

HB

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(1 1/5/07)

LEGAL SERVICES

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

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MEMORANDUM

November 6, 2007

SUBJECT: CSHB 2001(RES): Version V
(Work Order No. 25-GH0014\V)

TO: Representative Carl Gatto
Co-chair of the House Resources Committee
Attn: Bonnie

FROM: Pam Finley 
Revisor of Statutes

Enclosed is a final of the referenced CS. The differences between this version and the O version are as follows:

1. In sec. 50, in AS 43.55.160(a)(2)(E), "1/2" was changed to "1/12".
2. In AS 43.55.028(e)(7), the words "or by" were added.
3. AS 43.55.850 was deleted and a general statement of its contents was added as intent language in sec. 1(c). Cross-references to AS 43.55.850 in the back pages were deleted.
4. In sec. 1(b), "the public education fund" was substituted for a general reference to education funding.
5. To correct errors in the back pages, the following changes were made. AS 43.55.023(l) was added to sec. 61(a). Section 26 was deleted from sec. 61(b). Section 52 was added to sec. 66(b). In sec. 66(b), AS 43.55.023 was substituted for AS 43.55.030. Section 44 was deleted from sec. 66(c).

Please let us know if any of the changes above were inappropriate.

PF:med
07-410.med

Enclosure

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSSB2001(RES)
 () Publish Date: _____

Identifier (file name): CSHB2001(RES)-DOR-TAX-11-5-07 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 Finance 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
OPERATING EXPENDITURES							
Personal Services	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
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	1,220.9

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()		727,000.0	513,000.0	566,000.0	835,000.0	813,000.0	596,000.0
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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							
TOTAL	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9

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 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: It institutes a rate of 25% on net income. It calculates the progressivity surcharge as the difference between the per barrel net revenue and \$30 at 0.2%, 0.3% between \$40 and \$50, 0.4% between \$50 and \$60, and 0.5% over \$60. 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. Pipeline tariffs are based on reasonable rates. EIC credits are increased from 20% to 30%. The effective date of the bill is January 1, 2007.

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

Phone 269-6628
 Date/Time 11/5/07 11:00 AM
 Date 11/5/2007

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB 2001 (RES)
 () Publish Date: _____

Identifier (file name): CSHB 2001 (RES) DOA-DAS-11-5-07
 Title: An Act relating to the production tax on oil and gas...
 Dept. Affected: Administration
 RDU: Centralized Admin. Services
 Component: Office of the Commissioner
 Sponsor: Rules
 Requester: Governor
 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
OPERATING EXPENDITURES								
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	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()								
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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 Interagency Receipts								
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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 11/5/07 2:50 PM
 Approved by: Annette Kreitzer Date 11/5/2007
Commissioner

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(RES)

ANALYSIS CONTINUATION

Administrative changes to the current tax system include the following: those expenses related to criminal negligence; 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, 2007.

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 n 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.

FISCAL NOTE

**STATE OF ALASKA
2008 LEGISLATIVE SESSION**

BILL NO. CSHB2001(RES)

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 (Res)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,970	1,055
2009	64.55	66.30	1,693	2,420	727
2010	60.05	63.40	1,531	2,044	513
2011	59.70	64.75	1,670	2,236	566
2012	59.55	66.35	1,746	2,581	835
2013	58.90	67.45	1,647	2,460	813
2014	58.25	68.55	1,642	2,238	596

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 (Res)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,688	637
2009	60.00	61.65	1,435	2,038	603
2010	60.00	63.35	1,562	2,081	519
2011	60.00	65.09	1,695	2,271	576
2012	60.00	66.88	1,783	2,632	849
2013	60.00	68.72	1,733	2,587	854
2014	60.00	70.61	1,776	2,437	661

\$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 (Res)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	4,146	1,496
2009	80.00	82.20	3,031	4,489	1,458
2010	80.00	84.46	3,266	4,700	1,434
2011	80.00	86.78	3,481	5,071	1,590
2012	80.00	89.17	3,668	5,667	1,999
2013	80.00	91.62	3,619	5,669	2,050
2014	80.00	94.14	3,690	5,585	1,895

Additional revenues for the second half of FY 2007 would be \$244 million.

Page 3- Questions 17-23 relating to September 4, 2007 Presentation materials.

These questions request details relating to preliminary modeling that was done as of September 4. Since September 4, this modeling was superseded by substantially refined and expanded models. It is this latter class of models that were used to provide the economic analyses during the weeks leading up to the start of the Special Session and during the Special Session. If the Committee would like more information about the models used prior to Special Session, we will be happy to provide it after our current economic work in support of the Special Session is completed. We are also available to respond to questions about the models that have been made available and are being used to support the economic analyses during this special session.

Page 4, Question 26 relating to Exploration Incentives

Please provide a history of all requests for exploration credits and which were denied and which were granted for the following two exploration incentive programs:

AS 38.05.180(i)

AS 41.09.010 (1994-2007)

AS 38.05.180(i)

Exploration incentive credits are only awarded for qualifying wells or G & G activity on state land. From 1983 through 1994, 22 wells have received EIC's. 17 of the wells received EIC's in the amount of \$51,813,093.45. See link to EIC's awarded by well and lessee at <http://www.dog.dnr.state.ak.us/oil/programs/incentives/incentives.htm>

Three other wells received about \$9 million in EIC's, but the state made audit recoveries of about \$4.4 of the EIC's (relating to Colville Delta wells #2, #25 1, and 3). Of the remaining two wells, one was a Colville Delta #1 sidetrack well. There have been no applications for G & G EIC's. The 22 wells are mostly North Slope and Foothills wells. Most of the EIC's for the wells have been audited. The entities receiving the EIC's include major oil producers, including Exxon (about \$13 million in EIC's), BP/Sohio (\$12 million), and ARCO (\$14.6 million). EIC's were denied to three wells under AS 38.05.180(i), all ARCO wells, including Alpine #1, Fiord #3 and Kuukpik #3. No EIC's have been awarded since 1994 under AS 38.05.180(i).

AS 41.09.010 (1994-2007)

EIC's are available under this statute on all land in Alaska (i.e., it does not have to be state land). Only one application has been received, and it was denied, relating to a well in Cook Inlet at Corea Creek (the denial was on September 29, 1995). In addition, Teck Cominco wanted AS 41.09 EIC on a gas well on NANA land, but was not eligible for EIC because it did not seek pre-approval for the EIC as required under the statute.

Page 4 Question 27- Tradeable Credits

Please provide specific information on the rate at which credits are being traded.

The Department of Revenue does not formally receive any reports of the price at which transferable credits are being sold or purchased. The price at which a credit is sold by a taxpayer is known only by the taxpayer and the purchaser of the tax credit. Taxpayers have voluntarily and informally advised the department of the price at which they ultimately were able to sell their

tax credits. That range is from \$.90 to full price. If the legislature desires to know more about the rate at which these credits are being sold, we would encourage them to speak directly with the taxpayers that are incurring capital credits but have no current production or tax liability against which these credits can be used.

Page 4, Question 28- Total Petroleum Revenues; What are the fall 2007 statistics for the following:

- a. Corporate Petroleum Tax
- b. Petroleum Property Tax
- c. Oil and Gas Royalties
- d. Bonuses, Rents, and Interest
- e. Deposits to the CBRF

The following are the statistics requested:

Unrestricted Oil Revenue (in millions)

Petroleum Property Taxes (State Share)	\$	65.6
Corporate Income Taxes (Petroleum)	\$	594.4
Production Taxes (Including Hazardous Release Surcharge)	\$	2,292.3
Royalties (Including Bonuses and Interest)		
Oil and Gas Royalties	\$	1,583.8
Bonuses and Interest	\$	29.2
Subtotal Royalties (Including Bonuses and Interest)	\$	1,613.0

Total Unrestricted Oil Revenue \$ **4,565.3**

Restricted Oil Revenue

Royalties to Permanent Fund & School Fund (Including Bonuses and Interest)	\$	545.7
Settlements to CBRF	\$	113.6
NPRA Royalties, Rents & Bonuses	\$	12.8

Total Restricted Oil Revenue \$ **672.1**

Total Restricted & Unrestricted Oil Revenue \$ **5,237.4**

Note

Data are preliminary and may not match final data published in the Fall 2007 Revenue Sources Book.

Includes both restricted and unrestricted revenue

Letter to Representatives Gatto and Johnson
November 5, 2007
Page 4 of 4

Data Request dated 10-21-07- Request for the Fall 2007 Revenue Sources Book.
The Fall 2007 Revenue Sources Book will be available in December 2007.

Data Request dated 10-23-07- Profile of forecasted credits taken over years in revenue forecast model, for .024 credits (middle earth \$6 million, and small producer \$12 million) and the 40% .025 credits (Exploration Incentive Credits). This information was previously requested and supplied to LB&A's economic consultant, Mr. Barry Pulliam EconOne.

Sincerely,



Marcia Davis, Deputy Commissioner
Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB2001(RES)
 () Publish Date: _____

Identifier (file name): HB2001CSRES-DNR-O&G-11-06-07 Dept. Affected: Natural Resources
 Title Oil and Gas Tax Amendments RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rules Committee
 Requester House Finance 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
OPERATING EXPENDITURES								
Personal Services	303.5		303.5	303.5	303.5	303.5	303.5	303.5
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	303.5		303.5	303.5	303.5	303.5	303.5	303.5

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								**Indeterminate Positive
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FUND SOURCE (Thousands of Dollars)

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

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. The bill has the progressivity surcharge increasing at 0.2% per dollar between the per barrel net revenue and \$30; 0.3% between \$30 and \$40; 0.4% between \$50 to \$60; and 0.5% as it goes over \$60. The bill also 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. In calculating transportation deductions, pipeline tariffs are based on actual and reasonable rates. Some EICs credits are increased from 20% to 30%.

Administrative changes to the current tax system include changes in the administration of EICs under AS 43.55.025 relating to the kind of information that EIC applicants must provide to the state and the time that this information may be kept confidential.

Prepared by: Kevin Banks, Acting Director Phone 269-8800
 Division Oil and Gas Date/Time 11/6/2007
 Approved by: Tom Irwin, Commissioner Date 11/6/2007
Natural Resources

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(RES)

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.

As an offset and incentive, the bill would have a fund created that would buy back the credits from small producers (less than 50,000 barrels a day) but payouts are capped at \$25,000,000. Because of this cap, the value of the production tax transferable credits (the Qualified Capital Expenditure credits (AS 43.55.023(a)), the loss carry-forward credit (AS 43.55.023(c)), and EICs (AS 43.55.025) will remain the same as under existing law.

Taken together and comparing the House Resources committee bill with the existing AS 43.55 means that a North Slope oil development project's value (the net present value at a 15% discount rate) to the new entrant will be less. At \$40 per barrel (ANS West Coast), the NPV goes down about 10% for these new entrant's projects. Existing producers will see a bigger decrease in the NPV of their new capital investments at \$40 per barrel because the TIE credit is eliminated. At higher prices (between \$50 and \$85), the higher tax rate will lower project net present values by as much as 35% but the remaining project NPVs at these higher prices will be high enough to still attract investment. These new investments will lead to more production and royalty revenue.

This bill also excludes certain types of costs from being deductible lease expenditures when determining net income. Expenses relating to criminal negligence and dismantlement, removal & restoration (DR&R) costs would no longer be deductible lease expenditure. The impact of these exclusions are unknown and not estimated here.

Personal Services: This bill 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.