Alaska's Production Tax: Defining the Problem

Presentation to the
Senate Resources Committee
February 10, 2012
Alaska Department of Revenue

Facts to Begin the Conversation

1. Oil Prices began climb to all-time highs starting mid-2000's
2. TAPS throughput continues steady decline
3. Other oil producing regions enjoy production and employment booms
4. Competition is high - many other areas to invest around the world

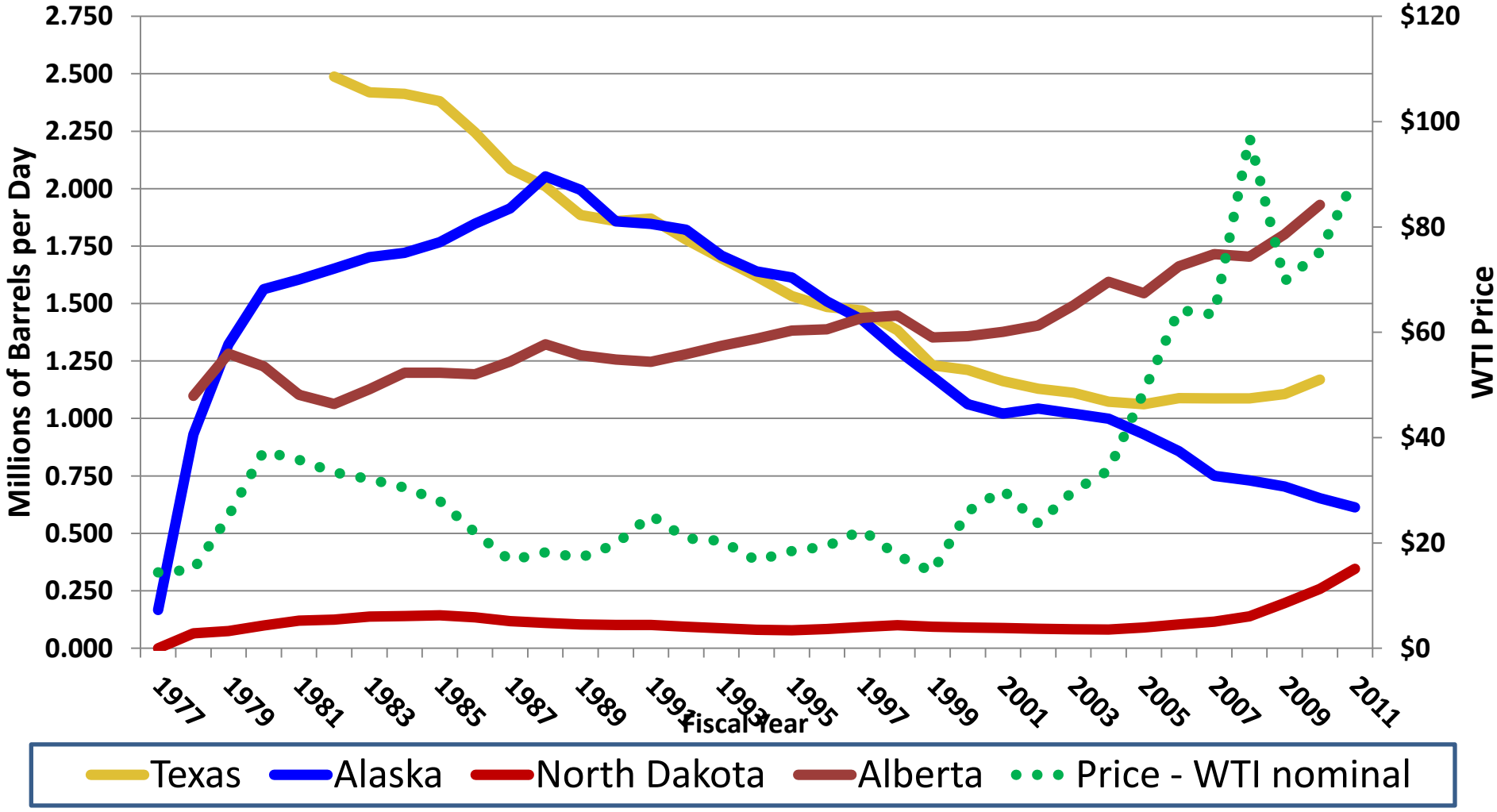
According to the USGS, It's Not a Resource Issue

- There's no debating…..Alaska is a world-class energy basin
- Cumulative production through 2010 over 16B barrels
- Oil: Estimated to have 40B barrels of conventional oil
- Gas: Estimated to have 236 TCF of conventional natural gas
- Plus tens of billions of barrels of heavy & viscous oil as well as shale oil & gas

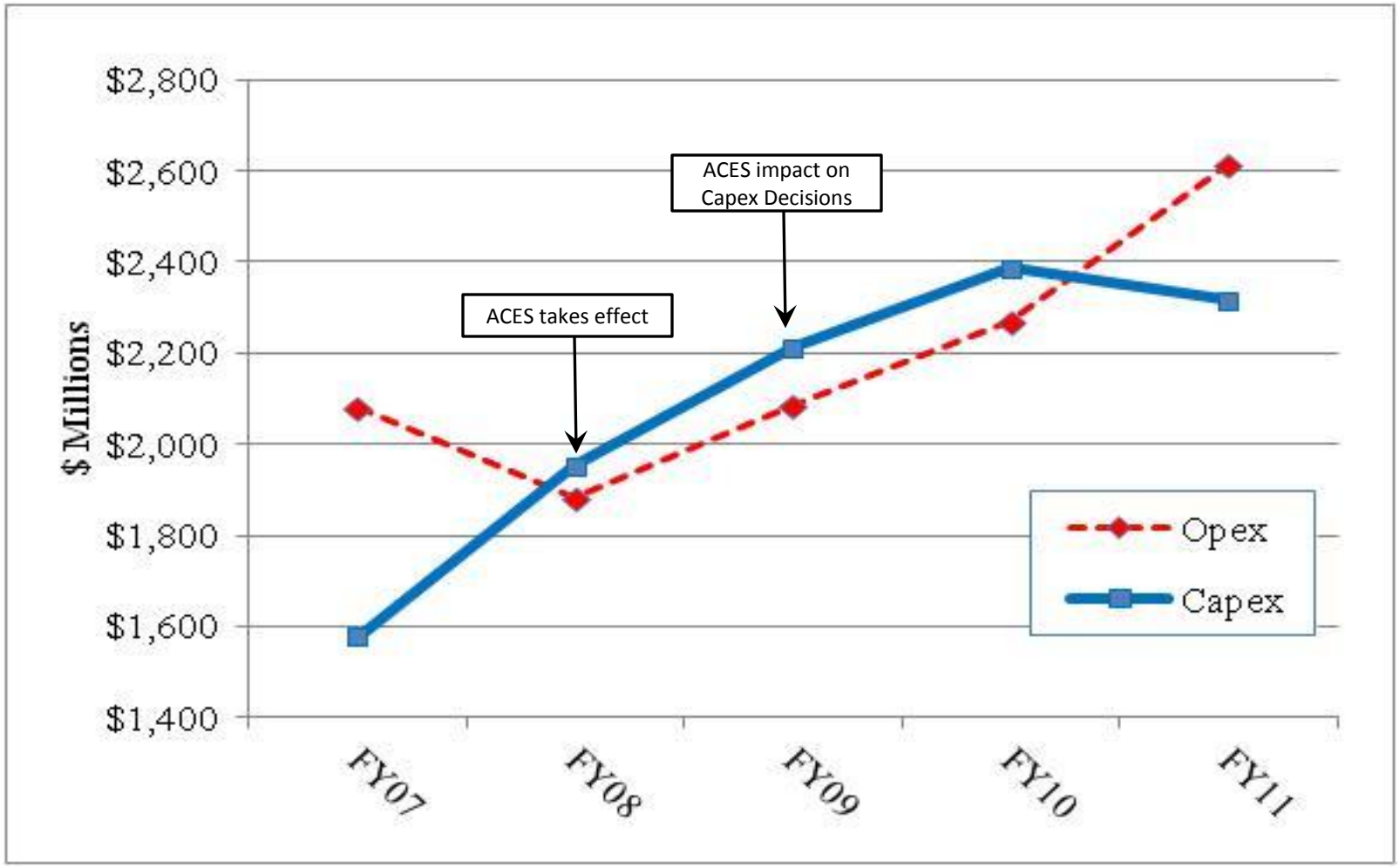
More Important Points

1. As a State, we are in a position we've never been in before
2. PPT/ACES Debate: "Actual" information utilized? Unfortunately No……was not available
3. Decision makers, through no fault of their own, had to rely on modeling, forecasts, projections, theoretical assumptions
4. We now have the luxury to look back and see what actually happened over the past 5 years
5. What do we see? Record high oil prices lead to oil & employment booms in competing oil producing regions
6. And Alaska continues to decline……..

Historical Oil Production:
How Did Our Competition Fare When Prices Spiked?

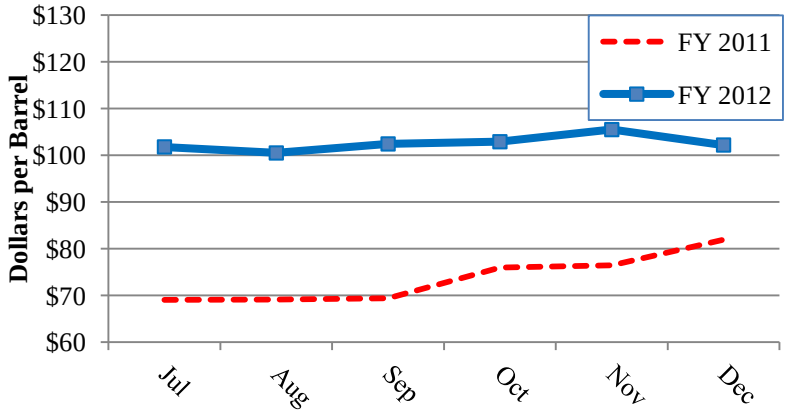


Historical Actual Expenditures, FY 2007 – FY 2011



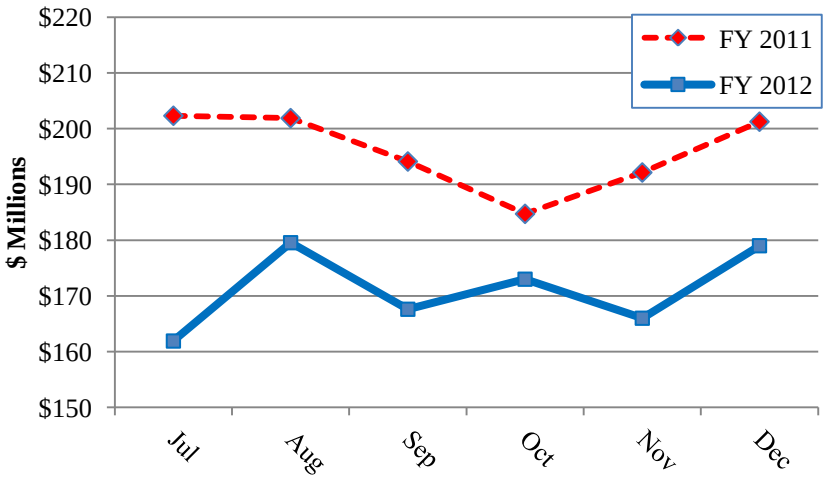
FY 2011 & FY 2012 Wellhead Values, North Slope Capex and Opex

ANS Wellhead Value



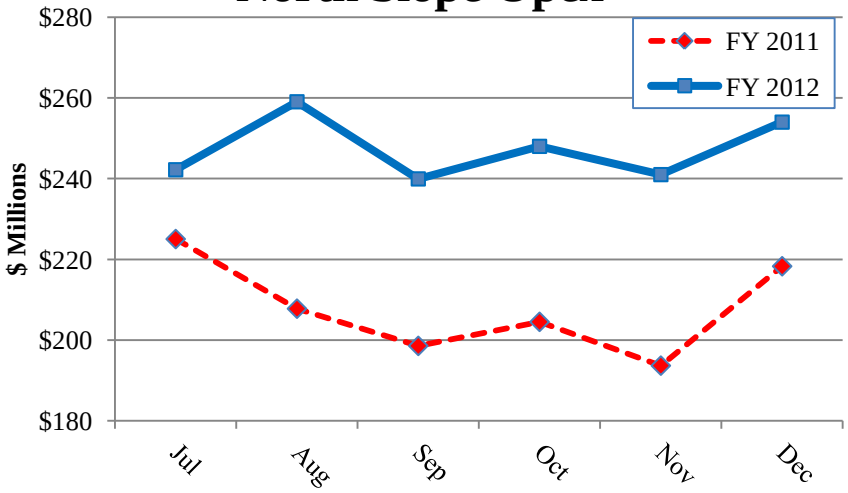
FY12 avg up 39% through 6 months

North Slope Capex



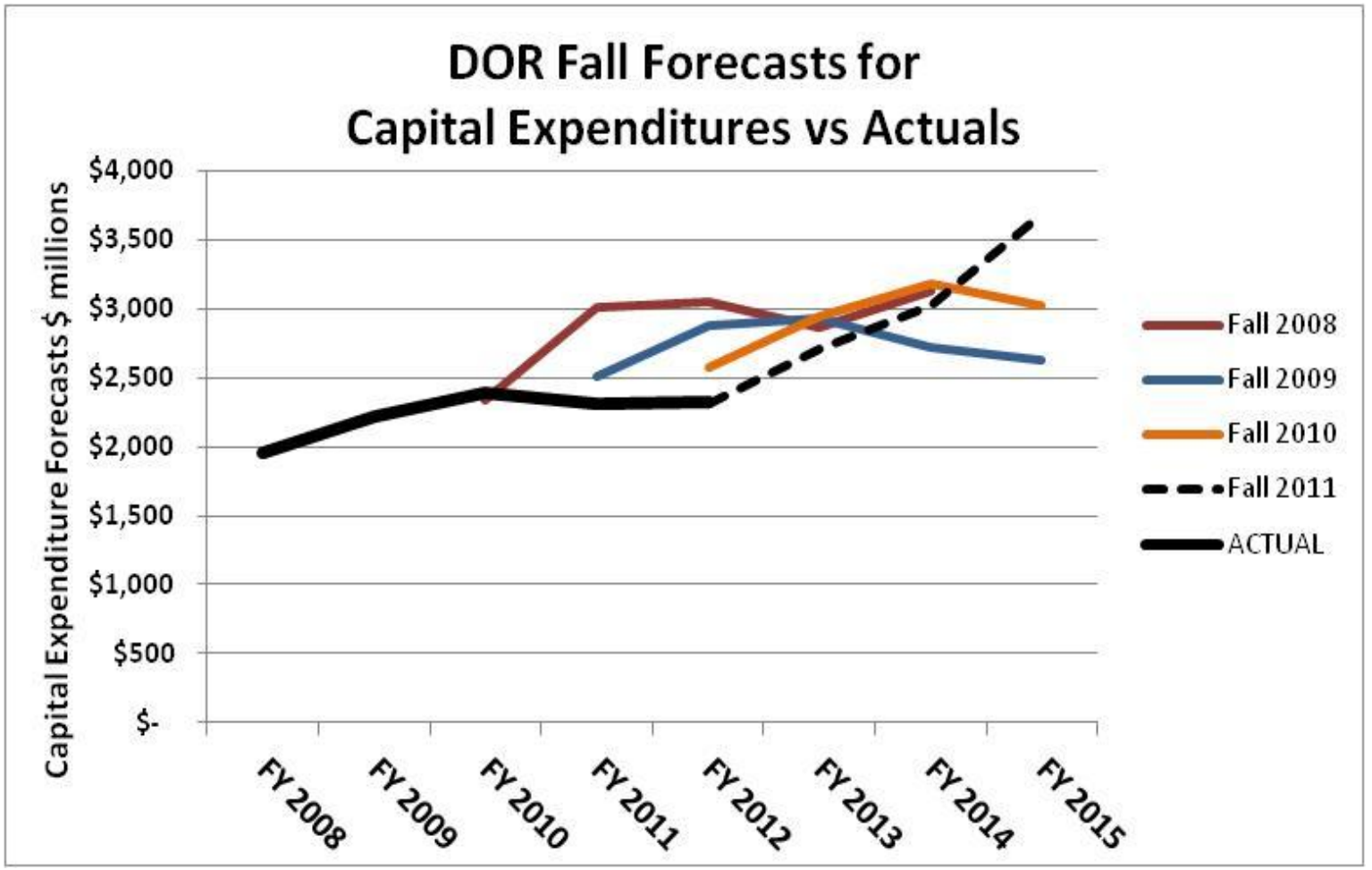
FY12 down 13% through 6 months

North Slope Opex



FY12 up 19% through 6 months

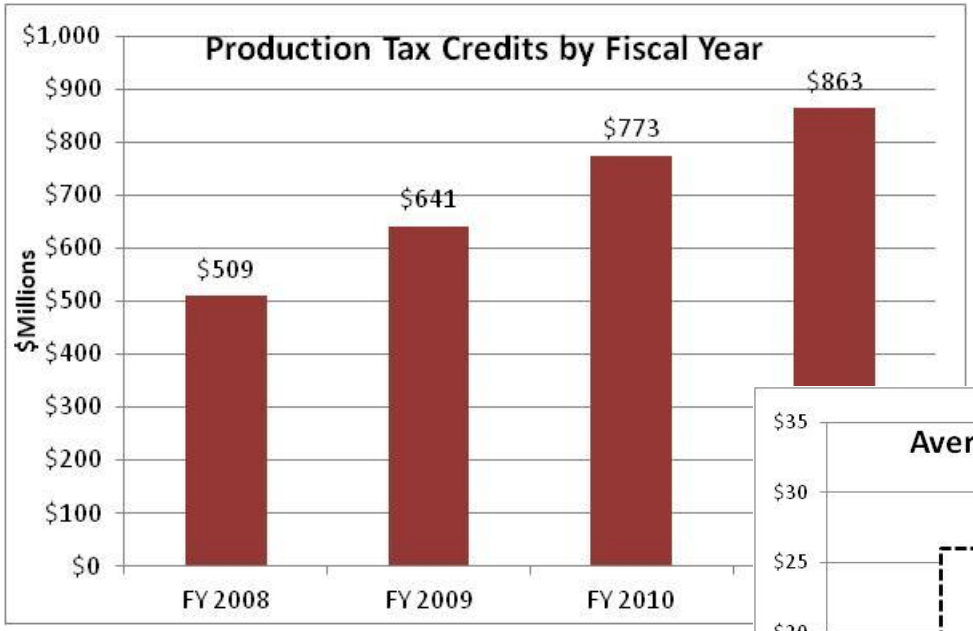
Capex Forecast vs Actual

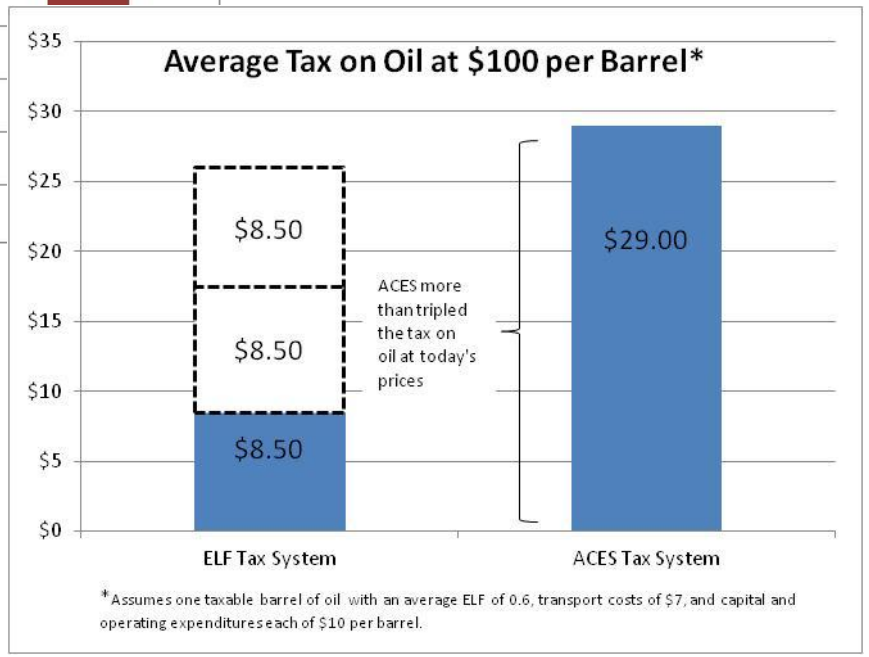


Two Distinct Elements of ACES: Can't discuss one without the other

1. Tax Credits:
   - ❑ Very generous tax credits made available over past several years help spur the anticipated exploration
   - ❑ Enthusiasm of explorers encouraging but they will eventually need to become or partner with producer
2. Progressivity:
   - ❑ Very progressive at high oil prices which makes AK not as attractive when compared to other world-wide options
   - ❑ This "windfall tax", while filling AK state coffers during the short term, is contributing to competitiveness issue long term

Alaska Tax Credits are up, but so are Alaska Taxes





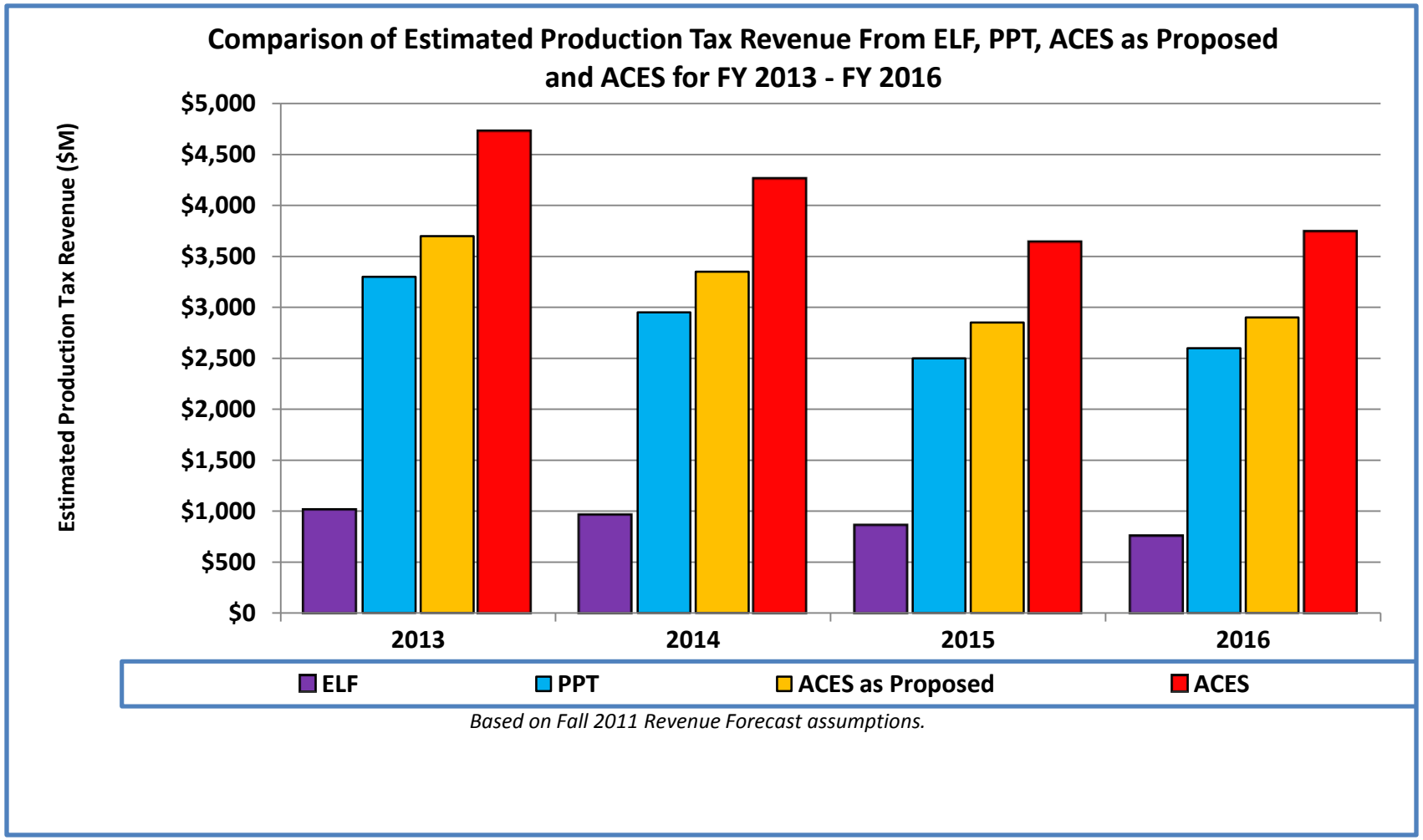
How Do Other States Rank Alaska?

Effective Tax Rates for Oil and Natural Gas in 14 Major Oil Producing States: FY2008				
	Value of Oil and Natural Gas Produced	Oil and Gas Revenue Collected	Effective Tax Rate	Maximum Statutory Rate
Alaska	$25,741,800,390	$6,900,000,000	26.80%	25%
California	$21,858,237,067	$0	0.00%	No severance tax
Colorado	$11,834,689,515	$139,550,829	1.18%	5%
Kansas	$6,248,188,250	$159,574,935	2.55%	8.00%
Louisiana	$19,289,935,515	$703,116,080	3.64%	12.5% oil, $0.331 per 1,000 cu. ft. natural gas
Michigan	$2,129,981,470	$101,232,000	4.75%	6.6% oil, 5% natural gas
Mississippi	$2,949,110,665	$29,847,271	1.01%	6.00%
Montana	**$3,682,179,800**	**$166,279,021**	**4.52%**	**15.06%**
New Mexico	$17,884,451,790	$1,374,233,960	7.68%	3.75%
North Dakota	$6,218,744,947	$391,823,087	6.30%	11.50%
Oklahoma	$20,650,142,263	$493,986,142	2.39%	7.00%
South Dakota	$161,169,059	$5,526,990	3.43%	4.50%
Texas	$64,669,070,628	$4,121,526,666	6.37%	4.6% oil, 7.5% natural gas
Utah	$4,568,953,793	$65,510,506	1.43%	5% oil, $1.51 per 1000 cu. ft. of natural gas
Wyoming	$20,136,769,013	$873,558,284	4.34%	6.00%

Source: Montana Department of Revenue, Biennial Report, http://revenue.mt.gov/content/publications/biennial_reports/2008-2010/BiennialReport-NatResTaxes.pdf

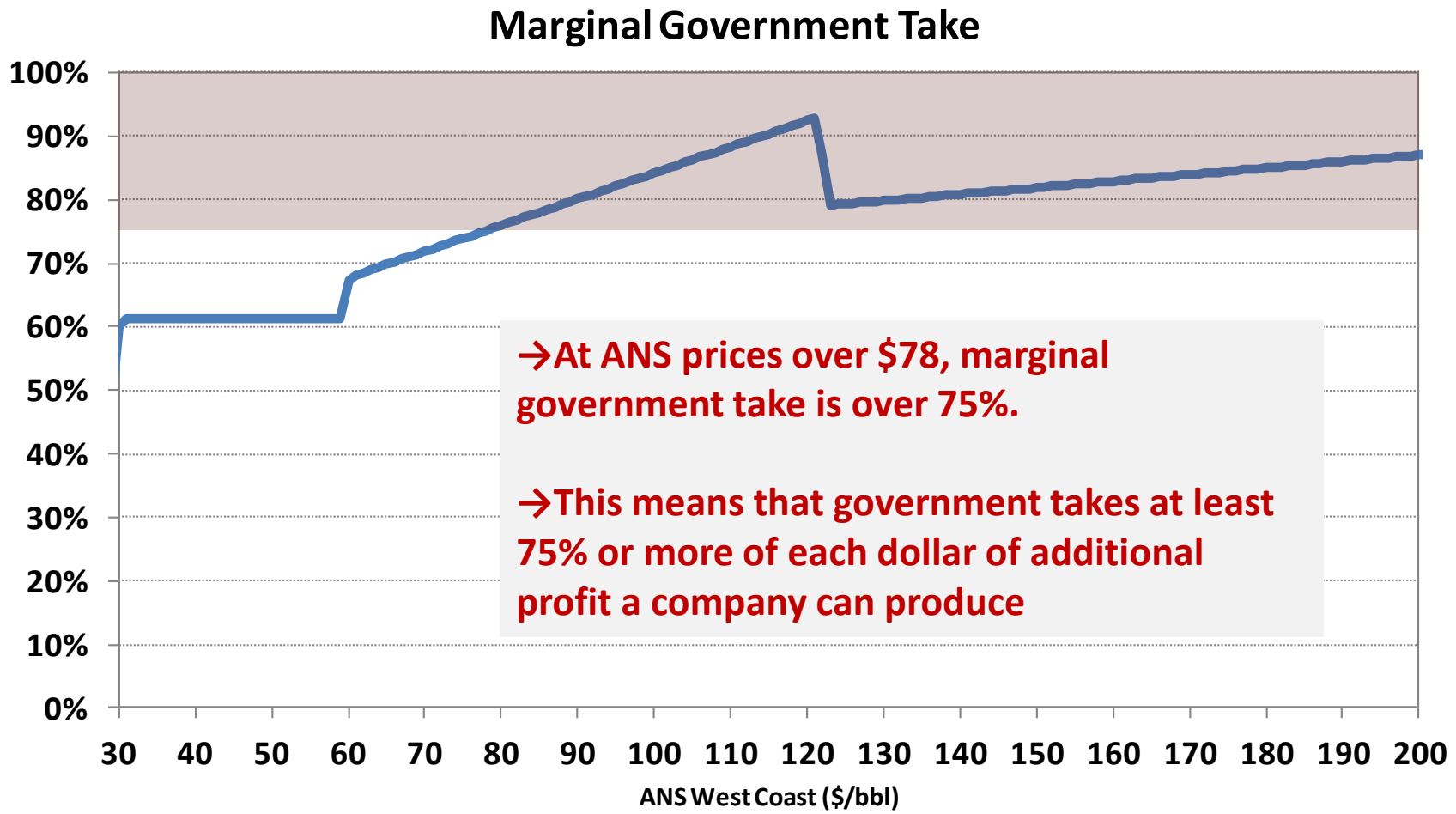
The Progressivity Problem

ELF, PPT, ACES as Proposed and ACES: Did The Pendulum Swing Too Far?



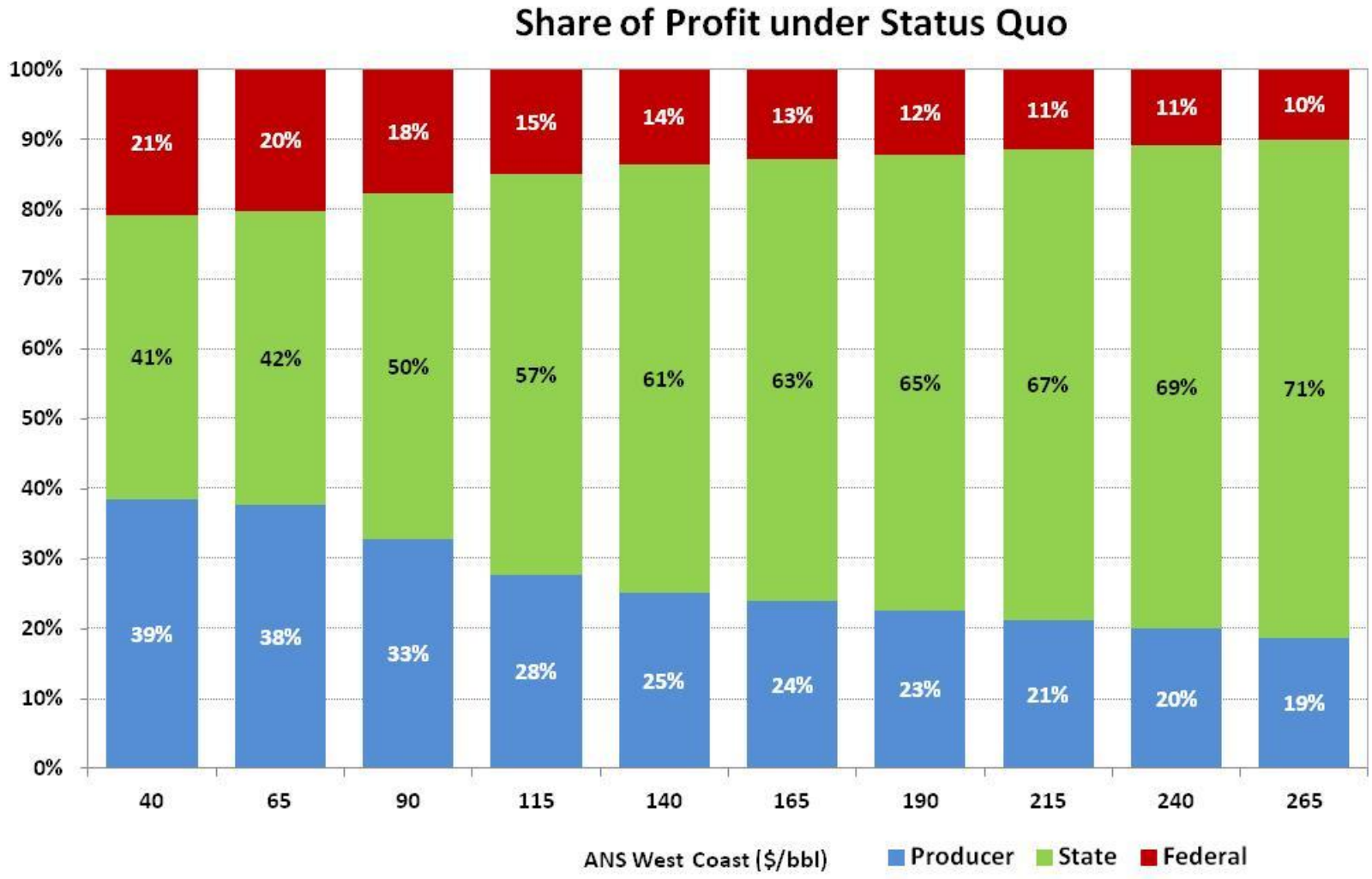
Based on Fall 2011 Revenue Forecast assumptions.

Marginal Government Take

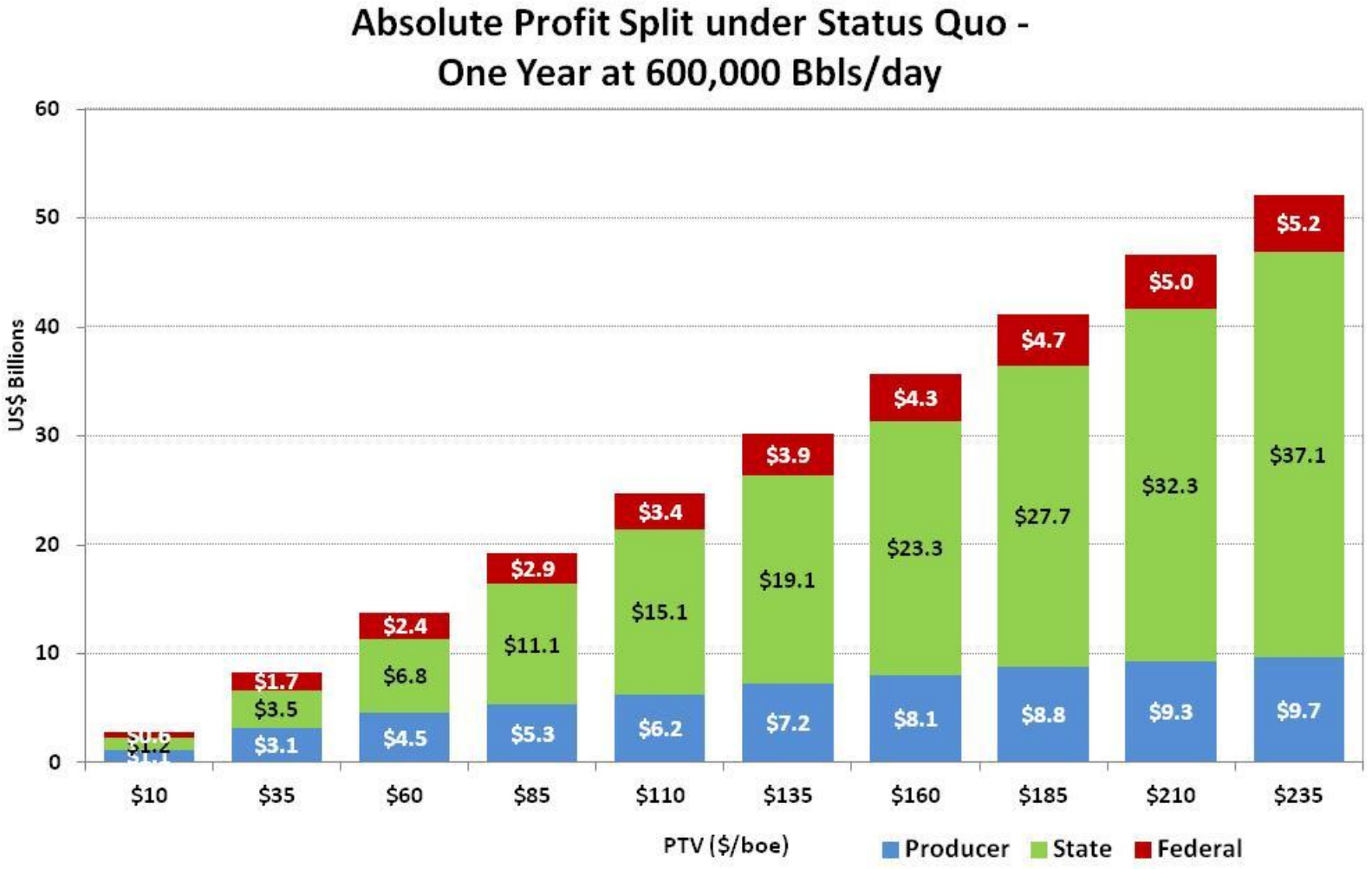


Production=600Kbbl/d, ANS Oil Price=$100/bbl, Transportation Costs=$6/bbl, Upstream Costs=$20/bbl

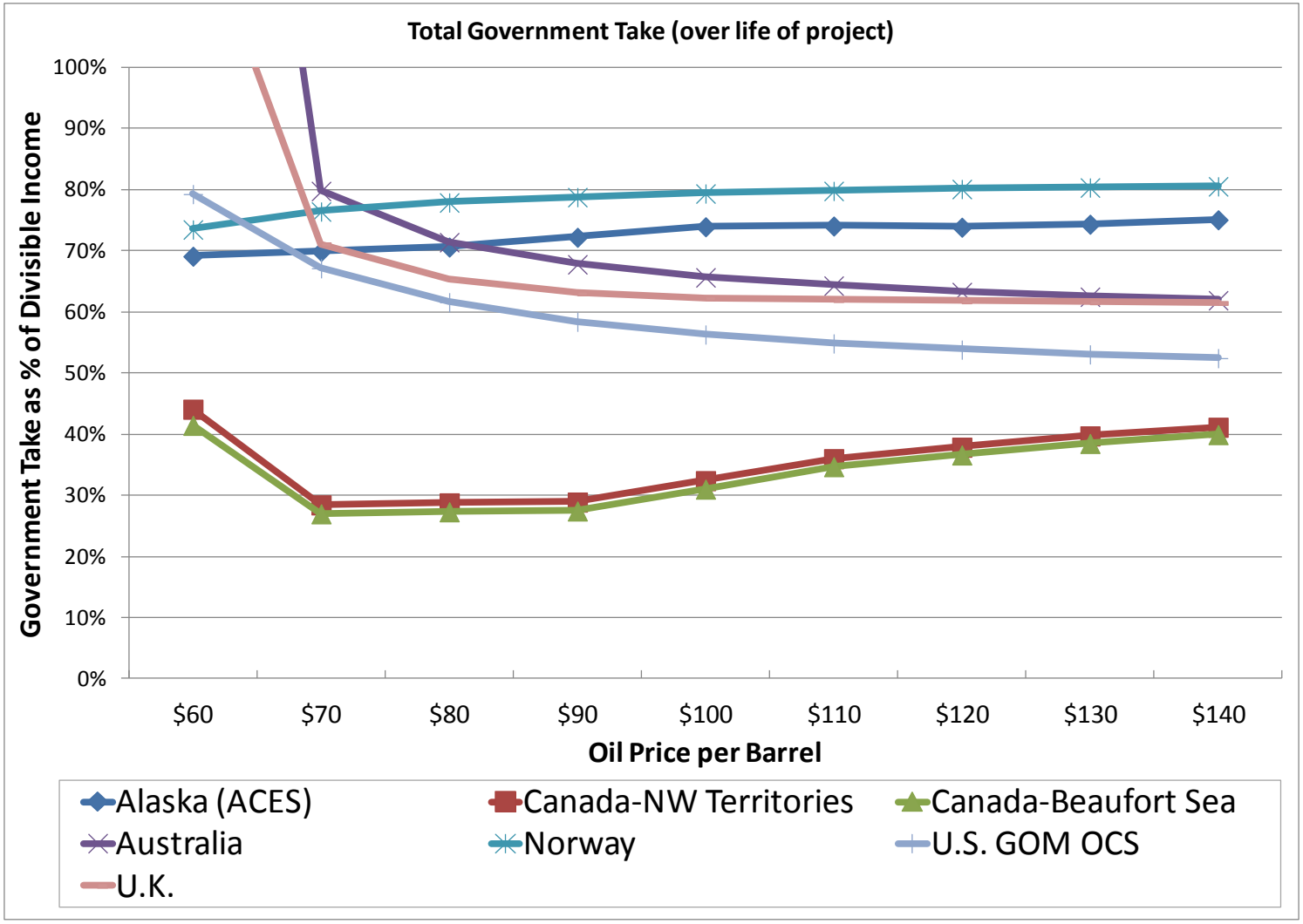
Producer share of “profit” declines at high oil prices



Limited upside at higher prices

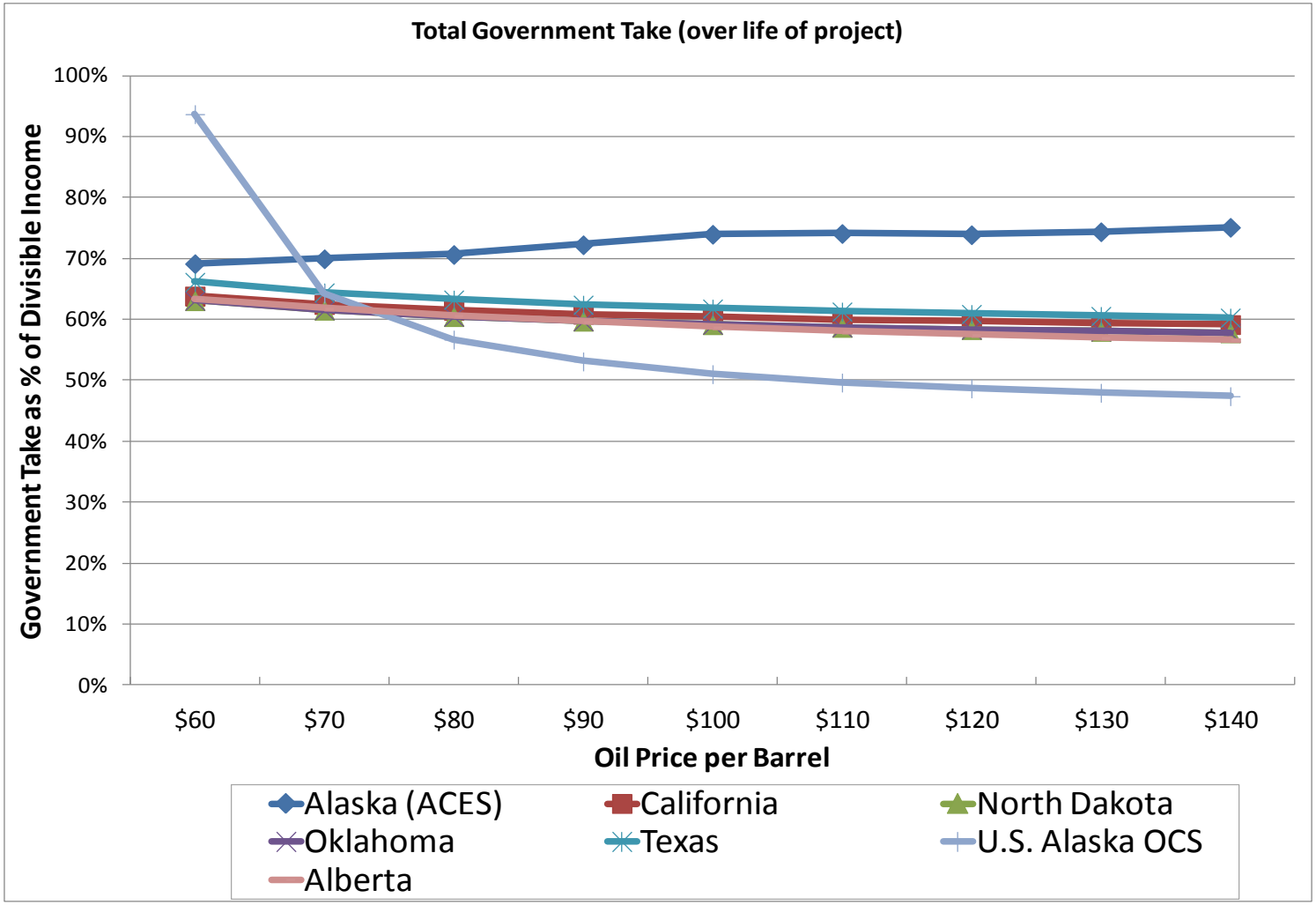


Alaska Compared to International Peers in Government Take over Project Life Cycle



Source: Department of Revenue using Petrocash model

Alaska and North American Peers - Progressivity makes Alaska less competitive at high oil prices



Source: Department of Revenue using Petrocash model

Questions ?