

HB411

House Finance Committee

April 11, 2018





TESTIMONY SCOPE

HB411

- High level review
- Concept discussion as opposed to specific bill language
- Observations and comments

FISCAL DESIGN CONSIDERATIONS

WHAT ARE YOUR DRIVERS?

- Alaska is very dependent on energy revenues
 - Many other regimes are in a similar position
 - Savings account balance is low, budget deficit high
 - Nothing in energy developments happens quickly in Alaska
- Legislative action must balance competing forces
 - How to keep the lights on.....Without killing the “Goose that laid the golden eggs”
 - Short-term needs/reactions versus longer-term strategic success
- Fiscal design drivers
 - Fill the pipe – extending legacy field life worth billions
 - Encourage new players – competition, new ideas
 - Get our fair share – how? timing?

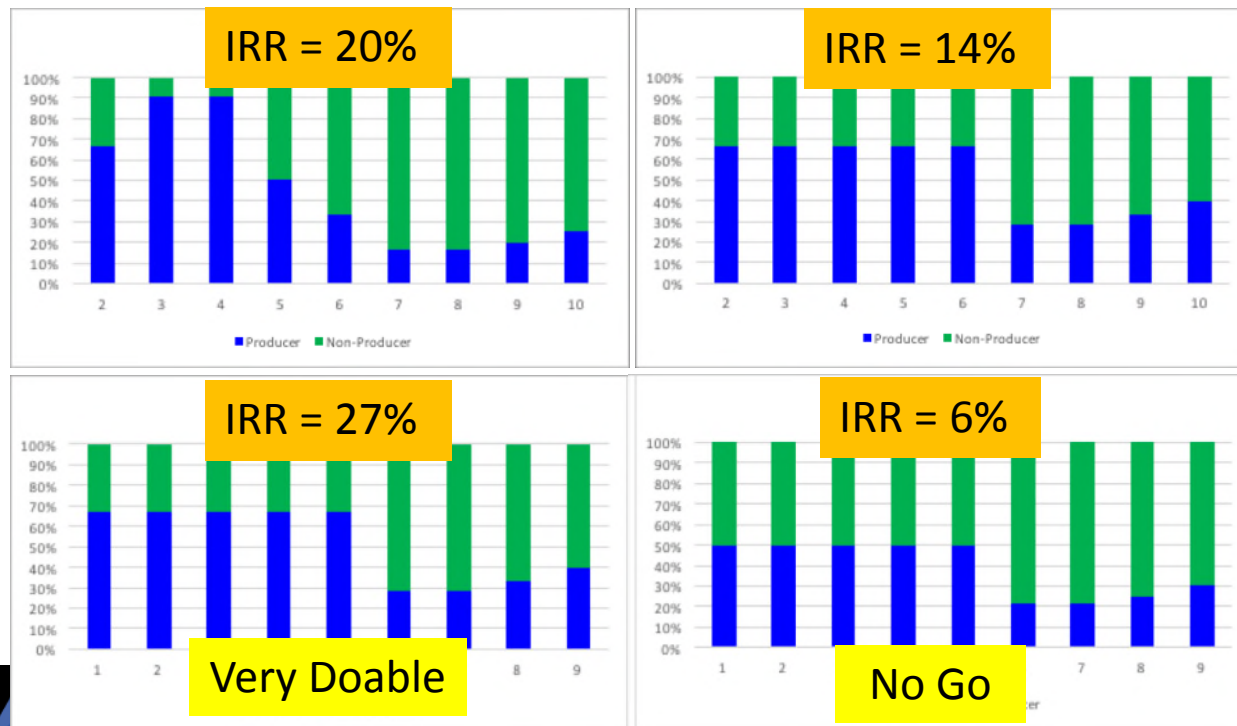
FISCAL DESIGN CONSIDERATIONS

FROM FISCAL DESIGN 102

- Sometimes the timing of the government take is more impactful on investment decisions than the size of the take

TIMING IMPACT ON PROJECT ECONOMICS

SAME PROJECT, SAME REVENUE, SAME PRODUCER SHARE

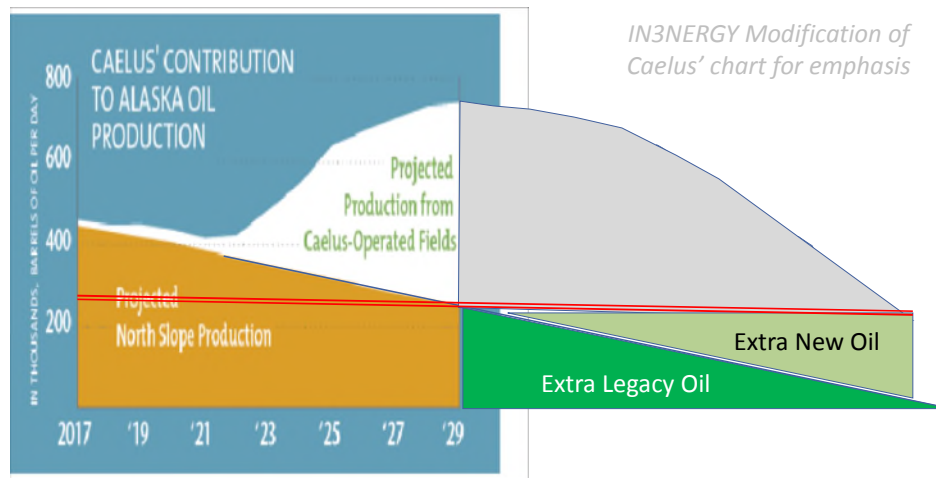


FISCAL DESIGN CONSIDERATIONS

FILL THE PIPE

- Keeping TAPS flowing should be priority number 1
 - Need to ensure that short term needs and their corresponding actions do not jeopardize attainment of the goal
 - Projects have long lead times – thus, we must not stall progress towards commercialization and first oil

TAPS – Needs New NS Production



- **\$8Bn to \$50Bn** additional revenue to Alaska
 - This needs to be included in any 'analysis' when looking at how to incentivize major new NS discoveries through the extended development and production phases
 - Existence of extended life of TAPS may also encourage additional work in legacy fields

FISCAL DESIGN CONSIDERATIONS

MAKING LNG HAPPEN

- For Alaska LNG to become a reality, it will require a high degree of fiscal certainty
 - Current AGDC timing appears to target 2019 for signing detailed commitment level agreements
 - Entities willing to invest over \$40Bn will, in order to make it a reality, demand a number of conditions precedent – and one or more of those will be related to Alaska fiscal structures for both upstream and midstream assets
 - The state's track record for petroleum fiscal changes will shape investor opinions on what they likely will require, i.e. fairly high level of certainty or some form of fiscal stabilization
- Are the contemplated changes in HB411 in line with the long term strategic goals of filling TAPS and making Alaska LNG a reality?

FISCAL DESIGN CONSIDERATIONS

CHANGE IS THE ONLY CONSTANT

- Alaska always has and always will be competing for investment capital
 - Versus the Lower 48/unconventional
 - Versus the rest of the world
 - You have good “Rocks” but also a very high cost structure
- One of the best ‘windows’ into the thinking of an oil company are its analyst presentations, for example:
 - Not too many years ago Alaska figured prominently in analyst presentations for all the legacy players; BP, CP and XOM
 - In 2018 analyst and investor presentations:
 - COP – AK still figures prominently
 - BP & XOM brief references, not listed as growth area
 - All 3 have an LNG segment focus
- How do you encourage a refocus on Alaska developments?

FISCAL DESIGN CONSIDERATIONS

TIME FOR CHANGE

- Alaska has a very complex fiscal system
 - Hard to administer
 - Costly to administer
- Contrary to other opinions expressed regarding a roughly 2 year timeframe to address Alaska's fiscal system
 - It need not take more than a few months to put together a comprehensive new plan to present to the legislature
 - Get the right people in the room, give them a (realistic) deadline, expect results
 - You already know generally where you stand competitively
 - Any number of consultants or committees have put those reviews together and presented them to you
 - Creating a new fiscal structure is more a subjective exercise than an objective exercise

FISCAL DESIGN CONSIDERATIONS

COSTS CHANGE WITH OIL PRICE

- As oil prices go up and down, overall costs go up and down as well
- One major misleading aspect of many reviews of proposed tax changes is the failure to properly account for those cost changes providing unrealistic comparisons at much higher or lower prices than current:
- Past costs (from DOR prior presentation) exemplify this concept

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

Source: DOR, Ken Alper

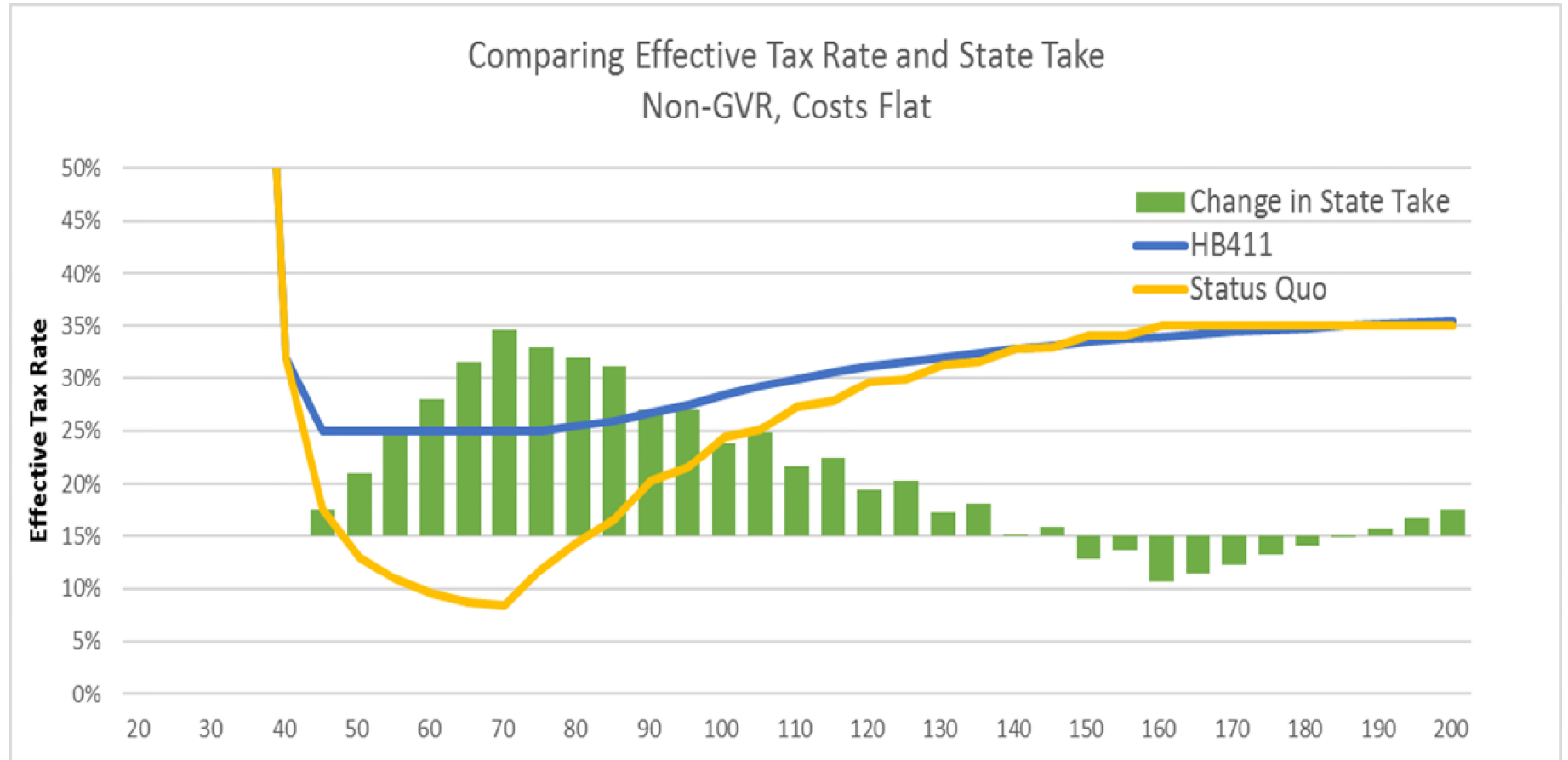
PPT
ACES
SB21
HB247
HB111

2018

\$23.34

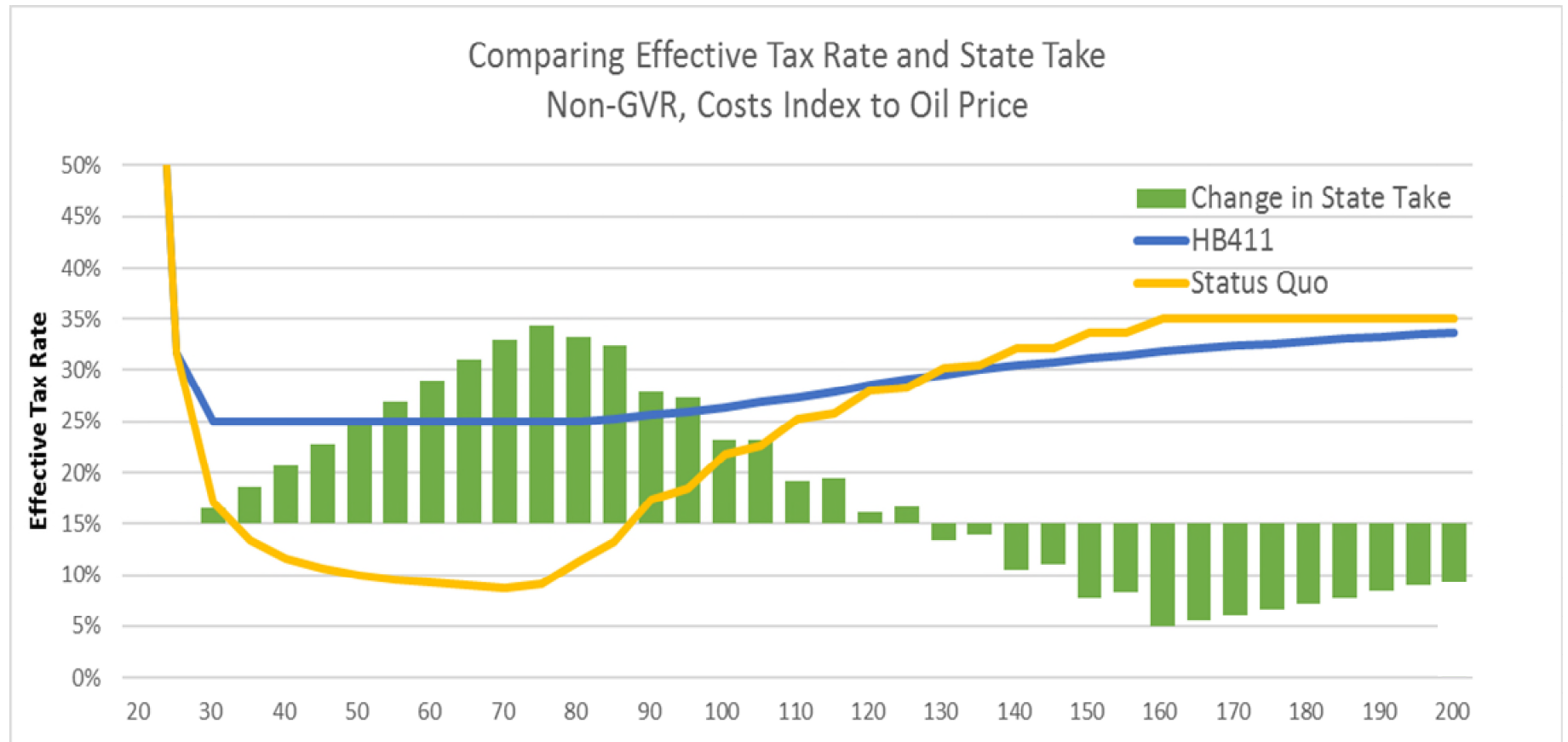
COSTS HELD FLAT

CORRECTING FOR THE REAL WORLD



COSTS PROPORTIONAL TO PRICE

CORRECTING FOR THE REAL WORLD



HB 411

OUR HIGH LEVEL VIEWS

- Alaska State Perspective
 - Closes the gap on the 2/3 1/3 share split target
 - Reduces competitiveness
 - Provides near term tax revenue
- Legacy Players Perspective
 - It's a tax increase
 - State will pay a larger share of future investments
 - New administrative nightmare
- New Players Perspective
 - Raises the hurdle (likely a 16+% royalty and a 25% petroleum tax) for being able to generate investment level economics
 - Another change that could spook investors as very few companies have the balance sheet to carry a project on their own

HB 411

OUR HIGH LEVEL RECOMMENDATIONS

- Overall thoughts
 - Focus on what is necessary to bring on new NS developments
 - Make the low lower.... 10% base
 -and the highs higher (i.e. more steps)
 - “Windfall” and high tax rates will only occur with short duration price spikes
 - Since costs rise with sustained price increases, this lowers anticipated PTV/bbl which pushes a ‘windfall’ to an ever higher price point
 - With LNG coming soon, the time to put together a comprehensive new fiscal system is before next January

QUESTIONS

