

Leg. Finance - House & Senate Finance Comte Files (1973-74) 8879

SB/HB 3 cont., SB/HB 4 327

1 in any manner its right-of-way lease, or any rights under the
2 lease, [OR ANY PIPELINE] subject to the lease, whether on state
3 [PUBLIC] land or other land in the state, either voluntarily or
4 involuntarily, directly or indirectly, or by transfer of control of any
5 corporation holding the lease [OR CERTIFICATE OR OWNING THE PIPELINE,]
6 to any person, without notifying the commissioner [EXCEPT TO THE
7 EXTENT THAT THE COMMISSIONER, AFTER CONSIDERATION OF THE PUBLIC INTEREST
8 CONVENIENCE, AND NECESSITY, BY ORDER AUTHORIZES THE TRANSFER. THE
9 COMMISSIONER SHALL NOT UNREASONABLY WITHHOLD THIS AUTHORIZATION. THE
10 APPLICATION SHALL BE DISPOSED OF AS IF THE PROPOSED TRANSFEREE OR
11 ASSIGNEE WERE MAKING APPLICATION UNDER SECS. 50 - 100 OF THIS CHAPTER].

12 * Sec. 14. AS 38.35.170 is repealed and re-enacted to read:

13 Sec. 38.35.170. FORFEITURE OF LEASE. Failure to begin con-
14 struction of the pipeline facility within a reasonable time of the
15 granting of a right-of-way lease under this chapter for reasons within
16 the control of the lessee or failure of an owner of an interest
17 in the granted right-of-way substantially to comply with the terms
18 of the right-of-way shall be grounds for forfeiture of the right-of-way
19 interest of the lessee or owner in an action brought by the commis-
20 sioner in the superior court. Before the commencement of any action for
21 forfeiture of an interest in a right-of-way under this section,
22 the commissioner shall give the lessee or owner of the interest notice
23 in writing of the alleged default and shall not commence the proceeding
24 unless the lessee or owner of the interest has failed to initiate good
25 faith efforts to cure the default within 60 days of the notice of the
26 alleged default.

27 * Sec. 15. AS 38.35.180 is repealed and re-enacted to read:

28 Sec. 38.35.180. INJUNCTIONS. When in the judgment of the
29 commissioner a person has violated or is about to violate a provision

1 of this chapter or covenant, term or condition of a lease, the
2 attorney general, on advice of the commissioner, may seek a
3 prohibition or mandatory injunction from the superior court to remedy
4 the violation.

5 * Sec 16. AS 38.35.190(b), (c) and (d), AS 38.35.200 and AS 38.35.220(d)
6 are repealed.

7 * Sec. 17. AS 38.35 is amended by adding a new section to read:

8 Sec. 38.35.225. JUDICIAL REVIEW OF DECISIONS OF COMMISSIONER ON
9 APPLICATION. (a) An applicant or competing applicant or a person
10 who raises objections within 60 days of the publication of notice under
11 sec. 70 of this chapter are the only persons with standing to seek
12 judicial review of a decision of the commissioner.

13 (b) The only grounds for which judicial review of a decision
14 of the commissioner are

15 (1) failure to follow the procedures set out in this
16 chapter; or

17 (2) abuse of discretion so capricious, arbitrary
18 or confiscatory as to constitute a denial of due process.

19 * Sec. 13. AS 38.35.230 is repealed and re-enacted to read:

20 Sec. 38.35.230. DEFINITIONS. In this chapter

21 (1) "commissioner" means the commissioner of natural
22 resources;

23 (2) "natural gas" includes all hydrocarbons produced at
24 the wellhead not defined as oil;

25 (3) "oil" includes crude petroleum oil and other hydrocarbons
26 regardless of gravity which are produced at the wellhead in liquid
27 form and the liquid hydrocarbons known as distillate or condensate
28 recovered or extracted from gas, other than gas produced in association
29 with oil and commonly known as casinghead gas;

1 (4) "product" means refined crude oil, crude tops,
2 topped crude, processed crude petroleum, residue from crude petroleum,
3 cracking stock, uncracked fuel oil, fuel oil, treated crude oil,
4 residuum, gas oil, casinghead gasoline, natural gas gasoline,
5 naphtha, distillate, gasoline, kerosene, benzine, wash oil, waste oil,
6 blended gasoline, lubricating oil, blends or mixtures of petroleum and
7 any liquid products or by-product derived from crude petroleum oil or
8 natural gas;

9 (5) "state land" means

10 (A) "state lands" as defined in AS 38.05.365;

11 (B) public land of the United States selected by the
12 state under sec. 6 of the Alaska Statehood Act of 1958 (PL 85-508;
13 72 Stat. 399), as amended, and real property of the United
14 States transferred to the state under secs. 21, 35 and 45 of the
15 Alaska Omnibus Act of 1959 (PL 86 - 70; 73 Stat. 141), as
16 amended.

17 * Sec. 19. AS 09.55.240(a)(12) is amended to read:

18 (12) [SUBJECT TO THE REQUIREMENTS OF THE ALASKA RIGHT-OF-WAY
19 LEASING ACT OF 1972 (AS 38.3[]),] for the location of pipelines for
20 gathering, transmitting, transporting, storing, or delivering natural
21 or artificial gas or oil or any liquid or gaseous hydrocarbons,
22 including, but not limited to, pumping stations, terminals, storage
23 tanks, or reservoirs, and related installations.

24 * Sec. 20 AS 38.05.020(c)(1) is amended to read:

25 (1) granting leases of state [PUBLIC] land [AND ISSUING
26 CERTIFICATES] for pipeline right-of-way purposes;

27 * Sec. 21. AS 38.05.020(c)(2) is amended to read:

28 (2) leasing, purchasing, or otherwise acquiring (including
29 condemning by declaration of taking), easements or other interests in

1 [ON PRIVATE OR FEDERAL] land in this state for the purpose of utilizing
2 or granting leases of the land, easements or interests for pipeline
3 right-of-way purposes;

4 * Sec. 22. AS 36.05.020(c)(3) is repealed.

5 * Sec. 23. AS 38.05.020(c)(4) is amended to read:

6 (4) investigating any matters concerning any lessee
7 [CARRIER] with a view to assuring compliance by it with its
8 right-of-way lease, [CERTIFICATES ISSUED UNDER THAT LEASE,] this
9 chapter, and any other applicable state or federal law;

10 * Sec. 24. AS 38.05.330 is amended to read:

11 Sec. 38.05.330. PERMITS. The director, without the prior
12 approval of the commissioner, may issue permits, rights-of-way or
13 easements on state land for secondary roads, trails, ditches, field
14 gathering lines or transmission and distribution pipelines not
15 subject to AS 38.35, telephone and transmission lines, log storage,
16 oil well drilling sites and production facilities for the purposes
17 of recovering minerals from adjacent lands under valid lease, and
18 other similar uses or improvements, or for the limited personal use
19 of timber or materials. The commissioner, upon recommendation of the
20 director, shall establish a reasonable rate or fee schedule to be
21 charged for these uses. In the granting, suspension or revocation of
22 a permit or easement of lands, the director shall give preference to
23 that use of the land which will be of greatest economic benefit to the
24 state and the development of its resources. However, first preference
25 shall be granted to the upland owner for the use of a tract of tideland,
26 or tideland and contiguous submerged land, which is seaward of the
27 upland property of the upland owner and which is needed by the upland
28 owner for any of the purposes for which the use may be granted.

29 * Sec. 25. This Act takes effect on the day after its passage and

1 approval or on the day it becomes law without approval.

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RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

4/26/89
Date

10/20/73

COMMITTEE REPORT

SENATE

Mr. President:

Date 10/20/73

The Committee on Finance has had bill

under consideration. (bill for increasing production tax) A Majority of the members of the Committee

- () recommends it DO PASS
- () recommends it DO NOT PASS
- () recommends it DO PASS WITH ATTACHED AMENDMENT(S)
- (X) recommends it BE REPLACED WITH CS FOR SR4 AND THAT

CS FOR SR4 DO PASS

() "and" recommends it BE REFERRED TO THE _____
COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ Chairman

COMMITTEE REPORT

HOUSE

Oct. 17, 1973

Mr. Speaker:

Date 10/20/73

The Committee on Finance has had House Bill 4

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR None AND THAT
CS FOR None DO PASS

() "and" recommends it BE REFERRED TO THE _____
COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

[Signature] _____
[Signature] _____

[Signature] _____

Members NOT concurring in the Majority report:

_____ recommends: _____
_____ recommends: _____
_____ recommends: _____
_____ recommends: _____
_____ recommends: _____

[Signature] Chairman

"An Act relating to the oil and gas properties production tax; and providing for an effective date."

COMMITTEE REPORT

November 1, 1973

HOUSE

Mr. Speaker:

Date 11/1/73

The Committee on Finance has had CSB # (Finance) am

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR CSB #100 AND THAT

CS FOR _____ DO PASS

"and" recommends it BE REFERRED TO THE _____

COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

<u>[Signature]</u>	_____	_____
<u>[Signature]</u>	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends: _____

_____ recommends: _____

_____ recommends: _____

_____ recommends: _____

_____ recommends: _____

[Signature] Chairman

M E M O R A N D U M

TO: Chairmen and Members
Senate and House Finance

DATE: November 21, 1973

FROM: J. H. Hogan, Director
Legislative Finance

SUBJ: Oil and Gas Severance
Tax - SB 4

The Free Conference Committee version of the Act relating to the oil and gas properties production tax made four substantial changes from the existing law.

1. Rates

The existing law taxes oil at the rates of 3, 5, 6, and 8 percent on various brackets of production from 300 barrels per day through production in excess of 2500 barrels per day. The Act changes the tax to 5, 6, and 8 percent on brackets ranging from the first 300 barrels per day to all production in excess of 1000 barrels per day. The net effect of this is to increase the rate of tax on the lowest rate of production from 3 - 5 percent and to bring the former top 8 percent tax rate into play earlier, all production over 1000 barrels per day as opposed to all production over 2500 barrels per day.

According to information received yesterday from the Division of Oil and Gas, the comparison of projected receipts under both the new and the old rates is

<u>Fiscal Years</u>	<u>Current Law</u>	<u>SB 4 New Law</u>
74	\$ 10,742,000	\$ 13,260,000
75	10,383,000	14,786,000
76	10,298,000	14,446,000
77	10,081,000	13,859,000
78	58,523,000	82,985,000
79	118,550,000	174,402,000
80	144,605,000	204,687,000

Alaska State Legislature

SENATOR
LOWELL THOMAS, JR.
7022 TANAIMA DRIVE
ANCHORAGE, ALASKA 99502

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99801



MAJORITY LEADER

COMMITTEES
HEALTH, WELFARE AND
EDUCATION - CHAIRMAN

RESOURCES
RULES

Senate

November 10, 1973

The Hon. Terry Miller, Senate President
The Hon. Tom Fink, Speaker of the House
Alaska State Legislature

Mr. President:

Mr. Speaker:

In making this Free Conference Committee Report, the conferees wish to declare no intention whatsoever to set a lasting tax schedule as regards production of oil and gas from either Cook Inlet or the North Slope, and in fact, we wish to state our firm belief that substantial changes will be required in the future.

The compromise that we have reached represents basically no change in the ultimate impact to the North Slope future production, different than that contained in the Governor's bill presented to us during the early stages of this session.

We understand that the changes which we have made insofar as they relate to Cook Inlet production represent a compromise in which the level proposed by this bill will be less than one-half the difference between the existing law and that suggested by the House Finance Committee Substitute proposal.

Respectfully submitted,

Senator Lowell Thomas, Jr.
Chairman

Representative Andrew Warwick
Vice Chairman

Senator C. R. Lewis

Representative Robert Hartig

Senator John Rader

Representative Russ Meekins

SENATE/HOUSE/FREE CONFERENCE SEVERANCE TAX COMPARISON

Oil based upon the average daily production for each well for the calendar month in barrels, the tax is:

	PER CENT OF VALUE	CENTS PER BARREL FLOOR (27 Degree Gravity)
SENATE	3% on the first 300 barrels; 5% on the next 700 barrels; 6% on the next 1,500 barrels; and 8% on all production in excess of 2,500 barrels.	\$.10125 on each of the first 300 barrels; \$.16875 on each of the next 700 barrels; \$.2025 on each of the next 1,500 barrels; \$.2700 on each barrel of production in excess of 2,500 barrels.
HOUSE		\$.113 on wells producing 100 BPD or less; \$.226 on wells producing 101-1000 BPD; \$.301 on wells producing 1001-2000 BPD; \$.376 on wells producing 2001 BPD or more
FREE CONFERENCE	5% on the first 300 barrels; 6% on the next 700 barrels; 8% on all production in excess of 1,000 barrels.	\$.16875 on each of the first 300 barrels; \$.2025 on each of the next 700 barrels; \$.2700 on each barrel of production in excess of 1,000 barrels.

	SENATE	HOUSE	FREE CONFERENCE	"SPLITS" (Current Take/House)
Effective Cook Inlet Tax Rate (1,000 BPD of 35 degree API Oil)				
Per Cent of Value	4.4%	8.69%*	5.72 %	6.5%
Cents Per Barrel	\$.1716	\$.339	\$.2232	\$.2553

* This is the percentage equivalent of \$.339 cents per barrel tax on \$3.90 wellhead value.

The Legislature of the State of Alaska
FISCAL NOTE
First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: SB-4, HB-4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17 or ASAP
 Agency: Revenue & Natural Resources Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Division of Oil and Gas

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	12.0	25.0	26.2	55.0	57.8	60.6
200 TRAVEL	5.0	10.5	11.0	23.2	24.4	25.6
300 CONTRACTUAL						
400 COMMODITIES	0.3	0.5	0.5	1.2	1.2	1.3
500 EQUIPMENT	2.0	4.0	4.2	8.8	9.2	9.9
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	19.3	40.0	41.9	88.2	92.6	97.3

B. FUNDING: (Thousands of dollars)

GENERAL FUND	19.3	40.0	41.9	88.2	92.6	97.3
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	1 /	1 /	1 /	2 /	2 /	2 /
MAN MONTHS (P./T.)	6 /	12 /	12 /	24 /	24 /	24 /

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Desired increase of field control of oil and gas run tickets, meter checking and meter proving will require one additional petroleum engineer now and a second petroleum engineer when North Slope production comes on stream.

IV. ATTACHMENTS

V. DATE: 10/11/73 PREPARED BY: William C. Keebler

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

FINANCE COMMITTEE REPORT

ON

HOUSE BILL NO. 4

The Finance Committee has had House Bill No. 4 under consideration and a majority of the members of the Committee have recommended it be replaced with a Committee Substitute for House Bill 4, and that the Committee Substitute do pass. The Committee Substitute makes the following major changes from the bill as introduced:

1. The existing law provides for a combination percentage of gross value/cents per barrel severance tax on all oil produced in the State. House Bill 4 as introduced, and later revised by the Governor, would have continued this approach with a slight increase in the cents per barrel severance tax floor.

The Committee Substitute does away with the percentage of gross value portion of the tax on oil and substitutes complete reliance on a cents per barrel severance tax on crude oil. The Committee in its deliberations sought to achieve for the State a fair and just return on an important unrenovable resource, namely crude oil. After much deliberation, the Committee felt a schedule of cents per barrel tax rates levied upon various gravity oils and graduated with regard to the ability of wells to produce crude oil would assure a fair return to the State.

2. One of the principle objections to a cents per barrel schedule has been related to its apparent "inflexibility". To overcome this objection, the Committee has included a provision that would allow escalation of the entire cents per barrel tax schedule with the highest price paid for the state of Alaska royalty crude oil. Currently the price reference would be the price being paid by the Tesoro Petroleum Corporation.

3. Consistent with language in its Committee Substitute for House Bill 1, the Committee inserted the word municipality in place of political subdivision wherever it occurred.

4. The Committee Substitute repeals two portions of existing law. AS 43.55.010(e) and AS 43.55.015 were necessarily repealed when the Committee chose to recommend only one system of severance taxation on oil, namely the cents per barrel approach.

5. Definition changes are as follows:

A. "Average daily per well production" was changed to provide for a weighted averaging of days. The original bill would have allowed a well which produced only one day during the month to be averaged at a full months value with wells producing 30 days during the month.

B. "Gravity" was further explained by the addition of a formula.

C. "Lease or property" was further clarified by the addition of language similar to the definition developed by the Committee in its Committee Substitute for House Bill 1.

6. The Committee Substitute contains a severability clause which in essence provides that should any portion of the Act be found unconstitutional, the remainder of the Act will not be affected.

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas properties
7 production tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.55.010 is amended to read:

10 Sec. 43.55.010. GROSS PRODUCTION TAX. (a) There is levied upon
11 the producer of oil or [AND] gas a tax based upon a per cent of the
12 gross value at the well of all oil or [AND] gas removed or sold from
13 each lease or property in the state, less the value of any part the
14 ownership or right to which is exempt from taxation. The tax is
15 determined according to the following schedules, and any part which is
16 exempt from taxation is deducted from the tax levied on a pro rata
17 basis as to each production level tax bracket:

18 (1) oil: based upon the total production from each lease
19 or property [AVERAGE DAILY PRODUCTION FOR EACH WELL] for the calendar
20 month in barrels, the tax is

21 (A) three per cent on the first 300 barrels of average
22 daily per well production;

23 (B) five per cent on the next 700 barrels of average
24 daily per well production;

25 (C) six per cent on the next 1,500 barrels of average
26 daily per well production; and

27 (D) eight per cent on all production in excess of 2,500
28 barrels of average daily per well production;

29 (2) gas: the tax [RATE] is four per cent of the gross

1 value of the gas and liquid products produced each month.

2 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
3 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by
4 the state or any of its political subdivisions upon, and neither
5 the state nor a political subdivision may impose a tax
6 upon

7 (1) property rights attached to or inherent in the right
8 to explore for or produce oil or gas; [,]

9 (2) [PRODUCING] oil or gas leases or properties, whether
10 producing or not; [,]

11 (3) oil or gas in place;

12 (4) oil or [AND] gas produced or extracted in the state;
13 [UPON WHICH GROSS PRODUCTION TAXES ARE PAID, AND]

14 (5) an interest [INVESTMENT] in property described in this
15 subsection; or [SECTION]

16 (6) the value of intangible drilling and development expenses
17 and exploration expenses.

18 (c) An interest in the land not described in (b) of this section
19 may [SHALL] be assessed and taxed under other provisions of state
20 law [AS OTHER PROPERTY WITHIN THE TAXING DISTRICT IN WHICH THE
21 PROPERTY IS LOCATED].

22 (d) The [GROSS PRODUCTION] tax imposed by this chapter is not in
23 place [LIEU] of the tax imposed by AS 43.57 or income taxes or [EXCISE]
24 taxes upon the retail sale of oil or [AND] gas products.

25 (e) If on a tax payment date the amount of tax due under (a)(1) of
26 this section is less than the tax due under sec. 15 of this chapter,
27 the tax levied in sec. 15 of this chapter is payable in place of the
28 tax levied in this section [AND THE TAX LEVIED IN THIS SECTION NEED
29 NOT BE PAID].

1 * Sec. 2. AS 43.55.015 is repealed and re-enacted to read:

2 Sec. 43.55.015. TAX PER BARREL OF OIL. (a) There is levied
3 upon the producer of oil a tax on each barrel of oil removed or sold
4 from each lease or property in the state, less any part the ownership
5 or right to which is exempt from taxation. The tax is determined
6 according to the following cents per barrel tax schedule and any part
7 which is exempt from taxation is deducted from the tax levied on a
8 pro rata basis as to each production level bracket:

9 (1) \$.10125 on the first 300 barrels of average daily
10 per well production;

11 (2) \$.16875 on the next 700 barrels of average daily
12 per well production;

13 (3) \$.2025 on the next 1,500 barrels of average daily
14 per well production;

15 (4) \$.2700 on all production in excess of 2,500 barrels
16 of average daily per well production.

17 (b) The cents per barrel tax schedule set out in this section
18 applies to oil of 27 degrees API gravity. For each degree of API
19 gravity less than 27 degrees the cents per barrel tax in each production
20 level bracket shall be reduced by two per cent of the base rate for
21 27 degree oil and for each degree of API gravity greater than 27
22 degrees the cents per barrel tax for each production level bracket
23 shall be increased by two per cent of the base rate for 27 degree oil;
24 except that oil above 40 degrees API gravity shall be taxed as
25 40 degree oil. In applying the gravity adjustment under this
26 subsection, fractional degrees of API gravity shall be disregarded.

27 (c) The tax levied by this section shall be administered and
28 paid in the same manner as the tax levied in sec. 10 of this chapter.

29 (d) If on a tax payment date the amount of tax due under this

1 section is equal to or less than the tax due under sec. 10(a)(1) of
2 this chapter, the tax levied in sec. 10(a)(1) of this chapter is
3 payable in place of the tax levied in this section.

4 (e) When the tax levied under this section is payable, an
5 amount not less than \$.05 for each barrel of oil produced shall be paid
6 by the state out of its royalties from the oil, whenever payment by
7 the state is required under the revenue-sharing provisions of
8 sec. 9 of the Alaska Native Claims Settlement Act (PL 92-203; 85 Stat.
9 688, 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all
10 amounts paid in the fund equal \$500,000,000.

11 * Sec. 3. AS 43.55.140 is amended by adding new paragraphs to read:

12 (6) "intangible drilling and development expenses" means
13 those expenses defined in sec. 263(c) of the United States Internal
14 Revenue Code as defined on the effective date of this paragraph;

15 (7) "the ownership or right to which is exempt from
16 taxation" means any ownership interest of the federal government or
17 the state;

18 (8) "produced" means the removal or sale of oil or gas from
19 a lease or property in the state;

20 (9) "production" means the volume or quantity of oil or
21 gas removed or sold from a lease or property in the state;

22 (10) "API gravity" means the specific gravity of oil
23 measured in degrees on the American Petroleum Institute scale;

24 (11) "average daily per well production" means the amount
25 calculated by dividing the total number of barrels of oil produced
26 from each lease or property during the calendar month by the total
27 number of wells produced on the lease or property any time during the
28 calendar month and dividing that amount by the total number of days in
29 the calendar month;

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(12) "lease or property" means a lease or property including, but not limited to, a unitization or pooling agreement under the provisions of Section 614(b)(3) of the Internal Revenue Code of 1954 as defined upon the effective date of this paragraph.

* Sec. 4. This Act takes effect January 1, 1974.

Original sponsor: Rules Committee by
request of the Governor

Offered: 10/30/73

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas properties
7 production tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.55.010(a) is repealed and re-enacted to read:

10 (a) There is levied upon every person producing oil or gas a
11 tax on each barrel of oil produced within the state and on the gross
12 value at the well of all gas produced within the state, both less
13 any part or value of any part the ownership or right to which is
14 exempt from taxation. The tax is upon the whole production, including
15 what is commonly known as the royalty interest, and is levied according
16 to the following schedules:

17 (1) oil: based upon the average daily per well production
18 and the average gravity of the oil sold from each lease or property
19 for the calendar month in barrels, the tax on each barrel of oil
20 produced is:

	Production Rate			
Gravity	100 BPD or less	101-1000 BPD	100 2000 BPD	2001 BPD or more
20.9° and below	\$.091	\$.182	\$.243	\$.304
21.0° - 23.9°	.098	.197	.262	.328
24.0° - 26.9°	.106	.211	.282	.352
27.0° - 29.9°	.113	.226	.301	.376
28 30.0° - 32.9°	.120	.240	.320	.400
29 33.0° - 35.9°	.127	.254	.339	.424

1	36.0° - 38.9°	.134	.269	.358	.448
2	39.0° - 41.9°	.142	.283	.378	.472
3	42.0° and above	.149	.298	.397	.496

4 (2) oil: if 10 per cent of the highest price paid for
5 State of Alaska royalty crude oil 30.0 - 30.9 gravity exceeds \$.40,
6 the tax for oil of 30.0 - 32.9 gravity from wells producing 2001 BPD
7 or more as shown in (1) of this subsection shall be increased to a
8 cents per barrel equivalent to 10 per cent of the highest price paid
9 for State of Alaska royalty crude oil 30.0 - 30.9 gravity. The cents
10 per barrel taxes in the other production ranges shall be increased by
11 the same percentage. The department shall adjust and post the tax
12 rates accordingly at least semi-annually.

13 (3) gas: the tax rate shall be four per cent of the gross
14 value of the gas and liquid products produced.

15 * Sec. 2. AS 43.55.010(b), (c) and (d) are amended to read:

16 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
17 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by
18 the state or any of its municipalities [POLITICAL SUBDIVISIONS] upon,
19 and neither the state nor a municipality may impose a tax upon

20 (1) property rights attached to or inherent in the right
21 to explore for or produce oil or gas; [,]

22 (2) [PRODUCING] oil or gas leases or properties, whether
23 producing or not; [,]

24 (3) oil or gas in place;

25 (4) oil or [AND] gas produced or extracted in the state;
26 [UPON WHICH GROSS PRODUCTION TAXES ARE PAID, AND]

27 (5) an interest [INVESTMENT] in property described in this
28 subsection; or

29 (6) the value of intangible drilling and development expenses

1 and exploration expenses [SECTION].

2 (c) An interest in the land not described in (b) of this section
3 may [SHALL] be assessed and taxed under other provisions of state
4 law [AS OTHER PROPERTY WITHIN THE TAXING DISTRICT IN WHICH THE PROPERTY
5 IS LOCATED].

6 (d) The [GROSS PRODUCTION] tax imposed by this chapter is not
7 in place [LIEU] of the tax imposed by ch. 57 of this title or income
8 taxes or [EXCISE] taxes upon the retail sale of oil or [AND] gas
9 products.

10 * Sec. 3. AS 43.55.010(e) is repealed.

11 * Sec. 4. AS 43.55.015 is repealed.

12 * Sec. 5. AS 43.55 is amended by adding a new section to read:

13 Sec. 43.55.016. NATIVE CLAIMS PAYMENTS. When the tax levied
14 under sec. 10 of this chapter is payable, an amount not less than
15 \$.05 for each barrel of oil produced shall be paid by the state out
16 of its royalties from the oil, whenever payment by the state is
17 required under the revenue-sharing provisions of sec. 9 of the Alaska
18 Native Claims Settlement Act (PL 92-203; 85 Stat. 688; 43 U.S.C.
19 1601 et.seq.), into the Alaska Native Fund until all amounts paid
20 in the fund equal \$500,000,000.

21 * Sec. 6. AS 43.55.140 is amended by adding new paragraphs to read:

22 (6) "average daily per well production" means the amount
23 calculated by dividing the total number of barrels of oil produced
24 from each lease or property during the calendar month by the number
25 of 24 hour days each well produced on the lease or property any time
26 during the calendar month;

27 (7) "gravity" means the API gravity of oil measured at
28 60° F. and is determined by the following formula:

29
$$\text{API Gravity} = \frac{141.5}{\text{Specific Gravity}} - 131.5$$

1 (8) "intangible drilling and development expenses" means
2 those expenses defined in sec. 263(c) of the United States Internal
3 Revenue Code of 1954 as of the effective date of this paragraph;

4 (9) "lease or property" means a lease or property including
5 mineral interests in oil and gas and working interests, royalty
6 interests and overriding royalty interests in oil and gas leases and
7 unitization or pooling agreements under the provisions of sec. 614(b)(3)
8 of the Internal Revenue Code of 1954 as of the effective date of this
9 paragraph;

10 (10) "ownership or right to which is exempt from taxation"
11 means any ownership interest of the federal government or the state;

12 (11) "produce" means to remove or sell oil or gas from a
13 lease or property in the state;

14 (12) "production" means the volume or quantity of oil or
15 gas removed or sold from a lease or property in the state.

16 * Sec. 7. If any provision of this Act, or the application of it to any
17 person or circumstance is held invalid, the remainder of this Act and the
18 application to other persons or circumstances is not affected by that
19 holding.

20 * Sec. 8. This Act takes effect January 1, 1974.
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Original sponsor: Rules Committee by
request of the Governor

Offered: 10/30/73
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas properties
7 production tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.55.010 is amended to read:

10 Sec. 43.55.010. GROSS PRODUCTION TAX. (a) There is levied upon
11 the producer of oil or [AND] gas a tax based upon a per cent of the
12 gross value at the well of all oil or [AND] gas removed or sold from
13 each lease or property in the state, less the value of any part the
14 ownership or right to which is exempt from taxation. The tax is
15 determined according to the following schedules, and any part which is
16 exempt from taxation is deducted from the tax levied on a pro rata
17 basis as to each production level tax bracket:

18 (1) oil: based upon the average daily production for each
19 well for the calendar month in barrels, the tax is

20 (A) three per cent on the first 300 barrels;

21 (B) five per cent on the next 700 barrels;

22 (C) six per cent on the next 1,500 barrels; and

23 (D) eight per cent on all production in excess of 2,500

24 barrels;

25 (2) gas: the tax [RATE] is four per cent of the gross
26 value of the gas and liquid products produced each month.

27 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
28 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by
29 the state or any of its political subdivisions upon, and neither

1 the state nor a political subdivision may impose a tax upon

2 (1) property rights attached to or inherent in the
3 right to explore for or produce oil or gas; [,]

4 (2) producing oil or gas leases,

5 (3) oil or [AND] gas produced or extracted in the state;
6 [UPON WHICH GROSS PRODUCTION TAXES ARE PAID, AND]

7 (4) an interest [INVESTMENT] in property described in this
8 subsection; or

9 (5) the value of intangible drilling and exploration
10 expenses [SECTION].

11 (c) An interest in the land not described in (b) of this section
12 may [SHALL] be assessed and taxed under other provisions of state
13 law [AS OTHER PROPERTY WITHIN THE TAXING DISTRICT IN WHICH THE
14 PROPERTY IS LOCATED].

15 (d) The [GROSS PRODUCTION] tax imposed by this chapter is not
16 in place [LIEU] of the tax imposed by ch. 57 of this title or income
17 taxes or [EXCISE] taxes upon the retail sale of oil or [AND] gas
18 products.

19 (e) If on a tax payment date the amount of tax due under (a)
20 (1) of this section is less than the tax due under sec. 15 of this
21 chapter, the tax levied in sec. 15 of this chapter is payable in place
22 of the tax levied in this section [AND THE TAX LEVIED IN THIS SECTION
23 NEED NOT BE PAID].

24 * Sec. 2. AS 43.55.015 is repealed and re-enacted to read:

25 Sec. 43.55.015. TAX PER BARREL OF OIL. (a) There is levied
26 upon the producer of oil a tax on each barrel of oil removed or sold
27 from each lease or property in the state less any part the ownership
28 or right to which is exempt from taxation. The tax is based upon
29 the average daily production for each well for the calendar month in

1 barrels determined according to the following schedule and any part
2 which is exempt from taxation is deducted from the tax levied on a pro
3 rata basis as to each production level bracket:

4 (1) \$.10125 on each of the first 300 barrels;

5 (2) \$.16875 on each of the next 700 barrels;

6 (3) \$.2025 on each of the next 1,500 barrels;

7 (4) \$.2700 on each barrel of production in excess of 2,500
8 barrels.

9 (b) The cents per barrel tax schedule set out in this section
10 applies to oil of 27 degrees API gravity. For each degree of API
11 gravity less than 27 degrees the cents per barrel tax in each produc-
12 tion level bracket shall be reduced by two per cent of the base rate
13 for 27 degree oil and for each degree of API gravity greater than 27
14 degrees the cents per barrel tax for each production level bracket
15 shall be increased by two per cent of the base rate for 27 degree oil;
16 except that oil above 40 degrees API gravity shall be taxed as
17 40 degree oil. In applying the gravity adjustment under this sub-
18 section, fractional degrees of API gravity shall be disregarded.

19 (c) The tax levied by this section shall be administered and
20 paid in the same manner as the tax levied in sec. 10 of this chapter.

21 (d) If on a tax payment date the amount of tax due under this
22 section is equal to or less than the tax due under sec. 10(a)(1) of
23 this chapter, the tax levied in sec. 10(a)(1) of this chapter is
24 payable in place of the tax levied in this section.

25 (e) When the tax levied under this section is payable, an
26 amount not less than \$.05 for each barrel of oil produced shall be
27 paid by the state out of its royalties from the oil, whenever payment
28 by the state is required under the revenue-sharing provisions of
29 sec. 9 of the Alaska Native Claims Settlement Act (PL 92-203; 85 Stat.

1 688; 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all
2 amounts paid in the fund equal \$500,000,000.

3 * Sec. 3. AS 43.55.140 is amended by adding new paragraphs to read:

4 (6) "API gravity" means the specific gravity of oil
5 measured in degrees on the American Petroleum Institute scale;

6 (7) "Intangible drilling expenses" as defined in sec.
7 263(c) of the United States Internal Revenue Code as defined on the
8 effective date of this paragraph;

9 (8) "lease or property" means a lease or property including
10 mineral interests in oil and gas and working interest, royalty inter-
11 ests and overriding royalty interests in oil and gas leases and
12 unitization or pooling agreements under the provisions of sec. 614(b)(3)
13 of the Internal Revenue Code of 1954 as defined upon the effective
14 date of this paragraph;

15 (9) "ownership or right to which is exempt from taxation"
16 means any ownership interest of the federal government or the state;

17 (10) "produced" means the removal or sale of oil or gas
18 from a lease or property in the state;

19 (11) "production" means the volume or quantity of oil or
20 gas removed or sold from a lease or property in the state.

21 " Sec. 4. This Act takes effect January 1, 1974.
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1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas properties
7 production tax; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.55.010 is amended to read:

10 Sec. 43.55.010. GROSS PRODUCTION TAX. (a) There is levied upon
11 the producer of oil or [AND] gas a tax based upon a per cent of the
12 gross value at the well of all oil or [AND] gas removed or sold from
13 each lease or property in the state, less the value of any part the
14 ownership or right to which is exempt from taxation. The tax is
15 determined according to the following schedules, and any part which is
16 exempt from taxation is deducted from the tax levied on a pro rata
17 basis as to each production level tax bracket:

18 (1) oil: based upon the total production from each lease
19 or property [AVERAGE DAILY PRODUCTION FOR EACH WELL] for the calendar
20 month in barrels, the tax is

21 (A) three per cent on the first 300 barrels of average
22 daily per well production;

23 (B) five per cent on the next 700 barrels of average
24 daily per well production;

25 (C) six per cent on the next 1,500 barrels of average
26 daily per well production; and

27 (D) eight per cent on all production in excess of 2,500
28 barrels of average daily per well production;

29 (2) gas: the tax [RATE] is four per cent of the gross

1 value of the gas and liquid products produced each month.

2 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
3 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by
4 the state or any of its political subdivisions upon, and neither
5 the state nor a political subdivision may impose a tax
6 upon

7 (1) property rights attached to or inherent in the right
8 to explore for or produce oil or gas; [.]

9 (2) [PRODUCING] oil or gas leases or properties, whether
10 producing or not; [.]

11 (3) oil or gas in place;

12 (4) oil or [AND] gas produced or extracted in the state;
13 [UPON WHICH GROSS PRODUCTION TAXES ARE PAID, AND]

14 (5) an interest [INVESTMENT] in property described in this
15 subsection; or [SECTION]

16 (6) the value of intangible drilling and development expenses
17 and exploration expenses.

18 (c) An interest in the land not described in (b) of this section
19 may [SHALL] be assessed and taxed under other provisions of state
20 law [AS OTHER PROPERTY WITHIN THE TAXING DISTRICT IN WHICH THE
21 PROPERTY IS LOCATED].

22 (d) The [GROSS PRODUCTION] tax imposed by this chapter is not in
23 place [LIEU] of the tax imposed by AS 43.57 or income taxes or [EXCISE]
24 taxes upon the retail sale of oil or [AND] gas products.

25 (e) If on a tax payment date the amount of tax due under (a)(1) of
26 this section is less than the tax due under sec. 15 of this chapter,
27 the tax levied in sec. 15 of this chapter is payable in place of the
28 tax levied in this section [AND THE TAX LEVIED IN THIS SECTION NEED
29 NOT BE PAID].

1 * Sec. 2. AS 43.55.015 is repealed and re-enacted to read:

2 Sec. 43.55.015. TAX PER BARREL OF OIL. (a) There is levied
3 upon the producer of oil a tax on each barrel of oil removed or sold
4 from each lease or property in the state, less any part the ownership
5 or right to which is exempt from taxation. The tax is determined
6 according to the following cents per barrel tax schedule and any part
7 which is exempt from taxation is deducted from the tax levied on a
8 pro rata basis as to each production level bracket:

9 (1) \$.10125 on the first 300 barrels of average daily
10 per well production;

11 (2) \$.16675 on the next 700 barrels of average daily
12 per well production;

13 (3) \$.2025 on the next 1,500 barrels of average daily
14 per well production;

15 (4) \$.2700 on all production in excess of 2,500 barrels
16 of average daily per well production.

17 (b) The cents per barrel tax schedule set out in this section
18 applies to oil of 27 degrees API gravity. For each degree of API
19 gravity less than 27 degrees the cents per barrel tax in each production
20 level bracket shall be reduced by two per cent of the base rate for
21 27 degree oil and for each degree of API gravity greater than 27
22 degrees the cents per barrel tax for each production level bracket
23 shall be increased by two per cent of the base rate for 27 degree oil;
24 except that oil above 40 degrees API gravity shall be taxed as
25 40 degree oil. In applying the gravity adjustment under this
26 subsection, fractional degrees of API gravity shall be disregarded.

27 (c) The tax levied by this section shall be administered and
28 paid in the same manner as the tax levied in sec. 10 of this chapter.

29 (d) If on a tax payment date the amount of tax due under this

1 section is equal to or less than the tax due under sec. 10(a)(1) of
2 this chapter, the tax levied in sec. 10(a)(1) of this chapter is
3 payable in place of the tax levied in this section.

4 (e) When the tax levied under this section is payable, an
5 amount not less than \$.05 for each barrel of oil produced shall be paid
6 by the state out of its royalties from the oil, whenever payment by
7 the state is required under the revenue-sharing provisions of
8 sec. 9 of the Alaska Native Claims Settlement Act (PL 92-203; 85 Stat.
9 688, 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all
10 amounts paid in the fund equal \$500,000,000.

11 * Sec. 3. AS 43.55.140 is amended by adding new paragraphs to read:

12 (6) "intangible drilling and development expenses" means
13 those expenses defined in sec. 263(c) of the United States Internal
14 Revenue Code as defined on the effective date of this paragraph;

15 (7) "the ownership or right to which is exempt from
16 taxation" means any ownership interest of the federal government or
17 the state;

18 (8) "produced" means the removal or sale of oil or gas from
19 a lease or property in the state;

20 (9) "production" means the volume or quantity of oil or
21 gas removed or sold from a lease or property in the state;

22 (10) "API gravity" means the specific gravity of oil
23 measured in degrees on the American Petroleum Institute scale;

24 (11) "average daily per well production" means the amount
25 calculated by dividing the total number of barrels of oil produced
26 from each lease or property during the calendar month by the total
27 number of wells produced on the lease or property any time during the
28 calendar month and dividing that amount by the total number of days in
29 the calendar month;

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(12) "lease or property" means a lease or property including, but not limited to, a unitization or pooling agreement under the provisions of Section 614(b)(3) of the Internal Revenue Code of 1954 as defined upon the effective date of this paragraph.

* Sec. 4. This Act takes effect January 1, 1974.

SENATE RESOURCES COMMITTEE REPORT

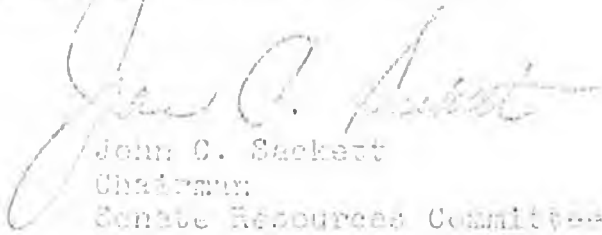
Committee Substitute For Senate Bill 4

Senate Bill 4 is clearly an important part of the legislative package now before this body. The Administration has asserted that the bill as presented is likely to result in a slight increase in tax revenues.

After careful consideration, the Committee has been unable to determine with any degree of certainty what effect the proposed tax would have on the state's future North Slope oil revenues, mainly because of its inability to predict future wellhead values and well productivities. The Committee has satisfied itself, however, that the legislation will not in any way reduce oil revenues from the state's presently producing oil fields.

Since passage of the bill, by removing the controversial royalty credit provision, will clearly eliminate an important cause of litigation between the state and the companies, the Committee has given the Committee Substitute (which is the Administration's suggested revision of Senate Bill 4) a Do Pass Recommendation.

In making this recommendation the signatories are cognizant of the almost certain need to re-evaluate and only slightly less certain need to modify the entire oil and gas tax structure prior to commencement of production from the North Slope. Passage of this bill should in no way be interpreted as precluding such study or future modification.


John C. Sackett
Chairman
Senate Resources Committee

FINANCE COMMITTEE REPORT

ON

HOUSE BILL NO. 4

The Finance Committee has had House Bill No. 4 under consideration and a majority of the members of the Committee have recommended it be replaced with a Committee Substitute for House Bill 4, and that the Committee Substitute do pass. The Committee Substitute makes the following major changes from the bill as introduced:

1. The existing law provides for a combination percentage of gross value/cents per barrel severance tax on all oil produced in the State. House Bill 4 as introduced, and later revised by the Governor, would have continued this approach with a slight increase in the cents per barrel severance tax floor.

The Committee Substitute does away with the percentage of gross value portion of the tax on oil and substitutes complete reliance on a cents per barrel severance tax on crude oil. The Committee in its deliberations sought to achieve for the State a fair and just return on an important unrenovable resource, namely crude oil. After much deliberation, the Committee felt a schedule of cents per barrel tax rates levied upon various gravity oils and graduated with regard to the ability of wells to produce crude oil would assure a fair return to the State.

2. One of the principle objections to a cents per barrel schedule has been related to its apparent "inflexibility". To overcome this objection, the Committee has included a provision that would allow escalation of the entire cents per barrel tax schedule with the highest price paid for the state of Alaska royalty crude oil. Currently the price reference would be the price being paid by the Tesoro Petroleum Corporation.

3. Consistent with language in its Committee Substitute for House Bill 1, the Committee inserted the word municipality in place of political subdivision wherever it occurred.

4. The Committee Substitute repeals two portions of existing law. AS 43.55.010(e) and AS 43.55.015 were necessarily repealed when the Committee chose to recommend only one system of severance taxation on oil, namely the cents per barrel approach.

5. Definition changes are as follows:

A. "Average daily per well production" was changed to provide for a weighted averaging of days. The original bill would have allowed a well which produced only one day during the month to be averaged at a full months value with wells producing 30 days during the month.

B. "Gravity" was further explained by the addition of a formula.

C. "Lease or property" was further clarified by the addition of language similar to the definition developed by the Committee in its Committee Substitute for House Bill 1.

6. The Committee Substitute contains a severability clause which in essence provides that should any portion of the Act be found unconstitutional, the remainder of the Act will not be affected.

The Legislature of the State of Alaska
FISCAL NOTE
First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: SB-4, HB-4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17 or ASAP
 Agency: Revenue & Natural Resources Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Division of Oil and Gas

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	12.0	25.0	26.2	55.0	57.8	60.6
200 TRAVEL	5.0	10.5	11.0	23.2	24.4	25.6
300 CONTRACTUAL						
400 COMMODITIES	0.3	0.5	0.5	1.2	1.2	1.3
500 EQUIPMENT	2.0	4.0	4.2	8.8	9.2	9.8
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	19.3	40.0	41.9	88.2	92.6	97.3

B. FUNDING: (Thousands of dollars)

GENERAL FUND	19.3	40.0	41.9	88.2	92.6	97.3
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	1 /	1 /	1 /	2 /	2 /	2 /
MAN MONTHS (P./T.)	6 /	12 /	12 /	24 /	24 /	24 /

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Desired increase of field control of oil and gas run tickets, meter checking and meter proving will require one additional petroleum engineer now and a second petroleum engineer when North Slope production comes on stream.

IV. ATTACHMENTS

V. DATE: 10/11/73 PREPARED BY: Edward C. Keller

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

The Legislature of the State of Alaska
 FISCAL NOTE
 First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: Senate Bill 4 & HB 4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17, or as soon after that date as possible
 Agency: Revenue & Natural Resources Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Excise Tax Division
 A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	-0-	-0-	17.6	18.4	19.3	20.3
200 TRAVEL	-0-	-0-	.5	.5	.5	.5
300 CONTRACTUAL	1.0	-0-	5.0	6.0	6.0	6.0
400 COMMODITIES	-0-	-0-	.1	.1	.1	.1
500 EQUIPMENT	-0-	-0-	.6	-0-	-0-	.3
600 LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS, ETC.	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	1.0	-0-	23.8	25.0	25.9	27.2

B. FUNDING: (Thousands of dollars)

GENERAL FUND	1.0	-0-	23.8	25.0	25.9	27.2
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	-0-/	-0-/	1/	1/	1/	1/
MAN MONTHS (P./T.)	-0-/	-0-/	12/	12/	12/	12/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

SEE ATTACHMENT

IV. ATTACHMENTS

Indicates itemized expenditures in Excise Tax Division.

V. DATE: October 22, 1973

PREPARED BY: Steffen Andersen

Steffen Andersen, Director
 Excise Tax Division
 Department of Revenue

Original: Legislative Finance
 cc: Budget and Management
Prime Sponsor (First Legislator Named)

AGO 788321

ATTACHMENT TO FISCAL NOTE ON OIL AND GAS PROPERTIES PRODUCTION TAX

As noted on line two of the fiscal detail, the division involved in this fiscal note is the Excise Tax Division, Budget Request Unit. You will note that the only figure shown the additional costs in FY 74 is \$1,000 and this reflects contractual funds required to modify the forms should the oil and gas production property tax become law as well as the oil and gas regulation and conservation tax. This \$1,000 will accommodate the redesign and printing of new forms which will be required. The \$1,000 dollars requested in contractual service in FY 74 is in addition to the \$20,000 which we currently have in the Excise Tax Division Contractual Services budget to automate the oil and gas production tax reporting.

You will note that there are no additional costs reflected in Fiscal Year 1975. It must be pointed out that the Excise Tax Division budget for Fiscal Year 1975 has already been prepared and includes \$10,000 budgeted in contractual services to complete and maintain the oil and gas automated production tax program. In all instances, the amounts indicated on this fiscal note are in addition to those amounts which have already been budgeted or will be budgeted for the Excise Tax Division for the Fiscal Years 1974 through 1979.

In Fiscal Year 1976 our fiscal note indicates personal services in the amount of \$17,600 which represents the hiring of a Revenue Auditor III whose primary function will be the auditing of the oil and gas production and conservation tax reports. We have shown \$500 in travel for this auditor enabling him to work closely with the Division of Natural Resources in Anchorage. You will also note \$5,000 contractual services in Fiscal Year 1976 which represents the amount which we feel will be our share of the automated data processing time-sharing costs for the oil and gas program. The amounts of \$100 and \$600 represent commodities and equipment for the new hire. The total amount in Fiscal Year 1976 being \$23,800. For the years Fiscal 77 through Fiscal 79 we are indicating the personal services of this same Revenue Auditor with merit increases each year and our contractual services indicate time-sharing data processing costs now estimated at \$6,000 per year.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JURFAM 99301

MEMORANDUM

TO: Chairmen and Members
Senate and House Finance

DATE: November 21, 1973

FROM: J. E. Hogan, Director
Legislative Finance

SUBJ: Oil and Gas Severance
Tax - SB 4

The Free Conference Committee version of the Act relating to the oil and gas properties production tax made four substantial changes from the existing law.

1. Rates

The existing law taxes oil at the rates of 3, 5, 6, and 8 percent on various brackets of production from 300 barrels per day through production in excess of 2500 barrels per day. The Act changes the tax to 5, 6, and 8 percent on brackets ranging from the first 300 barrels per day to all production in excess of 1000 barrels per day. The net effect of this is to increase the rate of tax on the lowest rate of production from 3 - 5 percent and to bring the former top 8 percent tax rate into play earlier, all production over 1000 barrels per day as opposed to all production over 2500 barrels per day.

According to information received yesterday from the Division of Oil and Gas, the comparison of projected receipts under both the new and the old rates is

<u>Fiscal Years</u>	<u>Current Law</u>	SB 4 <u>New Law</u>
74	\$ 10,742,000	\$ 13,260,000
75	10,383,000	14,786,000
76	10,298,000	14,446,000
77	10,081,000	13,859,000
78	58,523,000	82,985,000
79	118,550,000	174,402,000
80	144,605,000	204,687,000

2. Cents-Per-Barrel Floor

As proposed in the Governor's original legislation, the cents-per-barrel floor was raised to insure that tax rates would be levied against a minimum value of approximately \$3.90 a barrel for oil of 35° gravity. (The cents-per-barrel tax rates actually shown in the law are for oil of 27° gravity, a "lower value" oil.)

3. Escalation Clause

To counteract one of the principal objections to the cents-per-barrel tax, the Free Conference Committee adopted the House concept of an escalation clause tied to the cents-per-barrel floor. As its indicator, the committee used the Wholesale Price Index for crude petroleum published by the U.S. Bureau of Labor Statistics. Changes in the tax rates will be computed from changes in the Wholesale Price Index and will be applied at least semi-annually to new tax rate schedules. In this manner, the committee hoped to keep the cents-per-barrel floor in line with value changes for oil caused by "inflation".

4. Exemptions

The committee made the taxes imposed by this chapter "in place of all taxes imposed by a municipality upon oil or gas in place or non-producing oil or gas leases or properties". In so doing, they left the door open to future consideration by the state regarding taxation of oil and gas in the ground. Municipalities, however, were specifically prohibited from levying such a tax.

As a matter of interest, I have added the average daily production rates for Cook Inlet wells over the past three years. The significance of these figures is simply to indicate that except for Trading Bay, the production of Cook Inlet fields on a per well basis does not appear to be declining significantly at the current time.

COOK INLET OIL PRODUCTION RATES

(Well/Barrels per day average)

	<u>1971</u>	<u>1972</u>	<u>1973</u>
Granite Point	30/484	25/431	25/543
McArthur River	52/2,210	52/2,085	52/2,067
Middle Ground Shoal	38/763	35/765	36/756
Swanson River	41/818	44/555	37/765
Trading Bay	36/635	42/599	43/504

JHH/af

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

TO: Chairmen and Members
Senate and House Finance

DATE: November 21, 1973

FROM: J. H. Hogan, Director
Legislative Finance

SUBJ: Oil and Gas Severance
Tax - SB 4

The Free Conference Committee version of the Act relating to the oil and gas properties production tax made four substantial changes from the existing law.

1. Rates

The existing law taxes oil at the rates of 3, 5, 6, and 8 percent on various brackets of production from 300 barrels per day through production in excess of 2500 barrels per day. The Act changes the tax to 5, 6, and 8 percent on brackets ranging from the first 300 barrels per day to all production in excess of 1000 barrels per day. The net effect of this is to increase the rate of tax on the lowest rate of production from 3 - 5 percent and to bring the former top 8 percent tax rate into play earlier, all production over 1000 barrels per day as opposed to all production over 2500 barrels per day.

According to information received yesterday from the Division of Oil and Gas, the comparison of projected receipts under both the new and the old rates is

<u>Fiscal Years</u>	<u>Current Law</u>	<u>SB 4 New Law</u>
74	\$ 10,742,000	\$ 13,260,000
75	10,383,000	14,786,000
76	10,298,000	14,446,000
77	10,081,000	13,859,000
78	58,523,000	82,985,000
79	118,550,000	174,402,000
80	144,605,000	204,687,000

2. Cents-Per-Barrel Floor

As proposed in the Governor's original legislation, the cents-per-barrel floor was raised to insure that tax rates would be levied against a minimum value of approximately \$3.90 a barrel for oil of 35° gravity. (The cents-per-barrel tax rates actually shown in the law are for oil of 27° gravity, a "lower value" oil.)

3. Escalation Clause

To counteract one of the principal objections to the cents-per-barrel tax, the Free Conference Committee adopted the House concept of an escalation clause tied to the cents-per-barrel floor. As its indicator, the committee used the Wholesale Price Index for crude petroleum published by the U.S. Bureau of Labor Statistics. Changes in the tax rates will be computed from changes in the Wholesale Price Index and will be applied at least semi-annually to new tax rate schedules. In this manner, the committee hoped to keep the cents-per-barrel floor in line with value changes for oil caused by "inflation".

4. Exemptions

The committee made the taxes imposed by this chapter "in place of all taxes imposed by a municipality upon oil or gas in place or non-producing oil or gas leases or properties". In so doing, they left the door open to future consideration by the state regarding taxation of oil and gas in the ground. Municipalities, however, were specifically prohibited from levying such a tax.

As a matter of interest, I have added the average daily production rates for Cook Inlet wells over the past three years. The significance of these figures is simply to indicate that except for Trading Bay, the production of Cook Inlet fields on a per well basis does not appear to be declining significantly at the current time.

COOK INLET OIL PRODUCTION RATES

(Well/Barrels per day average)

	<u>1971</u>	<u>1972</u>	<u>1973</u>
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McArthur River	52/2,210	52/2,085	52/2,067
Middle Ground Shoal	38/763	35/765	36/756
Swanson River	41/818	44/555	37/765
Trading Bay	36/635	42/599	43/504

JHH/af

Alaska State Legislature

SENATOR
LOWELL THOMAS, JR.
7022 TANAINA DRIVE
ANCHORAGE, ALASKA 99502

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99801



MAJORITY LEADER

COMMITTEES
HEALTH, WELFARE AND
EDUCATION - CHAIRMAN

RESOURCES
RULES

Senate

November 10, 1973

The Hon. Terry Miller, Senate President
The Hon. Tom Fink, Speaker of the House
Alaska State Legislature

Mr. President:
Mr. Speaker:

In making this Free Conference Committee Report, the conferees wish to declare no intention whatsoever to set a lasting tax schedule as regards production of oil and gas from either Cook Inlet or the North Slope, and in fact, we wish to state our firm belief that substantial changes will be required in the future.

The compromise that we have reached represents basically no change in the ultimate impact to the North Slope future production, different than that contained in the Governor's bill presented to us during the early stages of this session.

We understand that the changes which we have made insofar as they relate to Cook Inlet production represent a compromise in which the level proposed by this bill will be less than one-half the difference between the existing law and that suggested by the House Finance Committee Substitute proposal.

Respectfully submitted,

Senator Lowell Thomas, Jr.
Chairman

Representative Andrew Warwick
Vice Chairman

Senator C. R. Lewis

Representative Robert Hartig

Senator John Rader

Representative Russ McKinnis

SENATE/HOUSE/FREE CONFERENCE SEVERANCE TAX COMPARISON

Oil based upon the average daily production for each well for the calendar month in barrels, the tax is:

	PER CENT OF VALUE	CENTS PER BARREL FLOOR (27 Degree Gravity)
SENATE	3% on the first 300 barrels; 5% on the next 700 barrels; 6% on the next 1,500 barrels; and 8% on all production in excess of 2,500 barrels.	\$.10125 on each of the first 300 barrels; \$.16875 on each of the next 700 barrels; \$.2025 on each of the next 1,500 barrels; \$.2700 on each barrel of production in excess of 2,500 barrels.
HOUSE		\$.113 on wells producing 100 BPD or less; \$.226 on wells producing 101-1000 BPD; \$.301 on wells producing 1001-2000 BPD; \$.376 on wells producing 2001 BPD or more
FREE CONFERENCE	5% on the first 300 barrels; 6% on the next 700 barrels; 8% on all production in excess of 1,000 barrels.	\$.16875 on each of the first 300 barrels; \$.2025 on each of the next 700 barrels; \$.2700 on each barrel of production in excess of 1,000 barrels.

	SENATE	HOUSE	FREE CONFERENCE	"SPLITS" (Current Take/House)
Effective Cook Inlet Tax Rate (1,000 BPD of 35 degree API Oil)				
Per Cent of Value	4.4%	8.69%*	5.72 %	6.5%
Cents Per Barrel	\$.1716	\$.339	\$.2232	\$.2553

* This is the percentage equivalent of \$.339 cents per barrel tax on \$3.90 wellhead value.



LAWS OF ALASKA

1973

Source

FSS-FCCS HCS CSSB 4

Chapter No.

4

AN ACT

Relating to the oil and gas properties production tax; and providing for an effective date.

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

* Section 1. AS 43.55.010 is amended to read:

Sec. 43.55.010. GROSS PRODUCTION TAX. (a) There is levied upon the producer of oil or gas a tax based upon a per cent of the gross value at the well of all oil or gas removed or sold from each lease or property in the state, less the value of any part the ownership or right to which is exempt from taxation. The tax is determined according to the following schedules, and any part which is exempt from taxation is deducted from the tax levied on a pro rata basis as to each production level tax bracket:

(1) oil: based upon the average daily production for each well for the calendar month in barrels, the tax is

(A) five per cent on the first 300 barrels;

(B) six per cent on the next 700 barrels;

(C) eight per cent on all production in excess of 1,000 barrels;

(2) gas: the tax is four per cent of the gross value of the gas and liquid products produced each month.

(b) The tax imposed by this chapter is in place of all taxes now imposed by the state or any of its municipalities, and neither the state nor a municipality may impose a tax upon

Chapter 4

- (1) [deleted]
- (2) producing oil or gas leases;
- (3) oil or gas produced or extracted in the state;
- (4) [deleted]
- (5) the value of intangible drilling and exploration expenses.

(c) The tax imposed by this chapter is in place of all taxes imposed by a municipality upon oil or gas in place or nonproducing oil or gas leases or properties.

(d) The tax imposed by this chapter is not in place of the tax imposed by ch. 57 of this title or income taxes or taxes upon the retail sale of oil or gas products.

(e) If on a tax payment date the amount of tax due under (a)(1) of this section is less than the tax due under sec. 15 of this chapter, the tax levied in sec. 15 of this chapter is payable in place of the tax levied in this section.

* Sec. 2. AS 43.55.015 is repealed and re-enacted to read:

Sec. 43.55.015. TAX PER BARREL OF OIL. (a) There is levied upon the producer of oil a tax on each barrel of oil removed or sold from each lease or property in the state less any part the ownership or right to which is exempt from taxation. The tax is based upon the average daily production for each well for the calendar month in barrels determined according to the following schedule and any part which is exempt from taxation is deducted from the tax levied on a pro rata basis as to each production level bracket:

- (1) \$.16875 on each of the first 300 barrels;
- (2) \$.2025 on each of the next 700 barrels;
- (3) \$.2700 on each barrel of production in excess of 1,000 barrels.

(b) The cents per barrel tax schedule set out in this section applies to oil of 27 degrees API gravity. For each degree of API gravity less than 27 degrees the cents per barrel tax in each production level bracket shall be reduced by two per cent of the base rate for 27 degree oil and for each degree of API gravity greater than 27 degrees the cents per barrel tax for each production level bracket shall be increased by two per cent of the base rate for 27 degree oil; except that oil above 40 degrees API gravity shall be taxed as 40 degree oil. In applying the gravity adjustment under this subsection, fractional degrees of API gravity shall be disregarded.

(c) The tax rates set out in this section will be increased or decreased by a percentage equal to the percentage of change in the Wholesale Price Index for crude

Chapter 4

petroleum published by the Bureau of Labor Statistics, of the United States Department of Labor. The year 1967 is the base year of 100 for computing the tax rates. Changes in tax rates will be computed based on changes in the Wholesale Price Index occurring after the effective date of this subsection and will not include changes in the Wholesale Price Index prior to the effective date of this subsection. The department shall post the changes in the tax rates at least semi-annually and shall notify every person producing oil within the state of the changes.

(d) If on a tax payment date the amount of tax due under this section is equal to or less than the tax due under sec. 10(a)(1) of this chapter, the tax levied in sec. 10(a)(1) of this chapter is payable in place of the tax levied in this section.

(e) When the tax levied under this section is payable, an amount not less than \$.05 for each barrel of oil produced shall be paid by the state out of its royalties from the oil, whenever payment by the state is required under the revenue-sharing provisions of sec. 9 of the Alaska Native Claims Settlement Act (PL 92-203; 25 Stat. 688; 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all amounts paid in the fund equal \$500,000,000.

* Sec. 3. AS 43.55.140 is amended by adding new paragraphs to read:

(6) "API gravity" means the specific gravity of oil measured in degrees on the American Petroleum Institute scale;

(7) "intangible drilling expenses" as defined in sec. 263(c) of the United States Internal Revenue Code as defined on the effective date of this paragraph;

(8) "lease or property" means a lease or property including mineral interests in oil and gas and working interests, royalty interests and overriding royalty interests in oil and gas leases and unitization or pooling agreements under the provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954 as defined on the effective date of this paragraph;

(9) "ownership or right to which is exempt from taxation" means any ownership interest of the federal government or the state;

(10) "produced" means the removal or sale of oil or gas from a lease or property in the state;

(11) "production" means the volume or quantity of oil or gas removed or sold from a lease or property in the state.

* Sec. 4. This Act takes effect January 1, 1974.



LAWS OF ALASKA

1973

Source

FSS-FCCS HCS CSSB 4

Chapter No.

4

AN ACT

Relating to the oil and gas properties production tax; and providing for an effective date.

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

* Section 1. AS 43.55.010 is amended to read:

Sec. 43.55.010. GROSS PRODUCTION TAX. (a) There is levied upon the producer of oil or gas a tax based upon a per cent of the gross value at the well of all oil or gas removed or sold from each lease or property in the state, less the value of any part the ownership or right to which is exempt from taxation. The tax is determined according to the following schedules, and any part which is exempt from taxation is deducted from the tax levied on a pro rata basis as to each production level tax bracket:

(1) oil: based upon the average daily production for each well for the calendar month in barrels, the tax is

(A) five per cent on the first 300 barrels;

(B) six per cent on the next 700 barrels;

(C) eight per cent on all production in excess of 1,000 barrels;

(2) gas: the tax is four per cent of the gross value of the gas and liquid products produced each month.

(b) The tax imposed by this chapter is in place of all taxes now imposed by the state or any of its municipalities, and neither the state nor a municipality may impose a tax upon

Chapter 4

- (1) [deleted]
- (2) producing oil or gas leases;
- (3) oil or gas produced or extracted in the state;
- (4) [deleted]
- (5) the value of intangible drilling and exploration expenses.

(c) The tax imposed by this chapter is in place of all taxes imposed by a municipality upon oil or gas in place or nonproducing oil or gas leases or properties.

(d) The tax imposed by this chapter is not in place of the tax imposed by ch. 37 of this title or income taxes or taxes upon the retail sale of oil or gas products.

(e) If on a tax payment date the amount of tax due under (a)(1) of this section is less than the tax due under sec. 15 of this chapter, the tax levied in sec. 15 of this chapter is payable in place of the tax levied in this section.

* Sec. 7. AS 43.55.015 is repealed and re-enacted to read:

Sec. 43.55.015. TAX PER BARREL OF OIL. (a) There is levied upon the producer of oil a tax on each barrel of oil removed or sold from each lease or property in the state less any part the ownership or right to which is exempt from taxation. The tax is based upon the average daily production for each well for the calendar month in barrels determined according to the following schedule and any part which is exempt from taxation is deducted from the tax levied on a pro rata basis as to each production level bracket:

- (1) \$.16875 on each of the first 300 barrels;
- (2) \$.2025 on each of the next 700 barrels;
- (3) \$.2700 on each barrel of production in excess of 1,000 barrels.

(b) The cents per barrel tax schedule set out in this section applies to oil of 27 degrees API gravity. For each degree of API gravity less than 27 degrees the cents per barrel tax in each production level bracket shall be reduced by two per cent of the base rate for 27 degree oil and for each degree of API gravity greater than 27 degrees the cents per barrel tax for each production level bracket shall be increased by two per cent of the base rate for 27 degree oil; except that oil above 40 degrees API gravity shall be taxed as 40 degree oil. In applying the gravity adjustment under this subsection, fractional degrees of API gravity shall be disregarded.

(c) The tax rates set out in this section will be increased or decreased by a percentage equal to the percentage of change in the Wholesale Price Index for crude

Chapter 4

petroleum published by the Bureau of Labor Statistics, of the United States Department of Labor. The year 1967 is the base year of 100 for computing the tax rates. Changes in tax rates will be computed based on changes in the Wholesale Price Index occurring after the effective date of this subsection and will not include changes in the Wholesale Price Index prior to the effective date of this subsection. The department shall post the changes in the tax rates at least semi-annually and shall notify every person producing oil within the state of the changes.

(d) If on a tax payment date the amount of tax due under this section is equal to or less than the tax due under sec. 10(a)(1) of this chapter, the tax levied in sec. 10(a)(1) of this chapter is payable in place of the tax levied in this section.

(e) When the tax levied under this section is payable, an amount not less than \$.05 for each barrel of oil produced shall be paid by the state out of its royalties from the oil, whenever payment by the state is required under the revenue-sharing provisions of sec. 9 of the Alaska Native Claims Settlement Act (PL 92-203; 85 Stat. 786; 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all amounts paid in the fund equal \$500,000,000.

* Sec. 3. AS 43.55.140 is amended by adding new paragraphs to read:

(6) "API gravity" means the specific gravity of oil measured in degrees on the American Petroleum Institute scale;

(7) "intangible drilling expenses" as defined in sec. 263(c) of the United States Internal Revenue Code as defined on the effective date of this paragraph;

(8) "lease or property" means a lease or property including mineral interests in oil and gas and working interests, royalty interests and overriding royalty interests in oil and gas leases and unitization or pooling agreements under the provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954 as defined on the effective date of this paragraph;

(9) "ownership or right to which is exempt from taxation" means any ownership interest of the federal government or the state;

(10) "produced" means the removal or sale of oil or gas from a lease or property in the state;

(11) "production" means the volume or quantity of oil or gas removed or sold from a lease or property in the state.

* Sec. 4. This Act takes effect January 1, 1974.

FINANCE COMMITTEE REPORT

ON

CS FOR SENATE BILL NO. 4

The Finance Committee has had Committee Substitute for Senate Bill No. 4 under consideration and recommends it be replaced with Finance Committee Substitute for CS for Senate Bill No. 4 and that HCS for CSSB 4 do pass.

This committee substitute differs from the committee substitute for HB 4, approved by the House on November 1, in the following respects:

1. On page 2, paragraph 2, the cost-of-living escalation clause was rewritten to correct a deficiency in the language. The House bill contained imprecise language relating to certain gravities of oil. The wording in this committee substitute attempts to make it clear that should the price increase occur in a gravity of oil produced for and sold by the State of Alaska, the price for all production ranges will escalate.
2. The other change occurs on page 3, line 25. The House bill contained a reference to "24 hour days each well produced..." It has since come to the committee's attention that records are not kept showing the number of hours any given well produces. It was suggested that [24 hour] be struck, leaving only the word "days" which could then be defined by administrative regulation.

Ernie Haugen

Ernie Haugen, Vice Chairman
Finance Committee

good draft

Original Sponsor: Bureau Committee by
Request of the Governor

IN THE HOUSE

CS FOR HOUSE BILL, NO. 4

IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTH LEGISLATURE - FIRST SPECIAL SESSION
A BILL

For an Act entitled: "An Act relating to the oil and gas properties
production tax; and providing for an effective date."

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

* Section 3. AS 43.55.010(e) is repealed and re-enacted to read:

(a) There is levied upon every person producing oil or gas a tax on each barrel of oil produced within the state and on the gross value at the well of all gas produced within the state, both less any part or value of any part the ownership or right to which is exempt from taxation. The tax is upon the whole production, including what is commonly known as the royalty interest, and is levied according to the following schedules:

(1) Oil -- based upon the average daily per well production and the average gravity of the oil sold from each lease or property for the calendar month in barrels, the tax on each barrel of oil produced is:

GRAVITY	PRODUCTION RATE		
	1000 BPD OR LESS	1001-2000 BPD	2001 BPD OR MORE
20°9 and below	.211	.282	.352
21.0° - 23.9°	.218	.291	.364
24.0° - 26.9°	.226	.303	.376
27.0° - 29.9°	.233	.310	.388
30.0° - 32.9°	.240	.320	.400
33.0° - 35.9°	.247	.330	.412
36.0° - 38.9°	.254	.339	.424

39.0° - 41.9°	.262	.326	.436
42.0° and above	.269	.358	.448

(2) Oil -- for wells tested and found incapable of producing more than 100 barrels in average daily production, the tax shall be one-half the amount shown in (1) of this subsection for production of 1,000 BPD or less.

(3) Oil --- if 10% of the average price for California Long Beach crude oil 30.0° - 30.9° gravity exceeds \$.40, the tax for oil of 30.0° - 32.9° gravity from wells producing 2001 BPD or more as shown in (1) of this section shall be increased to a cents per barrel equivalent to 10% of the average price for California Long Beach crude oil 30.0° - 30.9° gravity. The cents per barrel taxes in the other production ranges shall be increased by the same percentage. The department shall adjust and post the tax rates accordingly at least semi-annually.

(4) Gas -- the tax rate shall be four per cent of the gross value of the gas and liquid products produced.

* Section 2. AS 43.55.010(e) is repealed.

* Section 3. AS 43.55.015 is repealed.

* Section 4. AS 43.55.140 is amended by adding new paragraphs to read:

(6) "the ownership or right to which is exempt from taxation" means any ownership interest of the federal government or the state;

(7) "gravity" means the API gravity of oil measured at 60°F. and is determined by the following formula:

$$\text{Specific Gravity} = \frac{141.5}{131.5 + \text{API Gravity}}$$

(8) "average price for California Long Beach crude oil" means the price obtained by averaging the price per barrel of crude oil paid by the three largest purchasers of California Long Beach crude oil.

1 of 30.0° - 30.9° gravity.

2 (9) "average daily per well production" means the amount
3 calculated by dividing the total number of barrels of oil produced
4 from each lease or property during the calendar month by the number
5 of 24 hour days each well produced on the lease or property any time
6 during the calendar month;
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or property in the state for the value of any part the ownership or right to which is exempt from taxation. The tax is determined according to the following schedule, and any part which is exempt from taxation is deducted from the tax levied on a pro rata basis as to each production level tax bracket:

(1) oil: based upon the average daily production for each well for the calendar month in barrels, the tax is

- (A) three per cent on the first 300 barrels;
- (B) five per cent on the next 700 barrels;
- (C) six per cent on the next 1,500 barrels; and
- (D) eight per cent on all production in excess of 2,500 barrels;

(2) gas: the rate is four per cent of the gross value of the gas and liquid products produced.

(b) Payment of the tax is in lieu of all ad valorem taxes now or hereafter imposed by the state or any of its political subdivisions upon

- (1) property rights attached to or inherent in the right to produce oil or gas,
- (2) producing oil or gas leases,
- (3) [deleted]
- (4) oil and gas produced in the state upon which gross production taxes are paid, and
- (5) an investment in property described in this section.

(c) An interest in the land not described in this section shall be assessed and taxed as other property within the taxing district in which the property is located.

(d) The gross production tax is not in lieu of income taxes or excise taxes upon the retail sale of oil and gas products.

(e) If on a tax payment date the amount of tax due under (a)(1) of this section is less than the tax due under § 15 of this chapter, the tax levied in § 15 of this chapter is payable and the tax levied in this section need not be paid. (§ 2 ch 7 ESLA 1955; am § 1 ch 110 SLA 1962; am § 1 ch 247 SLA 1970; am §§ 1-3 ch 101 SLA 1972; am § 49 ch 53 SLA 1973)

Effect of amendments.

The 1972 amendment, effective July 1, 1972, in subsection (a), substituted "the producer of" for "every person producing" in the first sentence, substituted "removed or sold from each lease or property" for "produced" in that sentence, rewrote the second sentence, deleted "per well" preceding "producer" in the introductory language of paragraph (1), and inserted "for each well" therein. The amendment also deleted item (3) in subsection (b) and added subsection (c).

The 1973 amendment substituted

"or any of its political subdivisions" for "cities, towns, school districts, and other local government units" in the introductory language in subsection (b), substituted "produce" for "producing" in paragraph (1) of that subsection, and deleted paragraph (3) of that subsection.

Legislative committee reports. For report on ch. 101, SLA 1972 (FICS HOUSE 164), see 1972 House Journal, p. 543. For report on ch. 53, SLA 1973 (CSHB 541), see 1973 House Journal, pp. 733, 835.

43.55.010

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43.55.015

REVENUE AND TAXATION

43.55.020

Sec. 43.55.015. Tax per barrel of oil. (a) There is levied upon the producer of oil a tax on each barrel of oil removed or sold from each lease or property in the state has any part the ownership or right to which is exempt from taxation. The tax is based upon the average daily production for each well for the calendar month in barrels determined according to the following schedule and any part which is exempt from taxation is deducted from the tax levied on a pro rata basis as to each production level bracket:

- (1) Before July 1, 1959,
 - (A) \$.458 on the first 500 barrels;
 - (B) \$.511 on the next 700 barrels;
 - (C) \$.533 on the next 1,500 barrels;
 - (D) \$.591 on all production in excess of 2,500 barrels;
- (2) On and after July 1, 1959,
 - (A) \$.482 on the first 500 barrels;
 - (B) \$.482 on the next 700 barrels;
 - (C) \$.507 on the next 1,500 barrels;
 - (D) \$.557 on all production in excess of 2,500 barrels.

(b) In computing the tax payable under this section the producers of oil may deduct from the amount owing the value of the royalty share paid or to be paid by the producer in an amount up to one-eighth of the value of all the oil produced. For any lease where a state royalty of a lesser percentage is payable, the deduction allowed shall be adjusted to equal one-eighth of the value of the oil produced.

(c) The tax levied by this section shall be administered and paid in the same manner as the tax levied in § 10 of this chapter.

(d) If on any tax payment date the amount of tax due under (a) of this section is equal to or less than the tax due under § 10(a)(1) of this chapter, the tax levied in § 10(a)(1) of this chapter is payable and the tax levied in this section need not be paid.

(e) When the tax levied under (a) of this section is payable, state royalties of an amount equal to \$.05 for each barrel of oil taxed shall be paid, pursuant to the revenue-sharing provisions of § 9 of the Alaska Native Claims Settlement Act (PL 92-203; 85 Stat. 683; 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all amounts paid into the fund equal \$500,000,000. (§ 4 ch 191 SLA 1972)

Effective date.—Section 18, ch. 101, report on ch. 101, SLA 1972 (FCCS SLA 1972, provides: "This Act takes effect July 1, 1972."

Legislative committee report.—For

report on ch. 101, SLA 1972 (FCCS HCS&B 1972), see 1972 House Journal, p. 963.

Sec. 43.55.020. Payment of tax. (a) The gross production tax on oil or gas shall be paid monthly. The tax is due on the last day of each calendar month on oil or gas removed or sold from each

STATE OF ALASKA

DEPARTMENT OF REVENUE

WILLIAM W. WILSON

FOUNDED 1907

October 23, 1973

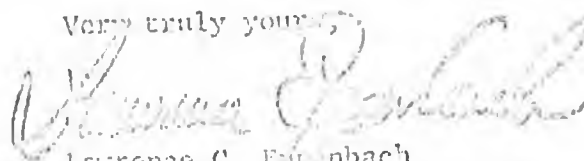
The honorable Tom Fink
Speaker of the House
Alaska State Capitol
Juneau, Alaska 99801

Dear Representative Fink:

Pursuant to your request of October 21, 1973, I am sending you the attached revenue estimates comparing production tax revenue under existing rates, the Governor's proposed rates, and the cents per barrel rates you have proposed in the draft of CSB 4.

These projections were completed by hand as our computer program is not capable of accepting the wide variance in rates.

Very truly yours,



Lawrence C. Eppanbach
Deputy Commissioner, Treasury

LCF:cc
Enclosure
cc: Governor Egan

AGO 788343

Prepared at the request
of Representative Tom Fink

10/19/73

Production Tax Revenue
(millions of dollars)

Most Likely Case

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Current	11	10	10	10	58	118	141	158	174	187
Proposed*	12	11	11	10	65	131	142	159	175	187
Fink Measure**	14	17	16	16	148	274	309	335	362	392

Assumptions:

- a. Most likely case price increases 25¢ per barrel per year.
- b. Cook Inlet production from McArthur River at 1,000-2,000 barrels per day with other at 0-1,000 barrels per day. Average gravity 35°.
- c. North Slope production, Prudhoe at 1.7 million barrels per day from greater than 2,000 barrels per day wells with other production from 1,000-2,000 barrels per day wells. Prudhoe gravity 17° other at 23°.

* Without unit averaging

** With unit averaging

T. Pint - 3-19-54 - 1954

<u>COOK INLET</u>				<u>NORTH SLOPE</u>	
<u>Gravity</u>	<u>%</u>	<u>¢ per hbl.</u>	<u>Total</u>	<u>Gravity</u>	<u>¢ per hbl.</u>
29.0	7.4	.233	1.7242	27.0	.388
31.7	3.0	.24	.72		
34.5	55.1	.412	22.7012		
35.0	13.7	.247	3.3839		
36.0	11.6	.31	3.596		
38.5	6.0	.254	1.524		
42.0	<u>2.9</u>	.269	<u>.7801</u>		
	99.7		34.4294		
100	<u>34.4294</u>	= Average	.344292		.388
Minus 8% factor			<u>.0275433</u>		<u>.03104</u>
		Net Average	.3167487		.35696

Statewide Average

200,000 Cook Inlet
 2,000,000 North Slope } .3533044

STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER
Division of Oil and Gas
3001 Porcupine Drive
Anchorage, Alaska 99501

October 18, 1973

Honorable Tom Fink
Speaker, Alaska House of Representatives
Pouch V
Juneau, Alaska 99801

Dear Tom:

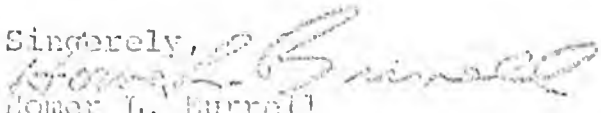
Your letter was received October 10, while we were finalizing data, charts and exhibits for the Administration's presentation today, hence the delayed reply.

Attached are three tables, the first of which is entitled "Crude Oil Price and Average Daily Well Production, State of Alaska." This should answer your question No. 1 and the first part of No. 3, except that we overlooked calculating the percentages of each Cook Inlet gravity. This can easily be done by your staff.

The second table, unlabelled, shows October 1972 and October 1973 posted prices for Prudhoe Bay gravity oil at the well in the Long Beach Oil Field. It also shows the prices for the weighted average Cook Inlet oil, for the same two months, based upon the average price paid the State by Tesoro. This should answer your question No. 2, except that we have no information as to the value of these crudes at Seattle.

The third table, entitled "Calculations . . ." shows a sample calculation for a 10,000 B/D Prudhoe Bay well producing 27.0° API gravity oil, as assumed to arrive at the 25¢ per barrel average tax.

Please let us know if we can provide any further information. Again, we apologize for the delay in getting this material to you.

Sincerely,

Homer L. Burrell
Director

AGO 788346

Crude Oil Price and Average Daily
Well Production
State of Alaska

Field	Gross Prod. (Bbls) *	Working Interest (Bbls)	Wellhead Price 9-1-73 * (\$)	Wellhead Value (\$)	No. Wells	Bbls/Well/day August	API Gravity
Gr. Pt.							
Amoco	218790	191441	2.394	458310	16	441	38.5
Mobil	191881	182287	3.727	579384	9	683	42.0
McArthur R.	3545231	3102077	3.562	11049598	52	2199	34.5
W.G.S.							
Amoco 17595	124240	103717	3.380	367463	9	445	36.0
Amoco SWS	168107	147094	3.645	536158	6	904	38.5
Shell Co.	626193	543181	3.307	2086925	26	1010	36.0
Trancon R.	885235	774501	3.60	2943408	39	732	35.0
Trading Bay							
ARCO-Texaco	194774	170427	3.432	534905	13	483	31.7
Union Oil	476614	452783	3.095	1491364	23	549	29.0
Total - Cook Inlet Area							
	6431373	5677588	3.542	20107515	192	1081	35***
Prudhoe Bay**	65072	56938	2.394	136310	1	2099	27.0
State Total	6496445	5734526	3.530	20243825	193	1026	

Production is for August - Latest Available. Price is for September representing latest change. Weighted average therefore will vary slightly from September actual figures.

* Other pools at Prudhoe Bay have a gravity of 23° API

** Weighted average

	Prudhoe Bay Posted Price/Bbl. Oil at Well for Long Beach, California 27 ^o - 27.9 ^o Gravity <hr/> \$/bbl.	Cook Inlet Based on Average Tesoro Price/Bbl., Equivalent Average 35 ^o Gravity <hr/> \$/bbl.
October, 1972	3.19	3.27
October, 1973	3.79	4.13
October, 1974	*	*

* We estimate crude prices will escalate from 15¢ to 35¢ /bbl./yr. and our best guess is 25¢/bbl./yr.

Calculation To Determine
Effective "Cents Per Barrel" Tax
For 10,000 B/D Well Under Proposed Legislation

$$\text{Daily Tax} = (300 \times 50.10125 + 700 \times 0.16875 + 1500 \times 0.2025 + 7500 \times 0.27) \times 0.875$$

$$\text{Daily Tax} = (30,375 + 118.125 + 303.75 + 2025.00) \times 0.875$$

$$\text{Daily Tax} = 2477.25 \times 0.875$$

$$\text{Daily Tax} = \$2167$$

$$\text{Effective Tax/Net W.L. Pbl.} = \frac{\$2167}{10,000 \times 0.875} = 50.2477$$

The Legislature of the State of Alaska
FISCAL NOTE
First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: Senate Bill 4 & HB 4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17, or as soon after that date as possible.
 Agency: Revenue & Natural Resources Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Excise Tax Division
 A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	-0-	-0-	17.6	18.4	19.3	20.3
200 TRAVEL	-0-	-0-	.5	.5	.5	.5
300 CONTRACTUAL	1.0	-0-	5.0	6.0	6.0	6.0
400 COMMODITIES	-0-	-0-	.1	.1	.1	.1
500 EQUIPMENT	-0-	-0-	.6	-0-	-0-	.3
600 LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS, ETC.	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	1.0	-0-	23.8	25.0	25.9	27.2

B. FUNDING: (Thousands of dollars)

GENERAL FUND	1.0	-0-	23.8	25.0	25.9	27.2
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	-0-/	-0-/	1/	1/	1/	1/
MAN MONTHS (P./T.)	-0-/	-0-/	12/	12/	12/	12/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

SEE ATTACHMENT

IV. ATTACHMENTS

Indicates itemized expenditures in Excise Tax Division.

V. DATE: October 22, 1973 PREPARED BY: Steffen Andersen

Steffen Andersen, Director
Excise Tax Division
Department of Revenue

Original: Legislative Finance
 cc: Budget and Management
Prime Sponsor (First Legislator Named)

ATTACHMENT TO FISCAL NOTE ON OIL AND GAS PROPERTIES PRODUCTION TAX

As noted on line two of the fiscal detail, the division involved in this fiscal note is the Excise Tax Division, Budget Request Unit. You will note that the only figure shown the additional costs in FY 74 is \$1,000 and this reflects contractual funds required to modify the forms should the oil and gas production property tax become law as well as the oil and gas regulation and conservation tax. This \$1,000 will accomodate the redesign and printing of new forms which will be required. The \$1,000 dollars requested in contractual service in FY 74 is in addition to the \$20,000 which we currently have in the Excise Tax Division Contractual Services budget to automate the oil and gas production tax reporting.

You will note that are there are no additional costs reflected in Fiscal Year 1975. It must be pointed out that the Excise Tax Division budget for Fiscal Year 1975 has already been prepared and includes \$10,000 budgeted in contractual services to complete and maintain the oil and gas automated production tax program. In all instances, the amounts indicated on this fiscal note are in addition to those amounts which have already been budgeted or will be budgeted for the Excise Tax Division for the Fiscal Years 1974 through 1979.

In Fiscal Year 1976 our fiscal note indicates personal services in the amount of \$17,600 which represents the hiring of a Revenue Auditor III whose primary function will be the auditing of the oil and gas production and conservation tax reports. We have shown \$500 in travel for this auditor enabling him to work closely with the Division of Natural Resources in Anchorage. You will also note \$5,000 contractual services in Fiscal Year 1976 which represents the amount which we feel will be our share of the automated data processing time-sharing costs for the oil and gas program. The amounts of \$100 and \$600 represent commodities and equipment for the new hire. The total amount in Fiscal Year 1976 being \$23,800. For the years Fiscal 77 through Fiscal 79 we are indicating the personal services of this same Revenue Auditor with merit increases each year and our contractual services indicate time-sharing data processing costs now estimated at \$6,000 per year.

FISCAL NOTE
First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: Senate Bill 4 & HB 4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17, or as soon after that date as possible.
 Agency: Revenue & Natural Resources Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Excise Tax Division
 A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	-0-	-0-	17.6	18.4	19.3	20.3
200 TRAVEL	-0-	-0-	.5	.5	.5	.5
300 CONTRACTUAL	1.0	-0-	5.0	6.0	6.0	6.0
400 COMMODITIES	-0-	-0-	.1	.1	.1	.1
500 EQUIPMENT	-0-	-0-	.6	-0-	-0-	.3
600 LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS, ETC.	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	1.0	-0-	23.8	25.0	25.9	27.2

B. FUNDING: (Thousands of dollars)

GENERAL FUND	1.0	-0-	23.8	25.0	25.9	27.2
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	-0-/	-0-/	1/	1/	1/	1/
MAN MONTHS (P./T.)	-0-/	-0-/	12/	12/	12/	12/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

SEE ATTACHMENT

IV. ATTACHMENTS

Indicates itemized expenditures in Excise Tax Division.

V. DATE: October 22, 1973

PREPARED BY: Steffen Andersen

Steffen Andersen, Director
Excise Tax Division
Department of Revenue

Original: Legislative Finance
 cc: Budget and Management
Prime Sponsor (First Legislator Named)

ATTACHMENT TO FISCAL NOTE ON OIL AND GAS PROPERTIES PRODUCTION TAX

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You will note that there are no additional costs reflected in Fiscal Year 1975. It must be pointed out that the Excise Tax Division budget for Fiscal Year 1975 has already been prepared and includes \$10,000 budgeted in contractual services to complete and maintain the oil and gas automated production tax program. In all instances, the amounts indicated on this fiscal note are in addition to those amounts which have already been budgeted or will be budgeted for the Excise Tax Division for the Fiscal Years 1974 through 1979.

In Fiscal Year 1976 our fiscal note indicates personal services in the amount of \$17,600 which represents the hiring of a Revenue Auditor III whose primary function will be the auditing of the oil and gas production and conservation tax reports. We have shown \$500 in travel for this auditor enabling him to work closely with the Division of Natural Resources in Anchorage. You will also note \$5,000 contractual services in Fiscal Year 1976 which represents the amount which we feel will be our share of the automated data processing time-sharing costs for the oil and gas program. The amounts of \$100 and \$600 represent commodities and equipment for the new hire. The total amount in Fiscal Year 1976 being \$23,800. For the years Fiscal 77 through Fiscal 79 we are indicating the personal services of this same Revenue Auditor with merit increases each year and our contractual services indicate time-sharing data processing costs now estimated at \$6,000 per year.

AGO 788351

The Legislature of the State of Alaska
FISCAL NOTE
First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: SB-4, HB-4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17 or ASAP
 Agency: Revenue & Natural Resources Program

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Division of Oil and Gas

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	12.0	25.0	26.2	55.0	57.8	60.6
200 TRAVEL	5.0	10.5	11.0	23.2	24.4	25.6
300 CONTRACTUAL						
400 COMMODITIES	0.3	0.5	0.5	1.2	1.2	1.3
500 EQUIPMENT	2.0	4.0	4.2	8.8	9.2	9.8
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	19.3	40.0	41.9	88.2	92.6	97.3

B. FUNDING: (Thousands of dollars)

GENERAL FUND	19.3	40.0	41.9	88.2	92.6	97.3
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	1 /	1 /	1 /	2 /	2 /	2 /
MAN MONTHS (P./T.)	6 /	12 /	12 /	24 /	24 /	24 /

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Desired increase of field control of oil and gas run tickets, meter checking and meter proving will require one additional petroleum engineer now and a second petroleum engineer when North Slope production comes on stream.

IV. ATTACHMENTS

V. DATE: Oct 24, 1973 PREPARED BY: William C. Jackler

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

CS FOR HOUSE BILL NO. 4

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

A BILL

For an Act entitled: "An Act relating to the oil and gas properties production tax; and providing for an effective date."

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

*Section 1. AS 43.55.010 (a) is repealed and re-enacted to read:

(a) There is levied upon every person producing oil or gas a tax on each barrel of oil produced within the state and on the gross value at the well of all gas produced within the state, both less any part or value of any part the ownership or right to which is exempt from taxation. The tax is upon the whole production, including what is commonly known as the royalty interest, and is levied according to the following schedules:

(1) Oil -- based upon the average daily per well production and the average gravity of the oil sold from each lease or property for the calendar month in barrels, the tax on each barrel of oil produced is:

GRAVITY	PRODUCTION RATE			
	100 BPD OR LESS	101-1000 BPD	1001-2000 BPD	2001 BPD OR MORE
20.0° and below				
21.0° - 23.9°				
24.0° - 26.9°				
27.0° - 29.9°				
30.0° - 32.9°				
33.0° - 35.9°				
36.0° - 38.9°				
39.0° - 41.9°				
42.0° and above				

(2) Oil -- if (10% - 12%) of the highest price paid for State of Alaska royalty crude oil 30.0 - 30.9 gravity exceeds \$., the tax for oil of 30.0 - 32.9 gravity from wells producing 2001 BPD or more as shown in (1) of this section shall be increased to a cents per barrel equivalent to (10% - 12%) of the highest price paid for State of Alaska royalty crude oil 30.0 - 30.9 gravity. The cents per barrel taxes in the other production ranges shall be increased by the same percentage. The department shall adjust and post the tax rates accordingly at least semi-annually.

(3) Gas -- the tax rate shall be four per cent of the gross value of the gas and liquid products produced.

*Sec. 2 AS 43.55.010 (b), (c) and (d) are amended to read:

(b) The [PAYMENT OF THE] tax imposed by this chapter is in place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by the state or any of its municipalities [POLITICAL SUBDIVISIONS] upon, and neither the state nor a municipality may impose a tax upon

(1) property rights attached to or inherent in the right to explore for or produce oil or gas; [,]

(2) [PRODUCING] oil or gas leases or properties, whether producing or not; [,]

(3) oil or gas in place;

(4) oil or [AND] gas produced or extracted in the state; [UPON WHICH GROSS PRODUCTION TAXES ARE PAID, AND]

(5) an interest [INVESTMENT] in property described in this subsection; or [SECTION]

(6) the value of intangible drilling and development expenses and exploration expenses.

(c) An interest in the land not described in (b) of this section may [SHALL] be assessed and taxed under other provisions of state law [AS OTHER PROPERTY WITHIN THE TAXING DISTRICT IN WHICH THE PROPERTY IS LOCATED].

(d) The [GROSS PRODUCTION] tax imposed by this chapter is not in place [LIEU] of the tax imposed by AS 43.57 or income taxes or [EXCISE] taxes upon the retail sale of oil or [AND] gas products.

* Sec. 3. AS 43.55.010 (e) is repealed.

* Sec. 4. AS 43.55.015 is repealed.

* Sec. 5. AS 43.55 is amended by adding a new section to read:

Sec. 43.55.016 NATIVE CLAIMS PAYMENTS.

When the tax levied under Sec. 10 of this chapter is payable, an amount not less than \$.05 for each barrel of oil produced shall be paid by the state out of its royalties from the oil, whenever payment by the state is required under the revenue-sharing provisions of sec. 9 of the Alaska Native Claims Settlement Act (PL 92-203; 85 Stat. 688, 43 U.S.C. 1601 et seq.), into the Alaska Native Fund until all amounts paid in the fund equal \$500,000,000.

* Sec. 6. AS 43.55.140 is amended by adding new paragraphs to read:

(6) "intangible drilling and development expenses" means those expenses defined in sec. 263 (c) of the United States Internal Revenue Code as defined on the effective date of this paragraph;

(7) "the ownership or right to which is exempt from taxation" means any ownership interest of the federal government or the state;

(8) "produce" means to remove or sell oil or gas from a lease or property in the state;

(9) "production" means the volume or quantity of oil or gas removed or sold from a lease or property in the state;

(10) "gravity" means the API gravity of oil measured at 60° F. and is determined by the following formula:

$$\text{API Gravity} = \frac{141.5}{\text{Specific Gravity}} - 131.5$$

(11) "lease or property" means a lease or property including mineral interests in oil and gas and working interests, royalty interests and overriding royalty interests in oil and gas leases and unitization or pooling agreements under the provisions of Section 614(b)(3) of the Internal Revenue Code of 1954 as defined upon the effective date of this paragraph.

(12) "average daily per well production" shall mean
calculated by dividing the total number of barrels of oil produced
from each lease or property during the calendar month by the number
of 24 hour days each well produced on the lease or property any time
during the calendar month;

*Sec. 4. This Act takes effect January 1, 1974

FINANCE COMMITTEE REPORT

ON

HOUSE BILL NO. 4

The Finance Committee has had House Bill No. 4 under consideration and a majority of the members of the Committee have recommended it be replaced with a Committee Substitute for House Bill 4, and that the Committee Substitute do pass. The Committee Substitute makes the following major changes from the bill as introduced:

1. The existing law provides for a combination percentage of gross value/cents per barrel severance tax on all oil produced in the State. House Bill 4 as introduced, and later revised by the Governor, would have continued this approach with a slight increase in the cents per barrel severance tax floor.

The Committee Substitute does away with the percentage of gross value portion of the tax on oil and substitutes complete reliance on a cents per barrel severance tax on crude oil. The Committee in its deliberations sought to achieve for the State a fair and just return on an important unrenewable resource, namely crude oil. After much deliberation, the Committee felt a schedule of cents per barrel tax rates levied upon various gravity oils and graduated with regard to the ability of wells to produce crude oil would assure a fair return to the State.

2. One of the principle objections to a cents per barrel schedule has been related to its apparent "inflexibility". To overcome this objection, the Committee has included a provision that would allow escalation of the entire cents per barrel tax schedule with the highest price paid for the state of Alaska royalty crude oil. Currently the price reference would be the price being paid by the Tesoro Petroleum Corporation.

3. Consistent with language in its Committee Substitute for House Bill 1, the Committee inserted the word municipality in place of political subdivision wherever it occurred.

4. The Committee Substitute repeals two portions of existing law. AS 43.55.010(e) and AS 43.55.015 were necessarily repealed when the Committee chose to recommend only one system of severance taxation on oil, namely the cents per barrel approach.

5. Definition changes are as follows:

A. "Average daily per well production" was changed to provide for a weighted averaging of days. The original bill would have allowed a well which produced only one day during the month to be averaged at a full months value with wells producing 30 days during the month.

B. "Gravity" was further explained by the addition of a formula.

C. "Lease or property" was further clarified by the addition of language similar to the definition developed by the Committee in its Committee Substitute for House Bill 1.

6. The Committee Substitute contains a severability clause which in essence provides that should any portion of the Act be found unconstitutional, the remainder of the Act will not be affected.

FISCAL NOTE
First Special Session - Eighth Legislature

I. REQUEST

Bill Identification: Senate Bill 4 & HB 4
 Title: Oil and Gas Properties Production Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17, or as soon after that date as possible.
 Agency: Revenue & Natural Resources Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Excise Tax Division

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES	-0-	-0-	17.6	18.4	19.3	20.3
200 TRAVEL	-0-	-0-	.5	.5	.5	.5
300 CONTRACTUAL	1.0	-0-	5.0	6.0	6.0	6.0
400 COMMODITIES	-0-	-0-	.1	.1	.1	.1
500 EQUIPMENT	-0-	-0-	.6	-0-	-0-	.3
600 LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS, ETC.	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	1.0	-0-	23.8	25.0	25.9	27.2

B. FUNDING: (Thousands of dollars)

GENERAL FUND	FEDERAL FUNDS	OTHER
1.0	0	23.8
25.0		25.0
25.9		25.9
27.2		27.2

C. POSITIONS:

PERMANENT/TEMPORARY	MAN MONTHS (P./T.)
-0- / -0-	-0- / -0-
1 / 1	12 / 12
1 / 1	12 / 12
1 / 1	12 / 12
1 / 1	12 / 12

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

SEE ATTACHMENT

IV. ATTACHMENTS

Indicates itemized expenditures in Excise Tax Division.

V. DATE: October 22, 1973 PREPARED BY: Steffen Andersen

Steffen Andersen, Director
Excise Tax Division
Department of Revenue

Original: Legislative Finance
 cc: Budget and Management
Prime Sponsor (First Legislator Named)

AGO 788359 +

ATTACHMENT TO FISCAL NOTE ON OIL AND GAS PROPERTIES PRODUCTION TAX

As noted on line two of the fiscal detail, the division involved in this fiscal note is the Excise Tax Division, Budget Request Unit. You will note that the only figure shown the additional costs in FY 74 is \$1,000 and this reflects contractual funds required to modify the forms should the oil and gas production property tax become law as well as the oil and gas regulation and conservation tax. This \$1,000 will accommodate the redesign and printing of new forms which will be required. The \$1,000 dollars requested in contractual service in FY 74 is in addition to the \$20,000 which we currently have in the Excise Tax Division Contractual Services budget to automate the oil and gas production tax reporting.

You will note that are there are no additional costs reflected in Fiscal Year 1975. It must be pointed out that the Excise Tax Division budget for Fiscal Year 1975 has already been prepared and includes \$10,000 budgeted in contractual services to complete and maintain the oil and gas automated production tax program. In all instances, the amounts indicated on this fiscal note are in addition to those amounts which have already been budgeted or will be budgeted for the Excise Tax Division for the Fiscal Years 1974 through 1979.

In Fiscal Year 1976 our fiscal note indicates personal services in the amount of \$17,600 which represents the hiring of a Revenue Auditor III whose primary function will be the auditing of the oil and gas production and conservation tax reports. We have shown \$500 in travel for this auditor enabling him to work closely with the Division of Natural Resources in Anchorage. You will also note \$5,000 contractual services in Fiscal Year 1976 which represents the amount which we feel will be our share of the automated data processing time-sharing costs for the oil and gas program. The amounts of \$100 and \$600 represent commodities and equipment for the new hire. The total amount in Fiscal Year 1976 being \$23,800. For the years Fiscal 77 through Fiscal 79 we are indicating the personal services of this same Revenue Auditor with merit increases each year and our contractual services indicate time-sharing data processing costs now estimated at \$6,000 per year.