Creating Opportunities for Alaskans

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

July 24, 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:

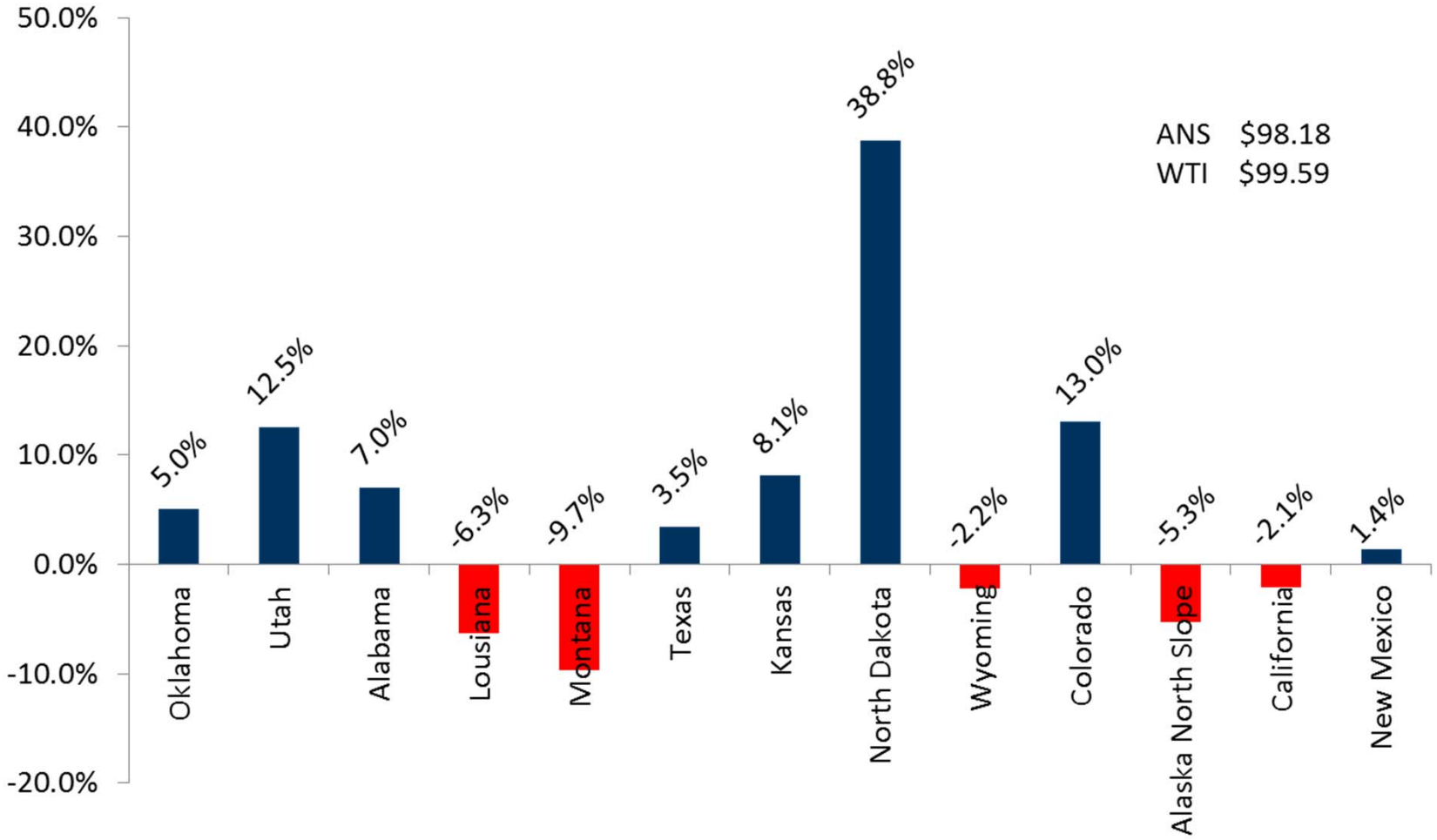
1. Declining production.
2. Comparatively low investment.
3. Declining Value
4. Declining opportunities for Alaskans.

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

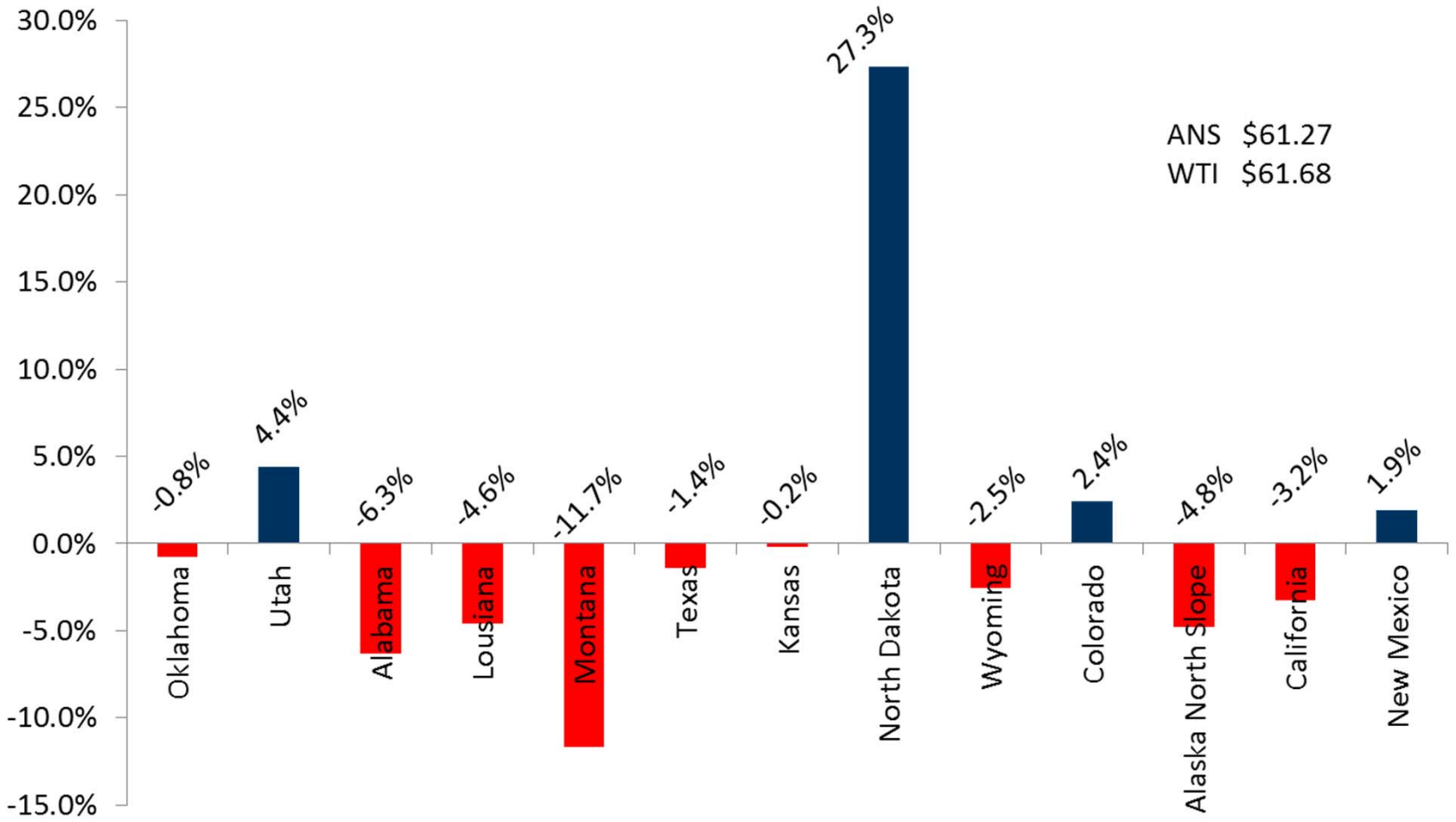
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



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

CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2008-2009

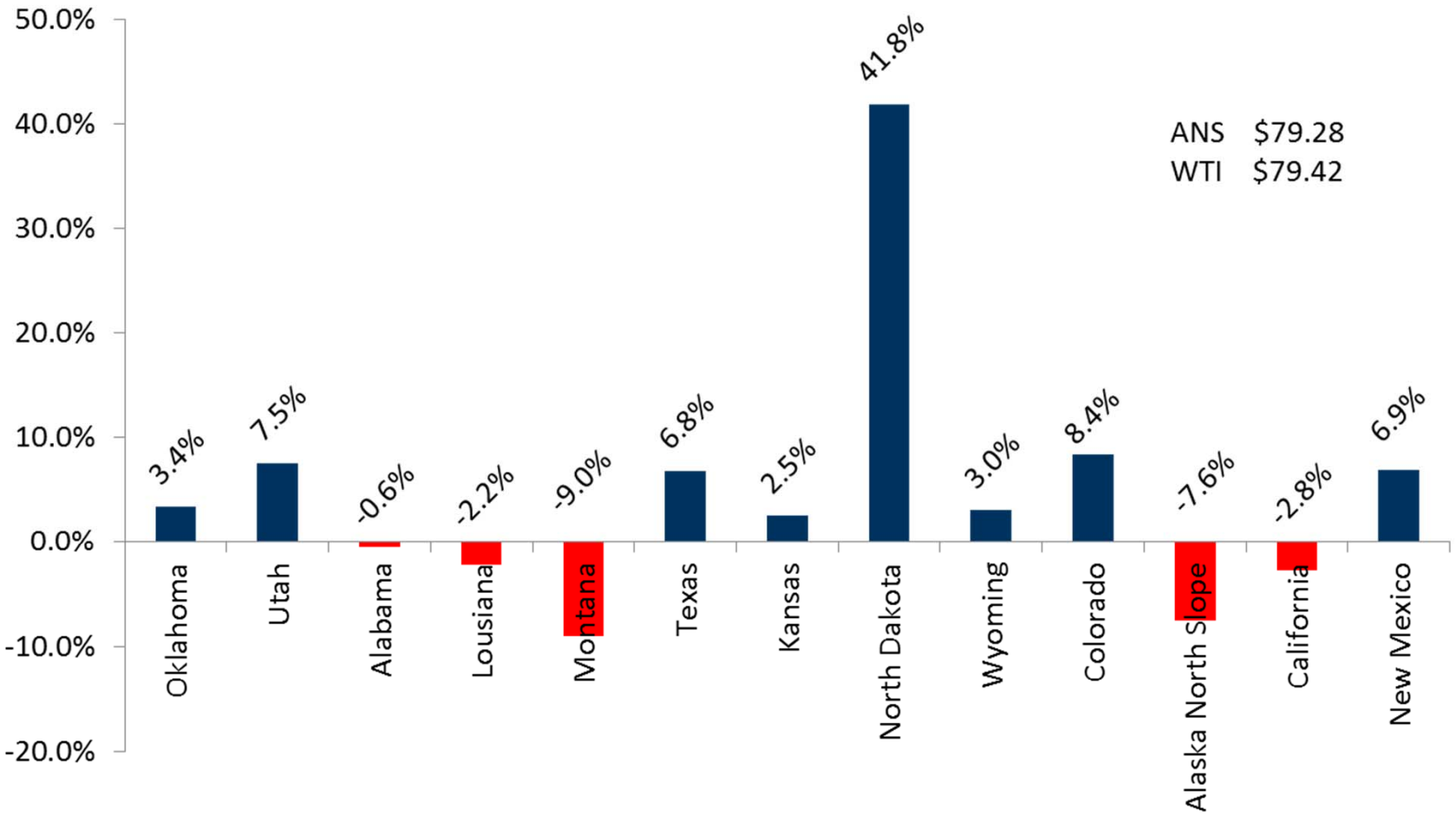
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



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

CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2009-2010

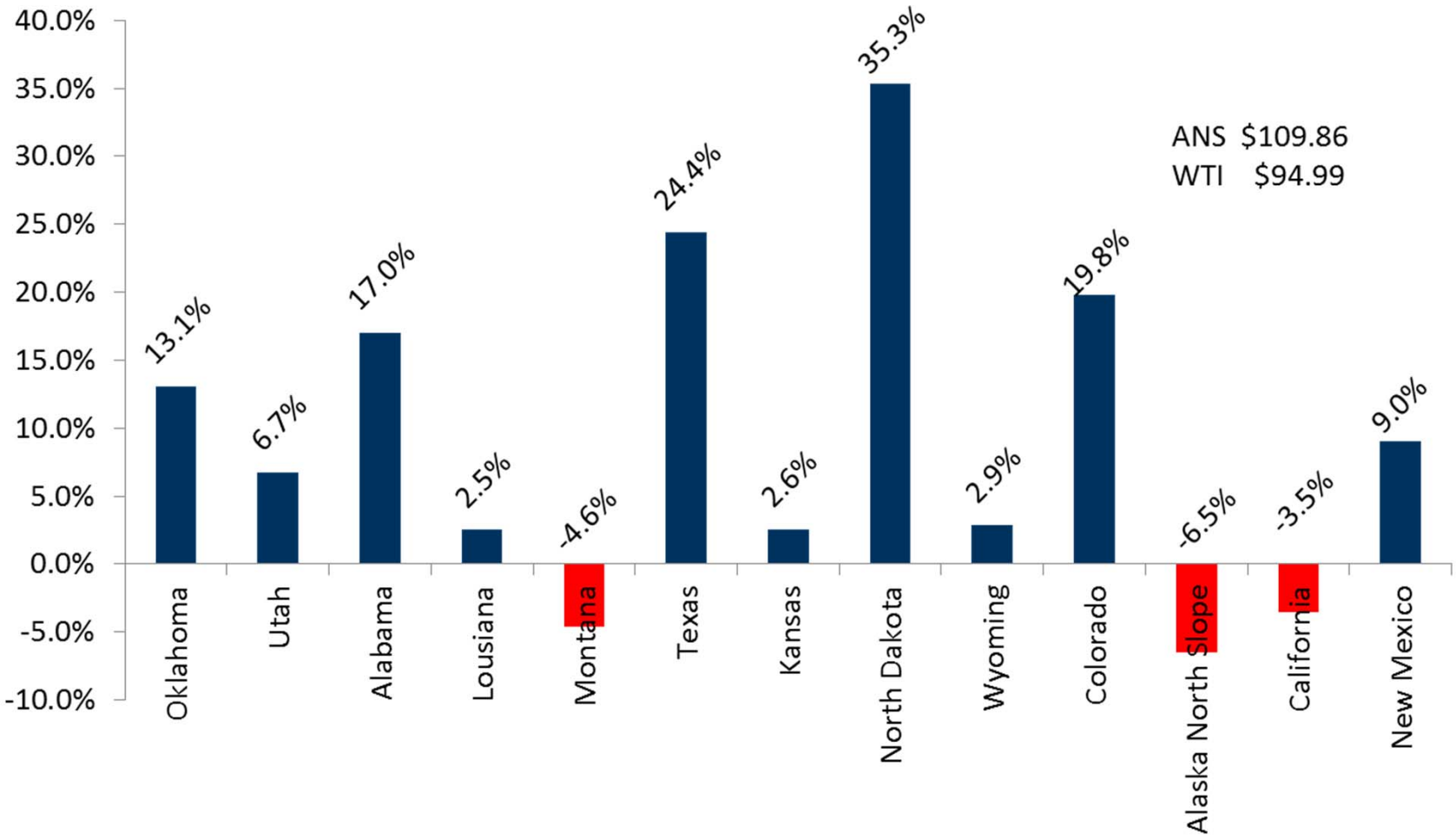
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



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

CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2010-2011

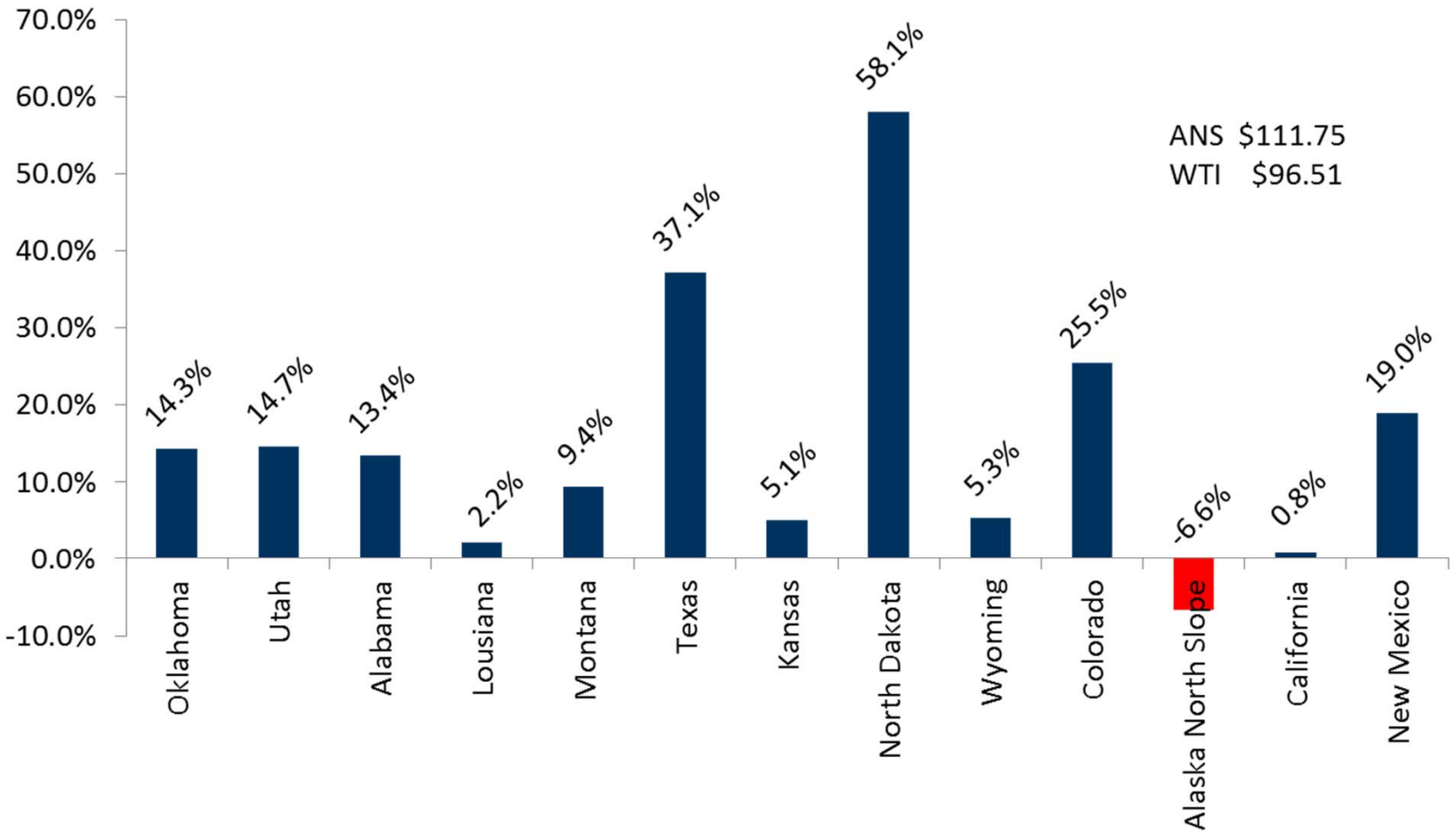
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



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

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

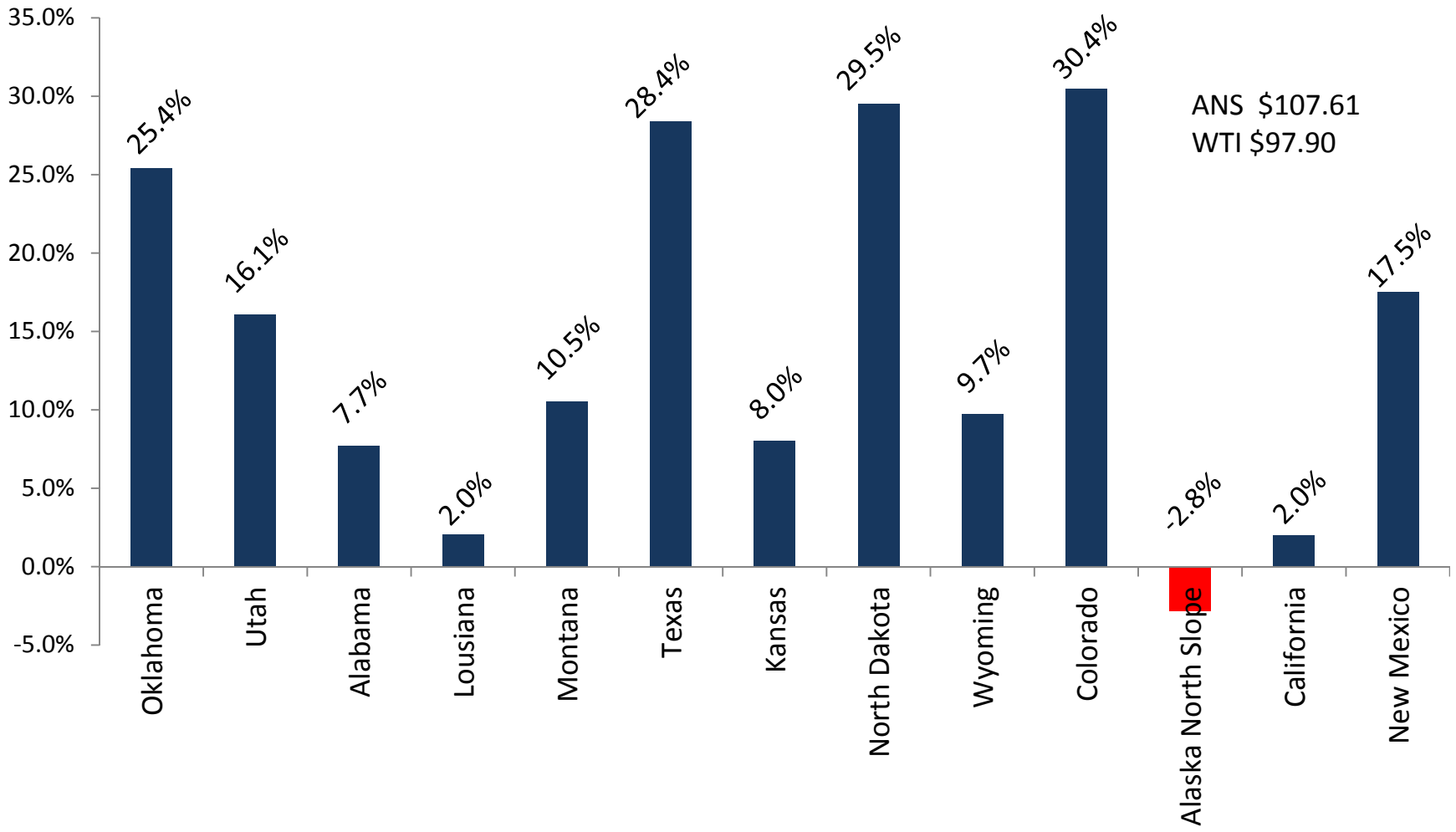
PREPARED BY DOR, ECONOMIC RESEARCH GROUP (MARCH 18, 2013)



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

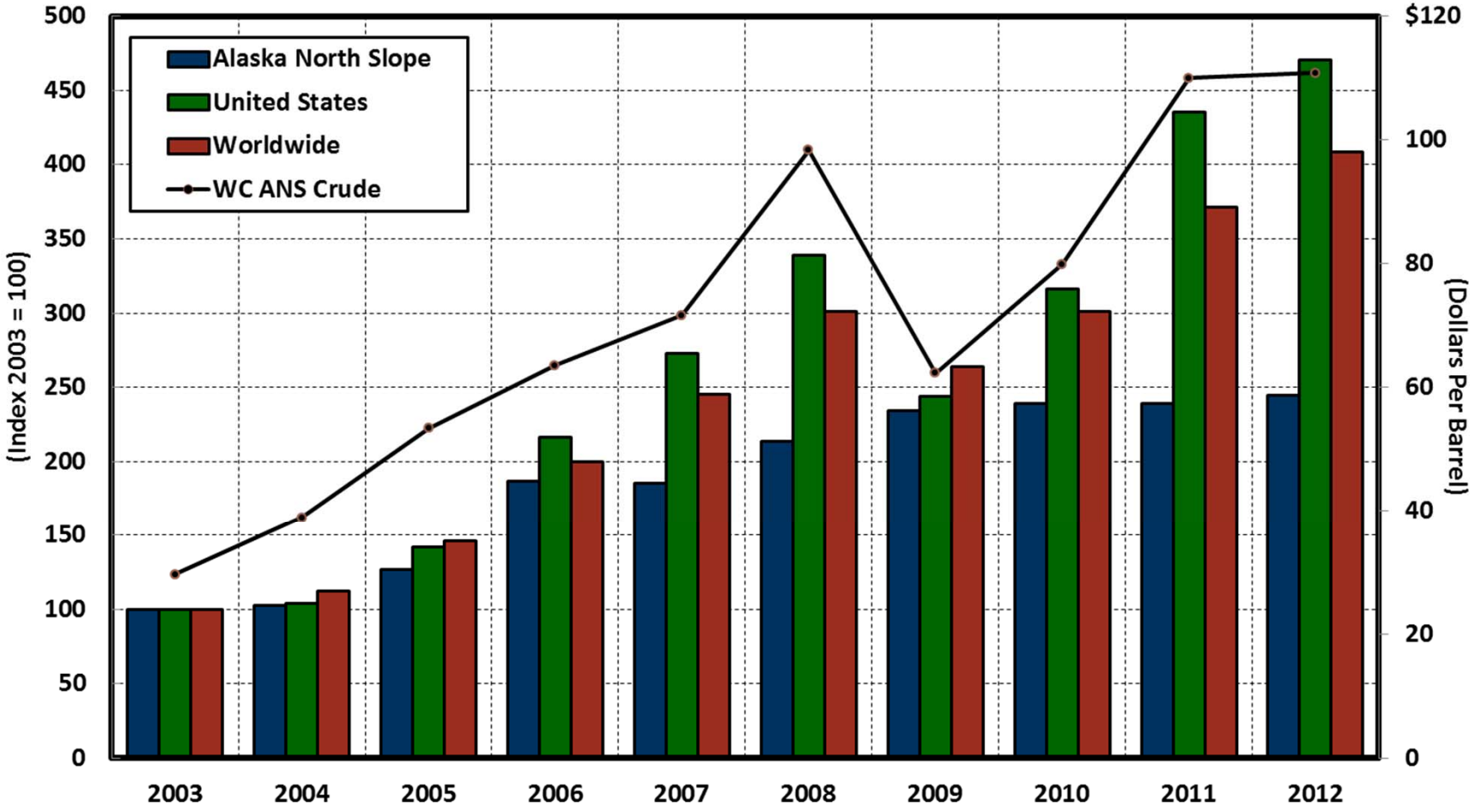
CHANGE IN AVERAGE DAILY OIL PRODUCTION BY STATE—2012-2013

PREPARED BY DOR, ECONOMIC RESEARCH GROUP (JUNE 16, 2014)



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

Declining Value

Less production = less potential value for both the state and producers.

In FY 2008 an ANS price of $96.51 yielded approximately $20.4 billion in gross value.

By FY 14, a price that is $10 higher will yield a bit more than $4 billion **less** in gross value.

Despite high prices, Alaska **and** producers saw eroding value.

Fiscal Year	Average ANS Oil Price (Dollars per Barrel)	Modeled GVPP (Gross Value at the Point of Production in Billions of Dollars)
2007	$61.60	$16
2008	**$96.51**	**$20.4**
2009	$68.34	$13.2
2010	$74.90	$13.8
2011	$94.49	$16.3
2012	$112.65	$18.8
2013	$108.67	$17.2
2014	**$106.61**	**$16.0**

Note: Based on Spring 2014 Forecast

Declining Value

In FY 2008 an ANS price of $96.51 yielded approximately $6.823 billion in production tax.

By FY 2014, if ACES were in place for the entire year, a price that is $10 higher will yield a bit more than $2.6 billion in production tax.

If production was the same as FY 08, production tax revenues in FY 14 would be close to $5.7 billion or $3.1 billion higher than forecast.

Fiscal Year	Average ANS Oil Price (Dollars per Barrel)	Production Tax (After Credits in Billions of Dollars)
2007	$61.60	$2.208
2008	**$96.51**	**$6.823**
2009	$68.34	$3.112
2010	$74.90	$2.871
2011	$94.49	$4.553
2012	$112.65	$6.146
2013	$108.67	$4.353
2014	**$106.61**	**$2.603**

Note: Based on Spring 2014 Forecast

WHAT WAS BROKEN?

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

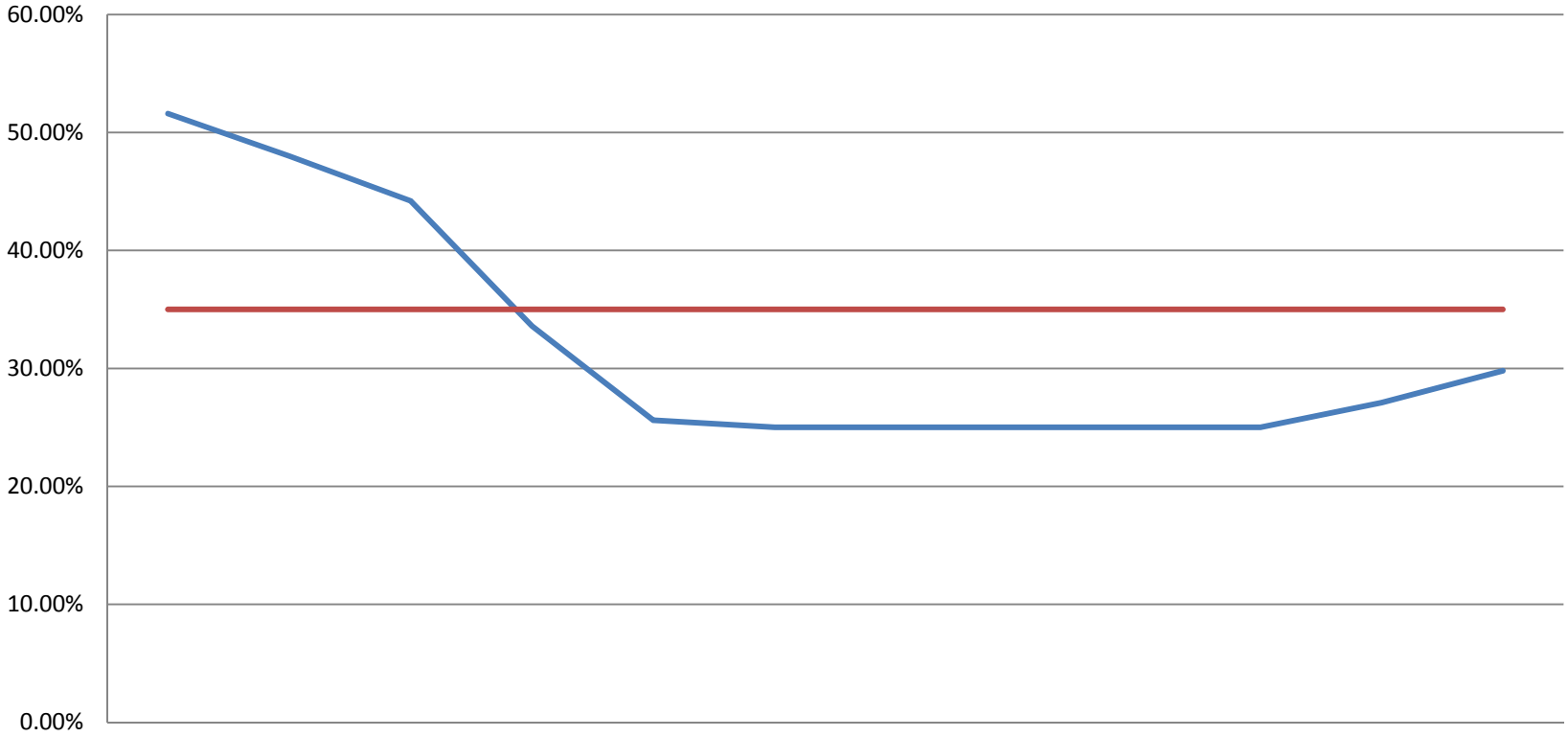
ACES: 5 key problems

- **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 Tax Rates under ACES and MAP Act

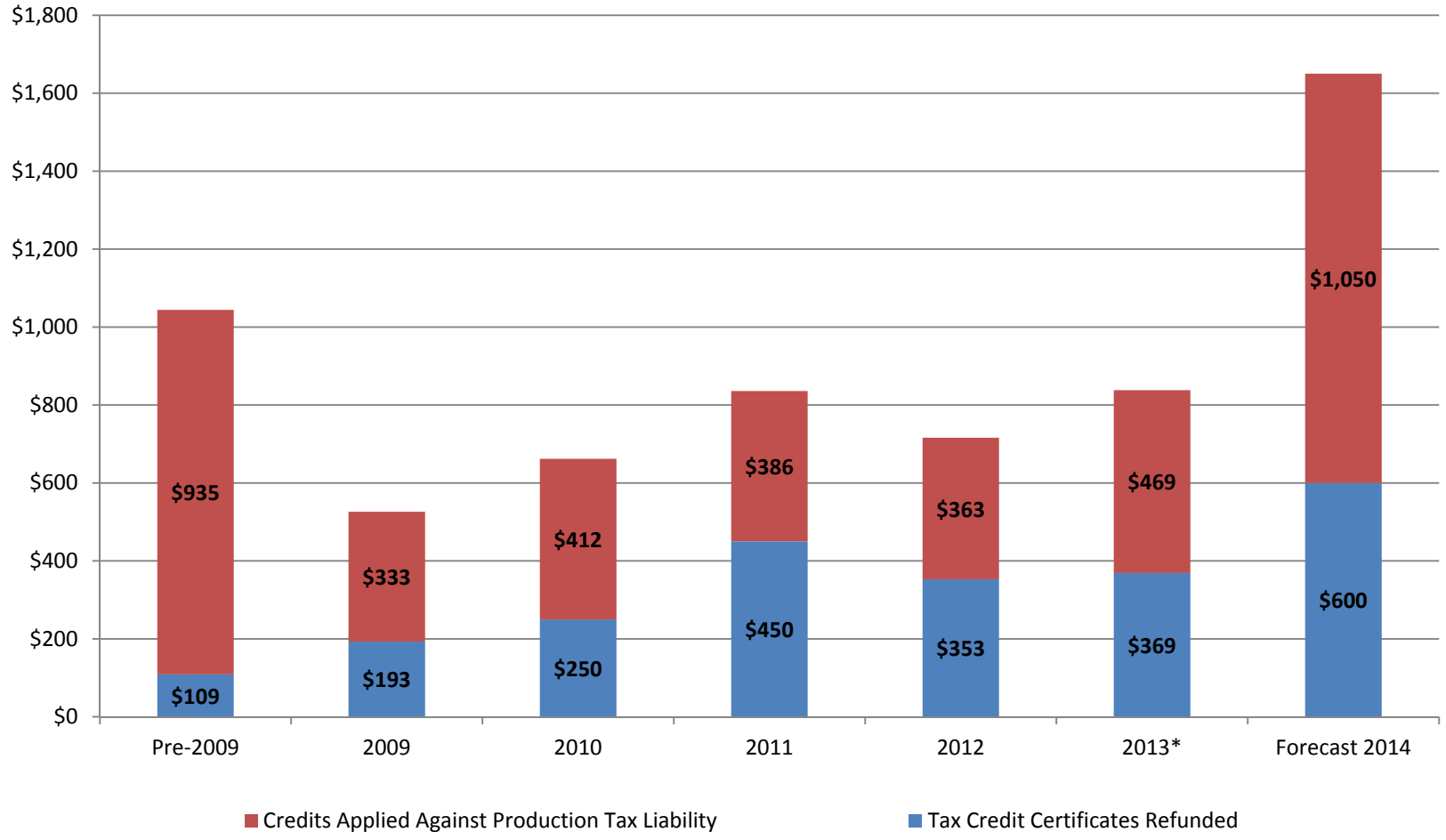
for Fiscal Year 2009



	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
ACES	51.60%	48.00%	44.20%	33.60%	25.60%	25.00%	25.00%	25.00%	25.00%	25.00%	27.10%	29.80%
MAP Act	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%

Source: Alaska Department of Revenue, Economic Research Group

Production Tax Credits Used & Forecast By Fiscal Year ($Millions)



*Pending 2013 annual tax filings

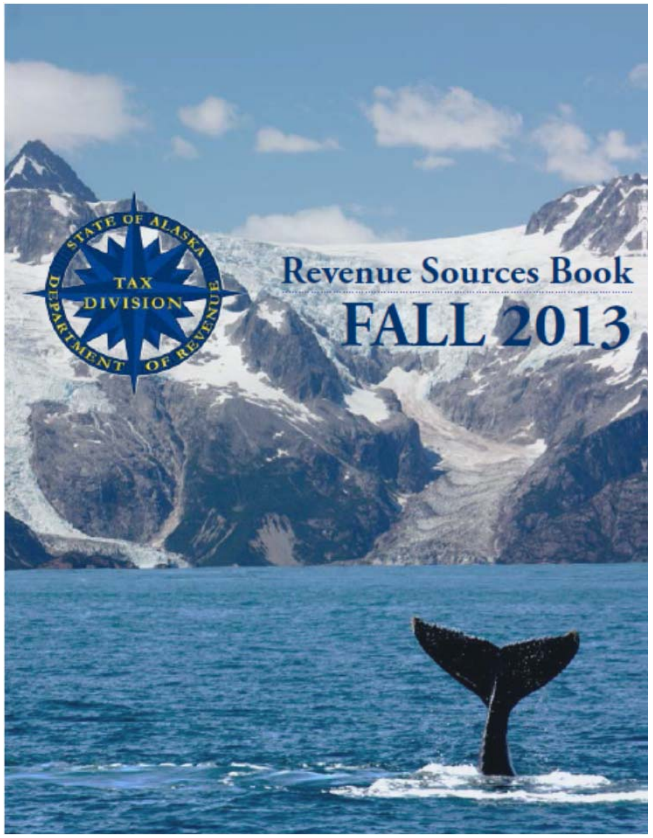
Source: Alaska Department of Revenue, Economic Research Group
Note: FY 14 includes impact of closeout of capital credits earned in calendar year 2013 per SB 21.

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.

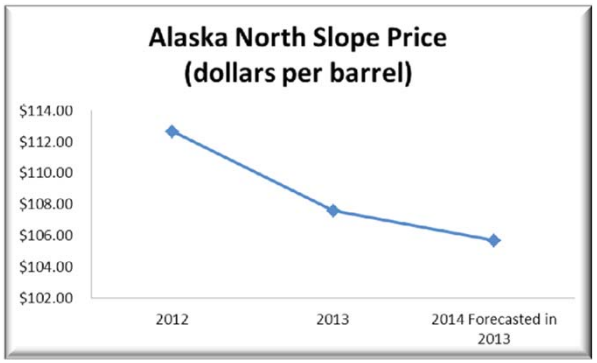
Now What?

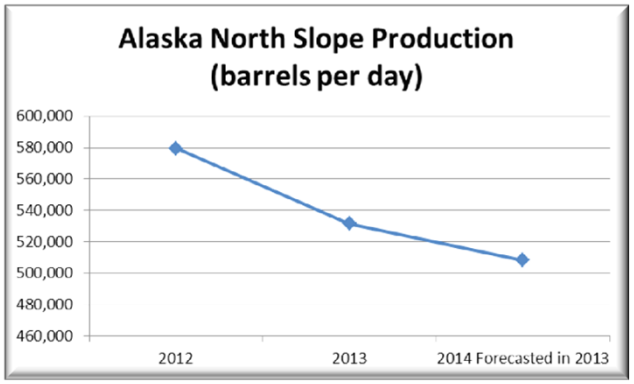
What is happening with State revenues?

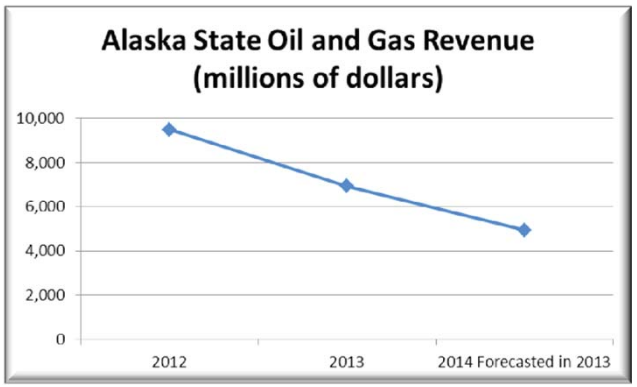


What is happening with North Slope production?

Revenue Shortfalls Started Under ACES







Fiscal Year 2012
July 1, 2011—June 30, 2012

Fiscal Year 2013
July 1, 2012—June 30, 2013

Fiscal Year 2014
July 1, 2013—June 30, 2014

Unrestricted Revenues
$9.485 billion

Unrestricted Revenues
$6.929 billion

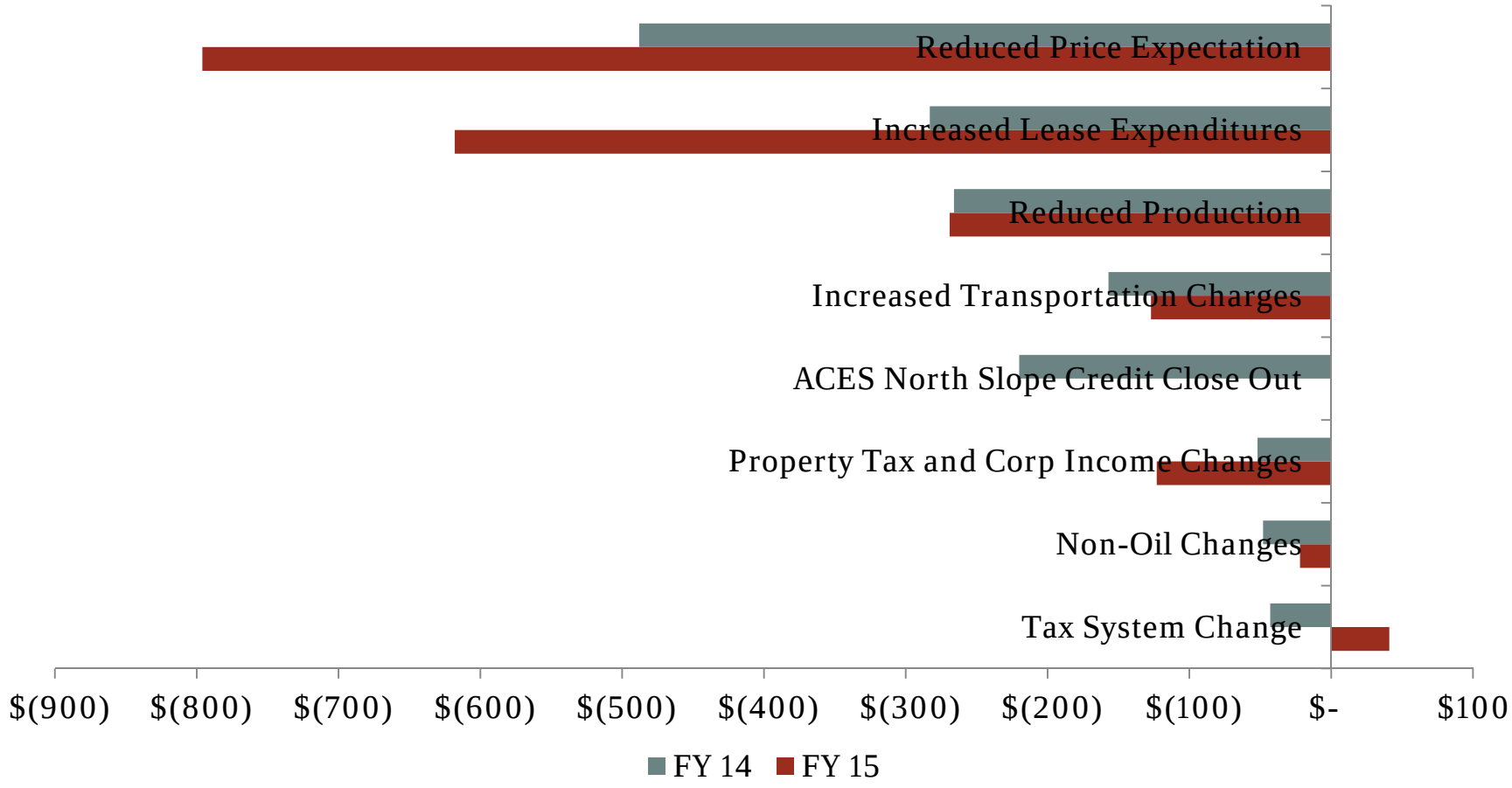
Unrestricted Revenues
$4.930 billion

GF Unrestricted Revenues fell ~**$2.5 billion** between FY 12 and FY 13 **under ACES**

SB 21 took effect **Jan. 1, 2014**

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 Change in December 2013 Revenue Forecast between FY 2014 and FY 2015



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	-$9.81	-$9.81
Lease Expenditures	-$46.04	-$46.04
Production Tax Value (PTV/bbl)	$49.21	$49.21
Production Tax Value (total)	$7.766 billion	$7.702 billion*

*****Difference in PTV due to "New" Oil benefit (GVR) in SB 21 (~$64 million in FY 15).

Calculations based on Spring 2014 Revenue forecast. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Spring 2014 forecast.

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)	$49.21	$49.21
Progressive Tax	7.7%	N/A
Base Tax	25%	35%
Tax Rate	32.7%	35%

Calculations based on Spring 2014 Revenue forecast. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Spring 2014 forecast.

Wait, SB 21 raises more revenue than ACES?

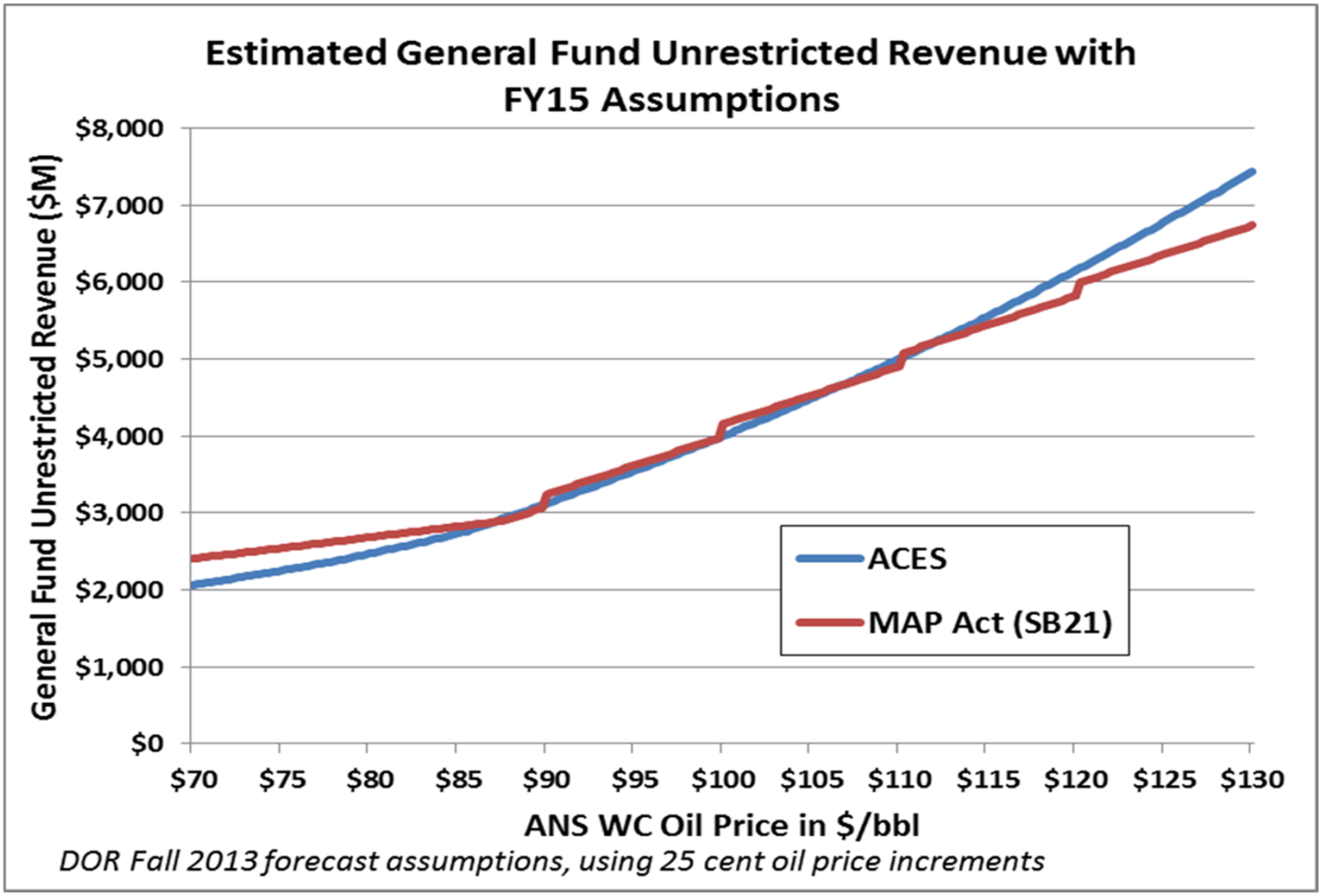
	ACES	MAP Act
Production Tax Value (PTV) Billions of dollars	$7.766	$7.702
Tax Rate	32.7%	35%
Tax Before Credits Billions of dollars	$2.538	$2.696
Deductible Credits[1]	-$884	-$903
Tax Revenue Billions of dollars	$1.654	$1.793

ACES credits based on qualified capital spending of $4.42 billion in deductible capital expenditures in FY 15.

Calculations based on Spring 2014 forecast. It is illustrative and represents an approximation of the production tax calculation and does not match production tax estimates throughout the Spring 2014 forecast.

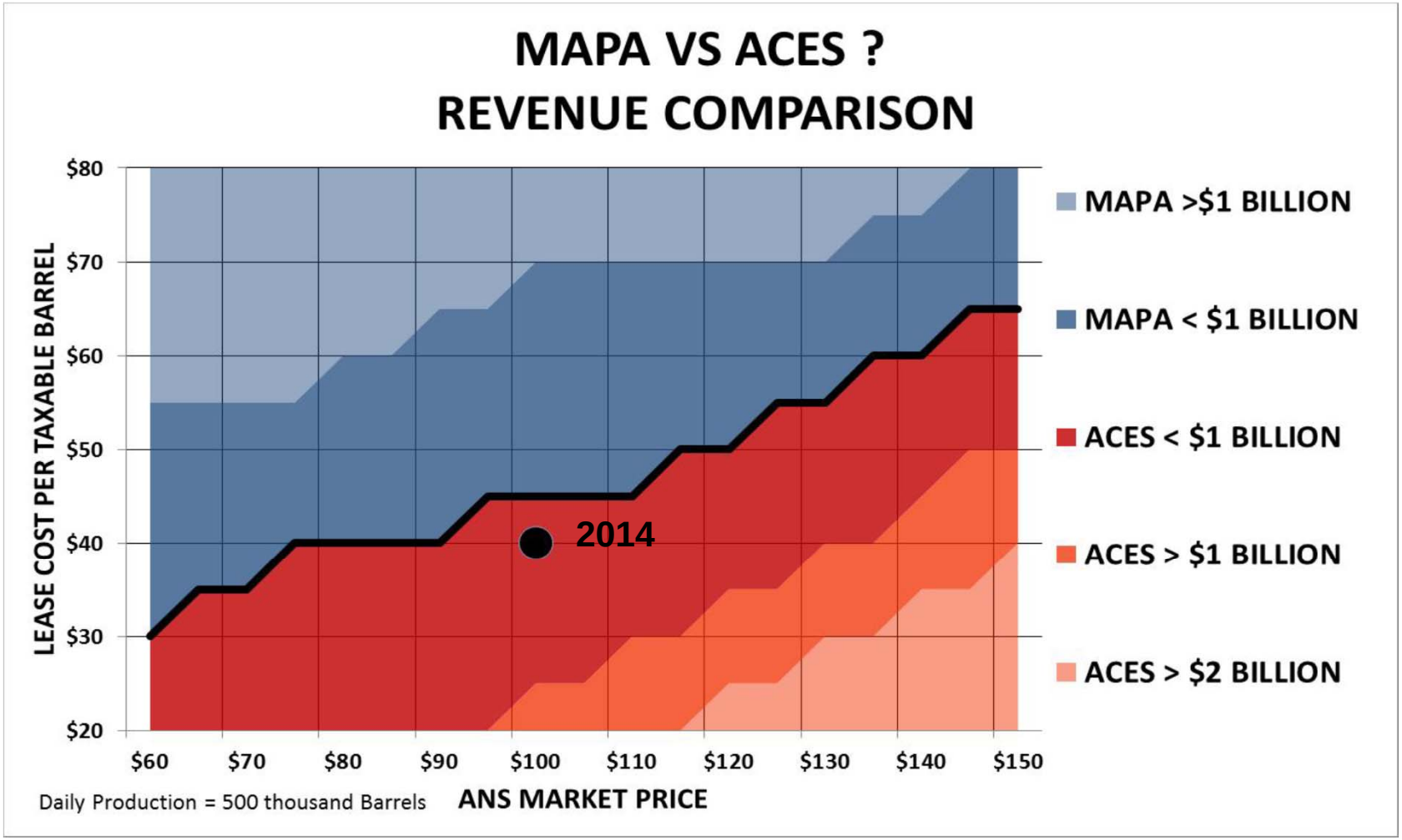
MAP Act Generates Revenues close to ACES in FY15 at a Range of Oil Prices

Fall 2013 Forecast



Source: Department of Revenue - Revenue Sources Book Fall 2013

ACES/MAP ACT CROSSOVER IS ILLUSTRATED IN GREATER DETAIL BY DR. SCOTT GOLDSMITH



Source: Scott Goldsmith, "Alaska's Oil Production Tax: Comparing the Old and the New," May 2014, p. 12. Complete report is available at http://iser.uaa.alaska.edu/Publications/webnote/2014_05_01_WebNote17WhereDidthe2BillionGo.pdf

Recent positive industry response to tax reform

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 new drilling pads, and expansions of existing pads, including the drilling of more than 110 new wells."

BP – Press Release 03 June 2013

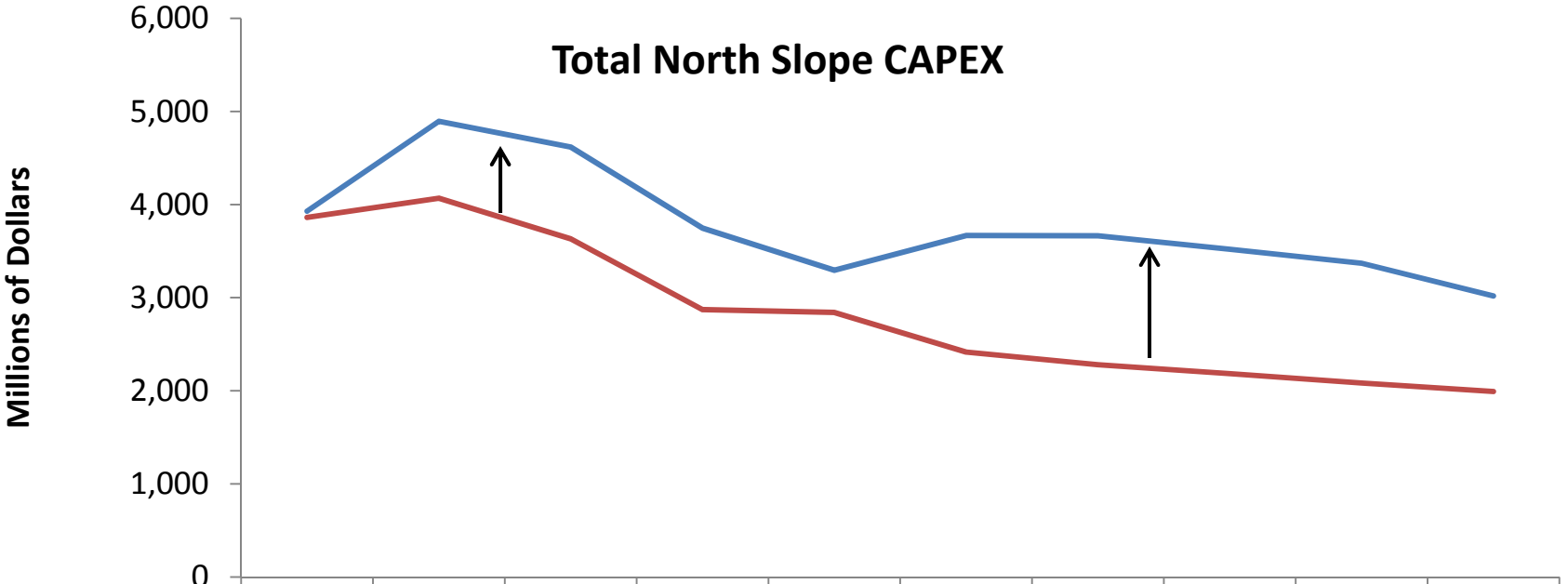
ConocoPhillips Alaska

"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

Spring 2013 to Fall 2013



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fall 2013	$3,929	$4,894	$4,617	$3,747	$3,294	$3,666	$3,664	$3,521	$3,370	$3,019
Spring 2013	$3,862	$4,069	$3,632	$2,870	$2,841	$2,416	$2,281	$2,184	$2,083	$1,992

Change	$67	$826	$985	$877	$453	$1,250	$1,383	$1,337	$1,287	$1,027

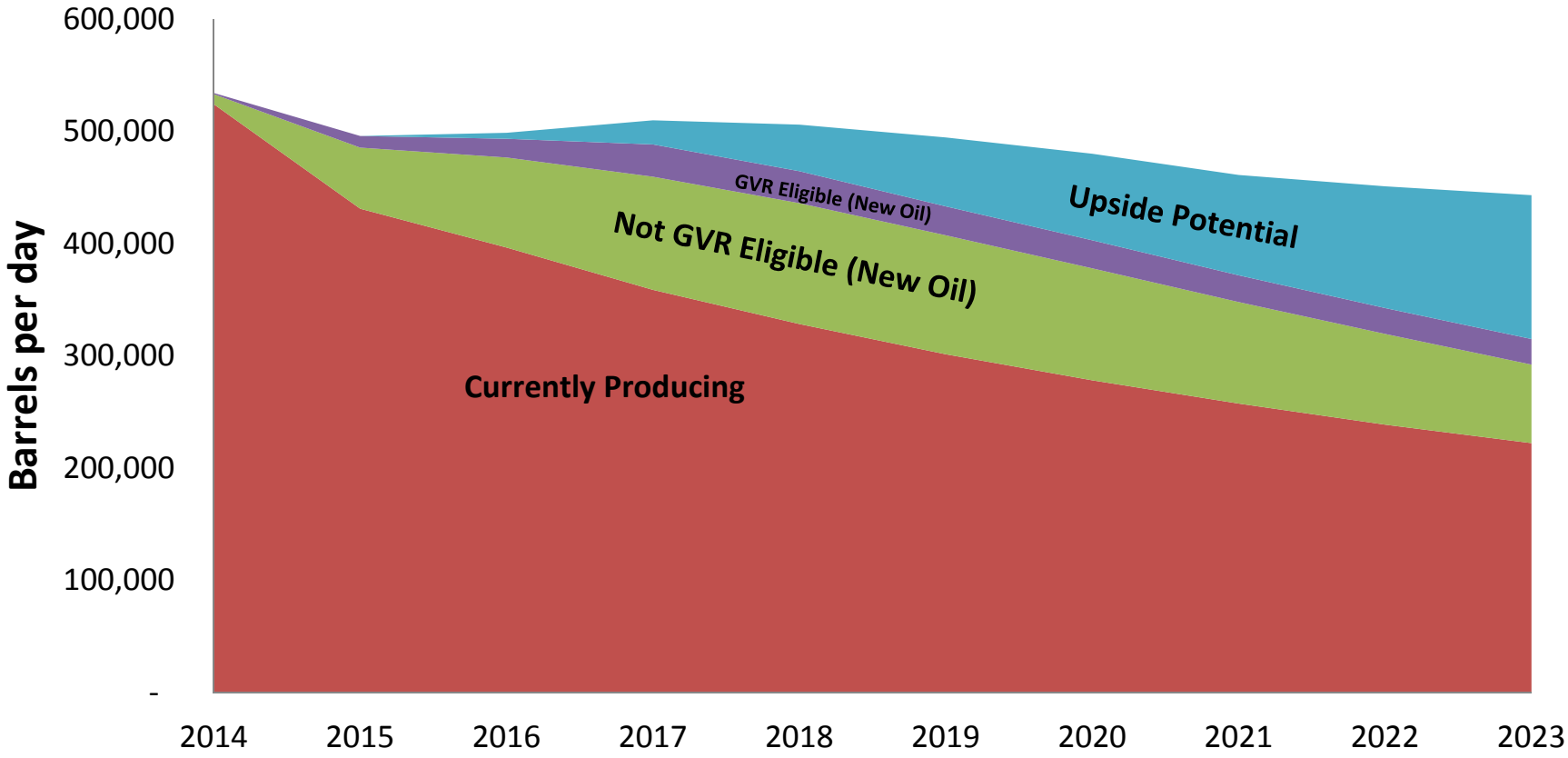
Note: These estimates include lease expenditures by companies that are not expected to have a tax liability.

Total Increase: $9,492

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

North Slope Production Forecast

Spring 2014



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

THANK YOU

Please find our contact information below:

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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