COMMENTS ON CSSB305 (FIN)

April 7, 2010

Alaska Department of Revenue

Issues Surrounding the Gas Tax Debate At this Time

- Entering two open seasons for the gas pipeline
  - Likely to result in Producers continuing to claim changes in the fiscal system are necessary

- Full commitments to ship gas (i.e. project sanction) not expected until 2014

- Stakeholders will continue to discuss:
  - Necessary Producer cash flow from gas development,
  - Relative risks/rewards borne/realized by the Producers and the State,
  - Amount of Fiscal Predictability the Producers need

Primary State Considerations Today

- Are the State's Interests protected going into the uncertainty of the next few years?
  - Achieve a gas pipeline project
  - Secure an appropriate share of revenue from oil and gas production
- Is the State's fiscal system attractive for a gas pipeline project?
- Is the potentially "locked-in" portion of the fiscal system set at an acceptable level for the state?

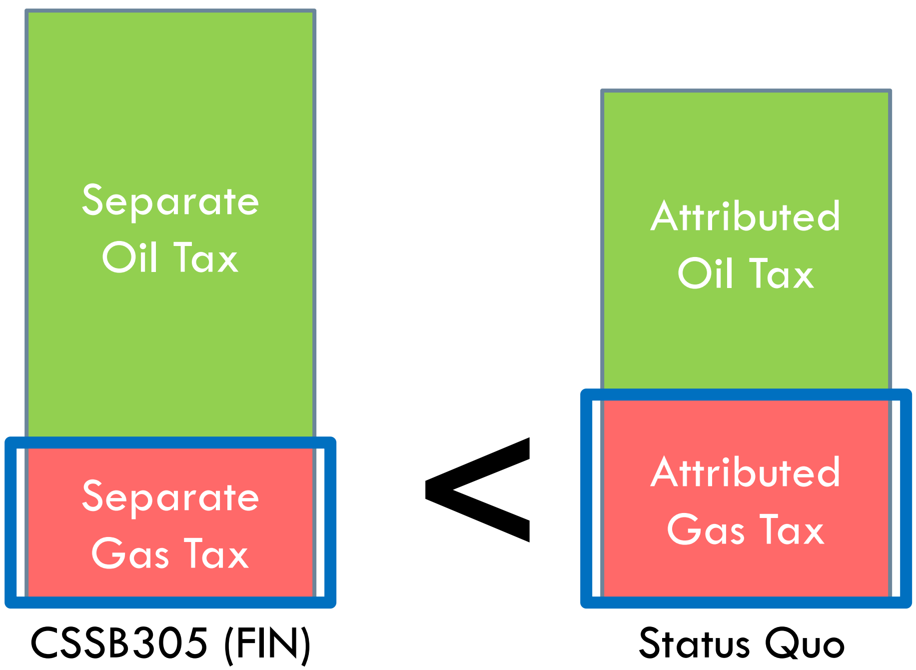
Modeling CSSB 305(FIN)

Oil Price Range 40 to 200 $/bbl

Gas Price Parity Range 6 to 26

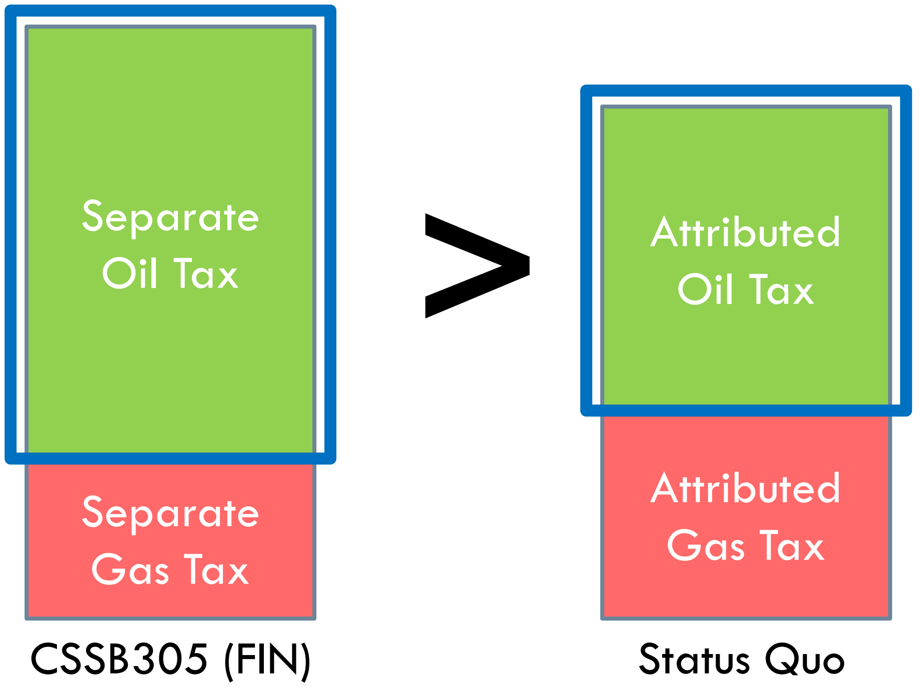
Oil Production	500 Mbbl/d
Gas Production	4.5 Bcf/d
Total OPEX	$ 2.2 Billions
Total CAPEX	$ 2.2 Billions

In All of the Cases Run:
CSSB305 (FIN) Results in a Lower "Locked–in" Gas Tax Obligation



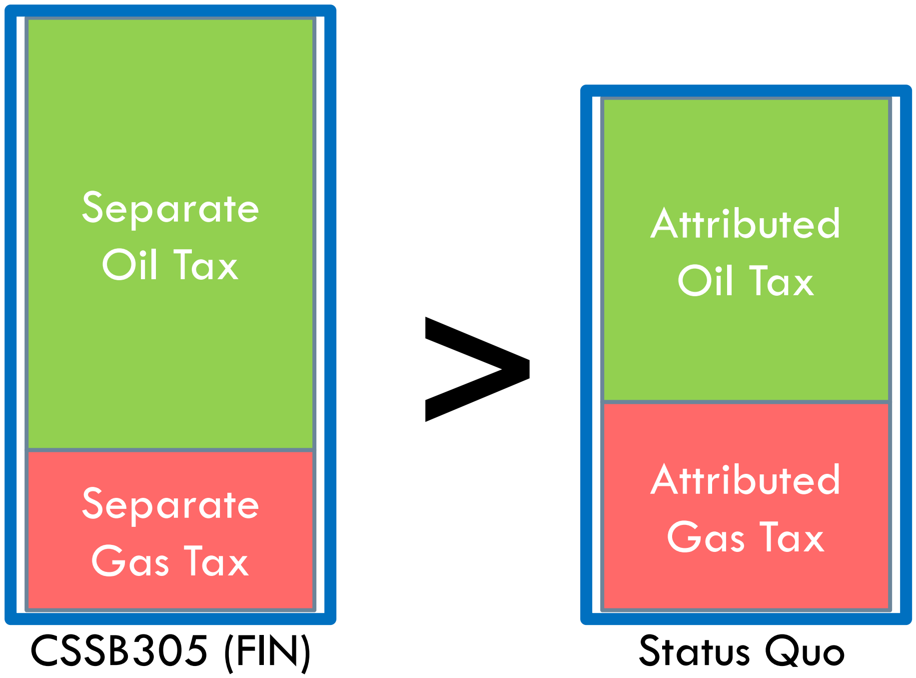
* Cost Allocation assumed to be on either a BTU barrel equivalent (BOE) basis or on a Point of Production (PoP) basis

In All of the Cases Run:
CSSB305 (FIN) Raises Oil Taxes



* Cost Allocation assumed to be on either a BTU barrel equivalent (BOE) basis or on a Point of Production (PoP) basis

In over 90% of the Cases Run:
CSSB305 (FIN) Raises Overall Oil and Gas Taxes



* Cost Allocation assumed to be on either a BTU barrel equivalent (BOE) basis or on a Point of Production (PoP) basis

Example Cases

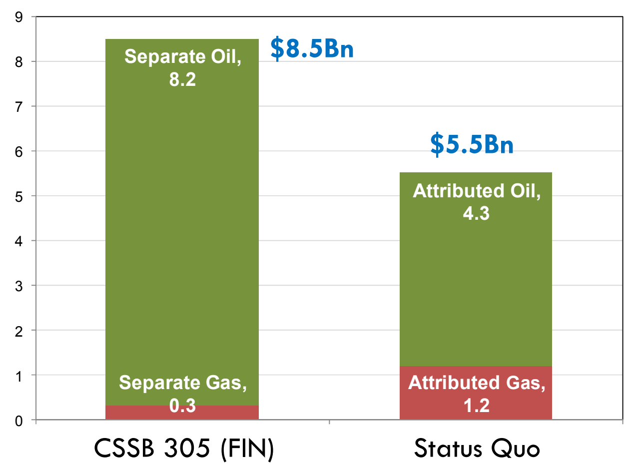
State Production Tax Revenue

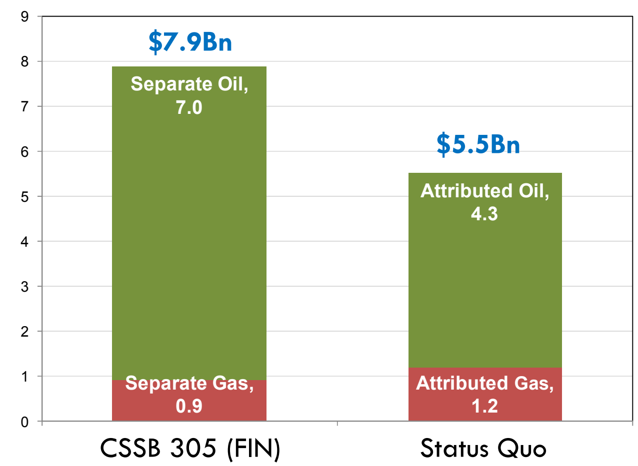
Oil: 500 Mbbl/d and Gas: 4.5 Bcf/d
Capex: $2.2Bn and Opex: $2.2Bn

BOE

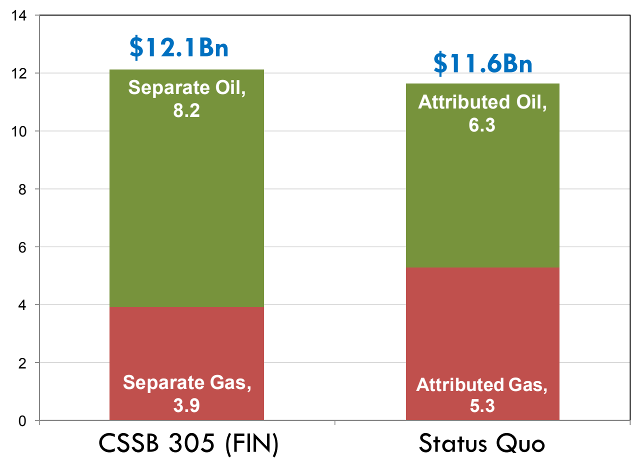
PoP

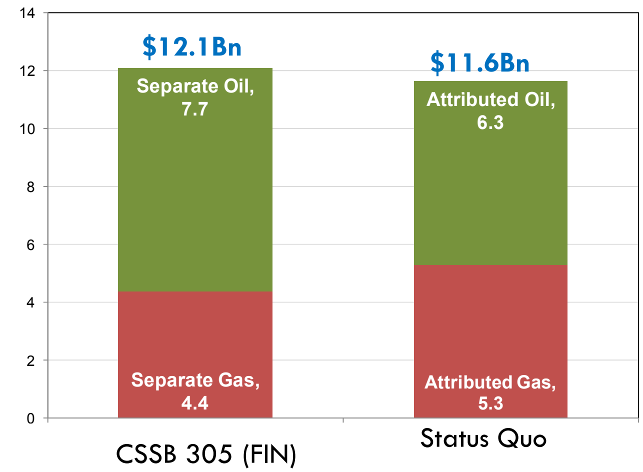
$120/$8
(15:1)





$120/$15
(8:1)





Observations

- CSSB305 (FIN) Increases Oil Taxes, and in almost all cases increases total Oil and Gas taxes
  - Provides a higher "starting point" for further discussions with Producers
  - However, it negatively affects projected gas pipeline economics

- CSSB305 (FIN) "Locks-In" a lower Gas Tax Ceiling
  - Enhances the value of the AGIA tax inducement
  - However, it reduces the State's flexibility in changing gas tax after the open season

- CSSB305 (FIN) could be passed after the open season without conflicting with the AGIA tax inducement

- Lack of a defined cost allocation method creates uncertainty about the actual tax obligation under CSSB305 (FIN)