



House Resources Committee

Kara Moriarty, President/CEO
February 1, 2017



AOGA members



Guiding Principles to Measure Progress

Production

Investment

Competitiveness

Revenue

“Fair Share”

North Slope production increased for the first time since 2002



Source: DOR FALL 2016 RSB

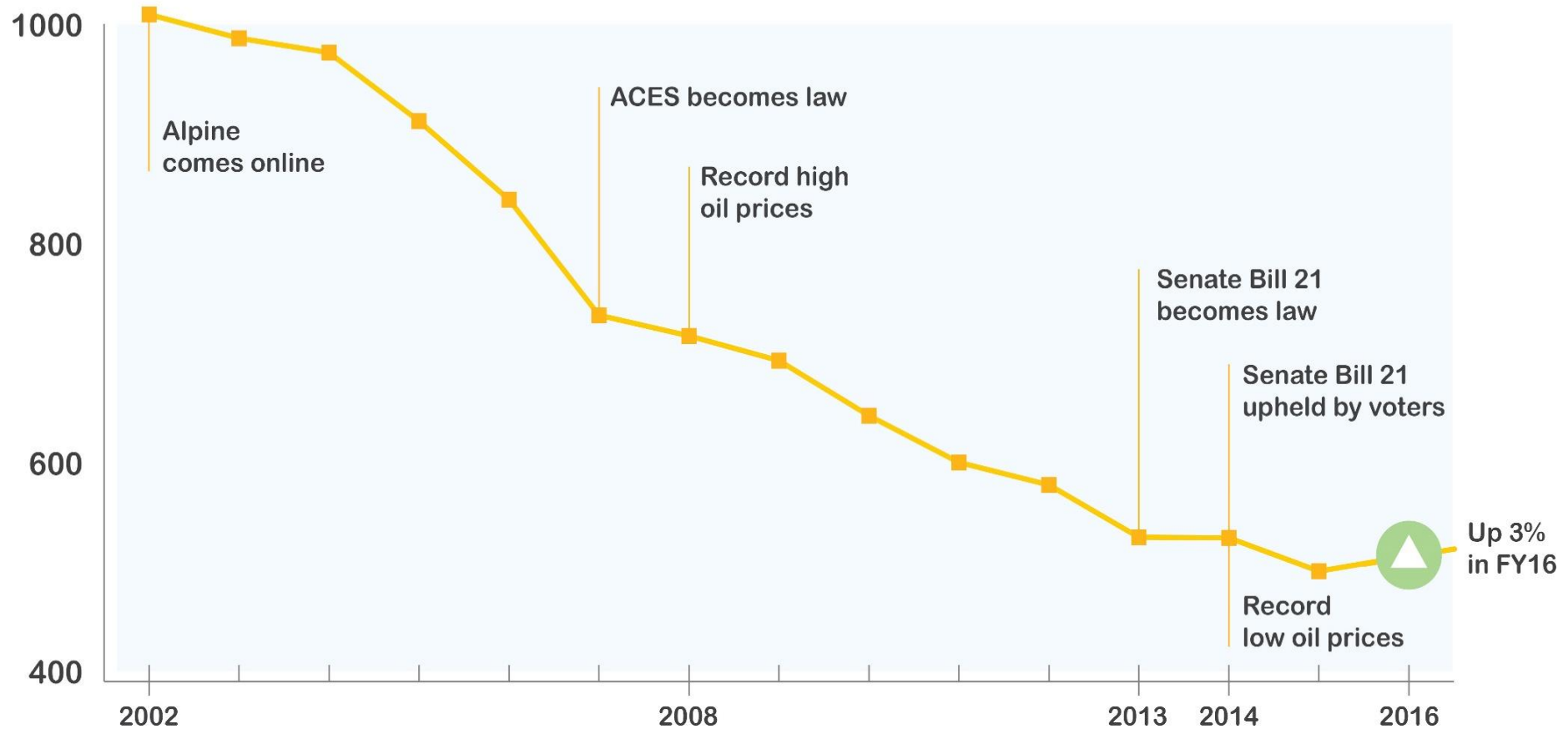
**OIL & GAS:
FUELING
ALASKA'S
ECONOMY**

AOGA
Alaska Oil and Gas Association

Alaska Oil Production

2002 - 2016

(Average in Thousands of Barrels per Day)



Source: Alaska Department of Revenue

Improved North Slope production - even as prices declined

Average ANS
Price – FY 13:
\$107.33

Average ANS
Price – FY 16:
\$43.18

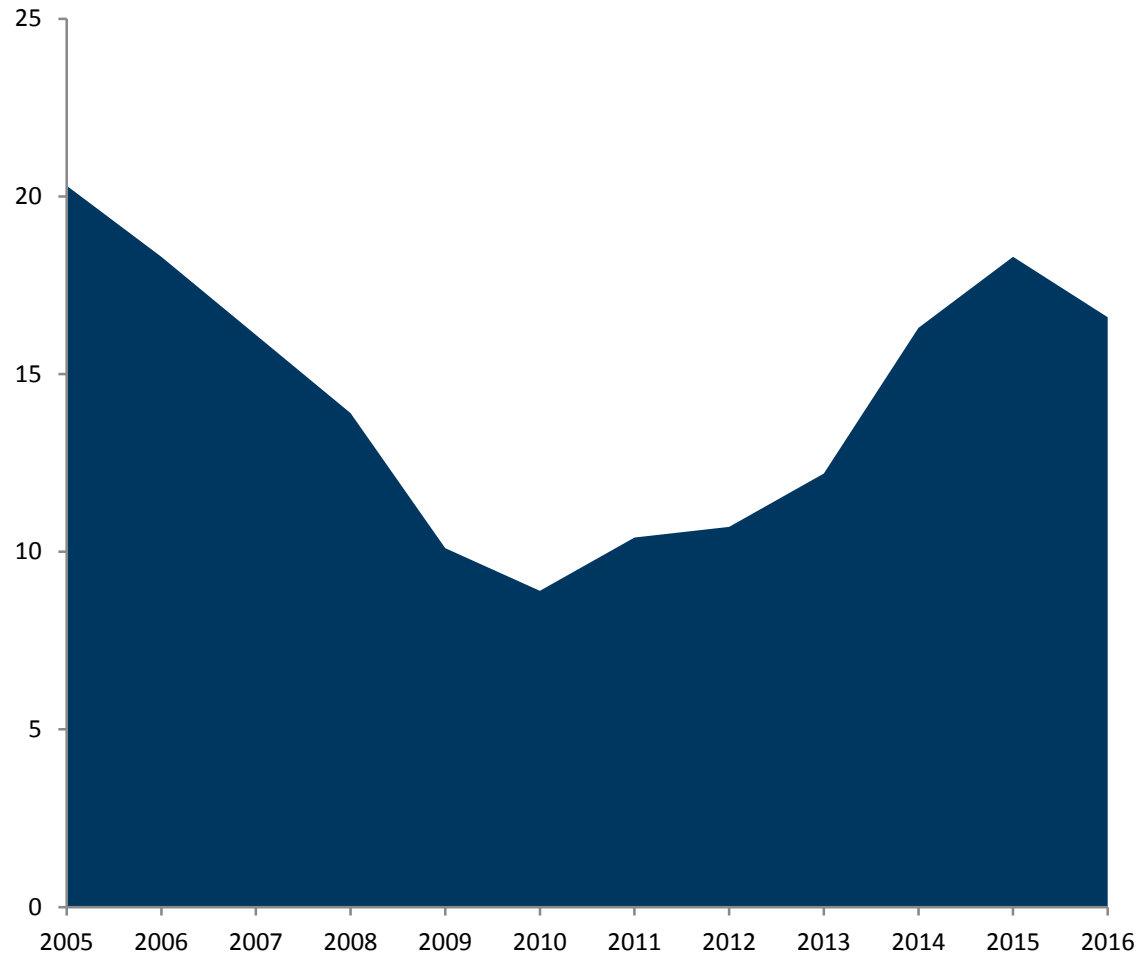
Source: DOR Fall Sources Book – 2013 & 2016

Year	Fall 2013 North Slope Forecast	Fall 2016 North Slope Forecast
2016	487.6	514.9*
2017	482.7	490.3
2018	459.5	455.6
2019	429.1	442.1
2020	399.6	428.6
2021	368.8	413.5
2022	340.1	398.2
2023		380.4
2024		363.4
2025		345.9

* Actual Production

* Production is in thousands of barrels per day

Cook Inlet Oil production up 84%



* Production is in thousands of barrels per day

Source: DOR Fall Sources Book – 2013 & 2016

Guiding Principles to Measure Progress

Production

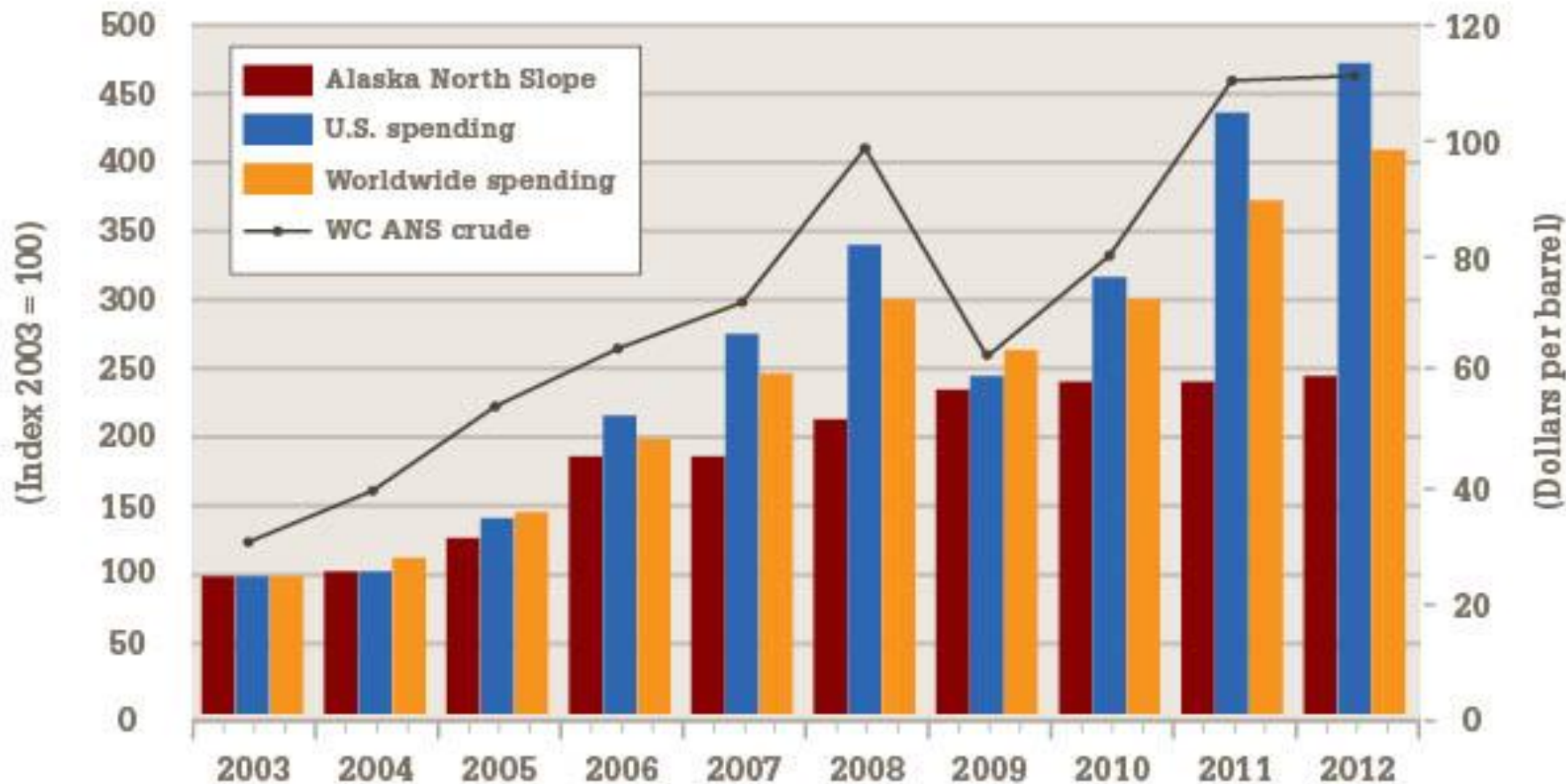
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Estimated capital spending* for exploration and development Alaska North Slope vs. U.S. and worldwide for the years 2003 – 2012



*North Slope figures based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

Source: Econ One Research

Net Profits Tax is very Volatile to Price

North Slope Lease Expenditures (from Producing fields) Per Produced Barrel since Switch to "Net"

	Average Oil Price	Spending (\$millions)	Production / day (000)	Production / year (million)	Per Barrel		
					Tariff & Transport	Opex & Capex	Total Cost
2007	71.76	3,201	734.2	268.0	5.40	11.94	17.34
2008	98.18	3,560	715.4	261.1	6.05	13.63	19.68
2009	61.27	3,688	692.8	252.9	6.38	14.58	20.96
2010	79.28	3,525	642.6	234.5	6.01	15.03	21.04
2011	109.86	3,858	599.9	219.0	6.67	17.62	24.29
2012	110.84	2,975	579.3	211.4	8.37	14.07	22.44
2013	107.6	4,442	531.6	194.0	9.76	22.89	32.65
2014	97.74	5,212	530.4	193.6	10.42	26.92	37.34
2015	52.09	5,615	501.0	182.9	9.72	30.71	40.43
2016	43.04	4,842	514.9	187.9	9.88	25.76	35.64

Source: DOR Presentation to House Resources – Jan. 2017 & DOR Website

Increased Investment = New Projects, Major New Discoveries

“Hilcorp delivers new rig to North Slope Moose Pad expansion”

Alaska Dispatch News, October 13, 2016

“Greater Prudhoe Bay area production had less than a 1% decline in 2016”

Platts, December 2016

“Caelus aims to unlock vast Torok oil resource”

Alaska Journal of Commerce, September 16, 2015

“Production begins at Point Thomson on Alaska’s North Slope”

Oil & Gas Journal, April 22, 2016

“‘Surprising’ Alaska oil-lease sale draws big bids”

Alaska Dispatch News, December 15, 2016

“ConocoPhillips orders monster rig to set new drilling standard and tap new field in Alaska”

Alaska Dispatch News, October 6, 2016

“Ahtna completes exploration well near Glennallen, plans tests for potential gas”

Petroleum News, December 11, 2016

“Caelus claims Arctic oil discovery that could rank among Alaska’s biggest ever”

Alaska Dispatch News, October 4, 2016

“Hilcorp files new development plan for Liberty prospect”

Alaska Dispatch News, May 31, 2016

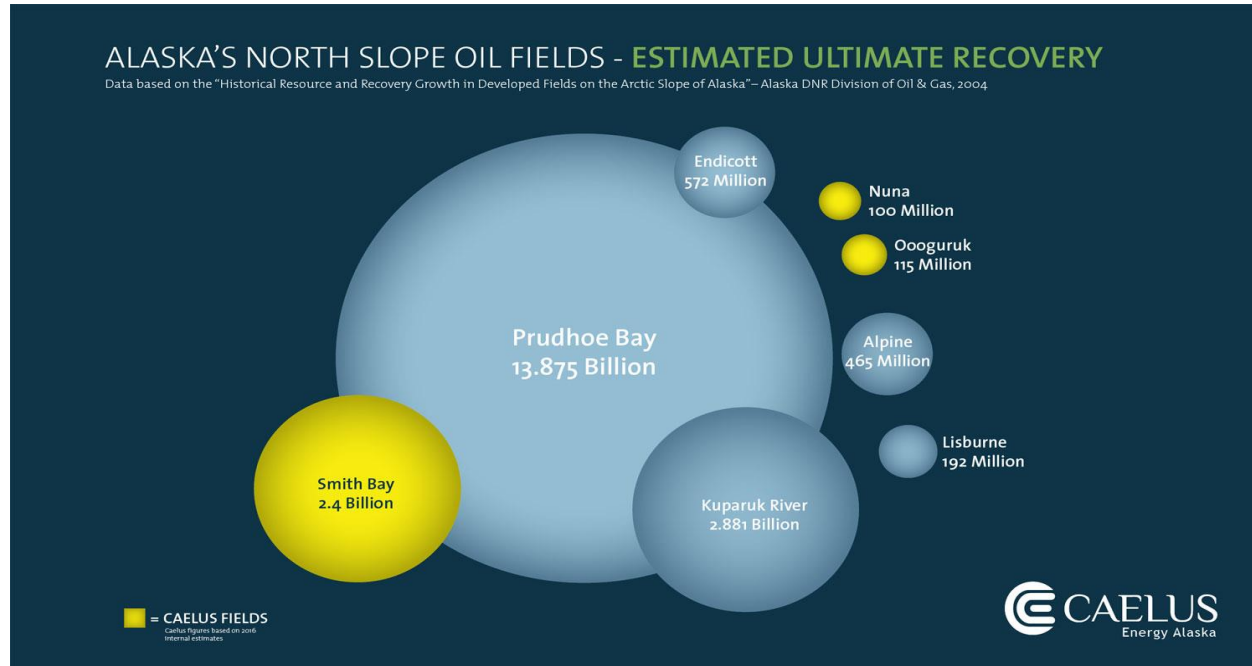
“Development Of Huge North Slope Alaska Oil
Discovery Moving Forward (Armstrong’s Pika Unit)”

Fairfield Times, March 1, 2016

“ConocoPhillips announces Alaska discovery with daily production potential of 100,000 barrels”

Alaska Dispatch News, January 13, 2017

Will policy allow Alaska to develop major Alaska discovery?



***John Hendrix, Governor's Oil & Gas Advisor:
"We must expedite oil and gas discoveries and move
them into production." – 1/13/17***

Credit Cost in Perspective

North Slope Repurchased Credits

- Between FY07-FY16 spent \$1.5 billion supporting seven producing projects
- Total production from these producers through end of 2015 is 63 million barrels
- Total credits = **\$24** / barrel
 - Doesn't include payments to non-producing projects
 - This number will decrease over time due to additional production from these fields
- Lease expenditures for these projects, through FY15, were \$6.0 billion
 - Credit support was **25%** of lease expenditures³¹

Source: DOR Presentation to House Resources – Jan. 2017

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Is Alaska competitive when tax policy has changed 6 times in a decade?

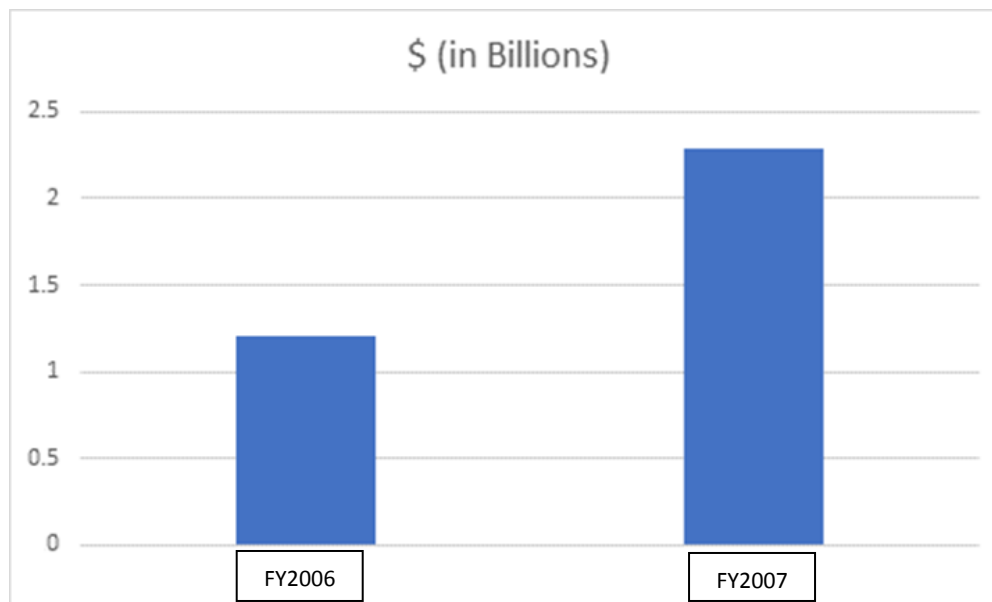
- February 2005 – March 31, 2006: Aggregated ELF – Decision that altered gross production tax **(Tax increase)**
- April 1, 2006 – July 2007: Petroleum Production Tax (PPT) **(Tax increase)**
- July 2007 – 2013: Alaska's Clear and Equitable Share (ACES) ***(Tax increase)**
- 2010: Cook Inlet Recovery Act **(Incentives for Industry)**
- 2014 – present: SB 21 **(Both)** & SB 138
- 2016: HB 247 – Governor Walker's oil tax reform **(Tax increase)**
- *2016: Gov. Walker Additional proposal (SB 5005) **(Tax Increase)***

* Some provisions of ACES made retroactive to enactment of PPT, others to 1/1/2007

No other region considers oil/gas changes more than Alaska.

PPT was NOT neutral – Increased taxes

- PPT DOUBLED Alaska's production tax



- No one disputed that PPT brought the state more tax revenue than ELF would have.
- The Palin Administration criticized PPT for failing to generate all the tax revenues as predicted in the fiscal note, and even suggested at the time that PPT would generate \$800 million more, but when in reality, DOR did not accurately predict expenditures, which led to the discrepancy, however, it was still a major tax increase and could never be described as neutral.

Source: DOR Fall 2007 Forecast

Alaska is a high cost environment

Average ANS Price – Jan 2016 – Dec 2016	\$43.17
Transportation Costs	(\$9.88)
Total <i>Deductible</i> Operating Expenditures	(\$16.53)
Total <i>Deductible</i> Capital Expenditures	(\$14.71)
Total Average <i>Deductible</i> Cost Per Barrel Before Tax & Royalty	(\$41.12)
Transportation Costs	(\$9.88)
Total Operating Expenditures	(\$18.14)
Total Capital Expenditures	(\$20.72)
Total Average Cost Per Barrel Before Tax & Royalty	(\$48.74)

Source: DOR Fall 2016 Forecast & DOR Historical ANS Prices

A Net Profits Tax is very Volatile to Price

SB21 Tax Calculation At Different Prices

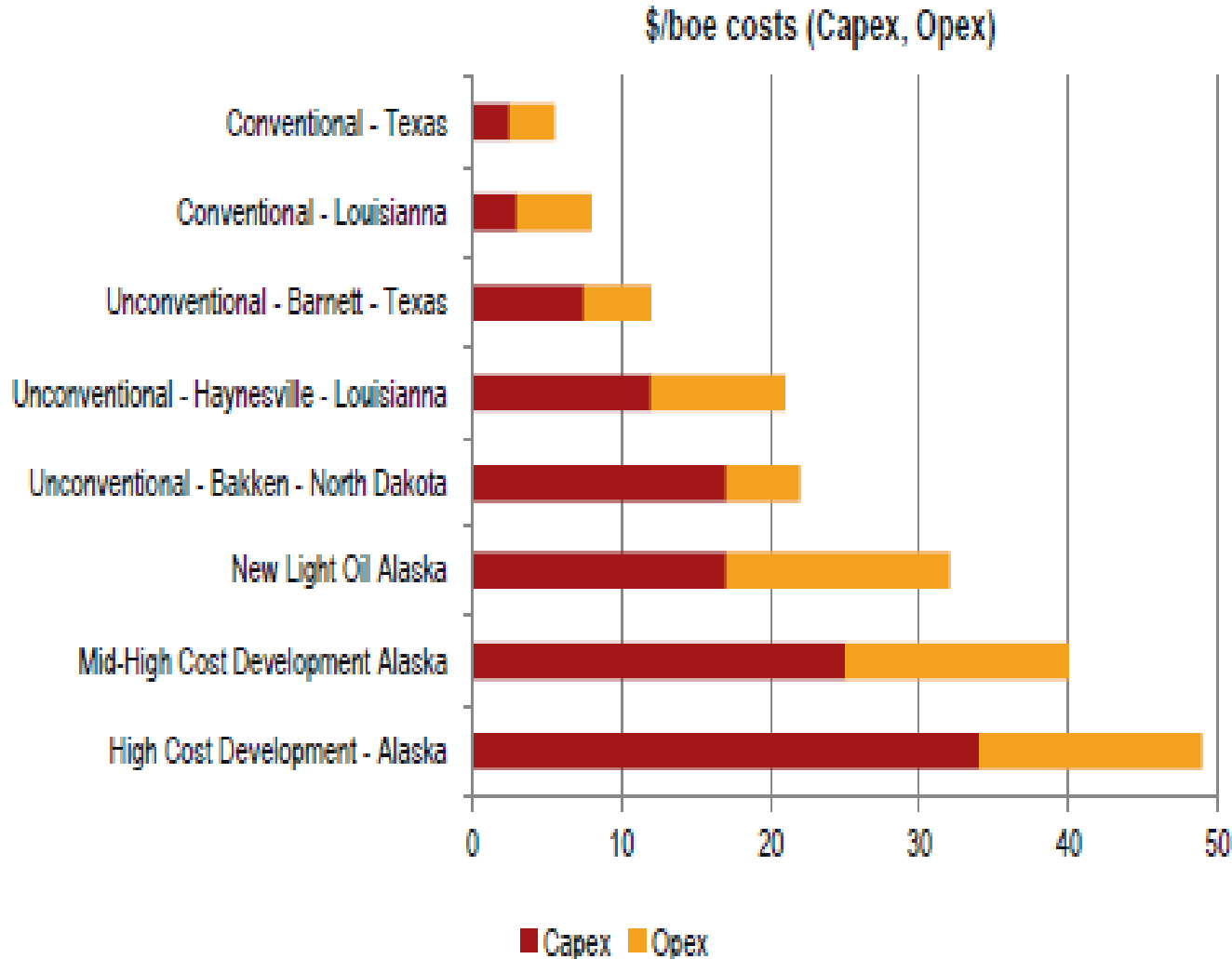
per one barrel of taxable oil; FY17 costs per Spring 16 RSB

Price	\$40	\$60	\$80	\$100	\$120	\$140
Transport	\$9.33	\$9.33	\$9.33	\$9.33	\$9.33	\$9.33
GVPP	\$30.67	\$50.67	\$70.67	\$90.67	\$110.67	\$130.67
Lease Expend	\$30.88	\$30.88	\$30.88	\$30.88	\$30.88	\$30.88
PTV (net)	-\$0.21	\$19.79	\$39.79	\$59.79	\$79.79	\$99.79
Tax at 35%	-\$0.08	\$7.52	\$15.12	\$22.72	\$30.32	\$37.92
Per-BBL Credit	\$8	\$8	\$8	\$6	\$4	\$2
Tax per Net	-\$8.08	-\$0.48	\$7.12	\$16.72	\$26.32	\$35.92
Minimum Tax	\$1.23	\$2.03	\$2.83	\$3.63	\$4.43	\$5.23
Higher Of	\$1.23	\$2.03	\$7.12	\$16.72	\$26.32	\$35.92
Tax as % of Price	3%	3%	9%	17%	22%	26%
Tax as % of GVPP	4%	4%	10%	18%	24%	27%
Tax as % of PTV	-584%	10%	18%	28%	33%	36%

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Source: DOR Presentation to House Resources – Jan. 2017

Alaska has higher costs than competitors



Source: PFC Energy, Jan 2013, Presentation to Alaska Legislature

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Alaska Oil & Gas Industry has been almost sole source of government revenue

Total unrestricted revenue since Statehood: 85%

- Healthy industry supports not only government, but a healthy state economy.
- 1/3 all Alaska jobs (110,000 jobs) are attributed to industry
- Every direct job = 20 more jobs in Alaska
- Every dollar in wage = \$8 more in Alaska wages

Source: DOR FALL 2016 RSB & McDowell Group

SB 21 generates more revenue to the state at low prices

Jan. 26, 2015: DOR Commissioner Randy Hoffbeck:

“SB 21 brings in substantially more revenue to the State at low prices than ACES.”

(Senate Finance testimony)

Industry pays more in government revenue than it receives in credits

Total FY16 revenue: \$2.1 billion

FY 16 credits: \$598 million

- **Used against tax liability: \$100 million**
- **Eligible for state purchase (“cashable”): \$498 million**
 - **Total North Slope credits: \$302 million**
 - **Total Non-North Slope credits: \$296 million**

Source: DOR FALL 2016 RSB

Tax credit vetoes:

Saving money or creating uncertainty?

- June 30, 2015: Governor Walker vetoes \$200 million for earned credits
 - *“Though the 200 million veto only defers our obligations, and does not change the state’s bottom line...”* – Gov. Walker, ADN, 6/30/15
- June 30, 2016: Governor Walker vetoes \$430 million in retroactive FY 16 funding.
- Governor confirms in press conference there is no actual savings to the State and credits will have to be paid at some point.

\$646 million of the \$961 million forecasted for “cashable” credits is a carried forward balance due to the Governor’s vetoes.

Source: DOR FALL 2016 RSB

Net Operating Loss (NOL) credits: Important for All

- NOL credits are a cornerstone of any net based tax system.
- They are important for all companies – whether currently in production or simply in a loss position, which could be due to low oil prices or for companies that do not have tax liability yet (i.e. no production).

Gross versus net

EXAMPLE. Suppose a McDonalds® sells \$10,000 worth of hamburgers etc. each day. And suppose its wholesale cost for the products sold each day is \$8,000, its costs for utilities, taxes, hamburger buns, etc. are \$1,000 a day, and wages for its staff are \$900 a day – making a total daily cost of \$9,900. This McDonalds® would be clearing \$100 a day. (These hypothetical figures are solely to illustrate the difference between “gross” and “net” taxes, and no figure is intended to reflect any real McDonalds®.)

A “gross” tax would be a percentage of the \$10,000 that this McDonalds® takes in.

A “net” tax would be a percentage of the \$100 a day that this McDonalds® clears.

In this hypothetical example, a 1% gross tax would take away all that this McDonalds® is clearing, and anything more would put it in the red. But even a 10% net tax would leave it with \$90 a day – 90% of what it’s clearing.

McDonalds® is a Registered Trademark of McDonalds Corporation.

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Production

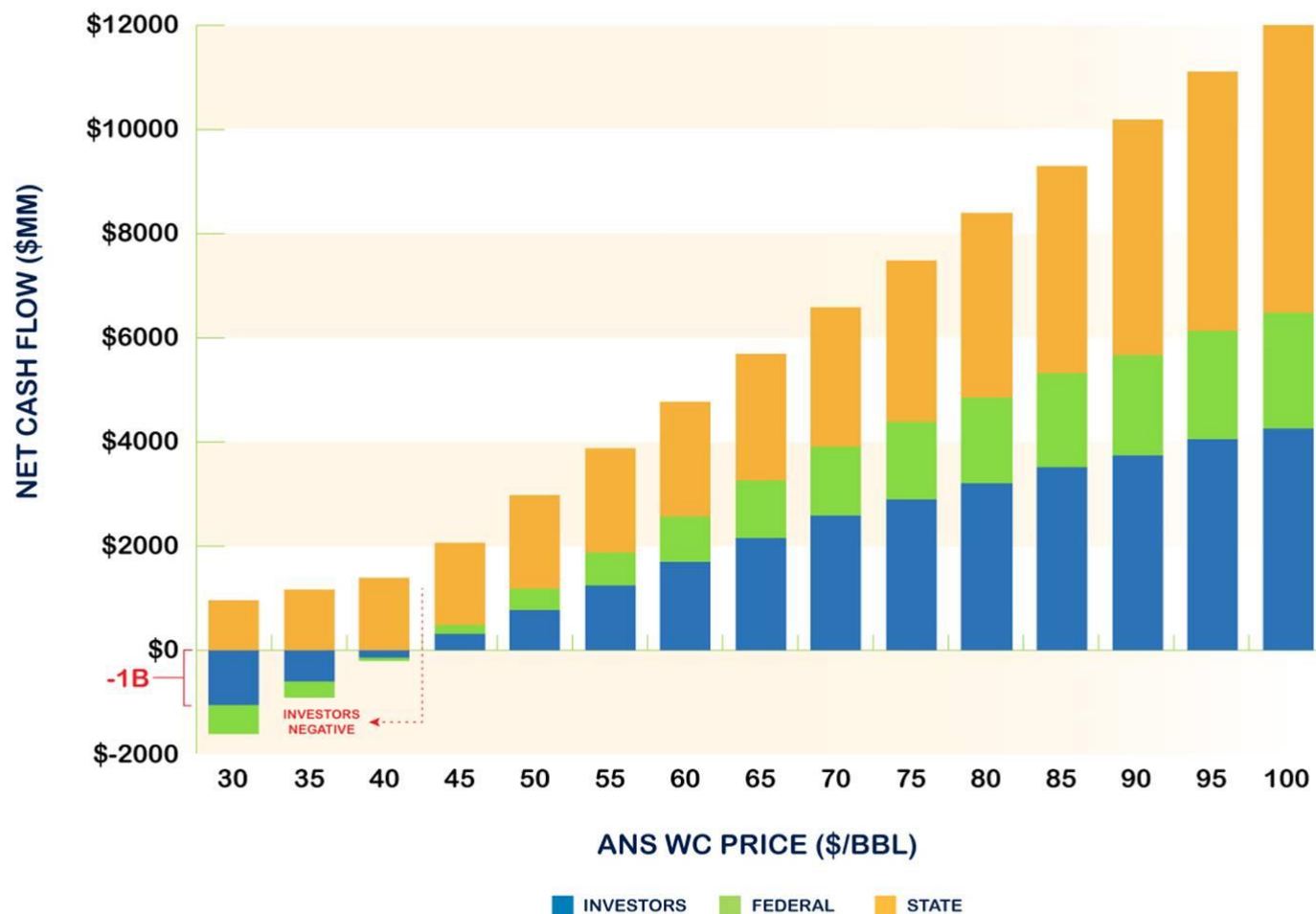
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What is government share?



Good policy & incentives necessary to unlock mega-resource potential

More
Production?

Competitive?

Stability?

Predictable?

RESOURCE POTENTIAL	
STATE LAND	FEDERAL LAND
Cook Inlet 599 mbo and 19 tcf gas	Offshore Arctic 27 bbo and 132 tcf gas
Onshore North Slope Conventional: 5 bbo and 35 tcf gas Heavy/Viscous: 24-33 bbo Unconventional: 2 bbo and 12 tcf gas	NPR-A 896 mbo and 53 tcf gas ANWR 10 bbo and 3.5 tcf gas
mbo – million barrels of oil bbo – billion barrels of oil tcf – trillion cubic feet	

Source: USGS