

Discussion Slides: Alaska Senate Finance Committee

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Difficulties in Existing Fiscal Structure

- The incorporation of progressivity into the Profit-Based Production Tax (Net) in ACES creates two significant problems
 - Large-scale gas production at low gas prices could in the future significantly reduce production tax revenue from existing oil production
 - Resolving this problem within the framework of ACES requires significant complexity
 - Approach to decoupling in CSSB 192 requires ability to split costs between oil and gas production, creating high degree of administrative burden, and limiting capacity of state to effectively audit
 - Options for incentivizing new production are limited, and relatively complex
 - Proposed incentives within existing framework focus on either allowances to reduce Production Tax Value , or revenue exclusions (tax holiday)

Summary of Progressive Severance Tax (Gross) Option

- A Progressive Severance Tax (Gross) option would instead remove progressivity from the Profit-Based Production Tax (Net), instead levying this tax at the flat, base rate of 25%
- To retain an element of progressivity, a new Progressive Severance Tax (Gross) would then be added to the system. The tax would:
 - Be non-deductible for Profit-Based Production Tax purposes
 - Be levied on gross production (net of royalties)
 - Be levied solely on oil
 - The tax would use a progressivity structure not dissimilar to that under the current system, with progressivity coefficients that apply at different thresholds. The optioned modeled here has the following parameters:
 - Base rate of 0%
 - Progressivity of .25% commencing at a threshold of \$65 (gross value at point of production)
 - At \$125 GVPP, a tax rate of 15% is reached. At this point, progressivity is reduced to 0.05%
 - Progressivity is capped 20%

Benefits of Progressive Severance Tax (Gross) Structure

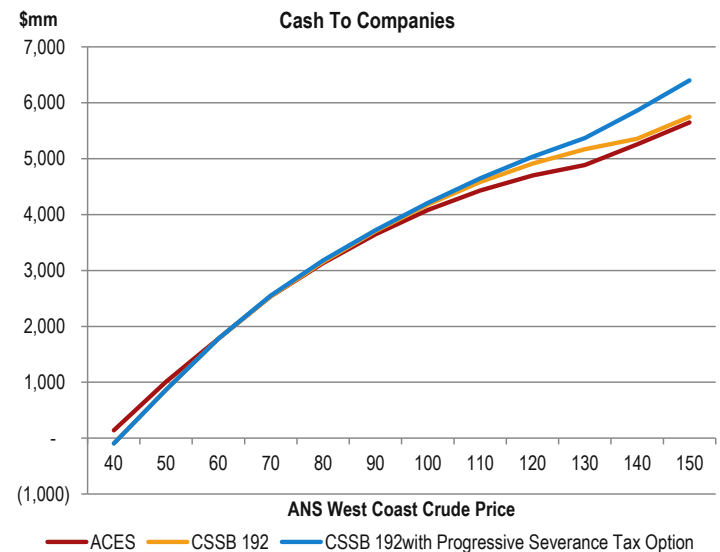
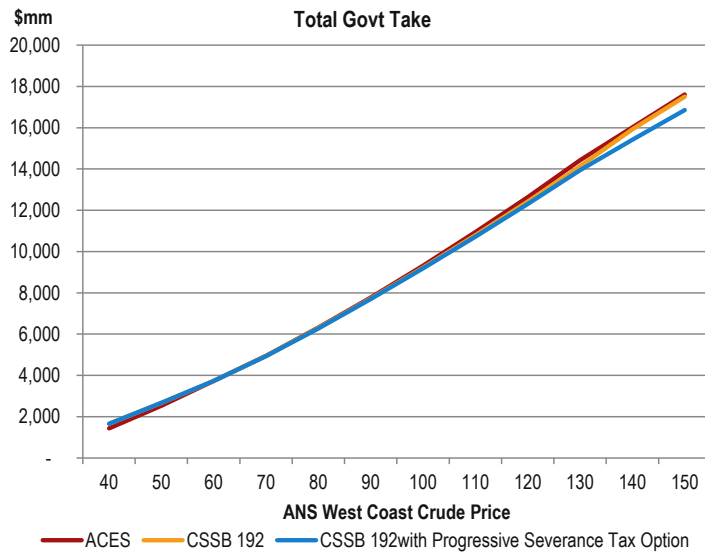
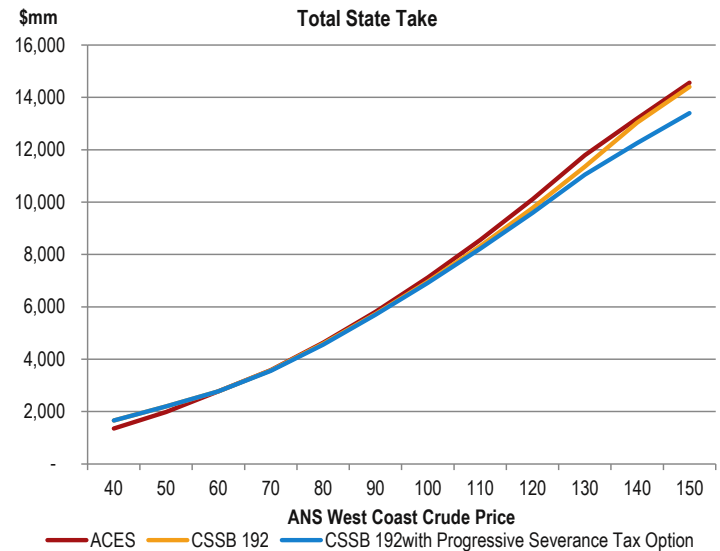
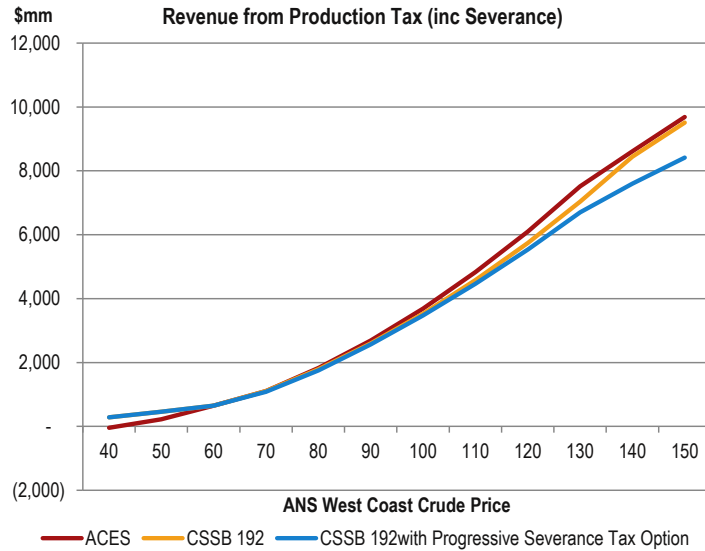
- By removing progressivity from the Profit-Based Production Tax (Net), and having the progressive element of the structure be a Progressive Severance Tax (Gross), two things become much easier to achieve
 - The issue of gas production reducing production tax revenue ceases to be a problem without progressivity in the Profit-Based Production Tax
 - Complex provisions to split costs between oil and gas production under CSSB 192 are thus no longer required
 - Significant incentives can be provided to new production, by eliminating or reducing the Progressive Severance Tax (Gross) for new production
- A wide range of levels of government take can be achieved using this structure, depending on the parameters applied

FY 2013 Revenue Comparison

	Production Tax			Total State Take			Total Government Take			Cash to Companies		
	ACES	CSSB 192	CSSB 192 with Progressive Severance Tax Option	ACES	CSSB 192	CSSB 192 with Progressive Severance Tax Option	ACES	CSSB 192	CSSB 192 with Progressive Severance Tax Option	ACES	CSSB 192	CSSB 192 with Progressive Severance Tax Option
40	(39)	289	289	1,352	1,660	1,660	1,427	1,660	1,660	139	(95)	(95)
50	222	461	461	1,983	2,202	2,202	2,527	2,669	2,669	1,010	868	868
60	653	653	653	2,769	2,769	2,769	3,728	3,728	3,728	1,780	1,780	1,780
70	1,109	1,106	1,084	3,577	3,575	3,555	4,943	4,941	4,929	2,536	2,538	2,551
80	1,831	1,792	1,754	4,631	4,595	4,560	6,318	6,294	6,272	3,133	3,157	3,179
90	2,692	2,599	2,571	5,811	5,725	5,699	7,775	7,719	7,703	3,648	3,703	3,720
100	3,691	3,527	3,474	7,117	6,966	6,918	9,314	9,216	9,184	4,080	4,178	4,209
110	4,827	4,575	4,463	8,549	8,318	8,215	10,935	10,785	10,718	4,430	4,581	4,647
120	6,102	5,744	5,538	10,108	9,781	9,592	12,638	12,425	12,302	4,698	4,911	5,034
130	7,515	7,035	6,700	11,794	11,354	11,047	14,424	14,138	13,939	4,884	5,170	5,370
140	8,614	8,445	7,598	13,192	13,037	12,261	16,023	15,922	15,417	5,257	5,357	5,862
150	9,684	9,512	8,417	14,563	14,406	13,402	17,604	17,502	16,849	5,647	5,749	6,402

ANS West Coast Oil Price

FY 2013 Revenue Comparison

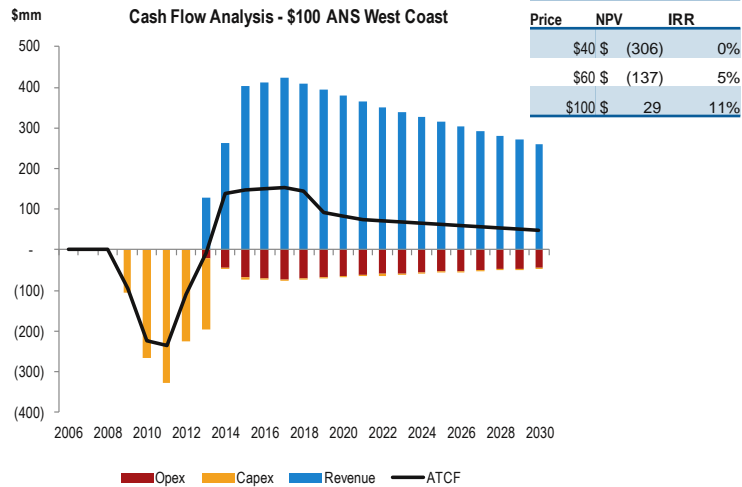


Incentives for New Production

- Significant incentives can be provided to new production, by eliminating or reducing the Progressive Severance Tax (Gross) on any combination of:
 - Production from new areas
 - Production from new plans of development (determined through the regulatory process to be for “new production”)
 - Production above a fixed decline rate
- Here, a reduced rate of Progressive Severance Tax has been modeled, using the following parameters for new production:
 - Base rate of 0%
 - Progressivity of .05% commencing at a threshold of \$65 (gross value at point of production)
 - Progressivity is capped 5%
- Following slides show a new, high-cost 10 mb/d development under
 - The regular rate
 - The reduced rate (with a time limit of 7 years)
 - The reduced rate (with no time limit)

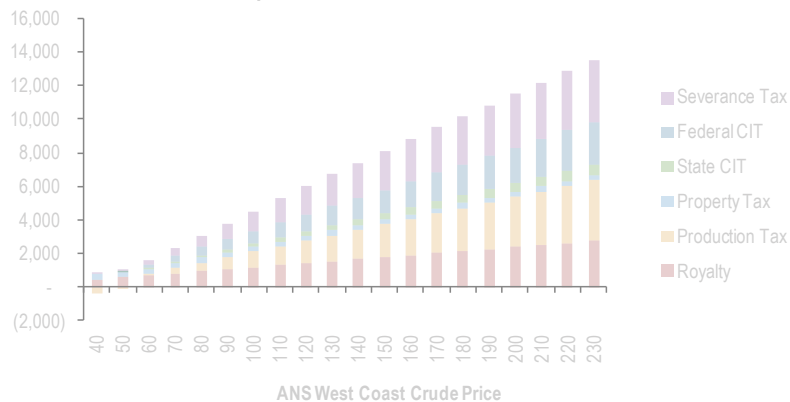
Severance Tax – 20% Maximum (New Producer)

Cash Flow Analysis - \$100 ANS West Coast

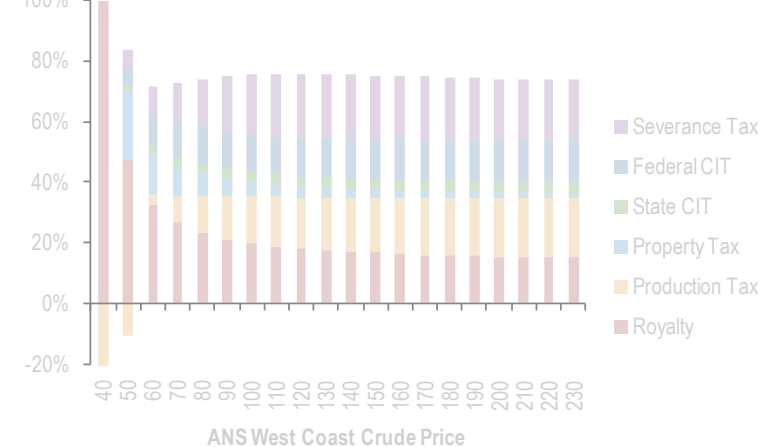


Price	Royalty	Severance Tax	Production Tax	Property Tax	State CIT	Local State Tax	Federal CIT	Local CIT
40	156%	4%	-115%	96%	0%	140%	0%	140%
50	47%	6%	-11%	23%	1%	67%	6%	73%
60	32%	9%	3%	13%	3%	61%	10%	71%
70	26%	13%	9%	9%	3%	61%	12%	73%
80	23%	16%	12%	7%	3%	62%	12%	74%
90	21%	18%	14%	6%	3%	63%	12%	75%
100	20%	20%	15%	5%	3%	63%	12%	75%
110	19%	21%	16%	4%	3%	63%	13%	76%
120	18%	21%	17%	4%	3%	63%	13%	76%
130	17%	22%	17%	3%	3%	63%	13%	76%
140	17%	22%	18%	3%	3%	63%	13%	75%
150	17%	22%	18%	3%	3%	62%	13%	75%
160	16%	21%	18%	2%	3%	62%	13%	75%
170	16%	21%	19%	2%	3%	62%	13%	75%
180	16%	21%	19%	2%	4%	61%	13%	75%
190	16%	21%	19%	2%	4%	61%	13%	74%
200	15%	21%	19%	2%	4%	60%	13%	74%
210	15%	20%	19%	2%	4%	60%	14%	74%
220	15%	20%	19%	2%	4%	60%	14%	74%
230	15%	20%	20%	2%	4%	60%	14%	74%

Level & Composition of Government Take

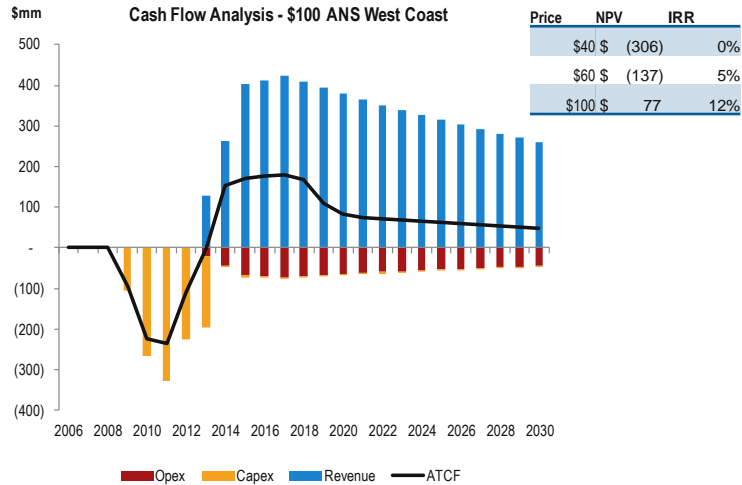


Level & Composition of Relative Government Take



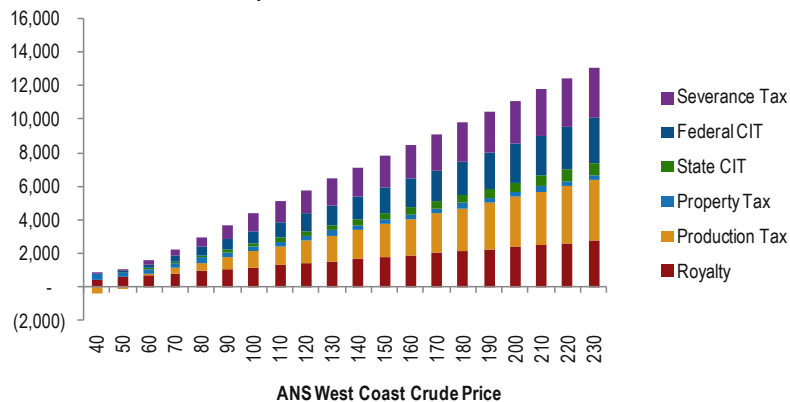
Severance Tax – 20% Maximum with first 7 years at a 5% maximum (New Producer)

Cash Flow Analysis - \$100 ANS West Coast

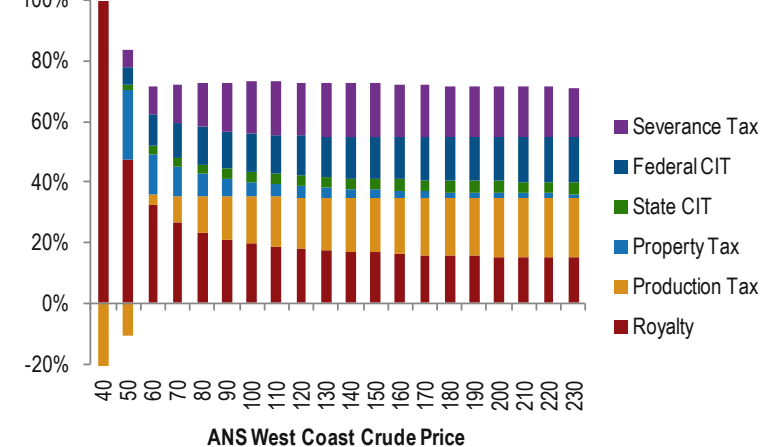


Price	Royalty	Severance Tax	Production Tax	Property Tax	State CIT	Total State Take	Federal CIT	Total GT
40	156%	4%	-115%	96%	0%	140%	0%	140%
50	47%	6%	-11%	23%	1%	67%	6%	73%
60	32%	9%	3%	13%	3%	61%	10%	71%
70	26%	12%	9%	9%	3%	60%	12%	72%
80	23%	15%	12%	7%	3%	60%	12%	73%
90	21%	16%	14%	6%	3%	61%	12%	73%
100	20%	17%	15%	5%	3%	60%	13%	73%
110	19%	18%	16%	4%	3%	60%	13%	73%
120	18%	18%	17%	4%	3%	60%	13%	73%
130	17%	18%	17%	3%	4%	59%	13%	73%
140	17%	18%	18%	3%	4%	59%	14%	73%
150	17%	18%	18%	3%	4%	59%	14%	72%
160	16%	17%	18%	2%	4%	58%	14%	72%
170	16%	17%	19%	2%	4%	58%	14%	72%
180	16%	17%	19%	2%	4%	57%	14%	72%
190	16%	17%	19%	2%	4%	57%	14%	71%
200	15%	17%	19%	2%	4%	57%	15%	71%
210	15%	16%	19%	2%	4%	57%	15%	71%
220	15%	16%	19%	2%	4%	56%	15%	71%
230	15%	16%	20%	2%	4%	56%	15%	71%

Level & Composition of Government Take

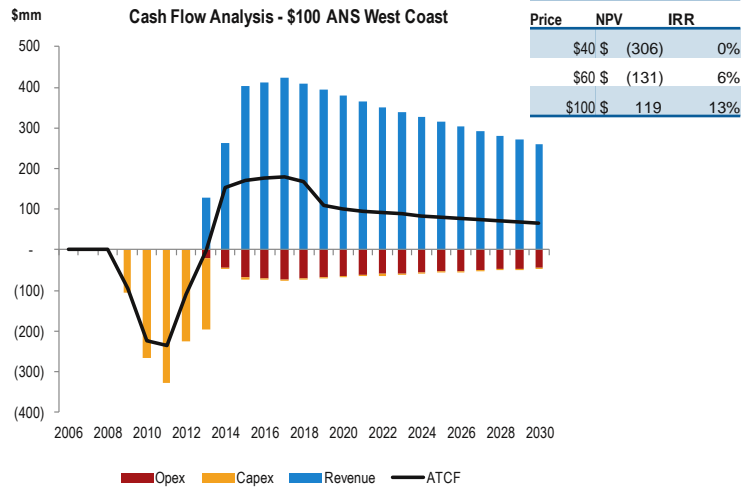


Level & Composition of Relative Government Take



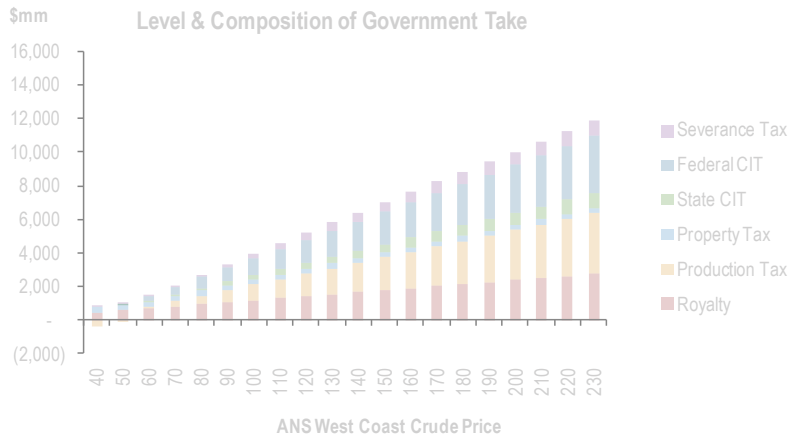
Severance Tax – 5% Maximum (New Producer)

Cash Flow Analysis - \$100 ANS West Coast

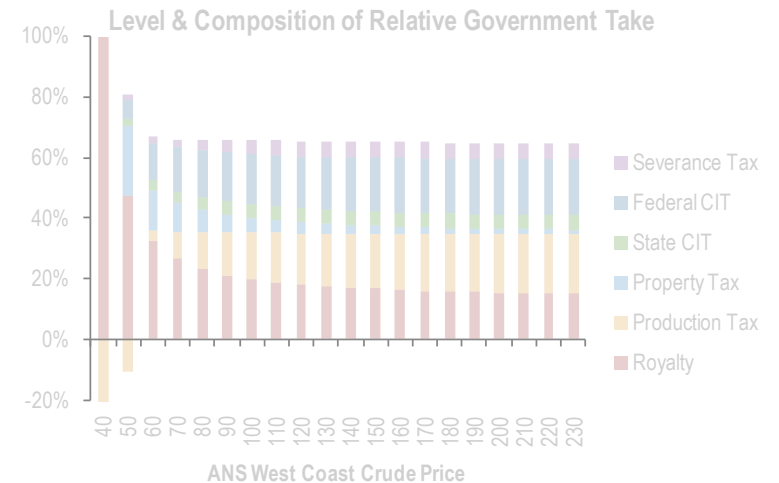


Price	Royalty	Severance Tax	Production Tax	Property Tax	State CIT	Total State taxes	Federal CIT	Total CIT
40	156%	1%	-115%	96%	0%	137%	0%	137%
50	47%	1%	-11%	23%	2%	63%	7%	69%
60	32%	2%	3%	13%	3%	54%	13%	67%
70	26%	3%	9%	9%	4%	51%	15%	66%
80	23%	4%	12%	7%	4%	50%	16%	66%
90	21%	4%	14%	6%	4%	49%	16%	66%
100	20%	5%	15%	5%	4%	49%	17%	66%
110	19%	5%	16%	4%	4%	49%	17%	66%
120	18%	5%	17%	4%	5%	48%	17%	65%
130	17%	5%	17%	3%	5%	48%	17%	65%
140	17%	5%	18%	3%	5%	48%	17%	65%
150	17%	5%	18%	3%	5%	47%	18%	65%
160	16%	5%	18%	2%	5%	47%	18%	65%
170	16%	5%	19%	2%	5%	47%	18%	65%
180	16%	5%	19%	2%	5%	47%	18%	65%
190	16%	5%	19%	2%	5%	46%	18%	65%
200	15%	5%	19%	2%	5%	46%	18%	65%
210	15%	5%	19%	2%	5%	46%	18%	65%
220	15%	5%	19%	2%	5%	46%	18%	65%
230	15%	5%	20%	2%	5%	46%	19%	64%

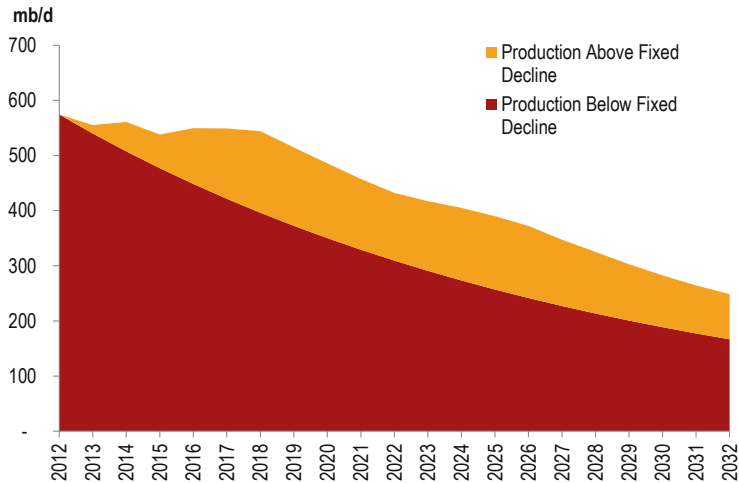
Level & Composition of Government Take



Level & Composition of Relative Government Take



20 Year Revenue Impact of Reduced Rate for New Production



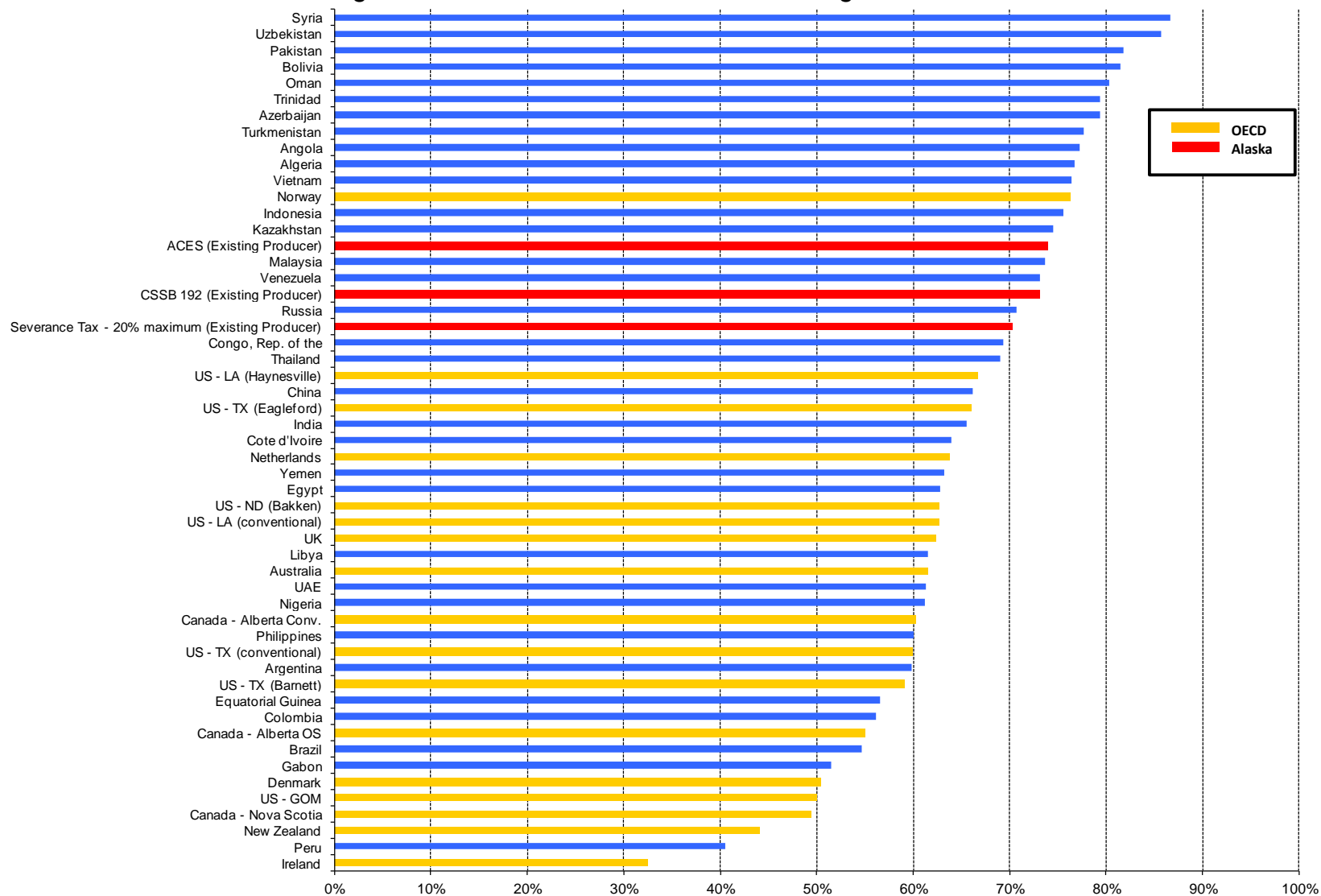
20 Year NPV of Cash Flows

	Production Tax		Total State Take		Total Government Tak		Cash to Companies	
	High Rate Only	Reduced Rate for New Production	High Rate Only	Reduced Rate for New Production	High Rate Only	Reduced Rate for New Production	High Rate Only	Reduced Rate for New Production
40	1,371	1,371	13,913	13,913	16,480	16,480	3,921	3,921
50	3,155	3,099	19,190	19,139	26,324	26,290	12,448	12,481
60	7,165	6,682	26,510	26,068	37,511	37,224	19,631	19,918
70	13,448	11,636	35,911	34,252	50,052	48,973	25,461	26,539
80	21,499	17,178	46,933	42,975	63,646	61,073	30,238	32,811
90	30,322	23,008	58,661	51,962	77,699	73,344	34,555	38,910
100	39,594	29,019	70,801	61,114	92,020	85,723	38,605	44,902
110	48,994	35,114	83,058	70,344	106,416	98,152	42,579	50,843
120	58,108	41,164	95,053	79,532	120,643	110,554	46,723	56,812
130	66,508	47,183	106,394	88,692	134,444	122,938	51,293	62,799
140	74,430	53,233	117,297	97,881	147,961	135,340	56,147	68,767
150	82,491	59,251	128,327	107,040	161,560	147,724	60,918	74,755

ANS West Coast Oil Price

Regime Competitiveness: Relative Government Take (Existing Production)

Average Government Take of Global Fiscal Regimes at \$100/bbl



Regime Competitiveness: Relative Government Take (New Development)

Average Government Take of Global Fiscal Regimes at \$100/bbl

