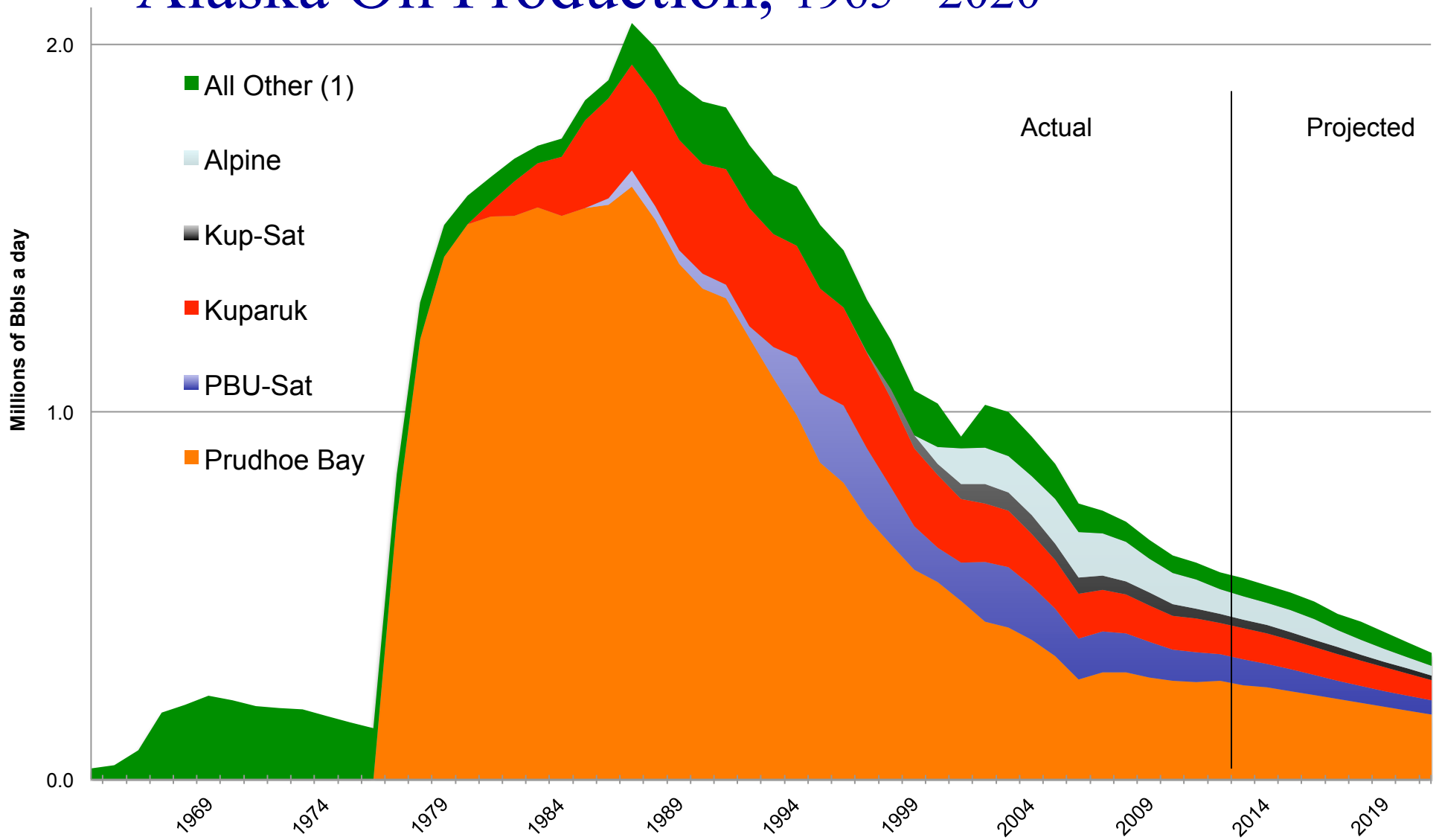


SB 21 Changes to Alaska's Oil and Gas Production Taxes: What it could mean for Investment

Dan E. Dickinson CPA
9th Annual Oil and Gas Congress
Sept 17, 2013

1 of 4 Pictures to Set the Stage

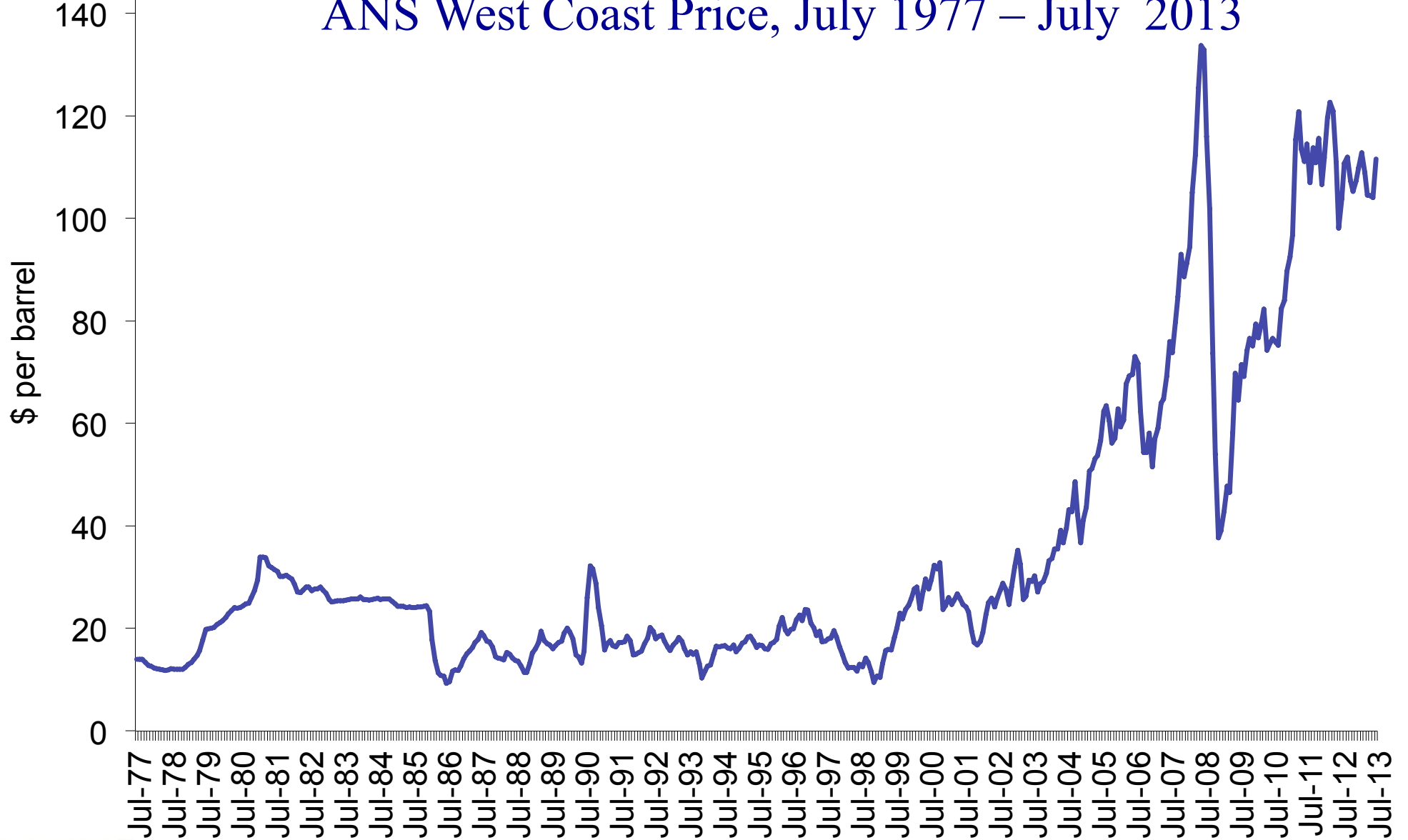
Alaska Oil Production, 1965 - 2020



Source: Alaska Department of Revenue, Fall 2013 Revenue Sources Book & earlier RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

2 of 4 Pictures to Set the Stage

ANS West Coast Price, July 1977 – July 2013



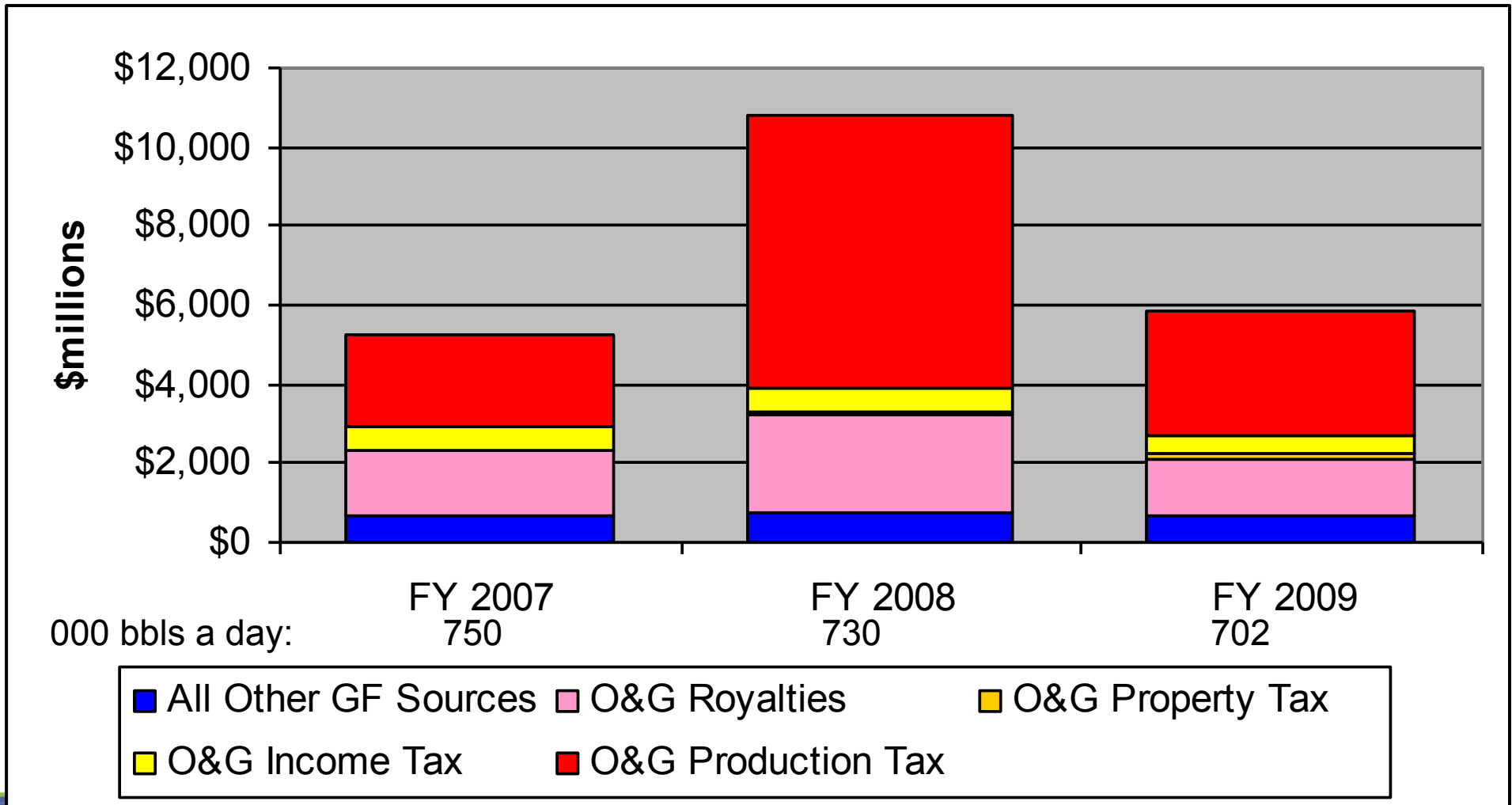
3 of 4 Pictures to Set the Stage

- Decade of Efforts to Fix the Decline
- 2003 – 025 Exploration Credits Introduced (up to 40%)
- 2006 (PPT) - Switch from Gross to Net (higher 22.5% rate, lower base – high cost projects taxed less)
 - **Progressivity** introduced
 - Offsetting **Credits** expanded to cover losses and investment (20%)
 - 2007 (ACES) - Progressivity rate augmented to .4%/\$ above \$30 a barrel net (i.e. every \$10/bbl increase in net value raises total tax rate by 2.5%); loss credits fixed at 25%
 - 2010 (CIRA) – 40% Credits introduced to cover well work (IDCs & Well Workovers) (excluding North Slope)

3 of 4 Pictures to Set the Stage

State of Alaska General Fund Revenues

WC ANS price: \$61.63 \$96.51 \$68.34



000 bbls a day: FY 2007 FY 2008 FY 2009
 750 730 702

- All Other GF Sources ■ O&G Royalties ■ O&G Property Tax
- O&G Income Tax ■ O&G Production Tax

SOURCE: SOA DOR Fall 2007, Fall 2008 & Fall 2009 Revenue Sources Book

3 of 4 Pictures to Set the Stage

State of Alaska General Fund Revenues (& WC ANS price)

	FY 2007	FY 2008	FY 2009
Average ANS WC Price/bbl	\$ 61.63	\$ 96.51	\$ 68.34
<i>figures in \$000,000:</i>			
O&G Production Tax	2,292.3	6,879.0	3,112.0
O&G Income Tax	594.4	605.8	492.2
O&G Property Tax	65.6	81.5	111.2
O&G Royalties	1,613.0	2,446.1	1,465.6
O&G Subtotal	4,565.3	10,012.4	5,181.0
All Other GF Sources	675.2	780.0	650.2
Total GF	5,240.5	10,792.4	5,831.2
Thousands bbls a day:	750	730	702
O&G as % of State GF Rev	88%	93%	90%

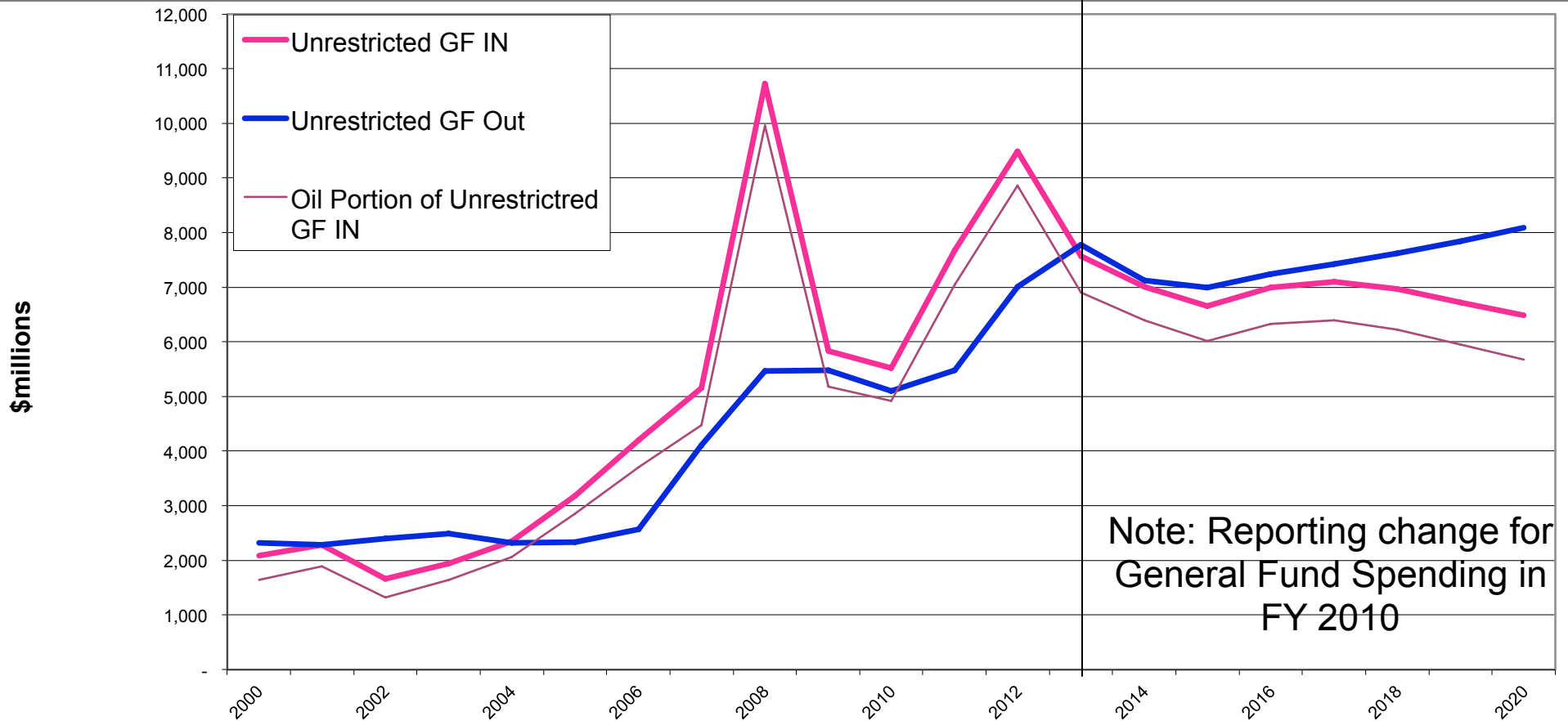
SOURCE: SOA DOR Fall 2007, Fall 2008 & Fall 2009 Revenue Sources Book

4 of 4 Pictures to Set the Stage

State of Alaska General Fund In/Out

Actual

Projected



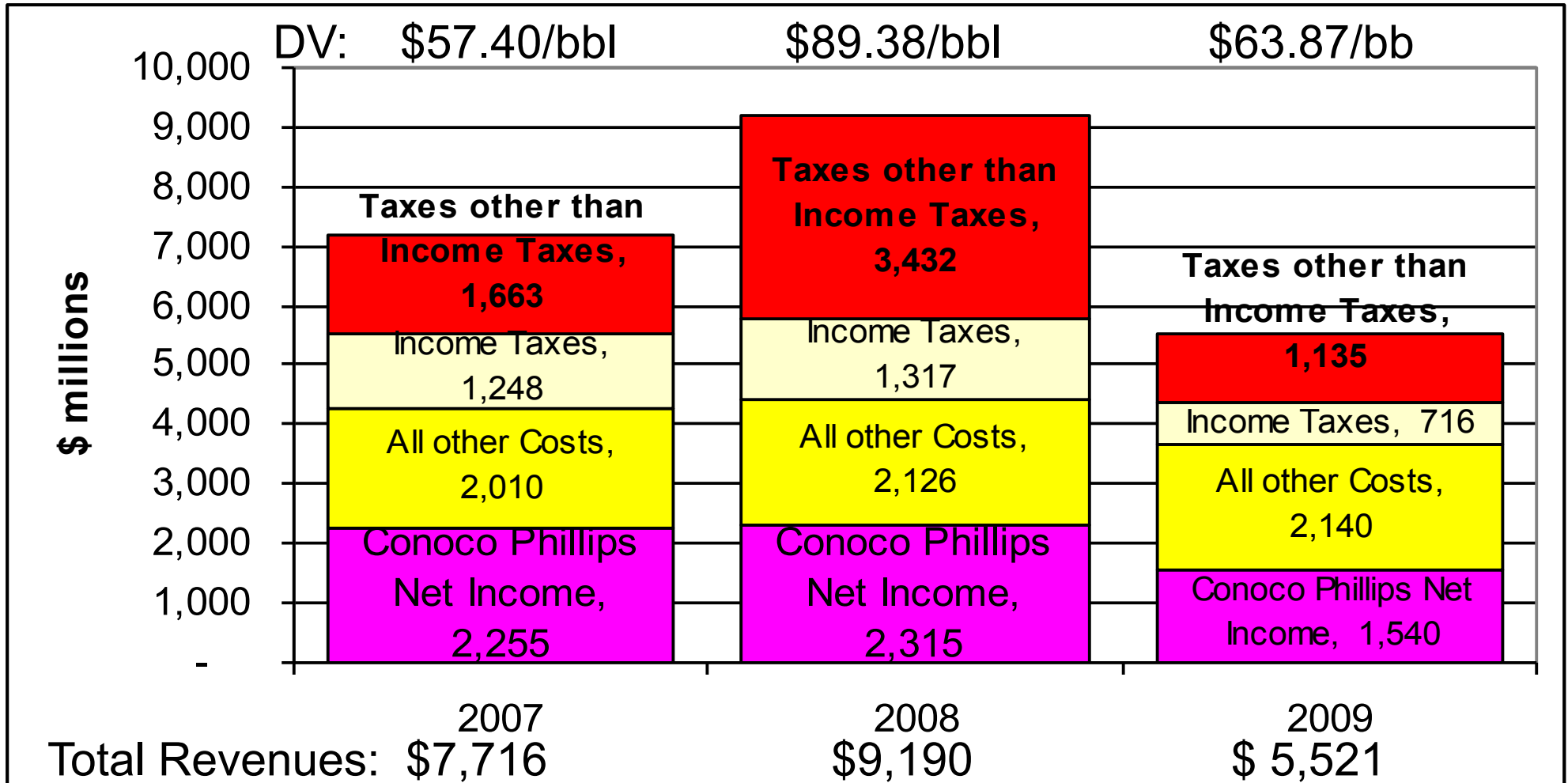
Note: Reporting change for General Fund Spending in FY 2010

Sources: Revenue: DOR Fall 2010 RSB, Past Spending Annual Leg Finance Fiscal Summaries, Future spending FY 2012 OMB 10- Year plan, Scenario, three w/ 6% annual increase

Transition: Why Large Producers didn't like ACES

ConocoPhillips Revenues (and uses) for Alaska Segment

- Caution – Calendar Year, GAAP based, include CI gas (product price are US total)



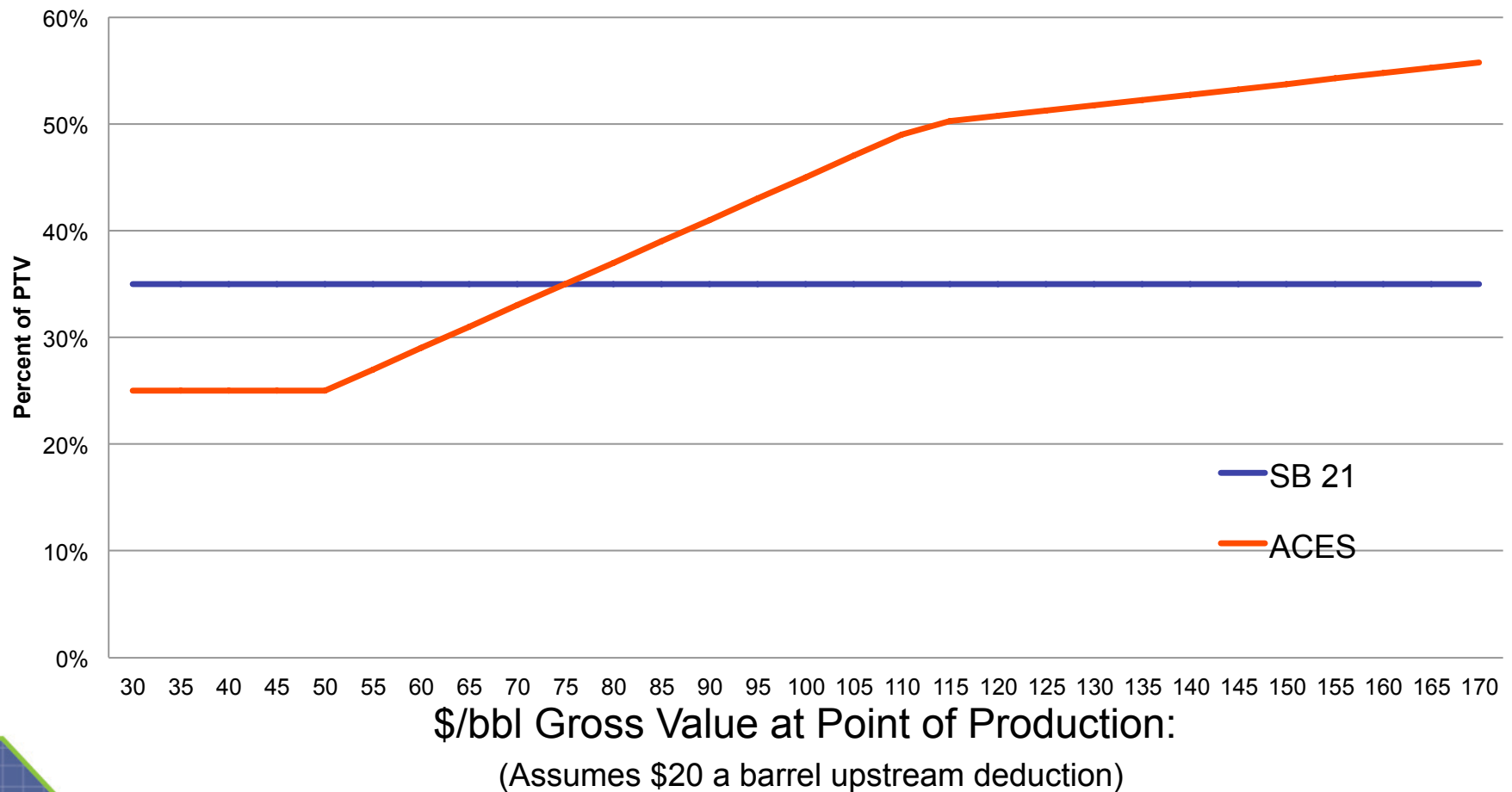
Source: CP 10K filings, pages 40, 41, 148, 149, 150

Changes from SB 21

- (1) Severe Reduction (“End”) of Progressivity- Maximum tax rate drops from 75% to 35%.
- (2) Incentives -- Gross Revenue Reduction & Credits for “New Oil”
- (3) Many Changes to Structure of Credits
- (4) Interest on underpayments significantly reduced
- (5) All qualifying credit certificates can be cashed in upon receipt
- (6) Changes to Income Tax Credits

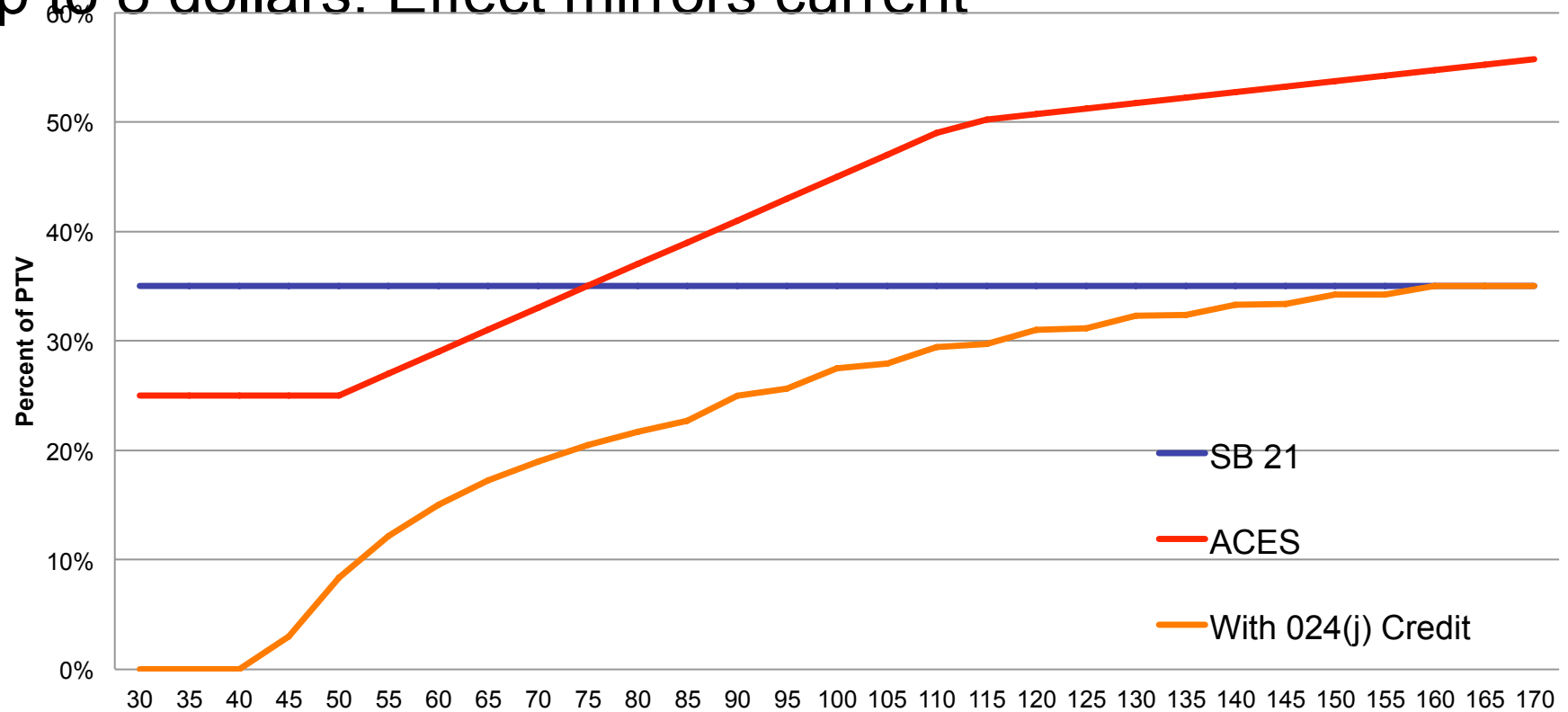
Changes from SB 21- Progressivity

- Under ACES tax rate started at 25% and increased 4% per \$10 increase in value – Capped at 75%
- Under SB 21 – Flat rate of 35%



Changes from SB 21- Progressivity

- Under ACES – QCE Credit allowed (not shown)
- Under SB 21 – Flat rate of 35% (no QCE credit)
- Heritage fields allowed a “progressive” per barrel credit of up to 8 dollars: Effect mirrors current

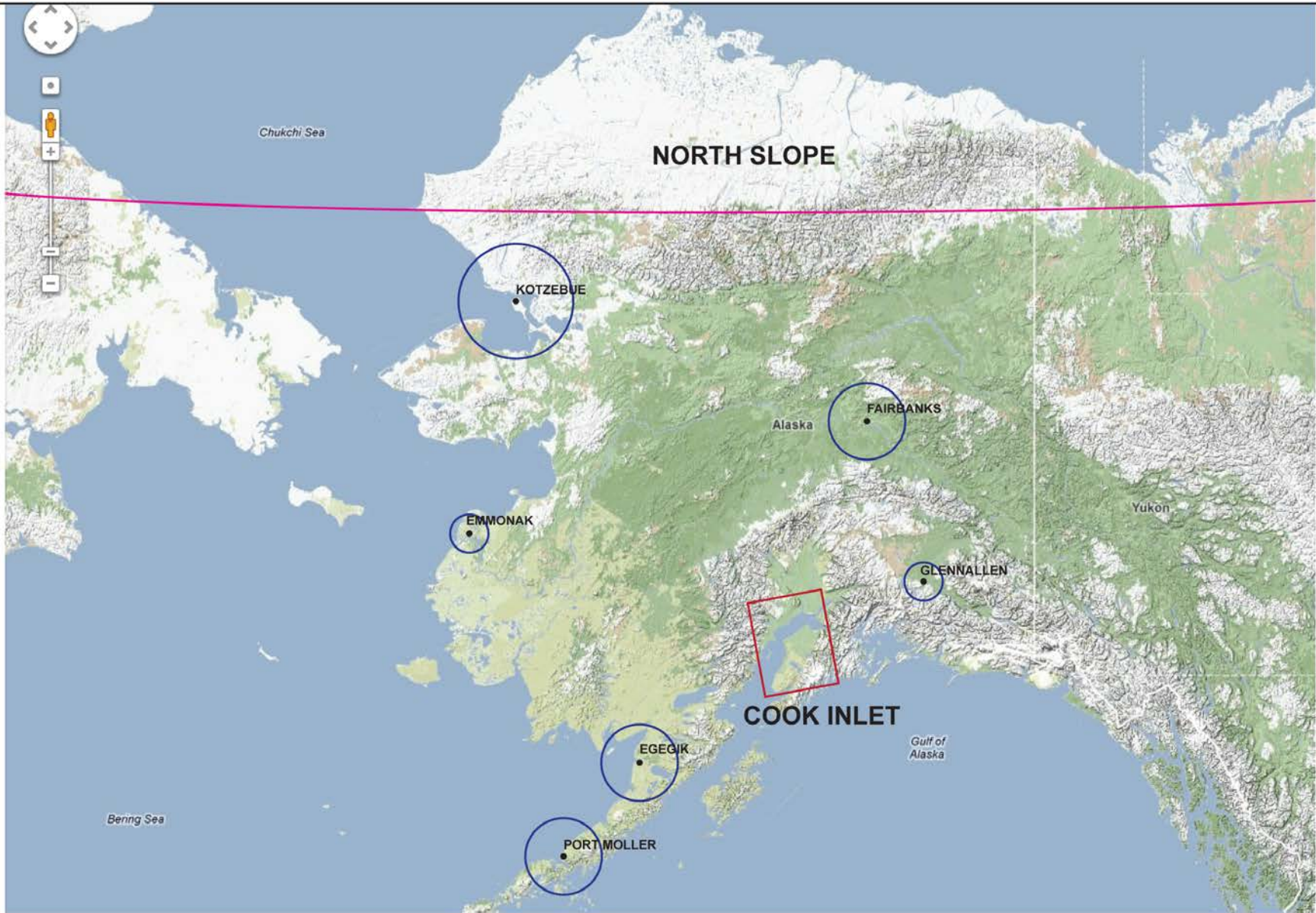


\$/bbl Gross Value at Point of Production:
(Assumes \$20 a barrel upstream deduction)

Changes From SB 21 – New Oil

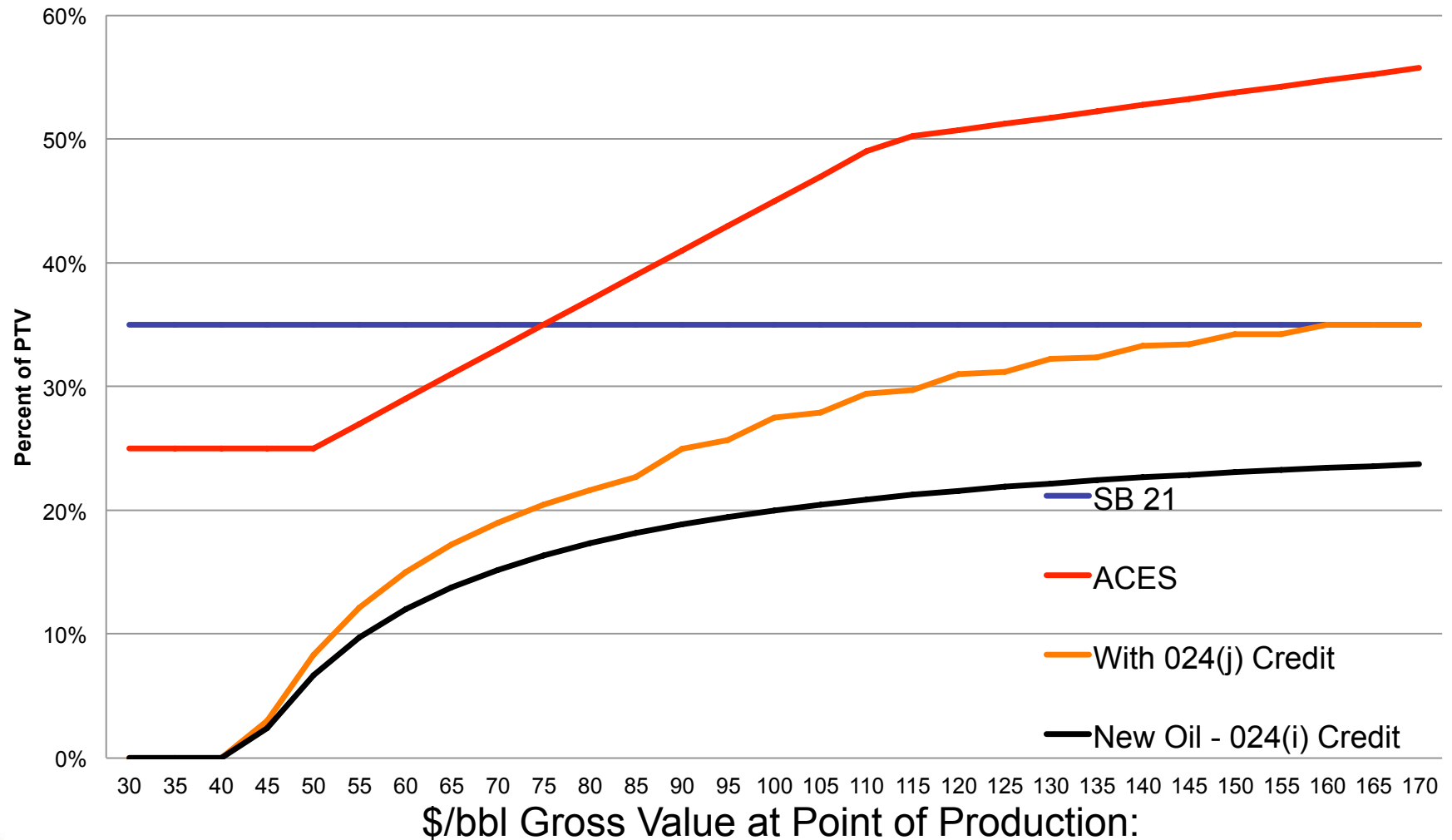
- Benefits for “New Oil”
- (1) AS 43.55.160(f) – Tax is calculated after Reducing Gross Value by 20% of Gross Value.
- (2) AS 43.55.160(g) - A further 10% reduction in the Gross Value if royalties > 12.5%
- (3) AS 43.55.024(i) – Additional credit of \$5 a barrel for any new production

Changes from SB 21 – New Oil



Changes from SB 21 – New Oil

- New Oil Rate Compared with other Rates



(Assumes \$20 a barrel upstream deduction)

Changes from SB 21 – New Oil

- AS 43.55.160(f) criteria for new oil:...(1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a participating area established after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011;(3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area.

Changes from SB 21 – New Oil

- AS 43.55.160(f) – translation
- (1) Oil from New Units (that don't contain certain bits of old units)
- (2) Oil from New Participating Areas within Old Units (that don't contain certain reservoirs)
- (3) Oil from New Acreage added to Old Participating Areas – so long as you can ID to within 1/10 of one percent which is old oil and which is new oil. { .1% from proposed 15 AAC 55.213 (a) }

Changes from SB 21 – New Oil

- Proposed 15 AAC 55.212
- Can make advanced application to the DOR
- Will production from this unit qualify?
- Will production from this participating area qualify?
- Will this method of determining what is new oil from new acreage and old oil from old acreage qualify?

Changes from SB 21 - Credits

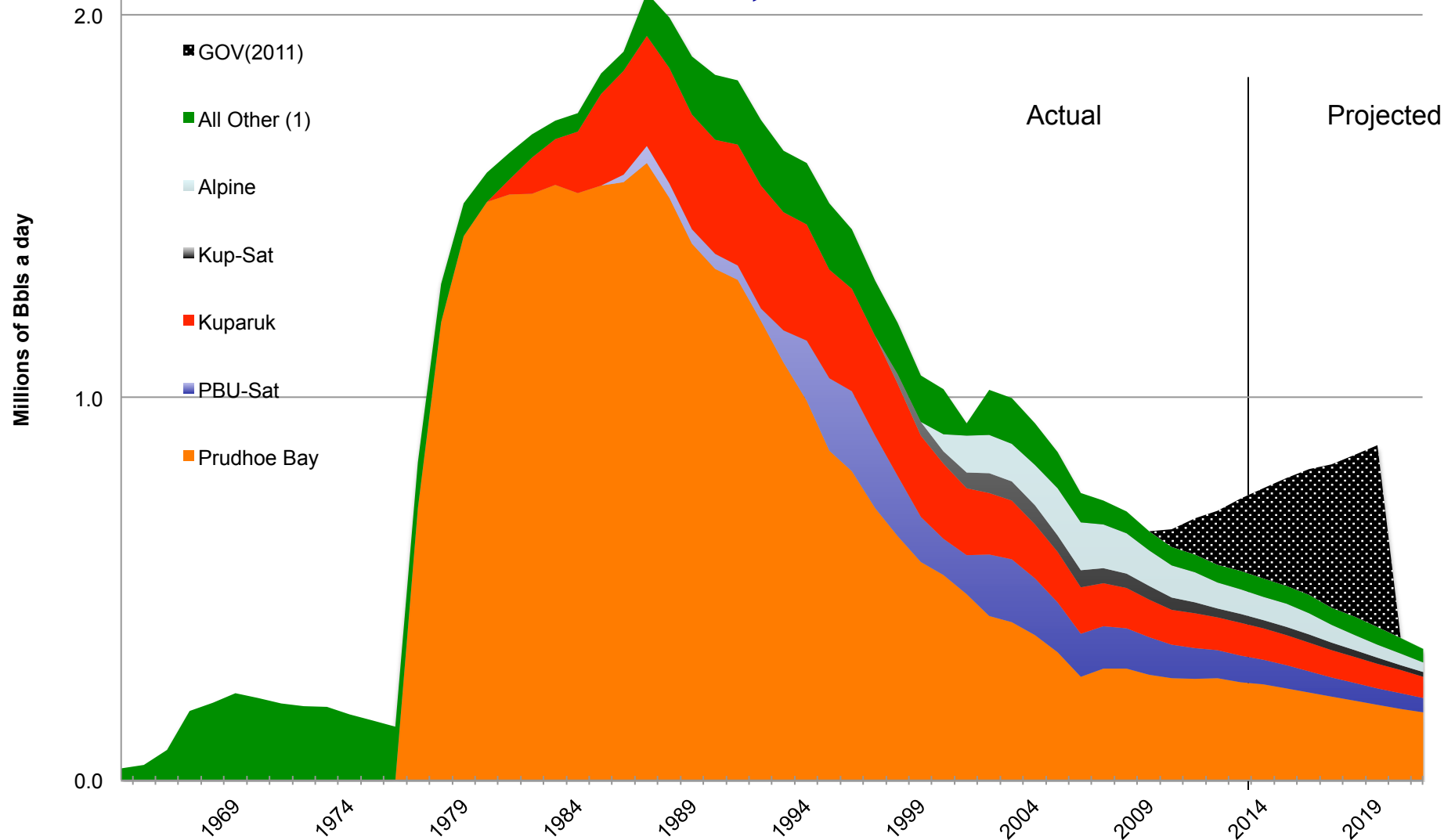
- (1) AS 43.55.023(a) 20% Qualified Capital Expenditure sunsets on the North Slope January 1 2014.
- (2) AS 43.55.023(b) Loss Carry Forward Credit on North Slope jumps from 25% to 45% for 2 years, then in 2016, goes to 35%.
 - At that point new entrants credit and producer deduction equal
- (3) AS 43.55.024(i) \$5 a bbl credit added for new oil
- (4) AS 43.55.024(j) “Progressivity credit” added for heritage fields
- No change to “Small Producer Credit” which sunsets in 3 years in 2016.
- No change to Well Lease Expenditure credit in Cook Inlet
- No change to 025 Exploration Credits

Changes from SB 21 - Credits

- In 2014 and 2015 Certain North Slope Frontier Exploration will qualify for 85% refundable Tax credit –
- Combination of 40% Exploration credit
- 45% Loss Carry Forward Credit

Attaining Governor's 2011 goal of 1 mm bbls/day by 2020

Alaska Oil Production, 1965 - 2020



Source: Alaska Department of Revenue, Fall 2013 Revenue Sources Book & earlier RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

Thank You

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