IMPACT OF OIL & GAS PRODUCTION TAX CREDITS AT LOW OIL PRICES

Presentation to House Finance Committee

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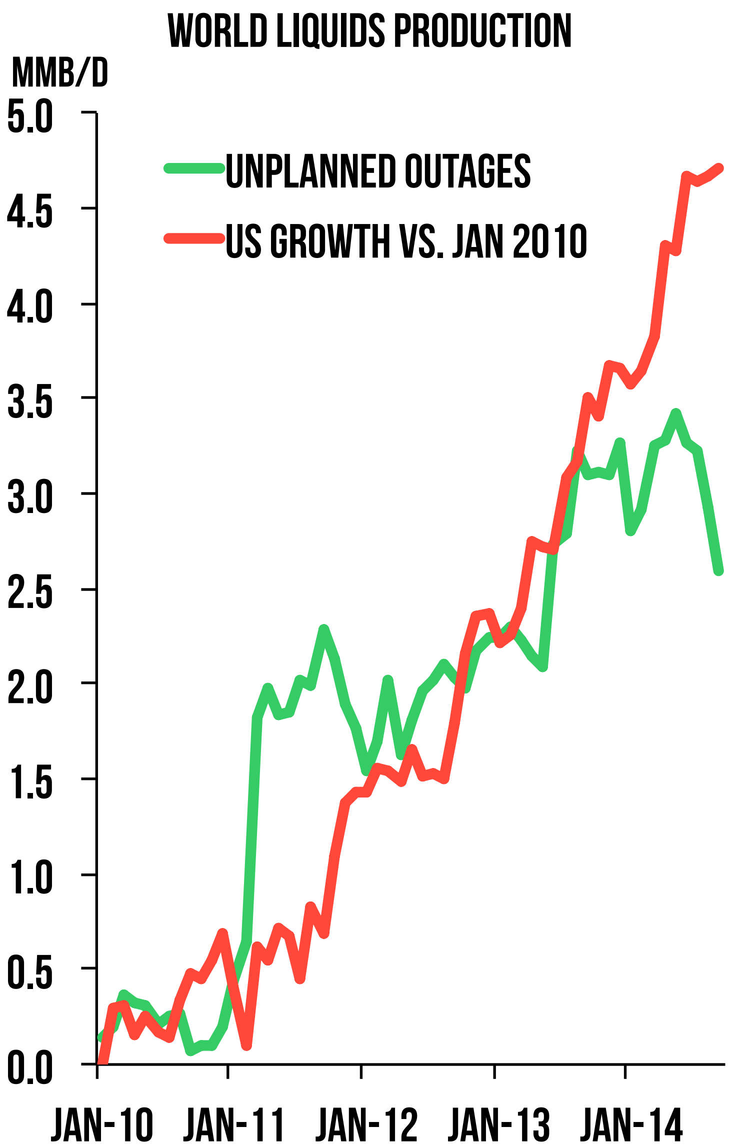
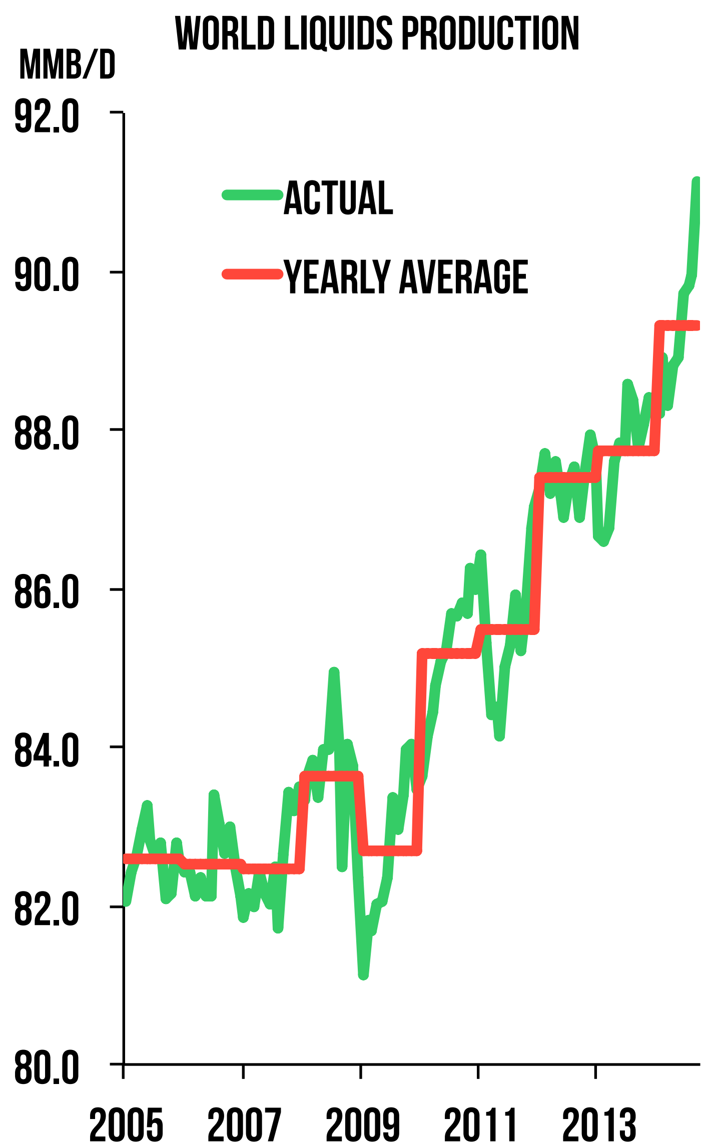
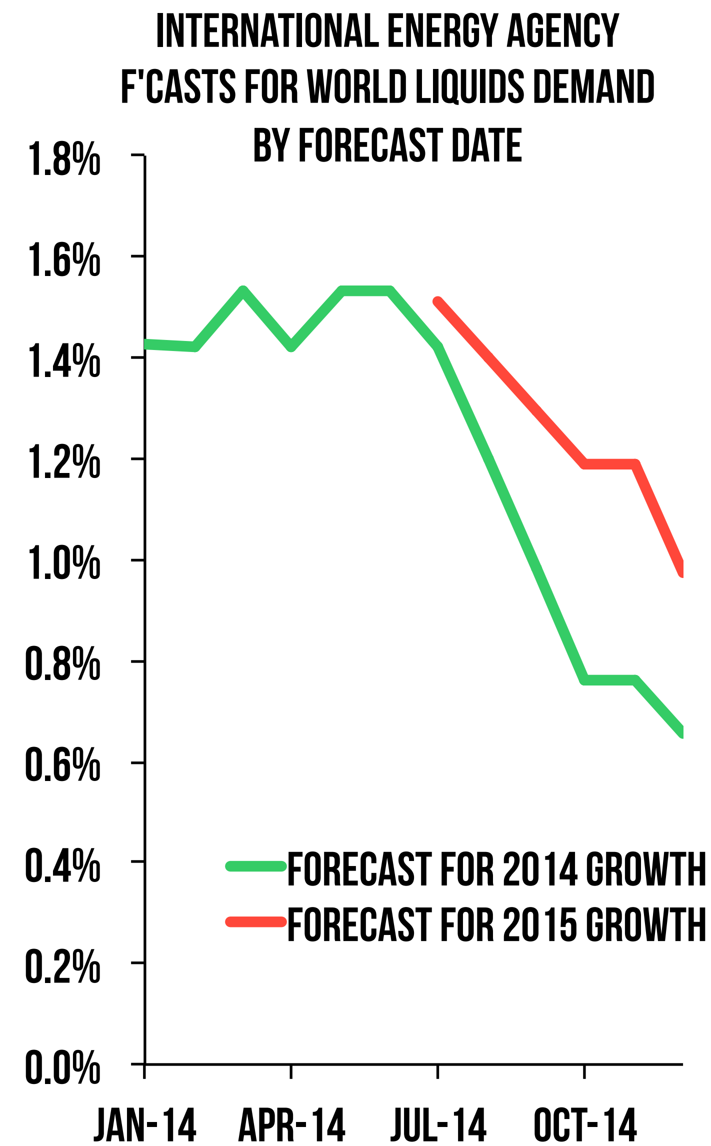
OIL PRICE DROP: HIGHER SUPPLY AND WEAKER DEMAND

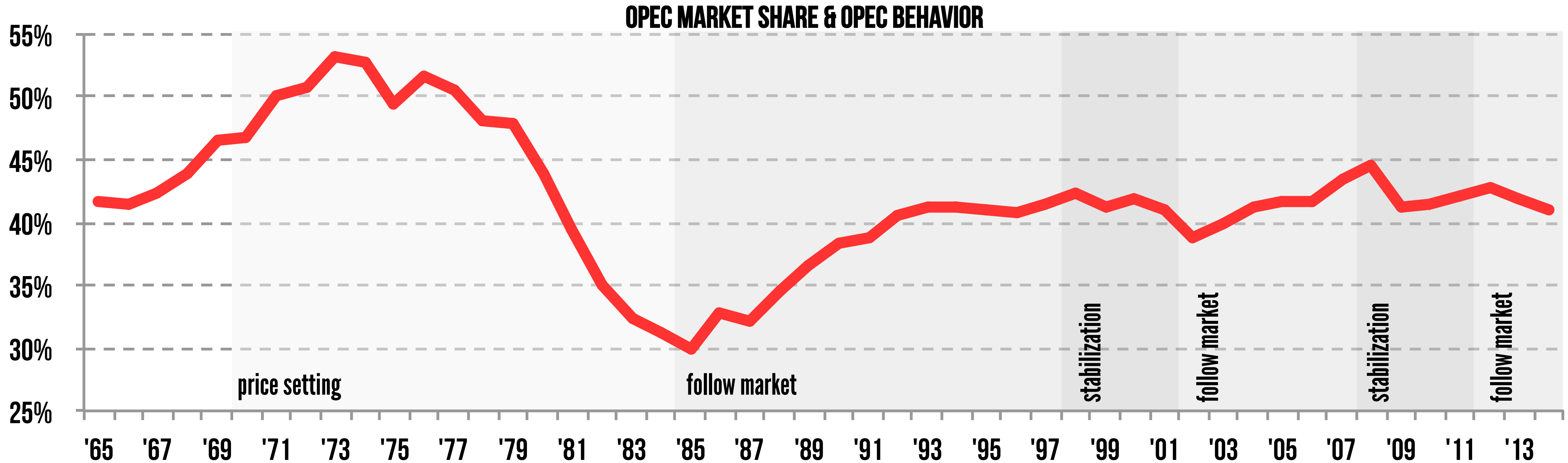


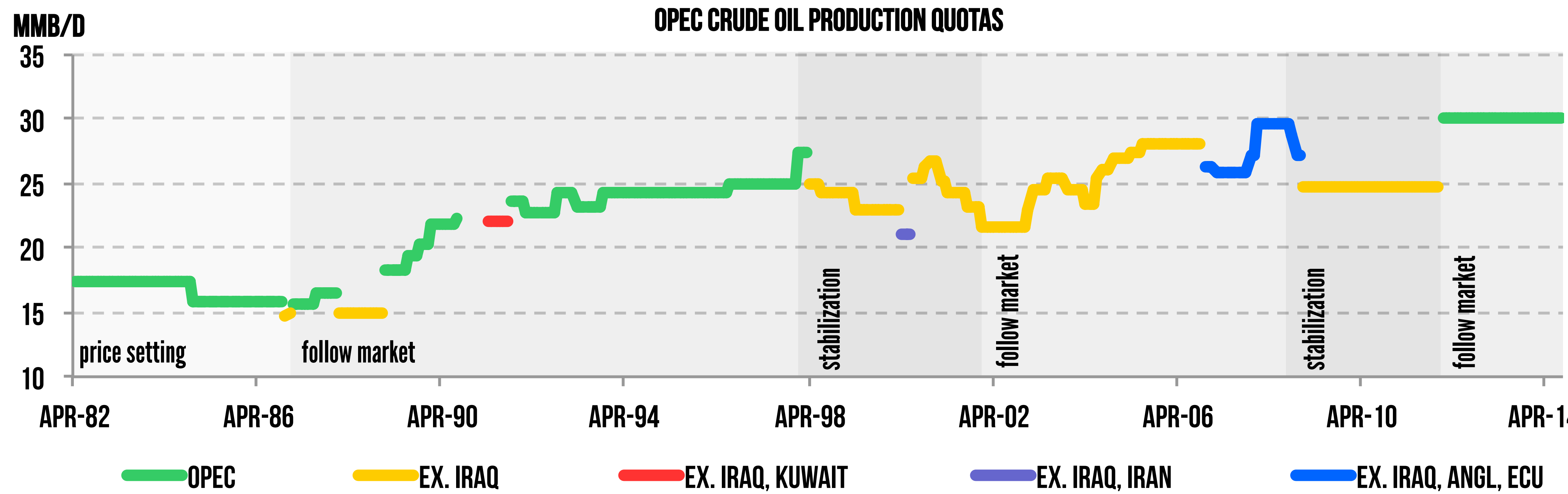




SOURCE: ENALYTICA BASED ON ENERGY INFORMATION ADMINISTRATION AND INTERNATIONAL ENERGY AGENCY

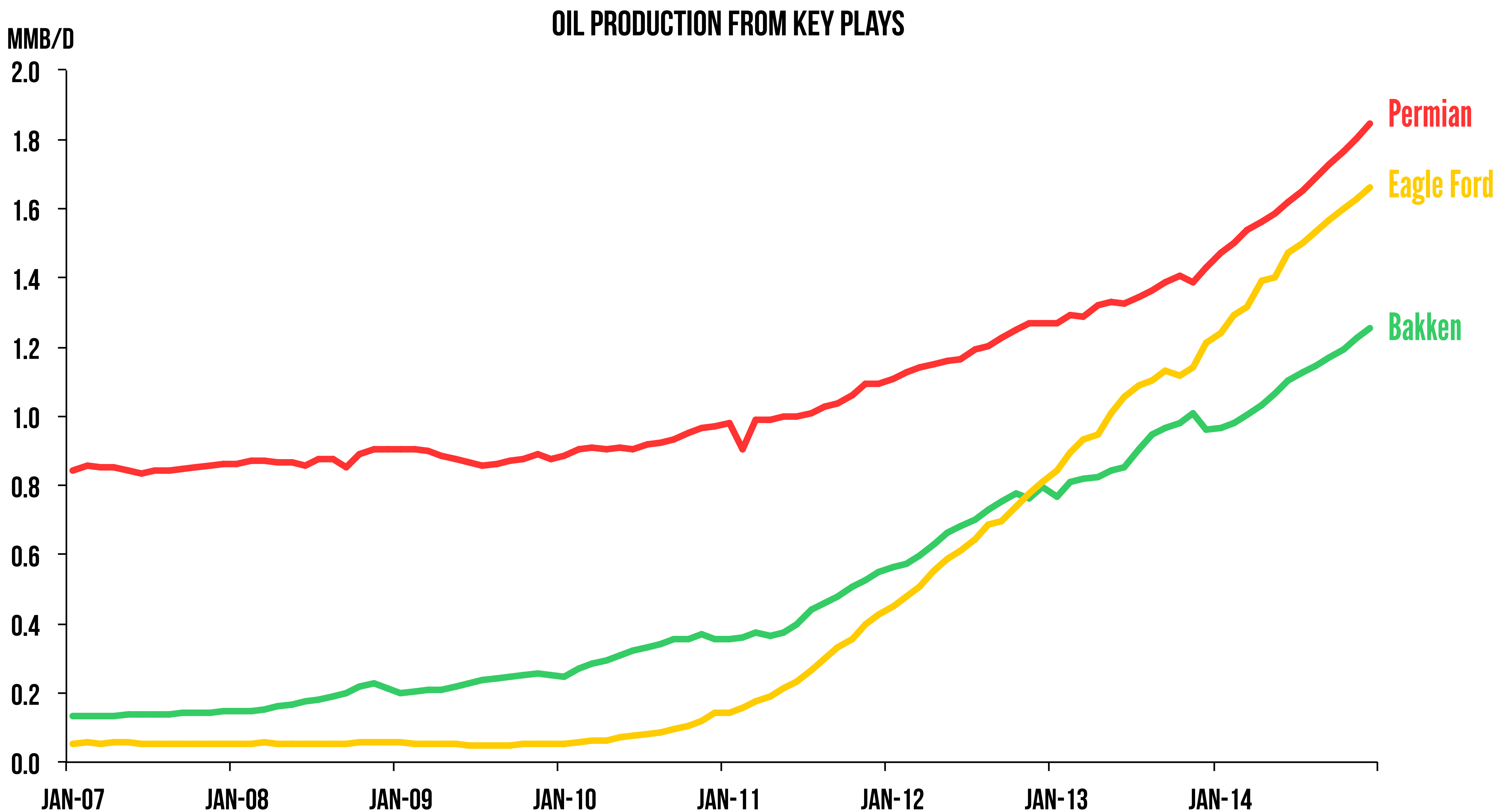
OPEC BEHAVIOR NOT A NOVELTY





SOURCE: BP STATISTICAL REVIEW OF WORLD ENERGY; US DEPARTMENT OF ENERGY, ENERGY INFORMATION ADMINISTRATION; ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)

US PRODUCTION: SCALABLE, DIFFUSE, VARIABLE



SOURCE: US DEPARTMENT OF ENERGY, ENERGY INFORMATION ADMINISTRATION

NET CREDIT BALANCE DUE TO TWO FLOWS

. Revenues net of credits used against tax liability (big producers)—no cash outflow

. Credits paid out in cash to companies that do not have a liability

	HISTORY	FORECAST	
	FY 2014	FY 2015	FY 2016
PRODUCTION TAX REVENUE BEFORE CREDITS	3,486.2	1,273.6	818.4
CREDITS USED AGAINST TAX LIABILITY	888.0	750.0	510.0
PRODUCTION TAX REVENUE	2,598.2	523.6	308.4
CREDITS FOR POTENTIAL PURCHASE	593.0	625.0	700.0

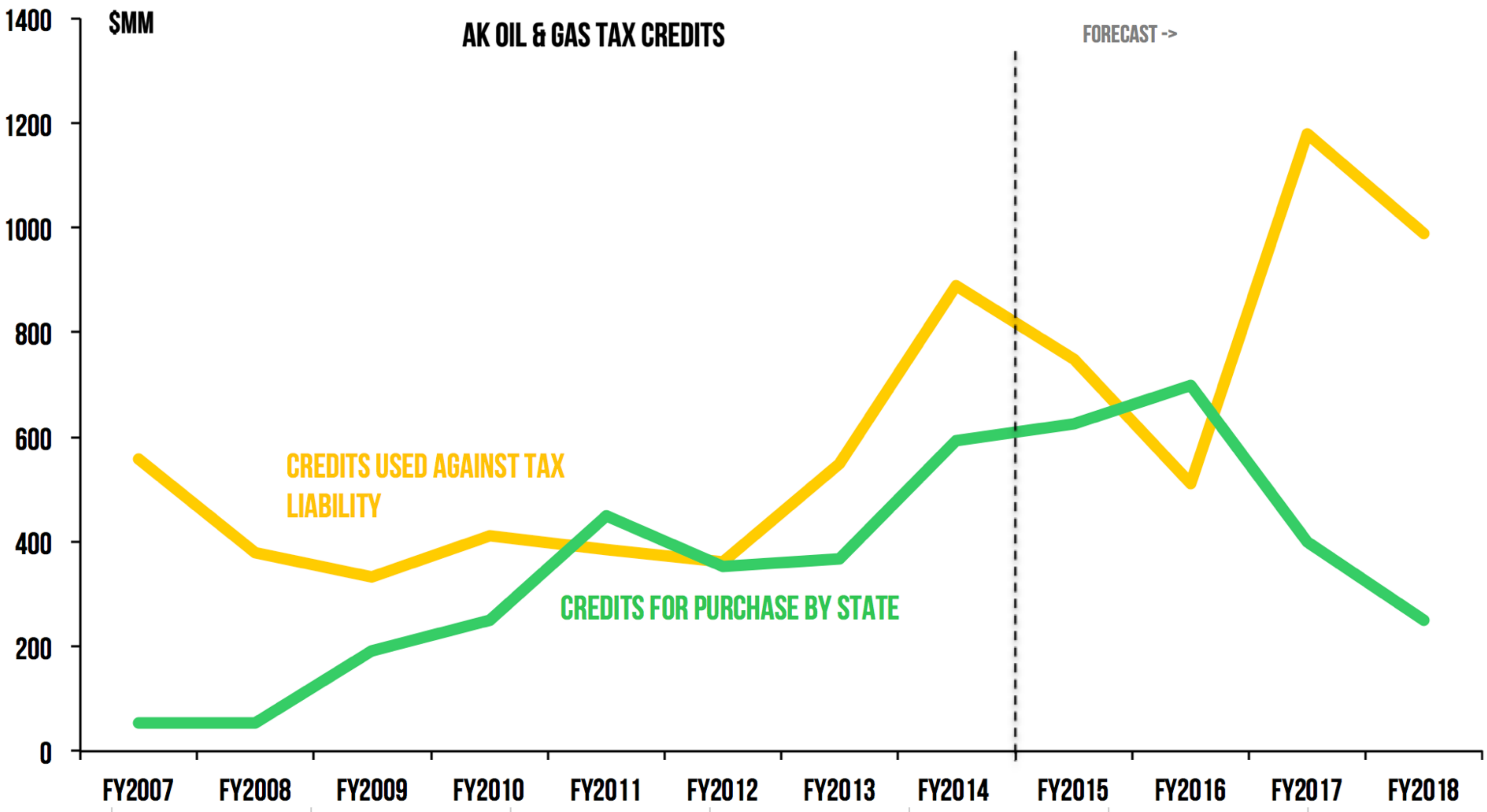
Source: AK DOR Fall 2014 Revenue Sources Book, p27 (all figures in $mm)

Under RSB assumptions for oil price and production, **SB 21 brings more revenue than ACES would have in both FY 2015 and FY 2016**; in fact, in FY 2016, under ACES producers would pay no tax and carry a credit forward.

Main differences are binding gross minimum and elimination of capital credits.

North Slope production and tax	FY2015				FY2016			
	$/bbl	Mbbls	Value ($mm)		$/bbl	Mbbls	Value ($mm)	
Price & Daily Production	$76.31	510	$38.9		$66.03	524	$34.6	
Annual Production								
Total		185,980	$14,192.1			191,294	$12,631.1	
Royalty, Federal bbls		(23,565)	($1,798.2)			(24,291)	($1,603.9)	
Taxable bbls		162,415	$12,393.9			167,003	$11,027.2	
Transportation Costs	($9.31)	162,415	($1,511.3)		($9.17)	167,003	($1,531.8)	
Lease Expenditures	($43.40)	162,415	($7,048.9)		($43.55)	167,003	($7,272.8)	
Production Tax			SB21	ACES			SB21	ACES
Gross Value Reduction			($47.3)				($3.0)	
Prod. Tax Value (PTV)	$23.31		$3,785.6	$3,785.6	$13.29		$2,219.6	$2,219.6
SB21 (35%*PTV)			$1,325.0				$776.9	
ACES (25%*PTV)				$946.4				$554.9
1) Total Tax before credits			$1,325.0	$946.4			$776.9	$554.9
2) $8 /bbl * Taxable bbls			($1,299.3)				($1,336.0)	
3) Max credits (4% floor)			($889.7)				($397.0)	
4) RSB F'cast Credits			($720.0)				($490.0)	
5) ACES 20% Cap Credits				($722)				($797.3)
6) Total Tax after credits			$605.0	$224.4			$286.9	($242.4)

Source: AK DOR Fall 2014 Revenue Sources Book, p99–100 (all figures in $mm; figures in grey are enalytica estimates)


AK OIL & GAS TAX CREDITS
$MM
FORECAST ->
1400
1200
1000
800
600
400
200
0
CREDITS USED AGAINST TAX LIABILITY
CREDITS FOR PURCHASE BY STATE
FY2007
FY2008
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
FY2018

SUNSET FOR SMALL PRODUCER-FOCUSED CREDITS

Alternative Credit for Exploration

Frontier Basin Credit

Small Producer Credit

- Collectively cost $113 million in FY2014

IMPACT OF TRANSITIONAL ARRANGEMENTS

Support for small producer spending at 45% until January 2016 (same as ACES)

Reduced to 35% thereafter

COOK INLET REMAINS HEAVILY SUBSIDIZED

Production tax essentially a continuation of 'ELF':

- Low, fixed rate on gas, and generally no tax on most oil production

But significant credits to Cook Inlet producers:

- 20% capital credit
- 40% well expenditure credit
- 25% carried-forward annual loss credit

With no profit-based production tax, credits are not, as on North Slope, an investment in future production tax revenue - but have played important role in turning around Cook Inlet production

Full analysis of costs and benefits of program warranted; Oil & Gas Competitiveness Review Board is required to make recommendations to the legislature before January 15 2017

Oil price drop due to excess supply and bearish demand—and OPEC acknowledging reality

Big producers still paying large sums but not enough to offset credits paid to small companies

SB 21 placed a more secure floor under state revenues when oil prices fall and eliminated many credits

Cook Inlet production still receives substantial state support—is the policy mix right?

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