Stranded Gas Hearings
(0508311604 Minutes)

Impact on Net Present Value, Rate of Return, and Profitability Ratio from Increase in Gas Production Severance Tax
Barry Pulliam, Senior Economist, Econ One Research, Inc.

MR. PULLIAM concluded the presentation by addressing the impact on the investment metrics from an increase in the gas production severance tax. He reminded the committee that the current gas severance tax rate is 10 percent and there's an ELF applied to it. Page 9-4 relates the results of a 10 percent increase in gas production taxes on project returns, assuming EIA AEO pricing of $4.90. The chart shows this information in five-year intervals. He mentioned that the chart is based on the producers' standpoint. The next couple of pages relate the same information at different price scenarios. The chart on page 9-8 illustrates the results of a 25 percent increase to the severance tax, which takes the severance tax rate from 10 percent to 12.5 percent. As expected, the NPV decreases. Furthermore, the earlier the change occurs, the higher the result. He then turned attention to page 9-12, which details the results of a 50 percent increase to the severance tax such that it's increased to 15 percent. In either of these cases, the further out in time there is a change in the severance tax, the smaller the impact of the change would be on the investment matrix. Mr. Pulliam clarified that the timeframes in five-year increments refer to that much time after the project has started.

REPRESENTATIVE GARA pointed out that Alaska has a corporate tax, which used to be a 9 percent corporate tax on true profits. However, now the state taxes 9 percent on "fake" profits because of the worldwide apportion accounting, which allows deductions for those profits made in other locations. He inquired as to the impact of returning to the old model in which there was a 9 percent tax on the true profits without the ability to take a deduction for investments outside the state.

CHAIR THERRIAULT said that could be considered for future discussion.

CHAIR THERRIAULT recalled earlier testimony regarding foreign LNG not competing with Alaska gas, and inquired as to why that would be the case.

MR. PULLIAM related that the view of the public studies, with which Econ One would share, is that the price setting mechanism would be Lower 48 higher cost supplies. Therefore, "their" price would be the marginal price of gas going into the U.S. market until other sources of gas with a marginal case less than that would include LNG and Alaska. Therefore, both [foreign LNG and Alaska gas] would be price takers.

CHAIR THERRIAULT informed the committee that Econ One may be asked to review the economics of the most recent proposal from the Alaska Gasline Port Authority (AGPA). Chair Therriault opined that if the legislature was given a proposal by the administration, the model used by the administration may have differences in regard to the value of certain pieces. However, today's presentation provides the committee with modeling that will likely be used in evaluating a project.

REPRESENTATIVE ETHAN BERKOWITZ, Alaska State Legislature, related his desire for the committee, which is the lead agency on this project, to inquire as to whether the Commissioner of Revenue has done an economic analysis. If so, he asked that it be made available to all legislators.

CHAIR THERRIAULT agreed to make such an inquiry.

REPRESENTATIVE BERKOWITZ requested that the committee consider doing its own investigation as to whether the prevailing cost, price positions, et cetera preclude the gas from the market at this time. (Indisc.)

CHAIR THERRIAULT commented that the information provided today is good information from which one could draw his/her own conclusions.

SENATOR GREEN highlighted the current situation in Louisiana and Mississippi after Hurricane Katrina, and asked whether other areas would rally due to the loss of offshore facilities.

UNIDENTIFIED SPEAKER pointed out that there has been a sharp reaction from the gas market such that the prices over the next few months will be pushing $13/mmBtu. At this point there isn't knowledge as to whether it's a speculative response. However, there have been reports that gas compressor stations were destroyed, and thus there may not be any economic mitigation in the near future. With regard to this presentation, he said that he didn't see any impacts that would change the pricing or other operating assumptions of this study. However, the oil side is a different question.