



Creating Opportunities for Alaskans

A Comparison of the MAP Act (SB 21) to ACES

February 10, 2014

Department of Revenue

Michael Pawlowski
Deputy Commissioner

*Revenues from oil production provide
~90% of unrestricted state revenues
and half of Alaska jobs.*



Sources:

1. UGF Revenues : Fall 2013 Revenue Sources Book pages 94-95 (December 4, 2013)
2. Jobs: Institute of Social and Economic Research, Alaska's Economy: The Challenge Ahead (September 24, 2013)

Why reform oil taxes?

Oil taxes were reformed because of:

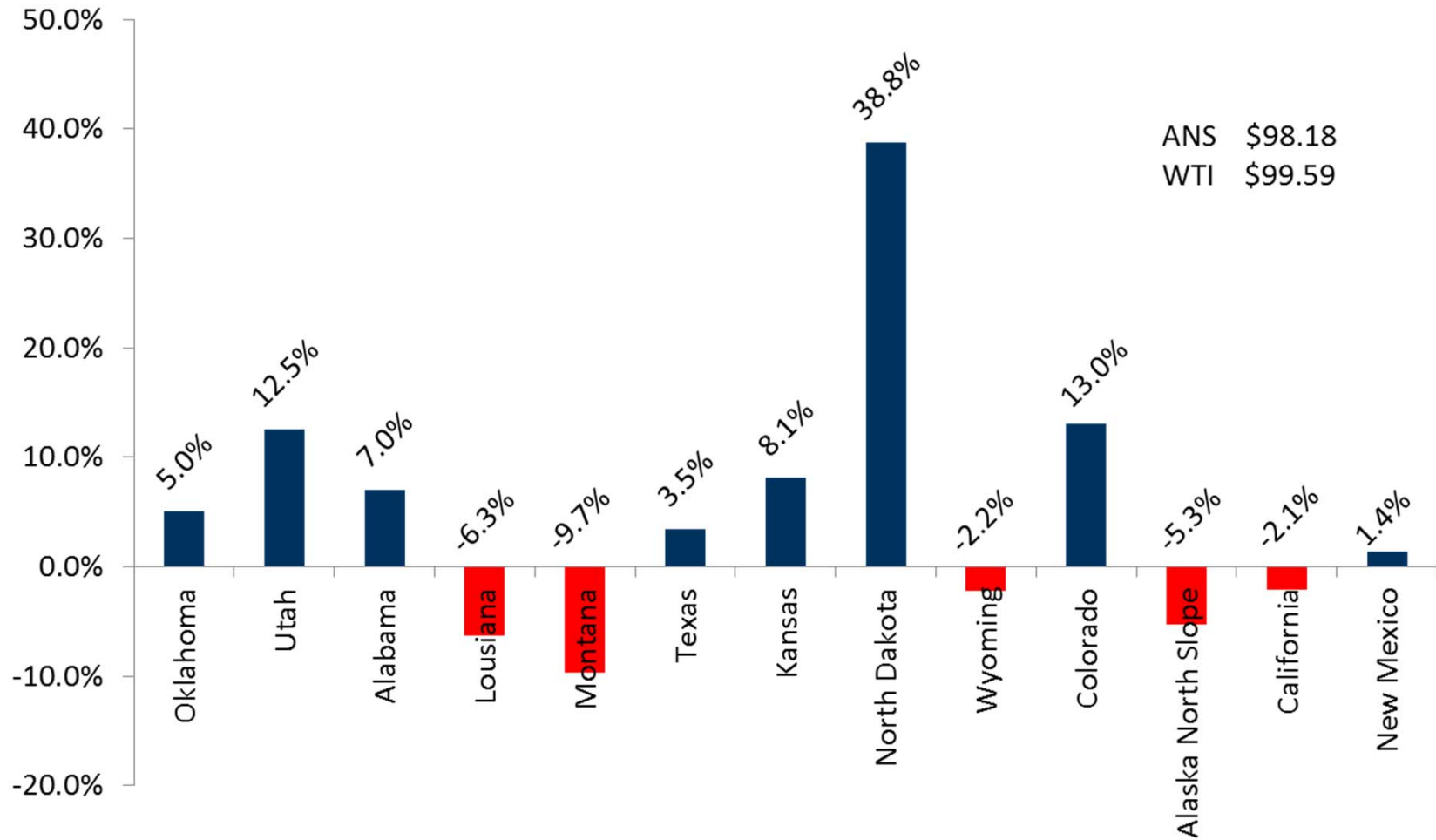
1. Declining production.
2. Comparatively low investment.
3. Declining opportunities for Alaskans.

Governor Parnell's Principles:

1. Fair to Alaskans.
2. Simple and balanced.
3. Encourage production.
4. Durable for the long term.

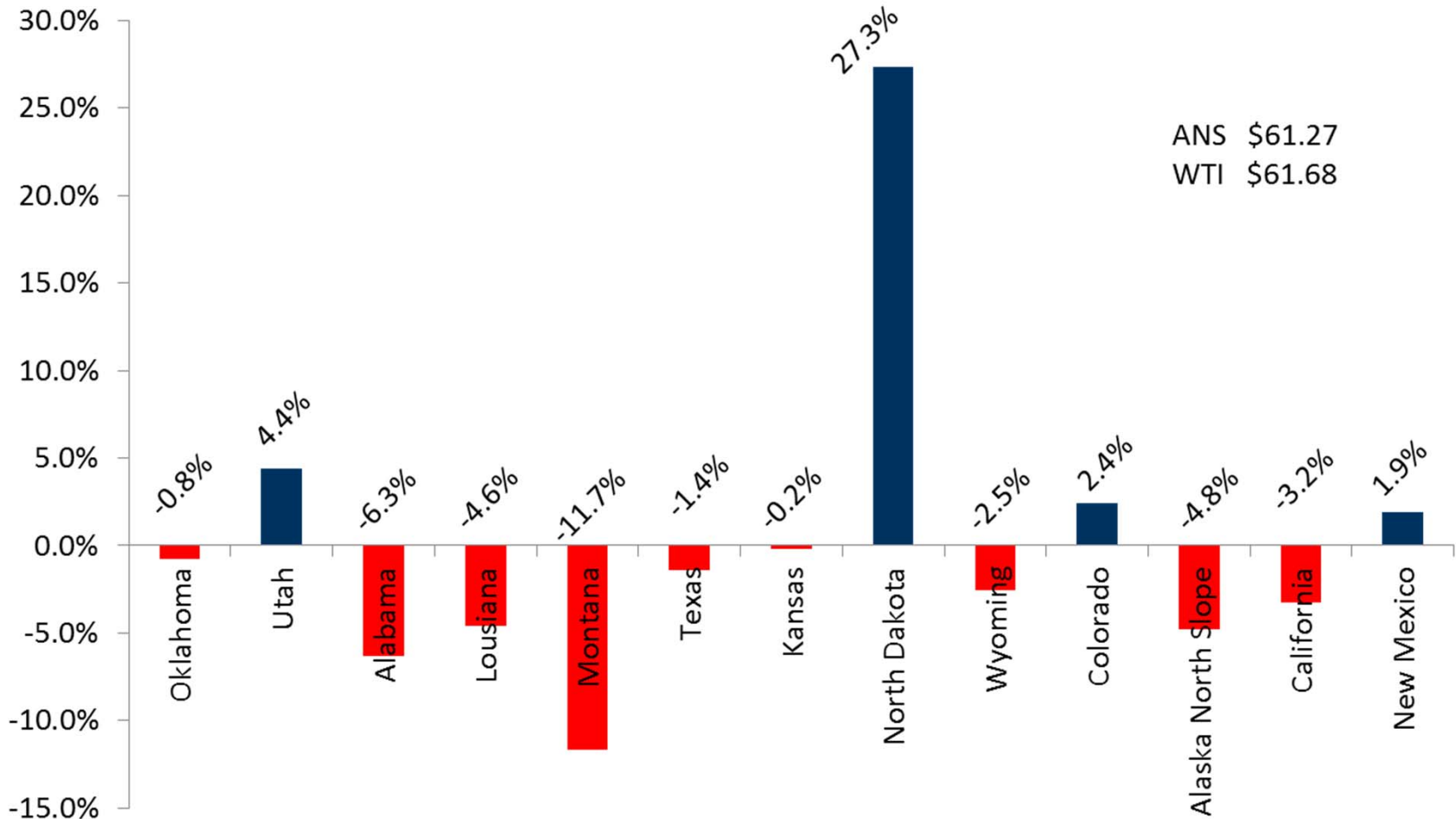


CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2007-2008
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



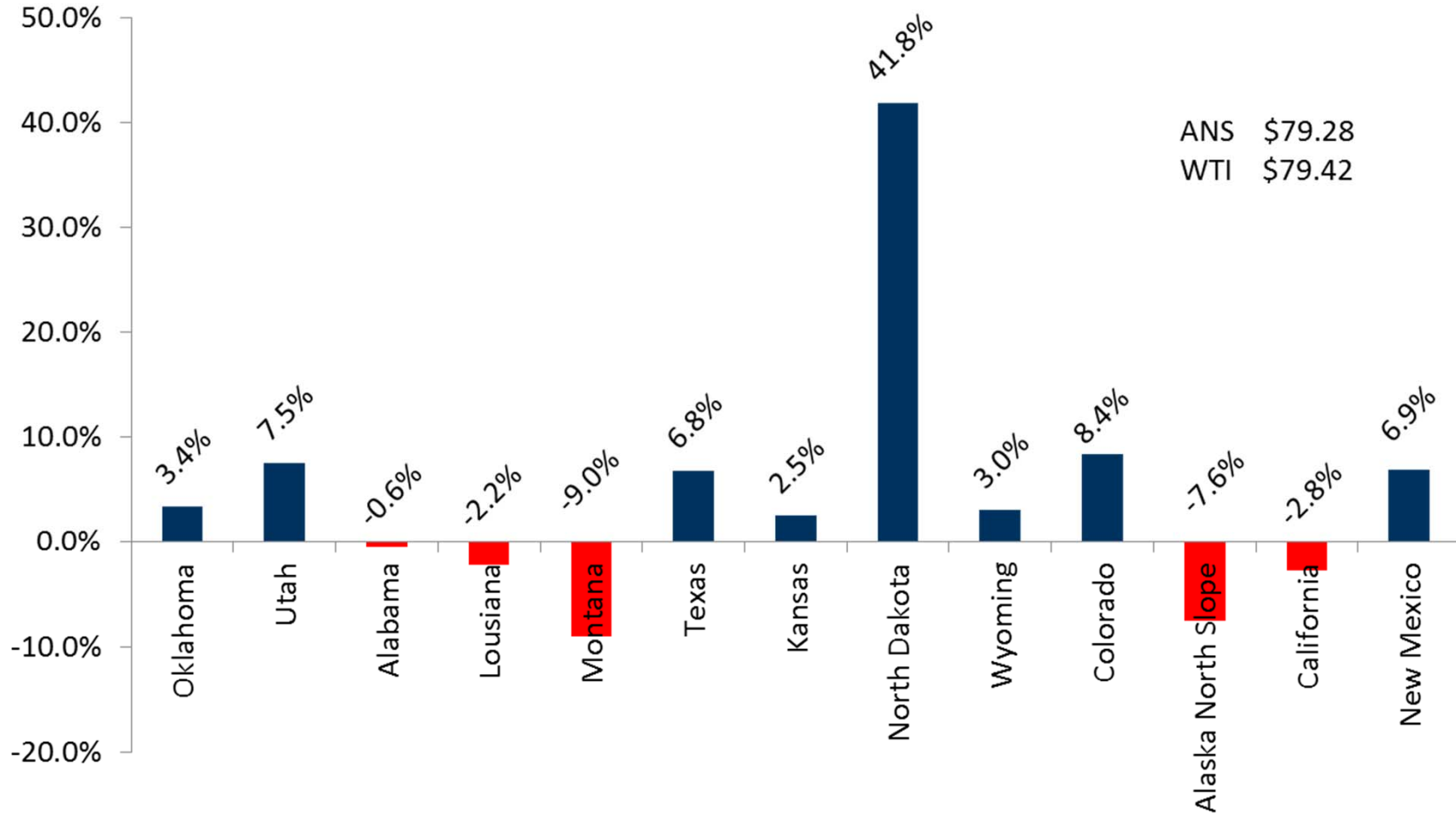
Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_m.htm

CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2008-2009
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



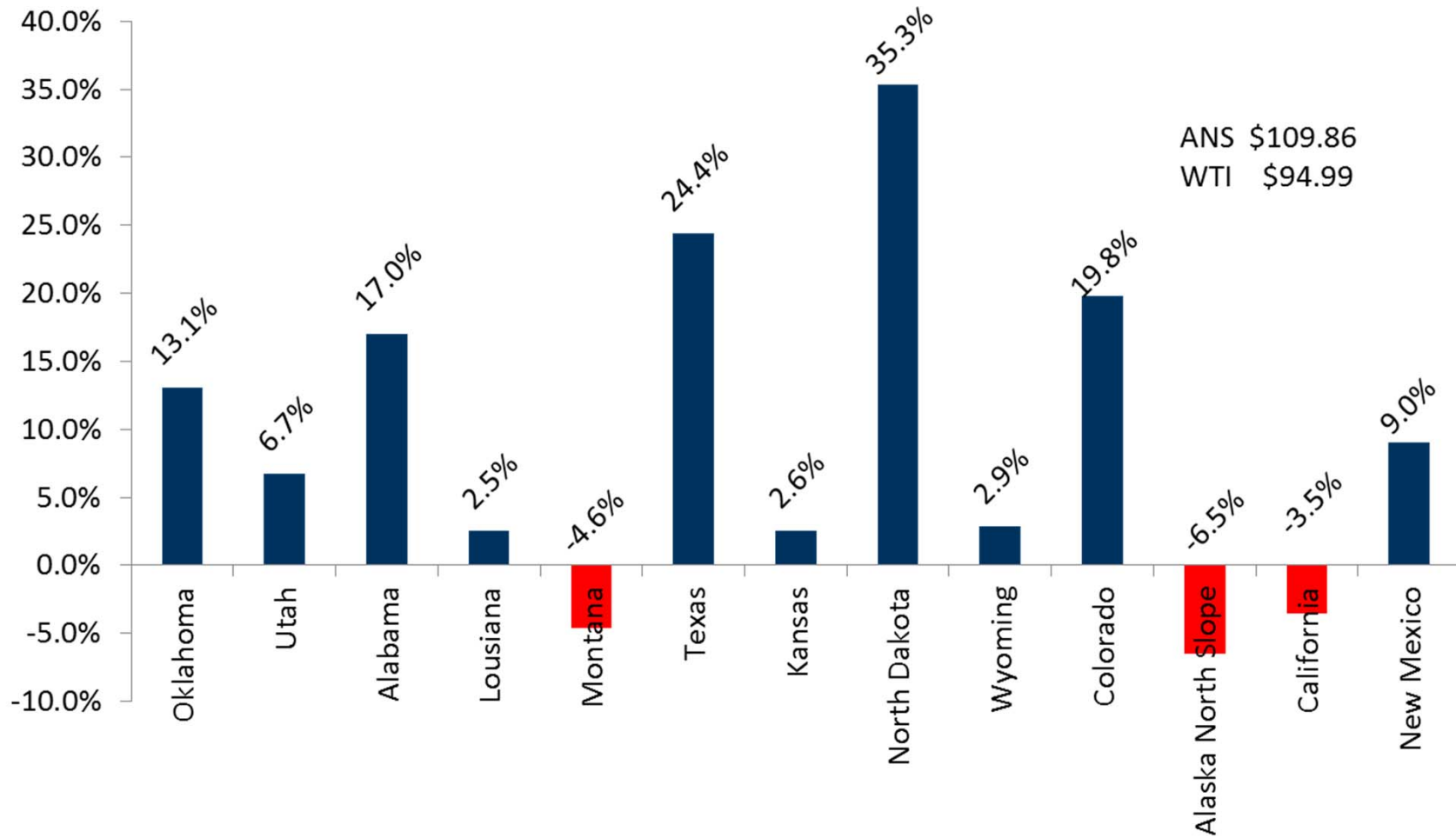
Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_m.htm

CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2009-2010
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_m.htm

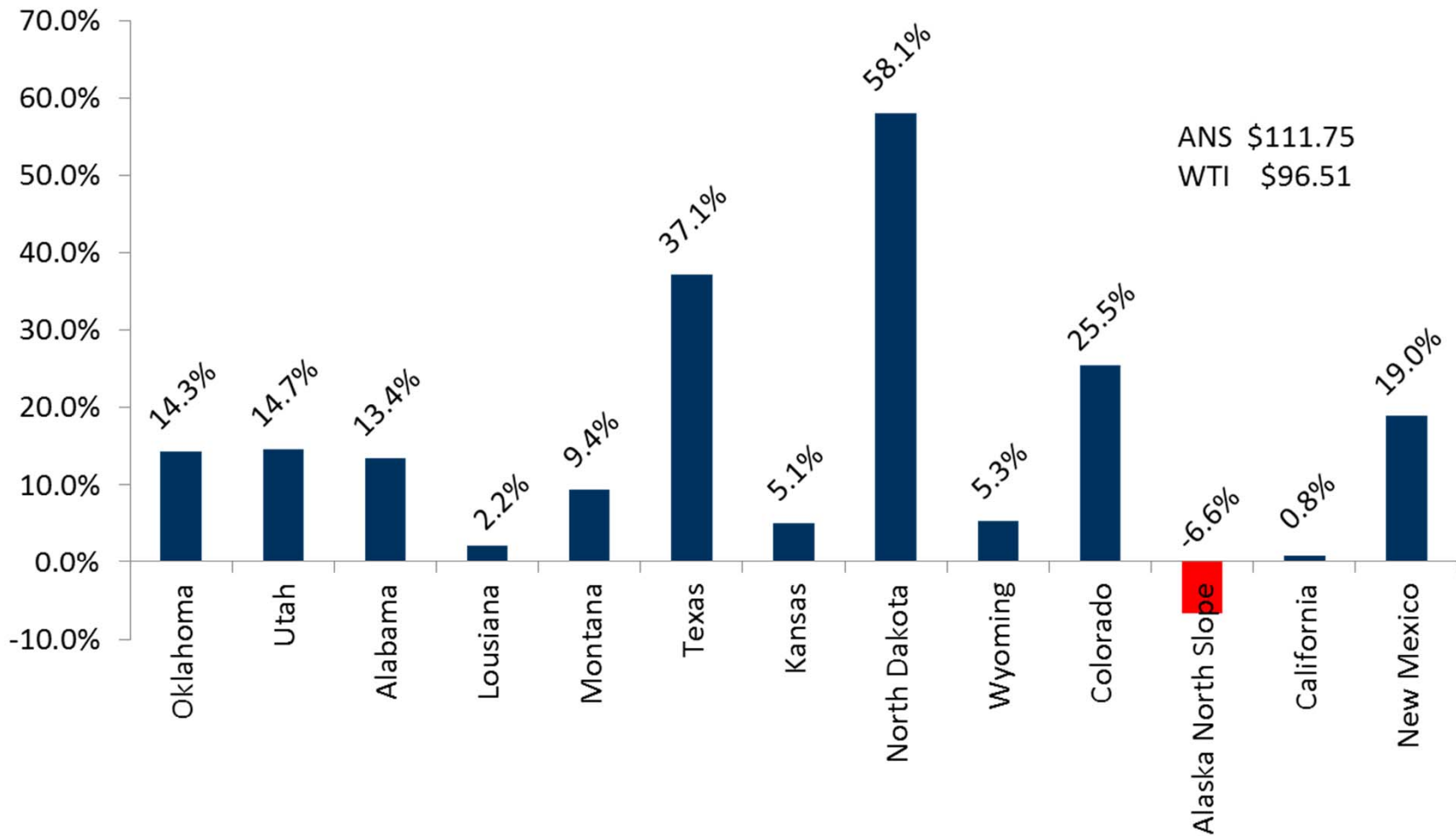
CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2010-2011
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_m.htm

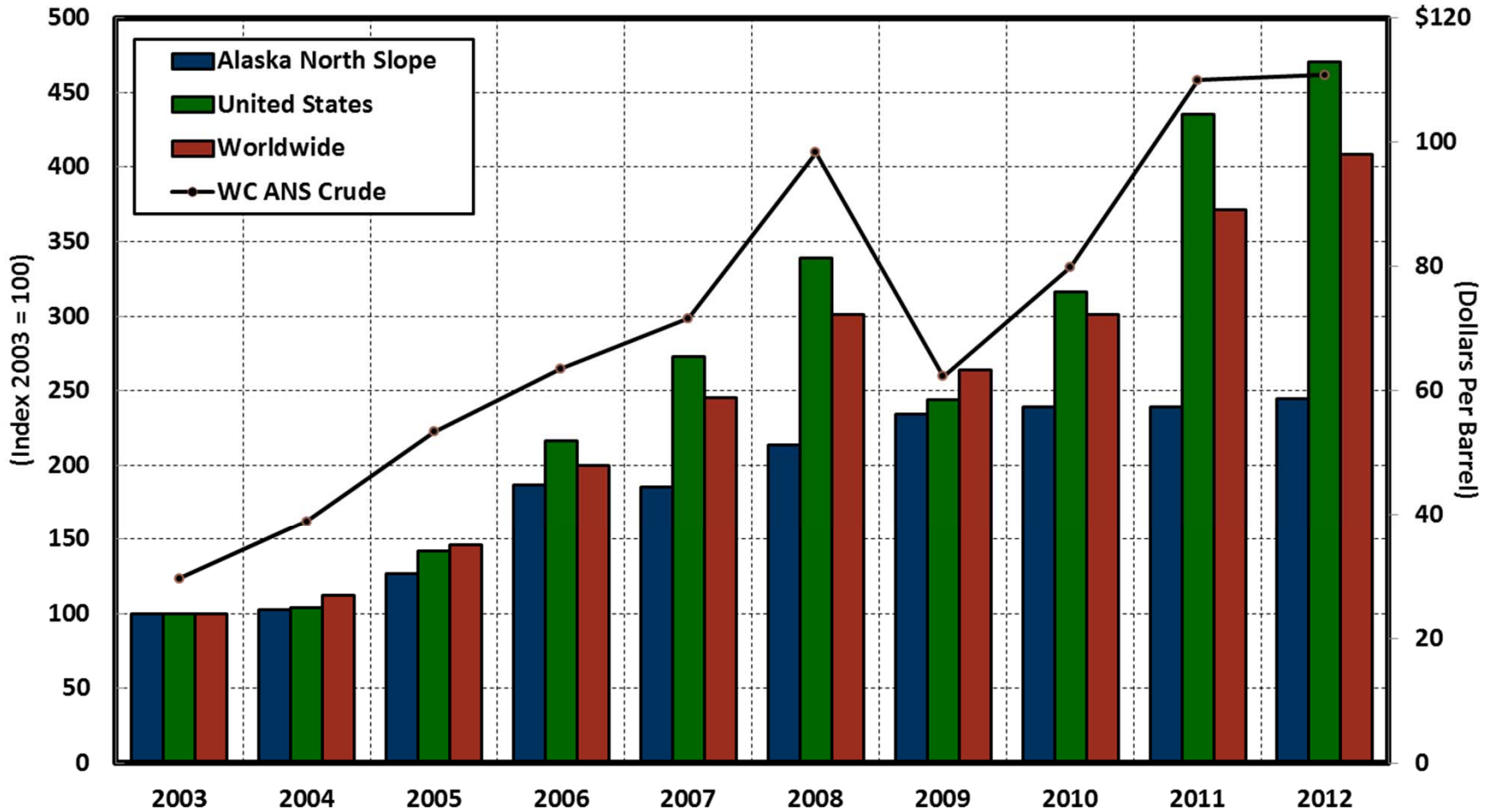
CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2011-2012

PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_m.htm

EST. CAPITAL SPENDING FOR EXPLORATION & DEVELOPMENT: AK NORTH SLOPE VS. U.S. & WORLD SPENDING*, 2003-2012



Prepared for Department of Revenue by EconOne: North Slope based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

CONSULTANTS FOR BOTH THE ADMINISTRATION & LEGISLATURE IDENTIFIED THE PROBLEMS WITH ACES

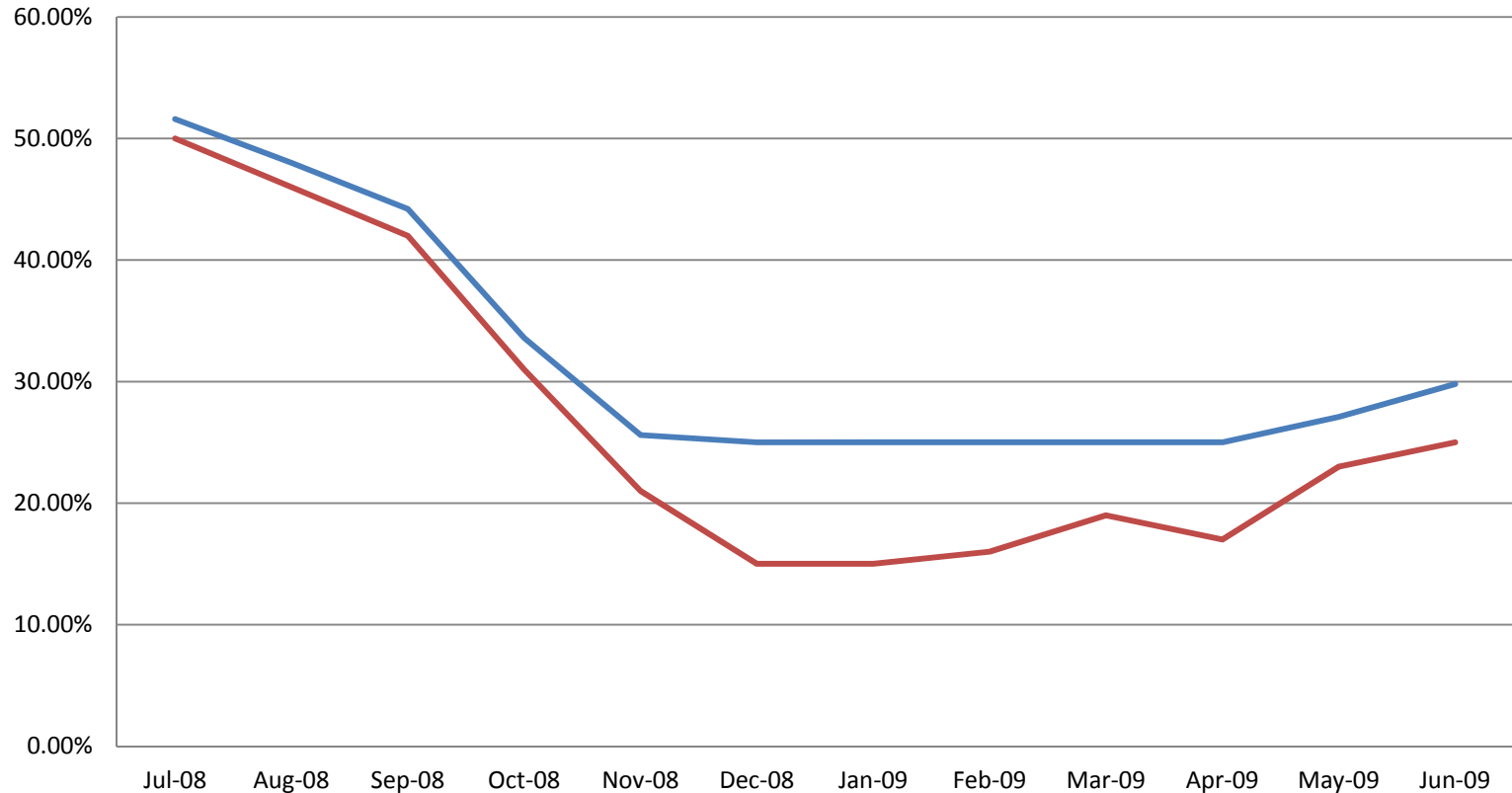
ACES: 5 key problems

- **High levels of Government Take reduce competitiveness for capital, especially at high prices**
- High marginal tax rates reduce incentives for spending control
- Complexity makes meaningful economic analysis and comparison difficult
- Significant state exposure in low price environments, and for high-cost developments
- Impact of large-scale gas sales on tax rates

ACES Had Tax Rates That Changed Monthly

Statutory and Effective Tax Rates under ACES

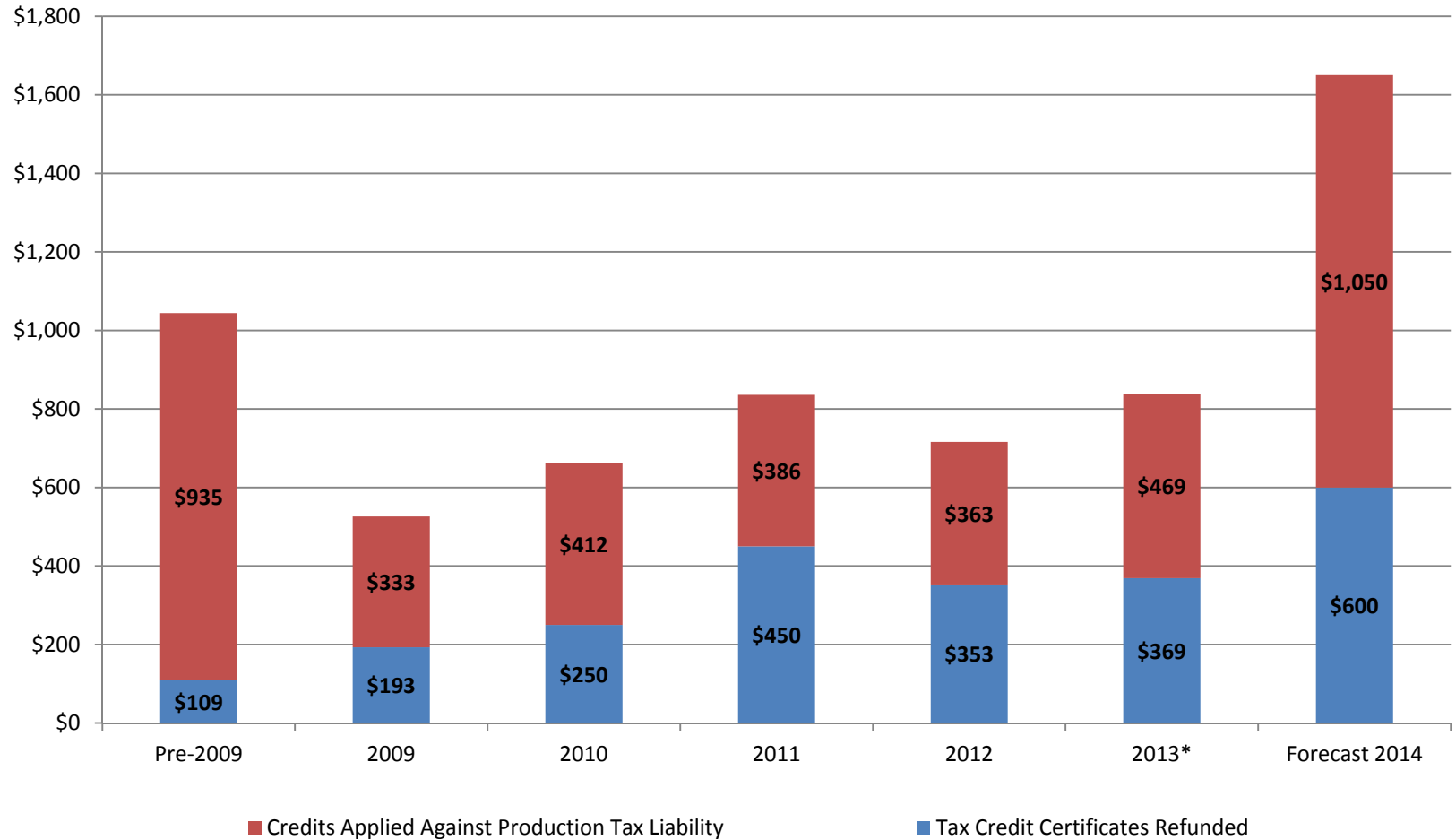
for Fiscal Year 2009



	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Statutory Tax Rate	51.60%	48.00%	44.20%	33.60%	25.60%	25.00%	25.00%	25.00%	25.00%	25.00%	27.10%	29.80%
Effective Tax Rate	50.00%	46.00%	42.00%	31.00%	21.00%	15.00%	15.00%	16.00%	19.00%	17.00%	23.00%	25.00%

Source: Alaska Department of Revenue, Economic Research Group

PRODUCTION TAX CREDITS USED & FORECAST BY FISCAL YEAR (\$MILLIONS)



*Pending 2013 annual tax filings

Source: Alaska Department of Revenue, Economic Research Group

Note: FY 14 includes impact of closeout of capital credits earned in calendar year 2013 per SB 21.

What did the More Alaska Production Act (SB 21) do?

- Took a tax system with *variable tax rates* and *credits for capital spending* and simplified it with a flat tax rate of 35% and credits for production.
- Provided extra incentives for production from new units and undeveloped participating areas in existing units.
- **Did not** change royalties, property tax or corporate income taxes on oil production.

Now What?

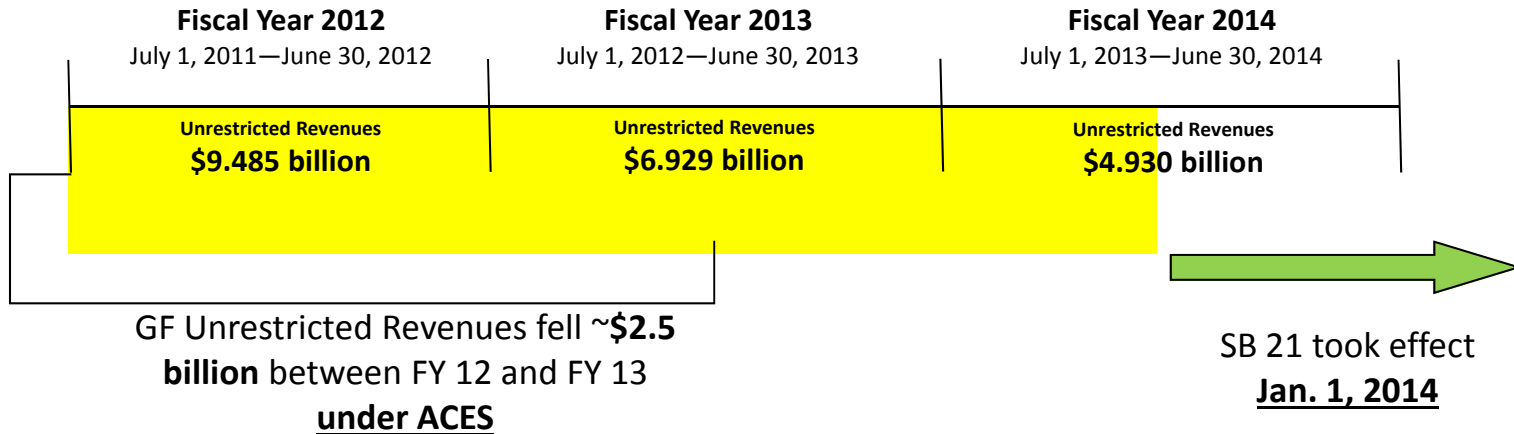
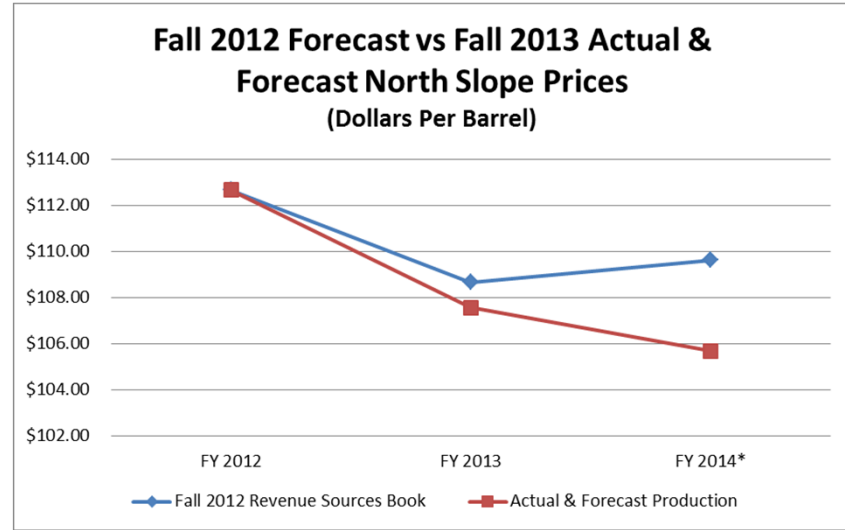
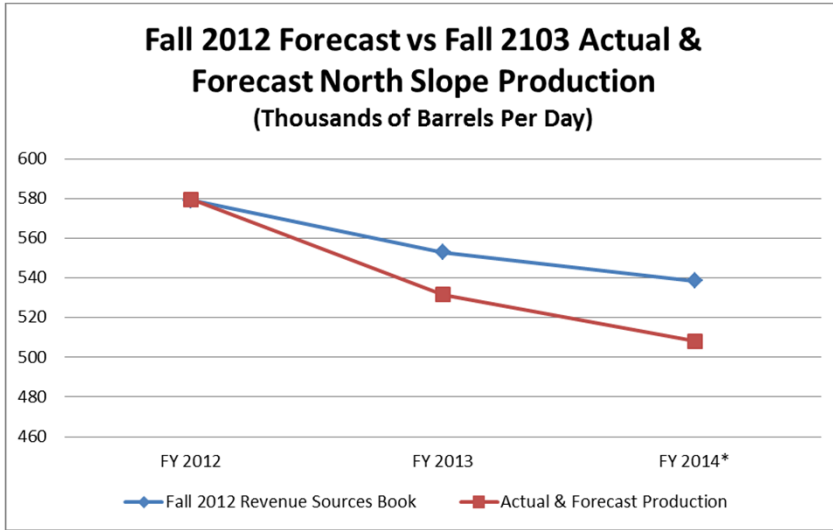
What is happening with State revenues?



What is happening with North Slope production?



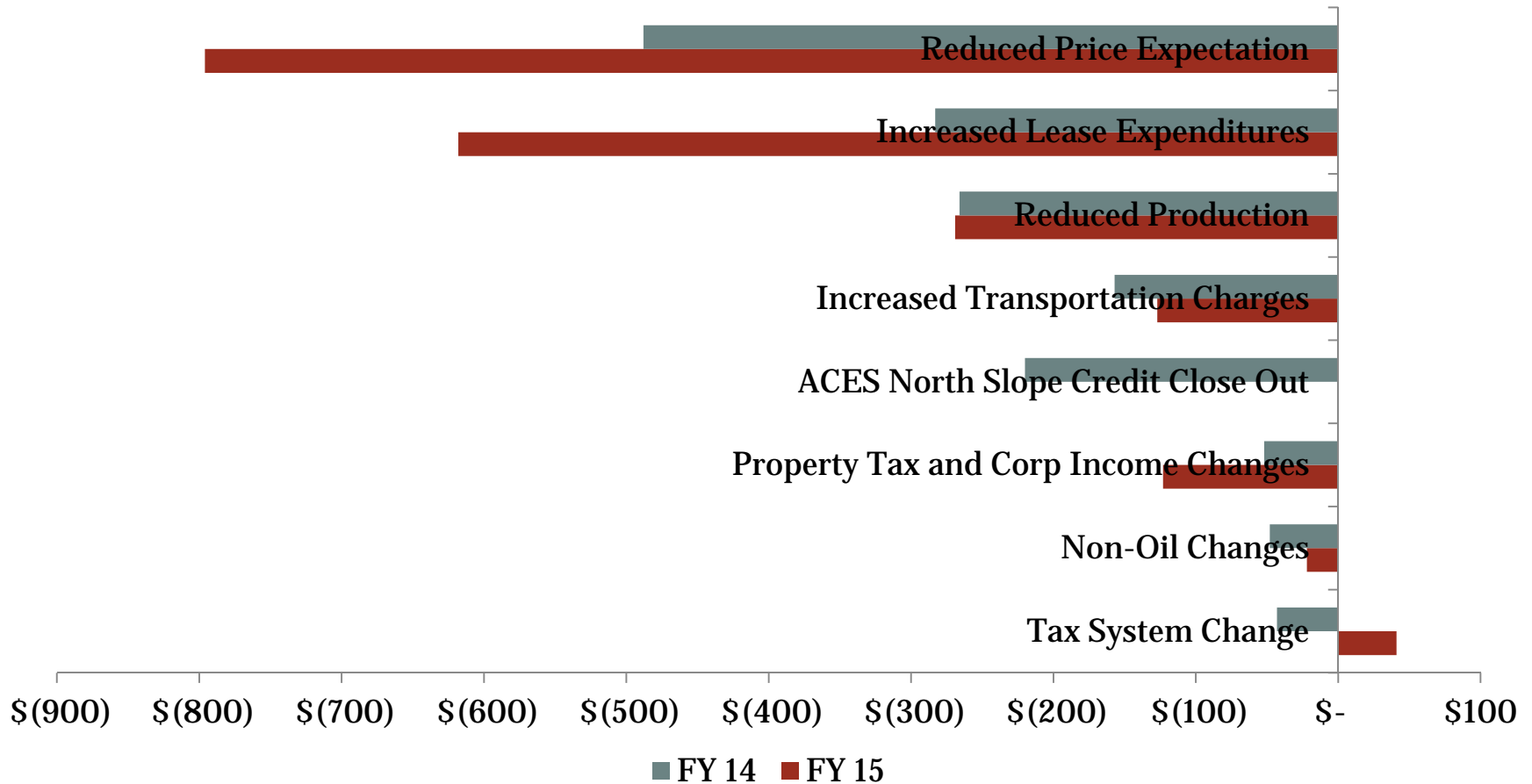
Revenue Shortfalls Started Under ACES



*Note: Fiscal Year 2014 is forecast, prior fiscal years are actuals.

Sources: Alaska Department of Revenue Fall 2012, Spring 2013 and Fall 2013 Revenue Sources Books

MAJOR CONTRIBUTORS OF CHANGES IN REVENUE FORECAST (FY14-15)



Source: DOR December 2013 estimates

Wait, SB 21 raises more revenue than ACES?

- Both the More Alaska Production Act (SB 21) and ACES are net tax systems that allow companies to deduct their spending in Alaska.
- Both levy the tax against the production tax value, which for the majority of oil is calculated the same way.
- “New” oil gets an additional reduction to its production tax value which accounts for the difference in Production Tax Value.

	ACES	MAP Act
ANS Price	\$105.06	\$105.06
Transportation	-\$10.03	-\$10.03
Lease Expenditures	-\$45.99	-\$45.99
Production Tax Value <small>(PTV/bbl)</small>	\$49.04	\$49.04
Production Tax Value (total)	\$7.778 billion	\$7.715 billion*

*Difference in PTV due to “New” Oil benefit (GVR) in SB 21 (~\$63 million in FY 15).

Wait, SB 21 raises more revenue than ACES?

- A key difference between the two is:
- Under ACES, the tax rate depends on (1) price (2) production (3) lease expenditures (4) cost of transportation, i.e. the tariff.
- At these prices, the ACES tax rate = 25% + [(PTV-30) x .004]
- Under the MAP Act, the tax rate is 35%.

	ACES	MAP Act
Production Tax Value (PTV)	\$49.04	\$49.04
Progressive Tax	7.6%	N/A
Base Tax	25%	35%
Tax Rate	32.6%	35%

Wait, SB 21 raises more revenue than ACES?

	ACES	MAP Act
Production Tax Value (PTV) Billions of dollars	\$7.778	\$7.715
Tax Rate	32.6%	35%
Tax Before Credits Billions of dollars	\$2.535	\$2.700
Deductible Credits ¹	-\$890	-\$960
Tax Revenue Billions of dollars	\$1.625	\$1.740

1. ACES credits based on qualified capital spending of \$4.45 billion in deductible capital expenditures in FY 15.

Calculations based on FY 15 income statement found on page 106 of the Fall 2013 Revenue Sourcebook. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Revenue Source Book.

Recent positive industry response to tax reform



REPSOL



These results are encouraging for the future development of the resources discovered. Recent tax reform passed in Alaska was a critical factor in ensuring the development of this project, where extreme climate conditions and geographical remoteness result in high operating costs.

REPSOL – Press Release 23 APRIL

2013

ConocoPhillips Plans to Increase Investment in Alaska Following Oil Tax Reform Legislation

ANCHORAGE – ConocoPhillips plans to increase its investments on Alaska’s North Slope following the Alaska State Legislature’s recent changes to the state’s oil severance tax system.

ConocoPhillips – Press Release 17 APRIL 2013

BP Says Alaska is “Back in the Game”

“As a package, this is an important step forward and will help us compete for more investment. This puts Alaska back in the game,” Weiss said of passage by the Alaska Legislature of the committee substitute for Senate Bill 21, the governor’s oil tax change.

Weiss said following passage of the bill that BP “will change our long-term plans accordingly, seeking appropriate sanctions for additional activity.”

“Our evaluation will include natural gas given that an improved oil fiscal environment has been a prerequisite to advancing work on LNG,” she said

*Janet Weiss, BP’s Alaska region president,
Source Week of 4/28/2013*

<http://www.petroleumnews.com/pnads/447451261.shtml>

Positive industry responses to tax reform turning into action in Alaska.



“BP announced today it is planning to add \$1 billion in new investment and adding two drilling rigs at Prudhoe Bay in 2015 and 2016 over the next five years due to changes in the state’s oil tax policy signed into law this month by Governor Parnell.”

“In addition, BP has successfully secured support from other working interest owners at Prudhoe Bay to begin evaluating **an additional \$3 billion** worth of new development projects.”

“The additional development opportunities being evaluated by working interest owners are in the west end of Prudhoe Bay and include: expansion and de-bottlenecking of existing Prudhoe Bay facilities, constructing a new drilling pads, and expansions of existing pads, including the drilling of more than 110 new wells.”

BP – Press Release 03 June 2013

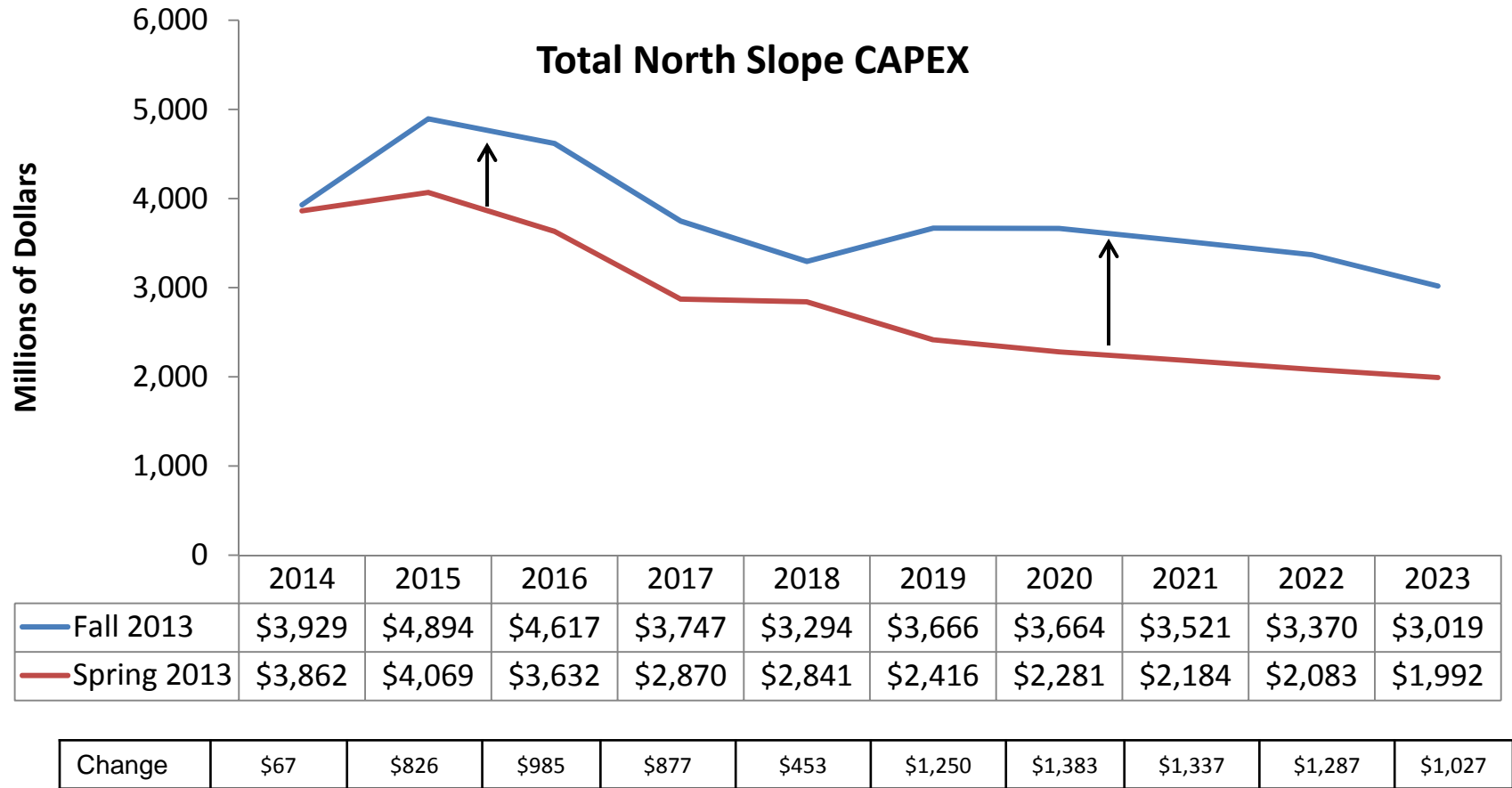


“Higher allocation of capital **\$1.7 billion** to Alaska compared to 2013, reflecting increased spending on the CD-5 development and higher activity resulting from improved fiscal terms from the passage of the More Alaska Production Act (SB21).”

ConocoPhillips – Press Release December 3, 2013

CHANGE IN NORTH SLOPE LEASE EXPENDITURE FORECAST

FALL 2013 TO SPRING 2013



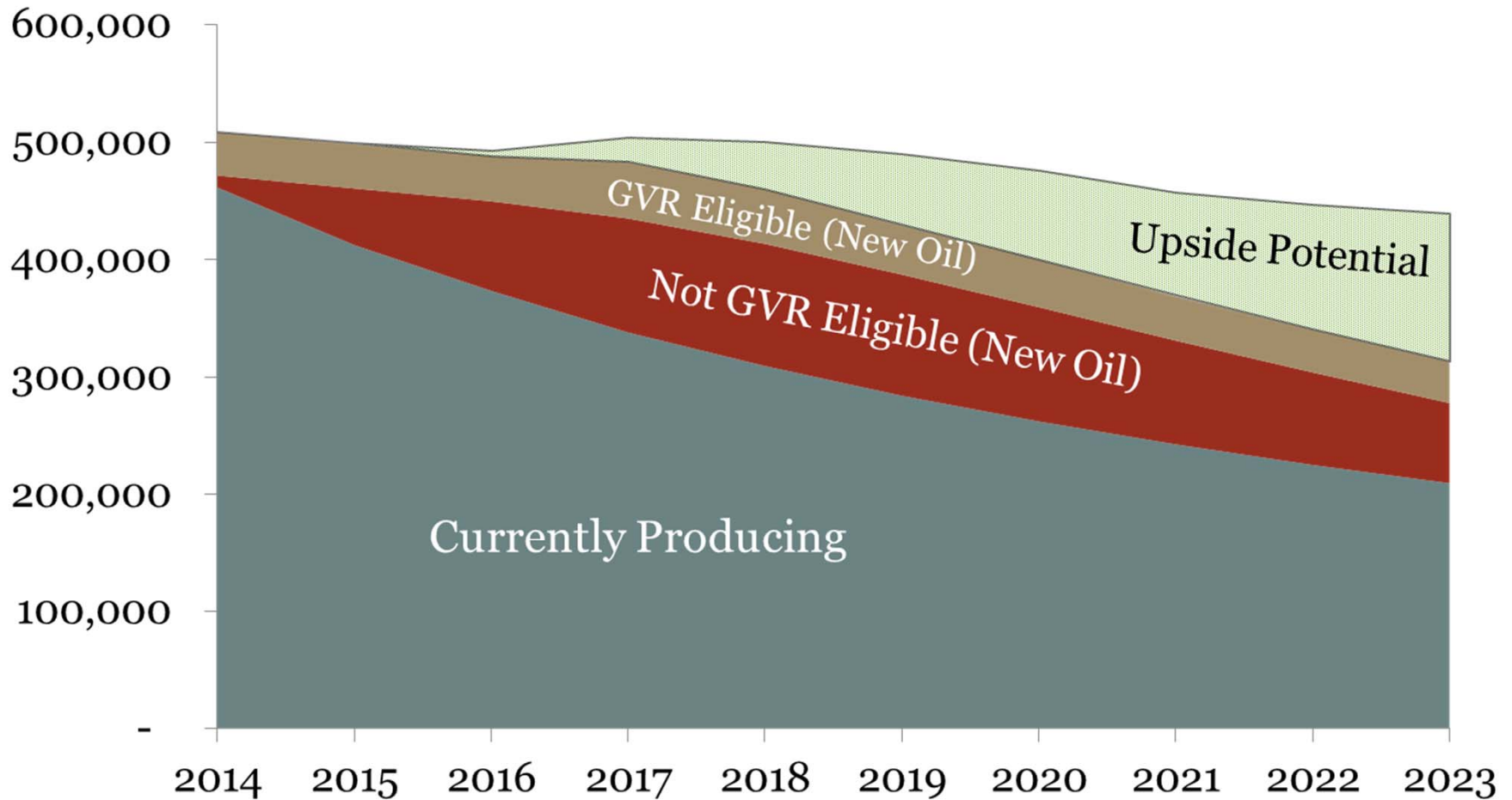
Note: These estimates include lease expenditures by companies that are not expected to have a tax liability.

Total Increase: \$9,492

Source: Department of Revenue - Revenue Sources Book Fall 2013 / 2012

NORTH SLOPE PRODUCTION FORECAST

FALL 2013



“While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska.”



Source: Letter dated October 1, 2012 to Governor Parnell (Exhibit I-B of HOA)

THANK YOU

Please find our contact information below:

Michael Pawlowski
Deputy Commissioner
Department of Revenue
Michael.Pawlowski@alaska.gov

Resources

<http://dor.alaska.gov/MApActDocuments.aspx>

<http://gov.alaska.gov/parnell/priorities/resources/more-alaska-production-act.html>

www.dnr.alaska.gov/AKgas.htm

