

Leg. Finance - House & Senate Finance Comte Files (1973-74) 8879
SB/HB 4 cont., SB/HB/5, SB/HB 6 328

Original sponsor: Rules Committee by
request of the Governor

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2

HOUSE CS FOR 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 AS 43.55.010(a) is repealed and re-enacted to read: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:

21

Production Rate

22

100 BPD

101-1000

1001-2000

2001 BPD

23

Gravity

or less

BPD

BPD

or more

24

20.9° and below

\$.091

\$.182

\$.243

\$.304

25

21.0° - 23.9°

.098

.197

.262

.328

26

24.0° - 26.9°

.106

.211

.282

.352

27

27.0° - 29.9°

.113

.226

.301

.376

28

30.0° - 32.9°

.120

.240

.320

.400

29

33.0° - 35

.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	.145	.298	.397	.496

4 (2) oil: if 10 per cent of the highest price paid for
5 State of Alaska royalty crude oil exceeds the tax for oil of like
6 gravity from wells producing 2001 BPD or more as shown in (1) of this
7 subsection, the tax for that gravity oil shall be increased to a cents
8 per barrel equivalent to 10 per cent of the highest price paid for
9 State of Alaska royalty crude oil of like gravity. The cents per
10 barrel taxes in the other production ranges shall be increased by the
11 same percentage. The department shall adjust and post the tax rates
12 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 days each well produced on the lease or property any time during
26 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. 514(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.
21
22
23
24
25
26
27
28
29

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

Pursuant to the Uniform Rules of the Alaska Legislature I will be transmitting a bill relating to the oil and gas properties production tax.

Prior to 1972 the production tax on oil was calculated as roughly 7 per cent of the value of oil at the well head as applied to anticipated Prudhoe Bay production. In the usual case where the state also owns the oil to be produced, the State also receives a royalty based on 12 1/2 per cent of the value of the oil at the well head. The 1972 Legislature adopted a provision which provided an alternative tax to the production tax based on a flat number of cents for each barrel of oil produced. Since the producer was required to pay the higher of the two tax schedules, the addition of cents per barrel tax built a "floor" to the tax revenue which the state would receive from each barrel.

The level of the schedule was set to accomplish two objectives. First, it assured the cents per barrel tax would go into effect whenever the value at the well head fell below \$2.65 per barrel of oil. It also provided that the producer of the oil would receive a credit against the production tax for any royalties paid. The second objective accomplished in the design of the cents per barrel schedule was to assure that when the royalty payments made by the producer fell below 12 1/2 per cent of \$2.65, the tax paid by him would go up in an amount equivalent to the decrease in his royalty payment.

The general rise in world oil prices that has occurred since this measure was adopted, has substantially decreased the likelihood that the alternative tax will play a substantial role in securing additional revenue to the state. In addition, industry plans to accelerate throughput capacity over initial forecasts. With this in mind, the state administration determined that it would be more advantageous to drop the royalty credit but raise the floor on the production tax to substantially increase the likelihood that the floor would be effective in bringing additional revenue to the state during the early years of North Slope production. Under the new schedule proposed in this bill whenever the well head value of the oil is above \$2.25, the alternative tax will bring more revenue to the state than the tax now in effect, including the royalty credit provision. When

the well head value rises above \$3.37, the state's receipts would be the same as under the existing law since the value would then be rising above the new floor as well. If the well head value of Prudhoe Bay oil meets the expectations of the 1972 Legislature, which today appears to have been a very reasonable estimate, and stands at \$2.65, the new production tax proposal will mean substantially increased revenues to the state. The effective rate in the floor on a \$2.65 per barrel well head value is about 25 cents for the average barrel of oil produced, which is an increase of about 7 cents per barrel over existing legislation.

In the unlikely event that the well head value of Prudhoe Bay oil ever went below \$2.25, the legislature, of course, could take a fresh look at the state's oil policy considering the overall situation at that time.

Also, I would point out that the minimum of 5 cents per barrel paid into the Alaska Native Fund under provisions of the Alaska Native Claims Settlement Act would remain the same as presently provided.

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 is amended to read:

Sec. 43.55.010. GROSS PRODUCTION TAX. (a) There is levied upon the producer of oil or [AND] gas a tax based upon a per cent of the gross value at the well of all oil or [AND] 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 total production from each lease or property [AVERAGE DAILY PRODUCTION FOR EACH WELL] for the calendar month in barrels, the tax is

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

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

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

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

(2) gas: the 17% [RATE] is four per cent of the gross

value of the gas and liquid products produced each month.

(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 political subdivisions upon, and neither the state nor a political subdivision 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 [RECIPE] taxes upon the retail sale of oil or [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 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 [AND THE TAX LEVIED IN THIS SECTION NEED NOT BE PAID].

* 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 determined according to the following cents per barrel tax 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) \$.10125 on the first 300 barrels of average daily per well production;

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

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

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

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

(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.

(c) 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. 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) "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) "produced" means the removal or sale of 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) "API gravity" means the specific gravity of oil measured in degrees on the American Petroleum Institute scale;

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

(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.

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

I. REQUEST

Bill Identification: Senate Bill 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 Anderson

Steffen Anderson, 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 budreted or will be budgeted for the Excise Tax Division for the Fiscal Years 1976 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 service 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

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>
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	36/156
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

this is file copy
AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

TO: Tom Fink
Speaker
House of Representatives

DATE: November 1, 1973

FROM: Jay Hogan
Director
Legislative Finance

SUBJ: Brief History of
Severance Taxation
in Alaska

Chapter 7 of the First Extraordinary Session of the 1955 Legislature provided for a gross production tax on producing oil and gas properties. This was Alaska's first "severance tax" and it was "levied upon every person producing oil and gas at 1 percent of the gross value at well of all oil and gas produced within the Territory of Alaska...".

Chapter 110, SLA 1968 raised the severance tax from 1% to 3% of gross value at the well.

Chapter 247, SLA 1970 changed the concept of severance taxation from a flat rate tax on wellhead value to a graduated scale:

(1) oil: based upon the average daily per-well production 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 4 percent of the gross value of the gas and liquid products produced.

Chapter 101, SLA 1972 retained the same percentage of value rate schedules on oil and gas passed in 1970, but provided a cents per barrel floor below which the tax on oil could not fall.

(1) Before July 1, 1980,

- (A) \$.458 on the first 300 barrels;
- (B) \$.511 on the next 700 barrels;
- (C) \$.538 on the next 1,500 barrels;
- (D) \$.591 on all production in excess of 2,500 barrels;

(2) On of after July 1, 1980,

- (A) \$.432 on the first 300 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.

MEMORANDUM

TO: The Hon. Lowell Thomas, Jr.
Chairman
Free Conference Committee
Bill No. 4 - Severance Tax

DATE: November 10, 1973

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

SUBJ: Cook Inlet Split-
the-Difference
Compromise

Under current law the effective tax rate in Cook Inlet is 4.4% based on 1000 BPD. Applied to a \$3.90 wellhead this is 17716¢ per barrel. In Cook Inlet the rate under the House bill would be 33.9¢ or 8.69%. Splitting the difference would be 25.53¢, equivalent to 6.5% of \$3.90.

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: The Hon. Tom Fink, Speaker DATE: October 17, 1973
House of Representatives
Alaska State Legislature

FROM: Milt Barker SUBJ: Severance Tax
Fiscal Analyst
Legislative Finance

Severance Tax

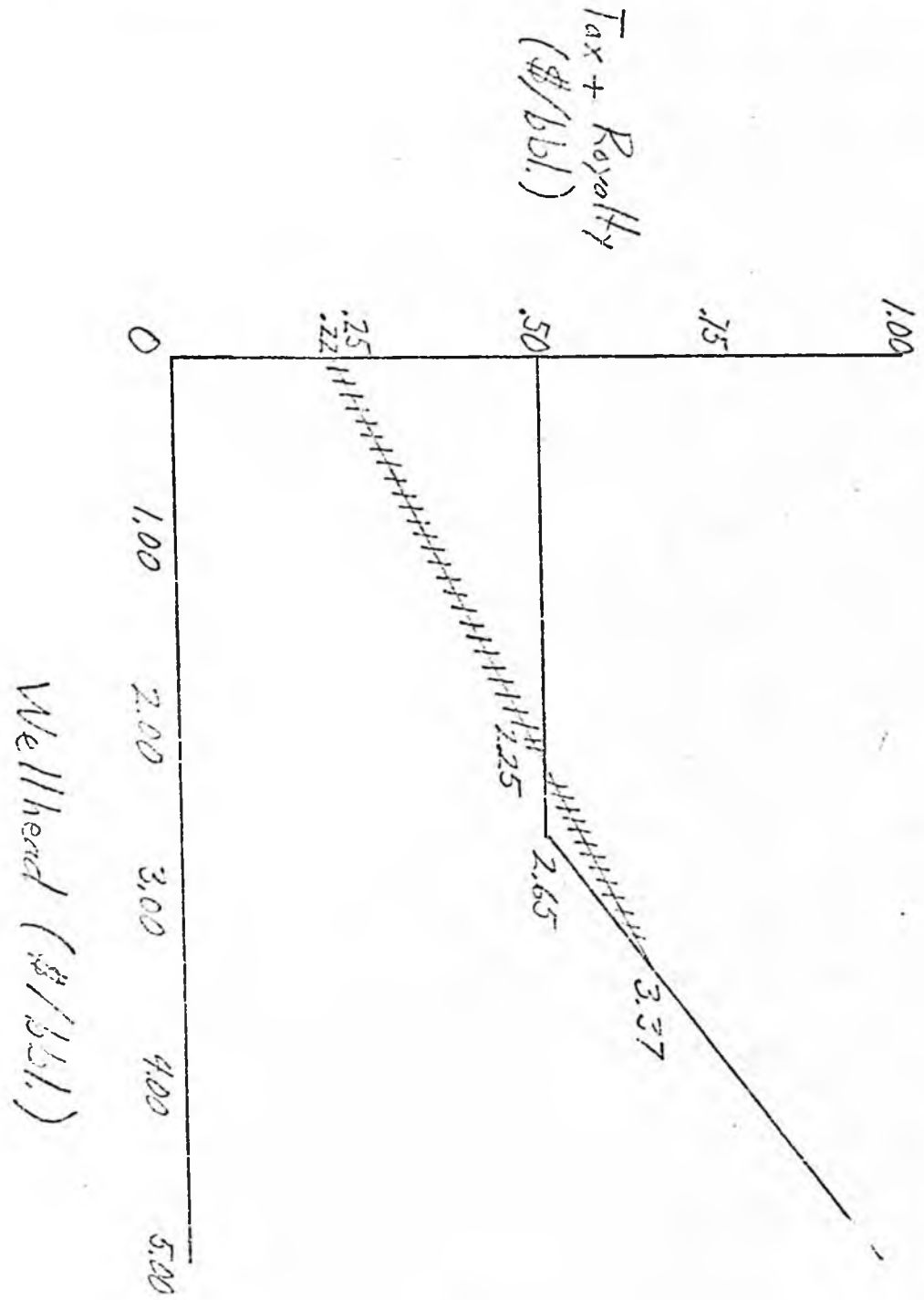
The accompanying charts depict the impact of the proposed change in severance taxation. In the existing North Slope situation, the cents per barrel tax with royalty credit would produce a constant 50¢ per barrel of revenue up to wellhead values of \$2.65; thereafter, the percentage (of wellhead value) severance tax portion of existing law would be in effect because it yields greater revenue (12.5% royalty and 6.4% severance tax after the royalty exemption for a total State take of 19%).

Under Governor Egan's proposed law, there would be a constant 25¢ per barrel severance tax (adding the 12.5% royalty produces the sloping line on the chart) up to a wellhead value of \$3.37; thereafter, the existing percentage severance tax schedule would be in effect because it yields greater revenue.

Thus, for wellhead values above \$3.37, the fiscal impact of either approach will be the same, while for wellhead values between \$3.37 and \$2.25, the proposed law would yield greater revenue. Below \$2.25, existing law is more advantageous. There is some expectation that wellhead values will be above \$3.37; and thus there would be no increment in revenue over the existing law although the Governor's press release claimed \$30 million of additional revenue for the proposed law.

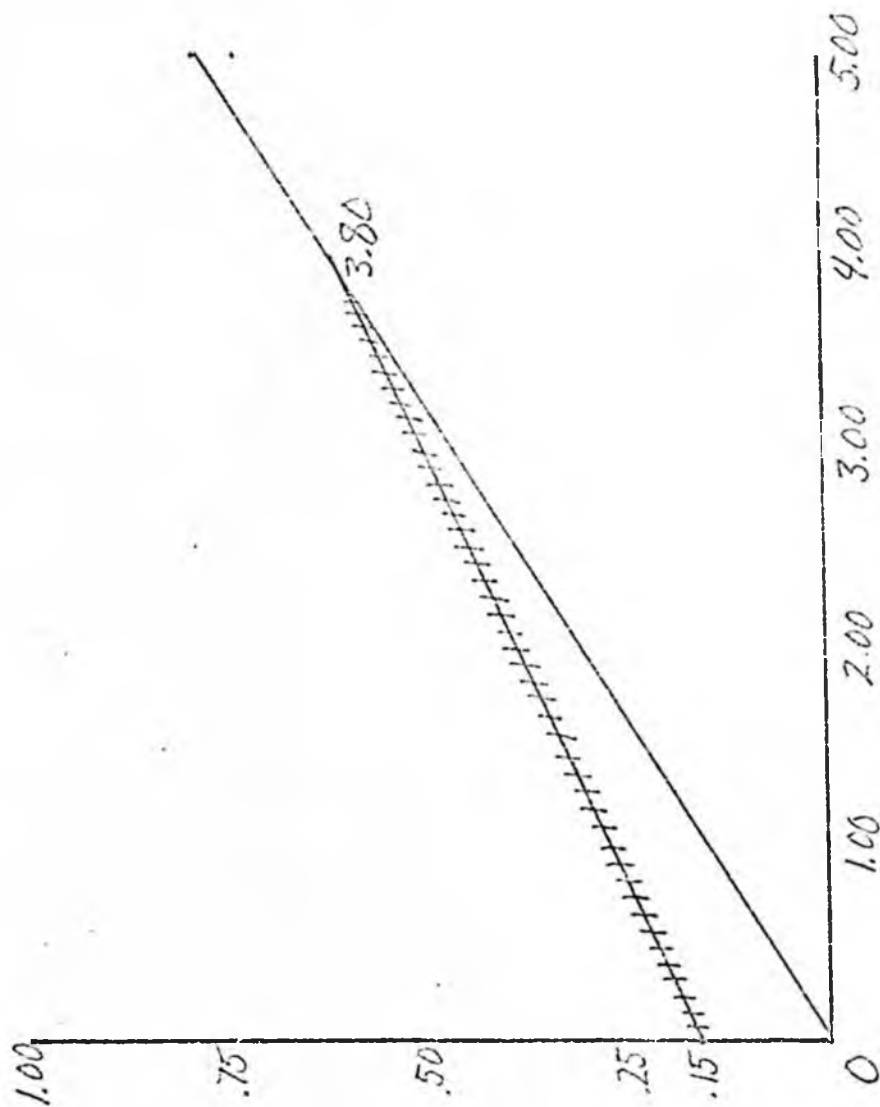
The second chart shows the Cook Inlet situation. For most wells, the cents per barrel tax portion of existing law is not in effect because the wellhead values cause the percentage tax to yield greater revenue. In Cook Inlet, wellhead values now average \$3.53. At this price, the proposed severance tax would add 1¢ per barrel over existing law, bringing in an additional \$690,590 in revenue in FY 74.

North Slope



Existing Law
Proposed by Egan

Cook Inlet



Tax + Royalty
(\$/bbl.)

Wellhead (\$/bbl.)

Existing Law
Proposed by Egan

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: The Hon. Lowell Thomas, Jr.
Chairman
Free Conference Committee
Bill No. 4 - Severance Tax

DATE: November 10, 1973

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

SUBJ: Cook Inlet Split-
the-Difference
Compromise

Under current law the effective tax rate in Cook Inlet is 4.4% based on 1000 BPD. Applied to a \$3.90 wellhead this is 17.16¢ per barrel. In Cook Inlet the rate under the House bill would be 33.9¢ or 8.69%. Splitting the difference would be 25.53¢, equivalent to 6.5% of \$3.90.

M E M O R A N D U M

TC:

DATE:

FROM: Milt Barker
Fiscal Analyst
Legislative Finance

SUBJ: Production Tax on
Oil--Basis of
Calculation

The Governor's proposal for a cents-per-barrel production tax would change the basis on which the tax is calculated from "average daily production for each well" to "average daily per well production" based upon the "total production from each lease or property". "Lease or property" is defined as "a lease or property including, but not limited to, a unitization or pooling agreement."

This means that the production from the entire Prudhoe field for which a unitization agreement is being sought could be divided by the number of wells in the field to determine average per well production. This has the effect of lowering the effective production tax rate.

For example, if two wells produce 1,000 BPD and 6,000 BPD, under the old method there would be a tax of 14.8¢ on 1,000 barrels and a tax of 23.3¢ on 6,000 barrels for an average tax of 22.1¢ on the 7,000 barrels. Under the proposed language, there would be an average production rate of 3,500 BPD on which the tax is 20.6¢.

MEMORANDUM

TO: The Hon. Tom Fink, Speaker DATE: October 17, 1973
House of Representatives
Alaska State Legislature

F

FROM: Milt Barker SUBJ: Severance Tax
Fiscal Analyst
Legislative Finance

Severance Tax

The accompanying charts depict the impact of the proposed change in severance taxation. In the existing North Slope situation, the cents per barrel tax with royalty credit would produce a constant 50¢ per barrel of revenue up to wellhead values of \$2.65; thereafter, the percentage (of wellhead value) severance tax portion of existing law would be in effect because it yields greater revenue (12.5% royalty and 6.4% severance tax after the royalty exemption for a total State take of 19%).

Under Governor Egan's proposed law, there would be a constant 25¢ per barrel severance tax (adding the 12.5% royalty produces the sloping line on the chart) up to a wellhead value of \$3.37; thereafter, the existing percentage severance tax schedule would be in effect because it yields greater revenue.

Thus, for wellhead values above \$3.37, the fiscal impact of either approach will be the same, while for wellhead values between \$3.37 and \$2.25, the proposed law would yield greater revenue. Below \$2.25, existing law is more advantageous. There is some expectation that wellhead values will be above \$3.37; and thus there would be no increment in revenue over the existing law although the Governor's press release claimed \$30 million of additional revenue for the proposed law.

The second chart shows the Cook Inlet situation. For most wells, the cents per barrel tax portion of existing law is not in effect because the wellhead values cause the percentage tax to yield greater revenue. In Cook Inlet, wellhead values now average \$3.53. At this price, the proposed severance tax would add 1¢ per barrel over existing law, bringing in an additional \$690,590 in revenue in FY 74.

Under Governor Egan's proposed law, there would be a constant 25¢ per barrel severance tax (adding the 12.5% royalty produces the sloping line on the chart) up to a wellhead value of \$3.37; thereafter, the existing percentage severance tax schedule would be in effect because it yields greater revenue.

Thus, for wellhead values above \$3.37, the fiscal impact of either approach will be the same, while for wellhead values between \$3.37 and \$2.25, the proposed law would yield greater revenue. Below \$2.25, existing law is more advantageous. There is some expectation that wellhead values will be above \$3.37; and thus there would be no increment in revenue over the existing law although the Governor's press release claimed \$30 million of additional revenue for the proposed law.

The second chart shows the Cook Inlet situation. For most wells, the cents per barrel tax portion of existing law is not in effect because the low barrels-per-day production rates cause the percentage tax to yield greater revenue. In Cook Inlet, wellhead values now average \$3.53. At this price, Egan's proposed severance tax would add 1¢ per barrel over existing law, bringing in an additional \$690,590 in revenue in FY 74.

Right-of-Way Leasing

The existing law provides for a right-of-way lease based on the higher of two formulas--one relating to pipeline assets, and the other to net earnings of the pipeline. According to the joint stipulations in the oil companies' suit against the State, the asset formula,

"AS 38.35.140(a), would require a minimum aggregate payment by the TAPS owners to the State of approximately \$72,739,800 (or \$2,078,280 per year), if TAPS were constructed for a throughput capacity of 2,000,000 barrels per day. The minimum aggregate rental payment would be approximately \$67,900,000 (or \$1,940,000 per year) if TAPS were constructed for a throughput capacity of 1,200,000 barrels per day."

Expected revenues under the net earnings formula depend on the manner in which net earnings are calculated. The joint stipulations anticipated three possible variations:

"(1) 'Proposed regulations' multiplies both 'net earnings' and 'total assets' (as those terms are used in AS 38.35.140(a)(2) by a term referred to as the Alaska Land Factor (ALF). The Alaska Land Factor is defined as the length of right-of-way over land in which the state has an ownership interest divided by the total length of the pipeline in the state. Such factor is 0.3181. This formula also provides that in determining 'net earnings', both the minimum rental under AS 38.35.140(a)(1) and the percentage rental

Original sponsor: Rules Committee by
request of the Governor

Offered: 11/10/73

1 IN THE SENATE

BY THE FREE CONFERENCE COMMITTEE

2 FREE CONFERENCE CS FOR CS FOR SENATE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

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) five [THREE] per cent on the first 300 barrels;

21 (B) six [FIVE] per cent on the next 700 barrels;

22 (C) eight [SIX] per cent on all production in excess of
23 1,000 barrels; [THE NEXT 1,500 BARRELS; AND

24 (D) EIGHT PER CENT ON ALL PRODUCTION IN EXCESS OF 2,500
25 BARRELS;]

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

28 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
29 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by

1 the state or any of its municipalities [POLITICAL SUBDIVISIONS],
2 and neither the state nor a municipality may impose a tax upon

3 [(1) PROPERTY RIGHTS ATTACHED TO OR INHERENT IN THE RIGHT
4 TO PRODUCE OIL OR GAS,]

5 (2) producing oil or gas leases;

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

8 (4) AND INVESTMENT IN PROPERTY DESCRIBED IN THIS SECTION]

9 (5) the value of intangible drilling and exploration expenses.

10 (c) The tax imposed by this chapter is in place of all taxes
11 imposed by a municipality upon oil or gas in place or non-producing oil
12 or gas leases or properties [AN INTEREST IN THE LAND NOT DESCRIBED IN
13 THIS SECTION SHALL BE ASSESSED AND TAXED AS OTHER PROPERTY WITHIN THE
14 TAXING DISTRICT IN WHICH THE 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) \$.16875 on each of the first 300 barrels;
- 5 (2) \$.2025 on each of the next 700 barrels;
- 6 (3) \$.2700 on each barrel of production in excess of 1,000
7 barrels.

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

18 (c) The tax rates set out in this section will be increased or
19 decreased by a percentage equal to the percentage of change in the
20 Wholesale Price Index for crude petroleum published by the Bureau of
21 Labor Statistics, of the U. S. Department of Labor. The year 1967 is
22 the base year of 100 for computing the tax rates. Changes in tax
23 rates will be computed based on changes in the Wholesale Price Index
24 occurring after the effective date of this subsection and will not
25 include changes in the Wholesale Price Index prior to the effective
26 date of this subsection. The department shall post the changes in the
27 tax rates at least semi-annually and shall notify every person pro-
28 ducing oil within the state of the changes.

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
6 paid by the state out of its royalties from the oil, whenever payment
7 by 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) "API gravity" means the specific gravity of oil
13 measured in degrees on the American Petroleum Institute scale;

14 (7) "intangible drilling expenses" as defined in sec.
15 263(c) of the United States Internal Revenue Code as defined on the
16 effective date of this paragraph;

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

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

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

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

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

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.

CENTS PER BARREL TAX RATES
for
3%, 5%, 6%, 8% of Wellhead

	<u>\$3.90</u>	<u>\$3.95</u>	<u>\$4.00</u>	<u>\$4.05</u>	<u>\$4.10</u>	<u>\$4.15</u>
First 300 barrels	.1170	.1185	.1200	.1215	.1230	.1245
Next 700 barrels	.1950	.1975	.2000	.2025	.2050	.2075
Next 1500 barrels	.2340	.2370	.2400	.2430	.2460	.2490
Over 2500 barrels	.3120	.3160	.3200	.3240	.3280	.3320
Effective Tax Rate on Cook Inlet production of 1000 BPD	.1716	.1738	.1760	.1782	.1804	.1826

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.

AGD 788389

+

Original sponsor: Rules Committee by
request of the Governor

Offered:--10/30/73
Referred:--Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 FCC FOR HCSCS 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) ^{five}~~three~~ per cent on the first 300 barrels;
- 21 (B) ^{six}~~five~~ per cent on the next 700 barrels;
- 22 (C) ^{eight}~~six~~ per cent on all production in excess of 1,000
~~the next 1,500 barrels; and~~ barrels;
- 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 TAX] tax imposed by this chapter is in
28 place [INSTEAD] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by
29 the state or any of its political subdivisions upon, and neither

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

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 SEE ABOVE (c) [~~An interest in the land not described in a) 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

(c) The tax rates set out in this section will be increased or decrease by a percentage equal to the percentage of change in the Wholesale Price Index for crude petroleum published by the Bureau of Labor Statistics, of the U. S. Department of Labor. The year 1967 is the base year of 100 for computing the tax rates. Changes in tax rates will be computed base 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.

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) \$.16875 on each of the first 300 barrels;

5 (2) \$.2025 on each of the next 700 barrels;

6 (3) \$.2700 on each of the next 1,500 barrels; barrel of production in excess of 1,000 barrels.

7 ~~---(4)-----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) See top of page

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

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

26 (e) When the tax levied under this section is payable, an
27 amount not less than \$.05 for each barrel of oil produced shall be
28 paid by the state out of its royalties from the oil, whenever payment
29 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.

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.
22
23
24
25
26
27
28
29

Original sponsor: Rules Committee by
request of the Governor

Offered: 11/10/73

1 IN THE SENATE

BY THE FREE CONFERENCE COMMITTEE

2 FREE CONFERENCE CS FOR 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) five [THREE] per cent on the first 300 barrels;

21 (B) six [FIVE] per cent on the next 700 barrels;

22 (C) eight [SIX] per cent on all production in excess of
23 1,000 barrels; [THE NEXT 1,500 BARRELS; AND

24 (D) EIGHT PER CENT ON ALL PRODUCTION IN EXCESS OF 2,500
25 BARRELS;]

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

28 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
29 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by

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) \$.16875 on each of the first 300 barrels;
5 (2) \$.2025 on each of the next 700 barrels;
6 (3) \$.2700 on each barrel of production in excess of 1,000
7 barrels.

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

18 (c) The tax rates set out in this section will be increased or
19 decreased by a percentage equal to the percentage of change in the
20 Wholesale Price Index for crude petroleum published by the Bureau of
21 Labor Statistics, of the U. S. Department of Labor. The year 1967 is
22 the base year of 100 for computing the tax rates. Changes in tax
23 rates will be computed based on changes in the Wholesale Price Index
24 occurring after the effective date of this subsection and will not
25 include changes in the Wholesale Price Index prior to the effective
26 date of this subsection. The department shall post the changes in the
27 tax rates at least semi-annually and shall notify every person pro-
28 ducing oil within the state of the changes.

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

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Original sponsor: Rules Committee by
request of the Governor

Offered: 11/10/73

1 IN THE SENATE

BY THE FREE CONFERENCE COMMITTEE

2 FREE CONFERENCE CS FOR 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) five [THREE] per cent on the first 300 barrels;

21 (B) six [FIVE] per cent on the next 700 barrels;

22 (C) eight [SIX] per cent on all production in excess of
23 1,000 barrels; [THE NEXT 1,500 BARRELS; AND

24 (D) EIGHT PER CENT ON ALL PRODUCTION IN EXCESS OF 2,500
25 BARRELS;]

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

28 (b) The [PAYMENT OF THE] tax imposed by this chapter is in
29 place [LIEU] of all [AD VALOREM] taxes now [OR HEREAFTER] imposed by

1 the state or any of its municipalities [POLITICAL SUBDIVISIONS],
2 and neither the state nor a municipality may impose a tax upon

3 [(1) PROPERTY RIGHTS ATTACHED TO OR INHERENT IN THE RIGHT
4 TO PRODUCE OIL OR GAS,]

5 (2) producing oil or gas leases;

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

8 (4) AND INVESTMENT IN PROPERTY DESCRIBED IN THIS SECTION]

9 (5) the value of intangible drilling and exploration expenses.

10 (c) The tax imposed by this chapter is in place of all taxes
11 imposed by a municipality upon oil or gas in place or non-producing oil
12 or gas leases or properties [AN INTEREST IN THE LAND NOT DESCRIBED IN
13 THIS SECTION SHALL BE ASSESSED AND TAXED AS OTHER PROPERTY WITHIN THE
14 TAXING DISTRICT IN WHICH THE 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) \$.16875 on each of the first 300 barrels;

5 (2) \$.2025 on each of the next 700 barrels;

6 (3) \$.2700 on each barrel of production in excess of 1,000
7 barrels.

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

18 (c) The tax rates set out in this section will be increased or
19 decreased by a percentage equal to the percentage of change in the
20 Wholesale Price Index for crude petroleum published by the Bureau of
21 Labor Statistics, of the U. S. Department of Labor. The year 1967 is
22 the base year of 100 for computing the tax rates. Changes in tax
23 rates will be computed based on changes in the Wholesale Price Index
24 occurring after the effective date of this subsection and will not
25 include changes in the Wholesale Price Index prior to the effective
26 date of this subsection. The department shall post the changes in the
27 tax rates at least semi-annually and shall notify every person pro-
28 ducing oil within the state of the changes.

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
6 paid by the state out of its royalties from the oil, whenever payment
7 by 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) "API gravity" means the specific gravity of oil
13 measured in degrees on the American Petroleum Institute scale;

14 (7) "intangible drilling expenses" as defined in sec.
15 263(c) of the United States Internal Revenue Code as defined on the
16 effective date of this paragraph;

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

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

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

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

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



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

COMMITTEE REPORT

October 17, 1973

HOUSE

Mr. Speaker:

Date 10/23/73

The Committee on Finance has had House Bill No. 5

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 _____ 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:

[Signature] _____
[Signature] _____

Members NOT concurring in the Majority report:

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

_____ Chairman

COMMITTEE REPORT

SENATE

10/29/73

Mr. President:

Date 10/29/73

The Committee on FINANCE has had SB 5

(levying an oil & gas regulation & conservation tax) 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 _____ AND THAT
CS FOR _____ DO PASS
- () "and" recommends it BE REFERRED TO THE _____
COMMITTEE
- () reports it back WITHOUT RECOMMENDATION
- (X) "other" reports it back with individual recommendations

Members signing the Majority report:

[Signature] _____

[Signature] _____

Members ~~concurring~~ concurring in the Majority report:

_____ recommends: _____

[Signature] recommends: [Signature]

_____ recommends: _____

[Signature] recommends: [Signature]

_____ recommends: _____

_____ Chairman

"An Act levying an oil and gas regulation and conservation tax; and providing for an effective date."

COMMITTEE REPORT

November 1, 1973

HOUSE

Mr. Speaker:

Date _____

The Committee on Finance has had SB 5

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 _____ 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:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ Chairman



LAWS OF ALASKA

1973

Source

FSS-HB 5

Chapter No.

5

AN ACT

Levying an oil and gas regulation and conservation tax; and providing for an effective date.

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

* Section 1. AS 43 is amended by adding a new chapter to read:

CHAPTER 57. OIL AND GAS REGULATION AND CONSERVATION TAX.

Sec. 43.57.010. OIL AND GAS REGULATION AND CONSERVATION TAX. (a) There is levied upon the producer of oil a tax of one-eighth of one cent 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.

(b) The tax is in addition to and shall be administered and paid in the same manner as the taxes imposed by ch. 55 of this title. Producers of oil are required to make reports of production in the same manner and under the same penalties as required by ch. 55 of this title.

(c) Proceeds from the tax shall be paid into the general fund.

* Sec. 2. This Act takes effect January 1, 1974.

Approved by governor: November 19, 1973
Actual effective date: January 1, 1974

AG7 788403 +

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 Regu-
lation & Conservation
Tax - HB 5

The oil and gas regulation and conservation tax passed unchanged as introduced by the Governor. It levies upon the producers of oil a tax of "one-eighth of one cent 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".

In his letter of transmittal, the Governor estimated that the conservation tax would provide revenues of approximately \$75,000 per year from oil production prior to the beginning of North Slope production. When the North Slope reaches the proposed level of 2,000,000 barrels per day, the tax should yield approximately \$700,000 per year in revenues.

JHH/af



LAWS OF ALASKA

1973

Source

FSS-HB 5

Chapter No.

5

AN ACT

Levying an oil and gas regulation and conservation tax; and providing for an effective date.

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

* Section 1. AS 43 is amended by adding a new chapter to read:

CHAPTER 57. OIL AND GAS REGULATION AND CONSERVATION TAX.

Sec. 43.57.010. OIL AND GAS REGULATION AND CONSERVATION TAX. (a) There is levied upon the producer of oil a tax of one-eighth of one cent 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.

(b) The tax is in addition to and shall be administered and paid in the same manner as the taxes imposed by ch. 55 of this title. Producers of oil are required to make reports of production in the same manner and under the same penalties as required by ch. 55 of this title.

(c) Proceeds from the tax shall be paid into the general fund.

* Sec. 2. This Act takes effect January 1, 1974.

Approved by governor: November 19, 1973
Actual effective date: January 1, 1974

AGO 788405

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 5

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 levying an oil and gas regulation and
7 conservation tax; and providing for an effective date."

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

9 * Section 1. AS 43 is amended by adding a new chapter to read:

10 CHAPTER 57. OIL AND GAS REGULATION AND CONSERVATION TAX.

11 Sec. 43.57.010. OIL AND GAS REGULATION AND CONSERVATION TAX. (a)

12 There is levied upon the producer of oil a tax of one-eighth of one
13 cent on each barrel of oil removed or sold from each lease or property
14 in the state, less any part the ownership or right to which is
15 exempt from taxation.

16 (b) The tax is in addition to and shall be administered and
17 paid in the same manner as the taxes imposed by AS 43.55.

18 Producers of oil are required to make reports of production in the
19 same manner and under the same penalties as required by AS 43.55.

20 (c) Proceeds from the tax shall be paid into the general fund.

21 * Sec. 2. This Act takes effect January 1, 1974.

Introduced: 10/17/73
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 5

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 levying an oil and gas regulation and
7 conservation tax; and providing for an effective date."

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

9 * Section 1. AS 43 is amended by adding a new chapter to read:

10 CHAPTER 57. OIL AND GAS REGULATION AND CONSERVATION TAX.

11 Sec. 43.57.010. OIL AND GAS REGULATION AND CONSERVATION TAX. (a)

12 There is levied upon the producer of oil a tax of one-eighth of one
13 cent on each barrel of oil removed or sold from each lease or property
14 in the state, less any part the ownership or right to which is
15 exempt from taxation.

16 (b) The tax is in addition to and shall be administered and
17 paid in the same manner as the taxes imposed by AS 43.55.

18 Producers of oil are required to make reports of production in the
19 same manner and under the same penalties as required by AS 43.55.

20 (c) Proceeds from the tax shall be paid into the general fund.

21 * Sec. 2. This Act takes effect January 1, 1974.

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

I. REQUEST

Bill Identification: Senate Bill 5 & HB 5
 Title: Oil & Gas Regulation and Conservation Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17, or as soon after that date as possible.
 Agency: Department of Revenue Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

B. FUNDING: (Thousands of dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

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

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

Additional amounts reflected in the fiscal note attached to oil and gas properties production tax, SB 4, will also cover administrative costs of this measure, as both taxes will be handled by the same personnel on the same forms.

IV. ATTACHMENTS

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 789410

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

I. REQUEST

Bill Identification: Senate Bill 5
 Title: Oil & Gas Regulation and Conservation Tax
 Requested by: Legislative Finance Date: 10/11/73
 Return Date Requested: October 17, or as soon after that date as possible.
 Agency: Department of Revenue Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____
 A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

B. FUNDING: (Thousands of dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

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

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

Additional amounts reflected in the fiscal note attached to oil and gas properties production tax, SB 4, will also cover administrative costs of this measure, as both taxes will be handled by the same personnel on the same forms..

IV. ATTACHMENTS

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)

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

Pursuant to the Uniform Rules of the Legislature, I will be transmitting a bill to levy an oil and gas regulation and conservation tax. This measure will levy on each producer of oil a tax of one-eighth of one cent on each barrel of taxable oil removed from each lease or property in the state.

It is anticipated that this tax will provide revenues of approximately \$75,000 a year from oil production in Alaska prior to the time North Slope production begins. When North Slope production reaches two million barrels a day, this tax should yield approximately \$700,000 a year in revenues.

The Division of Oil and Gas is required to regulate the drilling of oil and gas wells throughout the state. It must also develop and maintain information on all reservoirs in the state and provide advice to the Oil and Gas Conservation Committee. That independent body is charged by statute to prevent resource waste. It must understand how each particular oil or gas reservoir works from an engineering point of view so that it may require that reservoir production be conducted to extract the maximum amount of hydrocarbons.

The Alaska Pipeline Commission, whose role is dealt with more explicitly in another bill I will be transmitting, will handle complex regulatory matters that are made even more difficult by such things as the multiple ownership structure of the trans-Alaska pipeline. It must collect a wide variety of information and develop a specialized expertise in order to deal effectively with the Federal Power Commission and the Interstate Commerce Commission on interstate pipeline matters.

This completely new measure will provide money for the general fund to offset some of the costs of maintaining a strong state regulatory and conservation presence to assure that Alaska's interests in this area are not overwhelmed by the enormous growth of the oil and gas industry that is at hand.

1
2
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 levying an oil and gas regulation and
7 conservation tax; and providing for an effective date."

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

9 * Section 1. AS 43 is amended by adding a new chapter to read:

10 CHAPTER 57. OIL AND GAS REGULATION AND CONSERVATION TAX.

11 Sec. 43.57.010. OIL AND GAS REGULATION AND CONSERVATION TAX. (a)

12 There is levied upon the producer of oil a tax of one-eighth of one
13 cent on each barrel of oil removed or sold from each lease or property
14 in the state, less any part the ownership or right to which is
15 exempt from taxation.

16 (b) The tax is in addition to and shall be administered and
17 paid in the same manner as the taxes imposed by AS 43.55.

18 Producers of oil are required to make reports of production in the
19 same manner and under the same penalties as required by AS 43.55.

20 (c) Proceeds from the tax shall be paid into the general fund.

21 * Sec. 2. This Act takes effect January 1, 1974.
22
23
24
25
26
27
28
29
30

*Res.
Fin.*

Introduced: 10/17/73
Referred: Resources
& Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE SENATE

2 SENATE BILL NO. 5

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 levying an oil and gas regulation and
7 conservation tax; and providing for an effective date."

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

9 * Section 1. AS 43 is amended by adding a new chapter to read:

10 CHAPTER 57. OIL AND GAS REGULATION AND CONSERVATION TAX.

11 Sec. 43.57.010. OIL AND GAS REGULATION AND CONSERVATION TAX. (a)

12 There is levied upon the producer of oil a tax of one-eighth of one
13 cent on each barrel of oil removed or sold from each lease or property
14 in the state, less any part the ownership or right to which is
15 exempt from taxation.

16 (b) The tax is in addition to and shall be administered and
17 paid in the same manner as the taxes imposed by AS 43.55.

18 Producers of oil are required to make reports of production in the
19 same manner and under the same penalties as required by AS 43.55.

20 (c) Proceeds from the tax shall be paid into the general fund.

21 * Sec. 2. This Act takes effect January 1, 1974.

October 17, 1973

The Honorable Terry Miller
President of the Senate
Alaska State Legislature
Juneau, Alaska 99801

Dear Mr. President:

Pursuant to the Uniform Rules of the Legislature, I am transmitting a bill entitled, "An Act levying an oil and gas regulation and conservation tax; and providing for an effective date." This measure levies on each producer of oil a tax of one-eighth of one cent on each barrel of taxable oil removed from each lease or property in the state.

It is anticipated that this tax will provide revenues of approximately \$75,000 a year from oil production in Alaska prior to the time North Slope production begins. When North Slope production reaches two million barrels a day, this tax should yield approximately \$700,000 a year in revenues.

The Division of Oil and Gas is required to regulate the drilling of oil and gas wells throughout the State. It must also develop and maintain information on all reservoirs in the state and provide advice to the Oil and Gas Conservation Committee. That independent body is charged by statute to prevent resource waste. It must understand how each particular oil and gas reservoir works from an engineering point of view so that it may require that reservoir production be conducted to extract the maximum amount of hydrocarbons.

The Alaska Pipeline Commission, whose role is dealt with more explicitly in another bill I am transmitting, will handle complex regulatory matters that are made even more difficult by such things as the multiple ownership structure of the trans-Alaska pipeline. It must collect a wide variety of information and develop a specialized expertise in order to deal effectively with the Federal Power Commission and the Interstate Commerce Commission on interstate pipeline matters.

AGO 708416

The Hon. Terry Miller

-2-

October 17, 1973

This completely new measure will provide money for the general fund to offset some of the costs of maintaining a strong state regulatory and conservation presence to assure that Alaska's interests in this area are not overwhelmed by the enormous growth of the oil and gas industry that is at hand.

Sincerely,

William A. Egan
Governor

ALASKA STATE LEGISLATURE

EIGHTH Legislature **SPECIAL** Session

SENATE BILL **NO. 5**.....

By THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

"An Act levying an oil and gas regulation and conservation tax; and providing for an effective date."

oil & gas regulation &
conservation tax

Introduced in the Senate 12/17, 1973.

HISTORY IN THE SENATE

19 73

10 17

Read first time and referred
to Committee on
Resources and Finance

10 21

Reported back with
recommendation that *do not*
pass - to Fin

10 29

*Fin - do not pass. Is
Revised*

12 21

Read second time and

10 31

Read third time and

10 31

PASS : Yeas
Nays
Absent
Excused

Effective Date

10 31

PASS : Yeas
Nays
Absent
Excused

11 1

Reported correctly engrossed
Signed by President
Sent to House

David L. Richardson
SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19 73

11 1

Read first time and referred
to Committee on

Reported back with
recommendation that

Read second time and

Read third time and

PASS : Yeas
Nays
Absent
Excused

Effective Date

PASS : Yeas
Nays
Absent
Excused

Reported correctly engrossed
Signed by Speaker
Returned to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Received from House

Reported correctly enrolled

Sent to Governor

..... By Governor

Filed with Lt. Governor

Chapter No.

MEMORANDUM

TO: Chairmen and Members
Senate and House Finance

DATE: November 21, 1973

FROM: J. H. Hogan, Director
Legislative Finance

SUBJ: Oil and Gas Regu-
lation & Conservation
Tax - HB 5

The oil and gas regulation and conservation tax passed unchanged as introduced by the Governor. It levies upon the producers of oil a tax of "one-eighth of one cent 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".

In his letter of transmittal, the Governor estimated that the conservation tax would provide revenues of approximately \$75,000 per year from oil production prior to the beginning of North Slope production. When the North Slope reaches the proposed level of 2,000,000 barrels per day, the tax should yield approximately \$700,000 per year in revenues.

JHH/af

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, we 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.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

JUNEAU 99801

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

MEMORANDUM

TO: Chairmen and Members
Senate and House Finance

DATE: November 21, 1973

FROM: J. H. Hogan, Director
Legislative Finance

SUBJ: Oil and Gas Regu-
lation & Conservation
Tax - HB 5

The oil and gas regulation and conservation tax passed unchanged as introduced by the Governor. It levies upon the producers of oil a tax of "one-eighth of one cent 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".

In his letter of transmittal, the Governor estimated that the conservation tax would provide revenues of approximately \$75,000 per year from oil production prior to the beginning of North Slope production. When the North Slope reaches the proposed level of 2,000,000 barrels per day, the tax should yield approximately \$700,000 per year in revenues.

JHH/af

AGO 788420

M E M O R A N D U M

TO:

DATE:

FROM: J. H. Hogan
Director
Legislative Finance

SUBJ: Oil and Gas
Conservation
Tax

The framers of the Alaska Constitution decided to avoid a fiscal pitfall experienced by many sister states by prohibiting the establishment of dedicated taxes (taxes levied for a specific purpose with the receipts going into an earmarked fund from which appropriations can only be made for the specific purpose). The reasoning behind this prohibition is simply that (1) as they proliferate the dedicated taxes and funds become a budgetary and accounting nightmare, and (2) a dedicated tax unavoidably provides either too much or too little revenue for the specific purpose.

This proposed piece of legislation does not provide for a dedicated tax; it provides for an almost dedicated tax. Rather than go through the exercise, why not simply add the requested cents-per-barrel figure to whatever rate the Legislature chooses for its severance tax rate and be done with the problem.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE JUNEAU 99801

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

MEMORANDUM

TO: Honorable Tom Fink
Speaker
House of Representatives

DATE: October 17, 1973

FROM: J. H. Hogan *JH*
Director
Legislative Finance

SUBJ: Oil and Gas
Conservation
Tax

The framers of the Alaska Constitution decided to avoid a fiscal pitfall experienced by many sister states by prohibiting the establishment of dedicated taxes (taxes levied for a specific purpose with the receipts going into an earmarked fund from which appropriations can only be made for the specific purpose). The reasoning behind this prohibition is simply that (1) as they proliferate the dedicated taxes and funds become a budgetary and accounting nightmare, and (2) a dedicated tax unavoidably provides either too much or too little revenue for the specific purpose.

This proposed piece of legislation does not provide for a dedicated tax; it provides for an almost dedicated tax. Rather than go through the exercise, why not simply add the requested cents-per-barrel figure to whatever rate the Legislature chooses for its severance tax rate and be done with the problem.



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



LAWS OF ALASKA

1973

Source

Chapter No.

FSS-CSSB 6 (Finance) am

6

AN ACT

Relating to oil and gas pipelines and the Alaska Pipeline Commission; and providing for an effective date.

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

* Section 1. AS 42.06.240(a) is amended to read:

(a) After January 1, 1974 no pipeline carrier, or person which will be a pipeline carrier upon completion of any proposed construction or extension shall engage in the transportation of oil or gas by pipeline subject to the jurisdiction of the commission, or undertake the construction or extension of any pipeline facilities for that purpose, or acquire or operate any pipeline facilities or extension, unless there is in force with respect to that pipeline carrier a certificate of public convenience and necessity issued by the commission authorizing those acts or operations. A certificate shall describe the nature and extent of the authority granted in it, including, as appropriate for the services involved, a description of the authorized area and scope of operation of the oil or gas pipeline facility.

* Sec. 2. AS 42.06.240(b) is amended to read:

(b) If any person or predecessor in interest was engaged in transportation of oil or gas by pipeline or construction of an oil or gas pipeline on or before January 1, 1974, the commission shall issue a certificate of public convenience and necessity for that pipeline without hearings or proceedings. For purposes of this section, "construction" includes application for a federal right-of-way permit.

* Sec. 3. AS 42.06 is amended by adding a new section to read:

Chapter 6

Sec. 42.06.245. **FEDERALLY REGULATED CARRIERS** The requirements of this chapter pertaining to permits and certificates of public convenience and necessity do not apply to the construction of a pipeline facility exclusively subject to the jurisdiction of the Interstate Commerce Act or the Natural Gas Act or to the interstate portion of the business of a pipeline or pipeline carrier exclusively subject to the jurisdiction of the Interstate Commerce Act or the Natural Gas Act; however, the requirements of this chapter for permits and certificates of public convenience and necessity do apply to all the intrastate portion of the business of a pipeline or pipeline carrier subject to the Interstate Commerce Act and the Natural Gas Act whenever they engage in intrastate commerce; provided, however, nothing limits the powers of the commission set out in this chapter except to the extent they are preempted by the Interstate Commerce Act or the Natural Gas Act.

* Sec. 4. AS 42.06.280 is repealed and re-enacted to read:

Sec. 42.06.280. **INSURANCE AND SECURITY.** The commission may require any lessee to procure and furnish liability and property damage insurance from a company licensed to do business in the state or furnish other security or undertaking upon the terms and conditions the commissioner considers necessary if the commissioner finds that the net assets of the lessee are insufficient to protect the public from damage for which the lessee may be liable arising out of the construction or operation of the pipeline.

* Sec. 5. AS 42.06.430(6) is amended to read:

(6) For pipelines subject to the Interstate Commerce Act or the Natural Gas Act, the uniform system of accounts and manner of maintaining them and the property records kept and maintained shall, where considered practicable by the commission, be the same as required under regulations prescribed by the applicable federal agency. However, where federal law permits a pipeline carrier to consolidate its reporting for more than one pipeline in which it has an ownership interest, the commission shall require the reports to be made on an individual pipeline basis for any pipeline located wholly or in part in the state.

* Sec. 6. AS 42.06.430 is amended by adding a new paragraph to read:

(8) The commission may require such additional accounts and information as may be necessary.

* Sec. 7. AS 42.06.630(4) is amended to read:

(4) "gas" includes all natural gas and hydrocarbons produced at the wellhead and not defined as oil;

* Sec. 8. AS 42.06.630(8) is amended to read:

(8) "oil" includes crude oil, and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form, its products and liquid hydrocarbons, including the liquid hydrocarbons known as

Chapter 6

distillate or condensate recovered or extracted from gas,
other than gas produced in association with oil and commonly
known as casinghead gas;

* Sec. 9. This Act takes effect on the day after its passage
and approval or on the day it becomes law without approval.

-3-

Approved by governor: November 19, 1973
Actual effective date: November 20, 1973

AGO 788425

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 15, 1973

FROM: Kent Dawson
Fiscal Analyst
Legislative Finance

SUBJ: /n Act Relating to Oil
and Gas Pipelines and the
Alaska Pipeline Commission;
and providing for an ef-
fective date, SB 6

The final Act as passed during the Special Session essentially "grandfathers" in the Trans-Alaska Pipeline while leaving the Alaska Pipeline Commission Act of 1972 primarily intact. The makeup of the Commission itself, contrary to the Special Session proposals of the Governor, remained as it was in 1972.

The principal differences brought about by the Special Session are as follows:

Insurance and Security

Under the 1972 law, the procurement of liability and property damage insurance was a prerequisite for the granting of a certificate of convenience and necessity by the Commission. AS 42.06.280 now states that the Commission may require such insurance or security if a member of the Commission finds the net assets of the lessee to be insufficient to protect the public from damage for which the lessee may be liable.

Non-consolidation of Reports

Approved was an amendment to AS 42.06.430(6) offered by the Governor which assured reporting to the Commission on an individual pipeline basis for any pipeline located wholly or in part in the state. A further change to this subsection proposed by the Governor which precluded the state from requiring a system of accounts different from that required by the federal agencies, was rejected by the Legislature.

Federally Regulated Carriers

A new section, AS 42.06.245, was added which seeks to acknowledge the limits placed on the powers of the Alaska Pipeline Commission to the extent to which those powers are preempted by the Interstate Commerce Act and the National Gas Act. The intent of the section appears to be the assurance that no gap of non-jurisdiction exists between a purely intra-state jurisdiction on the part of the state and the particular powers of interstate regulation given the Interstate Commerce Commission and the Federal Power Commission.

The powers and duties of the Commission as established in AS 42.06.140 were left unchanged. Significant among these powers is the power to "prescribe or require just, fair and reasonable rates, classifications, regulations, practices, services and facilities...." under subsection (3); the power to "initiate, intervene in, and appear personally or by counsel and offer evidence...." under subsection (7); and the duty to "require permits for construction enlargement in size or operating capacity, extension, operation or abandonment..." under subsection (8). Of course, these powers (as in the Alaska Pipeline Commission Act of 1972) apply to federally regulated carriers only to the extent not preempted under the federal acts.



LAWS OF ALASKA

1973

Source

Chapter No.

FSS-CSSB 6 (Finance) am

6

AN ACT

Relating to oil and gas pipelines and the Alaska Pipeline Commission; and providing for an effective date.

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

* Section 1. AS 42.06.240(a) is amended to read:

(a) After January 1, 1974 no pipeline carrier, or person which will be a pipeline carrier upon completion of any proposed construction or extension, shall engage in the transportation of oil or gas by pipeline subject to the jurisdiction of the commission, or undertake the construction or extension of any pipeline facilities for that purpose, or acquire or operate any pipeline facilities or extension, unless there is in force with respect to that pipeline carrier a certificate of public convenience and necessity issued by the commission authorizing those acts or operations. A certificate shall describe the nature and extent of the authority granted in it, including, as appropriate for the services involved, a description of the authorized area and scope of operation of the oil or gas pipeline facility.

* Sec. 2. AS 42.06.240(b) is amended to read:

(b) If any person or predecessor in interest was engaged in transportation of oil or gas by pipeline or construction of an oil or gas pipeline on or before January 1, 1974, the commission shall issue a certificate of public convenience and necessity for that pipeline without hearings or proceedings. For purposes of this section, "construction" includes application for a federal right-of-way permit.

* Sec. 3. AS 42.06 is amended by adding a new section to read: