

SB

77

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FILE

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 77
 (S) Publish Date: 2/22/01
 Dept. Affected: Natural Resources
 BRU: Oil & Gas Development
 Component: Oil & Gas Development
 Component Number: 439

Revision Date/Time (Note if correction): _____
 Title: Net Profit Share Under/Overpayments
 Sponsor: Senator Torgerson
 Requester: Senate Resources

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
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						
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CHANGE IN REVENUE ()						
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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 any current year (FY2001) cost: none
 Check this box (X) if funding for this bill is included in the Governor's FY2001 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Approval of this Bill will result in savings of administrative time and resources for both the state and the oil and gas lessees. When oil and gas royalty reports were processed manually the interest waiver was justified from a time and resources standpoint. However, now that the reports are processed automatically, the reverse is true. Manual intervention and exception programming is currently required on a case-by-case basis in order to implement the interest waiver; not having to do this would streamline the process in Royalty Accounting. The original intent of AS 38.05.135(g) is no longer operative. The Bill sponsor statement correctly identifies the historical interest payment amounts that would be effected by repeal of AS 38.05.135(g).

There is no fiscal impact anticipated with implementation of this legislation.

Prepared by: William Van Dyke Phone 269-8786
 Division: Oil and Gas Date/Time 20-Feb-01
 Approved by: Pat Pourchot Date 20-Feb-01
 Agency: Natural Resources

For distribution information, call the Governor's Legislative Office

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SENATE RESOURCES COMMITTEE

SB 77 SPONSOR STATEMENT "Net Profit Share Under/Overpayments"

In 1998, the Legislature enacted AS 38.05.135 (g), exempting the Department of Natural Resources from calculating interest on small over or underpayments of royalty if the interest is \$150 or less. The cost of calculating these small over/underpayments was more than the interest received or credit applied. Prior to 1998, DNR was calculating these small payments manually. For the 12 months prior to October 31, 2000, the State processed 1716 royalty filings where interest amounts were between a negative \$150 and a positive \$150. The net amount of these under/overpayments was a positive \$4,096.

The effort of calculating, processing and tracking interest for small under/overpayments was not cost effective for the oil companies or the State. With the advent of the State's new Oil and Gas Royalty Accounting System, all interest is calculated electronically. Also, most royalty payers are using main frame computer systems and sending their royalty reports electronically. The failure to repeal AS 38.05.135 (g), would require the Department and royalty payers to reprogram their computer systems to not compute under or overpayments of less than \$150.

The sophisticated computer systems used by the royalty payers and the State are now able to quickly compute the interest owed on even the smallest under or overpayment. All the royalty payments are automatically summed together and one wire transfer is used for payment. The repeal of AS 38.05.135 (g) will solve the problem of the administrative burden on the part of the royalty payers and the State to manually track very small amounts of interest. It is an unnecessary expense to reprogram computer systems to handle separate interest calculations for these small interest amounts, especially when a much easier option is available.

bp



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February 8, 2001

Senator John Torgerson
State Capitol, Room 427
Juneau, AK 99801-1182

Re: Repeal of AS 38.05.135(g)

Senator Torgerson,

BP Exploration (Alaska) Inc. supports the proposal by the Department of Natural Resources (DNR) to repeal AS 38.05.135(g). This statute sets a floor at \$150 for interest to accrue on royalty and net-profit overpayments and underpayments; no interest is payable for any over/under-payments of \$150 or less.

The idea of setting a floor to avoid dealing with nominal over/under-payments seems reasonable at first, because it appears to save DNR and the oil and gas lessees the trouble of calculating interest when the changes are too inconsequential. However, in practice, this rule turns out to be more bother than it is worth for both DNR and the lessees. This is because the spreadsheet software that comes standard on personal computers currently allows for the calculation of interest with no additional effort, regardless of how small or large each particular over/under-payment happens to be. In fact, by creating the \$150 threshold, AS 38.05.135(g) actually makes it harder for lessees to comply (and for DOR to administer), whenever the spreadsheet software calculates an over/under-payment, the program has to be specially modified to see whether that over/under-payment is over \$150 or not, and to calculate and include the interest only when the adjustment is above this threshold. It would be significantly easier, in terms of lessee compliance and agency administration, to calculate the interest every time instead of only some of the time.

Because complete accuracy in accounting for interest can be achieved for less effort than with the present rule in AS 38.05.135(g), there is no reason for the less accurate rule to continue. We therefore hope you will give DNR's proposal to repeal AS 38.05.135(g) your favorable consideration and support. Please feel free to call me at (907) 564-4039 if you have any questions or wish to discuss this further.

Sincerely yours,

Geoffrey E. Stein
Associate General Tax Counsel

GES:lw