



THE STATE  
*of* **ALASKA**  
GOVERNOR MIKE DUNLEAVY

## Department of Revenue

### COMMISSIONER'S OFFICE

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March 30, 2023

The Honorable Click Bishop  
Senate Resources Committee, Co-Chair  
Alaska State Legislature  
State Capitol, Room 504  
Juneau, AK 99801

The Honorable Cathy Giessel  
Senate Resources Committee, Co-Chair,  
Alaska State Legislature  
State Capitol, Room 457  
Juneau, AK 99801

Dear Co-Chairs Bishop and Giessel,

Thank you for the opportunity to respond to the questions asked during the Department of Revenue's presentation on the Tax Structure of Cook Inlet to the Senate Resources Committee on February 8, 2023. As previously discussed with you, we waited to provide these answers until after the Spring 2023 forecast had been released. We also look forward to addressing the Cook Inlet questions before the committee on March 31, 2023. Please find below the questions and corresponding responses.

#### **1. Provide information about the split of profits between stakeholders in Cook Inlet.**

See Slides 18-21 of the attached presentation. We have provided estimated distribution of profits for Cook Inlet in FY 2024 per the Spring 2023 forecast. Key assumptions, listed on Slide 14, include assuming a single taxpayer on state land. The estimated distribution of profits is shown for oil, gas, and combined on a barrel of oil equivalent (BOE) basis. Further, we show the analysis with and without state corporate income tax, to acknowledge that only some producers in Cook Inlet are subject this tax. While the examples illustrate the distribution of profits for typical production, some companies and fields will have a higher or lower tax burden than indicated by these aggregate calculations.

**2. Provide an illustration of the “order of operations” for calculation of Cook Inlet production tax.**

See Slides 15-17 of the attached presentation. We have provided an overview of the production tax calculation, based on an aggregate calculation. While the example illustrates the mechanics of how the production tax is calculated, Cook Inlet taxes are applied on a field-by-field basis, so each field has a separate tax calculation for each owner. Some fields will have a higher or lower tax burden than indicated by this aggregate calculation.

**3. Provide information about tax credits received for investment in Cook Inlet, the value to the state for those credits, and an evaluation of whether the tax credits “worked.”**

Slide 12 of the attached presentation shows a history and forecast of Non-North Slope tax credits. Non-North Slope represents primarily Cook Inlet but also includes a small amount of Middle Earth credits which are aggregated with Cook Inlet to protect confidentiality. Slides 10 and 11 of the attached presentation show that there were increases in production and lease expenditures following expansion of tax credits following the “Cook Inlet Recovery Act” passed in 2010. Slides 13 and 14 of the attached presentation provide key statistics including an analysis of the amount of production and investment from companies receiving state purchase of tax credits.

In retrospect, the generous tax credits made available for Cook Inlet in the early 2010’s correlated with additional investments in Cook Inlet. Some of those investments led to additional exploration, development, and production. In that sense, the credits likely “worked.”

Note, some of the financial and production benefits of the tax credits may be yet to come, in the form of future production. Also, an additional benefit to the state was data sharing requirements attached to the credits. Valuable geologic data was provided to the Department of Natural Resources and later made available for access by producers and new entrants.

**4. Provide information about incentives in Cook Inlet.**

Slides 22-24 of the attached presentation provide information about incentives in Cook Inlet. We provide a history of recent incentives, a summary of current incentives, and a list of potential options for future incentives. Note, the list of potential future incentives does not represent a recommendation or an exhaustive list and is intended for illustrative and discussion purposes.

**5. Provide detailed fiscal analysis regarding the potential impacts of the Willow Project on state revenue.**

See the attached Willow Fiscal Analysis, released March 23, 2023. The Department would be available to present this analysis to the committee at a later date, if desired.

The Willow analysis includes numerous assumptions, including construction beginning in 2024 and production beginning in 2029. In this analysis, the estimated total revenue impacts to the state are -\$362 million over the first five years, but recovering once production begins, reaching an estimated \$925 million over the first ten years of the project.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Adam Crum', with a stylized, cursive script.

Adam Crum  
Commissioner-Designee

**Attachments:**

Cook Inlet Update presentation to Senate Resources Committee, dated March 31, 2023

Willow Project Fiscal Analysis – Spring 2023 Update, dated March 23, 2023