

PPT:
Small Producers
New Investors

Presentation to
House & Senate Resources

Alaska Department of Revenue
Tax Division
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Goals

- Small Producers
 - Bigger appetite for smaller targets
 - Diversity
 - Less risk averse
- New (Large) Investors with first investments
 - ANWR, NPRA
- Assist small companies and attract new investors

Overview

- Selling losses
- Selling credits
- \$73 million allowance
- Cook Inlet

COOK INLET

	Oil barrels/day	Gas mcf/day	Barrels of oil Equivalent
Aurora	0	9,260	1,543
Chevron/Unocal	0	116,755	19,459
ExxonMobil	8,995	0	8,995
Forest	6,891	108	6,909
Marathon	157	165,288	27,705
ML&P	0	15,431	2,572
ConocoPhillips	0	167,650	27,942
XTOE Energy	3,283	92	3,298
TOTAL	19,326	474,584	98,423

NORTH SLOPE

	Oil barrels/day
Anadarko	27,801
BP	354,670
Chevron/Unocal	17,413
Doyon	27
ExxonMobil	181,006
Forest	95
NANA	80
ConocoPhillips	398,145
XTOE Energy	47
TOTAL	979,284

STATEWIDE

Barrels of Oil Equivalent

Anadarko	27,801
Aurora	1,543
BP	354,670
Chevron	36,872
Doyon	27
ExxonMobil	190,001
Forest	7,004
Marathon	27,705
ML&P	2,572
NANA	80
ConocoPhillips	426,087
XTOE Energy	3,345
TOTAL	1,077,707

Mechanisms for Attracting (Large) New Investors

Selling Losses

- In its first year of operation Company A loses \$1 million
- Converts the loss to a credit ($.2 * \$1$ million) = \$200,000
- Sells the credit at 90% of face value for \$180,000
- Monetizes loss early
- Big net present value effect compared to carrying the loss forward

Selling Credits

- Company A invests \$1 million and has no income
- Realizes a \$200,000 credit
- Sells the credit at 90% of face value for \$180,000
- Monetizes credit early
- Big net present value effect compared to carrying the credit forward

Mechanism to Attract Small Investors: Allowance

- Under the current system small fields pay no tax
- We believe this should continue
- Development of marginal fields off the North Slope by new smaller companies will create local economic benefits
- The best way to help small producers is with a tax-free allowance

Mechanism to Attract Small Investors: Allowance

Goal: At \$50 price (\$40 wellhead), a 5,000 b/d field should pay no tax

At lower prices larger fields should pay no tax

At higher production there should be a lower price threshold

Allowance: Cost Review

- Downstream
 - Shipping \$2
 - TAPS \$3
 - Feeder lines \$1
 - Subtotal \$6
- Upstream
 - On-going capital \$1
 - Developmental capital \$4
 - Operating \$3
 - Subtotal \$8
- TOTAL \$14
- Cook Inlet is not dissimilar (lower downstream, higher upstream)

\$73 Million

- Market Price (West Coast) \$53
- Costs (\$14)
- Credit 1
- Net Revenue \$40
- 5,000 barrels/day X \$40 = \$200,000/day
- \$200,000 X 365 = \$73 million
- With the \$73 million allowance at a \$53/bbl price the first 5,000 bbl/day pay no tax
- At lower prices it will be more than 5,000 bbl/day paying no tax (i.e., 12,000 b/d @ \$30)
- At higher production it will be a lower price threshold (i.e., \$23 at 20,000 b/d)

Allowance

- Each company
- Up to \$73 million
- Not all companies will take full allowance
- @\$40 we estimate 7 full deductions
- @20% tax rate costs state \$100mm/yr
- Given the level of investment and complexity, we believe there will be few new North Slope participants
- Anti-splitting provision (Section 21)
- At higher prices there will be taxes

Cook Inlet

- Cook Inlet is 80% gas on a BOE basis
- Industry is evolving
 - Decreased production
 - Higher prices
 - Increased investment?
- PPT impact on oil taxes not significant
- Gas taxes on exiting fields may increase at higher prices
- New fields may see lower taxes/higher npv

GAS ELF

$$1 - (3000 / \text{Average Well Productivity})$$

Example: 10,000 mcf/well/day

$$\text{ELF} = 0.70$$

6,000 mcf/well/day

$$\text{ELF} = 0.50$$

COOK INLET GAS FIELDS		
Field	MCF/day	Avg Elf
BELUGA RIVER	155,740	0.751
BEAVER CREEK	17,554	0.088
CANNERY LOOP	40,636	0.601
GRANITE POINT	208	0.000
HAPPY VALLEY	5,083	0.170
IVAN RIVER	4,348	0.000
KALOA FIELD	3,269	0.424
KENAI UNIT	60,907	0.001
LEWIS RIVER	1,042	0.000
LONE CREEK	4,240	0.358
MIDDLE GROUND SHOAL	61	0.000
MOQUAWKIE	5,188	0.354
NORTH COOK INLET	108,421	0.648
NICOLAI CREEK	1,593	0.000
NINILCHIK	30,783	0.373
NORTH TRADING BAY UNIT	587	0.000
PRETTY CREEK	1,967	0.000
REDOUBT SHOALS	2	0.559
STERLING GAS FIELD	2,094	0.278
TRADING BAY UNIT	146,343	0.474
SWANSON RIVER	10,539	0.000
WOLF LAKE	<u>163</u>	<u>0.000</u>
	600,768	0.500

Gas ELF

- A 0.50 ELF implies 6,000 mcf/well/day
- Therefore, 3,000 mcf/well/day is tax-free
- The revenue from tax-free gas is supposed to recover operating costs
- Operating costs for Cook Inlet gas is estimated to be 50 cents
- Therefore operating costs are \$3,000/well/day
- Henry Hub prices are over \$7/mcf
- The revenue from the 3,000 tax-free mcf/well/day is worth \$21,000
- This is 7X more than it should be recovering

Cook Inlet Gas Tax

- We estimate crossover point at about \$4.00/mcf on existing fields
- At \$5 gas increase of \$25 million annually on existing fields
- Out of \$1 billion gross revenues
- Decrease as production goes down
- New production may see reduced taxes

Conclusion

- PPT bill reflects administration's judgments on attracting small and new investments
- Taxes may increase at high prices ... this is appropriate
- Input from small and new investors will be invaluable