

HB

124

SENATE COMMITTEE REPORT

FURTHER: FINANCE

5/11/87

DATE TURNED INTO OFFICE _____

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

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 fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Paul F. ...
...
...

Paul Frick No Pass

John ...

Chairman signature and recommendation

[] Committee Backup Attached

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 : Rules
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	1573.6
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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*
Division : _____
Approved by Commissioner : *[Signature]*
Agency : _____

Phone : 279-1433
Date : _____
Date : 11/24/86

Distribution (by Agency preparing fiscal note) :

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

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST _____

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

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: PHONE: (907) 279-1433
 C. V. Chatterton, Commissioner/Chairman

NAME/POSITION OF AGENCY CONTACT: PHONE: (907) 279-1433
 Galyn Evans, Administrative Assistant

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

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

Page 1 of 1
 Revised Date:

FY 88

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

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

FY 88

Page 1 of 1

Revised Date: _____

000249

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 1
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.

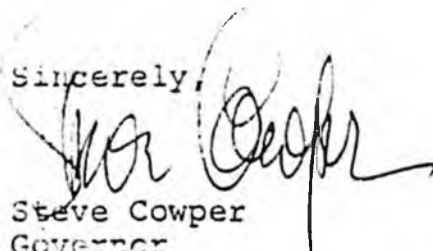
The concept of a tax related to oil and gas conservation activities is not new to the state. Section 15, ch. 40, SLA 1955, which created the commission, provided funding by levying a tax on the gross amount of oil and gas produced. The tax rate was then five mills per barrel of oil and per 50,000 cubic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