



# Greater Fairbanks Chamber of Commerce

◦ Kara Moriarty –President/CEO

March 8, 2016

OIL & GAS:  
FUELING  
ALASKA'S  
ECONOMY

**AOGA**  
Alaska Oil and Gas Association

# AOGA Member Companies



# Oil & Gas Fuels Alaska's Economy

**51,000**

**Private Sector Jobs**

**60,000**

**Public Sector Jobs**

**\$ 2.345 Billion**

**Total State Revenue**

**\$ 447 Million**

**Local Property Tax**

**\$ 6.450 Billion**

**Total Wages**

Source: DOR Fall 2015 Revenue Source Book (RSB) & McDowell Group

# Oil & Gas Fuels Alaska's Economy



More than **1/3** of Alaska's jobs are tied to the oil and gas industry.

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**Every Direct Job = 20 Jobs**

**Each dollar earned by direct employee =  
\$8 additional wages**

Source: McDowell Group

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# Resident Hire

- Caelus Energy more than 85% Alaska hire
- Of the 94% Alaska resident employees of Alyeska Pipeline Service Company; 20% are Alaska Native
- 100% Alaskans in BlueCrest operations staff
- BP has 79% Alaska hire
- 89% of Hilcorp's workforce are Alaskans
- More than 100 Alaska companies have been involved in Pt. Thomson; 80% Alaskans

**Industry supports scholarships and training programs to increase the resident hire rate.**



# **Oil & Gas Revenue Primary Contributor to State Government**

**Petroleum Revenue has constituted ~85% of the state's unrestricted revenue since statehood**

**TOTAL: \$141 Billion**

**Royalties: \$51 billion (36%)**

**Production Tax: \$56 billion (40%)**

**Other: \$34 billion (24%)**

Source: DOR Fall 2015 RSB

# 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

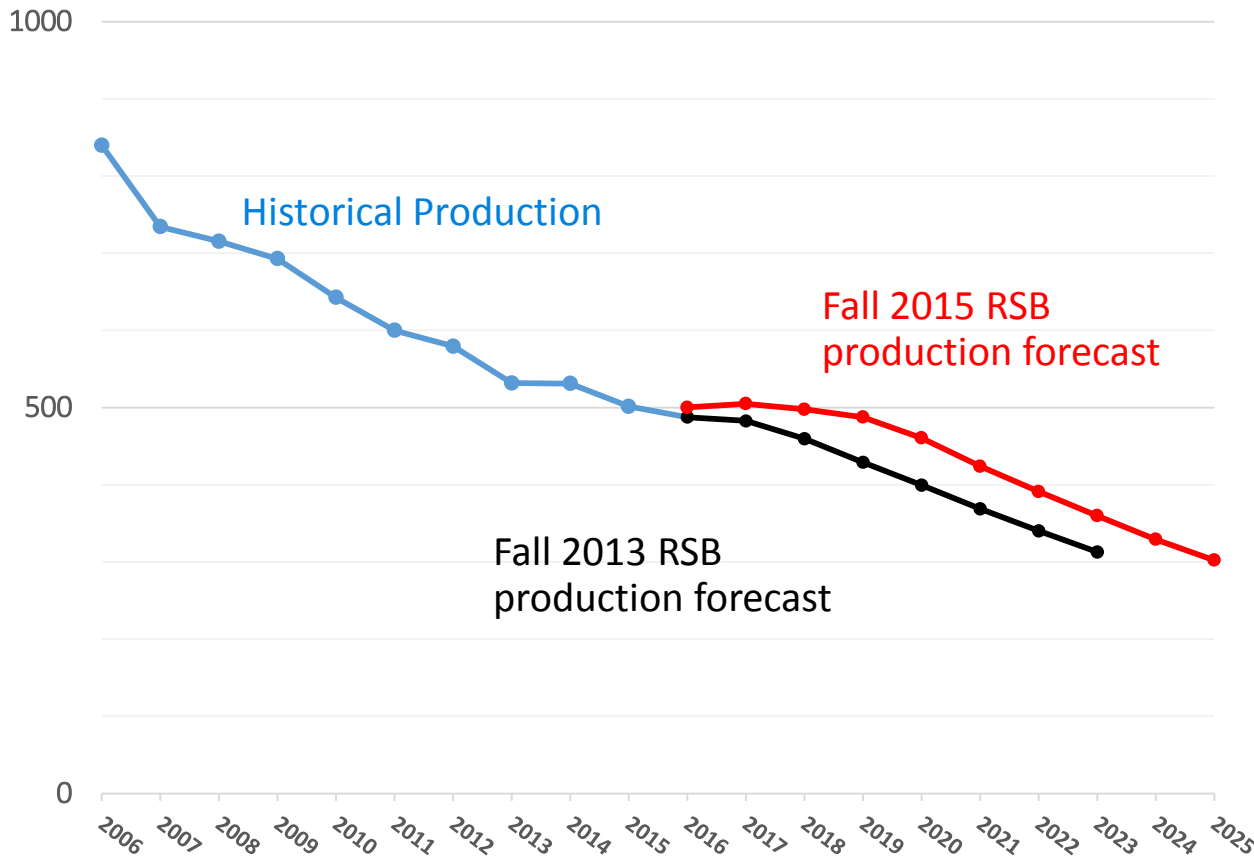
# Current Fiscal Policy is Competitive





# North Slope Production is Stable

TAPS Throughput  
Historical & Forecasted

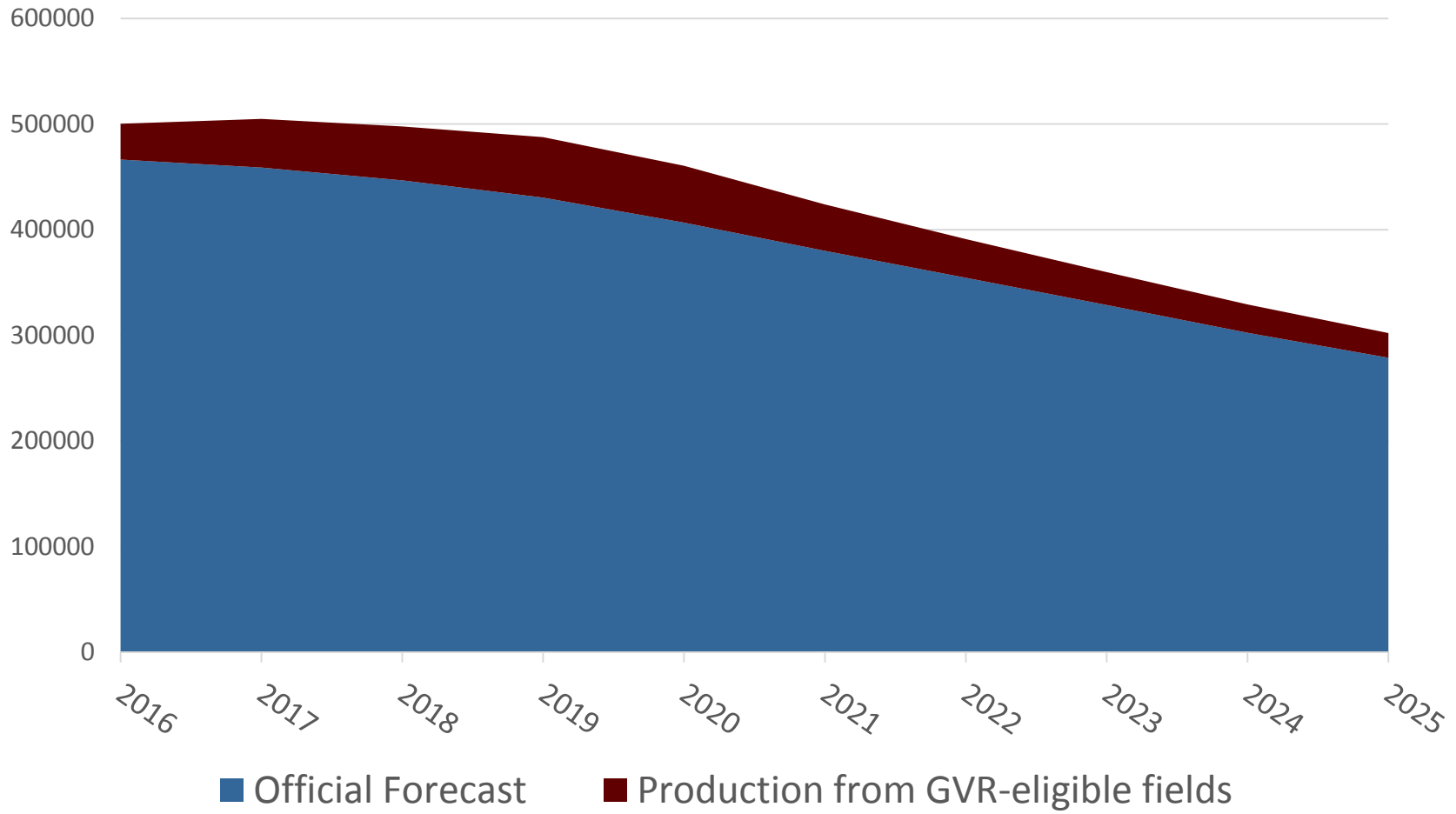


Year	Fall 2013 Forecast	Fall 2015 Forecast
2016	487.6	500.2
2017	482.7	504.9
2018	459.5	497.7
2019	429.1	487.6
2020	399.6	460.5
2021	368.8	423.9
2022	340.1	391.1
2023	312.9	359.8
2024		329.2
2025		302.1

Source: DOR Fall 2015 RSB

# GVR= Average 8% of future oil production

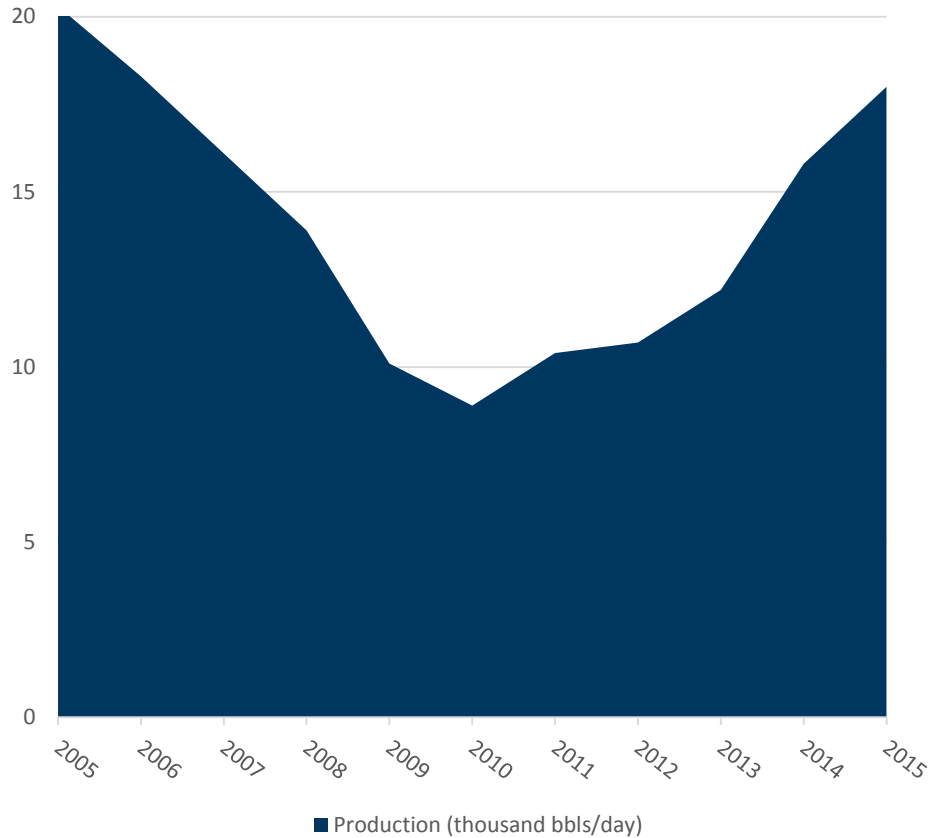
## North Slope Oil Production Forecast



Source: DOR RSB Fall 2015

# Cook Inlet Oil Production Up 102%

Cook Inlet production 2005-2015



Source: DOR Fall 2015

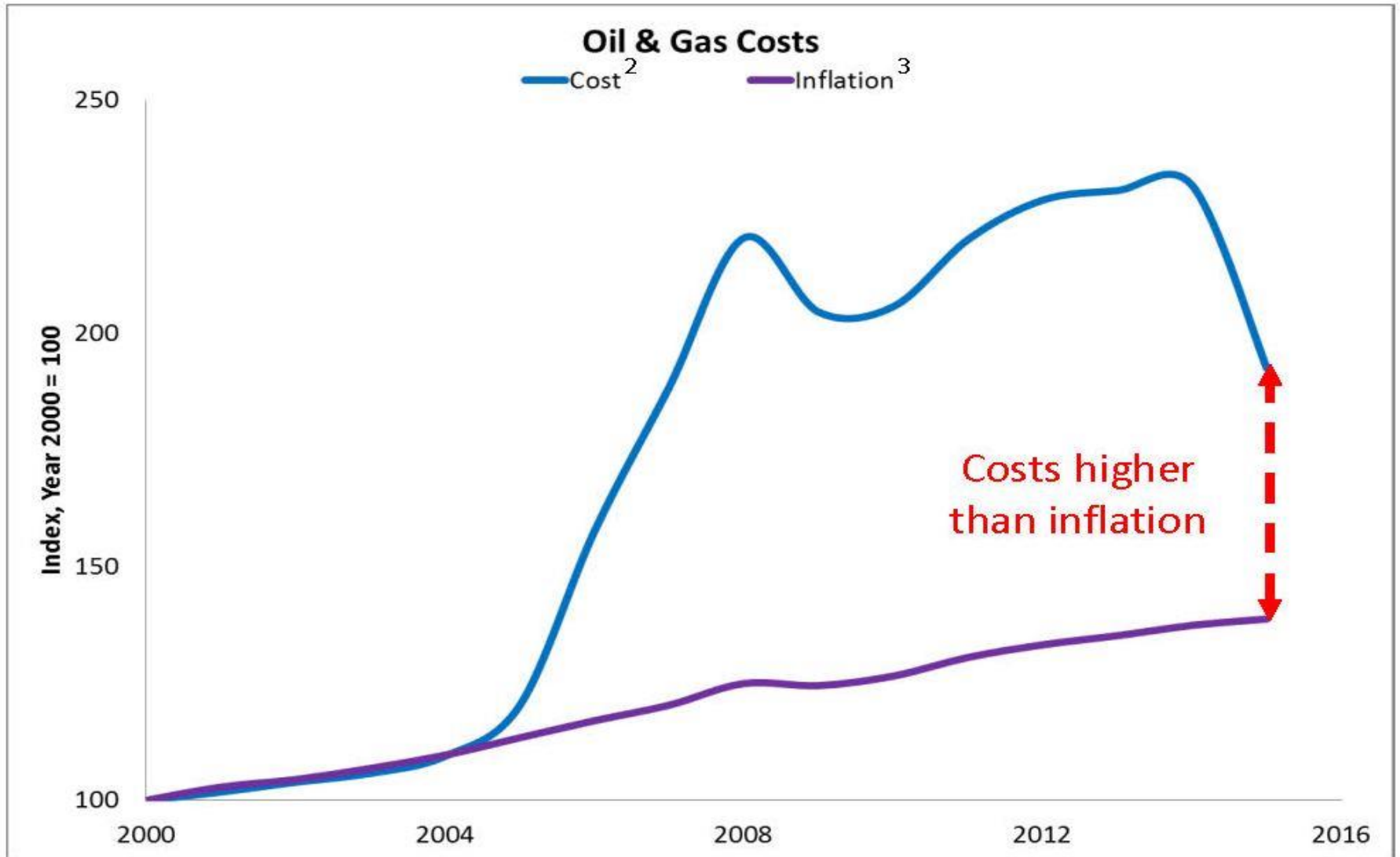
# Unprecedented Low Oil Price



Source: Cost: Upstream Capital Cost Index (IHS/CERA)

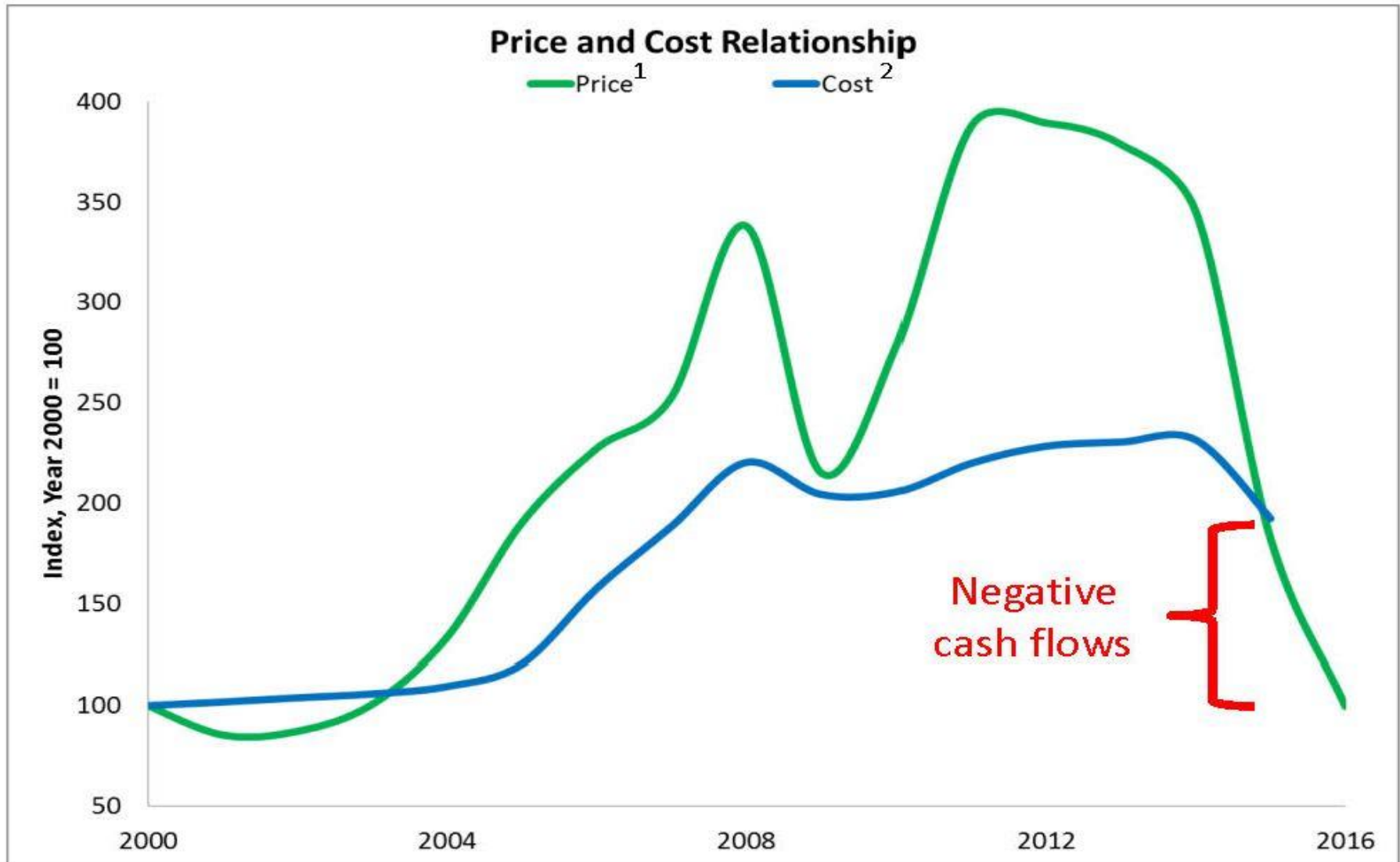


# Costs Are 2X Higher than Inflation



Source: Price: Brent Crude (EIA)

# Companies Have Negative Cash Flow



# At current prices, industry has *negative cash flow* of ~\$20/barrel before tax

Avg. Jan. 2016 ANS Price		\$30.28
Downstream Costs		
ANS Marine Transportation	(\$3.28)	
TAPS Tariff	(\$6.41)	
Other	(\$0.87)	
Total Transportation Costs		(\$10.56)
Royalty		(\$5.63)
Lease Expenditures		
Operating Expenditures	(\$18.48)	
Capital Expenditures	(\$17.68)	
Total Lease Expenditures		(\$36.14)
<b>ESTIMATED FY16 COSTS OF PRODUCTION BEFORE TAXES</b>		<b>(\$52.33)</b>

Source: DOR, Fall 2015 RSB

# Policy Questions posed regarding Governor Walker's Proposal - HB 247

- *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?*



# 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

# HB 247 will Increase Taxes on Cash-Negative Industry

When asked: *“So you intend to **increase taxes on companies already losing money** in the state of Alaska?”*

Tax Director Alper Response: *“Through the chair, **yes.**”*

2/10/16

*“We are very much in a low swing right now, so a small increase to the minimum tax would increase their down at this moment in the cycle. That could be said without hesitation.”*

Tax Director Alper – 2/10/16

# HB 247 Increases Government Take

*“There’s not a lot of government take in this bill.”*

Tax Director Alper - 2/10/16

*“Cumulative impact of proposed changes would be to shift up government take in lower oil prices. In times of high investment /low prices (as is 2016), **effective government take exceeds 100%.**”*

enalytica Presentation – 2/25/16

# Specific Concerns with HB 247

- *Increases minimum tax by at least 25%*
- *Net Operating Loss tax credits lose value*
- *Set limits on credits- discouraging investments by smaller company*
- *Cook Inlet credits eliminated*
- *Interest rates increase significantly*
- *Confidentiality provisions waived*
- *Disguised tax increase through the change of the application of Gross Value at the Point of Production*



# HB 247 Does Not Provide Stability

*“...Not optimal policy”*

*“Investor would look at this approach as ‘quite scary’”*

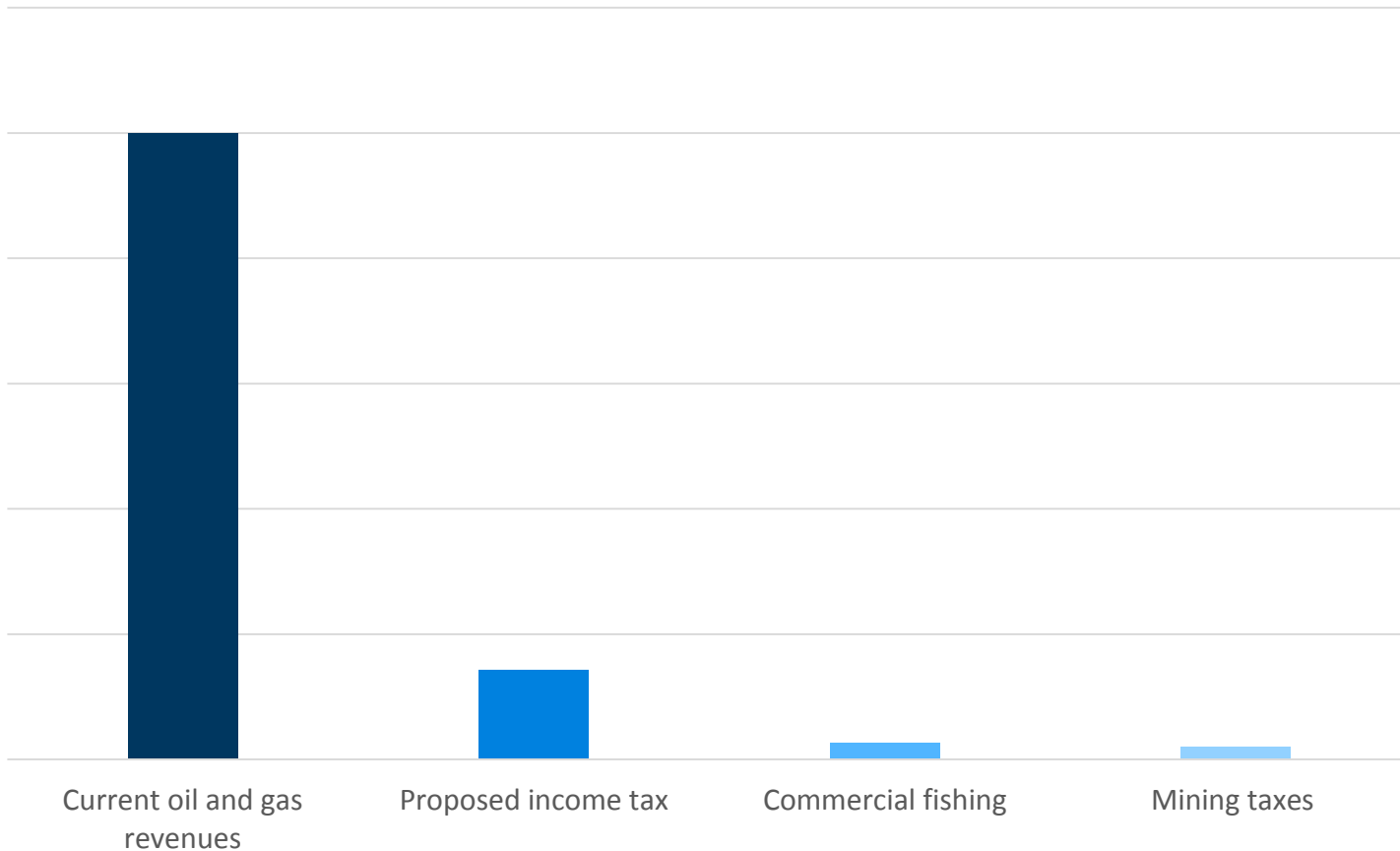
*“... Salami tactics – slice by slice by slice..”*

*“...this (HB 247) creates ‘oh dear’, when environment is tough, folks will come back year after year to get another slice.”*

enalytica – 2/15/16

# Even at low prices, oil and gas pays far more in taxes than any other industry in Alaska

State revenue by industry



# HB 247 Negatively Impacts Every AOGA Member Company

***“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, but do ask for careful  
consideration of any policy changes.**

## Do No Harm