QUALIFYING FOR THE AGIA UPSTREAM INDUCEMENTS

April 7, 2010

Alaska Department of Revenue

Qualification for AGIA Inducements

To qualify for any AGIA inducements under AS43.90.300, "producer-shippers" and "shippers buying from producers" must:

"Commit to acquire firm transportation capacity in the first binding open season"

AS 43.90.300

15 AAC 90.200 - 230

What is a binding commitment?

"Must commit to acquire firm transportation capacity in the first binding open season" means that one must:*

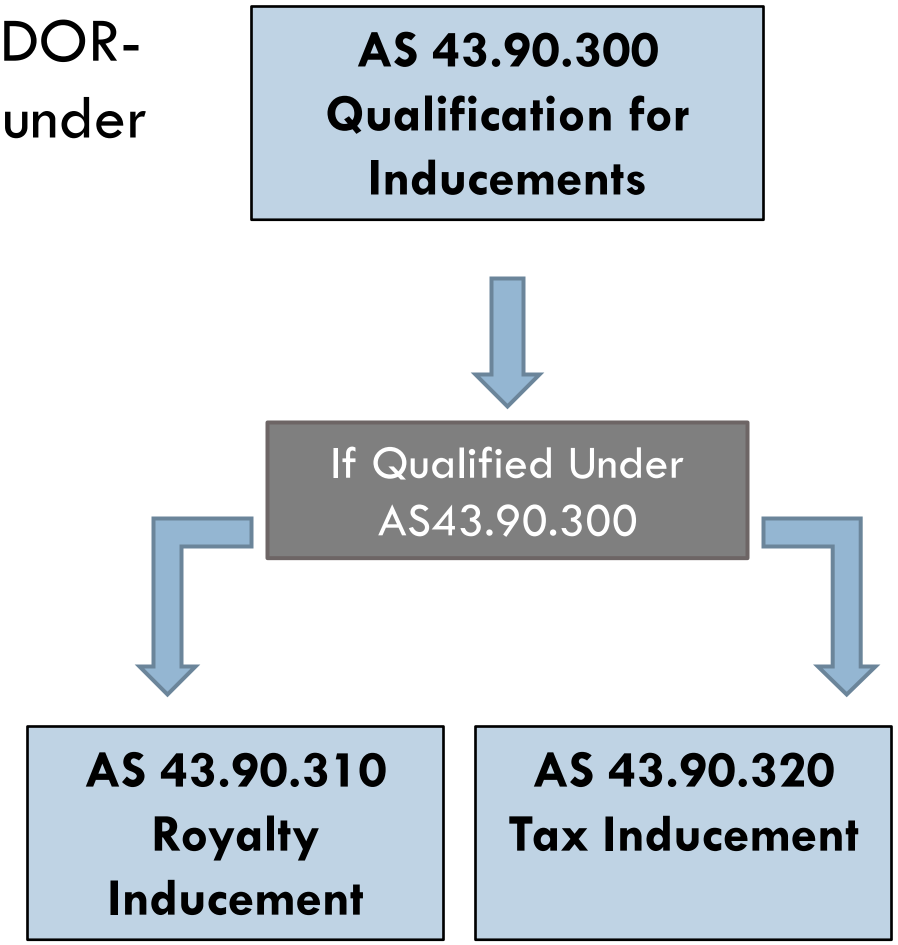
1. Submit a bid for firm transportation capacity during the initial open season;
2. Execute a Precedent Agreement within 180 days of close of initial open season;
3. Execute Transportation Services Agreement within 5 years of open season, or two years following FERC Certification, whichever is later; **and**
4. File with the DOR-DNR Commissioners:
   - Copies of documents listed above; and
   - Copy of rolled-in rate agreements governing pipeline expansions

15 AAC 90.200 - 230

*Summary only

Qualification for AGIA Inducements

Step 1: Producer-Shipper applies to DOR-DNR Commissioners for qualification under AS 43.90.300.



Steps 2 & 3: Producer-Shipper must comply with separate regulations to receive tax and royalty inducements

B

Gas Production Tax Exemption

(AGIA Tax Inducement)

Gas Production Tax Exemption

- AGIA entitles shippers to 10 years of 'tax certainty' from the commencement of operation, on gas which is committed during the initial open season on an AGIA gas pipeline.
- Certainty is provided in the form of a tax "exemption" (i.e. a credit)

Credit = [Gas production tax obligation <u>under law at time of production</u>] − [Gas production tax obligation <u>under law at open season</u>]

Identifying "gas production tax"

- The current Production Tax is calculated on combined oil and gas production, with combined oil and gas lease expenditures. So, we need to determine a "gas production tax obligation" for purposes of the .320 tax inducement.

- Regulations have been adopted to define an "Attributed Gas Production Tax Obligation" which is the proportion of the combined production tax that is deemed to be the "gas portion".

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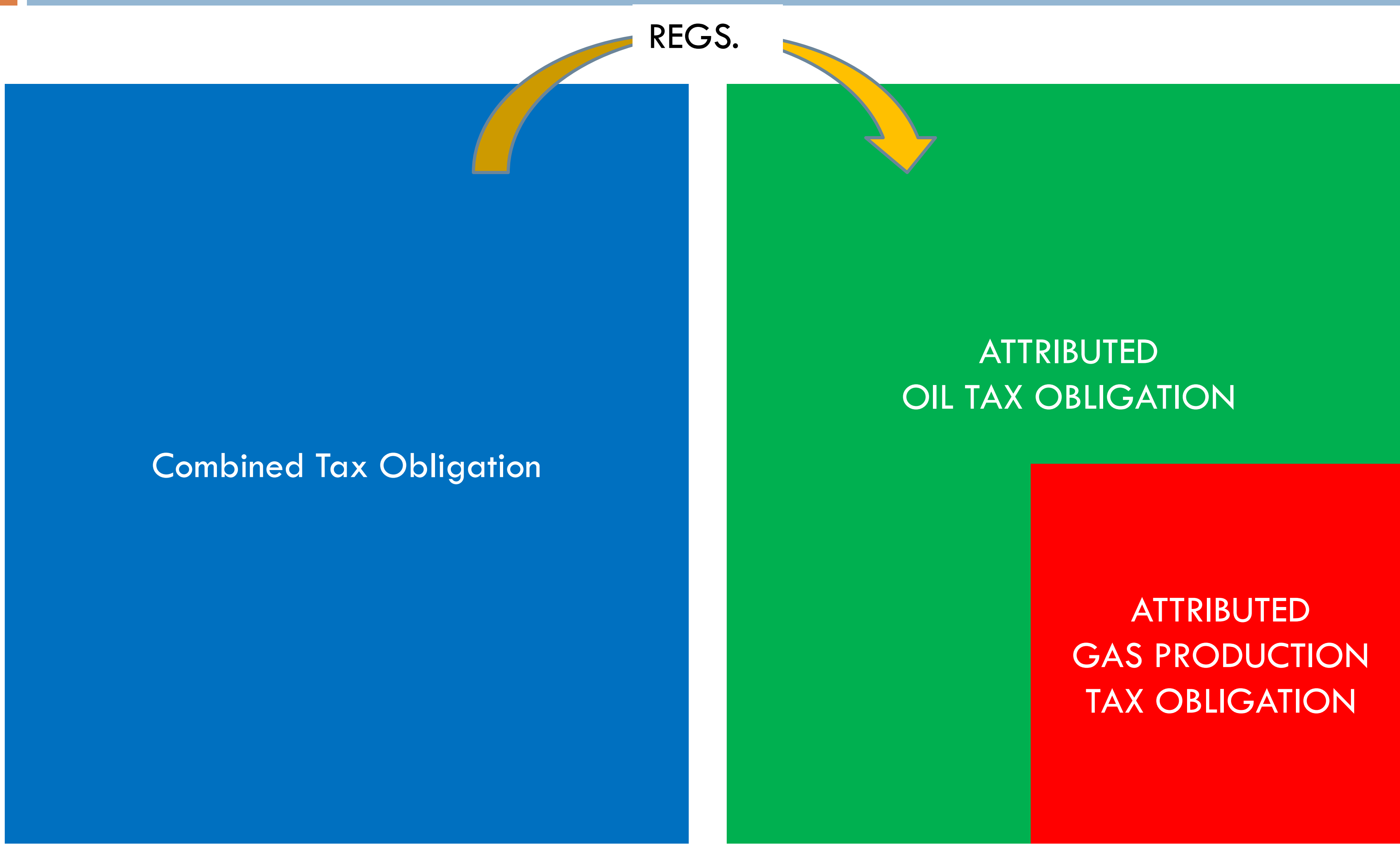
How is the .320 Gas Production Tax Obligation calculated?

$$\text{Combined Tax Obligation} \;*\; \frac{\text{Gross Value of } \underline{\text{AGIA Gas}} \text{ at the Point of Production}}{\text{Gross Value of all } \underline{\text{Oil and Gas}} \text{ at the Point of Production}}$$

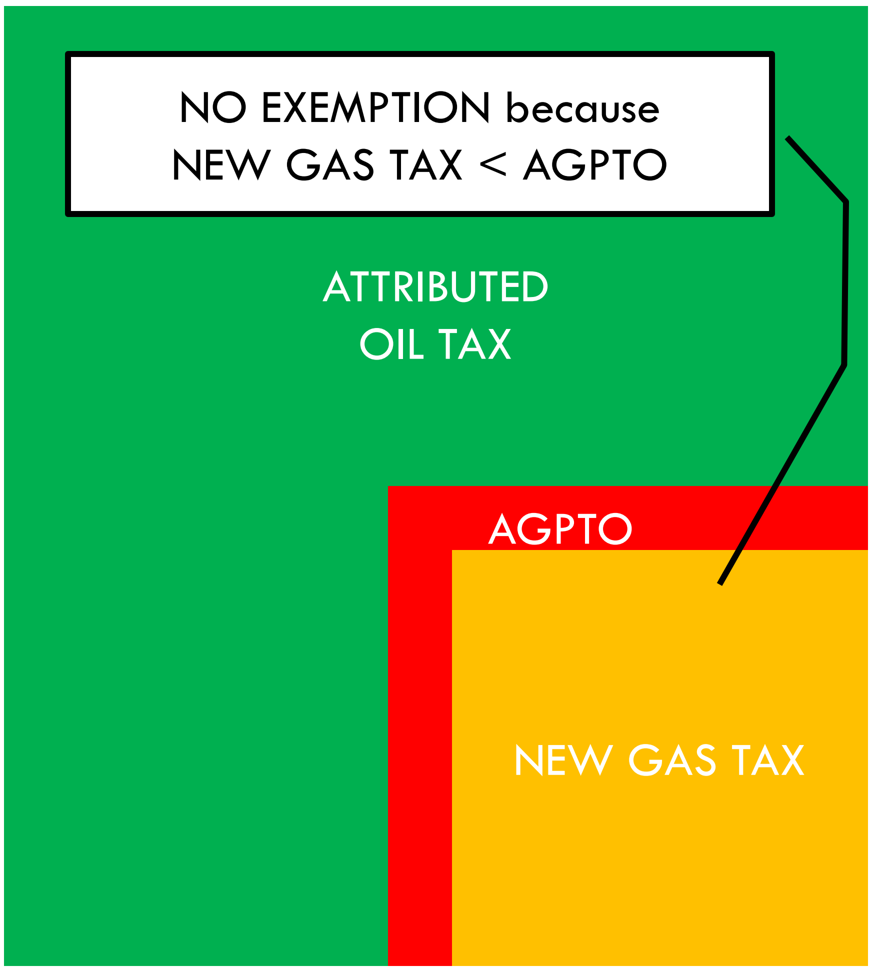
	Oil	Gas	Total
Gross Value at the Point of Production (PoP)	**$4,500**	**$1,500**	**$6,000**
Proportionate Value at the PoP	**75%**	**25%**	**100%**
Combined Tax Obligation	*NA*	*NA*	**$1,000**
Attributed Gas Production Tax Obligation *(25% x $1000)*	*NA*	**$250**	*NA*

Illustration

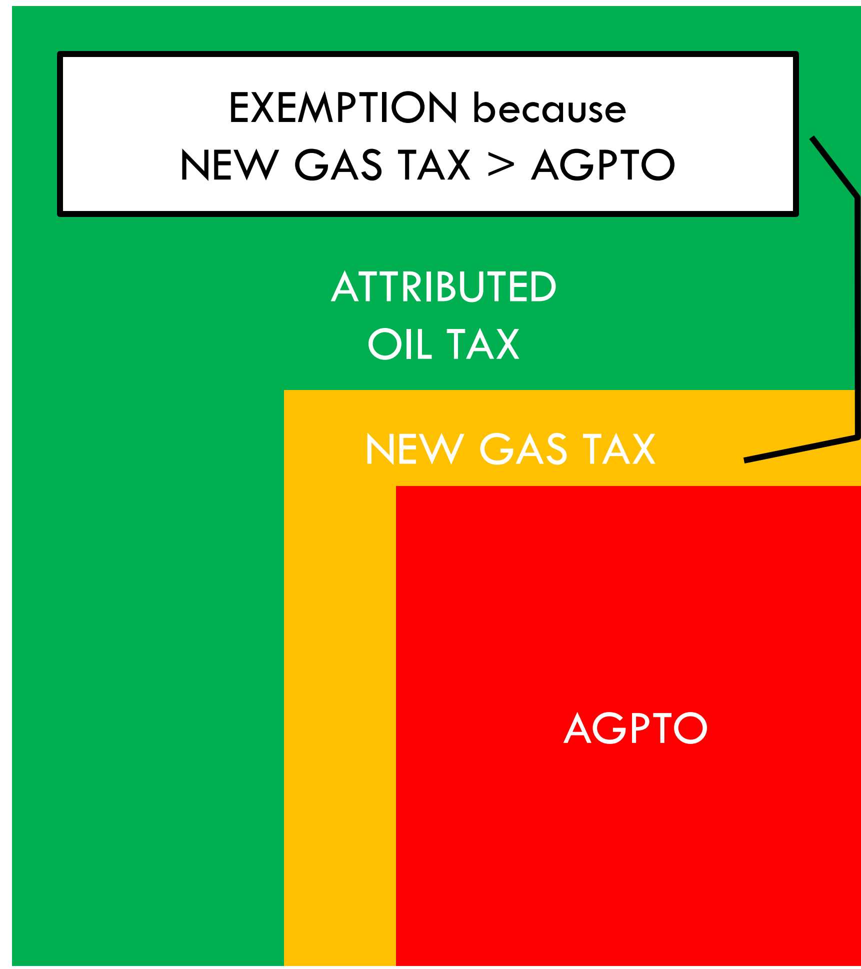


Exemptions (Credits) are granted when the New Gas Tax is higher than the Attributed Gas Production Tax Obligation (AGPTO).

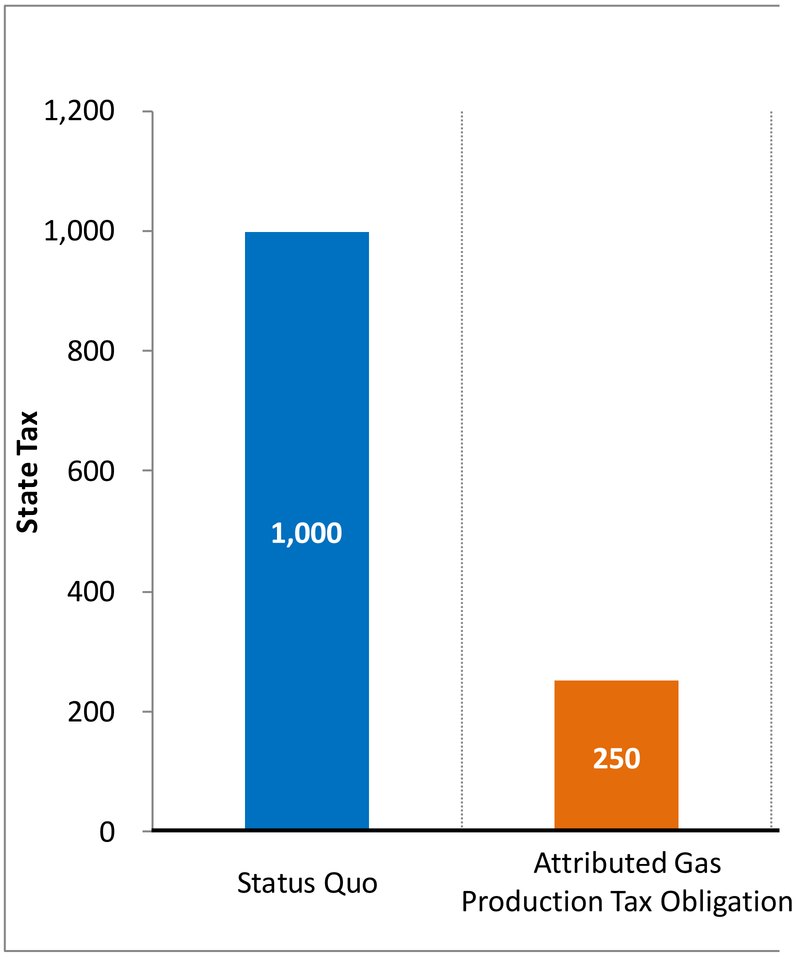
EXAMPLE 1 – NO EXEMPTION



EXAMPLE 2 – EXEMPTION



Example 1 – No exemption



- The Producer's deemed tax liability is calculated under the Combined Oil and Gas tax regime in effect on the April 30, 2010.
- The Producer's Attributed Gas Production Tax Obligation is the Status Quo tax multiplied by the ratio of Value of AGIA Gas at the PoP over the total oil and gas value at the PoP.

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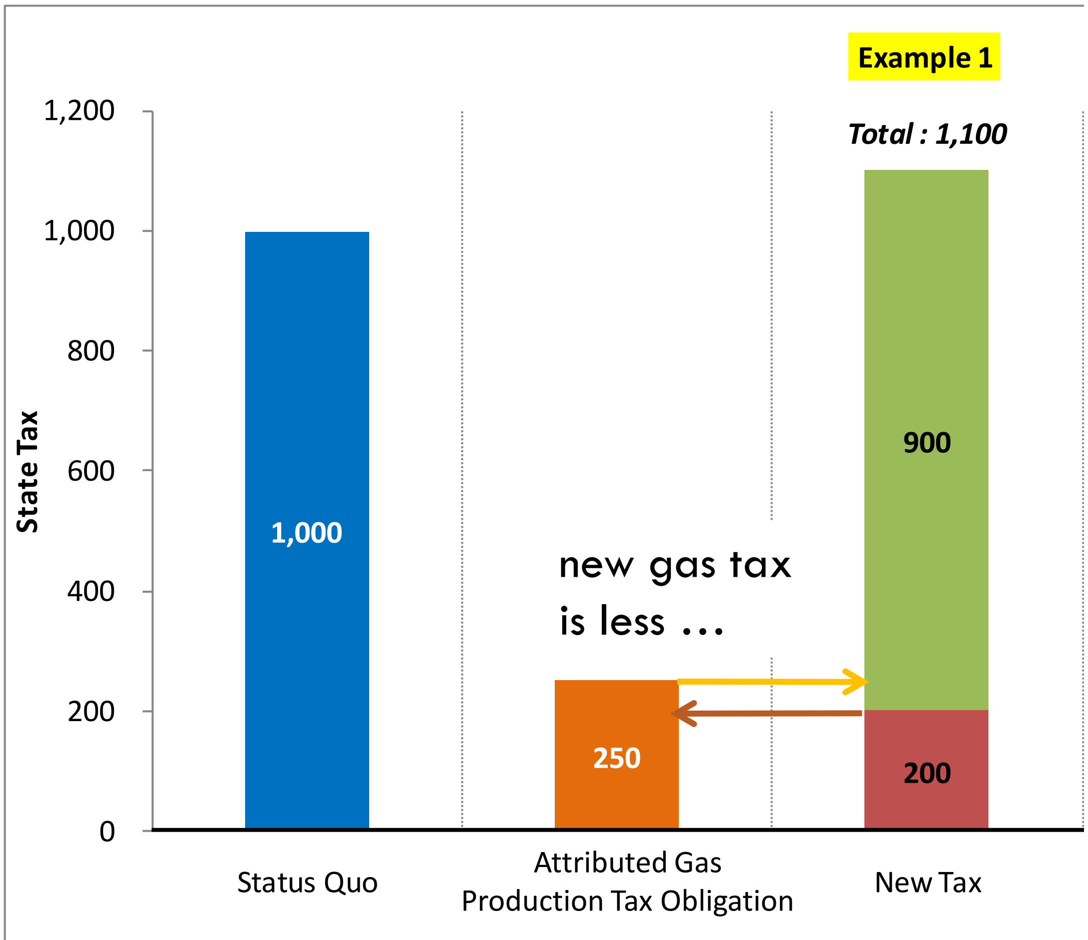
Example 1 – No exemption



- The Attributed Gas Production Tax Obligation is then compared to the gas tax under the tax regime in effect at that time.
- If the new gas tax is less than the AGPTO, no exemption is created…

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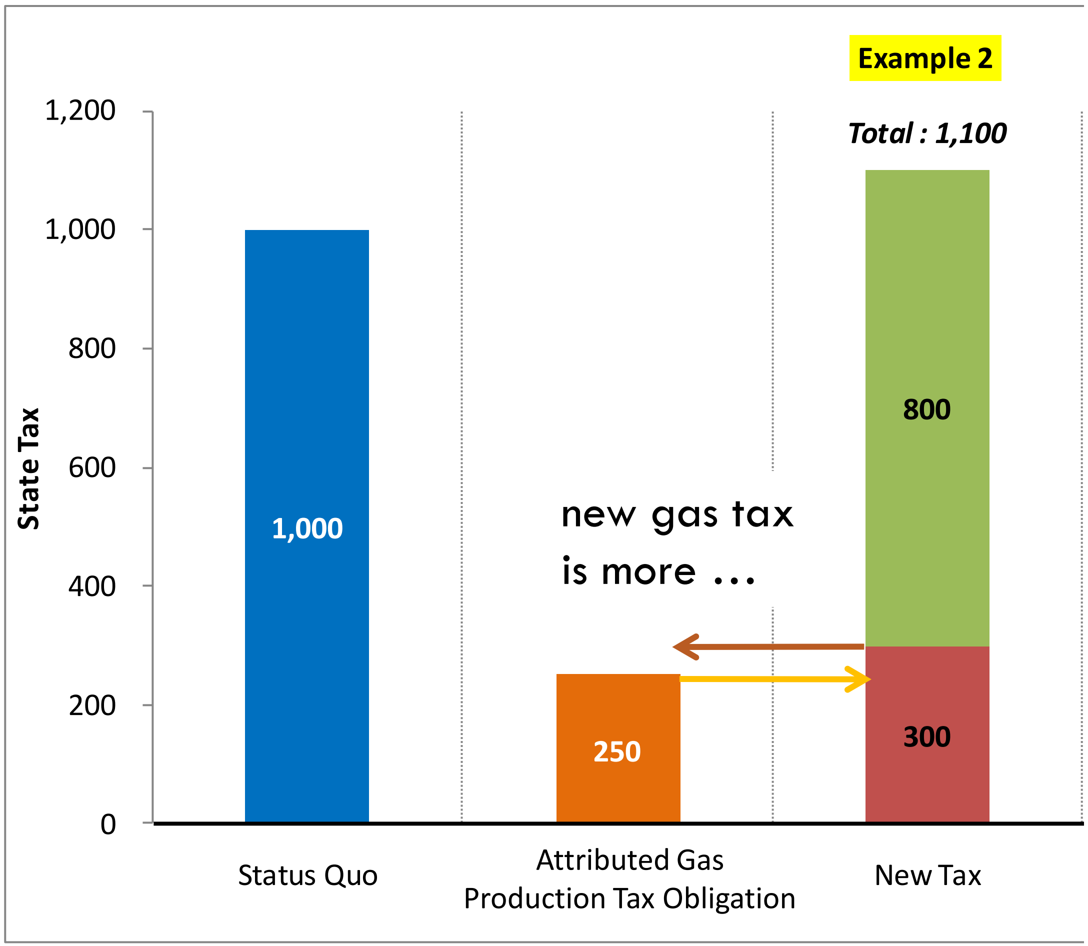
Example 2 – Exemption Created



- The Attributed Gas Production Tax Obligation is compared to the gas tax under the tax regime in effect at that time.
- If the new gas tax is <u>more</u> than the AGPTO, an exemption is created…

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