

SB 242

Presentation to Alaska State
Legislature,
Senate Finance Committee
Dan E. Dickinson, CPA, CMA
Feb 1, 2008

SB 242 – Two Production Tax Changes

- (1) Change effective date for a number of terms from July to December of 2003
- (2) Use actual opex costs instead of 3% of 2006 actuals for 2007, 2008, 2009.

SB 242 - Change Effective Date

SCS CHSB 2001 (Fin) am S passed in November, with major revenue sections retroactive to July 1, 2007.

This bill would move the effective date to December 20, 2007 – prospective as of the date of the special session legislation.

- Regulations will have to provide for combining two regimes into a single year;
 - Would be 11 days/353 days instead of six months/6 months

SB 242 - Change Effective Date

- Fiscal Note: Incremental effect of SCS CSHB 2001 (Fin) am S for FY 2008
 - \$1,609 million
 - so one half would be \$805 million
- Rough estimate of major sources
 - Change from 22.5% to 25% = \$160 million
 - Change in progressivity = \$400 million
 - Change in credits* = \$110 million

SB 242 - Change Effective Date

From DOR Nov 15, 2007 Fiscal Note
For SCS CSHB 2001 (Fin):

Fiscal Year	ANS WC \$	Status Quo PPT	ACES	SCS CSHB 2001(FIN)	Increase or (Decrease) from PPT	Increase or (Decrease) from ACES
2008	71.65	1,947	2,368	3,556	1,609	1,188
2009	64.55	1,430	1,985	2,372	942	387

SB 242 – Kuparuk & Prudhoe Units Opex

- For CY 2007, 2008, 2009, opex allowance grows by 3% annually from CY 2006 base.
- Mechanics – Net tax began April 1, 2006 so base is 9 months of costs in CY 2006
 - 2007 allowance is 137% ($\frac{4}{3} * 103\% = 137\%$)
 - 2008, 2009, 103% of prior year

Opex fixed or variable cost?

	<u>If opex costs are fixed</u>	<u>If opex costs are variable</u>
Decreasing Volumes	103% increase (no volume effect)	110% increase (assumed 6% decline)
Increasing Volumes (from facility sharing)		

Opex variable cost with declining volumes

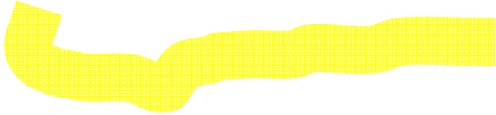
	3% Increase in cost allowance	6% Decline in volumes	Unit Cost	Change in Unit Cost
2006	2,000.0	200.0	10.00	
2007	2,060.0	188.0	10.96	110%
2008	2,121.8	176.7	12.01	110%
2009	2,185.5	166.1	13.16	110%

Opex variable cost with declining volumes

	3% Increase in cost allowance	RSB Decline in volumes	Unit Cost	Change in Unit Cost
2006	1,285.2	205.5	6.25	
2007	1,323.8	191.7	6.91	110%
2008	1,363.5	190.8	7.15	103%
2009	1,404.4	187.8	7.48	105%

Volumes converted from DOR RSB FY volumes, costs 70% of NS dollars

Opex fixed or variable cost?

	<u>If opex costs are fixed</u>	<u>If opex costs are variable</u>
Decreasing Volumes	103% increase (no volume effect)	110% increase (assumed 6% decline)
Increasing Volumes (from facility sharing)		

Variable costs without cap

- Facility Owner has spare capacity, and therefore agrees to process an additional 1,000 bbls at a charge of \$10 a barrel or \$10,000 dollars.
- Facility Owner incurs costs of \$10,000, receives reimbursement of \$10,000 – no net production tax effect.
- New Producer receives deduction for \$10,000 – at 40% tax rate 6,000 out of pocket

Fixed costs without cap

- Facility Owner has spare capacity, and therefore agrees to process an additional 1,000 bbls charging \$10,000 dollars.
- Facility Owner receives reimbursement of \$10,000 – which increases net and progressivity (at %40 tax rate (25%+ 16% progressivity) pays \$4,000 in taxes)
- To receive \$10,000, facility owner has to charge \$17,000
- New Producer receives deduction for \$17,000 – at 40% tax rate \$10,000 out of pocket

Opex fixed or variable cost?

	<u>If opex costs are fixed</u>	<u>If opex costs are variable</u>
Decreasing Volumes	103% increase (no volume effect)	110% increase (assumed 6% decline)
Increasing Volumes (from facility sharing)		Works like fixed cost without cap

Opex fixed or variable cost?

	<u>If opex costs are fixed</u>	<u>If opex costs are variable</u>
Decreasing Volumes	103% increase (no volume effect)	110% increase (assumed 6% decline)
Increasing Volumes (from facility sharing)	Works like fixed costs without cap – higher cost for new producer	

SB 242 – Kuparuk & Prudhoe Units Opex

- Two approaches
 - One third done – can compare actual 2007 costs with derived 2007 allowance
 - Projected effect at end of cap – can compare 2009 with 2010

SB 242 – Kuparuk & Prudhoe Units

Opex

- Figures I am about to present are averages and aggregates
- Production incented individual project by individual project
- Point of net tax is lower tax on more expensive projects, higher tax on easier production.

SB 242 – Kuparuk & Prudhoe Units Opex - “One third done”

- Ideally, as of yesterday, could compare 137% of CY 2006 opex with as filed CY 2007 opex. Too high? Too low?
- However –
 - Monthly filings by taxpayers not consistent as to how much or what information reported, so total opex will actually be filed on March 31, 2007.

SB 242 – Kuparuk & Prudhoe Units Opex - “One third done”

- If just one company in each of the units filed clear costs, and we assume that only unit costs are listed, then data could be derived
- However, DOR believes this data remains confidential – would need to go into executive session

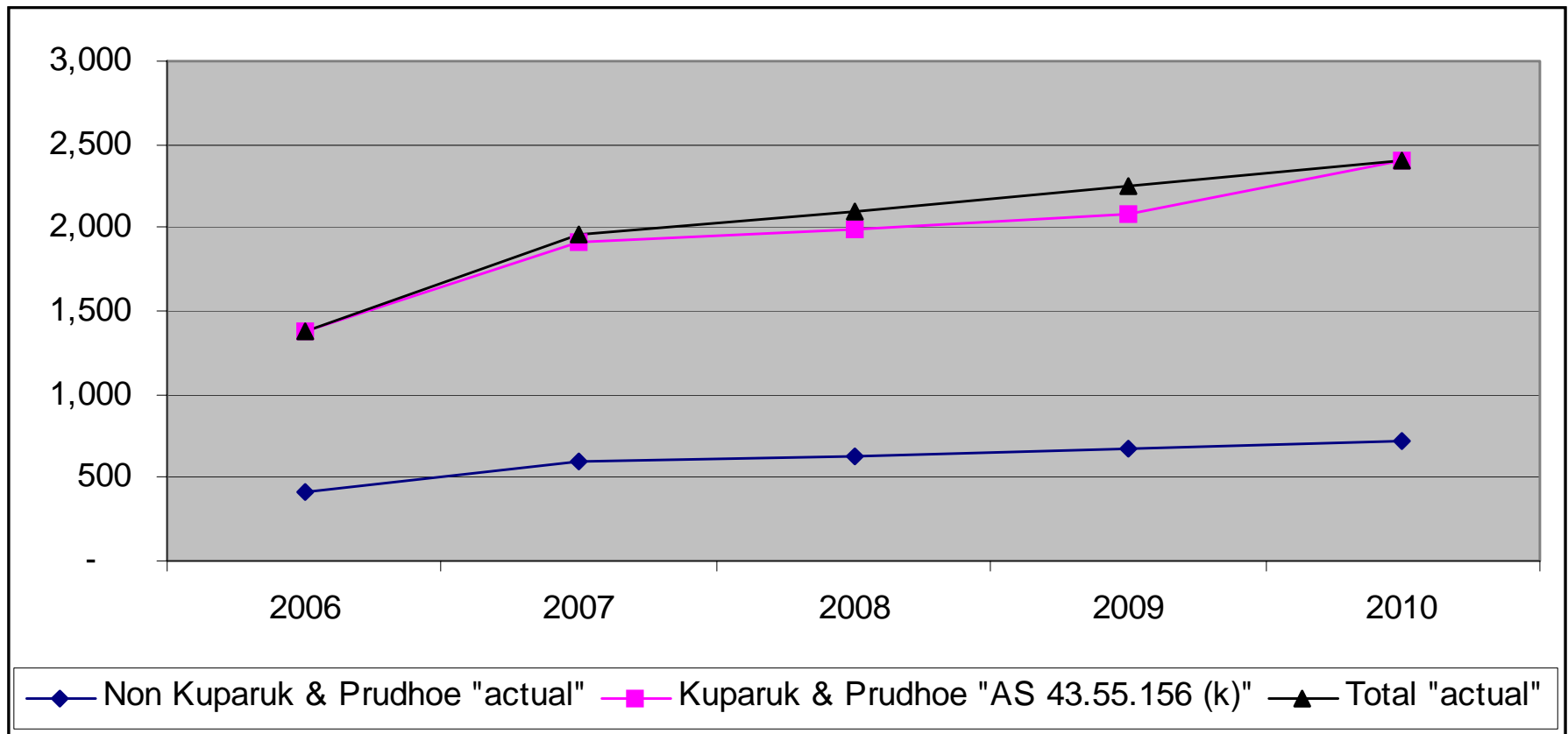
SB 242 – Kuparuk & Prudhoe Units Opex - “One third done”

- DOR did report that for the first half of the year –
 - the “as filed actuals” and
 - the “ AS 43.55.165 (k) figures”

Were within 3% of each other.

- (3% of \$2 billion annually = \$60 million)
- (\$60 million * 25% = 15 million direct taxes)
- (smaller increment for progressivity)

What would we expect between 2009 and 2010 for allowable opex?



What would we expect between 2009 and 2010 for allowable opex?

Step One

Annual Opex estimated by DOR by Fiscal Year

Source	FY	NS opex in millions of dollars		
Fall 07 RSB	FY 2007	2,081	*/13*12	1,921
Fall 07 RSB	FY 2008	2,149		2,149
Fall 07 RSB	FY 2009	2,354		2,354
From DOR	FY 2010	2,334		2,334
From DOR	FY 2011	2,407		2,407

*Note FY 2007 included some FY 06 costs as the PPT true-up payment for April-June 2006 wasn't make until FY 2007

What would we expect between 2009 and 2010 for allowable opex?

Step Two

Build up of opex from CY 2007
AS 43.55.165 (k) standards
applied to entire NS

Cal 2006*		1,377.0
Cal 2007	137%	1,886.5
Cal 2008	103%	1,943.1
Cal 2009	103%	2,001.4
Cal 2010	103%	2,061.4
Cal 2011	103%	2,123.3

**Note: DOR supplied figure

Cal 2010 - 2011 are for
comparison only,

AS 43.55.165 (k) does not apply

2/1/2008

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What would we expect between 2009 and 2010 for allowable opex?

Step Three

Translation into Fiscal Years

Build up of opex from CY 2007 AS 43.55.165 (k) standards <i>applied to entire NS</i>			(5 mos) Jan thru May where CY=FY	(7 mos) June thru Dec where CY=FY-1		AS 43.55.165 (k) build up <i>applied to entire NS</i> , stated in Fiscal Years
Cal 2006*		1,377.0		1,071.0		
Cal 2007	137%	1,886.5	786.0	1,100.5	FY 07	1,857.0
Cal 2008	103%	1,943.1	809.6	1,133.5	FY 08	1,910.1
Cal 2009	103%	2,001.4	833.9	1,167.5	FY 09	1,967.4
Cal 2010	103%	2,061.4	858.9	1,202.5	FY 10	2,026.4
Cal 2011	103%	2,123.3	884.7		FY 11	2,087.2

**Note: DOR supplied figure

Cal 2010 - 2011 are for
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AS 43.55.165 (k) does not apply

***Note:

$1,377/9*7=$
1,071

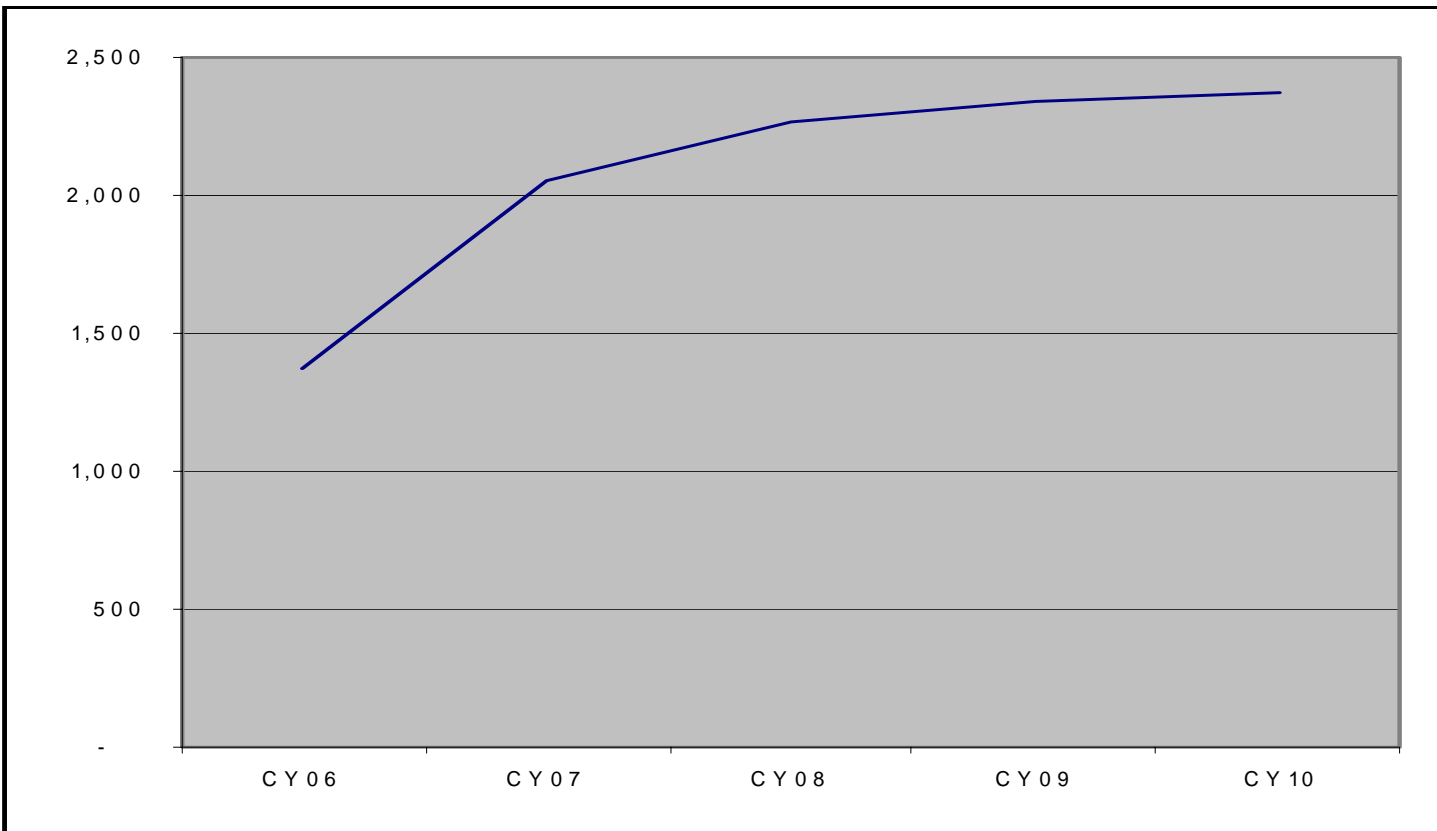
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Step Four

	NS Opex estimated by DOR	AS 43.55.165 (k) build up <i>applied to</i> <i>entire NS,</i> stated in Fiscal Years	Implied Increase opex in areas outside of Kuparuk and Prudhoe	New volumes per RSB
FY 2007	1,921	1,857	63.9	Fjord & Nanuk (2% of volume)
FY 2008	2,149	1,910	238.9	162% increase in other costs
FY 2009	2,354	1,967	386.6	Add Nikaitchuq & Oooguruk Costs
FY 2010	2,334	2,026	307.6	Decrease???
FY 2011	2,407	2,087	319.8	

What would we expect between 2009 and 2010 for allowable opex?

DOR Projections per Calendar Year



Cost

- Total Costs =
- Fixed Costs +
- Variable costs x quantity