Impact of Gas Production Tax Rates on State Revenue

Senate Resources Committee

Department of Revenue

May 12, 2026

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THE STATE of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Introduction

- Department of Revenue (DOR) response to request for modeling of gas production tax rates, received May 6, 2026
- Analyzes tax rates from 13% (current law) to 17%
- Uses DOR AKLNG Project model (Spring 2026 version)
  - Other than gas production tax rate, assumes current tax law

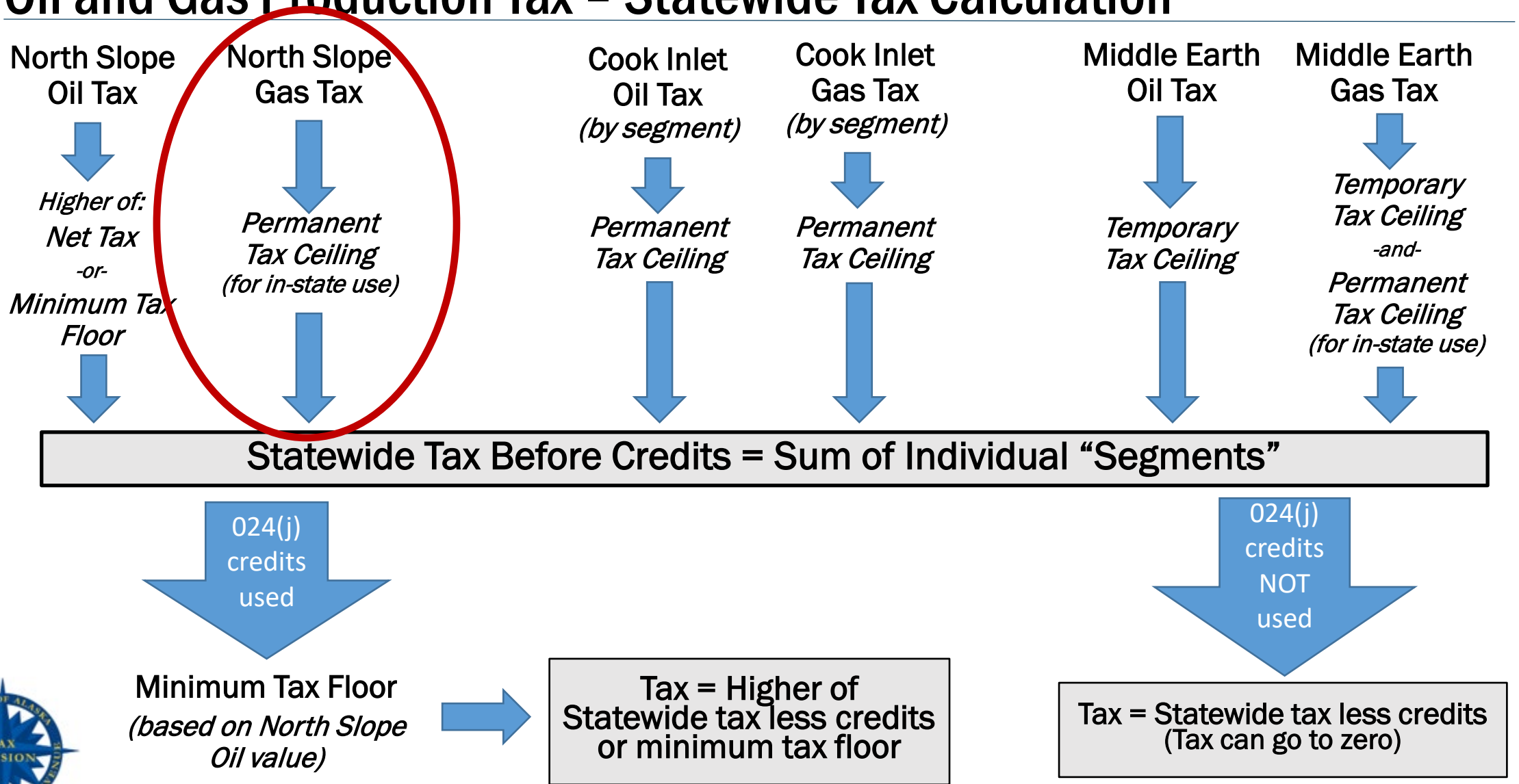
Disclaimer

- Alaska's severance tax is one of the most complex in the world and portions are subject to interpretation and dispute
- This presentation is solely for illustrative general purposes
  - Not an official statement as to any particular tax liability, interpretation, or treatment
  - Not tax advice or guidance
- This analysis assumes aggregated production and costs for Prudhoe Bay and Point Thomson. Dividing this between the current producers and aggregating with their other North Slope fields could lead to materially different results.
- This analysis does not include current North Slope gas production. Revenue impacts would likely be minimal but have not been modeled.
- Some numbers may differ due to rounding

North Slope Gas Production Tax

- 13% Tax on Gross Value at Point of Production (GVPP)
  - took effect January 1, 2022; previously was part of the 35% net tax calculation
- 17.7 cents per mcf tax ceiling on gas used in state only
  - With gas price of $1.50 per mcf escalating with inflation, ceiling would be active for all gas used in state in this modeling
- Gas tax, including tax ceiling, is calculated independently of the oil tax and before credits
- Oil tax is also calculated independently, including tax floor, before credits
- No tax credits generated for gas production
- All lease expenditures are applied in the oil tax calculation
- Minimum tax floor and tax credits (based on oil production, not gas) are applied to the statewide tax calculation (with both oil and gas included)

Oil and Gas Production Tax – Statewide Tax Calculation



024(j) = AS 43.55.024(j), the statutory reference for non-GVR sliding scale per-taxable-barrel credits

Gas Production Tax Complexity

- Interaction of gas production tax with the oil production tax and state-wide tax calculation is complex
  - Costs incurred for gas can be deducted against oil production tax
  - Per-taxable-barrel oil credits can potentially decrease gas production tax
- Impact of gas production tax for a company that also produces oil can be positive, neutral or negative, depending on:
  - Price of gas
  - Associated lease expenditures
  - Oil price
  - Oil production
- More information in DOR Order of Operations presentation to Senate Finance committee, February 16, 2026

Modeling Assumptions

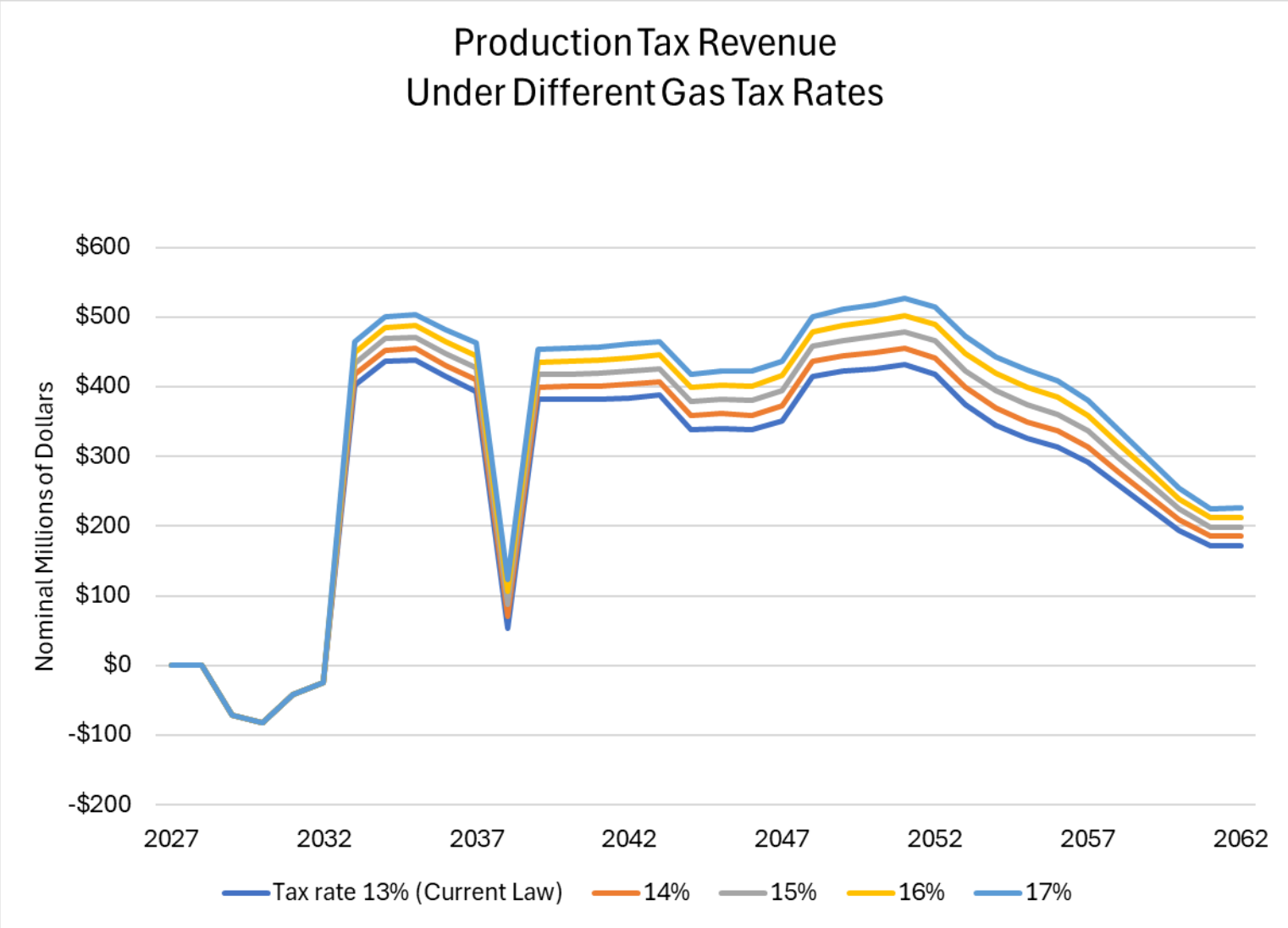
- Modeled gas production tax from AKLNG project
  - First in-state gas deliveries in 2029, with LNG exports beginning 2031 and increasing to full capacity in 2033
  - 30 years of operation to 2062, though project life would likely extend beyond this date
- Source of gas:
  - Phase 1 production from non-Great Bear field, requiring treatment
  - Prudhoe Bay and Point Thomson for Phase 2
  - Other yet-to-find field(s) towards end of 30-year period
    - Since DOR has no knowledge of the location or costs for this gas, this is not included in calculations of upstream state revenue or producer revenue
- Proportion of gas used in state:
  - 100% in Phase 1
  - 18% in 2033 gradually increasing to 23% in 2062

Cumulative Incremental Production Tax Revenue ($ millions)

Production Tax (Both Oil and Gas) Revenue	Through CY 2042	Through CY 2052	Through CY 2062
Option 1 - Status Quo: Gross production tax rate on gas of 13%.	$3,448	$7,316	$9,988
Option 2 - Gross gas rate of 14%: Gross production tax rate on gas of 14%.	$3,621	$7,706	$10,578
Option 3 - Gross gas rate of 15%: Gross production tax rate on gas of 15%.	$3,795	$8,096	$11,167
Option 4 - Gross gas rate of 16%: Gross production tax rate on gas of 16%.	$3,969	$8,487	$11,757
Option 5 - Gross gas rate of 17%: Gross production tax rate on gas of 17%.	$4,143	$8,877	$12,347

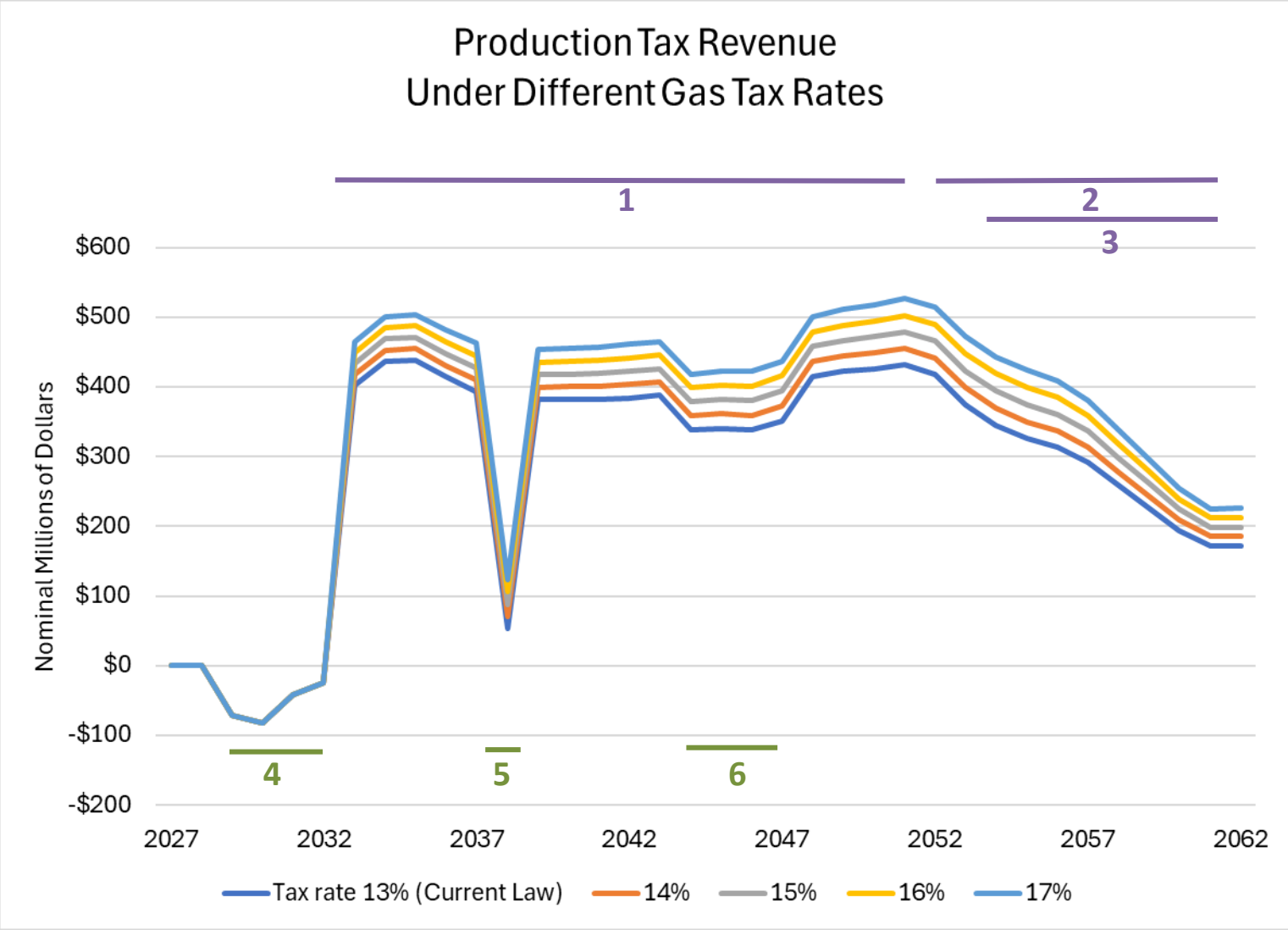
- Table includes gas production from project and incremental oil production (from Point Thomson)
  - Revenues represent change in total oil and gas production tax
  - Higher tax rates generate more state revenue, all else equal

Incremental Oil and Gas Production Tax Revenue



- Large variations in production tax through life of project
- Complexity explained on the following slides

Incremental Oil and Gas Production Tax Revenue - Analysis



1. 2033 to 2051

- Increases from inflation are balanced by decline of incremental oil production at Point Thomson

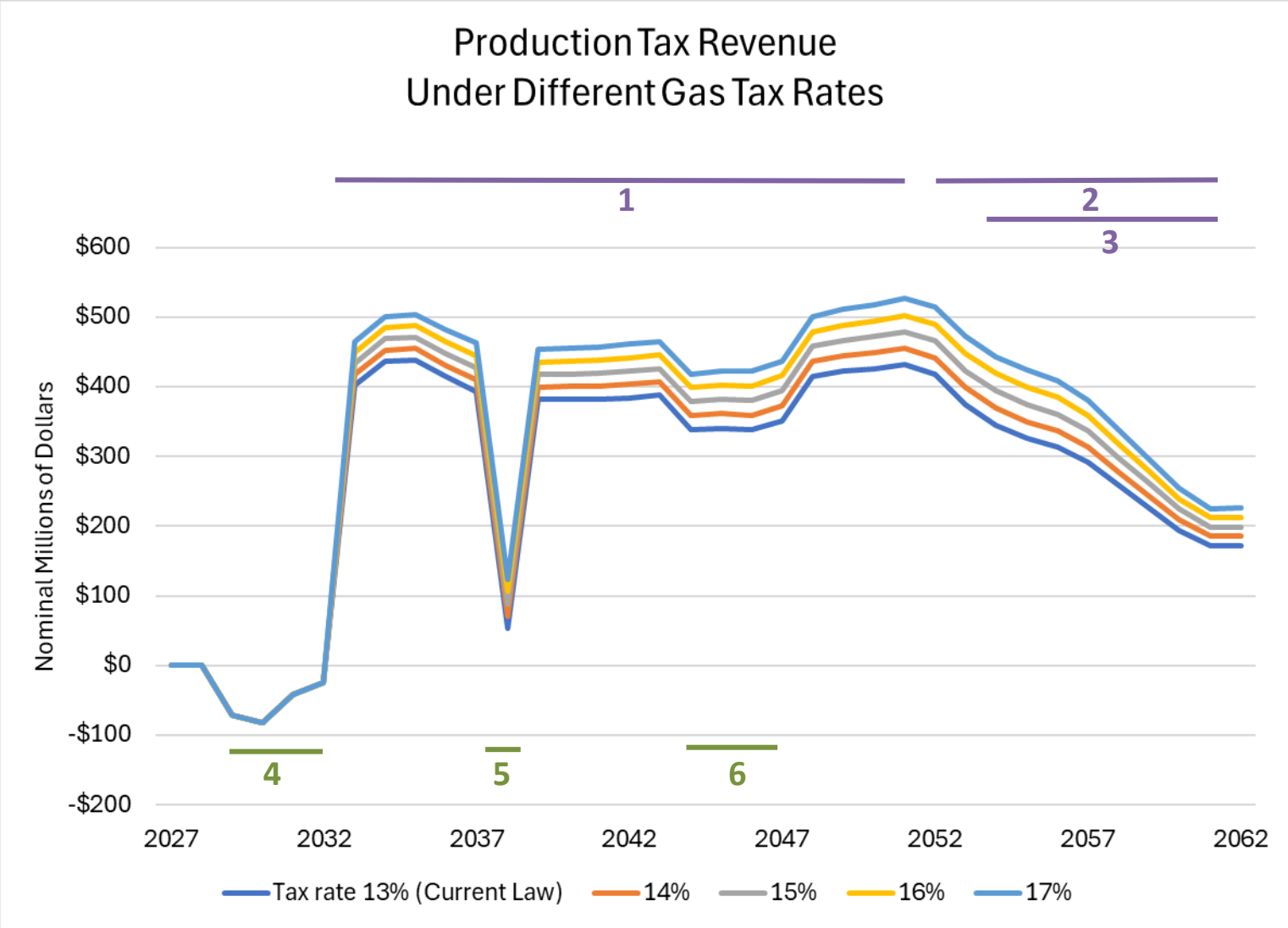
2. 2052 to 2061

- Increased decline rate for incremental oil production at Point Thomson.

3. 2054 to 2061

- Taxable gas volumes modeled are lower since yet-to-find gas not included when calculating upstream revenue.

Incremental Oil and Gas Production Tax Revenue - Analysis



4. 2029 to 2032

- Negative incremental production tax from deducting development costs and from interaction with per-taxable-barrel oil credits

5. 2034

- Assumed development costs at Point Thomson

6. 2044 to 2047

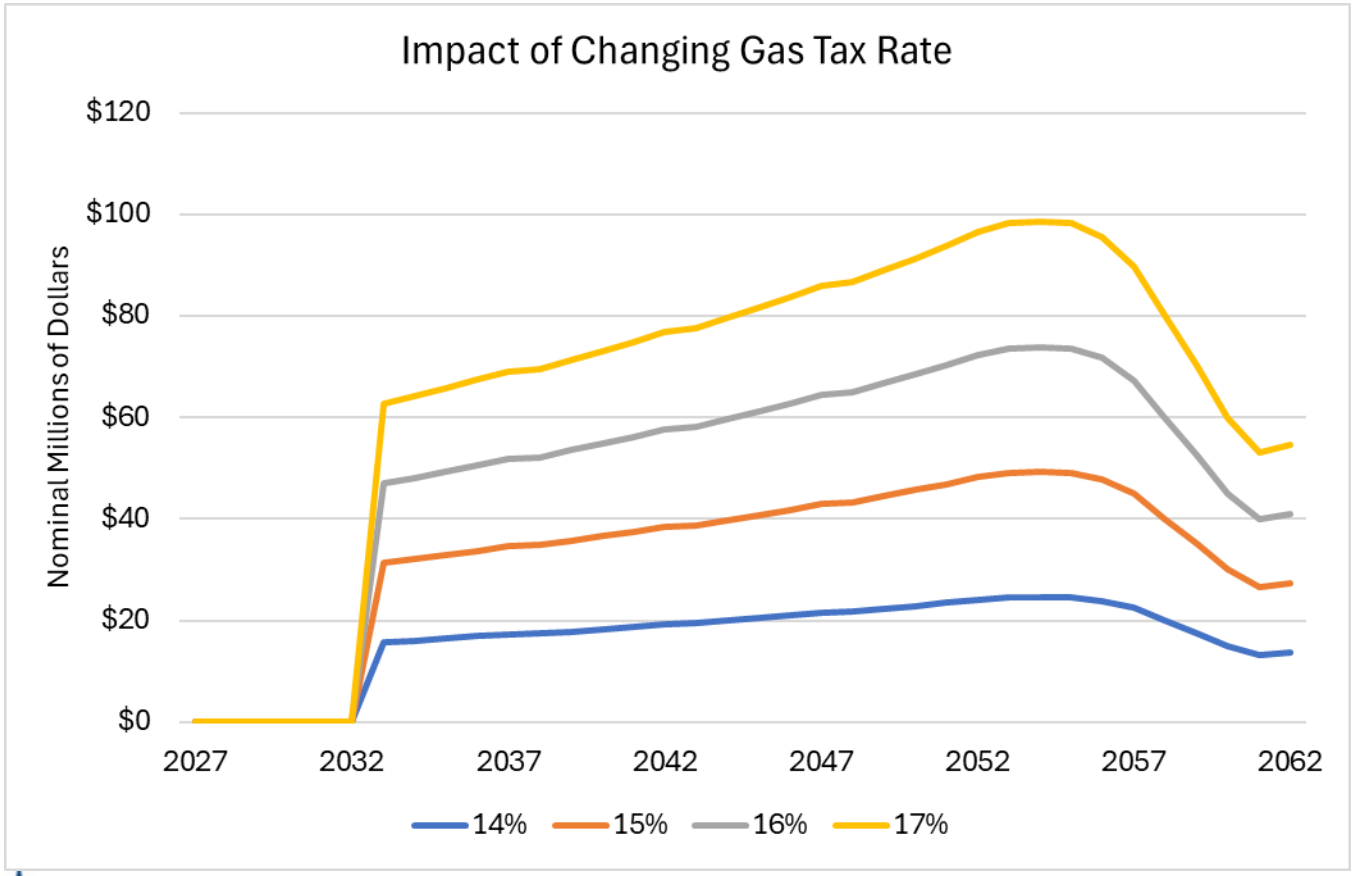
- Increased upstream costs

Cumulative Impact Compared to Current Law (13%) ($ millions)

Production Tax (Both Oil and Gas) Revenue	Through CY 2042	Through CY 2052	Through CY 2062
Impact of Gross gas rate of 14%	$174	$390	$590
Impact of Gross gas rate of 15%	$347	$780	$1,179
Impact of Gross gas rate of 16%	$521	$1,170	$1,769
Impact of Gross gas rate of 17%	$695	$1,560	$2,359

- This slide shows how much more revenue the state receives from increasing the gross tax rate above 13%
- Higher tax rates generate more revenue, all else equal

Impact Compared to Current Law - Analysis



2029 to 2032

- Zero impact of changing gross tax rate due to:
  - in-state tax ceiling
  - development costs and interaction with per-taxable-barrel oil credits

2033 to 2053

- Impact of higher tax rates increasing due to inflation

2054 onwards

- Modeled gas volumes lower as yet-to-find gas not included when calculating upstream revenue
- Our modeling includes midstream throughput from yet-to-find gas, but not upstream revenue

THANK YOU

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