# Senate Resources

## Comments on Governor's ACES Proposal

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# Stability

1) Decision on Prudhoe Bay Satellites - Borealis, Midnight Sun, Orion, Polaris, Point McIntyre, and Aurora are integrated and collectively managed. Merely implemented the intent of the statute. When you consolidate wells with PBU facilities the regulations contemplate consolidation for tax purposes.
2) PPT tax. The producers have generally opposed any changes to the ELF prior to the SGDA negotiations. They liked the economics of ELF but knew they were going to have to agree to some change in order to get
   a. Fiscal certainty under their contract
   b. They were also hoping for contract approval if they agreed to the change
   c. They lost on all counts.
      i. They did not get the tax they "agreed to"
      ii. They did not get any type of certainty on the tax
      iii. They did not get the contract
3) The governor has called you back to review the tax because of the "cloud" on the tax. I don't think this review will cause the world to see you as unstable. The industry will certainly say it is true, but anyone who really looks underneath their rhetoric will know the truth. They also know the truth. This is merely an evaluation of what was done – with a possible early mid-course correction.
4) If you change the tax now and change it again during the regular session, there may be a problem.

# Alaska's Prospectivity

1) Oil
    a. State lands- less than 20% of the future potential are on state lands where we receive both royalty and tax.
        i. Puddles
        ii. Heavy Oil – will come back to this
    b. NPRA – around 30% of future potential is in NPRA
        i. No royalty but ½ the royalty comes back to the state first as impact aid, then to fund PCE then another fund before it has a possibility to get to the general fund. Of the millions of dollars that the state has received from NPRA I don't think any of it has reached the general fund.
        ii. Taxes – you still get taxes. But high costs will result in high opex and capex.
    c. Offshore OCS – over 50% of future potential is in the OCS
        i. No royalty
        ii. No taxes
    d. What is the future vision for oil
        i. Gov should go to congress and get us the same as the Gulf States have. They get a share of the OCS revenues because the feds recognize that the local state jurisdictions are impacted by OCS development – and they can oppose it and prevent it from proceeding forward
            1. This should be before shell drills any exploration wells

        2. Should work with the NSB to make sure that the operations in the OCS minimize the impact to the environment and local communities and subsistence culture
    ii. **Heavy oil** should be encouraged because it has the greatest chance on state lands of contributing to the future revenue stream of the state
        1. One of the slides yesterday showed the industry doing stress case economics at $40. Commissioner Galvin stated that heavy oil will be impacted around $41 dollars from the implementation of the **10% gross tax** which means that we may actually create a situation where we have prevented or slowed one of the most prospective oil reservoirs on state lands by passing the gross minimum tax. The minimum tax looks like it was designed to penalize heavy oil not help it.
  e. Alaska competitiveness –
    i. We are a mature (between Colville and canning) province as far as oil is concerned. Geology is king. Heavy oil and puddles
    ii. NPRA has larger potential in the Alpine type range
    iii. OCS still has the elephants but at great cost and high environmental/legal risk.

2) Gas
  a. Pedro said the gas pipeline was uneconomic
  b. I would call it indeterminate
    i. Four things needed to say economic or uneconomic
        1. Costs of the pipeline
        2. Future price of gas
        3. Stability of the taxes and what they are
        4. Internal Rate of Return/Project evaluation criteria

c. The submittal of the proposals will not change the above substantially unless the applicants accepts, transfers, or provides a way to handle some of the above risks to the state's and the shipper's satisfaction.
d. When the proposals come out at the end of November the state should review the proposals then evaluate how they can help the state move the project forward. The project is not a gasline through Canada or an LNG line to Valdez. It is monetizing the North Slope gas resource to the greatest benefit of the people of the State of Alaska. It may mean making adjustments to the law in January. It may mean taking a new course, it also may mean AGIA is working and all that needs to be done is to implement it.

3) Timing of development in general and gas pipeline development specifically.
   a. A reasonable timeline for gas pipeline development is at least 10 years. Anything less than that you need to examine the proposal closely to make sure they are not shortcutting process that may impact them and the state in the future.
   b. A reasonable timeline for oil development depends on proximity to existing facilities. E.g.,
      i. Tarn took around 2 years and was probably one of the fastest because it was near Kuparuk.
      ii. 6 to 8 years is a better estimate for prospects that are within 25 miles of existing facilities.
      iii. Around 10 years for projects that is more remote.
      iv. These are rough rules of thumb that don't take in to consideration specific environmental, logistics, cultural and subsistence issues of a particular project - each of which could delay development for several years.

# ACES incentives

1) Legacy fields and all other existing fields.
    a. Places a higher tax burden on them
    b. Takes away the TIE credits
    c. Ring fences certain credits.
2) Explorers
    a. Places a higher tax burden on them
    b. Gives them a guarantee of getting their tax credit giving them 2% to 3% extra on their transferrable credits
    c. Moves net operating losses to 25% carryover.
    d. The costs of the higher tax exceed the credit benefit.

# Summary

Someone asked yesterday what the governor's economic policy should be regarding oil and gas.

I recommend a few things

1) Encourage heavy oil development; don't place penalties in front of it.
2) Work with Congress to get our fair share of OCS revenue before shell or any other oil company drills in the OCS.
3) Works with local communities to make sure their concerns are addressed before development proceeds and so that responsible development can proceed.