More Alaska Production Act: Creating *Opportunity for Alaskans*

The Alaska Support Industry Alliance

September 12, 2013

Bruce Tangeman, Deputy Commissioner
Alaska Department of Revenue

OUTLINE

PART I: Comparing Alaska's Oil Production & Investment

PART II: Major Provisions of the More Alaska Production Act and Estimated Fiscal Impacts

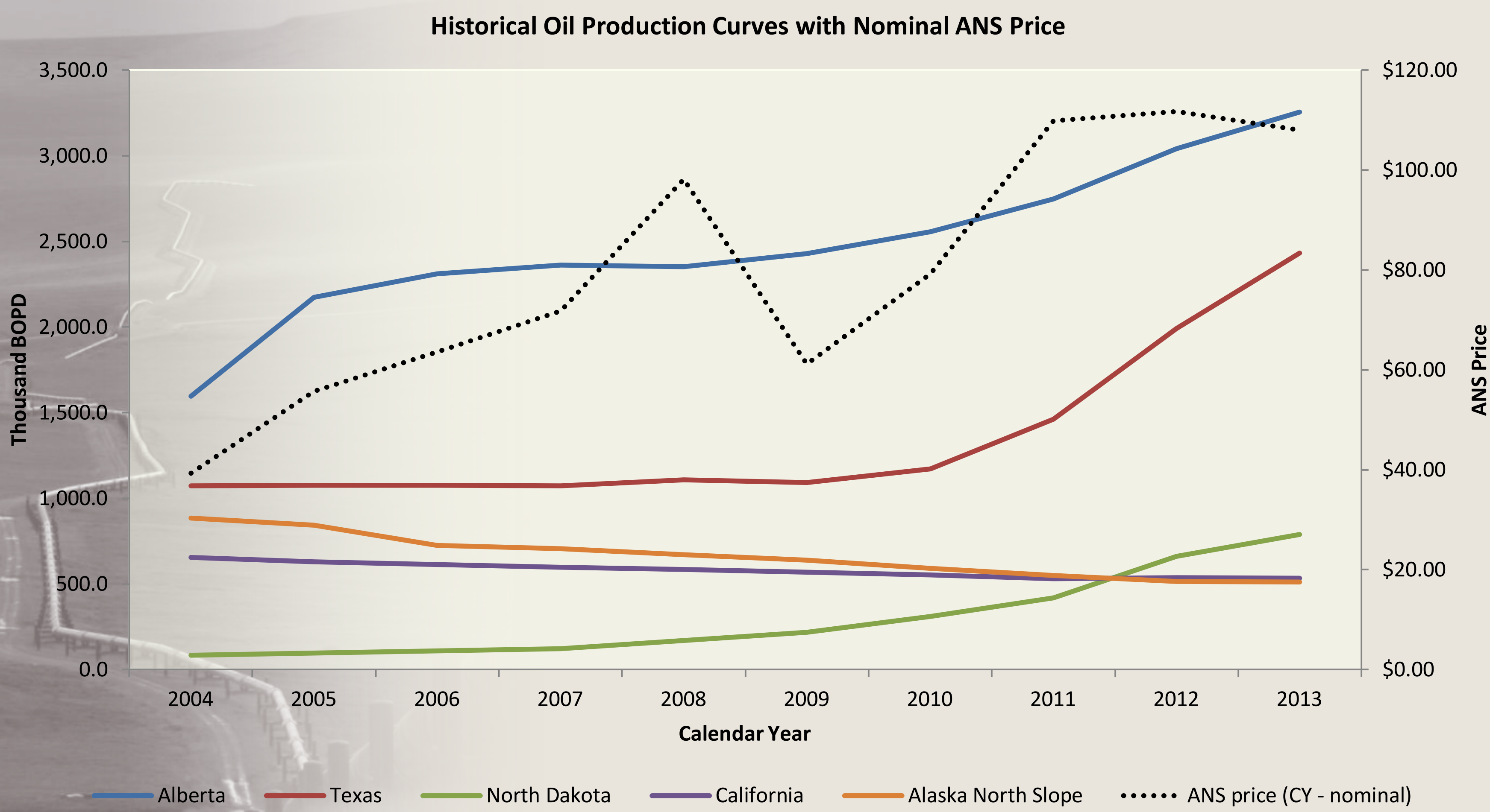
PART III: Opportunity for Alaskans

PART I

Comparing Alaska's Oil Production & Investment

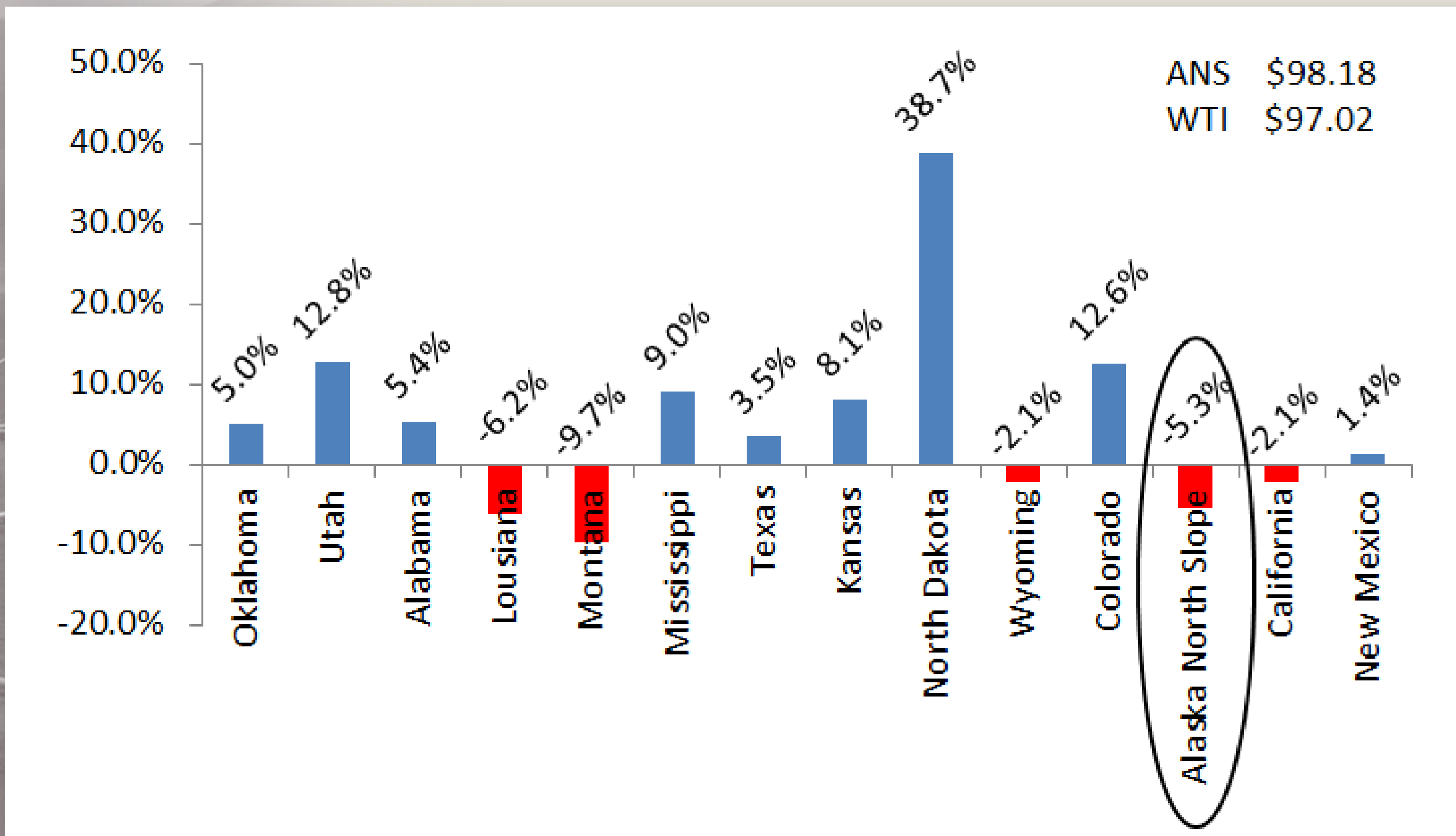
Other Basins Have Turned Decline Around

- Historical Oil Production -



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

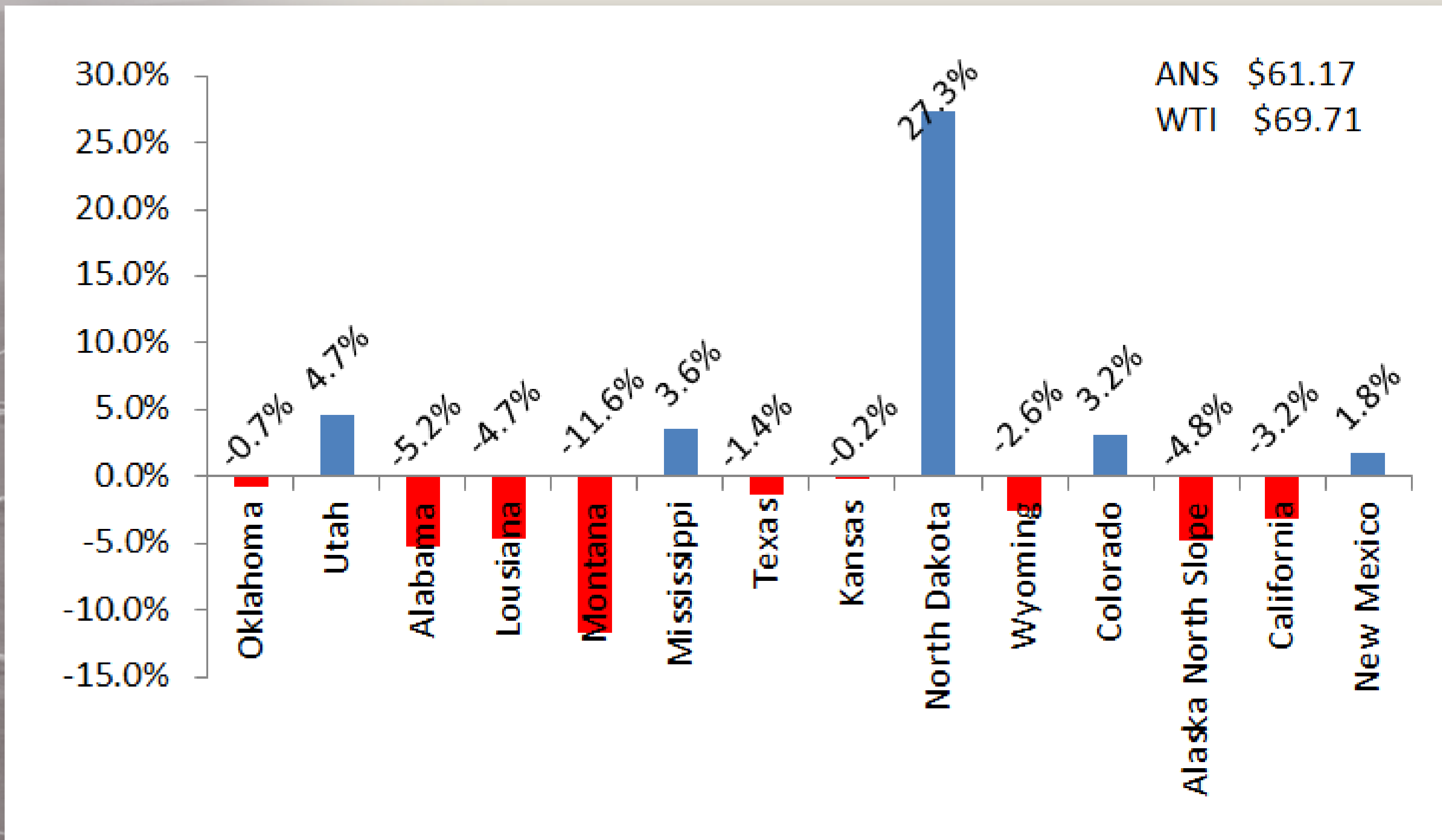
- Prepared by DOR, Economic Research Group (March 18, 2013)-



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

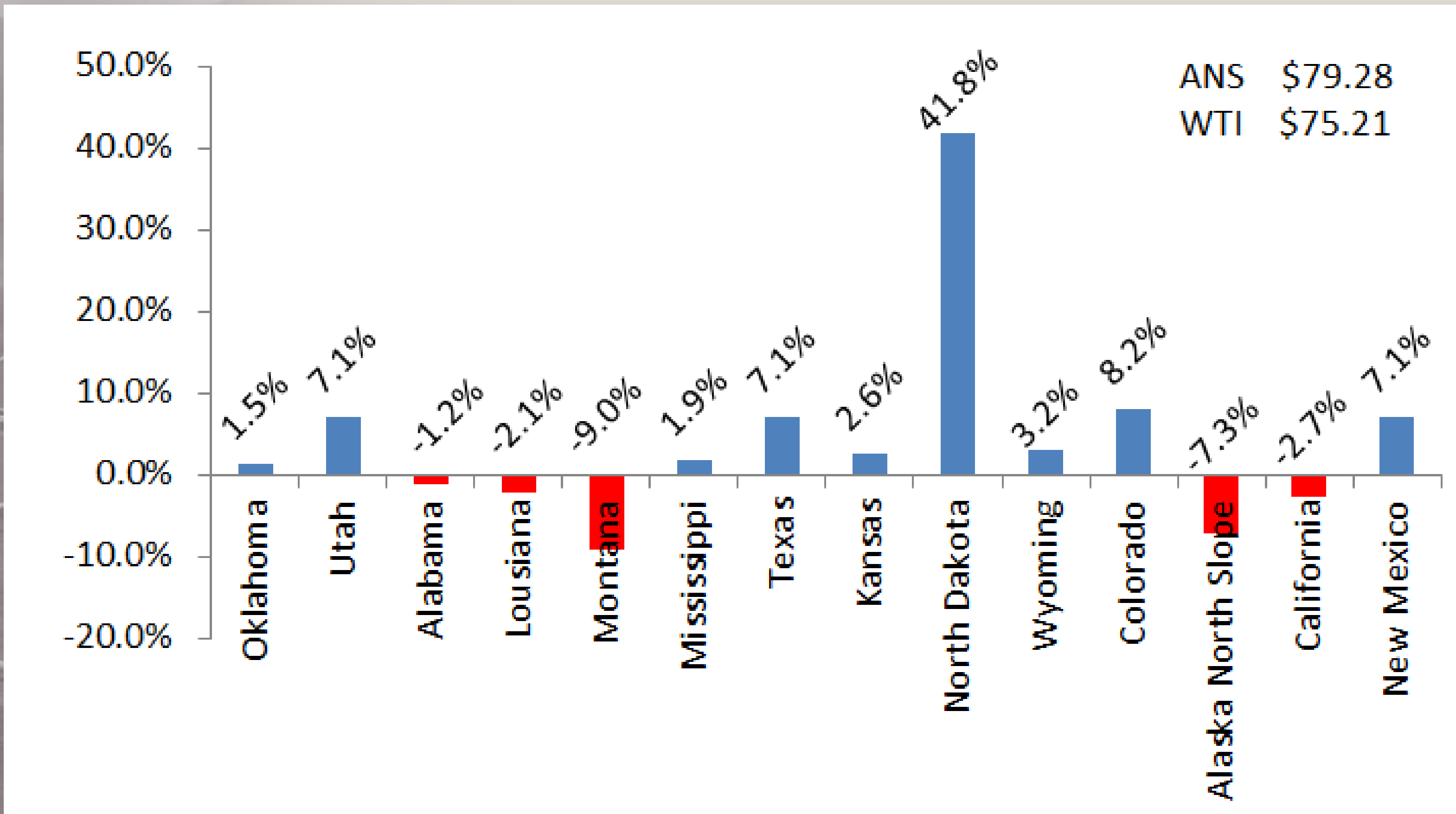
- PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)-



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

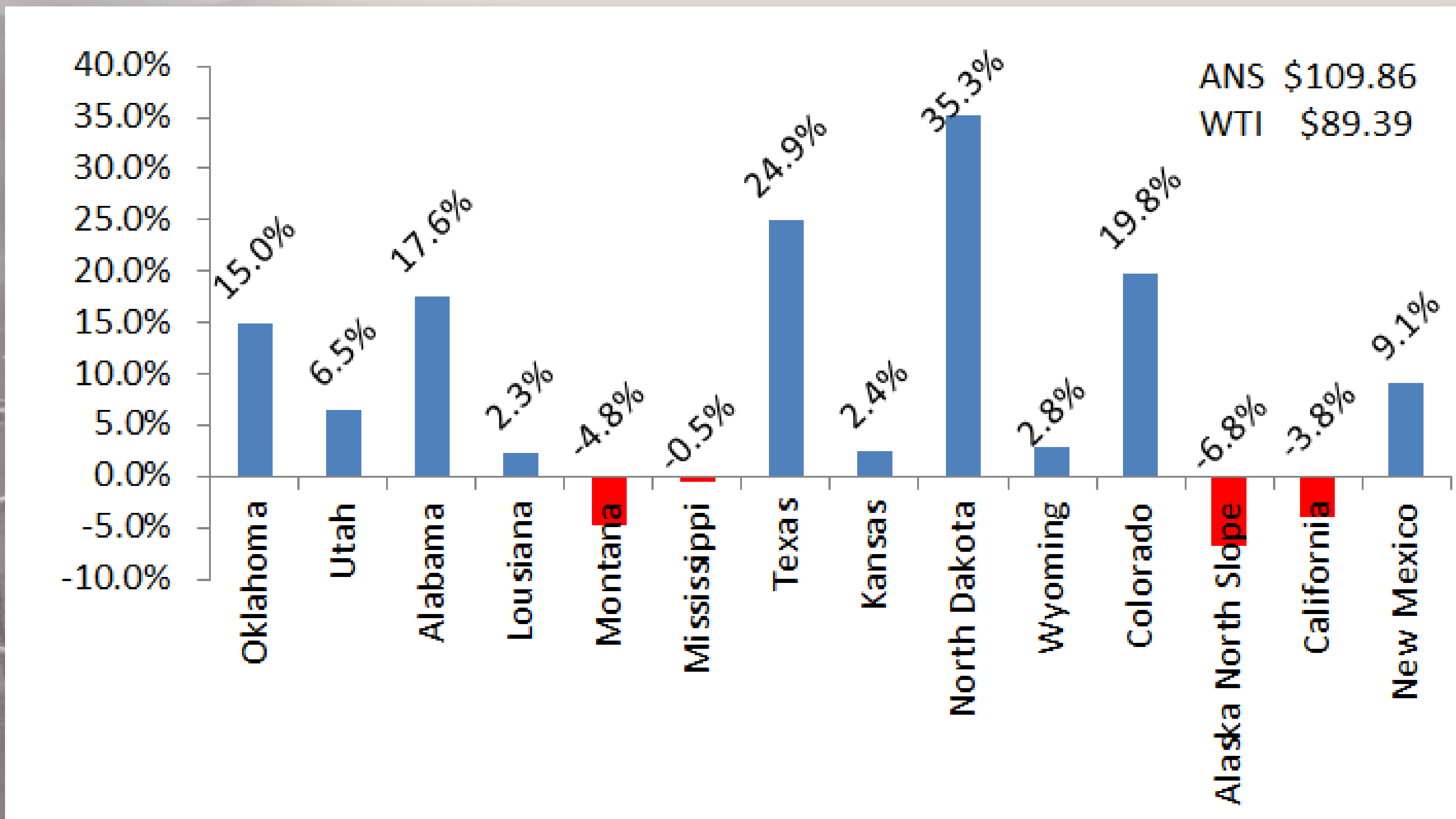
- PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)-



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

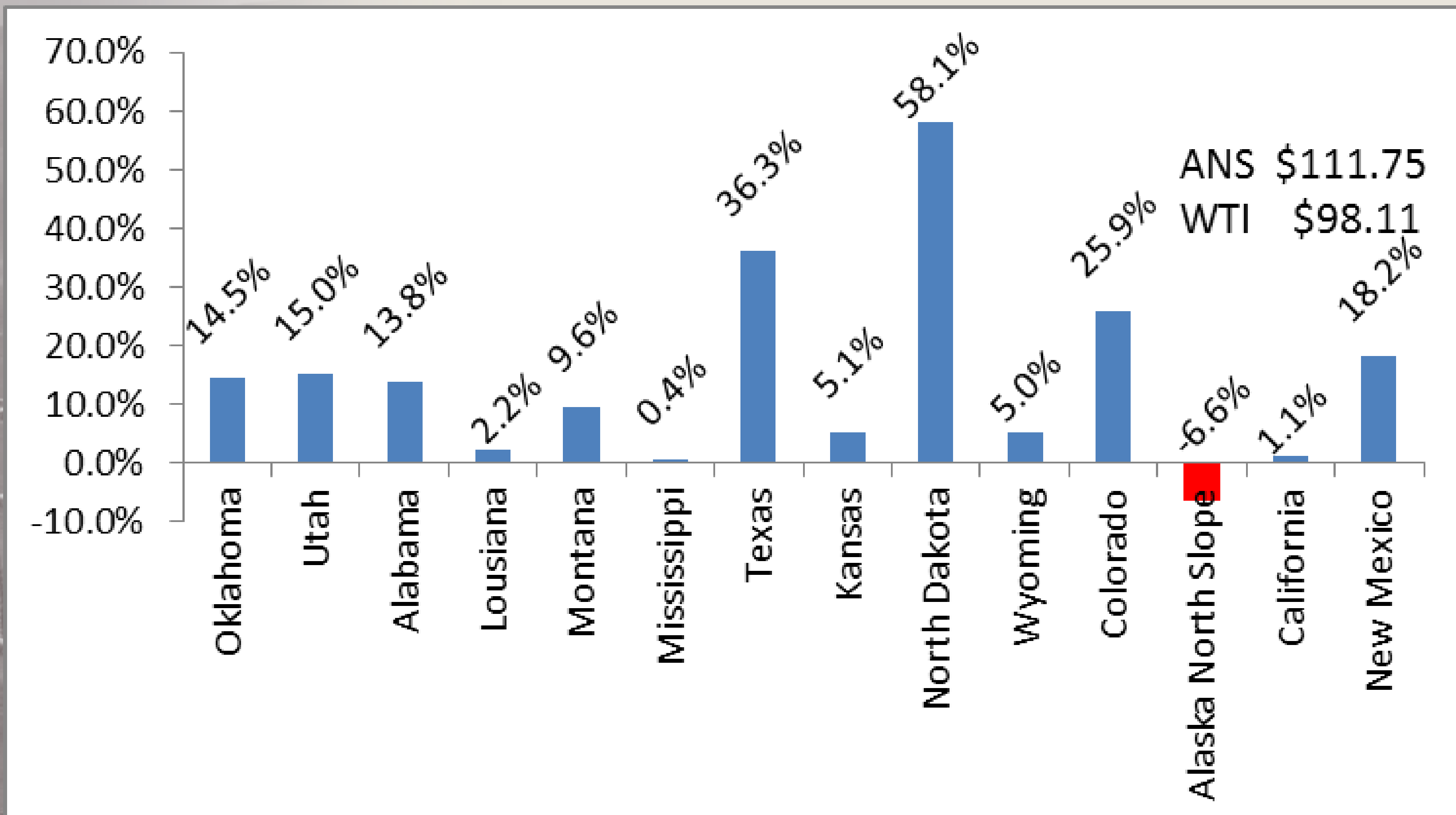
- Prepared by DOR, Economic Research Group (March 18, 2013)-



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

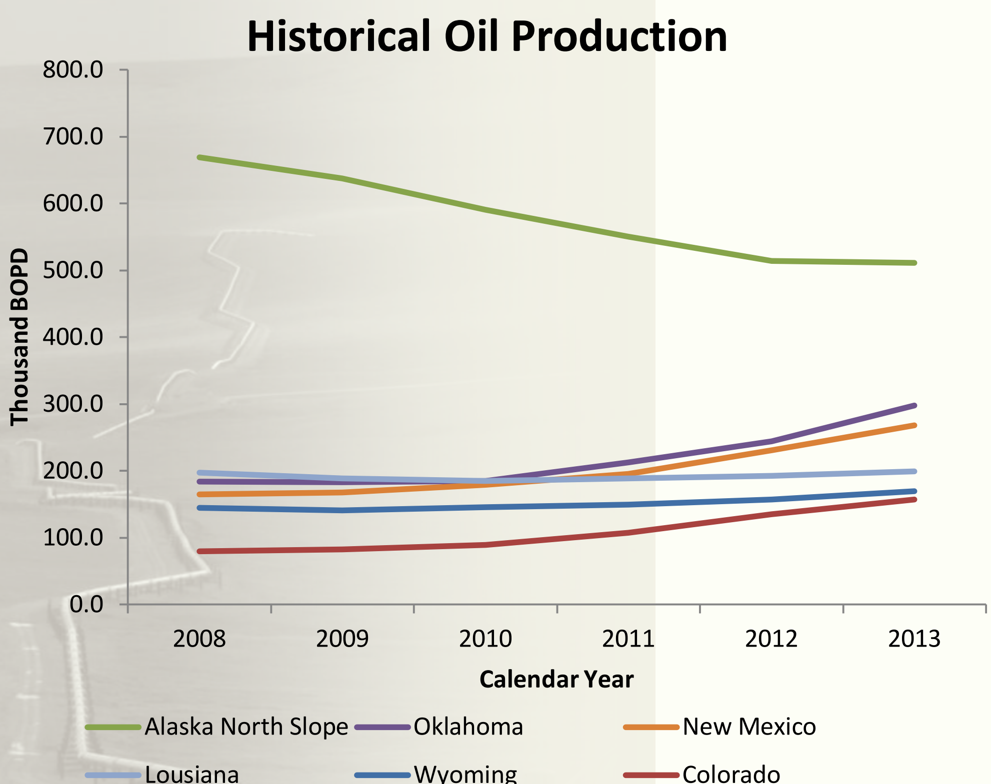
CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2011-2012

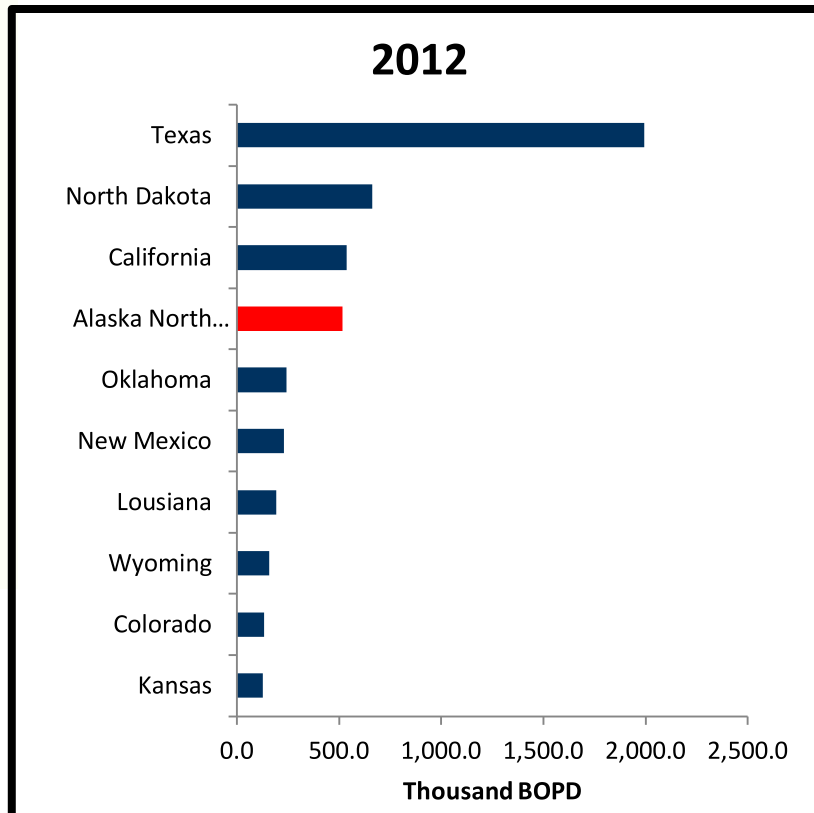
- PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)-



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

NO LONGER A QUESTION OF BEING IN FIRST PLACE, HOW DO WE PREVENT BEING LAST!

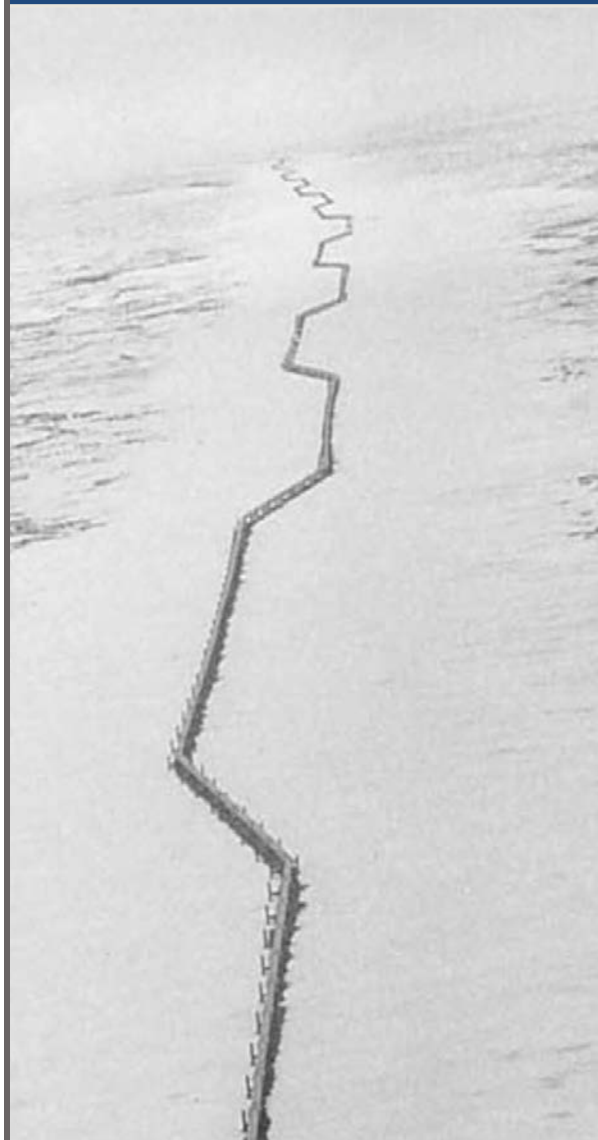




PART II

Major Provisions of the More Alaska Production Act and Estimated Fiscal Impacts

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

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.

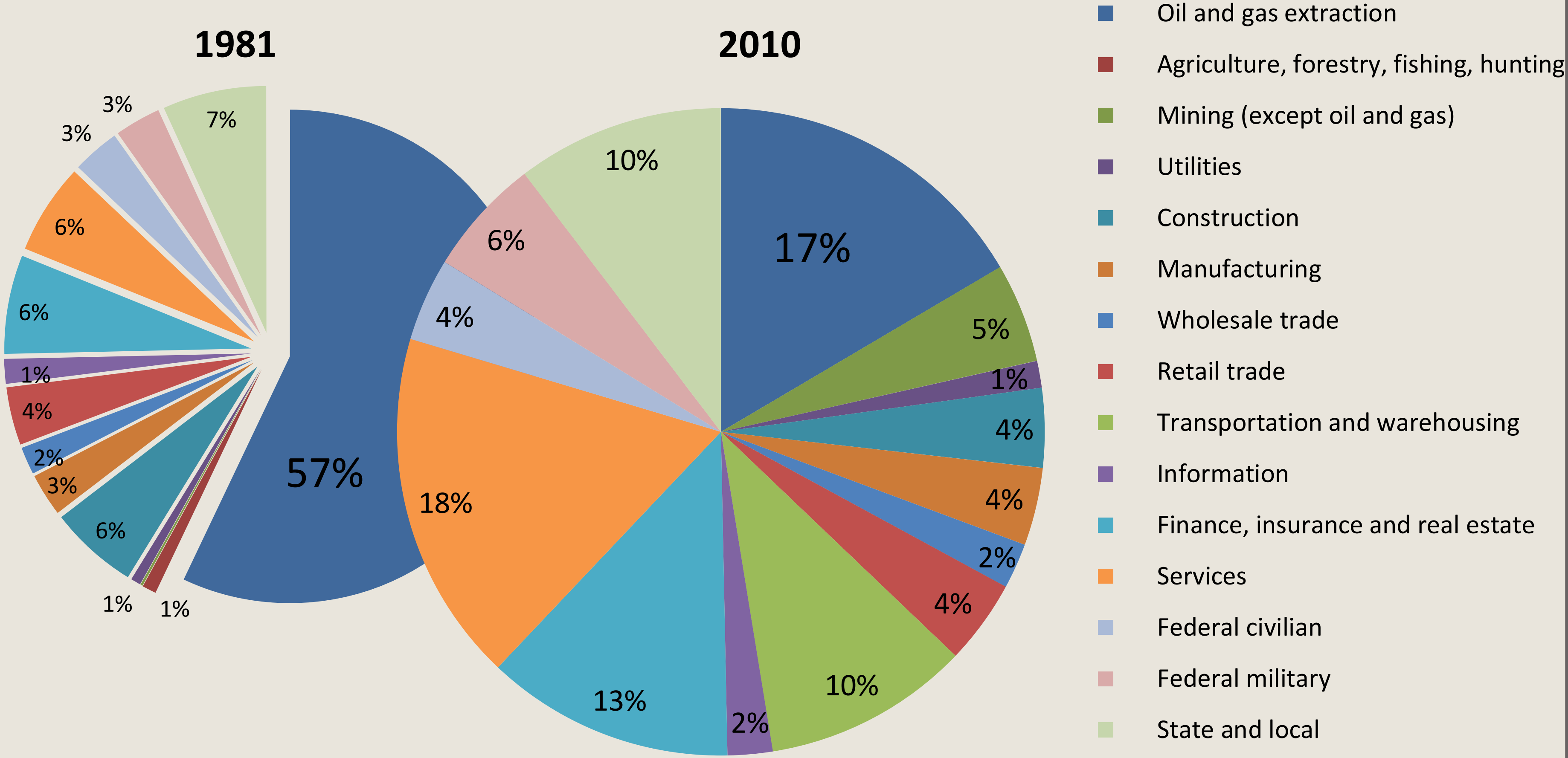
(2) "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases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

Source: State of Alaska, Department of Revenue

PART III

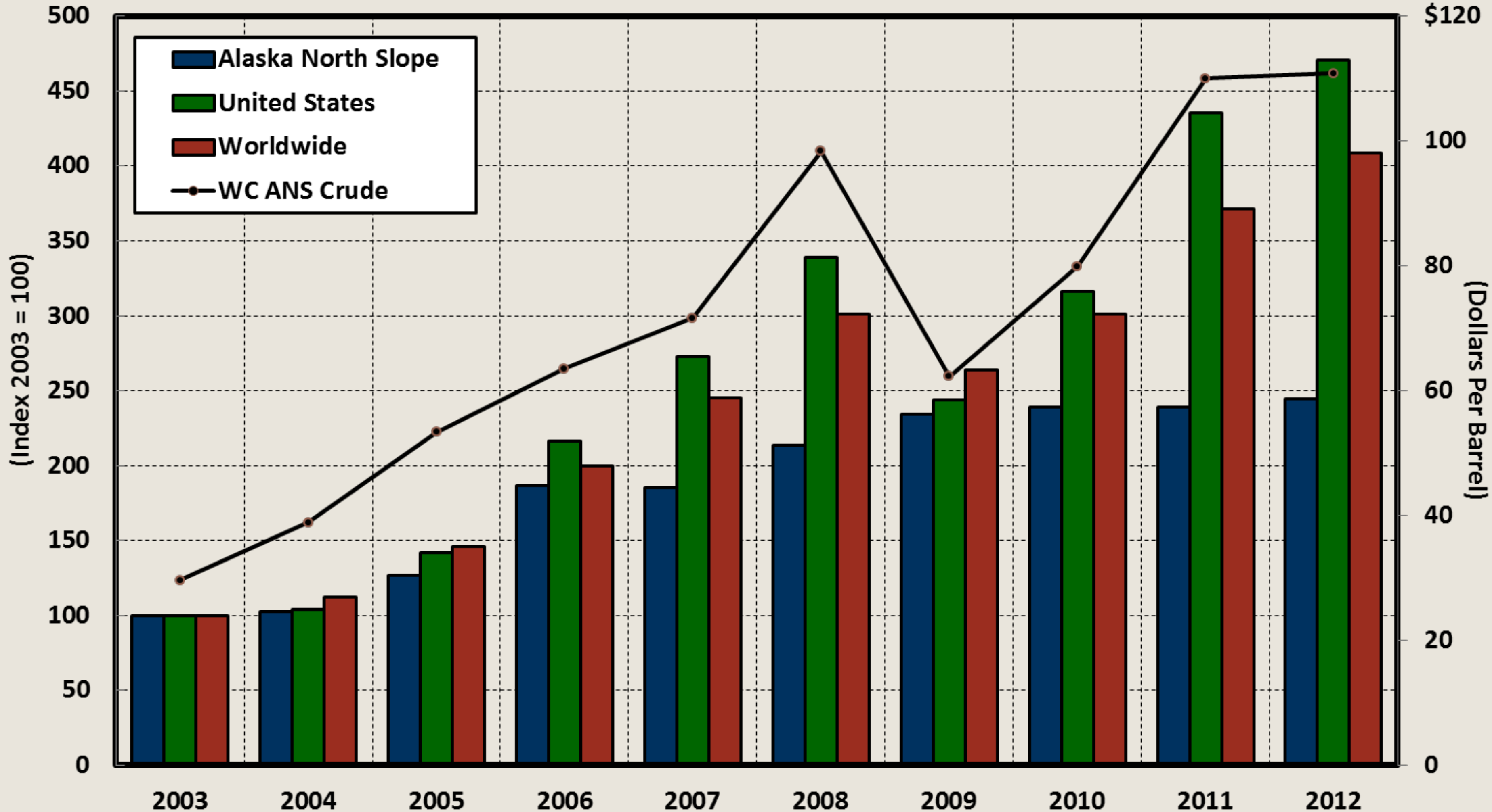
Creating Opportunity for Alaskans

Alaska Gross Regional Product Diversified through Oil Development



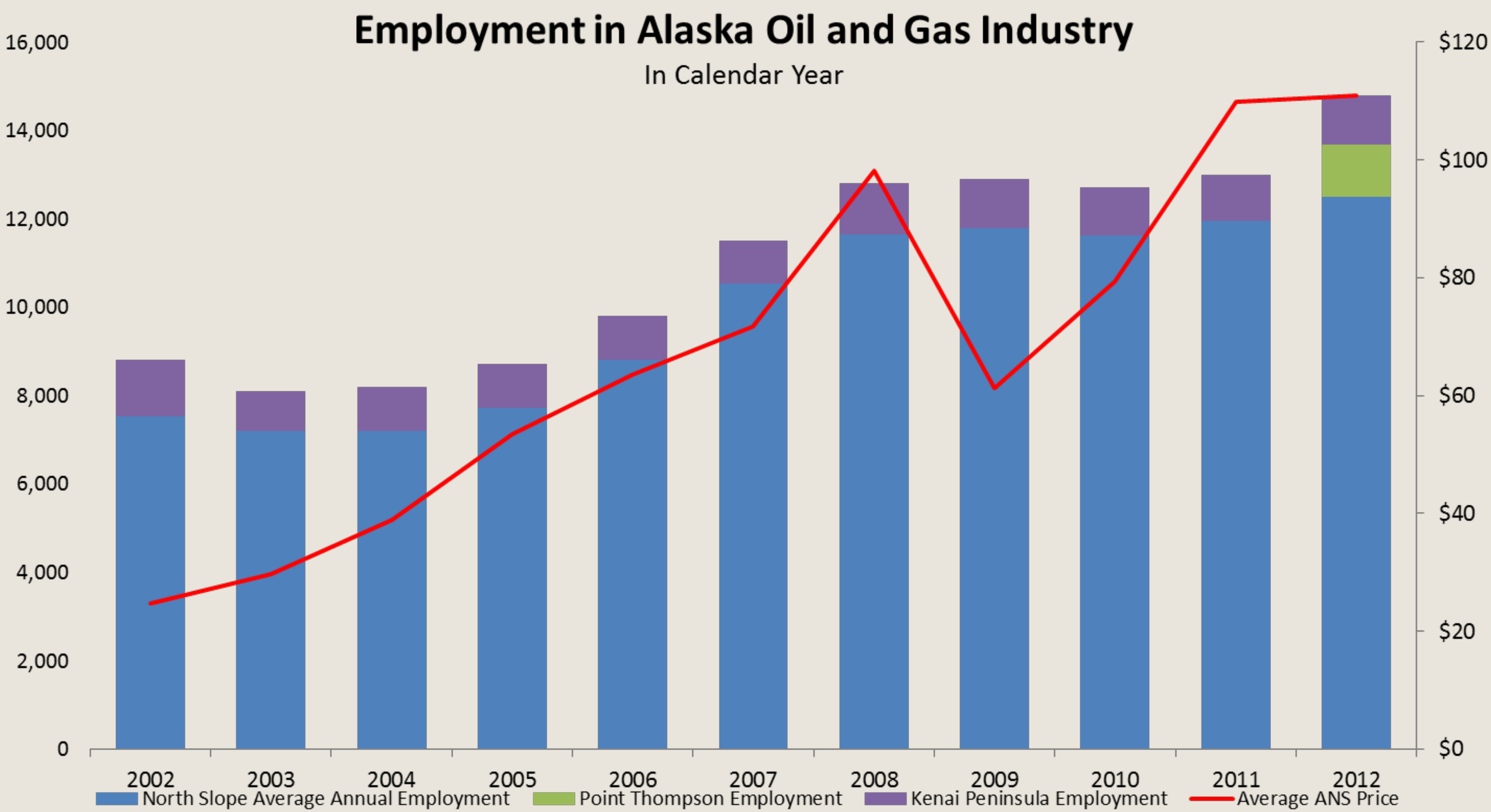
In the third quarter of 2012, nearly a quarter of the 11,100 jobs in Prudhoe Bay — all of which were oil-related — were not identified as oil industry employers. Some of these support jobs include security, catering, accommodations, facilities management, transportation companies, engineering services, and logistics.

EST. CAPITAL SPENDING FOR EXPLORATION & DEVELOPMENT:
AK NORTH SLOPE VS. U.S. & WORLD SPENDING*, 2003-2012

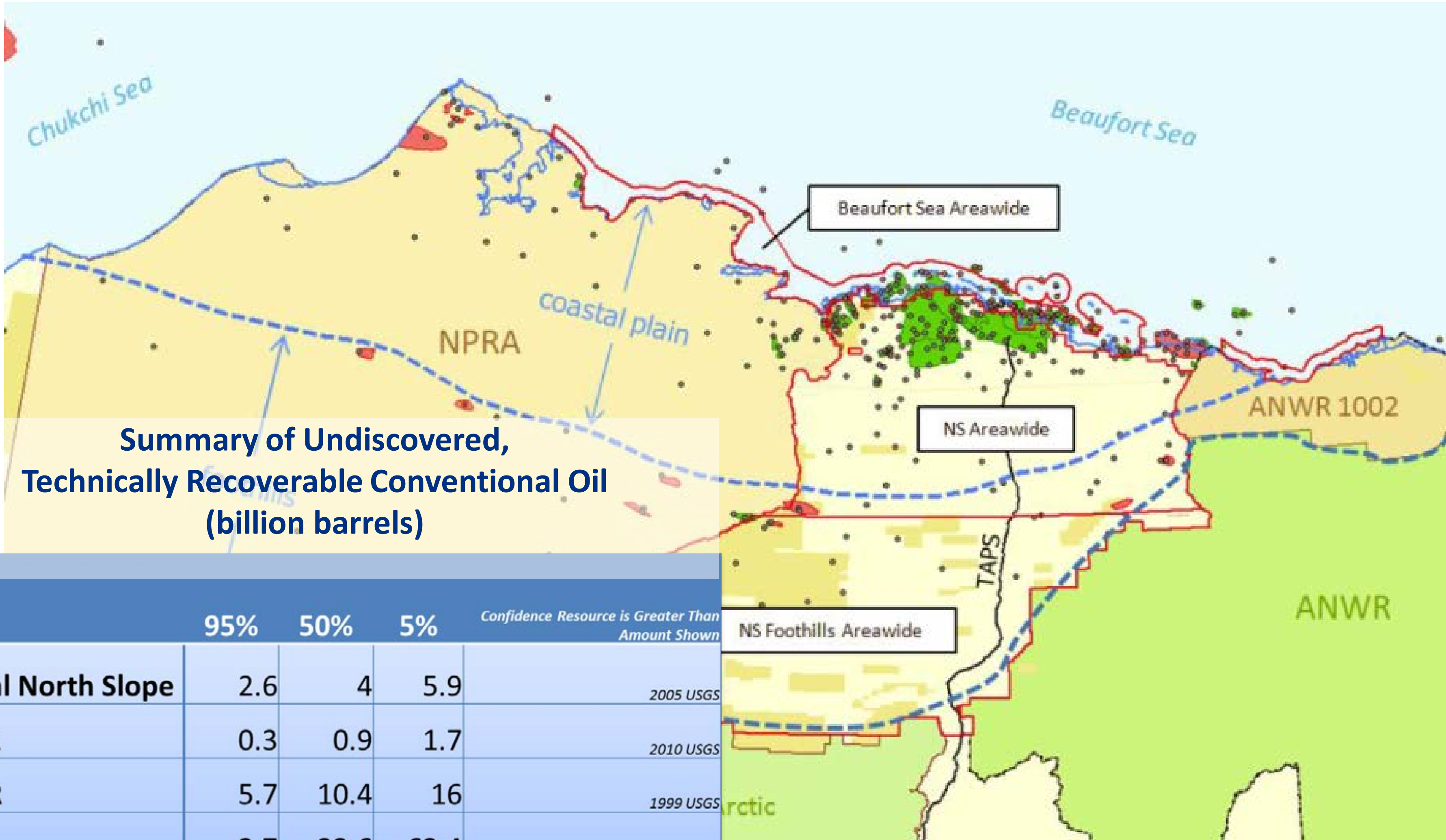


* North Slope based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

Employment Grows with Investment



Alaska has tremendous untapped resources



Summary of Undiscovered, Technically Recoverable Conventional Oil (billion barrels)

	95%	50%	5%	*Confidence Resource is Greater Than Amount Shown*
Central North Slope	2.6	4	5.9	*2005 USGS*
NPR-A	0.3	0.9	1.7	*2010 USGS*
ANWR	5.7	10.4	16	*1999 USGS*
OCS	2.7	23.6	63.4	*2011 BOEM*
Total	**11.3**	**38.9**	**87.0**	

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

Thank You!

Bruce Tangeman
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