

ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 RES 12686



What do legislators need from the Administration?

Questions and Answers

State of Alaska

Department of Revenue
Commissioner's Office



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Sectional Analysis ACES

- Section 1:** Expresses legislative intent regarding application of the statute of limitations.
- Section 2:** Provides for the Department of Natural Resources to share with the Department of Revenue confidential information for use in administering the production tax or forecasting tax revenue, and maintains confidentiality.
- Sections 3-9:** No substantive change. Amends references to altered statutes.
- Section 10:** Provides for an exempt class of oil and gas auditors and supervisors.
- Section 11:** See sections 3-9.
- Section 12:** Makes conforming amendment regarding disclosure of certain taxpayer information.
[See Sec. 61]
- Section 13:** Provides for the Department of Revenue to share production tax information with the Department of Natural Resources, and maintains taxpayer confidentiality.
- Section 14:** Makes conforming amendments regarding statute of limitations for production tax.
[See Sec. 50]
- Section 15:** Repeals tax levy under PPT and establishes new oil and gas tax as calculated in following sections.
- Section 16:** Replaces current North Slope tax floor with new 10% gross tax floor on certain very large fields.
- Section 17:** Establishes net tax rate of 25% plus a progressivity factor of 0.2%.
- Section 18:** Lowers progressivity trigger from \$40 per barrel to \$30 per barrel (net) and provides for annual calculation instead of monthly.
- Sections 19-20:** Conforming amendments.
- Section 21:** Makes conforming change consistent with section 55, to the existing provision preventing Cook Inlet producers from utilizing Cook Inlet tax ceiling to export tax credits to other areas of the state.
- Section 22:** Changes the monthly installment tax calculations to conform to changes made by sections 15-18 and to take account of the existing Cook Inlet tax ceilings.
- Sections 23-25:** Conforming amendments.
- Section 26:** Limits to 50% the amount of a capital credit that may be claimed for a single calendar year; conforms data submission requirements for exploration capital credits to the data submission requirements for AS 43.55.025 exploration credits

[See Sec. 39]; Limits use of capital credits generated in fields subject to the 10% gross tax floor to taxes on oil and gas from those fields.

Section 27: Conforms the tax credit rate for carried-forward annual loss to the new basic net tax rate enacted by section 17, and provides that fields subject to the 10% gross tax floor may not carry forward losses.

Section 28: Conforming amendments for transferable tax credit certificates, increases from 60 to 120 days a time limit for Department of Revenue approval of certificates, and applies the 50% annual limitation in section 26 to certificates.

Sections 29-30: Conforming amendments..

Section 31: Clarifies that tax-exempt entities may not apply for transferable credit certificates.

Sections 32-36: Conforming amendments.

Section 37: Updates provisions for exploration credits, provides that a suspended well does not qualify for credits until completed or abandoned, and excludes costs arising from gross negligence or environmental or health and safety violations.

Section 38: Modifies eligibility provisions for exploration wells credits to better define and enforce the requirement to test a previously unexplored prospect while allowing for several exploration wells within a limited period of time.

Section 39: Clarifies the data submission requirements for exploration credits, reduces the confidentiality period for certain data, applies the 50 percent annual limitation in section 26 to exploration credits, and provides for public disclosure of basic information relating to credits.

Section 40: Clarifies that tax-exempt entities may not transfer exploration tax credits.

Sections 41-42: Conforming and clarifying amendments.

Section 43: Changes the definition of "preexisting well" for purposes of exploration credits to exclude wells drilled within 540 days rather than 150 days.

Section 44: Establishes 5% credit which may be claimed against seismic exploration expenses incurred before July 1, 2003, in exchange for seismic data, the acquisition of which is determined by the Commissioner of DNR to be in the best interest of the state.

Section 45: Creates Oil and Gas Tax Credit Fund for the purposes of purchasing certain tax credits from explorers and producers; Establishes procedure and standards for appropriation into and management of fund. (Replaces existing credit buy-back provisions [See Sec. 63])

Section 46: Requires producers to file annual report with the Department of Revenue annually, even if no tax is due that year, and expands examples of required information.

Section 47: Assesses penalty for late filing of reports required under sections 46 and 48.

Section 48: Requires producers and explorers to report certain expenditures and adjustments annually to the Department of Revenue and allows the Department of Revenue to require monthly reporting of information considered necessary for administering of taxes.

Section 49: Authorizes the Department of Revenue to require reporting of information needed for revenue forecasting purposes and to assess penalties for failure to timely file reports.

- Section 50:** Extends statute of limitations for production tax to six years, subject to extension due to changes in federal income tax, and provides for tax effects of retroactive changes in items that affect a producer's tax.
- Section 51:** Allows the Department of Revenue to establish and require electronic filing and payment.
- Section 52:** Clarifies how production tax values (i.e., taxable values) of oil and gas are calculated, consistent with changes enacted by sections 15-18.
- Section 53:** Makes conforming amendments required under section 52.
- Sections 54-55:** Further implements the changes enacted by section 52, providing for allocation of lease expenditures among leases or properties, and specifies an "anti double-dipping" provision with respect to Cook Inlet tax ceilings.
- Section 56:** Amends the description of deductible lease expenditures, provides that only expenditures allowed by regulation may be deducted, and makes terminology for overhead expenses consistent with ordinary usage.
- Section 57:** Conforms with section 56; existing language is moved to a different subsection.
- Section 58:** Makes non-deductible all expenditures for dismantlement, removal, or restoration; for repair, replacement, or repair associated with interruption of or reduction in oil or gas production or releases of oil, gas, or other substances; and for refineries or topping plants; allows for deduction of added value of refinery or topping plant products used in lease operations.
- Section 59:** Clarifies language of existing provision on cost allocation.
- Section 60:** Conforming change regarding repeal of certain provisions (see section 63).
- Section 61:** Authorizes Department of Revenue to publish production tax information if aggregated among at least three producers or explorers.
- Section 62:** Adds definitions needed for other provisions of Act.
- Section 63:** Repeals transitional investment expenditure (TIE) tax credit; repeals provisions for using unit operating agreements to determine deductible lease expenditures; Repeals existing provisions for state refund of certain tax credit certificates and makes conforming repeals.
- Section 64:** Applicability provisions: most substantive tax changes apply starting January 1, 2008; several apply back to April 1, 2006.
- Sections 65-68:** Transition provisions.
- Section 69:** Makes certain provisions of the act retroactive consistent with section 64; Makes section 40 retroactive to beginning of exploration tax credit program (July 1, 2003).
- Section 70:** Provides for January 1, 2008, effective date for most substantive changes to production tax.
- Section 71:** Establishes immediate effective date for Act other than as provided by section 70.

SB

2001

(FILE 2)

SRES

AMEND'S

12
Green
Stedman
Stums
McBlair
Huggins

7
wil
Wagoner

Failed

25-GS0014E.1
Bullock
10/26/07

AMENDMENT #1

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSSB 2001(), Draft Version "E"

1 Page 10, following line 13:

2 Insert new bill sections to read:

3 ** Sec. 13. AS 43.55.011(e) is amended to read:

4 (e) There is levied on the producer of oil or gas a tax for all oil and gas
5 produced each month from each lease or property in the state, less any oil and gas the
6 ownership or right to which is exempt from taxation or constitutes a landowner's
7 royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax
8 is equal to the greater of 25 [22.5] percent of the production tax value of the taxable
9 oil and gas as calculated under AS 43.55.160, or the minimum tax determined under
10 (f) of this section.

11 * Sec. 14. AS 43.55.020(a) is amended to read:

12 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),
13 (g), or (i), and notwithstanding that a producer may be liable for the tax under
14 AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as
15 follows:

16 (1) an installment payment of the estimated tax levied by
17 AS 43.55.011(e) or (f), net of any tax credits applied as allowed by law, is due for
18 each month of the calendar year on the last day of the following month; the amount of
19 the installment payment is the sum of the amounts calculated under (2) and (3) of this
20 subsection, but not less than zero;

21 (2) the first of the two amounts used to calculate the installment
22 payment for a month under (1) of this subsection is equal to the remainder obtained by
23 subtracting

1 (A) 1/12 of the tax credits that are allowed by law to be applied
2 against the tax levied by AS 43.55.011(e) for the calendar year; from

3 (B) the total of the monthly production values calculated in the
4 manner provided in AS 43.55.160(a)(2) of all oil and gas taxable under
5 AS 43.55.011(e) and produced by the producer from leases or properties in the
6 state during the month, multiplied by 25 [22.5] percent;

7 (3) the second of the two amounts used to calculate the installment
8 payment for a month under (1) of this subsection is the amount calculated for the
9 month under AS 43.55.011(g);

10 (4) an installment payment of the estimated tax levied by
11 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
12 on the last day of the following month; the amount of the installment payment is the
13 sum of

14 (A) the applicable percentage rate for oil provided under
15 AS 43.55.011(i), multiplied by the gross value at the point of production of the
16 oil taxable under AS 43.55.011(i) and produced from the lease or property
17 during the month; plus

18 (B) the applicable percentage rate for gas provided under
19 AS 43.55.011(i), multiplied times the gross value at the point of production of
20 the gas taxable under AS 43.55.011(i) and produced from the lease or property
21 during the month;

22 (5) any amount of tax levied by AS 43.55.011(e) - (g) and (i), net of
23 any credits applied as allowed by law, that exceeds the total of the amounts due as
24 installment payments of estimated tax is due on March 31 of the year following the
25 calendar year of production."

26
27 **Renumber the following bill sections accordingly.**

28
29 **Page 23, line 3:**

30 **Delete "Sections 21, 22, and 25"**

31 **Insert "Sections 23, 24, and 27"**

1

2 Page 23, line 5:

3 Delete "Sections 19, 20, and 26"

4 Insert "Sections 13, 14, 21, 22, and 28"

5

6 Page 23, line 7:

7 Delete "Sections 14 and 16"

8 Insert "Sections 16 and 18"

9

10 Page 23, line 8:

11 Delete "sec. 14"

12 Insert "sec. 16"

13

14 Page 23, line 9:

15 Delete "sec. 16"

16 Insert "sec. 18"

17

18 Page 24, line 6:

19 Delete "secs. 21, 22, and 25"

20 Insert "secs. 23, 24, and 27"

21

22 Page 24, line 8:

23 Delete "secs. 13, 14, 16, 19, 20, and 26"

24 Insert "secs. 13 - 16, 18, 21, 22, and 28"

25

26 Page 24, lines 25 - 26:

27 Delete "Sections 21, 22, 25, and 29"

28 Insert "Sections 23, 24, 27, and 31"

29

30 Page 24, line 27:

31 Delete "Sections 13, 14, 16, 19, 20, and 26"

1 Insert "Sections 13 - 16, 18, 21, 22, and 28"

2

3 Page 24, line 28:

4 Delete "sec. 32"

5 Insert "sec. 34"

Failed

N 8 #2

25-GS0014E
Bullock
10/26/07

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSSB 2001(), Draft Version "E"

1 Page 10, following line 13:

2 Insert new bill sections to read:

3 **** Sec. 13.** AS 43.55.011(e) is amended to read:

4 (e) There is levied on the producer of oil or gas a tax for all oil and gas
5 produced each month from each lease or property in the state, less any oil and gas the
6 ownership or right to which is exempt from taxation or constitutes a landowner's
7 royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax
8 is equal to the greater of ~~22.5~~ 22.5] percent of the production tax value of the taxable
9 oil and gas as calculated under AS 43.55.160, or the minimum tax determined under
10 (f) of this section.

11 *** Sec. 14.** AS 43.55.020(a) is amended to read:

12 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),
13 (g), or (i), and notwithstanding that a producer may be liable for the tax under
14 AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as
15 follows:

16 (1) an installment payment of the estimated tax levied by
17 AS 43.55.011(e) or (f), net of any tax credits applied as allowed by law, is due for
18 each month of the calendar year on the last day of the following month; the amount of
19 the installment payment is the sum of the amounts calculated under (2) and (3) of this
20 subsection, but not less than zero;

21 (2) the first of the two amounts used to calculate the installment
22 payment for a month under (1) of this subsection is equal to the remainder obtained by
23 subtracting

1 (A) 1/12 of the tax credits that are allowed by law to be applied
2 against the tax levied by AS 43.55.011(e) for the calendar year; from

3 (B) the total of the monthly production values calculated in the
4 manner provided in AS 43.55.160(a)(2) of all oil and gas taxable under
5 AS 43.55.011(e) and produced by the producer from leases or properties in the
6 state during the month, multiplied by ~~22.8~~ [22.5] percent;

7 (3) the second of the two amounts used to calculate the installment
8 payment for a month under (1) of this subsection is the amount calculated for the
9 month under AS 43.55.011(g);

10 (4) an installment payment of the estimated tax levied by
11 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
12 on the last day of the following month; the amount of the installment payment is the
13 sum of

14 (A) the applicable percentage rate for oil provided under
15 AS 43.55.011(i), multiplied by the gross value at the point of production of the
16 oil taxable under AS 43.55.011(i) and produced from the lease or property
17 during the month; plus

18 (B) the applicable percentage rate for gas provided under
19 AS 43.55.011(i), multiplied times the gross value at the point of production of
20 the gas taxable under AS 43.55.011(i) and produced from the lease or property
21 during the month;

22 (5) any amount of tax levied by AS 43.55.011(e) - (g) and (i), net of
23 any credits applied as allowed by law, that exceeds the total of the amounts due as
24 installment payments of estimated tax is due on March 31 of the year following the
25 calendar year of production."
26

27 Renumber the following bill sections accordingly.

28
29 Page 23, line 3:

30 Delete "Sections 21, 22, and 25"

31 Insert "Sections 23, 24, and 27"

1

2 Page 23, line 5:

3 Delete "Sections 19, 20, and 26"

4 Insert "Sections 13, 14, 21, 22, and 28"

5

6 Page 23, line 7:

7 Delete "Sections 14 and 16"

8 Insert "Sections 16 and 18"

9

10 Page 23, line 8:

11 Delete "sec. 14"

12 Insert "sec. 16"

13

14 Page 23, line 9:

15 Delete "sec. 16"

16 Insert "sec. 18"

17

18 Page 24, line 6:

19 Delete "secs. 21, 22, and 25"

20 Insert "secs. 23, 24, and 27"

21

22 Page 24, line 8:

23 Delete "secs. 13, 14, 16, 19, 20, and 26"

24 Insert "secs. 13 - 16, 18, 21, 22, and 28"

25

26 Page 24, lines 25 - 26:

27 Delete "Sections 21, 22, 25, and 29"

28 Insert "Sections 23, 24, 27, and 31"

29

30 Page 24, line 27:

31 Delete "Sections 13, 14, 16, 19, 20, and 26"

1 Insert "Sections 13 - 16, 18, 21, 22, and 28"

2

3 Page 24, line 28:

4 Delete "sec. 32"

5 Insert "sec. 34"

3

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Green
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Bullock
10/26/07

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSSB 2001(), Draft Version "E"

1 Page 10, following line 13:

2 Insert a new bill section to read:

3 **** Sec. 13.** AS 43.55.011(h) is amended to read:

4 (h) For purposes of (g) of this section, the price index for a month is calculated
5 by subtracting 30 [40] from the number that is equal to the quotient of the total
6 monthly production tax value of the taxable oil and gas produced by the producer
7 during that month, as calculated under AS 43.55.160, divided by the total amount of
8 the taxable oil and gas produced by the producer during that month, in BTU equivalent
9 barrels. However, a price index may not be less than zero."

10

11 Renumber the following bill sections accordingly.

12

13 Page 23, line 3:

14 Delete "Sections 21, 22, and 25"

15 Insert "Sections 22, 23, and 26"

16

17 Page 23, line 5:

18 Delete "Sections 19, 20, and 26"

19 Insert "Sections 13, 20, 21, and 27"

20

21 Page 23, line 7:

22 Delete "Sections 14 and 16"

23 Insert "Sections 15 and 17"

1

2 Page 23, line 8:

3 Delete "sec. 14"

4 Insert "sec. 15"

5

6 Page 23, line 9:

7 Delete "sec. 16"

8 Insert "sec. 17"

9

10 Page 24, line 6:

11 Delete "secs. 21, 22, and 25"

12 Insert "secs. 22, 23, and 26"

13

14 Page 24, line 8:

15 Delete "secs. 13, 14, 16, 19, 20, and 26"

16 Insert "secs. 13 - 15, 17, 20, 21, and 27"

17

18 Page 24, lines 25 - 26:

19 Delete "Sections 21, 22, 25, and 29"

20 Insert "Sections 22, 23, 26, and 30"

21

22 Page 24, line 27:

23 Delete "Sections 13, 14, 16, 19, 20, and 26"

24 Insert "Sections 13 - 15, 17, 20, 21, and 27"

25

26 Page 24, line 28:

27 Delete "sec. 32"

28 Insert "sec. 33"

**SENATE TESTIMONY
on SB 2001
October 23, 2007**

Thank you, Chairman Huggins. My name is Tom Walsh. I am a managing partner and co-founder of Petrotechnical Resources of Alaska (PRA), an Alaskan oil and gas consulting company employing about seventy highly experienced and respected oil and gas professionals. Our clients include major oil companies, independent oil and gas companies, Alaskan native corporations, and state and federal agencies, and we provide a wide array of services to our clients.

I have come to speak to you tonight because I am worried about the future of PRA's seventy employees and their families, and about the future of the oil and gas business in Alaska. The Governor's proposed tax increase is a threat to the future of oil and gas development in Alaska. One of the services we offer is commercial analysis of potential oil and gas exploration and development opportunities. Across the board, our clients are finding that the tax structure is currently a key factor in marginalizing their prospect economics, and they expect the situation to worsen with the Governor's proposed legislation. These concerns are being voiced by the entire spectrum of E&P companies, and their concerns are well-founded.

These companies are doing their homework, looking at detailed project plans and economics for significant investment in oil and gas projects, and what they are finding is that their projects don't work under the ever-increasing burden of rapidly escalating development costs and tax increases. We have recently lost two significant clients who have left the State, discouraged by the business climate and disappointed by project results. This trend will continue, and will accelerate if we continue to be driven by greed and paranoia, rather than by rational management of our resources. Whether it is "tax and spend", or "tax and save", it is still taxation with no clear strategy or purpose, and it is driving our declining industry to an accelerated economic limit. I implore you to take the time to develop a long range fiscal plan for the state to determine what services state government should provide to Alaskans, and how much these services will cost, before changing the tax structure once again with no clear vision or purpose.

PRA produced a report several years ago regarding the impact of a major gas sale on the oil production from the North Slope, and the study clearly pointed out that the declining liquid hydrocarbon production would likely become sub-

economic before a gas pipeline could be built. This is a disaster scenario for the State of Alaska, and for the oil and gas industry in Alaska. Obviously, if the revenue from oil production is curtailed prior to revenue from gas sales commences, we are all going to suffer greatly. This is where we are headed, and we should be trying to compete for more interest in our resources, rather than for a greater share of the shrinking pie.

Thank you for your time

**SENATE TESTIMONY
on SB 2001
October 23, 2007**

Thank you, Chairman Huggins. My name is Joe Mathis. My wife and I are the owner and operators of Montana Creek Campground located at mile 95.5 of Parks Highway. We own a 14 acre site with store and 66 sites. We have 7 employees all are Alaskans and employed from the local area providing jobs in an area of high unemployment. We also manage and operate for the state parks one of their campgrounds located nearby.

For me as a small business owner, I need to have certainty in my tax obligations for payroll, property, and sales taxes.

As a small business owner, we have struggled with the uncertainties of risk and disasters. Last year, we had floods that have done serious damage to our business but we were able to survive. We have faced high cost of fuel and seen huge declines in border crossing of RVs and travelers to Alaska coming up the Alcan Highway. These risks that we take in our small business are nothing compared to the risks that you are contemplating. Risk management should be part of your due diligence in this process. Can Alaska really afford to take the risk of discouraging future investment when 50 percent of our production ten years from now will come from 'new oil' generated by future investment?

If you are risking the long term health of our state's future without good foundation of information then you are making serious error in judgment. We need more factual information on how PPT is working. Making decisions based on emotion and rhetoric is poor decision making. The facts are:

- With the oil pipeline two-thirds empty and production continuing to decline, Alaska should be focused on doing whatever is necessary to increase oil production.
- Investments, which for Prudhoe Bay alone amount to about \$1 billion yearly, are aimed at keeping the decline rate at an average of about 6

percent yearly. If the investment rate is slowed the decline rates could increase to about 15 percent yearly before too long.

As others have said, we do not know what the right number is for the tax rate. However, we do know that increased taxation will not stimulate the industry or the economy. Increased taxation on the industry will not improve the business in our campground.

We need a change the dynamics of this process from one of negatives to one of positives. In past year we have had more than enough negatives that has consumed the public process as well as diverted our energies from those long term issues that will keep our economy from disaster in next 10 years.

I would prefer to be giving testimony on a long term fiscal plan or the POMV should be structured.

What has happen to long term planning? In this time of high oil prices we have a huge opportunity to encourage small independent oil companies to flock to our state. I am sure they now have a "wait and see attitude". If you start changing the rules again it will be a long, long wait.

As I stated before that my small business needs certainty in taxation so does the oil industry.

I have seen my business take two major floods. We were able to survive however I do not think that this state can take this third flood of taxes and survive. You need to give the PPT infrastructure put in place last year a chance to work.

23 October 2007

To Members of the Senate Resources Committee:-

My name is Maynard V. Tapp, I am an Alaskan resident since 1990. I founded my company Hawk Construction Consultants, Inc. now Hawk Consultants, LLC in 1985 as an Alaskan corporation.

I strongly believe any new approach to raise taxes should be viewed as a "RESOURCE DEVELOPMENT" effort. The state will raise more tax revenues if we raise production.

If you ask any of the tax experts that will testify before your committee, none will say that increasing the tax will increase exploration and production.

The most reliable source of long-term revenue is to increase production. As I understand the state gets 75% of the 12.5% royalty (9.375%). The "fair share" to the Alaskans is the remaining (3.125%) paid into the Permanent Fund. I believe you can build a long term future for my company's employees based on the increase in production.

Hawk employs over 60 Alaskans. Much of their work is related to the reconfiguration of the Trans Alaska Pipeline, and the refurbishment and maintenance of the existing pipelines and facilities in Greater Prudhoe Bay.

Our company, its employees and the State of Alaska will greatly benefit from new production. We hope to be involved in all phases of the continuing projects.

From my point of view an increase of 2.5% in tax rates increases the size of government by \$25.0Million. One Senator made the point to me that "there is no guarantee that if the rate was reduced by 1% that the producers would invest that 1% here in Alaska". While this may or may not be true, one thing is certain that \$25.0Million will not be invested by the companies if it is taken away by increasing the tax.

What is the State of Alaska doing to increase oil production which then translates into more tax revenue?

Also, if that \$25.0Million is invested in new production, that amount is the equivalent of 3 new production wells. Those new wells at a nominal rate of 2,500bbls per day could gain the state revenue an additional \$21.0Million per year. (This would include the current PPT of 22.5% of Net plus 9.375% Royalty at \$80/bbl).

My math may not be totally correct but the case remains that the benefits from investment made by the "producers" in the state of Alaska for oil and gas field development far exceeds the benefits to Alaskans from raising an individual tax rate.

If the previous administration made a mistake, I believe your committee could rectify that mistake by dropping the tax rate to "10%/20%". That would make us more competitive at 51% which is closer to the Gulf of Mexico's 45% tax rate. I want the state of Alaska to be at the TOP of the "producers" list when it comes to selecting investment opportunities.

Please, I humbly request you reframe this bill as a Resource Development Bill and not a tax generation bill.

When all is said and done, all the experts will go away. They don't live here, their businesses does not depend on the Alaskan Oil and Gas industry. We live here and the wealth and health of the state of Alaska rest's in your hands.

I want us to recognize that Alaska is "big oil" and we get our revenues with our partners, the producers. Our fair share is calculated in the jobs created by employing Alaskans in the development of our common resource.

One other thing, thanks to all you who were here last year when the PPT was agreed. Your months of hard work resulted in the 22.5/20 agreement. Please don't try to fix that which is not broken.

Thank-you,
Maynard Tapp
200 West 34th Ave. #809
Anchorage, Alaska 99503

TOM LAKOSH P.O. BOX 100648 ANCHORAGE. AK 99510 Ph/Fax 563-7380
October 23, 2007

TESTIMONY ON SB2001 ACES

My alternative to ACES is called TRIPS, Taxes, Royalties and Infrastructure for the Petroleum Sector. There are some, albeit few, sections of ACES that would be useful but basic principles at work that require a wholesale reworking of the Bill are:

- Virtually all oil bearing structures on state lands have been explored so there's little reason to provide incentives to the industry to explore where they have already exploited everything they could. BP made this clear in their statement that 70% of their future investment would be in the greater Prudhoe area where they are obligated to wisely extract the hydrocarbons pursuant to the applicable leases and AOGCC guidelines. If producers don't provide full and efficient extraction, their leases are subject to revocation and "there's always other fish in the sea". We should not give existing producers kickbacks where they're obligated to do the job properly and within technological feasibility and economic limits under existing contracts and law. With the price of oil above \$80 there should be little left to recover in our legacy fields and we must demand heavy oil extraction now while we still have light oil to mix into TAPS shipments and the price is still high enough to warrant extraction without subsidy.
- If absolutely necessary, we can subsidize production of hydrocarbons that are difficult to develop by adjusting royalty rates instead of taxes. This would allow for lease by lease evaluation that is clearly more sensible than the broad subsidies to all operations. The royalty rates apply to gross production so the 19% range I've suggested has more than enough value available to provide incentive for development of heavy oils and remote gas should existing lessees submit, or new lessees sign on, to the new adjusted royalty rates that express the relative accessibility and marketability of specific lease types at specific distances from established infrastructure.
- The testimony clearly enforced the principle that "if you build it they will come". Angola got a \$1 billion for its leases and rabid global competition because the oil co's knew there was oil to develop. If there's oil/gas to be found, the state should find it and define the field before it puts out leases so it can garner the highest bids among many competitors. The state would also be better able to predict development, classify fields to establish proper royalty rates and determine appropriate deadlines for relinquishment. The more we improve information on prospective fields and insure access, the less we need speculators that demand high rates of return. When we eliminate the discovery and access impediments we essentially only need contractors to build the production facilities and pump the oil as regulated by ADNOR and AOGCC.
- If we have to subsidize the industry we should do it in a way that benefits other businesses and public interests. Taking money from royalties to improve transportation to the fields/pipelines floats everybody's boat. The heavy lift helicopters and low impact transport would also reduce tundra impacts, allow a longer exploration season and year round deliveries to isolated drilling/production pads. They would also be extremely effective tools for getting spill response equipment to remote sites and help repair global warming damage in remote areas that is directly caused by the oil we peddle.
- Our economic future through 40 - 60 years depends on our ability to market gas and the gas will not be marketable until the relative BTU value of gas approaches the price of oil BTUs, (PVM

said it was at 40% of oil because Northern Tier coal companies successfully marketed their coal to power plants). The relative BTU value of gas can only be increased by de-valuing coal as a power plant fuel with a federal carbon tax. The carbon tax would also likely save us as much in damages to infrastructure from global warming as we would make on oil exports, billions and billions in prevented damage that we wouldn't have to spend our revenue on to mitigate.

- Providing tax incentives to explore on federal land will mostly provide returns for the federal gov't, leaving us with enormous development bills and not much revenue to show for it.
- The least impact to exploration on federal land/OCS can be accomplished by increasing the corporate income tax on hazardous operations because an increase in state corporate tax is used as a direct offset to federal income taxes so there's no net increase in taxes on the oil co's. This tax will affect new fields and existing fields that we've been getting a raw deal on, (i.e. the 90/10 vs 50/50 split, justice w/o a court).
- If we allow the oil co's to write off their Alaskan expenses it would tend to increase the price of our hydrocarbons and make them less competitive on the open market. Taxes do have an effect on corporate behavior and only taxing the gross at the point of export or in-state delivery will serve to keep a market check on expenditures in-state and therefore keep our hydrocarbons as cheap as possible in the market. We would surely have a strong case for upholding the gross tax where it measured value IN ALASKA. Both PPT and ACES are inviting fly by night wildcatters that will sell their credits and leave. The majors will be just as susceptible to the notion that spending controls are less of a priority given that they can sell the credits for marginal projects if they fail. Why not just take the money we'd spend on credits and provide the needed oversight to exploration contractors we hire on a competitive bid?
- The whole TRIPS scheme is designed to enhance certainty of development, (pre-defined leases and improved access), while alleviating risk due to low prices but eliminating any windfalls to industry, (the progressive production tax spanning a \$190 price range). Although I haven't done a precise analysis of the total government take, I strongly suspect that these rates would keep us below the Norwegian standard of 18% up to about \$70-\$90/bbl and I would suggest lowering the base production tax and/or raising the new class of corporate income tax until this parity was reached. I'm sure that the Norwegians never anticipated the blistering oil market we have today and so did not include progressivity. The gas problem can only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.

TRIPS beats ACES every day of the week and I would appreciate your feedback. Tom Lakosh phone 563 7380 in Anchorage

**Proposed Principles and Rates for Design of an Oil Tax Bill:
Production and Corporate Income Taxes, Royalty Rates and Lease Provisions with
State Commitments to Exploration, Infrastructure and Carbon Conservation**

Production Taxes: The gross tax on hydrocarbons produced in Alaska shall be set at the value of the hydrocarbons at the Alaskan terminus of export or point of sale within Alaska, (e.g. Valdez Marine Terminal for TAPS oil, Drift River or KPL Dock for Cook Inlet oil and gas, at the Canadian border in the case of gas transport by pipeline, at any in-state refinery or point of sale), in order to provide a market check on production costs and pipeline tariffs in furtherance of the relative competitiveness of Alaskan resources. This tax system would also encourage export of value added petrochemical and refined products. The tax rates for crude oil are as follows:

1. There shall be a minimum PT of 15% of gross value for oil prices between \$0 and \$20/bbl;
2. At \$21/bbl the PT increases to 15.5% and increases by a rate of 0.5% for each \$1/bbl increase in price to \$30 ;
3. At a price of \$31/bbl the PT shall be raised to 20.2% of gross value and shall increase at a rate of 0.2% for each \$1 in value per barrel until a price of \$110/bbl at which point the tax will have accumulated increases to provide a rate of 36% of value;
4. At a price of \$111/bbl the PT shall be assessed at 36.1% of value and shall increase at a rate of 0.2% for each \$1 in value per barrel until a price of \$210/bbl at which point the production tax will have reached its maximum rate of 46% of value.

Corporate Income Tax: A distinct class of Alaskan corporations shall include those operations that handle substantial quantities of hydrocarbons and other hazardous materials, as classified by the ADEC, and be subject to a corporate income tax of 14%. The safety and security issues presented by these operations require significant oversight, security and public safety assets that warrant an enhanced level of corporate classification in such regard.

Royalty Rates: Lease bidders will proffer a signing bonus payment and a bid above an adjustable royalty floor/minimum established between 1% for the least marketable hydrocarbon, (e.g. inaccessible, undefined gas fields), to a maximum of 20% for the highest wellhead value hydrocarbon, (e.g. well defined, light and accessible liquids such as those at Point Thompson). Each lessee shall consent to an adjustment of its royalty rate every 5 years after production startup that reflects any increase or decrease in the market valuation of the BTU content of the hydrocarbon(s) under development and/or by a substantial improvement in accessibility of leased properties as generated by state efforts. Lessees shall provide all necessary information needed to assess the relative BTU values of Alaskan hydrocarbons.

Hydrocarbon Exploration, Production and Transport Lease Provisions: All new leases shall have relinquishment provisions that reflect the realistic development timelines given the difficulty perfecting necessary permitting and development tasks. All lessees consent to regulation and assistance by the ADEC to effectively utilize and otherwise abate or sequester greenhouse gases released by exploration, production, transport, power generation and refinery operations associated with its leases. Lessees shall proportionately supply all necessary fuel for state aircraft and vehicles used to assist and administer lessees' operations.

Exploration Commitment: In order to exact the highest signing payments and royalty bids and to provide for a most efficient and predictable development of Alaska's hydrocarbon resources, the ADNR will commit to obtaining the services of exploration experts, whether contracted or employed, with the most advanced geologic mapping and analysis capability to define hydrocarbon resources to their greatest practicable extent prior to leasing of hydrocarbon fields to enhance "perspectivity".

Infrastructure Commitment: The ADOT in an MOU with DNR shall employ all due diligence in coordinating interested state and federal agencies to develop, subsidize or otherwise facilitate transportation of exploration and production materials to proposed leasing areas and for access of gas by Alaskan communities. A dedicated 4% portion of total royalty payments shall be set aside for this Safe Transport Development fund. The ADOT shall minimally provide heavy lift helicopters and other low impact vehicles to advance preservation of sensitive areas, enhance spill response, protect wildlife and maintain security in leasing areas as training for their primary public safety and security duties that shall include repair and prevention of Global Warming impacts across Alaska. The ADOT shall also advance

planning and construction of ports, port services, rail systems and pipelines necessary to promote efficient materials transport along established Alaskan transport corridors and extensions along the AGIA certified ROW(s).

Carbon Conservation Commitment: The state shall employ all due diligence with appropriate funding of legislative and regulatory efforts to establish in state and federal law establishing a transferable carbon tax and to additionally advance CO₂ sequestration and secondary utilization, methane capture and abatement, and Arctic-appropriate carbon-neutral energy generation technologies using a dedicated 4% portion of total royalty payments. The ADEC shall develop regulations establishing a carbon tax, appropriate emissions standards and/or other carbon limiting constraints upon hydrocarbon lessees. The ADEC shall conduct the necessary analyses to establish abatement technology standards and pursue advancement of the best available technologies with a bi-annual \$3 million grant funding that may accumulate beyond the \$3 million level to ensure appropriate funding of appreciably superior and effective technologies.

Sincerely Tom Latham

SB

2001

(FILE 3)

SIDE-BY-SIDE

COMPARISONS

W/ HB 2001

Summary Comparison between Various Approaches to Production Tax

85% Prudhoe Kuparuk take

<u>Issue</u>	<u>Current Law</u>	<u>SB/HB 2001 (ACES) as introduced</u>	<u>CS HB 2001(FIN)am</u>	<u>Senate Finance CS</u>
Base Rate	AS 43.55.011 (e) & (g)	Bill Sections 15 & 17	Bill Sections 15	Bill Sections 15 & 17
Base Tax Rate		25%	25%	
Progressivity	AS 43.55.011(g) & (h)	Bill Sections 17,18	Bill Sections 17,18	Bill Sections 17
\$/bbl Starting point	\$40 net	\$30 net	\$30 net	\$30;50;70;90 net
Tax/\$ of Price Index	0.25%	0.20%	0.40%	.6; .5; .35; .1%
Average Value over		year		
Applied to		net		
Cap		25% of net		50% of net
Gross Value Floor	AS 43.55.011(i)	Bill Section 15, 16, 31-36, & 41-42	Bill Section 16	Bill Section 16
Base		Prudhoe; Kuparuk		
Rate		10%		
Apply .024 credits against floor?		No		
Apply .025 credits against floor?		No		No
Investment Credits	AS 43.55.023	Bill Section 26-28, 38-44 & 63	Bill Section 26-28	Bill Section 25-29
Investment Credits		1/2 in each of two years		1/2 in each of two years
Loss Carry Forward Credits	20%	25%	25%	22.5%
Transitional Investment Credits	Yes	No	All taxpayers allowed application of TIE matching spending in April 1 2006 - Dec 31, 2007, even if application deferred	TIE credits end for producers Dec 31, 2008, current non producers can use through 2013

BT -

*Prudhoe Kuparuk - 85% take
 5% decrease in...
 ...*

Summary Comparison between Various Approaches to Production Tax

<u>Issue</u>	<u>Current Law</u>	<u>SB/HB 2001 (ACES) as introduced</u>	<u>CS HB 2001(FIN)am</u>	<u>Senate Finance CS</u>
Exploration Credits	AS 43.55.025	Bill Section 38 - 44	Bill Section 29-35	Bill Section 31-39
Rates	20; 40%	20; 40%	30; 40%	20; 40%
General & Admin Costs	disallowed	bad acts I	costs arising from Bad Acts III - criminal	bad acts I
DNR approval required?	In CI, to avoid 3 mile limit	Always	Always, w/ language changes	Always.
Confidentiality of well data	10 years	2 years	2 years, or if DNR declines to, or private landowner declines	2 years, or if DNR declines to.
Seismic on non state land	silent	included	explicit exclusion without permission	silent <i>on part</i>
Pre-existing well	One drilling season	Two consecutive drilling seasons	Two consecutive drilling seasons	Two consecutive drilling seasons
"DNR TIE" Credits for pre 2003 seismic work?	no	5%	5%	5%
Exceptions to Tax Credits				
None	none	none	unpaid judgment	none
Tax Exempt entities take credits?		no		no
State Purchase of Credits				
		AS 43.55.023(f) & (g)		
Paid from:		oil and gas credit fund, funded from production taxes		
Annual dollar cap per taxpayer?	\$25 million ^{2.}	none	\$ 25 million (however ARM unlimited)	none
ARM Board Purchases?	n/a	n/a	yes	n/a

Graham...

if...

DNR can choose to...

returns...

Summary Comparison between Various Approaches to Production Tax

CP Producers

Issue	Current Law AS 43.55.165	SB/HB 2001 (ACES) as introduced	CS HB 2001(FIN)am Bill Section 46-51	Senate Finance CS Bill Section 46-51
Allowable Lease Expenditures				
Allowed by regulation	no language	must be	must be	must be <i>authorized by DUE</i>
Use producer audits of operators?	Explicit	Explicit repealed; Implicit	Explicit repealed; Implicit	Explicit for WIOs <i>(working int owners)</i>
Disallow bad acts II?	yes	add violation of law, lease or license	costs arising from Bad Acts III - criminal	Disallow bad acts II?
DR&R Allowed?	Allocated	No	No	No
"Corrosion" Issue		\$0.30 + unscheduled events disallowed	\$ 30 a bbl disallowed+ intent language	\$ 30 a bbl disallowed+ unscheduled interruption
Field Topping Plants allowed?	Yes	No	No	No
Off Lease allowed			must be in state	
Public Outreach costs	not explicit	not explicit	no; listed	no; listed
Opex	actual	actual	Yet to be written regulations will define 2006; then 3% annual increase; (regardless of production or ownership?)	actual
Information	AS 43.05.230 and royalty statutes		Bill Sections 2-9,11,13,36-39, 52	Bill Sections 2-9,11,13,36-39, 52
forward looking information required	none	information "necessary to forecast ... revenues under AS 43.55". Penalty up to \$1000 a day.	information "necessary to forecast ... revenues under AS 43.55". Penalty up to \$1000 a day if demanded information not forthcoming.	information "necessary to forecast ... revenues under AS 43.55". Penalty up to \$1000 a day if demanded information not forthcoming.
Disclosure of tax information		if aggregated w/2 other producers, no requirement to prevent identification	if aggregated w/2 other producers. [still under umbrella required to prevent identification]	if aggregated w/2 other producers, no requirement to prevent identification
DNR sharing royalty information w/ DOR	limited ability	expanded ability	expanded ability	expanded ability
DOR sharing tax information with DNR	limited ability	expanded ability	expanded ability	expanded ability
Statute of Limitations	AS 43.05.260	Bill Sections 1,14,50 new AS 43.55.075	Bill Sections 1,14,41 new AS 43.55.075	Bill Sections 1,14,41 new AS 43.55.075
State assessment must be issued within	3 yrs	6 yrs	6 yrs	4 yrs

Summary Comparison between Various Approaches to Production Tax

Issue	Current Law	SB/HB 2001 (ACES) as introduced	CS HB 2001(FIN)am	Senate Finance CS
DOR Auditors	<i>As 39.25.100</i>	<i>BIH Sections 10, 65, 67</i>	<i>BIH Sections 10, 56</i>	<i>BIH Sections 10, 56</i>
DOR & DNR auditors exempt employees?	no	yes	2 DNR and 4 DOR exempt master auditors authorized.	2 DNR and 4 DOR exempt master auditors authorized.
Effective Date		<i>BIH Section 64</i>	<i>BIH Section 1, 60-61</i>	<i>BIH Section 1, 60-61</i>
Generally	n/a	Jan 1 2008	Jan 1 2008	July 1 2007
Retroactive to April 1 2006	n/a	unscheduled interruption	deferred maintenance issues (Intent language)	TECHNICAL AMENDMENT: unscheduled interruption
Downstream Costs	<i>As 43.55.150</i>		<i>BIH Section 43</i>	<i>BIH Section 43</i>
Reasonable v actual			Downstream Tanker and Pipelines = Actual, except, reasonable if lower	Downstream Tanker and Pipelines = Actual, except, <u>reasonable if lower</u>
Prima facie reasonable			"just and reasonable" and arms' length transactions	"just and reasonable" and arms' length transactions
Taps Tariff				
Gas Ceilings thru 2022		<i>As 43.55.011</i>	<i>BIH Section 22</i>	<i>BIH Section 20,22</i>
Where	CI	CI	CI + gas used in the state	
Interaction with credits	implicit	<i>make less statutory explicit importing from regs</i>	implicit	explicit high-level statement of rules
Additional Penalties	<i>new As 43.55.055</i>		<i>BIH Section 40</i>	<i>BIH Section 24,40</i>
Additional Penalties for Under reporting	none	none	10% for 10% or 10mm understmnt, 20% for 20% or 20mm understmnt	none

Include actual by reasonable

make less statutory

Summary Comparison between Various Approaches to Production Tax

<u>Issue</u>	<u>Current Law</u>	<u>SB/HB 2001 (ACES) as introduced</u>	<u>CS HB 2001(FIN)am</u> <i>BM Section 1</i>	<u>Senate Finance CS</u> <i>BM Section 1</i>
Intent Language				
overall intent of legislation	n/a	no	included	no
long standing interpretation of SOL	n/a	included	included	included
Half the money from certain retroactive applications to PERS and public education fund				retroactivity dollars to public education fund, incremental dollars to other listed investments
tax savings from gas ceilings outside CI passed on to ultimate consumers	n/a	no	encourage availability of affordable gas	no
Admin	<i>AS 43.55.020(a)</i>		<i>BM Sections 12,23-26,42</i>	<i>BM Sections 12,23-26,42</i>
Monthly Estimated payments	Estimated payments without ceilings, refund due taxpayer at year end	Ceilings applied monthly	Ceilings applied monthly (sec A and C could be parallel) may appropriate \$50 mm from progressivity	Ceilings applied monthly (sec A and C could be parallel)
LIHEAP funding	No	No	yes - with limitation for bad faith	No
Whistleblower language	No	No	yes - with limitation for bad faith	yes - with limitation for bad faith
DNR NPSL regulations	n/a	general grant for retroactive applications	may be retroactive	may be retroactive
Required 2011 Report -	Yes	Yes	deleted	Yes

must still include inadvertently left out

2.50



Topic	RPT	ACES	CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN)
Intent, Savings		Sec. 1. Confirmation of DOR's interpretation of statute of limitations for retroactive tax changes. [effective immediately]	CS Sec. 1. Confirmation of DOR's interpretation of statute of limitations for retroactive tax changes. [effective immediately]	CS Sec. 1. Confirmation of DOR's interpretation of statute of limitations for retroactive tax changes. [effective immediately]
DNR-DOR Information Sharing		Sec. 2. Amends AS 38.05.035(a). Adds authority for DNR to share oil & gas info with DOR. [effective immediately]	CS Sec. 2. ACES language [effective immediately]	CS Sec. 2. ACES language.
Conforming Amendments		Secs 3-9 Conforming technical amendments. [effective immediately]	CS Secs 3-9 ACES language [effective immediately]	CS Secs 3-9 ACES language
Auditors		Sec. 10. Amends AS 39.25.110. Adds departments of revenue and natural resources oil and gas auditors and supervisors to the exempt service. [effective immediately]	CS Sec. 10. Amends AS 39.25.110. Adds oil and gas auditor masters employed in a professional capacity by DOR & DNR to the exempt service; intent to limit four masters to DOR and two to DNR (CS Sec. 56). [effective immediately]	CS Sec. 10. House language.
Conforming Amendments		Sec. 11 Amends AS 41.09.010(d) Conforming technical amendments. [effective immediately]	CS Sec. 11 ACES language [effective immediately]	CS Sec. 11 ACES language
Energy Assistance			CS Sec. 12. Adds new section AS 43.45.045. LINEAP funding option. [effective immediately]	CS deletes.
Information Disclosure		Sec. 12 Amends AS 43.05.230(a) Adds AS 43.55.890 (disclosure of tax info) as possible exception under AS 43.05.230(a) (unlawful disclosure). [effective immediately]	CS deletes	CS Sec. 12. ACES language.
DOR-DNR Information Sharing		Sec. 13 Amends AS 43.05.230(h) Adds authority for DOR to share production tax info with DNR. [effective immediately]	CS Sec. 13 ACES language [effective immediately]	CS Sec. 13 ACES language
Assessments Statute of Limitations		Sec. 14 Amends AS 43.05.260(a) Creates an exemption to allow DOR six years to conduct production tax assessments rather than three years [effective immediately]	CS Sec. 14 ACES language [effective immediately]	CS Sec. 14 ACES language
Tax Rate	AS 43.55.011(e). 22.5%	Sec 15 25% [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 15. 25% [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 15. 22.5%

	PPT	ACES	CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN)
Tax Floor	AS 43.55.011(f). Sets a tax floor of not less than 4% of gross value for North Slope oil and gas when the average West Coast price is \$25 per barrel with step down factors.	Sec. 16. Repeals & reenacts AS 43.55.011(f). Sets a tax floor on legacy fields of 10% of the total gross value at the point of production, tax credits cannot reduce liability below floor [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 16. Amends AS 43.55.011(f). Retains PPT tax floor, exempts private royalty interests (AS 43.55.011(i) and gas used instate from the floor. [effective 1/1/2008] [applies to production after 12/31/07]	CS 16. Amends AS 43.55.011(f) tax floor, exempts private royalty interests (AS 43.55.011(i) from the floor.
Progressivity AS 43.55.011(g) & (h)	AS 43.55.011(g) and (h) Triggered at \$40 net value with a .25% increase per dollar. 25% tax cap on progressivity rate.	Sec. 17 and 18. Repeals & reenacts AS 43.55.011(g); amends (h) Triggered at \$30 net value on an annual basis with 0.2% increase per dollar. 50% maximum tax rate (including progressivity) [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 17 and 18. Repeals & reenacts AS 43.55.011(g) and (h). Triggered at \$30 net value on a monthly basis with 0.4% increase; progressivity tax rate capped at 25% for a month. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 17. Repeals & reenacts AS 43.55.011(g). Introduces a new progressivity provision. Repeals AS 43.55.011(h).
Cook Inlet Conforming Amendments	AS 43.55.011(j). Cook Inlet tax ceiling.	Sec. 19 Amends AS 43.55.011(j) Conforming technical amendment deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 19 ACES language [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 18 ACES language
Cook Inlet Conforming Amendments	AS 43.55.011(k). Cook Inlet tax ceiling.	Sec. 20. Amends AS 43.55.011(k) Conforming technical amendment. deletes reference to AS 43.55.011(g) (progressivity) [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 20 ACES language [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 19 ACES language
Cook Inlet Conforming Amendments	AS 43.55.011(l). Cook Inlet tax ceiling.	Repeals AS 43.55.011(l). conforming technical repeal.	PPT (retains AS 43.55.011(l))	Repeals AS 43.55.011(l).
Cook Inlet Tax Credits	AS 43.55.011(m) Cook Inlet tax credits	Sec. 21 Amends AS 43.55.011(m) Adds language to be consistent with sec 55 (lease expenditures); deletes reference to AS 43.55.011(g) (progressivity). [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 21. Amends AS 43.55.011(m). Retains ACES technical amendments; deletes additional ACES language. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 20. Repeals & reenacts AS 43.55.011(m). Adds language that requires DOR to establish by regulation a method for application of Cook Inlet tax credits.
Gas Used Instate			CS Sec. 22. Adds new subsection AS 43.55.011(o). Extends Cook Inlet tax ceilings in .011(j)(2) to gas used instate. [effective 1/1/2008] [applies to production after 12/31/07]	CS deletes.
Tax Payment	AS 43.55.020(a). Installment payments.	Sec. 22. Repeals & reenacts AS 43.55.020(a) Makes installment payment calculations consistent with changes to the production tax [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 23. Repeals & reenacts AS 43.55.020(a). Different changes from Senate. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 21. Repeals & reenacts AS 43.55.020(a). Different changes from House.

Bill/Section	PPT	ACES	CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN)
Tax Payment	AS 43.55.020(d). Royalty owner settlement deductions and instalment payments.	Sec. 23. Amends AS 43.55.020(d) Conforming technical amendments. deletes reference to AS 43.55.011(f) and (g) (floor & progressivity) because references are no longer applicable [effective 1/1/2008] [applies to production after 12/31/07]	PPT	PPT
Tax Payment	AS 43.55.020(g) Interest on unpaid instalment payments.	Sec. 24 Amends AS 43.55.020(g) Conforming technical amendment [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 24 ACES language [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 22 ACES language
Tax Payment	AS 43.55.020(h). Interest on overpayment of instalment payments	Sec. 25. Amends AS 43.55.020(h) Conforming technical amendment [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 25 ACES language [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec 23 ACES language
Capital Expenditure (Cap Ex) Tax Credits	AS 43.55.023(a) 20% tax credit for qualified capital expenditures and information requirements	Sec. 26. Amends AS 43.55.023(a) 20% tax credit. spreads use of tax credits over two years. moves and adds to info requirements. requires submission of information that is required under AS 43.55.025(f)(2). adds that legacy field tax credits may be applied only against legacy field taxes. [effective 1/1/2008] [applies to exp. after 12/31/07]	PPT	CS Sec. 24. Amends AS 43.55.023(a). 20% tax credit. ACES language regarding use of tax credits over two years and info requirements; deletes ACES (2)(B); adds that a tax credit for a capital expenditure to develop oil or gas subject to the PPT tax floor cannot be applied against oil or gas produced from property not subject to the tax floor.
Cap Ex Tax Credits Carried-forward Annual Loss	AS 43.55.023(b) 20% of carried-forward annual loss tax credit allowed against deductible lease expenditures when use of the deduction would cause the production tax in a month to be less than zero	Sec. 27 Amends AS 43.55.023(b) Matches carried-forward annual loss to production tax rate of 25%. adds that carried-forward annual losses may not be based on lease expenditures accrued in legacy fields. [effective 1/1/2008] [applies to exp. after 12/31/07]	CS Sec. 26. Amends AS 43.55.023(b). Matches carried-forward annual loss to production tax rate of 25%; deletes ACES language on legacy fields. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 25. House language except matches carried-forward rate to tax rate of 22.5%.
Cap Ex Tax Credits Transfer of Credits	AS 43.55.023(d) Transferable tax credit certificates	Sec 28 Amends AS 43.55.023(d) Adds no transfer of tax credits earned on legacy fields. option to obtain cash payment. and more time for agency approval. provides annual reporting requirements. links date for issuance of credit with information required under AS 43.55.030. spreads use of tax credits over two years. [effective 1/1/2008] [applies to exp. after 12/31/07]	PPT	CS Sec. 26. Amends AS 43.55.023(d). ACES language put back in.
Cap Ex Tax Credits Transfer of Credits	AS 43.55.023(e). Transfer of tax credits.	Sec. 29. Amends AS 43.55.023(e) Conforming technical amendment [effective 1/1/2008] [applies to exp. after 12/31/07]	PPT	CS Sec. 27. Amends AS 43.55.023(e). ACES language put back in.
Cap Ex Tax Credits Refunds	AS 43.55.023(f) Cash refund of up to \$25,000,000 for small producer tax credits.	Repeals AS 43.55.023(f) (replaced with oil and gas tax credit fund. Sec. 45)	PPT	PPT

		ACES	CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN)
Cap Ex Tax Credits Audits	AS 43.55.023(g). Tax credit audits.	Sec. 30. Amends AS 43.55.023(g) Adds language to reflect DOR authority to purchase tax credits granted in AS 45.55.028. [effective 1/1/2008] [applies to credits issued under 023(d) amended, and credits issued before 1/1/2008 for which no cash refund has been issued]	PPT	PPT
Cap Ex Tax Credits TIE Credits	AS 43.55.023(i). Transitional investment expenditure (TIE) tax credits for qualified capital expenditures incurred after March 31, 2001 and before April 1, 2006.	Repeals AS 43.55.023(i) (PPT TIE credits).	CS Sec. 27. Amends AS 43.55.023(i). Limits TIE credits to taxpayers that did not have commercial production before January 1, 2006, and to 1/10 of qualified capital expenditures incurred after March 31, 2006 and before January 1, 2008. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 28. Amends AS 43.55.023(i). Limits TIE credits to taxpayers that did not have commercial production before April 1, 2006.
Cap Ex Tax Credits Tax Exempt Entities		Sec. 31. Amends AS 43.55.023 Adds subsection (f) to make clear a tax exempt entity may not obtain a transferable tax credit [retroactive to 4/1/2006]	CS Sec. 28. Amends AS 43.55.023. Adds subsection (f). Deletes ACES language. Exempts ARMB from limitations under AS 43.55.023(e) regarding transferable tax credits. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 29. Amends AS 43.55.023. ACES language put back in.
Mid-Alaska Tax Credits	AS 43.55.024. Additional tax credit of \$6,000,000 for production from leases outside Cook Inlet and the North Slope for small producers.	Secs. 32 - 35. Amends AS 43.55.024 Subsection(a): technical correction. (b). (c). (e). (g): conforming technical amendments. [effective 1/1/2008] [applies to production after 12/31/07]	PPT	PPT
Exploration Tax Credits	AS. 43.55.025. Alternative tax credits for up to 40% for oil and gas exploration.	Sec. 36. Amends AS 43.55.025(a) Repeals 2007 sunset in (a)(2) and makes the existing 2016 sunset of the tax program uniformly applied [effective 1/1/2008] [applies to exp. after 12/31/2007]	CS Sec. 29. Amends AS 43.55.025(a). ACES language except ups 20% tax credit to 30%. [effective 1/1/2008] [applies to production after 12/31/07] [applies to expenditures after 12/31/2006]	CS Sec. 30. Amends AS 43.55.025(a). ACES language; leaves tax rate at 20%.
Exploration Tax Credits		Sec. 37. Amends AS 43.55.025(b) Applies to expenditures incurred for work performed after 12/31/2007. extends eligibility to delineation wells drilled within 540 days. requires that an exploration well be completed or abandoned to qualify for credit disallows tax credits for specified costs [effective 1/1/2008] [applies to exp. after 12/31/2007]	CS Sec. 30. Amends AS 43.55.025(b). Applies to expenditures for work performed after 12/31/2006; changes from ACES the specified costs that are disallowed. [effective 1/1/2008] [applies to production after 12/31/07] [applies to exp. after 12/31/2006]	CS Sec. 31. ACES language except changes that a qualified cost may not be incurred for an exploration well or seismic exploration for any unit before May 14, 2003 rather than May 13, 2003.

	PPT	ACES	CS House Bill 2001 (2007)	CS Senate Bill 2001
Exploration Tax Credits		Sec. 38. Repeals & reenacts AS 43 55.025(c). Provides a clearer definition for new exploration objectives and requires DNR evaluation. [effective 1/1/2008] [applies to exp. after 12/31/2007]		
Exploration Tax Credits		Sec. 39. Amends AS 43 55 025(f). Expands description of required info. limits well data confidentiality to 24 months; provides confidentiality for 30 days for seismic data; requires credits to be spread over at least two years; clarifies public availability of basic credit info [effective 1/1/2008] [applies to exp. after 12/31/2007]		
Exploration Tax Credits		Sec. 40 Amends AS 43 55 025(g) Clarifies a tax-exempt entity may not transfer a credit certificate [retroactive to 7/1/2003]		
Exploration Tax Credits		Sec. 41 Amends AS 43 55 025(h). Conforming technical change. [effective 1/1/2008] [applies to production after 12/31/07]		
Exploration Tax Credits		Sec. 42. Repeals & reenacts AS 43 55 025(i). Prohibits application of tax credit to reduce tax liability below zero. allows carry forward of tax credits [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 33. ACES language. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 36. ACES language.
Exploration Tax Credits		Sec. 43. Amends AS 43 55 025(k). Defines "preexisting well." [effective 1/1/2008] [applies to exp. after 12/31/2007]	CS Sec 34 ACES language [effective 1/1/2008] [applies to production after 12/31/07] [applies to exp. after 12/31/2006]	CS Sec 37. ACES language.
Exploration Tax Credits		Sec. 44. Amends AS 43.55.025. Adds a new subsection (l). Provides for a new five percent tax credit for old seismic data that DNR determines is in state's interest to acquire [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 35. ACES language: adds new subsection (m) relating to credit refunds. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 38. ACES language: adds new subsection (n)
Oil & Gas Tax Credit Fund	AS 43.55.023(f). Permits the state to offer a cash refund of up to \$25,000,000 for tax credits issued to small producers.	Sec. 45. Adds AS 43.55.028. Creates an oil & gas tax credit fund funded by an appropriation of a percentage of production tax revenues and repeals AS 43 55 023(f). PPT tax credit refund. [effective 1/1/2008]	PPT	PPT

	ACES	CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN)
Reporting Requirements	Sec. 46. Amends AS 43.55.030(a). Makes clear every taxpayer must file an annual return; expands info requirements [effective 1/1/2008] [applies to reports due after 12/31/2007]	CS Sec 36 ACES language [effective 1/1/2008] [applies to production after 12/31/07] [applies to reports due after 12/31/2007]	CS Sec 39 ACES language
Reporting Requirements Penalties	Sec. 47. Amends AS 43.55.030(d) Adds late filing penalty of \$1,000/day [effective immediately]	CS Sec 37 ACES language [effective immediately] [applies to reports due after effective date]	CS Sec 40 ACES language
Reporting Requirement	Sec. 48. Amends AS 43.55.030 Adds new subsections. (e) requires annual expenditure statement; and (f) authorizes DOR to require monthly filing of info [effective 1/1/2008] [applies to reports due after 12/31/2007]	CS Sec 38 ACES language [effective 1/1/2008] [applies to production after 12/31/07] [applies to reports due after 12/31/2007]	CS Sec 41 ACES language
Reporting Requirements and Penalties	Sec. 49. Amends AS 43.55.040 Clarifies DOR has authority to require filing of reports necessary to forecast state revenue; adds additional \$1,000 per day penalty for failure to file at the time required. [effective immediately]	CS Sec. 39. ACES language except \$1,000 per day penalty is assessed after DOR provides notice of failure to file; also adds that interest accrues to the penalty. [effective immediately] [applies to reports due after effective date]	CS Sec. 42. ACES language plus additional requirement for a producer of more than 100,000 barrels a day to report Alaska oil and gas gross value and deductible lease expenditures.
Tax Understatement Penalty		CS Sec. 40. Adds new section AS 43.55.055. Adds penalty for understatement of tax. [effective immediately] [applies to understatements made after effective date of section]	CS deletes House language.
Assessment Statute of Limitations	Sec. 50. Amends AS 43.55. Adds a new section, AS 43.55.075, that expands statute of limitations for conducting tax assessments from three years to six years. [effective immediately] [applies to assessments whose time have not expired when Act effective]	CS Sec. 41. ACES language for AS 43.55.075. [effective immediately] [applies to assessments whose time have not expired when Act effective]	CS Sec. 43. Extends statute of limitations to four years rather than six.
Prohibition on Tax Credits		CS Sec. 41. Adds new section AS 43.55.078. Prohibits a producer or explorer from receiving tax credits if certain judgments are not satisfied. [effective immediately]	CS deletes.
Electronic Filing Advisory Bulletins Whistle-blowers	Sec. 51. Amends AS 43.55.110 Adds new subsections (e) & (f) that authorize DOR to require electronic filings and payments; and (g) that gives DOR authority to issue advisory bulletins [effective immediately]	CS Sec. 42. ACES language. Adds whistleblower language; limit of \$1,000,000 compensation or 10% of additional amount collected; penalizes bad faith action by whistleblower. [effective immediately]	CS Sec. 44. ACES language. Adds whistleblower language; limit of \$500,000 or 10% of additional amount collected; deletes House bad faith language.

	PPT	ACES	CS House Bill 2001 (FH) am	SCS CS House Bill 2001 (FH)
Transportation Costs				
Tax Determination	AS 43 55 160(a) Determination of production tax value of oil and gas annually and monthly	Sec. 52. Repeals and reenacts AS 43 55 160(a) Retains PPT principle that the taxable value is the gross value at the point of production minus lease expenditures. the changes are necessary to implement different tax treatment. removes monthly value calculation because no longer needed. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 44. Amends AS 43 55 160(a) to separate calculation of taxable value for gas (see Senate) and conforms to changes in the progressive tax. deletes monthly calculation language. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 44. Amends AS 43 55 160(a) to separate calculation of taxable value for gas (see Senate) and conforms to changes in the progressive tax. deletes monthly calculation language. [effective 1/1/2008] [applies to production after 12/31/07]
Tax Determination	AS 43 55 160(b) Production tax value may not be less than zero	Sec 53 Amends AS 43 55 160(b) Conforming technical amendment [effective 1/1/2008] [applies to production after 12/31/07]	PPT	Sec. 47. ACES language
Tax Determination	AS 43 55 160(e) Carried forward annual losses established when production tax value is less than zero.	Sec 54. Repeals & reenacts AS 43 55 160(e). Provides explicit rules for calculating production tax values for oil and gas subject to different statutory provisions. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 45. Amends AS 43 55 160(e). Conforming amendment. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 45. Amends AS 43 55 160(e). Conforming amendment. [effective 1/1/2008] [applies to production after 12/31/07]
Tax Determination		Sec. 55. Amends AS 43 55 160. Adds four new subsections, (f)-(i), related to allocations and calculations of adjusted lease expenditures. [effective 1/1/2008] [applies to production after 12/31/07]	Deletes ACES language	Deletes ACES language
Lease Expenditures	AS 43 55 165(a) Describes deductible lease expenditures for purposes of determining the net taxable amount. provides standards DOR shall consider for determining lease expenditures.	Sec 56. Repeals & reenacts AS 43 55 165(a) Retains but rewords deductible lease expenditures description. adds requirement that deductible lease expenditures be affirmatively allowed through regulation. allows overhead expenses (moved from 165(b)). deletes standards (moved to 165(b)) [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 46. ACES language except adds that costs must be incurred in the state. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 46. ACES language; deletes House requirement that the costs be incurred in state.

			CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN)
Lease Expenditures	AS 43.55.165(b). Lists direct costs that may be considered deductible lease expenditures; allows overhead expenses; and specifies allowed costs need not be physically located on lease.	Sec. 57. Amends AS 43.55.165(b) Re-arranges PPT language; adds the standards DOR shall consider for determining lease expenditures (moved from 165(a) and (c)); deletes overhead expenses (moved to 165(a)) [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 47. ACES language except under (b)(3). DOR may consider industry and NP&L standards. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 50. ACES language; deletes (b)(3) language from "may" back to "shall"
Lease Expenditures	AS 43.55.165(c) and (d) Allows DOR to substitute costs that are billable or actually billed through unit operating agreements in place of the general lease expenditures standards.	Repeals AS 43.55.165(c) and (d)	ACES	CS Sec. 51. Repeals & reenacts AS 43.55.165(e). Allows use of unit operating agreements to determine allowable lease expenditures.
Lease Expenditures		Sec 58 Amends AS 43 55 165(e) Adds to the list of non-deductible lease expenditures, including costs incurred for violations of law and for repair, replacement or deferred maintenance in specified circumstances; and costs to construct, acquire or operate a refinery or topping plant. [retroactive to 4/1/2006] [applies to production after 3/31/2006]	CS Sec. 48. Amends AS 43.55.165(e). Changes from ACES: expands on (e)(6) to include repair and replacement costs that arise from criminal negligence and violations of the Clean Water Act; adds lobbying, public relations advertising, and public advocacy costs; and for internal transactions, taxpayer must show any costs do not exceed market value; deletes provision regarding repair, replacement and deferred maintenance costs. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 52. Amends AS 43.55.165(e) with changes to ACES and House version: under (e)(2), allows deduction of net profits paid to the state under net profit share leases; (e)(6) ACES language back in, House language out; (e)(12) House internal transaction requirements deleted; adds back ACES (e)(19) corrosion cost language; retains House disallowance of lobbying, public relations, public relations advertising and public advocacy costs.
Lease Expenditures	AS 43.55.165(h). Allocation of costs between oil and gas.	Sec. 59. Amends AS 43.55.165(h) Conforming amendment to be consistent with new AS 43.55.160 (production tax determination). [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 49. Amends AS 43.55.165(h). ACES language with additional change to conform to tax provisions for gas used in state. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 53. ACES language; deletes House reference to gas used in state.
Standard Deduction			CS Sec. 50. Adds 43.55.165(k) and (l). Adds a standard deduction for operating costs on legacy fields. Also adds AS 43.55.180(b), requiring a report in 2010 (missing from bill). [effective 1/1/2008] [applies to production after 12/31/07]	CS deletes standard deduction.
Lease Expenditure Adjustments		Sec. 60 Amends AS 43 55 170(a) Conforming amendment necessitated by repeal of AS 43.55.165(c) and (d) (determination of lease expenditures) [retroactive to 4/1/2006] [applies to production after 3/31/2006]	CS Sec. 51. ACES language. [effective 1/1/2008] [applies to production after 12/31/07]	CS Sec. 54. Amends AS 43.55.170(a) except amendment is missing.
Information Disclosure		Sec. 61. Amends AS 43 55. Adds new section AS 43.55.890; makes clear DOR may publish production tax info that is aggregated among at least three taxpayers. [effective immediately]	CS Sec. 52 ACES language [effective immediately]	CS Sec. 55 ACES language

	PPT	ACES	CS House Bill 2001 (FR) am	SCS CS House Bill 2001 (FR)
Definitions		Sec. 62. Amends AS 43.55.900. Adds new definitions for "nonunitized reservoir," "pool," "producer," and "unit" [effective immediately]		
Repeals	AS 43.55.023(f) provides a cash refund of up to \$25,000,000 for small producers' tax credits.	Sec. 63. Repeals AS 43.55.023(f) (PPT cash refund) [effective 1/1/2008]	PPT	PPT
Repeals	AS 43.55.165(c) and (d) allows DOR to substitute costs that are billable or actually billed through unit operating agreements in place of the general lease expenditures standards	Sec. 64. Repeals AS 43.55.165(c) and (d), determination of deductible lease expenditures using unit operating agreements [retroactive to 4/1/2006] [applies to production after 3/31/2006]	CS Sec. 54. Repeals AS 43.55.165(c) and (d). Adds model of AS 43.55.165 that requires 2011 review of the general lease expenditures standard [effective 1/1/07]	
Repeals	AS 43.55.011(i) order for applying the Cook Inlet tax ceiling; AS 43.55.023(i); transitional investment expenditures tax credits; AS 43.55.160(c); determining the tax value under the progressivity provision AS 43.55.011(g)	Sec. 65. Repeals AS 43.55.011(i), order for applying Cook Inlet tax ceiling; AS 43.55.023(i); transitional investment expenditures; and AS 43.55.160(c) [effective 1/1/2008] [applies to production after 12/31/07]	Retains AS 43.55.011(i) and AS 43.55.023(i); AS 43.55.160(c) is repealed in CS Sec. 54	Retains AS 43.55.023(i); AS 43.55.011(i) AS 43.55.160(c) are repealed in CS Sec. 57
Applicability		Sec. 66. Applicability of specified sections [66(g) (assessments) [retroactive to 4/1/2006]; everything else effective immediately]	CS Sec. 55. Applicability of specified sections [effective immediately]	CS 58. Applicability of specified sections.
Auditors Intent		Sec. 67. Allows current oil and gas auditors to opt to remain in classified service [effective immediately]	CS Sec. 56. Deletes ACES language. Provides legislative intent that the maximum number of exempt auditors is four for DOR and two for DNR; allows DOA to develop a classification plan notwithstanding the equal pay for equal work principle. [effective immediately]	CS Sec. 58. House language regarding number of audit members. CS Sec. 60. Includes House language regarding a classification plan with some changes to the wording.
Transition Payment of Tax				CS Sec. 61. Adds language giving taxpayer to April 1, 2008 to pay balance of any tax due after June 30, 2007 and before effective date.
Transition Retroactivity of Regulations		Sec. 68. Allows regulations adopted by DOR and DNR to be applied retroactively to the applicability date of the statutory provisions being implemented. [retroactive to 4/1/2006]	CS Sec. 67. Allows regulations adopted by DNR to apply retroactively. [effective immediately]	CS Sec. 65. Adds language for DOR regulations to apply retroactively.

Transition Pending Applications		Sec. 69. Provides for the treatment of pending applications for transferable credits and the refund of credits under AS 43.55.023. [effective immediately]	Deleted from ACES	Deleted from ACES
Transition Regulations		Sec. 70. Authorizes DNR and DOR to proceed with adopting regulations. [effective immediately]	CS Sec. 58. ACES language [effective immediately]	CS Sec. 63. ACES language
Retroactivity		Sec. 71. Provides for the retroactivity of certain provisions. [effective immediately]		
Revisor's Instructions				
Effective Dates		Sec. 72. Provides that certain sections take effect January 1, 2008 (including most changes to the production tax). [effective immediately]		
Effective Dates		Sec. 73. Provides that certain sections take effect immediately.		

Summary Comparison between Governor's October 1, 2007 Production Tax Proposal and Current Law

<u>Issue</u>	<u>Current Law</u>	<u>Governor's 10/1/2007 Proposal</u>
Base Rate	AS 43.55.011 (e) & (g)	Bill Sections 15 & 17
Base Tax Rate	22.50%	25%
Progressivity	AS 43.55.011(g) & (h)	Bill Sections 17,18
Starting point	\$40	\$30
Tax/\$ of Price Index	0.25%	0.20%
Average Value over	month	year
Gross Value Floor	AS 43.55.011(f)	Bill Section 15, 16, 31-36, & 41-42
Base	Prudhoe & Kuparuk	North Slope
Rate	ranges from 0% to 4%	10%
Credits further reduce floor tax?	Yes	No
Credits	AS 43.55.023 and 55.025	Bill Section 26-28, 38-44 & 63
Investment Credits	Taken in year of investment	1/2 in each of two years
Loss Carry Forward Credits	20%	25%
Transitional Investment Credits	Yes	No
Exploration Credits	AS 43.55.025	Bill Section 36 - 44
DNR approval required?	In CI, to avoid 3 mile limit	Always
Confidentiality of well data	10 years	2 years
Pre-existing well	One drilling season	Two consecutive drilling seasons
"DNR TIE" Credits for pre 2003 seismic work?	no	5%
Allowable Lease Expenditures	AS 43.55.165	Bill Sections 52-64
Use producer audits of operators?	Yes	No
DR&R Allowed?	Some	No
Deferred Maintenance allowed?	Yes	No
Field Topping Plants allowed?	Yes	No

Summary Comparison between Governor's October 1, 2007 Production Tax Proposal and Current Law

<u>Issue</u>	<u>Current Law</u>	<u>Governor's 10/1/2007 Proposal</u>
State Purchase of Credits		
	<i>AS 43.55.023(f) & (g)</i>	<i>Bill Section 45 (AS 43.55.028)</i>
Paid from:	"appropriations made by law"	oil and gas credit fund, funded from production taxes
Annual dollar cap per taxpayer?	\$25 million	none
Information		
	<i>AS 43.05.230 and royalty statutes</i>	<i>Bill Sections 2-9, 11-13, 49 & 61</i>
forward looking information required	none	information "necessary to forecast ... revenues under AS 43.55". Penalty up to \$1000 a day.
Disclosure of tax information	if aggregated to "prevent the identification of particular returns."	if aggregated w/2 other producers
DNR sharing royalty information w/ DOR	limited ability	expanded ability
DOR sharing tax information with DNR	limited ability	expanded ability
Statute of Limitations		
	<i>AS 43.05.260</i>	<i>Bill Sections 1, 14, 50 new AS 43.55.075</i>
State assessment must be issued within	3 yrs	6 yrs
DOR Auditors		
	<i>As 39.25.100</i>	<i>Bill Sections 10, 65, 67</i>
DOR auditors exempt employees?	no	yes
Effective Date		
		<i>Bill Section 64</i>
Generally		Jan 1 2008
Deferred Maintenance Rules		Apr 1 2006

Comparison CSSB 25-GS0014\E and SB 2001 25-GS0014\A
 Senate Resource Committee
 October 27, 2007

CS SB 2001 Bill Section	Change	SB 2001 Administration Corresponding Bill Section
Title	Reflects omissions from SB2001 (25-GS0014\A) Deletes references to the issuance of advisory bulletins, establishing an oil and gas tax credit fund, and reference to the conservation surcharge on oil	Title - Modified
Sec. 1 -12	<ul style="list-style-type: none"> Re-numbers sect's 2-12 of admin bill one numeral lower 	Sec. 2-13 respectively
Sec.1	<ul style="list-style-type: none"> None 	Sec. 2
Sec. 2	<ul style="list-style-type: none"> None 	Sec. 3
Sec. 3	<ul style="list-style-type: none"> None 	Sec. 4
Sec. 4	<ul style="list-style-type: none"> None 	Sec.5
Sec. 5	<ul style="list-style-type: none"> None 	Sec. 6
Sec. 6	<ul style="list-style-type: none"> None 	Sec. 7
Sec. 7	<ul style="list-style-type: none"> None 	Sec. 8
Sec.8	<ul style="list-style-type: none"> None 	Sec. 9
Sec. 9	<ul style="list-style-type: none"> None 	Sec. 10
Sec. 10	<ul style="list-style-type: none"> None 	Sec. 11
Sec. 11	<ul style="list-style-type: none"> None 	Sec. 12
Sec. 12	<ul style="list-style-type: none"> None 	Sec. 13 Sec. 14- 15 omitted in CSSB
Sec. 13	<ul style="list-style-type: none"> T.I.E. credits Terminates the transitional investment expenditures credit effective January 1, 2008 except for explorers that did not have commercial production prior to January 1, 2008. For those explorers, they may also claim credits for a portion of their expenditures incurred after March 31, 2006 and before January 1, 2008.	Sec. 63 TIE credits repealed

Comparison CSSB 25-GS0014\E and SB 2001 25-GS0014\A
Senate Resource Committee
October 27, 2007

CS SB 2001 Bill Section	Change	SB 2001 Administration Corresponding Bill Section
Sec. 14	<ul style="list-style-type: none"> • None 	Sec. 46
Sec. 15	<ul style="list-style-type: none"> • None 	Sec. 47
Sec. 16	<ul style="list-style-type: none"> • None 	Sec. 48
Sec. 17	<ul style="list-style-type: none"> • None 	Sec. 49 Sec. 50 omitted in CSSB
Sec. 18	<ul style="list-style-type: none"> • None 	Sec. 51 Sec. 52-55 omitted in CSSB
Sec. 19	<ul style="list-style-type: none"> • None 	Sec. 56
Sec. 20	<ul style="list-style-type: none"> • None 	Sec. 57
Sec. 21	<ul style="list-style-type: none"> • None 	Sec. 58 Sec. 59 omitted in CSSB
Sec. 22	<ul style="list-style-type: none"> • None 	Sec. 60
Sec. 23	<ul style="list-style-type: none"> • None 	Sec. 61
Sec. 24	<ul style="list-style-type: none"> • Definitions of "producer" and "unit" • Section 62 additionally defines "nonunitized reservoir" and "pool" 	Sec. 62 partially included in CSSB Sec. 63 omitted in CSSB
Sec. 25	<ul style="list-style-type: none"> • None 	Sec. 64
Sec. 26	<ul style="list-style-type: none"> • Repeals AS 43.55.011(l) • Section 65 also repeals AS 43.55.033(i) and AS 43.55.160(c) 	Sec. 65 partially included in CSSB
Sec. 27	<ul style="list-style-type: none"> • Applicability <p>Each draft of the proposed legislation provides Applicability provisions to their proposed legislation</p>	Sec. 66 partially included in CSSB
Sec. 28	<ul style="list-style-type: none"> • None 	Sec. 67

Comparison CSSB 25-GS0014\E and SB 2001 25-GS0014A
 Senate Resource Committee
 October 27, 2007

CS SB 2001 Bill Section	Change	SB 2001 Administration Corresponding Bill Section
Sec. 29	<ul style="list-style-type: none"> Transition: Retroactivity of Regulations Retroactivity of regulations are generally consistent between the two pieces of proposed legislation except for those provisions that have been deleted. E.g., 21/58, 22/60, and 25/64 may apply retroactively to April 1, 2006 	Sec. 68 partially included in CSSB
Sec. 30	<ul style="list-style-type: none"> None 	Sec. 70
Sec. 31	<ul style="list-style-type: none"> Retroactivity of certain Provisions These sections provide for retroactive effective dates for the appropriate sections of their respective proposed legislations, some of which overlap and are consistent, e.g., 21/58, 22/60, 25/64, and 29/68 are to take effect April 1, 2006 	Sec. 71 partially included in CSSB
Sec. 32	<ul style="list-style-type: none"> This section identifies those portions of the proposed legislation that take effect January 1, 2008 	Sec. 72 partially included in CSSB
Sec. 33	<ul style="list-style-type: none"> None regarding immediate effective date 	Sec. 73 partially included in CSSB

Summary Comparison between Various Approaches to Production Tax

SB/HB 2001 (ACES) as introduced

<u>Issue</u>	<u>Current Law</u>	<u>SB/HB 2001 (ACES) as introduced</u>	<u>CS HB 2001(FIN)am</u>
Base Rate			
	<i>AS 43.55.011 (e) & (g)</i>	<i>Bill Sections 15 & 17</i>	<i>Bill Sections 15</i>
Base Tax Rate		25%	25%
Progressivity			
	<i>AS 43.55.011(g) & (h)</i>	<i>Bill Sections 17,18</i>	<i>Bill Sections 17,18</i>
\$/bbl Starting point	\$40 net	\$30 net	\$30 net
Tax/\$ of Price Index	0.25%	0.20%	0.40%
Average Value over		year	
Applied to		net	
Cap		25% of net	
Gross Value Floor			
	<i>AS 43.55.011(f)</i>	<i>Bill Section 15, 16, 31-36, & 41-42</i>	<i>Bill Section 16</i>
Base Rate		Prudhoe, Kuparuk 10%	
Credits further reduce floor tax?		No	
Apply .024 and .025 credits against floor		No	
Investment Credits			
	<i>AS 43.55.023</i>	<i>Bill Section 26-28, 38-44 & 63</i>	<i>Bill Section 26-26</i>
Investment Credits		1/2 in each of two years	
Loss Carry Forward Credits	20%	25%	25%
Transitional Investment Credits	Yes	No	All taxpayers allowed application of TIE matching spending in April 1 2006 - Dec 31, 2007, even if application deferred

1/2 in each of two years

10%

2006-2007

Summary Comparison between Various Approaches to Production Tax

<u>Issue</u>	<u>Current Law</u>	<u>SB/HB 2001 (ACES) as introduced</u>	<u>CS HB 2001(FIN)am</u>
Exploration Credits	AS 43.55.025	Bill Section 36 - 44	Bill Section 29-35
Rates	20; 40%	20; 40%	30;40%
General & Admin Costs	disallowed	bad acts I	costs arising from Bad Acts III - criminal
DNR approval required?	In CI, to avoid 3 mile limit	Always	Always, w/ language changes
Confidentiality of well data	10 years	2 years	2 years, or if DNR declines to, or private landowner declines
Seismic on non state land	silent	included	explicit exclusion without permission
Pre-existing well	One drilling season	Two consecutive drilling seasons	Two consecutive drilling seasons
"DNR TIE" Credits for pre 2003 seismic work?	no	5%	5%

effective 30%

2003 seismic work

Exceptions to Tax Credits			Bill Section 41
none	none	none	unpaid judgment

State Purchase of Credits		AS 43.55.023(f) & (g)	
Paid from:		oil and gas credit fund, funded from production taxes	
Annual dollar cap per taxpayer?	\$25 million	none	\$ 25 million (however ARM unlimited)
ARM Board Purchases?	n/a	n/a	yes