

Evaluation of ACES with Proposal

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Fairbanks Chapter
Alaska Industry Support Alliance
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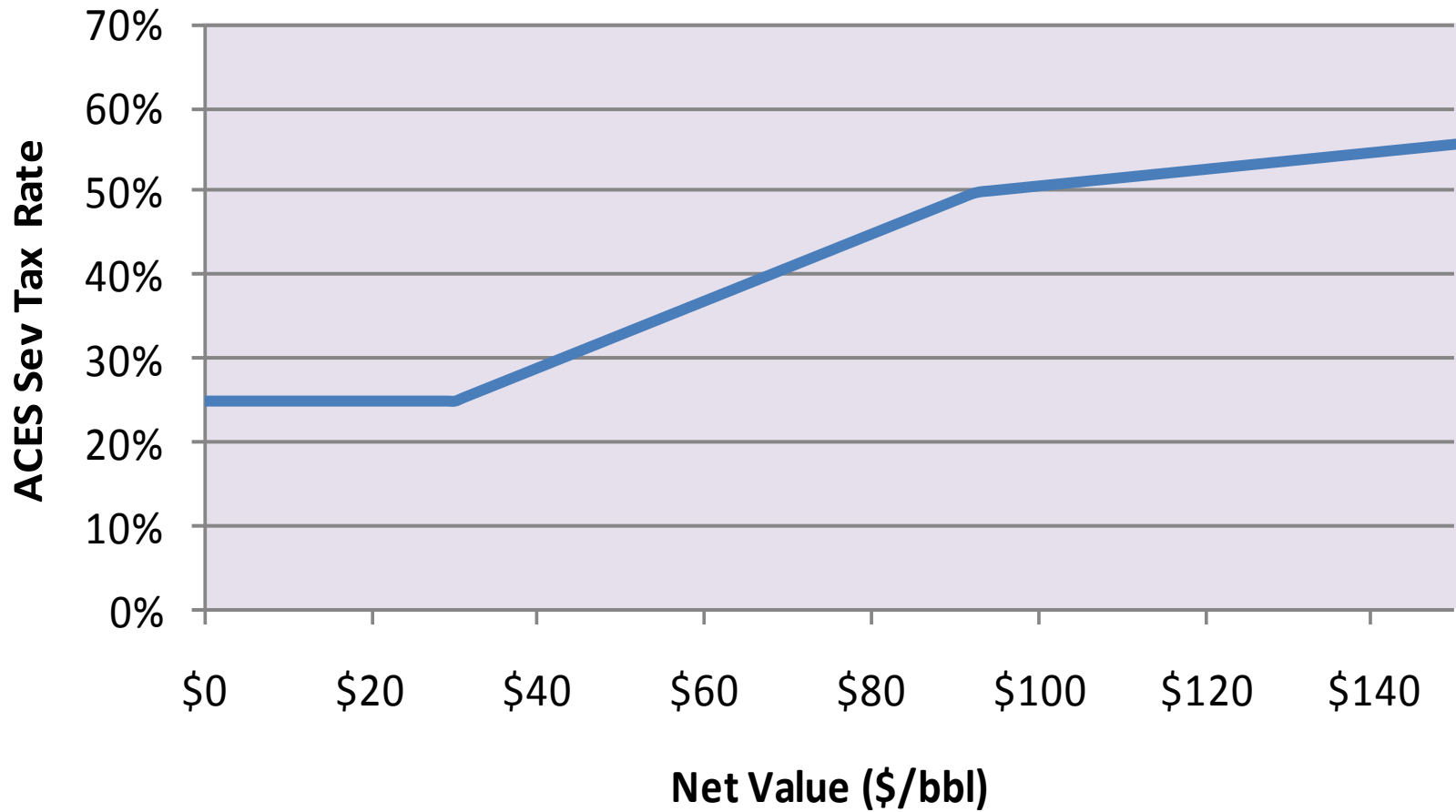
Overview

- I. How ACES Operates / Problems it Creates
- II. International Competitiveness
- III. Current Evidence of Problems from ACES
- IV. Proposal to Fix ACES

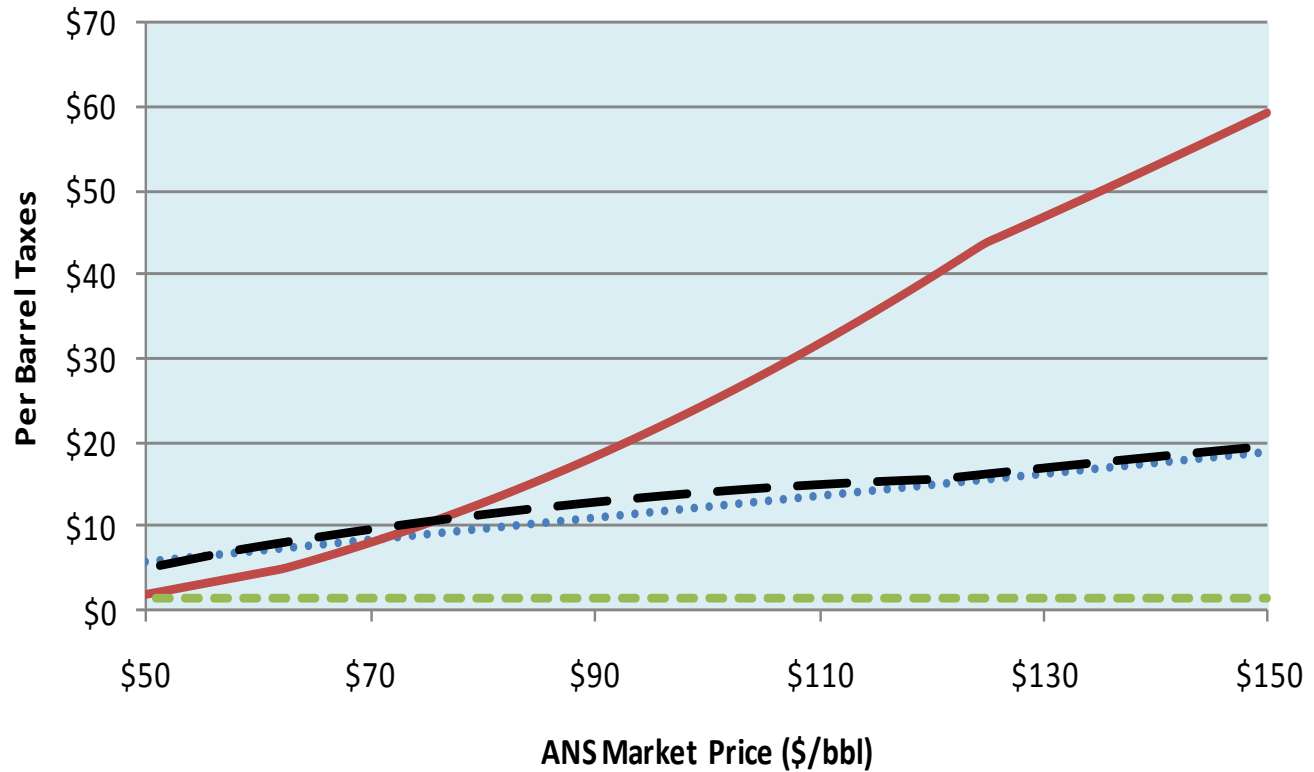
Tax Rate under ACES

- Base rate of 25% of net value (after deducting all costs)
- Progressivity element when net value per barrel exceeds \$30/bbl:
 - $(\text{Net value per barrel value} - \$30) \times .004$
- If oil market price is \$90/bbl:
 - Net value per barrel is \$61/bbl
 - $\text{Progressivity} = (\$61 - \$30) \times .004 = 12.4\%$
 - $\text{Total tax rate} = 25\% + 12.4\% = 37.4\%$
 - **APPLIES TO ENTIRE NET VALUE**

ACES Severance Tax Rate



Relative Taxes Under ACES

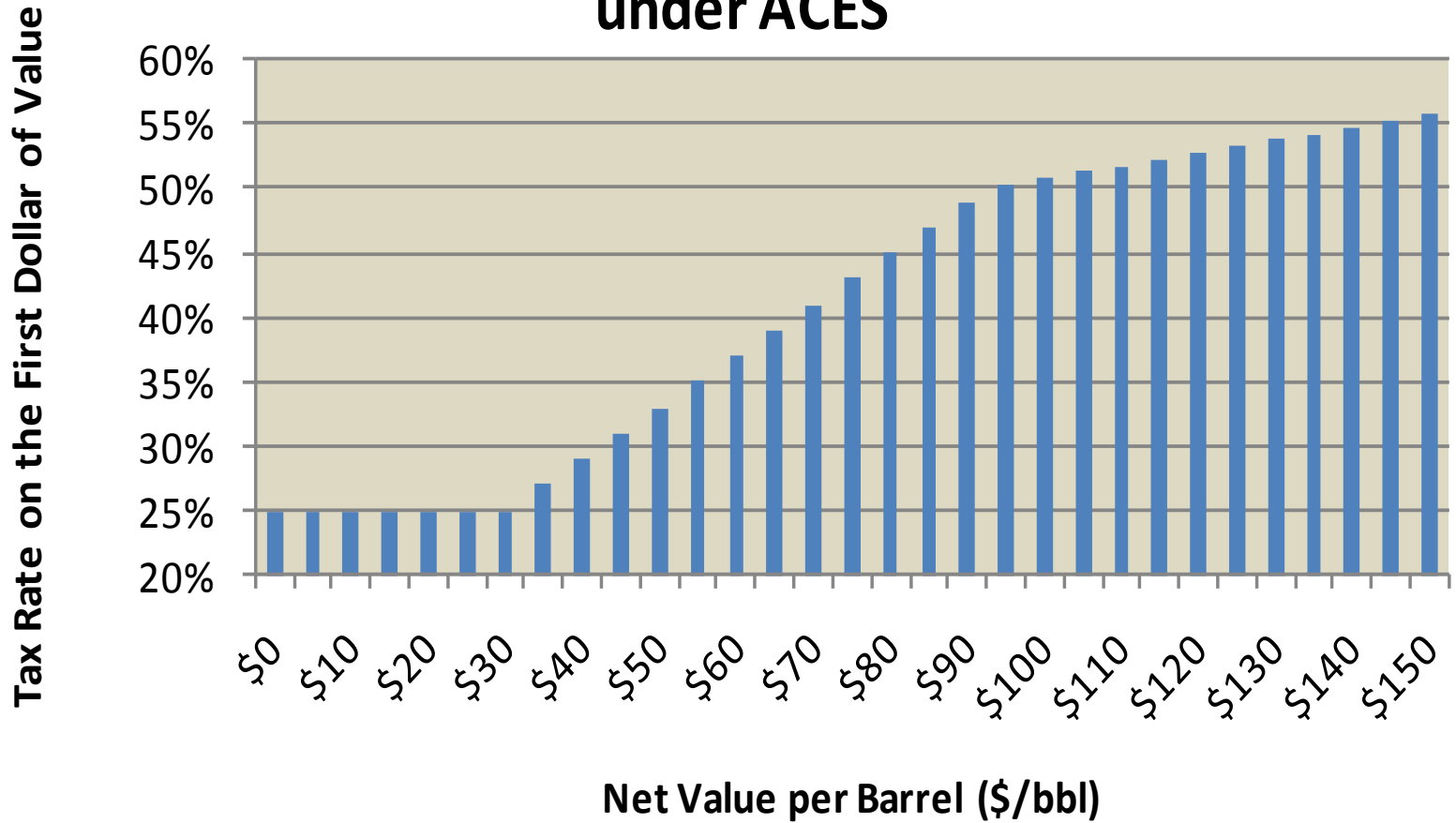


..... royalty — severance tax (ACES) - - - property tax - - - state & fed corp inc tax

2010 U.S. Tax Rate for Single Taxpayer

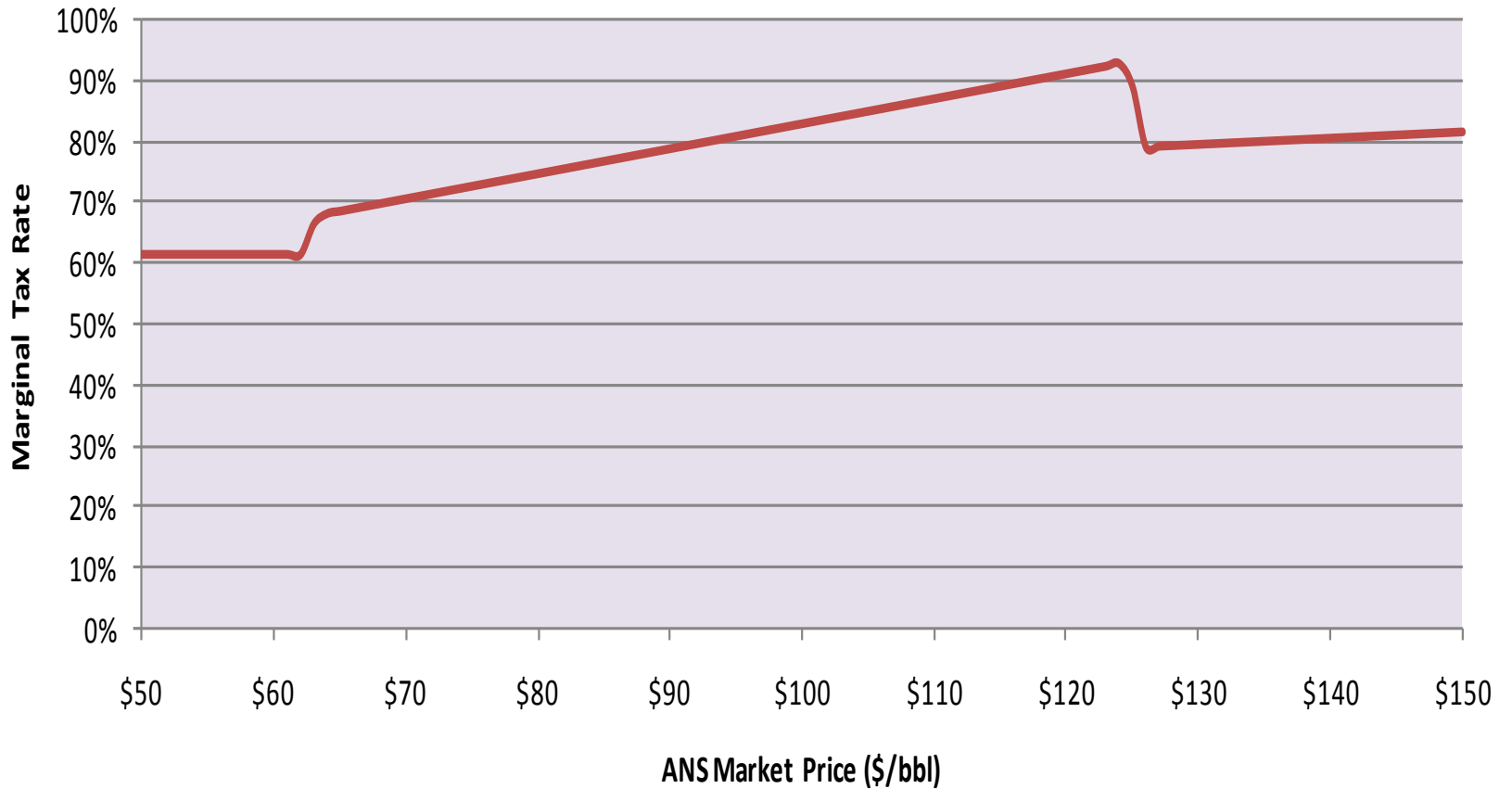
- First \$8,375 10%
- Next \$25,625 15%
- Next \$48,400 25%
- Next \$89,450 28%
- Next \$201,800 33%
- Anything over \$373,650 35%

What Happens to the First Dollar of Value under ACES

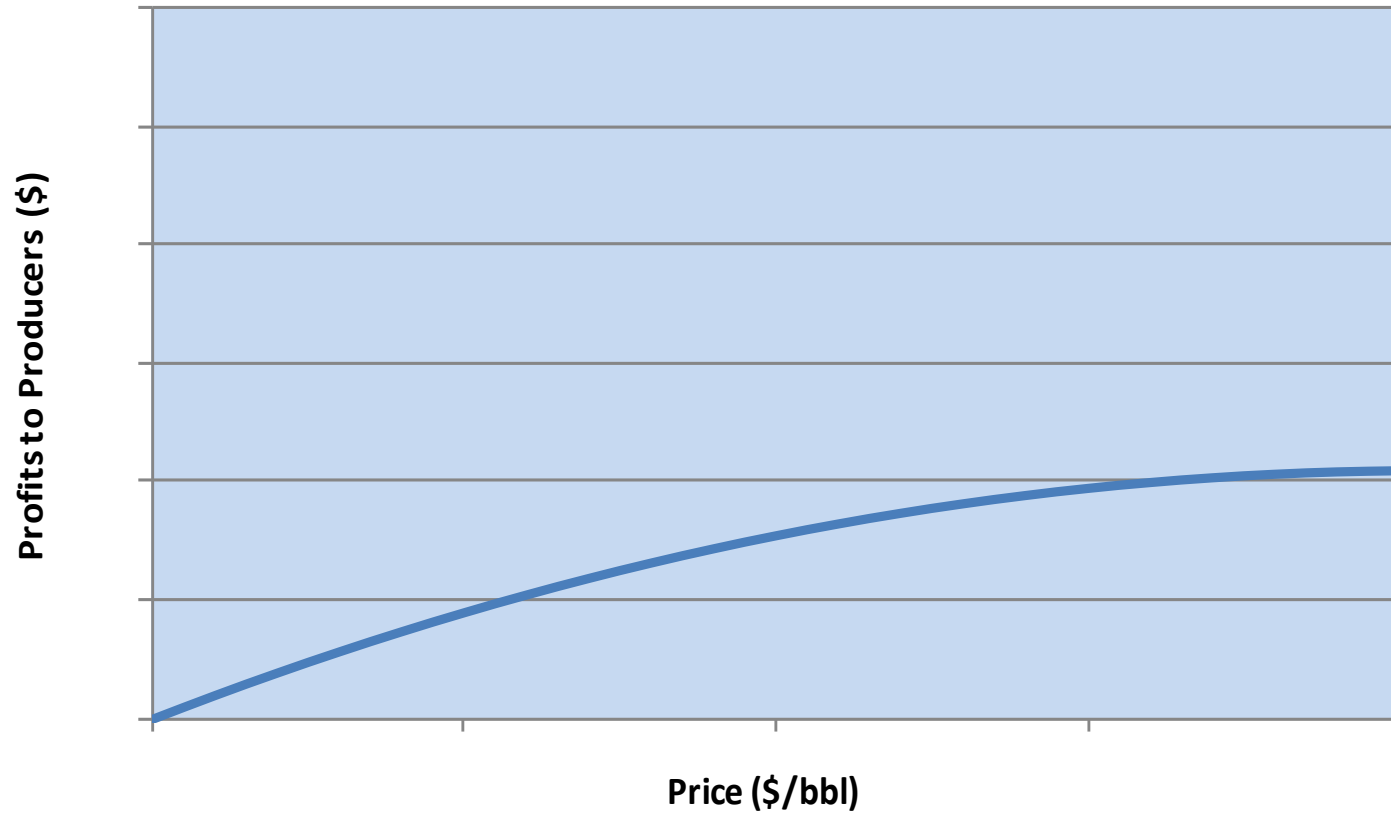


Marginal Tax Rate under ACES (All State & Federal Taxes & Royalties)

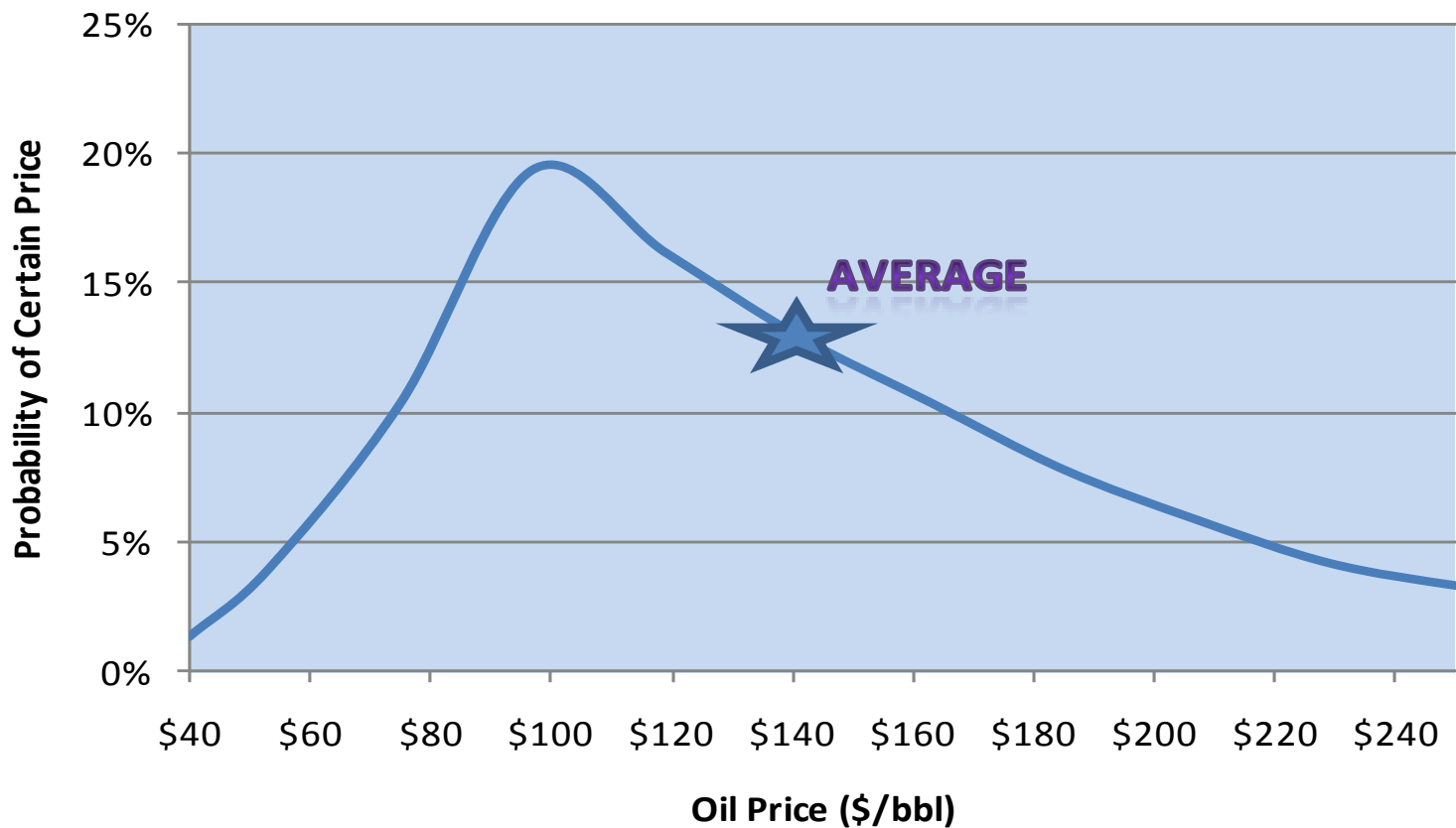
How Much Gov't Gets When Price Goes Up \$1



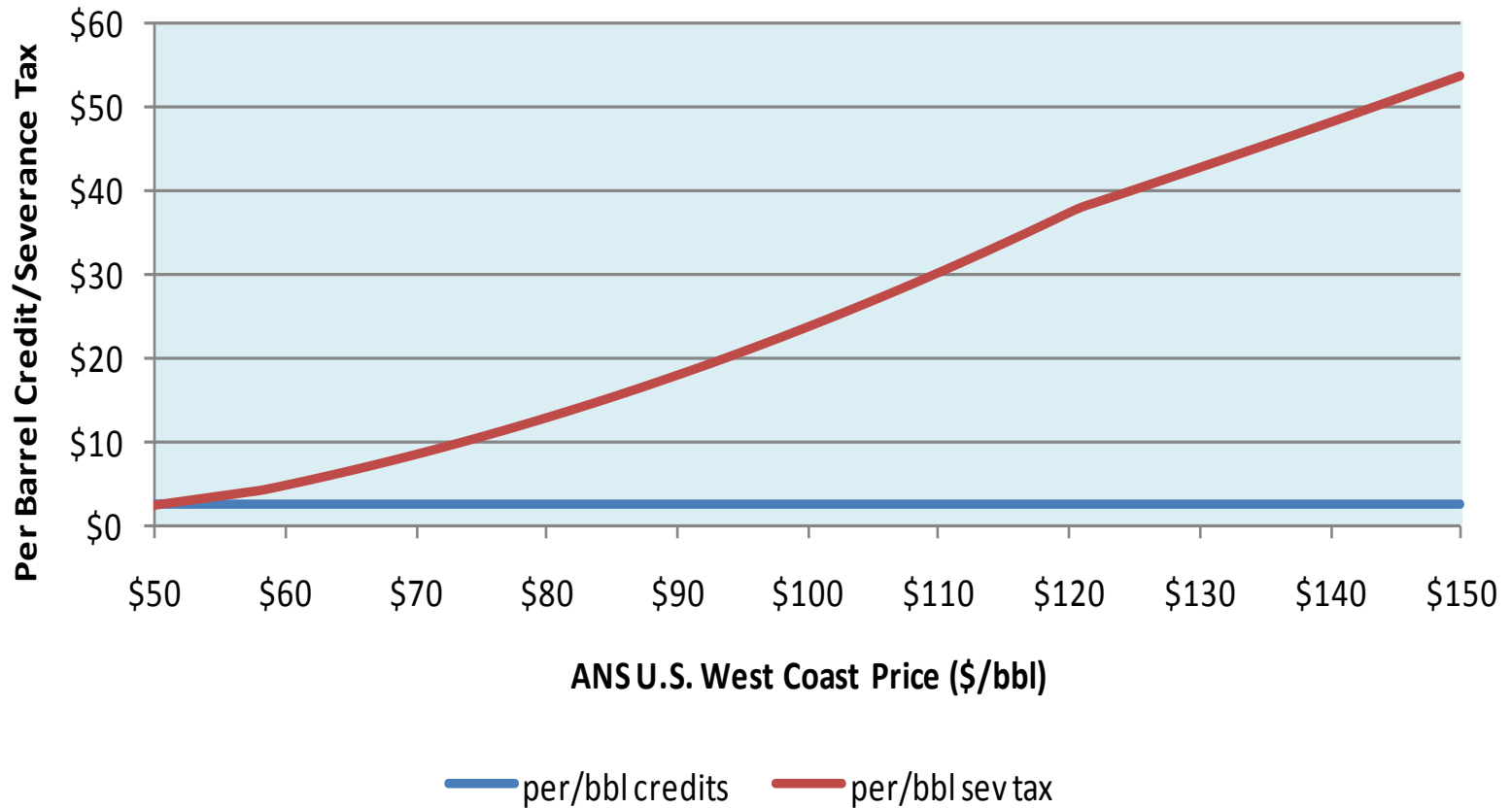
Limited Profit Potential with High Marginal Tax Rates



Hypothetical Expected Price Outlook

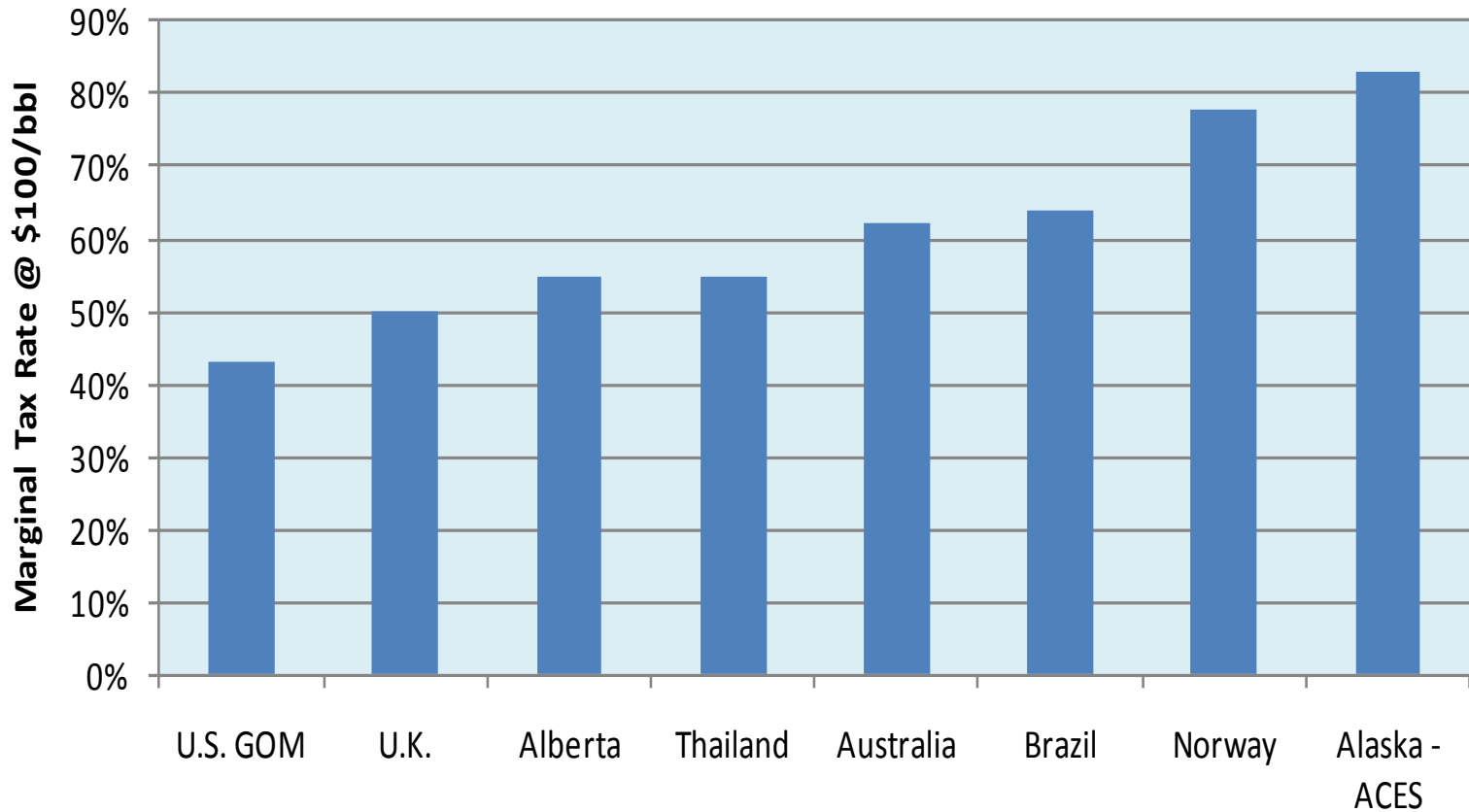


Cash Flow Impact: Credits vs. ACES Severance Tax

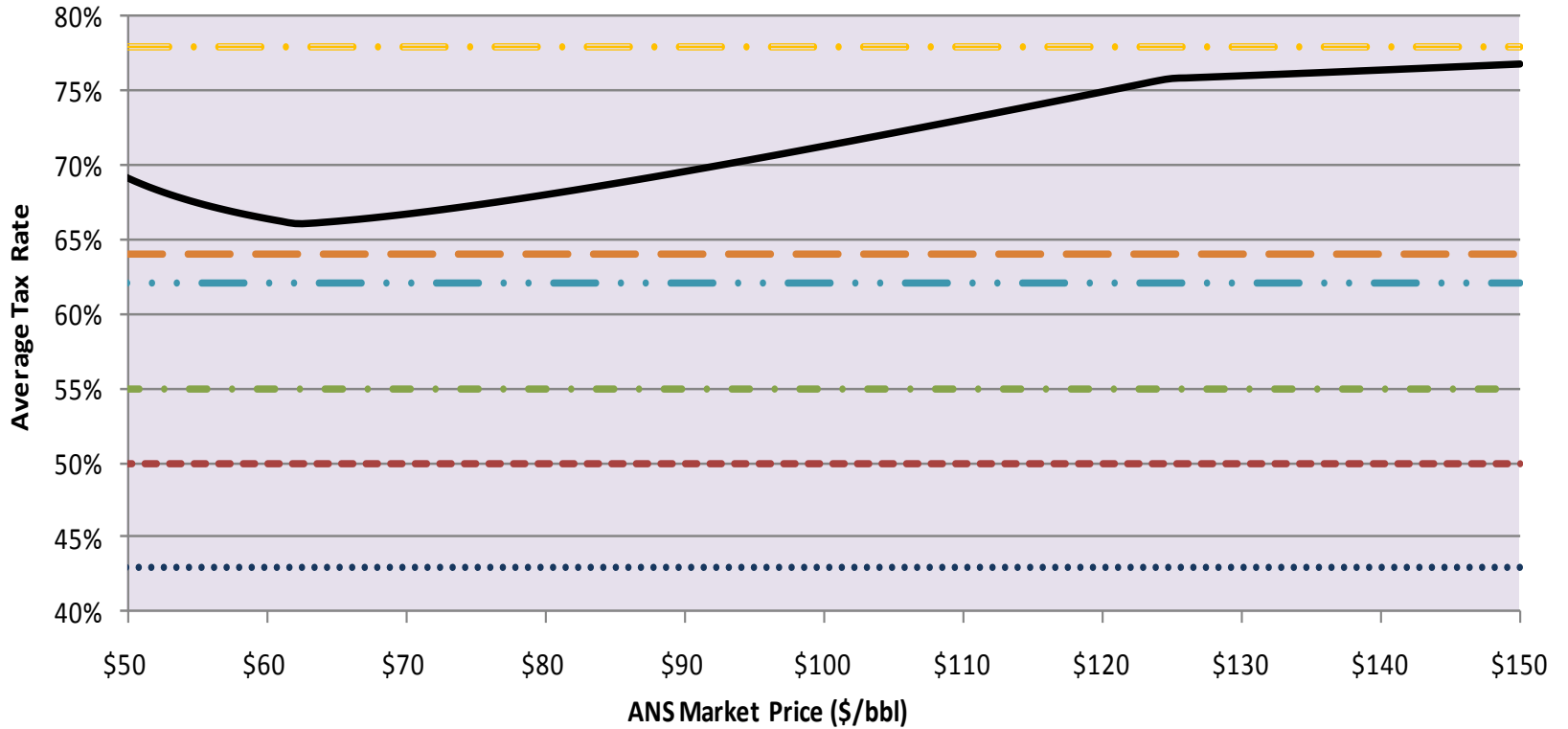


International Competitiveness

International Marginal Tax Rates @ \$100/bbl Market Price Tax & Royalty Regimes

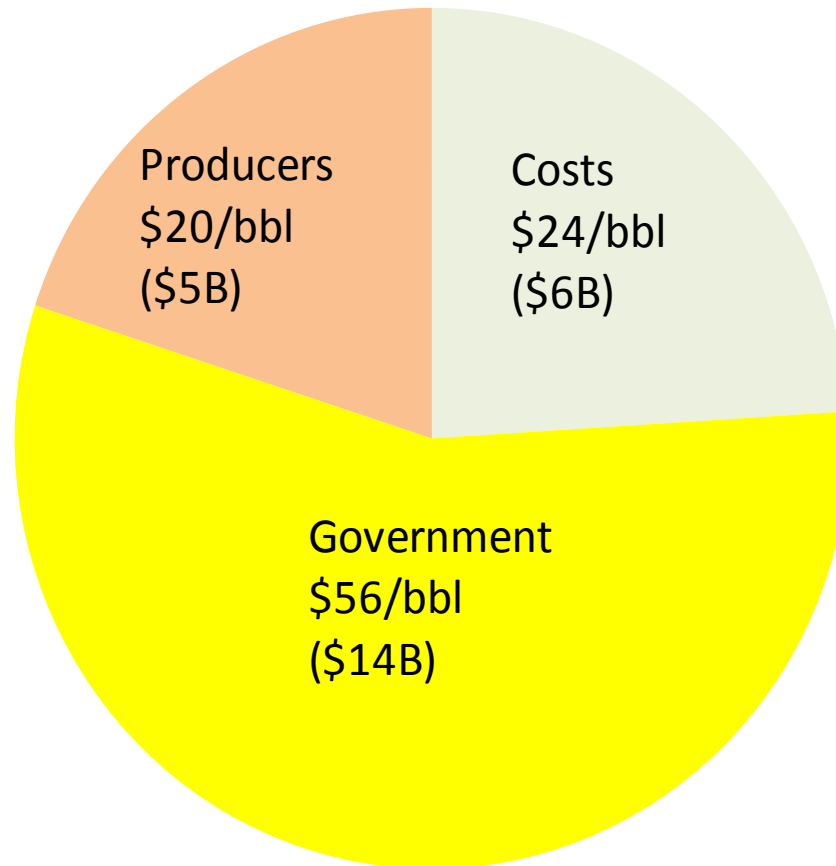


International Average Tax (& Royalty) Rates



- U.S. GOM (43%)
- Australia (62%)
- Alaska - ACES
- - - U.K. (50%)
- Brazil (64%)
- Alberta & Thailand (55%)
- Norway (78%)

Figure 8
Where \$100/bbl (\$25B) Went in 2008



After-Tax Income that Would Have Been Earned in Alaska in 2008
With Rates from Other Tax & Royalty Regimes
(\$billions)

Gulf of Mexico	\$10.3
U.K.	\$9.0
Alberta	\$8.2
Thailand	\$8.2
Australia	\$6.9
Brazil	\$6.6
Alaska	\$5.0
Norway	\$4.1

**ConocoPhillips Financial Performance: Alaska vs. Rest of World (\$millions)
2008 (\$100/bbl) vs. 2009 (\$60/bbl)**

	<u>Alaska</u>	<u>Rest of World</u>
Additional pre-tax income 2009 over 2008	\$3,673	\$14,707
Additional taxes 2009 over 2008*	<u>\$2,898</u>	<u>\$7,163</u>
Additional after-tax income 2009 over 2008	\$775	\$7,544
Percentage of additional pre-tax income retained after-tax	21%	51%

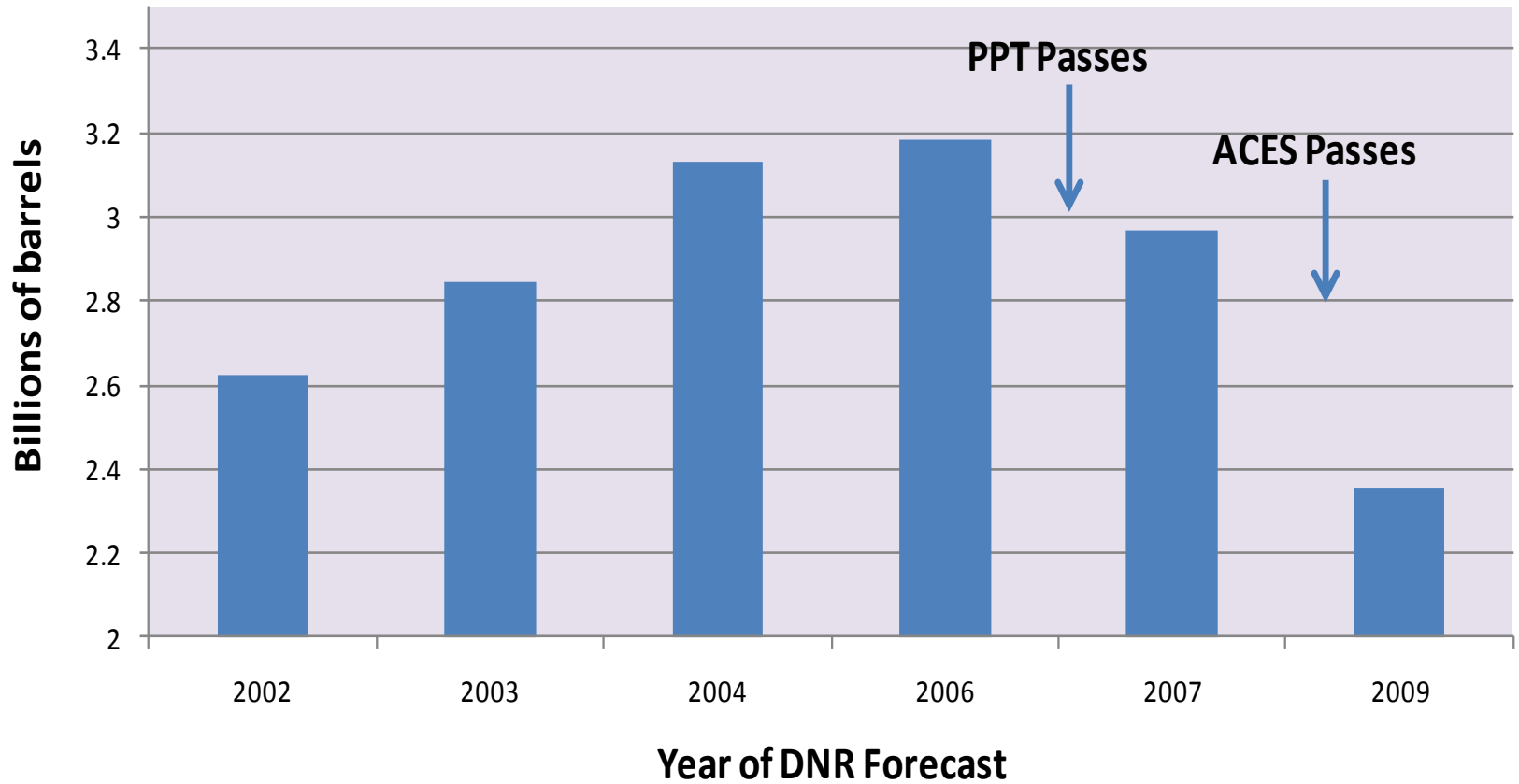
* Alaska: 80% severance tax / 20% income tax; Rest of World: 10% severance tax / 90% income tax

OIL SEVERANCE TAX RATES BY STATE

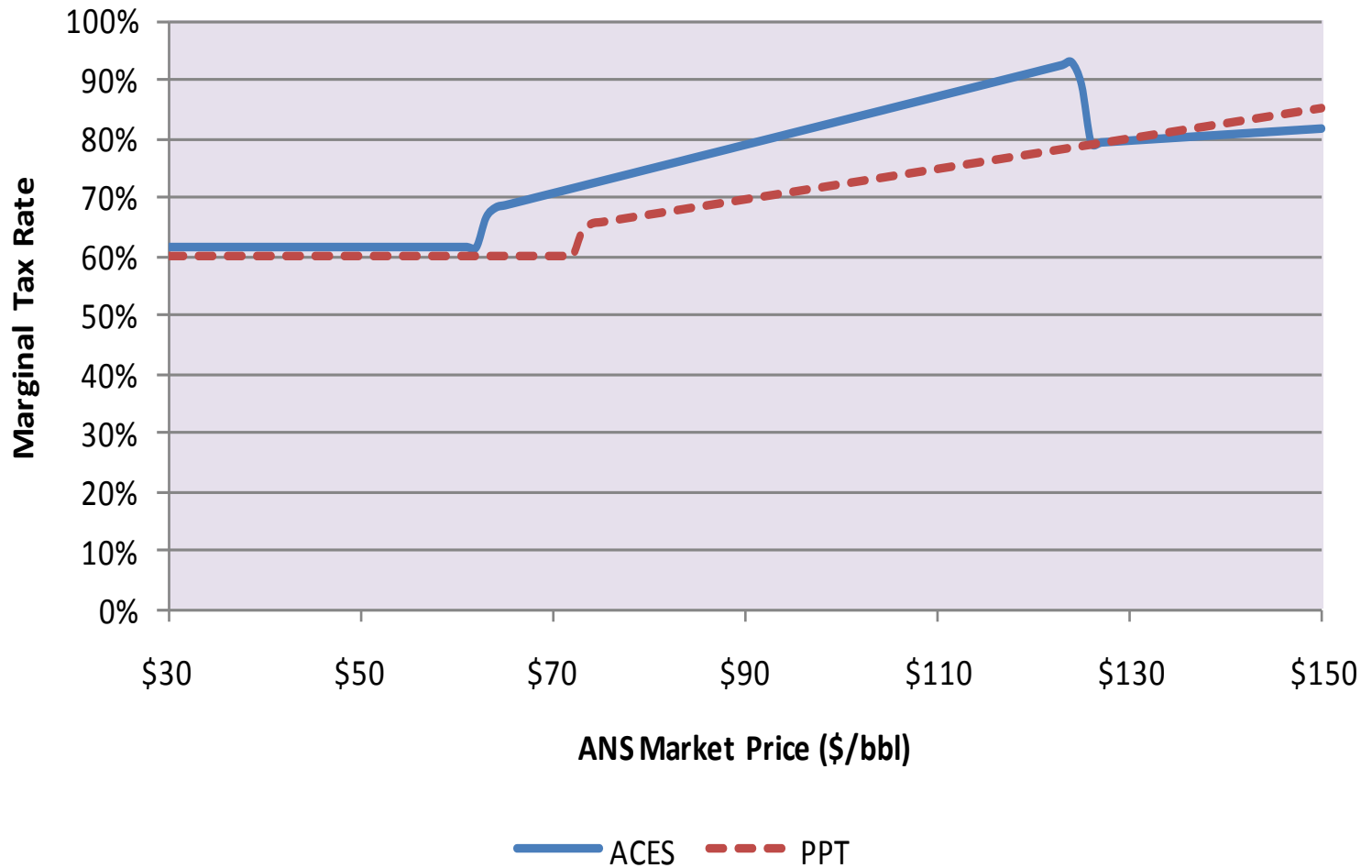
<u>State</u>	<u>Rate (% of gross)</u>	:	<u>State</u>	<u>Rate (% of gross)</u>
Iowa	NONE	:	Illinois	5.00%
New York	NONE	:	Colorado	5.00%
Pennsylvania	NONE	:	West Virginia	5.00%
Ohio	10 cents/bbl	:	Utah	5.00%
California	0.10%	:	Mississippi	6.00%
Indiana	1.00%	:	Wyoming	6.00%
Nebraska	3.00%	:	Michigan	6.60%
New Mexico	3.75%	:	Oklahoma	7.00%
Alabama	4.00%	:	Florida	8.00%
Kansas	4.30%	:	North Dakota	11.50%
Kentucky	4.50%	:	Louisiana	12.50%
South Dakota	4.50%	:	Montana	12.50%
Texas	4.60%	:	<u>ALASKA @ \$90 market</u> (25 % of gross equivalent)	
Arkansas	5.00%			

The State is Making
Lots of Money Now:
What is the Problem?

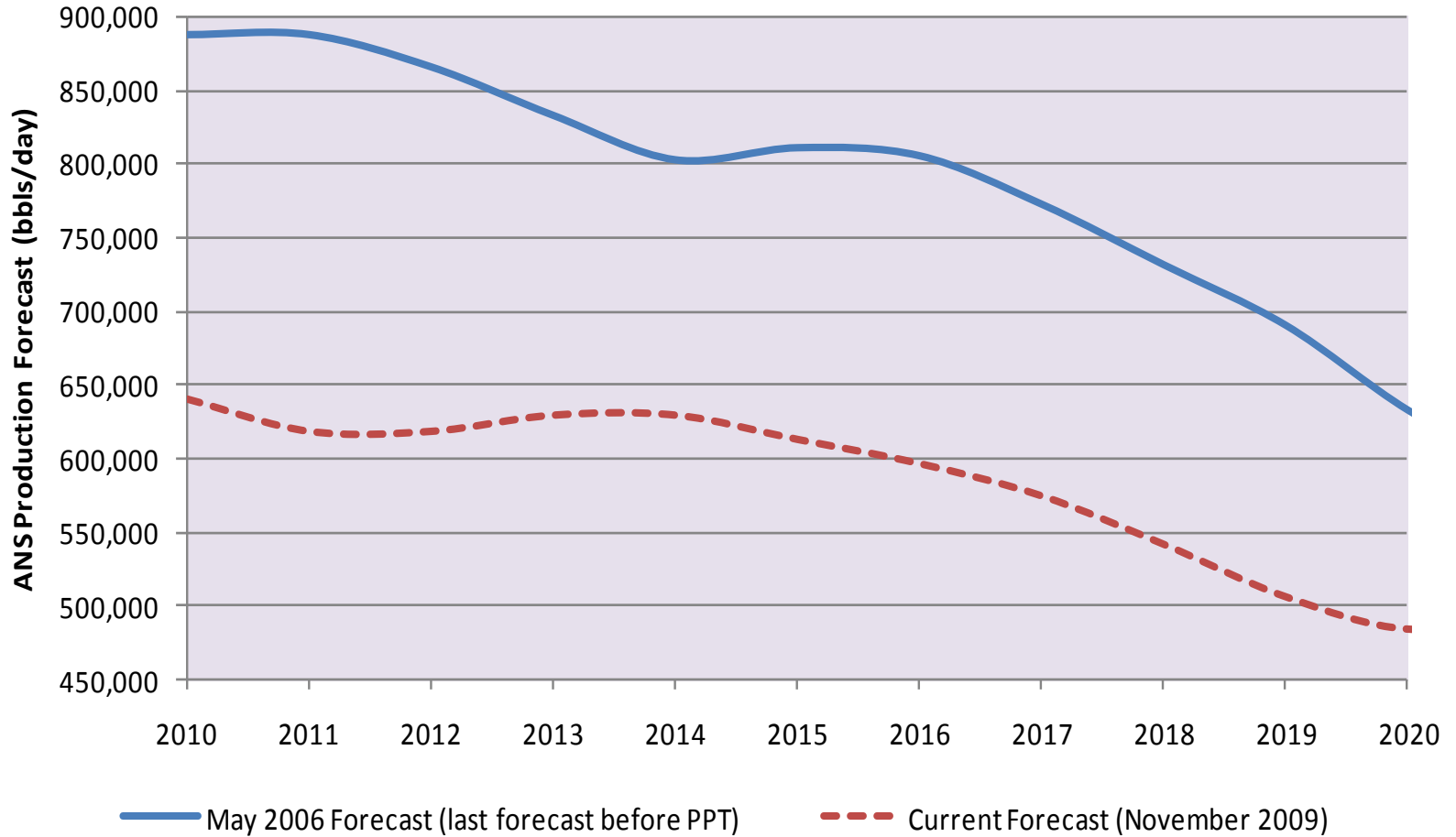
A History of DNR Forecasts of Total Production between 2010 and 2020 (billions of barrels)



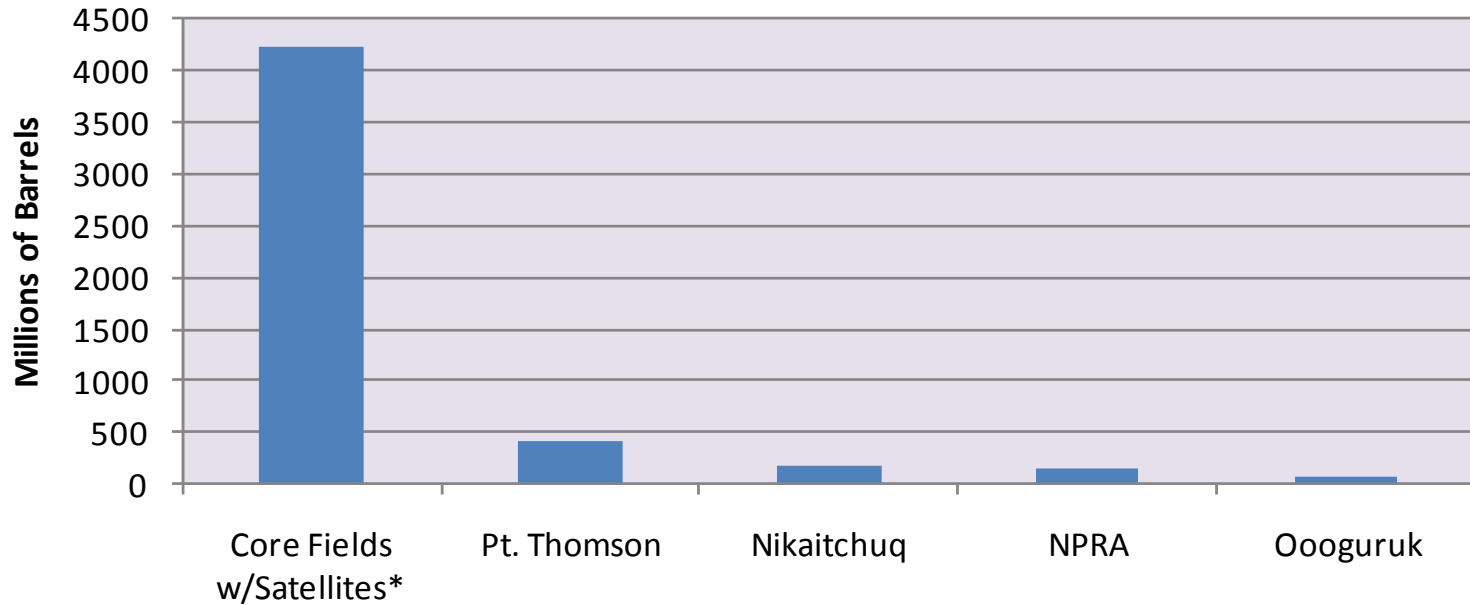
Marginal Tax Rate - PPT vs. ACES



Dept of Natural Resources ANS Production Forecast Before & After PPT (bbls/day)



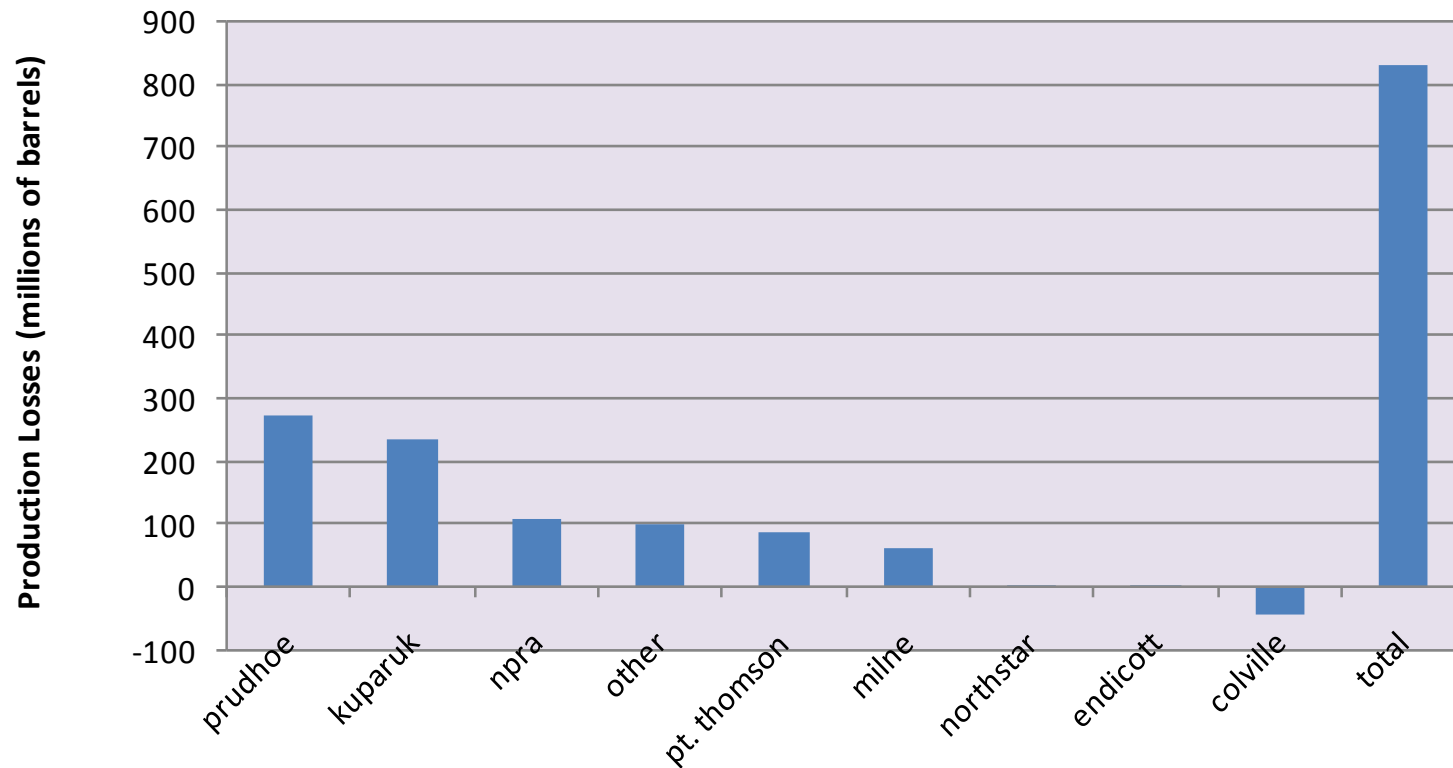
Oil Production Forecast 2010-2050 (Millions of Barrels)



*Core fields are Prudhoe, Kuparuk, Alpine, Endicott, Milne Pt., Northstar

Source: DNR Division of Oil & Gas 2009 Annual Report: p. 29

Total Forecasted Production Losses 2010-2020 between 2006 and 2009 Forecasts (millions of barrels)

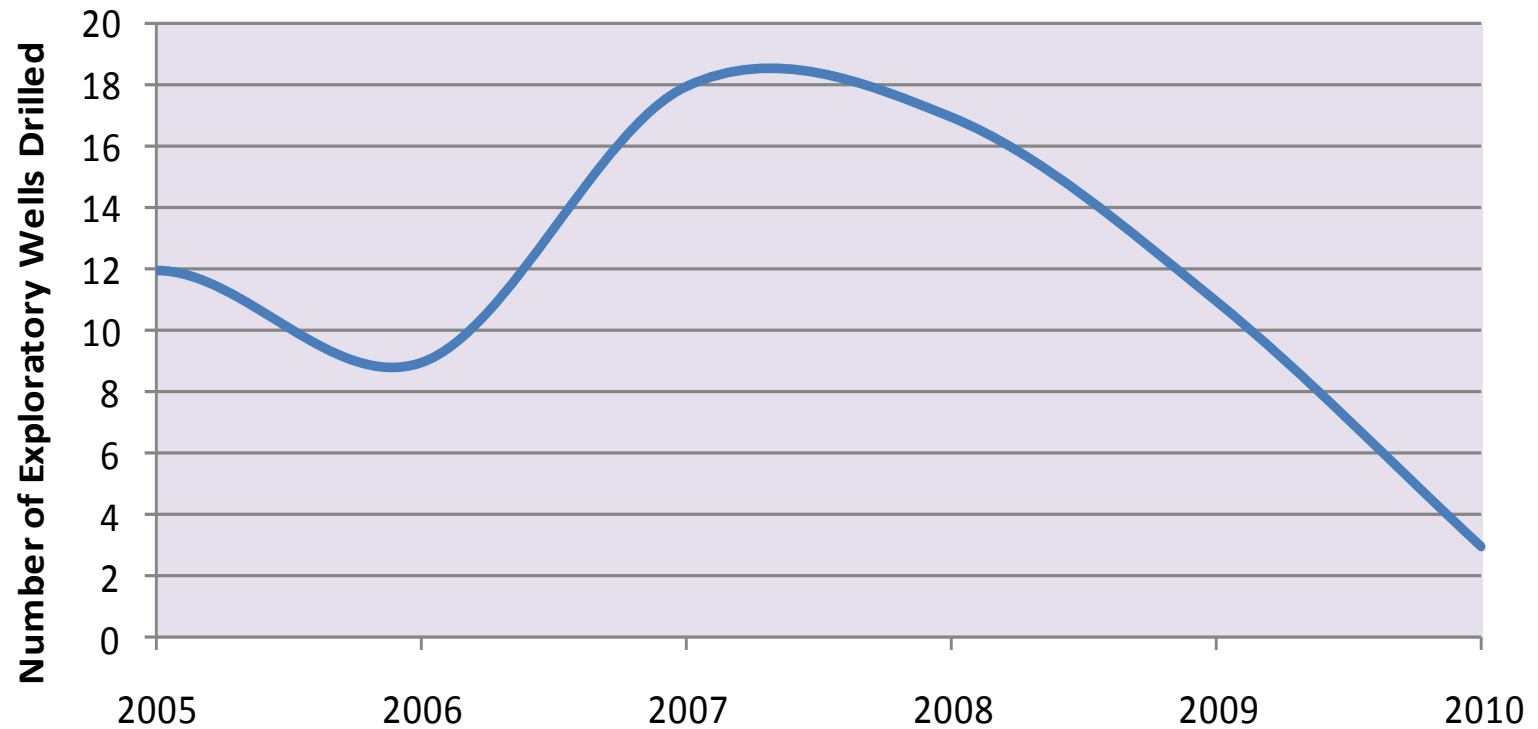


Resource Potential

- 2007 Department of Energy report: 10 billion barrels of additional economically recoverable oil on the North Slope **in current core producing area**.*
- DNR's current production forecast is for 5 billion barrels between now and 2050.

* Department of Energy, National Energy Technology Laboratory, "Alaska North Slope Oil & Gas: A Promising Future or an Area of Decline?," August 2007, pp. 2 - 152-153.

North Slope Exploratory Wells Drilled: 2005-2010



Context of Spending

- Core fields down*
- Non-core fields up* (Nikaitchuq and Pt. Thomson)
 - A small share of potential reserves
- No other new fields on the horizon
- Gold-plating

* Department of Revenue “Oil and Gas Production Tax Status Report to the Legislature,” January 18, 2011, p. 8.

Fixing ACES

Aspects of Fair Share: Maximum Benefit to the People

- Long-term benefit: linked to maximizing long-term production
- Production maximized by continual investment
- Alaska competes with other jurisdictions for investment
- What is “fair” is what you can get in a competitive environment

Proposal for Fix: Bracketed Tax Structure

- The problem is not progressivity – but the progressivity structure
- Changing the progressivity structure
 - HB 110
 - Bracketed progressivity structure
- Values within structure

Proposed Bracket Structure: HB 110 (Existing Units)*

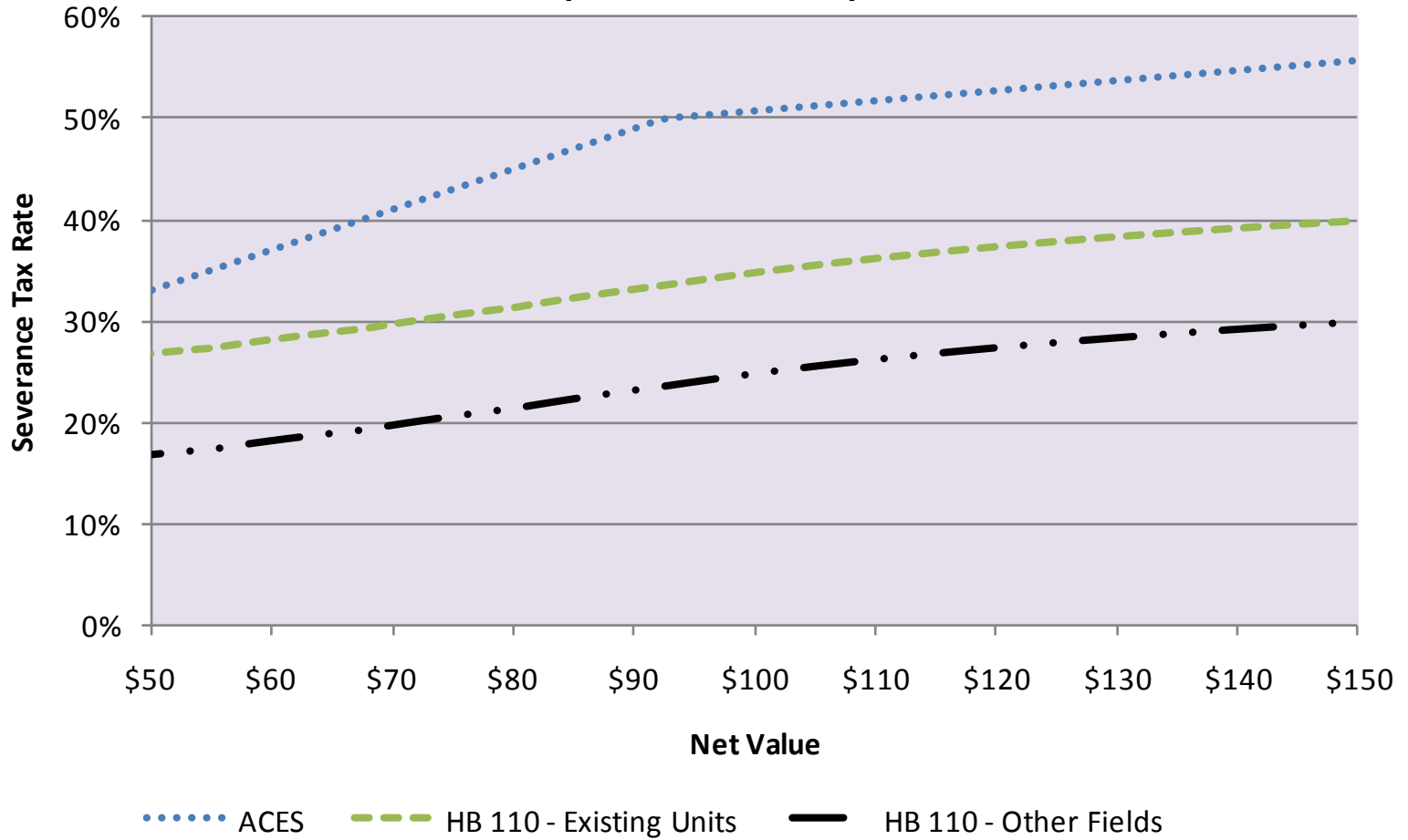
Based on Net Value p/bbl**

• \$0/bbl - \$30.00/bbl	25.0%
• Next \$12.50/bbl (\$30.00 - \$42.50/bbl)	27.5%
• Next \$12.50/bbl (\$42.50 - \$55.00/bbl)	32.5%
• Next \$12.50/bbl (\$55.00 - \$67.50/bbl)	37.5%
• Next \$12.50/bbl (\$67.50 - \$80.00/bbl)	42.5%
• Next \$12.50/bbl (\$80.00 - \$92.50/bbl)	47.5%
• Anything over \$92.50/bbl	50.0%

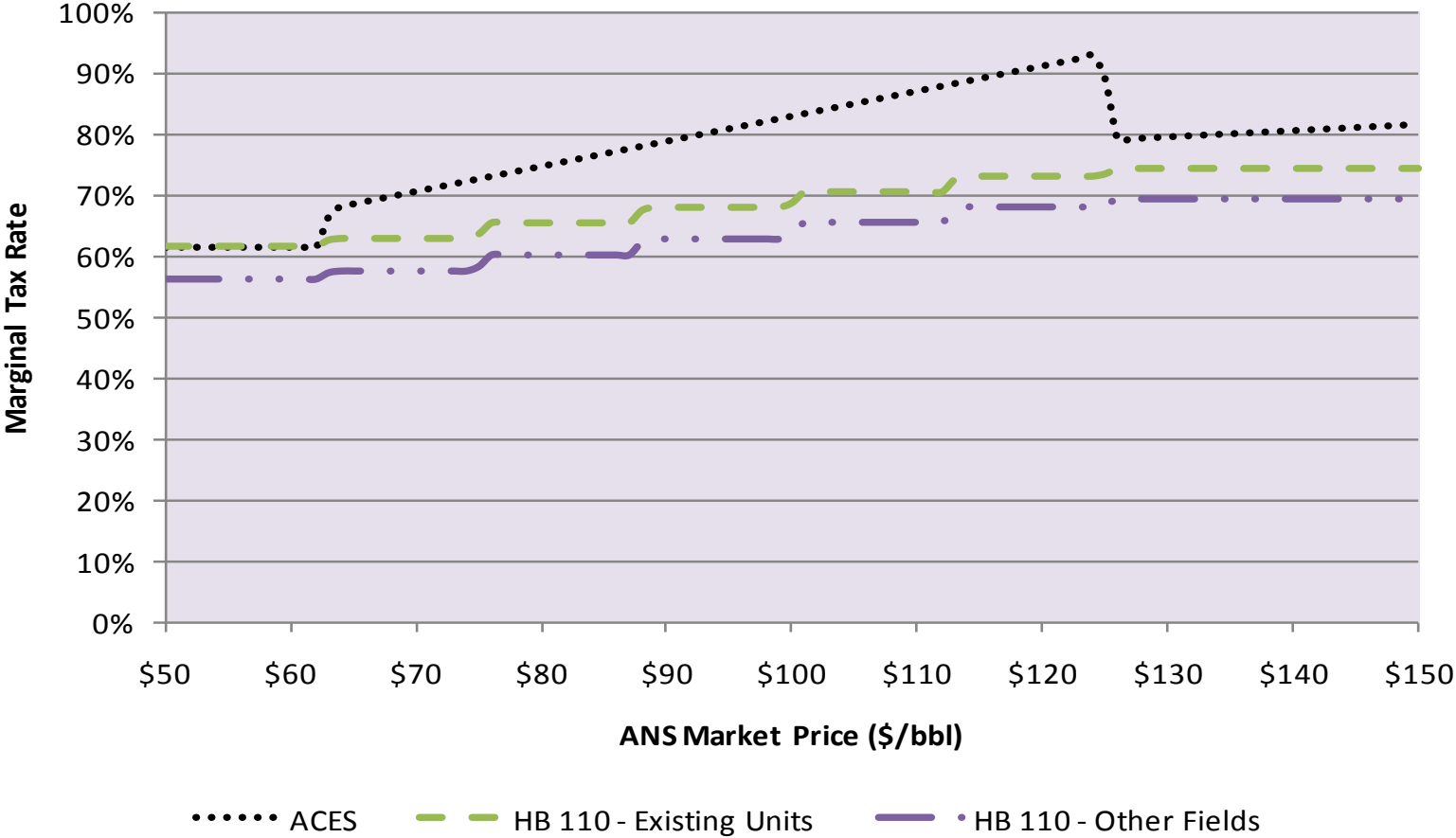
* For other fields outside existing units the tax rates are 10 percentage points less

** These net values are approximately \$30 less than market values (the ANS West Coast price).

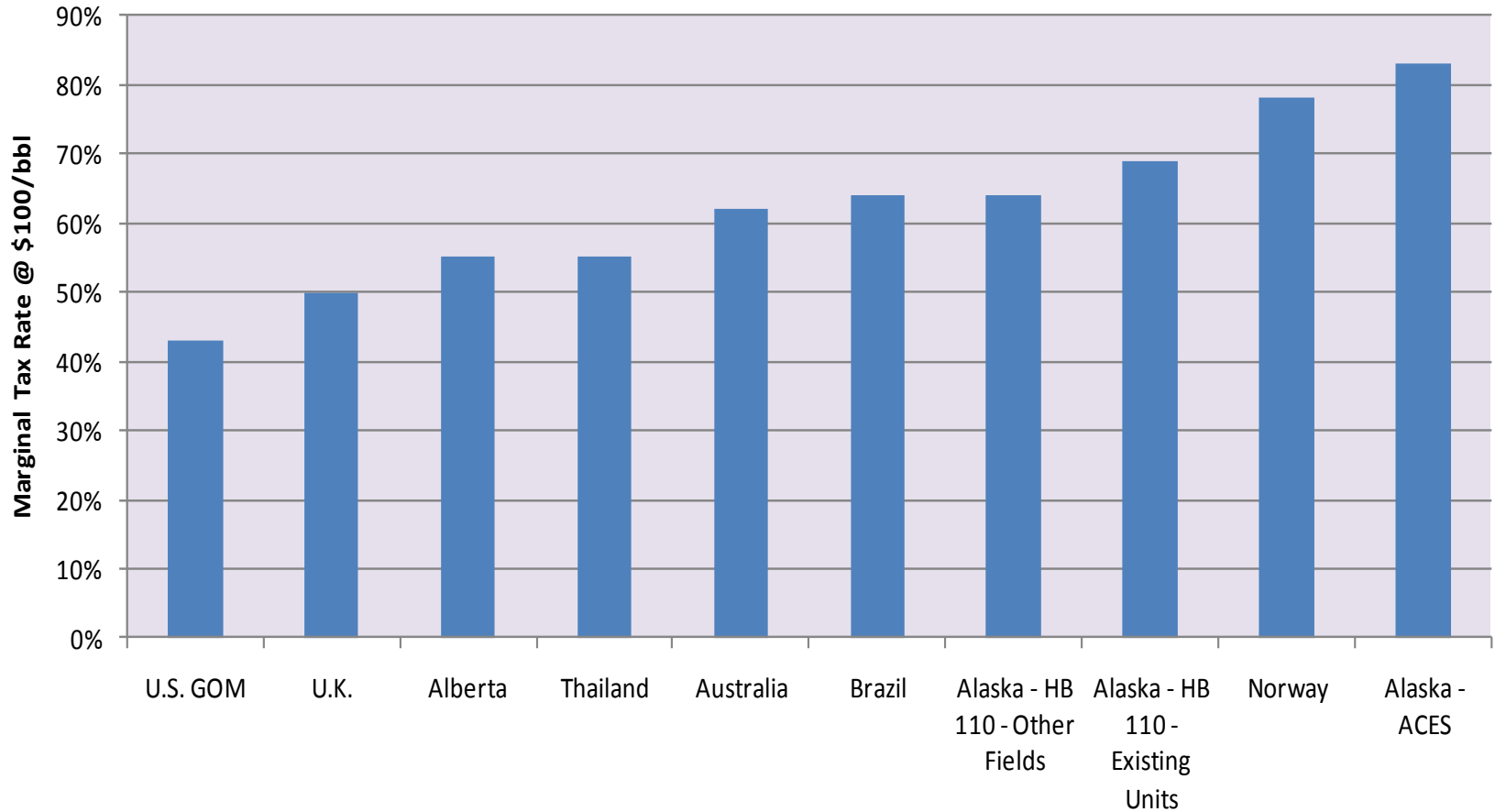
Comparison of Severance Tax Rates (Before Credits)



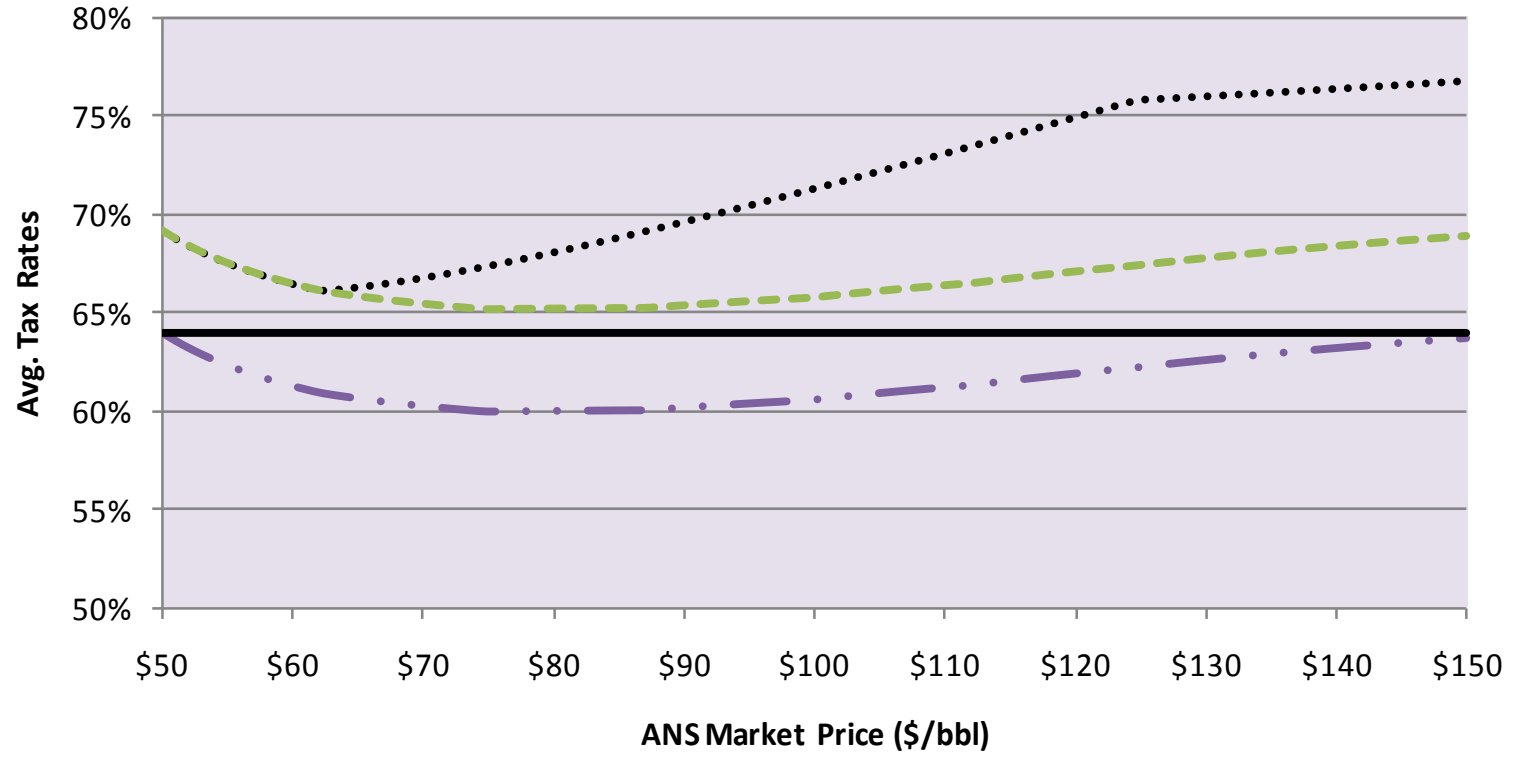
Marginal Tax Rates (All state & federal taxes and royalties)



International Marginal Tax Rates @ \$100/bbl Market Price Tax & Royalty Regimes

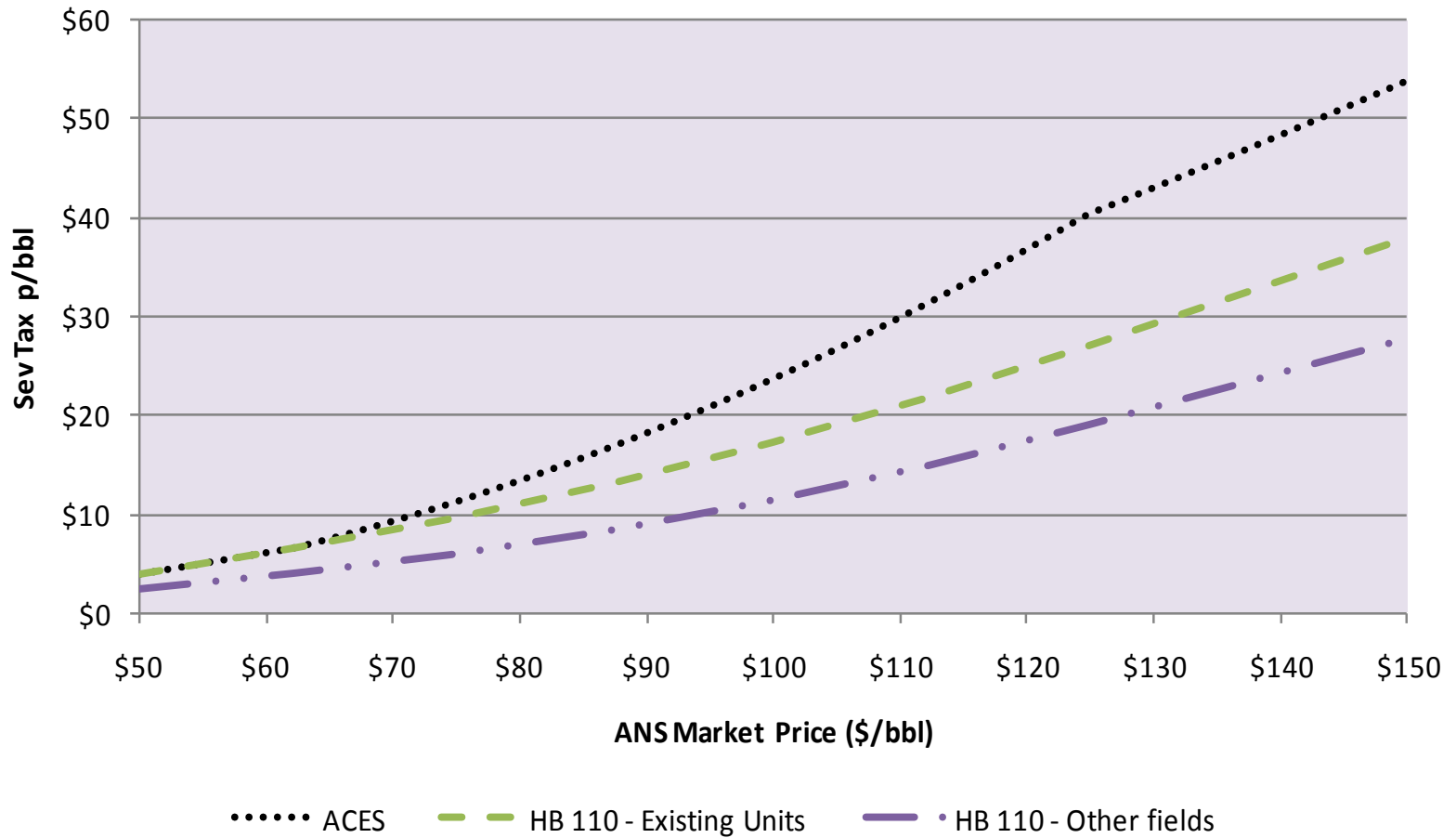


Average Tax Rates (All state & federal taxes & royalties)



- ACES
- HB 110 - Existing Units
- • HB 110 (Gov)-Other Fields
- High Side of Intl Competitiveness

Severance Tax Per Barrel (Before Credits)



Revenue Losses from Proposal?

- Very plausible that production was lost as a result of ACES
- Very plausible that there will be greater production if taxes are decreased
- Production forecast makes no explicit assumptions about availability of capital due to relative tax rates
 - Very plausible that status quo production forecast is too high
- Cannot compare revenues between taxes using the same number of barrels