More Alaska Production Act: Creating *Opportunity for Alaskans*

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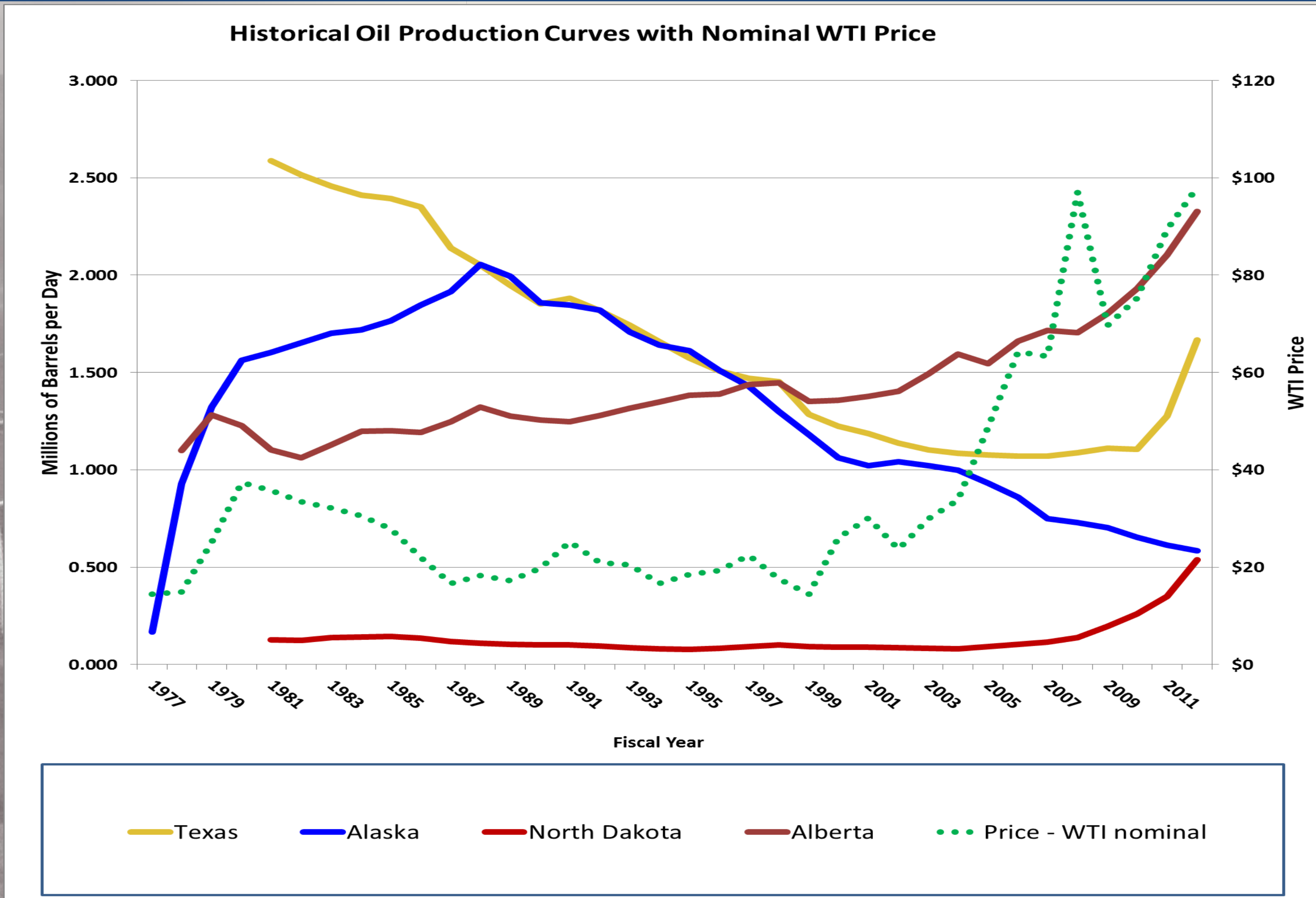
State of Alaska, Department of Revenue
Interior Delegation
December 16, 2013

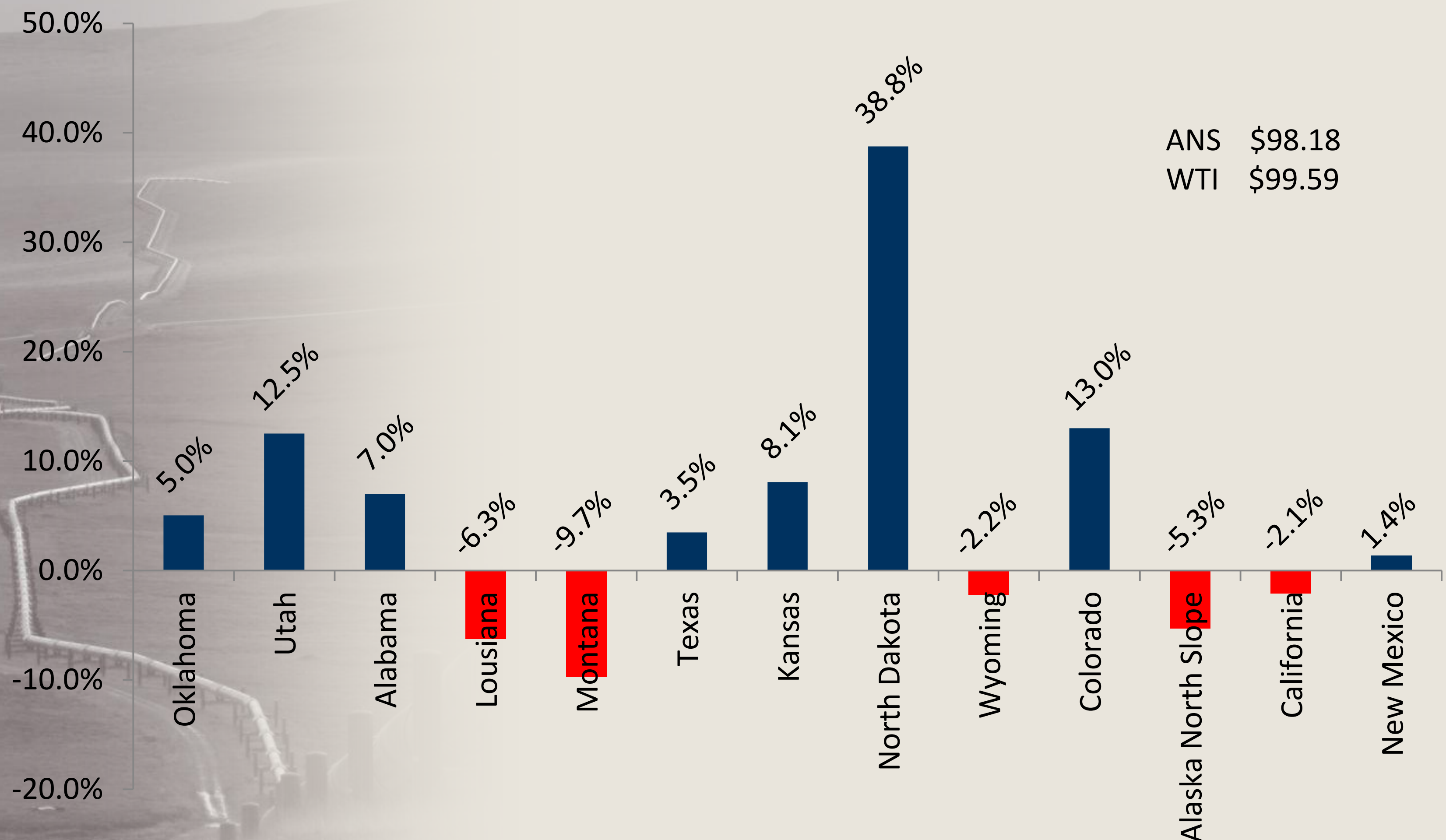
Other Basins Have Turned Decline Around

- Historical Oil Production -



Change in Average Daily Oil Production by State—2007-2008

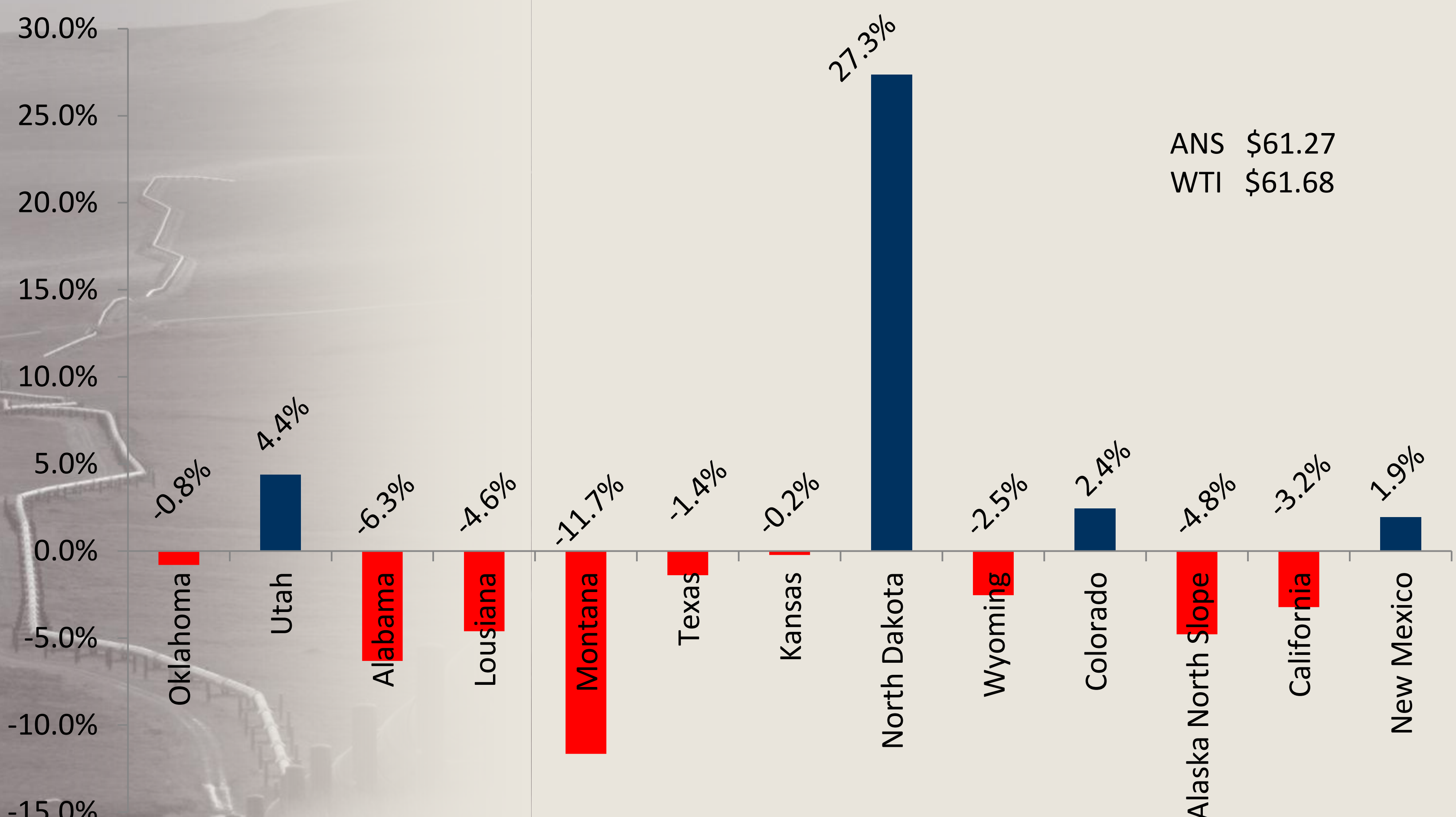
- Prepared by DOR, Economic Research Group (March 18, 2013)-



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

Change in Average Daily Oil Production by State—2008-2009

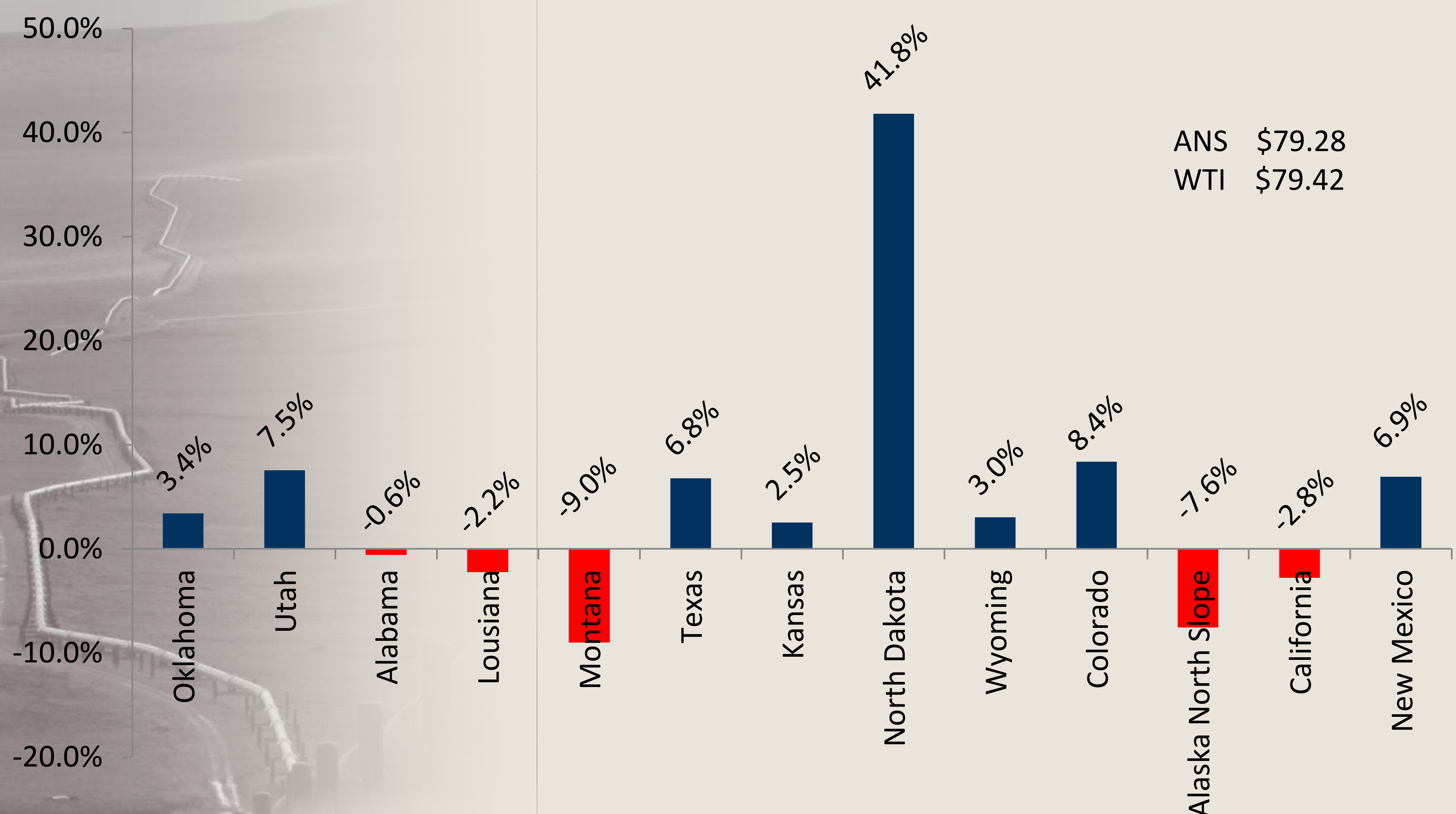
- Prepared by DOR, Economic Research Group (March 18, 2013)-



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

Change in Average Daily Oil Production by State—2009-2010

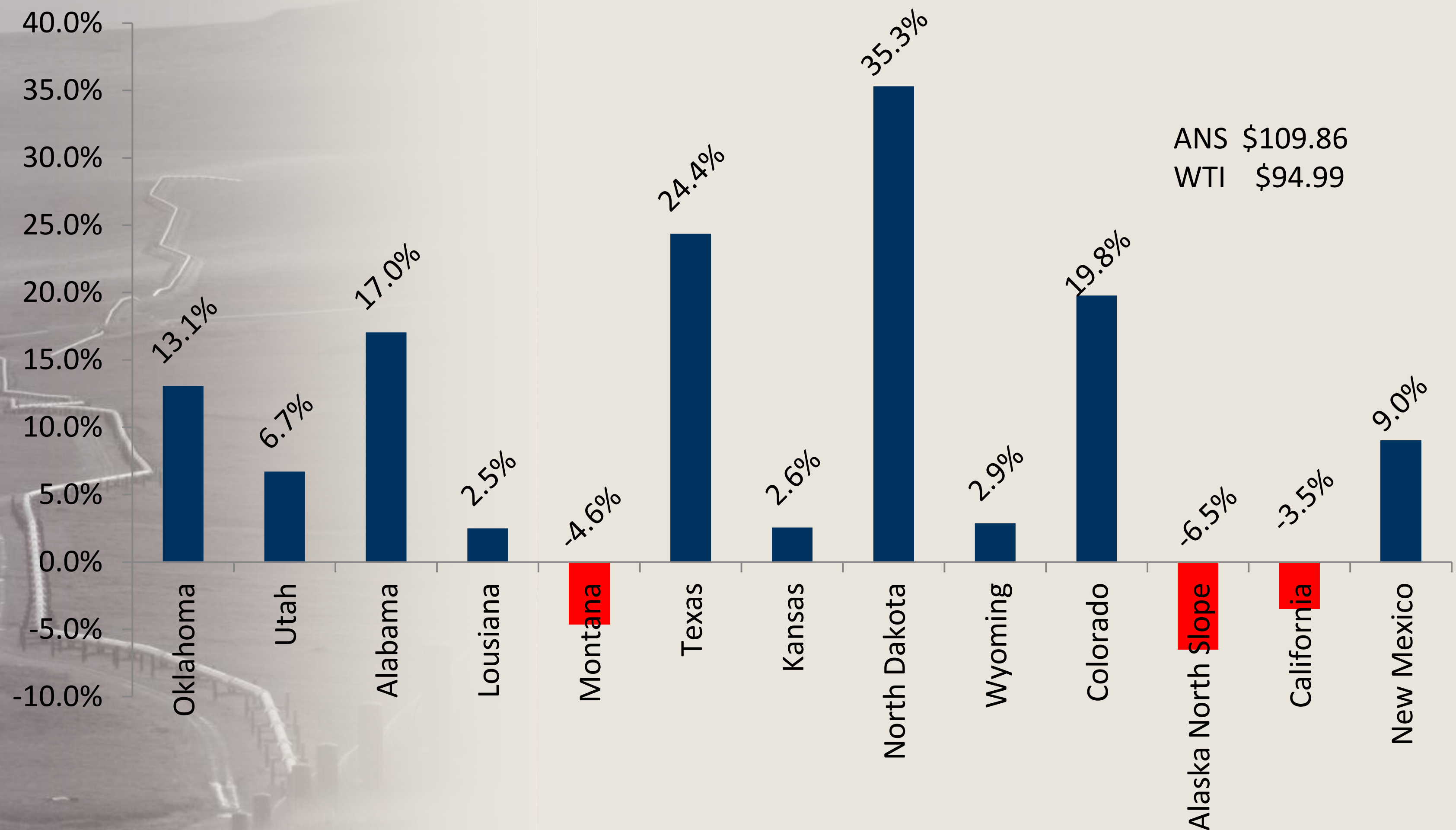
- Prepared by DOR, Economic Research Group (March 18, 2013)-



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

Change in Average Daily Oil Production by State—2010-2011

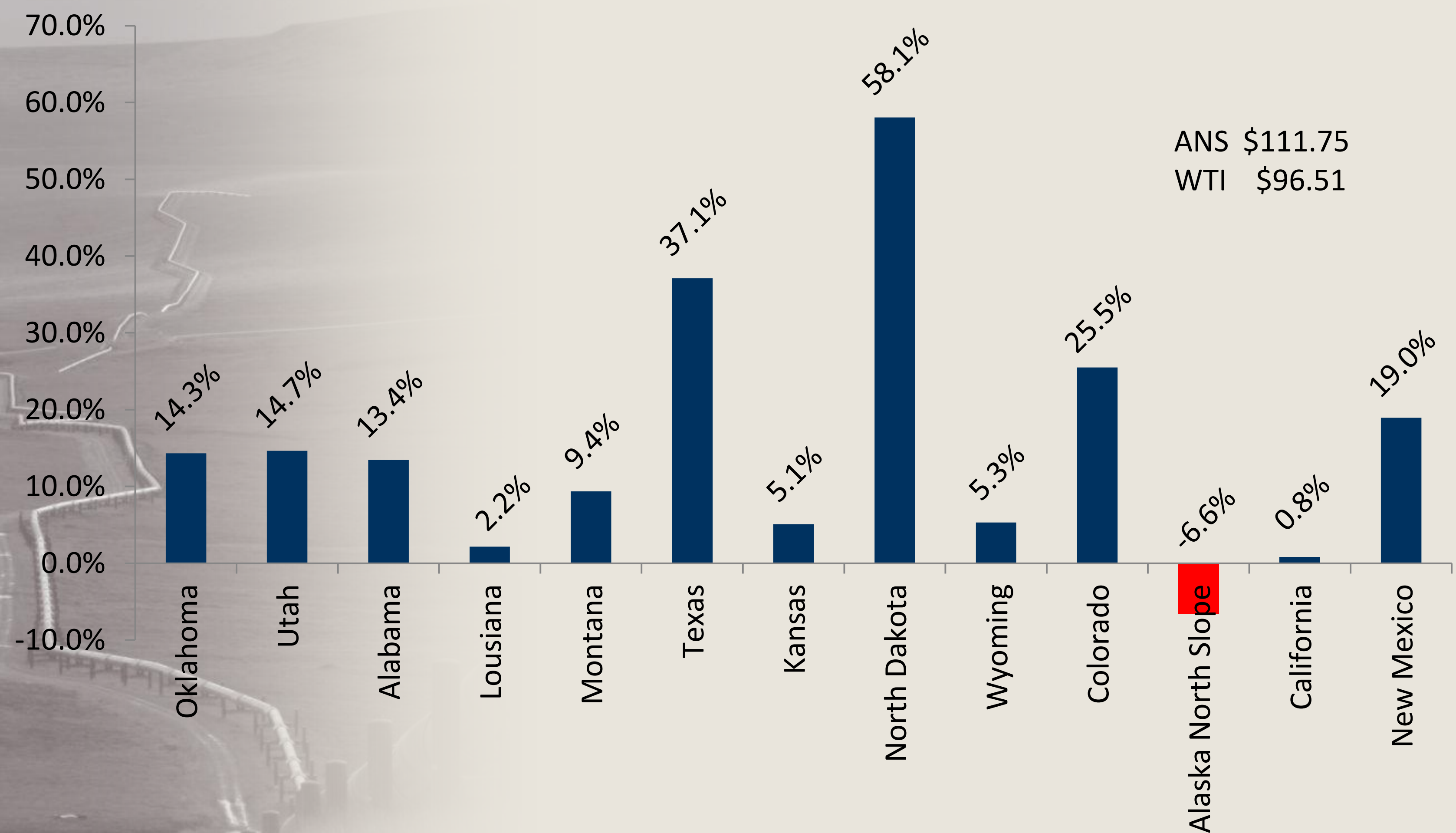
- Prepared by DOR, Economic Research Group (March 18, 2013)-



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

Change in Average Daily Oil Production by State—2011-2012

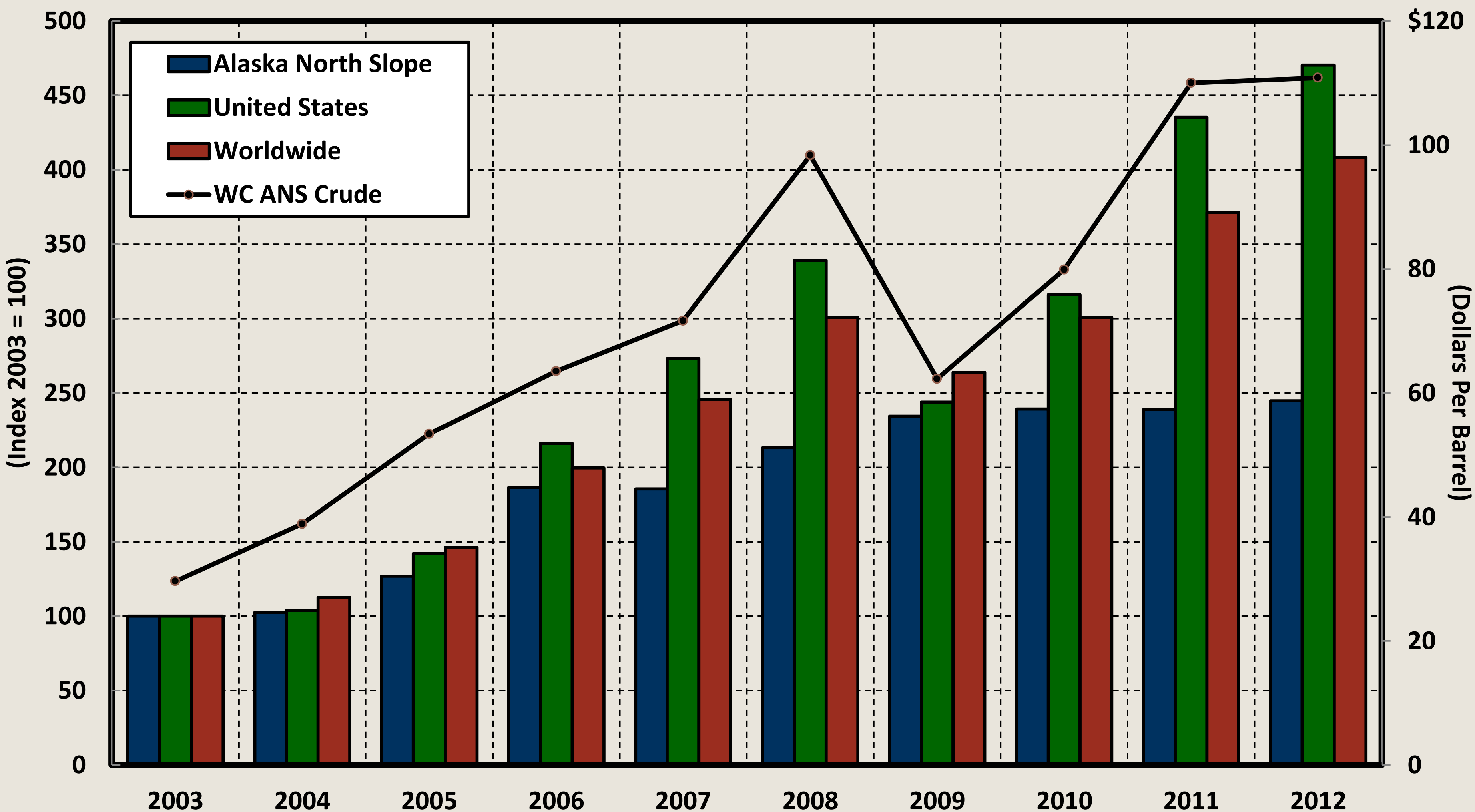
- Prepared by DOR, Economic Research Group (March 18, 2013)-



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

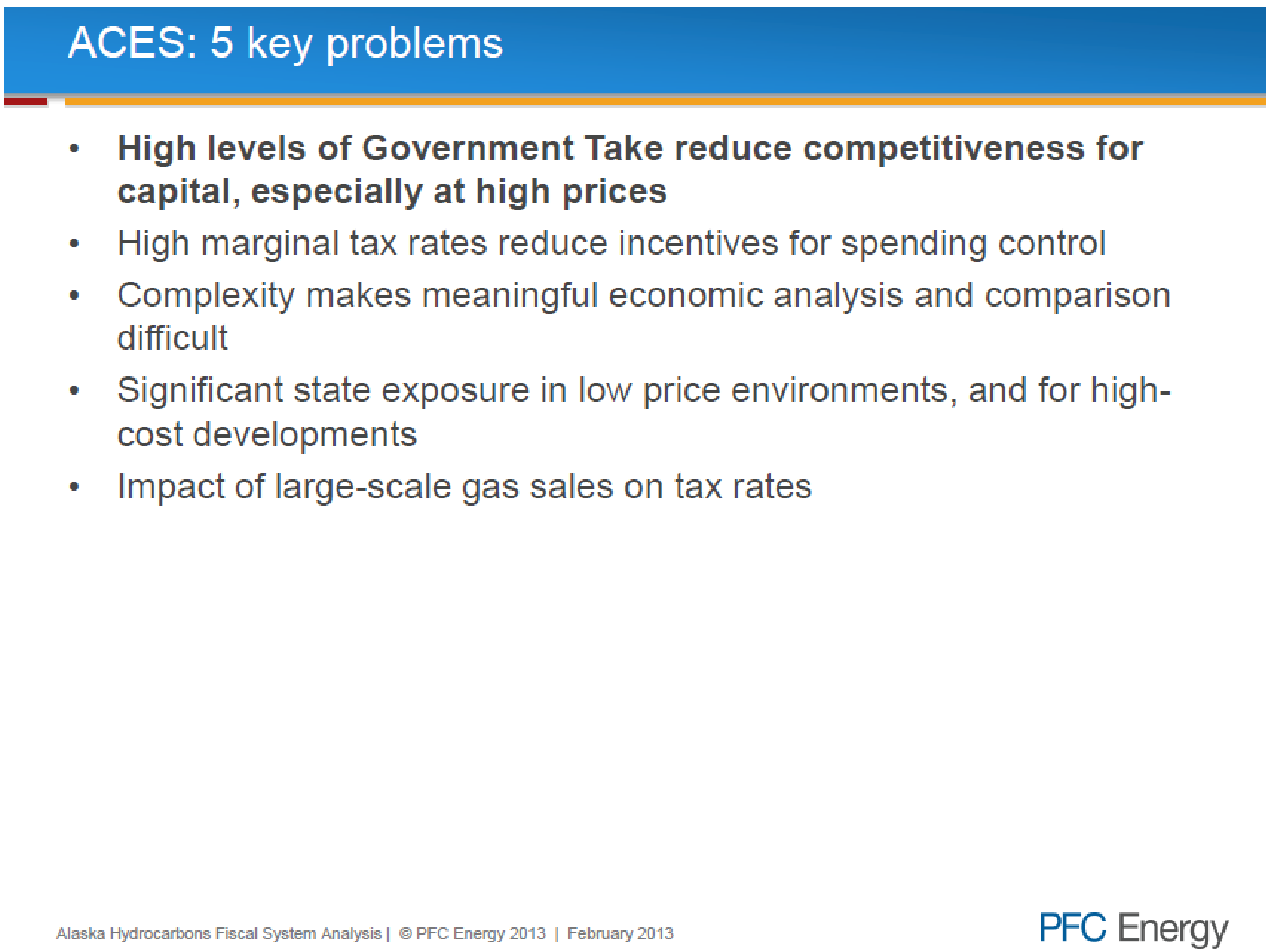
Est. Capital Spending for Exploration & Development:

AK North Slope vs. U.S. & World Spending*, 2003-2012



* North Slope based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

Consultants for Both the Administration & Legislature Identified the Problems with ACES



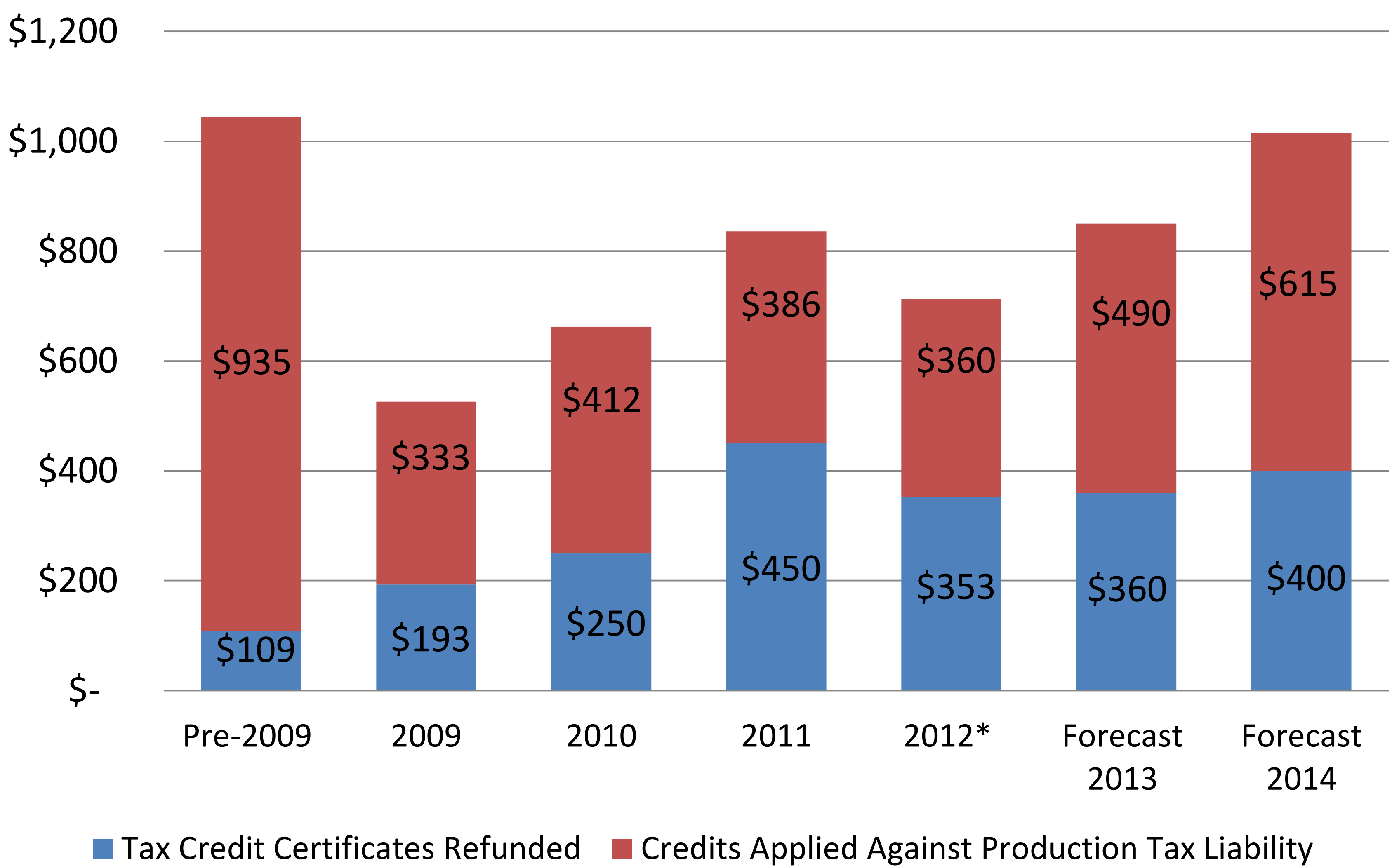
Under ACES, Tax *RATES* varied significantly on a monthly basis

Fiscal Year 2009

	July	August	September	October	November	December	
Oil Price	**$132.87**	**$115.98**	**$101.86**	**$73.65**	**$53.94**	**$37.70**	
Total barrels per month	20,174,640	17,230,458	21,197,405	23,080,737	22,846,738	22,727,030	
Royalty & Federal barrels	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	
Taxable barrels per month	17,325,693	14,381,511	18,348,458	20,231,790	19,997,791	19,878,083	
Wellhead value	$126.37	$109.48	$95.36	$67.15	$47.44	$31.20	
Gross value of taxable bbls	$2,189,447,867	$1,574,487,850	$1,749,708,987	$1,358,564,721	$948,695,216	$620,196,200	
Deductible Opex	$170,833,333	$170,833,333	$170,833,333	$170,833,333	$170,833,333	$170,833,333	
Deductible Capex	$145,833,333	$145,833,333	$145,833,333	$145,833,333	$145,833,333	$145,833,333	
Taxable value	$1,872,781,200	$1,257,821,183	$1,433,042,320	$1,041,898,054	$632,028,549	$303,529,533	
Base rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Base tax	$468,195,300	$314,455,296	$358,260,580	$260,474,514	$158,007,137	$75,882,383	
Taxable value per barrel	$108.09	$87.46	$78.10	$51.50	$31.60	$15.27	
Progressive tax rate	26.6%	23.0%	19.2%	8.6%	0.6%	-	
Progressive tax	$497,397,040	$289,102,592	$275,726,004	$89,595,168	$4,057,416	$0	
Tax before credits	$965,592,340	$603,557,888	$633,986,584	$350,069,682	$162,064,553	$75,882,383	
Credits applied	$29,150,000	$29,150,000	$29,150,000	$29,150,000	$29,150,000	$29,150,000	
Tax after credits	**$936,442,340**	**$574,407,888**	**$604,836,584**	**$320,919,682**	**$132,914,553**	**$46,732,383**	
Effective tax rate on net	**50%**	**46%**	**42%**	**31%**	**21%**	**15%**	

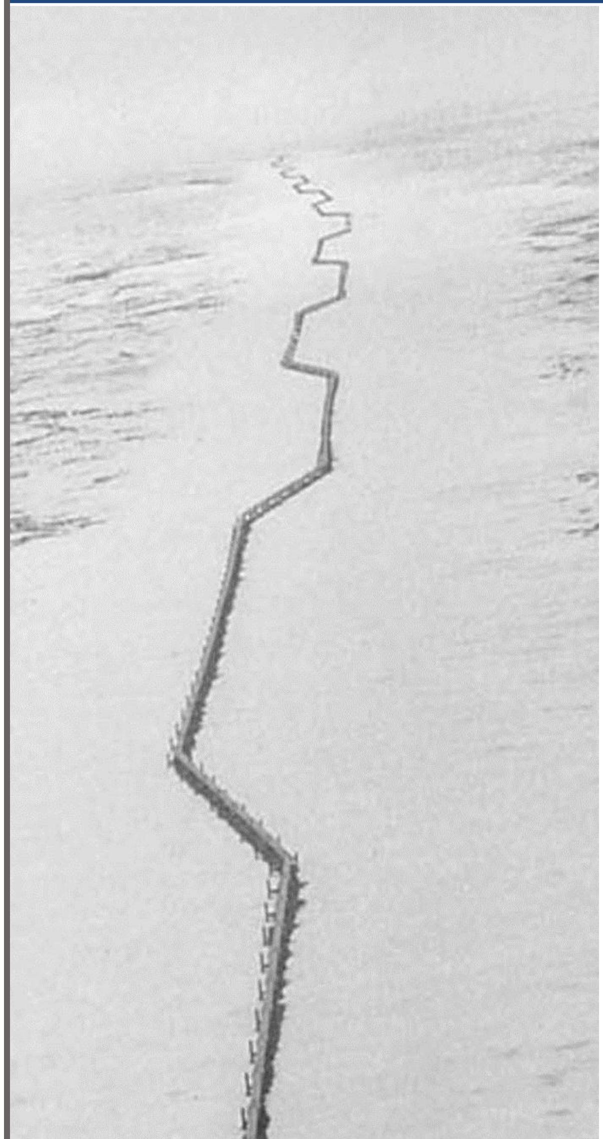
	January	February	March	April	May	June	Total
Oil Price	**$39.01**	**$42.78**	**$47.75**	**$46.56**	**$58.23**	**$69.80**	$68.34
Total barrels per month	21,812,241	20,747,934	23,020,348	20,160,047	22,186,732	17,785,719	252,970,029
Royalty & Federal barrels	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	34,187,360
Taxable barrels per month	18,963,294	17,898,987	20,171,402	17,311,100	19,337,785	14,936,772	218,782,669
Wellhead value	$32.51	$36.28	$41.25	$40.06	$51.73	$63.30	$61.84
Gross value of taxable bbls	$616,496,702	$649,375,248	$832,070,320	$693,482,668	$1,000,343,635	$945,497,689	$13,178,367,102
Deductible Opex	$170,833,333	$170,833,333	$170,833,333	$170,833,333	$170,833,333	$170,833,333	$2,050,000,000
Deductible Capex	$145,833,333	$145,833,333	$145,833,333	$145,833,333	$145,833,333	$145,833,333	$1,750,000,000
Taxable value	$299,830,035	$332,708,581	$515,403,653	$376,816,001	$683,676,969	$628,831,022	$9,378,367,102
Base rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Base tax	$74,957,509	$83,177,145	$128,850,913	$94,204,000	$170,919,242	$157,207,756	$2,344,591,775
Taxable value per barrel	$15.81	$18.59	$25.55	$21.77	$35.35	$42.10	$44.27
Progressive tax rate	-	-	-	-	2.1%	4.8%	7.1%
Progressive tax	$0	$0	$0	$0	$14,642,885	$30,434,227	$1,200,955,332
Tax before credits	$74,957,509	$83,177,145	$128,850,913	$94,204,000	$185,562,128	$187,641,982	$3,545,547,108
Credits applied	$29,150,000	$29,150,000	$29,150,000	$29,150,000	$29,150,000	$29,150,000	$349,800,000
Tax after credits	**$45,807,509**	**$54,027,145**	**$99,700,913**	**$65,054,000**	**$156,412,128**	**$158,491,982**	$3,195,747,108
Effective tax rate on net	**15%**	**16%**	**19%**	**17%**	**23%**	**25%**	**34%**
						Less adjustments	$83,792,561
						TOTAL TAX	**$3,111,954,547**

Production Tax Credits Used & Forecast By Fiscal Year ($Millions)



More Alaska Production Act

- Major Provisions -



- Eliminated the progressive portion of the production tax on oil and gas produced after January 1, 2014.
- Increased the tax rate from 25% to 35%.
- Eliminated credits for qualified capital expenditures made after January 1, 2014 north of 68 degrees (North Slope).
- Increased support for explorers and new entrants through the *Net Operating Loss Credit* to 45% until January 1, 2016 and 35% thereafter.
- Created incentive for new oil production:
  - 20% - 30% of the gross value at the point of production for oil produced from (1) units formed after Jan. 1, 2003 (2) new participating areas (3) expansions of participating areas in units formed before Jan. 1, 2003.
- Created a credit per taxable barrel of oil produced:
  - $5 for GVR (aka GRE)
  - $0 - $8 for non-GVR(aka GRE) oil (i.e. *Legacy production*)
- 10% Corporate Income Tax Credit for in-State Manufacturing/Modification (Service Industry)

Revenue Forecast and Budget Outlook (Dated Material)

Provisions in HCS CSSB21(FIN) and their estimated fiscal impact in FY15 at $100, $111.67 and $120 per barrel as compared to ACES at the same price levels under Spring 2013 Forecast ($millions)[1]

	FY 2015		
Brief Description of Provision	**$100/bbl**	**$111.67/bbl**	**$120/bbl**
1. Elimination of progressive portion of tax	-$750	-$1,400	-$2,000
2. Base tax rate changed to 35% of production tax value	$850	$1,050	$1,175
3. Limitation of credits for qualified capital expenditures for North Slope	$675	$675	$675
4. Net operating loss credit rate increased to 45% until 1/1/16 then 35%; transferable and refundable	See line 11 below		
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	$0 to -$25	$0 to -$25	$0 to -$25
6. Credit of $5 per taxable barrel for GRE-eligible oil production	-$10	-$10	-$10
7. Sliding scale $0-$8 credit per taxable barrel for non GRE-eligible production based on oil price	-$975	-$815	-$650
8. Credit under AS 43.20 for qualified oil and gas industry expenditures	$0 to -$25	$0 to -$25	$0 to -$25
9. Reduced interest rate for late payments and assessments on most taxes	$0 to -$25	$0 to -$25	$0 to -$25
Total Revenue Impact	**-$210 to -$285**	**-$500 to -$575**	**-$810 to -$885**
10. Impact on Operating Budget of limitation to Qualified Capital Expenditure credit	$150	$150	$150
11. Impact on Operating Budget of increase in Net Operating Loss credits to 45% until 1/1/16 then 35%	-$80	-$80	-$80
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production[2]	**-$140 to -$215**	**-$430 to -$505**	**-$740 to -$815**

(1) All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

(2) "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

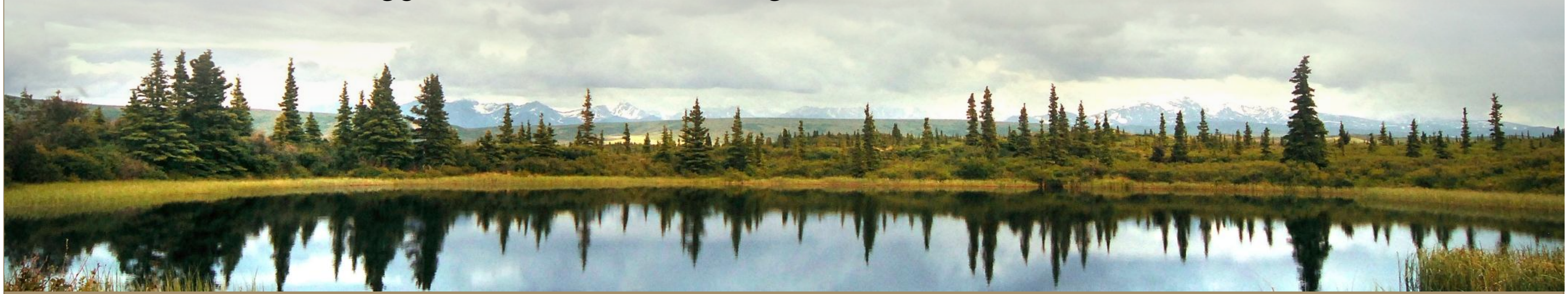
Source: State of Alaska, Department of Revenue

Contributors of Changes in FY 2015 Revenue Forecast

From Spring 2013 Forecast

Component	Fall 2013 Forecast	Spring 2013 Forecast	Change
ANS Production (thousand bbl/day)	498.4	512.8	-14.4
ANS Price	$105.06	$111.67	-$6.61
ANS Deductible Lease Expenditures ($million)	$7,294	$6,294	+$1,000
Transportation Costs	$10.03	$9.03	+$1.00

- Average Production Tax Value per barrel is reduced by $14.90
- MAPA tax rate is 35% vs ACES tax rate of 32.6%



*Simplified calculation, does not represent any actual company value. Assumes 12.5% royalty

Why the MAP Act Raises **MORE** Revenue

- Both the More Alaska Production Act (SB 21) and ACES are net tax systems that allow companies to deduct their spending in Alaska.
- Both levy the tax against the production tax value, which for the majority of oil is calculated the same way.
- "New" oil gets an addition reduction to its production tax value.

	ACES	MAP Act
ANS Price	**$105.06**	**$105.06**
Transportation	-$10.03	-$10.03
Lease Expenditures	-$45.99	-$45.99
Production Tax Value (PTV/bbl)	**$49.04**	**$49.04**
Production Tax Value (total)	**$7.778 billion**	**$7.715 billion**

Calculations based on FY 15 income statement found on page 106 of the Fall 2013 Revenue Sourcebook. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Revenue Source Book.

Why the MAP Act Raises **MORE** Revenue

- A key difference between the two is:
- Under ACES, the tax rate depends on (1) price (2) production (3) lease expenditures (4) cost of transportation, i.e. the tariff.
- At these prices, the ACES tax rate = 25% + [(PTV-30) x .004]
- Under the MAP Act, the tax rate is 35%.

	ACES	MAP Act
Production Tax Value (PTV)	**$49.04**	**$49.04**
Progressive Tax	7.6%	N/A
Base Tax	25%	35%
Tax Rate	**32.6%**	**35%**

Calculations based on FY 15 income statement found on page 106 of the Fall 2013 Revenue Sourcebook. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Revenue Source Book.

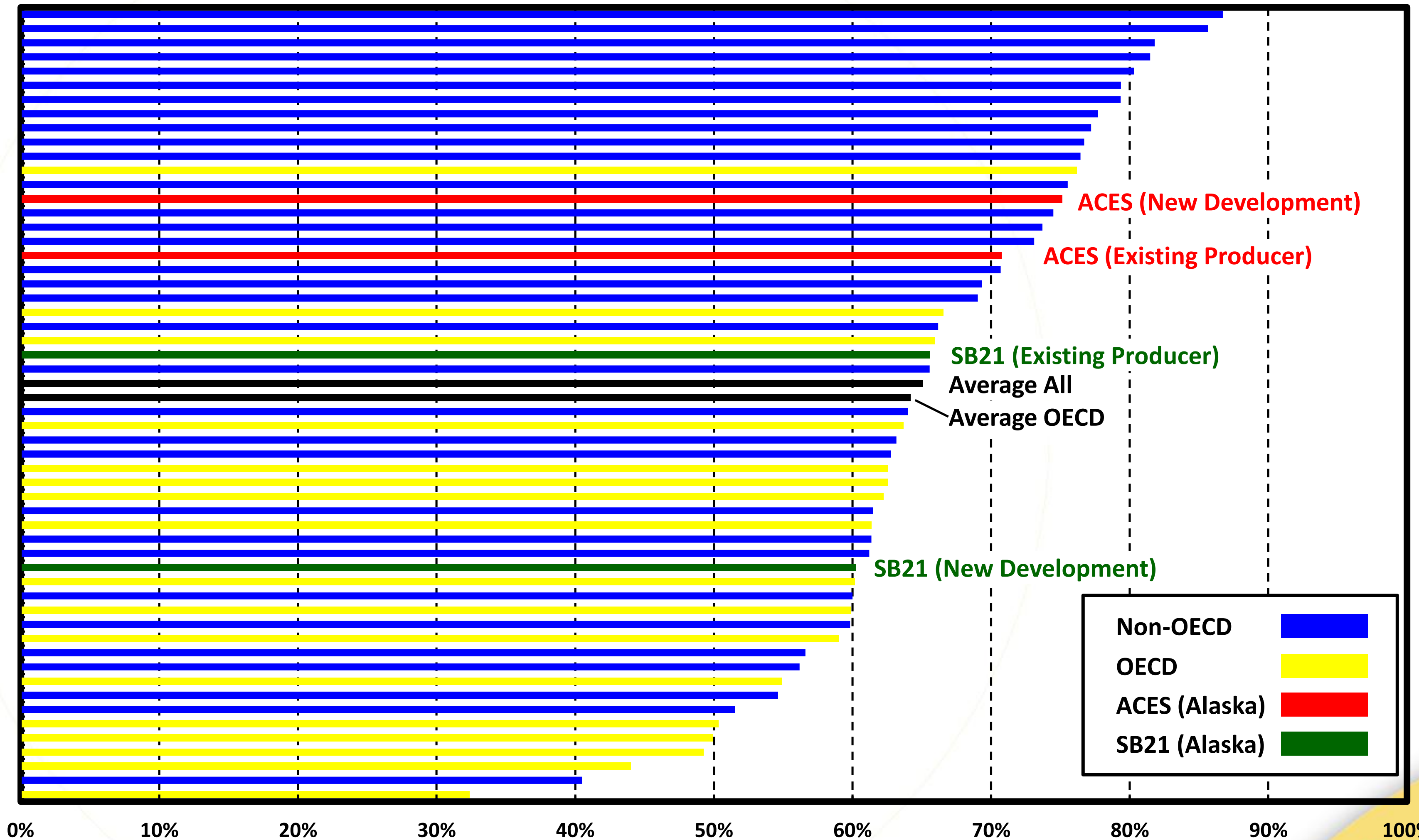
Why the MAP Act Raises **MORE** Revenue

	ACES	MAP Act
Production Tax Value (PTV) Billions of dollars	$7.778	$7.715
Tax Rate	32.6%	35%
Tax Before Credits Billions of dollars	$2.535	$2.700
Deductible Credits[1]	**-$890**	**-$960**
Tax Revenue Billions of dollars	**$1.625**	**$1.740**

Calculations based on FY 15 income statement found on page 106 of the Fall 2013 Revenue Sourcebook. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Revenue Source Book. (1) For simplicity, ACES credits based on 20% of capital spending in FY 15 .

Globally Competitive: SB21

Government Takes: $100 Wellhead Value



Source: Non-Alaska: PFC Energy; Averages from Econ One Presentation, Analysis of Alaska's Tax System, North Slope Investment and The Administration's Proposal SB21 / SRES CS SB21, March 1, 2013.
Alaska: Econ One Presentation, Analysis of HCS CS SB21 (FIN) for House Finance Committee, April 11, 2013.

More Alaska Production Act: Creating Opportunities

Recent positive industry response to tax reform

These results are encouraging for the future development of the resources discovered.
***Recent tax reform passed in Alaska was a critical factor in ensuring the development of this project**, where extreme climate conditions and geographical remoteness result in high operating costs.*

REPSOL – Press Release 23 APRIL 2013

ConocoPhillips Plans to Increase Investment in Alaska Following Oil Tax Reform Legislation

ANCHORAGE – ConocoPhillips plans to increase its investments on Alaska's North Slope following the Alaska State Legislature's recent changes to the state's oil severance tax system.

ConocoPhillips – Press Release 17 APRIL 2013

BP Says Alaska is "Back in the Game"

"As a package, this is an important step forward and will help us compete for more investment. This puts Alaska back in the game," Weiss said of passage by the Alaska Legislature of the committee substitute for Senate Bill 21, the governor's oil tax change.

Weiss said following passage of the bill that BP "will change our long-term plans accordingly, seeking appropriate sanctions for additional activity."

"Our evaluation will include natural gas given that an improved oil fiscal environment has been a prerequisite to advancing work on LNG," she said

Janet Weiss, BP's Alaska region president,
Source Week of 4/28/2013
http://www.petroleumnews.com/pnads/447451261.shtml

More Alaska Production Act: Creating Opportunities

Positive industry responses to tax reform turning into action in Alaska.

"BP announced today it is planning to add $1 billion in new investment and two drilling rigs to it Alaska North Slope fields over the next five years due to changes in the state's oil tax policy signed into law this month by Governor Parnell."

"In addition, BP has successfully secured support from other working interest owners at Prudhoe Bay to begin evaluating an additional $3 billion worth of new development projects."

"The additional development opportunities being evaluated by working interest owners are in the west end of Prudhoe Bay and include: expansion and de-bottlenecking of existing Prudhoe Bay facilities, constructing a new drilling pas, and expansions of existing pads, including the drilling of more than 110 new wells."

BP – Press Release 03 June 2013

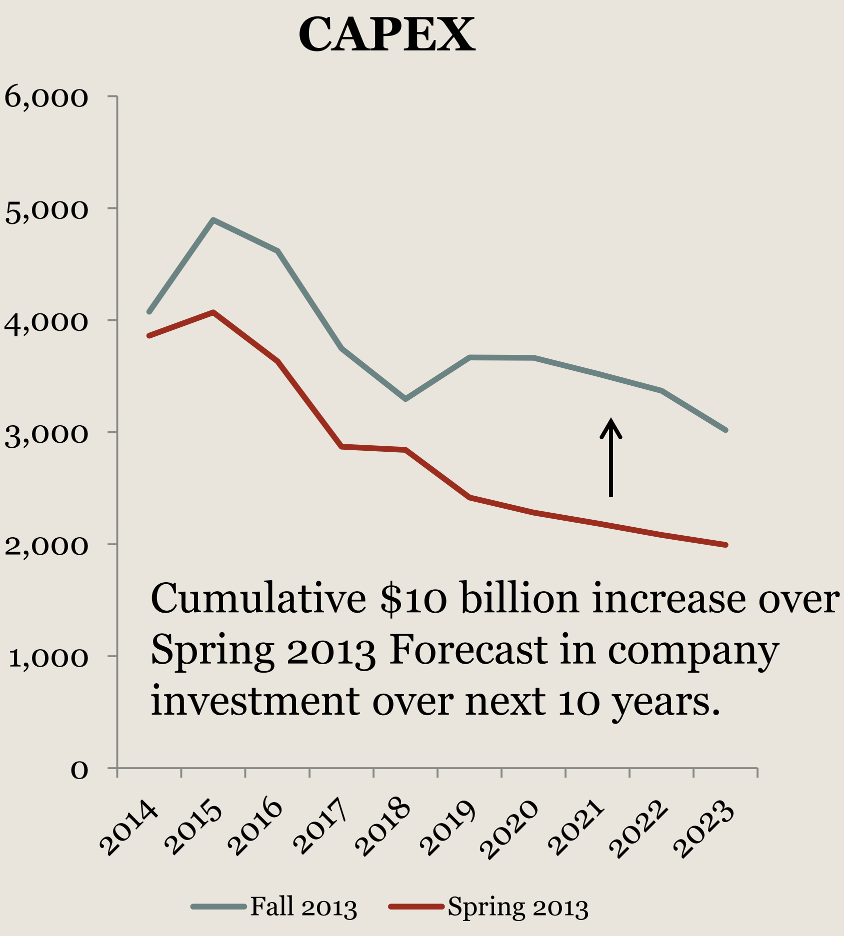
ConocoPhillips Alaska

"Higher allocation of capital $1.7 billion to Alaska compared to 2013, reflecting increased spending on the CD-5 development and higher activity resulting from improved fiscal terms from the passage of the More Alaska Production Act (SB21)."

ConocoPhillips – Press Release December 3, 2013

North Slope Lease Expenditure Forecast Change

From Spring 2013 Forecast

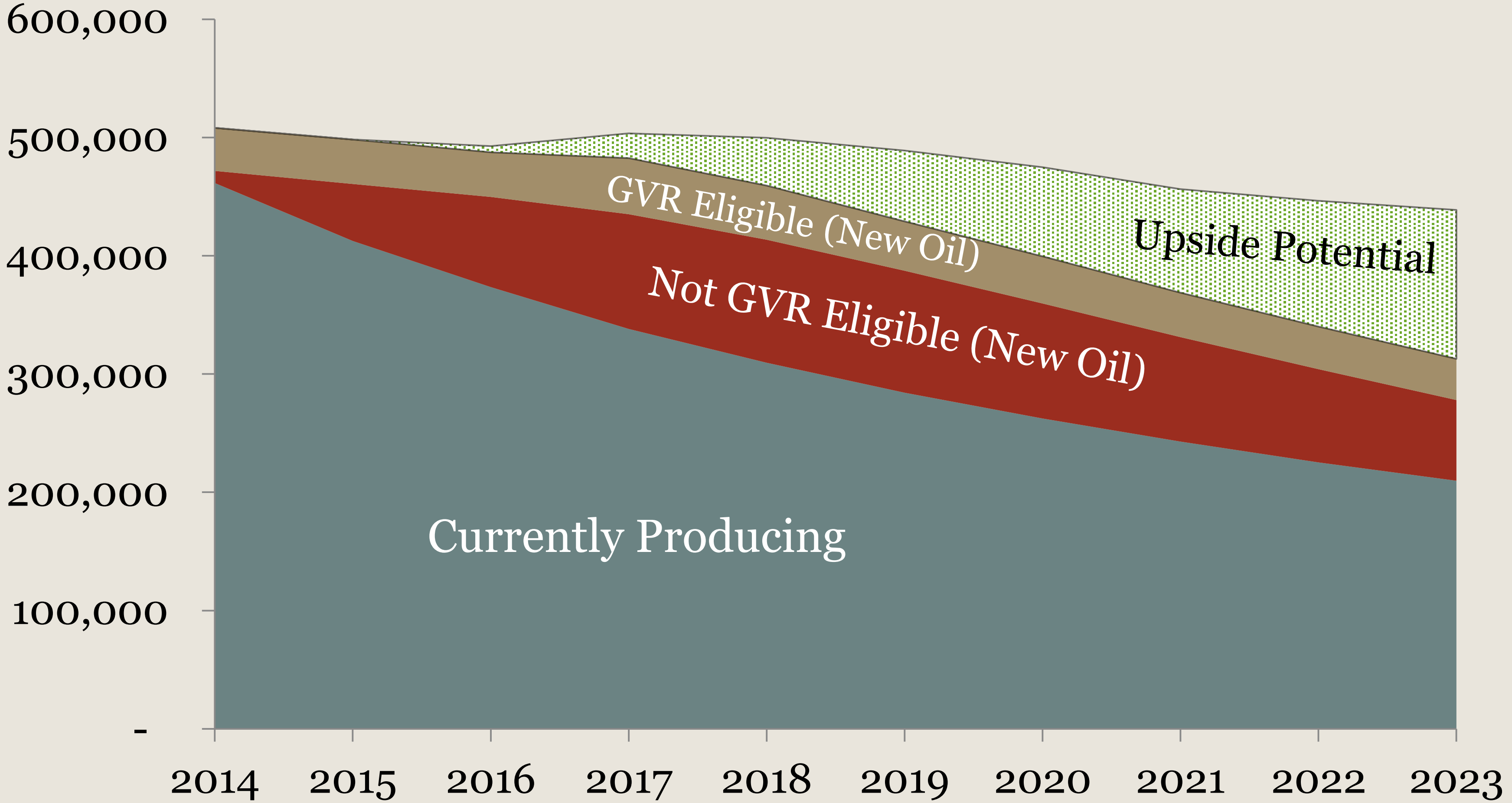


Cumulative $10 billion increase over Spring 2013 Forecast in company investment over next 10 years.

*Lease expenditures provide direct private investment to the State's economy.

North Slope Production Forecast

Fall 2013



*According to company data, the potential for revenue growth is strong.

Thank You

www.revenue.state.ak.us

For more information go to
http://www.revenue.state.ak.us/MAPActDocuments.aspx