Alaska's Unique Oil and Gas Tax Structure

Possible Impacts on Resource Development

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Calgary, AB

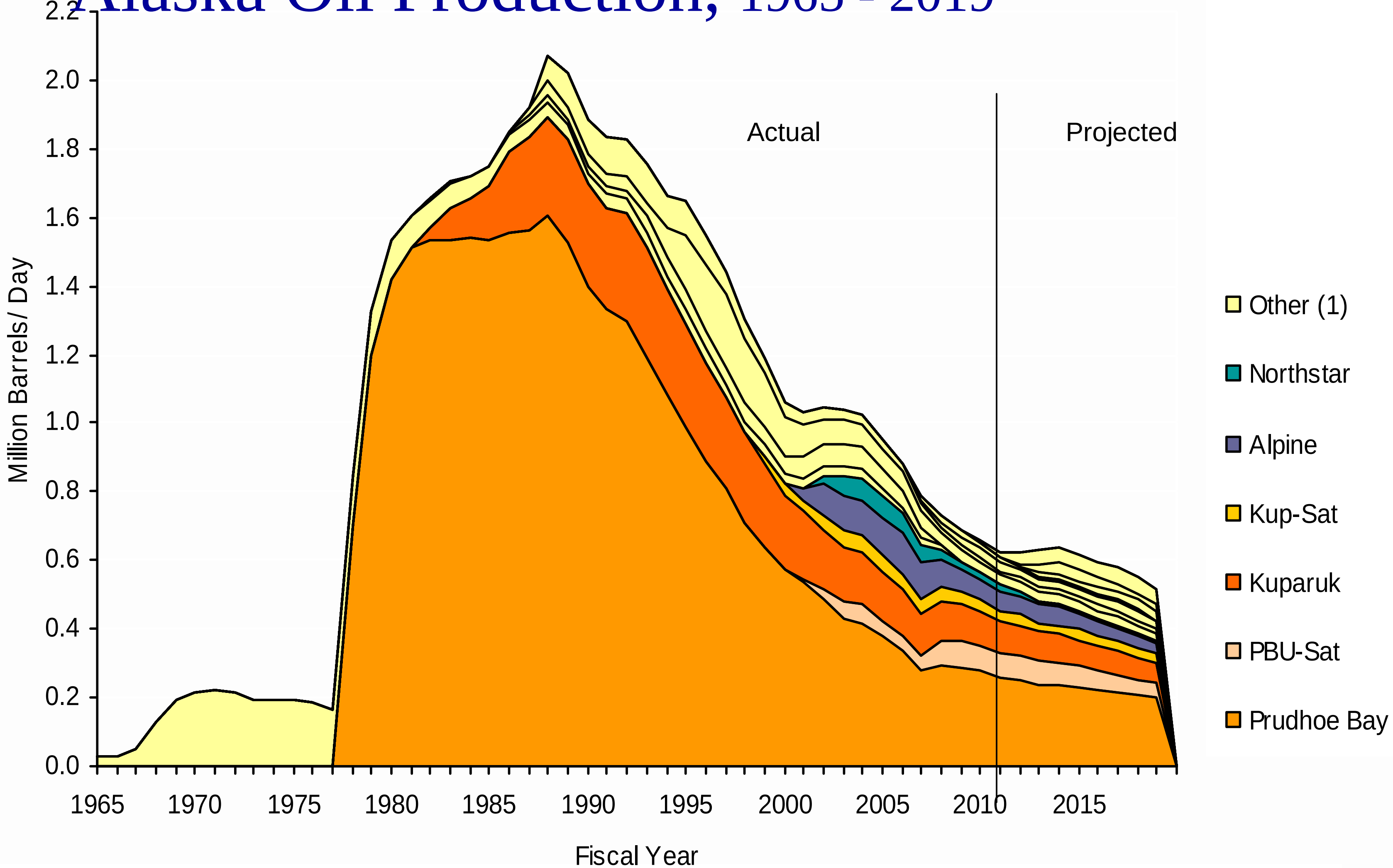
March. 2, 2010

Question 1

- Alaska's Oil and Gas taxes underwent dramatic reform in 2006 and 2007 under Governor's Murkowski and Palin.
- Have you heard of these changes – or have they affected they way you do business or whether or not you would consider doing business in Alaska?
  - No; this is the first I've heard about it.
  - Maybe I heard something - it had to do with Sarah Palin, right?
  - Yes I heard something about it.
  - Yes I not only heard something about it, our organization is looking at investment in Alaska, or has invested in Alaska.
  - Yes, I not only heard something about it, but our organization looked at it, and we will never go near Alaska if it maintains that regime!!!

Fundamentals

Alaska Oil Production, 1965 - 2019



Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

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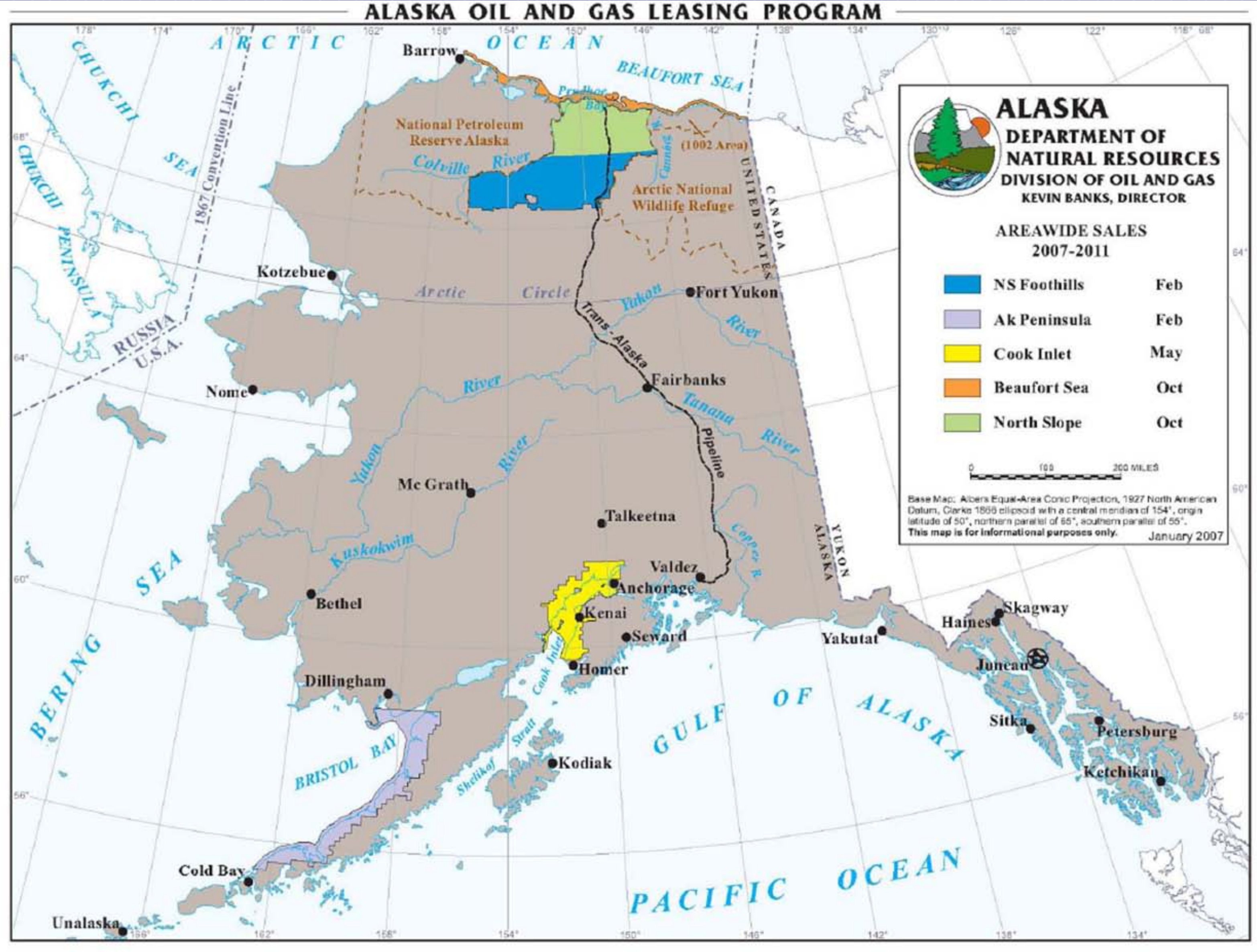
Fundamentals



Source: Kevin Banks presentation to House Finance Committee (Jan 22, 2008)

History – prologue to the future?

- In 1977-1980 as Prudhoe Bay was coming on line and eclipsing the Cook Inlet
  - New property tax (on pipelines under construction) in 1973 special session (AS 43.56)
  - Raised production taxes from max rate of 8% to 12.25% and replaced "stair step" with "economic limit factor" (ELF) driven by well productivity in 1977, then in 1981 added "rounding rule" so Prudhoe Bay ELF = 1
  - Tried four years of 'separate accounting' income tax from 1977 to 1980 – replaced with modified apportionment income tax in 1981
  - *Repealed personal income tax and gross receipts tax*
- 1989 added field size factor to ELF and dropped rounding rule. Small field taxes go down, large field taxes go up
- 2003 Exploration Credits (AS 43.55.025) added to production tax
  - By 2005
  - North Slope ELF was about 50%, so effective production tax rate was about 7.5% of gross. Cook Inlet ELF was 0. Some tax on Cook Inlet Gas. Also
  - a 2% ad valorem oil and gas property tax,
  - a 9.4% oil and gas corporate income tax and
  - most production is on state land with a 12.5% royalty.

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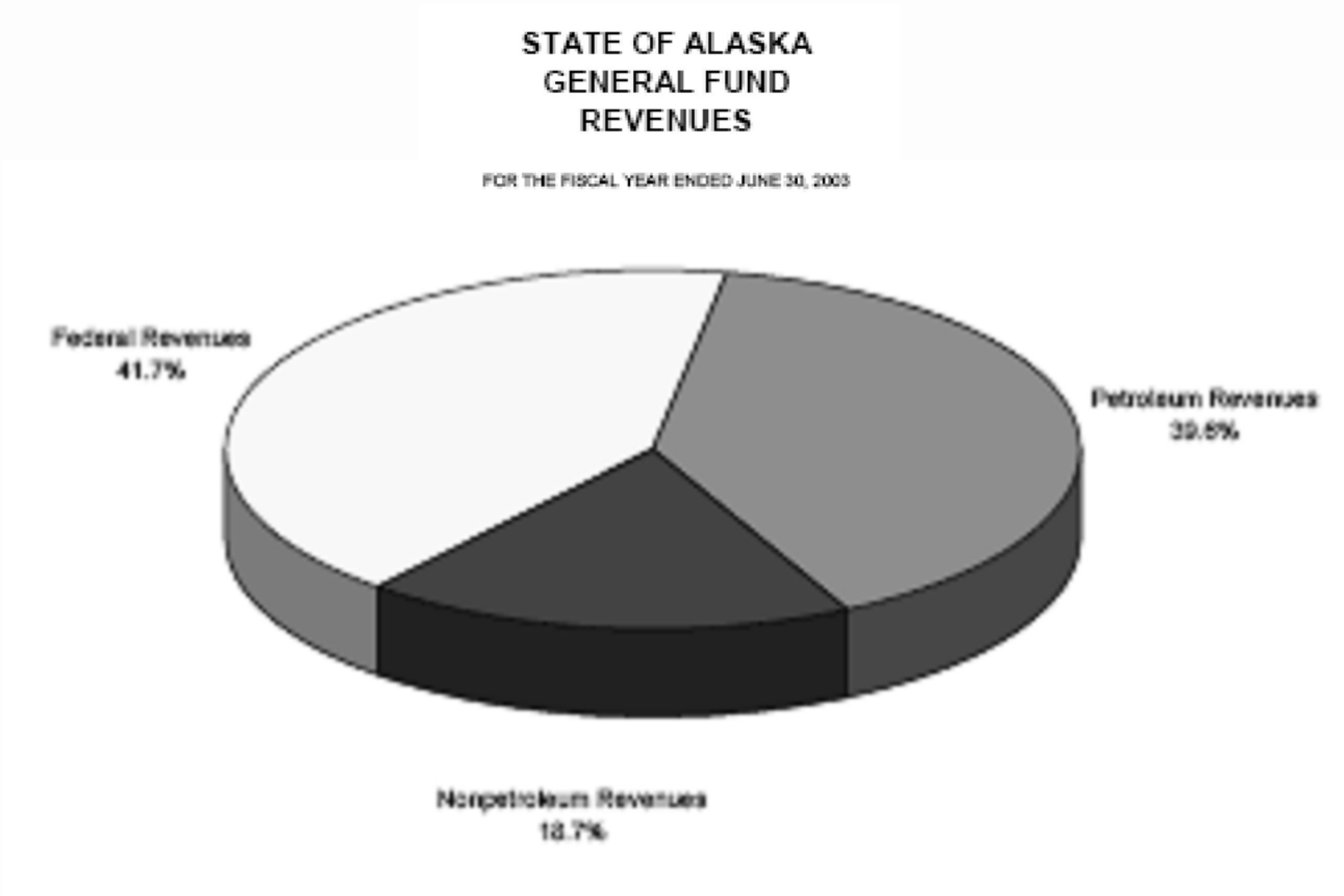
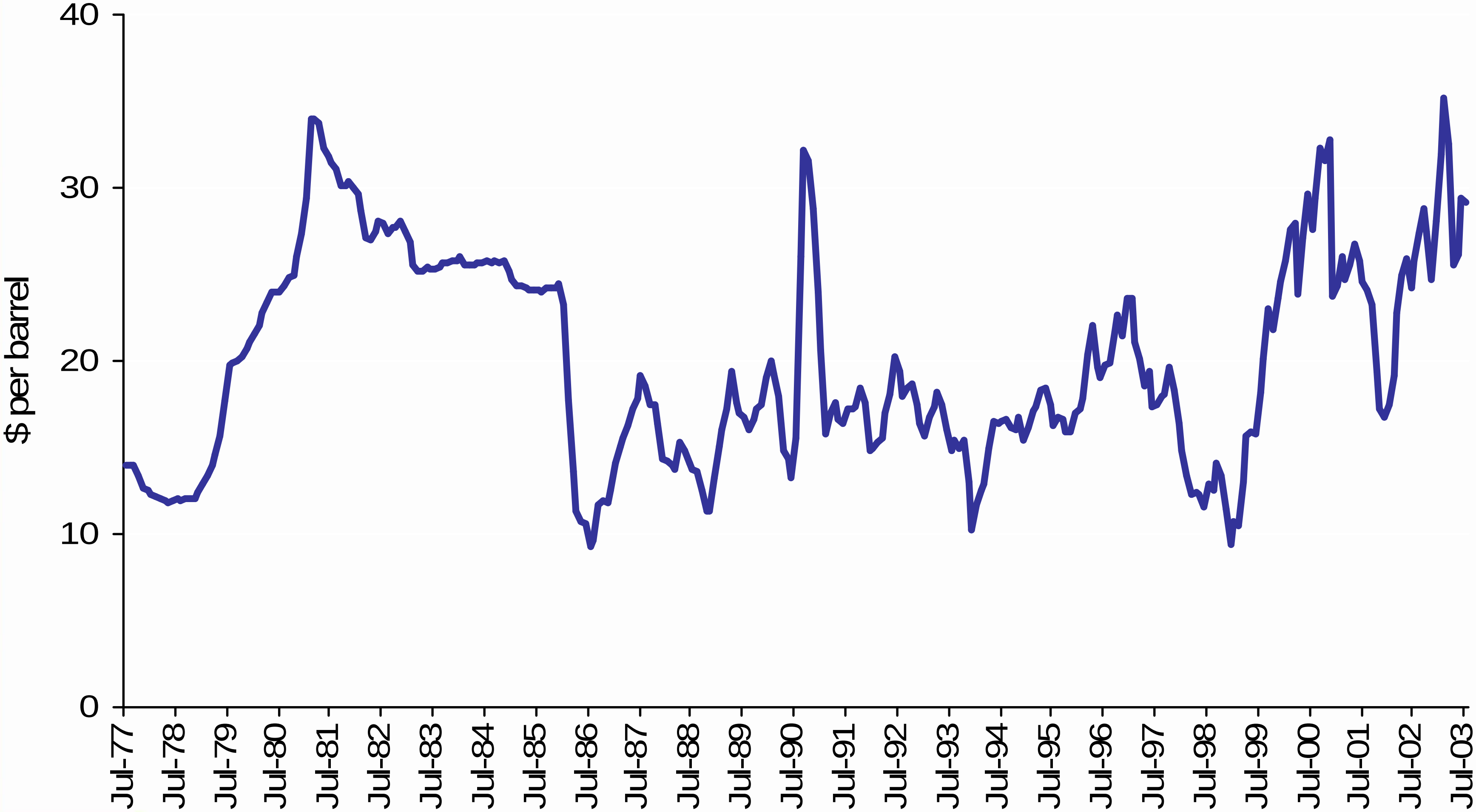
2003



Source: State of Alaska FY 2003 Comprehensive Annual Financial Report from SOA Division of Finance website

ANS West Coast Price, July 1977 – July 2003



Source: Alaska Department of Revenue, Tax Division

History – prologue to the future?

- In 2003 Stranded Gas Development Act (SGDA) amended to include project to/thru Canada
- *In 2004 ANS WC monthly price breaks $40 for first time*
- *In 2005 ANS WC monthly price breaks $60 for first time*
- In 2006 after 2 ½ years of negotiation, Governor Murkowski announced 3 largest taxpayers had agreed to production tax reform to be part of SGDA contract package to be introduced presently.
  - Key elements of "20/20" Oil Tax reform –
    - switch from "gross to net" at 20% rate
    - investment and loss carryforward credits of 20%
- Conforming law for SGDA contract and oil tax reform die in 2006 regular session
- SGDA contract introduced
- *In July 2006 ANS WC monthly price breaks $70 for first time*
- No oil or gas bills emerge from first special session
- Production Tax reform passes in second special session

History – prologue to the future?

- <u>2006 Production Tax Reform ("PPT")</u>
  - Switch from "gross to net",
  - Tax on 22.5% of PTV or "net value"
  - Progressivity (above $40 of PTV, at rate of .25% per dollar)
  - 20% investment credit
  - 20% loss carryforward credit
  - 20%/20%/40% Exploration credits incorporated
  - Transitional Investment Expenditure Credits
  - Small producer credits of up to $12 million a year
  - US costs focus on unit operating agreement and working interest owner audits (with 18 exclusions)
  - Retroactive to April 1, 2006
    - No change to
      - royalties – generally 12.5% of gross,
      - 2% oil and gas ad val property tax and
      - special oil and gas 9.4% income tax on apportioned world wide income

History – prologue to the future?

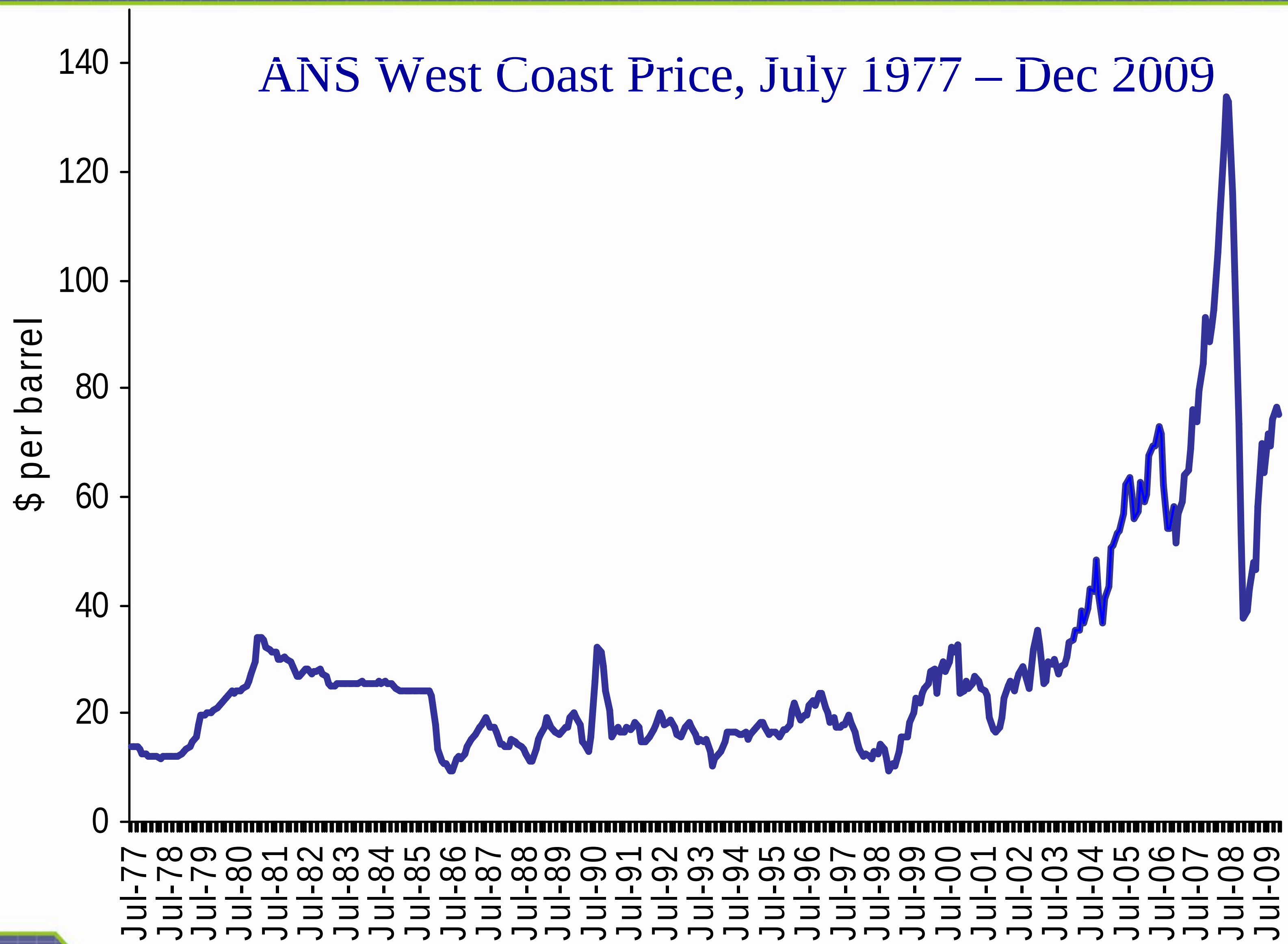
- Aug 2006 Governor Murkowski loses in Republican primary
- Sept 2006 FBI raids 6 legislators offices (two of those have subsequently been convicted of felonies including bribery and are serving prison sentences of 5 years +)
- November 2006 Governor Palin Elected
  - Among her campaign issues is that switch in production tax from net to gross was mistake
- 2007 legislative session focuses on creation of AGIA license
- Sept 2007 Governor Palin announces special session that will reexamine production taxes – proposes “ACES” package of reforms
- *In Oct 2007 ANS WC monthly price breaks $80 for first time*
- *In Nov 2007 ANS WC monthly price breaks $90 for first time*
- November 2007 special session passes production tax reforms

History – prologue to the future?

- 2007 Production Tax Reform (ACES)
  - Switch from gross to net maintained
  - Tax from 22.5% to 25% of PTV
  - Progressivity (above $30 of PTV, at rate of .4% per dollar)
    - Changed from $40 and .25%
  - 20% investment credit now spread over 2 years
  - 25% loss carryforward credit (from 20%)
  - 5%/30%/30%/40% Exploration credits incorporated (from 20%/20%)
  - Transitional Investment Expenditure Credits ended/restricted
  - Small producer credits of up to $12 million a year
  - US costs focus from unit operating agreement and working interest owner audits to "allowed by dept. by regulation" (with 21 exclusions)
  - Retroactive to July 1, 2007

3. History – prologue to the future?

- *In Mar 2008 ANS WC monthly price breaks $100 for first time*
- *In Apr 2008 ANS WC monthly price breaks $110 for first time*
- *In May 2008 ANS WC monthly price breaks $120 for first time*
- *In Jun 2008 ANS WC monthly price breaks $130 for first time*



Source: Alaska Department of Revenue, Tax Division

Question 2

- When Alaska's oil is selling for $133 (June 2008) on the US west coast? What is combined state and federal take for the month? (Govt Take)/(Sales – costs) Of that last dollar of revenue roughly what percentage goes to government?
- 1. 35% Government Take, 65% marginal
- 2. 45% Government Take, 75% marginal
- 3. 55% Government Take, 85% marginal
- 4. 65% Government Take, 90% marginal
- 5. 75% Government Take, 95% marginal

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June 2008 – Prices Peaking

Way Simple Analysis June 2008	$/bbl			
Destination Price West Coast	**$ 133.78**			
Less Transportation Cost	6.00			
Gross Value at Point of Production	127.78			
Royalty (12.5% of Gross Value)	15.97			
Less Upstream Costs (and new investment)	16.88			
"PTV" or net value	$ 94.93			
Taxable Barrels	87.5%			
PTV / taxable bbl	108.49			
Production Tax - .4% Progressivity Rate up to $92.5	25.0%			
Production Tax - .1% Progressivity Rate over $92.5	10.8%			
Production Tax - Base Rate	25.0%			
Total Production Tax Rate	60.8%			
Royalty (12.5% of Gross Value)	$ 15.97	}		
Pre Credits Production Tax (rate * net)	57.67	}		
Production Tax Credits (assumed)	(10.00)	}	62%	State Share
Property Tax (Assumed)	0.50	}		
State Income Tax (9.4% * net less taxes)	4.39	}		
Federal Income Tax (35% * net less taxes)	14.83		13%	Federal Share
Government Take	**$ 83.37**			
Costs & new investment	$ 22.88			
Producer	$ 27.53		25%	Producer Share
			100%	Total

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Investment Incentives (Marginal Effect of One Dollar)

- Marginal Effect of $1/bbl increase in price.

Who receives?

Way Simple Analysis	$/bbl	$/bbl	Diff
Destination Price West Coast	**120.36**	**121.36**	**1.000**
Less Transportation Cost	6.00	6.00	-
Gross Value at Point of Production	114.36	115.36	1.000
Royalty (12.5% of Gross Value)	14.30	14.42	0.125
Less Upstream Costs*	20.00	20.00	-
"PTV" or net value	80.07	80.94	0.875
Taxable Barrels	87.5%	87.5%	
PTV / taxable bbl	91.50	92.50	
Production Tax - Progressivity Rate	24.6%	25.0%	
Production Tax - Base Rate	25.0%	25.0%	
Total Production Tax Rate	49.6%	50.0%	0.40%
Royalty (12.5% of Gross Value)	14.30	14.42	0.125
Pre Credits Production Tax (rate * PTV)	39.71	40.47	0.758
Production Tax Credits (assumed)	(10.00)	(10.00)	-
Property Tax (Assumed)	0.50	0.50	-
State Income Tax (9.4% * PTV less taxes)	4.69	4.70	0.011
Federal Income Tax (35% * PTV less taxes)	15.81	15.85	0.037
Government Take	**65.00**	**65.93**	**0.931**

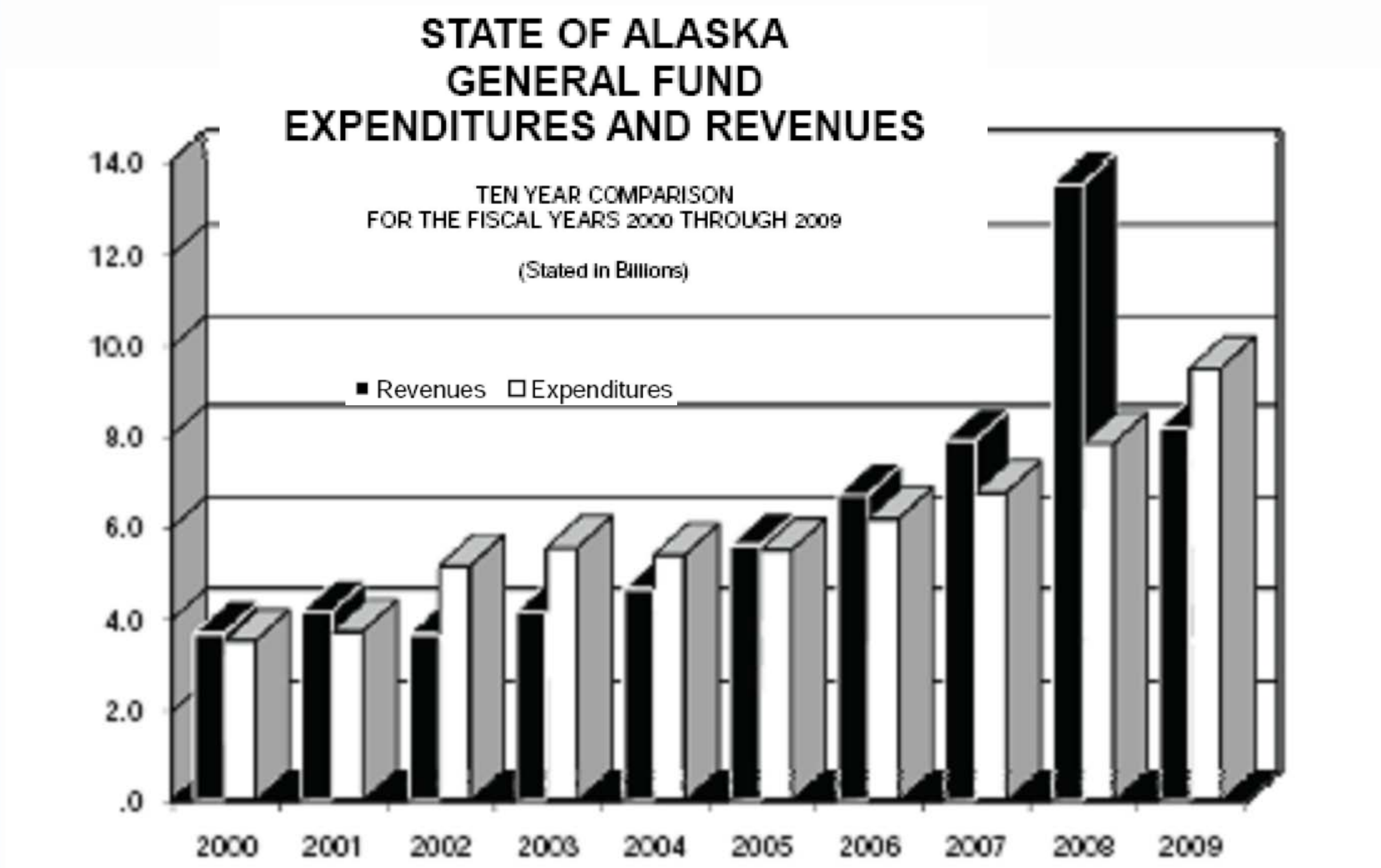
4. Investment Incentives Marginal Effect of One Dollar

- Marginal Effect of $1/bbl capital investment.

Who pays?

Way Simple Analysis	$/bbl	$/bbl	Diff
Destination Price West Coast	121.36	121.36	-
Less Transportation Cost	6.00	6.00	-
Gross Value at Point of Production	115.36	115.36	-
Royalty (12.5% of Gross Value)	14.42	14.42	-
Less Upstream Costs*	**20.00**	**21.00**	**1.000**
"PTV" or net value	80.94	79.94	(1.000)
Taxable Barrels	87.5%	87.5%	
PTV / taxable bbl	92.50	91.36	
Production Tax - Progressivity Rate	25.0%	24.5%	
Production Tax - Base Rate	25.0%	25.0%	
Total Production Tax Rate	50.0%	49.5%	-0.46%
Royalty (12.5% of Gross Value)	14.42	14.42	-
Pre Credits Production Tax (rate * PTV)	40.47	39.61	(0.865)
Production Tax Credits (assumed)	(10.00)	(10.10)	(0.100)
Property Tax (Assumed)	0.50	0.50	-
State Income Tax (9.4% * PTV less taxes)	4.70	4.69	(0.003)
Federal Income Tax (35% * PTV less taxes)	15.85	15.83	(0.011)
Government Take	**65.93**	**64.95**	**(0.980)**

1. Context: Revenues and Spending



Source: State of Alaska FY 2009 Comprehensive Annual Financial Report from SOA Division of Finance website

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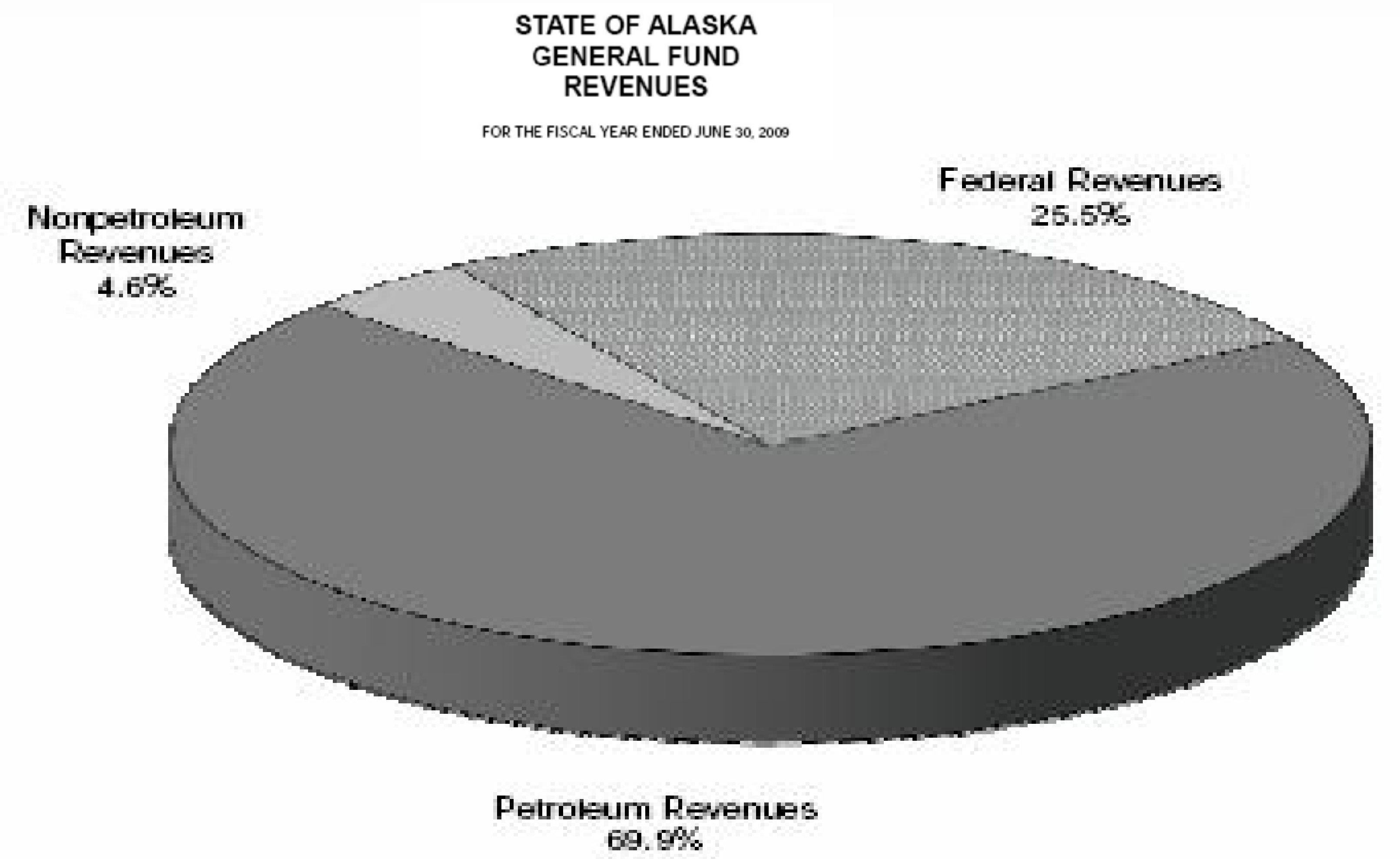
Average Quintupling of Production Tax

	Production Taxes				X Check					Royalty	
Fiscal Year	Prod Tax Rev ($ 000 000)	Less CI gas ($000 000)	Apples to Apples Rev ($000 000)	2008$ / 2004 $	WC Price	Million bbls daily Prod	Million bbls annual Prod	Price times volume	2008$ / 2004 $	Royalty Rev ($ 000 000)	2008$ / 2004 $
	(A1)	(A2)	(A)	(B)	(C)	(D)	(E) = (D) * 365	(F) = (C) * (E)	(G)	(I)	(J)
2004	651.9	(24.7)	627.2		31.74	0.999	364.6	11,573.5		1,056.1	
2005	863.2	(24.4)	838.8		43.44	0.931	339.8	14,761.6		1,419.9	
2006	1,199.5	(33.2)	1,166.3		60.80	0.858	313.2	19,040.7		1,784.1	
2007	2,208.4	(6.0)	2,202.4		61.83	0.750	273.8	16,926.0		1,613.0	
2008	4,940.5	(6.0)	6,879.0	11.0	96.51	0.730	266.5	25,715.1	2.2	2,446.1	2.3

Tax Increase attributable to changes in rules= 11.0 /2.2 = 5

*Note: Tax revenues from some North Slope gas sales will be included in revenues with no corresponding volume effect. That adjustment (adding .004 to the daily volume) will not materially affect the outcome. NS NGL are in both vols and $.
Data from Fall 2008 Revenue Sources Book, from Appendix A-4a (royalty sum of royalty & Bonuses etc.), C-2a and B-1a.
Cook Inlet Gas adjustment from Fall 2007 RSB, Appendix A-5a (CI data not broken out in Fall 2008 RSB)
Note: Historical volume and price data in Fall 2008 RSB differ from same historical data series in Fall 2007 RSB and earlier.

Oil and Gas is 93% of non-federal Gen Fund Revenues



Source: State of Alaska FY 2009 Comprehensive Annual Financial Report from SOA Division of Finance website

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What's going on?

- High taxes: Lots of revenue (huge increase, esp in 2008)
- State using that money to underwrite most of the investment – "Alaska's incentives are among the best in the word – Its widely agreed" – Tim Bradner, economist

- Two Stories
- Story One – Investor friendly environment that's creating results

- Story Two – Alaska has done itself in

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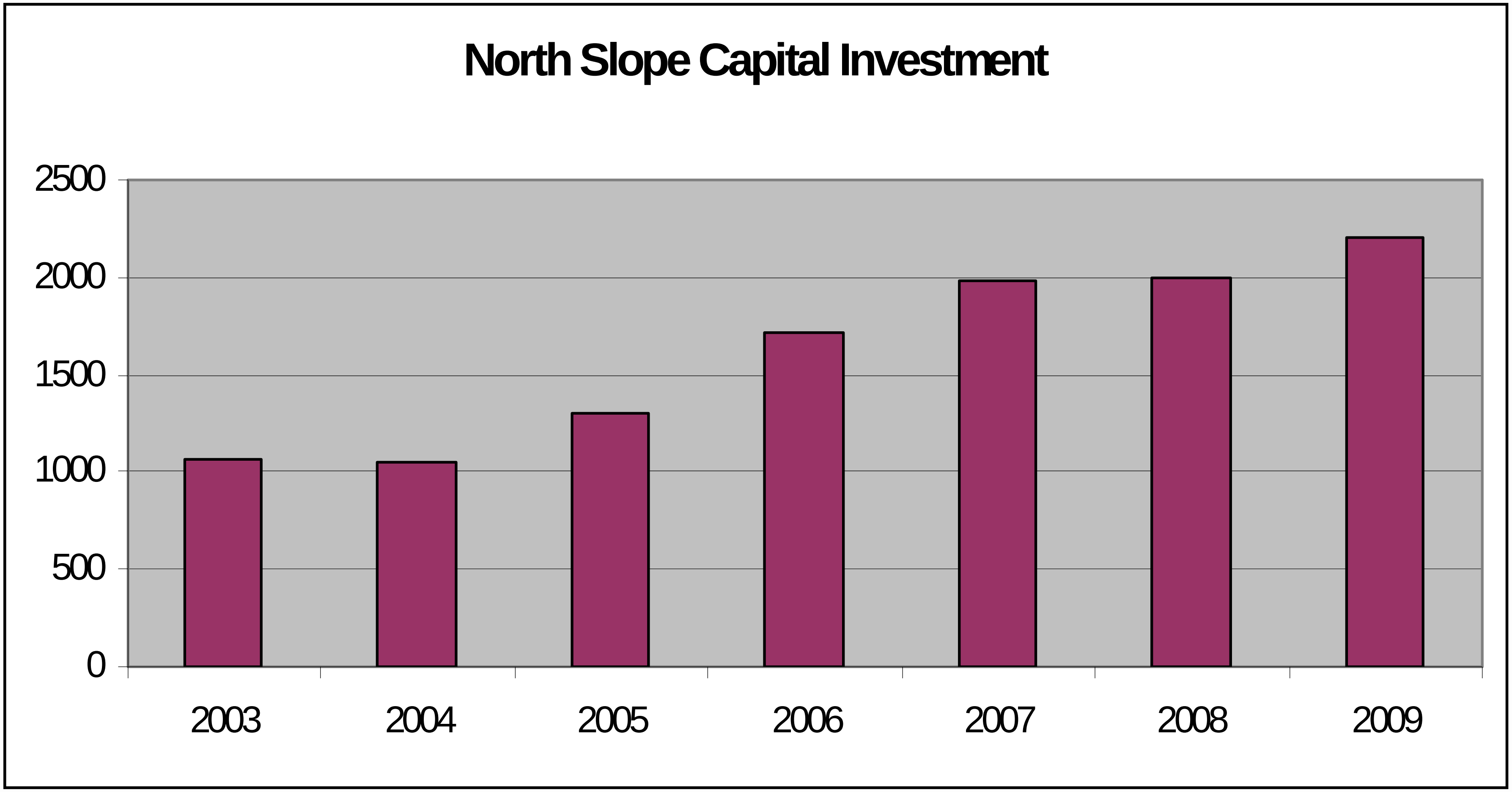
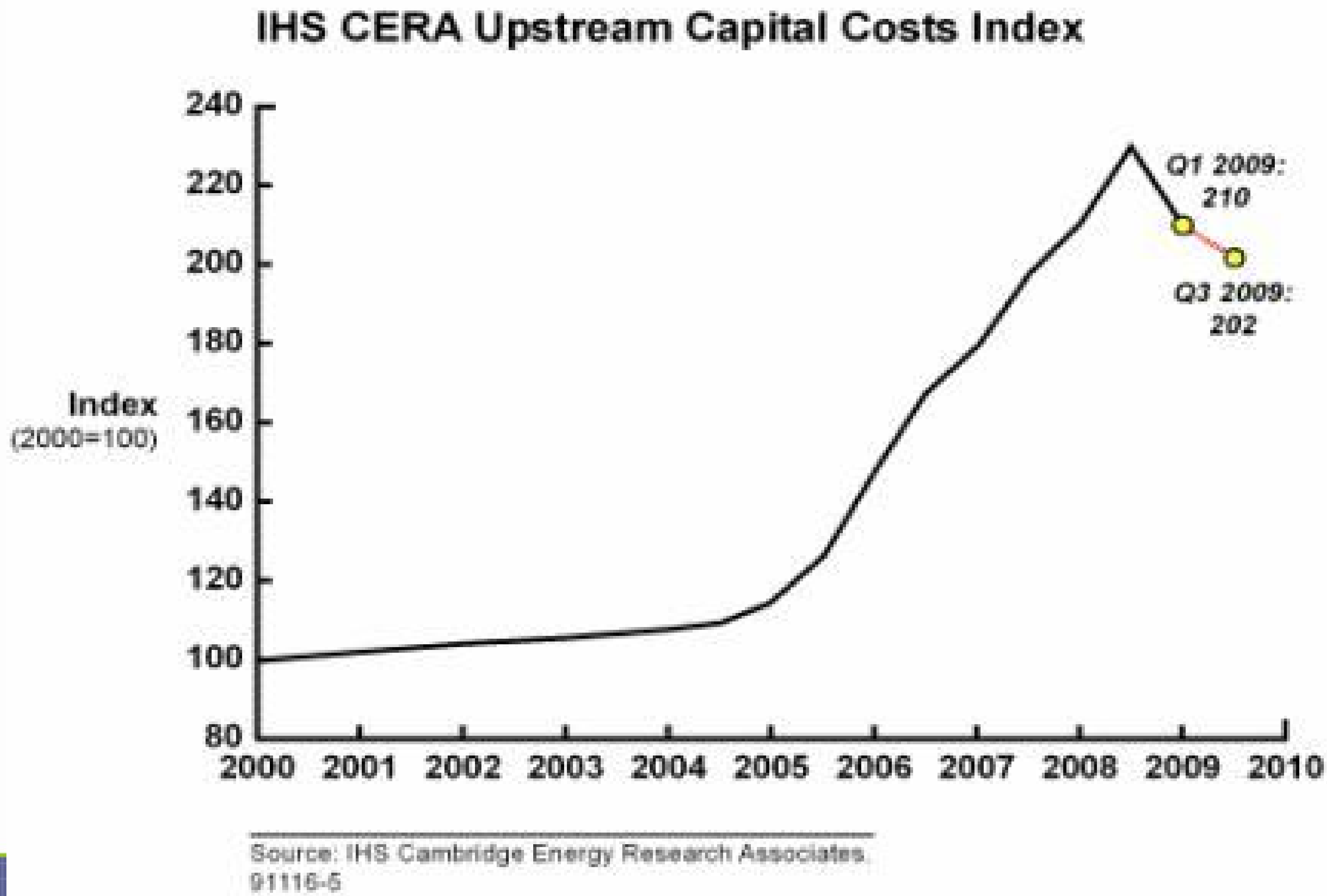
Source: Bradner, Tim State, industry duel over oil tax, Anchorage Daily News 2/14/2010

DOR reports Investment is Up



Source: Capital Spending on Alaska's North Slope Wells, Facilities and Exploration, DOR (2007), ACES Status Report DOR January 2010

Is Investment up – In real dollars?



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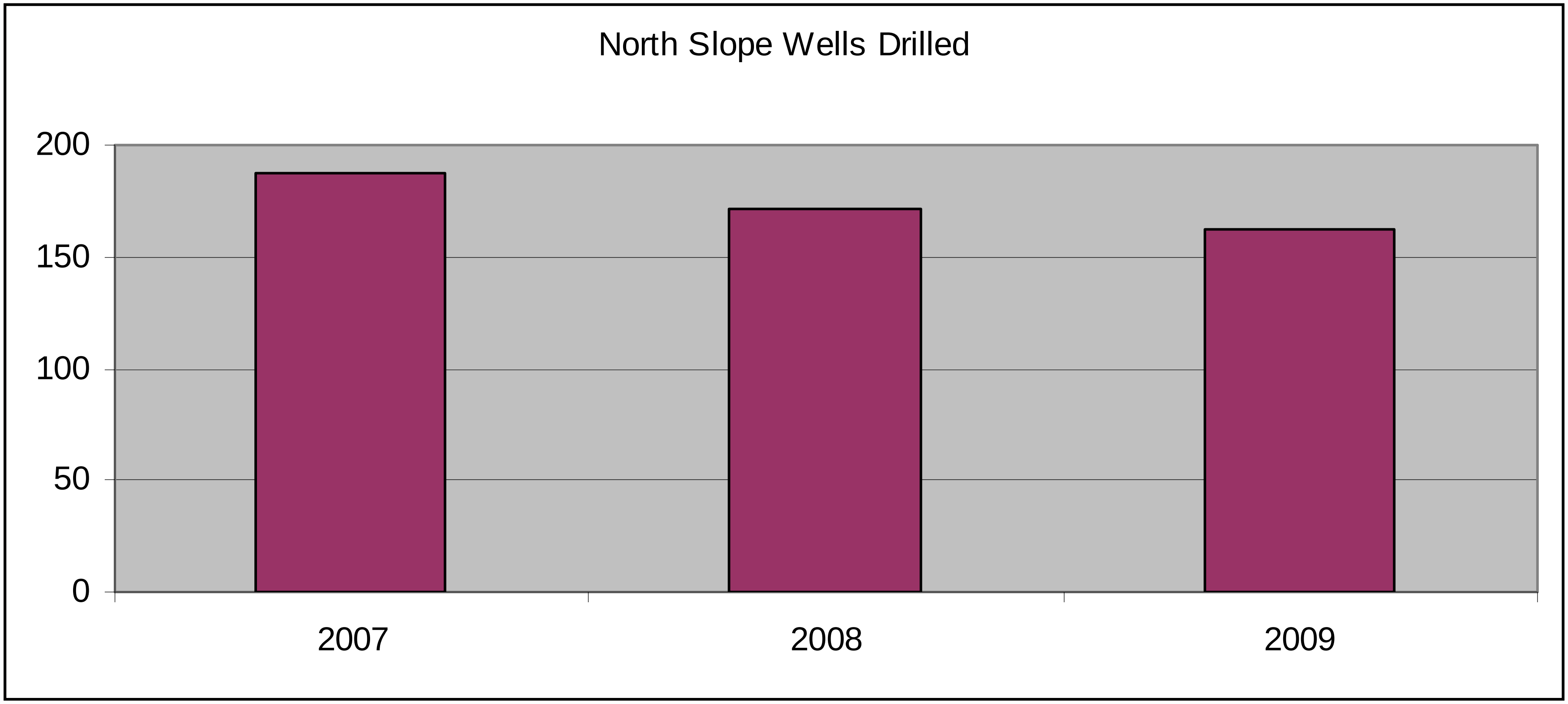
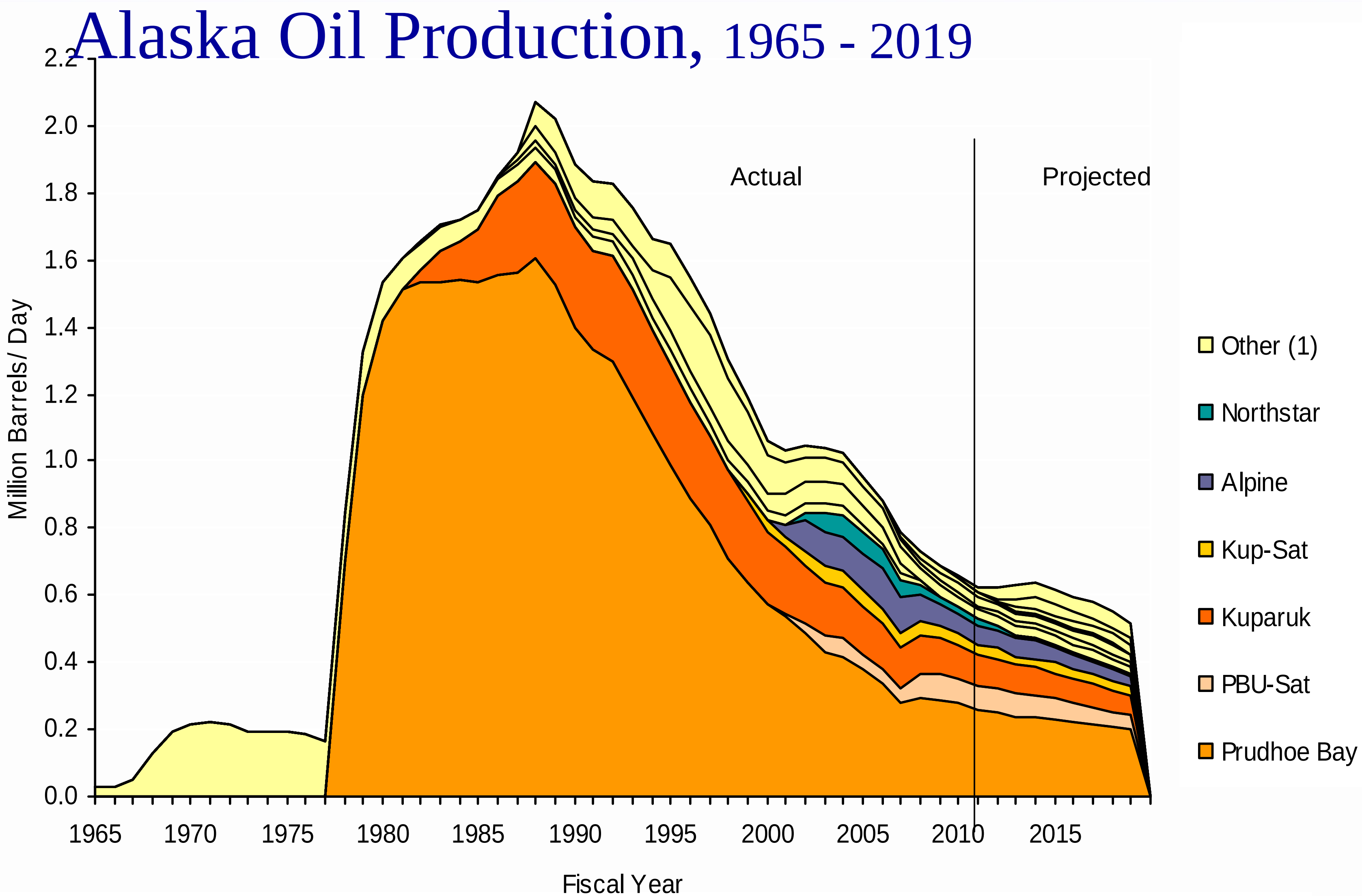
Drilling is down



Source: Tim Bradner excerpted data from AOGCC

Production is Down



Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

New Fields

- The Good News:
- New Fields coming on: Oooguruk and Nikaitchuq, with Liberty in the near future.

- But what does it say about the tax regime?
- Oooguruk and Nikaitchuq were started before the reforms and
- Liberty is in the federal offshore.

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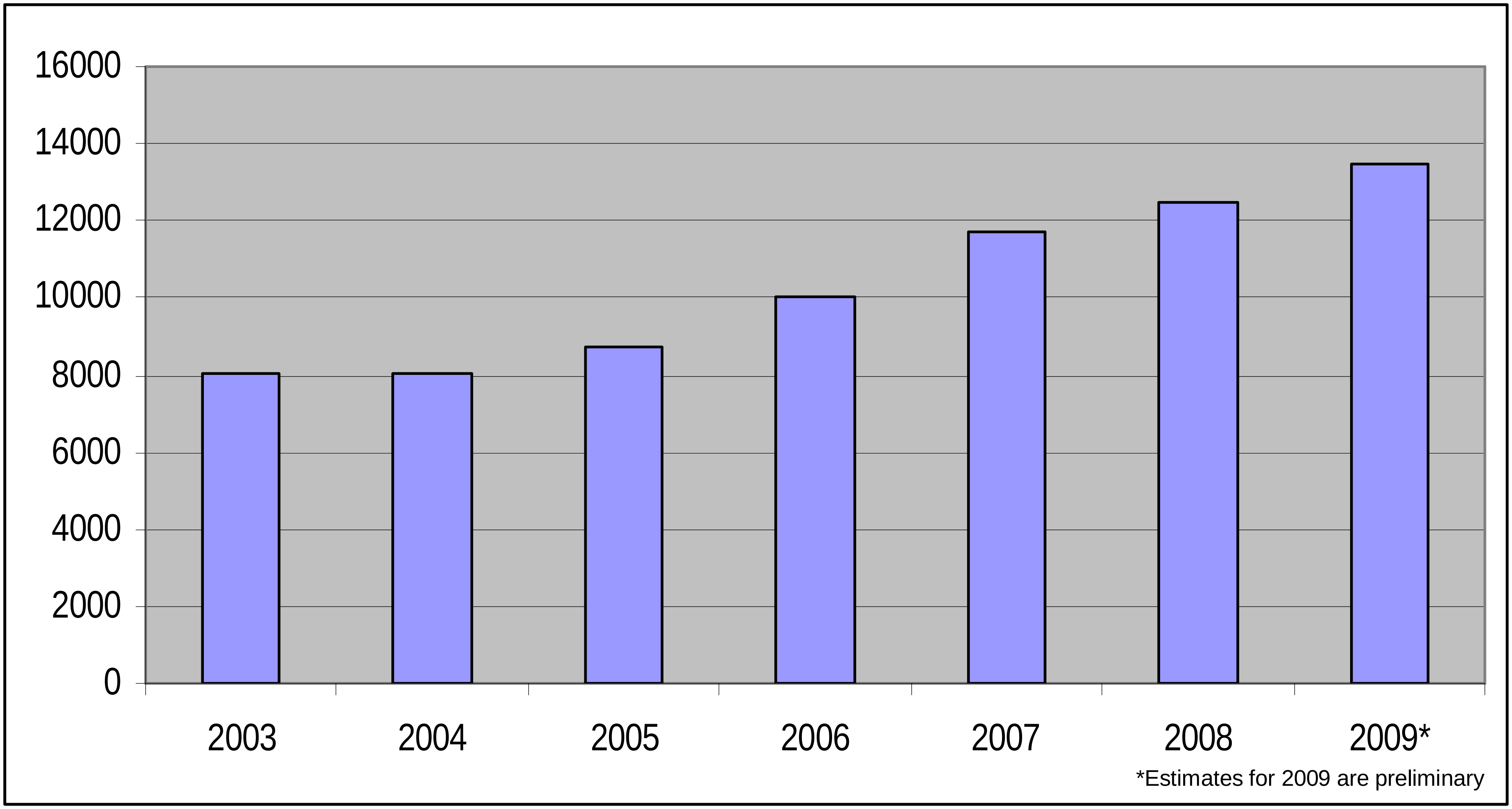
More Spent on Aging Infrastructure

- "Maintenance spending is primary driver of recent activity increases on the slope
- Investment in new oil production has declined…
  - $2 billion in projects deferred"
    - » ConocoPhillips' Brian Wenzel Stimulating Production and Jobs,
    - » Feb 11 2010 presentation to the Alliance Breakfast, slide 10

- "The majority of growth in capital expenditures is attributable to drilling, seismic and other projects. …some of the increase is due to new development activities –
    - » DOR ACES Status Report, January 14, 2010 page 7

DOR reports Oil field employment is up:



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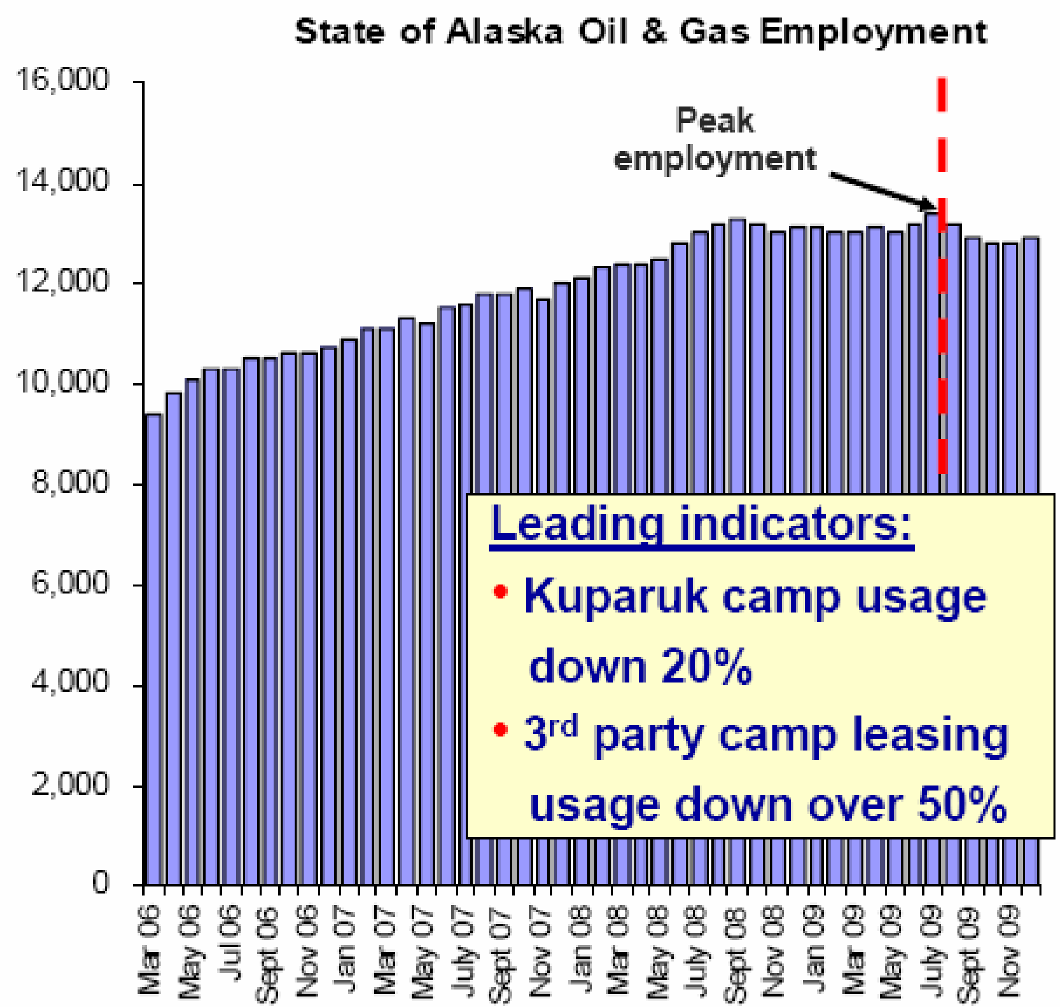
Source: ACES Status Report DOR January 2010

Where is oil field employment heading?



Source: ConocoPhillips' Brian Wenzel Stimulating Production and Jobs, (2010)

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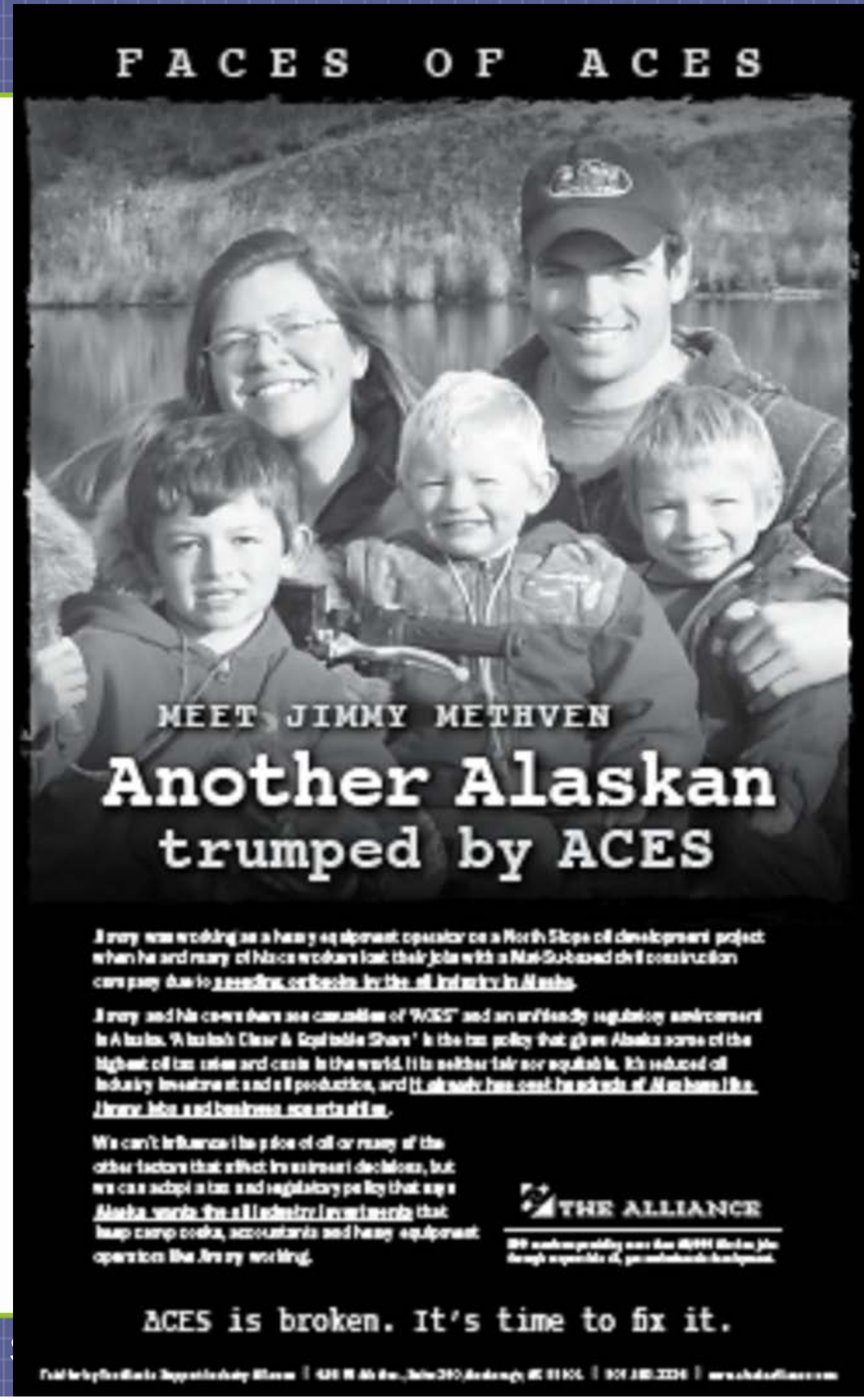
FACES OF ACES
MEET LISA REINHART
Another Alaskan
trumped by ACES
THE ALLIANCE
ACES is broken. It's time to fix it.


FACES OF ACES
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Alaska State Legislature

House

Democrats

FOR IMMEDIATE RELEASE · February 2, 2010

DEMOCRATS CALL ON ALLIANCE TO TELL TRUTH

Jobs, investment up in Alaska since ACES passed

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Who are Alaska's peers?

Fraser Institute Global Petroleum Survey – Ranking doing business in 143 oil and gas jurisdictions

Best 16 are US producing states including big producers, (TX, LA, OK, WY), GOM and Austria

Before we reach Alaska – Rest of US states (11 including NM, except 3 below), 7 Canadian provinces, Alaska Offshore, UK & Norway

78 – Alaska

79 – California

80 – Mozambique

81 - Colorado

82 - Newfoundland & Labrador

92 – Alberta

Source: Fraser Institute Global Petroleum Survey (2009)

- Fraser Institute Global Petroleum Survey – Ranking doing business in 143 oil and gas jurisdictions

- “In 2008 we note some deterioration in the relative attractiveness for investment of Colorado, Alaska and Alberta compare with 2007. The unfavorable ratings for Alberta and Alaska stemmed from increasingly costly fiscal terms and tax rates. Colorado’s ranking suffered because of the stringency of its proposed environmental regulations for oil and gas explorers”

Source: Fraser Institute Global Petroleum Survey (2009), page 10

What is all the fuss about? - Preview of Coming Attractions

all figures in millions of dollars unless otherwise indicated

			FY 2008 - Apprx	
			Producer	Gov.
PT 201	Destination Value	($95.61/bbl * .716 mmbbl/day * 365)	24,986.7	
PT 202	*less* transportation costs**	($6.05/bbl * .716 mmbbl/day * 365)	(1,581.1)	
	Equals value at point of production		23,405.6	
Roy 101	Calculate Royalty	(12.5% times value includes PF%)	(2,925.7)	2,925.7
{	*less* Upstream Operating costs**		(1,881.0)	
PT 203 {	*less* Upstream Capital costs**		(1,967.0)	
{	*Equals* PTV (Production Tax Value)		16,631.9	
PT 204	Calculate Base Production Tax (25% of PTV)	(25% of PTV)	(4,158.0)	4,158.0
PT 205	Calculate Progressivity Component of PT (0-50% of PTV)		(3,238.1)	3,238.1
PT 206	Apply Production Tax Credits		411.4	(411.4)
	Sums to Production Tax		(6,984.7)	6,984.7
{	Worldwide ANITA income (including PTV less Production Tax)	if 5% factor 128,893.6		
CIT 101{	Calculate and apply Alaska Apportionment Factor	(Tax/.094) 6,444.7		
{	Calculate AK CIT as 9.4% of Alaska taxable income	From RSB:	-605.8	605.8
PpT 101	** Costs include state and local property taxes of of 20 mills on oil and gas property	From RSB:		358.3
	Note: may be difference between cost incurred and allowable costs	Subtotal	9,041.43	10,874.5
		Note Federal taxes @ 35%	(3,164.50)	3,164.50
		Totals	5,876.93	14,038.98
		Percentage of destination Value	24%	56%

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Production Tax 205 - Progressivity

- Progressivity under AS 43.55.011(g)
- Monthly Calculation using
- 1/12th of lease expenditures
- Current Month prices
- Formula:
  - PTV per BTU equivalent barrel
  - Less $30
  - Then 4/10s of a percent for every dollar for $62.5 or 25%
  - Then 1/10 of a percent for every dollars for $250 or 25%
  - Highest progressivity is 50% at PTV of $342.50
- Added to Base Production Tax of 25%
- Apply against PTV base

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FY 2009 Production taxes under various scenarios

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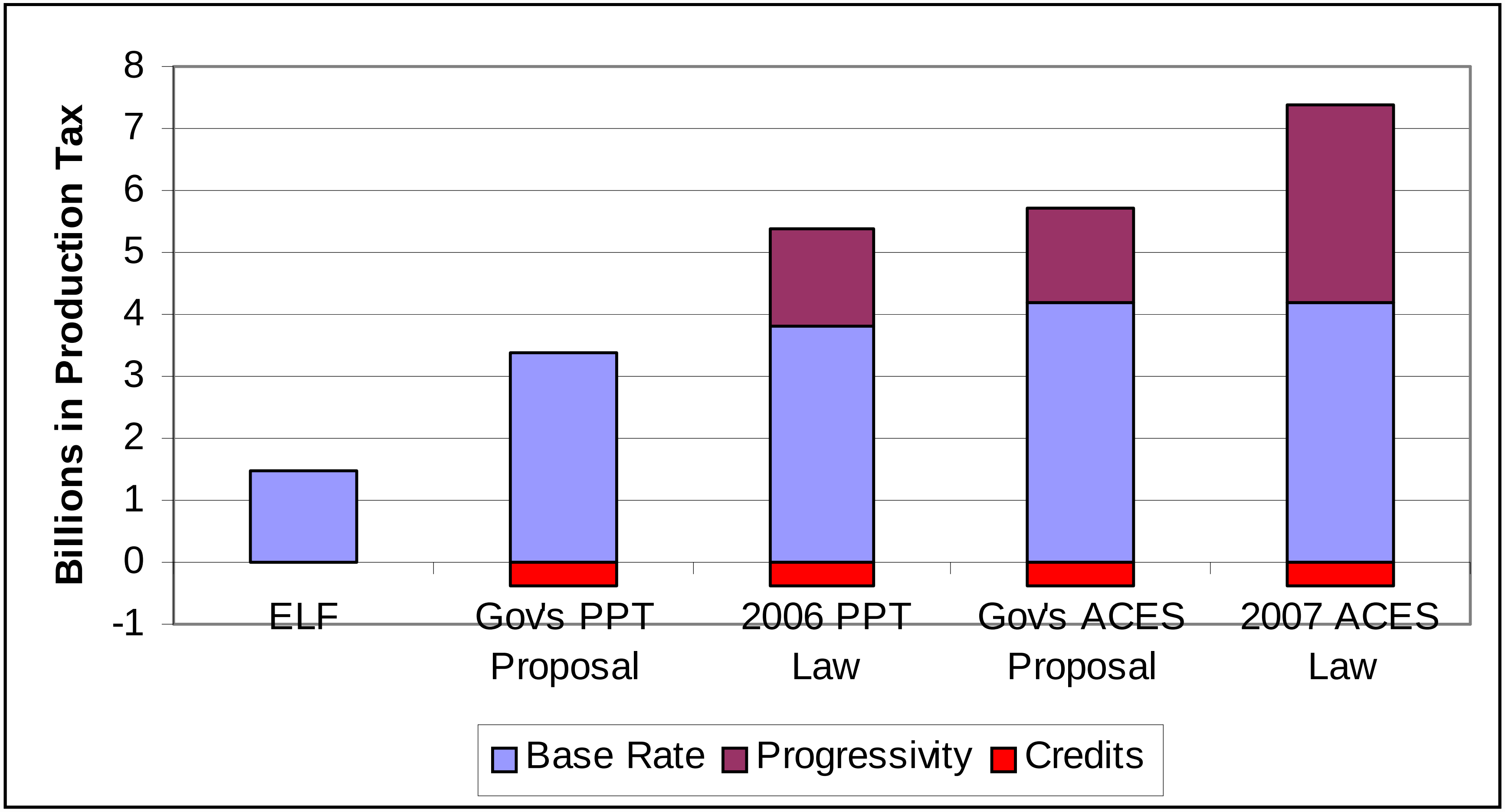

Source: Dickinson, Dan E. & Wood, David A, Alaskan tax reform: Intent met with oil in Oil and Gas Journal (May 25, 2009) page 20

Production Tax 205 - Progressivity

- More Detailed Analysis in
- Dickinson, Dan E. & Wood, David A, Alaskan tax reform: Intent met with oil in Oil and Gas Journal (May 25, 2009) page 20
- And
- Dickinson, Dan E. & Wood, David A, Alaskan tax reform: Gas raises questions in Oil and Gas Journal (June 1, 2009) page 20

Source: Dan E. Dickinson report to LB&A Preliminary Estimate of the 2008 Revenue… (Oct 3, 2007),

AK Corporate Income Tax 101

- Sample Calculation

International Oil Company A

Figures in millions of dollars or barrel equivalents

	Alaska	Everywhere	Ratio
Sales	250	25,000	1%
PPE	4,000	40,000	10%
Production	250	1,000	25%
Alaska Apportionment Factor			12%
Assumed Income (before Taxes)			$ 2,500.0
Alaska Apportioned Income			300.0
Alaska Tax Rate			9.4%
Alaska Corporate Tax			$ 28.2

CIT = 9.4% * AK App Factor * Everywhere Income

CIT = 9.4% * 12%* $2,500 = $28.2

For incremental analysis: Most "separate accounting income" generated in the state will be apportioned off and taxed elsewhere; most of the income taxes collected in the state will have been generated from "separate accounting income" generated elsewhere.

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Alaska Oil & Gas Property Tax 101

- AS 43.56 Oil and Gas Exploration, Production and Pipeline Transportation Property Tax

- Assessed Value
  - State centrally assesses “oil and gas property”
- Production Property (62% of 2008 Roll)
  - Replacement cost new less depreciation (base on economic life of proven reserves)
- Pipeline Property (37% of 2008 Roll)
  - 15 AAC 56.110 - “standard appraisal techniques such as replacement cost less depreciation, capitalization of estimated future net income, analysis of sales or other acceptable method.
- Tax
  - State taxes at 2% (20 mills) a year. Allows credit for taxes paid on AS 43.56 property to localities
  - Localities that have property taxes can apply their general rates against “oil and gas property” and other property (tankers, office buildings, vehicles etc.)
    - No effective formal cap on local rate
    - Informal caps are state’s 20% rate and local pressures

Royalties 101

- Royalties are in a contract with the landowner:
- State owned land – State Royalties (which are exempted from production tax) (i.e. 7/8ths taxable)
- Federally owned land in state – Federal Royalties (which are exempted from production tax) (i.e. 7/8ths taxable) and all other state taxes apply.
  - (Royalties may be shared with State under federal legislation)
- Federally owned land not in state (off shore - outer continental shelf) Federal Royalties and no state taxes apply.
  - (Note; in Gulf Of Mexico (GOM) federal royalties now shared with Gulf coastal states.)
- Privately owned land in state – Private Royalties (which are taxable at betwen1.667 to 5% of gross) while other 7/8ths taxable under regular production tax and all other taxes apply.

Investment Incentives - Credits

- AS 43.55.023 - 20% Investment Credit for Capital Investments, 25% credit for loss carryforward
- AS 43.55.024 – “Small Producer” Credits ($12 million a year if less than 50,000 bbls/day) and New Area Development Credits (non transferable)
- AS 43.55.025 – Exploration credits of up to 40% for exploration investments, more typically 30%
- AS 43.55.028 – Ability to redeem .023 and .024 credits in cash from state for small producers under certain circumstances, including “forward spend” – that is further investment in a lease sale or capital investment of the amount redeemed
- Credits must be taken over two years

Question 3

- As Alaska entertains various “tweaks” and “overhauls” – it tries to think like an investor. How do investors (you) think about these issues:

1. Progressivity regimes are good (because they only tax profits – tax will never push a project over the edge) and Alaska should try push in the direction of progressivity.
2. Progressivity regimes are bad (because they take away a lot of the upside – and that’s what we invest for – that all too elusive upside.) Alaska needs to hack away at progressivity if wants more investment.
3. Progressivity, Shmogressivity –all that matters is total levels of take.

Outcomes – Context – Short Term

What does this mean in the short term?

– Proposals in this legislature

- Legislative session just shrunk from 120 to 90 days. Already half over.
- Election season (August Primary, November General)
- TransCanada AGIA licensee Gas Pipeline Open Season
- Denali Project Gas Pipeline Open Season
- Reserves Tax Ballot Initiative
- 20 person Senate has 16 person Coalition (Rs and Ds)

Legislative Fixes

- <u>Governor Parnell's Proposal SB 271/HB 337</u>

- 30% credit for well related work (including capex and opex)
- Credits used in year issued – not over two years
- No interest on retroactive application of new regulations
- When selling credit to the state (refundable credit), no demonstration of forward spend required.

Legislative Fixes

- <u>Rep Johnson's Proposal HB 308/SB 267</u>
- Progressivity rate dropped from .4% to .2%
- Resident Hire rebates can drive 25% base rate down to 20%
- 30% credit for well related work (including capex and opex)
- No interest on retroactive application of new regulations; interest rate drops from 11% to Fed funds +2
- Statute of limitations on tax drops from 6 back to 3

Legislative Fixes

- Rep Hawker's Proposal HB 280
- Gas Storage provisions
- Just Cook Inlet:
- 40% credit for well related work (including capex and opex)
- Credits used in year issued – not over two years
- When selling credit to the state (refundable credit), no demonstration of forward spend required.

Legislative Fixes

- Rep Millet's Proposal HB 321
- 25% base rate down to 20%
- *No change to progressivity*

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Legislative Fixes

- <u>Representative Kelly's Proposal HB 351</u>

- Production tax holiday for "new production"

- Credit = (production from leases or properties with out commercial production before 2012/all production) * total tax

Legislative fixes & Initiative

- <u>Rep Crawford's Proposal HB 84 (& Initiative)</u>

- Gas reserves tax –
- Essentially a billion dollars a year on major lease holders until they commit in an open season

- If collects enough signatures likely to be on next ballot – which would be the August primary.

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Legislative Fixes

- Other proposals focused on
- development of Gas to Liquids
- State financed line to bring Gas from the North Slope down to Cook Inlet

Outcomes – Longer Term

- Lowest tax possible to cover state’s needs.
- Investment orientation – need for fiscal stability to lure mega-projects?

or

In era of high prices focus on rent sharing-

- “Its our oil” and “Its our gas” – logical extension is that if any value escapes to other parties it is wrong and needs to be fixed.
- Highest tax possible without causing major losses

- Tests will be
- (1) If there is a prolonged price correction (250 mmbls * $20 is 5 billion market value before deducting costs) how will the state react? Current high prices mask effects of production decline.
- (2) If there is a failed open season – if the producers will not commit to a gasline project because they fear fiscal instability, and the current risk reward balance - how will the state react?

Will the state consider other alternatives for its revenues – or has that become a political impossibility?

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TransCanada's AGIA application suggestion:

- "TransCanada would rely on the State of Alaska to take all feasible actions exclusively within its authority as a sovereign power to ensure a favorable economic environment for potential Shippers on the Project. Those actions include:
- engaging with the ANS producers to reach agreement on a commercially reasonable and predictable upstream fiscal regime that balances the needs of the state and the ANS producers;
- and encouraging robust exploration for and development of new natural gas resources and the commitment of such resources to the Project."

Source: TransCanada, Application for License, Alaska Gasline Inducement Act (November 30, 2007) page 2.5-52

ConocoPhillips' Proposal

- ConocoPhillips' Proposal (ConocoPhillips current owner with BP of Denali Project)

  "The predominant lessee risk that should be the focus of discussion with the State is the risk of unclear, unpredictable State taxes and royalties. In order to enable shippers to make a long term shipping commitments, prospective shippers need clearly defined natural gas fiscal terms and an understanding of the period during which these terms will apply. Addressing these issues remains a critical component necessary to develop ANS natural gas resources and make this Project a reality."

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Source: ConocoPhillips, ANS Natural Gas Pipeline Proposal to the State of Alaska, (November 30, 2007) section IV page 5

ExxonMobil's Observations

- "At some point we will need to align with the state on fiscal and tariff Stability" - Marty Massey (US Joint Interest manager for Exxon Mobil) 7/11/08

- "One of the things you heard me mention time and time again that you need to have predictable and durable fiscal terms. Similar to any other project around the world of this magnitude, that is something that you have to have. - Marty Massey (US Joint Interest Manager for Exxon Mobil) 6/23/09

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Source: Exxon presentations to legislature found at //www.legis.state.ak.us/ssess/7-10-2008 and Reuters.com

Crystal Ball

- There will be changes to the oil and gas tax regime before a major export line is built – but neither may occur very soon.
- Will be a focus on instate gas use – and tensions between “cheap energy” for economic development and the costs of moving the gas around the state.
- Debate can get confused between what is working and what isn't and what’s right and wrong.
- Pendulums swing

Thank You

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Fundamentals

- Acronyms used in this presentation

AAC	Alaska Administrative Code	IRS	Internal Revenue Service
ACES	Alaska's Clear and Equitable Share	KRU	Kuparuk River Unit
AGIA	Alaska Gasline Inducement Act	NPRA	National Petroleum Reserve - Alaska
ANITA	Alaska net Income Tax Act	NS	North Slope
ANS	Alaska North Slope	OCS	Outer Continental Shelf
ANS WC	Alaska North Slope West Coast	OOP	out of pocket
ANWR	Artic Nation Wildlife Refuge	PBU	Prudhoe Bay Unit
AS	Alaska Statute	PF	Permanent Fund
BTU	British Thermal Unit	PP*	Point of Production
CBRF	Constitutional Budget Reserve Fund	PPT	Proposed/Petroleum/Profits/Tax
CI	Cook Inlet	PTV	Production Tax Value
CPA	Certified Public Accountant	RCNLD	Reproduction Cost New Less Depreciation
DNR	Department of Natural Resources	RIK	Royalty in Kind
DOG	Division of Oil and Gas	RIV	Royalty in Value
DOR	Department of Revenue	RSB	Revenue Sources Book
DV	Destination Value	SGDA	Stranded Gas Development Act
ELF	Economic Limit Factor	TAPS	Trans Alaska Pipeline System
FBI	Federal Bureau of Investigation	TIE	Transition Investment Expenditure
GF	General Fund	USGS	United States Geological Survey
GOM	Gulf of Mexico	VPP*	Value at Point of Production
GVPP*	Gross Value at point of Production	WC	West Coast
IRC	Internal Revenue Code		

* See GVPP, VPP and PP

Fundamentals

- Alaska Law
- Statute –for example AS 43.55.165 (e)
  - Title 43 – Revenue – of the Alaska Statutes
  - Chapter 55 – Production Tax
  - Section 165 – Lease Expenditures
  - Subsection (e)
- Regulations – for example 15 AAC 55.171 (a)
  - Title 15 – Revenue – of the Alaska Administrative Code
  - Chapter 55 – Production Tax
  - Section 171 – Prevailing value for Oil
  - Subsection (a)

Also legislation – for example – SCS CSHB 2001(FIN) may contain uncodifed law such as transition provisions

On the Web: state.ak.us > Departments>Law>Department of Law>Legal Resources

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1. Context

- Royalties administered by the Department of Natural Resources, Division of Oil and Gas which publishes an Alaska Oil & Gas Annual Report

  On the Web: state.ak.us > Departments>Natural Resources>Division of Oil and Gas>Annual Reports

- Property Taxes, Production Tax and Corporate Income Taxes administered by the Department of Revenue, Tax Division which publishes (semi-annually) the <u>Revenue Sources Book</u> and annual <u>Operations Report</u>
  - On the Web: state.ak.us > Departments>Revenue>Tax Division>Reports>Annual Report of Operations or Revenue Sources Book

Production Tax Regulations Project

- Regulations are written by the department and are published in the Alaska Administrative Code
- Formal regulations process
  - Workshops and discussion drafts
  - Comment Draft (Adoption)
  - Lieutenant Governor actually adopts
- Regulations Work and Advisory Bulletins
- http://www.tax.alaska.gov/programs/programs/index.aspx?60652

- On the web: http://www.tax.state.ak.us/ >Programs > Oil & Gas Production Taxes > ACES Oil and Gas Production Taxes
- To be put on the DOR interested person email list for these projects please contact Shelly Boyer-Wood 907 269 6625

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