ALASKA LEGISLATURE
HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3099

The Governor's 3 Big Ideas

- Idea Three: We ought to get a fair share of tax revenues when prices are high, especially if reinvestment is low
- With high prices we are not getting a fair share
- We should be treated as fairly as other jurisdictions while remaining competitive with them for investment

Fair Tax Rate

Governor's bill: 20%

Fair Tax Rate

Governor's bill: 20%

CS pushes tax rate to 25% and adds progressive feature

Progressivity Surcharge

- ☐ Oil surcharge applies when oil price (ANS West Coast) exceeds $40/bbl

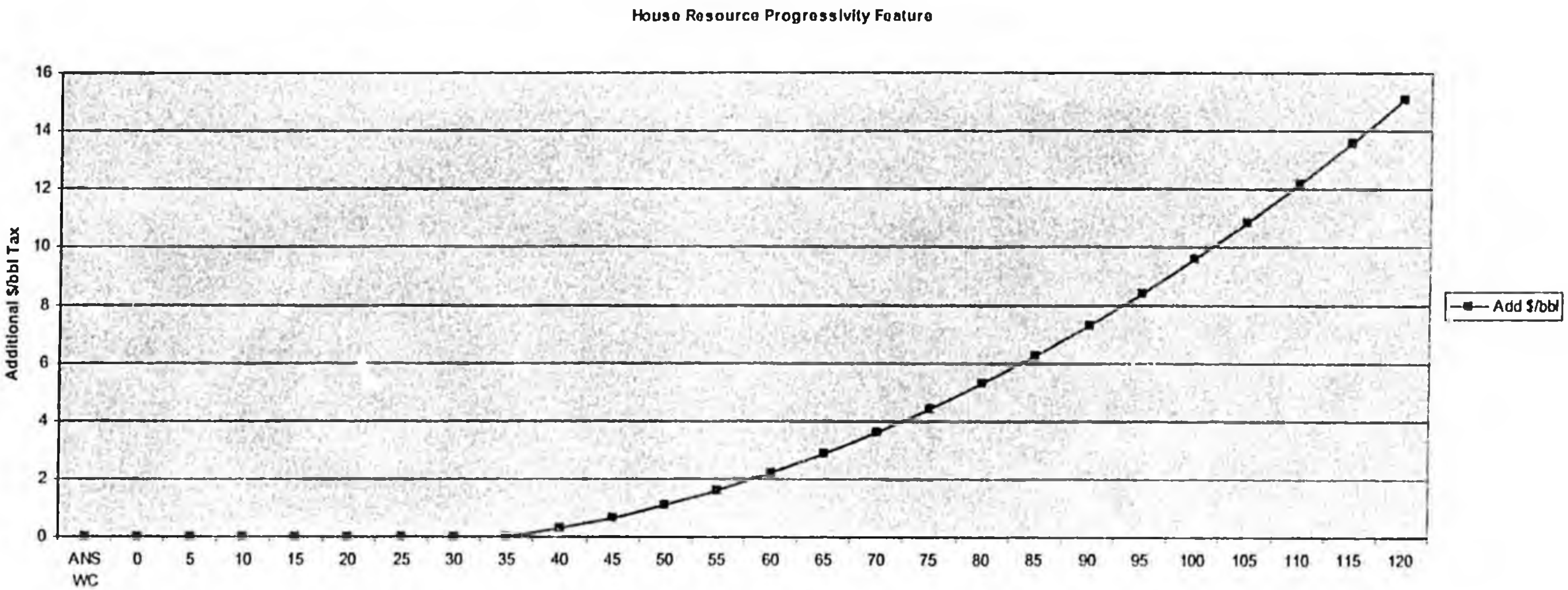
(ANSwc - $40) x .0015

x ANS PV "wellhead" x taxable barrels of oil

Different definition for gross value at point of production

- ☐ Deductible from PPT

CS: Progressivity Feature



Governor's bill provided a fair tax rate

		Governor's Bill
ANS West Coast Price:	$	70.00
Downstream Transportation		(7.00)
Wellhead Value (gross)		*63.00*
Upstream Production Costs		(7.00)
Production Tax Value (net)		*56.00*
		20%
		11.20
Percentage Gross		17.8%
Percentage Net		20.0%

CS: How Does Progressivity Feature Work?

	Senate Resources CS	
	PPT	Progressivity Factor
ANS Wellhead (PV)		63.50
ANS wc	70.00	
Downstream Transportation	(7.00)	4.5%
Wellhead Value (gross)	*63.00*	
Progressivity		4.5%
Progressivity Amount	(2.90)	2.90
Upstream Production Costs	(7.00)	
Production Tax Value (net)	*53.10*	

CS: How Does Progressivity Feature Work? (Cont.)

Senate Resources CS

	PPT	Progressivity	Total
Production Tax Value (net)	*53.10*		*56.00*
PPT Rate	25%		
Total Tax	13.29	2.86	16.15
Percentage Gross	25.0%		28.8%
Percentage Net	21.1%		25.6%

Governor's Bill: Other Provisions

- Monthly return filing
- 90% payment safe harbor
- Yearly true-up on 3/31

CS: Other Provisions

- Monthly return filing
  - CS maintains
- 90% payment safe harbor
  - CS increases this to 95%
- Yearly true-up on 3/31
  - CS changes this to quarterly true-up

Other Provisions in CS

spill fee increases total fee 1¢ to 6¢

--suspended fee (AS 43.55.201)

--2 cents changed to <u>1 cent</u>

--non-suspended fee (AS 43.55.300)

--3 cents changed to <u>5 cents</u>

<u>No Longer Creditable as in Governor's Bill</u>

Other Provisions in CS

- Existing Private royalty oil tax rate set at 5%, 1.5% in Cook Inlet
- Bill sets no tax rate on new private royalty lease production
- Effective date changed from 7/1/06 to 4/1/06

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

PPT: A Tax for Alaska's Future

PPT REVENUE STUDIES

Presentation to
Senate Finance

Alaska Department of Revenue
Tax Division
March 31, 2006

3/31/06 10:48 am
and 4/1/06 9:07 AM

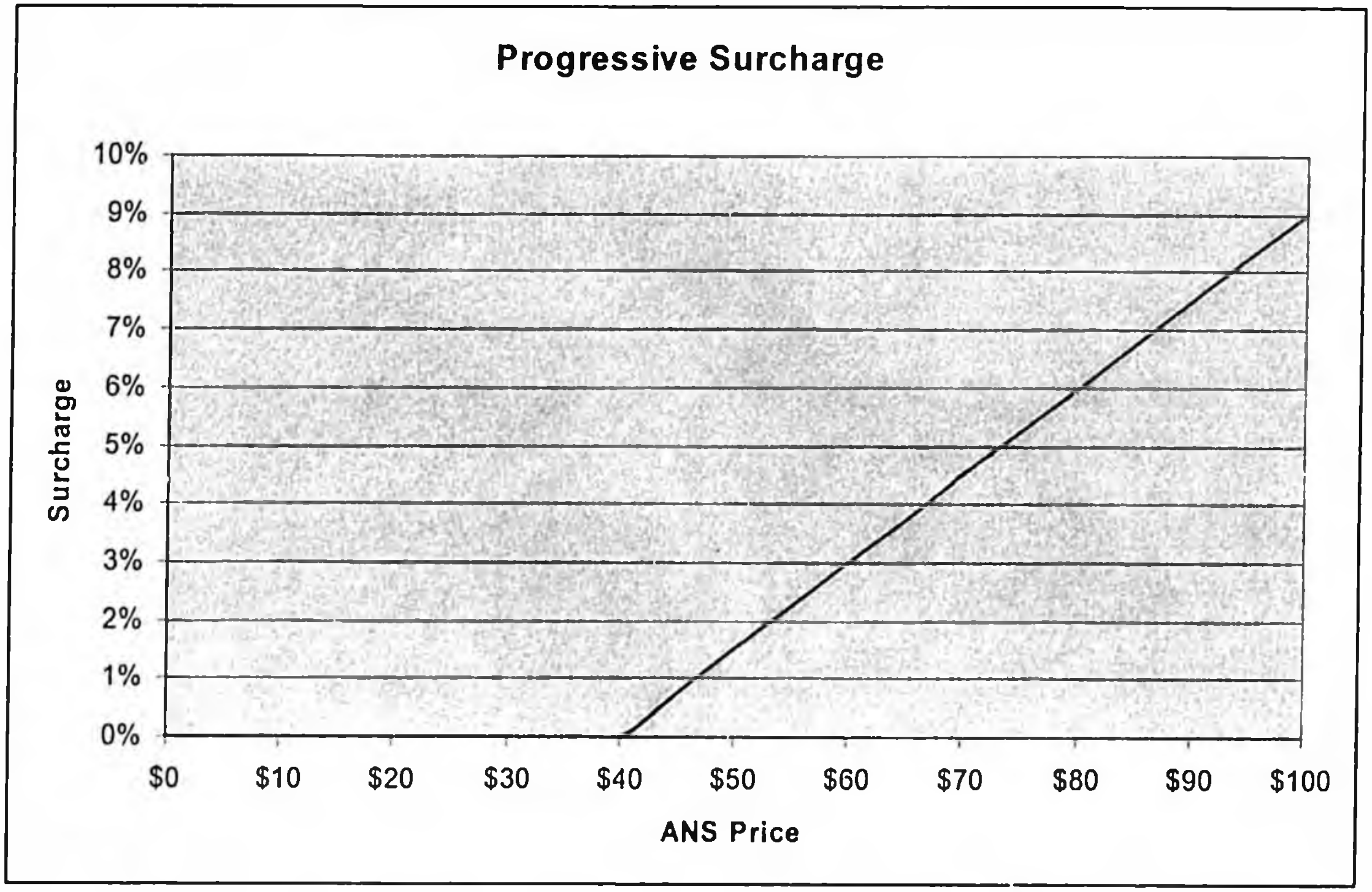
OVERVIEW

- Description of tax
- Description of model
- Long-term cumulative revenues
- Annual revenues
- Effective tax rate
- State take
- Cook Inlet

Progressive Surcharge

- 0.2% X (1 – tax rate) of difference between ANS and $40
- Applies to wellhead value
- Deductible for PPT calculation

FIGURE 1


Progressive Surcharge
Surcharge
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
$0
$10
$20
$30
$40
$50
$60
$70
$80
$90
$100
ANS Price

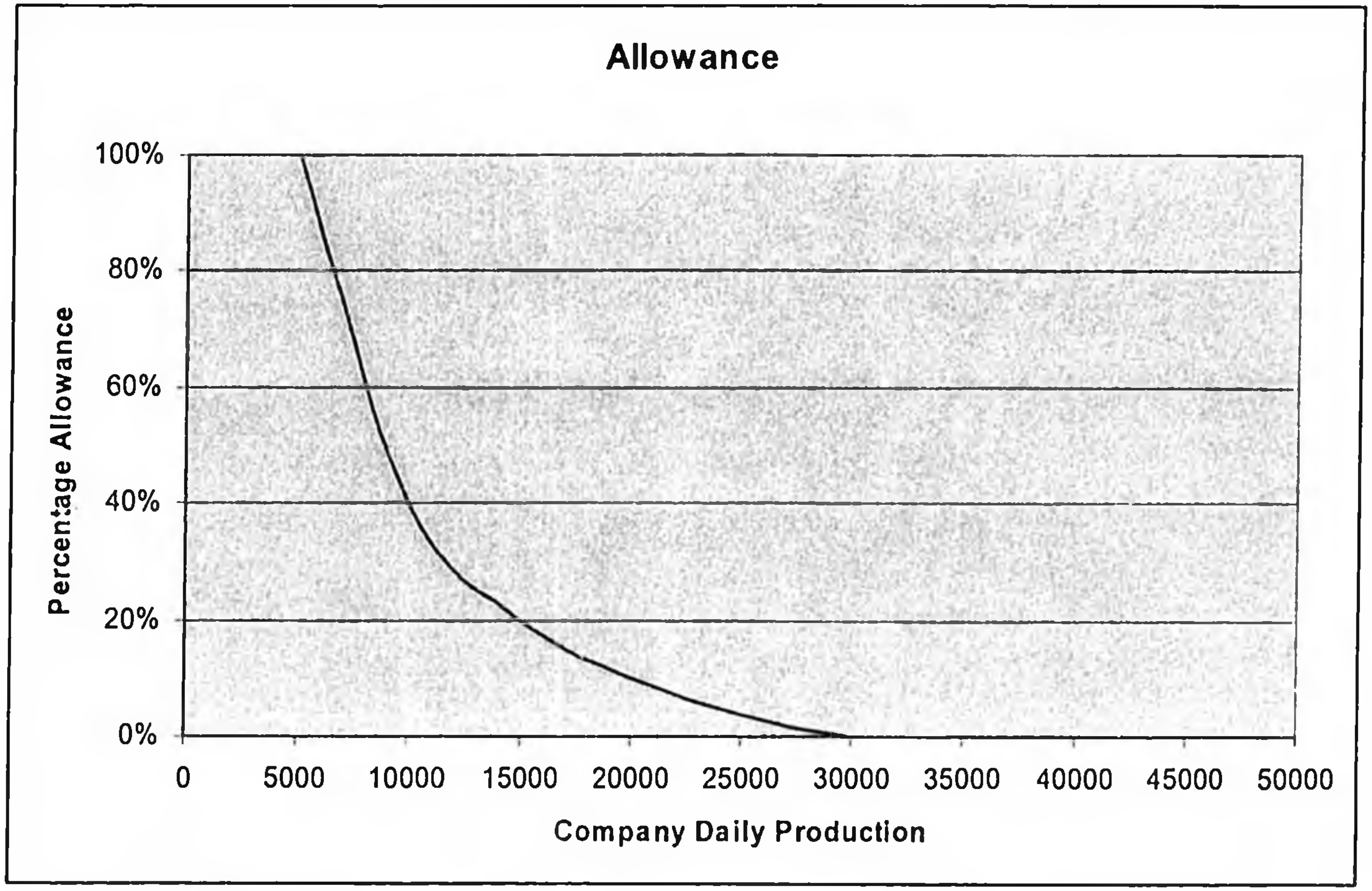
Assist Small Companies & Attract New Investors

- Small Investors
  - Bigger appetite for smaller targets
  - New targets
  - Diversity
  - Less risk averse
- New Investors
  - ANWR, NPRA

Small & New Investors Mechanisms

- Selling credits
- Converting losses to credits
- Big NPV boost
- Standard allowance
  - (5,000 – 0.2 X [ADP – 5,000]) /ADP
    - Where ADP is average daily production for company
    - Expires after 2013

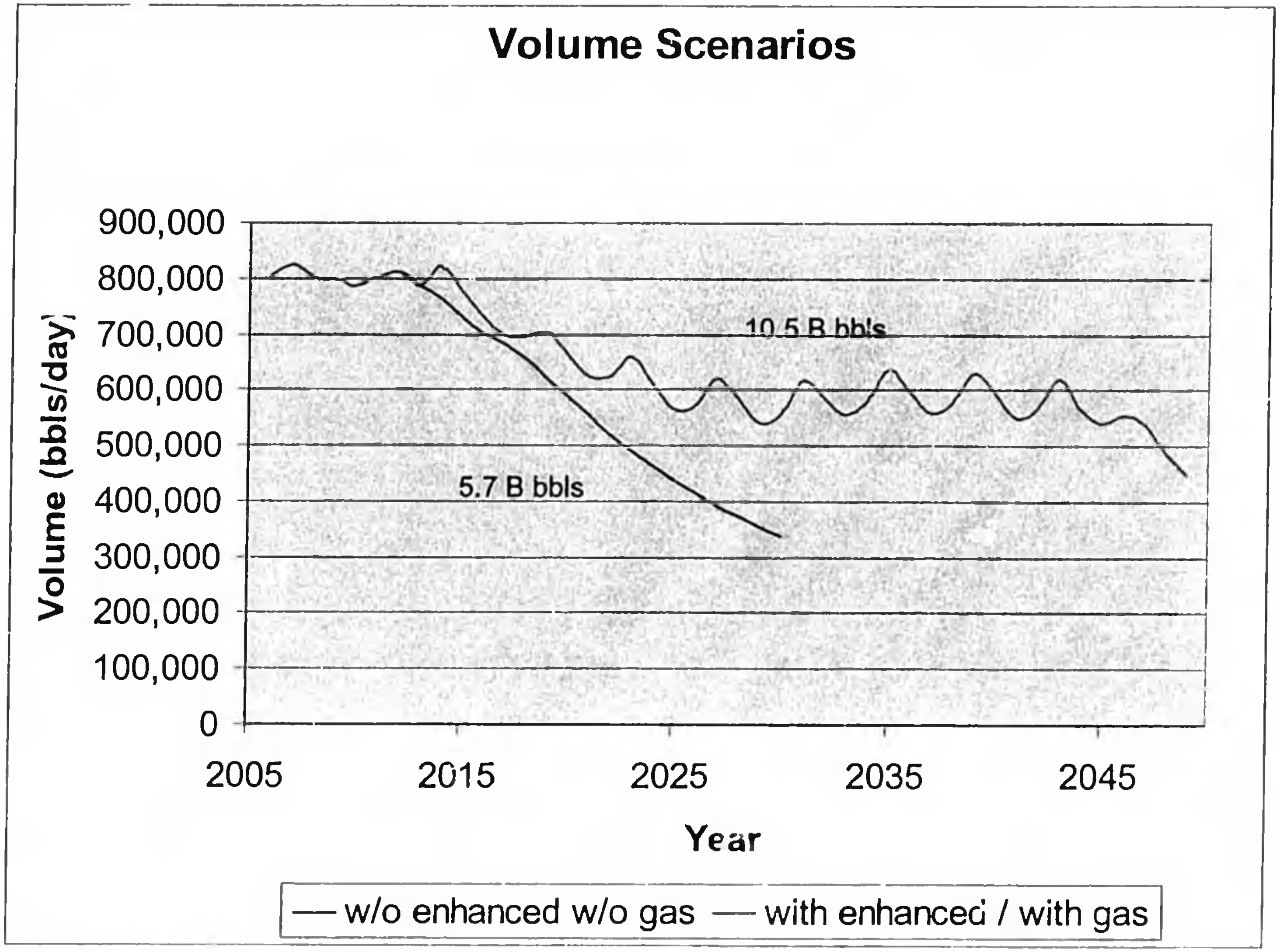
FIGURE 2


Allowance
100%
80%
60%
40%
20%
0%
Percentage Allowance
0
5000
10000
15000
20000
25000
30000
35000
40000
45000
50000
Company Daily Production

Volume Scenarios

- No enhanced volumes / No gasline
  - Totals 5.7 billion barrels through 2030
    - Including 0.6 billion barrels of heavy oil
      - No additional heavy oil at prices under $30
- Gasline and enhanced volumes
  - Totals 10.5 billion barrels through 2050
    - Includes additional 3.1 billion barrels conventional
      - 700 million barrels net stemming from gasline
    - Including additional 1.7 billion barrels heavy oil
      - No additional heavy oil at prices under $30

FIGURE 3


Volume Scenarios
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
Volume (bbls/day)
10.5 B bbls
5.7 B bbls
2005
2015
2025
2035
2045
Year
w/o enhanced w/o gas
with enhanced / with gas

Costs and Prices

- Costs
  - $100 mm/yr exploration through 2040
  - $1/bbl on-going capital on all barrels
  - $3.50/bbl developmental capital on 2/3 of existing conventional oil
  - $8/bbl developmental capital on 2/3 of existing heavy oil
  - $3.50/bbl developmental capital on new conventional oil
  - $8/bbl developmental capital on new heavy oil
  - $3/bbl operating costs on conventional oil
  - $5/bbl operating costs on heavy oil
- Costs, prices, and revenues are all real $2005 dollars
- Heavy oil discounted 8% for quality
- 2.5% of production subject to small company allowance (5,000 b/d)
- 70% of transition expenditures realized (2 for 1) as 20% credit
  - Costs $100 mm/year over 7 years

Feedback Effects Not Modeled

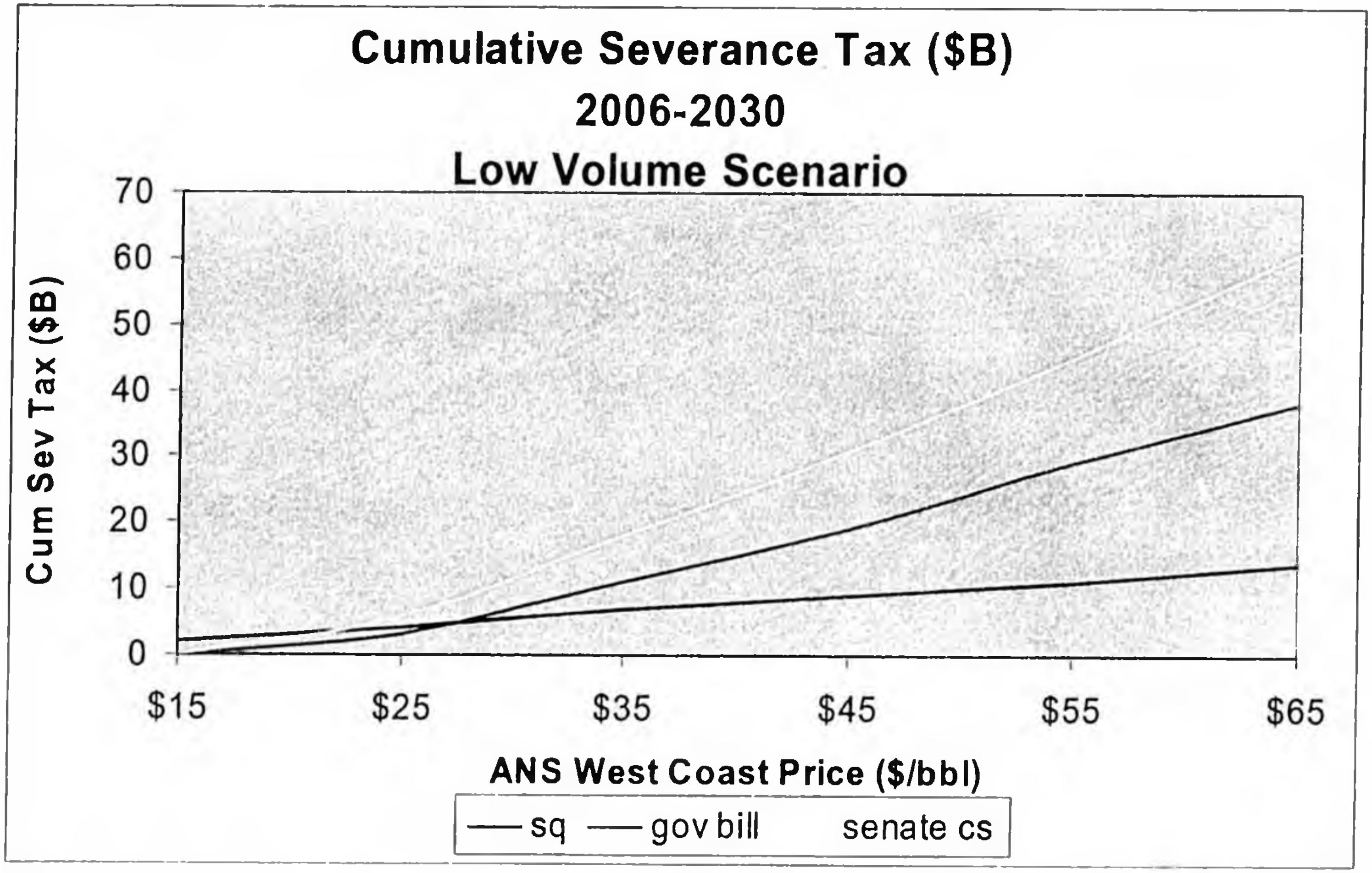
- Production depends on investment
  - More investment with incentives
  - Credits are incentive
- More investment with higher prices
- Less investment with higher taxes
- Investment driven by competitive international opportunities ... which are always evolving

Cumulative Revenues

- Without enhanced volumes / without gasline (through 2030)

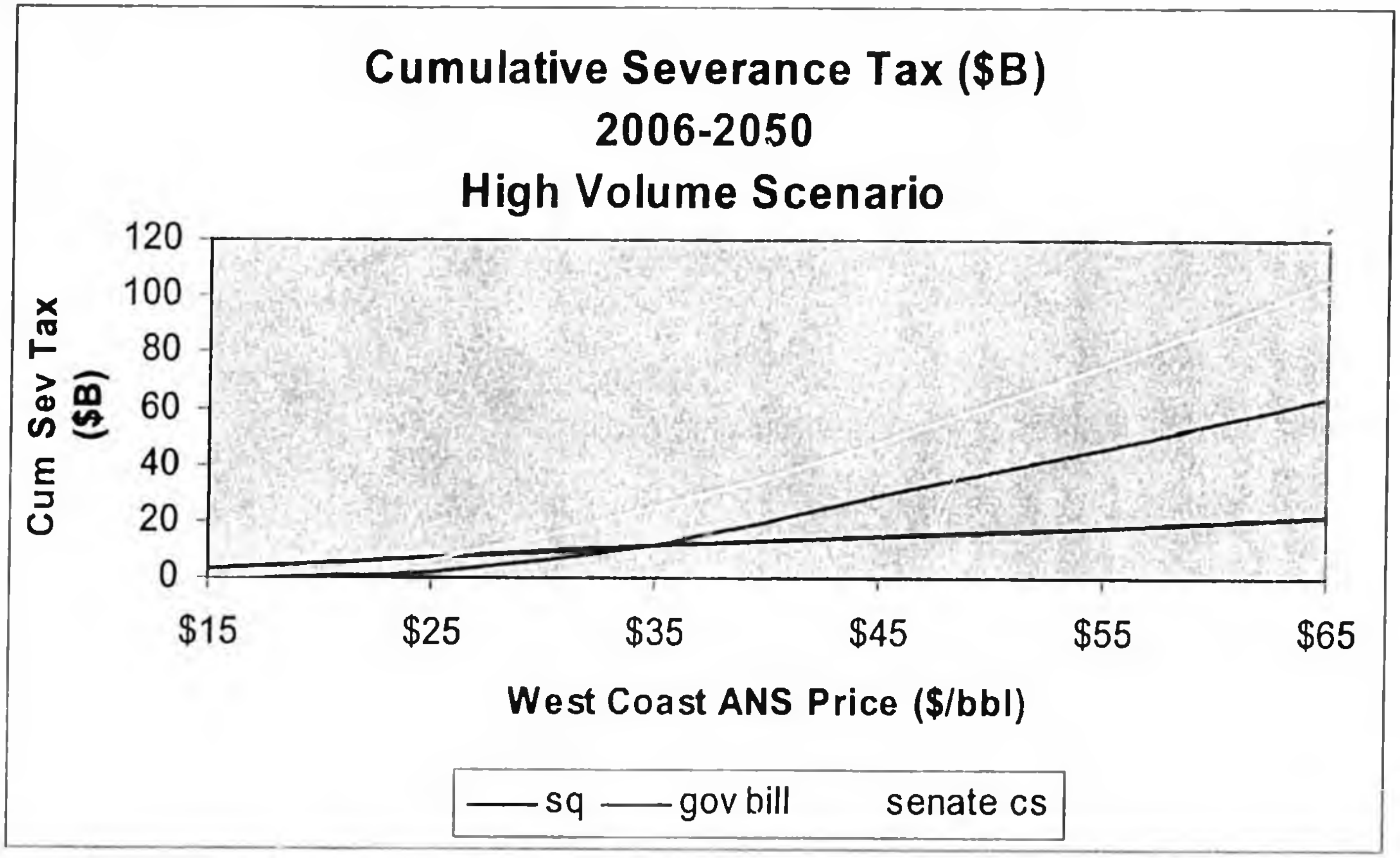
- With enhanced volumes / with gasline (through 2050)
  - Does not include gasline severance taxes
  - Includes gasline costs

FIGURE 4



Cumulative Severance Tax ($B)
2006-2030
Low Volume Scenario
Cum Sev Tax ($B)
70
60
50
40
30
20
10
0
$15
$25
$35
$45
$55
$65
ANS West Coast Price ($/bbl)
sq
gov bill
senate cs

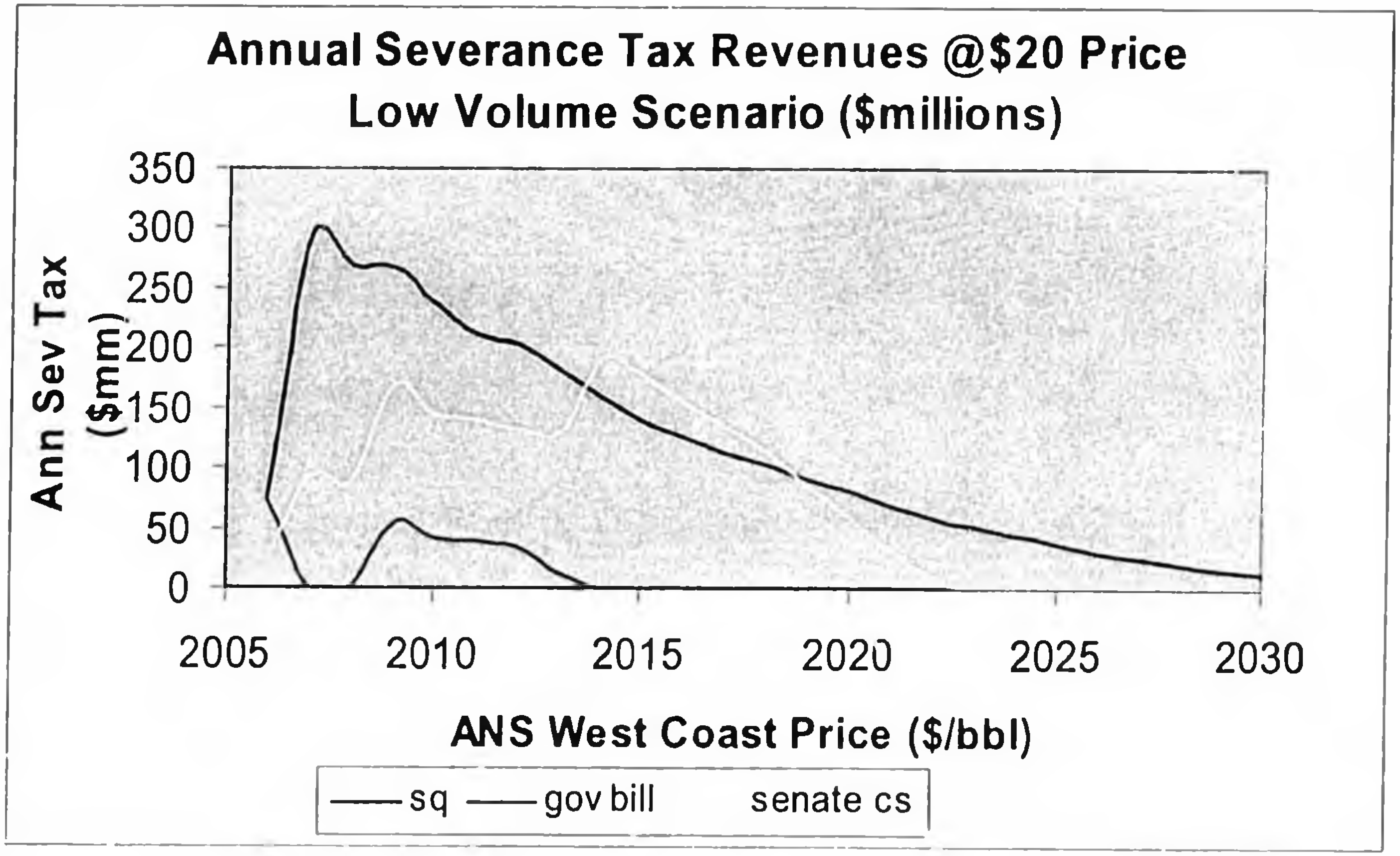
Figure 5


Cumulative Severance Tax ($B)
2006-2050
High Volume Scenario
120
100
80
60
40
20
0
Cum Sev Tax ($B)
$15
$25
$35
$45
$55
$65
West Coast ANS Price ($/bbl)
sq
gov bill
senate cs

Annual Revenues

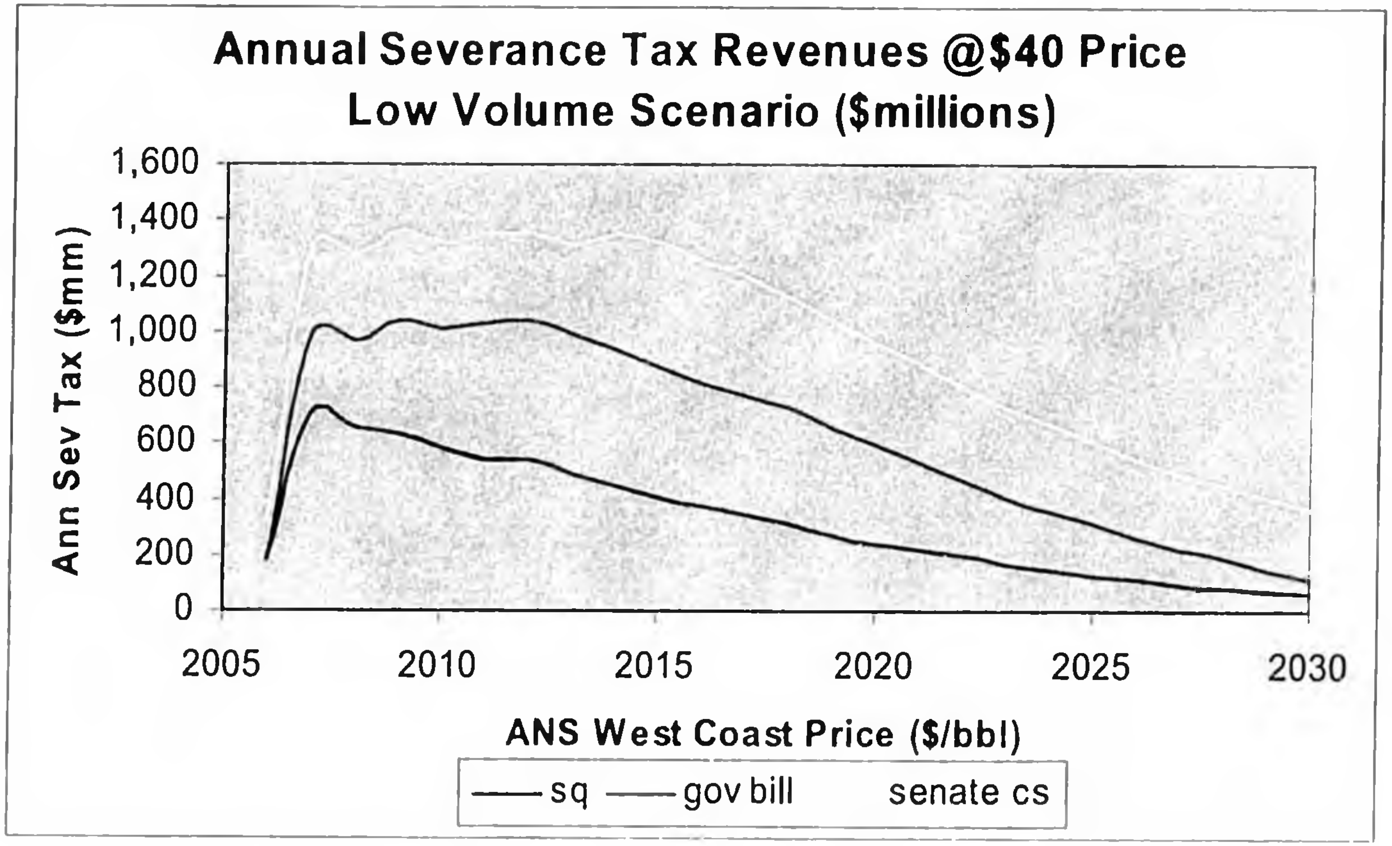
- Without enhanced volumes / without gasline (through 2030)
  - $20
  - $40
  - $60
- With gasline / with enhanced volumes (through 2050) (does not include gasline severance taxes; includes gasline costs)
  - $20
  - $40
  - $60

Figure 6



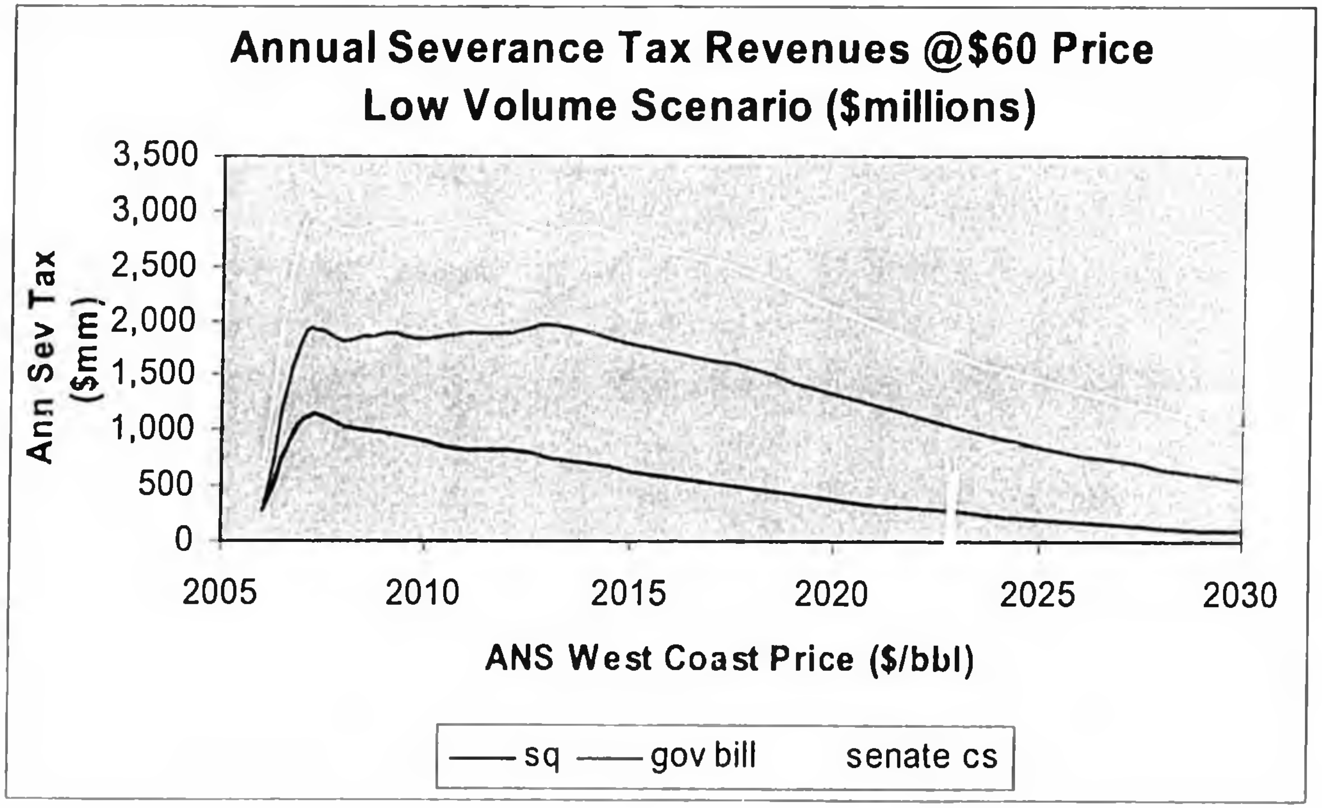
Average annual revenues $40 million less than status quo (both proposals)
Note: Status quo averages $116 million annually

Figure 7



Senate CS has average annual revenues $600 million more than status quo and $300 more than Governor's bill

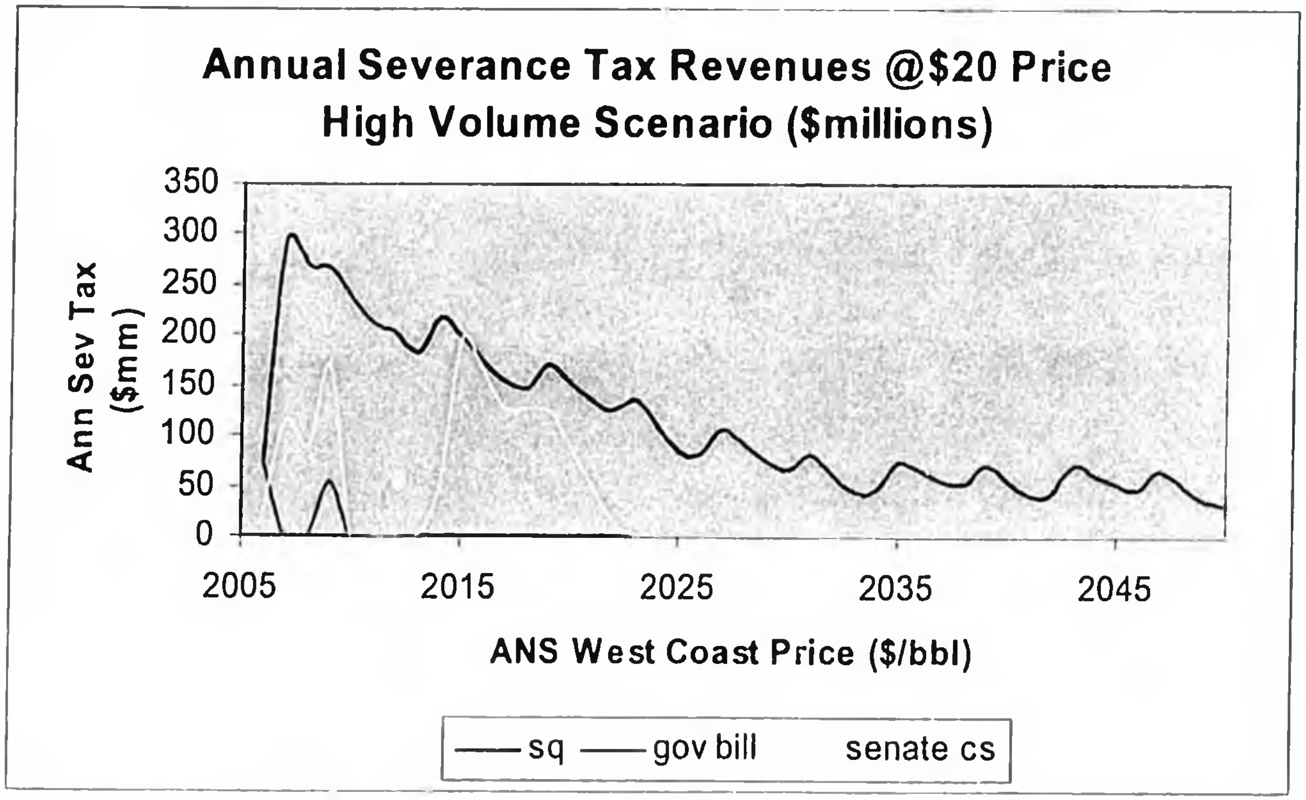
Figure 8



Senate CS has average annual revenues $1.6 billion more than status quo and $800 million more than Governor's bill. Annual progressive surcharge $200-$400

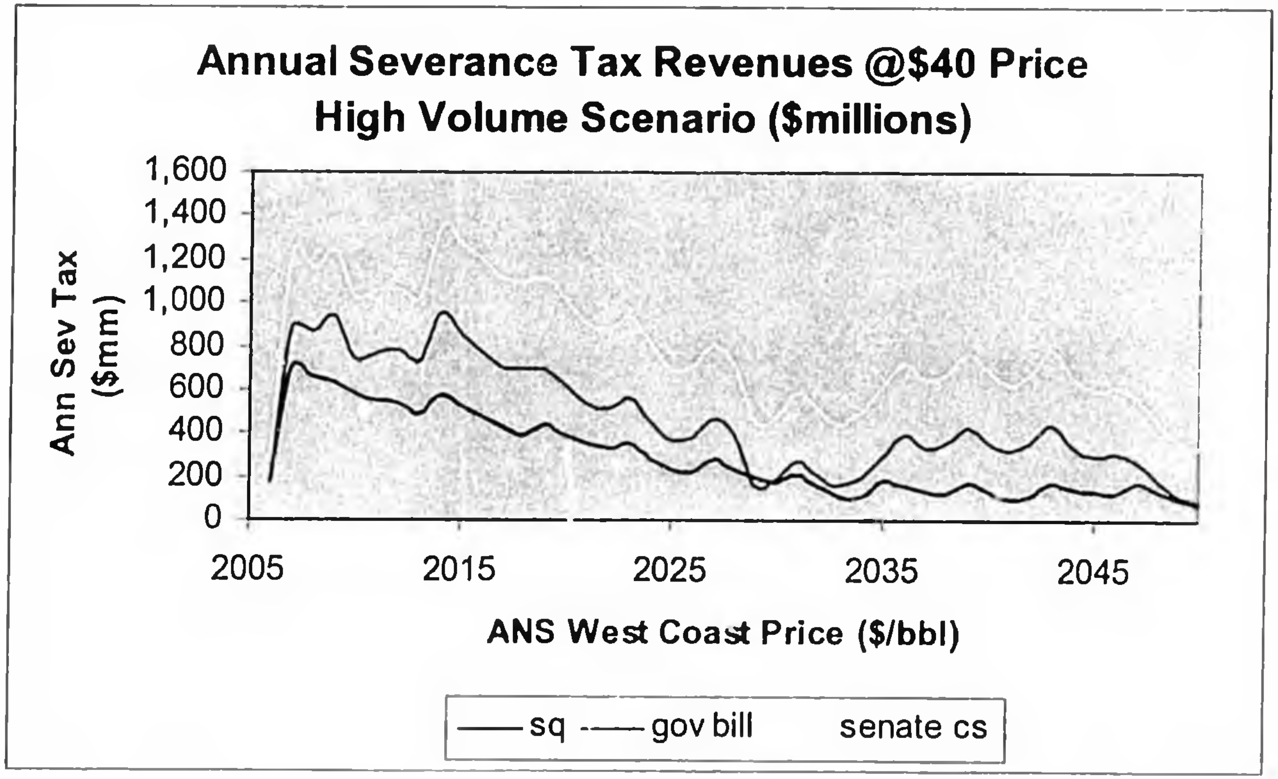
Note this is equivalent to State gasline revenues at $6.00/mmbtu Chicago price without the gasline.

Figure 9



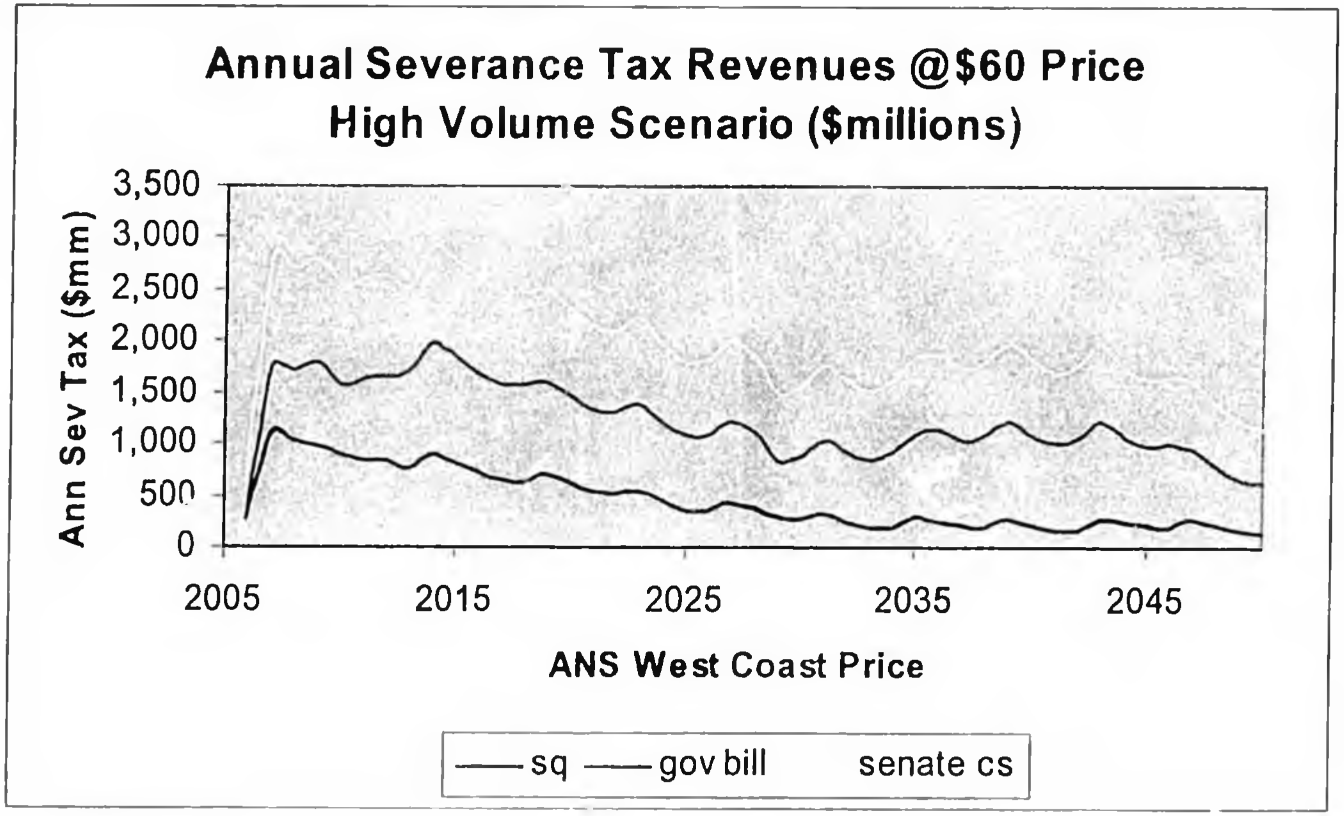
Average annual revenues $80 million less than status quo (both proposals)
Note: Status quo averages $112 million annually

Figure 10



Senate CS has average annual revenues $500 million more than status quo and $300 more than Governor's bill

Figure 11

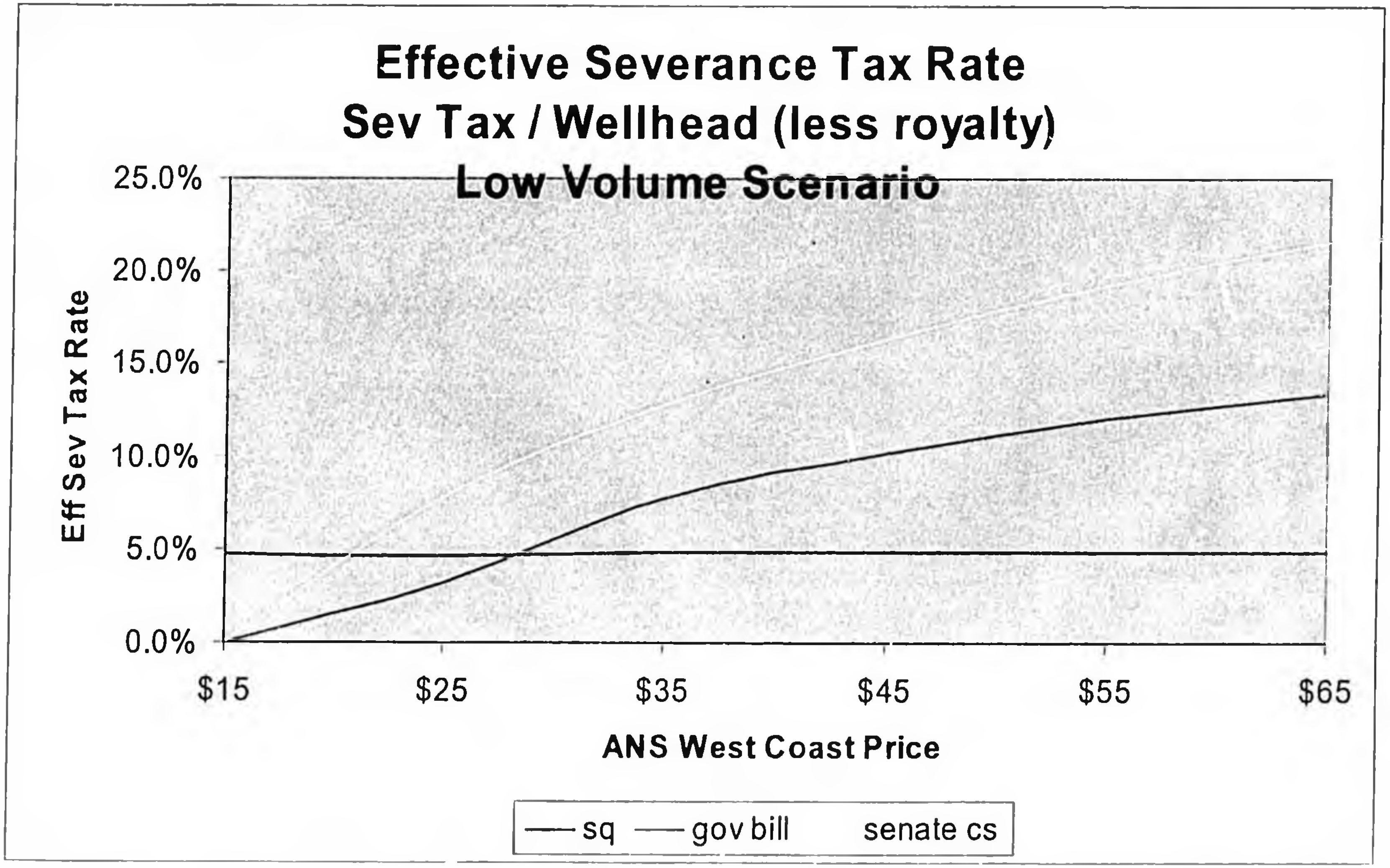


Senate CS has average annual revenues $1.5 billion more than status quo and $800 million more than Governor's bill. Annual progressive surcharge $200-$400 mm.

Effective Tax Rate

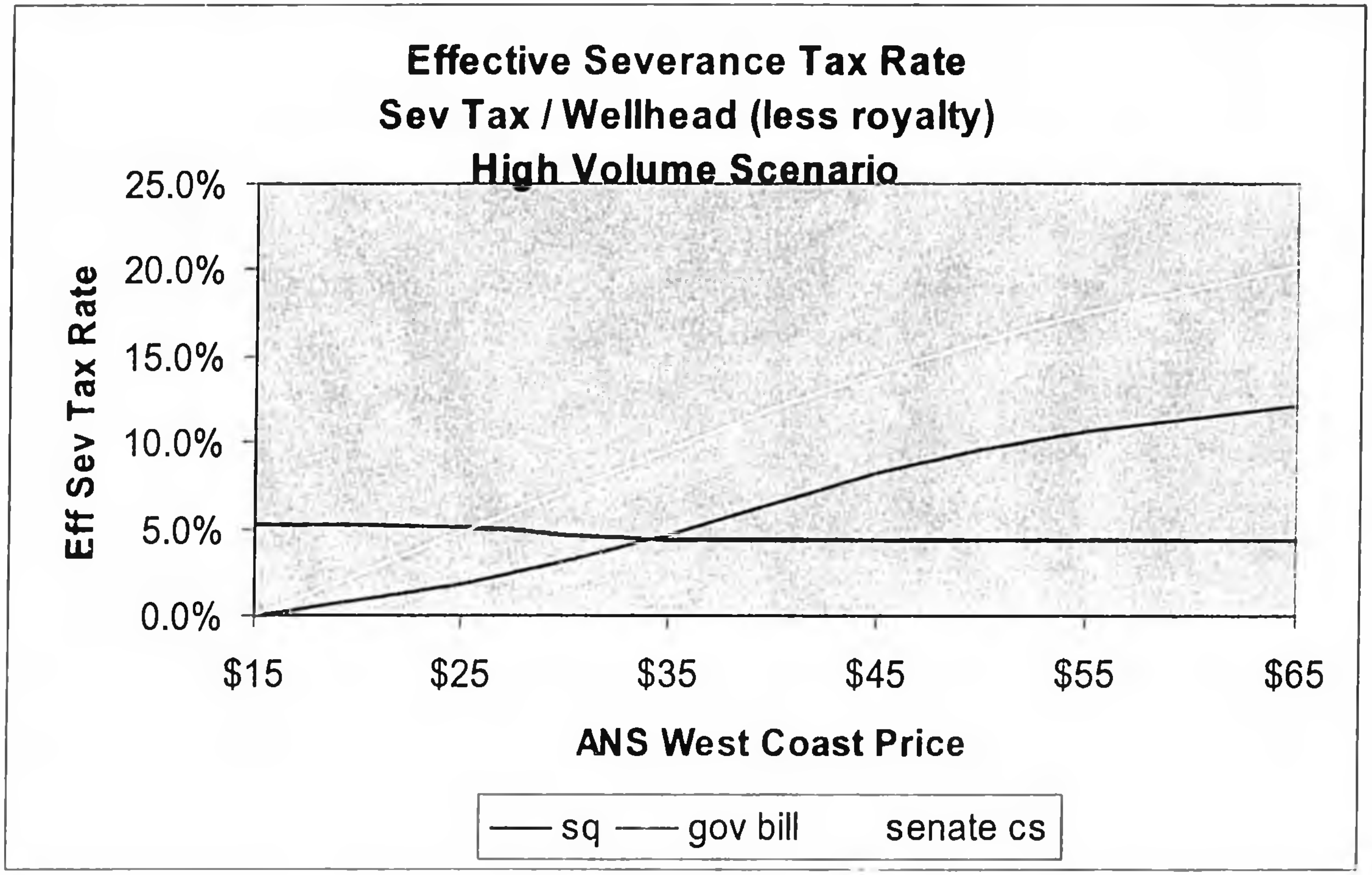
- Severance Tax / (Wellhead less Royalty)
  - Without enhanced volumes / without gasline
  - With enhanced volumes / with gasline

FIGURE 12



Effective Severance Tax Rate
Sev Tax / Wellhead (less royalty)
Low Volume Scenario
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Eff Sev Tax Rate
$15
$25
$35
$45
$55
$65
ANS West Coast Price
sq
gov bill
senate cs

FIGURE 13


Effective Severance Tax Rate
Sev Tax / Wellhead (less royalty)
High Volume Scenario
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Eff Sev Tax Rate
$15
$25
$35
$45
$55
$65
ANS West Coast Price
sq
gov bill
senate cs

State Take

State Revenues / Economic Rent

FIGURE 14

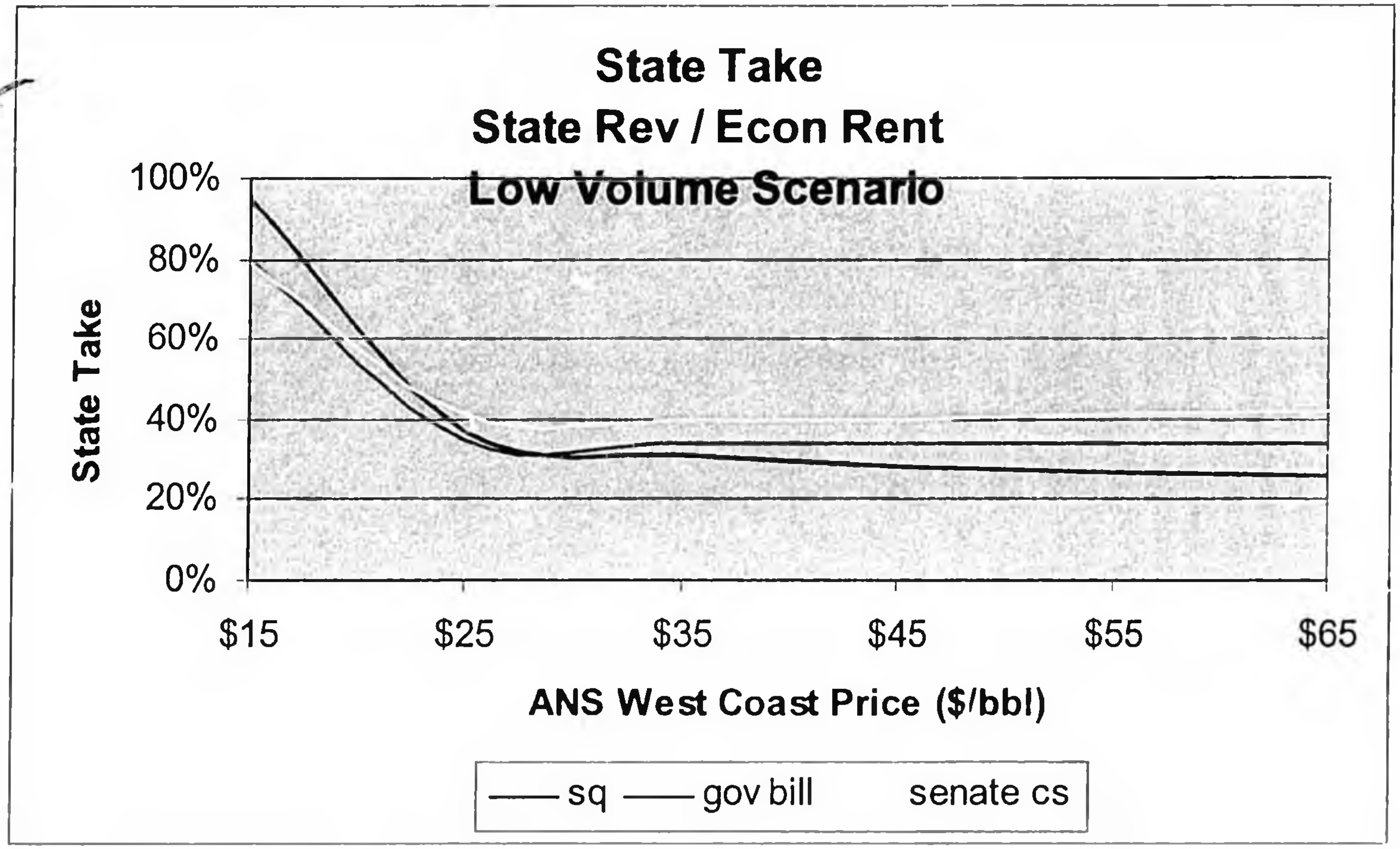

State Take
State Rev / Econ Rent
Low Volume Scenario
100%
80%
60%
40%
20%
0%
State Take
$15
$25
$35
$45
$55
$65
ANS West Coast Price ($/bbl)
sq
gov bill
senate cs

FIGURE 15

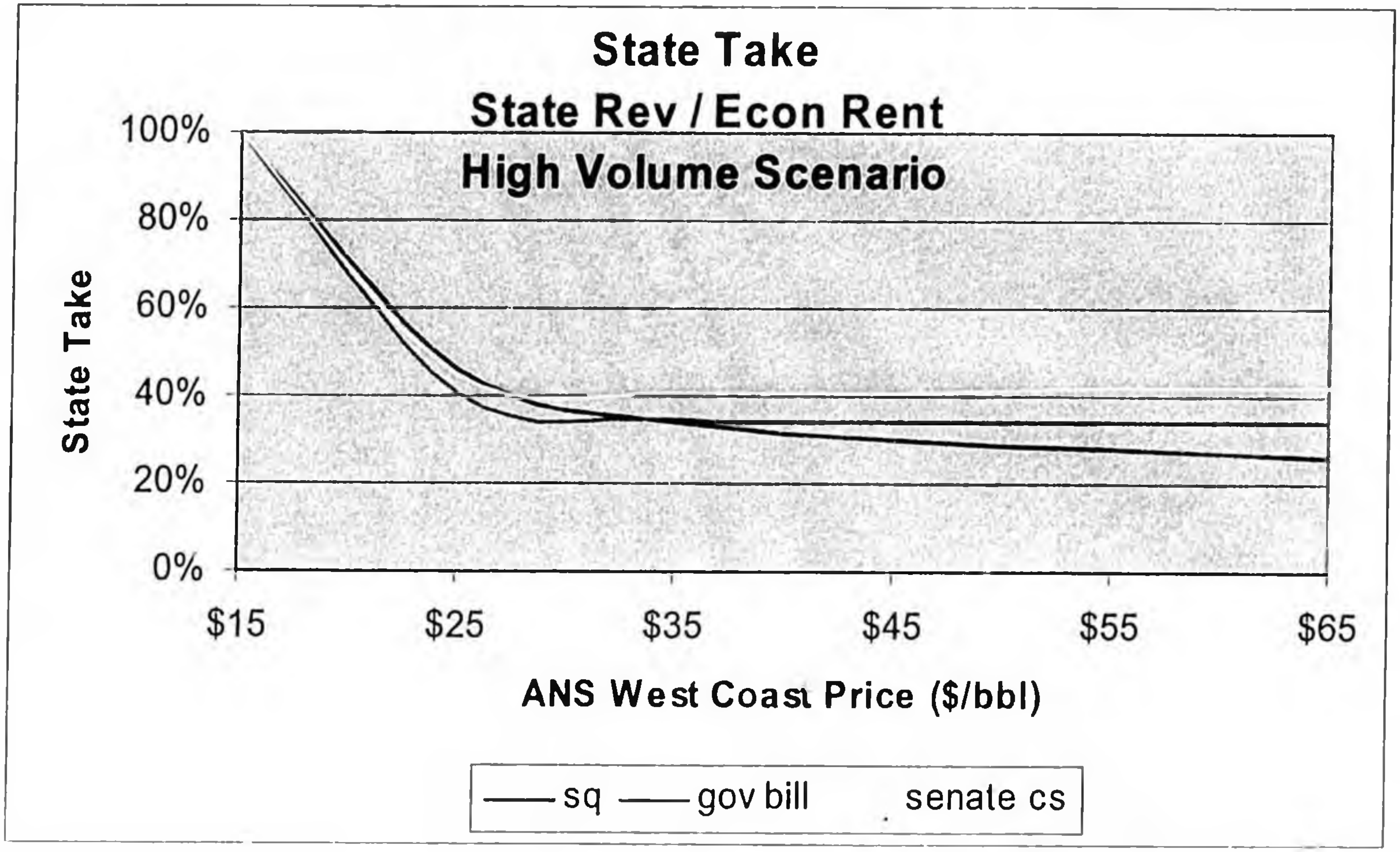
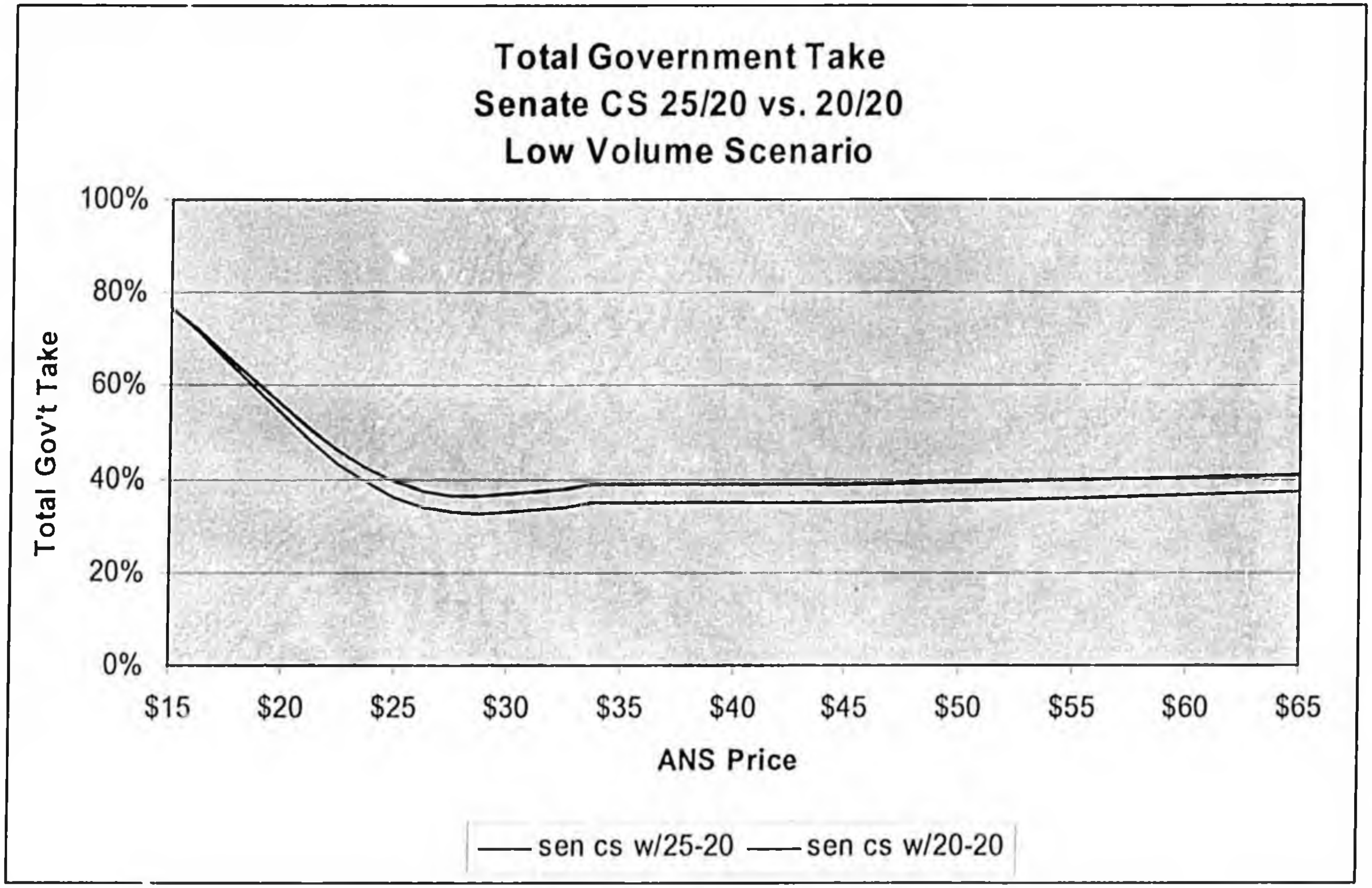

State Take
State Rev / Econ Rent
High Volume Scenario
100%
80%
60%
40%
20%
0%
State Take
$15
$25
$35
$45
$55
$65
ANS West Coast Price ($/bbl)
sq
gov bill
senate cs

Figure 16



For "PPT Revenue Studies" handout of 3/31/06

Cook Inlet

COOK INLET			
	Oil barrels/day	Gas mcf/day	Barrels of oil Equivalent
Aurora	0	9,260	1,543
Chevron/Unocal	7,885	116,755	27,344
ExxonMobil	1,111	0	1,111
Forest	6,891	108	6,909
Marathon	157	165,288	27,705
ML&P	0	15,431	2,572
ConocoPhillips	0	167,650	27,942
XTOE Energy	3,283	92	3,298
TOTAL	19,327	474,584	98,424

Cook Inlet Gas

- Cook Inlet is 80% gas on a BOE basis
- Industry is evolving
  - Decreased production?
  - Higher prices?
  - Increased investment?
- PPT impact on oil taxes not significant
- Gas taxes on existing fields may increase at higher prices
- New fields may see lower taxes/higher npv

GAS ELF

1 – (3000 / Average Well Productivity)

Example: 10,000 mcf/well/day
ELF = 0.70
6,000 mcf/well/day
ELF = 0.50

COOK INLET GAS FIELDS

Field	MCF/day	Avg Elf
BELUGA RIVER	155,740	0.751
BEAVER CREEK	17,554	0.088
CANNERY LOOP	40,636	0.601
GRANITE POINT	208	0.000
HAPPY VALLEY	5,083	0.170
IVAN RIVER	4,348	0.000
KALOA FIELD	3,269	0.424
KENAI UNIT	60,907	0.001
LEWIS RIVER	1,042	0.000
LONE CREEK	4,240	0.358
MIDDLE GROUND SHOAL	61	0.000
MOQUAWKIE	5,188	0.354
NORTH COOK INLET	108,421	0.648
NICOLAI CREEK	1,593	0.000
NINILCHIK	30,783	0.373
NORTH TRADING BAY UNIT	587	0.000
PRETTY CREEK	1,967	0.000
REDOUBT SHOALS	2	0.559
STERLING GAS FIELD	2,094	0.278
TRADING BAY UNIT	146,343	0.474
SWANSON RIVER	10,539	0.000
WOLF LAKE	163	0.000
	600,768	0.500

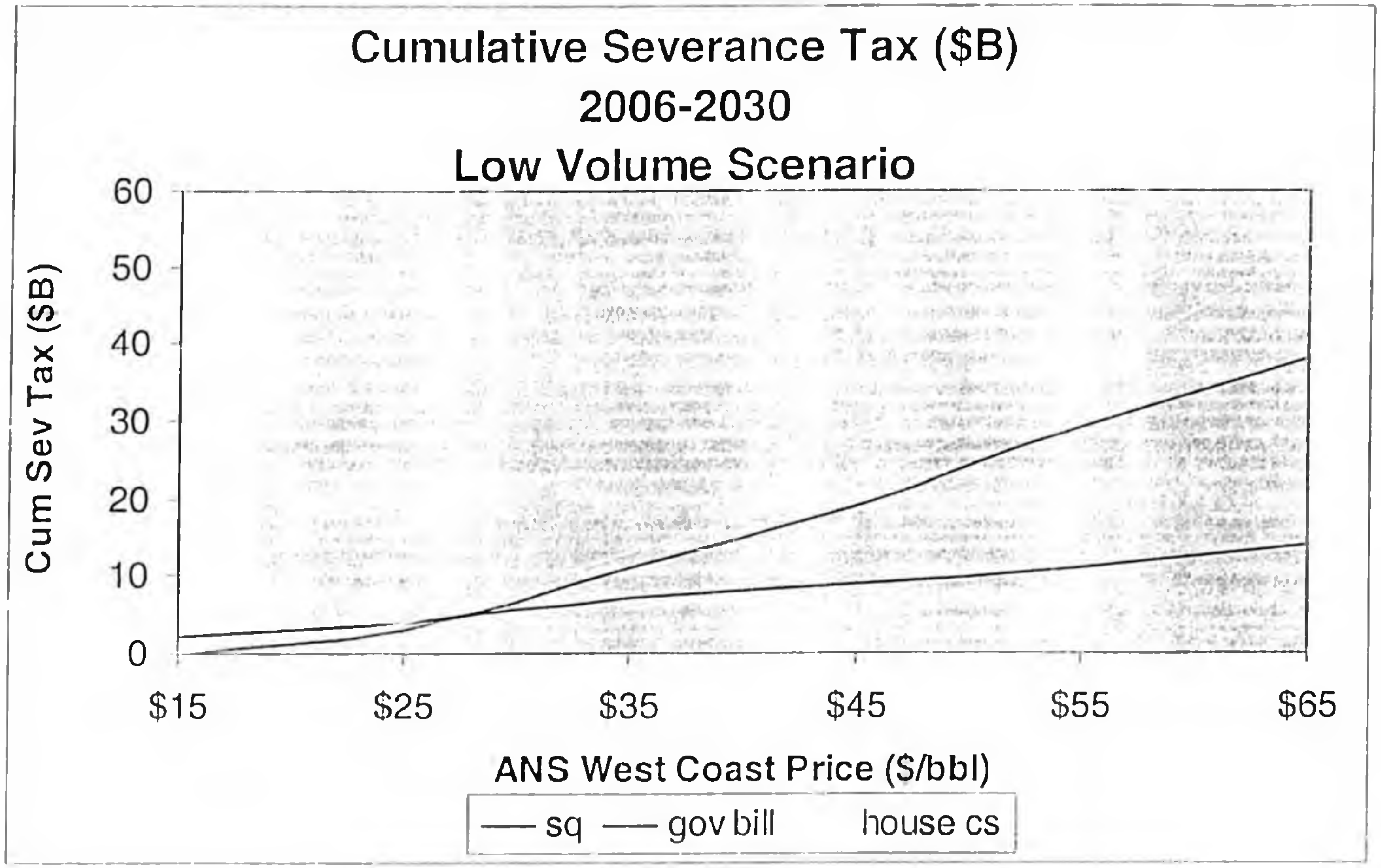
Gas ELF

- A 0.50 ELF implies 6,000 mcf/well/day
- Therefore, 3,000 mcf/well/day is tax-free
- The revenue from tax-free gas is supposed to recover operating costs
- Operating costs for Cook Inlet gas is estimated to be 50 cents
- Therefore operating costs are $3,000/well/day
- Henry Hub prices are over $7/mcf
- The revenue from the 3,000 tax-free mcf/well/day is worth $21,000
- This is 7X more than it should be recovering

Cook Inlet Gas Tax

- We estimate crossover point at about $3/mcf on existing fields
- At $4/mcf increase of $35 million annually on existing fields
- Out of $1 billion gross revenues annually
- Decrease as production goes down
- New production may see reduced taxes

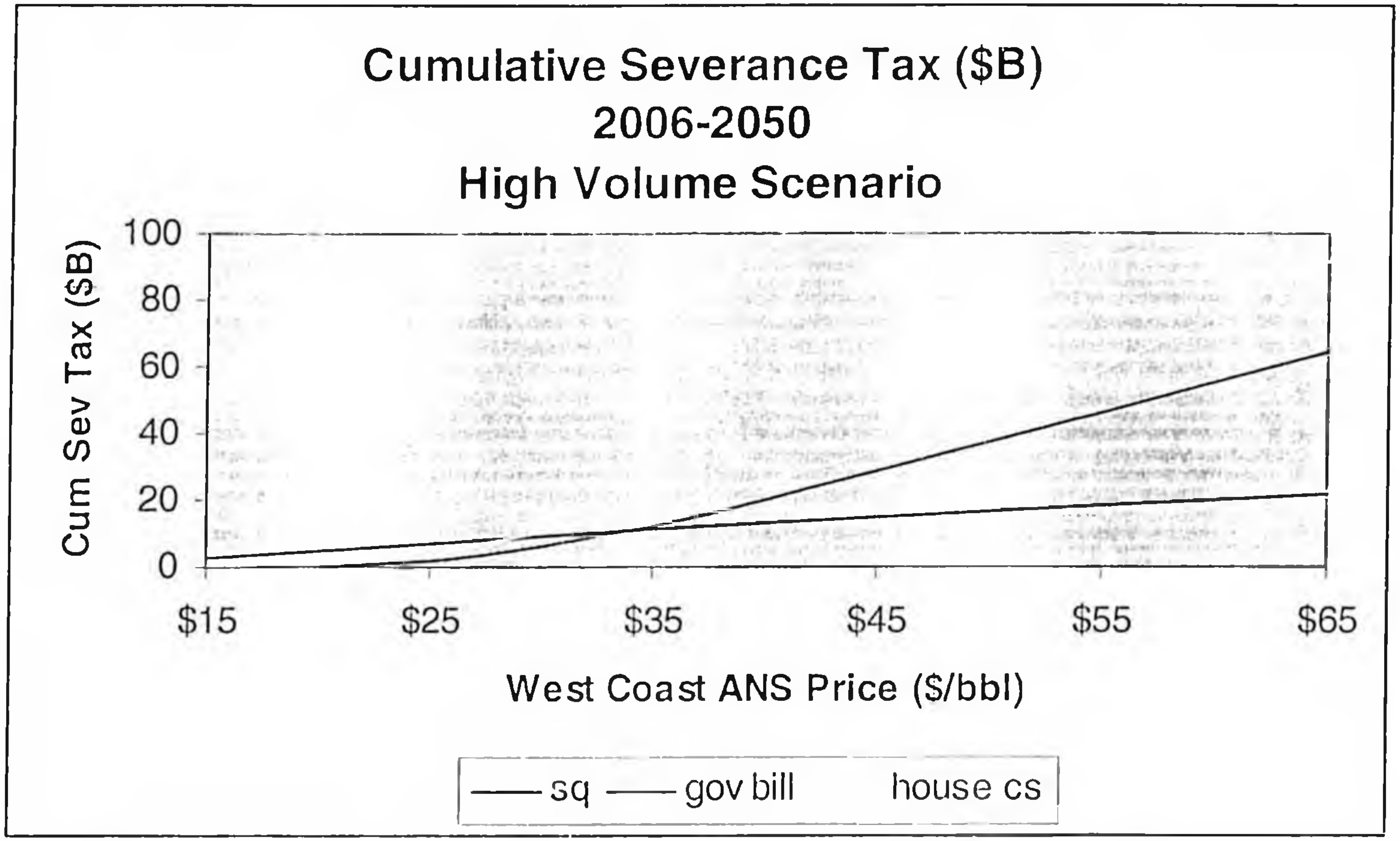
FIGURE 4



Provided 4/1/06
by Dan Dickinson
to address Sen Wilken request

9:21:35 AM 4/1/06

Figure 6



Cumulative Severance Tax ($B)
2006-2050
High Volume Scenario
Cum Sev Tax ($B)
100
80
60
40
20
0
$15
$25
$35
$45
$55
$65
West Coast ANS Price ($/bbl)
sq
gov bill
house cs

Navigating CSSB 305 (RES) (With the Differences from SB 305 Highlighted)

Before the Senate Finance Committee

April 1, 2006

Robert E. Mintz, Department of Law
Dan E. Dickinson, C.P.A.

SB 305, Section 35
CSSB 305, Section 32

New production tax provisions apply to oil and gas produced on or after:

(SB 305)

April 1, 2006 (CSSB 305)

SB 305, Section 5

AS 43.55.011(a)

There is levied upon the producer . . . a tax for all produced . . .
The tax is equal to of the
. . . under AS 43.55.160.

CSSB 305, Section 5

AS 43.55.011(e)

There is levied upon the producer . . . a tax for all produced . . . [except for] a lessor's royalty interest. . . . The tax is equal to 25 of the production tax . . . under AS 43.55.160.

CSSB 305, Section 5 (cont.)

AS 43.55.011(f)

There is levied upon the producer . . . a tax for all oil and gas produced each month . . . the ownership or right to which constitutes a lessor's royalty interest . . . . The tax is equal to five percent of the gross value at the point of production . . . . [for existing leases]

- BUT . . .

CSSB 305, Section 6 (cont.)

AS 43.55.011(f) (cont.)

The tax is equal to 1.5 percent of the gross value at the point of production . . . . [for existing *COOK INLET BASIN* leases]

- AND . . .

CSSB 305, Section 6 (cont.)

AS 43.55.011(f) (cont.)

The commissioner shall recommend to the legislature the rate of tax [for FUTURE leases]

CSSB 305, Section 6 (cont.)

AS 43.55.011(g) – (h)

[When West Coast ANS is above $40/Bbl] there is levied upon the producer of oil a tax . . . equal to

(West Coast ANS – 40) * .2 % *

(ANS Prevailing Value) * 75% *

(amount of oil production)

So . . .

The has a production tax: 20 % of net value.

The CS has three production tax components:

(1) 25% of net value (now called "production tax value") *except* for lessor royalty share

(2) 5% or 1.5% of gross value for lessor royalty share

(3) A progressive-rate tax on prevailing value of *oil* only, including lessor royalty share

SB 305, Section 21

AS 43.55.160(a)

. . . is the total of the

of . . . oil and gas . . .

from in the state, less

. . . . . . as . . .and

. . . 1/72 of . . .

CSSB 305, Section 22

AS 43.55.160(a)

production tax . . . is the total of the

of . . .

oil and gas . . . from in

the state,

less . . . as

SB 305, Section 31
CSSB 305, Section 28

AS 43.55.900(7) .

- "gross value at the point of production" means

for , the value . . . at the . . . meter . . . in . . .

for . . . the value . . . where . . . metered

[ ]

SB 305, Section 19
CSSB 305, Section 20

AS 43.55.150(a)

. . . gross value at the point of production is calculated using the reasonable

. . .

SB 305, Section 20

AS 43.55.150(d)

. . . the department . . . gross value
[to be calculated based upon] . . . a
. . . [or]
a formula . . . that uses . . . [
] royalty . . . valuation [or]
another
a value . . . .

CSSB 305, Section 21

AS 43.55.150(d)

if the commissioner completes a detailed fiscal analysis and determines . . . the long-term fiscal interests of the state [would be served] . . . the department . . . gross value [to be calculated based upon] royalty . . . valuation [or] another a value . . . .

SB 305, Section 21

AS 43.55.160(c)

. . . lease expenditures . . . are the costs of the point of production . . . on or after . . . that are the costs of oil or gas . . . in the state.

CSSB 305, Section 22

AS 43.55.160(c)

. . . lease expenditures . . . are the costs of the point of production . . . on or after April 1, 2006 . . . that are the costs of oil or gas . . . in the state.

Section 21/22

AS 43.55.160(c)   (continued)

In determining . . . [[redacted]
] costs . . . the department shall
give substantial weight . . . to typical [redacted]
. . . as to
[billable] costs . . . under [redacted]
. . . and [[redacted]
].

CSSB 305, Section 22

AS 43.55.160(n)(2)

CS adds a definition of "ordinary and necessary" to make clear that Internal Revenue Code meaning is adopted.