

**State of Alaska**  
Department of Revenue

*Commissioner Bryan Butcher*



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The Honorable Lyman Hoffman  
The Honorable Bert Stedman  
Co-Chairs, Senate Finance Committee  
Alaska State Senate  
Juneau, Alaska 99801

February 13, 2012

RE: Corrected Version of January 27, 2012 SB 167 Presentation

Dear Senators Stedman and Hoffman:

The purpose of this correspondence is to issue a corrected version of our January 27, 2012 presentation to the Senate Finance Committee regarding Senate Bill 167.

This corrected presentation removes narrative on slide 14 and slide 15 regarding treatment of losses for natural gas under SB 167 that are due entirely to transportation costs exceeding the destination value of the gas.

Slide 14 presented estimates of state revenue under status quo and SB 167, assuming a major gas sale with oil and gas prices around current prices of \$110 / barrel and \$3 / mmBTU, respectively. We assumed a gas tariff of \$4.50 / mmBTU, and gas sales of 4.5 Bcf / day. Transportation costs (the lower of actual or reasonable) are subtracted from the destination value (netted out) to calculate the Gross Value at the Point of Production (GVPP). Under this scenario, gas does not have a positive GVPP value. The producers would realize a loss on the gas of approximately \$2.46 billion, due entirely to transportation costs exceeding the destination value of the gas. Our presentation had assumed that the negative GVPP could be converted to a 25% Net Operating Loss credit under AS 43.55.023(b). However that assumption was not correct because the NOL credit under AS 43.55.023(b) is applicable only to "the amount of a producer's or explorer's adjusted lease expenditures under AS 43.55.165 and AS 43.55.170 for a previous calendar year that was not deductible in calculating production tax values for that calendar year."

We are forwarding a corrected presentation that revises slide 14 and related narrative on slide 15. This is just one example of the many technical issues that can arise when "decoupling" some oil

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and gas for production tax purposes. Decoupling is a complex subject and we look forward to continued dialogue and public process on this topic.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bryan Butcher", with a stylized flourish at the end.

Bryan Butcher  
Commissioner

Attachment: Revised SB 167 presentation from January 27, 2012