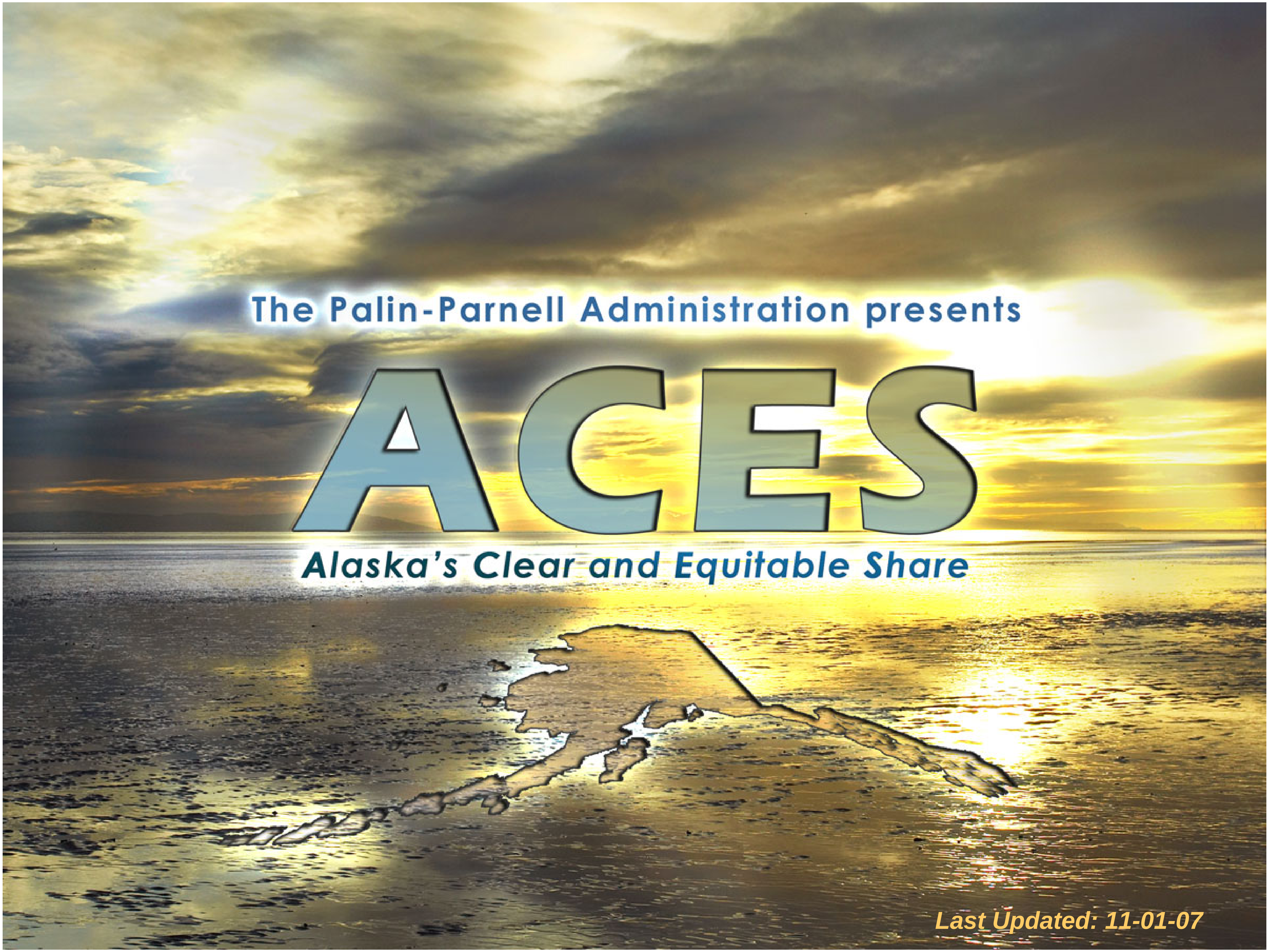
The Palin-Parnell Administration presents
ACES
Alaska's Clear and Equitable Share
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“Point of Production” (For Oil)

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Department of Revenue
Senate Judiciary
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Economic Incentives

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- For oil, definition of "point of production" was unchanged in the transition from ELF to PPT
- Producer in some circumstances has latitude in determining location of the POP
- Under ELF, producer had incentive to move POP as far **upstream** as possible
- Under PPT, producer has an incentive to move the POP as far **downstream** as possible

Some Unintended Consequences

- The retained definition of “point of production” seems likely to exacerbate the facilities access problem
- The retained definition generates very different rewards for a producer on Federal land vs. State land
- The differential rewards are not necessarily consistent with the State’s fiscal interest.

AS 43.55.900(20)(A)

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- "for oil, the automatic custody transfer meter or device through which oil enters into a carrier pipeline or other transportation carrier in a condition of pipeline quality; in the absence of an automatic custody transfer meter or device to measure the quantity of oil that has been approved by the department for that purpose, through which the oil is tendered and accepted in a condition of pipeline quality into the facilities of a carrier pipeline or other transportation carrier…"

What does this mean?

The point of production does not occur until:

1) The oil is “of pipeline quality”, meaning it is “of good and merchantable condition” (AS 43.55.900(19); **and**

2a) The oil has been metered prior for entry into a pipeline carrier, **or**

2b) The oil has been “tendered and accepted into the facilities of a pipeline carrier”

Note: a reasonable read of statute is that that “pipeline carrier” is a separate entity from the production subsidiary

“Gaming” of the POP

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Move unprocessed oil as far as possible

- In NPR-A, build pipelines (potentially many dozens of miles long) that carry unprocessed crude so as to maximize PPT tax benefits
- Such pipelines will not offer third party access
- State ROW Leasing Act limits this “game” from being played on state lands.
- Upshot: Oil from Federal lands gets much more help *despite state’s reduced royalty interest*, exacerbating third party access issues

“Gaming” of the POP

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Move processed crude, but never meter and keep the pipeline “private”

- No third party access
- State ROW Leasing Act limits this “game” from being played on state lands
- Upshot: Oil from Federal lands gets much more help *despite state’s reduced royalty interest*, exacerbating third party access issues

“Gaming” of the POP

- Initially, have pipeline that is “upstream” of the POP so as to enjoy tax credits and deductions
- After some later period, move the pipeline to be “downstream” of the POP – either by installing metering, or by building new processing facilities
- <u>Upshot</u>: state pays for the same pipeline twice (first through credits and deductions, again through transportation deductions)

Conclusion

Alaska's Clear and Equitable Share

- There would seem to be room for updating the definition of “point or production” so that:
  - Facilities access problem is not exacerbated
  - Tax benefits for oil on federal land are significantly greater than those from state land
  - State bears no risk of paying for the same pipeline twice

Why ACES?

- PPT is Not Stable
- PPT Does Not Protect Alaska's Interests
- ACES is Needed for Alaska