

# **PPT Effects in Cook Inlet**

Presentation to

## **South Central Alaska Energy Forum**

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September 20, 2006



Alaska Department of  
**Natural  
Resources**

# Major Points Covered In Presentation

- A. PPT Basics
- B. Cook Inlet Provisions
- C. Cook Inlet Example
- D. Conclusions

# PPT Basics (#1)

- Tax on a producer's net upstream Alaska income
  - Net upstream income = “Production tax value” = “gross value at point of production” minus “lease expenditures”
- *Base PPT Tax* is 22.5% of production tax value
- *Minimum Tax* based on percentage of gross value at point of production
  - Floor applies to North Slope, only

## PPT Basics (#2)

- *Supplemental “Progressive” Tax* on production tax value assessed at higher oil prices
  - Above \$40/ bbl production tax value
- *Credits* reduce tax liability or generate tradable tax benefits

# Production Tax Value

- Destination Market Price (downstream)
  - Prevailing Value or Proceeds in Cook Inlet
  - Royalty Barrels deducted prior to tax calculation
  - ANS West Coast spot price
- *Gross Value at Point of Production (netted back)*
  - Or at lease boundary
  - Royalty barrels deducted prior to tax calculation
  - Subtract cost of pipeline and marine transportation
- Subtract *Lease Expenditure* (upstream)
  - Capital Expenditures (less 30 ¢ per Bbl)
  - Operating Expenditures
  - Property and Conservation Surcharge Taxes

# PPT Differs by Area, Taxpayer

- PPT in North Slope is a combined oil and gas upstream profits tax
  - No separate oil and gas tax rate
  - Tax on a company basis, not a field basis
- PPT tax liability in Cook Inlet capped for oil and gas separately
- PPT in new areas gets its own distinct credit
- It pays to be small: Producers with less production get a distinct credit

# Summary of Main Elements

- *Gross Value at the Point of Production*
- *Lease Expenditures*
- *Production Tax Value*
- *Minimum Tax or “Capped” Tax (in CIB)*
- *Progressive Supplemental Tax*
- *Credits*
  - *Transferable*
    - *Qualified CapEx Credit*
    - *Loss Carry-forward*
  - *Non-Transferable*
    - *Small Producer*
    - *New Area Credit*
    - *Transition Investment Credit*

# PPT “*Tax Cap*” for Cook Inlet

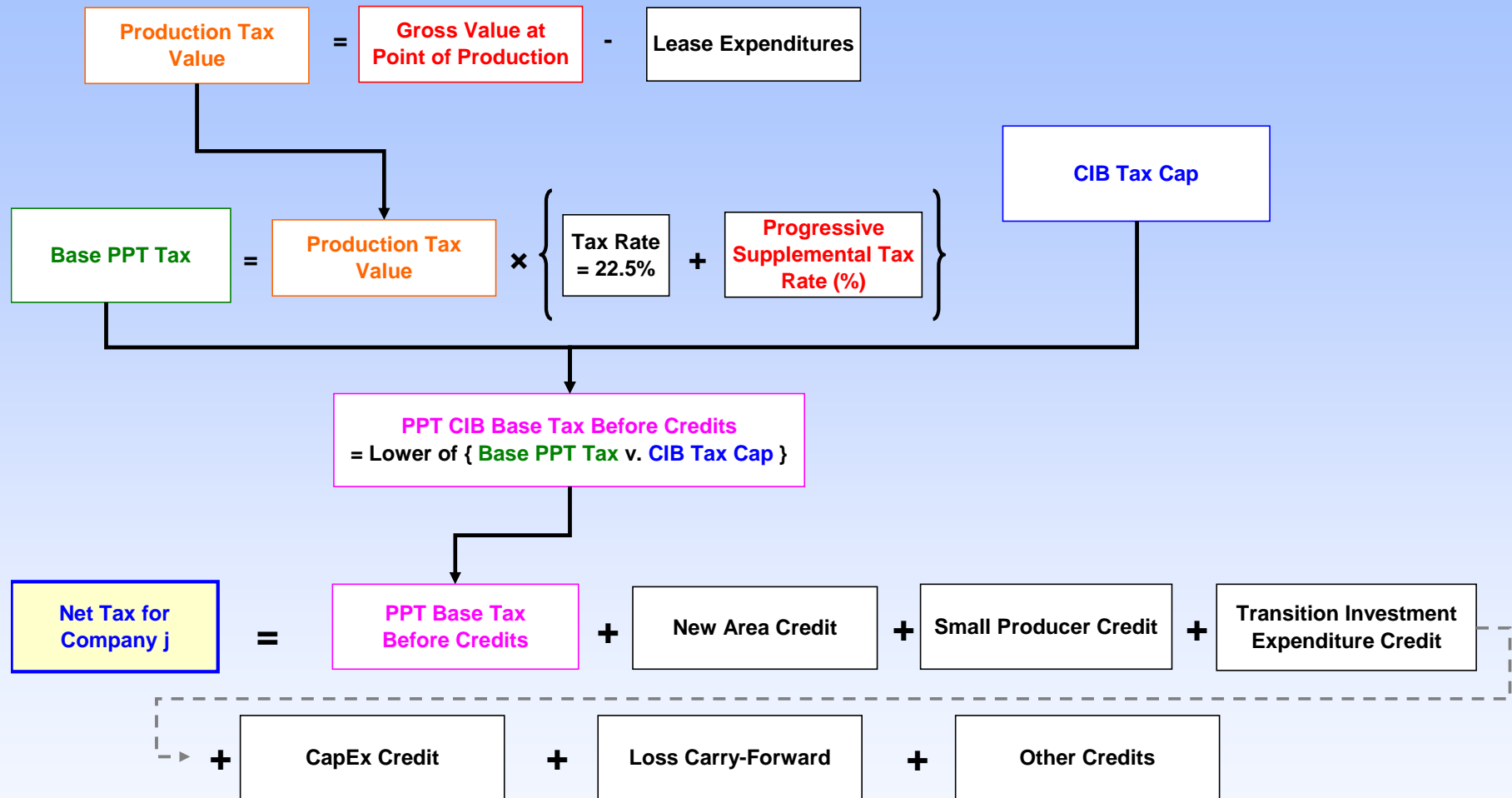
- Fossilized ~2005 per-unit Tax Liability
  - ELF oil tax cap
  - ELF gas tax cap
- Cap applied to oil and gas separately
- Cap applies to *Base PPT Tax* liability plus *Progressive Supplemental* element
- CIB Cap replaces *Minimum Tax* provisions



# Cook Inlet Producers Benefit from Credits Despite “Capped” Tax

- PPT *Transferable Tax Credits* not limited by operation of the “Cap”
  - Qualified CapEx Credit
  - Loss Carry-forward Credit
- Other *Transferable Tax Credits* are limited by *Tax Savings* caused by operation of the *Cap*
  - AS 43.55.025 (20/40% Exploration Credits)
- *Small Producer Credit* could be limited
  - Non-Transferable
  - Allocated to field based on volume
    - Can’t apply a field’s unused credits to another field’s tax

# PPT Flow Chart – Cook Inlet



# Cook Inlet Example - The Setup

- One Producer, Four Fields
- One-Year Time Period
- Gas Only, ELF range = 0 – 0.68
- 2005 Price Received = \$3.50 per mcf
- Transition Investments – None
- Three Cases Depending on Following in Current Year
  - Price
  - CapEx
  - Volume

# Table 1. Tax Cap Calculation

Fields	ELF	Effective Tax Rate	Q <sub>INITIAL</sub>	Q <sub>T</sub>	P <sub>INITIAL</sub>	Tax Cap per Unit	Tax Cap
		<b>10%</b>	Mmcfd	Mmcfd	\$ per Mcf		\$ Millions
				<b>5</b>	<b>\$3.50</b>		
A	<b>0.68</b>	6.8%	20	25		\$0.24	\$5.9
B	<b>0.45</b>	4.5%	15	20		\$0.16	\$3.1
C	<b>0.00</b>	0.0%	5	10		\$0.00	\$0.0
D	<b>0.20</b>	2.0%	10	15		\$0.07	\$1.1

**CASE #1**

# Table 2. Production Tax Value and Base PPT Liability per Field

$P_{\text{CURRENT}} =$  **\$8.00** \$ per Mcf

Lease Expend

Fields	GVPOP	CapEx <sub>T</sub>	OpEx & Other	PTV <sup>1</sup>	Base Tax Liability	Supp Tax	Total PPT Liability
	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions	
					<b>22.5%</b>	<b>2.0%</b>	
A	\$73.0	\$7.5	\$3.8	\$62.21	\$14.0	\$1.2	\$15.2
B	\$58.4	\$7.5	\$3.8	\$47.52	\$10.7	\$1.0	\$11.6
C	\$29.2	\$7.5	\$3.8	\$18.13	\$4.1	\$0.4	\$4.4
D	\$43.8	\$7.5	\$3.8	\$32.82	\$7.4	\$0.7	\$8.0
	<b>\$204.4</b>	<b>\$30.0</b>	<b>\$15.0</b>	<b>\$160.68</b>	<b>\$36.2</b>	<b>\$3.2</b>	<b>\$39.4</b>

<sup>1</sup> Adjusted for 30¢ per barrel CapEx exclusion.

**CASE #1**

## Table 3. PPT CIB Base Tax Before Credits

Fields	Tax Cap	Total PPT Liability	PPT BC	Cap Tax Savings
	\$ Millions	\$ Millions	\$ Millions	\$ Millions
A	\$5.9	\$15.2	\$5.9	\$9.3
B	\$3.1	\$11.6	\$3.1	\$8.5
C	\$0.0	\$4.4	\$0.0	\$4.4
D	\$1.1	\$8.0	\$1.1	\$7.0
			<b>\$10.1</b>	<b>\$29.3</b>

**CASE #1**

## Table 4. Allocation of Small Producer Credit by Field

Fields	Q <sub>T</sub> Mmcfd	Q <sub>T</sub> % by Field	Amount of Potential SPC \$ Millions	PPT BC \$ Millions	Tax Liability After SPC \$ Millions
	<b>5</b>				
A	25	35.7%	\$4.3	\$5.9	\$1.6
B	20	28.6%	\$3.4	\$3.1	\$0.0
C	10	14.3%	\$1.7	\$0.0	\$0.0
D	15	21.4%	\$2.6	\$1.1	\$0.0
	<b>70</b>		<b>\$12.0</b>	<b>\$10.1</b>	<b>\$1.6</b>

**CASE #1**

# Table 5. PPT Credits

CapEx Credit		
CapEx <sub>T</sub>	Credit %	Credit
\$ Millions	<b>20%</b>	\$ Millions
<b>\$28.7</b>		<b>\$5.7</b>

Loss Carry Forward Credit	
PTV Loss	Credit 20%
\$ Millions	\$ Millions
<b>\$0.0</b>	<b>\$0.0</b>

20/40 Transferable Credit	
\$ Millions	
"Gross"	"Net"
<b>\$0.0</b>	<b>\$0.0</b>

Small Producer Credit
\$ Millions
<b>\$8.5</b>

**CASE #1**



# Table 6. Tax Cap Calculation

Fields	ELF	Effective Tax Rate	Q <sub>INITIAL</sub>	Q <sub>T</sub>	P <sub>INITIAL</sub>	Tax Cap per Unit	Tax Cap
		<b>10%</b>	Mmcf	Mmcf	\$ per Mcf		\$ Millions
				<b>-5</b>	<b>\$3.50</b>		
A	<b>0.68</b>	6.8%	20	15		\$0.24	\$3.5
B	<b>0.45</b>	4.5%	15	10		\$0.16	\$1.6
C	<b>0.00</b>	0.0%	5	0		\$0.00	\$0.0
D	<b>0.20</b>	2.0%	10	5		\$0.07	\$0.4

**CASE #2**

# Table 7. Production Tax Value and Base PPT Liability per Field

$P_{\text{CURRENT}} =$  **\$2.50** \$ per Mcf

**Lease Expend**

Fields	GVPOP	CapEx <sub>T</sub>	OpEx & Other	PTV <sup>1</sup>	Base Tax Liability	Supp Tax	Total PPT Liability
	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions	
					<b>22.5%</b>	<b>0.0%</b>	
A	\$13.7	\$15.0	\$3.8	-\$4.79	\$0.0	\$0.0	\$0.0
B	\$9.1	\$15.0	\$3.8	-\$9.44	\$0.0	\$0.0	\$0.0
C	\$0.0	\$15.0	\$3.8	-\$18.75	\$0.0	\$0.0	\$0.0
D	\$4.6	\$15.0	\$3.8	-\$14.10	\$0.0	\$0.0	\$0.0
	<b>\$27.4</b>	<b>\$60.0</b>	<b>\$15.0</b>	<b>-\$47.08</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

<sup>1</sup> Adjusted for 30¢ per barrel CapEx exclusion.

**CASE #2**

## Table 8. PPT CIB Base Tax Before Credits

Fields	Tax Cap	Total PPT Liability	PPT BC	Cap Tax Savings
	\$ Millions	\$ Millions	\$ Millions	\$ Millions
A	\$3.5	\$0.0	\$0.0	\$0.0
B	\$1.6	\$0.0	\$0.0	\$0.0
C	\$0.0	\$0.0	\$0.0	\$0.0
D	\$0.4	\$0.0	\$0.0	\$0.0
			\$0.0	\$0.0

**CASE #2**

## Table 9. Allocation of Small Producer Credit by Field

Fields	$Q_T$	$Q_T$	Amount of Potential SPC	PPT BC	Tax Liability After SPC
	Mmcfd	% by Field	\$ Millions	\$ Millions	\$ Millions
	<b>-5</b>				
<b>A</b>	<b>15</b>	<b>50.0%</b>	<b>\$6.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>B</b>	<b>10</b>	<b>33.3%</b>	<b>\$4.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>C</b>	<b>0</b>	<b>0.0%</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>D</b>	<b>5</b>	<b>16.7%</b>	<b>\$2.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
	<b>30</b>		<b>\$12.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

**CASE #2**

# Table 10. PPT Credits

CapEx Credit		
CapEx <sub>T</sub>	Credit %	Credit
\$ Millions	<b>20%</b>	\$ Millions
<b>\$59.5</b>		<b>\$11.9</b>

Loss Carry Forward Credit	
PTV Loss	Credit 20%
\$ Millions	\$ Millions
<b>-\$47.1</b>	<b>\$9.4</b>

20/40 Transferable Credit	
\$ Millions	
<u>"Gross"</u>	<u>"Net"</u>
<b>\$0.0</b>	<b>\$0.0</b>

Small Producer Credit
\$ Millions
<b>\$0.0</b>

**CASE #2**

# Table 11. Summary of PPT Effects

	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
Price	\$8.00	\$2.50	\$4.00
CapEx	\$30.0	\$60.0	\$20.0
Volume Delta (Mmcf/d)	5	-5	10
Tax Cap Savings	\$29.3	\$0.0	\$9.7
Small Producer Credit	\$8.5	\$0.0	\$8.7
Transf Credits Remaining	\$5.7	\$21.3	\$3.7
Tax Liability	(\$1.6)	\$0.0	(\$3.7)

Note, Case #3 detailed slides not shown.

# Conclusions

- Many interdependent parts
- PPT Tax a major boon for Cook Inlet
- Best of both worlds: Base PPT Tax Liability is Capped and most PPT Credits Apply
- ELF and Price in 2005 Year is Fossilized in determining “Cap”