

HB

307

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 307
 (H) Publish Date: 2/1/02
 Dept. Affected: Natural Resources
 BRU: Oil and Gas Developmen
 Component: Oil and Gas Developmen
 Component Number: 439

Revision Date/Time (Note if correction): _____
 Title: Oil/Gas Exploration Incentive Credit
 Sponsor: Rep. Fate
 Requester: (H) Oil and Gas

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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 REVENUES ()	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil
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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 (FY2002) cost: none

Check this box (X) if funding for this bill is included in the Governor's FY2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill extends the deadline for completion of activity qualifying for exploration incentive credits under AS 41.09.010 until July 1, 2007. The credits may be applied against royalties, rentals, taxes, and bonus bids. These credits may also be assigned to other companies so that they may be applied to their royalties, rentals, taxes, and bonus bids. However, under AS 41.09.010(f), a credit may not exceed \$5 million per eligible project and the entire program may not exceed \$30 million. Within one basin a single exploration program could cost as much as \$30 million.

Prepared by: Mark D. Myers, Director
 Division: Oil and Gas
 Approved by: Pat Pourchot
 Agency: Natural Resources

Phone 269-8800
 Date/Time 30-Jan-02
 Date 30-Jan-02

ANALYSIS: (continued) HB 307 FN#1

The DNR Commissioner has discretion whether to grant EICs. If he does decide to grant EICs, he may grant anywhere between 10 percent and 50 percent on state land and between 10 percent and 25 percent on non-state lands.

*If the program is fully utilized, the state could grant as much as \$30 million in credits that would normally be deposited in the general fund.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 307
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Oil / Gas Exploration BRU Revenue Operations
Incentive Credit Component Tax Division
 Sponsor Representative Fate
 Requester House Committee on Oil and Gas Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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 REVENUES ()	0.0	0.0	See Analysis-----			
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The exploration incentive credit in statute is designed to accelerate the exploration of state oil and gas leases and to acquire geological and geophysical information on state, federal and private land. This credit is approved at the discretion of the Commissioner of Natural Resources. The credit is transferable, so that it would have value to entities that do not have current royalty obligations or tax liabilities as well as to those that do.

This bill would delay the sunset provision in the current law from an expiration date of June 30, 2004 to June 30, 2007. No exploration credits have been applied against corporate income tax (AS 43.20) or royalties under the current law. The maximum amount of credits that can be taken is \$30 million. The revenue effect of this bill would therefore be between \$0 and \$30 million.

Prepared by: Chuck Logsdon, Petroleum Economist Phone 269-1019
 Division Tax Division Date/Time 1/30/02 3:25 PM
 Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002
 Agency Department of Revenue

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SPONSOR STATEMENT

HB 307

OIL/GAS EXPLORATION INCENTIVE CREDIT

House Bill 307 will extend the exploration incentive credit for petroleum for an additional three (3) years. This will allow for further exploration into the possibility of natural gas and oil in the Tanana River Drainage Basin.

There is presently renewed interest in exploring for natural gas in the above described basin near Nenana. This simply extends its sunset provision from 2004 to 2007.

CURRENT INCENTIVES	CONVENTIONAL LEASES	UNLEASED STATE LAND	LICENSED LAND	SNG LEASES	FEDERAL & PRIVATE LAND
Exploration Incentive Credits (EIC)					
AS38.05.180(i) -- no sunset	up to 50% of drilling costs	up to 50% of seismic costs	N/A	up to 50% of drilling costs	N/A
AS41.09.010 -- expires 7-1-2004	N/A	up to 50% of drilling & seismic costs	up to 50% of drilling & seismic costs	N/A	up to 25% of drilling & seismic costs
Royalty Reduction AS38.05.180(j) expires 7-1-2015	as low as 5% if not yet in production as low as 3% if producing or shut-in	No* No*	(Applies after conversion to Lease) (Applies after conversion to lease)	as low as 5% if not yet in production as low as 3% if producing or shut-in	N/A N/A
Discovery Royalty					
For Cook Inlet only AS38.05.180(f)(4) no sunset	5% royalty for 10 yrs	No*	(In limited area after conversion: T18N)	(Applies to limited area: T18N)	N/A
For the following fields only: AS38.05.180(f)(5) Falls Creek, Nicolai Creek, North Fork, Point Starichkof, Redoubt Shoals, & West Foreland expires 1-1-2004	5% on 1st 25 MM bbls for 10 yrs 5% on 1st 35 BCF for 10 yrs	N/A N/A	N/A N/A	N/A N/A	N/A N/A
Pre-1969 leases only, statewide	5% royalty for 10 yrs	N/A	N/A	N/A	N/A
ELF (Economic Limit Factor) -- AS43.55.013	Yes	No*	(Applies after conversion to Lease)	Yes	Yes
Contract Gas Price With a Utility vs Royalty Value AS38.05.180(aa)	Value of state's royalty share equals gas contract price	No*	(Applies after conversion to Lease)	Value of state's royalty share equals gas contract price	Value of state's royalty share equals gas contract price
INCENTIVES AS PART OF A PROGRAM					
Exploration Licensing AS38.05.132	N/A	N/A	Up to 500,000 acres per license No bonus bids One-time \$1/acre license fee No annual rentals	N/A	N/A
Shallow Gas Leasing AS38.05.177	N/A	N/A	N/A	\$500 application fee \$.50/acre annual rental 6.25% royalty	N/A
PROPOSED CHANGES TO INCENTIVES					
HB307 -- Extending Expiration Date for EICs Under AS41.09.010 to 7-1-2007	N/A	Yes	Yes	N/A	Yes
HB308 -- Extending Discovery Royalty under AS38.05.180(f)(4) to Tanana River basin	Yes	No*	(Applies after conversion to lease)	Yes	N/A
HB220 -- Corporate Income Tax Credit Incentive Under AS43.20. expires 1-1-2012	Credit = 10% of CapInvest.& 100% of cost incurred (labor, seismic & assoc. services), up to 50% of annual tax liability for expl.& develop. of less than 150 bbls/day or unlimited amt. of gas.	Credit = 10% of CapInvest.& 100% of cost incurred (labor, seismic & assoc. services), up to 50% of annual tax liability for expl.& develop. of less than 150 bbls/day or unlimited amt. of gas.	Credit = 10% of CapInvest.& 100% of cost incurred (labor, seismic & assoc. services), up to 50% of annual tax liability for expl.& develop. of less than 150 bbls/day or unlimited amt. of gas.	Credit = 10% of CapInvest.& 100% of cost incurred (labor, seismic & assoc. services), up to 50% of annual tax liability for expl. & develop. of unlimited amt. of gas.	Credit = 10% of CapInvest.& 100% of cost incurred (labor, seismic & assoc. services), up to 50% of annual tax liability for expl.& develop. of less than 150 bbls/day or unlimited amt. of gas.
HB394 -- Royalty Reduction under AS38.05.180(j): Removes sunset provision	Reduces royalty floor from 5% to 3.125% and from 3% to 1.25%	No*	(Applies after conversion to Lease)	Reduces royalty floor from 5% to 3.125% and from 3% to 1.25%	N/A
NOTE: No* -- means Not In Production; This chart does not reflect all tax incentive programs or proposed changes to incentives -- Consult DOR for additional information.					