

ACES High or Low?

Numbers behind the Current Production Tax Debate

Dan E. Dickinson, CPA

Anchorage Chapter
International Association of Energy Economists

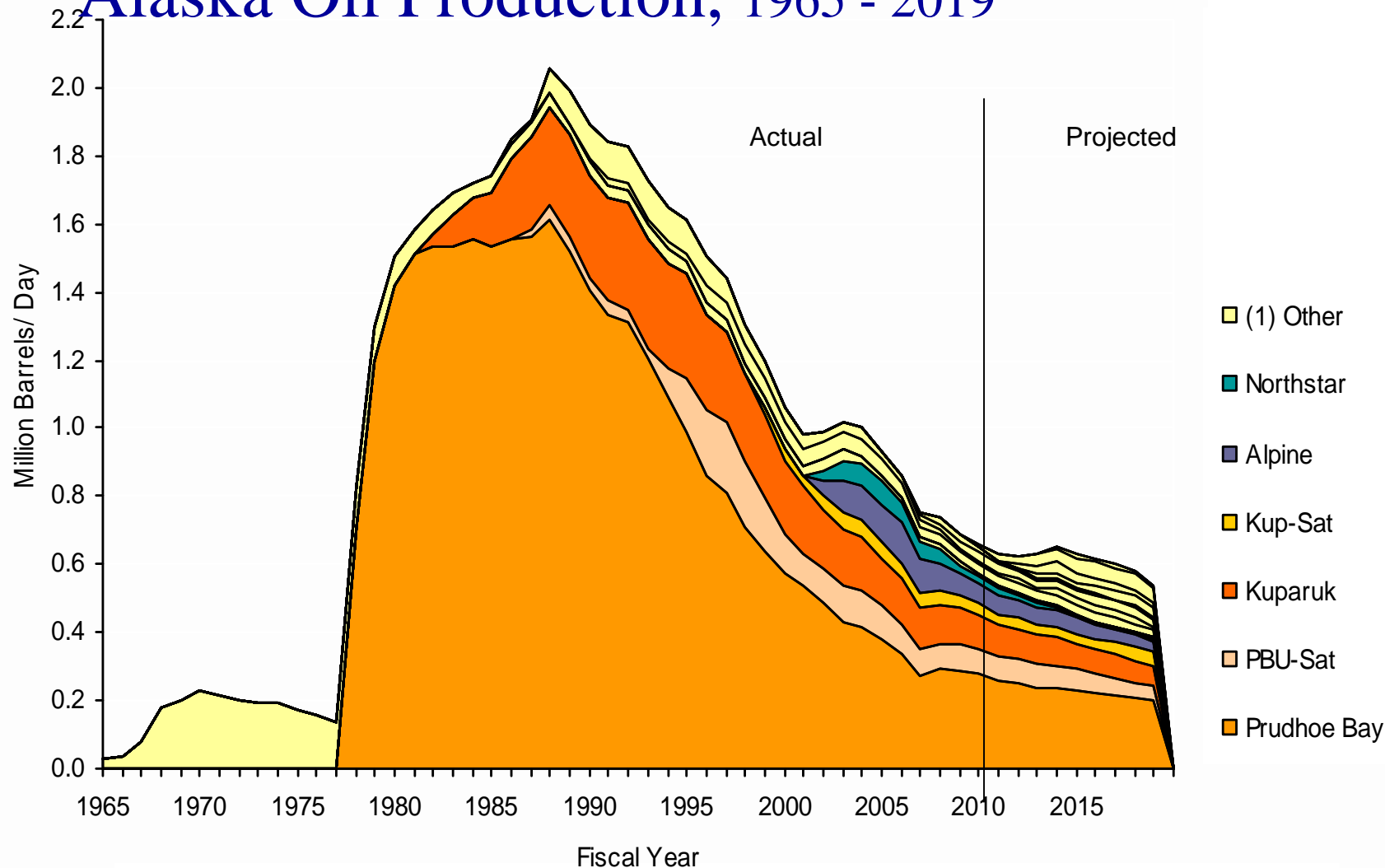
April 11, 2011

Overview

- Setting the Stage – 5 Images
- I. Numbers Used in the Current Debate
 - Jobs up or down? - Production and Producing Fields?
 - Investment up or down? - How competitive is Alaska?
 - Drilling up or down? - Profitability high or low?
 - Meeting Expectations? - HB 110 vs. Aces?
- II. Numbers that should inform the Current Debate
 - Doubling of Alaska GF oil and gas derived spending in 3 years
 - Regressive vs. Progressive Taxation
 - Alberta Oil and Gas Taxes & Spending
 - North Dakota Oil and Gas Taxes & Spending
 - “Filing up the Pipeline” – Setting goals for reforms
- References – Acronyms, Statutes and Regulations

1 of 5 Images to set the Stage

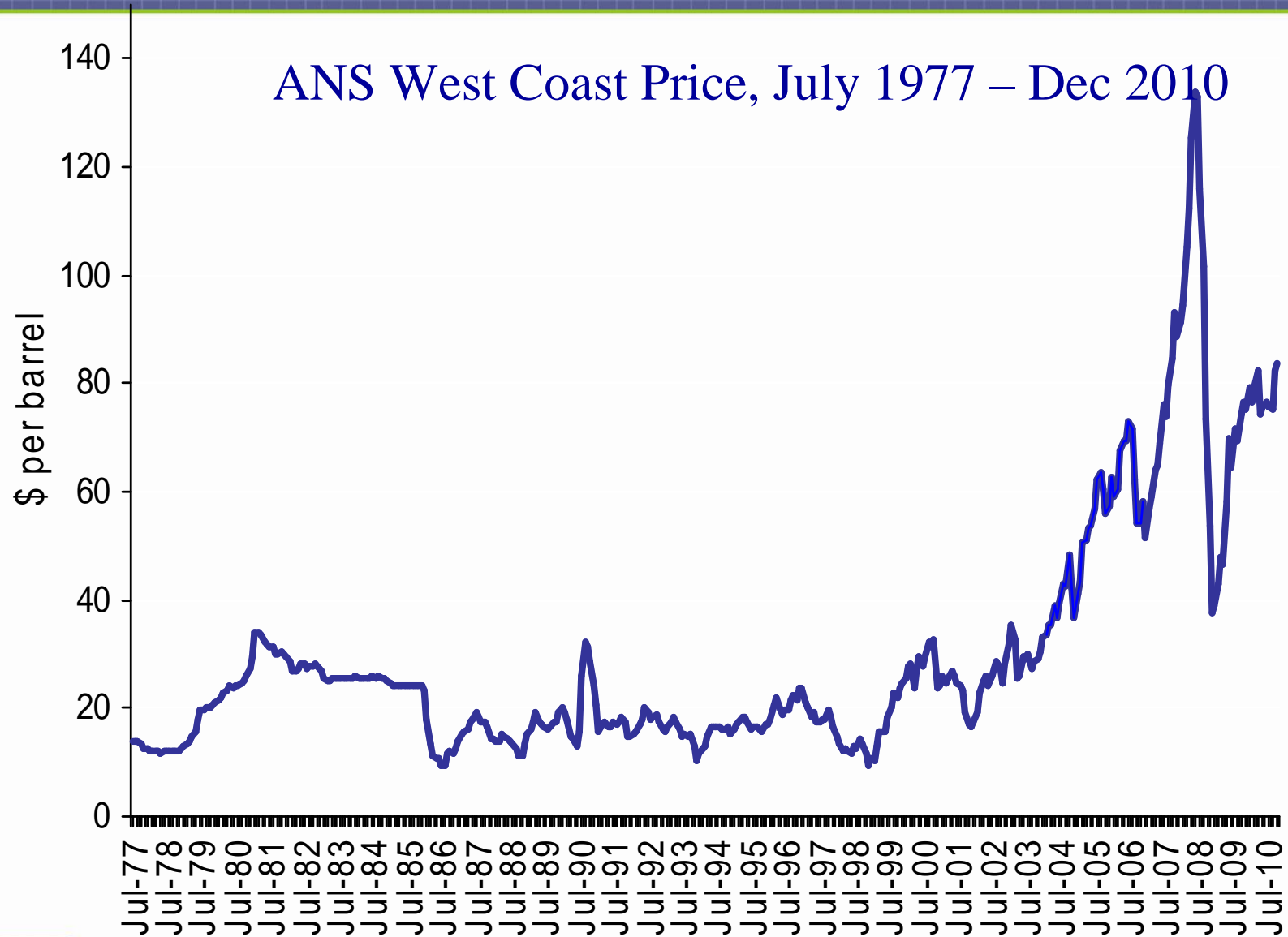
Alaska Oil Production, 1965 - 2019



Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book & Fall 1999 RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

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2 of 5 Images to set the Stage



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Source: Alaska Department of Revenue, Tax Division

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4.11.2011

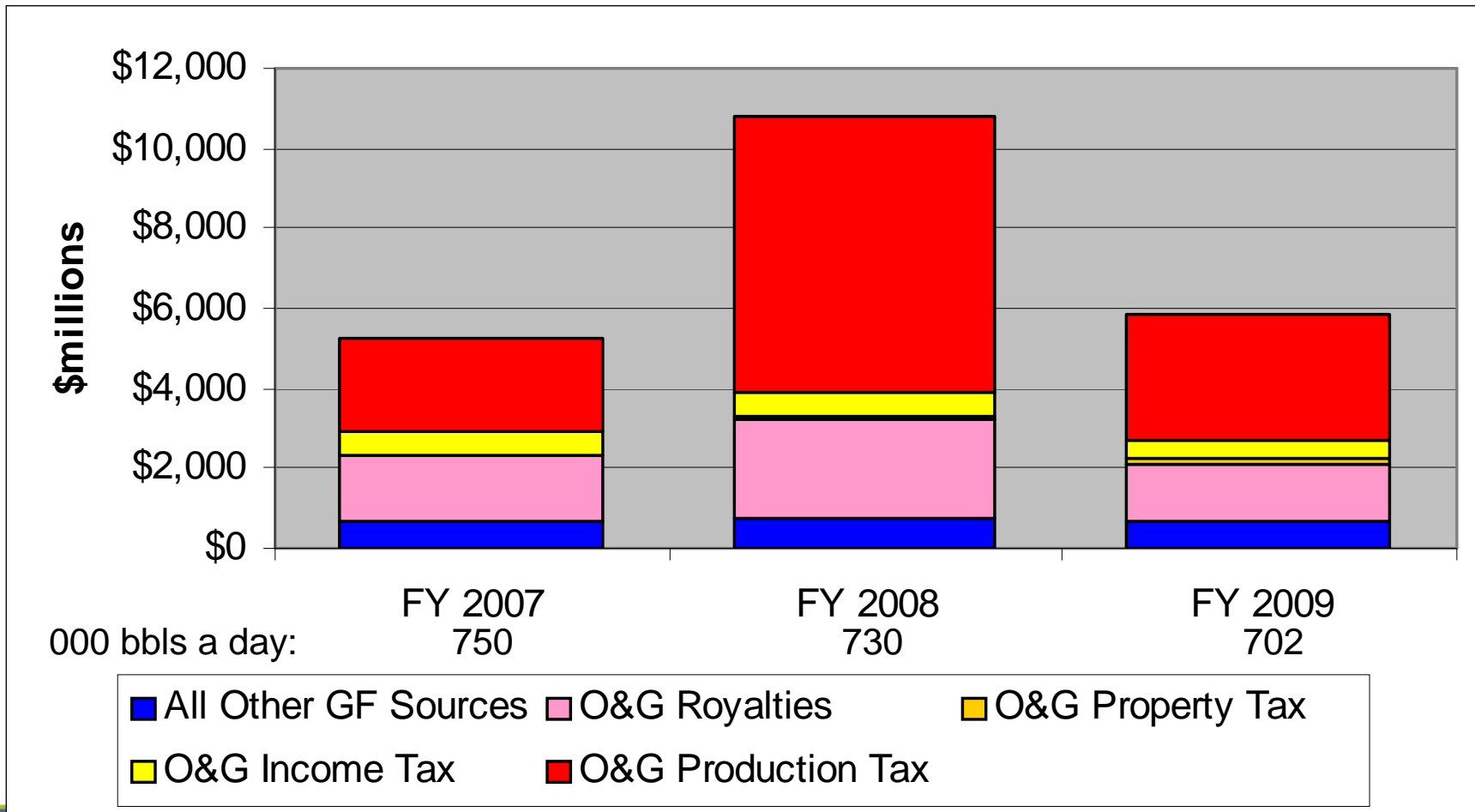
3 of 5 Images to Set the Stage

- Gross production tax, with an economic limit factor (ELF)
- Exploration Credits (2003)
- Switch from Gross to Net (PPT) (2006)
 - general investment and loss carryforward credits,
 - progressivity above \$40 a barrel net
 - ACES – Palin administration suggested lowering progressivity – Legislature bolstered it (2007)
 - CIRA in 2010 – North Slope exempted from most changes
 - HB 110 – introduced by Governor, Passed House – Senate has stated it has no interest in passing

4 of 5 Pictures to Set the Stage

State of Alaska General Fund Revenues

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



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

4 of 5 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%

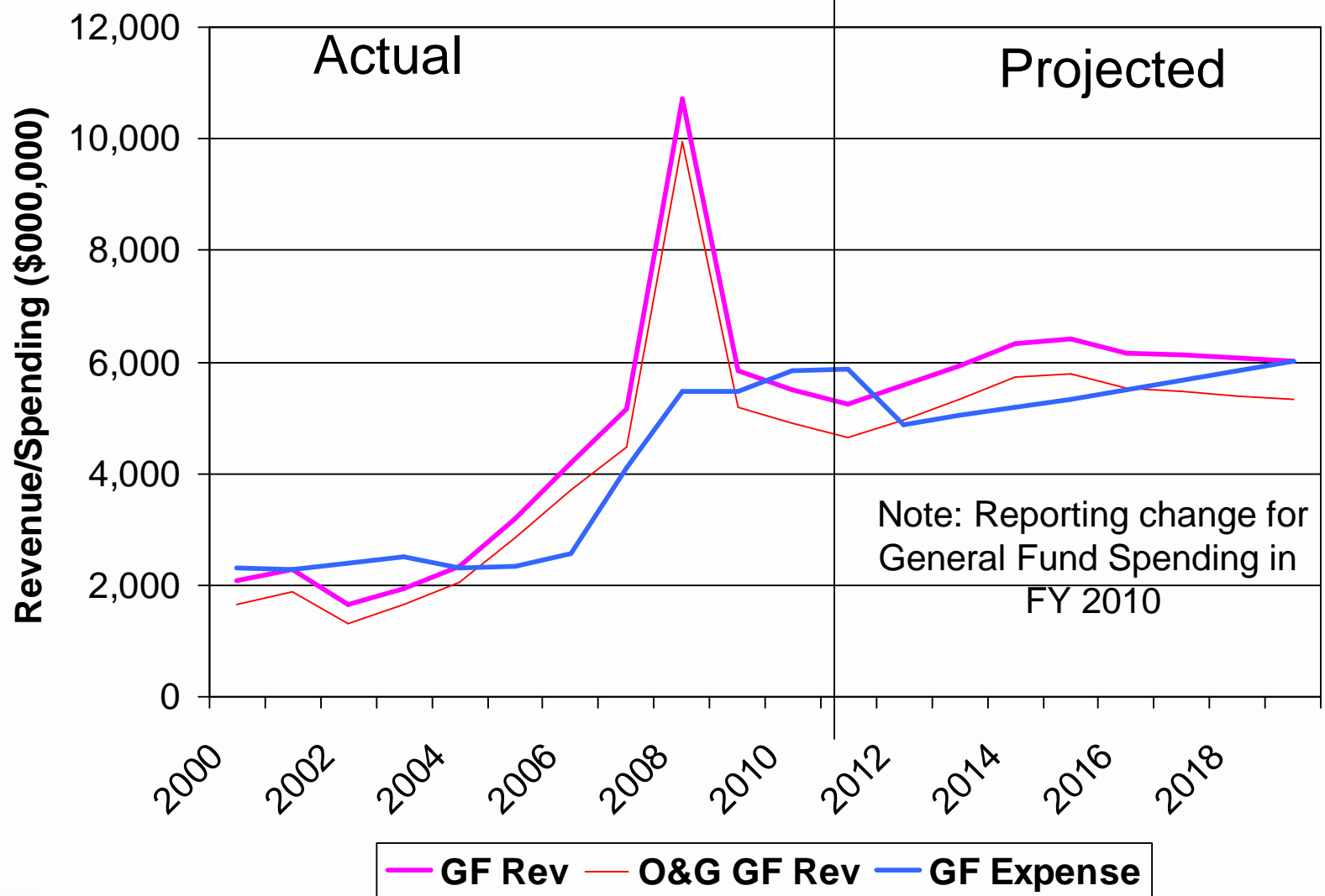
90%

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

5 of 5 Pictures to Set the Stage

State of Alaska General Fund In/Out



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Source: Revenues from DOR RSB; actual spending Leg Finance annual Fiscal Summaries; projected Spending OMB 2010 10 year report

Numbers Used in the Current Debate

Jobs

Investment

Wells

Forecast

Production & Producing Field

Competitiveness

Profitability

HB 110

Maintenance vs. New Production Spending

FACES OF ACES



MEET LISA REINHART

Another Alaskan trumped by ACES

Lisa worked in business development for a large oil field service company until she and many of her co-workers lost their jobs due to oil industry spending cutbacks in Alaska. They're casualties of "WCCS" and an unfriendly regulatory environment in Alaska.

Alaska's "Clear & Equitable Share" is the tax policy that gives Alaska some of the highest oil tax rates and costs in the world. It is neither fair nor equitable. It's reduced oil industry investment and oil production and already has cost hundreds of Alaskans like Lisa jobs and lost some opportunities.

We can't influence the price of oil or many of the other factors that affect investment decisions, but we can adopt a tax and regulatory policy that spurs Alaska's economic development that keep workers, small business owners and other Alaskans like Lisa working.



200 members proudly work for 2000 Alaskan jobs through responsible oil, gas and mineral development.

ACES is broken. It's time to fix it.

Full text by the Alaska Supportive Industry Alliance | 430 W. 4th Ave., Suite 310, Anchorage, AK 99501 | 907.486.3326 | www.chadoffices.com

FACES OF ACES



MEET JIMMY METHVEN

Another Alaskan trumped by ACES

Jimmy was working as a heavy equipment operator on a North Slope oil development project when he and many of his co-workers lost their jobs with a Mat-Su based oil construction crew pay due to spending cutbacks by the oil industry in Alaska.

Jimmy and his co-workers are casualties of "WCCS" and an unfriendly regulatory environment in Alaska. Alaska's "Clear & Equitable Share" is the tax policy that gives Alaska some of the highest oil tax rates and costs in the world. It is neither fair nor equitable. It's reduced oil industry investment and oil production, and it already has cost hundreds of Alaskans like Jimmy jobs and business opportunities.

We can't influence the price of oil or many of the other factors that affect investment decisions, but we can adopt a tax and regulatory policy that spurs Alaska's economic development that keep camp cooks, accountants and heavy equipment operators like Jimmy working.



200 members proudly work for 2000 Alaskan jobs through responsible oil, gas and mineral development.

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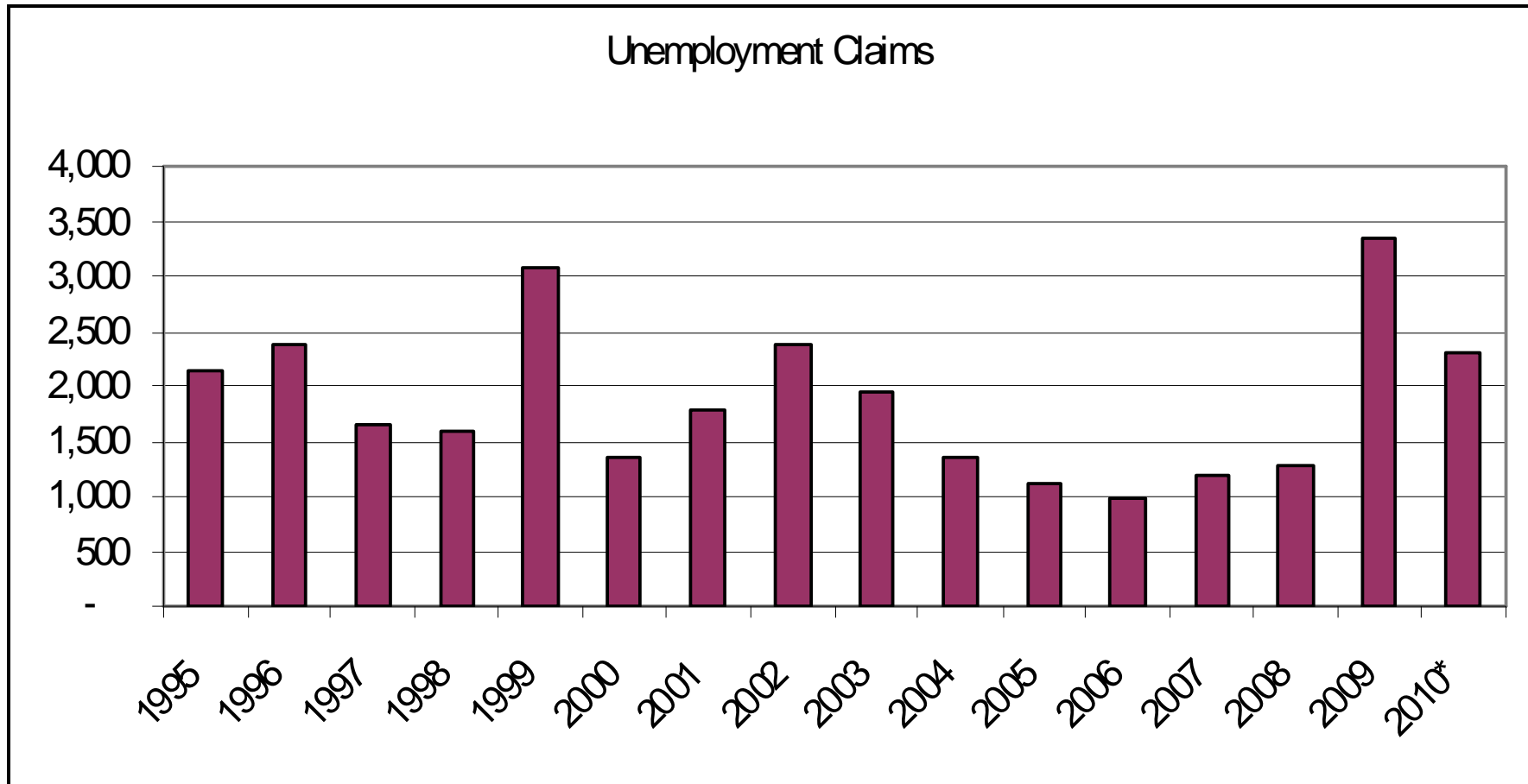
Full text by the Alaska Supportive Industry Alliance | 430 W. 4th Ave., Suite 310, Anchorage, AK 99501 | 907.486.3326 | www.chadoffices.com

Dark
Dial

4.11.2011

Numbers Used in the Current Debate: Jobs

- First Payments of Unemployment Claims in Alaska-Mining Industry (primarily Oil and Gas) are Up



Source: Alaska Dept of labor and Workforce Development, Unemployment Insurance Actuarial Study and Financial Handbook, 2002 (table 2.10), 2005 (table 2.11) & 2009 (table 2.12)

Numbers Used in the Current Debate: Jobs

- Oil and Gas Employment is Up



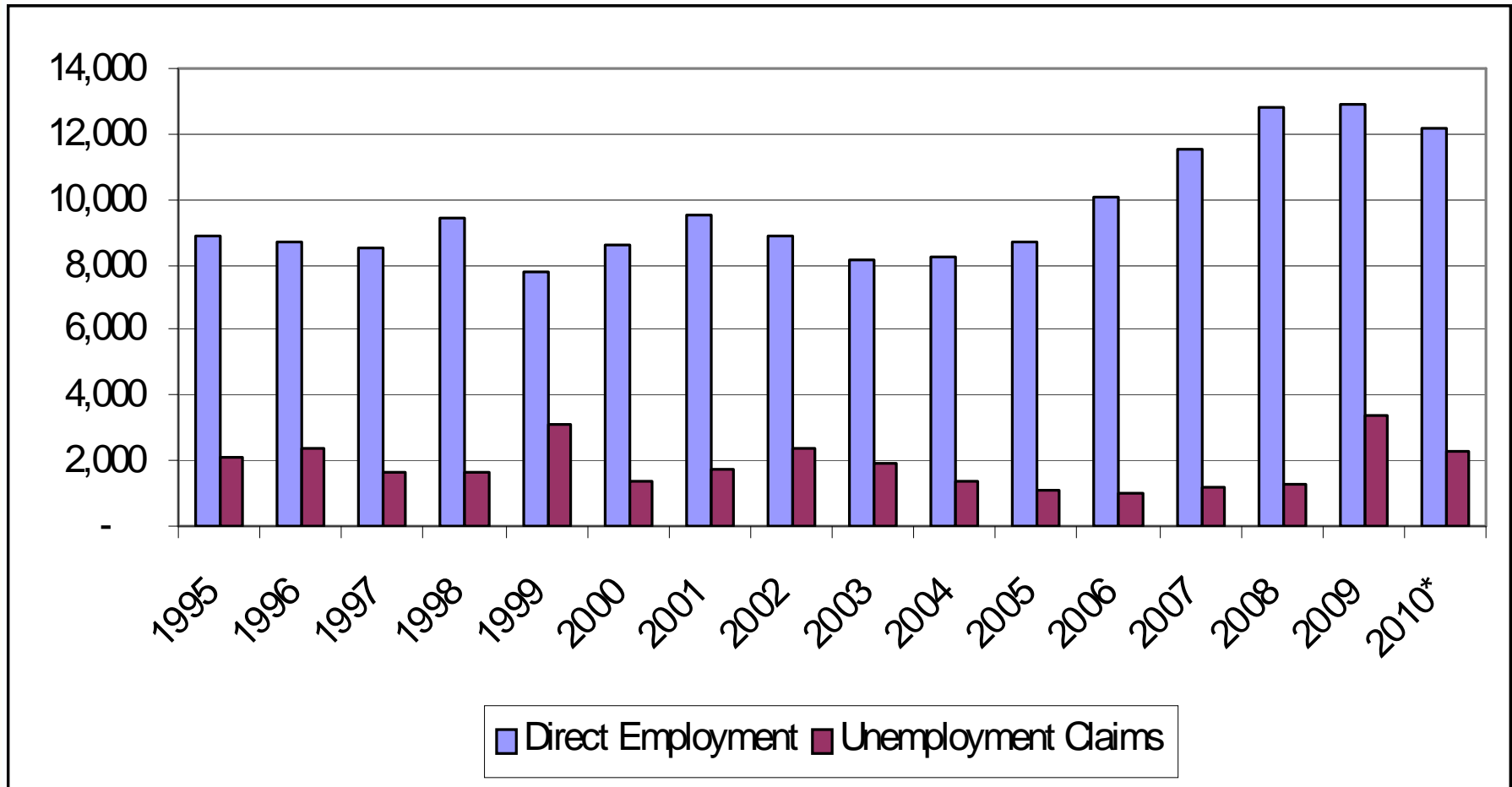
*Estimates for 2010 are preliminary

Source: Alaska Dept of Labor and Workforce development website

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Numbers Used in the Current Debate: Jobs

- Combined comparison



*Estimates for 2010 are preliminary

Source: Alaska Dept of Labor and Workforce development website

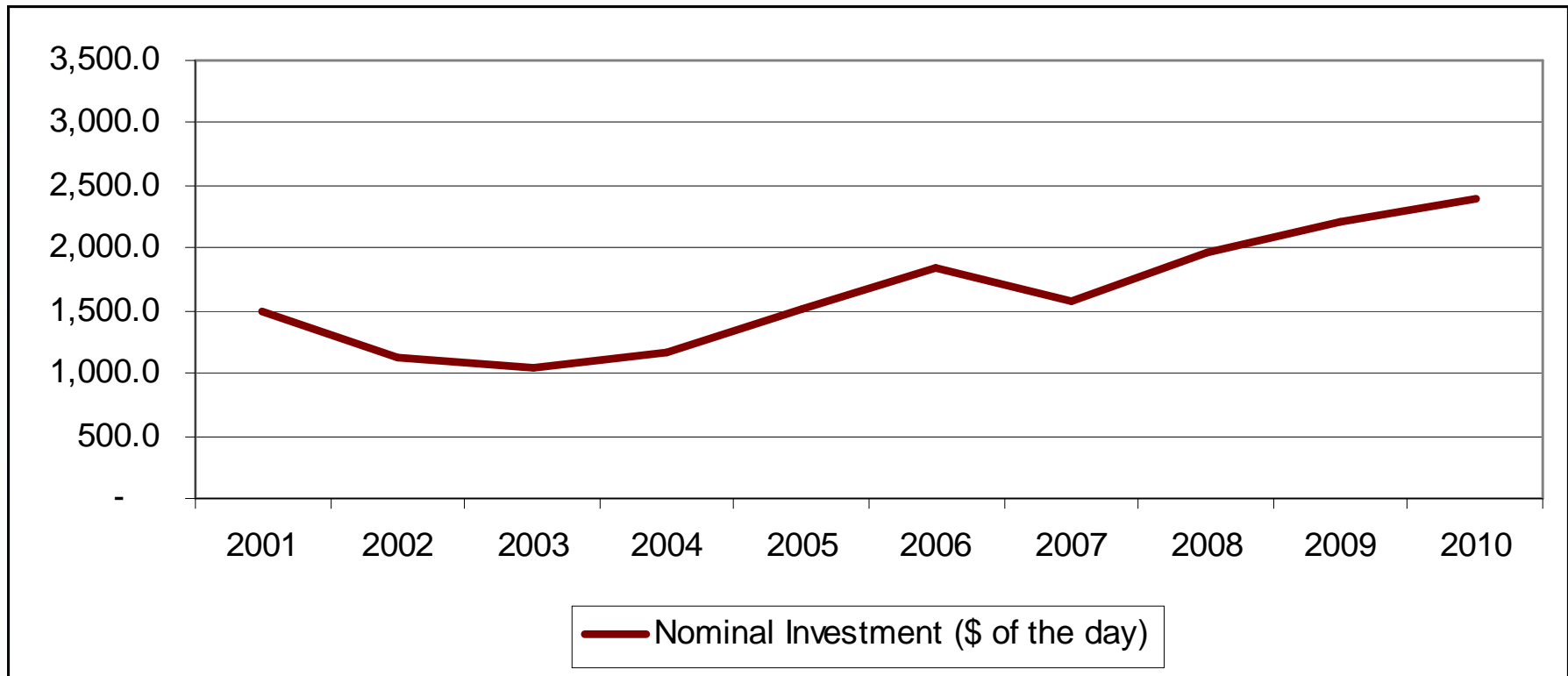
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Numbers Used in the Current Debate: Jobs

“There are certainly thousands of other direct jobs that service the oil industry but aren’t categorized as jobs with oil industry employers. Out of more than 9000 jobs in Prudhoe Bay in 2007, more than 1500 weren’t with oil industry employers. For example, Nana Management Services is one of the largest employers in Prudhoe Bay. Its employment falls into the four facilities of catering, accommodation, facilities management and construction. Other direct jobs associated with oil industry activity but not categorized as oil industry employment include those for security, transportation, engineering and logistic employees among others”

Numbers used in the Current Debate: Investment

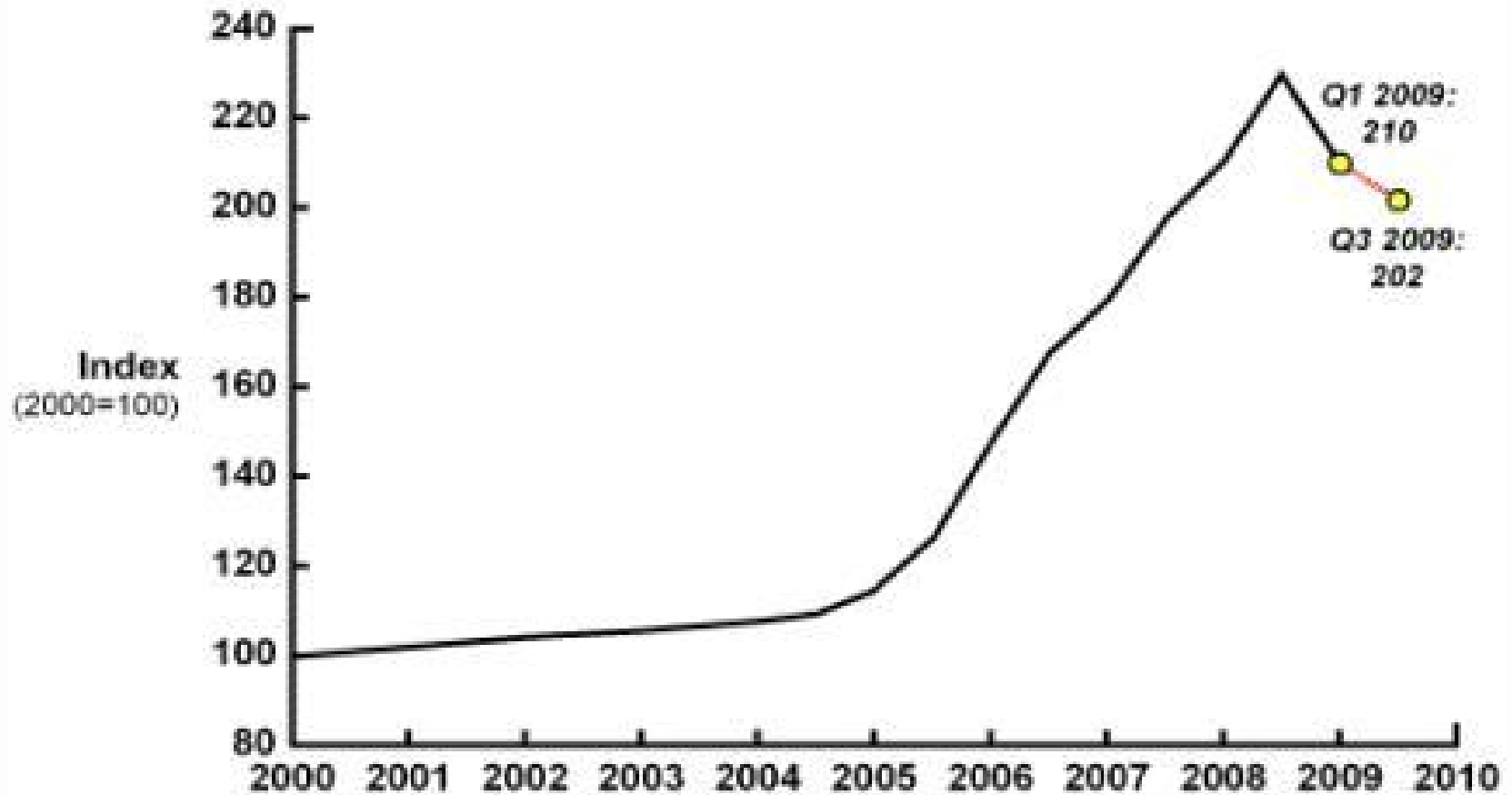
- Capital Investment is Up!!!
- North Slope Capital Investment per DOR documents



Source: Capital Spending on Alaska's North Slope Wells, Field Facilities and Exploration, DOR Oct 24 2007 and subsequent fall RSBs

Numbers used in the Current Debate: Investment

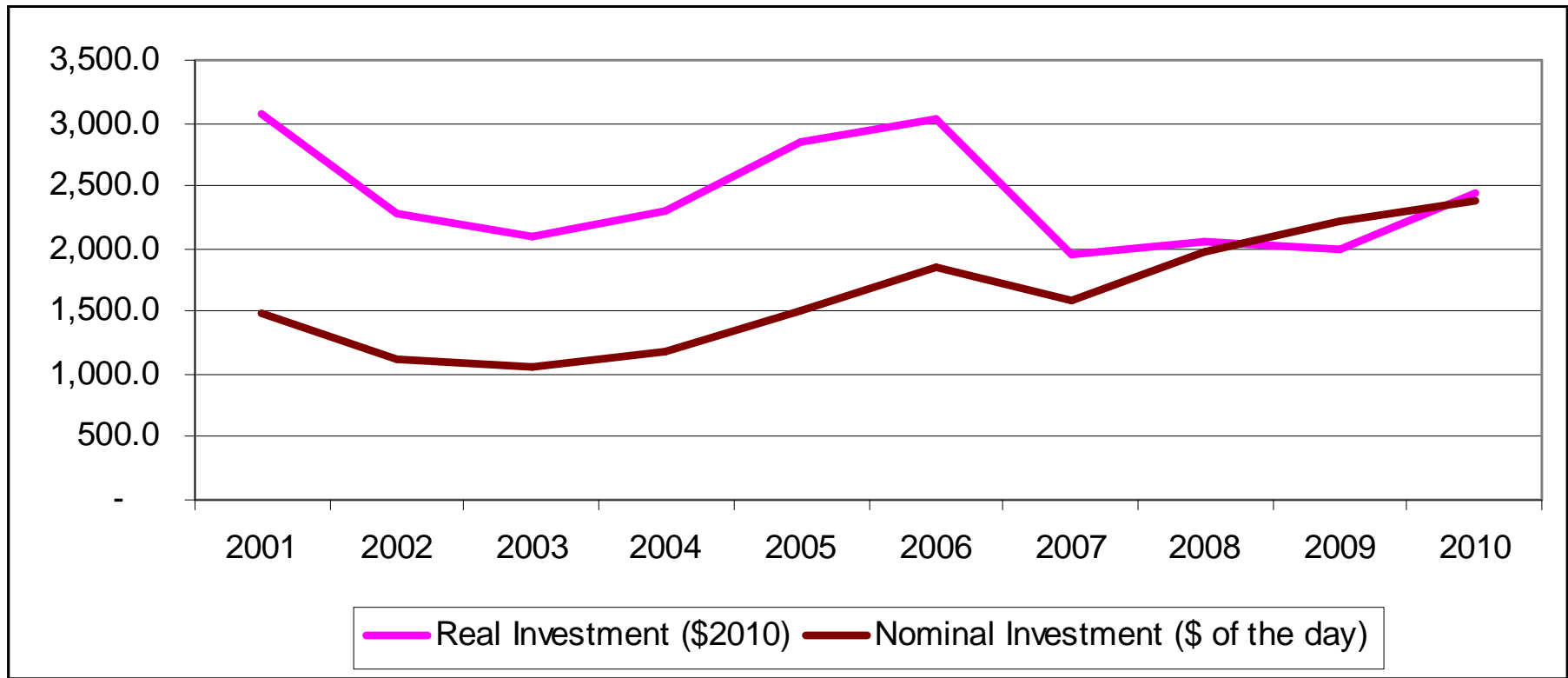
IHS CERA Upstream Capital Costs Index



Source: IHS Cambridge Energy Research Associates
91116-5

Numbers used in the Current Debate: Investment

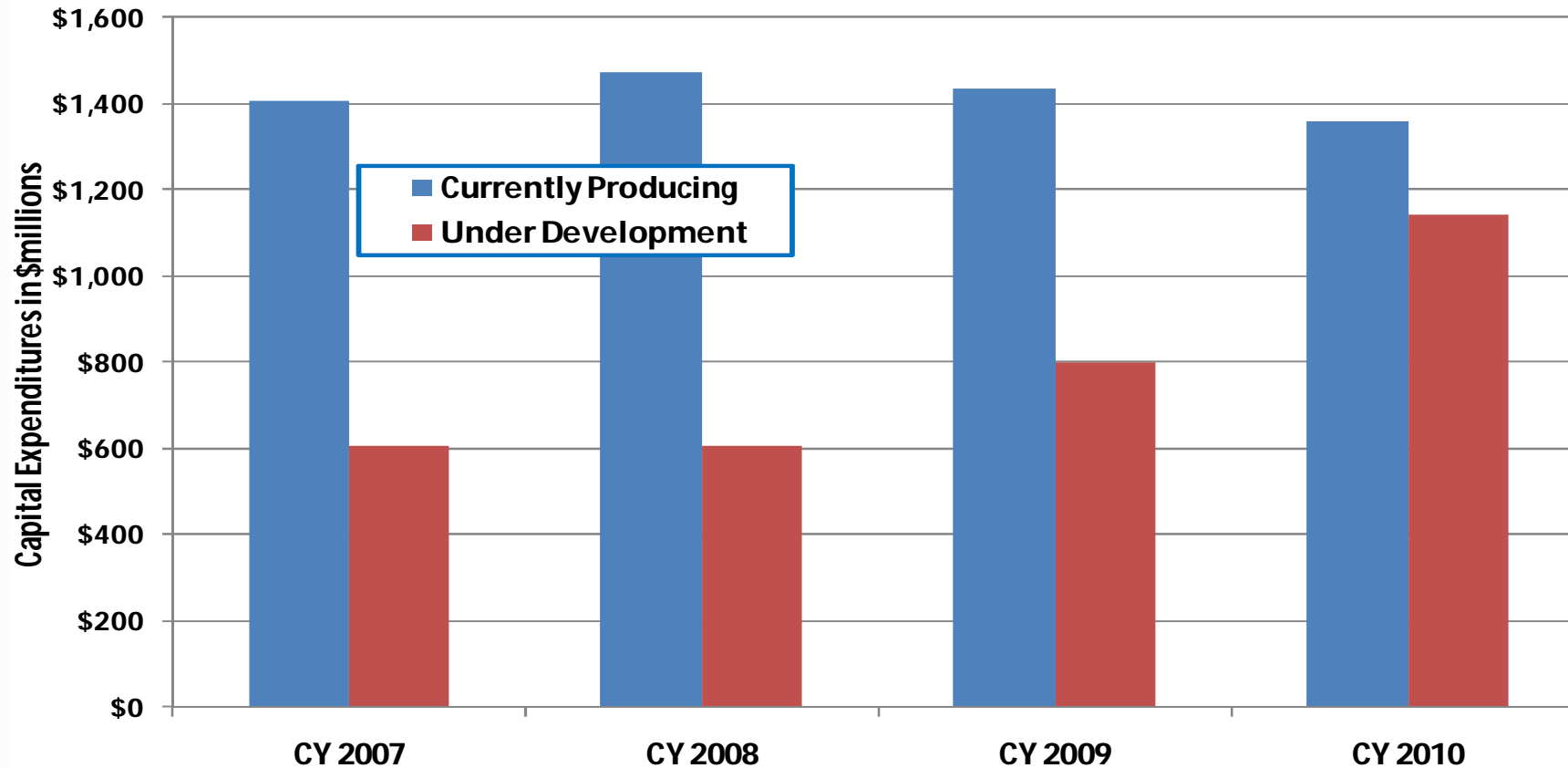
- North Slope Capital Investments per DOR Documents
- Adjusted by CERA HIS Up Stream Capital Cost Index



Source: Capital Spending on Alaska's North Slope Wells, Field Facilities and Exploration, DOR Oct 24 2007 and subsequent fall RSBs Index from CERA found at <http://www.ihsindexes.com/NR/rdonlyres/D779A265-0B1C-4DBA-9210-401CB4BE8CF6/0/UCCIFall10.xls>

Numbers used in the Current Debate: Investment

- North Slope Capital Investments per DOR Restated



*Units under Development include Ooguruk, Nikaitchuq and Pt Thomson, NPRA and other North Slope

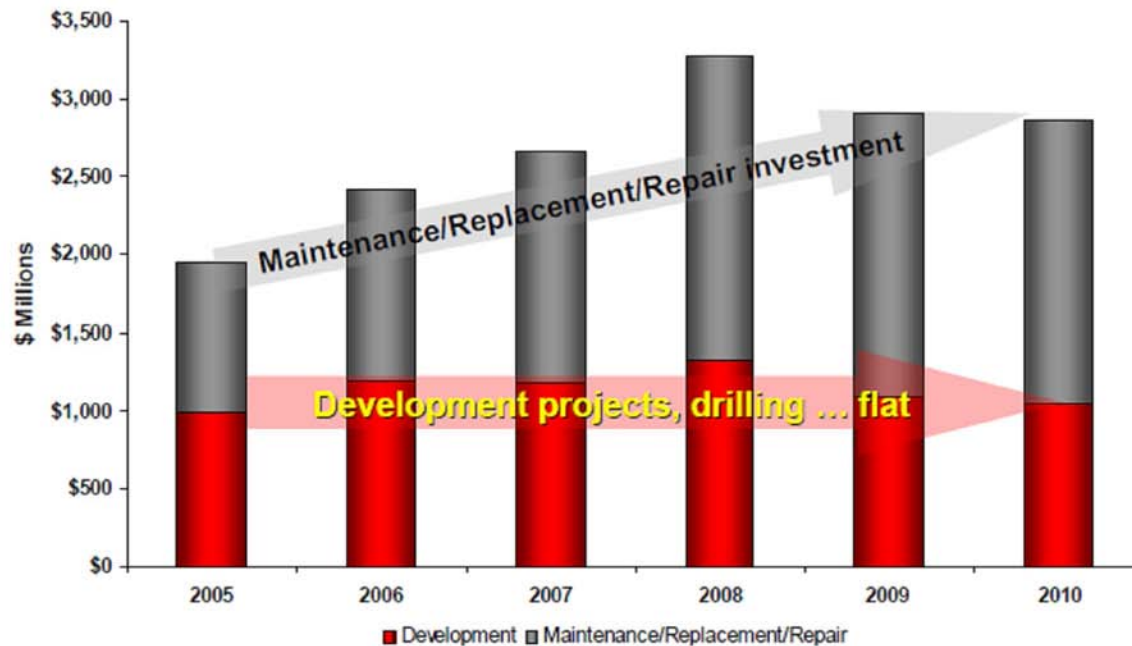
Source: Alaska's Oil Investment Tax Structure , Commonwealth North (March 2011) page 19, The figures are from Dept of Revenue, restatement of numbers from a January 18th 2011 report

Numbers Used in the Current Debate: Investment

- And within the largest operating fields:

Core Field Investments Extend Field Life

Prudhoe, Kuparuk, Alpine (Core fields) gross investments include capital/operating expense, \$MM



Maintenance investment essential to extending field life

Source: ConocoPhillips internal
Nominal dollars

ConocoPhillips

Source: Wendy King and Bob Heinrich presentation to Commonwealth North on 2/1/2011, accessed at http://www.commonwealthnorth.org/calendar/index.cfm?fa=catalog_class&classid=231 accessed 4/10/2011

Numbers used in the Current Debate: Investment

- What is “maintenance” maintaining?
- What is “maintenance” spending in a declining field?
- How do we distinguish between spending on “new production” vs “maintenance” in fields with declining production?

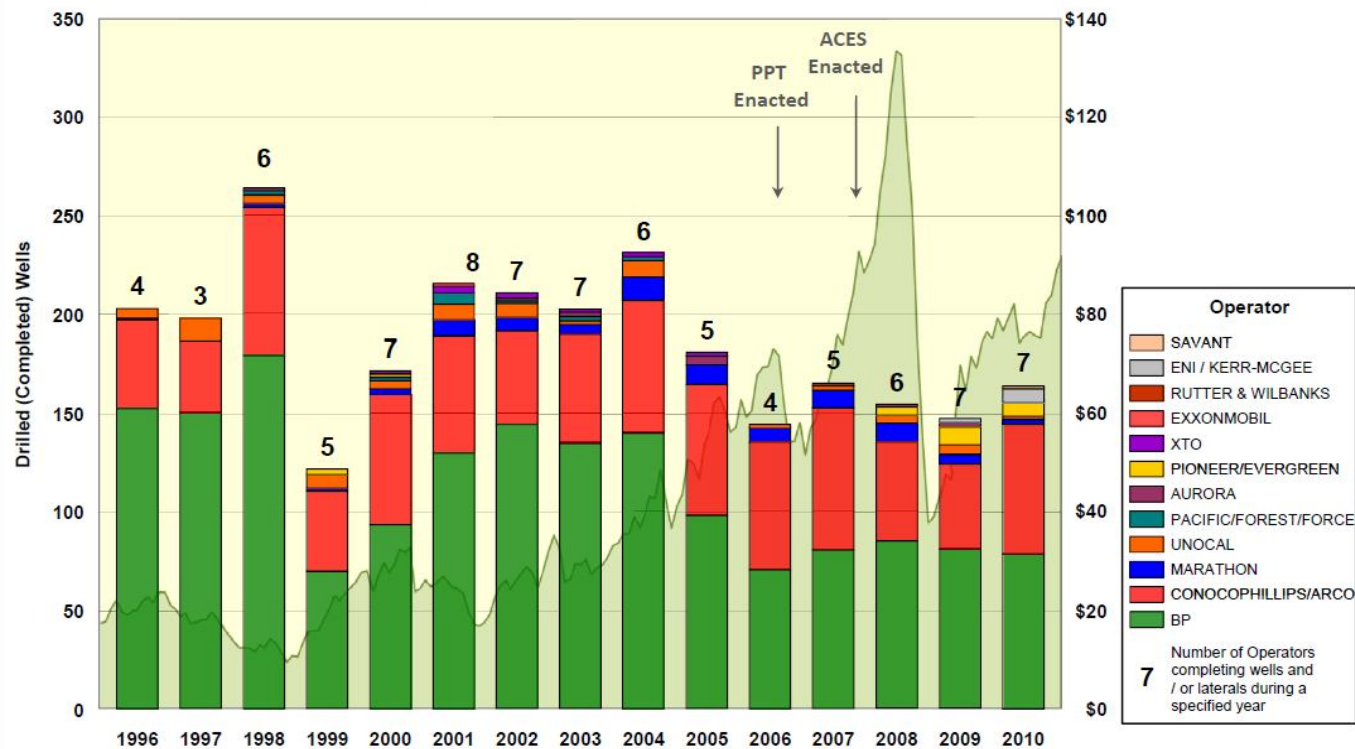
- How do we infer gold plating, and how does gold plating differ from localized, industry-specific inflation?

Numbers used in the Current Debate: Wells

- Development and producing wells up or down? Choose your base year

DEVELOPMENT AND SERVICE WELLS / LATERALS Completed (1996 - 2010)

with West Coast Spot Price for Alaska North Slope Crude Oil (Dollars per Barrel)



AOGCC

Source: AOGCC

Total Wells / Laterals Completed = 2,780

February 10, 2011

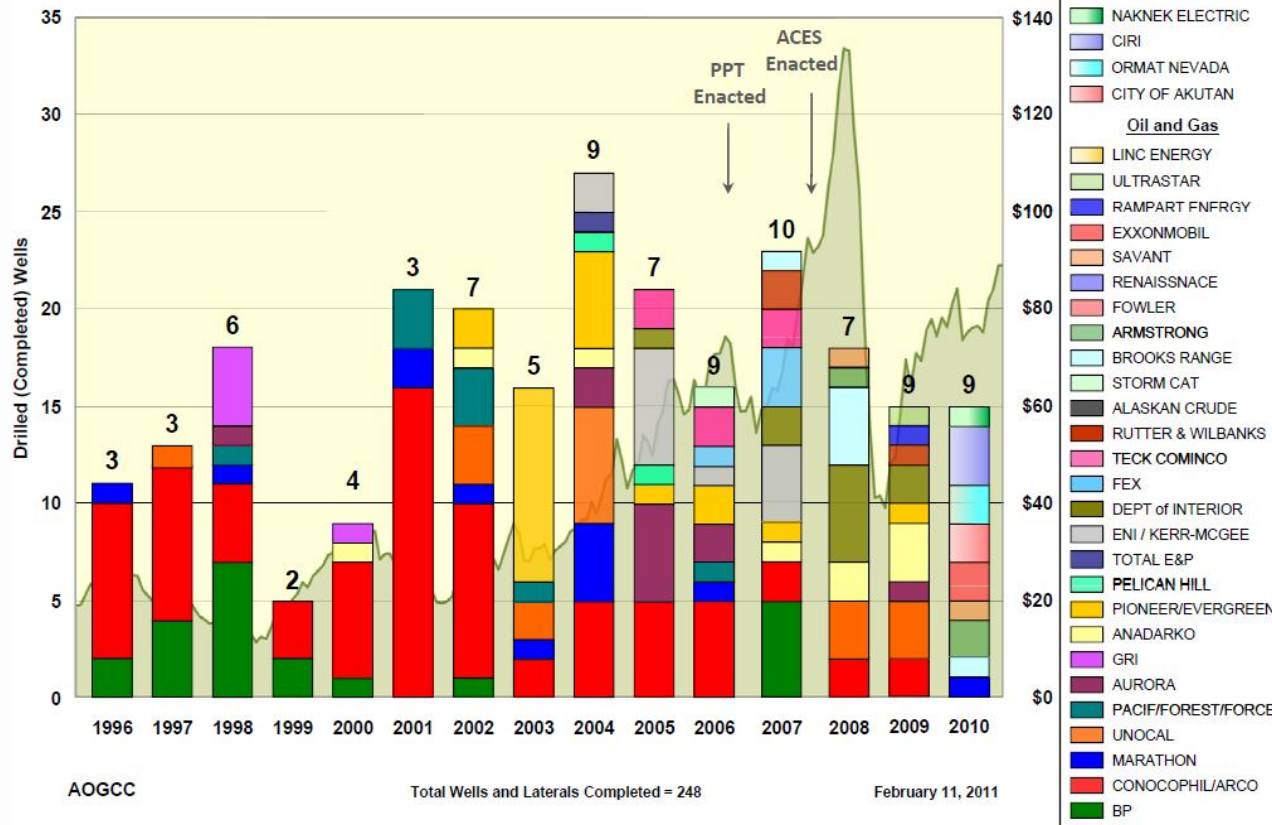
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Numbers used in the Current Debate: Wells

- In 2010, 1 exploration well on the North Slope (3 in Cook Inlet, 8 non oil and gas wells, 3 delineation wells on NS)

EXPLORATORY WELLS AND LATERALS Completed (1996 - 2010)

with Spot Price for W. Texas Intermediate Crude Oil (Dollars per Barrel)

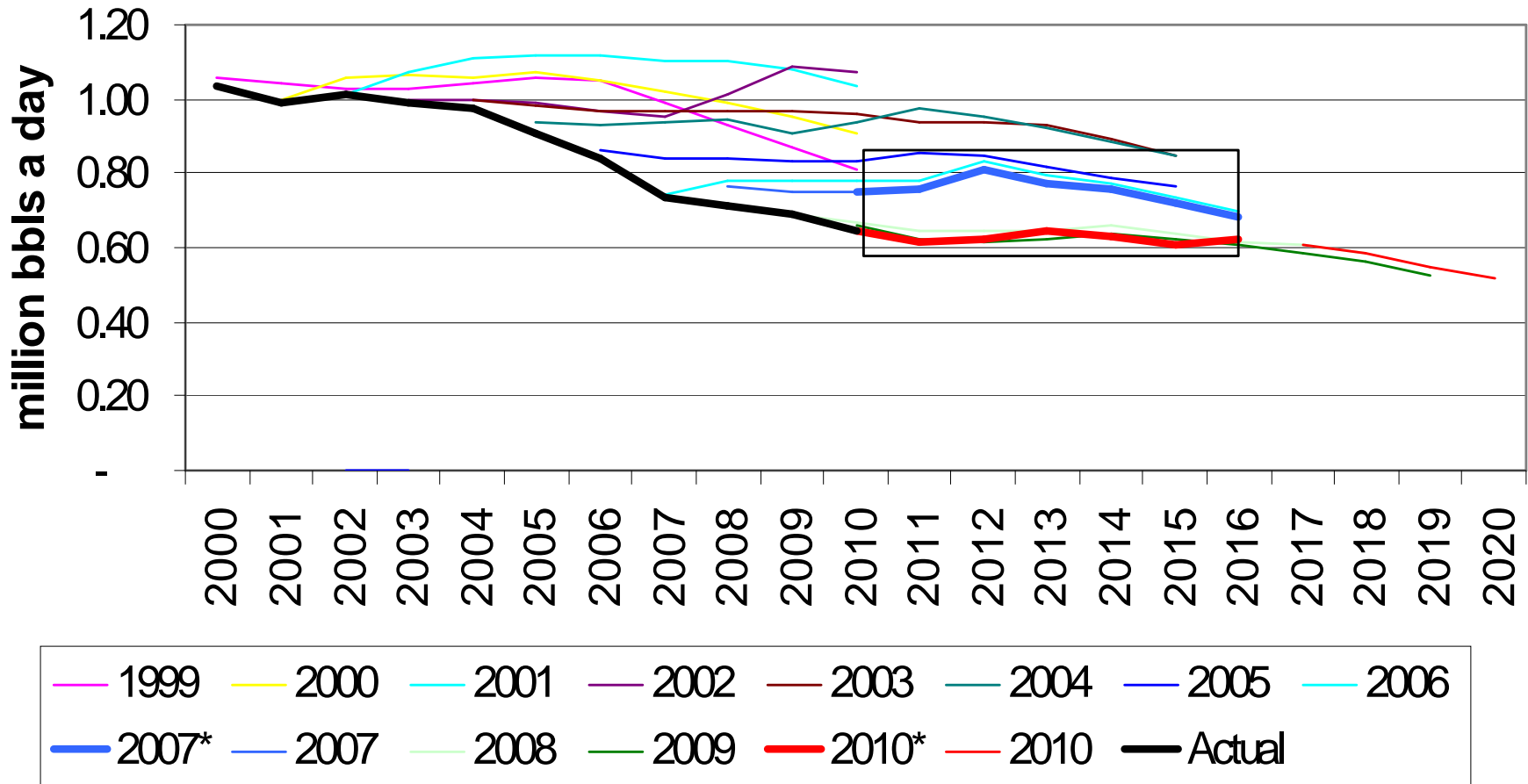


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Source: AOGCC

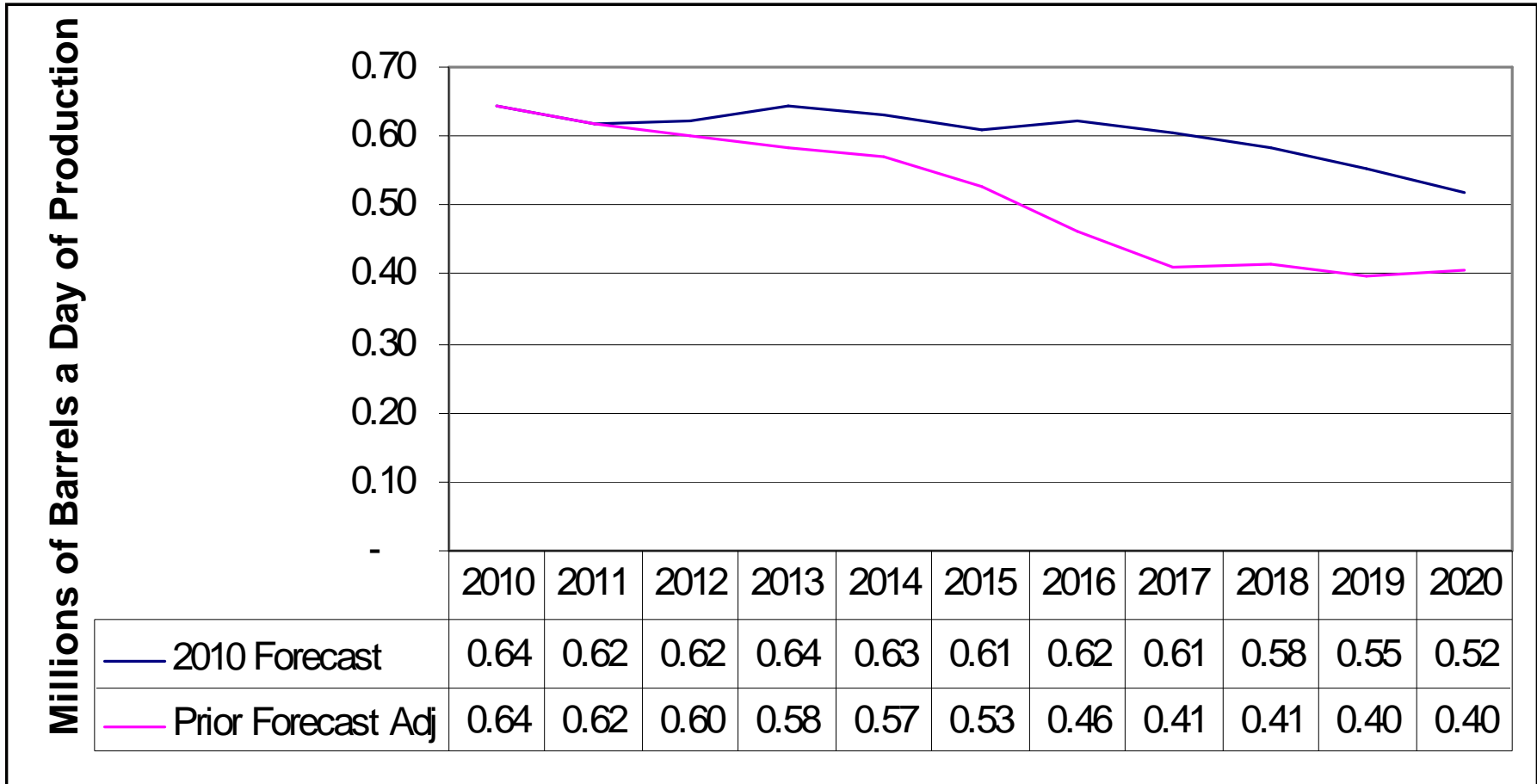
Numbers used in the Current Debate: Expectations

DOR Annual 10 Years Forecasts vs Actual Production from North Slope



Numbers Used in the Current Debate: Expectations

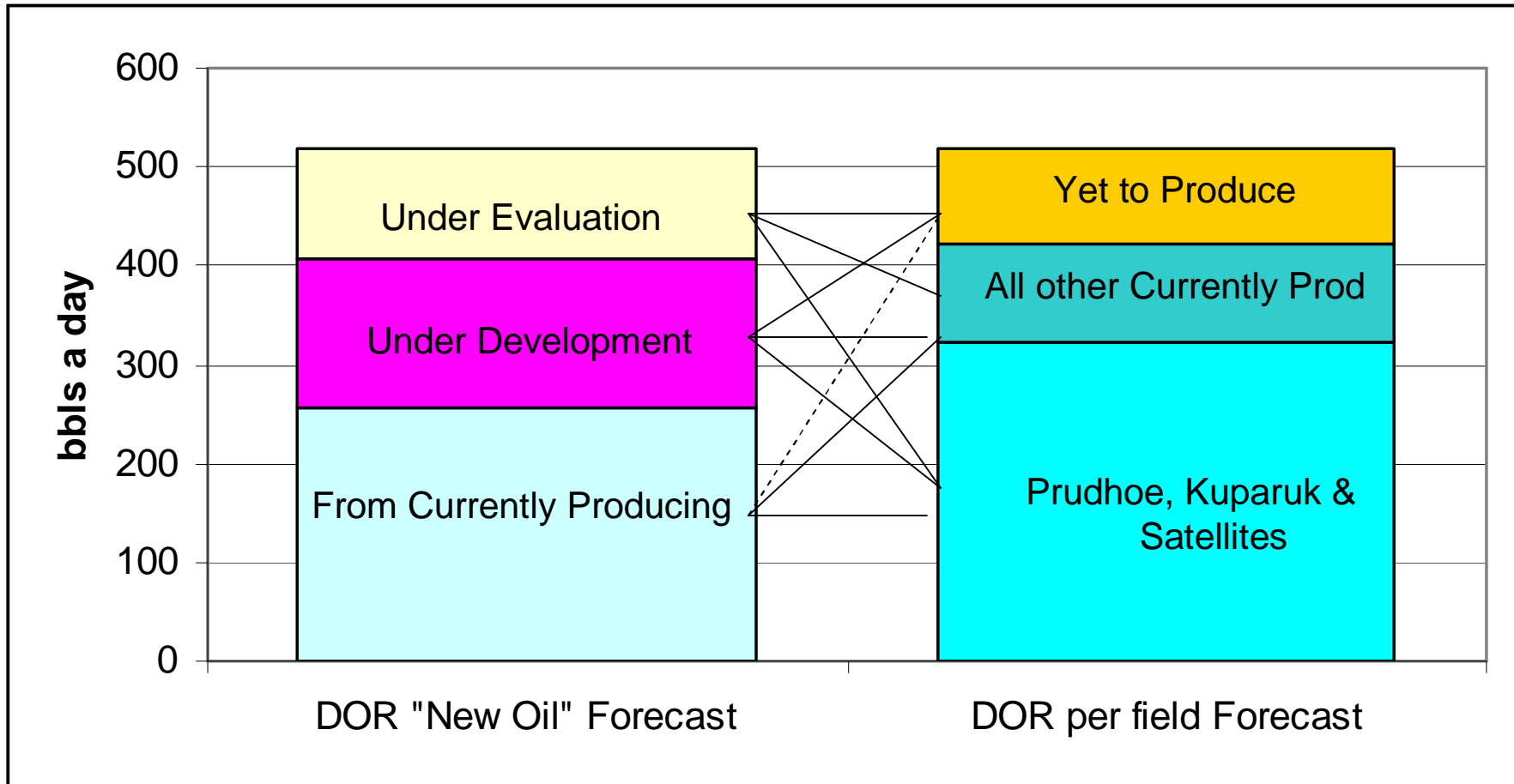
- Fall 2010 DOR Forecast of North Slope Production:
- **STILL THE BEST FORECAST OUT THERE**



Source: DOR Fall Revenue Sources Books 2000-2010

Numbers Used in the Current Debate: Expectations

New developments will be from Currently Producing Fields: Example 2020



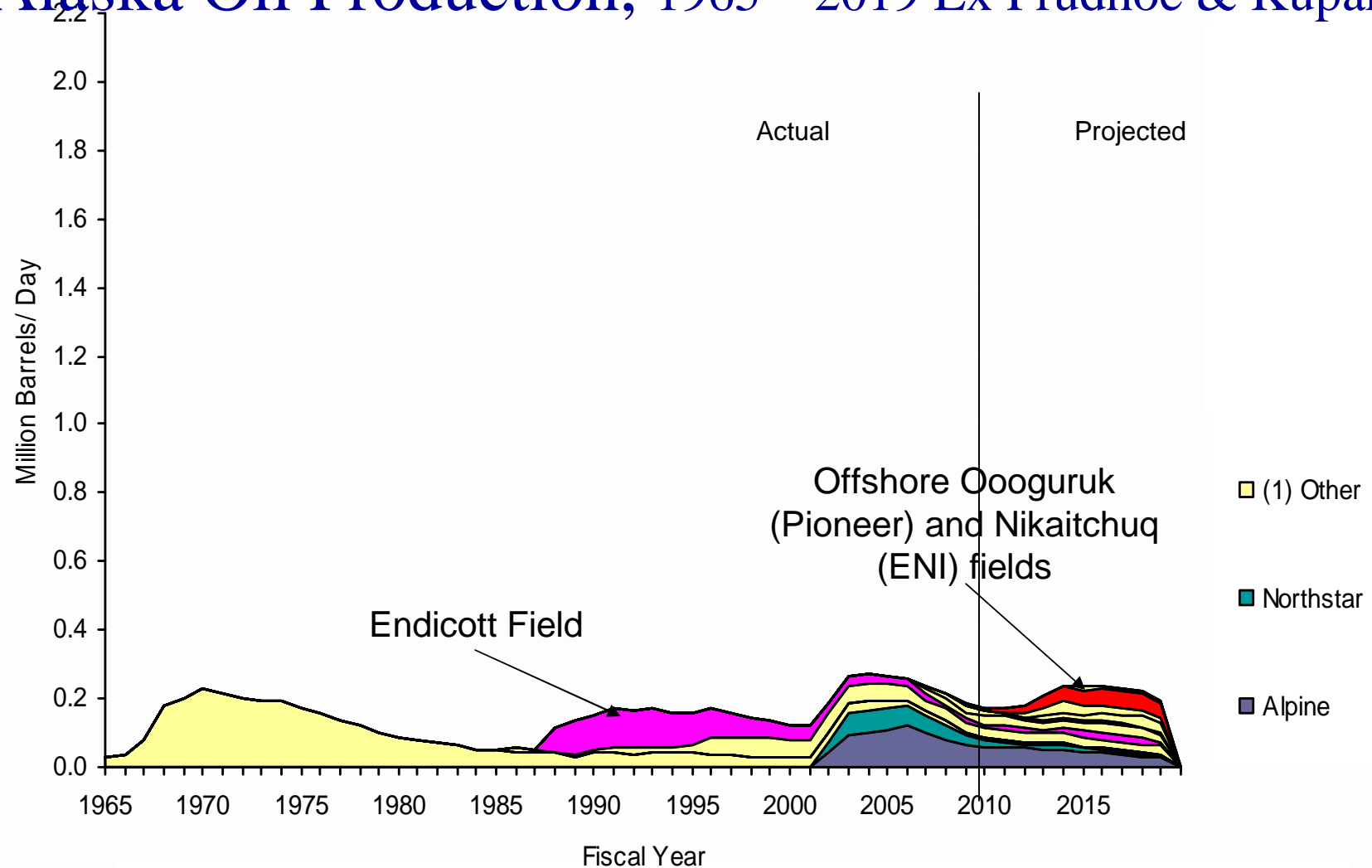
Source: DOR Fall 2010 Revenue Sources Book

Numbers used in the Current debate: Fields & Production

- The Good News: new Fields are coming on Line
- New Fields coming on: Oooguruk in 2008
- Nikaitchuq scheduled for early 2011
- Badami brought back into production
-
- with work on Liberty in the near future.

Numbers used in the Current Debate: Production

Alaska Oil Production, 1965 – 2019 Ex Prudhoe & Kuparuk

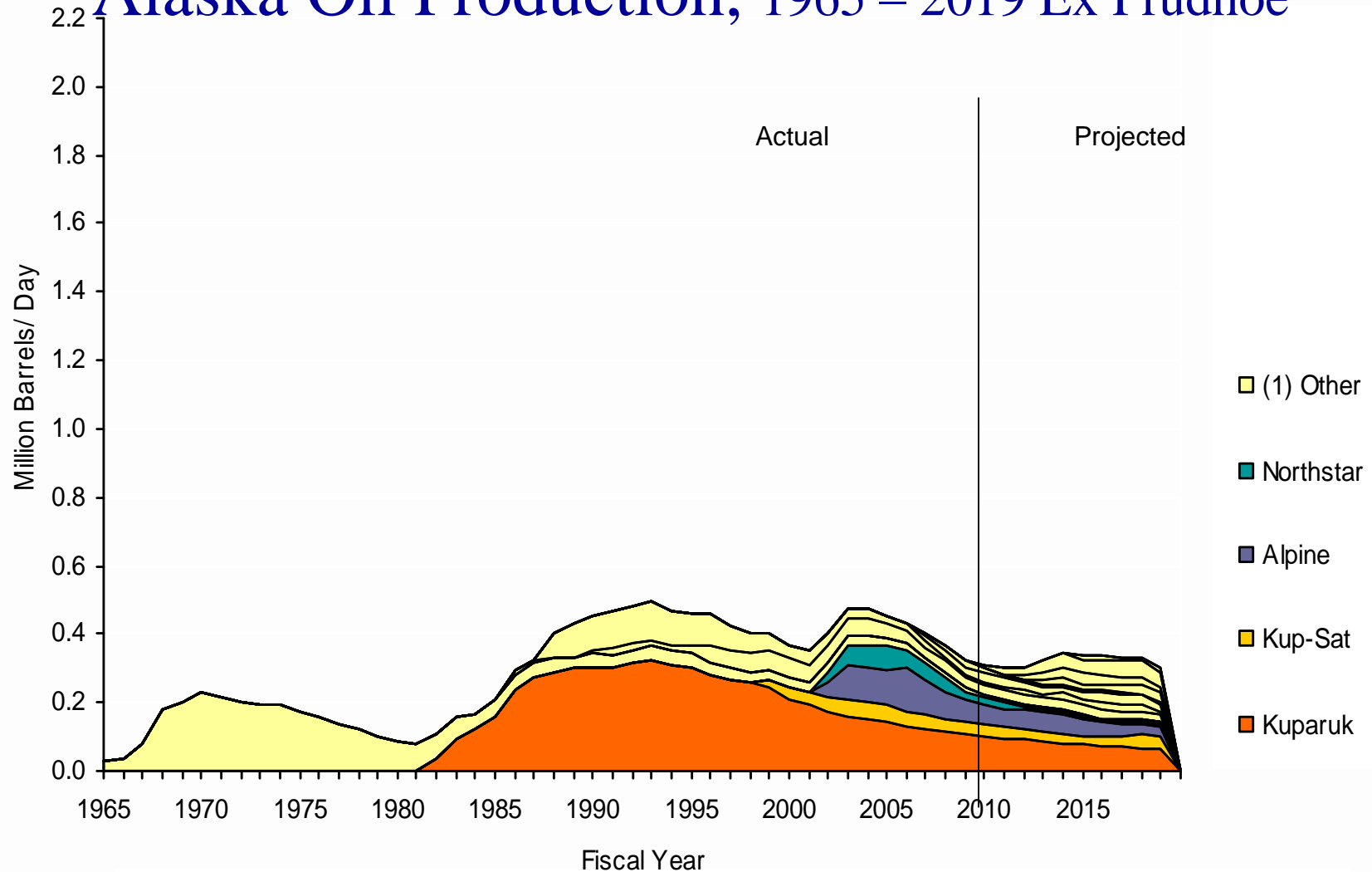


Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book & Fall 1999 RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

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Numbers Used in the Current Debate: Production

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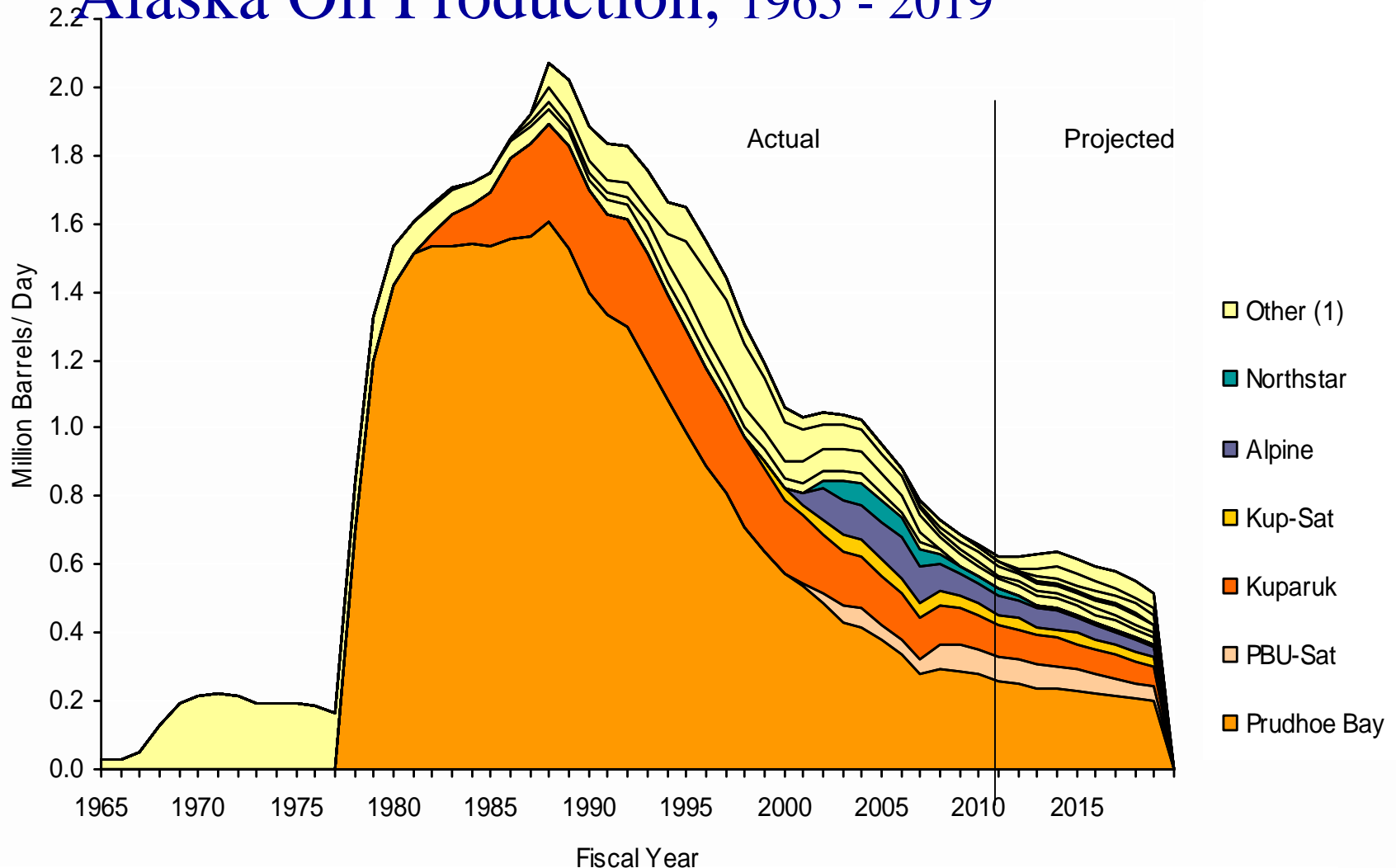


Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book & Fall 1999 RSB, DNR 2007 Oil and Gas Report
(1) Cook Inlet, Duck Island, Milne Point, Liberty, Pt Thomson, Fiord, Nanuq, Oooguruk, Nikaitchuq and NPRA.

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Numbers Used in the Current Debate: Production

Alaska Oil Production, 1965 - 2019

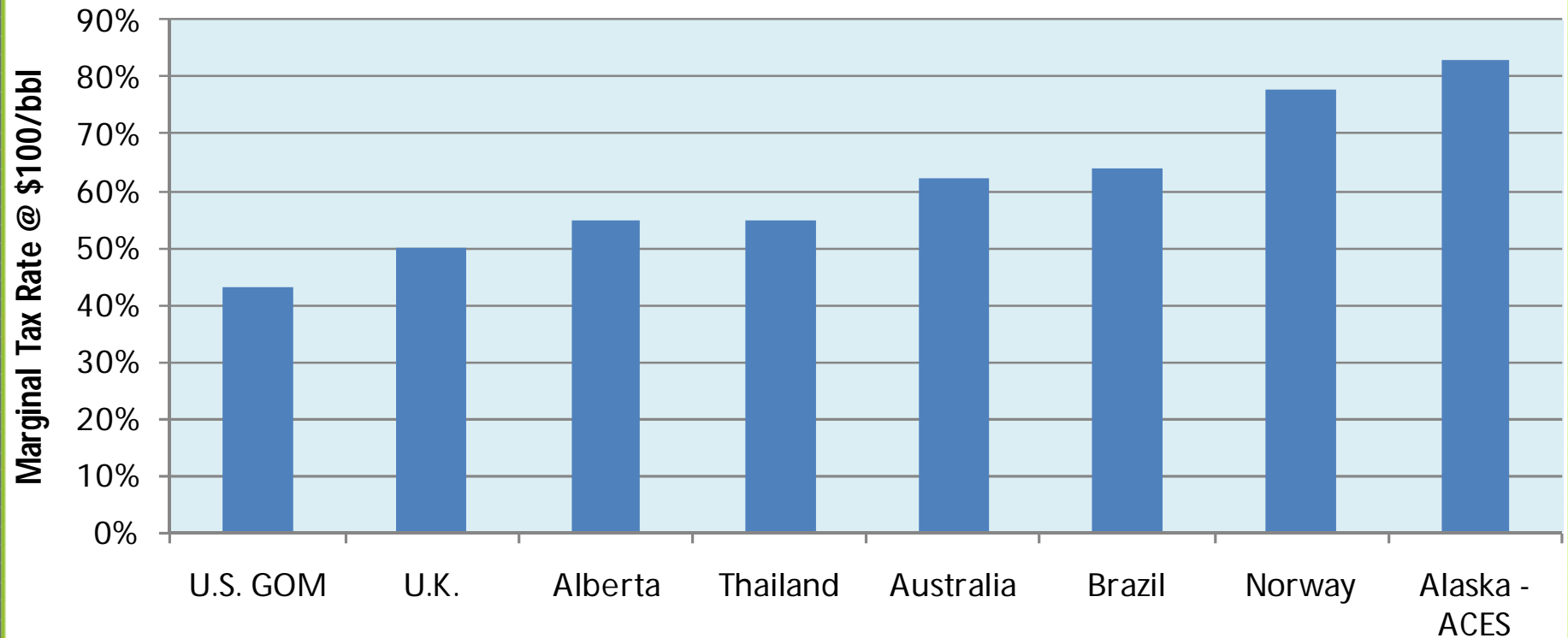


Source: Alaska Department of Revenue, Fall 2009 Revenue Sources Book. Extrapolated
 (1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

Numbers Used in this Debate: Competitive Position

- Roger Marks Presented to Commonwealth North on Dec 14 2010: he compared Alaska to seven other places – Marginal tax rate when oil was \$100 a barrel:

Tax & Royalty Regimes



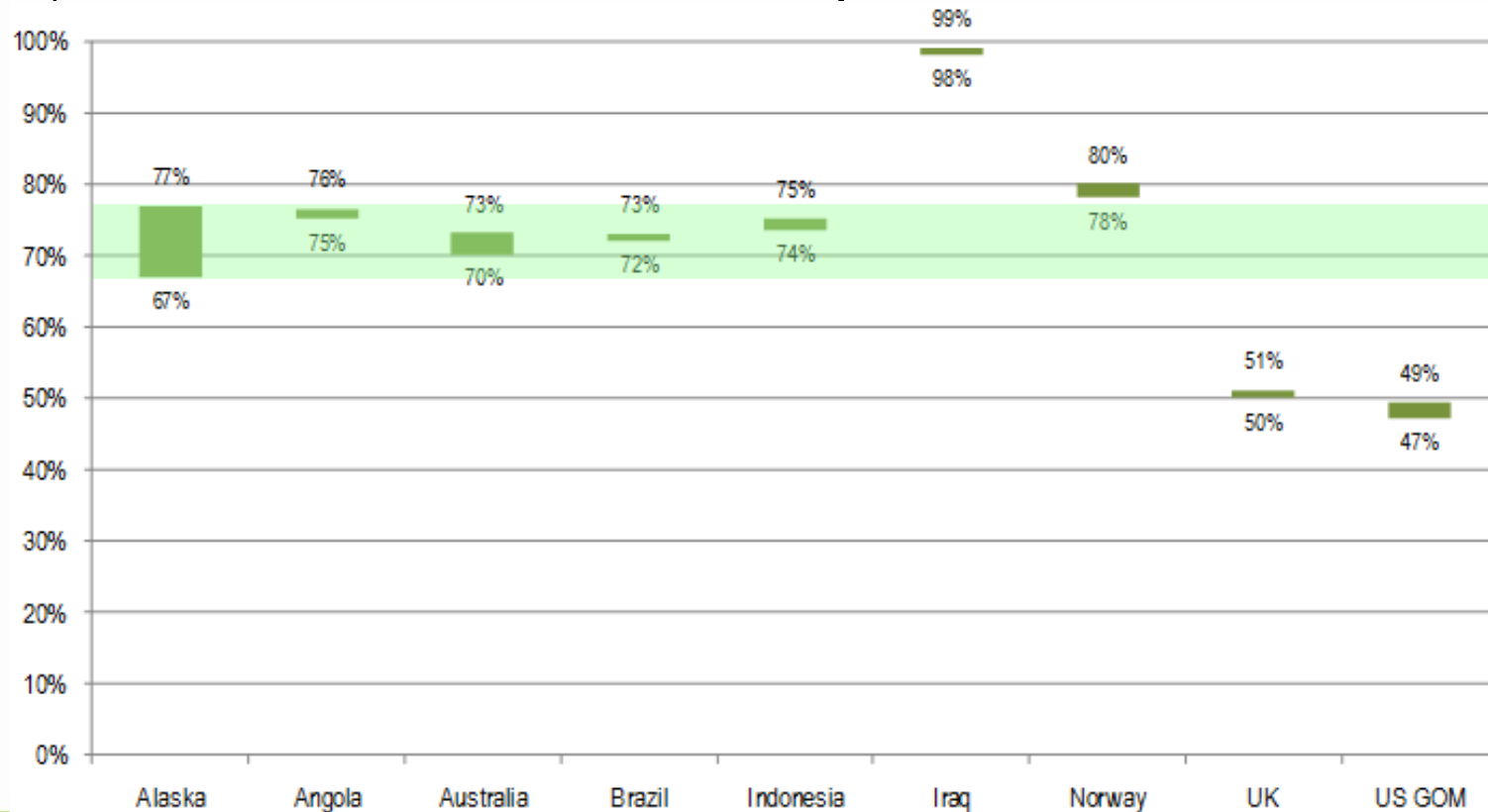
Source: Roger marks presentation to Commonwealth North on 12/14/2011 accessed at http://www.commonwealthnorth.org/documents_cwnorth/Roger%20Marks%20Presentation%2012-14-10.pdf on 4/10/2011

Numbers Used in this Debate: Competitive Position

- Senator's French and Wielechowski presented to Commonwealth North on Dec 21, 2010 Sen Wielechowski compared Alaska to 7 other regimes – and found Alaska to have the lowest taxes.
- The UK, Norway, Angola, Russia , Venezuela and Nigeria were characterized as having tax rates of 90% and Iraq as being even higher.

Numbers Used in this Debate: Competitive Position

Commissioner Patrick Galvin Presented to Commonwealth North on Jan 11 2011: he compared Alaska to eight other places – Effective tax rate when oil was \$75 and \$125 barrel: Alaska was midpack



Source: Pat Galvin's presentation to Commonwealth North 1/11/2011 accessed at http://www.commonwealthnorth.org/documents_cwnorth/Galvin%20Commonwealth%20North%201-11-11.pdf on 4/10/2011

Numbers used in this Debate: Competitive Position

- Fraser Institute's Global Petroleum Survey released June 2010:
- Methodology: ask Canadian executives to rank 17 factors on a scale of 1 (conducive to investment) to 5 (this factor would stop me from investing.) Rankings are derived from the number of 3s, 4s and 5s.
- Alaska Ranked 68th out of 133 contestants.
- Of the 17 issues – our only 5s came from “fiscal terms” and “taxes”

Source: <http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/global-petroleum-survey-2010.pdf> accessed 4/10/2011

Numbers used in this Debate: Competitive Position

- Fred McMahon, Vice President of Research presented the study to the Alliance's "Meet Alaska" event in 2010:
- Alaska has much to improve.
- Improvement means reducing uncertainty, not weakening environmental and other necessary regulatory safeguard
- No one would accuse Norway of environmental laxity, low taxation, or weak regulations.
- Yet Norway consistently scores with or ahead of Alaska—so free-market Alaska scores behind “socialist” Norway.
- While the industry prefers fully free-market economies, the most important thing is certainty, clarity, and efficiency.

Source Global Petroleum Survey 2010 Alliance Meet Alaska, found
t\http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/Global-Petroleum-Survey-2010-McMahon-presentation-january2011.pdf

Numbers used in this Debate: Profitability

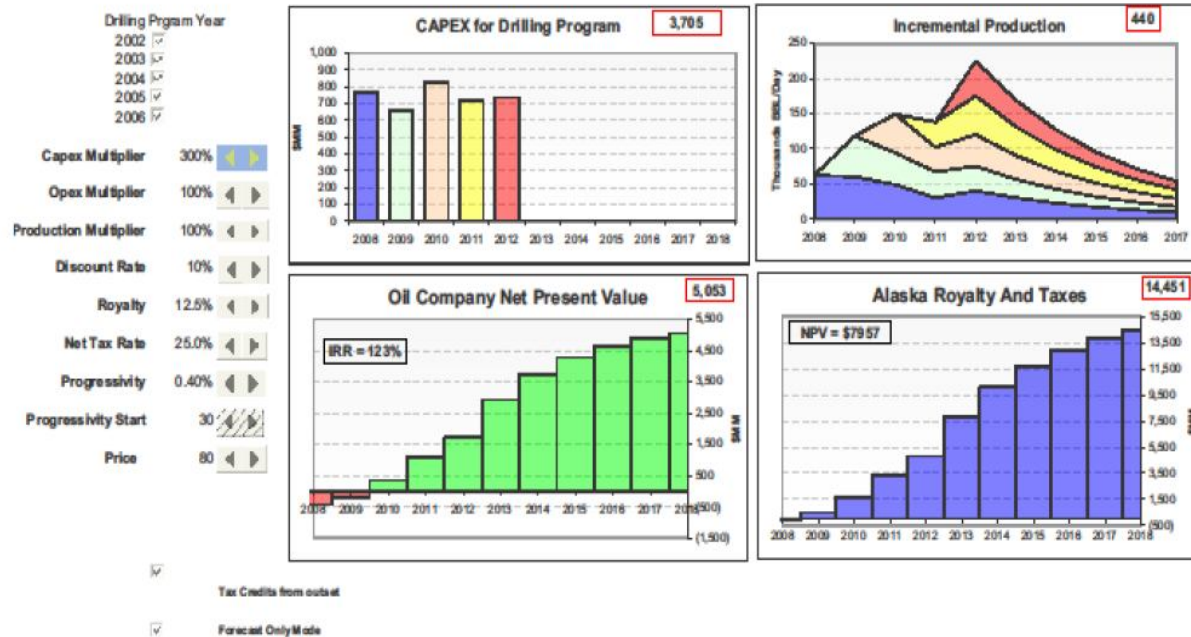
- Gaffney & Cline analysis showing infield drilling IRR of 123%



Senate CS – Forecast Mode, \$80 oil

- IRR = 123%, NPV10 = \$5.375 billion

Modeling the Prudhoe Success contained in AOGA/BP Testimony



Gaffney, Cline & Associates

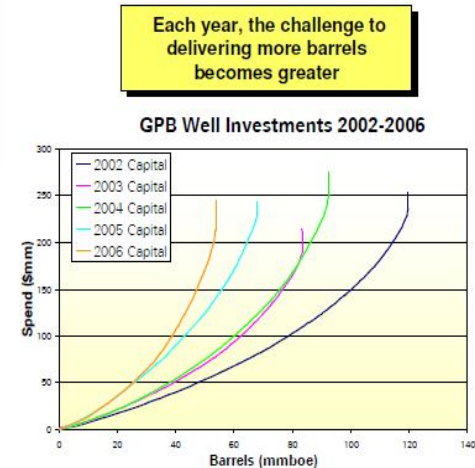
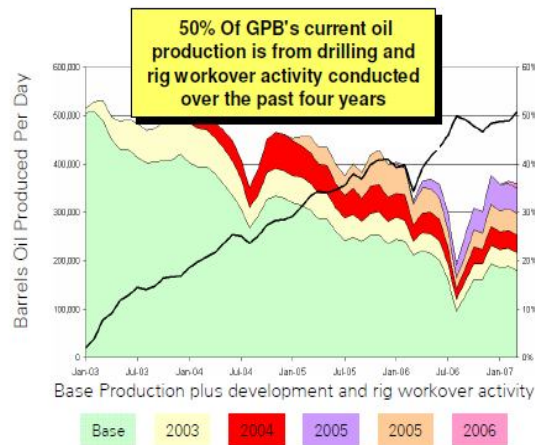
Source Hollis French and Bill Wielechowski presentation to Commonwealth North on Dec 21 2010 accessed at http://www.commonwealthnorth.org/documents_cwnorth/CommonwealthNorthFinal%20Sen%20French%2012-21-10.pdf on 4/10/2011

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Numbers used in this Debate: Profitability

- Derived from a 2007 BP slide showing 440 million barrels coming from a 1250 million dollar investment

New Wells and Wellwork Deliver Barrels

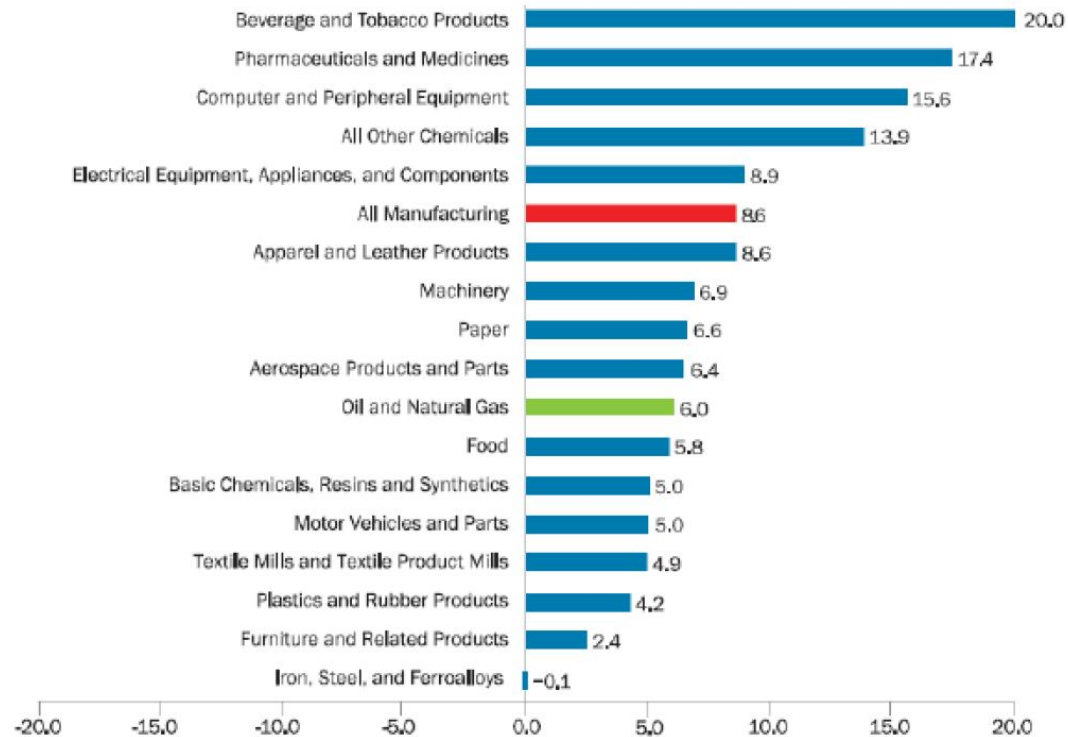


Source: Clair Fitzpatrick and Mike Utsler presentation to legislature on 10/22/07 accessed at <http://www.revenue.state.ak.us/ACESDocuments/BP/102207%20FINAL%20SLIDE%20PACK%20TO%20H-O&G.pdf> on April 10,2011

Numbers used in this Debate: Profitability

- ConocoPhillips slide showing 6% earnings

Third Quarter 2010 Earnings by Industry (net income/sales)

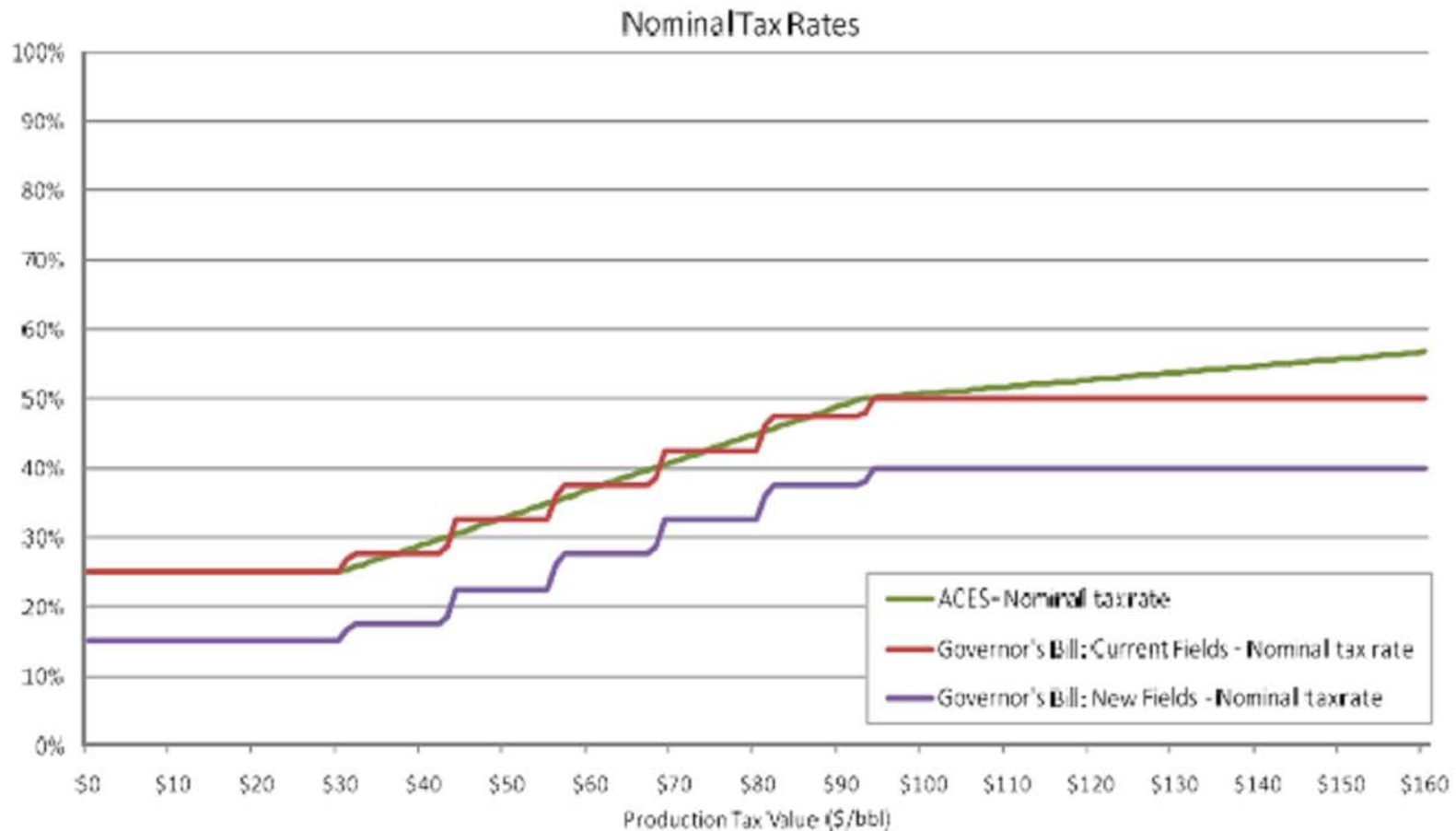


Source: Wendy King and Bob Heinrich presentation to Commonwealth North on 2/1/2011, accessed at http://www.commonwealthnorth.org/calendar/index.cfm?fa=catalog_class&classid=231 accessed 4/10/2011

Numbers used in this Debate: ACES v HB 110



Nominal Tax Rates Current law and HB 110



Source DOR presentation to legislature on February 7, 2011 accessed at http://www.legis.state.ak.us/basis/get_documents.asp?session=27&bill=HB110 on 4/10/2011

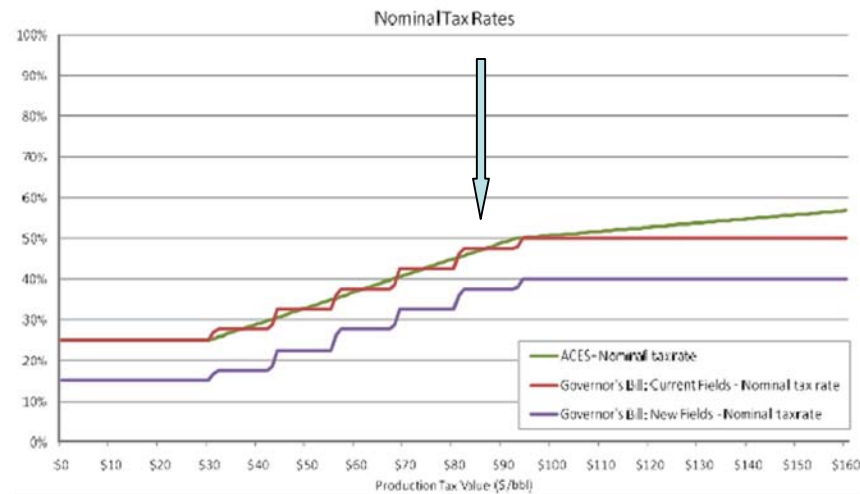
33

Numbers used in this Debate: ACES v HB 110

- Question: At indicated value are “red” taxes
- (a) Higher than “green” taxes
- (b) lower than “green taxes”
- (c) same as “green” taxes
- (d) don’t have enough information



Nominal Tax Rates Current law and HB 110



33

Source DOR presentation to legislature on February 7, 2011 accessed at http://www.legis.state.ak.us/basis/get_documents.asp?session=27&bill=HB110 on 4/10/2011

Numbers that should Inform any Alaska Tax Debate

- II. Numbers that should inform the Current Debate
 - Doubling of Alaska GF oil and gas derived spending in 3 years
 - Regressive vs. Progressive Taxation
 - Alberta Oil and Gas Taxes & Spending
 - North Dakota Oil and Gas Taxes & Spending
 - “Filing up the Pipeline” – Setting goals for reforms

Numbers that Ought to be Used: General Fund Spending

- Doubling of General Fund Spending FY 2005 to FY 2008

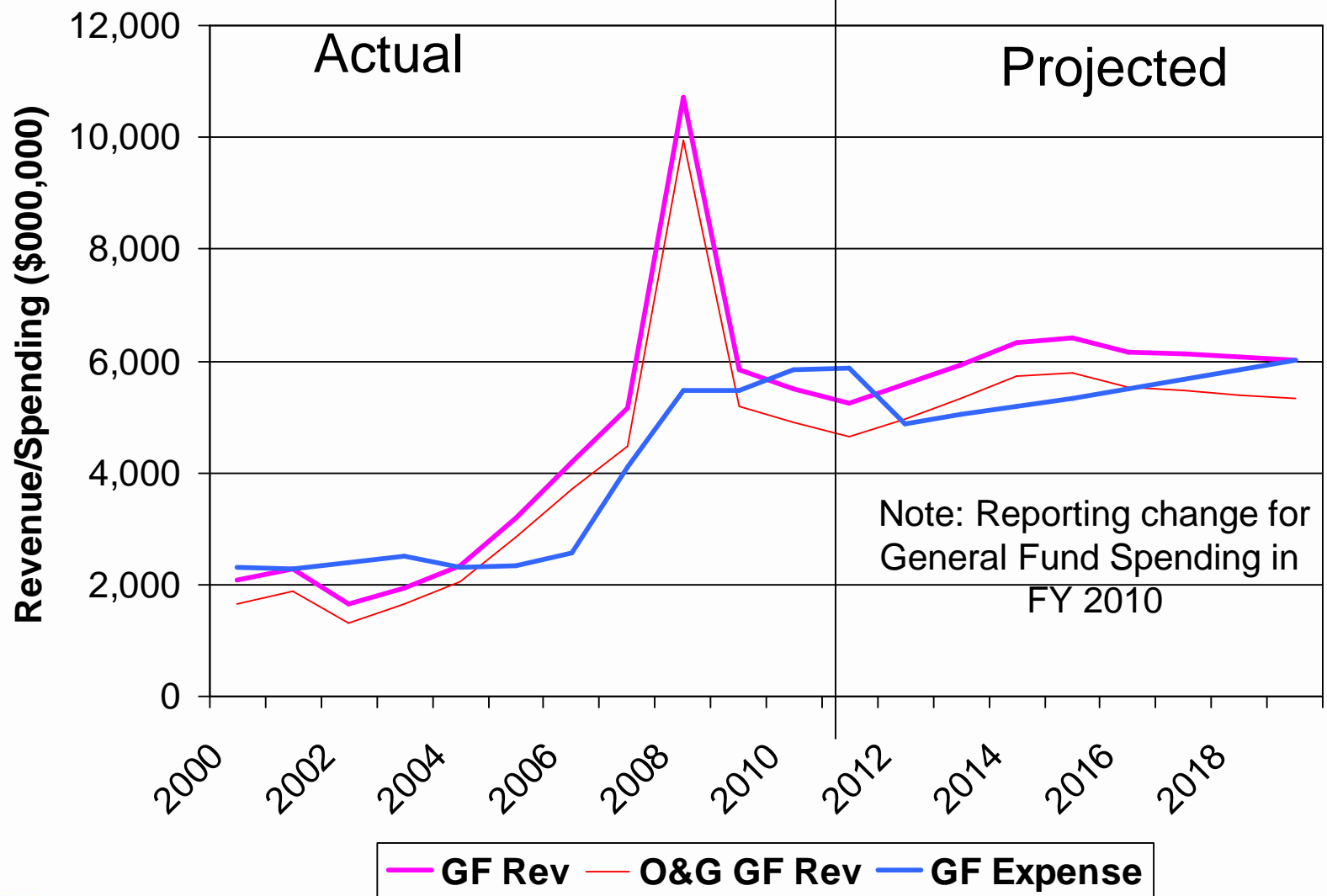
	FY 2005	Change	FY 2008	Increase
Operations				
Agency Operations (non Formula)	1,116.4	431.6	1,548.0	39%
Formula (including K-12)	1,150.9	380.6	1,531.5	33%
Supplemental Agency Appropriations	172.6	(70.9)	101.7	
Debt Service	2.7	119.2	121.9	
Fund Capitalization	51.7	(20.1)	31.6	
Retirement		514.0	514.0	
Revenue Sharing/Local Govt.		62.0	62.0	
Oil & Gas Investment Credits		250.0	250.0	
Capital				
Capital Project Appropriations & RPLs	137.6	1,172.6	1,310.2	852%
Fund Capitalization		117.9	117.9	
Capital Vetoes		(126.4)	(126.4)	
Pre-Savings Authorizations	<u>2,631.9</u>	<u>2,830.5</u>	<u>5,462.4</u>	108%

all figures in \$000,000

Note: 2005 figures is sum of 2,330.5 + supplemental spending of 172.6 & 128.8

Numbers that Ought to be Used: General Fund Spending

State of Alaska General Fund In/Out



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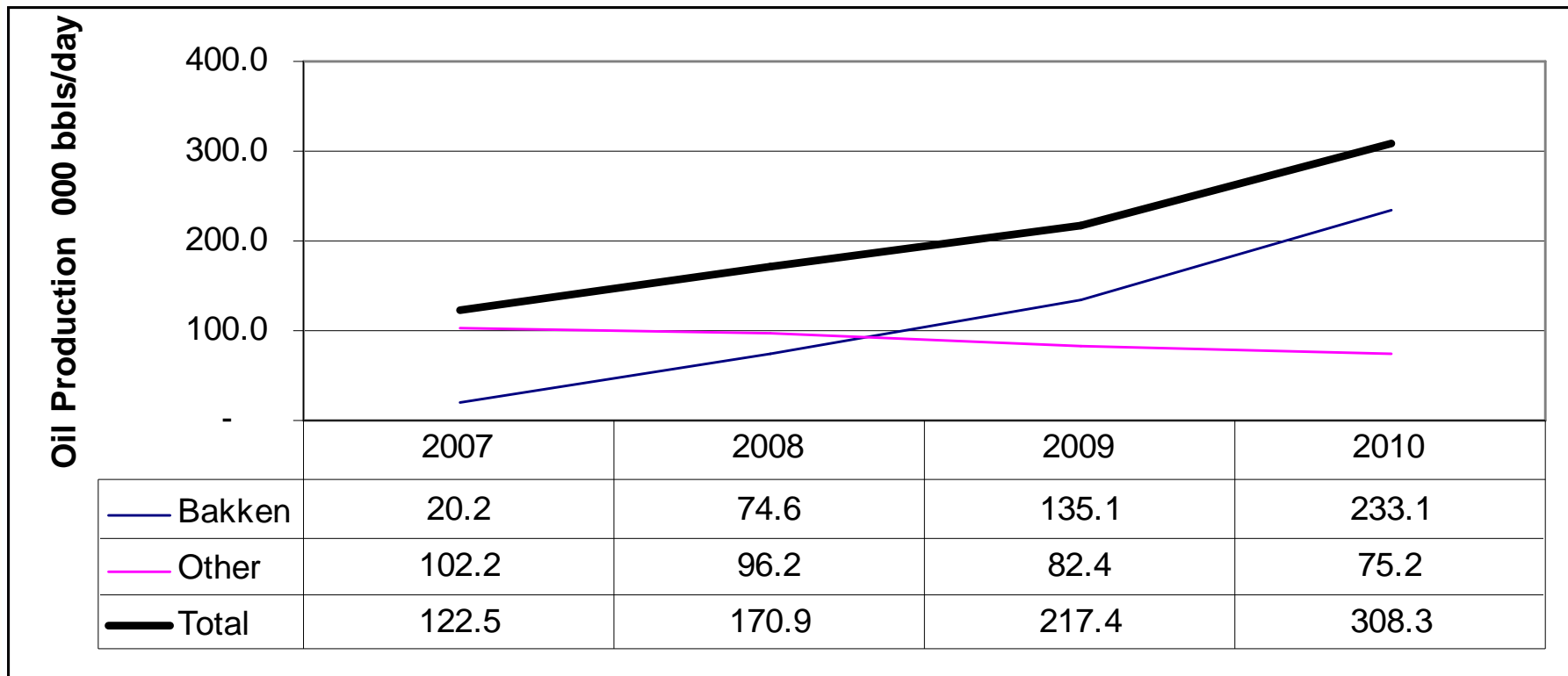
Source: Revenues from DOR RSB; actual spending Leg Finance annual Fiscal Summaries; projected Spending OMB 2010 10 year report

Numbers that Ought to be Used: Comparison

Statement of Revenue, Expenditures and changes in Fund Balances/ Governmental Funds/ Consolidated Operations						
State or Province Year Ended	North Dakota		Alaska		Alberta	
	June 30 2010		June 30 2010		March 30 2010	
	Dollars	% of Ex	Dollars	% of Ex	Dollars	% of Ex
Individual and Corporate Income Taxes	380.1	11%	552.8	6%	12,631.0	32%
Sales and Use Taxes	883.3	25%	251.4	3%	3,746.0	9%
Other Taxes inc. Business Taxes	62.3	2%	10.0	0%		0%
Oil, Gas and Coal Taxes *	633.5	18%	2,788.1	32%		0%
Royalties and Rents	407.1	12%	2,260.0	26%		0%
Non Renewable Resource Rev		30%		57%	6,768.0	17%
Licenses Permits and Fees	143.5	4%	144.2	2%	1,914.0	5%
Intergovernmental/Federal	1,692.1	49%	4,575.8	52%	5,342.0	13%
Interest and Investment	181.8	5%	2,423.0	28%	3,541.0	9%
Fine and Forfeits	13.2	0%	14.7	0%		0%
Sales, Services, Commercial Operations	48.0	1%	164.4	2%	2,259.0	6%
Other*	64.2	2%	94.8	1%	3,209.0	8%
Total Revenues	4,509.1	130%	13,279.2	151%	39,410.0	99%
Expenditures	3,469.1	100%	8,796.0	100%	39,886.0	100%
Revenue over Expenditures (Deficit)	1,040.0	30%	4,483.2	51%	(476.0)	-1%

Sources: ND and Alaska Comprehensive Annual Financial Reports, AB: Government of Alberta Annual Report

- North Dakota Oil Production from the Bakken Formation
- Production from shale using frac technology



Source: Annual North Dakota Oil Production by Formation reports accessed at <https://www.dmr.nd.gov/oilgas/stats/2007Formation.pdf> on 4/10/2011

Numbers that Ought to be Used: North Dakota

- North Dakota has personal income tax and broad sales tax which (in 2010) brought in about the same amount as mineral taxes and royalties.
- Special oil and gas taxes are
 - 5% of gross Production tax in lieu of Property tax
 - 4-6.5% Oil Extraction tax on gross value.
- Production tax is 6.5% unless one of many categories that received 4%
- Except at certain prices most of the 4% categories are suspended.

Numbers that Ought to be Used: North Dakota

- Why did the Bakken Shale production take off?
- Appears to be technology and processes developed elsewhere – horizontal drilling and fracking
- Ultimate recovery still part of learning curve.
- In 2010 a vote of the people amended the North Dakota constitution to create the “Legacy Fund” - a Permanent Fund like Fund fed by 30% of oil taxes that cannot be used until 2017.
- Already had a “Permanent Oil Trust Fund” from 1999 requiring a supermajority legislative vote:
 - 1,047,367,720 in
 - 987,346,344 out

- **Platts plans first price assessments of Bakken Shale Fields crude**

- London, 6 April 2010
- The world's first price assessments valuing crude oil produced from the Bakken Shale formation in the central United States, one of the most significant new sources of regional oil supply for the nation's refiners, will be published by Platts, a leading global energy and metals information provider, beginning May 3, 2010. "Thanks to favorable economics and advances in technology, production from this unconventional crude oil source has risen dramatically in recent years," said Esa Ramasamy, director of Americas market reporting at Platts. "This new high-quality crude oil stream is expected to help meet Midwest refining demand and potentially that of the U.S. Gulf Coast. Because of its importance, the industry needs a means of placing a value on this crude. Our new price assessments address this need by providing a transparent price discovery process and daily pricing information."
- Only recent technological advances in horizontal and deep drilling have opened the Bakken field to economically recoverable production since its first oil extractions in 1951. The estimated recoverable reserves of crude oil from Bakken shale exceed the proven crude reserves of Ecuador, a consistent exporter of crude oil to Latin America, the U.S. West Coast, and Asia. According to the U.S. Geological Service, the Bakken formation is the largest oil accumulation in the Lower 48 U.S. states, with estimated recoverable reserves of at least 4 billion barrels. Additionally, north of the border in Canada, there is an estimated 1.3 billion barrels of recoverable reserves. The Bakken formation is part of the Williston Basin of underground petroleum reserves, which spans North and South Dakota, Montana, Saskatchewan, Manitoba and Alberta.
- Platts reports that current Bakken crude output is about 200,000 barrels per day (b/d) and the North Dakota Pipeline Authority estimates that the field's yield could rise quickly to between 400,000 b/d to 500,000 b/d over the next 10 years before tapering off.

Numbers that Ought to be Used: North Dakota

- Takeaway:
- Smaller percentage of tax base
- North Dakota focused more on distribution and savings from the new energy than “fair share”.
- Looking at increased revenues in income taxes and sales taxes as a result of the boom
- Not contemplating a shift from broad taxes to industry taxes.

Numbers that Ought to be Used: Alberta

- Sept 2007 “Our Fair Share” published
- Oct 2007 –Alberta Announces “New Royalty Framework” to be effective January 1 2009
- November 2008 –Transitional Rates shifted to 2014
- January 2009 changes Implemented
- Fall 2009 “Competitiveness Study” Released
- March 2010 Changes to Royalty Framework announced effective January 1, 2011
- October 2010 Changes published
- January 2011 changes implemented (including freeze on transitional rules)

- Data from competitiveness study typically predates New Royalty Framework.

Source: http://www.energy.alberta.ca/About_Us/Royalty.asp accessed 4/10/2011

Numbers that Ought to be Used: Alberta

Maximum Royalty Rates – on gross	>>> 2008	2009-20010	2011>>>
Conventional Gas	35%	50%	36%
Conventional Oil	35%	50%	40%

5% “temporary front end royalty rate” made permanent in 2011
There are depth and horizontal drilling incentives

Sources: http://www.energy.alberta.ca/About_Us/Royalty.asp accessed 4/11/2011

Numbers that Ought to be Used: Alberta

From the 2010 Competitiveness Review: (through 2008)

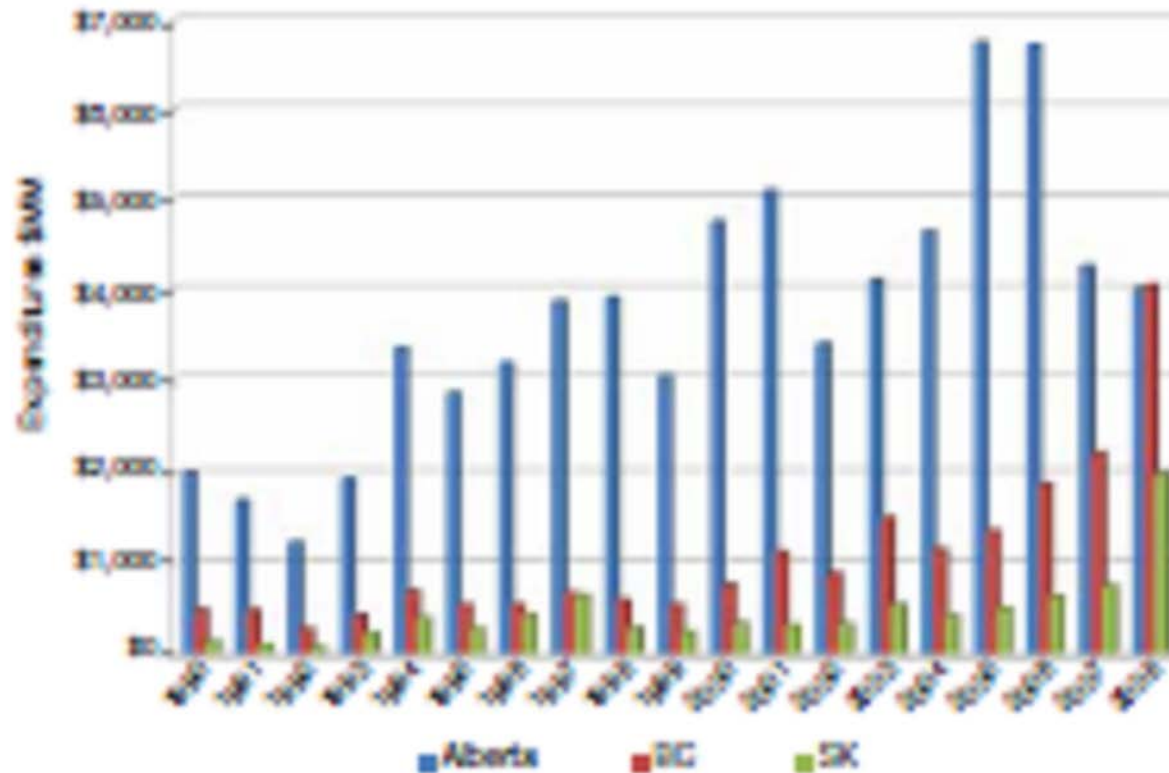


Figure 3
Conventional and Gas Exploration Expenditures

Source: Canadian Association of Petroleum Producers, 2009 Statistical Handbook

Numbers that Ought to be used: Alberta

- Budget to actual comparisons: Rising Prices
- In 2007, 2008, 2009, 2010 Resource revenue above Budget/forecast

Revenue

(millions of dollars)

	2009-10		Change from		Main Reasons for Change from Budget
	Budget	Actual	Budget	3rd Q	
Income Taxes					
Personal income tax	8,559	7,877	(682)	(56)	Lower-than-expected 2008 assessment
Corporate income tax	2,447	4,754	2,307	1,454	Higher-than-expected cash receipts
	11,006	12,631	1,625	1,398	
Other Taxes					
Education property tax	1,532	1,532	-	(4)	
Tobacco tax	915	864	(51)	(1)	Lower-than-expected consumption
Fuel tax	725	700	(25)	(45)	Lower-than-expected consumption
Freehold mineral rights tax	200	124	(76)	(41)	Lower natural gas price
Insurance taxes	298	281	(17)	(21)	Lower-than-expected cash receipts
Tourism levy	76	60	(16)	(1)	Lower hotel rates and fewer stays
	3,746	3,561	(185)	(113)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	3,687	1,525	(2,162)	(214)	Lower natural gas price
Crude oil royalty	1,249	1,848	599	27	Higher oil price
Synthetic crude oil and bitumen royalty	1,008	3,160	2,152	1,304	Higher bitumen prices
Coal royalty	27	31	4	(3)	Higher coal prices
Bonuses and sales of Crown leases	631	1,165	534	318	Higher lease sales/prices per hectare
Rentals and fees	143	158	15	2	Higher lease renewal rates
Drilling stimulus initiatives	(842)	(1,119)	(277)	(678)	Higher number of credits from smaller companies
	5,903	6,768	865	756	
Transfers from Government of Canada					
Health transfers	2,037	2,329	292	(6)	Positive prior years' adjustments
Canada Social Transfer	1,170	1,188	18	(1)	Higher population share
Agriculture support programs	374	376	2	9	Higher Agristability program payments
Other	1,090	1,048	(42)	(31)	Re-profiling of federal stimulus transfers
	4,671	4,941	270	(29)	

Source: Budget Plan accessed at http://alberta.ca/acn/201006/286652010_annrep_backgroundunder_final.pdf accessed 4/10/2011

Numbers that Ought to be Used: Alberta

- Competiveness Review choose comparisons to other state and provinces narrowly:
- Provinces: Saskatchewan and British Columbia
- States: Arkansas, Colorado, Kansas, New Mexico, Oklahoma, Pennsylvania, Texas, Utah, Wyoming
- While still acknowledging in the world market for capital.

Numbers that Ought to be Used: Alberta

- Takeaway:
- Smaller fraction of larger economy and tax/royalty base.
- Competition across borders with Saskatchewan and British Columbia predating “Our Fair Share”
- Lots of evidence of political turmoil
- I was unable to find evidence of dramatic decline and recovery over the three years...

WORKING TOGETHER IS BETTER THAN NOT WORKING AT ALL.

If history has taught us anything, it's that higher taxes don't equal more jobs. Changes in ELF (the Economic Limit Factor) would mean higher oil taxes in a state that already has the highest oil taxes in the nation.

ELF encourages the oil industry to invest money in all fields of Alaska, large and small. That means more jobs—directly and indirectly—throughout Alaska.

The massive investments by industry, which are required to keep North Slope production as high as possible, mean more jobs now and more income for the state in the future.

All we need is cooperation in providing an investment climate that encourages oil production. Working together is a lot better than not working at all.



ARCO Alaska, Inc. ACE 5509579

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Dickinson CPA

Source: Rick Harper 3/24/2011 testimony to legislature: from Alaska Journal of Commerce 2/6/89

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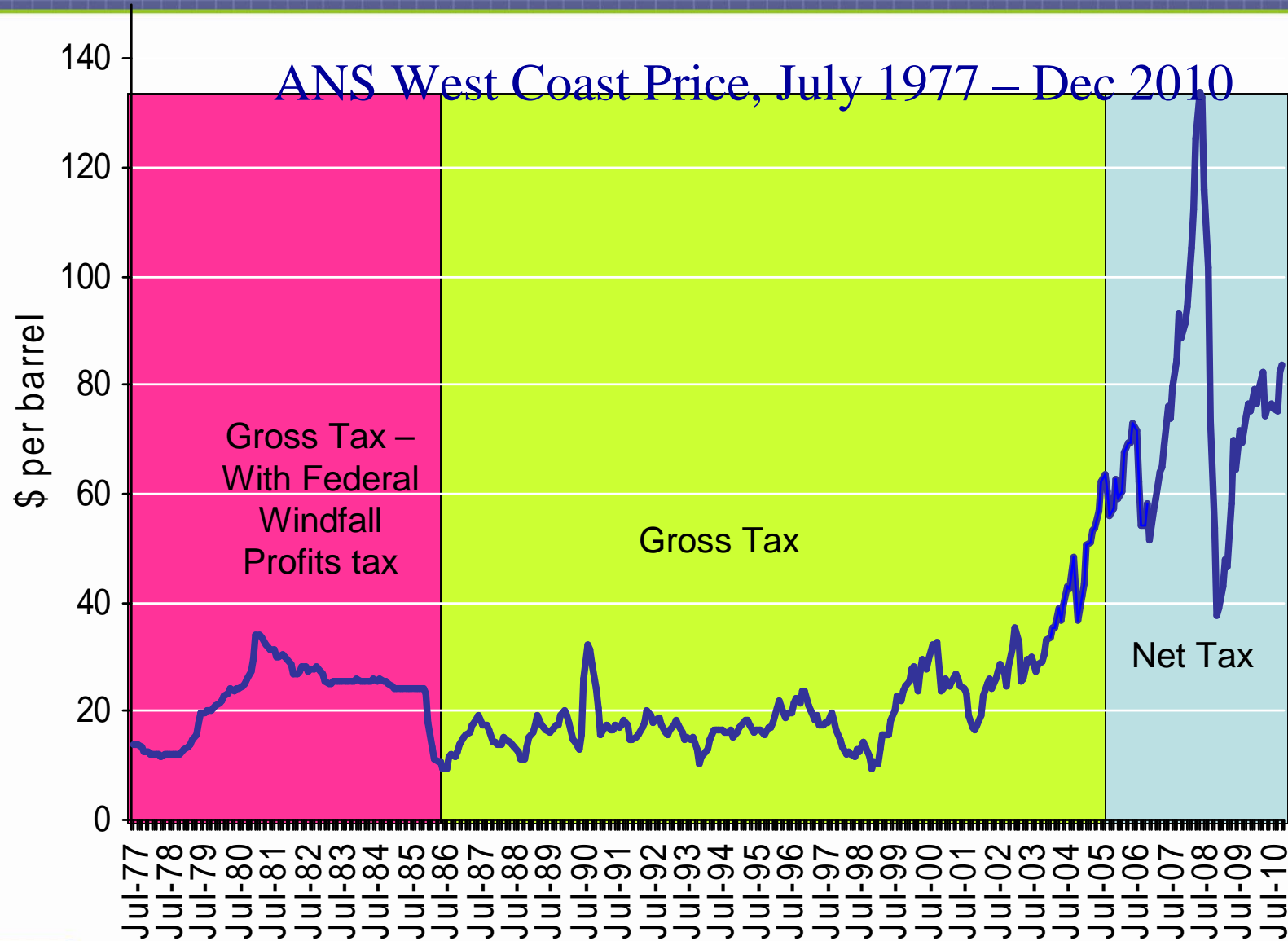
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Numbers that Ought to be Used: Regressive/Progressive



Dan E.
Dickinson CPA

Source: Alaska Department of Revenue, Tax Division

Anchorage Chapter - International Association of Energy Economists

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4.11.2011

Numbers we Ought to use: Goals

- What is reform trying to accomplish?
- The ELF incentivized small fields and we got satellite developments.
- PPT and ACES incentivized cash investments and we got raising cash investments.
- New Focus appears to be on production
- “Filling the pipeline” sounds better than “speeding up the flow” – what does it mean?
- Slowing the rate of decline – overall, or in the giant and supergiant fields?

Thank You

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Fundamentals

- Acronyms used in this presentation

AAC	Alaska Administrative Code	KRU	Kuparuk River Unit
ACES	Alaska's Clear and Equitable Share	NPRA	National Petroleum Reserve - Alaska
AGIA	Alaska Gasline Inducement Act	NPSL	Net Profit Share Lease
ANITA	Alaska net Income Tax Act	NS	North Slope
ANS	Alaska North Slope	OAH	Office Administrative Hearings
ANS WC	Alaska North Slope West Coast	OCS	Outer Continental Shelf
ANWR	Artic Nation Wildlife Refuge	OOP	out of pocket
AS	Alaska Statute	PBU	Prudhoe Bay Unit
BTU	British Thermal Unit	PF	Permanent Fund
CBRF	Constitutional Budget Reserve Fund	PP*	Point of Production
CI	Cook Inlet	PPT	Proposed/Petroleum/Profits/Tax
CPA	Certified Public Accountant	PTV	Production Tax Value
DNR	Department of Natural Resources	RCNLD	Reproduction Cost New Less Depreciation
DOG	Division of Oil and Gas	RIK	Royalty in Kind
DOR	Department of Revenue	RIV	Royalty in Value
DV	Destination Value	RSA	Royalty Settlement Agreement
ELF	Economic Limit Factor	RSB	Revenue Sources Book
FBI	Federal Bureau of Investigation	SARB	State Assessment Review Board
GF	General Fund	SGDA	Stranded Gas Development Act
GOM	Gulf of Mexico	TAPS	Trans Alaska Pipeline System
GVPP*	Gross Value at point of Production	TIE	Transition Investment Expenditure
ICD	Informal Conference Decision	USGS	United States Geological Survey
IRC	Internal Revenue Code	VPP*	Value at Point of Production
IRS	Internal Revenue Service	WC	West Coast

* See GVPP, VPP and PP

3/4/2010

Fundamentals

- Alaska Law
- Statute –for example AS 43.55.165 (e)
 - Title 43 – Revenue – of the Alaska Statutes
 - Chapter 55 – Production Tax
 - Section 165 – Lease Expenditures
 - Subsection (e)
- Regulations – for example 15 AAC 55.171 (a)
 - Title 15 – Revenue – of the Alaska Administrative Code
 - Chapter 55 – Production Tax
 - Section 171 – Prevailing value for Oil
 - Subsection (a)

Also legislation – for example – SCS CSHB 2001(FIN) may contain uncodified law such as transition provisions

On the Web: state.ak.us > Departments>Law>Department of Law>Legal Resources

Thank You

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