



# House Resources Committee

## Alaska Fiscal System Discussion Slides

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# ACES and SB21: Issues and Aims

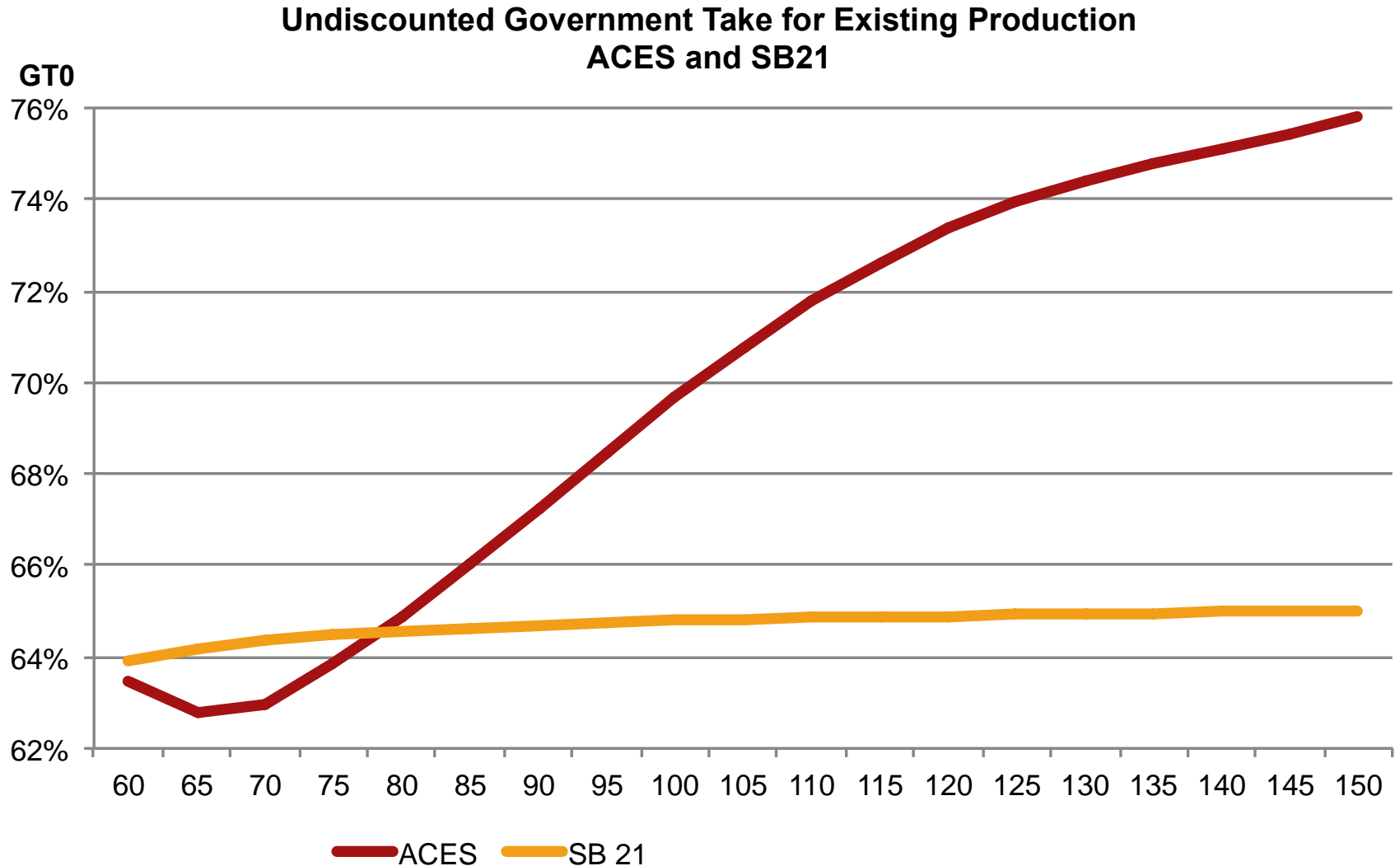
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# ACES and SB21: Key Changes

	ACES	SB21
Base Tax Rate	25%	35%
Progressivity	0.4 % per dollar of per barrel-PTV from \$30 to \$92.50; 0.1% per dollar of per barrel-PTV above \$92.50	None – although \$/bbl allowance creates an implicit ‘reverse’ progressivity that counteracts regressive nature of royalty, leading to overall neutrality
Maximum Tax Rate	75%	35%
Incentives for New Production	None	Gross Revenue Exclusion (GRE): In calculating the PTV, a producer’s 20% of gross revenues from eligible production are excluded. Oil is from new PA, PA expansions, and areas in legacy fields not previously contributing to production.
\$/bbl Allowance	None	\$5
Capital Credit	20% of all qualified capital expenditures	Eliminated after Dec 31 for North Slope
NOL Credit	25% for Carry-Forward Annual Loss Credit, monetizable for small producer over 2 years	35% for Carry-Forward Annual Loss Credit, monetizable for small producer over one year
Small Producer Credit	Expires 2016	Expires 2016
Exploration Credit	Expires 2016	Expires 2016

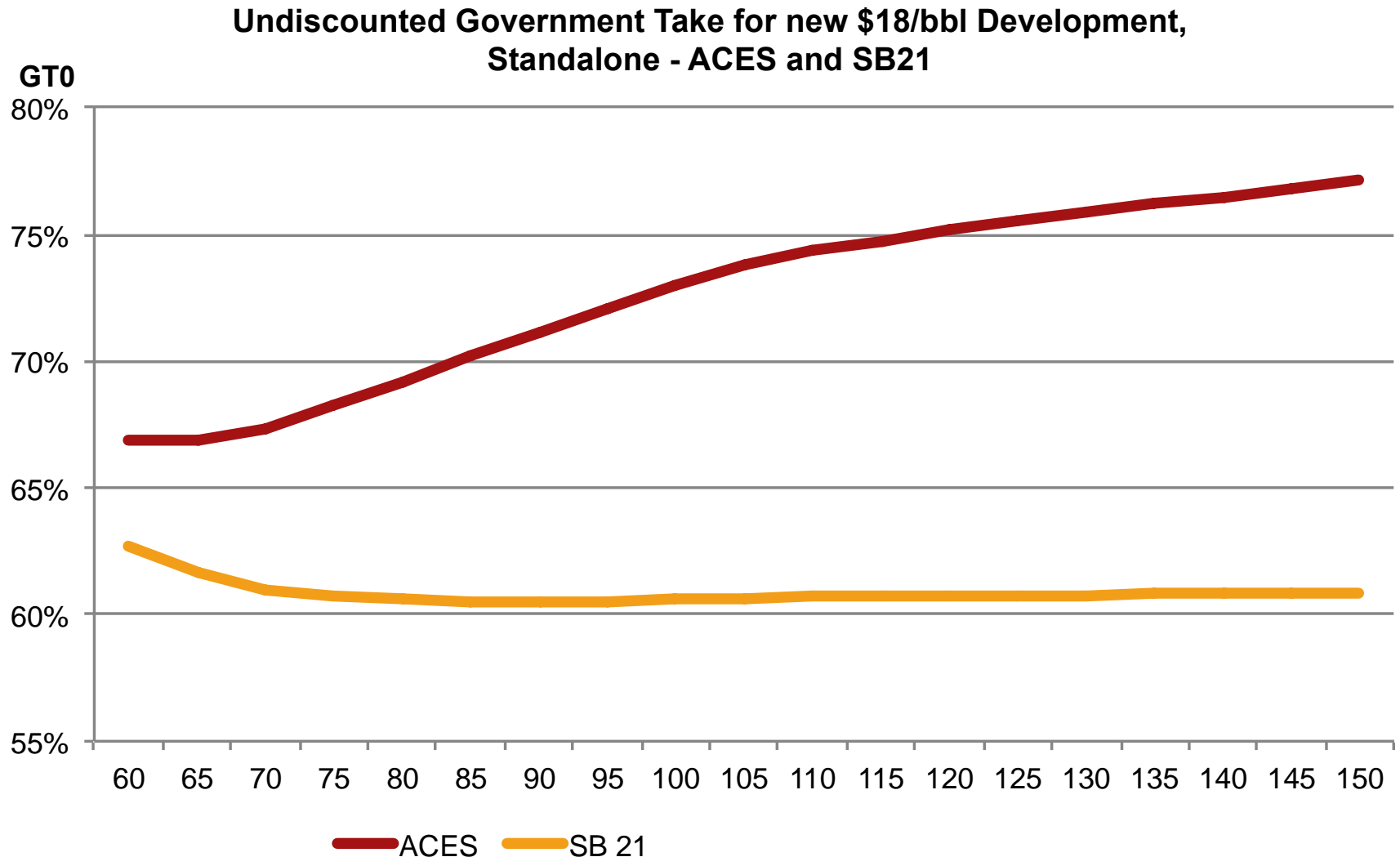
# ACES and SB21: Government Take Comparison

## Base Production



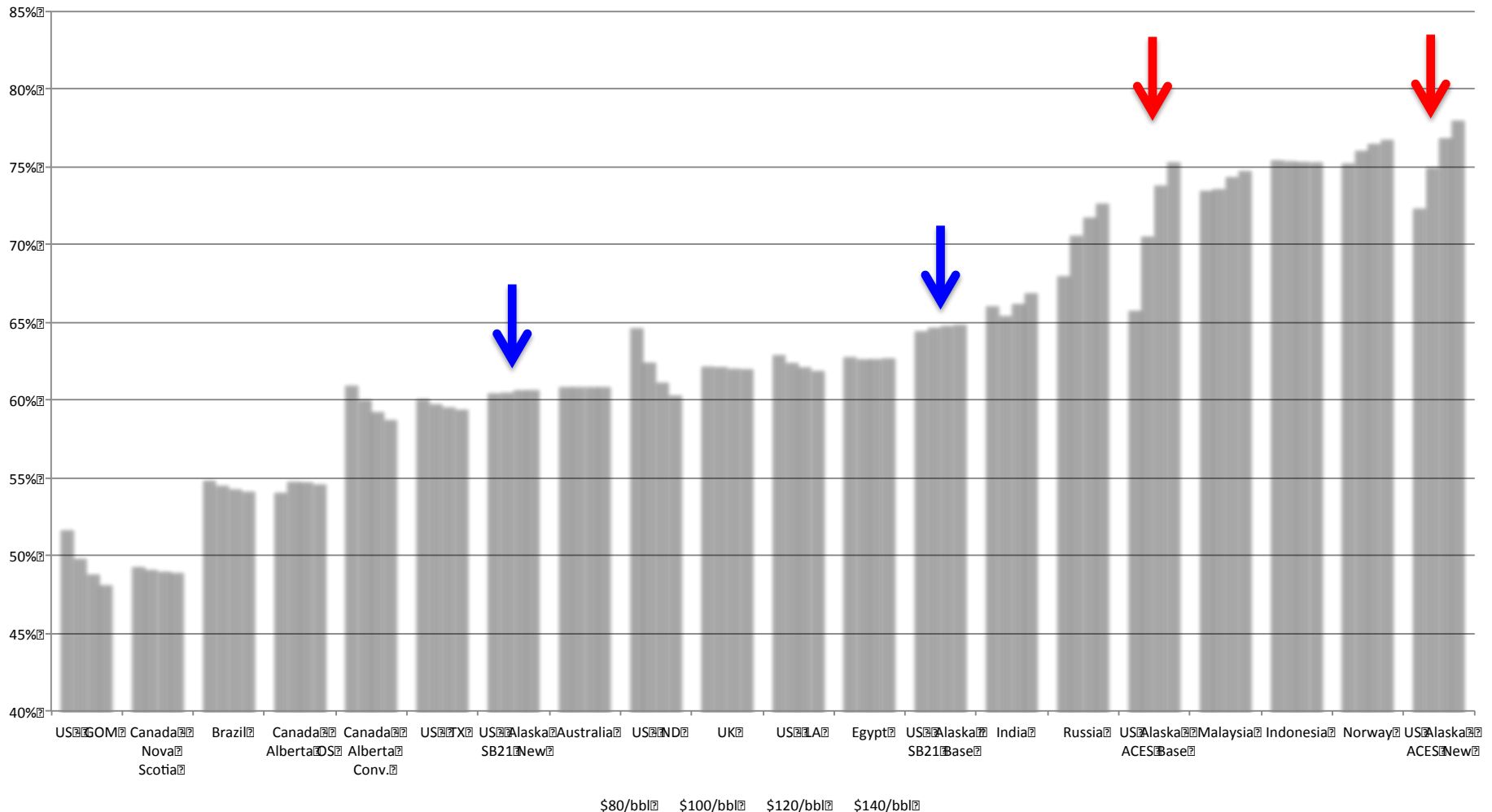
# ACES and SB21: Government Take Comparison

## \$18/bbl New Development, Standalone



# Government Take Competitiveness

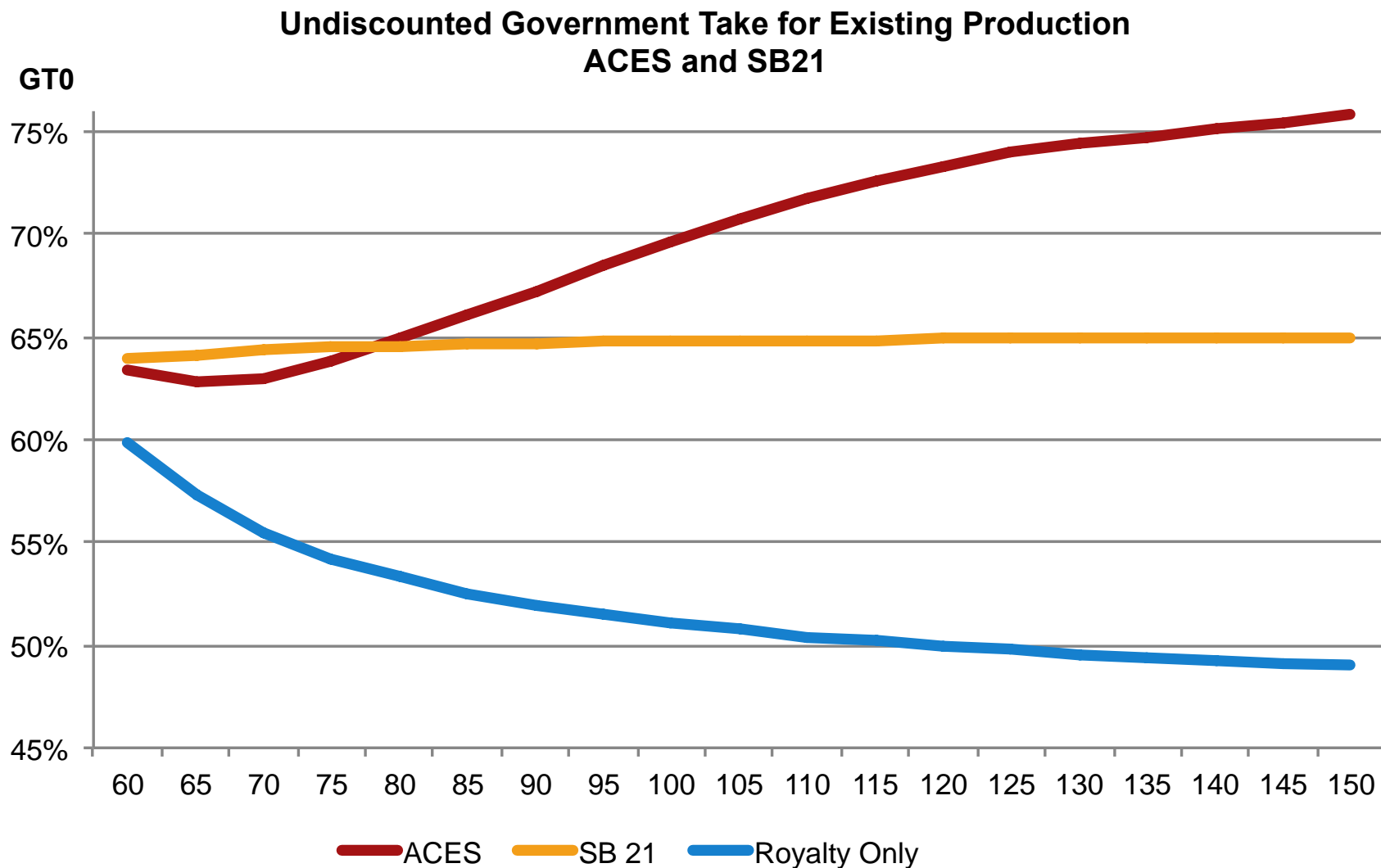
Alaska Government Take Competitiveness Compared to Comparable Regimes



# Regressive and Progressive Regimes

- 2 potential reasons to desire a progressive element in Alaska's fiscal regime:
  - To counteract regressive elements in the regime to achieve something close to **neutrality**
  - To go beyond neutrality, to ensure a **higher level of take** for the state in **high price environments**
- Regressive and Progressive regimes imply a very different outlooks on risk and reward, for government and the private sector:
  - **Regressive regimes limit risk to the state**, placing large downside risk on the private sector, protecting the state in low price or high cost environments
  - In return, regressive regimes offer outsized returns in high price environments
  - **Progressive regimes** involve the **state bearing more price and cost risk**, in return for a higher share of returns in good times
- Perhaps the single biggest problem with Alaska's current fiscal regime is that it involves elements that are **both strongly regressive and strongly progressive**.
  - It seeks to place downside risk on the private sector, while taking most of the returns in high price environments.
  - It is this combination that makes it particularly unattractive from an investment perspective

# Regressivity, Progressivity, Neutrality

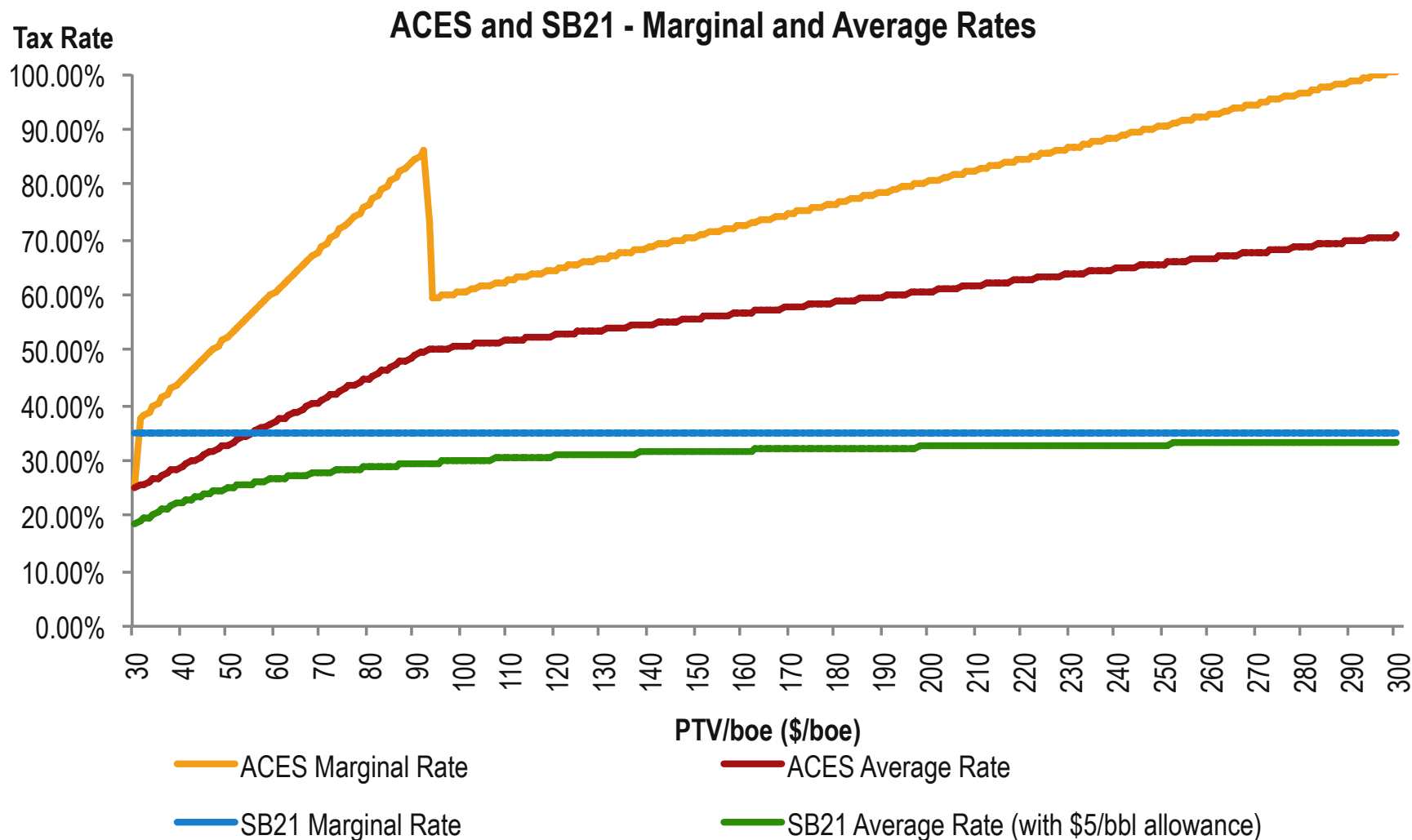




# \$5 production allowance is like reverse progressivity, to counteract effect of royalty

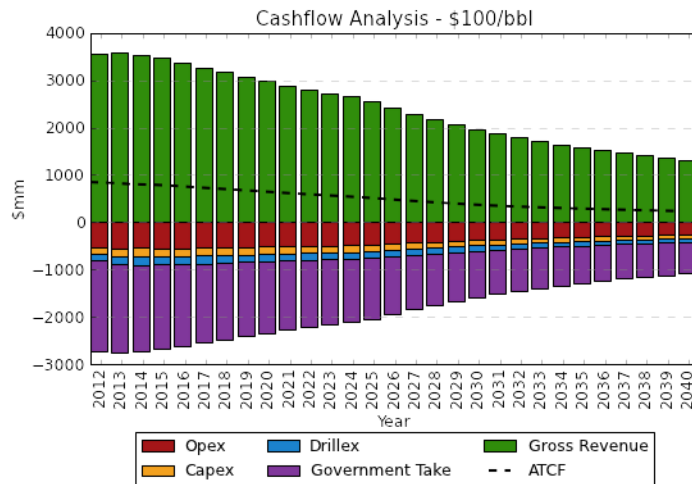
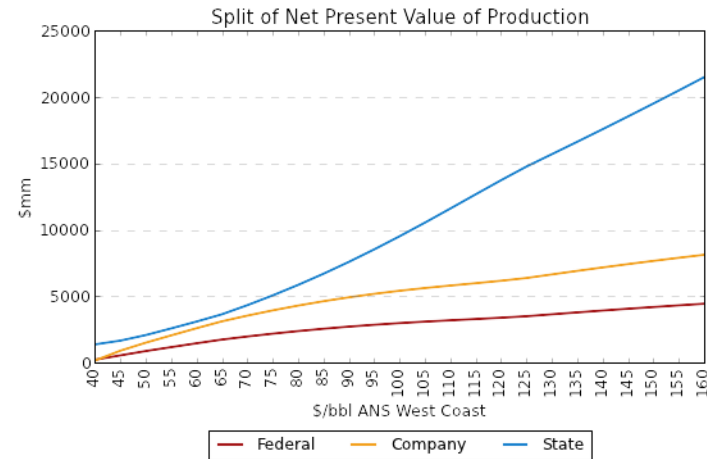
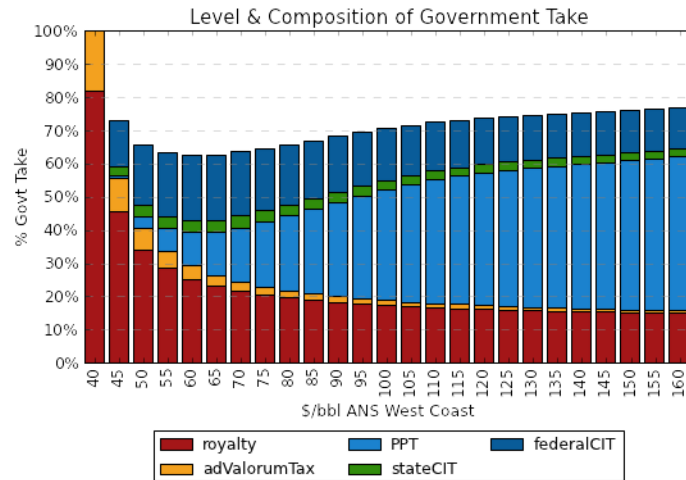
Taxable Production	50,000,000	50,000,000	50,000,000	50,000,000
ANS West Coast	<b>60</b>	<b>80</b>	<b>120</b>	<b>140</b>
Transportation	10	10	10	10
Gross Value at Point of Production	2,500,000,000	3,500,000,000	5,500,000,000	6,500,000,000
Lease Expenditures	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
GVPP/bbl	50	70	110	130
Lease Expenditures / bbl	30	30	30	30
PTV	1,000,000,000	2,000,000,000	4,000,000,000	5,000,000,000
PTV/bbl	20	40	80	100
Production Tax without Allowance	350,000,000	700,000,000	1,400,000,000	1,750,000,000
Production Allowance	250,000,000	250,000,000	250,000,000	250,000,000
Production Tax	100,000,000	450,000,000	1,150,000,000	1,500,000,000
Nominal Tax Rate	35%	35%	35%	35%
Rate after Allowance	<b>10.0%</b>	<b>22.5%</b>	<b>28.8%</b>	<b>30.0%</b>
Progressive Tax Rate Deduction	25.0%	12.5%	6.3%	5.0%

# Marginal and Average Rates



# ACES – Base Production

ACES, 12.5% Royalty, Base Production



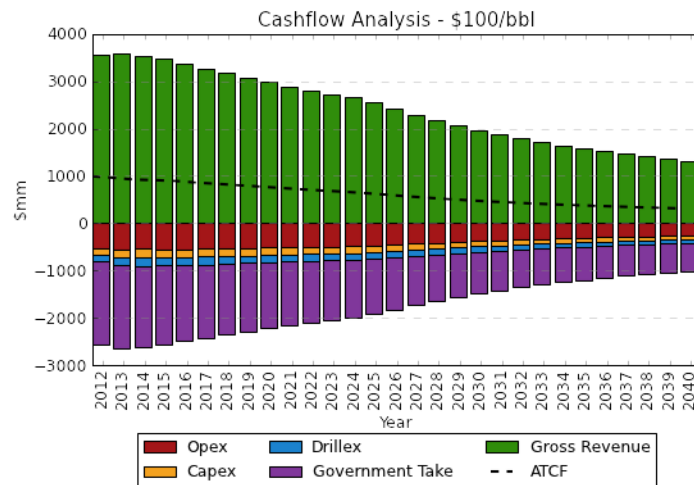
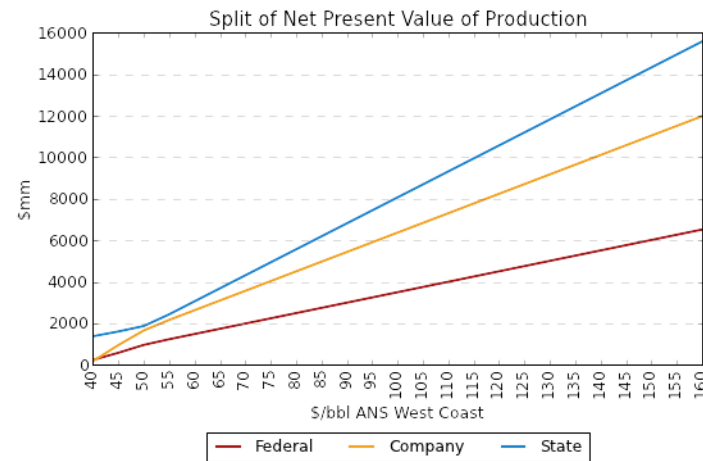
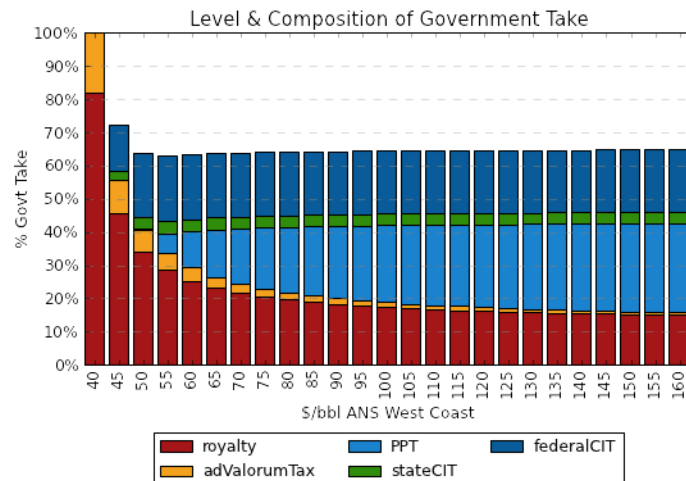
Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	65.89%	4.18		19.04
\$100/bbl	70.65%	5.26		23.92
\$120/bbl	73.92%	6.0		27.09
\$140/bbl	75.46%	6.97		31.89

# SB21

## Base Production

SB 21, 12.5% Royalty, Base Production



Economic Summary

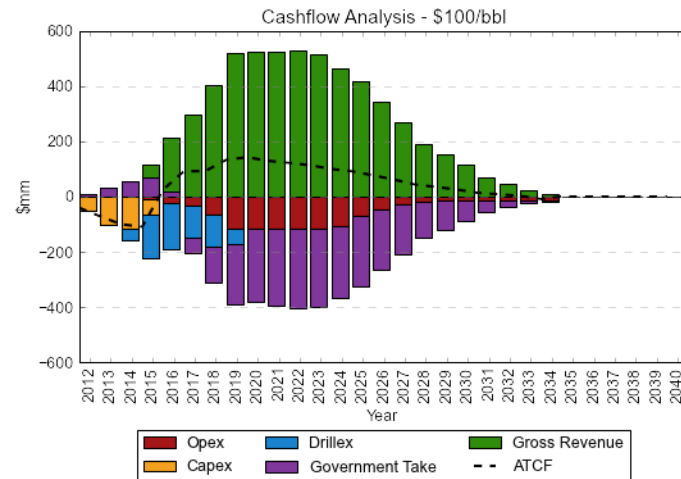
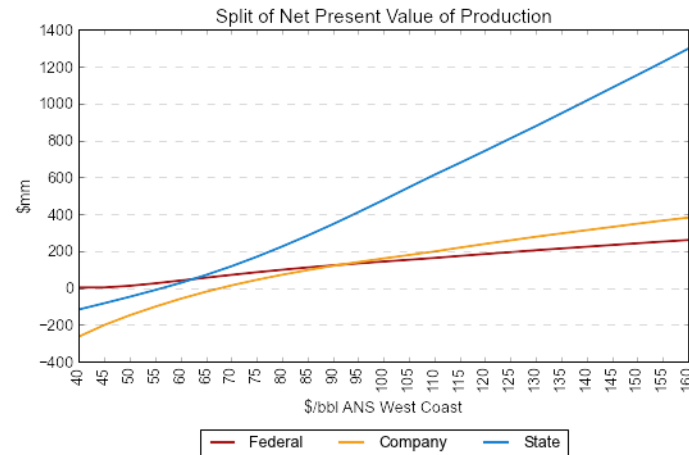
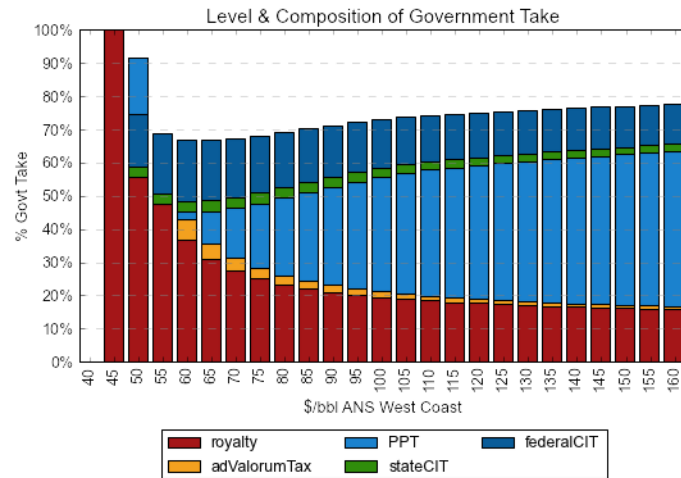
	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	64.22%	4.37		19.77
\$100/bbl	64.54%	6.18		28.11
\$120/bbl	64.71%	8.0		36.45
\$140/bbl	64.81%	9.82		44.78

# GRE increases the price level at which production tax, and 'progressivity', apply

Taxable Production		50,000,000	50,000,000	50,000,000	50,000,000
ANS West Coast		<b>60</b>	<b>80</b>	<b>120</b>	<b>140</b>
Transportation		10	10	10	10
Gross Value at Point of Production		2,500,000,000	3,500,000,000	5,500,000,000	6,500,000,000
Lease Expenditures		1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
GVPP/bbl		50	70	110	130
Lease Expenditures / bbl	30	30	30	30	30
PTV before GRE		1,000,000,000	2,000,000,000	4,000,000,000	5,000,000,000
Prod tax without GRE		350,000,000	700,000,000	1,400,000,000	1,750,000,000
GRE	30%	750,000,000	1,050,000,000	1,650,000,000	1,950,000,000
PTV		250,000,000	950,000,000	2,350,000,000	3,050,000,000
PTV/bbl		20	40	80	100
Production Tax without Allowance		87,500,000	332,500,000	822,500,000	1,067,500,000
Production Allowance	\$ 5.00	250,000,000	250,000,000	250,000,000	250,000,000
Production Tax		-	82,500,000	572,500,000	817,500,000
Nominal Tax Rate	35%	35%	35%	35%	35%
Rate after Allowance and GRE		<b>0.0%</b>	<b>4.1%</b>	<b>14.3%</b>	<b>16.4%</b>
Progressive Tax Rate Deduction		35.0%	30.9%	20.7%	18.7%

# ACES - \$18/bbl New Development, Standalone

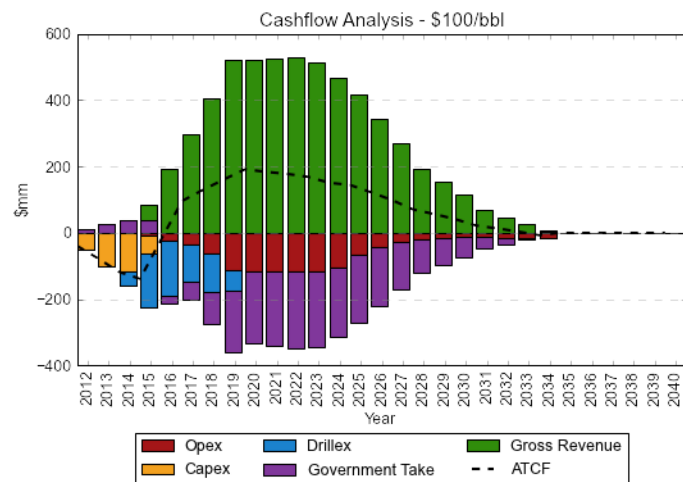
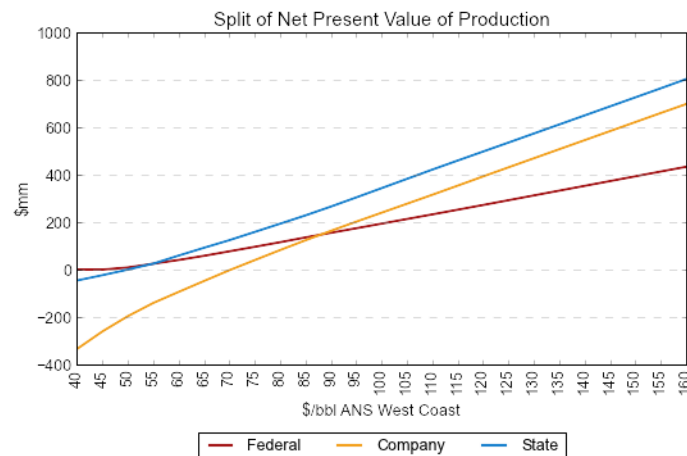
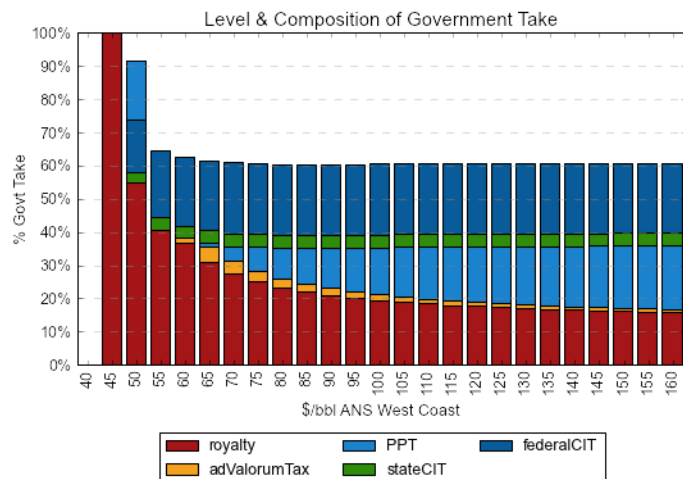
ACES, 12.5% Royalty, \$18/bbl New Development, Standalone



Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	69.25%	1.44	16.15%	22.21
\$100/bbl	73.03%	3.21	20.95%	27.06
\$120/bbl	75.13%	4.78	24.84%	30.63
\$140/bbl	76.52%	6.27	28.18%	34.71

SB21, 12.5% Royalty, \$18/bbl New Development, Standalone



Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	60.56%	1.67	15.83%	26.56
\$100/bbl	60.60%	4.83	22.23%	35.76
\$120/bbl	60.76%	7.89	27.63%	44.59
\$140/bbl	60.81%	10.95	32.47%	53.36

# Credits – NOL, Exploration & Small Producer

- Impact of ACES on project economics is very different for an incumbent vs a new producer
  - At current prices, incumbent experiences impact of ‘buydown’ effect, with new spending reducing tax rate from levels above 25% (plus also impact of capital credit)
  - New producer receives only impact of 25% NOL credit (plus capital credit)
- Fully monetizable NOL credit for small producers evens this playing field
  - All producers receive effective 35% government support for spending, whether new or incumbent
    - Flat, low marginal rate maintains strong incentive for efficiencies and cost control
    - No undue exposure to the state from higher cost projects at low prices
- Aim is to even the playing field and limit the level of support for exploration as well as other forms of spending
  - Allowing the Exploration credit to sunset, but having the fully monetizable 35% NOL credit means 35% government support for exploration spending
  - Again, even impact between incumbent vs new producer
- When the impacts of the system are even between incumbent vs new producer, strong argument that extending ‘small producer’ credit is less warranted
- Overall impact is to significantly simplify the system

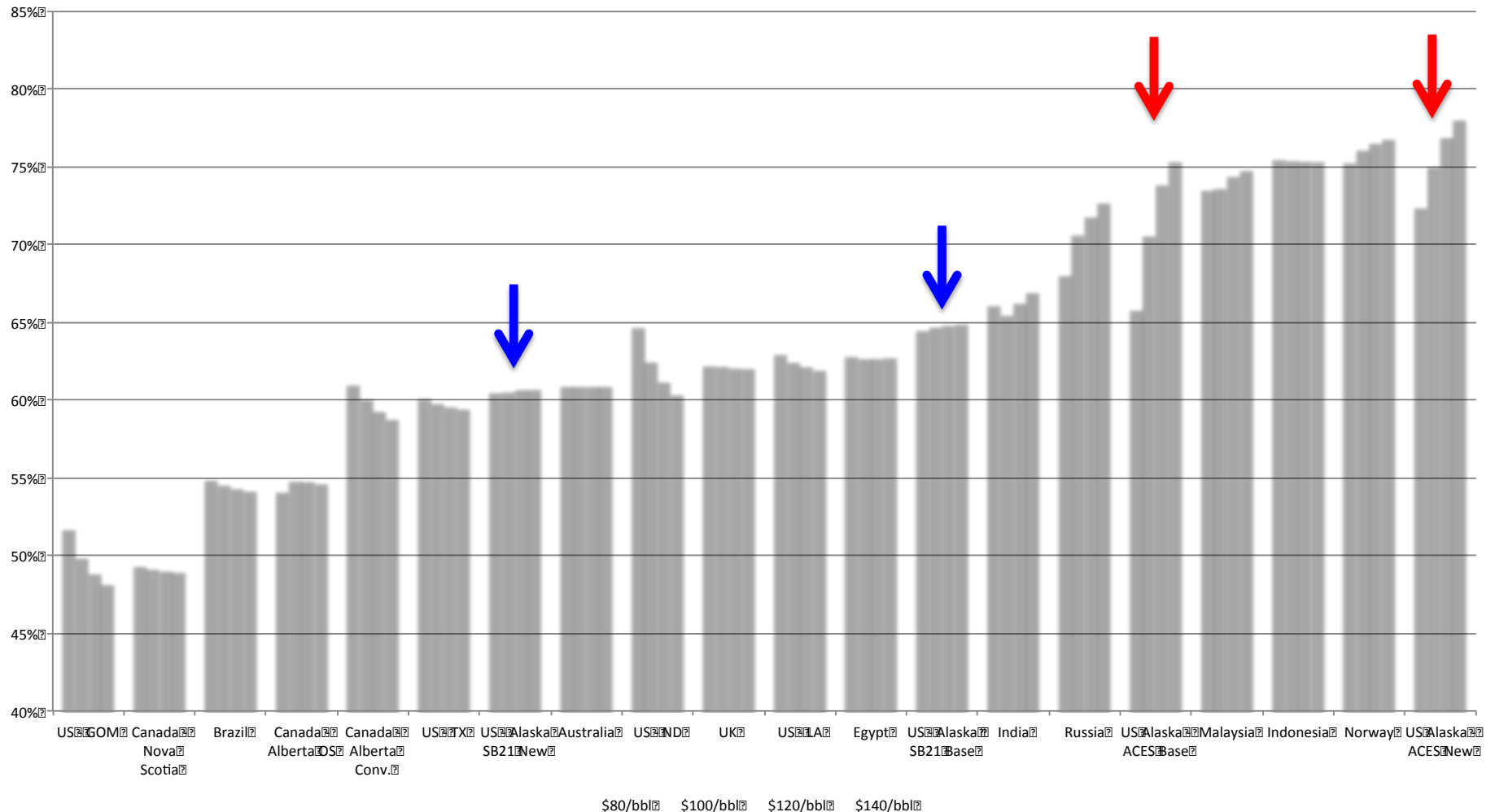


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# Government Take Competitiveness

Alaska Government Take Competitiveness Compared to Comparable Regimes



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