

# **Addendum 1A to “Policy Options for Alaska Oil and Gas”**

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**Presentation  
Alaska Senate Finance Committee**

*(Note: This Addendum 1A replaces the “Addendum”)*

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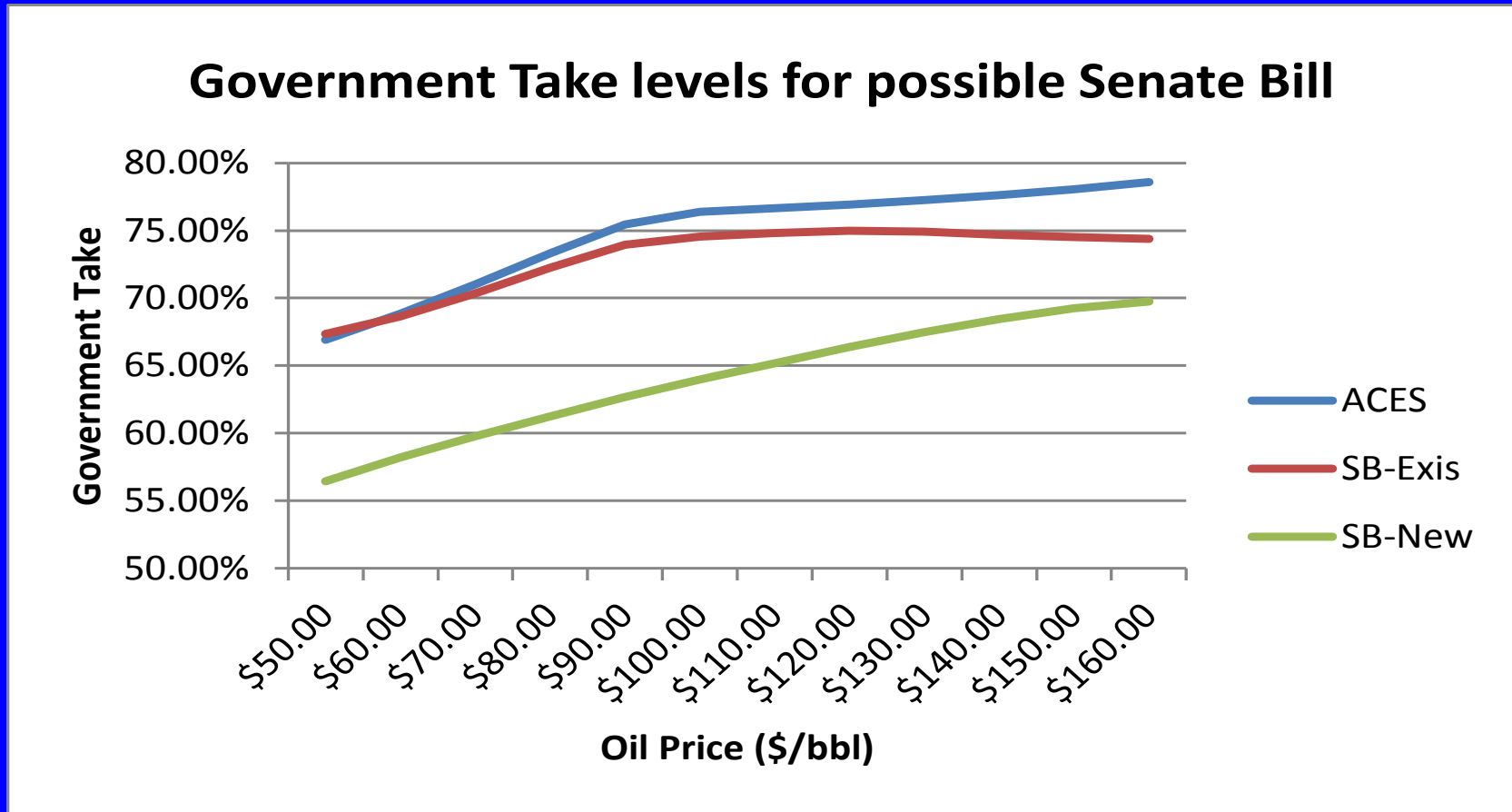
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## Possible Senate Bill

**If all the Senate wants to do is make minor modifications to ACES in order to create a better bill than HB 110, the following easy proposal would achieve these goals:**

- **Change the current ACES to:**
  - **0.35% per dollar increases to \$ 90 and thereafter 0.1% increases to a maximum additional rate of 25% at \$ 130 per barrel,**
- **Establish a 25% of gross revenues allowance for new oil production for the purposes of calculating PPT, and**
- **Limit tax credits to 20% on exploration and development.**

# Possible Senate Bill



**The results show that this achieves the recommended government take ranges at \$ 100 per barrel.**

# Possible Senate Bill

**This proposal would achieve the following improvements relative to HB 110:**

- **It does not create the “give away” on revenues from existing production as proposed under HB 110.**
- **It provides the same stimulus for new production as proposed under HB 110.**
- **It does not require ring fencing**
- **It solves four deficiencies of ACES:**
  - **excessive tax rates,**
  - **excessive price progressivity,**
  - **excessive exploration support,**
  - **the negative PPT issues**

## Possible Senate Bill

**The proposal would not achieve:**

- **Dealing with the nonsensical BOE cross subsidization and therefore, in case of any proposal by the major oil companies on a Pacific LNG project, the PPT would have to be significantly modified again to make such a proposal work,**
- **Creating an “architecture” to which new Alaska resources can be added, such as heavy oil, shale oil and natural gas,**
- **The stimulus of investment in heavy oil, oil shale or natural gas and thereby the achievement of the one million bopd goal.**

# Break down of Government Take in individual revenue items: Comprehensive Proposal-Existing Production

EXISTING PRODUCTION: PVM PROPOSALS FOR COMPREHENSIVE CHANGE							
GOVERNMENT REVENUE ITEMS IN AMOUNTS AND PERCENT OF DIVISIBLE INCOME FOR THREE FISCAL ALTERNATIVES (Undiscounted) (Real)(\$100 per barrel oil price)							
		ACES		HB-110 Existing		PVM Existing	
TOTAL OIL PRODUCTION	(MMbbls)	500		500		500	
TOTAL GAS PRODUCTION	(Bcf)	0		0		0	
TOTAL GROSS REVENUES	(MM\$)	47500		47500		47500	
TOTAL CAPEX	(MM\$)	7500		7500		7500	
TOTAL OPEX	(MM\$)	5000		5000		5000	
TOTAL DIVISIBLE INCOME	(MM\$)	35000		35000		35000	
BONUSES, RENTALS	(MM\$)	0	0.0%	0	0.0%	0	0.0%
ROYALTIES	(MM\$)	5938	17.0%	5938	17.0%	5938	17.0%
PETROLEUM PROFITS TAX	(MM\$)	13910	39.7%	8708	24.9%	5597	16.0%
PROPERTY TAX	(MM\$)	834	2.4%	834	2.4%	834	2.4%
MISC REVENUES AND SEVERANCE FEATURE	(MM\$)	18	0.1%	18	0.1%	5996	17.1%
CORPORATE INCOME TAX	(MM\$)	6034	17.2%	8171	23.3%	6993	20.0%
GOVERNMENT INCOME	(MM\$)	26733	76.4%	23669	67.6%	25358	72.5%

The PVM proposal at \$ 100 per barrel would be slightly under the ACES levels for existing production (please note that the petroleum profits tax and severance feature income are listed separately).

# Break down of Government Take in individual revenue items: Comprehensive Proposal-New Production

NEW PRODUCTION: PVM PROPOSALS FOR COMPREHENSIVE CHANGE							
GOVERNMENT REVENUE ITEMS IN AMOUNTS AND PERCENT OF DIVISIBLE INCOME FOR THREE FISCAL ALTERNATIVES (Undiscounted) (Real)(\$100 per barrel oil price)							
		ACES		HB-110 New		PVM New	
TOTAL OIL PRODUCTION	(MMbbls)	500		500		500	
TOTAL GAS PRODUCTION	(Bcf)	0		0		0	
TOTAL GROSS REVENUES	(MM\$)	47500		47500		47500	
TOTAL CAPEX	(MM\$)	7500		7500		7500	
TOTAL OPEX	(MM\$)	5000		5000		5000	
TOTAL DIVISIBLE INCOME	(MM\$)	35000		35000		35000	
BONUSES, RENTALS	(MM\$)	0	0.0%	0	0.0%	0	0.0%
ROYALTIES	(MM\$)	5938	17.0%	5938	17.0%	5938	17.0%
PETROLEUM PROFITS TAX	(MM\$)	13910	39.7%	7077	20.2%	5597	16.0%
PROPERTY TAX	(MM\$)	834	2.4%	834	2.4%	834	2.4%
MISC REVENUES AND SEVERANCE FEATURE	(MM\$)	18	0.1%	18	0.1%	1590	4.5%
CORPORATE INCOME TAX	(MM\$)	6034	17.2%	8842	25.3%	8804	25.2%
GOVERNMENT INCOME	(MM\$)	26733	76.4%	22708	64.9%	22762	65.0%

**The PVM proposal at \$ 100 per barrel would be equal to HB 110 for new production (please note that the petroleum profits tax and severance feature income are listed separately).**

# Break down of Government Take in individual revenue items: PVM proposal for modification of ACES

NEW PRODUCTION: PVM PROPOSALS MODEST ADJUSTMENT TO ACES							
GOVERNMENT REVENUE ITEMS IN AMOUNTS AND PERCENT OF DIVISIBLE INCOME FOR THREE FISCAL ALTERNATIVES (Undiscounted) (Real)(\$100 per barrel oil price)							
		ACES		PVM Existing		PVM New	
TOTAL OIL PRODUCTION	(MMbbls)	500		500		500	
TOTAL GAS PRODUCTION	(Bcf)	0		0		0	
TOTAL GROSS REVENUES	(MM\$)	47500		47500		47500	
TOTAL CAPEX	(MM\$)	7500		7500		7500	
TOTAL OPEX	(MM\$)	5000		5000		5000	
TOTAL DIVISIBLE INCOME	(MM\$)	35000		35000		35000	
BONUSES, RENTALS	(MM\$)	0	0.0%	0	0.0%	0	0.0%
ROYALTIES	(MM\$)	5938	17.0%	5938	17.0%	5938	17.0%
PETROLEUM PROFITS TAX	(MM\$)	13910	39.7%	12833	36.7%	6658	19.0%
PROPERTY TAX	(MM\$)	834	2.4%	834	2.4%	834	2.4%
MISC REVENUES AND SEVERANCE FEATURE	(MM\$)	18	0.1%	18	0.1%	18	0.1%
CORPORATE INCOME TAX	(MM\$)	6034	17.2%	6476	18.5%	9014	25.8%
GOVERNMENT INCOME	(MM\$)	26733	76.4%	26099	74.6%	22461	64.2%

The PVM proposal for a modest modification of ACES results in government revenues for Existing Production which are very similar to ACES.



# Discounted Government Revenues and Government Take – Comprehensive Change – Existing Production

EXISTING PRODUCTION: PVM PROPOSALS FOR COMPREHENSIVE CHANGE						
DISCOUNTED GOVERNMENT REVENUES AND GOVERNMENT TAKE FOR THREE FISCAL ALTERNATIVES						
(Real)(\$ 100 per barrel price)	Discount Rate		ACES	HB-110	PVM	
				New	New	
GOVERNMENT REVENUES	0% (MM\$)		26733	23669	25358	
	5% (MM\$)		10801	9516	10281	
	10% (MM\$)		4555	3986	4368	
GOVERNMENT TAKE	0% %		76.4%	67.6%	72.5%	
	5% %		78.3%	69.0%	74.5%	
	10% %		81.6%	71.4%	78.2%	

**ACES and proposals result in a modest difference between the discounted government take and undiscounted government take.**

# Discounted Government Revenues and Government Take – Comprehensive Change – New Production

NEW PRODUCTION: PVM PROPOSALS FOR COMPREHENSIVE CHANGE					
DISCOUNTED GOVERNMENT REVENUES AND GOVERNMENT TAKE FOR THREE FISCAL ALTERNATIVES					
(Real)(\$ 100 per barrel price)	Discount Rate		ACES	HB-110	PVM
				New	New
GOVERNMENT REVENUES	0%	(MM\$)	26733	22708	22762
	5%	(MM\$)	10801	9119	9175
	10%	(MM\$)	4555	3827	3861
GOVERNMENT TAKE	0%	%	76.4%	64.9%	65.0%
	5%	%	78.3%	66.1%	66.5%
	10%	%	81.6%	68.5%	69.2%

**ACES and proposals result in a modest difference between the discounted government take and undiscounted government take.**

# Discounted Government Revenues and Government Take – Modest change to ACES

NEW PRODUCTION: PVM PROPOSALS MODEST ADJUSTMENT TO ACES					
DISCOUNTED GOVERNMENT REVENUES AND GOVERNMENT TAKE FOR THREE FISCAL ALTERNATIVES					
(Real)(\$ 100 per barrel price)	Discount Rate		ACES	PVM Existing	PVM New
GOVERNMENT REVENUES	0%	(MM\$)	26733	26099	22461
	5%	(MM\$)	10801	10563	8979
	10%	(MM\$)	4555	4470	3733
GOVERNMENT TAKE	0%	%	76.4%	74.6%	64.2%
	5%	%	78.3%	76.6%	65.1%
	10%	%	81.6%	80.1%	66.9%

**ACES and proposals result in a modest difference between the discounted government take and undiscounted government take.**

## **Repsol Anecdote**

**Subsequent to providing the Repsol anecdote about the complexity of ACES to the Senate Finance Committee, I was contacted by DOR.**

**DOR has no record of questions being asked by Repsol. Furthermore, DOR is of the view that they have an efficient system in place to respond to questions.**

**I have promised DOR to see whether I can get further clarifications from my contacts in Repsol on this matter. Repsol is an important new investor in Alaska. Their experiences are therefore of importance to see what can be learned from this to better attract new investors.**