ALASKA STATE LEGISLATURE

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Official Business

SPONSOR STATEMENT
SB 167 – Separate Oil and Gas Production Tax

SB 167 separates oil and natural gas for the purpose of calculating their respective production tax value under AS 43.55.

Under this bill the progressivity surcharges for oil, Cook Inlet gas, and in-state gas would be calculated together, but separately from export gas, instead of the current practice on all oil and gas combined. The progressivity structure itself would be unchanged, based on 0.4% of the production value that exceeds $30 per barrel for oil, and $30 per BTU barrel of oil equivalent for gas. The base tax rate is unchanged at 25% of production tax value.

Under current law the tax rate is based on the combined BTU value of oil and gas. However, oil and gas can have vastly different values on a BTU basis. Currently a BTU of oil is worth much more than a BTU of gas. Accordingly, once a major gas sale starts, overlaying the existing oil production, the BTU value of the combined oil and gas would be much lower than it was for oil alone. This has been referred to as the dilution effect and could cause a significant reduction in oil taxes as a result of a major gas sale. The existing tax structure, in conjunction with the inherent uncertainty of future oil and gas prices, exposes the state to significant financial risk were a major gas sale to occur. The structure also creates economic instability for entities looking to participate in the development and financing of a natural gas pipeline project in Alaska. SB 167 removes the dilution effect by having the production tax calculated distinctly for oil and gas. This will result in no reduction in oil taxes from a major gas sale.