SB21

SENSE AND NONSENSE

THE

MORE ALASKA PRODUCTION ACT (MAPA)

Resource Development Council
Anchorage, Alaska
May 1, 2014

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Disclosure and Disclaimer

Northrim Bank
Customer First Service

UAA Institute of Social and Economic Research
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The Bottom Line

• The so-called $2 billion “giveaway” this year under SB21 doesn’t exist.

• Without enhanced production, future tax revenues could be higher under SB21 than ACES if recent price and cost trends continue.

• Under reasonable future market conditions, a modest increase in oil investment would create more state revenues under SB21 than ACES.

• New money into the oil patch creates long lasting jobs and increased consumer purchasing power.
The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.
Production Tax 101

**TAX BASE =**

**PRODUCTION TAX VALUE (PTV) =**

\[(\text{Market Price} \times \text{Production}) - \text{Transportation Costs} - \text{Royalties} - \text{Lease Costs}\]

**TAX LIABILITY =**

\[\text{nominal tax rate} \times \text{PRODUCTION TAX VALUE} - \text{TAX CREDITS}\]
## MAPA vs ACES

<table>
<thead>
<tr>
<th></th>
<th>ACES</th>
<th>MAPA</th>
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<tbody>
<tr>
<td><strong>Nominal Tax Rate</strong></td>
<td>25% - 75%</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Production Tax Value</strong></td>
<td>No adjustments</td>
<td>Reduction for some NEW OIL (GVR)</td>
</tr>
<tr>
<td><strong>Credits</strong></td>
<td>Capital Costs</td>
<td>Production</td>
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Revenue Volatility

PRODUCTION TAX REVENUES (MILLION $)

- 2006: $1,000
- 2007: $2,000
- 2008: $7,000
- 2009: $3,000
- 2010: $3,000
- 2011: $4,000
- 2012: $6,000
- 2013: $3,000
The Disappearing “Giveaway”

The Disappearing Billions: What Happened to $2.1 Billion in Expected Oil Tax Revenue in FY 2014?

- Production Tax: -$1.29
- Royalty: -$ .32
- Income Tax: -$ .14
- Payment of Expiring Credits: -$ .3
- Shift To New Tax: -$ .09

Revision of Market Assumptions
Why Did the Production Tax Projection Fall $1.29 Billion?

What explains the $1.29 billion drop in forecasted FY 2014 production tax revenue (Million $):

- 14% higher lease expense: $304
- 4% lower market price: $242
- 6% fewer barrels: $198
- 15% higher transport cost: $80
- 16% drop in progressive tax rate: $361
- 14% higher credits: $105
Where Did Past Throws Land?

MAPA VS ACES?
REVENUE COMPARISON

LEASE COST PER TAXABLE BARREL

MAPA >$1 BILLION
MAPA < $1 BILLION
ACES < $1 BILLION
ACES > $1 BILLION
ACES > $2 BILLION

Daily Production = 500 thousand Barrels
ANS MARKET PRICE

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US Petroleum Capital Cost Index

Upstream Capital Cost Index (UCCI)

Cost Index (2000=100)

Q3 2012
230

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Understanding Alaska: Special Economic Studies
North Slope Production

NORTH SLOPE PRODUCTION (MILLION BBLs)

1,200
1,000
800
600
400
200
0

OIL
WATER
Water to Oil Production Ratio

NORTH SLOPE PRODUCTION:
WATER BARRELS PER OIL BARREL

Average Well Production Rate

PRODUCTION PER OPERATING WELL: BARRELS PER DAY

- 1960
- 1970
- 1980
- 1990
- 2000
- 2010
More Labor to Do the Squeezing

Direct Labor Cost per NS Barrel

$12
$10
$8
$6
$4
$2
$0

Where Will Future Darts Land?

MAPA VS ACES?
REVENUE COMPARISON

LEASE COST PER TAXABLE BARREL
$80
$70
$60
$50
$40
$30
$20

$60 $70 $80 $90 $100 $110 $120 $130 $140 $150

ANQ MARKET PRICE

MAPA > $1 BILLION
MAPA < $1 BILLION
ACES < $1 BILLION
ACES > $1 BILLION
ACES > $2 BILLION

Daily Production = 500 thousand Barrels
Adding a Hypothetical New Project

NEW INVESTMENT

Million $

2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035

DEVELOPMENT COST (LEFT)
PRODUCTION (RIGHT)

Thousand Barrels per Day

$0 $200 $400 $600 $800 $1,000 $1,200

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Understanding Alaska: Special Economic Studies
New Investment Revenues (MAPA-GVE)
New Investment Revenues: Comparison of Tax Regimes

NEW INVESTMENT REVENUES: MAPA vs ACES

- MAPA
- MAPA-GVR
- ACES

2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035
The Value of Future Revenues

NEW INVESTMENT NPV:
TOTAL REVENUES
MAPA VS ACES

Discount Rate

$0 $1 $2 $3 $4 $5 $6

MAPA
MAPA - GVR
ACES
Switch to MAPA & New Investment

SHIFT AND INVEST: TOTAL NEW REVENUES

BILLION 

SHIFT TO MAPA
NEW INVESTMENT

UNDERLYING CONDITIONS

BAU  LOWER COST  HIGHER COST  LOWER PRICE  HIGHER PRICE

$5  $4  $3  $2  $1  $0  -$1  -$2  -$3  -$4
Job Creation in the Oil Patch
Job Creation from State Revenues

NEW INVESTMENT:
PUBLIC JOB CREATION CAPACITY (MAPA - GVR)

Thousand

2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035
New Investment: Jobs

CUMULATIVE NEW JOBS

THOUSAND

MAPA GVR 1  MAPA GVR 2  MAPA 1  MAPA 2  ACES 1  ACES 2

OIL PATCH  STATE GOVT
New Investment: Payroll

CUMULATIVE NEW PAYROLL

BILLION $

MAPA GVR 1   MAPA GVR 2   MAPA 1   MAPA 2   ACES 1   ACES 2

OIL PATCH    STATE GOVT
Why Do Producers Favor MAPA?

TAX MINIMIZATION

Vs

PROFIT MAXIMIZATION
Do Incentives Matter?

ALASKA OIL PRODUCTION:
MILLION BARRELS PER YEAR

- PRUDHOE+SATERNITES+KUPARUK
- OTHER NORTH SLOPE
- COOK INLET (RIGHT SCALE)

Year: 2000, 2005, 2010

Production levels:
- PRUDHOE+SATERNITES+KUPARUK
- OTHER NORTH SLOPE
- COOK INLET (RIGHT SCALE)
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