Our Duty To Maximize Alaska's Share

"The Legislature shall provide for the utilization, ***development and conservation of all natural resources*** belonging to the State, including land and waters, for the <u>***maximum benefit of its people***</u>."

Alaska Const. Art. VIII, Sec. 2.

ELF Exempted Blockbuster Fields

Field	Rank Among U.S. 100 Largest Fields	Annual Production (barrels)	FY ’06 Production Tax Rate
Kuparuk	**2nd** largest in U.S.	51,100,000	0.81 %
Milne Point (Milne Point Unit)	**13th** largest in U.S.	9,490,000	0 %
Endicott (Duck Island Unit)	**27th** largest in U.S.	8,395,000	0 %
West Sak (Heavy oil) (Kuparuk River Unit)	**39th** largest in U.S.	10,950,000	0.075 %
Tarn (Kuparuk River Unit)	**67th** largest in U.S.	8,030,000	0 %
Niakuk (Lisburne Prod. Unit)	**93rd** largest in U.S.	2,920,000	0 %
Meltwater (Kuparuk River Unit)	**94th** largest in U.S.	4,015,000	0 %

** Prudhoe Bay aggregated fields included Polaris (57th), Orion (83rd), Borealis (44th) and Pt. McIntyre (28th)

A Little History

- In **2006**, the legislature overhauled the state's outdated oil and gas tax system.
- Under the old system, called "ELF," **15 out of 19 oil fields on the North Slope paid no production tax at all**.

Production Declines Before ACES

ACES passed November 2007

- 5.78 percent a year from 1998-2007
- 8.72 percent a year from 2004-2007

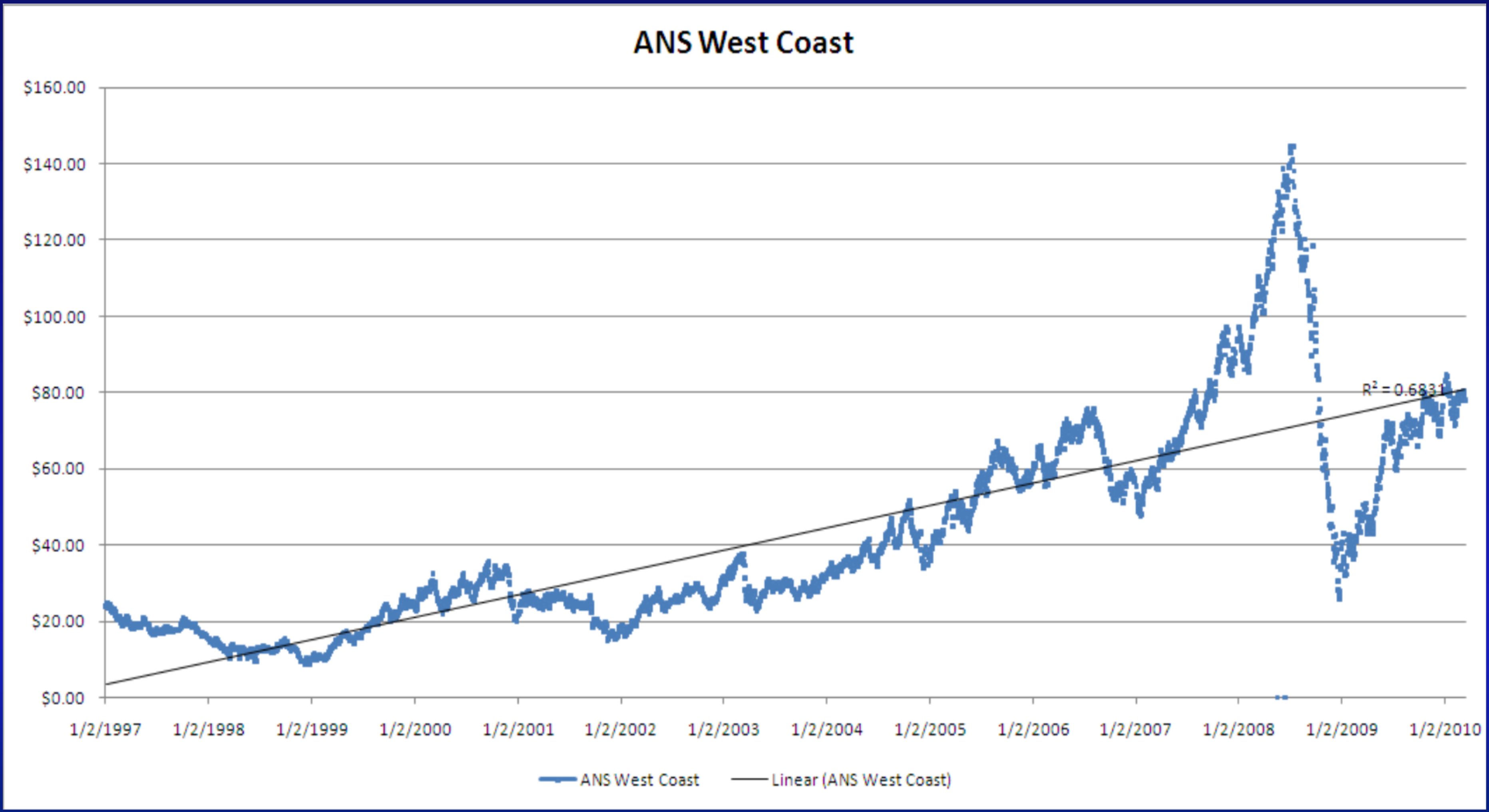
Total North Slope Production, FY 98– FY 07

(million barrels per day)

fy 1998	*fy 1999*	*fy 2000*	*fy 2001*	*fy 2002*	*fy 2003*	*fy 2004*	*fy 2005*	*fy 2006*	*fy 2007*
1.279	1.170	1.033	0.993	1.010	0.991	0.974	0.911	0.840	0.740

SOURCES: "Production C-2a: Crude Oil Production –History," *Revenue Sources Book,* Fall 2007, Fall 2008, Fall 2009, Tax Division, Department of Revenue.

Production Fell With Low Taxes and Vastly Increasing Oil Prices



Under the Governor's Proposal, Alaska will Lose Billions

- The Governor's bill will lower taxes significantly , costing Alaskans an estimated $8.2 billion over the next five years.
- If the Governor's bill passes, Alaska's actual production tax rate will be between 15% and 25% on industry profits at today's prices.

Governor Parnell has Claimed his $8 Billion Tax Break will Lead to "New Exploration"

Dale Pittman, Exxon Mobil, Alaska Production Manager

Testimony to the House Finance Committee Spring 2011

Gara: **“…can you tell me how many exploration wells Exxon has drilled on the North Slope in the last 10 years?”**

Pittman: **“…I think the answer is zero.”**

Gara: **“…why should we believe that reducing taxes is going to cause you all of a sudden to do your first exploration well since 1992?”**

Pittman: **“I can’t promise you it would lead to increased exploration.”**

Claire Fitzpatrick, BP Exploration Alaska, CFO

Testimony to the House Finance Committee Spring 2011

Gara: **"…BP doesn't do what was referred to as traditional exploratory wells…?"**

Fitzpatrick: **"If your question was are we intending to do more exploration, it is not in my current plan."**

ACES

“Oppressive”
to Oil Companies?

ConocoPhillips

Alaska Net Income

(in billions)

‘07: $2.255

‘08: $2.315

‘09: $1.540

‘10: $1.735

$500,000+ In Most recent Qu

arter

$7.8 billion in profit under ACES

Source: ConocoPhillips Annual Report

BP

Alaska Net Income

(in billions)

‘07: $2.475

‘08: $1.955

‘09: $1.896

‘10: $2.27

(minus$1.5 billion in ‘10 deducted for non-Alaska costs, such as the Gulf spill)

$8.5 billion in profit under ACES

Source: BP Annual Report

EXXON refuses to reveal income statements, but testified that their Alaska profits were similar to BP and Conoco.

Let’s take the 2 fibs off the table

Jobs are **up** not down

Oil and Gas Employment

2006: **10,100**

2007: **11,500**

2008: **12,800**

2009: **12,900**

2010: **12,800**

9/2011: **13,700**

SOURCE: Alaska Department and Workforce Development Research and Analysis

New Jobs are *Production* Related. Not *Maintenance* Related.

In 2010, the Parnell Administration examined this issue. The following slide was presented by the Administration to the Legislature in February 2010.

Are the Increasing Spending Levels due to Maintenance Costs?

CAPEX- Capital expenditures ("CAPEX") on pipeline repairs at Prudhoe Bay increased after corrosion incidents in 2006. However, the majority of growth in capital expenditures since 2007 is attributable to drilling, seismic and other production related projects.

OPEX - Since 2007, the proportion of total operating expenditures ("OPEX") related to major repairs does not appear to be the key driver in the growth of total operating expenditures

We can do better, but how?

Lowering the tax rate?

Allows companies to take their profits outside.

That's been Alaska's history.

Remember the 0% ELF.

Incentives Forcing Alaska Investment: Cheaper, and Keeps Money in Alaska

My Bill 231:

- Governor Parnell Wants Exploration in New Fields: I Offer a 50% Tax credit for new Exploration. He doesn't.
- I offer a tax credit for companies that increase their 3 year average of well-related investments.
- It's all about PROCESSING FACILITIES: The cost makes a modest field uneconomic. New processing facilities bring new fields on line. I offer a 50% credit for building a new processing facility.

Dedicate Alaska's Money to New Production.

Not Company Discretion To Take Money Outside.

Tax Reduction:
Get It When You Prove You Need It

- Royalty relief:

  Alaska law reduces Company Royalty Payments if companies “prove” they need lower taxes to make a field “economic.” This has been used on new fields Nikiachuk and Ooogaruk.

Is ACES Really the Problem?

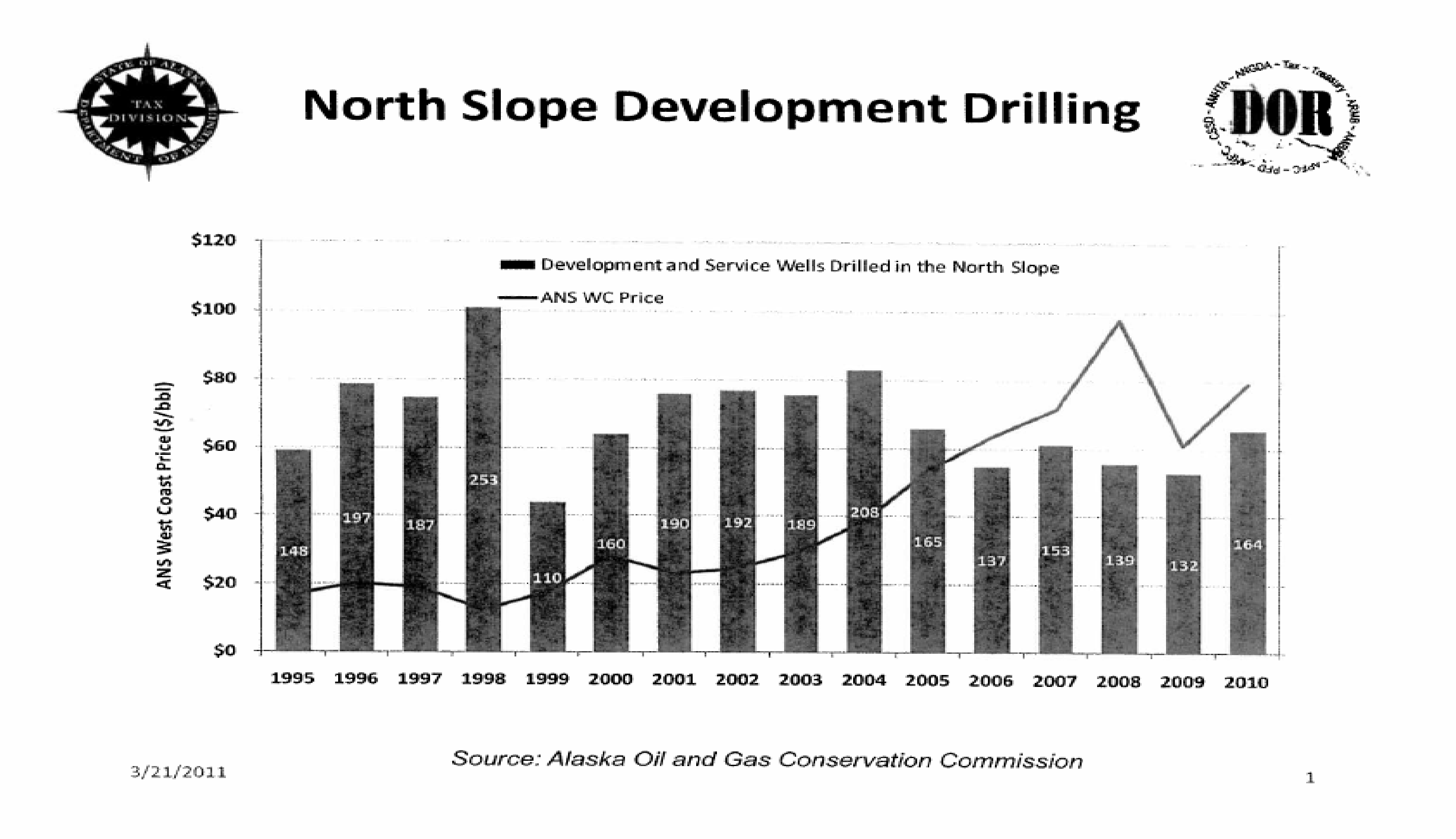
Conoco has Announced it has Development Plans for NPR-A – Under ACES. The blockage was the Army Corp of engineers Decision to Block a needed bridge. Not ACES.

Other Exploration-

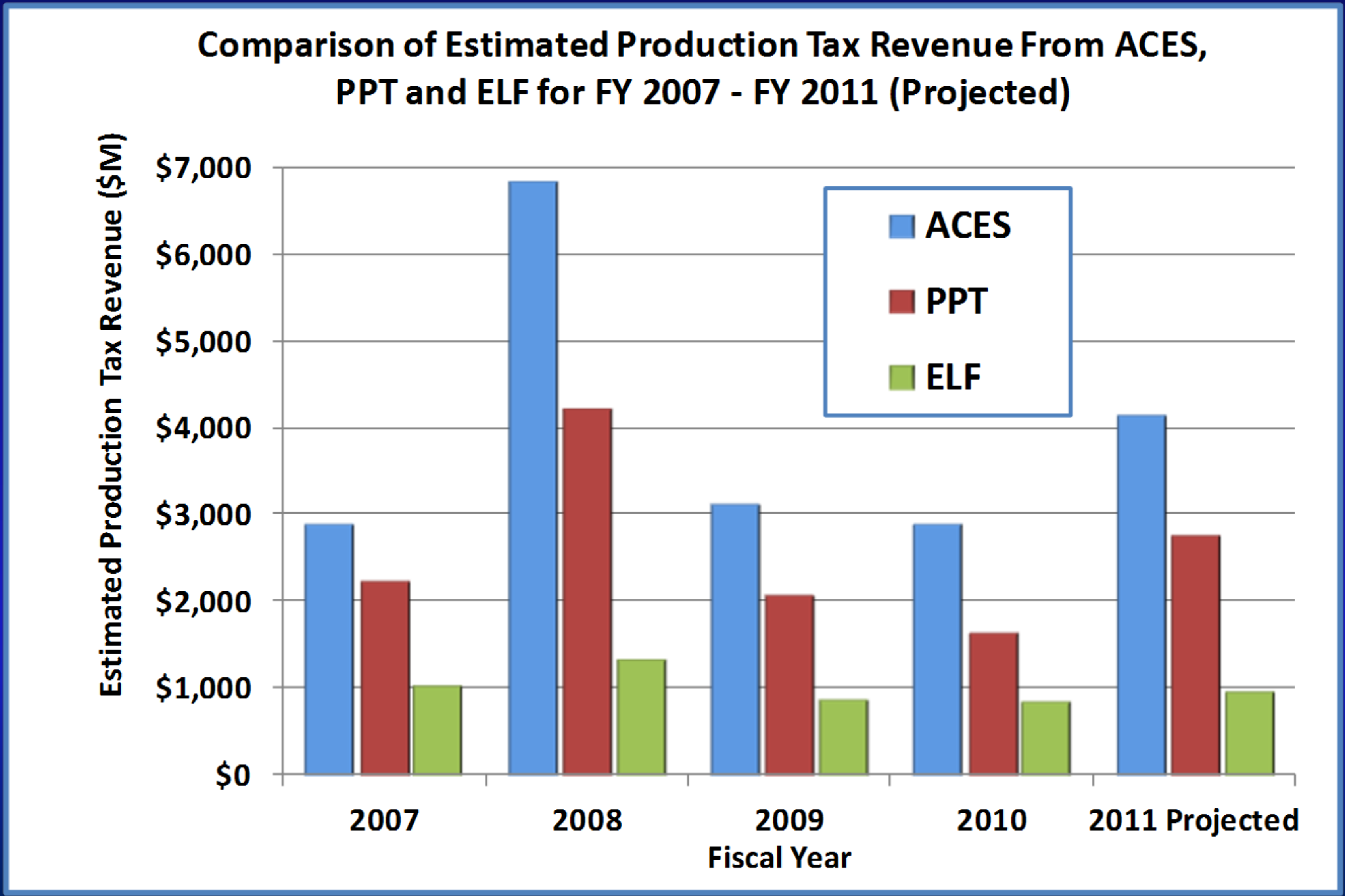
August Petroleum News: 2011-12 Winter Likely To be *Busiest Exploration Year Since 1969*:

- Spanish oil giant Repsol has purchased 157 North Slope and Beufort Sea leases, and announced plans to use 5 rigs to drill up to 15 wells.
- Linc Energy has announced plans to drill 4 wells with one rig at the Umiat field.
- Great Bear has announced 3 or more wells with a rig on a half million acres of leases it owns.
- Brooks Range Petroleum is aiming at 2 new wells near the existing Tarn field.
- UltraStar is shooting for one rig, and directional wells on the North Slope.

Development wells are at the highest level since 2006



ACES has generated about $15 billion more than ELF would have.



Alaska's Taxes: Fair or Excessive?

- Some critics of ACES talk about tax rates as high as 90%.
- However, in the 4 years since PPT and ACES passed, the average production tax rate has been 32%, according to the Parnell Administration. This is before generous tax credits are factored in, lowering taxes significantly.

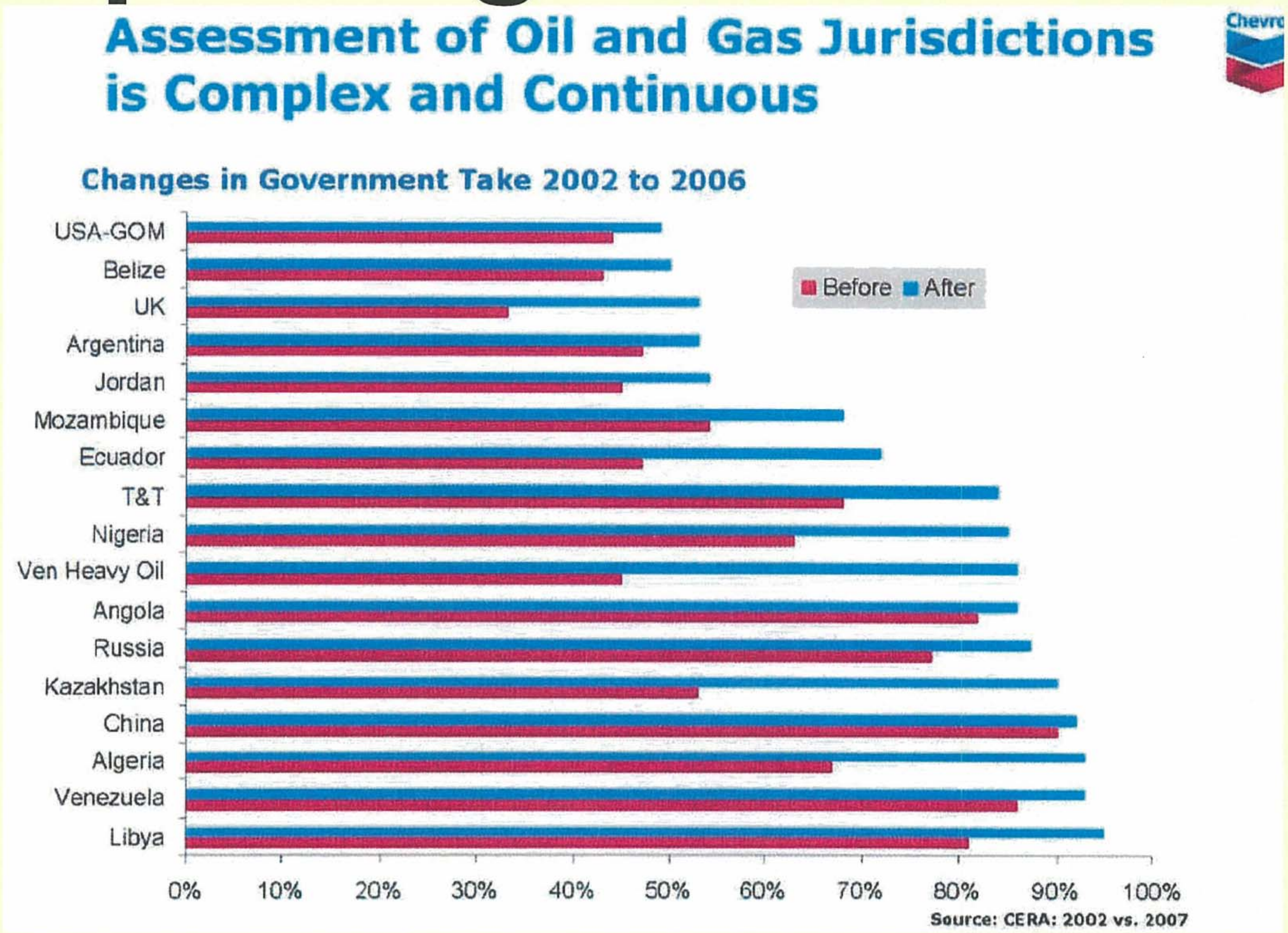
Calculating Tax Rates under ACES

No production taxes are paid until a profit is made. It costs about $26 to get a barrel of oil out of the ground and to market. The base tax rate is 25%. After $30 of profit, .4% is added for every dollar increase per barrel.

What is the Tax Rate Elsewhere?

- **Is this multi-billion dollar reduction necessary or reasonable?**
- How do our taxes compare with taxes in other world class oil basins?

Capturing "Fair Share"



Source: Report of the Alberta Royalty Review Panel, "Our Fair Share", page 29.

2011 Government Take

(approximate percentages)

- Iraq: 98%
- Bolivia: 97%
- Angola PSC: 96%
- Trinidad & Tobago: 95%
- Argentina: 94%
- Venezuela: 92%
- Nigeria PSC: 89%
- Indonesia PSC: 89%
- Egypt: 83%
- Norway: 79%
- Alaska: 78%
- Columbia: 72%
- Netherlands: 72%
- Alberta: 68%
- Australia: 62%
- Newfoundland: 56%
- Gulf of Mexico: 55%
- Texas: 53%
- NW: 49%
- Brazil: 46%
- Peru: 35%

*This slide omits Great Britain and the UK because they have raised taxes in the past year. The approximate change has been from 50% to 62%, and to over 80% for pre-1993 discovered legacy/large fields.

Question 1: Fiscal Terms

1: Encourages investment
2: Is not a deterrent to investment
3: Is a mild deterrent to investment
4: Is a strong deterrent to investment
5: Would not invest due to this criterion

Response	1	2	3	4	5
Canada					
Alberta	22%	36%	31%	9%	2%
British Columbia	42%	43%	16%	0%	0%
Manitoba	48%	52%	0%	0%	0%
Newfoundland & Labrador	24%	38%	35%	3%	0%
Northwest Territories	23%	45%	18%	14%	0%
Nova Scotia	34%	50%	9%	6%	0%
Ontario	11%	72%	17%	0%	0%
Quebec	35%	50%	15%	0%	0%
Saskatchewan	59%	37%	3%	0%	0%
Yukon	25%	58%	17%	0%	0%
USA					
Alabama	43%	43%	14%	0%	0%
Alaska	40%	34%	17%	6%	3%
Arkansas	44%	44%	13%	0%	0%
California	12%	31%	26%	26%	5%
Colorado	26%	36%	31%	5%	2%
Florida	9%	9%	27%	45%	9%
Illinois	50%	38%	13%	0%	0%
Kansas	29%	47%	18%	6%	0%
Kentucky	43%	29%	29%	0%	0%
Louisiana	45%	45%	11%	0%	0%
Michigan	36%	36%	27%	0%	0%
Mississippi	50%	35%	10%	5%	0%
Montana	36%	33%	27%	3%	0%
New Mexico	38%	27%	23%	12%	0%
New York	12%	35%	35%	12%	8%
North Dakota	48%	34%	17%	0%	0%
Ohio	11%	67%	22%	0%	0%
Oklahoma	43%	49%	9%	0%	0%
Pennsylvania	19%	45%	32%	3%	0%
South Dakota	44%	44%	11%	0%	0%
Texas	59%	36%	5%	0%	0%
Utah	48%	43%	10%	0%	0%
West Virginia	42%	25%	33%	0%	0%

FISCAL TERMS - government requirements pertaining to royalty payments, production shares, and licensing fees.

According to the Alaska Department of Natural Resources:*

- **"Alaska is successfully encouraging investment from companies that are new to the state, with the number of petroleum companies doing business in the state almost doubling from 2006 to 2008."**
- **"Legacy producers on the North Slope are investing in their own assets, leaving room for new players…"**

"Alaska: We're Open for Business!"

*State of Alaska ad in the Petroleum News

Both operating and capital spending are up since ACES went into effect

	FY2007	FY2008	FY2009	FY2010
Operating Expenditures (million $)	2,081	1,881	2,085	2,270
Capital Expenditures (million $)	1,578	1,967	2,212	2,389
Total Capex/Opex (million $)	**3,659**	**3,848**	**4,297**	**4,659**

Source: Revenue Source Books, Alaska Department of Revenue - Fall 2007, Fall 2008, Fall 2009 and Fall 2010

And investment is forecast to increase this year and next.

	FY2011 Forecast	FY 2012 Forecast
Operating Expenditures (million $)	2,553	2,558
Capital Expenditures (million $)	2,572	2,937
Total Capex/Opex (million $)	**5,125**	**5,495**

Source: Revenue Sources Book, Alaska Department of Revenue, Fall 2010

Stimulating investment

- ACES encourages new investment through tax credits and deductions for exploration and development.
- According to Parnell Administration consultants, these credits and deductions are among the most generous in the world.
- Alaska has paid out over $2 billion in tax credits since ACES passed.

More companies doing business

- In 2006, the first year that tax filings were made under the net profit tax, **19** companies filed annual returns.

- In 2007, this grew to **26**.

- In 2008, it grew to **36**, and in 2009, **39** companies filed returns.

Recent News

- In early March, the large Spanish oil company Repsol announced plans to begin exploring in Alaska next winter.
- The company hopes to spend at least $768 million under a "broad-reaching exploration and development program."
- "The North Slope of Alaska is an especially promising area for Repsol as it has already shown to be oil-rich and carries low exploratory risk," Repsol said.

The North Dakota Example: Apples and Oranges?

It’s an overheated economy with overheated wages.

The Minneapolis StarTribune reported on October 17, 2011: “Recruits from Minnesota, Texas and both coasts keep arriving.”

“With oil companies paying top dollar to the new onslaught of workers they need --- doling out average salaries of $70,000, and more than $100,000 including overtime – other businesses are boosting their pay to compete…. You can make at least $1,000 a week more here than anywhere else in the country.” – CNN.COM, 9/28/2011

And – Why The Boom: It’s Not The Tax Rate:

According to a 2011 Alaska *Division of Legislative Research* Report:

The ***recent growth in exploration and production was spawned by technological advancements in horizontal well drilling and hydraulic fracturing*** (“fracking”) techniques . . . . . In light of the above information, ***claims that petroleum industry investment in North Dakota***, at the expense of such investment in Alaska, is ***occurring primarily due to differences in tax structure appear to be problematic. To the contrary***, it is clear that the rapid expansion of oil and gas production in North Dakota was initiated by advances in oil recovery technologies.

What do others think?

- From 12/20/2009 Petroleum News:

- **“Parnell also said that he has already discussed ACES with 10 oil companies. Of those, he said, “four to five” thought the tax system was “just fine,” while “two or three” thanked the state for the tax credit program, and two companies wanted to see ACES changed.”**

Conclusions

- Under ACES, investment and jobs are at all-time highs, the number of companies doing business has doubled, and profits are strong.