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Department of Revenue

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

February 15, 2012

RE: Follow up questions from January 27, 2012 SB 167 Presentation

Dear Senators Stedman and Hoffman:

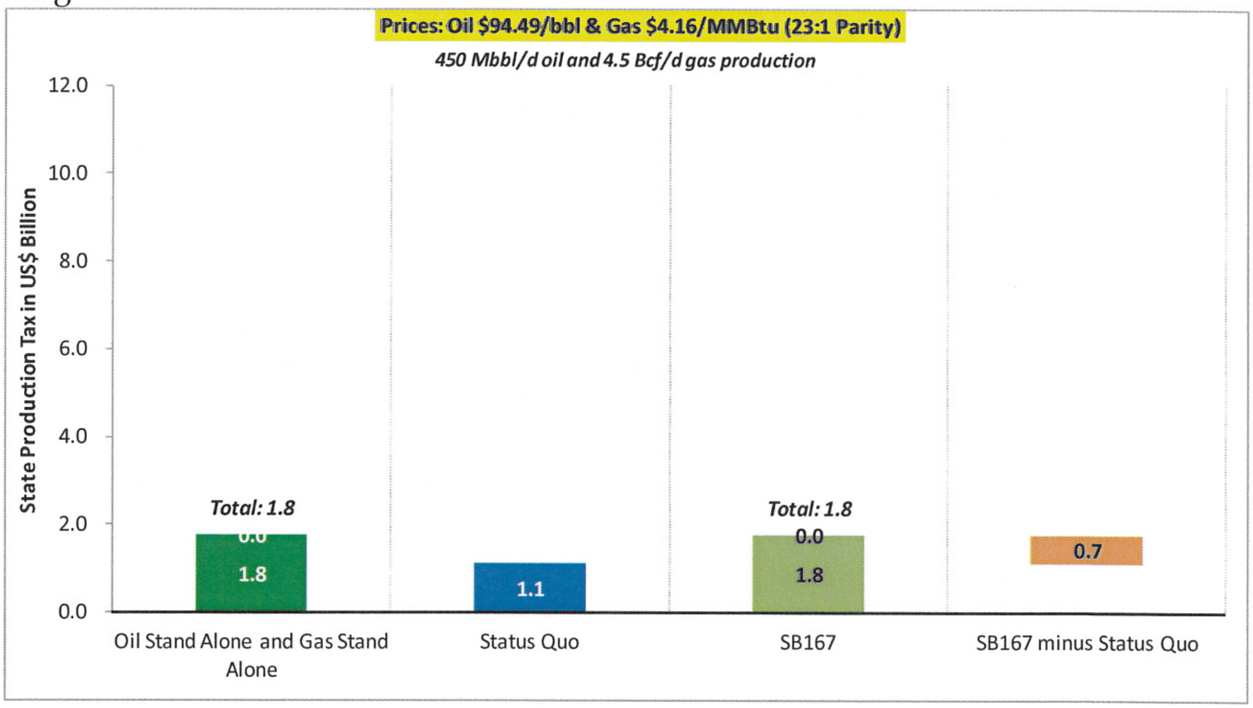
The purpose of this correspondence is to respond to questions raised during our January 27, 2012 presentation to the Senate Finance Committee regarding Senate Bill 167. The three follow-up questions and our responses follow.

1) **Provide information about other jurisdictions that tax oil and gas together.**

The discussion of decoupling oil and gas for taxation purposes becomes an issue primarily under fiscal regimes that tax net profits of oil and gas production. Further, the decoupling of oil and gas for taxation purposes is exacerbated when production tax *rate* is predicated on profit per btu-equivalent barrel. Alaska has a net profits production tax with a tax rate that is dependent on profit btu-equivalent barrel. Among a group of international peers to Alaska that have tax and royalty fiscal regimes, three countries have been identified as having a tax on net profits of production—Australia, Norway, and the United Kingdom. Of these three, all of them tax oil and natural gas together under the same fiscal terms. None of them, however, have a tax rate that is dependent on the profit per btu-equivalent barrel, such as Alaska does. Therefore, any additional profit, whether it be on oil or gas, is taxed at the tax rate determined for the country. For example, Norway assesses its hydrocarbon tax of 50% on the net profit of all oil and gas produced, regardless of the level of profit.
Based on our review of comparable jurisdictions, we did not identify any with similar oil and gas decoupling issues.

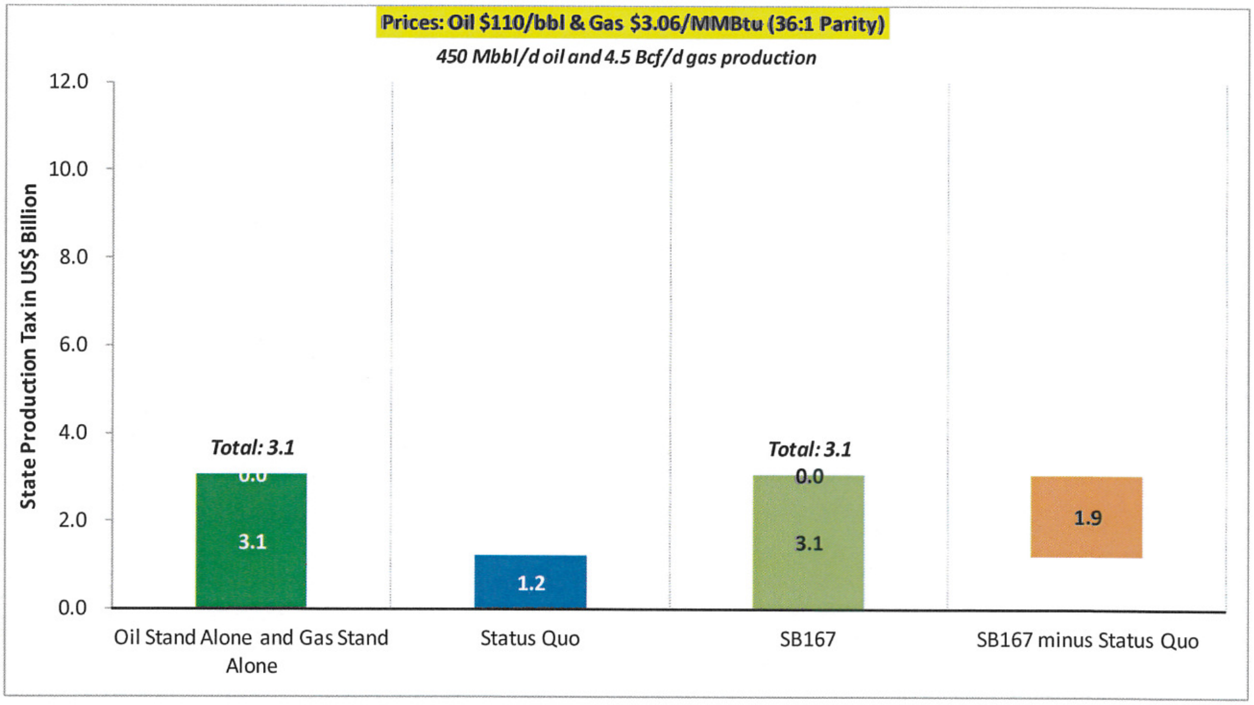
2) **Using the scenario laid out on slide 10 of the presentation, show what state revenue would have been under status quo and SB 167 using actual FY 2011 prices.**

For the following analysis we used the average FY 2011 Henry Hub gas price of $4.16 per million Btu and the average FY 2011 ANS oil price of $94.49. Similar to slide 14, as corrected, this scenario assumes a gas price that is lower than the transportation cost for the gas.



3) **Show three years of revenue estimates for slide 14.**

This question was posed as a way to clarify the treatment of the loss to the producers in a situation where gas destination value is lower than transportation costs. With the correction to slide 14 mentioned above, there is no longer a timing issue between years, and the revenue impact would be the same for all three years if prices of $110 per barrel for oil and $3 per million Btu for gas existed for all three years. The chart is shown below and would be the same for all three years.



I hope these answers fully address your questions.

Sincerely,

Bruce Tangeman
Deputy Commissioner