

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

March 31, 2023

3:31 p.m.

**MEMBERS PRESENT**

Senator Click Bishop, Co-Chair  
Senator Cathy Giessel, Co-Chair  
Senator James Kaufman  
Senator Forrest Dunbar  
Senator Matt Claman

**MEMBERS ABSENT**

Senator Bill Wielechowski, Vice Chair  
Senator Scott Kawasaki

**COMMITTEE CALENDAR**

PRESENTATION(S): COOK INLET UPDATE

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

DAN STICKEL, Chief Economist  
Tax Division  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Delivered the Cook Inlet update.

**ACTION NARRATIVE**

[3:31:58 PM](#)

**CO-CHAIR CATHY GIESEL** called the Senate Resources Standing Committee meeting to order at 3:31 p.m. Present at the call to order were Senators Dunbar, Claman, Kaufman, Co-Chair Bishop, and Co-Chair Giessel.

**PRESENTATION(S): COOK INLET UPDATE**

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CO-CHAIR GIESSEL announced the committee would hear an update on oil and gas issues in Cook Inlet. She explained this was in response to the questions about the tax structure that came up during the February update from the Department of Natural Resources (DNR) about the availability of gas in Cook Inlet.

She welcomed Dan Stickel to the witness table and noted that Colleen Glover was available online to answer questions.

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DAN STICKEL, Chief Economist, Tax Division, Department of Revenue, Juneau, Alaska, introduced himself and began the Cook Inlet Update presentation on slide 2 that consisted of a list of acronyms that are commonly used in oil and gas. He advanced to slide 3 and reviewed the following 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

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MR. STICKEL advanced to slide 4 and issued a disclaimer:

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

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MR. STICKEL advanced to slide 5 and described the four primary sources of oil and gas revenue in Cook Inlet:

- 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

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CO-CHAIR BISHOP wondered whether the 10 percent royalty rate was negotiated pre-statehood.

MR. STICKEL explained that 10 percent was a weighted average royalty rate in Cook Inlet for production on state land. He offered to follow up with the details; some leases pay the full 12.5 percent while other leases pay a reduced royalty rate.

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CO-CHAIR GIESSEL asked how many companies working in Cook Inlet might be subject to the corporate income tax.

MR. STICKEL replied that there was one major producer, several smaller producers, and minor working interest owners. He said he would follow up with details and the specific number.

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SENATOR CLAMAN asked whether the state property tax was based solely on oil and gas properties.

MR. STICKEL replied that's correct; the state property tax on oil and gas property is 20 mills.

SENATOR CLAMAN asked how a local or municipal tax fits with the 2 percent state tax.

MR. STICKEL explained that the local tax is allowed as a tax credit against the state tax, so a company would pay the 20 mills or 2 percent regardless of what the local tax may be.

SENATOR CLAMAN posed the hypothetical example of a 5 percent local tax, and asked whether the entire amount would go to the local government.

MR. STICKEL replied that it was beyond his area of expertise, but he believes that 5 percent would be above the limit for local governments to tax.

SENATOR CLAMAN asked who gets the revenue that is higher than two percent but below the limit.

MR. STICKEL offered his understanding that no local governments were taxing above 20 mills or 2 percent, but if that were to happen, it would offset the state tax entirely and the state would not get any property tax. He noted that at least one municipality was taxing the full 20 mills, and the state wasn't receiving any property tax revenue from that municipality.

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SENATOR DUNBAR asked whether oil and gas properties subject to this tax were limited to those directly related to production or if it would include, for example, the Hilcorp building in Anchorage.

MR. STICKEL replied that the property tax applies to property that is directly associated with the exploration, production, or transportation of oil and gas.

SENATOR DUNBAR observed that it would not apply to overhead and administrative buildings.

MR. STICKEL agreed.

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MR. STICKEL turned to slide 6, "State Petroleum Revenue by Land Type." The chart illustrates that the state's share of petroleum revenue varies depending on the land type. Production tax, property tax, and corporate income tax apply throughout the state and within the three-mile limit offshore, regardless of who owns the land. It's the royalty rate that is significantly

different depending on who owns the land. He described the royalty rates in Cook Inlet.

**Federal offshore areas:** The federal royalty applies and 27 percent is shared back to the state.

**State lands:** The state receives the entire royalty.

**Private land:** The royalty is privately negotiated with the landowner. The state does not receive a direct share of the royalty revenue, but the state does levy a 5 percent gross tax on the value of the private landowner's royalty interest as part of the production tax.

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MR. STICKEL turned to slide 7, "Cook Inlet Production Tax: Before and Starting January 1, 2022." He stated that prior to January 1, 2022, both oil and gas were subject to a net profits tax with a 35 percent tax on production tax value. There were no per barrel taxable credits and no gross minimum tax floor. A company that produced both oil and gas would allocate its lease expenditures such that it would have separate tax calculations for oil and gas.

On and after January 1, 2022, gas became subject to a 13 percent tax on the gross value at the point of production (GVPP), and all lease expenditures could be deducted against the net tax for oil. This change was put in place in 2014 when Senate Bill 138 was enacted in anticipation of a major gas sale that has not happened. Nevertheless, the tax switched to a gross tax in 2022.

In Cook Inlet there is a separate tax calculation for each field and separate calculations for oil and gas within each field, so Cook Inlet is ring-fenced. A tax ceiling applies for both oil and gas. The tax ceiling for oil is \$1/barrel. The ceiling for gas varies by field. Fields in production before the petroleum profits tax (PPT) was enacted in April, 2006 have a tax ceiling based on the gas tax rate for that field in the 12 months prior to enactment of the PPT. Those rates vary from zero to 24.7 cents per thousand cubic feet (mcf). Fields that came into production post 4/1/2006 are taxed at the average rate in 2006, which was 17.7 cents/mcf.

Over time and on average, production has shifted to the lower production fields. Most recently, the weighted average tax ceiling is a little under 14 cents/mcf.

Notably, most of the tax credits put in place in 2006, 2007, and 2010 were repealed by 2018. At this point there are few tax credits, although a few companies are eligible for the small producer credit that is phasing out.

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SENATOR KAUFMAN asked if he said that production had shifted to the fields that are subject to the lower tax rate.

MR. STICKEL replied that's correct. He added that the average tax ceiling in 2006 was 17.7 cents/mcf, and the average now is a little less than 14 cents/mcf.

SENATOR KAUFMAN questioned whether there was cause and effect or the result of the natural degradation of the higher cost fields.

MR. STICKEL said he didn't have the answer.

SENATOR CLAMAN asked when the law passed that enacted the 13 percent tax on the gross value at the point of production (GVPP).

MR. STICKEL replied that it was Senate Bill 138 that passed in 2014.

SENATOR CLAMAN observed that it passed in 2014 to take effect eight years later.

MR. STICKEL agreed and restated that part of the impetus was a potential major gas sale.

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MR. STICKEL turned to the chart on slide 8, "Cook Inlet Oil and Gas Revenue: Five-Year Comparison." He said DOR does not separately track oil prices in Cook Inlet. Alaska North Slope prices are used as a proxy. DNR produces the forecast for oil production as part of its regular production forecast. For gas prices, DOR publishes a prevailing value of gas prices in Cook Inlet. This is based on publicly reported average information. DOR does not have an exquisite gas price forecast for modeling purposes. The assumption is that gas prices will increase over time with inflation.

He relayed that the numbers for Cook Inlet gas production reflect total gas offtakes. He noted that offtake is the gas used in operations, and it represents a significant share of production. It is not subject to either royalty or tax, but for

consistency it is reported by the Alaska Oil and Gas Conservation Commission (AOGCC). There is also a separate forecasted gas production that comes from DNR. The agency evaluates the various producing properties and potential new developments and those are the forecast numbers on the chart.

MR. STICKEL reviewed the state revenue coming directly from Cook Inlet.

**Property tax** is fairly steady at \$15 million.

**Corporate income tax** applies to select companies doing business in Cook Inlet. This year the state expects to receive \$10 million in corporate income tax, and it's expected to remain about the same for the next two years.

**Production tax** has been a fairly small revenue stream for the last several years. Companies have been able to apply credits to offset nearly all their production tax. The exceptions are the hazardous release surcharge and the tax on private landowner royalty interests. Those credits will largely be used up this year and DOR expects more revenue in FY2024 and FY2025.

**Royalty** is the largest stream of revenue that the state receives from Cook Inlet oil and gas production. The chart shows \$69 million in 2023 and \$60 million in FY2024. These numbers represent total royalty revenue, which includes the restricted portion that goes to the permanent fund and school fund.

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SENATOR DUNBAR asked what caused the substantial increase in corporate income tax from \$4 million in FY2021 to \$13 million in FY2022.

MR. STICKEL answered that FY2021 reflects some of the negative impacts of low oil prices and the Covid-19 pandemic in 2020. It was a challenging year and some companies experienced losses.

SENATOR DUNBAR summarized that it wasn't a law change; a market and price change caused the drop in FY2021. The expectation for this year and the next two years is for that revenue to be low double digit and high single digit.

MR. STICKEL clarified that there was a compounding federal factor. The CARES Act provided that any corporation that had a net operating loss in tax years 2018-2020 could carry that loss

back for up to five years and receive a refund on taxes already paid.

MR. STICKEL added that the federal tax code is adopted by reference as the starting point for the corporate income tax, which is why the federal changes affect the state income tax.

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MR. STICKEL advanced to the line chart on slide 9, "Cook Inlet Oil and Gas Prices." He restated that Cook Inlet oil prices are not specifically forecast, but they do closely track North Slope prices. The chart shows a ten-year history of DOR's Spring forecasts for North Slope oil prices, which is used as a proxy for Cook Inlet prices. The price of Cook Inlet gas has increased steadily each year and the forecast for future prices applies inflation, which continues the trend.

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MR. STICKEL advanced to slide 10, "Cook Inlet Oil and Gas Production." He relayed that Cook Inlet is a mature basin. It was Alaska's first oil and gas basin, and production began in the 1950s. It peaked in the 1970s with a one-time high of over 23,000 bbl/day. For many years gas was exported from Cook Inlet, but that has ceased. Discussions now center on potential concerns about the gas supply in the basin. More recently Cook Inlet has seen an increase in oil production. This coincided with higher oil prices, generous tax credits, and Hilcorp's entry into Cook Inlet. The latest DNR production forecast is for some new projects leading to a fairly stable production outlook for both oil and gas for the next decade.

CO-CHAIR GIESSEL commented on the uptick in production that resulted from the Cook Inlet Recovery Act. She also noted that the state was unable to pay the cash credits it gave out.

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MR. STICKEL said that's a good segue to slide 11, "Non-North Slope Lease Expenditures." The line graph illustrates the idea that high oil prices, low taxes, and generous subsidies result in investment. This is what happened in the 2012-2015 timeframe. The Cook Inlet Recovery Act put generous tax credits in place in 2020. This helped draw Hilcorp into Cook Inlet in 2012; the chart shows the corresponding increase in capital spend in Cook Inlet to \$600-650 million/year. House Bill 247 repealed those tax credits in 2016 and investment started to drop. By 2018, most of those tax credits were repealed. He said it's difficult

to assign cause and effect of the tax incentives because the repeal of the credits coincided with lower oil prices.

MR. STICKEL remarked that operating costs have remained fairly stable over the last decade. The chart shows a drop in both capital and operating costs in FY2021, which is attributed to the Covid-19 pandemic. A small rebound in both capital and operating expenditures is expected in FY2024 with a few new projects, but the general expectation is for stable investment at the lower levels seen in the last few years.

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SENATOR KAUFMAN referenced the previous slide and asked if it would be safe to assume that the policy creating a beneficial environment is linked to, if not proof of, the change in the production trend line.

MR. STICKEL said the incentives in the Cook Inlet Recovery Act certainly were effective in increasing investment, but it's more difficult to say what investment would have been absent the credits because oil prices also increased.

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MR. STICKEL advanced to slide 12, "Non-North Slope Tax Credits." He explained that the "non-North Slope" category honors confidentiality by aggregating Cook Inlet information and a small amount of the credits or spending for the Middle Earth area. The bar chart shows a ten-year history and ten-year forecast. The orange bars reflect credits against liability. These include capital expenditure credits, net operating loss credits, well lease expenditure credits (all of which have been repealed), and the small producer credit that is phasing out through 2025.

The blue bars reflect credits that are available for purchase. These include capital expenditure credits, net operating loss credits, well lease expenditure credits, exploration credits, gas storage facility credits, LNG storage facility credits, and refinery investment credits under the corporate income tax code. Those credits have been repealed or sunset, but some were still available for purchase. DOR is forecasting a \$312 million appropriation in FY2023 for tax credits for purchase. This represents a DOR Spring forecast estimate of \$252 million, which is based on 10 percent of the estimate for production tax levied before credits for the entire state. There is also a \$60 million supplemental appropriation in the FY2023 budget. He noted that the blue bar for FY2023 shows the estimated \$166 million in non-

North Slope credits. DOR estimates a remaining \$56 million in credits statewide in FY2024, \$47 million of which is non-North Slope.

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MR. STICKEL explained that slides 13 and 14 address the committee's request to provide information about the non-North Slope tax credits and how effective the purchased tax credits have been. He spoke to the following:

#### **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

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MR. STICKEL stated that slides 15-17 are also in response to a committee request. That was to provide an illustration of the production tax calculation for Cook Inlet, similar to the order of operations that DOR often has presented in the past for the North Slope. The calculations are based on the forecast data for FY2024. Slide 15 looks at the oil tax calculation, slide 16 looks at the gas tax calculation, and slide 17 looks at the final tax after credits.

Speaking to the chart on slide 15, he relayed that DOR is forecasting about 8,000 bbl/day of oil production in Cook Inlet with an average wellhead price of \$63.39/bbl. The equivalent value is about \$0.5 million/day or about \$185 million/year. The average royalty rate in Cook Inlet is about 10 percent. This leaves \$166 million gross value at the point of production (GVPP), which is the basis for the tax calculation. Because all lease expenditures in Cook Inlet can be deducted against the oil tax calculation, the chart shows that a company is able to apply lease expenditures and bring their production tax value to zero. He noted that the \$250 million in non-deductible lease expenditures are essentially foregone in this aggregate calculation. There is no tax credit for those expenditures and no provision to carry forward annual losses. The 35 percent net profits tax rate applies to the production tax value, but the PTV is zero so the result is zero. The tax ceiling on oil is \$1.00/bbl of taxable production; for 2,615 thousand barrels, the tax ceiling calculates to \$2.6 million. The lesser of the production tax before ceiling and the ceiling tax is used, so the oil production tax in Cook Inlet is essentially zero.

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SENATOR CLAMAN asked how long the production tax in Cook Inlet had been essentially zero.

MR. STICKEL replied that the tax ceiling was zero from 2006 until the legislature raised it with House Bill 247 in 2016, so the tax ceiling went to \$1.00/bbl in 2017. With the 2022 tax

changes allowing all lease expenditures against oil, the effective tax on oil is zero.

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MR. STICKEL stated that slide 16 looks at the Cook Inlet production tax calculation for gas. For FY2024 DOR is forecasting a price of \$8.06 per thousand cubic feet (mcf); 196 million cubic feet per day (mmcf) of production; a daily production value of \$1.6 million; and an annual value of \$577 million. Gas used in operations is not subject to tax or royalty so those amounts are deducted from the calculation. He described the calculation for tax purposes. The gross value at the point of production (GVPP) is \$424 million; the 13 percent tax rate is applied; the production tax value before the ceiling is \$55 million; the weighted average tax ceiling is \$7.2 million; and the \$7.2 million is the gas production tax.

SENATOR DUNBAR referenced slide 15 and made the observation it can't be a coincidence that the deductible operating and capital expenditures exactly match the gross value at the point of production. He asked, "Would they actually be higher but for something?"

MR. STICKEL replied that the aggregate calculation assumed that the producer would offset their entire GVPP with the lease expenditures of \$166 million. This does not include the \$250 million of additional non-deductible lease expenditures that are essentially foregone in the tax calculation. So the total lease expenditures DOR is forecasting is the sum of the \$250 million and \$165 million which is a little over \$400 million.

SENATOR DUNBAR asked whether the two-thirds/one-third split for operating and capital was for the sake of convenience or the actual breakdown.

MR. STICKEL replied that is the actual ratio; slide 15 prorates the total operating and total capital to \$166 million.

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MR. STICKEL stated that slide 17 looks at the total oil and gas taxes in Cook Inlet. For FY2024 DOR expects a total tax value before credits of \$7.2 million; \$2.4 million of tax credits against liability for small producers; other adjustments such as the hazardous release surcharge and the tax on private landowner royalty interests add \$0.2 million; so the total production tax paid to the state is forecast to be \$5 million in FY2024.

MR. STICKEL restated that this was an aggregate calculation for illustrative purposes. The actual taxes in Cook Inlet are levied separately for each field. A full ringfencing is in place in Cook Inlet so some companies would have higher or lower taxes than the aggregated estimate.

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CO-CHAIR GIESSEL asked how it happened that Cook Inlet was excluded from the legislation going through the process that levies an income tax on S Corporations.

MR. STICKEL noted that she was referring to SB 114, which extends the corporate income tax to non-C corporations or pass-through entities statewide. He said it would affect production on the North Slope, Cook Inlet, and everywhere else in the state.

CO-CHAIR GIESSEL asked whether the bill had an income threshold.

MR. STICKEL said that's correct. SB 114 proposes a 9.4 percent tax for companies that have income greater than \$4 million.

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SENATOR DUNBAR returned to the chart on slide 10 and asked whether DOR's forecast of substantially lower oil and gas production in the coming years was based on the current tax structure.

MR. STICKEL replied that's correct.

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MR. STICKEL advanced to slide 18 and relayed that the committee previously asked DOR to look at how profits in Cook Inlet are distributed. He described the assumptions that were used in the analysis.

### **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

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MR. STICKEL advanced to slide 19, "Cook Inlet Distribution of Profits: Oil (per barrel)." He noted that DOR assumed a wellhead value of \$63.39/bbl and costs of \$30.79/barrel, which leaves a profit of \$32.60/bbl/oil/Cook Inlet.

**Cook Inlet Distribution of Profits: Oil (per barrel)**

~ With state corporate income tax:

- ~ The state receives about 30 percent of the profit.
- ~ The municipal property tax is about 3 percent.
- ~ The federal corporate income tax is about 14 percent.
- ~ The producer receives a little more than \$17.00/bbl or 53 percent of the profit.

~ Without the state corporate income tax:

- ~ The state receives about 27 percent of the profit.
- ~ The producer share increases to 55 percent.
- ~ The assumption for the federal corporate income tax rate was 21 percent.
- ~ Using a higher federal income rate would reflect a more individual income tax rate for a pass-through entity.

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SENATOR KAUFMAN wondered what the distribution of profits would look like if renewable energy were part of the comparison. He opined that renewables would return a thin profit to the state. He asked Mr. Stickel for his perspective since there were calls for transitioning to 80 percent renewables.

MR. STICKEL advised that state royalty would not apply to most renewables, although geothermal may be an exception. Renewable energy projects would not be subject to a production tax or state property taxes, but municipal property tax might apply and the state potentially could receive state corporate income tax. Federal taxes would apply.

SENATOR KAUFMAN commented that it should be an eye opener for those who are "chomping at the bit" to pursue the transition to

renewables. He opined that this points to the need to find the sweet spot for taxation versus production.

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MR. STICKEL advanced to slide 20 that looks at the distribution of profits in Cook Inlet for gas with and without state corporate income tax. He advised that a difference from slide 19 is the lease expenditures share for gas is much higher, so there is less profit per unit of gas production than per unit of oil production. He said DOR assumed an average wellhead value of \$8.06/mcf and costs of \$5.12, which leaves \$2.94/mcf of profit to be shared between the different entities.

#### **Cook Inlet Distribution of Profits: Gas (per mcf)**

- ~ With state corporate income tax
  - ~ The state receives about 46 percent of the profit.
  - ~ The municipal property tax is about 6 percent.
  - ~ The federal corporate income tax is 10 percent.
  - ~ The producer receives \$1.12 or 38 percent of the profit.
- ~ Without state corporate income tax
  - ~ The state receives about 44 percent of the profit.
  - ~ The producer share increases to about 40 percent.

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MR. STICKEL stated that slide 21 combines the last two slides and looks at all production in Cook Inlet on a barrel of oil equivalent (BOE) basis. The equivalent assumes that one barrel of oil is the same as 6,000 cubic feet of gas (mcf).

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

- ~ With state corporate income tax
  - ~ The state receives about 40 percent of the profit.
  - ~ The producer receives about 43 percent of the profit.
- ~ Without state corporate income tax
  - ~ The state receives 38 percent of the profit.
  - ~ The producer share 45 percent of the profit.

SENATOR DUNBAR commented that the difference between an entity paying corporate income tax and not paying corporate income tax is a shift of about 2 percentage points from the producer to the state. His perspective was that the producer was still left with

a fairly healthy profit margin. He asked if that's what the graphic was intended to illustrate.

MR. STICKEL said that's correct. He restated that this was an aggregate calculation; it does not show that the economics for each field and each producer is slightly different.

CO-CHAIR GIESSEL said that's an important distinction.

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MR. STICKEL explained that slides 22-24 are in response to the committee's request to provide information about Cook Inlet incentives. He spoke to the following:

#### **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

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CO-CHAIR BISHOP pointed out that House Bill 247 that passed in 2016 and House Bill 111 that passed in 2017 both changed the tax policy that was implemented with Senate Bill 21 that was introduced in 2013.

CO-CHAIR GIESSEL observed that the legislation passed in 2016 and 2017 were specifically for Cook Inlet.

MR. STICKEL agreed that House Bill 247 and House Bill 111 both were modifications to Senate Bill 21.

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MR. STICKEL turned to slide 23 and reviewed the current Cook Inlet incentives.

#### **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

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MR. STICKEL advanced to slide 24 and reviewed the list of potential options for future Cook Inlet energy supply incentives. He clarified that this was not an exhaustive list and it was not a recommendation or endorsement from the administration. He also noted that it would be important to understand what would influence the decision-making of the one major producer in Cook Inlet.

#### **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)

SENATOR DUNBAR remarked that one challenge in Cook Inlet is that the market is too small to justify the investment. He asked if DOR had considered that increasing gas consumption might stimulate investment, and that this could be done by reopening exports and/or the Donlin Mine.

MR. STICKEL offered his perspective that it was a chicken and egg issue; it may be challenging to commit to an additional major source of supply, whatever the source, without knowing that the demand would be there. Similarly, it's difficult to commit to the demand side without knowing that the supply would be available. He said there could potentially be a state role in helping bring the market together.

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CO-CHAIR GIESSEL observed that the notion of loan guarantees makes her think about companies like Blue Crest. They know there's an offshore gas supply but they don't have the ability financially to bring it into production.

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CO-CHAIR BISHOP commented that it's all a policy call, but the legislature has to look at the goal for Cook Inlet and weigh the cost and benefit of any proposal.

SENATOR KAUFMAN observed that the goal is to find the sweet spot between the revenue and production curves, and the devil is in the details.

CO-CHAIR GIESSEL commented that it was a difficult process to repeal the cash credits because some people were counting on them and went bankrupt.

She thanked Mr. Stickel for the presentation and the additional documents he provided.

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There being no further business to come before the committee, Co-Chair Giessel adjourned the Senate Resources Standing Committee meeting at 4:36 p.m.