THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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February 7, 2023

The Honorable Lyman Hoffman
Senate Finance Committee, Co-Chair
Alaska State Legislature
State Capitol, Room 518
Juneau, AK 99801

The Honorable Donald Olson
Senate Finance Committee, Co-Chair
Alaska State Legislature
State Capitol, Room 516
Juneau, AK 99801

The Honorable Bert Stedman
Senate Finance Committee, Co-Chair
Alaska State Legislature
State Capitol, Rooms 508
Juneau, AK 99801

Dear Co-Chairs Hoffman, Olson, and Stedman,

Thank you for allowing us the opportunity to address some of the questions that were raised during the Order of Operations – Alaska's Oil Tax Regime presentation to the Senate Finance Committee on February 2, 2023. Please find below the questions and corresponding responses.

1. **What would be the potential state revenue if Alaska expanded the petroleum corporate income tax to apply to all petroleum taxpayers, rather than solely C-Corporations?**

Based on the Fall 2022 Forecast, roughly 70% of total statewide oil and gas production for FY 2024 is expected to come from companies who are subject to the state corporate income tax (CIT) as C-corporations. The remaining 30% of total statewide oil and gas production is expected to come from companies that are not subject to the Alaska state corporate income tax (potentially including S-Corporations as well as other legal pass-through entities). The share of production associated with C-Corporations is estimated to increase in years to come, potentially reaching 77% in FY 2032.

Assuming that non-C-Corporations would have a similar level of taxable income per barrel of oil equivalent production as the current C-Corporations, expanding the existing Alaska state corporate income tax to non-C-Corporation oil and gas companies could potentially generate an additional $139 million in revenue for FY 2024. The table below shows estimates for additional revenue from FY 2024 through FY 2027.

Note: These estimates are uncertain, as they are based on extrapolation of the Fall 2022 forecast for C-corporations, and not based on any company-specific analysis.

Corporate Income Tax (CIT) Potential Revenue	FY 2024	FY 2025	FY 2026	FY 2027
DOR Fall 2022 O&G CIT Forecast ($ Millions)	$320	$285	$285	$285
Statewide Tax Base associated with non-C-Coporations, based on forecasted production	30%	30%	30%	29%
Estimated Potential Tax Revenue from non-C-Corporations ($ Millions)	$139	$123	$123	$117
Key Assumptions:				
For Non-C-Corporation analysis purposes, assumes a single non-C-corporate taxpayer.				
Assumes similar taxable income per barrel of production for non-C-Corporations as C-Corporations.				
Analysis does not address potential impacts that an effective date or partial years of tax change could have on revenue.				
Non-C-Corporation ownership of Alaskan pipelines is not included in the share of production analysis.				
Share of production accounts for North Slope and Cook Inlet oil and gas on a barrel of oil equivalent basis.				

2. **Is the Department of Revenue aware of any discussions regarding changes to the allowable rate of return for purposes of calculating the Trans-Alaska Pipeline System (TAPS) tariff?**

The State has not received notice of any proposals to change the allowable rate of return on the TAPS tariff calculation.

3. **Provide information about how the typical royalty rates for newly issued leases have changed over time.**

The attached document, prepared by the Department of Natural Resources, summarizes royalty rates from all state lease sales since 1959. As shown in this document, all leases prior to December 1973 have a 12.5% royalty rate. This includes the original leases for many of the early North Slope fields that are still producing today, including much of Prudhoe Bay. Since December 1973, newly issued leases have a variety of different rates. Some of the more recent lease sales have a 12.5% royalty rate, while others have a 16.67% royalty rate or some other rate.

4. Provide a five-year summary of all four components of petroleum revenue – Royalty, Corporate Income Tax, Property Tax, and Production Tax – breaking out local government revenues, and including a calculation of estimated government take each year.

The following table provides total revenue to the state from FY 2021 through FY 2025 from all petroleum revenue sources, and also adds information about total municipal oil and gas property tax revenue. It should be noted, DOR does not explicitly forecast municipal property tax revenues. The forecasted revenues provided in the table below are based on the Fall 2022 forecast for state property tax as well as company spending, assuming there will be no changes to the current municipal tax rates.

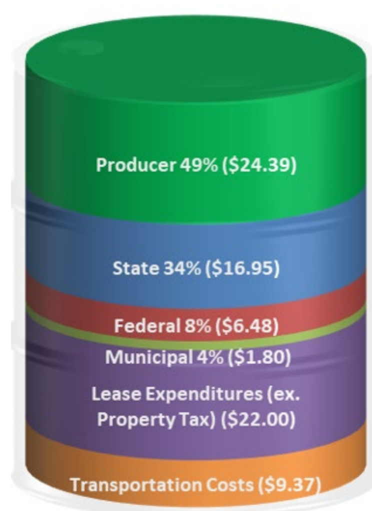
	History		Current Year	Forecast	
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
ANS oil price ($/bbl)	$54.14	$91.41	$88.45	$81.00	$77.00
ANS production (ths bbl/ day)	486.1	476.5	491.7	503.7	503.3
State Property Tax	$ 119.2	$ 122.4	$ 116.3	$ 114.0	$ 112.0
State Corporate Income Tax	(19.4)	297.5	390.0	320.0	285.0
Production Tax	388.9	1,809.3	1,618.4	1,236.9	1,019.7
Royalties	1,066.5	1,807.3	1,810.6	1,706.8	1,639.3
CBRF Settlements	35.0	21.1	145.0	20.0	20.0
NPR-A Shared revenue	15.8	16.7	32.1	52.3	66.5
Total State Revenue	**$ 1,606.1**	**$ 4,074.3**	**$ 4,112.4**	**$ 3,450.1**	**$ 3,142.4**
Municipal Property Tax	443.5	448.5	433.2	434.5	435.8
Total State + Municipal Revenue	**$ 2,049.6**	**$ 4,522.8**	**$ 4,545.6**	**$ 3,884.6**	**$ 3,578.2**

Revenue amounts in $ Millions.
Note: Numbers may not add exactly due to rounding.

The table and barrel chart below provide a snapshot illustration of distribution of cash flows for FY 2024 from a typical barrel of North Slope oil (that does not qualify for the Gross Value Reduction (GVR) provisions). The figures shown are based on the Fall 2022 forecast for FY 2024, assuming a 12.5% royalty rate, an effective state corporate income tax rate of 4.25% of production tax value less production tax, and a 21% marginal federal income tax rate.

Distribution of Income per Barrel	**FY 2024 Forecasted ANS Price $81.00**	
Income		
State Take	$ 16.95	34.2%
Municipal Take	$ 1.80	3.6%
Federal Take	$ 6.48	13.1%
Producer Take	$ 24.39	49.2%
Total Income	**$ 49.63**	**100.0%**

Note: Revenue calculations are based on the assumptions of 12.5% royalty rate, 4.25% state corporate income tax, and 21% federal corporate income tax.



5. **Provide a version of the sensitivity analysis table presented on Slide 22, showing nominal and effective oil and gas production tax rates at each price point for the North Slope.**

The statutory ("nominal") tax rate for the production tax is 35% of production tax value at all oil prices.

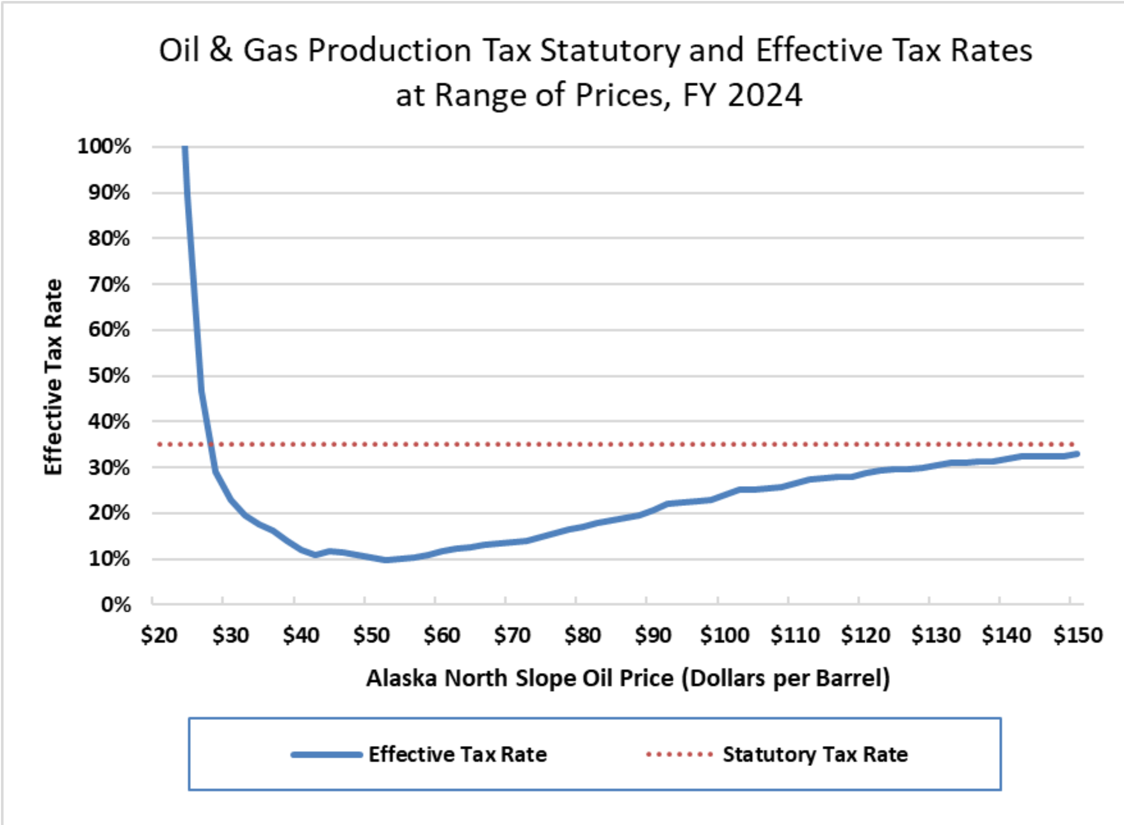
The following table shows estimated production tax effective tax rates, as a share of production tax value (PTV), at a range of prices for FY 2024, FY 2025, and FY 2026.

Effective production tax rate is estimated by comparing total production tax paid to the state as a share of PTV. This analysis is based on the Fall 2022 forecast, varying only price and lease expenditures (i.e., assuming no change in production compared to the forecast).

Note: At $20 per barrel, PTV is expected to be zero, as companies would be losing money on operations while also paying tax under the minimum tax floor. At $30 and $40 per barrel, companies would be paying tax under the minimum tax floor.

Estimated Oil & Gas Production Tax Effective Tax Rates (based on PTV), FY 2024 - FY 2026			
Alaska North Slope (Dollars Per Barrel)	**FY 2024**	**FY 2025**	**FY 2026**
Official Forecast	**17.5%**	**16.0%**	**14.9%**
$20.00	> 100%	> 100%	> 100%
$30.00	22.8%	21.4%	27.4%
$40.00	12.1%	11.6%	12.3%
$50.00	10.2%	10.6%	10.7%
$60.00	11.6%	11.5%	10.6%
$70.00	13.7%	13.6%	12.9%
$80.00	17.1%	17.1%	16.8%
$90.00	20.7%	21.5%	21.3%
$100.00	24.0%	24.5%	25.1%
$110.00	26.6%	27.4%	27.4%
$120.00	28.7%	29.6%	29.6%

The following chart shows a more detailed analysis of estimated effective tax rates for FY 2024 at a range of oil prices. The lowest effective tax rate (9.8%) is observed at about $52 per barrel. Above this price, effective tax rates increase due to increasing profitability and the 35% statutory tax rate. Below this price, effective tax rates also increase due to decreasing profitability and the gross minimum tax floor which applies regardless of profitability.



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

Sincerely,

Adam Crum
Commissioner-Designee

Enclosure: Summary of State Competitive Oil and Gas Lease Sales -- 1959 to Present