

SENATE FINANCE COMMITTEE
February 2, 2023
9:03 a.m.

[9:03:38 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue.

SUMMARY

PRESENTATION: ORDER OF OPERATIONS - ALASKA'S OIL TAX REGIME

Co-Chair Stedman discussed the agenda. He relayed that the committee would hear a presentation on the order of operations, focusing on how the oil monies flowed through and were allocated out of the oil basins. He mentioned the Revenue Source Book (RSB), which detailed state sources of revenue (copy on file). He highlighted that the presentation would be a high-level overview. He thought that the high-level overview would be informative to new legislators and staff. He hoped to also discuss some of the component parts of the RSB.

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^PRESENTATION: ORDER OF OPERATIONS - ALASKA'S OIL TAX REGIME

[9:07:54 AM](#)

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, introduced himself and discussed his background. He was a graduate of the University of Alaska and had joined the Department of Revenue in 2004 as a non-petroleum economist. He mentioned that he moved into petroleum taxes during the transition from The Economic Limit Factor (ELF) to the Production Profit Tax (PPT) in 2006, which then turned to Alaska's Clear and Equitable Share (ACES) in 2007, and finally the current regime in 2013 under SB 21.

Co-Chair Stedman asked whether Mr. Stickel had been involved in the RSB.

Mr. Stickel affirmed that he had been involved in producing the RSB for almost two decades.

[9:09:14 AM](#)

Mr. Stickel discussed a presentation entitled "Order of Operations Presentation" (copy on file). He relayed that the purpose of the presentation was to produce a high-level overview of how the current tax system worked for the North Slope, as a refresher for the committee and an introduction for those who were new to the conversation.

[9:09:47 AM](#)

Mr. Stickel looked at slide 2, "Acronyms":

- ANS - Alaska North Slope
- ANWR - Arctic National Wildlife Refuge
- Avg - Average
- Bbl - Barrel
- CBRF - Constitutional Budget Reserve Fund
- CIT - Corporate Income Tax
- DOR - Department of Revenue
- FY - Fiscal Year
- GVPP -Gross Value at Point of Production
- GVR -Gross Value Reduction
- NPR-A -National Petroleum Reserve Alaska
- OCS -Outer Continental Shelf

PTV -Production Tax Value
SB21 -Senate Bill 21, passed in 2013
TAPS -Trans Alaska Pipeline System
Ths -Thousands

Mr. Stickel noted that there were numerous acronyms in the oil and gas industry as well as in tax statute.

[9:10:13 AM](#)

Mr. Stickel spoke to slide 3, "Agenda":

- Oil and Gas Revenue Sources
 - How production tax fits in
 - FY 2021 -FY 2025 oil and gas revenues
- Production Tax Calculation "Order of Operations"
 - Detailed walk-through of each step of tax calculation for FY 2024
 - Defining commonly used terms
 - Focus on North Slope oil
 - FY 2021 -FY 2025 comparison

Mr. Stickel shared that the purpose of the presentation was to explain the nuts and bolts of the tax regime and not to discuss policy. He reiterated that the focus would be on North Slope oil.

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Mr. Stickel referenced slide 4, "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 Fall 2022 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.

Mr. Stickel added a disclaimer that the presentation took a complex tax system and distilled the information into easily understandable pieces. He added that that the data

used was aggregate and was not necessarily the same as the numbers in the detail specific modeling used in the RSB. He said when looking at actual taxes the company specific calculation was based on company tax filings and were subject to audit. He noted that he was an economist and not an auditor, and any information he provided should not be interpreted as an official tax interpretation or tax advice.

Co-Chair Stedman asked Mr. Stickel to discuss severance tax.

Mr. Stickel relayed that a severance tax was any tax levied by a sovereign on the severing of resources within the jurisdiction of a sovereign. He said that severance taxes were common to produce oil and gas; in Alaska we refer to the severance tax as a production tax.

Co-Chair Stedman asked more focus on the aggregated data that was used to set policy versus the individual company data. He expressed curiosity about why different companies would have different reactions to proposed policy.

Mr. Stickel cited that DOR was statutorily prohibited from disclosing any information that would allow members of the public or the legislature any knowledge of tax returns related to specific a company or field. For the purposes of the presentation information from multiple companies and multiple fields had been aggregated. He noted that each field and company had a unique production profile and plans as how the state fit in to their overall corporate business. He thought it was the case that some companies would have a higher cost structure, some a lower cost structure, and policy would affect companies differently.

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Co-Chair Stedman interjected that it was challenging for policy makers to hit a spot, policy wise, that fit all parties. He reiterated that there were multiple companies with different structures and cost exposures. He asserted that the legislature could not craft policy that met the needs of corporations unless those corporations came forward and voluntarily provided the information to support their desires related to tax policy.

Co-Chair Stedman mentioned the first bullet on slide 4, "Disclaimer":

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- These numbers are rough approximations based on public data, as presented in the fall 2022 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.

Co-Chair Stedman stressed that the state had multiple consultants testify that Alaska had the most complex severance tax in the world. He discussed the various tax evolutions over the past several decades. He thought that simplification of the structure would be nice but was not currently the case.

[9:17:17 AM](#)

Mr. Stickel turned to slide 5, "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% or 16.67% in Alaska, 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
- **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.

Mr. Stickel explained that the slide gave an overview of the four major oil and gas revenue sources to the state.

Co-Chair Stedman summarized that when looking at oil basin revenue the four components needed to be added together. He noted that some of the revenue that went to boroughs was considered when determining revenue to the state. He discussed various royalty rates and said that they were not dissimilar to property tax.

[9:20:02 AM](#)

Mr. Stickel considered slide 6, "Oil and Gas Revenue Sources: Five-Year Comparison of State Revenue," which showed a table that showed a comparison of five years of state revenue from oil and gas with data from the Fall 2022 RSB. He relayed that the slide contained historical figures for FY21 and FY22, partially complete numbers for the current fiscal year, and forecasted numbers for FY24 and FY25. He noted that the property tax share shown did not include the amount that went to municipalities, which was approximately \$450 million for the current year. He noted in FY 21 the state had negative revenue for corporate tax due to Covid-19 relief provisions. The department was expecting robust growth in tax revenue for the next several years.

Mr. Stickel noted that the royalties shown on slide 6 also included bonuses, rents, and royalties. The final two oil and gas revenue sources were any settlements based on assessments or disputes of prior year production tax, royalties, or other mineral taxes or levies dedicated to the CBR. He said that the federal government shared half of any revues from the National Petroleum Reserve (NPR), which would eventually include the Willow project.

[9:23:02 AM](#)

Senator Kiehl asked Mr. Stickel to discuss the decisions made regarding the corporate income tax refunds.

Mr. Stickel explained that the state followed "rolling conformity" regarding federal income tax code. The state adopted by reference many provisions of federal income tax code; when the federal government made a change to corporate income taxes the state automatically adopted those changes unless the legislature chose to opt out. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included a relief provision that allowed for companies to carry back net operating losses from 2018, 2019, 2020 up to 5 years, and receive a refund for prior year taxes paid. Through rolling conformity, the state had immediately adopted the provision into state law. He said that the action generated significant refunds paid to corporations by the state in 2021 and 2022.

Senator Kiehl thought it was valuable for Alaskans to know that other taxpayers in the state had not enjoyed such refunds.

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Co-Chair Stedman commented on the subject matter of the tax change that would allow for a lookback and restating of taxes. He noted that the practice had been nationwide and had not been limited to the oil industry. He asked Mr. Stickel corporate income tax and C corporations and the funds expected from that revenue stream.

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Mr. Stickel explained that the corporate income tax applied to C corporations. Currently, two-thirds of production came from C corporations, less than one-third of the production came from companies not subject to the corporate income tax. If there was an assumption that corporate income tax forecasted for C corporations would scale up with production, then expanding the corporate income tax to all oil and gas companies would generate over \$100 million of incremental revenue each year; the exact number would depend on the specific detail of each company added to the tax calculation.

[9:28:13 AM](#)

Co-Chair Stedman asked about the aggregate impact to the state.

Mr. Stickel relayed that the aggregate impact was going to be approximately \$100 million, per year, of potentially forgone tax revenue.

Co-Chair Stedman wondered how many years the practice had been applies.

Mr. Stickel stated that historically a much larger portion of industry activity was made up by C corporations who were subject to the corporate income tax. He said that over the last several years the number had dropped and was now approximately two-thirds, or 70 percent.

Co-Chair Stedman requested that the department provide more information on the impact. He spoke to the increase of production, which he believed should be part of the equation.

[9:30:03 AM](#)

Senator Kiehl asked whether there was any difference in corporate income tax for oil found under state land versus federal land.

Mr. Stickel stated that all the taxes applied the same for any production on state land and within the state's 3-mile limit. He said that significant differences in royalty provisions could be seen depending on where oil was produced.

[9:30:51 AM](#)

Ms. Stickel displayed slide 7, "Fiscal System: Overall Order of Operations":

- Royalties (State, Federal, or Private)
- Property Tax
- Production Tax
- State Corporate Income Tax
- Federal Corporate Income Tax

Mr. Stickel explained that the royalties came off the top; the landowner was entitled to compensation of their share of production before any taxes were applies. The property tax for upstream property was considered a lease expenditure for the production tax and was looked at prior to the production tax. The property tax was deductible

against corporate income taxes. The production tax came after subtracting royalties and allowing for property taxes (deductible in the property tax calculation), and before corporate income taxes. The production tax was a deductible expense for purposes of calculation the worldwide taxable income that was the basis for corporate income taxes. The state corporate income tax became a deduction from the federal corporate income tax.

Co-Chair Stedman queried the subject of double deductions. He asked Mr. Stickel to address why it was standard procedure and the double deductions were allowable. He noted that the practice was not isolated to Alaska.

Mr. Stickel explained that the expenditures allowed to be deduction when calculation the net production tax were standard of fiscal system around the world. He said that companies were allowed to recoup the costs of operations. For the corporate tax those expenditures would factor into the calculation of the worldwide income.

[9:34:11 AM](#)

Co-Chair Stedman noted that the subject came up often. He asked Mr. Stickel to highlight why it was important to allow deductions of the production tax and the timing of the deductions.

Mr. Stickel explained that production tax overall was developed as a net profits tax. The deduction of costs and establishment of the tax rate and various provisions was developed together with the deduction of cost being an integral part of the fiscal system. From a company's perspective, the ability to recoup costs and make a profit on their investment was the priority. The ability to realize credit for any expenditures was important to companies.

Co-Chair Stedman thought that there could be confusion around what was considered deductions and what was considered a credit. He thought the concept was somewhat abstract. He pondered the benefits of quicker deductions versus slower deductions.

[9:38:01 AM](#)

Co-Chair Stedman commented that when the state went from a gross tax to a net tax, it allowed the state to accelerate the deductions and change the rates of return in a favorable direction for marginal fields as the basin aged. He commented on the ripple effect of making changes to the tax structure, and unanticipated effects.

Mr. Stickel agreed that companies were able to recoup costs through a deduction instead of a credit. The legislature had taken action to eliminate that capital expenditure credits and net operating loss credits and had replaced them with deductions.

[9:39:47 AM](#)

Senator Bishop asked whether capital credits could still be deducted.

Mr. Stickel relayed that for any credits earned prior to 2016-2017 when the changes were made, the company could still apply the credits against the tax calculation. Currently if there was a loss, it could be a deduction that could be carried forward, as opposed to a tax credit that then must be used against the tax liability.

[9:40:56 AM](#)

Mr. Stickel highlighted slide 8, "Production Tax "Order of Operations": FY 2024," which showed a table based on an income statement that was included in Appendix E of the Fall 2022 RSB. He noted that there would be a series of slides addressing the table piece by piece. He qualified that the original RSB version had failed to recognize that 2024 would be a leap year, which had been corrected online and on the slide. He relayed that that slide walked through an illustration of the year's production tax calculation step-by-step, with a focus on the North Slope oil tax calculation. The daily production value projection for FY24 was \$41 million per day, with an annual value of just under \$15 billion.

Mr. Stickel stated that the next several slides would focus on taking the just under \$15 billion of oil and how it was split between the various cost centers and how the tax was applied.

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Co-Chair Stedman recalled some debate surrounding how the tax revenue would be quantified. The committee had worked through the issues and agreed to look not only at what was at the state's disposal for funding the operating budget, but the total revenue for the state, including the oil basin. He said that the process had led to the income-style statement at the back of the RSB. He highlighted the column on the far right of the table on slide 8, which showed the minimum tax floor and the net tax in two separate calculations. He felt that the delineation helped the public understand the two possible directions the state could take. He appreciated the use of red numbers and brackets, which made it easier to interpret the projected numbers.

Co-Chair Stedman thanked the department for continually evolving the information and for working with the committee on this complicated issue.

[9:46:06 AM](#)

Mr. Stickel looked at slide 9, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing the calculation of royalty and taxable barrels. He noted that any royalty and taxable barrels were deducted regardless of ownership. He cited that typical a rate was one-eighth, or a 12.5 percent royalty, and applied to most older fields. He said that the typical rate for a newer field was one-sixth, to 16.67 percent. He noted that rates varied across fields. Any federal and private land royalty was also deducted from the tax calculation in addition to royalty for state owned land. He said that any barrels not subject to tax due to being outside the state's 3-mile limit were also deducted.

Mr. Stickel continued that after subtracting royalties the taxable barrels were considered. He said 161 million barrels totaling \$13 billion were estimated for FY24.

[9:47:47 AM](#)

Mr. Stickel addressed slide 10, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing the calculation of gross value at point of production (GVPP),

which was also known as well-head value. Mr. Stickel walked through how the GVPP was calculated.

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Senator Wilson asked about the Trans-Alaska Pipeline System (TAPS) and the rate of return. He understood that the rate of return could be changed and wondered whether that had been considered.

Mr. Stickel was not prepared to speak on the matter and agreed to get back to the committee with more information.

Co-Chair Stedman asked Mr. Stickel to get back to the committee and include information about why more through put in the pipeline was important. He thought that the Willow field might not have the royalties coming to the treasury that might be expected but the project still had benefits to the state.

Mr. Stickel explained that for operation of an oil pipeline, the per-barrel cost was calculated by taking the total cost of operating the pipeline (which included the rate of return) and divided it by the number of barrels going through the pipeline to arrive at a per barrel tariff. He furthered that a fixed asset like TAPS, with a stable operation cost, increasing oil production would be divided over a higher number of barrels resulting in a smaller per barrel amount. He concluded that having more oil in the pipeline reduced the average transportation cost for all barrels from all fields.

[9:51:51 AM](#)

Senator Bishop thought there used to be a footnote in the RSB that broke down the history of oil production in the state, per year.

Mr. Stickel agreed to work with Department of Natural Resources to provide an informational royalties timeline for the committee.

[9:52:57 AM](#)

Mr. Stickel advanced to slide 11, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing lease

expenditures. He explained that the entire value of a capital expenditure could be deducted for the year incurred; capital expenditures were defined by IRS guideline. He said that anything considered an allowable expense that was not a capital expenditure would be considered an operating expenditure. He mentioned allowable lease expenditures, which were any of the capital or operating costs in the unit which were directly associated with producing the oil. He used examples of non-allowable lease expenditures: financing costs, lease acquisition costs, dispute resolution costs, dismantlement, removal, or restoration at the end of field life. He explained that "deductible lease expenditure" was a term of art developed by the department and was not found in statute or regulation. He relayed that the term was used when looking at the portion of the allowable lease expenditures that were applied in the tax calculation, in a given year, up to the gross value of point of production. He furthered that non-deductible were in the allowable lease expenditures above and beyond the oil produced. The deductible lease expenditures would reflect spending by incumbent producers and non-deductible expenditures was by companies performing exploration and development with little to no current production.

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Mr. Stickel directed attention to the bottom of the slide, "Net New Lease Expenditures Earned and Carried Forward," which were any of the non-deductible expenditures that turned into "carry forward" lease expenditures that could be used to reduce future year taxes - assuming the company had sufficient production and gross value in the future year.

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Senator Kiehl thought it sounded like there was a significant difference in how the tax system treated a new entrant as opposed to a long-time producer. He asked Mr. Stickel to address comparisons between the two.

Mr. Stickel relayed that for a current producer with production elsewhere on the slope, the company would recognize the benefit of any spending the same year that they spent the money. A new company that received the carry forward lease expenditure would potentially receive

benefits for that spending some time in the future. He agreed that in this way the system did offer a greater benefit to long-time producers.

Senator Kiehl recalled that the state had tried to level out the situation by paying the credits in cash, which had proved unsustainable. He wondered what other levers might help to equalize the treatment between new explorers and long-time producers.

Mr. Stickel thought there were many levers, and one could consider all the elements of the tax calculation. He spoke of various levers that could be deployed wherein the expenditures could increase (uplift) or decrease (degrade) as directed by tax policy.

[9:59:18 AM](#)

Co-Chair Stedman asked Mr. Stickel to address "uplift" as it pertained to the lease expenditures.

Mr. Stickel used the example of a company that spent \$100 million and did not have a tax liability to apply. With 10 percent uplift, by the end of the year the \$100 million would become worth \$110 million against the next year's taxes.

Senator Kiehl mentioned the possibility of limiting production for lease expenditures to be applicable to the field it was spent in. He thought this might make the tax application more equal between new explorers and older producers.

Mr. Stickel thought there would be different options to consider. He mentioned ring fencing and noted that there was currently a ring fence on the North Slope, which meant that the expenditure that was earned on the slope could be applied against any production anywhere within the North Slope. He said that expanding the practice could be one option the state could consider.

Co-Chair Stedman asked Mr. Stickel to define "ring fence."

Mr. Stickel explained that for accounting purposes, a ring fence signified what geography was contemplated when calculating the tax. He stated that there was a North Slope-wide ring fence, which meant that a company would

look at all production and spending on the slope to calculate their North Slope tax. He furthered that a company that did business in multiple areas of the state would not include Cook Inlet production in their North Slope ring fence tax. He said that ring fencing could be done on a field specific basis.

[10:02:34 AM](#)

Co-Chair Stedman mentioned the challenge of a development within a ring fence and the occasion of a new entrant outside the ring fence. He mentioned numerous discussions around the economic advantages and disadvantages surrounding ring fencing, particularly on the North Slope. He reminded that all the mechanisms being discussed changed the cash flow. He said that ring fencing was a tool that could be a double-edged sword. He reiterated that all the mechanisms discussed affected timing and flow of cash.

[10:04:44 AM](#)

Senator Kiehl pointed out that lease expenditures constituted one of the bigger numbers on the slide. He asked how much transparency there was regarding what Alaskans could see regarding deductions on the North Slope. He asked if the state was comparable with what the public could see in other jurisdictions.

Mr. Stickel explained that taxpayer confidentiality had its limitations. Information specific to a single taxpayer could not be released. He noted that Appendix D of the RSB provided as much information as possible. He mentioned information on the ten-year forecast, which broke down information on and off the North Slope. He said that the department had provided information breaking out the 10-year history and 10-year forecast between the total allowable and total deductible lease expenditures. He asserted that the department was as transparent as possible given the limitations of statute.

Co-Chair Stedman wanted to separate operating from capital - what was deductible and what was not. He noted that the states had adopted the federal definition of operating and capital costs. He noted a list of exclusions in the tax code. He thought that the more the state could rely on federal definitions the smoother the relationship between sovereign entities and industry.

[10:08:07 AM](#)

Senator Kiehl wondered about comparable levels of confidentiality and disclosure in other states or oil provinces.

Mr. Stickel thought the state's tax confidentiality was standard across states. He continued that Alaska was unique when it came to a net-profits bases tax system. Many other states were not collecting information about lease expenditures. He said that the collection and reporting of information was greater in Alaska than in other states.

Co-Chair Stedman thought that Alaska was distinctly different since the state owned the subsurface rights. He thought Alaska was more like Alberta, Canada. He did not believe that other state would ever replicate Alaska's tax structure because they did not have the subsurface rights. He warned that this matter was significant to account for when making comparisons between states.

[10:10:17 AM](#)

Mr. Stickel looked at slide 12, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing the calculation of production tax value (PTV). He defined that production tax value was gross value at point of production, less deductible lease expenditures. Each company calculated its own PTV based on all North Slope activity, including all fields and developments on the slope. The PTV was essentially a tax base for the production taxes. The PVT was also what DOR would reference when considering effective tax rates and how the profit was distributed between federal government, state government, and producers.

Mr. Stickel cited that for FY 24, DOR estimated a production tax value of \$44.10 per barrel, with a total production tax value of \$7.1 billion.

[10:11:50 AM](#)

Mr. Stickel showed slide 13, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing Gross

Minimum Tax Floor. For illustrative purposes, the tax was shown as two parallel tax calculations shown side by side, with the tax due being the higher of the two. The minimum tax floor was 4 percent of gross value at point of production anytime the annual oil price was greater than \$25 per barrel. He related the slide showed a minimum tax floor of \$460 million for FY24.

[10:13:25 AM](#)

Senator Bishop asked whether the state hit the minimum tax floor in FY21.

Mr. Stickel relayed that there were some companies that were paying the minimum tax in FY21. He added that the total receipts had been just above the minimum.

Co-Chair Stedman offered a footnote that the presentation dealt with consolidated data.

Mr. Stickel added that generally companies moved off the minimum tax when oil reached the range between \$50/bbl. and \$70/bbl.

[10:14:40 AM](#)

Mr. Stickel referenced slide 14, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing Net Tax and Gross Value Reduction (GVR). He explained that the GVR was an incentive for new development. The GVR allowed a company to exclude either 20 percent or 30 percent of the gross value, for qualifying fields, from their production tax value calculation, which reduced the tax base for their net tax calculation. The 20 percent applied for qualifying new fields and the 30 percent GVR was for fields comprised of exclusively state-issued leases with greater than a 12.5 percent royalty.

Mr. Stickel continued that another provision of the GVR was that any eligible field received a flat \$5 per barrel tax credit, which could be applied to reduce tax liability below the minimum tax if companies did not also take sliding scale credits. He noted that the GVR was temporary and expired after 7 years of production or after any 3 years where ANS averaged greater than \$70/bbl.

[10:17:11 AM](#)

Senator Kiehl asked whether Mr. Stickel could provide a sense of how broad or narrow the "new oil" definition was.

Mr. Stickel responded that the definition would apply to qualifying new producing areas, or new fields, and there was a provision for the expansion of an existing area. He said that any of the major new developments on the slope had the potential to qualify for the GVR.

Senator Kiehl surmised that the GVR could then apply to legacy fields.

Mr. Stickel relayed that a new producing area within a legacy field, or potentially an expansion of an existing producing area, could qualify.

[10:18:24 AM](#)

Mr. Stickel continued to address slide 14. He said that the department was estimating a reduction of \$146 million in production tax value in FY24. He furthered that the net tax would be based on the tax value, after the gross value reduction, multiplied by the 30 percent statutory tax rate, which resulted in a tax (before credits) of approximately \$2.4 billion in FY24. The net tax calculation was compared to the minimum tax floor and then the higher number was used as the production tax before application of credits.

[10:19:28 AM](#)

Mr. Stickel turned to slide 15, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing tax credits against liability. In current statute there were two primary credits, or per taxable barrel credits. He shared that one credit was for GVR eligible oil and another for all other oil. He said that most credits were in the non-GVR category. He noted that GVR was a temporary benefit and as time progressed fields currently receiving the benefits would age out of the benefit as new fields would potentially qualify for the GVR. He relayed that for non-GVR production there was a sliding scale per-taxable-barrel credit. The sliding scale credit was \$8 per taxable barrel when the well head value of the oil was less than \$80/bbl. This decreased in \$10 increments of well head value until a

well head value of greater than \$150/bbl. was reached, and the sliding scale credit reduced to zero. He said that the sliding scale credit could not be used to reduce the tax below the minimum tax floor and if a company chose to apply the credit no other credits or deductions could be used to reduce the minimum tax floor.

Mr. Stickel said that for production that was eligible for the GVR, a flat \$5 per taxable barrel credit, without sliding scale for GVR oil, was available. He said that if a company did not take sliding scale credit, they could use the \$5/bbl. credit to reduce tax liability below the minimum tax floor, potentially to zero. He considered the per-taxable-barrel credits, which were different than credits in the past and could not be carried forward or refunded. There was a small amount of other tax credits against liability, which was about \$.7 million in FY24, and represented small producer credits. No prior-year credits were forecasted in FY24 tax calculation.

[10:23:04 AM](#)

Senator Bishop asked about the small producer credits and asked about the per day and annual production levels of the smaller producers.

Mr. Stickel relayed that the small producer's credit had been available to companies with less than 100,000 barrels per day of production. He stated that the credit had been phased out for new entrants.

Co-Chair Stedman asked for Mr. Stickel to discuss the function of the sliding per-barrel credit. He asked how often the credit was calculated.

Mr. Stickel replied that the production tax was an annual tax that had monthly elements. He said that the sliding scale per-taxable-scale credit was based on a monthly calculation. He furthered that at the end of the year when a company filed its annual tax return, there would be a true-up calculation through which the company would reconcile excess per taxable barrel credits that could not be applied in the monthly installment payment.

[10:26:01 AM](#)

Mr. Stickel considered slide 16, "Production Tax "Order of Operations": FY 2024," which showed the table from the previous slide with a highlighted area showing adjustments and total tax paid. He explained that the adjustments represented prior year tax payment or refunds, private landowner royalty tax, tax revenue for North Slope gas production, net tax revenue from production in Cook Inlet, a conservation surcharge, and any other company specific issue that cause the illustrative tax calculation to not match the company specific calculation. He said that the projected net sum of all these items was \$16.9 million, with a total tax paid to the state of \$1,236.9. He said that all but \$8 million of that total went to the General Fund.

Mr. Stickel added that at the bottom of the slide showed a forecast of about \$882 million in net new lease expenditures earned and carried forward.

[10:28:25 AM](#)

Mr. Stickel displayed slide 17, "Order of Operations: Five Year Comparison," which showed a table that represented the same slide as previous slides over a 5-year timespan. He highlighted that the production tax value ranged from \$3.5 billion in FY21, increasing to over \$8 billion in FY22 and FY23. He noted the projection of approximately \$7 billion in FY 24 and over \$6 billion in FY25. He said that the projections correlated to changes in the expected total production tax revenue received by the state. He relayed that the net tax was expected to be the higher tax into the future. He pointed out the total estimated ending balance of the carried forward lease expenditures at the end of each fiscal year, which would reflect the potential total deductions that could offset future year tax calculations. He furthered that the effective tax rate had also been added and represented the total tax paid to the state as a share of production tax value. He said that given the various tax credits available, the effective tax rate was lower than the statutory 35 percent tax rate.

Co-Chair Stedman asked Mr. Stickel to get back to the committee with additional information about royalties, corporate income tax, and property tax relating to the government share.

Mr. Stickel agreed to provide the information.

[10:31:24 AM](#)

Mr. Stickel reviewed slide 18, "Illustration Assuming a Single North Slope Taxpayer: FY 2024," that showed a table with a highlighted area focused on a single producer that realized the full value of per-taxable-barrel credits. The slide contemplated what the tax calculation would look like if there were a single taxpayer for the North Slope. He pointed to the highlighted section at the bottom of the slide. It was assumed that if there were only one taxpayer, the full \$8/bbl. sliding scale tax credit could be used against tax liability. He stated that currently it was assumed that some smaller companies could not use the full \$8/bbl. tax credit. He said that the assumption projected \$1.19 billion in FY24.

[10:33:12 AM](#)

Senator Bishop went back to slide 17, which showed a projected total of \$1,236.9 total tax paid to the state in FY24.

Mr. Stickel agreed that for FY 24, the projected total production tax was approximately \$1.2 billion.

Senator Bishop observed that slide 6 showed that the projected royalty to the three dedicated funds for FY24 was approximately \$1.7 billion.

Mr. Stickel agreed.

Senator Bishop surmised that the total revenue to the treasury was \$3.4 billion.

Mr. Stickel agreed.

Co-Chair Stedman thought it was important to recognize all the components that comprised state revenue and that that some of the funds did not end up in the treasury but were distributed on the local level. He asked Mr. Stickel to include the amounts that went to boroughs and communities when he provided total state revenue data to the committee.

Mr. Stickel agreed to provide the information.

Co-Chair Stedman reiterated the importance of providing a holistic view of the state's fiscal picture.

[10:35:50 AM](#)

Mr. Stickel referenced slide 19, "State Petroleum Revenue by Land Type," which showed a table representing the concept that "all oil is not equal." The table showed how state petroleum revenues varied by land type. There were different provisions for royalty depending upon where the oil was produced. The state received all the royalty for production on state lands, a share of royalty for production on federal lands, and no direct revenue for production over 6 feet offshore.

[10:37:19 AM](#)

Mr. Stickel showed slide 20, "Gross Value Reduction":

- Gross Value Reduction (GVR) is an incentive program for new fields.
- Available for the first seven years of production and ends early if ANS prices average over \$70 per barrel for any three years.
- Allows companies to exclude 20% or 30% of the gross value from the net production tax calculation.
- In lieu of sliding scale Non-GVR Per-Taxable Barrel Credit, qualifying production receives a flat \$5 GVR Per-Taxable-Barrel Credit.
- The \$5 GVR Per-Taxable-Barrel Credit can be applied to reduce tax liability below the minimum tax floor, assuming that the producer does not apply any sliding scale Non-GVR Per-Taxable Barrel Credits.

Mr. Stickel reminded that the GVR was part of SB 21, which passed in 2013.

Co-Chair Stedman addressed the second bullet on the slide, and asked where the state was in the exclusion of the GVR timeframe.

Mr. Stickel explained that the GVR was calculated for each field and each field had its own GVR timeline, the first potential year being the first year of production. He said that a schedule was maintained for all qualifying fields. He added that some fields had graduated from the GVR, and

some fields had been grandfathered in upon inception of the GVR.

[10:39:41 AM](#)

Mr. Stickel reviewed slide 21, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV), FY 2024," which showed a line graph. He noted that slide 21 and slide 22 were a re-hash of slides shown in an earlier presentation and were intended to reiterate the impact of different oil taxes on the tax system.

[10:41:48 AM](#)

Mr. Stickel showed slide 22, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV), FY 2024-FY 2026 * (*Fall 2022 revenue Sources Book Appendix A-1.)

Co-Chair Stedman asked whether the department held all things constant but price when conducting the sensitivity analysis.

Mr. Stickel explained that when doing the sensitivity analysis, the department held the major assumptions constant and applied an elasticity assumption to lease expenditures.

Co-Chair Stedman asked if the elasticity of expenditures was more applicable to multiple years or within 12 months.

Mr. Stickel explained that DOR currently assumed an elasticity of .3, which was derived from academic literature that suggested a 10 percent increase in price would correspond to a 3 percent increase in lease expenditures. He noted that there would be both short-term and long-term price changes. He said that a sustained increase or decrease in price relative to the forecast would be reflected in long-term operating costs.

[10:44:01 AM](#)

Senator Kiehl mentioned progressivity. He asked Mr. Stickel to get back to the committee with nominal effective rates across price ranges.

Co-Chair Stedman asked for clarification on the question.

Senator Kiehl clarified he wanted the nominal and effective tax rates for various oil prices.

Mr. Stickel agreed to provide the information.

Co-Chair Stedman thanked the department for presenting. He noted that the committee had heard from consultants over the years on the oil tax structure and industry. He advised that there would be more information and discussion to come on the matter over the next few months.

Co-Chair Stedman discussed the agenda for the following week.

#

ADJOURNMENT

10:47:29 AM

The meeting was adjourned at 10:47 a.m.