

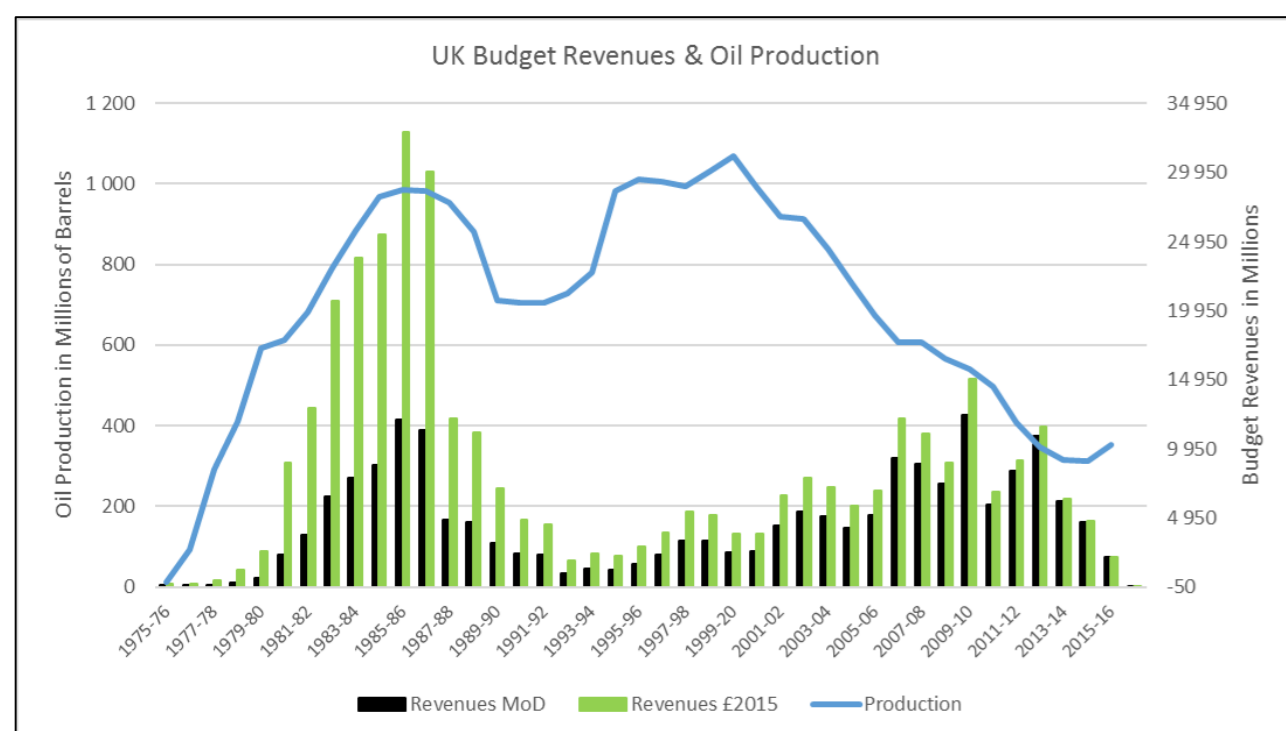
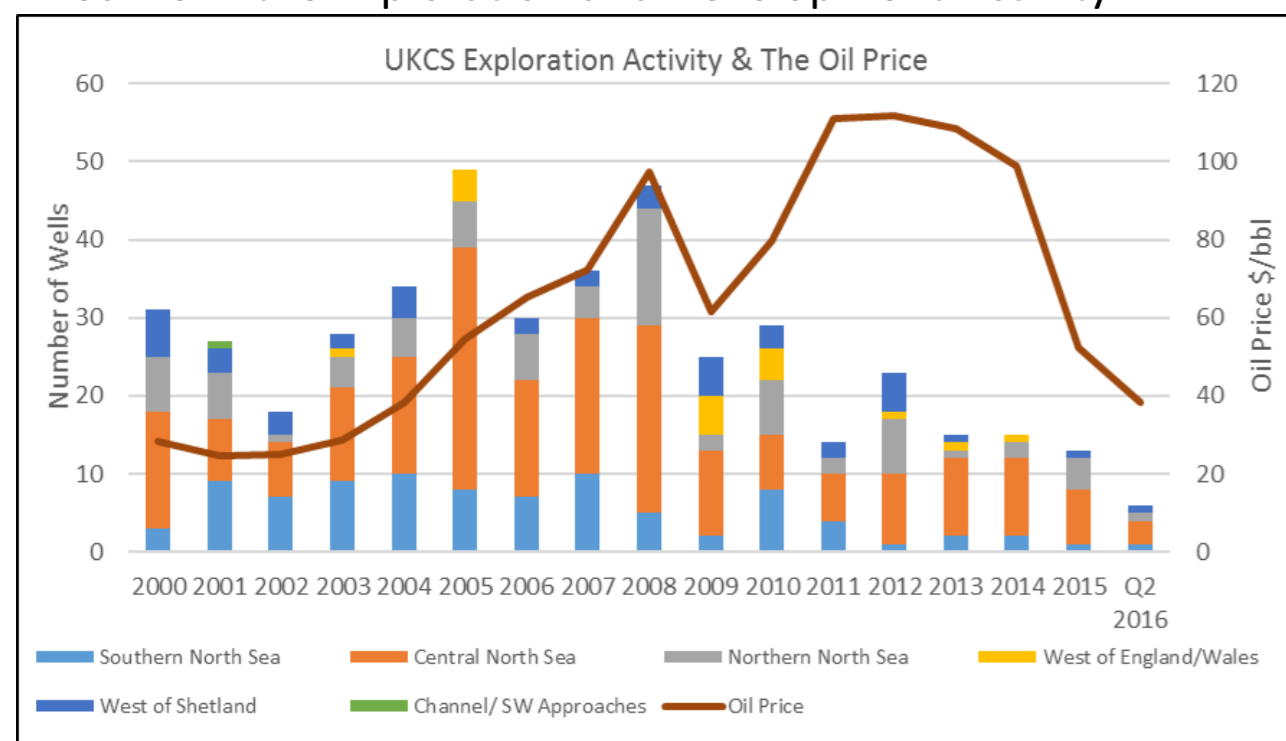
UKCS Future Tax Policy in Support of MER: Incentives to Make Discoveries an Attractive Investment Opportunity

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Motivation

- Mature Province with High Development & Operating Costs
- Low Commodity Price Environment – “Lower for Longer”
- March 2016 Budget Changes – SC reduced from 20% to 10%
- Decline in the Exploration and Development Activity

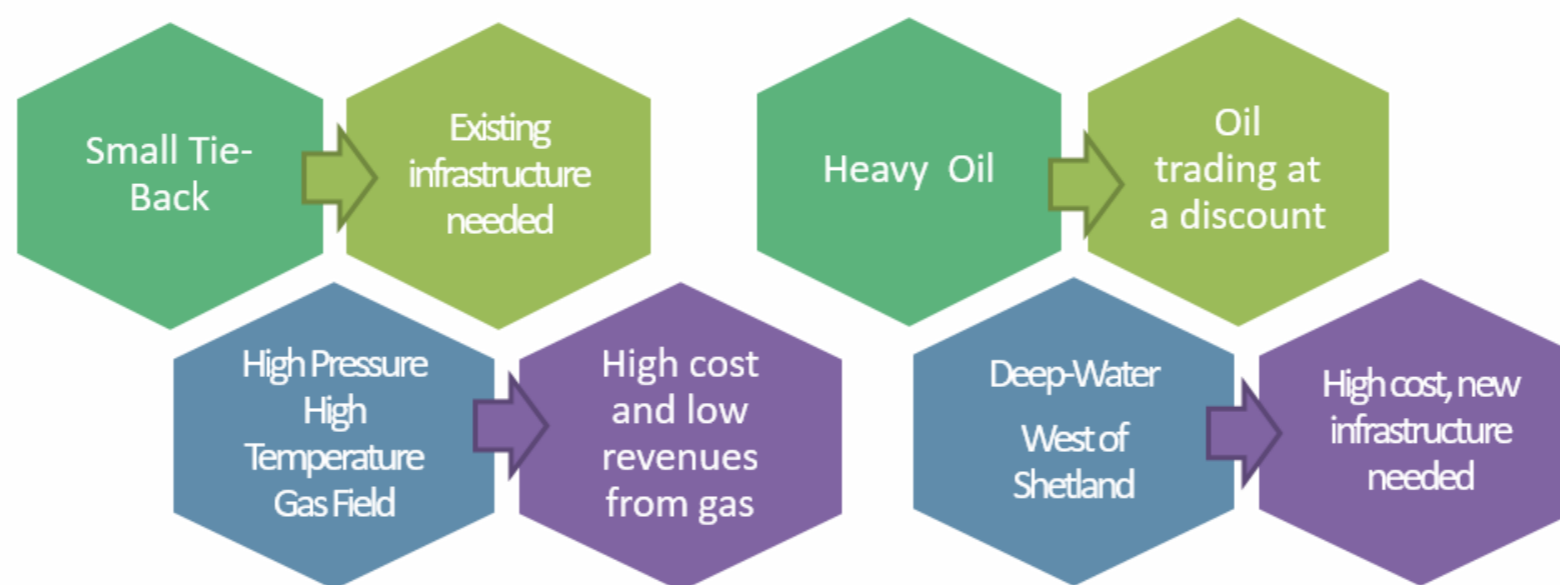


Research Objectives & Questions

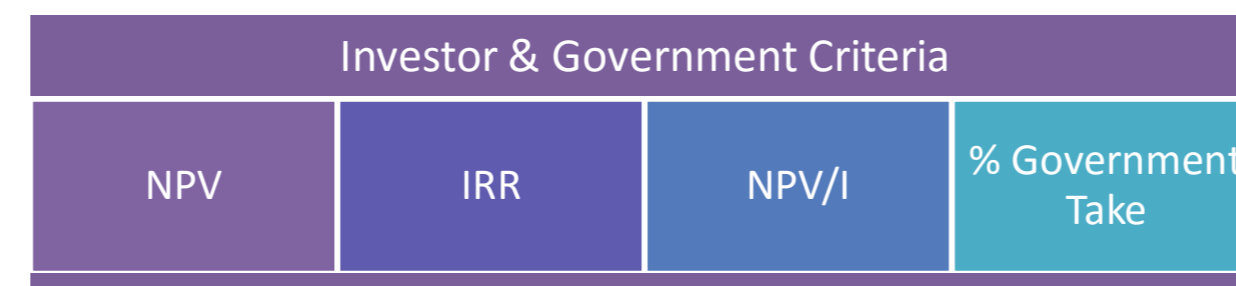
Evaluation of UKCS Fiscal System and its impact on Investment Decisions.

What further fiscal incentives can be introduced and how the system could be modified to encourage investment?

Data – Case Study on Four Actual Projects



Methodology & Output

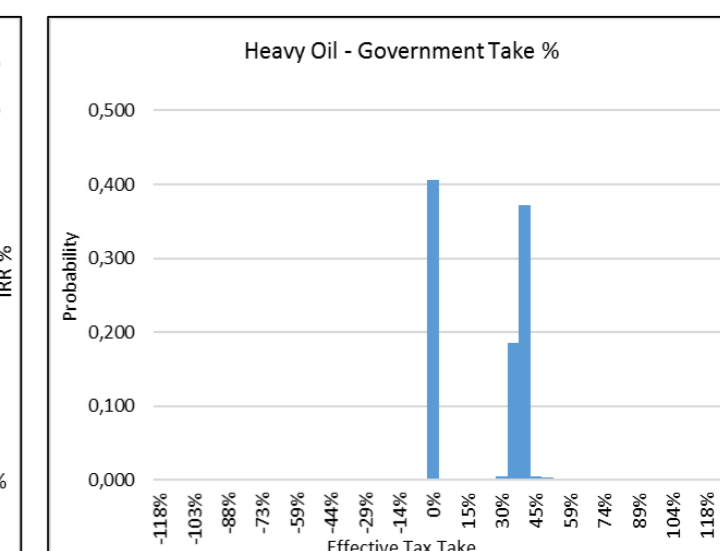
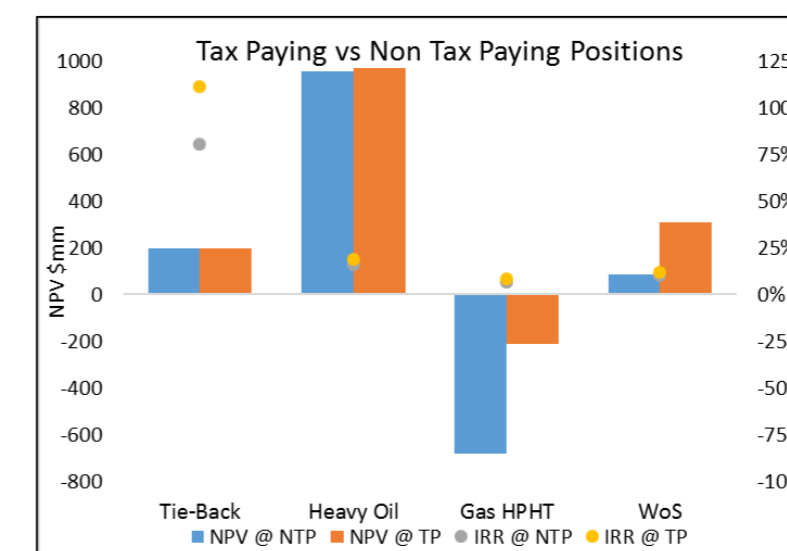
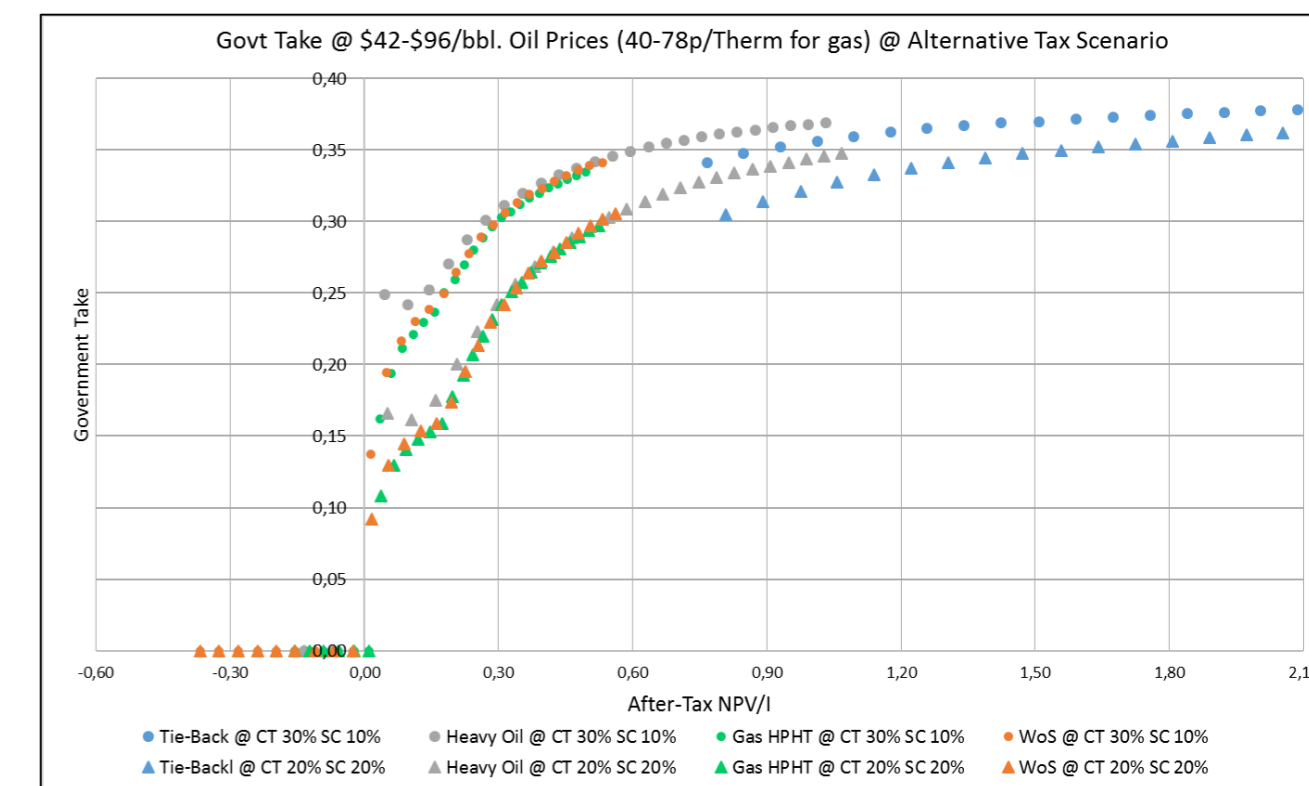


Considered Scenarios

1. Base case scenario
2. 40% Sensitivity on CAPEX, Reserves, Oil & Gas Price, OPEX
3. March 2016 alternative change - IT @ 20% & SC @ 20%
4. Assumption of the investor being in a tax-paying position i.e. having other taxable income
5. Monte Carlo simulation incorporating multiple risks at the same time
 - CAPEX, OPEX, Reserves, Oil & Gas Prices with captured correlations between the variables

Base Results

Financial Metrics	Tie-Back		Heavy Oil		HPHT Gas		Deep-Water WoS	
	Pre-Tax	Post-Tax	Pre-Tax	Post-Tax	Pre-Tax	Post-Tax	Pre-Tax	Post-Tax
NPV \$mm	\$316	\$199	\$1 386	\$955	-\$681	-\$681	\$99	\$85
IRR	101,4%	80,3%	17,4%	15,7%	6,4%	6,4%	10,3%	10,3%
Investment Ratio	2,39	1,51	0,46	0,31	- 0,16	- 0,16	0,02	0,02
Payback Period	3 years	3 years	10 years	10 years	0 years	0 years	16 years	16 years



Conclusions

- System is greatly simplified – 100% first year capital allowance for all CAPEX, 62.5% Investment Allowance for SC
- Low take compared to other provinces – marginal tax rate @ 40%
- UK fiscal regime is progressive (between 0-40%) and it is achieved through:
 - 10% Ring Fence Expenditure Supplement (RFES)
 - 62.5% Investment Allowance
- System is neutral and negative takes do not occur
- No change in the way the system works is required – desirable features achieved
- System may favour large players
- March 2016 change could have been better
- Main problems identified: low oil price and consequent capital rationing, high operating and development costs