

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2949

Amend 9

24-GH2096\I.5
Kane\Bullock
8/1/06

SL

Withdrawn
8-3-06

AMENDMENT

Kerttula

OFFERED IN THE HOUSE

TO: CSHB 3001(), Draft Version "I"

1 Page 1, line 1, through page 41, line 26:

2 Delete all material and insert:

3 ""An Act relating to oil and gas, and to the oil and gas properties production (severance)
4 tax as it applies to oil; providing for an adjustment to increase the tax collected when oil
5 prices exceed \$20 per barrel and to reduce the tax collected when oil prices fall below
6 \$16 per barrel; providing for relief from the tax when the price per barrel is low or
7 when the taxpayer demonstrates that a reduction in the tax is necessary to establish or
8 reestablish production from an oil field or pool that would not otherwise be
9 economically feasible; delaying until July 1, 2016, the deadline for certain exploration
10 expenditures that form the basis for a credit against the tax on oil and gas produced
11 from a lease or property in the state; amending the powers and duties of the Alaska Oil
12 and Gas Conservation Commission; relating to the conservation surcharge and
13 additional conservation surcharge on oil; and providing for an effective date."

14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

15 * Section 1. AS 31.05.030(d) is amended to read:

16 (d) The commission may require

17 (1) identification of ownership of wells, producing leases, tanks,
18 plants, and drilling structures;

19 (2) the making and filing of reports, well logs, drilling logs, electric

1 logs, lithologic logs, directional surveys, and all other subsurface information on a
2 well drilled for oil or gas, or for the discovery of oil or gas, or for geologic
3 information, and the required reports and information shall be filed within 30 days
4 after the completion, abandonment, or suspension of the well;

5 (3) the drilling, casing, and plugging of wells in a manner that will
6 prevent the escape of oil or gas out of one stratum into another, the intrusion of water
7 into an oil or gas stratum, the pollution of fresh water supplies by oil, gas, or salt
8 water, and prevent blowouts, cavings, seepages and fires;

9 (4) the furnishing of a reasonable bond with sufficient surety
10 conditions for the performance of the duty to plug each dry or abandoned well or the
11 repair of wells causing waste;

12 (5) the operation of wells with efficient gas-oil and water-oil ratios,
13 and may fix these ratios;

14 (6) the gauging or other measuring of oil and gas to determine the
15 quality and quantity of oil and gas;

16 (7) every person who produces oil or gas in the state to keep and
17 maintain for a period of five years in the state complete and accurate records of the
18 quantities of oil and gas produced, which shall be available for examination by the
19 Department of Natural Resources or its agents at all reasonable times;

20 (8) the measuring and monitoring of oil and gas pool pressures;

21 (9) the filing and approval of a plan of development and operation for
22 a field or pool in order to prevent waste, ensure [INSURE] a greater ultimate recovery
23 of oil and gas, and protect the correlative rights of persons owning interests in the
24 tracts of land affected;

25 (10) working interest owners to provide, at cost plus a reasonable
26 rate of return determined under regulations adopted by the commission and
27 without causing substantial injury to the owner, access to production and other
28 facilities whenever necessary; for purposes of this paragraph, the commission's
29 regulations must be consistent with the standards of the Regulatory Commission
30 of Alaska adopted to implement AS 42.05.311(a); the commission may act under
31 this paragraph

1 (A) to

2 (i) maximize the economic and physical recovery of
3 the state's oil and gas resources;

4 (ii) maximize competition among parties seeking to
5 explore and develop the state's oil and gas resources;

6 (iii) minimize the adverse affects of exploration,
7 development, production, and transportation activity; or

8 (iv) otherwise protect the best interest of the state;

9 and

10 (B) only if the commission finds that the facility has excess
11 capacity and that directing the working interest owner to provide access
12 by or for the benefit of others would not materially interfere with the
13 owner's paramount use of the facility.

14 * Sec. 2. AS 36.30.850(b)(33) is amended to read:

15 (33) contracts between the Department of Natural Resources or the
16 Department of Revenuc, as appropriate, and contractors qualified to evaluate
17 hydrocarbon development, production, transportation, and economics, to assist the
18 commissioner of natural resources or the commissioner of revenue, as appropriate,
19 in evaluating applications for

20 (A) royalty increases or decreases or other royalty adjustments,
21 and evaluating the related financial and technical data, entered into under
22 AS 38.05.180(j); or

23 (B) tax reductions, and evaluating the related financial and
24 technical data, as authorized by AS 43.55.011(i) and (j);

25 * Sec. 3. AS 43.55.011(a) is amended to read:

26 (a) There is levied upon the producer of oil a tax for all oil produced from
27 each lease or property in the state, less any oil the ownership or right to which is
28 exempt from taxation. The tax is equal to,

29 (1) in the case of North Slope oil, either the percentage-of-value
30 amount calculated under (b)(1) [(b)] of this section or the cents-per-barrel amount
31 calculated under (c)(1) [(c)] of this section, whichever is greater; if [, MULTIPLIED

1 BY THE ECONOMIC LIMIT FACTOR DETERMINED FOR THE OIL
 2 PRODUCTION OF THE LEASE OR PROPERTY UNDER AS 43.55.013. IF] the
 3 amounts calculated under (b)(1) and (c)(1) [(b) AND (c)] of this section are equal, the
 4 amount calculated under (b)(1) [(b)] of this section shall be treated as if it were the
 5 greater for purposes of this section;

6 (2) in the case of oil that is not North Slope oil, either the
 7 percentage-of-value amount calculated under (b)(2) of this section or the cents-
 8 per-barrel amount calculated under (c)(2) of this section, whichever is greater,
 9 multiplied by the economic limit factor determined for the oil production of the
 10 lease or property under AS 43.55.013; if the amounts calculated under (b)(2) and
 11 (c)(2) of this section are equal, the amount calculated under (b)(2) of this section
 12 shall be treated as if it were the greater for purposes of this section.

13 * Sec. 4. AS 43.55.011(b) is amended to read:

14 (b) The percentage-of-value amount equals,

15 (1) in the case of North Slope oil, the tax rate set out in (e) of this
 16 section multiplied by the gross value at the point of production of taxable oil
 17 produced from the lease or property;

18 (2) in the case of oil that is not North Slope oil, [12.25 PERCENT
 19 OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL
 20 PRODUCED ON OR BEFORE JUNE 30, 1981, FROM THE LEASE OR
 21 PROPERTY AND] 15 percent of the gross value at the point of production of taxable
 22 oil produced from the lease or property, [AFTER JUNE 30, 1981;] except that [FOR
 23 A LEASE OR PROPERTY COMING INTO COMMERCIAL OIL PRODUCTION
 24 AFTER JUNE 30, 1981,] the percentage-of-value amount equals 12.25 percent of the
 25 gross value at the point of production of taxable oil produced from the lease or
 26 property in the first five years after the date that is the start of commercial oil
 27 production [AND EQUALS 15 PERCENT OF THE GROSS VALUE AT THE
 28 POINT OF PRODUCTION OF TAXABLE OIL PRODUCED THEREAFTER
 29 FROM THE LEASE OR PROPERTY].

30 * Sec. 5. AS 43.55.011(c) is amended to read:

31 (c) The cents-per-barrel amount equals,

1 (1) in the case of North Slope oil, \$0.80 per barrel for taxable
 2 crude oil produced from the lease or property, as adjusted by AS 43.55.012,
 3 multiplied by the economic limit factor determined for oil production of the lease
 4 or property under AS 43.55.013 and by the price adjustment factor set out in
 5 (e)(2)(D) of this section;

6 (2) in the case of oil that is not North Slope oil, [\$0.60 PER
 7 BARREL OF TAXABLE OLD CRUDE OIL PRODUCED FROM THE LEASE OR
 8 PROPERTY, AND] \$0.80 per barrel for [ALL OTHER] taxable crude oil produced
 9 from the lease or property, [BOTH] as adjusted by AS 43.55.012.

10 * Sec. 6. AS 43.55.011 is amended by adding new subsections to read:

11 (e) This subsection and (f) - (k) of this section apply only to North Slope oil.
 12 Except as provided in (h) of this section for heavy oil, the tax rate is the lesser of

13 (1) 27.5 percent; or

14 (2) the product of the volume adjusted tax rate multiplied by the price
 15 adjustment factor; for purposes of

16 (A) this paragraph, the volume adjusted tax rate is the greater

17 of

18 (i) the applicable tax rate determined under (C) of this
 19 paragraph, except that, if during a month in which the average ANS
 20 West Coast price per barrel of oil is less than \$12, the applicable tax
 21 rate is zero and the volume adjusted tax rate is determined only by the
 22 application of (ii) of this subparagraph; or

23 (ii) the economic limit factor determined for the oil
 24 production of the lease or property under AS 43.55.013 multiplied by
 25 the nominal tax rate;

26 (B) subparagraph (A) of this paragraph, the nominal tax rate is

27 (i) 12.25 percent during the first five years from the
 28 date that is the start of commercial oil production; and

29 (ii) 15 percent after the first five years from the date
 30 that is the start of commercial oil production;

31 (C) sub-subparagraph (A)(i) of this paragraph, during each

1 month in which the average ANS West Coast price per barrel of oil averages

2 (i) at least \$16, the applicable rate is five percent;

3 (ii) at least \$15, but less than \$16, the applicable rate is

4 four percent;

5 (iii) at least \$14, but less than \$15, the applicable rate is

6 three percent;

7 (iv) at least \$13, but less than \$14, the applicable rate is

8 two percent; and

9 (v) at least \$12, but less than \$13, the applicable rate is

10 one percent; and

11 (D) this paragraph and for the purpose of determining the
12 cents-per-barrel amount under (c)(1) of this section, the price adjustment factor
13 is one, except that the price adjustment factor is the average ANS West Coast
14 price per barrel of oil for the month divided by

15 (i) 16 during each month in which the average ANS

16 West Coast price per barrel of oil is less than \$16 per barrel;

17 (ii) 20 during each month in which the average ANS

18 West Coast price per barrel of oil is more than \$20 per barrel.

19 (f) During a month in which the average ANS West Coast price per barrel of
20 oil is less than \$10 per barrel, the payment of

21 (1) one-half of the tax due and payable under this chapter is waived;

22 and

23 (2) the remaining one-half of the tax due and payable under this
24 chapter is deferred, subject to the following:

25 (A) the amount of tax payment that is deferred under this
26 paragraph is payable by the taxpayer

27 (i) during each month in which the average ANS West
28 Coast price per barrel of oil is at least \$16 per barrel; and

29 (ii) sequentially on a month-for-month basis in the
30 order in which the tax payment was deferred based on payment of one
31 month's deferred tax during each month that the average ANS West

1 Coast price per barrel of oil is at least \$16 per barrel; and

2 (B) amounts due and payable because of a payment deferral
3 under this paragraph bear interest at the rate of a 10-year note of the United
4 States treasury at the time of the deferral.

5 (g) Before February 1 of each year, the commissioner shall review the prices
6 described in (e) and (f) of this section and the related denominators set out in
7 (e)(2)(D)(i) and (ii) of this section and recommend to the legislature whether the prices
8 and denominators should be adjusted.

9 (h) Notwithstanding (e) of this section, the tax rate for heavy oil is the volume
10 adjusted tax rate provided in this subsection. The volume adjusted tax rate for heavy
11 oil is determined by multiplying the economic limit factor determined for the oil
12 production of the lease or property under AS 43.55.013 by the tax rate set out in
13 (e)(2)(A)(i) and (ii) of this section. In this subsection, "heavy oil" means oil equal to or
14 less than 20 degrees API gravity.

15 (i) A producer of North Slope oil may apply for a reduction of the tax due
16 under (e), (j), and (k) of this section on the production of North Slope oil

17 (1) if and to the extent that the amount calculated under (A) of this
18 paragraph is greater than the amount calculated under (B) of this paragraph, but a
19 reduction of the tax may not result in collection of tax due under this section that is
20 less than the amount calculated under (B) of this paragraph:

21 (A) the amount of tax on the production of the oil that results
22 from applying the provisions of (e) of this section;

23 (B) the amount of tax on the production of the oil that would
24 result from applying the provisions of (a)(2) and (b)(2) of this section as if the
25 oil were not North Slope oil; and

26 (2) if the commissioner in consultation with the commission of natural
27 resources determines that the application meets the requirements of
28 AS 38.05.180(j)(1)(A), (j)(1)(B), or (j)(1)(C).

29 (j) When the commissioner receives an application under (i) of this section,
30 the commissioner

31 (1) may not approve a tax reduction

1 (A) unless the applicant makes a clear and convincing showing
2 that the tax reduction meets the requirements of (i) of this section and this
3 subsection and is in the best interests of the state;

4 (B) that reduces the amount of the tax recovered to less than the
5 amount determined under (i)(1)(B) of this section;

6 (C) without including an explicit condition that the tax
7 reduction is not assignable without the prior written approval, which may not
8 be unreasonably withheld, of the commissioner; in the preliminary and final
9 findings and determinations prepared under this subsection, the commissioner
10 shall set out the conditions under which the tax reduction may be assigned;

11 (2) shall require the applicant to submit financial and technical data
12 that demonstrate that the requirements of (i) of this section and this subsection are
13 met; the commissioner

14 (A) may require disclosure of only the financial and technical
15 data related to development, production, and transportation of oil and gas or
16 gas only from the field or pool that are reasonably available to the applicant;
17 and

18 (B) shall, at the request of the applicant, keep confidential
19 under AS 38.05.035(a)(9) and AS 43.05.230 the data described in (A) of this
20 paragraph; the confidential data may be disclosed by the commissioner to
21 legislators and to the legislative auditor and, if authorized by the chair or vice-
22 chair of the Legislative Budget and Audit Committee, to the director of the
23 division of legislative finance, the permanent employees of their respective
24 divisions who are responsible for evaluating a tax reduction, and to agents or
25 contractors of the legislative auditor or the legislative finance director who are
26 engaged under contract to evaluate the tax reduction if each signs an
27 appropriate confidentiality agreement;

28 (3) may require the applicant for the tax reduction under (i) of this
29 section and this subsection to pay for the services of an independent contractor,
30 selected by the applicant from a list of qualified consultants compiled by the
31 commissioner, to evaluate hydrocarbon development, production, transportation, and

1 economics and to assist the commissioner in evaluating the application and financial
2 and technical data; if, under this paragraph, the commissioner requires payment for the
3 services of an independent contractor, the total cost of the services to be paid for by
4 the applicant may not exceed \$150,000 for each application, and the commissioner
5 shall determine the relevant scope of the work to be performed by the contractor;
6 selection of an independent contractor under this paragraph is not subject to AS 36.30;

7 (4) shall make and publish a preliminary findings and determination on
8 the tax reduction application, give reasonable public notice of the preliminary findings
9 and determination, and invite public comment on the preliminary findings and
10 determination during a 30-day period for receipt of public comment;

11 (5) shall offer to appear before the Legislative Budget and Audit
12 Committee, on a day that is not earlier than 10 days and not later than 20 days after
13 giving public notice under (4) of this subsection, to provide the committee a review of
14 the commissioner's preliminary findings and determination on the tax reduction
15 application and administrative process; if the Legislative Budget and Audit Committee
16 accepts the commissioner's offer, the committee shall give notice of the committee's
17 meeting to all members of the legislature;

18 (6) shall make copies of the preliminary findings and determination
19 available to

20 (A) the presiding officer of each house of the legislature;

21 (B) the chairs of the legislature's standing committees on
22 resources; and

23 (C) the chairs of the legislature's special committees on oil and
24 gas, if any; and

25 (7) shall, within 30 days after the close of the public comment period
26 under (4) of this subsection,

27 (A) prepare a summary of the public response to the
28 commissioner's preliminary findings and determination;

29 (B) make a final findings and determination; the
30 commissioner's final findings and determination prepared under this
31 subparagraph regarding a tax reduction is final and not appealable to the court;

1 (C) transmit a copy of the final findings and determination to
2 the lessee; and

3 (D) make copies of the final findings and determination
4 available to each person who submitted comment under (4) of this subsection
5 and who has filed a request for the copies.

6 (k) In this section, "North Slope oil" means oil produced from a portion of a
7 reservoir located north of 68 degrees North latitude.

8 * Sec. 7. AS 43.55.012(b) is amended to read:

9 (b) The cents-per-barrel amount set out in AS 43.55.011(c)(1) and (2)
10 [AS 43.55.011(c)] applies to oil of 27 degrees API gravity. For each degree of API
11 gravity less than 27 degrees, the cents-per-barrel amount shall be reduced by \$.005
12 and for each degree of API gravity greater than 27 degrees the cents-per-barrel amount
13 shall be increased by \$.005 except that oil above 40 degrees API gravity shall be taxed
14 as 40 degree oil. In applying the gravity adjustment under this subsection, fractional
15 degrees of API gravity shall be disregarded.

16 * Sec. 8. AS 43.55.025(b) is amended to read:

17 (b) To qualify for the production tax credit under (a) of this section, an
18 exploration expenditure must be incurred for work performed on or after July 1, 2003,
19 ↓ before July 1, 2016 [2007], except that an exploration expenditure for a Cook Inlet
20 prospect must be incurred for work performed on or after July 1, 2005, [AND
21 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION
22 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15
23 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET
24 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER
25 JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

26 (1) may be for seismic or geophysical exploration costs not connected
27 with a specific well;

28 (2) if for an exploration well,

29 (A) must be incurred by an explorer that holds an interest in the
30 exploration well for which the production tax credit is claimed;

31 (B) may be for either an oil or gas discovery well or a dry hole;

1 and

2 (C) must be for goods, services, or rentals of personal property
3 reasonably required for the surface preparation, drilling, casing, cementing,
4 and logging of an exploration well, and, in the case of a dry hole, for the
5 expenses required for abandonment if the well is abandoned within 18 months
6 after the date the well was spudded;

7 (3) may not be for testing, stimulation, or completion costs;
8 administration, supervision, engineering, or lease operating costs; geological or
9 management costs; community relations or environmental costs; bonuses, taxes, or
10 other payments to governments related to the well; or other costs that are generally
11 recognized as indirect costs or financing costs; and

12 (4) may not be incurred for an exploration well or seismic exploration
13 that is included in a plan of exploration or a plan of development for any unit on
14 May 13, 2003.

15 * Sec. 9. AS 43.55.201 is amended to read:

16 Sec. 43.55.201. Surcharge levied. (a) Every producer of oil shall pay a
17 surcharge of \$.01 [\$.02] per barrel of oil produced from each lease or property in the
18 state, less any oil the ownership or right to which is exempt from taxation.

19 (b) The surcharge imposed by (a) of this section is in addition to the tax
20 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
21 from each lease or property during the preceding month. The surcharge [SHALL
22 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
23 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 -
24 43.55.310.

25 (c) A producer of oil shall make reports of production in the same manner and
26 under the same penalties as required under AS 43.55.011 - 43.55.180 [AS 43.55.011 -
27 43.55.150].

28 * Sec. 10. AS 43.55.201 is amended by adding a new subsection to read:

29 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or
30 property is not considered to be produced from a lease or property for purposes of this
31 section.

1 * **Sec. 11.** AS 43.55.221(d) is amended to read:

2 (d) If the commissioner of administration reports that the sum reported under
3 (b) of this section equals or exceeds \$71,000,000 as adjusted under AS 43.55.225
4 [\$50,000,000], the commissioner of revenue shall suspend imposition and collection
5 of the surcharge levied and collected under AS 43.55.201. Suspension of the
6 imposition and collection of the surcharge begins on the first day of the calendar
7 quarter next following the commissioner's receipt of the commissioner of
8 administration's report under (b) of this section. Before the first day of a suspension
9 authorized by this subsection, the commissioner shall make a reasonable effort to
10 notify all persons who are known to the department to be paying the surcharge under
11 AS 43.55.201 that the surcharge will be suspended.

12 * **Sec. 12.** AS 43.55.221(e) is amended to read:

13 (e) Except as provided in AS 43.55.231, if the commissioner of administration
14 reports that the sum reported under (b) of this section is less than \$71,000,000 as
15 adjusted under AS 43.55.225 [\$50,000,000], the commissioner of revenue shall
16 require imposition and collection of the surcharge authorized under AS 43.55.201. If
17 the surcharge is not in effect, reimposition of the surcharge begins on the first day of
18 the calendar quarter next following the commissioner's receipt of the commissioner of
19 administration's report under (b) of this section. Before the first day of reimposition of
20 the surcharge authorized by this subsection, the commissioner shall make a reasonable
21 effort to notify all persons who are known to the department to be required to pay the
22 surcharge under AS 43.55.201 that the surcharge will be reimposed.

23 * **Sec. 13.** AS 43.55 is amended by adding a new section to read:

24 **Sec. 43.55.225. Adjustment of dollar amounts.** (a) The dollar amounts in
25 AS 43.55.221(d) and (e) change, as provided in this section, according to and to the
26 extent of changes in the Consumer Price Index for all urban consumers for the
27 Anchorage metropolitan area compiled by the Bureau of Labor Statistics, United
28 States Department of Labor (the index). The index for January 2006 is the reference
29 base index.

30 (b) The dollar amounts change on October 1 of each year according to the
31 percentage change between the index for January of that year and the most recent

1 index used to determine whether to change the dollar amounts. After calculation of the
2 new amounts, the resulting amounts shall be rounded to the nearest cent.

3 (c) If the index is revised, the percentage of change is calculated on the basis
4 of the revised index. If a revision of the index changes the reference base index, a
5 revised reference base index is determined by multiplying the reference base index
6 applicable by the rebasing factor furnished by the Bureau of Labor Statistics, United
7 States Department of Labor. If the index is superseded, the index referred to in this
8 section is the one represented by the Bureau of Labor Statistics as reflecting most
9 accurately changes in the purchasing power of the dollar for Alaska consumers.

10 (d) The department shall adopt a regulation announcing,

11 (1) on or before June 30 of each year, the changes in dollar amounts
12 required by (b) of this section; and

13 (2) promptly after the changes occur, changes in the index required by
14 (c) of this section, including, if applicable, the numerical equivalent of the reference
15 base index under a revised reference base index and the designation or title of any
16 index superseding the index.

17 * Sec. 14. AS 43.55.300 is amended to read:

18 **Sec. 43.55.300. Surcharge levied.** (a) Every producer of oil shall pay a
19 surcharge of \$.05 [\$.03] per barrel of oil produced from each lease or property in the
20 state, less any oil the ownership or right to which is exempt from taxation.

21 (b) The surcharge imposed by (a) of this section is in addition to the tax
22 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
23 from each lease or property during the preceding month. The surcharge [SHALL
24 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
25 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 -
26 43.55.231.

27 (c) A producer of oil shall make reports of production in the same manner and
28 under the same penalties as required under AS 43.55.011 - 43.55.180 [AS 43.55.011 -
29 43.55.150].

30 * Sec. 15. AS 43.55.300 is amended by adding a new subsection to read:

31 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or

1 property is not considered to be produced from a lease or property for purposes of this
2 section.

3 * Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to
4 read:

5 RETROACTIVITY. Sections 3 - 10, 14, and 15 of this Act are retroactive to
6 January 1, 2006, and apply to oil produced after December 31, 2005.

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

Amend 10

8-3-06

24-GH2096(I.1
Cook
8/1/06

withdrawn

h

AMENDMENT

Kerthula

OFFERED IN THE HOUSE

TO: CSHB 3001(), Draft Version "I"

1 Page 1, line 1, following "Act":

2 Insert "amending the powers and duties of the Alaska Oil and Gas Conservaion
3 Commission;"

5 Page 2, following line 8:

6 Insert a new bill section to read:

7 "* Sec. 2. AS 31.05.030(d) is amended to read:

8 (d) The commission may require

9 (1) identification of ownership of wells, producing leases, tanks,
10 plants, and drilling structures;

11 (2) the making and filing of reports, well logs, drilling logs, electric
12 logs, lithologic logs, directional surveys, and all other subsurface information on a
13 well drilled for oil or gas, or for the discovery of oil or gas, or for geologic
14 information, and the required reports and information shall be filed within 30 days
15 after the completion, abandonment, or suspension of the well;

16 (3) the drilling, casing, and plugging of wells in a manner that will
17 prevent the escape of oil or gas out of one stratum into another, the intrusion of water
18 into an oil or gas stratum, the pollution of fresh water supplies by oil, gas, or salt
19 water, and prevent blowouts, cavings, seepages and fires;

20 (4) the furnishing of a reasonable bond with sufficient surety
21 conditions for the performance of the duty to plug each dry or abandoned well or the
22 repair of wells causing waste;

23 (5) the operation of wells with efficient gas-oil and water-oil ratios,

1 and may fix these ratios;

2 (6) the gauging or other measuring of oil and gas to determine the
3 quality and quantity of oil and gas;

4 (7) every person who produces oil or gas in the state to keep and
5 maintain for a period of five years in the state complete and accurate records of the
6 quantities of oil and gas produced, which shall be available for examination by the
7 Department of Natural Resources or its agents at all reasonable times;

8 (8) the measuring and monitoring of oil and gas pool pressures;

9 (9) the filing and approval of a plan of development and operation for
10 a field or pool in order to prevent waste, ensure [INSURE] a greater ultimate recovery
11 of oil and gas, and protect the correlative rights of persons owning interests in the
12 tracts of land affected;

13 (10) working interest owners to provide, at cost plus a reasonable
14 rate of return determined under regulations adopted by the commission and
15 without causing substantial injury to the owner, access by or for the benefit of
16 others to production and other facilities whenever necessary; for purposes of this
17 paragraph, the commission's regulations must be consistent with the standards of
18 the Regulatory Commission of Alaska adopted to implement AS 42.05.311(a); the
19 commission may act under this paragraph

20 (A) to

21 (i) maximize the economic and physical recovery of
22 the state's oil and gas resources;

23 (ii) maximize competition among parties seeking to
24 explore and develop the state's oil and gas resources;

25 (iii) minimize the adverse affects of exploration,
26 development, production, and transportation activity; or

27 (iv) otherwise protect the best interest of the state;

28 (B) only if the commission finds that directing the working
29 interest owner to provide access by or for the benefit of others would not
30 materially interfere with the owner's paramount use of the facility; and

31 (C) only if the commission finds that the facility has excess

1 capacity or that it is feasible to expand the facility with the expansion costs
2 and any additional operating costs to be borne by the entities that use the
3 added capacity in proportion to the amount of use by each entity."
4

5 Renumber the following bill sections accordingly.

6

7 Renumber internal references to bill sections in accordance with this amendment. Below are
8 all internal bill section references in this bill:

9 Page 1, line 9

10 Page 2, line 5

11 Page 39, lines 4, 5, 7, 8, 12, 14, 19, 26, and 29

12 Page 40, lines 4, 6, 13, 16, 22, 23, 28, and 30

13 Page 41, lines 5, 6, 24, and 25

8/3/06

Failed 2-8

Amend 11

AMENDMENT

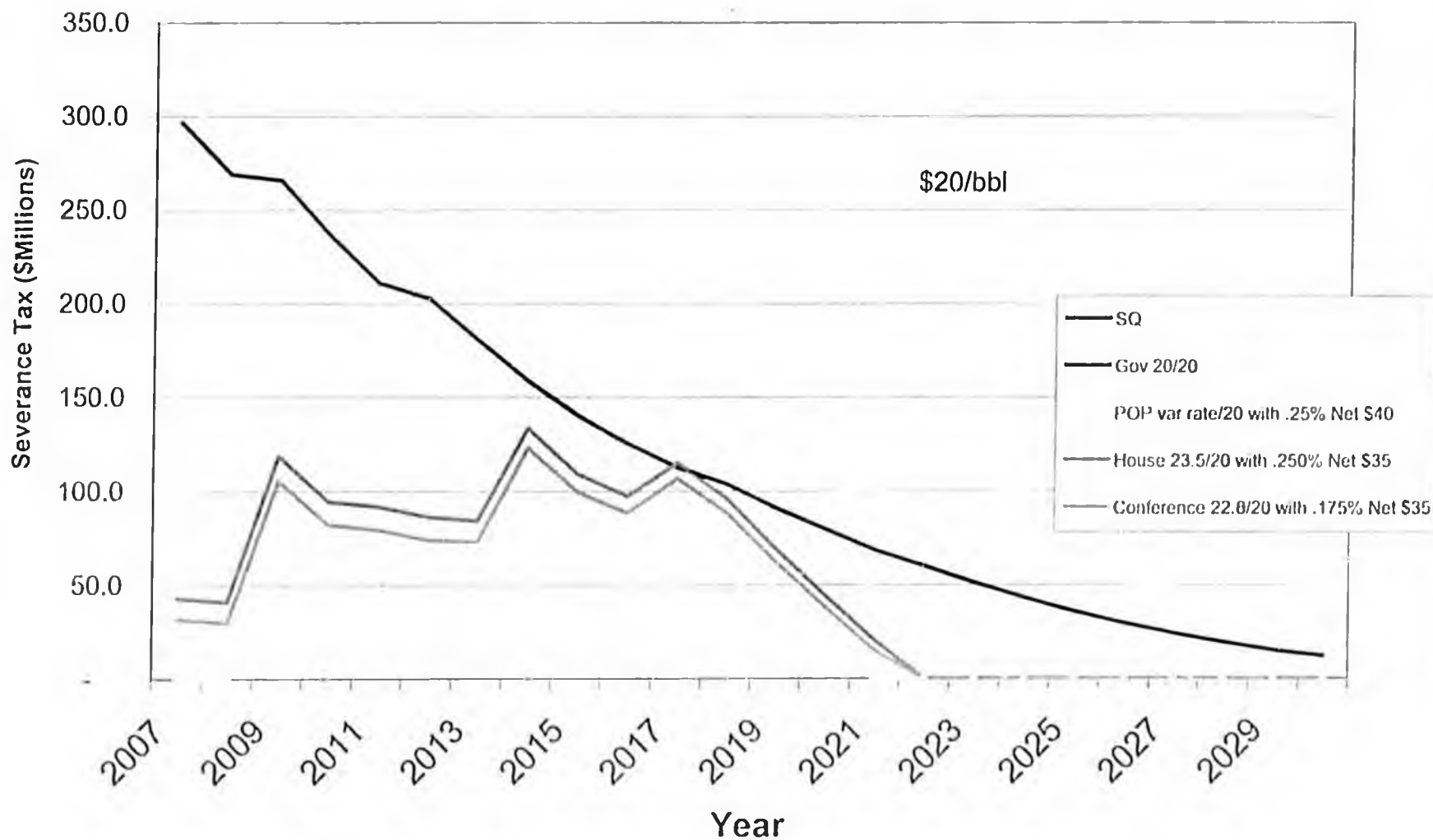
sh

OFFERED IN THE HOUSE
TO: CSHB 3001

BY REPRESENTATIVE KERTTULA

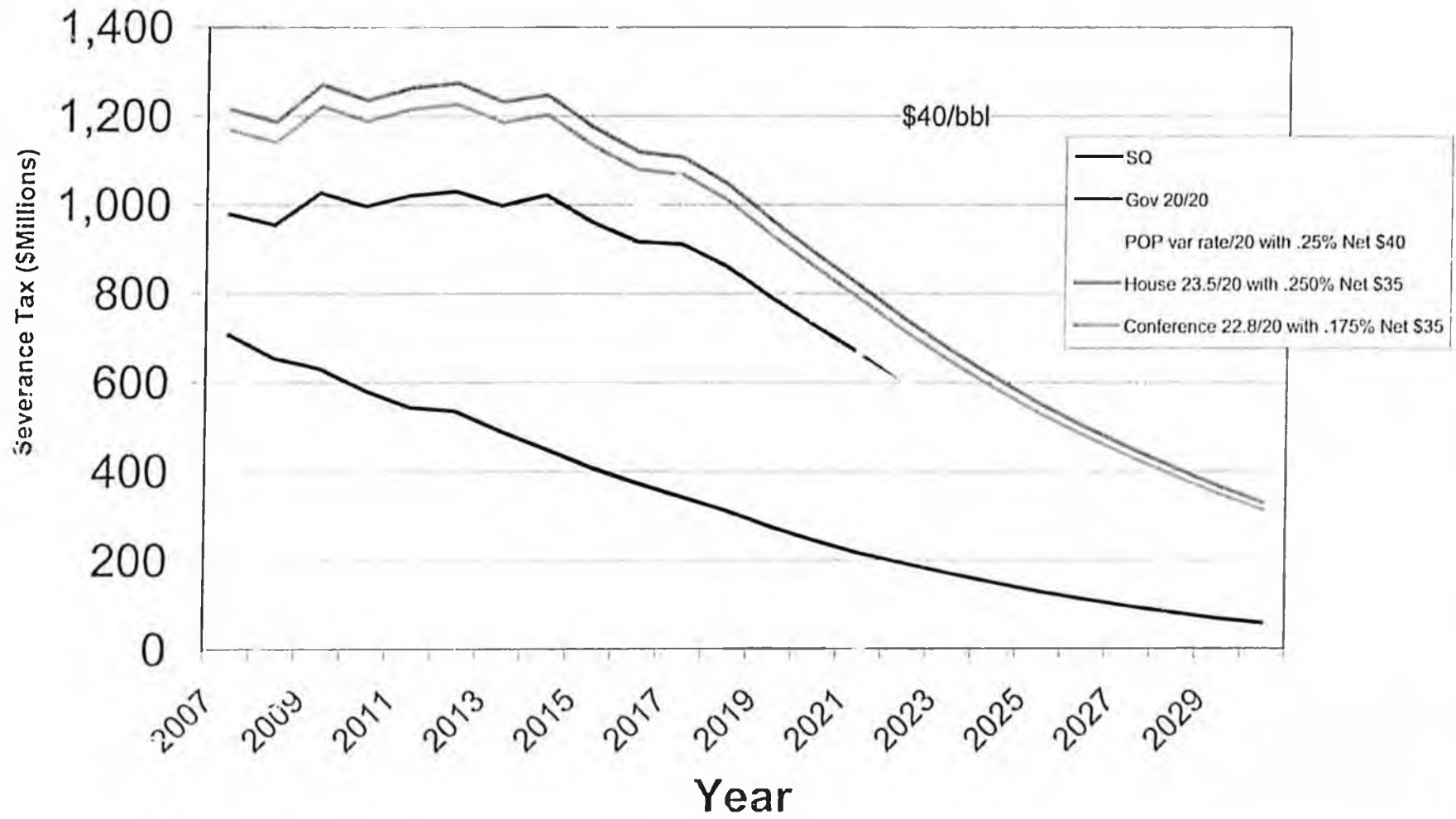
- 1 Page 31, line 16-22:
- 2 Delete all material.

Severance Tax under the Produce or Pay Plan (POP) and Various PPT Proposals at \$20/bbl

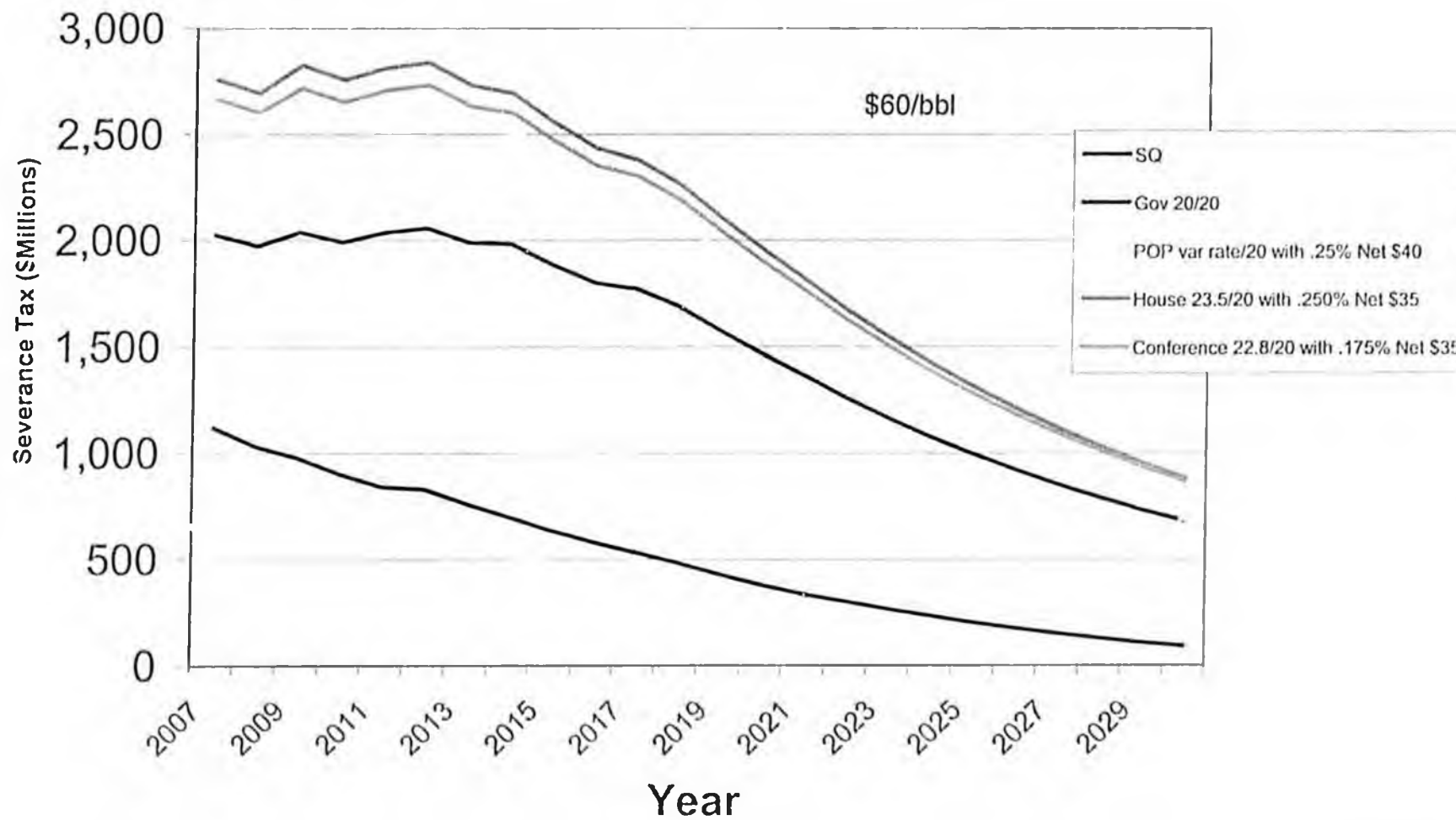


8/3/06

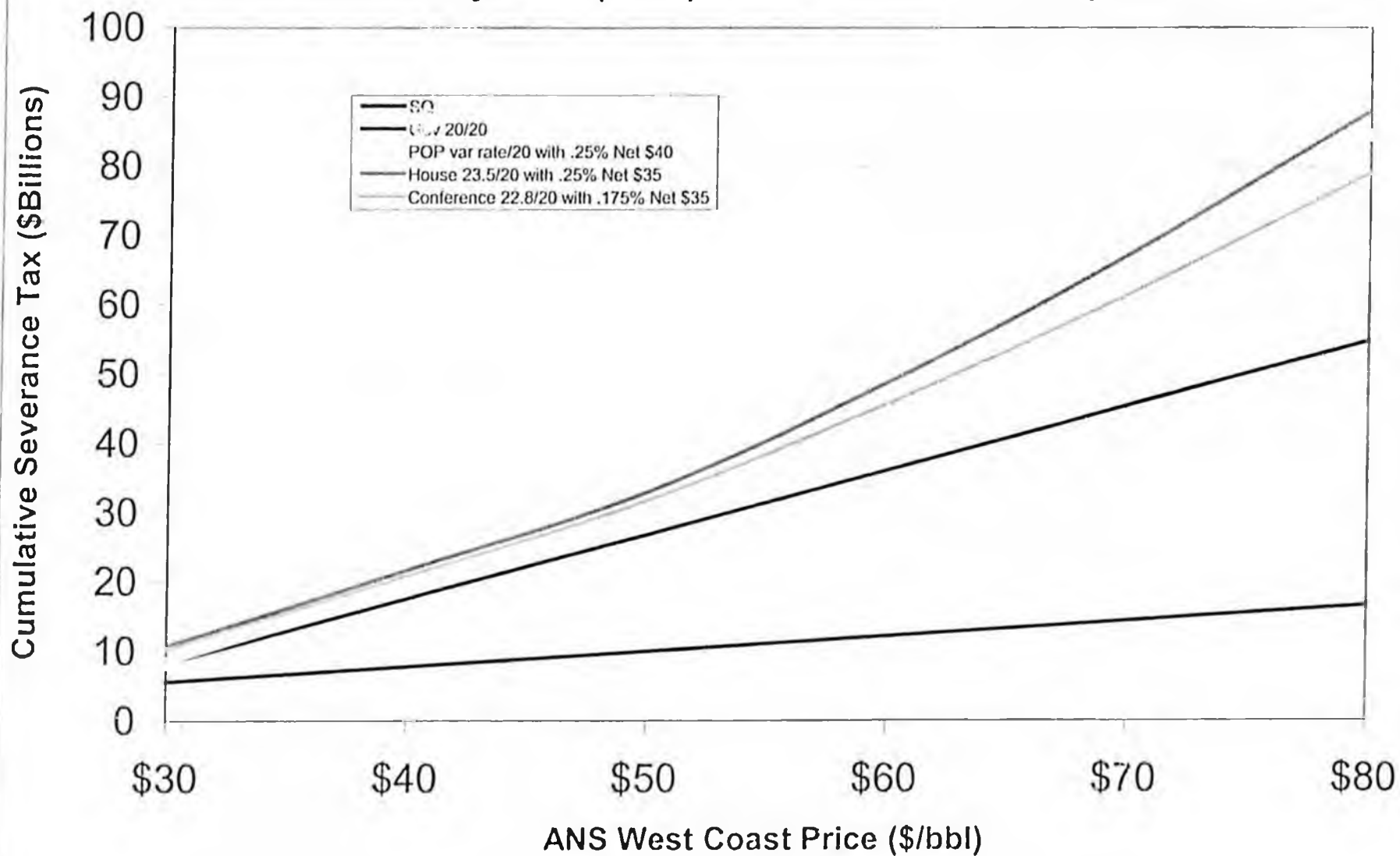
Severance Tax under the Produce or Pay Plan (POP) and Various PPT Proposals at \$40/bbl



Severance Tax under the Produce or Pay Plan (POP) and Various PPT Proposals at \$60/bbl

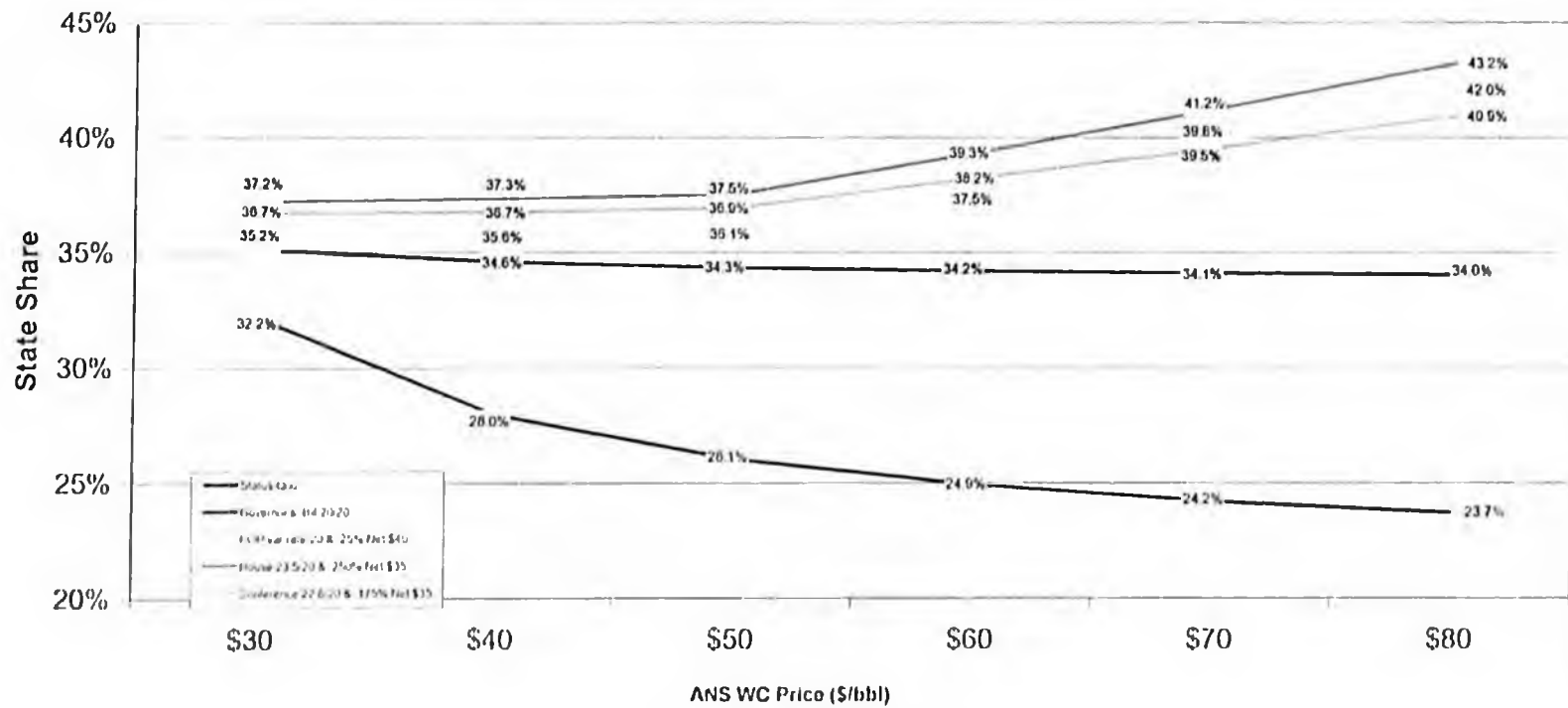


Cumulative Severance Tax, 2007-2030, Produce or Pay Plan (POP) and Various PPT Proposals



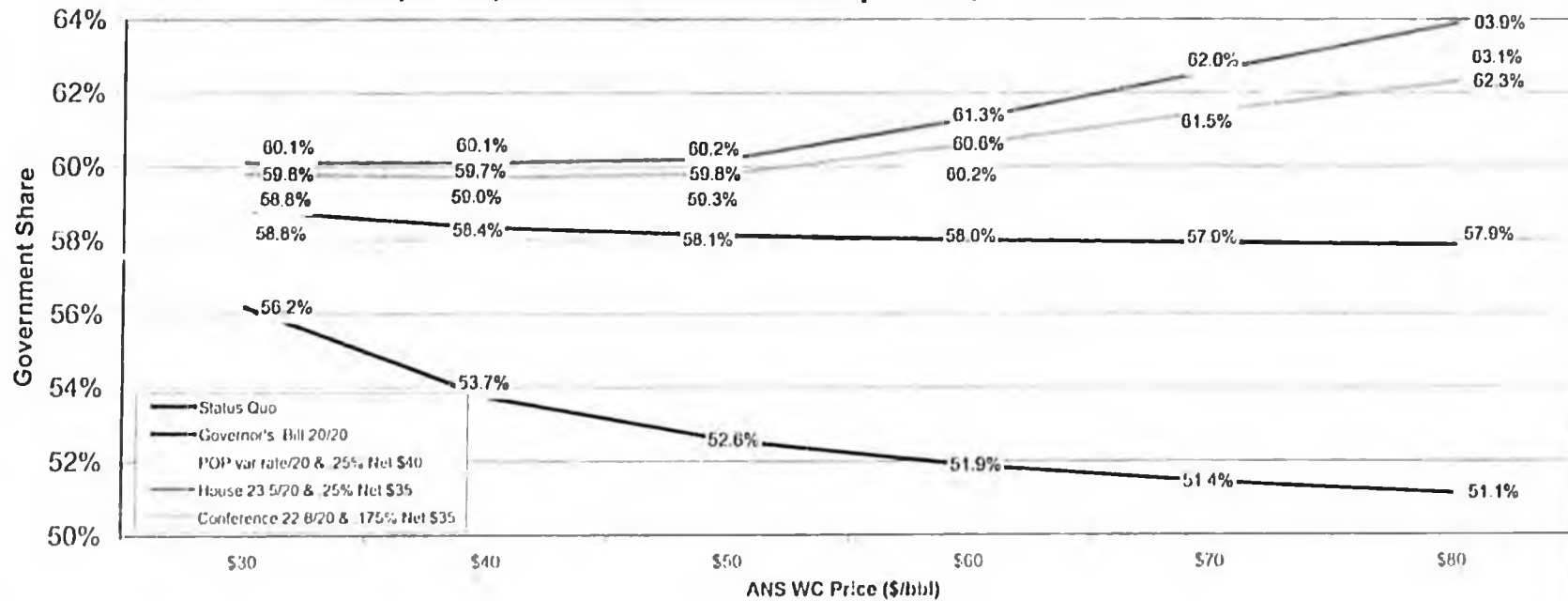
STATE SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030					
ANS WC \$/bbl	Status Quo	Governor's Bill 20/20	POP var rate/20 & 25% Net \$40	House 23.5/20 & 250% Net \$35	Conference 22.8/20 & 175% Net \$35
\$30	32.2%	35.2%	35.2%	37.2%	36.7%
\$40	28.0%	34.6%	35.6%	37.3%	36.7%
\$50	26.1%	34.3%	36.1%	37.5%	36.9%
\$60	24.9%	34.2%	37.5%	39.3%	38.2%
\$70	24.2%	34.1%	39.8%	41.2%	39.5%
\$80	23.7%	34.0%	42.0%	43.2%	40.9%

STATE SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030

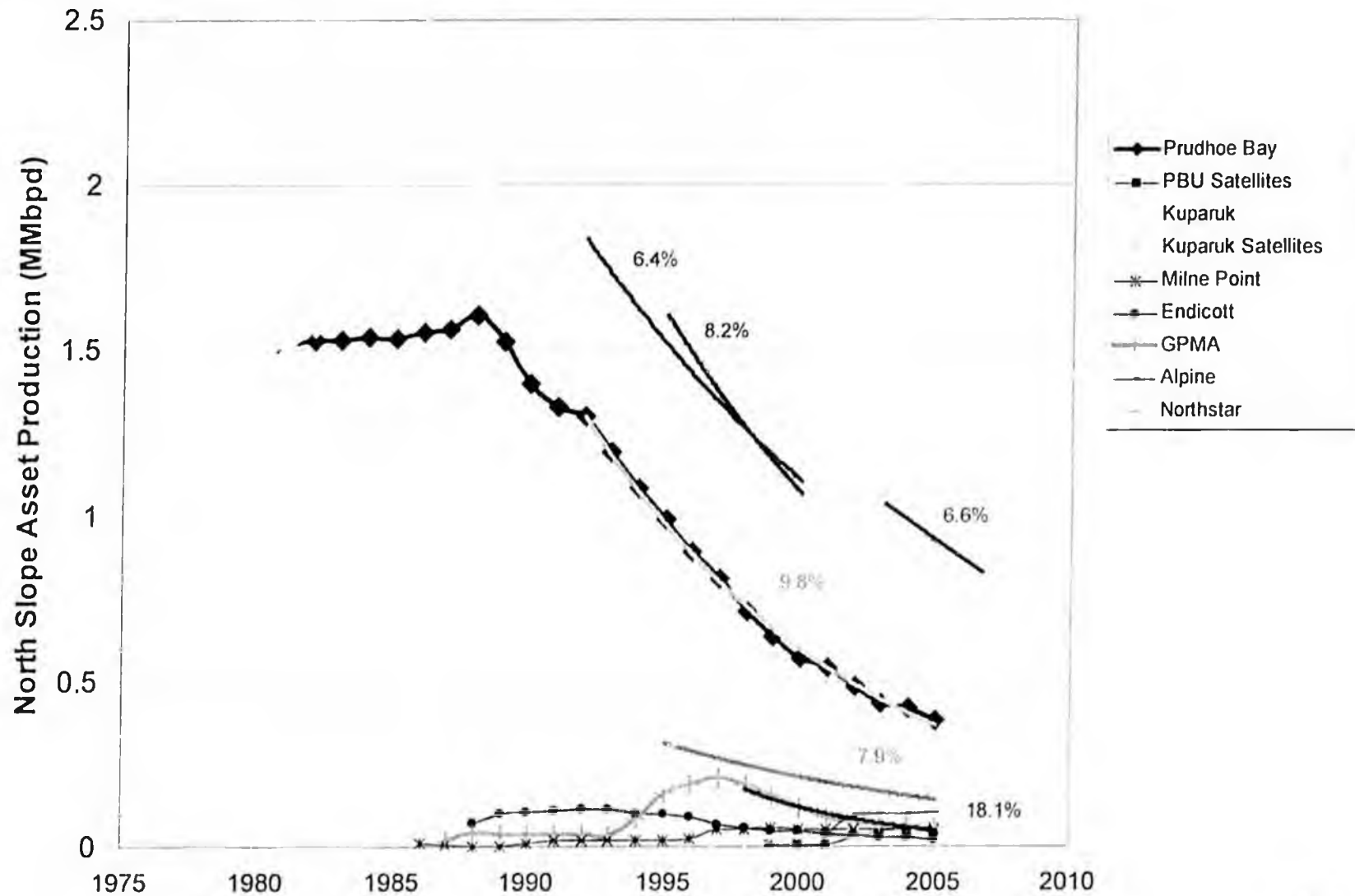


GOVERNMENT SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030					
ANS WC \$/bbl	Status Quo	Governor's Bill 20/20	POP var rate/20 & .25% Net \$40	House 23.5/20 & .25% Net \$35	Conference 22.8/20 & .175% Net \$35
\$30	56.2%	58.8%	58.8%	60.1%	59.8%
\$40	53.7%	58.4%	59.0%	60.1%	59.7%
\$50	52.6%	58.1%	59.3%	60.2%	59.8%
\$60	51.9%	58.0%	60.2%	61.3%	60.6%
\$70	51.4%	57.9%	61.7%	62.6%	61.5%
\$80	51.1%	57.9%	63.1%	63.9%	62.3%

GOVERNMENT SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030



North Slope Production and Individual Field Decline Rates



bp



1st August 2006



- A 20% PPT tax rate is high. We only agreed to it to progress gas.
- This proposal is much higher and will not lead to maximum benefits for Alaskans (investment, production, jobs, state revenue, etc)
- While the structure recognizes the importance of production, it is somewhat simplistic and relies on unrealistic assumptions / concepts:
 - The incentive is better focused on inputs (investment). Investment also has other benefits beyond new production to Alaskan businesses
 - A 5% decline rate does not reflect the current North Slope reality
 - Increasing taxes on new oil increases risk and is bad policy
 - Retaining progressivity makes it more difficult for Alaska to attract the capital it needs

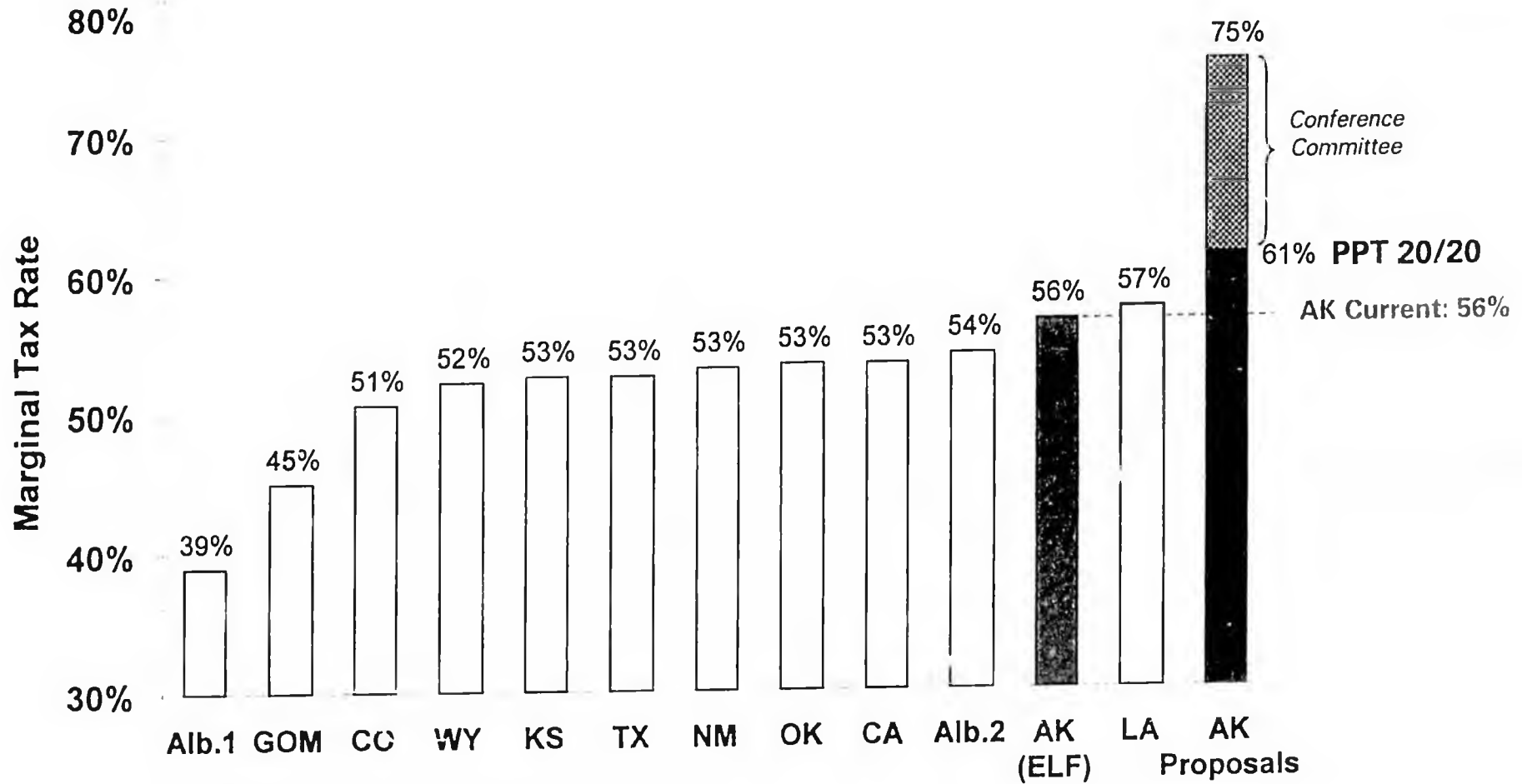


- Producers only agreed to 20% as a way to move ahead with the gas pipeline

- A lower tax rate would be better for Alaska
 - Lower taxes will help attract the huge amounts of capital needed to stem production decline

 - Lower taxes means more investment, more production, more jobs, more State Revenue and a healthier economy in Alaska

- With a 20% tax rate Alaska will have the highest tax rate & the highest cost structure in the US. This new proposal increase taxes still further. Progressivity will increase the burden even beyond that.



*Alb: ALBERTA HEAVY OIL (pre and post-payout)

Alberta & Gulf of Mexico are booming while Alaska production is declining

Increasing taxes will not attract investment to Alaska

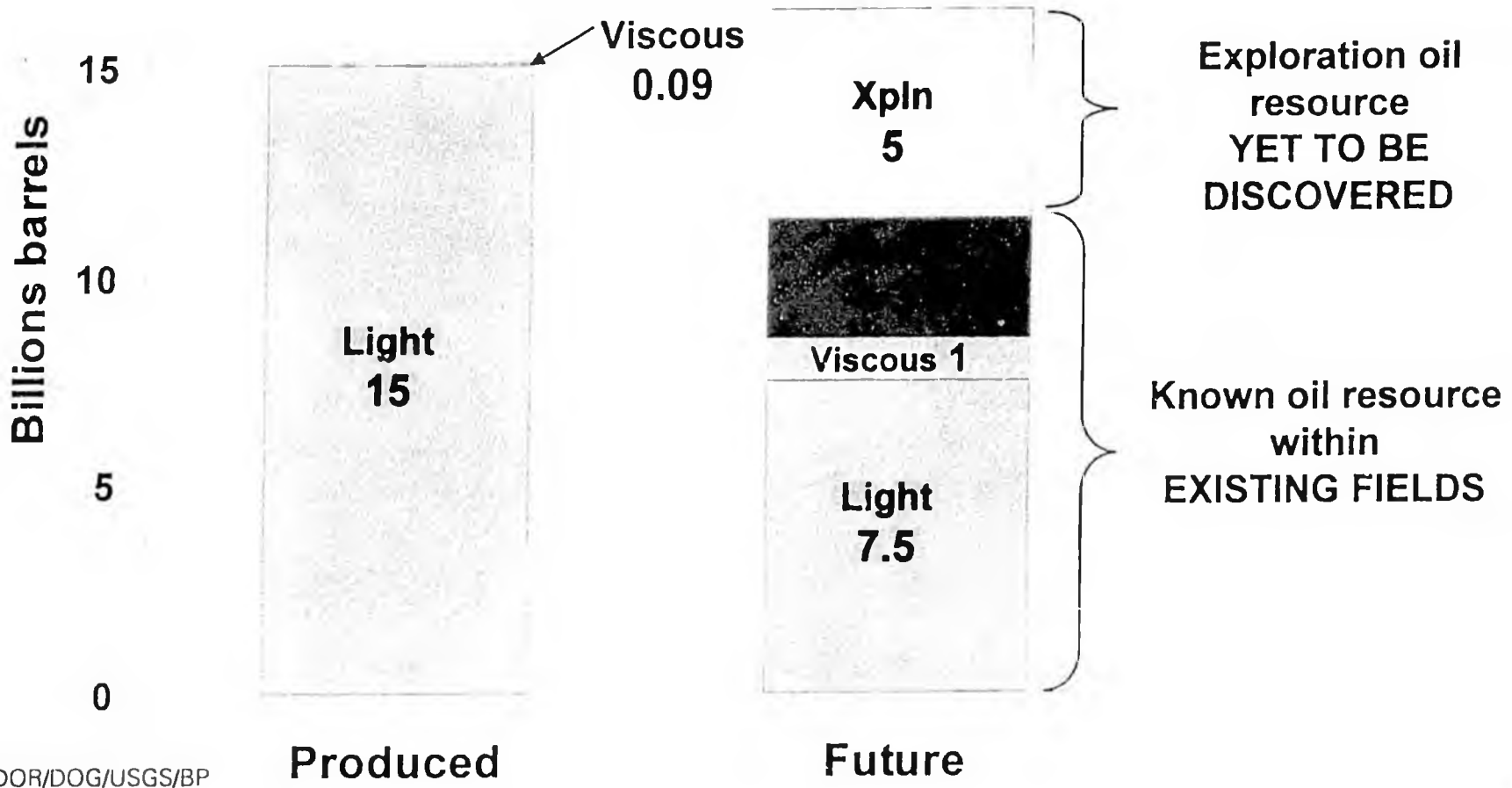


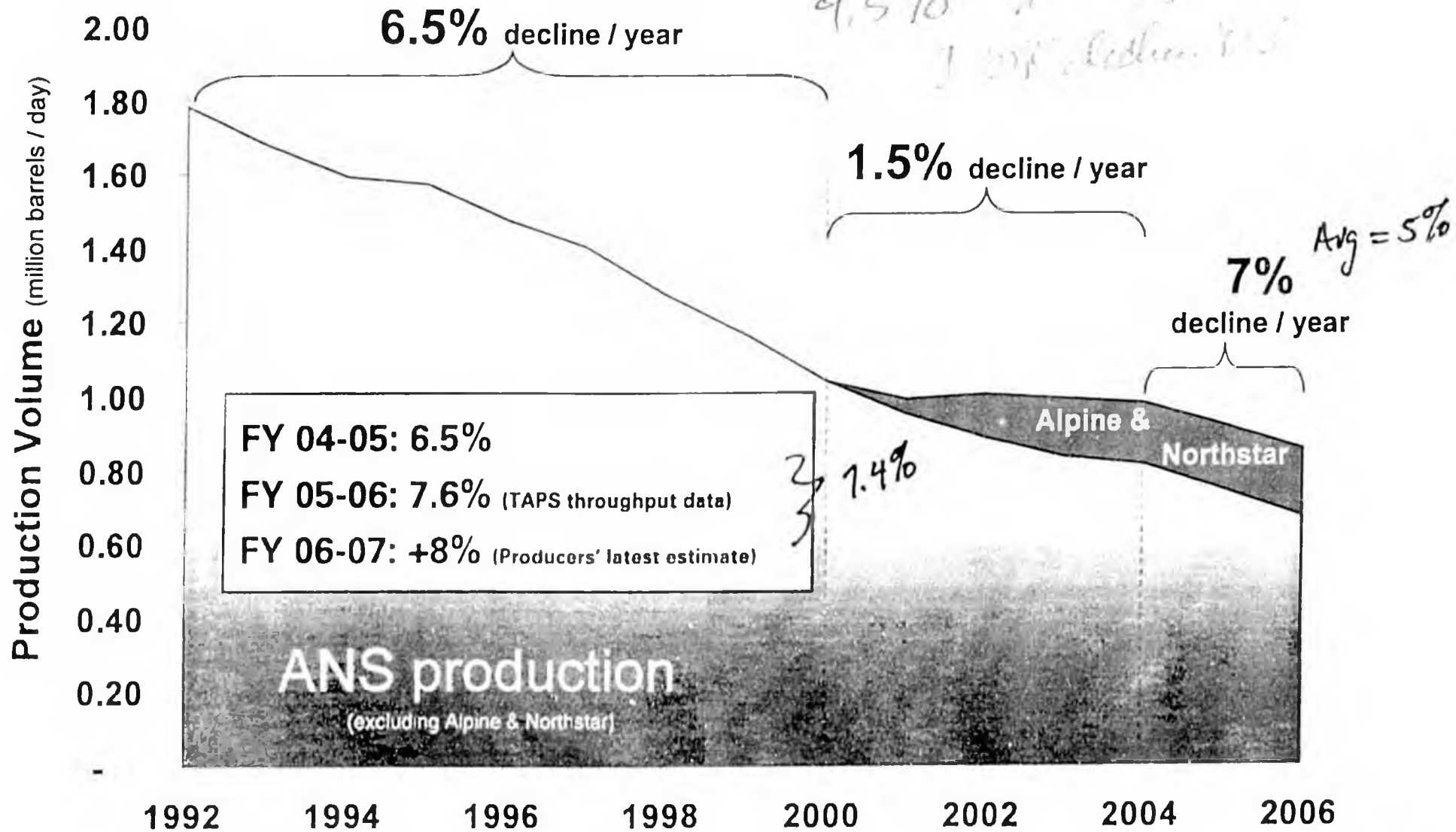
Production is an output, investment is an input

- Producers have control only over the input (investment) and can only forecast the output (production)
- The linkage of tax rate to production introduces additional uncertainty and thus risk for the investor
- Added risk and uncertainty make investments less attractive and will make Alaska less attractive compared to its competitors
- The structure could work but only if the numbers are right
- Care must be taken to avoid unintended consequences (e.g. impact on viscous oil?)



- Future production will become more and more challenging as light oil targets become smaller and less economic and the proportion of viscous oil increases
- Future production from known resources in existing fields will greatly exceed that from exploration







- Increasing the tax rate when production will be further declined, costs increasing and wells less productive is directionally wrong. This is the time when additional incentives should be being considered to keep the fields going. It is not the time to increase the tax burden even more!
- Alternatively, keeping the tax rate at 15% for all new oil would be a much better outcome for Alaska
- The right tax regime for the oil business is one which promotes investment, and maximizes production and hence State Revenue. A flat 15% PPT tax rate for all new oil would be a step in the right direction.



State Revenue over life of North Slope oil business

Decline PPT tax rate	15%	9%	6%	3%
0%			\$23bn	\$49bn
15%		\$20bn	\$30bn	\$64bn
20%	\$10bn	\$22bn	\$33bn	
25%	\$11bn	\$20bn		

By promoting investment and maximizing production, Alaska will benefit much more than by increasing short-term revenue through high taxes



- A 20% PPT tax rate is high. We only agreed to it to progress gas.
- This proposal is much higher and will not lead to maximum benefits for Alaskans (investment, production, jobs, state revenue, etc)
- While the structure recognizes the importance of production, it is somewhat simplistic and relies on unrealistic assumptions / concepts:
 - The incentive is better focused on inputs (investment). Investment also has other benefits beyond new production to Alaskan businesses
 - A 5% decline rate does not reflect the current North Slope reality
 - Increasing taxes on new oil increases risk and is bad policy
 - Retaining progressivity makes it more difficult for Alaska to attract the capital it needs



A more direct incentive would be to tie the tax rate to reinvestment.

- Investment is in the direct control of industry
- Increased production is the goal and increased investment is the means
- In addition to increased production, increased investment benefits the Alaska economy, businesses and creates jobs for Alaskans
- A tax rate based on reinvestment reduces investor's risk
- Gold plating can be prevented in a straight forward fashion
- Tax based upon investment creates a more level playing field and may avoid unforeseen adverse consequences of a decline based tax rate



Should the decline methodology be adopted, the following issues should be addressed:

- A decline rate of at least 10% is required to reflect current mature North Slope fields
- A rolling five year historical average would provide a more reasonable base than a single year base period
- Given the period required to develop new barrels, an increase on the tax rate on new oil creates a disincentive. We recommend that this built in tax increase be eliminated.
- Progressivity makes it more difficult to attract the additional capital Alaska needs. Progressivity should be dropped or reduced to a much lower rate.
- Tax rates for new and old oil should be lowered to ensure the blended tax rate is competitive with other US & global provinces.

Investment

with



A single reference year is not indicative of mature field decline

Base production five year averages:

- Prudhoe base 8.6% decline
- Kuparuk base 7.7%
- Milne 4.4%
- Endicott base 11.1%
- Point McIntire base 10.8%

MMbd	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10 yr. Avg.	5 Yr Avg.
North Slope													
Prudhoe Bay		-9.2%	-11.9%	-10.8%	-10.2%	-5.4%	-9.8%	-11.1%	-3.2%	-9.1%	-9.7%	-9.0%	-8.6%
Kuparuk		-5.7%	-2.6%	-7.3%	-12.0%	-7.1%	-10.7%	-9.1%	-3.1%	-8.4%	-7.0%	-7.3%	-7.7%
Milne Point		136.4%	1.9%	3.8%	-3.6%	-1.9%	0.0%	-1.9%	0.0%	-2.0%	-18.0%	11.5%	-4.4%
Endicott		-23.6%	-14.7%	-17.2%	-4.2%	-19.6%	-10.8%	-12.1%	0.0%	-27.6%	-4.8%	-13.5%	-11.1%
GPMA		10.1%	-8.7%	-17.9%	-25.0%	-23.9%	-15.7%	-13.3%	-6.2%	-8.2%	-10.7%	-12.0%	-10.8%
Northstar								200.0%	15.8%	4.5%	-20.3%		

•Source: DOR Spring 2006 Revenue Sources Book

7/25/06

Gross vs Net Production Tax

A back ground discussion

July 25, 2006

Presentation to
The House Finance Committee
Pedro van Meurs

General Comments

HB 3004 contains several elements of a proposal which I made on April 29, 2001 to the Knowles administration for changes in the production tax.

However, there are also important differences between HB 3004 and my earlier proposal. These differences are central to the understanding of "gross vs net".

General Comments

My 2001 proposal was a modification of the then existing ELF based production tax. It contained:

- Stronger tax rates in case of small fields with low productivities.
- A strongly price sensitive tax, which much higher rates under high prices and zero tax under low prices.
- Provisions for heavy oil incentives
- Tax credits in order to encourage re-investment in the State.

Revenues versus Structure

In order to understand the various concepts it is very important to distinguish clearly between:

- The structure of the production tax, and
- The level of revenues that the State would receive.

This presentation deals with the **structure** of the production tax.

Under any structure the level of revenues can be set higher or lower depending on the perception of the competitive international framework.

Three Fiscal Options

The three different options reflect the three main choices that the Government of Alaska has in creating a new production tax:

- A structure based on tax credits:
 - Based on State wide net revenues. or
 - Based on gross revenues per “field” with no deductions for capital and operating costs.
- No or minor tax credits:
 - A structure based on gross revenues per “field”.

Three Fiscal Options

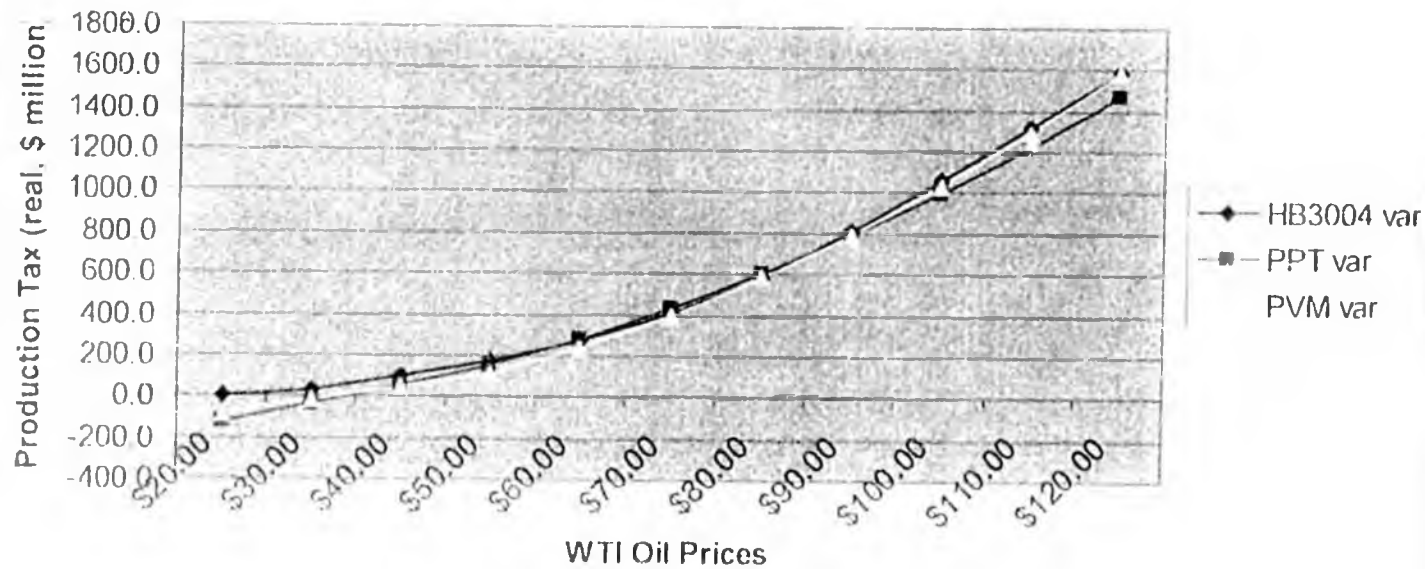
In order to evaluate the various **structures** three fiscal options were prepared which result in identical production tax revenues to the State based on the high cost 50MM-Low (\$13.50/bbl) and 150MM-Low (\$ 11/bbl) fields:

- With tax credits:
 - A PPT variation with a progressive feature
 - A variation of my 2001 proposal
- No or minor tax credits:
 - A variation of HB 3004

Three Fiscal Options

50MM-Low-high cost

Production Tax for 50MM-LOW for three options

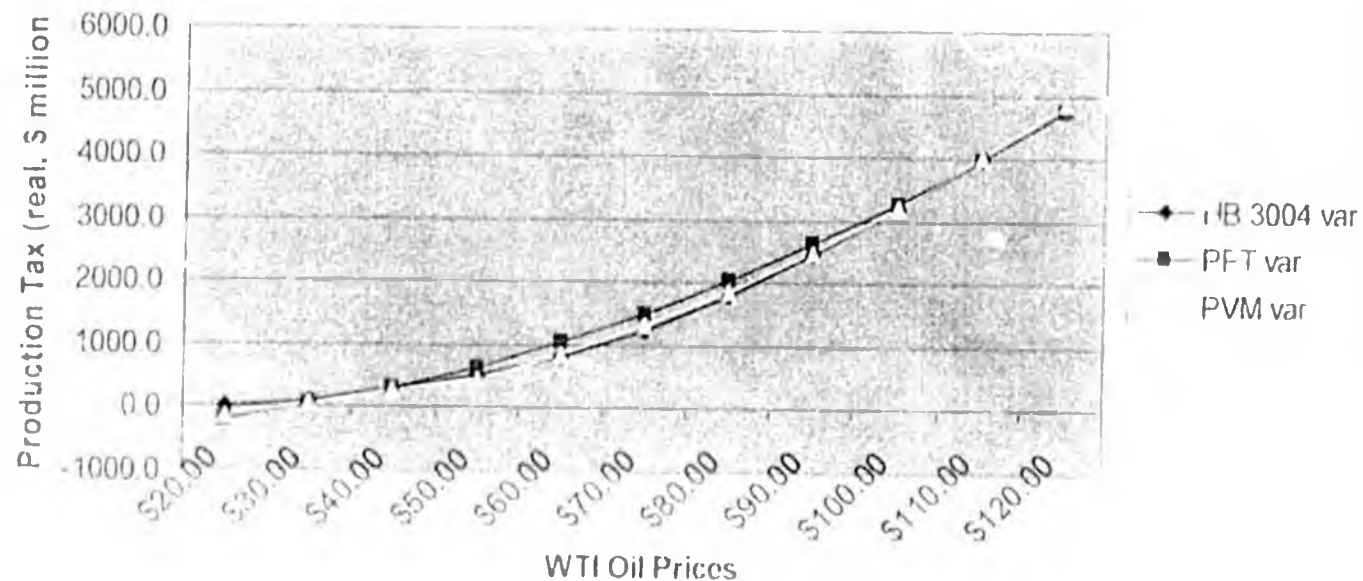


The Three fiscal options are calibrated to create almost the same undiscounted revenues to the State for the 50 MM-Low case.

Three Fiscal Options

150MM-Low-high cost

Production Tax for 150 MM-LOW for three options



The Three fiscal options are calibrated to create almost the same undiscounted revenues to the State under the 150 MM-Low case.

Three Fiscal Options

PPT variation

- Tax rate: 20%
- Tax credit: 20%
- Progressive feature based on net, starting at \$ 35 per barrel, increasing with 0.2% for every dollar.
- Maximum rate: 50%
- No corporate wide basic allowance.

Three Fiscal Options

PVM 2001 variation

- Flat nominal rate of 15%.
- Investment tax credits of 40% on all capital expenditures
- Price adjustment factor starting at \$ 50 per barrel based on ANS/50, price adjustment includes escalation.
- Maximum rate: 40%

Three Fiscal Options

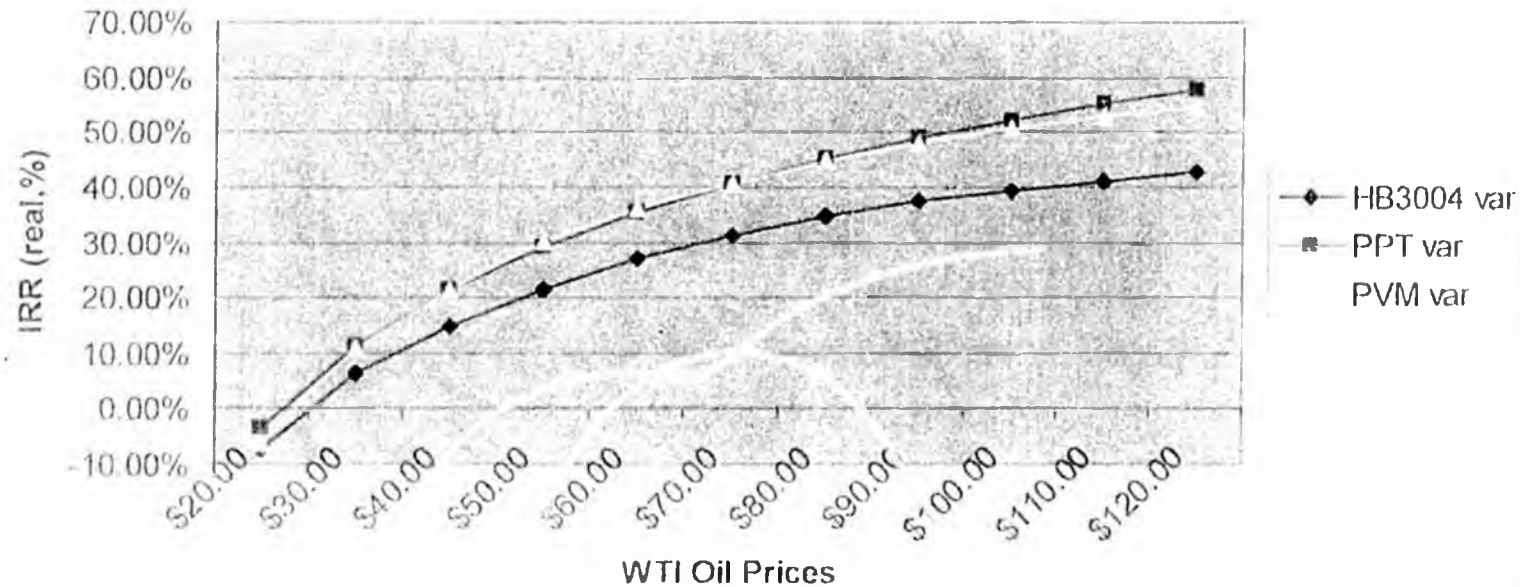
HB 3004 variation

- Existing nominal rates and existing ELF
- Minimum rate of 6.5%
- Rate reduction below \$ 35 by 6% to \$ 20 per barrel.
- Price adjustment factor starting at \$ 35 per barrel based on ANS/35, price adjustment includes escalation.
- Extra percentage increase by 3% between \$ 70 and \$ 120 per barrel.
- Maximum rate: 40%

Impact on Investors

Three options – IRR – 50 MM Low

IRR for 50MM-LOW for three options

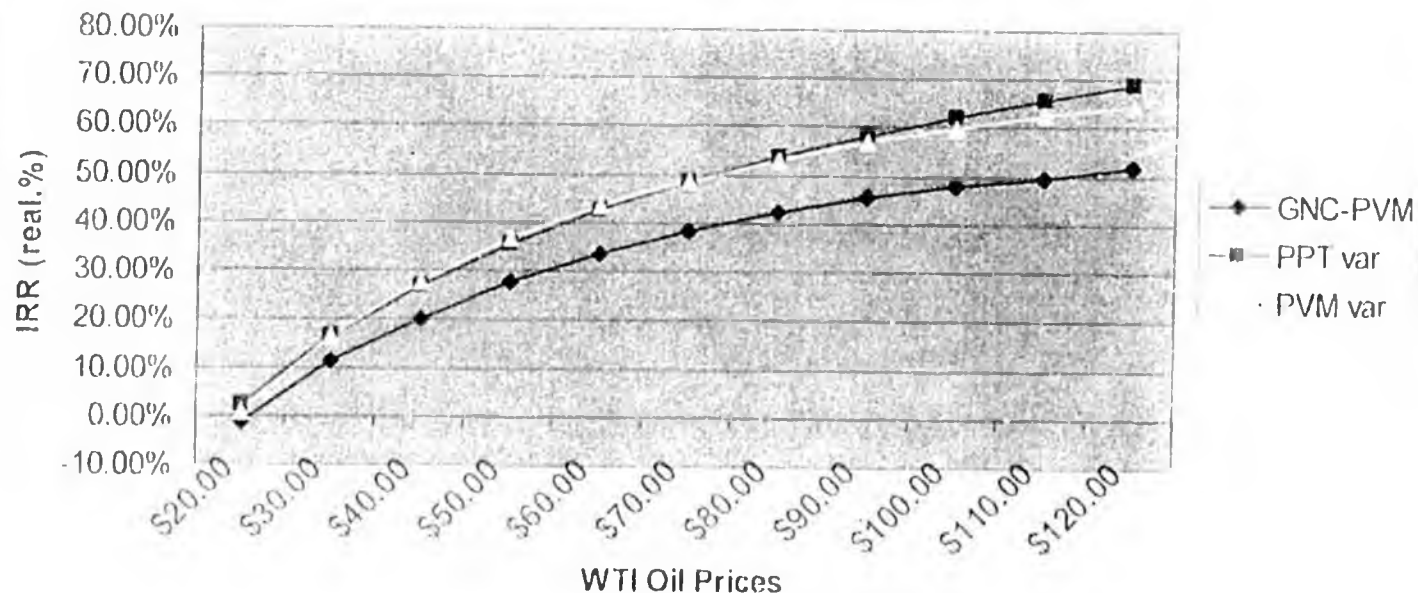


The PPT and PVM variations provide for a near identical IRR. The HB 3004 variation results in a much lower IRR.

Impact on Investors

Three options – IRR – 150 MM Low

IRR for 150MM-LOW for three options



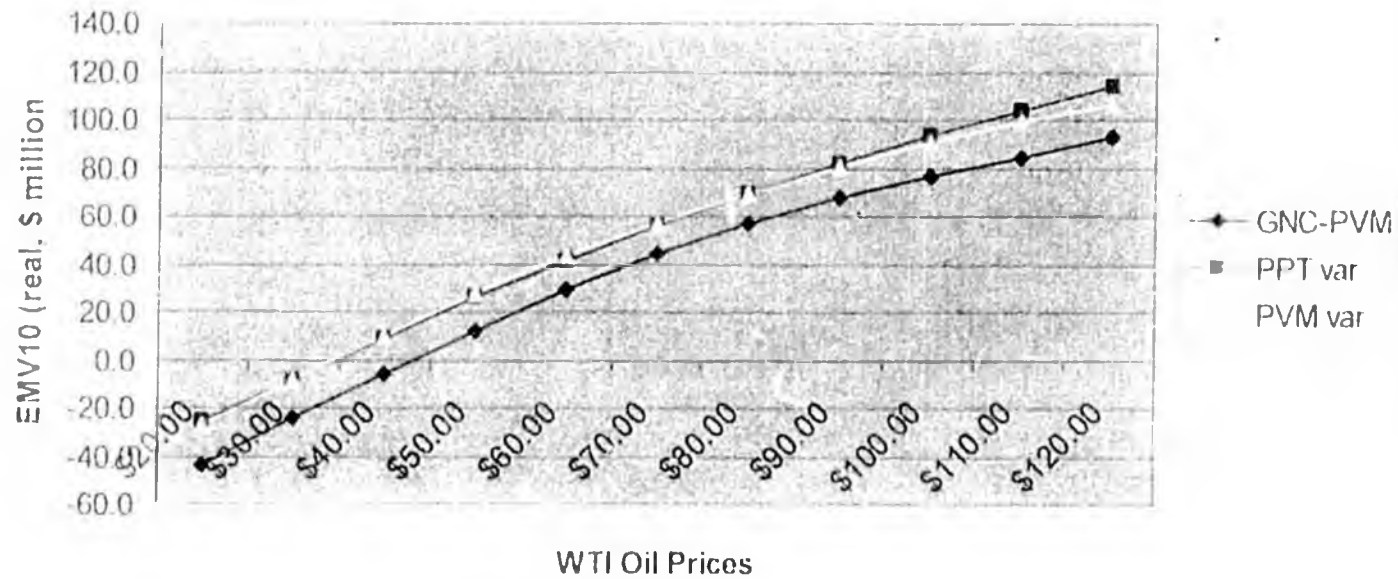
The PPT and PVM variations provide for a near identical IRR. The HB 3004 variation results in a much lower IRR.

Impact on Investors

Three options – EMV10 – 50 MM Low

10%
1/1/2006

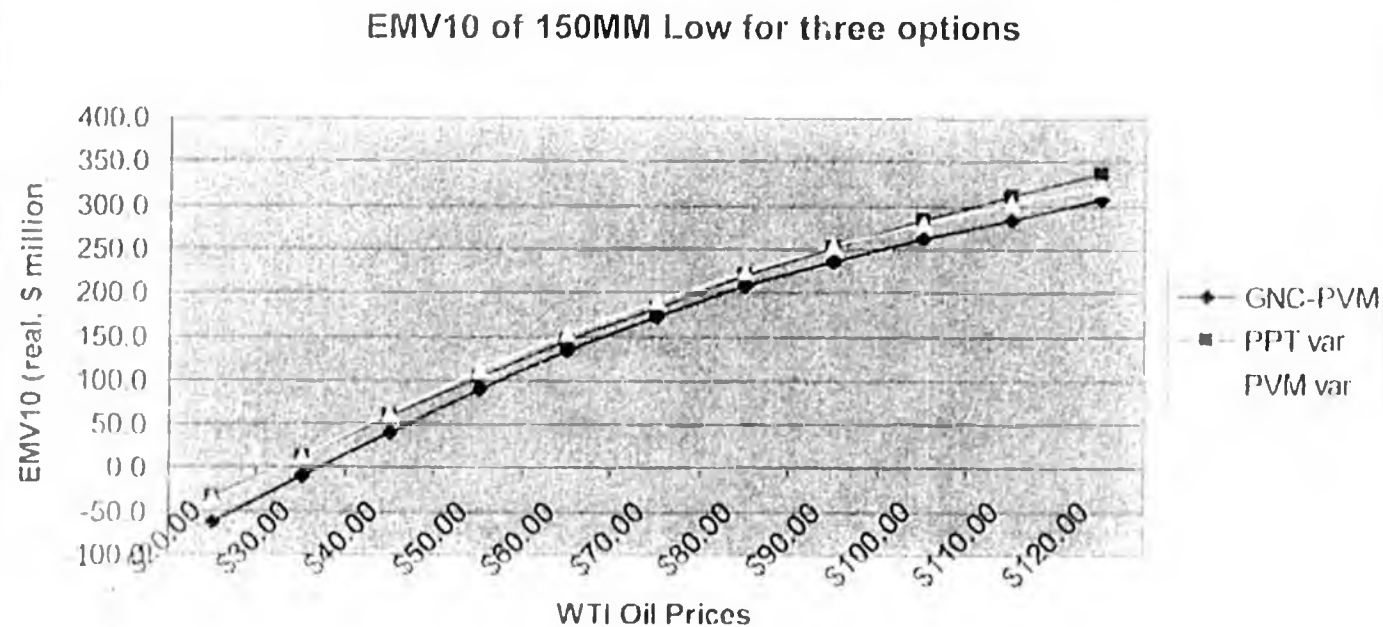
EMV10 of 50MM Low for three options



The PPT and PVM variations provide for a near identical EMV10. The HB 3004 variation results in a much lower EMV10.

Impact on Investors

Three options – EMV10 – 150 MM Low



The PPT and PVM variations provide for a near identical EMV10. The HB 3004 variation results in a much lower EMV10.

Impact on Investors

The HB 3004 variation is less attractive because as far as the production tax is concerned:

- Under the HB 3004 variation, if investors invest \$ 1 million, they count it as \$ 1 million because there are no tax deductions.

- Under the PPT and PVM2001 variations if investors invest \$ 1 million, they count it as \$ 600,000, because they will get a reduction in tax of \$ 400,000. The fact that the **net investment** is only \$ 600,000 makes the project more profitable on an incremental basis.

Fiscal Structure

However, the government ends up with the same undiscounted revenues under all three variations, because under the PPT and PVM2001 variations the government compensates the PPT tax saving by investors with a higher tax later on. This means the structure of these two variations is more back end loaded.

Under the PPT and PVM 2001 variations the government first levies a **higher** tax and then permits the tax reduction in order to end up with the same revenues as under the HB 3004 variation.

Fiscal Structure

International Framework

Many jurisdictions have already discovered that the best way to encourage investment is to ensure that the **net investments are low**. Providing tax deductions and tax credits is the best way to encourage re-investment.

Fiscal Structure

International Framework

Alaska is competing with jurisdictions that provide such incentives to re-invest. In the OECD area the most important examples are Norway, UK, the Netherlands, Denmark, Alberta, Newfoundland, NWT and Australia. However, there are more than 60 other nations with profit based or profit oil based systems.

Fiscal Structure

Reinvestment or No Reinvestment

The fiscal structure issue is therefore not “gross versus net”.

The issue is whether Alaska will establish a new production tax that:

- encourages re-investment in Alaska, such as the PPT and PVM 2001 variations with tax credits and/or tax deductions of cost, or
- does not encourage re-investment in Alaska, such as the HB 3004 variation.

Fiscal Structure

Two Options with Tax Credits

In early 2003 two different fiscal structures were considered with tax credits:

- A revised version of the 2001 proposal which consisted of a production tax on gross and tax credits, and
- The PPT concept.

Both systems can be designed in such a way to result in a very similar overall incentive to re-invest in Alaska.

Why was the PPT fiscal structure recommended to the Governor?

Fiscal Structure

Gross with tax credits

A production tax based on gross with tax credits has a number of disadvantages compared to the PPT related to:

- “Shelf life” of formulas
- Definition of “field”
- Heavy oil provisions

Fiscal Structure

Gross with Tax credits: "Shelf life"

Alaska has already a fiscal feature that is based on gross: the royalty.

Royalties provide about half of the State's oil and gas income.

To design a tax also largely based on gross in addition to the royalty is difficult economically.

In order to make the tax fit with the economic reality of the Alaska North Slope resources it is necessary to introduce sliding scales and formulas in order to make the widest possible range of investment opportunities economic. This resulted 1989 in the ELF formula.

Fiscal Structure

Gross with Tax Credits: "Shelf life"

The problem is that the "shelf life" of such formulas is relatively short. The ELF became outdated after about 10 years and it has now already taken more than five years to try to get a replacement of the ELF.

The reason for the short "shelf life" is that economic and technical conditions change rapidly and therefore the economic basis for the formula becomes rapidly outdated.

It is far simpler to base a system on net revenues. A system based on net revenues adjusts better to changing economic circumstances.

Fiscal Structure

Gross with Tax Credits: "Field" definition

In order to make a system based on "gross" work it is necessary to define a "field" or some type of area or unit to which the production tax formulas relate.

It is increasingly difficult to define such "fields". Most investments on the North Slope relate to deeper or shallower reservoirs, reservoir extensions, satellite fields, EOR in existing reservoirs, etc.

Fiscal Structure

Gross with Tax Credits: "Field" definition

Therefore, a system based on gross creates automatically inequities between different types of investments. If investments are made in the same "field", taxes may be high, if investments are made in new "fields" taxes may be low. These problems have already emerged.

A State or North Slope wide system based on net revenues avoids all these problems.

Fiscal Structure

Gross with Tax Credits: Heavy Oil

An important problem is that the future of the North Slope oil production will be largely based on heavy oil.

A system based on “gross” for light oil is not applicable to “heavy oil”. Therefore special provisions need to be made.

Fiscal Structure

Gross with Tax Credits: Heavy Oil

Creating such special provisions for heavy oil is difficult with respect to the following:

- Definition of heavy oil
- Definition of economic difference between light oil and heavy oil. Rapid technological progress will change costs.
- Administration of special heavy oil provisions.

Fiscal Structure

Gross with Tax Credits: Conclusion

The North Slope developments are now at a mature stage in the traditional State lease areas. This creates a situation where it is no longer possible to define economics based on simple "field" or "unit" definitions and where it is important to kick off major developments in heavy and viscous oil.

This mature situation no longer lends itself to a gross production tax even if significant tax credits are introduced.

Fiscal Structure

Conclusion

A State wide system based on net revenues, such as the PPT, requiring a single tax return per company, is much easier to administer than a production tax based on gross revenues.

A PPT is also more durable. This is important.

However, what about cost control?

Fiscal Structure

PPT and cost control

The fact that so many nations have successfully worked with profit based systems during the last three decades indicates that these systems “work”.

Cost control is an important issue, but it should not be overblown.

Fiscal Structure

PPT and Cost Control

For instance, even if an company would illegally claim 30% more costs than actually are permitted as deductions, and Alaska auditors would not identify this, the effect on overall tax collection would be modest.

Assuming average costs of \$ 6 per barrel (operating and capital). The tax and tax credit losses under the 20/20 PPT would be \$ 0.54 per barrel. In an environment of \$ 30 to \$ 60 per barrel at the point of production, this is a relatively modest problem.

Fiscal Structure

PPT and Cost Control

Nevertheless, Section 25 of the PPT bill provides for a long list of non-deductible costs, including:

1. Depreciation, depletion, amortization
2. Financing charges and cost of raising equity
3. Acquisition costs of leases
4. Cost for arbitration, litigation
5. Partnership, JV, and other organizational costs
6. Any expenditures in excess of fair market value
7. Expenditures to purchase another company or business
8. Certain abandonment costs
9. Losses and damages of oil discharges.

Produce or Pay

July 31, 2006

Presentation to
The House Finance Committee
Pedro van Meurs

General Comments

During previous discussions in the House Finance Committee the following issues were raised:

- Should we consider taxing the existing (“old”) production with a higher rate than the incremental (“new”) production?
- What if PPT does not stop production decline? Should we not simply take a higher government take for Alaska in this case?