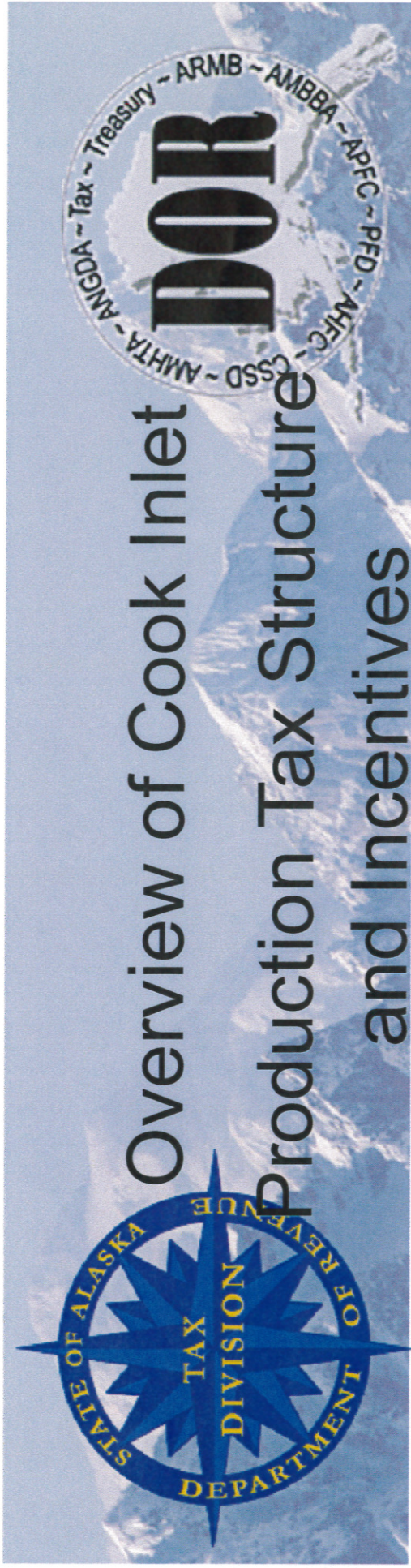




Overview of Cook Inlet Production Tax Structure and Incentives

*Presentation to the
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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 (1)(1) 40% credit for well lease expenditures which are intangible drilling costs.
 - Section (1)(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 (I) 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?