

# Case Studies: Government Competition for Oil & Gas Investment



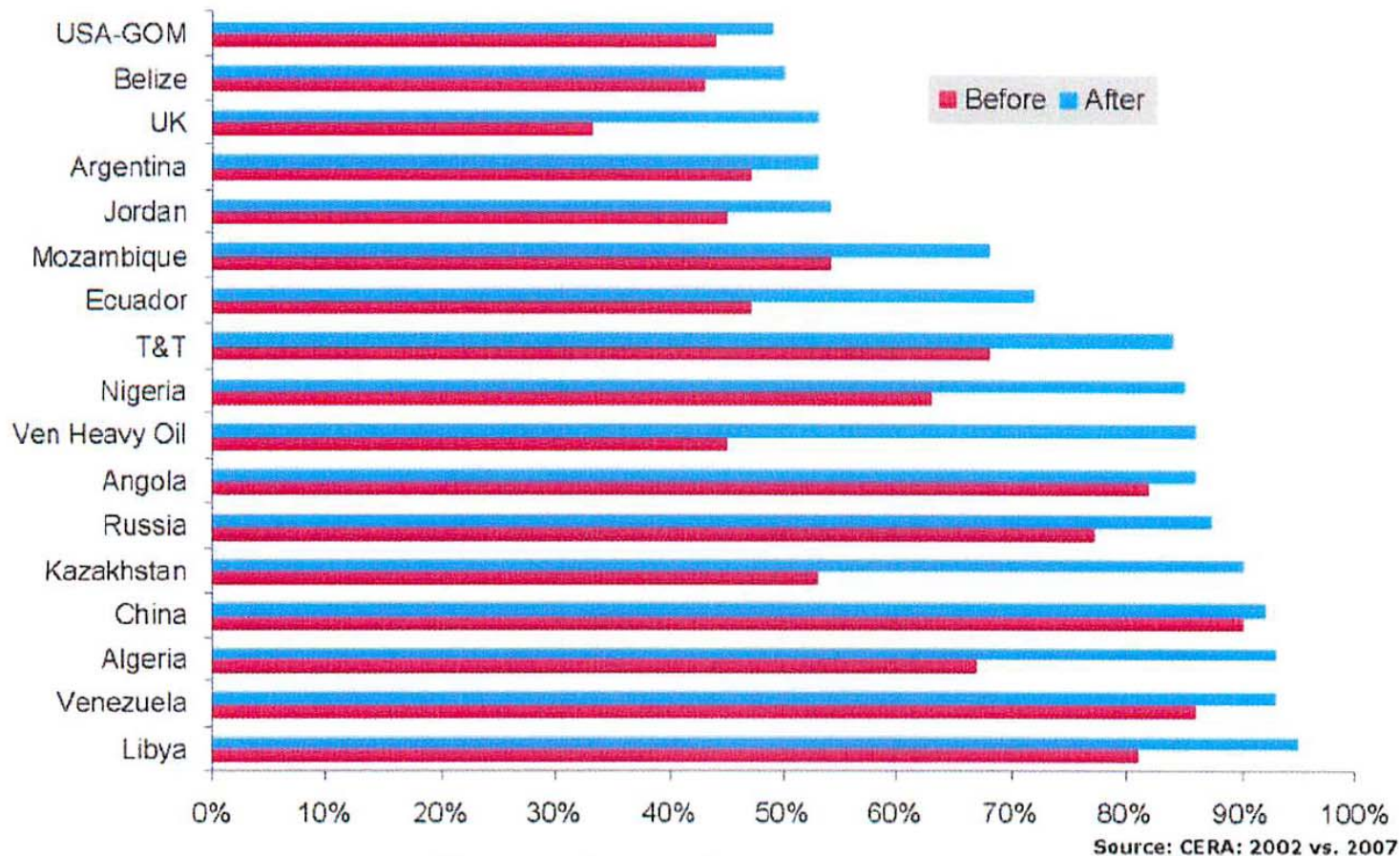
Alaska Department of Revenue,  
October 2007, Juneau, Alaska  
Michael D. Williams, Chief Economist

# Capturing “Fair Share”

## Assessment of Oil and Gas Jurisdictions is Complex and Continuous



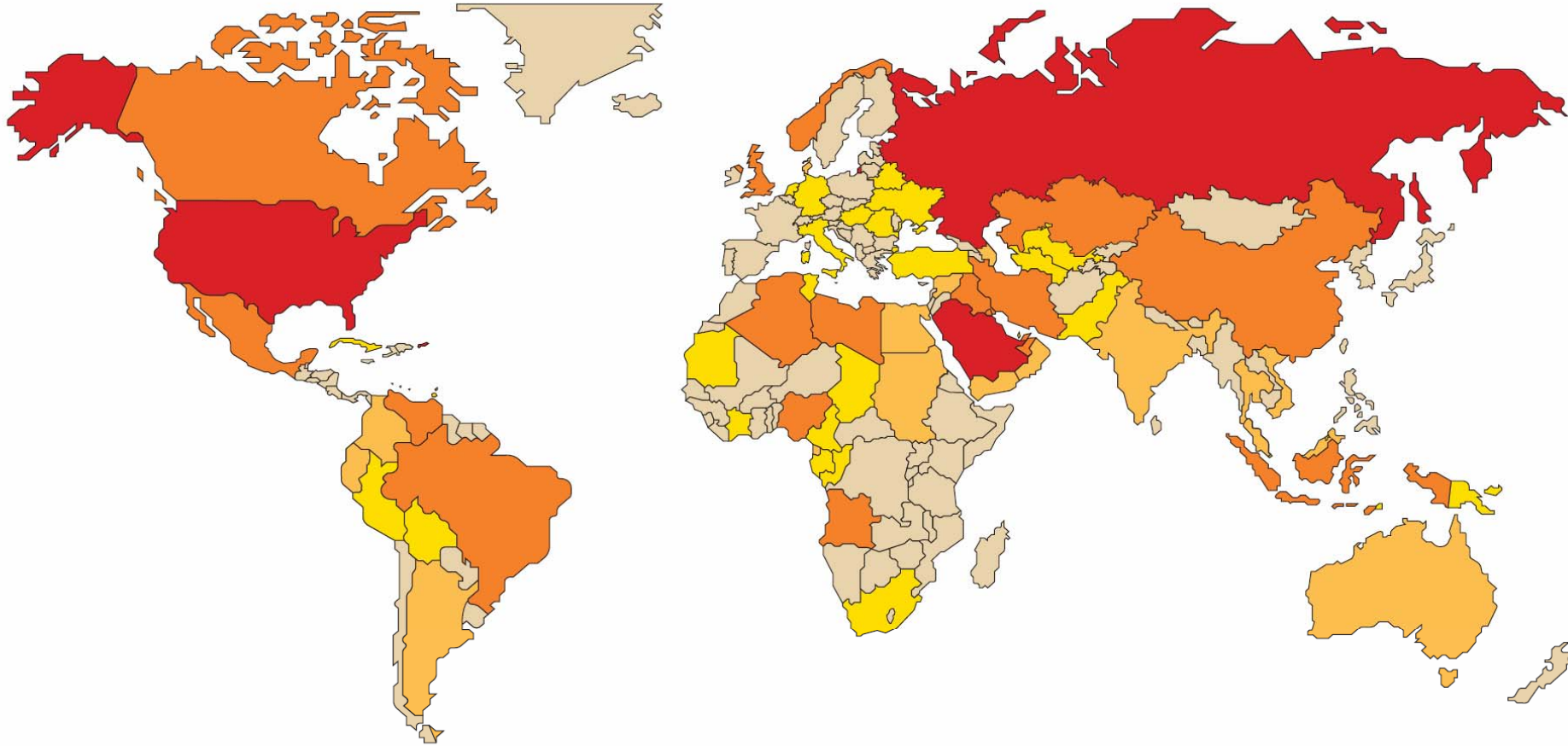
### Changes in Government Take 2002 to 2006



# Today's Agenda

- 1. Background**
- 2. Fiscal Regimes**
- 3. Key Factors**
- 4. Conclusions**

# Oil Producing Countries



> 5,000

5,000-1,001

1,000-301

300-31

Not significant or not available

# Types of Legal Systems

- **Production Sharing** – Uses a Production Sharing Contract [PSC], the contractor receives a share of production for services rendered.
- **Tax / Royalty** – Government licenses right to extract and sell resources and imposes financial obligations on resource extraction:
  - Royalty
  - Tax: on income, production, property.

# **Tax / Royalty Governments Comparison**

- **Alaska**
- **Alberta**
- **Norway**
- **United Kingdom**
- **US Gulf of Mexico [GOM]**

# Alaska

- **Signature Bonus:** Yes
- **Royalty:** about 12.5%
- **Production Tax:** Petroleum Profits Tax, based on net income
- **Tax Credits & Uplift:** Yes
- **Property Tax:** Based on assessment
- **Corporate Income Tax:**
  - Alaska State = 9.4% of profit
  - US Federal\* = 35% of profit

# Alberta

## Conventional Oil

- **Signature Bonus:** Yes
  - **Royalty\*:** 14.78%
  - **Production Tax:** None
  - **Tax Credits & Uplift:** No
  - **Property Tax:** None
  - **Corporate Income Tax:**
    - Federal = 20% of profit
    - Provincial = 10% of profit
- } Additive

\* There are three tiers of royalty based upon the age of the well, those tiers are pre-1974, 1974-1992, and post-1992. The royalty rates are expressed in Canadian dollars per cubic meter and are sensitive to well productivity and market price. This analysis is for oil wells that went into production after 1992 and use the rate of \$130.09 per cubic meter, which is a royalty rate of about 15%. See “Technical Royalty Report OG#2: Alberta’s Conventional Oil and Gas Industry”, Alberta Department of Energy, 2007, page 14.



# Norway

- **Signature Bonus:** No
- **Royalty:** Phased out
- **Production Tax\*:** 50% of profit
- **Tax Credits & Uplift:** Yes
- **Property Tax:** None
- **Corporate Income Tax\*:** 28% of profit

\* Production Tax and Corporate Income Tax are additive.

# United Kingdom

- **Signature Bonus:** No
- **Royalty:** Discontinued for new fields in 1982 & older fields in 2003
- **Production Tax\*:** Fields developed before March 1993 pay 25%; there is no tax on fields with development approval after March 1993.
- **Tax Credits & Uplift:** No
- **Property Tax:** None
- **Corporate Income Tax:** 50% of profit

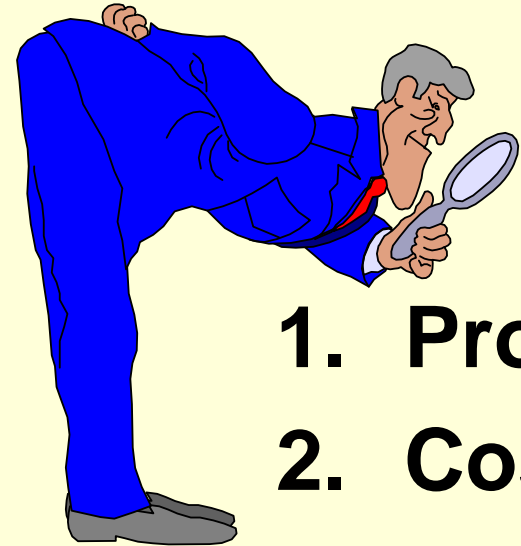
\* For fields in operation prior to 1993, the Petroleum Revenue Tax is due and is a tax on net income with detailed specifications for such items as lease costs, acquisition costs, abandonment costs, tariffs, etc. The PRT has a tax rate of 25% and the tax paid is deductible from profits in computing Corporate Income Tax.

# US GOM

- **Signature Bonus:** Yes
- **Royalty:** Royalty relief\* for deep water
- **Production Tax:** None
- **Tax Credits & Uplift:** Yes
- **Property Tax:** None
- **Corporate Income Tax:** US Federal, 35% of profits

\* The Deep Water Royalty Relief Act of 1995 expanded the Secretary's royalty relief authority in the GOM outer continental shelf. Under the Act, producers were able to exclude the first 87.5 million barrels of oil production from each lease from royalty when oil prices were under \$34 per barrel. When contracts were actually approved, the price "trigger" was not included in the agreement, thus, the contracts between the oil companies and US government do not specify a price at which the royalty payment is required. On January 9, 2007 the US government royalty rate was increased to 16.7% from 12.5% - but the 87.5 million barrel exclusion still applies, and there is still no price trigger in the contracts.

# Key Factors



- 1. Prospectivity**
- 2. Costs**
- 3. Risk**
  - **Political**
  - **Fiscal Stability**
- 4. Capital Depreciation Time Frame**
- 5. Government Take**

# Attractiveness of Oil & Gas Resources

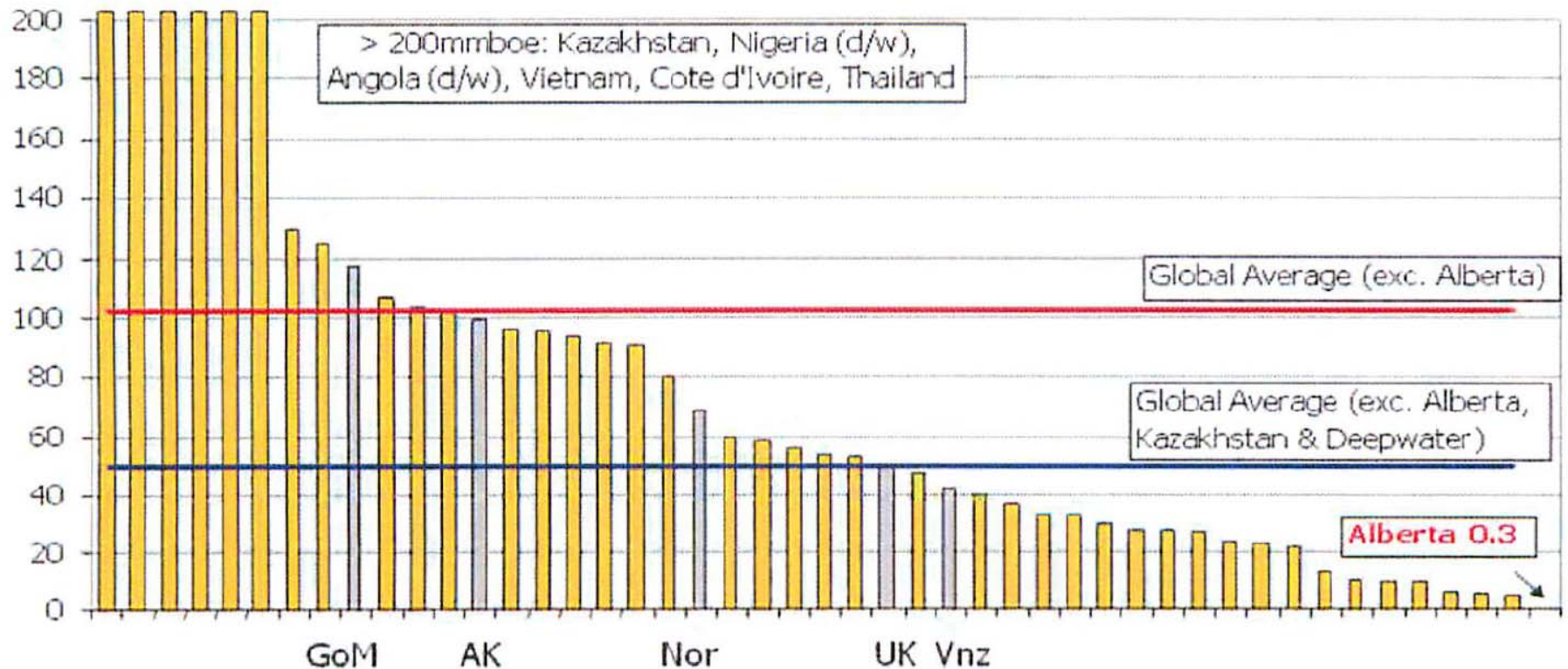
All Exploration & Discoveries Since 1990; Reserves are Reserves Added Since 1990

Country	Exploration Wells (post-1990)	Discoveries (post-1990)	Wells per Discovery	Success Rate (%)	Reserves (MMB)	Reserves / Well (MMB)
Angola	231	102	2.3	44%	14,223	62
Nigeria	315	76	4.1	24%	8,600	27
Eq. Guinea	75	20	3.8	27%	1,776	24
Mauritania	28	5	5.6	18%	522	19
<b>Vietnam</b>	<b>179</b>	<b>42</b>	<b>4.3</b>	<b>24%</b>	<b>3,182</b>	<b>18</b>
Congo	85	25	3.4	29%	1,272	15
Brazil	1,063	143	7.4	14%	11,789	11
<b>Alaska</b>	<b>138</b>	<b>20</b>	<b>6.9</b>	<b>15%</b>	<b>1,415</b>	<b>10</b>
<b>Norway</b>	<b>369</b>	<b>74</b>	<b>5.0</b>	<b>20%</b>	<b>3,754</b>	<b>10</b>
Malaysia	338	64	5.3	19%	2,708	8
Cote d'Ivoire	30	4	7.5	13%	221	7
Libya	319	72	4.4	23%	2,224	7
<b>GOM</b>	<b>1,502</b>	<b>87</b>	<b>17.3</b>	<b>6%</b>	<b>6,200</b>	<b>4</b>
<b>UK</b>	<b>1,177</b>	<b>122</b>	<b>9.6</b>	<b>10%</b>	<b>3,826</b>	<b>3</b>
Gabon	185	26	7.1	14%	472	3
Indonesia	1,200	193	6.2	16%	2,749	2
<b>Argentina</b>	<b>1,110</b>	<b>230</b>	<b>4.8</b>	<b>21%</b>	<b>1,071</b>	<b>1</b>
<b>Australia</b>	<b>1,741</b>	<b>147</b>	<b>11.8</b>	<b>8%</b>	<b>1,600</b>	<b>1</b>

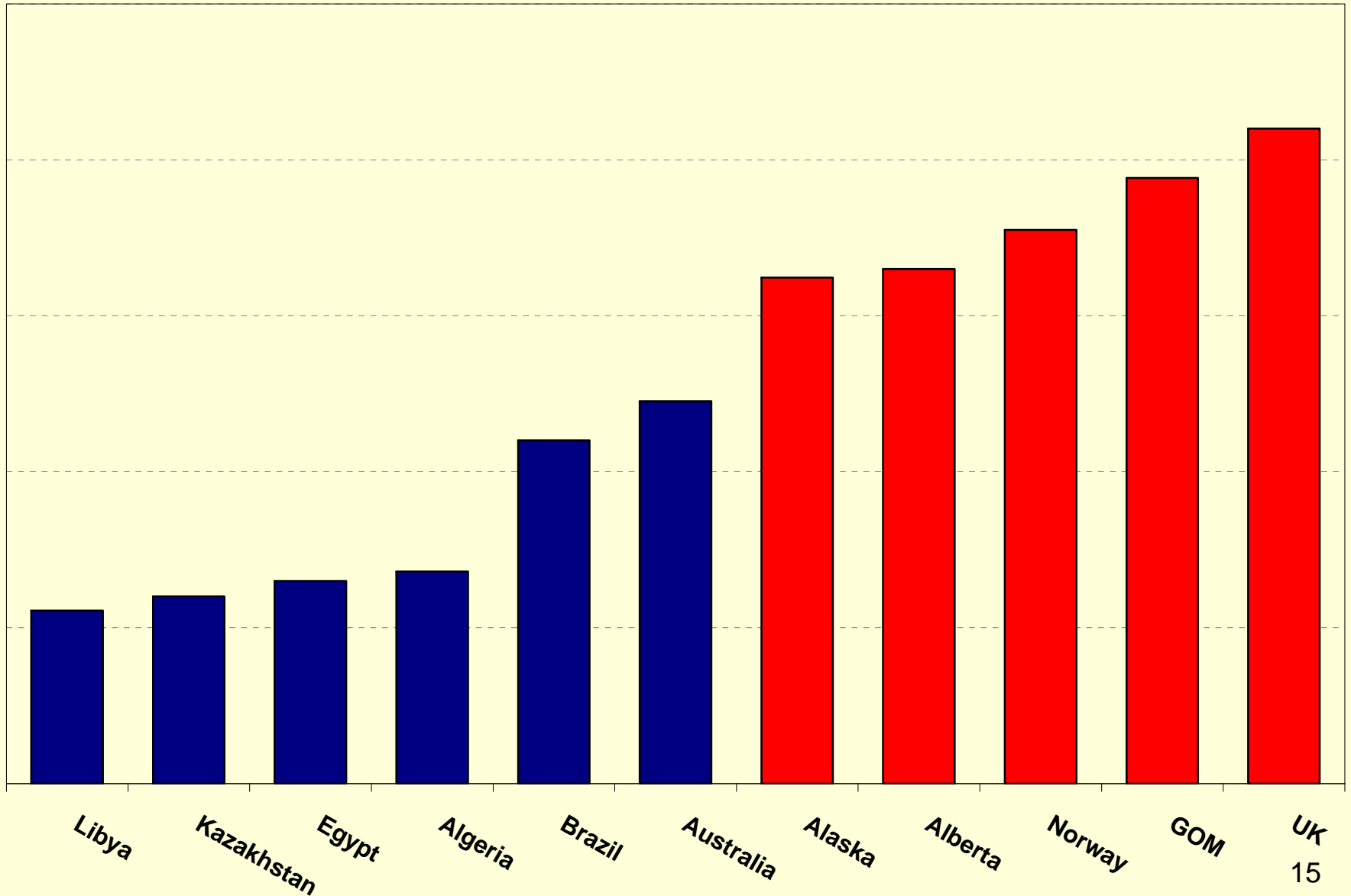
# Conventional Oil Pool Size

## 1994 – 2003

**Average Commercial Oil Discovery Size (mmboe)**



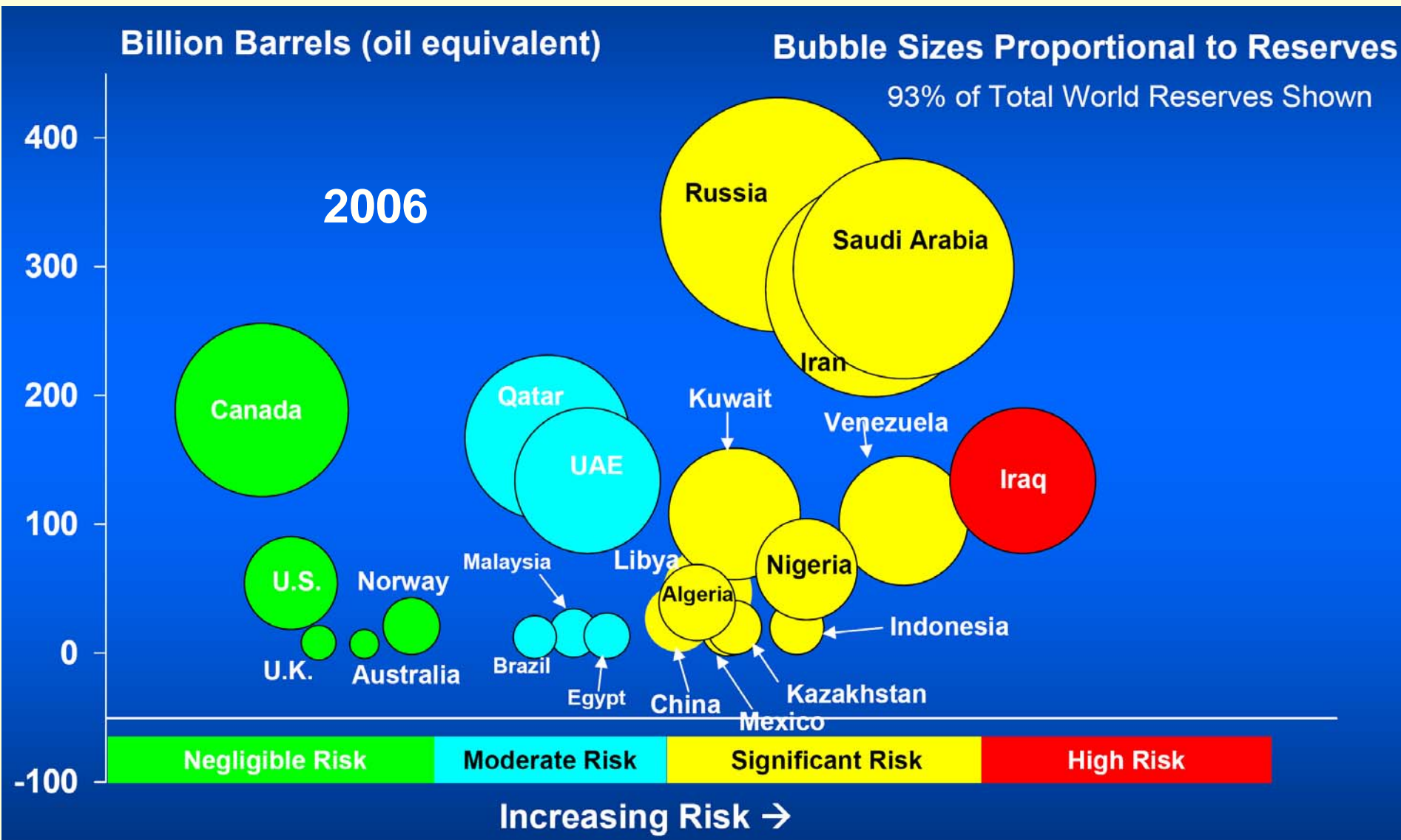
# Upstream Per Barrel Production Cost



Dollars per barrel, includes capital and operating expense, most data from public sources.

# Reserves Breakdown By Risk

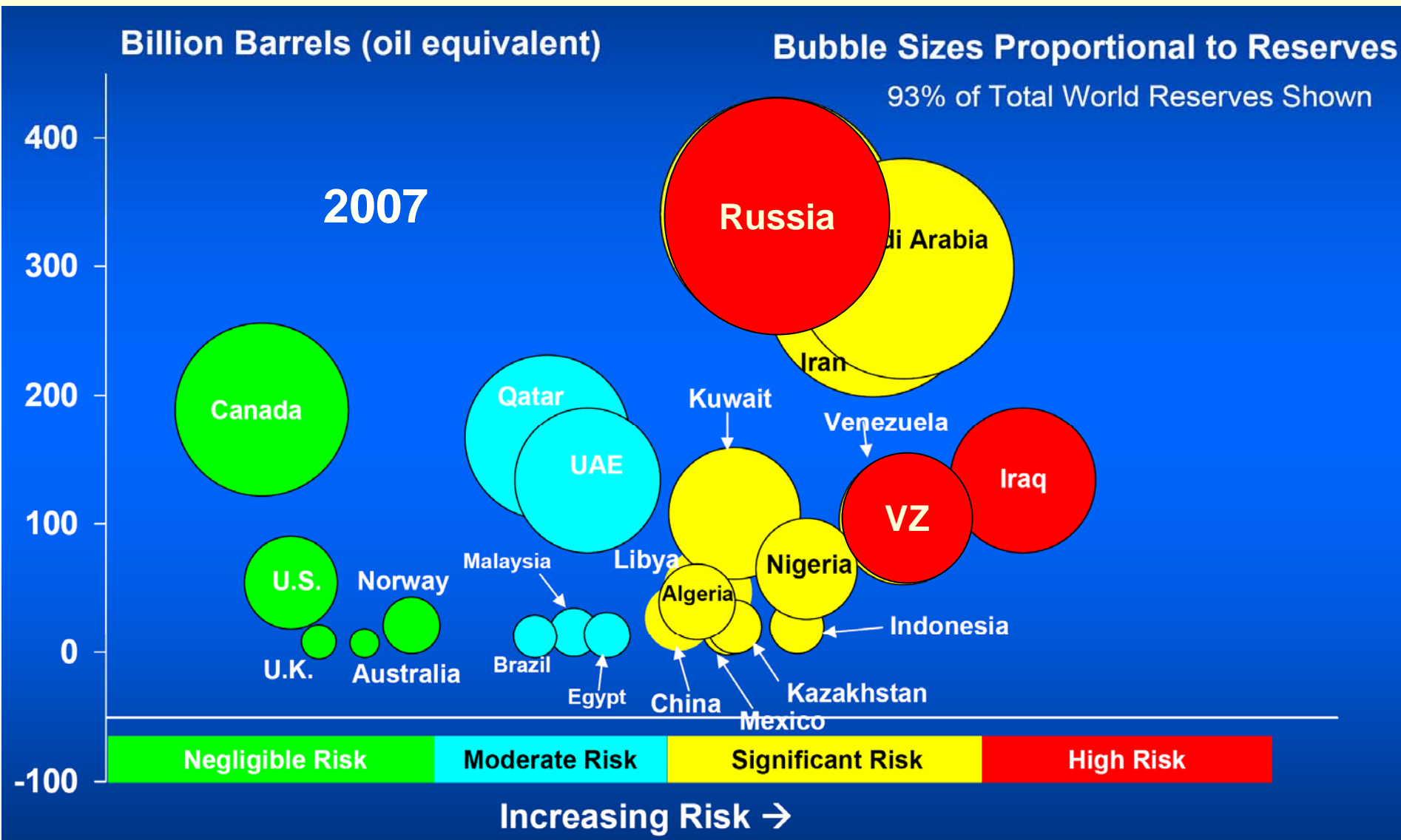
## Total Oil & Gas Reserves





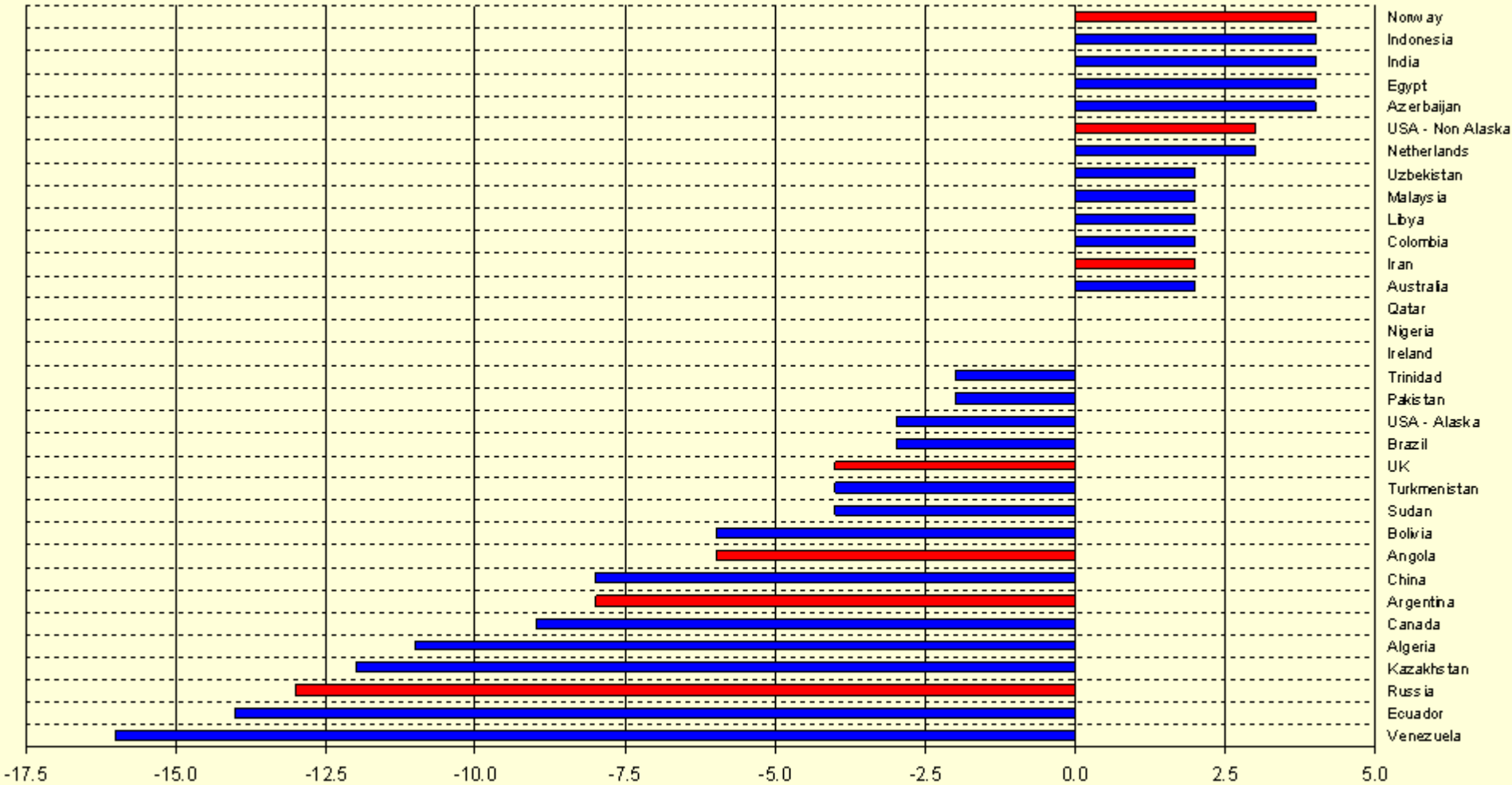
# Reserves Breakdown By Risk

## Total Oil & Gas Reserves




# Fiscal Stability

Cumulative Stability Score



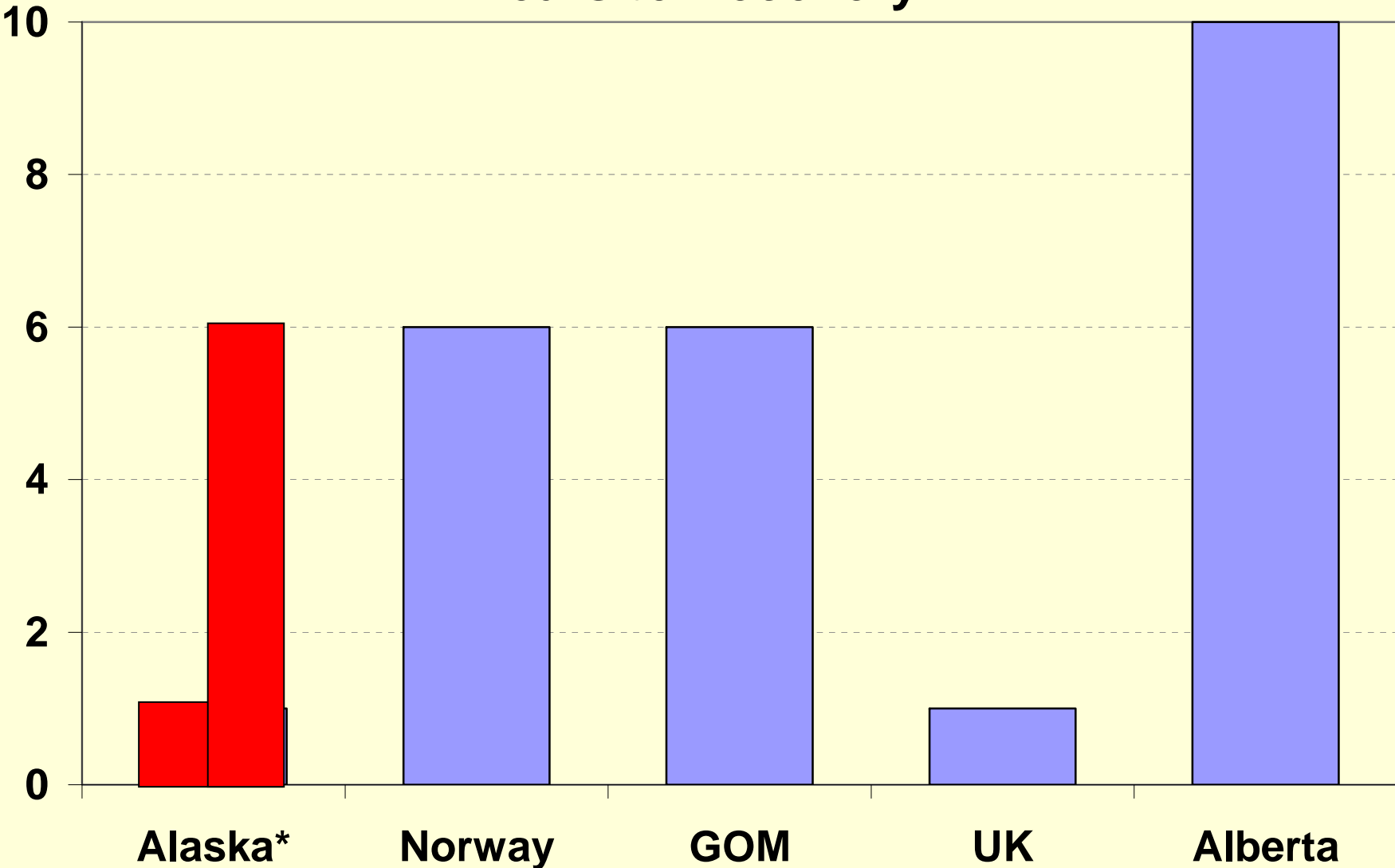
Negative ←

 \*Tax/Royalty System

→ Positive

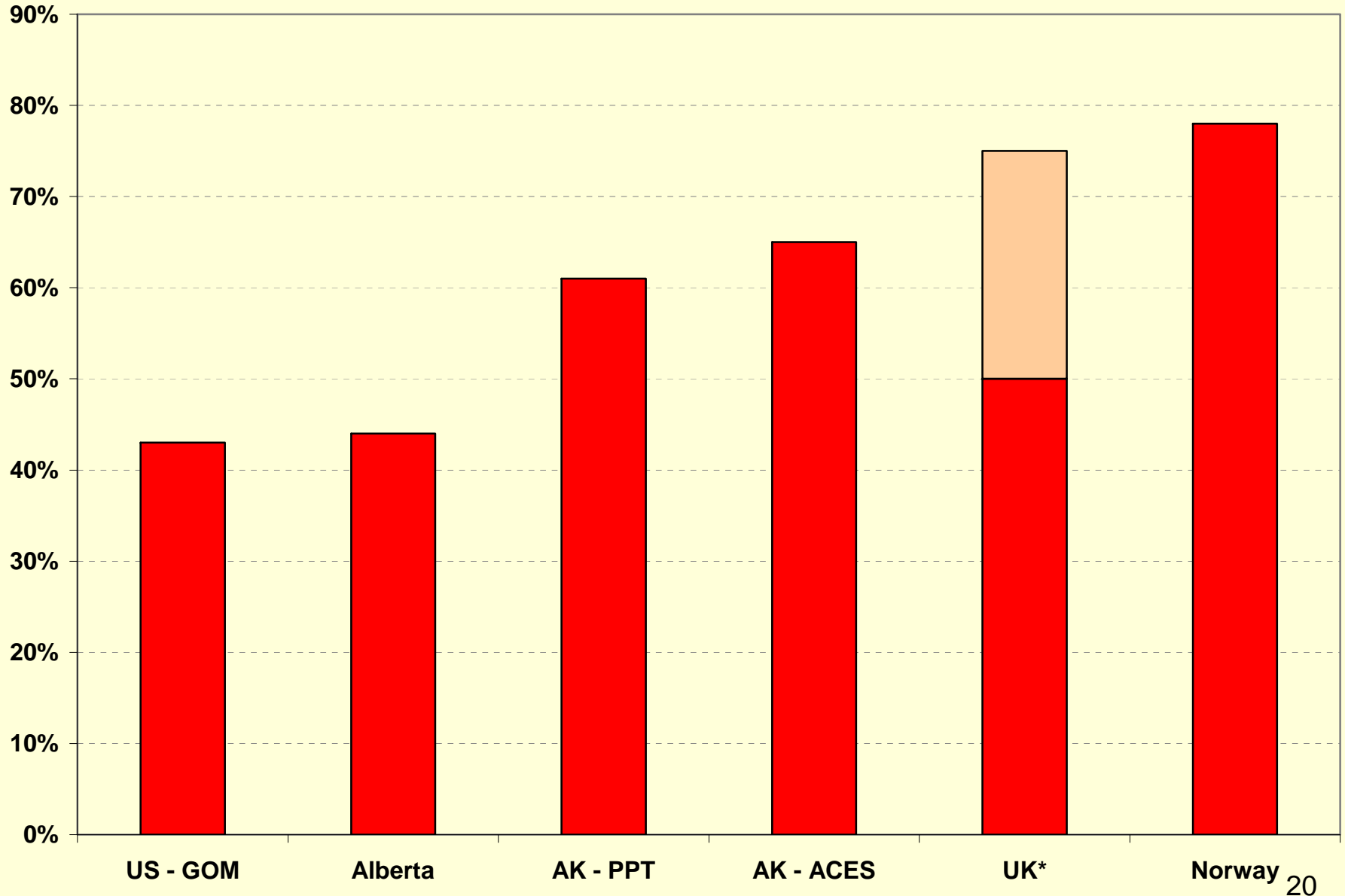
# Capital Depreciation Time Frame

Years to Recovery



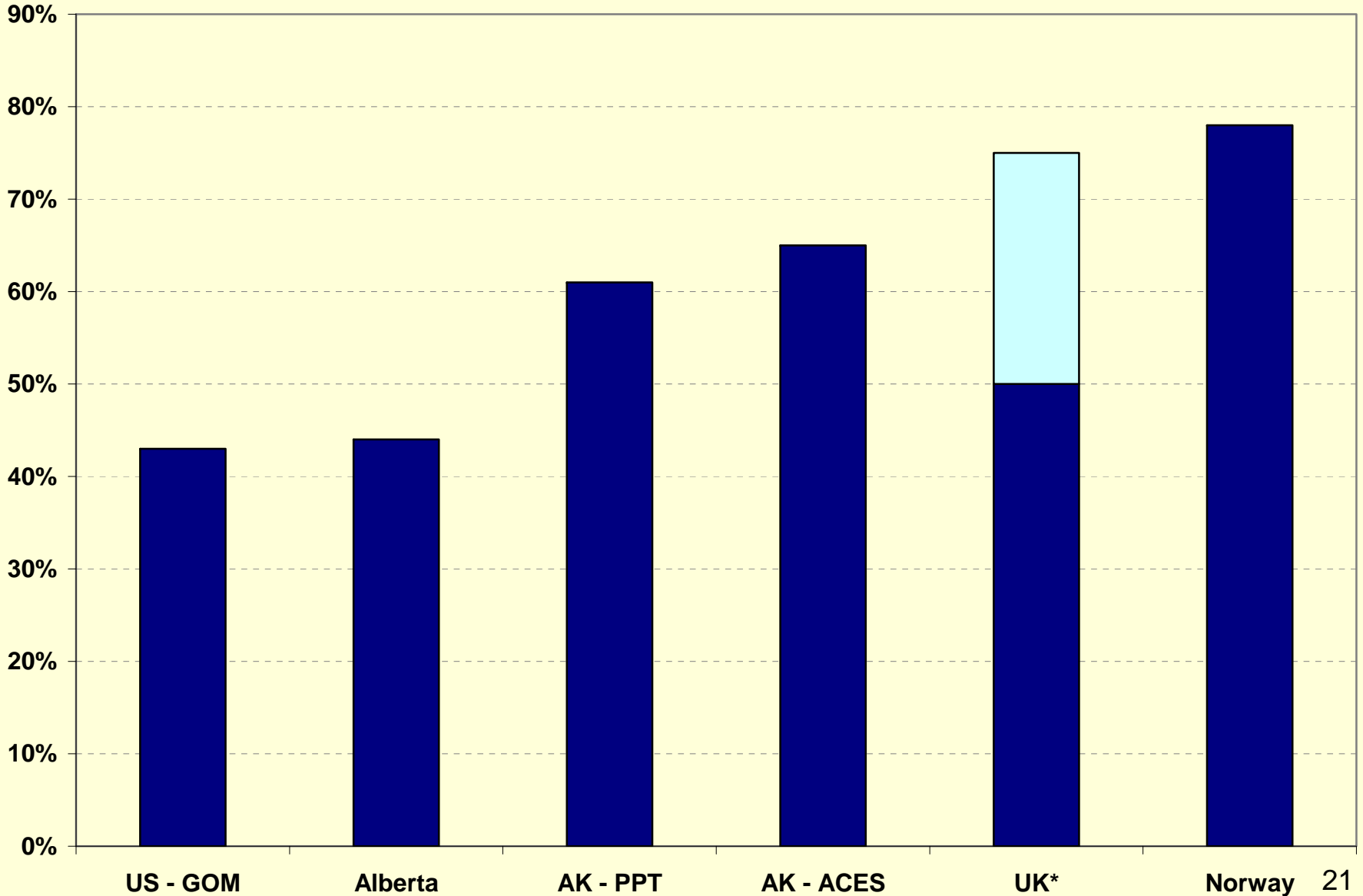
\* Under PPT there is a one year write off, for Federal Corporate Income Taxes there is a depreciation schedule.

# Marginal Government Take



Sources include Alberta Panel Review 2007, Wood Mackenzie 2007, PFC 2007, US General Accounting Office 2007

# Cradle to Grave Government Take



Sources include Alberta Panel Review 2007, Wood Mackenzie 2007, PFC 2007, US General Accounting Office 2007

# Where are the Capital \$s being spent?

		Capital Spending (\$millions)									
		2006		2005		2004		2003		2002	
BP:	US	\$6,592	50%	\$3,870	38%	\$3,913	36%	\$3,906	26%	\$3,100	32%
	International	\$6,526	50%	\$6,367	62%	\$7,095	64%	\$11,286	74%	\$6,559	68%
	<b>TOTAL</b>	<b>\$13,118</b>		<b>\$10,237</b>		<b>\$11,008</b>		<b>\$15,192</b>		<b>\$9,659</b>	
Exxon:	US	\$2,486	15%	\$2,142	15%	\$1,922	16%	\$2,125	18%	\$2,357	23%
	International	\$13,745	85%	\$12,328	85%	\$9,793	84%	\$9,863	82%	\$8,037	77%
	<b>TOTAL</b>	<b>\$16,231</b>		<b>\$14,470</b>		<b>\$11,715</b>		<b>\$11,988</b>		<b>\$10,394</b>	
Conoco:	Alaska	\$820	9%	\$746	11%	\$645	12%	\$570	13%	\$706	22%
	US (Continental)	\$2,008	21%	\$891	13%	\$669	12%	\$848	19%	\$499	15%
	International	\$6,685	70%	\$5,047	76%	\$3,935	75%	\$3,090	68%	\$2,071	63%
	<b>TOTAL</b>	<b>\$9,513</b>		<b>\$6,684</b>		<b>\$5,249</b>		<b>\$4,508</b>		<b>\$3,276</b>	
Chevron:	US	\$4,123	32%	\$2,450	29%	\$1,820	29%	\$1,641	29%	\$1,888	30%
	International	\$8,696	68%	\$5,939	71%	\$4,501	71%	\$4,034	71%	\$4,395	70%
	<b>TOTAL</b>	<b>\$12,819</b>		<b>\$8,389</b>		<b>\$6,321</b>		<b>\$5,675</b>		<b>\$6,283</b>	

# Mentioned in 2006 Reporting Exploration and Development

- **BP**
  - Algeria, Angola, Australia, Azerbaijan, China, Egypt, Indonesia, Russia and Trinidad & Tobago
- **Chevron**
  - Angola, Australia, Brazil, Canada, Indonesia, Kazakhstan, Nigeria, Norway, the Partitioned Neutral Zone, Thailand, UK, and Trinidad/Venezuela.
- **ConocoPhillips**
  - Australia, Canada, China, Indonesia, Kazakhstan, Libya, Malaysia, Peru, Qatar, Russia, UK, Vietnam, and Venezuela
- **XOM**
  - Australia, Canada, Indonesia, Ireland Venezuela, Norway, Philippines, Qatar, and UAE

# Conclusions

## 1. Alaska is Competitive

- Peer Group
- Worldwide

## 2. Possible to Increase Government Take & Remain Competitive