# Creating Opportunities for Alaskans

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

February 10, 2014

**Department of Revenue**

**Michael Pawlowski**
**Deputy Commissioner**

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?*

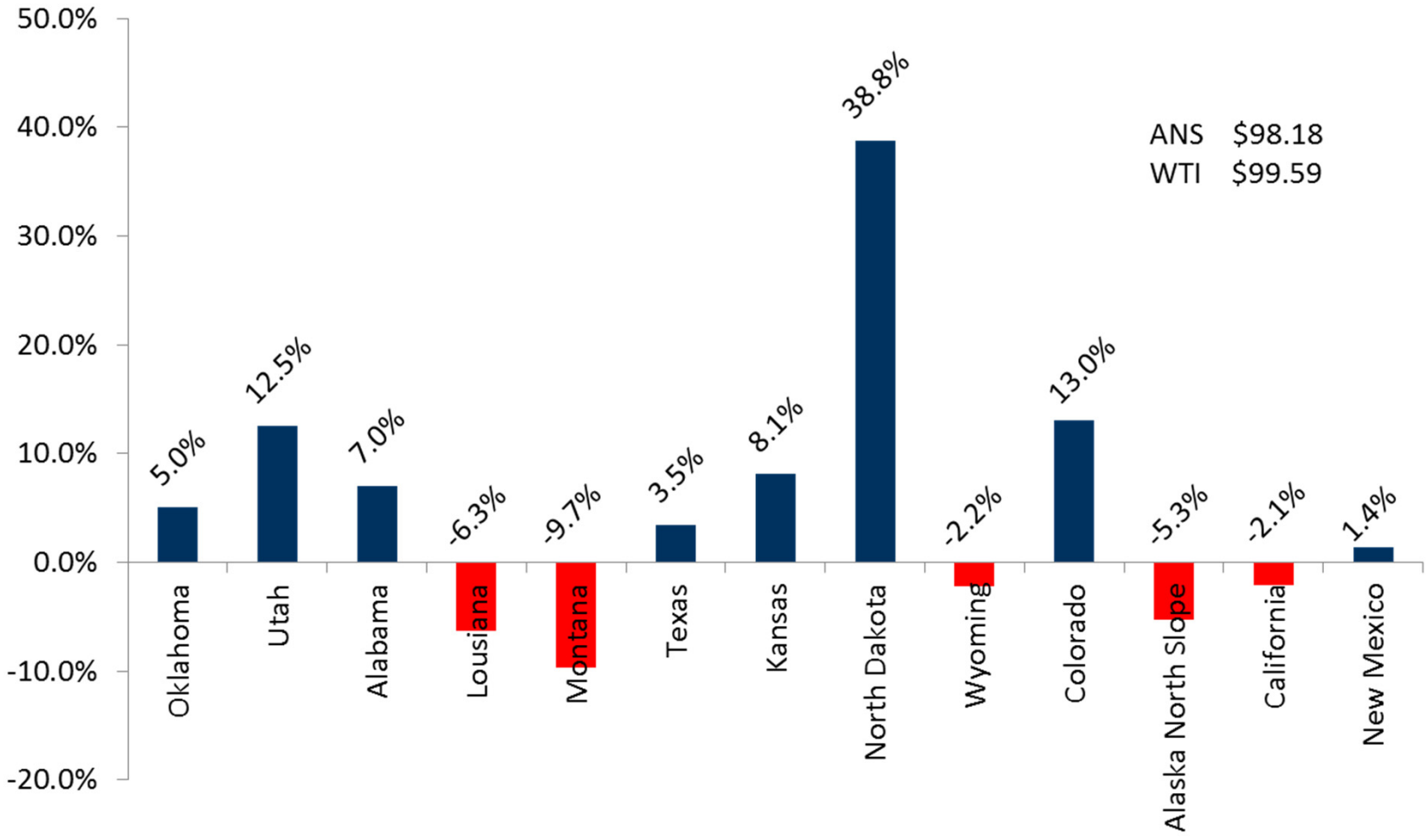
**Oil taxes were reformed because of:**

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

**Governor Parnell's Principles:**

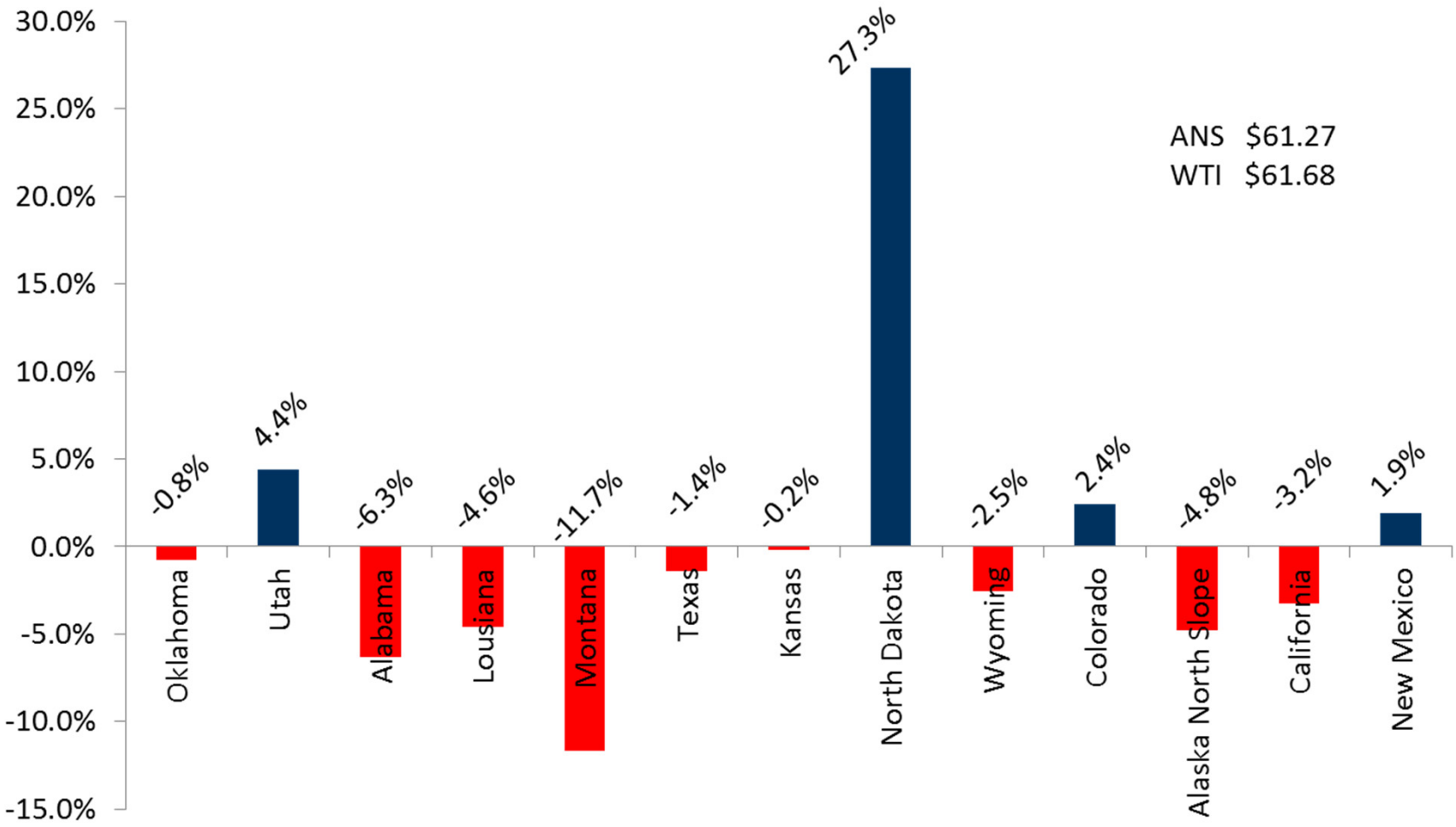
1. Fair to Alaskans.
2. Simple and balanced.
3. Encourage production.
4. Durable for the long term.

# Change in Average Daily Oil Production by State—2007-2008
## Prepared by DOR, Economic Research Group (March 18, 2013)



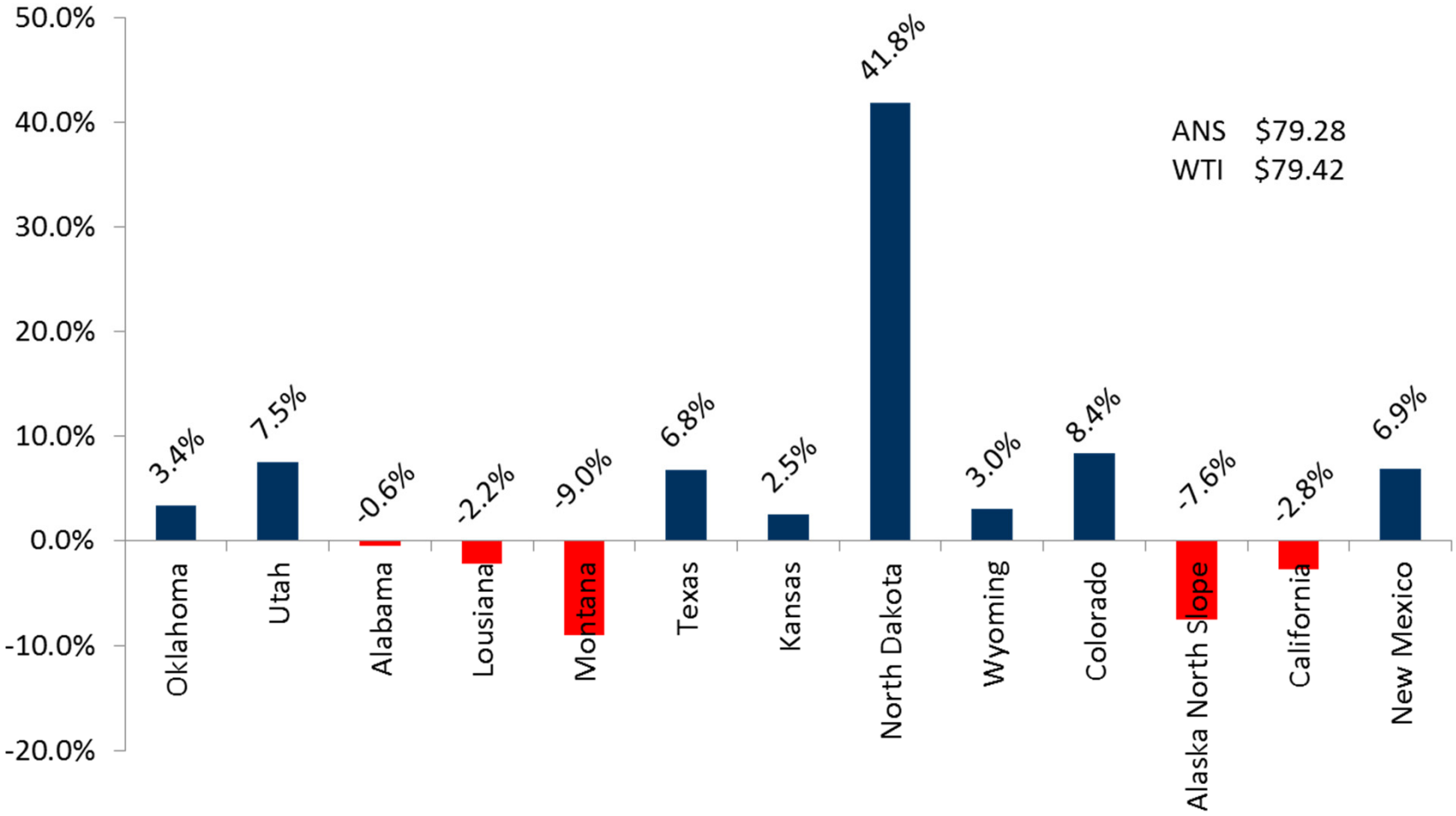

**Source:** ***EIA Crude Oil Production By State. Link:*** ***http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm***

# Change in Average Daily Oil Production by State—2008-2009
## Prepared by DOR, Economic Research Group (March 18, 2013)



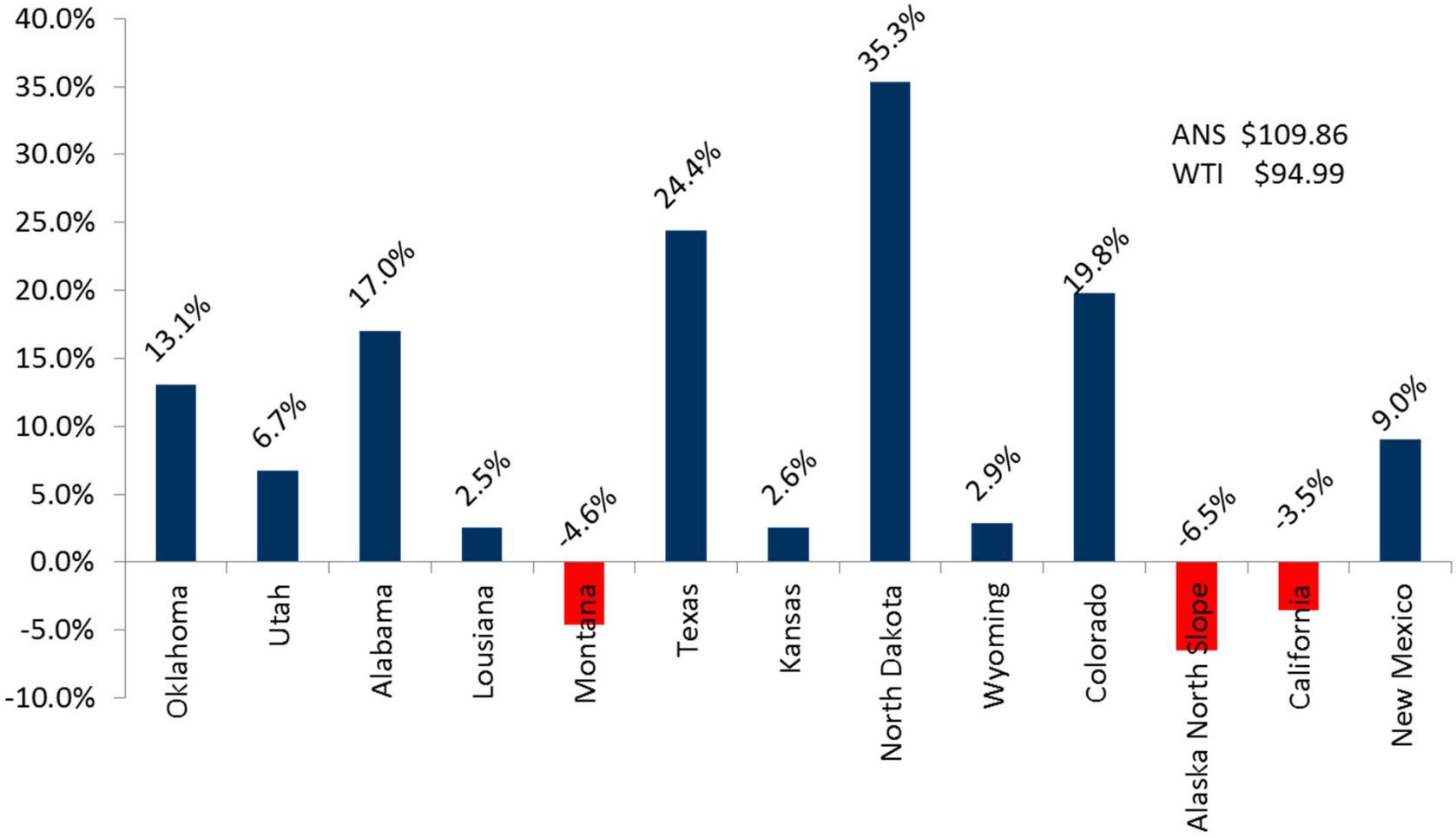

Source: *EIA Crude Oil Production By State. Link:* http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

# Change in Average Daily Oil Production by State—2009-2010
## Prepared by DOR, Economic Research Group (March 18, 2013)



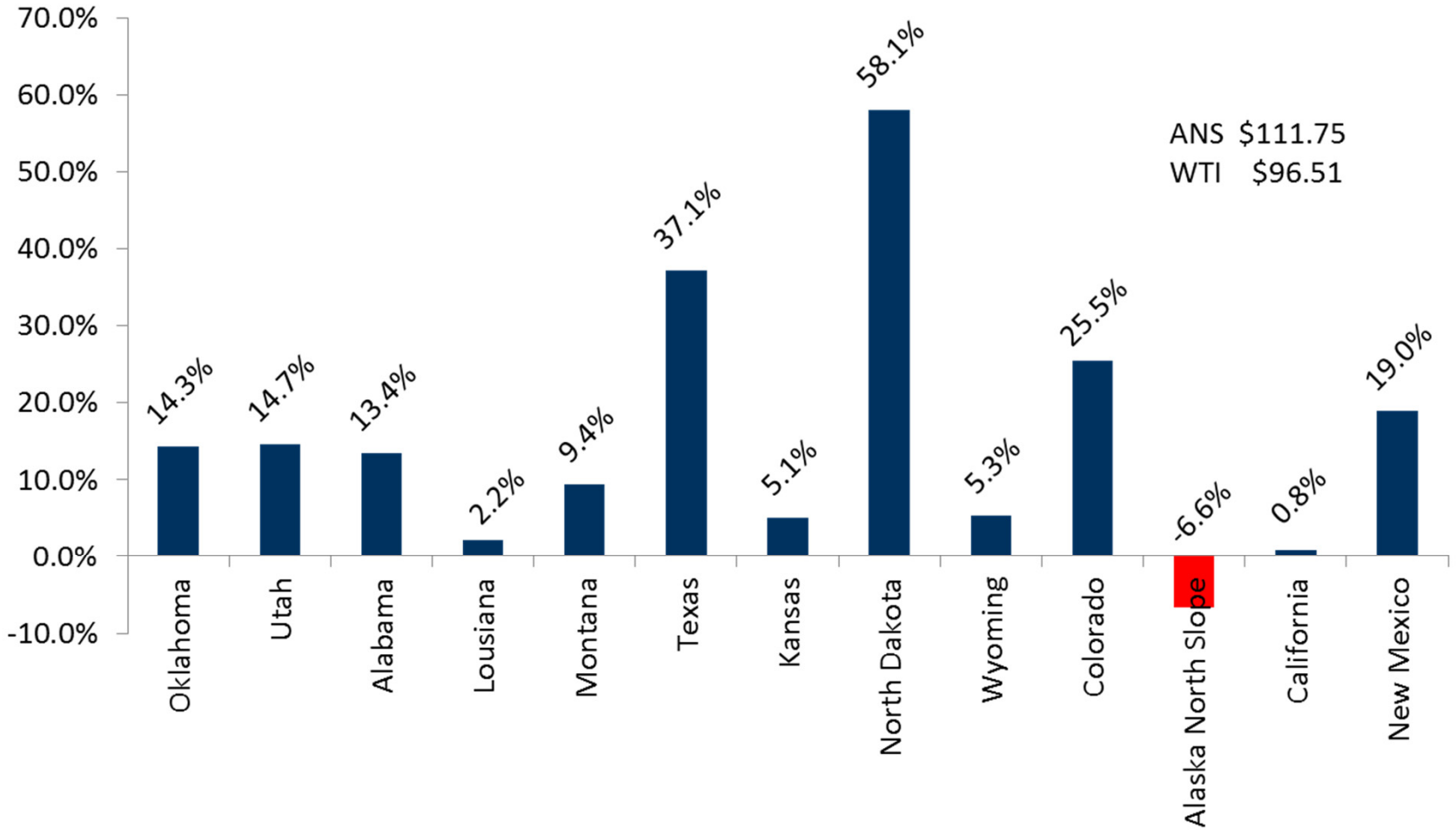

Source: *EIA Crude Oil Production By State. Link:* http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbblpd_m.htm

# 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***

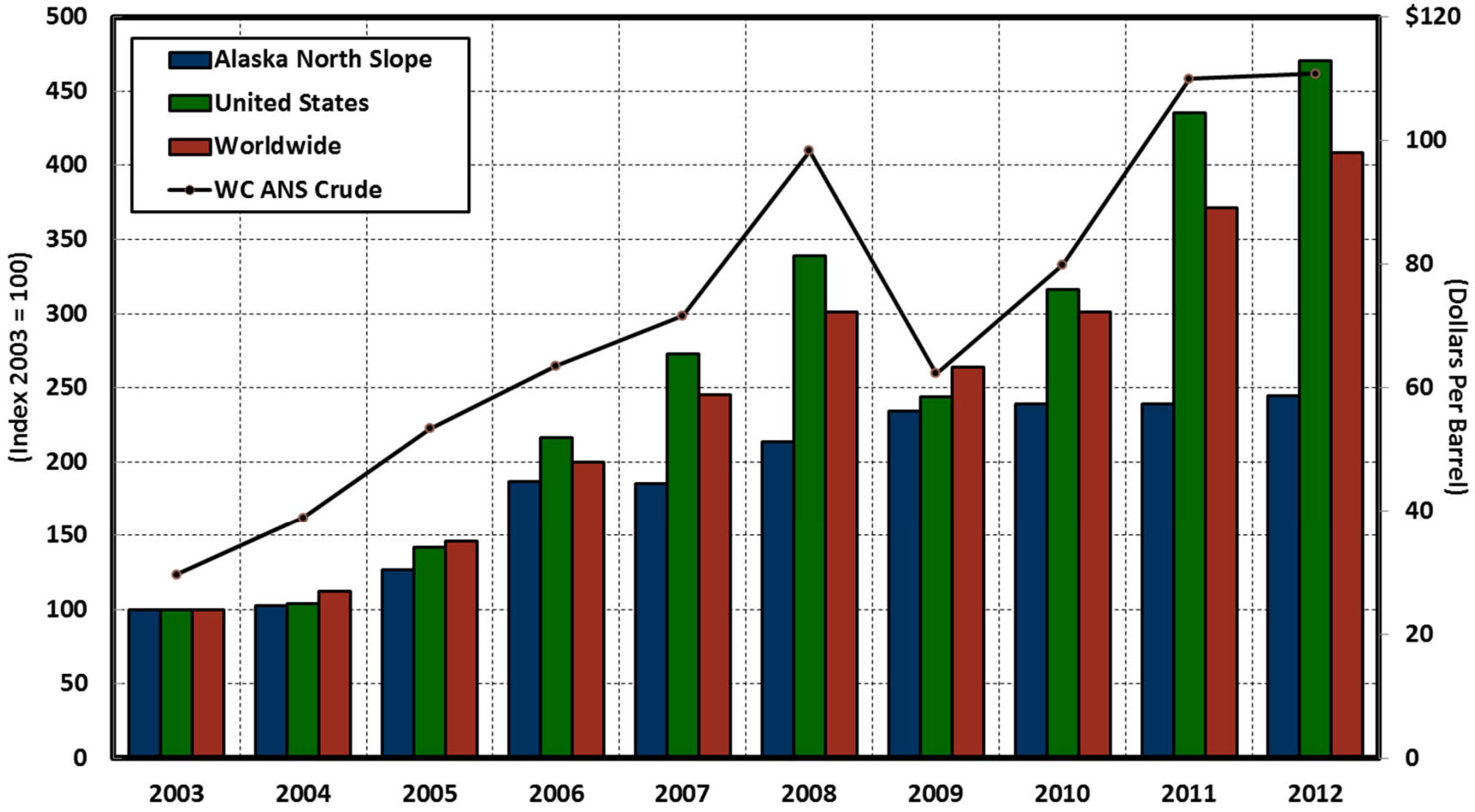
# Change in Average Daily Oil Production by State—2011-2012
## Prepared by DOR, Economic Research Group (March 18, 2013)




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

# Est. Capital Spending for Exploration & Development:

## AK North Slope vs. U.S. & World Spending*, 2003-2012



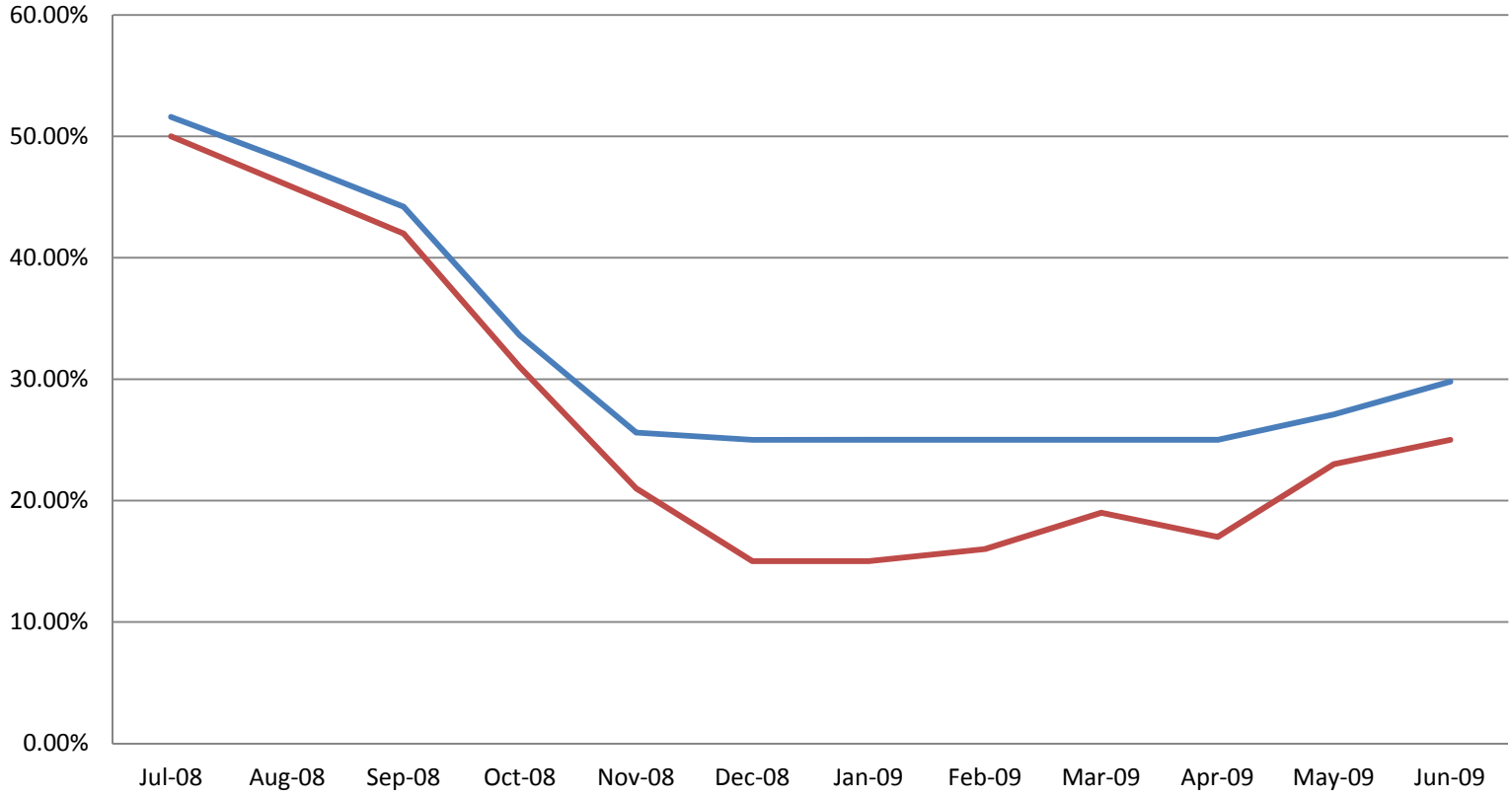

Prepared for Department of Revenue by EconOne: North Slope based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies

# 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

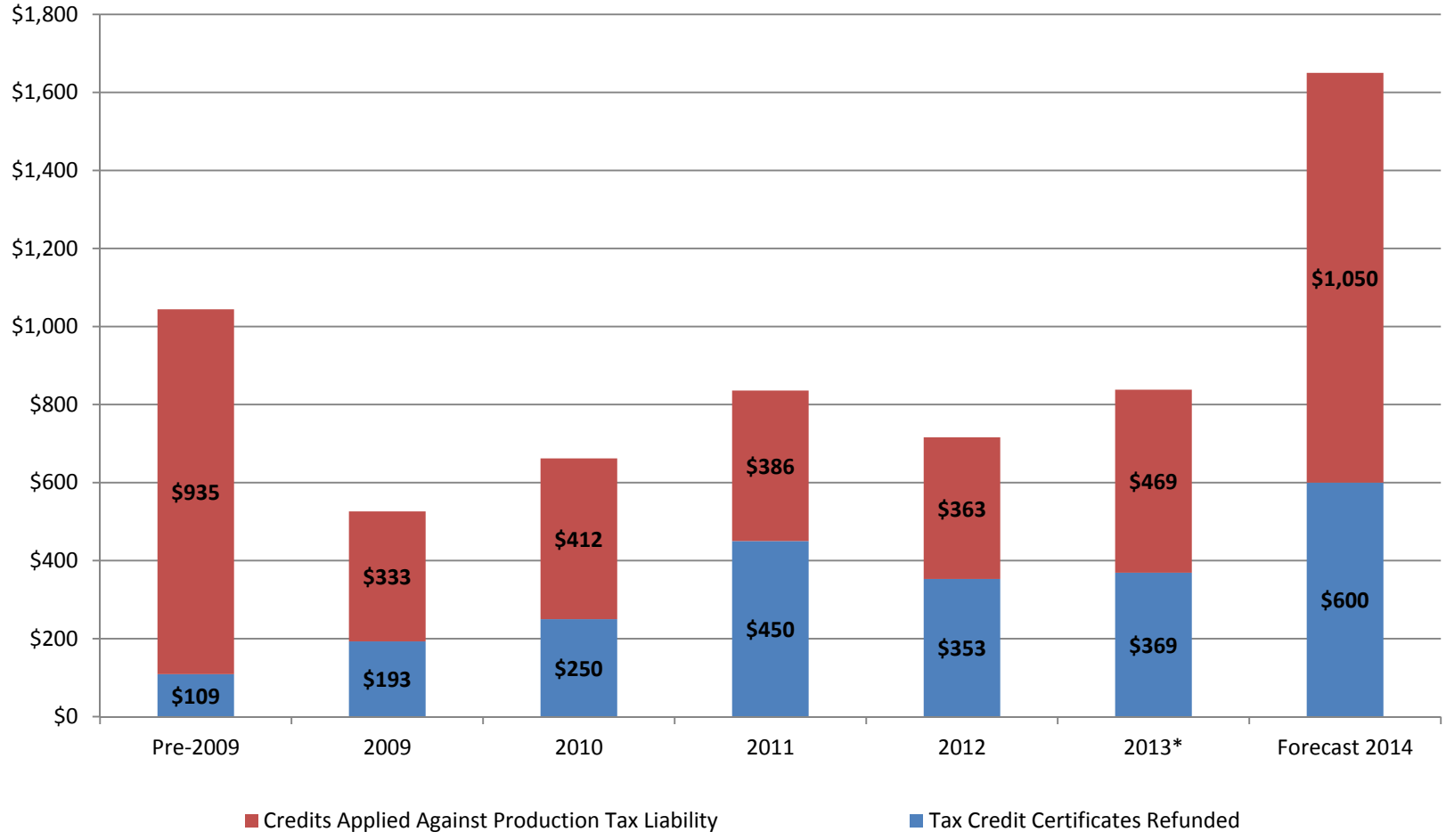
# ACES Had Tax Rates That Changed Monthly




| | 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

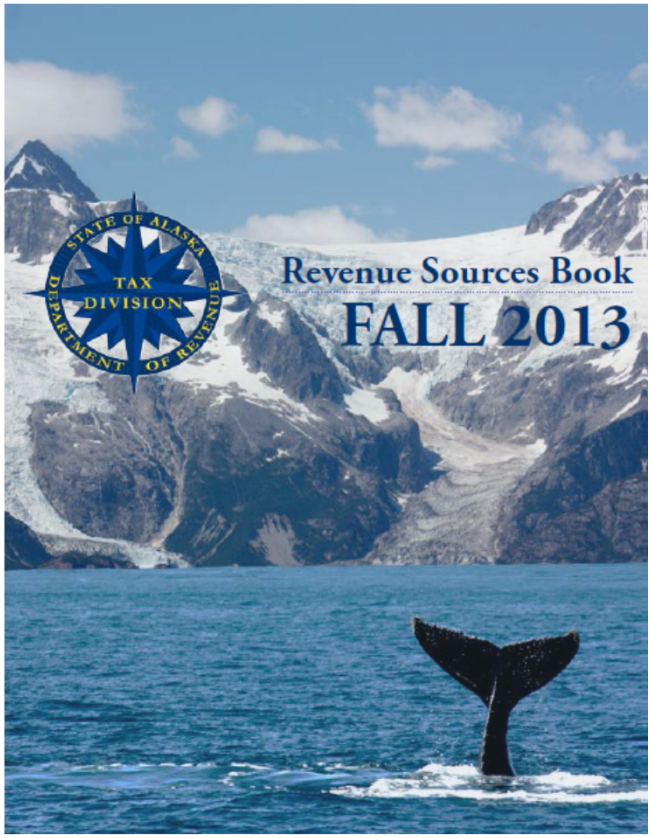
**Source: Alaska Department of Revenue, Economic Research Group**
**Note: FY 14 includes impact of closeout of capital credits earned in calendar year 2013 per SB 21.**

# 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.

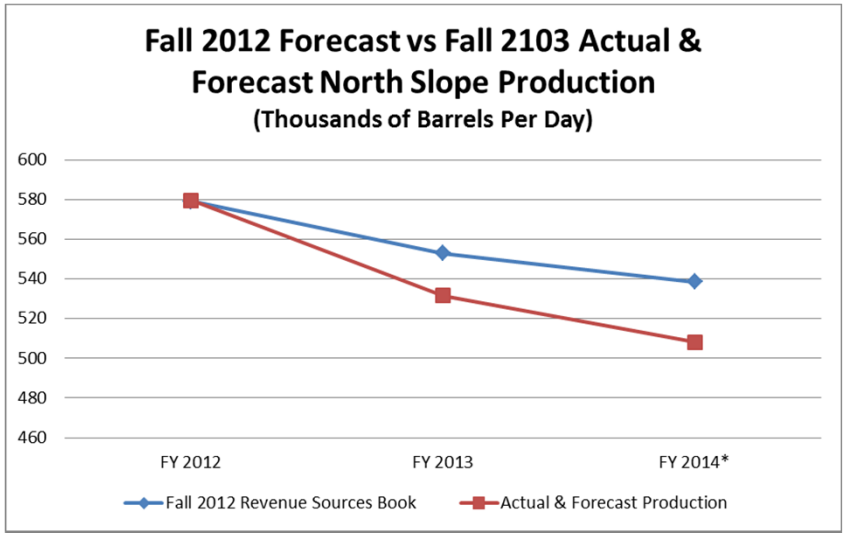
# Now What?

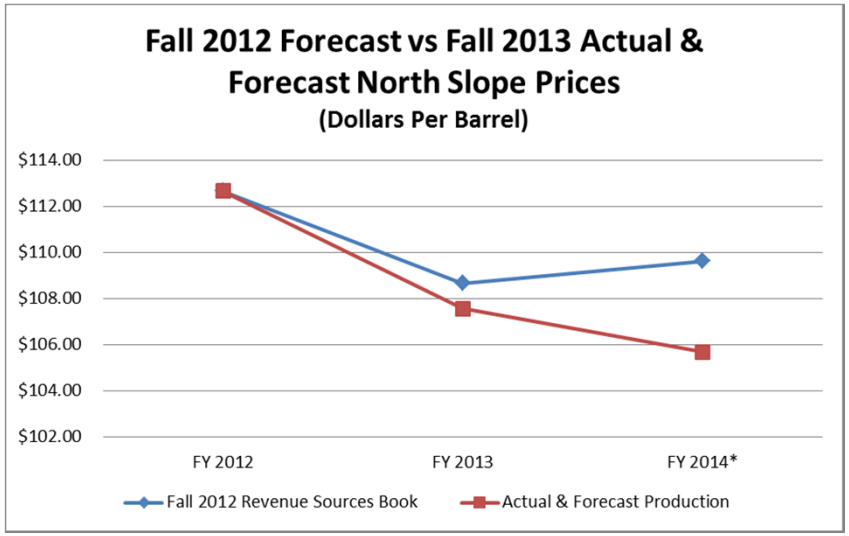
**What is happening with State revenues?**




**What is happening with North Slope production?**

# *Revenue Shortfalls Started Under ACES*




**Fiscal Year 2012**
July 1, 2011—June 30, 2012
Unrestricted Revenues
**$9.485 billion**

**Fiscal Year 2013**
July 1, 2012—June 30, 2013
Unrestricted Revenues
**$6.929 billion**

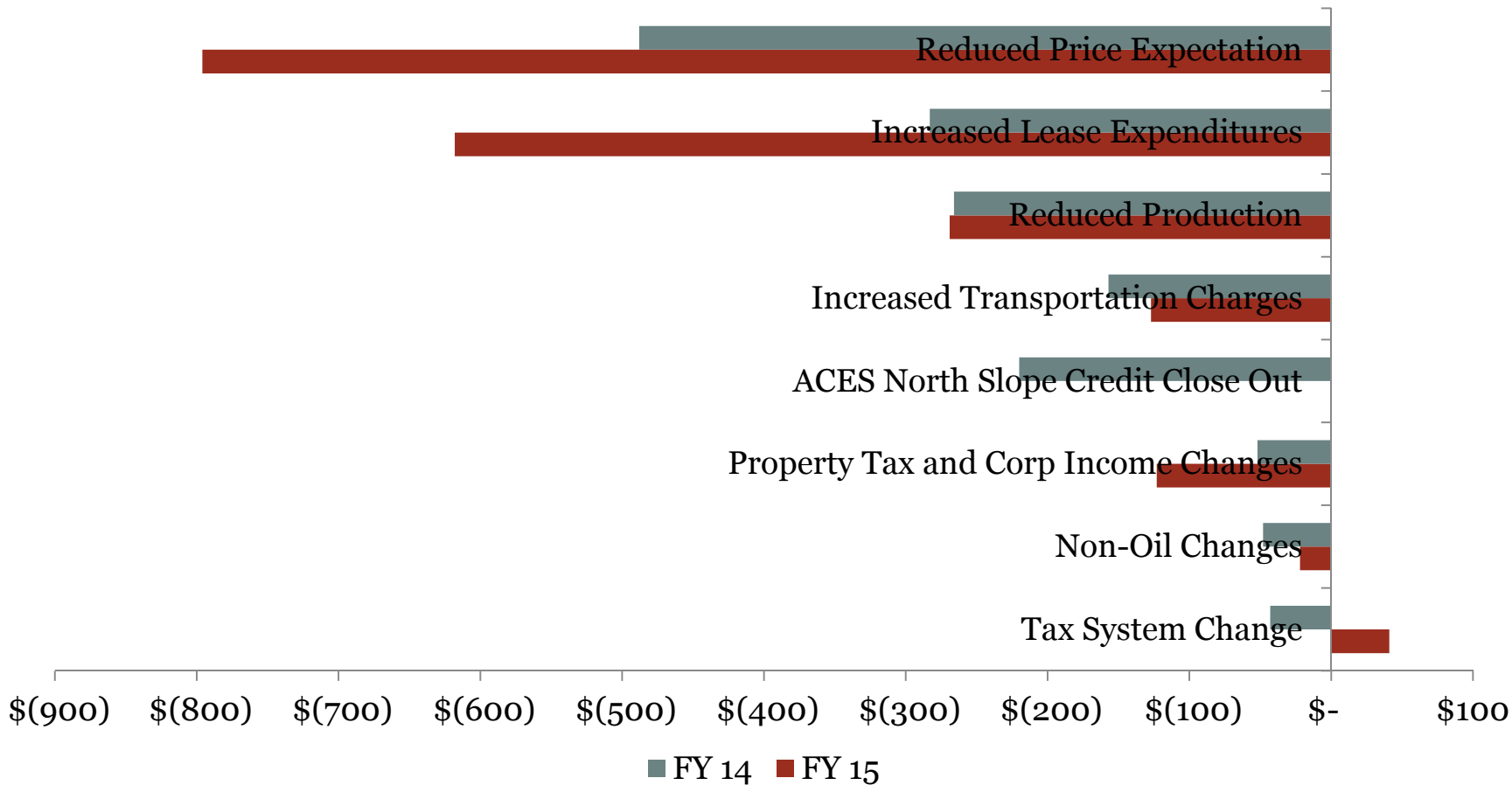
**Fiscal Year 2014**
July 1, 2013—June 30, 2014
Unrestricted Revenues
**$4.930 billion**

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 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.

| FY 15 | ACES | MAP Act |
|---|---|---|
| ANS Price | **$105.06** | **$105.06** |
| Transportation | -$10.03 | -$10.03 |
| Lease Expenditures | -$45.99 | -$45.99 |
| Production Tax Value (PTV/bbl) | $49.04 | $49.04 |
| Production Tax Value (total) | $7.778 billion | $7.715 billion* |

***Note: "new" oil incentive expected to reduce PTV by $63.8 million 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.**

# *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%.

| FY 15 | ACES $105.06/bbl | MAP Act $105.06/bbl |
|---|---|---|
| Production Tax Value (PTV) | $49.04 | $49.04 |
| Progressive Tax | 7.6% | N/A |
| Base Tax | 25% | 35% |
| Tax Rate | 32.6% | 35% |

**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.**

# *Wait, SB 21 raises more revenue than ACES?*

| FY 15 | ACES<br>$105.06/bbl | MAP Act<br>$105.06/bbl |
|---|---|---|
| Production Tax Value (PTV)<br>Billions of dollars | $7.778 | $7.715 |
| Tax Rate | 32.6% | 35% |
| Tax Before Credits<br>Billions of dollars | $2.535 | $2.700 |
| Deductible Credits[1] | -$890 | -$960 |
| Tax Revenue<br>Billions of dollars | $1.625 | $1.740 |

**Note:** 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. (1) Deductible credits is an estimation based on forecast capital spending and not intended as an actual forecast.

# *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***

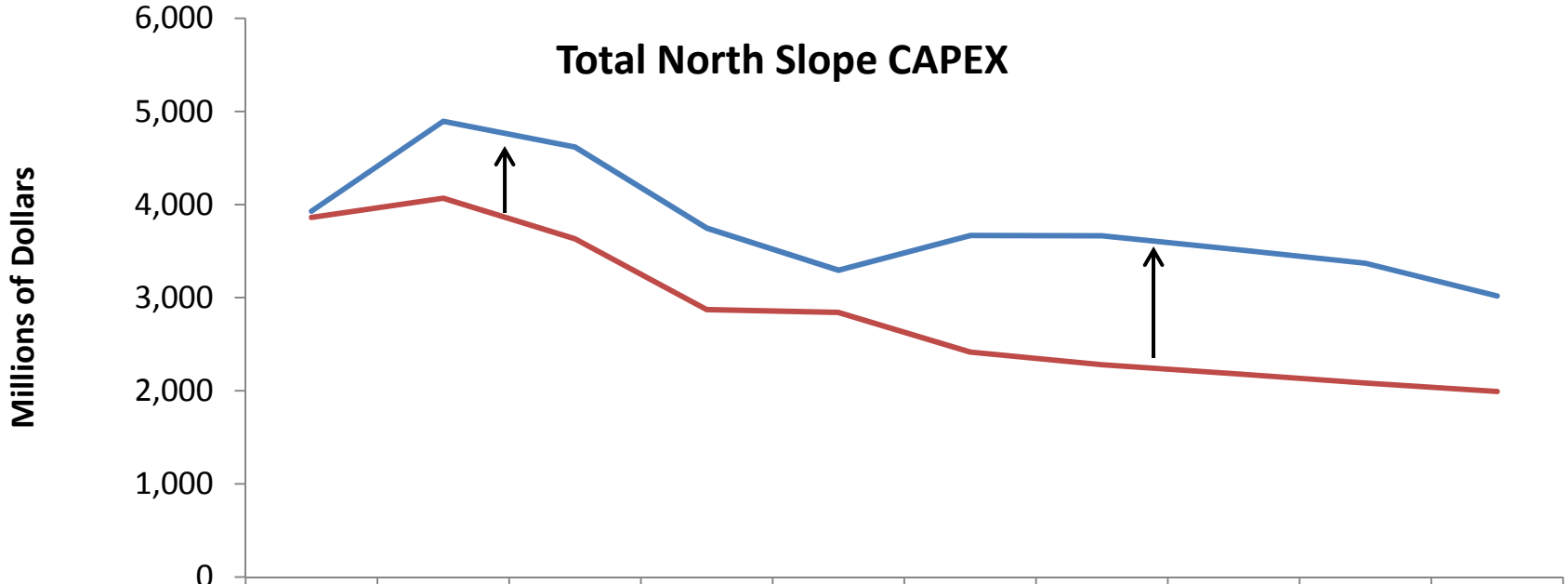
ConocoPhillips
Alaska

***"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

## Fall 2013 to Spring 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 |

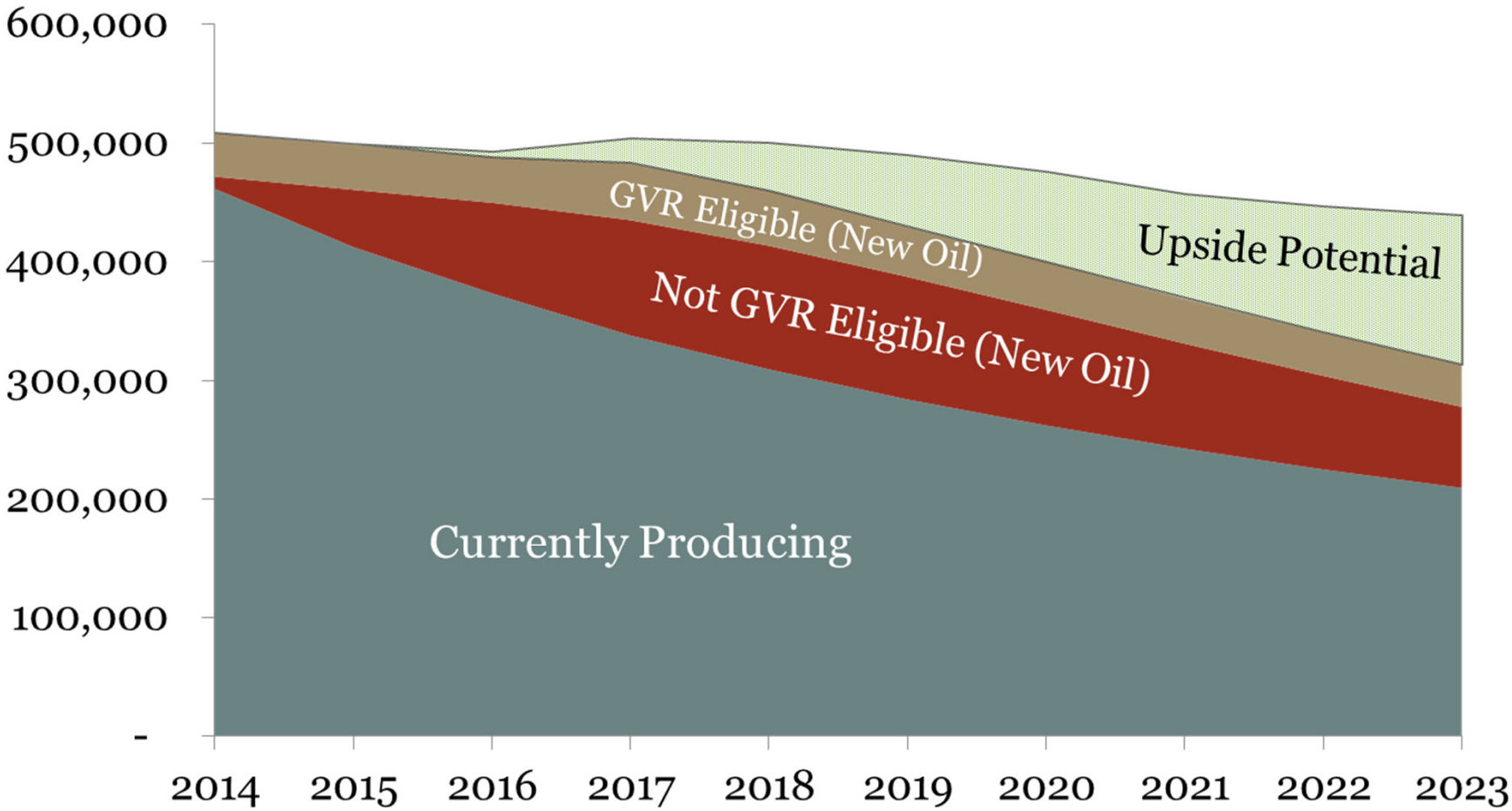
Note: These estimates include lease expenditures by companies that are not expected to have a tax liability.

**Total Increase: $9,492**

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

# North Slope Production Forecast

## Fall 2013



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**