

SCOMM

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. HB 209

Revision Date: 3/14/95 Dept. Affected: Revenue
Title: Oil and Gas Royalty Reduction BRU: Revenue Operations
Sponsor: Green, Rokeberg Component: Oil & Gas Audit
Requester: Green (H) D+G **COMPONENT SERIAL NO.** 115

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*****See Analysis*****
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This Bill would grant the Commissioner of Natural Resources the authority to reduce the royalty terms of an oil and gas lease if the lessees can demonstrate that such reduction is necessary to allow new commercial development, prolong field life, or reestablish commercial production from idle leases. The Commissioner may condition a royalty reduction to protect the state's interest including the restoration of the original royalty share in the event of an increase in the price of oil or gas. The Commissioner must make a written finding that the state has obtained the maximum possible economic return consistent with allowing a reasonable rate of return for the lessee.

New production from this royalty reduction would most likely pay little severance tax because the Economic Limit Factor is designed to provide almost total tax relief to the kind of marginal fields this legislation is aimed at benefiting. Each new barrel of production would be subject to the \$.05/bbl or \$.03/bbl hazardous release surcharge (depending on the balance in the 470 fund) and the \$.004/bbl conservation tax. The impact on the corporate income tax would be too small to measure because of the world-wide apportioned tax base and since by definition these fields would have marginal profitability.

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Division: Oil and Gas Audit Division Date: 3/14/95
Approved by Commissioner: Deborah Vogt Date: 3/15/95
Agency: Revenue

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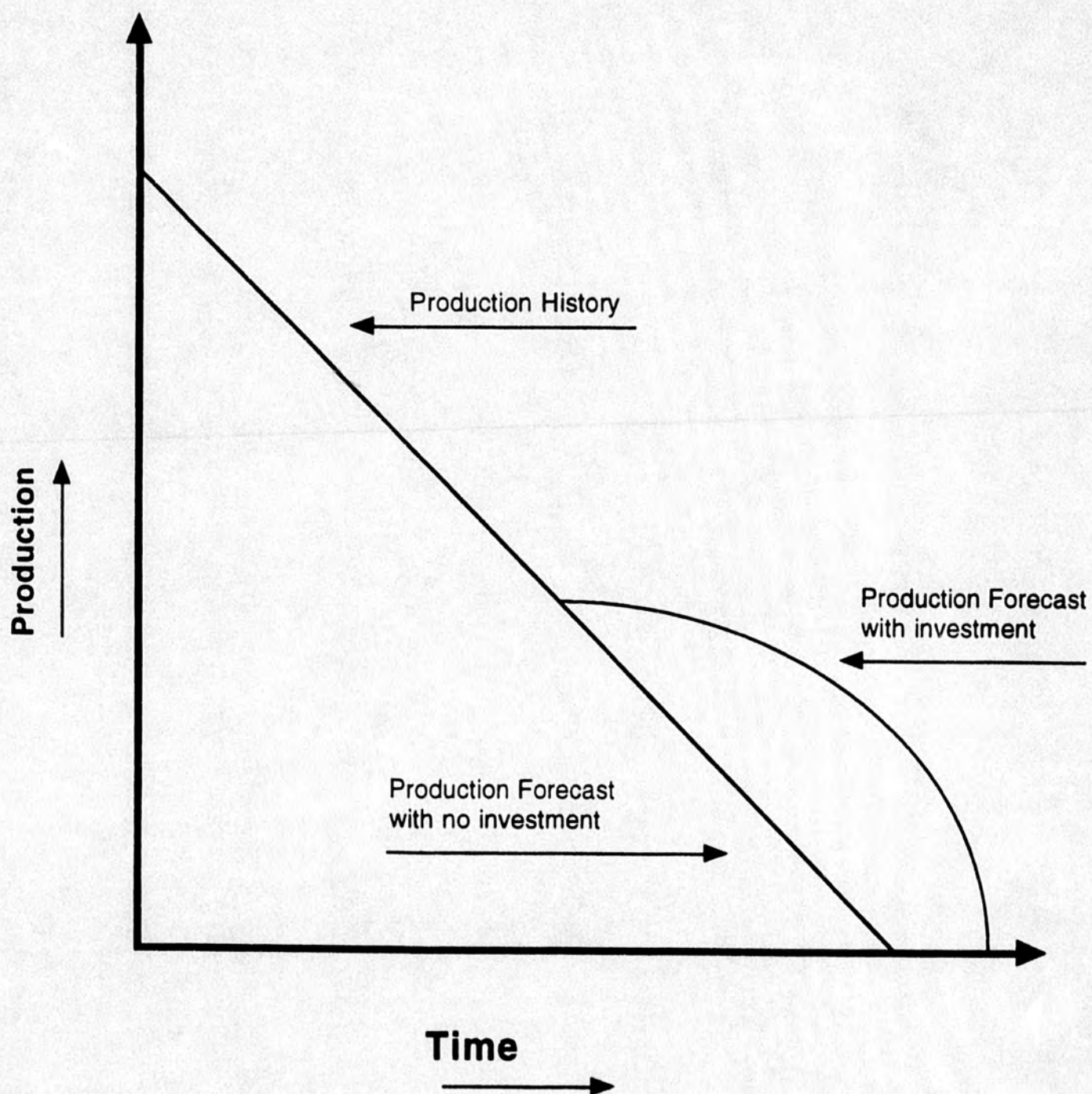
Sponsor Statement

HB 209 - Reductions of royalty on oil & gas leases

HB209 expands the list of statutory tools available to the Commissioner of DNR to respond to economic changes affecting Alaska's oil and gas producers. HB209 would allow the commissioner to reduce the royalty paid to the state for oil and gas production.

While the commissioner has the authority to reduce royalties as part of a unitization plan, or to "prolong the economic life of a ...field", the latitude to consider reductions for other reasons, and at other stages of production, is limited. HB209 expands that authority to allow the commissioner to consider other factors.

Mature Field Illustration # 2



Mature Fields Illustration #1

