



# **CS HB 110 (RES)**

## **Introduction**

**Proposed Changes to the  
Oil & Gas Production Tax**



*Presentation to the  
House Finance Committee  
Monday, March 14  
Alaska Department of Revenue*



# Outline for Presentation



- Goals and Rationale for CS HB110 (RES)
- Production Tax Mechanism
- Components of CS HB 110 (RES)



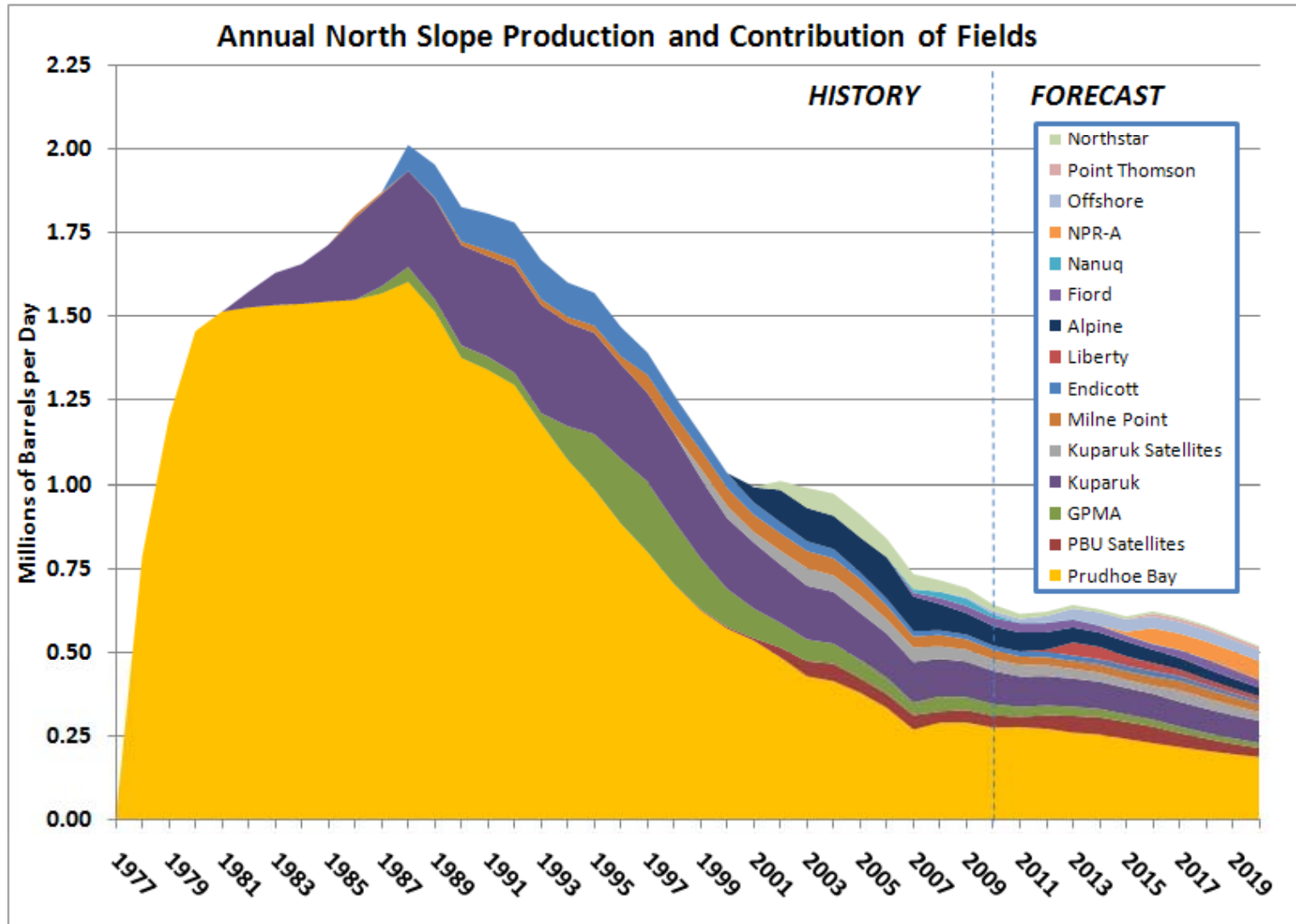
## CS HB 110 (RES) Goals



1. Improve investment climate
2. Create jobs for Alaskans
3. Increase production



# North Slope Production

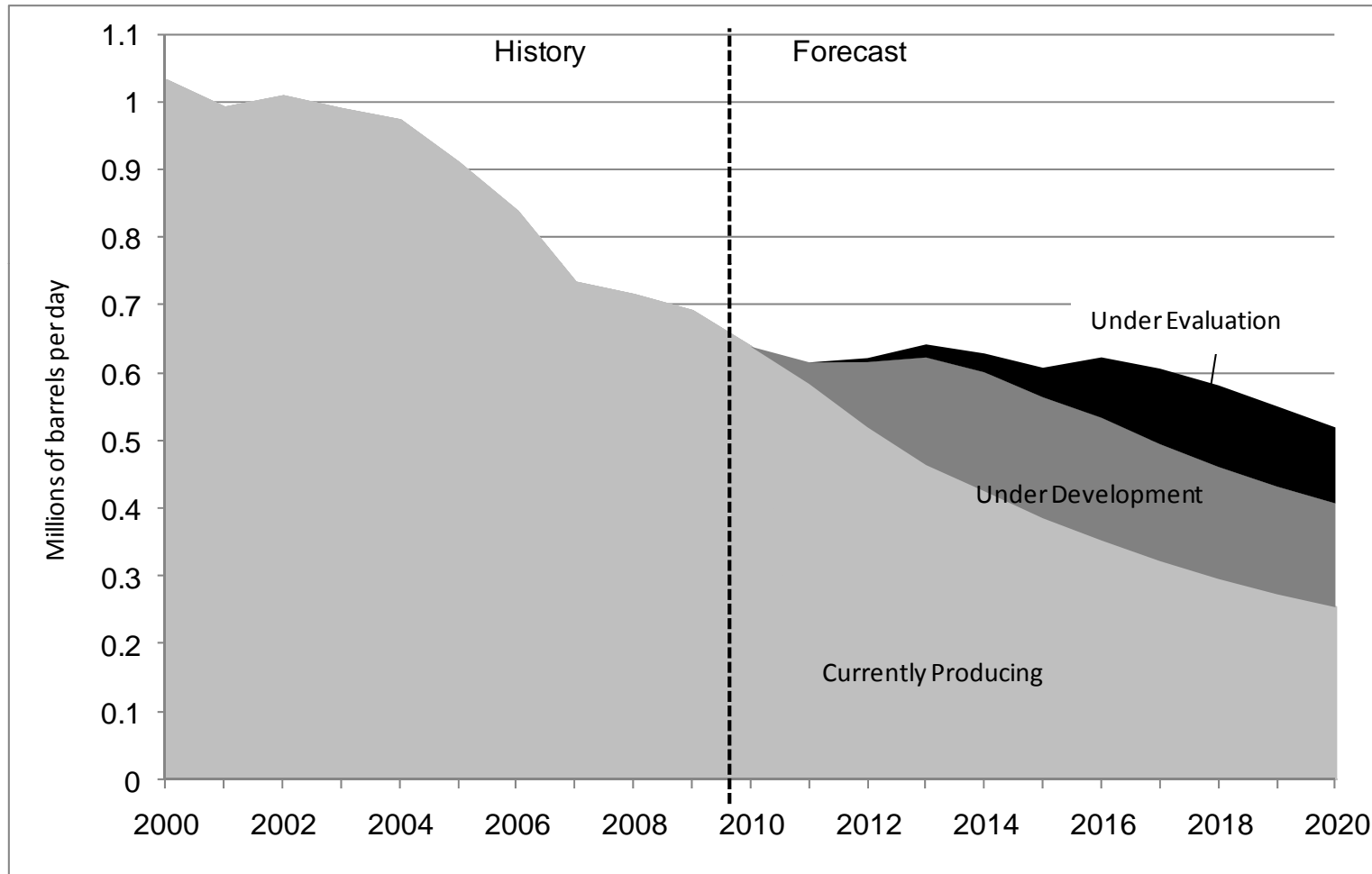


3/11/2011

Source: Fall 2010 Revenue Sources Book

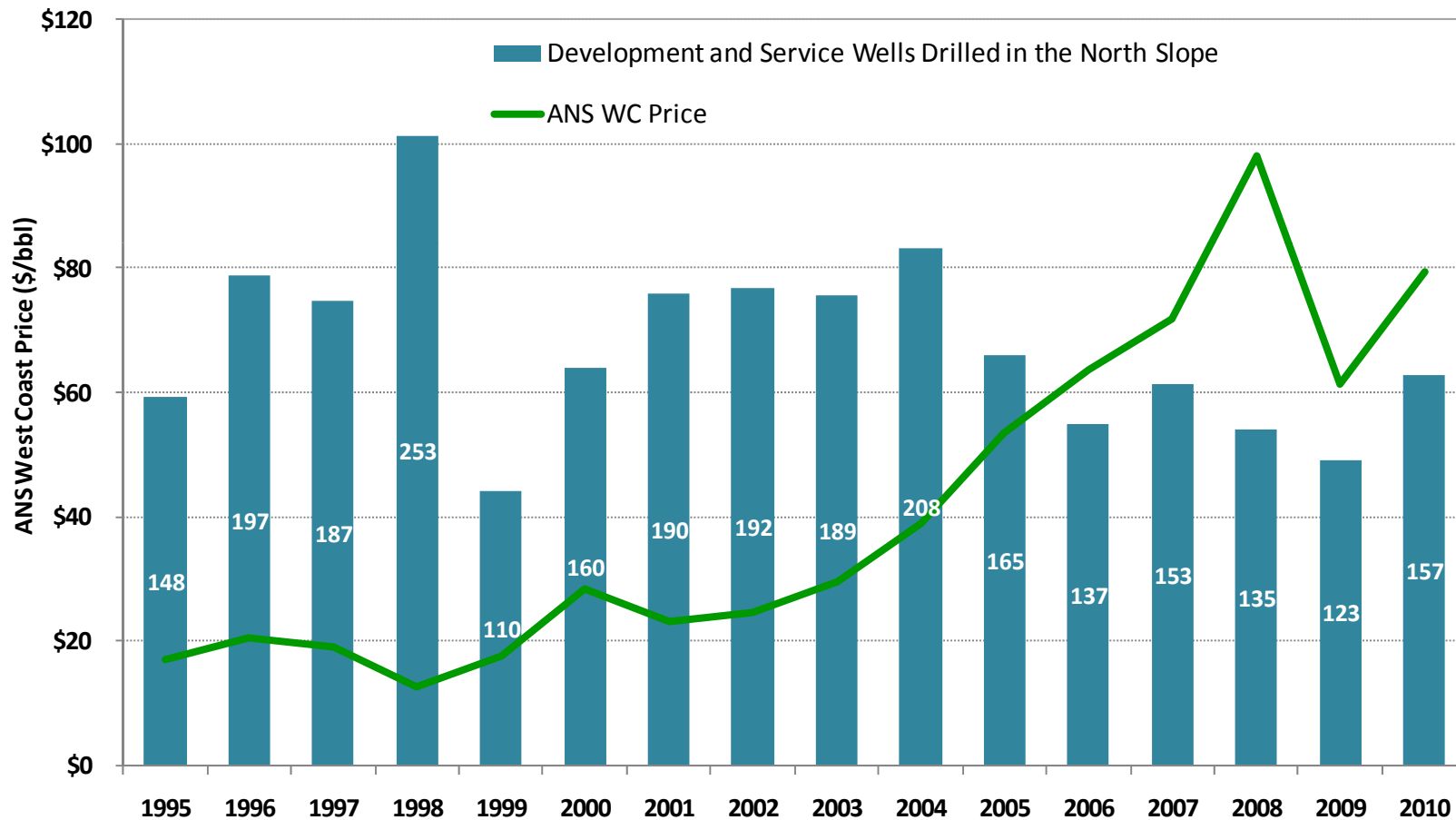


# Forecasted ANS Production FY 2010 - 2020





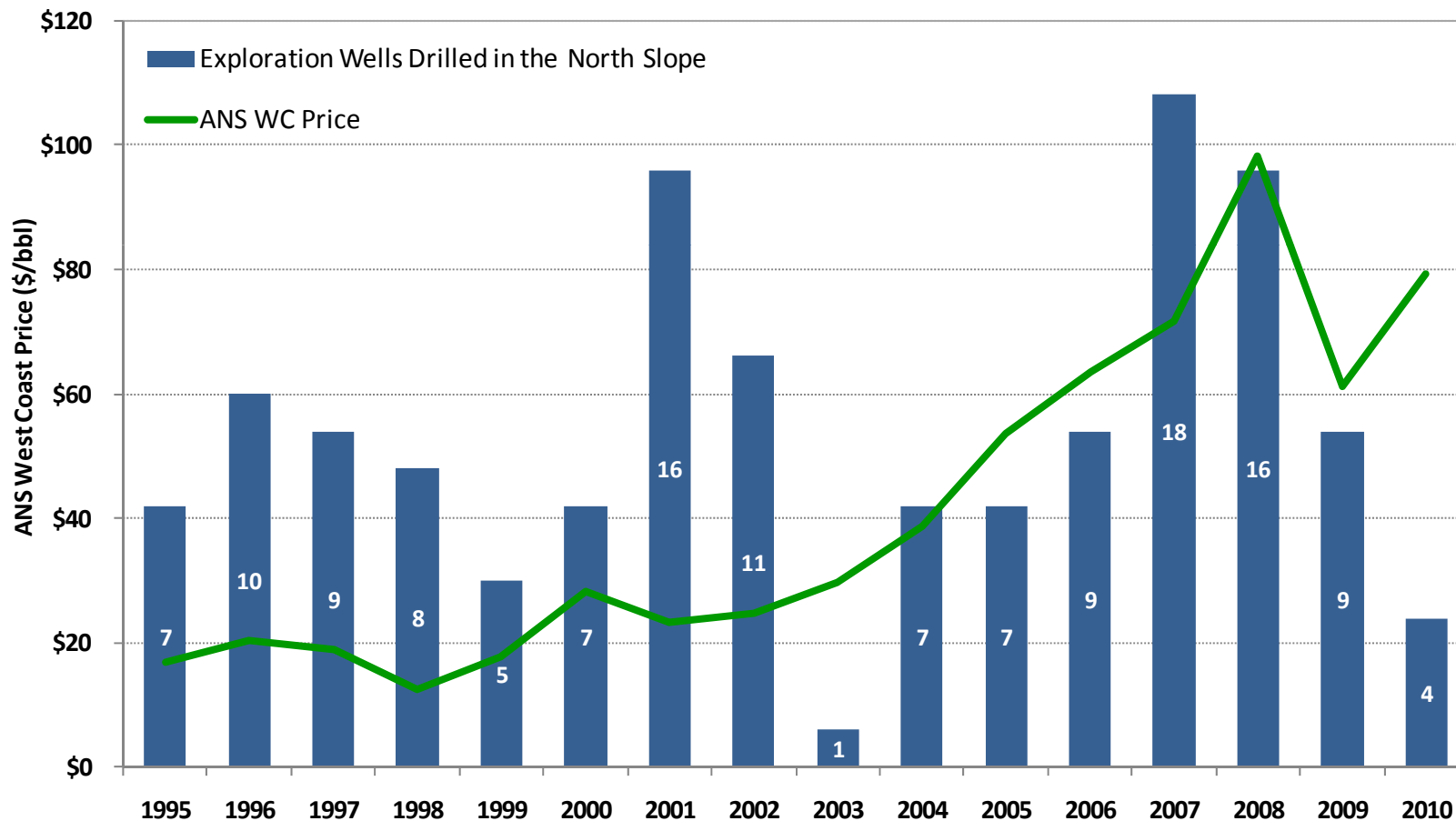
# North Slope Development Drilling



Source: Alaska Oil and Gas Conservation Commission



# North Slope Exploration Drilling



Source: Alaska Oil and Gas Conservation Commission



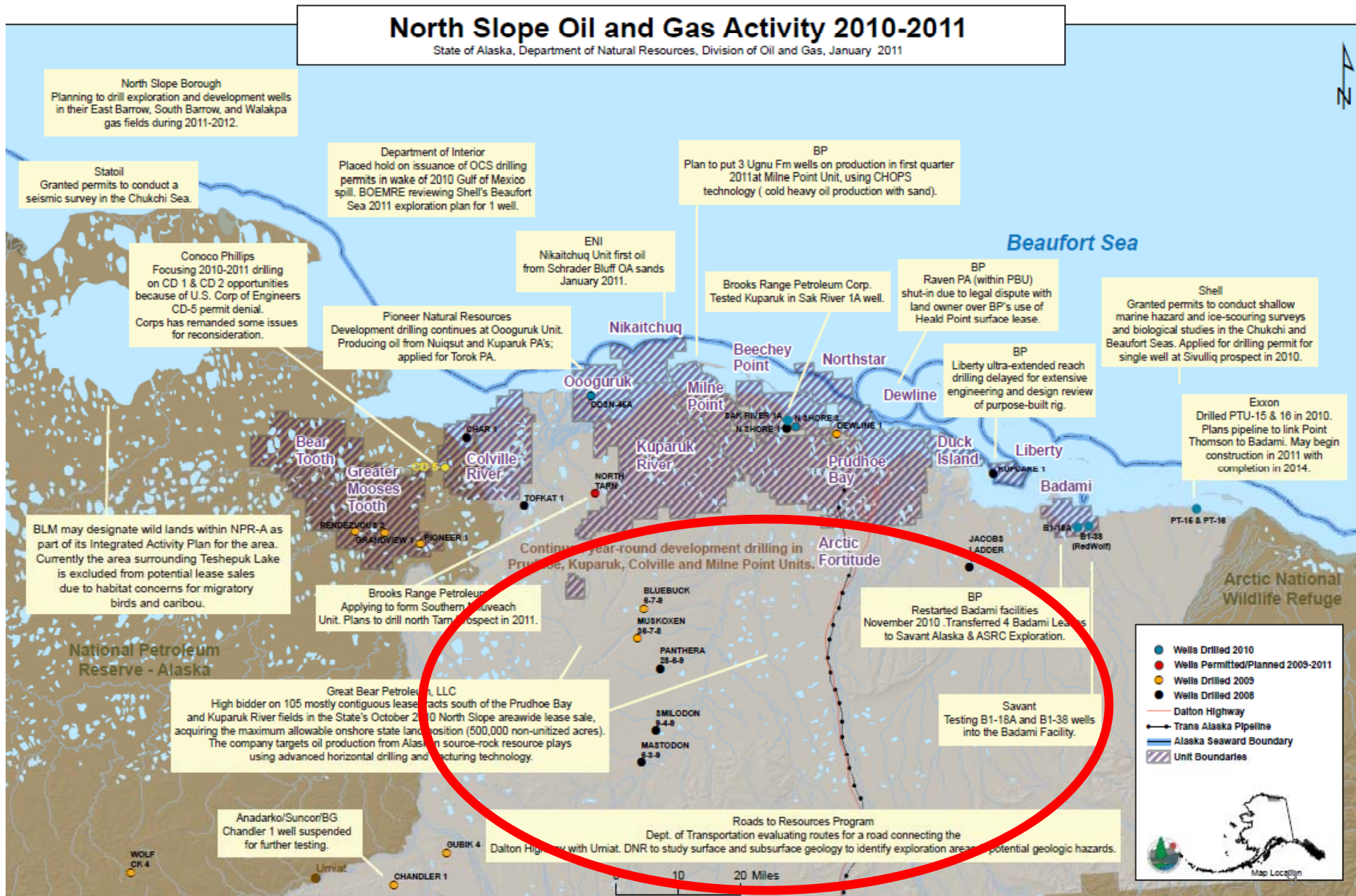
## There's lots of oil left in Alaska...



- Cumulative production through 2010 has been over 16 billion barrels
- Remaining North Slope reserves exceed 5 billion barrels
- Geology-based estimates of total oil volumes are much higher. For instance, we do not include any of the approximately 20 billion barrels in the giant Ugnu deposit, or offshore volumes from the Chukchi or Beaufort Seas, in our forecast



# Areas of North Slope are Underdeveloped





# How Can We Reverse the Trend?



- Sample Investor Decision Criteria:
  - Prospectivity
  - Geopolitical stability
  - Regulations (access to resources, development permitting, environmental constraints)
  - Operations (existing infrastructure, experienced workforce availability, costs, market proximity)
  - **Tax Regime => CS HB 110 (RES) Focus**



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# Production Tax Overview



- **Production Tax Value (PTV)** is the market price less transportation costs and allowable lease expenditures
  - Allowable lease expenditures include operating and capital expenditures
- **Base tax rate** of 25% on PTV
- **Progressive Surcharge Rate**
  - Triggered when a company's PTV reaches \$30 per barrel
  - $\$30.00/\text{bbl} < \text{PTV} < \$92.50/\text{bbl}$  = Surcharge adds 0.4% to tax rate for each additional \$1 increase in PTV, until combined tax rate reaches 50%
  - $\$92.50/\text{bbl} < \text{PTV} < \$342.50/\text{bbl}$  = Surcharge adds 0.1% for each additional \$1 increase in PTV until combined tax rate reaches the maximum of 75%



# Production Tax Overview



## How the Tax is Calculated

$$\begin{array}{rcl} \text{Production Tax Value (PTV) X Base Tax Rate} & = & \text{Base Tax} \\ & & + \\ \text{PTV X Progressive Surcharge Rate} & = & \text{Progressive Surcharge} \end{array}$$

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Pre-Credit Tax Bill

Total Taxes Before Credits

Credits

Credits Applied Against Taxes

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Final Tax Bill

Total Production Taxes Owed



# FY 12 Production Tax Projected



	Per Barrel	Barrels	Value (\$ million)
Avg ANS Oil Price (\$/bbl) & Daily Production (bbls)	\$82.67	622,182	\$51.4 / day
Annual Production (bbl)			
<b>Total Annual Production/Value</b>		<b>227,096,430</b>	<b>\$18,774.1</b>
Royalty and Federal barrels		(34,669,890)	(\$2,866.2)
<b>Taxable barrels</b>		<b>192,426,540</b>	<b>\$15,907.9</b>
Downstream (Transportation) Costs (\$/bbl)			
ANS Marine Transportation	(\$2.05)		
TAPS Tariff	(\$4.67)		
Other	\$0.33		
<b>Total Transportation Costs</b>	<b>(\$6.39)</b>	<b>192,426,540</b>	<b>(\$1,229.6)</b>
Lease Expenditures			
Deductible Operating Expenditures	(\$12.86)		(\$2,474.1)
Deductible Capital Expenditures	(\$13.14)		(\$2,528.3)
<b>Total Lease Expenditures</b>	<b>(\$26.00)</b>	<b>192,426,540</b>	<b>(\$5,002.4)</b>
<b>Production Tax Value (PTV)</b>	<b>\$50.28</b>	<b>192,426,540</b>	<b>\$9,675.9</b>
Production Tax			
Base Tax (25%*PTV)			\$2,419.0
Progressive Tax Rate = (\$50.28-\$30) * 0.4% = 8.1%			
Progressive Tax = (8.1% * PTV)			\$785.0
<b>Total Tax Due before credits</b>			<b>\$3,204.0</b>
Credits Applied Against Taxes			(\$450.0)
<b>Total Tax after credits</b>			<b>\$2,754.0</b>

Source: Department of Revenue Fall 2010 Revenue Sources Book, Appendix D

This simple model assumes constant production, price, and expenditures for the entire year; results will differ from our larger model and forecast.  
The per-barrel expenditures shown are per taxable barrel and do not reflect expenditures per all barrels produced.





# Production Tax Credits Overview



- **Qualified Capital Expenditure Credit** – 20% credit for qualified capital expenditures (40% for well lease expenditures outside North Slope).
- **Carried-Forward Annual Loss Credit** – 25% credit for carried-forward annual loss.
- **Small Producer / New Area Development Credit** – Up to \$12 million / year for small producers and up to \$6 million / year for production outside North Slope and Cook Inlet.
- **Alternative Credit for Exploration** – 30% or 40% of eligible exploration expenditures if certain criteria are met.
- **Cook Inlet Jack-Up Rig Credit** – 80% to 100% credit for first three exploration wells drilled using jack-up rig in Cook Inlet.



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# Main proposed changes



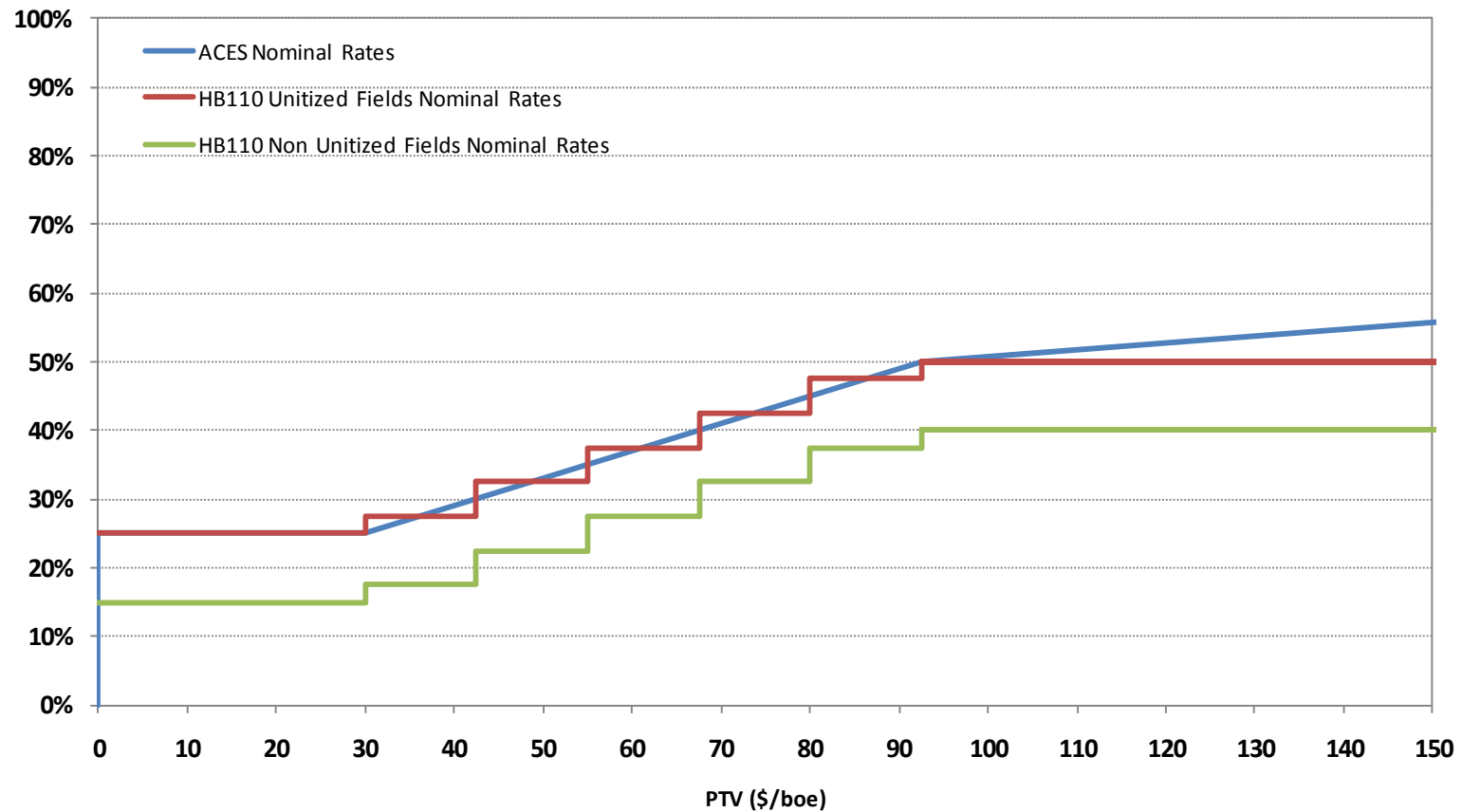
Progressivity Rates & Cap	Progressivity defined as <u>discrete brackets</u> , rather than as a continuous function, and <u>applied only to incremental revenue</u> . <u>Maximum progressivity of 25%.</u>	2013
Base Tax Rate	Base tax rate reduction from <u>25% to 15%</u> for leases or properties properties neither unitized nor producing on or before 12/31/2010.	2013
Tax Credits	Extension of <u>40% well lease expenditure tax credits</u> to North Slope. Tax credits can be claimed in a <u>single year instead of two years.</u>	2012
Tax Calculation	<u>Yearly tax calculation</u> based on average prices and costs, instead of monthly tax calculation impacted by short term price and cost peaks.	2013

**2012** Effective 1/1/2012 for expenditures made before 12/31/2011.

**2013** Effective 1/1/2013, applies to production after 12/31/2012.



# Nominal Production Tax Rates

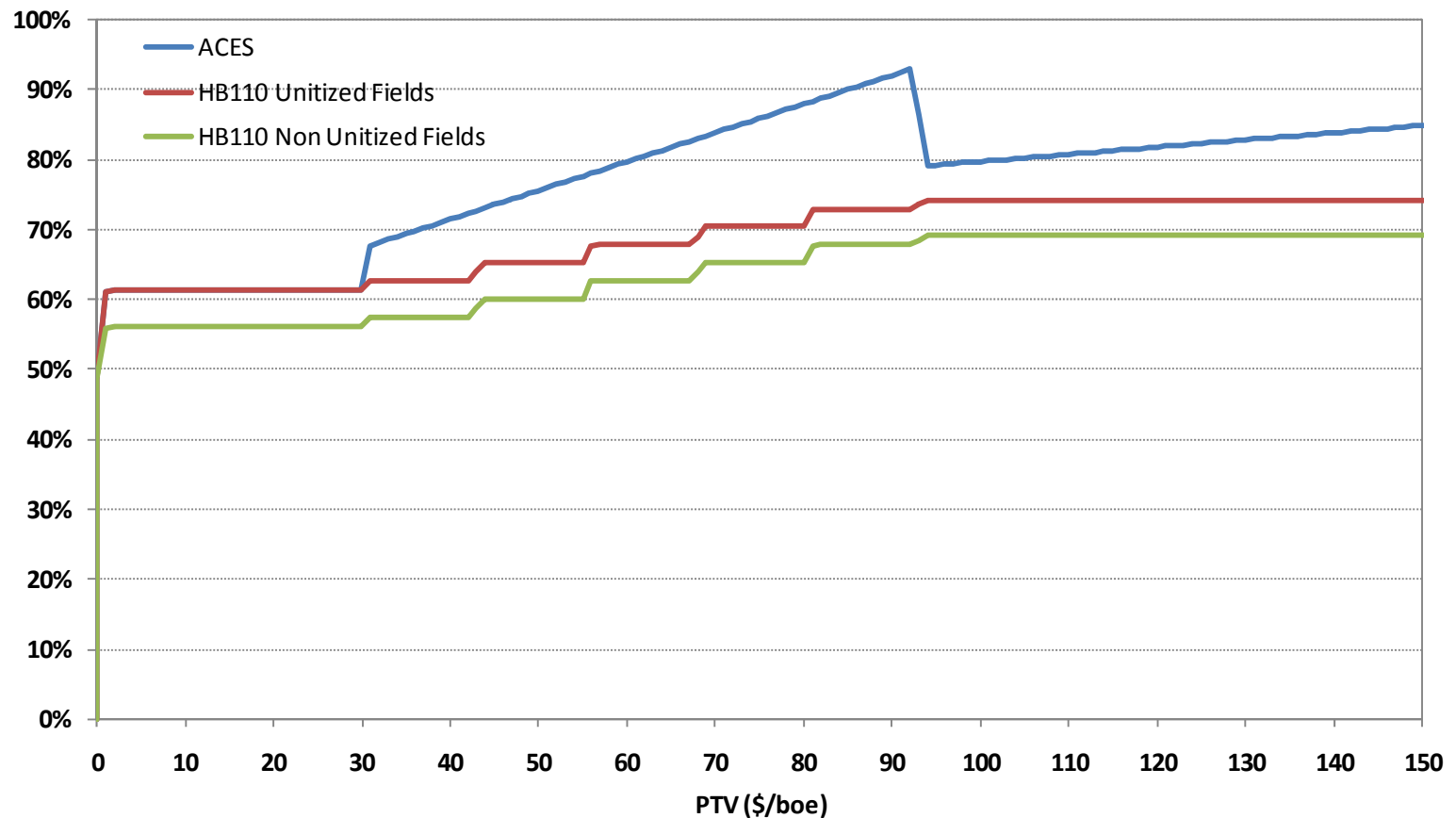




# Marginal Government Take

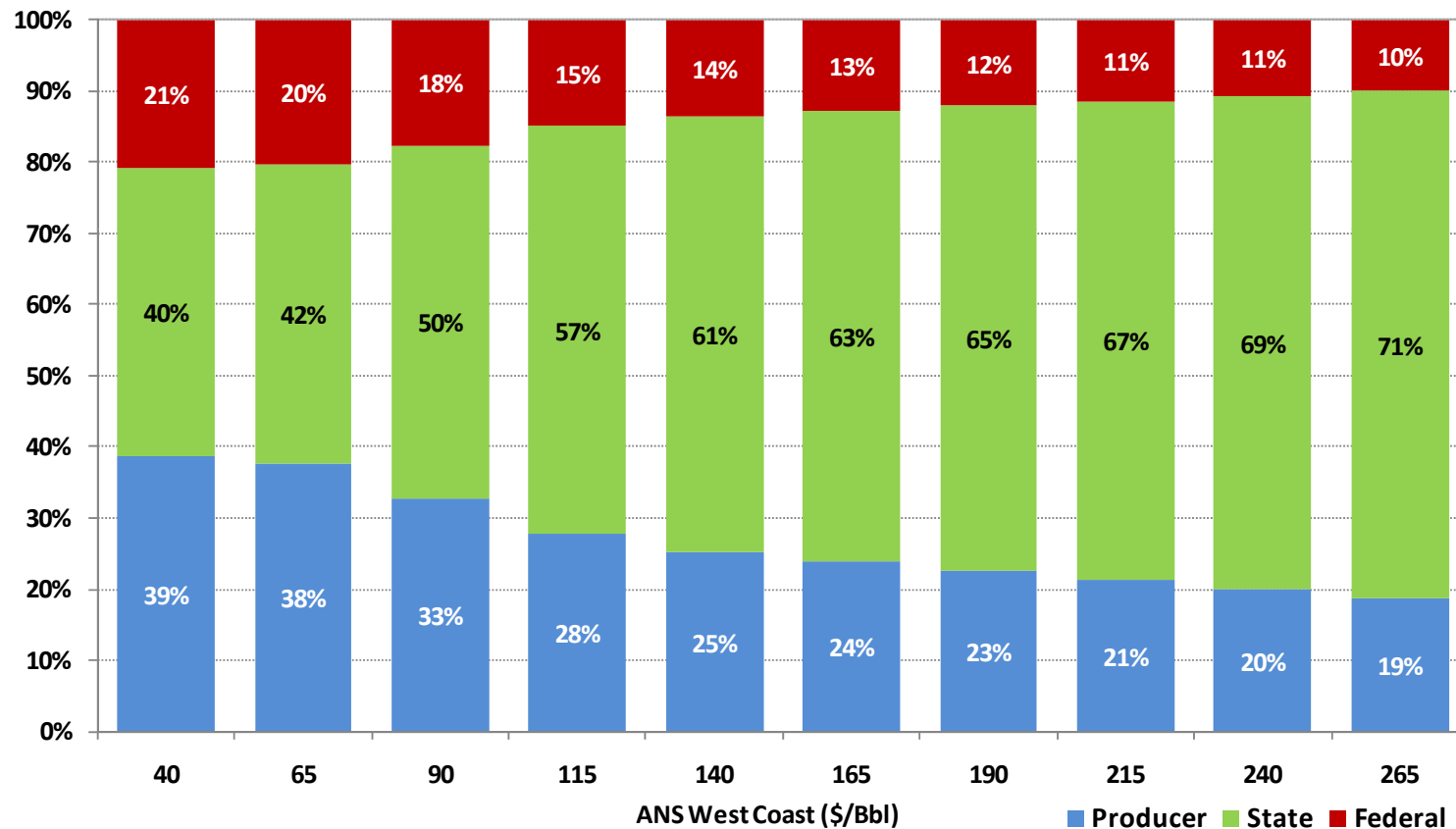


*(Incremental Government Take generated by a US\$ 1/boe increase in Production Tax Value, with all other conditions remaining unchanged)*





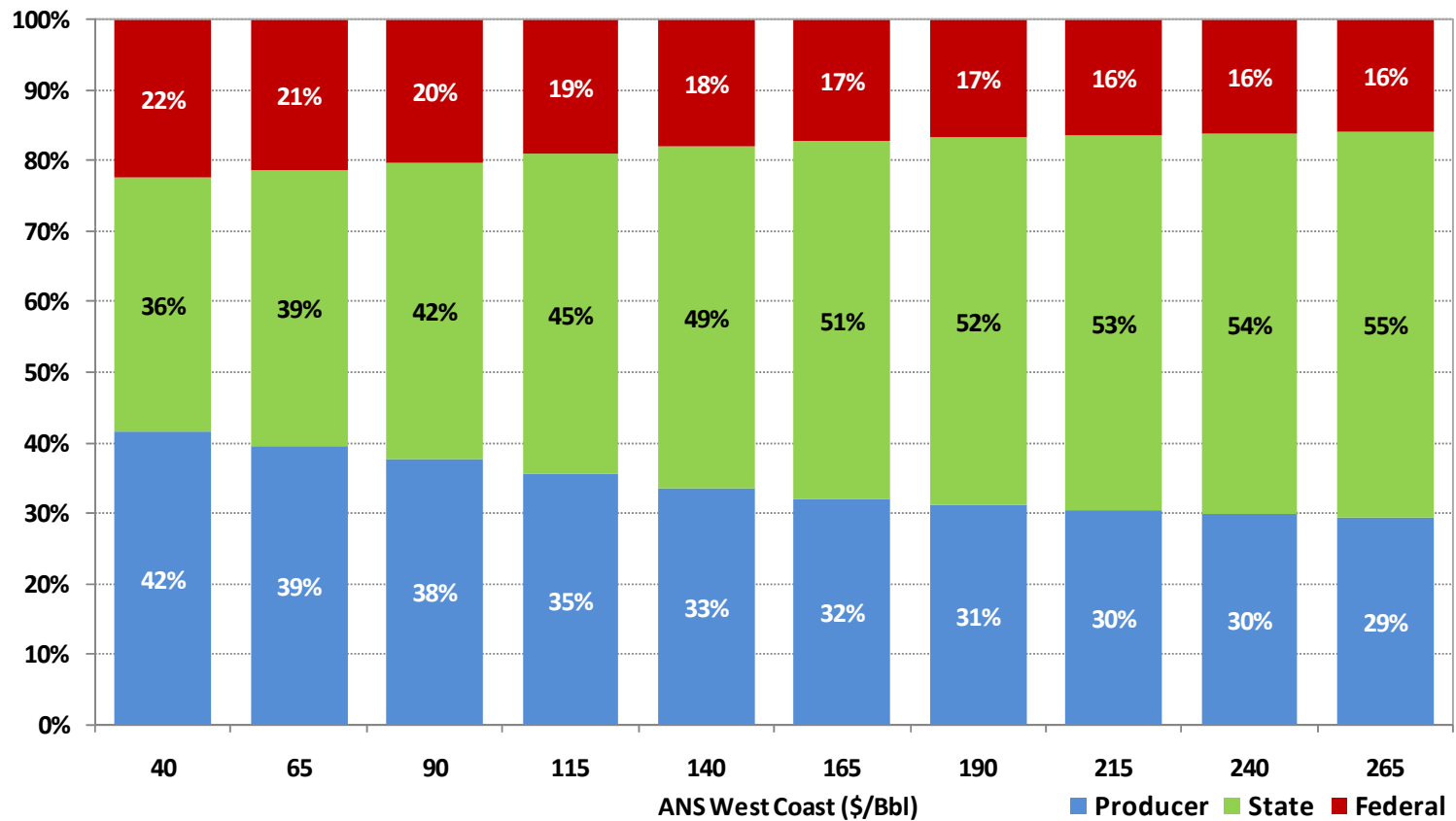
# Share of total profit - ACES



Production=600kbpd, Transport Costs=\$6/bbl, Upstream Costs=\$20/bbl



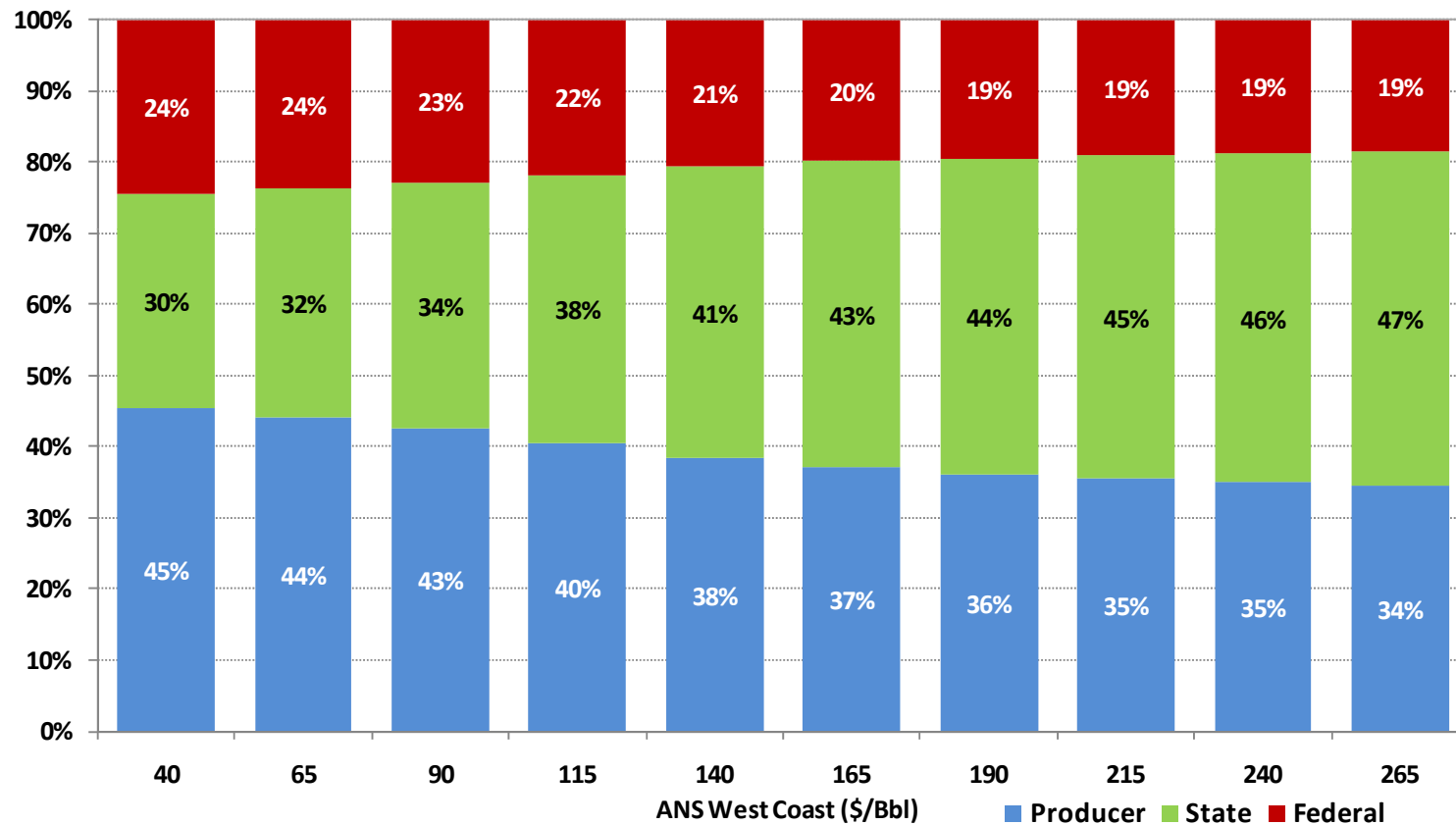
# Share of total profit CS HB 110 (RES): Unitized Fields



Production=600kbpd, Transport Costs=\$6/bbl, Upstream Costs=\$20/bbl



# Share of total profit CS HB 110 (RES): Non-Unitized Fields



Production=600kbpd, Transport Costs=\$6/bbl, Upstream Costs=\$20/bbl



## CS HB 110 (RES) Goals



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