Overview of Cook Inlet Production Tax Structure and Incentives

Presentation to the
Senate Resources Committee
October 20, 2011
Alaska Department of Revenue

Cook Inlet Production Tax Structure

- **Production Tax is lower of ACES and ELF**
  - **ELF ceiling limits production tax liability**
  - **ELF on oil production is zero, so no production tax paid on oil**
  - **ELF ceiling generally limits tax on gas to an average of $0.177 per mcf**

Sample Tax Calculation on Cook Inlet Gas

ACES TAX CALCULATION

Taxable mcf/day	20,000
Days per month	30
Total taxable mcf	600,000
Wellhead value in $/mcf	$5
Wellhead value in $/month	$3,000,000
Total opex	$125,000
Total capex	$20,000
Production tax value (PTV)	$2,855,000
Taxable gas in BTU eq barrels	100,000
PTV per BTU eq barrel	$28.6
Base tax rate	25%
Progressive tax rate	0
ACES tax before credits	**$713,750**

ELF TAX CEILING CALCULATION

Taxable mcf/day	20,000
Days per month	30
Total taxable mcf	600,000
ELF tax limit per mcf	$0.177
ELF tax ceiling	**$106,200**

Production Tax Payable is Lower of ACES tax and ELF tax ceiling - ELF Tax ceiling provides tax benefit of more than $600,000!!

Cook Inlet Oil and Gas Incentives

- **Production Tax Credits**
  - **Qualified capital expenditure credit**
  - **Carry-forward loss credit**
  - **Well lease expenditure credit**
  - **Small Producer credit**
  - **Alternative credit for exploration**
  - **Jack-up rig credit**
  - **Gas storage facility credit**

Cook Inlet Oil and Gas Incentives

- **Credits under AS 43.55.023**
  - **Section (a)(1) 20% credit for qualified capital expenditures (excluding well lease expenditures)**
  - **Section (a)(2) 20% for qualified capital expenditures (except for well lease expenditures) incurred in connection with G&G exploration or exploration well, requires data**
  - **Section (b) 25% carried forward annual loss credit.**

Cook Inlet Oil and Gas Incentives

- **Credits under AS 43.55.023 (cont'd)**
  - **Section (l)(1) 40% credit for well lease expenditures which are intangible drilling costs.**
  - **Section (l)(2) 40% for well lease expenditures incurred in connection with G&G exploration or exploration well**

Cook Inlet Oil and Gas Incentives

- **Credits under AS 43.55.024**
  - **Section (c) Small Producer Credit**
  - **Up to $12 million based on average daily production.**
  - **Production under 50 mbd, eligible for 100% pro-rated to zero from 50 to 100 mbd.**
  - **Credit can only be applied against tax liability.**
  - **Cannot be carried forward**

Cook Inlet Oil and Gas Incentives

- **Credits under AS 43.55.025**
  - **Alternative tax credit for oil and gas exploration commonly referred to as "Exploration tax Credit"**
  - **30% or 40% credit for G&G exploration or drilling an exploration well based on certain conditions**
  - **Requires data be given to DNR**

Cook Inlet Oil and Gas Incentives

- Credits under AS 43.55.025
  - Section (l) Cook inlet Jack-up Rig credit
  - Eligible to the first three unaffiliated persons using the same jack-up rig that drill an offshore exploration well
  - Credit of 100% / 90% / 80% respectively of up to $25 million of exploration expenditures
  - 50% of credit to be repaid if exploration activity credited results in sustained production

Cook Inlet Oil and Gas Incentives

- **Credits under AS 43.20.046**
  - **Cook Inlet Gas Storage credit applicable against the State Corporate Income Tax**
  - **Credit equal to $1.50 per mcf of working gas storage capacity up to lesser of $15 million or 25% of start-up**
  - **Storage facility must have working gas storage capacity of at least 500 million cubic feet and withdrawal capacity of 10 million cubic feet per day**

Overview of Cook Inlet Production Tax Structure and Incentives

Questions?