

12287

HOUSE

RES

ACES Bill Version Comparisons

10/31/2007

Subject	PPT	ACES	CSHB 2001 (O&G)	CSSB 2001 (RES)
Lease Expenditures	AS 43.55.165(h). Allocation of costs between oil and gas.	Sec. 59. Amends AS 43.55.165(h). Conforming amendment to be consistent with new AS 43.55.160 (production tax determination).	PPT	PPT
Lease Expenditure Adjustments		Sec. 60. Amends AS 43.55.170(a). Conforming amendment necessitated by repeal of AS 43.55.165(c) and (d) (determination of lease expenditures).	CS Sec. 34. ACES language	CS Sec. 22. ACES language
Information		Sec. 61. Amends AS 43.55. Adds new section AS 43.55.890; makes clear DOR may publish production tax info that is aggregated among at least three taxpayers.	CS Sec. 35. ACES language	CS Sec. 23. ACES language
Definitions		Sec. 62. Amends AS 43.55.900. Adds new definitions for "nonunitized reservoir;" "pool;" "producer;" and "unit."	CS Sec. 36. ACES language Amends AS 43.55.900. Retains ACES definitions for "producer" and "unit;" deletes "nonunitized reservoir" and "pool."	CS Sec. 24. ACES language Amends AS 43.55.900. Retains ACES definitions for "producer" and "unit;" deletes "nonunitized reservoir" and "pool."
Repeals	AS 43.55.023(f) Provides cash refund for small producer credits.	Sec. 63. Repeals	PPT	PPT
Repeals		Sec. 64. Repeals AS 43.55.165(c) and (d): determination of deductible lease expenditures using unit operating agreements.	CS Sec. 37. ACES language	CS Sec. 25. ACES language
Repeals		Sec. 65. Repeals AS 43.55.011(f); (order for applying Cook Inlet tax ceiling); AS 43.55.023(i) (transitional investment expenditures); and AS 43.55.160(c) (determining tax value under AS 43.55.011(g) (progressivity)).	CS Sec. 38. ACES language Adds repeals of AS 43.55.011(g) and (h) (progressivity); retains ACES repeal of AS 43.55.160(c) (determining tax value); deletes repeal of AS 43.55.011(f) and AS 43.55.023(i).	CS Sec. 26. ACES language Retains ACES repeal of AS 43.55.011(f); deletes other repeals.

ACES Bill Version Comparisons

10/31/2007

Subject	PPT	ACES	CSHB 2001 (O&G)	CSSB 2001 (RES)
Applicability		Sec. 66. Applicability of specified sections.	CS Sec. 39. ACES language No change to applicability of retained ACES sections.	CS Sec. 27. ACES language No change to applicability of retained ACES sections.
Transition Auditors		Sec. 67. Allows current oil and gas auditors to opt to remain in classified service.	CS Sec. 40. ACES language	CS Sec. 28. ACES language
Transition Regulations		Sec. 68. Allows regulations adopted by DOR and DNR to be applied retroactively to the applicability date of the statutory provisions being implemented.	CS Sec. 41. ACES language (with changed section numbers)	CS Sec. 29. ACES language (with changed section numbers)
Transition Pending Applications		Sec. 69. Provides for the treatment of pending applications for transferable credits and the refund of credits under AS 43.55.023.	Deleted.	Deleted.
Transition Regulations		Sec. 70. Authorizes DNR and DOR to proceed with adopting regulations.	CS Sec. 42. ACES language	CS Sec. 30. ACES language
Retroactivity		Sec. 71. Provides for the retroactivity of certain provisions.	CS Sec. 43. ACES language No change to retroactivity of retained ACES sections.	CS Sec. 31. ACES language No change to retroactivity of retained ACES sections.
Effective Dates		Secs. 72 and 73.	CS Sec. 44 & 45. ACES language No change to effective dates of retained ACES sections.	CS Secs. 32 & 33. ACES language No change to effective dates of retained ACES sections.

State of Alaska

Department of Revenue
Commissioner's Office



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To: Carl Gatto, *Chairman*
House Resources Committee
Capitol Building, Room 108

October 30, 2007

cc: All Members
House Resources Committee

Dear Representative Gatto:

A number of questions were posed during the October 19th hearing of the House Resources Committee. The answers are provided below. If your own records indicate requests which we have not addressed, please notify my office and we will respond as soon as possible.

1. Representative Johnson requested organizational charts for the respective audit divisions of the Department of Revenue and Department of Natural Resources. The requested organization charts, with position vacancies noted are attached.
2. Representative Seaton inquired about the retroactivity of the penalty assessed under ACES for failure to submit required information, in response to testimony given by the Alaska Oil and Gas Association (AOGA).

Under Sections 47 and 49 of the HB 2001, the penalty for failing to file a report by the time required by the department is a fine of not more than \$1,000 per day the failure continues. These two sections were not included in Section 71 of the bill and thus are not effective retroactively. Nor are they included in Section 72 which provides an effective date of January 1, 2008. Therefore, under Section 73, these two sections would take effect immediately in accordance with AS 01.10.070(c).

3. Representative Seaton asked whether in-field use of fuel products from a topping plant would be exempt from royalty.

Fuel gas and crude oil used in field operations is royalty free. The crude oil topping plants sell fuels on the slope. The oil that is consumed in the topping plants that goes into the diesel that is sold does pay royalty. The oil consumed by the topping plants is allocated to lease operations (royalty free) and sales (royalty payable), based upon the ratio of diesel consumption. Likewise the gas that powers the topping plants is also allocated based on the same factor. Royalty is due on the fraction of gas consumption due to third party diesel sales.

4. Representative Seaton asked whether value added petroleum products created in Alaska are taxed under the Alaska Production tax statute.

AS 43.55.020(e) excludes from the production tax, oil or gas produced from a lease that is used in the state for drilling, producing oil or gas, or for repressuring. Therefore, oil refined into diesel in a North Slope crude oil topping plant is not be subject to the production tax if the diesel is used in oil and gas operations. Oil refined into diesel not used for oil and gas operations would be subject to production tax.

5. Representative Roses asked how frequently production tax audits need to be completed beyond the current 3 year statute of limitations.

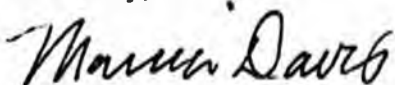
For the 4-5 smaller taxpayers who do not transport their own oil, the department performs what is known as a "desk audit". These taxpayers sell their oil at pump station one and very little information is needed from the taxpayer and the audits are all completed within the current three year statute of limitation. The remaining 6-7 taxpayers are the larger taxpayers whose audits are "full blown". They either move their own crude or sell at the Valdez terminal. Much more information is needed from these taxpayers and almost all require waiver and extension of the statute of limitations which only happens with taxpayer consent. One very large taxpayer refuses to sign an extension of the statute of limitations as a corporate policy. For the largest taxpayers, where we conduct full audits, we need extensions for 85% of those taxpayers.

6. Representative Gatto asked if personnel within DNR and DOR who violate the applicable confidentiality laws can be convicted of a class C felony.

If DOR employees unlawfully disclose confidential tax information, they are subject to a criminal penalty under AS 43.05.230(f), namely, a fine of not more than \$5,000, or by imprisonment for not more than two years, or by both. This offense is defined in AS 43, not in the criminal statutes, and there is no language classifying the offense as a type of felony or misdemeanor. However, the maximum imprisonment authorized in AS 43.05.230(f) is more than the one-year maximum for a Class A misdemeanor and is within the five year maximum for a Class C felony, so it appears to be equivalent to a Class C felony.

Pursuant to AS 38.05.036, if DNR employees use confidential oil and gas information obtained in connection with royalty and net profit audits for personal gain or not in connection with their official duties, they commit the crime of "Misuse of Confidential Information" under AS 11.56.860, and if convicted are guilty of a Class A misdemeanor.

Sincerely,



Marcia Davis

Deputy Commissioner Department of Revenue

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES OFFICE OF THE COMMISSIONER

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November 2, 2007

Ms. Marcia Davis
Deputy Commissioner
Department of Revenue
P.O. Box 110400
Juneau, AK 99811-0400

Dear Ms. ^{Marcia} ~~Davis~~,

I am writing to recap recent email conversations between the Department of Revenue and the Department of Transportation & Public Facilities (DOT&PF) regarding the Dalton Highway (Haul Road). There were a number of questions your Department had for DOT&PF and I have outlined them below.

You have requested information regarding increased maintenance costs on the Dalton Highway as a result of increased truck traffic. You mentioned the operator contends that if the Kuparuk Crude Oil Topping Plant is not modified to produce extra ultra low sulfur diesel, the operator intends to provide the necessary diesel for slope activities by having it trucked from Fairbanks to Kuparuk. The operator estimates that the increased use of the Dalton Hwy (Haul Road) will be an additional 20 truck trips each day. I will assume this to be one-way trips.

If a deduction is not allowed for a crude oil topping plant on the North Slope, low-sulfur diesel may need to be trucked up the haul road from either Anchorage or Fairbanks. This is estimated to require roughly 20 trucks (or 3000bls) daily. What impact is this likely to have on haul road maintenance costs?

After years (decades) of marginal maintenance, over the past 4 years we have increased both our operating and capital efforts significantly. An increase of daily truck traffic on the Dalton of 50-70 trips will not result in any significant (<\$1.5 million) additional maintenance effort or cost. We do not expect the cost range to increase significantly until the daily truck traffic increases by 150 trucks (one way) a day.

Commitment to the movement of people and goods and the delivery of services

Where are the maintenance stations located, and how long has DOT been supplying them via tanker?

We have 7 maintenance stations on the Dalton Highway, starting at Livengood at the end of the Steese Hwy and moving north.

- o Livengood
- o Seven Mile
- o Jim River
- o Coldfoot
- o Chandalar
- o Sag River
- o Deadhorse (Hwy station, airport and ARRF)

The stations (with the exception of Deadhorse to Sag) are located approximately 60 miles apart - that is the optimum distance for a road maintenance station. These stations are manned 24 hours a day, seven days a week, with the crews working seven days on and seven days off - crew members live predominantly in the Fairbanks area. To the best of my knowledge, DOT&PF has always supplied our remote maintenance stations by tanker. We bid fuel supply contracts with prices FOB each maintenance station.

I understand that fuel produced on the Slope is for the industrial uses there, and only there (although they do sell fuel to the villagers of Nuiqsut), and has no motor fuel taxes applied.

What impact will the increased haul-road traffic have on safety?

We do NOT allow double tankers on the Dalton Highway (capacity approximately 12,000 gallons) only single tankers (capacity approximately 9,000 gallons). Most fuel consumed on the slope is produced on the slope. We supply our seven maintenance stations on the Dalton out of Fairbanks via tanker with no history of mishap.

Do you know the average amount of fuel that DOT trucks up daily or how often the fuel runs happen?

We do not truck daily, but receive a delivery from private vendors on a "keep full" basis and store it in our tanks. The fuel trucks are approximately 9,000 gallons

bp



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November 2, 2007

via hand delivery

The Honorable Carl Gatto
Co-Chair, House Resources Committee
State Capitol Rm. 108
Juneau, AK 99801-3100

The Honorable Craig Johnson
Co-Chair, House Resources Committee
State Capitol Rm. 126
Juneau, AK 99801-3100

Re: Response to questions which arose during BP's presentation on HB 2001 / CS 2001

Dear Representatives Gatto and Johnson:

During the course of our testimony to the House Resources Committee on October 31, 2007 several questions were asked where we indicated we would respond with specific and/or detailed answers.

How many wells have been drilled on the North Slope relative to BPs investment in 100 wells in 2006?

The total number of wells in which BP invested was 98. This was rounded to 100 wells. This represented 70% of all wells drilled on the North Slope in 2006. (source AOGCC new spudded wells in 2006)

Can you provide a separation of the operating costs in L48 from Alaska?

\$10.33/bbl US average cost (operating, transportation and production taxes) – source 2007 Global Upstream Performance Review – John S. Herold Inc.

In reviewing this information to identify L48 distinct from Alaska, we noted that in our preparation of the slide, we erroneously calculated the PPT/bbl using the daily production rate as an absolute production figure. \$2.1 billion of production revenue tax generated from 756,000bbl/day gives \$7.61/bbl versus the \$2.1 billion PPT generated on 756 million barrels which calculated at \$2.77/bbl. This correction has added \$4.84/bbl to our Alaskan cost raising this from \$16/bbl to \$21/bbl. A corrected slide is attached.

This particular report does not separate out the L48 and Alaska. We have made requests of both Wood Mackenzie and John S Herold for a more exact split of the costs. Pending more accurate numbers, below we have made a simple estimate using 2006 Alaska crude oil production as a percentage of total U.S. production. We appreciate that this is both simplistic and likely to overstate the average cost of a L48 barrel:

Comparison of operating expense, transportation costs, and production taxes	
U.S. Ave Cost/bbl	\$10.33
2006 U.S. Crude Oil Production, thousand barrels	1,862,259
Alaska Average Cost/bbl (2007)	\$21.20
2006 Alaska Crude Oil Production, thousand barrels	270,486
Total U.S. cost, \$thousand	19,237,135
Total Alaska Cost, \$thousand	5,734,303
Total L48 Cost, \$thousand	13,502,832
Estimated Average L48 Cost/bbl	\$8.48

* Alaska costs based on operating cost \$7.75 from August 2007 PPT Status Report, Transport cost of \$5.84 and production costs/bbl of \$7.61 are from the 2007 Spring Resource Book

How much of the total USA production is from Alaska?

Based on information extracted from the Energy Information Administration website, Alaska represents 14.5% of the 2006 US oil production.

What percentage of the BP employee and contractor workforce is Alaskan?

Of the current BP Alaska Employees, 82% are Alaska residents and of these 71% qualify for the PFD. The difference in the numbers reflects the timing of when individuals have joined BP Alaska.

While we do not have ready access to 100% of our contractor workforce we have, through working with our contractors, obtained the following information.

- Top Six Contractor breakouts:
 - o Company 1: 85% PFD Recipients
 - o Company 2: 74% PFD Recipients
 - o Company 3: 72% PFD Recipients
 - o Company 4: 71% PFD Recipients
 - o Company 5: 67% PFD Recipients
 - o Company 6: 67% PFD Recipients

What deductions would be available for topping plants under the existing PPT ?

A specific request was made of the DoR seeking confirmation that the understanding that this cost was deductible under PPT was correct. The proposed bill introduced by the Administration sets a policy indicating that this will not be eligible for deduction.

In the event credits were available for this particular project then the construction costs would attract the credit to improve the economics such that it becomes a viable project. This is part of the plant operations. There are currently existing topping units but they are not designed for Ultra Low Sulfur Diesel (ULSD).

The costs of running the plant would be part of the operating costs of running the field in the same way the existing plants are. The refined product stream would then be either used to fuel the field in which it was produced and there would not be an additional cost as there would be no 'purchase', or it would be sold to another field. In the case of a 'sale', the revenue would be taxable and the cost in the receiving field would be deductible.

In respect of Royalty, volumes produced and used within the unit for unit operations (e.g. fuel, well treatment, etc) are not subject to royalty. All volumes produced and sold to other units are subject to Royalty. It should be understood that the plants are not designed to produce large amounts of excess volumes. Also, within Unit use takes a priority over sales to other Units or Contractors. This is the current approach and this approach would be maintained.

What deductions are currently available for DR&R?

Currently, North Slope DR&R is addressed as part of the 18 excluded items under Sec. 43.55.165(e). Any investment made in upstream assets prior to April 2006 must be identified. The DR&R incurred on those assets is not subject to deduction under PPT. If there is an asset that was installed after April 2006, the DR&R associated with the removal of that asset is subject to deduction under PPT or is not excluded. There is an exception to the DR&R incurred on pre-April 2006 assets. If the DR&R is undertaken for the purpose of replacing, renovating or improving the asset, the DR&R would be considered a qualified lease expenditure.

The Honorable Carl Gatto
The Honorable Craig Johnson
November 2, 2007
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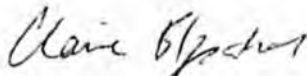
What are the calculations behind the indicative level of investment included in Slide 4 to reach a 3% decline rate?

In order to illustrate the benefits to both the state and industry of having more volumes from which to generate revenue, the level of investment would need to increase substantially. Rather than use different numbers we elected to use those which had been presented.

The 15% decline rate is the 'not do very much' scenario. We recognize that some investment would be required to access the 1.3bn barrels and that some level of facilities costs would be required. In moving through the scenarios however, no further upgrading or enhancing of facilities was assumed. In selecting which of the example fields to include in our illustration (attached), we did not include Field G as we do not believe that it is a likely estimate in respect of projects in Alaska in the future – while we would all be delighted to see fields discovered of the magnitude required for this cost/bbl to be achievable.

I hope these responses are clear. We remain available if we can be of any further assistance to the committee.

Yours sincerely

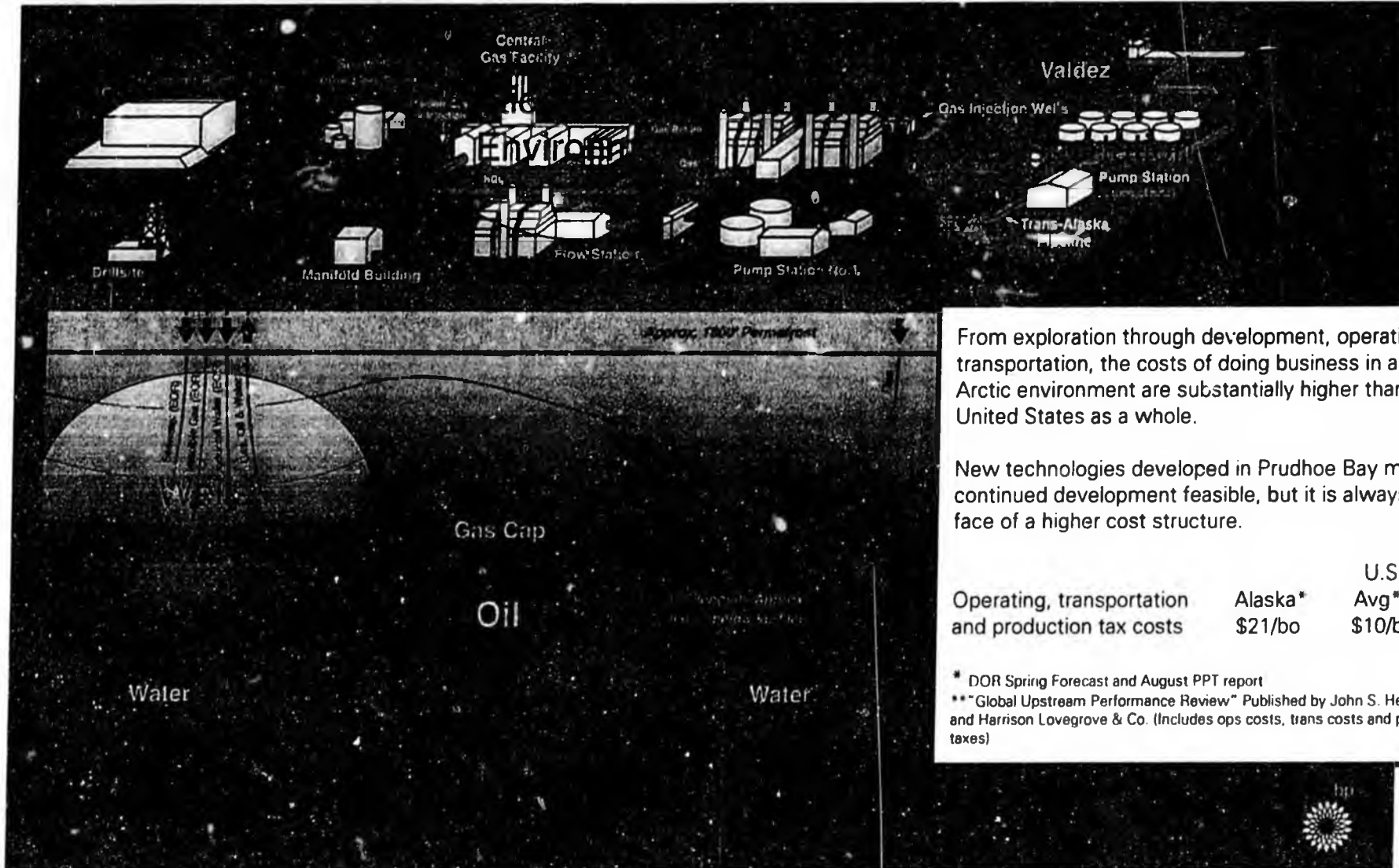


Claire Fitzpatrick
Commercial Senior Vice President

Attachments:

Corrected slide showing Alaska vs. Average US Cost Structure
Analysis of Slide 4

Alaska vs. Average U.S. Cost Structure



From exploration through development, operating and transportation, the costs of doing business in a remote Arctic environment are substantially higher than the United States as a whole.

New technologies developed in Prudhoe Bay make continued development feasible, but it is always in the face of a higher cost structure.

	Alaska*	U.S. Avg**
Operating, transportation and production tax costs	\$21/bo	\$10/bo

* DOR Spring Forecast and August PPT report

** "Global Upstream Performance Review" Published by John S. Herold, Inc and Harrison Lovegrove & Co. (Includes ops costs, trans costs and production taxes)



Analysis of Slide 4

Capital Cost Information Used

PPT Status Report August 3, 2007

Capital Costs / barrel \$6.81

ACES presentation: Senate Resources / House Oil and Gas
Characteristics of Seven Fields : Capital \$/bbl

A legacy field with heavy oil	\$11
B satellite field	\$10
C satellite field	\$11
D stand alone field	\$13
E satellite heavy oil	\$16
F offshore stand alone	\$8
G stand alone	\$5

Incremental Investment Scenario

Do Little' Scenario - 15% decline

	Billion barrels	\$ billion
Assume some investment:	0.3 existing cost of \$6.81	2.0
	1 no drilling requirement facilities maintenance	3.0
	1.3 Investment	5.0

Status Quo 6% decline

Incremental investment needed above 'do little'	2 existing cost of \$6.81	13.6
	0.6 heavier oil	8.1
	(ave of A & E is \$13.5/bbl)	
	2.6	21.7

Reduce Decline to 3%

Further additional investment	2.4 Heavier oil at above ave (to reach BP 3bn estimate)	32.4
	0.6 existing cost	4.1
	0.6 Stand Alone	7.8
	3.6	44.3
Total	7.5	71.0

ALASKA STATE LEGISLATURE

House Resources Committee

Carl Gatto, Co-Chair

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MEMORANDUM

TO: Commissioner Pat Galvin
Alaska Department of Revenue

FROM: Representative Carl Gatto, Co-Chair
Representative Craig Johnson, Co-Chair
House Resources Committee 

DATE: November 2, 2007

RE: Request for Additional Information for CS HB 2001 (O&G)

Below is a list of questions that House Resources Committee members asked that the administration address.

- 1) Rep. Seaton requested a follow up on definitions, levels of negligence, in provision 165(e) (19), page 28.
- 2) Rep. Johnson inquired about who determines "due care" in provision 165(e) (19), page 28, line 22, and that the regulations define specific terms and guidelines.
- 3) Rep. Roses asked how often audits continue beyond the current 3 year term.
- 4) Rep. Seaton requested better definitions for Sec. 33.AS 43.55.165(e).
- 5) Rep. Guttenberg inquired about whether the administration had spoken to the bargaining units with regard to exempt class of auditors.
- 6) Rep. Seaton requested a sectional analysis and side-by-side comparison with HB 2001 and CSHB 2001(O&G).

Memo to Commissioner Galvin
November 2, 2007
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7) Rep. Seaton asked about the retroactivity aspect in provision .030(d) of HB 2001, which was left out of CSHB 2001(O&G).

8) Rep. Gatto asked whether personnel in DOR or DNR would be convicted of a class C felony if they breached the confidentiality requirements.

ALASKA STATE LEGISLATURE
House Resources Committee

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MEMORANDUM

TO: Commissioner Pat Galvin
Alaska Department of Revenue

FROM: Representative Carl Gatto, Co-Chair
Representative Craig Johnson, Co-Chair
House Resources Committee 

DATE: November 2, 2007

RE: Information Requested from Legislative Budget & Audit Committee

Attached are memos that were sent to you from Legislative Budget & Audit Committee Chair Rep. Samuels dated 10/16, 10/17, 10/21 and 10/23 with requests for information. The highlighted items on each of the attached memos represent the outstanding issues that have still not been responded to.

With CS HB 2001 (O&G) currently in House Resources Committee, we urge you to provide the requested information directly.

Thank you for your immediate attention to this request.



LEGISLATIVE BUDGET & AUDIT COMMITTEE

Representative Ralph Samuels, Chairman

MEMORANDUM

TO: Commissioner Pat Galvin
Alaska Department of Revenue

FROM: Representative Ralph Samuels, Chair
Legislative Budget and Audit Committee

DATE: October 16, 2007

RE: Initial Questions

The Legislative Budget & Audit Committee has developed some initial questions surrounding the proposed ACES legislation and information presented in some of the briefings.

Some of the numbered questions actually have a series of questions that all relate and are not separately numbered. The attempt was to group those that corresponded with one another.

Thank you for your response.

**Questions for the Alaska Department of Revenue
Presented by the Legislative Budget and Audit Committee
October 16, 2007**

Initial Policy Question on Heavy Oil

1. What defines legacy fields? The Administration suggested that legacy fields will have a minimum or tax floor. Under the proposed definition, will fields not yet in development become legacy fields some point in the future - for example when their owners have recaptured their investments many times over?
2. How will the Administration's plan deal with investment in heavy oil fields in times of low oil prices? In other words, how does a gross floor fit with encouraging expensive heavy oil production? How will heavy oil produced from legacy fields be dealt with?
3. How does the Administration's plan reconcile encouraging management of the risks of relatively new and untested asset facilities required for heavy oil development with the notion that any costs associated with State defined "improper maintenance" will not be deductible?

HB 3001 Fiscal Note *PPT*

4. Does the Administration have reconciliation between the HB 3001 fiscal note and FY 2006 and 2007 actuals? (Has a general reconciliation been performed between the forecasting models and the specific models used for the fiscal notes? How do these compare with the differences between projections and actuals from prior years?) Please give us copies of the underlying HB 3001 model and data, and, if different, the current model used for ACE's projections.

The Department of Revenue recently published the PPT Implementation Status Report that stated "revenues are falling far short of what was expected when PPT was passed."

The PPT Implementation Status Report further states: "In FY 2008, based on forecasted price and production levels, the PPT is expected to generate about \$250 million over that which would have been generated under the ELF system. However, this is more than \$800 million less than what was predicted in the PPT fiscal note."

In the PPT fiscal note the DOR forecast revenue for FY 2008 was \$1.485 billion (approximately \$700 million more than the ELF status quo). Based on the PPT estimated monthly payments made to date, the PPT will bring in over \$2 billion this year. If the trend continues, a like amount will be paid in 2008. That is over a half billion dollars *more* than was projected in the FY 2003 fiscal note.

LB&A Questions to DOR

5. Please reconcile the projections shared with the public in the PPT Implementation Status Report with the actual payments being made by the producers. The payments made to date this year are:

January	\$125,314,170.38
February	\$126,442,395.30
March	\$140,441,189.71
April	\$158,210,793.88
May	\$193,260,239.50
June	\$184,572,810.28
July	\$213,518,760.18
August	\$166,661,938.33

**please provide Sept*

6. On the topic of forward looking projects, including FY 2008, what are current forward-looking DOR projections based on? Forward looking data from major taxpayers? Is the DOR getting this data voluntarily from taxpayers and should those same kinds of disclosures be made mandatory? Does the State have enough data to tell yet if forward looking projections from taxpayers are a good way of estimating forward costs? Are there better ways, or even if taxpayers' estimates are not a very good way, are they the best source we have?

7. In the September 18, 2007, presentation to House members, the DOR stated that it is trying to revise its models to incorporate a relationship between prices and costs. What do we know about the relationship between oil price and oilfield costs including the all important question of time lag and "stickiness"?

Higher Reported Costs

8. Are taxpayers filing aggressive returns which overstate or mischaracterize costs?

9. Does the Administration have any preliminary indications that taxpayers are filing aggressive returns which under current law (1) overstate deductions or credits or (2) mischaracterize operating costs as capital costs? Are there "unusual" or unexpected taxpayers who appear to be carved out of other taxpayers either for the specific ability to take advantage of the ability to use the \$12 million per producer filing under AS 43.55.024 (c) or that incidentally qualify for that credit?

10. Are the hoped for effects of the legislation occurring on a time scale and magnitude that was not anticipated?

11. We would like a break down of capital costs for the period 2001 through the most recent information (including those filed for purposes of the AS 43.55.023 TIE credits).

LB&A Questions to DOR

Please supplement this with any information the State may have received voluntarily. Please lay out any applications under the .025 Exploration Credit program since its inception. Please have the DNR provide a review of wells drilled in the state in that period. It would be helpful to also add seismic shot during the same time period with a breakdown by area, i.e. offshore state land, offshore federal land, onshore state land, NPRA, inside unit boundaries and outside unit boundaries. **[This subject is addressed again under the heading of "Exploration Credit" where two more questions are posed.]**

ask this
or on
14th page →

12. Have costs to do the same work actually increased?
13. What data does the State have that shows whether North Slope cost increases were more or less than cost inflation found elsewhere in the world wide oil patch?
14. Does the State have any data concerning "gold-plating"? Does the state have Authorization for Expenditures (AFEs) or other data from the TIE period that can be compared with AFEs or other data from the post July 2006 period and, if so, please present that information?
15. Does the State have any data on the relative costs of new opportunities compared with the relative costs of older opportunities? Does the state have any data on the relative costs of opportunities foregone in the past but undertaken recently?
16. Can the costs of corrosion and other costs that would be disallowed under SB 80 -- had it been in effect -- be identified or broken out from other costs submitted?

Modeling Data

At the September 4, 2007, press conference four projects were presented.

17. Please provide details, costs, timing, revenue, and other critical assumptions and modeling on each of these projects and comparisons.
18. Are these figures over the life of the field/project?
19. Were other state and federal taxes computed before measuring the producer's share?
20. Were the field/project figures based on producers that would have had access to TIE credits or to new investors?
21. Please provide a copy of the model or models that produced the revenue alternatives presented September 4, 2007, including work for years beyond FY 2008.

not
confidential }

LB&A Questions to DOR

22. Does the state have a North Slope model on a field by field basis? Can the state break down the data it has on a field by field basis? Does the state have information on an AFE or other project basis?

✶ 23. Please provide any additional models or modeling where "the numbers speak for themselves" if what they say is critical to the proposals, and that modeling has not been asked for directly elsewhere.

Government Take Metrics

24. Please make available the data and reports from experts and consultants behind the international comparison material presented at the September 4 and 18, 2007, presentations.

25. If not detailed in those reports, please provide details and assumptions and modeling behind the government take metrics. Are these for a given year, or at a single reference price, etc.? Who are our peers? Are these full cycle and do they include gas or are they purely oil?

Exploration Incentives

✶ 26. Please provide a history of all requests for exploration credits and which were denied and which were granted for the following two exploration incentive programs:
AS 38.05.180(i)
AS 41.09.010 (1994-2007)

Tradeable Credits

✶ 27. Please provide specific information on the rate at which credits are being traded. For instance, are they trading for less than 50 cents on the dollar, less than 75 cents on the dollars, and are nay trading in the 90 cents plus on the dollar range?

Total Petroleum Revenues

✶ 28. In order to have the full oil and gas industry payments to the State we are requesting the numbers for fall 2007 in the following categories:
a. Corporate Petroleum Tax
b. Petroleum Property Tax
c. Oil and Gas Royalties
d. Bonuses, Rents and Interest
e. Deposits to the CBRF



LEGISLATIVE BUDGET & AUDIT COMMITTEE

Representative Ralph Samuels, Chairman

MEMORANDUM

TO: Commissioner Pat Galvin
Alaska Department of Revenue

FROM: Representative Ralph Samuels, Chair
Legislative Budget & Audit Committee

DATE: October 17, 2007

RE: Data Request

The Department of Revenue is preparing the fiscal note for the ACES legislation. I would request the model utilized to generate the fiscal note. Thank you for your response to this request.

* We understand that ~~to~~ a public model was created. Please provide it to us.

State of Alaska

Department of Revenue
Commissioner's Office



SARAH PALIN, GOVERNOR
333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99811-0405
Phone: (907) 465-2300
Fax: (907) 465-2394

Representative Samuels
State Capitol, Room 204
Juneau, AK 99801-1182

October 19, 2007

Dear Representative Samuels:

Thank you for your memo dated October 17, 2007, in which you request that the Department of Revenue provide the Legislative Budget and Audit Committee with a copy of the model used to generate the fiscal note for the ACES tax proposal. Unfortunately, we are unable to comply with your request at this time.

The production tax forecast model contains highly sensitive taxpayer-specific information. We believe it would be a breach of Tax Division confidentiality provisions to release such information.

In recognition of this limitation on our ability to share our model, our staff has dedicated time to assisting LB&A consultants, Mr. Dan Dickenson and Mr. Steve Porter in the construction of their own models to aid their efforts on behalf of the legislature.

We appreciate your understanding in this matter. If you have any other requests for information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat Galvin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Pat Galvin
Commissioner
Department of Revenue



LEGISLATIVE BUDGET & AUDIT COMMITTEE

Representative Ralph Samuels, Chairman

MEMORANDUM

TO: Commissioner Pat Galvin
Alaska Department of Revenue

FROM: Representative Ralph Samuels, Chair
Legislative Budget & Audit Committee

DATE: October 21, 2007

RE: Data Request

The fiscal note for HB 2001 references the "Fall 2007 DOR Official Forecast" for its analysis. We request the Fall 2007 Revenue Sources Book in order to correctly analyze the fiscal note.

* When will they publish



LEGISLATIVE BUDGET & AUDIT COMMITTEE

Representative Ralph Samuels, Chairman

MEMORANDUM

TO: Commissioner Pat Galvin
Alaska Department of Revenue

FROM: Representative Ralph Samuels, Chair
Legislative Budget & Audit Committee

DATE: October 23, 2007

RE: Data Request

Our consultants have been asked to run some modeling information for the Senate Resources Committee. In order to adequately address this request, they require the following information:

- (1) Cost profile (over next 20 years – or, however far out they model) broken into operating and capital, with an indication of whether the 30 cent .165 (e) (18) adjustment has been made
- (2) Production profile over the same period
- * (3) Credit profiles over the same period showing number of companies estimated to be taking the .024 credits and the 40% .025 credits
- (4) Other critical parameters

Our consultants are Barry Pulliam, Dan Dickinson and Steve Porter. Thank you for your quick response.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB2001(O&G)
 () Publish Date: _____

Identifier (file name): HB2001CSO&G-DNR-O&G-11-02-07 Dept. Affected: Natural Resources
 Title Oil and Gas Tax Amendments RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rules Committee
 Requester House Resources Component Number 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	303.5		303.5	303.5	303.5	303.5	303.5	303.5
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	303.5		303.5	303.5	303.5	303.5	303.5	303.5

CAPITAL EXPENDITURES								
-----------------------------	--	--	--	--	--	--	--	--

CHANGE IN REVENUES ()								
-------------------------------	--	--	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2008) cost: 177.0

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

The current supplemental tax is payable as a percentage of net income (after lease expenditures), with the percentage varying with a taxpayer's net income per barrel (AS 43.55.011(g)). This bill would replace the supplemental tax with a tax payable as a percentage of gross proceeds at the lease (without a deduction for lease expenditures), with the percentage varying based on a taxpayer's gross proceeds per barrel. The bill also limits the Transition Investment Expenditures allowable for a credit (assuming some matching current capital spend) to three years of capital expenditure (2003-2006) rather than five years (2001-2006).

Prepared by: Nan Thompson
 Division: Oil and Gas
 Approved by: Tom Irwin, Commissioner
Natural Resources

Phone 269-8800
 Date/Time 10/31/2007
 Date 11/2/2007

FISCAL NOTE

**STATE OF ALASKA
2008 LEGISLATIVE SESSION**

BILL NO. CSHB2001(O&G)

ANALYSIS CONTINUATION

The current supplemental tax is a tax on a taxpayer's oil and gas net income that would increase by 0.25% for every dollar the net income per barrel exceeded \$40. The bill proposes a supplemental tax on gross proceeds that would be based on a rate which would increase by 0.225% for every dollar the gross proceeds per barrel exceeded \$50.

For existing North Slope producers and new entrants thinking about developing a field, changing to a supplemental gross tax may lower the chance that a prospect would be developed. It is not possible to predict precisely how much the chance of development would be diminished.

Some factors that may determine the impact of the tax change on the project's economics are future prices, the relative profitability of existing production, and the profitability of the project in question.

Personal Services: Sections 9 and 40 would reclassify the current oil and gas auditors to exempt status employees. DO&G currently has seven oil and gas auditor positions. The total salary/benefit costs for these seven employees currently equals approximately \$849,147. An increase to exempt status is estimated to cost up to an additional \$303,500 in FY09. The FY08 amount of \$177,000 covers an estimated 7-months at the higher rate.

Handwritten scribble and the number 70.

**Progressivity in CS HB 2001
(O&G)
with requested alternative
information**

**Dan E. Dickinson
November 2, 2007
House Resources**

Progressivity Taxes

	PPT	ACES	HO&G
<u>BASE</u>			
Taxable bbls	244	244	244
ANS Market	87.00	87.00	87.00
Trans	7.00	7.00	7.00
GVPP	80.00	80.00	80.00
Lifting	20.00	20.00	-
PTV	60.00	60.00	80.00
bbls time \$/bbl	14,640	14,640	19,520
Base	14,640	14,640	19,520
<u>RATE (factor/dollar * dollars over starting point)</u>			
Starting place	40.00	30.00	50.00
Price index	20.00	30.00	30.00
Factor/dollar	0.2500%	0.2000%	0.2250%
Prog Factor	5.00%	6.00%	6.75%
<u>Tax = Rate * Base</u>			
Tax	732.00	878.40	1,317.60

11/2/2007

Dan E. Dickinson
House Resources

2

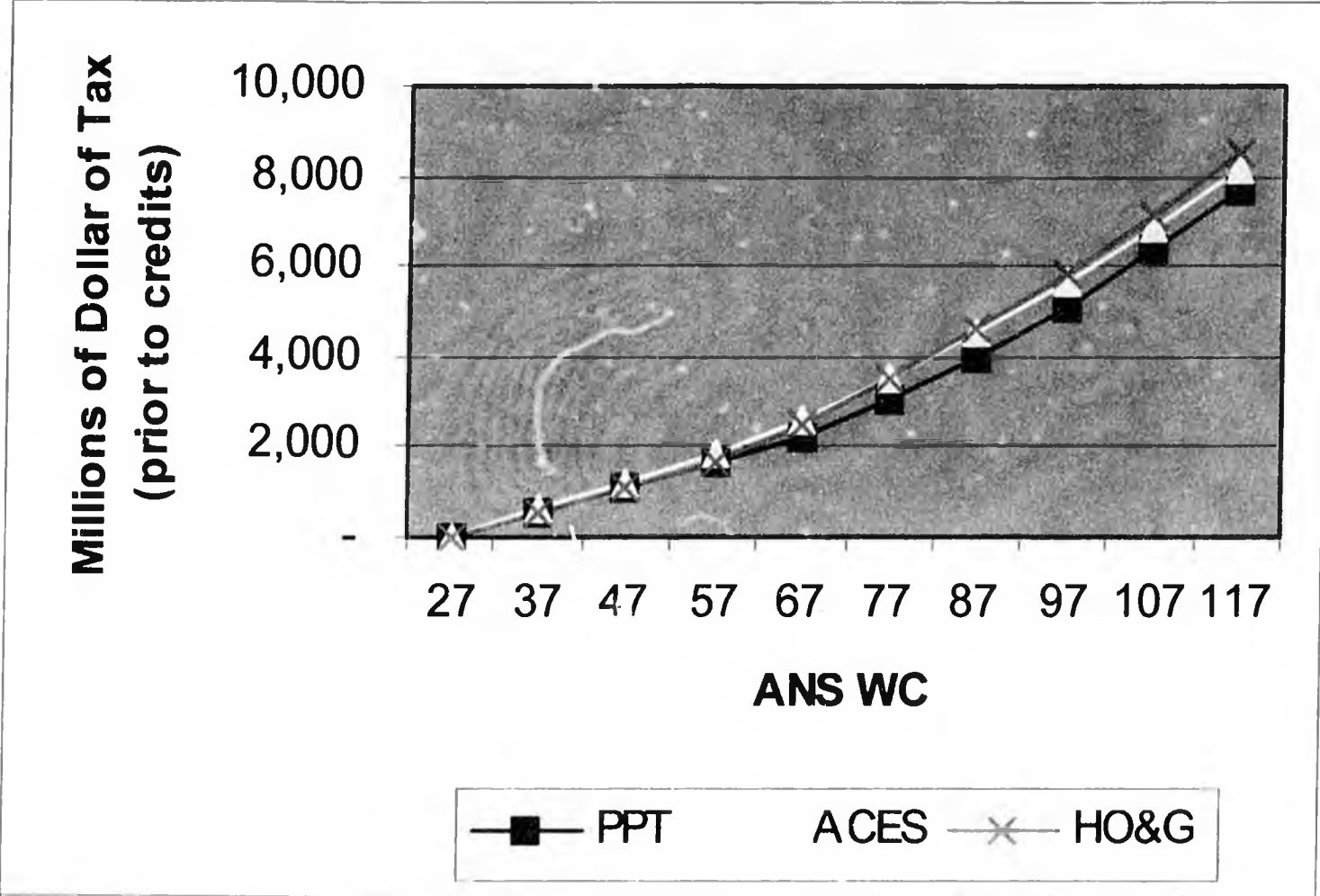
Progressivity Taxes (using 10/30 Daily Price and DOR cost and volume assumptions)

	PPT	ACES	HO&G
<u>BASE</u>			
Taxable bbls	230.5	230.5	230.5
ANS Market	89.09	89.09	89.09
Trans	6.73	6.73	6.73
GVPP	82.36	82.36	82.36
Lifting/Upstream	18.57	18.57	-
PTV	63.79	63.79	GVPP: 82.36
bbls time \$/bbl	14,704	14,704	18,984
Base	14,704	14,704	18,984
<u>RATE (factor/dollar * dollars over starting point)</u>			
Starting place	40.00	30.00	50.00
Price index	23.79	33.79	32.36
Factor/dollar	0.2500%	0.2000%	0.2250%
Prog Factor	5.95%	6.76%	7.28%
<u>Progressivity Tax = Progressivity Rate * Progressivity Base</u>			
Tax	874.50	993.67	1,382.22
Original Tax	732.00	878.40	1,317.60
Delta (increase)	142.50	115.27	64.62

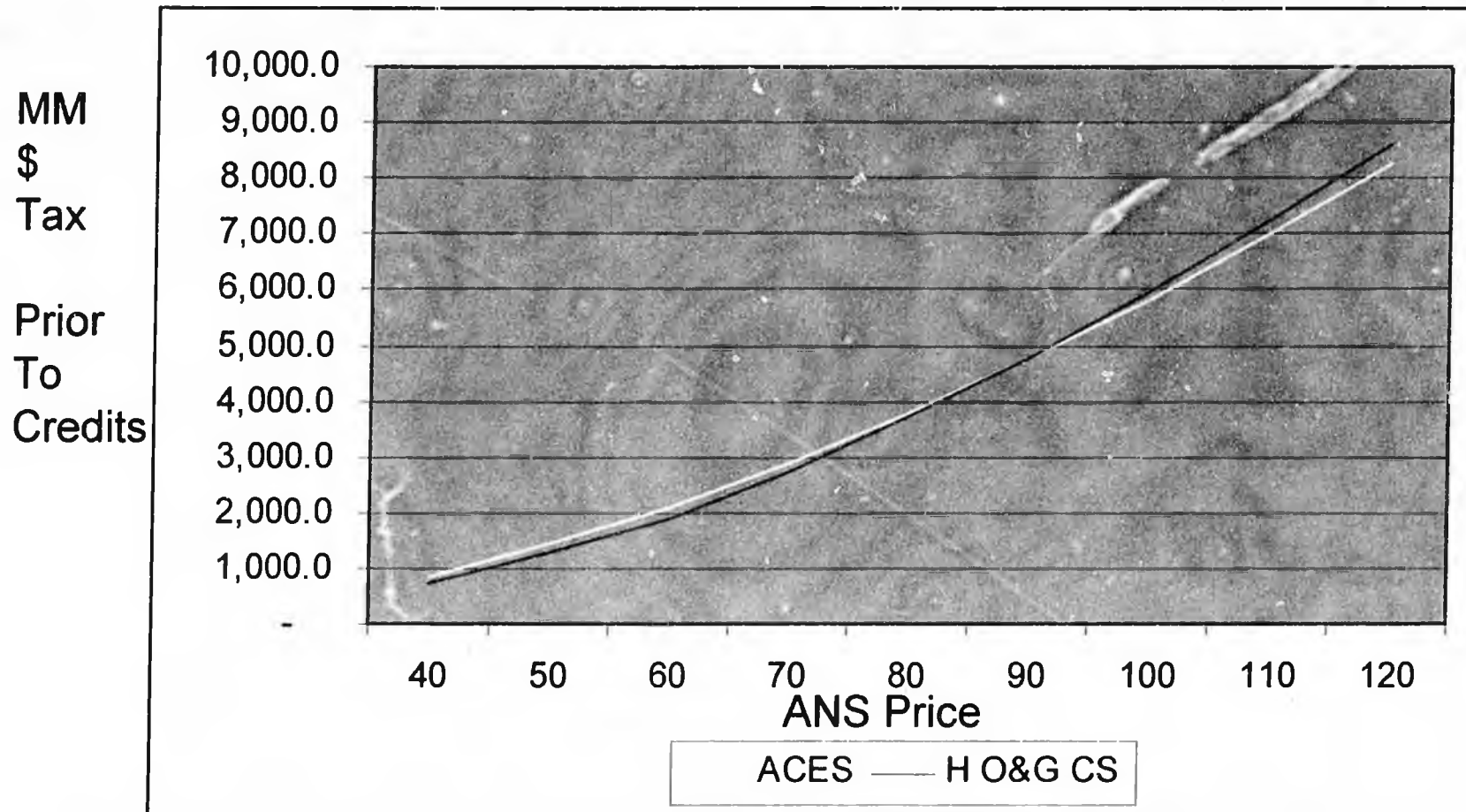
Are costs closer to \$15 or \$20 a barrel?

	Alternative Calculations		Econ One
	No Royalty Effect	Removing Royalty	"All Details"
Opex - (in millions) (from DOR)	2,146	2,146	
Capex - (in millions) (from DOR)	2,137	2,137	
Total - \$ numerator	4,283	4,283	4,264
Daily Volumes (millions) (from DOR)	0.722	0.722	
Days in year	365	365	
Annual Volumes (millions)	263.5	263.5	
Royalty Effect (estimate)	1	0.875	
Bbl Denominator	263.5	230.6	230.5
\$/bbl	16.25	18.57	18.50
"Actual" costs 30 cents per barrel higher			

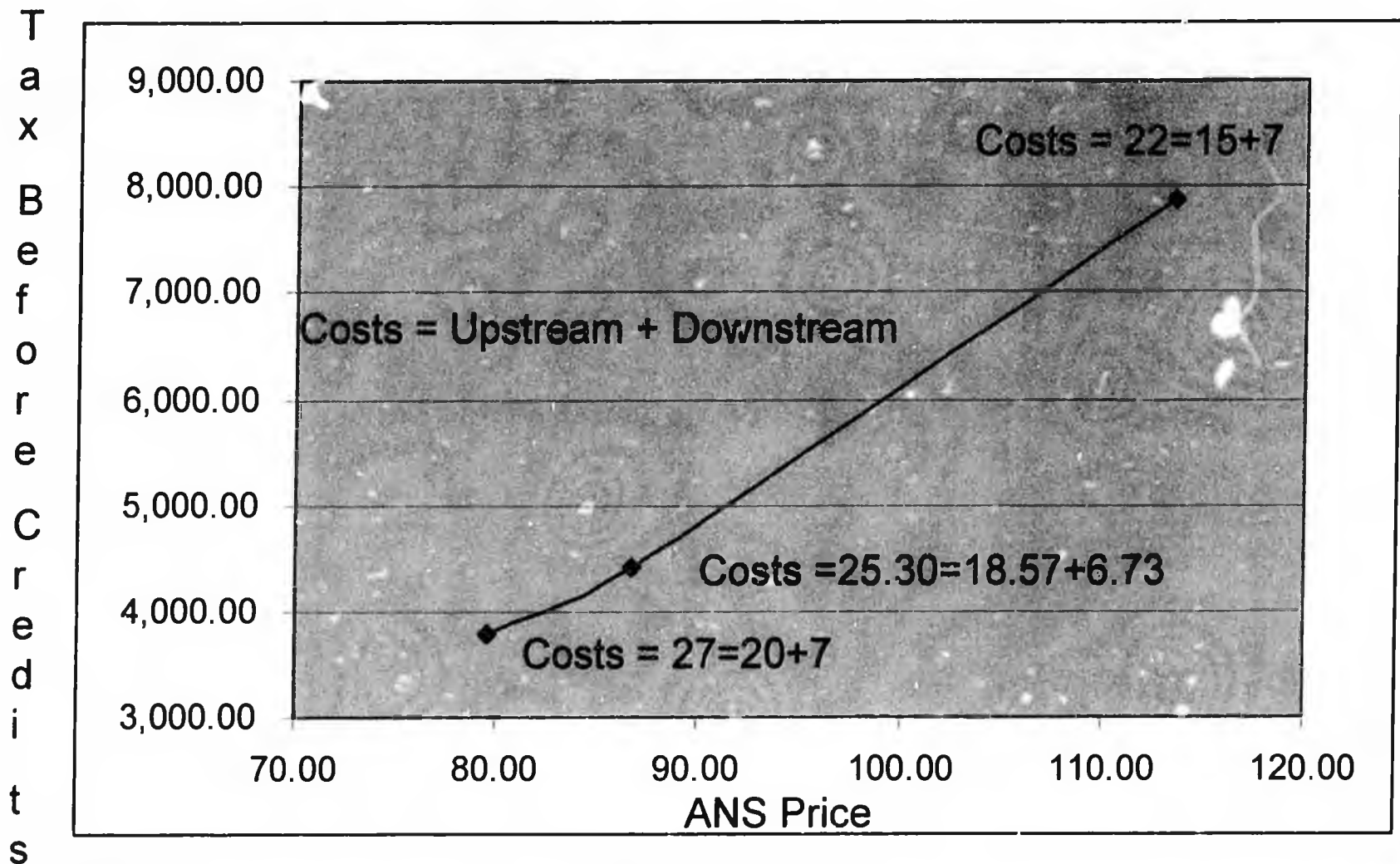
Progressivity Studies 10/28/07 (\$7 downstream costs, \$20 upstream)



Cross Over Point, ACES and H O&G CS (using 10/30 Daily Price and DOR cost and volume assumptions)



Cross Over Points (ANS price, millions of dollars of tax before credits) where HO&G CS revenues exceed ACES using different costs



11/2/2007

Dan E. Dickinson
House Resources

Algebraic Description of Progressivity

- R = Progressivity rate (per dollar per barrel above starting point)
- G = Gross Value at Point of Production of Taxable Oil
- N = Upstream Costs
- TB = Taxable Barrels
- Gross Progressivity
- Progressivity Tax = $R * (G/TB - 50) * G$
- Net Progressivity (ACES would use 30 instead of current 40)
- Progressivity Tax = $R * ((G-N)/TB - 40) * (G-N)$

The Credit Story

- Development Credits for New Entrants
- Development Credits for Incumbents
- Exploration Incentive Credits

Example 1: New Entrant Development

- A new entrant with no current production pursues a development requiring \$200 million in investment
- Company receives a 20% investment credit, worth \$40 million (PPT and ACES)
- Company also receives an additional credit for its “tax loss”, PPT – 20%, ACES – 25%

(PPT) - \$40M (ACES) - \$50M

Example 2: Incumbent Producer Development

- Incumbent with current production pursues a development requiring \$200 million investment
- Company receives a 20% investment credit, worth \$40 million
- The company reduces current-year tax by the total capital expense multiplied by the tax rate
(PPT) \$200 million * 22.5%, worth \$45 million
(ACES) \$200 million * 25%, worth \$50 million
- Finally, under PPT, the incumbent producer receives a 10% “claw-back” credit \$20 million

Development Comparison

	PPT	ACES
<u>New Entrant</u>		
Development Costs	\$200	\$200
Investment Credit	\$40	\$40
<u>Net Loss Credit</u>	<u>\$40</u>	<u>\$50</u>
Total State Credit	\$80	\$90
<u>Incumbent</u>		
Development Costs	\$200	\$200
Investment Credit	\$40	\$40
<u>Net Loss Credit</u>	<u>\$45</u>	<u>\$50</u>
Total State Credit	\$85	\$90

Exploration Incentive Credits (".025 Credits")

	PPT	ACES
Exploration Well Costs	\$100	\$100
(a) 3 miles from "existing well"? (b) 25 miles from unit?		
Yes to (a) only	\$20	\$30
Yes to (a) & (b)	\$40	\$40
<u>Net Loss Credit</u>		
Incumbent	\$22.50	\$25
New Entrant	\$20	\$25
<u>Total Credit</u>		
Incumbent (a) only	\$42.50	\$55
Incumbent (a) & (b)	\$62.50	\$65
New Entrant (a) only	\$40	\$55
New Entrant (a) & (b)	\$60	\$65

HB

2001

(1 1/3/07)

ALASKA STATE LEGISLATURE
House Resources Committee

Carl Gatto, Co-Chair

State Capitol Building, Room 108
Juneau, AK 99801-1182
(907) 465-3743
FAX (907) 465-2381
Rep_Carl_Gatto@legis.state.ak.us



Craig Johnson, Co-Chair

State Capitol Building, Room 126
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(907) 465-4993
FAX (907) 465-3872
Rep_Craig_Johnson@legis.state.ak.us

AGENDA
Saturday, November 3rd
House Finance Committee Room 519
9:00 a.m.

CSHB 2001(O&G) Oil and Gas Tax Amendments

**Round Table
(Committee, Administration, Consultants, Stakeholders)**

Recess at 12:00 p.m. and reconvene at 2:00 p.m.

Amendments

Adjourn.

HB

2000 1

(1 1/4/07)

HOUSE COMMITTEE REPORT

(9)

Date Referred to Committee: October 29, 2007

FURTHER REFERRALS: Finance

Date of Committee Action: 11/4/07

The RESOURCES Committee considered:

HB 2001

HOUSE BILL NO. 2001

OIL & GAS TAX AMENDMENTS

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to the issuance of advisory bulletins and the disclosure of certain information relating to the production tax and the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; amending the State Personnel Act to place in the exempt service certain state oil and gas auditors and their immediate supervisors; establishing an oil and gas tax credit fund and authorizing payment from that fund; providing for retroactive application of certain statutory and regulatory provisions relating to the production tax on oil and gas and conservation surcharges on oil; making conforming amendments; and providing for an effective date."

Recommends it be replaced with HCS or CS for HB 2001 (RES)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

- List of Abbrev for Depts.:
- ADM
 - CED
 - COR
 - CRT
 - EED
 - DEC
 - DFG
 - GOV
 - HSS
 - LWF
 - LAW
 - LEG
 - MVA
 - DNR
 - DPS
 - REV
 - DOT
 - UA

<u>NEW</u> FISCAL NOTES				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
REV		X		

<u>PREVIOUS</u> FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
ADM	1			X
DNR	2	X		
REV	3	X		

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	EDMON			X	X
Bob Roses	Roses				X
Anna Fairclough	FAIRCLOUGH				X
Paul Seaton	SEATON	✓			
	KANASAKI				*
	WILSON				X
Chair:	GATTO	✓			
Chair:	JOHNSON				X

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

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

Identifier (file name): _____ Dept. Affected: Revenue 04
 Title An Act relating to the production tax on oil and gas. RDU Taxation and Treasury
 Component Tax Division
 Sponsor Governor
 Requester _____ Component Number _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel							
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	1,220.9

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()		727,000.0	513,000.0	560,000.0	835,000.0	813,000.0	596,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9

Estimate of any current year (FY2008) cost: 3,409.2

POSITIONS

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill makes economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following changes to the current system: It institutes a rate of 25% on net income. It calculates the progressivity surcharge as the difference between the per barrel net revenue and \$30 at 0.2%, 0.3% between \$30 and \$40, 0.4% between \$50 and \$60, and 0.5% over \$60, at a rate of 0.225%, which applies to gross revenue at the point of production. Second, it eliminates the period by which past investments are recognized in the transition investment expenditure credits (AS 43.55.023(i)) from April 1, 2001 to April 1, 2003. Pipeline tariffs are based on reasonable rates. EIC credits are increased from 30% to 40%. The effective date of the bill is January 1, 2007.

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis Phone 269-6628
 Division Tax Division Date/Time 11/4/07 9:00 PM
 Approved by: Jerry Burnett Date 11/4/2007
Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. LL08-0014

ANALYSIS CONTINUATION

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

Personal Services: The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

Contractual: Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. _____

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES, at
Various Prices (in \$millions nominal)**

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (Res)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,830	915
2009	64.55	66.30	1,693	2,420	727
2010	60.05	63.40	1,531	2,044	513
2011	59.70	64.75	1,670	2,236	566
2012	59.55	66.35	1,746	2,581	835
2013	58.90	67.45	1,647	2,460	813
2014	58.25	68.55	1,642	2,238	596

DOR Forecast nominal prices rounded to the nearest \$0.05

\$60 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (Res)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,582	531
2009	60.00	61.65	1,435	2,038	603
2010	60.00	63.35	1,562	2,081	519
2011	60.00	65.09	1,695	2,271	576
2012	60.00	66.88	1,783	2,632	849
2013	60.00	68.72	1,733	2,587	854
2014	60.00	70.61	1,776	2,437	661

\$80 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (Res)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	3,983	1,333
2009	80.00	82.20	3,031	4,489	1,458
2010	80.00	84.46	3,266	4,700	1,434
2011	80.00	86.78	3,481	5,071	1,590
2012	80.00	89.17	3,668	5,667	1,999
2013	80.00	91.62	3,619	5,669	2,050
2014	80.00	94.14	3,690	5,585	1,895

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

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

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

Identifier (file name): _____ Dept. Affected: Revenue 04
 Title An Act relating to the production tax on oil and gas.. RDU Taxation and Treasury
 Component Tax Division
 Sponsor Governor
 Requester _____ Component Number _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required		Information				
	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel							
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	1,220.9

CAPITAL EXPENDITURES							
-----------------------------	--	--	--	--	--	--	--

CHANGE IN REVENUES ()		727,000.0	513,000.0	566,000.0	835,000.0	813,000.0	596,000.0
-------------------------------	--	------------------	------------------	------------------	------------------	------------------	------------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9

Estimate of any current year (FY2008) cost: 3,409.2

POSITIONS

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill makes economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following changes to the current system: It institutes a rate of 25% on net income. It calculates the progressivity surcharge as the difference between the per barrel net revenue and \$30 at 0.2%, 0.3% between \$30 and \$40, 0.4% between \$50 and \$60, and 0.5% over \$60., at a rate of 0.225%, which applies to gross revenue at the point of production. Second, it eliminates the period by which past investments are recognize in the transition investment expenditure credits (AS 43.55.023(i)) from April 1, 2001 to April 1, 2003. Pipeline tariffs are based on reasonable rates. EIC credits are increased from 30% to 40%. The effective date of the bill is January 1, 2007.

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable

Prepared by: Johanna Baies, Roger Marks, Cherie Nienhuis Phone 269-6628
 Division Tax Division Date/Time 11/4/07 9:00 PM
 Approved by: Jerry Burnett Date 11/4/2007
Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. LL08-0014

ANALYSIS CONTINUATION

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

Personal Services: The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

Contractual: Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. _____

ANALYSIS CONTINUATION

Estimated Production Tax Revenues, PPT and ACES, at Various Prices (in \$millions nominal)

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (Res)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,830	915
2009	64.55	66.30	1,693	2,420	727
2010	60.05	63.40	1,531	2,044	513
2011	59.70	64.75	1,670	2,236	566
2012	59.55	66.35	1,746	2,581	835
2013	58.90	67.45	1,647	2,460	813
2014	58.25	68.55	1,642	2,238	596

DOR Forecast nominal prices rounded to the nearest \$0.05

\$60 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (Res)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,582	531
2009	60.00	61.65	1,435	2,038	603
2010	60.00	63.35	1,562	2,081	519
2011	60.00	65.09	1,695	2,271	576
2012	60.00	66.98	1,783	2,632	849
2013	60.00	68.72	1,733	2,587	854
2014	60.00	70.61	1,776	2,437	661

\$80 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSHB2001 (Res)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	3,983	1,333
2009	80.00	82.20	3,031	4,489	1,458
2010	80.00	84.46	3,266	4,700	1,434
2011	80.00	86.78	3,481	5,071	1,590
2012	80.00	89.17	3,668	5,667	1,999
2013	80.00	91.62	3,619	5,669	2,050
2014	80.00	94.14	3,690	5,585	1,895

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

State of Alaska
Department of Revenue
Commissioner's Office



SARAH PALIN, GOVERNOR
333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99811-0405
Phone: (907) 465-2300
Fax: (907) 465-2394

November 4, 2007

The Honorable Carl Gatto
Co-Chair, House Resources Committee
State Capitol, Room 108
Juneau, AK 99801-3100

The Honorable Craig Johnson
Co-Chair, House Resources Committee
State Capitol, Room 126
Juneau, AK 99801-3100

Cc: All Members, House Resources Committee

Re: Request for Additional Information for CS HB 2001(O&G) dated 11-2-07

Dear Representatives Gatto and Johnson:

I am writing in response to the above titled memorandum compiling the outstanding questions from the House Resource Committee relating to CS HB 2001(O&G).

Questions 1) and 4) - Rep. Seaton requested a follow up on definitions regarding levels of negligence in provision 165(e), page 28 and better definitions for Sec. 33 AS 43.55.165(e). There are different levels of negligence and those levels vary under federal statutory law, state civil law, and state statutory law. There are three levels of negligence: common negligence, gross negligence and criminal negligence. Common negligence is conduct that deviates from that of a reasonable person. Gross negligence is conduct that is an extreme deviation from that of a reasonable person. Both common negligence and gross negligence can exist without statute. Criminal negligence is a creature of statute only, and is usually described as conduct taken in reckless or wanton disregard of a serious harm being legislated against. Existing PPT law and Sec. 33 use the term "gross negligence".

Question 2- Representative Johnson inquired about "due care" in provision 165(e) (19) page 28, line 22. The term "due care" is a common negligence standard. This term appears on lines 19 and 22. This term prevents a producer from deducting costs where the costs result from natural disasters or the actions of third parties if the producer's exercise of due care (i.e. actions that a reasonable person would have taken under similar circumstances) would have been averted the damage and need to incur costs.

Question 3- Rep. Roses asked how often audits continue beyond the current 3 year statute of limitations periods. This question was answered earlier on October 30. A copy of that response is attached.

Letter to Representatives Gatto and Johnson

November 4, 2007

Page 2 of 2

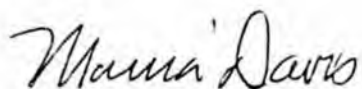
Question 5- Rep. Guttenberg asked whether the administration had spoken to the bargaining units with regard to exempt class of auditors. The Dept of Administration has historically worked with the bargaining unit representing the states oil and gas production tax auditors, but there has been no resolution of the existing barriers to hiring additional auditors. The state does not bargain its state classification and pay plan with the unions. They do bargain the pay rates.

Question 6- Rep. Seaton requested a sectional analysis and side-by-side comparison of HB 2001 and CSHVB 2001(O&G). This was provided previously.

Question 7- Rep. Seaton asked about the retroactivity of provision .030(d) of HB 2001 which was not contained in CSHB 2001 (O&G). This question was answered earlier on October 30, 2007. See attached.

Question 8- Rep. Gatto asked if personnel within DNR and DOR who violate the applicable confidentiality laws can be convicted of a class C felony. This question was answered earlier on October 30, 2007. See attached.

Sincerely,



Marcia Davis, Deputy Commissioner
Department of Revenue

Attachment: Letter to Rep. Gatto, October 30, 2007

State of Alaska
Department of Revenue
Commissioner's Office



SARAH PALIN, GOVERNOR
333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99811-0405
Phone: (907) 465-2300
Fax: (907) 465-2394

To: Carl Gatto, *Chairman*
House Resources Committee
Capitol Building, Room 108

October 30, 2007

CC: All Members
House Resources Committee

Dear Representative Gatto:

A number of questions were posed during the October 19th hearing of the House Resources Committee. The answers are provided below. If your own records indicate requests which we have not addressed, please notify my office and we will respond as soon as possible.

1. Representative Johnson requested organizational charts for the respective audit divisions of the Department of Revenue and Department of Natural Resources. The requested organization charts, with position vacancies noted are attached.
2. Representative Seaton inquired about the retroactivity of the penalty assessed under ACES for failure to submit required information, in response to testimony given by the Alaska Oil and Gas Association (AOGA).

Under Sections 47 and 49 of the HB 2001, the penalty for failing to file a report by the time required by the department is a fine of not more than \$1,000 per day the failure continues. These two sections were not included in Section 71 of the bill and thus are not effective retroactively. Nor are they included in Section 72 which provides an effective date of January 1, 2008. Therefore, under Section 73, these two sections would take effect immediately in accordance with AS 01.10.070(c).

3. Representative Seaton asked whether in-field use of fuel products from a topping plant would be exempt from royalty.

Fuel gas and crude oil used in field operations is royalty free. The crude oil topping plants sell fuels on the slope. The oil that is consumed in the topping plants that goes into the diesel that is sold does pay royalty. The oil consumed by the topping plants is allocated to lease operations (royalty free) and sales (royalty payable), based upon the ratio of diesel consumption. Likewise the gas that powers the topping plants is also allocated based on the same factor. Royalty is due on the fraction of gas consumption due to third party diesel sales.

4. Representative Seaton asked whether value added petroleum products created in Alaska are taxed under the Alaska Production tax statute.

AS 43.55.020(e) excludes from the production tax, oil or gas produced from a lease that is used in the state for drilling, producing oil or gas, or for repressuring. Therefore, oil refined into diesel in a North Slope crude oil topping plant is not be subject to the production tax if the diesel is used in oil and gas operations. Oil refined into diesel not used for oil and gas operations would be subject to production tax.

5. Representative Roses asked how frequently production tax audits need to be completed beyond the current 3 year statute of limitations.

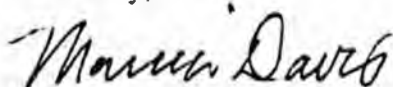
For the 4-5 smaller taxpayers who do not transport their own oil, the department performs what is known as a "desk audit". These taxpayers sell their oil at pump station one and very little information is needed from the taxpayer and the audits are all completed within the current three year statute of limitation. The remaining 6-7 taxpayers are the larger taxpayers whose audits are "full blown". They either move their own crude or sell at the Valdez terminal. Much more information is needed from these taxpayers and almost all require waiver and extension of the statute of limitations which only happens with taxpayer consent. One very large taxpayer refuses to sign an extension of the statute of limitations as a corporate policy. For the largest taxpayers, where we conduct full audits, we need extensions for 85% of those taxpayers.

6. Representative Gatto asked if personnel within DNR and DOR who violate the applicable confidentiality laws can be convicted of a class C felony.

If DOR employees unlawfully disclose confidential tax information, they are subject to a criminal penalty under AS 43.05.230(f), namely, a fine of not more than \$5,000, or by imprisonment for not more than two years, or by both. This offense is defined in AS 43, not in the criminal statutes, and there is no language classifying the offense as a type of felony or misdemeanor. However, the maximum imprisonment authorized in AS 43.05.230(f) is more than the one-year maximum for a Class A misdemeanor and is within the five year maximum for a Class C felony, so it appears to be equivalent to a Class C felony.

Pursuant to AS 38.05.036, if DNR employees use confidential oil and gas information obtained in connection with royalty and net profit audits for personal gain or not in connection with their official duties, they commit the crime of "Misuse of Confidential Information" under AS 11.56.860, and if convicted are guilty of a Class A misdemeanor.

Sincerely,



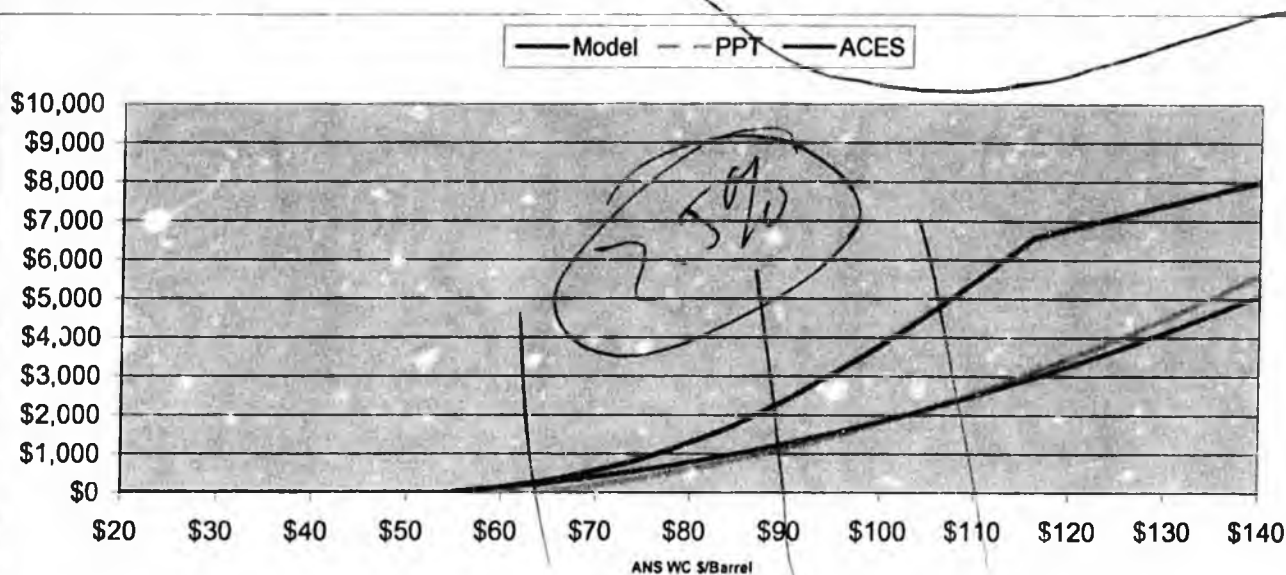
Marcia Davis

Deputy Commissioner Department of Revenue

Simplistic Model of Progressive Surcharge Tax ONLY, with Set Production

Test Case User Inputs	Inputs
Transportation cost + etc. to wellhead, \$/bl	\$7.00
Total upstream costs	
Separate Costs? (Y or N)	N
(enter if NO to separate costs)	\$16.00
(calculated if YES to separate costs)	
Opex	\$8.00
Capex	\$7.00
Total calculated costs	\$15.00
Average royalty rate	12.5%
Basu PPT Rate	25.0%
Trigger - WC, Wellhead or Net (WC, WH or N)	
Net or Gross Progressivity (N, WH or WC)	n
Continuous slope or elbows (C or E)	wh
Top progressivity slope	e
First trigger based on choice, above	25.0%
Slope	\$30
Second trigger	Slope 0.00200
Third trigger	\$40
Fourth trigger	Slope 0.00300
Fifth trigger	\$50
Slope	0.00400
Slope	0.00500
Slope	\$200
Slope	0.00000

Note: set trigger to large number to invalidate it.



ANS WC	Model	PPT	ACES
\$10	\$0	\$0	\$0
\$15	\$0	\$0	\$0
\$20	\$0	\$0	\$0
\$25	\$0	\$0	\$0
\$30	\$0	\$0	\$0
\$35	\$0	\$0	\$0
\$40	\$0	\$0	\$0
\$45	\$0	\$0	\$0
\$50	\$0	\$0	\$0
\$55	\$23	\$0	\$18
\$60	\$153	\$0	\$124
\$65	\$321	\$29	\$254
\$70	\$577	\$191	\$407
\$75	\$885	\$383	\$585
\$80	\$1,301	\$606	\$787
\$85	\$1,785	\$858	\$1,014

ANS WC	Model	PPT	ACES
\$90	\$2,399	\$1,141	\$1,264
\$95	\$3,074	\$1,454	\$1,538
\$100	\$3,809	\$1,786	\$1,836
\$105	\$4,604	\$2,169	\$2,159
\$110	\$5,459	\$2,572	\$2,505
\$115	\$6,374	\$3,006	\$2,876
\$120	\$6,805	\$3,469	\$3,271
\$125	\$7,107	\$3,962	\$3,690
\$130	\$7,408	\$4,486	\$4,132
\$135	\$7,709	\$5,040	\$4,599
\$140	\$8,010	\$5,623	\$5,091
\$145	\$8,311	\$6,237	\$5,606
\$150	\$8,612	\$6,881	\$6,145
\$155	\$8,913	\$7,555	\$6,708
\$160	\$9,214	\$8,259	\$7,296
\$165	\$9,516	\$8,905	\$7,907

25% "Equal Share" is reached at \$116
production at 754,300 barrels per day

\$100,000

1.4 Bill

1301

216 mil
407
191
216,000
225

577
191
486
300 mil
acre PPT

577
407
170

HB

2001

(1 1/4/07)

AMEND-

MENTS

House Resources Amendments

Amendment #2 - changed progressivity from \$30 a barrel to \$40 a barrel and added graduated rate:

Not more than \$40	.2% of the formula
> \$40 but not more than \$50 -	.3 %
> \$50 but not more than \$60	.4 %
> \$60	.5 %

Amendment #3 - makes the tax credit a sliding rate based on AS 43.55.011(e) PPT.

Amendment #4 - Provides for a penalty equal to 5% of the difference for the underpayment of an installment payment of PPT on oil and gas.

Amendment #5 - Allows the Alaska Retirement Management Board to purchase transferable tax credit at a discounted amount and sell the credits back to the State for full value.

Amendment #6 - Allows for tax credits for exploratory expenditures incurred after December 31, 2007, tightens up qualifying expenditures, and adds to disallowed credits "costs arising from gross negligence or violation of health, safety, or environmental statutes or regulations; increases the 43.55.025(a)(1) production tax credit from 20% to 30%; expands credits for not only seismic exploration, but "other" geophysical exploration costs not connected to a specific well; the credit can not be taken until a well has been completed, suspended, or abandoned; provides that in order to get exploratory credits, the company must notify the commissioner of DNK within 30 days of completion; creates a five percent of eligible expense credit for exploratory data provided to the commissioner of DNR; defines "preexisting well"; requires DNR to keep well data confidential for 24 months and seismic and other geophysical data for ten years at which time DNR will release the data after a 30-day public notice period; split the tax credits under this section into two years.

Amendment #7 - Imposes a fine of \$1,000 per day on persons responsible for filing late forms with DNR disclosing certain information about gross production, gross value of production, description of each lease or property from which production came from and other information.

Amendment #8 - Gives the Commissioner of DNR authority to levy a \$1,000 a day fine for a producer who fails to timely file information required for revenue forecasts.

Amendment #10- Excludes from production tax expenses costs incurred because of gross negligence and violations of the Clean Water Act.

Amendment #11- Adds language to AS 43.55.165(b) direct costs can only be for activities located in the state; has contingency language in case of a court challenge based on the commerce clause that would require the activity to be "physically located on the premises of the lease or property from which oil or gas is recovered".

Amendment #24- Makes exceptions to actual transportation costs separate requirements rather than all inclusive by replacing "and" with "or"; when one of those exceptions are identified by Department of Revenue, a tariff rate must be "adjudicated just and reasonable by" RCA.

Amendment #29- Establishes an oil and gas credit fund as a separate fund which DNR can use to purchase capital expenditure tax credits or alternative tax credits. The monies in the fund do not lapse at the end of the fiscal year.

Amendment #36- Provide legislative intent that half the money received by the state as a result of the retroactivity of certain provisions of ACES will be split evenly for funding of public education funding and for the PERS/TRS indebtedness.

Amendment #38- Makes Cook Inlet ELF formula available statewide for natural gas sold for use in state, meaning "delivered for consumption as a fuel in the state, including as fuel consumed to generate electricity.

Amendment #43- Adds lobbying, public relations, advertising, or public advocacy to the list of expenses not considered lease expenditures.

Amendment #44- Increases PPT to 25 percent from 22.5% and returns the calculation to an annual average.

11/4/07

CSHB 2001(O&G) Version L

<u>Amendment</u>	<u>Sponsor</u>	<u>Section</u>	<u>Action</u>	<u>Notes</u>
First Batch				
1	Seaton	18	withdrawn	
2	Seaton	23	adopted 7-2	L.42
3	Seaton	23	adopted no objection	L.14
4	Wilson	23	adopted no objection	L.15
5	Roses/Wilson	25	adopted no objection	L.4
6	Wilson	26	adopted as amended	L.76
7	Roses	27	adopted	L.25
8	Fairclough	28	adopted	L.26
9	Seaton	32	withdrawn	
10	Seaton/Johnson	32	adopted	L.13
11	Johnson/Roses/Wilson	33	adopted	L.12
12	Fairclough	18	failed 4-5	
13	Fairclough	29	failed	
Second Batch				
14	Johnson	12	withdrawn	
15	Johnson	13	failed 1-8	
16	Guttenberg	10	failed 3-6	
17	Guttenberg	1	withdrawn	
18	Edgmon	11	withdrawn	
19	Guttenberg	13	failed	
20	Edgmon	23	withdrawn	
21	Edgmon	25	withdrawn	
22	Kawasaki	29	failed	
23	Edgmon	32	withdrawn	
24	Guttenberg	34	adopted /amended , not Leg. Svcs.	
25	Guttenberg	32	withdrawn	
26	Seaton	18	withdrawn	
Third Batch				
27	Guttenberg	9	withdrawn	
28	Guttenberg	23	withdrawn	
29	Guttenberg	23	adopted w/concept. amend.	L.51
30	Guttenberg	24	withdrawn	
31	Guttenberg	24	failed 4-5	
32	Edgmon	26	adopted then reversed/failed	
33	Guttenberg	32	withdrawn	
34	Guttenberg	36	withdrawn	
35	Guttenberg	42	withdrawn	
Fourth Batch				
36	Kawasaki	1	adopted/amended	L.77
37	Kawasaki	1	withdrawn	
38	Guttenberg	1	adopted as amended	L.71
39	Guttenberg	14	withdrawn	

40	Guttenberg	23	withdrawn	
41	Guttenberg	23	withdrawn	
42	Guttenberg	26	withdrawn	
43	Edgmon	33	adopted/amended	L.68
44	Gatto	14	adopted/amended	L.72
45	Seaton	33	withdrawn	
46	Guttenberg	30	withdrawn	

*See map
10/30/07
@ 10:30 PM*
~~PROGRESSIVITY - follow OGE
goes to ACE's trigger point @ 30~~

AMENDMENT

(2) ~~adopted 7-2~~

OFFERED IN THE HOUSE

TO: CSHB 2001(O&G)

BY REPRESENTATIVE SEATON

Y N
S K J
G GU F
E E W
R

NET PROFIT	
30 ⁰⁰	20
40 ⁰⁰	30
50	40
60	50

1 Page 13, lines 8 - 22:

2 Delete all material and insert:

3 "(o) In addition to the tax levied under (e) of this section, for each month for
4 which the producer's average monthly production tax value of the taxable oil and gas
5 exceeds \$30 for each BTU equivalent barrel, there is levied on the producer of oil or
6 gas a tax for all oil and gas produced that month from each lease or property in the
7 state, less any oil and gas the ownership or right to which is exempt from taxation or
8 constitutes a landowner's royalty interest. Except as otherwise provided under (j) and
9 (k) of this section, the tax levied under this subsection is equal to the sum over all
10 months of the calendar year of the amount calculated under this subsection. For each
11 month for which this subsection applies and for which the average monthly production
12 tax value of the taxable oil and gas is

13 (1) not more than \$40 for each BTU equivalent barrel, the tax is equal
14 to 0.2 percent of the gross value at the point of production of the taxable oil and gas
15 for that month multiplied by the number that represents the difference between the
16 average production tax value for each BTU equivalent barrel of the taxable oil and gas
17 for that month and \$30; or

18 (2) more than \$40 but not more than \$50 for each BTU equivalent
19 barrel, the tax is equal to two percent of the gross value at the point of production of
20 the taxable oil and gas for that month plus 0.3 percent of the gross value at the point of
21 production of the taxable oil and gas for that month multiplied by the number that
22 represents the difference between the average production tax value for each BTU
23 equivalent barrel of the taxable oil and gas for that month and \$40;

1 (3) more than \$50 but not more than \$60 for each BTU equivalent
2 barrel, the tax is equal to five percent of the gross value at the point of production of
3 the taxable oil and gas for that month plus 0.4 percent of the gross value at the point of
4 production of the taxable oil and gas for that month multiplied by the number that
5 represents the difference between the average production tax value for each BTU
6 equivalent barrel of the taxable oil and gas for that month and \$50;

7 (4) more than \$60 for each BTU equivalent barrel, the tax is equal to
8 nine percent of the gross value at the point of production of the taxable oil and gas for
9 that month plus 0.5 percent of the gross value at the point of production of the taxable
10 oil and gas for that month multiplied by the number that represents the difference
11 between the average production tax value for each BTU equivalent barrel of the
12 taxable oil and gas for that month and \$60."

AMENDMENT

3

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 2001(O&G)

adopted

1 Page 17, following line 3:

2 Insert a new bill section to read:

3 **"* Sec. 23. AS 43.55.023(b) is amended to read:**

4 (b) A producer or explorer may elect to take a tax credit in the amount of the
5 [20 PERCENT OF A] carried-forward annual loss multiplied by the nominal tax
6 rate in AS 43.55.011(e). A credit under this subsection may be applied against a tax
7 due under AS 43.55.011(e). For purposes of this subsection,

8 (1) a carried-forward annual loss is the amount of a producer's or
9 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
10 previous calendar year that was not deductible for that calendar year under
11 AS 43.55.160(b) and (e); and

12 (2) "nominal tax rate" means the tax rate stated in AS 43.55.011(e)
13 that is not the tax determined at the minimum tax rate that may be applicable
14 under AS 43.55.011(f)."

15

16 Renumber the following bill sections accordingly.

17

18 Page 31, line 25:

19 Delete "Sections 24, 25, 32 - 34, and 37"

20 Insert "Sections 23, 25, 26, 33 - 35, and 38"

21

22 Page 31, line 27:

23 Delete "31, and 38"

- 1 Insert "32, and 39"
2
3 Page 31, line 29:
4 Delete "Sections 26 and 27"
5 Insert "Sections 27 and 28"
6
7 Page 31, line 30:
8 Delete "sec. 26"
9 Insert "sec. 27"
10
11 Page 31, line 31:
12 Delete "sec. 27"
13 Insert "sec. 28"
14
15 Page 32, line 1:
16 Delete "sec. 29"
17 Insert "sec. 30"
18
19 Page 32, line 3:
20 Delete "29"
21 Insert "30"
22
23 Page 32, line 31:
24 Delete "secs. 24, 25, 32 - 34, and 37"
25 Insert "secs. 23, 25, 26, 33 - 35, and 38"
26
27 Page 33, line 2:
28 Delete "26, 27, 31, and 38"
29 Insert "27, 28, 32, and 39"
30
31 Page 33, lines 19 - 20:

1 Delete "Sections 24, 25, 32 - 34, and 37"

2 insert "Sections 23, 25, 26, 33 - 35, and 38"

3

4 Page 33, line 21:

5 Delete "26, 27, 31, and 38"

6 Insert "27, 28, 32, and 39"

7

8 Page 33, line 22:

9 Delete "sec. 44"

10 Insert "sec. 45"

AMENDMENT

4

adopted

OFFERED IN THE HOUSE
TO: CSHB 2001(O&G)

BY REPRESENTATIVE SEATON
+ Rep. Wilson

1 Page 1, line 4, following "latitude;":

2 Insert "providing a penalty for the underpayment of an installment payment of
3 the production tax on oil and gas;"

4
5 Page 17, following line 3:

6 Insert a new bill section to read:

7 "* Sec. 23. AS 43.55.020 is amended by adding a new subsection to read:

8 (i) A civil penalty shall be added to the amount of an installment payment
9 required under (a)(1) - (4) of this section if the full amount of the payment is not paid
10 by the date the payment is due. The penalty is equal to five percent of the difference
11 between the amount of the installment payment that was made timely and the amount
12 of the installment payment required under (a)(1) - (4) of this section. If no part of the
13 required installment payment was made timely, the penalty is equal to five percent of
14 the installment payment required under (a)(1) - (4) of this section. The penalty is in
15 addition to the interest imposed under (g) of this section and a penalty added under
16 AS 43.05.220, if any."

17
18 Renumber the following bill sections accordingly.

19
20 Page 31, line 25:

21 Delete "Sections 24, 25, 32 - 34, and 37"

22 Insert "Sections 25, 26, 33 - 35, and 38"

23

1 Page 31, line 27:

2 Delete "31, and 38"

3 Insert "32, and 39"

4

5 Page 31, line 29:

6 Delete "Sections 26 and 27"

7 Insert "Sections 27 and 28"

8

9 Page 31, line 30:

10 Delete "sec. 26"

11 Insert "sec. 27"

12

13 Page 31, line 31:

14 Delete "sec. 27"

15 Insert "sec. 28"

16

17 Page 32, line 1:

18 Delete "sec. 29"

19 Insert "sec. 30"

20

21 Page 32, line 3:

22 Delete "29"

23 Insert "30"

24

25 Page 32, line 31:

26 Delete "secs. 24, 25, 32 - 34, and 37"

27 Insert "secs. 25, 26, 33 - 35, and 38"

28

29 Page 33, line 2:

30 Delete "26, 27, 31, and 38"

31 Insert "27, 28, 32, and 39"

1

2 Page 33, lines 19 - 20:

3 Delete "Sections 24, 25, 32 - 34, and 37"

4 Insert "Sections 25, 26, 33 - 35, and 38"

5

6 Page 33, line 21:

7 Delete "26, 27, 31, and 38"

8 Insert "27, 28, 32, and 39"

9

10 Page 33, line 22:

11 Delete "sec. 44"

12 Insert "sec. 45"

AMENDMENT 5

adopted

OFFERED IN THE HOUSE

TO: CSHB 2001(O&G)

BY REPRESENTATIVE SEATON

Rep. Roses
Rep. Wilson

1 Page 18, line 23:

2 Delete "a new subsection"

3 Insert "new subsections"

4

5 Page 18, following line 25:

6 Insert new material to read:

7 "(m) Notwithstanding the limitation on the use of a transferable tax credit by a
8 transferee under (e) of this section and subject to appropriations made by law, if and to
9 the extent that purchase of transferable tax credits by the Alaska Retirement
10 Management Board is authorized by law, the department shall issue a cash refund to
11 the Alaska Retirement Management Board for a transferable tax credit originally
12 issued to a person under (d) of this section and purchased by the Alaska Retirement
13 Management Board.

14 * Sec. 26. AS 43.55.025 is amended by adding a new subsection to read:

15 (m) ~~(f)~~ Subject to appropriations made by law, if and to the extent that purchase of
16 transferable tax credits by the Alaska Retirement Management Board is authorized by
17 law, the department shall issue a cash refund to the Alaska Retirement Management
18 Board for a transferable tax credit originally issued to an explorer under (f) of this
19 section and purchased by the Alaska Retirement Management Board."

20

21 Renumber the following bill sections accordingly.

22

23 Page 31, line 25:

1 Delete "Sections 24, 25, 32 - 34, and 37"

2 Insert "Sections 24 - 26, 33 - 35, and 38"

3

4 Page 31, line 27:

5 Delete "31, and 38"

6 Insert "32, and 39"

7

8 Page 31, line 29:

9 Delete "Sections 26 and 27"

10 Insert "Sections 27 and 28"

11

12 Page 31, line 30:

13 Delete "sec. 26"

14 Insert "sec. 27"

15

16 Page 31, line 31:

17 Delete "sec. 27"

18 Insert "sec. 28"

19

20 Page 32, line 1:

21 Delete "sec. 29"

22 Insert "sec. 30"

23

24 Page 32, line 3:

25 Delete "29"

26 Insert "30"

27

28 Page 32, line 31:

29 Delete "secs. 24, 25, 32 - 34, and 37"

30 Insert "secs. 24 - 26, 33 - 35, and 38"

31

1 Page 33, line 2:

2 Delete "secs. 14 - 20, 26, 27, 31, and 38"

3 Insert "secs. 14 - 20, 27, 28, 32, and 39"

4

5 Page 33, lines 19 - 20:

6 Delete "Sections 24, 25, 32 - 34, and 37"

7 Insert "Sections 24 - 26, 33 - 35, and 38"

8

9 Page 33, line 21:

10 Delete "26, 27, 31, and 38"

11 Insert "27, 28, 32, and 39"

12

13 Page 33, line 22:

14 Delete "sec. 44"

15 Insert "sec. 45"

adopted

~~Handwritten scribble~~

AMENDMENT //

OFFERED IN THE HOUSE
TO: CSHB 2001(O&G)

BY REPRESENTATIVE SEATON
~~Rep. Johnson~~
~~Rep. Ruses~~
Rep. Wilson

1 Page 26, following line 2:

2 Insert new bill sections to read:

3 **** Sec. 33. AS 43.55.165(b) is amended to read:**

4 (b) For purposes of (a) of this section,

5 (1) direct costs include

6 (A) an expenditure, when incurred, to acquire an item if the
7 acquisition cost is otherwise a direct cost, notwithstanding that the expenditure
8 may be required to be capitalized rather than treated as an expense for financial
9 accounting or federal income tax purposes;

10 (B) payments of or in lieu of property taxes, sales and use
11 taxes, motor fuel taxes, and excise taxes;

12 (C) a reasonable allowance, as determined under regulations
13 adopted by the department, for overhead expenses directly related to exploring
14 for, developing, and producing oil or gas deposits located within leases or
15 properties or other land in the state;

16 (2) an activity **must be physically located in the state** [DOES NOT
17 NEED TO BE PHYSICALLY LOCATED ON, NEAR, OR WITHIN THE
18 PREMISES OF THE LEASE OR PROPERTY WITHIN WHICH AN OIL OR GAS
19 DEPOSIT BEING EXPLORED FOR, DEVELOPED, OR PRODUCED IS
20 LOCATED] in order for the cost of the activity to be a cost upstream of the point of
21 production of the oil or gas.

22 *** Sec. 34. AS 43.55.165(b), as amended by sec. 33 of this Act, is amended to read:**

23 (b) For purposes of (a) of this section,

Handwritten initials: G, E, K, S, F, R, J, W

1 (1) direct costs include

2 (A) an expenditure, when incurred, to acquire an item if the
3 acquisition cost is otherwise a direct cost, notwithstanding that the expenditure
4 may be required to be capitalized rather than treated as an expense for financial
5 accounting or federal income tax purposes;

6 (B) payments of or in lieu of property taxes, sales and use
7 taxes, motor fuel taxes, and excise taxes;

8 (C) a reasonable allowance, as determined under regulations
9 adopted by the department, for overhead expenses directly related to exploring
10 for, developing, and producing oil or gas deposits located within leases or
11 properties or other land in the state;

12 (2) an activity must be physically located on the premises of the lease
13 or property from which oil or gas is recovered [IN THE STATE] in order for the
14 cost of the activity to be a cost upstream of the point of production of the oil or gas."
15

16 Renumber the following bill sections accordingly.

17

18 Page 31, line 25:

19 Delete "32 - 34, and 37"

20 Insert "32, 33, 35, 36, and 39"

21

22 Page 31, line 27:

23 Delete "38"

24 Insert "40"

25

26 Page 32, line 31:

27 Delete "32 - 34, and 37"

28 Insert "32, 33, 35, 36, and 39"

29

30 Page 33, line 2:

31 Delete "38"

1 Insert "40"

2

3 Page 33, line 20:

4 Delete "32 - 34, and 37"

5 Insert "32, 33, 35, 36, and 39"

6

7 Page 33, following line 20:

8 Insert new bill sections to read:

9 "* Sec. 46. The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 CONTINGENT EFFECT. Section 34 of this Act takes effect only if a court of
12 competent jurisdiction enters a final judgment on the merits, the final judgment is no longer
13 subject to appeal, and the final judgment nullifies the effect of AS 43.55.165(b), as amended
14 by sec. 33 of this Act.

15 * Sec. 47. If sec. 34 of this Act takes effect, it takes effect on the day after the last day on
16 which the final judgment described in sec. 46 of this Act is no longer subject to appeal."

17

18 Renumber the following bill sections accordingly.

19

20 Page 33, line 21:

21 Delete "38"

22 Insert "40"

23

24 Page 33, line 22:

25 Delete "sec. 44"

26 Insert "secs. 47 and 48"

AMENDMENT

7
Roses

OFFERED IN THE HOUSE

TO: CSHB 2001(O&G)

adopted

1 Page 19, following line 26:

2 Insert a new bill section to read:

3 **** Sec. 27. AS 43.55.030(d) is amended to read:**

4 (d) Reports required under this section [BY OR ON BEHALF OF THE
5 PRODUCER] are delinquent the first day following the day the report is due. The
6 person required to file the report is liable for a penalty, as determined by the
7 department under standards adopted in regulation by the department, of not
8 more than \$1,000 for each day the person fails to file the report at the time
9 required. The penalty is in addition to the penalties in AS 43.05.220 and 43.05.290
10 and is assessed, collected, and paid in the same manner as a tax deficiency under
11 this title. In this subsection, "report" includes a statement."

12

13 Renumber the following bill sections accordingly.

14

15 Page 31, line 25:

16 Delete "32 - 34, and 37"

17 Insert "33 - 35, and 38"

18

19 Page 31, line 27:

20 Delete "31, and 38"

21 Insert "32, and 39"

22

23 Page 31, line 29:

1 Delete "27"
2 Insert "28"
3
4 Page 31, line 31:
5 Delete "sec. 27"
6 Insert "sec. 28"
7
8 Page 32, line 1:
9 Delete "sec. 29"
10 Insert "sec. 30"
11
12 Page 32, line 3:
13 Delete "29"
14 Insert "30"
15
16 Page 32, line 31:
17 Delete "32 - 34, and 37"
18 Insert "33 - 35, and 38"
19
20 Page 33, line 2:
21 Delete "27, 31, and 38"
22 Insert "28, 32, and 39"
23
24 Page 33, line 20:
25 Delete "32 - 34, and 37"
26 Insert "33 - 35, and 38"
27
28 Page 33, line 21:
29 Delete "27, 31, and 38"
30 Insert "28, 32, and 39"
31

- 1 Page 33, line 22:
- 2 Delete "sec. 44"
- 3 Insert "sec. 45"

AMENDMENT

8 Anna
adjusted

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1 Page 21, line 30, following "matters":

2 Insert ";

3 (6) assess against a person required under this section to file a
4 report, statement, or other document a penalty, as determined by the department
5 under standards adopted in regulation by the department, of not more than
6 \$1,000 for each day the person fails to file the report, statement, or other
7 document at the time required; the penalty is in addition to any penalties under
8 AS 43.05.220 and 43.05.290 and is assessed, collected, and paid in the same
9 manner as a tax deficiency under this title; the penalty shall bear interest at the
10 rate specified under AS 43.05.225(1); notwithstanding authority granted under
11 AS 43.05.070 to compromise a penalty, the department may not under that
12 section compromise a penalty under this paragraph by agreeing to accept less
13 than 50 percent of the penalty originally assessed by the department"

AMENDMENT

10

adopted

OFFERED IN THE HOUSE
TC: CSHB 2001(O&G)

BY REPRESENTATIVE SEATON
Rep. Johnson

- 1 Page 26, line 14:
- 2 Following "negligence₃":
- 3 Insert "criminal negligence,"
- 4 Following "law":
- 5 Insert "including a violation of 33 U.S.C. 1319(c)(1) or 1321(b)(3) (Clean
- 6 Water Act),"
- 7
- 8 Page 28, line 6, through page 29, line 1:
- 9 Delete all material.
- 10
- 11 Renumber the following paragraph accordingly.

PLEASE REPLACE AMENDMENT 24 WITH THE
ATTACHED REVISED AMENDMENT 24