



# House Resources Committee

## Alaska Fiscal System Discussion Slides

March 25 2013

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# ACES and SB21: Issues and Aims

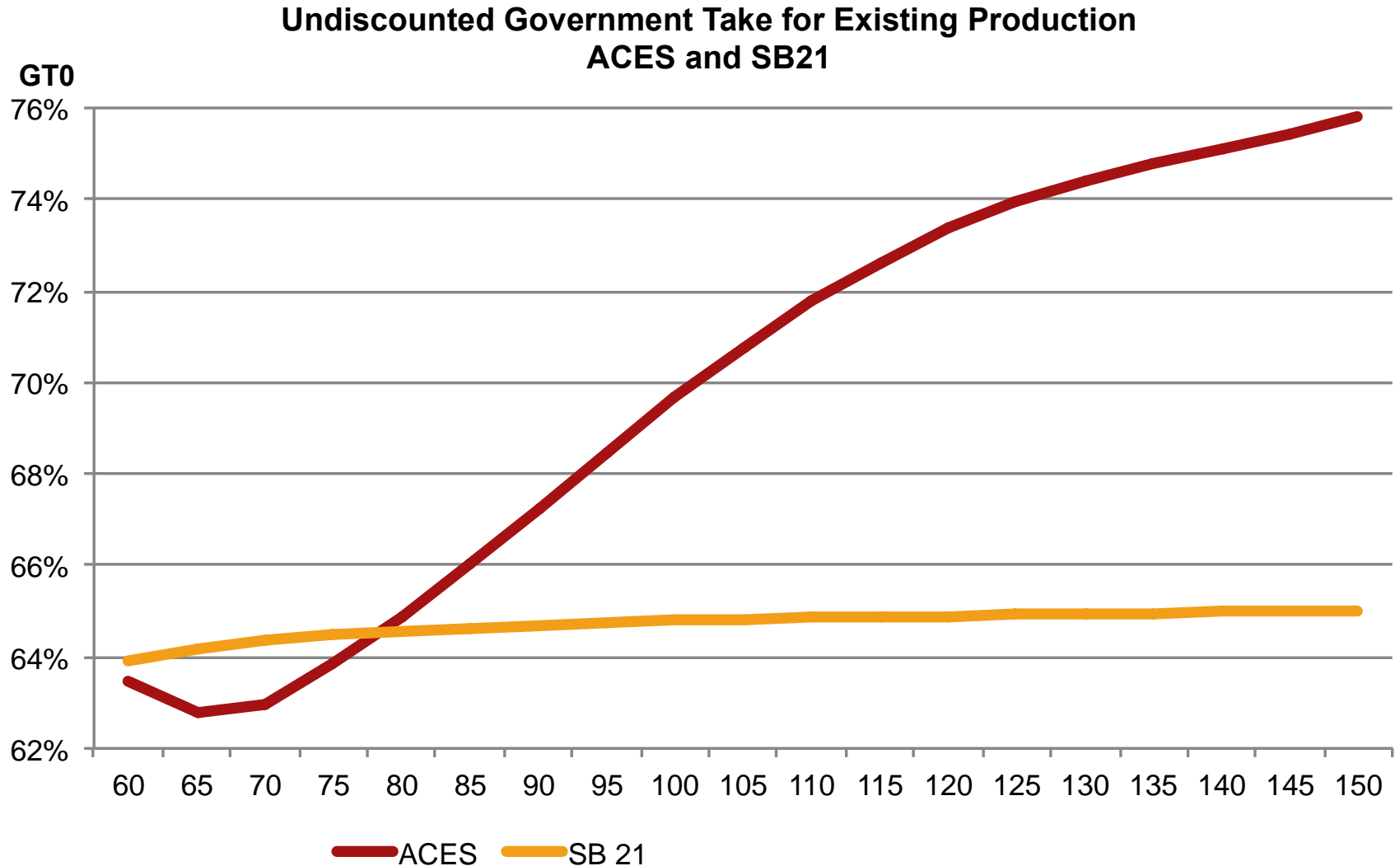
ACES - Issues	SB21 - Aims
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<ul style="list-style-type: none"><li>• Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands</li></ul>	<ul style="list-style-type: none"><li>• Limit downside risk to state from credits</li></ul>
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# ACES and SB21: Key Changes

	ACES	SB21
Base Tax Rate	25%	35%
Progressivity	0.4 % per dollar of per barrel-PTV from \$30 to \$92.50; 0.1% per dollar of per barrel-PTV above \$92.50	None – although \$/bbl allowance creates an implicit ‘reverse’ progressivity that counteracts regressive nature of royalty, leading to overall neutrality
Maximum Tax Rate	75%	35%
Incentives for New Production	None	Gross Revenue Exclusion (GRE): In calculating the PTV, a producer’s 20% of gross revenues from eligible production are excluded. Oil is from new PA, PA expansions, and areas in legacy fields not previously contributing to production.
\$/bbl Allowance	None	\$5
Capital Credit	20% of all qualified capital expenditures	Eliminated after Dec 31 for North Slope
NOL Credit	25% for Carry-Forward Annual Loss Credit, monetizable for small producer over 2 years	35% for Carry-Forward Annual Loss Credit, monetizable for small producer over one year
Small Producer Credit	Expires 2016	Expires 2016
Exploration Credit	Expires 2016	Expires 2016

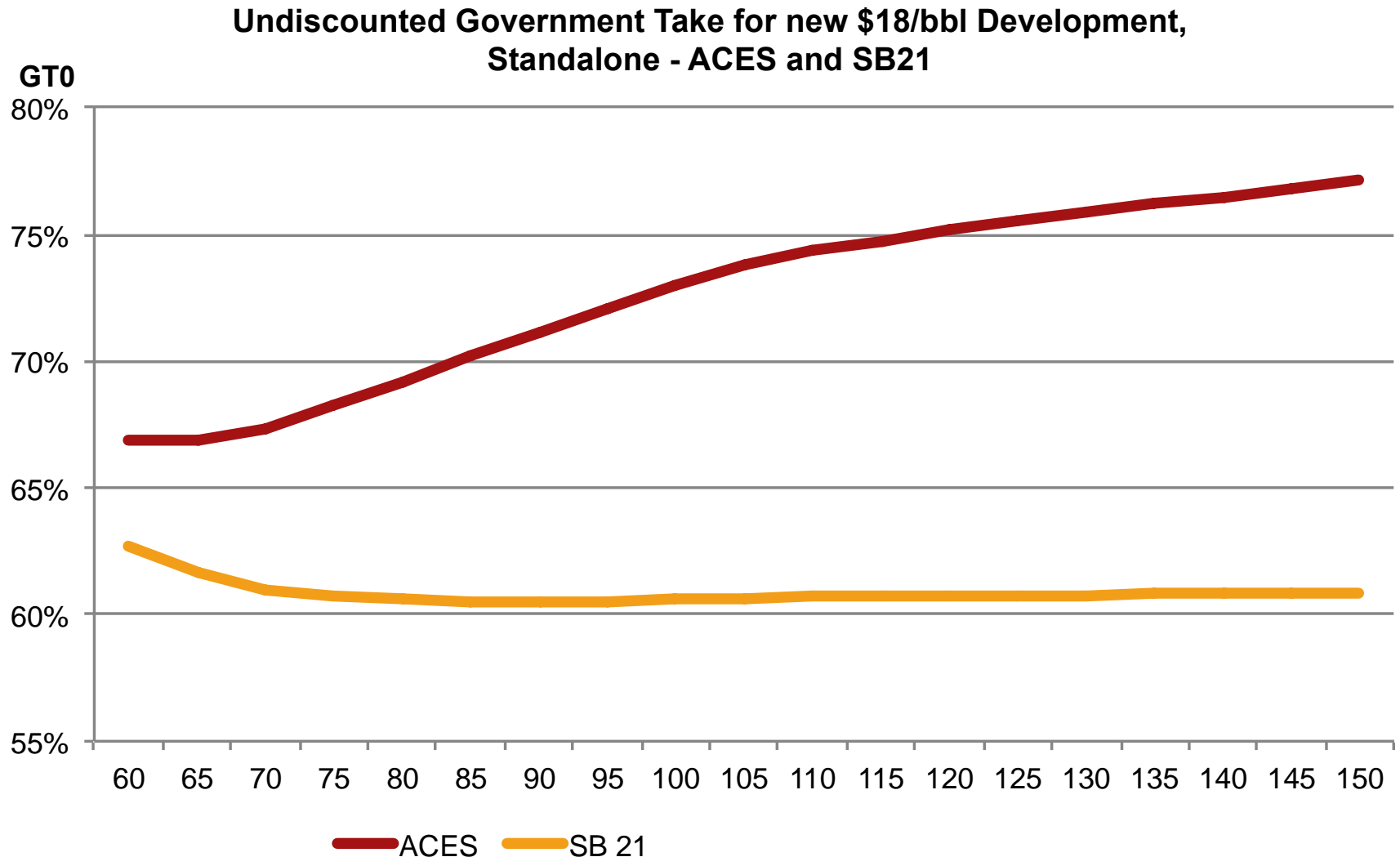
# ACES and SB21: Government Take Comparison

## Base Production



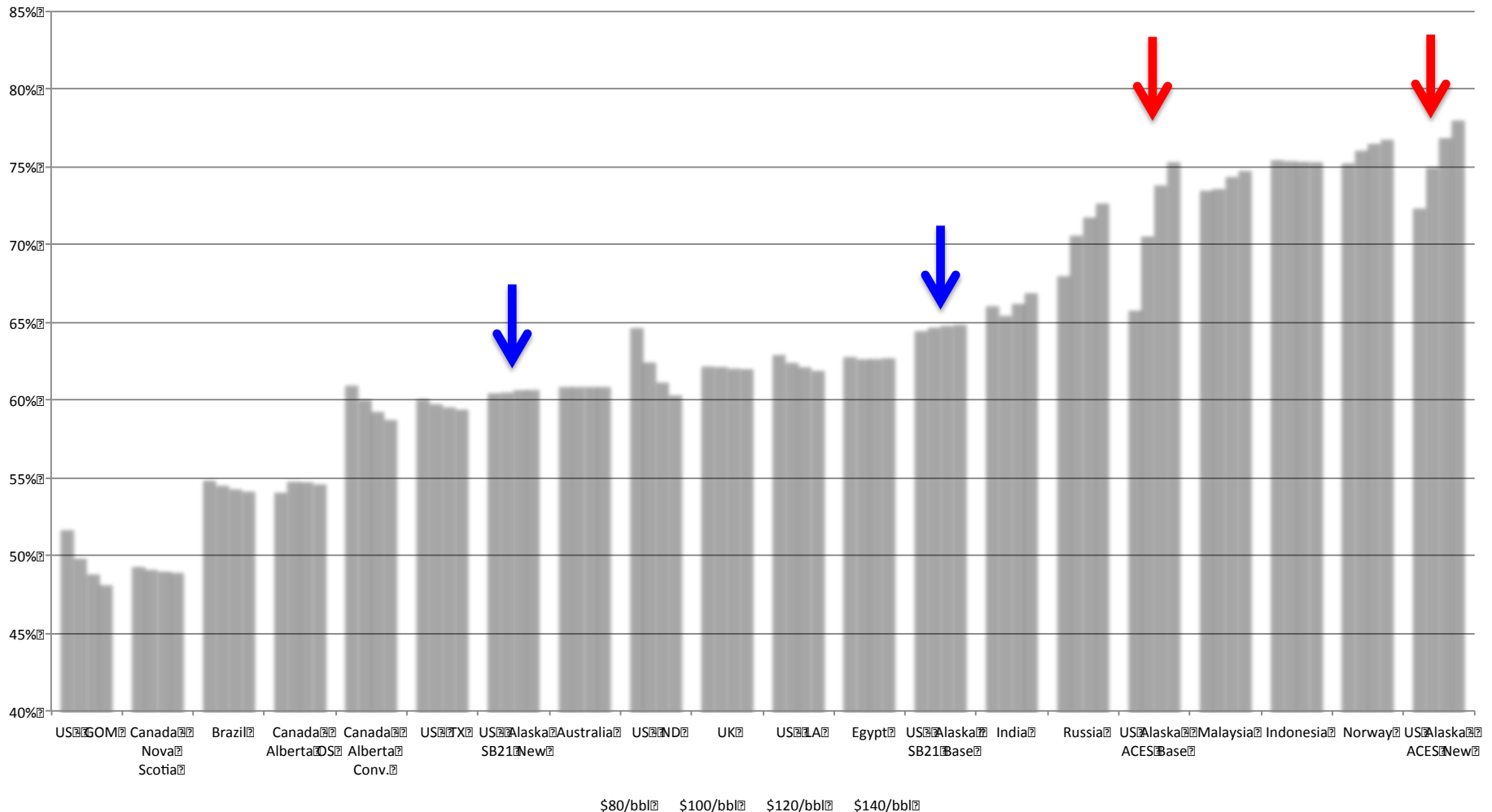
# ACES and SB21: Government Take Comparison

## \$18/bbl New Development, Standalone



# Government Take Competitiveness

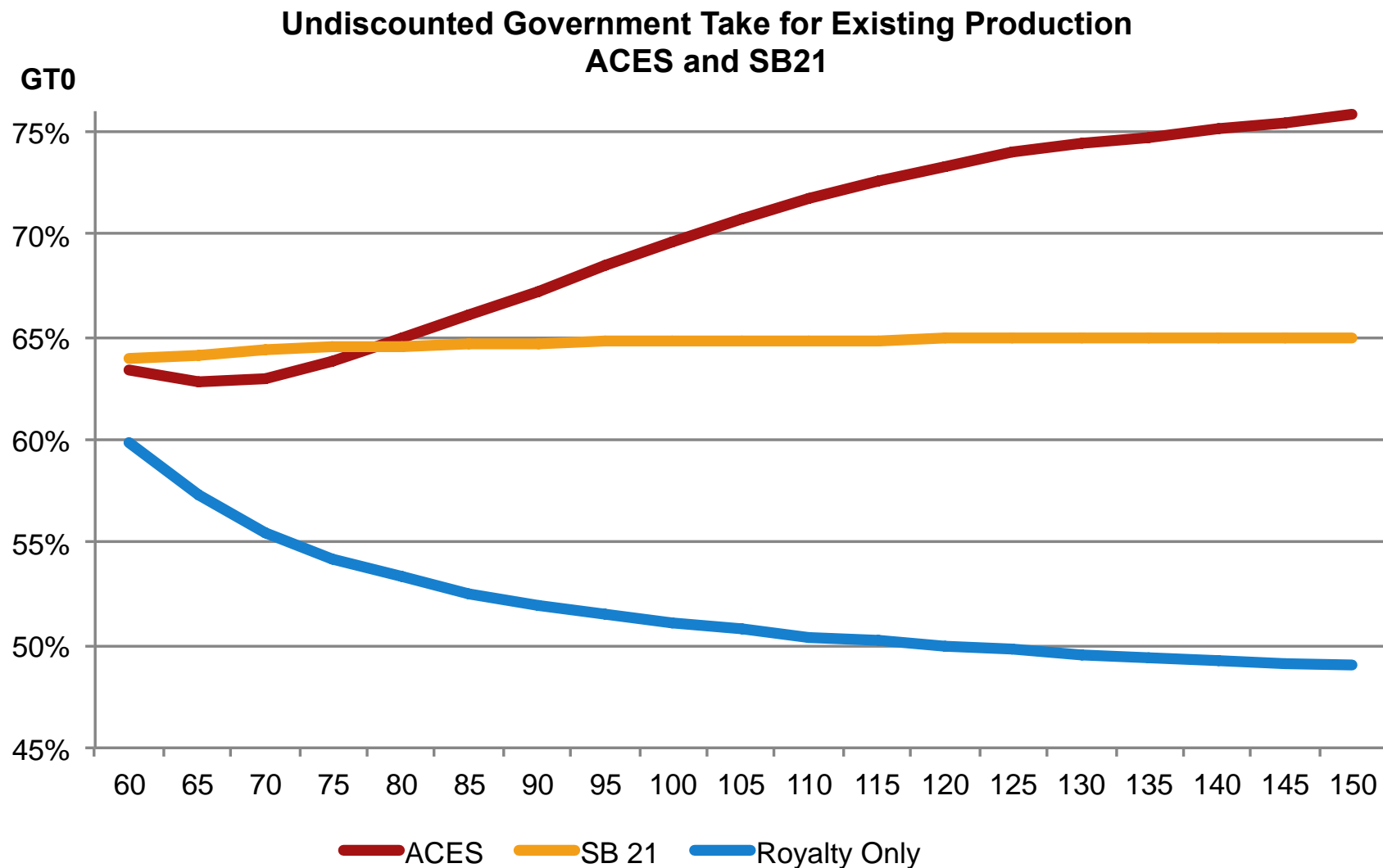
Alaska Government Take Competitiveness Compared to Comparable Regimes



# Regressive and Progressive Regimes

- 2 potential reasons to desire a progressive element in Alaska's fiscal regime:
  - To counteract regressive elements in the regime to achieve something close to **neutrality**
  - To go beyond neutrality, to ensure a **higher level of take** for the state in **high price environments**
- Regressive and Progressive regimes imply a very different outlooks on risk and reward, for government and the private sector:
  - **Regressive regimes limit risk to the state**, placing large downside risk on the private sector, protecting the state in low price or high cost environments
  - In return, regressive regimes offer outsized returns in high price environments
  - **Progressive regimes** involve the **state bearing more price and cost risk**, in return for a higher share of returns in good times
- Perhaps the single biggest problem with Alaska's current fiscal regime is that it involves elements that are **both strongly regressive and strongly progressive**.
  - It seeks to place downside risk on the private sector, while taking most of the returns in high price environments.
  - It is this combination that makes it particularly unattractive from an investment perspective

# Regressivity, Progressivity, Neutrality

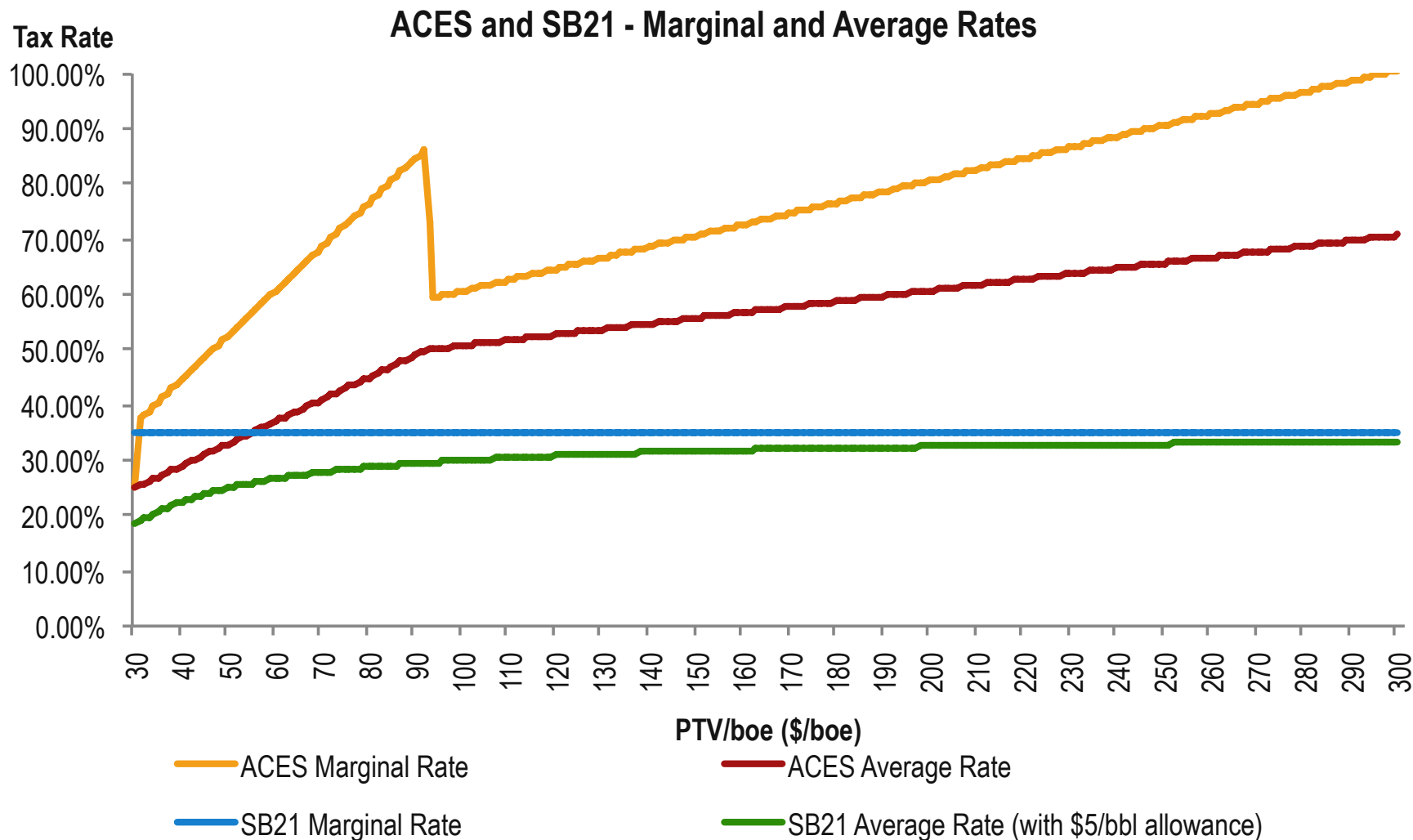




# \$5 production allowance is like reverse progressivity, to counteract effect of royalty

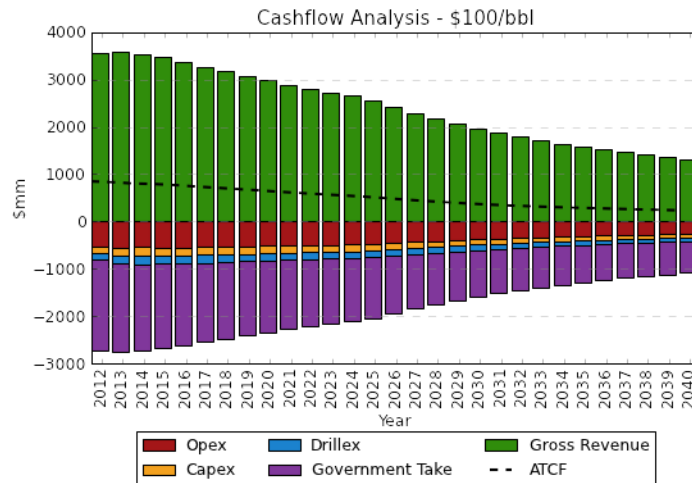
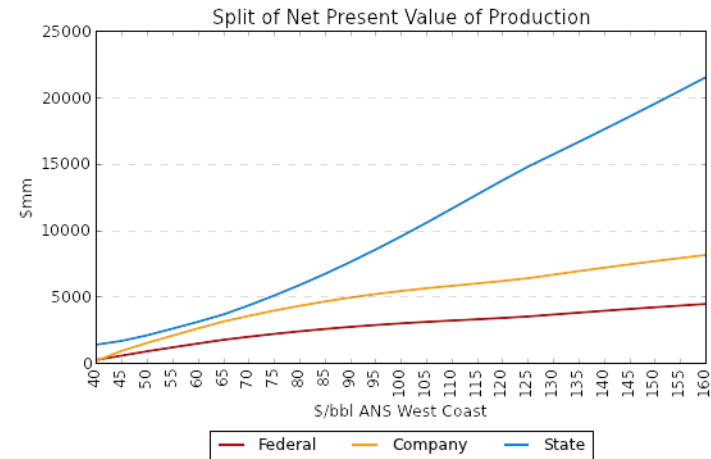
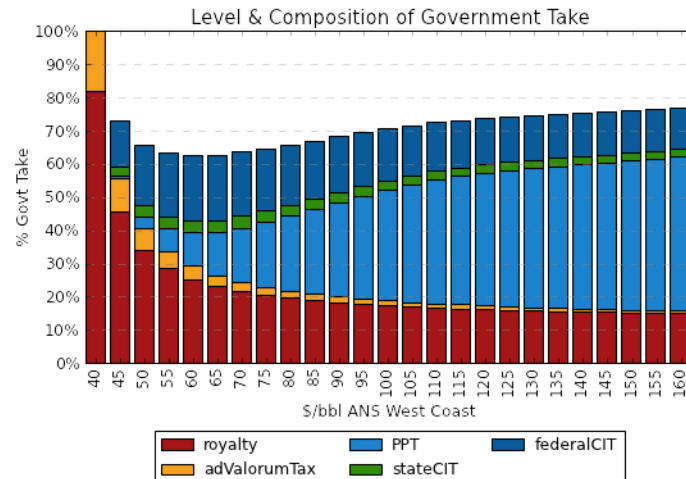
Taxable Production	50,000,000	50,000,000	50,000,000	50,000,000
ANS West Coast	60	80	120	140
Transportation	10	10	10	10
Gross Value at Point of Production	2,500,000,000	3,500,000,000	5,500,000,000	6,500,000,000
Lease Expenditures	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
GVPP/bbl	50	70	110	130
Lease Expenditures/bbl	30	30	30	30
PTV	1,000,000,000	2,000,000,000	4,000,000,000	5,000,000,000
PTV/bbl	20	40	80	100
Production Tax without Allowance	1,500,000,000	2,000,000,000	3,400,000,000	4,750,000,000
Production Allowance	250,000,000	250,000,000	250,000,000	250,000,000
Production Tax	1,000,000,000	1,750,000,000	3,150,000,000	4,500,000,000
Nominal Tax Rate	35%	35%	35%	35%
Rate after Allowance	10.0%	22.5%	28.8%	30.0%
Progressive Tax Rate Deduction	25.0%	12.5%	6.3%	5.0%

# Marginal and Average Rates



# ACES – Base Production

## ACES, 12.5% Royalty, Base Production



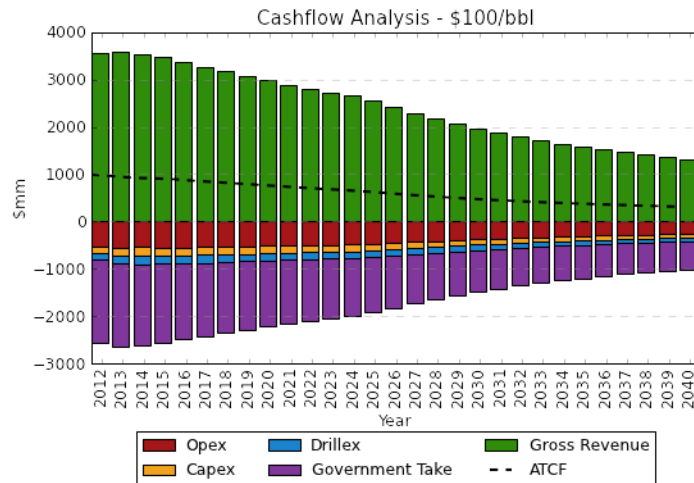
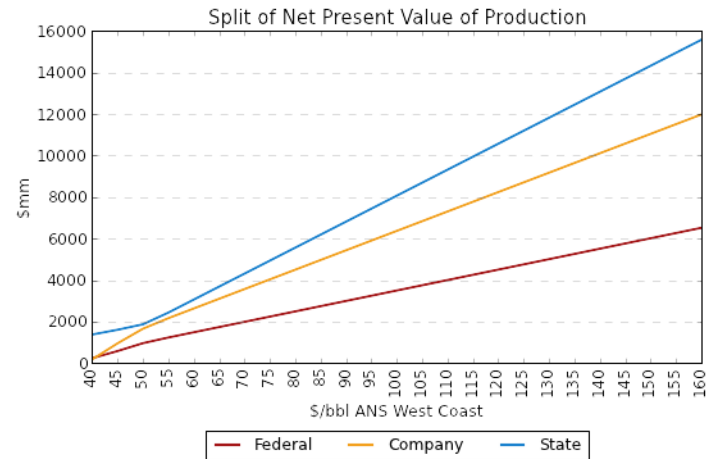
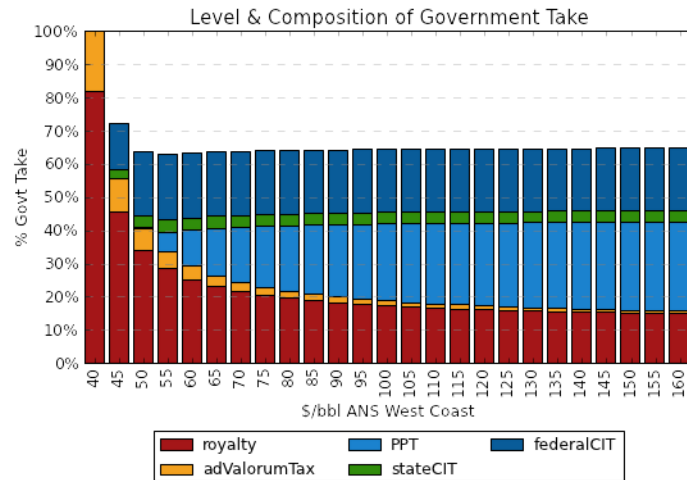
## Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	65.89%	4.18		19.04
\$100/bbl	70.65%	5.26		23.92
\$120/bbl	73.92%	6.0		27.09
\$140/bbl	75.46%	6.97		31.89

# SB21

## Base Production

SB 21, 12.5% Royalty, Base Production



Economic Summary

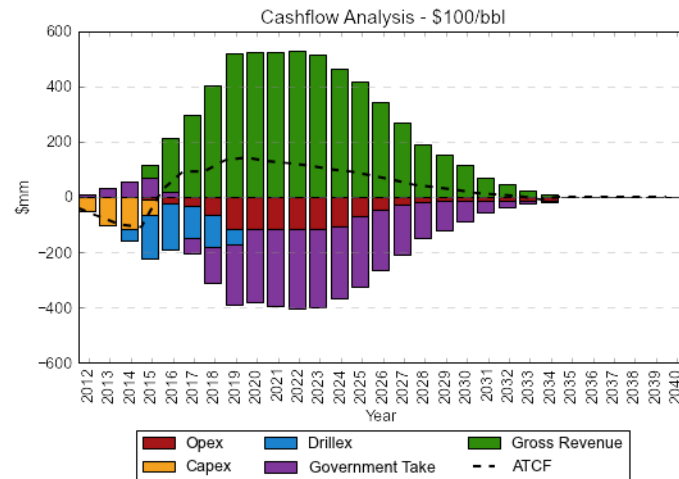
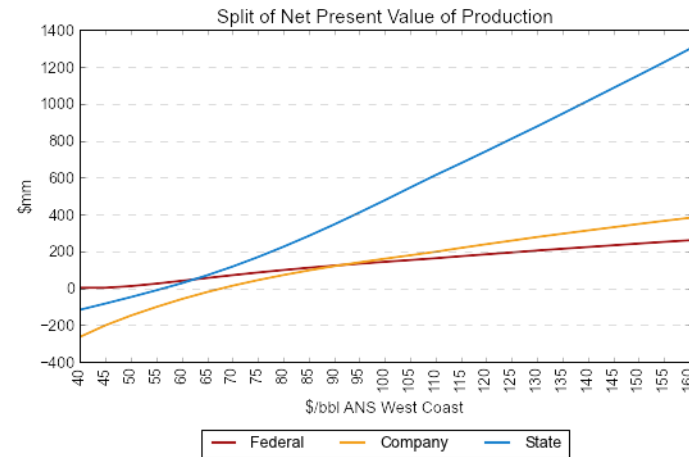
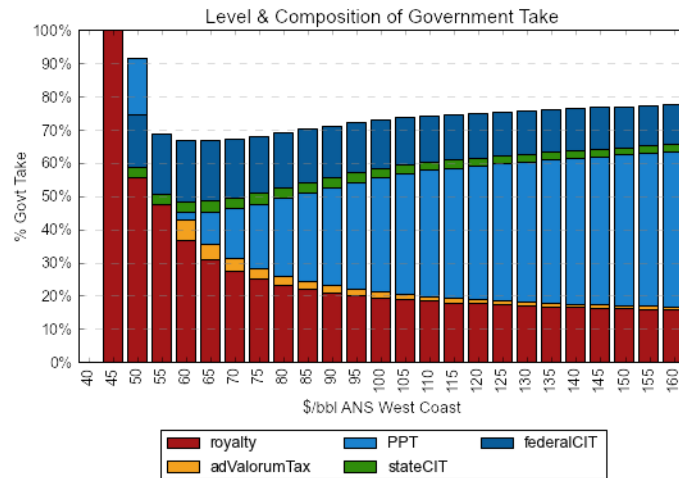
	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	64.22%	4.37		19.77
\$100/bbl	64.54%	6.18		28.11
\$120/bbl	64.71%	8.0		36.45
\$140/bbl	64.81%	9.82		44.78

# GRE increases the price level at which production tax, and 'progressivity', apply

Taxable Production		50,000,000	50,000,000	50,000,000	50,000,000
ANS West Coast		60	80	120	140
Transportation		10	10	10	10
Gross Value at Point of Production		2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000
Lease Expenditures		2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000
GVPP/bbl		50	70	110	130
Lease Expenditures/bbl	30	30	30	30	30
PTV before GRE		2,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000
Prod Tax without GRE		250,000,000	200,000,000	400,000,000	1,750,000,000
GRE	30%	250,000,000	1,050,000,000	1,650,000,000	1,950,000,000
PTV		250,000,000	150,000,000	2,350,000,000	3,050,000,000
PTV/bbl		20	40	80	100
Production Tax without Allowance		7,500,000	32,500,000	22,500,000	1,067,500,000
Production Allowance	\$ 0.00	250,000,000	250,000,000	250,000,000	250,000,000
Production Tax		-	2,500,000	72,500,000	17,500,000
Nominal Tax Rate	35%	35%	35%	35%	35%
Rate after Allowance and GRE		0.0%	4.1%	14.3%	16.4%
Progressive Tax Rate Deduction		35.0%	30.9%	20.7%	18.7%

# ACES - \$18/bbl New Development, Standalone

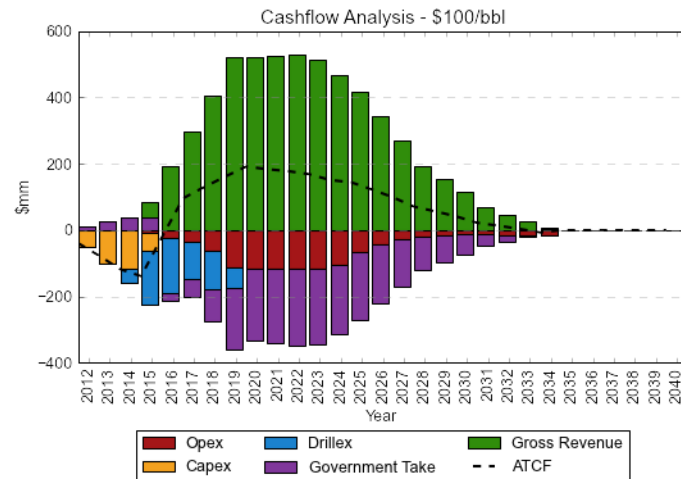
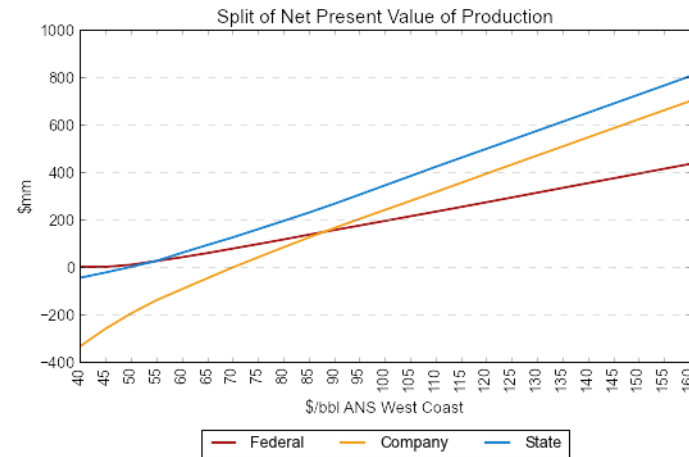
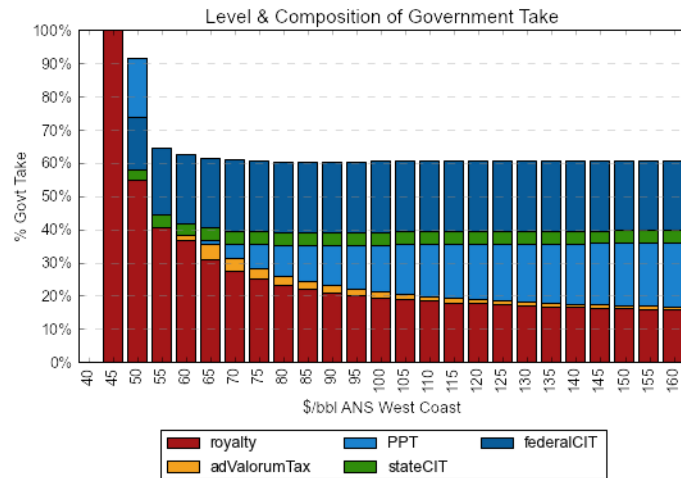
ACES, 12.5% Royalty, \$18/bbl New Development, Standalone



Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	69.25%	1.44	16.15%	22.21
\$100/bbl	73.03%	3.21	20.95%	27.06
\$120/bbl	75.13%	4.78	24.84%	30.63
\$140/bbl	76.52%	6.27	28.18%	34.71

SB21, 12.5% Royalty, \$18/bbl New Development, Standalone



Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	60.56%	1.67	15.83%	26.56
\$100/bbl	60.60%	4.83	22.23%	35.76
\$120/bbl	60.76%	7.89	27.63%	44.59
\$140/bbl	60.81%	10.95	32.47%	53.36

# Credits – NOL, Exploration & Small Producer

- Impact of ACES on project economics is very different for an incumbent vs a new producer
  - At current prices, incumbent experiences impact of ‘buydown’ effect, with new spending reducing tax rate from levels above 25% (plus also impact of capital credit)
  - New producer receives only impact of 25% NOL credit (plus capital credit)
- Fully monetizable NOL credit for small producers evens this playing field
  - All producers receive effective 35% government support for spending, whether new or incumbent
    - Flat, low marginal rate maintains strong incentive for efficiencies and cost control
    - No undue exposure to the state from higher cost projects at low prices
- Aim is to even the playing field and limit the level of support for exploration as well as other forms of spending
  - Allowing the Exploration credit to sunset, but having the fully monetizable 35% NOL credit means 35% government support for exploration spending
  - Again, even impact between incumbent vs new producer
- When the impacts of the system are even between incumbent vs new producer, strong argument that extending ‘small producer’ credit is less warranted
- Overall impact is to significantly simplify the system

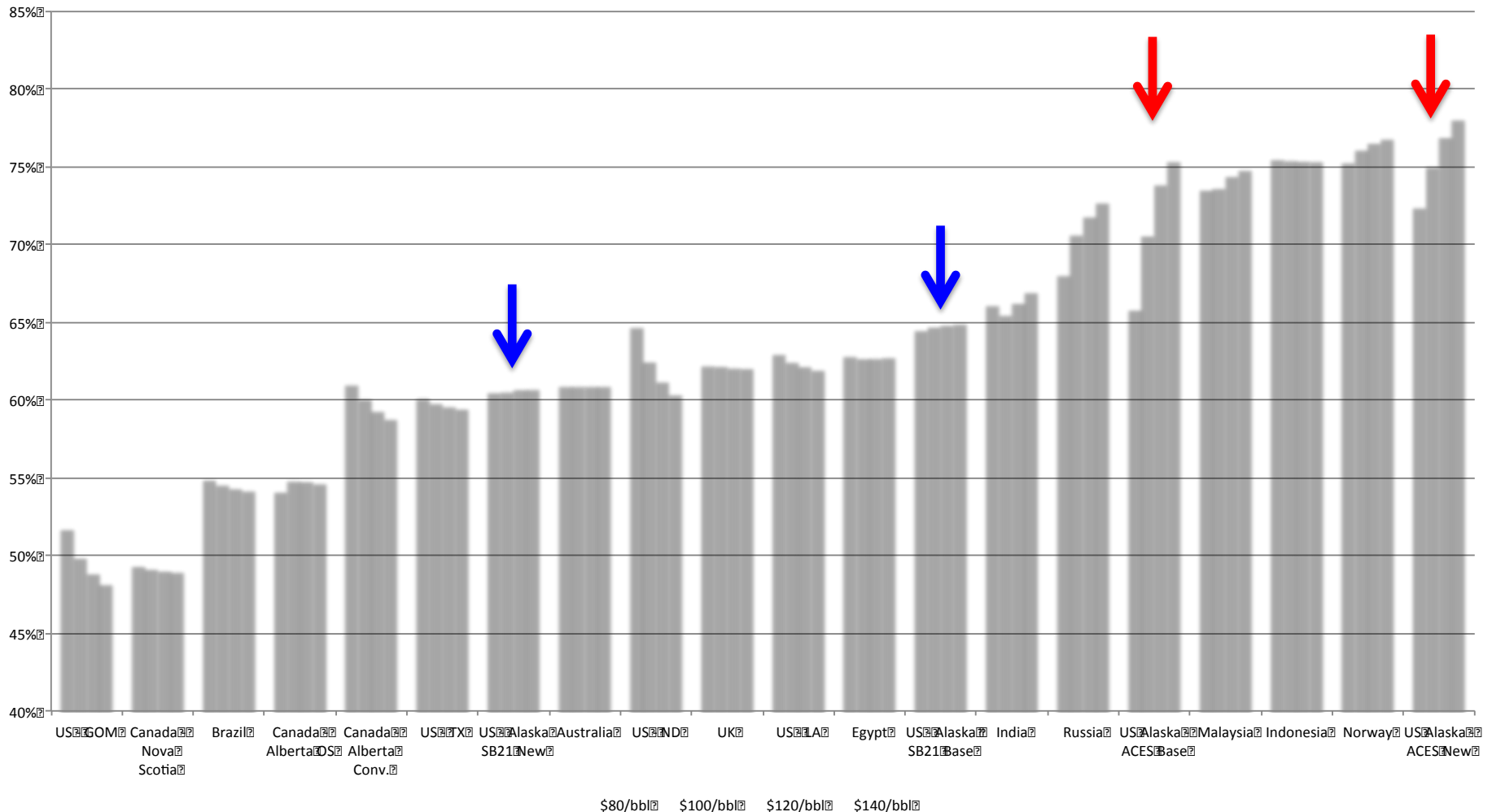


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# Government Take Competitiveness

Alaska Government Take Competitiveness Compared to Comparable Regimes



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