

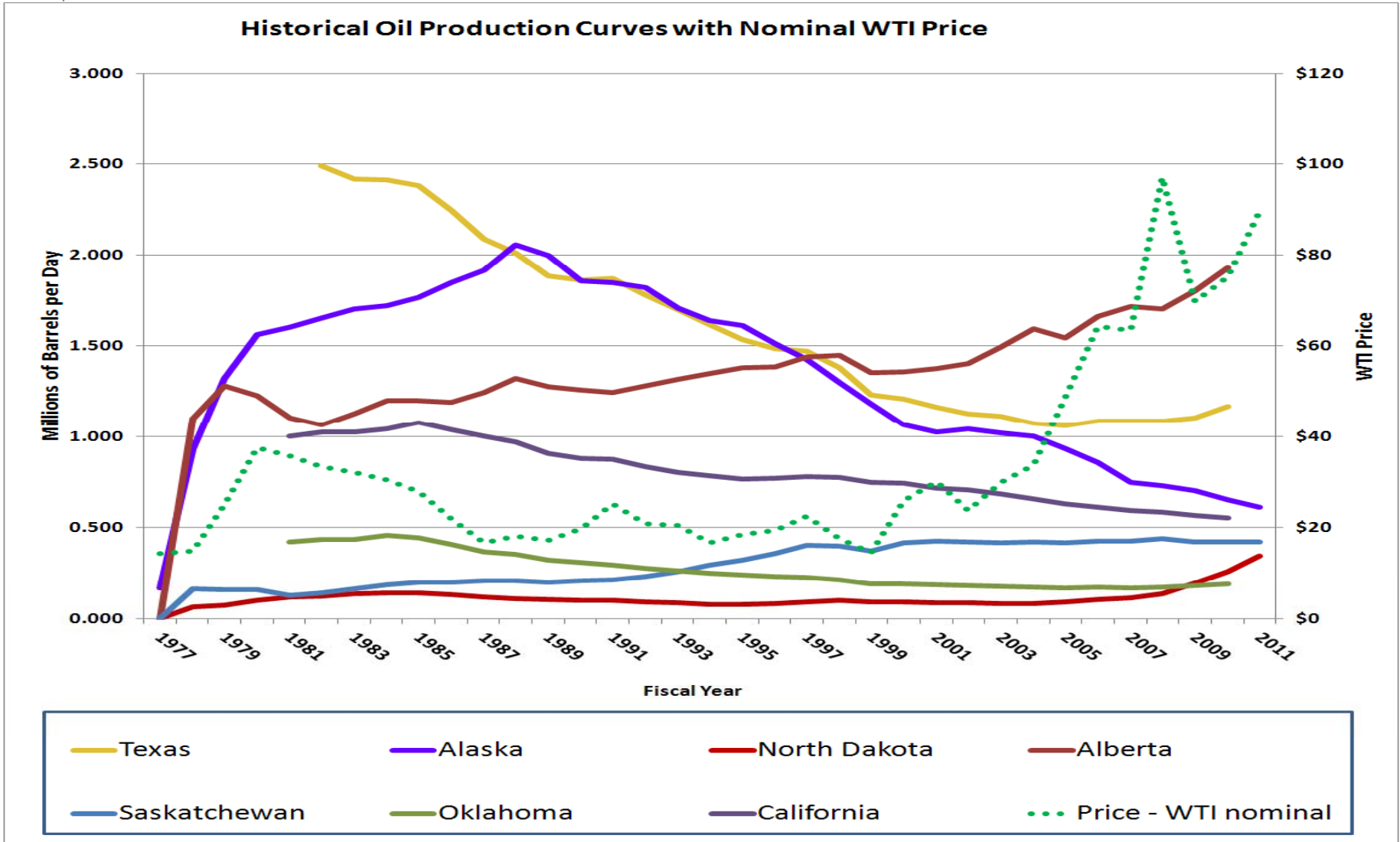


Tax Credits & Production Taxes

*Presentation to “Meet Alaska”
Friday, January 6, 2012
Alaska Department of Revenue*



Historical Oil Production: How Did Our Competition Fare When Prices Spiked?





Actual Information.....



1. Oil Prices began climb to all-time highs starting mid-2000's
2. TAPS throughput continues steady decline
3. Other oil producing regions enjoy production and employment booms
4. Competition is high - many other areas to invest around the world



More Actual Information.....



1. As a State, we are in a position we've never been in before
2. PPT/ACES Debate: "Actual" information utilized? Unfortunately No.....was not available
3. Decision makers, through no fault of their own, had to rely on modeling, forecasts, projections, theoretical assumptions
4. We now have the luxury to look back and see what actually happened over the past 5 years
5. What do we see? Record high oil prices lead to oil & employment booms in competing oil producing regions
6. And Alaska continues to decline.....



According to the USGS, It's Certainly Not A Resource Issue.....



- There's no debating.....Alaska is a world-class energy basin with more oil than any other Arctic nation
- Cumulative production through 2010 over 16B barrels
- Oil: Estimated to have 40B barrels of conventional oil
- Gas: Estimated to have 236 TCF of conventional natural gas
- Plus tens of billions of heavy & viscous oil as well as shale oil & gas



Two Distinct Elements of ACES: Can't discuss one without the other



1. Tax Credits:

- Very generous tax credits made available over past several years help spur the anticipated exploration
- Enthusiasm of explorers encouraging but they will eventually need to become or partner with producer

2. Production Tax:

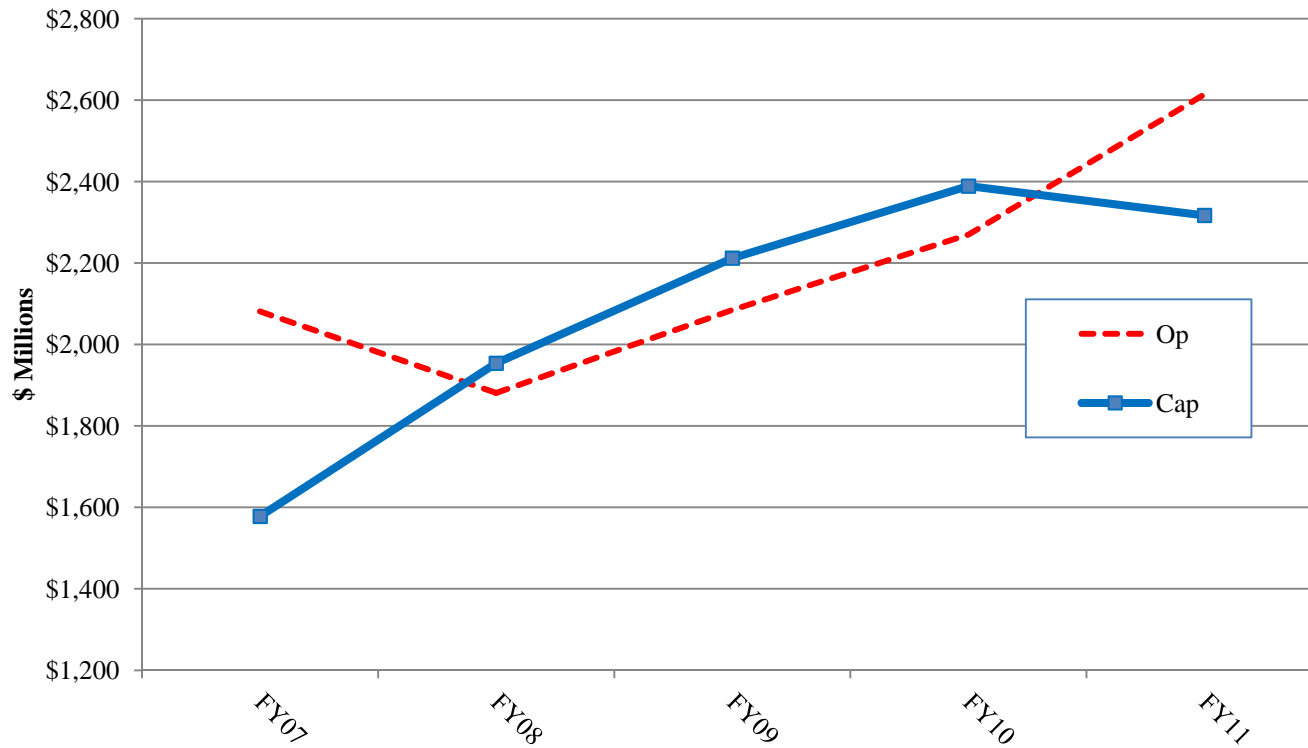
- Very progressive at high oil prices which makes AK not as attractive when compared to other world-wide options
- This “windfall tax”, while filling AK state coffers during the short term, is contributing to competitiveness issue long term



What Drove The Spending?



Historical Opex/Capex

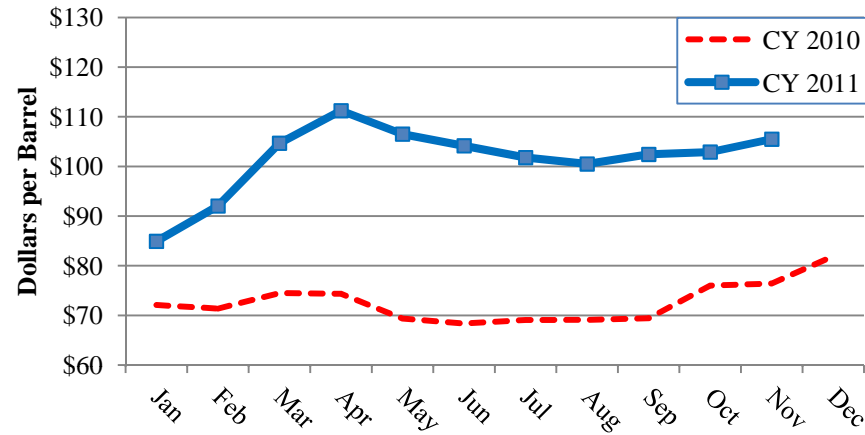




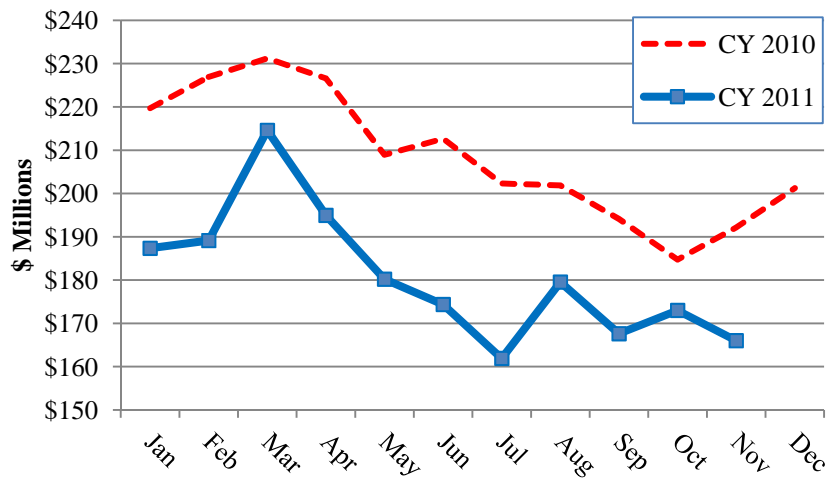
Oil Price & Spending: Why the Disconnect?



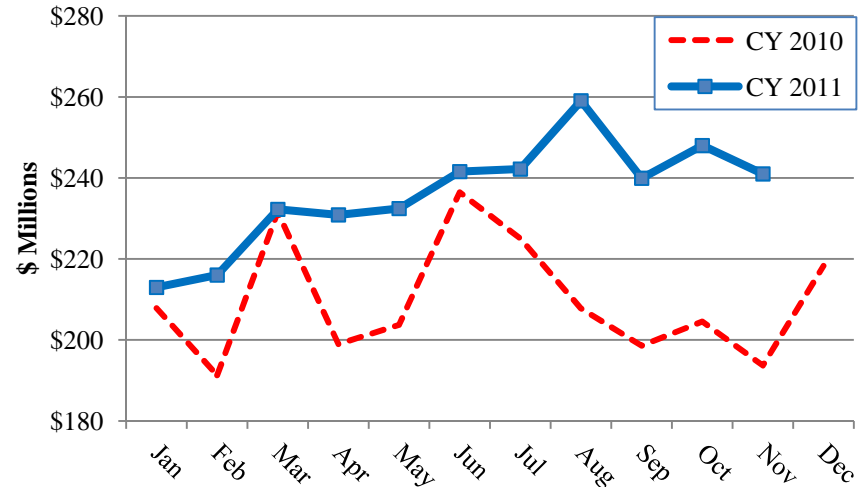
ANS Wellhead Value



North Slope CAPEX



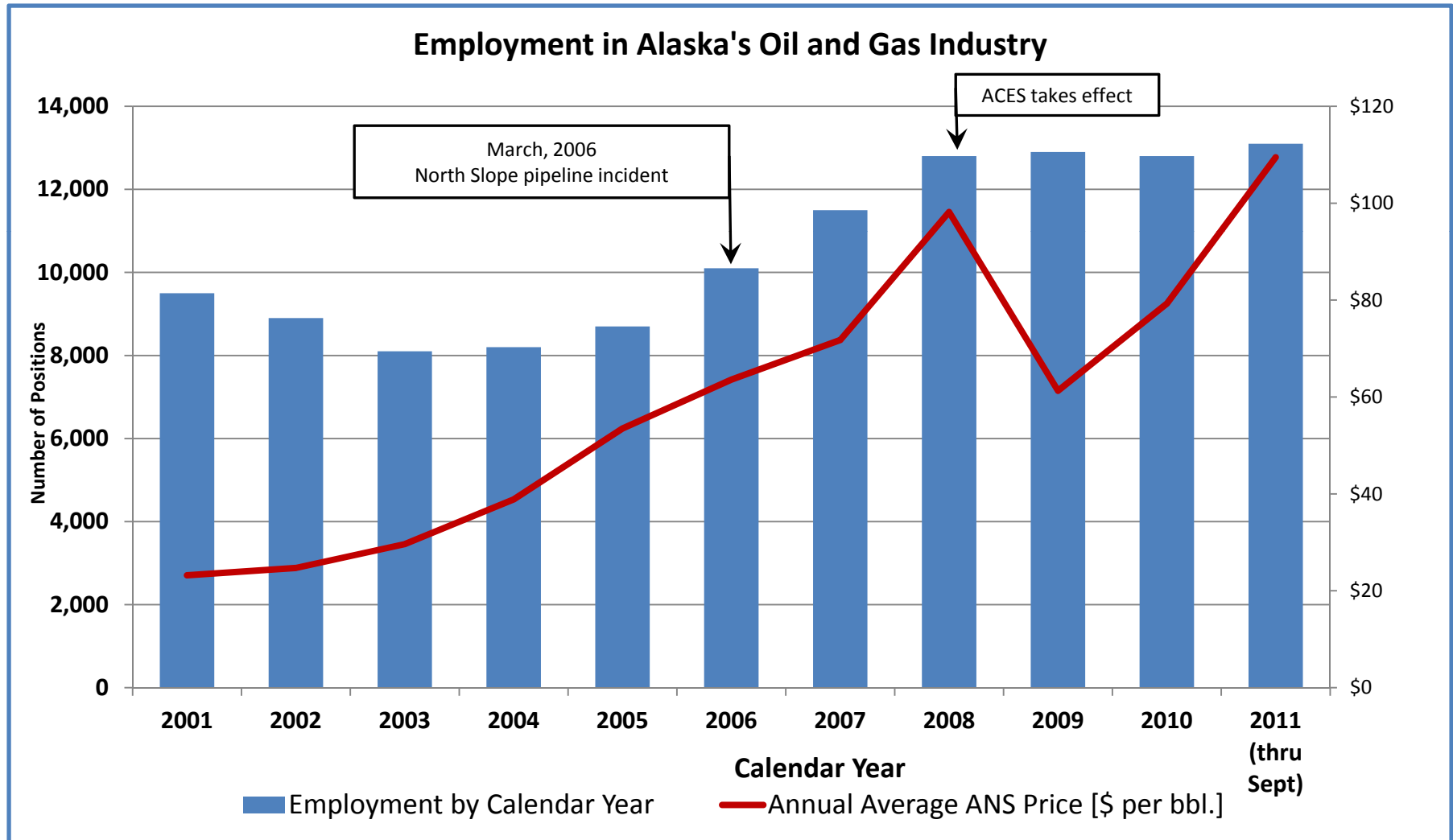
North Slope OPEX





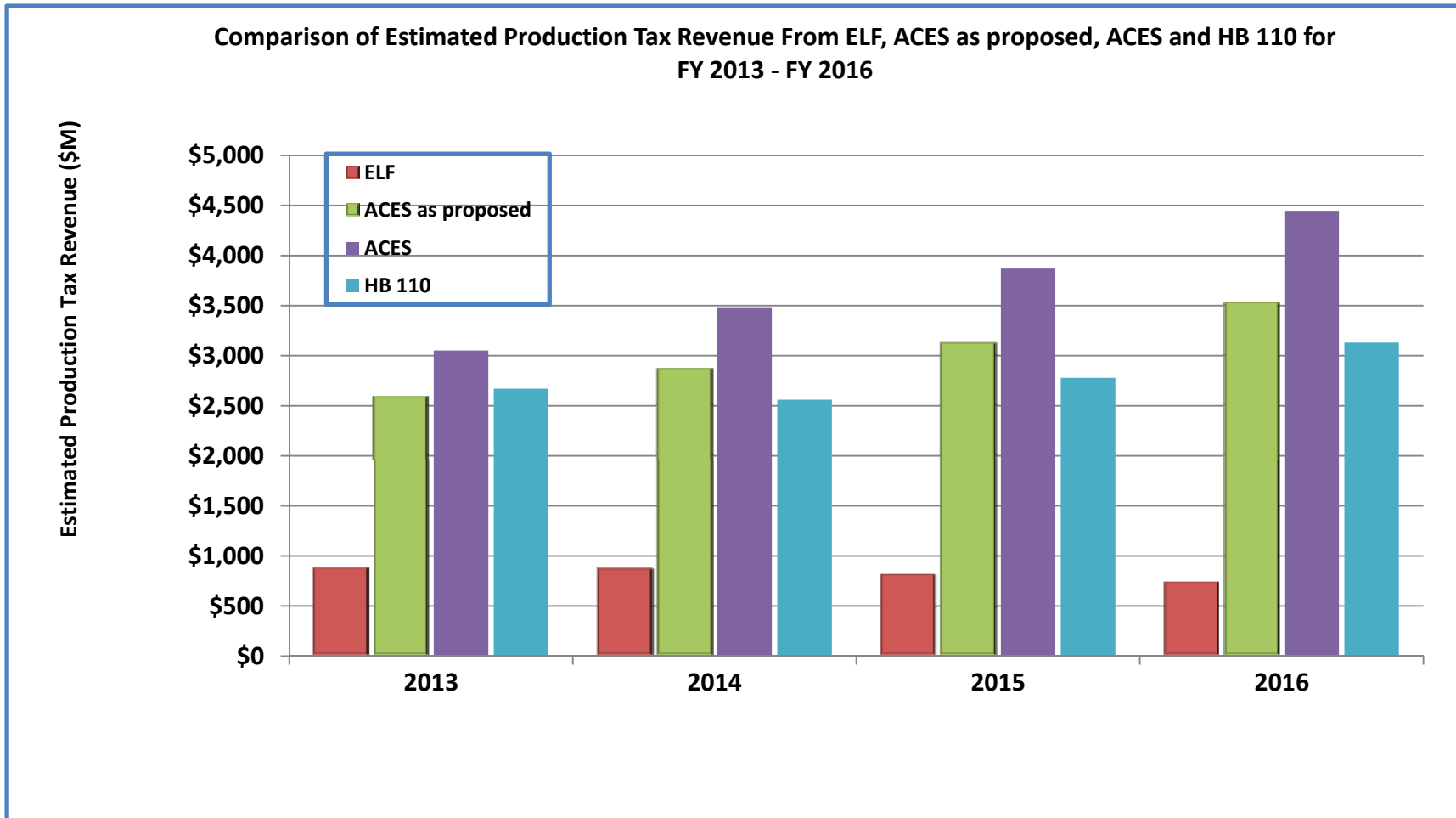
The Real Jobs Debate?

Why are Jobs flat during record oil prices?





HB 110 compared to ELF & ACES: Did The Pendulum Swing Too Far?



Based on Fall 2010 Revenue Forecast assumptions. This analysis **does not include** any incremental production as a result of bill passage.



What To Expect This Session?



- There seems to be a growing sentiment that a change to progressivity is needed
- Hopefully we can begin the discussion on Day One
- We need a game changer! “Tweaks” will not make us more competitive

