

19OGTX Review

Alaska Legislature

February 2020



INTRODUCTION





BALLOT INITIATIVE

The presiding officers formally requested a review of the ballot initiative 19OGTX related to oil and gas production tax, tax payments and tax credits.

The following is an independent review of what is being proposed highlighting clarity and ambiguity. Where there is ambiguity, we highlight ways in which the language of the initiative might be interpreted.

GLOSSARY

19OGTX AND AS43.55 TERMINOLOGY

Initiative:	19OGTX
GVPP:	Gross Value at the Point of Production
PTV:	Production Tax Value
ANSWC:	Alaska North Slope crude sales price on the West Coast of the United States
bopd:	barrels of oil per day
NOLs:	net operating losses
Middle Earth:	region south of 68 degrees north latitude and not Cook Inlet
AOGCC:	Alaska Oil & Gas Conservation Commission
Taxable Barrel:	Total barrels of oil sold less royalty barrels
40/400 Asset:	oil producing asset that meets the qualification criteria in Section 2 of the Initiative

190GTX



SUMMARY

THE BALLOT INITIATIVE

- Based on our petroleum fiscal policy experience we conducted a review of 19OGTX, the Initiative, that looks to raise additional revenue from production taxes
- In general, the Initiative lacks necessary specificity making it improbable that a common interpretation could be reached. Alternative interpretations of the Initiative are possible
- The Initiative seems to be written to satisfy a goal of increasing revenue from production tax in the near term. It does not contain any provisions which are designed to encourage or incentivize investment and production
- If the voters approve it, there will very likely be an extended period of uncertainty within the petroleum industry as all interested and impacted parties attempt to push their interpretation of what is written

SUMMARY

THE BALLOT INITIATIVE

- Producers pay the state 4 different types of taxes:
 - Royalty
 - Property Tax
 - Production Tax
 - Corporate Income Tax
- The Initiative only makes changes to the Production Tax
 - Creates increased gross minimum tax
 - Creates a net tax on PTV
 - Maintains the 'greater of' structure
- The Initiative eliminates the use of the GVR and non-GVR per-barrel credits for assets that qualify under Section 2

SECTION 1



SECTION 1

AMENDING THE UNCODIFIED LAW OF ALASKA

***Section 1.** The uncodified law of the State of Alaska is amended by adding a new section to read:

SHORT TITLE. This Act shall be known as the “Fair Share Act.”

Notwithstanding Any Other Statutory Provisions to the Contrary, the Oil and Gas Production Tax in AS 43.55 Shall Be Amended as Follows:

- Titled the “Fair Share Act” , there is no language to define what constitutes a fair share of certain oil revenues for Alaska. Without a defined goal, where ambiguity exists numerous interpretations will be possible
- With the inclusion of the term “Notwithstanding” it appears the language of the Initiative is to override existing production tax calculations contained in AS 43.55 for assets that qualify under Section 2
- The only direct reference to a particular part of AS 43.55 and changes to it are in Section 4 paragraph (a), the per barrel credits

SECTION 2



SECTION 2

APPLICABILITY

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- This section is used to define which North Slope oil and gas assets will be subject to the new taxes in the Initiative
- It applies to “fields, units and nonunitized reservoirs”
- Producing assets qualify if they have produced in excess of 40,000 bopd and have produced more than 400,000,000 barrels over the life of the asset (hereinafter referred to as “**40/400 Assets**”)
- While we believe the description was to isolate three fields, the above language is not straightforward and raises several questions

SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- AS 43.55 primarily uses “leases and properties” throughout to refer to oil and gas operations in the state. We did not find any usage of the phrase “fields, units or nonunitized reservoirs” in any statute or regulation governing the taxation of oil and gas
- We are unable to discern why terms not common to AS 43.55 would be chosen to assess against the qualification criteria
- It is unclear whether it defines three types of assets, i.e. fields, units and nonunitized reservoirs, or whether that term is to be interpreted as a singular grouping. Likewise, there is no reference to determine what the intended definition(s) is(are) for fields, units and nonunitized reservoirs

SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

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- While the term ‘field’ is very common in the oil and gas industry, we looked in statute and regulations for a more precise Alaska definition
- Various Alaska agencies describe operations and publish data for wells, pads, leases, pools, participating areas, fields, units and general areas such as North Slope, Middle Earth and Cook Inlet
- AS 31.05.170 defines, for that particular chapter, “field” as a general area which is underlain or appears to be underlain by at least one pool, and includes the underground reservoir containing oil or gas. More than one pool can be part of a defined field

SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- Neither AS 43.55 nor the Initiative provide any guidance on what grouping of wells constitute a ‘field’
- Under AS 43.55.900 “unit” is defined and means a group of tracts of land that is subject to a cooperative or a unit plan of development or operation that has been certified by the commissioner of natural resources under AS 38.05.180(p)
- The North Slope contains a number of “units”. Each unit contains a number of pools and fields

SECTION 2

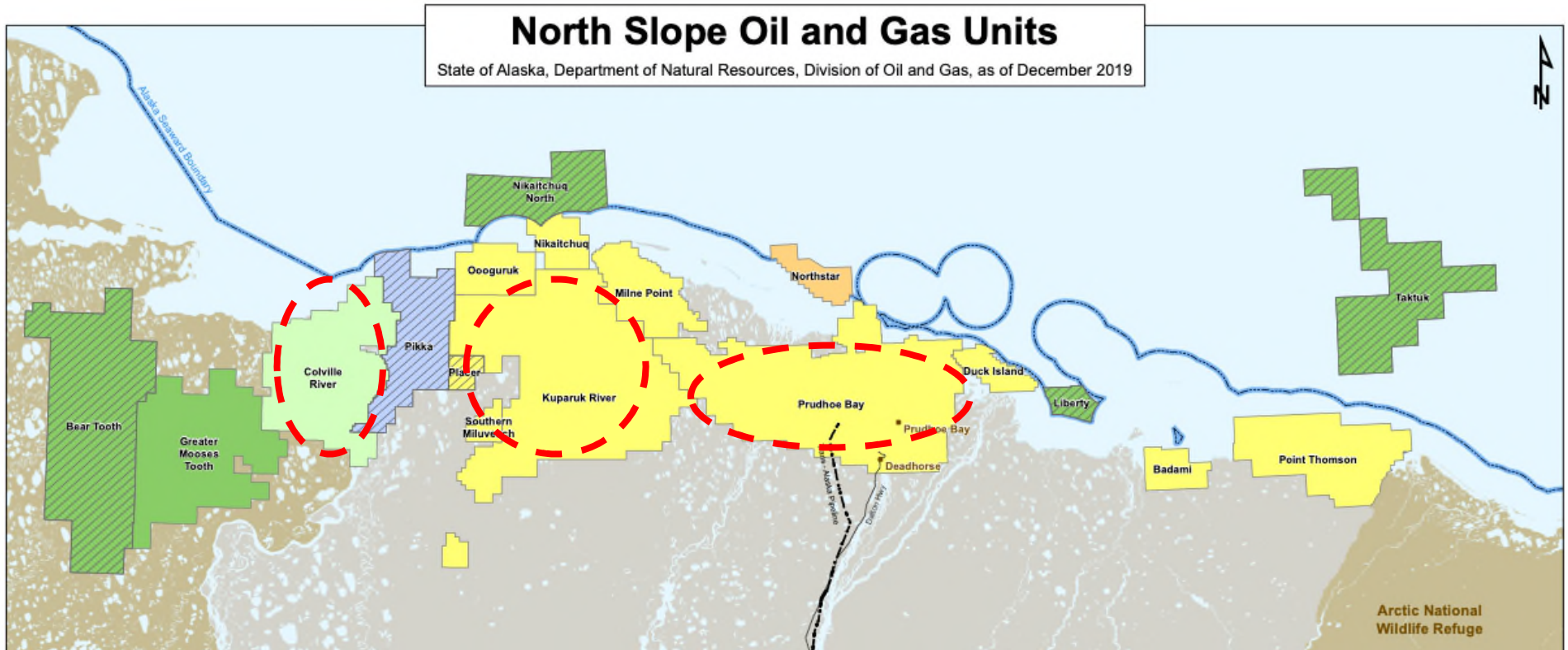
FIELDS, UNITS AND NONUNITIZED RESERVOIRS

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- It appears there are two ways to qualify as a 40/400 Asset: (1) the combined daily production and the combined cumulative production of all the pools and fields in a unit meet the two threshold levels, or (2) a single 'field' within a unit meets the two threshold levels which by definition then the field and entire 'unit' of which it is part of would both qualify as a 40/400 Asset
- The 'fields' qualifying as 40/400 Assets are Alpine, Kuparuk and Prudhoe Bay. Because those fields qualify then the Colville River Unit, Kuparuk River Unit and Prudhoe Bay Unit are 40/400 Assets as well

SECTION 2

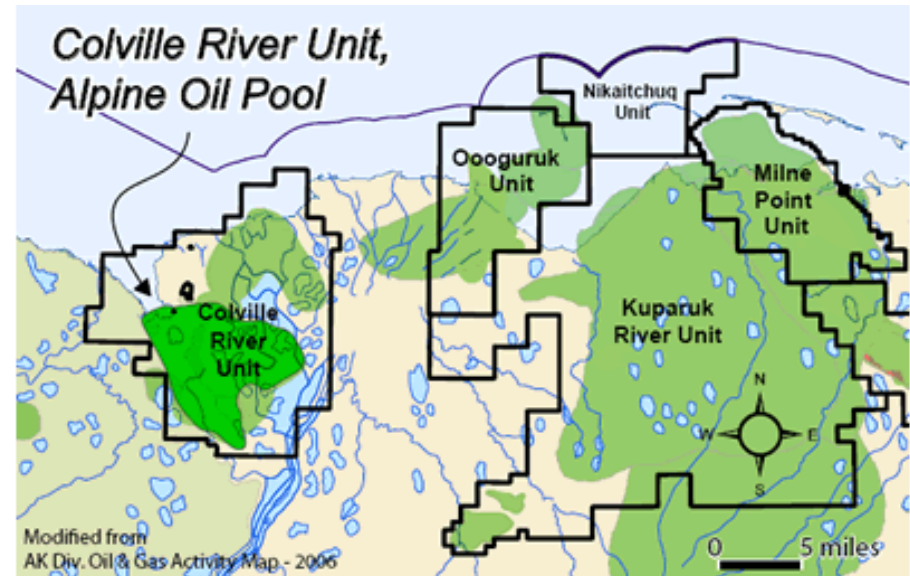
FIELDS, UNITS AND NONUNITIZED RESERVOIRS



SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

- The Colville River Unit consists of the following pools:
 - **ALPINE OIL**
 - FIORD OIL
 - GMT1 UNDEF OIL
 - NAN-K OIL TERM
 - NANUQ OIL
 - QANNIK OIL

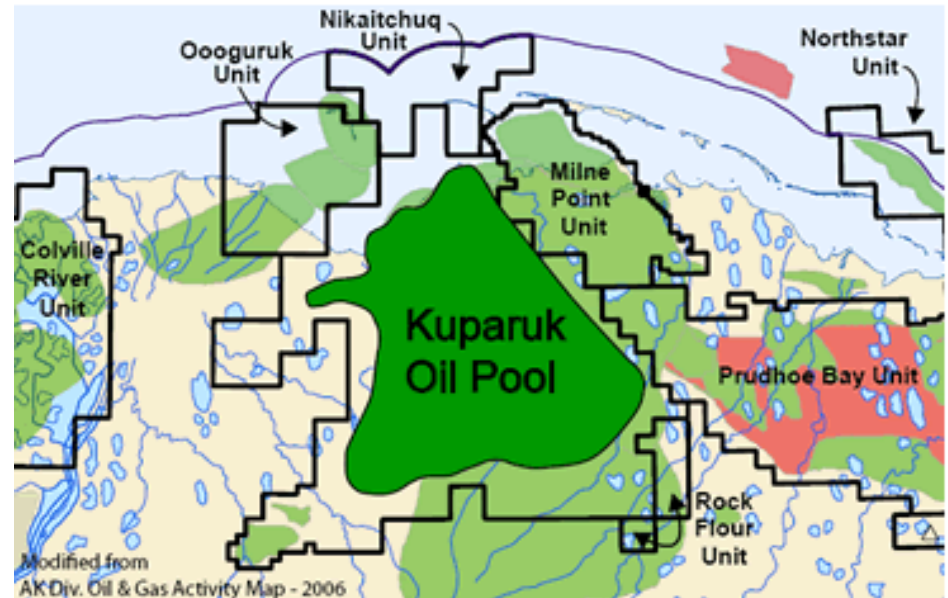


<http://aogweb.state.ak.us/poolstatistics/annual/current/poolStatisticsCurrent.html>

SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

- The Kuparuk River Unit consists of the following pools:
 - **KUPARUK RIV OIL**
 - MELTWATER OIL
 - PALEOZ UND OIL
 - TABASCO OIL
 - TARN OIL
 - TOROK OIL
 - UGNU UNDEF OIL
 - UNDEFINED OIL
 - WEST SAK OIL



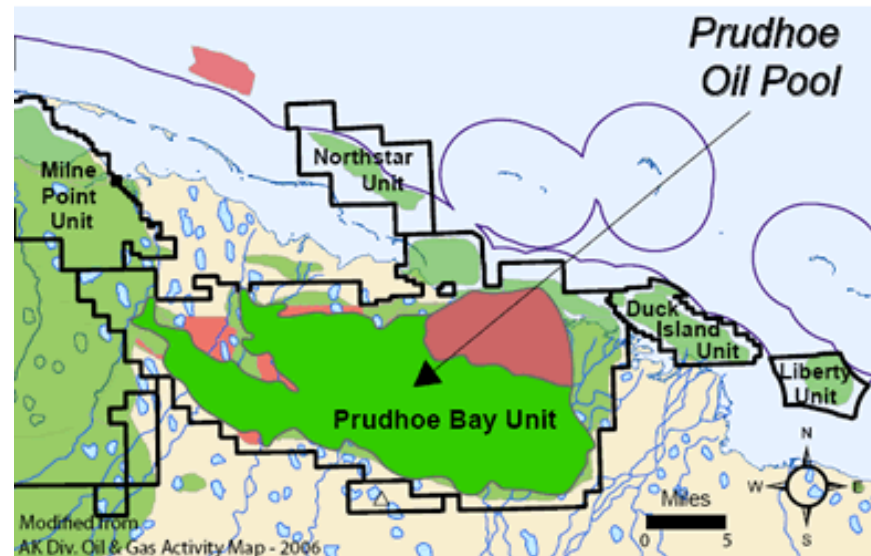
<http://aogweb.state.ak.us/poolstatistics/annual/current/poolStatisticsCurrent.html>

SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

- The Prudhoe Bay Unit consists of the following pools:

- AURORA OIL
- BOREALIS OIL
- KUPARUK RIVER OIL
- LISBURNE OIL
- MIDNIGHT SUN OIL
- N PRUDHOE BAY OIL
- NIAKUK OIL
- POLARIS OIL
- **PRUDHOE OIL**
- PT M PA UNDEF OIL
- PT M STUMP IS OIL
- PT M UNDEFINE OIL
- PT MCINTYRE OIL
- PUT RIVER OIL
- RAVEN OIL
- SAG RIV UNDEF OIL
- SCHRADER BLUF OIL
- W BEACH OIL



<http://aogweb.state.ak.us/poolstatistics/annual/current/poolStatisticsCurrent.html>

SECTION 2

FIELDS, UNITS AND NONUNITIZED RESERVOIRS

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- We were unable to find any definition for ‘nonunitized reservoir’ in Alaska statute or regulation.
- In industry a “unitized” reservoir is a reservoir that crosses ownership boundaries. That agreement decides on how much of the reserves are owned by each party, what the optimum development plan and the naming of the operator. A unitization agreement is for the operation of a single reservoir.
- Units in Alaska do not represent the unitization of a reservoir.
- One alternative interpretation is that all wells that produce from the same reservoir could be deemed a “nonunitized reservoir”

SECTION 2

QUALIFYING PRODUCTION

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- It is unclear whether production has to average over 40,000 bopd for an entire year or only exceed 40,000 bopd on a single day in the previous year
- Use of a couple extra words, such as “**averaged**” or “produced **on any day**” would have easily provided clarity
- For 40/400 Assets, do the new taxes apply beginning January in the following year? Do they apply for an entire calendar year if during a year the production falls below 40,000 bopd? The Initiative provides no direction or clarity

SECTION 2

QUALIFYING PRODUCTION

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- In the future, some new units may have production above 40,000 bopd but have not yet reached the cumulative criteria of 400,000,000 barrels
- Once the cumulative production exceeds 400,000,000 barrels do the new taxes apply immediately or do they apply at the start of the next calendar year? There is no language to guide this decision
- Where is production to be measured? Barrels sold to the market? Barrels into TAPS? Or, wellhead barrels? How are barrels consumed in field operations counted? Section 2 just mentions barrels
- Does Section 2 refer to the production of total barrels or taxable barrels? As much as a +/- 12% difference

SECTION 2

SUMMARY

***Section 2, Applicability.** The provisions in Sections 3 and 4 only apply to oil produced from fields, units, and nonunitized reservoirs north of 68 degrees north latitude that have produced in excess of 40,000 barrels of oil per day in the previous calendar year and in excess of 400,000,000 barrels of total cumulative oil production. For other oil production, the tax shall be unchanged by this Act.

- It appears the intent is to raise taxes only for the large legacy fields of Alpine, Kuparuk and Prudhoe Bay
- Depending on how fields, units and nonunitized reservoirs are defined, there are numerous possible interpretations, some which could have much more of the current North Slope production qualifying as 40/400 Assets
- Other than being immediately applicable to the three large fields, it is unclear when the new taxes begin to apply and when they stop applying

SECTION 3



SECTION 3

ALTERNATIVE GROSS MINIMUM TAX

***Section 3, Alternative Gross Minimum Tax** For oil production from fields, units, and nonunitized reservoirs that meet the conditions in Sec. 2, the amount of tax due for each calendar month shall be no less than:

(a) 10 percent of the gross value at the point of production when the average per-barrel price for Alaska North Slope crude oil for sale on the United States West Coast (La. Basin) during the calendar month for which the tax is due is less than \$50;

- This is a monthly gross tax that appears to replace the current gross minimum tax that ranges from 0% to 4% of the GVPP with a new gross tax ranging from 10% to 15% of the GVPP
- The Initiative does not contain any language specifically altering the definition of GVPP from how it is defined in current statute
- It is unclear why the parenthetical (La. Basin) has been added to the definition of the ANS WC trigger price and what change that would cause from current statute

SECTION 3

ALTERNATIVE GROSS MINIMUM TAX

(b) an additional 1 percent of the gross value at the point of production for each \$5 increment by which the average per-barrel price for Alaska North Slope crude oil for sale on the United States West Coast (La. Basin) during the calendar month for which the tax is due is equal to or exceeds \$50. The maximum tax rate calculated in this section shall not exceed 15 percent, which is reached when the price per barrel is equal to or exceeds \$70; and

- The language is not clear if the 1% gross minimum tax increase at prices above \$50 per barrel is in step increments of \$5 or if the increase is continuous (like progressivity) at the rate of 1% per \$5 increase
 - e.g. at \$53 ANS WC is the applicable tax rate 11% [$10\% + 1\% > \$50$ but $< \$55$] or 10.6% [$10\% + 1\% * (\$3/\$5)$]
- A step function would be consistent with current gross minimum tax language. This could have been made clear and unambiguous
- For some reason the last sentence does not define where the price per barrel is to be taken from

SECTION 3

ALTERNATIVE GROSS MINIMUM TAX

(b) an additional 1 percent of the gross value at the point of production for each \$5 increment by which the average per-barrel price for Alaska North Slope crude oil for sale on the United States West Coast (La. Basin) during the calendar month for which the tax is due is equal to or exceeds \$50. The maximum tax rate calculated in this section shall not exceed 15 percent, which is reached when the price per barrel is equal to or exceeds \$70; and

If a step function and \$70 ANSWC are assumed, the gross tax changes:

Current

ANS WC \$/bbl		Gross Tax
>	=	%
0	15	0
15	17.5	1
17.5	20	2
20	25	3
	25+	4



Initiative

ANS WC \$/bbl		Gross Tax
>	=	%
0	50	10
50	55	11
55	60	12
60	65	13
65	70	14
	70+	15

SECTION 3

ALTERNATIVE GROSS MINIMUM TAX

(c) No credits, carried-forward lease expenditures, including operating losses, or other offsets may reduce the amount of tax due below the amounts calculated in this section.

- Under AS 43.55, when calculating the applicable gross tax there are no provisions for adjusting the GVPP, through the use of credits, net operating losses (“NOLs”) or similar
- Deductions from GVPP are allowed under AS 43.55 to derive the PTV
- As such, we do not see why paragraph (c) is included in this Section versus Section 4
- If the intent was to make the gross tax calculation a hard floor, that could have been explicitly written

SECTION 4



SECTION 4

TAX ON PRODUCTION TAX VALUE

***Section 4, Tax on Production Tax Value.** For production from fields, units, and nonunitized reservoirs that meet the conditions in Sec. 2:

(a) The per-taxable-barrel credit in AS 43.55.024(i) and (j) shall not be used; and

(b) An additional production tax shall be paid for each month for which the producer's average monthly Production Tax Value of taxable oil is equal to or more than \$50. The additional tax shall be the difference between the average monthly Production Tax Value of a barrel of oil and \$50, multiplied by the volume of taxable oil produced by the producer for the month, multiplied by 15 percent.

- Paragraph (a) clearly and explicitly states that the credits now allowed in AS 43.55.024 (i) and (j) shall not be used for 40/400 Assets
- These credits are the fixed \$5 per barrel credit for GVR eligible fields and the sliding scale (from \$0 to \$8) per barrel credit for all other fields
- Here, unlike elsewhere in the Initiative, specific references in the current statutes were used to unambiguously state which of the many credits allowed under AS 43.55 would no longer apply

SECTION 4

TAX ON PRODUCTION TAX VALUE

***Section 4, Tax on Production Tax Value.** For production from fields, units, and nonunitized reservoirs that meet the conditions in Sec. 2:

(a) The per-taxable-barrel credit in AS 43.55.024(i) and (j) shall not be used; and

(b) An additional production tax shall be paid for each month for which the producer's average monthly Production Tax Value of taxable oil is equal to or more than \$50. The additional tax shall be the difference between the average monthly Production Tax Value of a barrel of oil and \$50, multiplied by the volume of taxable oil produced by the producer for the month, multiplied by 15 percent.

- Under AS 43.55 both the gross tax on GVPP and the net tax on PTV are referred to as a “production tax”
- Given the above, it is unclear whether “An additional production tax” means (1) another production tax in addition to the Section 3 production tax; or (2) an additional tax on top of other production taxes currently in AS 43.55
- Nowhere in the Initiative is there any direct or implied reference to the current applicable net tax on PTV in AS 43.55

SECTION 4

TAX ON PRODUCTION TAX VALUE

***Section 4, Tax on Production Tax Value.** For production from fields, units, and nonunitized reservoirs that meet the conditions in Sec. 2:

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(b) An additional production tax shall be paid for each month for which the producer's average monthly Production Tax Value of taxable oil is equal to or more than \$50. The additional tax shall be the difference between the average monthly Production Tax Value of a barrel of oil and \$50, multiplied by the volume of taxable oil produced by the producer for the month, multiplied by 15 percent.

- Two different definitions of PTV are used, PTV “of taxable oil” and PTV “of a barrel of oil”
- PTV “of taxable oil” defines the gross income. It is sales revenues minus transportation and lease costs. It will always exceed \$50
- PTV “of a barrel of oil” is the PTV divided by applicable production to derive a per barrel unit value
- As worded, the additional tax will apply every month

SECTION 4

TAX ON PRODUCTION TAX VALUE

***Section 4, Tax on Production Tax Value.** For production from fields, units, and nonunitized reservoirs that meet the conditions in Sec. 2:

(a) The per-taxable-barrel credit in AS 43.55.024(i) and (j) shall not be used; and

(b) An additional production tax shall be paid for each month for which the producer's average monthly Production Tax Value of taxable oil is equal to or more than \$50. The additional tax shall be the difference between the average monthly Production Tax Value of a barrel of oil and \$50, multiplied by the volume of taxable oil produced by the producer for the month, multiplied by 15 percent.

- As highlighted above, paragraph (b) uses the terms “taxable oil” and “oil”
- “Taxable oil” is “oil” less royalty barrels
- Thus these two terms differ by roughly 12%
- All references in AS 43.55 today for similar mechanisms make explicitly clear to use PTV of a taxable barrel of oil. This ambiguity was easily preventable

SECTION 5



SECTION 5

SEPARATE TREATMENT

***Section 5, Separate Treatment.** For each producer, the taxes set forth in Sections 3 and 4 shall be calculated separately for the following:

(a) For oil and for gas;

(b) For each calendar month (annual lease expenditures shall be divided equally among the 12 months of the tax year); and

(c) For each of the fields, units, and nonunitized reservoirs, the lease expenditures shall be calculated, deducted, and carried forward separately.

- Section 2 noted the taxes under Sections 3 & 4 can only apply to oil. Section 5 now states the taxes in Sections 3 & 4 apply to gas as well. Both can not be true
- The inclusion of gas here opens the door to any number of interpretations including that gas from 40/400 Assets would be ringfenced from other North Slope gas and taxed via Sections 3 & 4 and not current AS 43.55
- Another possible interpretation is that all costs related to gas are to be separate from oil, not combined as they are now under AS 43.55 and subtracted from oil revenue to determine oil taxes

SECTION 5

IS IT OIL ONLY OR IS IT OIL AND GAS?

***Section 2, Applicability.** The provisions in Sections 3 and 4 **only apply to oil**

***Section 3, Alternative Gross Minimum Tax.** **For oil production** from fields, units,

***Section 4, Tax on Production Tax Value.** **For production** from fields, units, and

***Section 5, Separate Treatment.** For each producer, the taxes set forth in Sections 3 and 4 shall be calculated separately for the following:

(a) For oil and for gas;

- Note the changing terminology.
 - Section 2 “only apply to oil”; then
 - Section 3 “for oil production”; but
 - in Section 4 it only addresses “production” which generically means oil and gas, and then
 - Section 5 states the taxes in Section 3 & 4 apply “for oil” and “for gas”

SECTION 5

SEPARATE TREATMENT

***Section 5, Separate Treatment.** For each producer, the taxes set forth in Sections 3 and 4 shall be calculated separately for the following:

(a) For oil and for gas;

(b) For each calendar month (annual lease expenditures shall be divided equally among the 12 months of the tax year); and

- Paragraph (b) changes the current monthly installment payments as part of an annual tax return to require a tax return be filed for each month for each 40/400 Asset
- Because the accurate value for 1/12th of the annual lease expenditures is not known until several weeks after the end of the year, an amended return will need to be filed for each month of the prior year for each and every 40/400 Asset
- The Initiative provides no guidance on how to apply tax credits, other carried forward credits or net operating losses to the monthly tax returns. Lacking guidance producers would appear to be free to use these items at their discretion to minimize tax payments

SECTION 5

SEPARATE TREATMENT - EXPENSES

(c) For each of the fields, units, and nonunitized reservoirs, the lease expenditures shall be calculated, deducted, and carried forward separately.

- Paragraph (c) requires that lease expenditures be treated separately for each 40/400 Asset. Point forward, systems can be put in place to disaggregate future North Slope costs
- However, any existing carry-forward tax credits and operating losses resulted collectively from all operations a producer had on the North Slope
- The Initiative is silent on their use and likewise silent on how these aggregated amounts are to be separated for each 40/400 Asset. A mechanism will need to be put in place as to how they are to be used for 40/400 Assets. The Initiative provides no direction in this regard
- Costs for common facilities will also need to be identified and allocated to all users

SECTION 6



SECTION 6

GREATER OF

***Section 6, Greater-of.** For each producer, for each month, and for each of the fields, units, and nonunitized reservoirs, the tax due shall be the greater of the tax under Section 3 or Section 4.

- The language above explicitly states that the tax due from a producer for a 40/400 Asset shall be the greater of the tax under Section 3 or Section 4
- There is no Initiative reference, direct or implied, to the inclusion of any other taxes under AS 43.55 being applicable for a 40/400 Asset
- The language above only references the tax calculated under Section 4 and not Section 4 in addition to another tax such as AS 43.55.011(e)(2) the 35% tax on PTV
- Section 5 defined items that needed to be treated separately, but never called for each field, unit and nonunitized reservoir to have its own tax return. The use of “each of” above seems to imply that each of the fields, units and nonunitized reservoirs is ringfenced separately for tax purposes. If so, it raises the possibility of double taxation, once as a field and again as a unit

SECTION 7



SECTION 7

PUBLIC RECORDS

***Section 7, Public Records.** All filings and supporting information provided by each producer to the Department relating to the calculation and payment of the taxes set forth in Sections 3 and 4 shall be a matter of public record.

- Given that ‘units’ may contain more than one ‘field’ or pool, this language would continue to treat tax returns and supporting documentation as matters of public record
- While our assumption is that the sponsors wanted to make returns public, it is our understanding they did not include the necessary language specifying the returns need to be non-confidential
- “All filings and supporting information” could be interpreted as not only supplying documents and data for the initial filing of the monthly returns but also all amended returns, all audits, and all settlement negotiations

SECTION 7

PUBLIC RECORDS

***Section 7, Public Records.** All filings and supporting information provided by each producer to the Department relating to the calculation and payment of the taxes set forth in Sections 3 and 4 shall be a matter of public record.

- If the suggested documents were to be made public, since producers as part of their various tax return submissions would be replying to inquiries or statements by DOR staff, DOR documents could become matters of public record
- Could this be interpreted to include settlement negotiations? If so, further government drafted documents could be captured and made public
- Throughout AS 43.55 the Department of Revenue is referred to as the “department” (lower case). We are not able to discern any reason why the Initiative would choose to use the upper case Department

SECTION 8



SECTION 8

SCOPE OF INITIATIVE

***Section 8, Scope of Initiative.** Nothing in this Act authorizes or requires the Legislature to dedicate revenue, to make or repeal appropriations, to enact local or special legislation, or to perform any unconstitutional act. While not required by this Act, the revenues from this Act could be used to fund essential government services, capital projects, the permanent fund, and permanent fund dividends.

- This section places no restriction on the legislature for use of the funds raised by this Initiative
- It explicitly allows for the revenues generated to be used to pay permanent fund dividends

SECTION 9



SECTION 9

SEVERABILITY

***Section 9, Severability.** The provisions of this Act are independent and severable, and if any provision of this Act or applicability of any provision to any person or circumstance shall be found to be invalid, the remainder of this Act shall not be affected and shall be given effect to the fullest extent practicable.

- This is a typical clause that states if any part of the Act is found to be invalid all the other parts remain unaffected

SPECIFIC QUESTIONS



SPECIFIC QUESTIONS

CHANGES TO CURRENT FISCAL REGIME

Please review the initiative language from a holistic perspective. Describe the initiative; how it would change the current oil and gas fiscal regime; questions raised by the initiative, the answers to which would materially impact future analysis of the initiative impacts; and provisions to which the contractors, as they undertake modeling and analysis of the impacts, may need to interpret or receive direction on how to interpret.

- Creates a new tax ringfence for each producer for each producing asset that meets the qualifications set forth in Section 2, a 40/400 Asset
- Raises the gross minimum tax on GVPP
- Creates a new net tax on PTV when realized prices exceed a threshold
- Details of the above are contained in the previous sectional analysis of the Initiative

SPECIFIC QUESTIONS

INVESTMENT IMPACTS

Identify provisions which may affect generally investment in the North Slope basin, such as the disclosure of previously confidential taxpayer information.

- There are no provisions of the Initiative that encourage or incentivize more investment
- Ringfencing the revenues of the largest fields will make investment on the North Slope much more expensive which can only hurt investments
- The Initiative creates a high degree of economic uncertainty and would be viewed as extremely risky given the many possible interpretations
- The uncertainty will take a long time to sort out likely resulting in a reluctance to commit funds until statute and regulation are finalized
- The uncertainty will very likely slow capital spending, which would then likely cause production levels to decline faster than expected

SPECIFIC QUESTIONS

DISCLOSURE IMPACTS

Identify provisions which may affect generally investment in the North Slope basin, such as the disclosure of previously confidential taxpayer information.

- Producers with ownership in the 40/400 Assets will no longer be able to deduct expenses associated with smaller fields or new developments against the revenues of the 40/400 Assets
- This ringfencing will greatly increase the perceived costs and negatively impact the economics (longer time to recovering costs and being profitable) of any satellite operations or possible new developments
- The negative impact to economics could push the new developments being actively pursued below the corporate funding level for approval
- If documents were to become non-confidential, Alaska would be the only regime to require public disclosure of all documents associated with tax filings

SPECIFIC QUESTIONS

MIDDLE EARTH AND COOK INLET IMPACTS

Articulate any impacts to the Middle Earth and Cook Inlet basins, including to investment behavior.

- The current wording of the Initiative makes no changes to operations or tax returns for Middle Earth or Cook Inlet
- The only impact we perceive to non-North Slope areas is the uncertainty that is created and the ensuing debates that will take place on how to interpret the Initiative
- This risk will likely cause current and prospective producers to take a pause in their investment considerations while implementation details are sorted

QUESTIONS

