Sponsor Statement
CSSB 192, Version E

Committee Substitute for Senate Bill 192 contains five significant additions to Alaska's oil and gas production tax statutes, to include the following:

- Lowers the Rate of Progressivity and the Cap on Progressivity
- Rewards Increased Production
- Establishes a Gross Minimum Tax
- Separates oil and natural gas for purposes of calculating the progressivity portion of the production tax (aka decoupling)
- Creates an Oil Information System

Lowers Progressivity

CSSB 192 lowers both the rate of progressivity and the cap on progressivity.

The legislation retains the original trigger of $30 in Production Tax Value (PTV), at which point the progressive tax rate is calculated at .35% per dollar increase in PTV up to 50% ($101.43). This is a reduction from the current progressivity rate of .4% to .35%.

At 50% Production Tax Value (i.e., $101.43), CSSB 192 adds a second trigger on the progressive tax rate calculation that lowers the progressive tax rate to .1% on PTV up to 60% ($201.43).

CSSB 192 adds a statutory maximum tax rate of 60% under the production tax statutes. This is a reduction in the maximum tax rate from 75%, as it is currently in ACES, to 60%.

The goal is to return the "upside potential" to industry at high oil prices.

Rewards Increased Production

The purpose of this provision is to reward companies that increase their North Slope production levels from one year to the next, helping to increase TAPS throughput. Companies which achieve this goal will earn an allowance on the oil they produce above the prior year.

The allowance reduces their Production Tax Value (or PTV) by $10 for the new barrels of oil produced. This allowance should not be confused with a tax credit or a lowering of tax rates. It is a reduction in the PTV used to calculate production tax.

Again, this allowance wouldn't influence the tax rate itself. It would not count as a lease expenditure and isn't part of the calculation that determines average profits per barrel.

Establishes a Gross Minimum Tax

This provision of the legislation will establish a production tax floor of 10% of the gross value of oil at the point of production for legacy fields in Alaska. The floor would apply only to fields which have already produced a billion barrels of oil and are still producing 100,000 barrels a day on average.

Prudhoe Bay and Kuparuk are the only fields that currently meet this definition.

ACES currently has a production tax floor. It is between 0-4%, depending on the price of oil, and can be brought even lower by credits. This means the state could actually owe companies production tax in a low price environment, when the state has a cash flow deficit and is struggling to pay for the most essential state services.

This provision is intended to alleviate concerns that the current floor does not adequately protect the state when oil prices are low. In fact, at prices as low as $70, the state may take in more with a 10% gross floor than it would with ACES.

This provision protects the state at low oil prices.

Decoupling

This provision separates oil and natural gas for purposes of calculating the progressivity portion of the production tax. Under this bill, the progressivity surcharges for oil and Cook Inlet and in-state gas would be calculated together, but distinctly from export gas, instead of the current practice on all oil and gas combined. The progressivity structure itself would be changed to conform with the rates set forth in this legislation.

Under current law, the tax rate is based on the combined BTU value of oil and gas. However, oil and gas can, and do, 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.

This legislation removes the dilution effect by having progressivity calculated distinctly for oil and gas. This will result in no reduction in oil taxes from a major gas sale.

As in current law, the bill gives the Department of Revenue the authority to adopt regulations to allocate costs between oil and gas, with the added instruction that a method based on relative BTU barrel of oil equivalents should be considered.

Oil Information System

Concerns have been raised about oil and gas information that is not available to legislative policy-makers and the public. While much of the information is confidential under law, there is a considerable amount that is public, but it is scattered among several agencies and can, at times, be difficult to find.

This provision in law will begin the process of making information more available to the policy-makers, public, and oil and gas companies who may be seeking to do business in Alaska's oil fields.

This provision of the legislation will require the Alaska Oil and Gas Commission (AOGCC) to develop an electronic Petroleum Information Management System that will contain public information currently gathered by the commission, as well as the Departments of Revenue, Natural Resources and Labor & Workforce Development.

The system will consolidate available, public oil and gas information that is currently scattered among several agencies for the purpose of the system improving the administration of the oil and gas production tax and to facilitate exploration, development, and production of oil and gas resources.

The information list that is in the legislation is taken from a 2007 Gaffney Cline report that provided an overview of how the acquisition, distribution and publication of oil company data is handled in other oil and gas producing regimes.

The legislation directs the departments that have control over the various aspects of the information to provide what is not confidential to the commission in a form suitable for distribution.

The legislation directs AOGCC to develop and implement the system.

The bill has an effective date of January 1, 2013.