

**SB 305:
Flowchart: 26-LS1577\WA.6**

House Resources Committee
Logsdon & Associates
April 10, 2010

Mechanics of Tax (Current & SB 305)

- 1) Oil gross value (market price less transport cost)
- 2) Gas gross value (market price less transport cost)
- 3) Oil + gas gross value gas = total **gross value**
- 4) Total gross value – lease capital and operating costs = **Production tax (net) value**
- 5) Production tax value / total oil & gas BOEs = p/BOE production tax value
- 6) Total tax rate = 25% base rate + progressivity factor (based on p/BOE production tax value)
- 7) Total tax rate applied to production tax value

Progressivity Calculation (Current & SB 305)

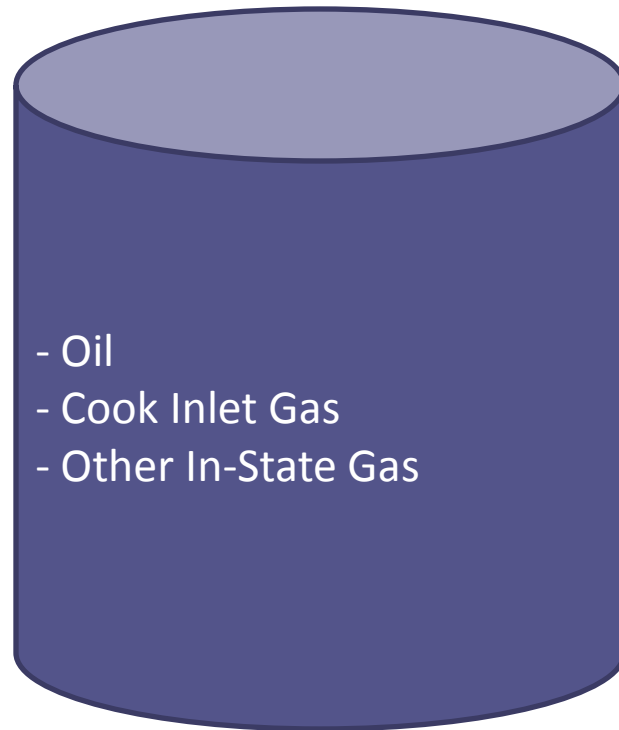
- “Trigger” = \$30 p/BOE production tax value
- “Slope” = 0.4%*
- Progressivity surcharge = (P/BOE production tax value - \$30) X .004
- Example: if production tax value = \$50
 - Base tax rate = 25%
 - Progressivity = (\$50 – \$30) X .004 = 8%
 - Total tax of 33% on net value

* Slope changes to 0.1% after \$92.50 net per BOE value

How Progressivity Operates Now

- Each company calculates one statewide progressivity rate based on all combined oil and gas activity
- Company divides operations into segments:
 - 1) Each Cook Inlet oil lease
 - 2) Each Cook Inlet gas lease
 - 3) North Slope oil and gas except gas used in-state
 - 4) Non-North Slope / Non-Cook Inlet oil and gas except gas used in-state
 - 5) Non-Cook Inlet gas used in-state
- For each segment:
 - For each segment calculate tax liability based on total tax rate (base 25% rate plus statewide progressivity rate) X the segment's production tax value
 - For segments 1, 2, and 5 tax liability is lower of ELF or above

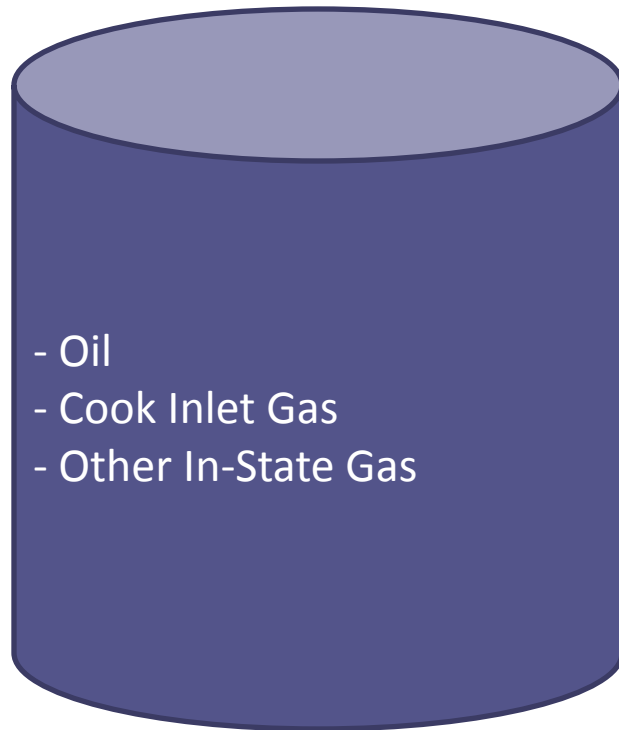
Currently: One Progressivity Bucket



SB 305: Instead of One Statewide Progressivity Calculation: Two Progressivity Calculations

- **FIRST BUCKET: Oil / CI Gas / Other In-State Gas**
 - Progressivity calculated together (no change to formula)
 - Same as current activity
 - Same 5 segments treated as now
 - No tax increase on current activity
- **SECOND BUCKET: Export Gas (Major Gas Sale Gas)**
 - Progressivity calculated distinctly (same formula based on export gas p/BOE production tax value)
 - Segment unto itself: Calculate tax liability based on total tax rate (base 25% rate plus export gas progressivity rate) X export gas production tax value
 - Will not dilute oil progressivity

SB 305: Two Progressivity Buckets



Now
thru
April 28, 2010

ONE BUCKET WORLD

April 29, 2010
thru
First Day of Binding Open Season

TWO BUCKET WORLD*
(what gets locked in for AGIA)

Second Day of Binding Open Season
thru
Month in which more than 1.5 bcf/d first tendered
for pipeline or LNG shipment out of state

ONE BUCKET WORLD

NEGOTIATION?

First month after 1.5 bcf/d first tendered
for pipeline or LNG shipment out of state

TWO BUCKET WORLD
(unless negotiation changes)