

# Cook Inlet Update

## Senate Finance Committee

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Department of Revenue

March 18, 2022

# Acronyms

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ANS – Alaska North Slope

AOGCC – Alaska Oil and Gas Conservation  
Commission

Avg – Average

Bbl – Barrel

BOE – Barrels of Oil Equivalent

CI – Cook Inlet

CIT – Corporate Income Tax

CY – Calendar Year

DNR – Department of Natural Resources

DOR – Department of Revenue

FY – Fiscal Year

GVPP – Gross Value at Point of Production

mcf – Thousand cubic feet

mmcf – Million cubic feet

PTV – Production Tax Value

Ths – Thousands



# Agenda

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- Oil and Gas Revenue Sources
  - Production tax and January 1, 2022 changes
  - FY 2020 – FY 2024 Cook Inlet oil and gas revenues
- Cook Inlet Oil and Gas Prices
- Cook Inlet Oil and Gas Production
- Non-North Slope Lease Expenditures
- Non-North Slope Tax Credits
- Petroleum Revenue by Land Type



# Oil and Gas Revenue Sources

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- Royalty – based on gross value of production
  - Plus bonuses, rents, and interest
  - Paid to Owner of the land: State, Federal, or Private
  - Usually 12.5% or 16.67% in Alaska, but rates vary
- Corporate Income Tax – based on net income
  - Paid to State (9.4% top rate)
  - Paid to Federal (21% top rate)
  - Only C-Corporations\* pay this tax
- Property Tax – based on value of oil & gas property
  - Paid to State (2% of assessed value or “20 mills”)
  - Paid to Municipalities – credit offsets state tax paid
- Production Tax – based on “production tax value”
  - Paid to State – calculation to follow



\* C-Corporation is a business term that is used to distinguish the type of business entity, as defined under subchapter C of the federal Internal Revenue Code.

# Cook Inlet Production Tax: Before and Starting January 1, 2022

	Before January 1, 2022		Starting January 1, 2022	
Provision	Oil	Gas	Oil	Gas
Base Tax Rate	35% of PTV	35% of PTV	35% of PTV	13% of GVPP
Tax Ceiling	\$1 per barrel	Varies; avg 17.7 cents / mcf	\$1 per barrel	Varies; avg 17.7 cents / mcf
Lease Expenditures	Allocated between oil and gas		All expenditures against oil	
Tax Credits	Most tax credits repealed January 1, 2018		Most tax credits repealed January 1, 2018	



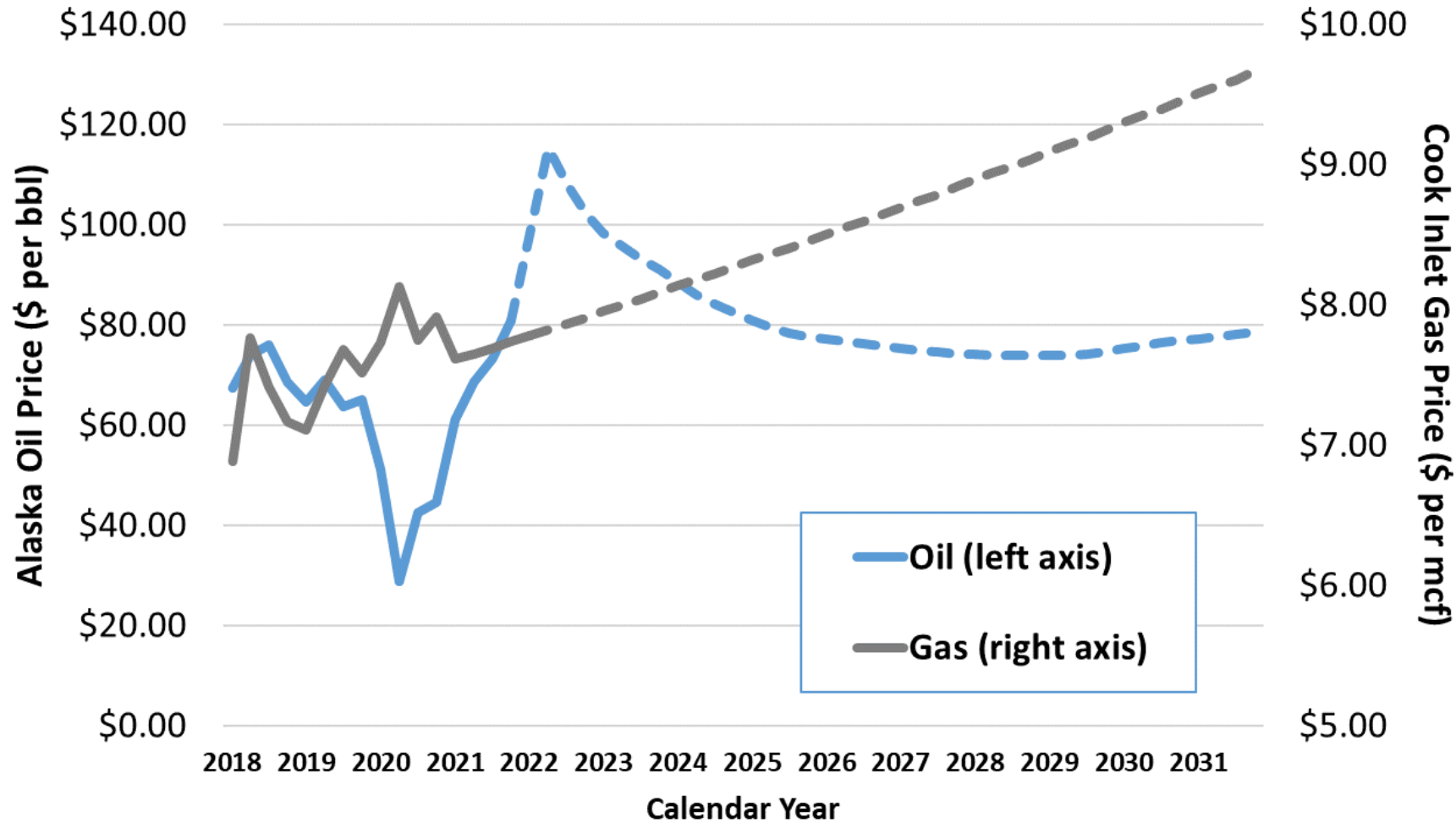
# Cook Inlet Oil and Gas Revenue: Five-Year Comparison

	History	History	Current Year	Forecast	Forecast
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
CI Oil price (\$/bbl)	\$ 52.12	\$ 54.14	\$ 91.68	\$ 101.00	\$ 90.00
CI Oil production (ths bbl/ day)	13.6	10.6	8.8	7.8	8.3
CI Gas price (\$/mcf)	\$ 7.76	\$ 7.73	\$ 7.76	\$ 7.93	\$ 8.11
CI Gas production (mmcf/ day)	211.5	222.0	208.6	208.6	208.6
Property Tax	\$ 16	\$ 15	\$ 15	\$ 15	\$ 15
Corporate Income Tax	\$ 1	\$ 4	\$ (0)	\$ 3	\$ 5
Production Tax	\$ 1	\$ 1	\$ 3	\$ 7	\$ 7
Royalties	\$ 50	\$ 46	\$ 59	\$ 58	\$ 59
<b>Total</b>	<b>\$ 68</b>	<b>\$ 65</b>	<b>\$ 77</b>	<b>\$ 83</b>	<b>\$ 86</b>



Notes: Numbers may not add exactly due to rounding. Revenue amounts in \$ millions. ANS oil price is used as a proxy for CI oil price. CI gas price is based on prevailing value and assumes flat real prices for the forecast. CI gas production assumes stable production for the forecast. Property Tax does not include municipal share. Corporate Income Tax represents total non-North Slope. Royalties include bonuses and rents but not interest, and include only revenue from state managed lands and include Permanent Fund/ School Fund shares.

# Cook Inlet Oil and Gas Prices

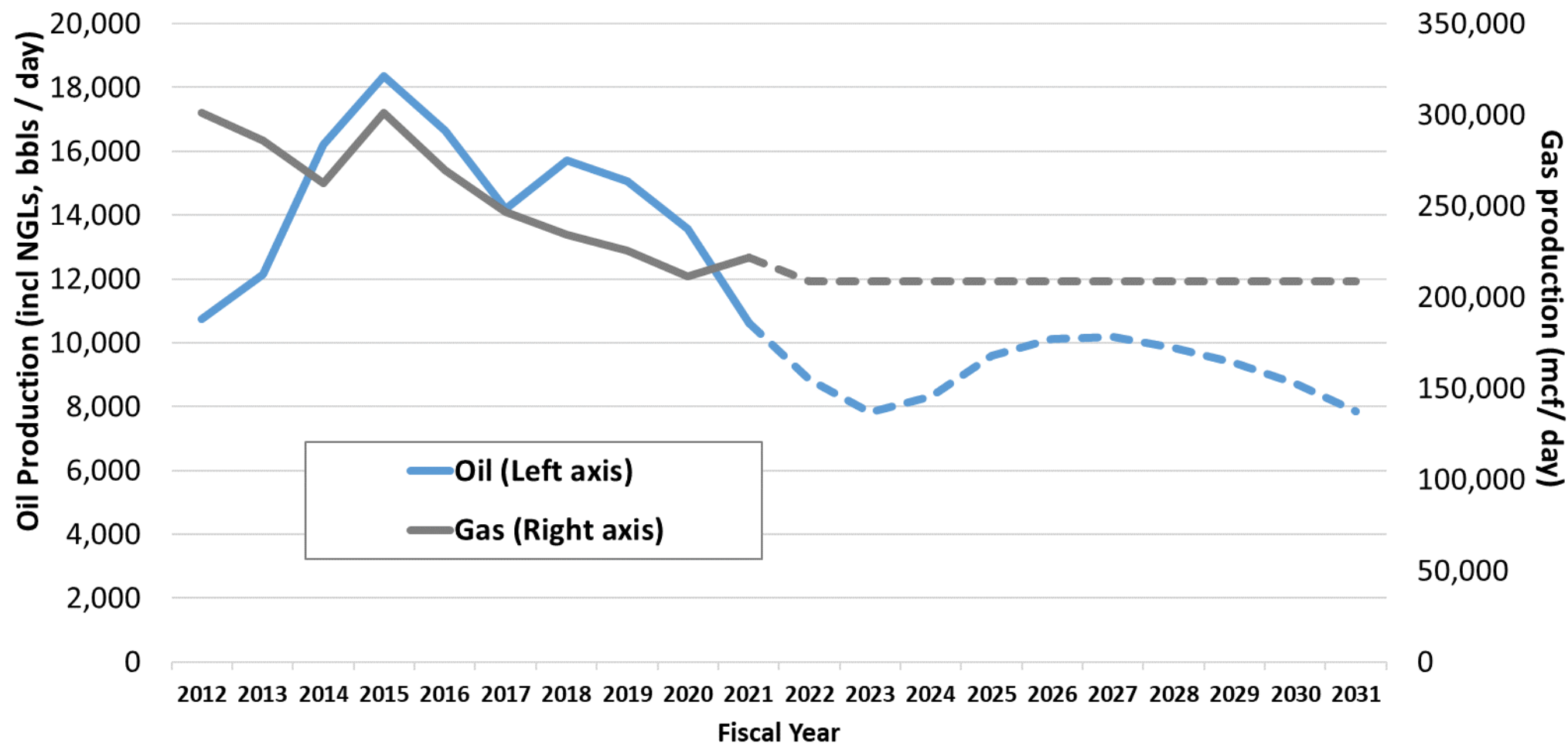


Note: Cook Inlet oil price is not explicitly forecast; forecast assumes equivalent to North Slope price.  
Cook Inlet gas price is not explicitly forecasted; forecast assumes constant real price.





# Cook Inlet Oil and Gas Production

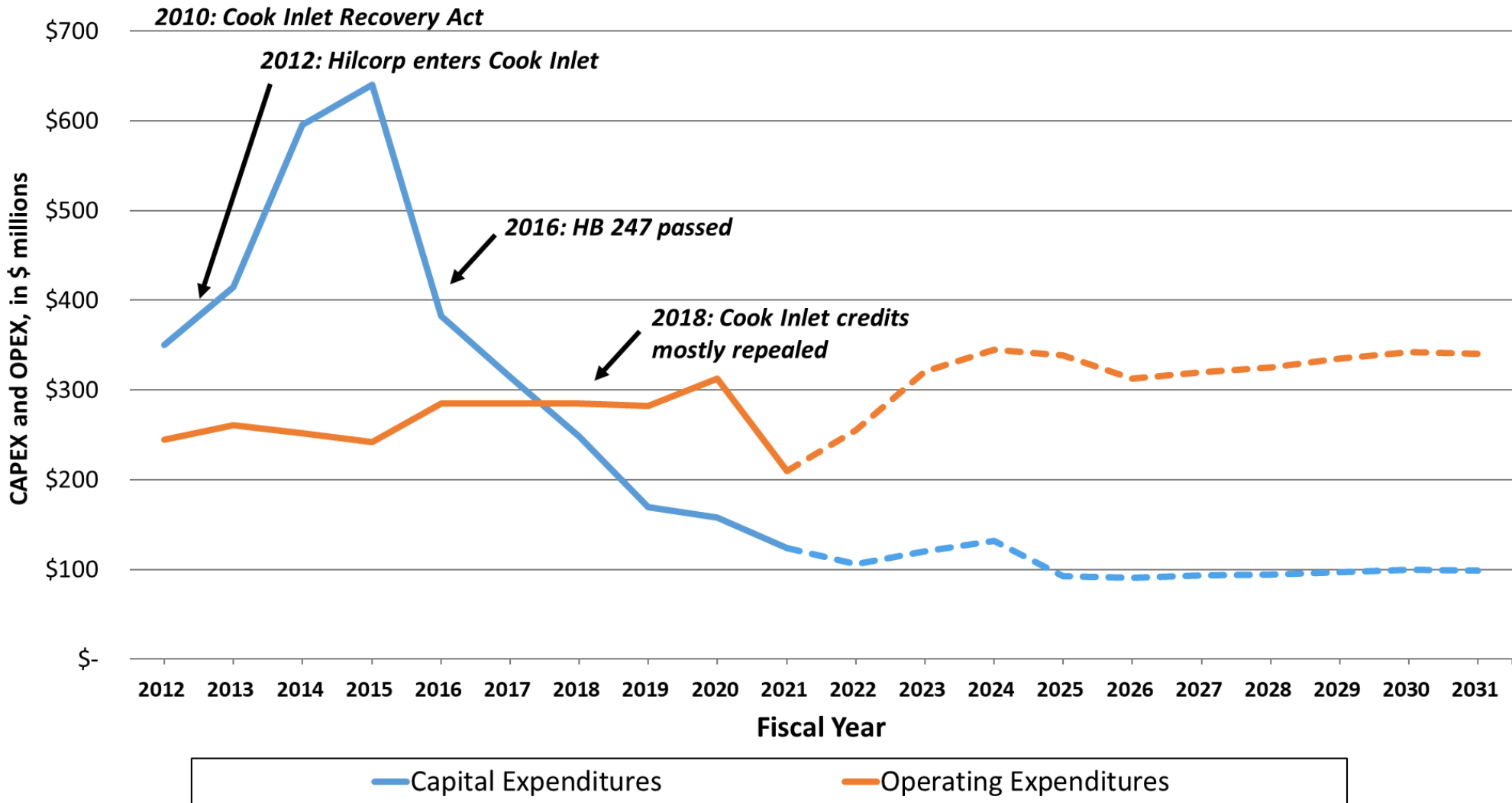


Note: Cook Inlet gas production is not explicitly forecasted; forecast assumes stable production.

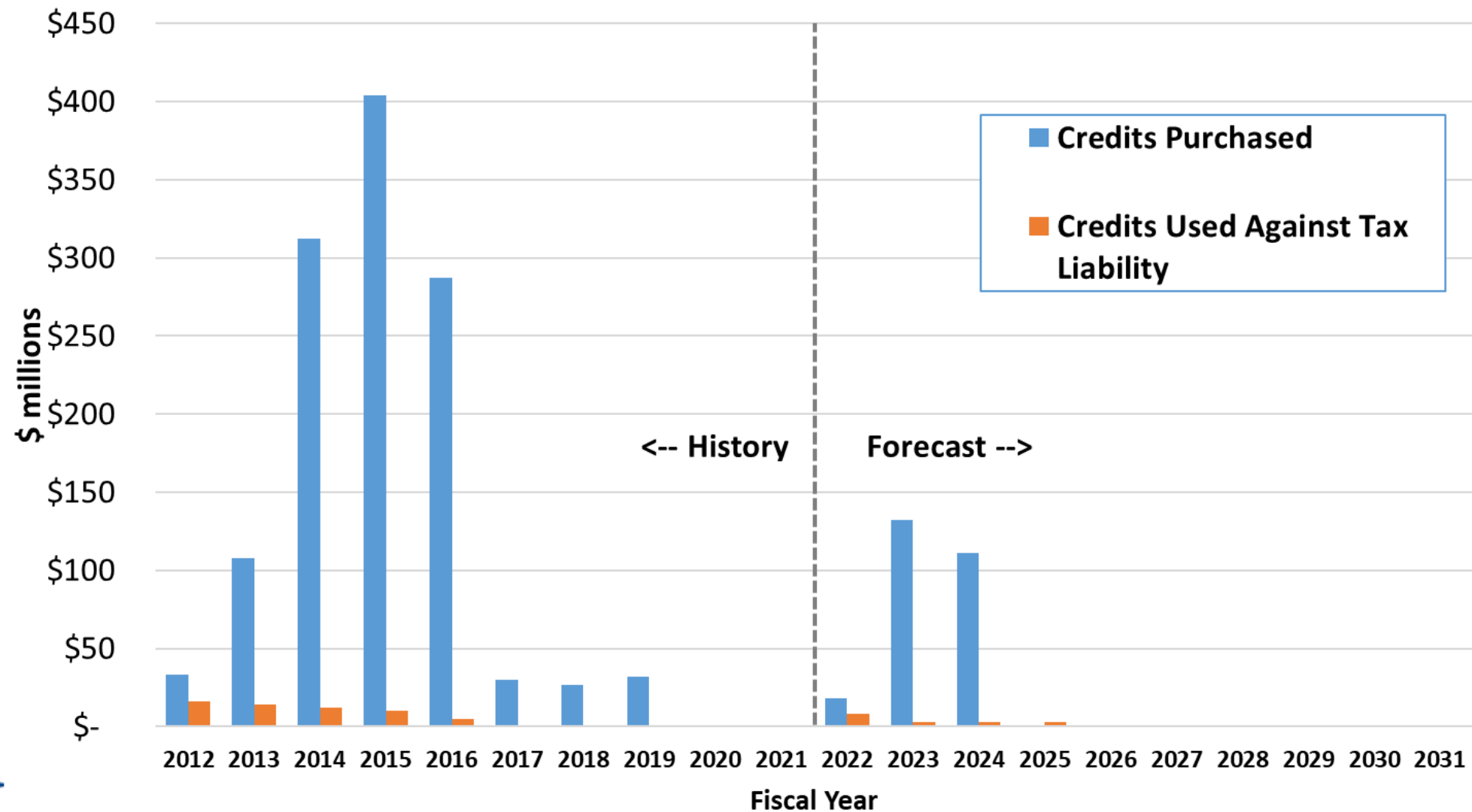




# Non-North Slope Lease Expenditures



# Non-North Slope Tax Credits



## Non-North Slope Tax Credits: Key Statistics

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- FY 2007 through CY 2021, \$0.1 billion of credits applied against production tax liabilities
- FY 2007 through CY 2021, \$1.6 billion of credits earned and eligible for state purchase
  - \$1.3 billion purchased through end of CY 2021
  - \$265 million outstanding as of end of CY 2021
- Legislative action has eliminated most Cook Inlet credits:
  - Qualified Capital Expenditure Credit, Well Lease Expenditure Credit, Net Operating Loss Credit all repealed January 1, 2018.
  - Eligibility for In-State Refinery and LNG Storage Facility Credits ended January 1, 2020.
  - Small Producer Credit remains: applicable to tax liability only, phasing out completely by 2024.
  - No per-taxable-barrel credits or carried-forward loss for Cook Inlet.



# Non-North Slope Tax Credits: Correlation with Company Activity

- For the \$1.3 billion of credits purchased through CY 2021:
  - Non-North Slope lease expenditures for companies receiving the credits totaled \$4.8 billion through CY 2020
    - Credit support averaged 27% of lease expenditures
  - \$1.1 billion to companies with production by the end of CY 2020 (includes production by acquiring companies)
    - Total Non-North Slope production through CY 2020 of 154 million BOE
    - Credits to producers equate to \$7/ BOE or \$1.18/ mcf
  - \$215 million to companies without regular production
- Credits per unit of production and as a share of lease expenditures will decrease over time due to additional production and spending



# State Petroleum Revenue by Land Type

Land Lease Status	Revenue Component			
	Production Tax / Credits	Royalty	Corporate Income Tax	Property Tax
<b>Offshore beyond 6 miles Federal OCS</b>	Does not apply	Federal royalties applies; zero shared back to state (in Alaska; other states do receive shared royalties)	Not included in apportionment factor	Does not apply
<b>Offshore 3-6 miles Federal OCS 8(g) area</b>	Does not apply	Federal royalties applies; 27% shared back to state with no restrictions	Not included in apportionment factor	Does not apply
<b>State Lands</b>	All credits available; tax applies to all taxable production	State royalty applies	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>NPR-A Federal owned</b>	All credits available; tax applies to all taxable production	Federal royalty applies; 50% of royalties are shared back to state but must be used for benefit of local communities	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>ANWR Federal owned</b>	All credits available; tax applies to all taxable production	Federal royalty applies; 50% shared back to state with no restrictions (under current law)*	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>Other Federal Land</b>	All credits available; tax applies to all taxable production	Federal royalties applies; 90% shared back to state with no restrictions	All property, production, and sales included in apportionment factor	Applies to all oil and gas property
<b>Private Land (including Alaska Native Corporations)</b>	All credits available; tax applies to all taxable production	Privately negotiated royalty applies; not shared with state. However state levies 5% gross tax on the value of private landowner royalty interest as part of production tax	All property, production, and sales included in apportionment factor	Applies to all oil and gas property



# THANK YOU

Dan Stickel  
Chief Economist  
Department of Revenue  
[daniel.stickel@alaska.gov](mailto:daniel.stickel@alaska.gov)  
(907) 465-3279

Colleen Glover  
Director, Tax Division  
Department of Revenue  
[colleen.glover@alaska.gov](mailto:colleen.glover@alaska.gov)  
(907) 269-1033



[dor.alaska.gov](http://dor.alaska.gov)

