

HB

124.5

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill version: HB 124
Publish Date: HOUSE 2/11/86

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					
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REVENUE		2402.8	2212.9	1927.5	1684.9	1373.6
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/psb* 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)

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).

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 124
Publish Date: HOUSE 3/25/87

REQUEST _____

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
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	408	1561	1501	1391	1341	1241

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

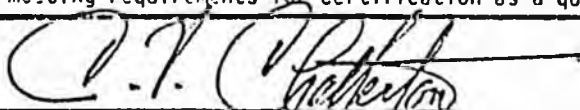
This bill would increase the conservation tax on oil production from 1.25 mills per barrel to 4.0 mills per barrel. At the same time a conservation tax would be levied on natural gas production at the rate of 4.0 mills for every 50,000 cubic feet. This proposed change would increase State revenues by 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

BUDGET REQUEST UNIT (BRU): Oil and Gas Conservation		Alaska Oil and Gas Conservation Commission	
NAME/POSITION OF BRU MANAGER: C. V. Chattarton, Commissioner/Chairman		PHONE:	(907) 279-1433
NAME/POSITION OF AGENCY CONTACT: Galyn Evans, Administrative Assistant		PHONE:	(907) 279-1433
LIST STATUTORY/REGULATORY BASIS FOR SERVICES PROVIDED (I.E., ALASKA STATUTE, ALASKA ADMINISTRATIVE CODE, OR FEDERAL REGISTER):			
Statutory/Regulatory Citation	: Component/Programs, Services	Statutory/Regulatory Citation	: Component/Programs, Services
AS 31.05/20 AAC 25.	: Operations	_____	: _____
AS 31.05/20 AAC 25.	: Data Processing	_____	: _____
_____	: _____	_____	: _____
DESCRIPTION OF THE BRU SERVICES AND RESPONSIBILITIES: The Alaska Oil and Gas Conservation Commission is an independent quasi-judicial agency established within the Executive Branch by the Legislature to ensure that oil and gas drilling, production, reservoir depletion and metering operations comply with the Alaska Oil and Gas Conservation Act (AS 31.05). The Act prohibits the physical waste of crude oil and natural gas, protects correlative rights, and provides for obtaining the maximum ultimate recovery of oil and gas that is prudently feasible. The Commission is empowered to cite and levy fines for violations of the Act; regulation or order of the Commission, and seek injunctive relief to prevent continuance of a violation. Severance and oil and gas regulation taxes are levied on production. Revenue accrues from royalty production on state leases. The prevention of waste enhances these income sources and serves the public good by providing increased funds to meet the public need.			
Further, the BRU provides funding for the following activities (1) acting as the Alaska jurisdictional agency to determine well categories for meeting the maximum lawful price of gas under the Natural Gas Policy Act of 1978, (2) discharging primary enforcement responsibilities for Class II injection wells under the Safe Drinking Water Act of 1974 as amended and (3) Acting as Alaska jurisdictional agency for the U.S. Dept. of Treasury in approving applications as meeting requirements for certification as a qualified tertiary recovery project.			
SIGNATURE OF BRU MANAGER:		DATE:	
		9/11/86	

B1 BRU
COVER PAGE

(6/86)-b1

AGENCY Department of Commerce and Economic Development

BRU Oil and Gas Conservation

FY 88

Page 1 of 1
 Revised Date: _____

000248

The regulatory workload of the agency is a function of: (1) the regulatory responsibilities assigned to the commission, and (2) the level of the drilling and production activity performed by the public which the agency regulates.

A major expansion of the regulatory workload is already being experienced subsequent to the June 19, 1986 award by the U.S. Environmental Protection Agency of the primary enforcement responsibility for Class II type underground injection activity in Alaska. The added responsibility stems from Chapter 91 SLA 1984.

During the last half of FY '86 and unquestionably continuing through FY '87, a dramatic drop in drilling activity occurred as a result of the crude price collapse. Well workover activity and increasing production from the Kuparuk, Lisburne and Endicott Pools have more than offset the decline in the drilling workload.

The major challenge facing the agency is the ability to maintain, in the face of loss of funds, a staff capable of ensuring industry compliance with regulatory and statutory law.

B2 BRU ISSUES

(6/86)-b2

AGENCY Department of Commerce and
Economic Development
BRU Oil and Gas Conservation

FY 88

Page 1 of 1

Revised Date:

000249

HOUSE STANDING RESOURCE COMMITTEE

March 4, 1987

8:30 a.m.

Members Present:

Representative Sam Cotten, Co-chairman
Representative Mike Navarre
Representative Lyman Hoffman
Representative John Sund
Representative Dick Shultz
Representative Henry Springer

Members Absent:

Representative Adelheid Herrmann, Co-chairperson
Representative Drew Pearce
Representative Cliff Davidson

COMMITTEE CALENDAR

HB 124: "An Act relating to the oil and gas conservation tax; and providing for an effective date."

WITNESS REGISTER

C.V. Chatterton, Commissioner
Oil and Gas Conservation Commission
Department of Commerce and Economic Development
3001 Porcupine Dr.
Anchorage, Alaska 99501
Telephone: 279-1433
Position Statement: Supports HB 124.

PREVIOUS ACTION

HB 124:	Date	Page	Action
	02/11/87 (H)	194	Read the first time with referral(s)
	02/11/87 (H)	194	Resources, Finance
	02/11/87 (H)	194	Governor's transmittal letter
	02/11/87 (H)	194	Fiscal note published 2/11/87

ACTION NARRATIVE

TAPE #29, SIDE ONE

Number 000

The House Resources Committee meeting is called to order at 8:30 a.m. by Chairman Cotten. Members present are Cotten, Springer, Sund, Hoffman, and Navarre.

Number 008

Chat Chatterton, Chairman of the Oil and Gas Conservation Commission, testifies via teleconference in support of HB 124. Mr. Chatterton summarizes the legislative history of Alaska's oil and gas conservation tax. Chapter 40 of the Session Laws of 1955 established the Oil and Gas Conservation Commission and provided for a tax of five mills, half a cent, for each barrel of oil and for each unit of 50,000 cubic feet of gas produced and sold in the State. The Act also established a special fund known as the oil and gas conservation fund.

Number 026

Mr. Chatterton, quoting from Chapter 40: All monies in the oil and gas conservation fund are appropriated to the Alaska Oil and Gas Conservation Commission. No such monies shall revert to the general fund at the end of any fiscal period but shall remain in the oil and gas conservation fund to cover future operating expenses of the Commission. All monies hereby appropriated shall be expended under the direction of the Commission in accordance with statutes of this Territory.

Number 035

Mr. Chatterton states that at that time the Chairman of the Commission was the Territorial Governor. Following statehood, the fund and tax sections of Chapter 40 became AS 31.05.130 and AS 31.05.140. The oil and gas conservation fund was one of several dedicated funds grandfathered in as an exception to the State Constitution. Some of the special funds, such as the oil and gas conservation fund, were memorialized by Chapter 5 of the Session Laws of 1968, AS 37.05.155.

The oil and gas conservation fund and the five mill tax rate remained unchanged from 1955 until repealed effective July 1, 1970 by section 2, Chapter 246, Session Laws of Alaska 1970. Chapter 32 of the Session Laws of Alaska for 1971 repealed AS 37.05.155(a)(3), which was the oil and gas

conservation fund account. Mr. Chatterton stated that the balance in the account at that time probably reverted to the general fund.

Number 060

Mr. Chatterton: The next step in this history is that Chapter 5 of the first special session of 1973 enacted AS 43.57, known as the oil and gas regulation and conservation act and effective January 1, 1974. That Act levied a tax of one eighth of a cent, 1.25 mills, per barrel of oil produced and no tax upon gas produced. Proceeds went into the general fund because of the Constitutional requirement.

Number 071

Chat Chatterton: House Bill 124 proposes to amend AS 43.57, the oil and gas regulation and conservation tax, to provide revenue for offsetting the funds appropriated for the operation of the Commission. Unamended receipts from the oil and gas regulatory and conservation tax would approximate \$750,000 for FY'88. With passage of HB 124, the revenues would approximate two and a half million dollars. As is the case in several of the oil-producing states, we would like for the tax proceeds to go to a dedicated fund for oil and gas conservation purposes. We are told that the Legislature cannot rescind their 1970 repealer action to keep alive the grandfathered dedicated fund; and Constitutional law closes the door on enacting a new dedicated fund.

8:45 a.m. Representative Shultz arrives.

Number 087

Mr. Chatterton: We view the intent of the amendments as set forth in HB 124 as one of providing funding to offset Commission activities. Should your Committee share this view, may we suggest greater emphasis of this intent by either accompanying the bill with a letter of legislative intent as to why the funds are being asked for, or maybe prepare a committee substitute for HB 124.

Number 098

Mr. Chatterton: I will try and give you a suggestion. I am looking at HB 124 and in particular line 21 of that bill which starts with (c) and it reads, proceeds from the tax must be paid into the, and I would like to insert new verbiage there, oil and gas conservation account within the general fund. Then on line 20 through 2 and line 23, delete the underlined verbiage.

Number 110

Mr. Chatterton suggests that a section 2 be added to the bill which would read: AS 37.05.155(a) is amended by adding a subsection (7), Oil and Gas Conservation Fund, and in AS 43.57.010(c), on line 24, proposes section 2 to be renumbered as section 3.

Number 131

~~Chairman Cotten: What happens if there is more money than the Commission needs?~~

Mr. Chatterton: The way I look at it is it's focusing on the fact that the Commission in effect is paying it's own way and hopefully with this number there will be more than the Commission needs. It's all in the general fund. It's got to just roll over and the Legislature obviously will have to appropriate for it as they do right now for our activity. You can't hold it and carry it over from year to year like we used to, I'm sure of that.

Chairman Cotten: There's a special fund now in the general fund for the railbelt energy account, and in order for the Legislature to use that money it takes a special appropriation from that fund. I know that the Governor is about to introduce a bill that would do something like that, so my guess is that it would have to be a special appropriation from the account that you're referring to should the Legislature wish to remove any excess funds from that account.

Number 148

Mr. Chatterton: That could be. As you know, Mr. Chairman, our BRU is about one and a half million dollars for FY'88.

Number 152

Chairman Cotten states that it looks like the bill would raise about two and a half million dollars and that the Commission uses about one and a half, so there would be an excess million dollars. Mr. Chatterton states that when they first started pushing for this type of legislation in 1983, their budget was about two and a half million dollars.

Number 161

Chairman Cotten: So in addition to your other suggestion, you're suggesting that perhaps the Oil and Gas Conservation Commission could stand to be beefed up a little bit.

Mr. Chatterton: I don't think we have that need at the present time, but I would like the funding there should the need ever arise and the Legislature concurs.

Number 168

Chairman Cotten: What sort of circumstances do you foresee that might require that need to arise?

Mr. Chatterton: ~~Increased activity; the development of some of the new fields such as Seal Island.~~

Number 172

Chairman Cotten notes that Royce Weller is here from the Department of Revenue, if members have questions for Mr. Weller.

Number 178

Chairman Cotten suggests that HB 124 be moved to the Finance Committee. Representative Sund asks about looking at some of Mr. Chatterton's amendments. Chairman Cotten states that he thinks that's more of a question for the Finance Committee than for the Resources Committee; that the Chairman of the Commission's suggestion for a special account in the general fund is probably more appropriately decided in the Finance Committee.

Number 195

Representative Sund moves to pass HB 124 with individual recommendations. There are no objections. HB 124 passes.

Number 209

The House Committee on Natural Resources is adjourned at 8:57 a.m. by Chairman Cotten.

SENATE COMMITTEE REPORT

FURTHER: RESOURCES
FINANCE

3/31/87

DATE TURNED INTO OFFICE 5/11/87

Mr. President:

LABOR & COMMERCE Committee considered HB 124
oil and gas conservation tax; efd.

and recommended:

replace with CS FOR _____) same title
 or adopt _____ CS FOR _____) new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)

new updated or previous

zero same fiscal impact

MEMBERS SIGNING DO PASS

[Signature]
[Signature]

OTHER RECOMMENDATIONS

Feb 11/87 (No Rec)

Tim Kelly - No Rec
Chairman signature and recommendation

Committee Backup Attached

SENATE COMMITTEE REPORT

FURTHER: FINANCE

5/11/87

DATE TURNED INTO OFFICE 5/14/87

Mr. President:

RESOURCES Committee considered HB 124

oil and gas conservation tax; efd.

and recommended:

- replace with CS FOR _____) same title
- or adopt _____ CS FOR _____) new title
- attached amendment(s) and
- may* do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____
- letter of intent adopted _____

Committee attached or adopted fiscal note(s)
 new updated or previous
 zero *None* fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Paul F. Thayer
Raymond
W. Blanton

Paul Frick NO Pass

John [Signature]
 Chairman signature and recommendation

Committee Backup Attached

JEVE 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.

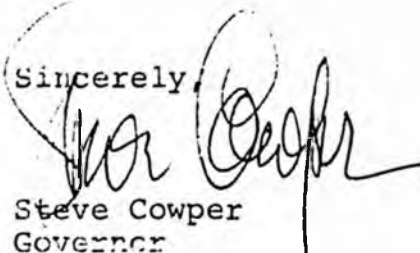
The concept of a tax related to oil and gas conservation activities is not new to the state. Section 15, ch. 40, SLA 1955, which created the commission, provided funding by levying a tax on the gross amount of oil and gas produced. The tax rate was then five mills per barrel of oil and per 50,000 cubic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

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 42.57.010 would be adjusted to include a tax on production of natural gas, and to increase the amount of the tax.

Sincerely,

A handwritten signature in cursive script, appearing to read "Steve Cowper", written over a circular stamp or mark.

Steve Cowper
Governor