HB 411

An Act relating to the Oil and Gas Production tax, tax payments, and credits; and providing for an effective date.

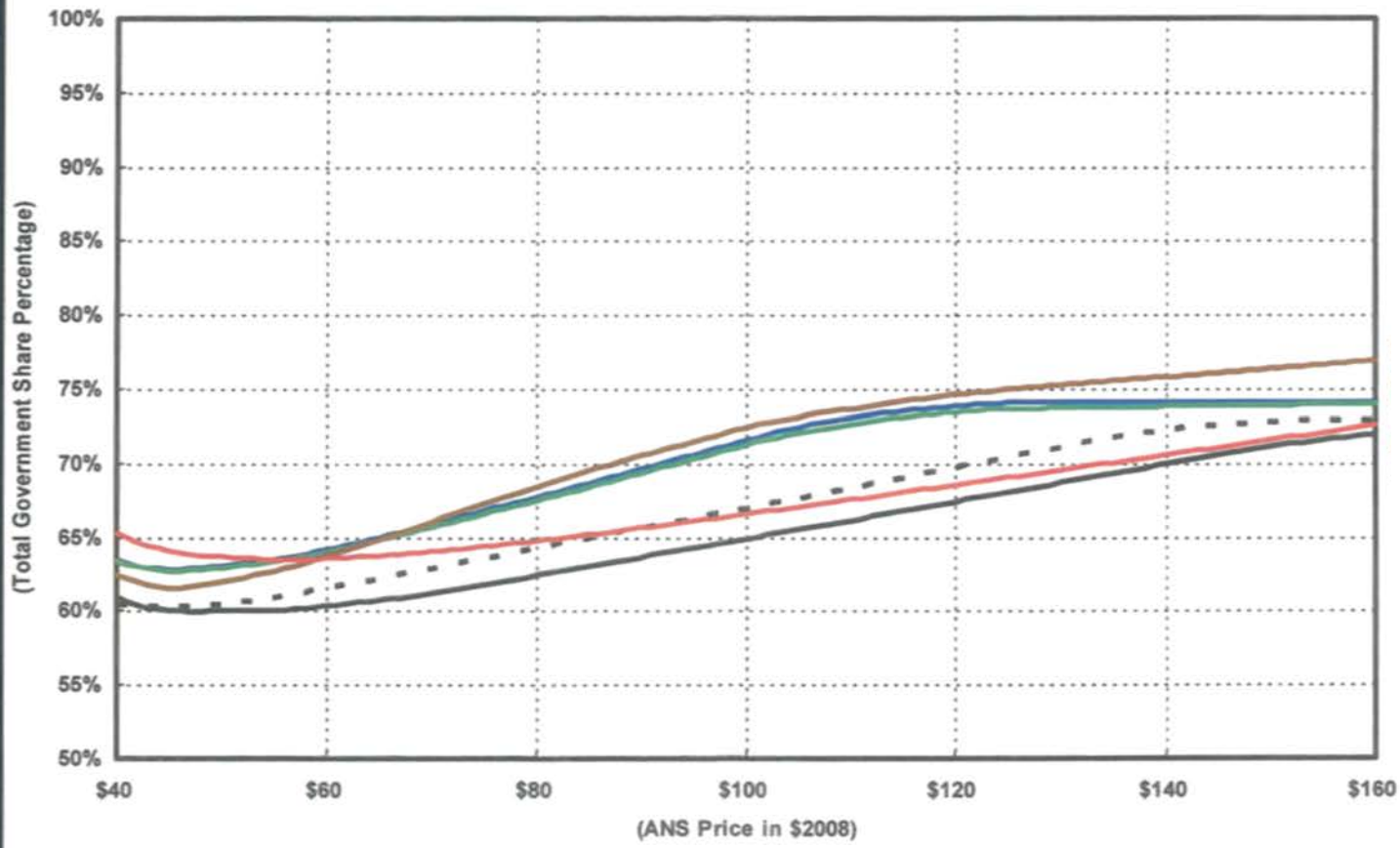
HOUSE FINANCE COMMITTEE – APRIL 10, 2018

Consultant Daniel Johnston on Average Worldwide Government Take

"…the world average government take even right now is probably 67 or 70 depending upon how you calculate it. Wood Mackenzie aggregates their statistics a little bit differently too [inaudible] but in the Wood Mackenzie world Average government take statistics from their study was I think 71%"

Joint House Resources/House Finance Committee
March 26, 2006

Estimated Total Government Share at Various West Coast ANS Price Levels
(FY 2008-2014)

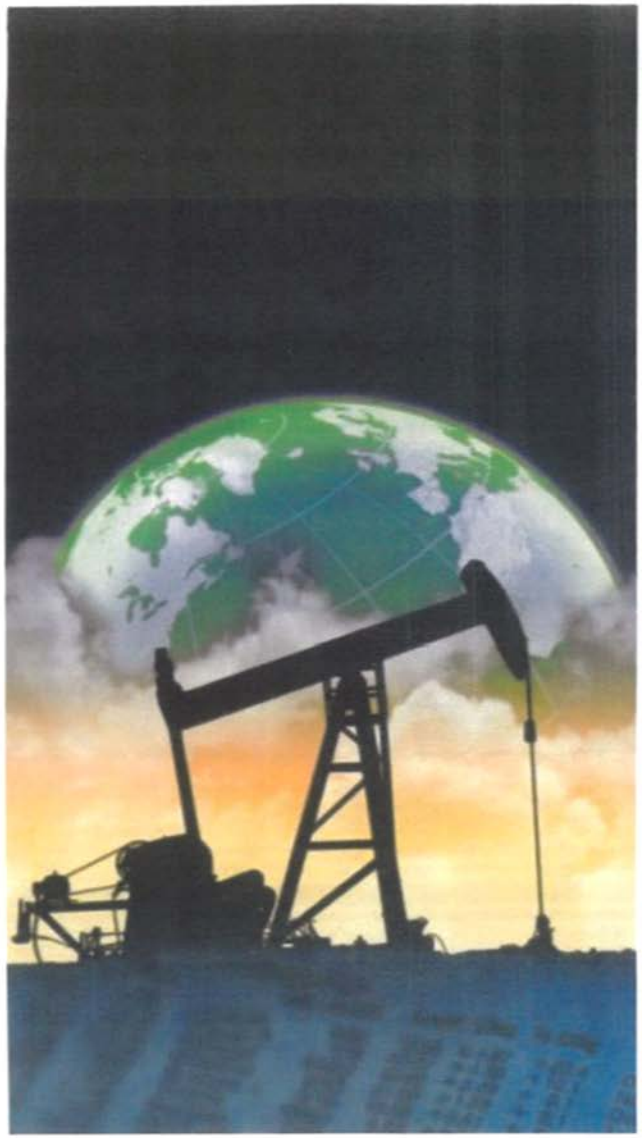


Note: Volumes per current Fall 2007 DOR Forecasts.

Senate Finance: SB2001 using 22.5% base rate; progressivity of 0.6% $30-$50, 0.5% $50-$75, 0.35% $70-$90, 0.1% above $90, 75% overall cap, TIE credit 2Q06-2007 for new producers.
PPT Expected: Current Law using costs per fiscal note to HB3001.
Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2Q06-2007 for new producers, does not include TAPS adjustment.
House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2Q06-2007 for new producers, Opex indexed to 2006 figures, does not include TAPS adjustment.

11/13/07

econ ONE



Senate TAPS Throughput Committee

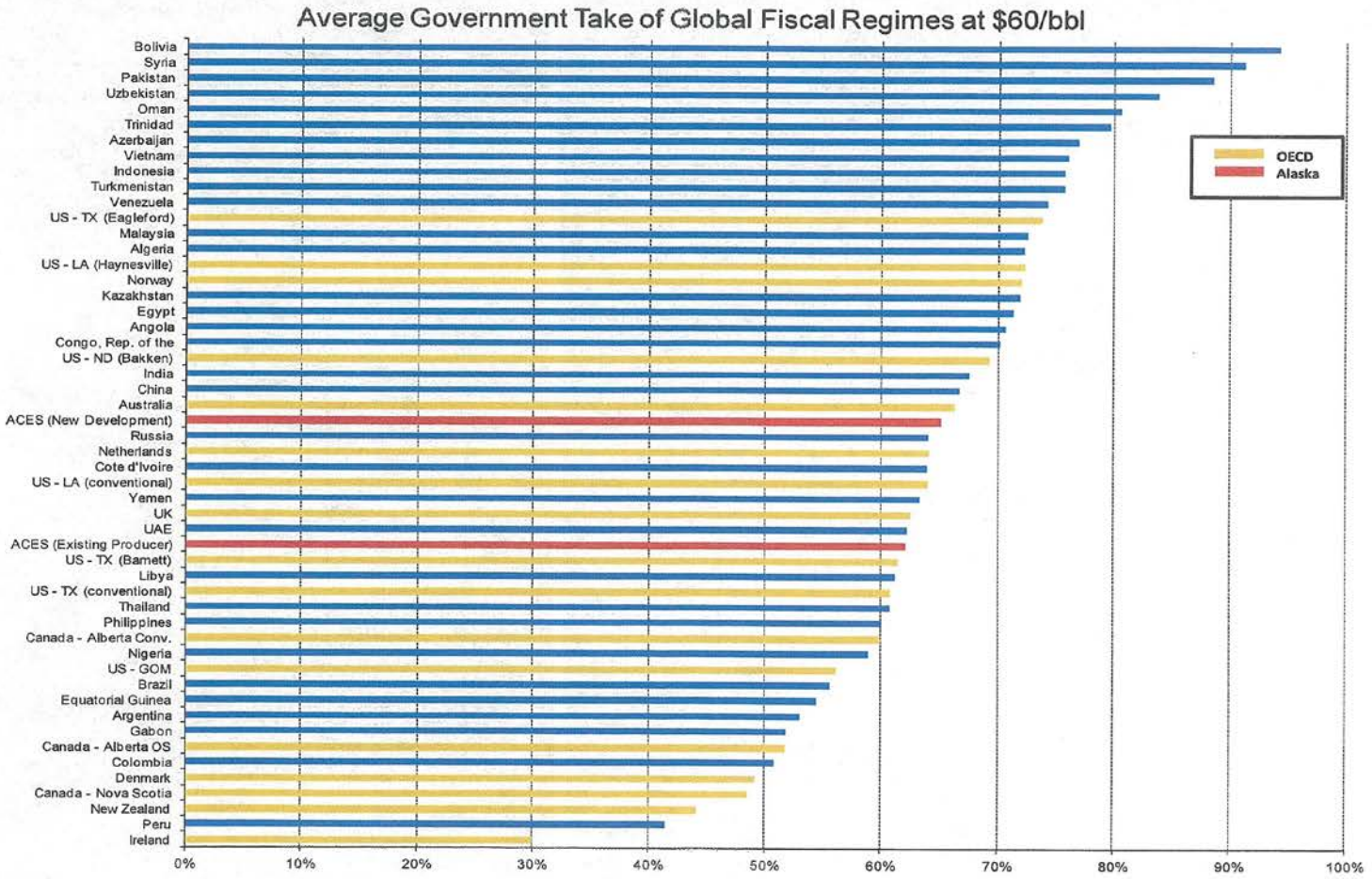
Alaska Hydrocarbons Fiscal Systems

January 31 2013

Janak Mayer
Manager, Upstream
PFC Energy

Tony Reinsch
Senior Director, Upstream
PFC Energy

Regime Competitiveness: Average Government Take at $60/bbl



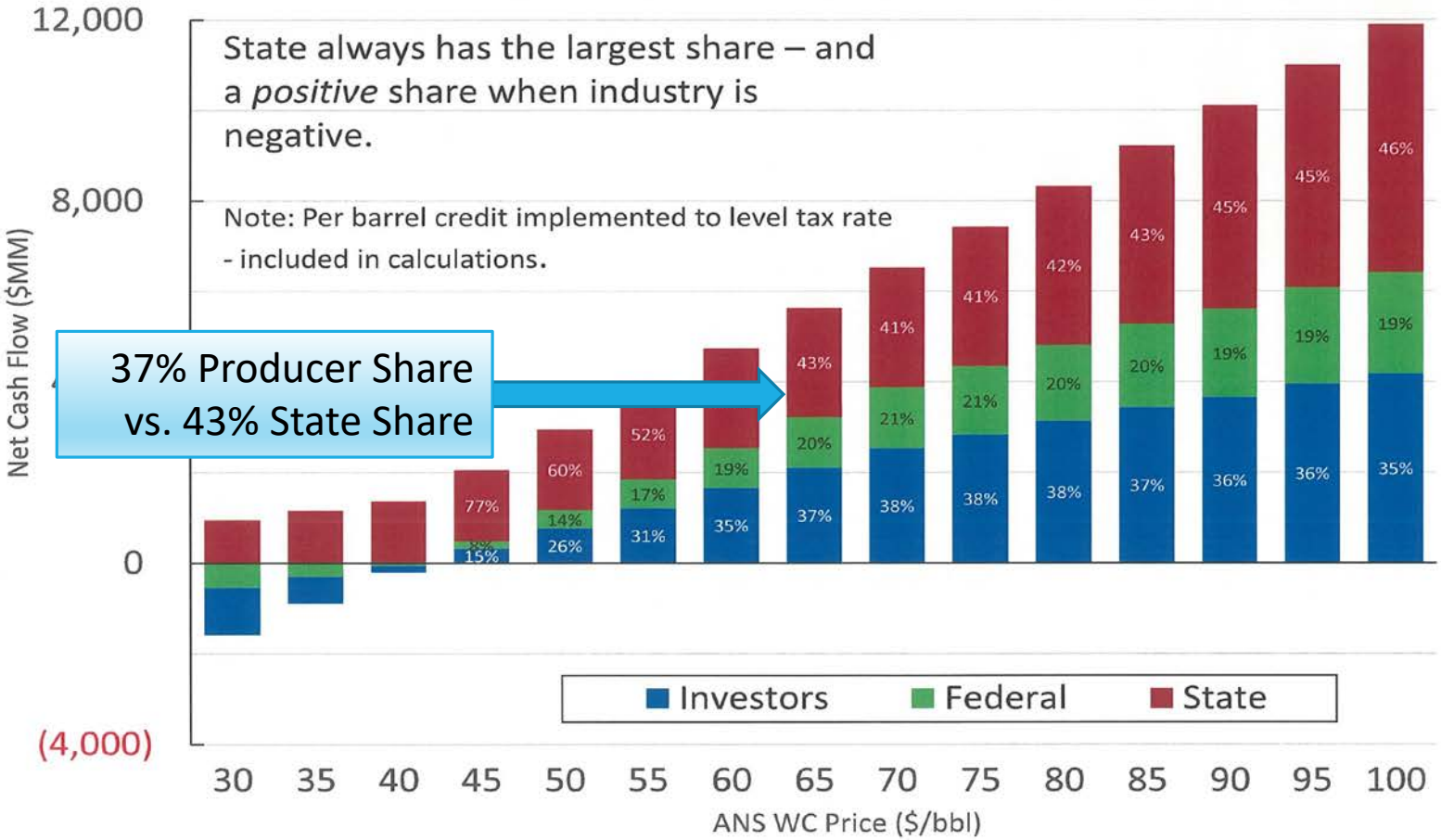
Alaska Hydrocarbons Fiscal System Analysis | © PFC Energy 2013 | January 2013

PFC Energy

Government Take vs. Producer Share

- Looking at the Conoco Phillips presentation slides, the change in the producer share from ANS West Coast 2017 at $65 per barrel to 2018 at $65 per barrel is 11% of the total value shifted to the producers.
- These slides also show that between 2017 and 2018 at $65 per barrel 4% was transferred from the State's share to the producer.
- In 2017 the Conoco Phillips slides stated that the State always has the largest share at any prices.
- By 2018 this is no longer true for all prices between $55 and $95 per barrel (ANS WC).
- These slides also do not show the amount of tax credits subtracted from the State's portion and added to the producers share, for credits purchased or from prior years.

FY 2017 Producer Share vs ANS WC - Fall 2016 RSB Assumptions



State share shown excludes tax credits other than per barrel tax credits.

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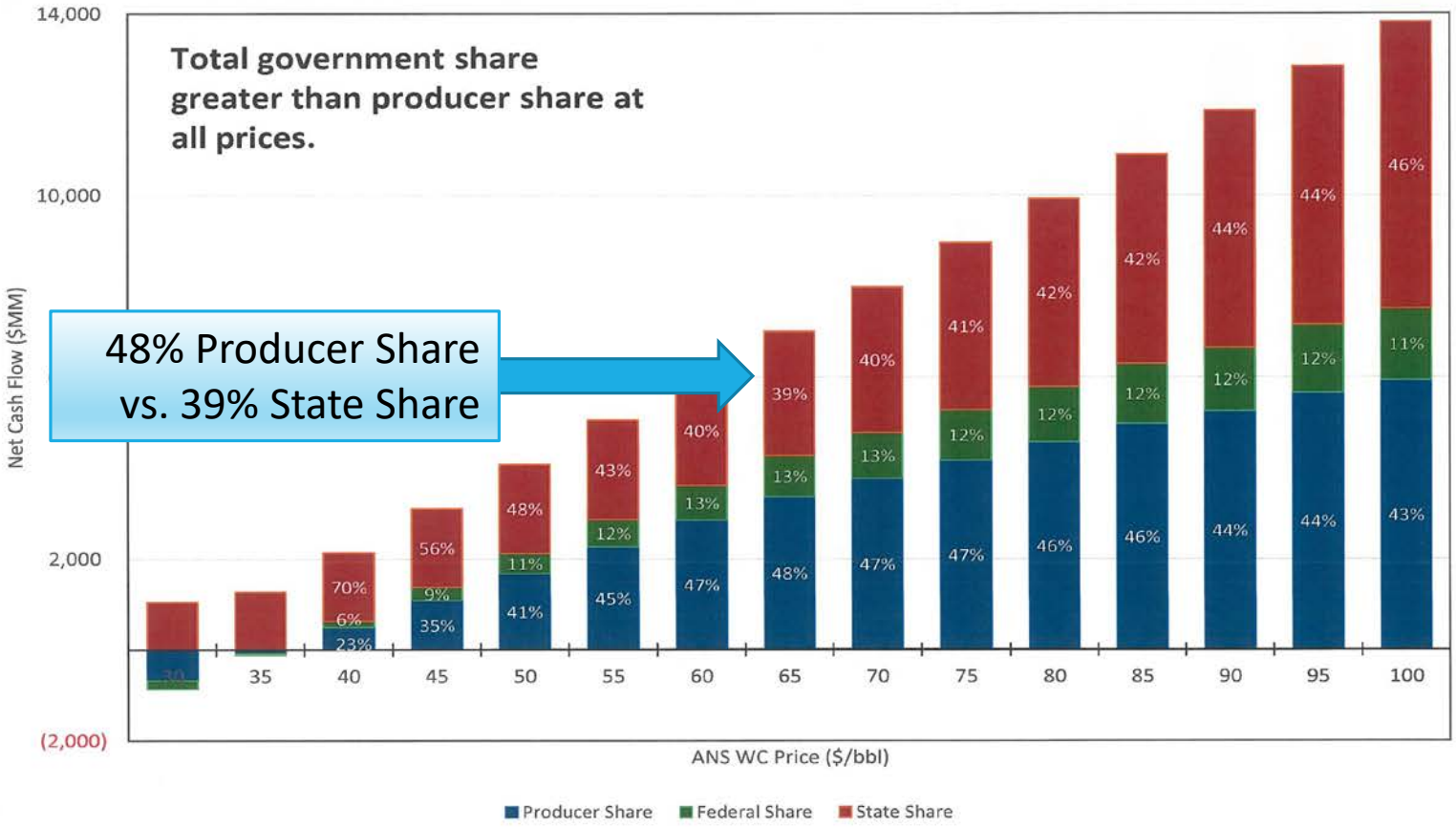
ConocoPhillips

Conoco Phillips Testimony on HB 111 in Senate Finance 4/17/17

FY 2018 State/Fed/Producer Share vs ANS WC - Fall 2017 RSB Assumptions



Estimate generated using Fall 2017 Revenue Source Book assumptions and a 21% federal tax rate for entire fiscal year. State share shown excludes tax credits other than per barrel tax credits. State revenue includes income tax, property tax royalty and production tax.

ConocoPhillips

Conoco Phillips Presentation on HB 288 in House Resources 1/29/18

Illustration of Production Tax Calculation

FY 2019 production tax illustration – Spring 2018
~170 million taxable barrels

	Per taxable Barrel	Total($MM)
Market Price	$63.00	$10,700
Transportation Cost	($8.87)	($1,500)
Gross Value	$54.13	$9,200
Lease Expenditures	($26.41)	($4,550)
Production Tax Value	$27.72	$4,700
Tax @ 35%	$9.70	$1,650
Per-Barrel Credit	$8.00	($1,350)
Net Payment	$1.70	$300
Gross Minimum Tax @ 4%	$2.17	$368
Higher Of (Actual Tax)	$2.17	$368

Issues for Consideration - Historic Gross Tax

Before the switch to a net profits tax in 2006, Alaska's oil production tax, the "ELF" (Economic Limit Factor), was a gross tax that varied from field to field.

The average tax rate was:

- 1995: 11.8%
- 1998: 10.5%
- 2001: 8.3%
- 2004: 6.4%
- 2006: 6.7%

From the start of oil production through 1986, the effective production tax rate was above 14%.

Though taxes were much higher in the era of high prices, since 2015 the production tax has been almost entirely based on the 4% gross tax.

What does the bill do?

HB 411 does the following:

- Repeals Per Barrel Credits

  AS 43.55.024(i) and AS 43.55.024(j)

- Lowers Production Tax Rate from 35% to 25%

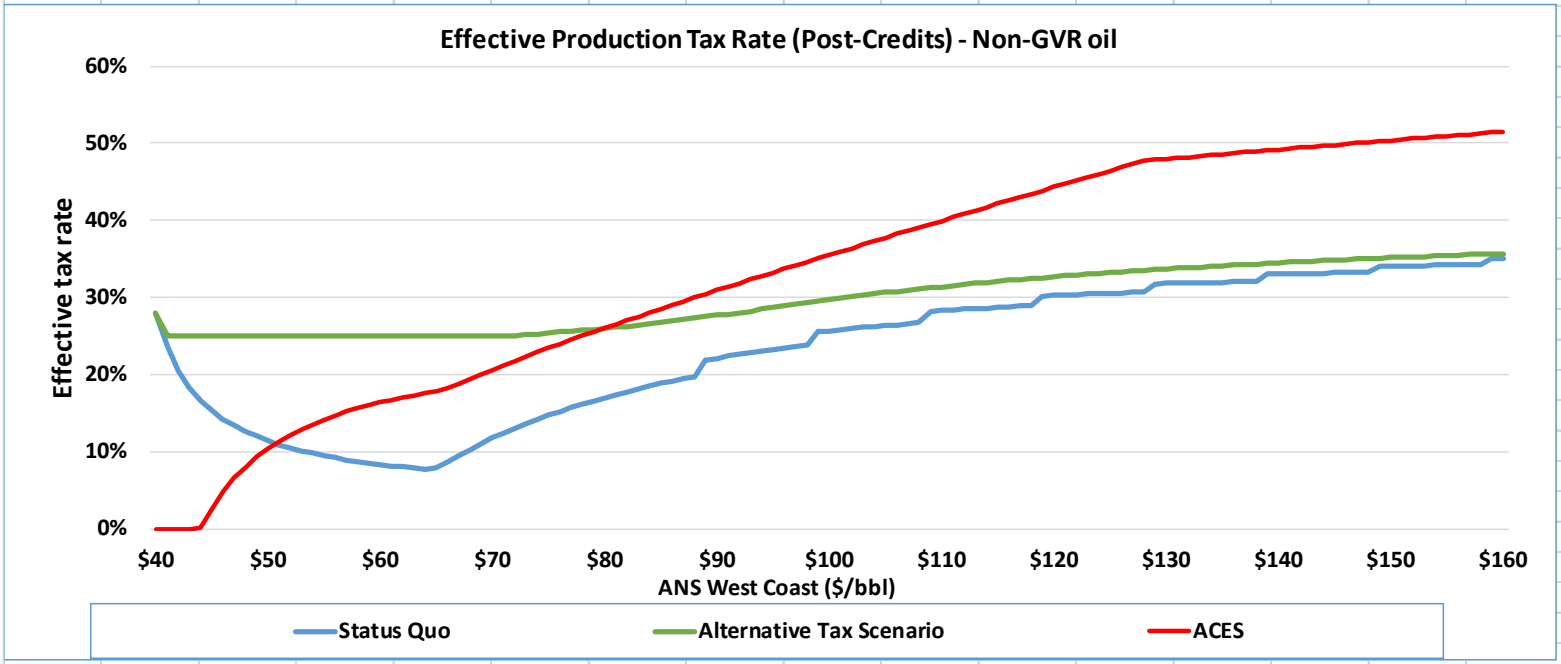
- Establishes additional 5% tax brackets at
  - $40 PTV (Production Tax Value)
  - $50 PTV
  - $60 PTV

  The additional tax only applies to the PTV amounts above each value.

Effective Production Tax Rates Comparison Model - Non-GVR Oil, FY 2019

A high-level aggregate model allowing comparison of status quo production tax structure to an alternate configuration for a typical non-GVR oil field.

Updated 04/05/18 based on Spring 2018 revenue forecast.



Change in Revenue, Status Quo to Alternative Tax Scenario

ANS West Coast	$40	$50	$60	$70	$80	$90	$100	$110	$120	$130	$140	$150	$160
Change in Production Tax Revenue (Millions)	$0	$292	$605	$677	$595	$448	$387	$345	$302	$260	$217	$175	$132

Spring 2018 RSB FY 2019 Assumptions:	
ANS West Coast	$63.00
Transportation Costs	$8.87
Royalty Rate	12.5%
Upstream CAPEX per total bbl	$9.21
Upstream OPEX per total bbl	$14.13
Production (mmbbls/day)	526.6

Alternative Tax Scenario

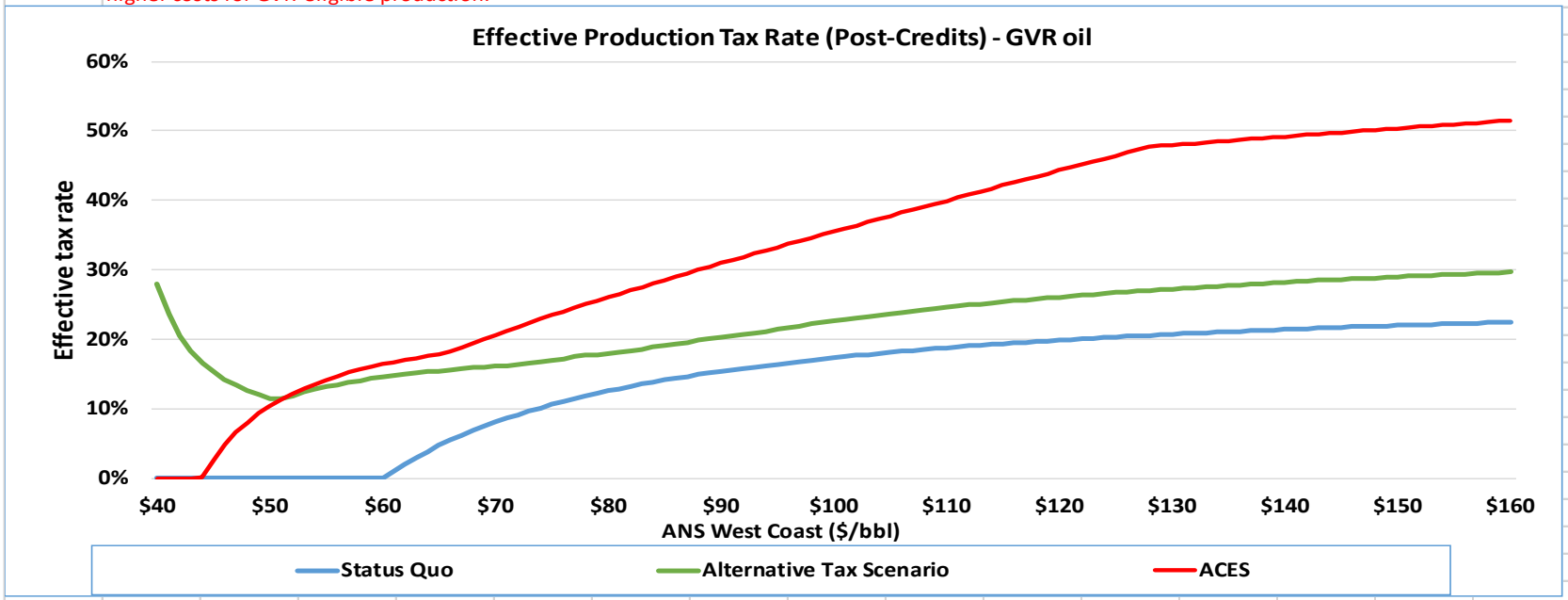
Base rate	**25%**
1st trigger (PTV/bbl)	**$40**
1st progressive rate - in addition to base rate	**5%**
2nd trigger (PTV/bbl)	**$50**
2nd progressive rate - in addition to base & 1st progressive rates	**5%**
3rd trigger (PTV/bbl)	**$60**
3rd progressive rate - in addition to base, 1st & 2nd progressive rates	**5%**
Minimum tax rate	**4%**
Per-barrel credits	**$0**

Effective Production Tax Rates Comparison Model - GVR Oil, FY 2019

A high-level aggregate model allowing comparison of status quo production tax structure to an alternate configuration for a typical GVR oil field.

Updated 04/05/18 based on Spring 2018 revenue forecast.

Note: This analysis assumes a non-incumbent producer. This analysis also assumes North Slope average lease expenditures and does not factor in likely higher costs for GVR-eligible production.



Change in Per-Barrel Revenue, Status Quo to Alternative Tax Scenario

ANS West Coast	$40	$50	$60	$70	$80	$90	$100	$110	$120	$130	$140	$150	$160
Change in Per-Barrel Production Tax Revenue	$1.09	$1.44	$3.11	$2.43	$2.12	$2.31	$3.00	$3.80	$4.60	$5.40	$6.20	$7.00	$7.80

Spring 2018 RSB FY 2019 Assumptions:	
ANS West Coast	$63.00
Transportation Costs	$8.87
Royalty Rate	12.5%
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3rd trigger (PTV/bbl)	**$60**
3rd progressive rate - in addition to base, 1st & 2nd progressive rates	**5%**
Minimum tax rate	**4%**
Per-barrel credits	**$0**
Gross Value Reduction	**20%**

Oil and The Alaska Constitution

"The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and water, for the maximum benefit of its people."

-- Article 8, Section 2 of the Alaska Constitution