



Alaska State Legislature

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Major Changes between CSHB 2001 (O&G) and HB 2001 (ACES)

Note: "Net effect" is an assessment of each change's potential impact on state revenue in magnitude, not quantity (positive meaning an increase in revenue, negative meaning a decrease in revenue.)

1. **DELETED** legislative intent language reaffirming the DoR's longstanding affirmation that audits take longer than 3 years to perform; currently DoR is auditing for 6 years with producers' written agreement. (Explicitly codifies this practice in statute in Section 27 of CS.) DoR is also asserting that the 3 to 6 year audit period applies retroactively to before passage of PPT in 2006. Deleting the legislative intent section may mean DoR can't perform audits prior to 2006.
Net Effect: Potentially NEGATIVE.
2. **DELETED** the 10% gross tax floor starting at prices below \$40/bbl in ACES. Retains the existing PPT 22.5 percent net tax rate but removes progressive .25 percent increase per bbl above \$40.
Net Effect: NEGATIVE. No gross floor doesn't protect the state on the "downside," gives greater incentive to take large deductions, and raises less revenue as prices increase. Removing progressive slope on net tax also brings in less revenue.
3. **ADDED** a new gross "windfall" prices progressivity factor (.225 percent per dollar above \$50 gross @ point of production). Cap of 25 percent.
Net Effect: NEGATIVE in the short term; in the long term, once TIE credits have expired, MAY raise more money than ACES at windfall prices.
4. **ADDED** a tax ceiling on natural gas produced anywhere in the state outside Cook Inlet or the north slope. Meant as a subsidy for Nenana basin natural gas, but may have the unintended consequence of under taxing future natural production elsewhere in the state.
Net Effect: NEGATIVE; foregone revenue from Nenana and potentially under taxing future production elsewhere in the state.
5. **DELETED** ACES provision that calculated producers' tax liability on an annual rather than monthly basis. Returns to the PPT status quo of calculating tax liability payments monthly.
Net Effect: POSITIVE. Captures monthly price "spikes" which get smoothed out when averaging on an annual basis – captures more "windfall" profits in a month.

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6. **DELETED** provision stipulating no more than half of a capital expenditure credit could be taken in a single year, meaning the full credit must be taken over two years. Returns to status quo of taking capital expenditure credits in a single year. Also deleted provision placing cap on credits such that a producer could not apply credits that would reduce their tax below 10% of the total gross value at the point of production, and stipulated that leftover credits could not be applied outside the unit incurred.
Net Effect: NEGATIVE.
7. **DELETED** provision changing annual net operating loss (NOL) carry forward credits for explorers without production from 20 percent to 25 percent. Reverts to the PPT status quo of 20 percent NOL carry forward credit.
Net Effect: POSITIVE to the treasury, but further disadvantages explorers; producers receive a 20 percent capital expenditure deduction and a 22.5 percent capital credit.
8. **ADDED** a section limiting the transitional investment expenditure look back period from 2001-2006 to 2003-2006. ACES would have repealed TIE credits altogether.
Net Effect: NEGATIVE – more credits companies can apply to their tax liability.
9. **DELETED** provision changing start date for exploration credit eligibility from July 1, 2003 to Jan. 1, 2008. Would have required exploration well to be “completed or abandoned” before credit would apply.
Net Effect: NEGATIVE.
10. **DELETED** provision exempting costs arising from health/safety/environmental violations or gross negligence.
Net Effect: NEGATIVE.
11. **DELETED** language tightening rules for how and when an exploration well qualifies for an exploration incentive credit (EIC.)
Net Effect: NEGATIVE – less confirmation makes it easier to receive credits.
12. **DELETED** language stating a tax exempt entity may transfer a transferable tax credit (e.g. Alaska Natural Gas Development Authority or Alaska Gasline Port Authority.)
Net Effect: NEGATIVE.
13. **DELETED** language changing qualifying period for drilling work from one season to two; reverts to status quo of one season.
Net Effect: POSITIVE.
14. **DELETED** provision allowing DNR to offer a 5% credit in exchange for past seismic data, if Commissioner determines it is valuable information to the state.
Net Effect: POSTIVE.
15. **DELETED** Oil and Gas Tax Credit Fund for purchase of transferable credits from producers and explorers.

Net Effect: POSITIVE.

16. **DELETED** \$1,000 per day penalty for failure to submit required tax and credit reports with DoR.

Net Effect: NEGATIVE, assuming it provides less incentive to properly report on time.

17. **DELETED** language requiring a producer or explorer to file “necessary” reports for the purpose of forecasting state revenue, as determined by DoR. Also provided a \$1,000 a day penalty for failure to report which is also deleted.

Net Effect: NEGATIVE.

18. **DELETED** language expanding the universe of qualified net operating loss (NOL) carry forward credits.

Net Effect: POSITIVE.

19. **DELETED** language preventing double dipping under the Cook Inlet tax ceiling.

Net Effect: NEGATIVE

20. **DELETED** section allowing DoR to determine what are qualified lease expenditures explicitly by regulation.

Net Effect: NEGATIVE.

21. **DELETED** repeal of transitional investment expenditure (TIE) credits.

Net Effect: NEGATIVE.

Significant ACES provisions still in the (H) O&G CS:

- Pipeline corrosion disallowance
- DNR – DoR information sharing
- Public disclosure of aggregated expenditure information of 3 producers
- Strengthened filing requirements for deductions and credits

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