

More Alaska Production Act: *Creating Opportunity for Alaskans*

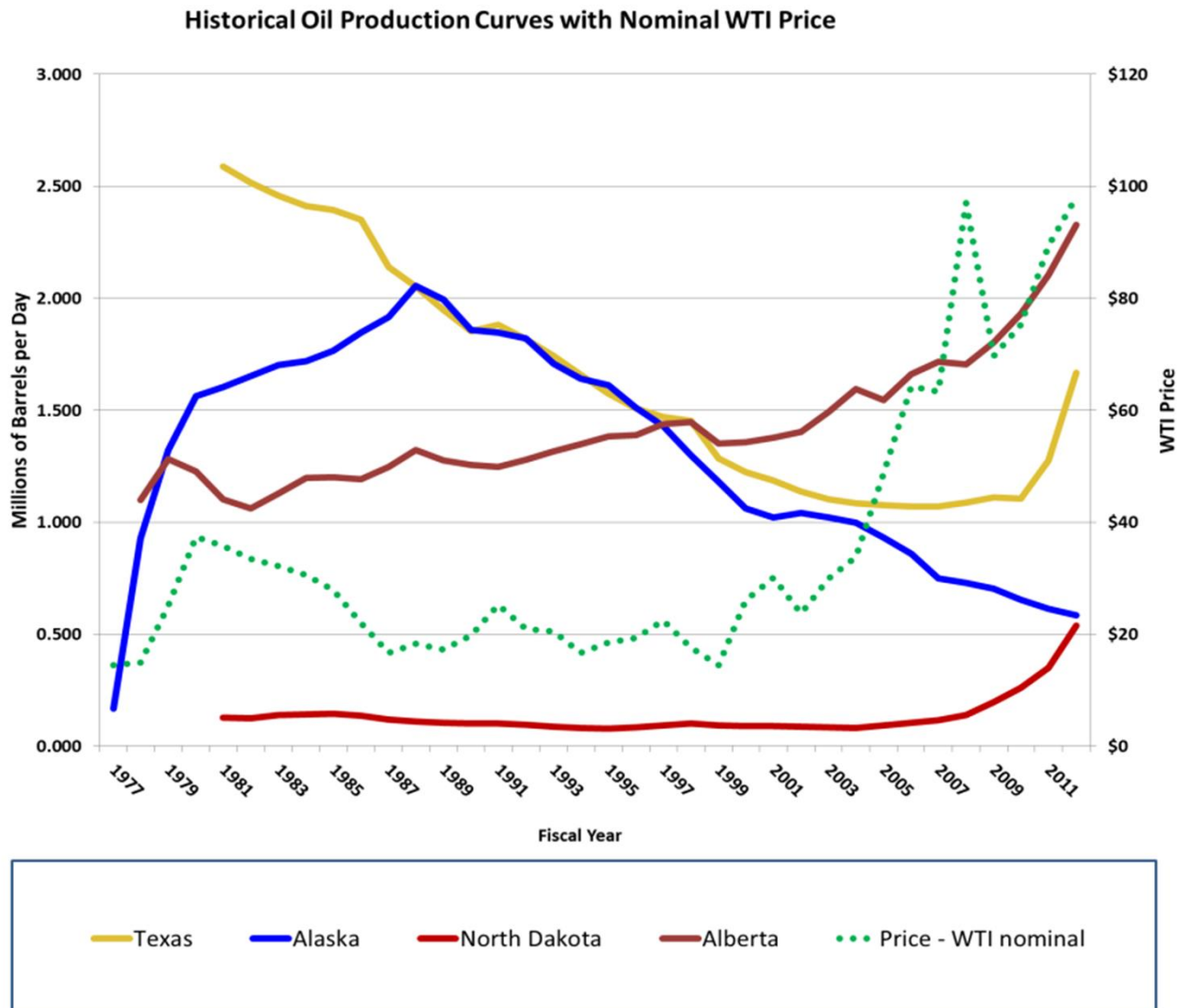
Southeast Conference

Randy Ruaro, Deputy Chief of Staff
State of Alaska

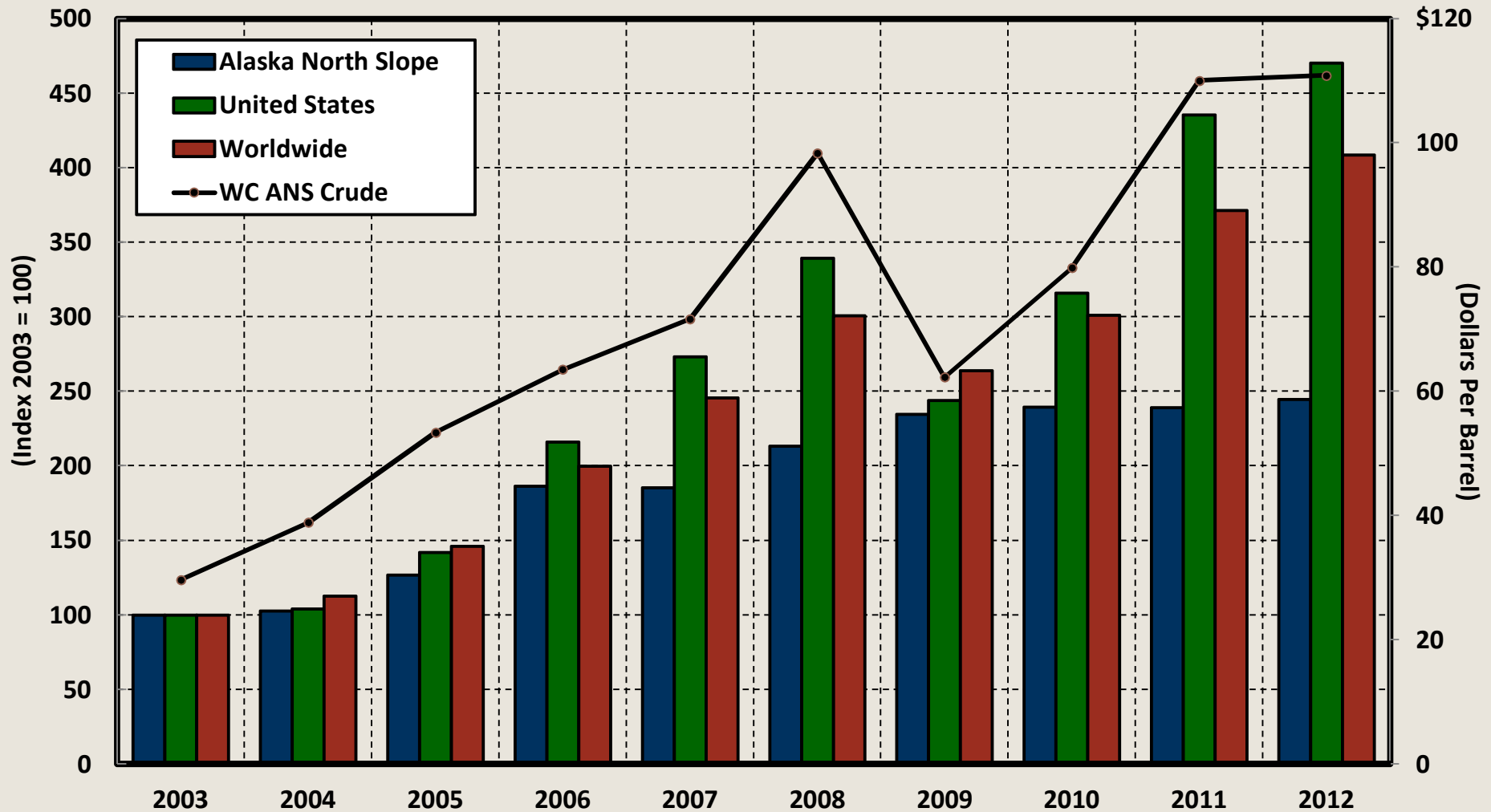


OTHER BASINS HAVE TURNED DECLINE AROUND

- HISTORICAL OIL PRODUCTION -



EST. CAPITAL SPENDING FOR EXPLORATION & DEVELOPMENT: AK NORTH SLOPE VS. U.S. & WORLDWIDE*, 2003-2012



* North Slope based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

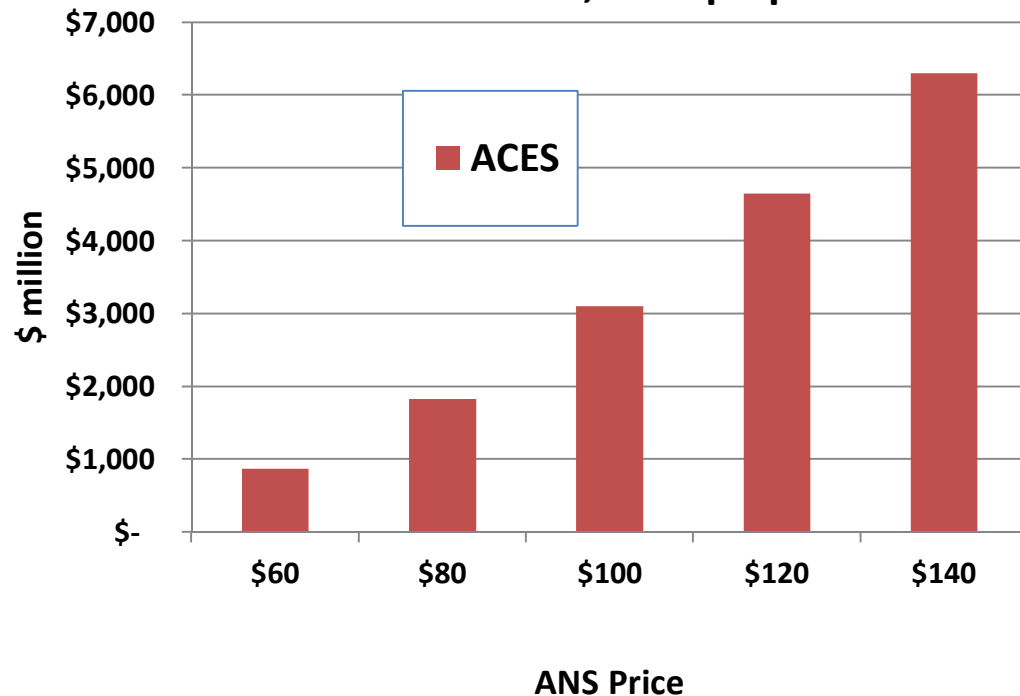
DESPITE HIGHER PRICES, REVENUES FROM PRODUCTION TAX CONTINUE TO DECLINE

- “ Higher prices and lower revenues?
- “ In FY 2008 an ANS price of \$96.51 yielded approximately \$6.823 billion in production tax.
- “ By FY 2014, a price that is \$13 higher will yield a bit less than \$3.6 billion in production tax.
- “ If oil production was the same as in FY 08, revenues in FY 14 would be close to \$6.5 billion or \$2.7 billion higher than the current forecast.

Fiscal Year	Average ANS Oil Price (Dollars per Barrel)	Production Tax (After Credits in Billions of Dollars)
2007	\$61.60	\$2.208
2008	\$96.51	\$6.823
2009	\$68.34	\$3.112
2010	\$74.90	\$2.871
2011	\$94.49	\$4.553
2012	\$112.65	\$6.146
2013	\$108.67	\$4.353
2014	\$109.61	\$3.595

IN THE LONG TERM, EVEN HIGH PRICES WILL NOT PROVIDE ADEQUATE REVENUES

Illustration of North Slope Unrestricted Oil Revenue at 300,000 bpd production



Illustrative North Slope unrestricted oil revenues at 300,000 barrels per day production - ACES (\$million)

ANS Price (\$/bbl)	\$60	\$80	\$100	\$120	\$140
Royalties	\$500	\$725	\$925	\$1,125	\$1,325
Production Tax	\$200	\$825	\$1,850	\$3,150	\$4,575
Corporate Income Tax	\$100	\$200	\$250	\$300	\$325
Property Tax	\$75	\$75	\$75	\$75	\$75
Total Oil GFUR	\$875	\$1,825	\$3,100	\$4,650	\$6,300

This is a simple illustration based on a "snapshot" model and will not exactly match detailed analysis using a more comprehensive model. (1) Constant Oil Price (2) Production of 300,000 barrels per day (3) Lease expenditures of \$30 / taxable barrel (\$15 opex and \$15 capex per taxable barrel) (4) \$10/ barrel transportation costs (5) 12.5% royalty rate with 25% Permanent Fund Share and .5% School Fund Share (6) Effective corporate income tax rate of 6.5% of production tax value after deducting production tax payments (7) For property tax, \$75 million was used in all scenarios as an illustration only. Our FY 2022 forecast is currently \$76.5 million (8) Does not include non-petroleum revenues, which totaled \$627 million in FY 2012 (9) As this is a simple illustration, all amounts rounded to nearest \$25 million.

MORE ALASKA PRODUCTION ACT

- MAJOR PROVISIONS -



- “ Eliminated the progressive portion of the production tax on oil and gas produced after January 1, 2014.
- “ Increased the tax rate from 25% to 35%.
- “ Eliminated credits for qualified capital expenditures made after January 1, 2014 north of 68 degrees (North Slope).
- “ Increased support for explorers and new entrants through the *Net Operating Loss Credit* to 45% until January 1, 2016 and 35% thereafter.
- “ Created incentive for new oil production:
 - “ 20% - 30% of the gross value at the point of production for oil produced from (1) units formed after Jan. 1, 2003 (2) new participating areas (3) expansions of participating areas in units formed before Jan. 1, 2003.
- “ Created a credit per taxable barrel of oil produced:
 - “ \$5 for GVR (aka GRE)
 - “ \$0 - \$8 for non-GVR(aka GRE) oil (i.e. *Legacy production*)
- “ 10% Corporate Income Tax Credit for in-State Manufacturing/Modification (Service Industry)

Revenue Forecast and Budget Outlook

Provisions in HCS CSSB21(FIN) and their estimated fiscal impact in FY15 at \$100, \$111.67 and \$120 per barrel as compared to ACES at the same price levels under Spring 2013 Forecast (\$millions)¹

Brief Description of Provision	FY 2015		
	\$100/bbl	\$111.67/bbl	\$120/bbl
1. Elimination of progressive portion of tax	-\$750	-\$1,400	-\$2,000
2. Base tax rate changed to 35% of production tax value	\$850	\$1,050	\$1,175
3. Limitation of credits for qualified capital expenditures for North Slope	\$675	\$675	\$675
4. Net operating loss credit rate increased to 45% until 1/1/16 then 35%; transferable and refundable	See line 11 below		
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	\$0 to -\$25	\$0 to -\$25	\$0 to -\$25
6. Credit of \$5 per taxable barrel for GRE-eligible oil production	-\$10	-\$10	-\$10
7. Sliding scale \$0-\$8 credit per taxable barrel for non GRE-eligible production based on oil price	-\$975	-\$815	-\$650
8. Credit under AS 43.20 for qualified oil and gas industry expenditures	\$0 to -\$25	\$0 to -\$25	\$0 to -\$25
9. Reduced interest rate for late payments and assessments on most taxes	\$0 to -\$25	\$0 to -\$25	\$0 to -\$25
Total Revenue Impact	-\$210 to -\$285	-\$500 to -\$575	-\$810 to -\$885
10. Impact on Operating Budget of limitation to Qualified Capital Expenditure credit	\$150	\$150	\$150
11. Impact on Operating Budget of increase in Net Operating Loss credits to 45% until 1/1/16 then 35%	-\$80	-\$80	-\$80
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production²	-\$140 to -\$215	-\$430 to -\$505	-\$740 to -\$815

(1) All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

(2) "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

Source: State of Alaska, Department of Revenue



More Alaska Production Act: Creating Opportunities

Recent positive industry response to tax reform



REPSOL

ConocoPhillips
Alaska



These results are encouraging for the future development of the resources discovered. Recent tax reform passed in Alaska was a critical factor in ensuring the development of this project, where extreme climate conditions and geographical remoteness result in high operating costs.

REPSOL – Press Release 23 APRIL 2013

ConocoPhillips Plans to Increase Investment in Alaska Following Oil Tax Reform Legislation

ANCHORAGE – ConocoPhillips plans to increase its investments on Alaska’s North Slope following the Alaska State Legislature’s recent changes to the state’s oil severance tax system.

ConocoPhillips – Press Release 17 APRIL 2013

BP Says Alaska is “Back in the Game”

“As a package, this is an important step forward and will help us compete for more investment. This puts Alaska back in the game,” Weiss said of passage by the Alaska Legislature of the committee substitute for Senate Bill 21, the governor’s oil tax change.

Weiss said following passage of the bill that BP “will change our long-term plans accordingly, seeking appropriate sanctions for additional activity.”

“Our evaluation will include natural gas given that an improved oil fiscal environment has been a prerequisite to advancing work on LNG,” she said

**Janet Weiss, BP’s Alaska region president,
Source Week of 4/28/2013**

<http://www.petroleumnews.com/pnads/447451261.shtml>



Supplemental Slides

CONSULTANTS FOR BOTH THE ADMINISTRATION & LEGISLATURE IDENTIFIED THE PROBLEMS WITH ACES

ACES: 5 key problems

- **High levels of Government Take reduce competitiveness for capital, especially at high prices**
- High marginal tax rates reduce incentives for spending control
- Complexity makes meaningful economic analysis and comparison difficult
- Significant state exposure in low price environments, and for high-cost developments
- Impact of large-scale gas sales on tax rates

NEW PRODUCTION IS CRITICALLY IMPORTANT TO OFFSETTING DECLINE

Forecast Oil production on Alaska's North Slope thousands of barrels per day

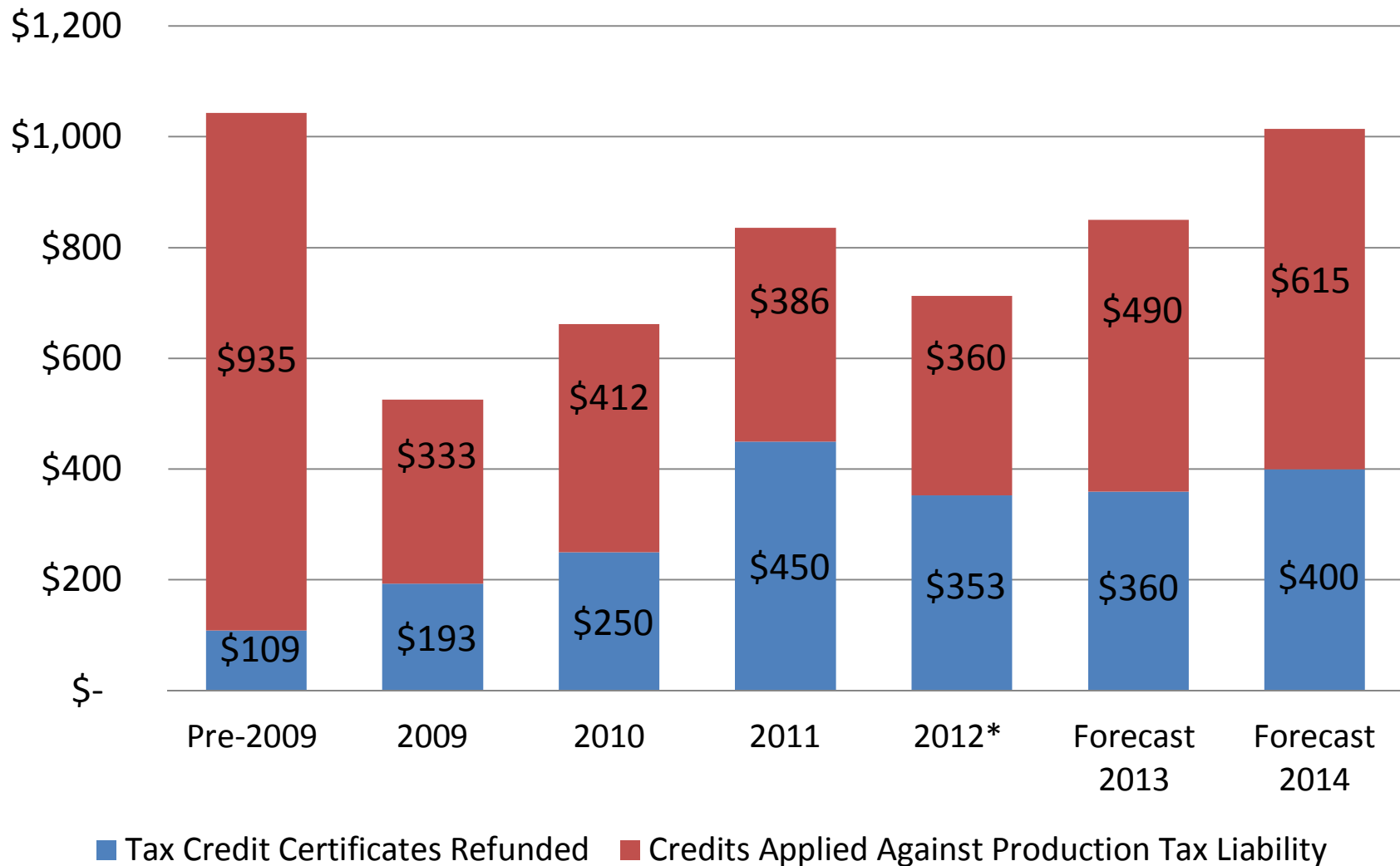
FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Currently Producing	521.7	474.1	433.9	401.1	367.4	337.9	312.2	289.9	269.6	251.2
Decline Rate of Currently Producing	-9.9%	-9.1%	-8.5%	-7.6%	-8.4%	-8.0%	-7.6%	-7.2%	-7.0%	-6.8%
Risk Adjusted New Oil	16.6	52.5	78.8	98.7	109.4	105.4	110.1	109.6	102.7	93.3
Risk Adjusted Total Forecast	538.3	526.6	512.8	499.7	476.9	443.3	422.4	399.4	372.3	344.5
Anticipated Net Rate of Decline	-7.0%	-2.2%	-2.6%	-2.5%	-4.6%	-7.0%	-4.7%	-5.4%	-6.8%	-7.5%
New Oil Share of Total Production	3.1%	10.0%	15.4%	19.7%	23.0%	23.8%	26.1%	27.4%	27.6%	27.1%

Source: Department of Revenue *Spring 2013 Revenue Forecast*, p. 27

UNDER ACES, TAX RATES VARIED SIGNIFICANTLY ON A MONTHLY BASIS

	July	August	September	October	November	December	
Oil Price	\$132.87	\$115.98	\$101.86	\$73.65	\$53.94	\$37.70	
Total barrels per month	20,174,640	17,230,458	21,197,405	23,080,737	22,846,738	22,727,030	
Royalty & Federal barrels	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	
Taxable barrels per month	17,325,693	14,381,511	18,348,458	20,231,790	19,997,791	19,878,083	
Wellhead value	\$126.37	\$109.48	\$95.36	\$67.15	\$47.44	\$31.20	
Gross value of taxable bbls	\$2,189,447,867	\$1,574,487,850	\$1,749,708,987	\$1,358,564,721	\$948,695,216	\$620,196,200	
Deductible Opex	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	
Deductible Capex	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	
Taxable value	\$1,872,781,200	\$1,257,821,183	\$1,433,042,320	\$1,041,898,054	\$632,028,549	\$303,529,533	
Base rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Base tax	\$468,195,300	\$314,455,296	\$358,260,580	\$260,474,514	\$158,007,137	\$75,882,383	
Taxable value per barrel	\$108.09	\$87.46	\$78.10	\$51.50	\$31.60	\$15.27	
Progressive tax rate	26.6%	23.0%	19.2%	8.6%	0.6%	-	
Progressive tax	\$497,397,040	\$289,102,592	\$275,726,004	\$89,595,168	\$4,057,416	\$0	
Tax before credits	\$965,592,340	\$603,557,888	\$633,986,584	\$350,069,682	\$162,064,553	\$75,882,383	
Credits applied	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	
Tax after credits	\$936,442,340	\$574,407,888	\$604,836,584	\$320,919,682	\$132,914,553	\$46,732,383	
Effective tax rate on net	50%	46%	42%	31%	21%	15%	
	January	February	March	April	May	June	Total
Oil Price	\$39.01	\$42.78	\$47.75	\$46.56	\$58.23	\$69.80	\$68.34
Total barrels per month	21,812,241	20,747,934	23,020,348	20,160,047	22,186,732	17,785,719	252,970,029
Royalty & Federal barrels	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	34,187,360
Taxable barrels per month	18,963,294	17,898,987	20,171,402	17,311,100	19,337,785	14,936,772	218,782,669
Wellhead value	\$32.51	\$36.28	\$41.25	\$40.06	\$51.73	\$63.30	\$61.84
Gross value of taxable bbls	\$616,496,702	\$649,375,248	\$832,070,320	\$693,482,668	\$1,000,343,635	\$945,497,689	\$13,178,367,102
Deductible Opex	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$2,050,000,000
Deductible Capex	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$1,750,000,000
Taxable value	\$299,830,035	\$332,708,581	\$515,403,653	\$376,816,001	\$683,676,969	\$628,831,022	\$9,378,367,102
Base rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Base tax	\$74,957,509	\$83,177,145	\$128,850,913	\$94,204,000	\$170,919,242	\$157,207,756	\$2,344,591,775
Taxable value per barrel	\$15.81	\$18.59	\$25.55	\$21.77	\$35.35	\$42.10	\$44.27
Progressive tax rate	-	-	-	-	2.1%	4.8%	7.1%
Progressive tax	\$0	\$0	\$0	\$0	\$14,642,885	\$30,434,227	\$1,200,955,332
Tax before credits	\$74,957,509	\$83,177,145	\$128,850,913	\$94,204,000	\$185,562,128	\$187,641,982	\$3,545,547,108
Credits applied	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$349,800,000
Tax after credits	\$45,807,509	\$54,027,145	\$99,700,913	\$65,054,000	\$156,412,128	\$158,491,982	\$3,195,747,108
Effective tax rate on net	15%	16%	19%	17%	23%	25%	34%
						Less adjustments	\$83,792,561
						TOTAL TAX	\$3,111,954,547

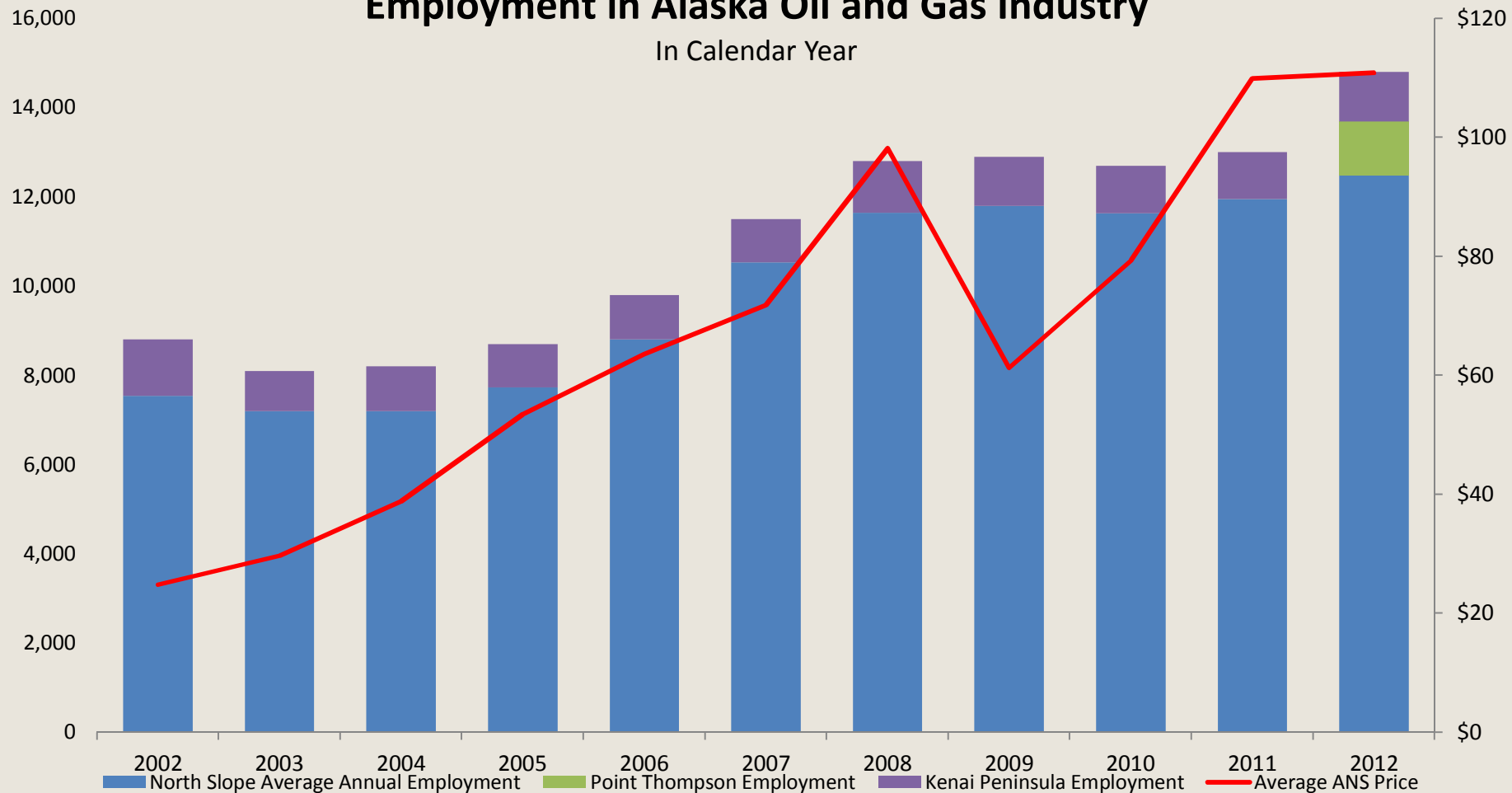
PRODUCTION TAX CREDITS USED & FORECAST BY FISCAL YEAR (\$MILLIONS)



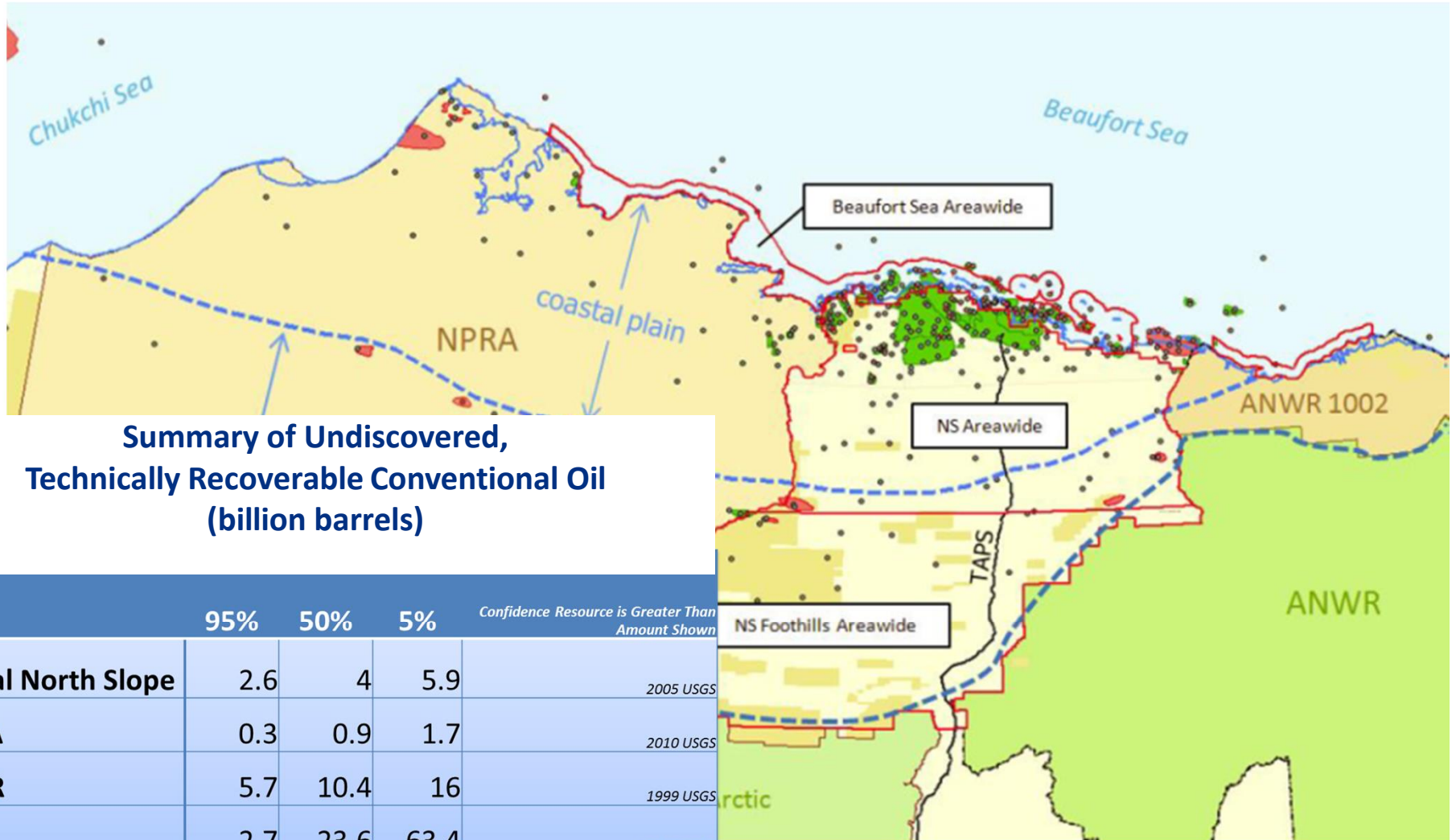
EMPLOYMENT GROWS WITH INVESTMENT

Employment in Alaska Oil and Gas Industry

In Calendar Year



Alaska has tremendous untapped resources



Summary of Undiscovered, Technically Recoverable Conventional Oil (billion barrels)

	95%	50%	5%	Confidence Resource is Greater Than Amount Shown
Central North Slope	2.6	4	5.9	2005 USGS
NPR-A	0.3	0.9	1.7	2010 USGS
ANWR	5.7	10.4	16	1999 USGS
OCS	2.7	23.6	63.4	2011 BOEM
Total	11.3	38.9	87.0	

