

SB 350: Notes on Operation of Tax

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House Resources Committee
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Example Cases

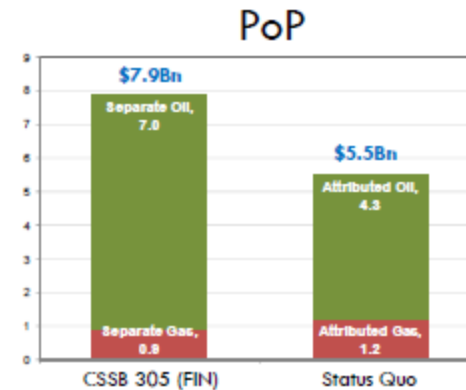
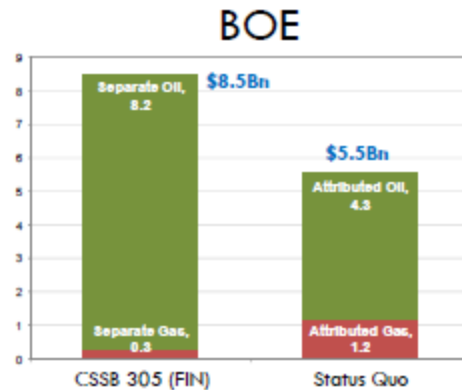
State Production Tax Revenue

Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d

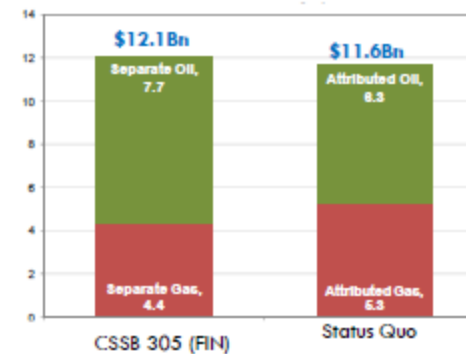
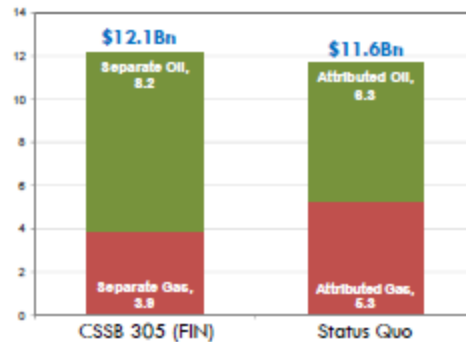
Capex: \$2.2Bn and Opex: \$2.2Bn

8

\$120/\$8
(15:1)

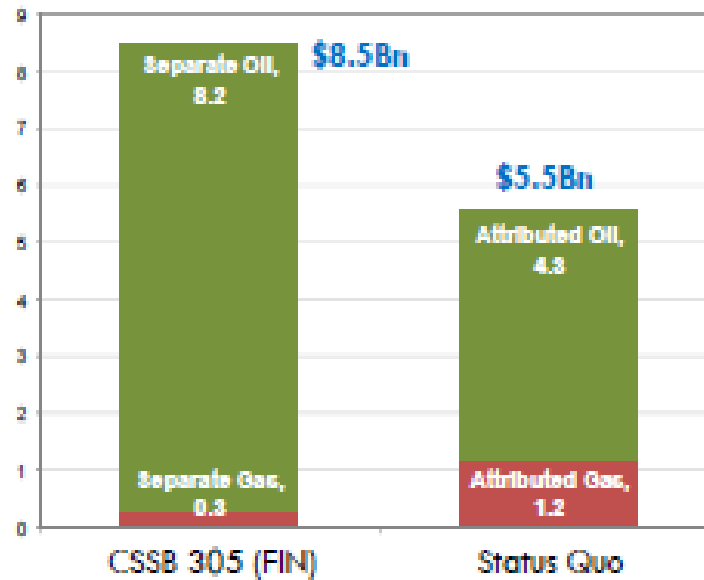


\$120/\$15
(8:1)



\$120/\$8
(15:1)

BOE



	OIL AND GAS TAXES COMBINED (STATUS QUO)		
	oil	gas	combined
price (\$/bbl or \$/mmbtu)	\$120.00	\$8.00	
transportation cost (\$/bbl or \$/mmbtu)	\$6.50	\$4.50	
gross value (\$/bbl or \$/mmbtu)	\$113.50	\$3.50	
volume (bbls/day pr mcf/day)	500,000	4,500,000	
BTU barrel of oil equivalents (BOE's)	500,000	750,000	
annual BOE's	182,500,000	273,750,000	456,250,000
total gross value	\$20,713,750,000	\$5,748,750,000	\$26,462,500,000
non-royalty gross value			\$23,154,687,500
costs			\$4,400,000,000
net value			\$18,754,687,500
net value p/boe			\$46.98
tax rate (base 25% rate plus progressivity)			0.3179
tax before credits			\$5,962,375,740
credits			\$440,000,000
tax			\$5,522,375,740
DOR GAS TAX ALLOCATION METHODOLOGY (15 AAC 55.220)			
Proportion of Gross Value	0.78	0.22	
Attributed Gas Tax	\$4,322,687,217	\$1,199,688,523	

Attributed Gas Tax per DOR AGIA Regulations (15 AAC 55.220)

- AGIA tax inducement only applied to gas
- Since current tax is combined with oil it was necessary to ascribe that portion which is gas
- Regulation allocates tax based on relative gross value
 - Allocating tax is different than allocating costs
 - Gross value is a very material determinant of the differences in tax value between oil and gas

	OIL AND GAS TAXES DECOUPLED		
	oil alone	gas alone	total
price (\$/bbl or \$/mmbtu)	\$120.00	\$8.00	
transportation cost (\$/bbl or \$/mmbtu)	\$6.50	\$4.50	
gross value (\$/bbl or \$/mmbtu)	\$113.50	\$3.50	
volume (bbls/day or mcf/day)	500,000	4,500,000	
BTU barrel of oil equivalents (BOE's)	500,000	750,000	
annual BOE's	182,500,000	273,750,000	
total gross value	\$20,713,750,000	\$5,748,750,000	
non-royalty value	\$18,124,531,250	\$5,030,156,250	
costs (allocated by BOEs)	\$1,760,000,000	\$2,640,000,000	
net value	\$16,364,531,250	\$2,390,156,250	
net value p/boe	\$102.48	\$9.98	
tax rate (base 25% rate plus progressivity)	0.5399	0.25	
tax before credits	\$8,835,437,796	\$597,539,063	
credits	\$176,000,000	\$264,000,000	
tax	\$8,659,437,796	\$333,539,063	\$8,992,976,858

Implication

- Alone
 - Gas net value p/boe = \$9.98/boe
 - Gas net value p/mmbtu = \$1.66/mmbtu
- Combined
 - Gas net value p/boe = \$46.98/boe
 - Gas net value p/mmbtu = \$7.83/mmbtu
- Result: under status quo gas with a value of \$1.66 will be taxed as if it had a value of \$7.83

Combining under Current Law

- Combining oil and gas dilutes the oil tax down
- It also “dilutes” the gas tax up
- Fiscal stability is only good if what is being stabilized is good
- Locking in a rate that may be too high negates the value of the AGIA inducement and may not be healthy for the project
- Underscores the problem of combining substances of vastly different values for taxation

Power of Status Quo

- Current dilution effect is clear
- Future discussions
 - Same producers who produce gas produce oil
 - Issue will move beyond gas
 - If the state becomes unhappy with gas taxes - can extract value from producers through oil tax increases
 - Oil taxation will predictably be part of discussion
- Status quo (whatever it is at the time) will inevitably become frame of reference for evaluation