Fiscal Note Slides – CSSB21(RES)

For Presentation to the

Senate Finance Committee

February 28, 2013

Introduction

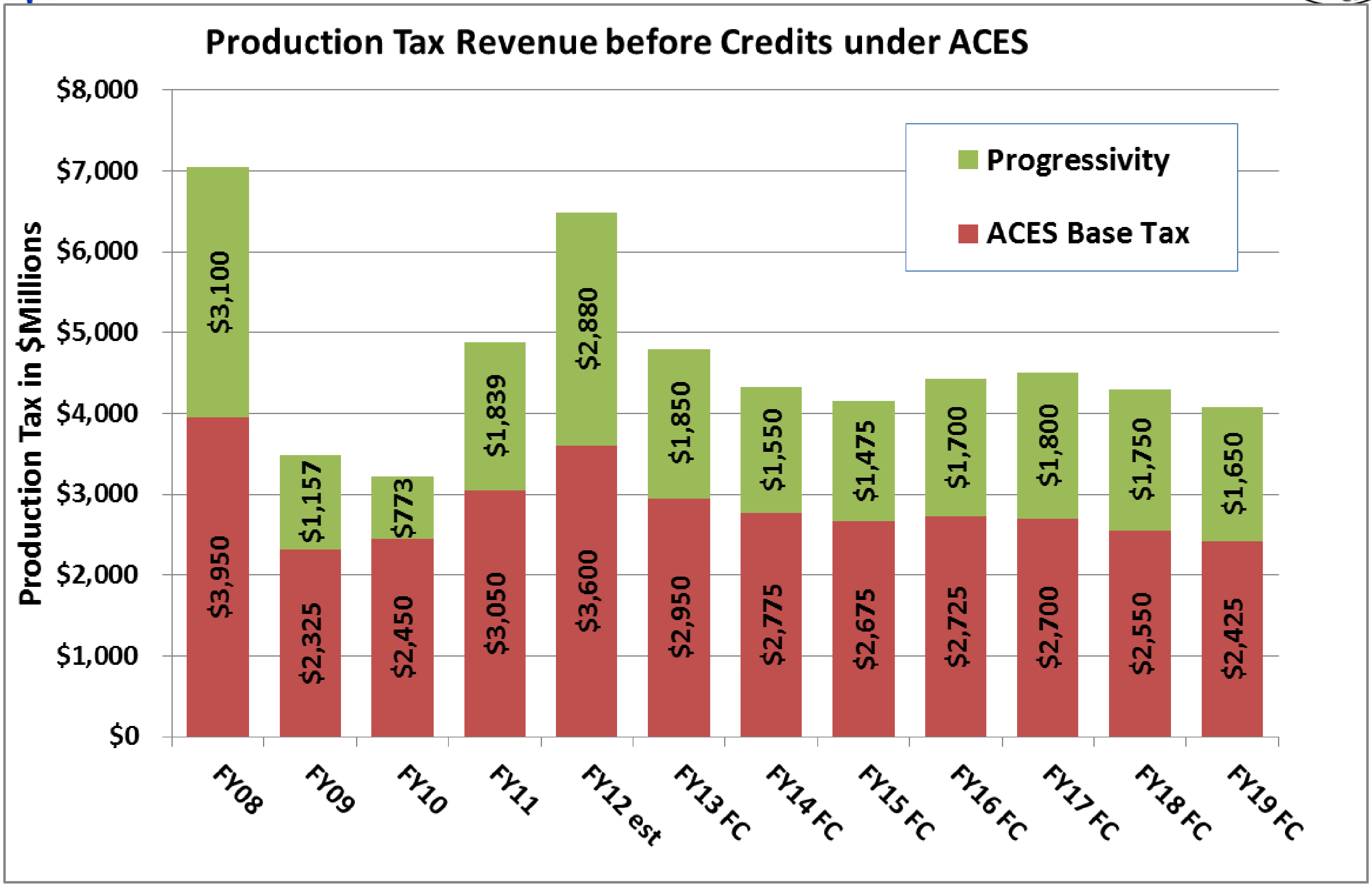
1. 12 key provisions analyzed
2. Total fiscal impact under Fall 2012 forecast
3. Hypothetical additional production scenarios

1. Repeals progressive surcharge

- Progressive surcharge at AS 43.55.023(g) repealed
- Progressive surcharge is an additional tax that is added to base tax
- Progressive surcharge increases tax rate at production tax values of greater than $30 / barrel
- Progressive surcharge may add up to 50% to the total tax rate at very high prices for a maximum total tax rate of 75%

- Fiscal Impact = varies by fiscal year, up to $1.8 billion per year under our Fall 2012 forecast

Impact of Progressive Surcharge



2. Increases base production tax rate

- Base tax rate increased to 35% from 25% under ACES
- Base tax rate of 35% applied to production tax value
- The higher base tax rate increases revenue from the base tax
- The higher base tax rate provides greater protection to the state at low oil prices

- Fiscal Impact = varies by fiscal year, up to $1.1 billion per year under our Fall 2012 forecast

3. Limitations on capital credits

- Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 for the North Slope
- 20% capital credit eliminated for North Slope after 1/1/2014 (replaced with new mechanisms that incentivize production, not spending).
- ACES provisions are unchanged for Cook Inlet and Middle Earth and they retain 20% capital credit

- Since capital credits are taken against liability or refunded, fiscal impact is on both revenue and budget
- Likely fiscal impact is summarized on next slide

Estimated Fiscal Impact for limitations on capital credits as compared to Fall 2012 Forecast ($millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
NS capital credits against tax liability	$300	$700	$650	$550	$475	$400
NS capital credits for refund	$0	$250	$250	$250	$250	$250
Total Fiscal Impact	$300	$950	$900	$800	$725	$650

Note: these are positive fiscal impacts.

4. Changes to Net Operating Loss credit

- Companies that incur net losses from leases or properties on the North Slope will earn a credit of 35% of those losses.
  - May be carried forward for a 10-year maximum period.
  - Net loss carry-forwards will increase at an annual rate of 15% beginning on January 1 of the second calendar year following the year of the loss.
  - Taxpayer must have production and tax liability to use credit – not refundable
- The revenue impact of this provision is confidential under our forecast, however,
  - Impact is expected to be minimal.
- In an increased development or low price scenario, protects state because NOLs can't be refunded.

5. Establishes Gross Revenue Exclusions

- Excludes a 30% of gross revenue, from taxable value for qualifying production
- Cannot reduce tax liability below zero
- Qualifying production is any of the following:
  - Land was not in a unit on 1/1/2003
  - New PA, in units formed before 1/1/2003
  - Area added to an existing PA after 12/31/2011

- CSSB21(RES) increased GRE from 20% to 30%, and added the expansion of an existing PA to qualifying production

- Fiscal Impact = Indeterminate, under $50 million / year under Fall 2012 forecast
- GRE benefit would apply almost entirely to “New Production” not currently in our forecast

6. Extends small producer credit

- The small producer credit at AS 43.55.024 is extended to the later of:
  - 2022, or,
  - the ninth calendar year after the calendar year that the producer first has commercial production.
- This provision extends the small producer credit six years from the original sunset date of 2016 to 2022.
- The revenue impact based on the current revenue forecast is minimal.

7. Eliminates requirement that credits be taken over two years

- Capital credits and Net Operating Loss credits earned had to be split across two years under ACES
- This provision allows credits to be used in the year they were earned
- This provision aligns credit treatment on the North Slope with credit treatment in all other parts of the state
- Fiscal impact is neutral – simply shifts a future obligation to FY14.
- $400 million total obligation shifted to FY14: $250 million revenue impact; $150 million operating budget impact

8. Changes funding for community revenue sharing

- The community revenue sharing fund is amended to allow the legislature to make appropriations from the tax revenue collected under AS 43.20, as opposed to revenue collected under the provision that is proposed to be repealed - AS 43.55.011(g).
- Corporate income tax revenue under AS 43.20 is adequate to provide the maximum annual appropriation of $60 million or the amount to bring the fund up to $180 million.
  - Corporate income tax has exceeded $500 million every year for the last 8 years.
- Provision substitutes eliminated revenue source for appropriations, with another adequate source.

9. Establishes per oil barrel tax credit

- $5 credit against tax liability for each taxable oil barrel produced
  - Ties credit to production
  - Cannot be saved, does not accrue interest, is not transferable
  - Removes regressive nature of tax system
  - Specifies barrel of "oil"
- Likely fiscal impact is summarized on next slide

Estimated Fiscal Impact for $5 per oil barrel allowance as compared to Fall 2012 Forecast ($millions)

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
-$425	-$825	-$775	-$750	-$700	-$675

10. Creates service industry expenditures credit

- New Corporate Income Tax Credit for oil and gas service companies
- Credit is 10% of qualifying in-state expenditures:
  - Manufacturing of oil and gas equipment
  - Modification of oil and gas equipment
  - For in-state spending only
- Maximum $10 million per taxpayer per year, transferrable
- This provision was added in CSSB21(RES)

- Fiscal Impact = Indeterminate
- Difficult to estimate due to lack of data
- If $500 million to $1 billion of qualifies …
- Impact could be $50 to $100 million / year

11. Establishes Competitiveness Review Board

- New state board within DOR
- 9 member board, 4 meetings per year
- Tasked with collecting and evaluating data on oil and gas development, and providing annual report to Legislature on proposed changes to fiscal system

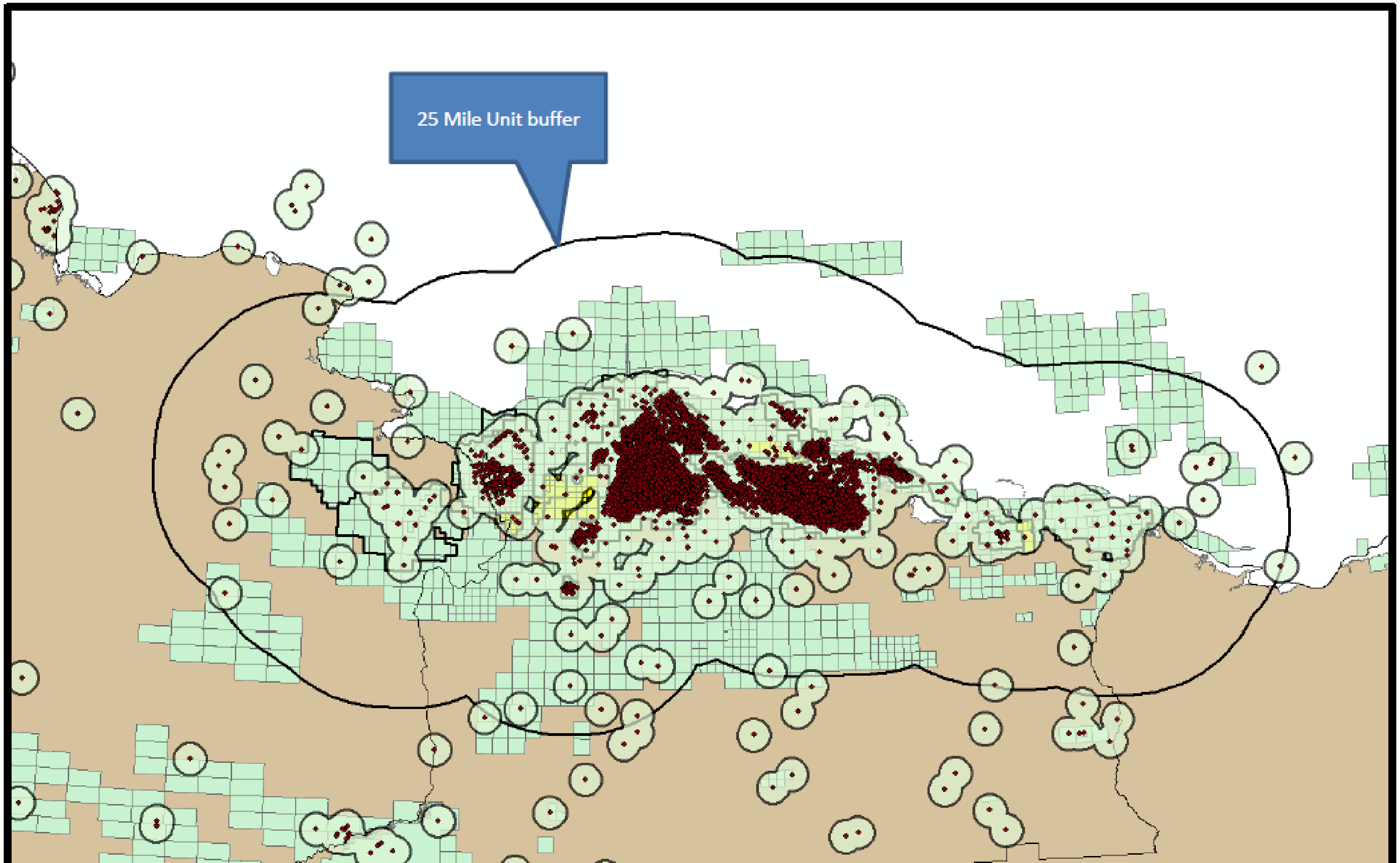
- Fiscal Impact = Estimated at $1.05 million / year
- Not included in Tax fiscal note – separate Commissioner's office fiscal note
- Represents costs for travel, use of existing staff, and engaging an oil and gas consultant on an ongoing basis

12. Extends and expands exploration credit

- Explanation:
  - Removes requirement that well be 3 miles from existing well to qualify for credit
  - New exploration can earn 30% of expenses if within 25 miles of existing unit
    - Must be a new target pre-approved by DNR
    - 40% of expenses if 25 miles outside existing unit
  - Credit is transferable
  - Cannot take this credit along with NOL credit
- Fiscal Impact = Indeterminate (up to $100M per year in current forecast)

Expanded exploration credit allows additional wells to qualify

AS 43.55.025 Limitations - 25 Mile Unit Buffer With 3 Mile Well Buffer



Source: Presentation by Brooks Range Petroleum, Feb 18, 2013, before Senate Resources Committee

Provisions in CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	**-$800**	**-$1,500**	**-$1,700**	**-$1,800**	**-$1,750**	**-$1,650**
2. Base tax rate changed to 35% of production tax value	$550	$1,075	$1,100	$1,075	$1,025	$975
3. Limitation of credits for qualified capital expenditures for North Slope	**$300**	**$700**	**$650**	**$550**	**$475**	**$400**
4. Net operating loss credit rate increased to 35%, carried forward and increased at 15% per year	Indeterminate up to -$50 million annually under Fall 2012 forecast					
5. Gross revenue exclusion for certain areas						
6. Small producer credit extended to 2022	**$0**	**$0**	**$0**	**-$25**	**-$25**	**-$50**
7. Provision requiring credits be taken over 2 year eliminated[2]	**-$250**	**$0**	**$0**	**$0**	**$0**	**$0**
8. Amendment to the community revenue sharing fund	**Indeterminate**					
9. Allowance of $5 per taxable barrel	-$425	-$825	-$775	-$750	-$700	-$675
10. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly -$50 million to -$100 million annually)					
11. Oil and Gas Competitiveness Review Board	$0	$0	$0	$0	$0	$0
12. Exploration incentive credit extended to 2022; requirements changed[3]	Indeterminate (possibly up to -$100 million annually)					
Total Revenue Impact	**-$650 to -$750**	**-$600 to -$800**	**-$775 to -$975**	**-$1000 to -$1200**	**-$1025 to -$1225**	**-$1050 to -$1250**
Impact on Operating Budget of Limitation of qualified capital expenditures for North Slope[4]	**-$150**	**$250**	**$250**	**$250**	**$250**	**$250**
Total Fiscal Impact[4]	**-$800 to -$900**	**-$350 to -$550**	**-$525 to -$725**	**-$750 to -$950**	**-$775 to -$975**	**-$800 to -$1000**

Gray shading indicates provisions that were unchanged from SB21 as introduced.

[1]The impacts listed are based on production and prices as forecasted in our Fall 2012 revenue forecast. The forecasted oil prices are between $109.61 and $118.29.
All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2]Provision 7 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $400 million, with $250 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3]Provision 12 above, which extends and changes requirements for exploration incentive credits, would increase both credits applied against tax liability and credits available for refund. To simplify presentation, the entire impact is shown here as a revenue impact.

[4]"Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope.

Production Scenarios

Scenario A:

- New 50 Million barrel field developed by small producer without tax liability
- Peak production = 10,000 bbls/day
- Development costs = $500,000,000
- Qualifies for GRE and NOL

Production Scenarios

Scenario B:

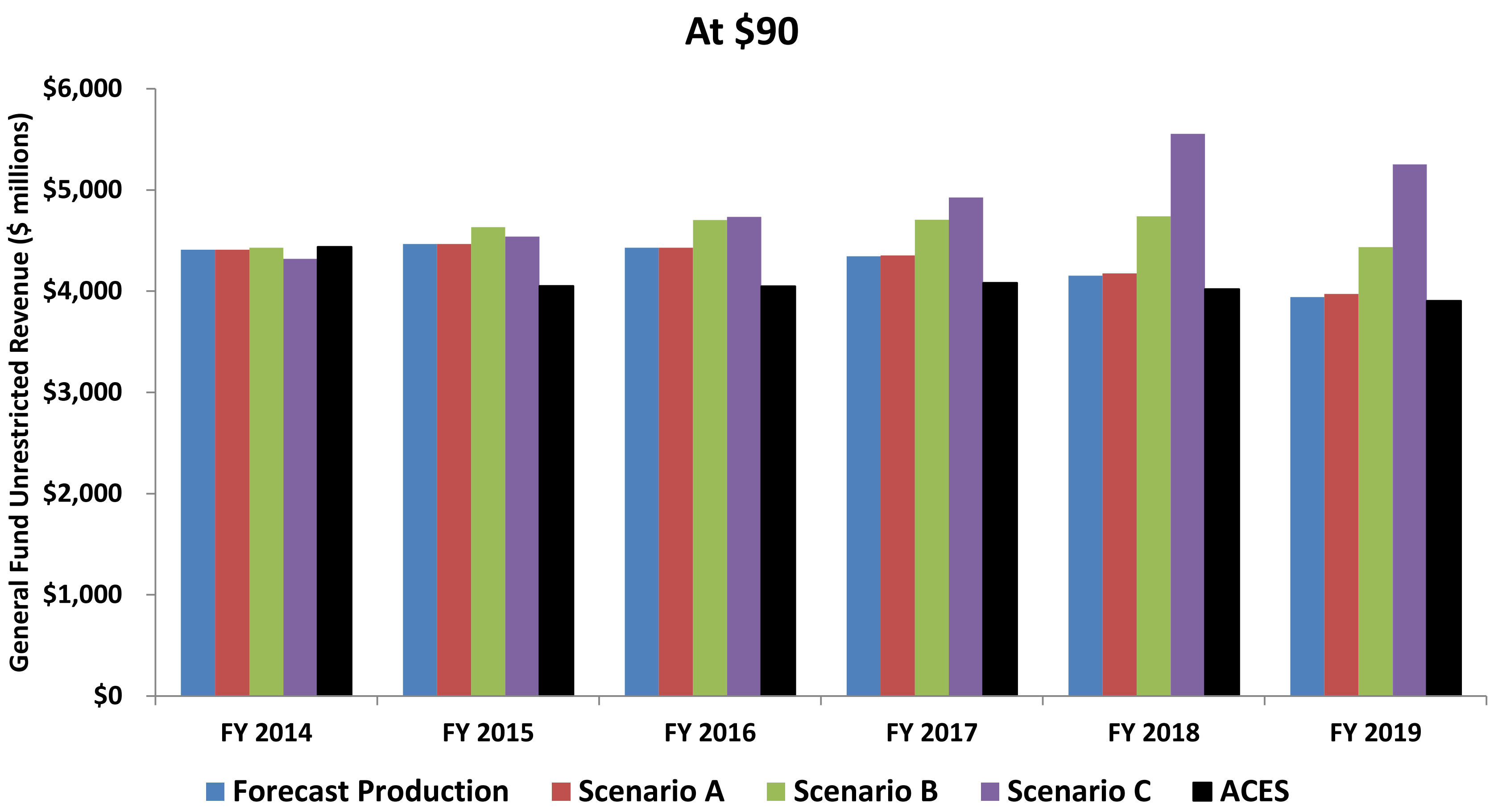
- Operators of existing units add 4 drill rigs to current plans
- Each rig adds 4,000 bbls/day in new production each year
  - Which each then decline at 15% per year
- Does not qualify for GRE

Production Scenarios

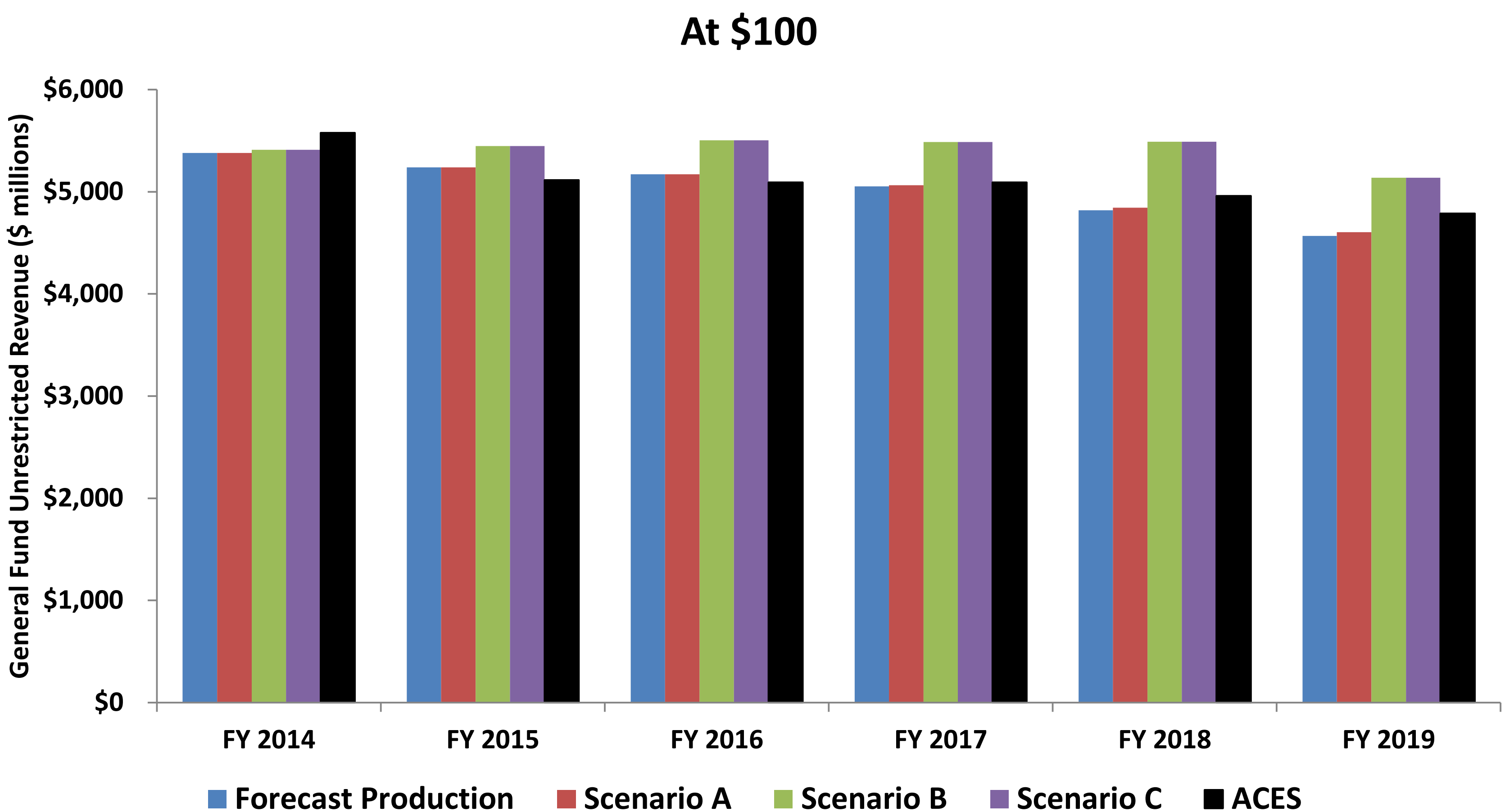
Scenario C:

- Operator of existing legacy unit builds new drill pad
- Development cost = $5 billion
- Adds 15,000 bbls/day in 2014 increasing to peak rate of 90,000 bbls/day in 2018
- Does not qualify for GRE

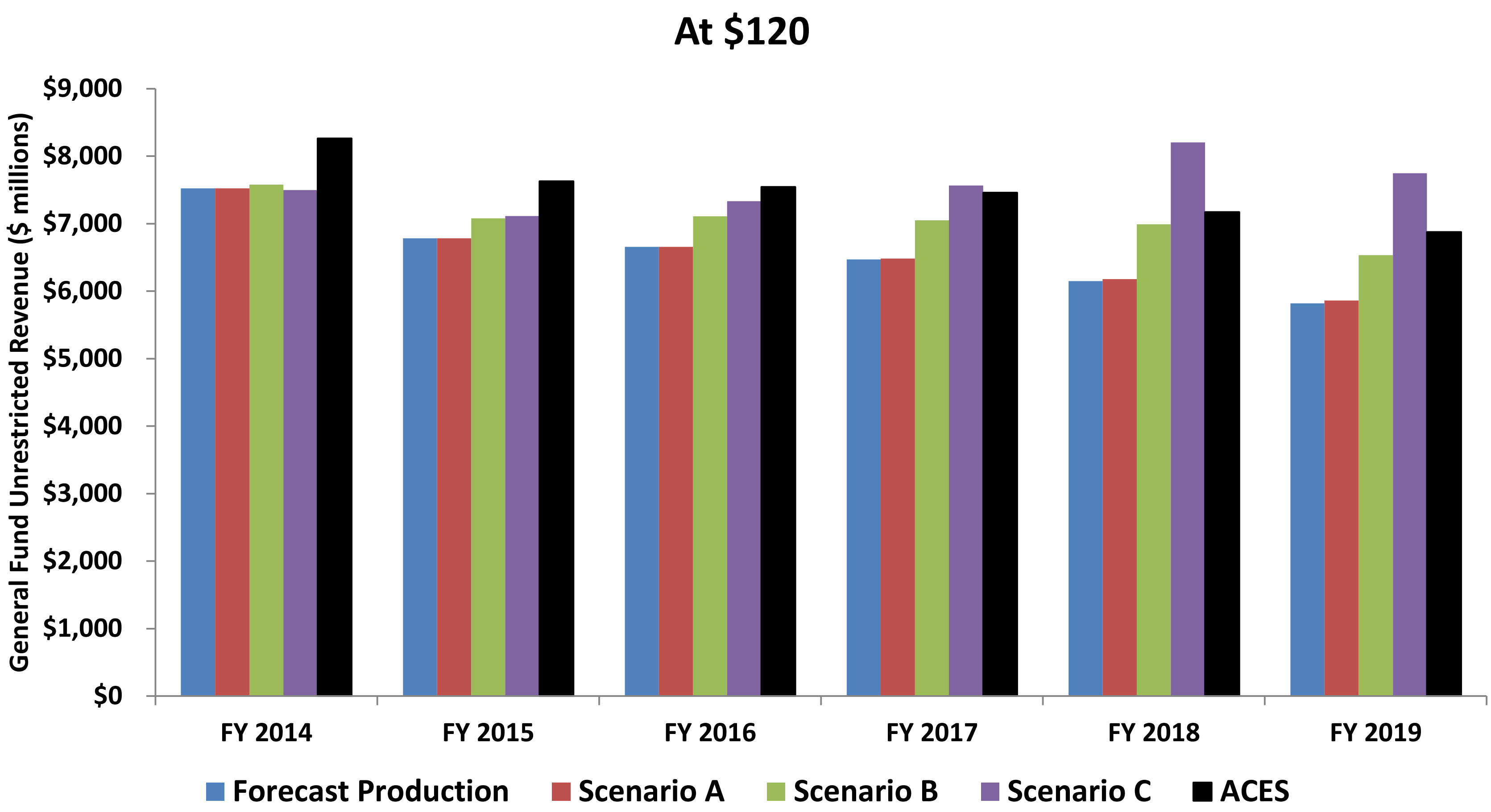
Projected revenues under production scenarios – at $90 / barrel ANS



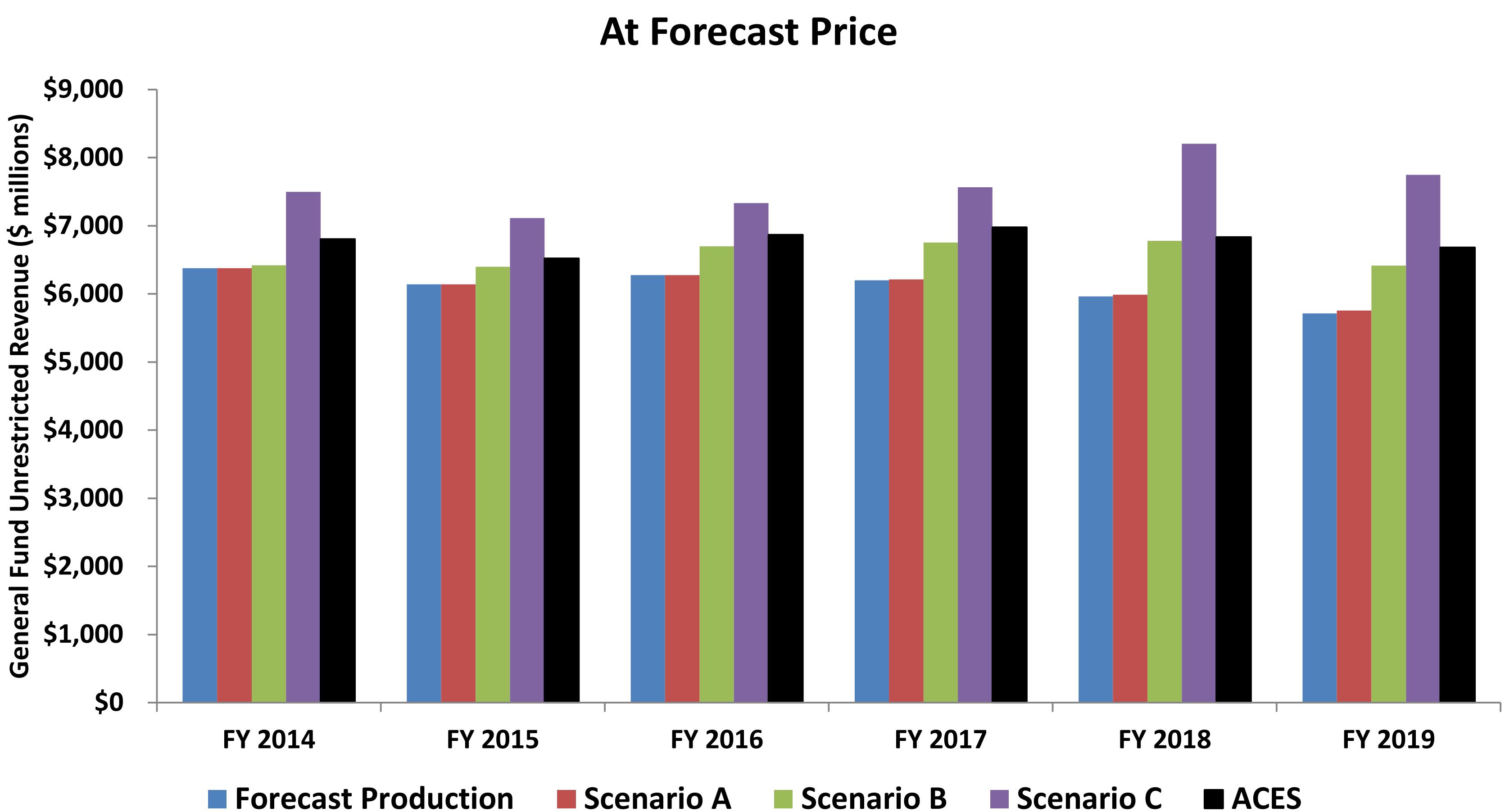
Projected revenues under production scenarios – at $100 / barrel ANS



Projected revenues under production scenarios – at $120 / barrel ANS



Projected revenues under production scenarios – at forecast ANS price



Thank You