Oil & Gas Drives Alaska’s Economy

• 1/3 all Alaska jobs (110,000 jobs) attributed to industry

• Every direct job = 20 more jobs

• Every dollar in wage = $8 more

• 85% of State’s Unrestricted General Fund since statehood

• No other industry even comes close
Questions to ask when considering policy change

- What effect will the policy have on overall oil and gas **production** in the state?
- Will the policy make Alaska more or less **competitive** on a global scale?
- Will the policy provide **stability** to the industry and the State of Alaska?
- Will the policy provide **predictability** to companies looking to make huge investment decisions?
Alaska Oil and Gas Tax Policy Changed 5 times in a decade

- February 2005 – March 31, 2006: Aggregated ELF – Decision that altered gross production tax
- April 1, 2006 – July 2007: Petroleum Production Tax (PPT)
- July 2007 – 2013: Alaska’s Clear and Equitable Share (ACES) *
- 2010: Cook Inlet Recovery Act
- 2014 – present: SB 21 & SB 138
- 2016: HB 247/SB 130 – Governor Walker’s Proposal

* Some provisions of ACES made retroactive to enactment of PPT, others to 1/1/2007

No other region considers oil/gas changes more than Alaska.
If DOR forecasts hold for FY 2016, production will increase for the first time since 2002.

TAPS Throughput Historical & Forecasted

(thousand barrels/day)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fall 2013 Forecast</th>
<th>Spring 2016 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>487.6</td>
<td>517.7</td>
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<tr>
<td>2017</td>
<td>482.7</td>
<td>507.1</td>
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<tr>
<td>2018</td>
<td>459.5</td>
<td>488.8</td>
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<tr>
<td>2019</td>
<td>429.1</td>
<td>484.4</td>
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<tr>
<td>2020</td>
<td>399.6</td>
<td>454.1</td>
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<td>418.6</td>
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<tr>
<td>2022</td>
<td>340.1</td>
<td>387.1</td>
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<tr>
<td>2023</td>
<td>312.9</td>
<td>356.8</td>
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<tr>
<td>2024</td>
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<td>327.0</td>
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<tr>
<td>2025</td>
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<td>300.0</td>
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</tbody>
</table>

Source: DOR Spring 2016 RSB
Unprecedented Low Oil Price

Source: Cost: Upstream Capital Cost Index (IHS/CERA)
Companies Have Negative Cash Flow

Price and Cost Relationship

Index, Year 2000 = 100

Negative cash flows

Price \(^1\)

Cost \(^2\)

At current prices, industry has **negative cash flow before tax**

Estimate Average March 2016 ANS Price $38.11

- Transportation Costs ($10.51)
- Total Operating Expenditures ($19.59)
- Total Capital Expenditures ($20.07)

Total Average Cost Per Barrel Before Tax ($50.17)

Source: DOR Spring 2016 Forecast, March 2016

Administration Goal is to Raise Money
“The motivation to go down this path to look at credits was the budget. The motivation was not to go in and redefine oil and gas taxes in the State of Alaska.”
DOR Commissioner Hoffbeck – 2/10/16

“It is a tax increase. I don’t think we are attempting to disguise that.”
Tax Director Alper – 2/12/16

Specific Concerns with CSHB 247

- *Interest rates increase - compounding interest (Sec. 6)*
- *Outstanding liability set limits on credits (Sec. 7-9)*
- *Net Operating Loss tax credits lose value for new oil (Sec. 12)*
- *Key Cook Inlet credits eliminated (Sec. 13-15 & Sec. 29)*
- *New work group creates instability (Sec. 31)*
- *Retroactivity of Regulations concerning (Sec. 36)*

Any change will have a negative impact on industry

“OIL PATCH GOING THROUGH ‘PURE HELL’, BUT DOESN’T LOOK TO D.C. FOR SALVATION.” – Politico, 2/26/16

"Look at the number of layoffs we've had in this industry. If that had happened in Detroit, think of the hue and cry in Washington,
American Petroleum Institute CEO Jack Gerard

AOGA is not asking for assistance from the state of Alaska in this down turn.

Do No Harm