

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

October 29, 2007

SUBJECT: Overview of CSHB 2001(O&G) (CSHB 2001(O&G);
Work Order No. 25-GH0014\L)

TO: Representative Carl Gatto
Chair of House Resources Committee

FROM: Donald M. Bullock Jr.
Legislative Counsel

You requested a copy of the notes I used when appearing before your committee today. What follows are the notes I used, which are really nothing more than a rough outline I used to trigger my memory. Therefore, it should not be treated as a full and complete analysis of CSHB 2001(O&G).

You will have received or will soon receive a sectional summary of the bill prepared by Alpheus Bullard, Legislative Counsel. Note that any sectional summary and my rough notes should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

To put these notes in perspective, I prepared these notes as a basis for introducing the committee to the major subject areas of the bill -- the tax, deductions for lease expenditures, credits, and tools for auditing and administering the petroleum production tax. The notes do not address or describe every section of the bill. My intention was to offer enough of an overview to give the committee members a general introduction to the issues and explain how the bill generally addresses those issues. My notes are very rough and were customized for my purposes.

Again, the best authority for what the bill says and means is the bill itself. If you need an understanding of the policy beyond sections of the bill, I refer you to the administration for the sections that originally appeared in HB 2001, and to the members of the House Special Committee on Oil and Gas for sections that were modified or added in that committee.

I am sure there are other disclaimers and cautionary statements that should apply. Please use these notes only as a general guideline and not as interpretive statements.

Notes for an overview of CSHB 2001(O&G) for presentation to House Resources

Overall concepts of the PPT:

Tax, including the tax rate, progressivity, and tax caps (**AS 43.55.011**)

Expenditures, those lease expenditures (**AS 43.55.165**) that reduce the gross value at the point of production (**AS 43.55.150**) to determine the production tax value of oil and gas (**AS 43.55.165**)

Credits, change in the transitional investment expenditure credits to reduce the claw-back period to 3 years

Audit and verification of the information on a return and the correct amount of tax that is due, including exempt auditors, requiring additional information from producers and explorers, and sharing information between the Department of Revenue and the Department of Natural Resources. This part also includes the expansion of the period in which a production tax may be assessed to 6 years

The Tax

New Progressive Tax base on gross value at the point of production (AS 43.55.150)

The current progressivity in AS 43.55.011(g) **is repealed in sec. 38** of the bill

On January 1, 2008, there is a new progressive tax

The bill offers a new progressive tax in AS 43.55.011(o) **added in sec. 18** of the bill

based on gross value at the point of production

triggered when the gross value at the point of production is greater than

\$50

.225 multiplied by the gross value at the point of production of taxable oil and gas and in turn multiplied by the difference between the value of a BTU equivalent barrel produced from the lease or property, and \$50

e.g. If the actual production gross value at the point of production is \$70, the multiplier is 20, the difference between \$70 and \$50

Conforming amendments to refer to AS 43.55.011(o) rather than to the repealed progressivity in AS 43.55.011(g) include:

Sections 14 (AS 43.55.011(j))

16 (AS 43.55.011(l))

17 (AS 43.55.011(m))

19 (AS 43.55.020(a))

20 (AS 43.55.020(d))

New tax caps to benefit new gas outside of Cook Inlet and South of 68 degrees North

AS 43.55.011(p) is added in **sec. 18**

Applies only to gas produced from a lease of property for which the start of regular deliveries of marketable gas is after Dec. 31, 2007

Expenditures

Revised rules for expenditures and new exclusions in AS 43.55.165(a) (sec. 32), AS 43.55.165(e) (sec 33)

Sec. 32 gives Department new authority to identify allowable lease expenditures; repeals AS 43.55.165(c) and (d) effective 4/1/2006, which looked at the unit agreement and unit billings for determining allowable lease expenditures

Sec. 33 disallows lease expenditures that relate to breaking the law or violating a lease provision

Sec 33 is also aimed at the SB 80/HB 128 corrosion repair cost issue, where costs necessitated by negligent maintenance would be disallowed

Sec. 33 disallows costs related to a topping plant

Secs. 32 and 33 are from the gov's bill

requires a spill or slow flow as a trigger for looking at whether the costs should be disallowed

Credits

Sec. 24 AS 43.55.023(i) changes the period for transitional investment expenditures that can be taken as a credit to a three rather than five year period. The new period is after March 31, 2003 and before April 1, 2006 (the effective date of the PPT)

Retroactive to 4/1/2006

Audit and Information

Provide more time for an audit.

The period for making assessments is expanded from 3 to 6 years by new section.

The new section, AS 43.55.075, is in sec. 29 with a conforming provision in sec.

13

Exempt service auditors:

Sec. 9 would make oil and gas tax auditors and royalty auditors exempt

Sec. 40 provides transition

More information from the producers and explorers:

New information requirements from the producers and explorers in sec. 26 (AS 43.55.030(a)), sec. 27 (AS 43.55.030(e)), new section AS 43.55.040 added by sec. 28

information required even if no tax is due

Information sharing between Departments

Secs. 1 - 8, 10, 12

Publication of information

Sec. 35 (AS 43.55.890) which authorize revenue to disclose some tax information provided that the information is an aggregation of 3 or more producers