

# Point of Production for Oil and Gas

Senate Resources Committee  
House Resources Committee

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# Oil or Gas – Why does it matter?

- Current rules
  - Gas taxed at 10% (times well based ELF) of gross
  - Oil taxed at 15% (times well & field based ELF) of gross
  - Free use of gas for production operations
  - (past production use of gas taxable)
  - Conservation surcharge on oil

# Oil or Gas – Why does it matter?

- Proposed Rules
  - Gas and oil taxed at 20% of net
  - Free use of gas and oil for production purposes
  - (post production use of oil or gas remains taxable)
  - Conservation surcharge creditable

# Oil or Gas – Why does it matter?

- Because the Point of Production is driven by the point of final separation

# Point of Production – Why does it matter?

- Current rules
  - Costs incurred downstream of the point of production are deductible for calculating production tax.
  - Same effect for royalty except where defined field cost allowance

# Point of Production – Why does it matter?

- If how costs were treated on either side of the point of production were identical it would not matter;
- But in switching from gross to net two different cost regimes.
  - Upstream outlays recaptured by 20% deduction and 20% credit for capital investment.
  - Downstream outlays recaptured through operating costs including depreciation.

# Point of Production – Why does it matter?

- Yes – for a newcomer without heritage facilities, the cost difference is significant.
- May result in new facilities being built, or improve ability to access heritage facilities

# Issues: combining production and post production facilities

- Current Rules
  - Central gas facility has post production activity (gas processing) & production activity (conditioning gas for pressure maintenance)
  - Had to allocate costs in plant because processing costs deductible
- Proposed Rules
  - Costs deductible (gas processing is production activity)

# Gas or Oil?

- Oil
  - Must be in “condition of pipeline quality”
  - “Good and merchantable condition”
- Gas (in association with oil)
  - first point accurately metered downstream from point of final separation

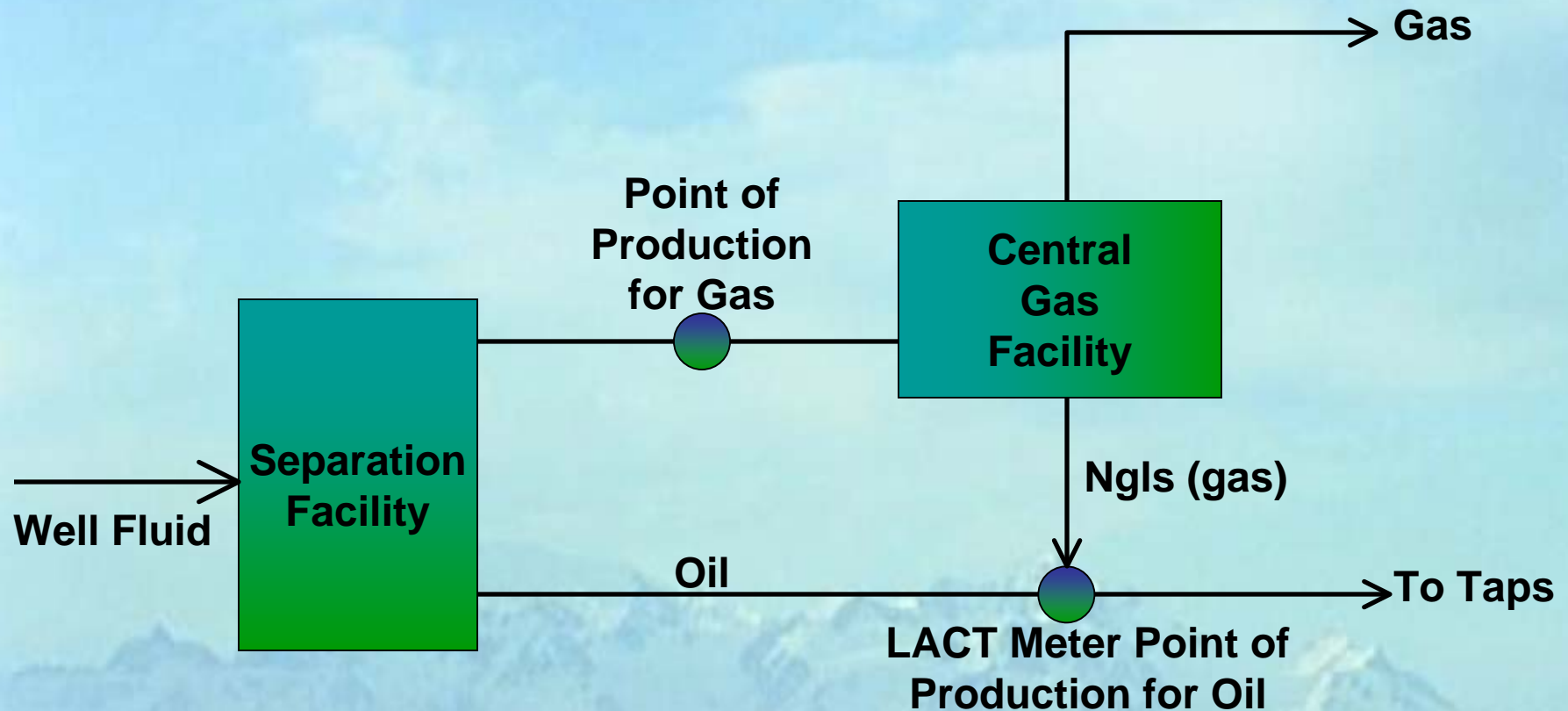
Why not a standard similar to oil?

# Combining Gas Processing and Gas Treatment

- Current Rules
  - Both post production activities – no allocation of costs necessary
- Proposed Rules
  - may require allocation of costs.
  - Choice – could move gas treatment to upstream of point of production.

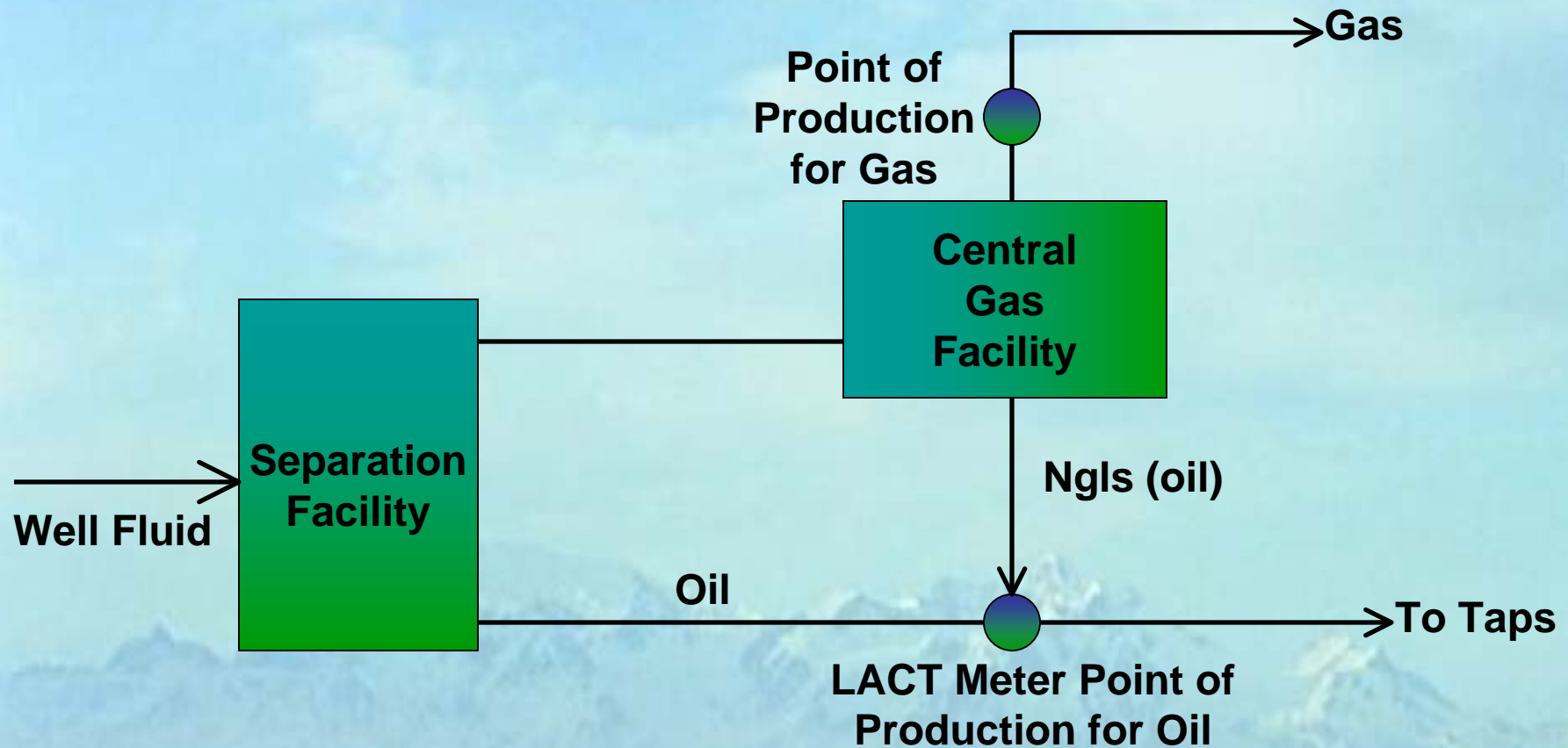
# Prudhoe Bay: Point of Production

- Current



# Prudhoe Bay: Point of Production

- Proposed



# Goal:

- Simplified definitions that will not lead to low value-added conflicts
- Incentivize all production activity