

Oil & Gas Conservation Tax

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

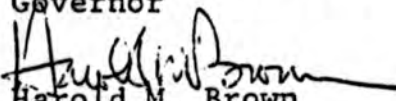
BILL SHEFFIELD, GOVERNOR

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November 14, 1986

M E M O R A N D U M

TO: Honorable Bill Sheffield
Governor

FROM: 
Harold M. Brown
Attorney General

RE: Attached bill relating to the oil
and gas conservation tax
Our file: 773-87-0074

The attached bill, requested by the Oil and Gas Conservation Commission in the Department of Commerce and Economic Development, deals with the oil and gas conservation tax. The request was approved by Jim Ayers on October 29, 1986.

A very similar bill was drafted but not introduced during the last legislative session. (Department of Law file no. 773-86-0078). It is our understanding that the bill was not introduced because it might have become a vehicle for separate-accounting legislation.

Also attached is a draft transmittal letter to the legislature.

HMB:AEP:md

cc w/enc.: Hon. Loren Lounsbury, Commissioner
Dept. of Commerce & Economic Development

C.V. Chatterton, Commissioner
Oil & Gas Conservation Commission
Anchorage

D R A F T

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the oil and gas conservation tax.

The primary purpose of the bill is to adjust the existing oil and gas conservation tax in AS 43.57.010 to provide enough additional revenue to the state to cover the amount of the operating costs of the Alaska Oil and Gas Conservation Commission ("commission"). An oil and gas conservation tax is included in most of the conservation Acts of the 30 oil and gas producing states. The tax would be in the amount of four mills per barrel of crude oil and 50,000 cubic feet of natural gas. Proceeds from the tax would be placed in the general fund. The commission has calculated that approximately \$2,680,000 would be collected annually if this bill were enacted.

The concept of a tax related to oil and gas conservation activities is not new to the state. Section 15, ch. 40, SLA 1955, which created the commission, provided funding by levying a tax on the gross amount of oil and gas produced. The tax rate was then five mills per barrel of oil and per 50,000 cubic feet of natural gas. After statehood, sec. 15 became AS 31.05.130 and 31.05.140.

The original tax was repealed effective July 1, 1970, by ch. 247, SLA 1970.

Effective July 1, 1974, AS 43.57.010, the Oil and Gas Regulation and Conservation Tax, was enacted. Sec. 1, ch. 5, FSSLA 1973. This tax is still in effect. It assesses a tax of 1.25 mills (one-eighth of one cent) per barrel of oil, a 75 percent reduction from the amount of the conservation tax levied up to July 1, 1970. The amount of revenue generated by this tax is not even equal to the operating costs of the commission, and may be perceived by the oil and gas industry as little more than a "nuisance tax." As described earlier, the tax in AS 43.57.010 would be adjusted to include a tax on production of natural gas, and to increase the amount of the tax.

Sincerely,

Steve Cowper
Governor

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

* Section 1. AS 43.57.010 is amended to read:

Sec. 43.57.010. OIL AND GAS [REGULATION AND] CONSERVATION TAX.

(a) Every [THERE IS LEVIED UPON THE] producer of oil and gas shall
pay a tax of four mills per [ONE-EIGHTH OF ONE CENT ON EACH] barrel of
oil and per 50,000 cubic feet of natural gas removed from or sold on
[FROM] each lease or property in the state, less any part the owner-
ship or right to which is exempt from taxation.

(b) The tax is in addition to and must [SHALL] be [ADMINISTERED
AND] paid in the same manner as the taxes imposed by AS 43.55.. Pro-
ducers of oil and gas shall [ARE REQUIRED TO] make reports of produc-
tion in the same manner and under the same penalties as required by AS
43.55.

(c) Proceeds from the tax must [SHALL] be paid into the general
fund. The commissioner of administration shall separately account for
all proceeds of the tax deposited in the general fund.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-
10.070(c).

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : 773-87-0074
 Title : An Act relating to the Oil
and Gas Conservation Tax

 Sponsor : Rules
 Requestor : Governor
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Oil & Gas Conservation Com.
 BRU : _____

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0					

CAPITAL	0					
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REVENUE		2402.8	2212.9	1927.5	1684.9	1373.6
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Los. by AS 43.57 repeal 745.2 685.9 596.7 520.9 462.8

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Based on November '86 production record, Prudhoe Oil Pool and Kuparuk Oil Pool initiating a production decline rate of 15% starting July 1, 1987; Lisbourne Oil Pool on stream July 1, 1987 at 100,000 b/d; and Endicott Oil Pool on stream July 1, 1986 at 100,000 b/d.

Prepared by : Chat Chatterton *Chat Chatterton/bdb* Phone : 279-1433
 Division : _____ Date : _____
 Approved by Commissioner : *[Signature]* Date : 11/24/86
 Agency : _____

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