

SENATE FINANCE COMMITTEE  
February 22, 2010  
9:00 a.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Charlie Huggins, Vice-Chair  
Senator Johnny Ellis  
Senator Dennis Egan  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Joe Paskvan, Senator John Coghill, Pat Galvin, Commissioner, Department of Revenue; Dan Stickel, Economist, Tax Division, Department of Revenue; Rich Ruggiero, Consultant, Gaffney, Cline and Associates Inc.

PRESENT VIA TELECONFERENCE

None

SUMMARY

EFFECT OF KEY TAX COMPONENTS ON GOVERNMENT TAKE and TAX RATES

ALASKA'S OIL & GAS TAX REGIME REALATIVE TO OTHER GLOBAL SYSTEMS

^Effect of Key Tax Components on Government Take and Tax Rates

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PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, explained that the presentation employs an interactive model referred to as a "dashboard design" that allows manipulation of variables within the production tax calculation. The tool

allows a person to view the impact of tax calculation on state revenue, the producer's share, and the federal government. He explained that the model provides an overview of the various representations.

DAN STICKEL, ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, reviewed the model "One Year Snapshot of a Change to Production Tax" (Copy on File). Using the model, one can set parameters for given scenarios by adjusting the oil price, transportation costs, royalty rates, and lease expenditures. Potential changes to Alaska's Clear and Equitable Share (ACES) can also be made. The model also allows one to look at two different progressivity rates. The model allows one to adjust the capital credit rate and the production as part of the base scenario. He provided an example where under the current ACES system, the producer receives 32 percent of the income and the state takes 50 percent. Under the modification, the producer takes 37 percent and the state takes 43 percent.

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Co-Chair Stedman asked if the current tax structure was a fixed frozen allocation on the model, or is the structure dynamic. Commissioner Galvin responded that the current tax structure is fixed at the current ACES. Commissioner Galvin interjected that if the price, royalty rate, or the upstream cost is changed, then the columns will adjust accordingly. The current system is fixed in terms of the parameters for the tax rate, progressivity, and the current royalty.

Senator Olson asked about the terms contractor versus producer. Commissioner Galvin replied that the copy of the model given to Senator Olson was an earlier version and the terms contractor and producer are interchangeable.

Mr. Stickel reviewed the total profit across the entire fiscal system. Under the existing scenario the state receives \$7.3 billion in oil revenue and \$6.3 billion under the adjustment. Co-Chair Stedman corrected the chart's spelling of "billion." Mr. Stickel reviewed the cost recovery component as shown in the interactive chart. The share of the revenue is allocated to the lease expenditures and the transportation cost as it relates to the profit component of the oil revenue.

[9:08:57 AM](#)

Mr. Stickel moved to the set of charts titled "Share of the Total Production Tax Value". The chart shows the amount received by the government, with a broad range of oil prices using the tax regime set into the model.

Senator Thomas revisited the share of total profits in dollars under the current and the modified charts. He asked if the amounts provided were an average or fixed number. He explained that he continues to read in periodicals that the state takes as much as 80 percent. Mr. Stickel responded that the chart illustrates the share of profit at the given price production lease expenditure scenario input into the model. Credits are included in the calculation.

Commissioner Galvin added that the chart exemplifies the share of the take across a wide spectrum of prices. Given the assumptions for lease expenditures and production, an 80 percent government take figure is not seen. The marginal tax rate may be the amount quoted in the periodicals. Mr. Stickel responded that he had a chart illustrating the marginal government take at a range of oil prices. He stated that under the current regime, approximately \$120 per barrel, the marginal government take is greater than 90 percent.

Commissioner Galvin clarified that the term "marginal tax rate" references one additional dollar of profit or the share between the various parties. Senator Thomas opined that the clarification is necessary for the public's understanding.

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Mr. Stickel moved on to the "Share of Total Production Tax Value with Modifications" explaining that the state ranges from 38 percent to 55 percent depending on the modified tax scenario.

Co-Chair Stedman asked if particular areas within this model are parsed out with a hypothetical ringfencing of Prudhoe Bay and Kuparuk. Mr. Stickel replied that the model does allow adjustment, but the tax in actuality is calculated on a company as opposed to a field basis. Commissioner Galvin pointed out that the inputs for the fields listed in a prior presentation are added to the resulting revenue for the state along with the combined total.

Senator Egan asked if the credits and the modifications apply to Prudhoe Bay alone or to the entire North Slope. Commissioner Galvin responded that the credits depend on the modification used. The modification is a reference to compare the parameters set in the box versus the current production tax values for those assumptions. With regard to credits, if they are modified and raised to 30 percent the application would span the entire 650 thousand barrels per day. The parameters for production are representation of the current North Slope. The comparison between current and modified would show the difference if change in the tax system were applied to the entire system. If the production

level is modified to reflect or replicate Prudhoe Bay, then the change between the current system and the modified system could be created for the one field. The model is flexible and the purpose is for the user to replicate a certain scenario.

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Co-Chair Stedman asked about the cost shown in the input. He asked how an upstream cost of \$16 is arrived at. Mr. Stickel replied that the \$16 dollars was indicative of the upstream cost in one of the historical years, but the upstream cost can be set to the preferred amount for the scenario analysis.

Co-Chair Stedman recalled that the department used \$25 per barrel for the presentation on upstream and downstream costs last week.

Commissioner Galvin acknowledged that generally \$25 per barrel is used as the combined transportation and upstream cost, but the model is designed to change the variables. He explained that the department has one input for upstream costs and in order to derive the credits, you must parse the upstream cost between operating and capital. The model sets 50 percent of the upstream cost as capital and 50 percent as operating, which may not be the experience that any particular tax payer has.

Co-Chair Stedman noted that the state is heavier on capital costs than operating costs. Mr. Stickel agreed that the forecast is for capital costs to increase while operating costs will decline in FY10 and remain steady. The 50 percent assumption can be modified in the model's calculations.

Co-Chair Stedman explained that the data on the screen is sometimes perceived as truth regarding the listed outputs. If the inputs are left over, it sometimes leads to confusion.

Mr. Stickel pointed out various charts produced by the model. One chart illustrates the nominal tax rate across the range of oil prices under the current system. The modification and the tax system can then be compared.

Mr. Stickel concluded that the tool allows examination of the effects of various changes to the existing tax structure.

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Commissioner Galvin concluded that the presentation illustrates the "dashboard" model as a tool employing

different modifications to the current tax system and the share of revenue. The model is not set up to for any particular proposal, but is available for people who want to use it.

Co-Chair Stedman asked if the algorithm models the standard deduction. Mr. Stickel replied that the model uses an assumption for total costs with or without the standard deduction.

Co-Chair Stedman asked if the department modeled the standard deduction in anticipation of the cost over the three year life. He asked if the department classified the standard deduction three years ago and how close the outcome was to the projection.

Commissioner Galvin responded that there was not a model using an anticipated operating expenditure representing Prudhoe Bay and Kuparuk versus the three percent allowed under the standard deduction. The department did not project a foreword looking operating expenditure level primarily because there was not historical data to base a forecast on.

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Co-Chair Stedman noted that the revenue projections last week from the Department of Revenue show the North Slope development units costing the treasury an estimated \$434 million. Prudhoe Bay and Kuparuk generate \$2 billion. He noticed different comfort levels depending on what part of the base a particular operator used. The development arena has a high comfort level with the new entrants. The concern is raised by industry. How can a model like this synthetically ringfence Prudhoe Bay and Kuparuk allowing for policy calls that maximize the Basin's value?

Commissioner Galvin responded that the model as presented provides a reflection of individual fields. The production assumptions and the lease expenditure assumptions with modifications illustrate the impact of Prudhoe Bay versus the other producing fields simply by changing the inputs.

Co-Chair Stedman noticed that the downstream and the shipping costs combined equal \$22 dollars. He pointed out that marginal decision making affects the industry's process. He explained that the model represents the ACES policy perspective.

Commissioner Galvin explained that the department observes revenue investment opportunities that may exist on the North Slope. He observed that the different investment metrics from a marginal decision making standpoint will drive the decision regarding the investment. The internal rates of return and the present values must be viewed and analyzed

from the overall perspective and the marginal investment standpoint.

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Co-Chair Stedman assumed that the model availability would remain "in house." Commissioner Galvin stated that the interactive model would be given to Co-Chair Stedman and he could decide about further availability.

Co-Chair Stedman stated that he wanted to keep the administration and consultants "corralled up" on the inputs received from the model.

[9:39:26 AM](#) AT EASE  
[9:42:49 AM](#) RECONVENED

^Alaska's Oil and Gas Regime Relative to Other Global Systems.

[9:43:38 AM](#)

RICH RUGGIERO, CONSULTANT, GAFFNEY, CLINE AND ASSOCIATES INC. delivered the PowerPoint presentation "Fiscal System Benchmarking" (Copy on File). He opined that it is important to understand the basis by which a fiscal comparison is made because it is easy for presentation results to be misinterpreted. Very few studies span a full cycle.

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Mr. Ruggiero reviewed Slide 5: "Reviewing Fiscal Comparisons"

- It is critical to understand the basis upon which any fiscal comparison is being made.
- Some "results" can be misused if not placed in context for which they were intended.
- Need to know what they do and do not represent:
  - Full cycle including Exploration?
  - From point of development investment decision?
  - Remaining life?
  - High price or low price scenario? etc.

Mr. Ruggiero detailed Slide 6: "Fiscal Take Also Depends

- On where you were and when!
  - In the early 1980's, prices were escalating, but the places to invest were limited
    - The UK had a 90+% government take and investment activity level was high
  - By the late 1990's prices had remained low for most of the decade and upwards of 70 countries

were holding license rounds in search of 'revenues'.

- The UK had eliminated all taxes but Corporate Income Tax in an attempt to attract investors.
- Simple tables and charts of comparison are limited in their ability to explain why regimes change or the need for fiscal regime changes.

Mr. Ruggiero detailed the map on Slide 7: "The 1980's-Companies in Search of Countries." The areas in the map shown in green were open to foreign investment in the energy sector. The red zones had limited access to foreign investment in the energy sector. The 1980s were characterized as a decade of companies in search of countries.

Mr. Ruggiero discussed Slide 8: "The early 2000's-Countries in Search of Companies."

Mr. Ruggiero detailed Slide 9: "The 2010's-Returning Nationalism, Transparency." Some countries have raised their tax take or have inserted themselves as a majority equity partner in every venture in their country.

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Mr. Ruggiero explained Slide 10: "Contract Awards in Recent Iraq Bidding Rounds". Of the four columns shown, the first indicates the field or contract area. The second column shows the group of companies that bid as a consortium. The third column is the plateau production reached. The fourth column is the fee bid per barrel if all contractual conditions are met.

Co-Chair Stedman asked why the fee is bid per barrel. Mr. Ruggiero answered that the fee is subject to the terms offered for the properties' licensing. Co-Chair Stedman asked when the two bidding rounds occurred. Mr. Ruggiero answered that round one happened in June and round two in December of 2009.

Co-Chair Stedman noted the comments made about the similarity between Iraq and Saudi Arabia's oil reserves. He asked if there was a substantial amount of oil in Iraq versus that of Alaska. Mr. Ruggiero explained that he could not draw a comparison between Alaska and Iraq.

Co-Chair Stedman stated that he attended conferences in London last summer where firm representatives expressed interest in the vast oil reserves in Iraq.

Mr. Ruggiero agreed that countries in the Middle East contain the vast amount of oil and gas reserves in the world. All of the entities in the Middle East have large government take and yet the international oil companies are there because of the scope of reserves available.

Co-Chair Stedman recalled that one oil company offered a similar type of contract in Southeast Asia. Discussions hinged on a similar type of scenario regarding negotiations to enter the market. Mr. Ruggiero agreed that technical service contracts have existed for quite some time.

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Senator Thomas pointed out the final column in the table illustrating the cost per barrel. Mr. Ruggiero stated that he did not wish to appear evasive about Iraq, but Gaffney, Cline, and Associates were the advisors to the ministry of oil and did draft the agreements. He stated that he could only speak about the information on the slides in the public domain.

Mr. Ruggiero detailed Slide 11: "Creating Best Fiscal Systems"

- Countries continually assess their internal needs and their world-wide competitive position to set hydrocarbon fiscal terms.
  - Attract Investment
  - Generate revenue for the treasury
  - Create jobs, increase local skill base
- There are roughly as many systems in place as there are countries with petroleum legislation.
  - Many areas of similarity
  - Many areas of difference
  - Different "vintages" can be active at the same time

Mr. Ruggiero detailed Slide 12: "Countries Adapting to Higher Prices." The slide demonstrates that from 2002 to 2007 the various people and countries look at the fact that prices are rising and more profit was going to the oil companies, so terms were increased. The graph provides an idea about the response to a rise in oil prices.

[10:00:05 AM](#)

Mr. Ruggiero discussed Slide 13: "Industry "Take" Assessments"

- The many studies that attempt to "rank" regimes are typically based on:
  - Marginal Government Take

- o Average Government Take
- o Total Government Take
- o Risk
- o Stability
- While informative in the right context, the aspects of fiscal regimes that these studies do not cover or rank can at times be more important.

Mr. Ruggiero addressed Slide 14: "What these studies tend to ignore."

- Signature Bonuses
- Time Value
- Investment Credits
- Ringfencing
- Tax credits
- Booking reserves
- Lifting Rights
- Domestic Obligations
- Different oil/gas rates
- Lease rentals
- Limits on cost recovery
- Exclusions
- Cross crediting
- Timing of Take
- Allowable costs
- Uplifts

Many of the above have a significant financial impact and if included might generate a different ranking outcome.

Mr. Ruggiero described Slide 15: "New Players Today--the International National Oil Companies"

- National Oil Companies (NOCs) are investing internationally
  - o The focus of their expansion includes Middle East, Former Soviet Union, Africa, and Latin America
  - o For example, China-Africa trade; \$4 billion in 1995, \$40 billion in 2005, expected to be over \$100 billion in 2010.
- INOCs are changing the competitive landscape
  - o Different (lower?) investment criteria
  - o Different drivers
  - o Government to government deals
    - China and India to cooperate on energy acquisitions
    - Emergence of the BRIC (Brazil, Russia, India, China) alliance.

Mr. Ruggiero pointed out Slide 16: "Then there are the Hidden Drivers"

- "Punished by Reward"
  - Compensation packages drive decision making
  - Good deals are sometimes passed up to do deals that score more bonus points
  - These are usually not obvious nor acknowledged
- Examples of executives' performance targets:
  - Maintaining reserve replacement/growth
  - Reducing cost per barrel
  - Increasing market share

[10:05:14 AM](#)

Co-Chair Stedman asked a question about Slide 10. He recalled one country that had a failed round approximately one year ago, but then had a successful round this fall after some adjustments. Mr. Ruggiero was not familiar with the situation.

Senator Thomas asked how the money is tracked in Nigeria. Mr. Ruggiero reported that tracking money relies on the contract information.

[10:08:02 AM](#)

Mr. Ruggiero continued with Slide 19: "Time Value of Money"

- Most fiscal regime comparisons do not adequately compare the time value of benefits in one regime versus another.
- Alaska is very generous to investors in that it allows all eligible costs to be deducted immediately from revenue (and even receive cash back" plus provides capital and exploration credits for the same expenses.

Mr. Ruggiero discussed Slide 20: "Simplified Field Model" that provides an example of the impact of time value. The hypothetical field created in the slide shows an investment of \$1 billion dollars in one year with a ten year period to pay taxes and recover the capital investment.

Mr. Ruggiero detailed the table on Slide 23: "Tax Impact of Depreciation" which shows the significance of time value and countries' preferences in respect to recovering capital.

[10:13:43 AM](#)

Mr. Ruggiero illustrated Slide 24: "Impact of 20% investment credits over two years." Slide 25 illustrates the same information in table form. A fiscal regime with a

combination of immediate write off and investment credits can compete favorably on select financial metrics with regimes with lower Government Takes.

Mr. Ruggiero addressed Slide 27 "Ringfencing"

- Fiscal regime comparative studies tend to use single type fields or stand alone existing fields.
- Most contracts or licenses in the world are "ringfenced."
  - Implication: The same producer, in the same country, can have a highly profitable project but be unable to offset or deduct losses from another project.
  - One of the biggest surges of activity in the UK offshore occurred when the ringfence around PRT (their special petroleum tax) was removed.

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Mr. Ruggiero continued with Slide 28: "Why Ringfencing Matters"

- Some might evaluate the economics of Alaska's heavy oil opportunities as a standalone project.
  - Market price lower than NS crude based on quality
  - Higher development and operating costs
  - Ignores fact that project is connected (fiscally) to existing operations.

Mr. Ruggiero detailed Slide 29: "Simple Ringfence Example".

- Assume existing NS oil project
  - Production 650,000 bpd
  - Market oil price \$70/bbl
  - Transportation costs of \$7/bbl
  - Upstream costs \$18/bbl (50% opex, 50% capex)
- Potential NS heavy oil project
  - Production 250,000 bpd
  - Market oil price 90% of NS oil price (quality)
  - Transportation costs of \$7/bbl
  - Upstream costs twice as high as oil project \$36/bbl

Mr. Ruggiero Slide 30: "Heavy oil and Alaska Tax"

- The following charts present one year "snapshot" views of the Alaska tax in two cases:
  - Project ringfence
  - North Slope-wide ringfence as allowed under Production Tax Law
- This illustrates the State available assistance for Heavy Oil developments

Mr. Ruggiero noted Slide 31: "Stand Alone-Project Ringfence"

- If ringfenced as separate projects, as in many fiscal regimes, existing oil tax rate would be 30 % and heavy oil would be 25%
- However, reality is this needs to be viewed as a blended portfolio

Mr. Ruggiero Slide 32: "North Slope-wide Ringfence."

- If the Producer adds the heavy oil project to its portfolio, the heavy oil project will effectively be taxed at 5% instead of 25%.
- The effective tax on heavy oil varies across a range of oil prices.

Co-Chair Stedman asked about the cost on the \$30 dollar per barrel incremental cost. He asked for an example using \$50 per barrel.

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Mr. Ruggiero described Slide 33: "Heavy Oil Effective Tax Rates." Co-Chair Stedman clarified that he was interested in production cost. Mr. Ruggiero answered that he would run the production cost for Co-Chair Stedman and provide it at a later date.

Mr. Ruggiero noted Slide 33: "Heavy Oil Effective Tax Rates" The blue line represents the production tax rate if a standalone tax rate. The green line represents the effective Alaska tax rate-heavy oil.

Co-Chair Stedman asked about the theoretical analysis and modeling for Prudhoe Bay and Kuparuk on heavy oil to determine whether the state is receiving an encouraged response from the industry. Mr. Ruggiero replied that the first thing to observe is the heavy oil project, the size of the project, timing and the rate plugged into the formula to show the effect of the tax rate over the full life of the project rather than a one year snapshot.

Co-Chair Stedman reminded that one of the state's goals is to get to heavy oil. Mr. Ruggiero agreed.

[10:24:48 AM](#)

Mr. Ruggiero detailed Slide 35: "Selection of Benchmarks"

- Exploration and Production "hotspots" where the Majors are investing
- Range for fiscal regimes

- o Production Sharing Contract, Royalty, Technical Services Contract, Special Taxes
- Range of locations
  - o US, South America, Europe, Africa, Middle East, Asia Pacific

Mr. Ruggiero noted Slide 37: "GCA Analysis Assumptions"

- Department of Revenue's North Slope Production and Revenue forecasts (no gas pipeline case)
  - o 4.4 billion barrels of oil produced
  - o \$23/bbl Capex + Opex + Tariffs (non indexed)
- Used GCA proprietary fiscal regime information
  - o Inclusive of all nuances that are part of a particular regime including many ignored by other regimes
- Compared Government Take at \$70 and \$150/bbl

Co-Chair Stedman asked about the map shown on Slide 36: "Benchmarks: Selected "hotspots." He noted the two successful rounds in Iraq. He asked if the countries highlighted on the map had experienced failed rounds. Mr. Ruggiero stated none that he was aware of.

Senator Thomas asked about Norway as a hot spot. He remembered that Norway was considered one of the worst places based on their tax structure. He asked if the government take in Norway had changed. Mr. Ruggiero stated that nothing has changed in Norway.

Mr. Ruggiero Slide 38 and the "Remaining NS oil Profile Total Government Take" The graph uses a remaining North Slope profile. The Alaska take ranges from approximately 67 to 77 percent as the overall state and federal take. The graph illustrates other countries that fall into the same category as Alaska. The government take in Iraq is between 98 and 99 percent. In Norway the government take is between 78 and 88 percent.

Co-Chair Stedman asked about the Gulf of Mexico and the discussion about deep water as it affects Alaska. He asked how the region can reach 47 to 49 percent. He asked about the corporate income tax and federal royalties. Mr. Ruggiero replied that federal royalties and US federal income tax make up the 47 to 49 percent.

Co-Chair Stedman asked about differences regarding deep water Gulf of Mexico.

Mr. Ruggiero explained that the fiscal terms were applied to the North Slope. The value adjustments were not made for deep water, but instead the same Alaska profile was applied with the fiscal terms of the different regimes.

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Co-Chair Stedman asked if the committee should pay attention to deep water Gulf of Mexico due to its high cost factor relative to the North Slope. Mr. Ruggiero referenced Slide 39 and "Industry Profit NPV 10 (US\$B)" He provided the comparison of the various nations and prices per barrel.

Mr. Ruggiero noted that the same conclusion is reached regarding government take. Government take is competitive with the hydrocarbon prolific areas. The government takes in recent Iraq contracts show very low producer Net Present Value (NPV) and may exist in anticipation with what can be done in the future following establishment.

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Mr. Ruggiero suggested potential important questions regarding the data presented. He selected Slide 42: Government Take Studies.

- To make a valid comparison of Alaska's fiscal system requires knowing the basis on which comparisons are being made:
  - IRR or rate of return
  - NPV? Undiscounted? What discount rate?
  - Marginal take at the absolute worse "spot" in the fiscal regime or averaged across a range of expected outcomes?
  - Single fields or portfolios?
  - High rate oil developments versus extended plateau gas developments?
- What is it you are being shown?

Mr. Ruggiero Slide described Slide 43: "Vintage"

- Many countries have producers operating under a number of different vintage agreements.
  - Most of the older agreements are specific to the field(s) being produced. A comparison to these would be misleading and unfair.
  - Even if older agreements provide opportunity for new exploration, the new projects may be ringfenced.
  - New investors can't receive the terms of the older agreements.
- When the oil companies offer their comparison, what vintage agreement are they using?

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Mr. Ruggiero moved to Slide 47: "Which Gulf of Mexico (GOM)?"

- Really three different GOMs with different economics and different government terms
  - Shallow water, paid for platforms, producing fields from relatively low depths, low operating cost structure and relatively inexpensive transportation to market.
  - Recent deep water developments, new state-of-the-art platforms, producing from deep horizons, challenging technology, high cost to drill, high cost to operate, long distance to market.
  - Recent ultra deep drilling from the shallow water shelf, middle range costs, close to shore and market.
- Old 12.5 percent federal royalty vs. new 18.75 federal royalty.

Mr. Ruggiero detailed Slide 48: "At what Oil Price"

- Relatively low prices
  - Progressive systems take the minimum
  - Regressive systems take a larger bite
  - Comparison studies of the progressive Alaska tax regime would cast Alaska in a better light
- Very high prices
  - Progressive systems take a big bite
  - Regressive systems look favorable
  - Comparison studies of Alaska would cast Alaska in a worse light
- Best comparisons use a number of prices across a reasonable range so that the workings of the fiscal system can be adequately assessed.

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Mr. Ruggiero described Slide 49: "Does it include all Government Take"

- Bonuses
  - Even though these can vary from lease to lease, are they included?
  - Recent \$1Bn bonuses paid in Angola
  - Sizeable bonuses paid in other regimes as well
- Domestic Market Obligation
  - Has the requirement to provide a portion of the oil and gas to the local market with a discount been taken into account?
- Government Partner
  - Has the government participation been included, even if it is as a full paying equity partner?

Co-Chair Stedman asked if Angola is French speaking. Mr. Ruggiero answered yes.

Co-Chair Stedman asked for a time reference for the recent \$1 billion bonus round in Algeria. Mr. Ruggiero answered 2008. Co-Chair Stedman asked if Angola had any failed rounds. Mr. Ruggiero stated that Angola did not have failed rounds that he was aware of.

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Mr. Ruggiero addressed Slide 50 and "Available Investment Capital"

- Producer spending can be put in three categories:
  - o Mandatory-loss of license if they don't
  - o Should-monetary penalties/loss of production if they don't
  - o Discretionary
- 2008 was a big Industry spend year. Now oil prices have fallen and global economy is in a recession. How much of the lack of new discretionary spending in Alaska is because the "tax is too high" versus significant spending being directed to the top two categories above.

Mr. Ruggiero discussed Slide 51: "Wrap Up"

- Understand what comparative studies are and are not before you draw conclusions
- Many important factors such as timing, ringfencing, signature bonuses are often left out.
- Do not underestimate the value of immediate write off and capital credits in balancing differences between Alaska and other regimes that may lack these, but have lower government take.
- Alaska's government take is competitive with most hydrocarbon prolific areas.

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Senator Ellis noted surprise about Alaska's representation as a "hot spot." Mr. Ruggiero explained that Alaska was not technically placed on the hotspot list. Alaska was instead compared to countries on the "hot spot" list. Annual reports including investor relation presentations, led to the decision about which countries were on the list.

Senator Thomas referred to Slide 38 and the reference to Gulf of Mexico. He asked if the reference included "deep water." Mr. Ruggiero replied that an average of the three gulfs was used.

Senator Thomas asked about the situation for Alaska's tax regime and government take if the range was \$2-6 a barrel. Mr. Ruggiero asked if Senator Thomas was referring to

government take. Senator Thomas answered yes; he is interested in government take when oil is running \$75 per barrel. Co-Chair Stedman responded \$500 million.

#

ADJOURNMENT

The meeting was adjourned at 10:50 AM.