

**HB**

**20001**

**(10/29/07)**

ALASKA STATE LEGISLATURE  
House Resources Committee

**Carl Gatto, Co-Chair**

State Capitol Building, Room 108  
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(907) 465-3743  
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Rep\_Carl\_Gatto@legis.state.ak.us



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**House Resources Committee Agenda**

**Monday, October 29<sup>th</sup>, 1:00 p.m. House Finance  
Committee Room 519**

CSHB 2001(O&G) Oil and Gas Tax Amendments

Teleconferenced

Don Bullock, Legislative Legal and  
Steve Porter, Contract Consultant to LB&A

Presentation by the Administration,  
~~Revenue Commissioner Pat Galvin~~ and  
Deputy Commissioner Marcia Davis, *Dept. of Revenue*

*Jerry Burnett, ———, Dept. of Revenue*

# LEGAL SERVICES

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## MEMORANDUM

October 29, 2007

**SUBJECT:** Overview of CSHB 2001(O&G) (CSHB 2001(O&G);  
Work Order No. 25-GH0014\L)

**TO:** Representative Carl Gatto  
Chair of House Resources Committee

**FROM:** Donald M. Bullock Jr.  
Legislative Counsel

You requested a copy of the notes I used when appearing before your committee today. What follows are the notes I used, which are really nothing more than a rough outline I used to trigger my memory. Therefore, it should not be treated as a full and complete analysis of CSHB 2001(O&G).

You will have received or will soon receive a sectional summary of the bill prepared by Alpheus Bullard, Legislative Counsel. Note that any sectional summary and my rough notes should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

To put these notes in perspective, I prepared these notes as a basis for introducing the committee to the major subject areas of the bill -- the tax, deductions for lease expenditures, credits, and tools for auditing and administering the petroleum production tax. The notes do not address or describe every section of the bill. My intention was to offer enough of an overview to give the committee members a general introduction to the issues and explain how the bill generally addresses those issues. My notes are very rough and were customized for my purposes.

Again, the best authority for what the bill says and means is the bill itself. If you need an understanding of the policy beyond sections of the bill, I refer you to the administration for the sections that originally appeared in HB 2001, and to the members of the House Special Committee on Oil and Gas for sections that were modified or added in that committee.

I am sure there are other disclaimers and cautionary statements that should apply. Please use these notes only as a general guideline and not as interpretive statements.

Notes for an overview of CSHB 2001(O&G) for presentation to House Resources

Overall concepts of the PPT:

**Tax**, including the tax rate, progressivity, and tax caps (AS 43.55.011)

**Expenditures**, those lease expenditures (AS 43.55.165) that reduce the gross value at the point of production (AS 43.55.150) to determine the production tax value of oil and gas (AS 43.55.165)

**Credits**, change in the transitional investment expenditure credits to reduce the claw-back period to 3 years

**Audit and verification** of the information on a return and the correct amount of tax that is due, including exempt auditors, requiring additional information from producers and explorers, and sharing information between the Department of Revenue and the Department of Natural Resources. This part also includes the expansion of the period in which a production tax may be assessed to 6 years

**The Tax**

**New Progressive Tax base on gross value at the point of production (AS 43.55.150)**

The current progressivity in AS 43.55.011(g) is repealed in sec. 38 of the bill

On January 1, 2008, there is a new progressive tax

The bill offers a new progressive tax in AS 43.55.011(o) added in sec. 18 of the bill

based on gross value at the point of production

triggered when the gross value at the point of production is greater than

\$50

.225 multiplied by the gross value at the point of production of taxable oil and gas and in turn multiplied by the difference between the value of a BTU equivalent barrel produced from the lease or property, and \$50

e.g. If the actual production gross value at the point of production is \$70, the multiplier is 20, the difference between \$70 and \$50

Conforming amendments to refer to AS 43.55.011(o) rather than to the repealed progressivity in AS 43.55.011(g) include:

Sections 14 (AS 43.55.011(j))

16 (AS 43.55.011(l))

17 (AS 43.55.011(m))

19 (AS 43.55.020(a))

20 (AS 43.55.020(d))

**New tax caps to benefit new gas outside of Cook Inlet and South of 68 degrees North**

AS 43.55.011(p) is added in sec. 18

Applies only to gas produced from a lease of property for which the start of regular deliveries of marketable gas is after Dec. 31, 2007

**Expenditures**

Revised rules for expenditures and new exclusions in AS 43.55.165(a) (sec. 32), AS 43.55.165(e) (sec 33)

Sec. 32 gives Department new authority to identify allowable lease expenditures; repeals AS 43.55.165(c) and (d) effective 4/1/2006, which looked at the unit agreement and unit billings for determining allowable lease expenditures

Sec. 33 disallows lease expenditures that relate to breaking the law or violating a lease provision

Sec 33 is also aimed at the SB 80/HB 128 corrosion repair cost issue, where costs necessitated by negligent maintenance would be disallowed

Sec. 33 disallows costs related to a topping plant

Secs. 32 and 33 are from the gov's bill

requires a spill or slow flow as a trigger for looking at whether the costs should be disallowed

**Credits**

**Sec. 24** AS 43.55.023(i) changes the period for transitional investment expenditures that can be taken as a credit to a three rather than five year period. The new period is after March 31, 2003 and before April 1, 2006 (the effective date of the PPT)

Retroactive to 4/1/2006

**Audit and Information**

**Provide more time for an audit.**

The period for making assessments is expanded from 3 to 6 years by new section.

The new section, AS 43.55.075, is in sec. 29 with a conforming provision in sec.

13

**Exempt service auditors:**

Sec. 9 would make oil and gas tax auditors and royalty auditors exempt

Sec. 40 provides transition

**More information from the producers and explorers:**

New information requirements from the producers and explorers in sec. 26 (AS 43.55.030(a)), sec. 27 (AS 43.55.030(e)), new section AS 43.55.040 added by sec. 28

information required even if no tax is due

**Information sharing between Departments**

Secs. 1 - 8, 10, 12

**Publication of information**

Sec. 35 (AS 43.55.890) which authorize revenue to disclose some tax information provided that the information is an aggregation of 3 or more producers

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSHB2001(O&G)  
 ( ) Publish Date: \_\_\_\_\_

Identifier (file name): CSHB2001(O&G)-DOR-TAX-10-29-07 Dept. Affected: Revenue 04  
 Title An Act relating to the production tax on oil and gas.. RDU Taxation and Treasury  
 Component Tax Division  
 Sponsor Governor  
 Requester House Resources Component Number 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel								
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2	5.2
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>

<b>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>		<b>227,000.0</b>	<b>161,000.0</b>	<b>251,000.0</b>	<b>459,000.0</b>	<b>487,000.0</b>	<b>337,000.0</b>	

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9	
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>645.9</b>	

Estimate of any current year (FY2008) cost: 3,409.2

**POSITIONS**

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

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

This bill makes two economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following changes to the current system: First, it calculates the progressivity surcharge as the difference between the per barrel gross revenue at the point of production and \$50, at a rate of 0.225%, which applies to gross revenue at the point of production. Second, it eliminates the period by which past investments are recognized in the transition investment expenditure credits (AS 43.55.023(i)) from April 1, 2001 to April 1, 2003.

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis  
 Division: Tax Division  
 Approved by: Jerry Burnett  
Department of Revenue

Phone 269-6628  
 Date/Time 10/29/07 9:00 AM  
 Date 10/29/2007

## FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(O&G)

### ANALYSIS CONTINUATION

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

**Personal Services:** The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulty the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

**Contractual:** Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

**Current FY2008 costs:** The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$216,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

**FISCAL NOTE**

**STATE OF ALASKA  
2008 LEGISLATIVE SESSION**

**BILL NO. CSHB2001(O&G)**

**ANALYSIS CONTINUATION**

**Estimated Production Tax Revenues, PPT and ACES, at  
Various Prices (in \$millions nominal)**

***Fall 2007 DOR Official Forecast Prices***

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (O&G)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,007	92
2009	64.55	66.30	1,693	1,920	227
2010	60.05	63.40	1,531	1,693	161
2011	59.70	64.75	1,670	1,920	251
2012	59.55	66.35	1,746	2,205	459
2013	58.90	67.45	1,647	2,134	487
2014	58.25	68.55	1,642	1,979	337

DOR Forecast nominal prices rounded to the nearest \$0.05

***\$60 per barrel in REAL dollars***

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (O&G)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,088	38
2009	60.00	61.65	1,435	1,575	141
2010	60.00	63.35	1,562	1,717	155
2011	60.00	65.09	1,695	1,951	256
2012	60.00	66.88	1,783	2,253	470
2013	60.00	68.72	1,733	2,248	515
2014	60.00	70.61	1,776	2,160	384

***\$80 per barrel in REAL dollars***

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (O&G)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	2,777	127
2009	80.00	82.20	3,031	3,465	434
2010	80.00	84.46	3,266	3,730	464
2011	80.00	86.78	3,481	4,090	609
2012	80.00	89.17	3,668	4,513	845
2013	80.00	91.62	3,619	4,526	906
2014	80.00	94.14	3,690	4,494	805

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 2001  
 (H) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOA-DAS-10-17-07 Dept. Affected: Administration  
 Title: An Act relating to the production tax on oil and gas... RDU: Centralized Admin. Services  
 Component: Office of the Commissioner  
 Sponsor: Governor  
 Requester: \_\_\_\_\_ Component Number: 45

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>								

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2008) cost: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

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

This legislation has no fiscal impact on the Department of Administration.

Prepared by: Eric Swanson Phone 465-5655  
 Division: Administrative Services Date/Time: \_\_\_\_\_  
 Approved by: Annette Kreitzer Date Oct. 12, 2007  
Commissioner

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: HB 2001  
 (H) Publish Date: 10/18/07

Identifier (file name): #773-08-0014-DNR-10-17-07 Dept. Affected: Natural Resources  
 Title: ACES RDU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: Rules Committee  
 Requester: Governor Component Number: 439

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required		Information				
	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>							
Personal Services	303.5	0.0	303.5	303.5	303.5	303.5	303.5
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>303.5</b>	<b>0.0</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>

<b>CAPITAL EXPENDITURES</b>							
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<b>CHANGE IN REVENUES ( )</b>							
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	303.5	0.0	303.5	303.5	303.5	303.5	303.5
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>303.5</b>	<b>0.0</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>	<b>303.5</b>

Estimate of any current year (FY2008) cost: 177.0

**POSITIONS**

Full-time							
Part-time							
Temporary							

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

This bill would amend the oil and gas production tax under AS 43.55 to increase the base tax rate from 22.5% to 25% of net income and have the index-based progressive tax apply when net income per barrel exceeded \$30 rather than the current \$40 per barrel. In addition, this bill would change the minimum tax that currently applies to taxable income generated from North Slope fields, and which, for ANS West Coast prices above \$25 per barrel, is now 4% of gross receipts at the lease boundary. The bill would increase the minimum tax rate to 10 percent gross, but apply this minimum tax only to large North Slope legacy units (Prudhoe Bay Unit and the Kuparuk River Unit). This minimum tax would also prevent these legacy field owners from using credits or deductions generated at these fields to lower their tax burden elsewhere when the minimum tax applies. In addition, the bill allows for tax credits on future work rather than previous work and expands the current exploration incentive credit program to include as many wells that can be drilled in two drilling seasons. It also restricts capital expense deductions to scheduled maintenance and would implement audit and information sharing provisions.

Prepared by: Kevin Banks, Acting Director  
 Division: Oil and Gas  
 Approved by: Tom Irwin, Commissioner  
Natural Resources

Phone 269-8800  
 Date/Time 10/17/2007  
 Date 10/17/2007

**FISCAL NOTE #2**

**STATE OF ALASKA  
2008 LEGISLATIVE SESSION**

**BILL NO. HB 2001**

**ANALYSIS CONTINUATION**

**\*\*Indeterminate Positive:** The royalty revenue impact to the State of ACES is indeterminate, but most likely positive. ACES improves the economics for new entrants or small Alaska producers, but decreases the attractiveness of investments in legacy fields.

Improvement in new entrant/small producer economics: ACES improves the economics of investing in Alaska for new entrants and small Alaska producers, an improvement that should lead to more investment and resulting royalty revenue. For new entrants and small producers, capital spent to find and develop oil or gas resources will generate a carried-forward annual loss credit of 25 percent rather than the current 20 percent AS 43.055.023(b).

Also, for new entrants and small Alaska producers, the transferable credits (the carried-forward annual loss credit and the 20 percent qualified expenditure credit (AS 43.55.023(a)) will be worth more under ACES. Small producers have indicated that they have been unable to sell their credits to larger tax payers. Under AS 43.55.028, ACES establishes an oil and gas tax credit fund that will help ensure these new and small producers will receive full value for these transferable credits.

Without the fund, the small producer or new entrant may have to carry-forward their credits until they have tax liability. By providing full value up-front for these credits, ACES improves the internal rate of return (IRR) by three to six percent at \$40 per barrel ANS WC.

As a partial offset to this incentive, ACES increases the tax rate from 22.5 to 25.0 percent; has the progressive, index-based, rate kicking in at a lower level; and has credits being spread over two years rather than one. However, on balance, ACES will improve new project economics for new entrants and small Alaska producers.

Decrease in attractiveness of investments in legacy fields: ACES will decrease the attractiveness of investments made by larger, existing producers for three reasons: the higher tax rate, the elimination of the Transition Investment Expenditure (TIE) credit, and the 10 percent minimum tax on legacy fields.

First, ACES increases the tax rate from 22.5 percent to 25.0 percent. In addition, the progressive, index-based rate will start at a lower (\$30) net value per barrel, but escalate at a lower rate (0.20 percent rather than 0.25 percent. Second, by eliminating the TIE credit, new capital spending by existing producers will no longer increase the ability of those producers to take the TIE credit by 10 percent of the capital invested. Third, at lower prices (prices far below where they are today) the minimum 10 percent gross tax applies, lowering or postponing the ability to take the capital expenditure credits. The floor also could eliminate the ability to use deductions generated by new spending to decrease tax liability. If the producers in these legacy fields (Prudhoe Bay Unit and Kuparuk River Unit) believe there is a good chance that prices will decline or costs will increase to the point where the floor applies, they might invest less in additional reserves in these legacy fields.

If these measures (the higher rate, the TIE credit elimination, and the 10 percent floor) cause less investment by existing producers to add reserves, the State will receive less in royalty.

Personal Services: Sections 10 and 67 would reclassify the current oil and gas auditors to exempt status employees. DO&G currently has seven oil and gas auditor positions. The total salary/benefit costs for these seven employees currently equals approximately \$849,147. An increase to exempt status is estimated to cost up to an additional \$303,500 in FY09. The FY08 amount of \$177,000 covers an estimated 7-months at the higher rate.

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
Bill Version: HB 2001  
(H) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOR-TAX-10-17-07 Dept. Affected: Revenue 04  
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treasury  
Component: Tax Division  
Sponsor: Governor  
Requester: \_\_\_\_\_ Component Number: 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel								
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2	5.2
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>		<b>675,000.0</b>	<b>603,000.0</b>	<b>589,000.0</b>	<b>624,000.0</b>	<b>597,000.0</b>	<b>416,000.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>645.9</b>

Estimate of any current year (FY2008) cost: 3,409.2

**POSITIONS**

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

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

This bill makes significant changes to the state's current petroleum profits tax. The tax proposal, also known as the Clear and Equitable Share (ACES) plan, like the current tax system, taxes the net value of petroleum resources. The ACES proposal makes the following changes to the tax system: raises the tax rate to 25% on net profits of oil and gas production subject to a 10% floor on legacy fields; adjusts the progressive tax feature to trigger at \$30 net value (annual) and rise at two-tenths of a percent per dollar; eliminates the transitional investment expenditures "TIE" credits; requires that capital costs be taken as credits over two years, rather than immediately; addresses the "corrosion" expense issue; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; expands exploration incentive credit program to cover two field seasons; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

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Division: Tax Division  
Approved by: Jerry Burnett  
Department of Revenue

Phone 269-6628  
Date/Time 10/17/07 12:00 AM  
Date 10/17/2007

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### ANALYSIS CONTINUATION

The tax proposal would also authorize a fund to be established for the purpose of purchasing tax credit certificates. The fund would receive 10% - 15% of total production tax revenues annually (roughly \$150 million to \$300 million); up to \$250 million of fund revenues would be paid to purchase credits in any given year.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

**Personal Services:** The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

**Contractual:** Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

**Current FY2008 costs:** The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

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ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES, at  
Various Prices (in \$millions)**

*Fall 2007 DOR Official Forecast Prices*

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,330	415
2009	64.55	66.30	1,693	2,369	675
2010	60.05	63.40	1,531	2,134	603
2011	59.70	64.75	1,670	2,258	589
2012	59.55	66.35	1,746	2,370	624
2013	58.90	67.45	1,647	2,244	597
2014	58.25	68.55	1,642	2,058	416

DOR Forecast nominal prices rounded to the nearest \$0.05

*\$60 per barrel in REAL dollars*

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,421	371
2009	60.00	61.65	1,435	1,977	542
2010	60.00	63.35	1,562	2,170	608
2011	60.00	65.09	1,695	2,291	596
2012	60.00	66.88	1,783	2,414	631
2013	60.00	68.72	1,733	2,347	614
2014	60.00	70.61	1,776	2,218	442

*\$80 per barrel in REAL dollars*

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	3,089	438
2009	80.00	82.20	3,031	3,717	686
2010	80.00	84.46	3,266	3,988	722
2011	80.00	86.78	3,481	4,189	708
2012	80.00	89.17	3,668	4,404	736
2013	80.00	91.62	3,619	4,327	708
2014	80.00	94.14	3,690	4,204	514

2

Provision	ACES	SEN CS E	House CS K
Leg intent re statute of limitation	1	X	x
DNR info to DOR	2	1	1
- Same	3	2	2
-Same	4	3	3
DNR- conform	5	4	4
-same	6	5	5
-same	7	6	6
-same	8	7	7
-same	9	8	8
Exempt DOR/DNR auditors	10	9	9
DNR- conform	11	10	10
DOR- Confid. Info release	12	11	11
DOR info to DNR	13	12	12
TIE credit- 06 to 07 vesting	X	13	X
Ref to 6 yr stat of limit.	14	X	13
.011(e) tax rate	15	X	X
.011(f) 10% legacy floor (replaced 4% floor)	16	X	X
.011(g) 25% rate w/.20 price index	17	X	X
.011(h) annual prog. \$30 trigger	18	X	X
.011(j) conforming	19	X	X
.011(j) reference new (o) CI gas	X	X	14
.011(k) conforming	20	X	X
.011(k)- reference new (o) OI oil	X	X	15
.011(m)-conforming CI lease expenditures	21	X	X
.011(m) reference new (o)	X	X	16
.011(o) .225% tax per 1\$ over \$50	X	X	17
.011(p) ELF ceiling on Middle earth	X	X	17
.020(a)- rewrite	22	X	X
.020(a) reference new .011(o)	X	X	18
.020(d) conform	23	X	X
.020(d) reference new .011(o)	X	X	19
.020(g) conform, clarify year	24	X	X
.020(g) clarify year mt begins run IRS over	X	X	20
.020(h) conform, clarify year	25	X	X
.020(h) clarify year mt begins run IRS over	X	X	21
.023(a) 2 yr cap credit use, legacy limit, exploration data rights	26	X	X
.023(b) 25% loss carry forward, leg. Limit	27	X	X
.023(d) Cap cost credit certif. ref annual statements.	23	X	X
.023(d) ref annual statements	X	X	22
.023(e) conforming	29	X	X
.023(g) conforming	30	X	X
.023(i) TIE credit past costs since 3-31-03	X	X	23

PROD TAX

Method of paying 1/2 INO and

Capital credits

#4 Tech unit .011 & add (o) reference

Technical #3 Amend fix language

New (P) FBX Nat'l Gas Amend #2

Provision	ACES	SEN CS E	House CS K
.023(l) tax exempt entity-no credits	31	X	X <i>And #1 -</i>
.024(a) conforming .011(f)	32	X	X
.024(c) conforming .011(f)	33	X	X
.024(e) conforming .011(f)	34	X	X
.024(g) conforming .011(f)	35	X	X
.025(a) EIC	36	X	X
.025(b) EIC	37	X	X
.025(c) EIC	38	X	X
.025(f) EIC	39	X	X
.025(g) EIC	40	X	X
.025(g) EIC	40	X	X
.025(h) EIC	41	X	X
.025(i) EIC	42	X	X
.025(k) EIC	43	X	X
.025(l) EIC	44	X	X
.028 New O&G tax credit fund	45	X	X
.030(a) Producer Annual report	46	14	24
.030(d) Penalty for no report	47	15	X
.030(e) Non-producer annual report, monthly reports	48	16	25
.040(5) DOR right to forecast info	49	17	26
.040(6) penalty for no forecast info	49	17	X
.075- six yr stat of limitation	50	X	27
.110 Electronic filing, payments	51	18	28
.160(a) production valuation changes	52	X	X
.160(a)- ?? <i>conforming</i>	X	X	29
.160(b) conforming	53	X	X
.160(e) rewrite carried forward loss	54	X	X
.160(f) allocation leasehold expenditures	55	X	X
.165(a) QLE are what are "in" not "out"	56	19	X
.165(a) - ?? <i>conforming</i>	X	X	30
.165(b) rewrite factors for determining Lease Expenditures	57	20	X
.165(e) Excluded lease expenditures- DDR, Corrosion, COTP	58	21	31
.165(h) cost allocation	59	X	X
.170(a) conform deletion of .165(c) and (d)	60	22	32
.890- Public Disclosure	61	23	33
.900 Definitions (4)	62	X	X
.900 Definitions (2)	X	24	34
Repeal .023(f)	63	X	X
Repeal .165(c) and (d)	64	25	35
Repeal .011(l), .023(i), .160(c)	65	X	X

*Samuelly unapproved*

*EIC credits*

*Production valuation*

*Leasehold Expenditures Upstream*

Provision	ACES	SEN CS E	House CS K
Repeal .011(l)	X	26	X
Repeal .011(g) (progressivity), .011(h) (trigger price), .011(l), .160(c)	X	X	36
Uncodified- Applicability (various sections) (each bill different)	66	27	37
Uncodified- Exempt Auditors, bargaining units	67	28	38
Regs Retroactive (each bill different) 4/1/06 - Lease Exp. 1/1/07(A)	68	29	39
Application to Pending Applications	69	X	X
DNR Regulations	70	30	40
Retroactivity of Provisions (each bill different)	71	31	41
Provisions Effective 1-1-08 (each bill different)	72	32	42
Provisions effective immediately	73	33	43