

SB

134

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED 4/23/99

DATE: 4/13/99

FURTHER:

DATE TURNED IN TO OFFICE: 4/23/99

Finance Committee considered SENATE BILL NO. 134

WELL REGULATORY COST CHARGE/CONS. TAX

and recommends:

- be replaced with CS SB 134 (FIN)
- adopt previous CS ()
- attached amendment(s) forthcoming CS (Finance)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Lynda Dreyer</i>	✓	<i>Walter E. Green</i>	✓		
<i>Patricia Kelly</i>	✓	<i>John Kelly</i>	✓		
<i>Gary Wilber</i>	✓	<i>Carl Adams</i>		X	
		<i>John A. Hanna</i>	✓		
		<i>Don Orsley</i>	✓		
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			
Co-Chair:		Co-Chair:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

Rev/Oil & Gas Audit Div	4/14/99		(1,310.0)

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

Admin/AOCC.	4/12/99		434.8

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

REPORTED OUT OF
SFC 4/23/99

FISCAL NOTE

No. 1
Bill Version: SB 134
(S) Publish Date: 2/13/99

STATE OF ALASKA
1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) _____ Dept. Affected _____ Dept. of Admin. _____
Title WELL REGULATORY COST CHARGE/CONJ. TAX BRU AOGCC
Component AOGCC
Sponsor Sen. Pearce
Requester Senate Resources 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	240.0	240.0	240.0	240.0	240.0	240.0
Travel	48.1	48.1	48.1	48.1	48.1	48.1
Contractual	135.0	135.0	135.0	135.0	135.0	135.0
Supplies	4.0	4.0	4.0	4.0	4.0	4.0
Equipment	7.7	7.7	7.7	7.7	7.7	7.7
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	434.8	434.8	434.8	434.8	434.8	434.8

CAPITAL EXPENDITURES (GF)	440.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	(1,790.0)	(1,790.0)	(1,790.0)	(1,790.0)	(1,790.0)	(1,790.0)
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Stat Desig	2,224.8	2,224.8	2,224.8	2,224.8	2,224.8	2,224.8
TOTAL	434.8	434.8	434.8	434.8	434.8	434.8

Estimate of any current year (FY99) cost: 0.0

POSITIONS

Full-time	3	3	3	3	3	3
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

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

Prepared by Robert Christenson, PE
Division Alaska Oil and Gas Conservation Commission
Approved by Commissioner [Signature]
Agency _____

Phone 279-1433
Date April 12, 1999
Date 4/12/99

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FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION
Analysis

BILL NO. SB134

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 \$434.8 and a one time capital budget request of \$440.0. 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

REPORTED COST 4/23/99
BILL NO. SB 134

STATE OF ALASKA
1999 LEGISLATIVE SESSION

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>	Component Serial No. _____	
Requester <u>Senate Finance</u>		

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	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
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

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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

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STATE OF ALASKA

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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

1-LS0259V ✓
Chenoweth
4/20/99

*moved by Sen. Donley
w/o obj. ADOPTED
work draft*

CS FOR SENATE BILL NO. 134()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): SENATOR PEARCE

A BILL

FOR AN ACT ENTITLED

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

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

6 * Section 1. AS 31.05 is amended by adding a new section to article 1 to read:

7 **Sec. 31.05.085. Expenses of investigation or hearing.** (a) During a hearing
8 or investigation held under this chapter, the commission may allocate the costs of the
9 hearing or investigation among the parties, including the commission, as is just under
10 the circumstances. In allocating costs, the commission shall consider the regulatory
11 cost charge paid by a person under AS 31.05.093 and may consider the results, ability
12 to pay, evidence of good faith, other relevant factors, and mitigating circumstances.

13 The costs allocated may include

14 (1) the costs of any time devoted to the investigation or hearing by

*Amended by
Donley
w/o obj.
ADOPTED*

1 hired consultants, whether or not the consultants appear as witnesses or participants;
2 and

3 (2) any out-of-pocket expenses incurred by the commission in the
4 particular proceeding.

5 (b) The commission shall provide an opportunity for any person objecting to
6 an allocation to be heard before the allocation becomes final.

7 * **Sec. 2.** AS 31.05 is amended by adding a new section to read:

8 **Sec. 31.05.093. Regulated well regulatory cost charge.** (a) Every person
9 that on the first day of a state fiscal year is the operator of a well for which a permit
10 to drill has been issued under AS 31.05.090 and that has not, before that day, plugged
11 and abandoned the well and reported abandonment of the well in accordance with
12 regulations of the commission shall pay to the commission an annual regulatory cost
13 charge for that fiscal year. A regulatory cost charge may not be collected from a
14 person unless the operation for which the person is responsible is within the
15 jurisdiction of the commission.

16 (b) The commission shall annually determine regulatory cost charges under this
17 section. The regulatory cost charge to be paid by a person for a state fiscal year must
18 be based on the total volume during the most recently concluded calendar year for the
19 wells described in (a) of this section of which the person was the operator on the first
20 day of the fiscal year as a percentage of the total volume during the same calendar
21 year of all wells described in (a) of this section for which permits to drill have been
22 issued under AS 31.05.090. For purposes of this subsection, "total volume" means the
23 sum of the volume of all oil, gas, and water produced from a well, and all oil, gas,
24 water, and other fluids, including waste slurry, injected into the well. For purposes of
25 determining volume under this subsection, 6,000 cubic feet of gas has a volume that
26 is the equivalent of one barrel of oil.

27 (c) The commission shall determine the regulatory cost charges levied under
28 this section so that the total amount to be collected approximately equals the
29 appropriations made for the operating costs of the commission under this chapter for
30 the fiscal year, less the estimated total of the fees to be collected under AS 31.05.090.
31 If the amount the commission expects to collect under this section and under

1 AS 31.05.090 exceeds the appropriations made for the operating costs of the
2 commission under this chapter, the commission shall, by order, adjust the regulatory
3 cost charges so that the total amount of the regulatory cost charges and fees that are
4 collected approximately equals the appropriations made for the operating costs of the
5 commission under this chapter for the fiscal year.

6 (d) The commission shall administer the collection of the regulatory cost
7 charges imposed under this section. The Department of Administration shall identify
8 the amount of the appropriations made for the operating costs of the commission under
9 this chapter that lapses into the general fund each year. The legislature may
10 appropriate to the commission for its operating costs under this chapter for the next
11 fiscal year an amount that is at least equal to the lapsed amount. If the legislature
12 makes an appropriation to the commission under this subsection that is at least equal
13 to the lapsed amount, the commission shall reduce the total regulatory cost charge
14 collected for that fiscal year by a comparable amount.

15 (e) The commission may adopt regulations under AS 44.62 (Administrative
16 Procedure Act) necessary to administer this section, including regulations for
17 investigation of the accuracy of reported information and for collecting required
18 payments.

19 * Sec. 3. AS 37.05.146(b)(4) is amended by adding a new subparagraph to read:

20 (W) Alaska Oil and Gas Conservation Commission under

21 AS 31.05.093.

22 * Sec. 4. AS 43.55.017(c) is amended to read:

23 (c) The taxes imposed by this chapter are not in place of the tax imposed by
24 [AS 43.57 OR] income taxes, franchise taxes, or taxes upon the retail sale of oil or gas
25 products.

26 * Sec. 5. AS 43.56.030 is amended to read:

27 **Sec. 43.56.030. In place of other taxes.** Except for those taxes imposed under
28 AS 43.55 [AND AS 43.57], the taxes levied or authorized under AS 43.56.010(b) are
29 in place of

30 (1) all other ad valorem taxes or other taxes imposed by a municipality
31 on property subject to tax under this chapter or exempted from taxation by

1 AS 43.56.020; [,] and

2 (2) all other taxes imposed by a municipality on or with respect to the
3 property subject to tax under this chapter or exempted from taxation by AS 43.56.020,
4 including, but not limited to,

5 (A) taxes on the retail sale or use of the property except for the
6 retail sales tax on the first \$1,000 of each sale;

7 (B) taxes on the sale or use of gas or unrefined oil;

8 (C) taxes on the sale or use of services used in or associated
9 with the property or in its maintenance or operation except for the sales tax on
10 the first \$1,000 of each sale;

11 (D) taxes on or measured by gross or net income from the
12 property, including income from the exploration for, production of, or pipeline
13 transportation of gas or unrefined oil or property; and

14 (E) any license, excise, fee, charge or other tax on or pertaining
15 to the property or services.

16 * Sec. 6. AS 43.57.010 and AS 43.82.210(a)(3) are repealed.

17 * Sec. 7. INITIAL REGULATORY COST CHARGE OF THE ALASKA OIL AND GAS
18 CONSERVATION COMMISSION. In the absence of regulations adopted under
19 AS 31.05.093(e), added by sec. 2 of this Act, the Alaska Oil and Gas Conservation
20 Commission may determine regulatory cost charges under AS 31.05.093, added by sec. 2 of
21 this Act, for the state fiscal year beginning July 1, 1999, and notify persons liable to pay the
22 regulatory cost charges of the amounts so determined at any time on or after July 1, 1999.
23 The commission may specify a time, no less than 20 days after notification, by which payment
24 of the regulatory cost charges shall be made.

25 * Sec. 8. This Act takes effect July 1, 1999.



Official Business

ALASKA STATE LEGISLATURE

SENATE RESOURCES COMMITTEE

State Capitol
Juneau, AK 99801

Chairman: Senator Rick Halford
Vice Chair: Senator Robin Taylor
Senator Lyda Green
Senator Pete Kelly
Senator Jerry Mackie
Senator Sean Parnell
Senator Georgianna Lincoln

MEMORANDUM

TO: Senator Sean Parnell, Co-Chairman
Senator John Torgerson, Co-Chairman
Senate Finance Committee

FROM: Senator Rick Halford, Chairman
Senate Resources Committee

DATE: 16 April 1999

SUBJECT: Alaska Oil and Gas Conservation Commission

During the Senate Resources Committee discussion of Senate Bill 134, it came to our attention that the Alaska Oil and Gas Conservation Commission (AOGCC) is facing a shortfall in FY 99 funding that will require them to suspend operation.

Although the AOGCC requested a supplemental appropriation of \$180,000 through OMB, it was not forwarded to the legislature. Without the additional operating funds, the AOGCC is faced with the prospect of shutting their doors for the month of June. In addition, the building in which they are housed has developed a roof leak that is threatening the integrity of their record storage. The estimated cost to fix the roof is in the range of \$20,000 to \$30,000.

Considering the importance of their functions, and the potential impact of a break in their operations, I believe the Finance Committee should look into this matter as soon as possible. In light of the proposed BP/ARCO merger, it is particularly important that the AOGCC has the resources necessary to provide for an even greater degree of scrutiny to the industry.

Thank you for your consideration.