Presentation to House Resources Committee

(Alaskans' Fair Share)

"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.

By Robin O. Brena

February 3, 2017

Introduction
Robin O. Brena

Mr. Brena is a life-long Alaskan who grew up in Skagway. He has received a Masters of Business Administration ("MBA") and a Doctor of Jurisprudence ("JD") from the Willamette University and a Master of Laws in Real Property ("LL.M.") from the University of Miami. He has been the Chairman of the Real Estate Section of the Alaska Bar Association, Chairman of the Estate Planning and Probate Section of the Alaska Bar Association, and has taught Advanced Business Law at the University of Alaska. Most recently, Mr. Brena was the Chairman of the Oil and Gas Subcommittee for Governor Walker's Transition Team.

Mr. Brena is the owner of Brena, Bell & Clarkson, P.C., an Anchorage law firm that emphasizes oil and gas, public utilities, tax assessment, real estate, commercial, and regulatory law. Representative current and prior clients in the oil and gas areas of practice are Fairbanks North Star Borough; Anadarko Petroleum Corp.; City of Valdez; Tesoro Corporation; Aurora Gas, LLC; Aurora Power Resources, Inc.; Murphy Exploration (Alaska) Inc.; Cook Inlet Energy, LLC; Agrium Inc.; NordAq Energy, Inc.; Interior Alaska Natural Gas Utility; Golden Valley Electric Association, Inc.; Matanuska Electric Association, Inc.; Chugach Electric Association, Inc.; Nabors Alaska Drilling, Inc.; Doyon Drilling, Inc.; Doyon Parker Joint Venture; Nordic-Calista Services No. 1; and Parker Drilling, Inc.

Mr. Brena has successfully litigated several cases in which greater than $1 billion has been at issue. He has also been named as one of the "Top Attorneys in Alaska;" as one of Alaska's "Super Lawyers" in the areas of oil and gas, public utilities, and business litigation; and as a Lifetime Charter Member of "Best Attorneys of America."

Mr. Brena is testifying as to his own personal opinions as an Alaskan. He is not representing any client, and his opinions are not intended to represent the opinions of his clients. He is not being paid for his testimony. Other than the financial interest all Alaskans may have in the recovery of a fair share for their oil and gas resources, Mr. Brena has no direct financial interest in the Legislature adopting his recommendations.

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Overview

- Alaskans are not Receiving Our One-Third Fair Share of Petroleum Revenues—in fact, Net Petroleum Revenues are at Historic Lows.
- Alaskans Cannot Afford the Current Method of Recovering Our Fair Share of Petroleum Revenues.
- The Legislature Should Make the Changes Necessary to Recover Our One-Third Fair Share.

Alaskans' Fair Share

- Constitutional Obligation
- Original Deal
- Historic Performance
- Public Policy
- Indications of Under Recovery

Alaskans’ Fair Share Constitutional Obligation

“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.

Alaskans' Fair Share
The Original Deal (Hammond)

Governor Hammond:

"When I was in office, the state, the oil companies, and the federal government agreed to split the oil wealth pie roughly one-third, one-third, and one-third."

Diapering the Devil at 51

Alaskans' Fair Share
The Original Deal (Hammond)

- When Alaskans began receiving less than our one-third share, Governor Hammond stated we were being *"shortchanged hundreds of millions of dollars each year for the past several years and will continue to be denied what was once agreed to be our 'fair share.'"*

- The year Governor Hammond said Alaskans were being "shortchanged" was 2004, a year when he represented that Alaskans received 27 percent of the gross market revenues.

<u>Diapering the Devil</u> at 51

Alaskans' Fair Share
The Original Deal (Price Searching)

Governor Hammond:

"[W]*e should have started out with, say, a 99% severance tax and worked our way slowly down until we started to get vibrations. At that point, we would have a far better idea of what the appropriate level of taxation might be to encourage development that met the constitutional mandate to maximize benefits.*"

<u>Diapering the Devil</u> at 28

Alaskans’ Fair Share
Original Deal (Field Economics)

- On Average, We Should Receive Our One-Third Fair Share When All Fields are Considered.
- When Producers are Exploring for New Resource or Developing Marginal Oil Plays, It Makes Sense to Take Less than Our One-Third Fair Share from Those Fields.
- When Producers are Simply Harvesting Major Legacy Fields, We Should Take More than Our One-Third Fair Share.

Alaskans’ Fair Share
Original Deal (Market Conditions)

- We Should Have a Long-Term Perspective and Take Our One-Third Fair Share Over Time.
- In Hard Times, It Makes Sense to Help Out by Taking Less than One-Third.
- In Good Times, We Should Take More than One-Third.
- Progressive Rates Linked to Crude Oil Prices will Permit Us to Balance the Good Times and Bad Times Fairly, So We Maintain Our One-Third Average Over Time.

Alaskans' Fair Share
Historic Performance

Petroleum Revenue Over Time

- Since 1978 (first fiscal year of TAPS), Alaska has received $141 billion in petroleum revenue
  - Market value of all Alaskan oil was $527 billion (27%)
  - Wellhead value of all Alaska oil was $403 billion (35%)
- Highest single year was 2008: $11.3 billion
- In high price / high revenue years, oil has provided 90% or more of state UGF revenue
- FY2017 estimated at 67% of revenue
  - In FY2017 oil revenues are only covering 22% of the budget. About 2/3 is being paid out of savings

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Alaskans' Fair Share
Public Policy

- Alaskans Should be Paid Our One-Third Fair Share, Over Time and On Average from All Fields, for Giving the Producers the Opportunity to Realize Substantial Profits Out of Their Two-Thirds Share.
- With a Two-Thirds Share, the Producers Have More than a Fair Opportunity to Realize Substantial Profits and Have, in fact, Made Substantial Profits.

Alaskans’ Fair Share
Public Policy

- To Realize Our One-Third Fair Share, the State Should Encourage Competitive Entry from Independent Producers into Alaska.
- Competitive Entry Would be Encouraged by Policies Removing Barriers to Entry into Alaska and Ensuring Revenue Policies Recognize the Economic Challenges Posed from Different Market Conditions and Different Fields.

Alaskans' Fair Share
Indications of Under Recovery

Total petroleum revenues from all sources have gone ***down*** *from $9.9 billion (2012) to $1.6 billion (2017) or by* ***84 percent****.*

Total net petroleum revenues from all sources have gone ***down*** *from $9.2 billion (2012) to $0.8 billion (2017) or by* ***91 percent****.*

Total unrestricted petroleum revenues have gone ***down*** *from $8.9 billion (2012) to $1 billion (2017) or by* ***89 percent****.*

Total net unrestricted petroleum revenues have gone ***down*** *from $8.1 billion (2012) to $0.2 billion (2017) or by* ***98 percent****.*

Alaskans' Fair Share
Indications of Under Recovery

Total production tax revenues have gone ***down*** *from $6.1 billion (2012) to $0.1 billion (2017) or by* ***98 percent****.*

Total net production tax revenues have gone ***down*** *from $5.4 billion (2012) to ($0.5) billion (2017) or by* ***109 percent****.*

For the first time in our history we are paying the producers to produce our oil under the production tax*, rather than them paying us.*

We are not even bringing in enough revenues under the production tax to timely pay the petroleum credits we are incurring under it.

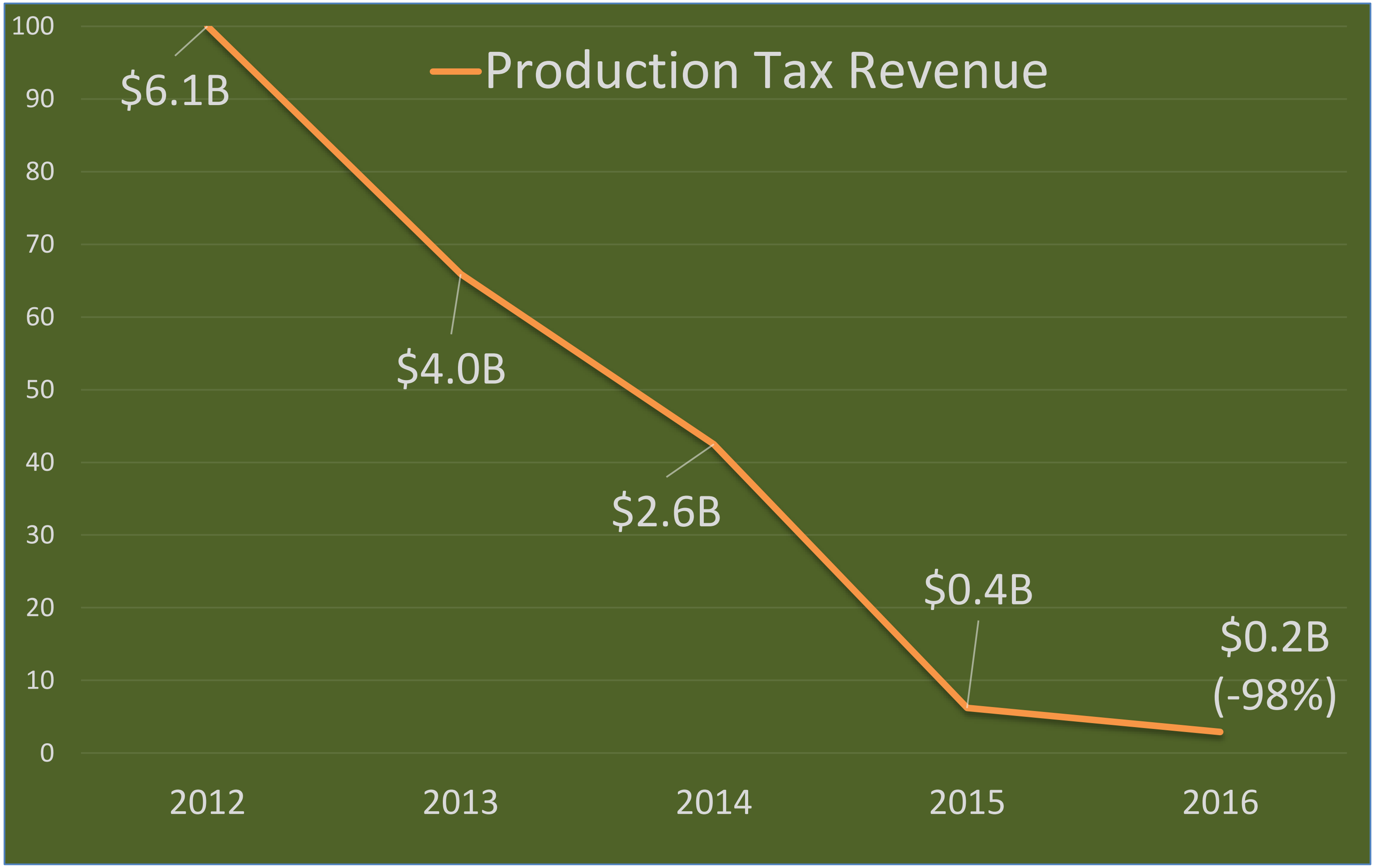
Alaskans' Fair Share
Indications of Under Recovery

Under the policies adopted by the last Legislature and last administration, Alaskans are getting less for their petroleum resources than at any time in our history.

Current Deficit

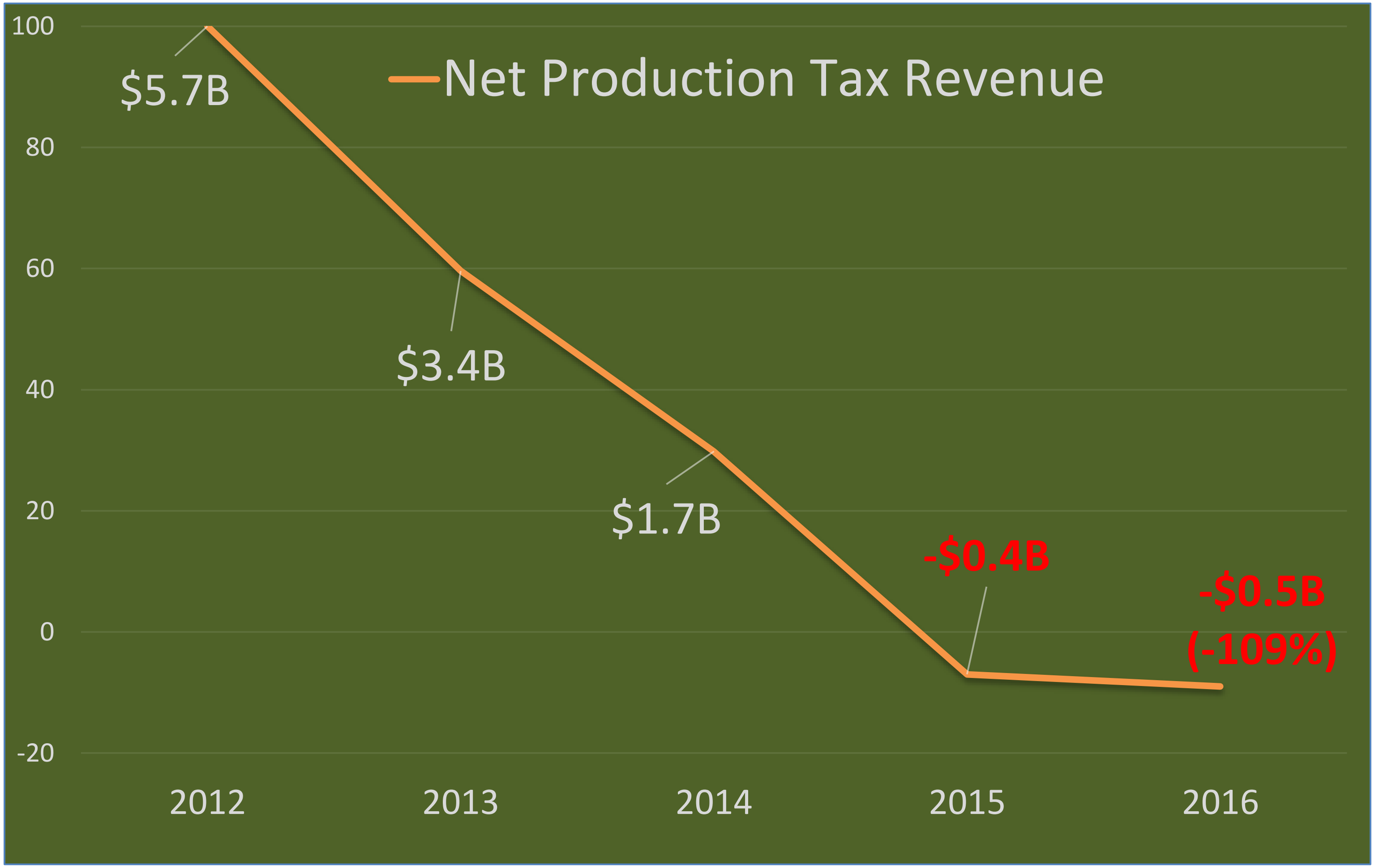
- Cause of Current Deficit
- SB21 or ACES

Current Deficit
Cause of Current Deficit



Alaska DOR, Tax Division
Revenue Sources Book Fall 2016
Page 105, Production Tax Line

Current Deficit
Cause of Current Deficit



Alaska DOR, Tax Division
Revenue Sources Book Fall 2016
Pages 77 and 105; Alper Testimony

Current Deficit
Cause of Current Deficit

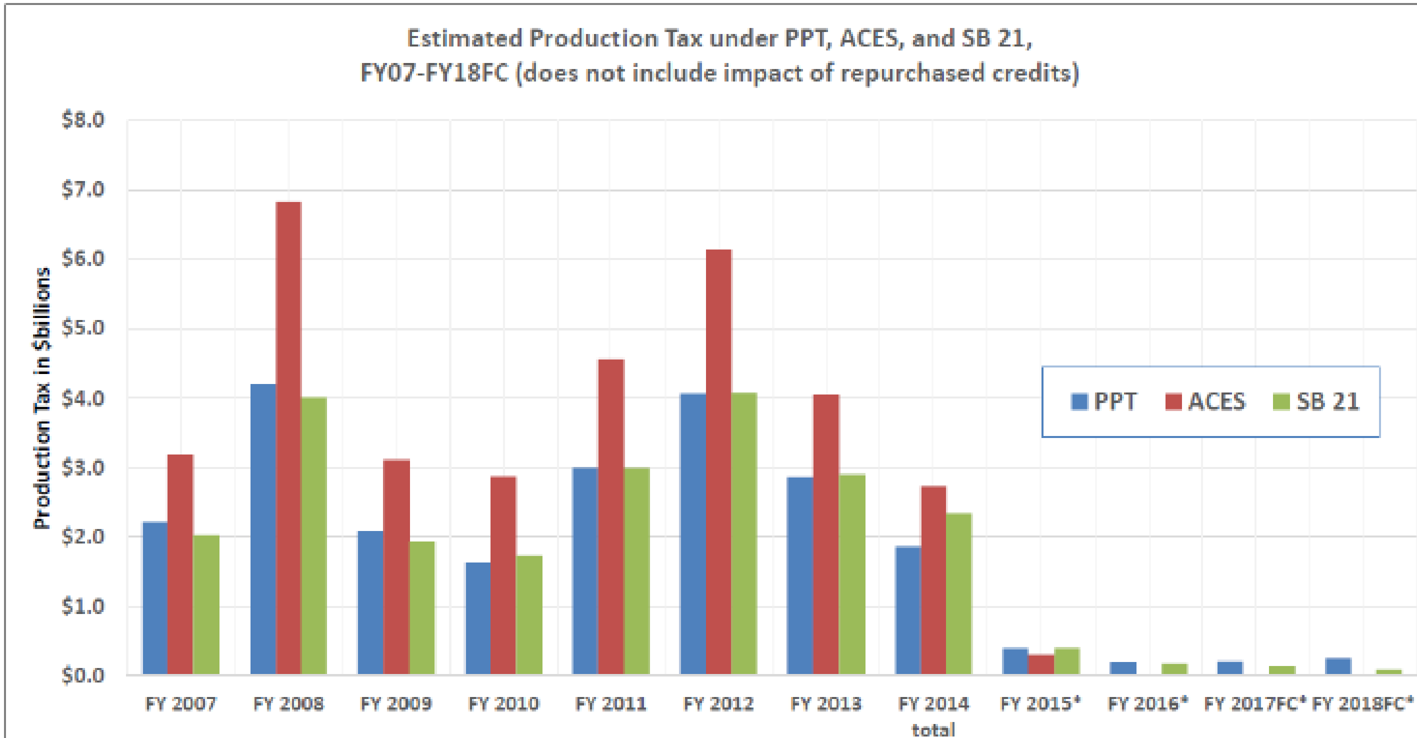
- The Production Tax Failed to Recover our Fair Share Under Current Market Conditions.
- The Decline in the Price of Oil Does Not Explain this Failure.
- The Price of Oil Decline from $112.65 per Barrel (2012) to $43.18 per Barrel (2016), or by 62 Percent.
- The Net Production Tax Declined From $5.7 Billion (2012) to ($0.5) Billion (2016), or by 109 Percent.

Current Deficit
SB21 or ACES

- This Should Not be a Conversation About Whether SB21 or ACES is Best Under Current Market Conditions.
- Both SB21 and ACES Would Fail to Recover our Fair Share Under Current Market Conditions.
- SB21 Fails Because it Under Collects Our Fair Share During Periods of Higher Oil Prices and Periods of Lower Oil Prices.
- ACES Fails Because, While it Collects Our Fair Share During Periods of Higher Oil Prices, ACES also Under Collects our Fair Share During Periods of Lower Oil Prices.

Current Deficit
SB21 or ACES

Impact of change to SB21



*In FY15 - FY 18, all 3 tax systems would have generated excess credits; some of these credits could be refunded and some would be carried forward to be applied in a future period.

FY14 actual production tax revenues were approximately $2.6 billion, due to half the year being under ACES and one half the year being under SB 21 tax systems.

Source: DOR historical forecast models for FY07-16 and Fall 2016 forecast model for FY17-18.

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Current Deficit
SB21 or ACES

Estimated Production Tax under PPT, ACES, and SB 21 FY07-FY 18FC (does not include repurchased credits)			
Fiscal Year	PPT	ACES	SB 21
	Production Tax in $billions		
FY 2007	$2.2	$3.2	$2.0
FY 2008	$4.2	$6.8	$4.0
FY 2009	$2.1	$3.1	$1.9
FY 2010	$1.6	$2.9	$1.7
FY 2011	$3.0	$4.6	$3.0
FY 2012	$4.1	$6.2	$4.1
FY 2013	$2.9	$4.1	$2.9
FY 2014 1H	$1.0	$1.5	$1.3
FY 2014 2H	$0.8	$1.2	$1.1
FY 2014 total	$1.9	$2.7	$2.3
FY 2015[1]	$0.4	$0.3	$0.4
FY 2016[1]	$0.2	$0.0	$0.2
FY 2017FC[1]	$0.2	$0.0	$0.1
FY 2018FC[1]	$0.2	$0.0	$0.1
Totals FY07-FY 18FC+	**$22.9**	**$33.8**	**$22.8**

[1] In FY15 - FY 18, all 3 tax systems would have generated excess credits; some of these credits could be refunded and some would be carried forward to be applied in a future period.

FY14 actual production tax revenues were approximately $2.6 billion, due to half the year being under ACES and one half the year being under SB 21 tax systems.

Source: DOR historical forecast models for FY07-16 and Fall 2016 forecast model for FY17-18.

Alternative Solutions for Deficit

- Additional Petroleum Revenues
- Reduce Spending
- Spend Savings
- Additional State-Wide Taxes
- Permanent Fund

Alternative Solutions for Deficit
Additional Petroleum Revenues

- Alaskans’ Fair Share Should Be Recovered.
- Not a Partisan Issue.
- Not a State Spending Issue.
- Less Recessionary Form of Revenue.
- This Should be the First Solution for Our Deficit.

Alternative Solutions
Additional Petroleum Revenues

Governor Hammond:

"[F]*irst, oil taxes should be adjusted to redeem the State's initially agreed upon one-third share. Only then should user fees or a broad based sales or income tax be imposed if we lack sufficient revenues to fund essential government programs*."

Diapering the Devil at 53

Alternative Solutions for Deficit
Reduce Spending

- Government Should be Expected to Operate Efficiently.
- Significant Spending Has Already Been Cut.
- Recessionary Impacts of Further Cuts May be Significant.
- Services Impacts of Further Cuts May be Significant.
- This Should be the Second Solution for Our Deficit.

Alternative Solutions for Deficit
Spend Savings

- Our Savings Should Not be Spent to Make Up for Recovering Less Than Our Fair Share of Petroleum Revenues or for Inefficient Government Spending.
- Our Readily Available Savings Have Been Spent.
- Obligation to Replace Savings Over Time.
- This Should be the Third Solution for Our Deficit.

Alternative Solutions for Deficit
Additional State-Wide Taxes

- State-Wide Taxes Should Not be Levied to Make Up for Recovering Less Than Our Fair Share of Petroleum Revenues or for Inefficient Government Spending.
- Recessionary Impact May be Significant.
- This Should be the Fourth Solution for Our Deficit.

Alternative Solutions for Deficit
Permanent Fund

- Our Permanent Fund was Intended to Permit Alaska to Transition from a Petroleum Economy to a Non-Petroleum Economy When Our Petroleum Resources are Exhausted. To Achieve Its Goals, Our Permanent Fund Will Have to Double from Its Current Size.

- Its Goals May Not be Obtained Unless We Permit It to Grow to Fit Its Purpose.

Alternative Solutions for Deficit Permanent Fund

- The PFD Structure was Adopted in Recognition that All Alaskans Were Entitled to Share in Our Petroleum Wealth, and to Invest Alaskans in the Preservation of the Permanent Fund to Ensure its Survival from the Inevitable Encroachments by Politicians in Search of Money.

Alternative Solutions for Deficit
Permanent Fund

- Given Their Purposes, our Permanent Fund and Our PFDs Should be the Last Place Alaskans Look to Resolve the Problems Created by Our Reductions in Net Production Revenues.

Additional Petroleum Revenues (Gross)

- Failed Net System
- Not Typical
- Summary of Recommendations

Additional Petroleum Revenues (Gross) Failed Net System

- Lack Information to Administer Policy Correctly.
- Audits Complex and Years Behind.
- Complex Systems May be Politically and Technically Gamed
  - Deductions
  - Loss Carry Forwards
  - New Oil
  - Credits
  - Minimum Tax
  - Interest
- The State is Out Resourced and Out Lawyered

Additional Petroleum Revenues (Gross) Not Typical

- All Other States Have Gross Systems.
- Net Systems in Other Countries are Far More Generous to Resource Owners.
- North Slope Gas Converts to a Gross System in the Future.

Additional Petroleum Revenues (Gross) Summary of Recommendations

- Adopt a Gross Tax System Based on the Market Prices for ANS Crude Oil on the West Coast.
- Set the Revenue Rate to Ensure the Recovery of Our One-Third Fair Share.
- Make Appropriate Adjustments to the Revenue Rate to Recognize Field Economics and Market Conditions.

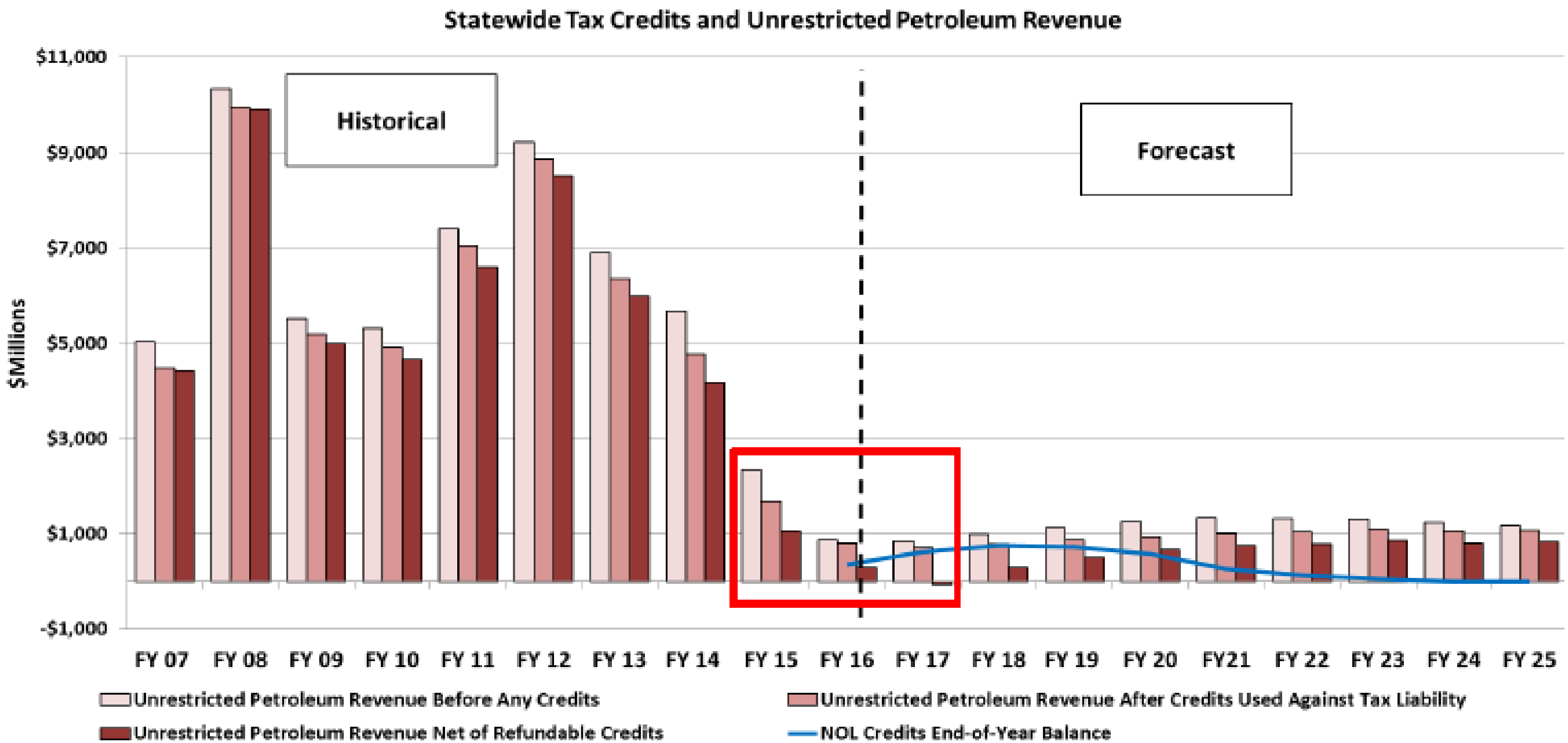
Additional Petroleum Revenues (Net)

- Need for Reform
- Information
- Deductions
- New Oil
- Minimum Tax
- Credits
- Interest for Underpaid Revenues
- Summary of Recommendations

Additional Petroleum Revenues (Net) Need for Reform

Why the Need for Reform?

(because we just can't afford it)



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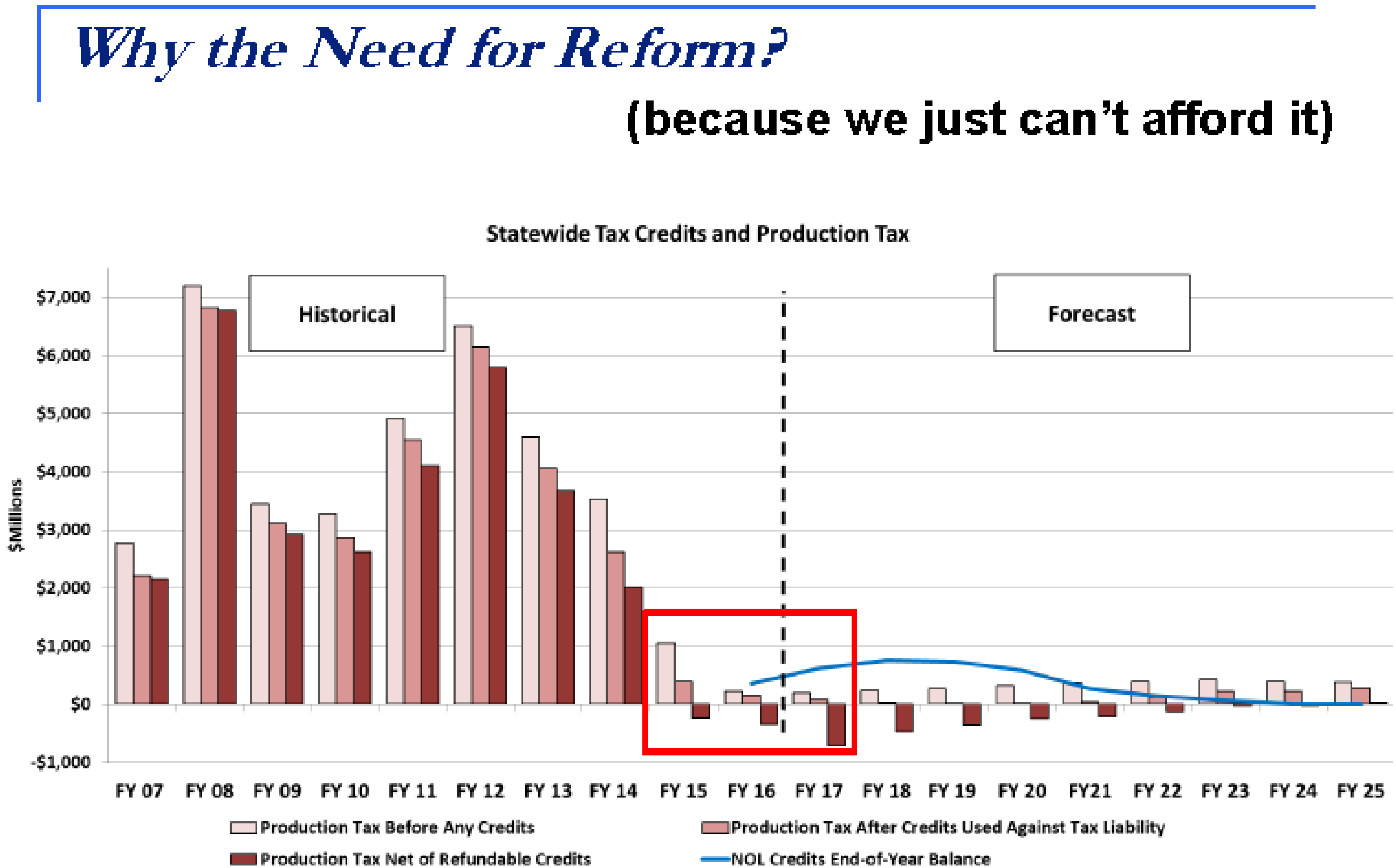
Additional Petroleum Revenues (Net) Need for Reform



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Additional Petroleum Revenues (Net) Need for Reform

Remaining concerns with tax and credit system

- Hybrid system with a net tax above $80, a gross tax between $45 and $80, and a net tax (via the NOL credit) below $45
- Possible multi-billion dollar future liability for large new discoveries
- Possible ability to use carried forward operating loss credits to zero out all taxes ("hardening the floor")
- Equity between major producers and new explorers if major changes made to operating loss credits
- High per barrel credit keeps us in the 4% "minimum tax" at up to nearly $80 oil
- Less "upside" to the state during price spikes, making it harder to replenish our savings
- High volatility and complex administration of a net profits tax system

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Additional Petroleum Revenues (Net)
Need for Reform

Remaining concerns with tax and credit system

From July, 2016 Special Session

HB/SB 5005 was a smaller, more targeted credit reform and minimum tax package than HB247

- Mainly: addressed "North Slope NOL" issue by eliminating all loss credits
- Re-introduced several smaller parts of HB247 that did not pass in that legislation
- Increased the minimum tax at certain prices
- Technical fixes to HB247 sections that may have implementation issues

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Additional Petroleum Revenues (Net)
Need for Reform

- Many Conversations Concerning Petroleum Revenues Assume Alaskans Should Not Get Their One-Third Fair Share Unless the Producers Are Making a Substantial Profit. I Disagree.
- Investment is Long-Term in the Petroleum Industry.
- When Extreme Market Conditions Occur, the Risk of Those Conditions Should be Borne by the Producers Who are in the Best Position to Manage Them.

Additional Petroleum Revenues (Net) Need for Reform

- Alaskans Have had to Draw Down Roughly $15 Billion From Savings in Recent Years to Ensure the Producers' Profits.
- Our One-Third Fair Share Should Be Maintained Over Time.
- Our One-Third Fair Share and Our Savings Accounts are for the Public Good—Not to Ensure Producers' Profits.
- We Should Not be Paying State-Wide Taxes to Ensure Producers' Profits.
- Our Permanent Fund is for Our Children's Future, and Our PFDs are to Ensure the Sanctity of Our Permanent Fund—Not to Ensure Producers' Profits.

Additional Petroleum Revenues (Net) Information

- Alaskans and this Legislature Lack the Substantive Financial Information From Which to Properly Form Resource Development Policies.
- Alaskans and this Legislature are in a Net Business Arrangement With Producers Without Knowing the Actual Financial Performance of those Producers in Alaska.
- Forming Tax Policy Without Knowing the Actual Financial Performance of the Producers is Not Sound Public Policy.

Additional Petroleum Revenues (Net) Information

"6. The Division broadly interprets what it considers "taxpayer confidential" information under applicable statutes and will not disclose such information to the Municipalities specifically or to the public generally. The Division considers all information that it receives from a taxpayer as "taxpayer confidential," even if it does not contain the particularities of a taxpayer's business affairs and is obtainable from the public domain."

2007-2009 Gleason Decision ¶ 6

Additional Petroleum Revenues (Net) Information

History of Oil and Gas Taxes in Alaska

- **Corporate Income Tax** for oil and gas used "separate accounting" 1978-1981 but has been relatively stable since then
  - Apportionment formula tied to worldwide earnings and the Alaska share of sales, property, and extraction

Production (or "Severance") Tax is where all the focus has been in recent memory

One limitation in any tax conversation is that nearly all information related to a specific company is considered confidential

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Additional Petroleum Revenues (Net) Deductions

- There are Deductions Allowed for Field Expenditures.
  - Operating Expenses
  - Capital Expenses
- There are Deductions Allowed for Transportation Expenses.
  - Pipeline Expenses
  - Marine Expenses
- There are Deductions Allowed for Loss Carry-Forwards.

Additional Petroleum Revenues (Net) Deductions

- Deductions Are Shielded Through Confidentiality Designations.
- Deductions Have Risen in Recent Years Without Apparent Justification.
- None of the Deductions Have Been Audited For Several Years.
- Experience with Pipeline Rates (100-130 Percent Returns) (High Tariff Memorandum) and Property Tax Assessments (10 Percent of Value) Supports the Need for Diligence.
- For the Integrated Majors, Several of the Deductions Represent Profit Centers Rather Than Cost Centers.
  - Pipeline
  - Marine
- Expenses are Not Always Expenses.
  - Demolition, Removal & Restoration (DR&R) $4.5 Billion in Collections and Earnings for Estimated $2.5 Billion in DR&R (Value to Producers) (State's Financial Interest).

Additional Petroleum Revenues (Net) Deductions

Appendix B
1

Nominal Netback Costs, Actual and Forecast

By netback segment

	Dollars per Barrel									
	History									
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alaska North Slope West Coast	61.60	96.51	68.34	74.90	94.49	112.65	107.57	107.57	72.58	43.18
Netback Costs[1]										
Marine Costs	1.62	1.93	2.05	2.21	2.44	3.24	3.64	3.70	3.25	3.15
TAPS Tariff	4.37	5.08	4.59	3.81	4.02	5.06	5.93	6.52	6.11	6.25
Feeder Tariff	0.45	0.31	0.31	0.31	0.29	0.31	0.35	0.38	0.42	0.39
Quality Bank	-0.86	-1.26	-0.52	-0.41	-0.54	-0.68	-0.67	-0.59	-0.37	-0.04
Other[2]	-0.18	-0.01	-0.05	0.09	0.46	0.44	0.51	0.41	0.33	0.13
Total of Netback Costs	5.40	6.05	6.38	6.01	6.67	8.37	9.76	10.42	9.74	9.88
ANS Wellhead Weighted Average All Destinations	56.20	90.46	61.96	68.89	87.82	104.28	97.81	97.15	62.83	33.30

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Additional Petroleum Revenues (Net) Deductions

Appendix B
1

Nominal Netback Costs, Actual and Forecast

By netback segment *(Continued)*

	Dollars per Barrel									
		Forecast								
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Alaska North Slope West Coast	**46.81**	**54.00**	**60.00**	**63.00**	**67.00**	**71.00**	**75.00**	**78.00**	**84.00**	**88.00**
Netback Costs[3]										
Marine Costs	3.13	3.19	3.25	3.30	3.35	3.40	3.45	3.50	3.56	3.62
TAPS Tariff	5.81	6.18	6.54	6.96	7.39	7.83	8.30	8.81	9.32	9.85
Feeder Tariff	0.41	0.42	0.42	0.43	0.45	0.47	0.49	0.51	0.54	0.57
Quality Bank	-0.12	-0.14	-0.16	-0.18	-0.19	-0.20	-0.21	-0.21	-0.21	-0.21
Other[2]	0.10	0.12	0.13	0.14	0.15	0.16	0.17	0.18	0.19	0.20
Total of Netback Costs	**9.33**	**9.77**	**10.19**	**10.64**	**11.15**	**11.67**	**12.21**	**12.79**	**13.41**	**14.03**
ANS Wellhead Weighted Average All Destinations	**37.48**	**44.23**	**49.81**	**52.36**	**55.85**	**59.33**	**62.79**	**65.21**	**70.59**	**73.97**

[1] Costs reported here are meant to be average costs for barrels that incurred the transportation expense. For example, marine costs should represent the average for barrels shipped on a tanker, not the average for all barrels sold. The Department of Revenue's data sources are variable and the department has not been able to confirm that this is the case for all years.

[2] Primarily tanker and pipeline losses.

[3] Forecasted transportation costs for barrels that incurred the transportation expense. For example, marine costs represent the average for barrels shipped on a tanker, not the average for all barrels sold.

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Additional Petroleum Revenues (Net) Deductions

- The Major Producers have Massively Over Collected Profit from their Pocket-to-Pocket Transfers.
- The Practical Effect of Overpaying Themselves is to Increase Their Deductions and Reduce Their Petroleum Revenues.

Additional Petroleum Revenues (Net) Deductions

"562. The RCA found that under the TSM, between 1977 and 1996, the TAPS Owners collected, in 1997 dollars, $13.5 billion more than would have been collected under the current rate methodology used by the RCA to set rates on TAPS."

2007-2009 Gleason Decision ¶ 562

Additional Petroleum Revenues (Net) Deductions

Calculation	ANS	Prudhoe Unit	Source/Comments
ANS (West Coast) 2016	$43.18	$43.18	RSB Fall 2016 at 109
Transport 2016			
Pipeline	($6.73)	($6.25)	RSB Fall 2016 at 109
Marine	($3.15)	($3.15)	RSB Fall 2016 at 109
Gross Value at Point of Production	$33.30	$33.78	
Lease Expenditures			
Operating Expenditures	($17.38)	($15.37)	RSB Fall 2016 at 113, 115; Stickel 11/21/16 report at 2
Capital Expenditures	($18.02)	($6.64)	RSB Fall 2016 at 113, 115; Stickel 11/21/16 report at 2
Production Tax Value	-$2.10	$11.77	
Tax per Net (PTV *35% - $8 Per-BBL Credit)	-$8.74	-$3.88	
Minimum Tax (4% * GVPP)	$1.33	$1.35	
Higher of Tax per Net or Minimum	$1.33	$1.35	
Remaining Revenue	-$3.43	$10.42	

Additional Petroleum Revenues (Net) Deductions

Calculation	Prudhoe Unit	Prudhoe Unit Revised	Source/Comments
ANS (West Coast) 2016	$43.18	$43.18	RSB Fall 2016 at 109
Transport 2016			
Pipeline	($6.25)	($0.63)	RSB Fall 2016 at 109; revised to 10%
Marine	($3.15)	($2.00)	RSB Fall 2016 at 109; revised to $2.00
Gross Value at Point of Production	$33.78	$40.55	
Lease Expenditures			
Operating Expenditures	($15.37)	($13.83)	RSB Fall 2016 at 113; Stickel 11/21/16 report at 2; revised to 90%
Capital Expenditures	($6.64)	($5.98)	RSB Fall 2016 at 113; Stickel 11/21/16 report at 2; revised to 90%
Profit Less Expenditures	$11.77	$20.74	
Tax at 33% of Gross (Price)	-$14.25	-$14.25	
Remaining Revenue	-$2.48	$6.49	

Additional Petroleum Revenues (Net)
New Oil

- The Definition of New Oil Should be Modified or Eliminated Altogether.
- Point Thompson Production Should Not be Included in the Definition of New Oil.

Additional Petroleum Revenues (Net)
Minimum Tax

- The Minimum Tax Should be “Hardened” for All Fields.
- The Minimum Tax on Prudhoe and Kuparuk Should be Raised Substantially.

Additional Petroleum Revenues (Net) Credits

- Credits Should Be Timely Paid.
- Credits for Independents Should Have Economic Parity.
- Credits Should Be Substantially Reduced, and Eliminated Unless They Have Been Demonstrated as Necessary to Develop a Marginal Field.
- Credits Should Not be Used in an Attempt to Incentivize Behavior (1) Required by Law, or (2) Likely to be Achieved in the Marketplace Without Credits.

Additional Petroleum Revenues (Net) Interest on Underpaid Revenues

- The Current Interest Structure Encourages Gamesmanship, Underpaying, and Litigation.
- The Audits Should be Resourced and Timely.
- The Interest on Underpaid Revenues Should be Raised Substantially.

Additional Petroleum Revenues (Net) Summary of Recommendations

- Require Adequate and Public Reporting on the Financial Performance of the Producers.
- Simplify the Net Revenue System.
- Resource and Require Timely Audits.
- Fix Transportation Deductions For Affiliates.
- Amortize Capital Field Expenses Over Time.
- Eliminate or Substantially Reduce Loss Carry-Forwards.

Additional Petroleum Revenues (Net) Summary of Recommendations

- Eliminate or Substantially Reduce Production Under the “New Oil” Designation, and Eliminate the Designation for Pt. Thompson.
- “Harden” the Minimum Tax and Raise it Substantially for Prudhoe and Kuparuk.
- Pay Outstanding Credits Timely. Ensure Economic Parity for Independents. Substantially Reduce and Focus Credits on Marginal Fields.
- Adjust the Interest Structure on Underpaid Petroleum Revenues to Discourage Gamesmanship, Underpaying, and Litigation.

Conclusion

- Alaskans Should Recover Our One-Third Fair Share of Petroleum Revenues.
- Alaskans Cannot Afford the Current Method of Recovering our Fair Share.
- This Legislature Should Make the Changes Necessary to Ensure Alaskans Recover Our One-Third Fair Share, Either Through Adopting a Gross Recovery Method or by Substantially Improving the Current Net Recovery Method.

THANK YOU

Source Information

- Excerpts from DOR Revenue Sources Book Fall 2016: pages 105, 106, 109, 100, 115, 116

- Excerpt from “Reported ANS Lease Expenditures and Capital Lease Expenditures-CY 2011-CY 2015 & FY 2016 ($millions)” prepared by Dan Stickel, Chief Economist, dated 11/21/2016

Source Information

Appendix A **3**

Petroleum Revenue
By restriction and type

	Millions of Dollars									
	History[1]									
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Unrestricted Petroleum Revenue										
Petroleum Property Tax	65.6	81.5	111.2	118.8	110.6	111.2	99.3	128.1	125.2	111.7
Petroleum Corporate Income Tax	594.4	605.8	492.2	446.1	542.1	568.8	434.6	307.6	94.8	-58.8
Production Tax	2,198.3	6,810.9	3,100.9	2,860.7	4,543.2	6,136.7	4,042.5	2,605.9	381.6	176.8
Oil and Gas Hazardous Release	10.1	11.7	11.1	10.3	9.7	9.4	7.8	8.8	8.1	9.2
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Royalties[2]	1,583.8	2,420.6	1,451.2	1,469.0	1,821.3	2,022.8	1,748.4	1,685.0	1,052.1	840.3
Bonuses, Rents and Interest[2,3]	29.2	25.5	14.4	8.0	22.0	8.9	19.4	27.4	26.1	30.3
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Unrestricted Petroleum Revenue	**4,481.4**	**9,956.0**	**5,181.0**	**4,912.9**	**7,048.9**	**8,857.8**	**6,352.0**	**4,762.8**	**1,687.9**	**1,109.5**
Cumulative Total Petroleum Revenue[4]	**66,291**	**76,247**	**81,428**	**86,340**	**93,389**	**102,247**	**108,599**	**113,362**	**115,050**	**116,159**
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	12.8	5.2	14.8	21.3	3.0	4.8	3.6	6.8	3.2	1.8
Royalties to Permanent Fund	535.0	834.0	659.8	696.1	857.3	904.9	842.1	773.7	510.4	390.5
Royalties to Public School Trust Fund	10.6	16.5	11.0	11.1	13.6	14.7	13.8	12.5	7.9	6.4
Constitutional Budget Reserve Fund Deposits	101.9	476.4	202.6	552.7	167.3	102.1	176.6	141.4	149.0	119.1
Total Restricted Petroleum Revenue	**660.3**	**1,332.1**	**888.2**	**1,281.2**	**1,041.2**	**1,026.5**	**1,036.1**	**934.4**	**670.5**	**517.8**

(Table continued, next page)

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Source Information

Appendix A
3

Petroleum Revenue

By restriction and type *(Continued)*

	Millions of Dollars									
	Forecast									
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Unrestricted Petroleum Revenue										
Petroleum Property Tax	115.8	109.7	107.1	105.0	103.1	101.2	99.0	96.9	94.7	92.4
Petroleum Corporate Income Tax	96.4	235.4	260.0	250.3	243.1	249.7	251.1	244.7	259.0	260.5
Production Tax	135.0	82.1	247.9	265.4	276.5	306.6	304.9	328.1	368.8	391.1
Oil and Gas Hazardous Release	8.1	7.6	7.4	7.2	6.9	6.6	6.3	6.0	5.7	5.5
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Royalties[2]	592.1	645.4	702.2	713.1	729.1	747.0	757.3	758.4	785.1	793.0
Bonuses, Rents and Interest[2, 3]	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Unrestricted Petroleum Revenue	**966.9**	**1,099.8**	**1,344.2**	**1,360.6**	**1,378.3**	**1,430.6**	**1,438.2**	**1,453.7**	**1,532.9**	**1,562.0**
Cumulative Total Petroleum Revenue[4]	**117,126**	**118,226**	**119,570**	**120,931**	**122,309**	**123,740**	**125,178**	**126,632**	**128,165**	**129,728**
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	4.3	4.3	9.0	27.3	43.7	39.6	40.5	45.0	41.8	37.9
Royalties to Permanent Fund	271.6	293.5	322.3	336.9	351.2	355.6	358.3	358.6	365.3	364.1
Royalties to Public School Trust Fund	4.4	4.8	5.2	5.4	5.5	5.6	5.7	5.7	5.9	5.9
Constitutional Budget Reserve Fund Deposits	350.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Restricted Petroleum Revenue	**630.3**	**402.6**	**436.6**	**469.5**	**500.4**	**500.7**	**504.6**	**509.3**	**512.7**	**507.9**

[1] Historical petroleum revenue can be found on the Tax Division's website at www.tax.alaska.gov/sourcesbook/qr.aspx?Chapter=16&FY=2016.

[2] Net of Permanent Fund, Public School Trust Fund, and CBRF deposits.

[3] This category is primarily petroleum revenue.

[4] Based on revenue beginning in FY 1959.

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Source Information

Appendix B

1

Nominal Netback Costs, Actual and Forecast

By netback segment

	Dollars per Barrel									
	History									
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alaska North Slope West Coast	61.60	96.51	68.34	74.90	94.49	112.65	107.57	107.57	72.58	43.18
Netback Costs[1]										
Marine Costs	1.62	1.93	2.05	2.21	2.44	3.24	3.64	3.70	3.25	3.15
TAPS Tariff	4.37	5.08	4.59	3.81	4.02	5.06	5.93	6.52	6.11	6.25
Feeder Tariff	0.45	0.31	0.31	0.31	0.29	0.31	0.35	0.38	0.42	0.39
Quality Bank	-0.86	-1.26	-0.52	-0.41	-0.54	-0.68	-0.67	-0.59	-0.37	-0.04
Other[2]	-0.18	-0.01	-0.05	0.09	0.46	0.44	0.51	0.41	0.33	0.13
Total of Netback Costs	5.40	6.05	6.38	6.01	6.67	8.37	9.76	10.42	9.74	9.88
ANS Wellhead Weighted Average All Destinations	56.20	90.46	61.96	68.89	87.82	104.28	97.81	97.15	62.83	33.30

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Source Information

Appendix B 1

Nominal Netback Costs, Actual and Forecast

By netback segment *(Continued)*

	Dollars per Barrel									
	Forecast									
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Alaska North Slope West Coast	**46.81**	**54.00**	**60.00**	**63.00**	**67.00**	**71.00**	**75.00**	**78.00**	**84.00**	**88.00**
Netback Costs[3]										
Marine Costs	3.13	3.19	3.25	3.30	3.35	3.40	3.45	3.50	3.56	3.62
TAPS Tariff	5.81	6.18	6.54	6.96	7.39	7.83	8.30	8.81	9.32	9.85
Feeder Tariff	0.41	0.42	0.42	0.43	0.45	0.47	0.49	0.51	0.54	0.57
Quality Bank	-0.12	-0.14	-0.16	-0.18	-0.19	-0.20	-0.21	-0.21	-0.21	-0.21
Other[2]	0.10	0.12	0.13	0.14	0.15	0.16	0.17	0.18	0.19	0.20
Total of Netback Costs	**9.33**	**9.77**	**10.19**	**10.64**	**11.15**	**11.67**	**12.21**	**12.79**	**13.41**	**14.03**
ANS Wellhead Weighted Average All Destinations	**37.48**	**44.23**	**49.81**	**52.36**	**55.85**	**59.33**	**62.79**	**65.21**	**70.59**	**73.97**

[1] Costs reported here are meant to be average costs for barrels that incurred the transportation expense. For example, marine costs should represent the average for barrels shipped on a tanker, not the average for all barrels sold. The Department of Revenue's data sources are variable and the department has not been able to confirm that this is the case for all years.

[2] Primarily tanker and pipeline losses.

[3] Forecasted transportation costs for barrels that incurred the transportation expense. For example, marine costs represent the average for barrels shipped on a tanker, not the average for all barrels sold.

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Source Information

Appendix D **1**

Lease Expenditures

Operating and capital expenditures by geographic region

	Millions of Dollars									
	History									
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
North Slope Lease Expenditures										
Operating Expenditures [OPEX]	2,081	2,027	2,085	2,270	2,614	3,001	3,110	3,254	3,439	3,267
Capital Expenditures [CAPEX]	1,578	1,953	2,212	2,389	2,317	2,383	2,969	3,738	3,992	3,387
Total North Slope Lease Expenditures	**3,659**	**3,980**	**4,297**	**4,659**	**4,931**	**5,385**	**6,079**	**6,992**	**7,431**	**6,654**
Non-North Slope (includes Cook Inlet)										
Operating Expenditures [OPEX]	223	279	201	165	191	245	261	252	242	285
Capital Expenditures [CAPEX]	134	247	341	168	123	350	415	595	640	382
Total Non-North Slope Lease Expenditures	**357**	**526**	**542**	**332**	**314**	**594**	**676**	**848**	**881**	**668**
Total Statewide Lease Expenditures										
Operating Expenditures [OPEX]	2,304	2,306	2,286	2,435	2,805	3,246	3,370	3,506	3,680	3,552
Capital Expenditures [CAPEX]	1,712	2,200	2,553	2,557	2,440	2,733	3,384	4,333	4,632	3,769
Total Statewide Lease Expenditures	**4,016**	**4,506**	**4,839**	**4,991**	**5,245**	**5,979**	**6,754**	**7,839**	**8,312**	**7,322**
Additional Detail for North Slope Lease Expenditures										
Operating Expenditures[OPEX]										
Producing non-GVR eligible units	2,061	1,987	2,040	2,182	2,488	2,838	2,879	3,021	3,161	2,921
Other operating expenditures	20	40	45	88	126	163	231	233	278	346
Total North Slope OPEX	**2,081**	**2,027**	**2,085**	**2,270**	**2,614**	**3,001**	**3,110**	**3,254**	**3,439**	**3,267**
Capital Expenditures[CAPEX]										
Producing non-GVR eligible units	1,185	1,573	1,648	1,343	1,370	1,367	1,563	2,191	2,454	1,921
Other capital expenditures	393	380	564	1,046	947	1,016	1,406	1,547	1,538	1,466
Total North Slope CAPEX	**1,578**	**1,953**	**2,212**	**2,389**	**2,317**	**2,383**	**2,969**	**3,738**	**3,992**	**3,387**

(Table continued, next page)

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Source Information

Appendix D
1

Lease Expenditures

Operating and capital expenditures by geographic region *(Continued)*

	Millions of Dollars									
	Forecast									
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
North Slope Lease Expenditures										
Operating Expenditures [OPEX]	2,829	2,797	2,886	2,963	3,039	3,087	3,023	2,965	2,905	2,858
Capital Expenditures [CAPEX]	2,425	2,662	2,807	2,779	2,508	2,260	2,236	2,210	2,167	2,136
Total North Slope Lease Expenditures	**5,255**	**5,460**	**5,693**	**5,743**	**5,547**	**5,347**	**5,259**	**5,175**	**5,072**	**4,994**
Non-North Slope (includes Cook Inlet)										
Operating Expenditures [OPEX]	245	258	260	255	249	245	246	248	250	252
Capital Expenditures [CAPEX]	210	172	140	135	133	133	133	133	133	133
Total Non-North Slope Lease Expenditures	**455**	**430**	**400**	**390**	**382**	**377**	**379**	**380**	**382**	**385**
Total Statewide Lease Expenditures										
Operating Expenditures [OPEX]	3,074	3,055	3,146	3,219	3,289	3,331	3,269	3,213	3,154	3,110
Capital Expenditures [CAPEX]	2,635	2,834	2,947	2,914	2,641	2,393	2,369	2,342	2,300	2,269
Total Statewide Lease Expenditures	**5,709**	**5,890**	**6,093**	**6,133**	**5,930**	**5,724**	**5,638**	**5,555**	**5,454**	**5,379**
Additional Detail for North Slope Lease Expenditures										
Operating Expenditures[OPEX]										
Producing non-GVR eligible units	2,495	2,458	2,542	2,601	2,653	2,707	2,648	2,877	2,876	2,829
Other operating expenditures	334	339	344	363	387	380	376	88	29	29
Total North Slope OPEX	**2,829**	**2,797**	**2,886**	**2,963**	**3,039**	**3,087**	**3,023**	**2,965**	**2,905**	**2,858**
Capital Expenditures[CAPEX]										
Producing non-GVR eligible units	1,576	1,691	1,852	1,870	1,821	1,787	1,762	1,808	1,917	1,886
Other capital expenditures	849	971	955	909	687	473	474	402	250	250
Total North Slope CAPEX	**2,425**	**2,662**	**2,807**	**2,779**	**2,508**	**2,260**	**2,236**	**2,210**	**2,167**	**2,136**

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Source Information

Reported ANS Lease Expenditures and Capital Lease Expenditures: CY 2011-CY 2015 & FY 2016

Revised 11/21/16 by Dan Stickel

Total Lease Expenditures ($ Millions)

	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	FY 2016
Prudhoe Bay Unit	$2,005.3	$2,144.8	$2,335.4	$2,658.7	$2,534.05	$2,404.4
Kuparuk Unit	$1,003.4	$980.5	$1,140.5	$1,615.9	$1,570.78	$1,442.9
Duck Island Unit	$144.0	$129.8	$115.6	$103.3	$103.96	$86.3
Point Thomson Unit	$166.2	$373.8	$629.2	$672.9	$996.25	$796.3
All Other NS Spending	$1,705.0	$1,872.2	$2,025.8	$2,267.7	$2,281.1	$1,924.2
Total ANS	**$5,023.9**	**$5,501.0**	**$6,246.4**	**$7,318.5**	**$7,486.1**	**$6,654.1**

Qualified Capital Expenditures ($ Millions)

	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	FY 2016
Prudhoe Bay Unit	$507.3	$591.4	$826.2	$877.2	$773.0	$725.2
Kuparuk Unit	$435.8	$361.6	$517.9	$889.2	$883.8	$764.1
Duck Island Unit	$2.0	$5.6	$5.2	$0.0	$4.4	$4.1
Point Thomson Unit	$163.8	$395.3	$625.4	$624.8	$919.5	$715.4
All Other NS Spending	$1,059.4	$1,124.9	$1,245.6	$1,551.3	$1,476.9	$1,178.1
Total ANS	**$2,168.3**	**$2,478.9**	**$3,220.3**	**$3,942.5**	**$4,057.6**	**$3,387.0**

Source:

CY 2011-CY 2013: Taxpayer-reported annual filings, after exclusions

CY 2014-CY 2015: Oil & gas production tax annual returns, after exclusions

FY 2016: Taxpayer-reported preliminary monthly filings, before exclusions

Alaska DOR Tax Division