HB 110

Proposed Changes to the Oil & Gas Production Tax

Presentation to the
House Finance Committee
Saturday, March 26, 2011
Alaska Department of Revenue

Outline for Presentation

- Goals and Rationale for HB110
- HB110 Overview
- Outlook and Conclusion

HB 110 Goals

1. Improve investment climate
2. Increase production
3. Create jobs for Alaskans

The Problem

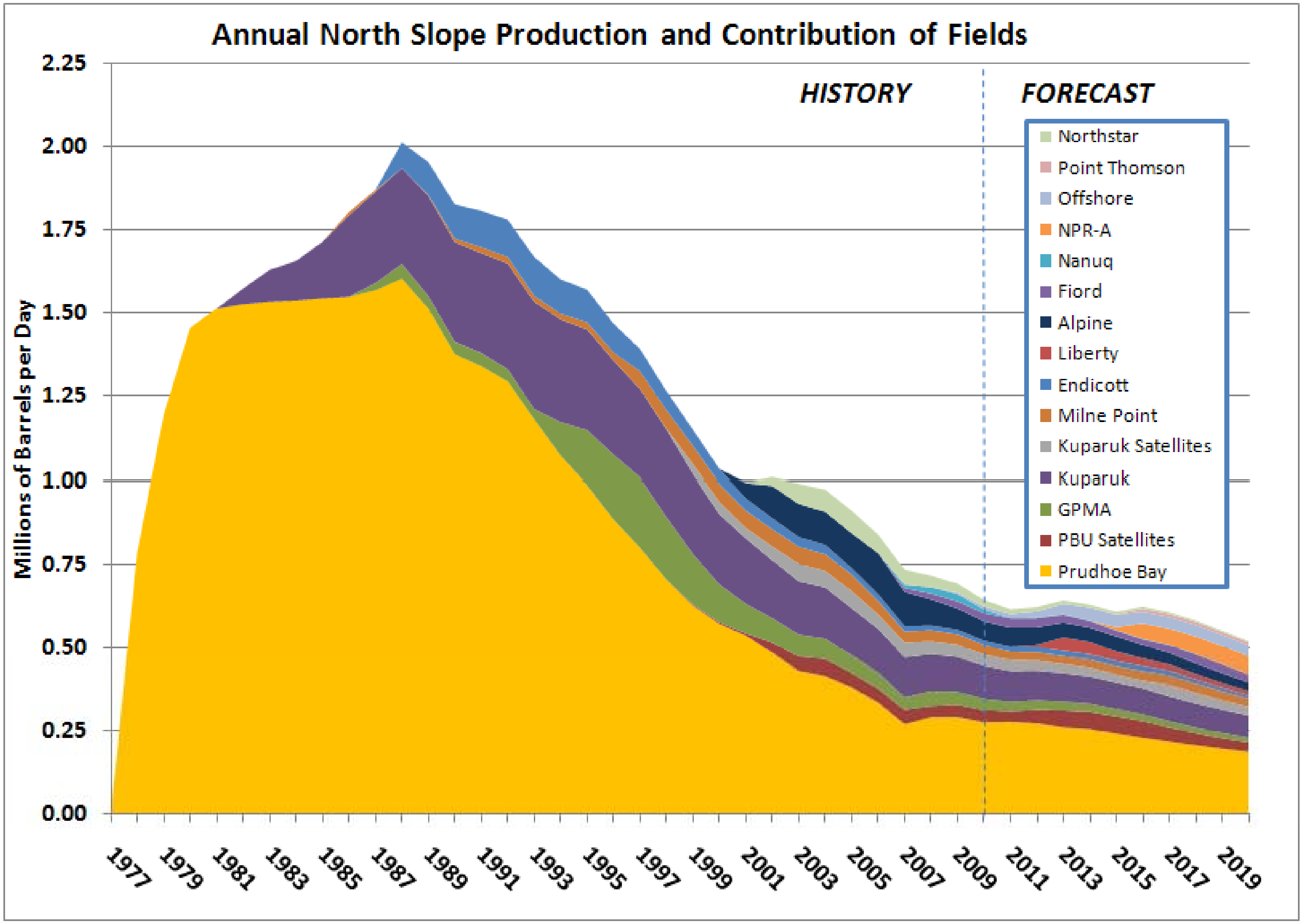
1. Oil production is declining in Alaska, faster than the rest of the U.S.
2. Higher taxes have chilled investment in Alaska
3. Alaska's economy is fueled by a robust oil patch, however the pipeline currently runs two-thirds EMPTY.
4. Low through-put levels increase maintenance costs and threaten a shutdown.

The Solution

We MUST:

1. Reform our oil taxes to be globally competitive.
2. Provide tax credits for drilling in technically challenged fields.
3. Lower the tax rate for drilling new, untapped fields.
4. Cap taxes to encourage more immediate investment at higher oil prices.

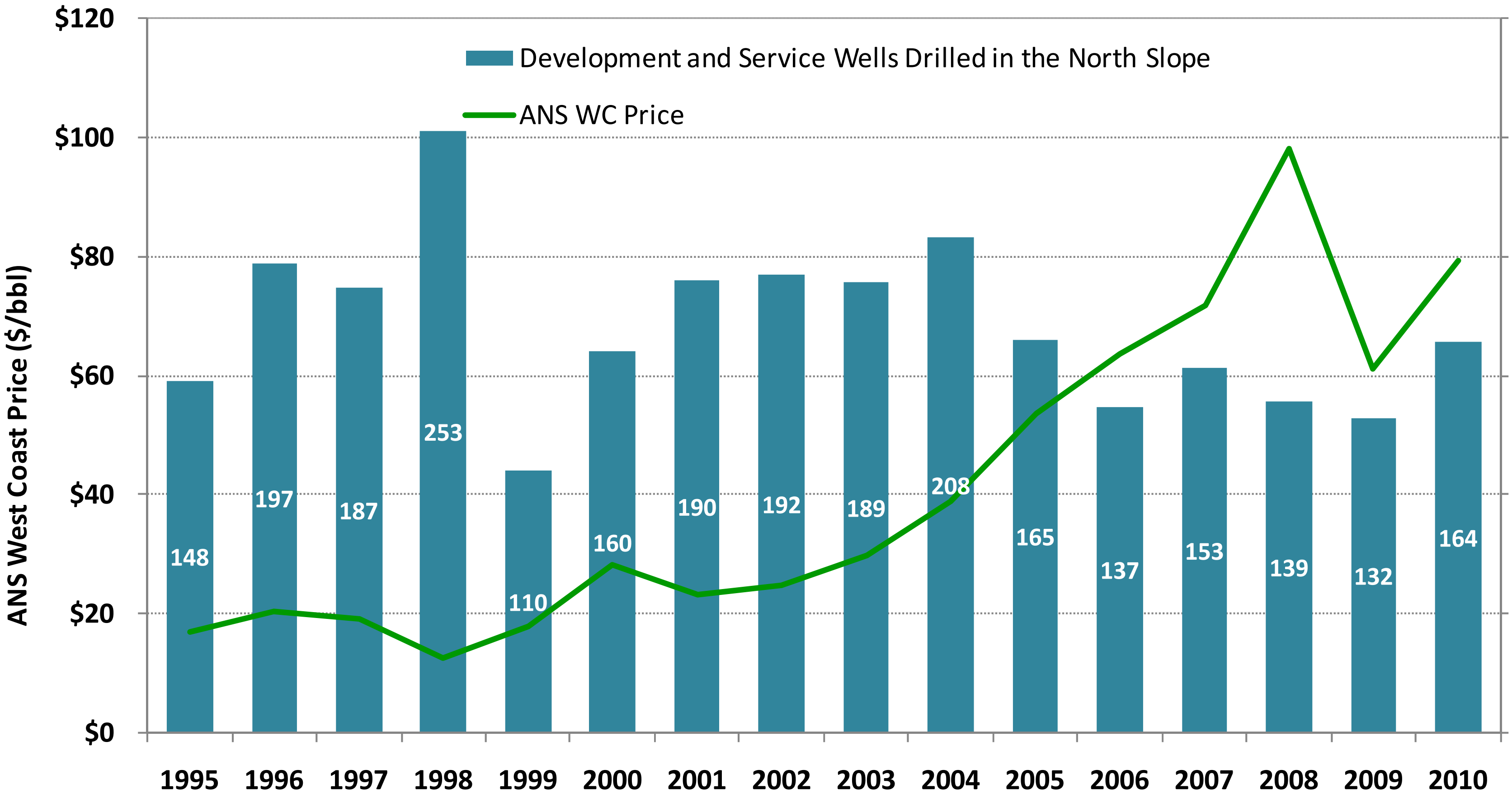
North Slope Production



3/26/2011

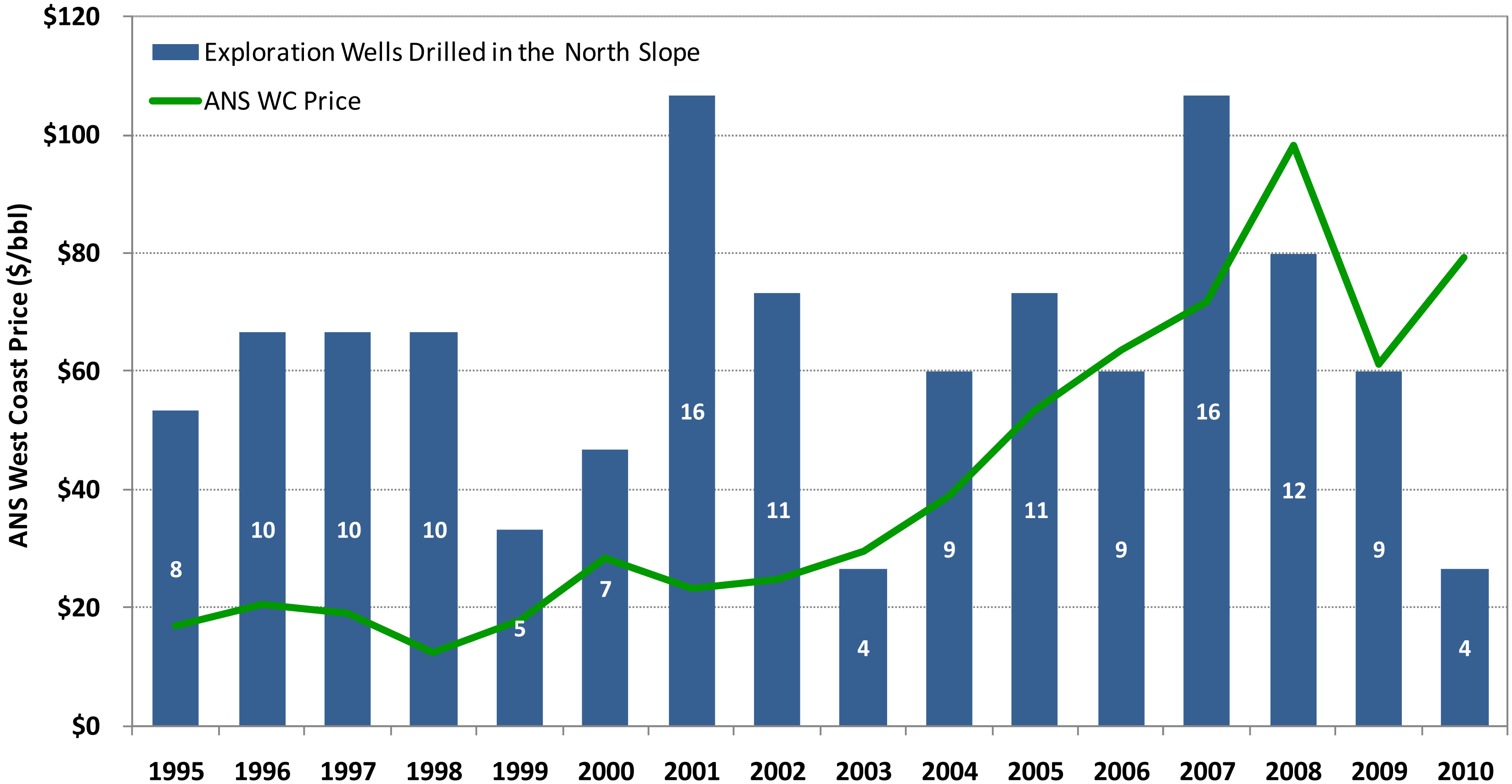
Source: Fall 2010 Revenue Sources Book

North Slope Development Drilling



Source: Alaska Oil and Gas Conservation Commission (revised)

North Slope Exploration Drilling

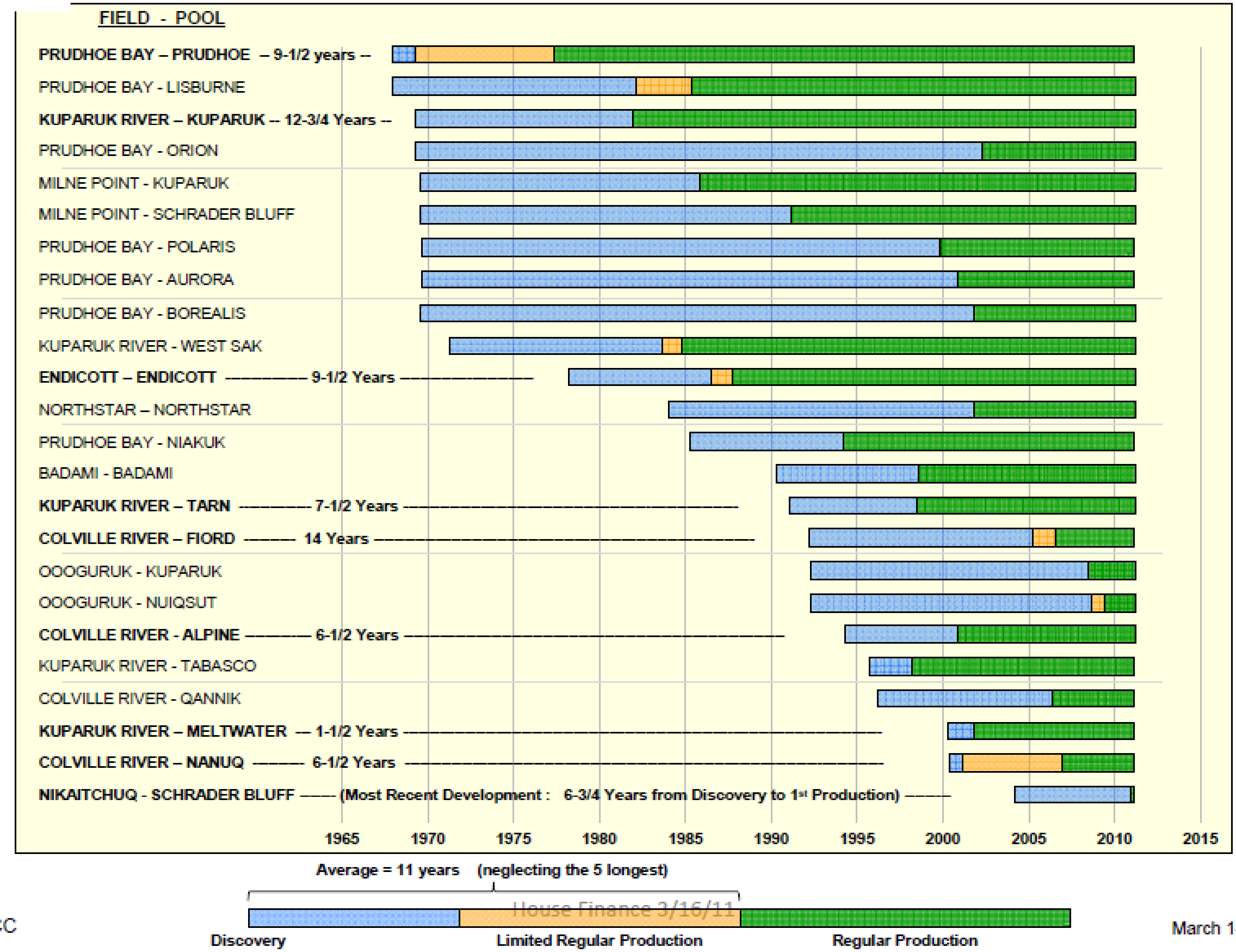


Source: Alaska Oil and Gas Conservation Commission (revised)

There's lots of oil left in Alaska…

- Cumulative production through 2010 has been over 16 billion barrels
- Remaining North Slope recoverable volumes exceed 5 billion barrels
- Geology-based estimates of total oil volumes are much higher. For instance, we do not include any of the approximately 20 billion barrels in the giant Ugnu deposit, or offshore volumes from the Chukchi or Beaufort Seas, in our forecast

Development Timeline for North Slope Oil Fields



Outline for Presentation

- Goals and Rationale for SB 49
- HB110 Overview
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Main proposed changes

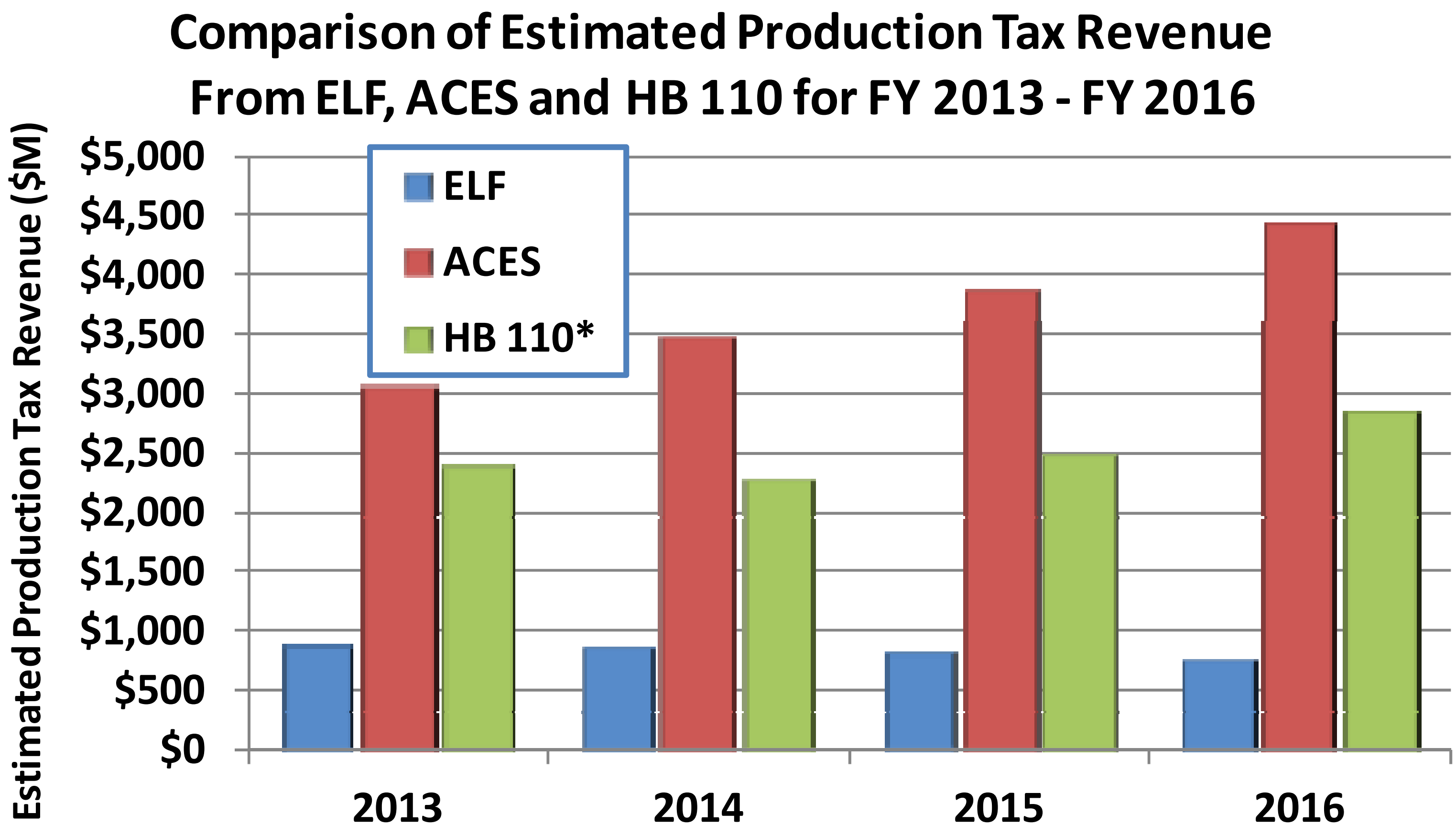
Progressivity Rates & Cap	Progressivity levied as discrete brackets, rather than as a continuous function, and applied only to incremental revenue.	2013
Base Tax Rate	Base tax rate of 15%, plus progressivity for leases or properties neither unitized nor producing as of 12/31/2008. Base rate of 25% plus progressivity for currently producing fields.	2013
Tax Credits	Extension of 40% well lease expenditure tax credits to North Slope. Tax credits can be claimed in a single year instead of two years.	2012 2011
Tax Calculation	Yearly tax calculation based on average prices and costs, instead of monthly tax calculation impacted by short term price and cost peaks.	2013

2011 Effective 1/1/2011 for expenditures made after 12/31/2010.

2012 Effective 1/1/2012 for expenditures made after 12/31/2011.

2013 Effective 1/1/2013, applies to production after 12/31/2012.

HB 110 compared to ELF and ACES



*Production tax under HB 110 includes only changes in progressivity and well lease expenditure credits totaling approximately $300 million each year

Based on Fall 2010 Revenue Forecast assumptions. This analysis ***does not include*** *any incremental production as a result of bill passage.*

Outline for Presentation

- Goals and Rationale for SB 49
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HB 110 Fiscal Projections

- General Fund Revenue, General Fund Appropriations, and Savings Balances (CBR / SBR only).
- Based on 10-year Fiscal Model developed by DOR Tax Division, DOR Treasury, and OMB.
- Incorporates preliminary Spring 2011 revenue forecast, production forecast, and investment forecasts.
- Spending projections using Legislative Finance presentation from March 1, 2011.
- Key provisions of HB 110 / SB 49 added – tax rate change, tax calculation, well lease expenditure credit.
- Alternative production scenarios & associated costs developed to evaluate various possible outcomes

Preliminary Spring 2011 forecast compared to Fall 2010 forecast

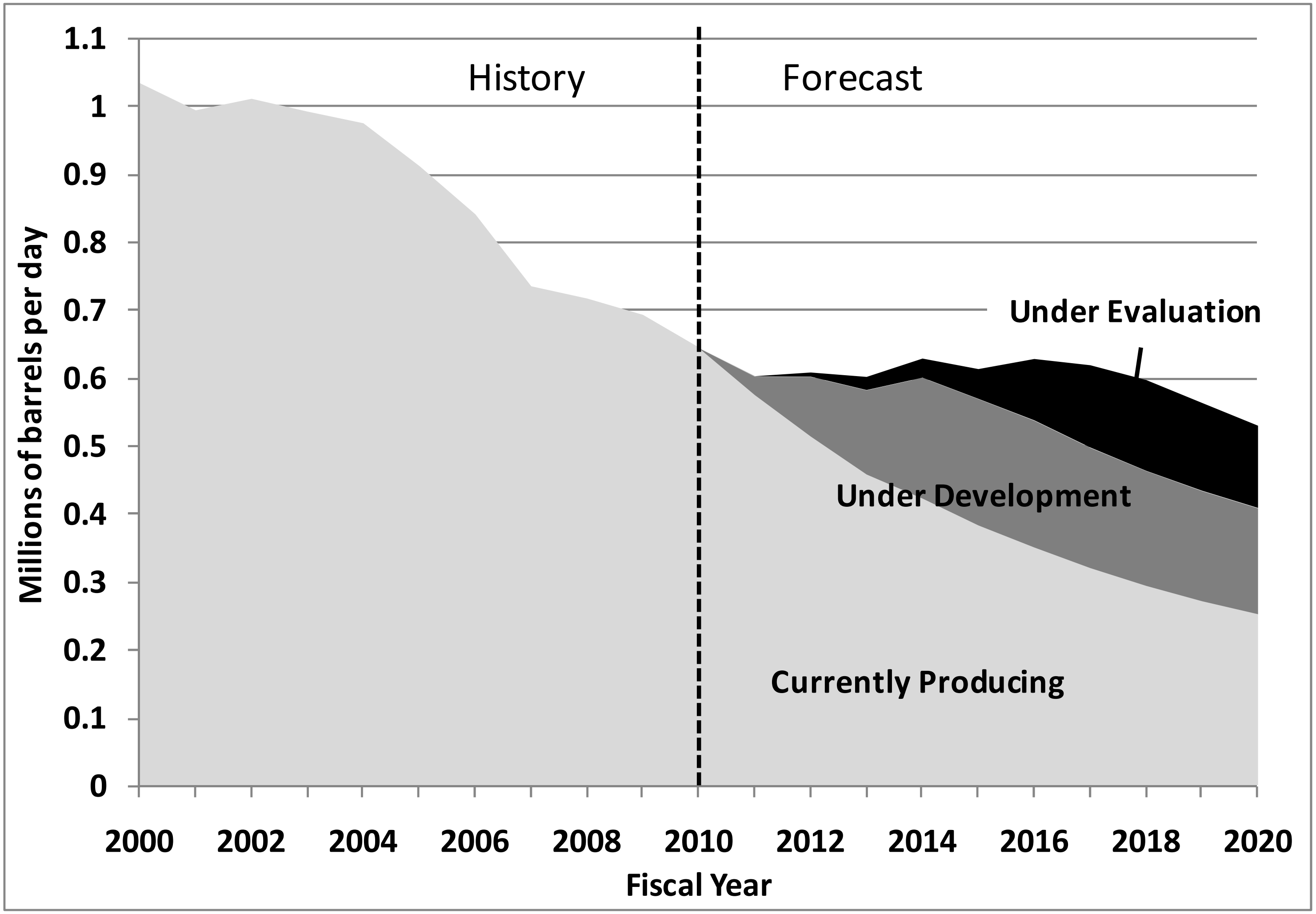
ANS Price Forecast (nominal $ per barrel)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Fall 2010	77.96	82.67	87.86	92.41	97.34	100.08	102.9	105.8	108.78	111.84
Preliminary Spring 2011	**$91.13**	**$94.70**	**$95.79**	**$96.33**	**$100.76**	**$103.60**	**$106.52**	**$109.52**	**$112.60**	**$115.76**
$ change	$13.17	$12.03	$7.93	$3.92	$3.42	$3.52	$3.62	$3.72	$3.82	$3.92
% change	16.9%	14.6%	9.0%	4.2%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

ANS Production Forecast (million barrels per day)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Fall 2010	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520
Preliminary Spring 2011	**0.602**	**0.608**	**0.601**	**0.628**	**0.613**	**0.628**	**0.618**	**0.597**	**0.563**	**0.530**
Volume change	(0.014)	(0.014)	(0.041)	(0.001)	0.005	0.005	0.011	0.015	0.012	0.010
Percent change	-2.2%	-2.3%	-6.3%	-0.1%	0.8%	0.8%	1.9%	2.5%	2.2%	1.9%

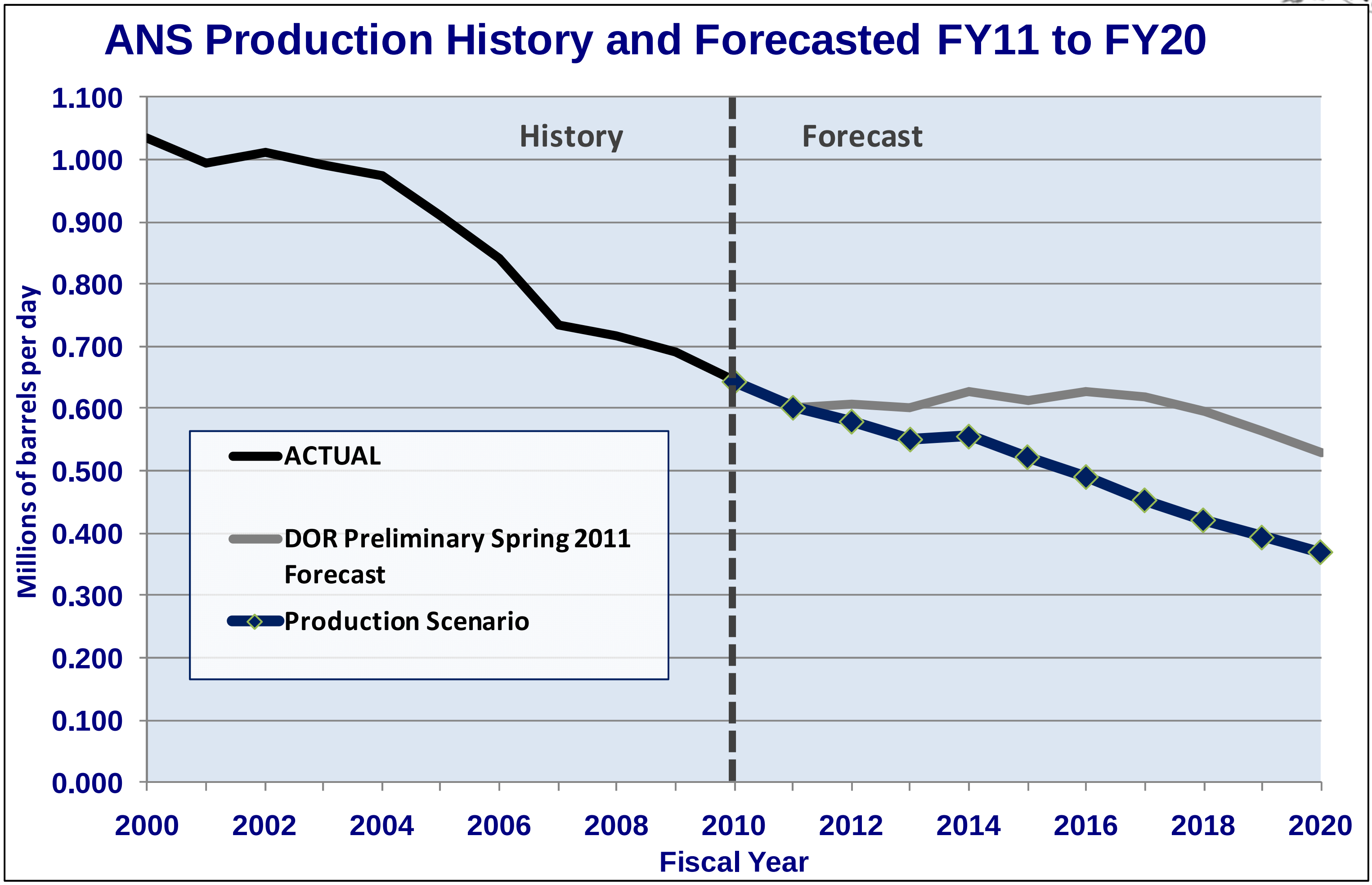
Forecasted ANS Production FY 2010 - 2020



3/26/2011

Source: Preliminary Spring 2011 Revenue Forecast

Scenario 1: ACES Tax Structure, No "Under Evaluation" and only 75% of "Under Development" Production *

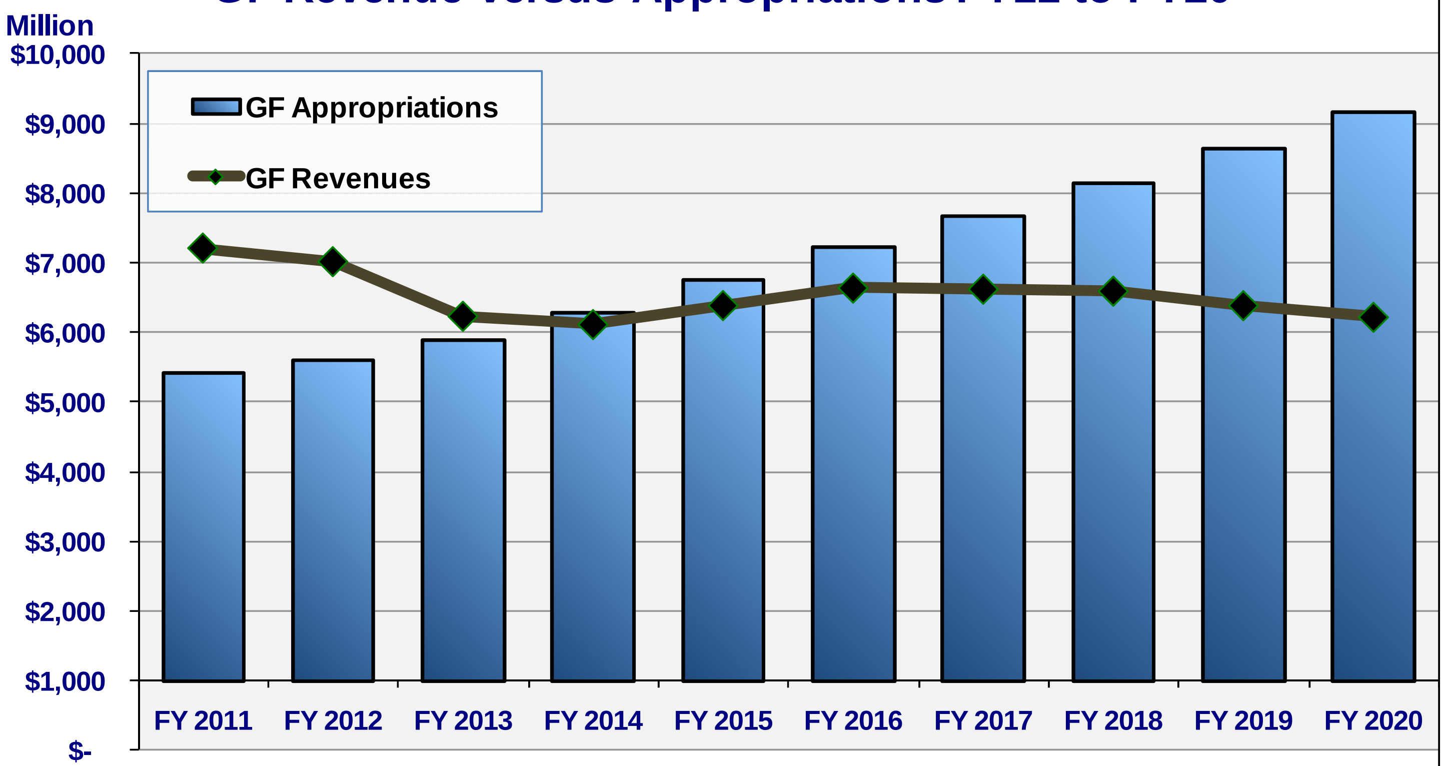


**Assumes that the "Under Evaluation" component of the DOR forecast does not materialize and only 75% of "Under Development" component materializes.*

Scenario 1: ACES Tax Structure, No "Under Evaluation" and only 75% of "Under Development" Production *

Tax: ACES / Prices: Prelim Spring 2011 / Budget: LFD projection

GF Revenue versus Appropriations FY11 to FY20

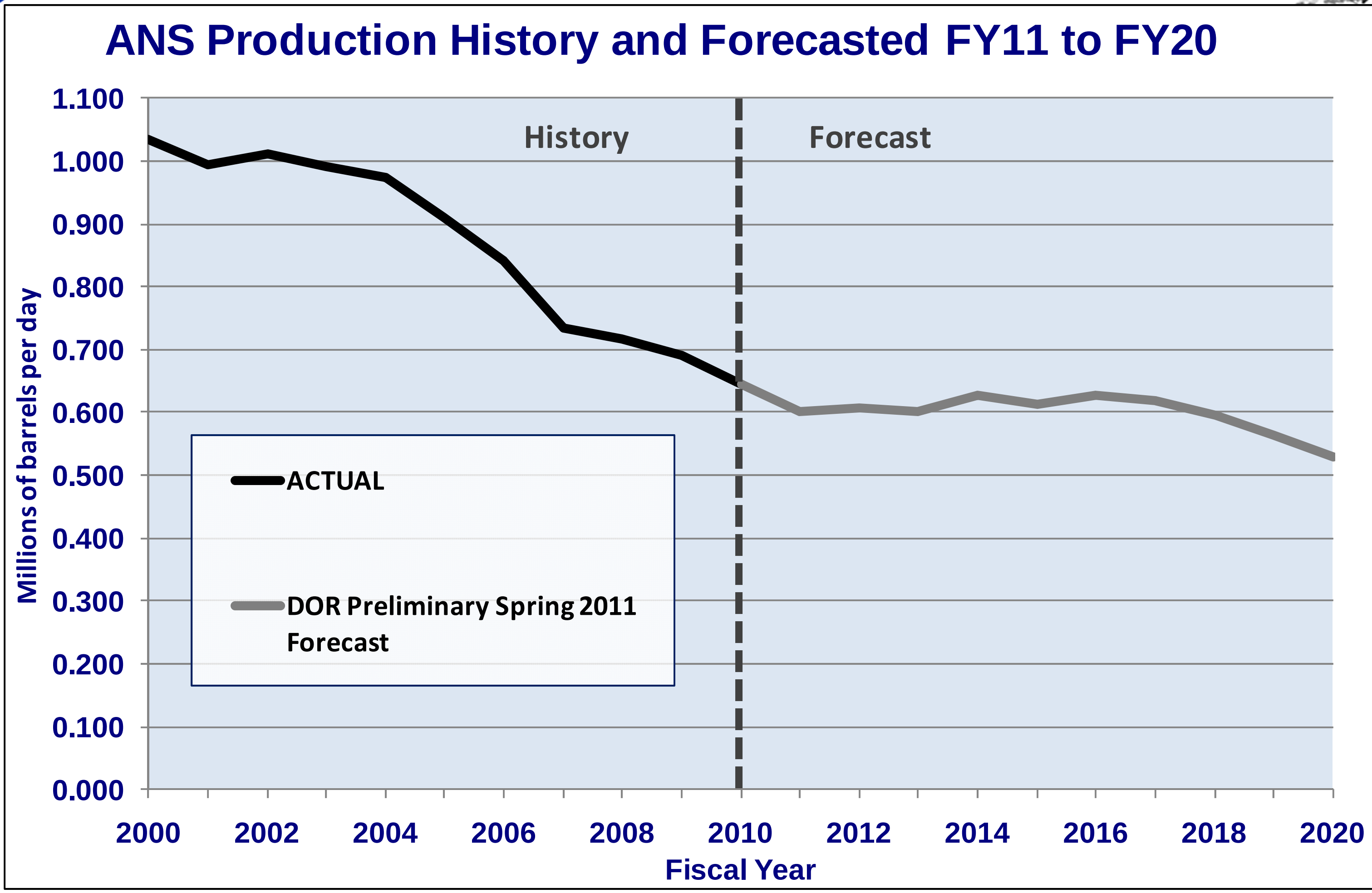


Annual appropriations exclude deposits to Public Education Fund and other special purpose appropriations such as to the Constitutional Budget Reserve or Statutory Budget Reserve.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Forecast Oil Production (barrels / day)	602,377	580,006	551,336	556,042	522,950	491,052	453,605	421,445	393,741	370,091
Forecast Oil Price (ANS $ / bbl)	**$ 91.13**	**$ 94.70**	**$ 95.79**	**$ 96.33**	**$ 100.76**	**$ 103.60**	**$ 106.52**	**$ 109.52**	**$ 112.60**	**$ 115.76**
(Amounts below in $ Millions)										
General Fund Revenues	$ 7,207	$ 7,012	$ 6,229	$ 6,111	$ 6,383	$ 6,634	$ 6,618	$ 6,589	$ 6,382	$ 6,215
General Fund Expenses	$ 5,403	$ 5,596	$ 5,894	$ 6,286	$ 6,752	$ 7,224	$ 7,664	$ 8,132	$ 8,629	$ 9,164
Budget Surplus / (Deficit)	**$ 1,804**	**$ 1,417**	**$ 335**	**$ (175)**	**$ (369)**	**$ (590)**	**$ (1,047)**	**$ (1,543)**	**$ (2,247)**	**$ (2,949)**
TOTAL RESERVES (CBRF & SBR)	**$ 13,283**	**$ 15,291**	**$ 16,252**	**$ 16,741**	**$ 17,075**	**$ 17,231**	**$ 16,975**	**$ 16,272**	**$ 14,890**	**$ 12,775**

**Assumes that the "Under Evaluation" component of the DOR forecast does not materialize and only 75% of "Under Development" component materializes.*

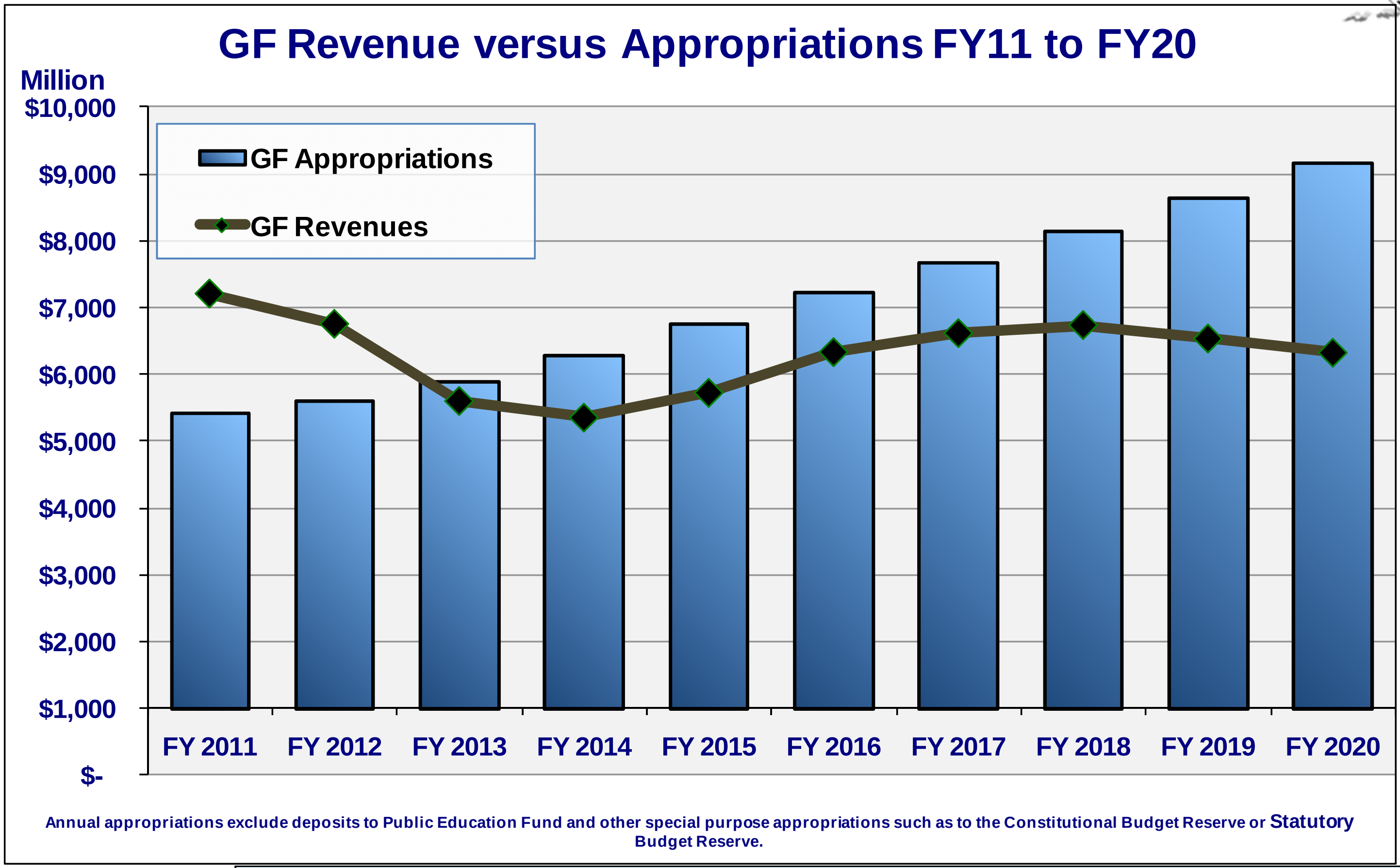
Scenario 2: Preliminary Spring 2011 Forecast*



*Assumes the DOR Preliminary Spring 2011 production forecast

Scenario 2: Impact of HB 110 on Preliminary Spring 2011 Forecast*

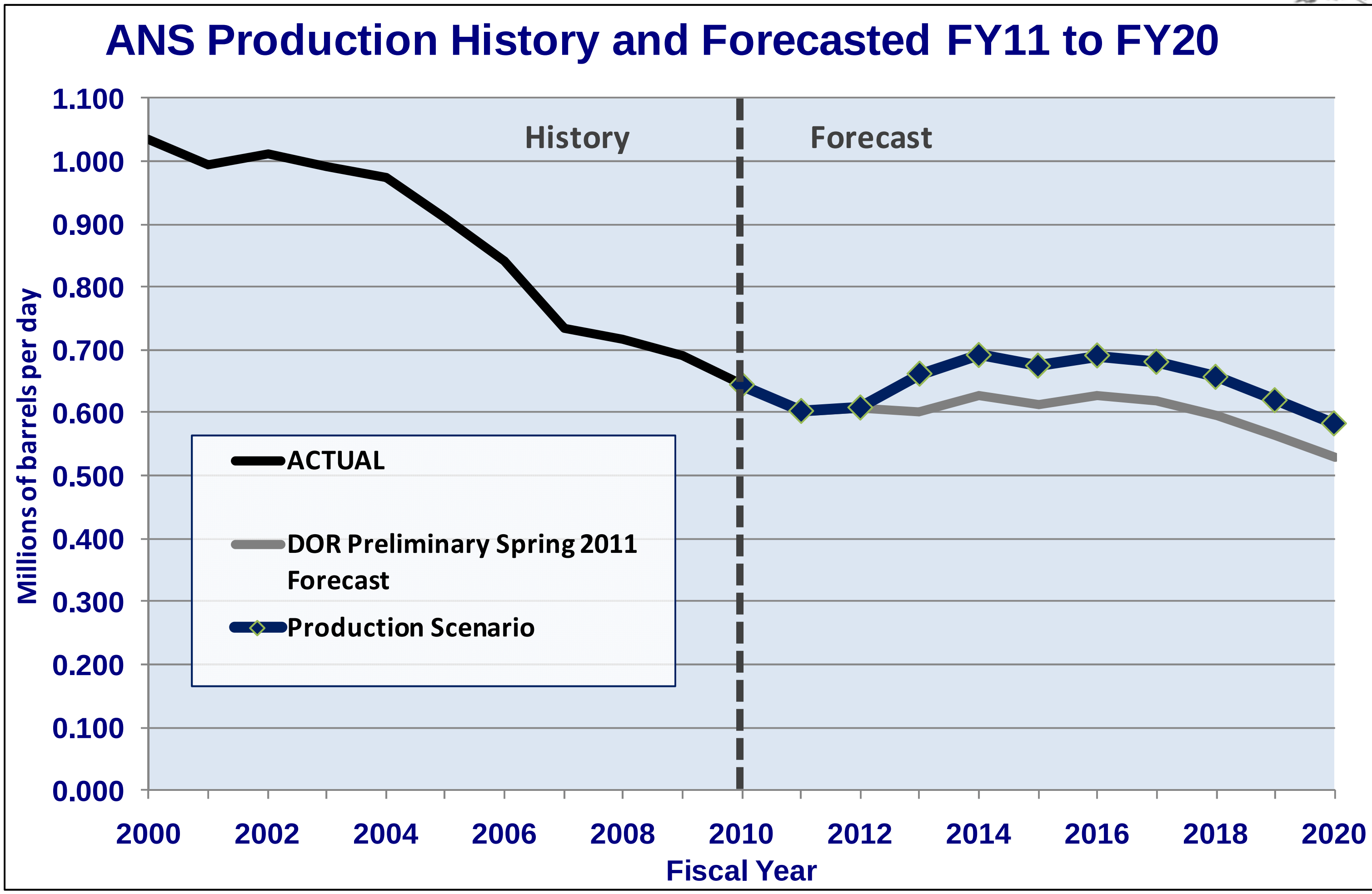
Tax: HB 110 / Prices: Prelim Spring 2011 / Budget: LFD projection



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Forecast Oil Production (barrels / day)	602,377	607,848	601,371	628,307	612,925	627,681	618,455	596,802	563,130	529,665
Forecast Oil Price (ANS $ / bbl)	**$ 91.13**	**$ 94.70**	**$ 95.79**	**$ 96.33**	**$ 100.76**	**$ 103.60**	**$ 106.52**	**$ 109.52**	**$ 112.60**	**$ 115.76**
(Amounts below in $ Millions)										
General Fund Revenues	$ 7,207	$ 6,754	$ 5,603	$ 5,354	$ 5,724	$ 6,331	$ 6,615	$ 6,736	$ 6,535	$ 6,323
General Fund Expenses	$ 5,403	$ 5,596	$ 5,894	$ 6,286	$ 6,752	$ 7,224	$ 7,664	$ 8,132	$ 8,629	$ 9,164
Budget Surplus / (Deficit)	**$ 1,804**	**$ 1,159**	**$ (292)**	**$ (932)**	**$ (1,028)**	**$ (893)**	**$ (1,049)**	**$ (1,396)**	**$ (2,094)**	**$ (2,841)**
TOTAL RESERVES (CBRF & SBR)	**$ 13,283**	**$ 15,033**	**$ 15,367**	**$ 15,099**	**$ 14,775**	**$ 14,628**	**$ 14,369**	**$ 13,782**	**$ 12,477**	**$ 10,378**

**Assumes the DOR Preliminary Spring 2011 production forecast*

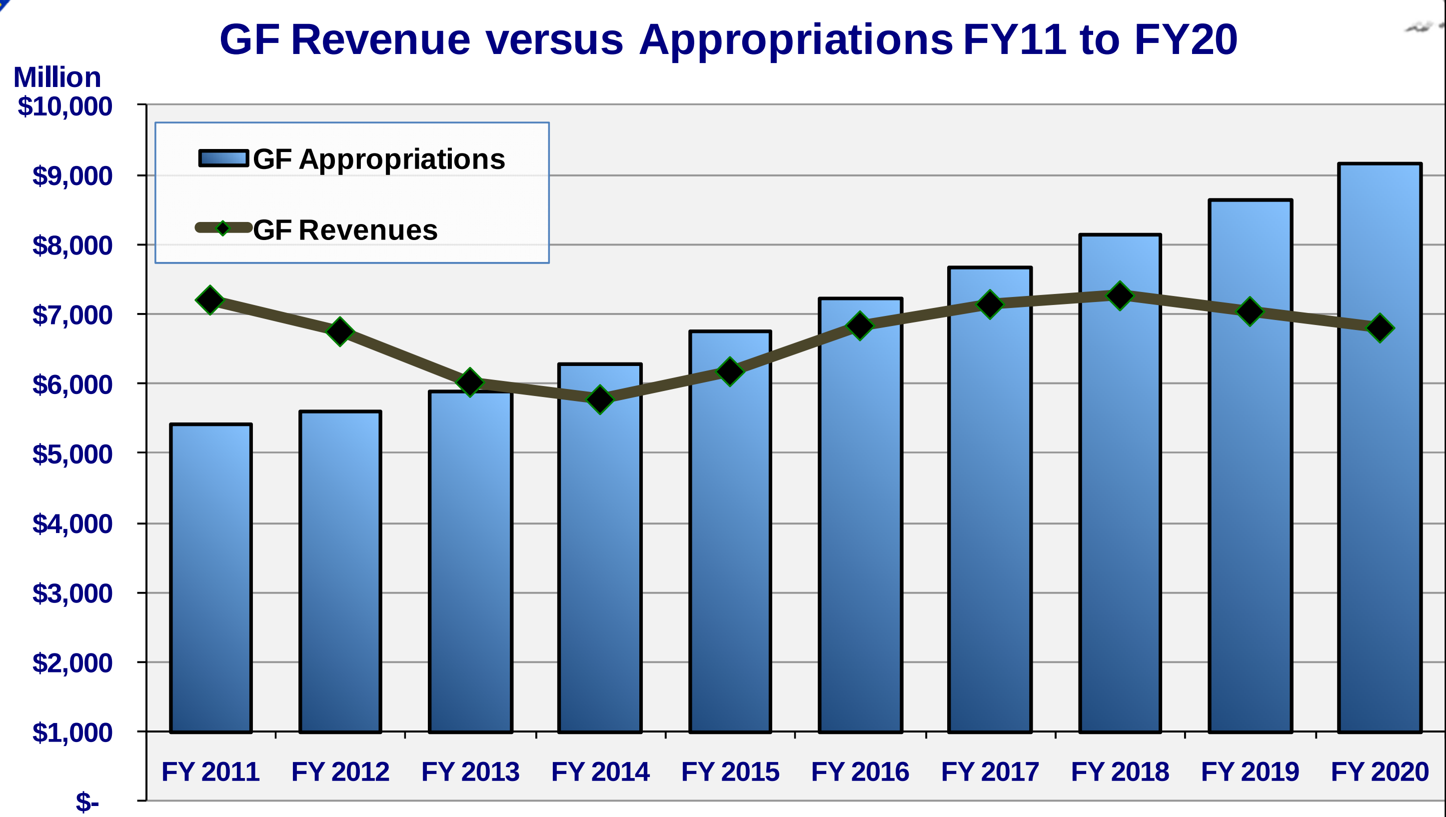
Scenario 3:
10% Additional Production From All Fields*



Assumes that production is 10% higher than DOR forecast beginning in FY 2013

Scenario 3: Impact of HB 110 on Preliminary Spring 2011 Forecast with 10% Additional Production From All Fields*

Tax: HB 110 / Prices: Prelim Spring 2011 / Budget: LFD projection

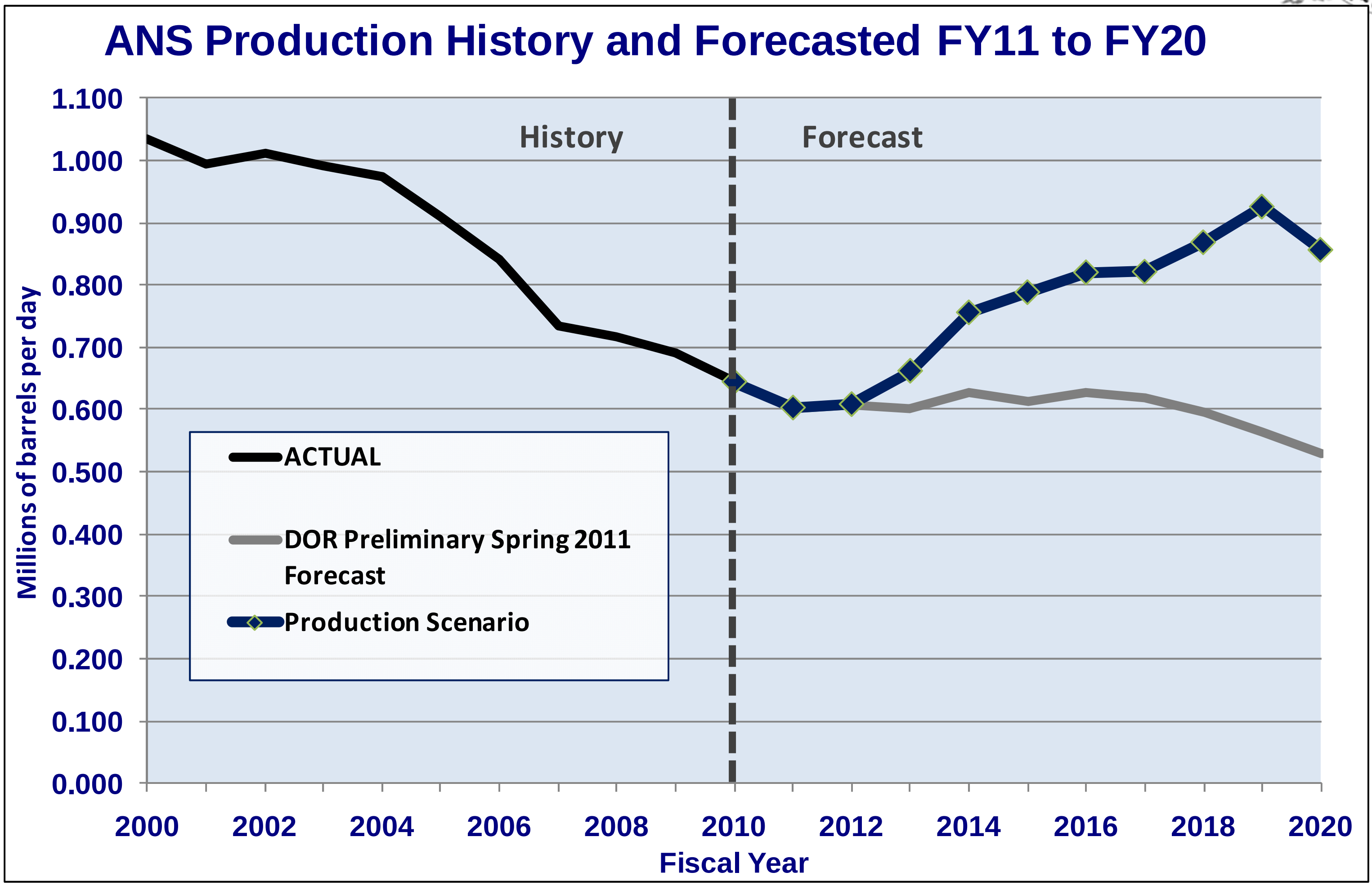


Annual appropriations exclude deposits to Public Education Fund and other special purpose appropriations such as to the Constitutional Budget Reserve or Statutory Budget Reserve.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Forecast Oil Production (barrels / day)	602,377	607,848	661,508	691,138	674,218	690,449	680,300	656,482	619,443	582,632
Forecast Oil Price (ANS $ / bbl)	**$ 91.13**	**$ 94.70**	**$ 95.79**	**$ 96.33**	**$ 100.76**	**$ 103.60**	**$ 106.52**	**$ 109.52**	**$ 112.60**	**$ 115.76**
(Amounts below in $ Millions)										
General Fund Revenues	$ 7,207	$ 6,754	$ 6,027	$ 5,781	$ 6,180	$ 6,838	$ 7,144	$ 7,269	$ 7,043	$ 6,807
General Fund Expenses	$ 5,403	$ 5,596	$ 5,894	$ 6,286	$ 6,752	$ 7,224	$ 7,664	$ 8,132	$ 8,629	$ 9,164
Budget Surplus / (Deficit)	**$ 1,804**	**$ 1,159**	**$ 133**	**$ (505)**	**$ (572)**	**$ (386)**	**$ (520)**	**$ (863)**	**$ (1,586)**	**$ (2,357)**
TOTAL RESERVES (CBRF & SBR)	**$ 13,283**	**$ 15,033**	**$ 15,792**	**$ 15,950**	**$ 16,082**	**$ 16,443**	**$ 16,714**	**$ 16,690**	**$ 15,991**	**$ 14,524**

**Assumes that production is 10% higher than DOR forecast beginning in FY 2013*

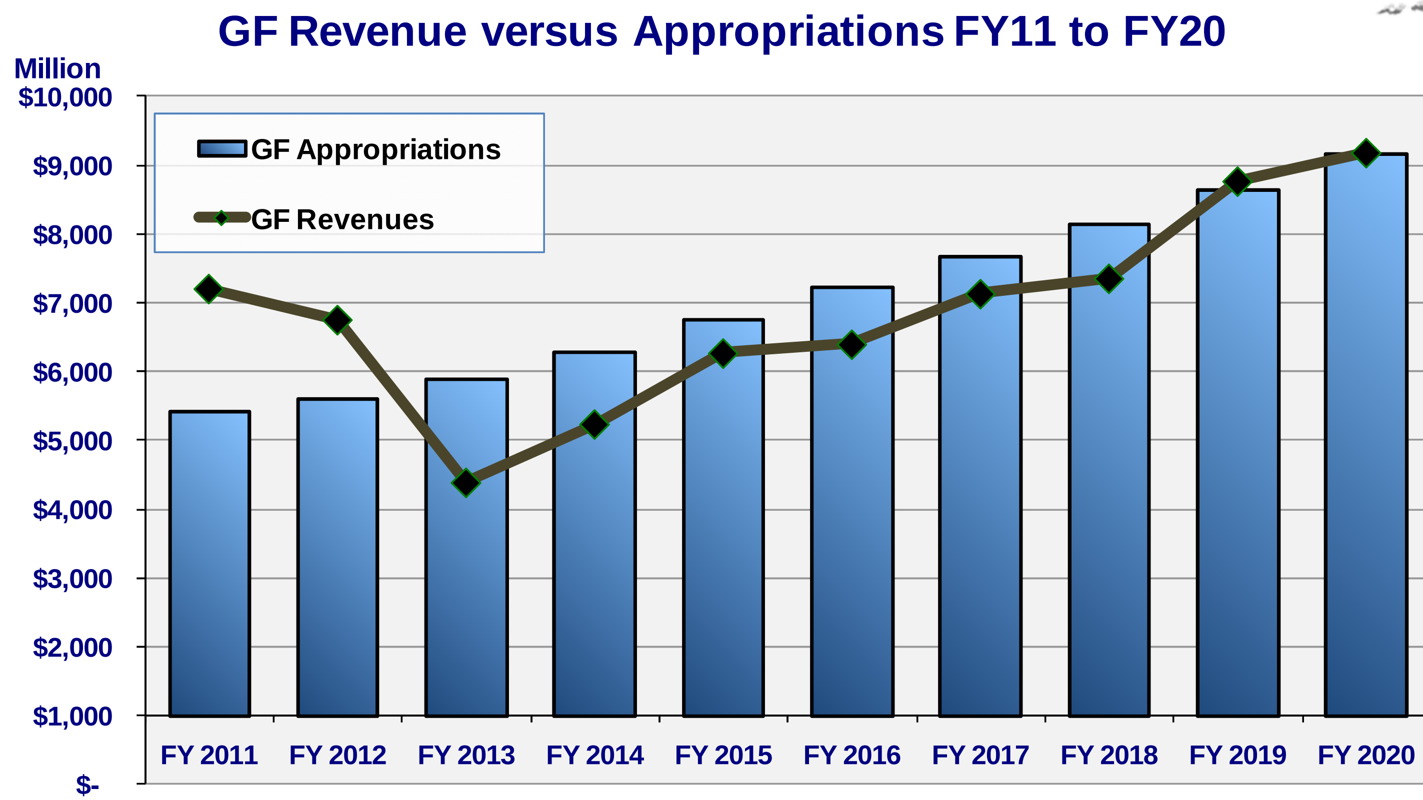
Scenario 4: 10% Additional + New Alpine-Size Field + New Fields Development*



**Assumes 10% increment to forecast beginning in FY 2013, hypothetical new Alpine-size field on line in FY 2018 as presented by AOGCC, and hypothetical new fields development as presented by Brooks Range.*

Scenario 4: 10% Additional + New Alpine-Size Field + New Fields Development*

Tax: HB 110 / Prices: Prelim Spring 2011 / Budget: LFD projection

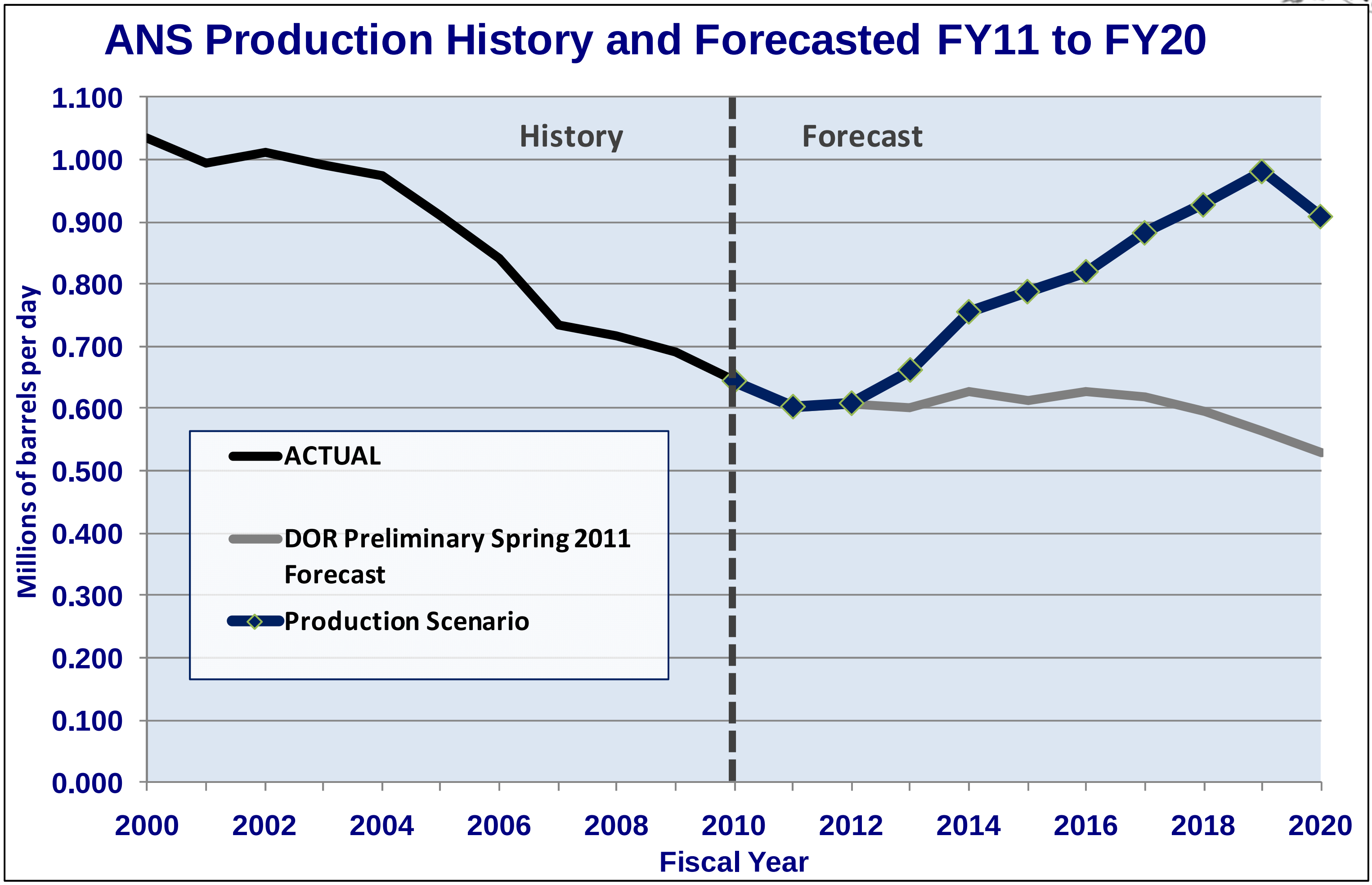


Annual appropriations exclude deposits to Public Education Fund and other special purpose appropriations such as to the Constitutional Budget Reserve or Statutory Budget Reserve.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Forecast Oil Production (barrels / day)	602,377	607,848	661,508	755,438	787,918	819,949	820,900	868,182	925,543	856,032
Forecast Oil Price (ANS $ / bbl)	**$ 91.13**	**$ 94.70**	**$ 95.79**	**$ 96.33**	**$ 100.76**	**$ 103.60**	**$ 106.52**	**$ 109.52**	**$ 112.60**	**$ 115.76**
(Amounts below in $ Millions)										
General Fund Revenues	$ 7,207	$ 6,754	$ 4,389	$ 5,236	$ 6,268	$ 6,398	$ 7,132	$ 7,356	$ 8,769	$ 9,184
General Fund Expenses	$ 5,403	$ 5,596	$ 5,894	$ 6,286	$ 6,752	$ 7,224	$ 7,664	$ 8,132	$ 8,629	$ 9,164
Budget Surplus / (Deficit)	**$ 1,804**	**$ 1,159**	**$ (1,506)**	**$ (1,050)**	**$ (484)**	**$ (827)**	**$ (533)**	**$ (776)**	**$ 140**	**$ 20**
TOTAL RESERVES (CBRF & SBR)	**$ 13,283**	**$ 15,033**	**$ 14,153**	**$ 13,767**	**$ 13,987**	**$ 13,907**	**$ 14,160**	**$ 14,198**	**$ 15,187**	**$ 16,110**

**Assumes 10% increment to forecast beginning in FY 2013, hypothetical new Alpine-size field on line in FY 2018 as presented by AOGCC, and hypothetical new fields development as presented by Brooks Range.*

Scenario 5: 20% Additional + New Alpine-Size Field + New Fields Development*

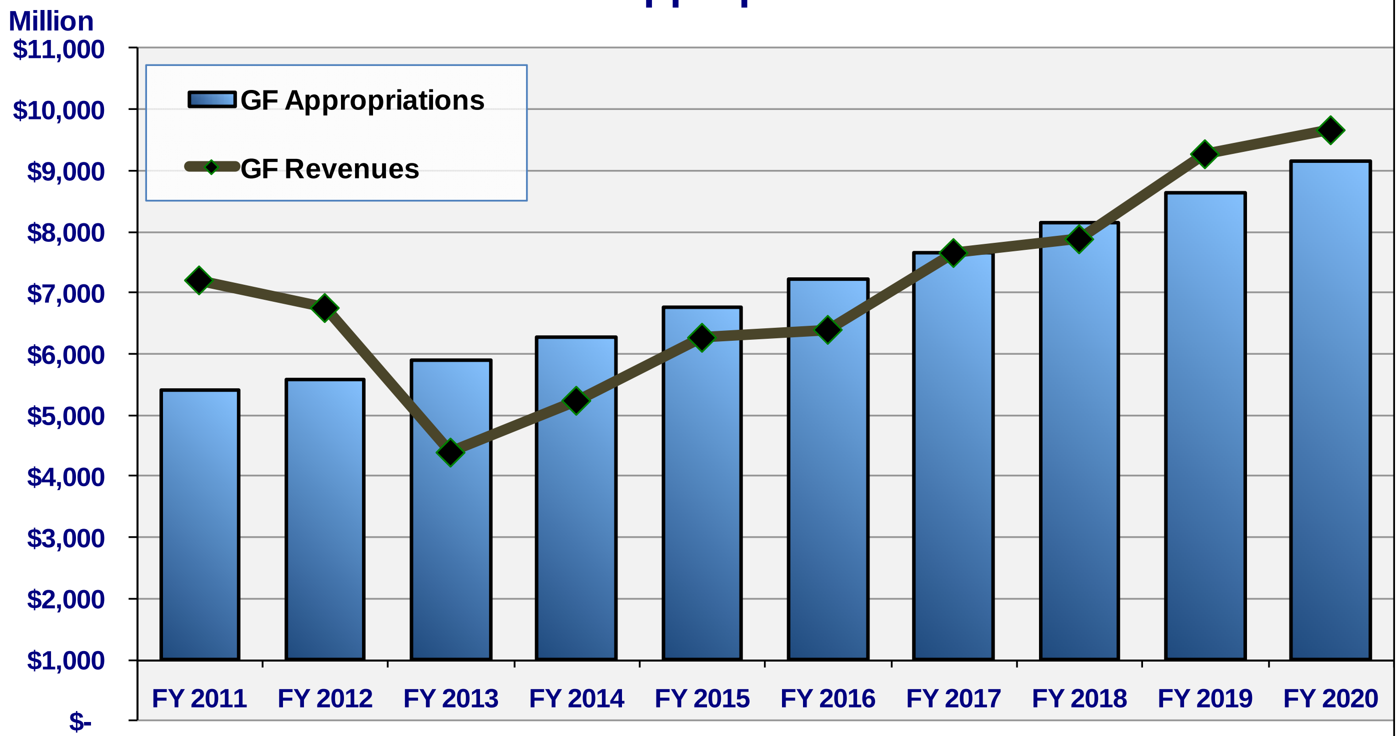


**Assumes 10% increments to forecast beginning in FY 2013 and FY 2017, hypothetical new Alpine-size field on line in FY 2018 as presented by AOGCC, and hypothetical new fields development as presented by Brooks Range.*

Scenario 5: 20% Additional + New Alpine-Size Field + New Fields Development*

Tax: HB 110 / Prices: Prelim Spring 2011 / Budget: LFD projection

GF Revenue versus Appropriations FY11 to FY20



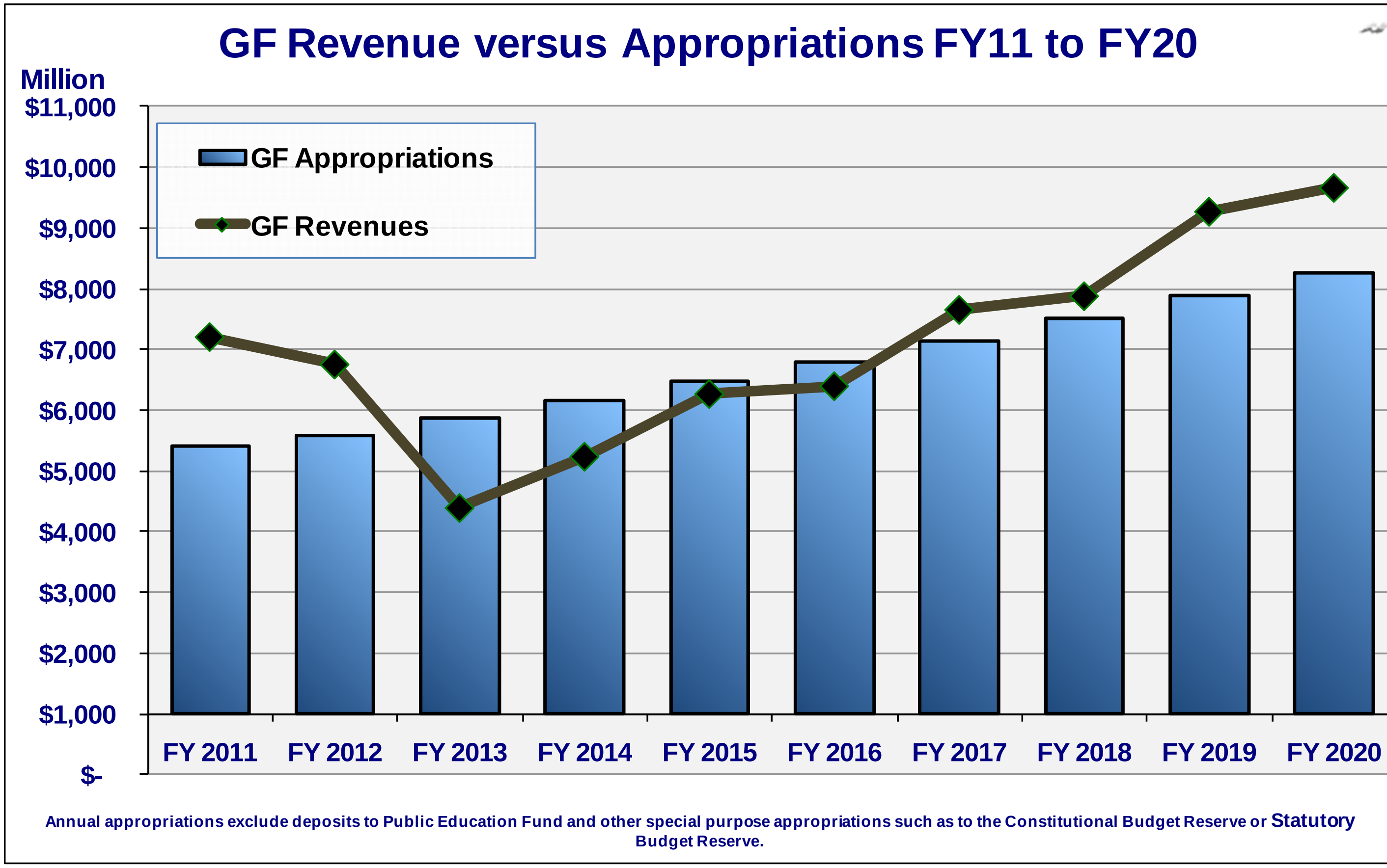
Annual appropriations exclude deposits to Public Education Fund and other special purpose appropriations such as to the Constitutional Budget Reserve or Statutory Budget Reserve.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Forecast Oil Production (barrels / day)	602,377	607,848	661,508	755,438	787,918	819,949	882,746	927,862	981,856	908,998
Forecast Oil Price (ANS $ / bbl)	**$ 91.13**	**$ 94.70**	**$ 95.79**	**$ 96.33**	**$ 100.76**	**$ 103.60**	**$ 106.52**	**$ 109.52**	**$ 112.60**	**$ 115.76**
(Amounts below in $ Millions)										
General Fund Revenues	$ 7,207	$ 6,754	$ 4,389	$ 5,236	$ 6,268	$ 6,398	$ 7,656	$ 7,880	$ 9,274	$ 9,666
General Fund Expenses	$ 5,403	$ 5,596	$ 5,894	$ 6,286	$ 6,752	$ 7,224	$ 7,664	$ 8,132	$ 8,629	$ 9,164
Budget Surplus / (Deficit)	**$ 1,804**	**$ 1,159**	**$ (1,506)**	**$ (1,050)**	**$ (484)**	**$ (827)**	**$ (8)**	**$ (252)**	**$ 645**	**$ 502**
TOTAL RESERVES (CBRF & SBR)	**$ 13,283**	**$ 15,033**	**$ 14,153**	**$ 13,767**	**$ 13,987**	**$ 13,907**	**$ 14,689**	**$ 15,277**	**$ 16,812**	**$ 18,259**

**Assumes 10% increments to forecast beginning in FY 2012 and FY 2017, hypothetical new Alpine-size field on line in FY 2018 as presented by AOGCC, and hypothetical new fields development as presented by Brooks Range.*

Scenario 5 (b): 20% Additional + New Alpine-Size Field + New Fields Development* (with 5% annual spending growth)

Tax: HB 110 / Prices: Prelim Spring 2011 / Budget: 5% annual growth



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Forecast Oil Production (barrels / day)	602,377	607,848	661,508	755,438	787,918	819,949	882,746	927,862	981,856	908,998
Forecast Oil Price (ANS $ / bbl)	**$ 91.13**	**$ 94.70**	**$ 95.79**	**$ 96.33**	**$ 100.76**	**$ 103.60**	**$ 106.52**	**$ 109.52**	**$ 112.60**	**$ 115.76**
(Amounts below in $ Millions)										
General Fund Revenues	$ 7,207	$ 6,754	$ 4,389	$ 5,236	$ 6,268	$ 6,398	$ 7,656	$ 7,880	$ 9,274	$ 9,666
General Fund Expenses	$ 5,403	$ 5,596	$ 5,875	$ 6,169	$ 6,478	$ 6,801	$ 7,142	$ 7,499	$ 7,874	$ 8,267
Budget Surplus / (Deficit)	**$ 1,804**	**$ 1,159**	**$ (1,487)**	**$ (933)**	**$ (209)**	**$ (404)**	**$ 514**	**$ 381**	**$ 1,400**	**$ 1,399**
TOTAL RESERVES (CBRF & SBR)	**$ 13,283**	**$ 15,033**	**$ 14,172**	**$ 13,903**	**$ 14,397**	**$ 14,739**	**$ 16,045**	**$ 17,266**	**$ 19,556**	**$ 21,900**

**Assumes 10% increments to forecast beginning in FY 2013 and FY 2017, hypothetical new Alpine-size field on line in FY 2018 as presented by AOGCC, and hypothetical new fields development as presented by Brooks Range.*

Fiscal Projections Scenario Assumptions

- DOR forecast – uses the full production forecast per Spring 2011 revenue forecast (preliminary) plus associated lease expenditures and credits. These are preliminary numbers based on the forecast which will be released in early April.
- Scenario 1 – removes "Under Evaluation" and 25% of "Under Development" from the forecast along with associated lease expenditures and credits.
- Scenario 2 – 10% production increment – adds an additional 10% to forecast across the board, and an associated increase in lease expenditures and credits.
- Scenarios 3, 4, 5 – Add hypothetical Alpine-size field in 2018, and new fields development
  - Alpine size field in 2018 – production profile developed based on presentation by AOGCC to House Finance on 3/16/11. This development receives the 25% base tax rate under HB 110.
  - New fields development – production profile developed based on presentation by Brooks Range to House Finance on 3/23/11. This development receives the 15% base tax rate under HB 110.
- LFD spending scenario – 10-year spending projections as presented in House Finance on 3/1/11 – averaging 6.4% yearly budget growth FY 13-20.

Other Oil that is not in our scenarios

- Shale oil
- Heavy and viscous oil
- Most of the oil in the NPR-A
- Nearly all of the federal Outer Continental Shelf (OCS)
- Arctic National Wildlife Refuge (ANWR)

In Conclusion:

1. Tax rates must be lowered to improve the investment climate in Alaska.
2. Our economy is at risk if we decide to do nothing. Our future is at stake!
3. The decisions made now will affect Alaska's economy for decades to come.
4. Without major new investment, new drilling will continue to suffer in Alaska.
5. Oil exploration and development will create immediate return in jobs for Alaskans.
6. Just one exploratory well creates dozen of direct jobs and hundreds of indirect jobs.
7. Industry investment and exploration should be closely monitored to make sure HB110 has the desired effects.

HB110 Goals

1. Improve investment climate

2. Increase production

3. Create jobs for Alaskans