Senate Resources Committee

HB 111 – Oil Tax Reform/Increase
Kara Moriarty, AOGA President/CEO
April 17, 2017

AOGA

40 YEARS at PRUDHOE BAY

AOGA Membership

GLACIER

Hilcorp

CAELUS Energy Alaska

BlueCrest Energy

PETRO STAR INC.

Chevron

TESORO

bp

ExxonMobil

FURIE Operating Alaska LLC

Alyeska pipeline SERVICE COMPANY

Oil & Gas Fuels Alaska's Economy

- 1/3 of All Alaska jobs (110,000 jobs) attributed to industry
- Industry contributed $2.1 billion in FY 2016 to Alaska governments (state & local)
- Every direct job = 20 more jobs throughout Alaska (private & public)
- Every dollar in wage = $8 more
- 85% of State's unrestricted General Fund since statehood

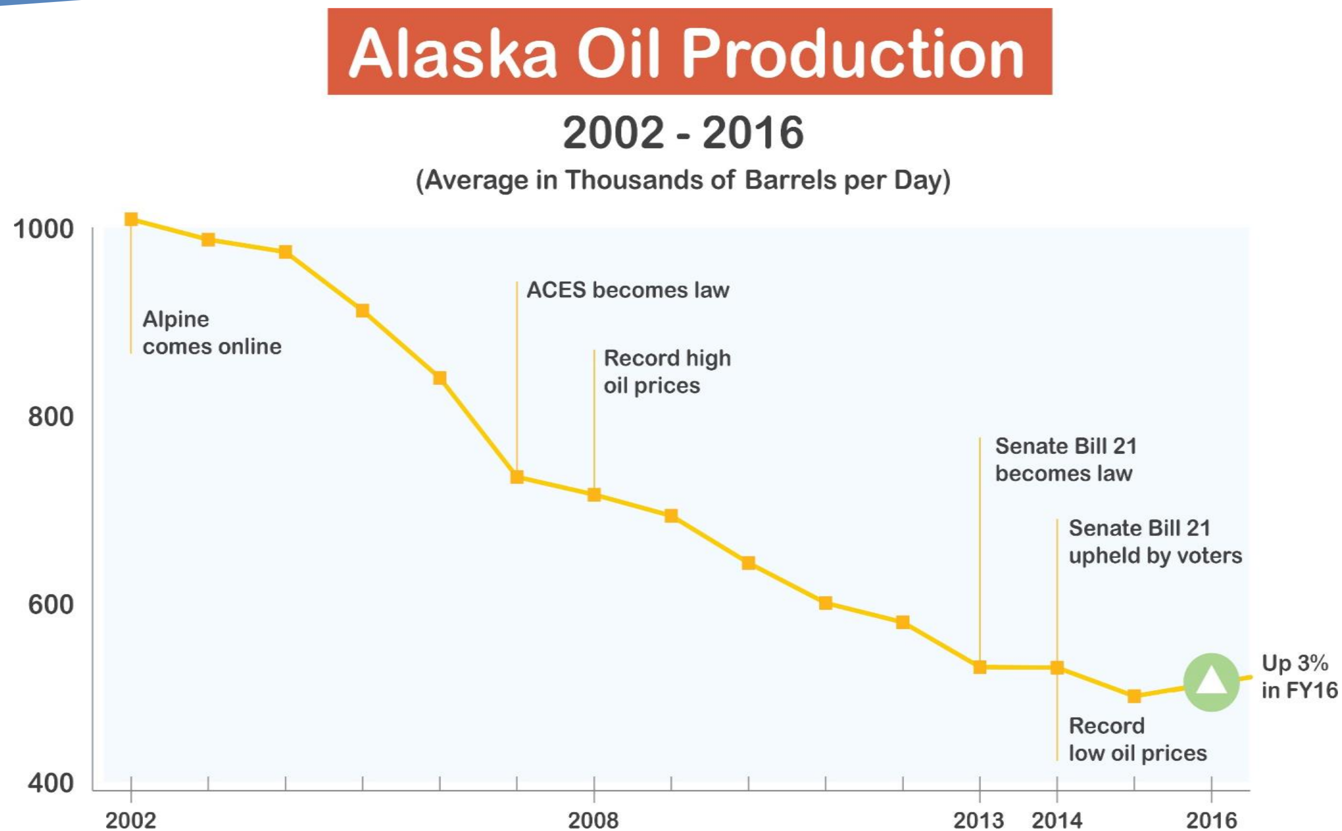
No other industry in Alaska comes close to this level of economic activity

AOGA 40 YEARS of PRUDHOE BAY

Principles to Measure Success

- Production
- Investment
- Competitiveness
- Revenue
- "Fair Share"

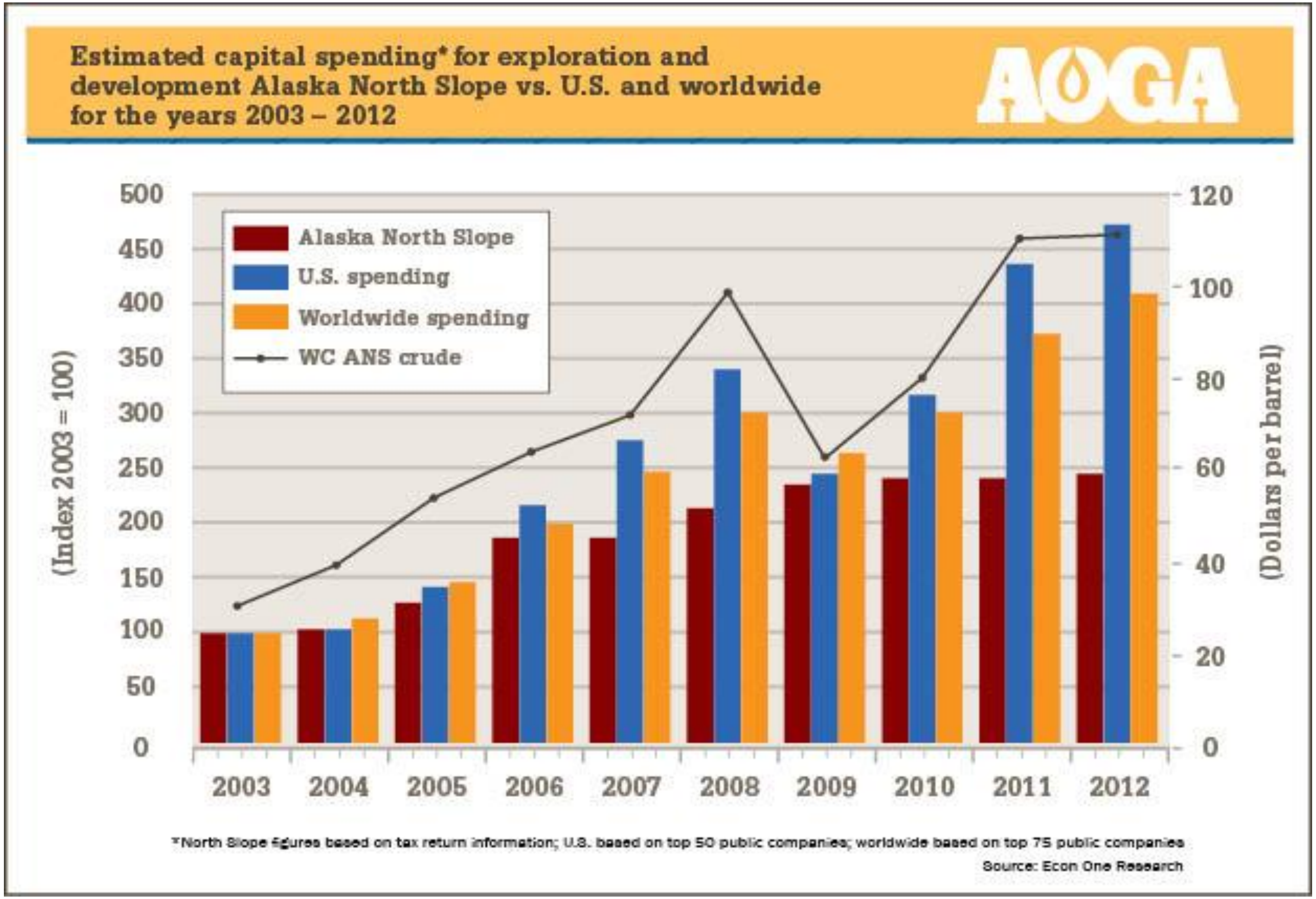
Production has Increased



YTD ~558,000 barrels per day –

First Quarter 2017 = Highest Quarter since 1st Quarter 2013

Investment Had Been Flat



AOGA 40 YEARS of PRUDHOE BAY

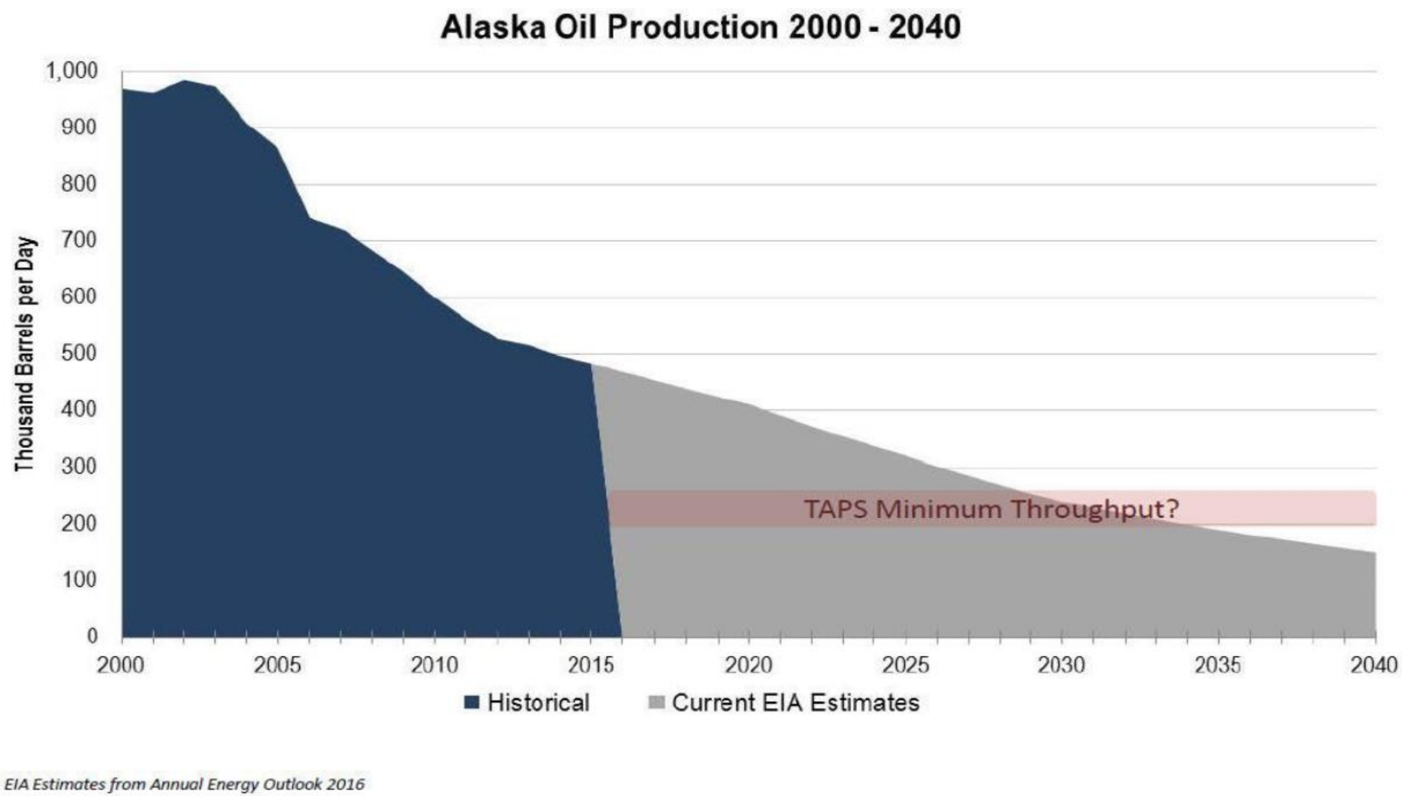
Investment Increased at Low Prices

	Average Oil Price	Spending ($millions)	Production / day (000)	Production / year (million)	Per Barrel		
					Tarriff & Transport	Opex & Capex	Total Cost
2007	71.76	3,201	734.2	268.0	5.40	11.94	17.34
2008	98.18	3,560	715.4	261.1	6.05	13.63	19.68
2009	61.27	3,688	692.8	252.9	6.38	14.58	20.96
2010	79.28	3,525	642.6	234.5	6.01	15.03	21.04
2011	109.86	3,858	599.9	219.0	6.67	17.62	24.29
2012	110.84	2,975	579.3	211.4	8.37	14.07	22.44
2013	107.6	4,442	531.6	194.0	9.76	22.89	32.65
2014	97.74	5,212	530.4	193.6	10.42	26.92	37.34
2015	52.09	5,615	501.0	182.9	9.72	30.71	40.43
2016	43.04	4,842	514.9	187.9	9.88	25.76	35.64

Source: DOR Jan 2017 Presentation & Revenue Sources Book

AOGA 40 YEARS of PRUDHOE BAY

Alaska Needs Investment



Source: Energy Information Administration, Fall 2016

AOGA 40 YEARS of PRUDHOE BAY

Exciting Recent Discoveries

"Hilcorp delivers new rig to North Slope Moose Pad expansion"
Alaska Dispatch News, October 13, 2016

"Greater Prudhoe Bay area production had less than a 1% decline in 2016"
Platts, December 2016

"Caelus aims to unlock vast Torok oil resource"
Alaska Journal of Commerce, September 16, 2015

"Production begins at Point Thomson on Alaska's North Slope"
Oil & Gas Journal, April 22, 2016

" 'Surprising' Alaska oil-lease sale draws big bids"
Alaska Dispatch News, December 15, 2016

"ConocoPhillips orders monster rig to set new drilling standard and tap new field in Alaska"
Alaska Dispatch News, October 6, 2016

"Ahtna completes exploration well near Glennallen, plans tests for potential gas"
Petroleum News, December 11, 2016

"Caelus claims Arctic oil discovery that could rank among Alaska's biggest ever"
Alaska Dispatch News, October 4, 2016

"Hilcorp files new development plan for Liberty prospect"
Alaska Dispatch News, May 31, 2016

"Development Of Huge North Slope Alaska Oil Discovery Moving Forward (Armstrong's Pika Unit)"
Fairfield Times, March 1, 2016

"ConocoPhillips announces Alaska discovery with daily production potential of 100,000 barrels"
Alaska Dispatch News, January 13, 2017

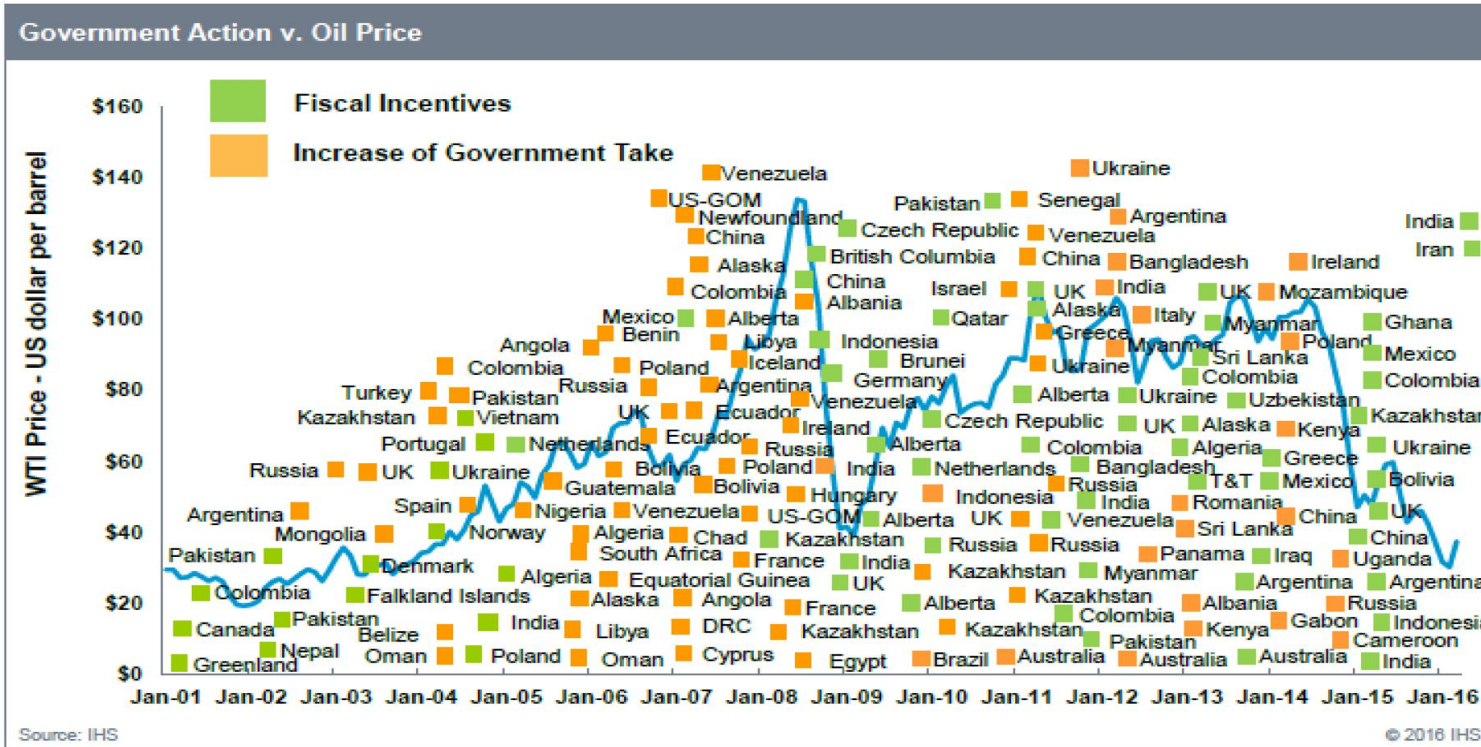
Majority of Alaska's Changes in "Wrong Direction"

Dates	Tax Policy Change	Increase / Decrease?	AOGA Position
Feb. 2005- March 2006	Aggregated ELF – Administrative decision altering gross production tax	**Tax Increase**	**Opposed**
April 2006- July 2007	Petroleum Production Tax (PPT)	**Tax Increase**	**Opposed Final Version**
July 2007- 2013	Alaska's Clear and Equitable Share (ACES) *	**Tax Increase**	**Opposed**
2010	Cook Inlet Recovery Act	**Incentives for Industry**	**Supported**
2014	SB 21	**Both**	**Supported, with concerns**
2016	HB 247 – Gov. Walker's oil tax reform	**Tax Increase**	**Opposed**
2017	*Proposed HB 111 – House Resources*	***Tax Increase***	***Opposed***

AOGA 40 YEARS OF PRUDHOE BAY

HB 111 would be the 7th change in 12 years – 5 of 7 in "wrong direction"

Alaska only region increasing take in 2016

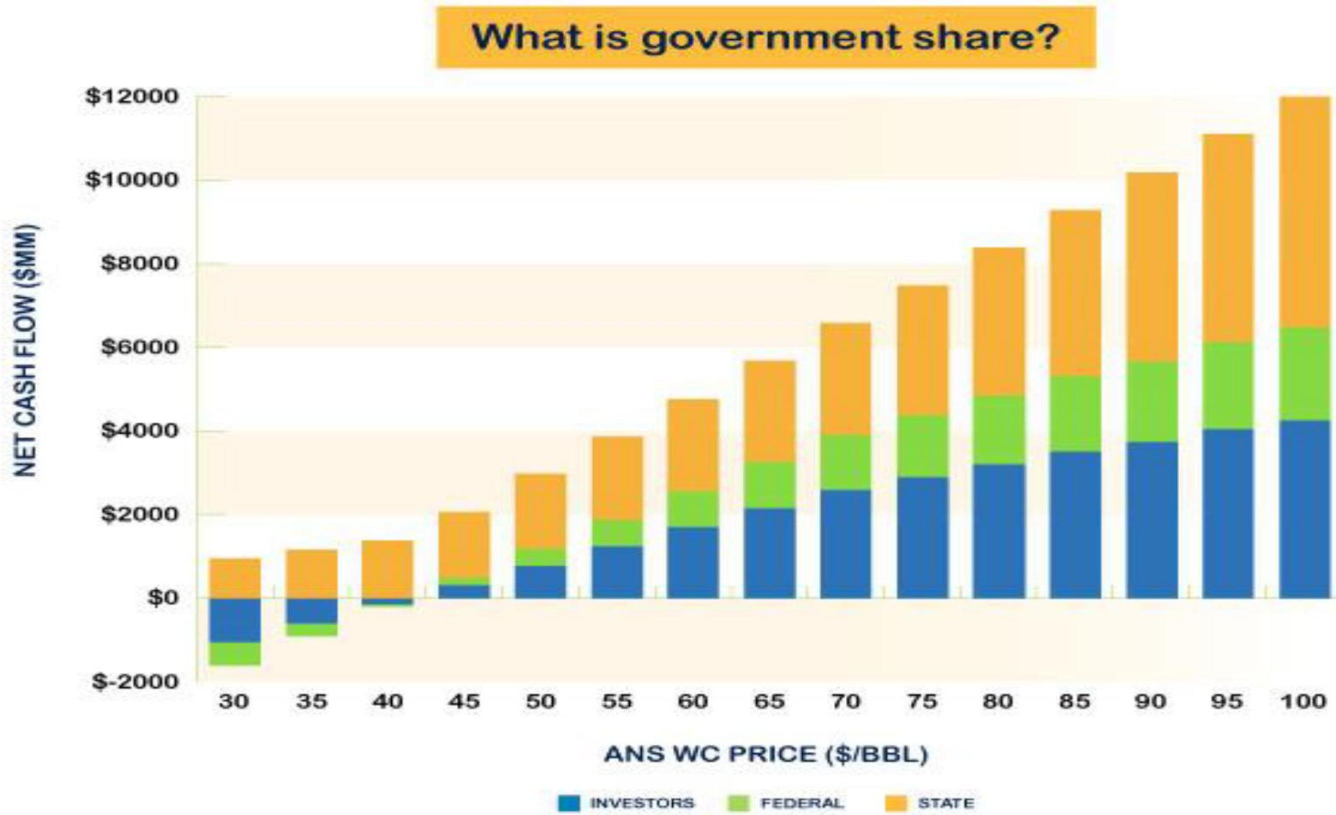


21

AOGA 40 YEARS of PRUDHOE BAY

Source: IHS Energy, May 2016

What is “Fair Share”?



Source: DOR Revenue Sources Book Fall 2016

HB 111 Goes Beyond Governor’s Goals

HB111 resolves four high priority concerns identified by the governor:

1. Transition Alaska away from the business of providing cash credits / rebates to the oil and gas industry
2. Reduce the state’s liability related to potential large future investments
3. Defer the state’s direct participation in the cost of a new project until it comes into production
4. The oil industry should participate as part of the overall fiscal plan for Alaska

Source: DOR Presentation 4/14/17

HB 111 Eliminates More than Cash Credits

HB 111 eliminates not only those credits that can be redeemed for cash for those who produce no more than 50,000 taxable barrels per day, but the bill also:

- **Eliminates another portion of Gross Value Reduction (GVR)**
- **Devalue NOL (non-cashable & cashable)**
- **Eliminates Sliding scale per-barrel credit**

Sliding scale credit fundamental part of SB 21 tax system

Quotes from DOR Tax Director Alper, Senate/House Resources, June 2015

"Some of them (credits) are integral parts of the tax regime; the 20% capital credit in ACES, the per-barrel credit in SB 21, those are very much offsets to what would otherwise be a very high tax rate."

"With SB 21 the credit is an offset to the tax and is designed to create a progressive element, a little bit lower tax rate at lower prices, a higher tax rate at higher prices, so it's hard to really consider them a credit in the context of an inducement to doing work. <u>It's really what we are calling an integral part of the system</u>."

AOGA 40 YEARS OF PRUDHOE BAY

Eliminating the sliding scale credits is beyond the Governor's goals

HB 111 Provisions Alter the Structure of SB 21

- Changes the base tax rate from 35% to 25%
- Eliminates sliding-scale credit causing large tax increases in the $45-80 range
- Creates progressive higher tax brackets
- Changes NOL credits to carry forward loss deductions
- Eliminates 10% GVR
- Hardens the Floor
  - Infinite tax increase for some companies
- Creates ring fences

Most of these provisions have nothing to do cash credits and most of them go beyond Governor's goals

HB 111 NOL Conversion is Flawed

- Legislative consultants confirmed that industry can not be "made whole" by converting NOL credits to a carry forward loss deduction
- Mechanism needs to be established to maintain as much value as possible to allow for continued investment
- Companies need to recover 100% of costs, with uplift for time value of money

If eliminating cashable credits is goal, new mechanism needs to be established to continue to attract investment to Alaska

Carry Forward Deductions

- **Some have suggested that carry forward deductions are a subsidy, which is simply not true. Why?**

  1) **Net operating loss (NOL) deductions allow for the recovery of essential costs when companies lose money**
  2) **NOL encourage continued investment**
  3) **Recovery of NOL is a critical feature of any net based tax system**
  4) **Impeding the recovery of NOL adversely affects the timing when the benefits from the NOL are realized for the producer/explorer/investor**

Carry forward deductions should <u>never</u> be considered a subsidy

AOGA 40 YEARS OF PRUDHOE BAY

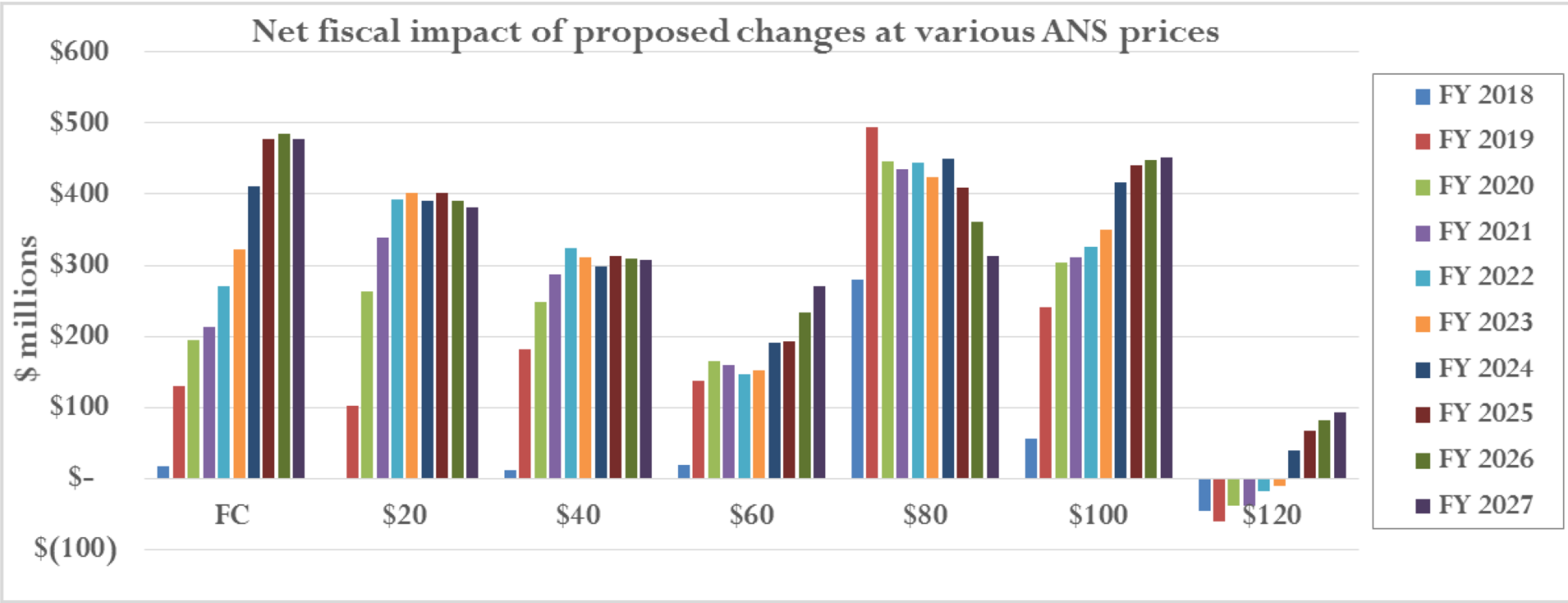
HB 111 Changes Many Other Provisions of SB 21

Other provisions that do not pertain to cash credits:

- Increase Total Interest Costs
- Additional Unnecessary Tax Disclosure
- Gross Value of Point of Production can not go below zero
- Eliminates Assignability of Tax Credits to 3rd Parties
- Adds Cook Inlet Working Group

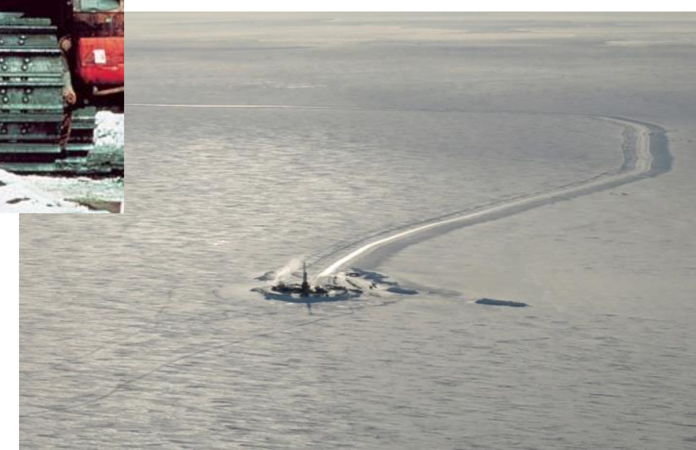
AOGA 40 YEARS of PRUDHOE BAY

HB 111 is a Significant Tax Increase



Assuming DOR Price Forecast, HB 111 raises taxes $100-400+million
Source: DOR Presentation, 4/14/17

“Couldn’t Be Done…”



AOGA 40 YEARS at PRUDHOE BAY