

**HB**

**308**

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 308  
 ( ) Publish Date: \_\_\_\_\_

Identifier (file name): HB308-REV-TAX-02-06-10  
 Title An Act relating to the production tax on oil and gas  
 Sponsor Representative Johnson  
 Requester (H) Resources  
 Dept. Affected: Revenue  
 RDU Taxation and Treasury  
 Component Tax Division  
 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
<b>OPERATING EXPENDITURES</b>								
Personal Services	235.0		235.0	235.0	235.0	235.0	235.0	235.0
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>235.0</b>	<b>0.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>
<b>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>	<b>(575,000.0)</b>	<b>0.0</b>	<b>(725,000.0)</b>	<b>(825,000.0)</b>	<b>(925,000.0)</b>	<b>(950,000.0)</b>	<b>(900,000.0)</b>	

\*\*\* See Analysis Section for Additional Information \*\*\*

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	235.0	0.0	235.0	235.0	235.0	235.0	235.0	235.0
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>235.0</b>	<b>0.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>	<b>235.0</b>

Estimate of any current year (FY2010) cost: 0.0

**POSITIONS**

Full-time	2.0	0.00	2	2	2	2	2
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

See Attached.

Prepared by: Cherie Nienhuis and Dan Stickel, Petroleum Economists  
 Division Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone 907-269-1019  
 Date/Time 02-05-10; 1:46pm  
 Date 02-06-10; 1:27pm

FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

BILL NO. HB 308

ANALYSIS CONTINUATION

Bill Language:

This bill makes four major changes to Alaska's oil and gas production tax. Each of these changes are discussed below:

- 1. Decrease in tax rate for progressive surcharge.** This bill would lower the tax rate used to calculate the progressive surcharge at AS 43.55.011(g) from 0.4% for every \$1 the production tax value exceeds \$30 per barrel to 0.2% for every \$1 the production tax value exceeds \$30 per barrel. This rate continues until the production tax value per barrel reaches \$92.50, when the rate resumes the 0.1% tax rate that currently exists in statute.
- 2. Decrease in rate of credit for certain qualifying exploration expenditures from 40% to 30%.** This bill would decrease the rate of credit for certain expenditures that qualify for the exploration credit at AS 43.55.025(a) from 40% to 30%.
- 3. Add a special credit for qualified well-related expenditures.** This bill would add a separate credit for well-related expenditures. The credit would be 10% of capital expenditures for well drilling or seismic exploration and analysis, and 30% for noncapital expenditures for well drilling, seismic exploration and analysis, or well maintenance workovers for expenditures occurring after December 31, 2010.
- 4. Reduce the amount of time that auditors have to complete audits on tax returns from 6 years to 3 years.**

**Analysis of Changes**

This bill would have both revenue impacts and Division staffing impacts. The changes to the tax rate and credits in 1 through 3 of the list above will have a combined impact as shown on page 1 of the fiscal note, using our Fall 2009 price, production, and cost forecasts. Because we were unable to ascertain the effective date of the decrease in tax rate, we assumed it would be effective 7/1/10 and the fiscal impact effects the entirety of FY11.

The change to reduce the amount of time that auditors have to complete production tax audits will have a direct fiscal impact on the Tax Division. Reducing the time the Audit Group has to complete audits by 3 years will require the hiring of 2 additional auditors, who are experienced in oil and gas operations, costing the Division approximately \$235,000 per year. If the positions are not filled timely, either the audits will not be completed in time, or the Division will be forced to make defensive tax assessments and shift the burden to its Appeals Group, which could require adding more appeals officers.

The special credit for well-related expenditures will require auditors to undergo specific training in order to learn how to distinguish well-related expenditures from other expenditures. We can expect an extended regulations process to properly identify and code these expenditure differences. The cost to the Division for these additional duties is undetermined.

# LEGAL SERVICES

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

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## MEMORANDUM

February 5, 2010

**SUBJECT:** Constitutional issues raised CSHB 308( )  
(Work Order No. 26-LS1328\E)

**TO:** Representative Craig Johnson  
Attn: Debra Higgins

**FROM:**   
Donald M. Bullock Jr  
Legislative Counsel

Enclosed is a draft CSHB 308( ) that, among other subjects, amends the rate and applicability of interest in AS 43.05.225 and provides a rebate to a taxpayer subject to tax under AS 43.55.011(e) that employs resident workers for 80 percent or more of the labor performed for qualified lease expenditures. Please read this draft carefully to ensure that it is consistent with your intent.

The incentive for the employment of resident workers by a reduction in tax burden raises constitutional issues because of the effect on workers who are not residents of the state.

There are constitutional issues raised by reducing the burden of the oil and gas production tax through a rebate based on resident employment. Providing an incentive for the employment of resident workers corresponds to a disincentive for employing workers who are not residents. This raises a question as to whether the inducement violates the privileges and immunities clause of the United States Constitution or the equal protection provisions in the United States and Alaska Constitutions.

If I may be of further assistance, please advise.

DMB:ljw  
10-061.ljw

Enclosure

26-LS1328\E  
Bullock  
2/5/10

**CS FOR HOUSE BILL NO. 308( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES JOHNSON, Neuman, Ramras, Millett, Johansen, Hawker**

**A BILL**  
**FOR AN ACT ENTITLED**

1 **"An Act relating to the duties of the Department of Labor and Workforce Development;**  
2 **relating to the tax rate applicable to the production of oil and gas; relating to a rebate of**  
3 **the production tax on oil and gas based on the employment of resident workers; relating**  
4 **to credits against the oil and gas production tax; relating to the period in which oil and**  
5 **gas production taxes may be assessed; relating to the interest rates applicable on certain**  
6 **amounts due related to various taxes, penalties, payments, and the Alaska Gasline**  
7 **Inducement Act; and providing for an effective date."**

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

9 **\* Section 1.** AS 05.15.095(c) is amended to read:

10 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(a)(2)  
11 [AS 43.05.225].

12 **\* Sec. 2.** AS 23.05.080 is amended by adding a new subsection to read:

13 (b) In addition to the records that must be kept under (a) of this section, an

1 employer subject to tax under AS 43.55.011(e) and claiming a rebate under  
 2 AS 43.55.022 shall keep for each person who provides labor the cost of which is  
 3 included in an allowable lease expenditure under AS 43.55.165 an accurate record of  
 4 the name, address, and occupation of the person, of the daily and weekly hours worked  
 5 by the person, of whether the person is a resident worker, of the total numbers of hours  
 6 during a calendar year worked by resident workers, of the total number of hours  
 7 during a calendar year worked by persons that are not resident workers, and of the  
 8 wages paid each pay period to each person. A record required under this subsection  
 9 shall be kept on file for at least three years and may be provided to the Department of  
 10 Revenue by request. In this subsection, "resident worker" has the meaning given in  
 11 AS 43.40.092.

12 \* Sec. 3. AS 23.05.100 is amended to read:

13 **Sec. 23.05.100. Inspections and examination of records.** The department  
 14 may

15 (1) enter a place of employment during regular hours of employment  
 16 and, in cooperation with the employer, or someone designated by the employer, collect  
 17 (A) facts and statistics relating to the employment of workers;

18 and

19 (B) information required to be kept under AS 23.05.080(b)  
 20 for the purpose of verifying the eligibility of the employer for a rebate  
 21 under AS 43.55.022;

22 (2) make inspections for the proper enforcement of all state labor laws;

23 (3) for the purpose of examination, have access to and copy from any  
 24 book, account, record, payroll, paper, or document relating to the employment of  
 25 workers.

26 \* Sec. 4. AS 23.05 is amended by adding a new section to article 1 to read:

27 **Sec. 23.05.135. Definition.** In AS 23.05.010 - 23.05.135, "resident worker"  
 28 has the meaning given in AS 43.40.092.

29 \* Sec. 5. AS 34.45.470(a) is amended to read:

30 (a) A person who fails to pay or deliver property within the time prescribed by  
 31 this chapter may be required to pay to the department interest at the annual rate

1 calculated under AS 43.05.225(a)(2) [AS 43.05.225] on the property or the value of it  
 2 from the date the property should have been paid or delivered.

3 \* Sec. 6. AS 43.05.225 is amended to read:

4 **Sec. 43.05.225. Interest.** Unless otherwise provided,

5 (1) when a tax levied in this title becomes delinquent, it bears interest  
 6 in a calendar quarter at the rate of two [FIVE] percentage points above the annual rate  
 7 charged member banks for advances by the 12th Federal Reserve District as of the  
 8 first day of that calendar quarter, or at the annual rate of 11 percent, whichever is  
 9 lower [GREATER], compounded quarterly as of the last day of that quarter;

10 (2) the interest rate is 12 percent a year for

11 (A) delinquent fees payable under AS 05.15.095(c); and

12 (B) [REPEALED

13 (C)] unclaimed property that is not timely paid or delivered, as  
 14 allowed by AS 34.45.470(a).

15 \* Sec. 7. AS 43.05.225 is amended by adding a new subsection to read:

16 (b) The unpaid amount of an increase in tax liability that is the direct result of  
 17 the adoption of a regulation with retroactive application is not considered delinquent  
 18 for the purposes of (a) of this section until 30 days after the effective date of the  
 19 regulation with retroactive application.

20 \* Sec. 8. AS 43.05.280(a) is amended to read:

21 (a) Interest shall be allowed and paid on an overpayment of a tax under this  
 22 title at the rate and in the manner provided in AS 43.05.225(a)(1) [AS 43.05.225(1)].

23 \* Sec. 9. AS 43.31.141 is amended to read:

24 **Sec. 43.31.141. When tax due; [,] extension and interest.** The tax imposed  
 25 by this chapter is due and payable 15 months after the decedent's death and shall be  
 26 paid by the executor to the department. If the department finds that the payment on the  
 27 due date of tax or any part of the tax would impose undue hardship upon the estate, the  
 28 department may extend the time for payment of any part, but no extension may be for  
 29 more than one year and the aggregate of extensions with respect to an estate may not  
 30 exceed five years from the due date. In that case, the amount in respect of which the  
 31 extension is granted shall be paid on or before the date of the expiration of the period

1 of the extension unless a further extension is granted. If the time for the payment is  
2 extended, there shall be collected, as part of this amount, interest on the tax as  
3 provided in AS 43.05.225(a)(1) [AS 43.05.225(1)] from the due date of the tax to the  
4 date the tax is paid.

5 \* **Sec. 10.** AS 43.50.570 is amended to read:

6 **Sec. 43.50.570. Interest.** A licensee who fails to pay an amount due for the  
7 purchase of stamps within the time required

8 (1) is considered to have failed to pay the cigarette taxes due under this  
9 chapter; and

10 (2) shall pay interest at the rate established under AS 43.05.225(a)(1)  
11 [AS 43.05.225] from the date on which the amount became due until the date of  
12 payment.

13 \* **Sec. 11.** AS 43.55.011(g) is amended to read:

14 (g) For each month of the calendar year for which the producer's average  
15 monthly production tax value under AS 43.55.160(a)(2) per BTU equivalent barrel of  
16 the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of  
17 this section is determined by multiplying the monthly production tax value of the  
18 taxable oil and gas produced during the month by the tax rate calculated as follows:

19 (1) if the producer's average monthly production tax value per BTU  
20 equivalent barrel of the taxable oil and gas for the month is not more than \$155  
21 [\$92.50], the tax rate is 0.2 [0.4] percent multiplied by the number that represents the  
22 difference between that average monthly production tax value per BTU equivalent  
23 barrel and \$30; or

24 (2) if the producer's average monthly production tax value per BTU  
25 equivalent barrel of the taxable oil and gas for the month is more than \$155 [\$92.50],  
26 the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the  
27 number that represents the difference between the average monthly production tax  
28 value per BTU equivalent barrel and \$155 [\$92.50], except that the sum determined  
29 under this paragraph may not exceed 50 percent.

30 \* **Sec. 12.** AS 43.55.020(g) is amended to read:

31 (g) Notwithstanding any contrary provision of AS 43.05.225(a) and except as

1 provided in (i) of this section [AS 43.05.225], an unpaid amount of an installment  
2 payment required under (a)(1) - (3) of this section that is not paid when due bears  
3 interest (1) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal  
4 Revenue Code), as amended, compounded daily, from the date the installment  
5 payment is due until March 31 following the calendar year of production, and (2) as  
6 provided for a delinquent tax under AS 43.05.225(a)(1) [AS 43.05.225] after that  
7 March 31. Interest accrued under (1) of this subsection that remains unpaid after that  
8 March 31 is treated as an addition to tax that bears interest under (2) of this subsection.  
9 An unpaid amount of tax due under (a)(4) of this section that is not paid when due  
10 bears interest as provided for a delinquent tax under AS 43.05.225(a)(1)  
11 [AS 43.05.225].

12 \* Sec. 13. AS 43.55.020(h) is amended to read:

13 (h) Notwithstanding any contrary provision of AS 43.05.280,

14 (1) an overpayment of an installment payment required under (a)(1) -  
15 (3) of this section bears interest at the rate provided for an overpayment under 26  
16 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the later  
17 of the date the installment payment is due or the date the overpayment is made, until  
18 the earlier of

19 (A) the date it is refunded or is applied to an underpayment; or

20 (B) March 31 following the calendar year of production;

21 (2) except as provided under (1) of this subsection, interest with  
22 respect to an overpayment is allowed only on any net overpayment of the payments  
23 required under (a) of this section that remains after the later of March 31 following the  
24 calendar year of production or the date that the statement required under  
25 AS 43.55.030(a) is filed;

26 (3) interest is allowed under (2) of this subsection only from a date that  
27 is 90 days after the later of March 31 following the calendar year of production or the  
28 date that the statement required under AS 43.55.030(a) is filed; interest is not allowed  
29 if the overpayment was refunded within the 90-day period;

30 (4) interest under (2) and (3) of this subsection is paid at the rate and in  
31 the manner provided in AS 43.05.225(a)(1) [AS 43.05.225(1)].

1 \* **Sec. 14.** AS 43.55.020 is amended by adding a new subsection to read:

2 (i) The unpaid amount of an installment payment required under (g) of this  
3 section that is the direct result of the adoption of a regulation with retroactive  
4 application does not bear interest until 30 days after the effective date of the regulation  
5 with retroactive application.

6 \* **Sec. 15.** AS 43.55 is amended by adding a new section to read:

7 **Sec. 43.55.022. Tax rebate for employing resident workers.** (a) Subject to  
8 appropriation and the requirements of this section, a taxpayer subject to tax under  
9 AS 43.55.011(e)(1) that incurs labor costs that are allowable lease expenditures under  
10 AS 43.55.165 is entitled to a rebate if 80 percent or more of the labor is done by  
11 resident workers.

12 (b) The amount of the rebate is equal to a percentage of the tax paid under  
13 AS 43.55.011(e)(1) based on the percentage of labor done by resident workers the cost  
14 of which is included in an allowable lease expenditure under AS 43.55.165. The  
15 amount of the rebate is equal to the following percentage of the tax paid under  
16 AS 43.55.011(e)(1):

17 (1) two percent if the percentage of labor done by resident workers is  
18 at least 80 percent but less than 82.5 percent;

19 (2) four percent if the percentage of labor done by resident workers is  
20 at least 82.5 percent but less than 85 percent;

21 (3) six percent if the percentage of labor done by resident workers is at  
22 least 85 percent but less than 87.5 percent;

23 (4) eight percent if the percentage of labor done by resident workers is  
24 at least 87.5 percent but less than 90 percent;

25 (5) 10 percent if the percentage of labor done by resident workers is at  
26 least 90 percent but less than 92.5 percent;

27 (6) 12 percent if the percentage of labor done by resident workers is at  
28 least 92.5 percent but less than 95 percent;

29 (7) 14 percent if the percentage of labor done by resident workers is at  
30 least 95 percent but less than 97.5 percent;

31 (8) 16 percent if the percentage of labor done by resident workers is at

1 least 97.5 percent but less than 100 percent; and

2 (9) 20 percent if the percentage of labor done by resident workers is  
3 100 percent.

4 (c) The percentage of labor done by resident workers is

5 (1) determined on a calendar year basis using the number of hours of  
6 labor the cost of which is a lease expenditure, and includes all hours of labor,  
7 regardless of whether a worker is paid on an hourly or some other basis; and

8 (2) a fraction the numerator of which is the number of hours of labor  
9 done by resident workers the cost of which is a lease expenditure, and the denominator  
10 of which is the number of hours of labor by all workers the cost of which is a lease  
11 expenditure, expressed as a percentage.

12 (d) To qualify for the rebate under this section, a person subject to tax under  
13 AS 43.55.011(e) shall file an application for the rebate at the time a statement must be  
14 filed under AS 43.55.030(a) for the calendar year for which the rebate is claimed. The  
15 application must include the following for the calendar year for which the rebate is  
16 claimed:

17 (1) the number of hours of labor, the cost of which is a lease  
18 expenditure;

19 (2) the number of hours of labor done by resident workers that are  
20 included in (1) of this subsection;

21 (3) the total cost of labor that is a lease expenditure; and

22 (4) other information required by the department in a regulation  
23 adopted to administer this section, including the names of the resident workers whose  
24 hours of labor are included in (1) of this subsection.

25 (e) At the same time an application is made to the department under (d) of this  
26 section, the person applying for a rebate shall file a report with the commissioner of  
27 labor and workforce development. The report must include the information in (d)(1)  
28 and (2) of this section and other information required by the commissioner of labor  
29 and workforce development by regulation. Any amendment to the application in (d) of  
30 this section that changes the information in (d)(1) and (2) of this section must also be  
31 filed with the commissioner of labor and workforce development. At the request of the

1 commissioner, the Department of Labor and Workforce Development shall audit the  
2 information reported in (d)(1) and (2) of this section and notify the commissioner of  
3 the results of the audit.

4 (f) A person claiming a rebate under this section has the burden of proving  
5 eligibility for the rebate, including a claim that an individual is a resident worker.

6 (g) The department shall report to the legislature the amount of rebates paid  
7 under this section and statistical information relating to the percentage of labor done  
8 by resident workers based on hours worked.

9 (h) In this section,

10 (1) "lease expenditure" means an expenditure allowed as a lease  
11 expenditure under AS 43.55.165;

12 (2) "resident worker" has the meaning given in AS 43.40.092.

13 \* Sec. 16. AS 43.55.023(g) is amended to read:

14 (g) The issuance of a transferable tax credit certificate under (d) of this section  
15 or the purchase of a certificate under AS 43.55.028 does not limit the department's  
16 ability to later audit a tax credit claim to which the certificate relates or to adjust the  
17 claim if the department determines, as a result of the audit, that the applicant was not  
18 entitled to the amount of the credit for which the certificate was issued. The tax  
19 liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased  
20 by the amount of the credit that exceeds that to which the applicant was entitled, or the  
21 applicant's available valid outstanding credits applicable against the tax levied by  
22 AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased  
23 under this subsection, the increase bears interest under AS 43.05.225(a)(1)  
24 [AS 43.05.225] from the date the transferable tax credit certificate was issued. For  
25 purposes of this subsection, an applicant that is an explorer is considered a producer  
26 subject to the tax levied by AS 43.55.011(e).

27 \* Sec. 17. AS 43.55.023 is amended by adding a new subsection to read:

28 (m) A producer or explorer may take a tax credit for a well-related  
29 expenditure, as follows:

30 (1) notwithstanding that a well-related expenditure may be a  
31 deductible lease expenditure under AS 43.55.165 for purposes of calculating the

1 production tax value of oil and gas under AS 43.55.160(a), unless a credit for that  
2 expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010,  
3 AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well-related  
4 expenditure may also elect to apply a credit against a tax levied by AS 43.55.011(e) in  
5 the amount of 30 percent of that expenditure;

6 (2) a producer or explorer may take a credit for a well-related  
7 expenditure incurred in connection with geological or geophysical exploration or in  
8 connection with an exploration well only if the producer or explorer

9 (A) agrees, in writing, to the applicable provisions of  
10 AS 43.55.025(f)(2); and

11 (B) submits to the Department of Natural Resources all data  
12 that would be required to be submitted under AS 43.55.025(f)(2) for a credit  
13 under AS 43.55.025;

14 (3) In this section, "well-related expenditure" means a lease  
15 expenditure related to a well and includes a lease expenditure for the purposes of well  
16 sidetracking, well deepening, well recompletion, well workover, an injection well, and  
17 well-related seismic work, and an intangible drilling and development cost authorized  
18 under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4,  
19 regardless of the elections made under 26 U.S.C. 263(c), as amended, up to the flange  
20 connecting the well head to the well line.

21 \* Sec. 18. AS 43.55.040 is amended to read:

22 **Sec. 43.55.040. Powers of Department of Revenue.** Except as provided in  
23 AS 43.05.405 - 43.05.499, the department may

24 (1) require a person engaged in production and the agent or employee  
25 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil  
26 or gas to furnish, whether by the filing of regular statements or reports or otherwise,  
27 additional information that is considered by the department as necessary to compute  
28 the amount of the tax or of the rebate under AS 43.55.022; notwithstanding any  
29 contrary provision of law, the disclosure of additional information under this  
30 paragraph to the producer obligated to pay the tax does not violate AS 40.25.100(a) or  
31 AS 43.05.230(a); before disclosing information under this paragraph that is otherwise

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required to be held confidential under AS 40.25.100(a) or AS 43.05.230(a), the department shall

(A) provide the person that furnished the information a reasonable opportunity to be heard regarding the proposed disclosure and the conditions to be imposed under (B) of this paragraph; and

(B) impose appropriate conditions limiting

(i) access to the information to those legal counsel, consultants, employees, officers, and agents of the producer who have a need to know that information for the purpose of determining or contesting the producer's tax obligation; and

(ii) the use of the information to use for that purpose;

(2) examine the books, records, and files of the person;

(3) conduct hearings and compel the attendance of witnesses and the production of books, records, and papers of any person;

(4) make an investigation or hold an inquiry that is considered necessary to a disclosure of the facts as to

(A) the amount of production from any oil or gas location, or of a company or other producer of oil or gas; and

(B) the rendition of the oil and gas for taxing purposes;

(5) require a producer, an explorer, or an operator of a lease or property to file reports and copies of records that the department considers necessary to forecast state revenue under this chapter; in the case of reports and copies of records relating to proposed, expected, or approved unit expenditures for a unit for which one or more working interest owners other than the operator have authority to approve unit expenditures, the required reports and copies of records are limited to those reports or copies of records that constitute or disclose communications between the operator and the working interest owners relating to unit budget matters;

(6) require a producer that has an average total production in the state of more than 100,000 barrels a day for a calendar year to report the gross value at the point of production of the producer's taxable oil and gas in the state for a calendar year and the total amount of lease expenditures in the state for that calendar year; and

1 (7) assess against a person required under this section to file a report,  
2 statement, or other document a penalty, as determined by the department under  
3 standards adopted in regulation by the department, of not more than \$1,000 for each  
4 day the person fails to file the report, statement, or other document after notice by the  
5 department; the penalty is in addition to any penalties under AS 43.05.220 and  
6 43.05.290 and is assessed, collected, and paid in the same manner as a tax deficiency  
7 under this title; the penalty shall bear interest at the rate specified under  
8 AS 43.05.225(a)(1) [AS 43.05.225(1)].

9 \* Sec. 19. AS 43.55.060 is amended to read:

10 **Sec. 43.55.060. Delinquency.** When the tax provided for in this chapter  
11 becomes delinquent, it bears interest as provided in AS 43.05.225(a)(1)  
12 [AS 43.05.225(1)]. If any person fails to make a report required by this chapter, within  
13 the time prescribed by law for the report, the department shall examine the books,  
14 records and files of the person to determine the amount and value of the production to  
15 compute the tax, and the department shall add to the tax the cost of the examination,  
16 together with any penalties accrued.

17 \* Sec. 20. AS 43.55.075(a) is amended to read:

18 (a) Except as provided in AS 43.05.260(c), for a tax period ending before  
19 January 1, 2010, the amount of a tax imposed by this chapter must be assessed within  
20 six years after the return was filed.

21 \* Sec. 21. AS 43.77.020(d) is amended to read:

22 (d) A person subject to the tax under this chapter shall make quarterly  
23 payments of the tax estimated to be due for the year, as required under regulations  
24 adopted by the department. A taxpayer will be subject to an estimated tax penalty,  
25 determined by applying the interest rate specified in AS 43.05.225(a)(1)  
26 [AS 43.05.225] to the underpayment for each quarter, unless the taxpayer makes  
27 estimated tax payments in equal installments that total either

28 (1) at least 90 percent of the taxpayer's tax liability under this chapter  
29 for the tax year; or

30 (2) at least 100 percent of the taxpayer's tax liability under this chapter  
31 for the prior tax year.

1 \* **Sec. 22.** AS 43.90.430 is amended to read:

2 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter  
3 becomes delinquent, the payment bears interest at the rate applicable to a delinquent  
4 tax under AS 43.05.225(a)(1) [AS 43.05.225].

5 \* **Sec. 23.** AS 44.31.020 is amended to read:

6 **Sec. 44.31.020. Duties of department.** The Department of Labor and  
7 Workforce Development shall

8 (1) enforce the laws and adopt regulations under them concerning  
9 employer-employee relationships, including the safety, hours of work, wages, and  
10 conditions of workers, including children;

11 (2) accumulate, analyze, and report labor statistics;

12 (3) operate systems of workers' compensation and unemployment  
13 insurance;

14 (4) gather data reflecting the cost of living in the various election  
15 districts of the state upon request of the director of personnel under AS 39.27.030; in  
16 this paragraph, "election district" has the meaning given in AS 39.27.020(b);

17 (5) operate the federally funded employment and training programs  
18 under 29 U.S.C. 2801 - 2945 (Workforce Investment Act of 1998);

19 (6) administer the state's program of adult basic education and adopt  
20 regulations to administer the program; [AND]

21 (7) administer the programs of the Alaska Vocational Technical Center  
22 and adopt regulations to administer the programs, including regulations that set rates  
23 for student tuition and room and board and fees for the programs and services  
24 provided by the department regarding the Alaska Vocational Technical Center; and

25 (8) at the request of the commissioner of revenue, audit  
26 information described in AS 43.55.022(d)(1) and (2) that is submitted by a person  
27 applying for a rebate under AS 43.55.022.

28 \* **Sec. 24.** Sections 11 and 15 of this Act take effect on the first day of the month  
29 immediately following the effective date of secs. 1 - 10, 12 - 14, and 16 - 25 of this Act.

30 \* **Sec. 25.** Except as provided in sec. 24 of this Act, this Act takes effect immediately under  
31 AS 01.10.070(c).

# Technical Aspects of CS for HB 308 (Version E)

Dan E. Dickinson CPA

House Resources Committee

Feb 8, 2010

## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11%
- Interest not due on retroactive regs changes prior to implementation
- Change progressivity from .4% to .2%
- Tax rate tied to resident hire
- 30% credit for well work
- Restore 3 year statute of limitations

# Structure of CS for HB 308

## Structure of CS For HB 308

26-LS1328/E

Key Provision

Need  
2011

section:	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	Eff Dt	
Interest rate is lower of fed funds + 2 or 11%						6																			25		
Interest not due on retroactive regs changes prior to implementation							7							14												25	
Change progressivity from .4 % to .2 %											11													24			
Housekeeping - reference to interest	1				5	6		8	9	10		12	13			16		18	19		21	22			25		
Tax rate tied to Resident hire		2	3	4											15			18					23		25		
30% credit for well work																	17							24			
Restore 3 year statute of limitations																				20					25		

## 6 Changes in CSHB 308

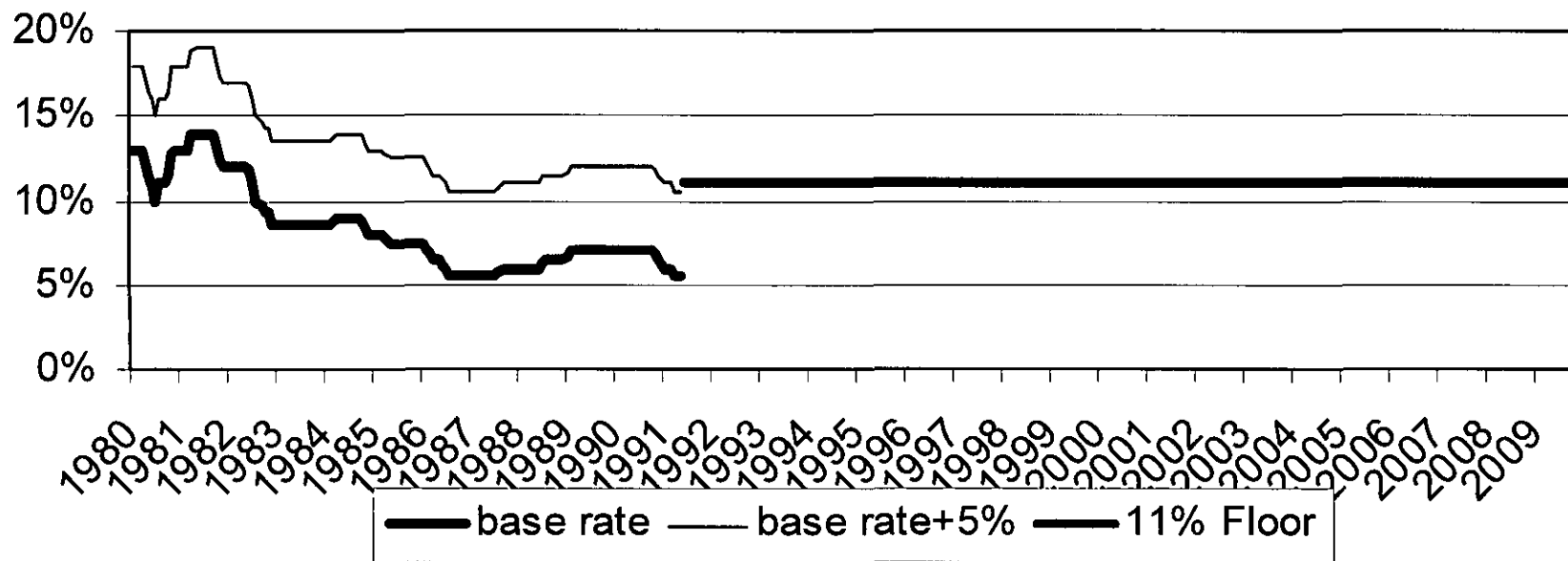
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## Interest rate in AS 43.05.225

- Proposed interest would be lower of fed funds rate + 2 or 11%(section 6)
- The interest rate applies to all 20 Alaska Tax Types\*
- Current law – higher of fed funds + 5 or 11%
- Also applies to late royalty payments.
- **Compounded** Quarterly
- Effective date should be end of year, or at the very least, quarter.
- Implemented in 1991 amidst settlement of major production tax and royalty litigation going back to 1977 and era of simple interest.

# Interest Rates: The view from June 1991

## Rate charged member banks by the 12th Federal Reserve District 1980 - June 1991



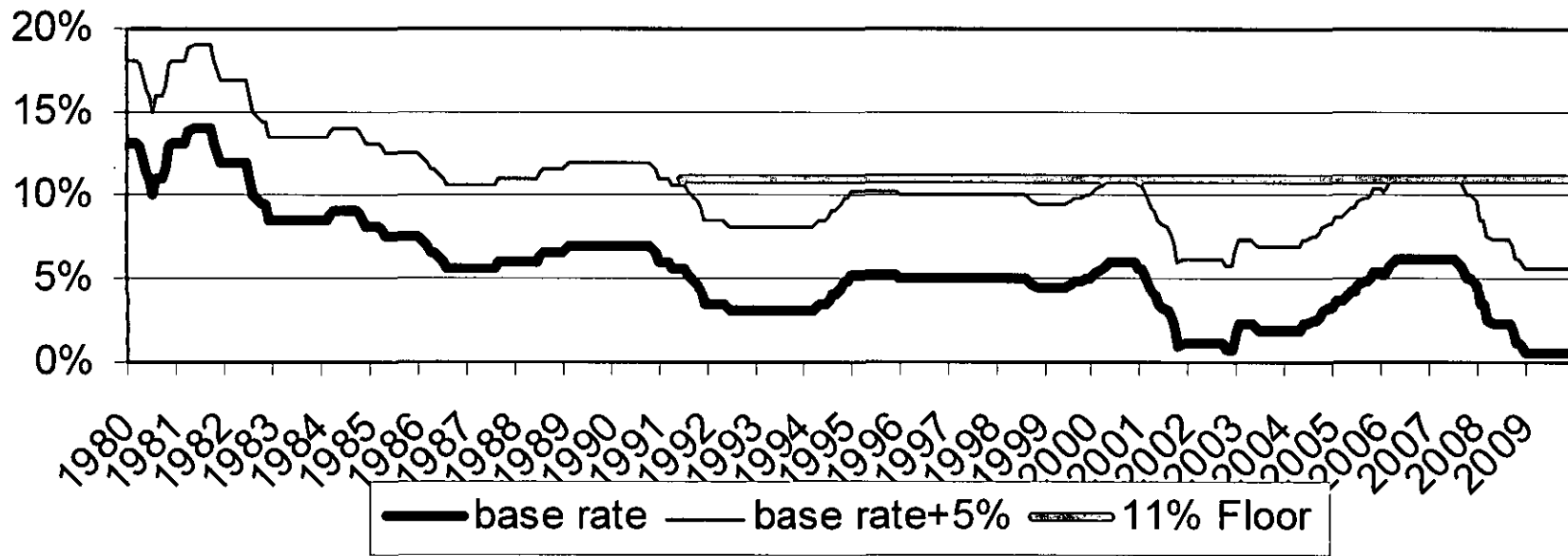
Source: Federal Reserve Bank of San Francisco (frbsf.org)

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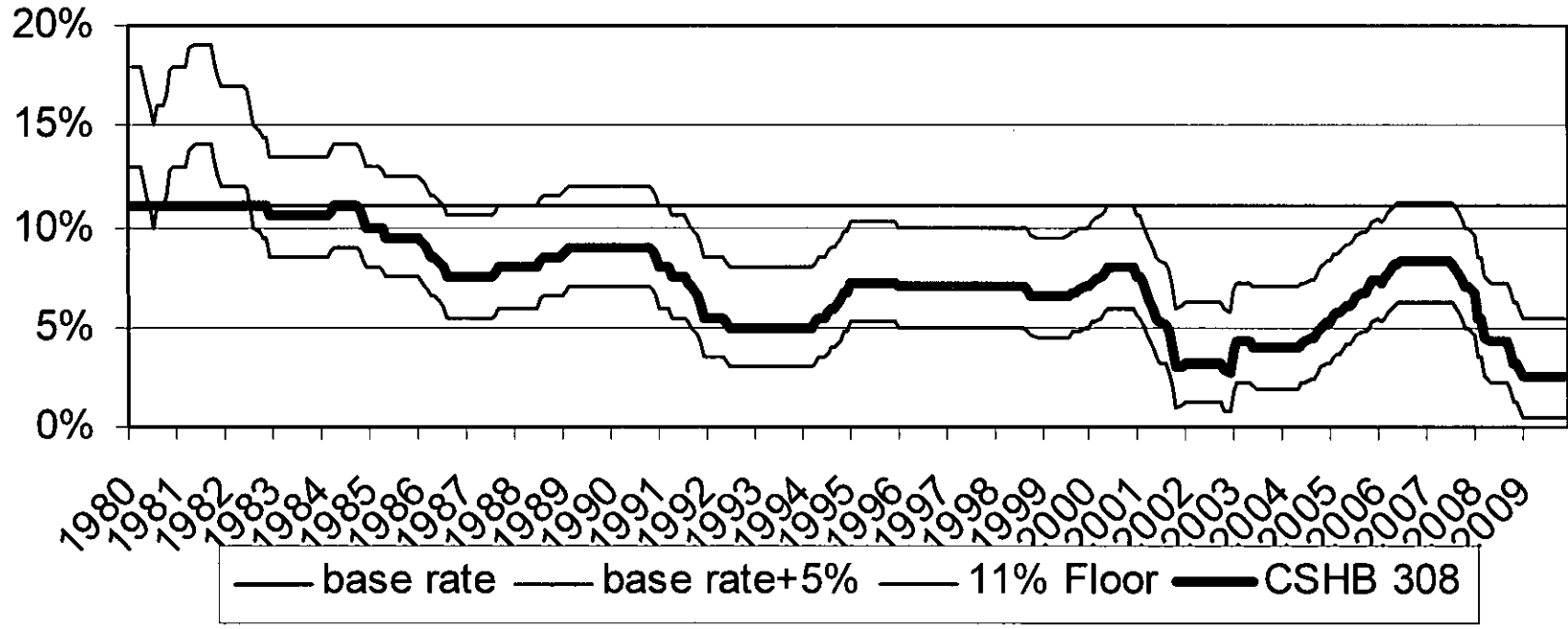
# Interest Rates – The 11% floor since 1991

## Rate charged member banks by the 12th Federal Reserve District 1980 - 2010



# Looking back: What would the rate have been under CS HB 308

## Rate charged member banks by the 12th Federal Reserve District



## Alaska compared with federal rate

- How are federal interest rates computed under IRC:

	Over Payments of Tax	Under Payments of Tax
Non- Corporate	Fed Funds + 3%	Fed Funds + 3%
Corporate	Fed Funds + 2%	Fed Funds + 3%
Corporate - Large	Fed Funds + 1/2%	Fed Funds + 5%

## 6 Changes in CSHB 308

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## Governor Parnell's Proposal vs. HB 308

Governor Parnell press release January 14 2010:

"Allow for the waiver of interest charges on late payments due to the retroactive application of new regulations."

CS HB 308 mandates that interest will not accrue on "an increase in tax liability that is the direct result of the adoption of regulation with retroactive application" until 30 days after the effective date of the regulation.

(section 7)

## How is interest calculated?

- Production Tax is due on last day of the month following the month of production (AS 43.55.020 (a)).
- Amount of tax due change because of because of audit, revised reporting by taxpayer, retroactive revision of tariff due to a regulatory order in a rate case, retroactive change in regulations.
- Interest is charged back to when original tax is due.
- In a settlement Department can compromise amount of tax and amount of Penalty. (AS 43.55.070) – No mention of interest.

## Regulations required retroactive to July 2007\*

- In 2007 reforms (“ACES”) Department charged with a number of specific responsibilities for regulations, as well as general implementation.
  - AS 43.55.150 “the department shall determine the reasonable cost of transportation, using the fair market value of like transportation, the fair market value of equally efficient and available modes of transportation or other reasonable methods.
  - AS 43.55.165(a) “...a producer’s lease expenditures for a calendar year are ... costs ...allowed by the department by regulation...”
  - Production tax is a yearly tax – however, effective dates of most of 2007 reform was July 1, 2007, so ways of combining two half years had to be implemented.
  - New reporting requirements (AS 43.55.030 & .040)
  - \*New rules for exploration credits (AS 43.55.025)

# Status of Regulations Affecting Returns after July 2007

	Discussion Draft				Public Comment Draft		Adopted
	1	2	3	4	1	2	
<b>Project One - Reporting Requirement</b>							
15 AAC 55. 520 Reporting					Feb-08		May '08 effective as of June '08
<b>Project Two - NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting</b>							
35 sections	Feb-08	Oct-08	Nov-08		Apr-08	Sep-08	Sep '09 effective as of Oct '09
<b>Project Three - Exploration Credits</b>							
6 sections					Aug-08	Jun-09	Nov '09 effective as of Dec '09
<b>Project Four - Lease Expenditures</b>							
10 Sections	Jan-08	Mar-08	Sep-08				Jan '10 effective as of Feb '10
<b>Project Five - Reasonable Transportation</b>							
5 sections	Mar-08	May-08	Jan-09				
<b>6. Other Projects</b>							
15 AAC 55. 173 NS Gas PV	Feb-08				Apr-08		Aug '08 effective as of Oct 1 '08
Facility Sharing	Oct-08	Nov-08	Feb-09	Jul-09			
Credit Safeguards	Nov-08						
"Affiliated" definition	Jan-09						
PV of oil					Jan-10		

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## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11%
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- 30% credit for well work
- Restore 3 year statute of limitations

## What is Progressivity?

- Base Production Tax rate is 25% (AS 43.55.011(e))
  - Combined Progressivity Tax (on same base) can range from 0 to 50%
  - Sum= Total tax rate can range from 25% to 75%
  - Progressivity rate is calculated as net value of all the (oil and gas produced less royalty)/taxable barrels (boe)= PTV/per barrel
  - No progressivity charge when PTV/bbl < \$30,
  - Current Law:
  - For each dollar above \$30, .4% added to tax rate
  - At PTV/bbl of \$92.5, rate drops to .1% for each dollar
- HB 308: drop rate to .2%, increase bend-over point to \$155  
(Section 11)

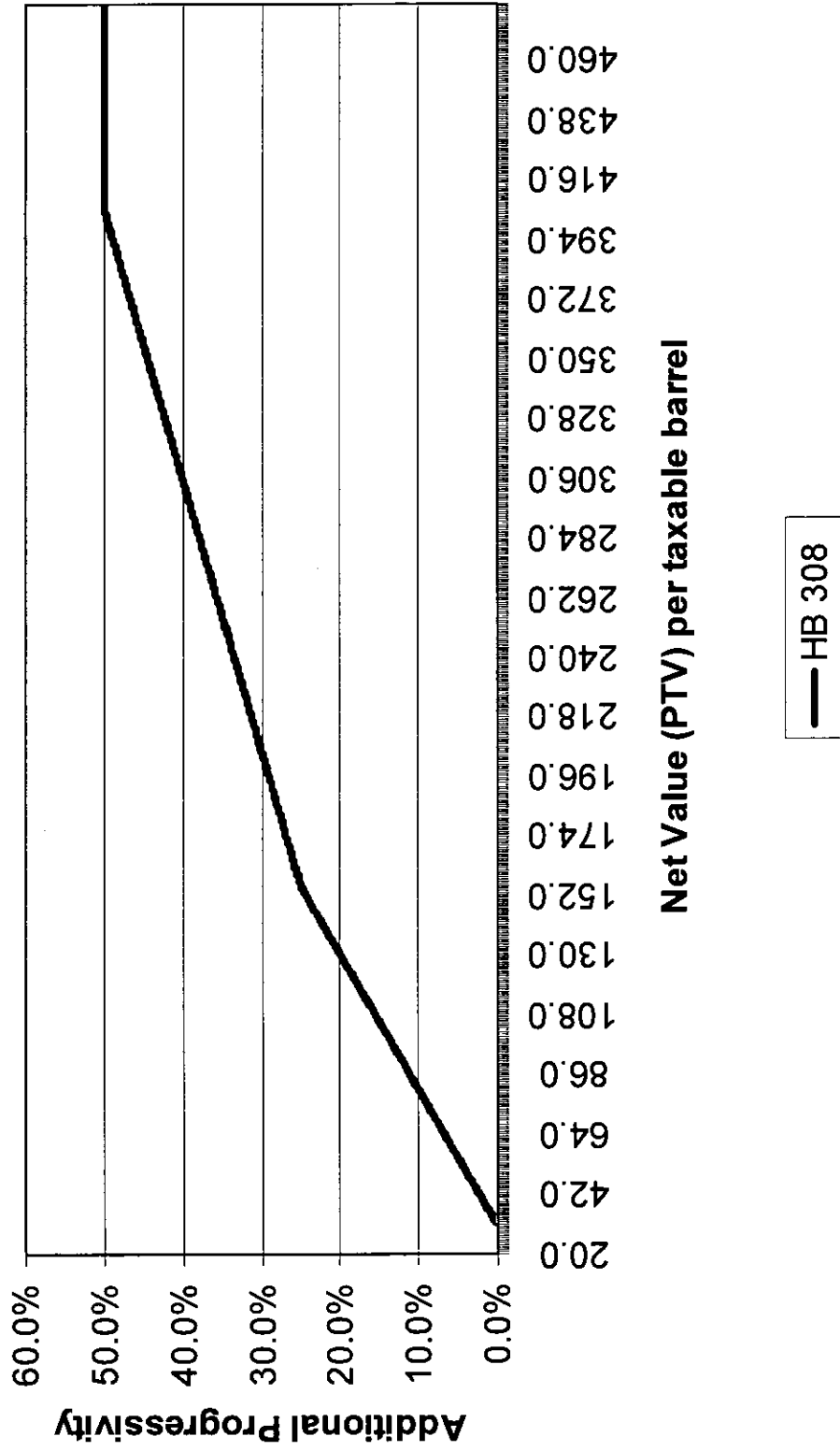
## Progressivity Effect

- FY 2008 Estimate (year of high prices)
- 25% Base tax – \$4.2 billion
- Progressivity – \$3.2 billion
- (less credits of \$.5 billion)
  
- Compare to FY 2008
- Royalties (2.4 to GF, .8 to PF) \$3.2 billion
- Oil and Gas Income Taxes \$.6 billion
- Oil and Gas Property Taxes (State and Local) \$.4 billion

Source: State of Alaska DOR Revenue Sources Book (Fall 2008)

# Progressivity Only

## Nominal Progressivity Rate in HB 308



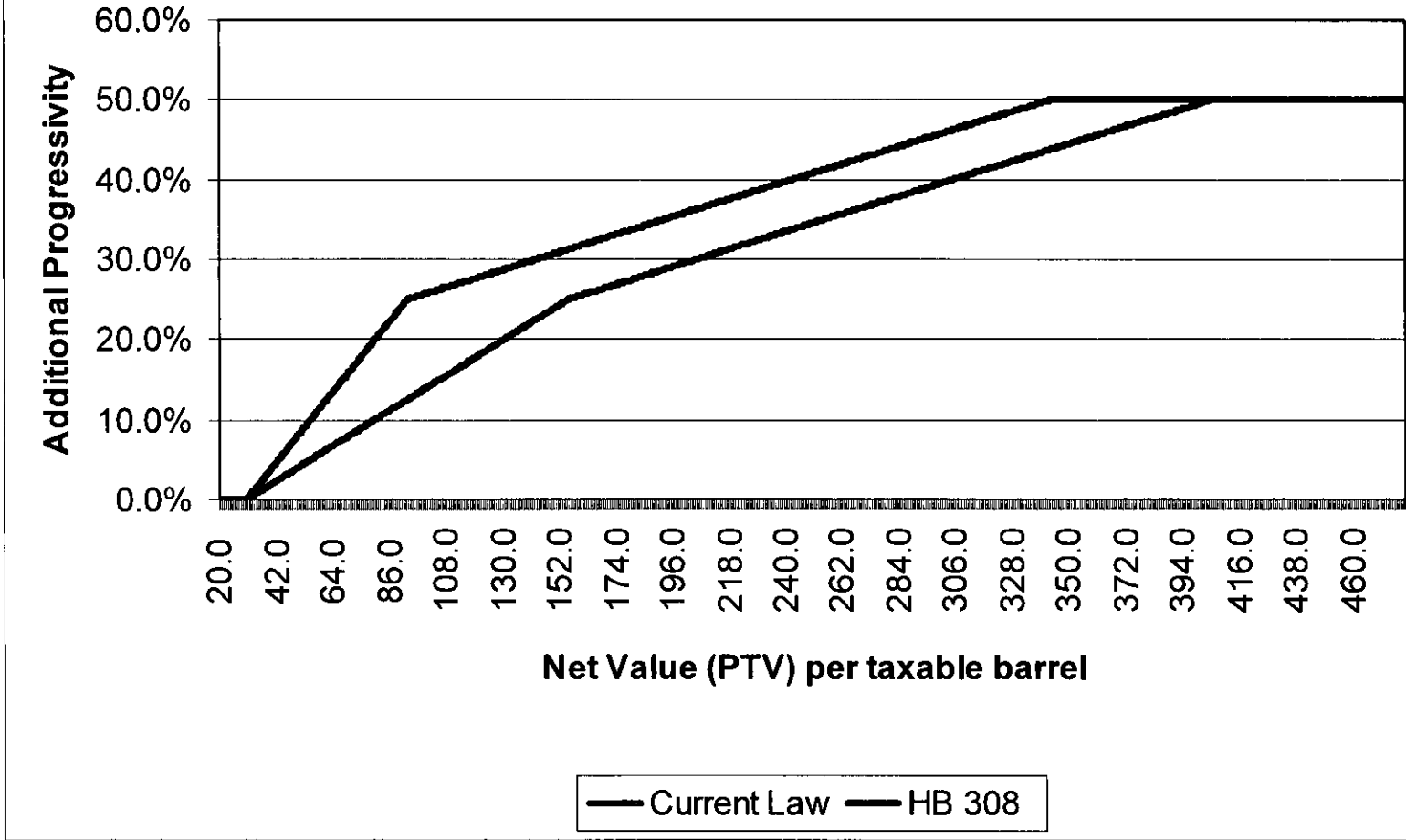
2.8.2010

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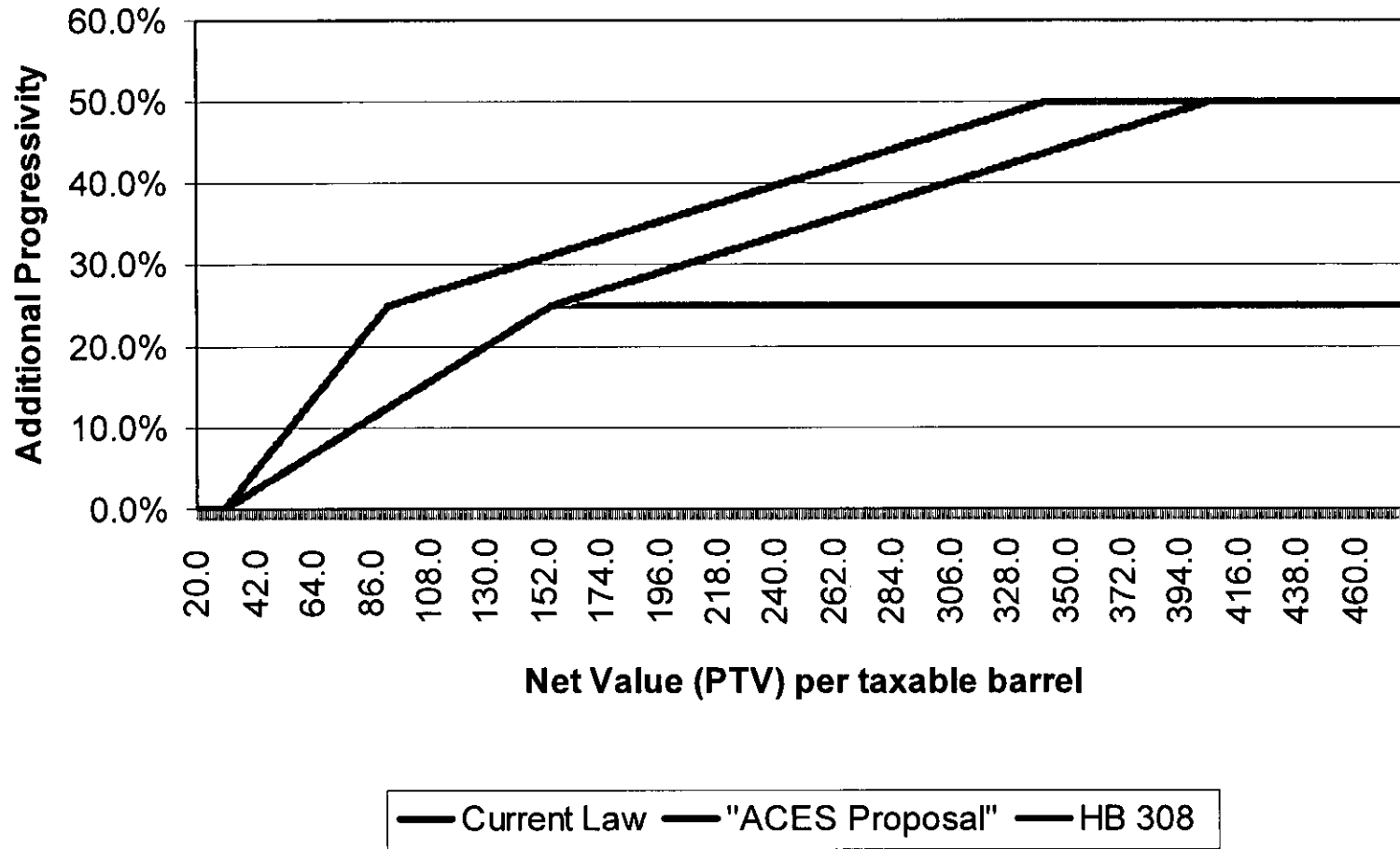
# Progressivity Only

## Comparison of Nominal Progressivity Rates in HB 308 and Current Law



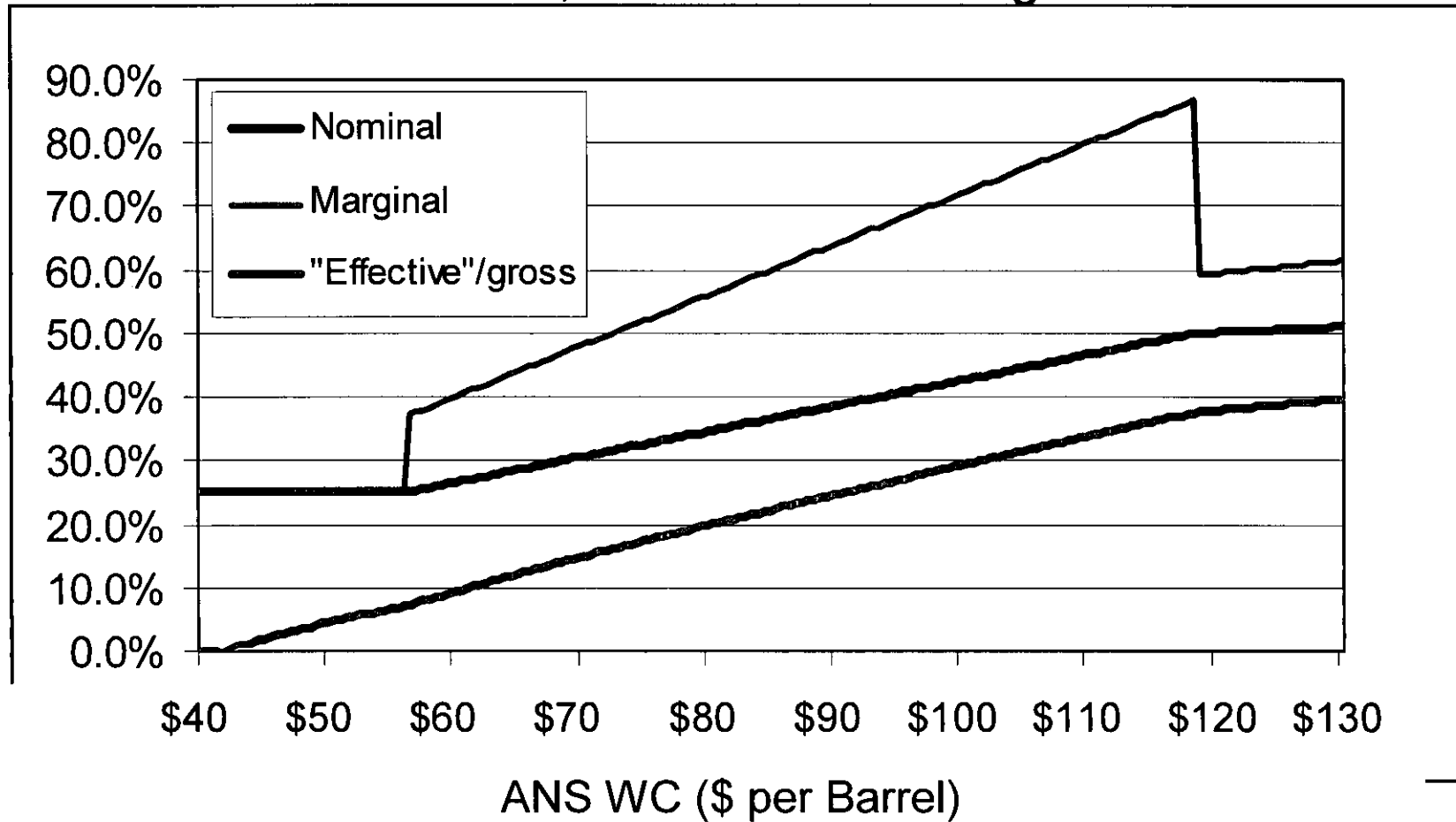
# Progressivity Only

## Comparison of Nominal Progressivity Rates in HB 308, Current Law, and Gov Palin's "ACES" Proposal



## Production Tax: Progressivity + 25%

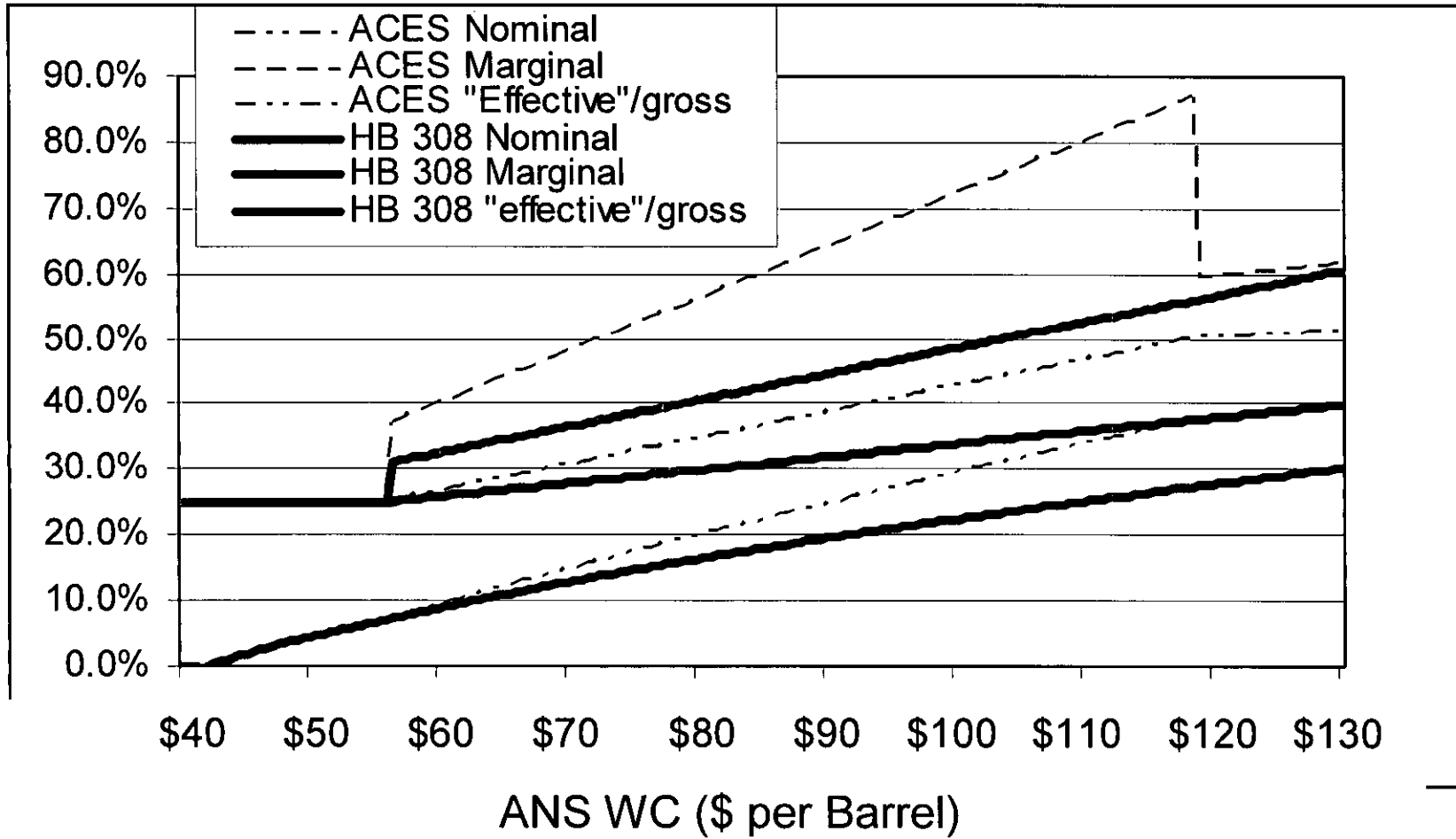
- Reproduction of Figure G from DOR January 14 Report
- “ACES Nominal, Effective and Marginal Rates”



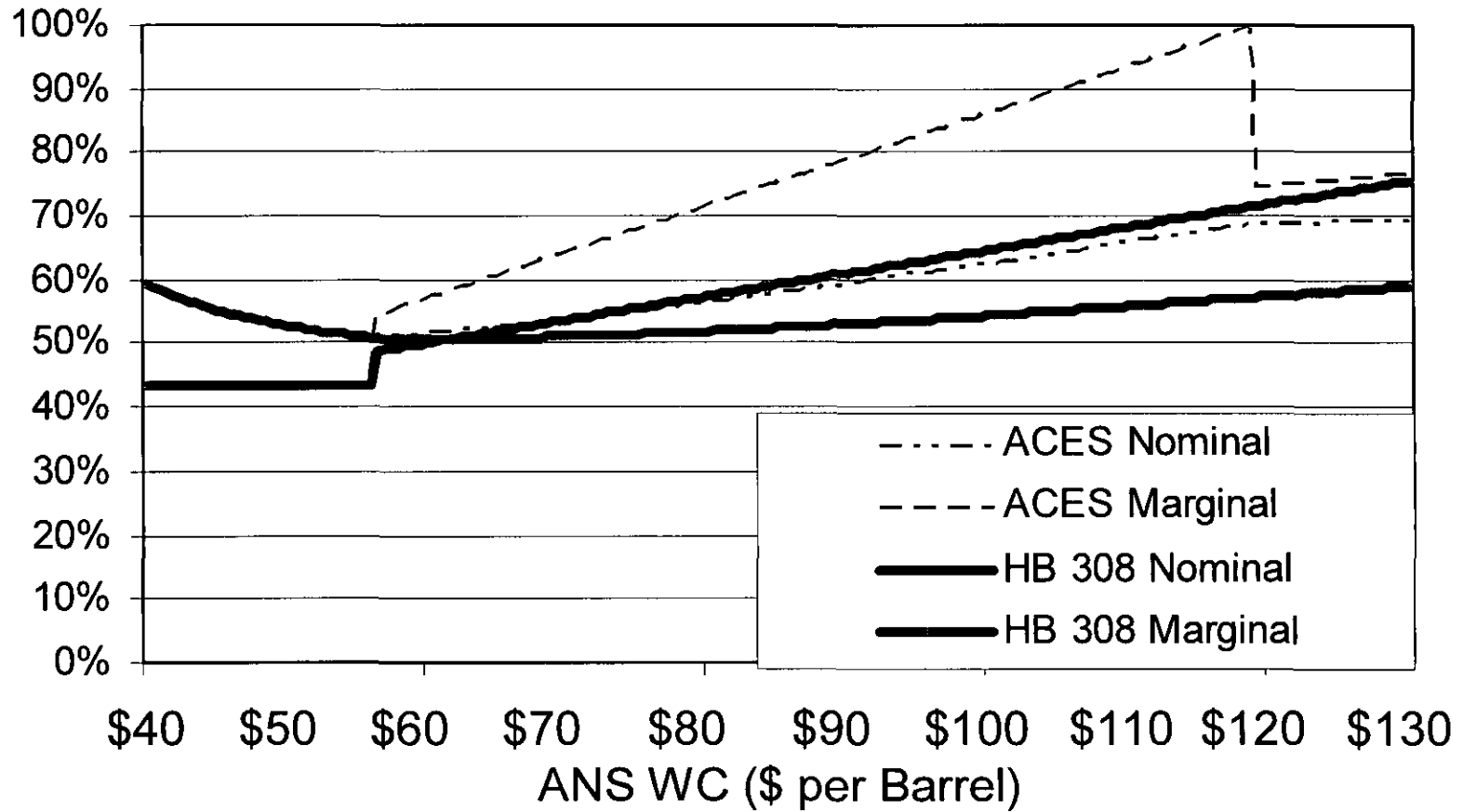
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# Production Tax: Progressivity + 25%

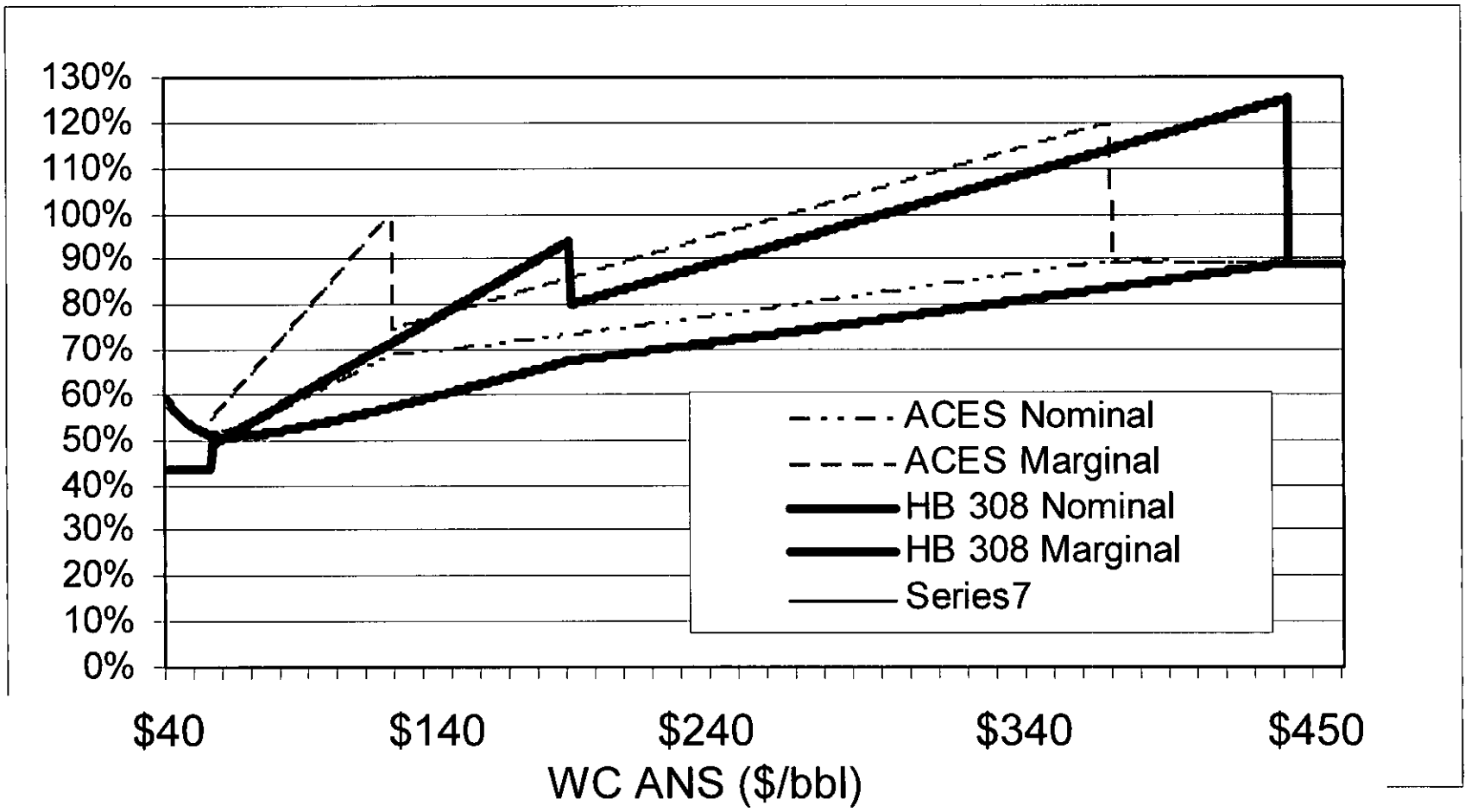
- Add HB 308 Nominal, Marginal and "effective"/gross



# Total State of Alaska Take (Prod/Prop/Inc Tax + Royalty)



# Total State of Alaska Take (Prod/Prop/Inc Tax + Royalty)



## 6 Changes in CSHB 308

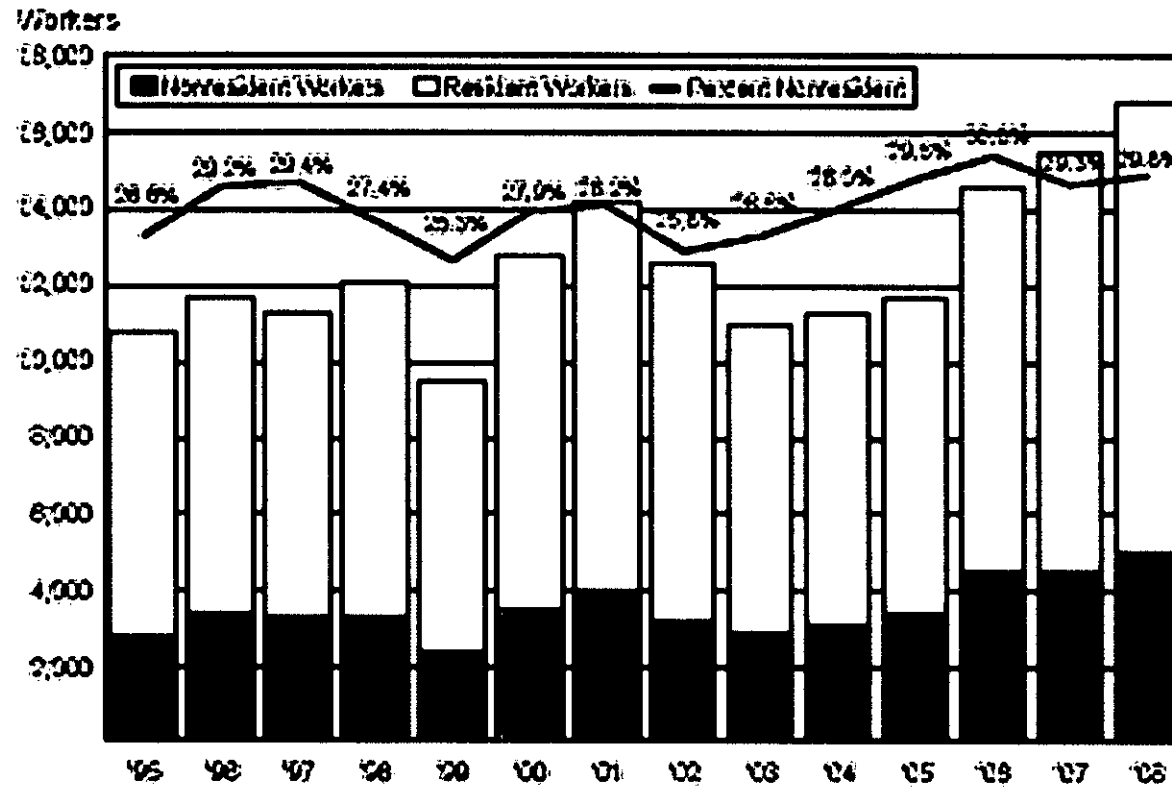
- Interest rate is lower of fed funds +2 or 11%
- Interest not due on retroactive regs changes prior to implementation
- Change progressivity from .4% to .2%
- Tax rate tied to Resident Hire
- 30% credit for well work
- Restore 3 year statute of limitations

## Rate tied to Resident Hire

- General Approach – (section 15)
- Base Tax rate (in AS 43.55.011(e)) is 25%, and Taxpayers makes monthly payments at that rate
- Any direct labor that is a lease expenditure is accounted for as Resident or non-Resident.
- At the end of the year total hours of labor are used to calculate a ratio for the year: or resident hire %
- New effective rate is calculated:
  - 20% for a 100% Resident Hire ratio up to
  - 25% (current law) for an 80% Resident Hire ratio.
- Taxpayer can then apply for a rebate of the difference for the prior year.
- Note: effective date should be beginning of a year.

# Non Resident Workers

## 6 Oil Industry Number and Percent Nonresident Workers Alaska 1995-2008



Note: Private Sector Only

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Source: Nonresidents Working in Alaska, 2008, State of Alaska, Dept of Labor and Workforce Development (Jan 2010) <http://www.labor.state.ak.us/research/reshire/nonres.pdf>

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## Details to be Addressed

- Main Issue – What level of detail required?
- All payments are either a return to capital, labor or land
- How far down ought a taxpayer to drill –
  - Can a module just be module, or is it comprised of labor and machinery?
  - And is the machinery just machinery or is comprised of labor and smaller components?
  - Does a fixed priced contract end the inquiry?
- Structure of Industry in Alaska:
  - Producers (taxpayers) have employees & hire
    - Operator who has employees & hires
      - Contractors, and buys “stuff”

## Who are the Employers in the Oil and Gas Industry

- EM, BP and CP are largest taxpayers

Ranking in Top 100	Total Employees			Non Resident %
5 ASRC	2250	2499	Oil Field Services	24.1%
8 CH2MHill	1750	1999	Oil Field Services	35.5%
9 BP Exploration			Oil & Gas Extraction	27.7%
17 Conoco Phillips	1000	1249	Oil & Gas Extraction	20.7%
36 Nabors Alaska Drilling	500	749	Oil Field Services	
43 Schlumberger Technologies			Oil Field Services	30.5%
49 Udelhoven Oilfield System Services			Oil Field Services	30.5%
52 Peak Oilfield Service Company	250	499	Oil Field Services	26.8%
69 Norcon			Oil Field Services	23.2%
73 Chevron			Oil & Gas Extraction	
78 Halliburton			Oil Field Services	32.3%
95 Doyon Drilling			Oil Field Services	
Veritas Dgc Land Inc				47.9%
Baker Hughes Oilfield Operations Inc.				54.1%

NOTE: Does Not Include "Catering/Security", Engineering, Transportation, Communications, Construction

Sources: State of Alaska, Dept. of Labor and Workforce Development, 100 Largest Private Employers, 2008  
(Alaska Economic Trends, July 2009), Nonresidents Working in Alaska, 2008 (Jan 2010)

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29

2.8.2010

## Effect on Tax Receipts (for each 1% change in BPT)

	<u>PTV est.</u> (in Millions of Dollars)	<u>5%</u>
FY2008	\$ 16,837.7	\$ 841.9
FY2009	9,313.1	465.7
CY 2008 (Avg.)		<u>\$ 653.8</u>

Non Resident Workers in industry in 2008 5043

Direct cost for 100% compliance (\$mm) \$ 0.12964

Direct cost for 100% compliance (\$) \$ 129,639

Calculation of benefit to stay would be increase in local payroll, plus a multiplier effect.

### Effect of 1% change in rate on tax (\$mm)

In This example (2008)		\$ 130.8
Using DOR forecasted prices	closer to	\$ 100.0

Sources: State of Alaska, Dept. of Labor and Workforce Development, Nonresidents Working in Alaska, 2008 (Jan 2010), derivations from figures in Dept of Revenue, Revenue Sources Book (Fall 2009)

## 6 Changes in CSHB 308

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## Investment Credits

- Section 17 adds 30% well work credit to investment credits
- Under Current Law –
- 30% Credit for exploration wells (AS 43.55.025)
- 40% Credit for seismic work outside of existing unit,
  - or exploration wells 25 miles from existing unit, and
  - 3 miles from any prior well (or with certification from DNR that it is for a new target in the Cook Inlet)  
(AS 43.55.025)
- 20% Credit for any capital investment (AS 43.55.023(a))
- No change to Exploration Credits AS 43.55.025 under this bill

## Investment Credits

- Credit (i) only available under one program and (i) has to otherwise qualify as lease expenditure:
  - Proposed Change:
  - No change: 30% Credit for exploration wells (AS 43.55.025)
  - 20% Credit for any capital investment (AS 43.55.023(a))
    - Would be boosted to 30% for well related capital
  - Well related operational costs also eligible for 30%
  - Costs include work for purposes of well “sidetracking, deepening, recompletions, workovers, injection, seismic
  - -”up to the flange connecting the well head to the well line”

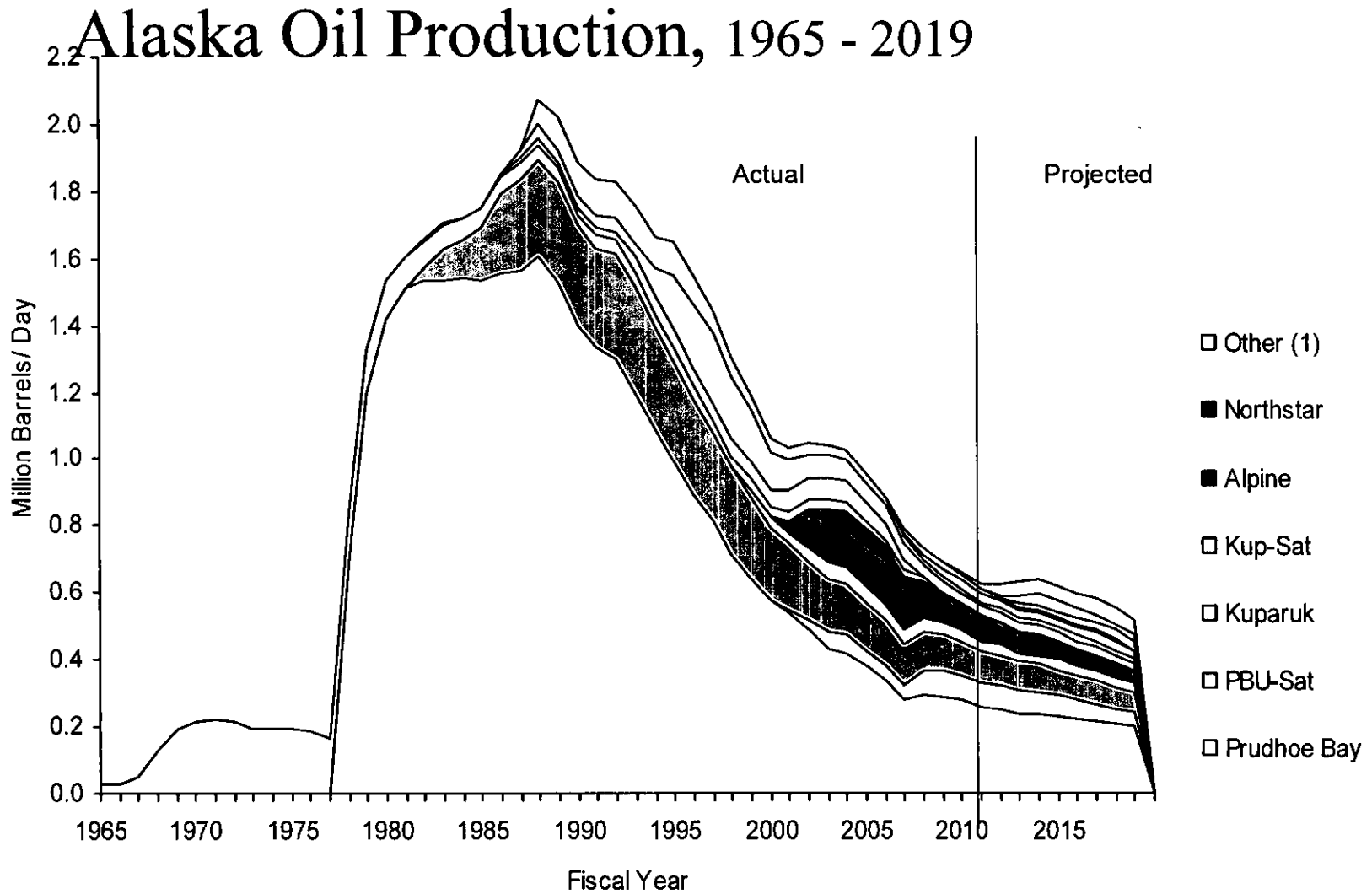
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- Section 20 Restores statute of limitations to three years for production tax - time for the state to complete a production tax audit (or, agree to an extension with taxpayer or issue a blue sky assessment)
- Three year rule would begin with 2011 tax year
- Note: in the case of False or Fraudulent returns, or failure to file a return, may proceed “at any time”
  
- Prior to 2007, SOL was three years for all tax types under AS 43.05.260 –
- In 2007 production tax pulled out and extended to 6 years in AS 43.55.075

# Thank You

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Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated  
 (1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

ADMINISTRATION  
REVIEW OF CSHB308

February 10, 2010

Alaska Departments of Revenue

# CSHB 308- House Resources

2

## Resident Worker Tax Rebate

# CSHB 308 House Resources

3

- Administration Challenges:
  - Producers only or Producers and Contractor workforce?
  - Rebate Use and Payment Mechanism Unclear
  - Authority to enforce Resident Worker criteria unclear
  - No legal authority to adjust tax, post audit
  - No legal authority to verify contractor data

# Tiered Structure of Rebate Eligibility

4

Percentage Resident Hire	Rebate Amount
80.0%	2.0%
82.5%	4.0%
85.0%	6.0%
87.5%	8.0%
90.0%	10.0%
92.5%	12.0%
95.0%	14.0%
97.5%	16.0%
100.0%	20.0%

# Resident Hire Provision on Three Hypothetical Companies

5

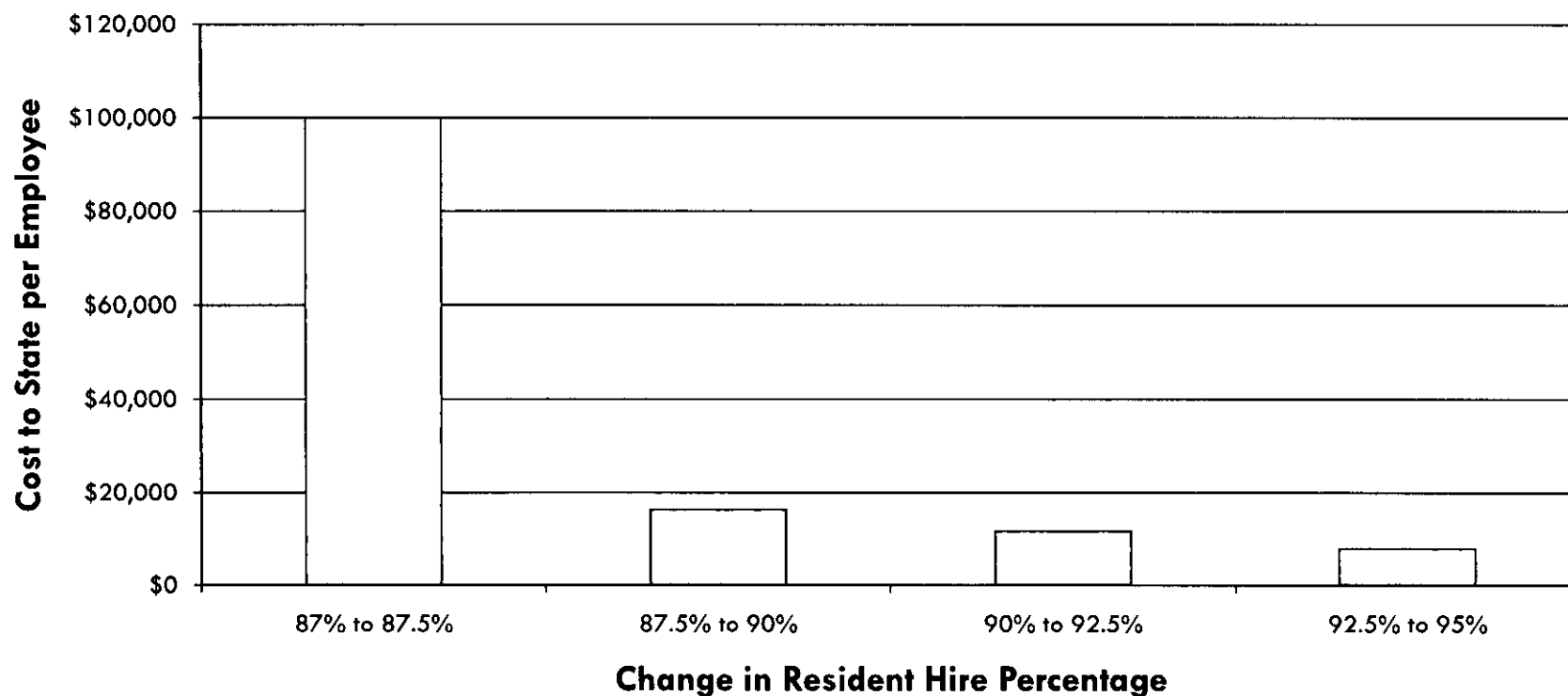
<b>Current Company Status</b>					
Companies	# Employees	# Resident Employees	# Non-resident Employees	Resident % of Workforce	Current Tax Liability before Rebate
Company A	500	435	65	87.0%	\$100,000,000
Company B	1,000	820	180	82.0%	\$500,000,000
Company C	2,000	1,600	400	79.5%	\$1,500,000,000

<b>Current Status and Target Resident Hire Percentage</b>					
Companies	Current Rebate %	Current Tax Rebate	Additional Rebate Sought	Target Resident % of Workforce	Number of Employees Needed
Company A	6.0%	\$6,000,000	\$2,000,000	87.5%	20
Company B	2.0%	\$10,000,000	\$10,000,000	82.5%	29
Company C	0.0%	\$0	\$30,000,000	80.0%	50

# Impact of Tax Rebate Provision

6

**Least Cost to State per Employee for \$2 million Rebate  
Small Company A  
500 Employees, \$100M in Tax Liability- Adding 20 employees**



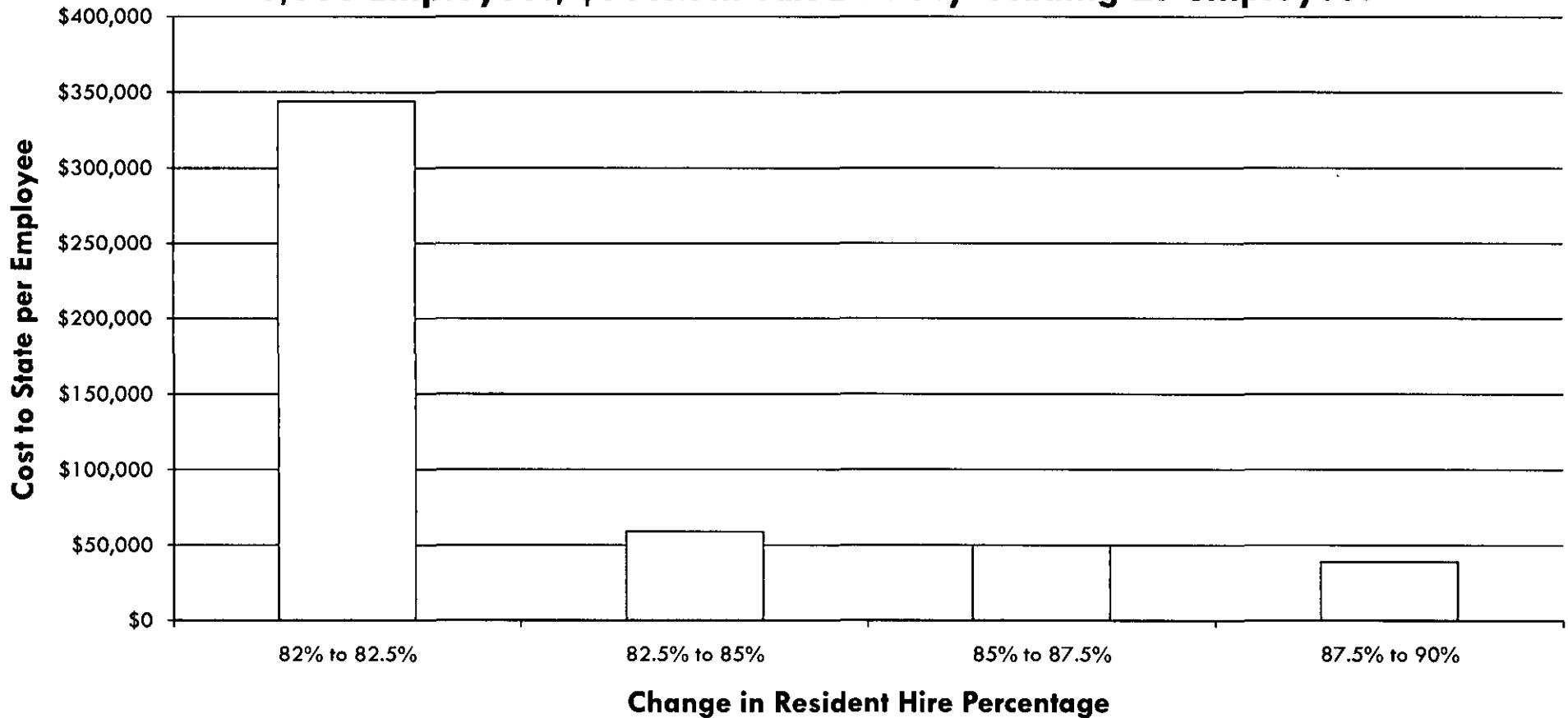
# Impact of Tax Rebate Provision

7

**Least Cost to State per Employee for \$10 million Rebate**

**Medium Company B**

**1,000 Employees, \$500M in Tax Liability- Adding 29 employees**



# Impact of Tax Rebate Provision

8

**Least Cost to State per Employee for \$30 million Rebate  
Large Company C  
2,000 Employees, \$1,500M in Tax Liability- Adding 50 employees**



# CSHB 308 House Resources



**What Labor Costs qualify  
as Lease Expenditures?**

# Deductible Lease Expenditures - Labor

10

- Basically, two classes of allowable employee expenses for the operator:
- 1<sup>st</sup> - any employee on site of oil or gas exploration, development, or production operations including infrastructure and support operations
- 2<sup>nd</sup> – employees having special and specific engineering, geological or other technical skills need not necessarily be “on-site”, but costs are limited to handling of specific problems or operating conditions involving oil or gas exploration, development, or production operations, or the support of those operations and only that portion of time actually devoted to the exploration, development or production operations
- Contractor Labor is 100% deductible

# Examples of Allowable Labor - Type 1

11

- Employees working on-site or in the field
  - Drillers
  - Roughnecks
  - Roustabouts
  - Electricians
  - Plumbers
  - Pipefitters
  - Welders
  - Mechanics

# Examples of Allowable Labor - Type 1

12

- Employees working in infrastructure or support operations:
  - ▣ Camps
  - ▣ Operations centers
  - ▣ Staging pads, roads, bridges, landing areas, and similar transportation structures
  - ▣ Communications systems
  - ▣ Medical
  - ▣ Emergency
  - ▣ Security
  - ▣ Repair & maintenance shops

# Examples of Allowable Labor – Type 2

13

- Employees with special and specific engineering, geological or other technical skills:
  - Engineers
  - Geologists
  - Environmental specialists
  - Employees engaged in field automation systems
  - Employees engaged in computer applications specific to the oil or gas operations

# Overhead contains Labor Costs

- Joint operating agreements typically include a section to allow the operator to recover certain indirect and overhead costs incurred offsite of the exploration, development, or production operations but are still in support of and for the benefit of those operations. These costs are not directly billed but recovered through an overhead allowance or other mechanism. They do include labor costs.

# Typical Overhead Labor

15

- ▣ Technical Supervisors
- ▣ Drafting, engineering aids
- ▣ Accounting
- ▣ Clerical
- ▣ Legal activities
- ▣ Off-site computer and communications activities

# Non-deductible Lease Expenditures - Labor

16

Examples of Labor Not Allowed as Lease Expenditure:

- ❑ Tax
- ❑ Legal
- ❑ Accounting
- ❑ Labor expenses that are for the benefit of an individual lessee or producer only, and not necessarily for the benefit of the joint operations
- ❑ Community, public, and government relations

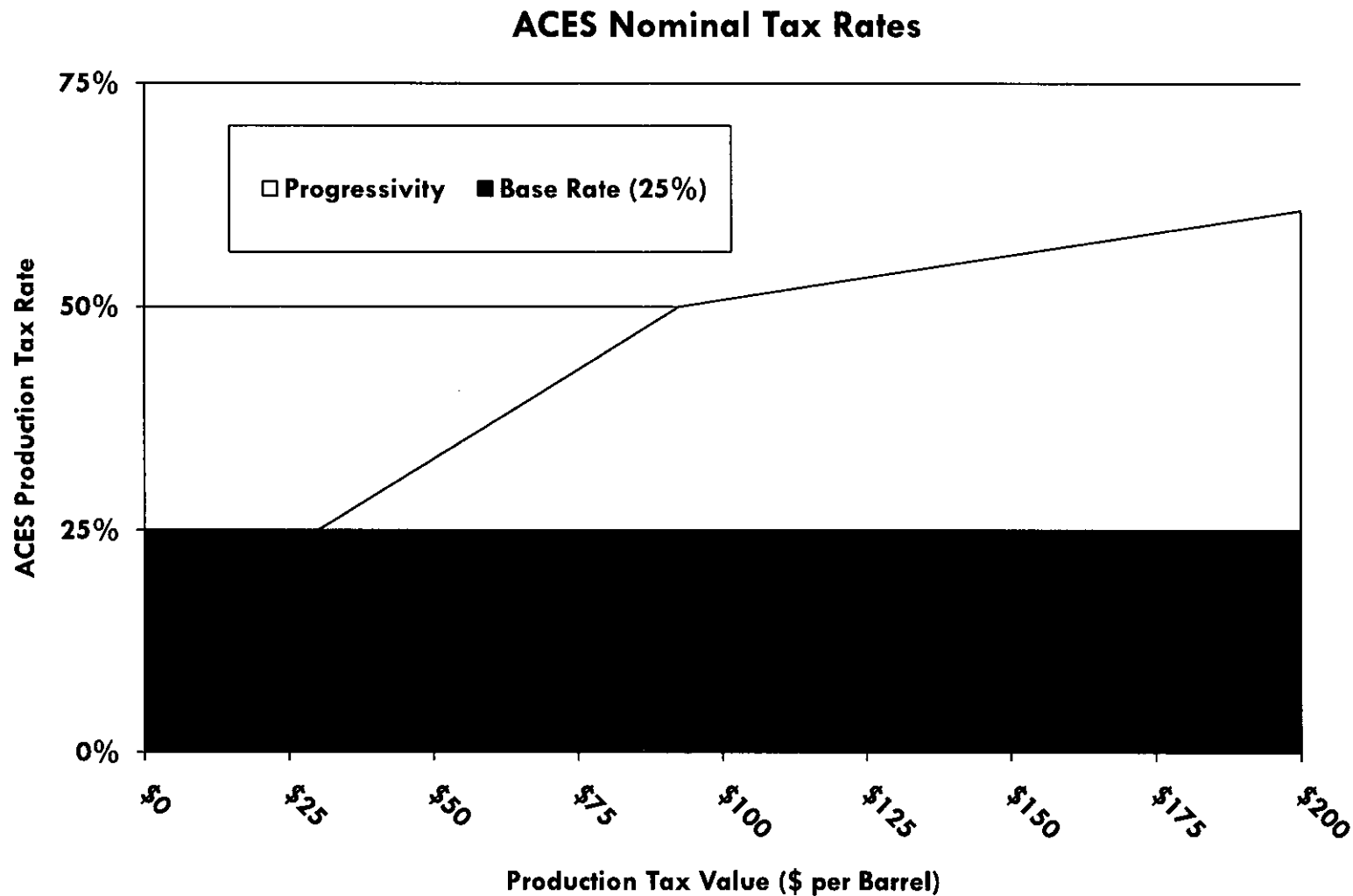
# CSHB 308 House Resources

17

## Progressivity Rate Change

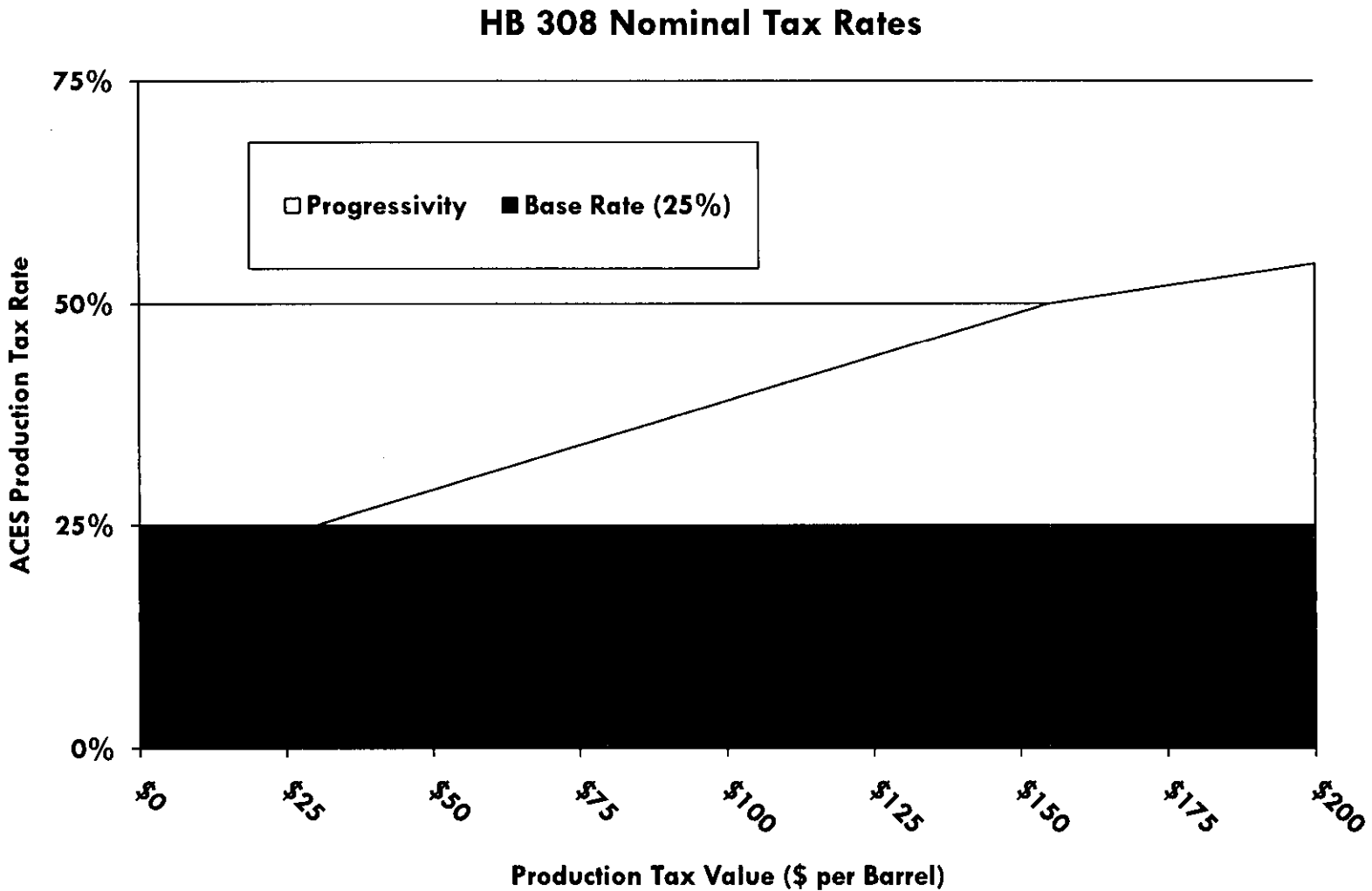
# ACES Nominal Tax Rates

18



# CSHB 308 Nominal Tax Rates

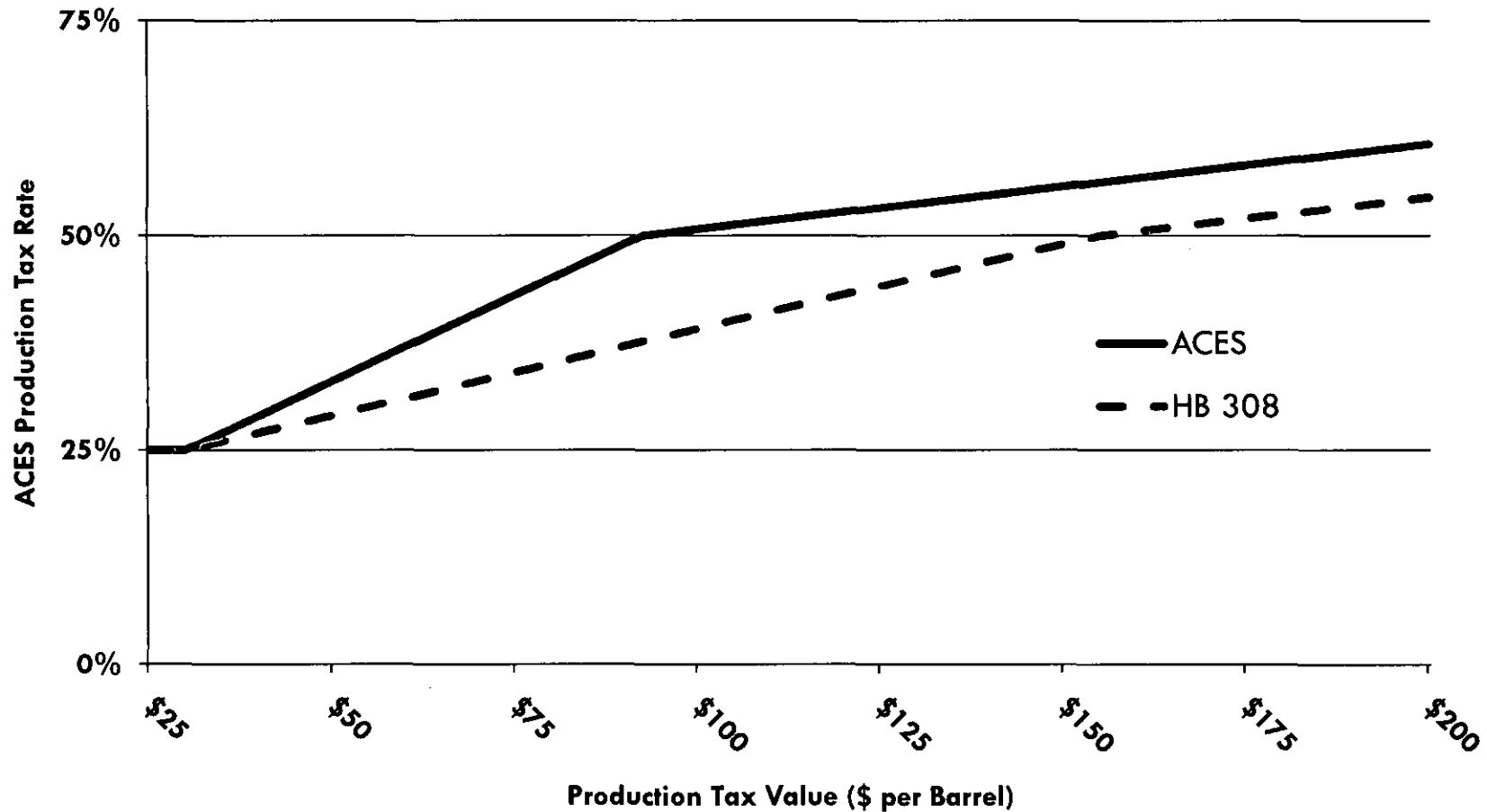
19



# ACES and CSHB 308 Nominal Tax Rates

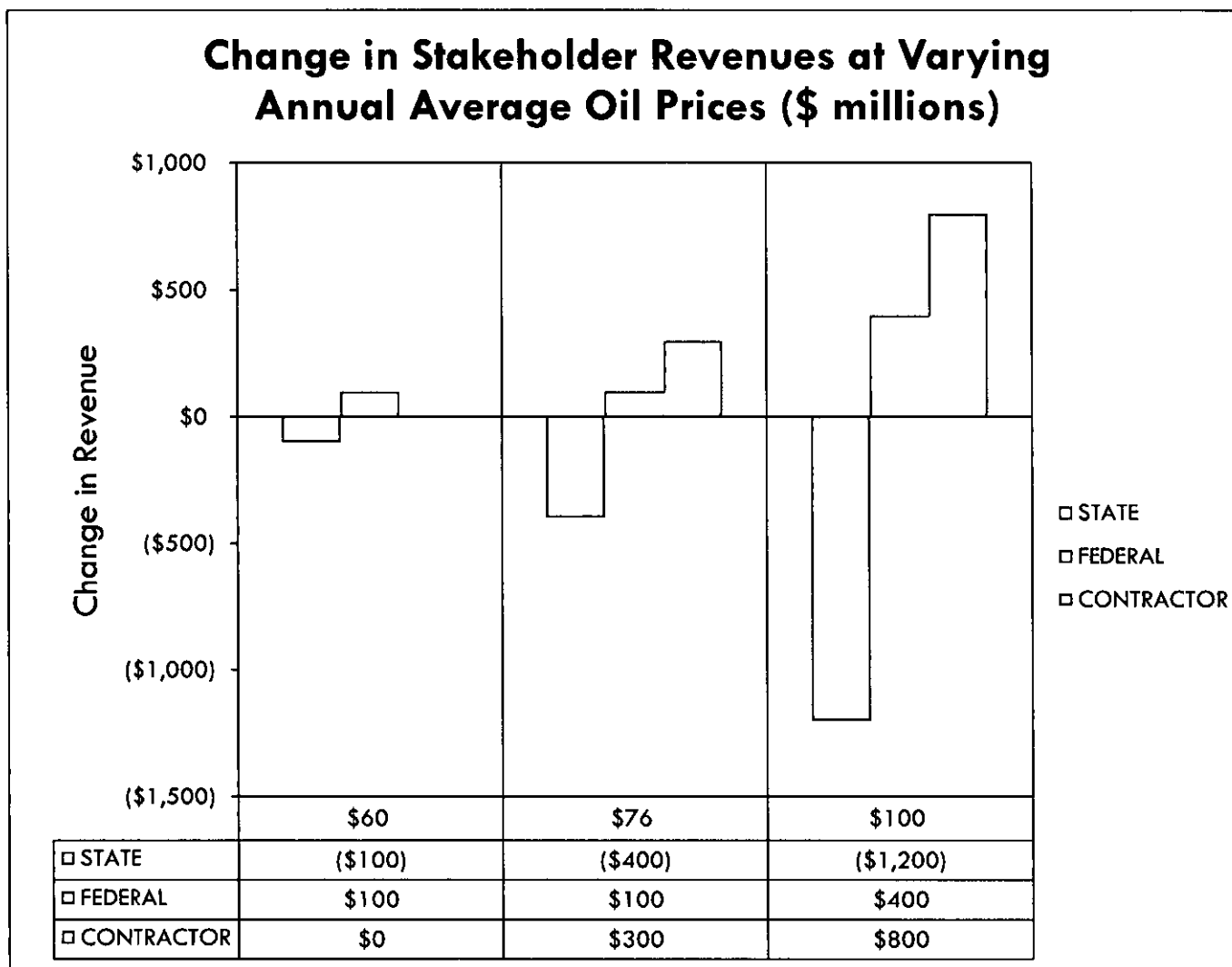
20

## ACES and HB 308 Nominal Tax Rates



# Revenue Impact of CSHB308 Due to Changes in Progressivity

20



# CSHB 308 House Resources

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## Interest Rate Changes

# CSHB308 GOV Bill Comparison

## - Retroactive Interest Waiver

23

### CSHB 308

#### Underpayment

- is not considered delinquent until after 30 days after the effective date of the reg. with retro-active application

### Governor's Bill

#### Underpayment

- interest is waived before the 1st day of the 2nd month following the month in which the reg. became effective
  - (A) dept. determines that producer's underpayment was a result of the reg. not being in effect when the payment was due and
  - (B) the producer made a good faith estimate of tax obligation in light of the regs. then in effect, and paid the estimate . Underpayment not considered delinquent

# CSHB308 GOV Bill Comparison

## - Retroactive Interest Waiver

### CSHB 308

#### Overpayment

- is not considered delinquent until after 30 days after the effective date of the reg. with retro-active application

### Governor's Bill

#### Overpayment

- if overpayment occurred because reg was not in effect, interest does not begin to accrue earlier than:
  - (A) the 1st day of 2nd month following the month in which the reg became effective
  - (B) 90 days after an amended return is filed, if the overpayment was for a period for which an amended return was required to be filed before the reg became effective

*Under current law, interest is not allowed if an overpayment is refunded within 90 days - CS HB308 does change this long-standing rule)*

# CSHB 308 House Resources

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**Well Related Expenditures**  
**30% Credit**

# Well Expenditure Comparison

CS HB 308	DOR Draft to Gov
amends AS 43.55.023:	amends AS 43.55.025
well sidetracking	development well activity
well deepening	goods
well workover	services
injection well	rentals of personal property reasonably required for re-drilling, casing, cementing, or logging
well-related seismic work	Completing workover operations or other operations intended to increase or enhance well production from known/unknown production pool
intangible drilling and development costs	May not be for an injector well, or stratigraphic test well
up to the flange and connecting the well head to the well line	

# CSHB 308 House Resources

## Statute of Limitations Change for Production Tax Assessments

# Production Tax Audit Status

23

## ***Audit***

## ***Current audit status***

8 PPT/ACES audits in progress  
(Apr – Dec 2006)

Est. 03/31/2010

2 PPT/ACES audits pending  
(2006 year)

Beyond 3/31/2010

1 ELF audit in process  
(2003, 2004, 2005)

Beyond 6/30/2010

3 - .023 Credit Audits  
(2006 ~\$700M in expenditure)

Target 3/31/2010

All Taxpayers 2007 / 2008

Not started

# 3 versus 6 year assessment

## Audit Information Requirements

29

### Audit information required under ELF

- Production data
- Sales contracts / invoices
- Quality bank data
- Marine transportation detail
- Pipeline Tariffs data

### Audit information required under ACES

- Production data
- Sales contracts / invoices
- Quality bank data
- Marine transportation detail
- Pipeline tariffs / reasonable cost data
- Lease expenditures (capex, opex)
- Facility sharing agreements
- Joint operating agreements
- Joint interest billing invoices
- Unit ballot agreements
- .023, .025, TIE, NOL credits

2/10/2010

# 3 versus 6 year assessment

## Audit Information Requirements

30

### Factors to consider

- With a “net tax” more areas of audit exposure
- Delays in taxpayers providing data (e.g. marine data)
- Volume of lease expenditure detail ( greater than 1 million lines of detail data for a tax year is not uncommon) all manually processed.
- Determinations that exclusions under AS 43.55.165 (e) not included in lease expenditures
- Processing, tracking and auditing tax credits absorbs audit resources (lack of automated tax system)
- Challenges associated with auditing Alaska hire compliance
- Shorter time frame will yield more appeals and litigation

Technical Aspects of CS for  
HB 308 (Version E)  
(part II – issues 2, 4, 5, & 6)

Dan E. Dickinson CPA

House Resources Committee

Feb 15, 2010

## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11% (February 8, 2010 Testimony)
- Interest not due on retroactive regs changes prior to implementation
- Change progressivity from .4% to .2% (February 8, 2010 Testimony)
- Tax rate tied to resident hire
- 30% credit for well work
- Restore 3 year statute of limitations

# Structure of CS for HB 308

## Structure of CS For HB 308

26-LS1328/E

Key Provision

Need  
2011

section:	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	Eff Dt	
Interest rate is lower of fed funds + 2 or 11%						6																			25		
Interest not due on retroactive regs changes prior to implementation							7							14												25	
Change progressivity from .4 % to .2 %											11														24		
Housekeeping - reference to interest	1				5	6		8	9	10		12	13			16		18	19		21	22				25	
Tax rate tied to Resident hire		2	3	4											15			18						23		25	
30% credit for well work																	17								24		
Restore 3 year statute of limitations																				20						25	

2.15.2010

## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11%
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## How is interest calculated?

- Production Tax is due on last day of the month following the month of production (AS 43.55.020 (a)).
- Amount of tax due change because of because of audit, revised reporting by taxpayer, retroactive revision of tariff due to a regulatory order in a rate case, retroactive change in regulations.
- Interest is charged back to when original tax is due.
- In a settlement Department can compromise amount of tax and amount of Penalty. (AS 43.55.070) – No mention of interest.

## Regulations required retroactive to July 2007\*

- In 2007 reforms (“ACES”) Department charged with a number of specific responsibilities for regulations, as well as general implementation.
  - AS 43.55.150 “the department shall determine the reasonable cost of transportation, using the fair market value of like transportation, the fair market value of equally efficient and available modes of transportation or other reasonable methods.
  - AS 43.55.165(a) “...a producer’s lease expenditures for a calendar year are ... costs ... allowed by the department by regulation...”
  - Production tax is a yearly tax – however, effective dates of most of 2007 reform was July 1, 2007, so ways of combining two half years had to be implemented.
  - New reporting requirements (AS 43.55.030 & .040)
  - \*New rules for exploration credits (AS 43.55.025)

# Status of Regulations Affecting Returns after July 2007

	Discussion Draft				Public Comment Draft		Adopted
	1	2	3	4	1	2	
<b>Project One - Reporting Requirement</b>							
15 AAC 55. 520 Reporting					Feb-08		May '08 effective as of June '08
<b>Project Two - NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting</b>							
35 sections	Feb-08	Oct-08	Nov-08		Apr-08	Sep-08	Sep '09 effective as of Oct '09
<b>Project Three - Exploration Credits</b>							
6 sections					Aug-08	Jun-09	Nov '09 effective as of Dec '09
<b>Project Four - Lease Expenditures</b>							
10 Sections	Jan-08	Mar-08	Sep-08				Jan '10 effective as of Feb '10
<b>Project Five - Reasonable Transportation</b>							
5 sections	Mar-08	May-08	Jan-09		Feb-10		
<b>6. Other Projects</b>							
15 AAC 55. 173 NS Gas PV	Feb-08				Apr-08		Aug '08 effective as of Oct 1 '08
Facility Sharing	Oct-08	Nov-08	Feb-09	Jul-09			
Credit Safeguards	Nov-08						
"Affiliated" definition	Jan-09						
PV of oil					Jan-10		

## Interest on Retroactive Regulatory Changes

- Governor Parnell's approach in AS 43.55.020(i):
  - Requires interest waiver – not discretionary
  - More thorough – explicitly recognizes that the absence of regulations is not the absence of any rules
  - Explicitly retroactive – deals with the 2007 -2010 regulatory delay
  - Does not require restructuring AS 43.05.225 (thus eliminates half the provisions in the CS for HB 308)
  - (although in current CS Version E, section 6, page 3 line 5 requires in the insertion of an "a" in any case.)

## Gov Parnell's suggestion on interest from retroactive regs

- **\*Section 1.** AS 43.55.020 is amended by adding a new subsection to read:
- (i) Notwithstanding any contrary provision of AS 43.05.225 or (g) or (h) of this section, if the amount of a tax payment, including an installment payment, due under (a) (a) (1) – (4) of this section is affected by the retroactive application of a regulation adopted under this chapter, the department shall determine whether the retroactive application of the regulation caused an underpayment or an overpayment of the amount due and adjust the interest due on the affected payment as follows:
  - (1) if an underpayment of the amount due occurred, the department shall waive interest that would otherwise accrue for the underpayment before the first day of the second month following the month in which the regulation become effective, if the department determines that
    - (A) the producer's underpayment resulted because the regulation was not in effect when the payment was due; and
    - (B) the producer made a good faith estimate of its tax obligation in light of the regulations then in effect when the payment was due, and paid the estimated tax;
  - (2) if an overpayment of the amount due occurred and the department determines that the producer's overpayment resulted because the regulation was not in effect when the payment was due, the obligation for a refund for the overpayment does not begin to accrue [accrue] interest earlier than the following, as applicable:
    - (A) except as otherwise provided under (B) of this paragraph, the first day of the second month following the month in which the regulation became effective;
    - (B) 90 days after an amended statement under AS 34.55.030(a) and an application to request a refund of production tax paid is filed, if the overpayment was for a period for which an amended statement under AS 43.55.030(a) was required to be filed before the regulation became effective.

## Interest on Retroactive Regulatory Changes

- Possible upgrades to Governor's Language:
- Don't require a departmental determination of good faith by the producer in each case. Assume it, and allow the department to prove otherwise if it finds egregious behavior.
- AS 43.55.020 (a)(1)-(3) are monthly "installment payments of estimated tax" using 1/12<sup>th</sup> of estimated credits and 1/12<sup>th</sup> estimated lease expenditures - so
  - No true up caused by retroactive regs except for annual true up already required under AS 43.55.020 (a) (4) and
  - First first day of month more than 90 days after effective date of regs.

## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11%
- Interest not due on retroactive regs changes prior to implementation
- Change progressivity from .4% to .2%
- Tax rate tied to Resident Hire
- 30% credit for well work
- Restore 3 year statute of limitations

## Rate tied to Resident Hire

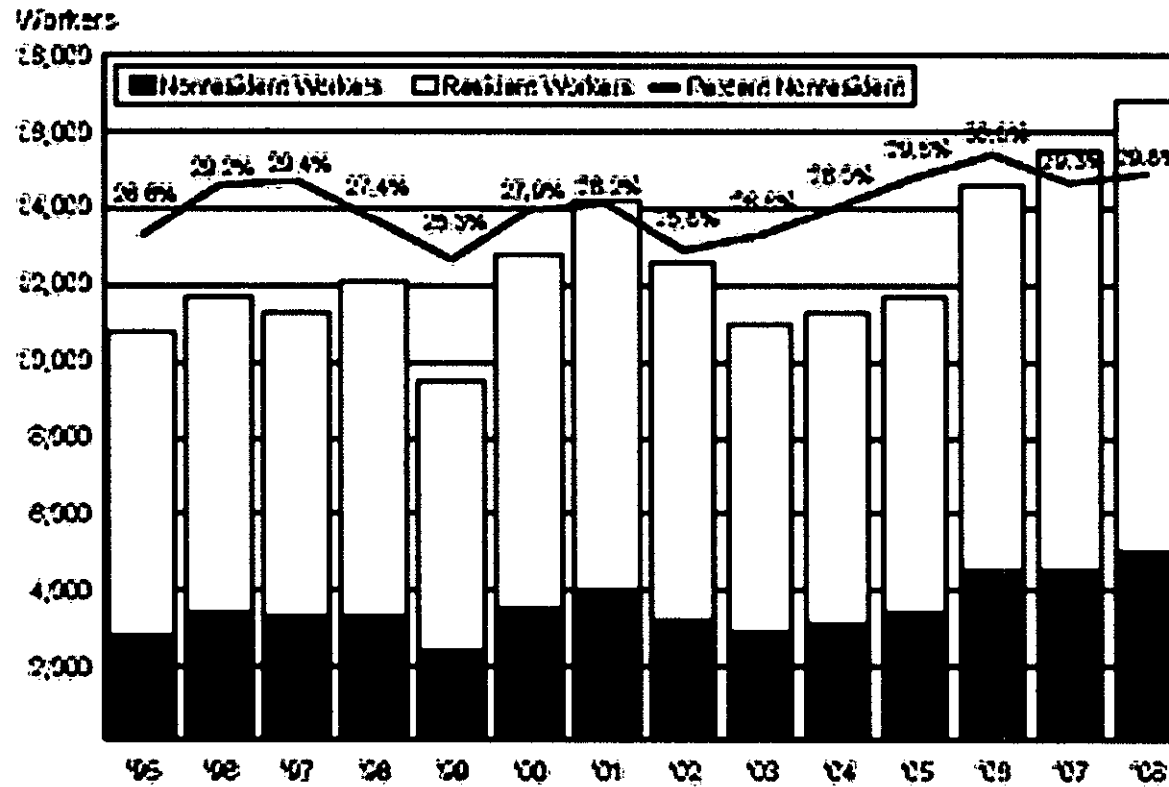
- General Approach – (section 15)
- Base Tax rate (in AS 43.55.011(e)) is 25%, and Taxpayers makes monthly payments at that rate
- Any direct labor that is a lease expenditure is accounted for as Resident or non-Resident.
- At the end of the year total hours of labor are used to calculate a ratio for the year: or resident hire %
- New effective rate is calculated:
  - 20% for a 100% Resident Hire ratio up to
  - 25% (current law) for an 80% Resident Hire ratio.
- Taxpayer can then apply for a rebate of the difference for the prior year.
- Note: effective date should be beginning of a year.

## Rates in CS HB 308 proposed 43.055.022 (b)

For Resident Hire Ratios		Rebate of amount under AS 43.55.011(e)(1)	Tax Rate in AS 43.55.011(e)(1)	Rebate as % of PTV	Effective Tax Rate
equal or above	but below				
70.0%	72.5%	0.0%	25.0%	0.0%	25.0%
72.5%	75.0%	0.0%	25.0%	0.0%	25.0%
75.0%	77.5%	0.0%	25.0%	0.0%	25.0%
80.0%	82.5%	2.0%	25.0%	0.5%	24.5%
82.5%	85.0%	4.0%	25.0%	1.0%	24.0%
85.0%	87.5%	6.0%	25.0%	1.5%	23.5%
87.5%	90.0%	8.0%	25.0%	2.0%	23.0%
90.0%	92.5%	10.0%	25.0%	2.5%	22.5%
92.5%	95.0%	12.0%	25.0%	3.0%	22.0%
95.0%	97.5%	14.0%	25.0%	3.5%	21.5%
97.5%	100.0%	16.0%	25.0%	4.0%	21.0%
100.0%		20.0%	25.0%	5.0%	20.0%

# Non Resident Workers

## 6 Oil Industry Number and Percent Nonresident Workers Alaska 1995-2008



Note: Private Sector Only

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Source: Nonresidents Working in Alaska, 2008, State of Alaska, Dept of Labor and Workforce Development (Jan 2010) <http://www.labor.state.ak.us/research/reshire/nonres.pdf>

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House Resources Committee



## Resident Hire -- What will it cost per job?

- “In an extreme example, [according to DOR] hiring just one Alaskan could mean \$30 million in tax savings” (Anchorage Daily News 2/11/2010, backpage (A-14))
- True: the bracket vs. formula issue
- DOR emphasized small employment change yielding large tax change – also true that large employment changes may not effect tax – formula fixes this feature.
- DOR emphasized employment changes about 80% however- Currently at 70%; no tax change until 80% achieved – formula preserves this feature

## Resident Hire – What will it cost per job?

All figures in Millions of Dollars:

FY2008 Estimated PTV (\$millions)	\$ 16,837.7
FY2009 Estimated PTV (\$millions)	9,313.1
Average for CY 2009	<u>13,075.4</u>
Assumption: One company is responsible for half AS 43.55.011(e)(1) taxes at 25%	6,537.7 1,634.4
If one incremental employee (hour) moves taxpayer by one bracket in between 80 - 97.5% then effect is (.5%)	<b>32.7</b>

Function of "brackets rate applied to base"  
Opposite effect also occurs.

## Resident Hire – What will it cost per job?

Opposite effect also occurs.

Assumption: Company employees and contractors are 1/2 the workforce  
(2009 Total Workforce of 13,000, so Company has 6,500)

(1) A company this big will be close to the average so 70% Resident

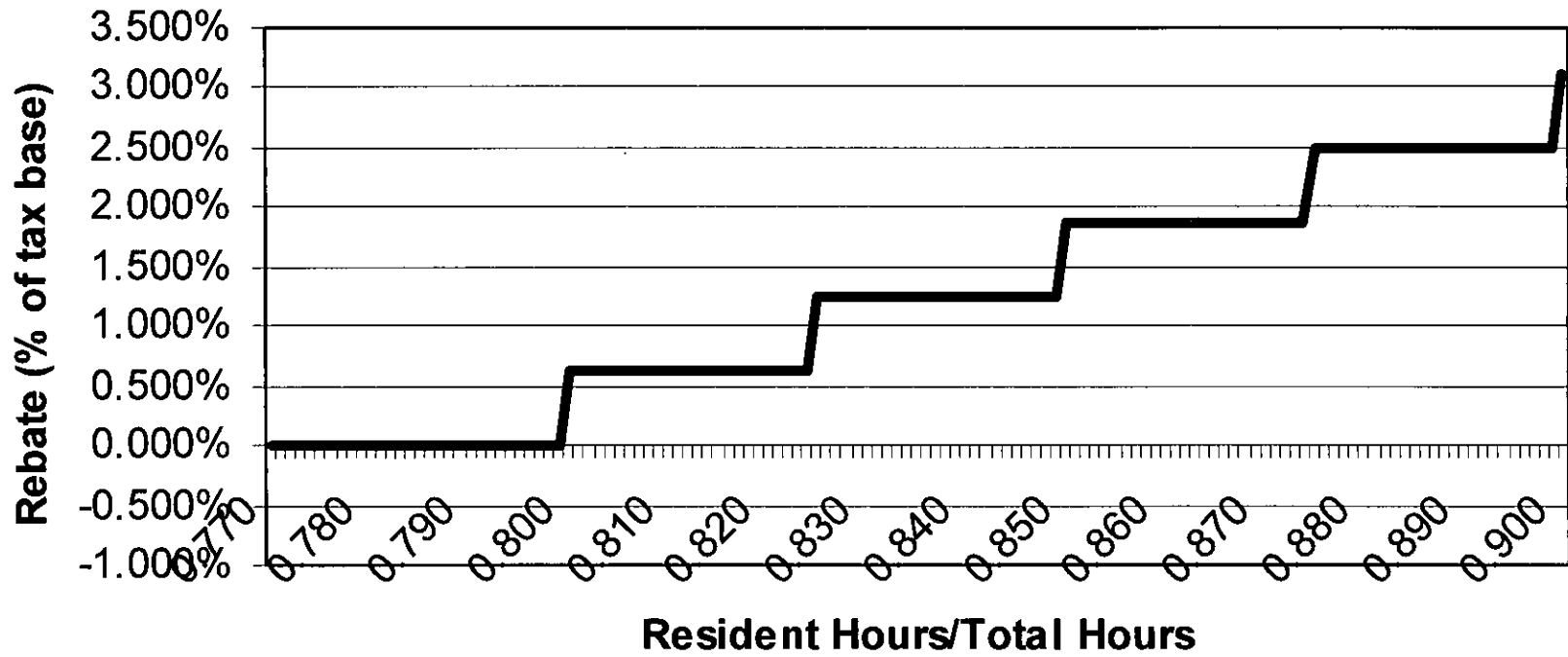
	Total Workers	Resident Workers	Ratio	Tax rate
year one	6,500	4,550	70.00%	25.0%
add		649		
year two	6,500	5,199	79.98%	25.0%

	Total Worker Hours	Resident Worker Hours	Ratio	Tax rate
year one	13,000,000	9,100,000	70.00%	25.0%
add		1,298,000		
year two	13,000,000	10,398,000	79.98%	25.0%

"need to be at 80% to start the conversation"

# Resident Hire – What will it cost per job?

## Bracket/Stair Step Hire Formula



## Resident Hire – What will it cost per job?

Opposite effect also occurs.

Assumption: Company employees and contractors are 1/2 the workforce  
(2009 Total Workforce of 13,000, so Company has 6,500)

(2)

	Total Workers	Resident Workers	Ratio	Tax rate
year one	6500	5200	80.00%	24.5%
add		162		
year two	6500	5362	82.49%	24.5%

	Total Worker Hours	Resident Worker Hours	Ratio	Tax rate
year one	13,000,000	10,400,000	80.00%	24.5%
add		324,000		
year two	13,000,000	10,724,000	82.49%	24.5%

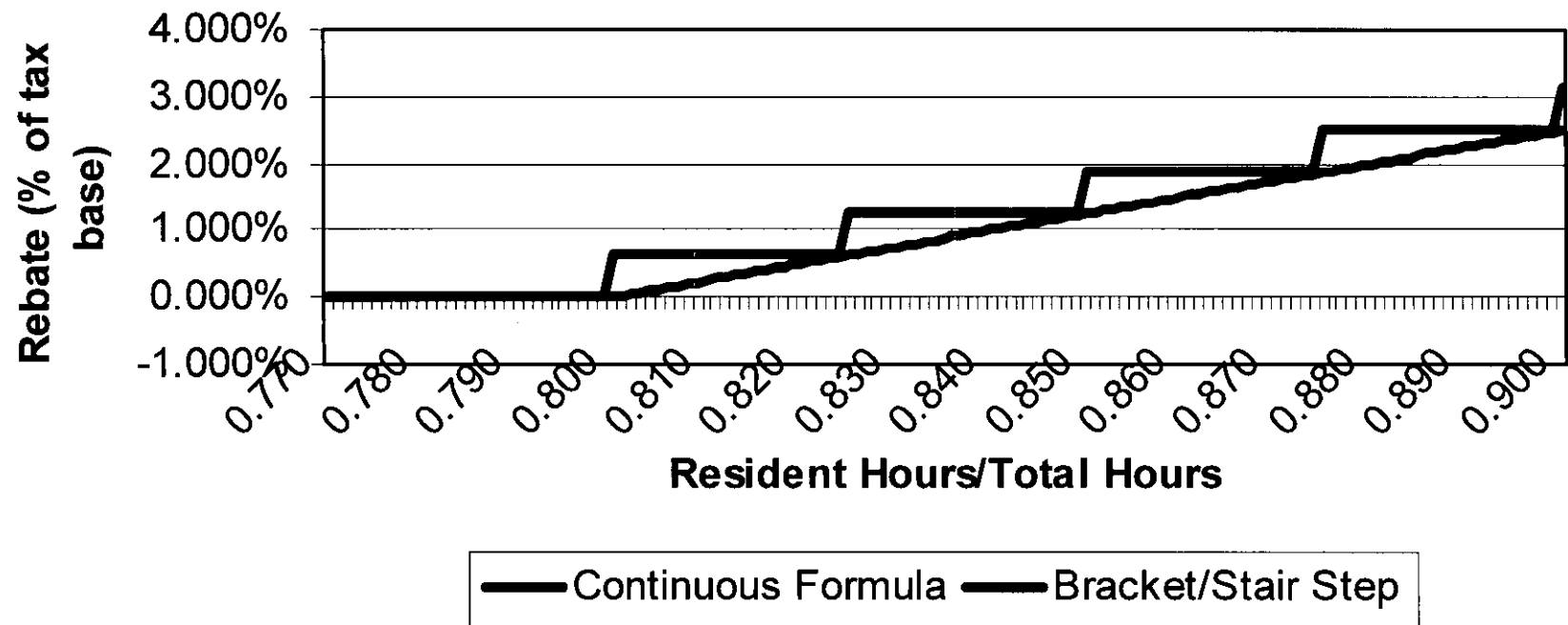
## Stair Step versus Continuous Function

Solution – Continuous function (with rounding)

- Rebate equal to tax base (PTV) times
- Higher of ((Resident Hours/Total hours) or .8)
- Less .8
  
- That transforms Resident Hire rates between 80% and 100% into a series from 0% to 20%

## 2. Stair Step versus Continuous Function

### Bracket/Stair Step vs Continuous Resident Hire Formula



2.15.2010

## Problem of “no reporting of nonresident wages”

	Actual	Rounded
FY2008 Estimated PTV (\$millions)	\$ 16,837.7	
FY2009 Estimated PTV (\$millions)	9,313.1	
Average for CY 2009	13,075.4	10,000
AS 43.55.011(e)(1) taxes at 25%	3,268.8	2,500
Maximum Rebate (20% of taxes, 5% of base)	653.8	500
Non Resident Workers in industry in 2008	5043	5,000
Average Wages ( 2008) per worker (\$million)	0.083601	0.100000
Total Non- Resident Wages	422	500
Effect of not claiming Non resident wages as lease expense (25%) (\$millions)	105.4	125
So by simply not reporting or deducting the 5043 non residents		
Decrease in taxes: (\$millions)	548.4	375

Sources: State of Alaska, Dept. of Labor and Workforce Development, Nonresidents Working in Alaska, 2008 (Jan 2010), derivations from figures in Dept of Revenue, Revenue Sources Book (Fall 2009)

## Some solutions to “no reporting of nonresident wages”

1. Shift the scale so maximum tax savings are not \$500 million by \$100 million and tax rate could range from 24% to 25%.
2. Require that for any labor to be allowed as a lease expense, all the labor from that company must be calculated in Resident Hire calculation – (with additional rules for pass through).
3. Focus on new hires only, and specific dollar rebate for every new resident hire.
4. Given structure of industry, have the DOR determine a tax rate every year based on the Resident Hire Ratios of 10 (20?) largest employers in the industry or largest generators of lease expenditures.

## Structure of Industry in Alaska

- Producers (taxpayers) have employees & hire
  - Operator who has employees & hires
    - Contractors, and buys “stuff”
- According to the Dept of Labor & Workforce Development (2008) employment in
- Oil and gas (direct)      4,055
- Oilfield Services      12,875
- Total      16,930

Sources: State of Alaska, Dept. of Labor and Workforce Development, Nonresidents Working in Alaska, 2008 (Jan 2010).

## Who are the 15 Tax Production Tax Filers (2009)?

	1 CP	2 BP	3 EM	4 Anadarko	5 Chevron	6 Pioneer	7-10 4 Others(1)	Total
Production in Millions of Bbls a day								
PBU & Sat	0.1317	0.0962	0.1328	-	0.0042	-	0.0001	0.365
KRU & Sat	0.0785	0.0558	0.0006	-	0.0071	-	-	0.142
North Star	-	0.0270	-	-	-	-	-	0.027
Alpine & Sat	0.0827	-	-	0.0233	-	-	-	0.106
Endicott	0.0004	0.0074	0.0045	-	0.0017	-	0.0001	0.014
Milne	-	0.0310	-	-	-	-	-	0.031
Oooguruk	-	-	-	-	-	0.0028	0.0012	0.004
<b>Total bbl/day</b>	<b>0.2933</b>	<b>0.2174</b>	<b>0.1379</b>	<b>0.0233</b>	<b>0.0130</b>	<b>0.0028</b>	<b>0.0013</b>	<b>0.689</b>

<b>MM bbl/yr</b>	<b>107.0</b>	<b>79.4</b>	<b>50.3</b>	<b>8.5</b>	<b>4.8</b>	<b>1.0</b>	<b>0.5</b>	<b>251.5</b>
<b>% of NS</b>	<b>43%</b>	<b>32%</b>	<b>20%</b>	<b>3%</b>	<b>2%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>

Cook Inlet 2009

Cook Inlet Production

	oil	4.0
10% of production	gas (boe)	24.9
1/2 of 1% of tax due to AS 43.55.011(j) and (k) limitations	Total CI	28.9
	<b>Total AK</b>	<b>280.43</b>

Cook Inlet:

(1) Others

- |   |            |
|---|------------|
| 11 Aurora                                     | 7 Nana     |
| *Chevron (heritage Unocal & Chevron)          | 8 Doyen    |
| *CP (heritage Arco and Phillips)              | 9 Forest & |
| 12 Pacific Energy (acquired Forest interests) | 10 ENI     |
| 13 Marathon                                   |            |
| 14 ML&P                                       |            |
| *EM (heritage Mobil & XTO)                    |            |
| 15 Pioneer (Lawrenceville, Ill)               |            |

Source: DNR Division of Oil and Gas 2006 & 2009 Annual Reports, DOR, Fall 2009 Revenue Sources Book

## Who are the 15 Tax Production Tax Filers?

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Alpine & Sat	0.0827	-	-	0.0233	-	-	-	0.106
Endicott	0.0004	0.0074	0.0045	-	0.0017	-	0.0001	0.014
Milne	-	0.0310	-	-	-	-	-	0.031
Oooguruk	-	-	-	-	-	0.0028	0.0012	0.004
<b>Total bbl/day</b>	<b>0.2933</b>	<b>0.2174</b>	<b>0.1379</b>	<b>0.0233</b>	<b>0.0130</b>	<b>0.0028</b>	<b>0.0013</b>	<b>0.689</b>

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<b>% of NS</b>	<b>43%</b>	<b>32%</b>	<b>20%</b>	<b>3%</b>	<b>2%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>

Cook Inlet 2009

Cook Inlet Production

	oil	4.0
10% of production	gas (boe)	24.9
1/2 of 1% of tax due to AS 43.55.011(j) and (k) limitations	Total CI	28.9
	<b>Total AK</b>	<b>280.43</b>

Cook Inlet:

- 11 Aurora
  - \*Chevron (heritage Unocal & Chevron)
  - \*CP (heritage Arco and Phillips)
- 12 Pacific Energy (acquired Forest interests)
- 13 Marathon
- 14 ML&P
  - \*EM (heritage Mobil & XTO)
- 15 Pioneer (Lawrenceville, Ill)

(1) Others

- 7 Nana
- 8 Doyen
- 9 Forest &
- 10 ENI

DED estimate covered  
by AS 43.55.024 credit

Source: DNR Division of Oil and Gas 2006 & 2009 Annual Reports, DOR, Fall 2009 Revenue Sources Book

## Who are the Employers in the Oil and Gas Industry

- Recall EM, BP and CP are largest taxpayers – they would put pressure on employers to qualify for lower rate

Ranking in Top 100	Total Employees			Non Resident %
5 ASRC	2250	2499	Oil Field Services	24.1%
8 CH2MHill	1750	1999	Oil Field Services	35.5%
9 BP Exploration			Oil & Gas Extraction	27.7%
17 Conoco Phillips	1000	1249	Oil & Gas Extraction	20.7%
36 Nabors Alaska Drilling	500	749	Oil Field Services	
43 Schlumberger Technologies			Oil Field Services	30.5%
49 Udelhoven Oilfield System Services			Oil Field Services	30.5%
52 Peak Oilfield Service Company	250	499	Oil Field Services	26.8%
69 Norcon			Oil Field Services	23.2%
73 Chevron			Oil & Gas Extraction	
78 Halliburton			Oil Field Services	32.3%
95 Doyon Drilling			Oil Field Services	
Veritas Dgc Land Inc				47.9%
Baker Hughes Oilfield Operations Inc.				54.1%

NOTE: Does Not Include "Catering/Security", Engineering, Transportation, Communications, Construction

Sources: State of Alaska, Dept. of Labor and Workforce Development, 100 Largest Private Employers, 2008 (Alaska Economic Trends, July 2009), Nonresidents Working in Alaska, 2008 (Jan 2010)

## To be addressed by Regulations or Statute II

- Is the “overhead labor” that is replaced by a formula in 15 AAC 55.270 part of the resident labor calculation? (see DOR slides)
- If a contractor has a fixed price contract, or charges a fee that includes labor (such as for transportation, turnkey modules, any manufactured good) who determines, or how is it determined whether and to analyze the labor in that transaction for resident labor?
- Are billed professional services (say by an engineer) “labor” for the resident hire calculation.
- Should be effective on the first day of a year.

## To be addressed by Regulations or Statute I

- If tax was not paid due to limitations in AS 43.55.011(j), (k) and (o) – CI or instate gas, can it be rebated?
- If tax was not paid due to applications of .023 Capitol and Loss Carry Forward Credits, .024 “Low Production” Credits and/or .025 Exploration Credits, can it be rebated?
- If times are tough and taxpayers have to pay the “alternative minimum tax” under AS 43.55.011(f), can that be rebated? It is a tax based on gross – but will still require the calculation of labor costs.
- If there is lots of investment activity and so that generates a loss – No resident hire issues if no tax base? Or should the rebate effect the loss carryforward. (Perverse incentive)

## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11%
- Interest not due on retroactive regs changes prior to implementation
- Change progressivity from .4% to .2%
- Tax rate tied to Resident Hire
- 30% credit for well work
- Restore 3 year statute of limitations

## Investment Credits

- Section 17 adds 30% well work credit to investment credits
- Under Current Law –
- 30% Credit for exploration wells (AS 43.55.025)
- 40% Credit for seismic work outside of existing unit,
  - or exploration wells 25 miles from existing unit, and
  - 3 miles from any prior well (or with certification from DNR that it is for a new target in the Cook Inlet)  
(AS 43.55.025)
- 20% Credit for any capital investment (AS 43.55.023(a))
- No change to Exploration Credits AS 43.55.025 under this bill

- How does this compare with Governor's "Well Credits" proposal
  - Both create a 30% credit for well work
  - Both include pertinent capex and opex
  - CS should be effective on the first day of a month (Gov's bill is July 1, 2010) year.
- Differences:
- CS for HB 308 places the credit among the .023 "Tax Credits for certain losses and expenditures" Governor's bill changes name of .025 from "Exploration" to "Exploration and Development" and places it there.
- Different definition of well related expense.
- (Other changes to AS 43.55.025 in Gov's bill)

## Differences between AS .023 and .025

AS 43.55.023 – Tax credits for certain losses and expenditures	AS 43.55.025 – Alternative tax credit for oil and gas exploration
AS 43.55.023 deals with capital costs in (a), lease expenditures in (b), and both in sections (c), (d), (e), (g), (h) and (j). (note – (f) repealed and (i) and (k) deal only with capital).	AS 43.55.025 deals only with exploration costs –by explorers. Administration suggests totally re-writing and re-titling to cover this work by explorers and producers.
21 specific exclusions from lease expenditures listed in AS 43.55.165 (e) (1) – (21) including exclusion of 30 cents a barrel from any capital cost, and certain transactions with affiliates or related parties.	Prohibitions summed up in one paragraph (AS 43.55.025(b)(3))
Restrictions in AS 43.55.011(m) (“credits clawback”) do not apply.	AS 43.55.011(m) (“credits clawback”) does apply.

Question: Are we certain that the restructuring of AS 43.55.025 will not result in inadvertent changes to the rules?

## Definitions of well work compared

CS for HB 308 proposed AS 43.55.023(m)(3)	Governor's Language proposed AS 43.55.025(b) (3) and (4)
“Well-related expenditures” means	Development well expenditures are for
A lease expenditure	Goods, services and rentals of personal property reasonable required for
related to a well	
and <b>includes</b> a lease expenditure for the purposes of sidetracking, well deepening, well recompletion, well workover,	Re-drilling, casing , cementing or logging, Completing, workover operations or other operations intended to increase or enhance well production
	from known productive pool;
an injection well and well related seismic work and	And the well is not a service well [injector] or stratigraphic test well.
an intangible drilling and development cost authorized under 26 USC (IRC) as amended, and 26 CFR 1.612-4, regardless of the elections make under 26 USC 263(C) as amended	
up to the flange connecting the well head to the well line.	

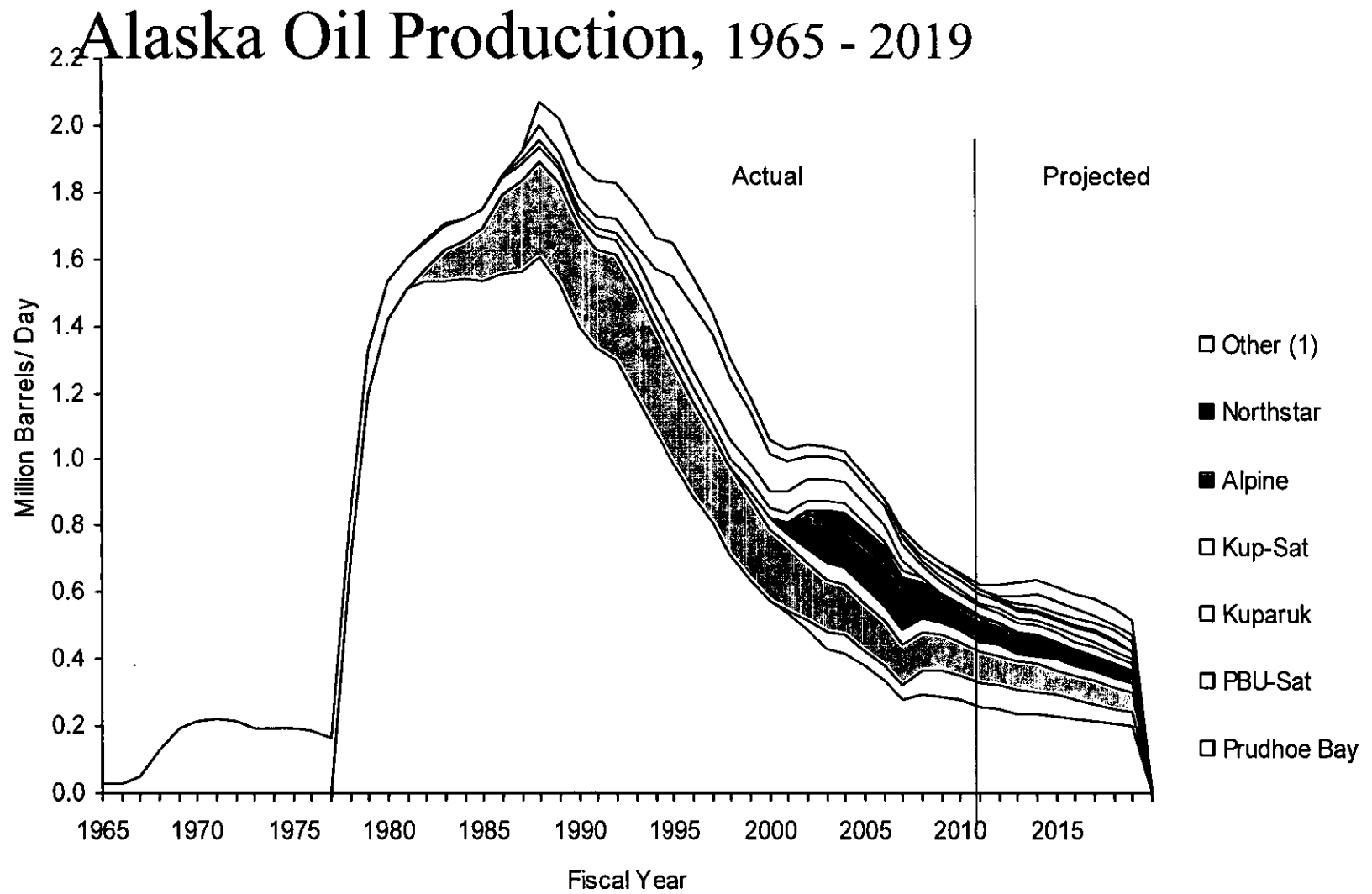
## 6 Changes in CSHB 308

- Interest rate is lower of fed funds +2 or 11%
- Interest not due on retroactive regs changes prior to implementation
- Change progressivity from .4% to .2%
- Tax rate tied to Resident Hire
- 30% credit for well work
- Restore 3 year statute of limitations

- Section 20 Restores statute of limitations to three years for production tax - time for the state to complete a production tax audit (or, agree to an extension with taxpayer or issue a blue sky assessment)
- Three year rule would begin with 2011 tax year
- Note: in the case of False or Fraudulent returns, or failure to file a return, may proceed “at any time”
  
- Prior to 2007, SOL was three years for all tax types under AS 43.05.260 –
- In 2007 production tax pulled out and extended to 6 years in AS 43.55.075

# Thank You

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Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated  
(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

**Savant Alaska, LLC**

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**Presentation to  
Alaska Legislature  
House Resources Committee**

**March 10, 2010**

# A Brief History

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- Founded in 2006 to invest on the North Slope of Alaska.
- Licensed over 190 square miles of 3-D seismic data and leased or acquired access to over 45,000 acres in focus area east of Prudhoe Bay field.
- Drilled the Kupcake #1 exploration well in 16' of water in the Beaufort sea in the winter of 2008 resulting in a dry hole.
- Entered into a farmout agreement with BP Exploration (Alaska) Inc. providing exclusive access to the Badami Unit.
- Opened Anchorage operations office in January 2009
- Commenced B1-38 (Red Wolf) exploration well in March 2009 -- resumed operations in January 2010
- Have invested or caused to be invested over \$43 million dollars in Alaskan exploration and development since inception

# Why Alaska?

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- The North Slope contains a prolific hydrocarbon system
- There are multiple oil targets in the geologic section
- The eastern half of the North Slope is lightly developed
- The State of Alaska under ACES legislation currently offers up to 45 cents per dollar of investment in tax credits (cash rebates) to Explorers
- The existing Badami infrastructure provides a significant competitive advantage

# ACES Tax Credits

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- ☐ Tax-credit summary

- \$3,397,056 redeemed for cash to date

- ☐ \$280,010 in 2008

- ☐ \$3,117,046 in 2009

- Currently have tax credits totaling \$7.9 million which should be redeemed for cash in 2Q 2010

- Application for \$6.6 million to be filed in 1Q2010

- Inception to date acquired, earned or redeemed \$19 million in ACES tax credits

- Secondary market for tax credit certificates is thin at best

# Current Plans

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- Finish 2010 winter well work program
- Restart the Badami facility and production summer 2010
- Evaluate results of new wells
- Potentially drill additional delineation and development wells in winter 2011

# Our View of ACES

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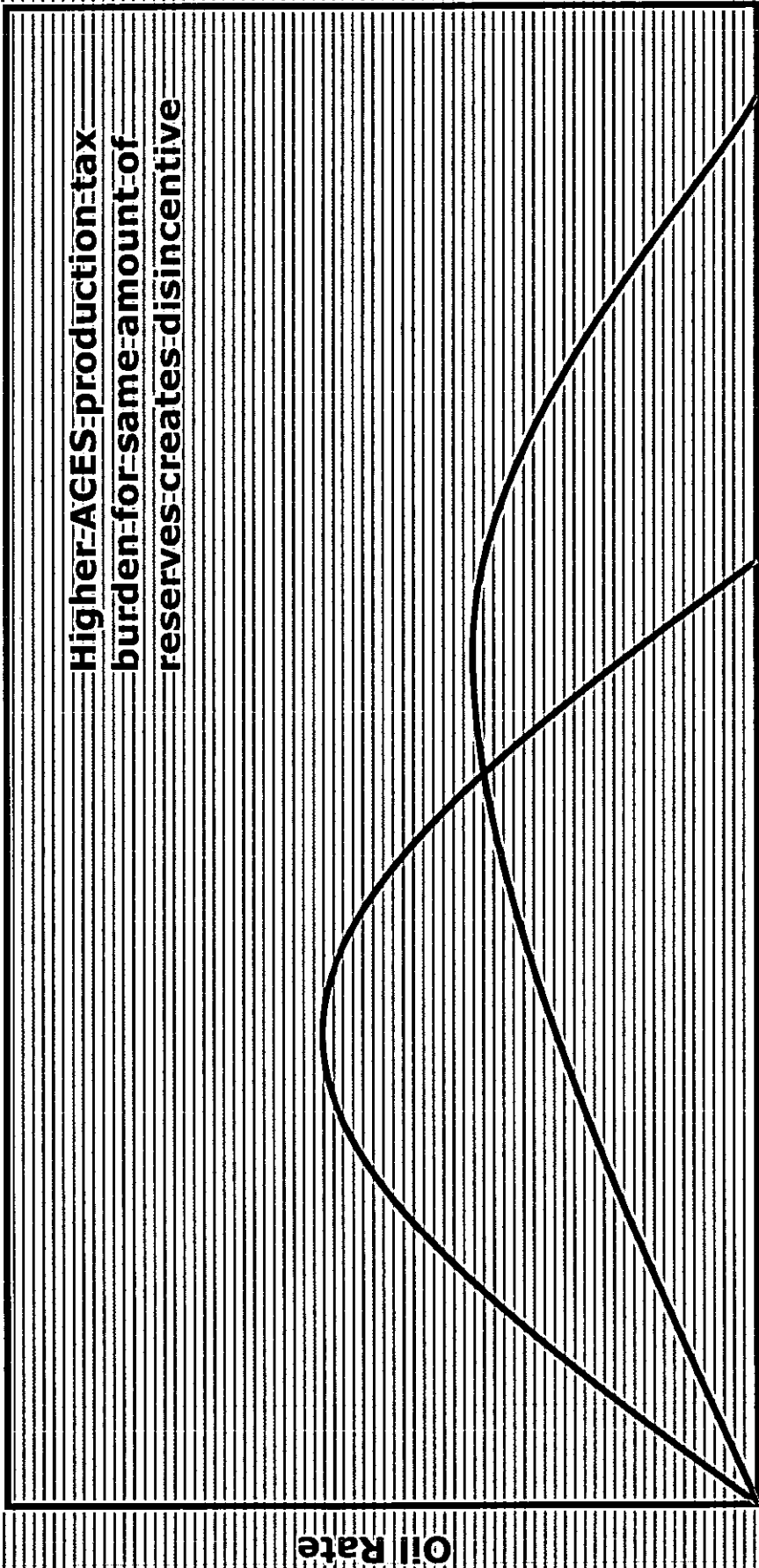
## Exploration Incentives

- Tax-credit-system-provides-meaningful-inducement-to-take-risk-in-the-state
- Any-enhancements-will-only-improve-our-ability-to-continue-exploring
- We-generally-support-the-Governor's-proposed-Amendments
- Not-widely-known-or-understood-in-the-Lower-48

## Progressivity Feature

- We've-remained-silent-on-this-issue-because-we-are-not-a-"producer",-yet
- In-general,-the-progressivity-is-a-disincentive-because-it-results-in-a-diminishing-return-per-incremental-barrel-produced-as-indicated-by-our-economic-modeling-at-Badami

# Badami Redevelopment



Higher ACES production tax  
 burden for same amount of  
 reserves creates disincentive

Time

# Alaska Oil & Gas Association



## Testimony to House Resources Committee

on

## Draft CS for House Bill 308 (Version E)

March 10, 2010

Marilyn Crockett, AOGA Executive Director

# **AOGA Testimony**

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**Part One: Problems with ACES**

**Part Two: Discussion of the Draft CS  
for House Bill 308**

# Problems with ACES

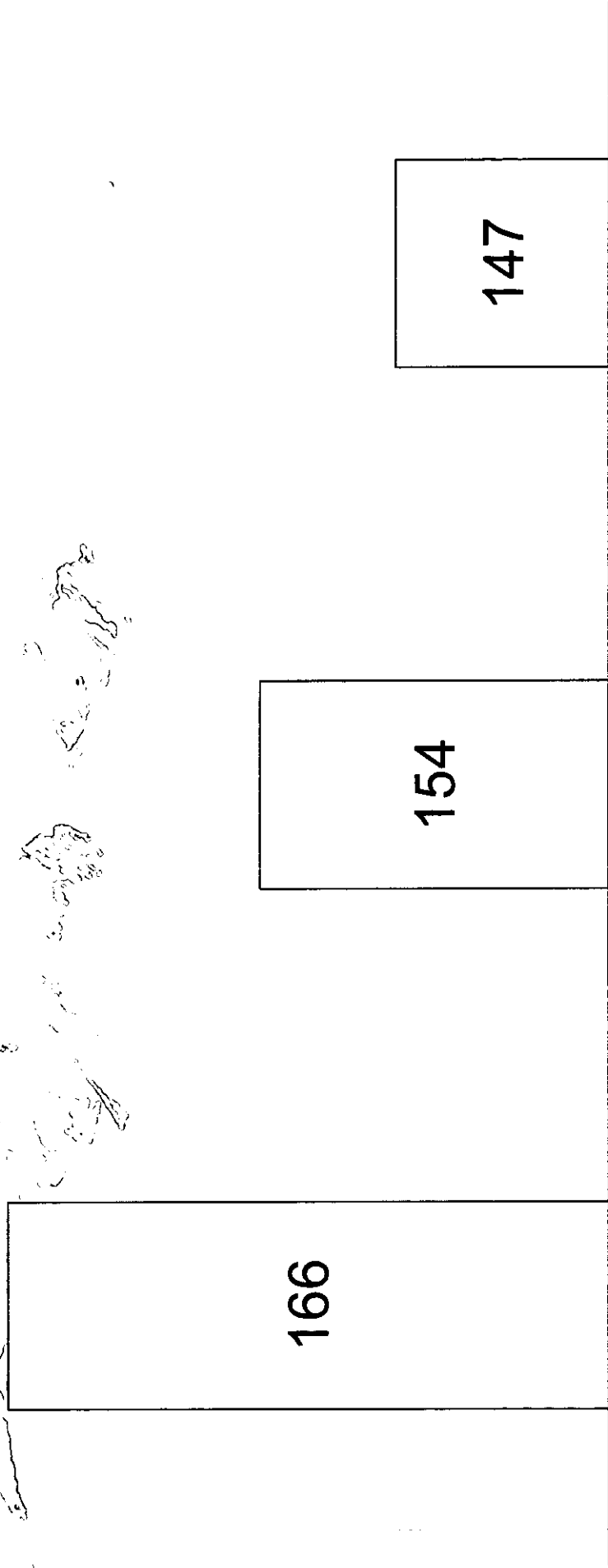
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**Problem A: Excessive Tax Rate**

**Problem B: Impossible Plight of  
Non-Operators**

**Problem C: Inability of Taxpayers to  
Determine with Certainty  
Amount of Tax**

# In-field Wells Drilled in Alaska



2007

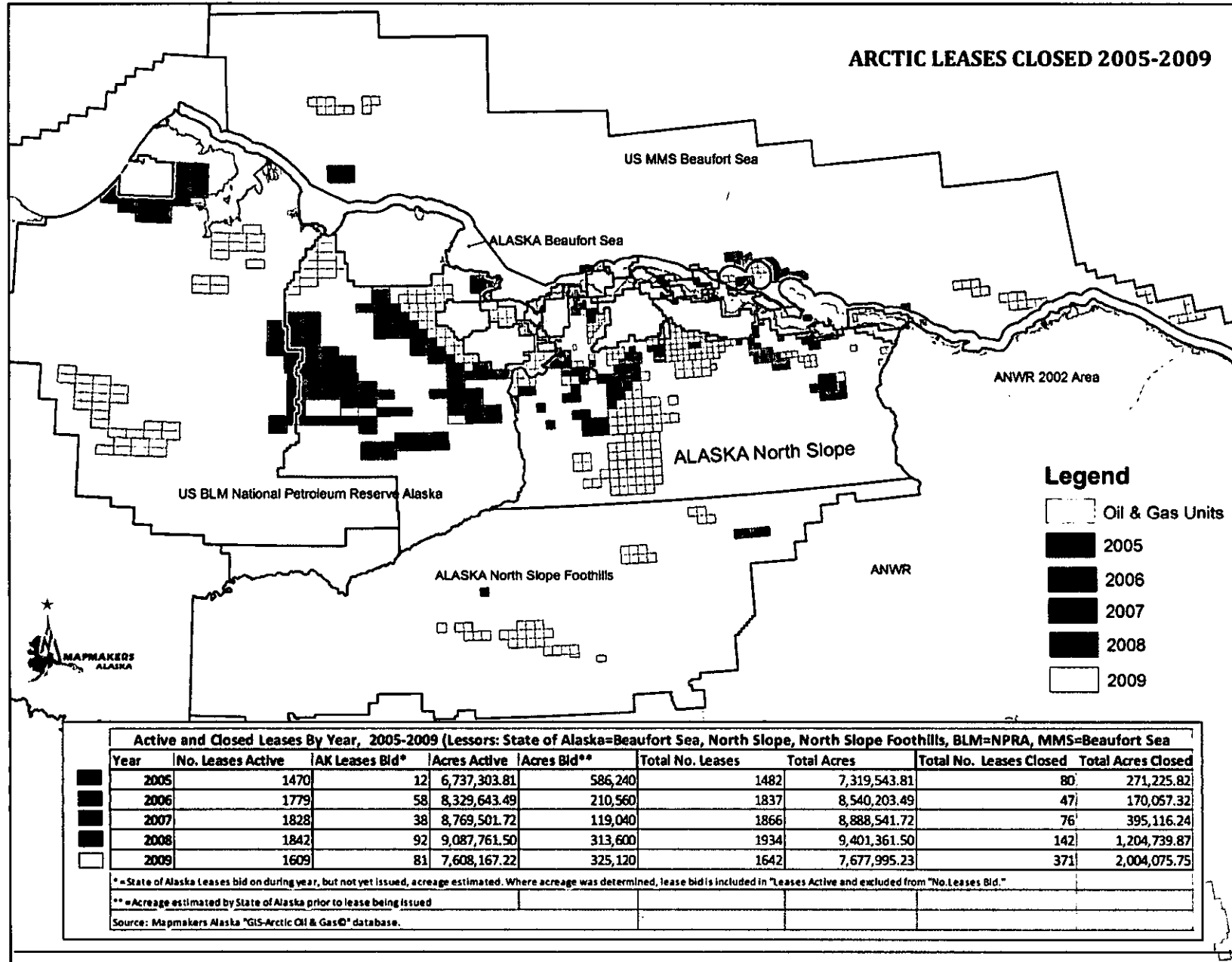
2008

2009

Source: AOGCC

**AOGCA**

*Looking Ahead*



# Largest U.S. Drillers – 2009 (footage drilled)

1. <b>Chesapeake</b>	<b>6.4%</b>	11. <b>Williams Production</b>	<b>1.3%</b>
2. <b>XTO</b>	<b>5.4%</b>	12. <b>Ultra Resources</b>	<b>1.2%</b>
3. <b>EOG Resources</b>	<b>4.0%</b>	13. <b>Concho Resources</b>	<b>1.2%</b>
4. <b>Anadarko</b>	<b>3.5%</b>	14. <b>Southwestern Energy</b>	<b>1.2%</b>
5. <b>EnCana</b>	<b>3.2%</b>	15. <b>ExxonMobil</b>	<b>1.1%</b>
6. <b>ConocoPhillips</b>	<b>2.9%</b>	16. <b>Shell</b>	<b>0.9%</b>
7. <b>BP</b>	<b>2.6%</b>	17. <b>Marathon</b>	<b>0.9%</b>
8. <b>Devon</b>	<b>2.5%</b>	18. <b>Apache</b>	<b>0.8%</b>
9. <b>Noble</b>	<b>2.0%</b>	19. <b>Petrohawk</b>	<b>0.8%</b>
10. <b>Questar</b>	<b>1.7%</b>	20. <b>Laredo Petroleum</b>	<b>0.7%</b>

Source: RIGDATA

# Problems with ACES

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**Problem A: Excessive Tax Rate**

**Problem B: Impossible Plight of  
Non-Operators**

**Problem C: Inability of Taxpayers to  
Determine with Certainty  
Amount of Tax**

# Problems with ACES

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**Problem A: Excessive Tax Rate**

**Problem B: Impossible Plight of  
Non-Operators**

**Problem C: Inability of Taxpayers to  
Determine with Certainty  
Amount of Tax**

# Discussion of Draft CS for HB 308

## Element of HB 308

Alaska Hire

Decline in Progressivity

30% Credit

Rate of Interest

No interest on new regs

Statute of limitations

## AOGA Position

Good idea – but complex; use Alaska hire standards of ADLWD

Oppose Progressivity but HB 308 an Improvement

Support

Support

Support w/changes

Support



**Thank you.**

**[www.aoga.org](http://www.aoga.org)**

**TESTIMONY OF THE  
ALASKA OIL AND GAS ASSOCIATION  
TO THE HOUSE RESOURCES COMMITTEE  
REGARDING DRAFT CSHB 308(RES), Version E**

**March 10, 2010**

Mr. Chairman and Members of the Committee:

My name is Marilyn Crockett and I am the Executive Director of the Alaska Oil and Gas Association ("AOGA"). AOGA is the trade association for the oil and gas industry in Alaska. Our 14 members account for the majority of oil and gas activities in the state. The testimony I am about to present has been prepared and approved without dissent by the members of the AOGA Tax Committee.

Let me begin by thanking you, Mr. Chairman, and the co-sponsors of House Bill 308 — Representatives Newman, Ramras, Millett, Johansen and Hawker — for introducing this Bill during these crucial times.

In light of the relentless and continuous decline in the rate of oil production, one of the great challenges facing Alaska is in getting from today to the time when a Gas Pipeline begins operating a full 10 years from now. ConocoPhillips, in testimony to the Senate Finance Committee on February 23<sup>rd</sup>, said that "[p]roduction from the Core Fields [on the North Slope] may require more than \$40 billion of expenditures by the industry during the next decade."<sup>1</sup>

We welcome House Bill 308 as an essential first step in a comprehensive review of ACES to ensure that it can and will succeed, as intended, in keeping Alaska competitive for this additional \$40 billion that needs to be invested here during this decade. At the same time, ACES must be reviewed to ensure that it has not overshot the optimum point where "the utilization, development, and conservation of [this] natural resource[ ] belonging to the State" achieves the "the maximum benefit of its people" in terms of total state revenues, Alaska jobs and economic growth over the remaining life of the fields, as the Alaska Constitution requires.<sup>2</sup> Our testimony today is in two parts in order to address each of these vital concerns.

## **Part I. Problems with ACES**

Mr. Chairman, there are a lot of things wrong with ACES. AOGA and individual companies have together submitted nearly 200 pages of comments and testimony to the Department of Revenue about what is wrong with ACES and with the regulations that have been developed and are either already adopted or are in the process of being adopted. In the interest of time I'd like to highlight only a few of the most important ones now.

### Problem A. Excessive tax rate

The Department of Revenue, in testimony to this and other legislative committees, presented a lot of statistics that fail to distinguish investment and jobs for new projects from investment and jobs for projects that had already been begun or committed to before ACES was enacted. A more telling statistic about ACES is the number of new in-field wells drilled and completed, because they can be approved, drilled and go into production within a matter of months instead of years. As a result, the figures for them are much less distorted by momentum from pre-ACES commitments. The number of new in-field wells decreased from 166 in 2007 to 155 in 2008 and 147 last year.<sup>3</sup> BP, as an operator on the North Slope, has publicly said its in-field drilling "will be more than 50% lower in 2010 vs. 2007" and it has reduced its rig count by 30% since January of last year. Industry added about 450 million barrel-of-oil-equivalents to North Slope reserves in the last five years, according to ConocoPhillips at the Meet Alaska Conference last January, but "only 35 million since ACES". Why? Larry Archibald, senior vice president of exploration and business development for ConocoPhillips, told Meet Alaska that even though "Significant potential remains in North Slope Giants[, ...] Giant fields have [the] worst fiscal terms" under ACES.

And the news on exploration wells isn't good either. The number of exploration wells being drilled on the North Slope declined from 11 in 2007, to 9 in 2008 and 8 in 2009.

During testimony on February 16, 2010, Division of Oil and Gas Director Kevin Banks reviewed oil and gas activity across the North Slope, observing that "independents are flocking to Alaska". However, the companies identified on his map have been in Alaska for several years. Which raises the question of just who could be coming to Alaska but isn't. Rigdata identified the top 20 U. S. drillers in terms of footage drilled in 2009. Only seven of those companies are currently operators or have interests in fields here in Alaska.

Another disturbing trend is emerging in the area of oil and gas lease acreage. According to their testimony, ConocoPhillips—the leading explorer on the north slope for the last decade and more—relinquished 880,000 acres of leases in NPR-A last year. A significant amount to be sure, but this accounts for *less than half* of the state and federal acreage which was closed across the arctic slope last year. Attached to my testimony is a map and chart depicting lease closures for the years 2005-2009. As you can see, in 2009, 371 leases were closed totaling more than 2 million acres. And in 2008, 142 leases totaling more than 1.2 million acres were closed.

Problem B. The impossible plight of non-operators

Time after time in the ACES regulations being adopted, the Department of Revenue places impossible expectations and demands on producers (“non-operators”) in a field or unit that are not the operator of that field or unit. A non-operator receives only a monthly invoice or bill from the operator with a description of the cost items going into the amount that the WIO is to pay. There are no timesheets or other documentation that comes with the invoice, nor copies of billings from third parties that the operator has received and paid on behalf of all the non-operators in the field or unit. Yet the regulations expect non-operators to have the same details and documents that their operator has, because they have to file tax returns each month that depend on those details and documents in order to be filled out to compute the amount of tax.

Worse, the standards for what an operator may bill to the non-operators are set by the particular terms of the operating agreement for that field or unit. While the amounts that the operator bills out to the non-operators are generally close overall to what is deductible as lease expenditures under ACES, the details of individual costs do not correspond exactly to the edges of the specific categories the Department has created for allowable lease expenditures. There are over 20,000 cost codes under the system of accounts for the Prudhoe Bay Unit, for example, but the Department’s regulations have only 336 categories. Due to the lack of definition and clarity, the inconsistent use of terms, and arbitrary percentages of costs being applied, there is virtually no way a Prudhoe Bay non-operator can possibly determine, for all of the 20,000 cost codes in that system of accounts, which ones fit into the 336 categories under this regulation. And for some cost codes, part of it may fit into one category and the rest into a different one. But a non-operator is likely not to have the particular information required under the regulations in order to determine whether this is the case for a given cost code. And even if the non-operator can determine which category a particular cost code straddles, it may very well lack the information required under the regulation in order to determine how much goes into each of those categories.

Problem C. Inability of Taxpayers to Determine with Certainty Amount of Tax

The regulations to implement ACES are set up so that it is impossible for a taxpayer to determine what the correct amount of its tax is. For instance, of the 87 times that

the words “the department” appear in the proposed regulations about costs for transporting oil and gas from the field to market, 80 of them are in the context of the Department of Revenue “determining” something — phrases like “determined by the department”, “the department will determine”, “the department may determine”, etc. appear over and over and over.

None of these “determinations” is likely to be made before the taxpayer has to make its monthly tax payment. None of them is likely to be made by March 31<sup>st</sup> of the following year, when the taxpayer has to make its annual “true up” to match its estimated payments to the actual results for the year. In fact, for many of them, the Department might not make its “determination” until audit, which — with ACES’ new statute of limitations — might be as long as 6 years after the taxpayer had to file its original monthly return.

The Department’s other ACES regulations reflect this same approach, in which “the department” will make the “determination” for factors in the tax calculation that are essential to know in order to calculate the tax correctly.

This approach all but guarantees ACES’ failure with respect to attracting the \$40 billion of investment in the “Core Fields” on the North Slope that industry will need to make over this decade. The people making the go/no-go decision about an investment can only use the information they have at the time they make that decision.

While AOGA realizes this Committee is not considering tax regulations at this time, these examples illustrate the way that overly broad discretion for adopting regulations can substantially alter the nature and effects of the laws the Legislature passes. In this case, any benefits or incentives that may be offered under new legislation by this Legislature will be compromised and impaired by the regulations that have just recently been adopted or are in the process of being adopted as we speak. And this is before any new regulations that might be adopted, under this same broad discretion, to implement and interpret the new laws this Legislature may enact. It is crucial, therefore, that legislation like the CS for HB 308 be made as transparent, unambiguous and direct as possible if you want it to achieve the results you intend for it. We felt it is important to highlight just a few of the many issues the regulations create and why additional review of ACES as a whole is required.

## **Part II. Discussion of the Draft CS for HB 308 (Version E)**

While the Committee’s working-draft CS contains some 25 bill sections, the substance of the legislation boils down to just six matters:

1. Providing for a rebate of up to 20% of a taxpayer’s basic 25% ACES tax, depending on the taxpayer’s performance with “Alaska hire”;
2. Making the “slope” for progressivity less steep;

3. Creating a 30% tax credit for “well-related expenditures”;
4. Changing the statutory interest rate for underpaid or overpaid taxes so it is the lower of the “fed funds + 2” or 11%; currently it is the higher of “fed funds + 5” or 11%;
5. Providing that interest for an underpayment of tax directly resulting from the adoption of a regulation with retroactive application will accrue from the 30<sup>th</sup> day after the effective date of that regulation, instead of accruing from the original due date for the tax being retroactively changed by the regulation; and
6. Changing the statute of limitations for auditing tax returns under AS 43.55 and issuing an audit assessment, from six years back to three years as it was before the ACES legislation.

AOGA offers the following comments on these proposals.

The Alaska-hire rebate. AOGA members try to hire qualified Alaskans because it makes good business sense. They are making significant efforts and contributions to train more Alaskans to become qualified for industry jobs. The companies “subject to tax under AS 43.55.011(e)” who would stand to get this rebate already have a pretty good track record with Alaska-hire, and a number of them already have Alaska-hire rates over 80% according to the Alaska Department of Labor and Workforce Development.

However, if you are going to create an Alaska-hire rebate, we respectfully urge you to use Alaska-hire standards that the Department of Labor and Workforce Development is using, rather than creating a new and substantially different process based upon the number of hours worked by residents versus non-residents. There is already an almost hopeless degree of complexity merely to determine what labor costs are allowable as lease expenditures under the Department of Revenue’s recently adopted regulations on deductible lease expenditures. Adding a rebate based on hours worked would threaten to redouble that complexity into a hopeless morass.

One other thing worth noting about the rebate is that the language in CSHB 308 seems to be silent about whether it is the operator’s Alaska-hire performance that determines the size of the rebate, or the non-operator’s. And, again, how this question gets answered will determine whether the rebate gets more complicated for non-operators or less complicated.

Over all, though, the rebate is generally a good idea, but it creates more complexity and ambiguity. In our opinion, if you want real results in terms of more jobs for Alaskans, then reduce the tax, make it clear and unambiguous, and let industry have the chance to make its investments. There will be more jobs, a healthier industry, and greater prosperity overall for Alaskans.

Changing the “slope” for progressivity. AOGA opposed the idea of progressivity when it was first introduced in Governor Murkowski’s Petroleum Production Tax or PPT

legislation in 2006. We opposed it when it was carried forward in Governor Palin's ACES legislation in 2007.

While AOGA continues to oppose progressivity, we acknowledge that lessening the steepness of the slope for progressivity would reduce its negative effects, and to that extent the draft CS, if enacted, would represent an improvement over the present situation. And we would suggest putting progressivity on an annual basis instead of a monthly one. This would smooth out short-term peaks and valleys in prices during the year and reduce the progressivity rate. But the present monthly method creates a false margin by comparing a monthly price to an average cost for the year. This mismatch creates unnecessary uncertainty and doubt in the minds of the decision-makers about making new investments.

30% tax credit for "well-related expenditures". AOGA and its members support this provision.

Changing the statutory rate of interest. The justification for having interest accrue on tax underpayments or overpayments is to allow the State or the taxpayer, as the case may be, to recoup at least part of its loss from not having had the use of the money that it was entitled to have. The present statutory rate of interest is punitive in purpose and bears little if any relation to either side's actual harm from not having the money when it should have. The proposal in the draft CS reflects a more reasonable assessment of that harm, and AOGA endorses it.

No interest on tax underpayments arising from retroactive application of new regulations. AOGA agrees that it is highly unfair to have interest accrue retroactively on tax underpayments that arise directly from the retroactivity of a newly adopted tax regulation. In light of the punitively high rate of statutory interest under the current statute, the accrual of interest on such an underpayment starting from the date the original tax payment was due would also present constitutional issues as an *ex post facto* law if a taxpayer liable for such retroactive interest chose to raise those issues.

The draft CS avoids these difficulties by giving taxpayers 30 days from the date the retroactive regulation becomes effective after filing by the lieutenant governor, in which to pay the additional tax that directly results from the regulation's retroactivity. In light of the complexity of the tax regulations that the Department has adopted or is still proposing to adopt, 30 days is an unrealistically short period of time for a taxpayer to determine how much additional tax it owes for the all past periods to which the regulation retroactively applies. This would be especially so if such a retroactive regulation becomes effective during the first quarter of the year, when taxpayers are busy closing out the year just ended and preparing the annual true-up between their monthly estimated payments and the actual amount of their tax under ACES for that entire year — this true-up is due March 31<sup>st</sup> after the close of the tax year. Taxpayers simply do not have the tax staff to do, within the first calendar quarter, their annual true-up and simultaneously compute the additional tax for all the past tax periods to which a new regulation retro-

actively applies.

We recommend, therefore, that the due date for the additional tax be the end of the second calendar month after the month in which the retroactive regulation becomes effective, except when the regulation becomes effective in the first quarter of a calendar year, in which case the due date should be May 31<sup>st</sup> of that year. In both cases, this would give taxpayers at least two months in which to determine and pay the additional tax that is due as the result of a new regulation's retroactivity.

We would like to point out, however, the effective date of this provision needs to be made retroactive to the date ACES was made effective to ensure that this provision applies to any regulations adopted prior to the enactment of this provision.

Statute of limitations. AOGA endorses the proposal to shorten the statute of limitations for auditing taxpayers and assessing any additional tax found to be due, from six years back to the three years that it used to be before the ACES legislation. Three years is a reasonable time, and should it turn out that the Department needs more than that to complete an audit, taxpayers have historically been willing to extend the limitations period for a reasonable time to allow the audit to be completed. In fact, taxpayers often agreed to extend the statute more than once for a single audit. With a six-year statute of limitations, the Department could wait as long as five years before even starting an audit, and then asking the taxpayer under audit to extend the statute so the audit can be completed.

The purpose in having a statute of limitations, after all, is to allow issues to be raised, addressed and resolved while the evidence is still available and memories are still fresh. The present three-year statute of limitations has worked for all the other taxes under Title 43, including the present worldwide corporate tax for oil and gas taxpayers, the domestic or "water's edge income tax for other corporations, and even the former separate-accounting income tax. It is worth noting that separate-accounting involved not only determining net income from all of a taxpayer's interests in oil and gas fields and prospects, but also its income from interests in oil or gas pipelines as well. Like separate-accounting, ACES is challenging to administer and audit. However, if Alaska didn't need a longer statute of limitations for separate-accounting, we don't see why one is needed now.

### **Testimony Recap**

In conclusion, Mr. Chairman, the draft CS which this Committee has before it will not eliminate all the problems that ACES has, either in the existing statutes or under the regulations the Department of Revenue has adopted or is proposing to adopt. Those problems are numerous and important. AOGA sees this CS — with the few changes we have suggested — as a first step in improving ACES. But, as we have stated, additional review and amendments are required to enable it to achieve what it was intended to

achieve, which is to be more effective as a tax than the prior ELF-based tax or the PPT while enabling new investments to be made to find, develop and produce more oil and gas in Alaska.

Production from all but the most recently developed fields in this state continues its inevitable decline as the physical resource in each field is depleted. As an industry, we have looked for — and found — new technologies and methods for recovering more from the existing fields, and from known, but very difficult-to-produce resources like heavy oil in the Ugnu formation. As an industry, we have also looked for — and found — new technologies and methods for discovering new oil and gas resources. These activities must continue, both for our future here and yours. Massive new investments will be needed each year, and they must not be deterred or discouraged needlessly.

In adapting the state tax structure to fit the future, please bear in mind that one of the most important attractions that Alaska can provide is a clear and stable tax system. All the tax incentives in the world won't make a bit of difference if the people deciding whether to invest in Alaska or not don't believe those incentives will be realized. By making the tax as clear as possible, the features in ACES for attracting investments here will not be discounted or disregarded by those decision-makers. There is a lot of work to do if this clarity is to be achieved, but it can be done. AOGA and its member companies look forward to working with this committee and the legislature to fully examine ACES to achieve this clarity.

Thank you on behalf of the members of AOGA for this opportunity to testify today and to share our thoughts with you about this particular legislation and about factors that will ultimately determine and shape the very future of our industry here.

#### ENDNOTES

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<sup>1</sup> Wendy King, Vice President –External Affairs, ConocoPhillips Alaska, *Senate Finance Committee Testimony* (February 23, 2010), slide 3 (footnote omitted).

<sup>2</sup> The quoted language is from Article VIII, § 2 of the Alaska State Constitution. As for Alaska jobs, *see also* Article 1, § 23 of the Alaska State Constitution.

<sup>3</sup> SOURCE: Alaska Oil and Gas Conservation Commission. The figures for in-field wells in 2007 and 2008 are different from those in Dept. of Revenue, *Response to Information Requests in December 4, 2009 Letter* (January 21, 2010), p. 6 Table 5 (“Monthly counts of New Wells Drilled and Completed 2000-2009”), which was an attachment to Commissioner Galvin’s letter of January 21<sup>st</sup> to Speaker Chenault and 14 other members of the House as well as Senator Huggins. The Department’s figures include exploration wells, which have significantly longer lead times than in-field wells and are more likely to be distorted by momentum from pre-ACES commitments.

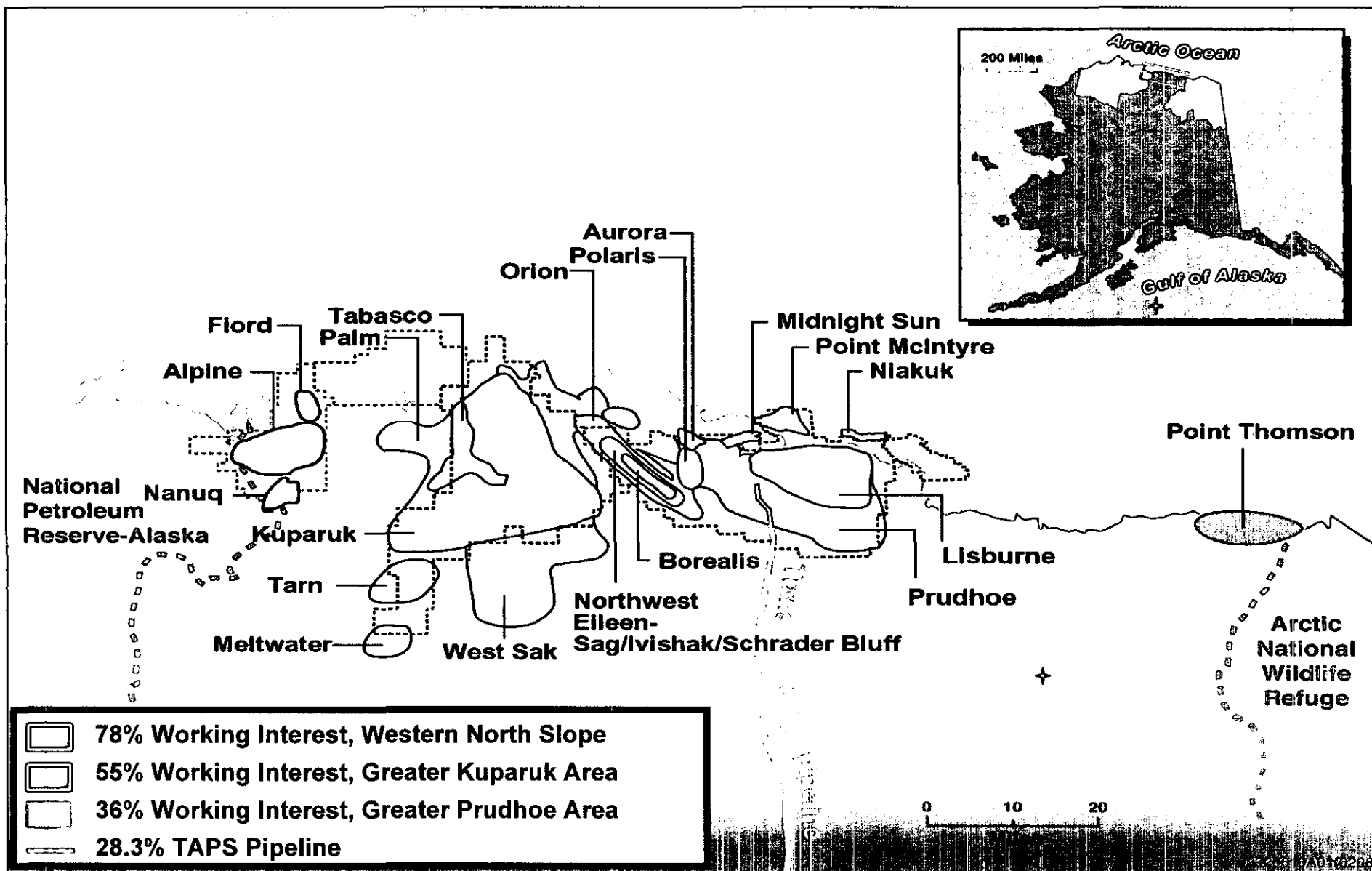
# House Resources Committee

March 10, 2010

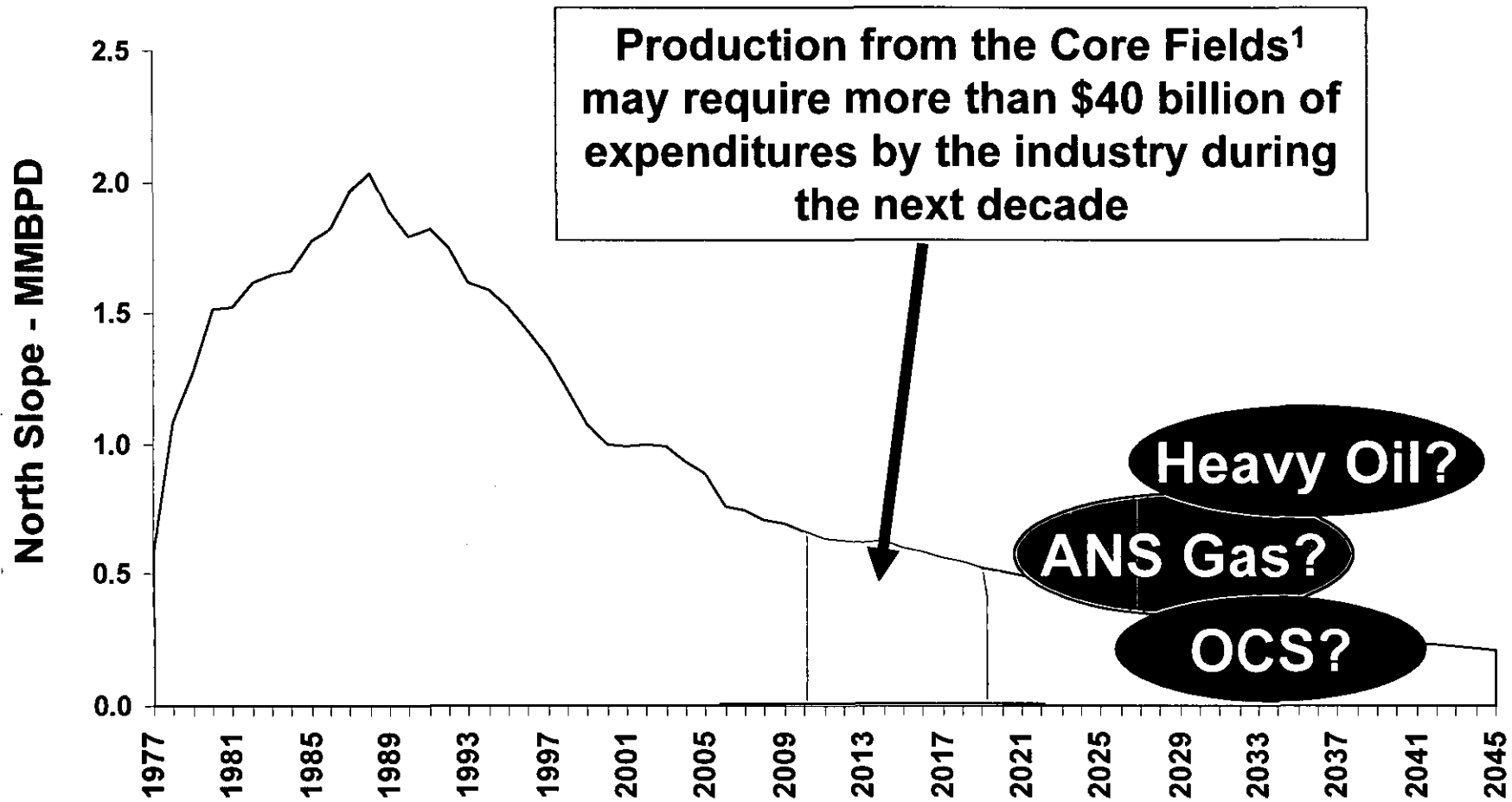
**Brian Wenzel, Vice President – Finance**

**ConocoPhillips Alaska**

# ConocoPhillips North Slope Fields



# Investment in Core Fields

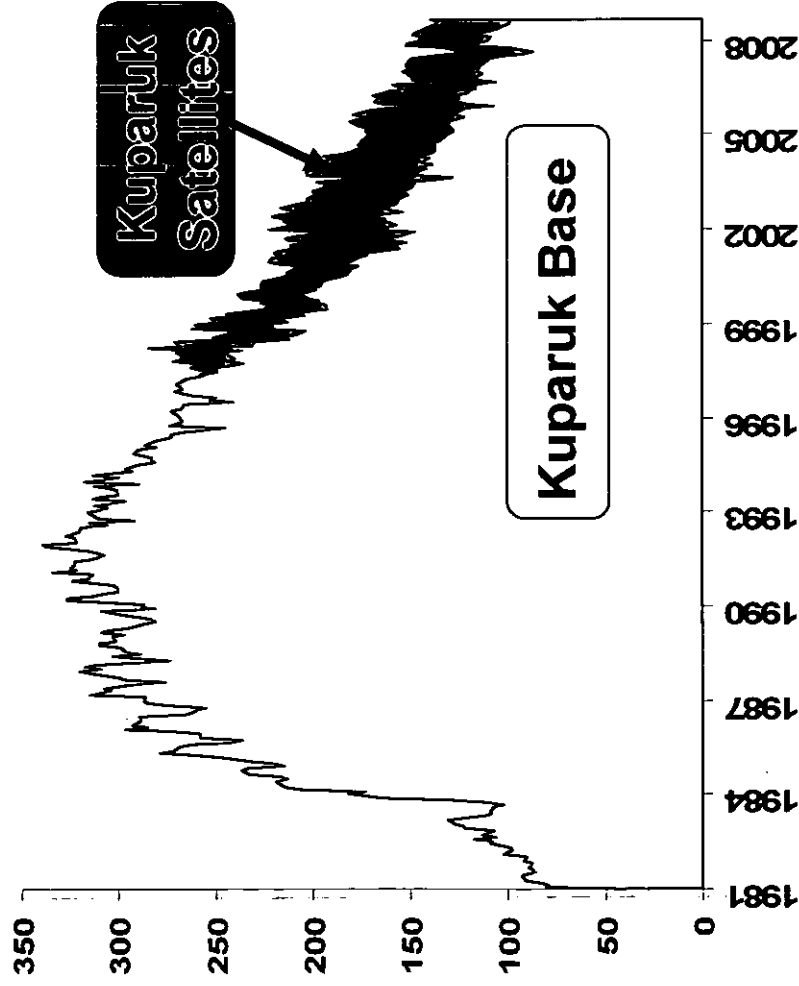


***Core fields are the bridge to the future***

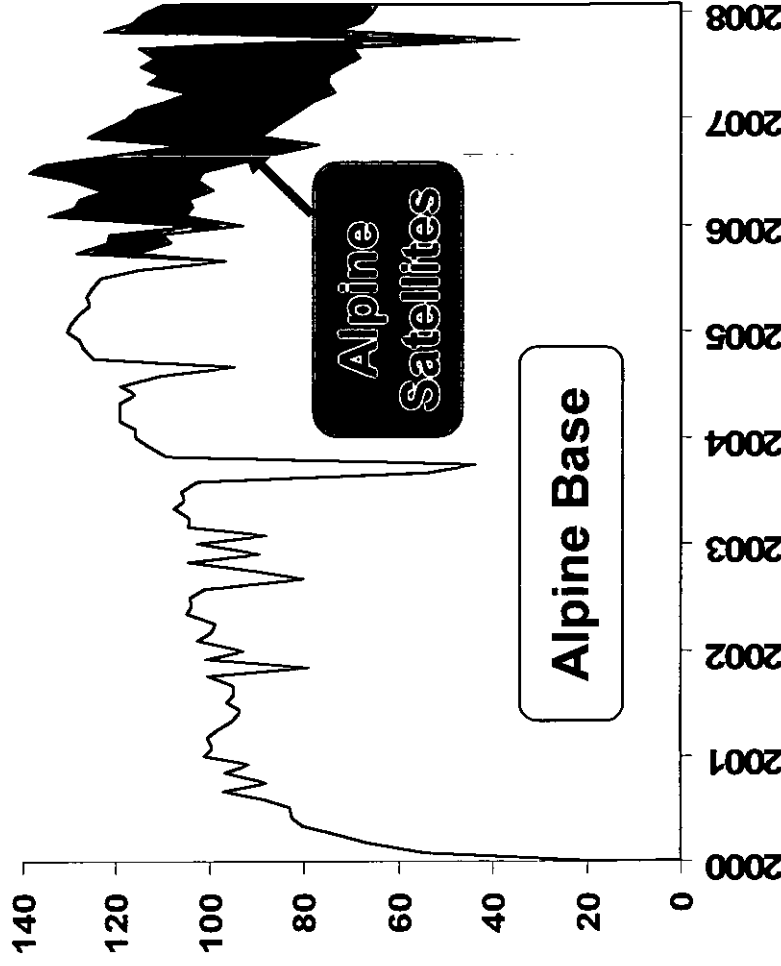
1 - ConocoPhillips core fields are Prudhoe, Kuparuk, Alpine  
Source: DOR data (forecast is for currently producing fields only)  
Slide 3

# Impact of Satellite Developments

Kuparuk Production - MBD

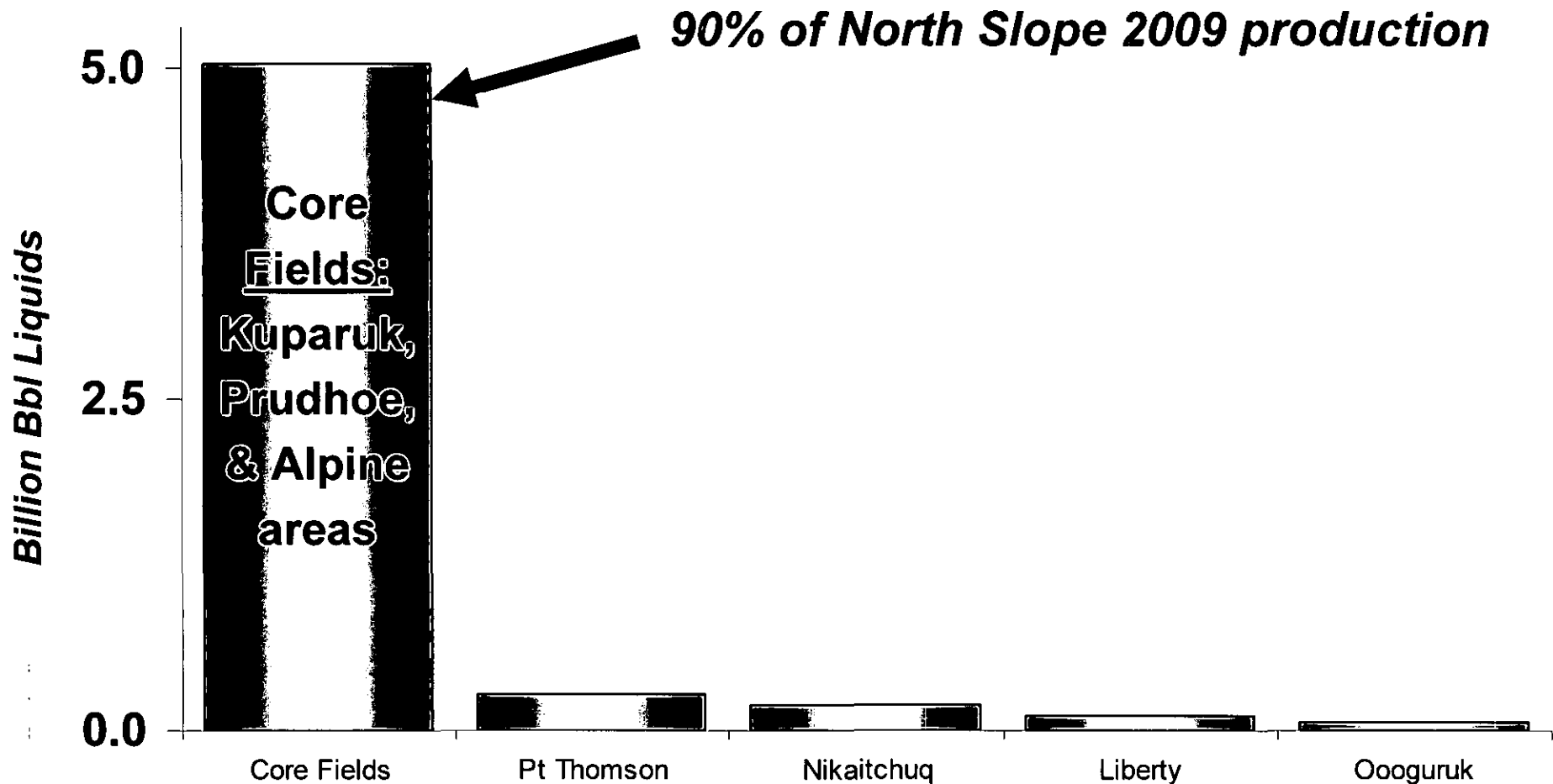


Alpine Production - MBD



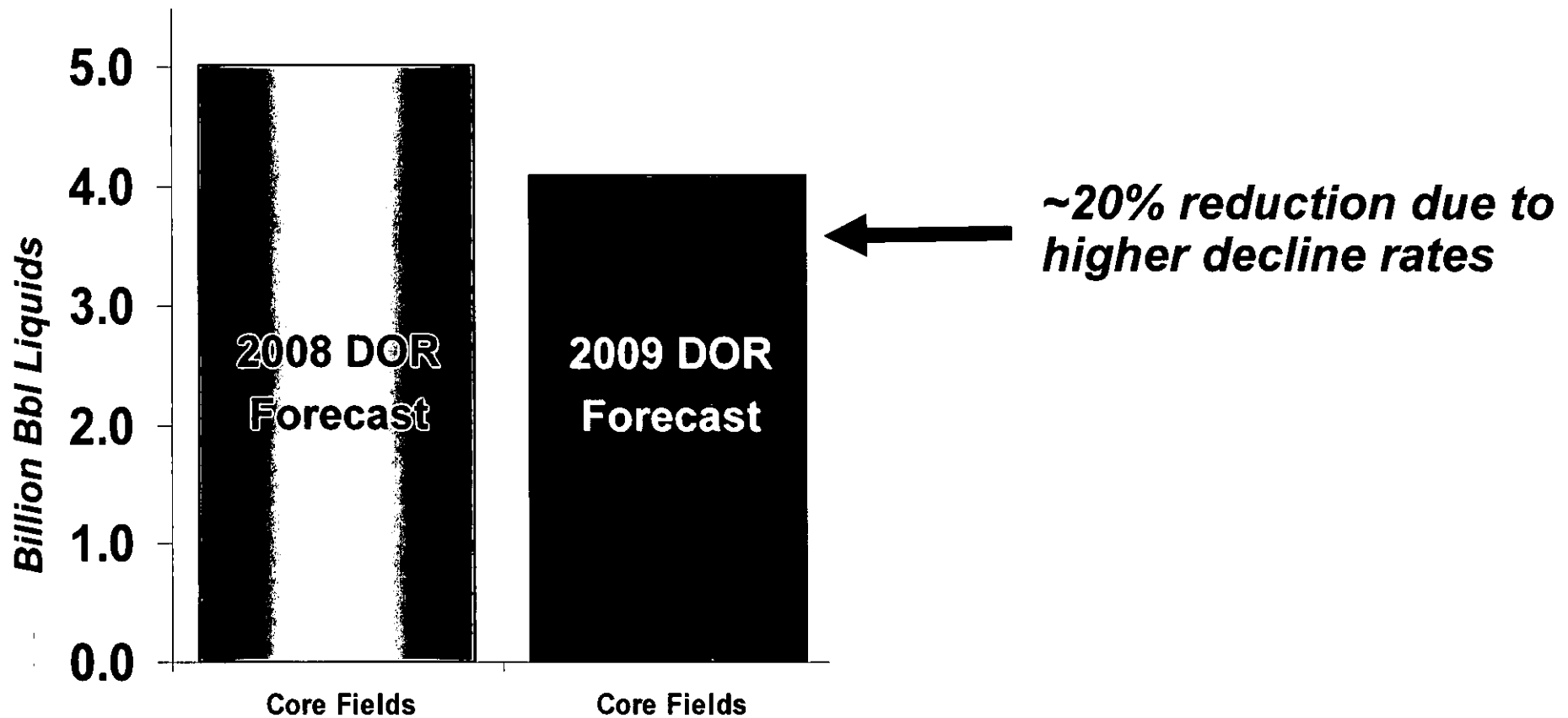
*Investment reduces decline*

# North Slope Remaining Barrels



**Core fields are dominant source of state production**

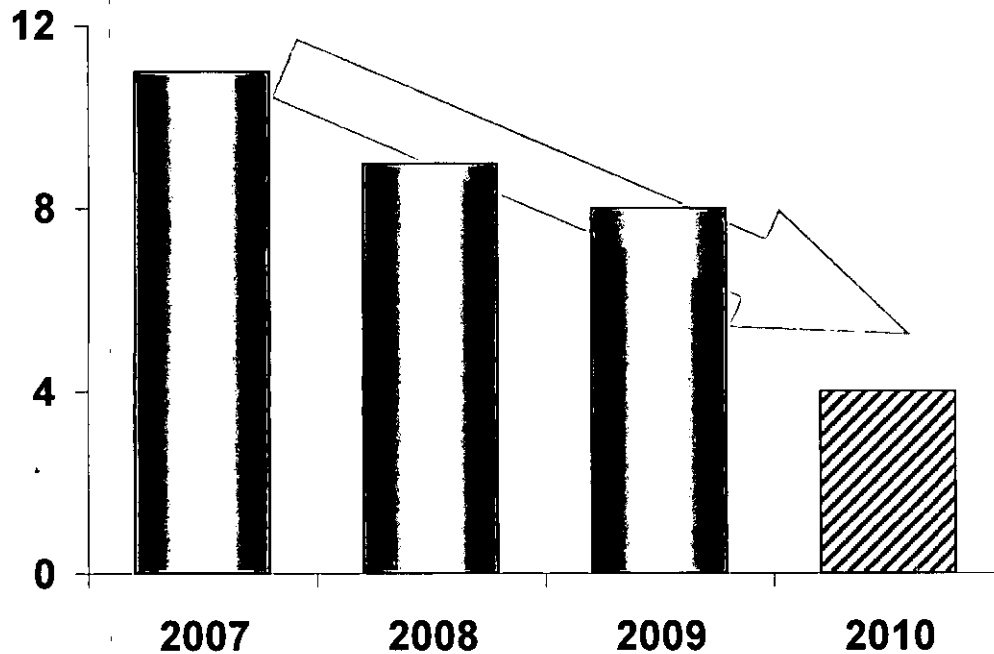
# North Slope Remaining Barrels



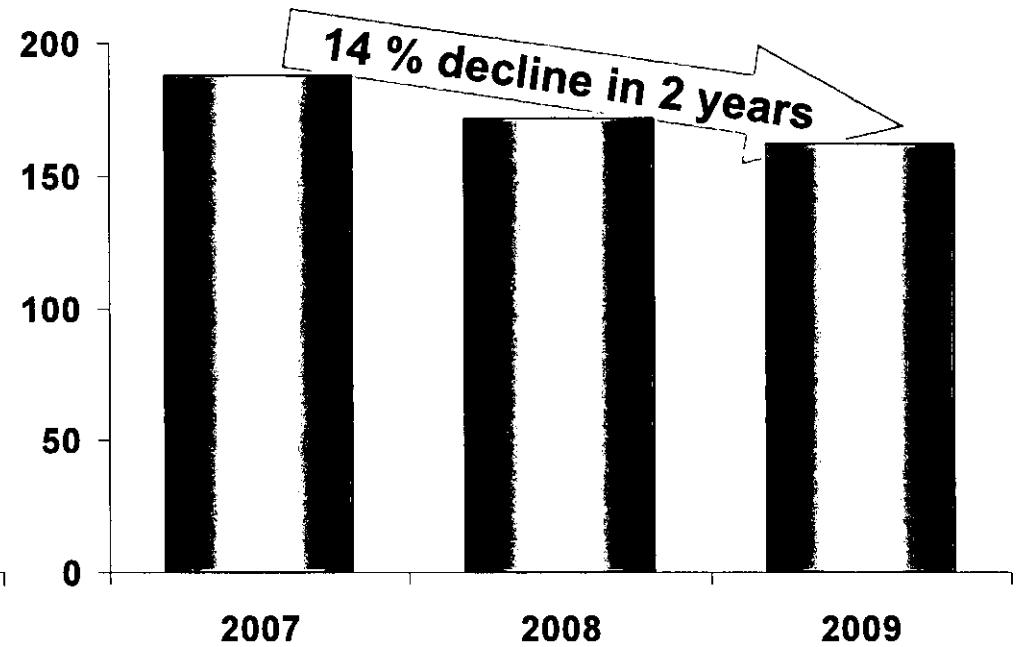
***Investment is key to reducing decline***

# Industry Drilling Activity Down

## Industry Exploration Wells

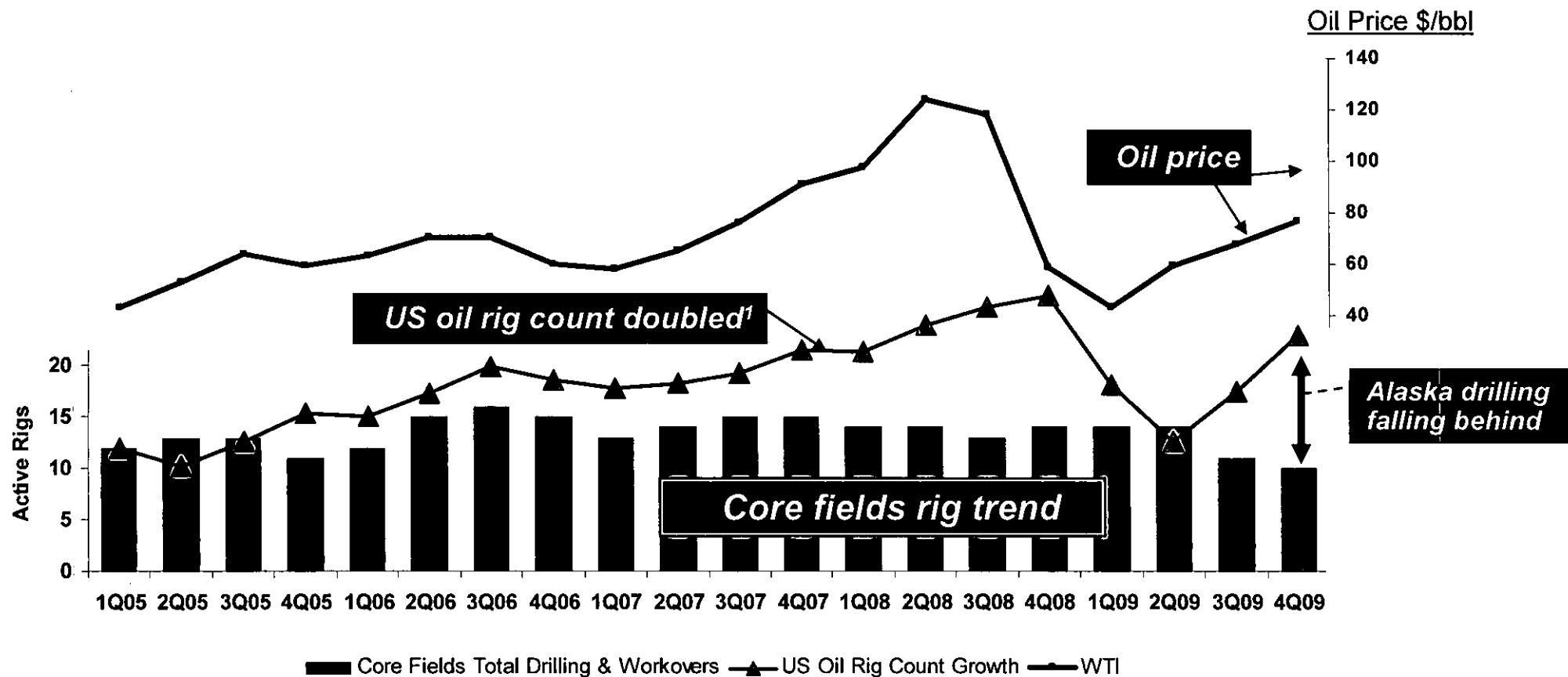


## Industry Well Completions



***Drilling indicators are down***

# Active Drilling Rigs in Core Fields 2005-2009



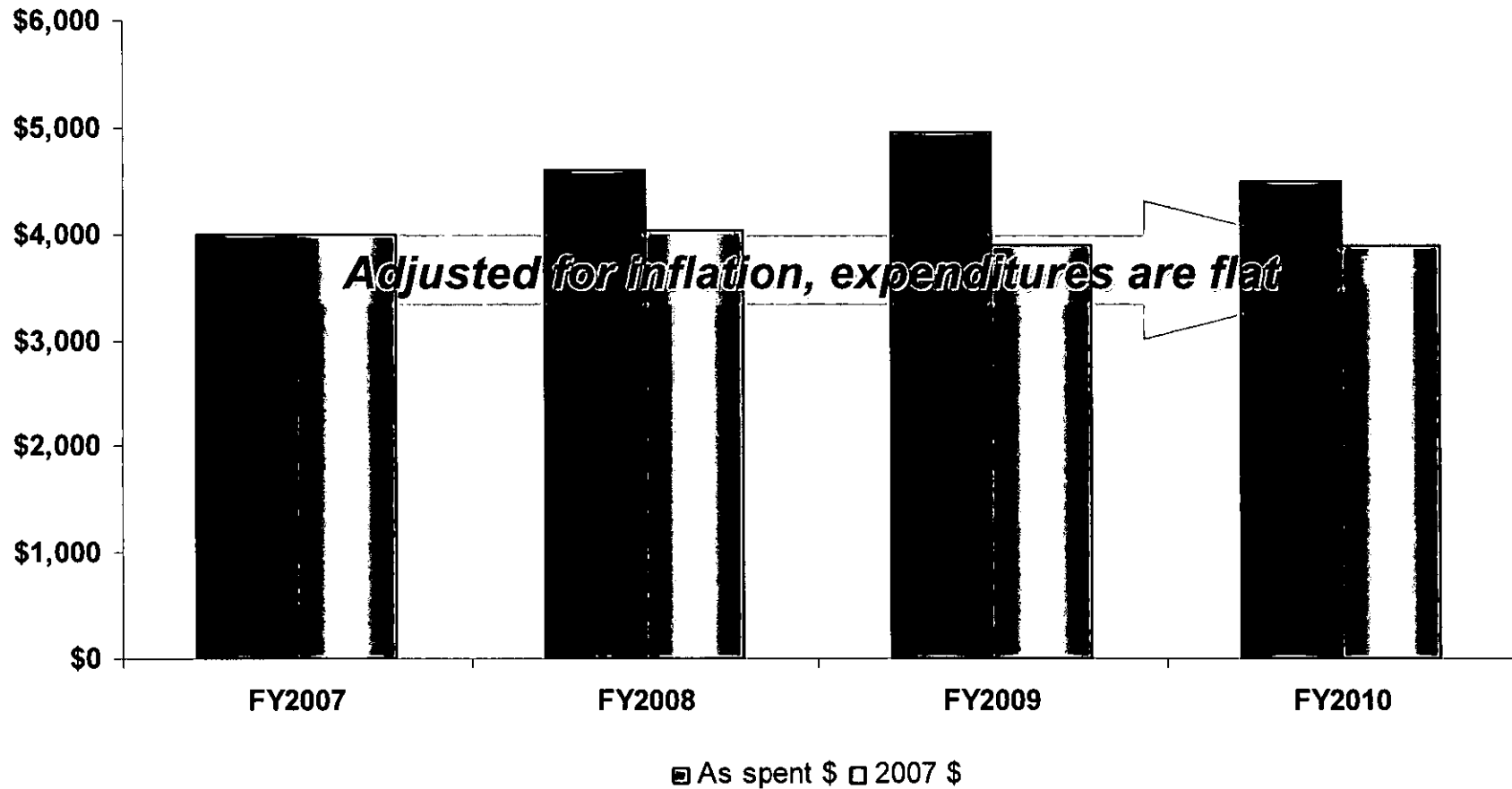
**Core field drilling not tracking oil price**

1 – US oil rig count normalized to 1Q05 Alaska rig count

Sources: ConocoPhillips internal for core fields rig count, Baker Hughes for US oil rig count, DOR for oil price

# Inflation Impact on Expenditures

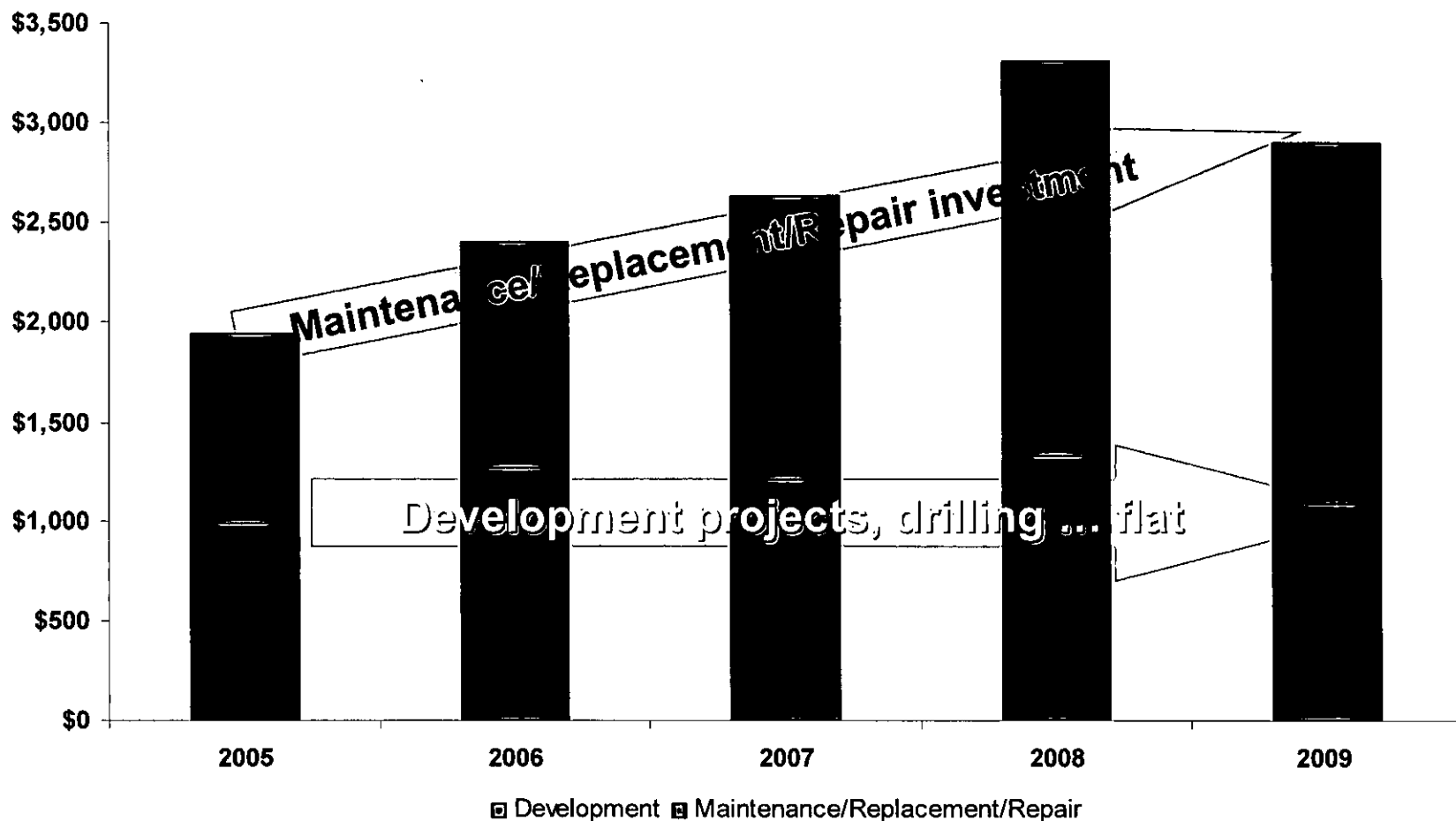
*North Slope Industry spending on capital and operating expense, \$MM*



***Inflation is significant factor in spending increase***

# Core Field Investments Extend Field Life

Core field gross investments include capital and operating expense, \$MM

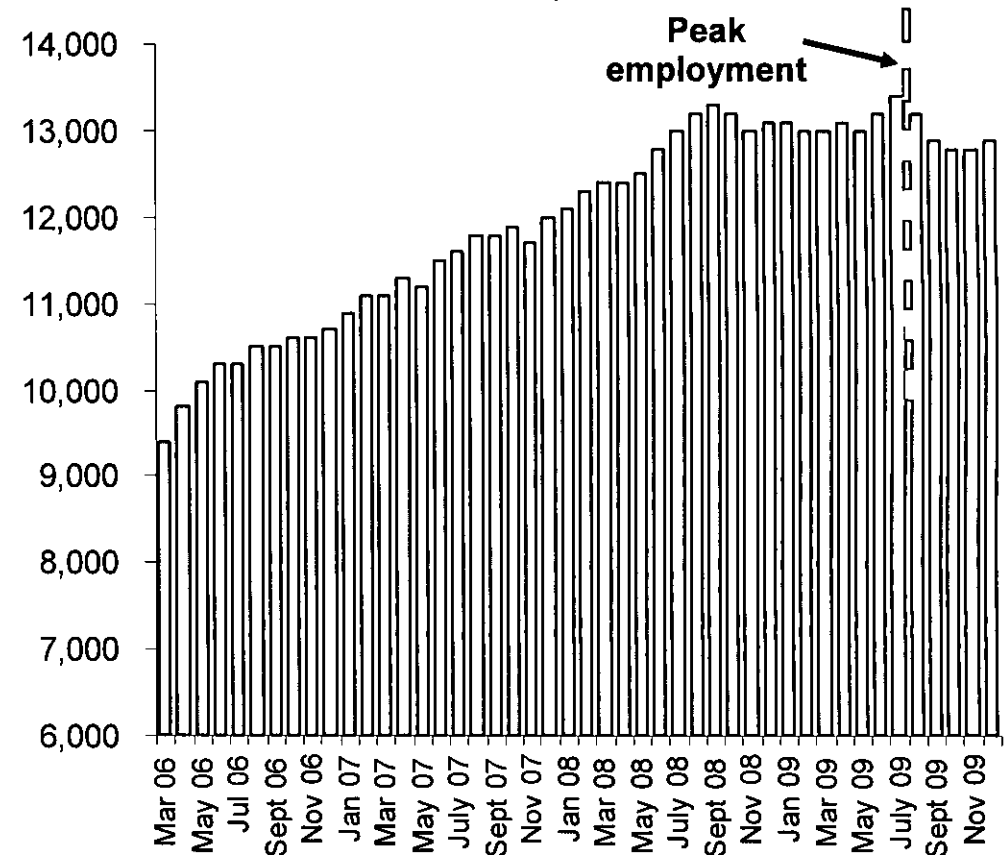


***Maintenance investment essential to extending field life***

# Oil & Gas Employment

- Data since July-09 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%

State of Alaska Oil & Gas Employment



*Rise in employment began in 2006*

# ACES Impacting Projects

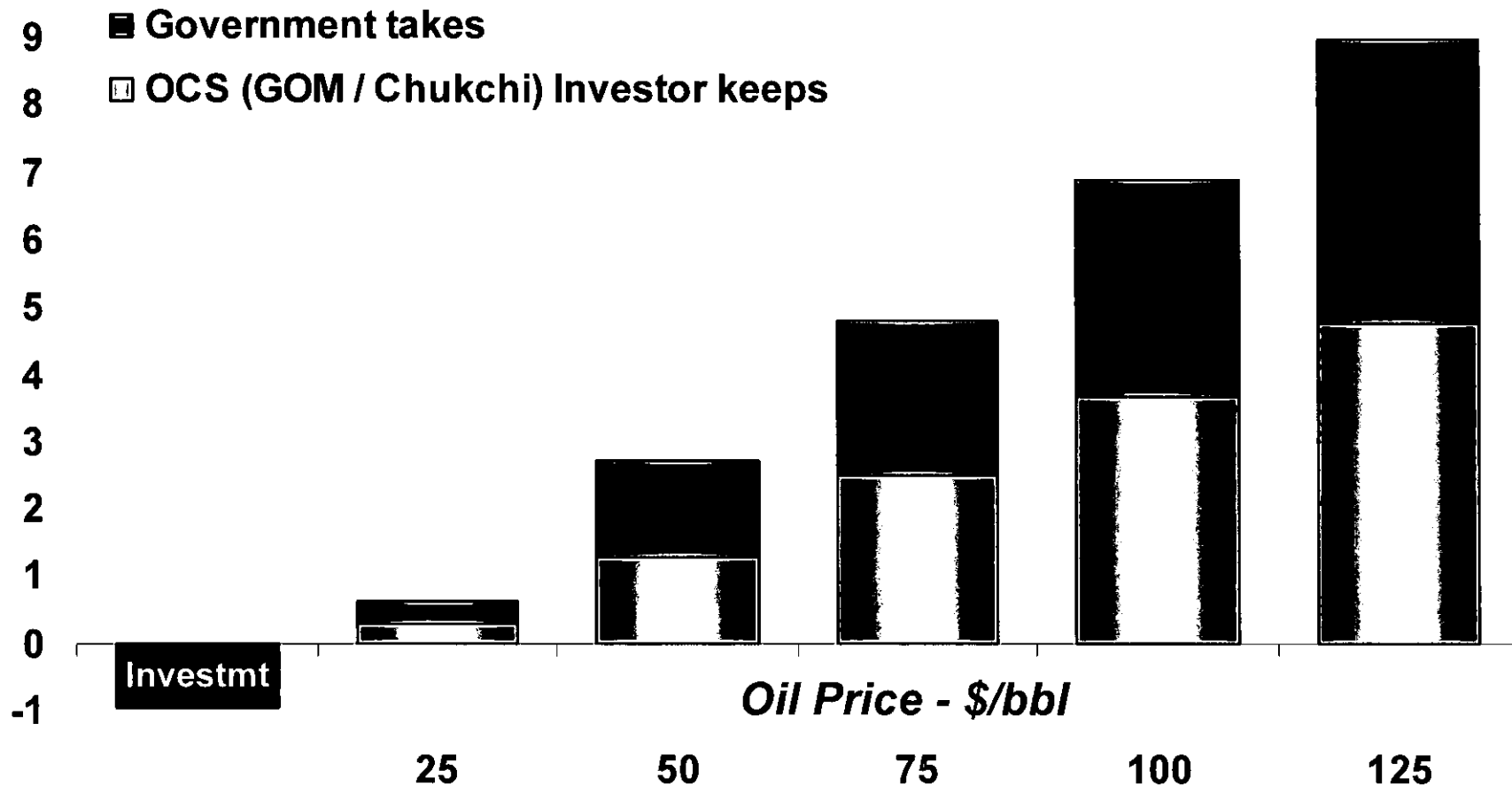
- Recent project activity
  - Oooguruk – pre-ACES, royalty relief
  - Nikaitchuq – royalty relief
  - Liberty – not subject to ACES
  
- Over \$2 Billion in projects deferred since ACES
  - Prudhoe I-Pad and Gas Partial Processing (GPP)
  - West Sak 1N and 1P
  - ULSD topping plant (*opportunity foregone*)

***Project deferrals impact industry and state revenue***

# OCS Fiscal – Risk/Reward is Balanced

## Example - \$1 Billion Investment (success case)

\$B – Undiscounted



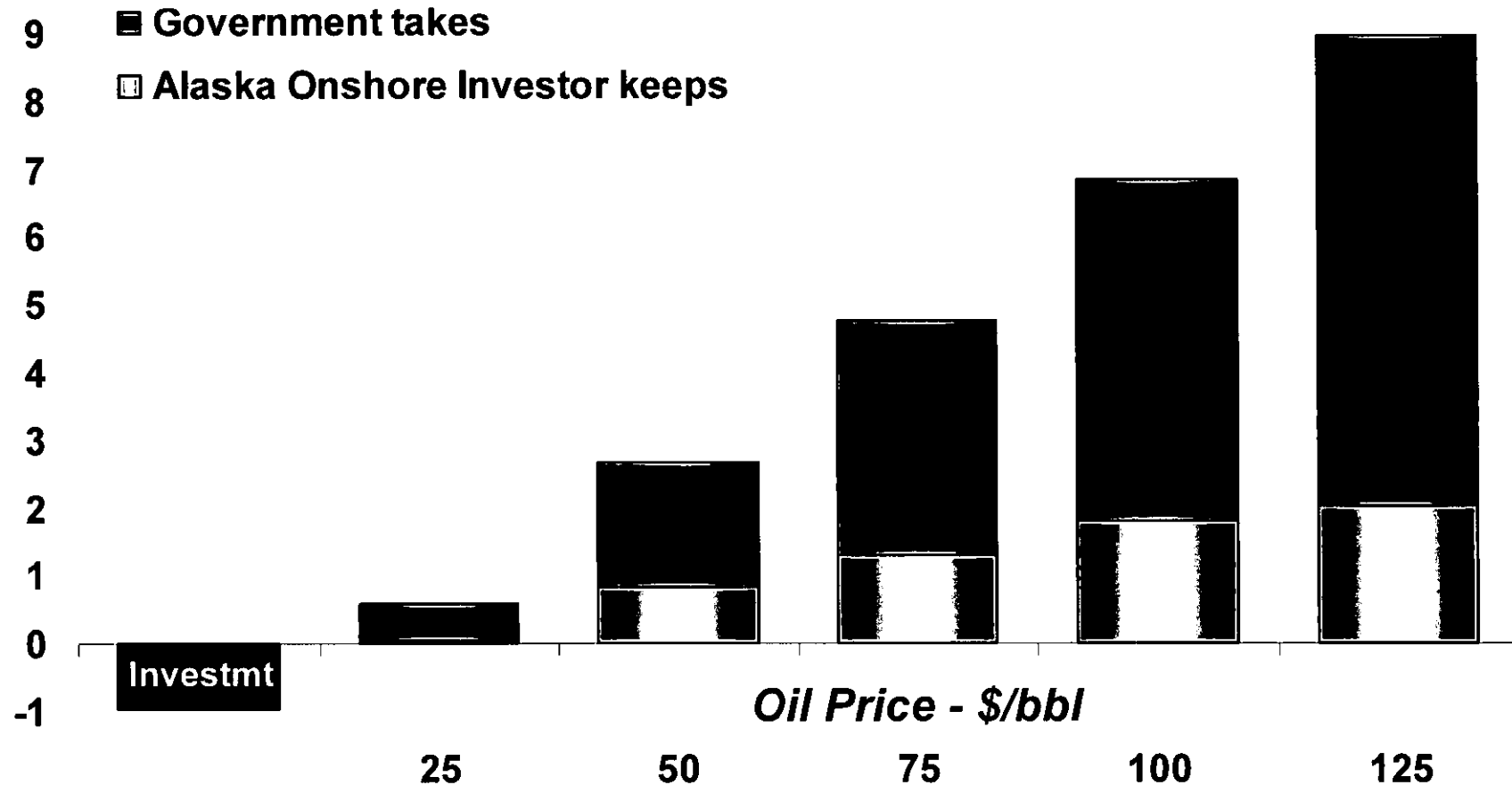
*Adequate success case returns justify taking up front risks*

# Alaska Fiscal – Risk/Reward is Broken

## Example - \$1 Billion Investment (success case)

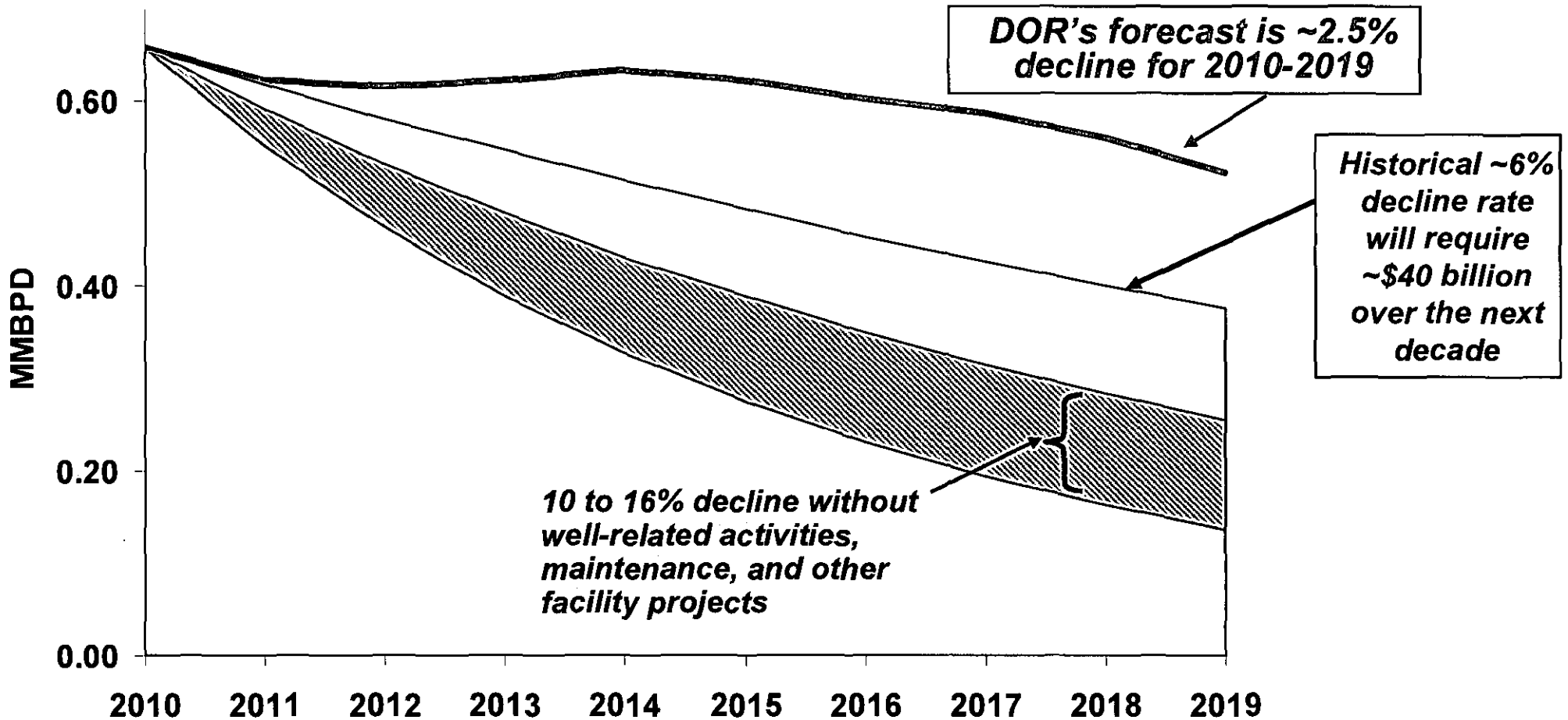
\$B – Undiscounted

- Government takes
- Alaska Onshore Investor keeps



***Alaska onshore fiscal terms not competitive***

# 2010-2019 North Slope Production



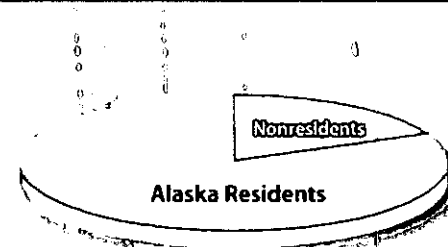
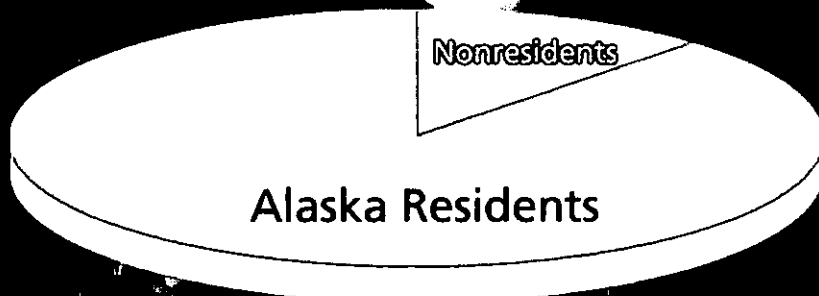
***Future production dependent upon investment***

Sources: DOR production forecast and extrapolation of DOR expenditures forecast  
ConocoPhillips estimates for base decline rate

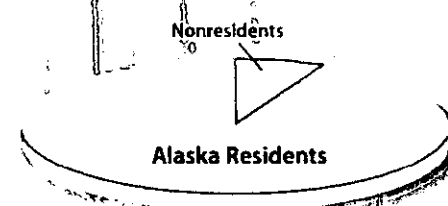
# 2008 ConocoPhillips Alaska Hire



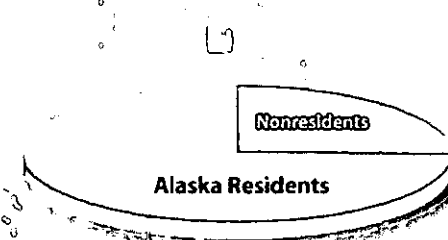
**ConocoPhillips**  
AK Residents: 88%



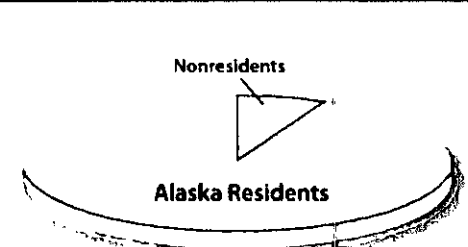
**ASRC Energy Services**  
AK Residents: 81.5%



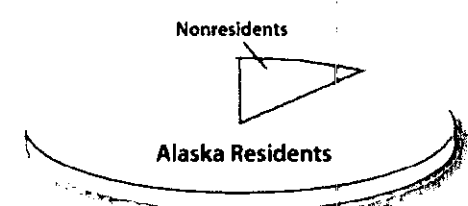
**Kuukpik Arctic Catering**  
AK Residents: 92.8%



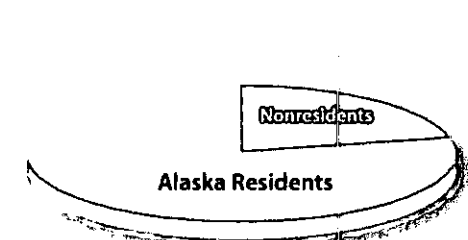
**Halliburton Energy Services**  
AK Residents: 74.3%



**Doyon Universal Services**  
AK Residents: 92.9%



**Doyon Drilling**  
AK Residents: 89.8%



**Nabors Alaska Drilling**  
AK Residents: 78.1%

# ConocoPhillips Supports HB308

## ■ **Reduced progressivity:**

- Moves Alaska toward a more balanced risk / reward environment
- Incentivizes investment in core and new fields
- Supports increased long-term jobs & investment in riskier projects

## ■ **Expanded credits for drilling/wellwork activity:**

- Incentivizes activity in “core fields”
- Increased drilling/workovers provide additional short-term jobs
- Credits are only earned with investment

## ■ **Audit period restored to 3 years:**

- Provides improved tax payment accuracy & predictability for state and producers
- Originally extended to 6 years due to state uncertainty with new net tax

## ■ **Waiver of interest due to delayed regulations:**

- Eliminates penalty for good faith tax filings

TESTIMONY OF DALE PITTMAN  
ON PROPOSED CSHB 308  
TO THE ALASKA HOUSE RESOURCES COMMITTEE  
MARCH 11, 2010

**INTRODUCTION**

Mister Chairman, members of the committee:

Good afternoon. For the record, my name is Dale Pittman. I am the Alaska Production Manager for ExxonMobil, a position I commenced in June of last year. My wife and I have moved to Anchorage and are very happy to be part of the community of Alaska. I have been with ExxonMobil for nearly thirty years, the last fifteen of which were spent overseas, most recently managing operations in Sakhalin. Here in Alaska, I look forward to continuing the progress underway to develop and operate Point Thomson.

I want to thank the committee for the opportunity to express ExxonMobil's views regarding the proposed Committee Substitute to House Bill 308.

ExxonMobil has been working in Alaska for more than 50 years. We have been a key player in Alaska's oil industry development, spending and investing well over \$20 billion dollars during that time. As you know, we are currently active with our co-owners at Prudhoe Bay, Kuparuk, Duck Island and Granite Point. We are also excited about our

progress at Point Thomson and remain on track to achieve a 2014 production startup. We look forward to being a part of Alaska for many years to come.

At the outset, let me say that ExxonMobil supports the presentation you heard today from the Alaska Oil and Gas Association. I do not intend to repeat the thorough technical comments from that testimony.

As for our specific comments, I would like to state, consistent with our prior testimony during the hearings on both the PPT and ACES, that ExxonMobil believes Alaska's current production taxes are too high to result in the additional investment needed to maximize the development of Alaska's resources. It is our belief that even the proposed 20 percent tax rate that was in the original PPT bill would not encourage the full development of Alaska's resources.

Alaska is rich in undiscovered resource potential. To date, Alaska has produced more than 15 billion barrels of oil from the North Slope, and according to the DNR there are approximately 6 billion barrels of known resources remaining. These resources represent a known opportunity, but their development is at risk under the current tax system. Oil production today is one-third of the peak oil production of more than 2 million barrels per day in 1988, and annual production continues to decline.

Spending on the North Slope has remained relatively flat since the enactment of ACES, as you have heard in prior testimony. But the majority of that investment has been for maintenance or production enhancement efforts for existing operations, not for new exploration and development opportunities. In fact, the industry currently invests more

than \$1 billion per year just to maintain North Slope oil production at the current decline rate of about 6 percent annually. Without that continued investment, the annual production decline would not be 6 percent, but would actually be closer to 12-15 percent annually.

What this means is in just 10 years, the majority of future oil production will need to flow from new investments - investments that are at risk today under Alaska's current production tax regime.

Let me explain.

Time in the oil and gas industry is not measured in business cycles. It is measured in decades and in generations. Today's production rates are the product of government policies, technical work, and investment decisions that in many cases were made decades ago. Increasing production rates in the decades to come will result from sound policies, decisions, and commitments that are made today. As policy makers, you will need to decide whether Alaska's current high production tax regime is the right course for Alaska or – given the current high costs and steadily declining oil production rates we face – if another course is necessary to harness the remaining resource potential.

It is important to recognize that any decision made today impacts much more than tax revenue in the future. Decisions made today impact jobs for Alaskan workers, revenue for many Alaska businesses, and infrastructure that benefits Alaskan communities and extends the life of production in existing fields.

To encourage full development of Alaska's resources, we believe production taxes should be lowered. The high base tax rate and the higher taxes due to the additional progressivity tax are major disincentives to the high risk investment opportunities required in Alaska.

Companies like ExxonMobil are willing to accept the risks of long-term, capital intensive investments when there is a stable tax structure that allows and encourages investment and ensures a corresponding opportunity for upside potential. Upside factors such as increased production and higher prices should be a benefit for risks taken, because companies are certainly negatively impacted when lower than expected production or prices occur. When you take away the upside potential that companies can achieve you reduce the overall attractiveness of those capital intensive investments.

Alaska faces significant challenges. Costs are high, exploration is down and production continues to decline. We all need to work together to achieve the right balance - a balance that maximizes the benefit to Alaskans while encouraging industry to continue to invest in Alaska.

We advocate a collaborative approach to develop a sustainable long-term resource development policy that will encourage the needed investments to build the future of Alaska for many generations to come.

Alaska's resource development policy should identify and characterize state-wide resource potential, identify key issues challenging exploration and development, and

encourage investment needed to mitigate production decline. Such a policy should also consider key factors that impact resource value, such as research and technology, exploration and development costs, regulatory and environmental considerations, and land access. A reassessment of Alaska's high production taxes is a critical part of that long-term resource development policy.

Committee Substitute to House Bill 308 is best characterized as a first step toward what we believe should be a comprehensive examination of Alaska's production tax structure.

It will take everyone working together to achieve that long-term policy. Government leaders, industry representatives, contractors and citizens all stand to benefit from developing Alaska's resources.

ExxonMobil looks forward to working with the Administration, the legislators, industry and the people of Alaska in the future pursuit and development of Alaska's oil and gas resources.

Thank you again Mister Chairman for the opportunity to testify today.

# PIONEER

## NATURAL RESOURCES

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Pioneer Natural Resources Alaska, Inc.  
700 G Street, Suite 600  
Anchorage, Alaska 99501  
Tel: (907) 277-2700 Fax: (907) 343-2190

March 10, 2010

Representative Craig Johnson  
Co-Chair, House Resources Committee  
Alaska State House of Representatives  
State Capitol, Room 126  
Juneau, Alaska 99801-1182

Re: Committee Substitute for House Bill 308 – Oil and Gas Production Tax

Dear Representative Johnson:

On behalf of Pioneer Natural Resources Alaska, Inc. (Pioneer), I am writing to share our views on the Committee Substitute for House Bill 308 (CSHB308). In this letter I will provide you with; 1) a brief overview of Pioneer as a company and our activities in Alaska, 2) a high-level analysis of the effects Alaska's various fiscal regimes have had on our business and 3) specific comments regarding the provisions of CSHB308. Thank you for providing an opportunity to share this information with you.

### Pioneer Overview

Pioneer is a large independent oil and gas exploration and production company headquartered in Irving, Texas. The company has operations throughout the contiguous United States and in both Tunisia and South Africa. Company-wide, Pioneer employs nearly 2,000 people and produces more than 100,000 barrels of oil equivalent per day.

In Alaska, Pioneer operates the Ooguruk Unit on the North Slope – currently producing approximately 9,000 barrels of oil per day – and the Cosmopolitan Unit in Cook Inlet – a discovered resource where the company continues to conduct appraisal activities. Since coming to Alaska in 2003, Pioneer has drilled 11 exploration wells, become the first independent company to operate a field on the North Slope at Ooguruk and has worked diligently to commercialize the resource at Cosmopolitan. Anchorage serves as the company's headquarters in Alaska and Pioneer employs 49 people in the state.

### Evolution of Alaska's Oil & Gas Severance Tax System

Pioneer's business activities in Alaska have coincided with state government's recent debates regarding the proper structure for Alaska's severance tax system. In 2006, following a royalty modification decision from the Alaska Department of Natural Resources, Pioneer sanctioned its Ooguruk project. At that time, the Economic Limit Factor (ELF) served as Alaska's severance tax system. Due to the characteristics of the Ooguruk field and the structure of ELF, Pioneer expected its effective severance tax rate to be nearly zero on a gross basis.

In 2007, while Pioneer began construction at Oooguruk, the state Legislature passed the Petroleum Production Tax (PPT) a monumental shift in the state's severance tax structure. At its core, PPT combined a 22.5% tax on the net value of oil produced with a 20% credit for qualified capital expenses. During the debate over PPT, Pioneer testified that the capital credits resulted in a modest improvement for project economics.

In 2008, as production from Oooguruk began, the Legislature created yet another severance tax system – Alaska's Clear and Equitable Share (ACES.) In addition to raising the base tax on oil and gas from 22.5% to 25%, ACES created a new progressivity tax which adds 0.4% per \$1/BOE when the production tax value is between \$30 and \$92.50. When the production tax value exceeds \$92.50 the progressivity factor is reduced to 0.1% per \$1/BOE. Pioneer believes the aggressive progressivity factor in ACES pushes the tax rate out of balance with the capital credit benefit and therefore does not optimize the balance between state revenues and industry investment over the long term.

#### Pioneer Comments on the Provisions of CSHB308

- **30% Credit for Well Work**

With daily production flowing through the Trans Alaska Pipeline System at one-third of its historical peak, Alaska needs new barrels regardless of how or where they are developed on the North Slope. All things being equal, the increased credit for well work will lead to additional investment resulting in the production of new barrels. Pioneer supports this provision.

- **Reduction in Progressivity from 0.4% to 0.2%**

The aggressive nature of progressivity under ACES effectively takes away the price upside for Alaska projects making it more difficult for prospective Alaska investments to compete for capital. The bulk of Pioneer's current investments are being made in other areas of the United States where the severance tax regimes are much more favorable. While CSHB308 is a step in the right direction, Pioneer remains concerned that the progressivity tax negatively affects the ability of the industry in Alaska to attract capital.

- **Reduction of Audit Period from 6 to 3 Years**

Three years is ample time for the Alaska Department of Revenue to conduct and complete its audit work. Additionally, this language reduces tax-payer uncertainty – something that remains a problem with the ACES tax. Pioneer supports this provision.

- **Waiver of Interest Due to Retroactive Regulations**

Mandating that interest penalties related to regulations applied retroactively will not accrue until 30 days after the effective date of the regulation is a matter of fairness to the industry. Again, this language will help to reduce tax-payer uncertainty under ACES. Pioneer supports this provision.

- **Interest Rate = Lower of Fed Funds + 2% or 11%**

Alaska's current statutory rate of interest is punitive and is out of proportion when compared to other oil and gas producing states. For example, Pioneer has large operations in both Colorado and Texas where the current interest rates are 6% and 4.25% respectively. Pioneer supports this provision.

- Tax Rebate Related to Alaska Hire

Pioneer understands and supports the State's goal of maximizing the hiring of qualified Alaskans. Nevertheless, this is a complicated issue with a high potential for creating unintended consequences. Pioneer urges the committee to move carefully on this provision.

Conclusion

Pioneer has been an active investor since coming to Alaska in 2003. At Oooguruk, we are working to grow our production to a peak of 15,000 – 20,000 barrels per day. At Cosmopolitan we are striving to commercialize an oil resource estimated to be 30 – 50 million barrels. However, projects in Alaska continue to be challenged by the cumulative negative effects of geography, seasonality, cost structure, complex regulatory environment and long project cycle times.

Increasingly resource plays, such as shale gas, throughout the contiguous United States are attracting substantial interest and investment from both independent and vertically integrated companies alike. With significantly increased competition from lower risk, domestic resources and higher taxes in the change from PPT to ACES, the competitiveness of Alaska projects for investment has declined in recent years. CSHB308 is an important first step in ensuring Alaska remains an attractive place for industry investment.

Thank you again for the opportunity to provide you with Pioneer's comments. Please feel free to contact me or my staff with questions or if you need additional information.

Sincerely,



Ken Sheffield, President  
Pioneer Natural Resources Alaska, Inc.

February 12, 2010

Representative Craig Johnson, Co-Chair  
Representative Mark Neuman, Co-Chair  
House Resources Committee  
Capitol Building  
Juneau, AK 99801

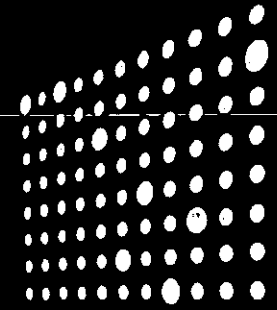
RE: HB 308

Co-Chairs & members of the House Resources Committee,

The Alaska State Chamber of Commerce strongly supports HB 308. The Chamber has been concerned about the continued decline in production of oil and gas here in Alaska. The production decline will ultimately offset any gains in state revenues made by recent tax hikes through ACES. The recent tax increases may even be detrimental to new oil and gas exploration as financial resources are limited in a faltering global economy. Without implementation of HB 308 or similar legislation, new oil exploration and new production will be limited altogether thus creating havoc for our state budgeting process through the loss of revenues from lacking oil production.

Although the ACES legislation passed two years ago raised the state's taxes on oil and gas, current trends in declining oil and gas production suggest that the state will not be able to balance its budget in 5 years or less. Simply, we cannot continue to hope that prices will rebound substantially enough for recent increases in taxes to fill future state budget expectations. Another option must be considered to increase oil production, which currently funds 90% of the state's general fund budget. HB 308 attempts to maintain much of the tax structure passed under ACES, while giving serious financial incentives for exploration and new drilling.

As are aware, we are just beginning to recover from a serious global economic meltdown. In some cases it may take years for a full recovery to be evident. Investment in exploration and prospectus drilling is paramount to increasing oil and gas development in the state. Under current economic conditions, most companies have entered a regressed approach to future investment in prospectus drilling, here in Alaska and elsewhere around the world. HB 308 counters by providing direct incentives for new drilling, up to a 30% recapture of new investment. While there is always resistance in providing tax breaks to industry, HB 308 balances the interests of the state with future production, which creates new state revenues.



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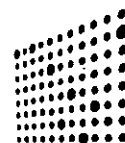
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FAX 278-6643

[www.alaskachamber.com](http://www.alaskachamber.com)

Again, the State Chamber strongly supports HB 308. We are hopeful the committee will be deliberate and balanced in its approach and work on the legislation. Finding long-term sustainability for the oil industry while providing long-term sustainability for state budgeting should be of the utmost priority.

Respectfully,

Wayne A. Stevens  
President/CEO

A handwritten signature in black ink, appearing to read "Wayne Stevens", with a long horizontal line extending to the right.



# RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

March 10, 2010

Representative Craig Johnson  
House Resources Committee  
Alaska State Legislature, State Capitol  
Juneau, AK 99801

Re: HB308-Oil and Gas Production Tax

Dear Representative Johnson:

The Resource Development Council (RDC) would like to encourage the Legislature's efforts to develop an improved tax policy that enhances the State of Alaska's competitiveness for exploration and development investments. We support legislation that will encourage new exploration and development of Alaska's oil and gas deposits, as well as enhance production from existing fields. Only through equitable and predictable tax and royalty policies will we be able to reverse the trend that leaves our pipeline less than one-third full today.

RDC is a statewide, non-profit, membership-funded organization founded in 1975. The RDC membership is comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries, as well as Alaska Native corporations, local communities, organized labor, and industry support firms. RDC's purpose is to link these diverse interests together to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

More and more, Alaska is becoming a less attractive place for the oil and gas industry to invest its capital. According to investors – the companies that take the risks involved in developing energy resources, Alaska's high cost environment coupled with its high tax regime discourage new investment. While some in state government and the Legislature may disagree, Alaskans need to listen to what the investors are telling us, since they are the ones making the decisions on where to invest their corporate capital.

While Alaska still holds much promise for significant oil and gas discoveries, there is a world of opportunity elsewhere for companies engaged in energy development. Investors will develop the prospects in their global portfolios that offer the best returns, whether here in Alaska, the Lower 48, or abroad.

It is not enough that Alaska is rich in oil and gas because industry faces substantial risks and high costs in the arctic. The economics of developing energy deposits in the far north are highly challenged, but the state can mitigate many of these challenges by creating a warmer business climate, one that has attractive and highly competitive fiscal terms that compel industry to invest here.

Founded 1975

Executive Director

Jason W. Brune

2009-2010 Executive Committee

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Teresa Imm

Bill Jeffress

Mike Jungreis

Frank Kelly

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Thomas Krzewinski

Linda Leary

Carri Lockhart

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Keith Sanders

Kenneth Sheffield

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Jeanine St. John

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John Zager

Ex-Officio Members

Senator Mark Begich

Senator Lisa Murkowski

Congressman Don Young

Governor Sean Parnell

Given oil is the lifeblood of Alaska's economy and the pipeline is running at one-third its peak flow, it is imperative the state have the right tax and royalty policies in place to attract industry investment and sustain the economy. Approximately \$40 billion in new investment will be required in the next ten years to develop new fields and prevent the current six percent annual decline in North Slope production from accelerating. Moreover, 38 percent of projected production in 2015 is expected to come from fields that are not yet in production.

Yet Alaska appears to be heading in the wrong direction. Capital spending by major oil producers has ebbed and a disproportionate share of spending has been directed to maintenance projects, which do virtually nothing to generate new production but remain important in maintaining the base production. 2010 will bring the number of exploratory and development wells to their lowest levels in a decade on the North Slope, where production is down 80,000 barrels since 2007.

RDC finds these trends alarming and the lack of investment where it matters most indicates the production decline is likely to accelerate well beyond state projections. The worrisome trends also indicate more than just tweaks are needed to restore Alaska's competitiveness and draw investment dollars back to our state.

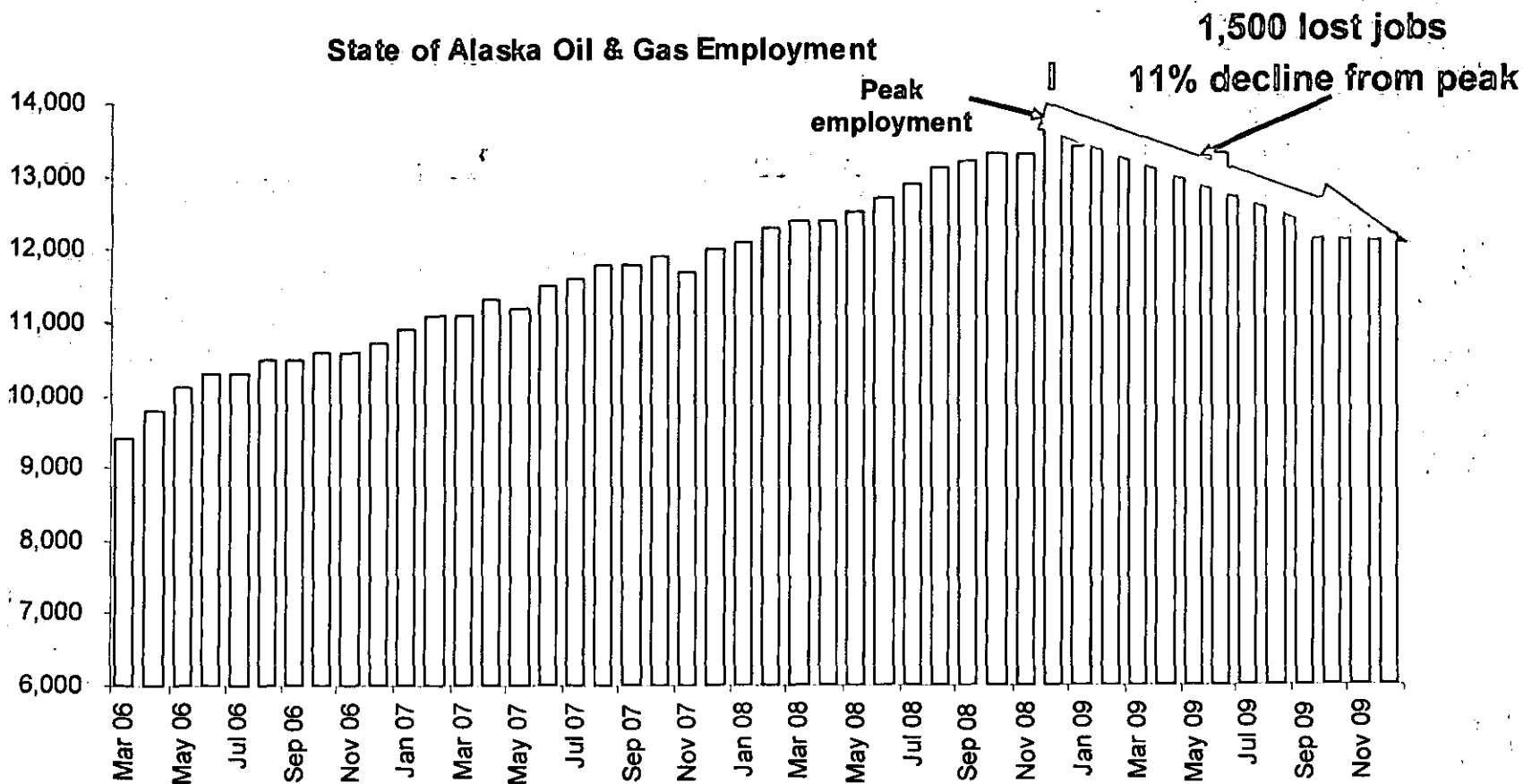
RDC is closely tracking oil and gas production tax legislation and requests the opportunity to testify and comment on this issue as the session evolves. We appreciate your efforts to improve Alaska's competitive position in attracting new investment and we thank you for considering our concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason Brune", with a long horizontal flourish extending to the right.

Jason Brune  
Executive Director

# Oil & Gas Employment

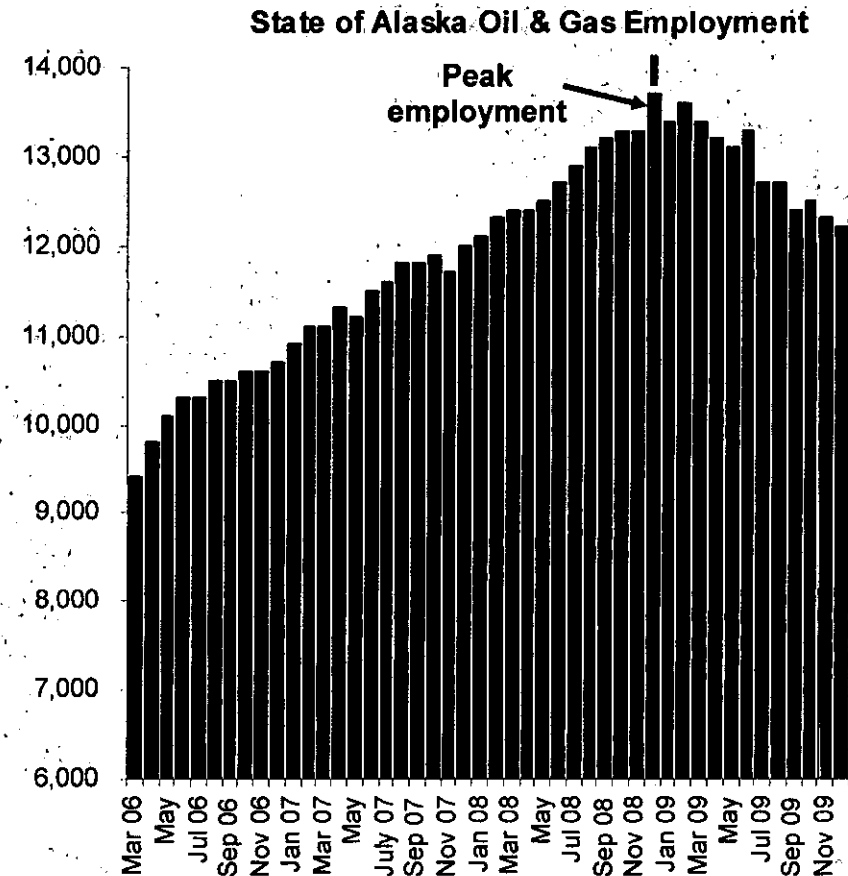


*Rise in employment began in 2006*

# Oil & Gas Employment

Revised DOL data

- Data since Dec-08 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%



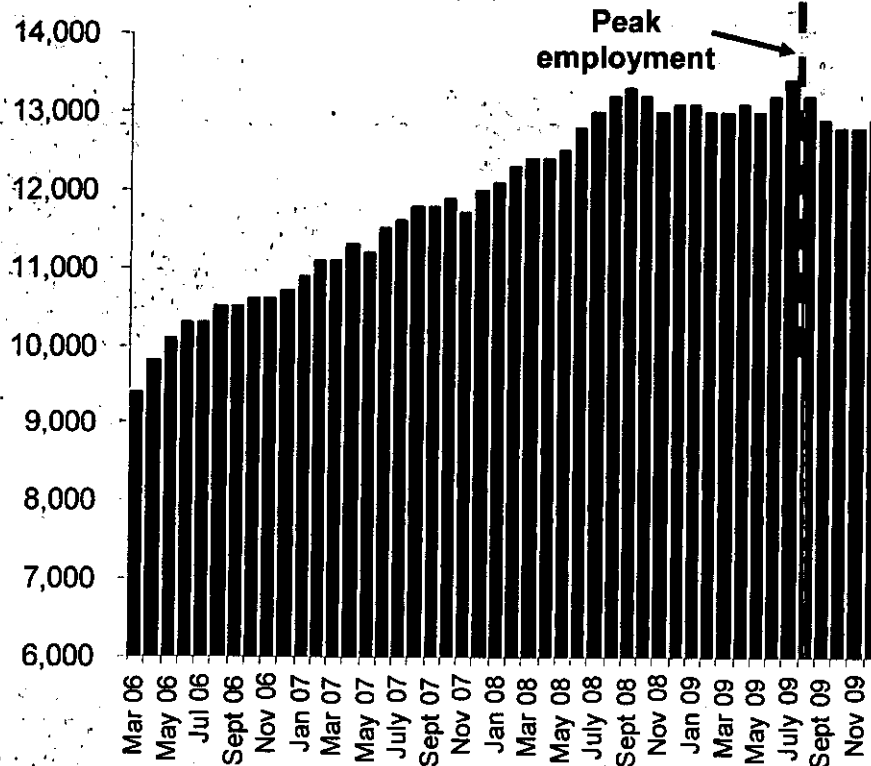
***Rise in employment began in 2006***

# Oil & Gas Employment

Original DOL data

- Data since July-09 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%

State of Alaska Oil & Gas Employment



*Rise in employment began in 2006*

26-LS1328P  
Bullock  
3/17/10

**CS FOR HOUSE BILL NO. 308( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES JOHNSON, Neuman, Ramras, Millett, Johansen, Hawker**

**A BILL**  
**FOR AN ACT ENTITLED**

1 **"An Act relating to the tax rate applicable to the production of oil and gas; relating to**  
2 **credits against the oil and gas production tax; relating to the period in which oil and gas**  
3 **production taxes may be assessed; relating to the interest rates applicable on certain**  
4 **amounts due related to various taxes, penalties, payments, and the Alaska Gasline**  
5 **Inducement Act; and providing for an effective date."**

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

7 **\* Section 1.** AS 05.15.095(c) is amended to read:

8 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(2)  
9 [AS 43.05.225].

10 **\* Sec. 2.** AS 34.45.470(a) is amended to read:

11 (a) A person who fails to pay or deliver property within the time prescribed by  
12 this chapter may be required to pay to the department interest at the annual rate  
13 calculated under AS 43.05.225(2) [AS 43.05.225] on the property or the value of it

1 from the date the property should have been paid or delivered.

2 \* **Sec. 3.** AS 43.05.225 is amended to read:

3 **Sec. 43.05.225. Interest.** Unless otherwise provided,

4 (1) when a tax levied in this title becomes delinquent, it bears interest  
5 in a calendar quarter at the rate of three [FIVE] percentage points above the annual  
6 rate charged member banks for advances by the 12th Federal Reserve District as of the  
7 first day of that calendar quarter, [OR AT THE ANNUAL RATE OF 11 PERCENT,  
8 WHICHEVER IS GREATER,] compounded quarterly as of the last day of that  
9 quarter;

10 (2) the interest rate is 12 percent a year for

11 (A) delinquent fees payable under AS 05.15.095(c); and

12 (B) [REPEALED

13 (C)] unclaimed property that is not timely paid or delivered, as  
14 allowed by AS 34.45.470(a).

15 \* **Sec. 4.** AS 43.50.570 is amended to read:

16 **Sec. 43.50.570. Interest.** A licensee who fails to pay an amount due for the  
17 purchase of stamps within the time required

18 (1) is considered to have failed to pay the cigarette taxes due under this  
19 chapter; and

20 (2) shall pay interest at the rate established under AS 43.05.225(1)  
21 [AS 43.05.225] from the date on which the amount became due until the date of  
22 payment.

23 \* **Sec. 5.** AS 43.55.011(g) is amended to read:

24 (g) For each month of the calendar year for which the producer's average  
25 monthly production tax value under AS 43.55.160(a)(2) per BTU equivalent barrel of  
26 the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of  
27 this section is determined by subtracting the product of \$30 multiplied by the  
28 number of BTU equivalent barrels of taxable oil and gas produced during the  
29 month from [MULTIPLYING] the monthly production tax value of the taxable oil  
30 and gas produced during the month, and multiplying that result by the tax rate  
31 calculated as follows:

1 (1) if the producer's average monthly production tax value per BTU  
2 equivalent barrel of the taxable oil and gas for the month is not more than \$92.50, the  
3 tax rate is 0.4 percent multiplied by the number that represents the difference between  
4 that average monthly production tax value per BTU equivalent barrel and \$30; or

5 (2) if the producer's average monthly production tax value per BTU  
6 equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax  
7 rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number  
8 that represents the difference between the average monthly production tax value per  
9 BTU equivalent barrel and \$92.50, except that the sum determined under this  
10 paragraph may not exceed 50 percent.

11 \* **Sec. 6.** AS 43.55.020(a) is amended to read:

12 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)  
13 shall pay the tax as follows:

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

21 (A) for oil and gas produced from leases or properties in the  
22 state outside the Cook Inlet sedimentary basin but not subject to  
23 AS 43.55.011(o), other than leases or properties subject to AS 43.55.011(f), the  
24 greater of

25 (i) zero; or

26 (ii) the result obtained by taking [THE SUM OF] 25  
27 percent [AND THE TAX RATE CALCULATED FOR THE MONTH  
28 UNDER AS 43.55.011(g)] multiplied by the remainder obtained by  
29 subtracting 1/12 of the producer's adjusted lease expenditures for the  
30 calendar year of production under AS 43.55.165 and 43.55.170 that are  
31 deductible for the leases or properties under AS 43.55.160 from the

1 gross value at the point of production of the oil and gas produced from  
2 the leases or properties during the month for which the installment  
3 payment is calculated, and adding that amount to the tax amount  
4 determined for the month under AS 43.55.011(g) for the leases or  
5 properties;

6 (B) for oil and gas produced from leases or properties subject  
7 to AS 43.55.011(f), the greatest of

8 (i) zero;

9 (ii) zero percent, one percent, two percent, three  
10 percent, or four percent, as applicable, of the gross value at the point of  
11 production of the oil and gas produced from all leases or properties  
12 during the month for which the installment payment is calculated; or

13 (iii) the result obtained by taking [THE SUM OF] 25  
14 percent [AND THE TAX RATE CALCULATED FOR THE MONTH  
15 UNDER AS 43.55.011(g)] multiplied by the remainder obtained by  
16 subtracting 1/12 of the producer's adjusted lease expenditures for the  
17 calendar year of production under AS 43.55.165 and 43.55.170 that are  
18 deductible for those leases or properties under AS 43.55.160 from the  
19 gross value at the point of production of the oil and gas produced from  
20 those leases or properties during the month for which the installment  
21 payment is calculated, and adding that amount to the tax amount  
22 determined for the month under AS 43.55.011(g) for the leases or  
23 properties;

24 (C) for oil and gas produced from each lease or property  
25 subject to AS 43.55.011(j), (k), or (o), the greater of

26 (i) zero; or

27 (ii) the result obtained by taking [THE SUM OF] 25  
28 percent [AND THE TAX RATE CALCULATED FOR THE MONTH  
29 UNDER AS 43.55.011(g)] multiplied by the remainder obtained by  
30 subtracting 1/12 of the producer's adjusted lease expenditures for the  
31 calendar year of production under AS 43.55.165 and 43.55.170 that are

1 deductible under AS 43.55.160 for oil or gas, respectively, produced  
2 from the lease or property from the gross value at the point of  
3 production of the oil or gas, respectively, produced from the lease or  
4 property during the month for which the installment payment is  
5 calculated, and adding that amount to the tax amount determined  
6 for the month under AS 43.55.011(g) for the lease or property;

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

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

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

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

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

1 calendar year of production.

2 \* Sec. 7. AS 43.55.020(g) is amended to read:

3 (g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid  
4 amount of an installment payment required under (a)(1) - (3) of this section that is not  
5 paid when due bears interest (1) at the rate provided for an underpayment under 26  
6 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the date  
7 the installment payment is due until March 31 following the calendar year of  
8 production, and (2) as provided for a delinquent tax under AS 43.05.225(1)  
9 [AS 43.05.225] after that March 31. Interest accrued under (1) of this subsection that  
10 remains unpaid after that March 31 is treated as an addition to tax that bears interest  
11 under (2) of this subsection. An unpaid amount of tax due under (a)(4) of this section  
12 that is not paid when due bears interest as provided for a delinquent tax under  
13 AS 43.05.225(1) [AS 43.05.225].

14 \* Sec. 8. AS 43.55.020 is amended by adding a new subsection to read:

15 (i) Notwithstanding any contrary provision of AS 43.05.225 or (g) or (h) of  
16 this section, if the amount of a tax payment, including an installment payment, due  
17 under (a)(1) - (4) of this section is affected by the retroactive application of a  
18 regulation adopted under this chapter, the department shall determine whether the  
19 retroactive application of the regulation caused an underpayment or an overpayment of  
20 the amount due and adjust the interest due on the affected payment as follows:

21 (1) if an underpayment of the amount due occurred, the department  
22 shall waive interest that would otherwise accrue for the underpayment before the first  
23 day of the second month following the month in which the regulation became  
24 effective, if the department

25 (A) determines that the producer's underpayment resulted  
26 because the regulation was not in effect when the payment was due; and

27 (B) does not find that the producer failed to make a good faith  
28 estimate of its tax obligation in light of the regulations then in effect when the  
29 payment was due and paid the estimated tax;

30 (2) if an overpayment of the amount due occurred and the department  
31 determines that the producer's overpayment resulted because the regulation was not in

1 effect when the payment was due, the obligation for a refund for the overpayment does  
2 not begin to accrue interest earlier than the following, as applicable:

3 (A) except as otherwise provided under (B) of this paragraph,  
4 the first day of the second month following the month in which the regulation  
5 became effective;

6 (B) 90 days after an amended statement under AS 43.55.030(a)  
7 and an application to request a refund of production tax paid is filed, if the  
8 overpayment was for a period for which an amended statement under  
9 AS 43.55.030(a) was required to be filed before the regulation became  
10 effective.

11 \* Sec. 9. AS 43.55.023(a) is amended to read:

12 (a) A producer or explorer may take a tax credit for a qualified capital  
13 expenditure as follows:

14 (1) notwithstanding that a qualified capital expenditure may be a  
15 deductible lease expenditure for purposes of calculating the production tax value of oil  
16 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under  
17 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or  
18 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit  
19 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that  
20 expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY  
21 BE APPLIED FOR A SINGLE CALENDAR YEAR;]

22 (2) a producer or explorer may take a credit for a qualified capital  
23 expenditure incurred in connection with geological or geophysical exploration or in  
24 connection with an exploration well only if the producer or explorer

25 (A) agrees, in writing, to the applicable provisions of  
26 AS 43.55.025(f)(2);

27 (B) submits to the Department of Natural Resources all data  
28 that would be required to be submitted under AS 43.55.025(f)(2).

29 \* Sec. 10. AS 43.55.023(d) is amended to read:

30 (d) Except as limited by (i) of this section, a person that is entitled to take a tax  
31 credit under this section that wishes to transfer the unused credit to another person or

1 obtain a cash payment under AS 43.55.028 may apply to the department for a  
2 transferable tax credit certificate [CERTIFICATES]. An application under this  
3 subsection must be in a form prescribed by the department and must include  
4 supporting information and documentation that the department reasonably requires.  
5 The department shall grant or deny an application, or grant an application as to a lesser  
6 amount than that claimed and deny it as to the excess, not later than 120 days after the  
7 latest of (1) March 31 of the year following the calendar year in which the qualified  
8 capital expenditure or carried-forward annual loss for which the credit is claimed was  
9 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for  
10 the calendar year in which the qualified capital expenditure or carried-forward annual  
11 loss for which the credit is claimed was incurred; or (3) the date the application was  
12 received by the department. If, based on the information then available to it, the  
13 department is reasonably satisfied that the applicant is entitled to a credit, the  
14 department shall issue the applicant a [TWO TRANSFERABLE] tax credit certificate  
15 [CERTIFICATES, EACH FOR HALF OF THE AMOUNT OF THE CREDIT]. The  
16 credit shown on [ONE OF] the certificate [TWO CERTIFICATES] is available for  
17 immediate use. [THE CREDIT SHOWN ON THE SECOND OF THE TWO  
18 CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR  
19 YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE  
20 CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE  
21 CERTIFICATE MUST CONTAIN A CONSPICUOUS STATEMENT TO THAT  
22 EFFECT.] A certificate issued under this subsection does not expire.

23 \* Sec. 11. AS 43.55.023(g) is amended to read:

24 (g) The issuance of a transferable tax credit certificate under (d) of this section  
25 or the purchase of a certificate under AS 43.55.028 does not limit the department's  
26 ability to later audit a tax credit claim to which the certificate relates or to adjust the  
27 claim if the department determines, as a result of the audit, that the applicant was not  
28 entitled to the amount of the credit for which the certificate was issued. The tax  
29 liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased  
30 by the amount of the credit that exceeds that to which the applicant was entitled, or the  
31 applicant's available valid outstanding credits applicable against the tax levied by

1 AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased  
2 under this subsection, the increase bears interest under AS 43.05.225(1)  
3 [AS 43.05.225] from the date the transferable tax credit certificate was issued. For  
4 purposes of this subsection, an applicant that is an explorer is considered a producer  
5 subject to the tax levied by AS 43.55.011(e).

6 \* Sec. 12. AS 43.55.023 is amended by adding a new subsection to read:

7 (m) A producer or explorer may take a tax credit for a well-related  
8 expenditure, as follows:

9 (1) notwithstanding that a well-related expenditure may be a  
10 deductible lease expenditure under AS 43.55.165 for purposes of calculating the  
11 production tax value of oil and gas under AS 43.55.160(a), unless a credit for that  
12 expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010,  
13 AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well-related  
14 expenditure may also elect to apply a credit against a tax levied by AS 43.55.011(e) in  
15 the amount of 30 percent of that expenditure;

16 (2) a producer or explorer may take a credit for a well-related  
17 expenditure incurred in connection with geological or geophysical exploration or in  
18 connection with an exploration well only if the producer or explorer

19 (A) agrees, in writing, to the applicable provisions of  
20 AS 43.55.025(f)(2); and

21 (B) submits to the Department of Natural Resources all data  
22 that would be required to be submitted under AS 43.55.025(f)(2) for a credit  
23 under AS 43.55.025;

24 (3) In this section, "well-related expenditure" means a lease  
25 expenditure related to a well and includes a lease expenditure for the purposes of well  
26 sidetracking, well deepening, well recompletion, well workover, an injection well, and  
27 well-related seismic work, and an intangible drilling and development cost authorized  
28 under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4,  
29 regardless of the elections made under 26 U.S.C. 263(c); during production, "well-  
30 related expenditure" includes the costs of operating a well and moving well fluids up  
31 to the wellhead.

1 \* **Sec. 13.** AS 43.55.075(a) is amended to read:

2 (a) Except as provided in AS 43.05.260(c), for a tax period ending before  
3 January 1, 2010, the amount of a tax imposed by this chapter must be assessed within  
4 six years after the return was filed.

5 \* **Sec. 14.** AS 43.77.020(d) is amended to read:

6 (d) A person subject to the tax under this chapter shall make quarterly  
7 payments of the tax estimated to be due for the year, as required under regulations  
8 adopted by the department. A taxpayer will be subject to an estimated tax penalty,  
9 determined by applying the interest rate specified in AS 43.05.225(1) [AS 43.05.225]  
10 to the underpayment for each quarter, unless the taxpayer makes estimated tax  
11 payments in equal installments that total either

12 (1) at least 90 percent of the taxpayer's tax liability under this chapter  
13 for the tax year; or

14 (2) at least 100 percent of the taxpayer's tax liability under this chapter  
15 for the prior tax year.

16 \* **Sec. 15.** AS 43.90.430 is amended to read:

17 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter  
18 becomes delinquent, the payment bears interest at the rate applicable to a delinquent  
19 tax under AS 43.05.225(1) [AS 43.05.225].

20 \* **Sec. 16.** AS 43.55.028(e)(2) and 43.55.028(e)(3) are repealed.

21 \* **Sec. 17.** The uncodified law of the State of Alaska is amended by adding a new section to  
22 read:

23 **APPLICABILITY.** AS 43.55.020(i), added by sec. 8 of this Act, applies to taxes and  
24 installment payments of estimated tax due after February 27, 2007.

25 \* **Sec. 18.** The uncodified law of the State of Alaska is amended by adding a new section to  
26 read:

27 **TRANSITION; RETROACTIVITY OF REGULATIONS.** Notwithstanding any  
28 contrary provision of AS 44.62.240, if the Department of Revenue expressly designates in the  
29 regulation that the regulation applies retroactively to a specific date, a regulation adopted by  
30 the Department of Revenue to implement, interpret, make specific, or otherwise carry out  
31 AS 43.55.020(i), as added by sec. 8 of this Act, AS 43.55.023(a), as amended by sec. 9 of this

1 Act, or AS 43.55.023(d), as amended by sec. 10 of this Act, is retroactive to the effective date  
2 of those provisions.

3 \* **Sec. 19.** The uncodified law of the State of Alaska is amended by adding a new section to  
4 read:

5 **RETROACTIVITY.** (a) AS 43.55.020(i), added by sec. 8 of this Act, is retroactive to  
6 February 28, 2007.

7 (b) AS 43.55.023(a), as amended by sec. 9 of this Act, AS 43.55.023(d), as amended  
8 by sec. 10 of this Act, and AS 43.55.075(a), as amended by sec. 13 of this Act, are retroactive  
9 to January 1, 2010.

10 \* **Sec. 20.** AS 43.05.225, as amended by sec. 3 of this Act, takes effect on the first day of  
11 the calendar quarter immediately following the effective date of secs. 1, 2, 4, and 6 - 19 of this  
12 Act.

13 \* **Sec. 21.** AS 43.55.011(g), as amended by sec. 5 of this Act, takes effect on the first day of  
14 the month immediately following the effective date of secs. 1, 2, 4, and 6 - 19 of this Act.

15 \* **Sec. 22.** Except as provided in secs. 20 and 21 of this Act, this Act takes effect  
16 immediately under AS 01.10.070(c).

Sectional Analysis of CS for HB 308 (Version P)

Sec. 1. Housekeeping measure that refines the reference for interest rates.

Sec. 2. Housekeeping measure that refines the reference for interest rates.

Sec. 3. Changes the interest rate for delinquent taxes to the federal funds plus three percentage points and removes the 11 floor in current statute.

Sec. 4. Housekeeping measure that refines the reference for interest rates.

Sec. 5. Changes the tax base for the monthly calculation of progressivity to the same basis as is used to calculate the progressivity rate – that is the net value (or PTV) greater than \$30 a barrel.

Sec. 6. Makes the same change to the progressivity portion of the monthly estimated payments.

Sec 7. Housekeeping measure that refines the reference for interest rates.

Sec. 8. Authorizes and requires the DOR to waive interest on tax liabilities that arise from retroactive regulations coming into force, for the period between when the payment would normally be due and the time the regulation was adopted.

Sec. 9. Removes the requirement that the application of certain capital investment credits be spread out over 2 years.

Sec. 10. Removes the requirement that the application of certain other credits be spread out over 2 years.

Sec. 11. Housekeeping measure that refines the reference for interest rates.

Sec. 12. Creates a new 30% credit for all well related expenditures.

Sec. 13. Returns the production tax to the same 3 year statute of limitations that apply to all other taxes.

Sec. 14. Housekeeping measure that refines the reference for interest rates.

Sec. 15. Housekeeping measure that refines the reference for interest rates.

Sec. 16. Repeals that portion of current law that required those producers selling credits to the state to spend an equal amount in lease sales or in capital investments within two years.

Sec. 17. Indicates that the changes to interest on liabilities that arise from retroactive regulations goes all the way back to taxes due in 2007.

Sec. 18. Authorizes the DOR, to write retroactive regulations in implementing the interest provisions related to retroactive regulations and the immediate use of certain tax credits.

Sec. 19. Contains the required clarification that the changes to interest on liabilities that arise from retroactive regulations is retroactive to 2007.

Sec. 20. Makes the interest provisions, which are based on a calendar quarter, effective the first first day of calendar quarter after the rest of the bill becomes effective.

Sec. 21 Makes the progressivity provision, which is a monthly calculation, effective the first first day of a month after the rest of the bill becomes effective.

Sec. 22 Makes the rest of the bill effective immediately.

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSHB 308 IP  
 () Publish Date: \_\_\_\_\_

Identifier (file name): CSHB308(RES)-REV-TAX-03-23-10  
 Title: Oil and Gas Production Tax  
 Sponsor: Representative Johnson  
 Requester: (H) Resources  
 Dept. Affected: Revenue  
 RDU: Taxation and Treasury  
 Component: Tax Division  
 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
<b>OPERATING EXPENDITURES</b>								
Personal Services	247.0		247.0	247.0	247.0	247.0	247.0	247.0
Travel	6.0		6.0	6.0	6.0	6.0	6.0	6.0
Contractual	110.0		10.0	10.0	10.0	10.0	10.0	10.0
Supplies	1.0		1.0	1.0	1.0	1.0	1.0	1.0
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>364.0</b>	<b>0.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>
<b>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>	<b>***</b>	<b>0.0</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>

\*\*\* See Analysis Section for Additional Information \*\*\*

**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	364.0	0.0	264.0	264.0	264.0	264.0	264.0	264.0
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>364.0</b>	<b>0.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>	<b>264.0</b>

Estimate of any current year (FY2010) cost: 0.0

**POSITIONS**

Full-time	2.0	0.00	2	2	2	2	2
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

See Attached.

Prepared by: Cherie Nienhuis and Dan Stickel, Petroleum Economists  
 Division: Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone 907-269-1019  
 Date/Time 03-23-10; 5:23pm  
 Date 03-23-10; 7:34pm

## FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

BILL NO. CSHB 308 \P

### ANALYSIS CONTINUATION

#### **Bill Language and Revenue Impacts:**

\*\*\* We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are include in our revenue estimates for this fiscal note.

This bill makes changes to Alaska's oil and gas production tax as well as to the interest rate applied to most taxes levied by the state of Alaska. The main provisions of the bill and potential revenue impacts are discussed below:

**1. Change in base on which progressive surcharge is multiplied.** This bill would retain the rates used to calculate the progressive surcharge as specified in AS 43.55.011(g), but it would change the base on which the progressive surcharge is applied. Instead of applying the progressive surcharge rate to the entire production tax value, this bill would apply the progressive surcharge rate only to that portion of the production tax value that exceeds the progressivity trigger of \$30 profit per barrel. The progressivity rate remains unchanged at 0.4% per \$1 of production tax value over \$30 per barrel, then 0.1% per \$1 of production tax value over \$92.50 per barrel.

Had this provision been in place in FY 2008, the state revenues would have been reduced by over \$1 billion, or 15% of the tax revenue collected. In FY 2009, state revenues would have been reduced by \$400 million, or close to 13%.

Using the Department of Revenue Fall 2009 forecasted prices, had this provision been in place for all of FY 2010, the state would have received \$300 million less in production tax revenue, or 14%. With oil price increases in later years of the Fall 2009 forecast, this provision would result in revenue reductions of \$400 million in FY 2011 and up to \$622 million in FY 2015.

**2. Add a special credit for qualified well-related expenditures.** This bill would add a separate credit for well-related expenditures. The credit would be 30% of capital expenditures for well drilling or seismic exploration and analysis (taken in lieu of the 20% credit for capital expenditures per AS 43.55.023 or the 30% credit per AS 43.55.025), and during production, 30% of costs of operating wells and moving fluids to the wellhead.

Under current projected spending levels, revenues would be expected to be reduced by at least \$325 million in FY 2011. Given the broad definition of well-related expenditures in this bill, the impact could potentially be even greater. The Department of Revenue provides an indeterminate fiscal impact to revenues past FY 2011 because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

**3. Reduce the amount of time that auditors have to complete audits on production tax returns.** This bill would reduce the timeframe for audits from 6 years to 3 years beginning with returns for the 2010 tax year. This provision would require additional costs for the Department which are described in the Expenses section below.

**4. Waive interest for changes in production tax liability as a result of retroactive regulations changes.** Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in revenue projections, therefore this change would not affect the current revenue forecast.

**5. Eliminate requirement that capital credits be spread over two years.** Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure, 25% of a loss carryforward, and up to 40% of an exploration expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entirety of credits could be applied in the year they are earned.

(continued on next page)

## FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

BILL NO. CSHB 308 VP

### ANALYSIS CONTINUATION

The calculation of the revenue impact for this provision is difficult for two reasons: (1) the timing of the revenue impact will depend upon when the bill is signed into law; and (2) the amount the state may potentially be expected to pay to purchase credits is conditioned in part on removing the reinvestment requirement discussed in #6 below, and the timing of the payment will depend on whether companies will immediately seek reimbursement for their credits.

We assume for this provision a scenario where all credits held by companies with production tax liabilities are used in FY 2010 or FY 2011. This would cost the state approximately \$225 million in reduced taxes between the two years.

For companies that are holding credit certificates and are not expected to incur a tax liability in FY 2010 or FY 2011, we estimate an additional liability of up to \$150 million over previous expectations for the two fiscal years. These impacts could spill into FY 2012, should companies delay seeking reimbursement.

Beyond FY 2012, revenue impacts are expected to be negligible.

**6. Remove reinvestment requirement for state purchase of capital credits.** For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against tax liabilities.

**7. Change the rates for calculating interest for most tax types.** This bill would change the way interest is calculated for most tax types administered by the Department of Revenue, including the production tax. Under current law, the interest rate is the greater of 11 percent or 5 percentage points above the discount rate at the 12th Federal Reserve Bank. Under this bill, the interest rate would be 3 percentage points above the discount rate. If this provision were in place today, the interest rate on taxes would fall from 11 percent to 3.75 percent.

The revenue reduction from this provision is indeterminate because the Department does not have a management information system capable of tracking interest for all taxes. Producing a revenue estimate would require manually compiling information from hundreds of tax returns. Since oil and gas settlements go to the Constitutional Budget Reserve Fund (CBRF), this provision would reduce revenue to both the general fund and the CBRF. This provision would require additional costs for the Department which are described below.

#### **Expenses:**

The change to reduce the amount of time that auditors have to complete production tax audits will have a direct fiscal impact on the Tax Division. Reducing the time the Audit Group has to complete audits by 3 years will require the hiring of 2 additional oil and gas auditor IV positions, costing the Division approximately \$264,000 per year. If the positions are not filled timely, either the audits will not be completed in time, or the Division will be forced to make defensive tax assessments and shift the burden to its Appeals Group, which could require adding more appeals officers.

In addition, the changes in interest rates and other provisions of this bill would result in one-time costs of \$100,000 in FY 2011 for changes to the accounting and tax examination system.

#### **Effective Dates:**

The effective date of the bill is immediate for all provisions except for four provisions as follows:

1. The change in progressivity is effective the month following the effective date of the other provisions in this bill.
2. The change in interest rates is effective the first day of the calendar quarter following the effective date of the other provisions of this bill.
3. The elimination of the credit split is effective January 1, 2010.
4. The elimination of the reinvestment requirement for state purchase of credits is effective January 1, 2010.

An immediate effective date would create an administrative burden for several provisions of the bill. In order to simplify revenue impacts, we assume that the progressivity and credit changes begin with FY 2011, on July 1, 2010.

# Technical Aspects of CS for HB 308 (Version P)

Dan E. Dickinson CPA

House Resources Committee

March 17, 2010

# Structure of CS for HB 308

Structure of CS for HB 308		26-LS1328\P																						Key Provision		Needs	
		effective date & Ret																						Eff Dt			
section:		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22				
	Housekeeping - reference to interest	1	2		4			7				11			14	15							22				
2	Interest rate			3																	20						
1	Change progressivity from .4 % to .2 %					5	6															21					
3	Interest not due on retroactive regs changes prior to implementation								8										17	18	19		22				
4	Credits not spread over two years									9	10										19						
5	30% credit for well work											12											22				
6	Restore 3 year statute of limitations												13							19							
7	Credits purchased without matching spend																						22				
	Tax rate tied to Resident hire																16										

\*

3.17.2010

## 8 Changes in CSHB 308 Version P

- Summary
- Progressivity – Leave the rate the same, change the base (Prior draft changed the rate)
- Interest rate – Fed Funds + 3, no ceiling, (Prior draft, Fed Funds +2, with ceiling)
- Interest not due on retroactive regs changes prior to implementation – Gov’s Bill Approach
- NEW - Credits over One Year, not Two
- 30% credit for well work (one definition reword since prior draft)
- Restore 3 year statute of limitations (No change from prior draft)
- NEW - No “matching spend” required to purchase credits
- Tax rate tied to Resident Hire – Not in Current Draft

## 8 Changes in CSHB 308 Version P

- Progressivity
- Interest rate
- Interest not due on retroactive regs changes prior to implementation
- NEW - Credits over One Year, not Two
- 30% credit for well work
- Restore 3 year statute of limitations
- NEW - No “matching spend” required to purchase credits
- Tax rate tied to Resident Hire

## Progressivity in AS 43.55.011(g) vs. Personal Income Tax

- Under federal personal income tax rules rate is bracketed and only applied to certain income

Schedule X—If your filing status is Single

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,250	..... 10%	\$0
9,250	29,950	\$935.00 + 15%	9,350
29,950	62,250	4,675.00 + 25%	39,950
62,250	171,650	16,750.00 + 28%	62,250
171,650	372,950	41,754.00 + 33%	171,550
372,950	.....	109,216.00 + 35%	372,950

- Under current production tax law, all net value is taxed at highest rate – 25% + progressivity (which can range from 0% to 50%)

## What is Progressivity?

- Under this CS – Two brackets.
- First bracket up to \$30/bbl is 25%
- Second bracket above \$30/bbl is 25%+ progressivity
-

## Progressivity

- Tax = Rate \* Base
- Current Law for Progressivity (AS 43.55.011(g)) :
  - Rate: (PTV/bbl - \$30) times .4% per dollar,
  - Base: PTV (net value)
- This CS (Version S):
  - Rate: (PTV/bbl - \$30) times .4% per dollar,
  - Base: PTV less (\$30 \* bbl) (net value above \$30)
- Prior Draft (Version E):
  - Rate: (PTV/bbl - \$30) times .2% per dollar,
  - Base: PTV (net value)

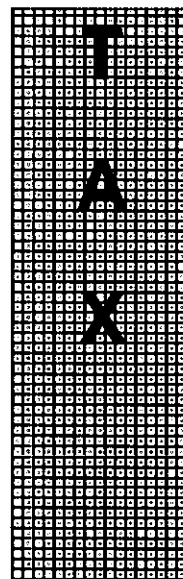
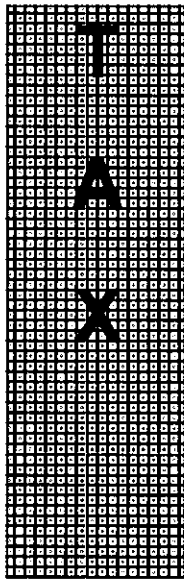
# Progressivity in AS 43.55.011(g) vs. Personal Income Tax

"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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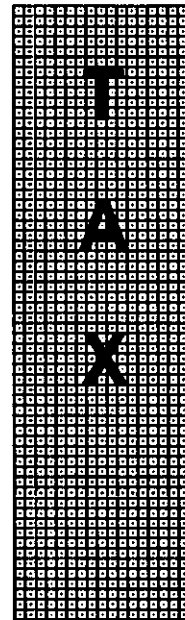
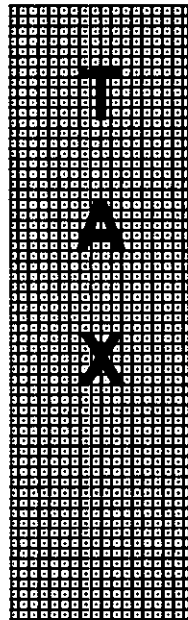
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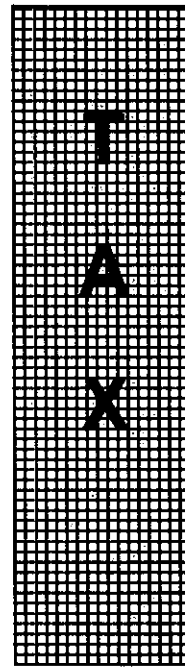
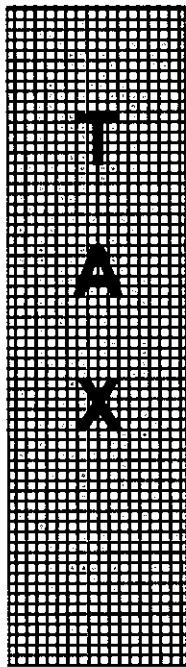
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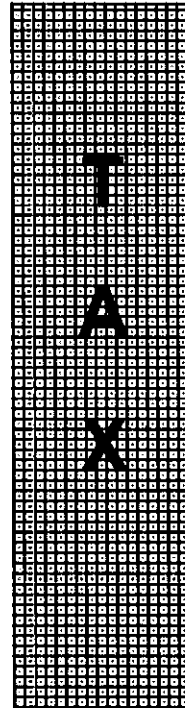
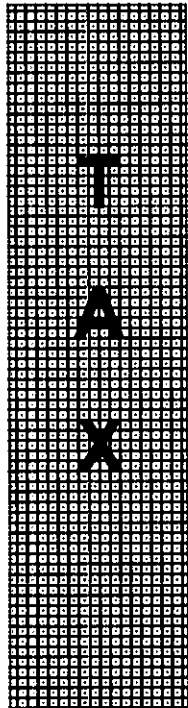
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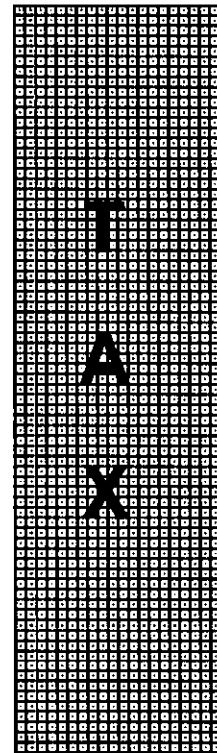
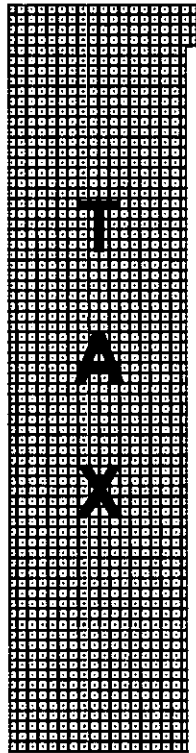
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Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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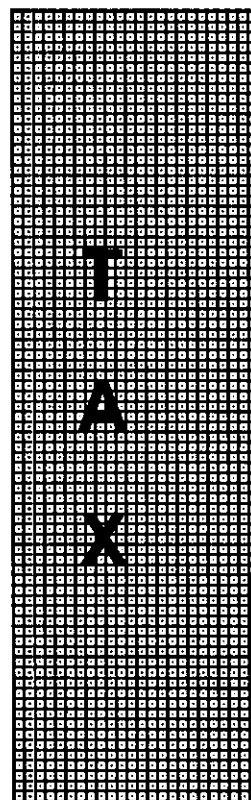
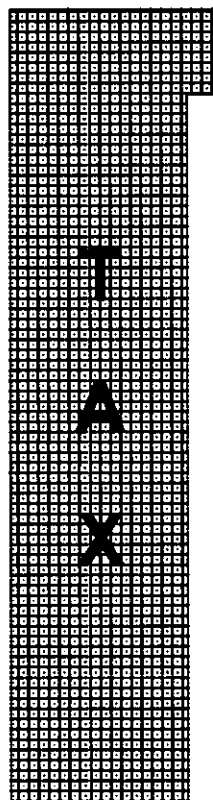
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"Income"

Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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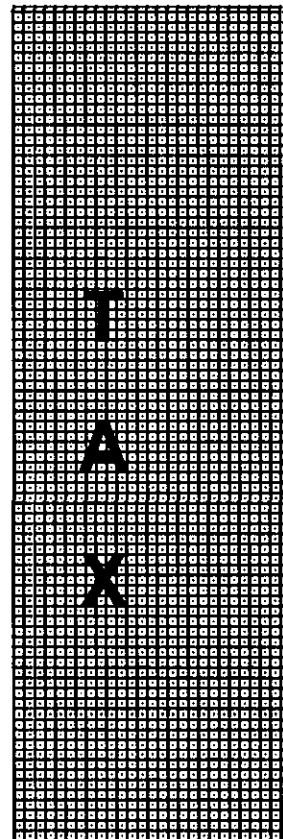
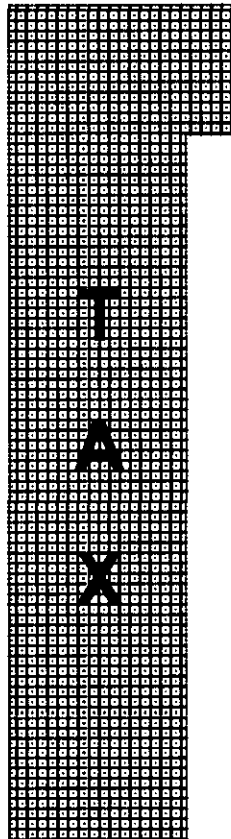
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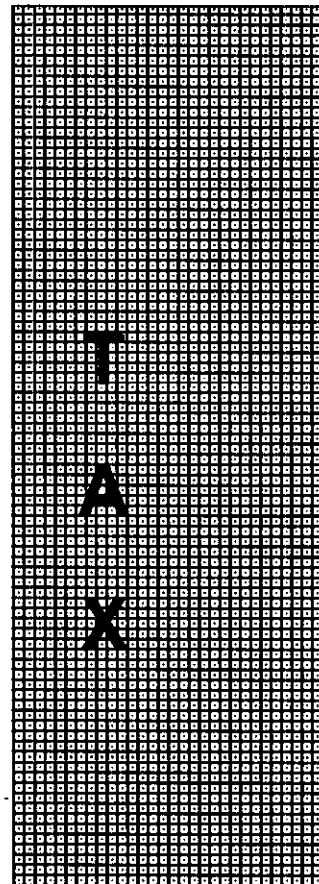
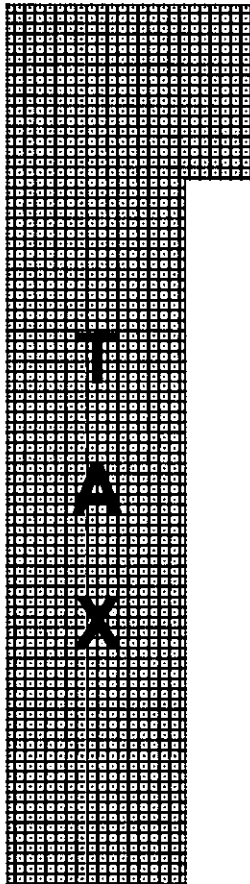
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Progressivity in Federal Income Tax

Progressivity in AS 43.55.011(g)

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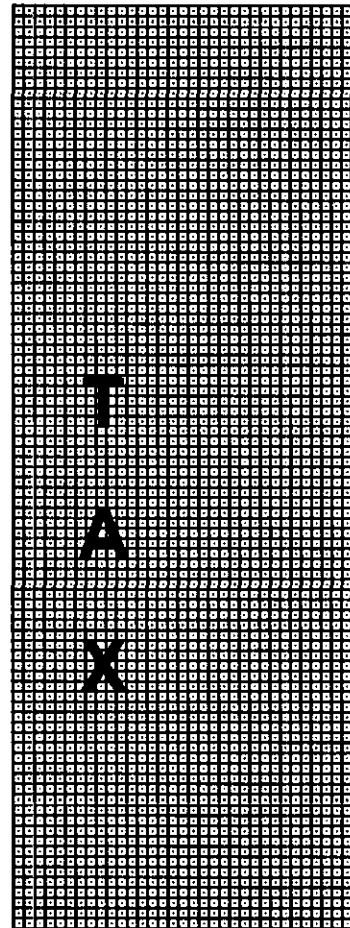
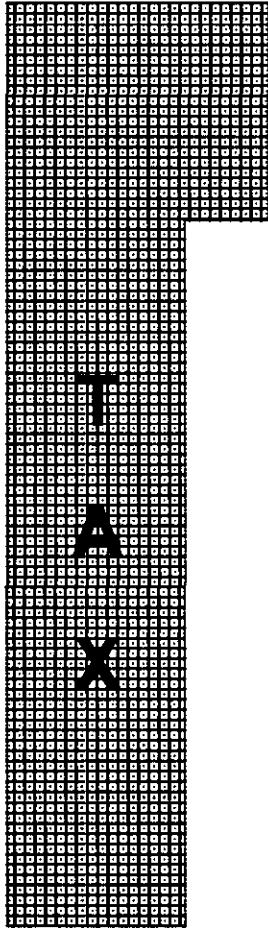
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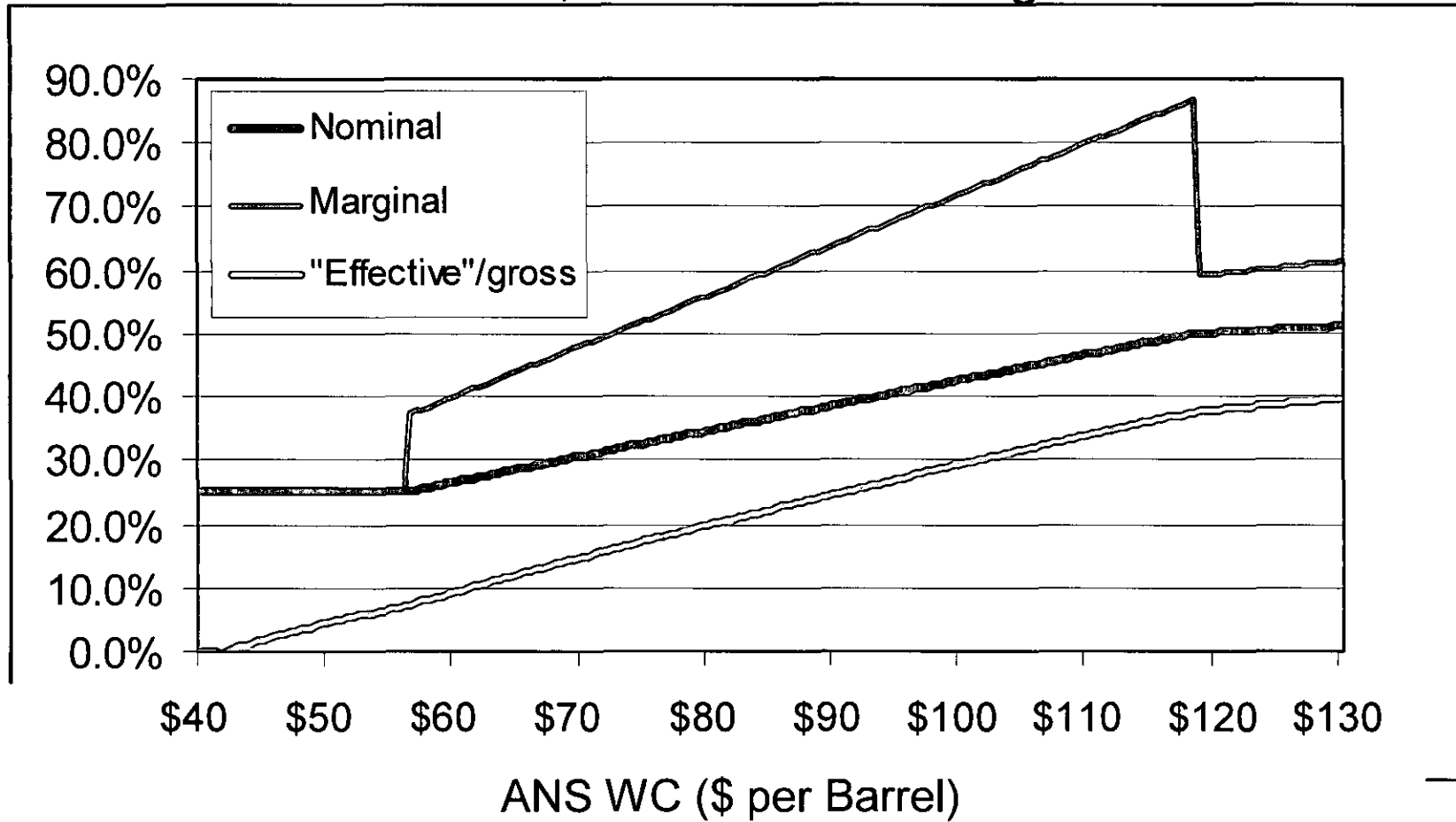
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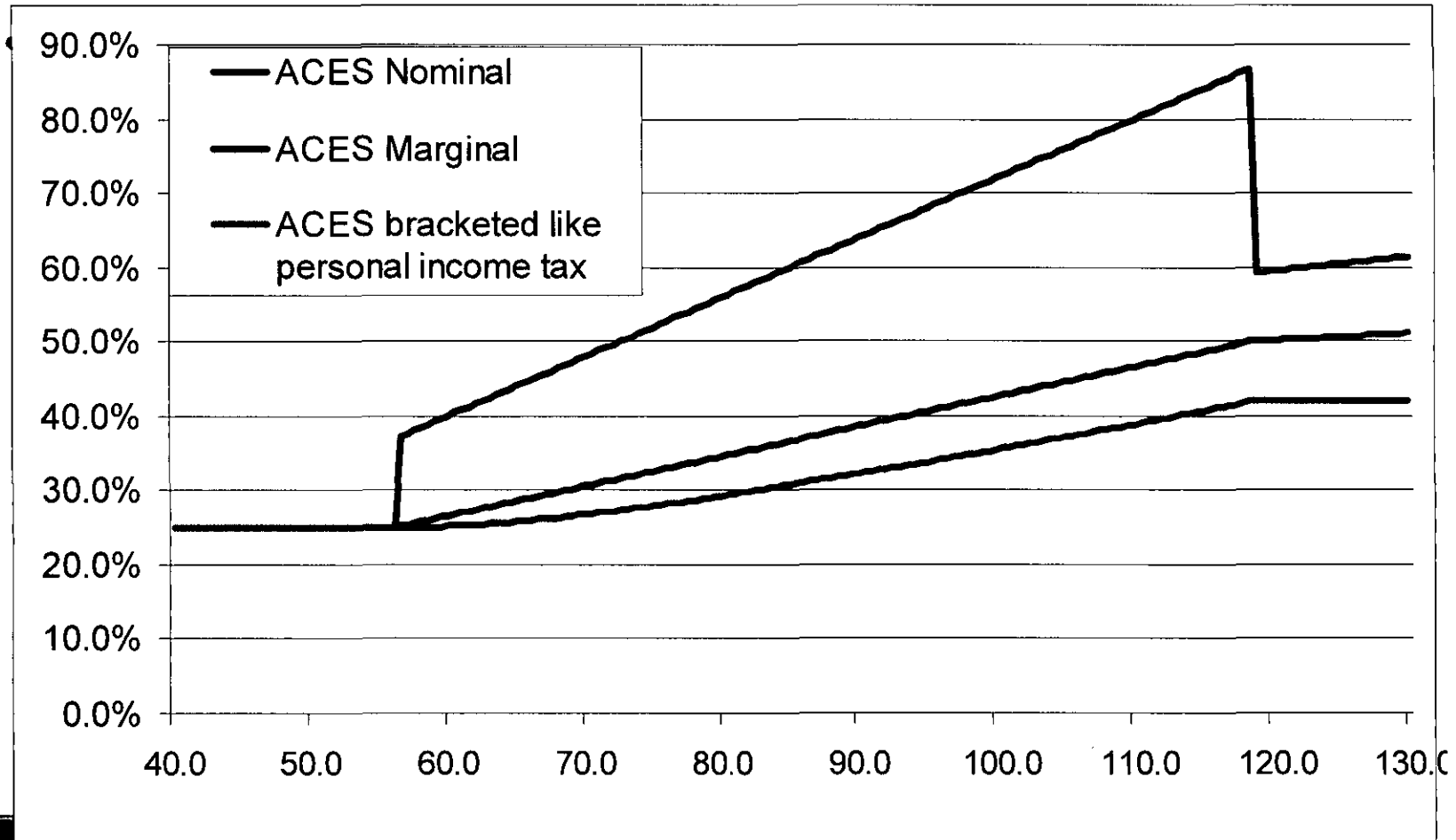
## Production Tax: Progressivity + 25%

- Reproduction of Figure G from DOR January 14 Report
- “ACES Nominal, Effective and Marginal Rates”

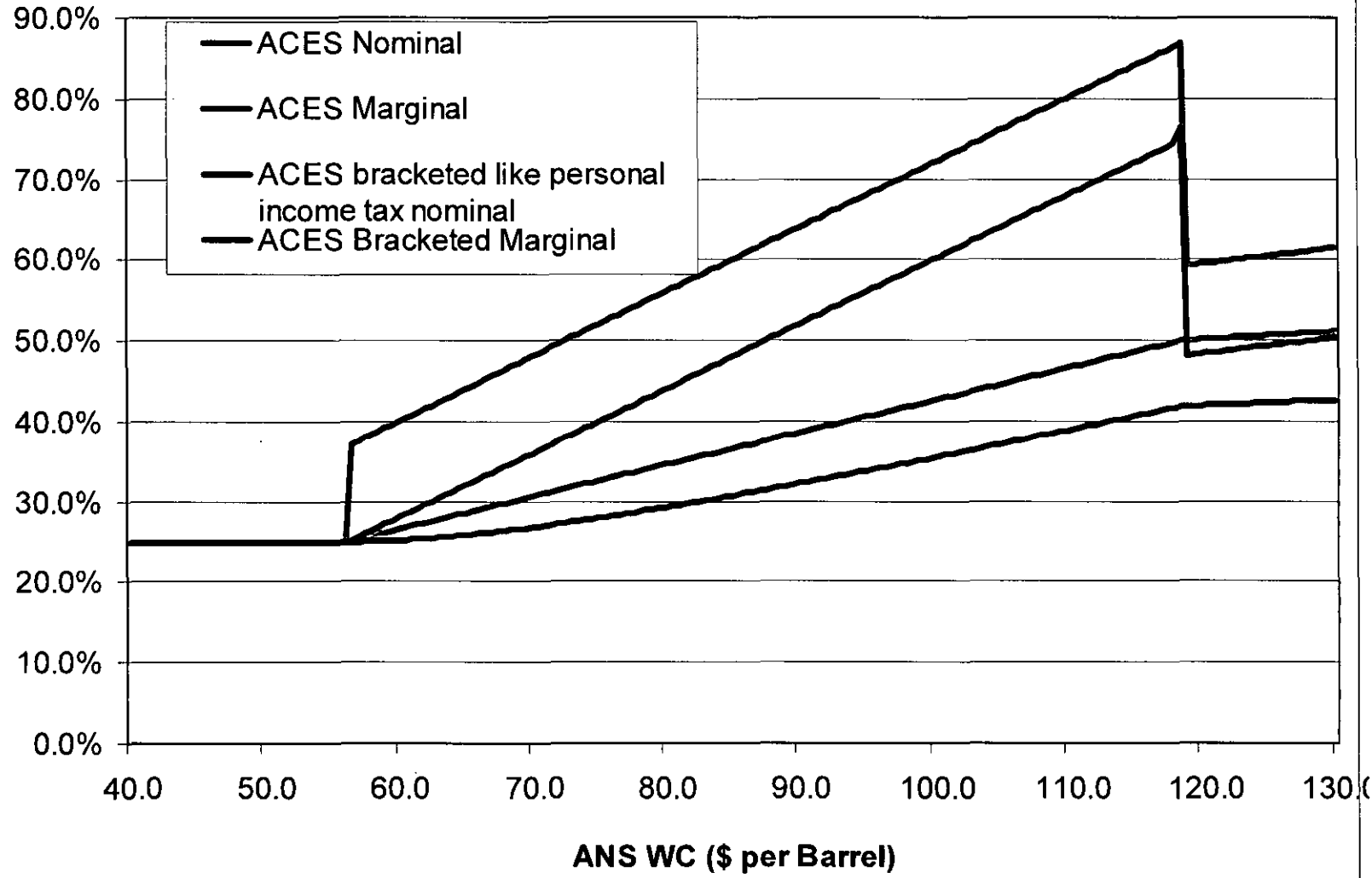


# Production Tax: Progressivity + 25%

- What if the progressivity bracket was like personal federal income tax brackets.



# Production Tax: Progressivity + 25%



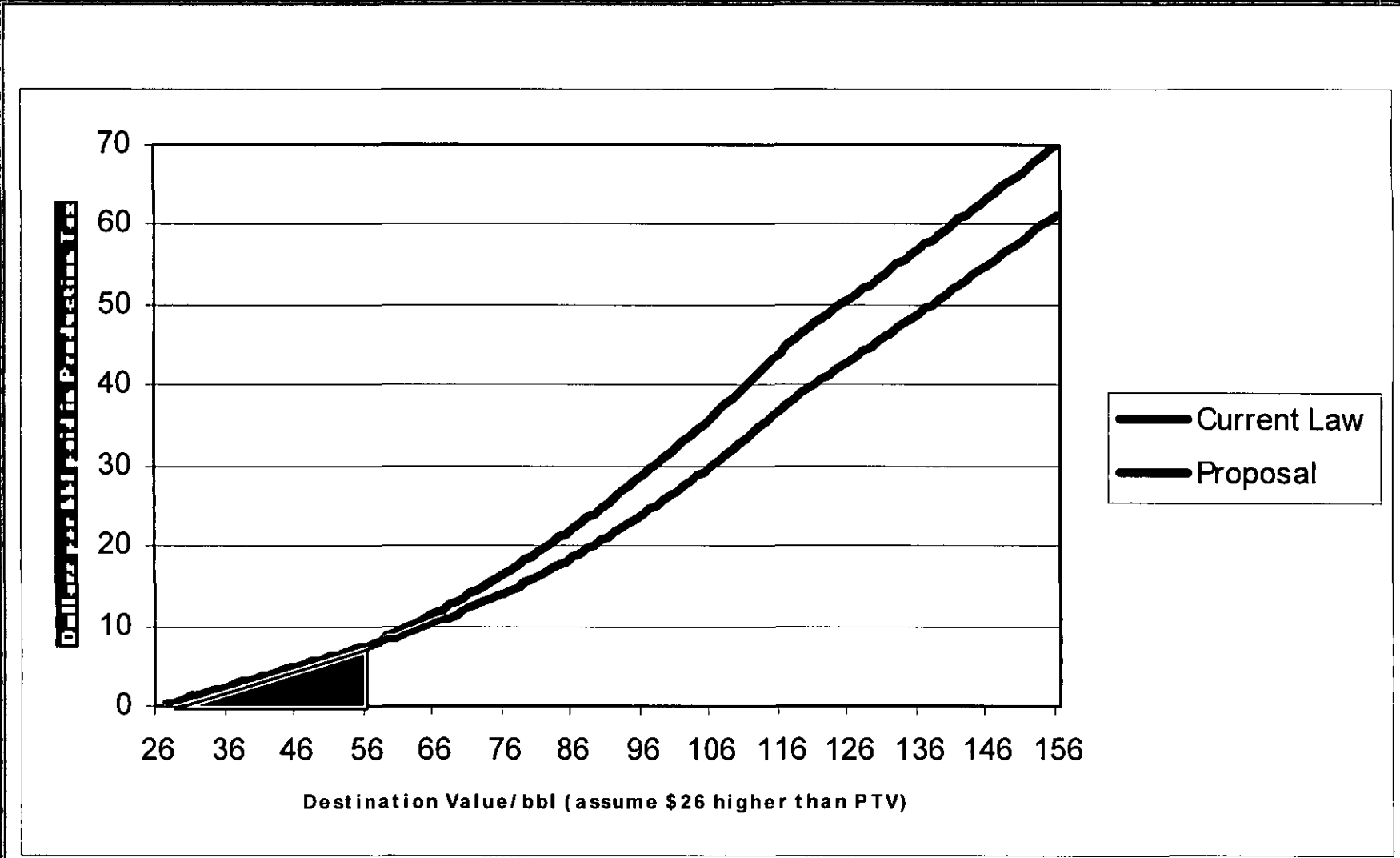
# Crossing the Progressivity/Bracket Threshold

25.4% higher bracket starts when net value (PTV) passes \$30 a barrel

	<b>30</b>		<b>31</b>		Difference
<b>Personal federal income tax progressivity</b>					
PTV	\$ 30.00		\$ 30.00 + \$ 1.00 = \$ 31.00		\$ 1.00
Tax Rate	25.0%		25.0%      25.4%      25.4%		
Tax	\$ 7.500		\$ 7.500 + \$ 0.254 = \$ 7.754		\$ 0.254
Marginal Tax Rate:					25.4%
<b>AS 43.55.011(g) Progressivity</b>					
PTV	\$ 30.00		\$ 30.00 + \$ 1.00 = \$ 31.00		\$ 1.00
Tax Rate	25.0%		<del>25.4%</del> 25.4%      25.4%		
Tax	\$ 7.500		\$ 7.620 + \$ 0.254 = \$ 7.874		\$ 0.374
Marginal Tax Rate:					37%
Difference	\$ -	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12

3.17.2010

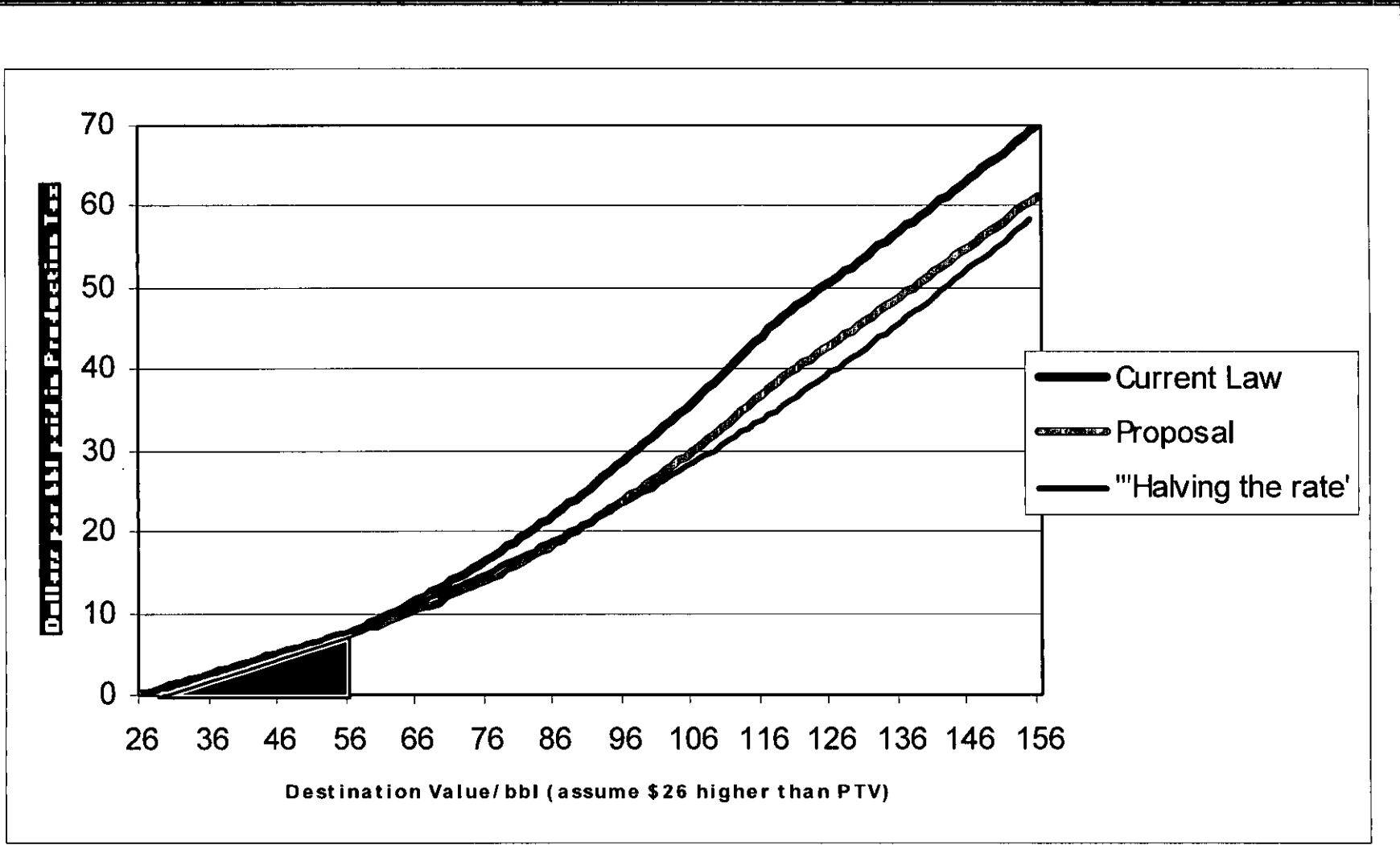
# Dollar per Barrel in Production Tax at Various Prices



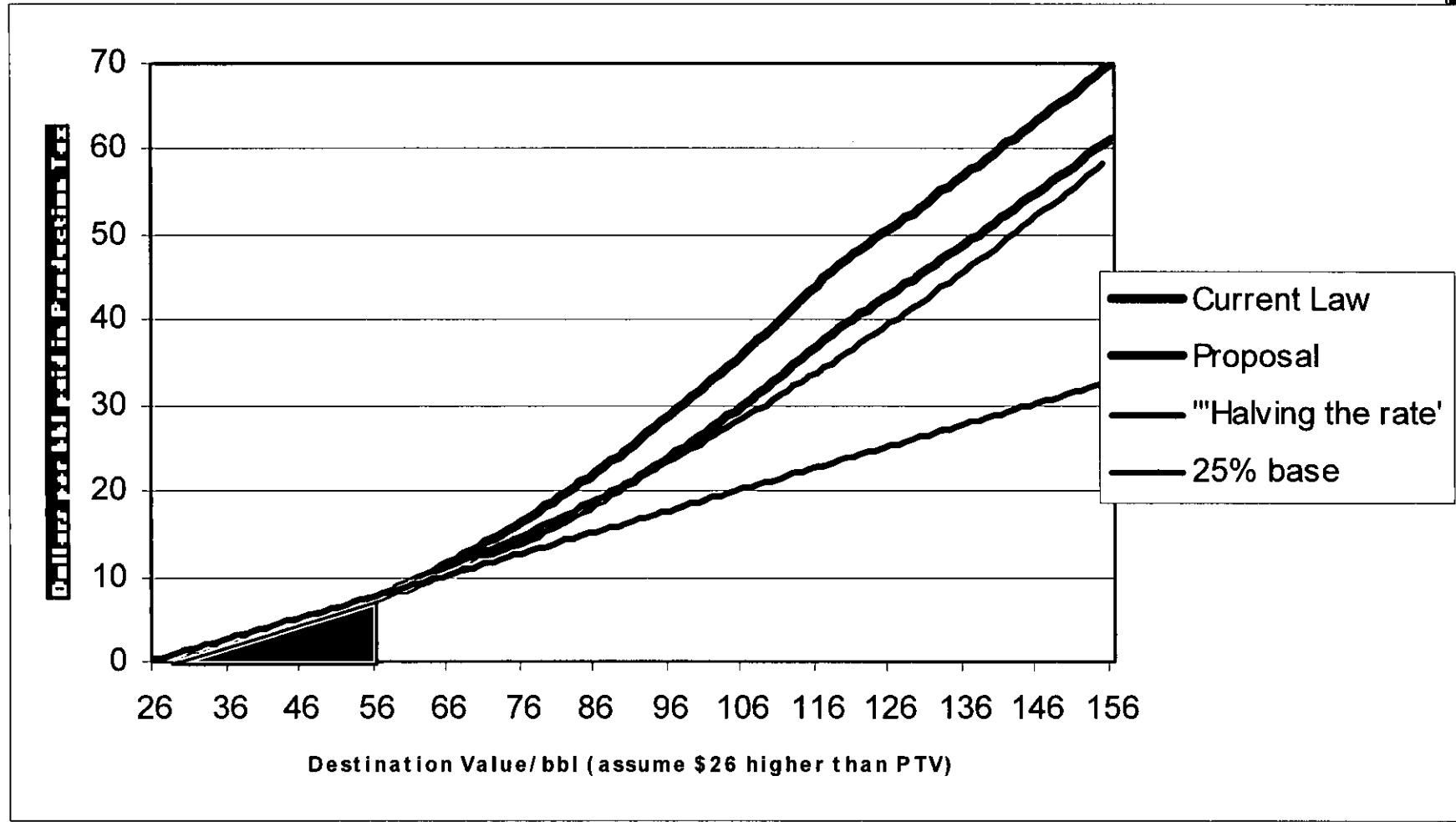
DAN E.  
DICKINSON CPA

House Resources Committee

# Dollar per Barrel in Production Tax at Various Prices



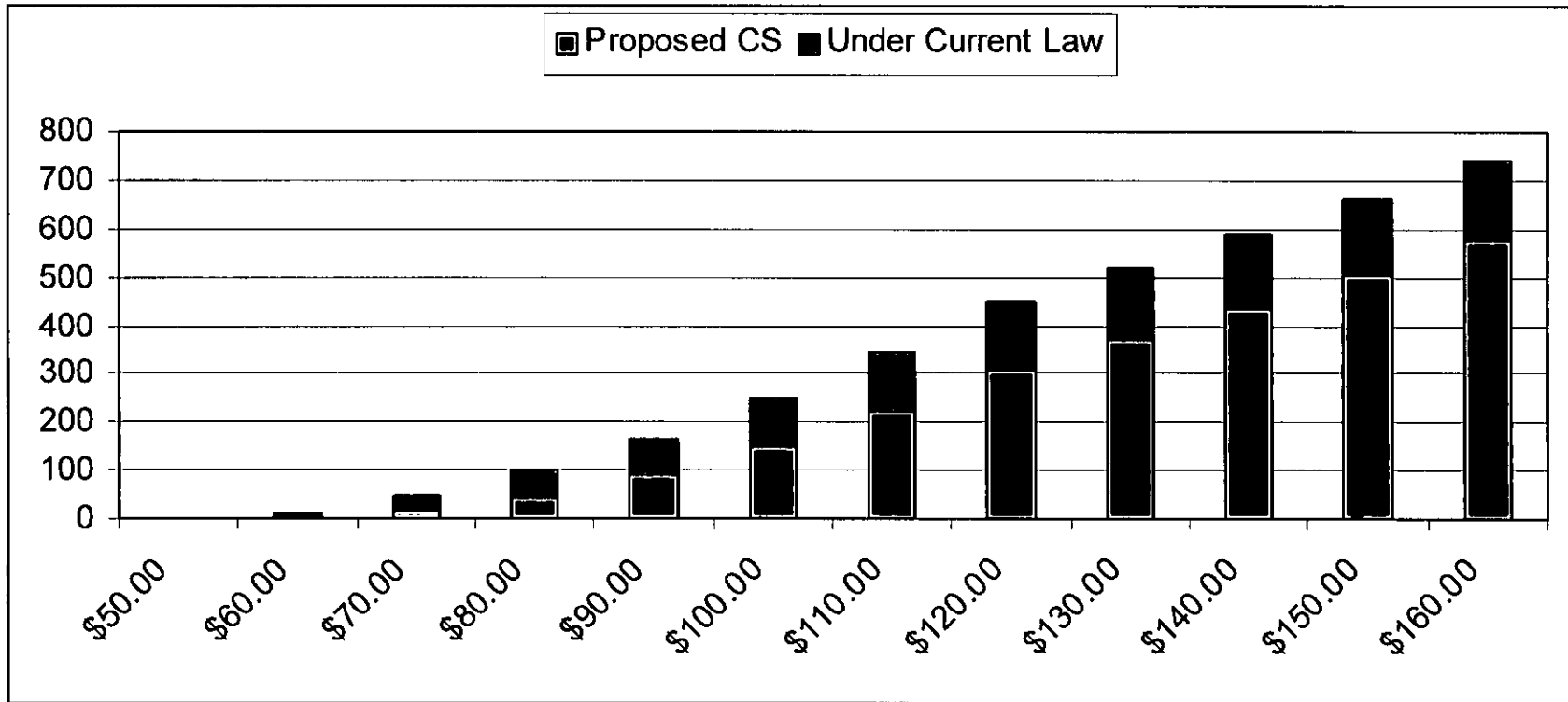
# Dollar per Barrel in Production Tax at Various Prices



5.17.2010

## Total dollar effect at current volumes

- Consider a year in which each month the oil price averages \$10 higher than the prior month (With current production and costs)



## 8 Changes in CSHB 308 Version P

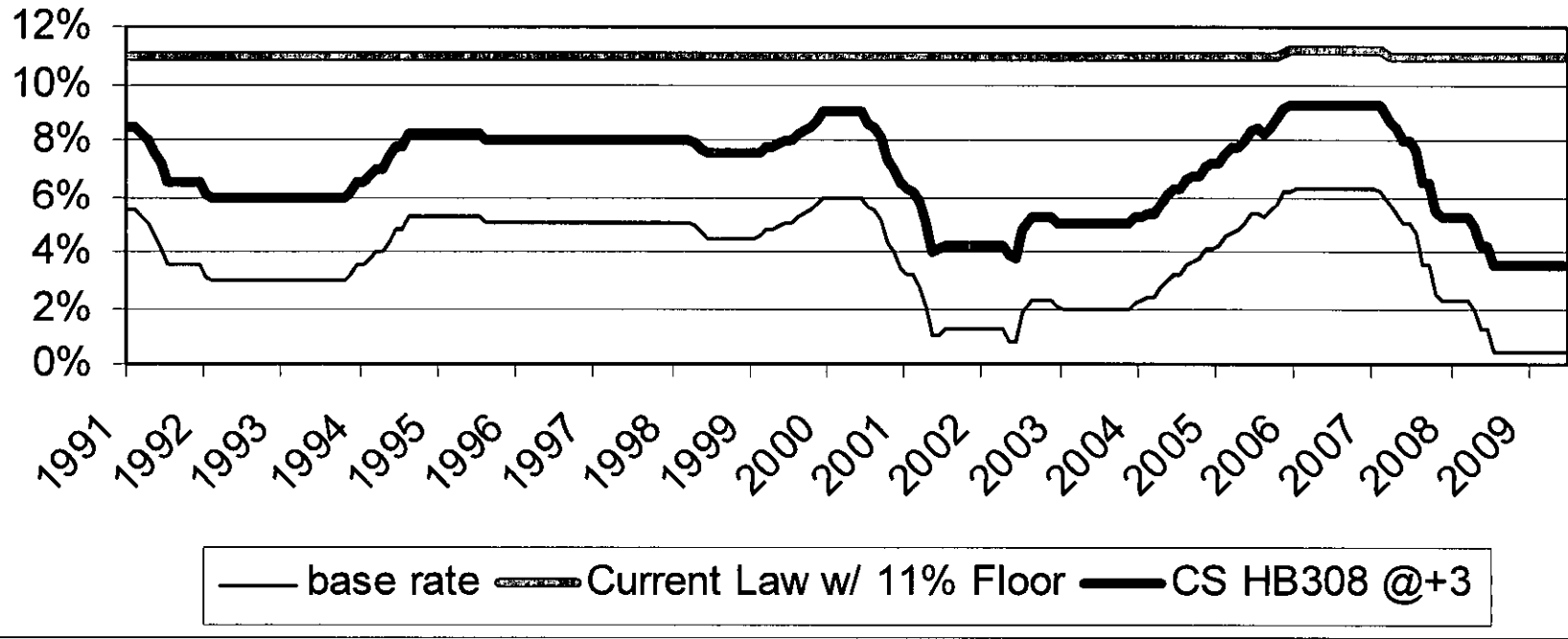
- **Progressivity**
- Interest rate
- Interest not due on retroactive regs changes prior to implementation
- NEW - Credits over One Year, not Two
- 30% credit for well work
- Restore 3 year statute of limitations
- NEW - No “matching spend” required to purchase credits
- **Tax rate tied to Resident Hire**

## Interest Rate for Delinquent Taxes

- Current law is higher of fed funds rate + 5% or 11%
- This CS (Version S) does away with notion of a floor or ceiling and charges Fed Funds rate + 3%
- Applies to (almost) all taxes
- Because AS 43.05.225 specifies a quarterly reset, effective first day of first calendar quarter after rest of bill effective
- Prior CS was lower of fed funds rate + 2 or 11%

# Interest Rate On Delinquent Taxes

## Rate charged member banks by the 12th Federal Reserve District



## Interest from Retroactive Regulations

- Interest due back to last day of month after month of production
- Current Law – Commissioner cannot forgive interest
- This CS – Same approach as Governor’s bill
  - DOR will waive interest between production and implementation of regulation
    - On underpayment that arise from regulation not being in effect when payment was due
    - If DOR does not find the producer failed to make a good faith estimate {Wording Change from Gov}
  - Contains provisions for overpayment
- Prior CS – “not considered delinquent”

## Recovering credits over two years

- In 2006 “PPT” reforms, credits could be used as soon as earned (then applied 1/12 in each month) or certificate issued (then can be applied immediately)
- In 2007 “ACES” reforms period extended to two years
- This CS proposes to restore to one year
- DOR conclusion two year process was complex without adding significant value.

## Investment Credits

- Credits for Capital Investments
- Under Current Law –
  - 30% Credit for exploration wells (AS 43.55.025)
  - 40% Credit for seismic work outside of existing unit,
    - or exploration wells 25 miles from existing unit, and
    - 3 miles from any prior well (or with certification from DNR that it is for a new target in the Cook Inlet) (AS 43.55.025)
  - 20% Credit for any capital investment (AS 43.55.023(a))
- This Bill (and prior CS – only change is to a definition)
  - adds 30% well work – both capital and operating - to investment credits

## Definitions of well work compared

SB 267 proposed AS 43.55.023(m)(3)	Governor's Language in HB 337 for AS 43.55.025(b) (3) and (4)
"Well-related expenditures" means	Development well expenditures
A lease expenditure related to a well	Goods, services and rentals of personal property reasonable required for
and <b>includes</b> a lease expenditure for the purposes of sidetracking, well deepening, well recompletion, well workover,	Redrilling, casing , cementing or logging, completing, workover operations or other operations intended to increase or enhance well production
	From a known productive pool;
an injection well and well related seismic work and	And the well is not a service well [injector] stratigraphic test well, or an exploratory well
an intangible drilling and development cost authorized under 26 USC (IRC) as amended, and 26 CFR 1.612-4, regardless of the elections make under 26 USC 263(C) as amended	
During production "well-related expenditure" includes the costs of operating a well and moving well fluids to the wellhead.	

## 3 Year SOL

- Statute of limitations time for the state to complete a production tax audit (or, agree to an extension with taxpayer or issue a blue sky assessment)
- Current Law
  - In 2007 production tax pulled out and extended to 6 years in AS 43.55.07
  - Prior to 2007, SOL was three years for all tax types under AS 43.05.260 –
- This Bill (no change from prior CS)
  - Three year rule would begin again with 2011 tax year
  - (all prior years for production tax would remain at 6 yrs)

## Matching Spend

- Current law: all producers producing less than 50,000 bbls a day may sell their credits to the state (AS 43.55.028) if the following conditions are met:
  - (1) Not earlier than allowed on certificate (will become moot)
  - (2) within 24 months of applying for a certificate, the taxpayer pays out similar amount in capital investment or lease bids.
  - (3) No other outstanding tax liabilities
- This CS (not in prior CS) will delete item two

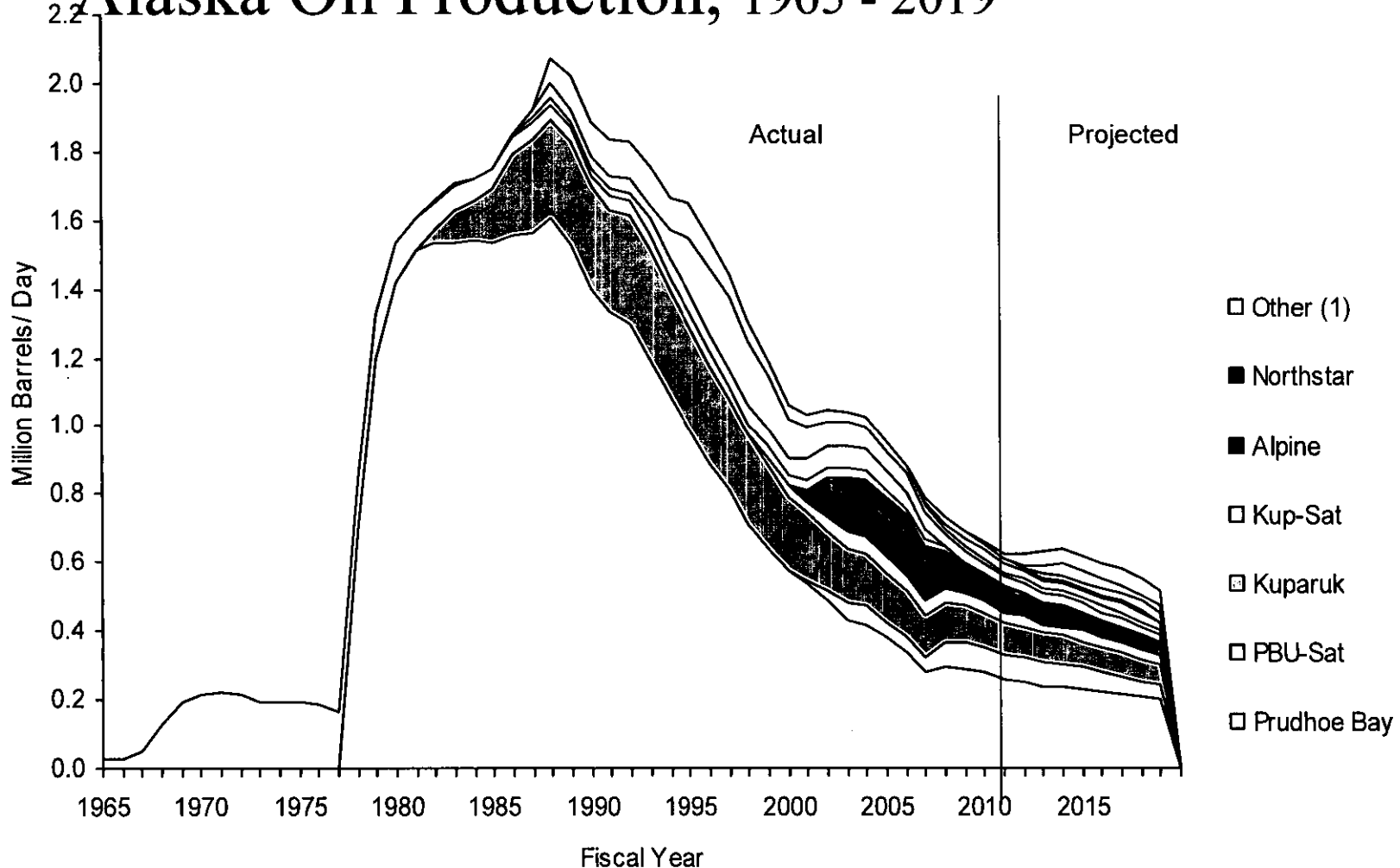
## Matching Spend

- Currently all producers producing less than 50,000 bbls a day may sell their credits to the state (AS 43.55.028) if the following conditions are met:
  - (1) Not earlier than allowed on certificate (will become moot)
  - ~~• (2) within 24 months of applying for a certificate, the taxpayer pays out similar amount in capital investment or lease bids.~~
  - (3) No other outstanding tax liabilities
- This CS (not in prior CS) will delete item two

# Thank You

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Anchorage, AK  
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# Alaska Oil Production, 1965 - 2019



Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated  
 (1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

3.17.2010

# CSHB 308 Mechanism

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	<b>ACES TAX</b>	<b>HB 308 TAX</b>
--	-----------------	-------------------

Base Tax

PTV x 25%

PTV x 25%

Progressive  
Tax

PTV x Progressive Tax Rate

Progressive PTV x Progressive  
Tax Rate

Progressive Tax Rate = Tax rate in excess of 25% when PTV > \$30/BOE

Progressive PTV = Taxable Production x (PTV/BOE - 30)

# CSHB 308 Example

Production: 700,000 bbl/d

PTV: \$60/bbl

2

	ACES TAX	HB 308 TAX
--	----------	------------

Base Tax	\$3.4 Billion [\$13.4 B x 25%]	\$3.4 Billion [\$13.4 B x 25%]
----------	-----------------------------------	-----------------------------------

Progressive Tax	\$1.6 Billion [\$13.4 B x 12%]	\$0.8 Billion [\$6.7 B x 12%]
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<b>TOTAL Tax</b>	<b>\$5.0 Billion</b>	<b>\$4.2 Billion</b>
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Progressive Tax Rate = 12% [37% - 25%]

Progressive PTV = \$6.7 Billion [700,000 x (1 - 12.5%) x 365 x (60 - 30)]

Tax Reduction: \$800MM

# CSHB 308 Impacts

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FY 2008 - \$1,040 million (based on actual monthly prices and data)

FY 2009 - \$400 million (based on actual monthly prices and data)

FY 2010 - \$300 million (based on fall 2009 forecast)

FY 2011 - \$400 million (based on fall 2009 forecast)

FY 2012 - \$460 million (based on fall 2009 forecast)

2/24/2010



**Brian R. Wenzel**  
Vice President  
Finance

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March 23, 2010

The Honorable Mark Neuman  
Co-Chairman, House Resources Committee  
Alaska State Legislature  
Alaska State Capital, Room 432  
Juneau, AK 99801-1182

The Honorable Craig Johnson  
Co-Chairman, House Resources Committee  
Alaska State Legislature  
Alaska State Capitol, Room 126  
Juneau, AK 99801-1182

Dear Co-Chairmen Neuman and Johnson:

Thank you for the opportunity to present to the House Resources Committee on March 10, 2010, regarding the State of Alaska's oil tax structure and our support for HB308 as a positive step towards improving the investment climate in Alaska.

Questions raised during the committee discussion are answered below with additional details provided in the referenced attachments.

Question #1: Can you tell the committee where else ConocoPhillips is doing business, and about that level of investment?

Response #1: Please refer to ConocoPhillips Senior Vice President of Exploration & Business Development Larry Archibald's January 22 presentation to the Alaska Support Industry Alliance. This presentation covers ConocoPhillips' global exploration plans and can be accessed at [http://alaskaalliance.com/pdf/archibald\\_meet\\_alaska3.pdf](http://alaskaalliance.com/pdf/archibald_meet_alaska3.pdf). I have attached six slides from the same presentation (see Attachments #1-6) to demonstrate the significant worldwide exploration expenditures (\$2 billion) by ConocoPhillips in a year when we will not be drilling an exploration well in Alaska for the first time in 45 years. Please also refer to <http://www.conocophillips.com> for additional details about our company and its investments.

Question #2: Do you have a graph looking at total North Slope investment, including Point Thomson?

Response #2: Please see Attachment #7 which charts the Department of Revenue's (DOR's) forecast for North Slope expenditures (red bars) and an estimate of the expenditure level without inflation (yellow bars), demonstrating that on an inflation-adjusted basis, oil and gas industry investment on the slope is flat. Attachment #8 is slide #16 from the DOR's February 4, 2010 presentation to the Senate Resources committee and depicts North Slope Expenditures for FY2007 through FY2011 forecast. Attachment #9 shows the anticipated total North Slope production decline rates under different investment scenarios.

The approximately \$4 billion annual expenditure shown by the DOR on Attachment #8 will be required to maintain the historical decline rate of about 6% shown on Attachment #9. The DOR's production forecast represents an approximate 2.5% production decline rate over the next ten years. Significant investment beyond the ~\$4 billion per year level will be required to approach that rate of decline. Investment incentives, such as increased tax credits and reduced progressivity, will be critical to stimulating additional investments. HB308 is a positive step in that direction.

HB308 is important in helping to reverse the troubling trend depicted in Attachment #10, which charts the most recent Alaska Department of Labor employment data for the Oil and Gas sector. The latest data, released earlier this month, illustrates a significantly different trend than previous data. The data now illustrates that employment in Alaska's oil and gas industry peaked in late-2008 and has been on a steeply declining trend since.

Attachment #11 is slide #22 from the DOR's February 16<sup>th</sup> presentation to the Senate Finance Committee. It presents both the DOR's 2008 and 2009 forecasts of capital expenditures at the North Slope currently producing properties for 2010-2012. In one year, the DOR reduced this forecast by \$1.3 billion, approximately 20%. This, combined with the DOR's approximate 20% reduction in remaining production for the North Slope core fields of Prudhoe Bay, Kuparuk, and Alpine from its 2008 to 2009 forecasts, is a troubling indication that the fiscal regime created by ACES is in need of change.

Question #3: Do you have an expectation of what will happen to production tax now that the standard deduction expired at the end of 2009?

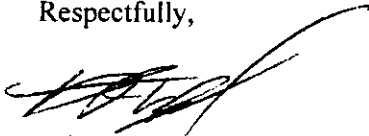
Response #3: Attachment #12 is slide #22 of the DOR's February 4, 2010 presentation to the Senate Resources committee. The brown portion of the bars represents the incremental tax collected as a result of the standard deduction. The total production tax collected would have only been about 5% less had the standard deduction not been in place.

Question #4: Please further explain the number of U.S. drilling rigs on slide #8, "Active Drilling Rigs in Core Fields 2005-2009."

Response #4: Please see Attachment #13, which compares the U.S. oil rig count to the oil rig count at the North Slope core fields, Prudhoe, Kuparuk, and Alpine. The green line depicts the US rig count which trended with oil price and ranged from 184 to 415 as depicted by the right axis. The red bars represent the core fields' rig count on the left axis, which did not trend with oil price. In fact, following the early-2009 oil price dip, the U.S. oil rig count increased about 75% while the North Slope core fields' rig count dropped by approximately 30%. The Committee commented that one rig is approximately 100 direct jobs. Increases in well-related tax credits and reduced progressivity will help stimulate additional rig activity.

Please do not hesitate to contact me if the Committee has further questions or requires additional information.

Respectfully,



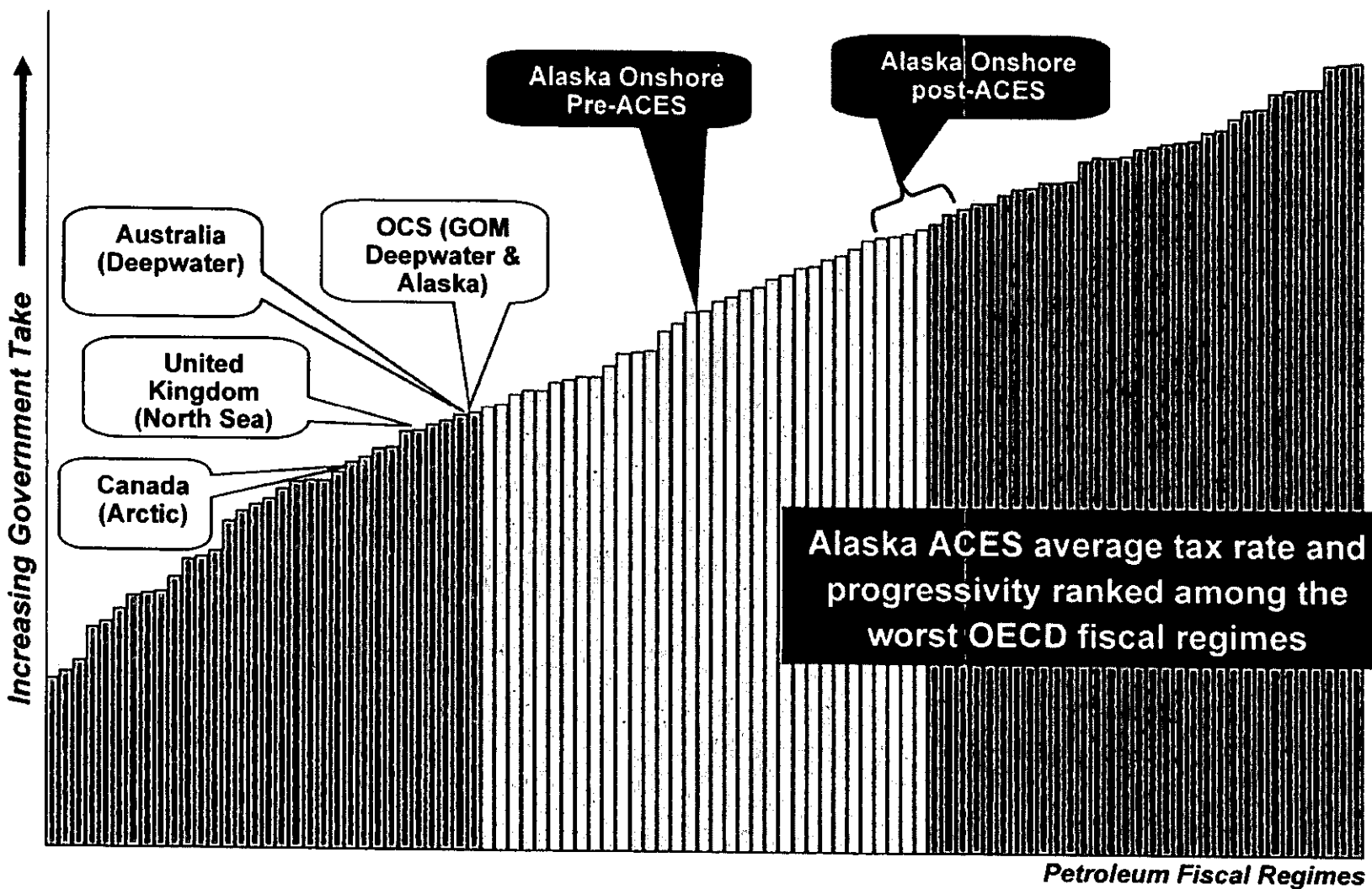
Brian R. Wenzel

Attachments



# Global Perspective on Government Take

## Attachment #2

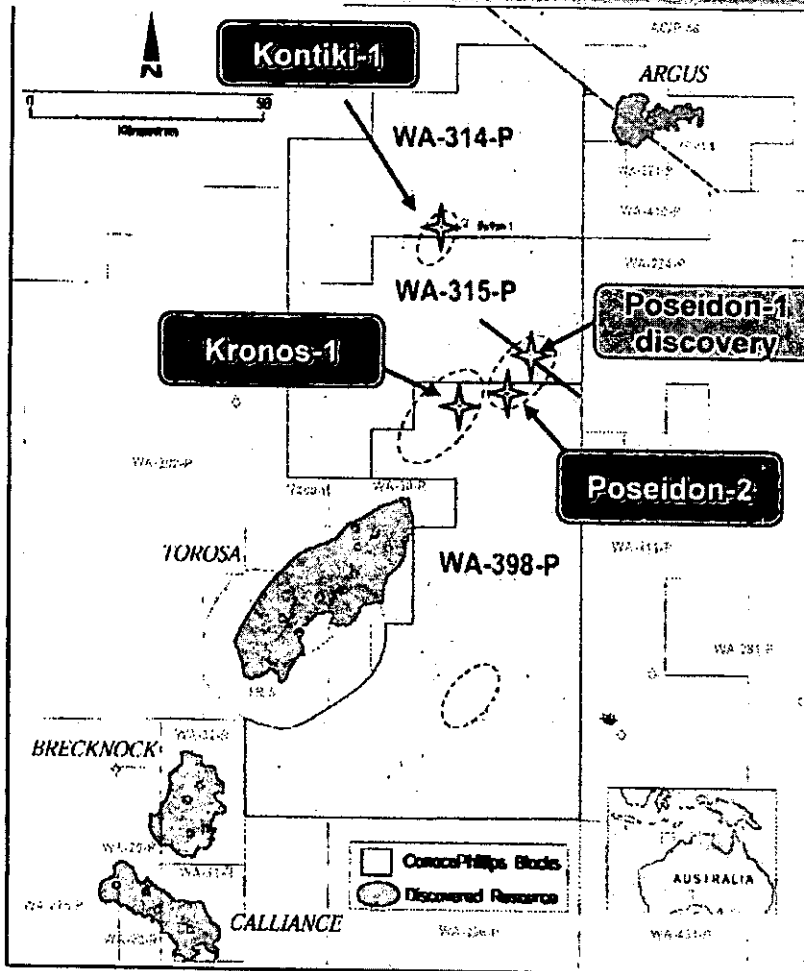


Data from Wood Mackenzie Government Take Analysis Dec 2009 and internal COP – high price case

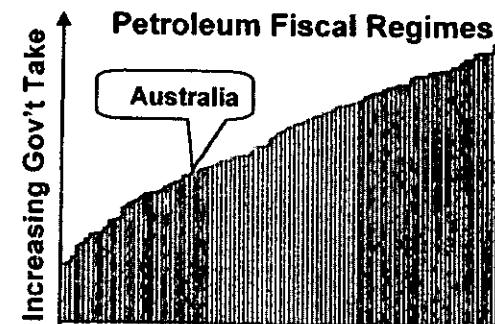
ConocoPhillips

# COP's Australia - Browse Basin Activity

## Attachment #3



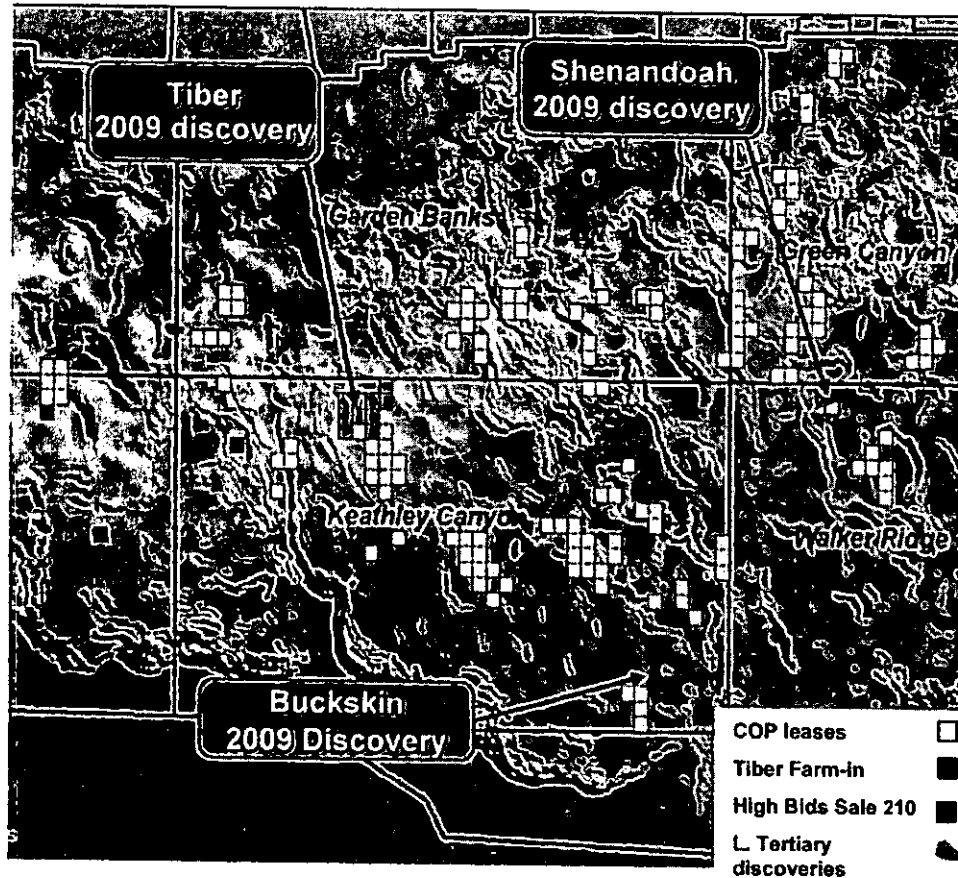
- ConocoPhillips currently testing Browse Basin acreage position
- Adequate fiscal terms support exploration activities
  - Well costs: \$60-100 MM
- COP operated Poseidon-1 discovery in 2009
  - Multi-TCF potential
- Poseidon-2 appraisal well in progress
- Further exploration activities planned



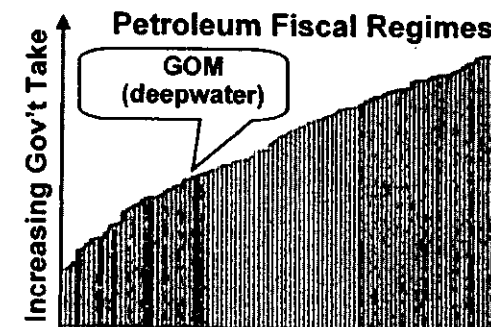
**Adequate fiscal terms, giant resource potential**

# Lower Tertiary Play - Gulf of Mexico OCS

## Attachment #4



- Emerging deepwater Lower Tertiary play has giant prospects
  - 3 significant discoveries in 2009
  - COP owns equity in Tiber & Shenandoah discoveries
- Well costs typically \$150 MM
- Target depths >30,000 ft
- Lease & fiscal terms worsening
  - 50% increase in royalty rate from 2006



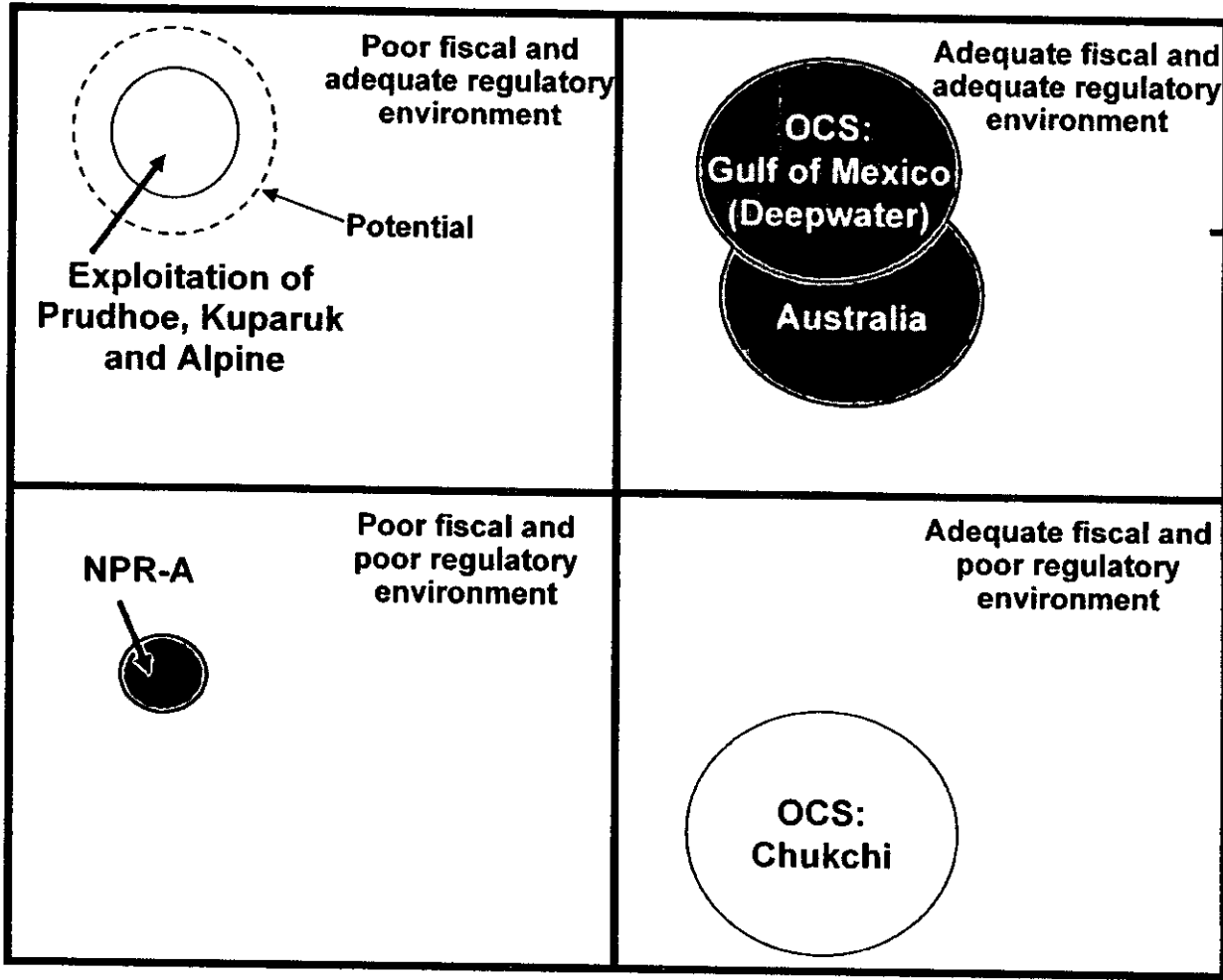
**Adequate fiscal terms, but moving in the wrong direction**

# Comparing Investment Options

## Attachment #5

Adequate

Regulatory Hurdles & Access



Larger circles indicate greater size of potential resource

Poor

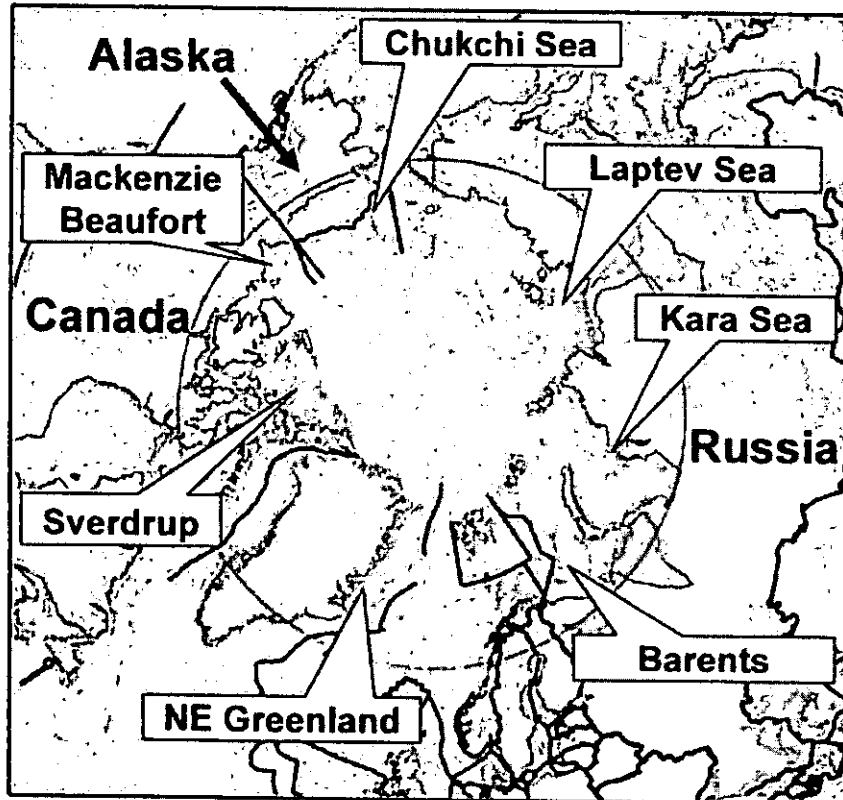
Fiscal Environment

Adequate

*NPR-A subject to federal regulations, exploitation of Prudhoe/Kuparuk/Alpine subject to state regulations  
Resource Potential: Indicated by the size of the circles (larger circles indicate larger resources)*

# Arctic Resource Potential

## Attachment #6



- Arctic offshore basins, especially Chukchi are underexplored
  - Canada Arctic Isl. ~ 180 wells
  - Canada Beaufort ~ 90 wells
  - Norway – Barents... ~ 80 wells
  - Russia – Offshore Arctic ~ 70 wells
  - U.S. Beaufort OCS ~ 30 wells
  - U.S. Chukchi OCS 5 wells
- U.S. GOM much higher activity
  - U.S. GOM Deepwater ~500 wells
- More than 20% of global yet-to-find oil is in the Arctic\*
- Alaskan Arctic investments need to compete with other world-scale opportunities

***Giant undiscovered potential in underexplored basins***

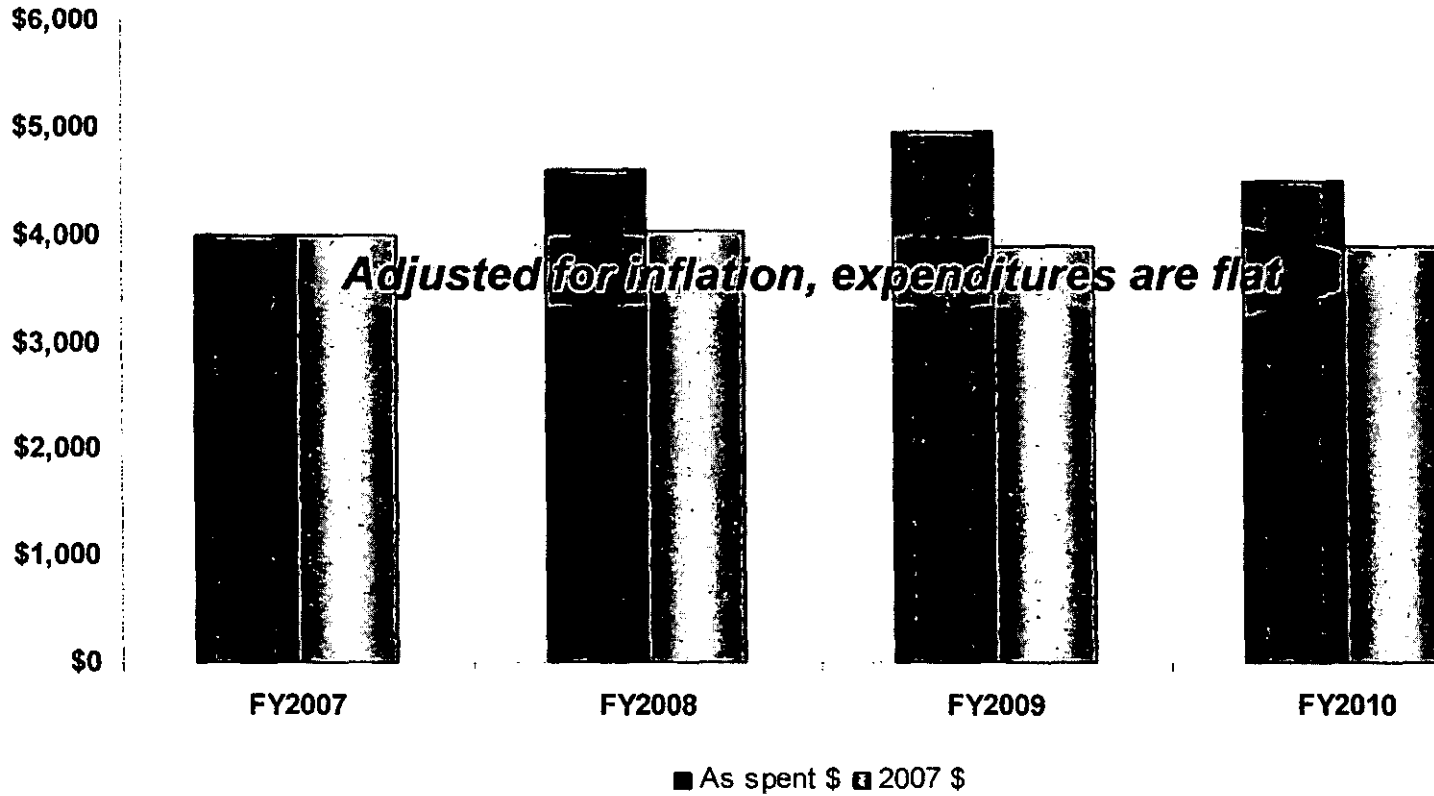
\* Source: USGS

ConocoPhillips

# Inflation Impact on Expenditures

## Attachment #7

*North Slope Industry spending on capital and operating expense, \$MM*



***Inflation is significant factor in spending increase***

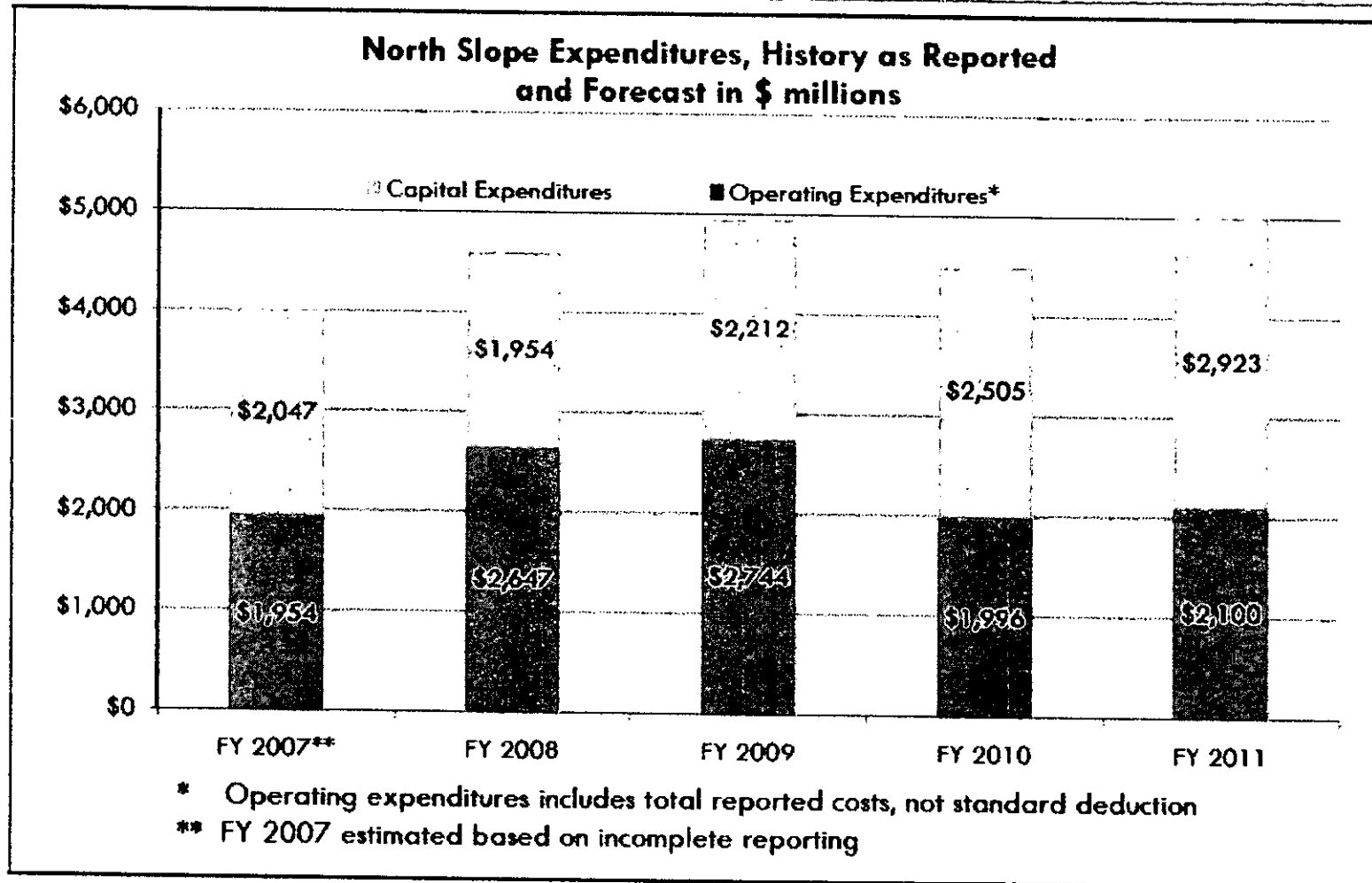
Sources: DOR 2/4/10 Senate Resources Committee testimony for expenditures and CERA inflation factors

ConocoPhillips

## Attachment #8

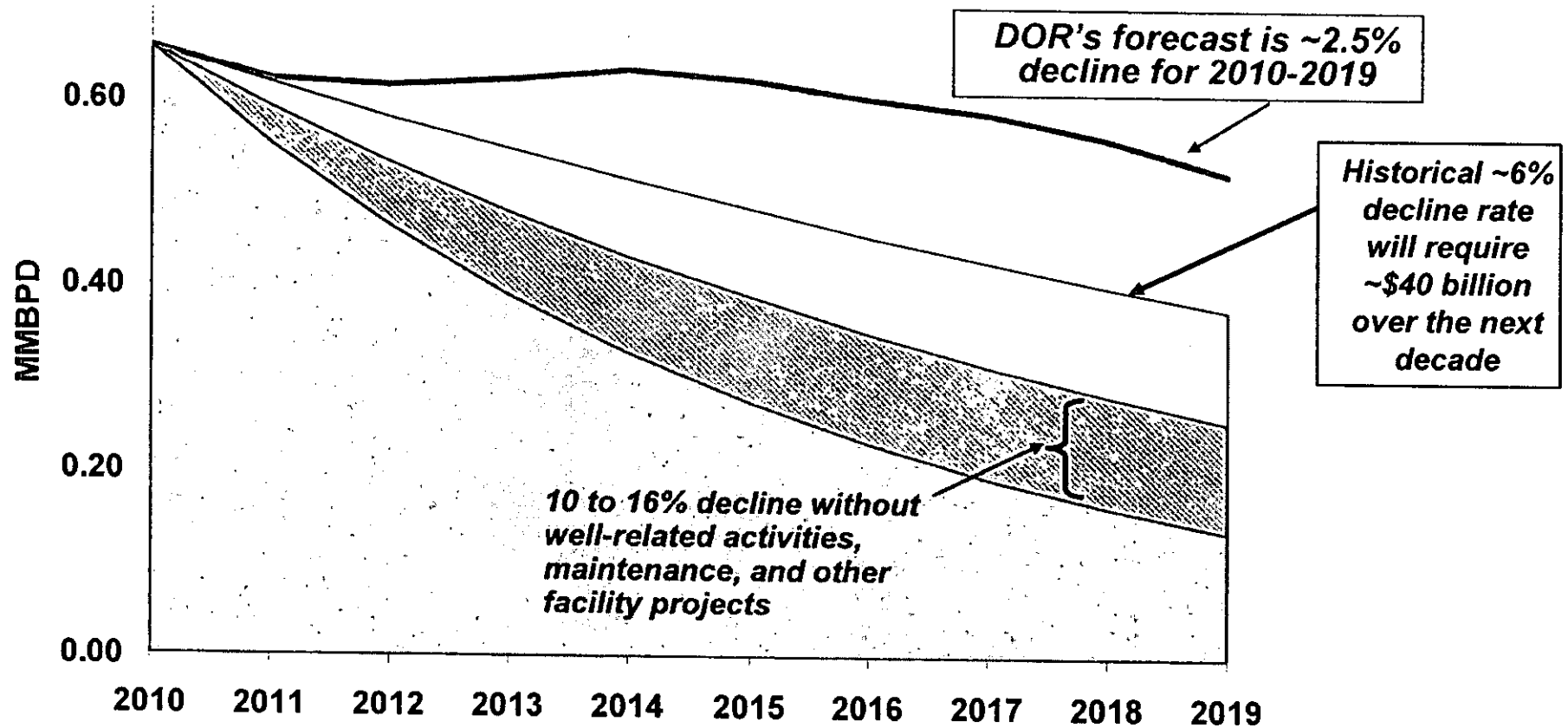
# North Slope Expenditures

16



# 2010-2019 North Slope Production

Attachment #9



**Future production dependent upon investment**

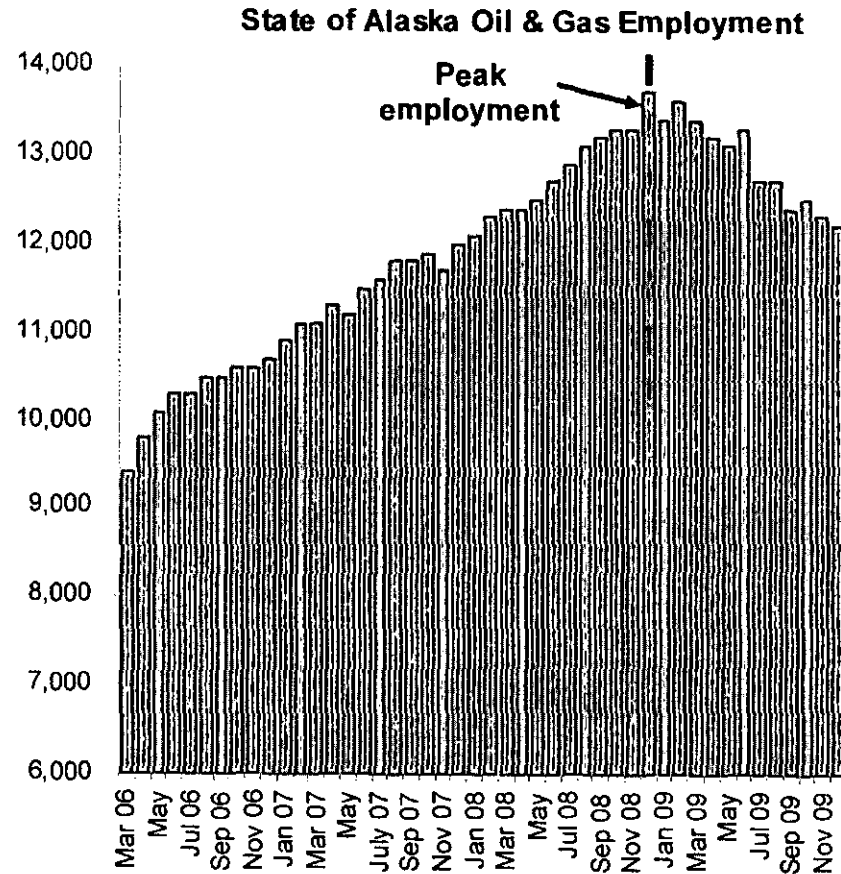
Sources: DOR production forecast and extrapolation of DOR expenditures forecast  
ConocoPhillips estimates for base decline rate

ConocoPhillips

# Oil & Gas Employment

## Attachment #10

- Data since Dec-08 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%



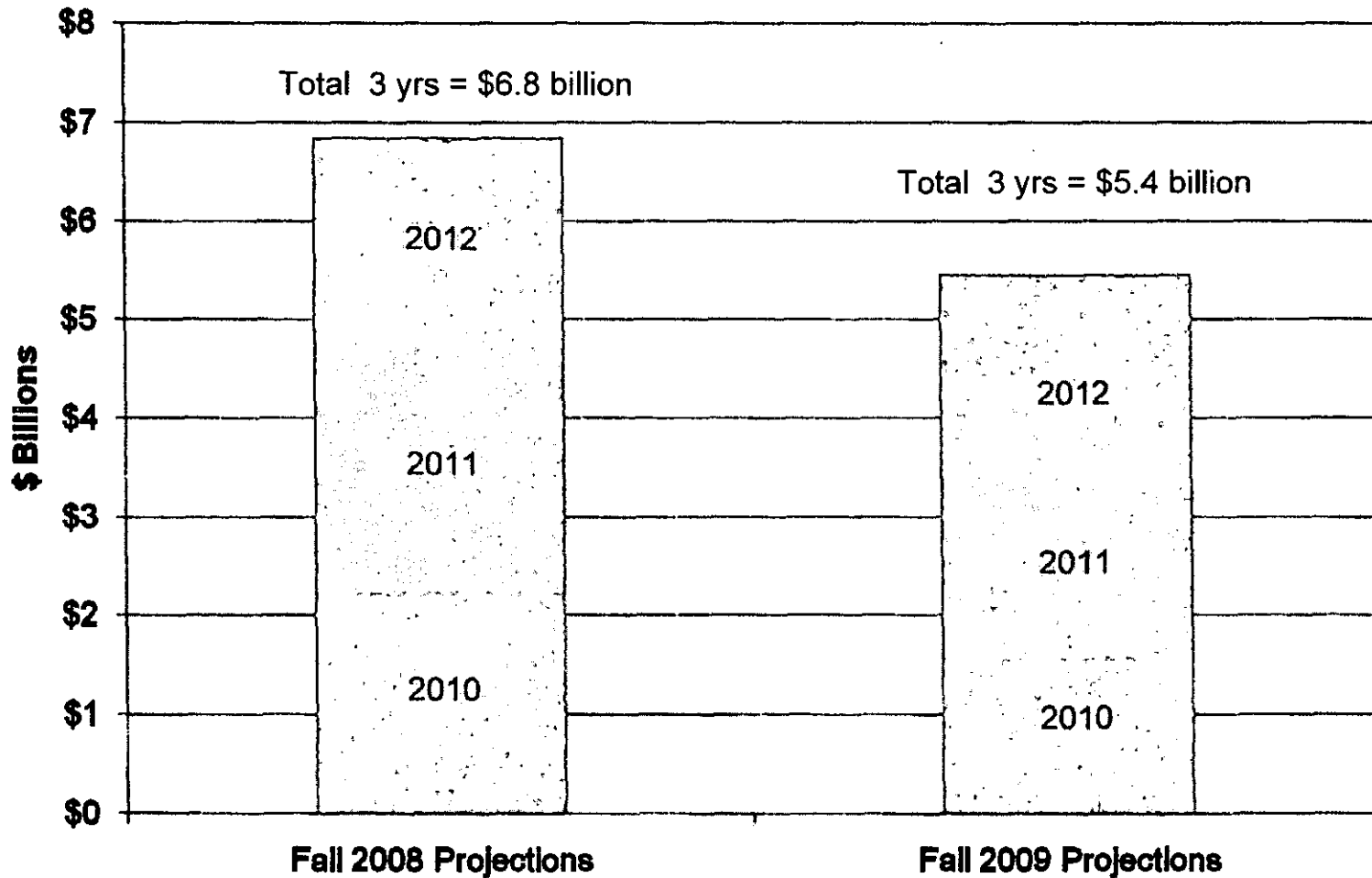
***Rise in employment began in 2006***

Source: Alaska Dept of Labor employment data, March 12, 2010

ConocoPhillips

# Capital Expenditure on Currently Producing Properties

Attachment #11

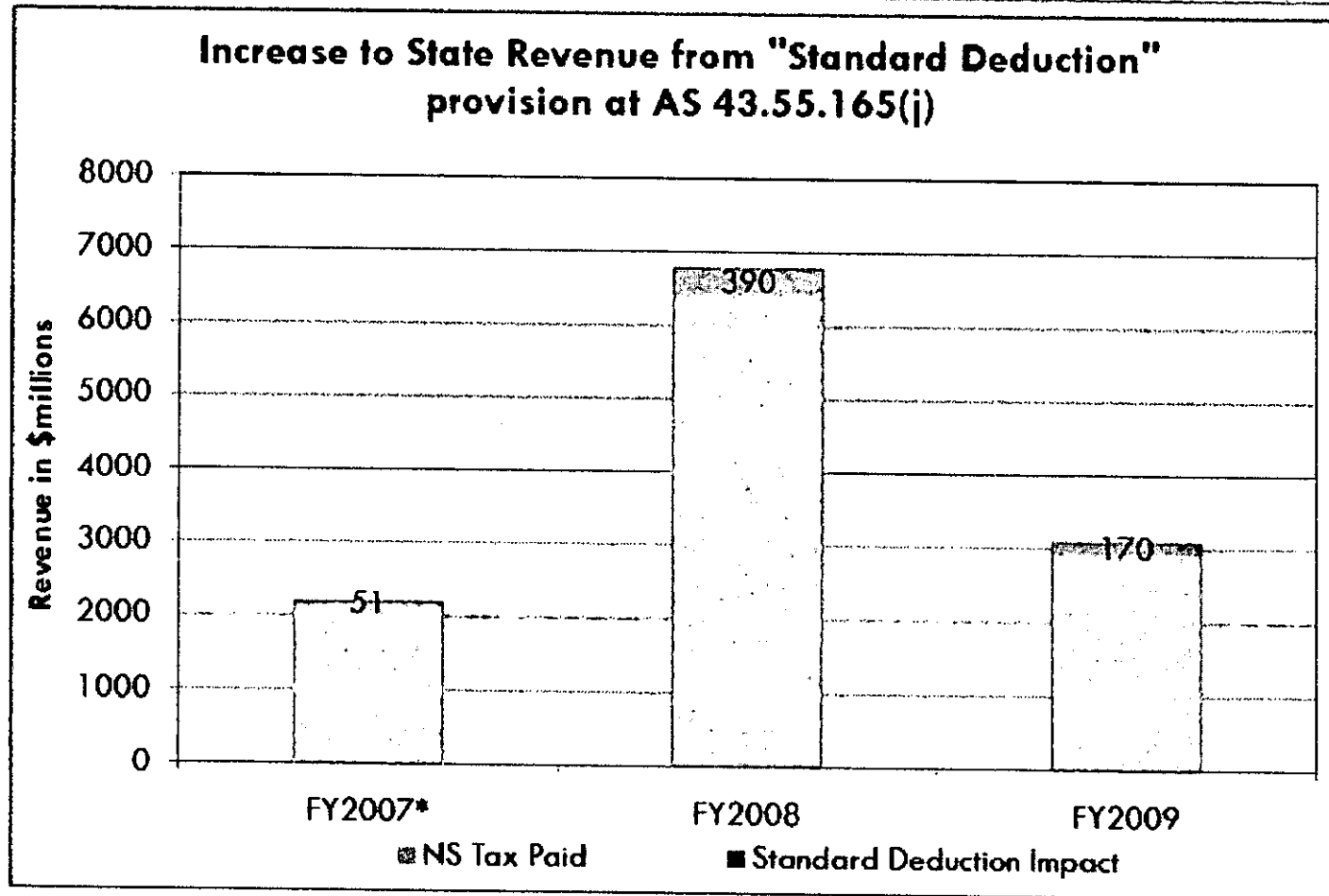


Note: Excludes Colville River, Oooguruk, Nikaitchuq and PT Thomson

## Attachment #12

# Effect of Standard Deduction Provision

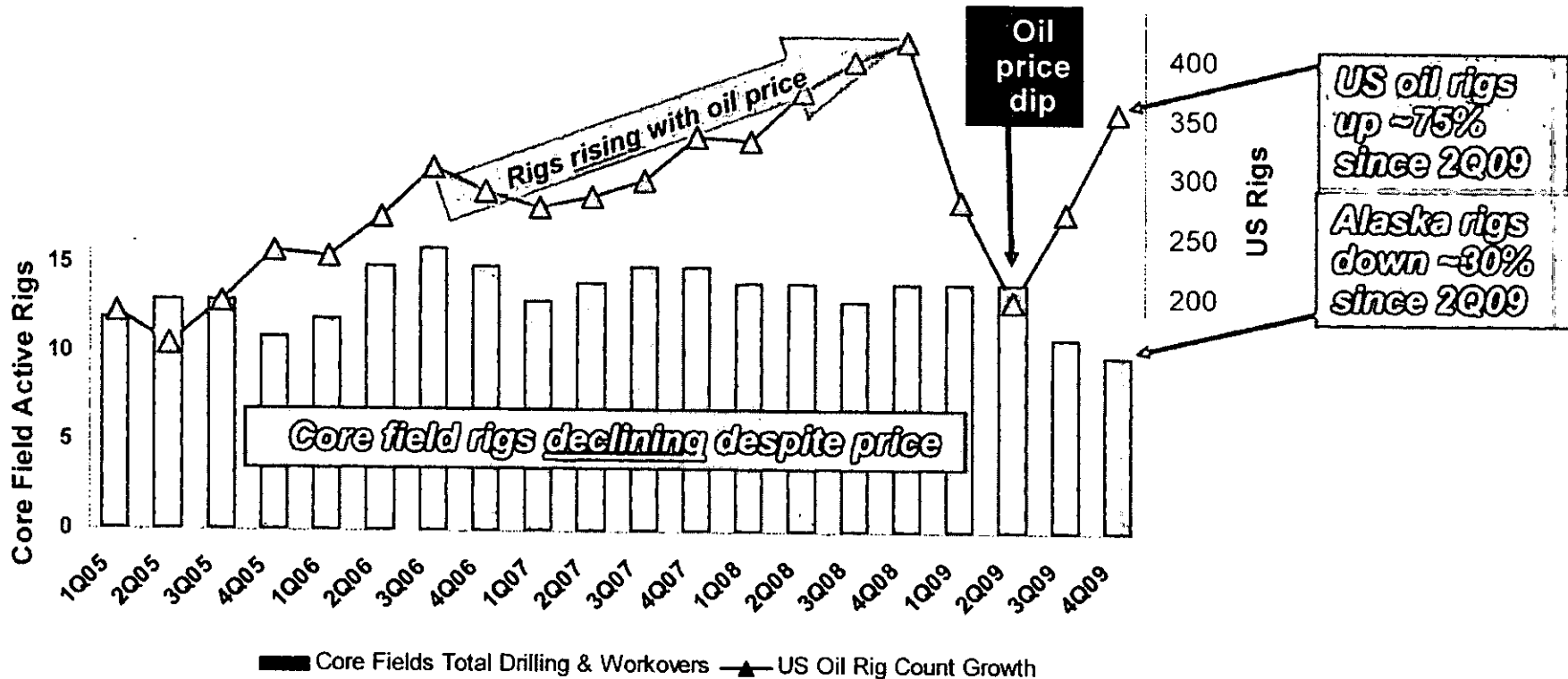
22



\*Standard Deduction in place for half of FY 2007.

# Active Drilling Rigs in Core Fields 2005-2009

Attachment #13



**Alaska drilling activity declining while US drilling activity increasing**

Sources: ConocoPhillips internal for core fields rig count, Baker Hughes for US oil rig count, DOR for oil price