

Alaska Oil Economics

- Spring 2011 approximate price of oil: \$118/bl
- Transportation \$6
- Royalty = $\$112 \times 12.5\% = \14
- Upstream Costs: \$20/bl
- Production Tax Value: \$78/bl
 - Production tax rate is base 25% + .4%/\$ progressivity = 44.2%
 - $44.2\% \times \$78 = \text{prod tax of } \$34.5/\text{bl leaving}$

Typical
Company



Alaska Margin: \$43.50/bl

- At \$110/bl, margin would be \$41.60
- At \$100/bl, margin would be \$38.66

**Alaska margins are nearly double CP
worldwide average margin**

Alaska is close to Eagle Ford at nearly twice the global portfolio average margin. Therefore, comparative oil profits do not explain the low reinvestment rate for Alaska. The companies tell us that each has its own 'hurdle rate' for return on investment before a project can be profitable enough to be selected for investment. Obviously, nearly double the margin of funded projects pass that test.

We now know that the upstream cost for ConocoPhillips is only \$15.48/bl in Alaska instead of the assumed \$20/bl. This means that an additional \$4.52 per barrel is added to the typical company margin, making ConocoPhillips' Alaska Margin **\$48.02/bl**.

"On average, it costs ConocoPhillips \$15.48 to produce a barrel of oil in Alaska" – Mary Ann Kah, ConocoPhillips' Chief Economist
January 15th, 2012 Alaska Journal of Commerce *Slope producers lay out scenario with proposed oil changes*

Slide prepared by the office of Representative Seaton. Full presentation available at http://housemajority.org/seaton/pdfs/27/HB_110_Aces_or_Not_11292011.pdf