

Extraction and the Role of the State:

Alaska's Oil and Gas Production Taxes

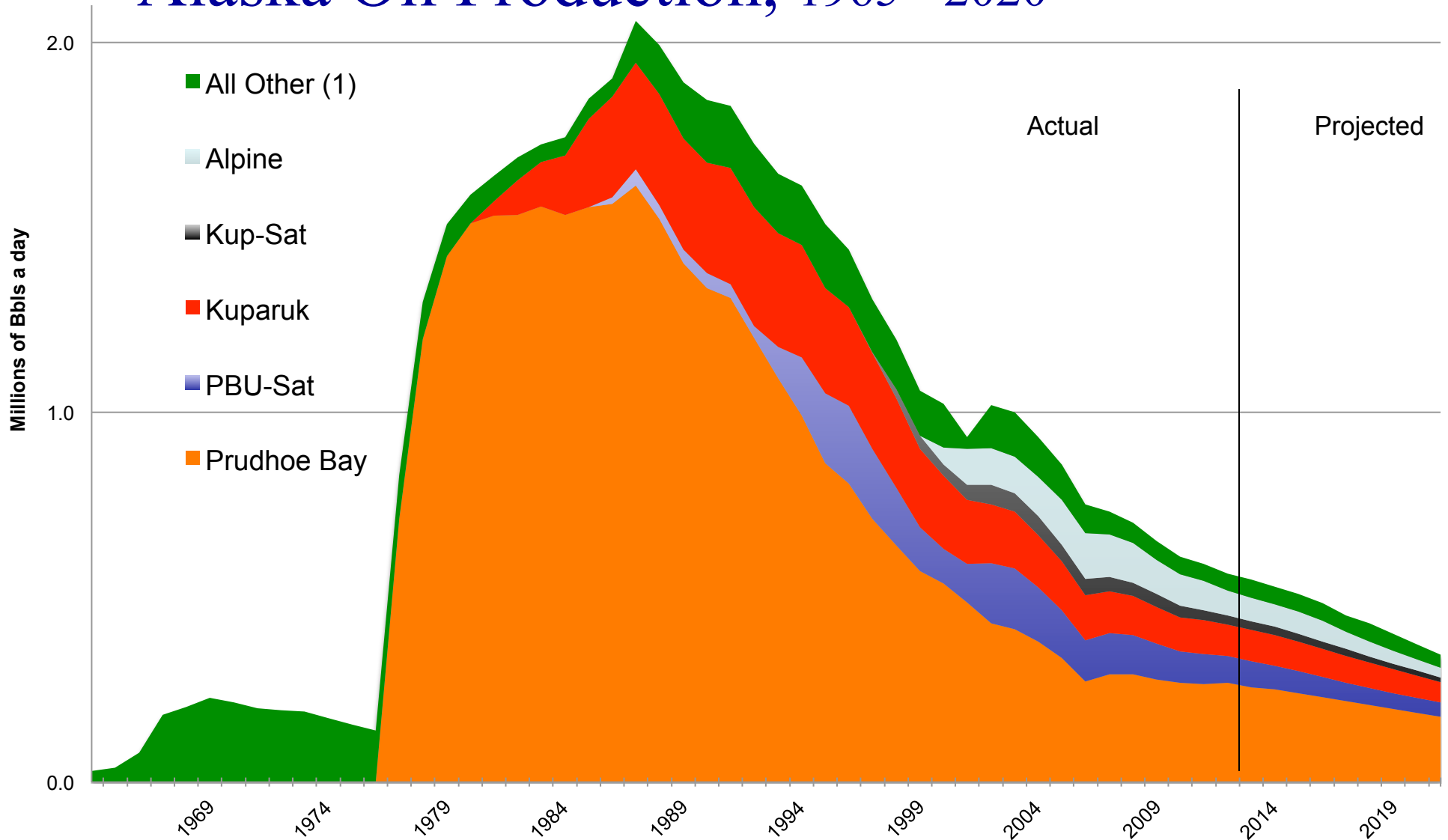
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Arctic Energy Summit

Oct 10, 2013

Alaska Oil Production

Alaska Oil Production, 1965 - 2020



Source: Alaska Department of Revenue, Fall 2013 Revenue Sources Book & earlier RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

Tax Regimes in Alaska

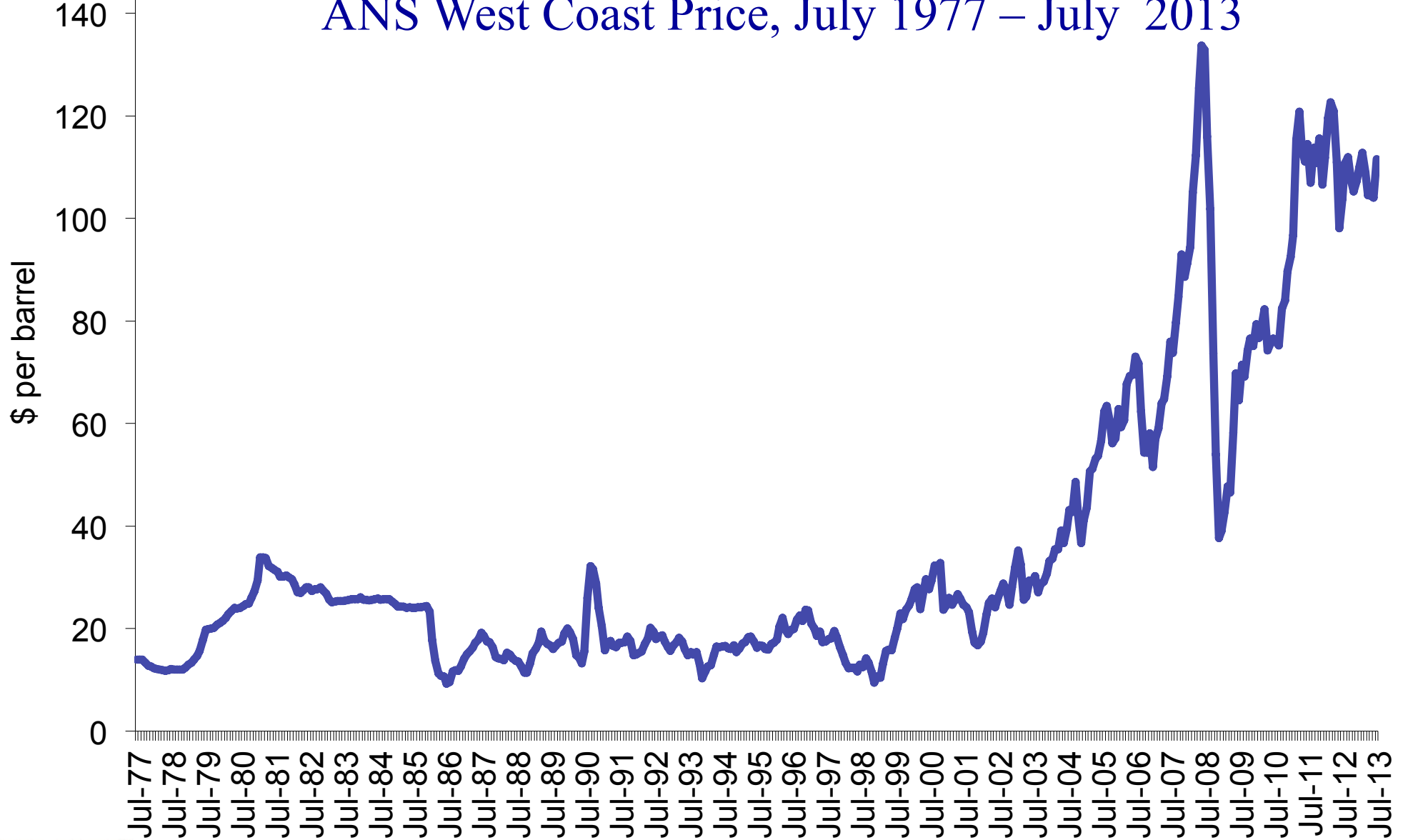


Royalty and Tax System

- Royalties – **Bilateral negotiated contract** between the owner of the resources and the producer (who brings money, production and marketing know how)
 - Authorized/Approved by the legislature
 - Negotiated and administered by the executive
- Taxes – **Unilateral imposition of state's police powers**
 - Enacted by the legislature
 - Approved and administered by the executive
 - Interpreted and enforced by the courts
 - **In Alaska**
 - **Taxpayers ≠ Voters**

Fiscal Save I: Price of Crude Oil

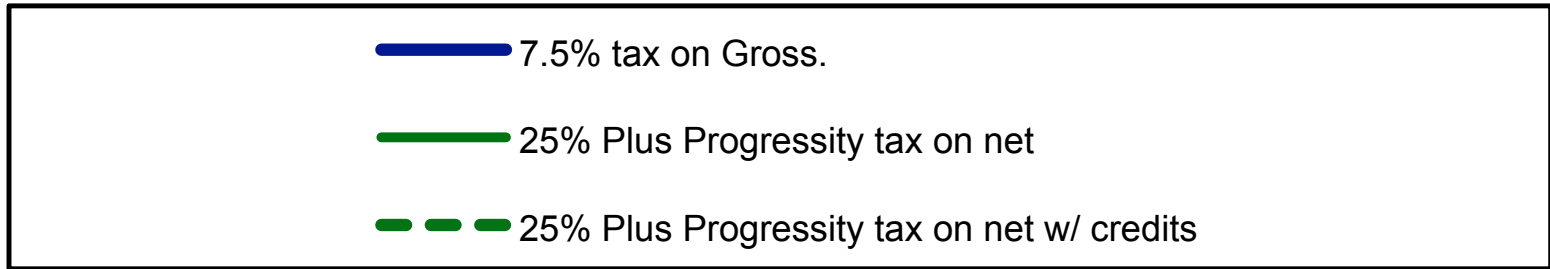
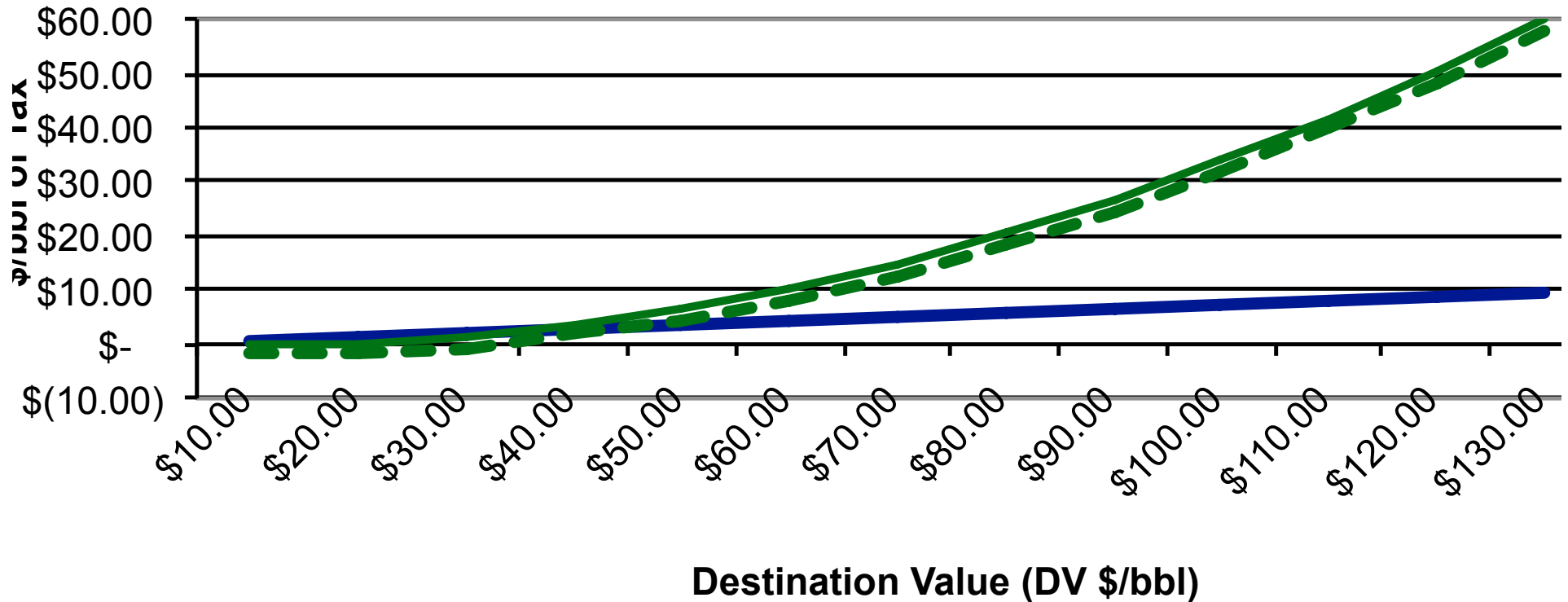
ANS West Coast Price, July 1977 – July 2013



Fiscal Save II: Changes to Production Tax

- Decade of Efforts to Fix the Decline
- 2003 – 025 Exploration Credits Introduced (up to 40%)
- 2006 (PPT) - Switch from Gross to Net (higher 22.5% rate, lower base – high cost projects taxed less)
 - **Progressivity** introduced
 - Offsetting **Credits** expanded to cover losses and investment (20%)
 - 2007 (ACES) - Progressivity rate augmented to .4%/\$ above \$30 a barrel net (i.e. **every \$10/bbl increase in net value raises total tax rate by 2.5%**); loss credits fixed at 25%
 - 2010 (CIRA) – 40% Credits introduced to cover well work (IDCs & Well Workovers) (excluding North Slope)

Fiscal Save II: Changes to Production Tax

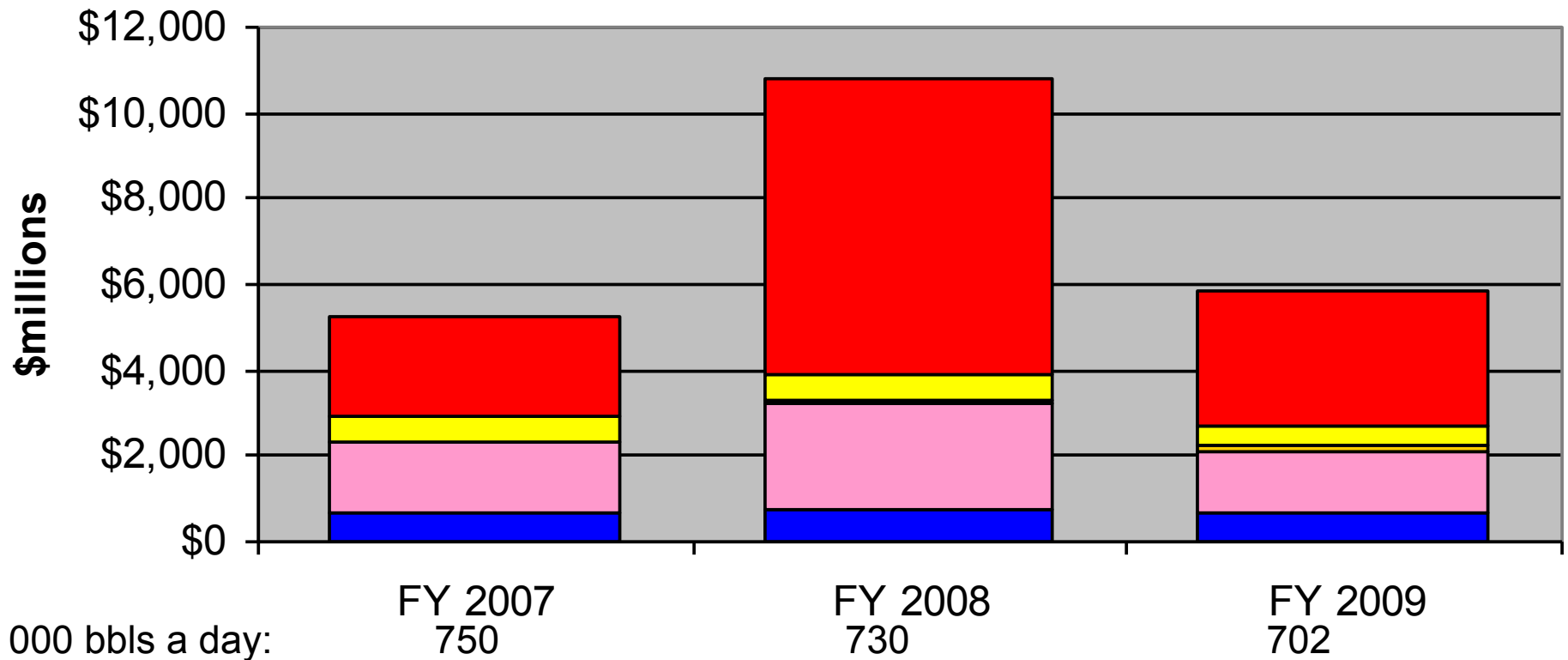


(Prog is defined as an additional .004 of rate/\$ of PTV over 30)

Fiscal Results Graphic

State of Alaska General Fund Revenues

WC ANS price: \$61.63 \$96.51 \$68.34



■ All Other GF Sources
 ■ O&G Royalties
 ■ O&G Property Tax
■ O&G Income Tax
 ■ O&G Production Tax

000 bbls a day:

FY 2007
750

FY 2008
730

FY 2009
702

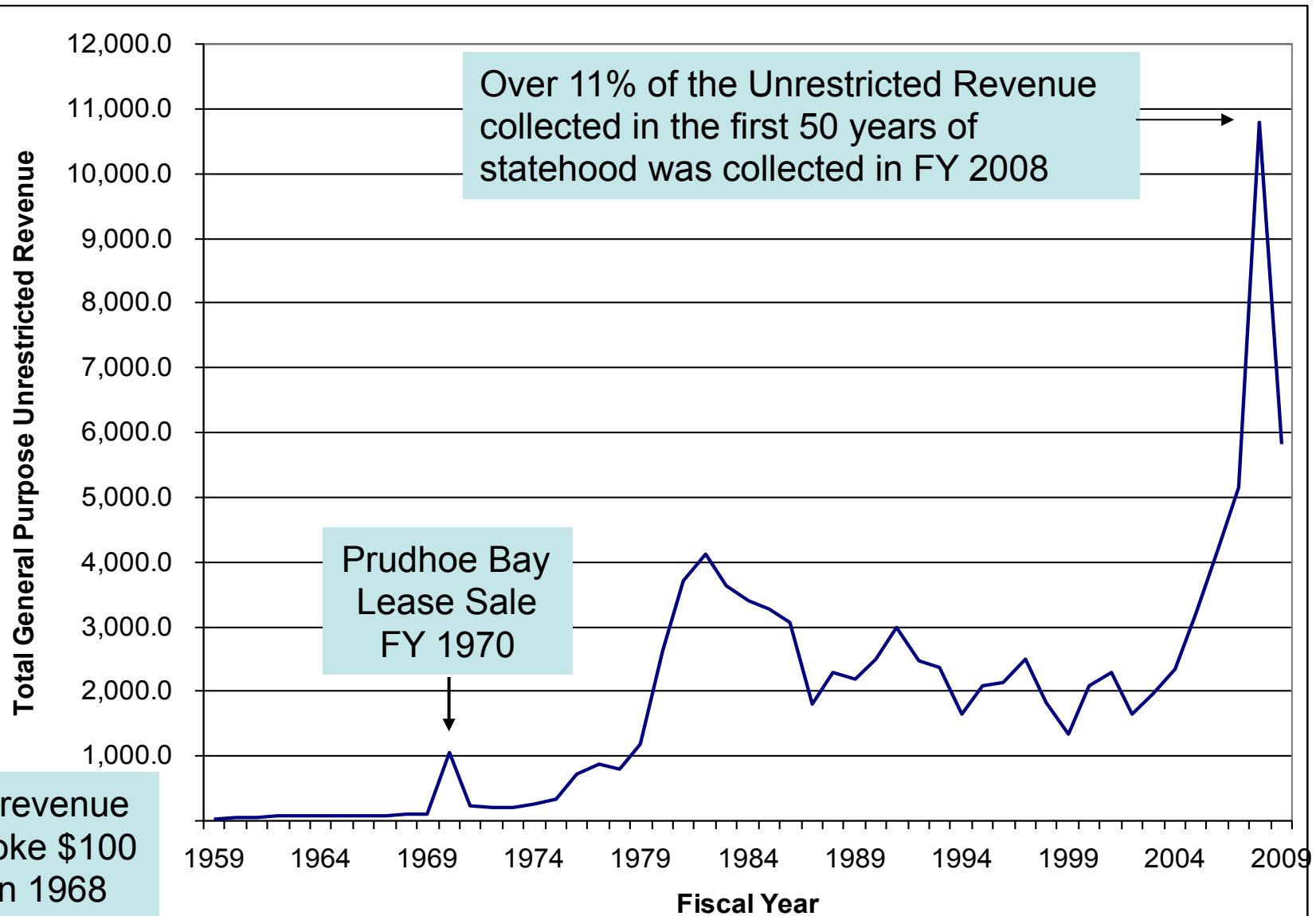
SOURCE: SOA DOR Fall 2007, Fall 2008 & Fall 2009 Revenue Sources Book

Fiscal Result Table

State of Alaska General Fund Revenues (& WC ANS price)

	FY 2007	FY 2008	FY 2009
Average ANS WC Price/bbl	\$ 61.63	\$ 96.51	\$ 68.34
<i>figures in \$000,000:</i>			
O&G Production Tax	2,292.3	6,879.0	3,112.0
O&G Income Tax	594.4	605.8	492.2
O&G Property Tax	65.6	81.5	111.2
O&G Royalties	1,613.0	2,446.1	1,465.6
O&G Subtotal	4,565.3	10,012.4	5,181.0
All Other GF Sources	675.2	780.0	650.2
Total GF	5,240.5	10,792.4	5,831.2
Thousands bbls a day:	750	730	702
O&G as % of State GF Rev	88%	93%	90%

How Significant was FY 2008?



Annual revenue
First broke \$100
Million in 1968

Prudhoe Bay
Lease Sale
FY 1970

Over 11% of the Unrestricted Revenue
collected in the first 50 years of
statehood was collected in FY 2008

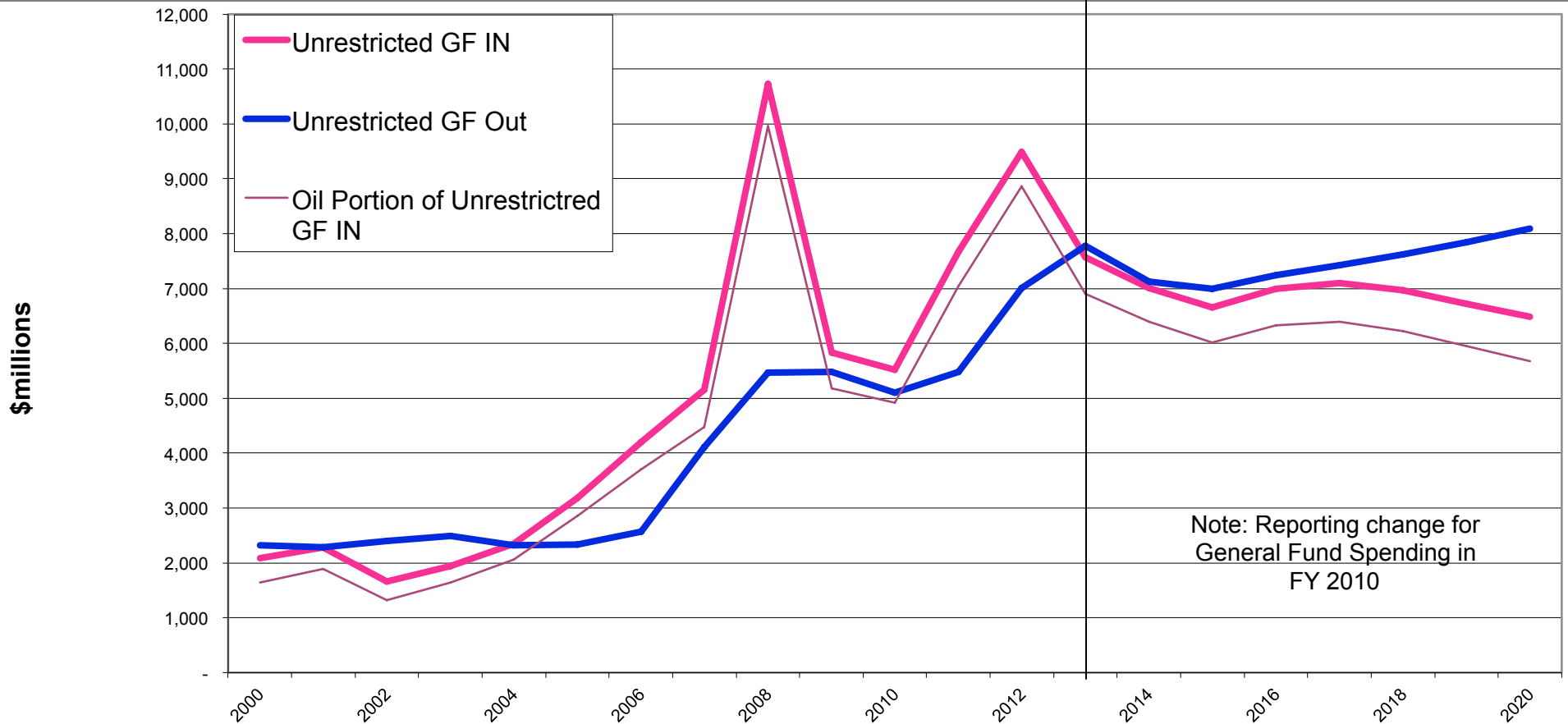
Source: Alaska DOR Fall 2008 Revenue Sources Book (2009 data point from 2009 RSB)

State of Alaska Fiscal Results

State of Alaska General Fund In/Out

Actual

Projected



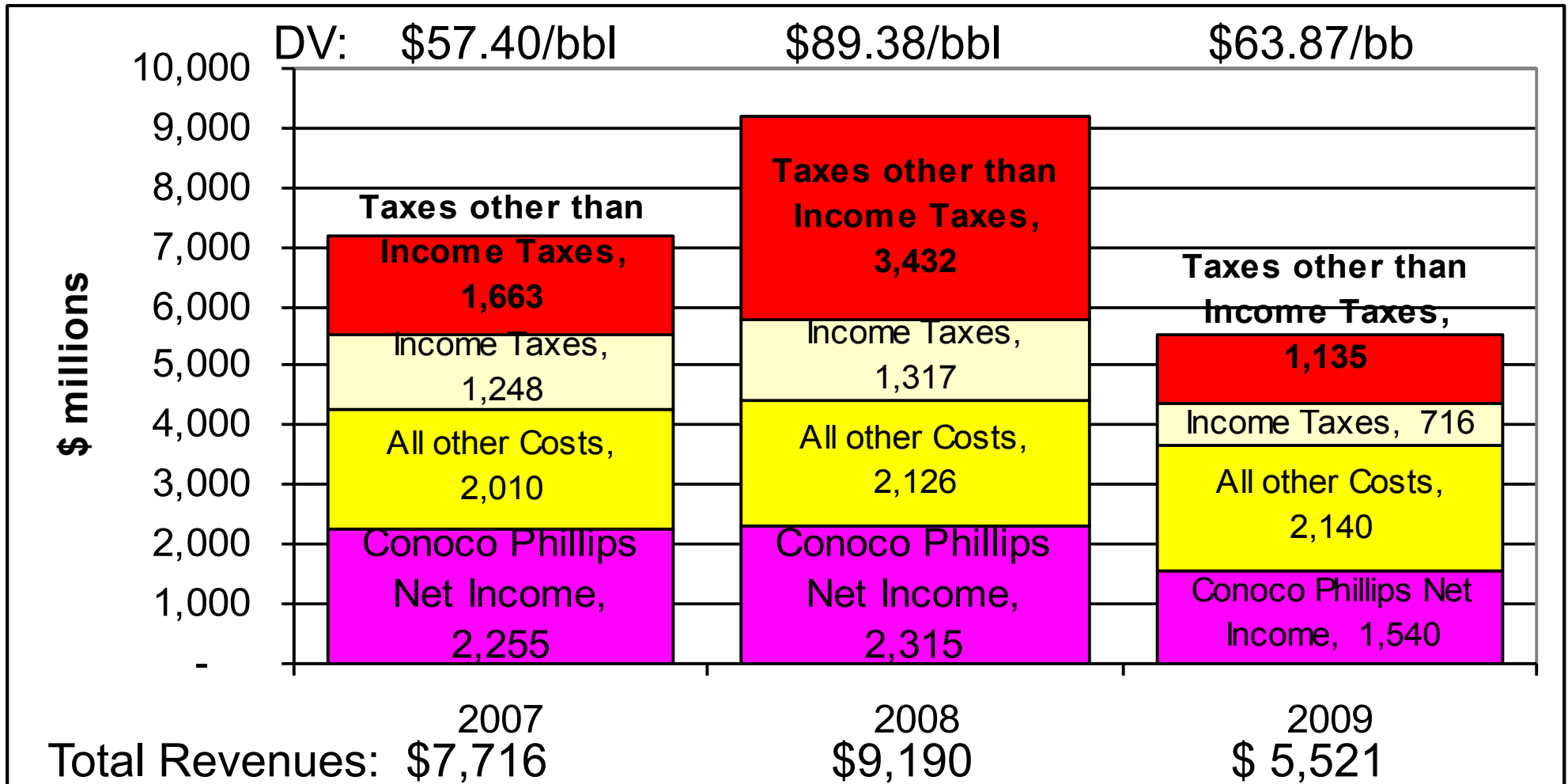
Sources: Revenue: DOR Fall 2010 RSB, Past Spending Annual Leg Finance Fiscal Summaries, Future spending FY 2012 OMB 10- Year plan, Scenario, three w/ 6% annual increase

Note: Reporting change for General Fund Spending in FY 2010

ConocoPhillips (Alaska) Financial Results

ConocoPhillips Revenues (and uses) for Alaska Segment

- Caution – Calendar Year, GAAP based, include CI gas (product price are US total)

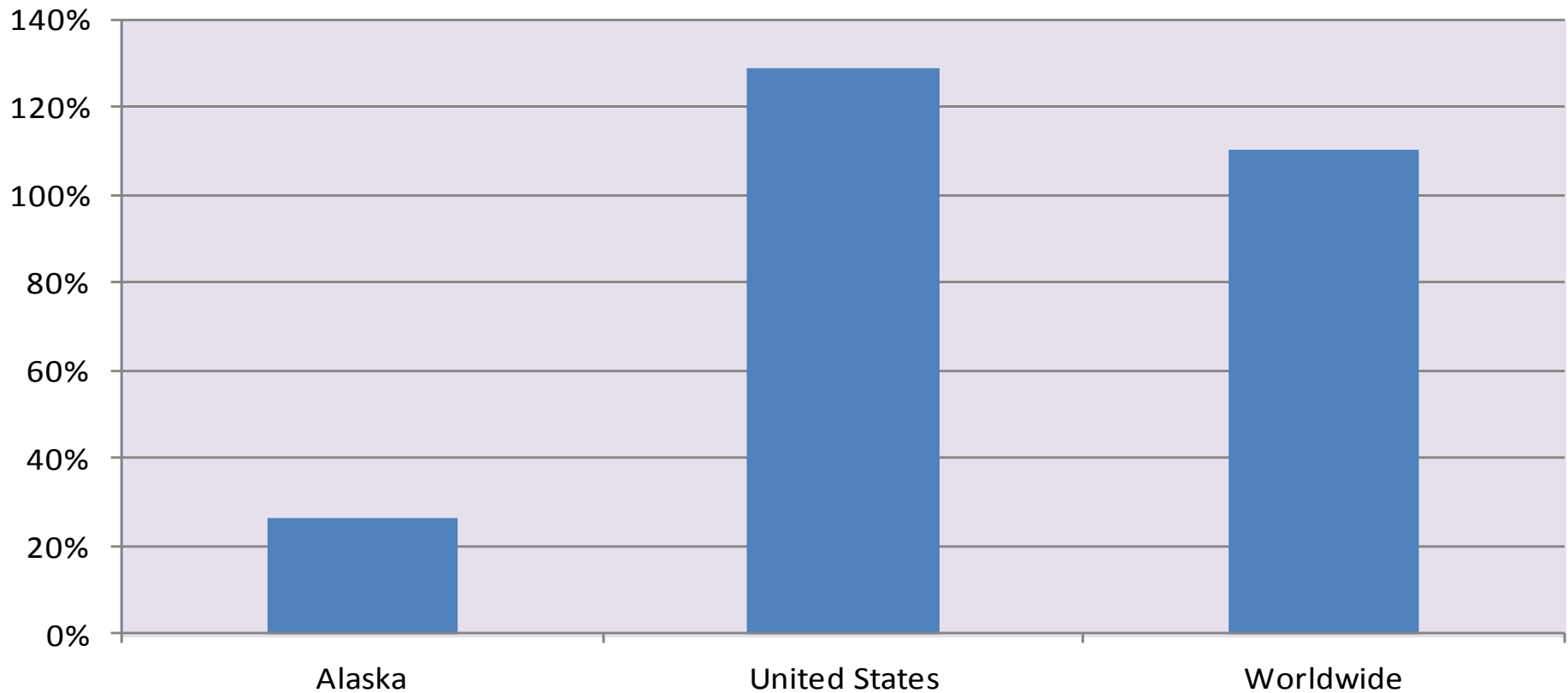


Source: CP 10K filings for each year, pages 40, 41, 148, 149, 150

Capital is Mobile

Increase in Capital Spending for Exploration & Development 2006-2012

(Oil price [\$/bbl]: 2006 = \$62; 2012 = \$113)



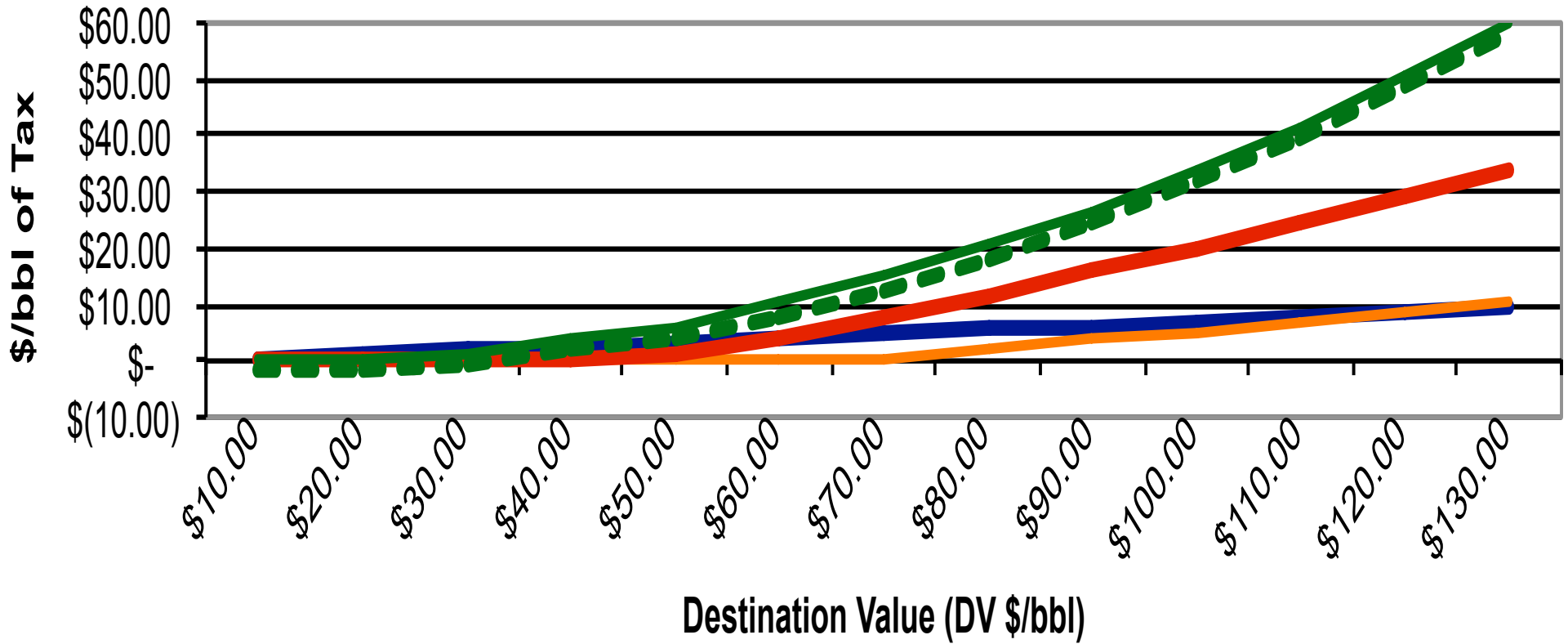
Changes from SB 21 Passed 2013

- (1) Severe Reduction (“End”) of Progressivity- Maximum tax rate drops from 75% to 35%.
- (2) Incentives -- Gross Revenue Reduction & Credits for “New Oil”
- (3) Many Changes to Structure of Credits
- (4) Interest on underpayments significantly reduced
- (5) All qualifying credit certificates can be cashed in upon receipt
- (6) Changes to Income Tax Credits

Changes From SB 21 – New Oil

- Benefits for “New Oil”
- (1) AS 43.55.160(f) – Tax is calculated after Reducing Gross Value by 20% of Gross Value.
- (2) AS 43.55.160(g) - A further 10% reduction in the Gross Value if royalties > 12.5%
- (3) AS 43.55.024(i) – Additional credit of \$5 a barrel for any new production

Production Tax Math



Changes from SB 21 – New Oil

- AS 43.55.160(f) criteria for new oil:...(1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a participating area established after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011;(3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area.

Changes from SB 21 – New Oil

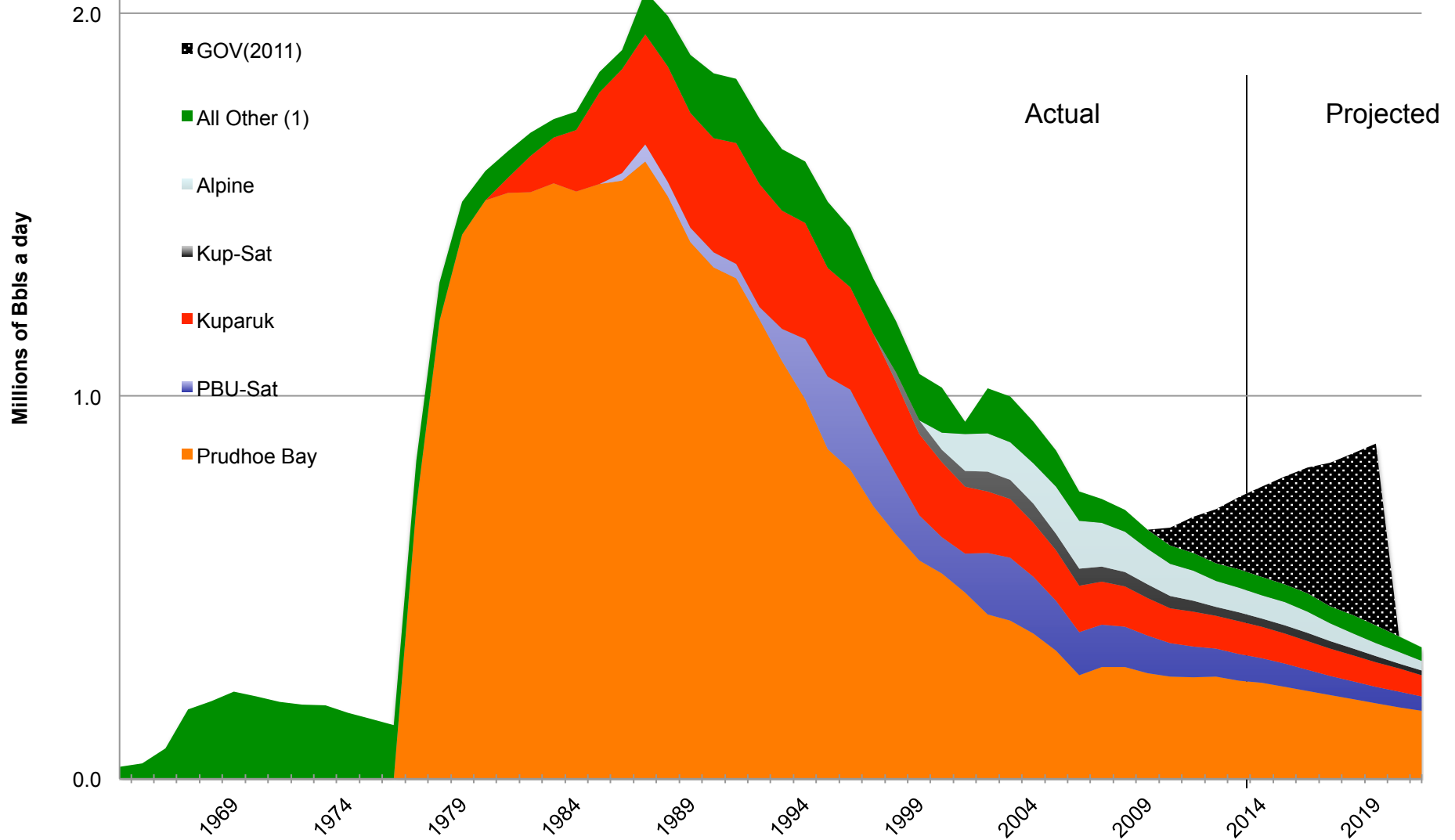
- AS 43.55.160(f) – translation
- (1) Oil from New Units (that don't contain certain bits of old units)
- (2) Oil from New Participating Areas within Old Units (that don't contain certain reservoirs)
- (3) Oil from New Acreage added to Old Participating Areas – so long as you can ID to within 1/10 of one percent which is old oil and which is new oil. { .1% from proposed 15 AAC 55.213 (a) }

August 2014 Ballot

- Two Narratives
- Moral Argument, with feisty Alaskans standing up to Rapacious Oil Companies
 - Or
- Empirical Argument, with Big Government over-reach once again strangling the golden goose – investment.
- From field of Psychology – In choosing between poor outcomes, people prefer the known to the unknown, in choosing between good outcomes, people are more willing to take risks. Will the election “debate” reflect this?

Attaining Governor's 2011 goal of 1 mm bbls/day by 2020

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Changes from SB 21 - Credits

- “Most Generous Incentives in the World”
 - – Tim Bradner, Economist
- In 2014 and 2015 Certain North Slope Frontier Exploration will qualify for 85% refundable Tax credit –
- Combination of 40% Exploration credit
- 45% Loss Carry Forward Credit
- Cook Inlet Credits – Up to 65% for Exploration Wells
- 20% Qualified Capital Expenditures
- 40% Well Lease Expenditures
- 25% loss Carry Forward

Thank You

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