

Beyond the North Slope:
Recent Changes to Alaska's Oil and Gas
Taxes Aim to Revitalize Investment in
Cook Inlet and the Rest of Alaska

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6th Annual Oil & Gas Congress
Anchorage, AK

Sept 29, 2010

Context – AK's Oil and Gas Regimes



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

Context Alaska's Oil and Gas Regimes

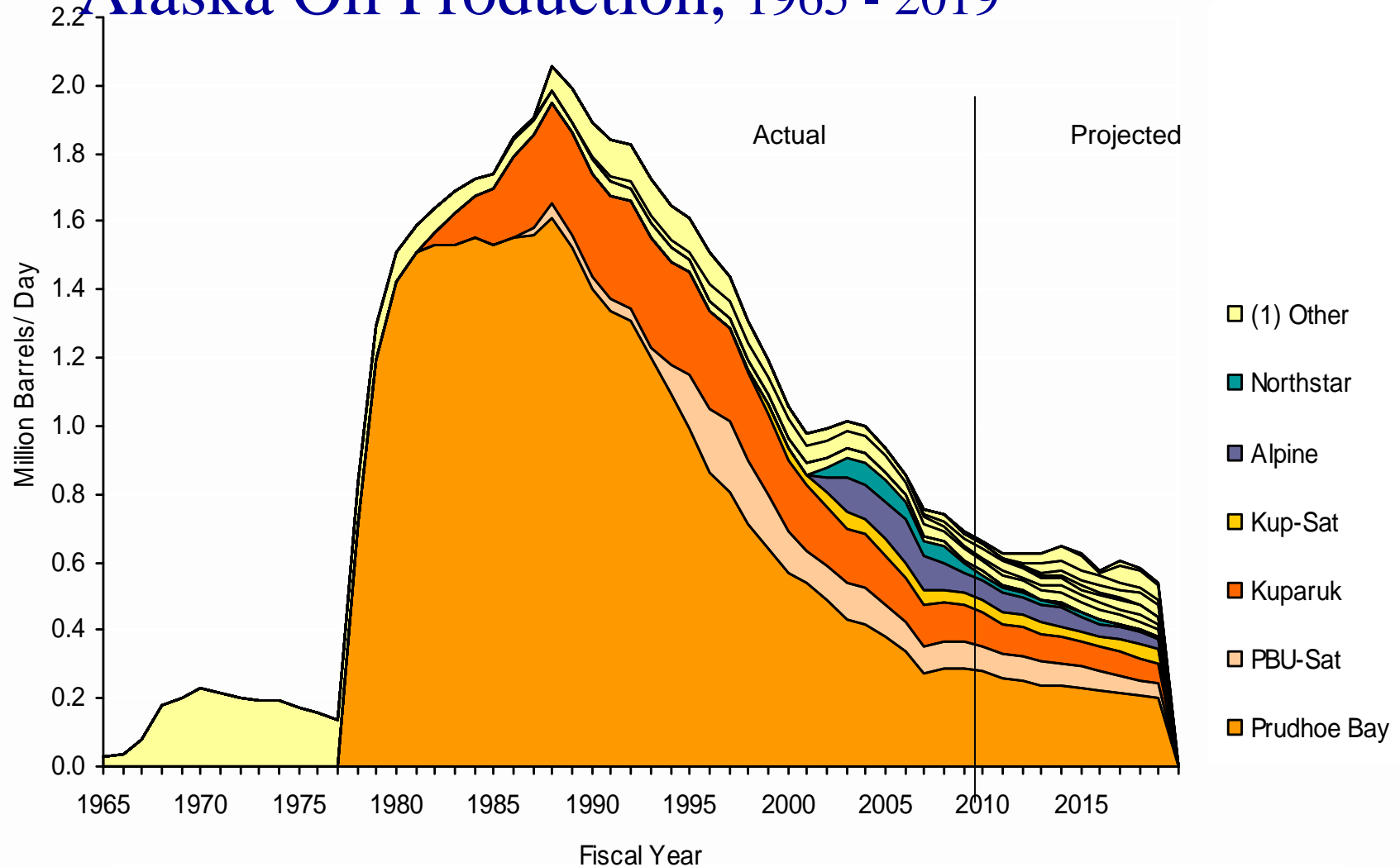
Alaska Production Sold 2008

(not including gas reinjected or used on lease)

	<u>Million b/d</u>	<u>Million Boe/year</u>	
NS Oil (inc NGL)	0.728	265.8	92.1%
CI Oil	0.012	4.5	1.6%
	Million cf/day		
CI Gas	232.3	14.1	4.9%
NS Gas	70.1	4.3	1.5%
Total Alaska		<hr/> 288.7	

Context – Alaska's Oil and Gas Regimes

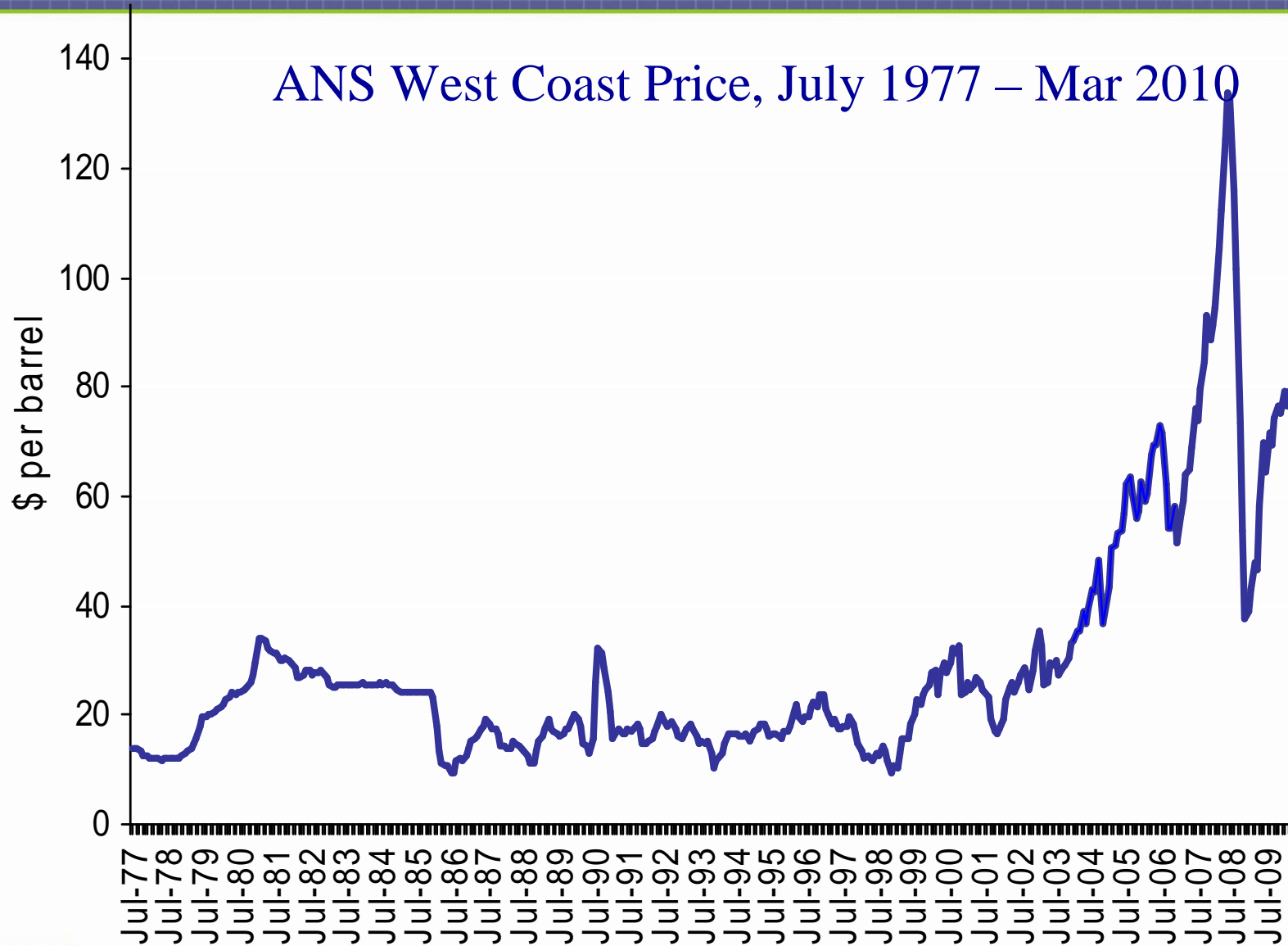
Alaska Oil Production, 1965 - 2019



Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book & Fall 1999 RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

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Context - Alaska North Slope Crude



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Source: Alaska Department of Revenue, Tax Division

Context – Alaska’s Oil and Gas Regimes

Tax on Gas

AS 43.55

Current Cook Inlet & Used In State (- 2022)	17.7 cents per mcf (avg)	.011 (j) & (o)
Future Exported gas (ex CI)	NS Oil Regime (?)	

Tax on Oil

North Slope	North Slope Regime	
CI (-2022)	zero	.011 (k)
Other (- 2016)	North Slope Regime w/ \$6 million annual credit	0.024 (a)

- Note: “Production Tax Value” of Hydrocarbons other than North Slope go into calculation of Progressivity charge applied to North Slope Oil.

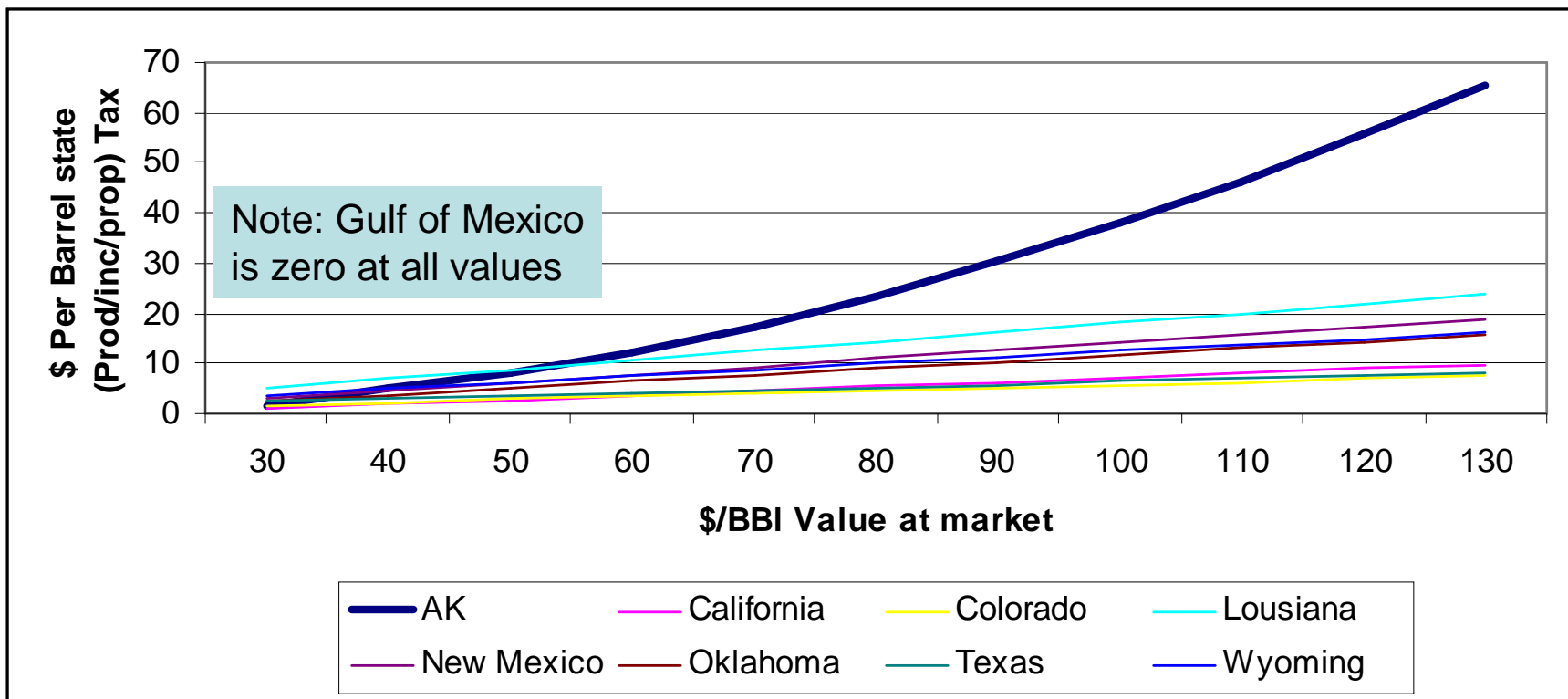
Context – Alaska North Slope Crude

- How Is Alaska's North Slope Oil Production Tax calculated?
- Net Value (after deducting all* direct exploration, development and production costs)
- Times
- { 25% +
- Progressivity Charge (an additional 0 – 50%)}
- = Base Tax
- Less Credits (20% of investment, 30% exploration, \$1 million a month for smaller producers)

Three other bites at the apple: Special 9.4% oil and gas income tax, 2% special oil and gas property tax and, with most production coming from state land, royalty average of about 13%

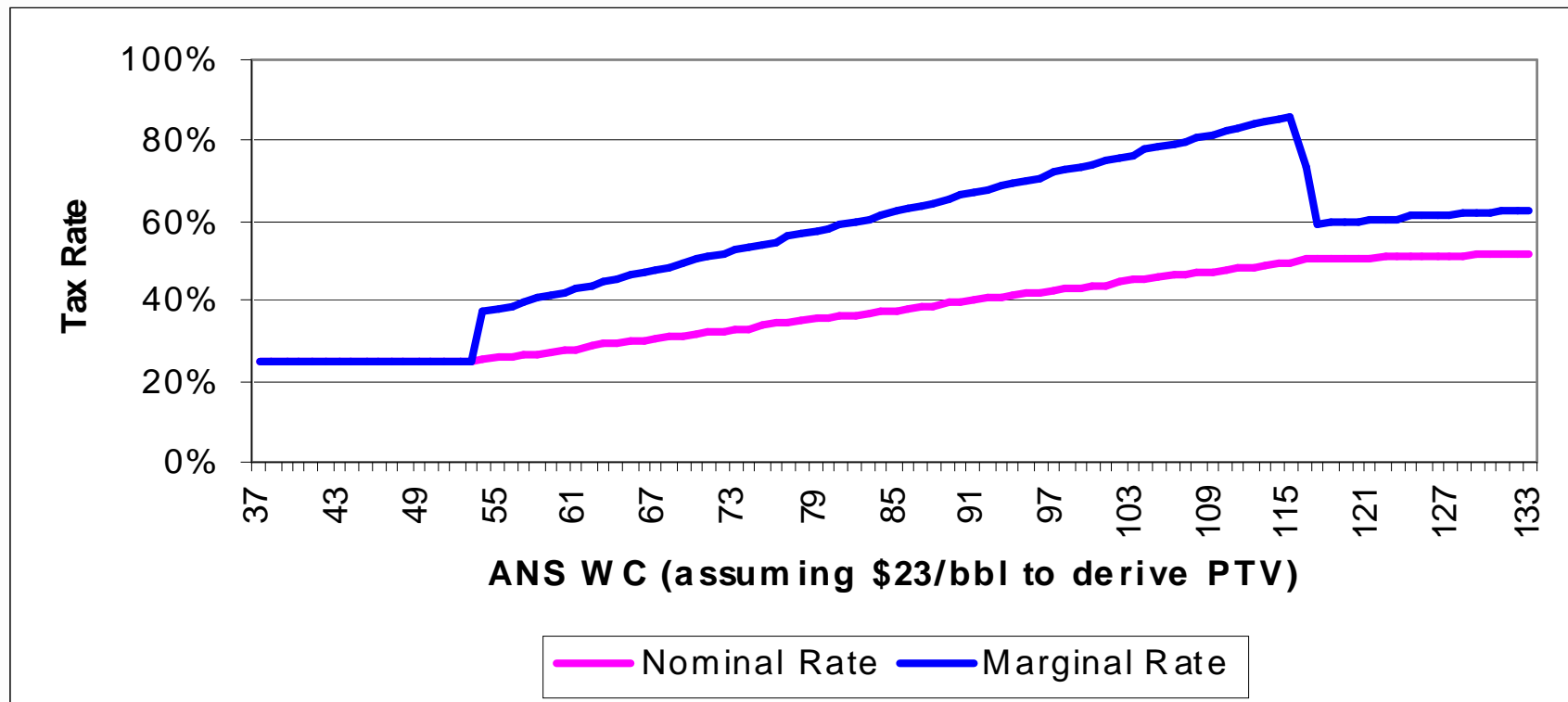
Context – ANS Crude 1. Net and 2. Progressivity

- Taxes on a Prudhoe Bay like field in other states (assuming away required TAPS and tanker infrastructure but maintaining high per bbl in field cost.) (no royalty or federal income tax included): Base rate 25%



Context – ANS Crude – 2. Progressivity

- Production Tax rate: 25% plus progressivity
- Progressivity= .4% per \$1 PTV above \$30/bbl
- (Flattens out to .1% per \$1 PTV above \$92.5)

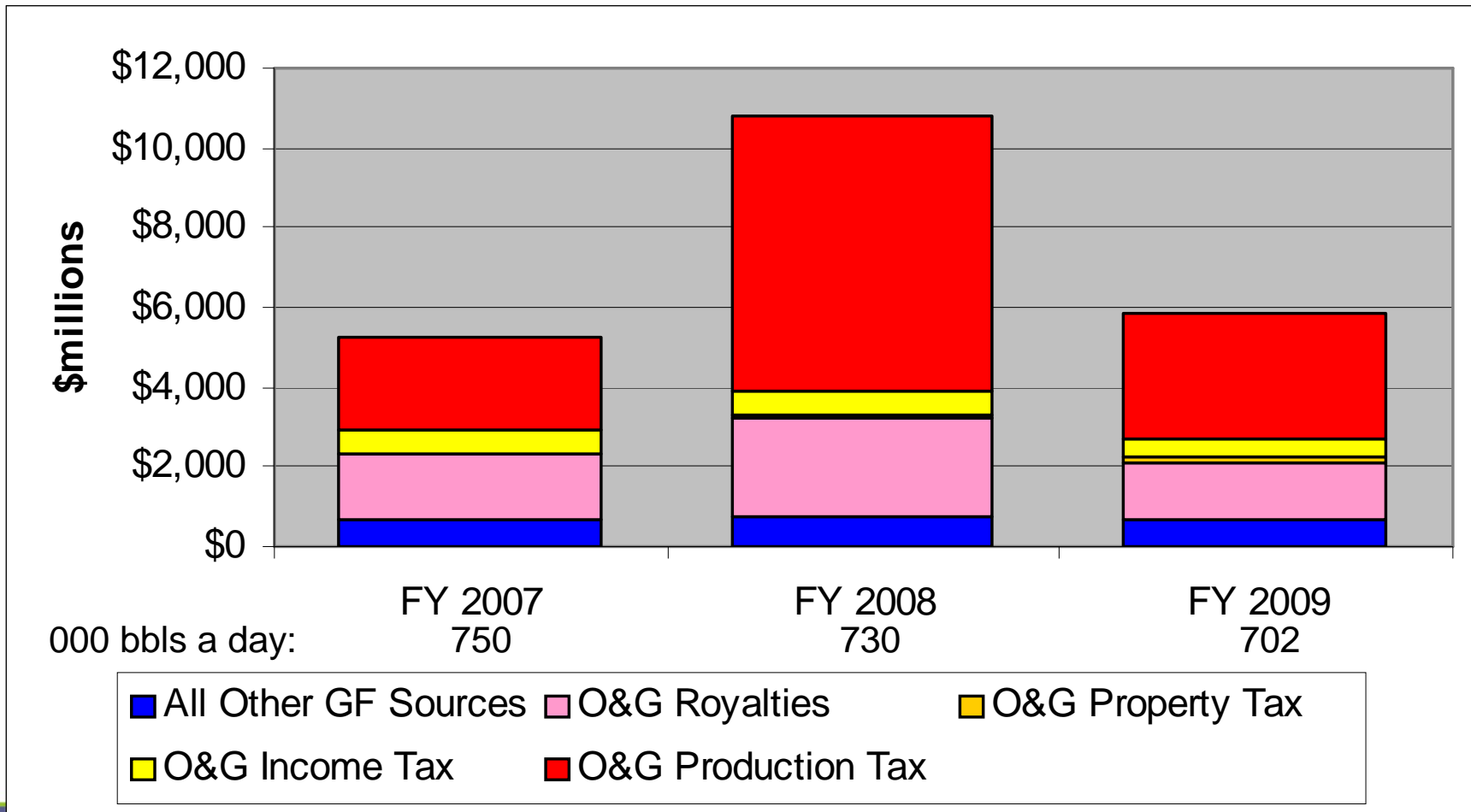


- (Notes: Range of ANS WC prices seen since 2006 Reform) Does not include royalty, income or property tax)

Context – 2. Progressivity/3. Volatility/4. Concentration

State of Alaska General Fund Revenues

WC ANS price: \$61.63 \$96.51 \$68.34



SOURCE: SOA DOR Fall 2007, Fall 2008 & Fall 2009 Revenue Sources Book

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Context – 2. Progressivity/3. Volatility/4. Concentration

State of Alaska General Fund Revenues (& WC ANS price)

	FY 2007	FY 2008	FY 2009
Average ANS WC Price/bbl	\$ 61.63	\$ 96.51	\$ 68.34
<i>figures in \$000:</i>			
O&G Production Tax	2,292.3	6,879.0	3,112.0
O&G Income Tax	594.4	605.8	492.2
O&G Property Tax	65.6	81.5	111.2
O&G Royalties	1,613.0	2,446.1	1,465.6
O&G Subtotal	4,565.3	10,012.4	5,181.0
All Other GF Sources	675.2	780.0	650.2
Total GF	5,240.5	10,792.4	5,831.2
Thousands bbls a day:	750	730	702
O&G as % of State GF Rev	88%	93%	90%

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SOURCE: SOA DOR Fall 2007, Fall 2008 & Fall 2009 Revenue Sources Book

Context – 5. Concentration

- Who Pays Whom?
- 17 Production Tax Payers (per Tax Division FY 2009 Annual report)
- To Whom?
- State Government and 32 Explorers (FY 2009 TDAR)
- Via the “Oil and Gas Credit Fund” which receives
 - 10% of production tax when ANS WC < \$60 and
 - 15% of production tax when ANS WC > \$60

Context – 5. Concentration

- Simple Analysis of FY 2009 Production Tax Cash Flows

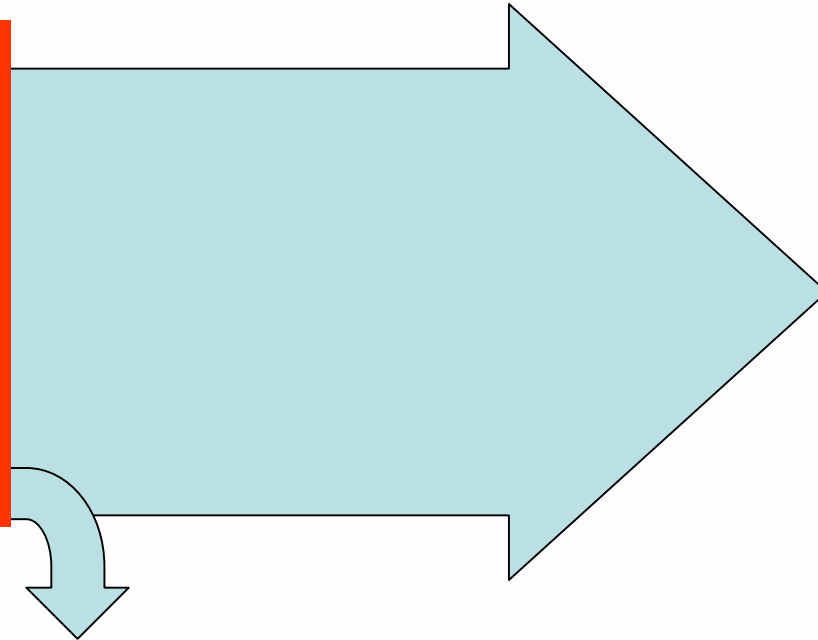
Producer:	Estimated (allocated by volume) base tax	Less Small Producer Credit	Result	Less Investment Credits Per RSB (allocated proportionally)	Resulting Tax	Percentage of Total Tax
CP	1,490.6		1,490.6	(147.0)	1,343.6	46%
BP	1,114.8		1,114.8	(110.3)	1,004.5	34%
EM & XTO	690.8		690.8	(66.0)	624.8	21%
Anadarko	118.1	(12.0)	106.1	(11.0)	95.1	3%
Chevron & Unocal	69.5	(12.0)	57.5	(14.4)	43.1	1%
Pioneer NR	14.2	(12.0)	2.2	(1.3)	0.9	0%
Marathon	8.4	(8.4)	-			
ML&P	2.1	(2.1)	-			
Pacific Energy	-	-	-			
ENI	6.1	(6.1)	-			
Aurora	0.2	(0.2)	-			
Murphy	1.9	(1.9)	-			
Nana	0.3	(0.3)	-			
Doyon	0.1	(0.1)	-			
Petro-Hunt	0.0	(0.0)	-			
	<u>3,517.1</u>	<u>(55.1)</u>	<u>3,462.0</u>	<u>(350.0)</u>	<u>3,112.0</u>	
Paid To Explorers (per Revenue Sources Book)					<u>(200.0)</u>	<u>-7%</u>
Total					<u>2,912.0</u>	<u>100%</u>

Source: Fall 2009 DOR Revenue Sources Book

Context- 5. Concentration

FY 2009

103% Production Taxes paid by 3 large producers
(ConocoPhillips, ExxonMobil and BP)
4% Production Taxes paid by 3 other producers: Anadarko, Chevron and Pioneer



State Government Receives **100%** Of Net Tax

-7% to Net Recipients: 11 Smaller Tax Payers and Approximately 15 explorers including, Armstrong Resources, Aurora, Brooks Range, Doyon, ENI, Forest, Marathon, ML&P*, Murphy, NANA, Pacific Energy Pioneer (Lawrenceville, Ill), Petro Hunt, Rampart Energy, Rutter & Willbanks, Savant Alaska, Storm Cat Energy, Ultrastar (or their owners)

Source: Fall 2009 DOR Revenue Sources Book and 2009 monthly AOGCC Drilling Summaries

Context – 6. Credits

- AK's New (2006, 2007) Credits
- 20% of Qualified Capital Expenditures (defined to include (i) federally reported capital costs as incurred (ii) IDC and (iii) exploration costs so as to include dry wholes (AS 43.55.023(a))
- 30% for exploration costs more than 25% miles from unit boundary or 3 miles from prior bottom whole or in the CI for a new exploration target, and 40% if both qualifications are met (AS 43.55.025)
- **THOSE TWO ARE MUTUALLY EXCLUSIVE**
- 25% loss carryforward which means in preproduction phase exploration costs generate 65% to 55% (25%+30% or 40%) credits and in development 45% (20%+25%) credits

Oil & Gas in the 26th Legislature

- **The 26th Alaska State Legislature**
- Lots of focus on Oil & Gas Legislation
- Arguments about whether investment was increasing or decreasing (my sense: increase in subsidized exploration, decrease in large producer's on-going investment)
- Arguments about decreasing or increasing employment or unemployment claims and date of peaking (annual vs. monthly(?))

Oil & Gas in the 26th Legislature

- 104 pieces of legislation are listed in BASIS as being “oil and gas” related in the 26th Alaska legislature
- What happened to them?

	Did not pass out of that body	Made into but not out of other body	Became Law or Resolve (2009)	Passed out of Legislature (2010)	Total
House					
"Oil & Gas" Bills	36	1	2	4	43
"Oil & Gas" Resolutions	7	6	5	5	23
Senate					
"Oil & Gas" Bills	23	1	1	4	29
"Oil & Gas" Resolutions	5	0	1	3	9
Total	71	8	9	16	104

- **NOTE: SB 305 Vetoed, other 7 bills become law**

Oil & Gas in the 26th Legislature

2009 Joint Resolutions

- HJR 24. Endorsing ANWR Leasing
- HJR 26. Opposing ANWR Wilderness Designation
- HJR 5. Oil Tanker Escort Vessels/Oil Spill Anniv
- HJR 14. Urging US to Ratify Law of the Sea Treaty
- HJR 29. Oppose Restriction on Oil/Gas Activities
- HJR 16. Offshore Oil & Gas Revenue

2010 Resolutions

- HR 17 Export License Ext. for Kenai LNG Plant
- SR 12 Export License Ext. for Kenai LNG Plant
- SR 10 Domestic Natural Gas & Alt Energy

2010 Joint Resolutions

- HJR 45 Oppose Federal Cap and Trade Legislation

2010 Concurrent Resolutions

- Suspend Uniform Rules for SB 220, SB 305 & HB 369
- HCR 2 In-State Gas Pipeline

Source: Basis (Ak Legislature Website)

Some 26th Legislature Legislative Proposals - Rate

- Rep Johnson's Proposal HB 308/(Sen McGuire: SB 267)
- Progressivity rate dropped from .4% to .2%
- Resident Hire rebates can drive 25% base rate down to 20%
- *Discussed introducing brackets into Progressivity*

- Rep Millet's Proposal HB 321
- 25% base rate down to 20%
- *No change to progressivity*

- Rep Kelly's Proposal HB 351
- Production tax holiday for "new production"
- Credit = (production from leases or properties with out commercial production before 2012/all production) * total tax

Some 26th Legislature Legislative Proposals

Rep Crawford's Proposal HB 48

- Gas Reserves Tax – 1 billion a year on major lease holders (3 cents per mcf times 35 tcf) until they commit to an AGIA licensed project; could reclaim as credit when gas is shipped

Rep Crawford's Proposal HB 189

- Continue formulaic calculation of non capital lease expenditures at Kuparuk and Prudhoe as 3% annual markup of 2006 costs

Reps Gruenberg, Seaton, Cissna, Tuck, Peterson & Gatto Proposal HB 11

- “When interpreting a lease entered into under this section, ambiguous language shall be construed in favor of the state and against the interpretation offered by the person challenging the state’s interpretation.

Some 26th Legislature Legislative Proposals

- Interest Issues
 - Rate
 - No interest arising from retroactive regulations (SB 309)
- Credits for Well Work
 - General Production Well Tax Credit
 - Specific geographical credits (HB 280)
 - Income Tax Credits (SB 309)
 - Eliminate special constraints on CI ‘generated’ credits (HB 280)
- Statute of Limitations drops from 6 years back to 3

Some 26th Legislature Legislative Proposals

- Governor Parnell's Proposed Production Tax Changes SB 271/HB 337
- (1) Interest not due on retroactive changes (SB 309)
- (2) Credits Purchased without "forward spend" (SB 309)
- (3) Credits not spread over two years (HB 280 – for some non-North Slope credits)
- (4) 30% credit for well work (HB 280 – 40% credit for non North Slope well work)

26th Legislature “Oil and Gas” Statutes

2009

- HB 113 Supplemental/Capital/Other Appropriations
- HB 152 2009 Revisor’s Statute (nothing in title 43)
- SB 116 Approp: Energy Assistance (LIHEAP)

2010

- **HB 280 Cook Inlet Recovery Act**
- HB 306 State Energy Policy
- HB 326 Supplemental/Other Appropriations
- **HB 369 In-State Pipeline/Manager Team**
- SB 220 Energy Efficiency/Alternative Energy
- SB 236 Tax Credits for Education Contributions
- **SB 305 Separate Oil & Gas Production Tax (Vetoed)**
- **SB 309 Gas Exploration/Development Tax Credit**

One Slide on SB 305

- SB 305 Passed the legislature and vetoed by Governor.
- Under current (Sept 2010) conditions – if the state built a 4.5 bcf a day gas line project it would receive less production tax revenue, not more. Why?
- ANS is \$75, less \$25 in costs = \$50 boe wellhead; progressivity triggered meaning 8% additional tax
- Henry Hub Gas price of \$4 mmbtu, less a Tariff of \$3 = \$1 (convert to barrels on a btu basis) = \$6 boe wellhead
- Average boe is now \$28: no progressivity; 8% of \$50 (\$4) lost more than 25% of \$6 (\$1.5) gained.
- SB 305 would have calculated progressivity separately for oil and gas. Under current (high oil, low gas) prices typically would have levied higher taxes.

CIRA – HB 280

- HB 280
- Sponsored by Reps Hawker & Chenault
- Garnered 13 co & cross sponsors
- Senate CS for CS for House Bill no. 280(FIN)
- Short Title: “Cook Inlet Recovery Act” – CIRA
 - (Added Middle Earth – or New Development Areas to well credits)
- 1. Refundable CIT credit for creating gas storage (statewide).
- 2. Guidance to the RCA on approval of gas supply contracts (statewide).
- 3. Regulatory (RCA/DNR/DOR) guidance on storage
- 4. Cook Inlet (and ME) Credits Expanded

HB 280

- 1/15/10 Prefile Released
- 1/19/10 First House Reading (assigned L&C, Res & Fin)
- 2/17/10 Moved out of H Labor & Commerce
- 3/17/10 Moved out of H Resources
- 3/22/10 Moved out of H Finance
- 3/23/10 Second House Reading
- 3/24/10 Third House Reading, Passed House 38 Y (2 excused)
- 3/25/10 First Reading in Senate (assigned Res & Fin)
- 4/10/10 Moved out of S Resources
- 4/18/10 Moved out of S Finance
- Second Senate Reading
- Advanced to Third Reading
- Third Reading, Passed Senate 20 Y, effective date consent
- House Concurrence 40 Y, effective date consent

CIRA – 1. Refundable Tax Credit for Storage- i

- New AS 43.20.046 (a)
- For a qualifying gas storage facility:
- CIT credit equal to \$1.50 for each 1000 cf of “working gas storage capacity”
- Credit capped at \$15,000,000 per facility or 25% of costs incurred to “establish” the facility
- Must commence commercial operations after 12/1/2010 and before 1/1/2016
- New AS 43.20.046 (b)
- Must have minimum capacity of 500,000 mcf
- Must have minimum withdrawal rate of 10,000 mcf/day
- Must be regulated (i.e. not proprietary)

CIRA – 1. Refundable Tax Credit for Storage - ii

- New As 43.20.046 Process
- Go to AOGCC which certifies “working gas storage capacity” & withdrawal rate (AS 31.05.032.) That certification is basis of credit AS 43.20.046 (c) & (f)
- Credit is ‘refundable’ if it can’t be used by taxpayer (AS 43.20.046(d))
- Department may use money from “oil and gas tax credit fund” to refund (AS 43.20.046(e) & AS 43.55.028 (a))
- Proportional clawback if facility ceases commercial operations within 10 years (AS 43.20.046(h))

CIRA – 2. Guidance to RCA on contracts

- The purchase of gas by public utilities is regulated by the Regulatory Commission of Alaska
- RCA shall recognize the public benefit of diversified portfolio of gas supply contracts (AS 42.05.141 (d))
- RCA shall consider risk to public if supply contracts are rejected. (AS 42.05.141 (d))
- The public advocacy group for regulatory affairs must also pay attention to these same ideas (AS 44.23020(e))
- The “just and reasonable rate” to a utility of gas storage shall include the benefits of exemption from fees and tax credits (AS 42.05.381 (k)) i..e Tax and Royalty benefits passed on to consumers.

CIRA – 3. RCA Regulatory Guidance to RCA on Storage

- RCA uncertain as to whether its general grant of authority included gas storage
- RCA jurisdiction specifically expanded to include “furnishing the service of natural gas storage to the public for compensation.” (AS 42.05.711(q) & AS 42.05.990)
 - However,
 - does not include proprietary storage
 - not if part of a pipeline facility, natural gas pipeline facility or North Slope natural gas pipeline facility

CIRA – 3. Regulatory Guidance to DNR on Storage

- Currently: Department of Natural Resources Regulates Gas Storage
- DNR directed, “when reasonably possible” to expedite permitting for a “gas storage facility” (AS 38.05.035(a) (13))
- DNR may not deny an application because a gas storage facility would be proprietary. (AS 38.05.035(n))
- DNR shall exempt qualifying gas storage facilities from fees for first 10 years (AS 38.05.180(n))
 - Public info
 - Recapture provision
 - Value passed along in storage contracts
- Gas withdrawn from a gas storage facility is considered non-native gas until all non native gas withdrawn ((AS 38.05.180(n))

CIRA – 3. Regulatory Guidance to DOR on Storage

- DOR ability to apply the AS 43.55.020(f) “higher of rule” (i.e. of value when produced and when sold) is affirmed
- Gas withdrawn from a gas storage facility is considered non-native gas until all non native gas withdrawn(secs 5 & 15) (AS 43.55.023(i) or (j))

CIRA – 4. Non NS Investment Credits Expanded - i

- AS 43.55.023 (l) & (n) ((m)&(o) in legislation)
- New non-North Slope 40% credit for costs “directly related to an exploration well, a stratigraphic test well, a producing well, or an injection well other than a disposal well, located in the state south of 68 degrees North latitude, if the expenditure is a **qualified capital expenditure** and an **intangible drilling and development cost** authorized under 26 U.S.C. (internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well includes an expenditure for well sidetracking, well deepening, well completion, or well workover, regardless of whether the well is or has been a producing well”; or
- seismic work conducted within the boundaries of a unit

CIRA – 4. Non NS Investment Credits Expanded - ii

- AS 43.55.023 (l) & (n) ((m)&(o) in legislation)
- intangible drilling and development costs (or things that could qualify as IDCs, regardless of election) qualify for 40% credits
- New credit can be used in a single year (l)
- (confusion and language in (m))

CIRA – 4. Non NS Investment Credits Expanded - iii

- The “as if” AS 43.55.011(m) rule that certain credits generated from CI or instate gas activity are restricted from wider use by a test of how they would have been used without the AS 43.55.011(j) and (k) limitations is no longer effective for costs incurred after 1/1/2011.
- Purchase of otherwise qualifying Cook Inlet (& ME) credits no longer requires matching “forward spend” (AS 43.55.28 (e) (2) restricts to CI: NOTE SB 309 repeals entire subsection
- DOR regs on credit purchases cannot otherwise distinguish NS and non NS credits (AS 43.55.028(g))

SB 309

- SB 309
- Sponsored by Senate Rules Committee
- House CS for CS for Senate Bill no. 309(FIN)
- Portions similar to HB 229 (sections 1 - 4, 6, 7,11)
- Portions similar to Governor's Proposals (sec 8, 12)

- 1. Interest forgiveness for retroactive regulations
- 2. "Forward Spend" requirement waved for selling credits to state
- 3. Upgrades the Cook Inlet CIT credit.
- 4. 100%/90%/80% credits for Jack up rig in CI

SB 309 : Precursors

- HB 229 – CI gas CIT bill
- 4/14/09 First House Reading (assigned Res, Fin)
- 3/25/10 Moved out of H Resources

- HB 337 – Governor's O&G proposals
- 2/10/10 First House Reading (assigned Res, Fin)
- 4/9/10 Moved out of H Resources

- SB 271 – Governor's O&G proposals
- 2/10/10 First Senate Reading (assigned Res, Fin)

SB 309

- 3/25/2010 First Senate Reading (assigned Res, Fin)
- 4/10/10 Moved out of S Resources
- 4/16/10 Moved out of S Finance
- 4/16/10 Second Reading
- Advance to Third Reading
- Passed 19 Y (1 excused)
- 4/16/10 First Reading in House (assigned Fin)
- 4/17/10 Moved out of H Finance
- 4/17/10 Second Reading in House
- 4/18/10 Third House Reading
- Passed 37 Y 2 N (1 absent)
- Senate Concurrence Y 20

SB 309: 1. State Purchase of Credits

- Credits received 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 to the state under certain conditions (AS 43.55.028) for companies
 - producing less than 50,000 bbls a day
 - reinvesting that amount in Alaska either through qualified capital expenditures or lease sales within 24 months
 - With no outstanding tax liability to the state (production tax and others)
- (no sooner than half in year issued, half in later year)

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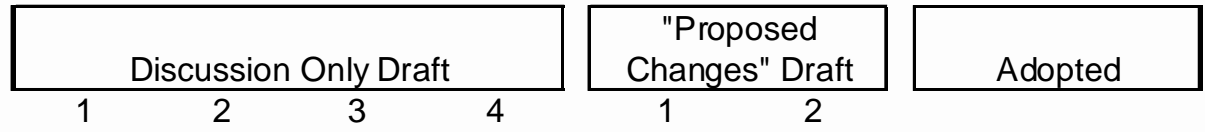
SB 309: 2. Interest forgiveness for retroactive regulations

- Interest rate on delinquent taxes is 11% compounded quarterly, back to date tax was originally due
- Statute of limitations for audits was changed to six years in 2007 reforms.
- Assessment could start out being 2/5rds interest

SB 309: 2. Interest forgiveness for retroactive regulations

- 2006 Reforms followed by 2007 regulations

- 2007 Reforms:



15 AAC 55. 520	Reporting				Feb-08		Apr '08 effective as of May '08
Register 192							Sep '09 effective as of Oct '09
NS PV, Civil Penalties, Mid Year Statutory Changes, CI reporting					Apr-08	Sep-08	
33 sections		Feb-08	Oct-08	Nov-08			
Exploration Credits					Aug-08	Jun-09	Nov '09 effective as of Dec '09
6 sections							
Register 193							Jan '10 effective as of Feb '10
Lease Expenditures					Dec-08		
10 Sections		Jan-08	Mar-08	Sep-08			
Register 194							Mar '10 effective as of June '10
Reasonable Transportation							
9 sections		Mar-08	May-08	Jan-09			

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SB 309: 2. Interest forgiveness for retroactive regulations

- New rule AS 43.55.020 (i)
- (Retroactive to 2007, when first payments from 2006 reforms were due)
- If retroactive regulations caused under payment (or overpayment), Department shall waive interest from date tax was due until second month following date the regulation became effective,
- if producer demonstrates that it made a good faith effort

SB 309 : 3. CI gas CIT Credit

- Alaska Corporate Income Tax (AS 43.55.20 -ANITA)
- 9 Graduated rates over first 90,000, 9.4% thereafter (AS 43.20.010 (e))
- Modified apportionment – Taxable Alaska Income is World Wide income times Alaska Apportionment Factors (Production, Property 7 Sales) (AS 43.20.072)
- Federal Credits are allowed at 18% (AS 43.20.021 (d))

SB 309 : 3. CI gas CIT Credit

Then existing Gas exploration and development tax credits (AS 32.20.043)

- Unapportioned Alaskan Credit introduced in 2002 –
 - (a) 10% credit for certain costs incurred “directly engaging in the exploration for and development of gas”
 - (b) For assets placed in service from June 30 2003 through “date reserves produce gas for sale”
 - (c) May not exceed 50% of the taxpayers CIT liability (AS 43.20.043 (c))
 - However unused allowance can be carried forward 5 years
 - (e) Credit non-transferable

SB 309 : 3. CI gas CIT Credit

Existing Gas exploration and development tax credits (AS 32.20.043) (cont.)

- (f) Only for non-North Slope work

- (g) No royalty reductions for those reserves or other tax credits for those investments

- (h) “allow only expenditures and payments that are not inconsistent with the expenditures authorized under 26 USC (Internal Revenue Code) for exploration and development of natural resources” (AS 43.20.043 (h))
 - Same as Intangible Drilling and Development Costs?

SB 309 : 3. CI gas CIT Credit

Changes to Gas exploration and development tax credits (AS 32.20.043)

- Unapportioned Alaskan Credit – **Changes in 2010**
 - (a) **25%** (from 10%) credit for certain costs incurred “directly engaging in the exploration for and development of gas” (*note: “catches up” with production tax credits*)
 - (b) For assets placed in service from June 30 2003 through “date reserves produce gas for sale”
“And a gas well ... determined not to be capable of production in commercial quantities” – dry holes now included
 - (c) May not exceed **75%** (from 50%) of the taxpayers CIT liability

SB 309: 3. CI gas CIT Credit

Changes to Gas exploration and development tax credits (AS 32.20.043) cont.

- (e) Credit non-transferable **nor can taxpayer cannot include cost in any rate base for a regulated utility**

SB 309: 4. 100%, 90%, 80% Credits for Jack Up Rig in CI

- AS 43.55.025 (l) ((m) in legislation)
- The first three unaffiliated persons,
- That, after March 31, 2010
- “penetrates ...in the pre-tertiary zone using a jack up drill rig”
- eligible for credit

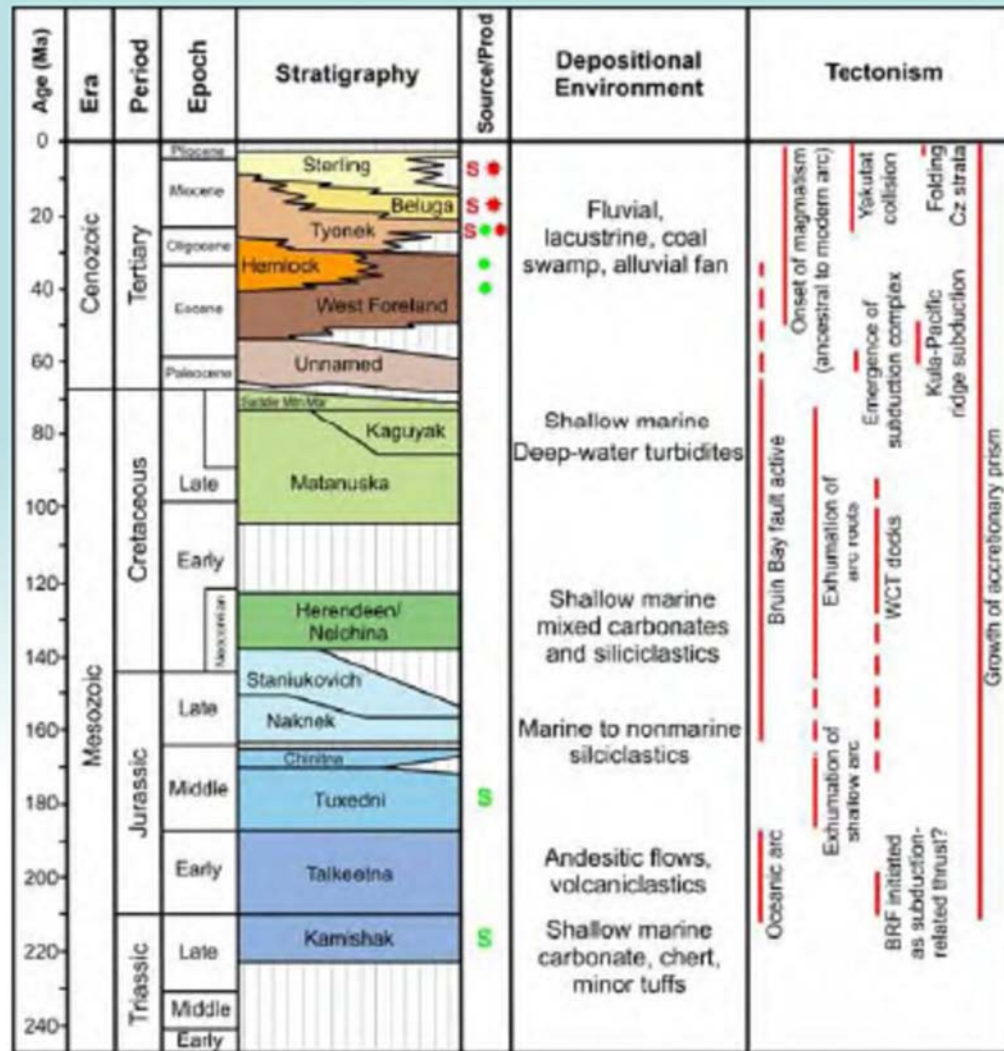
- First: lesser of 100%, or \$25mm
- Second: lesser of 90% or \$22.5mm
- Third: lesser of 80% or \$20mm

SB 309:4. 100%, 90%, 80% Credits for Jack Up Rig in CI

- “Jack –up rig” means a mobile drilling platform with extendible legs for support on the ocean floor. (AS 43.55.025 (l)) ((m) in legislation)



SB 309: 4. 100%, 90%, 80% Credits for Jack Up Rig in CI



Modified from Curry and others (1993) and Swenson (2002)

SB 309: 4. 100%, 90%, 80% Credits for Jack Up Rig in CI

- AS 43.55.025 (l) ((m) in legislation) cont.
- DNR makes determination of target and commerciality
- May not also claim AS 43.55.023 or other AS 43.55.025 credits “for the same exploration expenditure”
- If results in sustained commercial production, 50% of credit (leaving 50%, 45% and 40%) is repaid over 10 years.
- First cost increment (\$25, \$22.5, or \$20 million) (especially if it meets criteria under AS 43.55.023, but not AS 43.55.025) under this provision, rest under CIRA @ 40%

Summary of Changed Tax Provisions

Proposals	CI or Non	
	North Slope	Statewide
Tax Rate & Progressivity modifications	n/a	No
Enhanced Production Tax Well Credits	Yes	No
Enhanced Income Tax Credits	Yes	No
No interest from retroactive regs	Yes	Yes
No forward spend for state credit purchase	Yes	Yes
Production tax well work credit	Yes	No
Credits not spread over two years	Mostly	No

Summary I

- Non North Slope Oil characterized by
- Zero or low base production tax (through 2022),
 - Gas: averaging around 17.7 cents per mcf
 - Oil in CI, zero
 - Oil elsewhere, special credit of 6 million a year
- Credits of between 20% and 100% for various exploration and investment activities
 - Jack-Up Rig can be 80 to 100% or
 - Any IDC/exploration is 40% and
 - Other development and production outlays @ 20% with
 - Additional 25% loss carryforward for some non-producers
- Reduced barriers to use and sale of credits
- Change in market terms for CI gas (regulatory reform)

HB 369

- HB 369
 - Sponsored by Speaker Chenault
 - Senate CS for CS for House Bill no. 369(FIN)
 - 17 co and cross sponsors
-
- 1. Creates organization and timetable to implement plan for in-state gas line

HB 369

- 2/23/2010 First House Reading (assigned Res, Fin)
- 3/11/10 Moved out of H Resources
- 3/24/10 Moved out of H Finance
- 3/24/10 Second Reading
- Advance to Third Reading
- Passed 38 Y (2 excused)
- 3/25/10 First Reading in Senate (assigned Res, Fin)
- 4/13/10 Moved out of S Resources
- 4/18/10 Moved out of S Finance
- Second Reading in Senate
- Advance to Third Reading
- Passed 16 Y 4 N
- House Concurrence Y 40

HB 369

- Section 1 – legislative findings and purpose
- “...Cook Inlet natural gas reserves are depleting at a rate that could cause significant short-term shortages for residential and commercial gas users in South Central Alaska by 2013.”
- “...the state’s significant reserves of natural gas should be made available on a priority basis in the state to enhance employment opportunities, expand the state’s economy, and supply a significant portion of community energy needs.”
- “...an aggressive effort involving planning, permitting, and coordination...is necessary for completion of construction of an in-state natural gas pipeline that will provide significant direct benefit to the people of the state at the earliest possible date.”

HB 369

- AS 41.41.010(d):
- The acquisition of natural gas ... and its delivery to markets in the state for use by markets in the state or to tidewater for shipment to market ... are essential function of the state.

HB 369

- Cook Inlet gas suppliers are looking at a competition with a state sponsored project that is
- “exempt from AS 36.30 (state procurement law) (AS 18.56.086)
- Will receive “expedited review and action by state agencies and entities” (AS 38.34.020)
- The “Joint In-State Gasline Development Team shall produce a project plan for an instate natural gas pipeline...completed and delivered to the legislature by July 1, 2011. The project plan must specify and document how an in-state natural gas pipeline can be designed, financed, constructed, and made operational by December 31, 2015. (AS 38.34.040)

Summary II and Question

Two Projects for gas supplies for the Cook Inlet: –

Subsidize exploration and development of resources in the Cook Inlet

Subsidize a bullet line from the NS

- Does launching two initiatives make it more likely that at least one will come to fruition? (no silver bullet – only silver scatter shot)
- Or will the heavy state subsidies for each project scare commercial investors away from the other, because competing with government can be a costly proposition.

Thank You

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