Proposed "Fair Share" Oil Tax Ballot Initiative:
Update to January 6, 2020 AOGA Presentation

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Initiative Approach to "Fair Share" From the Initiative Web Site

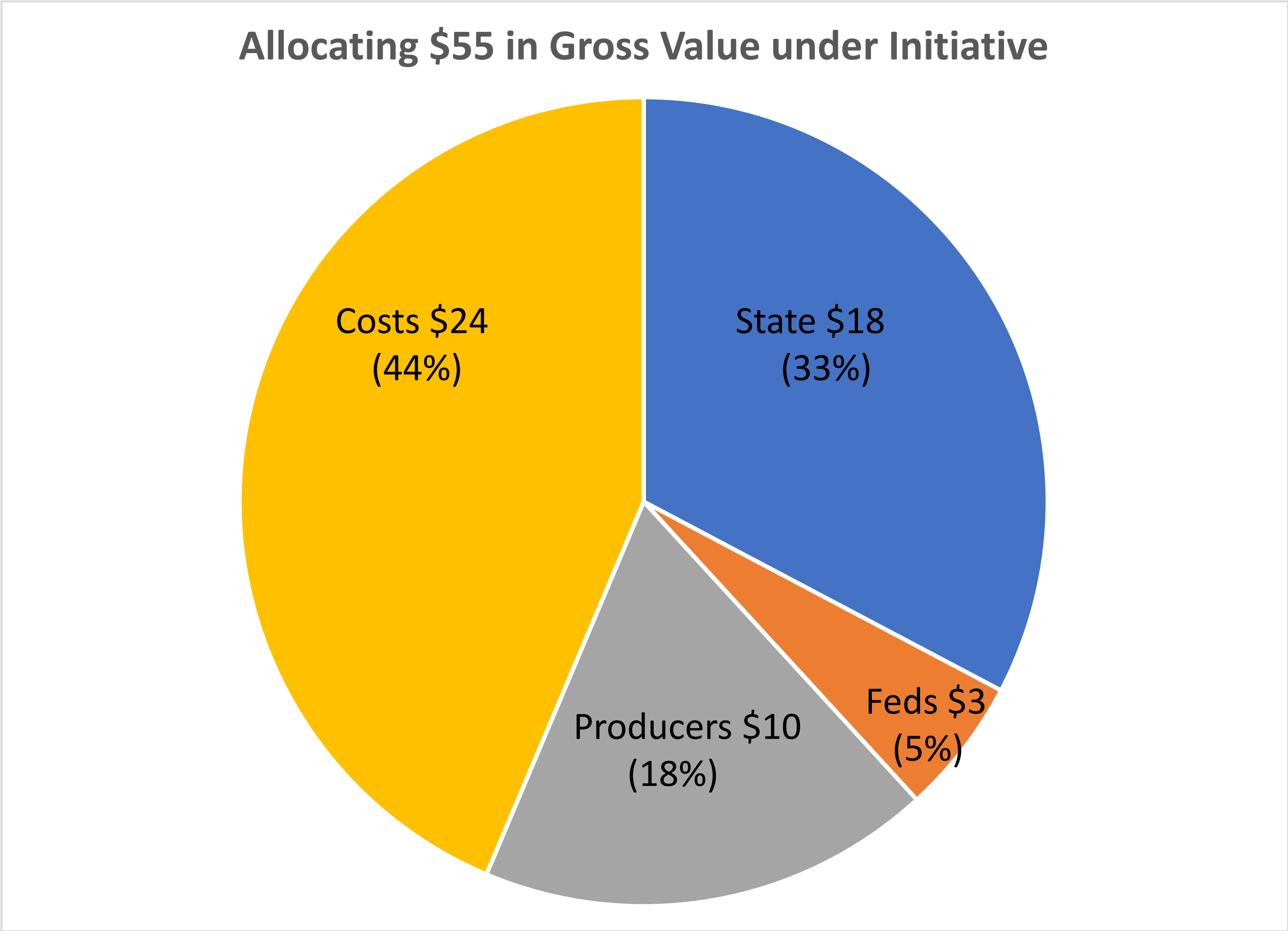
"One-third of the *gross revenues* from the sale of our oil is a good standard to apply in determining if Alaskans are getting their fair share. Governor Hammond was a key architect of our economic relationship with the oil industry. He stated the original agreement was one-third to the state, one-third to the federal government, and one-third to the producers."

The Problem

- Gross pie needs to be allocated among 4 slices, not three
- The 4th slice is the upstream operating and capital development costs

Income Summary

ANS West Coast Price	\$64
(Transportation)	-\$9
Gross Value	\$55
Upstream costs	-\$24
Net Value	\$31


Allocating $55 in Gross Value under Initiative
Costs $24 (44%)
State $18 (33%)
Feds $3 (5%)
Producers $10 (18%)

Gross Revenues

- A 3-way split of revenues implies:
  - The producers spend $24/bbl to develop oil
  - Sell oil for $55
  - Pay taxes
  - Make $55 less taxes
- Of course they make $55 less taxes and the upstream costs
- The only way there is a 3-way split is to take the upstream costs out
  - That is what net revenues are

Provisions of Oil Tax Ballot Initiative:

(How gets 1/3 of gross at current prices)

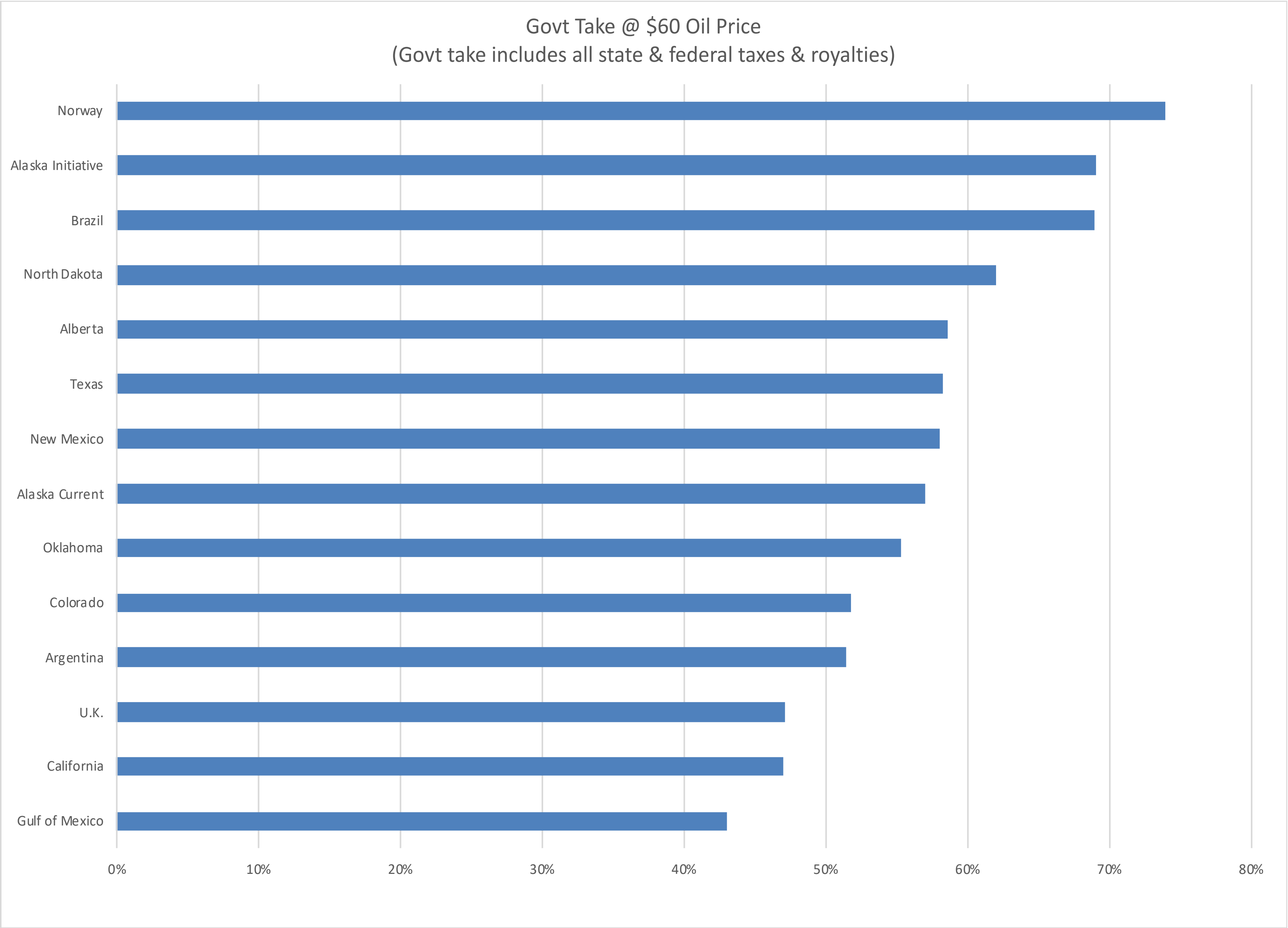
- 35% of net value
- 10% gross minimum when price less than $50 (up from 4%)
- Up to 15% gross minimum at $70 (up from 4%)
- Elimination of per barrel credit
- Additional progressivity of 15% of net value greater than $50 (market price of ≈ $90):
  - 70% marginal tax rate

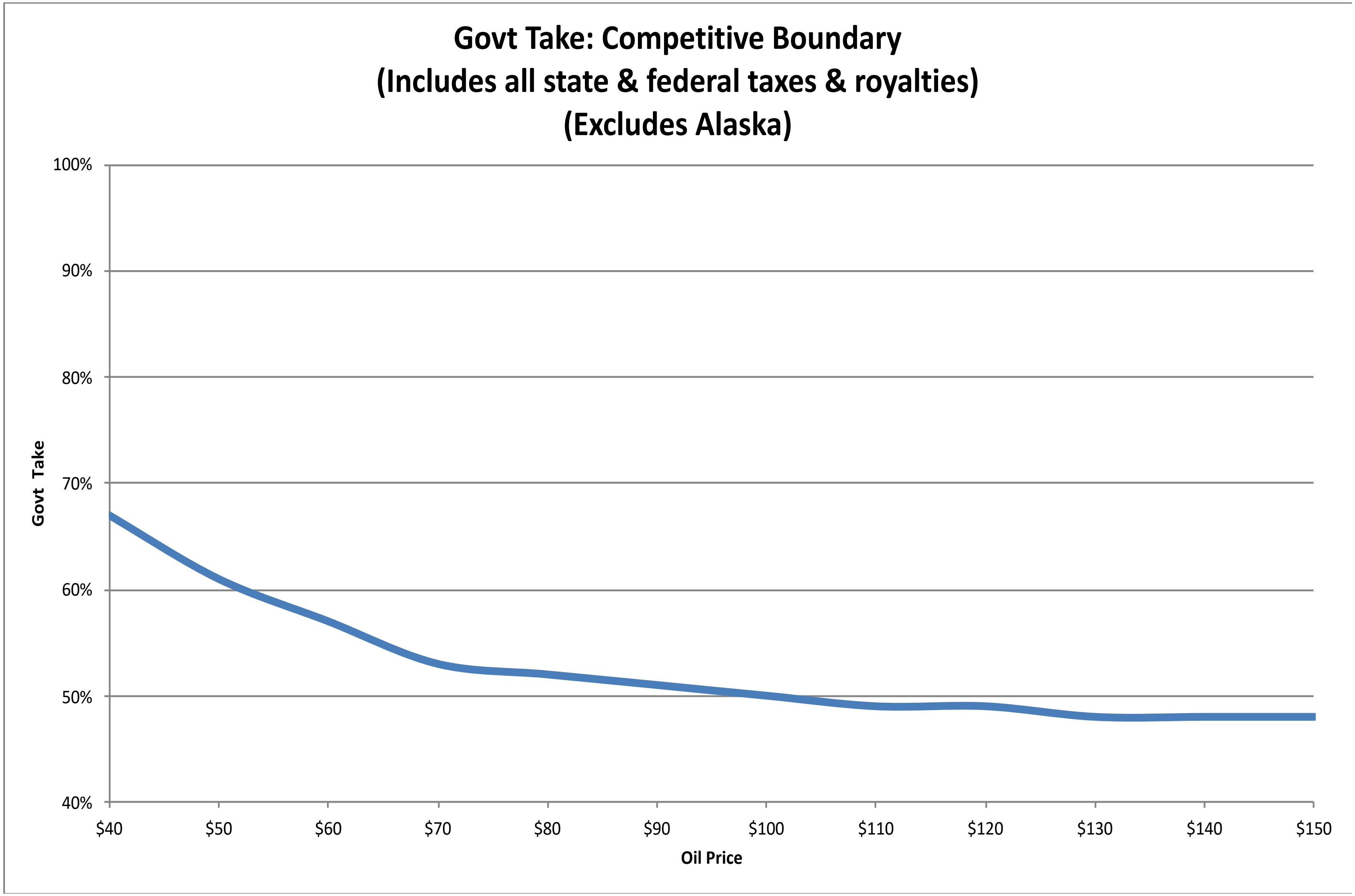
Additional Provisions of Initiative

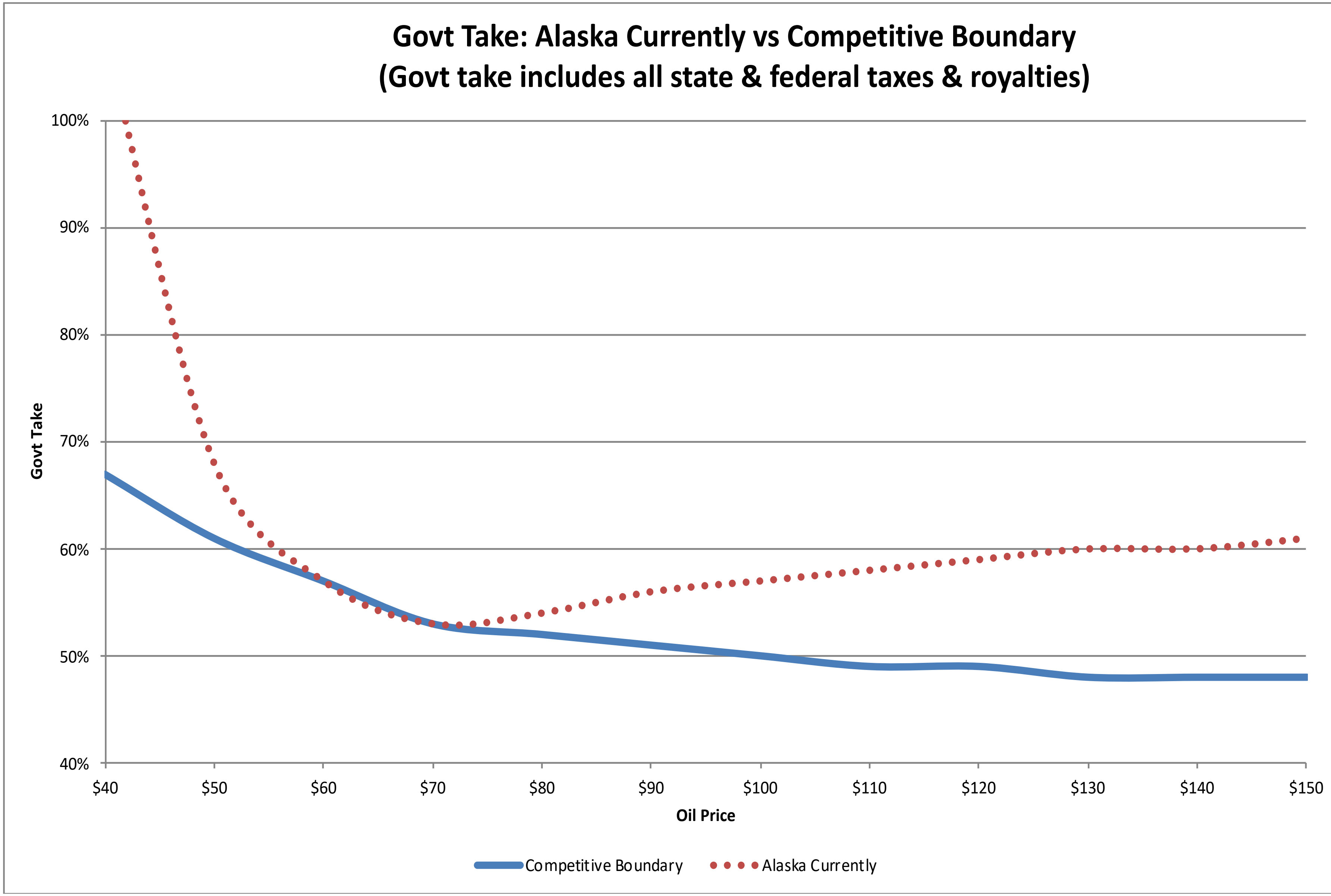
- Applies to units that have produced more than 400 million barrels cumulatively, and more than 40,000 barrels a day in previous year (Prudhoe, Kuparuk, Alpine)
- Ring fencing of units (a company cannot offset income from one unit with losses from another)
- Additional reporting requirements

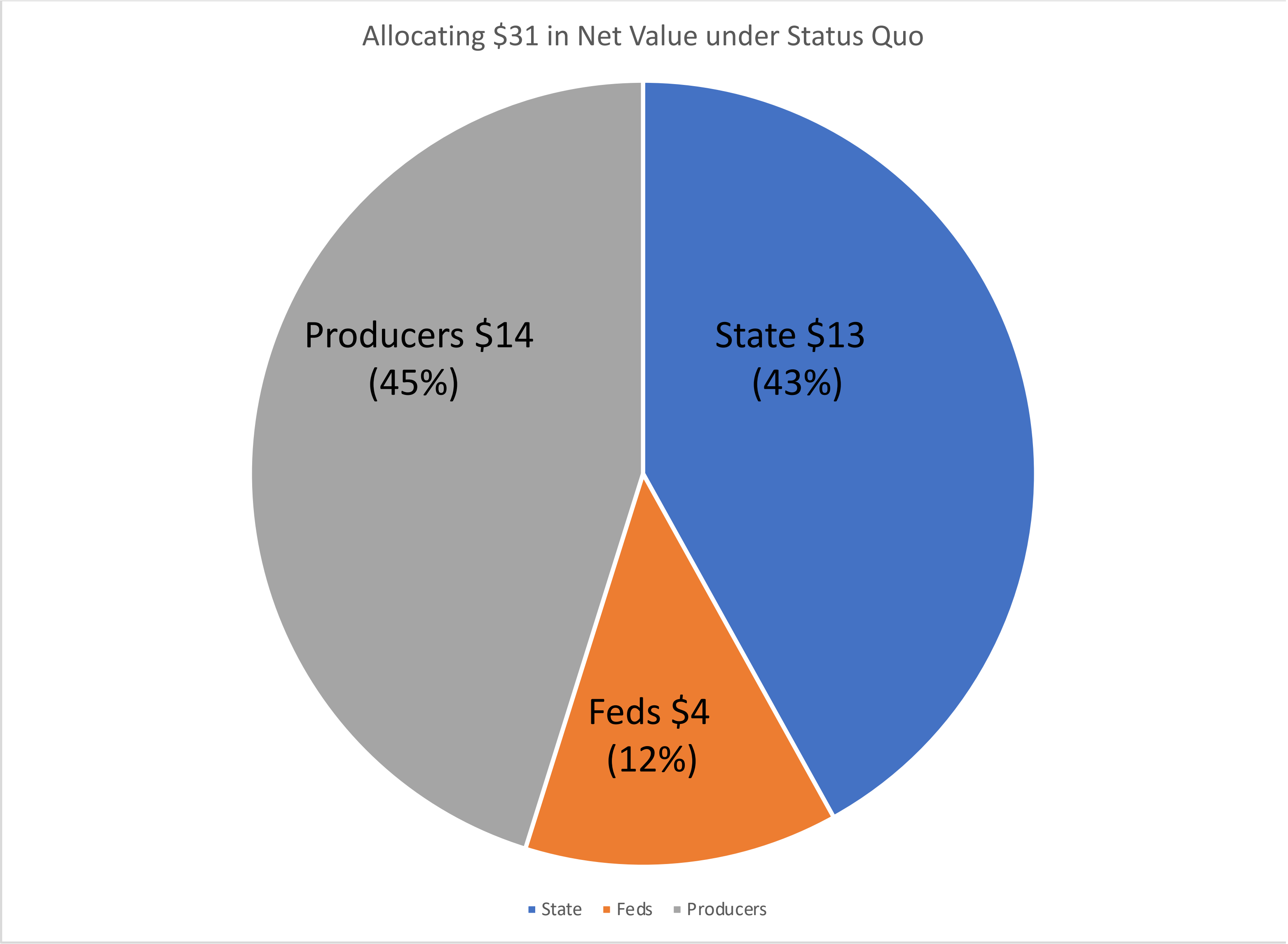
Competitiveness Analysis

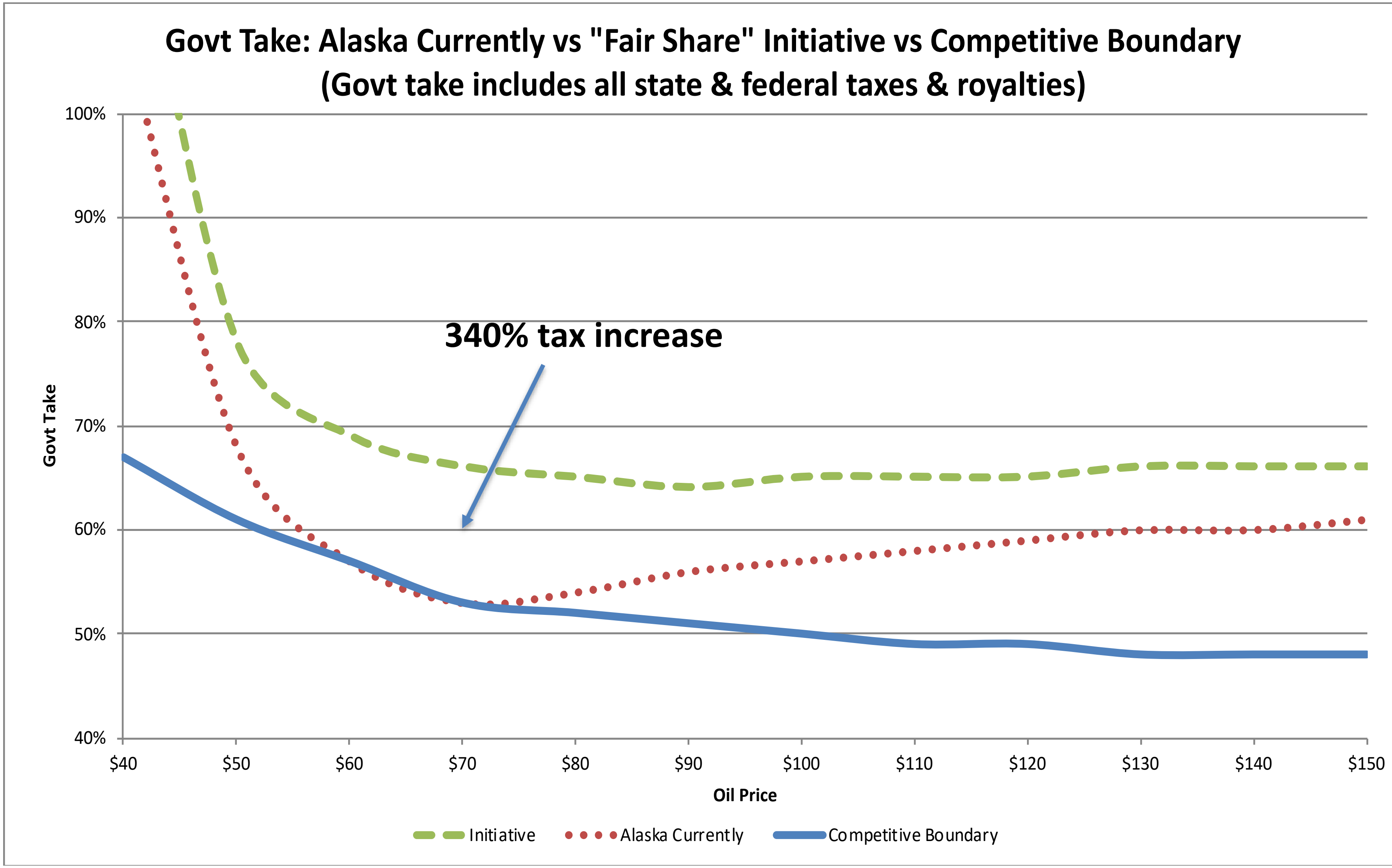
- Government take: percentage of ***net*** income that goes to government (all taxes & royalties)
- Issues of judgment
  - Which peer groups?
  - Which costs?
  - Which metrics (mean, median, etc.)?
- Peers – other similar jurisdictions that competes with Alaska for investment
  - Tax & royalty regimes
  - Democracies
  - Set in legislative setting


Govt Take @ $60 Oil Price
(Govt take includes all state & federal taxes & royalties)
Norway
Alaska Initiative
Brazil
North Dakota
Alberta
Texas
New Mexico
Alaska Current
Oklahoma
Colorado
Argentina
U.K.
California
Gulf of Mexico
0%
10%
20%
30%
40%
50%
60%
70%
80%

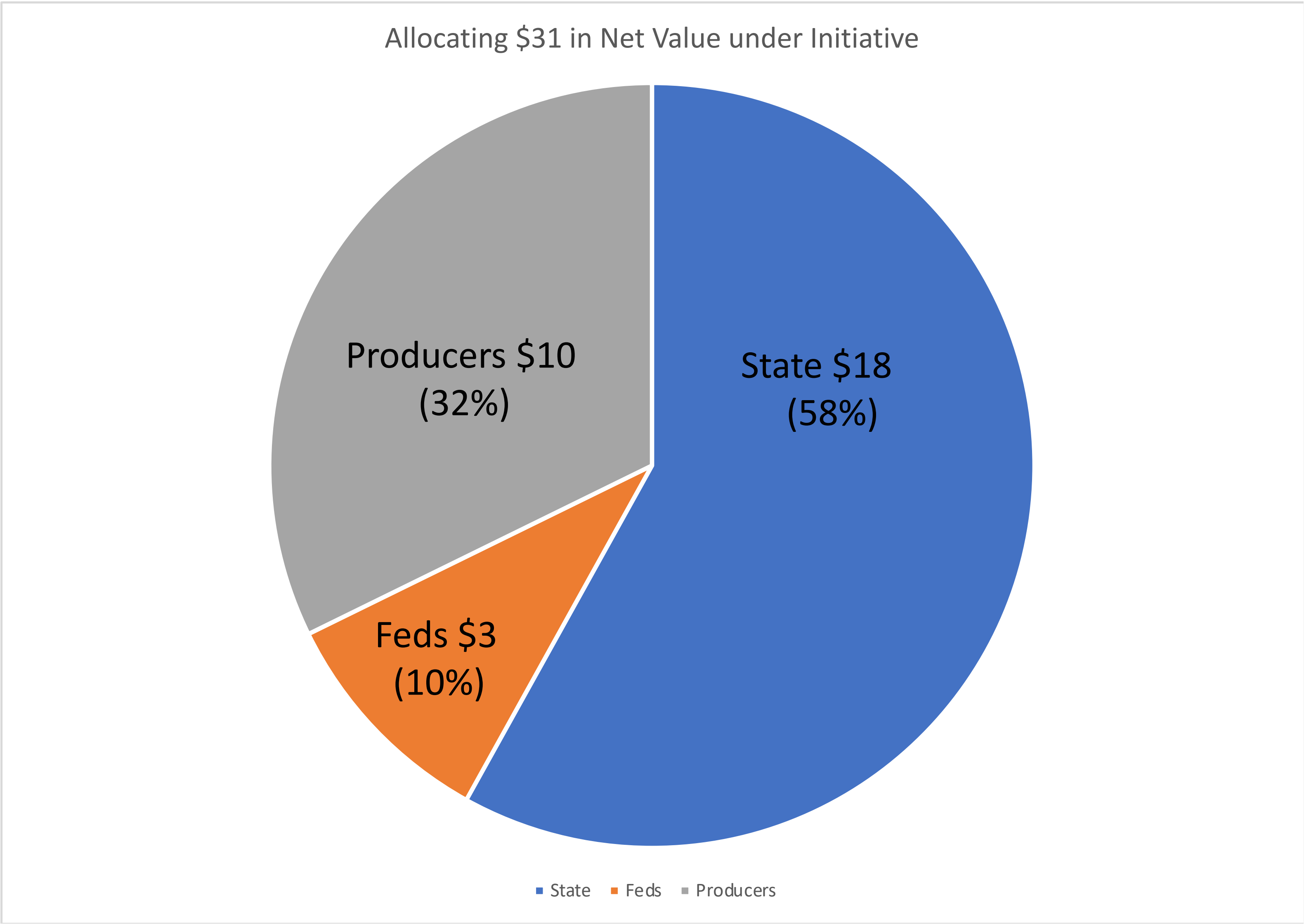

Govt Take: Competitive Boundary
(Includes all state & federal taxes & royalties)
(Excludes Alaska)
100%
90%
80%
70%
60%
50%
40%
Govt Take
$40
$50
$60
$70
$80
$90
$100
$110
$120
$130
$140
$150
Oil Price


Govt Take: Alaska Currently vs Competitive Boundary
(Govt take includes all state & federal taxes & royalties)
100%
90%
80%
70%
60%
50%
40%
Govt Take
$40
$50
$60
$70
$80
$90
$100
$110
$120
$130
$140
$150
Oil Price
Competitive Boundary
Alaska Currently


Allocating $31 in Net Value under Status Quo
Producers $14
(45%)
State $13
(43%)
Feds $4
(12%)
State
Feds
Producers



Govt Take: Alaska Currently vs "Fair Share" Initiative vs Competitive Boundary
(Govt take includes all state & federal taxes & royalties)
100%
90%
80%
70%
60%
50%
40%
Govt Take
340% tax increase
$40
$50
$60
$70
$80
$90
$100
$110
$120
$130
$140
$150
Oil Price
Initiative
Alaska Currently
Competitive Boundary


Allocating $31 in Net Value under Initiative
Producers $10 (32%)
State $18 (58%)
Feds $3 (10%)
State
Feds
Producers