SB 305: CS Version S & Amendments

Senate Finance Committee

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Version S Committee Substitute

- Title has tightened scope further
- Technical change in Section 5
  - Some of the proposed changes to AS 43.55.020(a)(1) did not need to be there – CS reverses those changes
- Technical change – new Section 8
  - Gives authority to department to adopt regulations to allocate AS 43.55.170 adjustments to lease expenditures between oil and gas

Amendment 1:
Tax Neutrality on Current Activity

- Currently some producers produce both oil and gas
- If you separate oil & gas for calculating progressivity, progressivity on oil will be undiluted by gas and taxes will increase
- Is it not intent of this bill to raise taxes on current oil & gas activity
- Amendment # 1
  - Credit equal to difference between tax determined under bill and tax determined now
  - Credit expires in 2015

Amendment 2:
Cost Allocation

- Retain current agency authority, and
- Consider BOE approach

Amendment 2:
Cost Allocation

- Costs to produce oil and gas are truly joint costs: the same process that produces one produces the other
- Benefit of current approach (AS 43.55.165(h)) that gives department authority to adopt regulations for allocating costs between oil and gas:
  - As recipients of confidential cost data they are in the best position to evaluate costs
  - A regulatory process allows more time
  - The regulatory process is public

BTU Equivalent Barrel (BOE) Approach

- Same approach that is currently embraced in departmental regulations (15 AAC 55.215)

- Mechanics (AS 43.55.900(3))
  - 1 barrel of oil = 1 BOE
  - 6 mmbtu's to the barrel
  - Gas mmbtu's / 6 = gas BOE's

- Rationale for BOE approach
  - The same costs that **produce** oil **produce** gas
  - Since **produced** together, costs are allocated based on amounts **produced**
  - BOE method: putting oil & gas on apples/apples basis in terms of relative **produced** volumes

Problems with Other Methods

- Item by item attribute
  - Inappropriate where costs are truly joint
- Dominant use (either all oil or all gas)
  - Inappropriate when large volumes of both produced
- Deemed approach (deemed one unless item is 100% the other)
  - Inappropriate when large volumes of both produced
- Reserves
  - Uncertain numbers / subject to taxpayer control
- Gross value
  - Upstream costs should not change with downstream prices

A Note on 15 AAC 55.220

- DOR's proposed regulation on AGIA uses the Gross value approach to allocate the total tax between oil and gas
- Allocating tax is different than allocating costs
- Gross value is a very material determinant of the differences in tax value between oil and gas
- Allocating tax by gross value for this purpose is reasonable

A Note on Allocation of Capital Costs Associated with Developing Pt. Thomson

- High development costs will be incurred prior to gas sales: these costs will be allocated against oil
- Pt. Thomson is also an oil (condensate) field (est. 300 million barrels)
- Could be developed such that it produces condensate years before it produces gas
- PPT/ACES were deliberately designed so that cost deductions and credits would be utilized immediately