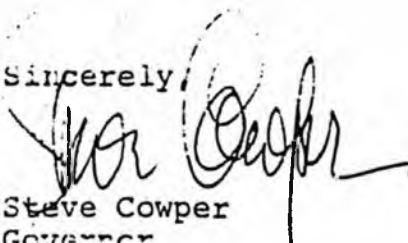
Effective July 1, 1974, AS 43.57.010, the Oil and Gas Regulation and Conservation Tax, was enacted. Sec. 1, ch. 5, FSSLA 1973. This tax is still in effect. It assesses a tax of 1.25 mills (one-eighth of one cent) per barrel of oil, a 75 percent reduction from the amount of the conservation tax levied up to July 1, 1970. The amount of revenue generated

Hon. Ben Grussendorf

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by this tax is not even equal to the operating costs of the commission, and may be perceived by the oil and gas industry as little more than a "nuisance tax." As described earlier, the tax in AS 43.57.010 would be adjusted to include a tax on production of natural gas, and to increase the amount of the tax.

Sincerely



Steve Cowper  
Governor

BRU NARRATIVE

OIL & GAS CONSERVATION

THE ALASKA OIL & GAS CONSERVATION COMMISSION IS AN INDEPENDENT QUASI-JUDICIAL AGENCY ESTABLISHED WITHIN THE EXECUTIVE BRANCH BY THE LEGISLATURE TO ENSURE THAT OIL & GAS DRILLING, PRODUCTION, RESERVOIR DEPLETION & METERING OPERATIONS CONDUCTED ON LANDS SUBJECT TO THE STATE'S POLICE POWERS ARE IN COMPLIANCE WITH THE ALASKA OIL & GAS CONSERVATION ACT (AS 31.05).

THE ACT PROHIBITS THE PHYSICAL WASTE OF CRUDE OIL & NATURAL GAS, PROTECTS THE CORRELATIVE RIGHTS OF OWNERS WITH OIL & GAS RIGHTS, & PROVIDES FOR THE MAXIMUM ULTIMATE RECOVERY OF OIL & GAS THAT IS PRUDENTLY FEASIBLE. THE COMMISSION IS EMPOWERED TO CITE & LEVY FINES FOR VIOLATIONS OF THE ACT, REGULATION OR ORDER OF THE COMMISSION, & SEEK INJUNCTIVE RELIEF TO PREVENT CONTINUANCE OF A VIOLATION.

SEVERANCE & OIL & GAS REGULATION TAXES ARE LEVIED ON PRODUCTION. REVENUE ACCRUES FROM ROYALTY PRODUCTION ON STATE LEASES. THE PREVENTION OF WASTE ENHANCES THESE INCOME SOURCES & SERVES THE PUBLIC GOOD BY PROVIDING INCREASED FUNDING TO MEET THE PUBLIC NEEDS.

## STATE OF ALASKA -- BUDGET UNIT SUMMARY

SALSFRMA 11:23 1/29/87

AGENCY: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT PROGRAM: OIL & GAS CONSERVATION  
CATEGORY: PUBLIC PROTECTION

LEG. FIN.

COMPONENT DESCRIPTION	FY87 ATH	FY87 REV	TRANSFER	DECRMTS	INCRMNTS	GOVERNOR	HOUSE	SENATE	C. C.	BILLS
OPERATIONS	1776.6	1518.2	-32.8			1485.4				
DATA AND WORD PROCESSING	104.5	95.7	-.4			95.3				
** TOTAL	1881.1	1613.9	-33.2			1580.7				
** CHANGE VERSUS FY87 ATH				-100.0%	-100.0%	-100.0%	-15.9%	-100.0%	-100.0%	
OBJECT DESCRIPTION										
PERS. SERV.	1521.4	1362.4	-33.2			1329.2				
TRAVEL	158.7	98.0				98.0				
CONTRACTUAL	173.9	135.4				135.4				
COMMODITIES	21.7	18.1				18.1				
EQUIPMENT	5.4									
FUNDING SUMMARY										
FED. RECEIPT	100.0	100.0				100.0				
GENERAL FUND	1781.1	1513.9	-33.2			1480.7				
** GENERAL FUND CHANGE VS. FY87 ATH				-100.0%	-100.0%	-100.0%	-16.8%	-100.0%	-100.0%	
POSITIONS										
FULL TIME	25.0	25.0				25.0				
STAFF MONTHS	300.0	273.0				273.0				

06-08-14-06-00 (08-46-2-50-00-00)

## STATE OF ALASKA -- COMPONENT BUDGET SUMMARY

SALSFRMA 16:09 1/28/87

AGENCY: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT  
CATEGORY: PUBLIC PROTECTIONPROGRAM: OIL & GAS CONSERVATION  
SUB-PROGRAM: OPERATIONS

LEG. FIN.

EXPENDITURES & FUNDING	FISCAL YEAR 1988												
	(01) FY86 ACT	(02) FY87 ATH	(03) FY87 REV	(04) TRANSFER	(05) DECRMTS	(06) INCRMNTS	(07)	(08) GOVERNOR	(09) HOUSE	(10) SENATE	(11) C. C.	(12) BILLS	(13) LEG.REC.
01 PERS. SERV.	1487.8	1442.4	1283.4	-32.8				1250.6					
02 TRAVEL	104.1	158.7	98.0				98.0						
03 CONTRACTUAL	132.2	150.9	120.4				120.4						
04 COMMODITIES	17.6	19.2	16.4				16.4						
05 EQUIPMENT	5.7	5.4											
06 LANDS/BLDGS													
07 GRANTS, CLMS													
08 MISC.													
** TOTAL EXPEND	1747.4	1776.6	1518.2	-32.8			1485.4						
09 I-A TRANSFER	10.3	13.7	13.7				13.7						
1002 FED RCPTS		100.0	100.0				100.0						
1004 GEN FUND	1747.4	1676.6	1418.2	-32.8			1385.4						
15 FULL TIME	25.0	24.0	24.0				24.0						
16 PART TIME													
17 TEMPORARY													
18 STAFF MONTHS	300.0	288.0	261.0				261.0						

06-08-14-06-00 (08-46-2-50-00-00)

STATE OF ALASKA -- COMPONENT BUDGET ANALYSIS

SALSFRMA 16:09 1/28/87

AGENCY: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT  
 CATEGORY: PUBLIC PROTECTION

PROGRAM: OIL & GAS CONSERVATION  
 SUB-PROGRAM: OPERATIONS

LEG. FIN.

\*\*\*\*\* FY87 REV ANALYSIS \*\*\*\*\*

OBJECT GROUP	VARIATION		DESCRIPTION: FY87 REV (\$1,518.2) VERSUS FY87 ATH (\$1,776.6)
01 PERS. SERV.	-159.0	-11.0%	REDUCE STAFF MONTHS BY HOLDING VACANT A PFT SENIOR PETROLEUM GEOLOGIST FOR SIX MONTHS. A PFT SENIOR PETROLEUM ENGINEER FOR SIX MONTHS, A PFT PETROLEUM INSPECTOR FOR SIX MONTHS, AND A PFT PETROLEUM CARTOGRAPHER FOR NINE MONTHS <\$159.0>.
02 TRAVEL	-60.7	-38.2%	REDUCE TRAVEL, PRIMARILY FOR FIELD INSPECTIONS <\$60.7>.
03 CONTRACTUAL	-30.5	-20.2%	REDUCE CONTRACTUAL SERVICES <\$30.5>.
04 COMMODITIES	-2.8	-14.6%	REDUCE SUPPLIES <\$2.8>.
05 EQUIPMENT	-5.4	-100.0%	DELETE FUNDING FOR REPLACEMENT EQUIPMENT <\$5.4>.
** TOTALS	-258.4	-14.5%	

\*\*\*\*\* GOVERNOR'S ANALYSIS (87 REV TO 88 GOV) \*\*\*\*\*

TOTAL	GEN_FUND	OTH_FUND	PFT	PPT	DESC
-33.2	-33.2	0.0	0.0	0.0	TRANSFER TO RIP BRU #2130
0.4	0.4	0.0	0.0	0.0	TRANSFER FROM OIL & GAS COM DP #2131
0.0	0.0	0.0	0.0	0.0	IOCC INCREASE IN ANNUAL ASSESSMENT #2132

06-08-14-07-00 (00-00-0-00-00-00)

## STATE OF ALASKA -- COMPONENT BUDGET SUMMARY

SALSFRMA 16:09 1/28/87

AGENCY: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT  
CATEGORY: PUBLIC PROTECTIONPROGRAM: OIL & GAS CONSERVATION  
SUB-PROGRAM: DATA AND WORD PROCESSING

LEG. FIN.

EXPENDITURES & FUNDING	F I S C A L Y E A R 1 9 8 8												
	(01) FY86 ACT	(02) FY87 ATH	(03) FY87 REV	(04) TRANSFER	(05) DECRMTS	(06) INCRMTS	(07)	(08) GOVERNOR	(09) HOUSE	(10) SENATE	(11) C. C.	(12) BILLS	(13) LEG.REC.
01 PERS. SERV.	78.1	79.0	79.0	-.4				73.6					
02 TRAVEL													
03 CONTRACTUAL	15.1	23.0	15.0					15.0					
04 COMMODITIES	2.4	2.5	1.7					1.7					
05 EQUIPMENT	3.3												
06 LANDS/BLDGS													
07 GRANTS, CLMS													
08 MISC.													
** TOTAL EXPEND	98.9	104.5	95.7	-.4				95.3					
09 I-A TRANSFER													
1004 GEN FUND	98.9	104.5	95.7	-.4				95.3					
15 FULL TIME	1.0	1.0	1.0					1.0					
16 PART TIME													
17 TEMPORARY													
18 STAFF MONTHS	12.0	12.0	12.0					12.0					

06-08-14-07-00 (00-00-0-00-00-00)

STATE OF ALASKA -- COMPONENT BUDGET ANALYSIS

SALSFMA 16:09 1/28/87

AGENCY: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT  
CATEGORY: PUBLIC PROTECTION

PROGRAM: OIL & GAS CONSERVATION  
SUB-PROGRAM: DATA AND WORD PROCESSING

LEG. FIN.

\*\*\*\*\* : \*\*\*\*\* FY87 REV ANALYSIS \*\*\*\*\*

OBJECT GROUP	VARIATION		DESCRIPTION: FY87 REV (\$95.7) VERSUS FY87 ATH (\$104.5)
03 CONTRACTUAL	-8.0	-34.8%	REDUCE PROFESSIONAL SERVICES <\$1.5>, AND REPAIR AND MAINTENANCE CONTRACTS <\$6.5>.
04 COMMODITIES	-0.8	-32.0%	REDUCE DATA PROCESSING SUPPLIES <\$0.8>.
** TOTALS	-8.8	-8.4%	

\*\*\*\*\* GOVERNOR'S ANALYSIS (87 REV TO 88 GOV) \*\*\*\*\*

TOTAL	GEN_FUND	OTH_FUND	PFT	PPT	DESC
-0.4	-0.4	0.0	0.0	0.0	TRANSFER TO OIL & GAS CONS COM OPERATIONS #2140

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 124

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

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7 and providing for an effective date."

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18 ducers of oil and gas shall [ARE REQUIRED TO] make reports of produc-  
19 tion in the same manner and under the same penalties as required by AS  
20 43.55.

21 (c) Proceeds from the tax must [SHALL] be paid into the general  
22 fund. The commissioner of administration shall separately account for  
23 all proceeds of the tax deposited in the general fund.

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