

S B

1 3 4

FISCAL NOTE

No. 3

Bill Version: CSRB 134 (RLS)

(S) Publish Date: 4-28-99

STATE OF ALASKA
1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) Revised 4/27/99 11:36am
Title Well Regulatory Cost Charge/Cons. Tax

Dept. Affected _____ Dept. of Admin _____
BRU AOGCC
Component AOGCC

Sponsor Senator Pearce
Requester Sen. Rules 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	509.3	509.3	509.3	509.3	509.3	509.3
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	2,554.3	2,554.3	2,554.3	2,554.3	2,554.3	2,554.3

CAPITAL EXPENDITURES	400.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	--------------	------------	------------	------------	------------	------------

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	2,454.3	2,454.3	2,454.3	2,454.3	2,454.3	2,454.3
TOTAL	2,554.3	2,554.3	2,554.3	2,554.3	2,554.3	2,554.3

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 [Signature]
Agency _____

Phone 465-5654
Date/Time _____
Date 4/27/99

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION
Analysis

BILL NO. CSSB134 (R/S)
1LS0259\Y #2

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 lessees 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 execute the Commission's program and to comply with the Oil and Gas Conservation Act.

This fiscal note includes a FY2000 operating budget increment of \$664.1 and a one time capital budget request of \$400.0. The operating budget increment is based on the AOGCC's estimate of the total necessary to fund the agency's operations. The capital request is for funding necessary to relocate the AOGCC offices and to provide for necessary computer enhancements.

FISCAL NOTE

No. 2
 Bill Version: SR 134
 (S) Publish Date: 4-22-99

STATE OF ALASKA
1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) _____	Dept. Affected	Revenue
Title <u>Well Regulatory Cost Charge/</u>	BRU	Oil and Gas Audit Div.
<u>Conservation Tax</u>	Component	Oil and Gas Audit Div.
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
 Approved by Wilson L. Condon
 Commissioner
 Agency Department of Revenue

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

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

Alaska State Legislature

During Interim: (June - Dec.)
716 West 4th Avenue, Suite 500
Anchorage, Alaska 99501-2133
(907) 269-0200
Fax (907) 269-0204



During Session: (Jan. - May)
State Capitol
Juneau, Alaska 99801-1182
(907) 465-4993
Fax (907) 465-3872

Senator Drue Pearce

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

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


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-LS0259\I)

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