SUMMARY OF THE PRODUCTION TAX REVIEW (SO FAR…)

Senate Finance Committee

February 19, 2010

Alaska State Department of Revenue

Production Tax Calculation – FY2009

	Per Barrel	Barrels	Value
Avg ANS Oil Price ($/bbl) & Daily Production (bbls)	$68.34	692,127	$47,299,959
Annual Production (bbl)			
Total Annual Production/Value	**$68.34**	**252,626,355**	**$17,264,485,101**
Royalty and Federal barrels		(34,187,360)	($2,336,364,182)
Taxable barrels		**218,438,995**	**$14,928,120,918**
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation	($2.05)		
TAPS Tariff	($4.59)		
Other	$0.16		
Total Transportation Costs	**($6.48)**	**218,438,995**	**($1,415,484,688)**
Lease Expenditures			
Deductible Operating Expenditures	($9.39)		($2,050,000,000)
Deductible Capital Expenditures	($8.01)		($1,750,000,000)
Total Lease Expenditures	**($17.40)**	**218,438,995**	**($3,800,000,000)**
Production Tax Value (PTV)	**$44.46**	**218,438,995**	**$9,712,636,231**
Production Tax			
Base Tax (25%*PTV)			$2,428,159,058
Progressive Tax Rate = ($44.46-$30) * 0.4% = **5.8%**			
Progressive Tax = (5.8% * PTV)			$561,928,014
Total Tax Due before credits			**$2,990,087,072**
Credits Applied Against Taxes			($350,000,000)
Total Tax after credits			**$2,640,087,072**

Source: Department of Revenue from production tax monthly information forms, annual returns, and company forecasts

Oil Price and Production Outlook

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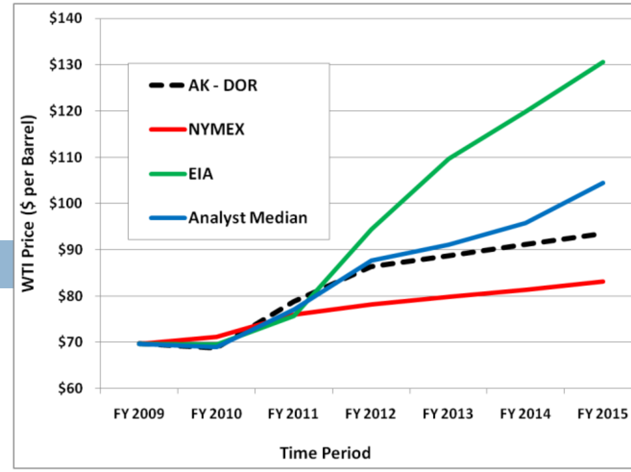

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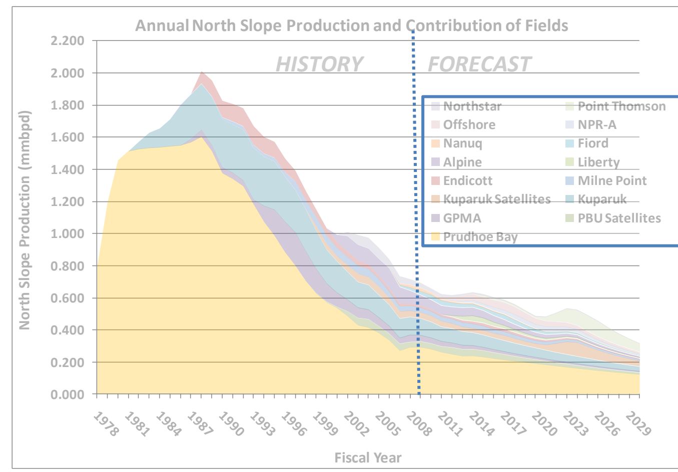

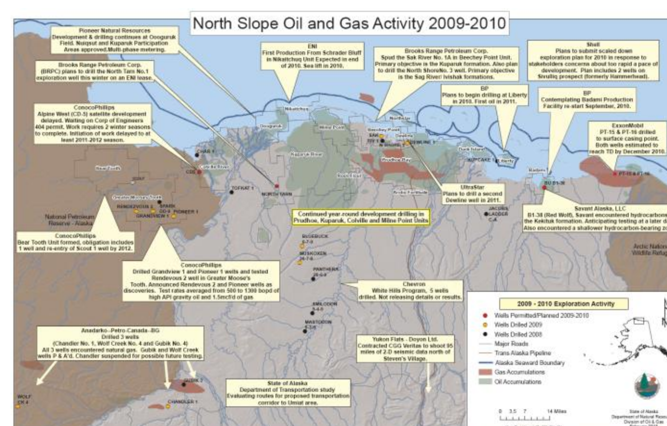

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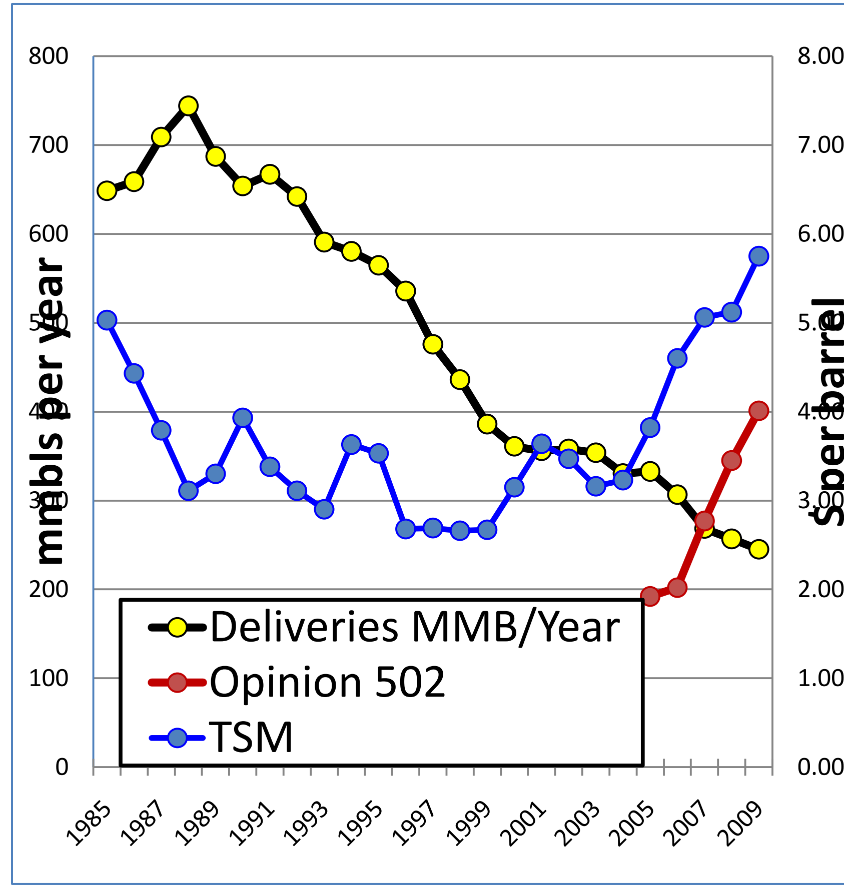

TAPS Throughput and Tariff

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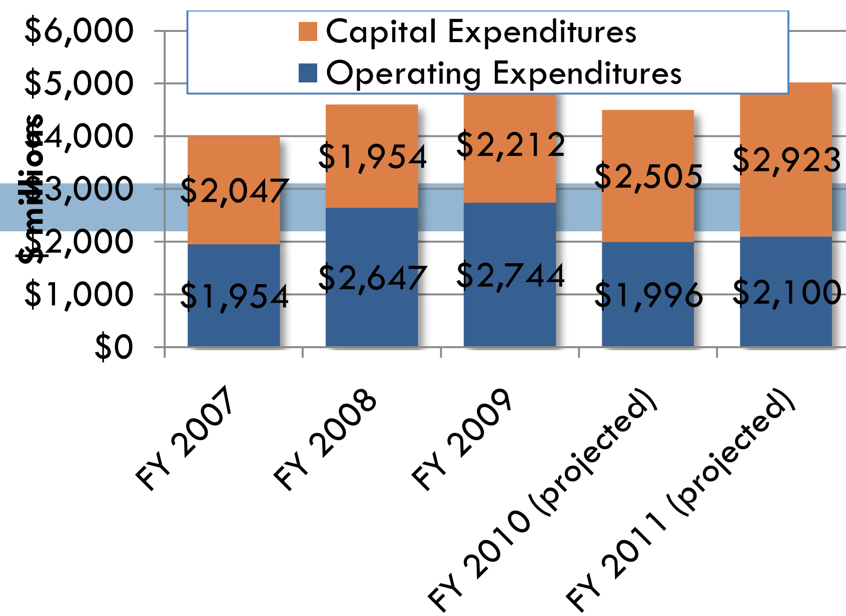
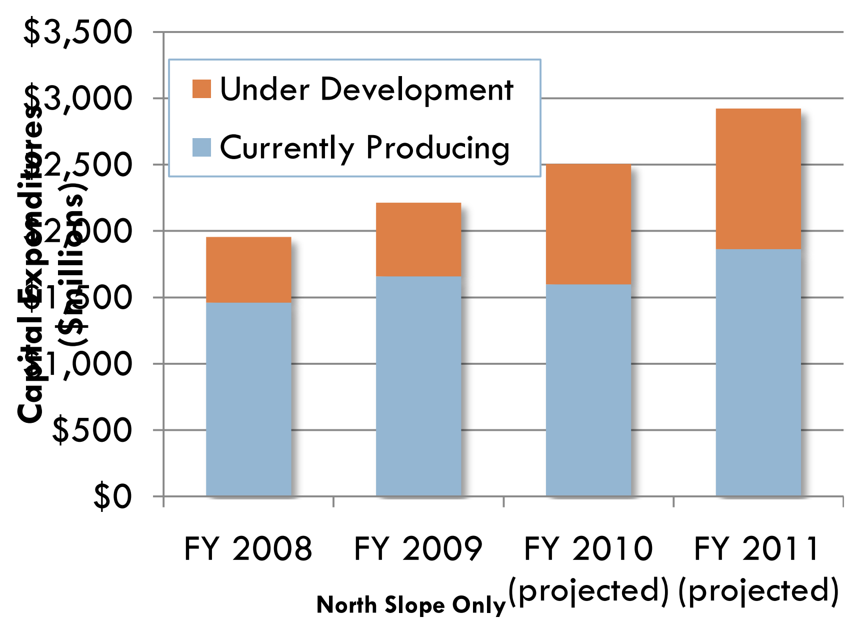


NOTE: Operating expenditures includes total



Base Tax & Progressivity

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- Capital Expenditure Credits
- Exploration Credits
- Net Operating Loss ("NOL") Carry Forward Credits
- Transitional Investment Expenditure ("TIE") Credit
- Small Producer Credits

Updated

Credits Applied Against Tax Liability

Tax Credits Applied by Producers Against Tax Liability, by Tax Year ($million)

Credit Type	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Capital Expenditure Credit	195	194	243	247	339	384	1,603
TIE Credits	98	145	0				243
Small Producer Credits	27	38	21				86
Exploration Incentive Credits	2	92	17				112
Total	322	469	282	247	339	384	2,043

Department of Revenue

How Credits Are Used

- Two Examples
  - New Entrant
    - $200 million exploration project
    - No Current Production
  - Incumbent Producer
    - $200 million new development project

Credit Example 1: New Entrant

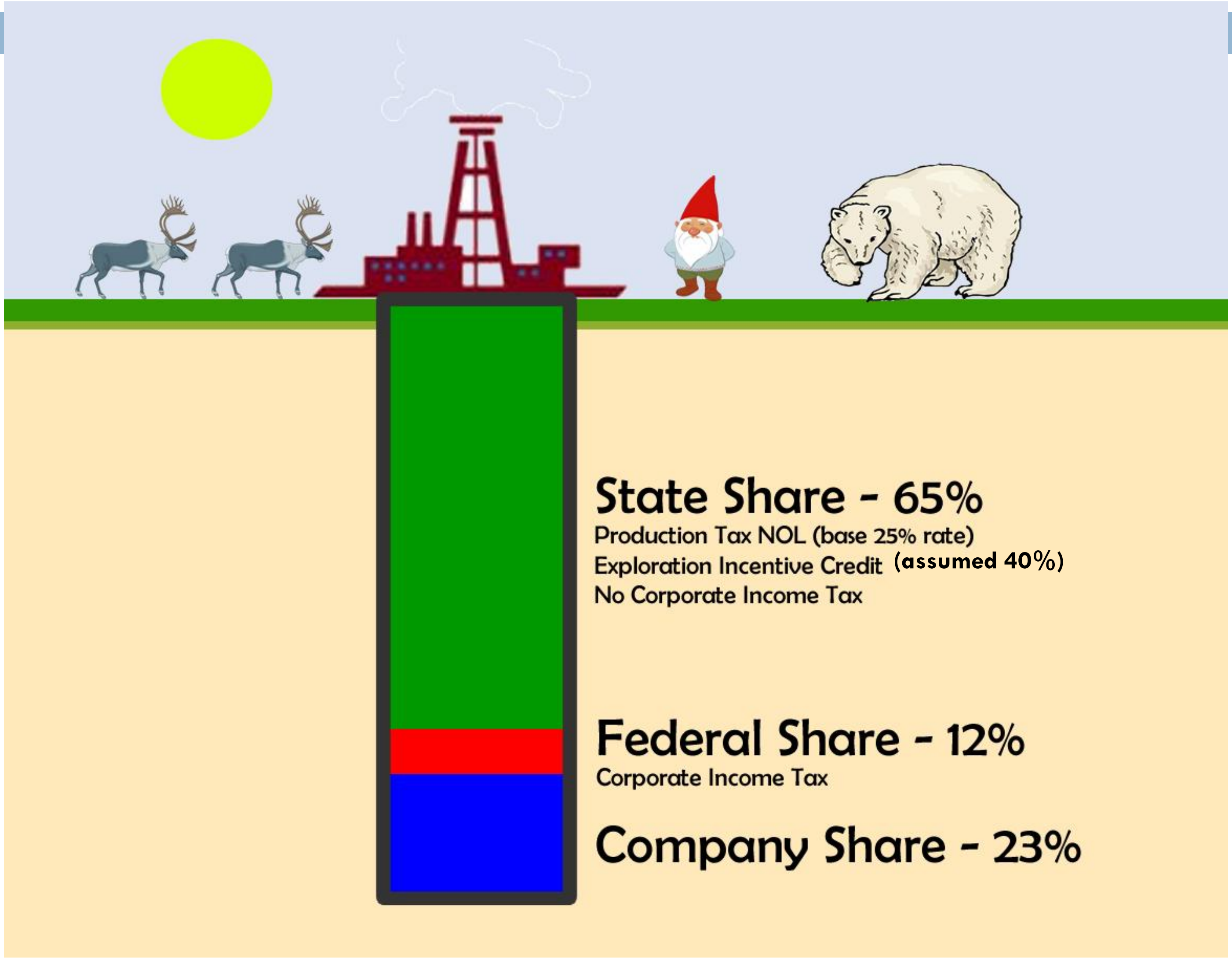
- A new entrant with no current production pursues an exploration project requiring $200 million in investment
- Company receives a 20% - 40% investment credit (depending on location), worth $40 - $80 million
- Company also receives an additional 25% credit for its "tax loss" or "net operating loss (NOL)", worth up to $50 million

Credit Example 1: New Entrant (*cont.*)

- The total credits of $90 - $130 million, can be:
  - Directly recouped (cash) from the state
  - Transferred to a person that does pays tax, so that the Transferee pays $90 - $130 million less in tax
- Either way, State pays $90 - $130 million for the exploration; company pays $70 - $110 million.
- If the exploration effort fails, the state never recoups this money.

  The state bears the risk for failure as does the new entrant

Exploration Dry Hole – New Entrant



*This graphic assumes a producer has federal corporate income tax liability to offset but no state corporate income tax; and does not have other production tax liability to offset.

Credit Example 2: Incumbent Producer

- Incumbent with current production pursues a development requiring $200 million investment
- Company receives a 20% capital investment credit, worth $40 million
- By reducing their Production Tax Value (PTV), the company reduces their taxes due by the total capital expense multiplied by the tax rate:

  $200 million * 25%, worth $50 million; plus

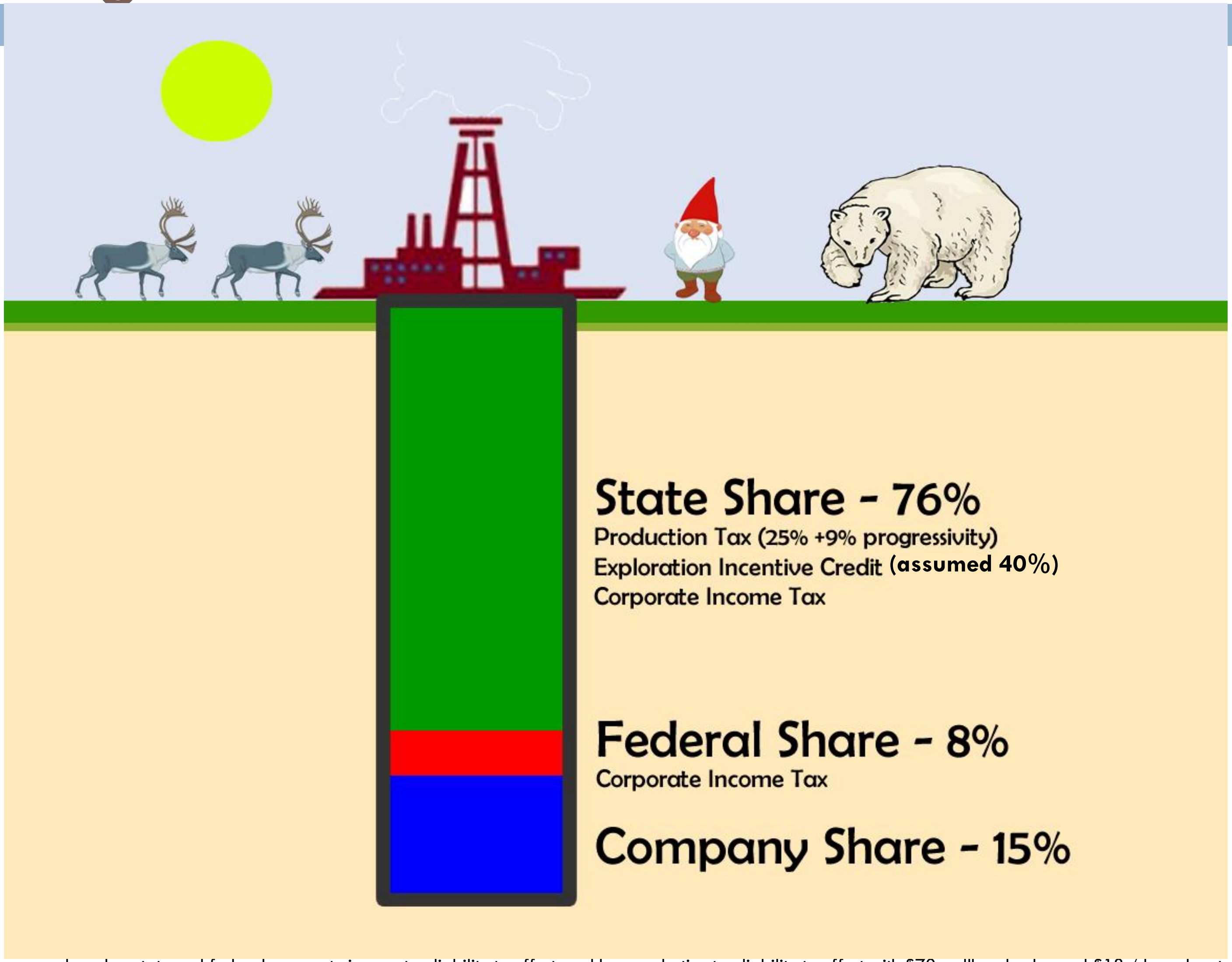
  $200 million * progressivity surcharge rate (which is reduced due to the drop in PTV)

Credit Example 2: Incumbent Producer (*cont.*)

- Deductions and credits total more than 45% of the \$200 million, greater than \$90 million
- State pays more than \$90 million of the new development's capital cost; true investment cost for the incumbent is less than \$110 million
- If the development fails, the state never recoups this money

The state bears the risk for failure as does the incumbent investor

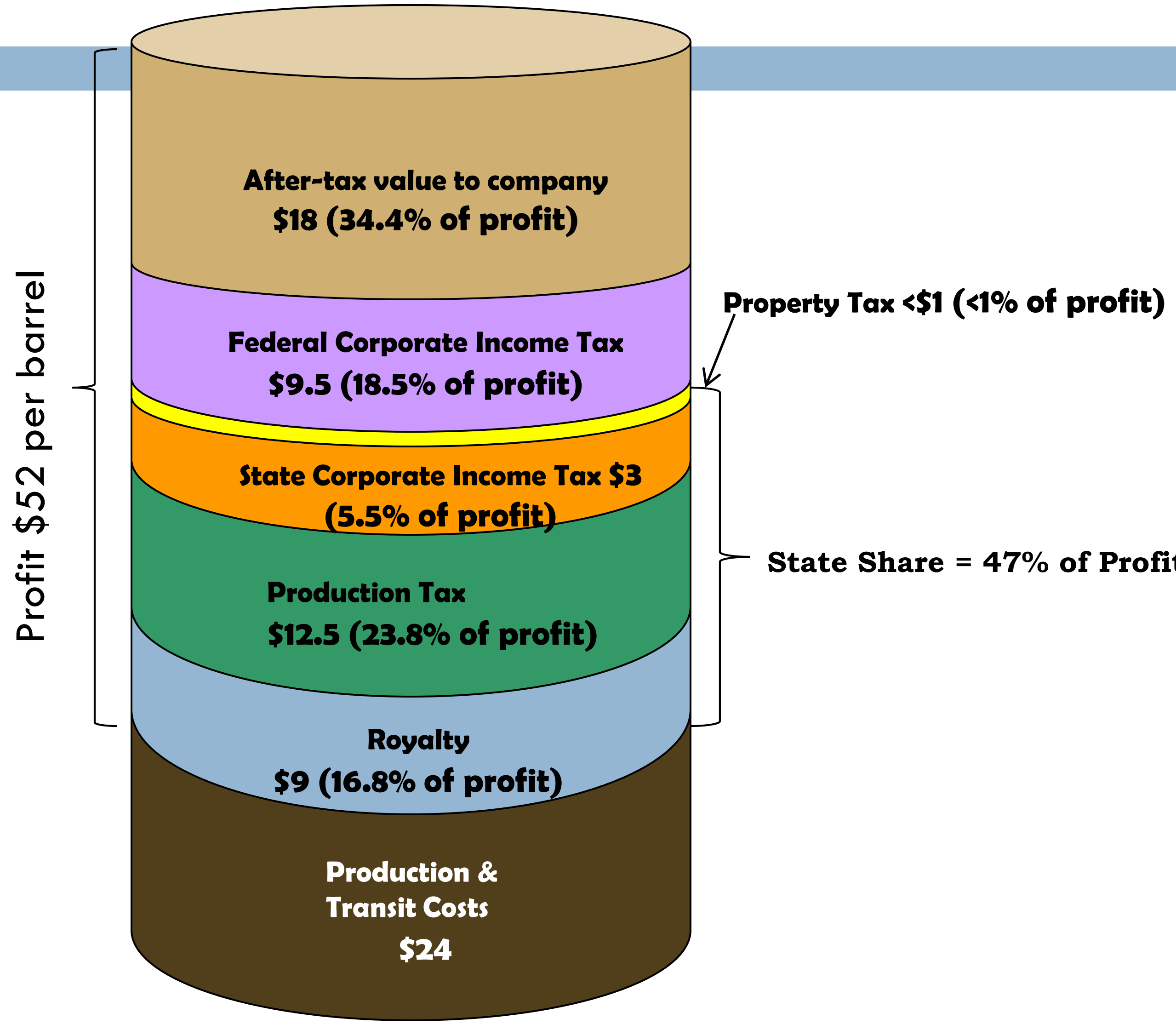
Unsuccessful Development Project – Existing Producer



*This graphic assumes a producer has state and federal corporate income tax liability to offset; and has production tax liability to offset with $70 wellhead value and $18 / barrel costs.

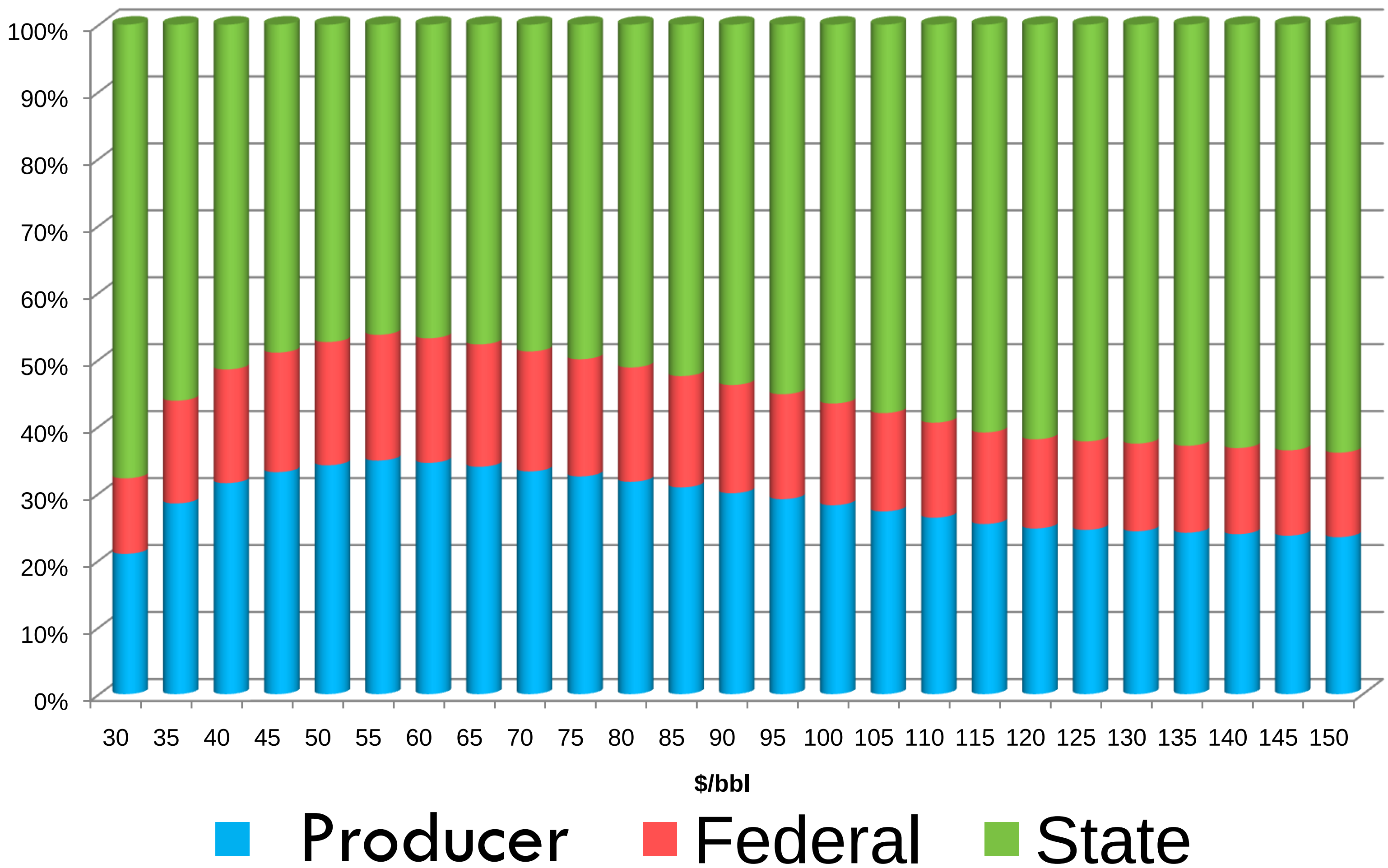
Overall Sharing of Oil Revenue and Profit

Allocation of Revenue and Profit on $76 Barrel of Alaska North Slope Oil*



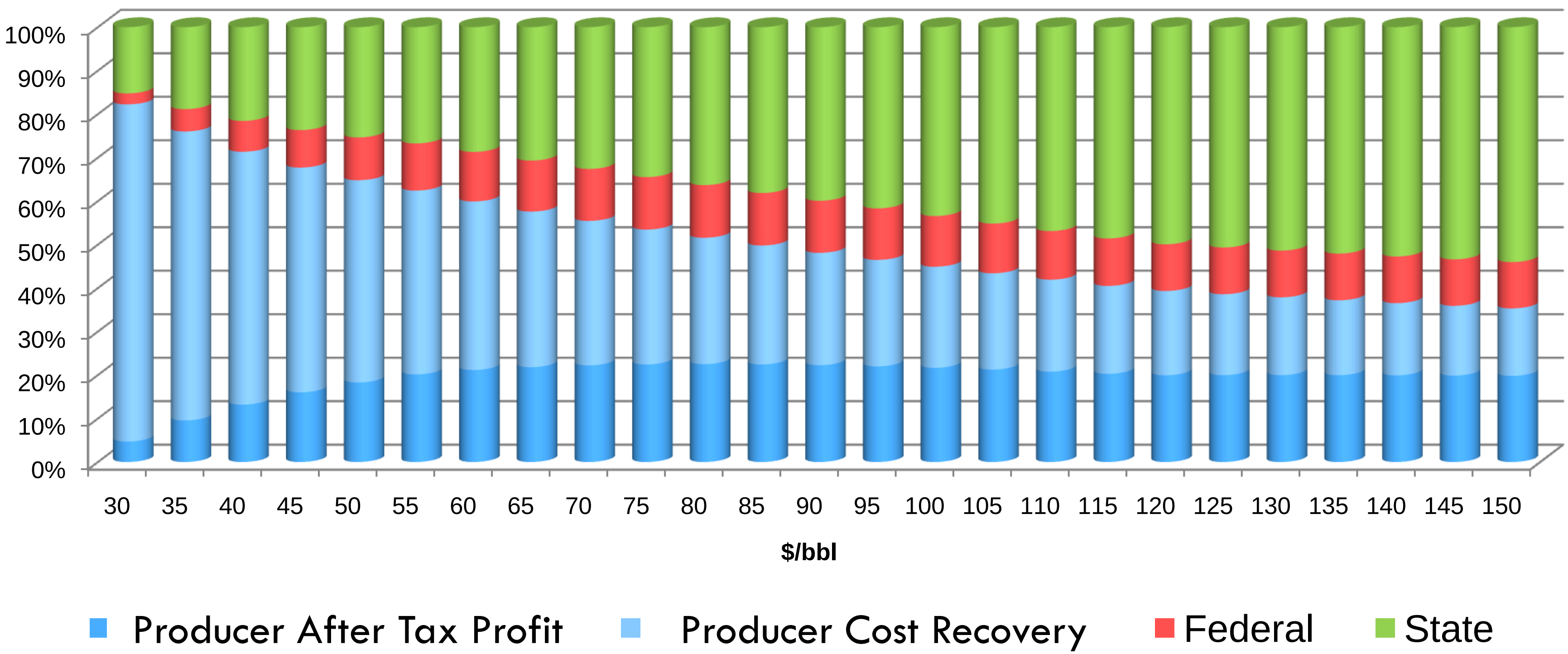
*This graphic assumes average transportation and production costs and royalty and tax rates, and is not intended to represent the allocation of every barrel produced on the North Slope.

Shares of North Slope Oil Profit at Different Prices



Split of Total Oil Revenue

- Reviewing only "Take" does not reveal the fact that the Producer recovers all costs before taxes are assessed.
- Whereas State share of profit is high at low prices, the Producer retains the majority of the revenue.



How Does Production Tax Calculation Differ For Different Fields?

Estimated FY 2010 Tax- Prudhoe Bay and Kuparuk

FY 2010 Production Tax *Rounded Estimates* for Combined Prudhoe Bay Unit and Kuparuk River Unit

	Price	Barrels	Value
Avg ANS Oil Price ($/bbl) & Daily Production (bbls)	$66.93	488,000	$32,661,840
Annual Production (bbl)			
Total		178,120,000	$11,921,571,600
Royalty and Federal barrels		-22,265,000	($1,490,196,450)
Taxable barrels		155,855,000	$10,431,375,150
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation	-$2.00		
TAPS Tariff	-$4.00		
Other	$0.40		
Total Transportation Costs	-$5.60	155,855,000	($872,800,000)

Estimated FY 2010 Tax- Prudhoe Bay and Kuparuk

Lease Expenditures			
Deductible Operating Expenditures	-$9.62		($1,500,000,000)
Deductible Capital Expenditures	-$6.10		($950,000,000)
Total Lease Expenditures	-$15.72	155,855,000	($2,450,000,000)
Production Tax			
Production Tax Value (PTV)			$7,110,000,000
Base Tax (25%*PTV)			$1,780,000,000
Production Tax Value per barrel	$45.61		
Progressive Tax = (6.2% * PTV)			$444,000,000
Total Tax before credits			$2,224,000,000
Credits (20% of Deductible Capital Exp.)			**($190,000,000)**
Estimated Total Tax after credits			**$2,034,000,000**

Estimated FY 2010 Tax for Producing North Slope Units excluding Prudhoe Bay and Kuparuk

FY 2010 Production Tax *Rounded Estimates* for Producing Units excluding Prudhoe Bay and Kuparuk

	Price	Barrels	Value
Avg ANS Oil Price ($/bbl) & Daily Production (bbls)	$66.93	165,000	$11,043,450
Annual Production (bbl)			
Total		60,225,000	$4,030,859,250
Royalty and Federal barrels		-7,528,125	($503,857,406)
Taxable barrels		52,696,875	$3,527,001,844
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation	-$2.00		
TAPS Tariff	-$4.00		
Other	$0.40		
Total Transportation Costs	-$5.60	52,696,875	($295,102,500)

<u>Estimated</u> FY 2010 Tax for Producing North Slope Units excluding Prudhoe Bay and Kuparuk

Lease Expenditures			
Deductible Operating Expenditures	-$9.49		($500,000,000)
Deductible Capital Expenditures	-$10.63		($560,000,000)
Total Lease Expenditures	-$20.12	52,696,875	($1,060,000,000)
Production Tax			
Production Tax Value (PTV)			$2,170,000,000
Base Tax (25%*PTV)			$543,000,000
Production Tax Value per barrel	$41.21		
Progressive Tax = (4.4% * PTV)			$97,500,000
Total Tax before credits			$640,500,000
Credits (20% of Deductible Capital Exp.)			($112,000,000)
Estimated Total Tax after credits			**$528,500,000**

Estimated FY 2010 Tax for Developing Units*

FY 2010 Production Tax *Rounded Estimates* for Developing Units*

	Price	Barrels	Value
Avg ANS Oil Price ($/bbl) & Daily Production (bbls/day)	$66.93	0	$0
Annual Production (bbl)			
Total		0	$0
Royalty and Federal barrels		0	$0
Taxable barrels		0	$0
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation			
TAPS Tariff			
Other			
Total Transportation Costs		0	$0

* Developing units include Pt. Thomson, Nikaitchuq and NPR-A

Estimated FY 2010 Tax for Developing Units*

Lease Expenditures			
Deductible Operating Expenditures			($25,000,000)
Deductible Capital Expenditures			($950,000,000)
Total Lease Expenditures		0	($975,000,000)
Production Tax			
Production Tax Value (PTV)			($975,000,000)
Base Tax (25%*PTV)			($243,750,000)
Production Tax Value per barrel			$0
Progressive Tax = (0% * PTV)			$0
Total Tax before credits			($243,750,000)
Credits (20% of Deductible Capital Exp.)			($190,000,000)
Estimated Total Potential Credits			**($433,750,000)**

* Developing units include Pt. Thomson, Nikaitchuq and NPR-A

Summary of Tax Calculation for Different Fields

($ in millions)	Prudhoe Bay and Kuparuk	Other NS Producing Units	Developing NS Units*
Production (bbl/day)	488,000	165,000	0
Capital Expenditures	$950 $6.10/bbl	$560 $10.63/bbl	$950
Operating Expenditures	$1,500 $9.62/bbl	$500 $9.49/bbl	$25
Credits (20% of Capex)	$190	$112	$190
Credits for Losses(NOL)	$0	$0	$244
Estimated Tax	$2,034	$528	($434)

* Developing units include Pt. Thomson, Nikaitchuq and NPRA

At the Close of the Week

- Covered Information on Production Tax Components, their Function, and Relationship
- Provided a Broad Understanding of How Oil Production Tax is Calculated
- Upcoming Topics
  - How Alaska's Fiscal System stacks up to Global Comparables
  - How the Production Tax performs in an **Oil and Gas** production basin

The End