

SB

305

<target><bill>SB 305</bill><subject>SB
305</subject><comm>HFIN26</comm></target>

*Adopted
4/16/10*

AMENDMENT

#2

OFFERED IN THE HOUSE

BY REPRESENTATIVE HAWKER

TO: HCS CSSB 305 (FIN) Work Draft Version 26-LS1577U

- 1 Page 8, line 20
- 2 Delete "land, lease,"
- 3 Insert "land or lease or"
- 4
- 5 Page 9, line 19 following "property"
- 6 Insert "in the state"
- 7
- 8 Page 11, line 25
- 9 Delete "land, lease,"
- 10 Insert "land or lease or"
- 11
- 12 Page 12, line 9
- 13 Delete "land, lease,"
- 14 Insert "land or lease or"
- 15
- 16 Page 12, line 21
- 17 Delete "land, lease,"
- 18 Insert "land or lease or"
- 19
- 20 Page 13, line 2
- 21 Delete "land, lease,"
- 22 Insert "land or lease or"
- 23
- 24 Page 16, line 13
- 25 Delete "Sections 2 - 4"
- 26 Insert "Sections 2 - 5"

4/14/10

2 March 2010

To: Senate Finance Committee

Attn: Senator Bert Stedman, Co-Chairman

From: David Wood

Date: 2 March, 2010

Re: Answer to Question & Request Raised by Senator Thomas during My Testimony (25 February 2010) – Fiscal Years 2008 and 2009

The very pertinent and perceptive question asked earlier today by Senator Thomas sought information with respect to how might the gas dilution / cross subsidy effect identified in Alaska's current production tax rules have impacted the production taxes actually paid in recent periods had a gas line been in operation at the time?

In order to provide an indicative answer to this question I have taken the data for price, volume and costs (excluding Cook Inlet Gas) for fiscal years 2008 and 2009 (i.e. July 2007 to June 2008 and July 2008 to June 2009), which are available from the Alaska Department of Revenue (DOR), Fall 2008 and 2009 Revenues Sources Books (RSB), (Dec 2008 and Dec 2009). These two periods encompass the wide range of oil prices that prevailed since the ACES rules were in place. The six tables attached (three for each fiscal period) to this document provide the necessary data and calculations to establish the impact of the cross subsidy effect.

Note that in this calculation the annual figures for production volumes and costs are distributed pro rata according to days / month across each month of the year. This assumption was necessary as DOR do not publish a monthly breakdown of the production tax calculation. This approximation is responsible for the small difference between the actual production tax paid and that calculated in the tables that follow. For fiscal year 2008 the calculated production tax shown in Table 1 is 2.7% higher than the actual production tax paid (\$6867.3 million). For fiscal year 2009 the calculated production tax shown in Table 1 is 4.5% higher than the actual production tax paid (\$3112.0 million). These slight differences are not considered significant in the context of the purpose of this analysis.

(copy on file)

Fiscal Year 2008

Table 1 calculates the production tax for oil based on actual data showing the components of that calculation. As no gas is exported the calculations are based upon oil barrels only. This results in total production tax of **\$ 7.462 billion** which is reduced by investment credits of \$411.5 million to **\$ 7.050 billion**. The calculation shown essentially reproduces the figures from the RSB (2.7% difference attributed to monthly pro rata production and cost allocations).

Table 2 assumes a 4.5 bcf/day gas line and calculates production tax for this hypothetical gas stream on a stand-alone basis (i.e. not combined with oil). The calculation uses the U.S. wellhead natural gas prices from the EIA's records for the months in question. There would be some small differentials between these prices and AECO prices in Alberta, but I believe they are close enough for the purpose. I have also assumed gas transportation costs of \$4.5/mcf (\$27/boe) and field costs (capital costs plus operating costs) of \$400 million (\$1.46/ boe) which are those used by Commissioner Galvin in the examples he provided from the DOR in his testimony of 24 February 2010. This data computes a total production tax of **\$ 1.140 billion** to which no investment credits are applied.

By adding the computed production taxes in tables 1 and 2 the stand-alone oil and gas production tax for this FY 2008 (assuming 4.5 bcf /day) would be **\$8.599 billion** (reduced to \$8.187 billion by the deduction of \$411.5 million investment credits).

Table 3 calculates the production tax by combining the revenue cost and volume streams from tables 1 and 2 to provide a combined oil and gas production tax calculation of **\$6.776 billion** (reduced to \$6.365 billion by the deduction of \$411.5 million investment credits).

For this period the loss to the State in production tax revenue caused by the cross subsidy effect of combining oil and gas in the production tax calculation would have amounted to:

$$\text{\$6.776 billion less \$8.599 billion} = \text{-\$1.822 billion.}$$

This calculation is in line with the figures of potential loss in fiscal revenue discussed during the testimonies.

Fiscal Year 2009

Table 4 calculates the production tax for oil based on actual data showing the components of that calculation. As no gas is exported the calculations are based upon oil barrels only. This results in total production tax of **\$ 3.601 billion** which is reduced by investment credits of \$350 million to **\$ 3.251 billion**. The calculation shown essentially reproduces the figures from the RSB (4.5% difference attributed to monthly pro rata production and cost allocations).

Table 5 assumes a 4.5 bcf/day gas line and calculates production tax for this hypothetical gas stream on a stand-alone basis (i.e. not combined with oil). The calculation uses the U.S. wellhead natural gas prices from the EIA's records for the months in question. There would be some small differentials between these prices and AECO prices in Alberta, but I believe they are close enough for the purpose. I have also assumed gas transportation costs of \$4.5/mcf (\$27/boe) and field costs (capital costs plus operating costs) of \$400 million (\$1.46/ boe) which are those used by Commissioner Galvin in the examples he provided from the DOR in his testimony of 24 February 2010. This data computes a total production tax of **\$ 0.583 billion** to which no investment credits are applied.

By adding the computed production taxes in tables 1 and 2 the stand-alone oil and gas production tax for this FY 2009 (assuming 4.5 bcf /day) would be **\$4.185 billion** (reduced to \$3.835 billion by the deduction of \$350 million investment credits).

Table 6 calculates the production tax by combining the revenue cost and volume streams from tables 4 and 5 to provide a combined oil and gas production tax calculation of **\$3.381 billion** (reduced to \$3.031 billion by the deduction of \$350 million investment credits).

For this period the loss to the State in production tax revenue caused by the cross subsidy effect of combining oil and gas in the production tax calculation would have amounted to:

\$3.381 billion less \$4.185 billion = -\$0.804 billion.

This calculation indicates a lower potential loss in fiscal revenue for fiscal year 2009 compared to fiscal year 2008. This is due to the lower prices and value of oil and gas revenue streams in fiscal year 2009. However, \$0.8 billion remains a substantial potential loss in a relative low price / value environment.

Sincerely,

David Wood

dw@dwasolutions.com

2 March 2010

Table 1. Oil Stand-alone Production Tax Calculation (July 2007 to June 2008)

FY 2008 Production Tax Revenues: Actual Versus Potential Under Alternative Mechanisms (Analysis Based on Actual US West Coast Prices and Cost Data)														
US West Coast Oil Price	Per Barrel Total Costs	Per Barrel Production Tax Value	Per Barrel PTV less Progressivity Threshold	PTV less Progressivity Threshold	PTV Rate per Dollar of Adjusted PTV	Incremental Progressivity Rate	Volume (Millions barrels)	Combined Progressivity Tax (CPT)	Base Production Tax (BPT) Rate	Base Production Tax Value	CPT + BPT Investment Credits	CPT + BPT Value	Base Production Tax Value	
														Month
Monthly Analysis, \$80 PTV \$/boe threshold and 0.004% progressivity parameter under Current Law as enacted in 2007														
Jul	75.93	-22.88	53.05	-30	23.05	0.40%	9.22%	19.4	95.0	25.00%	257.5	352.5	257.5	257.5
Aug	73.83	-22.88	50.95	-30	20.95	0.40%	8.38%	19.4	82.9	25.00%	247.4	330.3	247.4	330.3
Sep	79.92	-22.88	57.04	-30	27.04	0.40%	10.81%	18.8	115.9	25.00%	268.0	383.9	268.0	383.9
Oct	84.77	-22.88	61.89	-30	31.89	0.40%	12.75%	19.4	153.3	25.00%	300.5	453.8	300.5	453.8
Nov	92.98	-22.88	70.10	-30	40.10	0.40%	16.04%	18.8	211.3	25.00%	329.3	540.6	329.3	540.6
Dec	88.64	-22.88	65.76	-30	35.76	0.40%	14.30%	19.4	182.7	25.00%	319.3	501.9	319.3	501.9
Jan	91.16	-22.88	68.28	-30	38.28	0.40%	15.31%	19.4	203.0	25.00%	331.5	534.5	331.5	534.5
Feb	94.42	-22.88	71.54	-30	41.54	0.40%	16.61%	18.2	215.9	25.00%	324.9	540.8	324.9	540.8
Mar	105.06	-22.88	82.18	-30	52.18	0.40%	20.87%	19.4	333.1	25.00%	399.0	732.1	399.0	732.1
Apr	112.37	-22.88	89.49	-30	59.49	0.40%	23.79%	18.8	400.2	25.00%	420.4	820.6	420.4	820.6
May	125.41	-22.88	102.53	-30	72.53	0.40%	29.01%	19.4	577.6	25.00%	497.8	1075.4	497.8	1075.4
Jun	133.78	-22.88	110.90	-30	80.90	0.40%	32.36%	18.8	674.4	25.00%	521.0	1195.5	521.0	1195.5
Totals:									3243.3	25.00%	4216.6	7461.9	4216.6	7050.4

Data Source: Alaska Department of Revenue (DOR), Fall 2008 Revenues Source Book (RSB), (Dec 2008)
 FY2008 Taxable North Slope barrels /day: 626,456
 FY2008 Lease Expenditures (\$/bbbl): 16.78
 FY2008 Capex Credits (\$ millions): 411.5

2 March 2010

Table 2. Gas Stand-alone Production Tax Calculation (July 2007 to June 2008) [Assuming Gas Line Operational]

FY 2008 Production Tax Revenues: 4.5 bcf /day Hypothetical Gas Sales (Standalone Production Tax Calculation) (US Gas Price Data from EIA)														
Month	A	B	C	D	E	F	G	H	I	J	K	L	M	N
2007/2008	EIA U.S. Wellhead Price \$/mcf	Per BOE Total Costs for Gas \$/boe	Per Barrel Production Tax Value PTV \$/boe	Per Barrel Production Tax Value (B+C)	Progressivity Threshold \$/boe	PTV less Progressivity Threshold (D+E)>=0	PTV Rate per Incremental Progressivity -Dollar of Adjusted PTV %	Incremental Progressivity Rate (F*G)	Volume (Millions boe)	Progressivity Tax (Gas Calculated Separately) \$ millions	Base Production Tax (BPT) %	Base Production Tax Value (D*J*K) \$ millions	Production Tax Progressivity Value (J+L) \$ millions	CPT + BPT less Investment Credits (M-P) \$ millions
Monthly Analysis, \$90 PTV \$/boe threshold and 0.004% progressivity parameter under Current Law as enacted in 2007														
Jul	6.32	-28.46	9.46	9.46	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	55.0	55.0	
Aug	5.87	-28.46	6.76	6.76	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	39.3	39.3	
Sep	5.42	-28.46	4.06	4.06	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	22.9	22.9	
Oct	5.90	-28.46	6.94	6.94	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	40.4	40.4	
Nov	6.58	-28.46	11.02	11.02	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	62.0	62.0	
Dec	6.97	-28.46	13.36	13.36	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	77.7	77.7	
Jan	6.99	-28.46	13.48	13.48	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	78.4	78.4	
Feb	7.55	-28.46	16.84	16.84	-30	0.00	0.40%	0.00%	21.8	0.0	25.00%	91.6	91.6	
Mar	8.29	-28.46	21.28	21.28	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	123.7	123.7	
Apr	8.94	-28.46	25.18	25.18	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	141.7	141.7	
May	9.81	-28.46	30.40	30.40	-30	0.40	0.40%	0.16%	23.3	1.1	25.00%	176.7	177.9	
Jun	10.82	-28.46	36.46	36.46	-30	6.46	0.40%	2.59%	22.5	21.2	25.00%	205.1	226.3	
Totals:									274.5	22.3	25.00%	1114.3	1136.7	1136.7

Data Source: EIA for gas price; Hypothetical gas production (bcf/day): 4.5; Lease Expenditures (\$/boe): 1.46; TT&T (\$/mcf): 4.5; Capex Credits (\$ millions): 0.0
 Combined Production Tax Calculation on an oil + gas stand-alone calculation: 8598.5

Table 4. Oil Stand-alone Production Tax Calculation (July 2008 to June 2009)

FY 2009 Production Tax Revenues: Actual Versus Potential Under Alternative Mechanisms (Analysis Based on Actual US West Coast Prices and Cost Data)														
Month	US West Coast Oil Price	Per Barrel Total Costs	Per Barrel Production Tax Value	PTV less Progressivity Threshold	PTV Rate per Dollar of Adjusted PTV	Incremental Progressivity Rate	Volume (Millions barrels)	Combined Progressivity Tax (CPT)	Base Production Tax (BPT) Rate	Base Production Tax Value	CPT + BPT less Investment Credits	CPT + BPT Value	Net (M - P)	
														A
Monthly Analysis, \$30 PTV \$/boe threshold and 0.004% progressivity parameter under Current Law as enacted in 2007														
Jul	132.87	-26.15	106.72	-30	76.72	0.40%	18.6	607.6	25.00%	495.0	1102.5	25.00%	1102.5	
Aug	115.98	-26.15	89.83	-30	59.83	0.40%	18.6	398.8	25.00%	416.6	815.5	25.00%	815.5	
Sep	101.86	-26.15	75.71	-30	45.71	0.40%	18.0	248.5	25.00%	339.8	588.3	25.00%	588.3	
Oct	73.65	-26.15	47.50	-30	17.50	0.40%	18.6	61.7	25.00%	220.3	282.0	25.00%	282.0	
Nov	53.94	-26.15	27.79	-30	-2.21	0.40%	18.0	-4.4	25.00%	124.7	120.3	25.00%	120.3	
Dec	37.70	-26.15	11.55	-30	-18.45	0.40%	18.6	-15.8	25.00%	53.6	37.8	25.00%	37.8	
Jan	39.01	-26.15	12.86	-30	-17.14	0.40%	18.6	-16.4	25.00%	59.6	43.3	25.00%	43.3	
Feb	42.78	-26.15	16.63	-30	-13.37	0.40%	16.8	-14.9	25.00%	69.7	54.8	25.00%	54.8	
Mar	47.75	-26.15	21.60	-30	-8.40	0.40%	18.6	-13.5	25.00%	100.2	86.7	25.00%	86.7	
Apr	46.56	-26.15	20.41	-30	-9.59	0.40%	18.0	-14.1	25.00%	91.6	77.5	25.00%	77.5	
May	58.23	-26.15	32.08	-30	2.08	0.40%	18.6	4.9	25.00%	148.8	153.7	25.00%	153.7	
Jun	69.80	-26.15	43.65	-30	13.65	0.40%	18.0	42.8	25.00%	195.9	238.7	25.00%	238.7	
Totals:										218.4	1285.3	2315.8	3601.1	3251.1

Data Source: Alaska Department of Revenue (DOR); Fall 2009 Revenues Sources Book (RSB); (Dec 2009) Lease Expenditures (\$/bbl): 218.4; millions barrels in FY2009: 598,463; Capex Credits (\$ millions): 350.0

Table 5. Gas Stand-alone Production Tax Calculation (July 2008 to June 2009) [Assuming Gas Line Operational]

FY 2009 Production Tax Revenues: 4.5 bcf /day Hypothetical Gas Sales (Standalone Production Tax Calculation) (US Gas Price Data from EIA)														
Month	A	B	C	D=	E	F=	G	H=	I	J=	K	L=	M=	N=
	EIA U.S. Wellhead Price \$/mcf	Per BOE Total Costs for Gas \$/boe	Per Barrel Production Tax Value \$/boe	Progressivity Threshold \$/boe	Progressivity Threshold \$/boe	PTV less Progressivity Threshold \$/boe	PTV Rate per Dollar of Adjusted PTV %	Incremental Progressivity Rate %	Volume (Millions boe)	Progressivity Tax (Gas Calculated Separately) \$ millions	Base Production Tax (BPT) %	Base Production Tax Value \$ millions	Production Tax (BPT + Progressivity) Value \$ millions	Total (BPT + Progressivity) Value \$ millions
			(B + C)	(D + E) >= 0	(D + E) >= 0	(D + E) >= 0	(F * G)	(F * G)	(D * H * I)	(D * H * I)	(D * I * K)	(D * I * K)	(J + L)	(M - P)
Monthly Analysis, \$30 PTV \$/boe threshold and 0.004% progressivity parameter under Current Law as enacted in 2007														
2007/2008	Jul	10.62	-28.46	35.26	-30	5.26	0.40%	2.10%	23.3	17.2	25.00%	204.9	222.2	
	Aug	8.32	-28.46	21.46	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	124.7	124.7	
	Sep	7.27	-28.46	15.16	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	85.3	85.3	
	Oct	6.36	-28.46	9.70	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	56.4	56.4	
	Nov	5.97	-28.46	7.36	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	41.4	41.4	
	Dec	5.87	-28.46	6.76	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	39.3	39.3	
	Jan	5.15	-28.46	2.44	-30	0.00	0.40%	0.00%	21.0	0.0	25.00%	14.2	14.2	
	Feb	4.19	-28.46	-3.32	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	0.0	0.0	
	Mar	3.72	-28.46	-6.14	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	0.0	0.0	
	Apr	3.43	-28.46	-7.88	-30	0.00	0.40%	0.00%	23.3	0.0	25.00%	0.0	0.0	
	May	3.45	-28.46	-7.76	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	0.0	0.0	
	Jun	3.45	-28.46	-7.76	-30	0.00	0.40%	0.00%	22.5	0.0	25.00%	0.0	0.0	
Totals:											273.8	17.2	566.2	583.4

Data Sources: EIA for gas price; Hypothetical gas production (bcf/day); 4.5; Lease Expenditures (\$/boe); 273.8; IT&T (\$/mcf); 4.5; Capex Credits (\$ millions); 0.0
 Combined Production Tax Calculated on an oil + gas stand-alone calculation: 4184.5

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Bert Stedman, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
(907) 465- 3873 - Phone
(907) 465-3922 - Fax
Senator_Bert_Stedman@legis.state.ak.us



Official Business

Senator Lyman Hoffman, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 4453
Fax - (907) 465- 4523
Senator_Lyman_Hoffman@legis.state.ak.us

SPONSOR STATEMENT SB 305

SB 305 separates oil and natural gas for purposes of calculating the progressivity portion of the production tax under AS 43.55. Under this bill the progressivity surcharges for oil and Cook Inlet and in-state gas would be calculated together, but distinctly from export gas, instead of the current practice on all oil and gas combined. The progressivity structure itself would be unchanged, based on 0.4% of the production value that exceeds \$30 per barrel for oil, and \$30 per BTU barrel of oil equivalent for gas. The base tax rate is unchanged at 25% of production tax value.

Under current law the tax rate is based on the combined BTU value of oil and gas. However, oil and gas can have vastly different values on a BTU basis. Currently a BTU of oil is worth much more than a BTU of gas. Accordingly, once a major gas sale starts, overlaying the existing oil production, the BTU value of the combined oil and gas would be much lower than it was for oil alone. This has been referred to as the dilution effect and could cause a significant reduction in oil taxes as a result of a major gas sale. The existing tax structure, in conjunction with the inherent uncertainty of future oil and gas prices, exposes the state to significant financial risk were a major gas sale to occur. The structure also creates economic instability for entities looking to participate in the development and financing of a natural gas pipeline project in Alaska. SB 305 removes the dilution effect by having progressivity calculated distinctly for oil and gas. This will result in no reduction in oil taxes from a major gas sale.

As in current law, the bill gives the Department of Revenue the authority to adopt regulations to allocate costs between oil and gas, with the added instruction that a method based on relative BTU barrel of oil equivalents should be considered. That method was the one adopted by the department under the same authority for implementation of the current law.

Some producers currently produce Cook Inlet gas or other in-state gas along with North Slope oil. If all gas were separated from oil these producers would see an immediate tax increase. The bill is not intended to increase taxes on current activity. Having the progressivity for Cook Inlet gas and other in-state gas calculated together replicates the current situation, so these producers will see no tax increases. Only progressivity on export gas, like the gas from a major gas sale, would be calculated distinctly. This will prevent a major gas sale from diluting progressivity on oil.

Under the tax inducement provisions of the Alaska Gasline Inducement Act (AGIA), the tax structure in place at the time of the first binding open season (May 1, 2010), may be locked in for the first ten years of gas commercialization. Consequently, to the extent there is interest in decoupling our tax structure, it needs to be done before April 30, 2010.

BACK UP MATERIALS

QUALIFYING FOR THE

AGIA UPSTREAM INDUCEMENTS

House Finance Committee

April 15, 2010

Alaska Department of Revenue

Qualification for AGIA Inducements

AGIA REGULATIONS OVERVIEW



To qualify for any AGIA inducements under AS43.90.300, “producer-shippers” and “shippers buying from producers” must:

“Commit to acquire firm transportation capacity in the first binding open season”

AS 43.90.300

What is a binding commitment?

AGIA REGULATIONS OVERVIEW

8

“Must commit to acquire firm transportation capacity in the first binding open season” means that one must:*

1. Submit a bid for firm transportation capacity during the initial open season;
2. Execute a Precedent Agreement within 180 days of close of initial open season;
3. Execute Transportation Services Agreement within 5 years of open season, or two years following FERC Certification, whichever is later; **and**
4. File with the DOR-DNR Commissioners:
 - ☐ Copies of documents listed above; and
 - ☐ Copy of rolled-in rate agreements governing pipeline expansions

Qualification for AGIA Inducements

AGIA REGULATIONS OVERVIEW

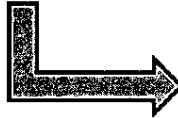
4

Step 1: Producer-Shipper applies to DOR-DNR Commissioners for qualification under AS 43.90.300.

**AS 43.90.300
Qualification for
Inducements**



**If Qualified Under
AS 43.90.300**



Steps 2 & 3: Producer-Shipper must comply with separate regulations to receive tax and royalty inducements

**AS 43.90.310
Royalty
Inducement**

**AS 43.90.320
Tax Inducement**



B

Gas Production Tax Exemption

(AGIA Tax Inducement)

AGIA REGULATIONS OVERVIEW

4/15/2010

Gas Production Tax Exemption

AGIA REGULATIONS OVERVIEW

6

- AGIA entitles shippers to 10 years of 'tax certainty' from the commencement of operation, on gas which is committed during the initial open season on an AGIA gas pipeline.
- Certainty is provided in the form of a tax "exemption" (i.e. a credit)

Credit =

Gas production tax
obligation under law
at time of production

-

Gas production tax
obligation under law
at open season

4/15/2010

Identifying “gas production tax”

AGIA REGULATIONS OVERVIEW

7

- The current Production Tax is calculated on combined oil and gas production, with combined oil and gas lease expenditures. So, we need to determine a “gas production tax obligation” for purposes of the .320 tax inducement.
- Regulations have been adopted to define an “Attributed Gas Production Tax Obligation” which is the proportion of the combined production tax that is deemed to be the “gas portion”.

How is the .320 Gas Production Tax Obligation calculated?

AGIA REGULATIONS OVERVIEW

8

Gross Value of AGIA Gas at the Point of Production

Combined Tax Obligation *

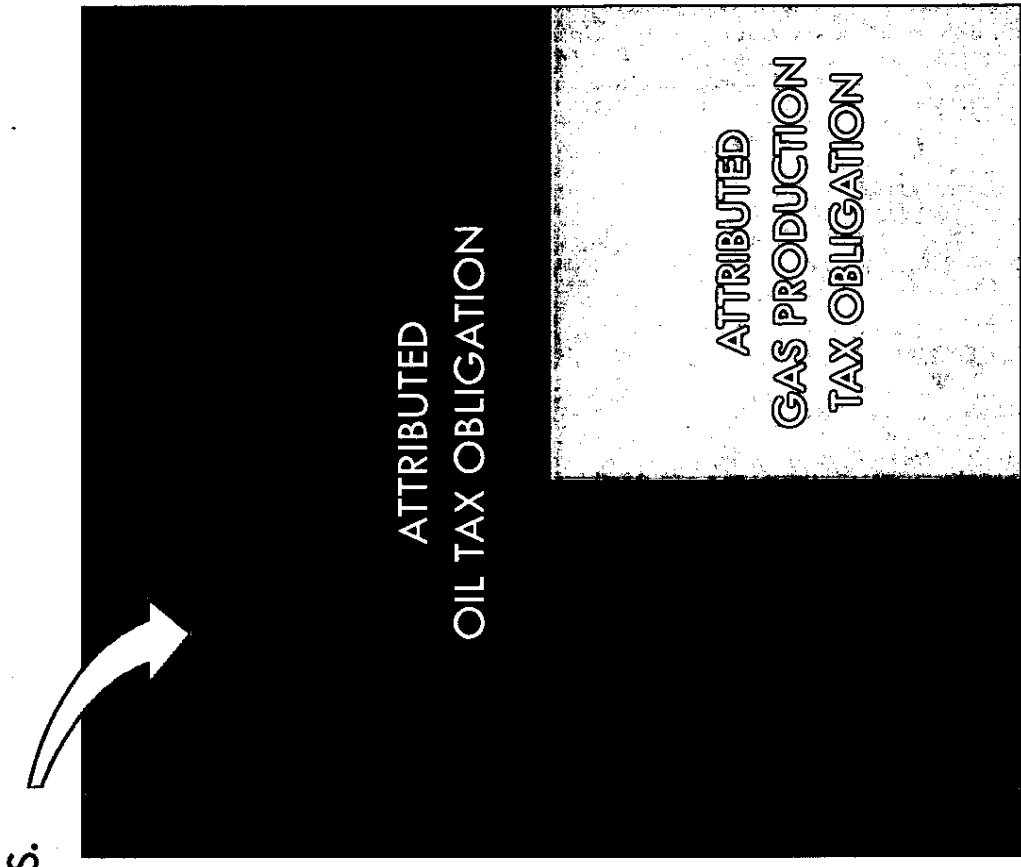
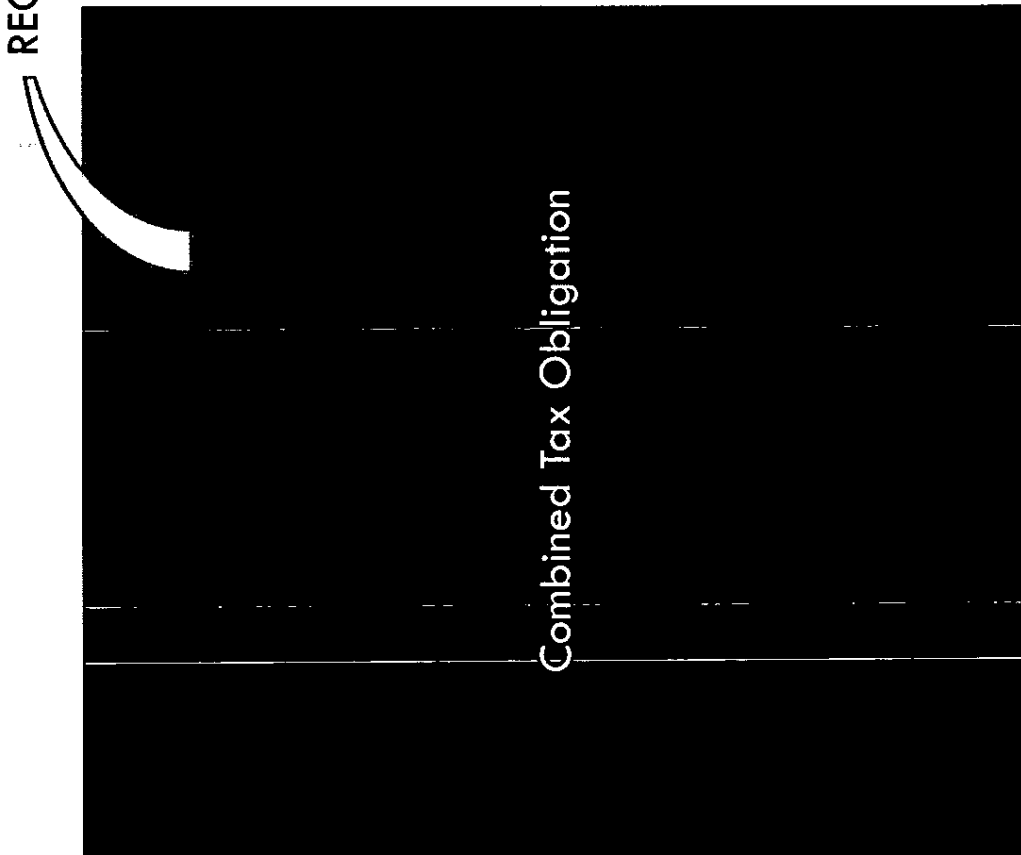
Gross Value of all Oil and Gas at the Point of Production

	Oil	Gas	Total
Gross Value at the Point of Production (PoP)	\$4,500	\$1,500	\$6,000
Proportionate Value at the PoP	75%	25%	100%
Combined Tax Obligation	N/A	N/A	\$1,000
Attributed Gas Production Tax Obligation (25% x \$1000)	NA	\$250	NA

DOR

Illustration

AGIA REGULATIONS OVERVIEW

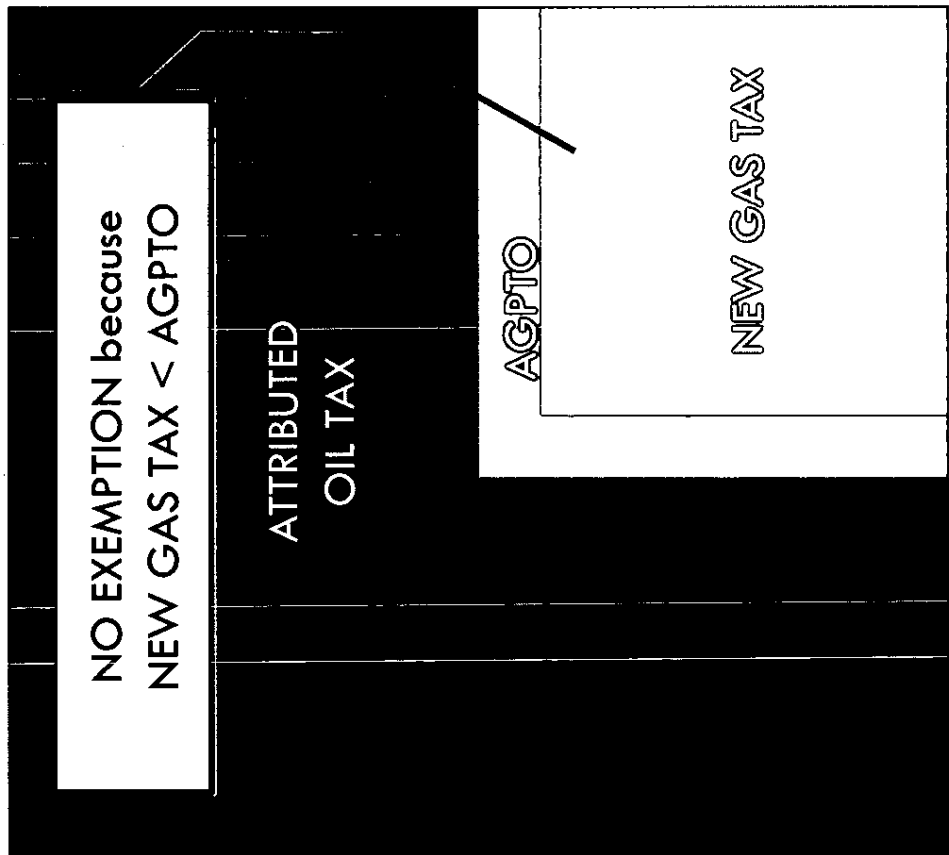


Exemptions (Credits) are granted when the New Gas Tax is higher than the Attributed Gas Production Tax Obligation (AGPTO).

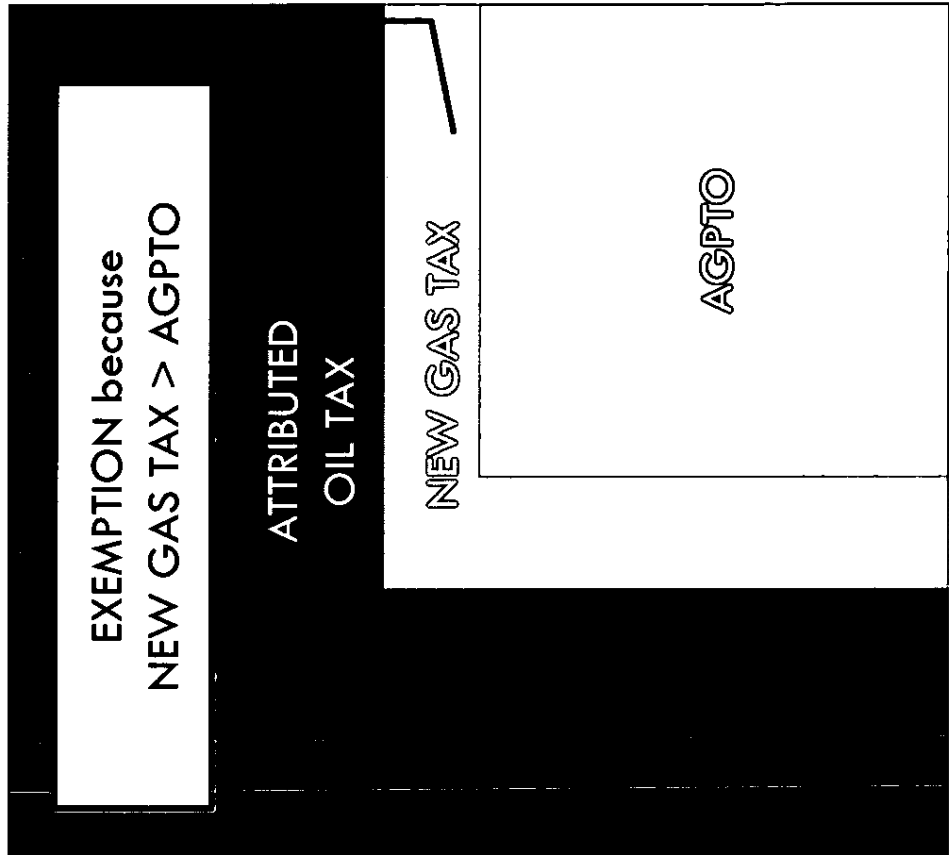
AGIA REGULATIONS OVERVIEW

10

EXAMPLE 1 – NO EXEMPTION



EXAMPLE 2 – EXEMPTION

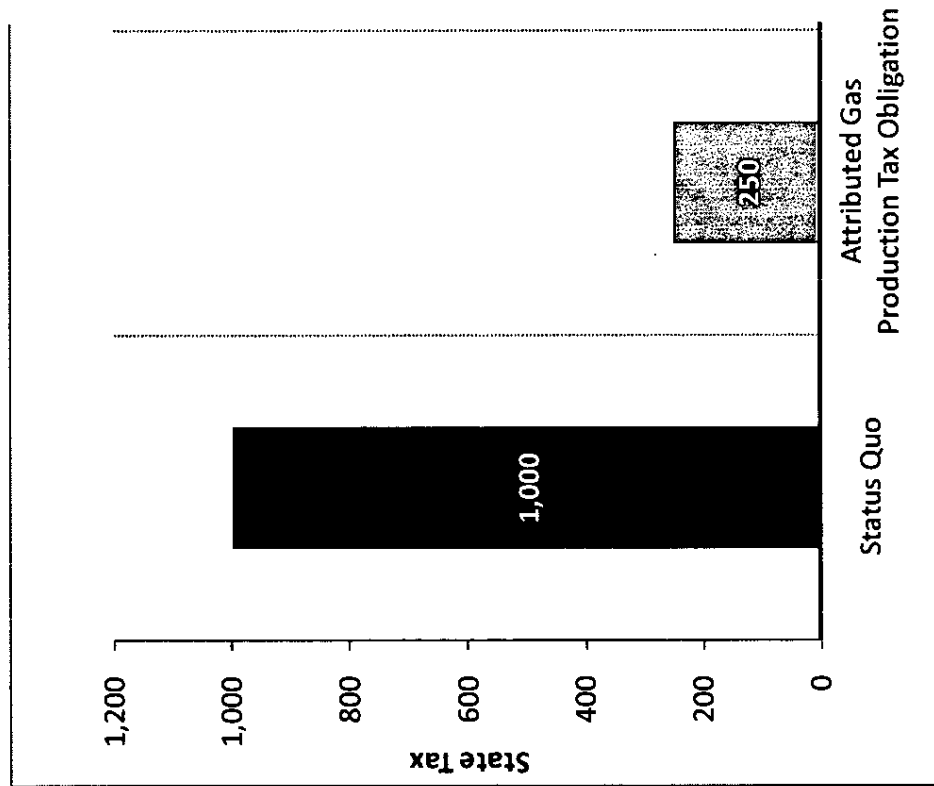


Example 1 – No exemption

AGIA REGULATIONS OVERVIEW



- The Producer's deemed tax liability is calculated under the Combined Oil and Gas tax regime in effect on the April 30, 2010.



DRAFT

- The Producer's Attributed Gas Production Tax Obligation is the Status Quo tax multiplied by the ratio of Value of AGIA Gas at the PoP over the total oil and gas value at the PoP.

Example 1 – No exemption

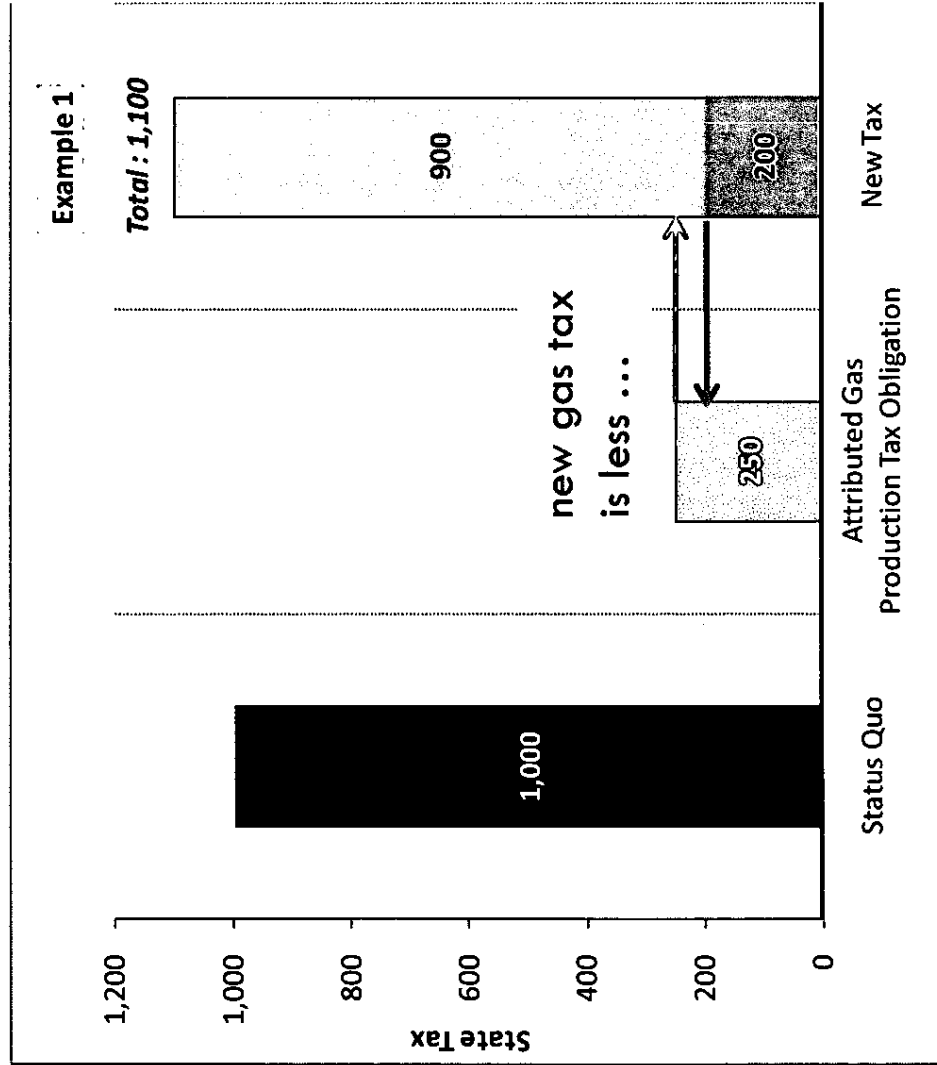
AGIA REGULATIONS OVERVIEW

DRAFT

The Attributed Gas

Production Tax
Obligation is then
compared to the
gas tax under the
tax regime in effect
at that time.

If the new gas tax
is less than the
AGPTO, no
exemption is
created...

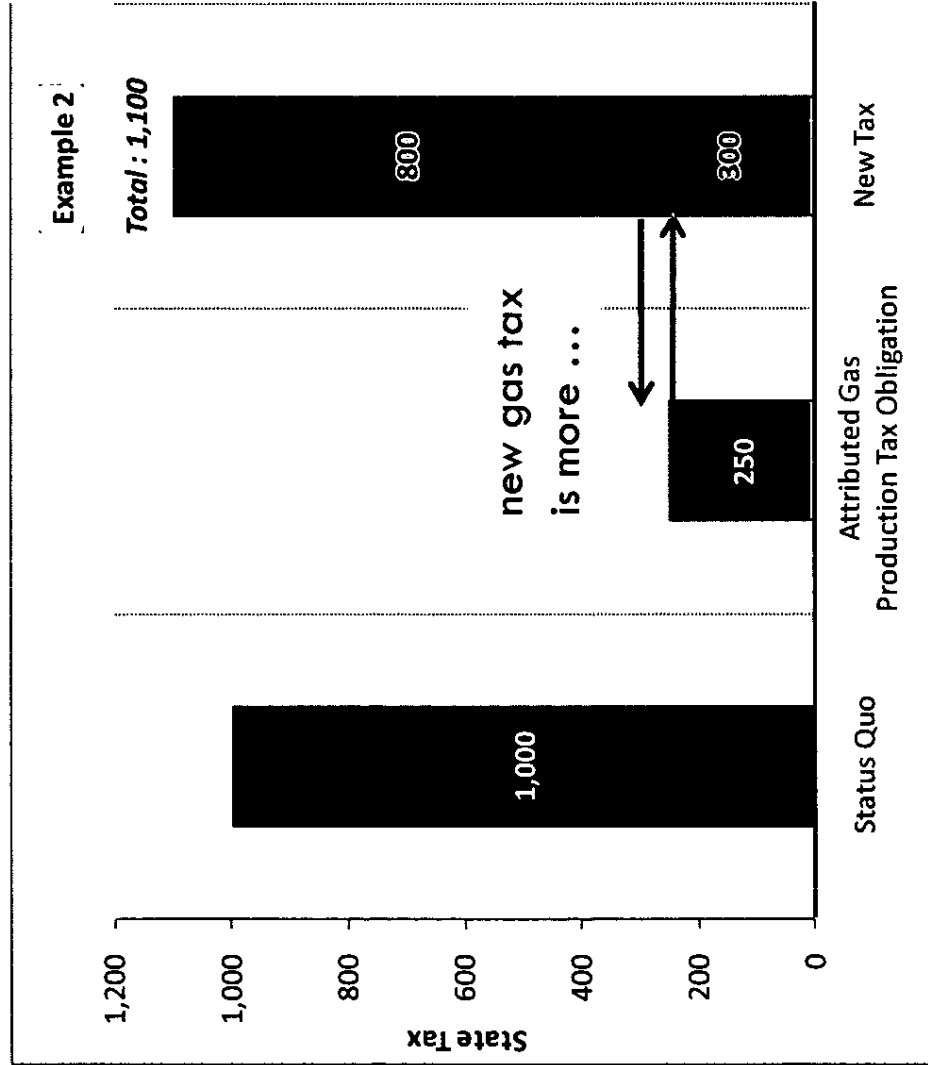


Example 2 – Exemption Created

AGIA REGULATIONS OVERVIEW

DRAFT

- The Attributed Gas Production Tax Obligation is compared to the gas tax under the tax regime in effect at that time.
- If the new gas tax is more than the AGPTO, an exemption is created...



COMMENTS ON
HCS CSSB 305 (FIN) VER.U

House Finance Committee

April 16, 2010

Alaska Department of Revenue

1

Concerns Regarding HCS CSSB 305(FIN)

2

- Decoupling is not necessary at this time**
- SB 305 could be passed at anytime in the next 10 years, and the result would be the same
- SB 305 “locks-in” a lower gas production tax obligation**
- Would reduce the state’s negotiating flexibility in the coming years
 - We could always lower the gas tax after “lock-in”, but we might not be able to raise it
- SB305 is a significant overall tax increase**
- It sends the Producers and the rest of the world the wrong message about Alaska’s interest in promoting a gasoline project

4/16/2010

If SB 305 were enacted in 2020, the resulting state revenue would be the same as if it were enacted in 2010

3

2021 Separate Oil Tax	2021 Separate Gas Tax
-----------------------------	-----------------------------

If SB 305 was enacted in 2010

=

2021 Separate Oil Tax	2021 Separate Gas Tax
-----------------------------	-----------------------------

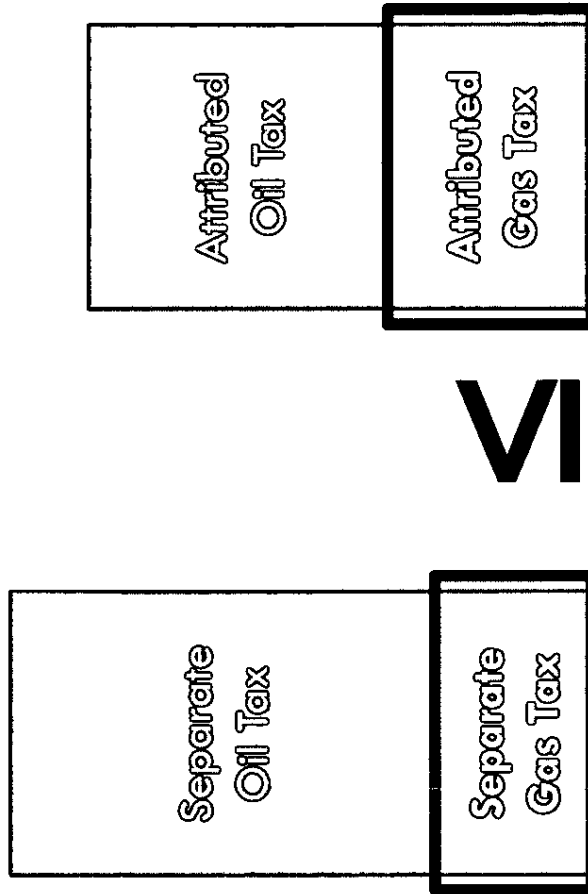
If SB 305 was enacted in 2020

In All of the Modeling Cases Run:

4

The Gas Tax Obligation “Locked-in” by SB 305 is lower than Status Quo*

* It is equal only when the gas tax obligation in both instances is zero



HCS CSSB 305(FIN)

Status Quo

4/16/2010

Sample Cases

Comparing SB 305, PPT, and Status Quo

Assumptions

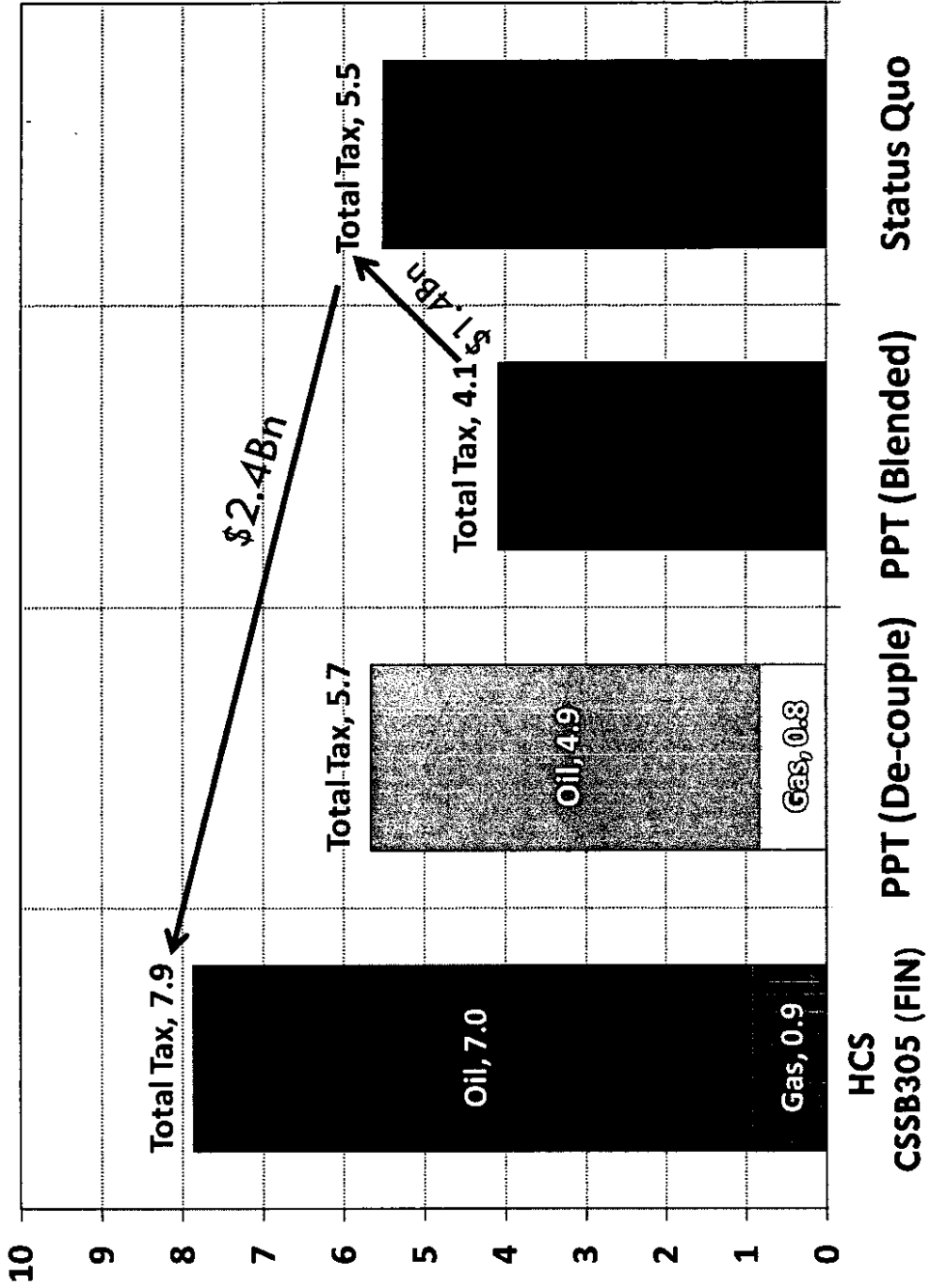
Oil: 500 Mbb/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

5

**\$120/\$8
 (15:1)**

At these prices, SB 305 is a larger tax increase than going from PPT to ACES

State Production Tax Revenue



Sample Cases

Comparing SB 305, PPT, and Status Quo

Assumptions

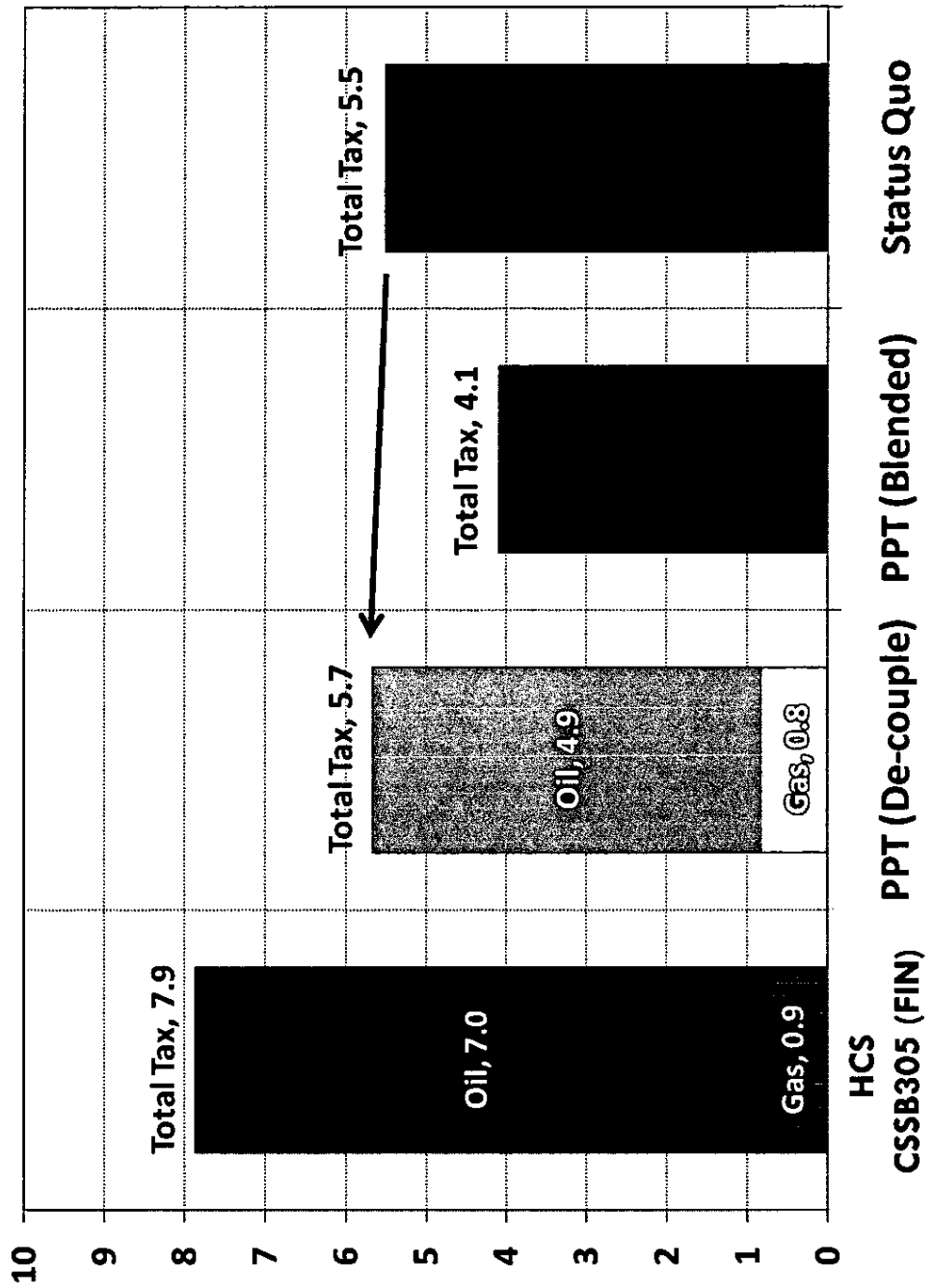
Oil: 500 Mbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

6

\$120/\$8
 (15:1)

Yet, the Status Quo brings in nearly the same tax revenue as would have been generated if the PPT system had been decoupled

State Production Tax Revenue



Sample Cases

Comparing SB 305, PPT, and Status Quo

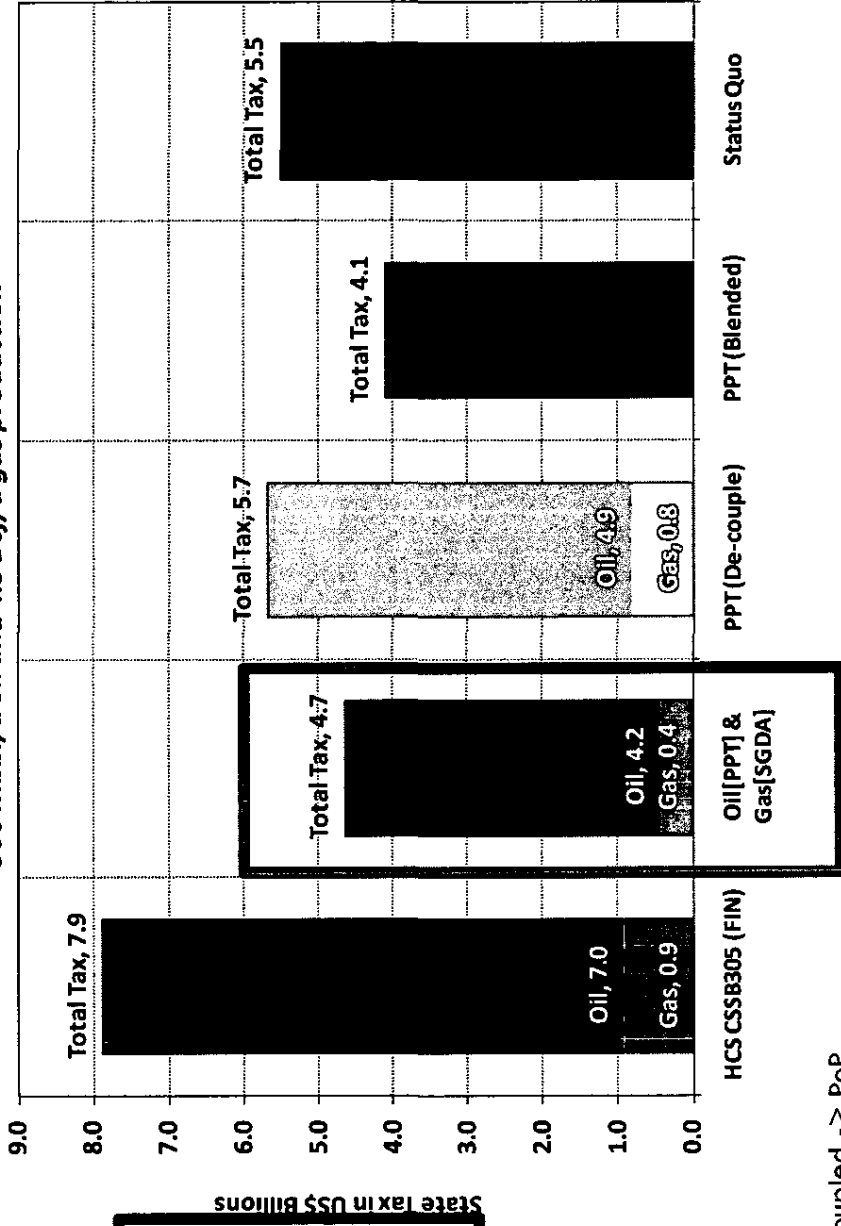
Assumptions

Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn



Another Example showing a comparison of the total tax revenue under a PPT/SGDA scenario

Prices: Oil \$120/bbl & Gas \$8/MMBtu (15:1 Parity)
 500 Mbbbl/d oil and 4.5 Bcf/d gas production



Cost Allocation: PPT De-coupled -> PoP
 For Oil [PPT] -> 100% of costs allocated to oil

4/16/2010

At nearly all cases less than 14:1 parity,
 Status Quo (combined) brings in more revenue than
 PPT decoupled (as much as \$7 billion more)

8

Assumptions

Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

Gas Price Parity

Oil Price (\$/bbl)

	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200
6	(0.1)	(0.2)	(0.3)	(0.9)	(1.5)	(2.2)	(3.0)	(3.9)	(5.0)	(5.2)	(5.1)	(4.8)	(4.5)	(4.7)	(5.0)	(5.9)	(7.0)
8	0.0	(0.1)	(0.2)	(0.2)	(0.5)	(1.0)	(1.6)	(2.2)	(2.8)	(3.5)	(4.4)	(4.7)	(4.5)	(4.8)	(5.2)	(5.5)	(5.8)
10	0.0	(0.1)	(0.2)	(0.2)	(0.1)	(0.3)	(0.6)	(1.0)	(1.5)	(2.1)	(2.6)	(3.2)	(3.9)	(4.2)	(4.6)	(5.0)	(5.5)
12	0.0	0.1	(0.1)	(0.2)	(0.0)	0.1	(0.1)	(0.3)	(0.6)	(1.0)	(1.4)	(1.9)	(2.3)	(3.1)	(3.9)	(4.4)	(4.8)
14	0.0	0.1	(0.0)	(0.2)	(0.0)	0.2	0.2	0.1	(0.0)	(0.2)	(0.5)	(0.8)	(1.2)	(1.8)	(2.9)	(3.7)	(4.1)
16	0.0	0.1	0.2	(0.1)	(0.1)	0.2	0.4	0.4	0.3	0.2	0.1	(0.1)	(0.3)	(0.7)	(1.7)	(2.7)	(3.6)
18	0.0	0.1	0.4	0.1	(0.1)	0.2	0.5	0.5	0.6	0.5	0.5	0.4	0.3	0.1	(0.7)	(1.6)	(2.7)
20	0.0	0.1	0.5	0.3	0.1	0.1	0.4	0.6	0.7	0.8	0.8	0.8	0.8	0.7	(0.0)	(0.8)	(1.7)
22	0.0	0.1	0.5	0.4	0.3	0.3	0.4	0.7	0.8	0.9	1.0	1.1	1.1	1.1	0.5	(0.2)	(1.0)
24	0.0	0.1	0.5	0.5	0.4	0.4	0.6	0.8	0.9	1.1	1.2	1.3	1.4	1.5	1.0	0.3	(0.4)
26	0.0	0.1	0.5	0.6	0.5	0.6	0.7	0.9	1.0	1.1	1.3	1.5	1.6	1.7	1.3	0.7	0.0

PPT (De-Coupled) > STATUS QUO

PPT (De-Coupled) = STATUS QUO

PPT (De-Coupled) < STATUS QUO

4/16/2010

At nearly all cases less than 16:1 parity,
 Status Quo (combined) brings in more revenue than
 Oil PPT & Gas [SGDA] (as much as \$23 billion more)

9

Assumptions

Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn

Gas Price Parity

Oil Price (\$/bbl)

	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200
6	0.31	0.97	1.41	2.49	3.78	5.25	6.96	8.90	11.09	12.60	13.85	15.11	16.37	17.62	19.22	21.13	23.11
8	0.06	0.48	0.81	1.15	1.87	2.70	3.69	4.82	6.11	7.54	9.13	10.26	11.02	11.75	12.81	14.14	15.54
10	0.00	0.18	0.46	0.73	0.95	1.46	2.07	2.79	3.61	4.54	5.57	6.71	7.95	8.48	9.24	10.27	11.34
12	0.00	0.07	0.22	0.46	0.59	0.74	1.14	1.61	2.16	2.78	3.48	4.26	5.11	6.05	6.98	7.81	8.68
14	0.00	0.13	0.02	0.26	0.36	0.32	0.54	0.85	1.22	1.64	2.13	2.67	3.27	3.93	4.99	6.12	6.86
16	0.00	0.13	0.20	0.09	0.19	0.13	0.13	0.33	0.57	0.86	1.19	1.56	1.98	2.45	3.30	4.51	5.53
18	0.00	0.13	0.38	0.11	0.05	0.01	0.16	0.05	0.10	0.28	0.50	0.75	1.04	1.36	2.07	3.11	4.26
20	0.00	0.13	0.49	0.27	0.13	0.13	0.30	0.33	0.26	0.15	0.02	0.14	0.32	0.54	1.13	2.04	3.07
22	0.00	0.13	0.49	0.40	0.28	0.30	0.41	0.56	0.54	0.49	0.43	0.34	0.24	0.11	0.39	1.21	2.13
24	0.00	0.13	0.49	0.51	0.40	0.44	0.56	0.73	0.76	0.77	0.76	0.73	0.69	0.63	0.21	0.53	1.37
26	0.00	0.13	0.49	0.60	0.51	0.56	0.69	0.90	0.94	0.99	1.03	1.05	1.06	1.06	0.70	0.02	0.74

Oil [PPT] Gas [SGDA]	Status Quo	Oil [PPT] Gas [SGDA]	Status Quo	Oil [PPT] Gas [SGDA]	Status Quo
-------------------------	---------------	-------------------------	---------------	-------------------------	---------------

4/16/2010

What is the "Problem" Being Solved by SB305?

10

1 Is It? *That the "dilution" of oil taxes caused by gas production will be "locked-in" at the AGIA Open Season*

- Reality (Based on the Dept of Law analysis):
 - Only the gas production tax obligation (not the rate) is "locked-in" at the open season;
 - The legislature can change the oil tax system anytime before or after the open season;
 - The so-called "\$2 billion loss" will only occur if three things happen:
 1. We are successful in achieving a large capacity gas pipeline;
 2. The price of oil and gas remain far apart (defying fundamental economic principles); AND
 3. The next 5 Legislatures decide that it is appropriate to leave the current tax system as is.

4/16/2010

What is the "Problem" Being Solved by SB305?

11

2

Is It? That *any* "dilution" of oil taxes caused by mixing in a lower value hydrocarbon is an unacceptable "loss" of oil tax revenue?

- Response:
- Should the Legislature react similarly when a large volume heavy oil project is proposed?
 - It will have the same dynamic; highly profitable sweet crude will be diluted, thus reducing its profitability and its progressivity tax rate
 - State will "lose" oil tax revenue due to the introduction of heavy oil

4/16/2010

What is the “Problem” Being Solved by SB305?

112

3

Is It?: That under the status quo, at high oil/gas price parity, the state is at risk of seeing a reduction of overall production tax revenue when they “flip the gas switch”?

Response:

- Legislature has 10 years to decide if it wants to take on that risk in exchange for a gasoline;
- If it is not an acceptable risk, then there are a number of alternative options (including decoupling) that could be carefully considered.

4/16/2010



FOR
Example

One Alternative Approach To Address the Revenue “Loss” when you “Flip the Gas Switch”

13

- Establish in the current tax system a **minimum tax** equal to a separate oil tax (i.e. The combined tax cannot be lower than what the separate oil tax would be).
- Preserves the economic incentive nature of the current system, while protecting the state’s downside risk in the case of high price parity;
- Does not require significant structural changes to the current system, such as cost allocation.

Closing Observations

14

- Passing such a large tax increase just before our two upcoming open seasons sends a confusing message about the state's desire for a gasoline
- SB 305 locks in a lower gas production tax obligation, thus reducing the state's negotiating flexibility
- SB305 could be passed after the open season without legal restriction or economic limitation

4/16/2010

Back-up Materials

15

4/16/2010

Robust Economic Modeling of SB 305

16

- The “\$2 billion loss” argument is based on a narrow window of possible oil to gas price relationships (i.e. 15:1);
- To be prudent, you need to analyze a wide range of potential oil prices and oil to gas price relationships.

4/16/2010

17

Modeling SB 305

Oil Price Range 40 to 200 \$/bbl

Gas Price Parity Range 6 to 26

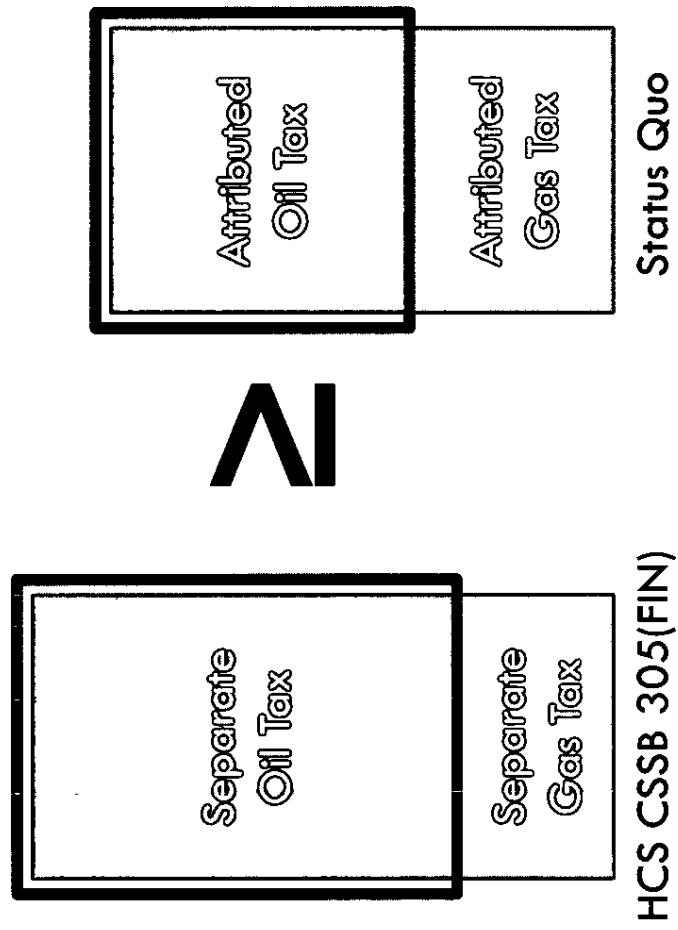
Oil Production	500 Mbbl/d
Gas Production	4.5 Bcf/d
Total OPEX	\$ 2.2 Billions
Total CAPEX	\$ 2.2 Billions

Costs allocated on the basis of the proportion of the gross value at the point of production (PoP basis).

4/16/2010

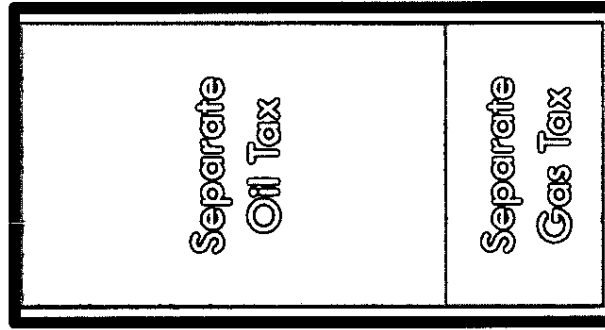
**In All of the Cases Run:
Oil Taxes after SB 305 are greater than or equal to the Status Quo**

18

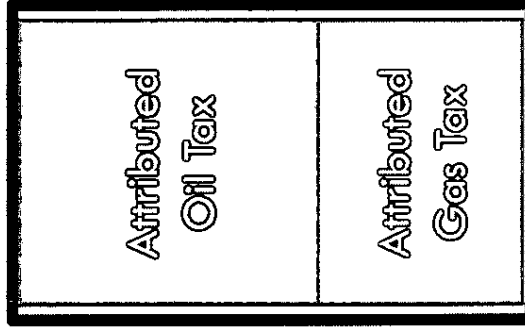


**In over 90% of the Cases Run:
Overall Oil and Gas Taxes after SB 305 are greater than the Status
Quo**

19



HCS CSSB 305(FIN)



Status Quo

Sample Cases

Comparing SB305 and Status Quo

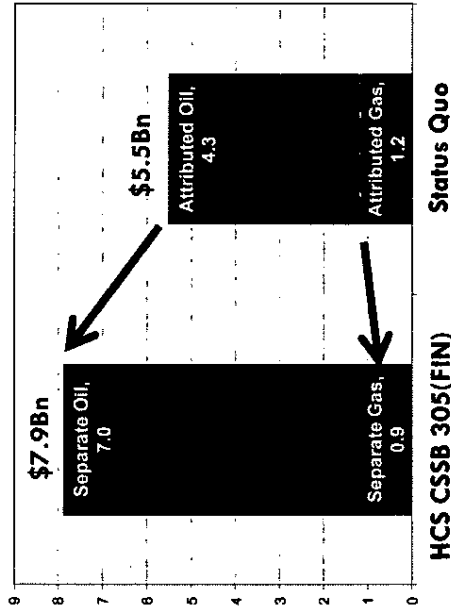
Total Tax Revenue, and Gas Tax Obligations

20

Assumptions

Oil: 500 Mbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

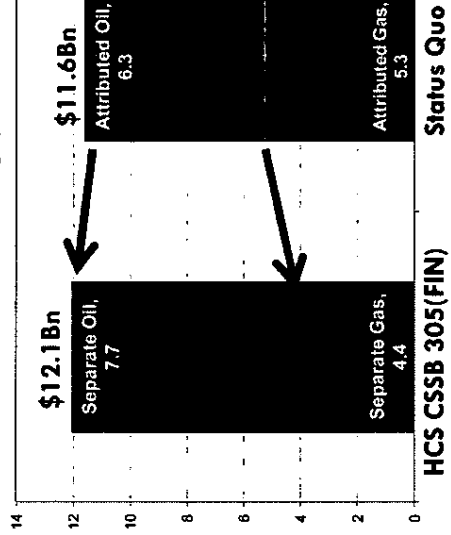
State Production Tax Revenue



\$120/\$8
(15:1)

Overall Tax and
Oil Tax Increase

Gas Tax Decrease



\$120/\$15
(8:1)

Overall Tax and
Oil Tax Increase

Gas Tax Decrease

Gas Tax

HCS CSSB305 (FIN) less Status Quo*

Assumptions
 Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

Gas Price Parity

Oil Price (\$/bbl)

	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200
6	0.0	0.0	(0.0)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
8	0.0	0.0	0.0	0.0	(0.2)	(0.4)	(0.6)	(0.7)	(0.9)	(1.1)	(1.1)	(1.2)	(0.9)	(0.6)	(0.6)	(0.6)	(0.7)
10	0.0	0.0	0.0	0.0	(0.0)	(0.2)	(0.4)	(0.7)	(0.8)	(1.1)	(1.3)	(1.5)	(1.8)	(1.7)	(1.6)	(1.4)	(1.2)
12	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.2)	(0.4)	(0.6)	(0.9)	(1.1)	(1.3)	(1.6)	(1.9)	(2.0)	(2.0)	(1.9)
14	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.2)	(0.4)	(0.6)	(0.9)	(1.1)	(1.4)	(1.6)	(1.9)	(2.1)	(2.1)
16	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.1)	(0.2)	(0.4)	(0.6)	(0.8)	(1.1)	(1.4)	(1.6)	(1.9)	(2.1)
18	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.1)	(0.2)	(0.4)	(0.6)	(0.8)	(1.0)	(1.3)	(1.6)	(1.9)
20	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.1)	(0.1)	(0.3)	(0.4)	(0.6)	(0.8)	(1.0)	(1.3)	(1.6)
22	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)	(0.4)	(0.6)	(0.8)	(1.0)	(1.2)
24	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)	(0.4)	(0.6)	(0.8)	(1.0)
26	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)	(0.6)	(0.8)

CSSB305 (FIN) > STATUS QUO
 CSSB305 (FIN) = STATUS QUO
 CSSB305 (FIN) < STATUS QUO

*Gas Tax under the Status Quo equals Attributed Gas Tax

Oil Tax

HCS CSSB305 (FIN) less Status Quo*

202

Assumptions

Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

Gas Price Parity

Oil Price (\$/bbl)

	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200
6	0.0	0.0	0.2	0.3	0.4	0.5	0.5	0.6	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
8	0.0	0.0	0.1	0.5	0.7	0.9	1.1	1.4	1.4	1.1	0.8	0.6	0.7	0.8	0.9	1.0	1.1
10	0.0	0.0	0.0	0.4	0.8	1.1	1.4	1.8	2.0	1.8	1.6	1.4	1.0	1.1	1.3	1.4	1.6
12	0.0	0.1	0.0	0.3	0.7	1.2	1.6	2.0	2.3	2.3	2.2	2.0	1.8	1.5	1.5	1.7	1.8
14	0.0	0.2	0.1	0.2	0.6	1.2	1.6	2.1	2.6	2.6	2.6	2.5	2.4	2.2	1.9	1.8	2.0
16	0.0	0.2	0.3	0.2	0.5	1.1	1.7	2.2	2.7	2.8	2.8	2.8	2.7	2.6	2.4	2.2	2.2
18	0.0	0.2	0.5	0.4	0.5	1.0	1.7	2.2	2.7	3.0	3.0	3.1	3.0	3.0	2.8	2.7	2.5
20	0.0	0.2	0.6	0.5	0.7	0.9	1.6	2.2	2.8	3.1	3.2	3.2	3.3	3.2	3.1	3.0	2.9
22	0.0	0.2	0.6	0.7	0.8	1.1	1.5	2.2	2.8	3.2	3.3	3.4	3.4	3.4	3.4	3.3	3.2
24	0.0	0.2	0.6	0.8	0.9	1.2	1.7	2.2	2.8	3.3	3.4	3.5	3.6	3.6	3.6	3.5	3.4
26	0.0	0.2	0.6	0.9	1.1	1.4	1.8	2.3	2.8	3.3	3.5	3.6	3.7	3.8	3.8	3.7	3.7

CSSB305 (FIN) > STATUS QUO
 CSSB305 (FIN) = STATUS QUO
 CSSB305 (FIN) < STATUS QUO

*Oil Tax under the Status Quo equals Total Tax less attributed gas tax

Total Tax

HCS CSSB305 (FIN) less Status Quo

28

Assumptions

Oil: 500 Mbbbl/d and Gas: 4.5 Bcf/d
 Capex: \$2.2Bn and Opex: \$2.2Bn
 Cost Allocation: PoP

Gas Price Parity

Oil Price (\$/bbl)

	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200
6	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	0.0	0.0	0.1	0.5	0.5	0.5	0.6	0.6	0.5	(0.0)	(0.6)	(0.6)	(0.2)	0.3	0.3	0.4	0.4
10	0.0	0.0	0.0	0.4	0.8	0.9	1.0	1.1	1.1	0.8	0.4	(0.1)	(0.7)	(0.6)	(0.3)	(0.0)	0.4
12	0.0	0.1	0.0	0.3	0.7	1.1	1.4	1.6	1.7	1.4	1.1	0.7	0.2	(0.3)	(0.5)	(0.3)	(0.1)
14	0.0	0.2	0.1	0.2	0.6	1.2	1.6	1.9	2.2	2.0	1.7	1.4	1.0	0.6	0.0	(0.3)	(0.1)
16	0.0	0.2	0.3	0.2	0.5	1.1	1.6	2.1	2.5	2.4	2.3	2.0	1.6	1.3	0.8	0.3	0.1
18	0.0	0.2	0.5	0.4	0.5	1.0	1.7	2.1	2.6	2.7	2.7	2.5	2.3	1.9	1.5	1.1	0.6
20	0.0	0.2	0.6	0.5	0.7	0.9	1.6	2.2	2.7	2.9	2.9	2.9	2.7	2.5	2.1	1.8	1.3
22	0.0	0.2	0.6	0.7	0.8	1.1	1.5	2.2	2.8	3.1	3.1	3.1	3.0	2.9	2.6	2.3	1.9
24	0.0	0.2	0.6	0.8	0.9	1.2	1.7	2.2	2.8	3.2	3.3	3.3	3.3	3.2	3.0	2.8	2.5
26	0.0	0.2	0.6	0.9	1.1	1.4	1.8	2.3	2.8	3.3	3.4	3.5	3.5	3.4	3.3	3.1	2.9

CSSB305 (FIN) > STATUS QUO

CSSB305 (FIN) = STATUS QUO

CSSB305 (FIN) < STATUS QUO

ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

Representative Mike Hawker
Co-Chairman
(907) 465-4949
Fax: (907) 465-4979
Rep.Mike.Hawker@legis.state.ak.us

State Capitol, Rm 505
Juneau, AK 99801



Representative Bill Stoltze
Co-Chairman
(907) 465-4958
Fax: (907) 465-4928
Rep.Bill.Stoltze@legis.state.ak.us

State Capitol, Rm 515
Juneau, AK 99801

State Capitol, Juneau, Alaska 99801-1182

Summary of Changes between House Resources CS and Finance Work Draft

- 1) Timing window of moving between the one "bucket" and two "bucket" regimes has been removed.
- 2) AS 43.55.011(g)(3) and (p)(3): This is a technical change that adds clarity. It depicts the detailed methodology for deriving the progressivity factor so that it is clear the word "average" in the statute means weighted average.
- 3) AS 43.55.020(a): The section describing the calculation of the monthly installment payments has been repealed and reenacted. After all previous changes, a more succinct drafting was crafted.
- 4) AS.55.160(a)(1) and (a)(2): This is an expansion on the current section describing the calculation of the annual and monthly production tax values. Lease expenditures include expenditures allocated under 160(f) (below) for the calendar year incurred to explore land not under lease, or explore or develop a lease before commencement of sustained production.
- 5) AS 43.55.160(f): This is a new section. Expenditures to explore land not under lease, or to explore or develop a lease before commencement of production of oil or gas, are allocated between oil and gas in the year the expenditure is incurred. (The method of allocation is specified in AS 43.55.165(h) [an amendment out of House Resources] stating that, for allocating costs between oil and gas, gross value should be used to the maximum extent possible.)
- 6) AS 43.55.160(g): This is a new section that clarifies that lease expenditures include expenditures for producing or that are incurred for exploration or development after the commencement of sustained production, as well.

SB 305:
The De-Coupling of Oil from Gas
for the Oil & Gas Production Tax

Logsdon & Associates
House Finance Committee
April 14, 2010

(copy on file)

Acronyms

- BBL barrel
- BCF billions of cubic feet
- MMBTU millions of BTUs
- BOE barrel of oil equivalent
 - Puts gas on an apples/apples basis with oil so they can be added up
 - Does this by converting mmbtu's of gas to barrels (or barrel of oil equivalents)
 - Amount of gas mmbtu's divided by 6

The Problem

- The progressivity part of the production tax rate is based on per barrel oil or per BTU gas profitability
- Under current law oil and gas are combined for calculating the progressivity
- Oil is worth much more than gas
- With a major gas sale, combining the lower value gas with the higher value oil will “dilute” the per barrel oil profitability:
 - Driving down the progressivity factor
 - Materially reducing production taxes

Oil vs. Gas Value

- **Now:**
 - Gas: \$4/mmbtu
 - Oil: \$80/bbl (\$13/mmbtu)
- **Department of Energy forecast for 2020:**
 - Gas: \$8/mmbtu
 - Oil: \$120/bbl (\$20/mmbtu)
- **Transportation cost deductions:**
 - Gas: \$5.00/mmbtu to Lower 48
 - Oil: \$6.00/bbl (\$1.00/mmbtu)

How the Tax Rate is Determined

- Base 25% rate
- Plus progressivity
 - Progressivity is based on the net value per BOE:
 - Oil Alone: $\text{Total oil value} / \text{Total oil barrels}$
 - Combined Oil & Gas: $\text{Total oil and gas net value} / \text{Total oil and gas BOE's}$
 - When lower value gas is added to the higher value oil the average net value of the combined oil and gas goes **down**

Reference Case

- Oil
 - 500,000 barrels per day
 - \$120/bbl market price
- Gas
 - 4.5 bcf/day
 - \$8/mmbtu market price
- Upstream costs
 - \$2.2 billion capital
 - \$2.2 billion operating

What Happens under Status Quo

- Oil taxes under status quo prior to gas production:
Net value of oil = \$86/bbl (tax rate 47%)
Oil Tax = \$6.1 billion
- Add a 4.5 bcf/day of gas:
Combined net value of oil and gas = \$47/bbl (tax rate 32%)
Total oil & gas taxes: \$5.5 billion
- **Bottom line:** The drop in the tax rate of oil more than offsets all the the taxes on gas. Not only does the state not received any additional revenues from the gas, but oil revenues drop as well.

What Happens with Decoupling*

- \$120 oil and \$8 gas
 - Status quo taxes = \$5.5 billion
 - De-coupled taxes = \$8.5 billion

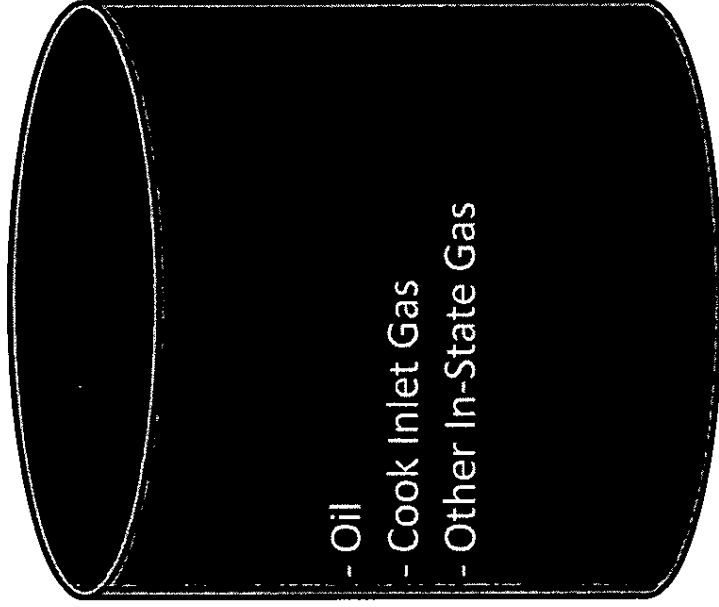
\$3.0 billion difference
- Annual difference at other prices:
 - \$100 oil / \$8 gas: **\$2.2 billion**
 - \$80 oil / \$8 gas: **\$1.2 billion**

* Using BTU barrel of oil equivalents (BOE) to allocate cost

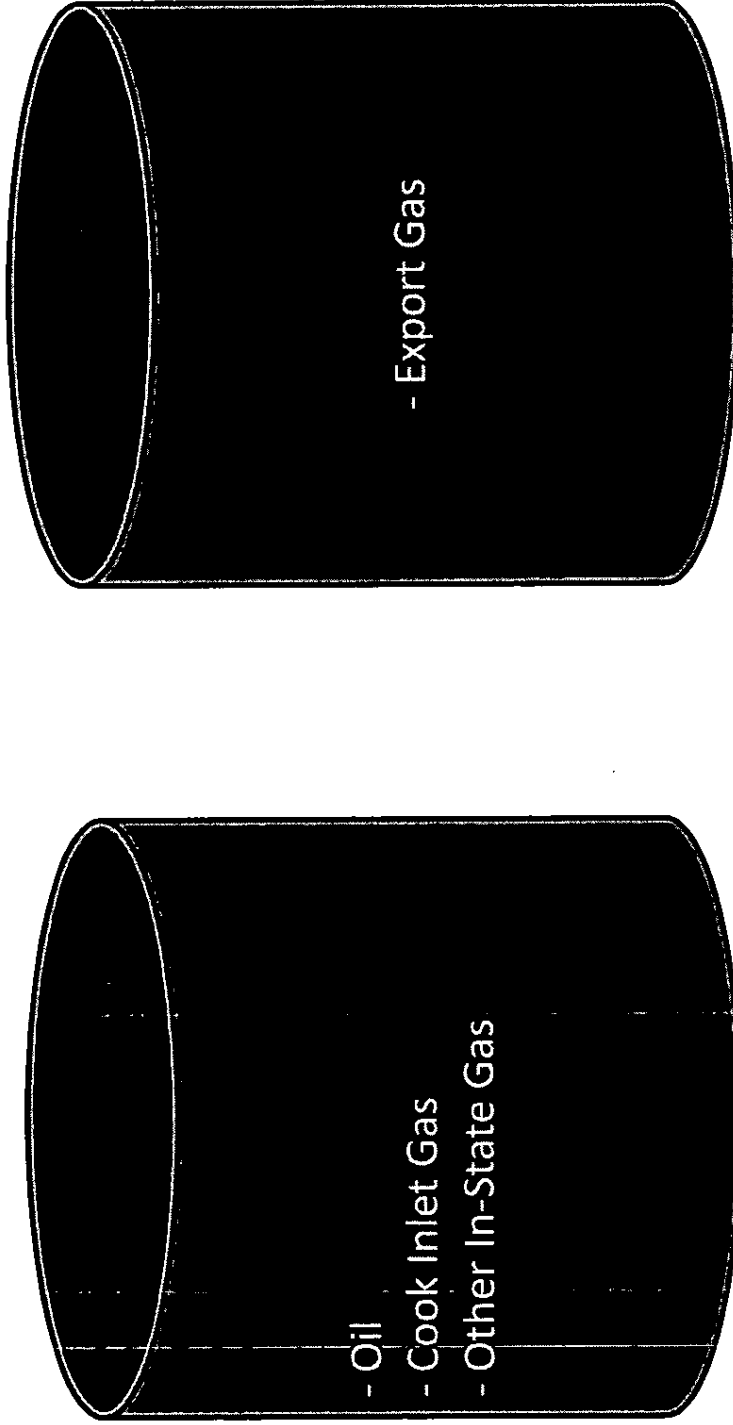
How SB 305 Works

- **Currently**
 - Each company calculates **one** statewide progressivity rate based on all combined oil and gas activity (oil, Cook Inlet gas, other in-state gas)
- **Under SB 305: Two Progressivity Calculations**
 - **Bucket 1**: Same current activity (oil, CI gas, other in-state gas) will continue to be calculated together
 - No tax increase on current activity
 - **Bucket 2**: Progressivity on export gas will be calculated distinctly (same formula)
 - Will not dilute oil progressivity

Currently: One Progressivity Bucket



SB 305: Two Progressivity Buckets



FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HCS CSSB 305 (FIN)
 () Publish Date: _____

Identifier (file name): HCS CSSB305(FIN)-REV-TAX-04-15-10 Dept. Affected: Revenue
 Title: Separate Oil & Gas Production Tax RDU: Taxation and Treasury
 Sponsor: Senate Finance Committee Component: Tax Division
 Requester: House Finance Committee Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required		Information				
	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES							
Personal Services							
Travel							
Contractual	330.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	330.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*** Significant Impact Beyond FY 2016 - See Analysis Section for Additional Information ***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	330.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	330.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: 330.0

POSITIONS

Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

Bill Language

This bill separates oil and natural gas for purposes of calculating the progressivity portion of the production tax under AS 43.55. Currently all oil and gas are combined for purposes of calculating a single progressivity rate. Under this bill, two progressivity rates would be calculated. The first progressivity surcharge would be based on oil, Cook Inlet gas, and gas used in the state. The second progressivity surcharge would be calculated based on gas other than Cook Inlet gas and gas used in the state (export gas).

For purposes of tax calculation, exploration expenditures and development expenditures for non-producing leases or units would be allocated within geographic segments based on the gross value at point of production of existing oil and gas production.

The base tax rate remains unchanged at 25%, and the progressivity structure remains unchanged at 0.4% per \$1 of production tax value over \$30 per barrel of oil equivalent, then 0.1% per \$1 of production tax value over \$92.50.

Prepared by: Dan Stickel, Petroleum Economist
 Division: Tax Division
 Approved by: Ginger Blaisdell, Director
Administrative Services Division, Department of Revenue

Phone 907-465-3279
 Date/Time 04-15-10; 2:24pm
 Date 04-15-10; 2:45pm

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. HCS CSSB 305 (FIN)

ANALYSIS CONTINUATION

Revenues

This bill would effectively maintain the status quo in terms of progressivity calculation until major gas sales begin. Currently, all gas sold and taxed under AS 43.55 is either Cook Inlet gas or gas sold for use in the state; such gas would continue to be grouped with oil for calculating progressivity as is currently the case.

Once major North Slope gas sales begin, exported gas will be subject to the separate progressivity calculation. Our modeling suggests that under most oil and gas price scenarios, this bill will either have no impact on revenue or will increase state revenue versus the status quo. In some scenarios, the revenue increase is over \$1 billion per year. On the other hand, there are also scenarios where revenue could be decreased, but these scenarios are more limited in both number and magnitude of revenue decrease. The exact impact will be dependent on numerous variables including oil and gas prices and production, and lease expenditures. This bill dictates that lease expenditures shall be allocated between oil and gas based on gross value at the point of production "to the extent possible."

Since this bill will likely result in an overall increase in tax due for the major producers, it is possible that the tax change could be viewed by producers as a disincentive to oil and gas exploration and development.

Expenditures

With the change in tax structure the Department will need to develop complex regulations, requiring an additional \$430,000 for regulatory work and public participation in regulations. Aside from these one-time costs, the provisions of this bill can be implemented using existing staff and resources. Specific costs include the following:

\$50,000 for contracted professional services for regulation consulting

\$180,000 for regulations costs including Department of Law, public notice and registry

\$100,000 for public forums for education of taxpayers and public participation includes preparation materials and legal support; could include travel

The funding is needed immediately (in FY10) as all of the regulation drafting and public review work must be complete by June 30, 2010 in order to become effective on July 30, 2010. The Department respectfully requests FY10 supplemental funding for this item.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 16, 2010

SUBJECT: Conforming changes in HCS CSSB 305(FIN) based on Amendment #2 (Work Order No. 26-LS1577D)

TO: Representative Mike Hawker and Representative Bill Stoltze
Co-Chairs of the House Finance Committee
Attn: Christine Marie

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

Enclosed is HCS CSSB 305(FIN) that incorporates Amendment #2.

Amendment #2 added sec. 5 of the Act to the sections that are retroactive to January 1, 2010. Conforming changes were made in secs. 11 and 12 to reflect the addition of sec. 5 in sec. 13.

If you have any questions, please call me.

DMB:plm
10-244.plm

Enclosure

List of Technical Amendments to HCS CS SB 305
Adopted in version "U"
Prepared by Representative Hawker's Office

Page 4, line 30: following "(2" insert "("

Page 8, line 6 following "of" delete "a lease" insert " the lease"

Page 9, lines 3, 15, and 28 following "land" delete ", lease," insert "or lease"

Page 14, line 9 following "production of" delete "taxable"

Page 14, lines 10, 12, 14, 16, 18, 20 and 22: following "produced" insert "during that calendar year"

Page 14, lines 21 and 23 following "latitude" insert "other than gas used in the state"

Page 14, line 24 following (g) delete "A" insert "For purposes of this section, a"

Page 14, line 25: delete "or to leases or properties for the purposes of determining production tax value"

Page 15, line 10: following "gas produced" delete "from each lease or property"

*Adopted
4/16/10*

26-LS1577U
Bullock
4/15/10

**HOUSE CS FOR CS FOR SENATE BILL NO. 305(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act providing that the tax rate applicable to the production of oil as the average
2 production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas
3 produced outside of the Cook Inlet sedimentary basin and used in the state increases
4 above \$30 shall be 0.4 percent multiplied by the number that represents the difference
5 between that average monthly production tax value and \$30, or the sum of 25 percent
6 and the product of 0.1 percent multiplied by the number that represents the difference
7 between that average monthly production tax value and \$92.50, except that the total rate
8 determined in the calculation may not exceed 50 percent; providing for an increase in
9 the rate of tax on the production of gas as the average production tax value on a BTU
10 equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary basin and
11 not used in the state increases above \$30; relating to payments of the oil and gas
12 production tax; relating to the lease expenditures that may be deducted when

1 **determining production tax value; relating to availability of a portion of the money**
2 **received from the tax on oil and gas production for appropriation to the community**
3 **revenue sharing fund; relating to the allocation of lease expenditures and adjustments to**
4 **lease expenditures; and providing for an effective date."**

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * **Section 1.** AS 29.60.850(b) is amended to read:

7 (b) Each fiscal year, the legislature may appropriate to the community revenue
8 sharing fund an amount equal to 20 percent of the money received by the state during
9 the previous calendar year under AS 43.55.011(g) and (p). The amount may not
10 exceed

11 (1) \$60,000,000; or

12 (2) the amount that, when added to the fund balance on June 30 of the
13 previous fiscal year, equals \$180,000,000.

14 * **Sec. 2.** AS 43.55.011(e) is amended to read:

15 (e) There is levied on the producer of oil or gas a tax for all oil and gas
16 produced each calendar year from each lease or property in the state, less any oil and
17 gas the ownership or right to which is exempt from taxation or constitutes a
18 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of
19 this section, the tax is equal to the sum of

20 (1) the annual production tax value of the taxable oil and gas as
21 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

22 (2) the sum, over all months of the calendar year, of the tax amounts
23 determined under

24 (A) subsection (g) of this section; and

25 (B) subsection (p) of this section.

26 * **Sec. 3.** AS 43.55.011(g) is amended to read:

27 (g) For each month of the calendar year for which the producer's average
28 monthly production tax value under AS 43.55.160(a)(2)(A) - (E) of a
29 [AS 43.55.160(a)(2) PER] BTU equivalent barrel of [THE] taxable oil and gas is more

1 than \$30, the amount of tax for purposes of (e)(2)(A) [(e)(2)] of this section is
2 determined by multiplying the monthly production tax value of the taxable oil [AND
3 GAS] produced during the month, gas produced during the month from a lease or
4 property in the Cook Inlet sedimentary basin, and gas produced during the
5 month from a lease or property outside the Cook Inlet sedimentary basin and
6 used in the state by the tax rate calculated as follows:

7 (1) if the producer's average monthly production tax value under
8 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
9 and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by
10 the number that represents the difference between the producer's [THAT] average
11 monthly production tax value under AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU
12 equivalent barrel of taxable oil and gas and \$30; [OR]

13 (2) if the producer's average monthly production tax value under
14 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
15 and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and
16 the product of 0.1 percent multiplied by the number that represents the difference
17 between the producer's average monthly production tax value under
18 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of taxable oil and gas
19 and \$92.50, except that the sum determined under this paragraph may not exceed 50
20 percent;

21 (3) for purposes of this subsection, the average monthly
22 production tax value under AS 43.55.160(a)(2)(A) - (E) of a BTU equivalent
23 barrel of taxable oil and gas is calculated by

24 (A) adding all of the monthly production tax values
25 determined under AS 43.55.160(a)(2)(A) - (E); and

26 (B) dividing the sum calculated under (A) of this paragraph
27 by the total amount, in BTU equivalent barrels, of

28 (i) taxable oil produced by the producer during the
29 month;

30 (ii) taxable gas produced by the producer during the
31 month from a lease or property in the Cook Inlet sedimentary

1 (B) dividing the sum calculated under (A) of this paragraph by
2 the total amount, in BTU equivalent barrels, of the taxable gas produced by the
3 producer during the month, other than gas produced from a lease or property in
4 the Cook Inlet sedimentary basin or gas produced outside the Cook Inlet
5 sedimentary basin and used in the state.

6 * Sec. 5. AS 43.55.020(a) is repealed and reenacted to read:

7 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
8 and (p) shall pay the tax as follows:

9 (1) an installment payment of the estimated tax levied by
10 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
11 month of the calendar year on the last day of the following month; except as otherwise
12 provided under (2) of this subsection, the amount of the installment payment is the
13 sum of the following amounts in (A) - (C) of this paragraph, less 1/12 of the tax
14 credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e)
15 for the calendar year, but the amount of the installment payment may not be less than
16 zero:

17 (A) the monthly production tax value for the month calculated
18 under AS 43.55.160(a)(2)(B) multiplied by the sum of 25 percent and the tax
19 rate calculated for the month under AS 43.55.011(g), added to the monthly
20 production tax value for the month calculated under AS 43.55.160(a)(2)(G)
21 multiplied by the sum of 25 percent and the tax rate calculated for the month
22 under AS 43.55.011(p);

23 (B) the greater of

24 (i) zero percent, one percent, two percent, three percent,
25 or four percent, as applicable under AS 43.55.011(f), of the gross value
26 at the point of production of the oil and gas produced during the month
27 from all leases or properties in the state that include land north of 68
28 degrees North latitude, other than oil and gas subject to
29 AS 43.55.011(i) and gas subject to AS 43.55.011(o); or

30 (ii) the monthly production tax value for the month
31 calculated under AS 43.55.160(a)(2)(A) multiplied by the sum of 25

1 percent and the tax rate calculated for the month under
2 AS 43.55.011(g), added to the monthly production tax value for the
3 month calculated under AS 43.55.160(a)(2)(F) multiplied by the sum of
4 25 percent and the tax rate calculated for the month under
5 AS 43.55.011(p); and

6 (C) for each lease or property, for gas subject to
7 AS 43.55.011(j), oil subject to AS 43.55.011(k), and gas subject to
8 AS 43.55.011(o), the monthly production tax value for the month calculated
9 under AS 43.55.160(a)(2)(C), (D), or (E), as applicable, multiplied by the sum
10 of 25 percent and the tax rate calculated for the month under AS 43.55.011(g);

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
12 produced from a particular lease or property may not exceed the product obtained by
13 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
14 applicable for gas, or set out in AS 43.55.011(k)(1) or (2), as applicable for oil, but
15 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
16 amount of taxable gas produced during the month for the amount of taxable gas
17 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
18 (2)(A), as applicable, the amount of taxable oil produced during the month for the
19 amount of taxable oil produced during the calendar year;

20 (3) an installment payment of the estimated tax levied by
21 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
22 on the last day of the following month; the amount of the installment payment is the
23 sum of

24 (A) the applicable tax rate for oil provided under
25 AS 43.55.011(i), multiplied by the gross value at the point of production of the
26 oil taxable under AS 43.55.011(i) and produced from the lease or property
27 during the month; and

28 (B) the applicable tax rate for gas provided under
29 AS 43.55.011(i), multiplied by the gross value at the point of production of the
30 gas taxable under AS 43.55.011(i) and produced from the lease or property
31 during the month;

1 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
2 credits applied as allowed by law, that exceeds the total of the amounts due as
3 installment payments of estimated tax is due on March 31 of the year following the
4 calendar year of production.

5 * Sec. 6. AS 43.55.020(d) is amended to read:

6 (d) In making settlement with the royalty owner for oil and gas that is taxable
7 under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable
8 royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the
9 time the tax becomes due to the amount of the tax paid. If the total deductions of
10 installment payments of estimated tax for a calendar year exceed the actual tax for that
11 calendar year, the producer shall, before April 1 of the following year, refund the
12 excess to the royalty owner. Unless otherwise agreed between the producer and the
13 royalty owner, the amount of the tax paid under AS 43.55.011(e) - (g) and (p) on
14 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
15 right to which constitutes a landowner's royalty interest, is considered to be the gross
16 value at the point of production of the taxable royalty oil and gas produced during the
17 calendar year multiplied by a figure that is a quotient, in which

18 (1) the numerator is the producer's total tax liability under
19 AS 43.55.011(e) - (g) and (p) for the calendar year of production; and

20 (2) the denominator is the total gross value at the point of production
21 of the oil and gas taxable under AS 43.55.011(e) - (g) and (p) produced by the
22 producer from all leases and properties in the state during the calendar year.

23 * Sec. 7. AS 43.55.160(a) is amended to read:

24 (a) Except as provided in (b) of this section, for the purposes of

25 (1) AS 43.55.011(e), the annual production tax value of the taxable

26 (A) oil [AND GAS] produced during a calendar year from
27 leases or properties in the state that include land north of 68 degrees North
28 latitude is the gross value at the point of production of the oil [AND GAS]
29 taxable under AS 43.55.011(e) and produced by the producer from those leases
30 or properties, less the producer's lease expenditures under AS 43.55.165 for the
31 calendar year applicable to the oil [AND GAS] produced by the producer from

1 those leases or properties, and the portion allocated under (g) of this section
2 of the producer's lease expenditures under AS 43.55.165 for the calendar
3 year incurred to explore land that is not a lease or property, or to explore
4 or develop a lease or property before commencement of commercial
5 production of oil or gas from the lease or property, if that land or any part
6 of the lease or property is located north of 68 degrees North latitude, as
7 adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY
8 TO GAS SUBJECT TO AS 43.55.011(o);]

9 (B) oil [AND GAS] produced during a calendar year from
10 leases or properties in the state outside the Cook Inlet sedimentary basin, no
11 part of which is north of 68 degrees North latitude, is the gross value at the
12 point of production of the oil [AND GAS] taxable under AS 43.55.011(e) and
13 produced by the producer from those leases or properties, less the producer's
14 lease expenditures under AS 43.55.165 for the calendar year applicable to the
15 oil [AND GAS] produced by the producer from those leases or properties, and
16 the portion allocated under (g) of this section of the producer's lease
17 expenditures under AS 43.55.165 for the calendar year incurred to explore
18 land that is not a lease or property, or to explore or develop a lease or
19 property before commencement of commercial production of oil or gas
20 from the lease or property, if that land, lease, or property is located
21 outside the Cook Inlet sedimentary basin, and the land and all parts of the
22 lease or property are not north of 68 degrees North latitude, as adjusted
23 under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO
24 GAS SUBJECT TO AS 43.55.011(o);]

25 (C) oil produced during a calendar year from a lease or
26 property in the Cook Inlet sedimentary basin is the gross value at the point of
27 production of the oil taxable under AS 43.55.011(e) and produced by the
28 producer from that lease or property, less the producer's lease expenditures
29 under AS 43.55.165 for the calendar year applicable to the oil produced by the
30 producer from that lease or property, and the portion allocated under (g) of
31 this section of the producer's lease expenditures under AS 43.55.165 for

1 the calendar year incurred to explore land that is not a lease or property,
2 or to explore or develop a lease or property before commencement of
3 commercial production of oil or gas from the lease or property, if that
4 land or lease or property is located in the Cook Inlet sedimentary basin, as
5 adjusted under AS 43.55.170;

6 (D) gas produced during a calendar year from a lease or
7 property in the Cook Inlet sedimentary basin is the gross value at the point of
8 production of the gas taxable under AS 43.55.011(e) and produced by the
9 producer from that lease or property, less the producer's lease expenditures
10 under AS 43.55.165 for the calendar year applicable to the gas produced by the
11 producer from that lease or property, and the portion allocated under (g) of
12 this section of the producer's lease expenditures under AS 43.55.165 for
13 the calendar year incurred to explore land that is not a lease or property,
14 or to explore or develop a lease or property before commencement of
15 commercial production of oil or gas from the lease or property, if that
16 land or lease or property is located in the Cook Inlet sedimentary basin, as
17 adjusted under AS 43.55.170;

18 (E) gas produced during a calendar year from a lease or
19 property outside the Cook Inlet sedimentary basin and used in the state is the
20 gross value at the point of production of that gas taxable under
21 AS 43.55.011(e) and produced by the producer from that lease or property, less
22 the producer's lease expenditures under AS 43.55.165 for the calendar year
23 applicable to that gas produced by the producer from that lease or property,
24 and the portion allocated under (g) of this section of the producer's lease
25 expenditures under AS 43.55.165 for the calendar year incurred to explore
26 land that is not a lease or property, or to explore or develop a lease or
27 property before commencement of commercial production of oil or gas
28 from the lease or property, if that land or lease or property is located
29 outside the Cook Inlet sedimentary basin, as adjusted under AS 43.55.170;

30 (F) gas produced during a calendar year from leases or
31 properties in the state that include land north of 68 degrees North latitude

1 is the gross value at the point of production of the gas taxable under
2 AS 43.55.011(e) and produced by the producer from those leases or
3 properties, less the producer's lease expenditures under AS 43.55.165 for
4 the calendar year applicable to the gas produced by the producer from
5 those leases or properties, and the portion allocated under (g) of this
6 section of the producer's lease expenditures under AS 43.55.165 for the
7 calendar year incurred to explore land that is not a lease or property, or
8 to explore or develop a lease or property before commencement of
9 commercial production of oil or gas from the lease or property, if that
10 land or any part of the lease or property is located north of 68 degrees
11 North latitude, as adjusted under AS 43.55.170; this subparagraph does
12 not apply to gas subject to AS 43.55.011(o);

13 (G) gas produced during a calendar year from leases or
14 properties in the state outside the Cook Inlet sedimentary basin, no part of
15 which is north of 68 degrees North latitude, is the gross value at the point
16 of production of the gas taxable under AS 43.55.011(e) and produced by
17 the producer from those leases or properties, less the producer's lease
18 expenditures under AS 43.55.165 for the calendar year applicable to the
19 gas produced by the producer from those leases or properties, and the
20 portion allocated under (g) of this section of the producer's lease
21 expenditures under AS 43.55.165 for the calendar year incurred to explore
22 land that is not a lease or property, or to explore or develop a lease or
23 property before commencement of commercial production of oil or gas
24 from the lease or property, if that land or lease or property is located
25 outside the Cook Inlet sedimentary basin, and the land and all parts of the
26 lease or property are not north of 68 degrees North latitude, as adjusted
27 under AS 43.55.170; this subparagraph does not apply to gas subject to
28 AS 43.55.011(o);

29 (2) AS 43.55.011(g) and (p), the monthly production tax value of the
30 taxable

31 (A) oil [AND GAS] produced during a month from leases or

1 properties in the state that include land north of 68 degrees North latitude is the
2 gross value at the point of production of the oil [AND GAS] taxable under
3 AS 43.55.011(e) and produced by the producer from those leases or properties,
4 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
5 calendar year applicable to the oil [AND GAS] produced by the producer from
6 those leases or properties, and 1/12 of the portion allocated under (g) of this
7 section of the producer's lease expenditures under AS 43.55.165 for the
8 calendar year incurred to explore land that is not a lease or property, or
9 to explore or develop a lease or property before commencement of
10 commercial production of oil or gas from the lease or property, if that
11 land or any part of the lease or property is located north of 68 degrees
12 North latitude, as adjusted under AS 43.55.170; [THIS SUBPARAGRAPH
13 DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

14 (B) oil [AND GAS] produced during a month from leases or
15 properties in the state outside the Cook Inlet sedimentary basin, no part of
16 which is north of 68 degrees North latitude, is the gross value at the point of
17 production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced
18 by the producer from those leases or properties, less 1/12 of the producer's
19 lease expenditures under AS 43.55.165 for the calendar year applicable to the
20 oil [AND GAS] produced by the producer from those leases or properties, and
21 1/12 of the portion allocated under (g) of this section of the producer's
22 lease expenditures under AS 43.55.165 for the calendar year incurred to
23 explore land that is not a lease or property, or to explore or develop a
24 lease or property before commencement of commercial production of oil
25 or gas from the lease or property, if that land, lease, or property is located
26 outside the Cook Inlet sedimentary basin, and the land and all parts of the
27 lease or property are not north of 68 degrees North latitude, as adjusted
28 under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO
29 GAS SUBJECT TO AS 43.55.011(o);]

30 (C) oil produced during a month from a lease or property in the
31 Cook Inlet sedimentary basin is the gross value at the point of production of

1 the oil taxable under AS 43.55.011(e) and produced by the producer from that
2 lease or property, less 1/12 of the producer's lease expenditures under
3 AS 43.55.165 for the calendar year applicable to the oil produced by the
4 producer from that lease or property, and 1/12 of the portion allocated under
5 (g) of this section of the producer's lease expenditures under AS 43.55.165
6 for the calendar year incurred to explore land that is not a lease or
7 property, or to explore or develop a lease or property before
8 commencement of commercial production of oil or gas from the lease or
9 property, if that land, lease, or property is located in the Cook Inlet
10 sedimentary basin, as adjusted under AS 43.55.170;

11 (D) gas produced during a month from a lease or property in
12 the Cook Inlet sedimentary basin is the gross value at the point of production
13 of the gas taxable under AS 43.55.011(e) and produced by the producer from
14 that lease or property, less 1/12 of the producer's lease expenditures under
15 AS 43.55.165 for the calendar year applicable to the gas produced by the
16 producer from that lease or property, and 1/12 of the portion allocated under
17 (g) of this section of the producer's lease expenditures under AS 43.55.165
18 for the calendar year incurred to explore land that is not a lease or
19 property, or to explore or develop a lease or property before
20 commencement of commercial production of oil or gas from the lease or
21 property, if that land, lease, or property is located in the Cook Inlet
22 sedimentary basin, as adjusted under AS 43.55.170;

23 (E) gas produced during a month from a lease or property in
24 the state outside the Cook Inlet sedimentary basin and used in the state is the
25 gross value at the point of production of that gas taxable under
26 AS 43.55.011(e) and produced by the producer from that lease or property, less
27 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar
28 year applicable to that gas produced by the producer from that lease or
29 property, and 1/12 of the portion allocated under (g) of this section of the
30 producer's lease expenditures under AS 43.55.165 for the calendar year
31 incurred to explore land that is not a lease or property, or to explore or

1 develop a lease or property before commencement of commercial
2 production of oil or gas from the lease or property, if that land, lease, or
3 property is located outside of the Cook Inlet sedimentary basin, as adjusted
4 under AS 43.55.170;

5 (F) gas produced during a month from leases or properties
6 in the state that include land north of 68 degrees North latitude is the
7 gross value at the point of production of the gas taxable under
8 AS 43.55.011(e) and produced by the producer from those leases or
9 properties, less 1/12 of the producer's lease expenditures under
10 AS 43.55.165 for the calendar year applicable to the gas produced by the
11 producer from those leases or properties, and 1/12 of the portion allocated
12 under (g) of this section of the producer's lease expenditures under
13 AS 43.55.165 for the calendar year incurred to explore land that is not a
14 lease or property, or to explore or develop a lease or property before
15 commencement of commercial production of oil or gas from the lease or
16 property, if that land or any part of the lease or property is located north
17 of 68 degrees North latitude, as adjusted under AS 43.55.170; this
18 subparagraph does not apply to gas subject to AS 43.55.011(o);

19 (G) gas produced during a month from leases or properties
20 in the state outside the Cook Inlet sedimentary basin, no part of which is
21 north of 68 degrees North latitude, is the gross value at the point of
22 production of the gas taxable under AS 43.55.011(e) and produced by the
23 producer from those leases or properties, less 1/12 of the producer's lease
24 expenditures under AS 43.55.165 for the calendar year applicable to the
25 gas produced by the producer from those leases or properties, and 1/12 of
26 the portion allocated under (g) of this section of the producer's lease
27 expenditures under AS 43.55.165 for the calendar year incurred to explore
28 land that is not a lease or property, or to explore or develop a lease or
29 property before commencement of commercial production of oil or gas
30 from the lease or property, if that land or lease or property is located
31 outside the Cook Inlet sedimentary basin, and the land and all parts of the

1 lease or property are not north of 68 degrees North latitude, as adjusted
2 under AS 43.55.170; this subparagraph does not apply to gas subject to
3 AS 43.55.011(o).

4 * Sec. 8. AS 43.55.160 is amended by adding new subsections to read:

5 (f) For purposes of (a) of this section, a lease expenditure is applicable to oil
6 or gas produced from a lease or property, or to oil or gas produced from leases or
7 properties in an area of the state, if the lease expenditure is

8 (1) a cost to explore, develop, or produce oil or gas from that lease or
9 property, or to explore, develop, or produce oil or gas from one of those leases or
10 properties in that area of the state, respectively; and

11 (2) incurred on or after the commencement of commercial production
12 of oil or gas from the lease or property.

13 (g) For purposes of (a) of this section, a lease expenditure incurred during a
14 calendar year to explore land that is not a lease or property, or to explore or develop a
15 lease or property before commencement of commercial production of oil or gas from
16 the lease or property, shall be allocated as provided in a regulation adopted by the
17 department under AS 43.55.165(h) to and among oil, gas subject to AS 43.55.011(o),
18 and gas not subject to AS 43.55.011(o) produced by the producer during that calendar
19 year from leases or properties in the same area of the state as the land being explored
20 or the lease or property being explored or developed, respectively.

21 (h) For purposes of (f) and (g) of this section, an area of the state is one of the
22 following:

23 (1) land north of 68 degrees North latitude;

24 (2) land outside the Cook Inlet sedimentary basin not including any
25 land north of 68 degrees North latitude; or

26 (3) the Cook Inlet sedimentary basin.

27 * Sec. 9. AS 43.55.165(h) is amended to read:

28 (h) The department shall adopt regulations that provide for reasonable
29 methods of allocating costs between oil and gas, between gas subject to
30 AS 43.55.011(o) and other gas, and between leases or properties in those
31 circumstances where an allocation of costs is required to determine lease expenditures

1 that are costs of exploring for, developing, or producing oil deposits or costs of
2 exploring for, developing, or producing gas deposits, or that are costs of exploring for,
3 developing, or producing oil or gas deposits located within different leases or
4 properties. When adopting a regulation for determining a reasonable method of
5 allocating lease expenditures between the production of oil and the production of
6 gas, the department shall, to the extent possible, provide for the allocation of
7 lease expenditures in proportion to the gross value at the point of production for
8 oil produced and gas produced.

9 * **Sec. 10.** AS 43.55.170 is amended by adding a new subsection to read:

10 (d) The department shall adopt regulations that provide for reasonable
11 methods of allocating the adjustments to a producer's lease expenditures in (a) of this
12 section and the payments and credits described in (b) of this section between oil and
13 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or
14 properties in those circumstances where an allocation of costs is required to determine
15 lease expenditures that are costs of exploring for, developing, or producing oil
16 deposits, or costs of exploring for, developing, or producing gas deposits, or that are
17 costs of exploring for, developing, or producing oil or gas deposits located within
18 different leases or properties. When determining a reasonable method of allocating the
19 adjustments to a producer's lease expenditures between the production of oil and the
20 production of gas, the department shall consider allocating the adjustments in
21 proportion to the lease expenditures allocated to the production of oil and the
22 production of gas under regulations adopted by the department under
23 AS 43.55.165(h).

24 * **Sec. 11.** The uncodified law of the State of Alaska is amended by adding a new section to
25 read:

26 TRANSITION: INSTALLMENT PAYMENTS OF TAX. A producer required to
27 make an installment payment of tax under AS 43.55.020(a)(1) after December 31, 2009, and
28 before the effective date of this Act, and that underpaid the amount due for the installment
29 payment because of the retroactive application of secs. 2 - 4, 7, and 8 of this Act, shall submit
30 the amount of any underpayment on the date the first installment payment is due under
31 AS 43.55.020(a)(1) after the effective date of this Act. Interest on the amount of an

1 underpayment due because of the retroactive application of secs. 2 - 4, 7, and 8 of this Act
2 does not accrue until the day after the date the first installment payment is due under
3 AS 43.55.020(a)(1) after the effective date of this Act.

4 * Sec. 12. The uncodified law of the State of Alaska is amended by adding a new section to
5 read:

6 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any
7 contrary provision of AS 44.62.240, if the Department of Revenue expressly designates in the
8 regulation that the regulation applies retroactively to that date, a regulation adopted by the
9 Department of Revenue to implement, interpret, make specific, or otherwise carry out secs. 2
10 - 4, 7, and 8 of this Act may apply retroactively to January 1, 2010.

11 * Sec. 13. The uncodified law of the State of Alaska is amended by adding a new section to
12 read:

13 RETROACTIVITY. Sections 2 - 4, 7, and 8 of this Act are retroactive to January 1,
14 2010.

15 * Sec. 14. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HCS CSSB 305 (RES)
 () Publish Date: _____

Identifier (file name): HCS CSSB305(RES)(title am)-REV-TAX-04-13-10
 Title: Separate Oil & Gas Production Tax
 Sponsor: Senate Finance Committee
 Requester: House Finance Committee
 Dept. Affected: Revenue
 RDL: Taxation and Treasury
 Component: Tax Division
 Component Number: 2476

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below

OPERATING EXPENDITURES	Appropriation Required	Information					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
Personal Services							
Travel							
Contractual	660.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	660.0	0.0	0.0	0.0	0.0	0.0	

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

*** Significant Impact Beyond FY 2016 - See Analysis Section for Additional Information ***

FUND SOURCE

(Thousands of Dollars)

FUND SOURCE	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1002 Federal Receipts						
1003 GF Match						
1004 GF	660.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Interagency Receipts						
TOTAL	660.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: 660.0

POSITIONS

POSITIONS	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Full-time	0.0	0.00	0	0	0	0
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Bill Language

This bill separates oil and natural gas for purposes of calculating the progressivity portion of the production tax under AS 43.55 for major gas sales. Under this bill the progressivity surcharges for oil and Cook Inlet and in-state gas would be calculated together, and the progressivity surcharge on export gas would be calculated separately (currently all oil and gas are combined for progressivity purposes). The base tax rate remains unchanged at 25%, and the progressivity structure remains unchanged at 0.4% per \$1 of production tax value over \$30 per barrel of oil equivalent, then 0.1% per \$1 of production tax value over \$92.50. This new method of calculating progressivity will apply from April 29, 2010 through the first day of the binding open season for the AGIA pipeline project (currently anticipated to be May 1, 2010), after which progressivity will revert to the current method of combining all oil and gas together for progressivity purposes. Then, following the month in which more than 1.5 bcf / day of gas is exported (i.e., once major gas sales begin), export gas is again separated for progressivity purposes.

Prepared by: Dan Stickel, Petroleum Economist
 Division: Tax Division
 Approved by: Ginger Blaisdell, Director
Administrative Services Division, Department of Revenue

Phone 907-465-3279
 Date/Time 04-13-10; 7:56pm
 Date 04-13-10; 8:15pm

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. HCS CSSB 305 (RES)

ANALYSIS CONTINUATION

Revenues

This bill effectively maintains the status quo in terms of progressivity calculation until major gas sales begin. At that time, export gas will be taxed at a different progressivity rate than will oil, Cook Inlet gas, and gas for in-state use. As such, the revenue impact is shown as zero through the time horizon of this fiscal note.

Once major gas sales begin, our modeling suggests that under most oil and gas price scenarios, this bill will either have no impact on revenue or will increase state revenue versus the status quo. In some scenarios, the revenue increase is over \$1 billion per year. On the other hand, there are also scenarios where revenue could be decreased, but these scenarios are more limited in both number and magnitude of revenue decrease. The exact impact will be dependent on numerous variables including oil and gas prices and production, and lease expenditures. This bill dictates that lease expenditures shall be allocated between oil and gas based on gross value at the point of production "to the extent possible."

Since this bill will likely result in an overall increase in tax due for the major producers, it is possible that the tax change could be viewed by producers as a disincentive to oil and gas exploration and development.

Expenditures

With the change in tax structure the Department will need to change its monthly reporting forms, annual tax returns, and databases. The FY 2011 contractual services costs for programming changes to the online tax information system and the monthly reporting system are estimated at \$230,000. Additionally, to implement this bill with an immediate effective date, the Department will need to develop regulations to the extent possible by April 29, requiring an additional \$430,000 appropriation for FY 2010 to cover immediate contractual, regulatory and legal work. Aside from the \$660,000 in one-time costs, the provisions of this bill can be implemented using existing staff and resources.

\$230,000 computer programming and forms changes

\$50,000 contracted professional services for regulation consulting

\$100,000 contracted professional services for legal and fiscal consulting

\$180,000 regulations costs including Department of Law, public notice and registry

\$100,000 public forums for education of taxpayers and public participation includes preparation materials and legal support, could include travel

Other Issues

This bill provides for an immediate effective date, with the production tax changing potentially twice during 2010; once on April 29 and again after the first day of the AGIA binding open season.. Since the production tax is levied on an annual basis (payable in monthly installments), changing the tax calculations for a portion of the tax year would create an additional burden with additional complexity for both the Department and the taxpayers for the 2010 tax year.

Adopted 4/15/10

26-LS1577K
Bullock
4/14/10

**HOUSE CS FOR CS FOR SENATE BILL NO. 305(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE FINANCE COMMITTEE

**A BILL
FOR AN ACT ENTITLED**

1 "An Act providing that the tax rate applicable to the production of oil as the average
2 production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas
3 produced outside of the Cook Inlet sedimentary basin and used in the state increases
4 above \$30 shall be 0.4 percent multiplied by the number that represents the difference
5 between that average monthly production tax value and \$30, or the sum of 25 percent
6 and the product of 0.1 percent multiplied by the number that represents the difference
7 between that average monthly production tax value and \$92.50, except that the total rate
8 determined in the calculation may not exceed 50 percent; providing for an increase in
9 the rate of tax on the production of gas as the average production tax value on a BTU
10 equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary basin and
11 not used in the state increases above \$30; relating to payments of the oil and gas
12 production tax; relating to the lease expenditures that may be deducted when

1 **determining production tax value; relating to availability of a portion of the money**
2 **received from the tax on oil and gas production for appropriation to the community**
3 **revenue sharing fund; relating to the allocation of lease expenditures and adjustments to**
4 **lease expenditures; and providing for an effective date."**

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * **Section 1.** AS 29.60.850(b) is amended to read:

7 (b) Each fiscal year, the legislature may appropriate to the community revenue
8 sharing fund an amount equal to 20 percent of the money received by the state during
9 the previous calendar year under AS 43.55.011(g) **and (p)**. The amount may not
10 exceed

11 (1) \$60,000,000; or

12 (2) the amount that, when added to the fund balance on June 30 of the
13 previous fiscal year, equals \$180,000,000.

14 * **Sec. 2.** AS 43.55.011(e) is amended to read:

15 (e) There is levied on the producer of oil or gas a tax for all oil and gas
16 produced each calendar year from each lease or property in the state, less any oil and
17 gas the ownership or right to which is exempt from taxation or constitutes a
18 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of
19 this section, the tax is equal to the sum of

20 (1) the annual production tax value of the taxable oil and gas as
21 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

22 (2) the sum, over all months of the calendar year, of the tax amounts
23 determined under

24 **(A) subsection (g) of this section; and**

25 **(B) subsection (p) of this section.**

26 * **Sec. 3.** AS 43.55.011(g) is amended to read:

27 (g) For each month of the calendar year for which the producer's average
28 monthly production tax value under **AS 43.55.160(a)(2)(A) - (E) of a**
29 **[AS 43.55.160(a)(2) PER] BTU equivalent barrel of [THE] taxable oil and gas is more**

1 than \$30, the amount of tax for purposes of (e)(2)(A) [(e)(2)] of this section is
2 determined by multiplying the monthly production tax value of the taxable oil [AND
3 GAS] produced during the month, gas produced during the month from a lease or
4 property in the Cook Inlet sedimentary basin, and gas produced during the
5 month from a lease or property outside the Cook Inlet sedimentary basin and
6 used in the state by the tax rate calculated as follows:

7 (1) if the producer's average monthly production tax value under
8 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
9 and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by
10 the number that represents the difference between the producer's [THAT] average
11 monthly production tax value under AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU
12 equivalent barrel of taxable oil and gas and \$30; [OR]

13 (2) if the producer's average monthly production tax value under
14 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
15 and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and
16 the product of 0.1 percent multiplied by the number that represents the difference
17 between the producer's average monthly production tax value under
18 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of taxable oil and gas
19 and \$92.50, except that the sum determined under this paragraph may not exceed 50
20 percent;

21 (3) for purposes of this subsection, the average monthly
22 production tax value under AS 43.55.160(a)(2)(A) - (E) of a BTU equivalent
23 barrel of taxable oil and gas is calculated by

24 (A) adding all of the monthly production tax values
25 determined under AS 43.55.160(a)(2)(A) - (E); and

26 (B) dividing the sum calculated under (A) of this paragraph
27 by the total amount, in BTU equivalent barrels, of

28 (i) taxable oil produced by the producer during the
29 month;

30 (ii) taxable gas produced by the producer during the
31 month from a lease or property in the Cook Inlet sedimentary

1 basin; and

2 (iii) taxable gas produced by the producer during
3 the month from a lease or property outside the Cook Inlet
4 sedimentary basin and used in the state.

5 * **Sec. 4.** AS 43.55.011 is amended by adding a new subsection to read:

6 (p) For each month of the calendar year for which the producer's average
7 monthly production tax value under AS 43.55.160(a)(2)(F) and (G) of a BTU
8 equivalent barrel of taxable gas is more than \$30, the amount of tax on the production
9 of gas for purposes of (e)(2)(B) of this section is determined by multiplying the
10 monthly production tax value of the taxable gas produced during the month other than
11 gas produced from a lease or property in the Cook Inlet sedimentary basin or gas
12 produced outside the Cook Inlet sedimentary basin and used in the state by the tax rate
13 calculated as follows:

14 (1) if the producer's average monthly production tax value under
15 AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas for the
16 month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the number
17 that represents the difference between the producer's average monthly production tax
18 value under AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of gas and \$30;

19 (2) if the producer's average monthly production tax value under
20 AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas for the
21 month is more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1
22 percent multiplied by the number that represents the difference between the producer's
23 average monthly production tax value under AS 43.55.160(a)(2)(F) and (G) of a BTU
24 equivalent barrel of gas and \$92.50, except that the sum determined under this
25 paragraph may not exceed 50 percent;

26 (3) for purposes of this subsection, the average monthly production tax
27 value under AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas
28 is calculated by

29 (A) adding the monthly production tax value determined under
30 AS 43.55.160(a)(2)(F) to the monthly production tax value determined under
31 AS 43.55.160(a)(2)(G); and

1 (B) dividing the sum calculated under (A) of this paragraph by
2 the total amount, in BTU equivalent barrels, of the taxable gas produced by the
3 producer during the month, other than gas produced from a lease or property in
4 the Cook Inlet sedimentary basin or gas produced outside the Cook Inlet
5 sedimentary basin and used in the state.

6 * **Sec. 5.** AS 43.55.020(a) is repealed and reenacted to read:

7 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
8 and (p) shall pay the tax as follows:

9 (1) an installment payment of the estimated tax levied by
10 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
11 month of the calendar year on the last day of the following month; except as otherwise
12 provided under (2) of this subsection, the amount of the installment payment is the
13 sum of the following amounts in (A) - (C) of this paragraph, less 1/12 of the tax
14 credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e)
15 for the calendar year, but the amount of the installment payment may not be less than
16 zero:

17 (A) the monthly production tax value for the month calculated
18 under AS 43.55.160(a)(2)(B) multiplied by the sum of 25 percent and the tax
19 rate calculated for the month under AS 43.55.011(g), added to the monthly
20 production tax value for the month calculated under AS 43.55.160(a)(2)(G)
21 multiplied by the sum of 25 percent and the tax rate calculated for the month
22 under AS 43.55.011(p);

23 (B) the greater of

24 (i) zero percent, one percent, two percent, three percent,
25 or four percent, as applicable under AS 43.55.011(f), of the gross value
26 at the point of production of the oil and gas produced during the month
27 from all leases or properties in the state that include land north of 68
28 degrees North latitude, other than oil and gas subject to
29 AS 43.55.011(i) and gas subject to AS 43.55.011(o); or

30 (ii) the monthly production tax value for the month
31 calculated under AS 43.55.160(a)(2)(A) multiplied by the sum of 25

1 percent and the tax rate calculated for the month under
2 AS 43.55.011(g), added to the monthly production tax value for the
3 month calculated under AS 43.55.160(a)(2)(F) multiplied by the sum of
4 25 percent and the tax rate calculated for the month under
5 AS 43.55.011(p); and

6 (C) for each lease or property, for gas subject to
7 AS 43.55.011(j), oil subject to AS 43.55.011(k), and gas subject to
8 AS 43.55.011(o), the monthly production tax value for the month calculated
9 under AS 43.55.160(a)(2)(C), (D), or (E), as applicable, multiplied by the sum
10 of 25 percent and the tax rate calculated for the month under AS 43.55.011(g);

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
12 produced from a particular lease or property may not exceed the product obtained by
13 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
14 applicable for gas, or set out in AS 43.55.011(k)(1) or (2), as applicable for oil, but
15 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
16 amount of taxable gas produced during the month for the amount of taxable gas
17 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
18 (2)(A), as applicable, the amount of taxable oil produced during the month for the
19 amount of taxable oil produced during the calendar year;

20 (3) an installment payment of the estimated tax levied by
21 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
22 on the last day of the following month; the amount of the installment payment is the
23 sum of

24 (A) the applicable tax rate for oil provided under
25 AS 43.55.011(i), multiplied by the gross value at the point of production of the
26 oil taxable under AS 43.55.011(i) and produced from the lease or property
27 during the month; and

28 (B) the applicable tax rate for gas provided under
29 AS 43.55.011(i), multiplied by the gross value at the point of production of the
30 gas taxable under AS 43.55.011(i) and produced from the lease or property
31 during the month;

1 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
2 credits applied as allowed by law, that exceeds the total of the amounts due as
3 installment payments of estimated tax is due on March 31 of the year following the
4 calendar year of production.

5 * Sec. 6. AS 43.55.020(d) is amended to read:

6 (d) In making settlement with the royalty owner for oil and gas that is taxable
7 under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable
8 royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the
9 time the tax becomes due to the amount of the tax paid. If the total deductions of
10 installment payments of estimated tax for a calendar year exceed the actual tax for that
11 calendar year, the producer shall, before April 1 of the following year, refund the
12 excess to the royalty owner. Unless otherwise agreed between the producer and the
13 royalty owner, the amount of the tax paid under AS 43.55.011(e) - (g) and (p) on
14 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
15 right to which constitutes a landowner's royalty interest, is considered to be the gross
16 value at the point of production of the taxable royalty oil and gas produced during the
17 calendar year multiplied by a figure that is a quotient, in which

18 (1) the numerator is the producer's total tax liability under
19 AS 43.55.011(e) - (g) and (p) for the calendar year of production; and

20 (2) the denominator is the total gross value at the point of production
21 of the oil and gas taxable under AS 43.55.011(e) - (g) and (p) produced by the
22 producer from all leases and properties in the state during the calendar year.

23 * Sec. 7. AS 43.55.160(a) is amended to read:

24 (a) Except as provided in (b) of this section, for the purposes of

25 (1) AS 43.55.011(e), the annual production tax value of the taxable

26 (A) oil [AND GAS] produced during a calendar year from
27 leases or properties in the state that include land north of 68 degrees North
28 latitude is the gross value at the point of production of the oil [AND GAS]
29 taxable under AS 43.55.011(e) and produced by the producer from those leases
30 or properties, less the producer's lease expenditures under AS 43.55.165 for the
31 calendar year applicable to the oil [AND GAS] produced by the producer from

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

those leases or properties, and the portion allocated under (f) of this section of the producer's lease expenditures under AS 43.55.165 for the calendar year incurred to explore land that is not a lease or property, or to explore or develop a lease or property before commencement of sustained production of oil or gas from the lease or property, if that land or any part of a lease or property is located north of 68 degrees North latitude, as adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

(B) oil [AND GAS] produced during a calendar year from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil [AND GAS] produced by the producer from those leases or properties, and the portion allocated under (f) of this section of the producer's lease expenditures under AS 43.55.165 for the calendar year incurred to explore land that is not a lease or property, or to explore or develop a lease or property before commencement of sustained production of oil or gas from the lease or property, if that land, lease, or property is located outside the Cook Inlet sedimentary basin, and the land and all parts of the lease or property are not north of 68 degrees North latitude, as adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

(C) oil produced during a calendar year from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the oil taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil produced by the producer from that lease or property, and the portion allocated under (f) of this section of the producer's lease expenditures under AS 43.55.165 for

1 the calendar year incurred to explore land that is not a lease or property,
2 or to explore or develop a lease or property before commencement of
3 sustained production of oil or gas from the lease or property, if that land,
4 lease, or property is located in the Cook Inlet sedimentary basin, as
5 adjusted under AS 43.55.170;

6 (D) gas produced during a calendar year from a lease or
7 property in the Cook Inlet sedimentary basin is the gross value at the point of
8 production of the gas taxable under AS 43.55.011(e) and produced by the
9 producer from that lease or property, less the producer's lease expenditures
10 under AS 43.55.165 for the calendar year applicable to the gas produced by the
11 producer from that lease or property, and the portion allocated under (f) of
12 this section of the producer's lease expenditures under AS 43.55.165 for
13 the calendar year incurred to explore land that is not a lease or property,
14 or to explore or develop a lease or property before commencement of
15 sustained production of oil or gas from the lease or property, if that land,
16 lease, or property is located in the Cook Inlet sedimentary basin, as
17 adjusted under AS 43.55.170;

18 (E) gas produced during a calendar year from a lease or
19 property outside the Cook Inlet sedimentary basin and used in the state is the
20 gross value at the point of production of that gas taxable under
21 AS 43.55.011(e) and produced by the producer from that lease or property, less
22 the producer's lease expenditures under AS 43.55.165 for the calendar year
23 applicable to that gas produced by the producer from that lease or property,
24 and the portion allocated under (f) of this section of the producer's lease
25 expenditures under AS 43.55.165 for the calendar year incurred to explore
26 land that is not a lease or property, or to explore or develop a lease or
27 property before commencement of sustained production of oil or gas from
28 the lease or property, if that land, lease, or property is located outside the
29 Cook Inlet sedimentary basin, as adjusted under AS 43.55.170;

30 (F) gas produced during a calendar year from leases or
31 properties in the state that include land north of 68 degrees North latitude

1 is the gross value at the point of production of the gas taxable under
2 AS 43.55.011(e) and produced by the producer from those leases or
3 properties, less the producer's lease expenditures under AS 43.55.165 for
4 the calendar year applicable to the gas produced by the producer from
5 those leases or properties, and the portion allocated under (f) of this
6 section of the producer's lease expenditures under AS 43.55.165 for the
7 calendar year incurred to explore land that is not a lease or property, or
8 to explore or develop a lease or property before commencement of
9 sustained production of oil or gas from the lease or property, if that land
10 or any part of the lease or property is located north of 68 degrees North
11 latitude, as adjusted under AS 43.55.170; this subparagraph does not
12 apply to gas subject to AS 43.55.011(o);

13 (G) gas produced during a calendar year from leases or
14 properties in the state outside the Cook Inlet sedimentary basin, no part of
15 which is north of 68 degrees North latitude, is the gross value at the point
16 of production of the gas taxable under AS 43.55.011(e) and produced by
17 the producer from those leases or properties, less the producer's lease
18 expenditures under AS 43.55.165 for the calendar year applicable to the
19 gas produced by the producer from those leases or properties, and the
20 portion allocated under (f) of this section of the producer's lease
21 expenditures under AS 43.55.165 for the calendar year incurred to explore
22 land that is not a lease or property, or to explore or develop a lease or
23 property before commencement of sustained production of oil or gas from
24 the lease or property, if that land or lease or property is located outside
25 the Cook Inlet sedimentary basin, and the land and all parts of the lease
26 or property are not north of 68 degrees North latitude, as adjusted under
27 AS 43.55.170; this subparagraph does not apply to gas subject to
28 AS 43.55.011(o);

29 (2) AS 43.55.011(g) and (p), the monthly production tax value of the
30 taxable

31 (A) oil [AND GAS] produced during a month from leases or

1 properties in the state that include land north of 68 degrees North latitude is the
2 gross value at the point of production of the oil [AND GAS] taxable under
3 AS 43.55.011(e) and produced by the producer from those leases or properties,
4 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
5 calendar year applicable to the oil [AND GAS] produced by the producer from
6 those leases or properties, and 1/12 of the portion allocated under (f) of this
7 section of the producer's lease expenditures under AS 43.55.165 for the
8 calendar year incurred to explore land that is not a lease or property, or
9 to explore or develop a lease or property before commencement of
10 sustained production of oil or gas from the lease or property, if that land
11 or any part of the lease or property is located north of 68 degrees North
12 latitude, as adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES
13 NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

14 (B) oil [AND GAS] produced during a month from leases or
15 properties in the state outside the Cook Inlet sedimentary basin, no part of
16 which is north of 68 degrees North latitude, is the gross value at the point of
17 production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced
18 by the producer from those leases or properties, less 1/12 of the producer's
19 lease expenditures under AS 43.55.165 for the calendar year applicable to the
20 oil [AND GAS] produced by the producer from those leases or properties, and
21 1/12 of the portion allocated under (f) of this section of the producer's
22 lease expenditures under AS 43.55.165 for the calendar year incurred to
23 explore land that is not a lease or property, or to explore or develop a
24 lease or property before commencement of sustained production of oil or
25 gas from the lease or property, if that land, lease, or property is located
26 outside the Cook Inlet sedimentary basin, and the land and all parts of the
27 lease or property are not north of 68 degrees North latitude, as adjusted
28 under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO
29 GAS SUBJECT TO AS 43.55.011(o);]

30 (C) oil produced during a month from a lease or property in the
31 Cook Inlet sedimentary basin is the gross value at the point of production of

1 the oil taxable under AS 43.55.011(e) and produced by the producer from that
2 lease or property, less 1/12 of the producer's lease expenditures under
3 AS 43.55.165 for the calendar year applicable to the oil produced by the
4 producer from that lease or property, and 1/12 of the portion allocated under
5 (f) of this section of the producer's lease expenditures under AS 43.55.165
6 for the calendar year incurred to explore land that is not a lease or
7 property, or to explore or develop a lease or property before
8 commencement of sustained production of oil or gas from the lease or
9 property, if that land, lease, or property is located in the Cook Inlet
10 sedimentary basin, as adjusted under AS 43.55.170;

11 (D) gas produced during a month from a lease or property in
12 the Cook Inlet sedimentary basin is the gross value at the point of production
13 of the gas taxable under AS 43.55.011(e) and produced by the producer from
14 that lease or property, less 1/12 of the producer's lease expenditures under
15 AS 43.55.165 for the calendar year applicable to the gas produced by the
16 producer from that lease or property, and 1/12 of the portion allocated under
17 (f) of this section of the producer's lease expenditures under AS 43.55.165
18 for the calendar year incurred to explore land that is not a lease or
19 property, or to explore or develop a lease or property before
20 commencement of sustained production of oil or gas from the lease or
21 property, if that land, lease, or property is located in the Cook Inlet
22 sedimentary basin, as adjusted under AS 43.55.170;

23 (E) gas produced during a month from a lease or property in
24 the state outside the Cook Inlet sedimentary basin and used in the state is the
25 gross value at the point of production of that gas taxable under
26 AS 43.55.011(e) and produced by the producer from that lease or property, less
27 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar
28 year applicable to that gas produced by the producer from that lease or
29 property, and 1/12 of the portion allocated under (f) of this section of the
30 producer's lease expenditures under AS 43.55.165 for the calendar year
31 incurred to explore land that is not a lease or property, or to explore or

1 develop a lease or property before commencement of sustained production
2 of oil or gas from the lease or property, if that land, lease, or property is
3 located outside of the Cook Inlet sedimentary basin, as adjusted under
4 AS 43.55.170;

5 (F) gas produced during a month from leases or properties
6 in the state that include land north of 68 degrees North latitude is the
7 gross value at the point of production of the gas taxable under
8 AS 43.55.011(e) and produced by the producer from those leases or
9 properties, less 1/12 of the producer's lease expenditures under
10 AS 43.55.165 for the calendar year applicable to the gas produced by the
11 producer from those leases or properties, and 1/12 of the portion allocated
12 under (f) of this section of the producer's lease expenditures under
13 AS 43.55.165 for the calendar year incurred to explore land that is not a
14 lease or property, or to explore or develop a lease or property before
15 commencement of sustained production of oil or gas from the lease or
16 property, if that land or any part of the lease or property is located north
17 of 68 degrees North latitude, as adjusted under AS 43.55.170; this
18 subparagraph does not apply to gas subject to AS 43.55.011(o);

19 (G) gas produced during a month from leases or properties
20 in the state outside the Cook Inlet sedimentary basin, no part of which is
21 north of 68 degrees North latitude, is the gross value at the point of
22 production of the gas taxable under AS 43.55.011(e) and produced by the
23 producer from those leases or properties, less 1/12 of the producer's lease
24 expenditures under AS 43.55.165 for the calendar year applicable to the
25 gas produced by the producer from those leases or properties, and 1/12 of
26 the portion allocated under (f) of this section of the producer's lease
27 expenditures under AS 43.55.165 for the calendar year incurred to explore
28 land that is not a lease or property, or to explore or develop a lease or
29 property before commencement of sustained production of oil or gas from
30 the lease or property, if that land or lease or property is located outside
31 the Cook Inlet sedimentary basin, and the land and all parts of the lease

1 or property are not north of 68 degrees North latitude, as adjusted under
2 AS 43.55.170; this subparagraph does not apply to gas subject to
3 AS 43.55.011(o).

4 * **Sec. 8.** AS 43.55.160 is amended by adding new subsections to read:

5 (f) A lease expenditure incurred during a calendar year to explore land that is
6 not a lease or property, or to explore or develop a lease or property before
7 commencement of sustained production of oil or gas from the lease or property shall
8 be allocated as provided in a regulation adopted by the department under
9 AS 43.55.165(h) to the production of taxable

10 (1) oil produced from leases or properties in the state that include land
11 north of 68 degrees North latitude;

12 (2) oil produced from leases or properties in the state outside the Cook
13 Inlet sedimentary basin, no part of which is north of 68 degrees North latitude;

14 (3) oil produced from a lease or property in the Cook Inlet sedimentary
15 basin;

16 (4) gas produced from a lease or property in the Cook Inlet
17 sedimentary basin;

18 (5) gas produced from a lease or property in the state outside the Cook
19 Inlet sedimentary basin and used in the state;

20 (6) gas produced from leases or properties in the state that include land
21 north of 68 degrees North latitude; or

22 (7) gas produced from leases or properties in the state outside of the
23 Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude.

24 (g) A lease expenditure is applicable to oil or gas produced from a lease or
25 property or to leases or properties for the purpose of determining production tax value
26 if the lease expenditure is a cost of exploring for, developing, or producing oil or gas
27 deposits located within the lease or property that are incurred on or after the
28 commencement of sustained production of oil or gas from the lease or property.

29 * **Sec. 9.** AS 43.55.165(h) is amended to read:

30 (h) The department shall adopt regulations that provide for reasonable
31 methods of allocating costs between oil and gas, between gas subject to

1 AS 43.55.011(o) and other gas, and between leases or properties in those
2 circumstances where an allocation of costs is required to determine lease expenditures
3 that are costs of exploring for, developing, or producing oil deposits or costs of
4 exploring for, developing, or producing gas deposits, or that are costs of exploring for,
5 developing, or producing oil or gas deposits located within different leases or
6 properties. When adopting a regulation for determining a reasonable method of
7 allocating lease expenditures between the production of oil and the production of
8 gas, the department shall, to the extent possible, provide for the allocation of
9 lease expenditures in proportion to the gross value at the point of production for
10 oil produced and gas produced from each lease or property.

11 * Sec. 10. AS 43.55.170 is amended by adding a new subsection to read:

12 (d) The department shall adopt regulations that provide for reasonable
13 methods of allocating the adjustments to a producer's lease expenditures in (a) of this
14 section and the payments and credits described in (b) of this section between oil and
15 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or
16 properties in those circumstances where an allocation of costs is required to determine
17 lease expenditures that are costs of exploring for, developing, or producing oil
18 deposits, or costs of exploring for, developing, or producing gas deposits, or that are
19 costs of exploring for, developing, or producing oil or gas deposits located within
20 different leases or properties. When determining a reasonable method of allocating the
21 adjustments to a producer's lease expenditures between the production of oil and the
22 production of gas, the department shall consider allocating the adjustments in
23 proportion to the lease expenditures allocated to the production of oil and the
24 production of gas under regulations adopted by the department under
25 AS 43.55.165(h).

26 * Sec. 11. The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 TRANSITION: INSTALLMENT PAYMENTS OF TAX. A producer required to
29 make an installment payment of tax under AS 43.55.020(a)(1) after December 31, 2009, and
30 before the effective date of this Act, and that underpaid the amount due for the installment
31 payment because of the retroactive application of secs. 2 - 4, 7, and 8 of this Act, shall submit

1 the amount of any underpayment on the date the first installment payment is due under
2 AS 43.55.020(a)(1) after the effective date of this Act. Interest on the amount of an
3 underpayment due because of the retroactive application of secs. 2 - 4, 7, and 8 of this Act
4 does not accrue until the day after the date the first installment payment is due under
5 AS 43.55.020(a)(1) after the effective date of this Act.

6 * **Sec. 12.** The uncodified law of the State of Alaska is amended by adding a new section to
7 read:

8 **TRANSITION: RETROACTIVITY OF REGULATIONS.** Notwithstanding any
9 contrary provision of AS 44.62.240, if the Department of Revenue expressly designates in the
10 regulation that the regulation applies retroactively to that date, a regulation adopted by the
11 Department of Revenue to implement, interpret, make specific, or otherwise carry out secs. 2
12 - 4, 7, and 8 of this Act may apply retroactively to January 1, 2010.

13 * **Sec. 13.** The uncodified law of the State of Alaska is amended by adding a new section to
14 read:

15 **RETROACTIVITY.** Sections 2 - 4, 7, and 8 of this Act are retroactive to January 1,
16 2010.

17 * **Sec. 14.** This Act takes effect immediately under AS 01.10.070(c).

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Bert Stedman, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
(907) 465- 3873 - Phone
(907) 465-3922 - Fax
Senator_Bert_Stedman@legis.state.ak.us



Official Business

Senator Lyman Hoffman, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 4453
Fax - (907) 465- 4523
Senator_Lyman_Hoffman@legis.state.ak.us

SECTIONAL ANALYSIS SB 305 VERSION K

1. Amends AS 29.60.850(b) to reference new separate progressive tax on gas as a source of money may be appropriated to the community revenue sharing fund.
2. Amends AS 43.55.011(e) to make separate references to the monthly progressive taxes on oil and gas.
3. Amends AS 43.55.011(g) to have the tax rate determined using the production tax values of oil and the production tax values on a BTU equivalent basis of gas produced in Cook Inlet and gas produced elsewhere in the state.
4. Adds a new subsection, (p), to AS 43.55.011, to provide for a progressive tax applicable to gas production that is not included in AS 43.55.011(g) as amended in section 3 of the bill.
5. Repeals and reenacts AS 43.55.020(a) to describe the determination of a monthly installment payment for production taxes when the progressive tax on oil, Cook Inlet gas, and other gas used in the state, and the progressive tax applicable to other gas are determined separately.
6. Amends AS 43.55.020(d), relating to a settlement with the royalty owner, by adding references to the progressive tax on the gas to which AS 43.55.011(p) is applicable.
7. Amends AS 43.55.160(a), relating to the determination of the production tax value of oil and gas, by providing the means for determining the production tax value of oil and the production tax value of gas separately, and providing that lease expenditures include expenditures allocated under 160(f) in section 8 for the calendar year incurred to explore land not under lease, or explore or develop a lease before commencement of sustained production.
8. Adds two new subsections, (f), and (g), to AS 43.55.160. In subsection (f), expenditures to explore land not under lease, or to explore or develop a lease before commencement of production of oil or gas, are allocated to current oil or gas production. In subsection (g), lease expenditures include expenditures for producing, or that are incurred for exploration or development after the commencement of sustained production.
9. Amends AS 43.55.165(h), relating to the requirement that the Department of Revenue adopt regulations for allocating lease expenditures, by requiring that the Department allocate lease expenditures, to the maximum extent possible, between oil and gas, using the relative gross value at the point of production.

10. Adds a new subsection, AS 43.55.170(d), which is similar to the amendment to AS 43.55.165(h) in section 9, but is applicable to allocating adjustments to lease expenditures.
11. Requires a producer that underpays an installment payment after December 31, 2009 and before the effective date because of the retroactive application of the new progressive tax section to pay the amount of the underpayment on the date the first installment payment is due after the effective date of the Act.
12. Department has authority to adopt regulations to implement retroactive provisions in section 13.
13. Makes the progressivity provisions of the bill – sections 2–4 and 7-8 – retroactive to January 1, 2010.
14. Makes the Act take effect immediately.

ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

Representative Mike Hawker
Co-Chairman
(907) 465-4949
Fax: (907) 465-4979
Rep.Mike.Hawker@legis.state.ak.us

State Capitol, Rm 505
Juneau, AK 99801



Representative Bill Stoltze
Co-Chairman
(907) 465-4958
Fax: (907) 465-4928
Rep.Bill.Stoltze@legis.state.ak.us

State Capitol, Rm 515
Juneau, AK 99801

State Capitol, Juneau, Alaska 99801-1182

Summary of Changes between House Resources CS and Finance Work Draft

- 1) Timing window of moving between the one "bucket" and two "bucket" regimes has been removed.
- 2) AS 43.55.011(g)(3) and (p)(3): This is a technical change that adds clarity. It depicts the detailed methodology for deriving the progressivity factor so that it is clear the word "average" in the statute means weighted average.
- 3) AS 43.55.020(a): The section describing the calculation of the monthly installment payments has been repealed and reenacted. After all previous changes a more succinct drafting was crafted.
- 4) AS.55.160(a)(1) and (a)(2): This is an expansion on the current section describing the calculation of the annual and monthly production tax values. Lease expenditures include expenditures allocated under 160(f) (below) for the calendar year incurred to explore land not under lease, or explore or develop a lease before commencement of sustained production.
- 5) AS 43.55.160(f): This is a new section. Expenditures to explore land not under lease, or to explore or develop a lease before commencement of production of oil or gas, are allocated between oil and gas in the year the expenditure is incurred. (Method of allocation is specified in AS 43.55.165(h) [an amendment out of House Resources] stating that for allocating costs between oil and gas gross value should be used to the maximum extent possible.)
- 6) AS 43.55.160(g): This is a new section that clarifies that lease expenditures include expenditures for producing or that are incurred for exploration or development after the commencement of sustained production, as well.