Alaska North Slope Production
FY 2000-2012 and Forecasted FY 2013-2022

Source: Department of Revenue - Dec. 2012
Governor Lays out Principles for Oil Tax Reform

Anchorage Daily News, Jan. 6, 2013:

Reform must:

• Be fair to Alaskans
• Encourage new oil production
• Be simple and restore balance
• Be durable and long-term in nature
Governor Lays out Principles for Oil Tax Reform

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• Be durable and long-term in nature

• AOGA Recommendation: Avoid changes that artifically create “winners & losers”
SB 21 Component: Progressivity

- AOGA supports the elimination of progressivity

1) Progressivity attacks and destroys one of the few strategic advantages that Alaska has, which lies in its economic remoteness.

2) Progressivity bring extraordinary complexity to the tax.
There is no tax credit liability for the State until the investor invests here

1) AOGA does not support repeal of Qualified Capital Expenditure Credits (QCE)

   a) Elimination of QCE would undo significant part of competitive environment

   b) Repeal likely creates “winners & losers”
2) AOGA supports extension of Small-producer tax credit

- Attracts new players to Alaska
- From testimony...has made a material difference for some companies

3) AOGA Recommendation: Extend exploration credits as well

- Support for the same reason as small-producer credit
- Exploration credits bring about exploration in a timely fashion
4) AOGA opposes the current proposal to bar almost completely the transferability of “Loss Carry Forward” credit

- 10 year shelf life is unrealistically short

- AOGA Recommendation: Increase the shelf life to 15 years
AOGA supports concept, but concerned it will not apply to majority of current production

- Misses 80-90 percent of potential production
- Fields likely to lose out from GRE: Prudhoe Bay, Kuparuk, Lisburne, Milne Point, Endicott, Niakuk, Point McIntyre, Alpine, PBU Satellite fields (Aurora, Borealis, Midnight Sun, North Prudhoe Bay, Orion, and Polaris) and Kuparuk satellites (Meltwater, NEWS, Tabasco, Tarn and West Sak)

AOGA Recommendation:

More needs to be done for these fields
## Estimated Undiscovered Conventional Oil Resources on Alaska North Slope

<table>
<thead>
<tr>
<th>Region</th>
<th>Technically Recoverable Resources</th>
<th>Economically Recoverable @ $90/bbl</th>
<th>Expected Typical Field Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P95 (1)</td>
<td>Mean (2)</td>
<td>P5 (3)</td>
</tr>
<tr>
<td>Central North Slope</td>
<td>2,800</td>
<td>3,400</td>
<td>3,900</td>
</tr>
<tr>
<td>Beaufort Sea</td>
<td>400</td>
<td>8,200</td>
<td>23,200</td>
</tr>
<tr>
<td>Chukchi Sea</td>
<td>2,300</td>
<td>15,400</td>
<td>40,100</td>
</tr>
<tr>
<td>NPRA</td>
<td>400</td>
<td>900</td>
<td>1,700</td>
</tr>
<tr>
<td>ANWR</td>
<td>5,900</td>
<td>10,400</td>
<td>15,200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38,300</strong></td>
<td><strong>15,200</strong></td>
<td><strong>29,100</strong></td>
</tr>
</tbody>
</table>

Source:
USGS Reports 2011-1103 and 2009-1112.
BOEM, Assessment of undiscovered technically recoverable oil and gas resources of the nation's outer continental shelf.

Econ One Research
Components Not Addressed in SB 21

1) Minimum Tax
   - AOGA Recommendation: Minimum Tax should be repealed.

2) Statute of Limitations & Statutory Interest

   At 3 years: $0.38
   $1.00 \times [(1 + 0.11/4)^{4 \text{ compoundings per year times 3 years}} \ - \ 1] 
   = $1.00 \times [1.38478 \ - \ 1] = $0.38.

   At 6 years: $0.92
   $1.00 \times [(1 + 0.11/4)^{4 \text{ compoundings per year times 6 years}} \ - \ 1] 
   = $1.00 \times [1.91763 \ - \ 1] = $0.92.
Components Not Addressed in SB 21

2) Statute of Limitations & Statutory Interest

- It is the combination of a 6-year statute of limitation plus the minimum 11% interest rate that is harmful.

- 6-year statute of limitations also creates uncertainty and complicated audit assessments due to inconsistent terms in regulation and inability to predict DOR’s calculations.

- AOGA Recommendation: Either shorten the period for DOR determinations from 6 years back to 3 years, or eliminate the 11% minimum interest rate, or both.
3) Joint-interest Billings:

- Instead of one audit of the expenses by a joint venture (found in a joint-interest billing) for any given period, DOR audits each participant separately for its respective share of the same pool of expenses

- AOGA Recommendation: Restore language specifically authorizing DOR to rely on joint-interest billings if it chooses to do so.
AOGA Supports Components of SB 21

Cornerstone for significant and crucial tax reform

– Support the elimination of progressivity
– Support the concept of gross revenue exclusions
– Support the extension of the small producer tax credit
AOGA Concerns with SB 21

• Serious concerns with how the bill addresses tax credits (QCE elimination, no extension of exploration credit, and changing the loss carry forward credit)

• Gross Revenue Exclusions should be expanded to fit the majority of projects in legacy fields

• Identified other ways to improve policy (repeal minimum tax, change statute of limitations/interest rate, and allow DOR to use joint-interest billings)
Production Decline Is Real

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