5 Year Look Back
Oil Industry Capital Expenditures by Category

Presentation to the House Resources Committee
February 13, 2012
Alaska Department of Revenue
What We’ll Be Discussing.....

• Purpose of Tax Credit Provisions
• Purpose of 5 Year Look Back
• Process of 5 Year Look Back
• Capital Cost Categories
• Historical Capex Charts
• Conclusions
• Process for 2011 and Going Forward
Purpose of Tax Credit Provisions

2003 SB 185 (RES)

AS 43.55.025 became law when Alaska had a gross tax, therefore there was no need to consider upstream deductions. The original bill provided for a reduction in royalty on certain oil produced from Cook Inlet in addition to the tax credit provisions. The goals were to increase exploration and increase the State’s knowledge of the natural resource base.

5/13/2003, Senate Finance Committee

• Royalty reduction provisions were to help field economics and allow producers to maximize production and continue employment
• Regarding the tax credit provision, a sponsor commented the tax credits are more applicable to exploration than discovery
• Intent was to encourage companies to drill more wells so that the possibility of both discovery and production could be “substantially” increased
• Bill was part of Governor’s long range plan and ultimate goal was to increase pipeline throughput
• Drilling within an existing unit would not qualify, nor would wells under current development and exploration plans
Purpose of Tax Credit Provisions, cont’d

• The fiscal impact of the tax credits was an investment incentive that the state must offer to secure “a long-term stream of oil”

• Exploration credits were limited to the exploration side, and were amended to include testing but not development costs

• Clearly the focus of the legislation was to encourage exploratory work by the industry and increase the State’s understanding of resource base e.g. lease sales

• The credit was set up to encourage wildcat, high risk exploration and State shares in this risk via credit program

5/14/2003, Senate Finance Committee

• Once a well is successful, the State would stop “recovering the cost” because it is assumed that a producer would continue development.

• Wildcat exploration would qualify for a 40% credit, but the explorer must submit information about state geology and resource base during the exploration activities to DNR.
Purpose of 5 Year Look Back

• To provide informative cost information to decision makers
• To answer capital expenditure questions relating to credits
• To understand benefits and impacts of current statutes and regulation
• To create a process and reporting mechanism to collect and compile expenditure information submitted to DOR in non-standard formats
• To catch up on years of data collection
• To create standardized cost categories for reporting and data gathering to State agencies
• To establish the historical basis for future analysis and comparisons
Process of Information Gathering

- As part of the Data Assessment Project, conducted in-house discussion and review
- Conducted 4 workshops with industry
- Participation averaged 15 companies per workshop
- Industry was responsive in both active participation and written comments
- Established capital cost expenditure categories
- Developed both the 5 Year Look Back and forward-looking reporting categories
Use of Cost Expenditure Categories

• Compiled 5 Year Look back of CapEx (2006 to 2010)

• Compiling more detailed look forward of CapEx only – Effective 2011 return to be reported 3/31/12

• Look forward of CapEx & OpEx in progress – Effective 2012 return to be reported 3/31/13

• Will be submitted with annual production tax returns

• As supplemental information supporting the tax return

• Based on confidential information
Capital Expenditure Categories

Look-back Categories For Years 2006 – 2010

- Geological & Geophysical Work (G&G)
- Exploration Drilling
- Development Drilling
- Facilities
- Other Capital

Categorized capital expenditure data represent 90% of costs related to credit applications
Historical CAPEX by Category (CY)

Capital Expenditures by Category

*2006 includes spending for only 9 months due to PPT effective date of 4/1/2006.
Historical CAPEX for Drilling and G&G (CY)

*2006 includes spending for only 9 months due to PPT effective date of 4/1/2006.
Historical CAPEX for Facilities & Other (CY)

Capital Expenditures for Facilities and Other

- **2006***: $3 million
- **2007**: $613 million
- **2008**: $792 million
- **2009**: $924 million
- **2010**: $1,004 million

*2006 includes spending for only 9 months due to PPT effective date of 4/1/2006.
Historical CAPEX (CY)

Total Capital Expenditures - Independent Companies

- 2006: $235
- 2007: $546
- 2008: $483
- 2009: $575
- 2010: $805

*2006 includes spending for only 9 months due to PPT effective date of 4/1/2006.
## Historical CAPEX (CY)

### Total Capital Expenditures - Major Companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$853</td>
</tr>
<tr>
<td>2007</td>
<td>$1,296</td>
</tr>
<tr>
<td>2008</td>
<td>$1,476</td>
</tr>
<tr>
<td>2009</td>
<td>$1,494</td>
</tr>
<tr>
<td>2010</td>
<td>$1,544</td>
</tr>
</tbody>
</table>

*2006 includes spending for only 9 months due to PPT effective date of 4/1/2006.*
2006-2010 Conclusions

- We now have more **actual** information regarding O&G spending habits than ever before available to the State of Alaska.
- More **actual** information in this presentation alone than available during PPT/ACES debates combined.
- Capital Expenditures in 2007 - 2010 increased from ~$2.0B to ~$2.4B.
- Explorers spent money on drilling wells and G&G.
- Companies in the development stage spent money on development drilling and facilities.
- Companies in transition spent money in multiple areas depending on the stage they entered a project.
- Companies in mature production phase spent money on maintenance and upgrade of facilities and development wells.
- Now have more players active in the field.
- Two fields planned and developed prior to PPT/ACES benefited from the tax credit provisions.
Prospective Cost Information
Look Forward

Proposed Annual Cost Supplemental Information Report

For calendar year 2011 (reporting due March 31, 2012):
  • Use Look back CAPEX categories
  • Filed by producers and explorers

For calendar year 2012 (reporting due March 31, 2013):
  • Use more detailed categories following additional workshops with Industry
  • Filed by producers and explorers
Questions?