The More Alaska Production Act in 15 minutes
A presentation to Southeast Conference

March 13, 2014

Department of Revenue

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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)

What were the main reforms?

Oil taxes were reformed because of:

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

Key reforms:

1. Replaced variable tax rates with fixed rate.
2. Changed from credit based on spending to one based on production.
3. Added incentives for new oil production.

Replaced variable tax with fixed rate?

ACES

Tax Rate = 25% + Progressive Rate

Progressive Rate:

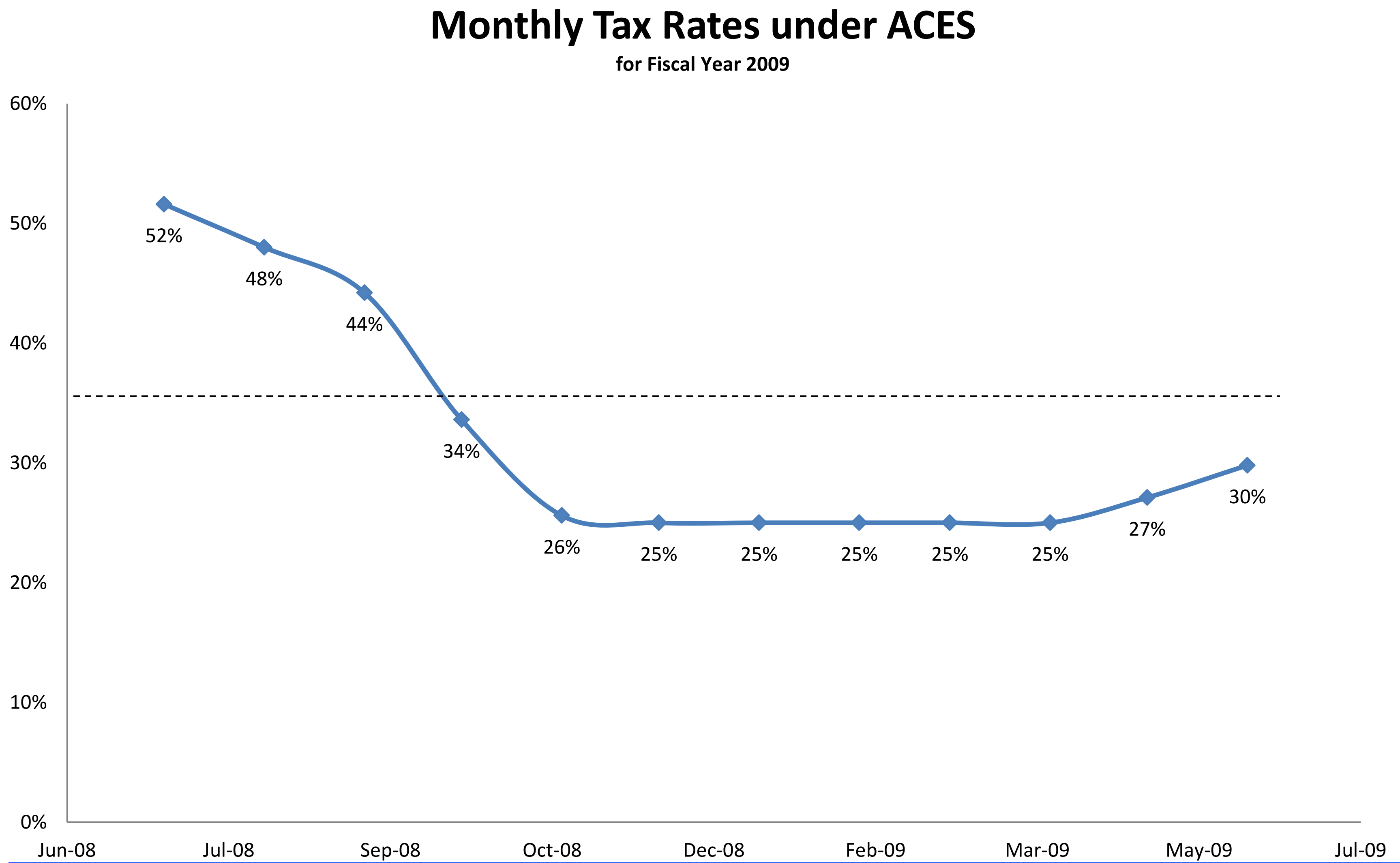
1. West Coast Price – Transportation Costs = Gross Value at the Point of Production (GVPP).
2. GVPP – Lease Expenditures = Production Tax Value (PTV).
3. If PTV/bbl is less than $92.50, rate is 25% PLUS PTV/bbl – 30 x .004%.
4. Above $92.50, rate is 50% PLUS PTV/bbl – 92.50 x .001%.

Maximum Rate: 75% (25% +50%)

MAP Act (SB 21)

Tax Rate = 35%

ACES Had Tax Rates That Changed Monthly



Source: Alaska Department of Revenue, Economic Research Group

Changed from credit based on spending to one based on production.

ACES

Qualified Capital Expenditure Credit:

20% of capital spending.

Credit **can** reduce tax below minimum tax.

MAP Act (SB 21)

Dollars Per Taxable Barrel:

Gross Value < $80 = $8

Gross Value < $90 = $7

Gross Value < $100 = $6

Gross Value < $110 = $5

Gross Value < $120 = $4

Gross Value < $130 = $3

Gross Value < $140 = $2

Gross Value < $150 = $1

Gross Value > $150 = $0

Credit **cannot** reduce tax due below minimum tax of 4% of gross value.

Added incentives for new oil production.
→ Reduces tax liability in new production areas.

ACES

Old and new production taxed at same, company-wide tax rate.

MAP Act (SB 21)

New “Gross Value Reduction” (GVR) excludes 20% or 30% of the gross value of qualifying production, from the tax calculation.

- Areas around a current PA that may not be commercial to develop
- New pools of oil that have not been discovered or developed
- GVR eligible oil received flat $5/bbl credit rather than sliding scale, can offset minimum tax.

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

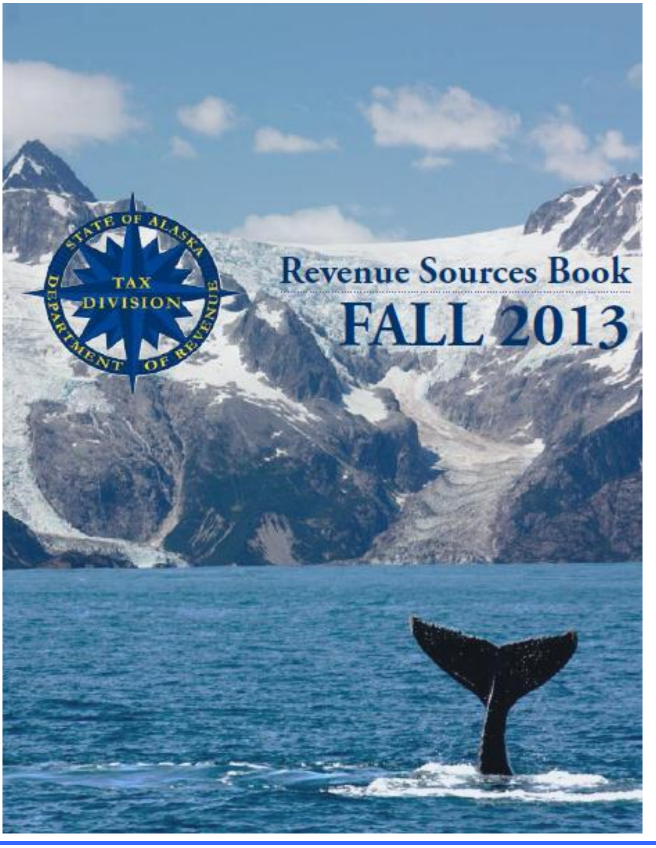
- Took a tax system with *variable tax rates* and *credits for capital spending* and simplified it with a <u>flat tax rate of 35% </u>and <u>credits for production.</u>

- Provided extra incentives for production from new units and undeveloped participating areas in existing units.

- **<u>Did not</u>** change royalties, property tax or corporate income taxes on oil production.

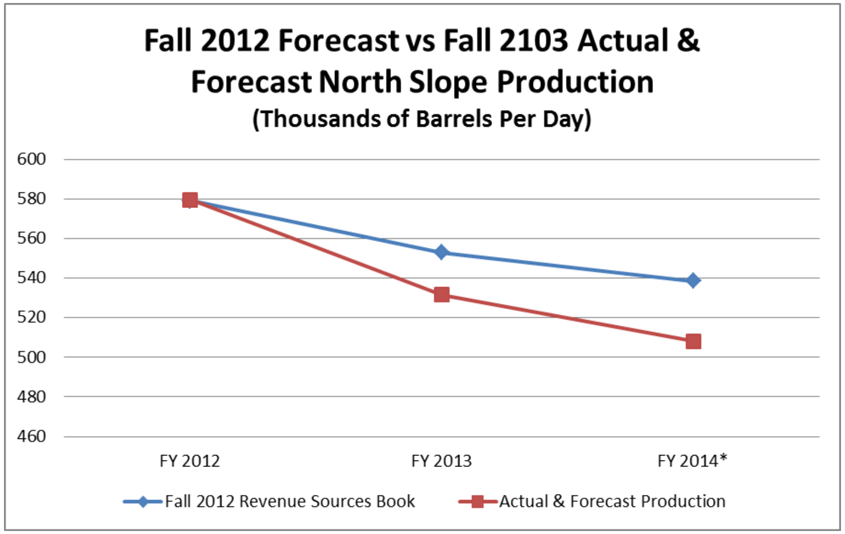
Now What?

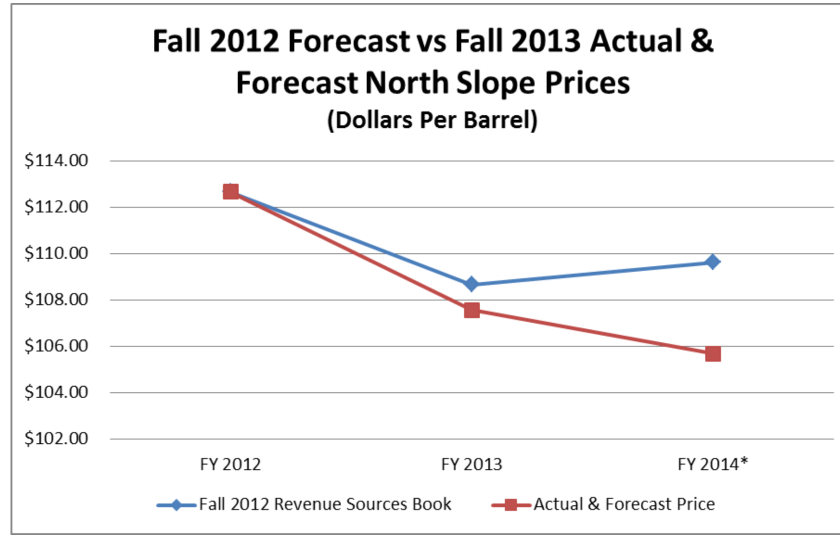
What is happening with State revenues?



What is happening with North Slope production?

Revenue Has Been Declining Since 2011





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

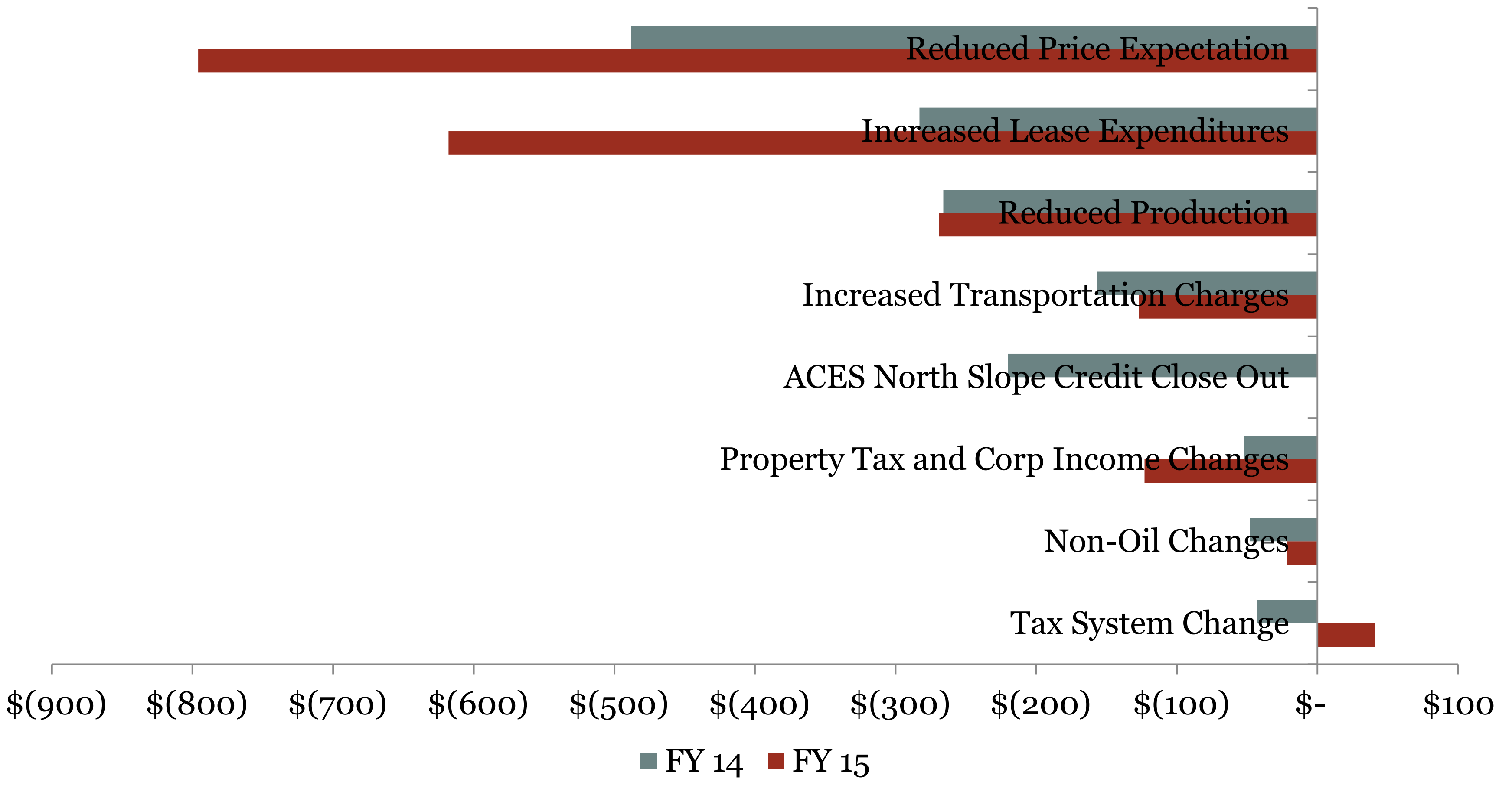
Unrestricted Revenues
$4.930 billion

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

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

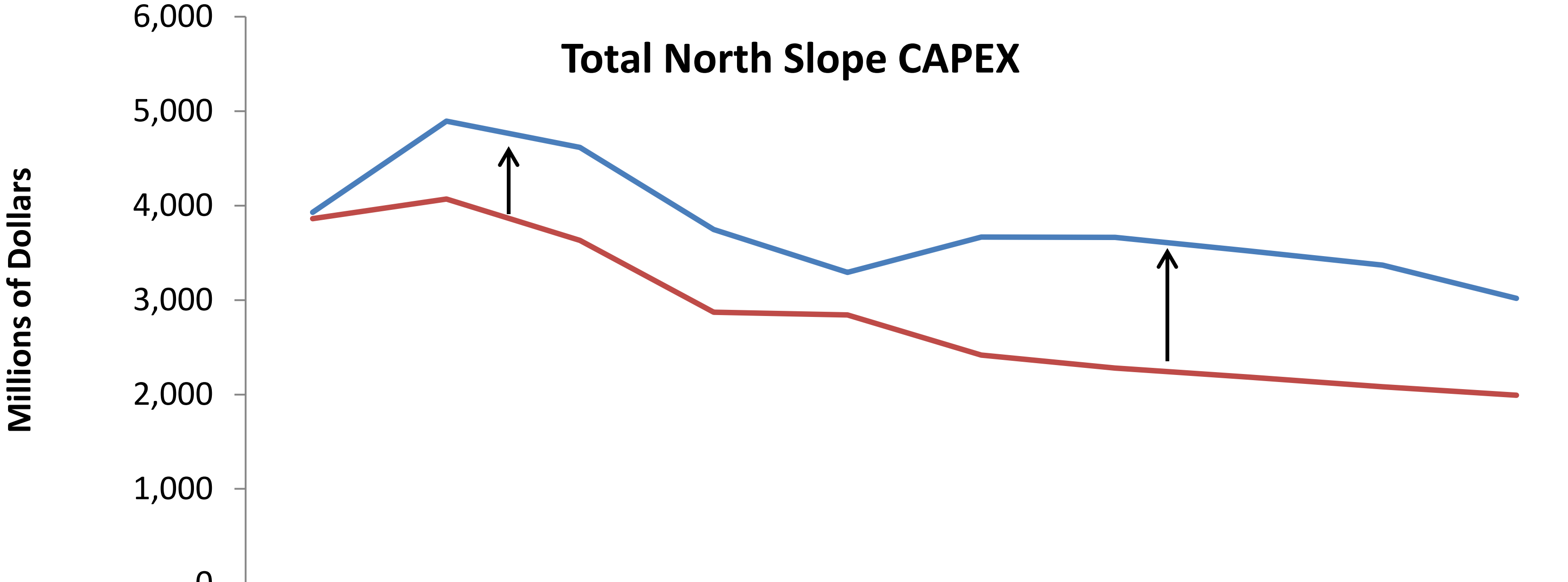
Major Contributors of Changes in Revenue Forecast (FY14-15)



Source: DOR December 2013 estimates

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

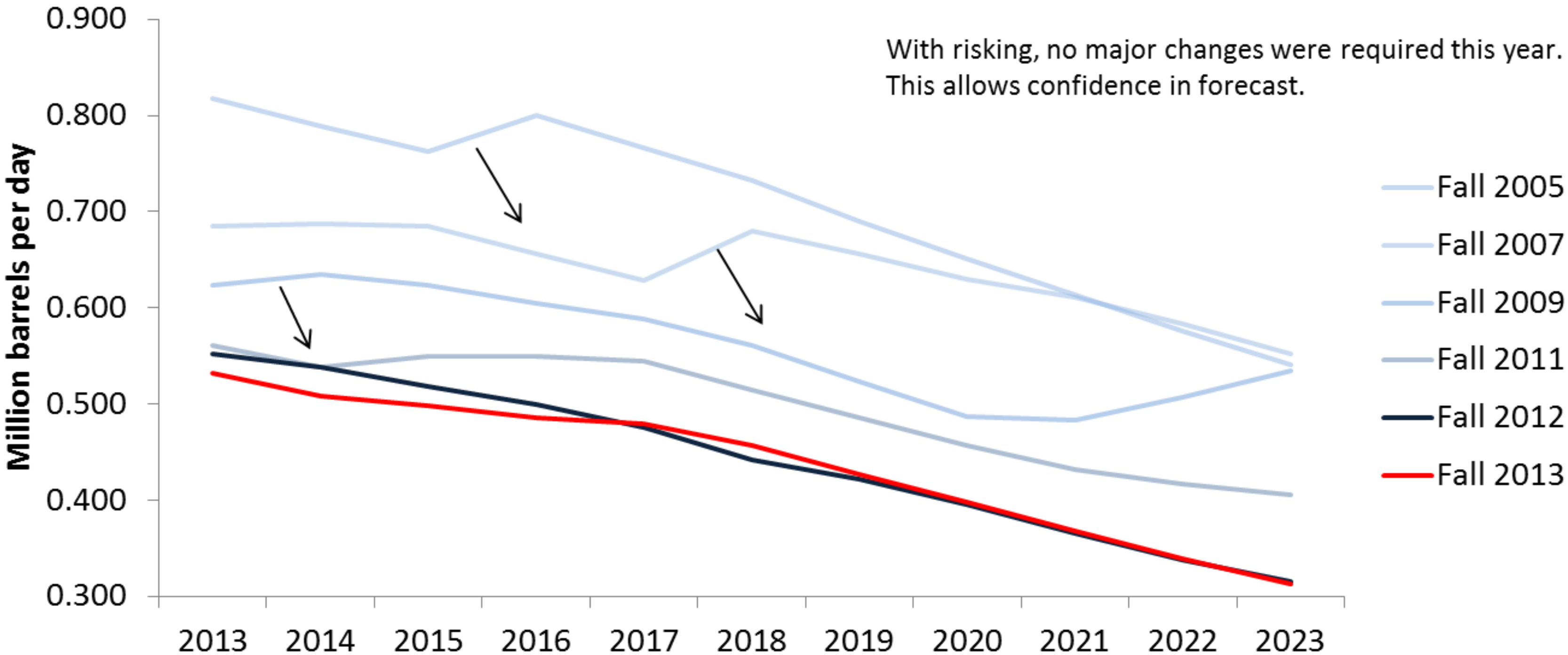
Change	$67	$826	$985	$877	$453	$1,250	$1,383	$1,337	$1,287	$1,027

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

Total Increase: $9,492

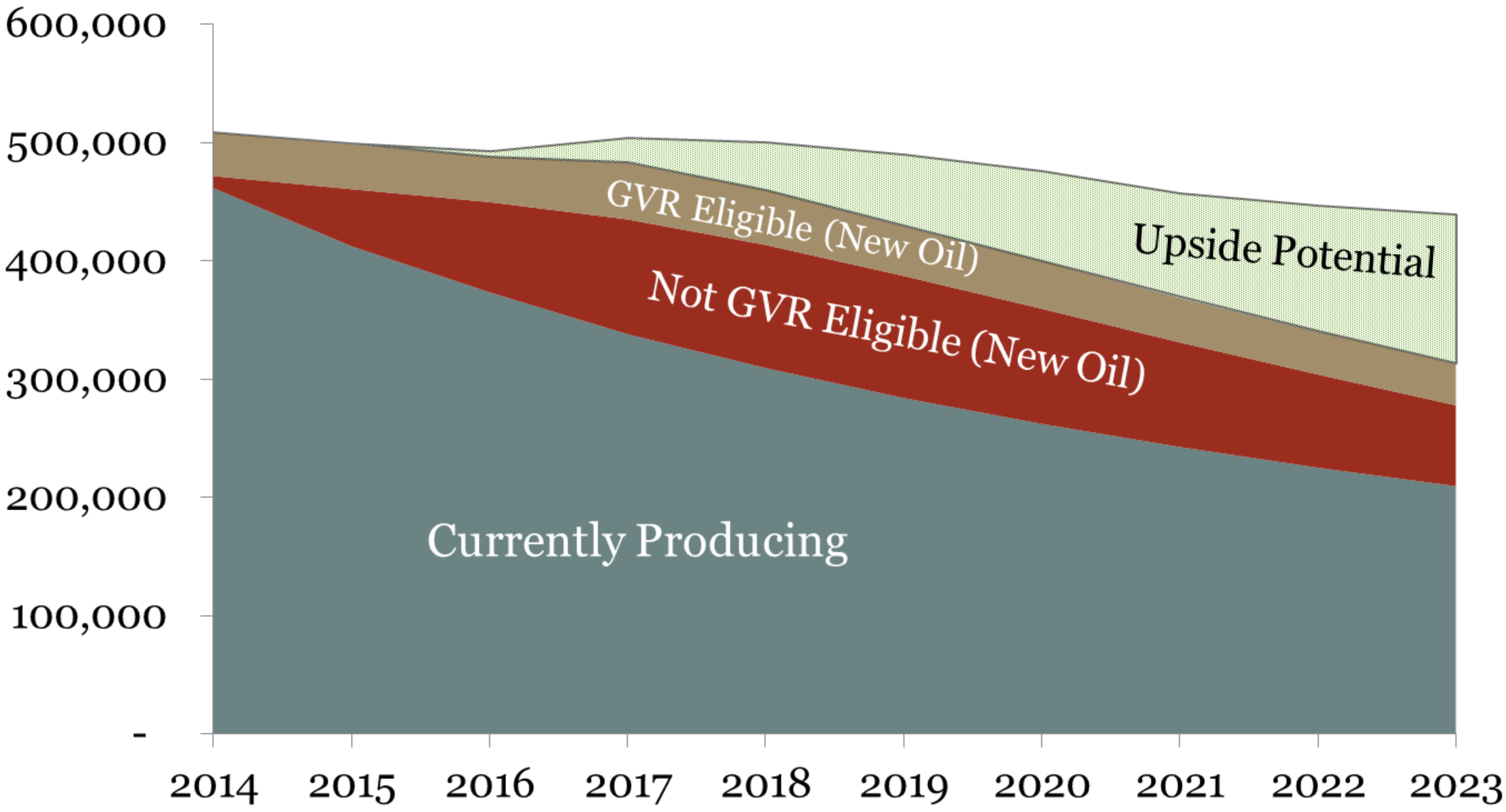
Source: Department of Revenue - Revenue Sources Book Fall 2013 / 2012

COMPARING ANS OIL PRODUCTION FORECASTS



Source: Department of Revenue - Revenue Sources Books Fall 2005-2013

North Slope Production Forecast
Fall 2013



THANK YOU

Please find our contact information below:

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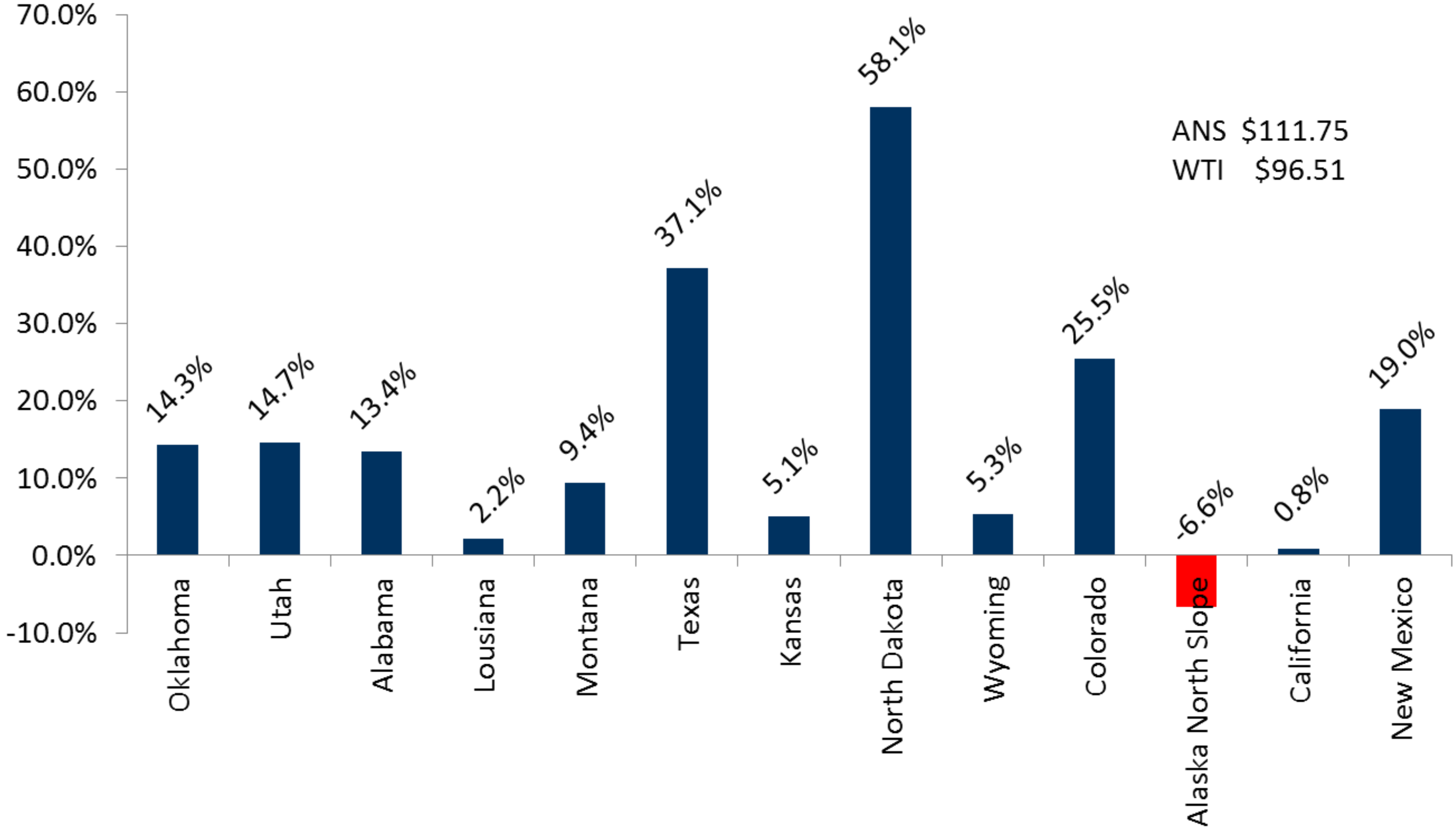
Resources

http://dor.alaska.gov/MAPActDocuments.aspx

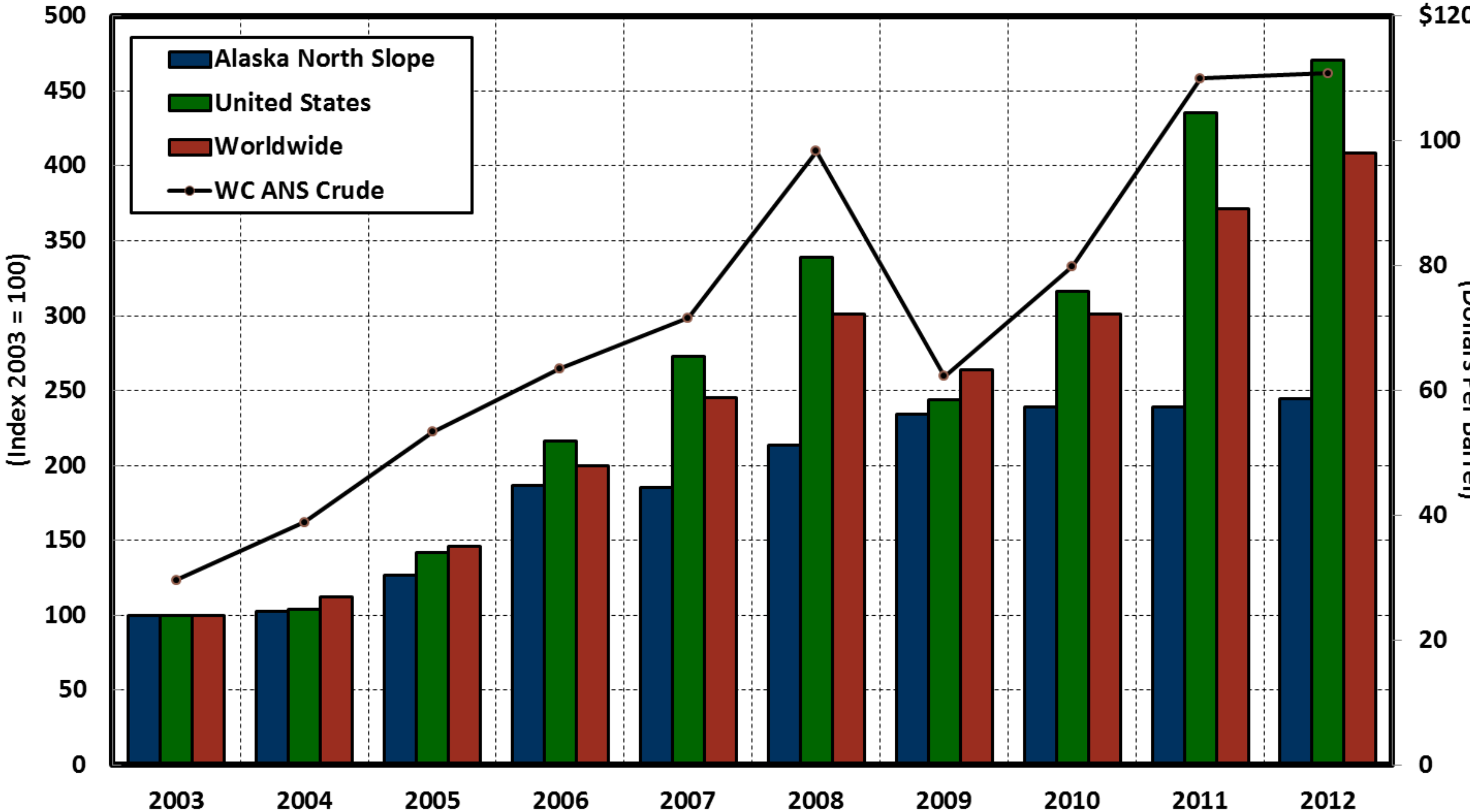
Supplemental Slides

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

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 (PTV/bbl)	$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).

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%.

	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%

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?

	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.