

March 1, 2006

Senate & House Resources Committee

SB 305 – HB 488: PPT - Administration Questions

- Cover sheet _____ 1 page
- Administration Memo dated 2-27-06 _____ 1 page
- Senate/House Memo to Admin dated 2-28-06 _____ 3 pages
- Additional Info Request, Sen. Elton _____ 1 page
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MEMORANDUM

DEPARTMENT OF REVENUE Tax Division

TO: Senator Thomas Wagoner
Chairman, Senate Resources Committee

FROM: Robynn J. Wilson *(w)*
Director, Tax Division

RE: Outstanding Questions on PPT (SB 305)

DATE: February 27, 2006

During the hearings on February 22—24, 2006, I have noted the following outstanding questions from your committee members. Please let me know if there are additional questions.

Senate Resources

1. Is it possible to revise Dr. Van Muers' country rankings to include risk?
- 2.. Show tax calculation with the following assumptions:

| | |
|-------------|------|
| gross value | \$60 |
| opex | 15 |
| capez | 10 |
4. Which companies have made what investments on the North Slope in the last 5 years?
(This question will be answered within the constraints of confidentiality requirements.)
5. Are costs to demobe wells a capital expenditure for purposes of the PPT?

ALASKA STATE LEGISLATURE



Official Business

SENATE RESOURCES COMMITTEE

Senator Tom Wagoner, Chair
State Capitol, Room 427
Juneau, AK 99801-1182

HOUSE RESOURCES COMMITTEE

Rep. Ralph Samuels, Co-Chair
State Capitol, Room 126
Juneau, AK 99801-1182

Rep Jay Ramras, Co-Chair
State Capitol, Room 104
Juneau, AK 99801-1182

DATE: February 28, 2006
TO: Commissioner Bill Corbus & Commissioner-Select Menge
FROM: Senate & House Resources Committee
RE: Questions on PPT Legislation

We have listed the questions we have heard both during the committee process and also during subsequent discussions. Please provide your responses, at your very earliest convenience, in writing. We anticipate your appearance again before the committees perhaps as early as Wednesday, March 1.

To the extent that information requests are confidential information, please provide them as separate documents so we will be able to keep them distinguished from open, public information.

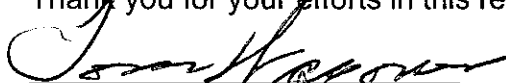
We understand that you are working on the first three questions, per the memo from R. Wilson on 2-27-06, and will also be providing tax calculations with the following assumptions: Gross value =60.00; Opex= 15.00; and Capez= 10.00.

1. Identify values/amounts for the "look-back" or transitional section; per year according to the actual, by type (exploration, development, production), by company.
2. How are mob, demob, and platform abandonment costs treated - as tax credits or deductions?
3. Is there a "rating" for political stability – or one that reflects instability?
4. What loss of revenue is incurred by moving the effective date from Jan 1, 2006 to July 1, 2006 on both 20/20 and on 25/20?
5. Section 9 – what amount is involved in this section.
6. Was there consideration of phasing out the \$73 million deduction over a certain period of time?
7. Of the current 14 producers in Alaska, which would pay a severance tax after employing the proposed \$73 million standard deduction?


8. Which other tax regimes – worldwide - have a progressivity structure?
9. How many private royalty owners are there in Alaska – all areas, not just the North Slope (i.e., Nenana Basin, Kenai Peninsula, native corporation holdings, etc).
10. Provide a graph showing the status quo, the PPT, and the gas line contract terms.
11. Provide information on the effect of previous incentives – the costs.
12. What is the rationale for offering the same amount of credits for non-state lease lands where the state receives no royalty tax benefit – was there discussion of a reduction in the credit to offset this?
13. Why should Point Thomson be incentivised?
14. Can you provide better definitions for “point of production” and “oil” and “gas” and has the State litigated these terms?
15. What steps must be taken to make the tax credits refundable rather than transferable?
16. On Page 13, line 24 of the bill, what does “payment in lieu of” tie into for oil?
17. Does the limit on transferable tax credits in section 12 (subsection (e)) limit the amount of tax credits that a single taxpayer can take against their own production tax in a single year?
18. The State of Alaska has relied on the services and expertise of multiple outside law firms to handle disputes over oil and gas issues; have you conferred with such counsel in the drafting or review of this legislation? If so, have they assessed the impacts of the legislation on the State's legal position in past agreements, current disputes, or future disputes?
19. Have you asked the Department of Law to review this legislation in light of the 6th Circuit Court of Appeals' decision in Cuno v DaimlerChrysler that is now pending before the United States Supreme Court?
20. Please provide information regarding the expenditures that will qualify for the transition credits—including the depreciation method chosen under the federal and state income tax systems.
21. Have any of the definitions in sections 30-33 been the subject of disputes with tax and/or royalty payers in the past? To the extent they have, please provide the definitions the state asserted in those disputes.

22. Please provide an identification of the point of production at each unit in the state under existing statutes, regulations, agreements, and court decisions. Provide the same under the definition as proposed.
23. Please provide an identification of 'gas treatment' and 'gas processing' facilities in the state under the existing statutes, regulations, agreements, and court decisions. Provide the same under the definition as proposed.
24. What standard will be used to determine whether oil or gas is of 'pipeline quality' under the definition of 'gross value at the point of production'?
25. Provide a historical analysis of the results of valuation methodologies adopted by the Department of Revenue, Department of Natural Resources (under all agreements), and the Department of the Interior.
26. Will abandonment costs be eligible for deductions or credits under the legislation? If so, what estimates of the timing and costs of those activities does the Department project?
27. How will AS 43.55.160(j) protect the State from a proliferation of corporate entities and/or companies claiming the tax free allowance?
28. Provide the number of exploration and delineation wells estimated to be drilled over the first ten years of your economic models. Include the technical and economic success rates projected in the modeling.
29. Provide estimates for undiscovered resources in Alaska. Include the breakdown between technically recoverable and economically recoverable resources to the extent possible.
30. Provide a historical analysis of the effective tax rate on each field in production on the North Slope over the past twenty years.
31. How will Net Profit Share Leases be affected by this legislation? Will the gross costs of exploration and development go into the Development Account—or those costs net of the credits and deductions?

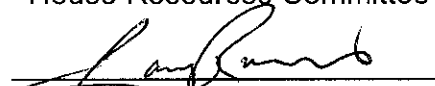
Thank you for your efforts in this regard.



Senator Tom Wagoner, Chair
Senate Resources Committee



Rep. Ralph Samuels, Co-Chair
House Resources Committee



Rep. Jay Ramras, Co-Chair
House Resources Committee



SENATOR KIM ELTON

SB 305 Oil and Gas Severance Tax

1. It's been reported that the gas line contract will propose the state take its gas production tax share in the form of gas. How does that work in this bill?
2. Of the pre-PPT credit provisions (or claw back), what is the cost to the state for legacy fields and what is the cost to the state for frontier regimes?
3. Of the pre-PPT credit provisions (the claw back), how many investment credits were sold under SB 185 and how do we ensure the person who holds the credit, not the original recipient, gets the credit?
4. If we have a gas pipeline in 2015, what will the ELF tax "take" be on North Slope gas and what will the "take" be under the PPT? What will the "take" be under PPT if we take gas in lieu of the production tax (the take would, I assume be the day-to-day value of the gas less the state's cut in selling the gas on the marketplace)?

ALASKA SENATE

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SB305: Oil and Gas Severance Tax

Is current production tax deductible from corporate tax? If not, is this impact in the models presented by the Administration?

Referring to section five, what oil and gas is exempt from taxation – just what is discussed in section 10?

Referring to section six, will there be any impact to current state taxes or municipality taxes from this change?

Why was the payment for taxes and surcharges changed from the 20th day to the last day of the month? What is the economic impact of this change?

Do other nations with a net profit system have the 90 percent payment of taxes with the ~~sure-up~~ ^{sure-up} provision the following year? What is the economic impact of this change?

Trace
What are the penalties for under-payment when sure-up is more than ten percent of the taxes owed?

Referring to section 10, why does the AOGC role change from focusing on excess needed for safety reasons to whatever they determine to be waste. Does this provision provide more power to the AGOC on what is included/excluded for taxation?

Why does it seem the credits and incentive are on production along with exploration if our focus is to provide incentives for exploration?

Can the carry-forward amount be used for a credit for more than the first year after the loss?

Is it the case that any allowable expenses for the exploration, development, or production of gas can be deducted from oil revenues in determining net value? If so, could the expenses of a gas line be included in these deductible expenses?

Why not use GAP accounting rules versus set up our system of defining revenues and expenses?

Which credits can be applied to multiple years?

Can a tax credit be sold in any year or just the year after it was accrued?

What is the estimated economic impact to the state of the ability to sell tax credits?

Referring to section 16, what is current system and why do we need this change in confidentiality.

In what circumstances would oil and gas taxes go straight into the CBR?

Referring to section 18 and 19, why change from shall to is?

Why does the bill offer multiple methods to determine gross value? Who will choose a methodology?

Section 21, page 13, line 8 – why is this clause constrained by Dec 1, 2005

Section 21, provision (h), which US CPI does the Administration plan on using?

Are the current oil conservation surcharges deductible from any other taxation? If not, what is the policy reason to make them a credit in SB305 and what is the economic impact?