

2/13/12

PRESENTATION:

A 5-YEAR LOOK

BACK - OIL

INDUSTRY

CAPITAL

EXPENDITURES BY

CATEGORY

<TARGET><BILL></BILL><SUBJECT>2-13-12 PRESENTATION A
5-YEAR LOOK BACK - OIL INDUSTRY CAPITAL EXPENDITURES BY
CATEGORY</SUBJECT><COMM>HRES27</COMM></TARGET>



5 Year Look Back

Oil Industry Capital Expenditures by Category



*Presentation to the
House Resources Committee
February 13, 2012
Alaska Department of Revenue*

*Bryan Butcher
Donna Keper - audit mask*



What We'll Be Discussing.....



- Purpose of Tax Credit Provisions
- Purpose of 5 Year Look Back
- Process of 5 Year Look Back
- Capital Cost Categories
- Historical Capex Charts
- Conclusions
- Process for 2011 and Going Forward

Is there any info that statute allows that the companies are not producing?



Purpose of Tax Credit Provisions

2003 SB 185 (RES)

AS 43.55.025 became law when Alaska had a gross tax, therefore there was no need to consider upstream deductions. The original bill provided for a reduction in royalty on certain oil produced from Cook Inlet in addition to the tax credit provisions. The goals were to increase exploration and increase the State's knowledge of the natural resource base.

5/13/2003, Senate Finance Committee

- Royalty reduction provisions were to help field economics and allow producers to maximize production and continue employment
- Regarding the tax credit provision, a sponsor commented the tax credits are more applicable to exploration than discovery
- Intent was to encourage companies to drill more wells so that the possibility of both discovery and production could be "substantially" increased
- Bill was part of Governor's long range plan and ultimate goal was to increase pipeline throughput
- Drilling within an existing unit would not qualify, nor would wells under current development and exploration plans



Purpose of Tax Credit Provisions, cont'd

- The fiscal impact of the tax credits was an investment incentive that the state must offer to secure “a long-term stream of oil”
- Exploration credits *were* limited to the exploration side, and were amended to include testing but not development costs
- Clearly the focus of the legislation was to encourage exploratory work by the industry and increase the State’s understanding of resource base e.g. lease sales
- The credit was set up to encourage wildcat, high risk exploration and State shares in this risk via credit program

5/14/2003, Senate Finance Committee

- Once a well is successful, the State would stop “recovering the cost” because it is assumed that a producer would continue development.
- Wildcat exploration would qualify for a 40% credit, but the explorer must submit information about state geology and resource base during the exploration activities to DNR.



Purpose of 5 Year Look Back



- To provide informative cost information to decision makers
- To answer capital expenditure questions relating to credits
- To understand benefits and impacts of current statutes and regulation
- To create a process and reporting mechanism to collect and compile expenditure information submitted to DOR in non-standard formats
- To catch up on years of data collection
- To create standardized cost categories for reporting and data gathering to State agencies
- To establish the historical basis for future analysis and comparisons



Process of Information Gathering

- As part of the Data Assessment Project, conducted in-house discussion and review
- Conducted 4 workshops with industry
- Participation averaged 15 companies per workshop
- Industry was responsive in both active participation and written comments
- Established capital cost expenditure categories
- Developed both the 5 Year Look Back and forward-looking reporting categories



Use of Cost Expenditure Categories



- Compiled 5 Year Look back of CapEx (2006 to 2010)
- Compiling more detailed look forward of CapEx only – Effective 2011 return to be reported 3/31/12
- Look forward of CapEx & OpEx in progress – Effective 2012 return to be reported 3/31/13
- Will be submitted with annual production tax returns
- As supplemental information supporting the tax return
- Based on confidential information *why.*



Capital Expenditure Categories

Look-back Categories For Years 2006 – 2010

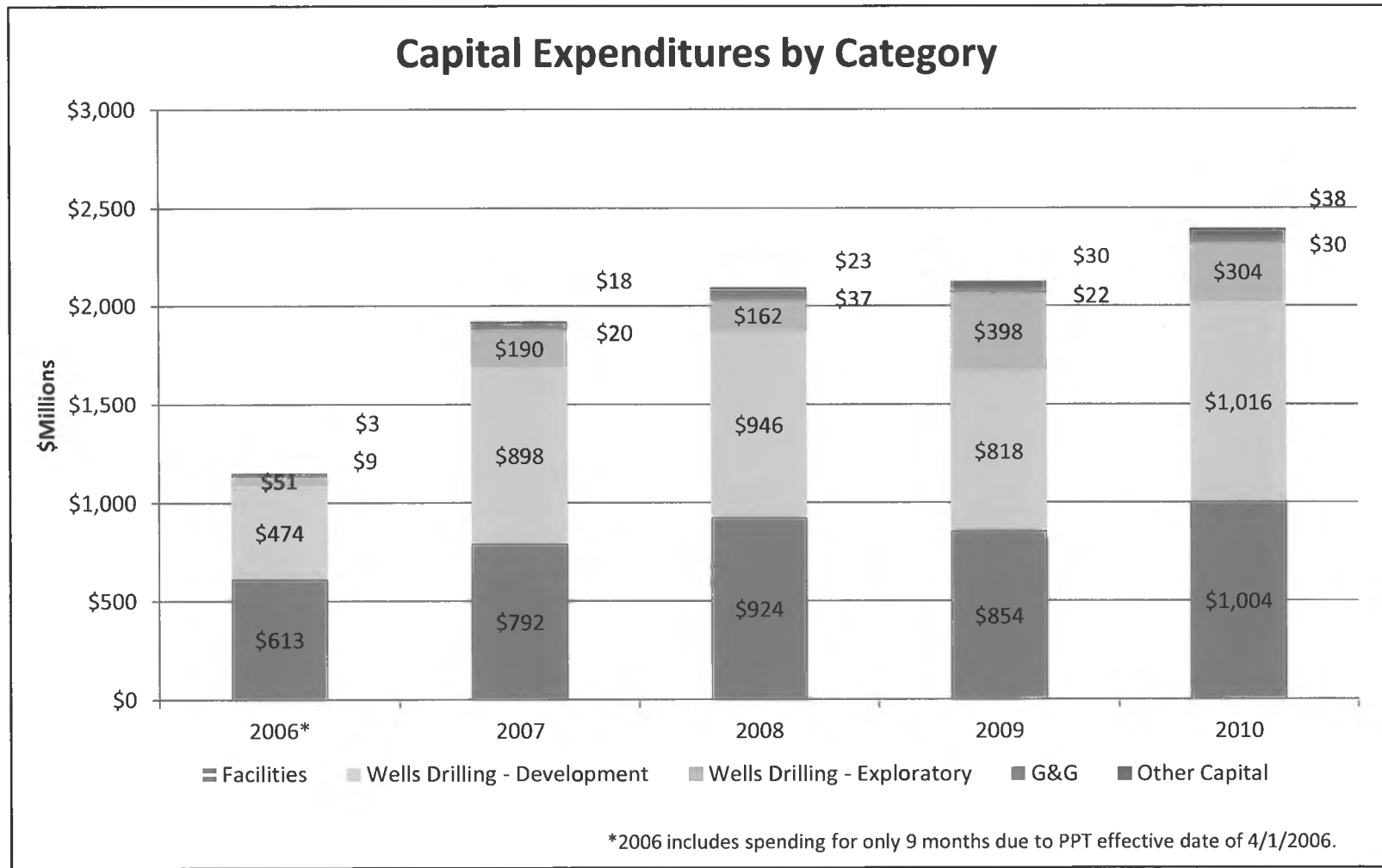
- Geological & Geophysical Work (G&G)
- Exploration Drilling
- Development Drilling
- Facilities
- Other Capital

Categorized capital expenditure data represent
90% of costs related to credit applications

? *What else covers 10%?* ?



Historical CAPEX by Category (CY)

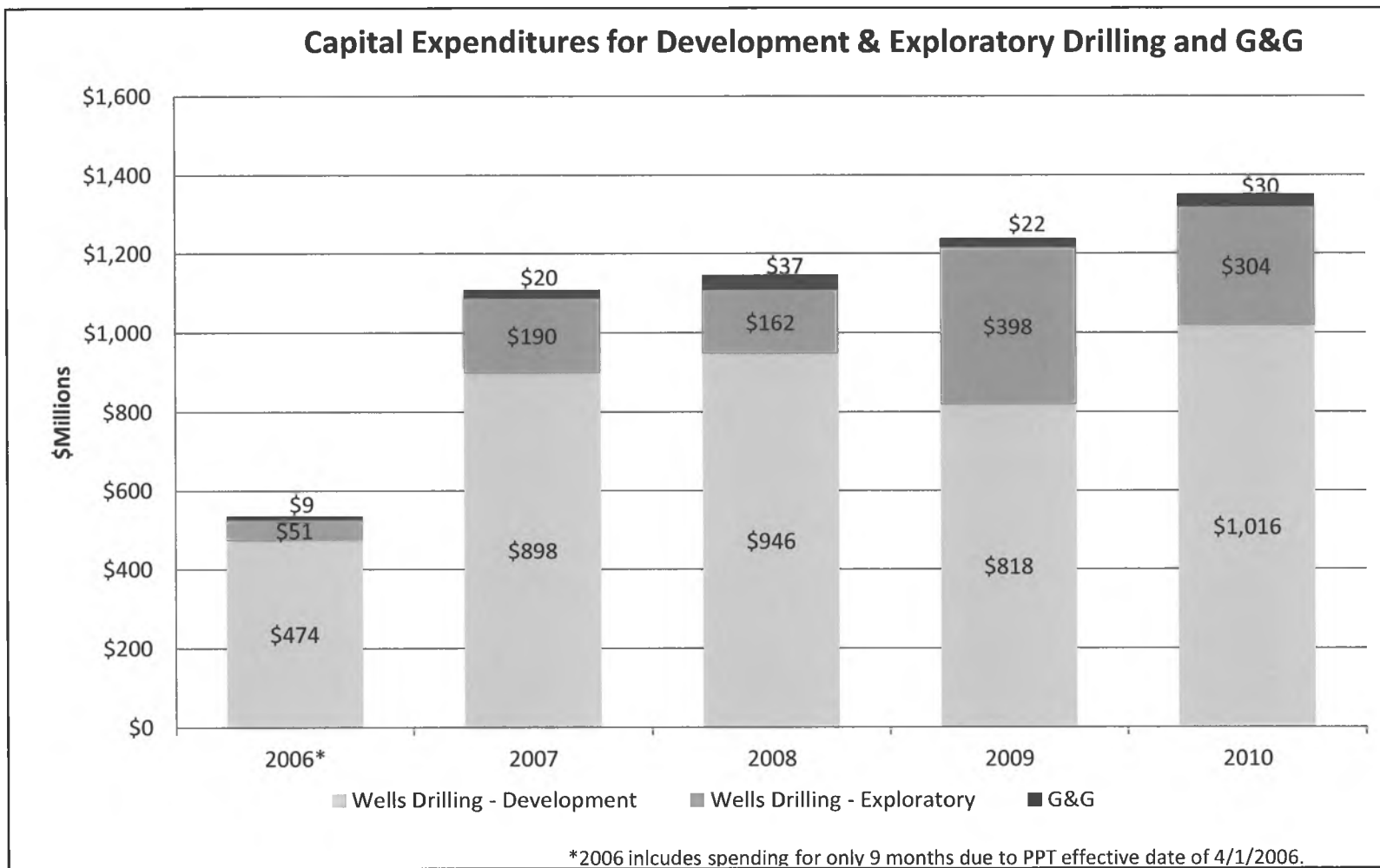


? explain all documents in ACEIS but up to you

9.36 total

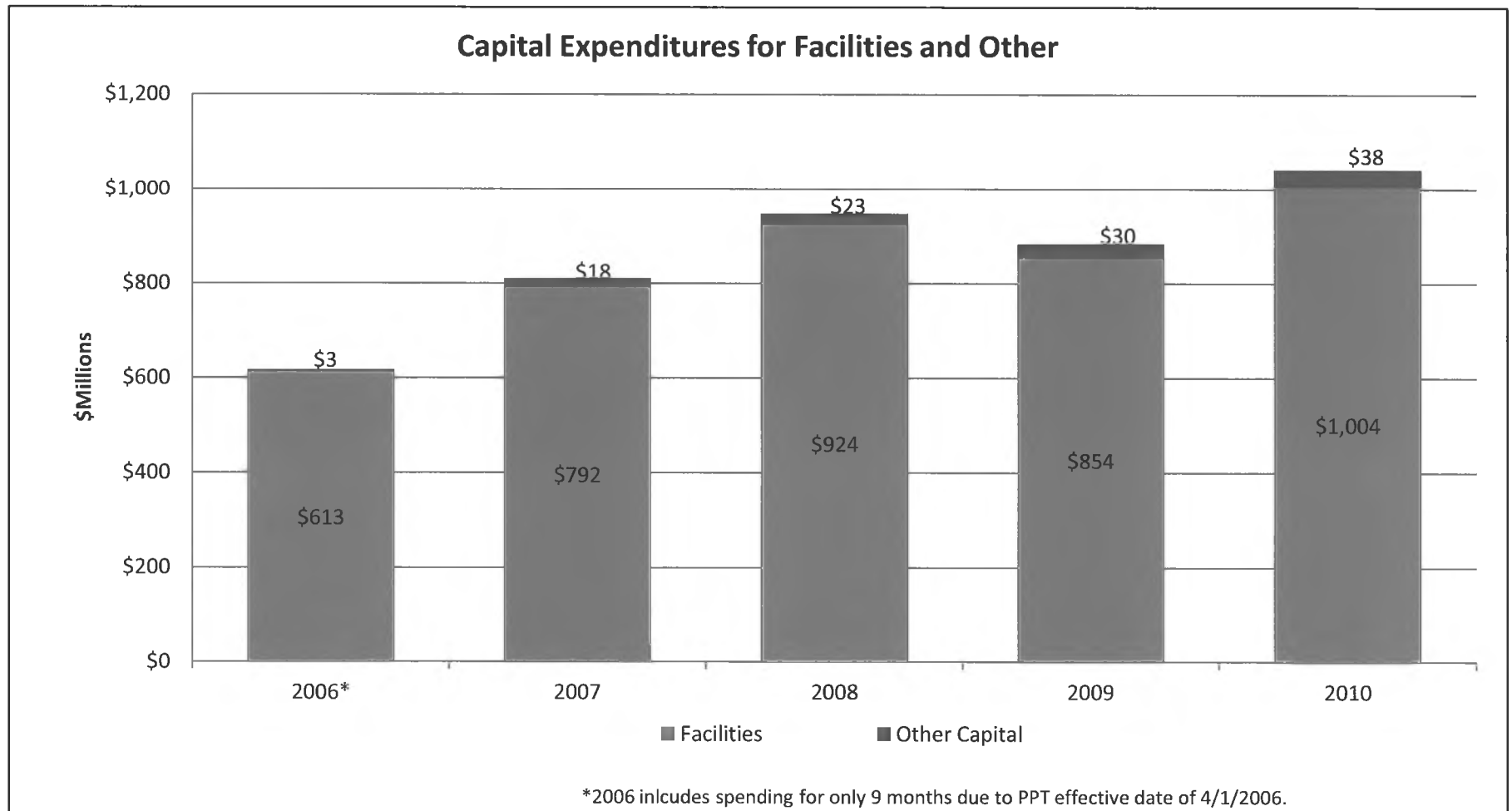


Historical CAPEX for Drilling and G&G (CY)



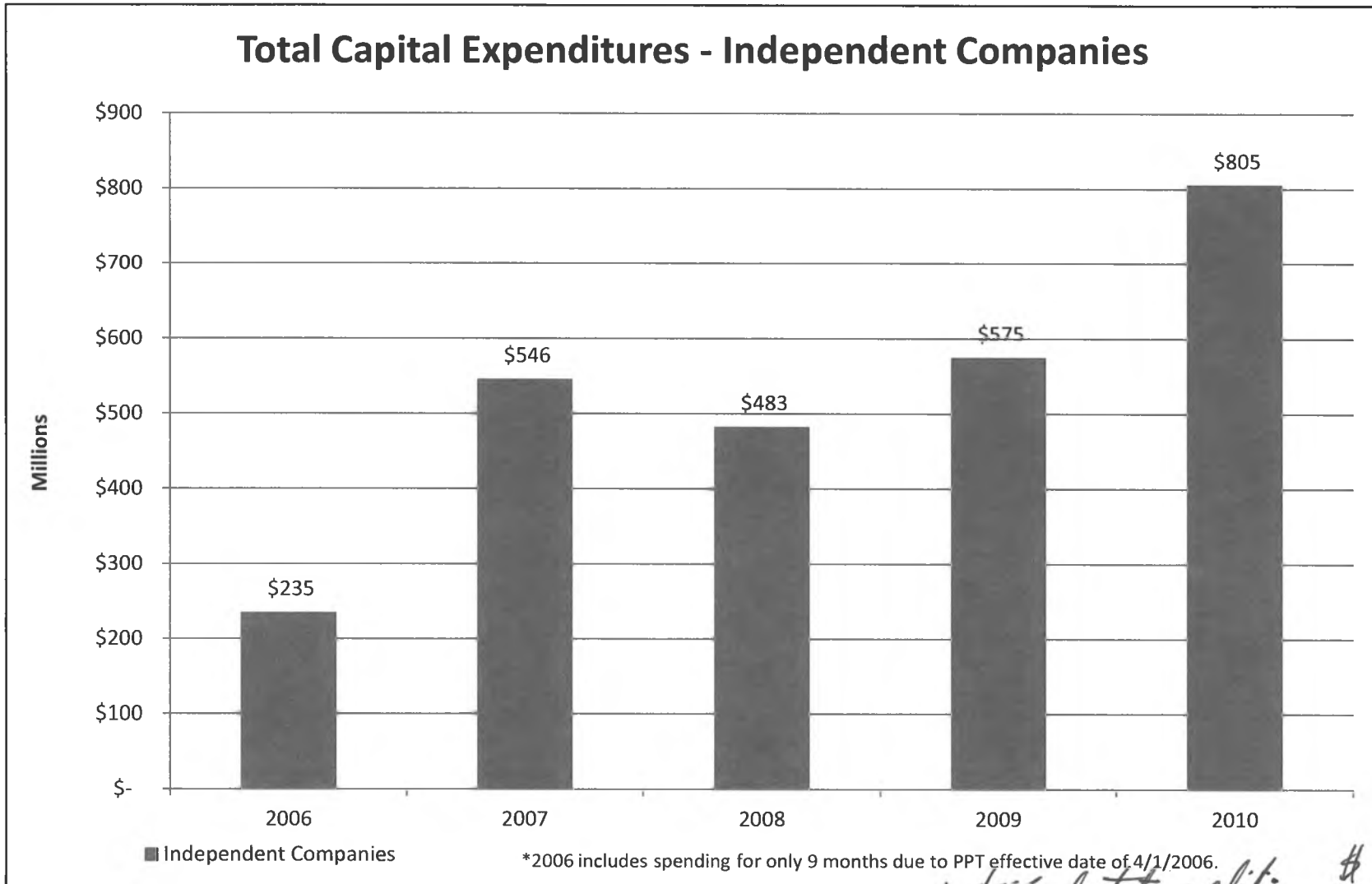


Historical CAPEX for Facilities & Other (CY)





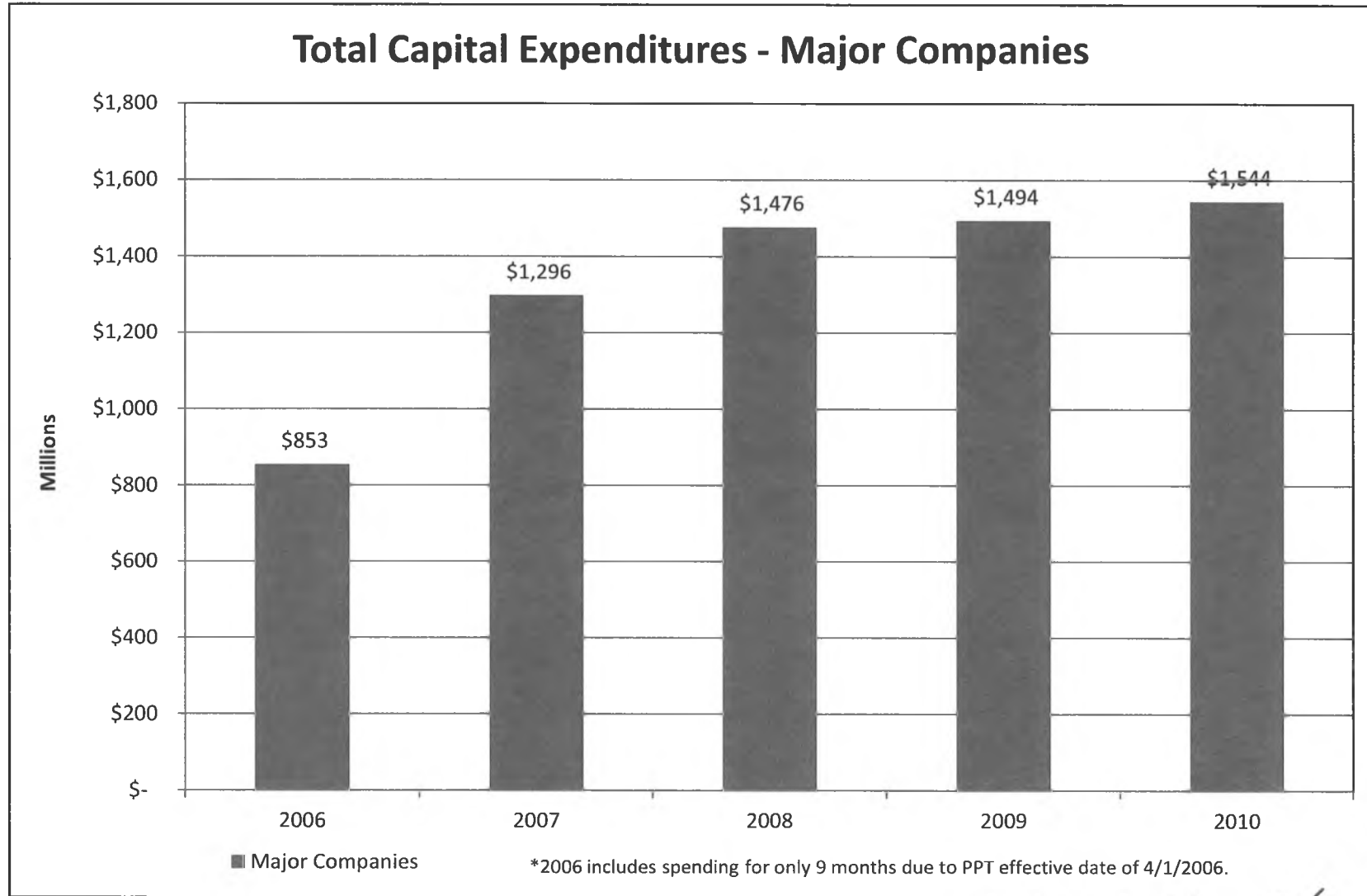
Historical CAPEX (CY)



What % of state credit + Ded (Loss carry credit) from State . \$ 2.66 total



Historical CAPEX (CY)



\$ 6.7 bil total

What % of State credit & deductibility spent:



2006-2010 Conclusions



- We now have more **actual** information regarding O&G spending habits than ever before available to the State of Alaska
- More **actual** information in this presentation alone than available during PPT/ACES debates combined
- Capital Expenditures in 2007 - 2010 increased from ~\$2.0B to ~\$2.4B
- Explorers spent money on drilling wells and G&G
- Companies in the development stage spent money on development drilling and facilities
- Companies in transition spent money in multiple areas depending on the stage they entered a project
- Companies in mature production phase spent money on maintenance and upgrade of facilities and development wells
- Now have more players active in the field
- Two fields planned and developed prior to PPT/ACES benefited from the tax credit provisions



Prospective Cost Information Look Forward



Proposed Annual Cost Supplemental Information Report

For calendar year 2011 (reporting due March 31, 2012):

- Use Look back CAPEX categories
- Filed by producers and explorers

For calendar year 2012 (reporting due March 31, 2013):

- Use more detailed categories following additional workshops with Industry
- Filed by producers and explorers



Questions?

State of Alaska
Department of Revenue

Commissioner Bryan Butcher



SEAN PARNELL, GOVERNOR

333 Willoughby Avenue, 11th Floor

P.O. Box 110400

Juneau, Alaska 99811-0400

Phone: (907) 465-2300

Fax: (907) 465-2389

The Honorable Eric Feige
The Honorable Paul Seaton
Co-Chairs, House Resources Committee
Alaska State Legislature
Juneau AK, 99801

February 20, 2012

SUBJECT: Response to Questions from House Resources Meeting on February 13, 2012
Oil Industry Capital Expenditures by Category - 5 Year Look Back 2006 - 2010

Dear Representatives Feige and Seaton:

Thank you for your questions and the opportunity to provide our follow-up responses from the House Resources Committee meeting on February 13, 2012. The questions and responses follow.

1.) Are there any categories of [lease expenditure?] information we have the legal right to get that we are not currently getting?

No. The department aggregated data for companies that have tax liability and those that do not into five cost categories of capital expenditures for each of the years in the 5 year look back period. The department was able to report costs split between major and independent companies by year. For purposes of the 5 year look back report, an independent company was defined as one with production of less than 100,000 barrels per day. Under the confidentiality provisions, the department could not disclose a lower level of detail which would have been at the cost category level by year by type of company.

2.) What percentage of the expenditures are paid for by the state through tax credits for independents versus majors?

Through the end of 2011, the state has refunded from the oil and gas tax credit fund established under AS 43.55.028 a total of \$ 1,276,084,543. All monies from the tax credit fund were paid to companies with production of less than 100,000 barrels per day.

For purposes of the 5 year look back period 2006 through 2010, the state had refunded a total of \$725,064,233, all of which has been paid to companies with production of less than 100,000 barrels per day.

The state has not reimbursed any monies from the oil and gas tax credit fund to major companies.

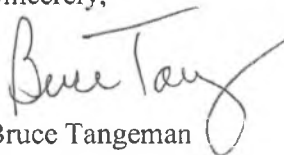
Co-Chairs, House Resources Committee
February 20, 2012
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3.) What is the role of the global financial crisis, as opposed to tax structure, in reduced company spending in certain years?

The global financial crisis, tax structure, and oil price are only a few of the components in a company's decision making process.

We hope our responses fully answer your questions.

Sincerely,

A handwritten signature in black ink that reads "Bruce Tangeman". The signature is written in a cursive style with a long horizontal line extending from the top of the "B".

Bruce Tangeman
Deputy Commissioner