Focusing on the Future: Creating a Competitive Climate for Long-Term Investment in Oil Production

Presentation to
The Kenai Industry Education Forum
February 15, 2013

Overview

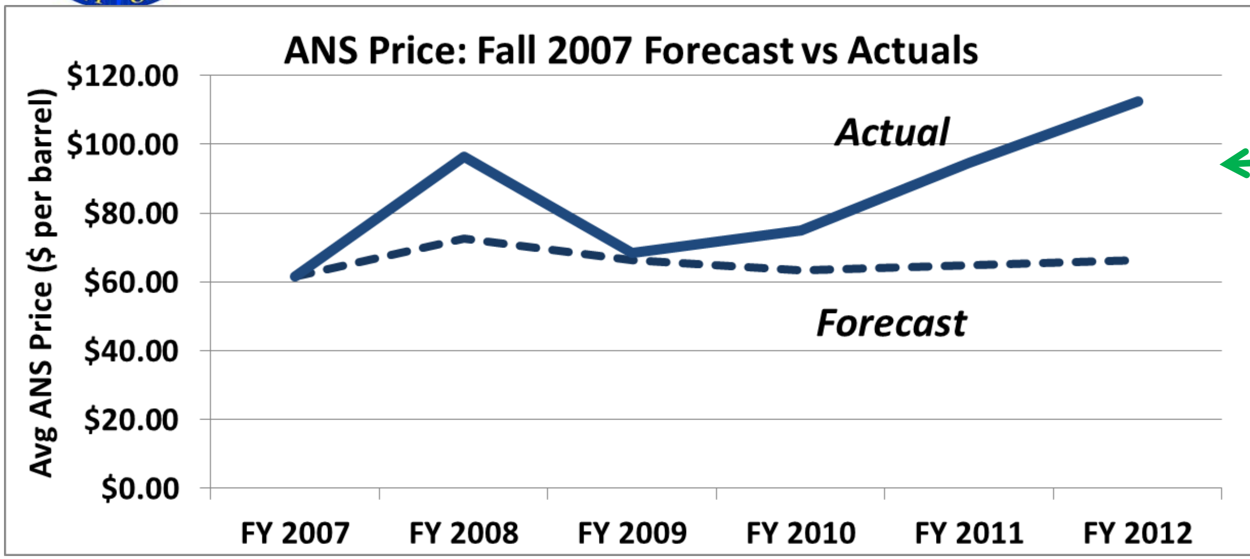
- Governor Parnell's Tax Reform Principles
- It's All About Investment & Production:

  Why has Alaska been on the Sidelines?
- Elements of the Governor's Proposal

Governor Parnell's Principles

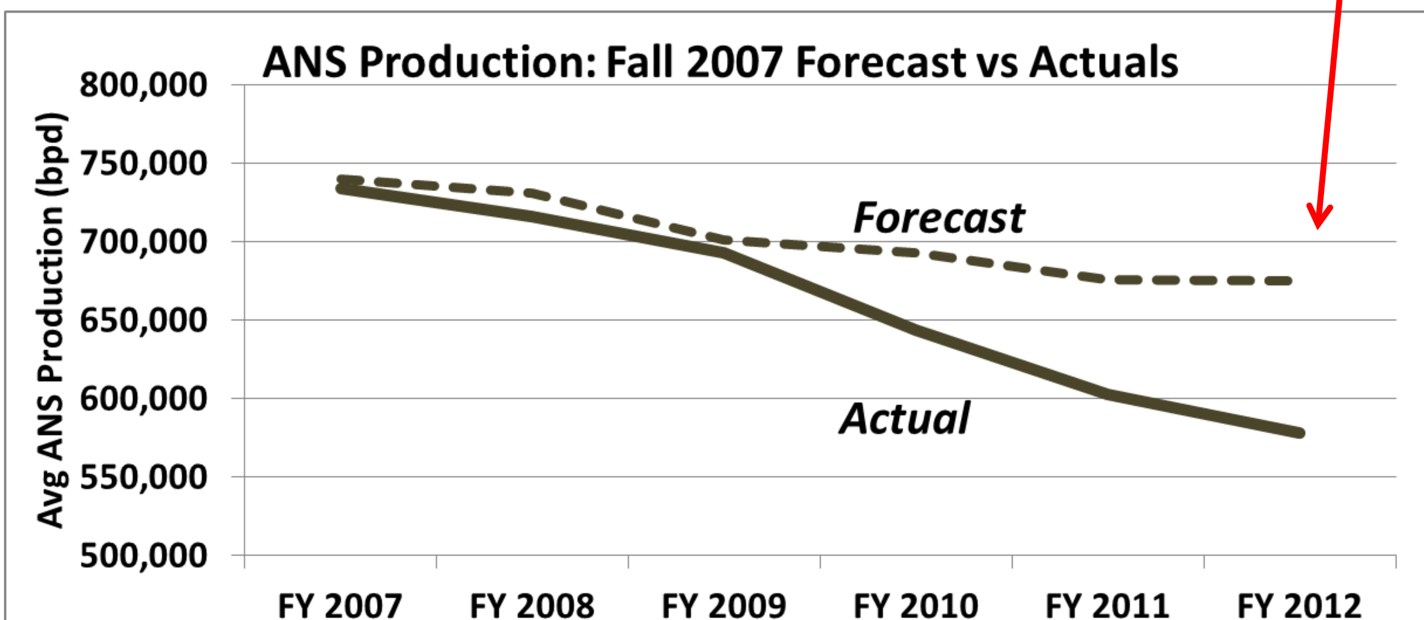
- Tax reform must be fair to Alaskans
- It must encourage new production
- It must be simple so that it restores balance to the system
- It must be durable for the long term

Prices & Production: 2007 Forecast vs. Actual



2012: Prices
UP 70%

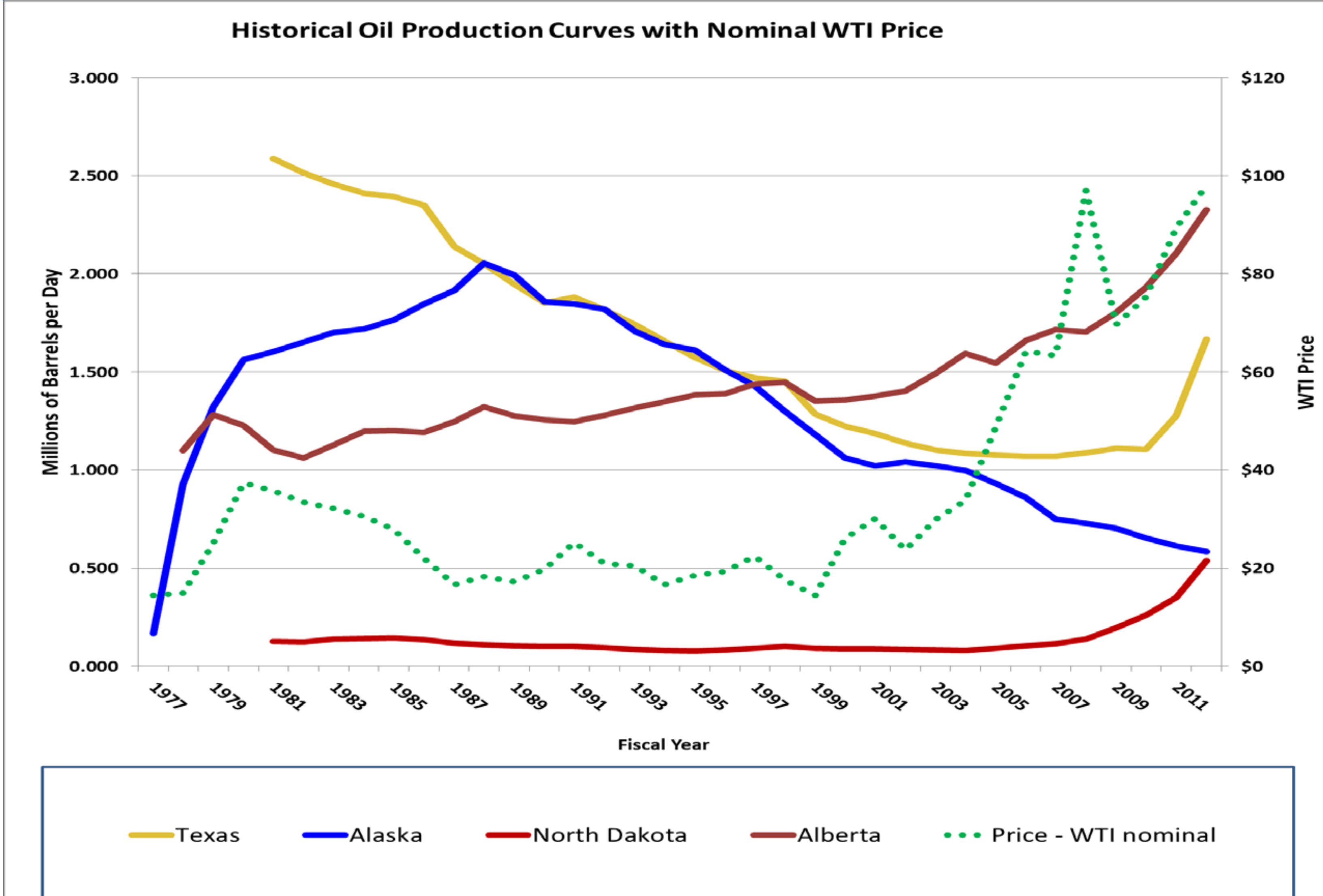
2012: Production
DOWN 14%



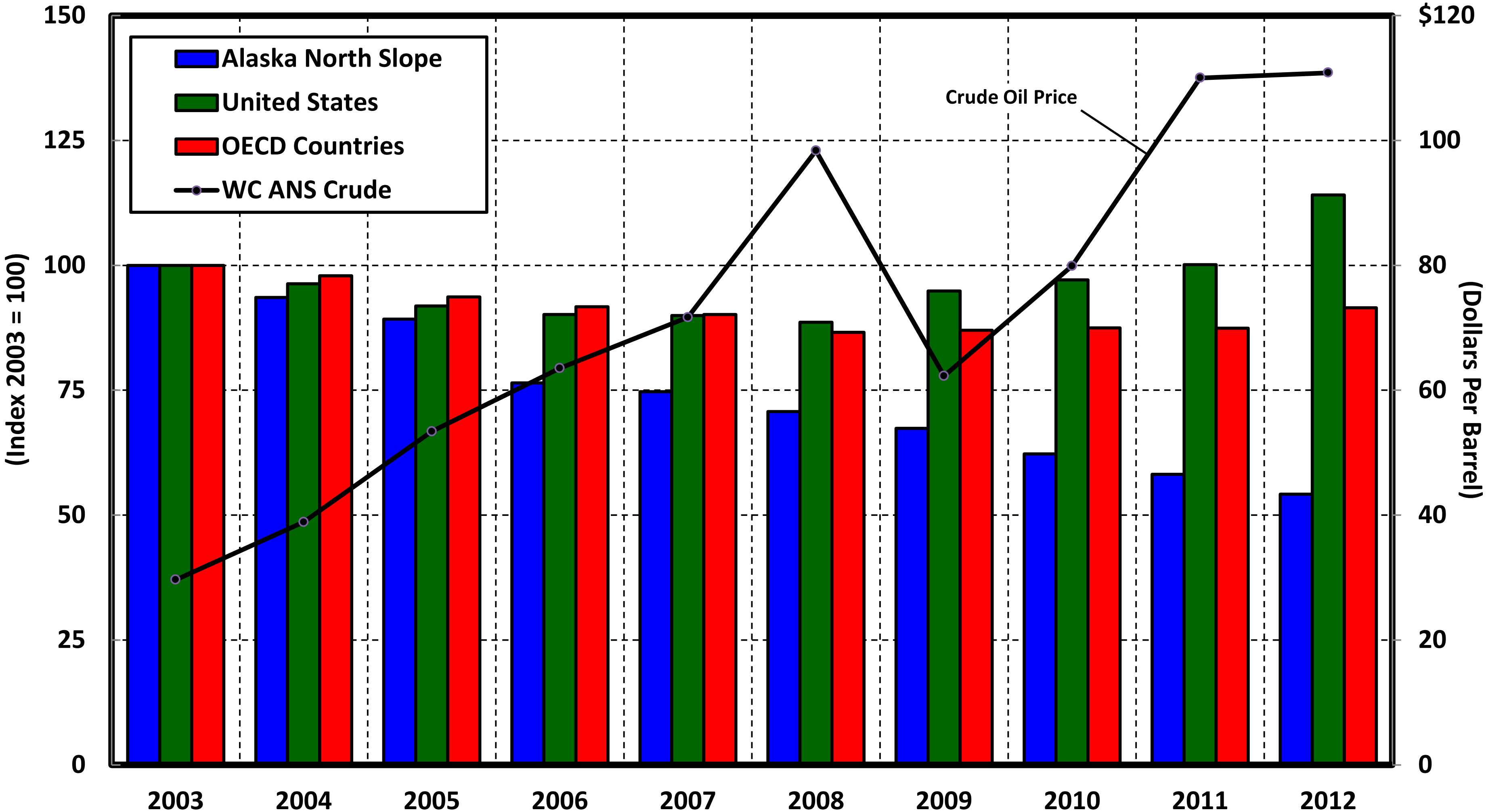
Source: Fall 2007 and Fall 2011 Revenue Sources Books; preliminary FY 2012 actuals

Historical Oil Production:

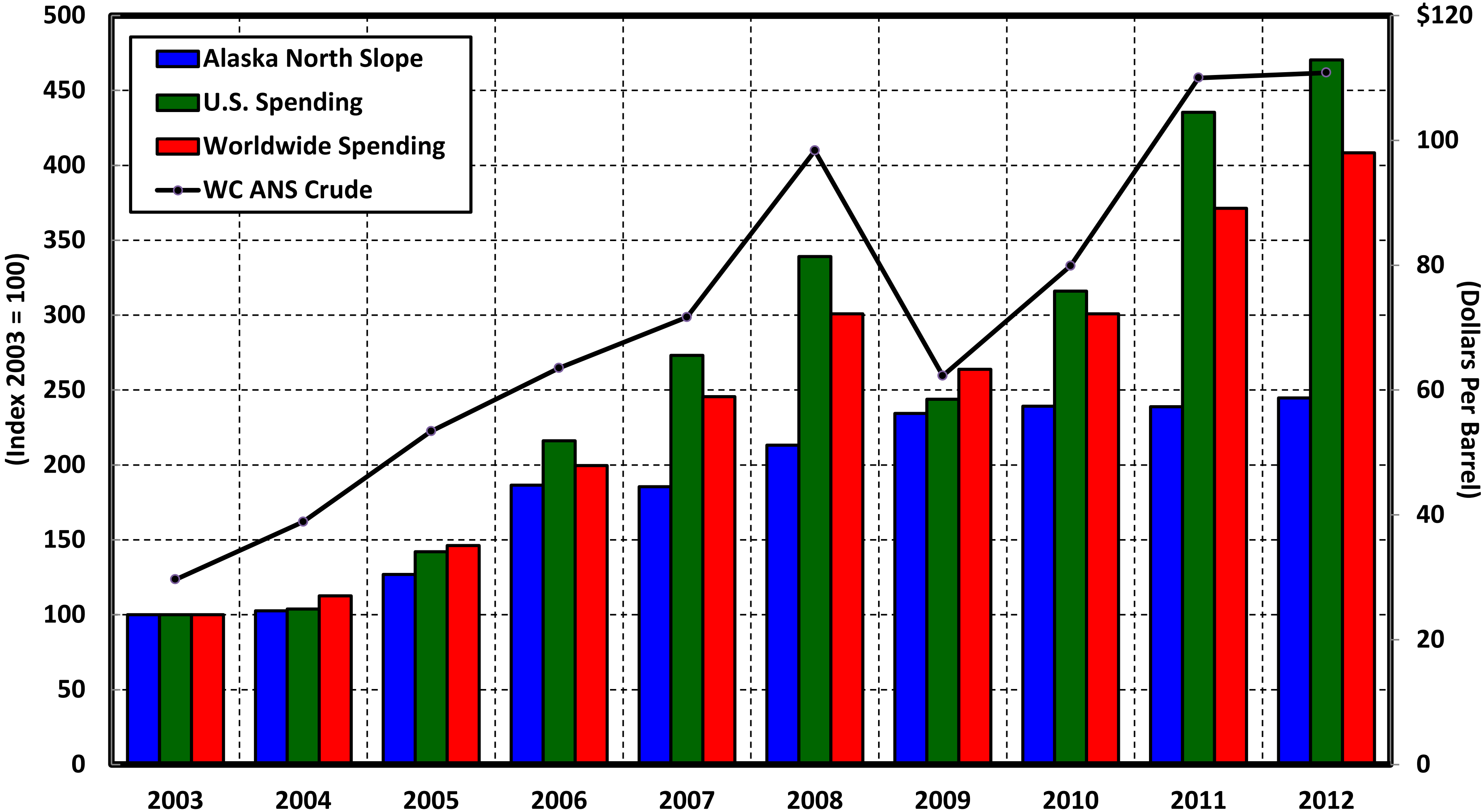
How Did Our Competition Fare When Prices Spiked?



Crude Oil Production
Alaska North Slope vs. United States and OECD Countries
2003 - 2012



Estimated Capital Spending for Exploration and Development
Alaska North Slope vs. U.S. and Worldwide Spending*
2003 - 2012

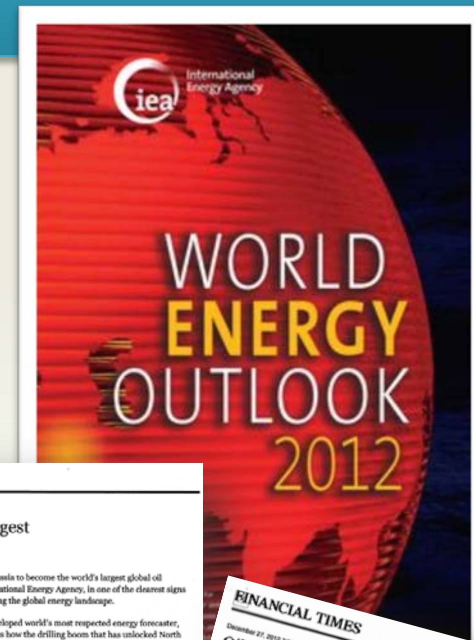


* North Slope based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

Econ One Research

U.S. Energy Renaissance

- Global and U.S. hydrocarbon boom
- IEA World Energy Outlook 2012 – U.S. to overtake Saudi Arabia and Russia to become the world's largest global oil producer by the second half of this decade.
- **Financial Times, November 12, 2012 –**
  "U.S. set to become biggest oil producer"
- **Financial Times, December 27, 2012 –**
  "Oil and gas – hey big spenders"
  - **<u>2012 - $600 billion</u>** on exploration and production in oil and gas industry
  - **<u>2013 projected - $650 billion</u>** on exploration and production in oil and gas industry



FINANCIAL TIMES

November 12, 2012 10:02 am

US set to become biggest oil producer

By Guy Chazan and Ed Crooks

The US will overtake Saudi Arabia and Russia to become the world's largest global oil producer by 2017, according to the International Energy Agency, in one of the clearest signs yet of how the shale revolution is redrawing the global energy landscape.

This marks the first time the IEA, the developed world's most respected energy forecaster, has made such a prediction. It underscores how the drilling boom that has unlocked North America's vast reserves of hard-to-get-at oil and gas is changing the world's oil balance.

However, other analysts have warned that the US oil boom is still in its infancy, and continued growth to the levels predicted by the IEA cannot be guaranteed.

In its yearly world energy outlook, published on Monday, the IEA said that by 2030 "the US, which currently imports around 20 per cent of its total energy needs, becomes all but self-sufficient in net terms – a dramatic reversal of the trend seen in most other energy-importing countries". It said that partly as a result of this, the direction of the international oil trade would pivot towards Asia.

If realised, the IEA's prediction would have significant implications for world commodit markets and the broader geopolitics of energy. Some analysts have wondered whether that was energy independent would still guard the world's critical sea lanes and supply routes in two decades' time – and if it withdrew from such a role, whether China, who reliance on Middle East crude imports was growing, would replace it.

The increase in US domestic production – of biofuels such as ethanol as well as unconventional "tight" oil – comes as new fuel-efficiency measures in transport im the first Obama administration are set to reduce oil demand sharply. That will lea fall in oil imports into the US, which the IEA says will plunge from 10m barrels a b/d in ten years' time. The agency says that North America will become a net oil about 2035.

FINANCIAL TIMES

December 27, 2012 3:52 pm

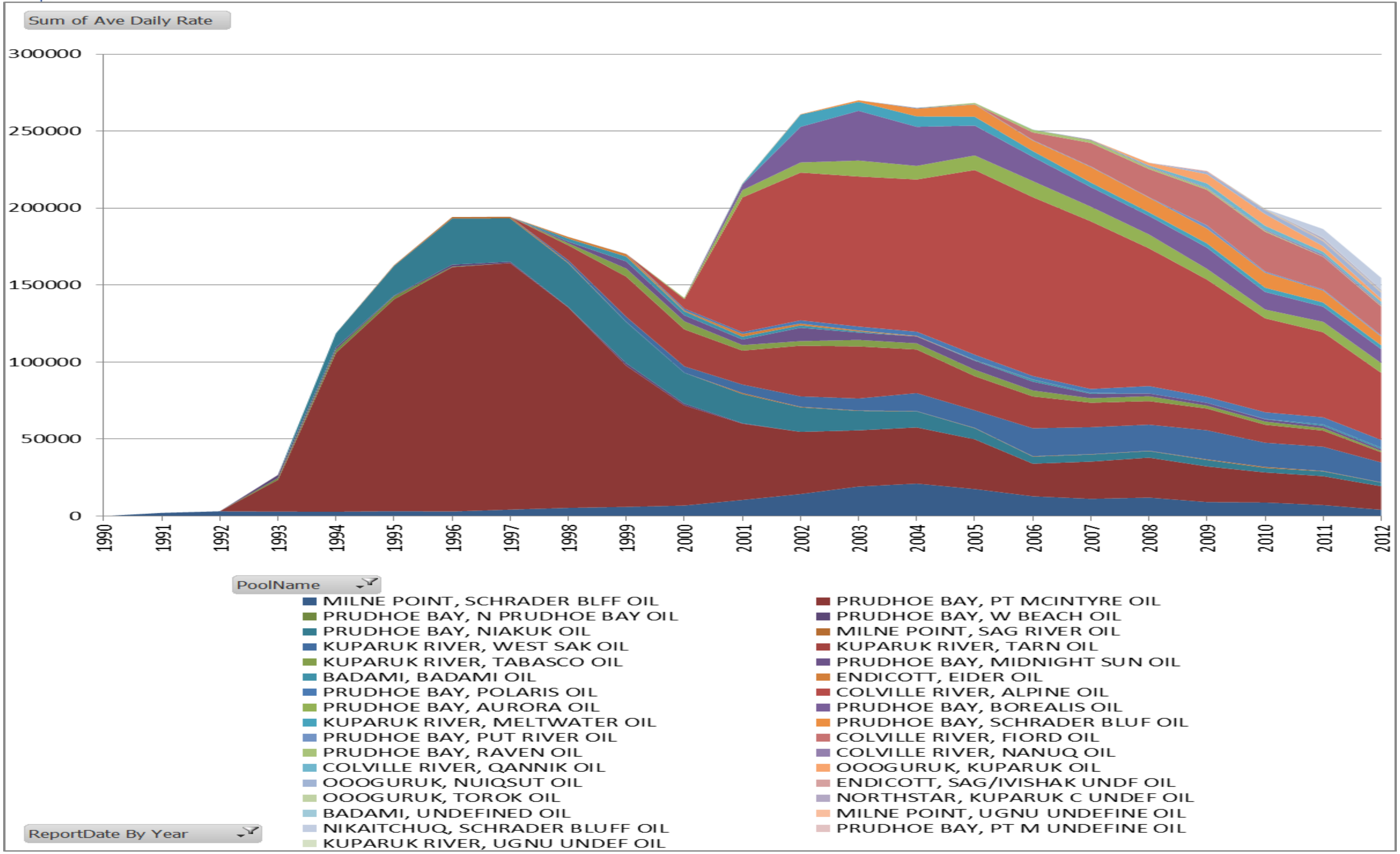
Oil and gas – hey big spenders

Little correlation between the size of budgets and shareholder returns

Where would the world be without the oil and gas industry? After spending $600bn on exploration and production in 2012, the sector is set to spend almost $650bn in 2013, according to Barclays. That should secure a lot of jobs, create a bonanza of subcontracting, bring some of the outstanding projects a little closer to completion, and – who knows? – help in finding a few new wells. Whether it will improve the investment case for E&P companies is another thing.

Returns from the E&P sector in 2012 have been poor. The S&P 500 oil and gas producers index has underperformed the wider US market by 10 percentage points this year; in Europe, a similar comparison shows a 20 per cent shortfall. The sector appears to lack operational momentum: production problems have been widespread and companies have expended much effort shedding peripheral elements of their portfolios. ConocoPhillips' sale of its Algerian business to Indonesia's Pertamina for $1.75bn this month is a case in point.

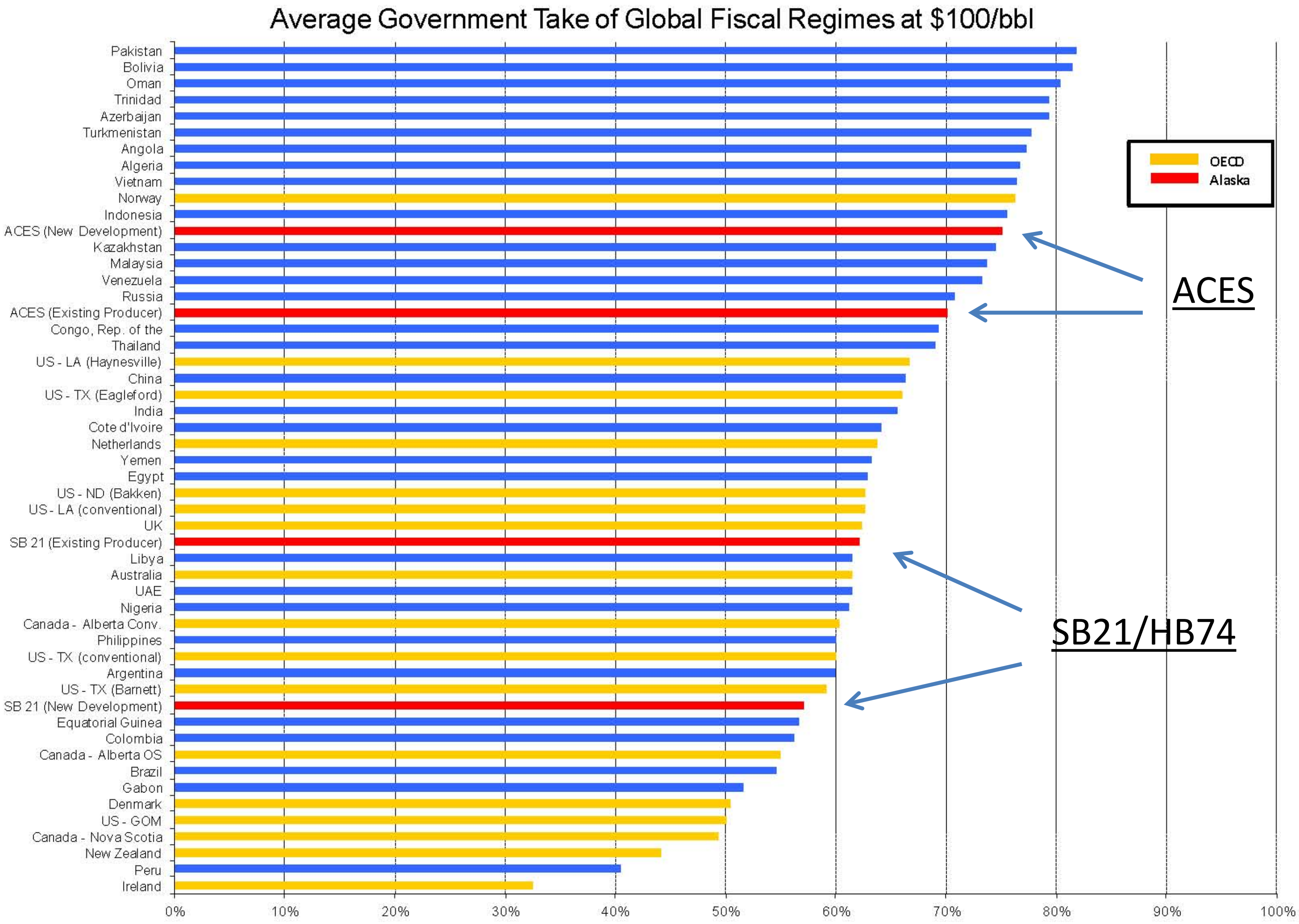
It's Been Done Before!
It Can Be Done Again!



Governor Parnell's Proposal

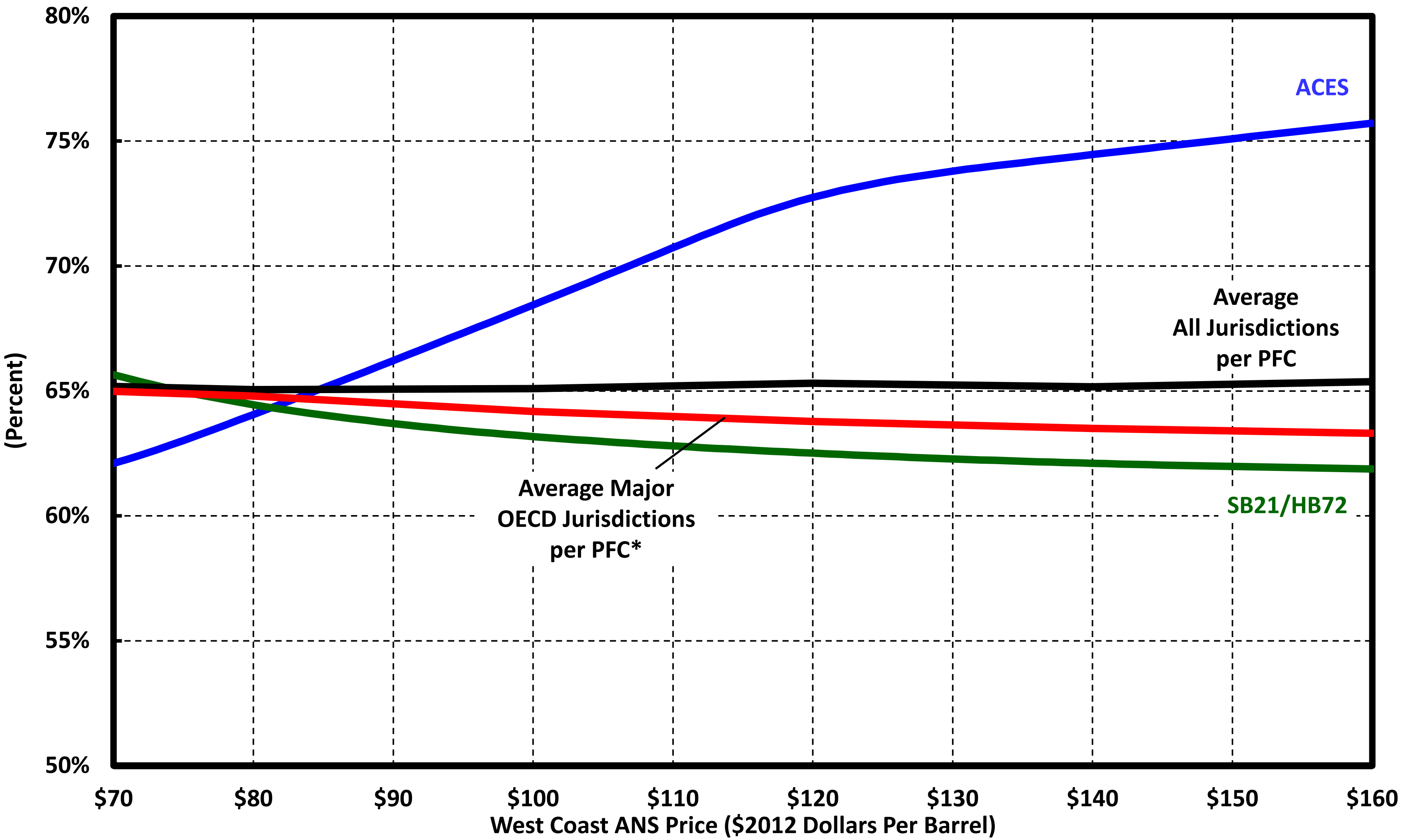
- Maintain 25% base tax rate
- Eliminate progressivity and credits based on capital expenditures
- Reform remaining credits to be carried forward to when there is production
- Establish a "Gross Revenue Exclusion" for newer units and new participating areas in existing units (NEW OIL)
- Hold Cook Inlet & Middle Earth harmless

Regime Competitiveness: Average Government Take at $100/bbl



PFC Energy

Average Government Take
ACES v. SB21/HB72 for All Existing Producers (FY2015-FY2019) and Other Jurisdictions



* Australia, Canada (Alberta Conventional), Norway, United Kingdom and United States.

Econ One Research

Simple & Balanced is the Goal

Current	Proposed
• 25% Base Rate • Progressivity- 0.4% for every $/per barrel that PTV exceeds $30 up to $92.50 then 0.1% until 50% is reached ~$1.5 billion in FY14 • Tax Credits- Cash reimbursements + reduced tax revenue to state ~<$1 billion> in FY14	• 25% Base Rate • Gross Revenue Exclusion (GRE) for New Oil

Thank You