Other Potential Topics

- Other US Tax Regimes
- Comparison of Alaska with CA, LA, CO, TX, NM, LA, WY, OK and GOM
  - Note Oklahoma, Wyoming and Texas already produced more than 4.5 bcf of gas a day.

Other Potential Topics

- What's up with a gas line from the North Slope of Alaska?

9.14.2009

Summary And Take Away

18. Summary and Take Away Points

- First Tree – 20 months after 2007 reforms passed legislature, regulations remain incomplete.

- Second Tree Difficulty in modeling system
- – effect of regulations still not known
  - Monthly progressivity
  - Haircut between actual costs and allowable lease expenditures
  - State Corporate Income Tax

Summary and Take Away Points

- Third Tree - Will there be a specific push for further tax reforms –particularly as they relate to gas – before the 2011 open seasons currently anticipated by both the TransCanada/ExxonMobil/ AGIA project or the Denali/BP/ConocoPhillips project?
- Perhaps
- – From producer's point of view, if EM bids on one project and BP and CP bid on another, will lead to unsuccessful open season. Probably producers will wait
- - From administration point of view, don't want to "bid against self"
- -Perhaps a legislative initiative?

Summary and Take Away Points

- Fourth Tree - unprecedented high prices disguised long term volume problems (2 million barrels a day at $17 a barrel vs. 700,000 bbls/d at $50 a barrel)
- Huge implications for state revenues if prices drop, muted because CBRF is flush.
- Captured windfall can help state make it through many years at lower oil prices.
- The 2008 reform worked – less likely to change except perhaps to isolate gas and oil, should there be another price peak.

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18. Summary and Take Away Points

- Fifth Tree -
- Immediate focus appears to be on getting energy delivered around then state. Expect a continuing focus on gas, with the incidental payoff of the expected increase in exploration leading to more oil.

18. Summary and Take Away Points

- Sixth Tree - Legislature more focused on progressivity than administrations.–
  - “The big lesson of the [2007 special] session was the political climate was far more favorable for a tax increase than the governor, the producers and most politicians had guessed” - Gregg Erickson writing in 12/2/07 Anchorage Daily News
- Progressivity
  - Murkowski proposed zero – Legislature enacted .25% per $
  - Palin proposed .2% per dollar – legislature enacted .4% per $

18. Summary and Take Away Points

- First Forest - Distance Gas & Gas Pipeline
- Is the fiscal system appropriate for major gas project?
  - Administration has expressed attitude that if it can be shown that tax structure is inappropriate for distance gas development then they will attempt to address the problem.
  - At current price levels sense of why use carrots – if you look at the pile of cash that, say, Exxon is sitting on , how could another incentive matter?
  - Using constant real rising gas prices over next decades, state's experts have determined that the project is "wildly profitable" and therefore lessees should commit their gas to a project. (FT commitments) So if the current lessees don't commit, and "carrots" are inappropriate, are sticks the next step?
  - Palin Administration suggested more fiscal certainly than legislature allowed in AGIA license.
  - Problem of disentangling "Concessions," "Giveaways," "Tax Breaks," from movement toward productive investment climate

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."

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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."

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

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

- Conclusion – there will be changes to the oil and gas tax regime before a major export line is built – but neither may occur very soon.

18. Summary and Take Away Points

- Next Forest – This is part of a Cycle
- Perception looking back, that merely having “low” taxes did not generate sufficient reinvestment in the state by the large producers or new entrance by new players.
- Widespread belief that era of low taxes (and low prices) did not lead to sufficient investment through 80s and 90s, while also not giving state fair share.
- As prices rose the regressive fiscal system meant that state share did not keep up.

18. Summary and Take Away Points

- Hence a shift from thinking of taxes as a drag on business activity - hence they should be as low as they can be, with the only constraint that state needed sufficient resources to finance government (?without other major taxes.)

- To thinking of the tax system more like a royalty; “Its our oil or gas” so government take should be as high as it can be, with the only constraint that they do not drive away investment.

18. Summary and Take Away Points

- State now very willing to welcome new entrants and for state to take significant part of exploration risk and even development risk
  - Paid for with higher taxes on legacy fields such as Prudhoe Bay, Kuparuk, Alpine.

- With AGIA state willing to underwrite front end capital development of a gas pipeline – with a new player.

- New heroes are the “small independents” – and the opening of Oooguruk and Nikaitchuq.

18. Summary and Take Away Points

- Questions remain about how state will determine what appropriate investment is being made. Short term watch Pt Thomson as a good indicator.
- State will continue to wrestle with problem of “not caving in” vs. trying to act in commercially reasonable fashion.
- 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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