

**HB**

**20001**

**(10/30/07)**

**Alaska State Legislature  
HOUSE RESOURCE COMMITTEE  
AGENDA**

**Tuesday, October 30<sup>th</sup>**  
**House Finance Committee Room 519**

**9:00 a.m. – 3:00 p.m.**

HB 2001 Oil and Gas Tax Amendments

Presentation by the Administration:

Revenue Commissioner Pat Galvin and

Deputy Commissioner Marcia Davis

*Mike Williams, DOR - 4 CN, DOR*

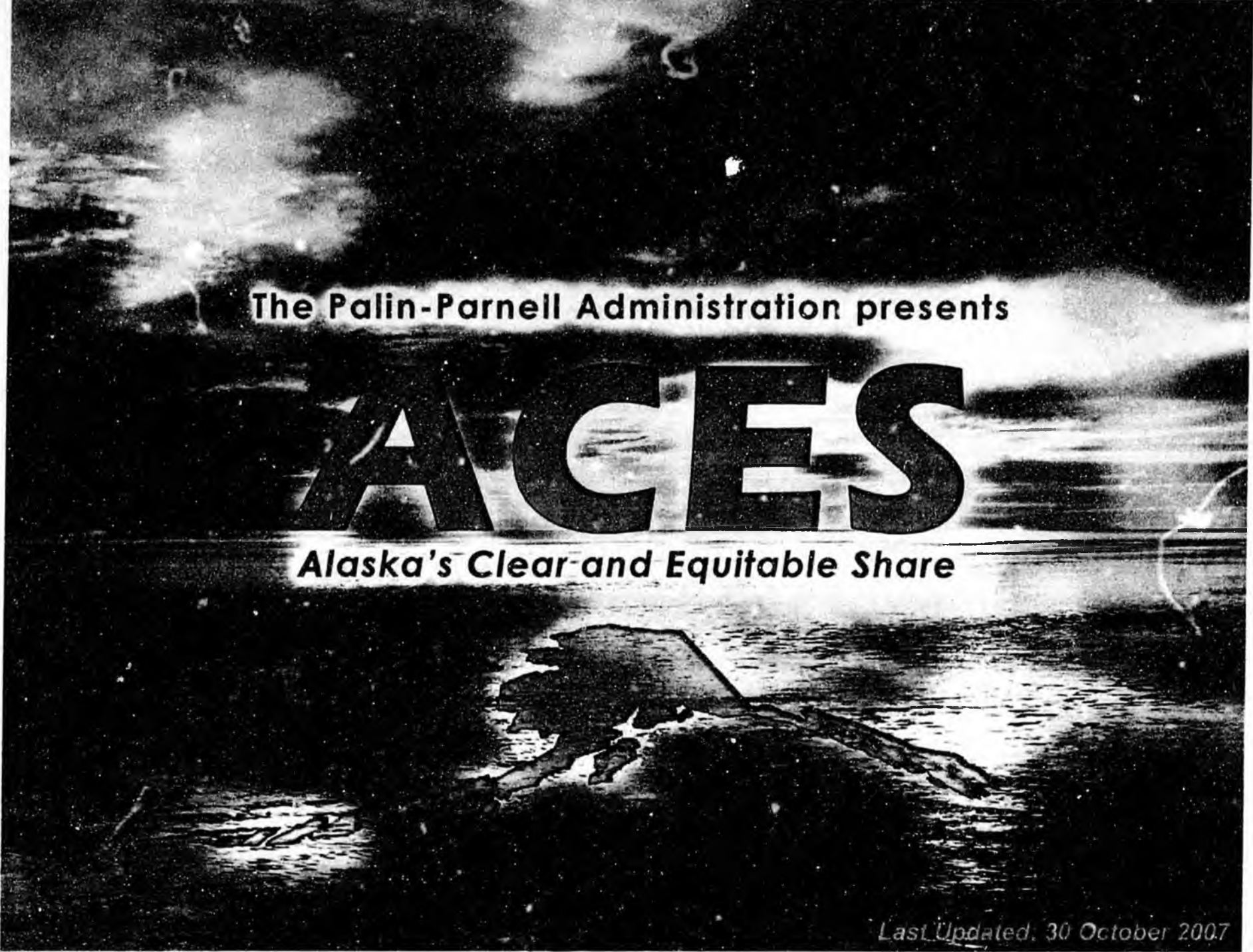
① Dan Dickinson, Consultant, Legislative Budget and Audit

*Rick Zugeris      Gaffney Kline*

**6:30 p.m. Public Hearing**      **Teleconferenced**

✓ Public Testimony

↳ Bob George, GK



The Palin-Parnell Administration presents

# ACES

Alaska's Clear and Equitable Share

*Last Updated: 30 October 2007*

**ACES**

Alaska's Clear and Equitable Share

# Transportation Deductions

Antony Scott

Commercial Analyst, DNR

October 30, 2007

## Overview

# ACES

Alaska's Clear and Equitable Share

- Current law
- The commercial reality
- Some problems
- Potential remedies

- Gross value at point of production determined by subtracting “reasonable costs of transportation” from market prices
- “Reasonable costs” = “actual costs”
- “Actual costs” have historically been understood as FERC/RCA tariffs
- Exception for affiliate transactions, but only if “there are other reasonable modes of transportation” → exception is never met!

# Transportation Deductions (Oil Pipelines)

# ACES

Alaska's Clear and Equitable Share

- Deductions have historically relied on rates sanctioned by regulatory bodies
- Typically, this “sanction” does not reflect a regulatory determination
- Rather, the regulatory bodies have “blessed” settlement agreements between the state and the pipeline owner

**Why does state base its tax policy for pipeline transportation deductions on pipeline rate litigation?**

- MMS doesn't when pipeline is owned by producing affiliates.
  - They adopt a method promulgated through regulation

# Pipeline Transportation Deductions



Alaska's Clear and Equitable Share

- Key reasons for state to avoid relying on regulatory process in setting tax value
  - Creates uncertainty: While litigation drags on tax value not fully known
  - Inefficient: Regulatory process unlikely to work well absent arms-length commercially sophisticated parties

# TAPS Tariffs Example



## Background:

- TAPS rates are currently ~\$5/bbl, set under a 1985-era settlement agreement between the State and the TAPS owners
- Rates don't appear to reflect "actual costs"
  - RCA determined that actual costs ~\$2/bbl
  - FERC Administrative Law Judge determined that actual costs ~\$2/bbl
- While litigation continues, State continues to allow a ~\$5/bbl transportation deduction

## TAPS Tariffs Example

# ACES

Alaska's Clear and Equitable Share

### Indicative Value of “Tariffs by DOR”

- Assume:
  - TAPS tariffs are \$3/Bbl too high
  - 760,000 Bbls/day
  - Production tax rate of 22.5%
  - All barrels are shipped on affiliated transportation
- Then production tax value to state of setting tariffs for affiliate transactions is **~\$160 million/year**

## Transportation Deductions (Gas Pipelines)



- Gas pipelines typically built on basis of “negotiated rates” between shippers and pipelines
- FERC typically gives no scrutiny as to whether the negotiated rates are a “fair” bargain between shipper and pipeline
- If Producers end up owning the gas pipeline, then they can negotiate rates with themselves

**Why would the state want to set its tax policy for transportation deductions on the basis of a non-arms length deal that state can't even litigate?**

- Experience on TAPS suggests it would be unwise
- No compelling need to do so

## The Key to a Remedy

# ACES

Alaska's Clear and Equitable Share

- At present, state is arguably forced to live with non-arms length transactions because it is never the case that “there are other reasonable modes of transportation”
- DOR could follow MMS’ lead and establish regulations that determine appropriate cost deductions for non arms-length transactions on pipelines
- Cleanup language needed to ensure that the arms-length shippers – who really do have “actual costs” of the posted tariffs – are not forced to use the DOR-established tax deduction

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# **Alaska's Equitable Share**

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**Some Further Thoughts  
30 October 2007**



# Topics

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- **What is the risk of raising state revenue share on the existing producing reservoirs?**
  - Look at AOGA, BP and other industry data
- **What are the goals or drivers for Alaska's Petroleum Fiscal System?**
  - List what we have discerned since arriving in Juneau
- **From a 50,000 foot viewpoint, what fiscal system structure accomplishes the above goals with a minimal need for intervention?**

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# The Tipping Point

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# Where is the tipping point?

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- **Quite legitimately several legislators have asked their advisors and the companies how far is just right and how far is too far?**
  - The companies have complex decision making processes with many external factors at play and can't articulate what impact a change in Alaska taxes will have
    - Rock (Prospectivity) trumps Scissors (Fiscal) - Chevron
    - *Scissors (Fiscal) cut Paper (Profit)*
    - *Paper (Buy Reserves) covers Rock (Develop Reserves)*
  - Consultants acknowledge that taxes are but one of many factors that control decision making, and cannot say with certainty what tax rate is just right



# Testing the Tipping Point

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- **We can read lines, and between the lines, of industry testimony to construct a picture of the Alaskan investment climate**
  - AOGA letter which reflects “the full consensus of the members of the AOGA Tax Committee, with no dissent”
  - BP’s very detailed presentation on Prudhoe Bay area
  - Conoco’s useful insight on project economics
  - And other information supplied by Anadarko, Chevron, Exxon and Pioneer.
- **Details presented were then double checked against annual reports, SEC filings, analyst presentations and other company press releases where available**



# Overall Observations

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- **We agree with industry that there is significant upside in reducing the decline from existing producing assets**
- **The economics of reinvestment in producing assets on the North Slope are extremely profitable**
  - Evaluated with actual costs, production and prices as reported by BP
  - Profitable even when tested against various stress points



# AOGA Testimony to the House

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In discussing the merits of HB 2001 versus PPT and the Administration's concerns, we must always keep in mind the real-world situation that Alaska faces. The greatest challenge that confronts this generation of Alaskans and the next is the ongoing decline of oil production, which has been, is today, and promises to remain the cornerstone of the finances of state government.

- **The fiscal system chosen must recognize the current and near-term importance of improving production from existing assets.**



# AOGA Testimony – Recent Success

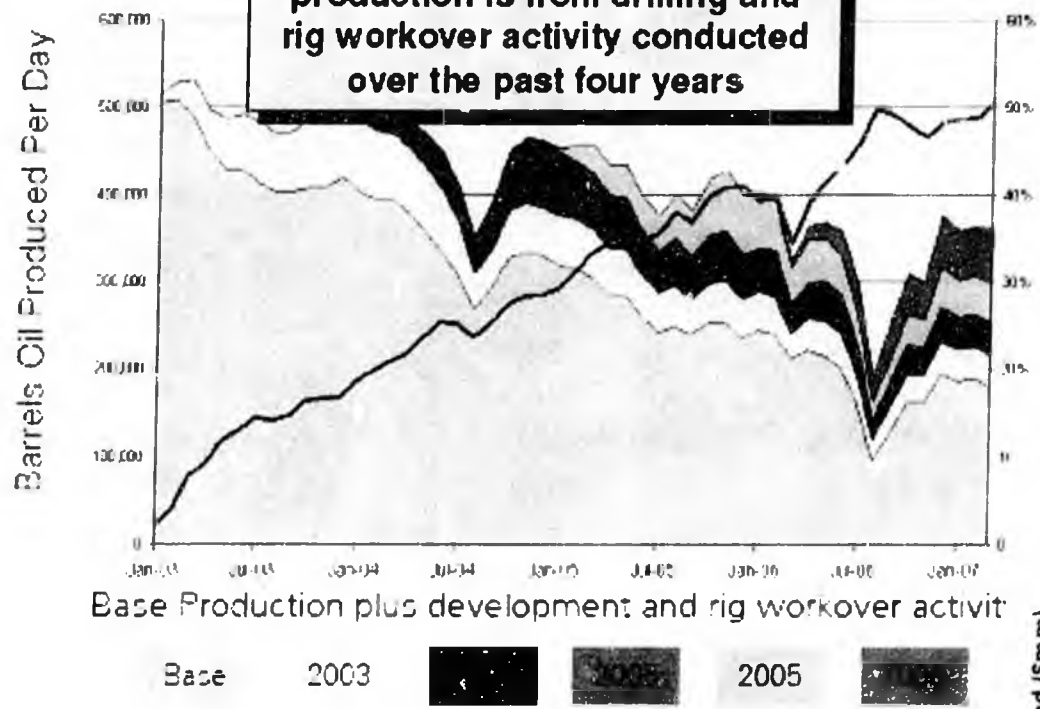
This gets us to investment in currently producing fields. Fortunately, there are investments that can be made, and are being made, in these fields to slow their decline. In the short term, this is in-fill drilling — that is, drilling new wells into the portions of a reservoir that are between the wells that have already been drilled. This accelerates the drainage of oil from the rock that currently lies in between existing wells. In-fill drilling last year contributed some 70,000 barrels a day to production from the Prudhoe Bay field. To put this into perspective, a 70,000 barrel per day field would be the 4<sup>th</sup> largest stand-alone field on the North Slope today.

- **AOGA noted that North Slope field life could be extended up to another 25 years with continued investment**
- **The oil companies achieved 70,000 bpd of additional production from the 2006 drilling program in Prudhoe Bay.**



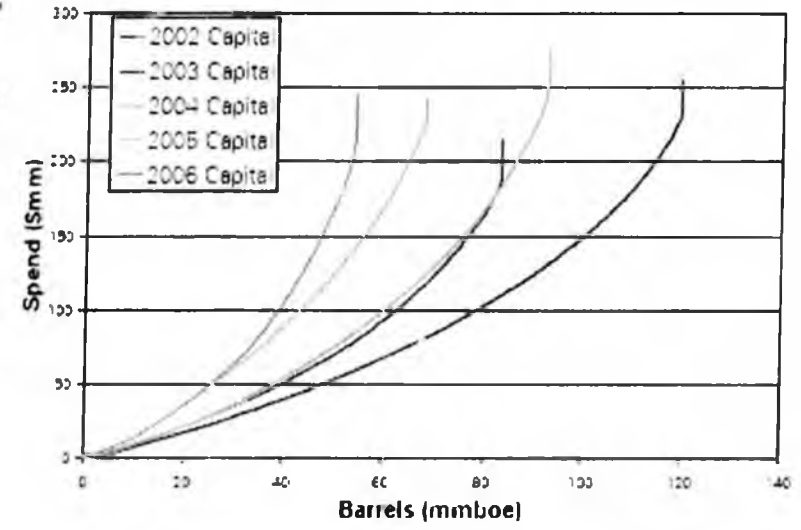
# BP's infill drilling program

**50% Of GPB's current oil production is from drilling and rig workover activity conducted over the past four years**



## Observations?

**GPB Well Investments 2002-2006**



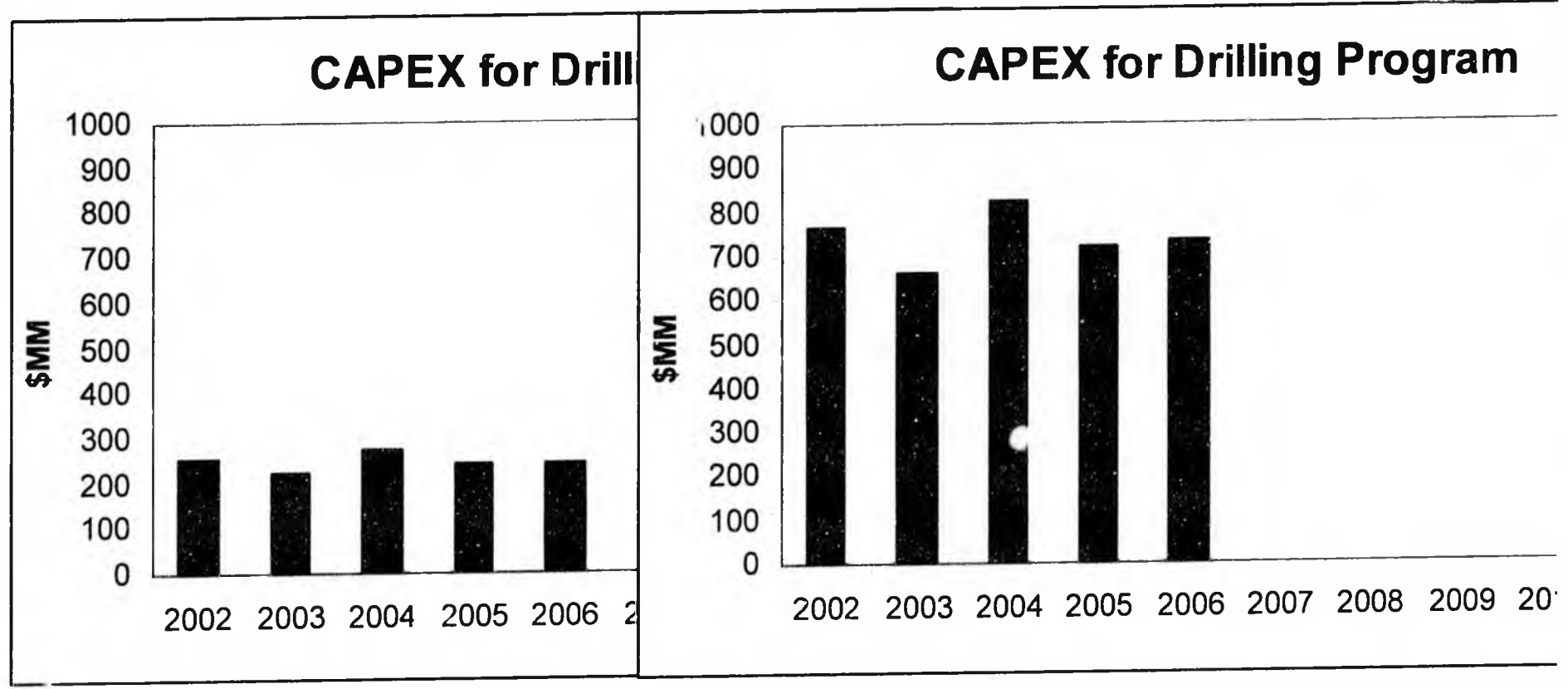
BP House testimony page 12





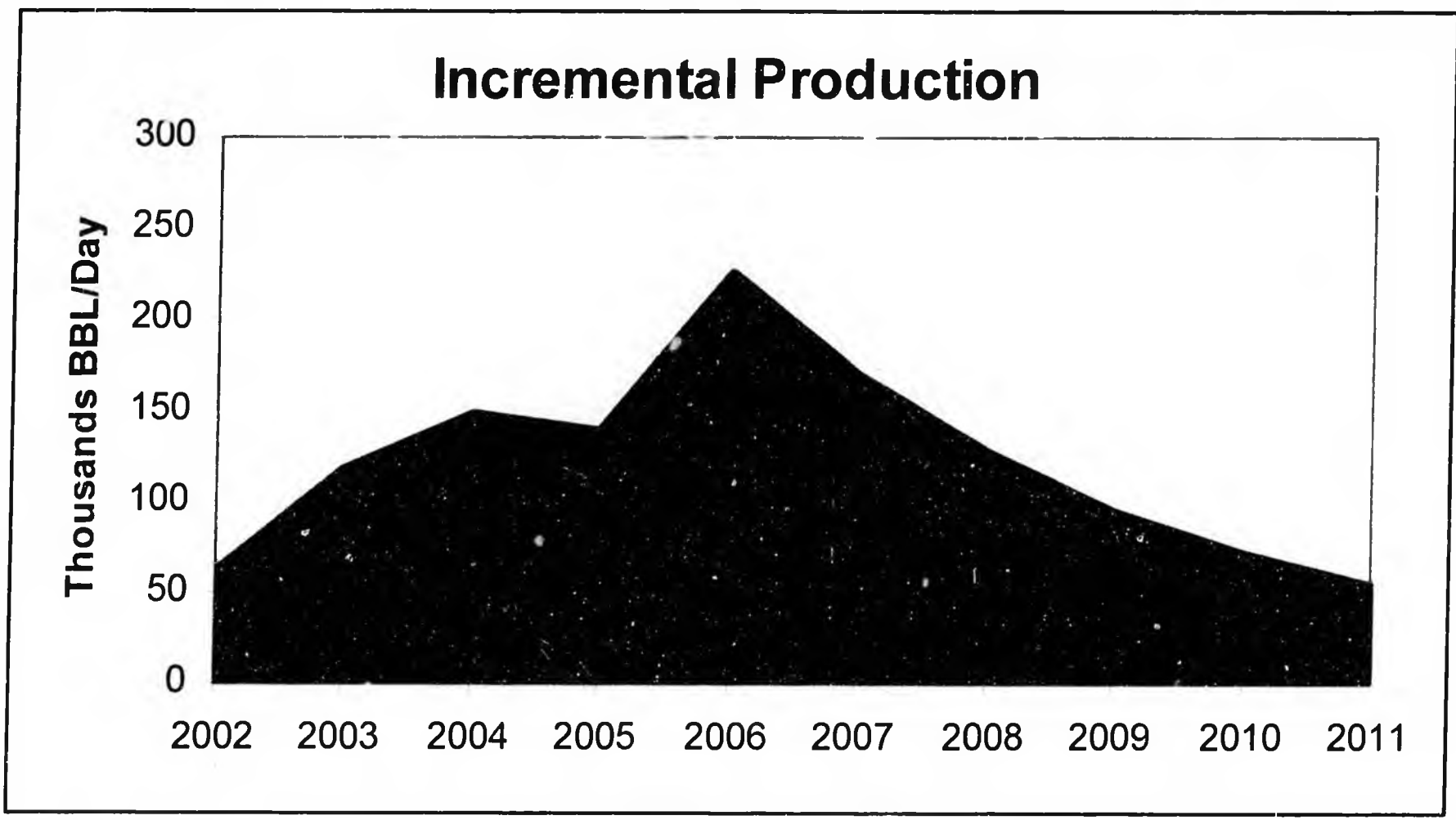
# 5 Year Prudhoe Drilling Program

- Drilling capex – 300% for added facilities/injection





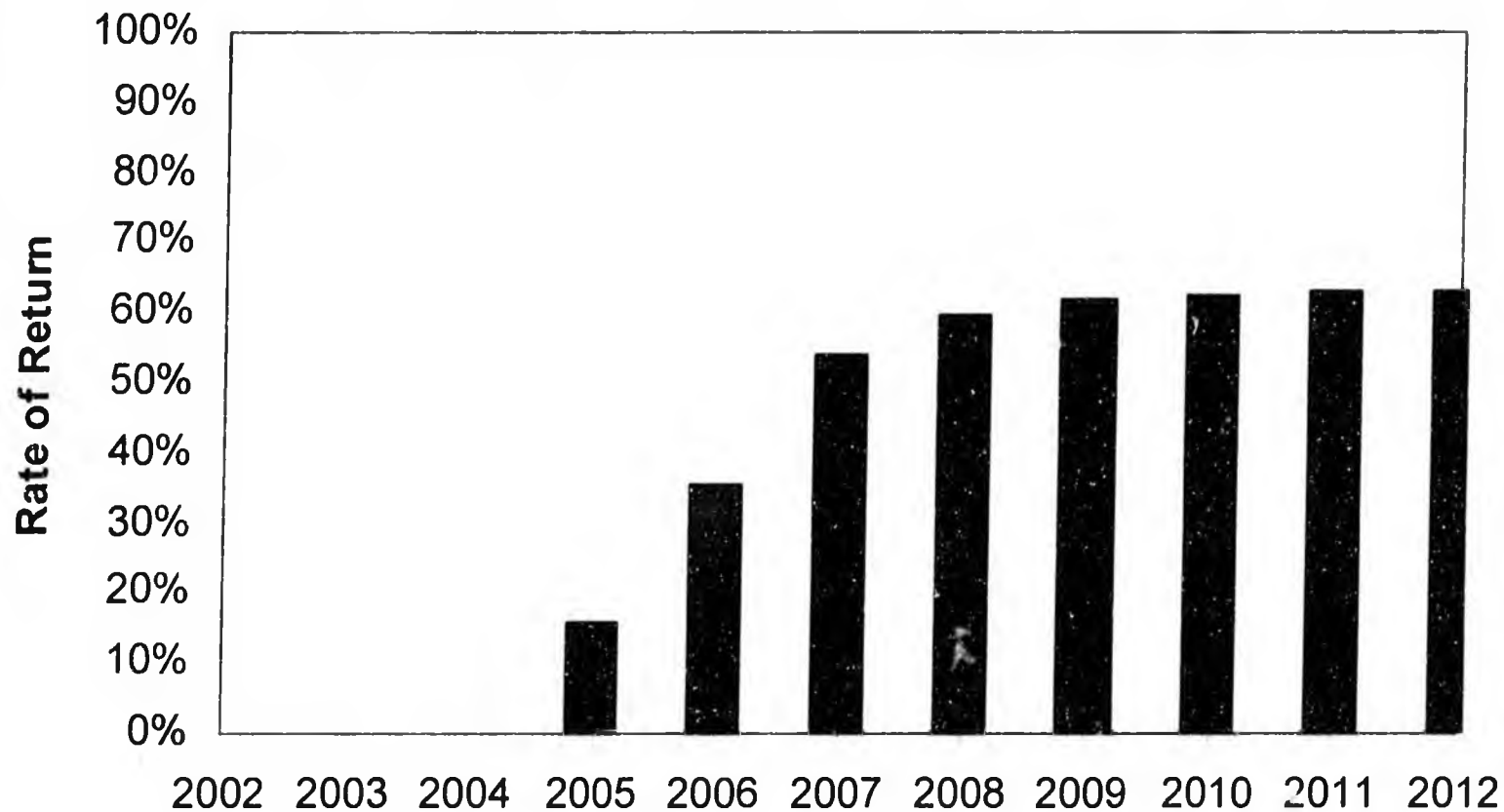
# BP – Prudhoe Bay





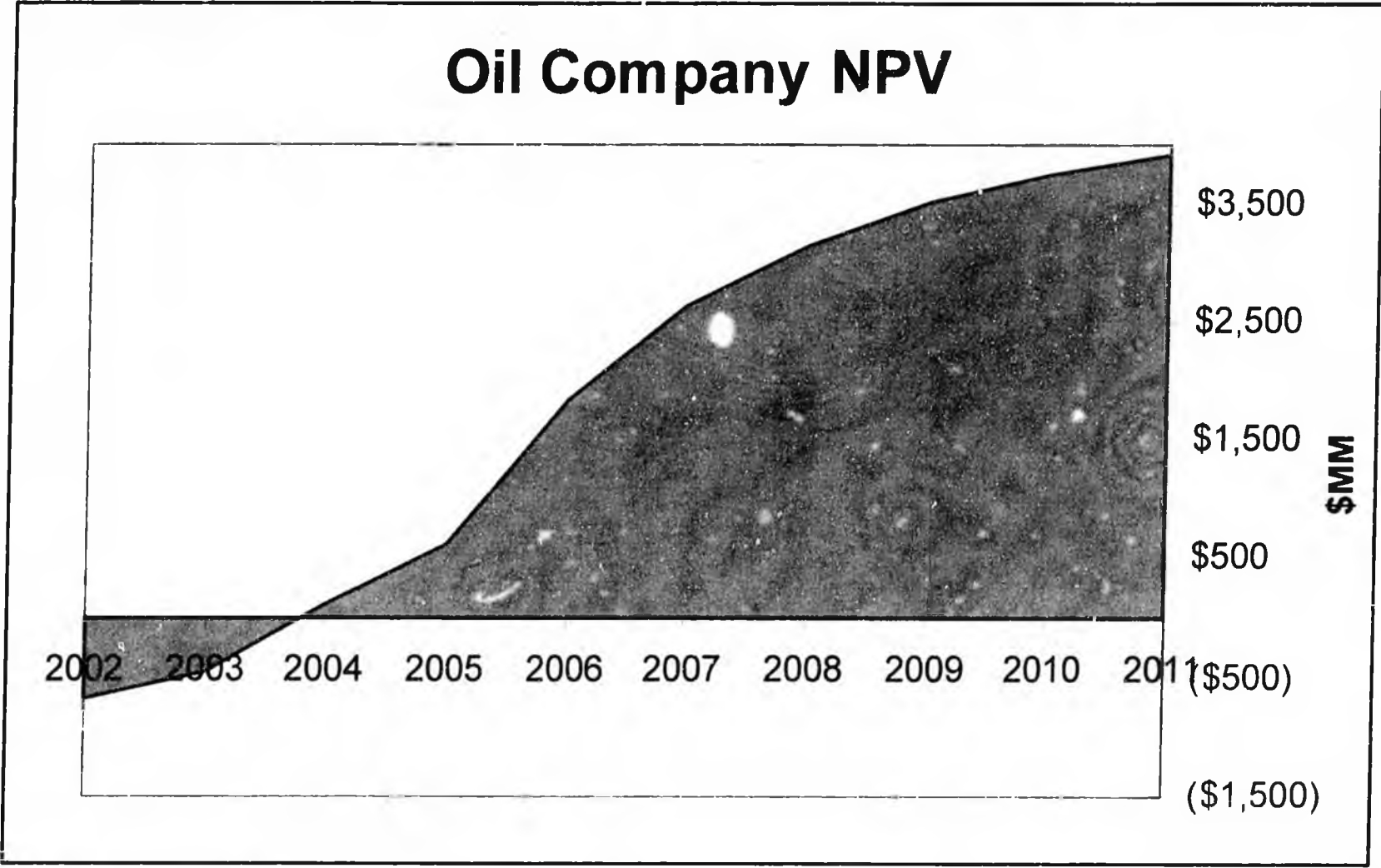
# BP Prudhoe Bay

## Oil Company After Tax IRR





# BP Prudhoe Bay





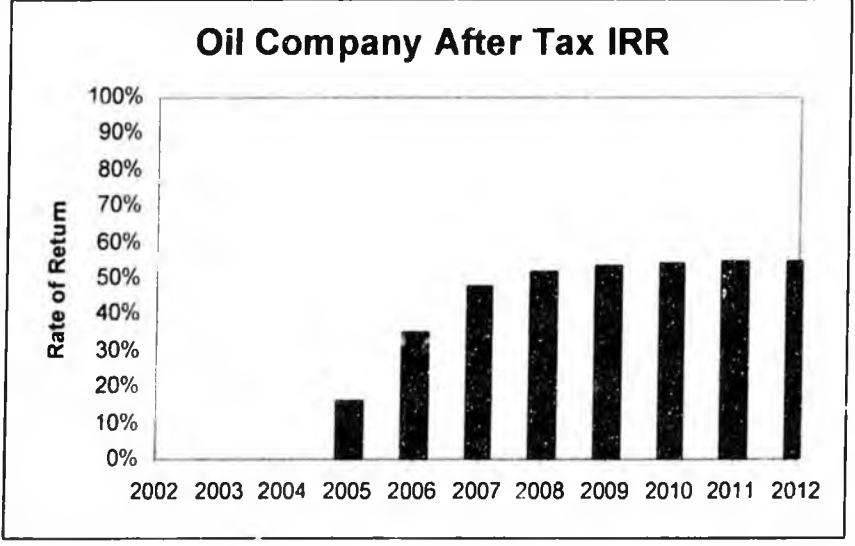
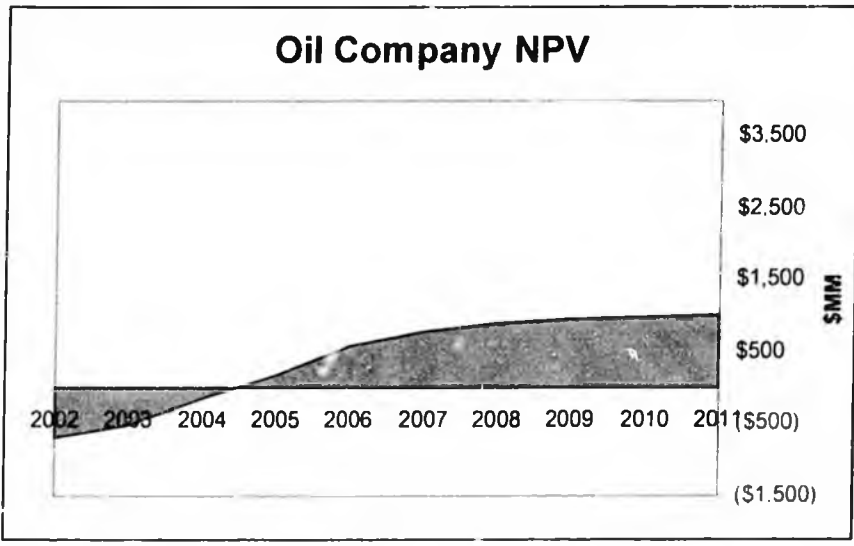
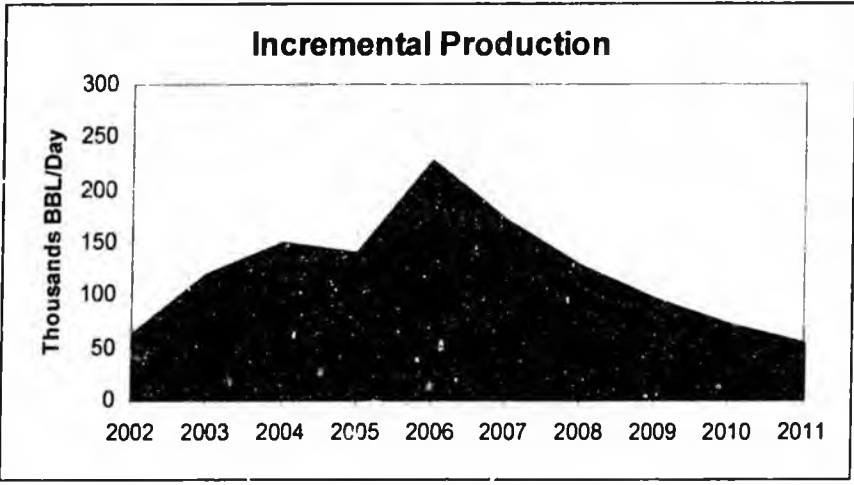
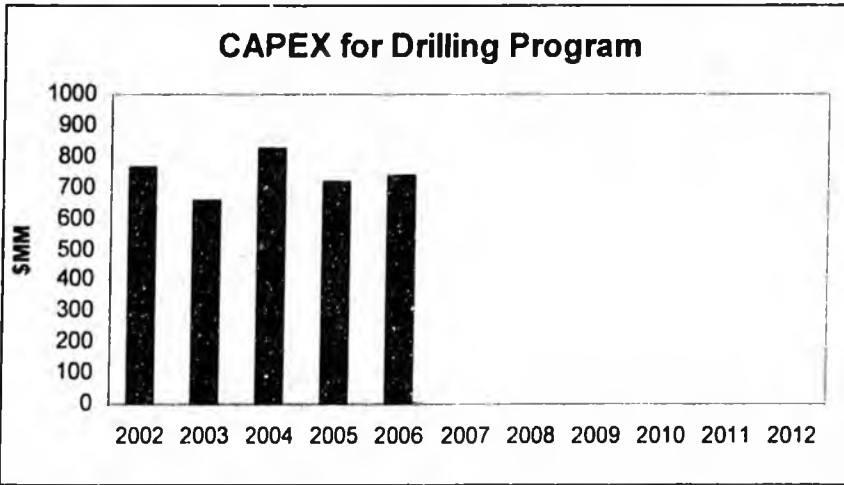
# Robust drilling program

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- **Remains profitable at:**
  - 300% capex
  - 200% opex
  - 25% discount rate
  - \$50 ANS
  - High progressivity



# Overly Stressed Case



**Model**

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# North Slope Potential

## Production Drives Revenue



Decline Rate	15%	<b>6%</b>	3%
Produced Barrels	1.3 bn	3.9 bn	7.5 bn
Industry Investment	\$5 bn	\$25 bn	\$70 bn
		<b>Status quo</b>	

- **Built a generic model based on the above barrels and investments**
  - Used indicated decline rates
  - 250,000 bpd abandonment rate



# Under PPT

## Production Drives Revenue



Decline Rate	15%	<b>6%</b>	3%
Produced Barrels	1.3 bn	3.9 bn	7.5 bn
Industry Investment	\$5 bn	\$25 bn	\$70 bn

**Status quo**

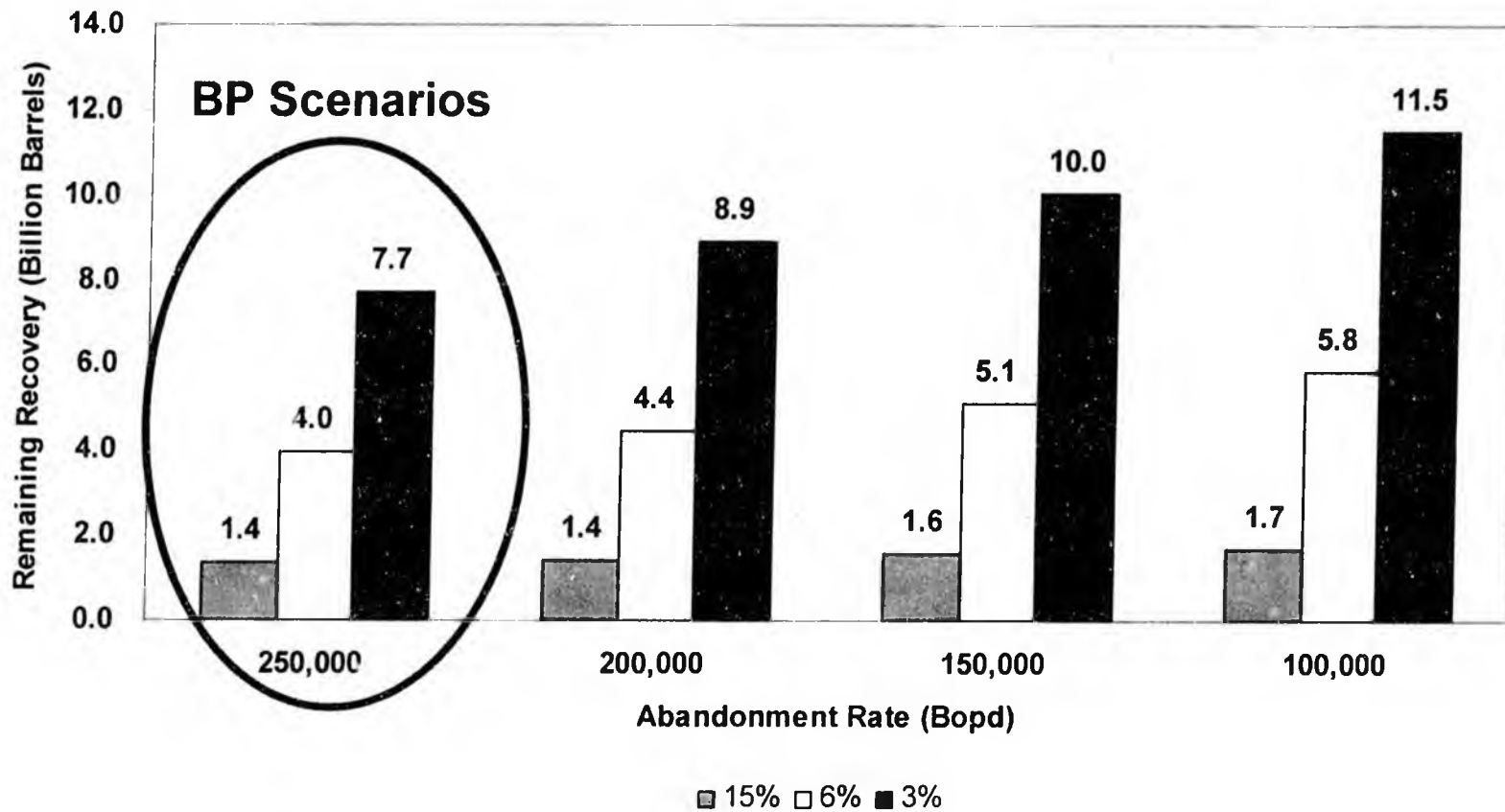
- |                 |               |               |                |
|-----------------|---------------|---------------|----------------|
| • NPV10 = \$Bn  | • \$15 - \$20 | • \$30 - \$40 | • \$35 - \$45  |
| • NPV0 = \$Bn   | • \$22 - \$27 | • \$55 - \$75 | • \$90 - \$125 |
| • NPV0 = \$/bbl | • \$15 - \$20 | • \$14 - \$19 | • \$12 - \$17  |

~ \$80/bbl WTI, \$70/bbl NS



# North Slope Abandonment

Impact Of Abandonment Rate On North Slope Recovery





# Summary

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- **Oil Company must show “reasonable certainty” about future spending to be able to book reserves**
  - There is pressure in the market place to declare ‘proved reserves’ as soon as feasible -- important to shareholder and analyst growth expectations
  - If the production volumes associated with the 6% and 3% decline scenarios have already been booked as proved reserves, then to **not** undertake the continuing investments would require a significant write down of reserves
- **Drilling program is so profitable that under even the most extreme net tax structure, oil companies would want to continue their reinvestment program.**

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# Goals

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# Goals for Fiscal Design

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- **Based on hearings, discussions and other dialog we see the following as the goals you are trying to achieve in this special session:**
  - Fields with larger **profitability** should be paying more taxes
  - Encourage investment in existing units
    - Reinvestment in producing assets
    - Investment in new developments
      - ❖ Conventional
      - ❖ Unconventional (i.e. heavy oil)
  - Encourage new investment outside legacy units
    - Level playing field for incumbents and new entrants
  - Durability
    - Don't want to be back 'fixing' things
  - Build on prior tax dialogue



# Encourage New Investment

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- **Fiscal system should encourage investment in new fields**
  - Investment credits
  - Net Operating Loss credits
    - Aid to new entrants with no existing tax base
  - Lower tax rate for fields with higher cost structure
    - More distant from infrastructure
    - Heavy Oil
    - Gas
- **Is base rate low enough?**
  - Additional barrels down TAPS extends production from existing reservoirs



# The Fiscal Design Challenge

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- **The Take**

- Fair share of the high margins currently being realized
- Progressive structure to adapt to changes in:
  - Price
  - Production
  - Cost

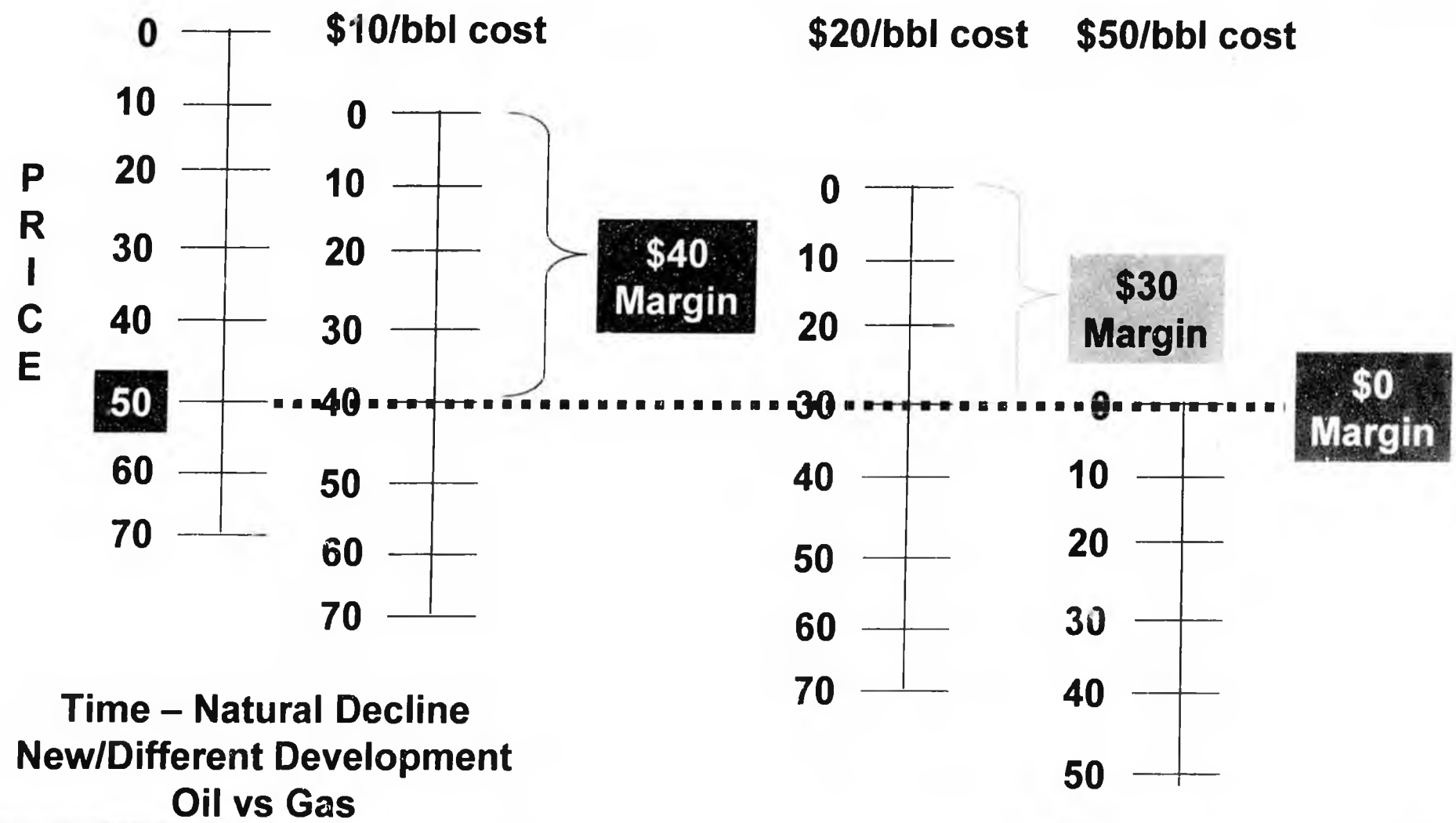
- **The Give Back**

- Encouragement to reinvest profits for more development inside legacy units



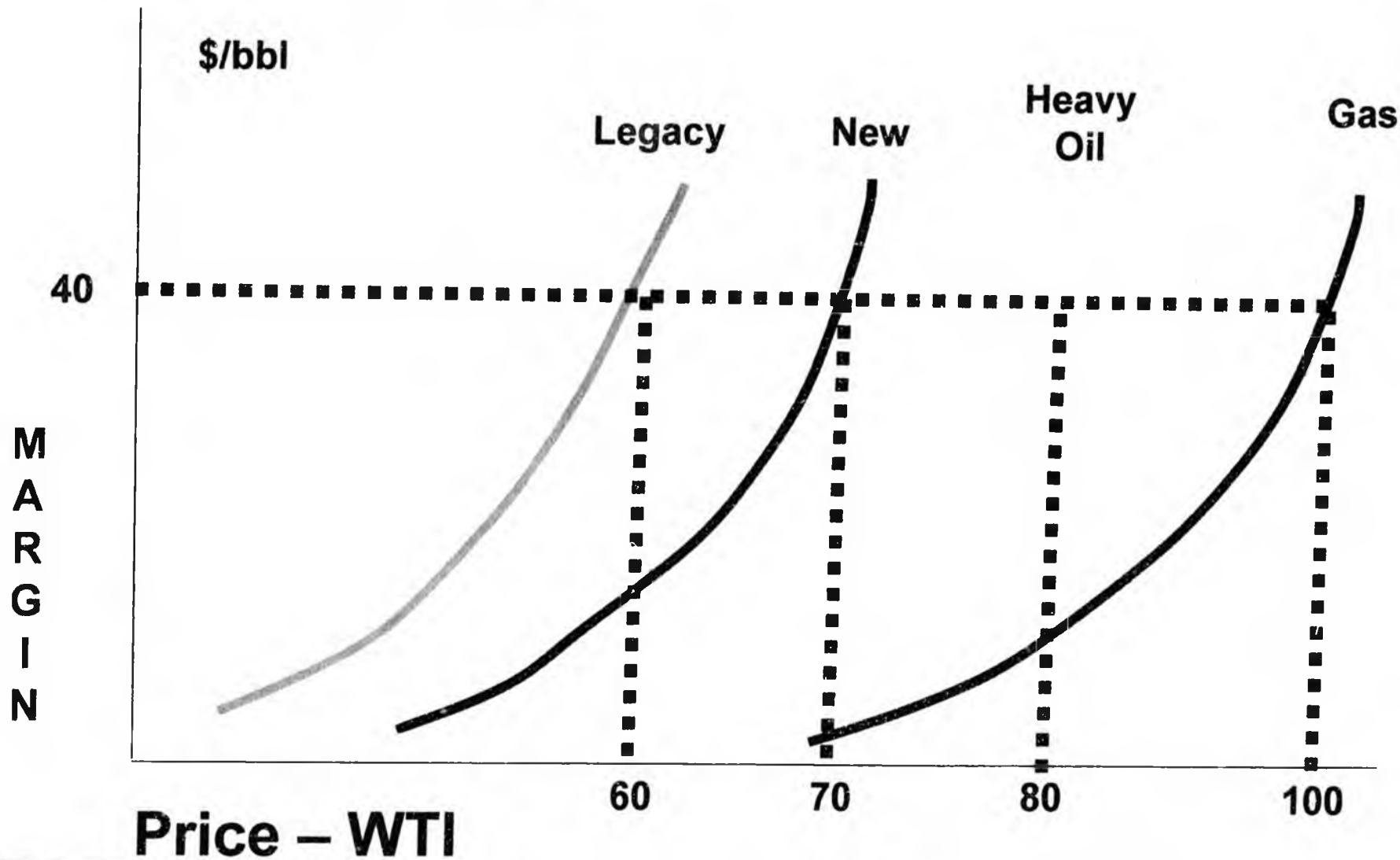


# Price versus Margin



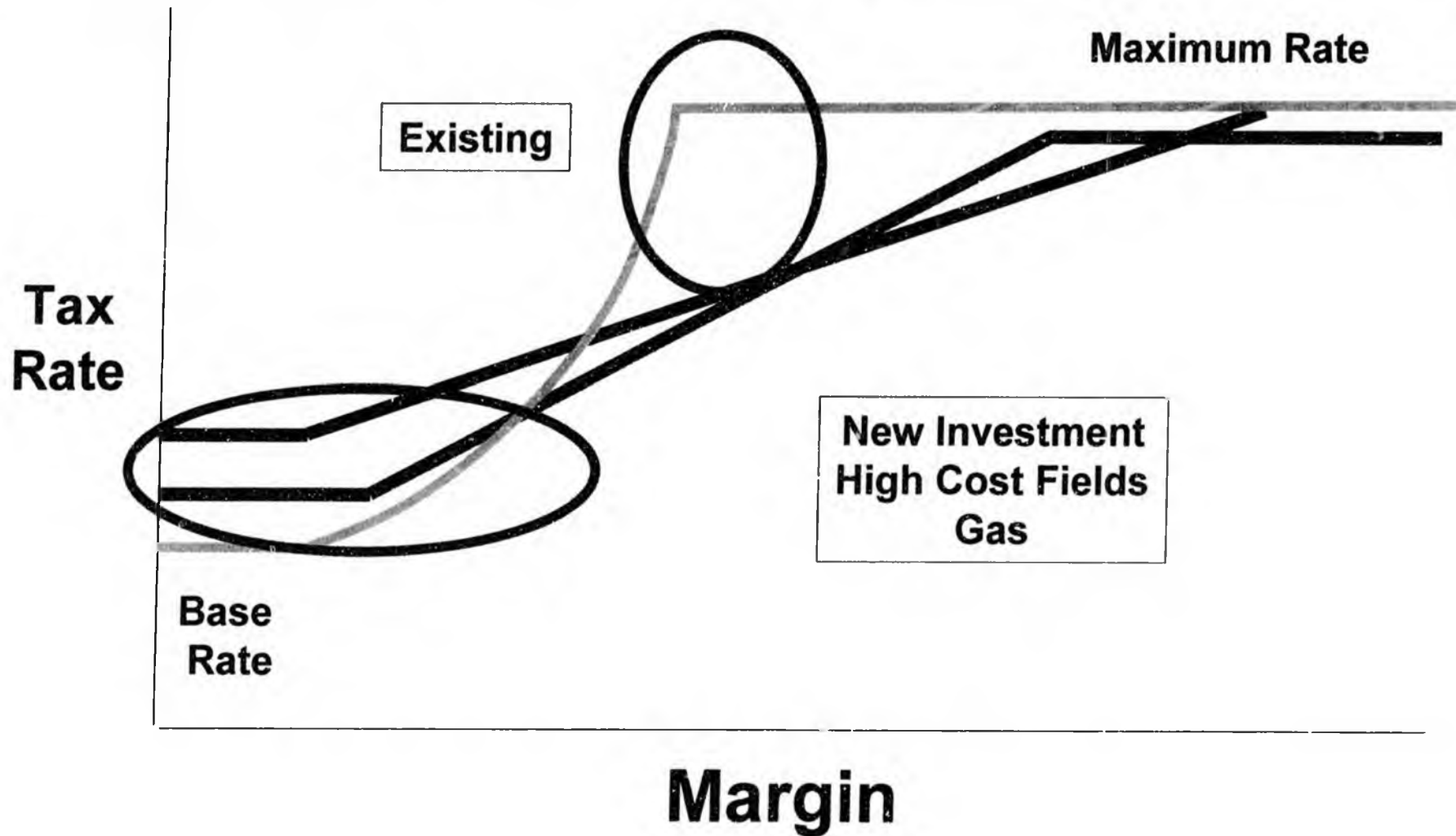


# Margin versus Price





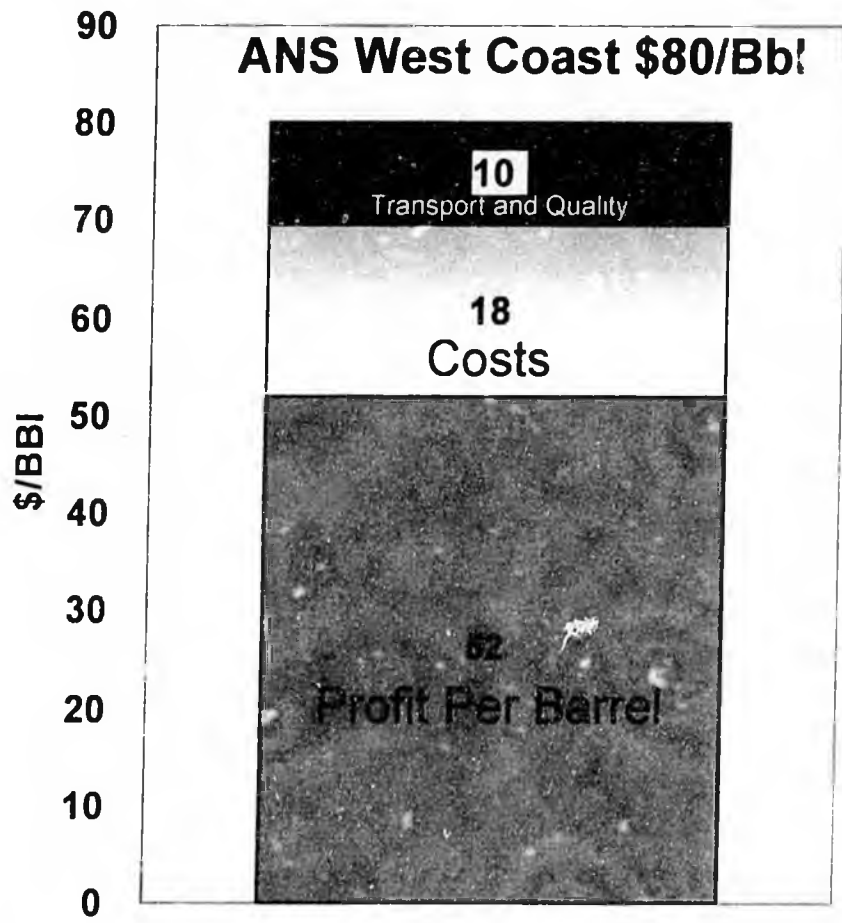
# Pulled Into a single mechanism





# The Information Used

## Portfolio Profitability



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# The Net Tax Story

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# PPT As Often Described

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- Tax on net profits
- Contains progressivity feature that increases tax rate with increasing profitability per barrel
- Ringfenced so that profit per barrel reflects a company's entire portfolio



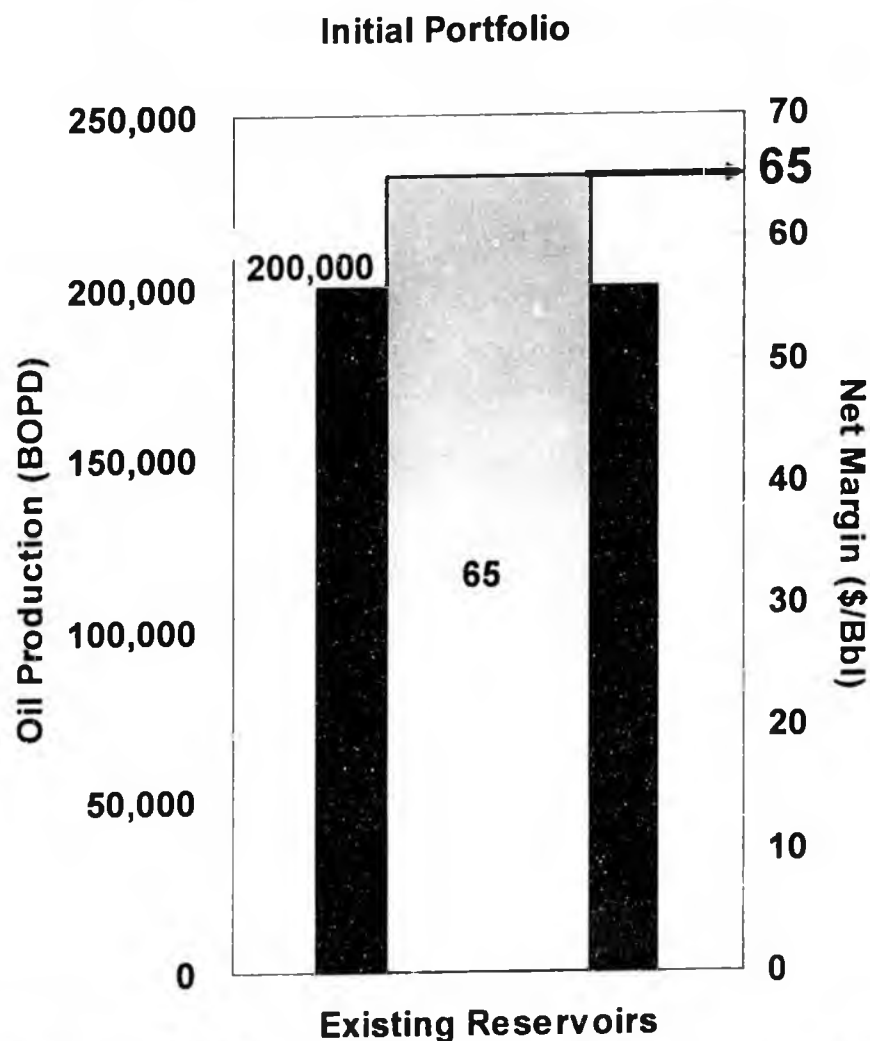
# Progressivity

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- **“Net” taxes all fields at a single rate**
  - No, it taxes different fields or reservoirs based on their individual profitability



# Start With A Portfolio Of One Investment



PPT Rate on this would be  
28.4%

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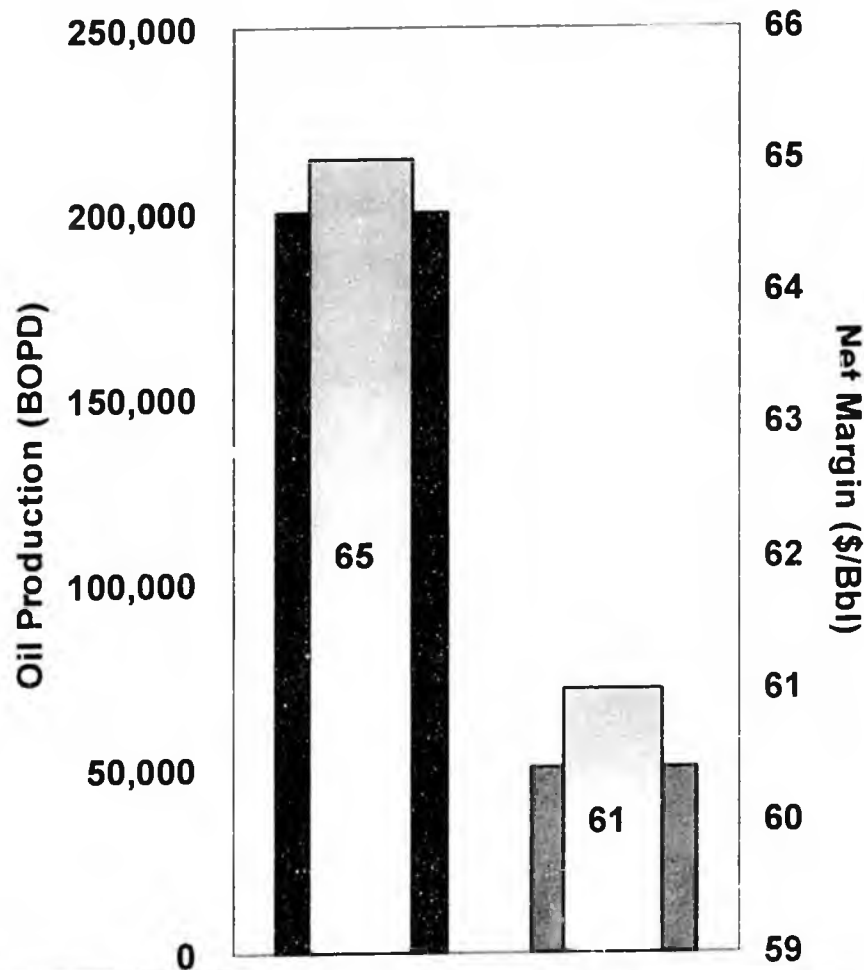
# **Understanding The Rate Structure**

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# Now, Add Another Field

Expanded Portfolio



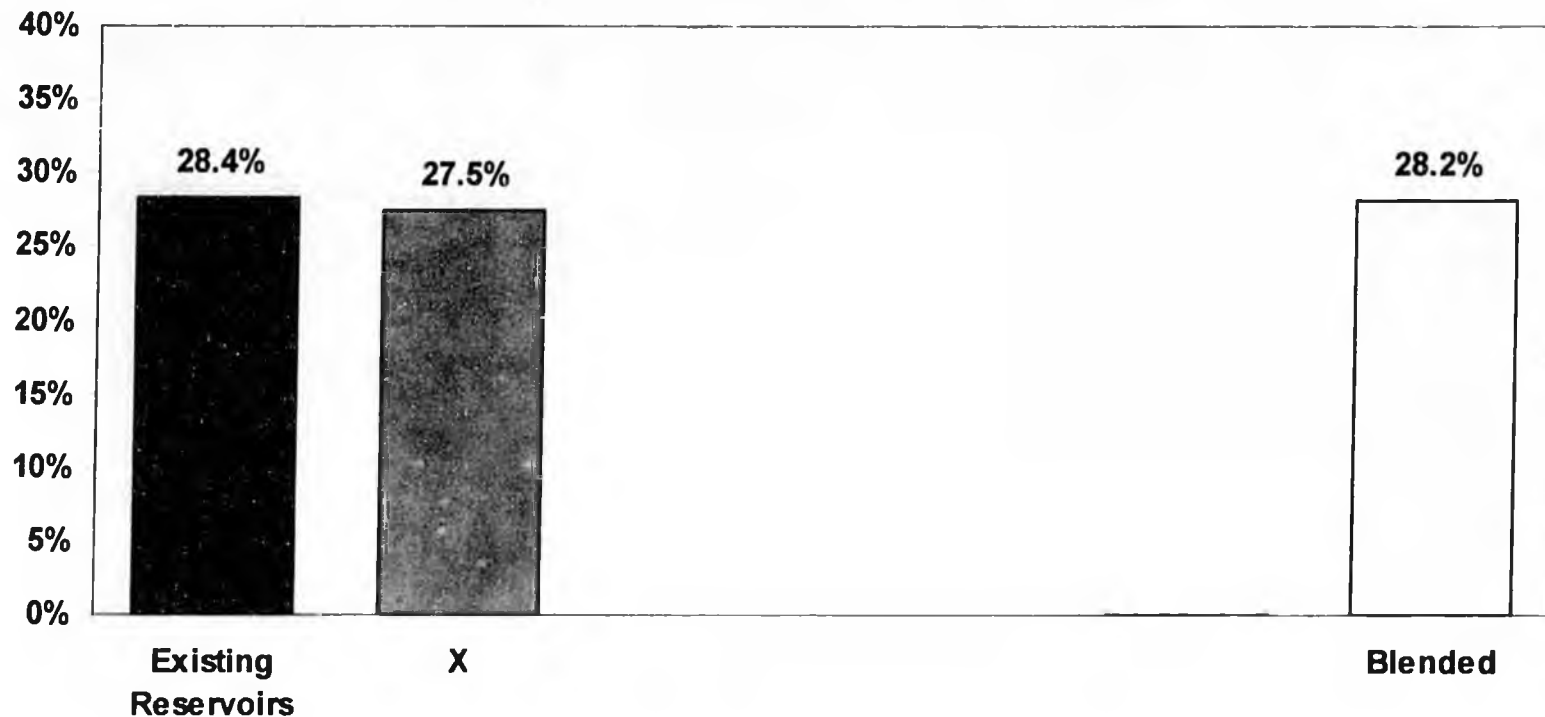
**PPT Rate on these fields  
Combined would be  
28.2%**

**Average Net Margin Is  
\$64.20**

# So, Does That Mean I Am Paying 28.2% On Each Field ?



Tax Rate By Field Within A Company - As Affected By Portfolio Blending



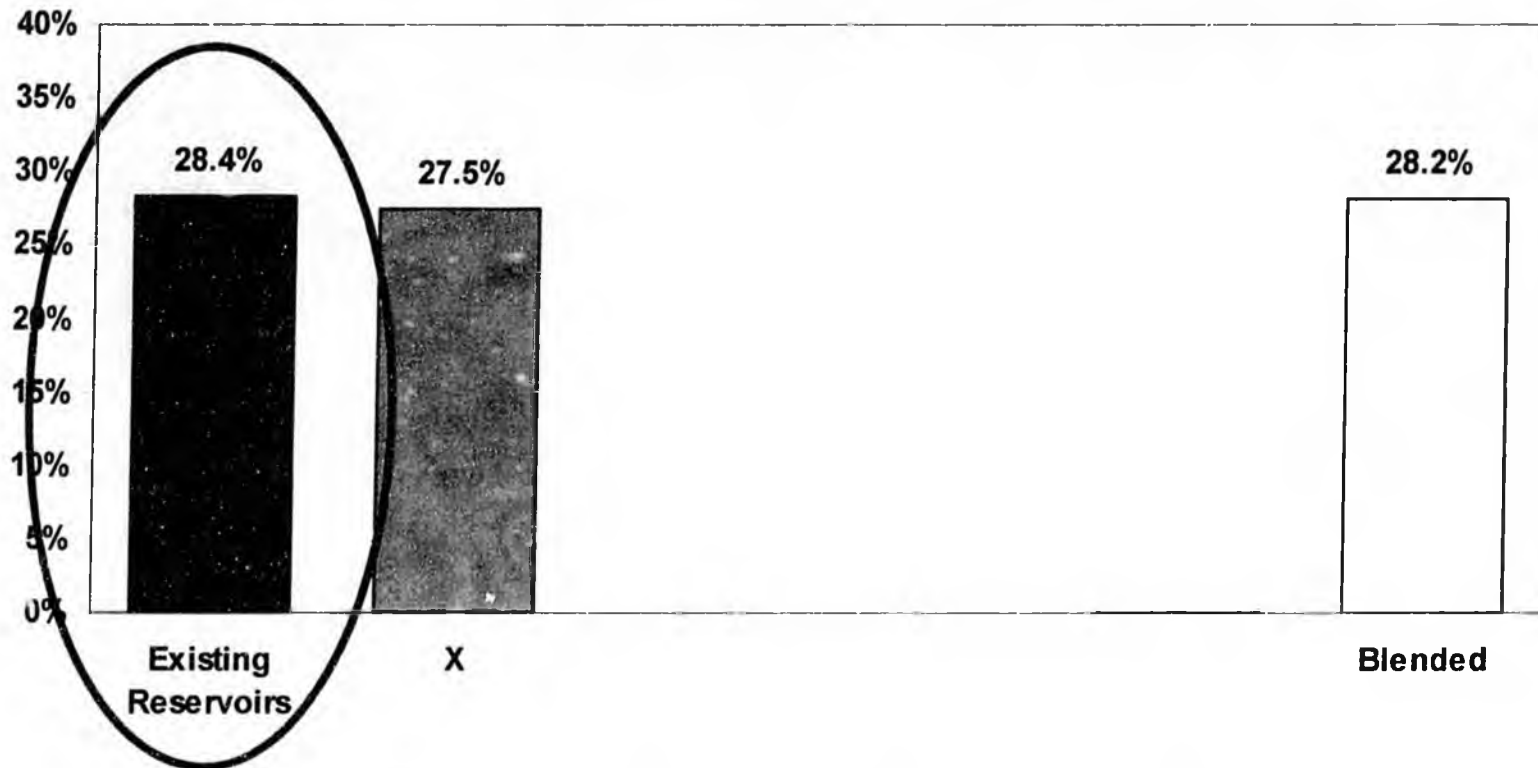
No .....

Look at this in the way that companies look at it when they make investment decisions

# So, Does That Mean I Am Paying 28.2% On Each Field ?



Tax Rate By Field Within A Company - As Affected By Portfolio Blending

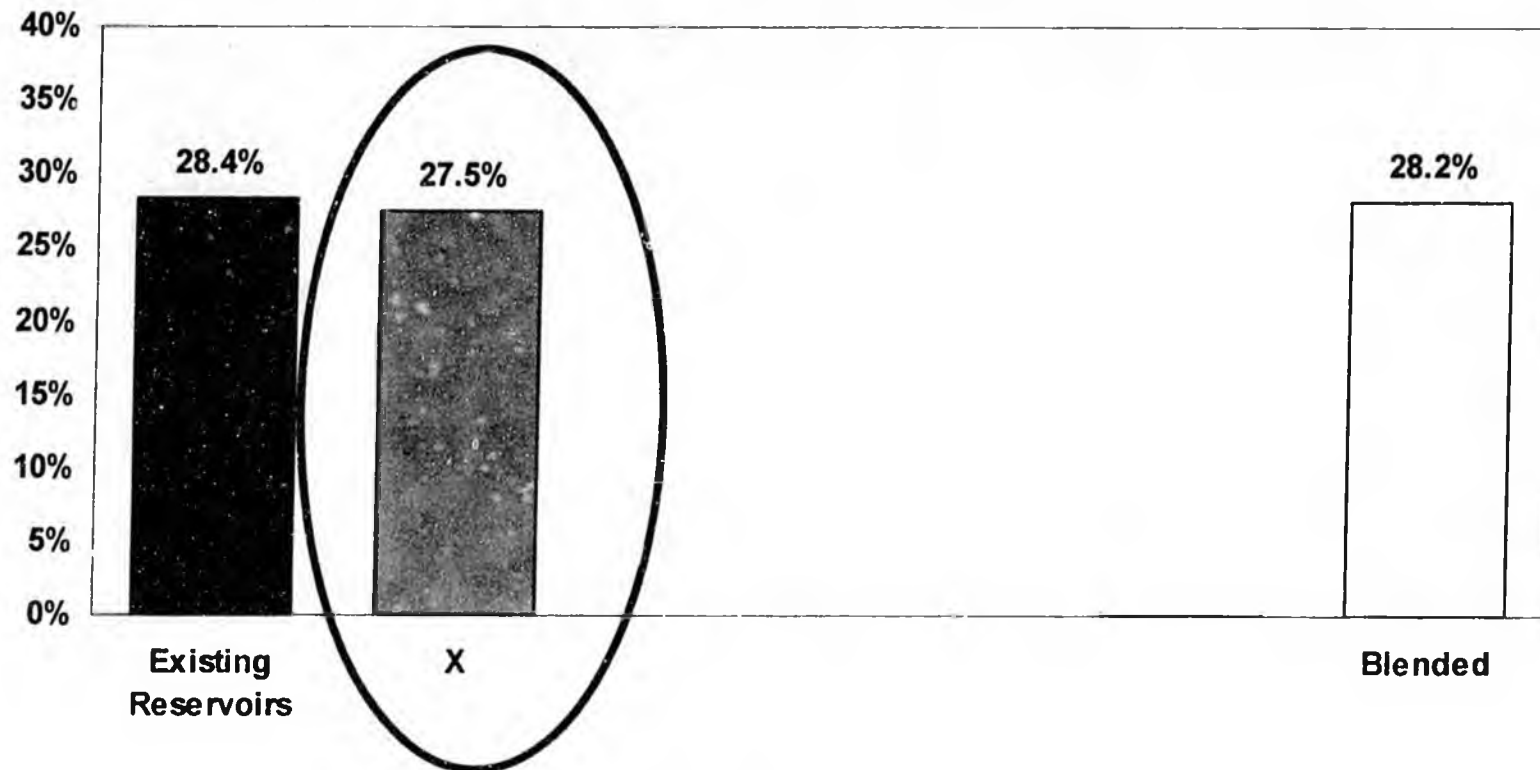


If I had just Existing Reservoirs, and did not develop anything new, I would pay tax on my profits at 28.4%

# So, Does That Mean I Am Paying 28.2% On Each Field ?



Tax Rate By Field Within A Company - As Affected By Portfolio Blending

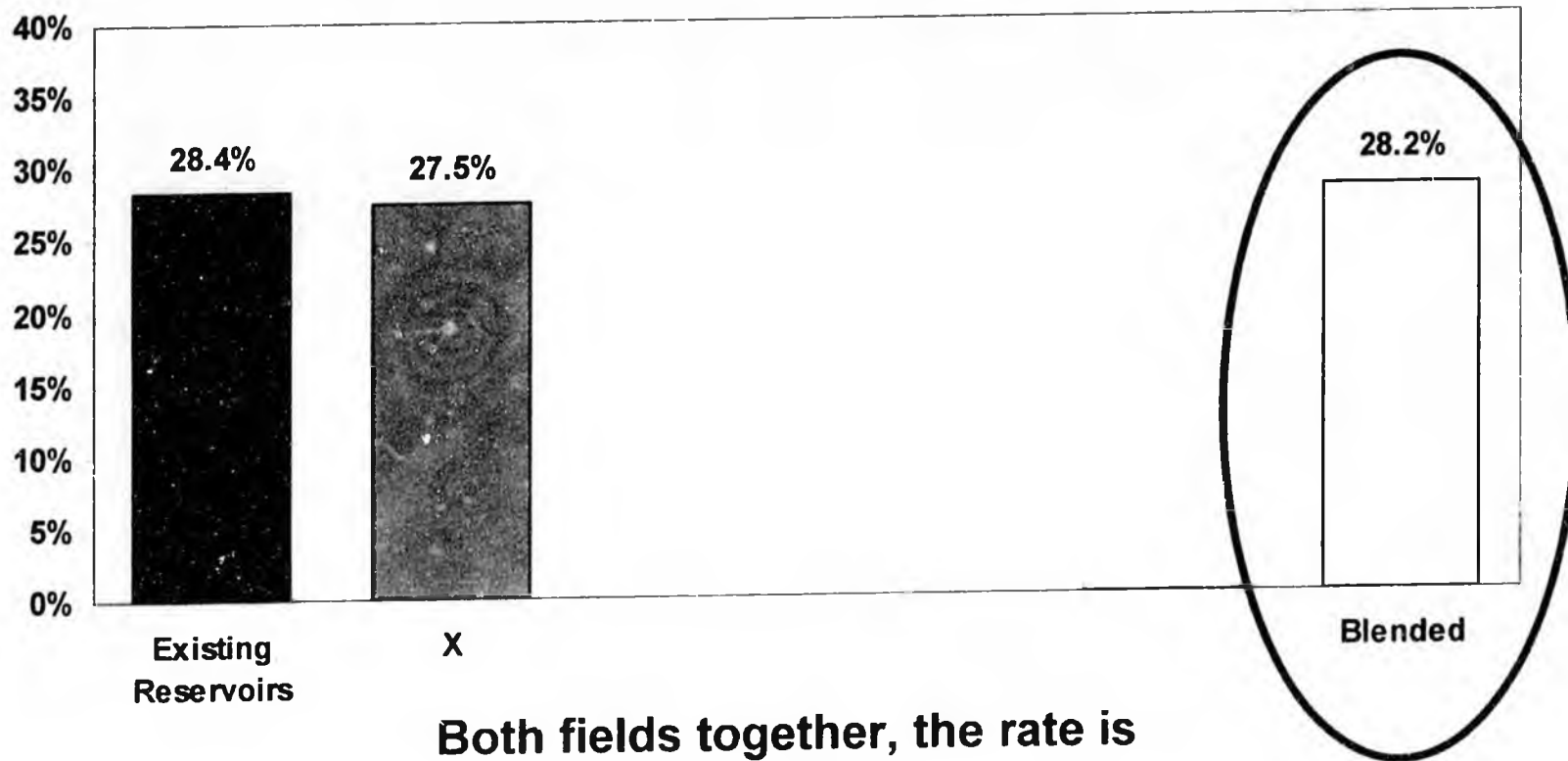


If I had just Field X, I would pay tax on my profits at 27.5% - its margin is slightly lower

# So, Does That Mean I Am Paying 28.2% On Each Field ?



Tax Rate By Field Within A Company - As Affected By Portfolio Blending



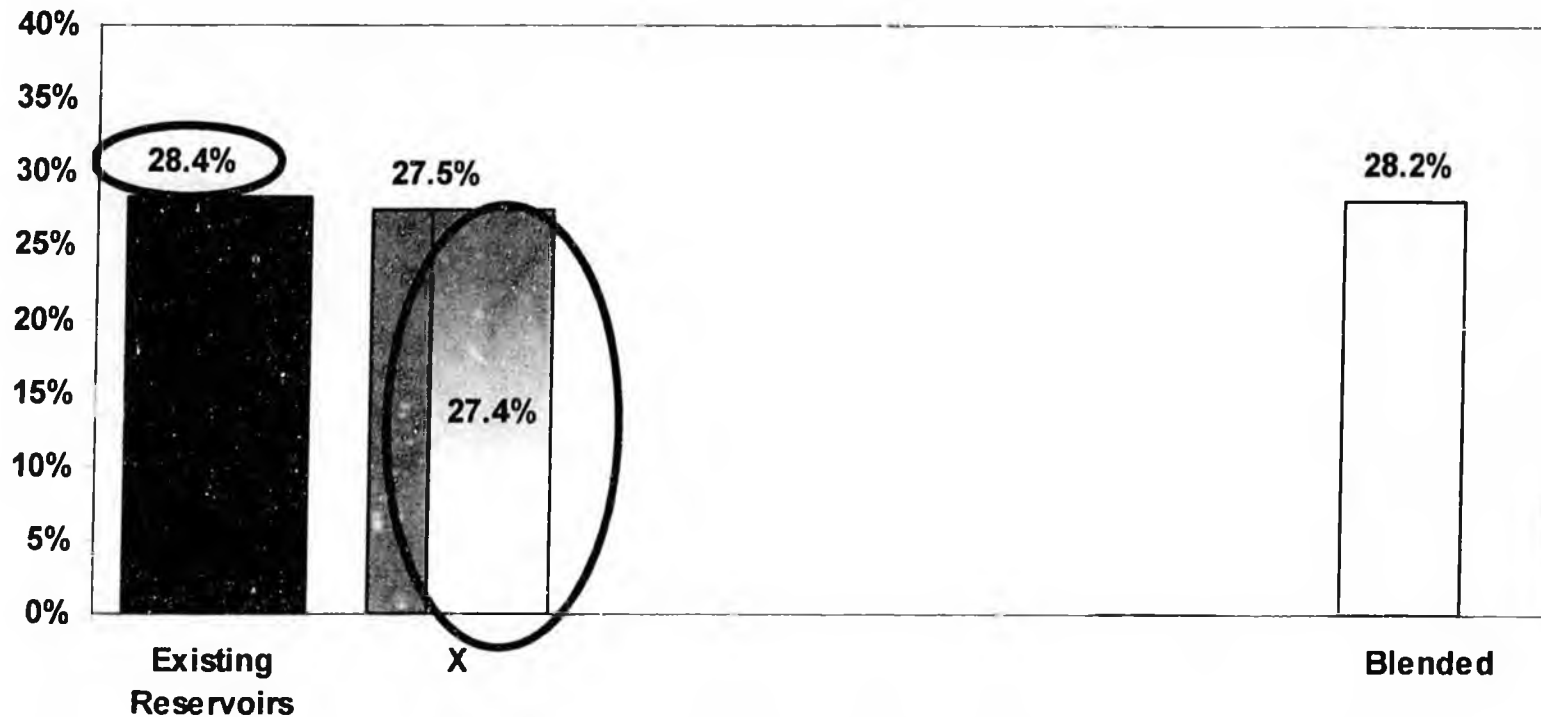
Both fields together, the rate is 28.2%

However, this is not all ...

# So, Does That Mean I Am Paying 28.2% On Each Field ?



Tax Rate By Field Within A Company - As Affected By Portfolio Blending

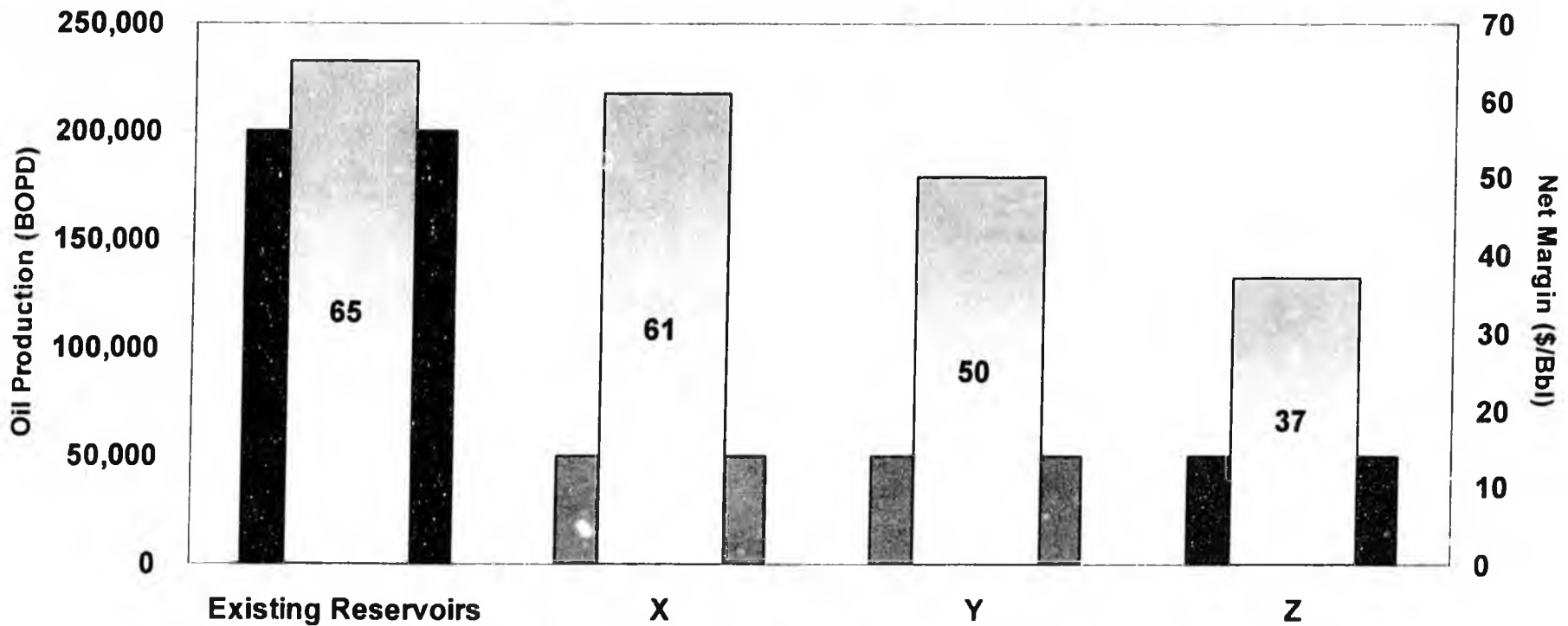


The mathematics of this reduction means that actually while Existing Reservoirs continue to pay tax at a rate of 28.4%,  
The effective rate on Field X is actually 27.4% ....  
... less than it would be if it were developed stand-alone

# This Impact Can Be Seen In A Broader Portfolio



Portfolio Production Rate and Net Margin

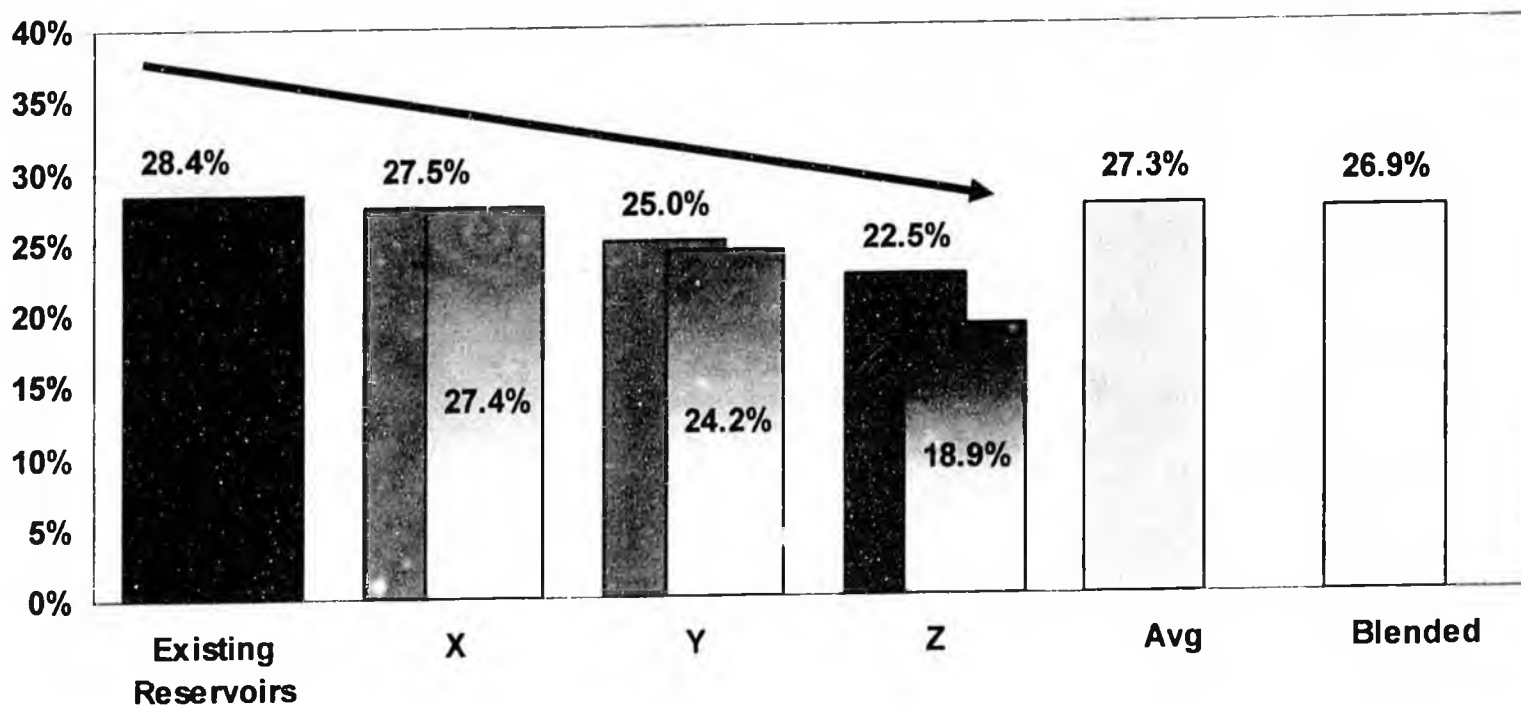


In this example we have four fields ...  
.. One producing 200,000 bopd and  
three others each producing 50,000 bopd but of decreasing profitability

# The Impact On The Lower Margin Fields Is More Noticeable



Tax Rate By Field Within A Company - As Affected By Portfolio Blending

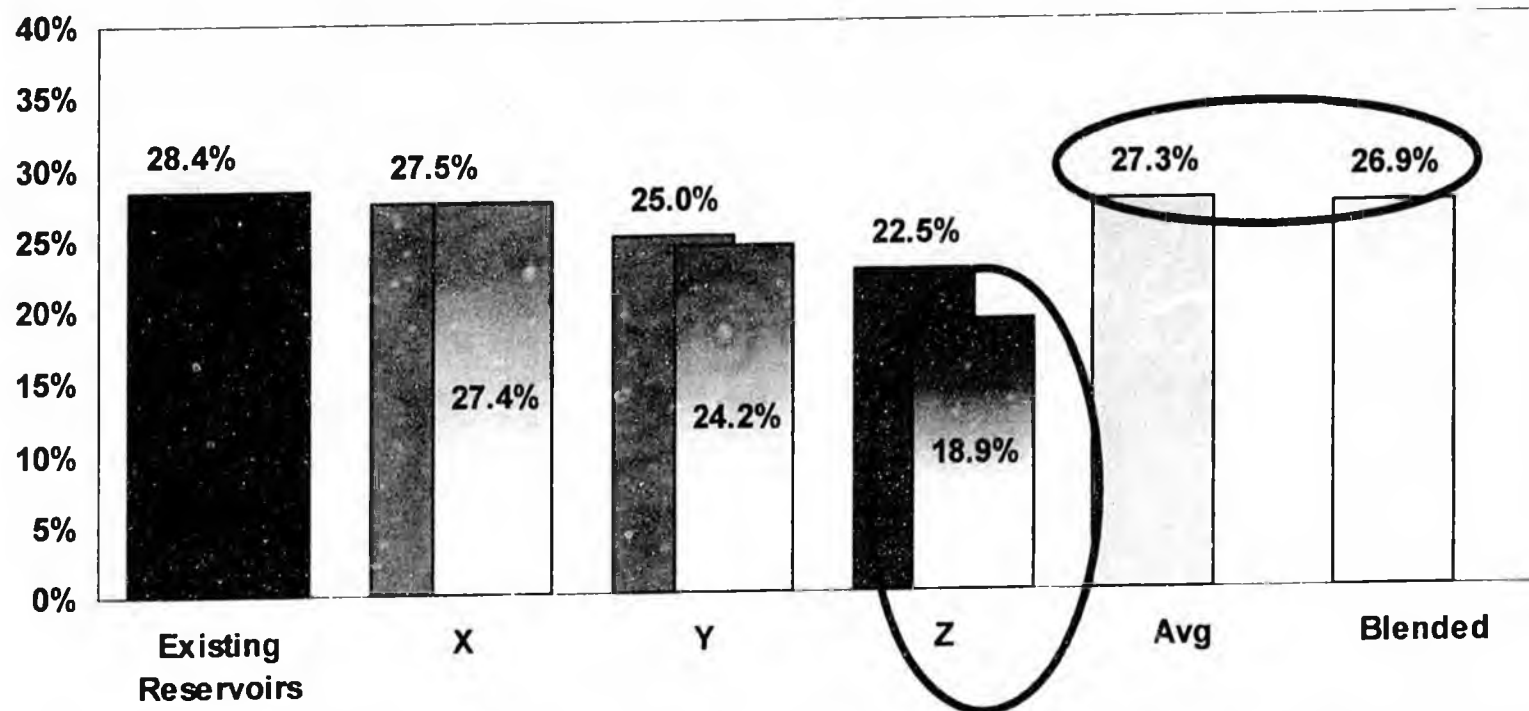


The progressivity can be seen through the lower effective tax rate on lower margin fields

# The Impact On The Lower Margin Fields Is More Noticeable



Tax Rate By Field Within A Company - As Affected By Portfolio Blending



The effective rate on some lower-margin fields may even be lower than the basic rate (22.5% in PPT)

This is manifested in the blended rate being lower than the weighted average rate

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# **The Impact Of Capital Investment**

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# Cash Flow, Not Profit

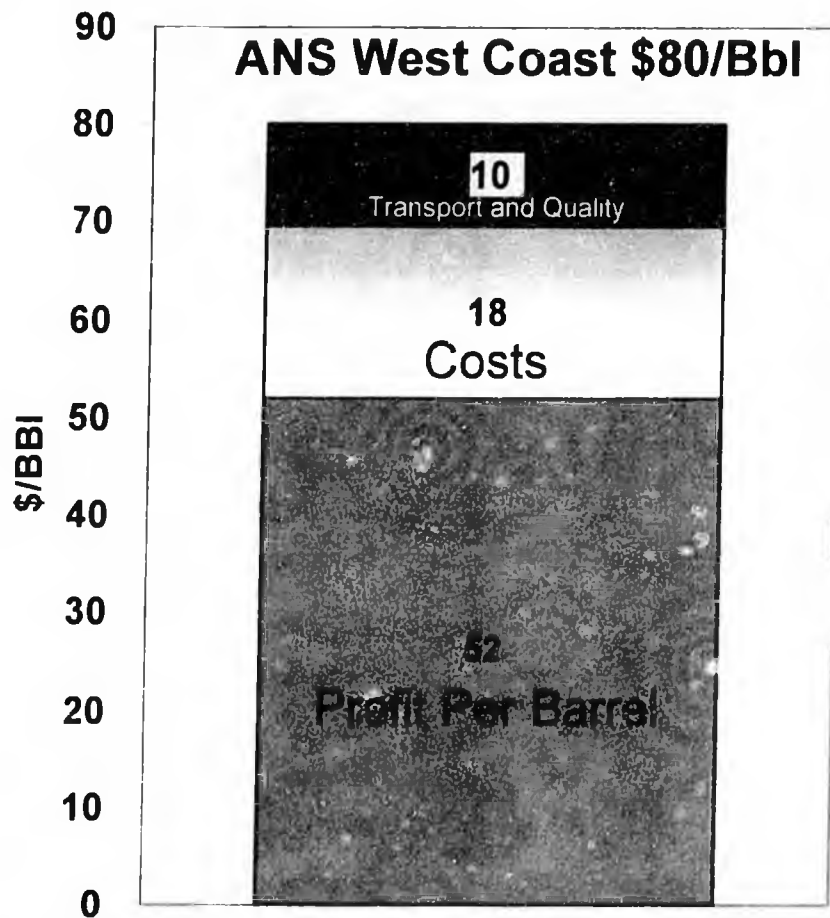
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- PPT taxes all fields at a single rate
  - No, it taxes different fields or reservoirs based on their individual profitability
- **Is based on profit per barrel**
  - Not exactly, it is based on net cash flow per barrel after capital investment (for future production)



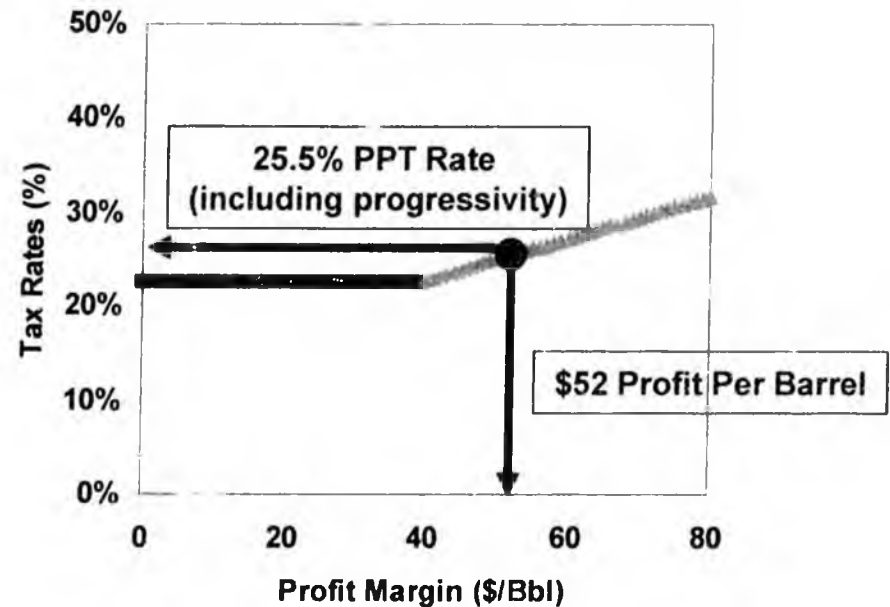
# Remember These Slides ?

## Portfolio Profitability



The portfolio on the previous slides had a blended rate of 26.9%, not 25.5% ....

### Tax Rate Structure (Incorporating Progressivity)



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**Assume that 26.9% is the rate that will  
be payable before further capital  
investment decisions are made ...**

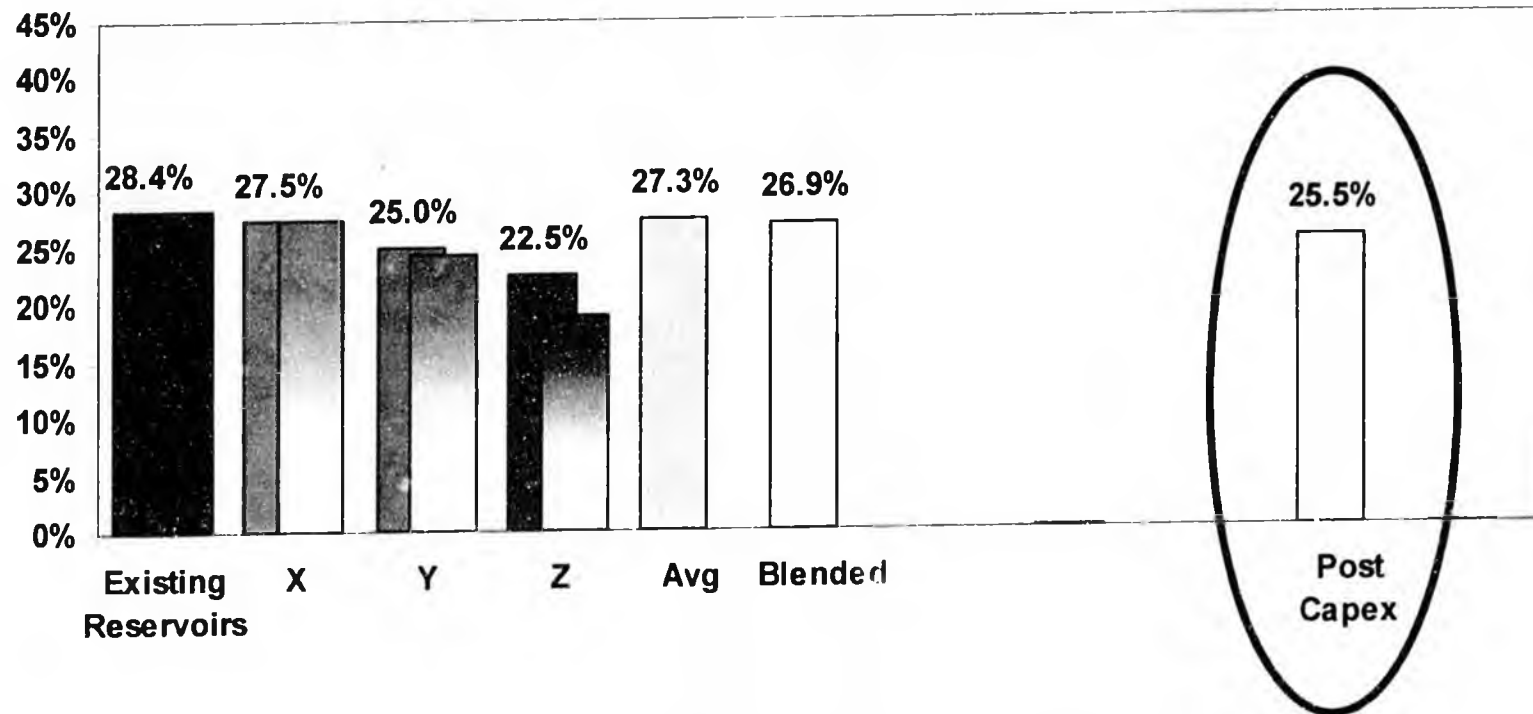
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**... in this example \$800 million**

# Capital Spending Has An Impact On Rate, Too ....



Tax Rate By Field Within A Company - As Affected By Portfolio Blending, Capex And Tax Credit



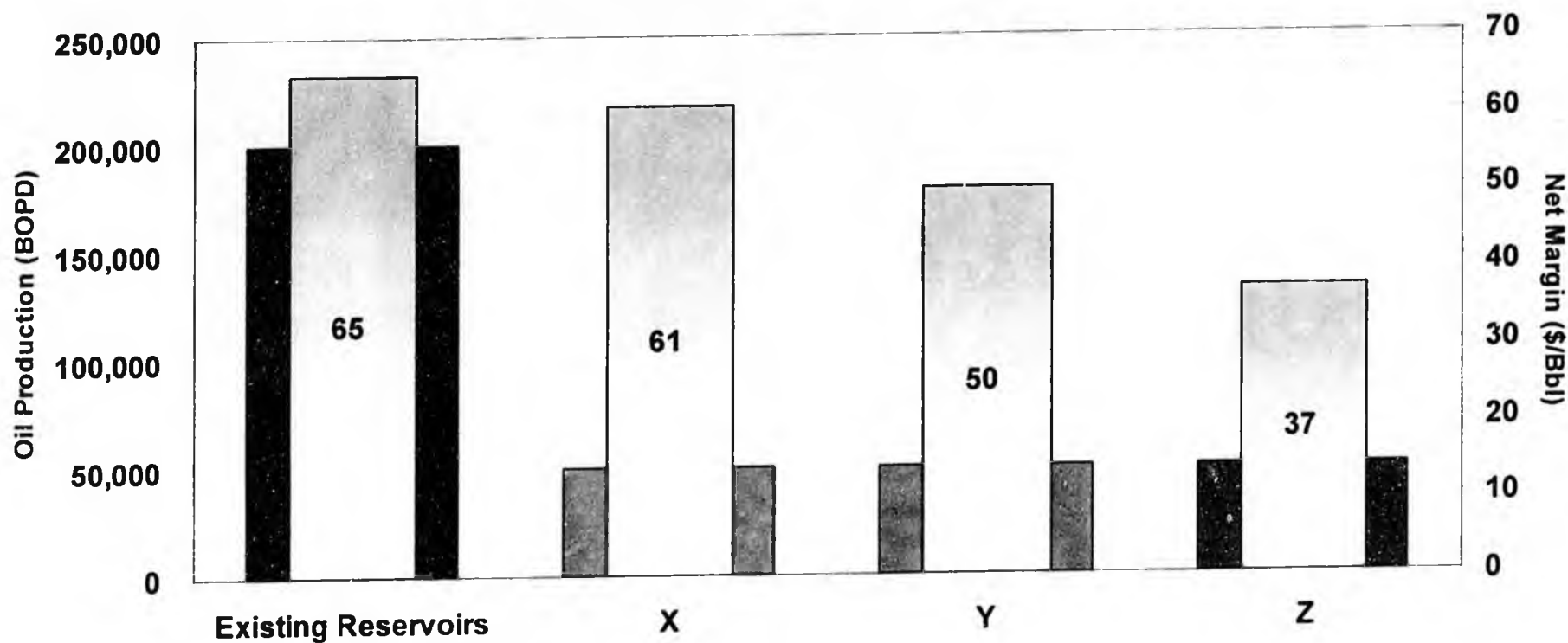
This reduces the rate payable to 25.5%

How ?

# \$800 million amounts to \$6.26 Per Barrel Based On This Portfolio



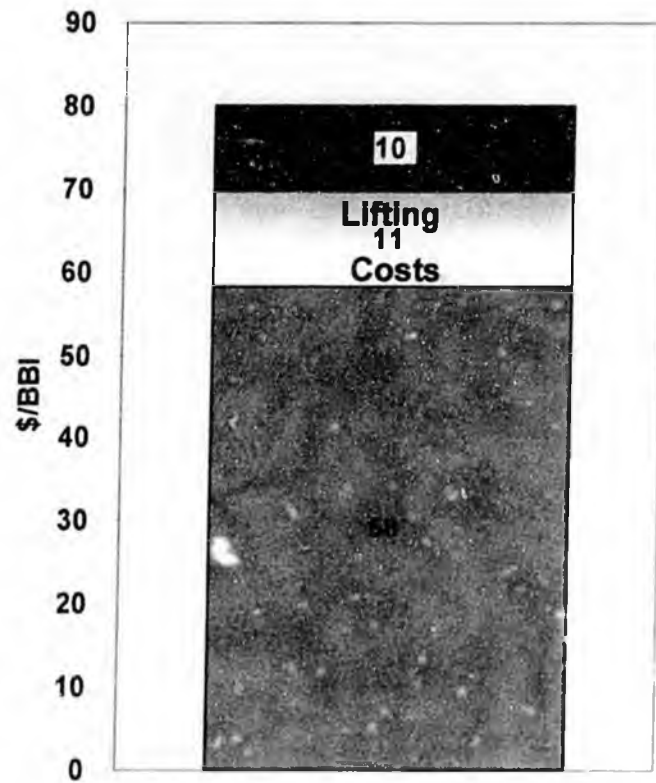
Portfolio Production Rate and Net Margin



# The \$6.26 Per Barrel Capital Increases "Costs" And Lowers The Tax Rate

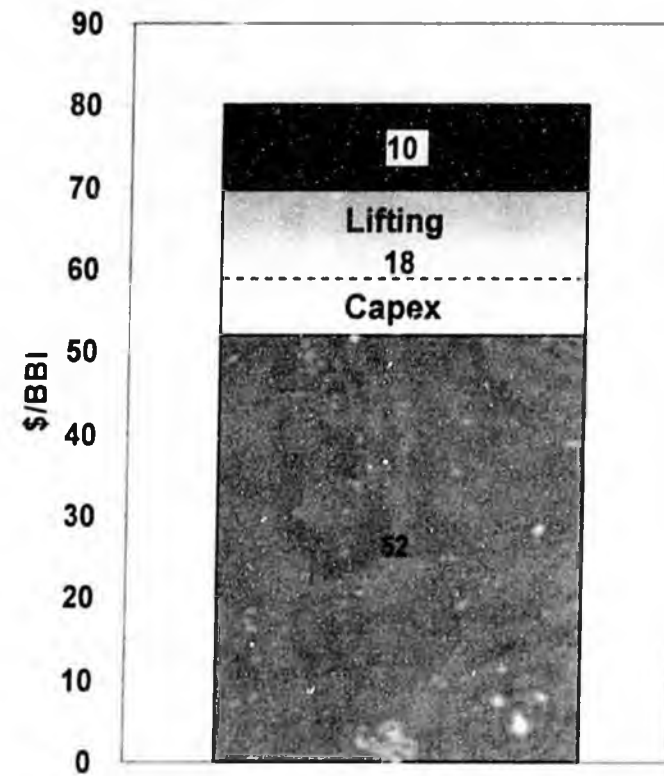


Pre-Capex Margin



**Tax Rate  
26.9%**

Portfolio Profitability



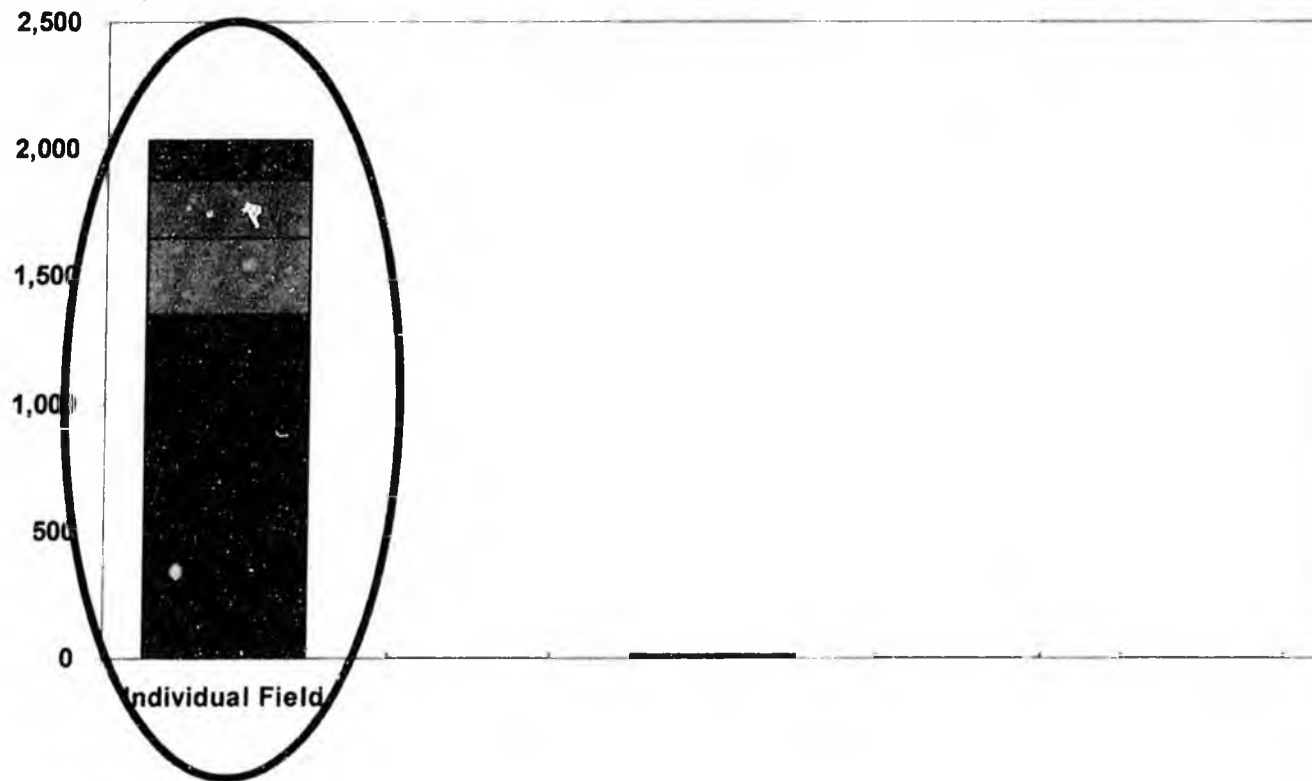
**Tax Rate  
25.5%**



# Look At The Tax System Through The Amount Of Tax Payable ...



Tax Allocable By Field Within Portfolio



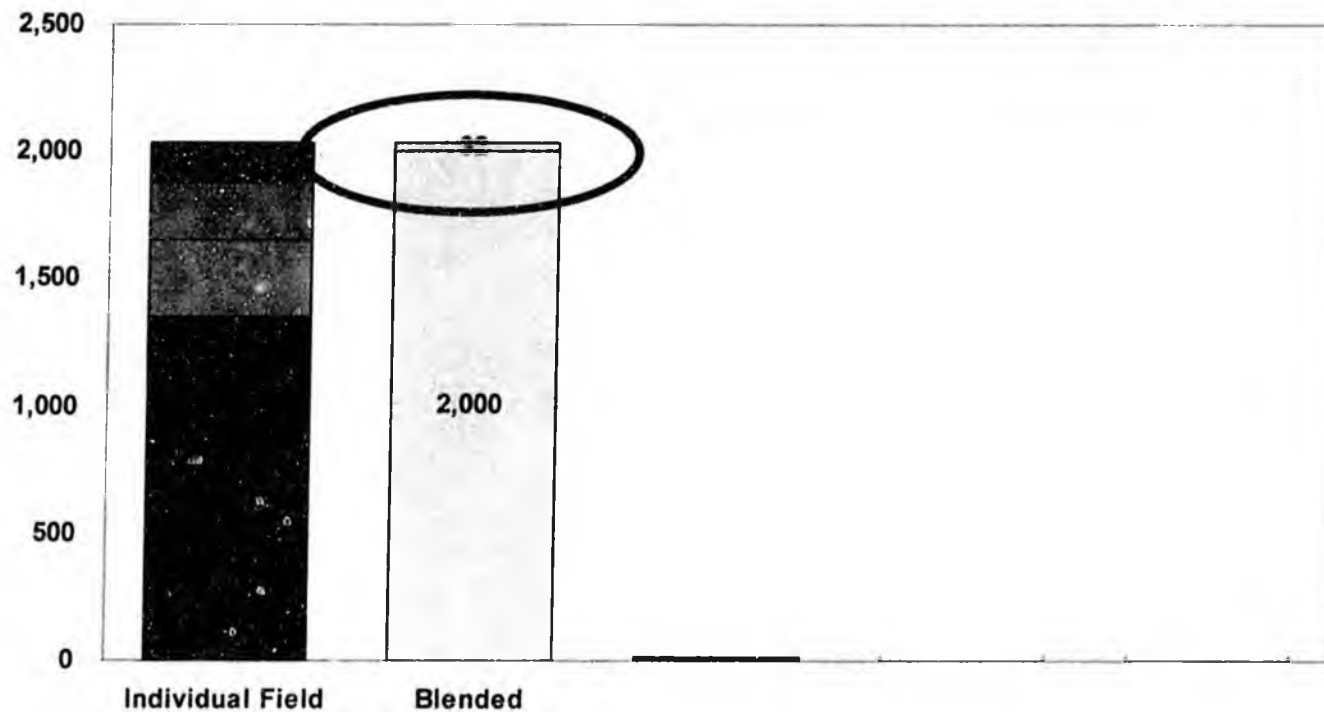
As individual fields, this portfolio would pay just over \$2,032 million in PPT

\* from PPT only – does not include State and Federal tax effects



# Portfolio Effects Lower Total Tax

Tax Allocable By Field Within Portfolio

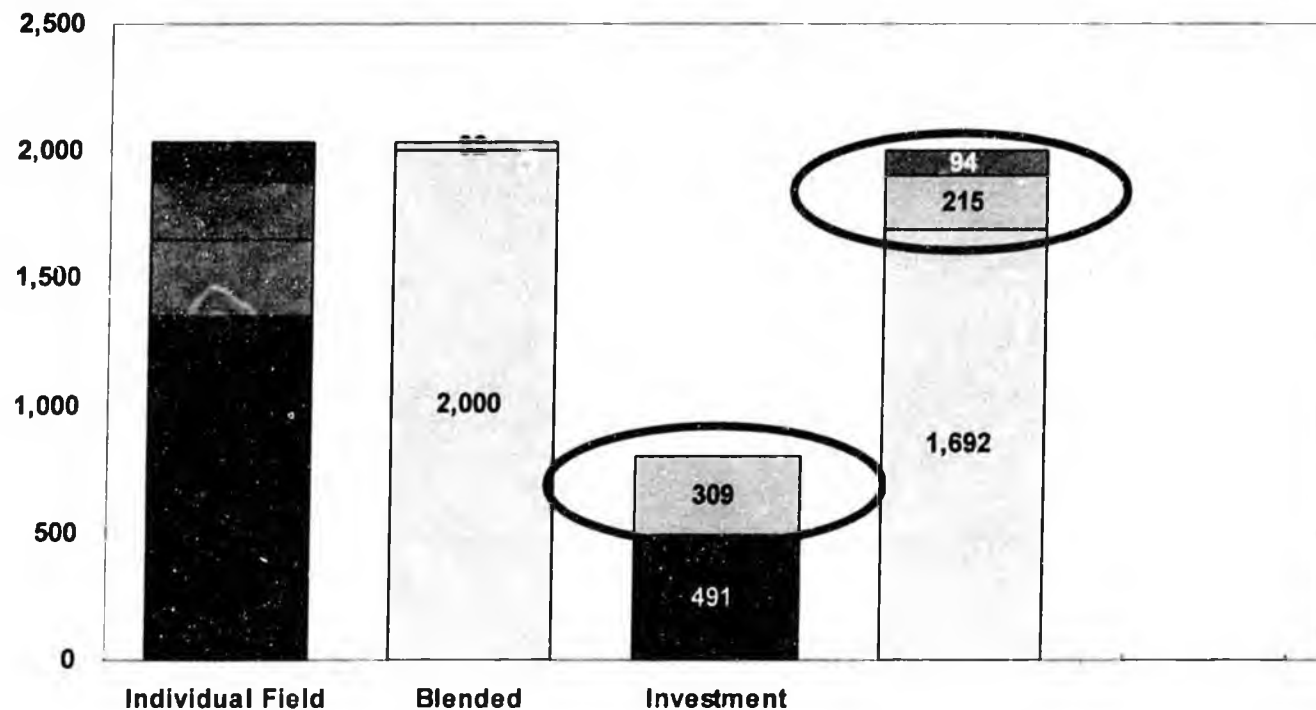


Putting all fields in one portfolio (company) lowers this to \$2Bn ...  
... a saving of \$ 32 million



# The Big Winner Though Is Capex

Tax Allocable By Field Within Portfolio

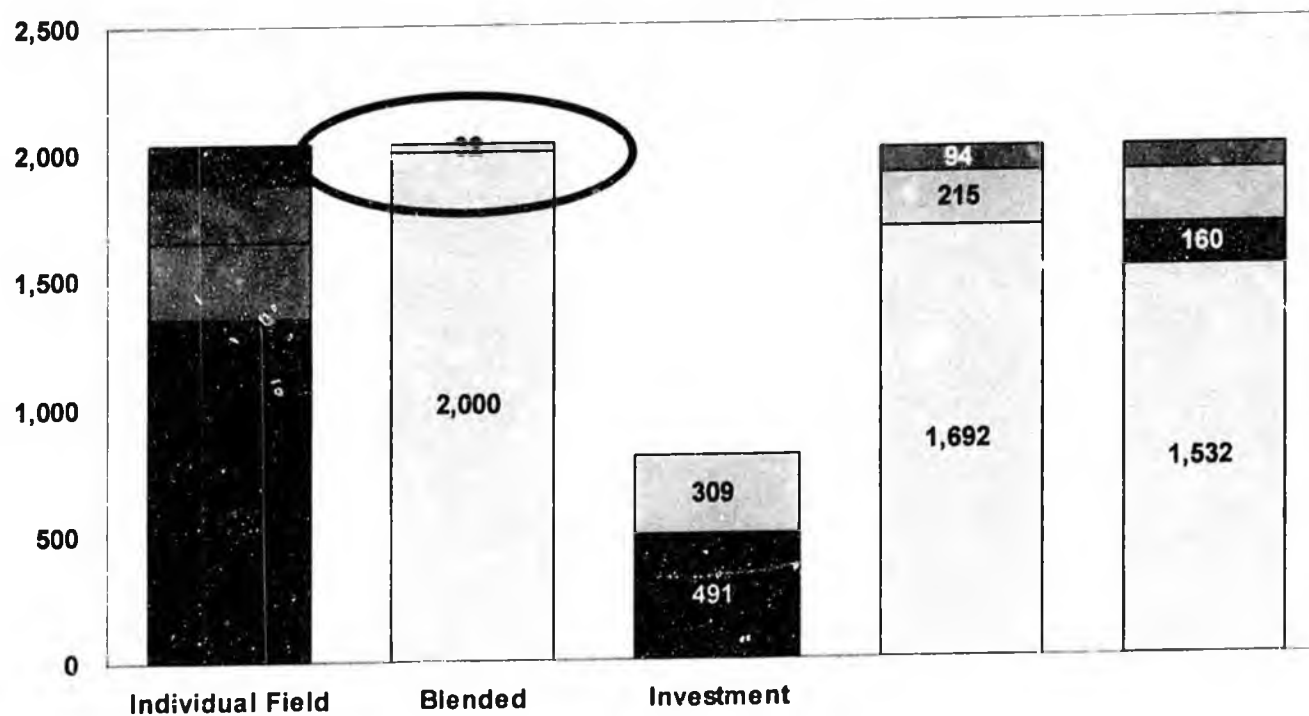


In this example the State pays \$309 million (38.6%) of the capital (the percentage will vary based on overall portfolio net margin per barrel)  
The \$309 million can be allocated as \$215 million from reducing taxable income at 26.9% and \$94 million from lowering the rate from 26.9% to 25.5%



# But Wait ! That Is Not All ....

Tax Allocable By Field Within Portfolio

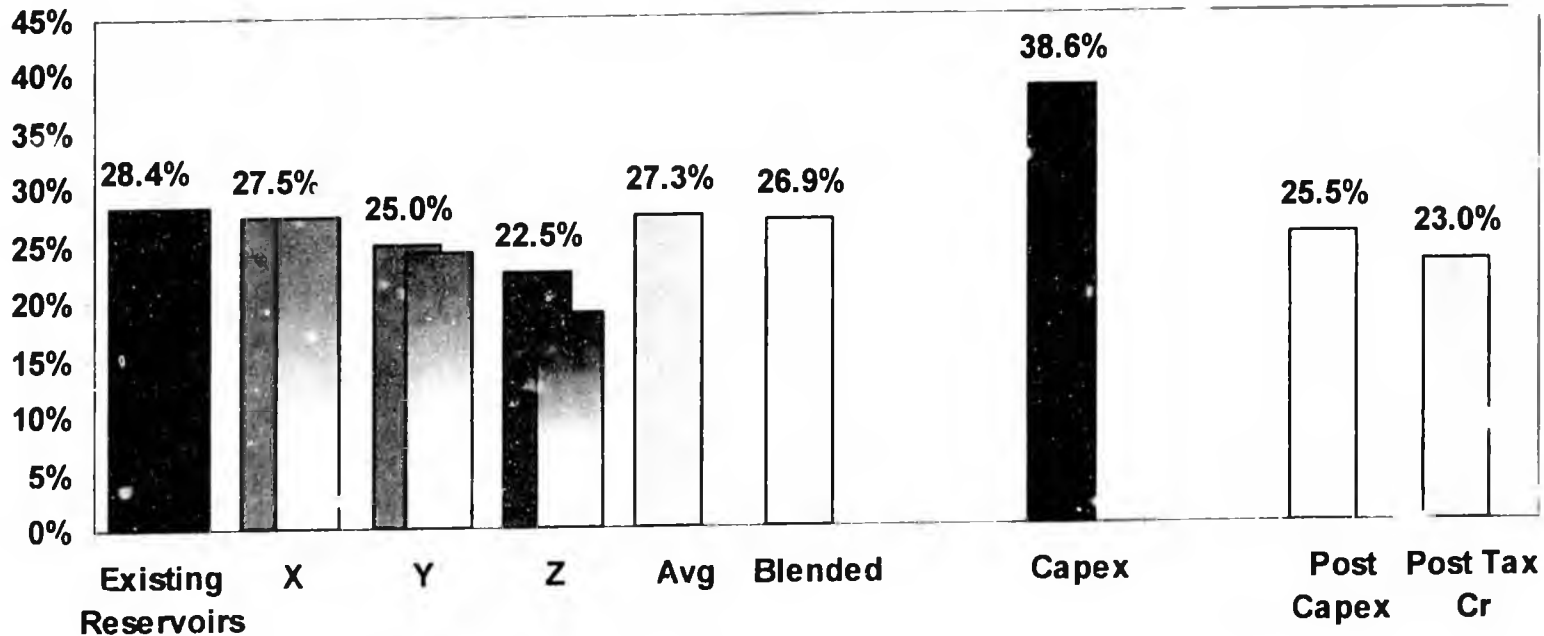


Investment Credits Take a further \$160 million (20% of \$800 million) from the tax payable



# After Investment Credits ...

Tax Rate By Field Within A Company - As Affected By Portfolio Blending,  
Capex And Tax Credit



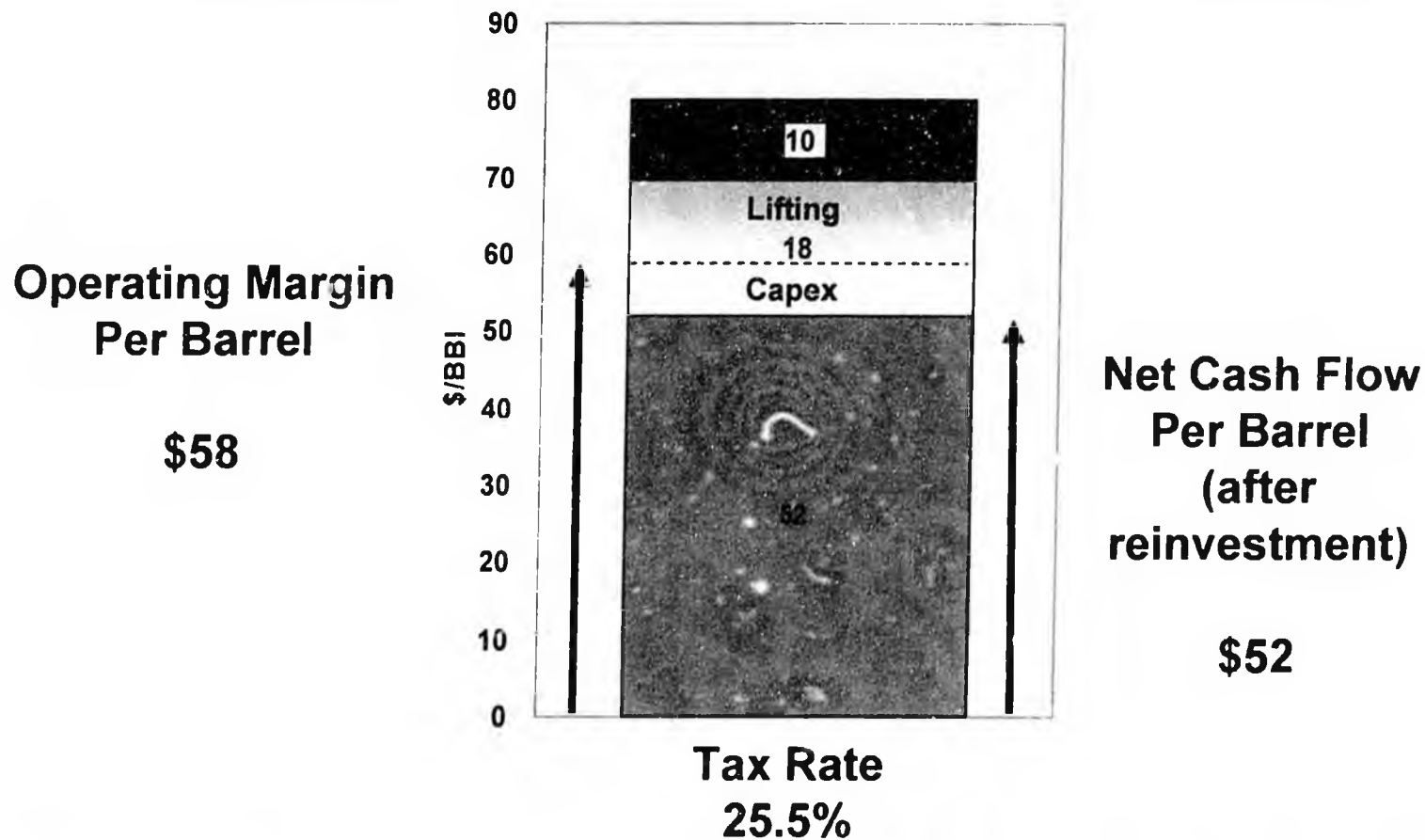
... the effective tax rate is lowered further to 23%\*

\* In this example

# PPT Is Really A Tax On Net Cash Flow Per Barrel



... or, a tax on net revenues that are not reinvested ...



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# **House Oil & Gas Committee**

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## **Gross Progressivity Amendment**



# Progressivity

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- **PPT**

- Tax rate increases 0.25% for every dollar that net cash flow per barrel exceeds \$40

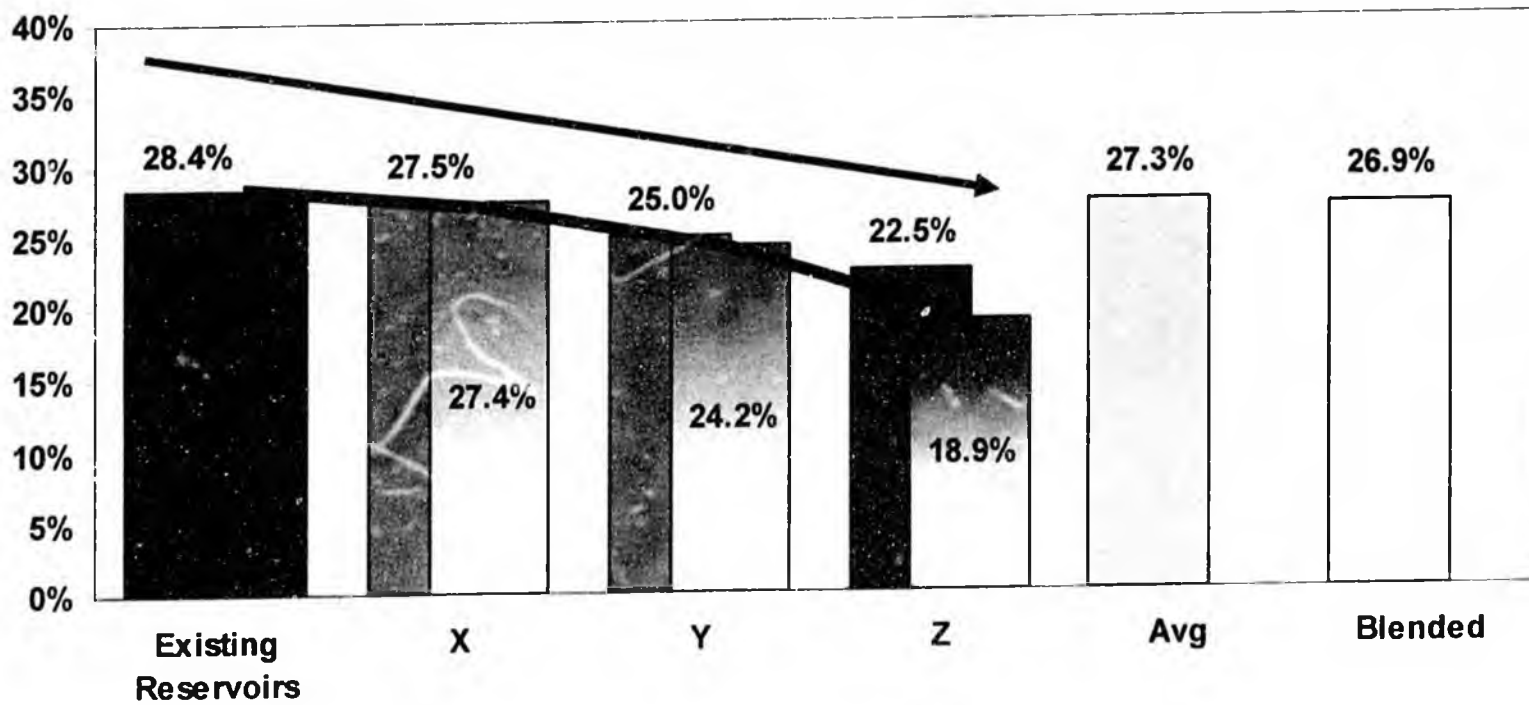
- **House O&G Amendment**

- Maintains the PPT basic rate of 22.5%
- Adds a tax of 0.225% for every dollar that the gross value at the point of production exceeds \$50
- Applied to the gross value at the point of production



# PPT Progressivity

Tax Rate By Field Within A Company - As Affected By Portfolio Blending

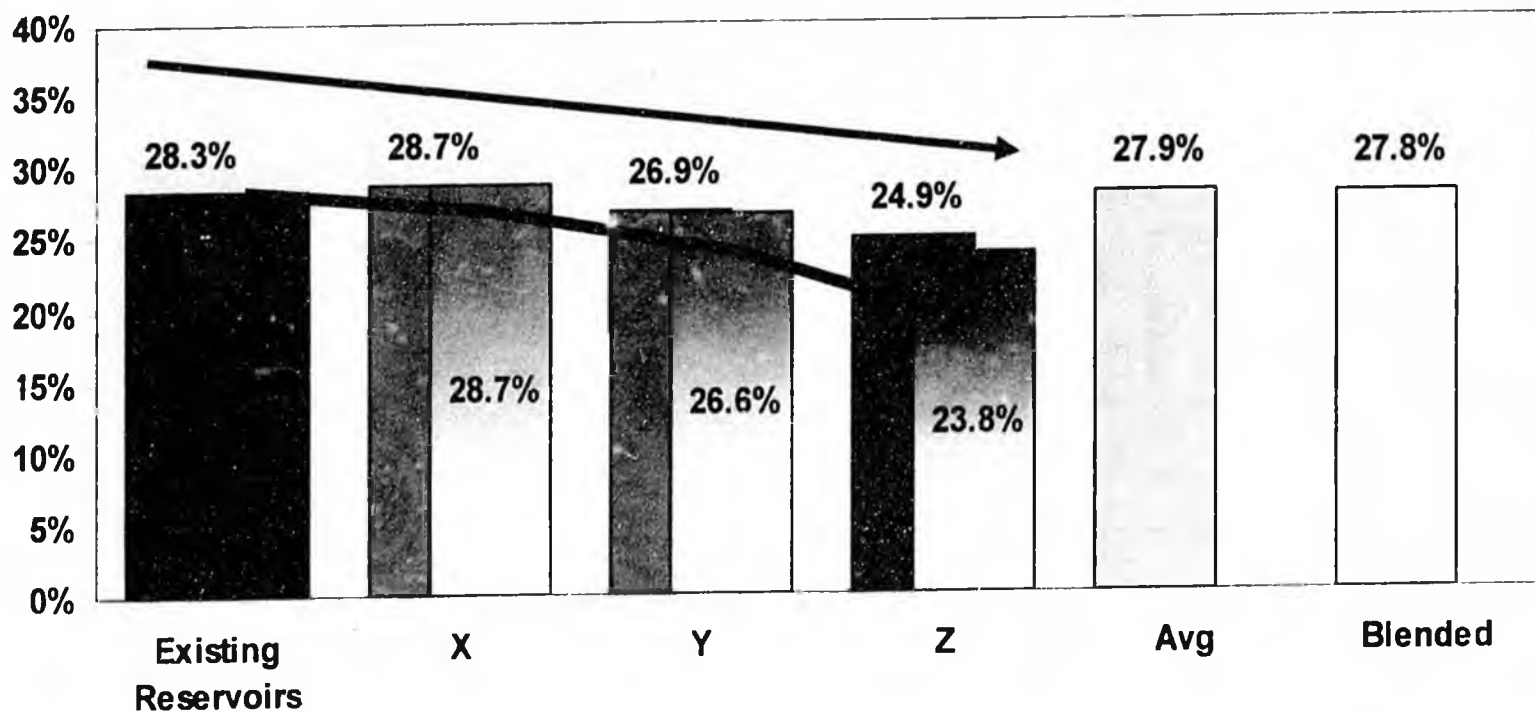


The progressivity can be seen through the lower effective tax rate on lower margin fields



# House Oil & Gas Progressivity

Tax Rate By Field Within A Company - As Affected By Portfolio Blending

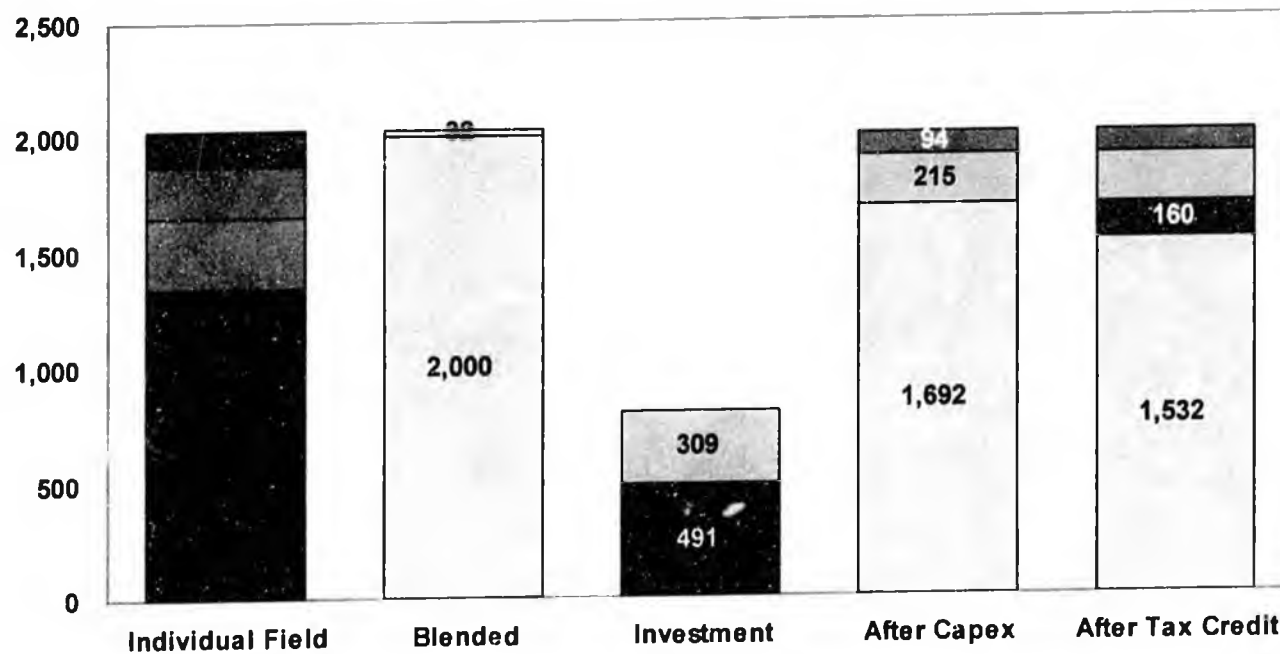


The bulk of the increased burden in this case is being borne by the lower margin fields ...



# PPT Progressivity

Tax Allocable By Field Within Portfolio



**Under PPT progressivity this portfolio would pay \$1,532 million at \$80 ANS West Coast ..... \$2 Bn before the capital investment**





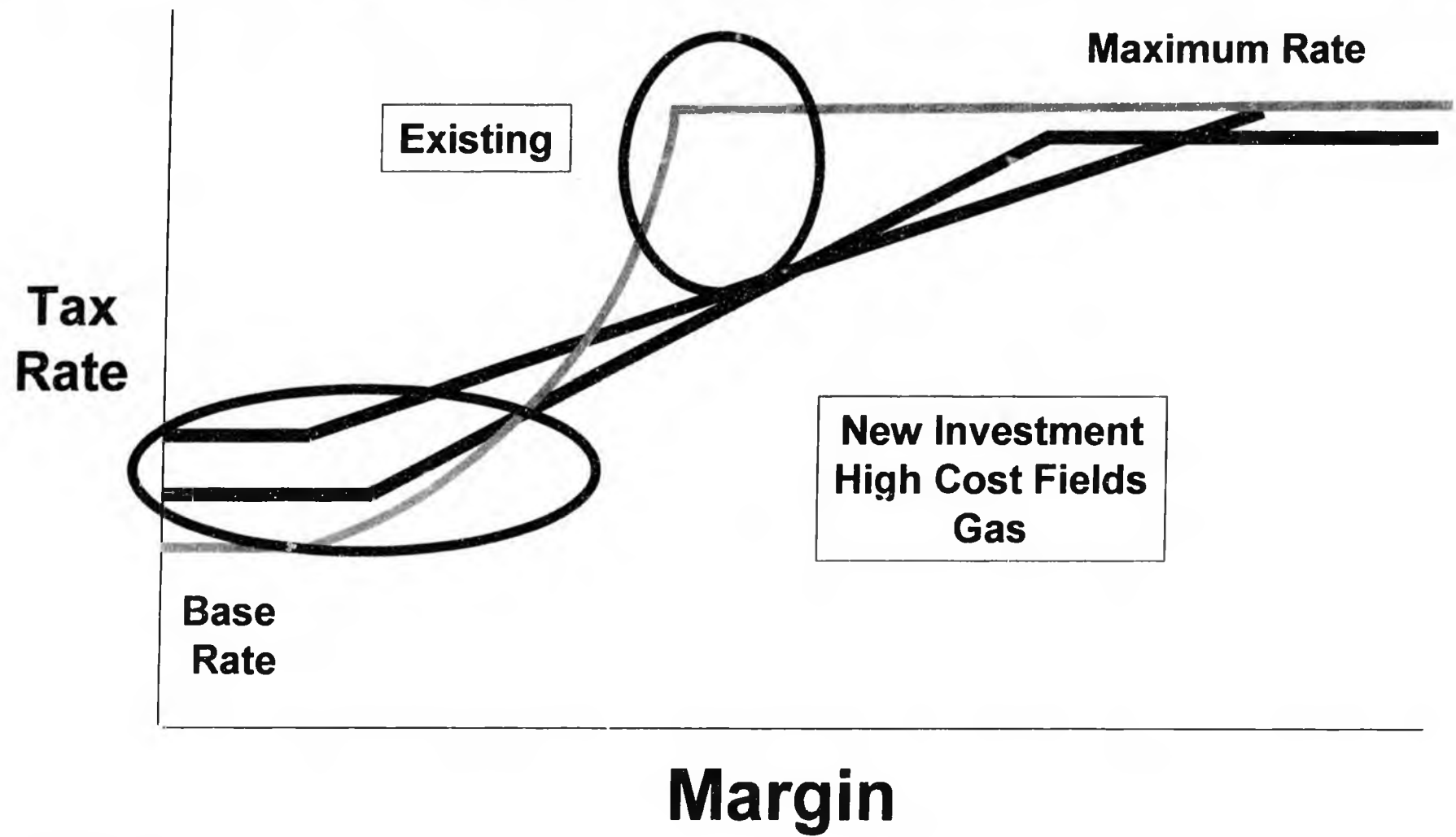
# Conclusions

- **A net tax on the margin is a tax on the retained cash flow and not just a tax on simple profitability**
- **Corporate ring fence for production tax allows the effective rate to vary between more, and less, profitable fields**
- **More aggressive net progressivity provides a greater differentiation on the effective rate than simple gross progressivity**
  - **Less/lower taxes at low margins**
  - **More/higher taxes at high margins**





# Aggressive Progressivity



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# **Not The End But a New Beginning**

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**30 October 2007**

# Progressivity in CS HB 2001 (O&G)

Dan E. Dickinson  
October 30, 2007  
House Resources

The tax is equal to  
[.225 percent]  
of the [monthly gross value at  
the point of production of  
the taxable oil and gas]  
multiplied by [the number that represents the difference

0.00225

19,520

[(1) the quotient of the  
total monthly gross  
value at the point of  
production of the  
taxable oil and gas  
produced by the  
producer in BTU  
equivalent barrels]  
[and (2) \$50]]

\$ 80.00

\$ 50.00

\$30

The tax is equal to  
 [the number that represents the difference between

[(1) the quotient of the  
 total monthly gross  
 value at the point of  
 production of the  
 taxable oil and gas  
 produced by the  
 producer in BTU  
 equivalent barrels]  
 [and (2) \$50]]

\$ 80.00

\$ 50.00

\$30

0.00225

6.75%

multiplied by [.225 percent]

multiplied by [monthly gross value at  
 the point of production of  
 the taxable oil and gas]

19,520

1,317.60

# Progressivity Taxes

	PPT	ACES	HO&G
<b><u>BASE</u></b>			
Taxable bbls	244	244	244
ANS Market	87.00	87.00	87.00
Trans	7.00	7.00	7.00
GVPP	80.00	80.00	80.00
Lifting	20.00	20.00	-
PTV	60.00	60.00	80.00
bbls time \$/bbl	14,640	14,640	19,520
<b>Base</b>	<b>14,640</b>	<b>14,640</b>	<b>19,520</b>
<b><u>RATE (factor/dollar * dollars over starting point)</u></b>			
Starting place	40.00	30.00	50.00
Price index	20.00	30.00	30.00
Factor/dollar	0.2500%	0.2000%	0.2250%
Prog Factor	5.00%	6.00%	6.75%
<b><u>Tax = Rate * Base</u></b>			
<b>Tax</b>	<b>732.00</b>	<b>878.40</b>	<b>1,317.60</b>

AS 43.55.011(g) & (h)

(g) the tax levied under this subsection is equal to ...

[.25 percent]

of the

[monthly production tax value of the taxable oil and gas ...]

multiplied by the

[the price index determined under (h) of this section.]

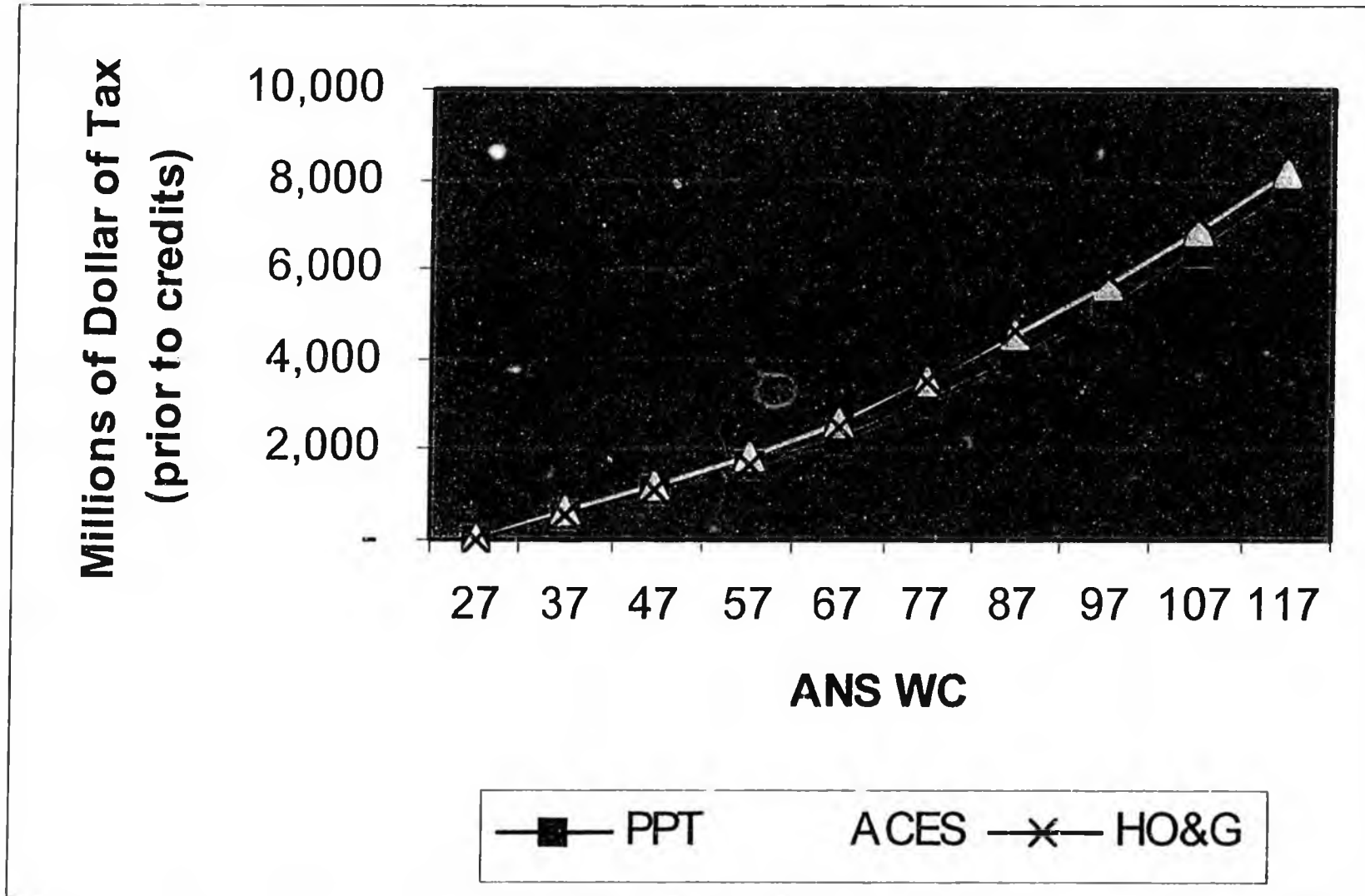
(h) [For purposes of (g) of this section, the price index for a month is calculated by subtracting

[40]

from

[the number that is equal to the quotient of the total monthly production tax value of the taxable oil and gas produced by the producer during that month...divided by the total amount of the taxable oil and gas produced by the produce during that month, in BTU equivalent barrels]]

# Progressivity Studies 10/28/07 (\$7 downstream costs, \$20 upstream)



# ALASKA STATE LEGISLATURE



Official Business

## HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Representative Kurt Olson, Chair  
State Capitol, Room 408  
Juneau, AK 99801-1182  
Phone 907-465-2693 Fax 907-465-3835

Representative Ralph Samuels  
Representative Nancy Dahlstrom  
Representative Scott Kawasaki

Representative Jay Ramras  
Representative Mark Neuman  
Representative Mike Doogan

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### Sectional for HB2001(O&G)\K

**Section 1.** Amends AS 38.05.035(a) by adding a new paragraph that requires the director of the Division of Lands to furnish information to the Department of Revenue for the purpose of forecasting state revenue and the administration of AS 43.55 (oil and gas production tax and surcharges). The information to be shared includes confidential information relating to sale, lease, or other disposal of land; geological, geophysical and engineering data; financial information; and other information held by the director. Requires the Department of Revenue to maintain the same confidentiality of the information received under the paragraph as is required of the director of the Division of Lands with regard to that information.

**Section 2.** Amends AS 38.05.036(b) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because the amendment of AS 38.05.035(a) in Section 1 renumbered some paragraphs in the subsection and added a new paragraph

**Section 3.** Amends AS 38.05.036(f) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because of the amendment of AS 35.05.35(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 4.** Amends AS 38.05.036(g) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because of the amendment of AS 35.05.35(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 5.** Amends AS 38.05.123(f) by changing a cross-reference to a paragraph in

AS 38.05.035(a); the change is required because of the amendment of AS 35.05.35(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 6.** Amends AS 38.05.133(e) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because of the amendment of AS 35.05.35(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 7.** Amends AS 38.05.180(j)(6)(B) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because of the amendment of AS 35.05.35(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 8.** Amends AS 38.05.275(c) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because of the amendment of AS 35.05.35(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 9.** Adds a new paragraph (42) to AS 39.25.110 that makes oil and gas production tax auditors and their immediate supervisors in Department of Revenue and oil and gas royalty auditors, including net profits share auditors, and their immediate supervisors in Department of Natural Resource exempt employees.

**Section 10.** Amends 41.09.010(d) by changing a cross-reference to a paragraph in AS 38.05.035(a); the change is required because of the amendment of AS 35.05.035(a) in sec. 1 renumbered some paragraphs in the subsection and added a new paragraph.

**Section 11.** Amends AS 43.05.230(a) to include AS 43.55.890 (added by sec 33 of the bill), that provides disclosure of tax information, as an exception to the prohibition against divulging the amount of income or the particulars set out or disclosed in a report or return made under AS 43.

**Section 12.** Amends AS 43.05.230(h) by adding tax returns, reports, and documents filed under AS 43.55, and the Department of Revenue's determinations and work papers under HB 2001 O&G CS \K Sectional 10.28.07

AS 43.55 and AS 43.65 to the information that the Department of Revenue is required to furnish to the Department of Natural Revenue.

**Section 13.** Amends AS 43.55.260 (a) to include AS 43.55.075 (added by sec. 27 of the bill) as an exception to the general three-year statute of limitations on assessment. Details are discussed in s. c. 27.

**Section 14.** Amends AS 43.55.011(j) (relating to Cook Inlet gas) to add AS 43.55.011(o) to delete reference to AS 43.55.011(g), under sec. 42 of the bill, this section takes effect January 1, 2008.

**Section 15.** Amends AS 43.55.011(k) (relating to Cook Inlet oil) to add AS 43.55.011(o) to delete reference to AS 43.55.011(g), under sec. 42 of the bill, this section takes effect January 1, 2008.

**Section 16.** Amends AS 43.55.011(m) by adding reference to AS 43.55.011(o) and makes technical changes.

**Section 17.** Adds new sections to AS 43.55.011

(o) Amends AS 43.55.011 by adding a new subsection (o) that adds a gross element to the progressivity tax, which is triggered when oil reaches \$50 a barrel at the rate of .225% of the gross value at the point of production calculated monthly.

(p) Prior to 2022 (p) providing that gas produced outside of Cook Inlet, after December 31, 2007, and south of 68 degrees North Latitude, be taxed at the similarly to the Cook Inlet Basin.

**Section 18.** Amends AS 43.55.020(a) by changing a cross-reference to a paragraph in AS 45.55.011; required by the addition of AS 45.55.011(o) in sec. 17. Deletes reference to subsection AS 43.55.011(g).

**Section 19.** Amends AS 43.55.020(d) by changing a cross-reference to a paragraph in HB 2001 O&G CS \K Sectional 10.28.07  
3 of 7

AS 45.55.011; the change is required because of the addition of AS 45.55.011(o) in sec. 17.

**Section 20.** Amends AS 43.55.020(g) Clarifies the period during which interest accrues under 26 U.S.C. 6621 on the underpayment of an installment.

**Section 21.** Amends AS 43.55.020(h) Clarifies the period during which the interest accrues under 26 U.S.C. 6621 on the overpayment of an installment.

**Section 22.** Amends AS 43.55.023(d). Applying current statutory language to the use of tax credits for losses and expenditures and makes conforming amendments to AS 43.55.030(a) or (e).

**Section 23.** Amends AS 43.55.023(i) by reducing the TIE credits to expenditures incurred after March 31, 2003 (previously 2001).

**Section 24.** Amends AS 43.55.030(a) to make the statement filing requirement apply to all producers rather than only those producers with a tax liability. Adds additional information requirements to those already in current law. Under sec. 39 of the bill, this section applies to statements and reports required to be filed after December 31, 2007. Under sec. 42 of the bill, this section takes effect January 1, 2008.

**Section 25.** Amends AS 43.55.030 by adding subsections (e) and (f). Requires explorers or producers to file an annual statement on expenditures (or adjustments) even if no oil or gas is produced during the year. Makes clear that the Department may also require monthly reports from producers, explorers, and operators.

**Section 26.** Amends AS 43.55.040 by adding paragraph (5) that authorizes the Department of Revenue to require a producer, explorer, or operator to file reports and records that the department considers necessary to forecast state revenue under AS 43.55.

**Section 27.** Adds a new section AS 43.55.075. This section recognizes that historically most production tax audits take longer than 3 years. The proposal requires the amount of tax imposed by this chapter to be assessed within 6 years after the latest return is filed. The section also details various filing time period obligations.

**Section 28.** Adds new subsections to AS 43.55.110

(e) Allows the department to require that returns, statements, reports, notifications, and applications be filed electronically in a form required by the department.

(f) Allows the department to require electronic payments.

(g) Allows the department to issue advisory bulletins.

**Section 29.** Amends 43.55.160(a) makes conforming amendments.

**Section 30.** Amends AS 43.55.165(a) Conforming statutory language to reflect prohibited lease expenditures under AS 43.55.165(e).

**Section 31.** Amends AS 43.55.165(e) (relating to excluded lease expenditures) by deleting language in AS 43.55.165(e)(15) that relates to dismantlement, removal, surrender, or abandonment costs attributable to production before April 1, 2006, and adding additional categories of excluded costs. AS 43.55.165(e)(6) is amended to exclude costs that arise from a violation of law or the failure to comply with an obligation under the lease, permit, or license issued by the state or federal government.

AS 43.55.165(e)(19) is added to exclude costs for repair, replacement, or deferred maintenance undertaken in response to an <sup>unanticipated</sup> unscheduled interruption <sup>leading to a</sup> or reduction in the rate of production or undertaken in response to an unpermitted release of gas or other hazardous substances.

(AS 43.55.165(e)(19) appears to address concerns similar to those addressed in HB 128 and SB 80, but uses different criteria than those in the existing legislation for determining excluded costs.) AS 43.55.165(e)(20) is added to exclude costs related to a refinery or crude oil topping plant, but allows the value of certain products produced from such a facility to be lease expenditures. Under sec. 39 of the bill, this section applies to oil and gas produced after March 31, 2006. Under sec.41 of the bill, this section is retroactive to April 1, 2006.

**Section 32.** Amends AS 43.55.170(a) by delineating an exception relating to the subtraction of a payment or credit in calculating billable or billed costs. Under sec 39 of the bill, this section applies to oil and gas produced after March 31, 2006. Under sec.41 of the bill, this section is retroactive to April 1, 2006.

**Section 33.** Adds a new section to AS 43.55 – AS 43.55.890. The new section provides for the publication of information, if aggregated among three or more producers or explorers, that includes the amount of oil or gas production, the amount of taxes levied and paid under AS 43.55, and other information related to credits, expenditures, and the value of oil and gas produced.

**Section 34.** AS 43.55.900 Definitions.  
Adds definitions for producer, and unit.

**Section 35.** Repeals AS 43.55.165(c) and 43.55.165(d)

**Section 36.** Repeals AS 43.55.011(g), AS 43.55.011(h), AS 43.55. 011(l) and AS 43.55.160(c).

**Section 37.** APPLICABILITY Makes identified bill sections applicable to oil and gas produced after March 31, 2006, and before December 31, 2007, to expenditures incurred after December 31, 2007, to tax credit certificates that have not been refunded, and statement and reports required to be filed after December 31, 2007.

**Section 38.** Provides for the assignment of current oil and gas auditors in the department of Revenue and the Department of Natural Resources and their immediate supervisors to the exempt service, but allows those individuals hired before the effective date of sec. 9 of the bill (adding these position classifications to the exempt service) to choose to continue in the classified service.

**Section 39.** Allows regulations adopted by the Department of Revenue and the Department of Natural Resources to be retroactively applied to April 1, 2006.

**Section 40.** Transitional language. Permits the Department of Natural Resources and the Department of Revenue to adopt regulations under the Administrative Procedure Act to implement the Act but provides that adopted regulations may not take effect before the effective date of the law being implemented.

**Section 41.** Provides for the retroactivity of certain provisions of the Act to April 1, 2006.

**Section 42.** Makes certain provisions in the Act effective January 1, 2006.

**Section 43.** Accept as provided in sec. 42, makes the Act take effect immediately.