

Explanation of Amendments to CSSB 305 v. W.A and M

in House Resources

Department of Revenue

April 13, 2010

Current Law:

SALES PROCEEDS

-Transportation costs

= Gross Value of Oil and Gas at Point of Production
(GV at POP) **.150**

Segments

- A. NS oil and gas
- B. Mid Earth oil and gas
- C. CI oil
- D. CI gas
- E. Gas used in state

Annual Production Tax Value

(PTV) **.160(a)(1)**

$GV_A \text{ at POP} - LE_A = PTV_A$

$GV_B \text{ at POP} - LE_B = PTV_B$

$GV_C \text{ at POP} - LE_C = PTV_C$

$GV_D \text{ at POP} - LE_D = PTV_D$

$GV_E \text{ at POP} - LE_E = PTV_E$

*Each PTV cannot be < 0

*Excess LEs in each segment get
carried forward as NOL

Monthly Production Tax Value

(PTV) **.160(a)(2)**

$GV_A \text{ at POP} - LE_A = PTV_A$

$GV_B \text{ at POP} - LE_B = PTV_B$

$GV_C \text{ at POP} - LE_C = PTV_C$

$GV_D \text{ at POP} - LE_D = PTV_D$

$GV_E \text{ at POP} - LE_E = PTV_E$

* Each PTV cannot be < 0

Current Law: **Calculating the Progressivity Rate .011(g)**

Monthly PTV .160(a)(2)

$$\left. \begin{array}{l} GV_A \text{ at POP} - LE_A = PTV_A \\ GV_B \text{ at POP} - LE_B = PTV_B \\ GV_C \text{ at POP} - LE_C = PTV_C \\ GV_D \text{ at POP} - LE_D = PTV_D \\ GV_E \text{ at POP} - LE_E = PTV_E \end{array} \right\} \begin{array}{l} \text{Add} \\ \text{together} \end{array} \div \begin{array}{l} \text{Total BOEs of all Oil} \\ \text{and Gas in Segments} \\ \text{A-E (per regulation)} \end{array} = \begin{array}{l} \text{Average} \\ \text{Monthly} \\ \text{Production Tax} \\ \text{Value} \end{array}$$

If Average Monthly Production Tax Value is > \$30
then 0.4% progressivity tax rate for each \$1 over
\$30

Amendment to (g) and (p): Weighted Average PTV Calculation

Segments

- A. NS oil and gas
- B. Mid Earth oil
- C. CI oil
- D. CI gas
- E. Gas used in state
- F. NS Gas
- G. Mid Earth gas

Annual PTV .160(a)(1)*

$$\begin{aligned}GV_A \text{ at POP} - LE_A &= PTV_A \\GV_B \text{ at POP} - LE_B &= PTV_B \\GV_C \text{ at POP} - LE_C &= PTV_C \\GV_D \text{ at POP} - LE_D &= PTV_D \\GV_E \text{ at POP} - LE_E &= PTV_E \\GV_F \text{ at POP} - LE_F &= PTV_F \\GV_G \text{ at POP} - LE_G &= PTV_G\end{aligned}$$

*Each PTV cannot be < 0

* Excess LEs for each segment get
carried forward as NOL

Monthly PTV .160(a)(2)*

$$\begin{aligned}GV_A \text{ at POP} - LE_A &= PTV_A \\GV_B \text{ at POP} - LE_B &= PTV_B \\GV_C \text{ at POP} - LE_C &= PTV_C \\GV_D \text{ at POP} - LE_D &= PTV_D \\GV_E \text{ at POP} - LE_E &= PTV_E \\GV_F \text{ at POP} - LE_F &= PTV_F \\GV_G \text{ at POP} - LE_G &= PTV_G\end{aligned}$$

* Each PTV cannot be < 0

Amendment to (g) and (p) to ensure weighted average calculation

Calculating the Progressivity Rate **.011(g)*** and **.011(p)***

Monthly PTV **.160(a)(2)***

$GV_A \text{ at POP} - LE_A = PTV_A$
 $GV_B \text{ at POP} - LE_B = PTV_B$
 $GV_C \text{ at POP} - LE_C = PTV_C$
 $GV_D \text{ at POP} - LE_D = PTV_D$
 $GV_E \text{ at POP} - LE_E = PTV_E$

Add
together



Total BOEs of all Oil
and Gas in Segments
A-E



Average
Monthly
Production Tax
Value **.011(g)***

Monthly PTV **.160(a)(2)***

$GV_F \text{ at POP} - LE_F = PTV_F$
 $GV_G \text{ at POP} - LE_G = PTV_G$

Add
together



Total BOEs of all Oil
and Gas in Segments
F-G

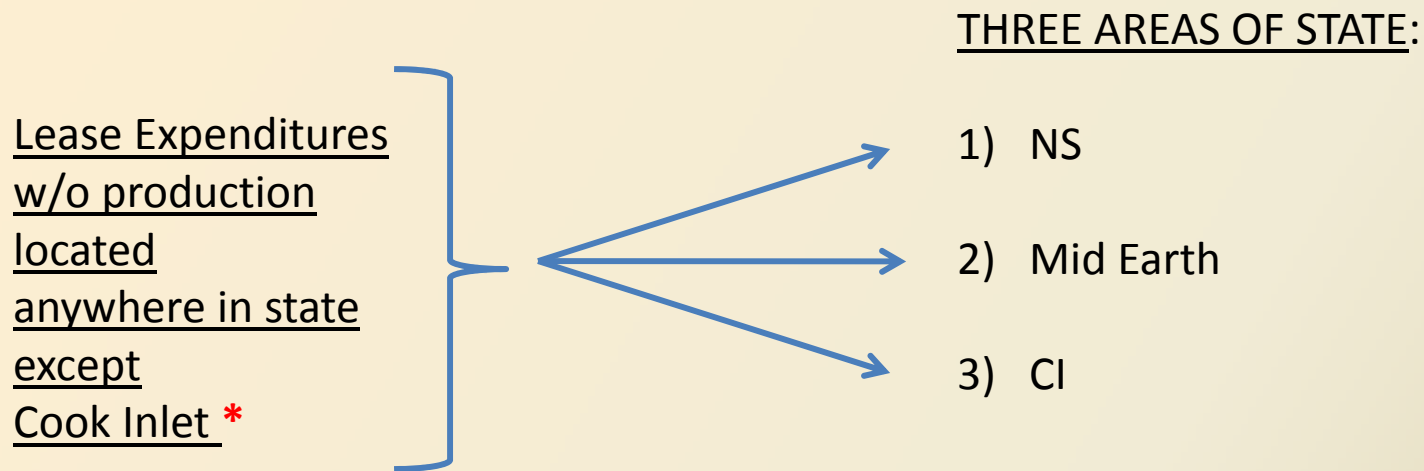


Average
Monthly
Production Tax
Value **.011(p)***

If Average Monthly Production Tax Value is > \$30 then 0.4%
progressivity tax rate for each \$1 over \$30 under both (g) and (p)

Amendment to .165(h) - Gross Value at POP Option

How to allocate Lease Expenditures to Other Production
when no sustained production yet



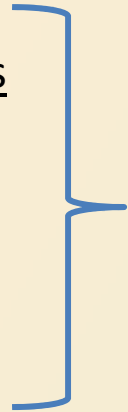
RULE: LEs are allocated to oil and gas produced among three areas of state in proportion to the Gross Value of oil and gas at POP in each Area.

* Allocation Rule applies to North Slope and Middle Earth LEs only. Lease expenditures for CI allocated on basis of regulations.

Amendment to .165(h) - BOE Option

How to allocate Lease Expenditures to Other Production
when no sustained production yet

Lease Expenditures
w/o production
located
anywhere in state
except
Cook Inlet*



THREE AREAS OF STATE:

- 1) NS
- 2) Mid Earth
- 3) CI

RULE: LEs are allocated to oil and gas produced among three areas of state in proportion to the volume of oil and gas in BOEs in each Area.

* Allocation Rule applies to North Slope and Middle Earth LEs only. Lease expenditures for CI allocated on basis of regulations.

The End