12010 SENATE RESOURCES

Table 10.4
BREAK EVEN WTI PRICE

	Prudhoc Bay	"Polaris"	"West Sak"	"Ugnu"
API		23	19	14
WTI quality diff	$2.00	$3.00	$5.00	$8.00
Transport	$5.00	$5.00	$5.00	$5.00
Capital Costs	$4.00	$6.00	$8.00	$12.00
Operating Costs	$3.00	$4.00	$6.00	$7.00
Subtotal	$14.00	$18.00	$24.00	$32.00
Property tax	$0.50	$0.50	$0.50	$0.50
Royalty (12.5%)	$16.57	$21.14	$28.00	$37.14

These break even prices show that the economics of the Polaris, West Sak and Ugnu type crudes is primarily determined by the oil price projections and cost assumptions.

If long term oil price projections of the major and large oil companies shift upwards and further technological developments shift the costs downward than heavy oils of the West Sak and even Ugnu types may come in economic range.

The economics are only modestly affected by fiscal terms. No matter what fiscal incentives are provided, under current conditions of typical long term price forecasts Ugnu developments are uneconomic.

To a lesser degree the same is true for West Sak. With respect to "West Sak" much, however, depends on the detailed circumstances.

The developments of Polaris, Orion and Milne Schrader are economic under current conditions, as is evidenced by the investments that are being made in these fields by the major oil companies. It should be noted that these developments are typically taking place in deeper and therefore "warmer" reservoirs which are less viscous. Also the crude oils are lighter than for the West Sake economics to be discussed below.

An important aspect is that the current field developments are taking place in areas where oil production is already taking place and where therefore facilities costs are less because existing facilities can be used. All that is required is some upgrades of these facilities.

However, it is important to stimulate small possible independent developments outside the area which is currently controlled by the major oil companies. Therefore, the West Sak and Ugnu economics will be studied on the basis that new facilities will be required.

10.4. Fiscal incentives

In principle, fiscal incentives could be provided by offering a lower tax rate and higher tax credit rate for heavy oils.

The economic analysis of heavy oil economics is based on large producer economics, which means without taking into account the $ 73 million tax free allowance.

In order to evaluate fiscal incentives two different alternative fiscal packages were evaluated:

- a 20% tax rate with a 25% tax credit, and
- a 15% tax rate with a 25% tax credit.

It should be noted that under the Current System, the ELF would be essentially 0. This is due to the small field size. Despite the relatively attractive well productivities at maximum production, the small field size creates a very high exponent which brings the ELF to near 0.

10.5. West Sak economics

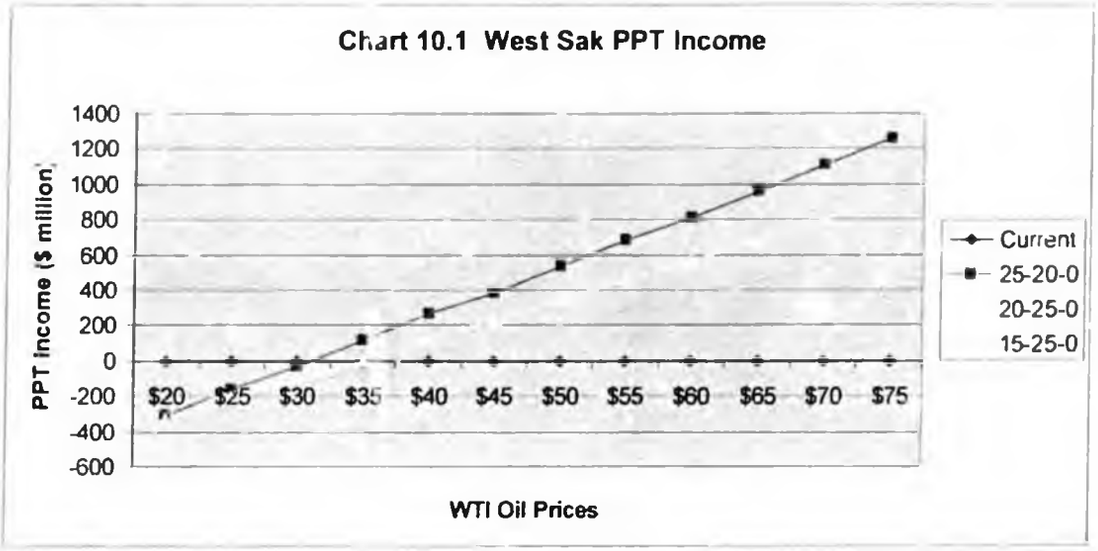
Chart 10.1 indicates how the PPT would vary considerably with the fiscal terms.

At a WTI of $ 20, the project would run a severe loss and therefore the investor would be able to recover 45% of this loss under the systems with a 25% tax rate and 20% tax credit rate or 20% tax rate and a 25% tax credit rate.

With a 15% tax and a 25% tax credit, the recovery would be 40%.

The results of the loss carry forward credits and the tax credits is that the PPT would be negative. For the three fiscal systems it would be about $ 300 million negative. This means that the investor can trade his tax credits to other producers. It should be noted that under such low prices, all producers will have a negative PPT and therefore the tax credits can not be taken against PPT payable. In Chapter 11 the DOR results will be presented which illustrate that the PPT credits are really capped by this mechanism.

Chart 10.1 West Sak PPT Income



Of course, under such low prices, investors would not invest further in heavy oil and therefore, it is unlikely that many fields would create such a loss. Only fields for which the development was started under much higher long term oil price predictions would be caught in this situation.

All three fiscal options provide therefore considerable downside price protection for heavy oil projects and will therefore be a significant stimulus for such developments. From an Alaska perspective the 25/20 system would have a WTI cross over point of $ 32 per barrel. The other two fiscal options would have higher cross over points: the 20/25 system would have a $ 35 per barrel cross over and the 15/25 system a $ 38 cross over.

Under high prices, the government revenues are substantially more for the 25/20 options as can be expected. The 20/25 and 15/25 options do not seem to provide a reasonable balance between downside and upside from a government perspective. The downside price risk to government of being faced with a negative PPT is not adequately compensated by the upside benefits of a high PPT in case of high prices.

This matter can be studied in more detail in Chart 10.2, which displays the overall Alaska income (State and municipalities). This chart shows at about $ 23 per barrel the total government take from the project becomes negative. As explained before, this risk would only related to heavy oil projects that were started under high oil forecast but would then be faced with low prices.

The graph clearly shows that under downside conditions the State of Alaska would provide very considerable price support and therefore a significant reward to Alaska is also reasonable in case prices are high. Therefore the 25/20 system is the best. It provides strong downside risk protection for heavy oil projects, but at the same time rewards Alaska with significant revenues if prices are high.

Chart 10.3 shows how all fiscal options result in a very considerable improvement of the IRR for all price levels. This constitutes major support for heavy oil developments. Under the current system a nominal IRR of 15% would be obtained under a WTI price of $ 42 per barrel. Under any of the PPT proposals this price level shifts down to $ 37 per barrel.

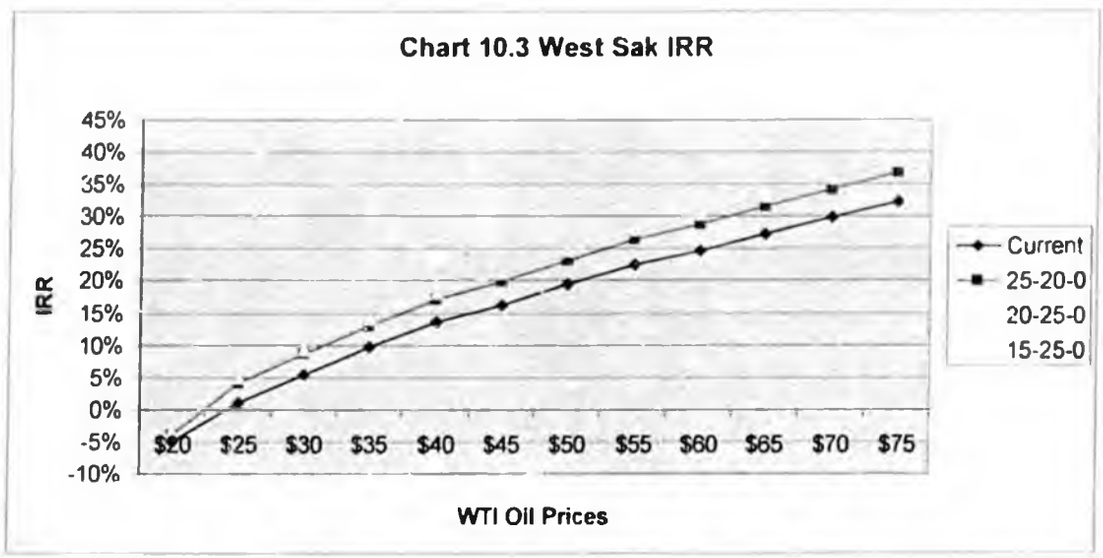
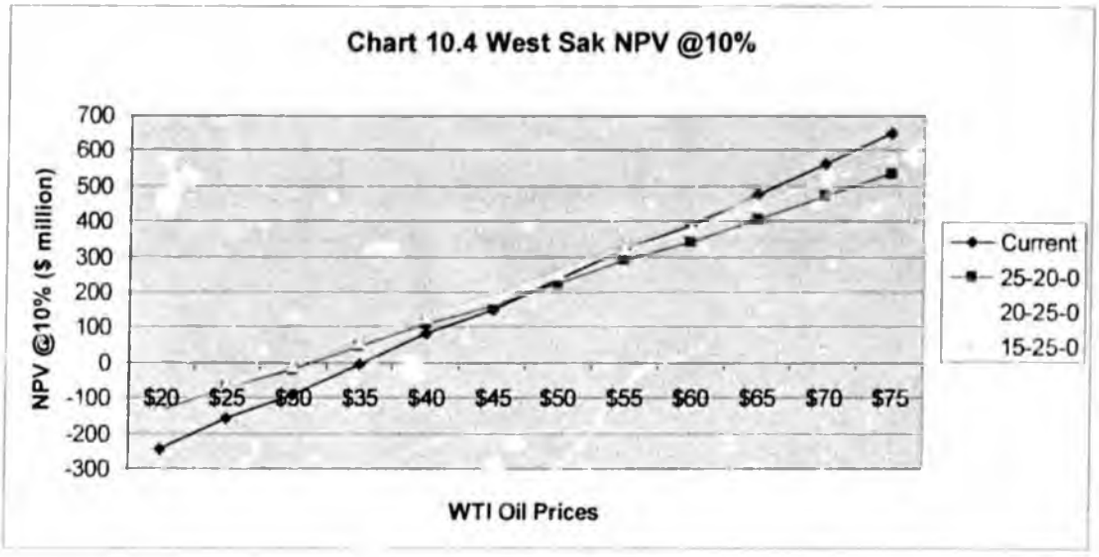


Chart 10.4 shows how the NPV@10% would also improve the economics of the heavy oil projects considerably in the current long term price forecast range of major and large oil companies of $ 25 to $ 35 per barrel. The break even point at an NPV@10% of zero is shifted down from $ 35 to $ 30 per barrel.



At about $ 50 per barrel the NPV@10% values are about the same for the Current system and the three PPT alternatives. At high prices the higher tax rate of 25% starts to "bite" and therefore the NPV becomes less for the 25/20 system. However, the total NPV is extremely attractive at these price levels and therefore the progressive nature of the 25/20 system does not affect in a serious negative way investment decisions.

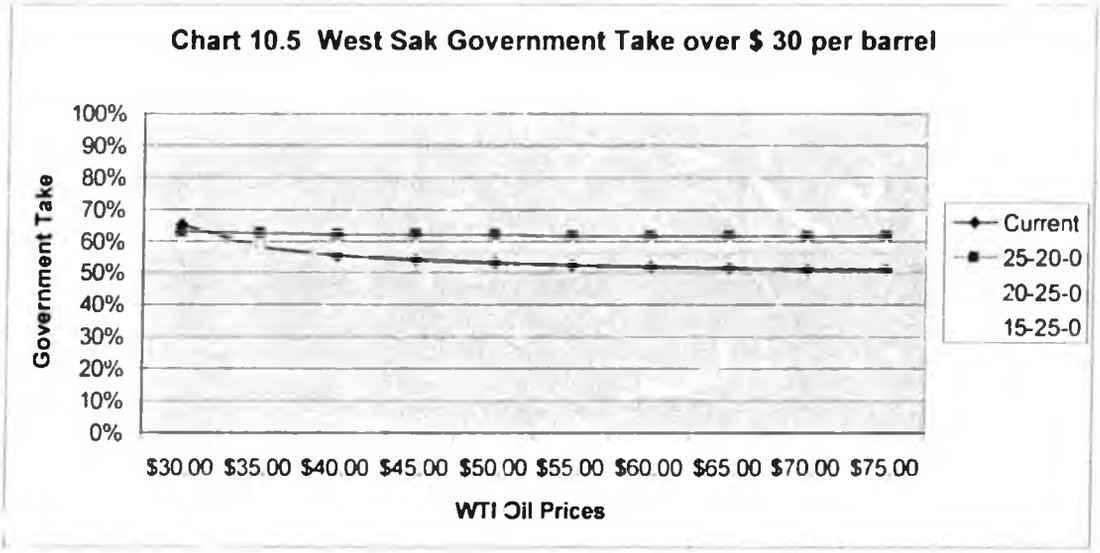


Chart 10.5 illustrates the overall combined government take of Alaska and the Federal Government. The progressive nature of the PPT turns the current regressive system of Alaska in a neutral system. The regressive royalties and property taxes are balanced by the progressive PPT. Therefore the PPT creates an overall flat government take over $ 30 per barrel. This is the price level at which the project has a positive NPV@10%.

Obviously, the 25/20 results in the highest government take and the 15/25 system in the lowest.

Conclusion. The fiscal proposal of a 25% tax rate and a 20% credit rate will provide a strong stimulus for heavy oil developments through the considerable downside price risk protection this system provides and the significant improvement in IRR and NPV@10% under current long term price projections. There is no need for further incentives. Such incentives would unreasonably lower the revenues of Alaska for no significant added benefit in economic stimulus.

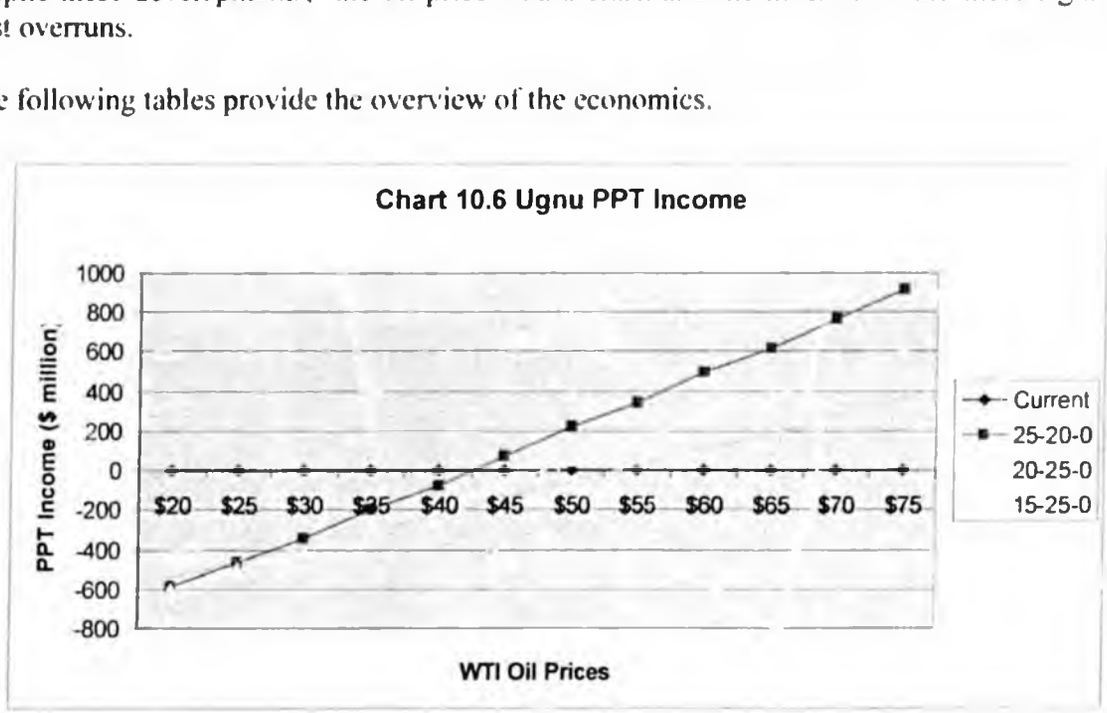
10.6. Ugnu economics

As was discussed earlier, the Ugnu reservoirs are currently uneconomic. In order to become economic perceptions of long term oil prices have to shift upward and further technology has to shift the development costs downward.

Therefore, the following economic analysis does not represent conditions that could occur today.

However, if in the future prices shift up and costs shift down, it would represent a case where despite these developments, the oil price would crash and the investor would incur significant cost overruns.

The following tables provide the overview of the economics.



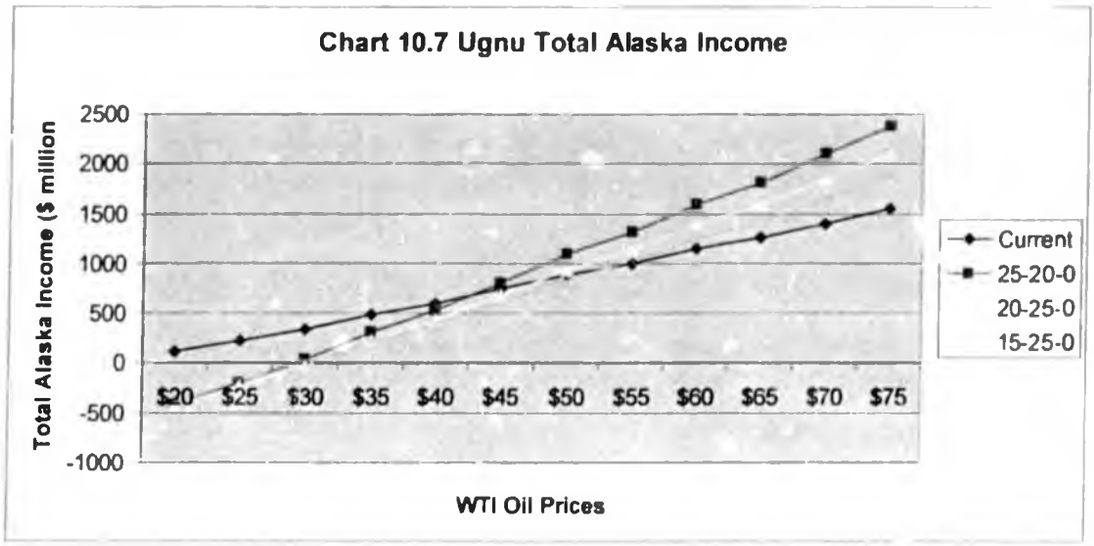


Chart 10.7 Ugnu Total Alaska Income
Total Alaska Income ($ million
2500
2000
1500
1000
500
0
-500
-1000
$20 $25 $30 $35 $40 $45 $50 $55 $60 $65 $70 $75
WTI Oil Prices
Current
25-20-0
20-25-0
15-25-0

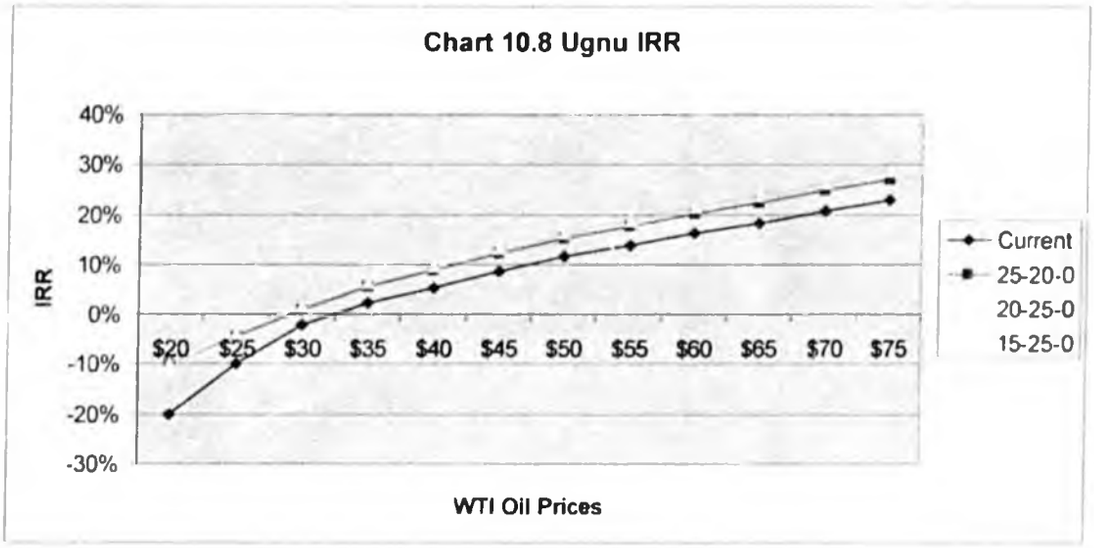
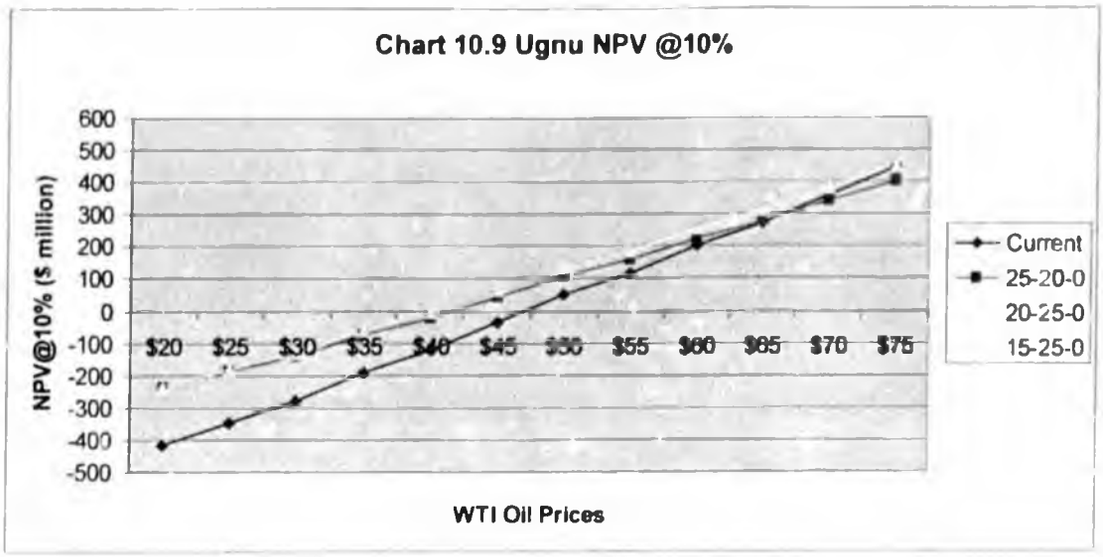
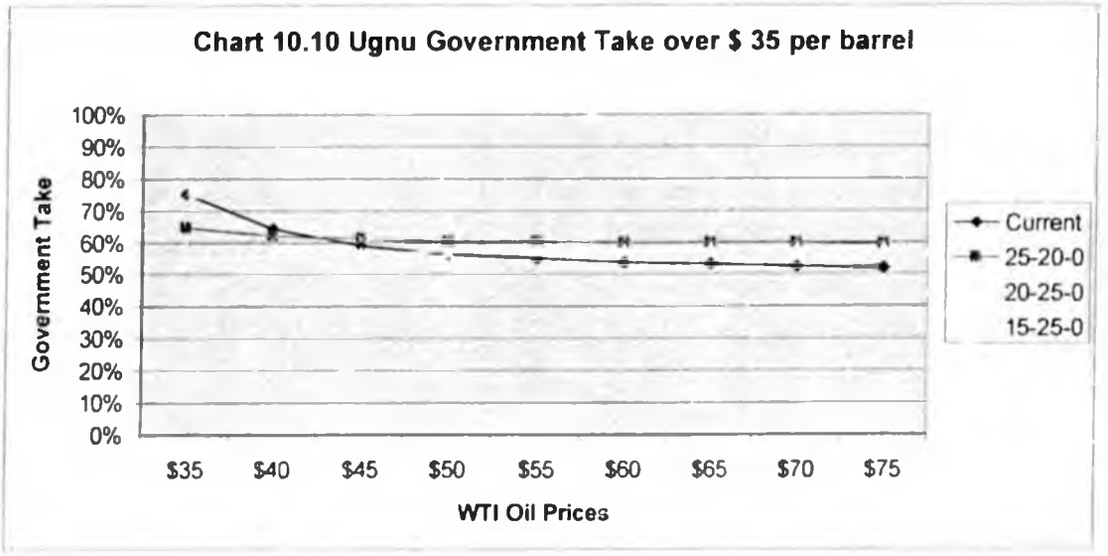


Chart 10.8 Ugnu IRR
IRR
40%
30%
20%
10%
0%
-10%
-20%
-30%
$20 $25 $30 $35 $40 $45 $50 $55 $60 $65 $70 $75
WTI Oil Prices
Current
25-20-0
20-25-0
15-25-0





As can be seen from the above graphs, the results are very similar as the West Sak economics.

However, as can be expected the downside price protection is even stronger. The State would be rather exposed under low prices and cost overruns.

Despite the PPT, Ugnu developments remain clearly uneconomic and therefore such developments cannot be expected.

However, the PPT would bring the day closer that Ugnu developments may take place and it might also encourage the development of some small pilot projects in order to evaluate whether costs can be reduced with new technology.

Even more than for West Sak, the higher government take under the 25/20 system under high prices seems justified.

11. REVIEW OF THE RECOMMENDED PROFIT SHARING PRODUCTION TAX

11.1. Description of recommended profit sharing production tax

It may be useful to provide a review of the economics of the recommended profit sharing production tax ("PPT").

The PPT would have the following features:

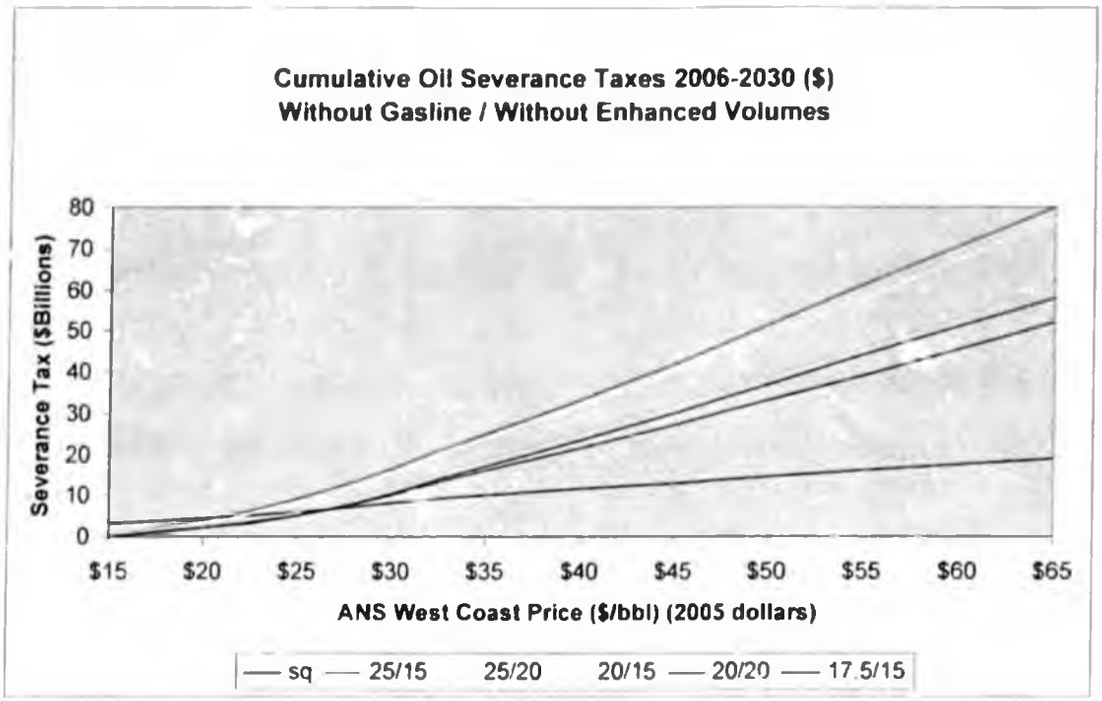
- The tax would be a monthly tax on net revenues. The net revenues will be determined as the gross revenues at the point of production less lease expenditures and exploration costs. Capital expenditures can be fully deducted in the year these costs are incurred.
- The PPT will be a consolidated tax on all net revenues of the corporation with respect to Alaska petroleum production and exploration.
- The tax rate will be 25%.
- Losses can be carried forward indefinitely, but the tax payer can obtain a certificate for a tax credit for 25% of the amount of the loss. Such certificates can be traded. This means that 25% of the loss can be recovered in the year following the year in which the expenditures were incurred.
- Furthermore, there will be a tax credit of 20% on all qualified capital expenditures. These are typically all expenditures which are capital for IRS purposes, intangible drilling expenditures and exploration expenditures, including geological and geophysical costs.
- Up to $ 73 million per year will be tax free. However, if the net revenues are less, the tax free amount is equal to the net revenues. This means that small producers will not pay tax.

11.2. Rationale for the selection of 25/20.

Various options were studied and selected. The selection of the 25% tax rate and 20% credit rate was largely based on the results of the DOR model, which indicated that the tax rate is the most important determinant of the Alaska government revenues. The tax credit rate is a lesser factor.

Following are some of the results of the study.

The following graph illustrates the cumulative revenues to the State from the production tax for a conservative scenario involving a remaining production of 5.8 billion barrels of oil for different price levels.



The graph illustrates how the 25/20 (25% tax and 20% tax credits) scenario generates considerably more revenues for the State than the 20/15 scenario. The tax credits play a relatively minor role in the reduction of the State revenues. It means that relative to the scenario of 20/15 which was the main focus of the earlier studies, the 25/20 scenario:

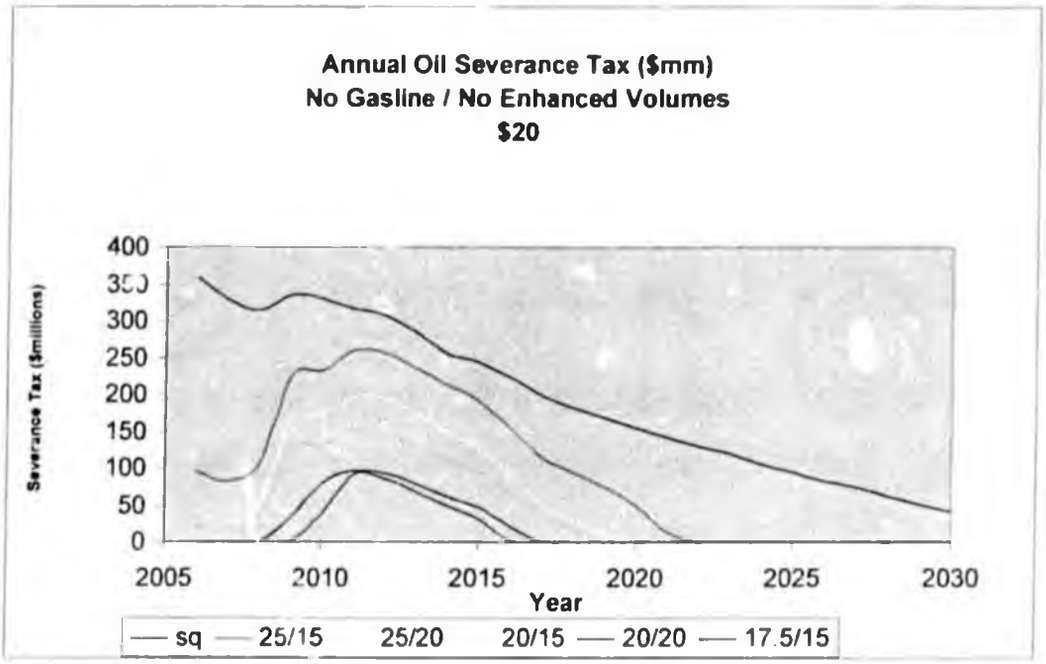
- Is a more progressive system
- Results in more revenues for the State
- Results in a stronger stimulus for re-investment
- Creates a better protection of marginal fields.

The stronger credits were a concern, since at low prices, it could lead to a more rapid erosion of the government revenues.

The following graph shows the year to year revenues under an ANS price of $ 20 per barrel.

The graph shows how for a tax rate of 25%, a tax credit of 20% compared to 15% indeed results in lower revenues. However, the entire revenues of Alaska would be very modest and therefore, even if extraordinary tax credits would occur as a result of major earlier investments, the exposure of the State to income loss is not more than a maximum of about $ 200 million per year around the year 2010. Compared with the billions that might result under high prices, this seems very much an acceptable exposure.

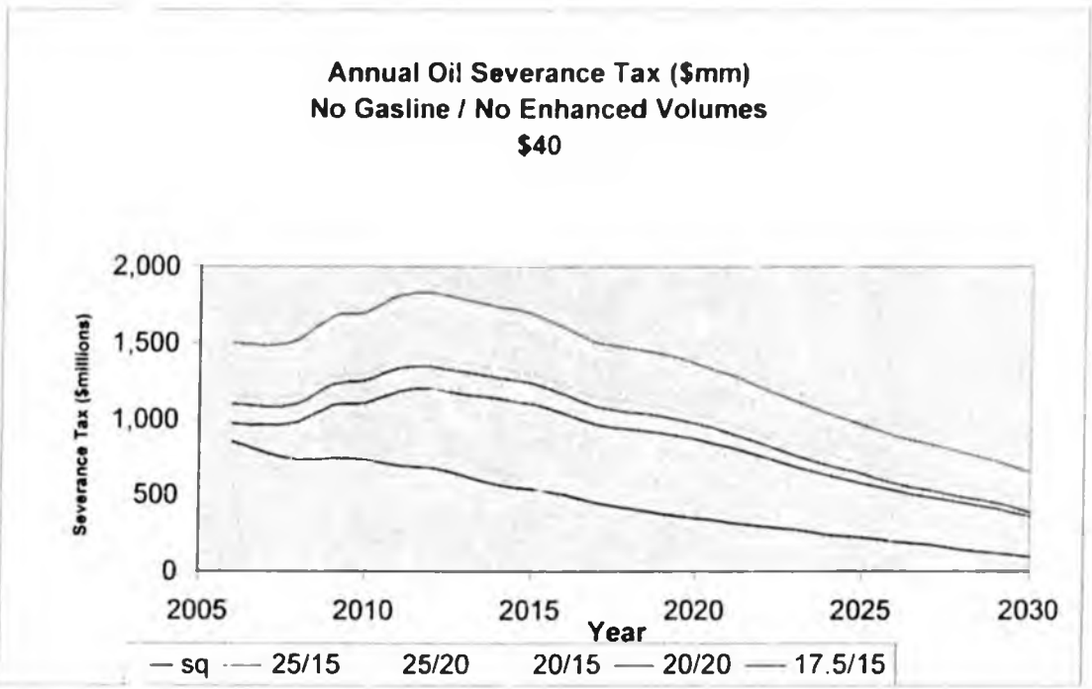
For this reason, the DOR study indicated that the income loss exposure as a result of higher than expected investment and low prices is modest. This resulted in the conclusion that a 25/20 combination is better for the State than the 20/15 combination.

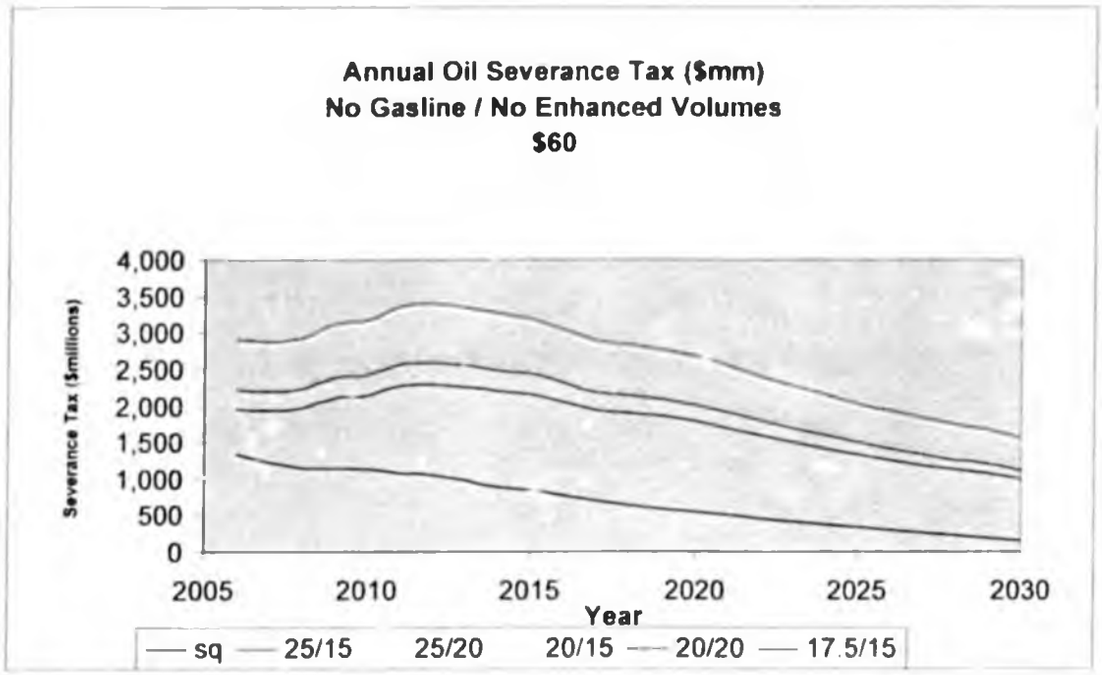


The "negative PPT's" which were identified in the previous chapters are really capped by the fact that the overall PPT will be low anyway under an ANS price of $ 20 per barrel and therefore these negative PPT cannot really be traded to a large extent under these conditions. Since PPT credits can only be taken against PPT payable this creates an automatic protection for Alaska.

Under low prices the royalties, property taxes and state corporate income tax remain unaffected.

Of course under high prices the income to the State of the new PPT is very considerable as can be seen from the following two graphs.





11.3. PPT income on new investments

11.3.1. Field size and price sensitivity

The following graphs show the PPT income for the 25-20-73 scenario and the 25-20-0 scenario. This means the 25% PPT with a 20% tax credit, with or without the $ 73 million tax free allowance. The scenario with the tax free allowance illustrates the economics of a first investor or small company. The scenario without the tax free allowance illustrates the economics of a large producing company.

Chart 11.1. Production Tax and PPT with credits for a 50 MM barrel field with low well productivities, high costs

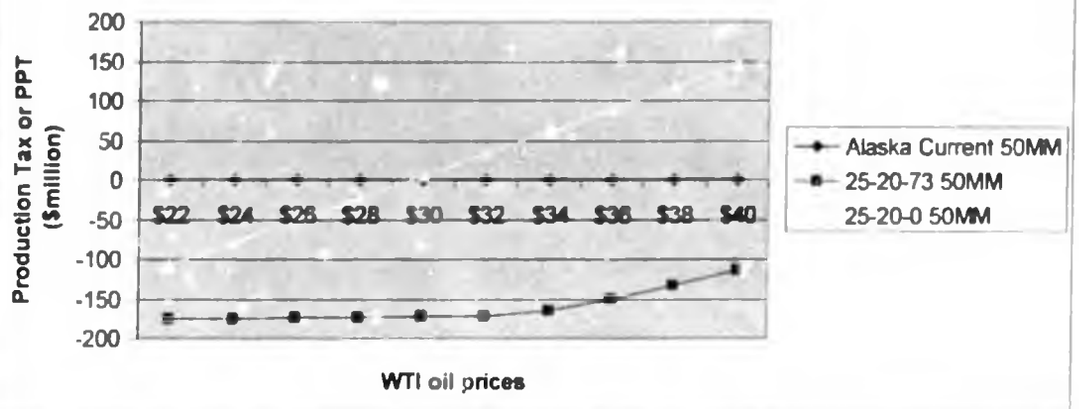
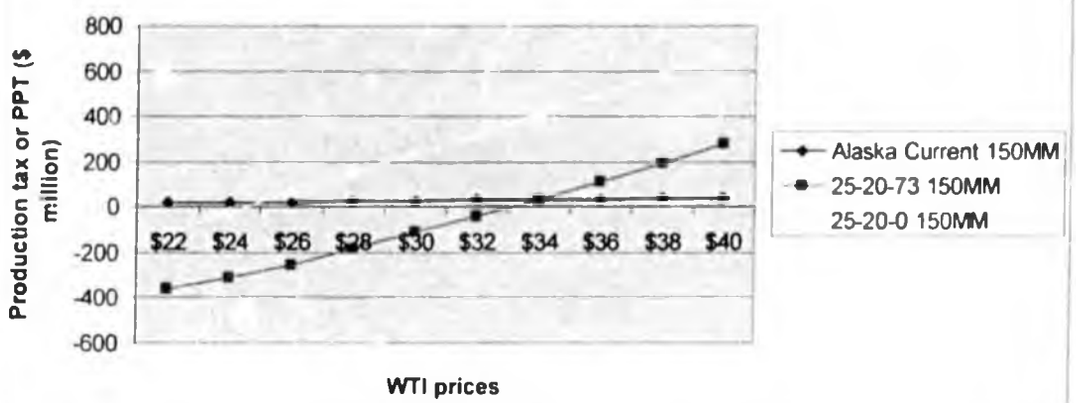
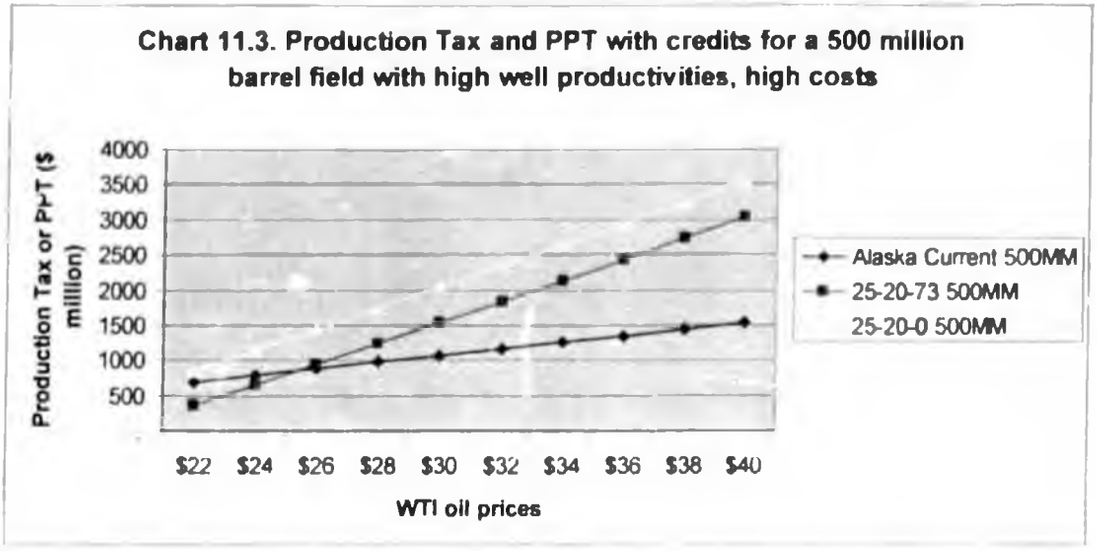


Chart 11.2. Production Tax and PPT with Credits for a 150 mm barrel field with low well productivities, high costs





The results of the charts are very similar to charts 4.1 through 4.3.

For first investors there will be tax credits, but no tax on a 50 million barrel field. On the 150 million and 500 million fields first investors will pay tax over $ 34 and $ 26 per barrel respectively. Below these levels the undiscounted value of the tax credits will exceed the tax payable and a "negative PPT" is created. The degree to which these negative PPT's can be traded depends on the availability of buyers for these credits.

The current large producers will have a zero PPT on a high cost 50 million barrel field at a WTI price of about $ 30 per barrel. Below this price there is a negative PPT because of the significant tax credits. These credits can be used against the PPT payable. Above this price there is a positive PPT.

For larger fields which were assumed to be less costly per barrel, the break even price is less.

11.3.2. Cost sensitivity

The following two charts show the same 150 million barrel field, but with lower costs.

As can be easily seen the WTI break even point shifts to lower levels as a result. In other words, the effect of lower costs is:

- A lower WTI break even price
- A higher tax
- A lesser probability for "negative PPT" and a higher probability for "positive PPT".

hart 11.4. Production Tax and PPT with Credits for a 150 mm barrel field with low well productivities, average costs

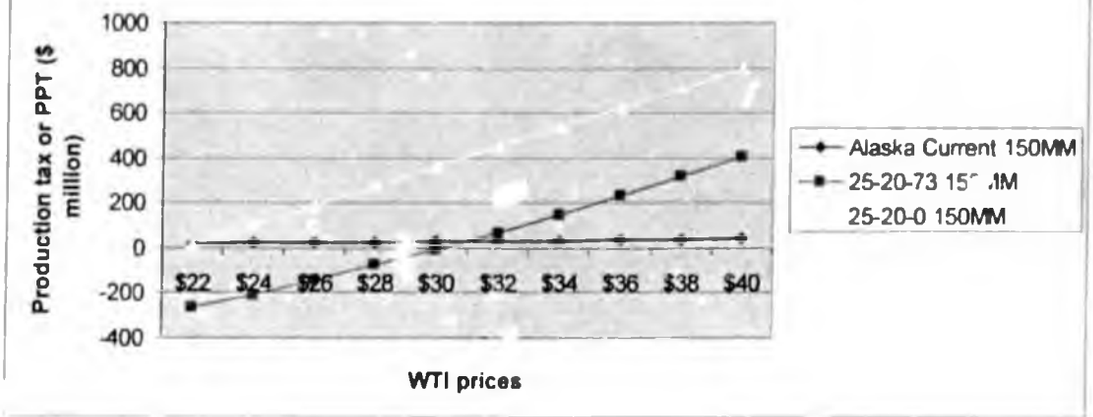
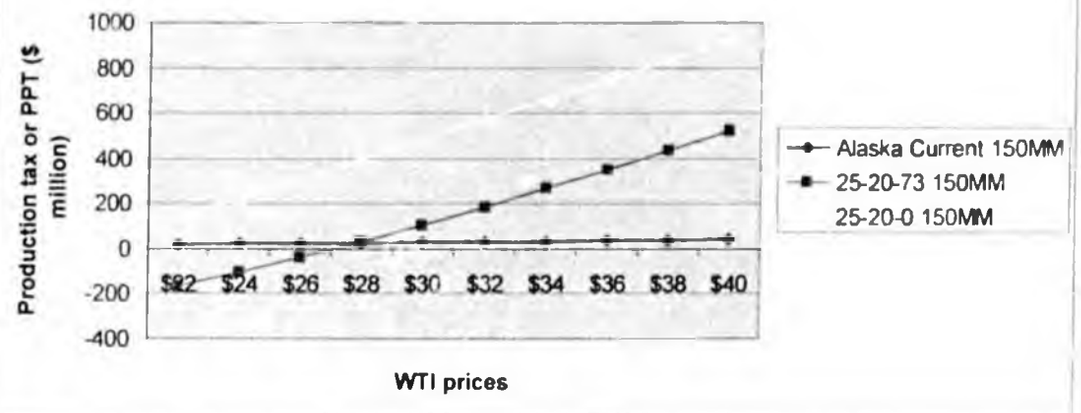


Chart 11.5. Production Tax and PPT with Credits for a 150 mm barrel field with low well productivities, low costs



11.3.3. Conclusion

As can be clearly seen from the information in this chapter so far, the PPT is primarily a tax on existing production in terms of additional revenues for the State under average or high prices.

With respect to production from fields as a result of new investments, the PPT modifies the overall corporate PPT payable either negative or positive. Under low prices and high costs, the PPT lowers the overall PPT payable, with a State wide "floor" of zero. Under high prices and low costs, the PPT increases the overall PPT payable.

11.4. Profitability of new investments

11.4.1. Profitability Indicators

The following graphs repeat the graphs shown in Chapter 4 for high cost conditions.

Charts 11.6, 11.9 and 11.12 show clearly that irrespective of field size, costs or prices, the PPT system improves the rate of return (IRR) of the investments considerably.

Charts 11.7, 11.10 and 11.13 show how the NPV@10% at low prices is always favorably affected by the PPT. At higher prices, the NPV is less attractive as a result of the higher tax rate, but the level of NPV is under these conditions very attractive in any case.

Charts 11.8, 11.11 and 11.14 show how the EMV@10% is more favorable over a wide low and average price range. This indicates that the PPT will stimulate exploration considerably.

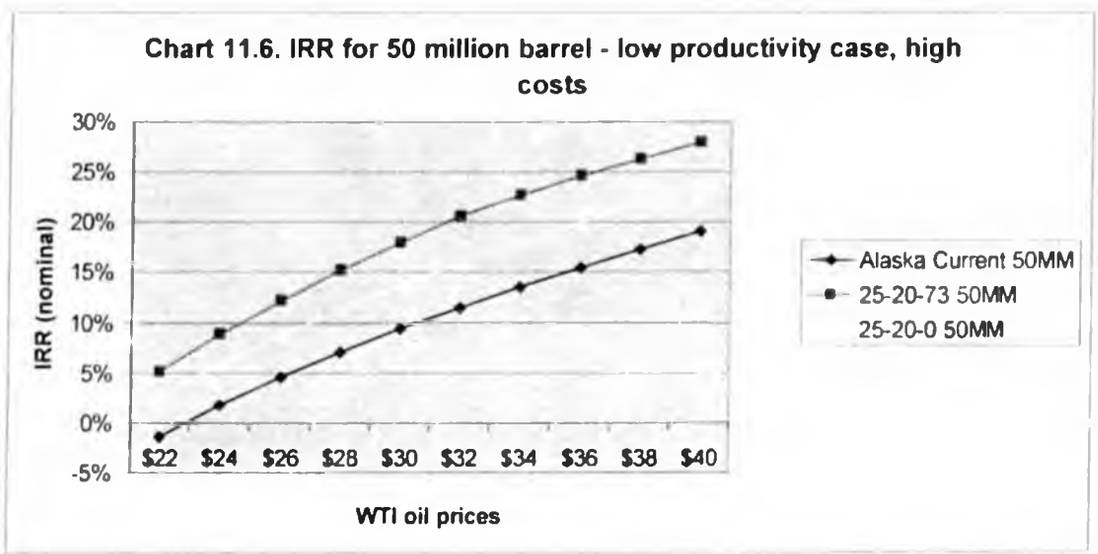


Chart 11.7. NPV @10% for a 50 million barrel field - low well productivity, high costs

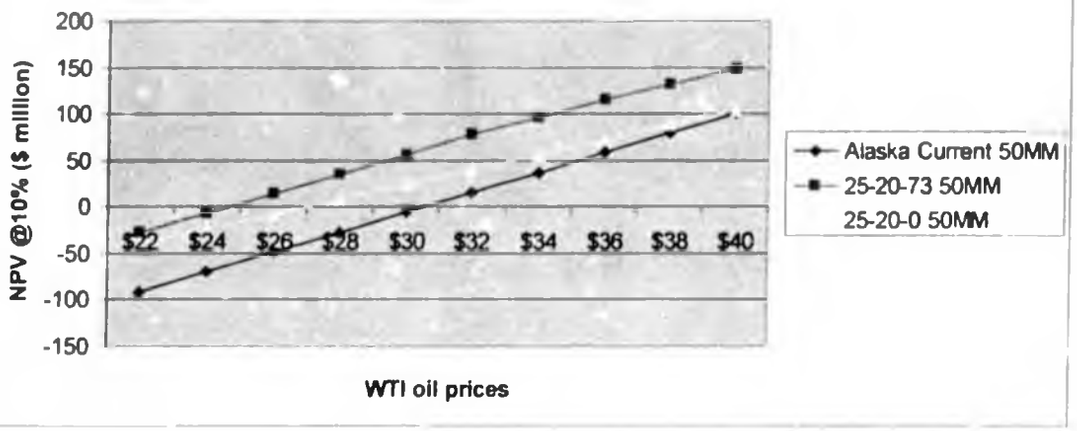


Chart 11.8. EMV @10% for a 50 million barrel field - low well productivity, high costs

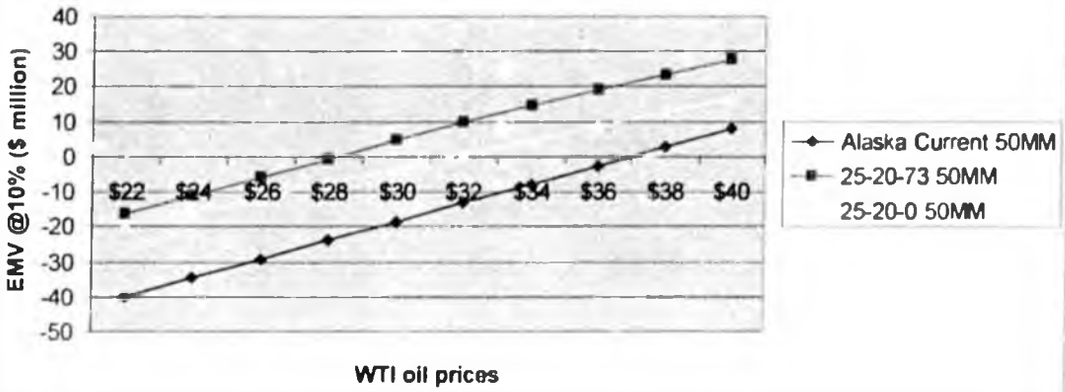


Chart 11.9. IRR for the 150 million barrel fields - low well productivity, high costs

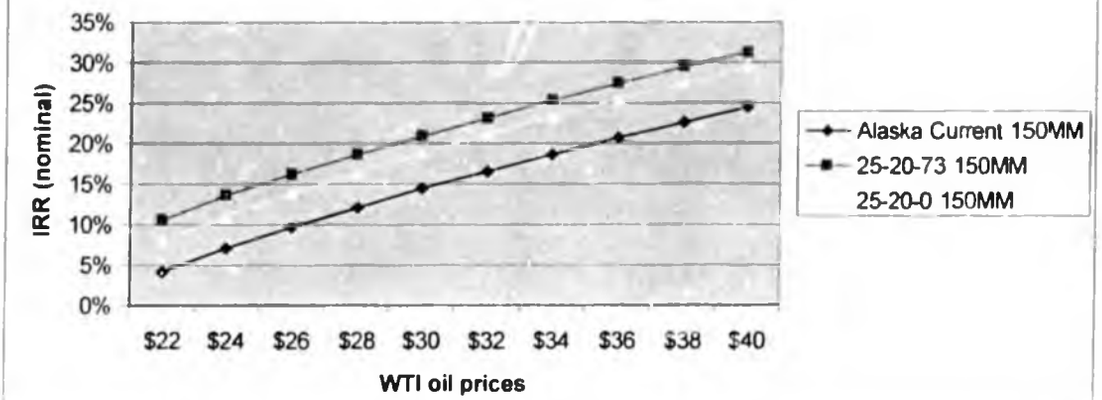


Chart 11.10 NPV @10% for a 150 million barrel field - low well productivity, high costs

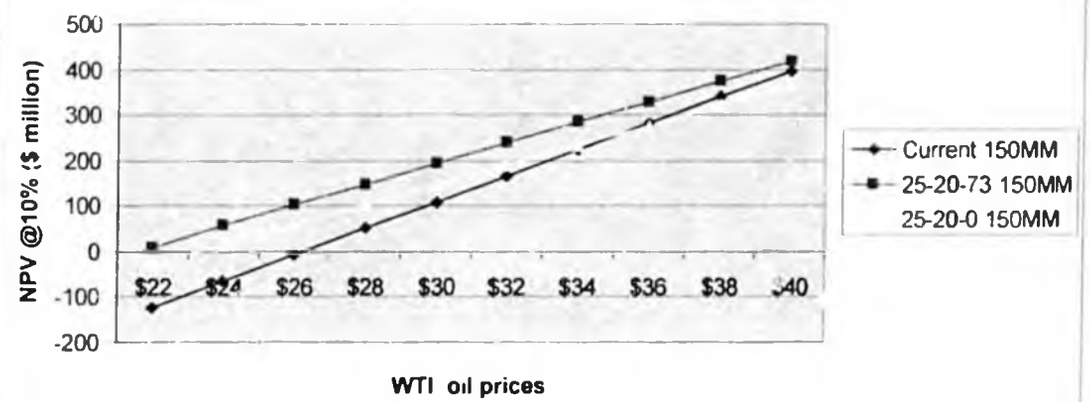


Chart 11.11. EMV @10% for a 150 million barrel field - low well productivities, high costs

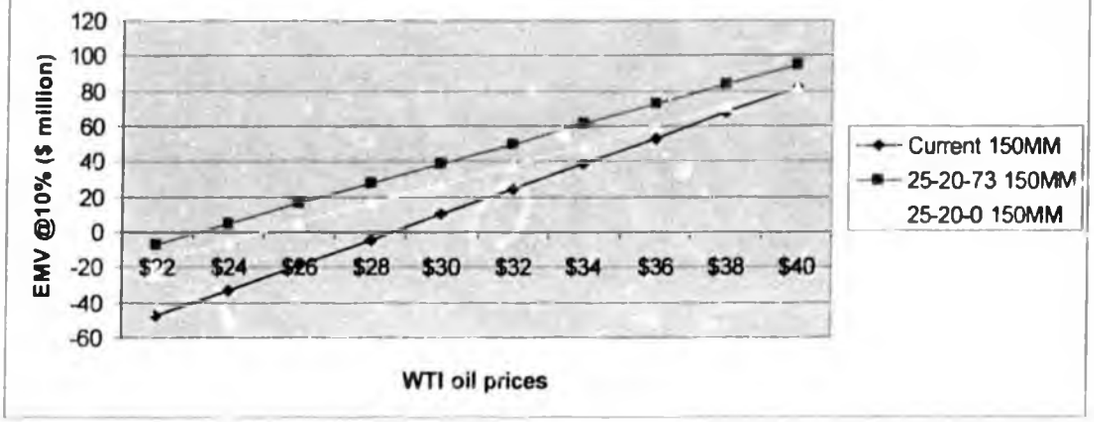
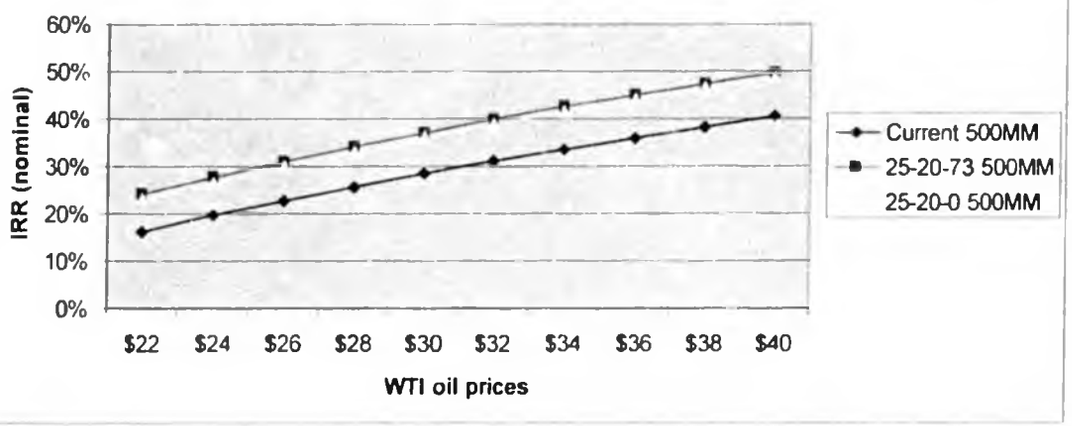
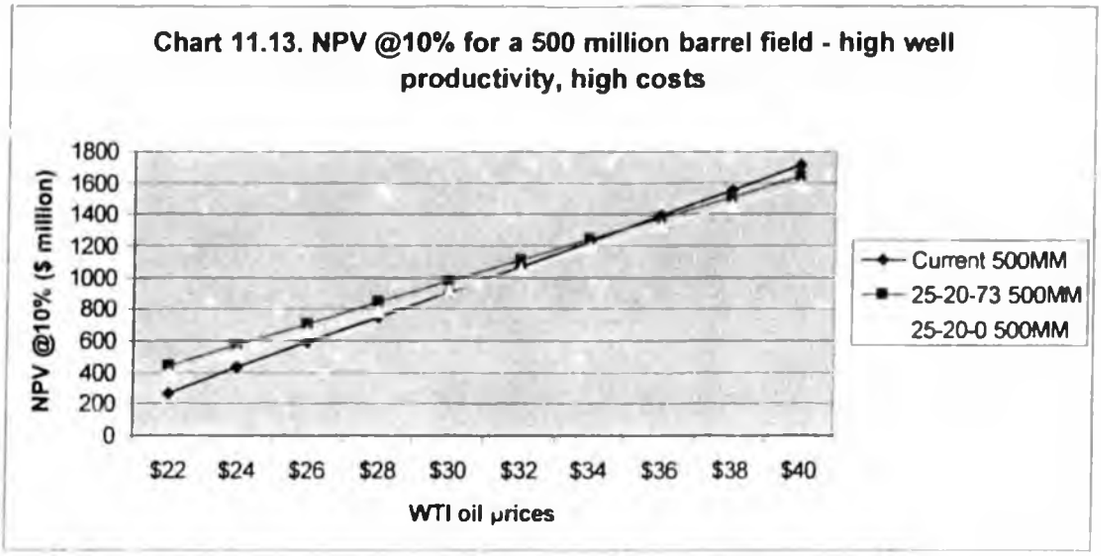
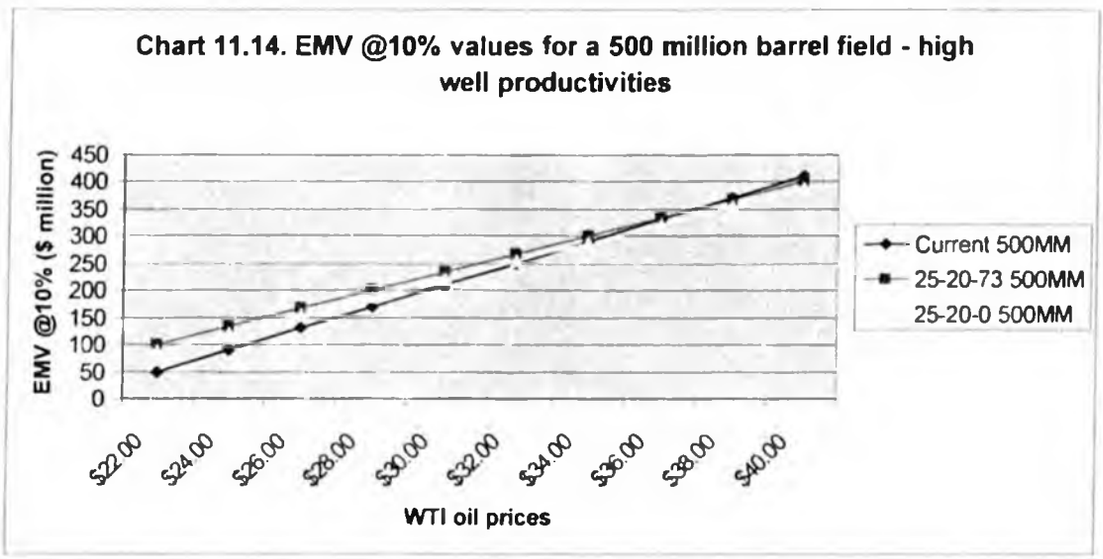


Chart 11.12. IRR of 500 million barrel · high productivity case, high costs







11.4.2. Government Take

The following three charts provide for the overall Federal and Alaska government take.

It can be seen how in all cases the current regressive system is converted to a neutral or even somewhat progressive system, whereby the regressive royalty and production tax are compensated by the progressive PPT.

The government take is typically less than the current system at low prices and for small and high cost fields and is more than the current system at high prices and low cost.

Chart 11.15. Overall Government Take for a 50 million barrel field with low well productivities

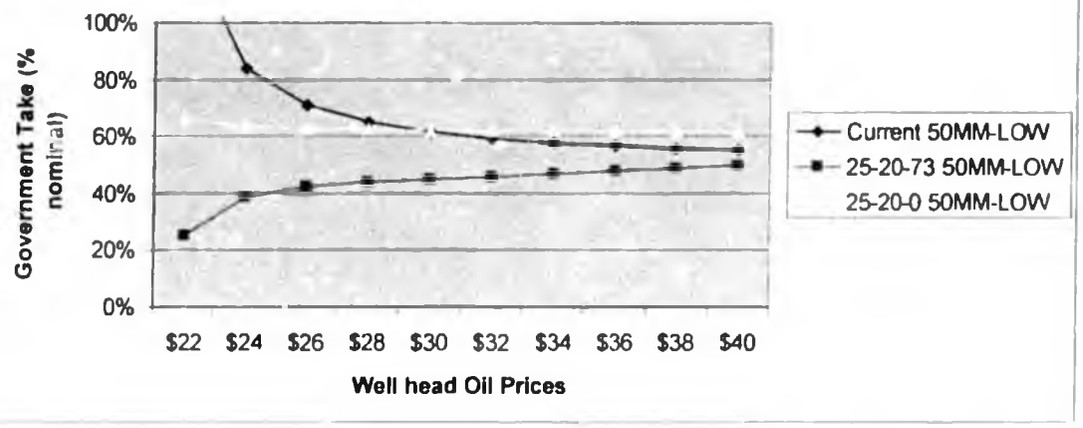
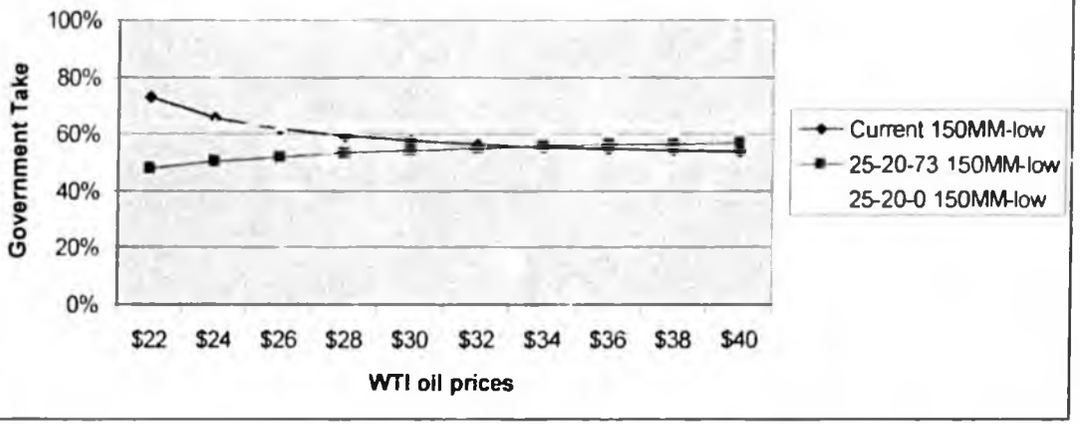
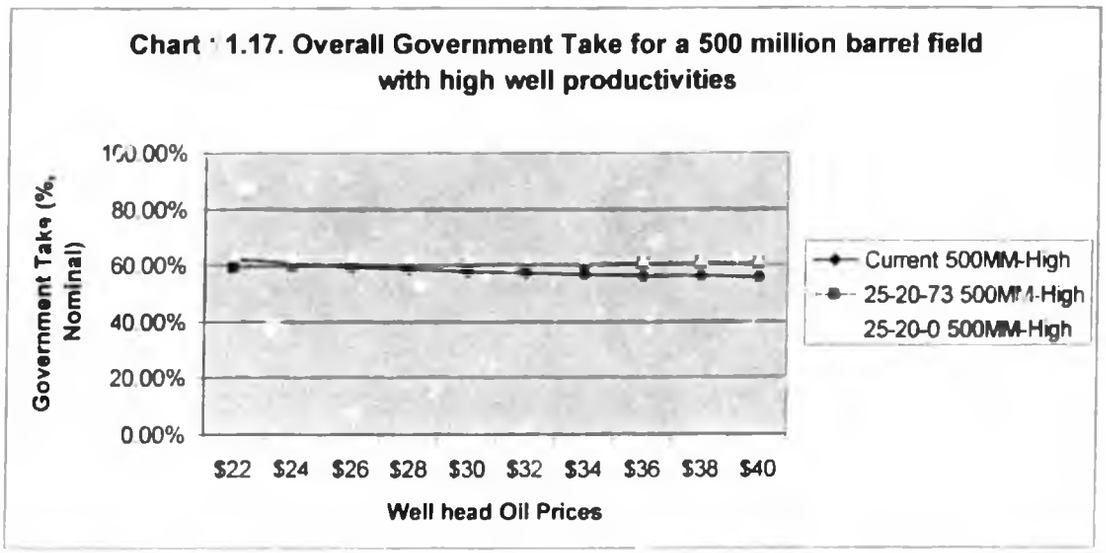


Chart 11.16. Overall government take for a 150 mm barrel field with low well productivities





11.4.3. Conclusion

The recommended PPT system will strongly encourage new investment through a higher rate of return and a better overall project value at low or average prices. The system also strongly encourages exploration. The overall government take is either less or more depending on the price and cost conditions.

SB
305
(FILE 3)

W. A. Corbus
Feb. 24, 2006

Presentation to Resource Committees - HB 488/SB 305
PPT Summary

1. PPT is a Governor's bill, this Administration strongly supports it and encourages its timely enactment

2. Thank you for giving the Department of Revenue 3 days to make presentations on the PPT, the bill itself and to answer your questions and thank you speakers for all your work devoted to preparing your presentations

3. The proposed PPT legislation will:
   a. Replace a broken ELF based severance tax
   b. Encourage badly need investment in oil and gas exploration, development and production
   c. Provide special incentives for small explorers
   d. Enhanced State revenues, particularly during periods of high oil prices

4. During the last three days there have been many good questions and thought provoking dialogue. I want to make it very clear that the Governor made the important policy calls on several of the matters discussed at length:
   a. 20% tax rate
   b. 20% tax credit rate
   c. $73 million exemption

5. The Governor had two targets for Pedro van Meurs:
   a. increase State revenues based on what Producers are paying in similar oil regimes around the world;
   b. increase incentives to explore and invest in the 50mm to 150 mm barrel fields

6. From August 2005 to February 2006, Pedro suggested a 20% - 15% plan. He then provided a range of alternatives to the House and Senate Finance Committees three weeks ago. His final proposal was 25% - 20%.

7. While the Governor appreciates Pedro's recommendation, the Governor wanted to tilt toward more exploration and investment. So he reduced the tax rate to 20%

8. The Governor believes that more exploration will help fill TAPS and thus mean more money to the State over time than a 25% tax rate.

9. I'd like to remind us all that the Governor has done a marvelous and unexpected thing for Alaska. He has gotten the Producers to agree to increase their Production Tax rate by 100% AND to build a gasline!

10. This Administration believes that this will optimize State revenues from oil and gas over the long run

11. Again, the Administration encourages the enactment of HB 488/SB 305

Revised Logsdon Presentation
2-24-06 Senate Resources

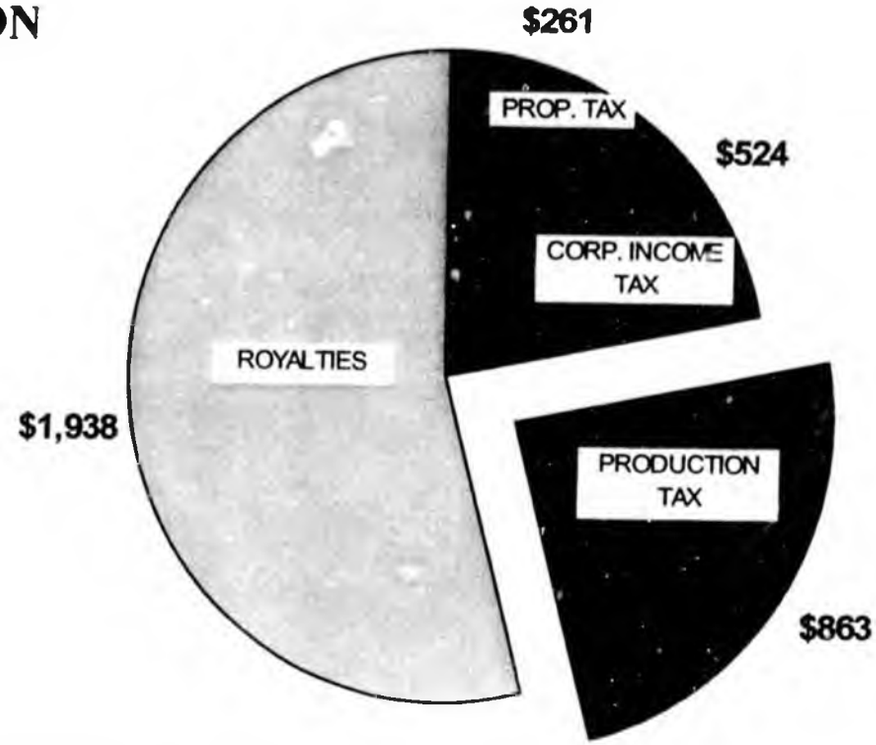
Alaska's Production Tax

Theory and Practice

Alaska's CURRENT Oil Fiscal System by Source FY '05

TOTAL

$3631 MILLION



Alaska Dept. of Revenue Fall "05 Revenue Sources
Property taxes includes Municipalities
Royalities include Permanent Fund

Alaska's Oil and Gas Fiscal Regime

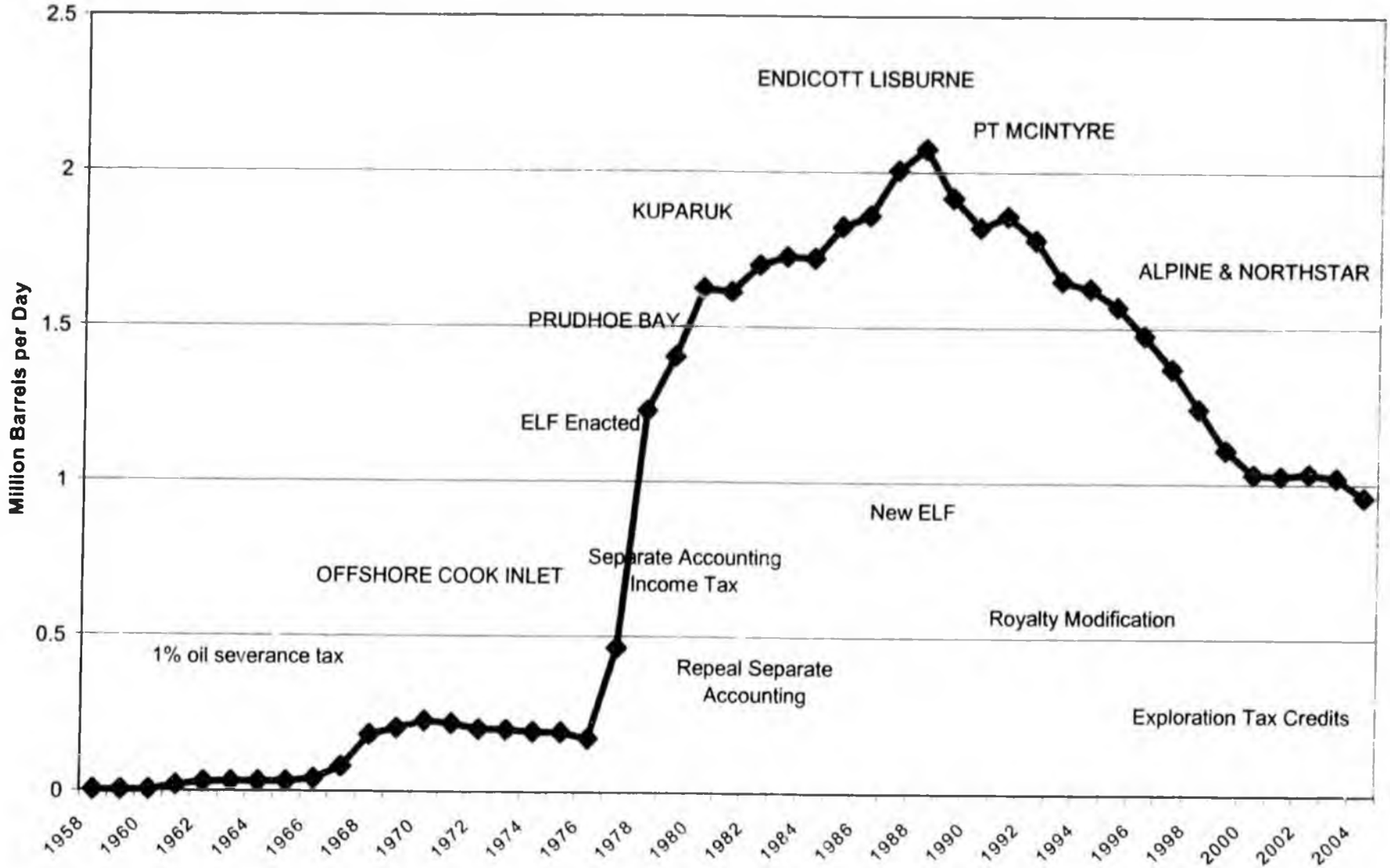
Royalty: State ownership share of the resource removed and sold from State lands.

Production tax : Tax on the severing of the resource from the State as either a % of value or a minimum cents per barrel or mcf.

Property Tax: Levied on the assessed value of production and transportation hardware at a rate of 20 mils

Corporate Income Tax: World-wide income allocated to Alaska based on three factors: production, property and sales (includes tariffs)

Alaska Oil Production and Major Fiscal Adaptations 1958 - 2004



An International Perspective on Petroleum Fiscal Systems

Norwegian Petroleum Directorate

The fiscal policy

Objective

- Government objective
  - Maximise Government take
    Get as high share of the profit as possible
  - Maximise value of the petroleum resources

The goal is to create a win-win situations between the state and the oil companies

- Companies objective
  - Maximise shareholders interest (private or public)

The fiscal policy

Government objective

NPD

- Important to create a win-win situations between the state and the oil companies

- The bargaining relationship depends mainly on profitability and risk
  - the government has to take the mother earth and the geological potential into consideration when it design the fiscal packages

- Crucial to relate the fiscal packages on the geological basis and where on the geological learning curve that province is

The fiscal policy
Challenge

- The challenge of the fiscal policy:
  - Ensure as high share of the value as possible for the Government
  - Encouraging the exploration and exploitation of valuable resources

- One has to find a correct balance between the state interest and the oil companies.

The fiscal policy

The fiscal package

NPD

- The fiscal packages can be characterized both by the
  - The tax level
  - The tax system

- The fiscal policy can create disincentives to explore or to exploit the petroleum resources due to either the tax level or the tax system

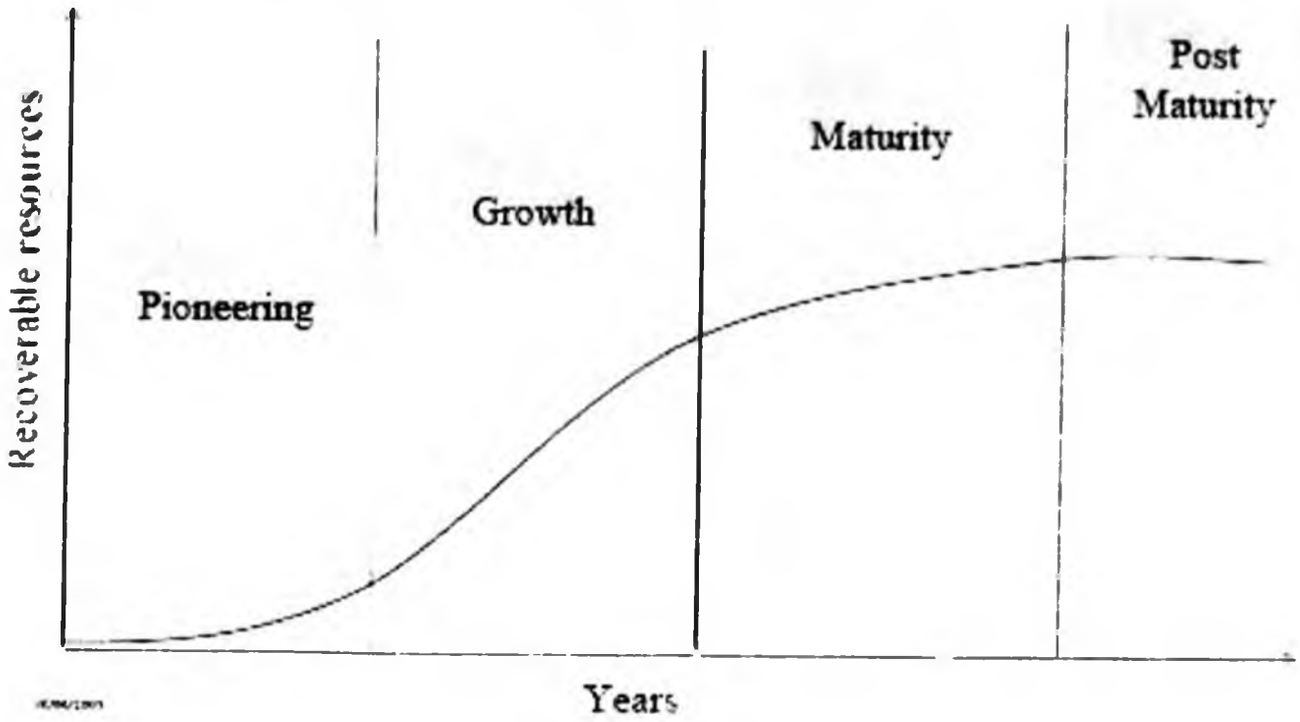
- A key question to any fiscal package is whether it will influence the investment decision of the investor adversely with respects to the nation optimal decisions.

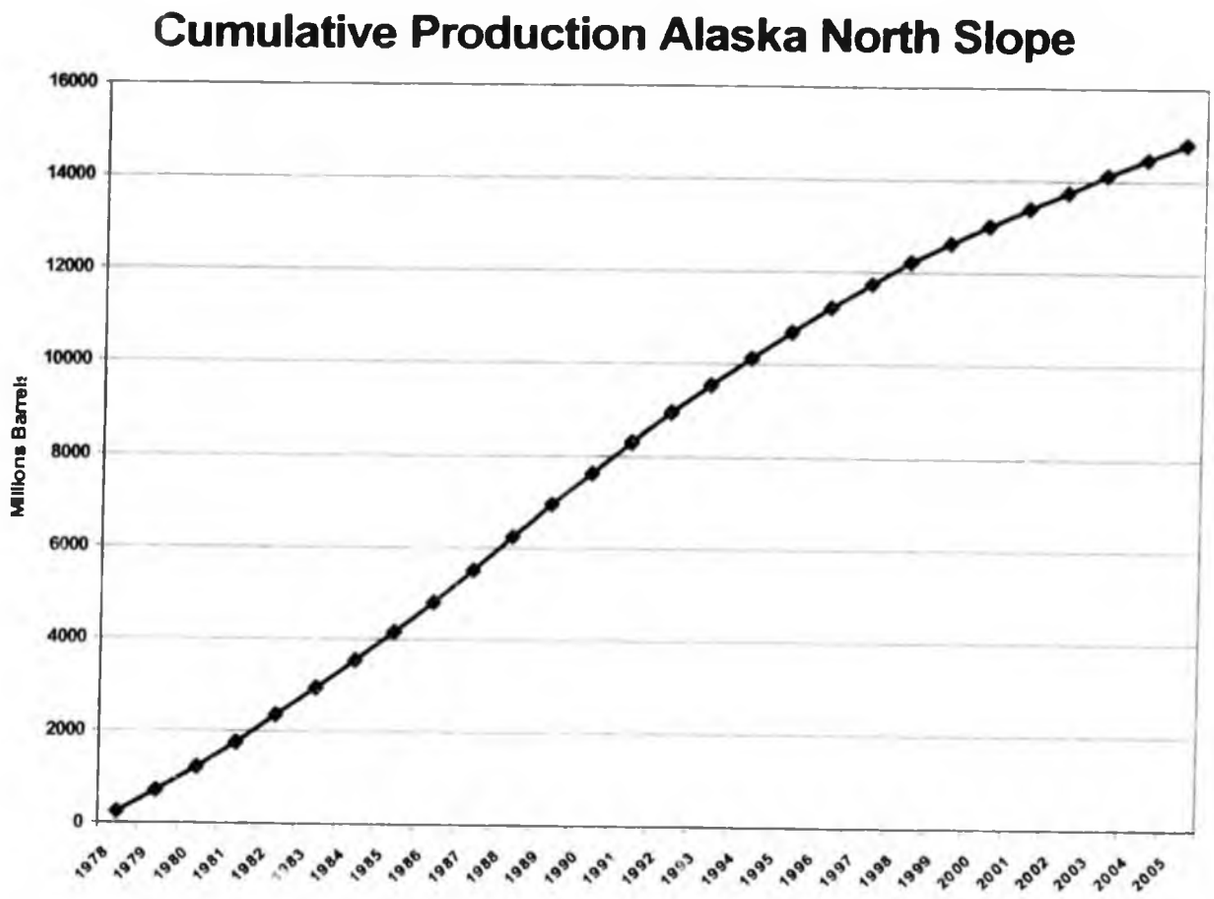
The fiscal package

Relate to the geological basis and the geological learning curve

NPD

The geological learning curve




Cumulative Production Alaska North Slope
Millions Barrels
16000
14000
12000
10000
8000
6000
4000
2000
0
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005

What Have Experts Told Us Repeatedly

- Taxes on net are more economically efficient because they allow investors to recover their investment and rate of return.
- This ensures a competitive area to invest in.
- Governments need to style their fiscal system around their geology.
- Alaska is a high cost environment

- Alaska thus is not a particularly attractive place to explore and develop with its current system (no sharing of upstream costs in a high cost environment)
- Alaska could change its system to both increase its government take and encourage investment.

A Sample of these Experts

- The 1978 study by Walter Levy and Associates which lead to the adoption of separate accounting.
- The primary conclusion in the 1989 Alex Kemp/Gaffney/Motamen study following the ELF change.
- The conclusions in the 1994 Arthur D. Little/John Gault Study

- Woods MacKenzie in its 2004 study of international fiscal systems also described Alaska as a high cost regressive system that did have a good ranking thanks to high oil prices and the discovery of the lucrative Alpine field in 1994.
- 2005, Pedro Van Meurs recommends net profit system to replace ELF to provide State revenue upside and encourage investment

Why has the State Been Reluctant to Change the System?

- Throughout the 1990's significant concern about low prices.
- This led implicitly to a desire to give up some upside potential to protect against catastrophic low prices (see FY 1999)
- Changing oil fiscal regimes is not taken lightly--especially in a declining production environment.

Conclusions

- Alaska can take a positive step to making its tax system more efficient by changing the petroleum production tax
- We will still have our royalty share calculated before upstream cost deduction
- We will still have a piece of world-wide corporate income as long as the companies produce in Alaska

Conclusions

- We will also have a property tax
- At the same time if prices stay anywhere near as high as they have been over the last three years, we will generate more revenue for the state AND
- Provide significant new incentive to spend investment dollars exploring for and developing oil and gas in the State

SB 305 HB 488

The Rest of the PPT Story
House and Senate Resource Committees of the Legislature

Dan E. Dickinson, CPA
Robert E. Mintz, DOL

February 24, 2006

Section 1 & 11

- Clarify AS 43.55.020 (f) to reflect consistent department interpretation, upheld in formal hearing decision in 1996
- Prevailing Value is used to set a taxable value for internally refined barrrels
- May be moot for a taxpayer using “DNR” or formulaic valuation

Sections 2 & 3

- Clarify state income tax code that production tax is not a tax "based on or measured by net income"
- Ensures that the PPT is deductible for state income tax purposes.

Section 4 & 16

- Amends current statute (AS 43.05.230 and 43.55.040) to clarify rules for using one taxpayer's information to determine another taxpayers tax
- Generally limited to Prevailing value calculation, which may be moot for taxpayer electing alternative valuation formula
- Taxpayer recipients of information are brought under confidentiality provisions of AS 43.05.230

Section 5

- *Repeals and Reenacts AS 43.55.011(a)*
- *A tax for all oil and gas … less any oil or gas…exempt from taxation. The tax is equal to 20 of the net value…*

Section 6

- Amends AS 43.55.017 (a) to conform language to the IRC code to which it refers

Section 7

- *Repeals and Reenacts AS 43.56.020 (a)*
- *Ninety percent…is due on the last day of each calendar month: The remaining portion is due on March 31…*

Section 8

Existing statute has a separate tax on oil and on gas, while the PPT has a common rate for oil and gas, so a bunch of "ors" need to be changed to "ands;" that is the only change in this section, and it is not noted when it occurs later.

Section 9 (part one)

- Amends AS 43.55.020 (d), which deals with private royalties.
- Note: State and federal royalty interests are tax free, so a producer pays tax typically on 7/8ths of its production from these leases.
- Private royalty interests are not tax free, so a producer pays tax on 8/8ths of its production from these leases
- However, law authorizes producer to pass severance taxes on to royalty owner.

Section 9 (part two)

- When tax was gross at the point of production, this was straightforward.
- However, net value tax is harder to define and apply to a specific lease: (i) statewide costs, and (ii) since royalty owners don't share in lease costs, it can be argued they ought not share in the resulting tax deduction or credit.
- New formula: (TT / nR bbls) * private royalty bbls
- where
- TT= Total tax paid by producer
- nR bbls = non royalty barrels.

Section 9 (part three)

- Assume taxpayer produced 100 bbls from each of 2 leases, one with a 12.5% state royalty and the other with a 12.5% private royalty share
- Gross value at the point of production was $10 per bbl, with lease expenditures of $875
- Calculation of tax:
- $10 *(100 +87.5 bbls)=$1,875
- $1,875 – $875 lease expenditures = $1,000
- $1,000 * .20 = $200 Tax
- Amount passed on to private royalty owner:
- $200/(87.5+87.5)=$1.14 per barrel
- $1.14* 12.5 barrels = $14.29

Section 10

- Repeals and Reenacts AS 43.55.020 (e)
- Simplifies three tiered system where flared gas was either tax free, taxed, or subject to tax and a penalty.
- Now gas and oil are tax free if used for necessary lease operations. (If AOGCC determines they have been wasted, then they are taxed.)

Section 12

- *New AS 43.55.024: "Tax credits for certain losses and expenditures"*
- *(a) 20 % capital credit*
- *(b) 20 % loss carry forward*
- *(c) credits are non-refundable*
- *(d) certificating credits for transfer*
- *(e) limits on uses of credit certificates*
- *(f) audit adjustments of certificates*
- *(g) authority to write regulations*
- *(h) definitions including "qualified capital expenditure"*

Section 13, 14 and 15

- Conforming changes to 43.55.030(a)
- Gross/net, and/or, simplified reporting
- Repeals the $25 a day filing penalty which predated the 43.05 civil penalties
- Requiring the March 31 true-up filing

Section 17

Amends AS 43.55.080

- Conforms statute to constitution
- Namely: recognizes that money from resolved disputes goes into Budget Reserve Fund and not into the general fund

Section 18 and 19

- Conforming language and update style updates for AS 43.55.135 and .150 (a)

Section 20

- *Adds 43.55.150 (d)*
- *The department may allow a producer…to calculate the gross value at the point of production of oil or gas …upon … a royalty value…accepted by [DNR] or [US DOI] …or another formula prescribed by … [DOR]*

Section 21 (part one)

- *Adds AS 43.55.160 Determination of net value of oil and gas*
- *(a) gross value less lease expenditures and 1/72 of transitional investment expenditures*
- *(b) carry forward of lease expenditures that would cause a loss*
- *(c) definition of qualified lease expenditures*
- *(d) examples of and exclusions from direct costs*
- *(e) adjustments for amounts received by producer.*
- *(f) ability to annualize lease expenditures*

Section 21(part two)

- *(g) Transitional investment expenditures*
- *(h) inflation of $40 floor for TIEs*
- *(i) $73 million allowance*
- *(j) limitation on those qualified to use (i)*
- *(k) allocation between in-state and out-of-state expenditures*
- *(l) authority to write regulations*
- *(m) use of "producer" includes "explorer"*
- *(n) exploration and drilling of stratigraphic test wells*

Sections 22 through 29

- Amends AS 43.55.200 and 300 Concerning Conservation Surcharges
- 100% still due every month
- Now creditable against the PPT
- Oil used on lease does not incur the surcharge
- Conforming language changes (extend to AS 43.55.160)

Section 30 & 32

- New definition of “gas”
- Point of production moved downstream
- Gas processing now included in Upstream

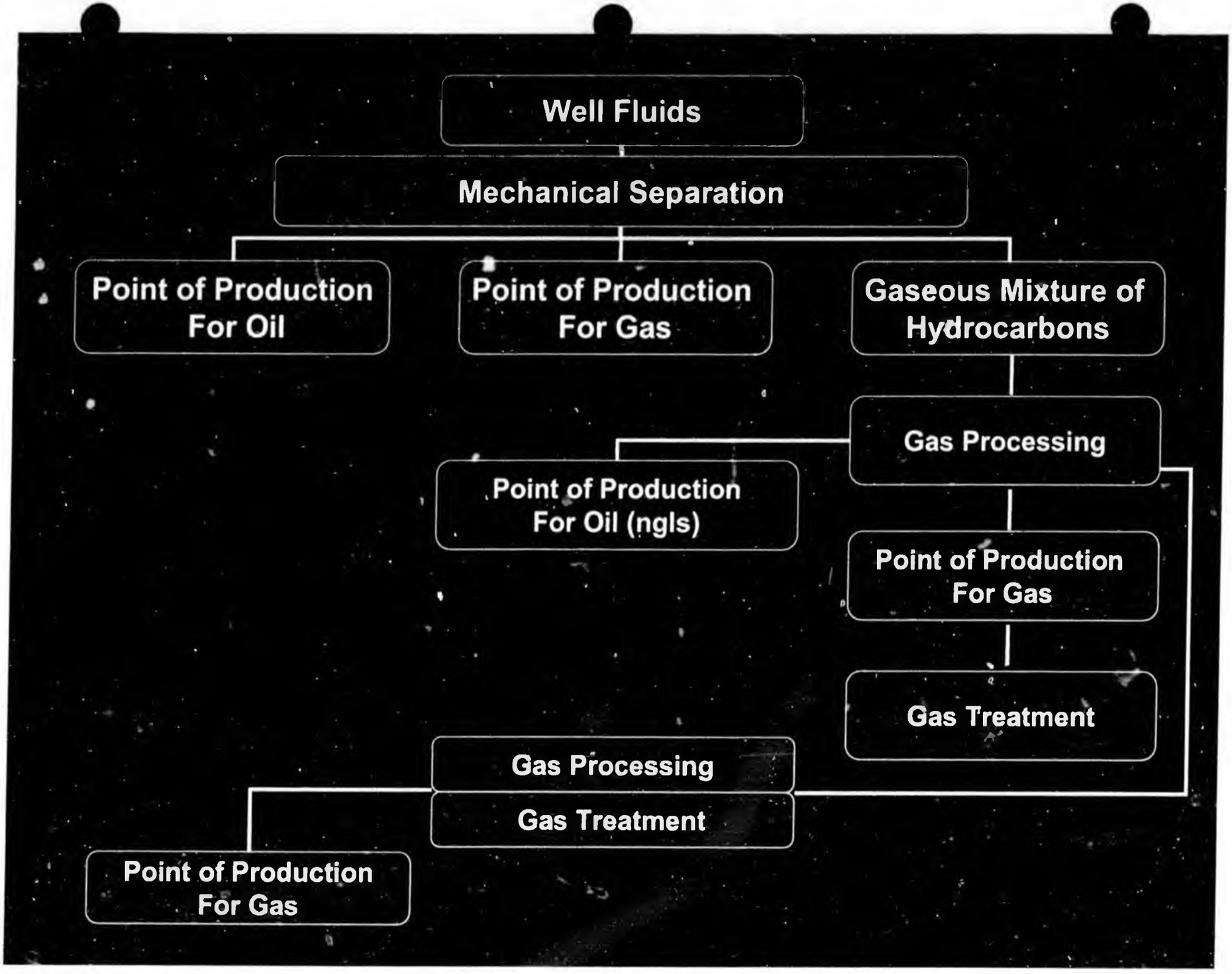
- New definition of “oil”
- Liquid hydrocarbons recovered by mechanical separation or gas processing

Section 31

- Redefine "gross value at the point of production"
- Oil pt.-of-prod. definition essentially unchanged (but if there is gas processing, the pt.-of-prod. for extracted liquids is downstream of processing)
- Gas pt.-of-prod. is downstream of any gas processing
- If there is a combined processing/ treatment plant facility, pt.-of-prod. is further upstream point where processing ends or treatment begins

Section 33

- Define “gas processing” and define “gas treatment”
- Gas processing: physical processes that extract liquid hydrocarbons, upstream of a sales line or gas treatment plant.
- Gas Treatment: removing non-hydrocarbon substances and conditioning gas for sales line


Well Fluids
Mechanical Separation
Point of Production For Oil
Point of Production For Gas
Gaseous Mixture of Hydrocarbons
Gas Processing
Point of Production For Oil (ngls)
Point of Production For Gas
Gas Treatment
Gas Processing
Gas Treatment
Point of Production For Gas

Title 34

- Repeal of superseded provisions, including individual gas and oil taxes, ELF, and some definitions

Section 35 through 40

- Applicability: Sections pertinent to taxing oil and gas under the PPT apply to oil and gas produced starting July 1, 2006
- Applicability: Prevailing value clarification of existing law applies to all oil and gas
- Half-year conventions for 2006
- Note: no 2006 ELF based safe Harbor