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
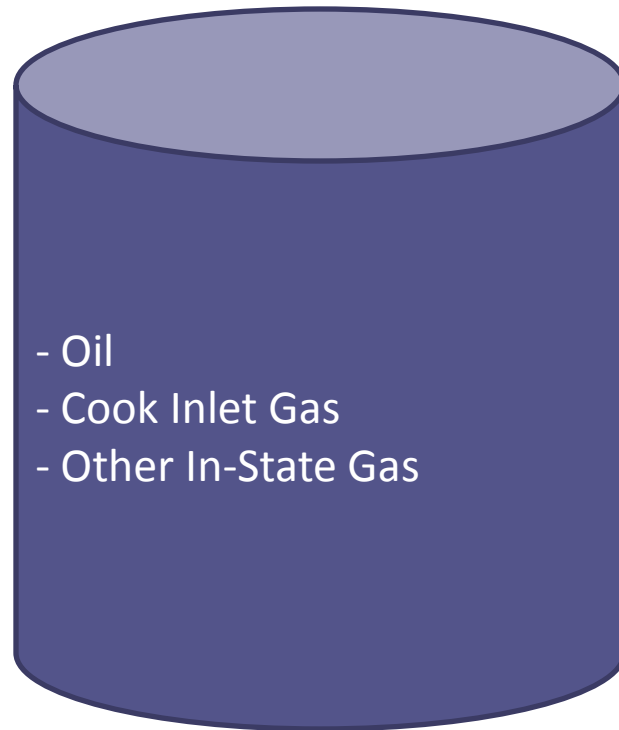
Progressivity Calculation (Current & SB 305)

- "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

- Oil
- Cook Inlet Gas
- Other In-State Gas

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
  - <u>No tax increase on current activity</u>

- **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
  - <u>Will not dilute oil progressivity</u>

SB 305:
Two Progressivity Buckets

- Oil
- Cook Inlet Gas
- Other In-State Gas

- Export Gas
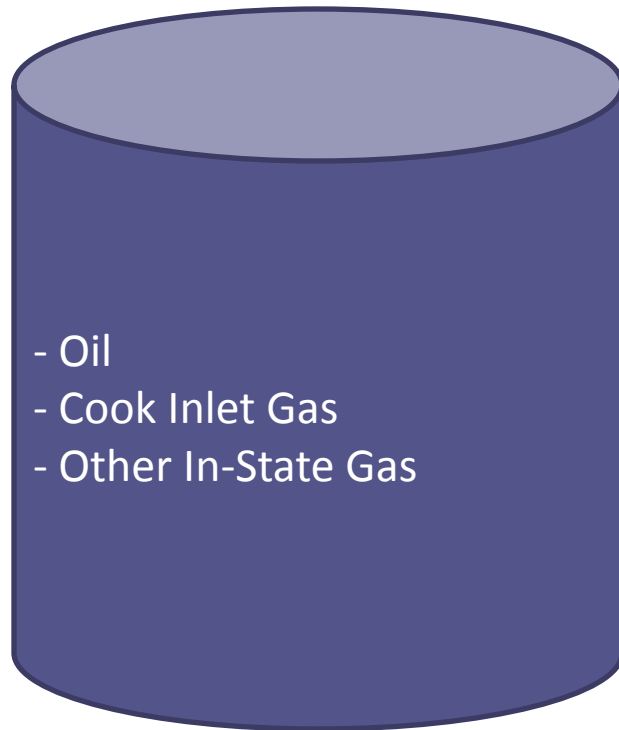
**Now
thru
April 28, 2010**

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)