



25th ALASKA STATE LEGISLATURE

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Fact Sheet for: Senate Bill 80

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Bill Version: CSSB 80 (FIN)

Sponsor: Senator Thomas Wagoner

Short Title: OIL & GAS PRODUCTION TAX: EXPENDITURES

Summary:

- For determining the taxable value of oil and gas, empowers the commissioner of the Department of Revenue, in consultation with the commissioners of Environmental Conservation and Natural Resources, and the lead maintenance oversight person with the Petroleum Systems Integrity Office, relying on good oilfield practice, to disallow costs or portion of costs determined to be:
 - related to repair and replacement of property or equipment that was not maintained or improperly maintained;
 - incurred to maintain the operational capability of facilities or equipment shut down because of improper maintenance;
 - operating expenses resulting from diminished capacity caused by the lack of or improper maintenance of property or equipment.

Benefits:

- Gives state agencies the necessary tools to prevent oil producers from deducting expenses resulting from improper maintenance of property or equipment.
- Prevents the state from shouldering the costs of repairing or replacing equipment that was improperly or was not maintained.
- Encourages companies to properly maintain equipment by penalizing poor maintenance practices.
- Increases state revenue.

Background:

- The issue of tax credits for repairs became a concern in August 2006, when BP announced a partial shutdown of Prudhoe Bay in the wake of a corrosion-related spill that sent an estimated 200,000 gallons of crude over about 2 acres of tundra in March. This raised the question of how repairs would be handled under the new petroleum production tax enacted through HB 3001, passed by the 24th Legislature during a special session on August 10, 2006. For determining the value subject to tax, the new tax structure allows producers to deduct costs associated with the production of oil and gas from the gross value at the point of production. This bill prevents oil companies from deducting expenses resulting from improper maintenance. Similar language was offered as an amendment when HB 3001 was under debate in the Special Committee on Natural Gas Development in August, but failed by a vote of 5 to 7.