

SB

305

(FILE 9)

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SB 305/HB 488—Oil & Gas Production Tax

March 4, 2006

- Consultant to Legislative Budget and Audit Committee
- My Background

WHO SAID IT ... and when?

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- ✦ “Since discovery of oil in commercial quantities on the Kenai Peninsula in 1957, two great interrelated responsibilities face the Legislature. One will be that of encouraging further exploration and greater production. Greater cost factors such as those incurred in reaching and developing inaccessible fields may affect Alaska’s competitive position in world markets. We will wish to consider how far to go in creating a favorable investment climate toward attracting new payrolls and realizing rental and royalty income for the state.”

The Challenge

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- ⌘ Your responsibility is not unique – but you are relatively better situated because you have the benefit of historical perspective.
 - ⌘ Among your considerations, there is only one certainty – your numbers are wrong, but not necessarily bad.
 - ⌘ Why are your numbers wrong?
 - ◆ Geological uncertainty
 - ◆ Production volume forecasts
 - ◆ Price forecasts
 - ◆ Failing to identify and quantify the range and magnitude of credits and deductions
 - ⌘ Not much control of these uncertainties – best judgment.
 - ⌘ Your choice of words, however, can reduce fiscal risk and provide greater certainty.

The Past

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- ✦ Cook Inlet example – “wells” versus “completions”
 - ✦ North Slope example – the disaggregation and aggregation issue.
 - ✦ ANS Litigation History – the past can be the key to the future.
 - ✦ The most costly words – the ANS royalty litigation.
 - ✦ Where and how – “at the well” and in a multitude of ways.

The Lessons

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- ⌘ Milestones in the ANS Litigation.
 - ◆ ANS field cost allowance settlement (1980)
 - ◆ TAPS Agreement – “just and reasonable rates” (1985)
 - ◆ Royalty Settlement Agreements (early 1990’s)
 - ⌘ One common lesson learned – reasonable opportunity to revisit fiscal provisions critical to long term satisfaction
 - ◆ ANS field cost allowance history and magnitude
 - ◆ TAPS Settlement
 - ◆ Royalty Settlement Agreements

Examples of Concerns

- ✦ Point of Production
- ✦ Definition of Gas Processing Facilities
- ✦ Definition of Gas Treatment Facilities
- ✦ The unknown relationship of terms to a stranded gas contract
- ✦ The unquantified but major deduction and/or credit exposure – “abandonment”
- ✦ Pending Questions

Recurring Historic Themes

- ✦ The use of the unit operating agreements
 - ◆ Substantial weight (see Sec. 21, pg. 12)
- ✦ The adoption of royalty settlement methodologies (see Sec. 20, pg. 10)
- ✦ Arbitration

Recommendations

- ⌘ Take the time to confirm the lessees' AND the DOR's intent where there is an ambiguity
- ⌘ Expect linkages and try to understand how they may affect or be affected by future events
- ⌘ Take advantage of your "extra eyes"