

Cook Inlet Update

House Resources Committee

Department of Revenue

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Acronyms

ANS – Alaska North Slope

AOGCC – Alaska Oil and Gas Conservation
Commission

Avg – Average

Bbl – Barrel

BOE – Barrels of Oil Equivalent

CI – Cook Inlet

CIT – Corporate Income Tax

CY – Calendar Year

DNR – Department of Natural Resources

DOR – Department of Revenue

FY – Fiscal Year

GVPP – Gross Value at Point of Production

mcf – Thousand cubic feet

mmcf – Million cubic feet

PTV – Production Tax Value

Ths – Thousands



Agenda

- Oil and Gas Revenue Sources
 - Petroleum Revenue by Land Type
 - Production tax with January 1, 2022 changes
 - FY 2021 – FY 2025 Cook Inlet oil and gas revenues
- Cook Inlet Oil and Gas Prices and Production
- Non-North Slope Lease Expenditures
- Non-North Slope Tax Credits
- Cook Inlet Production Tax “Order of Operations”
- Cook Inlet Distribution of Profits
- Cook Inlet Incentives



Disclaimer

- Alaska's severance tax is one of the most complex in the world and portions are subject to interpretation and dispute.
- These numbers are rough approximations based on public data, as presented in the Spring 2023 Revenue Sources Book and other revenue forecasts.
- This presentation is solely for illustrative general purposes.
 - Not an official statement as to any particular tax liability, interpretation, or treatment.
 - Not tax advice or guidance.
- Some numbers may differ due to rounding.



Oil and Gas Revenue Sources

- Royalty – based on gross value of production
 - Plus bonuses, rents, and interest
 - Paid to Owner of the land: State, Federal, or Private
 - Usually 12.5% in Cook Inlet, but rates vary
- Corporate Income Tax – based on net income
 - Paid to State (9.4% top rate)
 - Paid to Federal (21% top rate)
 - Only C-Corporations* pay this tax
- Property Tax – based on value of oil & gas property
 - Paid to State (2% of assessed value or “20 mills”)
 - Paid to Municipalities – credit offsets state tax paid (so 2% combined total)
- Production Tax – based on “production tax value”
 - Paid to State – calculation to follow



* C-Corporation is a business term that is used to distinguish the type of business entity, as defined under subchapter C of the federal Internal Revenue Code.

State Petroleum Revenue by Land Type

| Land Lease Status | Revenue Component | | | |
|--|---|---|--|-------------------------------------|
| | Production Tax / Credits | Royalty | Corporate Income Tax | Property Tax |
| Offshore beyond 6 miles Federal OCS | Does not apply | Federal royalties applies; zero shared back to state (in Alaska; other states do receive shared royalties) | Not included in apportionment factor | Does not apply |
| Offshore 3-6 miles Federal OCS 8(g) area | Does not apply | Federal royalties applies; 27% shared back to state with no restrictions | Not included in apportionment factor | Does not apply |
| State Lands | All credits available; tax applies to all taxable production | State royalty applies | All property, production, and sales included in apportionment factor | Applies to all oil and gas property |
| NPR-A Federal owned | All credits available; tax applies to all taxable production | Federal royalty applies; 50% of royalties are shared back to state but must be used for benefit of local communities | All property, production, and sales included in apportionment factor | Applies to all oil and gas property |
| ANWR Federal owned | All credits available; tax applies to all taxable production | Federal royalty applies; 50% shared back to state with no restrictions (under current law)* | All property, production, and sales included in apportionment factor | Applies to all oil and gas property |
| Other Federal Land | All credits available; tax applies to all taxable production | Federal royalties applies; 90% shared back to state with no restrictions | All property, production, and sales included in apportionment factor | Applies to all oil and gas property |
| Private Land (including Alaska Native Corporations) | All credits available; tax applies to all taxable production | Privately negotiated royalty applies; not shared with state. However state levies 5% gross tax on the value of private landowner royalty interest as part of production tax | All property, production, and sales included in apportionment factor | Applies to all oil and gas property |



Cook Inlet Production Tax: Before and Starting January 1, 2022

| | Before January 1, 2022 | | On or After January 1, 2022 | |
|---|---------------------------------------|-----------------|---------------------------------------|-----------------|
| Provision | Oil | Gas | Oil | Gas |
| Base Tax Rate | 35% of PTV | 35% of PTV | 35% of PTV | 13% of GVPP |
| Tax Ceiling - pre - 4/1/2006 fields | \$1 per barrel | Varies by field | \$1 per barrel | Varies by field |
| Tax Ceiling - post - 4/1/2006 fields | \$1 per barrel | 17.7 cents/ mcf | \$1 per barrel | 17.7 cents/ mcf |
| Lease Expenditures | Allocated between oil and gas | | All expenditures against oil | |
| Tax Credits | Most tax credits repealed Jan 1, 2018 | | Most tax credits repealed Jan 1, 2018 | |
| Ring Fencing | Separate calculation for each field | | Separate calculation for each field | |



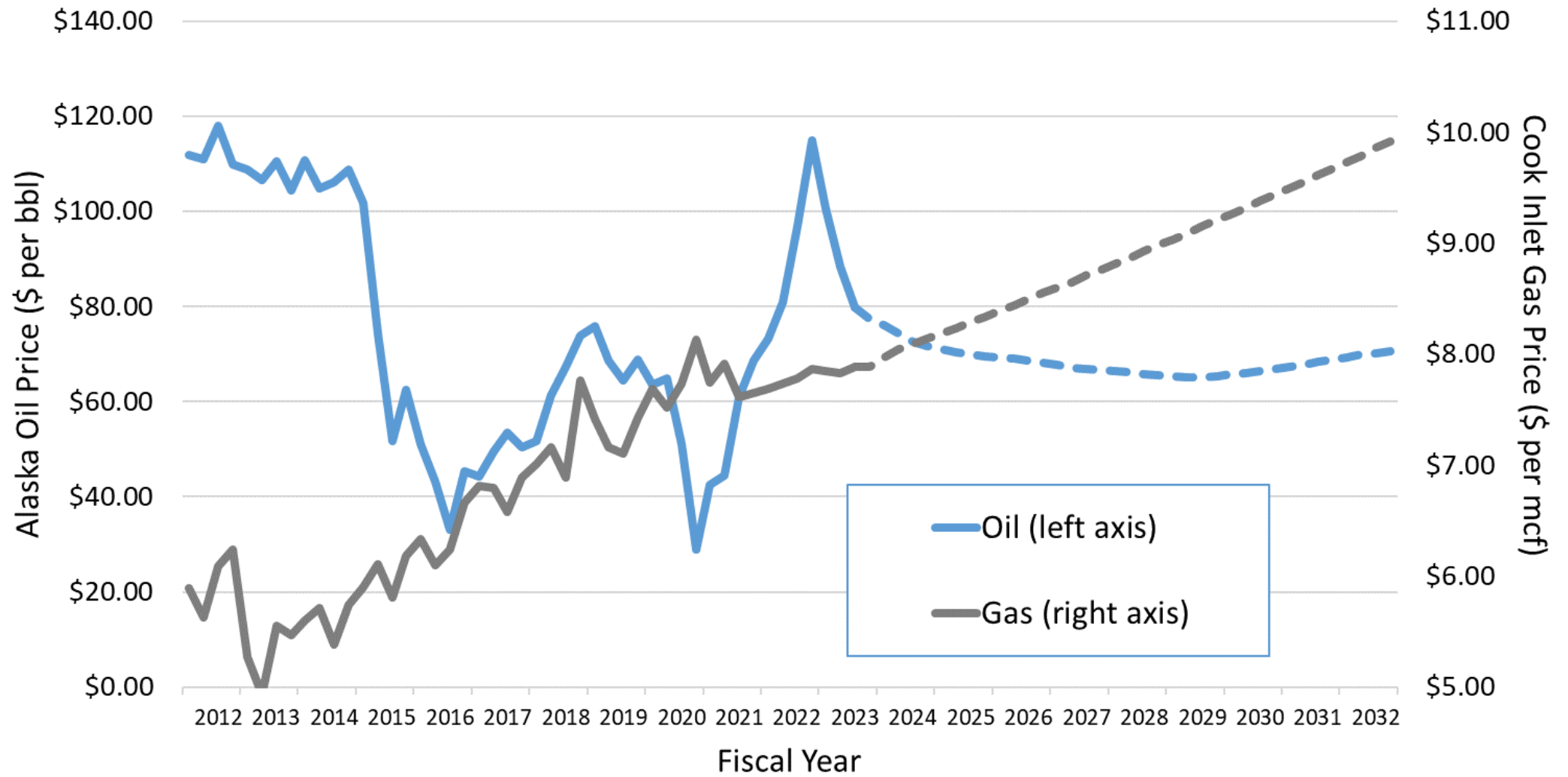
Cook Inlet Oil and Gas Revenue: Five-Year Comparison

| | History | History | Current Year | Forecast | Forecast |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
| CI Oil price (\$/bbl) | \$ 54.14 | \$ 91.41 | \$ 85.25 | \$ 73.00 | \$ 70.00 |
| CI Oil production (ths bbl/ day) | 10.6 | 9.4 | 8.9 | 8.0 | 8.4 |
| CI Gas price (\$/mcf) | \$ 7.73 | \$ 7.77 | \$ 7.86 | \$ 8.06 | \$ 8.26 |
| CI Gas production (mmcf/ day) | 222.0 | 203.7 | 211.7 | 195.6 | 201.3 |
| Property Tax | \$ 15 | \$ 15 | \$ 16 | \$ 15 | \$ 15 |
| Corporate Income Tax | \$ 4 | \$ 13 | \$ 10 | \$ 11 | \$ 9 |
| Production Tax | \$ 1 | \$ 3 | \$ (0) | \$ 5 | \$ 6 |
| Royalties | \$ 46 | \$ 58 | \$ 69 | \$ 60 | \$ 63 |
| Total | \$ 66 | \$ 90 | \$ 95 | \$ 92 | \$ 92 |



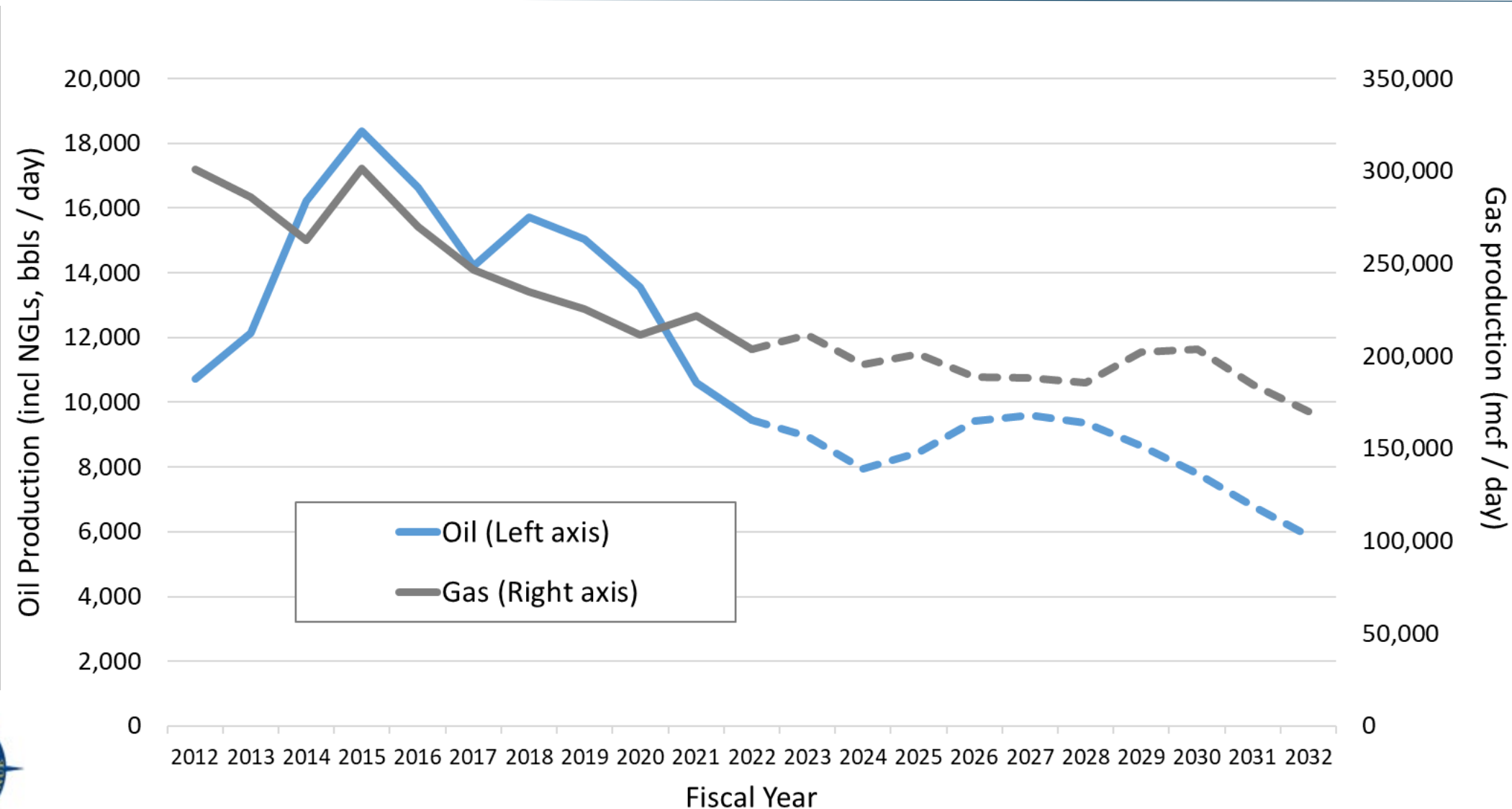
Notes: Numbers may not add exactly due to rounding. Revenue amounts in \$ millions. ANS oil price is used as a proxy for CI oil price. CI gas price is based on prevailing value and assumes flat real prices for the forecast. Property Tax does not include municipal share. Corporate Income Tax represents total non-North Slope. Royalties include bonuses and rents but not interest and include only revenue from state managed lands and include Permanent Fund/ School Fund shares.

Cook Inlet Oil and Gas Prices

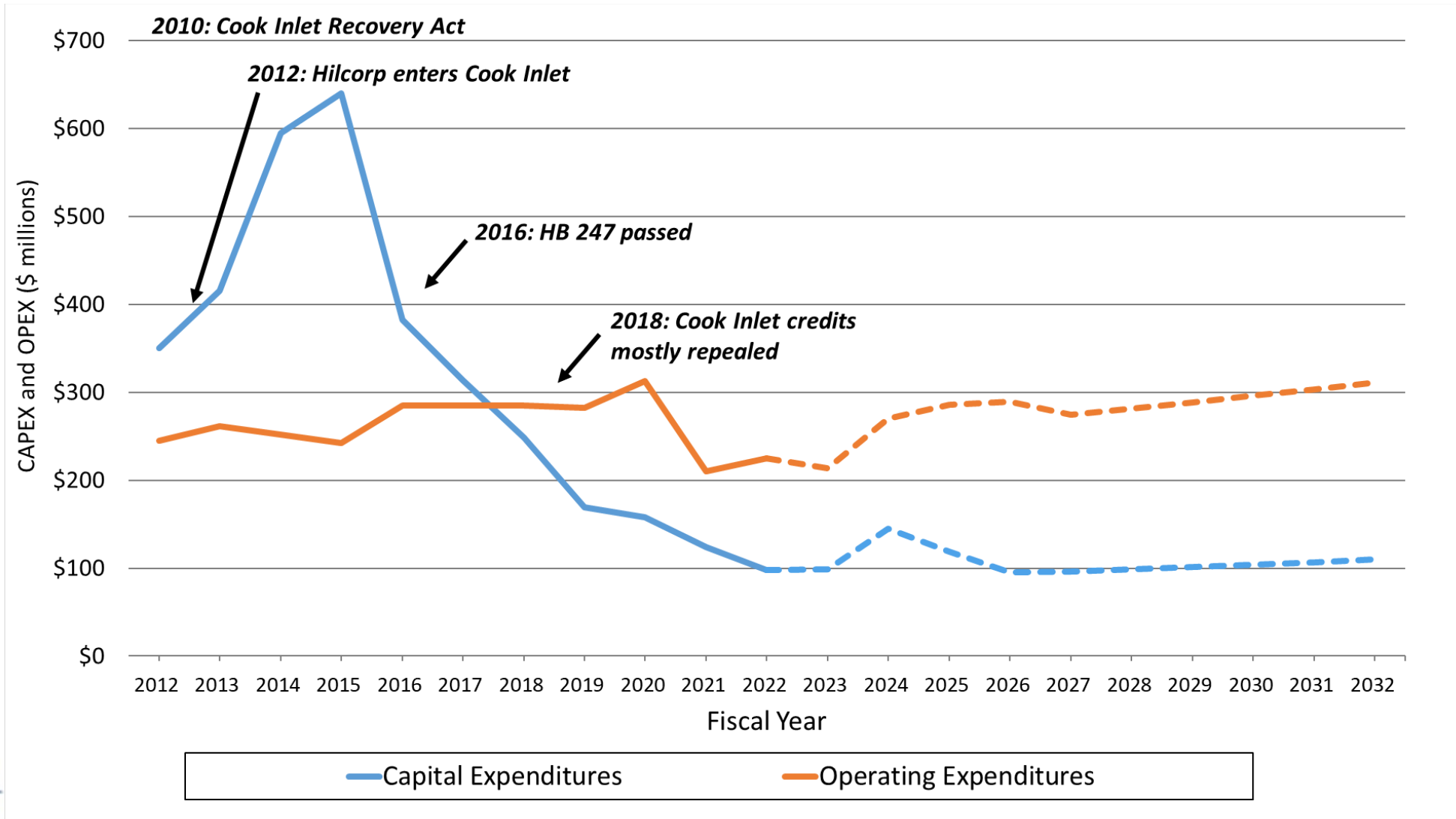


Cook Inlet gas price is not explicitly forecasted; forecast assumes constant real price.

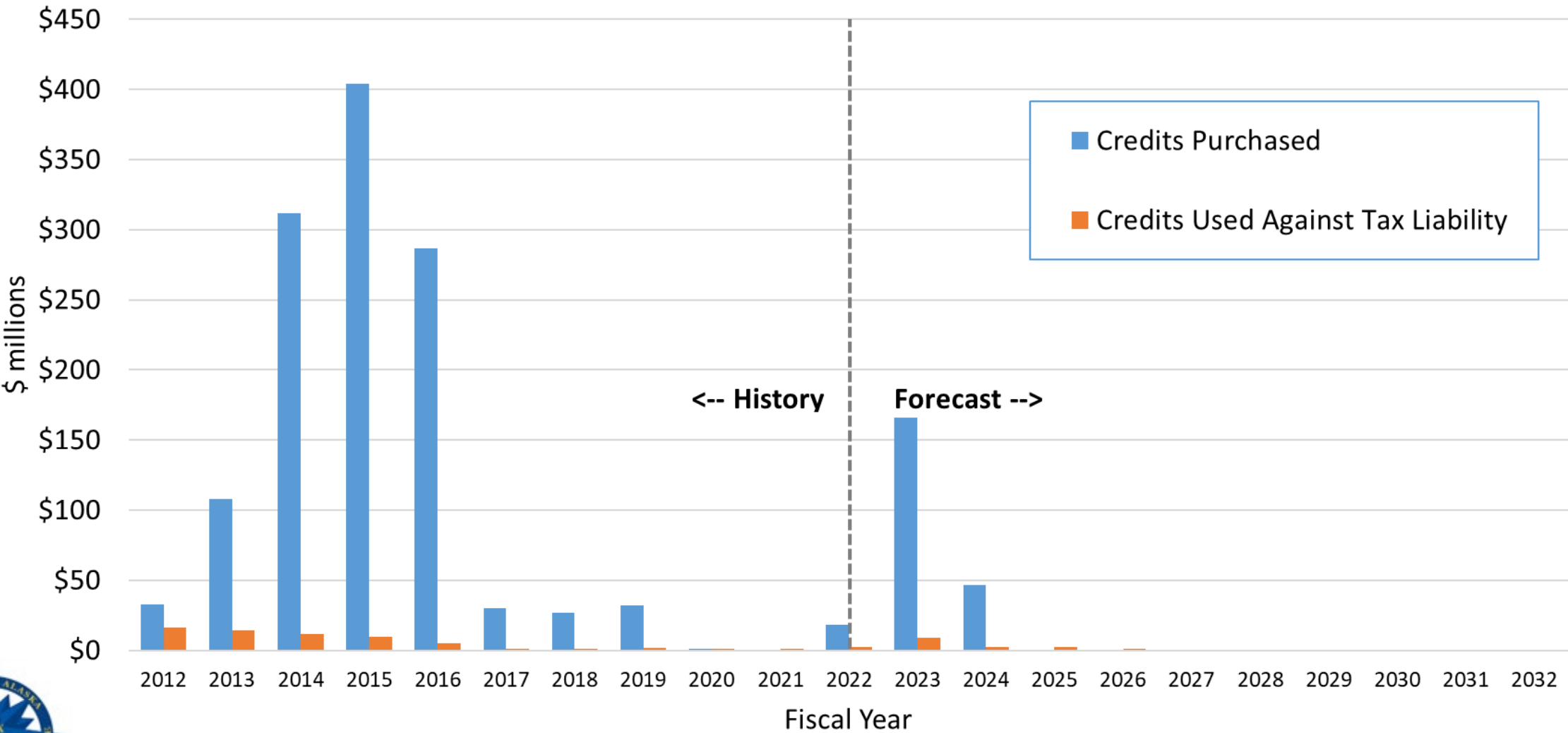
Cook Inlet Oil and Gas Production



Non-North Slope Lease Expenditures



Non-North Slope Tax Credits



Non-North Slope Tax Credits: Key Statistics

- FY 2007 through FY 2022, \$0.1 billion of credits applied against production tax liabilities
- FY 2007 through CY 2022, \$1.6 billion of credits earned and eligible for state purchase
 - \$1.4 billion purchased through end of CY 2022
 - \$88 million transferred to other companies through end of CY 2022
 - \$149 million outstanding as of end of CY 2022
- Legislative action has eliminated most Cook Inlet credits:
 - Qualified Capital Expenditure Credit, Well Lease Expenditure Credit, Net Operating Loss Credit all repealed January 1, 2018.
 - Eligibility for In-State Refinery and LNG Storage Facility Credits ended January 1, 2020.
 - Small Producer Credit remains: applicable to tax liability only, phasing out completely by 2024.



Non-North Slope Tax Credits: Correlation with Company Activity

- For the \$1.4 billion of credits purchased through CY 2022:
 - Non-North Slope lease expenditures for companies receiving the credits totaled \$5.7 billion through CY 2022
 - Credit support averaged 24% of lease expenditures
 - \$1.1 billion to companies with production by the end of CY 2022 (includes production by acquiring companies)
 - Total Non-North Slope production through CY 2022 of 180 million BOE
 - Credits to producers equate to \$6.14/ BOE or \$1.02/ mcf
 - \$261 million to companies without regular production
- Credits per unit of production and as a share of lease expenditures will decrease over time due to additional production and spending



Cook Inlet Production Tax “Order of Operations” – Oil Calculation

| Oil Tax Before Credits Calculation | Per Barrel | Barrels (thousands) | Value (\$ millions) |
|--|------------------|------------------------|------------------------|
| <i>Avg Cook Inlet Wellhead Oil Price & Daily Production</i> | \$63.39 | 8.0 | \$0.5 |
| Total Annual Production/Value | \$63.39 | 2,910 | \$184.5 |
| Royalty, Federal, and Other Barrels | | (295) | (\$18.7) |
| Gross Value at Point of Production (GVPP) | \$63.39 | 2,615 | \$165.7 |
| Cook Inlet Lease Expenditures | | | |
| Deductible Operating Expenditures | (\$41.26) | | (\$107.9) |
| Deductible Capital Expenditures | (\$22.13) | | (\$57.9) |
| Total Deductible Lease Expenditures | (\$63.39) | | (\$165.7) |
| <i>Non-Deductible Lease Expenditures (foregone)</i> | | | \$249.6 |
| Production Tax Value (PTV) | \$0.00 | 2,615 | \$0.0 |
| Tax Rate (applied to PTV) | | | 35% |
| Production Tax before Ceiling | \$0.00 | 2,615 | \$0.0 |
| Tax Ceiling | \$1.00 | 2,615 | \$2.6 |
| Oil Production Tax before Credits | \$0.00 | 2,615 | \$0.0 |



Cook Inlet Production Tax “Order of Operations” – Gas Calculation

| Gas Tax Before Credits Calculation | Per mcf | mmcf | Value (\$ millions) |
|---|----------------|---------------|------------------------|
| <i>Avg Cook Inlet Wellhead Gas Price & Daily Production</i> | <i>\$8.06</i> | <i>195.6</i> | <i>\$1.6</i> |
| Total Annual Production/Value | \$8.06 | 71,573 | \$576.9 |
| Gas used in operations | | (12,883) | (\$103.8) |
| Royalty, Federal, and Other Gas | | (6,104) | (\$49.2) |
| Gross Value at Point of Production (GVPP) | \$8.06 | 52,586 | \$423.9 |
| Tax Rate (applied to GVPP) | | | 13% |
| Production Tax before Ceiling | \$1.05 | 52,586 | \$55.1 |
| Tax Ceiling (weighted average) | \$0.137 | 52,586 | \$7.2 |
| Gas Production Tax before Credits | \$0.137 | 52,586 | \$7.2 |



Cook Inlet Production Tax “Order of Operations” – Total Tax Calculation

| Total Tax After Credits Calculation | Per BOE | BOE (thousands) | Value (\$ millions) |
|-------------------------------------|---------------|--------------------|------------------------|
| Total Tax before Credits | \$0.63 | 11,379 | \$7.2 |
| Small producer credits | | | (\$2.4) |
| Total Tax after Credits | \$0.42 | 11,379 | \$4.8 |
| Other items / adjustments | \$0.02 | | \$0.2 |
| Total Tax paid to the State | \$0.44 | 11,379 | \$5.0 |

- Note, this is an aggregate calculation for illustrative purposes.
- Representative of how DOR models for forecast purposes.
- Cook Inlet taxes are actually 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.



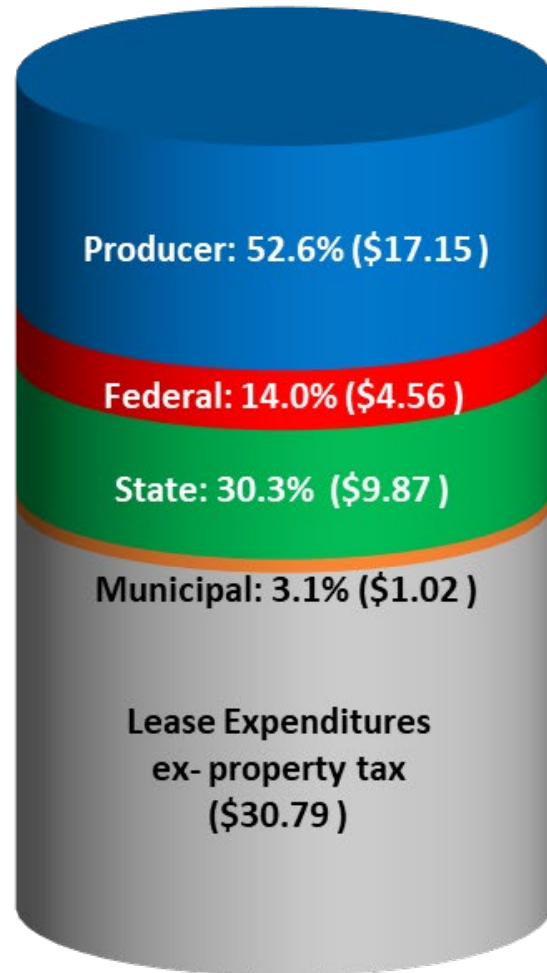
Cook Inlet Distribution of Profits

- Based on Spring 2023 Forecast for FY 2024
- Assumes “typical” barrel of oil, mcf of gas, or BOE of production
- Assumes a single taxpayer on state land, 12.5% royalty.
- Assumes weighted average tax ceilings for gas (based on taxable volumes)
- Assumes \$2.00 per BOE property tax
- Assumes 4.25% effective state corporate income tax, 21% federal corporate income tax
 - 4.25% is based on historical analysis for companies subject to state corporate income tax

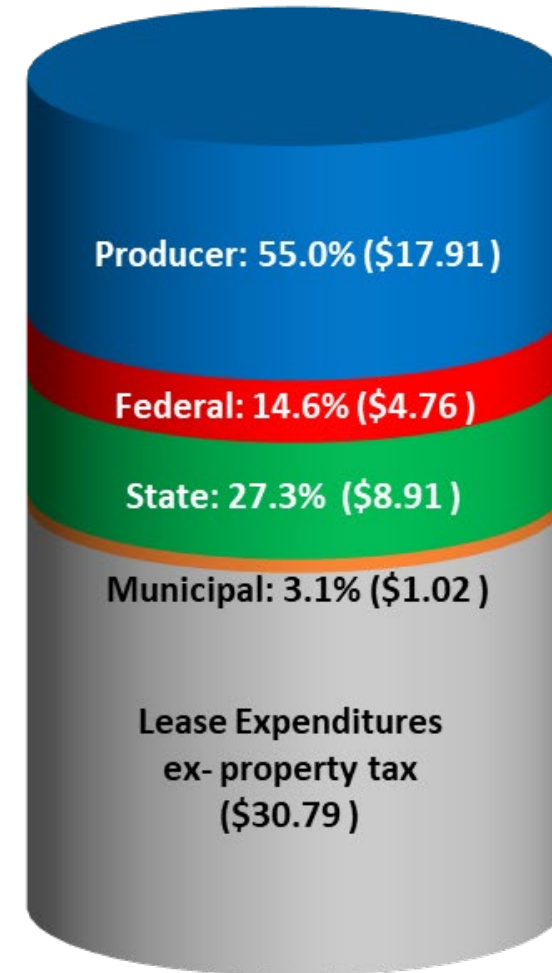


Cook Inlet Distribution of Profits: Oil (per barrel)

With State CIT

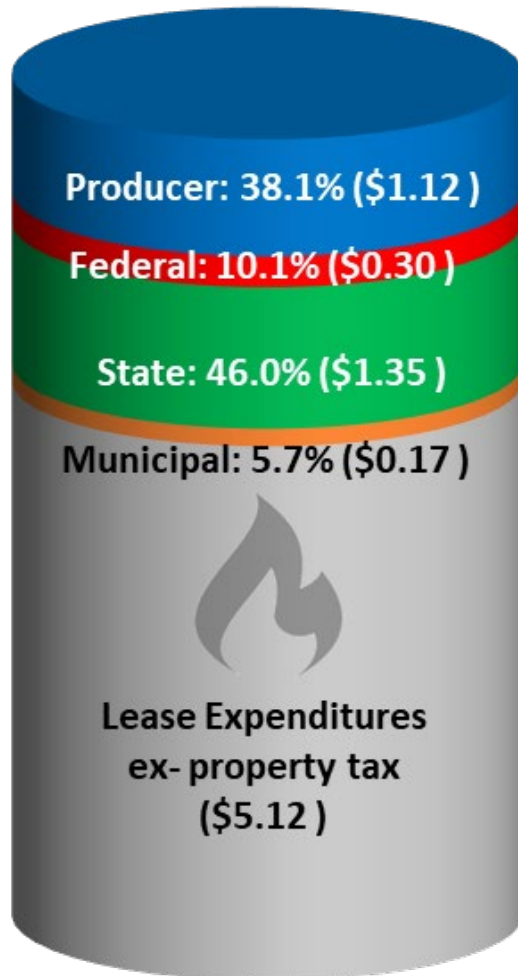


Without State CIT

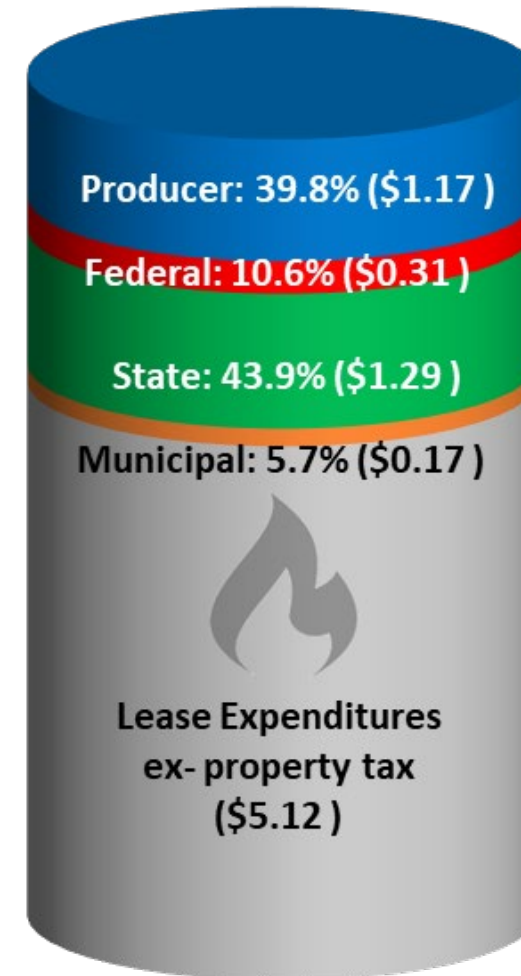


Cook Inlet Distribution of Profits: Gas (per mcf)

With State CIT

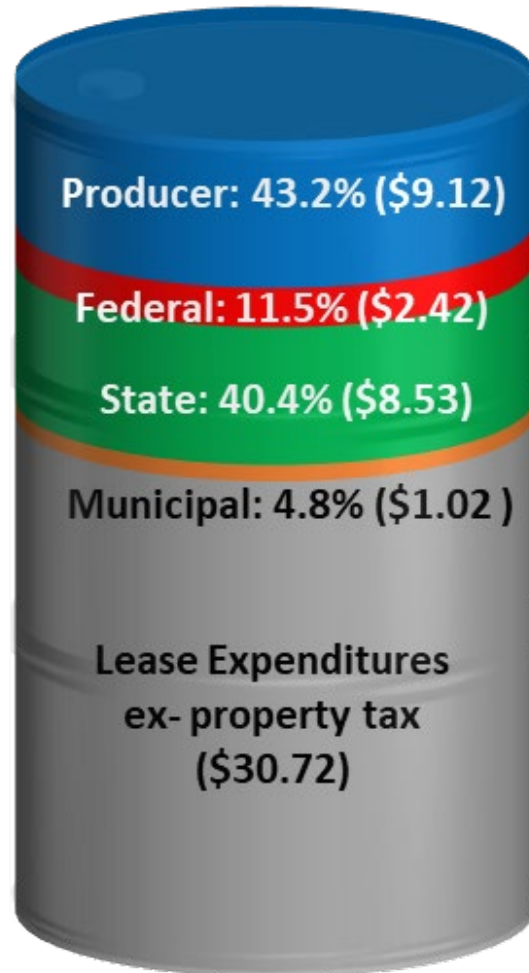


Without State CIT

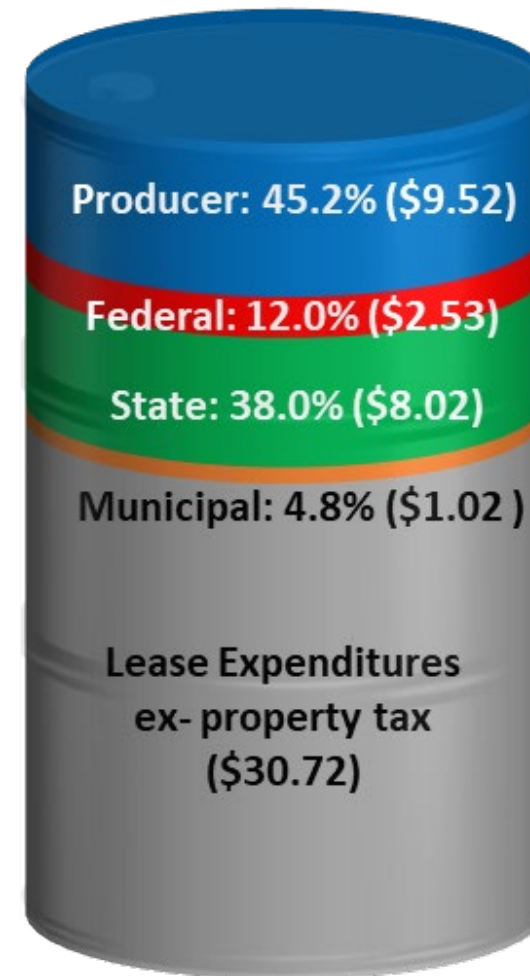


Cook Inlet Distribution of Profits: Oil and Gas (per BOE)

With State CIT



Without State CIT



Cook Inlet Incentives: Recent History

- 2003 – Exploration tax credit, 20-40% of expenditures
- 2006 – PPT enacted, Cook Inlet tax ceilings enacted, limited state purchase of tax credits enacted
- 2007 – ACES enacted, NOL credit rate increased
- 2008 – exploration credit rate increased, expanded purchase of tax credits
- 2010 – Cook Inlet Recovery Act. Jack-up rig credit, gas storage facility credit, well lease expenditure credit, removed reinvestment requirement for tax credit purchases
- 2013 – SB21 enacted, NOL credit rate temporarily increased
- 2016 – HB 247, Cook Inlet oil tax ceiling increased, multiple credits sunset, limits to cash purchase of credits
- 2017 – HB 111, eliminated credits available for cash purchase



Cook Inlet Incentives: Current

- All lease expenditures can apply against oil tax calculation for fields with both oil and gas
- Tax ceilings in place for oil and gas
- Low effective tax rates and Government Take relative to North Slope
- No tax credits currently available (small producer credit phasing out)
- Corporate tax does not apply to all companies
- Royalty relief may be available – DNR



Cook Inlet Energy Supply Incentives: Potential Options

- Tax changes
 - Tax or royalty holiday for new gas production or all gas production
 - Changes to ring fencing of lease expenditure deductions
 - Lower tax ceilings for gas
 - Per-mcf tax credit
 - Reinstitute some prior tax credits
- Funding or loan guarantees for developing current gas discoveries
- Incentives or funding for gas pipeline from North Slope to Interior and South Central Alaska (AKLNG or ASAP)
- Incentives, funding, or loan guarantees for renewable energy projects
 - Could reduce demand for gas
 - Utility-scale or residential/commercial
- Incentives, funding or loan guarantees for gas imports (i.e. Marathon LNG)



Note: Not an exhaustive list, and not making any recommendations.

THANK YOU

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