

SB

134

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

▼ Date Referred to Committee: May 6, 1999

FURTHER REFERRALS:

Date of Committee Action: 5/12/99

The FINANCE Committee considered:

CSSB 134(RLS)

CS FOR SENATE BILL NO. 134(RLS)

WELL REGULATORY COST CHARGE/CONS. TAX

"An Act authorizing the Alaska Oil and Gas Conservation Commission to determine the amount of and to collect a charge for operating wells subject to the commission's jurisdiction, and to allocate expenses of investigation and hearing; authorizing the commission to employ additional professional staff; repealing the oil and gas conservation tax; and providing for an effective date."

recommends it be replaced with the following committee substitute HCS CS SB 134 (FIN) the same title a new title

additional referral to _____ Committee

attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS:

(Dept/Date)

fiscal note(s) DOA

fiscal note(s) Senate DOR, 4/23/99

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<u>Tom Therriault</u>	Therriault			X	
<u>Alan Austman</u>	Austman			X	
<u>Edon Mulder</u>	Mulder	-			
<u>Tom Bunde</u>	Bunde			X	
<u>William's</u>	William's			X	
<u>John Kohring</u>	Kohring	X			
<u>J. Davis</u>	J. Davis			X	
<u>J. Davis</u>	J. Davis	X			
<u>Grussendorf</u>	Grussendorf			X	
		(3)		(7)	

CO CHAIR'S SIGNATURE

Tom Therriault
CHAIRMAN

Edon Mulder
MEMBER

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HCS CSSB 134 (FIN)

Revision Date/Time (Note if correction) Revised 5/12/99 Dept. Affected _____ Dept. of Admin _____
 Title Well Regulatory Cost Charge/Cons. Tax BRU AOGCC
 Component AOGCC
 Sponsor Senator Pearce
 Requester House FIN Component Serial No. 2010

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services	1,832.9	1,832.9	1,832.9	1,832.9	1,832.9	1,832.9
Travel	139.0	139.0	139.0	139.0	139.0	139.0
Contractual	656.3	656.3	656.3	656.3	656.3	656.3
Supplies	23.0	23.0	23.0	23.0	23.0	23.0
Equipment	50.1	50.1	50.1	50.1	50.1	50.1
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	2,701.3	2,701.3	2,701.3	2,701.3	2,701.3	2,701.3

CAPITAL EXPENDITURES Stat Desig	321.9	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	100.0	100.0	100.0	100.0	100.0	100.0
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Stat Desig	2,601.3	2,601.3	2,601.3	2,601.3	2,601.3	2,601.3
TOTAL	2,701.3	2,701.3	2,701.3	2,701.3	2,701.3	2,701.3

Estimate of any current year (FY99) cost: _____

POSITIONS

Full-time	23	23	23	23	23	23
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
(See Attached)

Prepared by Sharon Barton, Director
 Division Administrative Services
 Approved by Commissioner
 Agency _____

Phone 465-5654
 Date/Time _____
 Date 5/13/99 5/13/99

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FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION
Analysis

BILL NO. HCS CSSB 134 (FIN) 

This bill provides for the AOGCC to set and collect a regulatory cost charge from companies operating oil and gas wells in the State of Alaska, and to use the collections to fund the operating costs of the agency. This will change the primary AOGCC operating budget fund source from General Fund to Statutory Designated Program Receipts.

The AOGCC is the state oversight agency for all subsurface activity in the state and provides permits to drill, well workovers, reservoir management, data management, inspection of drilling activities, gas flaring, conservation measures, and protection of lessors rights. The proposed funding mechanism is a more representative way of allocating our costs among those who require our services. Our workload is directly related to industry activity and under this plan would be paid for directly by industry. It recognizes the long-term effort required of the Commission to follow the events that constitute the lifetime of a well and its reservoir. The expenditures are minimums required to provide adequate oversight and to comply with the Oil and Gas Conservation Act.

Operating Budget

This fiscal note includes a FY2000 operating budget increment of \$811.1. The operating budget increment includes funding for four new positions (338.3), increased inspector travel (34.5), professional services funding for reservoir management projects and for records management and electronic data conversion (200.0), rent for new office space (147.0), membership dues for the Interstate Oil and Gas Compact Commission and the Ground Water Protection Council (65.0), office and computer supplies for the four new positions (4.5), and funding for new computers for the four new positions and for computer and software upgrades necessary for reservoir management (21.8).

Capital Budget

The capital request of \$321.9 is for funding necessary to relocate the AOGCC offices.

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

No. 2
Bill Version: SB 134
(S) Publish Date: 4-23-99

Revision Date/Time (Note if correction) _____ Dept. Affected Revenue
Title Well Regulatory Cost Charge/ BRU Oil and Gas Audit Div.
Conservation Tax Component Oil and Gas Audit Div.
Sponsor Senator Pearce
Requester Senate Finance Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	(1,310.0)	(1,330.0)	(1,300.0)	(1,320.0)	(1,360.0)	(1,300.0)
------------------------	-----------	-----------	-----------	-----------	-----------	-----------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY99) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The decrease in revenue would come from Section 6 of the legislation, which would repeal the Oil and Gas Conservation Tax that is collected by the division.

Though the Oil and Gas Conservation Tax would be eliminated from the division's job duties, the division's operating budget would not change. The Conservation Tax is simply an add-on to the state's severance tax and does not require additional direct staff time to administer.

Prepared by Mary Marshburn
Division Commissioner's Office
Approved by Wilson L. Condon
Agency Department of Revenue

Phone 465-2301
Date/Time April 14, 1999
Date April 14, 1999

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FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

No. 2
Bill Version: SR 134
(S) Publish Date: 4-23-99

Revision Date/Time (Note if correction) _____	Dept. Affected	Revenue _____
Title <u>Well Regulatory Cost Charge/</u>	BRU	<u>Oil and Gas Audit Div.</u>
<u>Conservation Tax</u>	Component	<u>Oil and Gas Audit Div.</u>
Sponsor <u>Senator Pearce</u>		
Requester <u>Senate Finance</u>	Component Serial No.	_____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()	(1,310.0)	(1,330.0)	(1,300.0)	(1,320.0)	(1,360.0)	(1,300.0)

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY99) cost: _____

POSITIONS

POSITIONS	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

The decrease in revenue would come from Section 6 of the legislation, which would repeal the Oil and Gas Conservation Tax that is collected by the division.

Though the Oil and Gas Conservation Tax would be eliminated from the division's job duties, the division's operating budget would not change. The Conservation Tax is simply an add-on to the state's severance tax and does not require additional direct staff time to administer.

Prepared by Mary Marshburn
 Division Commissioner's Office
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 Commissioner
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5/12/99

Adopted

#1

AMENDMENT

OFFERED IN THE HOUSE

BY _____

TO: CSSB 134(RLS)

- 1 Page 3, line 23:
- 2 Delete "AS 31.05.093"
- 3 Insert "AS 31.05"

5/12/99

Adopted

#2

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR

TO: CSSB 134(RLS)

1 Page 2, line 12, following "day,":

2 Insert "been"

3 Page 2, line 13:

4 Following "abandoned":

5 Delete "the well"

6 Following "reported":

7 Delete "abandonment of the well"

8 Insert "as abandoned"

9 Page 2, line 23, following "year":

10 Delete "of"

11 Insert "for"

12 Page 2, lines 23-24:

13 Delete "for which permits to drill have been issued under AS 31.05.090."

Failed 1-~~10~~9

5/12/99

AMENDMENT

1-LS0259VT.2
Chenoweth
5/12/99
PEARCE
5/12

#3

OFFERED IN THE HOUSE

TO: CSSB 134(RLS)

1 Page 3, following line 16:

2 Insert a new subsection to read:

3 "(e) In developing its annual program and fiscal plan, the commission, in
4 addition to meeting its obligations under AS 37.07.050, shall, not less than 30 days
5 before submitting the information required under AS 37.07.050(a), prepare and
6 transmit to every operator of a well that may be subject to this section a letter or
7 notice setting out the commission's estimate of its proposed operating budget
8 requested to carry out its proposed plans in the succeeding fiscal year and its estimate
9 of the proposed regulatory cost charges to be levied under this section, and inviting
10 the operator to submit to the commission written comments on the proposed operating
11 budget. When submitting the information required under AS 37.07.050(a), the
12 commission shall also provide copies of all comments received from operators."

13 Reletter the following subsection accordingly.

14 Page 4, line 21:

15 Delete "AS 31.05.093(e)"

16 Insert "AS 31.05.093(f)"

Alaska State Legislature



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During Session: (Jan. - May)
State Capitol
Juneau, Alaska 99801-1182
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Drue Pearce
President of the Senate

Sponsor Statement

Senate Bill 134 Alaska Oil & Gas Conservation Commission

The Alaska Oil and Gas Conservation Commission (AOGCC) was created to protect the public interest through enforcement of the Alaska Oil and Gas Conservation Act. The commission's primary goal is to ensure that no hydrocarbons are wasted and that operations are conducted in manner that provides maximum recovery of the resource. SB 134 repeals the existing Oil & Gas Conservation Tax and institutes a stable funding source to assure that the commission is capable of carrying out their objectives.

The original intent of the Legislature was to have the oil & gas industry pay for the function of the commission through the Oil & Gas Conservation Tax. While this system may have been adequate in the past, it no longer is sufficient to cover the costs associated with the operation of the commission. This conservation tax is directly proportional to production with a 4 mils per barrel fee rate. The work of the commission, however, is not proportional to the production of oil and gas. Production is declining but the work of the commission is not.

SB 134 creates a program receipt system in which the regulatory cost charge is directly associated with the total volume of fluids produced or injected. This type of system more accurately reflects the factors directly associated with the workload of the commission. This approach would only assess costs where there is production or injection. Therefore, exploratory wells would not have a burden until they began production. SB 134 also contains a provision to provide for recovery of costs associated with an investigation or hearing. These costs would be allocated to the parties involved.

The commission experienced budget difficulties in the past, even when tax proceeds exceeded annual appropriations. The AOGCC is currently encountering budget difficulties that are directly related to the decline in oil production. SB 134 creates a stable funding source that will enable the AOGCC to provide the monitoring services necessary to protect the future of Alaskan interests.

LEGAL SERVICES

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130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

April 6, 1999

SUBJECT: Senate Bill 134, relating to the Alaska Oil and Gas Conservation Commission -- sectional analysis (Work Order No. 1-LS0259V)

TO: Senator Drue Pearce

FROM: Jack Chenoweth
Assistant Revisor of Statutes 

The measure amends various provisions of the chapter establishing the Alaska Oil and Gas Conservation Commission (AS 31.05), adding provisions that relate to the commission's recovery of its regulatory costs and expenses through calculation and imposition of a regulatory cost charge and to allowing the commission to allocate the costs of its hearings and investigations. The bill also repeals the oil and gas conservation tax (AS 43.57.010); though the revenue from the tax is deposited into the general fund and may be used for various state purposes, the tax is commonly regarded as a source of money for the work of the commission.

Bill section 1: The provision adds a new section, AS 31.05.085, under which the commission is authorized to allocate costs of investigations and hearings among the parties--the lessees subject to the commission's jurisdiction and the commission itself. The provision prescribes the basis for allocation of the costs.

Bill section 2: The provision adds a new section, AS 31.05.093, under which the commission is authorized to determine, by regulation, the amount of a regulatory cost charge. Under subsection (a), the charge is to be levied on "[e]very person operating a well for which a permit to drill has been issued under AS 31.05" and from which oil or gas is produced or into which oil, gas, water, or other fluids are re-injected. Subsection (b) specifies a formula by which the commission's regulatory cost charge shall be determined. Subsection (c) directs the commission to adjust the amount of the regulatory cost charge so that, when added to other fees, the charges and fees equal the amount appropriated for the work of the commission. Subsection (d) speaks to the collection and allocation of the amounts recovered from the regulatory cost charges. Subsection (e) authorizes adoption of implementing regulations.

Bill section 3: The subparagraph adds the amounts recovered by the Alaska Oil and Gas Conservation Commission under its regulatory cost charge authority to the list of non-general fund agency program receipts in the Executive Budget Act.

Senator Drue Pearce

April 6, 1999

Page 2

Bill section 7: This transitional provision sets the initial regulatory cost charge of the Alaska Oil and Gas Conservation Commission at \$1,000 per well.

*

The repeal of AS 43.57.010 by **bill section 6** repeals the state's oil and gas conservation tax—currently calculated at four mills per barrel of oil or per 50,000 cubic feet of natural gas.

Bill sections 4 and 5: The amendments eliminate references to the oil and gas conservation tax in the chapters levying and collecting state severance (AS 43.55) and pipeline property (AS 43.56) taxes.

The repeal of AS 43.82.210(a)(3) by **bill section 6** eliminates a reference to the oil and gas conservation tax in the "Alaska Stranded Gas Development Act," AS 43.82.

*

Bill section 8 proposes to give the measure a July 1, 1999, effective date.

JBC:jdr

99-192.jdr

CY 1998 AOGCC Fee Calculation vs. CY 1998 Estimated Conservation Tax.

Fee Based on Total Fluids Produced and Injected. Conservation Tax based on Net Oil and Gas (after royalty) taxed at \$.004 per BBL and \$.004 per 50 Mcf.

Case 2. Exclude Produced Water From Calculation of Total Fluids.

		Gross Liquid	Gross Gas	Gas,	Total	Budget	(Less Royalty)	(Less Royalty)	Conservation Tax Revenue	Calendar Yr 98			
		Stb	Mscf	BOE	Volume	\$1,520,000	Net Oil Vol	Net Gas	Estimated	Estimated	Conservation Tax	Conservation Tax	
					Liq+BOE	0	Sib	Mcf	Oil	Gas			
						Fee Calculation			\$	\$		\$	
						\$							
Cook In + NSB	1998	69,104,863	238,402,516	39,743,753	108,848,616	\$65,037	10,326,431	189,248,808	41,306	\$ 15,140		56,446	Cook In + NSB
No Slope	1998	1,421,973,398	6,078,722,961	1,013,120,497	2,435,093,895	\$1,454,963	365,201,657	29,703,288	1,460,807	\$ 2,376		1,463,183	No Slope
					2,543,942,511	0	375,528,087	218,952,096				1,519,629	

Field	Field	Gross Liquid	Gross Gas	Gas,	Total	Budget	(Less Royalty)	(Less Royalty)	Conservation Tax Revenue	Calendar Yr 98	Field		
Field	Field	Stb	Mscf	BOE	Volume	\$1,520,000	Net Oil Vol	Net Gas	Estimated	Total	Field		
Field	Field				Liq+BOE	Fee Calculation	Sib	Mcf	Oil	Conservation Tax	Field		
Field	Field					Fee, \$/Field			\$	\$	Field		
Field	Field										Field		
Badami	060	1,130,326	404,847	77,475	1,207,801	722	639,529	51,643	2,558	4	2,562	Badami	
Beaver Ck	080	111,774	3,743,166	623,861	735,635	440	89,734	3,275,270	359	262	621	Beaver Ck	
Beluga R.	092	18,591	33,391,407	5,565,235	5,583,826	3,336	-	29,217,481	-	2,337	2,337	Beluga R.	
Duck Isl U.	220	96,987,725	231,664,510	38,610,752	135,598,477	81,020	15,192,612	1,454,237	60,770	116	60,887	Duck Isl U.	
E. Barrow	150	-	145,563	24,261	24,261	14	-	127,368	-	10	10	E. Barrow	
Granite Pt.	280	4,443,565	2,635,226	439,204	4,882,769	2,917	1,818,879	2,305,823	7,276	184	7,460	Granite Pt.	
Ivan R.	360	-	4,531,576	755,263	755,263	451	-	3,965,129	-	317	317	Ivan R.	
Kenai GF	448	44,386	12,757,150	2,126,192	2,170,578	1,297	-	11,162,506	-	893	893	Kenai GF	
Kuparuk R.	490	387,287,735	227,116,823	37,852,804	425,140,539	254,021	84,245,824	1,992,689	336,903	159	337,143	Kuparuk R.	
Lewis R.	500	1,839	101,770	16,902	18,801	11	-	89,049	-	7	7	Lewis R.	
McArthur R.	520	46,789,865	73,819,275	12,303,213	59,093,078	35,308	4,214,560	64,591,866	16,858	5,167	22,026	McArthur R.	
Mid. Gr. Shoal	524	5,419,656	1,882,426	313,738	5,733,394	3,426	1,886,204	1,647,123	7,545	132	7,677	Mid. Gr. Shoal	
Milne Pt.	525	50,808,565	16,487,386	2,747,898	53,556,463	32,000	17,866,551	331,305	71,466	27	71,493	Milne Pt.	
No Cook Inlet	564	-	53,963,860	8,993,977	8,993,977	5,374	-	47,218,378	-	3,777	3,777	No Cook Inlet	
Pretty Crk	580	-	435,347	72,558	72,558	43	-	380,929	-	30	30	Pretty Crk	
Prudhoe B. Unit	640	744,629,300	5,482,885,154	913,814,192	1,658,443,492	990,916	205,648,413	23,322,560	822,594	1,866	824,459	Prudhoe B. Unit	
Pt McIntyre	666	141,129,747	120,104,261	20,017,377	161,147,124	96,205	41,608,728	2,451,461	166,435	196	166,631	Pt McIntyre	
So Barrow	764	-	80,717	13,453	13,453	8	-	70,627	-	6	6	So Barrow	
Sterling GF	768	-	279	47	47	0	-	244	-	0	0	Sterling GF	
Stump Lake	770	-	80,374	13,396	13,396	8	-	70,327	-	6	6	Stump Lake	
Swanson R.	772	5,491,632	48,008,411	8,001,069	13,492,701	8,062	797,094	22,599,716	3,188	1,808	4,996	Swanson R.	
Trading Bay Fld	800	4,538,687	1,537,479	256,247	4,794,934	2,865	612,595	1,345,294	2,450	108	2,558	Trading Bay Fld	
W McArthur R.	930	2,244,868	240,952	40,159	2,285,027	1,365	907,364	210,833	3,629	17	3,646	W McArthur R.	
Walakpa	880	-	1,109,538	184,923	184,923	110	-	970,846	-	78	78	Walakpa	
Cons Tax or Budget					2,543,942,511	\$1,520,000	Est. Budget		\$1,502,112	\$17,508		\$1,519,621	Conservation Tax

* Assumes 13% No Slope Gas is Taxable