Understanding the

Alaska System

Fiscal Systems Seminar

August 29, 2023

https://youtu.be/yeM02RAVnks

IN3ENERGY

be in the know

COURSE AGENDA

Day 1 AM

INDUSTRY BACKGROUND

Nomenclature
Hydrocarbons
Global Market

Day 1 PM

INTRO TO FISCAL SYSTEMS

Fiscal Systems:
Principles
Components

Day 2 AM

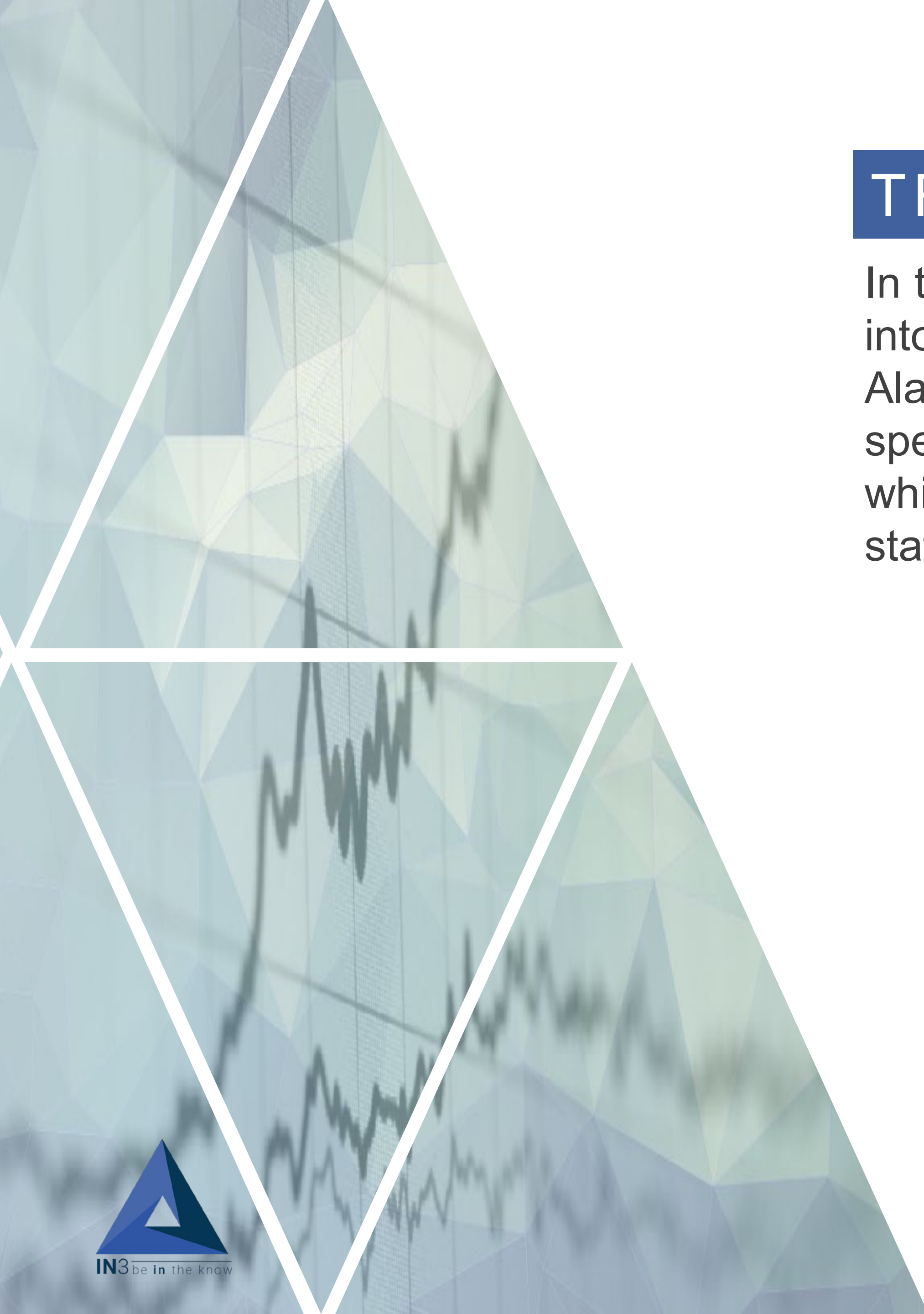
FISCAL SYSTEMS DEEP DIVE

Project Economics
Fiscal Systems:
Design
Intro to Alaska Tax

Day 2 PM

ALASKA DEEP DIVE

Alaska Fiscal System
Order of Operations



TRAINING SUMMARY

In this session we will take a deeper look into the structures and mechanisms of Alaska's petroleum tax system, specifically focusing on the North Slope which produces the vast majority of the state's oil revenue.

WHAT DO YOU HOPE TO LEARN?

DAY 2

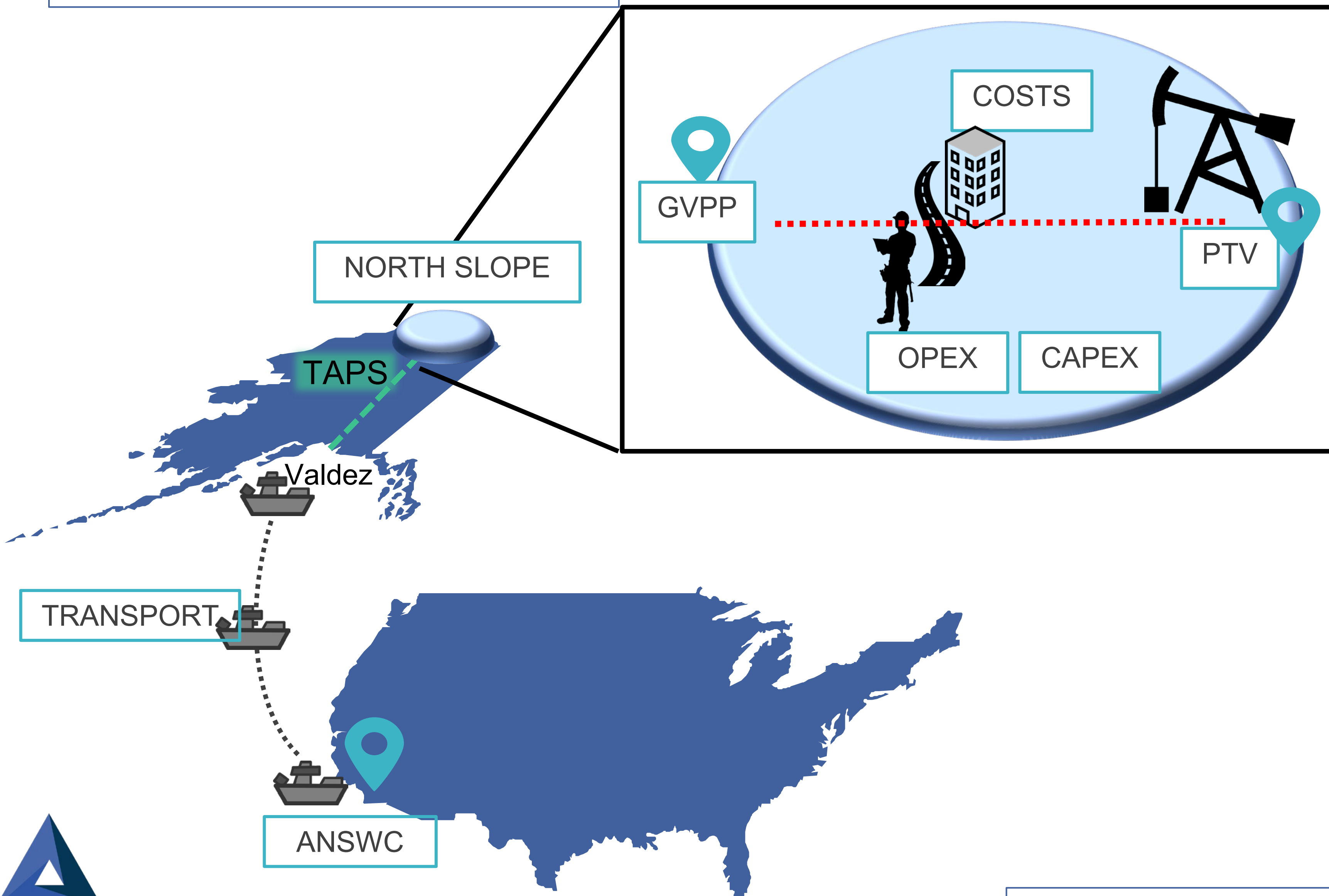
- Up until now we have covered fiscal systems from general perspective

- What question do you have specific to the current Alaska tax system?

ALASKA FISCAL REGIME

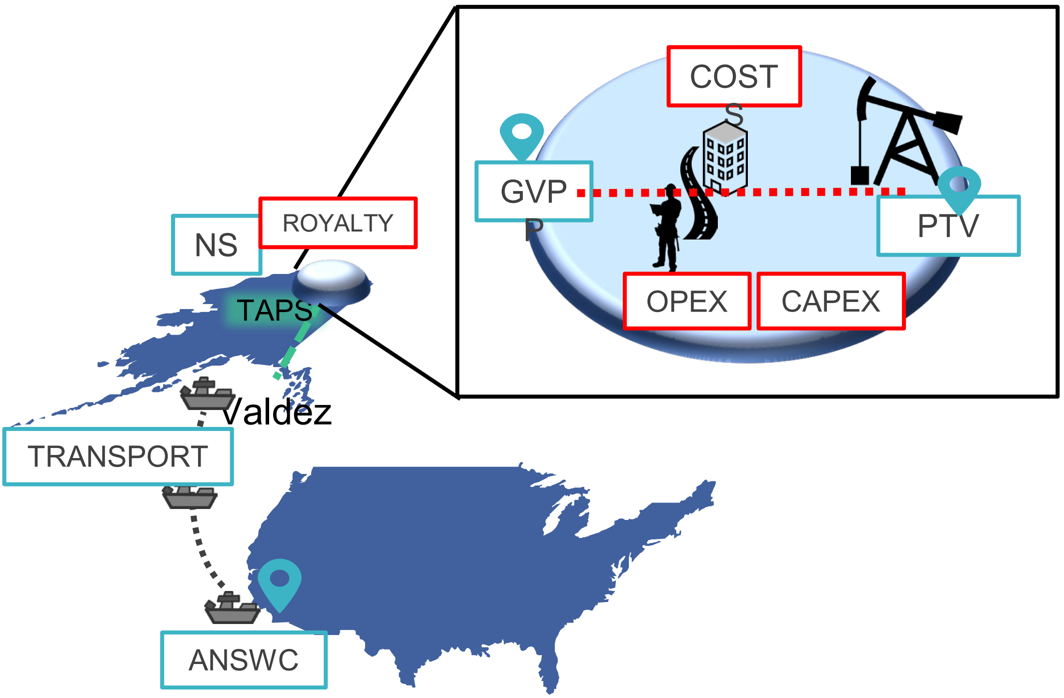
UNDERSTANDING ALASKA'S TAX CODE

WHAT ARE THE VARIOUS PIECES



UNDERSTANDING ALASKA'S TAX CODE

WHAT ARE THE VARIOUS PIECES



- **ANSWC** value used to set the gross tax percentage
- **GVPP** value used to calculate the gross minimum tax
- **PTV** value used to calculate the preliminary net tax
- **GVPP** value used to determine the per barrel credit
- Tax owed is the greater of gross or net after credits
- UNLESS the unit is GVR eligible in which case:
  - GVPP is reduced by 20% or 30%
  - Flat $5 per barrel credit which can pierce the gross minimum tax floor and take the tax owed to zero

GROSS BARRELS VERSUS TAXABLE BARRELS

IMPORTANT TO USE THE RIGHT QUANTITY IN THE CALCULATION

- After choosing a reference point to measure production, we need to understand the difference between barrels and taxable barrels
- Most of AS 43.55 when referring to barrels generally refers to taxable barrels
  - Taxable Barrels = Total Barrels minus Royalty Barrels
  - Taxable barrels are roughly 12% to 17% lower than total barrels
- Assume 1000 barrels subject to a 1/8th royalty
  - 1000 total barrels; or
  - 875 taxable barrels

VARIED ALASKA ROYALTIES

CREATE VARIED ALASKA REVENUES

- Royalty is a fixed component of the Alaska's fiscal system, a commitment producers must meet at the start of production, regardless of profitability

- Alaska has multiple royalty structures depending on geography, in various categories of onshore, offshore, state, federal and private lands

- In addition to the varied royalty rates, where ownership is held by the federal government or private owners, the state does not receive 100% of the royalty payments made by operators and may or may not receive production tax revenue

VARIED ALASKA ROYALTIES

WHAT IS THE SAME BARREL WORTH IN EACH REGION

Regions

- Revenue to State from the same barrel of oil produced in different regions*

	UGF	Restricted	Total
State Land**	$4.84	$3.16	$8.00
NPRA	$1.75	$3.13	$4.88
ANWR	$3.30	$1.58	$4.88
Other Federal Land	$4.53	$2.85	$7.38
3-6 Miles Offshore	$0.84	$0.85	$1.69
>6 Miles Offshore	$0.00	$0.00	$0.00
Native Corp Land	$2.06	$0.00	$2.06

*Assumes $50 wellhead value at all locations, 12.5% royalty rate, paying the 4% gross minimum tax, and a lease newer than 1979. Numbers are greatly simplified and approximated to show scale, not to be used for any other purpose.
**Includes submerged lands up to 3 miles offshore

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Source: Ed King, DNR Presentation to Senate Resources, January 24th 2018

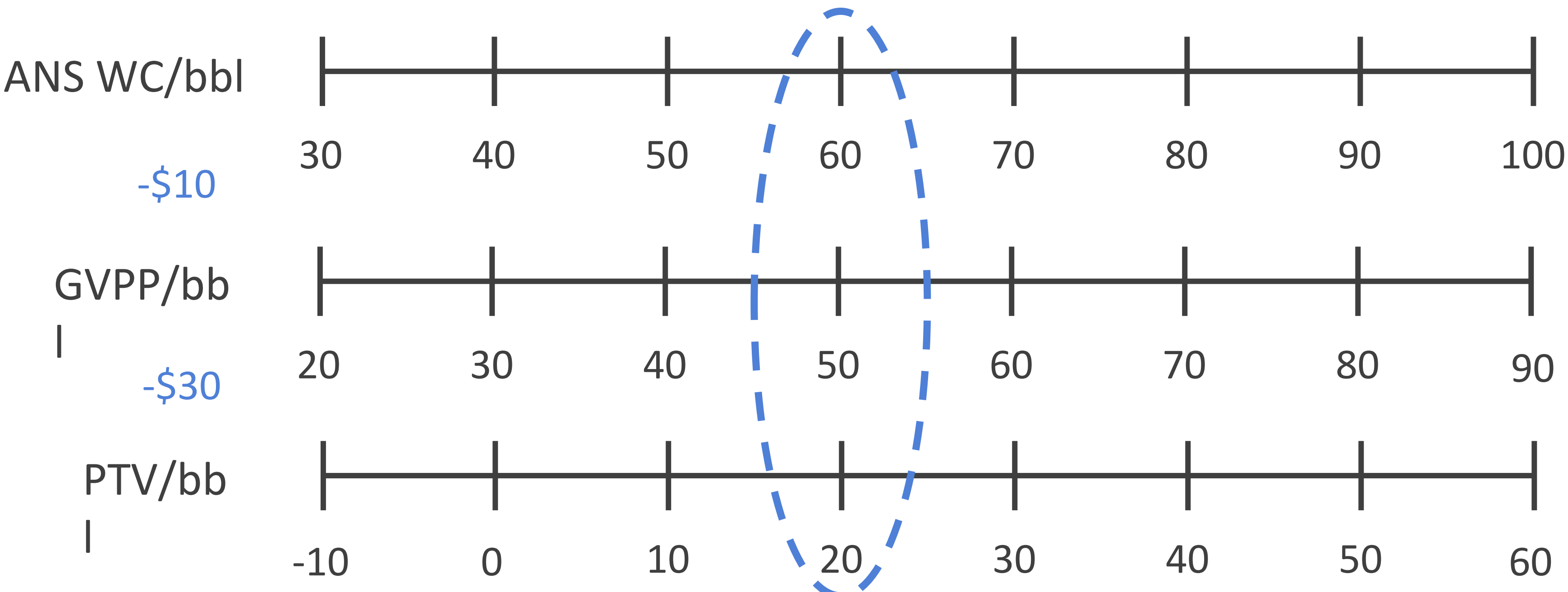
MINI MODEL

ALL $/BBL ARE NOT THE SAME

ANSWC vs GVPP vs PTV

- Assumptions
  - $10/bbl for marketing, shipping and TAPS
  - $30 lease expenditures

- $60 ANSWC - $10 = $50 GVPP - $30 = $20 PTV/bbl



ORDER OF OPERATIONS

FISCAL REGIME DESIGN TOOL KIT

THE CONCESSION AGREEMENT

- At face value concessionary systems are viewed as having the potential for the least complexity
- However, all systems are open to interpretation, loopholes and sometimes abuse
- It is in the tightening up of the very basic terms where the system can become quite complex

- Market sale revenue
  - Less Costs to market
- Value at license border
  - Less royalty
  - Less costs of operations
- Taxable value
  - Less tax
- Producer profit

FISCAL REGIME DESIGN TOOL KIT

HIGH LEVEL REVIEW OF ALASKA'S PETROLEUM FISCAL SYSTEM

- Most regimes share petroleum or levy tax at the "lease". How then does Alaska ensure the right value ends up back at the lease?

- Determining market sales revenue
  - Actual price paid and revenues received if arms-length sale
  - If non arms-length sale to an affiliate, the basis for price and revenues are to be agreed between the company and the government
  - Large integrated oil companies tend to keep things in house

- Less costs to get the petroleum to the market
  - Shipping – from Valdez to the refinery
  - TAPS – from the North Slope to Valdez
  - Same issues on affiliated transactions versus third party transactions
  - Additional issues with the perceived fairness of transportation rates set by non-AK regulatory bodies

FISCAL REGIME DESIGN TOOL KIT

HIGH LEVEL REVIEW OF ALASKA'S PETROLEUM FISCAL SYSTEM

- Value at the "lease"
  - GVPP or Gross Value at the Point of Production
  - [Possible 20% GVR deduction if certain conditions are met]
- Less Royalty
  - State share varies

	UGF	Restricted	Total
State Land**	$4.84	$3.16	$8.00
NPRA	$1.75	$3.13	$4.88
ANWR	$3.30	$1.58	$4.88
Other Federal Land	$4.53	$2.85	$7.38
3-6 Miles Offshore	$0.84	$0.85	$1.69
>6 Miles Offshore	$0.00	$0.00	$0.00
Native Corp Land	$2.06	$0.00	$2.06

Source: Ed King

- Less Costs of Operations
  - Only deductible costs as not all costs are deductible
  - Definition of 'direct' costs versus overhead (subject to limits on the deductibility)
  - Deductions not allowed on equipment until present in the field in Alaska
  - Carry forward net operating losses or NOLs
  - Costs to get to TAPS

FISCAL REGIME DESIGN TOOL KIT

HIGH LEVEL REVIEW OF ALASKA'S PETROLEUM FISCAL SYSTEM

- Taxable Value
    - PTV or Production Tax Value

- Less Tax –
    - The state has established multiple ringfences for calculating tax
    - For North Slope production the tax payable is the greater of:
        - A gross tax on the GVPP
            - Rate ranges from 0% to 4% based on oil price
        - A net tax on the PTV less applicable credits
            - $0 to $8 per barrel based on oil price
            - $5 per barrel for GVR eligible fields
            - Exploration and other activity incentivizing credits
            - Small producer credit

FISCAL REGIME DESIGN TOOL KIT

HIGH LEVEL REVIEW OF ALASKA'S PETROLEUM FISCAL SYSTEM

- Taxable Value
  - PTV or Production Tax Value

- Less Tax –
  - The state has established multiple ringfences for calculating tax
  - For North Slope production the tax payable is the greater of
  - Finally, the tax is paid by company and not by field
    - Every company is different
    - Those with large production revenues can immediately deduct expenses from new fields
    - Those with no or limited production revenues must wait for production on a new field to commence to deduct costs

FISCAL REGIME DESIGN TOOL KIT

HIGH LEVEL REVIEW OF ALASKA'S PETROLEUM FISCAL SYSTEM

- Taxable Value
  - PTV or Production Tax Value

- Less Tax –
  - The state has established 7 "ringfences" for calculating tax
  - For North Slope production the tax payable is the greater of
  - Finally, the tax is paid by company and not by field

- Oil Company "Profit"
  - Less Alaska corporate income tax
  - Less US federal income tax

- Finally, money into the oil company bank account

ALASKA ORDER OF OPERATIONS

GVPP

1

	Volume	$/bbl	Value ($ Million)
ANSWC Price ($/bbl)		100	
Production (kbbls/d)	1,000		
Gross Value			**100,000**
1/8th Royalty (12.5%)	125	100	12,500
Taxable Barrels	875		
Transportation ($/bbl)	875	10	8,750
Marketing			
Shipping			
TAPS			-
Gross Value at the Point of Production (GVPP)	**875**	**90**	**78,750**

- Alaska oil is sold on the US west coast
- The GVPP is the sales revenue minus the transportation costs to move the oil from the North Slope to the market
- In the Alaska production tax system, the GVPP is used for
    - Determining the amount of the per taxable barrel credits
    - Calculating the gross minimum tax calculation

ALASKA ORDER OF OPERATIONS

PTV

2

	Volume	$/bbl	Value ($ Million)
Gross Value at the Point of Production (GVPP)	**875**	**90**	**78,750**
Operating Expenditures (Opex)	875	15	13,125
Capital Expenditures (Capex)	875	15	13,125
Carry Forward Losses	875	0	-
Production Tax Value (PTV)	**875**	**60**	**52,500**

- The PTV is the income after accounting for allowed costs
- The PTV is derived by subtracting from the GVPP operating expenditures, capital expenditures, property tax, and any carry forward losses
- PTV is generally discussed in statute on a per taxable barrel basis
- In the Alaska production tax system, the PTV is used for the Net tax calculation

ALASKA ORDER OF OPERATIONS

FROM MARKET TO PROFIT

1

	Volume	$/bbl	Value ($ Million)
ANSWC Price ($/bbl)		100	
Production (kbbls/d)	1,000		
Gross Value			**100,000**
1/8th Royalty (12.5%)	125	100	12,500
Taxable Barrels	875		
Transportation ($/bbl)	875	10	8,750
Marketing			
Shipping			
TAPS			-
Gross Value at the Point of Production (GVPP)	**875**	**90**	**78,750**

2

	Volume	$/bbl	Value ($ Million)
Gross Value at the Point of Production (GVPP)	**875**	**90**	**78,750**
Operating Expenditures (Opex)	875	15	13,125
Capital Expenditures (Capex)	875	15	13,125
Carry Forward Losses	875	0	-
Production Tax Value (PTV)	**875**	**60**	**52,500**

ALASKA ORDER OF OPERATIONS

GROSS MINIMUM CALCULATION

3

(Gross Min Tax)	Volume	$/bbl	Value ($ Million)
GVPP	**875**	**90**	**78,750**
Tax Rate		4%	
Gross Min Tax			**3,150**

- Two parallel calculations are done to determine the production tax due:
  - the gross minimum tax; and
  - the net tax

- The gross minimum is taken as a percentage of the GVPP

Minimum Gross Tax			
Step	ANSWC min	ANSWC max	Rate
1	0.00	14.99	0%
2	15.00	17.49	1%
3	17.50	19.99	2%
4	20.00	24.99	3%
5	25.00		4%

- The 024j sliding scale per barrel credits cannot be used against minimum tax, but the 024i $5/bbl credit can

HOW OIL COMPANIES EVALUATE PROJECTS

NET TAX CALCULATION

3

(Net Tax)	Volume	$/bbl	Value ($ Million)
Production Tax Value	**875**	**60**	**52,500**
Gross Value Reduction (GVR)			
Production Tax Value After GVR	**875**	**60**	**52,500**
Tax Rate		35%	
Net Tax Before Credits			**18,375**

- The second tax calculation is the net tax. This 35% of the PTV
- In the net tax, for those fields eligible the GVPP is further reduced by the GVR allowance

ALASKA ORDER OF OPERATIONS

CHOOSING THE GREATER OF

4

(Gross Min Tax)	Volume	$/bbl	Value ($ Million)
GVPP	**875**	**90**	**78,750**
Tax Rate		4%	
Gross Min Tax			**3,150**

(Net Tax)	Volume	$/bbl	Value ($ Million)
Production Tax Value	**875**	**60**	**52,500**
Gross Value Reduction (GVR)			
Production Tax Value After GVR	**875**	**60**	**52,500**
Tax Rate		35%	
Net Tax Before Credits			**18,375**

- After the gross and net calculations are done, the values are compared to determine the "greater of"
- The greater of the two values is the production tax payable

ALASKA ORDER OF OPERATIONS

NET TAX AFTER CREDITS

5

(Net Tax if Greater)	Volume	$/bbl	Value ($ Million)
Net Tax Before Credits			**18,069**
GVR per-taxable-barrel credits			
Non-GVR per-taxable-barrel credits	875	6	5,250
Other Credits			
Net Tax After Credits			**12,819**

- If the gross tax is the greater of the two, that is the tax due and there are no further adjustments
- If the net tax is the greater of the two, the amount is then reduced by any available credits including the sliding scale per taxable barrel credits
- The 024j sliding scale per barrel credits cannot be used against minimum tax, but the 024i $5/bbl credit can

ALASKA ORDER OF OPERATIONS

TAX PAYABLE

6

	Volume	$/bbl	Value ($ Million)
Gross Value at the Point of Production (GVPP)	**875**	**90**	**78,750**
Operating Expenditures (Opex)	875	15	13,125
Capital Expenditures (Capex)	875	15	13,125
Carry Forward Losses	875	0	-
Production Tax Value (PTV)	**875**	**60**	**52,500**

(Net Tax)	Volume	$/bbl	Value ($ Million)
Production Tax Value	**875**	**60**	**52,500**
Gross Value Reduction (GVR)			
Production Tax Value After GVR			
Tax Rate		35%	
Net Tax Before Credits			**18,375**

(Net Tax if Greater)	Volume	$/bbl	Value ($ Million)
Net Tax Before Credits			**18,375**
GVR per-taxable-barrel credits			
Non-GVR per-taxable-barrel credits	875	6	5,250
Other Credits			
Net Tax After Credits			**13,125**

ALASKA ORDER OF OPERATIONS

PRODUCER SHARE

7

	Volume	$/bbl	Value ($ Million)
Income			**39,375**
State Corporate Income Tax			-
Federal Corporate Income Tax			-
Produce Share			

- From the tax calculated. State and federal income taxes are deducted to reach the final producer share
- Tax rates vary based on company

THANK YOU

QUESTIONS?

IN3ENERGY
be in the know

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