Alaska's Oil and Gas Taxes

The 2006 Reform, 2007 Reform, and Beyond

Dan E. Dickinson CPA

The 4th Annual Oil and Gas Symposium
The Canadian Institute

Sept 23, 2008

Marginal Effect of One Dollar 101

- Marginal Effect of $1/bbl capital investment.

Who pays?

Way Simple Analysis	$/bbl	$/bbl	Diff
Destination Price West Coast	121.36	121.36	-
Less Transportation Cost	6.00	6.00	-
Gross Value at Point of Production	115.36	115.36	-
Royalty (12.5% of Gross Value)	14.42	14.42	-
Less Upstream Costs*	**20.00**	**21.00**	**1.000**
"PTV" or net value	80.94	79.94	(1.000)
Taxable Barrels	87.5%	87.5%	
PTV / taxable bbl	92.50	91.36	
Production Tax - Progressivity Rate	25.0%	24.5%	
Production Tax - Base Rate	25.0%	25.0%	
Total Production Tax Rate	50.0%	49.5%	-0.46%
Royalty (12.5% of Gross Value)	14.42	14.42	-
Pre Credits Production Tax (rate * net)	40.47	39.61	(0.87)
Production Tax Credits (assumed)	(10.00)	(10.10)	(0.10)
Property Tax (Assumed)	0.50	0.50	-
State Income Tax (9.4% * net less taxes)	4.70	4.69	(0.00)
Federal Income Tax (35% * net less taxes)	15.85	15.83	(0.01)
Government Take	**65.93**	**64.95**	**(0.98)**

October revision

9.23.2008

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Marginal Effect of One Dollar 101

- Marginal Effect of $1/bbl increase in price.

Who receives?

Way Simple Analysis	$/bbl	$/bbl	Diff
Destination Price West Coast	**120.36**	**121.36**	**1.000**
Less Transportation Cost	6.00	6.00	-
Gross Value at Point of Production	114.36	115.36	1.000
Royalty (12.5% of Gross Value)	14.30	14.42	0.125
Less Upstream Costs*	20.00	20.00	-
"PTV" or net value	80.07	80.94	0.875
Taxable Barrels	87.5%	87.5%	
PTV / taxable bbl	91.50	92.50	
Production Tax - Progressivity Rate	24.6%	25.0%	
Production Tax - Base Rate	25.0%	25.0%	
Total Production Tax Rate	49.6%	50.0%	0.40%
Royalty (12.5% of Gross Value)	14.30	14.42	0.125
Pre Credits Production Tax (rate * net)	39.71	40.47	0.758
Production Tax Credits (assumed)	(10.00)	(10.00)	-
Property Tax (Assumed)	0.50	0.50	-
State Income Tax (9.4% * net less taxes)	4.69	4.70	0.011
Federal Income Tax (35% * net less taxes)	15.81	15.85	0.037
Government Take	**65.00**	**65.93**	**0.931**

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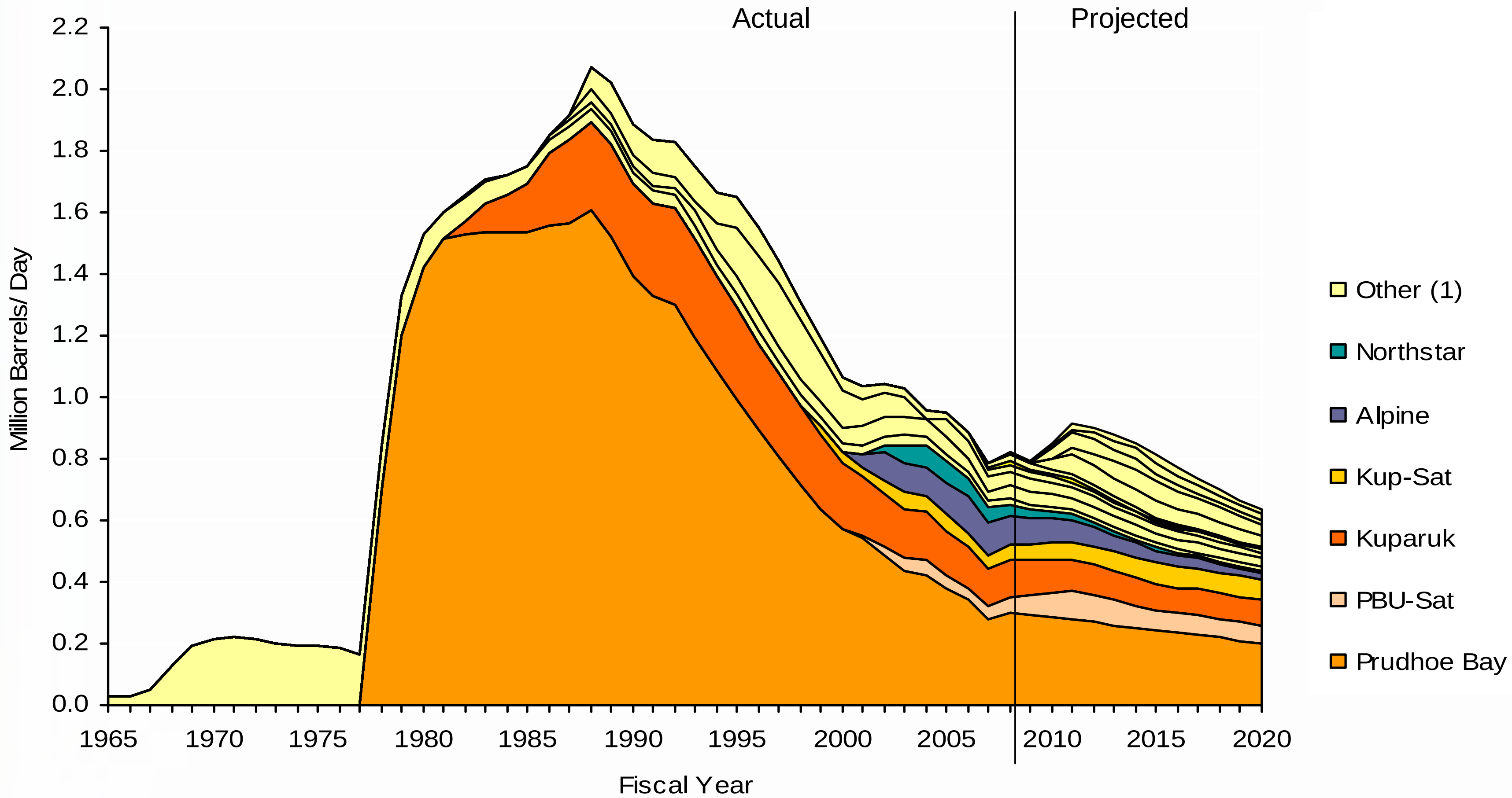
Government Take One Pager

	all figures in millions of dollars unless otherwise indicated		Spring 2008 Forecast	
			Intrmd. Est.	Totals
1	Destination Value	($85.73/bbl * .721 mmbbl/day * 365)	22,592.4	
2	*less* transportation costs**	($6.27/bbl * .721 mmbbl/day * 365)	(1,652.3)	
	Equals value at point of production		20,940.1	
3	Calculate Royalty	(12.5% times value includes PF%)	2,617.5	2,875.3
{	*less* Upstream Operating costs**		2,148.0	
4{	*less* Upstream Capital costs**		2,130.0	
{	*Equals* PTV (Production Tax Value)		13,786.8	
5	Calculate Base Production Tax (25% of PTV)	(25% of PTV)	3,446.7	3,465.5
6	Calculate Progressivity Component of PT (0-50% of PTV)			1,875.0
7	Apply Production Tax Credits			(400.0)
	Sums to Production Tax			4,940.5
{	Restate PTV as ANITA taxable income, *less* production tax, *plus* worldwide income	if 5% factor	131,744.7	
8{	Calculate and apply Alaska Apportionment Factor	(Tax/.094)	6,587.2	
{	Calculate AK Corporate Income Tax as 9.4% of Alaska taxable income			619.2
	Restate PTV as federal taxable income, subtract production tax and AK CIT, calculate marginal federal income tax			
9	** Costs include state and local property taxes of 20 mills on oil and gas property may be difference between cost incurred and allowable costs		estimated	287.7
			TOTAL:	8,722.7

Source: Dept of Revenue Tax Division Spring 2008 Forecast, Total property taxes estimated from Tax Divisions FY 2007 Annual Report

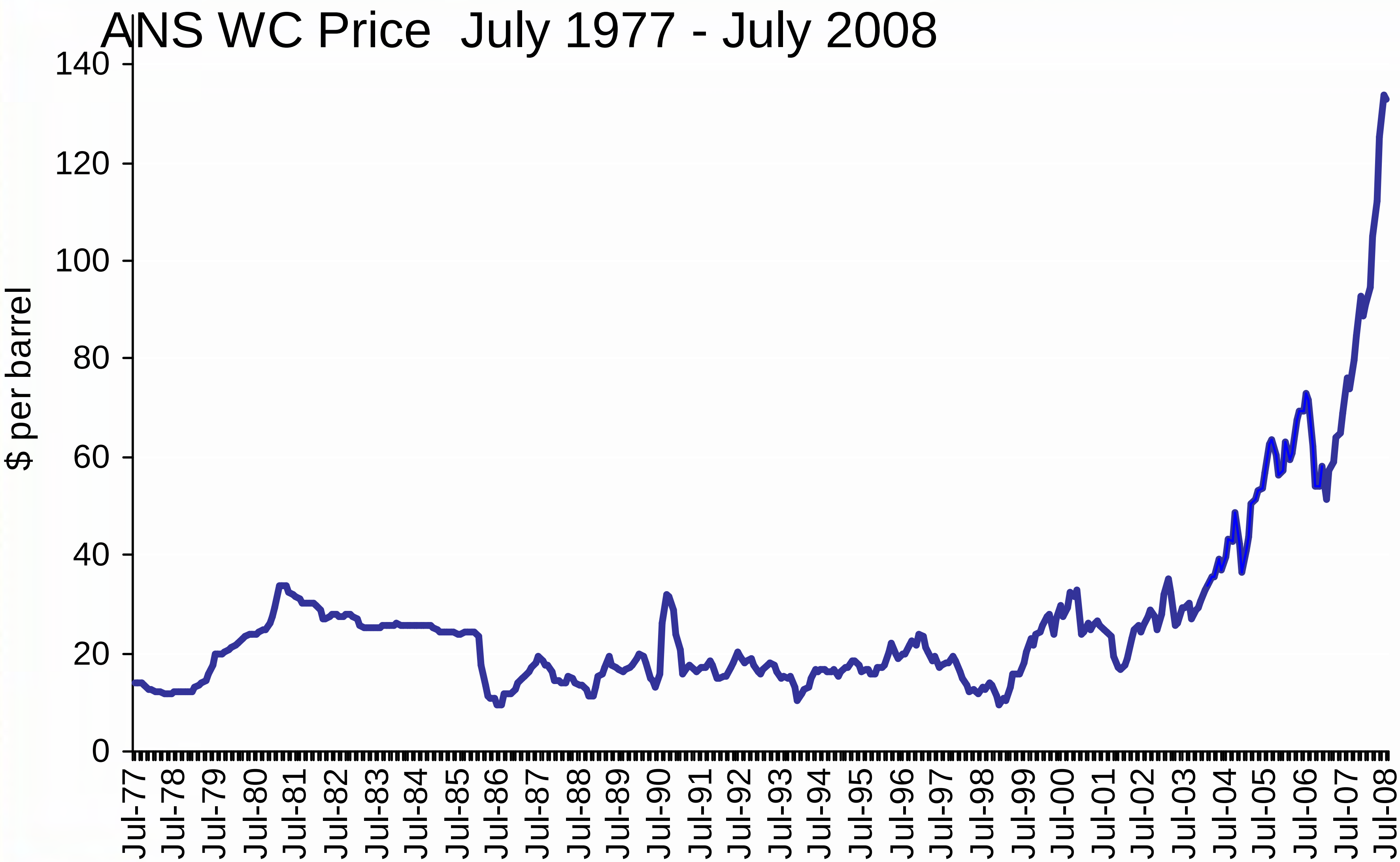
Alaska Oil Production, 1965 - 2020



(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

Source: Alaska Department of Revenue, Fall 2006 Revenue Sources Book. extrapolated

How did we get here - Price



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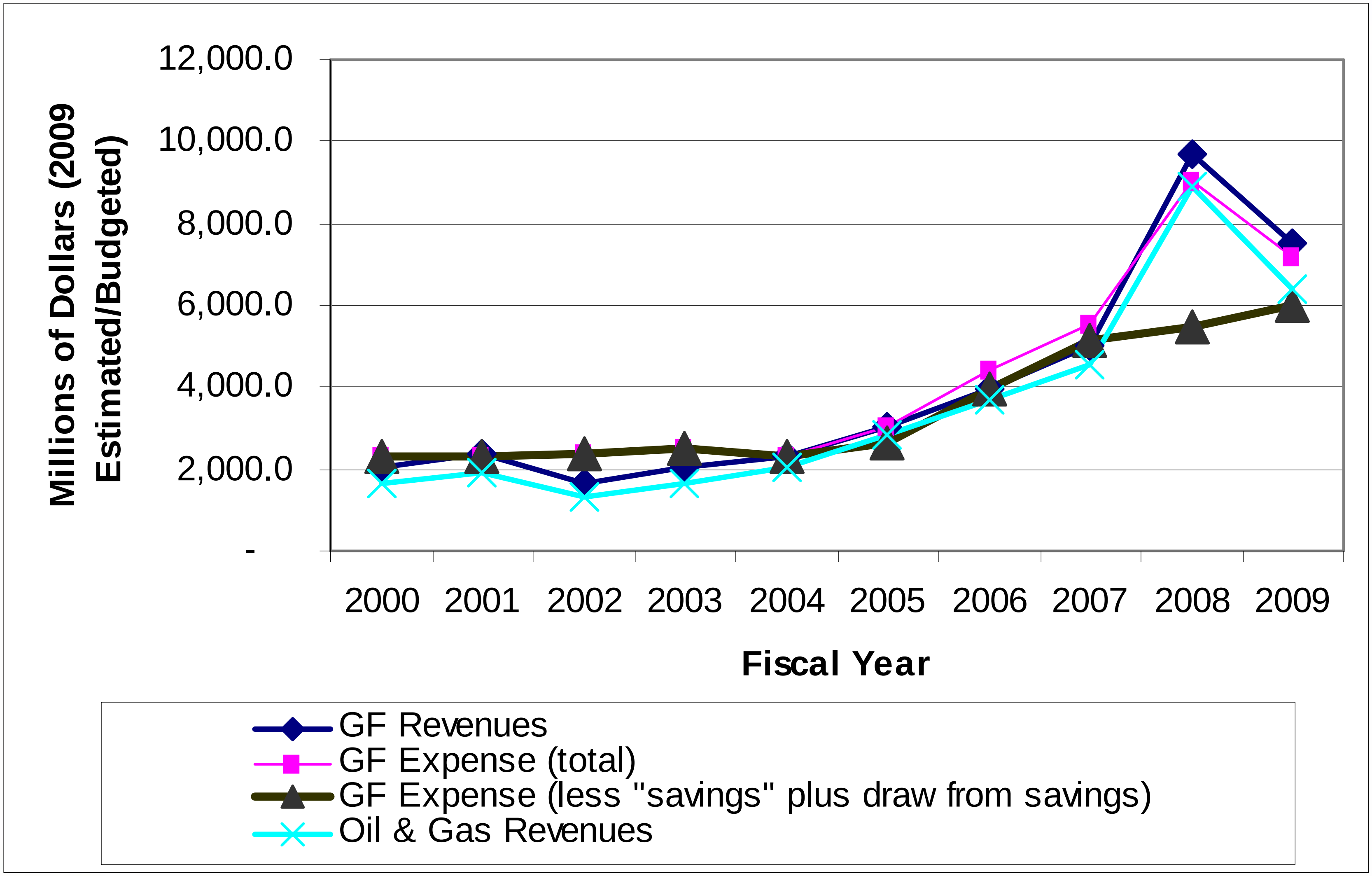
How did we get here - Spending



Source: Annual Fiscal Summaries from Leg Finance web site, supplemented with Spring 2008 RSB data

How did we get here Setting the Stage - Pre 2006

1973 -1981 Switch from Cook Inlet to North Slope

- New oil and gas property tax (AS 43.56)
- Switched Corporate Income Tax from Apportionment to Separate Accounting back to Modified Apportionment (AS 43.20)
- Experimented with Production Tax changing maximum and minimum rates, rate mechanisms (stair step, Economic Limit Factor (ELF), rounding rule, 5 year rate concession]

1981 – 2006 Quarter Century of relative stability for CIT and Property Tax

- 1989 and 2003 – 2 production tax law changes
- Production tax of nominal 15% of "gross value at point of production" for oil (after 5 years at 12.5%) times ELF so effective rate was about 7.5%

Three largest taxpayer agreed to Production Tax reform as part of Stranded Gas Development Act negotiation –

- 20% of "net", 20% investment credit
- Two special sessions in the summer of 2006

How did we get here - PPT

- <u>2006 Production Tax Reform ("PPT")</u>
  - Switch from "gross to net",
  - Tax on 22.5% of PTV or 'net value'
  - Progressivity (above $40 of PTV, at rate of .25% per dollar)
  - 20% investment credit
  - 20% loss carryforward credit
  - 20%/20%/40% Exploration credits incorporated
  - Transitional Investment Expenditure Credits
  - Small producer credits of up to $12 million a year
  - US costs focus on unit operating agreement and working interest owner audits (with 18 exclusions)
  - Retroactive to April 1, 2006

How did we get here 2006 - 2007

- *In July 2006 ANS WC monthly price breaks $70 for first time*
- Aug 2006 Governor Murkowski loses in Republican primary
- Sept 2006 FBI raids 6 legislators offices (two of those have subsequently been convicted of felonies including bribery and are serving prison sentences of 5 years +)
- November 2006 Governor Palin Elected
- 2007 legislative session focuses on creation of AGIA license
- Sept 2007 Governor Palin announces special session that will reexamine production taxes – proposes "ACES" package of reforms
- *In Oct 2007 ANS WC monthly price breaks $80 for first time*
- *In Nov 2007 ANS WC monthly price breaks $90 for first time*
- November 2007 special session passes production tax reforms

How did we get here - ACES

- 2007 Production Tax Reform ("ACES")

  - Switch from gross to net maintained
  - Tax from 22.5% to 25% of PTV
  - Progressivity (above $30 of PTV, at rate of .4% per dollar)
    - Changed from $40 and .25%
  - 20% investment credit now spread over 2 years
  - 25% loss carryforward credit (from 20%)
  - 30%/30%/40% Exploration credits incorporated (from 20%/20%)
    - Effective July 1, 2008
  - Transitional Investment Expenditure Credits ended/restricted
  - Small producer credits of up to $12 million a year
  - US costs focus from unit operating agreement and working interest owner audits to "allowed by dept. by regulation" (with 21 exclusions)
  - Retroactive to July 1, 2007

Government Take One Pager - Reminder

all figures in millions of dollars unless otherwise indicated

			Spring 2008 Forecast Totals
1	Destination Value		
2	*less* transportation costs**		
	Equals value at point of production		
3	Calculate Royalty	(includes PF%)	2,875.3
{	*less* Upstream Operating costs**		
4{	*less* Upstream Capital costs**		
{	*Equals* PTV (Production Tax Value)		
5	Calculate Base Production Tax (25% of PTV)		3,465.5
6	Calculate Progressivity Component of PT (0-50% of PTV)		1,875.0
7	Apply Production Tax Credits		(400.0)
	Sums to Production Tax		4,940.5
{	Restate PTV as ANITA taxable income, *less* production tax, *plus* worldwide income		
8{	Calculate and apply Alaska Apportionment Factor		
{	Calculate AK Corporate Income Tax as 9.4% of Alaska taxable income		619.2
	Restate PTV as federal taxable income, subtract production tax and AK CIT, calculate marginal federal income tax		
9	** Costs include state and local property taxes of 20 mills on oil and gas property	estimated	287.7
	may be difference between cost incurred and allowable costs	TOTAL:	8,722.7

Source: Dept of Revenue Tax Division Spring 2008 Forecast, Total property taxes estimated from Tax Divisions FY 2007 Annual Report

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1. Production Tax Destination Value

- <u>"Higher of" under AS 43.55.020 (f)</u>

- Start of netback is higher of sales price at destination or "value of the oil or gas of the same kind, quality and character prevailing for that field or area during the calendar month…"
- 15 AAC 55.171 defines "prevailing value" for ANS oil delivered to the west coast as average spot derived from average of *Platts, Telerate* and *Reuters* reporting services

- Royalty leases also typically have a higher-of provision

2. Production Tax Transportation Costs

- <u>“Lower of” under AS 43.55.150 (a)</u>

- Actual Costs unless
- Shipper affiliated with carrier or owner
- Contract for transportation is not arm’s length; **<u>or</u>**
- Method or terms are not reasonable in light of existing alternatives
- Then lower of actual or reasonable
- “The department shall determine the reasonable costs of transportation, using the fair market value of like transportation, the fair market value of equally efficient and available alternative modes of transportation, or other reasonable methods. Transportation costs fixed by tariff fates that have been adjudicated “just and reasonable” … shall be considered prima facie reasonable.”

- New with 2007 reforms

3. Royalties 101

- State owned land – State Royalties (which are exempted from production tax) (i.e. 7/8ths taxable)
- Federally owned land in state – Federal Royalties (which are exempted from production tax) (i.e. 7/8ths taxable) and all other state taxes apply.
  - (Royalties may be shared with State under federal legislation)
- Federally owned land not in state (off shore - outer continental shelf) Federal Royalties and no state taxes apply. (Note; in GOM federal royalties now shared with gulf coastal states.)
- Privately owned land in state – Private Royalties (which are taxable at betwen1.667 to 5% of gross) while other 7/8ths taxable under regular production tax and all other taxes apply.

3. Royalties 101

Source: Kevin Banks presentation to House Finance Committee (Jan 22, 2008)

3. Alaska Royalties 101

- In the lease – include both gas and oil
- Measured at point of production
- Older State leases 12.5% royalty (average ~13%)
- Less field cost allowance in legacy fields such as Kuparuk and Prudhoe.
- Can be taken in kind (oil or gas) or value (money)
- Some Newer leases have higher rates
- Also Net Profit Share Leases

Government Take One Pager - Reminder

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			-
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4{	*less* Upstream Capital costs**		
{	*Equals* PTV (Production Tax Value)		
5	Calculate Base Production Tax (25% of PTV)		3,465.5
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{	Calculate AK Corporate Income Tax as 9.4% of Alaska taxable income		619.2
	Restate PTV as federal taxable income, subtract production tax and AK CIT, calculate marginal federal income tax		
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	may be difference between cost incurred and allowable costs	TOTAL:	8,722.7

Source: Dept of Revenue Tax Division Spring 2008 Forecast, Total property taxes estimated from Tax Divisions FY 2007 Annual Report

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4. Production Tax Value: Upstream Costs

- AS 43.55.165 allowable upstream costs
  - include both capex as spent and opex;
  - An activity does not need to be physically located on, near or within the premises of the lease or property (AS 43.55.165 (b) (2).
- **Lease expenditures are costs,**
- **other than items listed in (e)…**
- **Incurred .., to explore for, develop or produce oil or gas deposits located …in the state**
- **Allowed by … regulation [that are]**
- **…upstream of the point of production**
- **…ordinary and necessary**
- **…direct**
- **And a reasonable allowance … as determined by the department ..for overhead**
  - Sept 2008 overhead proposal for after July 2007: 4.5%

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4. Production Tax Value: Upstream Costs

- AS 43.55.165 (e); 21 disallowed kinds of costs

- (1) depreciation, depletion or amortization
- (12) non third party transaction unless "the producer establishes to the satisfaction of the department that the amount … does not exceed fair market value"
- (15) dismantlement, removal, surrender, abandonment, restoration
- (18) $.30 a btu equivalent barrel from Capital Expenditures for all production.
- (19) any cost "that results in or is undertaken in response to a failure, problem, or event that results in an unscheduled interruption of, or reduction in the rate of, oil or gas production…"

  Unless solely necessitated by an act of war, natural disaster or other natural phenomenon of an exceptional, inevitable, and irresistible character, the effect of which could not have been prevented or avoided by the exercise of due care or foresight…
- (20) costs incurred to construct, acquire or operate a refinery of crude oil topping plant…however the producer's lease expenditures include the …fair market value of the product

Production Tax 101

- Production Tax Value PTV is tax base for both annual base calculation of 25% and monthly progressivity calculation

- <u>Other aspects</u>
- Floor (4% of gross, phased out between WC ANS prices of $25 and $15, no effect on loss carry-forwards, calculation of PTV, or ability to carry credits forward.)
- Private Royalty Tax
- Conservation Surcharge – nickel a barrel

- CI and Instate Gas Use Ceilings (17 cents per mcf)
  - Implications for credits.
  - Expire in 2022
-
- Monthly Reporting, Filing & Interest (1/12 of credits & upstream costs)
- Royalty Field Costs

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5. Production Tax Base Rate

- AS 43.55.011(e) Base Production Tax Rate of 25%
  - On Production Tax Value (PTV)
  - Which cannot be below zero

- Every year either qualified lease expenditures or PTV is reduced to zero. If there is PTV left it is taxed. If there are qualified lease expenditures left they are carried forward in form of credits.

- Loss Carry forward credit is 25% of loss or amount that qualified lease expenditures would take PTV below zero.

6. Production Tax - Progressivity

- <u>Progressivity under AS 43.55.011(g)</u>
- **<u>Monthly</u> Calculation using**
- 1/12th of lease expenditures
- Current Month prices
- Formula:
  - PTV per BTU equivalent barrel
  - Less $30
  - Then 4/10s of a percent for every dollar up to $62.5 or 25%
  - Then 25% + 1/10 of a percent for every dollar up $250 or 25%
  - Highest progressivity is 50% at PTV of $342.50
- Added to Base Production Tax of 25%
- Apply against PTV base

6. Production Tax - Progressivity

- Progressivity under AS 43.55.011(g)
- Sample Calculation

Destination Price/bbl	115	assumption
Total Upstream and Downstream Cost/bbl	30	assumption
Production Tax Value (PTV)	85	calc
Calculate Progressivity Starting Point	-30	law
Progressivty base/bbl	55	calc
Progressivity Rate/$/bbl	0.004	law
Progrssivity Rate/bbl	0.22	calc
Basic Production Tax Rate	0.25	law
Combined Rate	0.47	calc
Tax/bbl	39.95	calc

7. Production Tax Credits

Credits under AS 43.55.023 and AS 43.55.025 generally can be

- Transferred (sold) to another person
- Saved and applied against future liabilities
- Sold back to state under terms of AS 43.55.028,
  - for producers with less than 50,000 bbls a day of production
  - must reinvest in state within two years

  - $25 million cap repealed

7. Production Tax Credits

- <u>Credits under AS 43.55.023,</u>
- AS 43.55.023 (a) investment credit of 20% of qualified capital investment. Only half can be taken in year of investment
- AS 43.55.023 (b) loss carry forward credit calculated as 25% of lease expenditures “not deductible in calculating PTV”
- AS 43.55.023 (e) credit purchased from other company may not reduce tax to less than 80% of would otherwise be due
- AS 43.55.023 (i) TIE credits – now generally repealed

7. Production Tax Credits

- "New Area Development" Credit under AS 43.55.024 (a) - (b)
- Up to $6 million a year against PTV from a New Area Development (not North Slope, not Cook Inlet)

- "Small Producer" Credit under AS 43.55.024 (c) - (d)
- Up to $12 million a year applicable against AS 43.55.011(e) taxes
- If not more than 50,000 BTU equivalent bbls a year
  - Phases out between 50,000 and 100,000 bbls
  - 1- [2 X (AP – 50,000)]/ 100,000

- All 024 credits:
- Non transferable, non saleable, can't carry over
- Sunsets in 2016
  - Or if no production before 2006, but production starts before 2016, then 9 years of the credit.

- Test under AS 23.44.024 (e):
  - A producer must demonstrate… that its operation in the state … would not result in the division among multiple entities of any production tax liability that reasonably would be expected to be attributed to a single producer if the tax credit provisions …did not exist.

7. Production Tax Credits

- <u>Credits under AS 43.55.025</u>
- AS 43.55.025 (b) & (c) credit of 30% of exploration costs more than 3 miles from existing bottom hole ((except in CI) where has been pre- approved by the commissioner of DNR as new exploration target)
- AS 43.55.025 (b) & (d) credit of 30% of exploration costs more than 25 miles from a 2003 unit boundary
- AS 43.55.025 (b), (c) & (d) credit of 40% of exploration costs that meet both criteria
- AS 43.55.025 (b) & (e) credit of 40% for seismic costs
- AS 43.55.025 (l) credit of 5% for pre 2003 work DNR considers making public in best interest,
- Data generated by activity that created credit becomes public
  – Well data after 2 years
  – Seismic data after 10 years

Fully transferable or salable or can be carried forward.

7. Production Tax Credits

Simplified Production Tax Example	Year 1	Year 2 (Start second project)	Year 3 (Both projects profitable)
Destination Value	100.0	100.0	200.0
less Downstream Costs	(10.0)	(10.0)	(20.0)
Gross Value at the Point of Production	90.0	90.0	180.0
less Royalty	(11.3)	(11.3)	(22.5)
less Opex	(10.0)	(10.0)	(10.0)
less Capex	(10.0)	**(80.0)**	(10.0)
equals PTV (Production Tax Value)	58.8	zero	137.5
Calculation of loss		(11.3)	
Base Production Tax Rate/Credit Conversion	25%	25%	25%
Base Production Tax Dollars	14.7	-	34.4
Investment Credit (20% over two years)	(1.0)	(9.0)	(18.0)
Loss Carry Forward Credit		(2.8)	(2.8)
Tax Due	13.7	(11.8)	13.6

AK Fiscal System One Pager - Reminder

	all figures in millions of dollars unless otherwise indicated		Spring 2008 Forecast Totals
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	Equals value at point of production		
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Source: Dept of Revenue Tax Division Spring 2008 Forecast, Total property taxes estimated from Tax Divisions FY 2007 Annual Report

8. AK Corporate Income Tax 101

- <u>AS 43.20 Alaska Net Income Tax Act</u>
- a corporate income tax (CIT) rate of 9.4% for all income above $90,000.
- Not separate accounting (9.4% of income from an Alaskan project)
- Instead Apportionment which means
  - CIT = 9.4%* AK App Factor * Everywhere Income

Where

- – Everywhere income = Federal taxable income plus any taxes based on or measured by net income added back.
- – AK App Factor = the Alaska Apportionment Factor

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- Sample Calculation

International Oil Company A
Figures in millions of dollars or barrel equivalents

	Alaska	Everywhere	Ratio
Sales	250	25,000	1%
PPE	4,000	40,000	10%
Production	250	1,000	25%
Alaska Apportionment Factor			12%
Income (before Taxes)			2,500
Alaska Apportioned Income			300
Alaska Tax Rate			9.4%
Alaska Corporate Tax			28.2

For incremental analysis: Most “separate accounting income” generated in the state will be apportioned off and taxed elsewhere; most of the income taxes collected in the state will have been generated from “separate accounting income” generated elsewhere.

9. Alaska Oil & Gas Property Tax 101

- AS 43.56 Oil and Gas Exploration, Production and Pipeline Transportation Property Tax

- Assessed Value
  - State centrally assess "oil and gas property",
- Tax
  - State taxes at 2% (20 mills) a year. Allows credit for taxes paid on 43.56 property to localities
  - Localities that have property taxes can apply their general rates against "oil and gas property", and other property (tankers, office buildings, vehicles etc.)
    - No effective formal cap on local rate
    - Informal caps are state's 20% rate and local pressures

9. Alaska Oil & Gas Property Tax 101

- 3 classes of property under AS 43.56.060

- Exploration property (rigs) (1% of 2008 Roll)
  - Sales Value
- Production Property (62% of 2008 Roll)
  - Cost during construction; Replacement cost new less depreciation (base on economic life of proven reserves) thereafter
- Pipeline Property (37% of 2008 Roll)
  - Cost during construction; “with due regard to the economic value of the property based on the estimated life of the proven reserves…” thereafter
  - 15 AAC 56.110 - “standard appraisal techniques such as replacement cost less depreciation, capitalization of estimated future net income, analysis of sales or other acceptable methods”
  - Current department focus is on cost methods

Conclusion – What's next?

- In state energy focus
  - Alaska Natural Gas Development Authority (angda.org) "a public corporation focused on getting North Slope natural gas to Alaskan communities"
- On going DOR Regulations Project
- General Fund Deficit in 2009?
- Gasline sponsors' suggestions on fiscal issues

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Production Tax Regulations Project

	Discussion Draft 1	Discussion Draft 2	Discussion Draft 3	Public Comment Draft 1	Public Comment Draft 2	Adopted
Project One - Lease Expenditures	Jan-08	Mar-08	Sep-08			
Project Two - NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting	Feb-08			Apr-08	Sep-08	
Project Three - Reporting Requirement				Feb-08		May '08 effective as of June '08
Project Four - Reasonable Transportation	Mar-08	May-08				
Project Five - Exploration Credits				Aug-08		

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Production Tax Regulations Project

- Regulations are written by the department and are published in the Alaska Administrative Code.
- Formal regulations process
  - Workshops and discussion drafts
  - Comment Draft (Adoption)
  - Lieutenant Governor actual adopts
- Regulations Work and Advisory Bulletins
- http://www.tax.alaska.gov/programs/programs/index.aspx?60652

- On the web: http://www.tax.state.ak.us/ >Programs > Oil & Gas Production Taxes > ACES Oil and Gas Production Taxes
- To be put on the DOR interested person email list for these projects please contact Shelly Boyer-Wood 907 269 6625

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FY 2009 GF Budget – 7,523.3

FY 2009			
At forecasted production of 0.701 mmbbls/day			
ANS $/barrel	Total capital & operating costs In dollars/barrel		
	$15	$18	$21
$50	3,356	3,044	2,743
$55	3,862	3,505	3,204
$60	4,509	4,060	3,663
$65	5,202	4,718	4,275
$70	5,942	5,423	4,946
$75	6,728	6,174	5,664
$80	7,562	6,974	6,430
$85	8,440	7,817	7,240
$90	9,367	8,709	8,099

Source: Appendix A2 DOR Fall 2007 Revenue Sources Book, Legislative Finance Division State of Alaska Fiscal Summary (Sept 1, 2008)

TransCanada's AGIA application suggestion:

- "TransCanada would rely on the State of Alaska to take all feasible actions exclusively within its authority as a sovereign power to ensure a favorable economic environment for potential Shippers on the Project. Those actions include:
- engaging with the ANS producers to reach agreement on a commercially reasonable and predictable upstream fiscal regime that balances the needs of the state and the ANS producers;
- and encouraging robust exploration for and development of new natural gas resources and the commitment of such resources to the Project."

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Source: TransCanada, Application for License, Alaska Gasline Inducement Act (November 30, 2007) page 2.5-52

ConocoPhillips' Proposal

- ConocoPhillips' Proposal (ConocoPhillips current owner with BP of Denali Project)

  "The predominant lessee risk that should be the focus of discussion with the State is the risk of unclear, unpredictable State taxes and royalties. In order to enable shippers to make a long term shipping commitments, prospective shippers need clearly defined natural gas fiscal terms and an understanding of the period during which these terms will apply. Addressing these issues remains a critical component necessary to develop ANS natural gas resources and make this Project a reality."

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Source: ConocoPhillips, ANS Natural Gas Pipeline Proposal to the State of Alaska, (November 30, 2007) section IV page 5

ConocoPhillips Proposal

- Does the current fiscal regime meet these standards?

- Gas exported from state and oil taxed at same rate – both part of combined progressivity calculation.
  - Prices swings in one can effect tax on the other
  - Progressivity triggered by $30 a barrel PTV

	($/mmbtu)	X 6
US EIA Gas price Forecast	6.53	39.18
pipeline & GTP Tolls	2.76	16.56
Gross Value	3.77	22.62
less Upstream Cost		
PTV		

Source (example) : TransCanada, Presentation to AK State Legislature (February 6/7 2008)

18. Summary and Take Away Points

- Pendulums swing
- Current Shift from
  - Thinking of taxes as a drag on business activity, so they should be as low as they can be, with the only constraint that state needed sufficient resources to finance government (?without other major taxes.)
- To
  - Thinking of the tax system more like a royalty; “It’s our oil or gas” so government take should be as high as it can be, with the only constraint that taxes do not drive away investment.

- Mirrored by movements to make Taxes more contractual and durable – i.e. more like royalty
- Anticipate further developments when and if switch from oil base to gas base – timing?

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Sources

- Royalties administered by the Department of Revenue, Division of Oil and Gas which publishes an Alaska Oil & Gas Annual Report

  On the Web: state.ak.us > Departments>Natural Resources>Division of Oil and Gas>Annual Reports

- Property Taxes, Production Tax and Corporate Income Taxes administered by the Department of Revenue, Tax Division which publishes (semi-annually) the Revenue Sources Book and annual Operations Report
  - On the Web: state.ak.us > Departments>Revenue>Tax Division>Reports>Annual Report of Operations or Revenue Sources Book

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Sources - Alaska Law

- Statute –for example AS 43.55.165 (e)
  - Title 43 – Revenue – of the Alaska Statutes
  - Chapter 55 – Production Tax
  - Section 165 – Lease Expenditures
  - Subsection (d)
- Regulations – for example 15 AAC 55.171 (a)
  - Title 15 – Revenue – of the Alaska Administrative Code
  - Chapter 55 – Production Tax
  - Section 171 – Prevailing value for Oil
  - Subsection (a)

Also legislation – for example – SCS CSHB 2001(FIN) may contain uncodifed law such as transition provisions

On the Web: state.ak.us > Departments>Law>Department of Law>Legal Resources

Thank You

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