Table 4
Increase (Decrease) in Average Severance Tax Rate With CSHB164

Fiscal Year	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	West Sak	Other Onshore	Other Offshore
1988	.0216	.0361	-.0480	-.0590	-.0585	0	0	0
1989	.0209	.0358	-.0438	-.0043	-.0266	0	0	0
1990	.0219	.0357	-.0360	-.0038	-.0118	0	0	0
1991	.0240	.0344	-.0513	-.0038	-.0009	0	0	0
1992	.0236	.0325	-.0544	-.0037	.0024	0	0	0
1993	.0235	.0295	-.0556	-.0044	.0107	0	-.0518	0
1994	.0215	.0255	-.0544	-.0146	.0146	0	-.0533	0
1995	.0219	.0219	-.0551	-.0200	.0143	.0037	-.0522	0
1996	.0231	.0163	-.0564	-.0277	.0141	.0116	-.0501	0
1997	.0223	.0111	-.0571	-.0306	.0138	.0157	-.0481	0
1998	.0235	.0043	-.0563	-.0281	.0136	.0162	-.0541	0
1999	.0246	-.0016	-.0532	-.0200	.0120	.0171	-.0506	-.0836
2000	.0256	-.0070	-.0507	-.0113	.0104	.0192	-.0546	-.0747
2001	.0262	-.0103	-.0422	-.0041	.0086	.0227	-.0509	-.0724
2002	.0247	-.0076	-.0280	-.0017	.0056	.0210	-.0501	-.0743
2003	.0239	-.0040	-.0251	-.0007	.0001	.0221	-.0546	-.0792
2004	.0231	-.0001	-.0453	-.0007	-.0034	.0213	-.0521	-.0911
2005	.0219	0	-.0505	-.0114	-.0073	.0036	-.0484	-.0960

Table 3
Production Impact of CSSB164
(Million bbls/yr)

Fiscal Year	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	West Sak	Other Onshore	Other Offshore	Total
1988	0	0	.28	0	0	0	0	0	.28
1989	0	0	.3	0	0	0	0	0	.3
1990	0	0	.28	0	0	0	0	0	.28
1991	C	0	.24	0	0	0	0	0	.24
1992	0	0	.21	.03	0	0	.46	0	.7
1993	0	0	.21	.03	0	0	.83	0	1.07
1994	-1.47	-.05	.2	.02	-.79	0	.87	0	-1.22
1995	-1.29	-.04	.44	.07	-.7	-.84	.8	0	-1.66
1996	-1.13	-.03	.46	.07	-.62	-.97	.81	0	-1.41
1997	-2.47	-.02	.46	.06	-.56	-1.21	.86	0	-2.88
1998	-2.17	-.02	.38	.04	-.49	-1.07	.79	.27	-2.27
1999	-1.9	-.02	.29	.04	-.43	-1.18	.63	.39	-2.28
2000	-1.67	-.01	.19	.02	-.38	-1.17	.29	.38	-2.35
2001	-1.46	0	.15	.01	-.36	-.96	.14	.39	-2.08
2002	-1.37	0	-.01	.01	-.31	-1.09	.09	.5	-2.18
2003	-1.13	.01	-.09	-.01	-.27	-.76	-.02	.65	-1.72
2004	-1.[illegible]6	0	-.11	0	-.24	-1.13	-.12	.6	-2.26
2005	-1.12	-.02	-.07	0	-.22	-.65	-.19	.49	-1.78
									0
									0
Total	-18.34	-.2	3.82	.38	-6.35	-11.03	6.14	3.47	-21.11

Table 2
Comparison of the March 1987 DOR Petroleum Production
Revenue Forecast and CSHB164
(Million $)

Fiscal Year	March Official 30%	CSHB164 30%	March Official Mean	CSHB164 Mean	Delta 30%	Delta Mean
1987	1108.87	1114.39	1162.46	1168.36	5.52	5.9
1988	1189.59	1277.73	1437.59	1545.8	88.14	108.21
1989	1319.14	1427.18	1630.92	1759.88	108.04	128.96
1990	1441.42	1559.42	1753.22	1895.31	118	142.09
1991	1330.42	1446.18	1656.81	1800.41	115.76	143.6
1992	1431.66	1554.83	1808.98	1953.48	123.17	144.5
1993	1503.92	1638.57	1937.47	2084.7	134.65	147.23
1994	1550.06	1668.68	2289.29	2429.46	118.62	140.17
1995	1512.66	1625.97	2368.06	2504.08	113.31	136.02
1996	1470.59	1580.59	2329.13	2463.01	110	133.88
1997	1455.73	1568.57	2695.79	2832.53	112.84	136.74
1998	1424.09	1526.25	2658.19	2795.12	102.16	136.93
1999	1366.82	1471.58	2594.32	2728.56	104.76	134.24
2000	1312.73	1395.79	2541.24	2681.29	83.06	140.05
2001	1269.4	1345.11	2489.63	2630.86	75.71	141.23
2002	1223.23	1291.24	2454.13	2593.14	68.01	139.01
2003	1198.75	1258.23	2537.33	2674.64	59.48	137.31
2004	1174.99	1216.68	2516.98	2646.47	41.69	129.49
2005	1161.32	1190.35	2486.44	2588.74	29.03	102.3

Table 1
The Effect on Fiscal Impact of CSHB164
With and Without PEL Fixed at 300
(Million $)

Fiscal Year	PEL Variable 30%	PEL=300 Fixed 30%	Impact Variable 30%	PEL Variable Mean	PEL=300 Fixed Mean	Impact Variable Mean
1988	88.14	88.69	-.55	108.21	109.41	-1.2
1989	108.04	108.49	-.45	128.96	128.93	.03
1990	118	117.56	.44	142.09	140.51	1.58
1991	115.76	112.89	2.87	143.6	140.53	3.07
1992	123.17	117.76	5.41	144.5	139.65	4.85
1993	134.65	129.08	5.57	147.23	138.85	8.38
1994	118.62	110.41	8.21	140.17	131.58	8.59
1995	113.31	102.41	10.9	136.02	128.49	7.53
1996	110	97.7	12.3	133.88	123.89	9.99
1997	112.84	100.35	12.49	136.74	122.39	14.35
1998	102.16	88.16	14	136.93	121.19	15.74
1999	104.76	90.94	13.82	134.24	119.36	14.88
2000	83.06	69.02	14.04	140.05	123.15	16.9
2001	75.71	62.84	12.87	141.23	123.61	17.62
2002	68.01	59.11	8.9	139.01	121.55	17.46
2003	59.48	50.11	9.37	137.31	118.3	19.01
2004	41.69	30.51	11.18	129.49	108.62	20.87
2005	29.03	21.14	7.89	102.3	83.98	18.32

MEMORANDUM

STATE OF ALASKA

Department of Revenue

Petroleum Research Section

April 14, 1987

To: Vincent B. Wright, Chief of Research

From: Charles Logsdon, Petroleum Economist CL

Subject: CSHB164

We have recently made another run of the Petrov model to prepare estimates of the fiscal impact of CSHB164 passed by the House of Representatives. The only change made in this legislation not examined in prior fiscal notes was allowing either the taxpayer or the department to robut the 300 barrels per well day presumed production at the economic limit (PEL). The fiscal note we prepared for the original CSHB164 fixed the PEL at 300 barrels per well day.

The fiscal impact of the final version is almost exactly the same as with the PEL fixed at 300 (Table 1). As might be expected, the lower PEL (department rebuts) dominates the higher PEL (company rebuts)in both the 30% or downside risk case and the mean except for the near term when very low prices are a distinct possibility. That is, we would expect severance taxes to be higher the higher the price of oil because the PEL would be lower and consequently the ELF would be higher. In general however it turns out that given our assumptions about the probabilty distribution of oil prices, the higher PELs and lower PELs tend to offset each other with the result that the final outcome at both the Mean and 30% levels is not that much different than if the PEL were fixed at 300.

The revenue and production effects of the final version of CSHB164 as well as a comparison of effective tax rates by field for current law and CSHB164 are found in the following tables.

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: CS HB 164 (FIN) Am
Publish Date:

REQUEST

Revision Date: April 14, 1987
Title: An Act Relating to the Oil and Gas Production Tax
Sponsor: Rules/Governor
Requestor:

Agency Affected:
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	680	88140	10604	11800	11576	12317

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 change the Economic Limit Factor (ELF) to introduce field size as a consideration in establishing the effective severance tax rate on oil production. Fields producing in excess of roughly 120,000 barrels per day will have a higher rate than currently calculated. Other fields will have a lower rate.

Prepared By: Charles L. Logsdon Phone: 276-5364
Division: Commissioner's Office Date: April 20, 1987

Approved by Commissioner: Hugh Malone Date: April 21, 1987
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

Change in Tax rate

Year	Prudhoe	Kuparuk	Milne	Endicott	Lisburne	West Sak	Thomson	Seal	Niakuk
1988	.02487	.071445	0	0	-.03159275	0	0	0	0
1989	.02487	.071445	0	-.00246675	-.03198475	0	0	0	0
1990	.02487	.071445	0	-.001568	-.0276605	0	0	0	-.07226675
1991	.02487	.071445	0	-.00150675	-.02718275	0	0	0	-.0873915
1992	.02487	.071445	0	-.00085675	-.0230055	0	0	0	-.08975575
1993	.02487	.071445	0	-.018235	-.02766	0	-.0220215	0	-.0879325
1994	.02487	.071445	0	-.018235	-.02766	0	-.03153575	0	-.091483
1995	.02487	.071445	0	-.018235	-.02766	0	-.0313255	0	-.08736
1996	.02487	.071445	0	-.018235	-.02766	0	-.0317275	0	-.089505
1997	.02487	.071445	0	-.018235	-.02766	0	-.03091575	0	-.089565
1998	.02487	.071445	0	-.018235	-.02766	0	-.03717	0	-.089205
1999	.02487	.071445	0	-.018235	-.02766	0	-.050835	-.002009	-.08976
2000	.02487	.071445	0	-.018235	-.02766	0	-.059235	-.0023275	-.090225
2001	.02487	.071445	0	-.018235	-.02766	0	-.06369	-.00231525	.00062
2002	.02487	.071445	0	-.018235	-.02766	0	-.067425	-.00231525	0
2003	.02487	.071445	0	-.018235	-.02766	0	-.060725	-.00197225	0
2004	.02487	.071445	0	-.018235	-.02766	0	-.049425	-.002085	0
2005	.02487	.071445	0	-.018235	-.02766	0	0	0	0

This bill would effectively increase the severance tax rate on fields producing greater than approximately 120,000 barrels per day. At the same time fields producing less than this amont would be taxed at a lower rate. The relative increase or decrease would depend on the relative per well productivity of the field. The estimates contained in this fiscal note are based on the Department of Revenue March 1988 average assumptions about production and wells and the September 1988 average expected oil price.

The following tables illustrate both the revenue and tax rate impact of the bill by North Slope oil field.

Revenue Impact by North Slope Oil Field
(Millions Dollars)

Fiscal Year	Prudhoe	Kuparuk	Milne	Endicott	Lisburne	West Sak	[illegible]	Seal	Niakuk	North Slope
1988	153.57	59.56	0	0	-6.02	0	0	0	0	197.41
1989	161.97	72.11	0	0	-6.15	0	0	0	0	227.63
1990	201.23	88.54	0	-2.40	-7.19	0	0	0	0	280.26
1991	236.52	50.55	0	-2.34	-6.8	0	0	0	-5.16	272.57
1992	237.23	51.09	-11.78	-2.35	-8.99	0	-6.05	0	-9.8	249.51
1993	230	50.33	-29.72	-6.9	-8.37	0	-8.33	0	-10.92	216.56
1994	228.71	49.16	-30.2	-9.16	-9.22	0	-9.16	0	-12.27	199.88
1995	215.03	43.79	-33.25	-10.49	-10.02	0	-10.02	0	-7.92	185.22
1996	204.76	30.67	-33.98	-10.92	-11.1	0	-11	0	-8.68	159.95
1997	201.93	19.69	-36.86	-10.67	-12.72	0	-16.73	0	-8.32	141.55
1998	230.57	9.89	-35.72	-1.19	-12.35	0	-16.88	-12.39	-9.22	138.51
1999	230.3	3.88	-32.96	-6.64	-12.69	0	-17.3	-10.86	-9.69	120.26
2000	230.27	1.62	-36.84	-3.64	-12.91	0	-18.56	-5.78	-10.45	103.71
2001	232.8	.53	-32.78	-1.01	-16.08	0	-17.3	-6.3	-8.77	152.69
2002	235.74	-.02	0	-.02	-15.66	0	-17.47	-6.72	-6.38	189.47
2003	339.15	-.09	0	-.03	-15.92	0	-16.75	-8.86	-23.03	276.9
2004	358.23	-.08	0	0	-15.64	0	-10.36	-9.36	-20.3	302.50
2005	307.35	-.26	0	0	-15.49	0	-6.58	-9.79	-10.94	296.47
Total Revenue										
Nominal	4210.92	536.93	-311.05	-68.42	-200.30	0	-170.09	-70.01	0	3917.1
10%	1759.01	330.66	-125.17	-31.41	-78.62	0	-60.13	-18.29	0	1796.06
8%	2061.51	370.30	-148.47	-36.32	-92.45	0	-73.46	-23.57	0	2065.62

RECEIVED
MAR 8 1988

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 164(Fin) am
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date: March 4, 1988
Title: An Act Relating to the Oil and Gas Properties Production Tax and Effective Date
Sponsor: Rules/Governor
Requestor:

Agency Affected:
BRU:
Component:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	187,410	227,630	280,260	272,570	248,510	216,540

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached)

Prepared by: Charles L. Logsdon
Division: Oil and Gas Audit
Phone: 277-5627
Date: March 4, 1988

Approved by Commissioner: Hugh Malone TW FIR
Agency: Revenue
Date: 3/8/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

page ___ of ___

CHANGE IN REVENUE CSHB164
(Millions $)

YEAR	PRUDHOE	KUPARUK	MILNE	ENDI	LISB	W SAK	PT THOM	SEAL IS	NIAKUK	TOTAL
1988	130.03	30.30	0.00	-4.27	-5.93	0.00	0.00	0.00	0.00	150.15
1989	125.82	31.40	0.00	-9.46	-5.43	0.00	0.00	0.00	0.00	152.33
1990	172.12	39.56	0.00	-2.04	-6.19	0.00	0.00	0.00	0.00	203.45
1991	190.27	40.37	0.00	-2.26	-5.53	0.00	0.00	0.00	0.00	222.85
1992	182.74	39.61	0.00	-2.40	-7.01	0.00	0.00	0.00	0.00	212
1993	180.62	38.38	0.00	-5.24	-6.27	0.00	0.00	0.00	0.00	201.
1994	176.59	35.22	0.00	-6.85	-6.74	0.00	0.00	0.00	0.00	195.74
1995	171.37	30.60	0.00	-7.41	-7.18	0.00	0.00	0.00	0.00	187.40
1996	162.83	22.19	0.00	-7.50	-7.83	0.00	0.00	0.00	0.00	169.63
1997	164.10	14.09	0.00	-7.23	-8.17	0.00	0.00	0.00	0.00	162.70
1998	157.08	6.99	0.00	-6.34	-8.44	0.00	0.00	0.00	0.00	148.78
1999	144.16	2.76	0.00	-4.23	-8.30	0.00	0.00	0.00	0.00	134.23
2000	137.86	1.22	0.00	-2.29	-8.44	0.00	0.00	0.00	0.00	128.35
2001	127.38	0.46	0.00	-0.61	-9.25	0.00	0.00	0.00	0.00	117.94
2002	118.80	0.08	0.00	0.00	-9.79	0.00	0.00	0.00	0.00	109.09
2003	122.03	0.06	0.00	0.00	-9.43	0.00	0.00	0.00	0.00	112.71
2004	116.55	0.04	0.00	0.00	-9.28	0.00	0.00	0.00	0.00	107.32
2005	103.99	0.03	0.00	0.00	-8.90	0.00	0.00	0.00	0.00	95.03
2006	91.47	0.00	0.00	0.00	-9.36	0.00	0.00	0.00	0.00	82.11
2007	80.13	0.00	0.00	0.00	-7.52	0.00	0.00	0.00	0.00	72.67
2008	69.43	0.00	0.00	0.00	-6.12	0.00	0.00	0.00	0.00	63.31
2009	61.76	0.00	0.00	0.00	-4.73	0.00	0.00	0.00	0.00	57.03
2010	55.86	0.00	0.00	0.00	-3.38	0.00	0.00	0.00	0.00	52.48

CHANGE IN SEVERANCE TAX RATE PERCENT OF VALUE CSHB164

YEAR	PRUDHOE	KUPARUK	MILNE	ENDI	LISB	W SAK	PT THOM	SEAL IS	NIAKUK
1988	0.0249	0.0391	0.0000	-0.0228	-0.0282	0.0000	0.0000	0.0000	0.0000
1989	0.0281	0.0448	0.0000	-0.0222	-0.0222	0.0000	0.0000	0.0000	0.0000
1990	0.0323	0.0481	0.0000	-0.0040	-0.0324	0.0000	0.0000	0.0000	0.0000
1991	0.0373	0.0512	0.0000	-0.0023	-0.0281	0.0000	0.0000	0.0000	0.0000
1992	0.0394	[illegible]	0.0000	-0.0023	-0.0277	0.0000	0.0000	0.0000	0.0000
1993	0.0421	[illegible]	0.0000	-0.0078	-0.0270	0.0000	0.0000	0.0000	0.0000
1994	0.0450	0.0545	0.0000	-0.0194	-0.0282	0.0000	0.0000	0.0000	0.0000
1995	0.0488	0.0491	0.0000	-0.0251	-0.0282	0.0000	0.0000	0.0000	0.0000
1996	0.0548	0.0405	0.0000	-0.0315	-0.0289	0.0000	0.0000	0.0000	0.0000
1997	0.0548	0.0234	0.0000	[illegible]	-0.0316	0.0000	0.0000	0.0000	0.0000
1998	0.0574	0.0171	0.0000	-0.0375	-0.0345	0.0000	0.0000	0.0000	0.0000
1999	0.0593	0.0083	0.0000	[illegible]	[illegible]	0.0000	0.0000	0.0000	0.0000
2000	0.0537	0.0042	0.0000	-0.0221	-0.0373	0.0000	0.0000	0.0000	0.0000
2001	[illegible]	0.0017	0.0000	-0.0102	-0.0371	0.0000	0.0000	0.0000	0.0000
2002	0.0525	0.0001	0.0000	0.0000	-0.0413	0.0000	0.0000	0.0000	0.0000
2003	0.0517	0.0000	0.0000	0.0000	-0.0426	0.0000	0.0000	0.0000	0.0000
2004	[illegible]	0.0000	0.0000	0.0000	-0.0433	0.0000	0.0000	0.0000	0.0000
2005	0.0509	0.0000	0.0000	0.0000	-0.0440	0.0000	0.0000	0.0000	0.0000
2006	0.0462	0.0000	0.0000	0.0000	-0.0475	0.0000	0.0000	0.0000	0.0000
2007	0.0409	0.0000	0.0000	0.0000	-0.0434	0.0000	0.0000	0.0000	0.0000
2008	0.0344	0.0000	0.0000	0.0000	-0.0411	0.0000	0.0000	0.0000	0.0000
2009	0.0289	0.0000	0.0000	0.0000	-0.0357	0.0000	0.0000	0.0000	0.0000
2010	0.0237	0.0000	0.0000	0.0000	-0.0314	0.0000	0.0000	0.0000	0.0000

This bill would effectively increase the severance tax rate on fields producing greater than approximately 120,000 barrels per day. At the same time, fields producing less than this amount would be taxed at a lower rate. The relative increase or decrease would depend on the relative per well productivity of the field. The estimates contained in this fiscal note are based on the Department of Revenue March 1988 mid scenario assumptions about production, wells, and oil prices.

The attached tables illustrate the revenue and tax rate impact of the bill by North Slope oil field. The sensitivity of the tax revenues to change in oil prices is also illustrated.

FY 1989 PRICE/REVENUE SENSITIVITY OF CSHB164(fin) am
(Millions $)

	$10.00/bbl	11.00	12.00	13.00	14.00	15.00	16.00	17.00
Prudhoe	93.16	102.47	111.79	121.10	130.42	139.73	149.05	158.36
Kuparuk	21.54	23.69	25.84	28.00	30.15	32.30	34.46	36.61
Milne	0	0	0	0	0	0	0	0
Endicott	-6.49	-7.14	-7.79	-8.43	-9.08	-9.73	-10.38	-11.03
Lisburne	-3.72	-4.10	-4.47	-4.84	-5.21	-5.59	-5.96	-6.33
TOTAL	104.48	114.93	125.37	135.82	146.27	156.72	167.17	177.61

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB164 (fin) am
PUBLISH DATE: ______

FISCAL NOTE

HAND - DELIVERED

REQUEST:

Revision Date: April 4, 1988
Title: An Act Relating to the Oil and Gas Properties Production Tax & Effective Date
Sponsor: Rules/Governor
Requestor: ______

Agency Affected: RECEIVED APR 8 1988
BRU: ______
Component: ______

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	150,150	152,330	203,450	222,850	213,940	207,490

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

See Attached

Prepared by: Charles L. Logsdon [signature]
Phone: 277-5627
Division: Oil and Gas Audit
Date: April 4, 1988

Approved by Commissioner: [signature] Malone
Date: 4/4/1988
Agency: Revenue

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

page ___ of ___

Table 4
Increase (Decrease) in Average Se[illegible]rance Tax Rate With CSHB164

Fiscal Year	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	West Sak	Other Onshore	Other Offshore
1988	.0216	.0361	-.0480	-.0590	-.0685	0	0	0
1989	.0209	.0358	-.0438	-.0043	-.0266	0	0	0
1990	.0219	.0357	-.0360	-.0038	-.0118	0	0	0
1991	.0240	.0344	-.0513	-.0038	-.0009	0	0	0
1992	.0236	.0325	-.0544	-.0037	.0024	0	0	0
1993	.0235	.0296	-.0555	-.0044	.0107	0	-.0518	0
1994	.0215	.0255	-.0544	-.0146	.0146	0	-.0533	0
1995	.0219	.0219	-.0551	-.0200	.0143	.0037	-.0522	0
1996	.0231	.0163	-.0564	-.0277	.0141	.0116	-.0501	0
1997	.0223	.0111	-.0571	-.0306	.0138	.0157	-.0481	0
1998	.0235	.0043	-.0563	-.0281	.0136	.0162	-.0541	0
1999	.0246	-.0015	-.0532	-.0200	.0120	.0171	-.0506	-.0836
2000	.0256	-.0070	-.0507	-.0113	.0104	.0192	-.0546	-.0747
2001	.0252	-.0103	-.0422	-.0041	.0086	.0227	-.0509	-.0724
2002	.0247	-.0076	-.0280	-.0017	.0056	.0210	-.0601	-.0743
2003	.0239	-.0040	-.0251	-.0007	.0001	.0221	-.0546	-.0792
2004	.0231	-.0001	-.0453	-.0007	-.0034	.0213	-.0521	-.0911
2005	.0219	0	-.0505	-.0114	-.0073	.0036	-.0484	-.03

Table 3
Production Impact of CSHB164
(Million bbls/yr)

Fiscal Year	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	West Sak	Other Onshore	Other Offshore	Total
1988	0	0	.28	0	0	0	0	0	.28
1989	0	0	.3	0	0	0	0	0	.3
1990	0	0	.28	0	0	0	0	0	.28
1991	0	0	.24	0	0	0	0	0	.24
1992	0	0	.21	.03	0	0	.46	0	.7
1993	0	0	.21	.03	0	0	.83	0	1.07
1994	-1.47	-.05	.2	.02	-.79	0	.87	0	-1.22
1995	-1.29	-.04	.44	.07	-.7	-.84	.8	0	-1.56
1996	-1.13	-.03	.46	.07	-.62	-.97	.81	0	-1.41
1997	-2.47	-.02	.46	.05	-.55	-1.21	.86	0	-2.88
1998	-2.17	-.02	.38	.04	-.49	-1.07	.79	.27	-2.27
1999	-1.9	-.02	.29	.04	-.43	-1.18	.53	.39	-2.28
2000	-1.67	-.01	.19	.02	-.38	-1.17	.29	.38	-2.35
2001	-1.46	0	.15	.01	-.35	-.96	.14	.39	-2.08
2002	-1.37	0	-.01	.01	-.31	-1.09	.09	.5	-2.18
2003	-1.1[illegible]	.01	-.09	-.01	-.27	-.76	-.02	.55	-1.72
2004	-1.16	0	-.11	0	-.24	-1.13	-.12	.5	-2.26
2005	-1.12	-.02	-.07	0	-.22	-.65	-.19	.49	-1.78
									0
									0
Total	-18.34	-.2	3.82	.38	-5.35	-11.03	6.14	3.47	-21.11

Table 2
Comparison of the March 1987 DOR Petroleum Production
Revenue Forecast and CSHB164
(Million $)

Fiscal Year	March Official 30%	CSHB164 30%	March Official Mean	CSHB164 Mean	Delta 30%	Delta Mean
1987	1108.87	1114.39	1162.46	1168.36	5.52	5.9
1988	1189.59	1277.73	1437.59	1545.8	88.14	108.21
1989	1319.14	1427.18	1630.92	1759.88	108.04	128.96
1990	1441.42	1559.42	1753.22	1895.31	118	142.09
1991	1330.42	1446.18	1656.81	1800.41	115.76	143.6
1992	1431.66	1554.83	1808.98	1953.48	123.17	144.5
1993	1503.92	1638.57	1937.47	2084.7	134.65	147.23
1994	1550.06	1668.68	2289.29	2429.46	118.62	140.17
1995	1512.66	1625.97	2368.06	2504.08	113.31	136.02
1996	1470.59	1580.59	2329.13	2463.01	110	133.88
1997	1455.73	1568.57	2695.79	2832.53	112.84	136.74
1998	1424.09	1526.25	2658.19	2795.12	102.16	136.93
1999	1366.82	1471.58	2594.32	2728.56	104.76	134.24
2000	1312.73	1395.79	2541.24	2681.29	83.06	140.05
2001	1269.4	1345.11	2489.63	2630.86	75.71	141.23
2002	1223.23	1291.24	2454.13	2593.14	68.01	139.01
2003	1198.75	1258.23	2537.33	2674.64	59.48	137.31
2004	1174.99	1216.68	2516.98	2646.47	41.69	129.49
2005	1161.32	1190.35	2486.44	2588.74	29.03	102.3

Table 1
The Effect on Fiscal Impact of CSHB164
With and Without PEL Fixed at 300
(Million $)

Fiscal Year	PEL Variable 30%	PEL=300 Fixed 30%	Impact Variable 30%	PEL Variable Mean	PEL=300 Fixed Mean	Impact Variable Mean
1988	88.14	88.69	-.55	108.21	109.41	-1.2
1989	108.04	108.49	-.45	128.96	128.93	.03
1990	118	117.56	.44	142.09	140.51	1.58
1991	115.76	112.89	2.87	143.6	140.53	3.07
1992	123.17	117.76	5.41	144.5	139.65	4.85
1993	134.65	129.08	5.57	147.23	138.85	8.38
1994	118.62	110.41	8.21	140.17	131.58	8.59
1995	113.31	102.41	10.9	136.02	128.49	7.53
1996	110	97.7	12.3	133.88	123.89	9.99
1997	112.84	100.35	12.49	136.74	122.39	14.35
1998	102.16	88.16	14	136.93	121.19	15.74
1999	104.76	90.94	13.82	134.24	119.36	14.88
2000	83.06	69.02	14.04	140.05	123.15	16.9
2001	75.71	62.84	12.87	141.23	123.61	17.62
2002	68.01	59.11	8.9	139.01	121.55	17.46
2003	59.48	50.11	9.37	137.31	118.3	19.01
2004	41.69	30.51	11.18	129.49	108.62	20.87
2005	29.03	21.14	7.89	102.3	83.98	18.32

M E M O R A N D U M

STATE OF ALASKA

Department of Revenue

Petroleum Research Section

April 14, 1987

To: Vincent D. Wright, Chief of Research

From: Charles Logsdon, Petroleum Economist CL

Subject: CSHB164

We have recently made another run of the Petrev model to prepare estimates of the fiscal impact of CSHB164 passed by the House of Representatives. The only change made in this legislation not examined in prior fiscal notes was allowing either the taxpayer or the department to rebut the 300 barrels per well day presumed production at the economic limit (PEL). The fiscal note we prepared for the original CSHB164 fixed the PEL at 300 barrels per well day.

The fiscal impact of the final version is almost exactly the same as with the PEL fixed at 300 (Table 1). As might be expected, the lower PEL (department rebuts) dominates the higher PEL (company rebuts)in both the 30% or downside risk case and the mean except for the near term when very low prices are a distinct possibility. That is, we would expect severance taxes to be higher the higher the price of oil because the PEL would be lower and consequently the ELF would be higher. In general however it turns out that given our assumptions about the probabilty distribution of oil prices, the higher PELs and lower PELs tend to offset each other with the result that the final outcome at both the Mean and 30% levels is not that much different than if the PEL were fixed at 300.

The revenue and production effects of the final version of CSHB164 as well as a comparison of effective tax rates by field for current law and CSHB164 are found in the following tables.

Comparison of the March 1987 DOR Petroleum Production Revenue Forecast and CSHB164 (Million $)

Fiscal Year	March Official 30%	CSHB164 30%	March Official Mean	CSHB164 Mean	Delta 30%	Delta Mean
1987	1108.87	1114.39	1162.46	1168.36	5.52	5.9
1988	1189.59	1277.73	1437.59	1545.8	88.14	108.21
1989	1319.14	1427.18	1630.92	1759.88	108.04	128.96
1990	1441.42	1559.42	1753.22	1895.31	118	142.09
1991	1330.42	1446.18	1656.81	1800.41	115.76	143.6
1992	1431.66	1554.83	1808.98	1953.48	123.17	144.5
1993	1503.92	1638.57	1937.47	2084.7	134.65	147.23
1994	1550.06	1668.68	2289.29	2429.46	118.62	140.17
1995	1512.66	1625.97	2368.06	2504.08	113.31	136.02
1996	1470.59	1580.59	2329.13	2463.01	110	133.88
1997	1455.73	1568.57	2695.79	2832.53	112.84	136.74
1998	1424.09	1526.25	2658.19	2795.12	102.16	136.93
1999	1366.82	1471.58	2594.32	2728.56	104.76	134.24
2000	1312.73	1395.79	2541.24	2681.29	83.06	140.05
2001	1269.4	1345.11	2489.63	2630.86	75.71	141.23
2002	1223.23	1291.24	2454.13	2593.14	68.01	139.01
2003	1198.75	1258.23	2537.33	2674.64	59.48	137.31
2004	1174.99	1216.68	2516.98	2646.47	41.69	129.49
2005	1161.32	1190.35	2486.44	2588.74	29.03	102.3

NOTE: The column headed "Delta 30 %" shows the the revenue increase expected from the ELF bill sent to the Senate, as figured using the state's conservative "30th percentile forecast." The column headed "Delta Mean" shows the revenue increase expected if the state's more optimistic "mean forecast" is used.

COMPUTING THE ALTERNATE ELF

The alternate Economic Limit Factor formula is:

ELF = (1-PEL/TP)EXP[(55,000,000*WD)/(PEL*TP/Days)]

PEL (Production at the Economic Limit) =
(300 barrels per day)*
(average number of operating wells during the month)*
(number of days of production for the month).
For example:
*300 barrels * 519 wells * 30 days = 4,671,000 barrels per month at the Economic Limit.*

TP (Total Production for the field) =
(average number of operating wells during the month)*
(number of days of production for the month)*
(average daily production per well).
For example:
*519 wells * 30 days * 2750 barrels per well = 42,817,500 barrels of production per month.*

WD (Well Days) =
(average number of operating wells during the month)*
(number of days of production for the month).
For example:
*519 wells * 30 days = 15,570 well days.*

Days = the number of days in the month for which the tax is paid.
For example: In April, 30 days.

CALCULATION EXAMPLE

Alternate ELF

(1- PEL / TP) EXP[(55,000,000* WD)/(PEL * TP / Days)]

(1 - 4,671,000/42,817,500) EXP[(55,000,000*15,570)/(4,671,000*42,817,500/30)]

= (1 - .1091) EXP (.1285)

= (.8909) EXP (.1285)

= .9856

DRILLING/WORKOVER DISINCENTIVE
COMMITTEE SUBSTITUTE HB 164

SEVERANCE TAX CALCULATION

CURRENT LAW

Field Rate × Wellhead Price × Severance Tax × ELF

90,168,000 *BOPY* × $9/*BO* × 0.15 × 0.52134

= $63,461,050/*year*

Addition of 1 well :

90, 27[illegible] *BOPY* × $9/*BO* × 0.15 × 0.5204

= $63,423,203/*year*

A decrease of $37,846 year

PROPOSED LAW

Field Rate × Wellhead Price × Severance Tax × ELF

90,168,000 *BOPY* × $9/*BO* × 0.15 × 0.7296

= $88,811,873/*year*

Addition of 1 well :

90, 277,000 *BOPY* × $9/*BO* × 0.15 × 0.7292

= $88,870,484/*year*

An increase of $58,611 year

[ARCO Handout, March 27, 1987]

TECHNICAL NOTE
ON ARCO'S KUPARUK EXAMPLE
Tax Effects of Drilling an Additional Well Under Current Law

Mr. James Weeks, Kuparuk Unit Manger for ARCO, provided testimony to the House Finance Committee on March 27, 1987. Examples of severance tax effects (see following page) accompanied his testimony. The examples compare the severance tax effects of adding one additional well in the Kuparuk field under the current ELF and under the proposed ELF (CSHB 154 fin.). The examples show that the addition of one well producing just under 300 barrels per day would increase output from 90,168,000 barrels of oil per year (BOPY) to 90,277,000 BOPY. At the $9.00 per barrel price assumed in ARCO's example, annual gross revenue to the owners increases by $981,000.

(90,277,000 BOPY - 90,168,000 BOPY)*($9/barrel) =
(109,000 BOPY)*($9/barrel) = $981,000

The first of ARCO's two examples shows how under current law the owners would collect an annual severance tax *rebate* of $37,846 on this additional revenue. The effective severance tax rate on the new production is thus -3.9 percent. The effect is analagous to a personal income tax where the effective tax rates become lower as increasing income moves the taxpayer into a higher bracket.

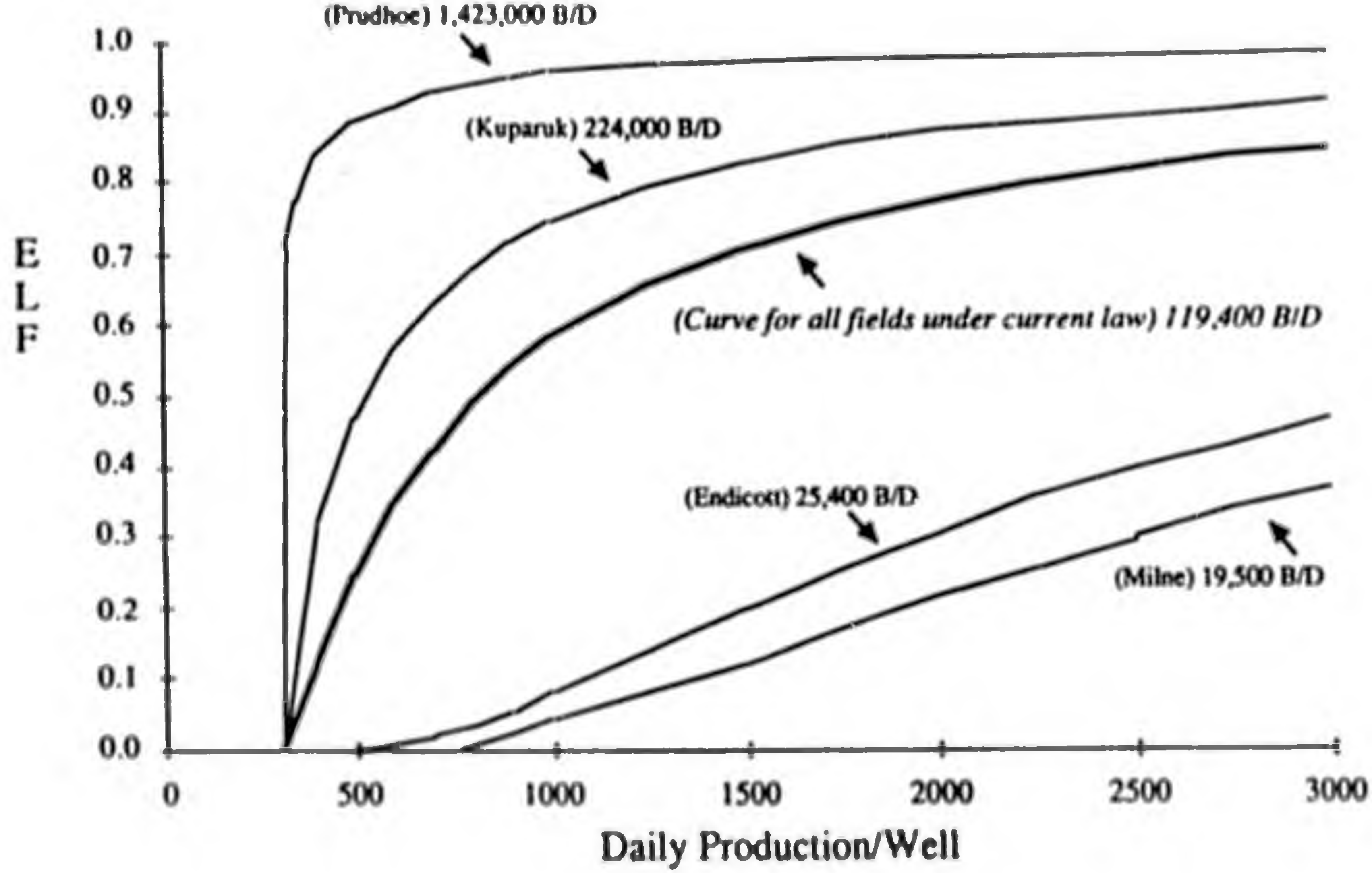
The second ARCO example illustrates how this will be changed under the proposed law. Instead of giving the owners a $37,846 windfall, the proposed law will collect $58,611 (6.0 percent) of the incremental $981,000 for the state in severance tax. The table below summarizes the effects under the current and proposed severance tax laws, as shown in the ARCO examples.

TAX EFFECTS OF DRILLING ONE ADDITIONAL WELL
(ARCO Kuparuk Example)

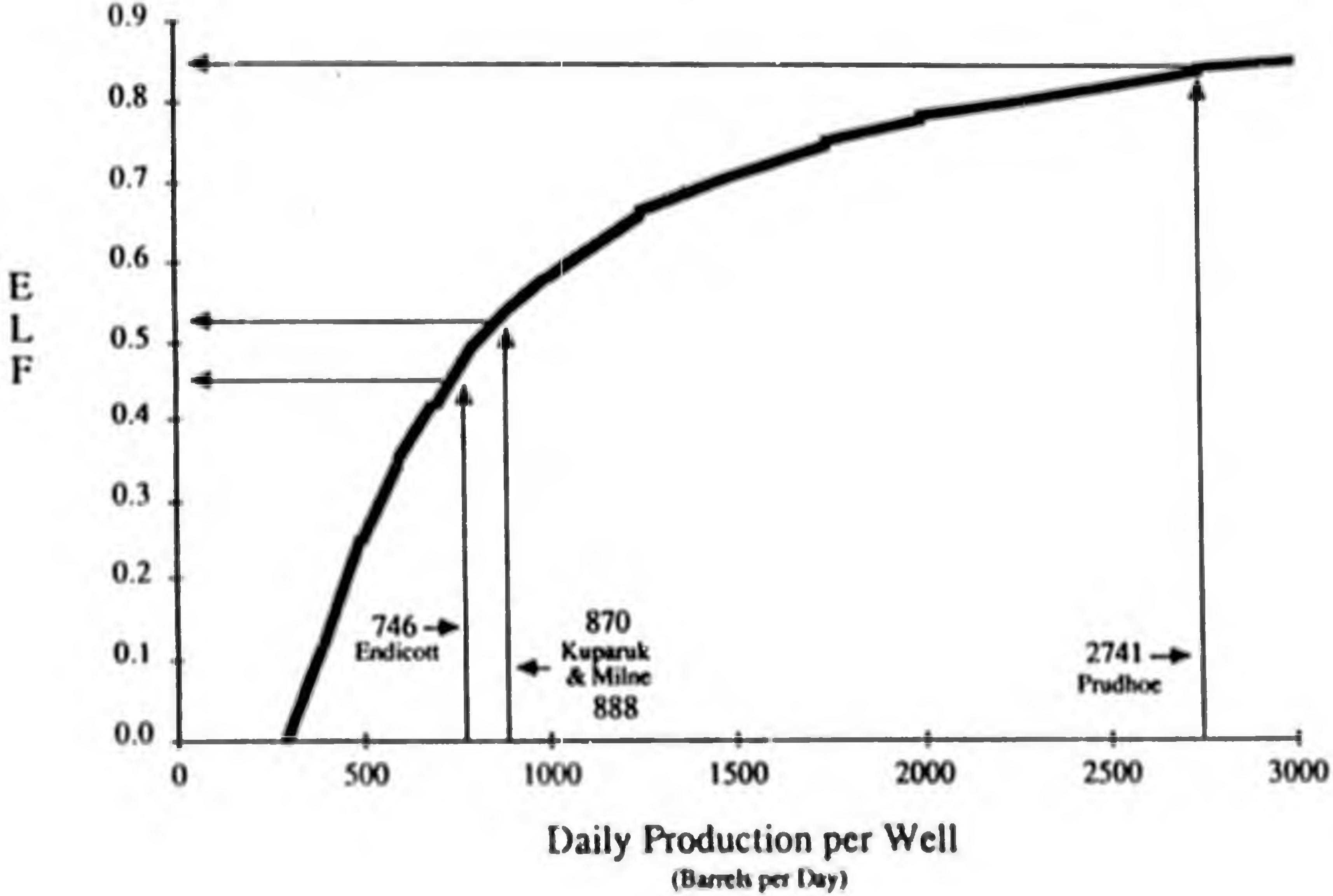
	Change In Annual Gross Revenue	Change In Annual Severance Tax	Tax Rate On Incremental Production	Average Tax Rate Before Drilling	Average Tax Rate After Drilling	Percent Change In Average Tax Rate Due To Drilling
Current Law	$981,000	($37,846)	-3.9%	7.820%	7.806%	-0.180%
Proposed Law	$981,000	$58,611	6.0%	10.944%	10.938%	-0.055%

Alternate ELF

Constant At 55,000,000



Current Law



0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0
E L F
746
Endicott
870
Kuparuk
& Milne
888
2741
Prudhoe
0
500
1000
1500
2000
2500
3000
Daily Production per Well
(Barrels per Day)

ESTIMATED SEVERANCE TAX RATES*

	Prudhoe Bay	Kuparuk River	Milne Point	Endicott	Lisburne	McArthur River	Granite Point
Existing Law	12.6%	7.8%	6.5%	5.6%	12.25%	1.1%	1.3%
CSHB 164 (Fin.)	14.8%	10.7%	0.3%	0.3%	3.6%	0.0%	0.0%
Percent Change in Tax Rate	***17.5%†***	***37.2%***	***-95.4%***	***-94.6%***	***-70.6%***	***-100.0%***	***-100.0%***

*North Slope values are forecast FY 88 averages; Cook Inlet values are estimated Dec 1986 rates;
Cook Inlet fields not listed have zero effective rates under all alternatives.

†CS reduces Prudhoe taxes by 1.4% compared with current (April 1987) rates.

OMB, Division of Policy, 3/30/87

STATE, FEDERAL AND INDUSTRY SHARES OF ALASKA OIL RESOURCE INCOME: FISCAL 1982-1985

(millions of dollars except as noted)

Fiscal year	[1] Total Revenue	[2] State Royalty	[3] Sever. Conser. tax	[4] Total Prop. tax	[5] Total Oper. Costs	[6] Total Deprec.	[7] Total Acquis. Costs	[8] 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

Fiscal Year	[9] Uncap. Interest Expense	[10] Explore. Costs	[11] Admin. Costs	[12] Other Deducs	[13] Total Deducs.	[14] State Taxable Net Income	[15] Corp. Petrol Income Tax	[16] Federal Taxable Income
1982	$721	$191	$236	$149	$8,268	$8,188	$669	$7,519
1983	$676	$204	$252	$142	$7,423	$8,047	$236	$7,811
1984	$614	$219	$265	$136	$7,064	$7,891	$265	$7,626
1985	$566	$234	$278	$130	$6,997	$8,139	$169	$7,970

Fiscal Year	[17] Federal Corp. Income Tax	[18] Oil Industry Alaska Profits	[19] Total Federal Tax	[20] Total State Tax & Royalty	[21] ----Share of Oil Income---- State	[22] Federal	[23] Industry
1982	$2,098	$5,421	$4,116	$4,079	30%	30%	40%
1983	$2,140	$5,671	$3,158	$3,485	28%	26%	46%
1984	$2,242	$5,384	$2,654	$3,425	30%	23%	47%
1985	$2,343	$5,627	$2,413	$3,345	29%	21%	49%

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 [12]: Vincent Wright, loc. cit.

Column [13]: sum of columns [2] through [12]

Column [14]: column [1] - column [13]

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 April 11, 1986

WERE DID THE OIL REVENUE GO?
($ Billions)

Oil Companies' Gross Revenues In Alaska, FY 1982-85			$62.0
Less:	Operating, Administrative, & Misc. Costs.	$7.2	
Less:	Interest, Depreciation, & Other Capital Charges	$6.1	
Less:	Federal Taxes	$12.3	
Less:	State Taxes & Royalty	$14.3	
Oil Companies' Profits In Alaska, 1982-85			$22.1
Less:	New Investment In Alaska*	$6.0	
Profits Removed From Alaska, FY 1982-85			**$16.1**

*Testimony of Harold Heinze, ARCO, to House Finance 4/12/85, Transcript, p. 130; other sources shown on the following page.

OMB/Division of Policy, 4/8/87.

ELF DEJA VU

Some oil companies argue the existing ELF should not be changed. Ten years ago oil companies were also talking about the ELF, which was then being considered by the legislature. Here is a sample of what was being said then.

The ELF is "too complex, unrealistic, and fails to allow reasonable operating costs."
Larry Vavra, spokesman for Union Oil Co.
Fairbanks News-Miner, April 22, 1977

If it adopts the ELF, "Alaska will ... tip the scales against future development."
Monte Taylor, Exxon, USA
Anchorage Times, March 19, 1977

The proposed ELF legislation "would wipe out any remaining incentives for future development in Alaska."
Richard Donaldson, Standard Oil Co. of Ohio
Fairbanks News-Miner, March 25, 1977

The severance tax bill [with the ELF] will "result in significant losses in state income and fewer jobs...."
Monte Taylor, Exxon USA
Fairbanks News-Miner, March 26, 1977

"The [ELF] bill would increase state oil and gas severance tax revenues from the North Slope by $7.2 billion over the 20 year life of the field...[T]he magnitude of the increase will cause a congressional backlash"
Ken Showalter, Standard Oil Co. of Ohio
Anchorage Times, April 22, 1977

The tax bills could make "subsidiary fields at Prudhoe Bay impossible to produce."
Richard Donaldson, Standard Oil Co. of Ohio
Alaska Advocate, April 21, 1977

"The only bitterness of the hearings came during an effort by Union Oil Co. spokesman Larry Wilson to read a lengthly and complex analysis of Alaska's tax structure. After about 40 minutes on the stand [House finance chairman Steve] Cowper cut him off with the observation that his testimony was going on too long.

"'You said your testimony was going to take 30 minutes,' Cowper said. 'Its been 40 minutes and now you say it will take another hour.'"

"'There are a couple of sides to this question you know,' Wilson shot back. 'We've got a lot of money at stake.'"

Anchorage Daily News, April 22, 1977

Some oil companies say the new ELF will have a bad effect on future development. Will the bill impact future production?

Yes, but the impact won't be large. A Department of Revenue analysis shows that the new ELF would increase North Slope output by 280,000 barrels during FY 1988 -- equal to 4 hours of flow through the TAPS pipeline. Effects taper off in later years and in 1993 become negative. The cumulative impact through FY 2005 is pegged at a negative 21 million barrels, equal to 5 days TAPS output at current rates. After 2005, however, much of this loss would be recouped, since the new ELF would increase incentives for production in the later stages of a field's life, when the incentive is really needed.

An oil company used an example to show that under the new formula the drilling of an additional well in an existing field will result in a higher tax on that field. They say that creates a disincentive to further drilling.

We have seen those calculations. Using figures typical for a field like Kuparuk, the example shows that drilling one additional well in the field will produce an additional $981,000 in annual gross revenue. The objection seems to be that under the proposed severance tax a part of this gain would have to be paid to the state -- $58,611 to be exact.

The example offered by the Kuparuk operators illustrates a loophole in the current ELF: under the circumstances described in the example, not only will the owners pay no tax on the incremental production from an additional well, owners will actually receive a *tax rebate* of $37,846 annually. The effect is analagous to a personal income tax where the effective tax rates become *lower* as increasing income moves the taxpayer into a higher bracket.

Under the proposed law producers who increase output through additional drilling will still be rewarded with a lower *average* tax rate, but the reduction will not completely eliminate the tax on the incremental revenue, nor will it provide them with the windfall of a tax rebate. If the new law is adopted it will close this loophole. (For more detail, see the technical note on p. 12.)

You said that the ELF bill had passed the House. What happens next?

The bill was sent to the Senate on April 3. Senate President Jan Faiks referred the measure to five different committees. No hearings have been scheduled.

OMB/Division of Policy
4/21/87

STATE	KUPARUK TAX PER BARREL
Louisiana	$1.75
New Mexico	$1.13
Oklahoma	$0.98
Wyoming	$0.84
Alaska (proposed)	*$0.76*
Texas	$0.67
Alaska (existing)	*$0.62*

Here is the same ranking on a percentage of value basis.

STATE	KUPARUK TAX AS A PERCENT OF VALUE
Louisiana	12.5 %
Alaska (proposed)	*10.7 %*
New Mexico	8.1 %
Alaska (existing)	*7.6 %*
Oklahoma	7.0 %
Wyoming	6.0 %
Texas	4.9 %

Each state designs its severance tax structure for the conditions in that particular state. In none of the other states is there an oil field even close to the size of Kuparuk, yet because the other states are much nearer to oil markets, the selling price of a barrel is much higher than in Alaska. Differences like these make it difficult to draw precise comparisons. The average oil well in Texas produces 145 barrels per day. A well producing at that rate in Alaska would pay no severance tax whatever. With respect to Kuparuk Alaska's severance tax with the new ELF will fall well within the range of severance taxes in other states.

A major oil company and an Anchorage banker say the state is already getting 96 percent of all oil and gas profit. Is this true?

No. The conclusion, which is said to come from a Department of Revenue study, is false. The state study projected future oil revenue under a variety of assumptions, and did not reach that conclusion. The Department has described the assertion that it did as "misleading."

The actual profits earned by the oil industry from production and transportation activity in Alaska during FY 1982-85 are shown on the attached sheets, along with the share that went to the state through royalties and taxes. Also shown are the state's estimates of the share of those profits removed from Alaska. Figures for 1986 and 87 are being compiled, and will be released soon.

Despite the smaller size, operators at Milne were still required to maintain a minimum complement of operating personnel, and pay the associated costs. These costs had to be divided, however, among far fewer barrels. Although the two fields had almost identical per-well productivities, the smaller Milne field was clearly less profitable, and the owners eventually elected to temporarily shut down production. The experience illustrated the deficiency of an ELF adjustment based solely on per-well productivity.

The new ELF formula incorporated in the bill will correct this perverse and unintended effect by adding total field productivity to the ELF calculation. Fields producing less than 120,000 barrels per day will have a lower ELF (bigger tax break) than under current law, while fields producing more than that amount will have a higher ELF (smaller tax break).

Some industry sources say that Kuparuk is really a marginal field, and that it can't afford to pay the tax increase that would result from the new formula. How do you answer this?

Under the ELF bill the FY 88 effective tax rate in the Kuparuk River field will be 10.7 percent. This compares with 7.8 percent under the current law. The owners naturally don't like this increase. But the question is can they afford it? Kuparuk River is the biggest oil field in the nation, except for Prudhoe. Kuparuk produces 93 million barrels per year, compared with 60 million from the next biggest field, South Belridge in California. A big field like Kuparuk doesn't need the big tax break we are giving to the smaller fields.

Kuparuk produces $664 million in annual gross revenue for its owners, after royalty is deducted. Under the bill the state will take $71 million (mean forecast). This leaves $593 million for the companies to cover their costs. Deducting field operating costs of $1 per barrel leaves $500 million net operating revenue per year. Based on ARCO's House Finance testimony on March 27, 1987, OMB estimates total field development investment at $1.46 billion. Dividing investment by net operating revenue shows that *even at today's oil prices* the field would pay for itself in less than 3 years. Kuparuk has already been in production for over 5 years, at average prices much higher than today's prices. Kuparuk can afford to pay a 10.7 percent tax. Leaving Kuparuk at the current 7.8 percent rate would provide the owners with a major windfall.

But won't the new severance tax require the Kuparuk owners to pay a lot more than they would if the field were located in any other state?

The listing on the next page shows the tax per barrel that the Kuparuk owners would pay if the field were located in several of the larger oil producing states.

A post-session analysis by the Legislative Finance Division did show that the ELF provision would cause state revenue to fall sharply in FY 1988. Governor Hammond acknowledged this when he signed the bill, but expressed "full confidence in the ability of the legislature to deal at that time" with adverse revenue consequences, should they prove to be serious.

How much would Alaska lose from the cut in Prudhoe taxes?

The Department of Revenue estimates the fiscal year (FY) 1988 loss at $93 million, or $77 million under the more conservative "30 percent" forecast. The reduction is already accounted for in the official forecasts.

Will the loss be affected if oil prices go up or down?

Higher oil prices will result in increased severance tax revenue, and would mean bigger losses from allowing the ELF to apply at Prudhoe. Falling prices will reduce severance tax revenue, and will reduce the loss figure.

How would the ELF bill affect the expected revenue loss?

As originally introduced the bill would have prevented the ELF from applying to Prudhoe for an additional five years. The measure that emerged from the House took a more comprehensive approach: the ELF would be allowed to apply at Prudhoe, but the formula for calculating the ELF would be changed. Under the new formula (sometimes called the "alternate ELF"), severance tax revenue from Prudhoe would decline only slightly. Tax revenue from Kuparuk would increase, but all other producing fields would receive reductions.

The net effects of these increases and decreases produce $88 million additional revenue in FY 1988, and $108 million in FY 1989. By FY 2005 the gain will have diminished to $29 million. The figures (see p. 15 for the complete long-run projections) are based on the state's deliberately conservative forecast of production and oil prices (the so called "30 percent" forecast).

How does the new ELF calculation in the bill differ from the ELF formula in present law?

The original ELF takes account only of productivity per well. Since the Milne Point field opened in late 1985, evidence has accumulated that per-well productivity is by itself an inadequate measure of a field's relative ability to pay severance tax. The average well in the Milne field initially produced 950 barrels per day, giving it an ELF very nearly the same as the Kuparuk field, where the average well produced 1,000 barrels per day. Total production was 250,000 barrels per day in the Kuparuk field, while Milne Point produced less than one-tenth of that amount.

Questions and Answers on the "ELF"

What does the ELF bill do?

A provision in current law will reduce Prudhoe Bay severance taxes on June 20, 1987. The ELF bill [CSHB-164 (fin) am] will prevent this reduction by substituting a new formula for computing the economic limit factor (ELF).

How did we get this provision in our law, and why does it take effect on June 20?

In 1981, the legislature amended the oil and gas corporate income tax and the severance tax. By changing from separate accounting to modified apportionment the act reduced income taxes for Prudhoe Bay producers. Legislators were assured -- incorrectly, as it turned out -- that most of this reduction would be offset by other provisions. These included a severance tax amendment which effectively suspended the applicability of the ELF to Prudhoe Bay "for the first ten years following the commencement of commercial production." The tenth anniversary will come on June 20 of this year. Since the ELF is a formula that reduces severance tax rates by variable amounts, depending on per-well production, suspending the ELF had the effect of increasing the tax.

How does the ELF formula work to reduce taxes?

The ELF is always a number between 1 and zero that gets multiplied times the nominal tax rate, producing the effective tax rate. Under current law the ELF is determined by the per-well productivity of the field. If productivity is high, the ELF is relatively close to 1 (.9 for example), and the field gets a small tax break. Fields with low per well productivity get a smaller ELF (.5 for example), and a larger tax break. Most fields in Cook Inlet are currently paying no severance tax because their low production per well gives them ELFs of zero. (Zero times the nominal tax rate of 12.25 percent gives an effective tax rate of 0.0 percent.).

When the ELF is calculated for Prudhoe it comes out to about .84, but (because of the 1981 amendments) during the first ten years of production the ELF doesn't apply to that field unless it is below .70, which is not expected to happen for some years.

Why didn't legislators realize in 1981 that this "ten year" business would cause us problems later?

Most legislators were probably unaware of the potential problem. The proposal was first unveiled to a free conference committee on June 22, and was adopted as the Free Conference Committee Substitute the next day. On June 24 it passed both houses and was on its way to the governor. Obviously there was little time to study the bill. The fiscal note included no projections beyond FY 1985.

CONTENTS

Questions and Answers On The ELF
with related
Briefing Materials

April 21, 1987

Office of the Governor

Office of Management and Budget   *Division of Policy*

continue to fund unnecessary high levels of government which recent polls indicate Alaskan citizens want to cut back.

We at Standard strongly urge you to oppose HB 164 and any other tax measure that would adversely affect the oil industry.

Sincerely,

R. A. Straub
Vice President
External Affairs

P.S. In the interests of clarity, I have attached for your information a paper prepared which is in response to an earlier paper prepared by the Office of Management and Budget.

cc: Commissioner Malone
Department of Revenue

Greg Erickson
Office of Management and Budget

May 15, 1987

The Honorable Senator Abood

Re: CSHB 164

Dear Senator Abood:

Alaska's "long term" tax policy seems to be year to year. This is not the type of tax stability needed to encourage huge expenditures by the petroleum industry on high risk ventures. One only has to look at Norway to see the dramatic effects of an over taxed, over regulated petroleum industry coupled to a bloated social spending program.

I oppose CSHB 164 and instead favor real long term tax stability which will encourage the development of Alaska's resources.

Richard H. Reilley
12410 Chippership Drive
Anchorage, Alaska 99515
(907) 345-0825

7435 E. 140th Ave
Anchorage, AK 99516

May 16, 1987

Mr. Mitch Abood
Alaska State Senate
P.O. Box V
Juneau, AK 99811
Mail Stop 3100

Dear Senator Abood:

I urge you to oppose CSHB164. In the short term, this may increase state revenues. However, in the long term, because it jeopardizes the economic viability of the petroleum industry, it will ultimately adversely effect the state economy. In addition, it will send a unfavorable signal to Outside industry considering a move to Alaska. It tells them that this state will not honor the laws established.

As a concerned Alaska voter, I am interested in your action to oppose this bill.

Sincerely,

Carol S. Michel

Carol S. Michel

7436 E. 140th Ave
Anchorage, AK 99516

May 16, 1987

Mr. Mitch Abood
Alaska State Senate
P.O. Box V
Juneau, AK 99811
Mail Stop 3100

Dear Senator Abood:

I urge you to oppose [redacted] In the short term, this may increase state revenues. However, in the long term, because it jeopardizes the economic viability of the petroleum industry, it will ultimately adversely effect the state economy. In addition, it will send a unfavorable signal to Outside industry considering a move to Alaska. It tells them that this state will not honor the laws established.

As a concerned Alaska voter, I am interested in your action to oppose this bill.

Sincerely,

Charles M. Michel

STANDARD: Total amounts paid to vendors in 1981 - 1986 for West side Prudhoe Bay field $7.0[illegible] billion

Amounts paid to vendors in 1985 - 1986 for Endicott field development $[illegible] million

Payments paid to identified U.S. vendors traceable to a ZIP code $[illegible] billion.

ARCO Total payments for tangible items for East side of Prudhoe Bay, Kuparuk and Lisburne 1981 - 1985 $3.669 billion

CONOCO Payments for goods and services to develop Milne Pt. oilfield, 1981 - 86 - $[illegible] million.

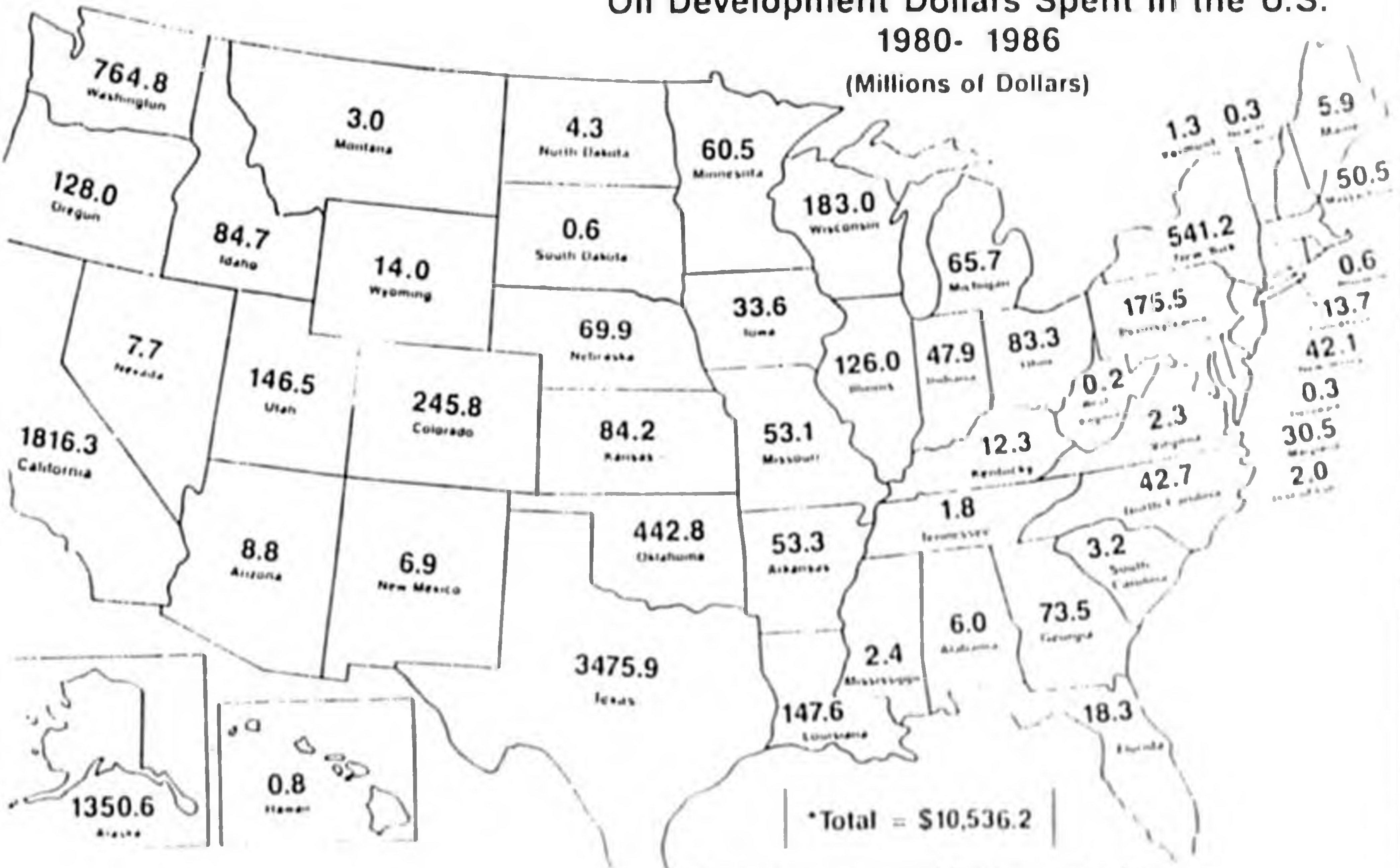
It is estimated that the cost of developing the Prudhoe, Kuparuk, Milne Pt., Lisburne and Endicott oil fields on the North Slope of Alaska has exceeded $[illegible] billion since 1974. This amount includes the cost of the trans-Alaska pipeline (approximately $8 billion). The fields currently supply [illegible]% of U.S. domestic oil production.

NORTH SLOPE ALASKA OIL DEVELOPMENT COSTS IN THE U.S. - [illegible] - [illegible]

(Millions $)

	STANDARD	ARCO	CONOCO	TOTAL
Alaska	$[illegible]	$ 79.3	n/a	$[illegible]
Alabama	5.4	0.6	-	6.0
Arizona	[illegible]	0.4-	-	[illegible]
Arkansas	1.9	51.4	-	53.3
California	[illegible]	69.5	23.8	[illegible]
Colorado	146.3	99.5	-	245.8
Connecticut	1.1	12.5	0.1	13.7
Delaware	[illegible]	0.2	-	[illegible]
District of Columbia	2.0	-	-	2.0
Florida	2.8	15.4	0.1	18.3
Georgia	57.2	16.2	0.1	73.5
Hawaii	0.8	-	-	0.8
Idaho	79.4	0.3	5.0	84.7
Illinois	79.4	46.2	0.4	[illegible]
Indiana	[illegible]	45.1	1.0	47.9
Iowa	1.5	30.7	1.3	33.5
Kansas	[illegible]	75.2	-	[illegible]
Kentucky	[illegible]	9.8	0.5	[illegible]
Louisiana	[illegible]	[illegible]	0.9	[illegible]
Maine	5.5	0.2	[illegible]	[illegible]
Maryland	29.3	2.4	0.1	[illegible]
Massachusetts	[illegible]	35.2	0.2	[illegible]
Michigan	8.0	57.3	0.4	[illegible]
Minnesota	43.5	[illegible]	0.1	[illegible]
Mississippi	1.8	0.6	-	[illegible]
Missouri	23.3	30.0	0.1	[illegible]
Montana	2.4	0.6	-	3.0
Nebraska	[illegible]	1.0	-	[illegible]
Nevada	[illegible]	5.4	-	[illegible]
New Hampshire	[illegible]	0.1	-	[illegible]
New Jersey	[illegible]	32.6	-	[illegible]
New Mexico	4.3	0.6	-	[illegible]
New York	[illegible]	415.0	3.9	[illegible]
North Carolina	[illegible]	[illegible]	0.5	[illegible]
North Dakota	[illegible]	2.5	-	[illegible]
Ohio	[illegible]	67.3	0.6	[illegible]
Oklahoma	[illegible]	[illegible]	3.5	[illegible]
Oregon	[illegible]	[illegible]	[illegible]	[illegible]
Pennsylvania	25.2	150.0	0.3	[illegible]
Rhode Island	3.3	0.15	0.2	[illegible]
South Carolina	7.9	0.1	0.2	[illegible]
South Dakota	[illegible]	0.5	-	[illegible]
Tennessee	[illegible]	1.25	-	[illegible]
Texas	[illegible]	[illegible]	21.3	[illegible]
Utah	6.4	139.1	1.0	[illegible]
Vermont	[illegible]	0.3	-	[illegible]
Virginia	[illegible]	0.4	[illegible]	[illegible]
Washington	[illegible]	[illegible]	[illegible]	[illegible]
West Virginia	[illegible]	[illegible]	-	[illegible]
Wisconsin	8.9	[illegible]	3.5	[illegible]
Wyoming	[illegible]	1.5	-	[illegible]
TOTAL COSTS	[illegible]	[illegible]	124.1	[illegible]

North Slope Alaska
Oil Development Dollars Spent in the U.S.
1980- 1986
(Millions of Dollars)



*Total = $10,536.2

ALASKA DEPARTMENT OF REVENUE

BOX S
JUNEAU ALASKA 99811-0400
907/465-2300

HB 164

17 May 1987

Alaska State Senate
P.O. Box V
Juneau, Alaska 99811

Dear Senator:

The Standard Oil Company recently circulated to members of Congress an analysis of North Slope oil development expenditures. According to the study, prepared with the cooperation of other oil companies, only 13 cents of each Alaska North Slope development dollar is spent in Alaska. The remaining 87 cents are divided among other states. Two states obtain larger shares than Alaska: Texas, receives 33 cents of every dollar and California gets 17 cents.

The argument being made to members of Congress is that most of the direct economic impacts of North Slope oil development flow to other states. The argument is designed to help secure congressional support for opening the Arctic National Wildlife Refuge (ANWR) to oil development.

State economists have raised questions concerning the methodology Standard used to allocate expenditures, but our economists agree with Standard's general premise: unfortunately only a small share of North Slope oil investment directly benefits Alaskans.

So far this session the Senate has refused to hear testimony or allow a vote on HB 164, a bill which would prevent an automatic reduction in severance taxes paid by the oil companies at Prudhoe Bay. In view of the information provided in the Standard Oil Company study, I urge you to reconsider this refusal. Severance taxes do stay in Alaska. They do provide economic benefits to all Alaskans. If the administration is allowed to make its case on this bill we will show why now is not the time to reduce the share of oil benefits that stay in Alaska.

The tax break for oil production will cost our state economy nearly $100,000,000 per year. This loss will start in June unless the Senate acts now. I urge immediate action on HB 164.

Sincerely,

H Malone

Hugh Malone
Commissioner

enclosure: *North Slope Alaska Oil Development Dollars Spent in the U.S., 1980-1986*, prepared by Standard Oil Company.

The OMB report relying on a Department of Revenue analysis states that the cumulative loss of production from the new ELF is 21 million barrels. Do you agree?

No. Any sense of security associated with a loss of 21 million barrels is a false sense of security. Arco has estimated the "production lost" at a much higher figure - 200 million barrels just in Prudhoe Bay.

The likelihood that the 21 million barrel "lost production" is substantially understated is apparent from looking only at proposed additional development at Prudhoe over the next few years. We see the potential of the Prudhoe Bay reservoir, with current technology, at about ten billion barrels recoverable. Five billion barrels have been produced already. With facilities and wells now in place, four billion - for a total of nine - can be produced. *Recovering the additional one billion barrels will require additional capital investment in facilities and drilling. Many of these future investment decisions are only marginally economic. This future development and some of the expected production from the current wells and facilities is jeopardized by proposed changes in the ELF.*

CSHB-164 is no mere "technical correction" of state oil tax laws, or even just halting a scheduled reduction of the 15% severance tax on Prudhoe Bay. It is a restructuring of the ELF formula that eliminates its effectiveness as an incentive for further development drilling. Because of this, it should be looked at very cautiously.

How is Alaska's tax structure viewed by others?

In a two-year study of state economic policies published in March, 1987, "Making the Grade: The Development Report Card for the States" by the Washington-D.C.-based Corporation for Enterprise Development, *Alaska was rated 49th (tied with Tennessee) in the state policies toward economic development index.* A prime component in this index is an effective and equitable tax code. Alaska's low rating in the index is tied to Alaska's heavy dependence on oil revenues.

It is clear (and no one has contended otherwise) that the data is from the December DOR study. What is also difficult to dispute is:

- $7,758MM (current law state petroleum production revenue) divided by $8,084MM (total petroleum production net income) times 100 (to convert to a %) is 96%, and

- the schedule on page 93 is intended specifically to address the state share issue.

In conversations with Standard, Department of Revenue analysts agreed the information was not being misinterpreted.

The point Standard was making in its testimony is that low oil prices have dramatically reduced producers' net return on production revenues, and that state royalties and taxes, because they are levied on gross field revenues rather than net, become much larger as a percentage of the overall. *By increasing taxes, CSHB-164 would essentially reduce industry's share of net production income (as defined by Department of Revenue) to zero.* This is hardly an incentive for further development activity.

But don't pipeline profits offset that?

Although believing that transportation income is irrelevant in determining tax policy for production taxes, Standard testified that *inclusion of the transportation income still resulted in a state share of 59%* over the same period and at the same price.

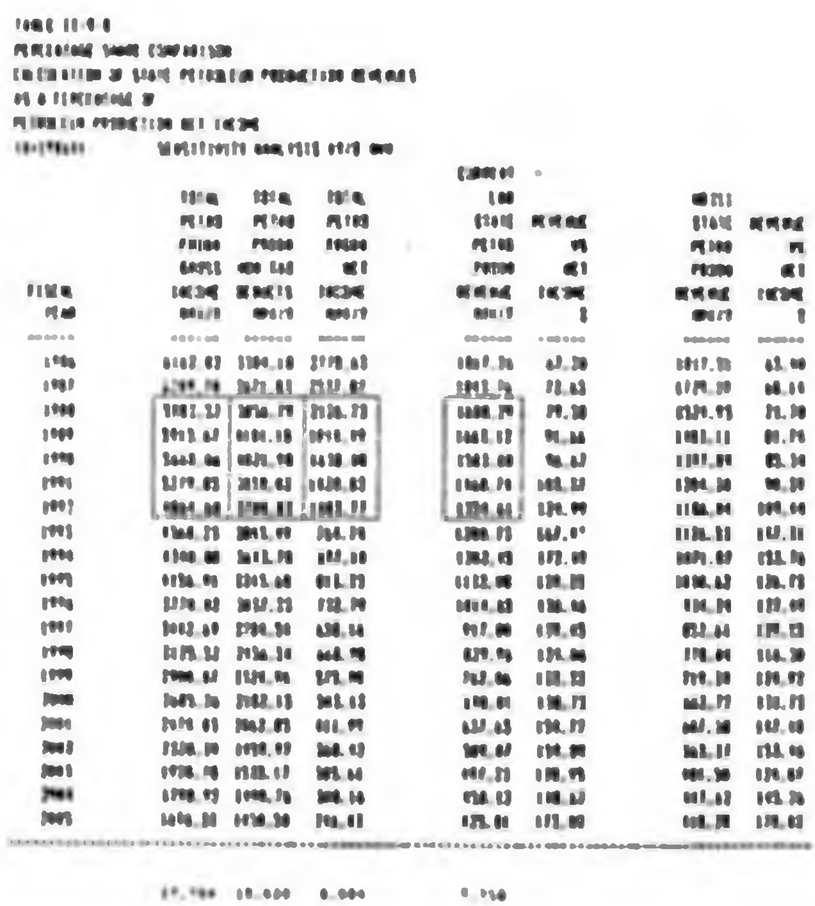
OMB has numbers which indicate industry's "share" at much different levels. How is that?

OMB looks at 1982 through 1985, years with high oil prices, in their claim of a high industry "share". They also include pipeline income in the calculation. Our analysis looks five years into the future, using lower prices and assuming that low to moderate prices will continue for some time into the future. Governor Cowper, and many oil companies, have said that it is reasonable to assume $15 oil prices as a long-term "planning" figure, although prices have shown some recent short-term improvement. Additionally, we think there are also serious errors in the assumptions used in the OBM "share of the pie" analysis, particularly assumptions of federal tax liability.

In recent House testimony, Standard said that with lower oil prices the state's overall "share" of oil production revenues have increased sharply. OMB says this is "false". Is it?

No. And OMB cites no data in making that claim. In fact, Standard's analysis is based on Department of Revenue data.

Standard testified that at $15 oil prices ($9 wellhead), the *state share* of net production income based on a Department of Revenue study, *would be 96% for FY 1988-1992.* The DOR study referenced is: "Sensitivity Analysis of Projected Revenue Collections", by John Larson et al. (December 1986). The purpose of the study was to provide the economic effect of Alaska's oil taxes at various wellhead prices. Following is page 93 of the study which addresses $15 oil prices ($9 wellhead). Page 93 is captioned, "Percentage Share Comparison - Calculation of State Petroleum Production Revenue as a Percentage of Petroleum Production Net Income."



The average severance tax rate of the four other top oil producing states is 6.1%. *The effective severance tax rate for Alaskan production under current law is almost twice the average of the other top oil producing states.* The new ELF would increase the effective rate another 1.8%, putting Alaska far above any other state.

But still, isn't OMB's point that CSHB-164 would keep taxes low on smaller fields other than Prudhoe, and actually decrease taxes on some small "marginal fields"?

What is obscured is that there are "marginal projects" within the Prudhoe Bay field itself, development programs that could apply more intensive development drilling or enhanced oil recovery to the reservoir. *These projects could recover huge amounts of oil - the equivalent of several fields like Endicott or Lisburne, two new "marginal fields" now under development.* In all likelihood, outside of ANWR *the biggest prospect for major new recoverable oil reserves is right in the Prudhoe Bay field itself.*

But still, isn't there a tax decrease on Endicott and Lisburne?

We believe OMB's figures overstate it. Our estimates of its effect are different, and that it does not amount to a significant savings. *It should also be pointed out that the 33% tax increase on Kuparuk (by OMB's figures) will have a serious adverse effect on further development in that field.* It is worth noting that the vast bulk of the investment funds for Lisburne and Endicott are coming from the Prudhoe Bay field, since Prudhoe owners are also involved in development of these smaller fields. The same is true for Kuparuk. Higher taxes on Prudhoe drains off capital that could be invested in new projects.

What about Milne Point? OMB cites that case. Doesn't it illustrate the "quirks" in the current ELF?

If there are problems in how the ELF applies to particularly marginal fields, the current statute provides a mechanism to solve them - the right to challenge the "economic limit" in the formula itself. A reasonable interpretation of the statute would protect truly marginal fields. CSHB-164 actually provides relief for small fields - marginal or not - and imposes a greater burden on larger fields, even those marginally economic. DOR could, by regulation, solve the "problems" cited by advocates for CSHB-164. They do not justify a change in the statute.

On April 21, 1987 the Office of Management and Budget issued a collection of material on the ELF, the Economic Limit Factor in Alaska's oil and gas severance tax. Many points made by OMB are misleading. Space limits limit our response to just a few.

OMB implies that if CSHB-164 were enacted, Alaska would still be within the range of severance taxes in other states. In fact, Alaska would continue to have the highest effective severance tax rate.

OMB uses only the Kuparuk field as an example, which accounts for only one seventh of Alaska's oil output, and cites an effective tax rate of 10.7%. However, *under CSHB-164 the average tax on all Alaska production would be 13.4%.* What accounts fc- the difference, of course, is the higher tax (almost 15%) that would apply to Prudhoe Bay, which provides most of Alaska's oil production.

CSHB 164 ANALYSIS: Including all Alaska oil production (FY 88)

STATE	CSHB 164 TAX AS PERCENT OF VALUE
Alaska (proposed)	13.4%
Louisiana	12.5%
Alaska (existing)	11.6%
Oklahoma	7.0%
Texas	4.9%
California	0%

OMB ANALYSIS: Looking only at Kuparuk (FY 88)

STATE	KUPARUK TAX AS A PERCENT OF VALUE
Louisiana	12.5%
Alaska (proposed)	10.7%
New Mexico	8.0%
Alaska (existing)	7.6%
Oklahoma	7.0%
Wyoming	6.0%
Texas	4.9%

The "ELF"
and
North Slope Oil Production

Information of Importance on CSHB-164

Major points Alaska policymakers should know:

- If CSHB-164 were enacted, Alaska would continue to have the highest effective severance tax rate in the nation.

- A Department of Revenue projection of "lost oil production" underestimates the likely impact of CSHB-164.

- CSHB-164 is a change in the structure of the ELF formula that goes far beyond its revenue effect on Prudhoe Bay. It should be looked at with caution.

- Investment funds for Endicott and Lisburne, new fields on the North Slope, have been largely generated by Prudhoe Bay. A tax "break" on marginal fields, cited by advocates for CSHB-164, would be offset by a larger tax bite on Prudhoe, which produces the investment funds for "marginal fields".

Standard Alaska Production Company, May 12, 1987

Standard Alaska
Production Company
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 561-5111

STANDARD
ALASKA PRODUCTION

May 18, 1987

Senator Mitch Abood
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear ~~Senator Abood~~ Mitch:

In his letter of May 17 to the members of the Senate, the Commissioner of Revenue maintains that only by increasing the severance tax on Alaska's oil industry can Alaskans receive their fair share of economic benefits from Alaska's petroleum activity. The Commissioner cites as evidence the analysis of North Slope development expenditures prepared by our industry as proof of his claim.

We strongly believe the Commissioner has misrepresented this analysis and is wrong in calling for passage of HB 164 which increases severance taxes on the industry for the following reasons:

1. The numbers in the analysis do not include the billions of dollars paid to the state of Alaska as income taxes, property taxes, severance taxes, royalties or oil and gas conservation taxes during this period;

2. The figures represent dollars spent on capital terms only. For instance, the numbers do not include installation costs of North Slope facilities which total in the billions of dollars awarded to Alaskan contractors;

3. The Commissioner's letter ignores the fact that Alaska does not have the ability to manufacture many of the facilities (such as oil pipelines and production modules) which are necessary for oil production in Alaska;

4. The Commissioner neglects the millions of dollars spent by the industry each year in payroll and salaries for their employees and those of their contractors which provide services such as security, drilling rigs, catering and routine machine maintenance; and

5. We challenge the Commissioner's assertion that additional severance taxes will provide direct economic benefits to Alaskans. The additional funds will undoubtedly go to

5-13-87

Economic Limit Factor (ELF) HB 164

Senator Mitch Abood
PO Box V
Juneau, AK 99811

I urge you to vote No on HB 164, this States uniquely high severance tax system has already placed to much economic strain on our oil companies. We must have a stable tax base in this state to provide incentive for continued developement of our natural resources. In the recent elections, many promises were made concerning our taxation problems, stand by those claims. The people of this state don't want more taxes and less jobs. The passage of ELF will severely hurt the economic growth of this state. Thankyou.

Respectfully

Doug Logan
Soldotna, AK.

of oil production for a lease or property. The monthly production rate at the economic limit for the lease or property based upon the clear and convincing evidence of the taxpayer or the department shall be calculated by dividing the value determined under (f) of this section into the average monthly direct operating cost determined under (e) of this section and shall be used for purposes of this section for all oil production during that calendar year from the lease or property.

* Sec. 3. This Act applies to oil produced after May 31, 1987.

* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

Offered: 3/30/87
For Today's Calendar

wo1257hL

Original sponsor: Rules/Governor

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 164 (Finance) am

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

* Section 1. AS 43.55.013(b) is repealed and reenacted to read:

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

(1-[PEL/TP]) exp ([55,000,000 X WD]/[PEL X TP/Days])

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

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

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

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

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

* Sec. 2. AS 43.55.013(d) is amended to read:

(d) The monthly production rate at the economic limit for a lease or property is presumed to be 300 barrels times the number of well days for the lease or property during the month for which the tax is to be paid. The taxpayer <u>or the department</u> may rebut this presumption at a formal hearing under AS 43.05.240 by providing clear and convincing evidence of a different monthly production rate at the economic limit for the lease or property. The hearing shall be held before February 15 of the year or within six months after commencement

May 4, 1987

Senator Mitch Abood
P.O. Box V
Juneau, AK 99811

Dear Senator Abood:

I am writing to ask for your support for suspending the Economic Limit Factor and to support HB 164. Although I know that your comments in the Fairbanks Daily News-Miner on this issue indicate that you are in favor of giving the oil companies another tax-break, I am hoping that a closer examination of this subject will change your mind.

Many of us in Fairbanks are extremely concerned about the budget. We know too many people who have already lost their jobs; some are even losing their homes. Many more of our friends and neighbors will lose their jobs with the beginning of this next fiscal year. Unfortunately, the private sector at this time cannot absorb them.

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I am willing to pay my share, but only if the oil companies pay their fair share. Now is not the time to give the oil companies another tax break.

I am asking for your full support for HB 164. Originally, HB 164 would have prevented the Economic Limit Factor from applying to Prudhoe for an additional five years. The House Committee Substitute takes a more comprehensive approach. Under the new calculations, revenue from Prudhoe Bay would decline only slightly, while revenue from Kuparuk would increase. All other producing fields would receive reductions.

The net effects of these increases and decreases would help state revenues and not have a negative effect on the oil companies. I am not convinced that they will use our money to conduct additional exploration as opposed to their take-over attempts on other companies' assets.

In conclusion, please support HB 164. I can see the benefits of state spending; I cannot see the benefits of giving the oil companies another tax break. I look forward to your reply.

Sincerely,

Name: Delores R. Smith

Address: P.O. Box 75018

City, State, Zip:

Fairbanks, Alaska 99707

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Mildred Wike
Address: 2701 Badger Rd
City, State, Zip: No. Pole, Ak. 99705

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Mary Anne Kaapana

Address: 1776 Bridgewater Dr.

City, State, Zip:
Fbks. AK 99709

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Florence M. Clow

Address: 1509 Market St.

City, State, Zip: Fairbanks, Ak.
99701

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Maud Turner
Address: P.O. Box 990
City, State, Zip: Fairbanks, Alaska 99701

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Beverly V Simon

Address: 986 Coppet St

City, State, Zip: Fairbanks, Alaska 99701

May 4, 1987

Senator Mitch Abood
P.O. Box V
Juneau, AK 99811

Dear Senator Abood:

I am writing to ask for your support for suspending the Economic Limit Factor and to support HB 184. Although I know that your comments in the Fairbanks Daily News-Miner on this issue indicate that you are in favor of giving the oil companies another tax-break, I am hoping that a closer examination of this subject will change your mind.

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In conclusion, please support HB 184. I can see the benefits of state spending; I cannot see the benefits of giving the oil companies another tax break. I look forward to your reply.

Sincerely,

Name: Le Ann Doane

Address: 2301 C.H.S. Rd.

City, State, Zip: FBK. AK 99712

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Michael M. Hale

Address: 4054 FahrenKamp St

City, State, Zip: Fbks, AK, 99709

May 4, 1987

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Juneau, AK 99811

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Sincerely,

Name: Sylvia Case

Address: PO Box 949

City, State, Zip: FBKS, AK 99707

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Ginger Wingert

Address: P.O. Box 16577

City, State, Zip: Two Rivers, AK 99716

May 4, 1987

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P.O. Box V
Juneau, AK 99811

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Sincerely,

Name: Glenna Brooks

Address: 1514 Evergreen St

City, State, Zip: Fairbanks Alaska 99701

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Juneau, AK 99811

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Sincerely,

Name: June Maaker

Address: 1381 6th Ave.

City, State, Zip: Fairbanks AK 99701

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
5560 SSTA HB 167 (file 1)

1132