

ELF

History

(SEE ALSO HB 164)

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

I.

PREPAYMENT OF DISPUTED TAXES

I. The Problem

As of January 6, 1986 the oil companies owed the state \$908 million in disputed taxes. Due to the ARCO settlement of \$243 million on January 13, 1986, this total will be adjusted (new figures from DOR are expected next week). Since \$243 million is the amount of the settlement, it may not be the exact amount of taxes previously in dispute between ARCO and the state. The phrase "disputed taxes" refers to audited tax amounts contested by the companies, plus interest and penalties. Unfortunately, existing state law does not encourage speedy resolution of these cases and some of the disputes go back as far as 15 years.

The total reported by DOR to be disputed on Jan. 6, 1986 was \$908,293,008.61. The total amount varies from month to month due to such causes as interest charges and settlement of some of the disputes. For a schedule of all tax accounts receivable, see Attachment A. Here is a breakdown of what is owed:

-- Approximately \$524 million of the total is owed under the former separate accounting oil and gas corporate income tax for the years 1979 to 1981. (AS 43.21)

-- Approximately \$322 million is owed under the severance tax for the years 1976 to 1982. (AS 43.55)

-- The balance of about \$62 million is owed under the income tax statute for all corporate taxpayers.¹ (AS 43.20) While the \$62 million includes contested taxes for all corporate taxpayers, it is estimated that almost all of this amount is owed by the oil and gas corporations.

The main reason the taxes have not been paid is because the oil companies disagree with the state over the amount of their tax liability. They are contesting the tax assessments through established administrative channels in the Department of Revenue. At issue is the methodology for calculating certain revenues and expenses in order to determine the amount of tax owed to the state.

A second reason the taxes have not been paid is that many of the issues involved in the tax disputes are the subjects of major oil and gas litigation between the companies and the state.

A third reason the taxes have not been paid is that the companies appear to have little incentive to do so. Although interest rates on disputed tax liability (12% per AS 43.05.225) may currently be higher than commercial interest rates, it is clearly in the taxpayers' interest to

¹Before 1979 oil and gas companies paid income taxes under AS 43.20, like all other corporate taxpayers. Between 1979 and 1981 they paid income taxes under the separate accounting statute, AS 43.21, and also paid income tax for their non-oil and gas activities under AS 43.20. From 1982 to now, the companies again pay all their income tax under AS 43.20.

prolong the tax disputes and avoid payment for as long as possible. They may also hope for a settlement with the state in which they ultimately pay a smaller amount than originally assessed.

II. The Disputed Issues

The major severance tax issues are similar to those involved in the State v. Amerada Hess, et. al case, though resolution of the tax issues may well be different than the case itself. (The last chapter in this report discusses this case in more detail.) The amount of our royalty share is in question in this lawsuit because of a dispute over the wellhead value of the oil. The wellhead value is determined by the destination price of the oil minus the transportation costs -- primarily pipeline tariffs and tanker charges. The tanker charges and destination price are at issue in the Amerada Hess case and about 95 percent of the total disputed taxes owed under the severance tax law involve these issues.

The remaining severance tax disputes primarily involve:

- 1) what production expenses can be deducted;
- 2) the computation of pipeline income;
- 3) what income and expenses are non-oil related and should be taxed under the income tax statutes; and
- 4) proper pipeline tariffs for non-TAPS pipelines, such as the Kuparuk pipeline and the Panama Canal pipeline.

Roughly half of the separate accounting disputes involve all the issues involved in the severance tax

disputes. The other half of the separate accounting disputes involves these major issues: 1) how to compute production expenses; 2) how to compute pipeline income; 3) income and expenses that should be apportioned to AS 43.20; 4) appropriate pipeline tariff charges; 5) how much should be spent for the eventual closing down of the pipeline; and 6) how much value should be placed on recoverable reserves.

The separate accounting tax disputes are also similar to those in Arco, et. al. v. State, the lawsuit over the state's former separate accounting law (described in the second chapter of this report). Now that separate accounting has been upheld at every level of court review -- most recently by the US Supreme Court this past Monday when it dismissed the oil companies' appeal -- the Department of Revenue expects these tax disputes to progress further.

III. Existing Process for Resolving Tax Disputes

After an oil and gas corporation submits a tax return it is audited by the Department of Revenue. Generally speaking, the audit shows that the taxpayer owes more than the taxpayer's return says. The taxpayer is then assessed the audited amount. Again, generally speaking, the taxpayer contests the audit and the arduous process of resolving the dispute begins.

The first stage of the resolution process is referred to as the informal conference stage and almost 90 percent of currently disputed taxes are in this stage. This is when

DOR and the taxpayer try to resolve factual issues and agree on the amount of tax owed, a process that can take several years. If the dispute is resolved, the taxpayer pays the additional amount and the case is closed. (In some rare instances, the informal conference is skipped and the dispute is taken up immediately at the formal hearing level.)

If it is not resolved, the case moves along to the formal hearing stage. A DOR hearing examiner essentially acts in the capacity of a judge and decides the case. This stage can also take years. The Commissioner can either adopt or reject the decision, although all decisions ever issued have all been adopted.

After adoption of the decision, the taxpayer is required to pay the tax if no appeal is filed in the superior court. If the taxpayer pursues the dispute by appealing to court, then the court will require that a bond be posted in order to continue contesting DOR's decision.

IV. Inadequacy of the current resolution process

Because of our current dispute resolution process, it may take years before the taxpayers will settle or be required to pay the audited tax amounts. Some of the disputes concern taxes that were owed as far back as 1970 although in certain instances, audits may not have been performed until years after a return is filed because the assessment period has been waived.

The taxpayer then has no incentive to resolve the matter since he is not required to pay the audited tax until all the administrative and judicial channels to overturn the audit have been exhausted. By allowing the taxpayer to keep the disputed amounts for so long, current laws appear to encourage the taxpayer to prolong the dispute. Thus the taxpayer will have the disputed funds to invest and earn interest on, or to use for other purposes.

V. A Solution: Prepayment of Assessed Tax Amounts

In order for the state to collect taxes in a more reasonable time frame, the oil companies should be required to prepay the audited amount at some point in the dispute resolution process.

Prepayment could be required after the informal conference stage. At this point the taxpayer and the state have been negotiating and fine-tuning the tax liability for some time. Errors and omissions by the taxpayer and auditor are likely to have been corrected.

Alternatively, prepayment could be required after the formal hearing. The dispute has been reviewed by the entire DOR hierarchy and the Commissioner has adopted a decision. If prepayment is not required until after the formal hearing, specific time frames could be provided in law for each stage of the resolution process. Once the taxpayer has been assessed the audited amount, both the informal conference and formal hearing stages would have to be

completed within a certain number of years established in statute. This would guard against continued prolonging of disputes since prepayment would not be required until the end point of the department's internal review.

It makes fiscal sense to put some or all of the prepayments in escrow until the dispute is finally resolved. The escrow account could be viewed as a form of state savings, since it could still be several years until a particular dispute is finally resolved. In the meantime, the escrowed amounts could earn be invested and earn additional income. This would allow the state to save for the future and also provide protection in the event that the disputed tax liability would be resolved in the taxpayer's favor.

The prepayment requirement should also be applied to amounts owed for prior tax years. Applying the prepayment requirement to past years is essential in order to bring about faster resolution of the current tax disputes, since these disputes involve tax liabilities for earlier years.

Prepayment has precedents at both the state and federal levels. It is currently required by the IRS if the taxpayer decides to appeal to the federal district court or court of claims rather than to tax court. In fact, DOR currently has a prepayment regulation on the books that requires payment of estimated severance taxes but it only applies to the returns for the years after 1984 (14 AAC 55.165). (It also only addresses the issue of oil valuation, not

transportation assessments.) The regulation requires prepayment of an average amount owed by all taxpayers; it does not relate to actual assessed tax liability. This regulation only applies to the severance tax and does not capture back taxes owed under the two corporate income taxes.

A form of prepayment was also a provision of the state's former separate accounting law (in effect for the years 1979-1981). Since the language was vague on whether audited amounts were covered, DOR never enforced the statutory prepayment requirement for the assessed amounts. In enacting this prepayment provision, it is likely that the legislature did not foresee the need for extensive audits and the resultant lengthy dispute resolution process. However, the former prepayment provision can certainly be thought of as a precedent for the kind of prepayment advocated here, especially since the language was never contested by the taxpayers.

The Department of Law has informally advised that there are no legal problems with prepayment. A comprehensive and formal opinion, prepared by both the attorney general's office and the Department of Revenue, is expected early next week.

VI. Conclusion

The legislature should provide by statute for prepayment of audited tax amounts at a set point in the resolution process. This will insure the state receives its

share of oil revenues in a more timely manner and also protect the taxpayers from any initial auditing errors.

Such a prepayment requirement should not be viewed as an additional burden to the oil companies since the revenue that could be raised does not come from implementing new taxes; rather, it is revenue the state should have already received.

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL
 January 6, 1986

| TAX TYPE | STATUTE | VALUE OF ACCOUNTS | CONFERENCE | FORMAL | COURT |
|--------------------------------------|----------|-------------------------|-------------------------|-------------------------|-----------------------|
| OIL & GAS CORP INC | AS 43.21 | \$524,163,096.65 | \$438,358,422.69 | \$85,804,673.96 | \$.00 |
| OIL & GAS PRODUCTION | AS 43.55 | 321,697,462.15 | 300,848,926.97 | 20,848,535.18 | .00 |
| CORPORATE INCOME | AS 43.20 | 62,432,449.81 | 47,639,282.76 | 13,773,985.93 | 1,019,181.12 |
| INDIVIDUAL INCOME | AS 43.20 | 2,844,081.31 | 2,828,965.29 | 15,116.02 | .00 |
| BUSINESS LIC GR RCPT | AS 43.70 | 2,686,323.31 | 1,777,731.64 | 524,360.37 | 384,211.30 |
| FISHERIES | AS 43.75 | 1,925,335.87 | 1,150,173.69 | 775,162.18 | .00 |
| MOTOR FUEL | AS 43.40 | 1,525,206.60 | 970,498.59 | 554,708.01 | .00 |
| MINING | AS 43.65 | 828,697.24 | 828,697.24 | .00 | .00 |
| OIL & GAS PROPERTY | AS 43.56 | 385,779.18 | 9,321.98 | .00 | 376,457.20 |
| FIDUCIARY INCOME | AS 43.20 | 183,636.52 | 183,636.52 | .00 | .00 |
| SALMON ENHANCEMENT | AS 43.76 | 42,535.97 | 29,618.97 | 12,917.00 | .00 |
| ESTATE | AS 43.31 | 30,840.49 | 30,840.49 | .00 | .00 |
| SEAFOOD MARKETING | AS 16.51 | 8,119.55 | 8,119.55 | .00 | .00 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 7,610.85 | 7,610.85 | .00 | .00 |
| TOBACCO (CIGARETTE) | AS 43.50 | 4,487.22 | 4,487.22 | .00 | .00 |
| WHL CANNED SALMON | AS 43.80 | 2,250.00 | 2,250.00 | .00 | .00 |
| LIQUOR EXCISE | AS 43.60 | 485.13 | 485.13 | .00 | .00 |
| COIN OPERATED DEVICE | AS 43.35 | .00 | .00 | .00 | .00 |
| TOTAL TAX ACCOUNTS RECEIVABLE | | \$918,768,397.85 | \$794,679,069.58 | \$122,309,478.65 | \$1,779,849.62 |

PERCENT OF TOTAL VALUE 1.3 100.00% 86.49% 13.31% 0.20%

| TAX TYPE | STATUTE | NUMBER OF ACCOUNTS | CONFERENCE | FORMAL | COURT |
|---------------------------|----------|-----------------------|--------------|------------|-----------|
| OIL & GAS PRODUCTION | AS 43.55 | 496 | 413 | 83 | 0 |
| CORPORATE INCOME | AS 43.20 | 405 | 314 | 82 | 9 |
| INDIVIDUAL INCOME | AS 43.20 | 253 | 243 | 10 | 0 |
| MOTOR FUEL | AS 43.40 | 153 | 92 | 61 | 0 |
| FISHERIES | AS 43.75 | 54 | 41 | 13 | 0 |
| BUSINESS LIC GR RCPT | AS 43.70 | 42 | 32 | 8 | 2 |
| OIL & GAS CORP INC | AS 43.21 | 36 | 21 | 15 | 0 |
| SALMON ENHANCEMENT | AS 43.76 | 20 | 18 | 2 | 0 |
| MINING | AS 43.65 | 8 | 8 | 0 | 0 |
| SEAFOOD MARKETING | AS 16.51 | 7 | 7 | 0 | 0 |
| FIDUCIARY INCOME | AS 43.20 | 7 | 7 | 0 | 0 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 5 | 5 | 0 | 0 |
| OIL & GAS PROPERTY | AS 43.56 | 5 | 4 | 0 | 1 |
| WHL CANNED SALMON | AS 43.80 | 3 | 3 | 0 | 0 |
| TOBACCO (CIGARETTE) | AS 43.50 | 2 | 2 | 0 | 0 |
| ESTATE | AS 43.31 | 2 | 2 | 0 | 0 |
| LIQUOR EXCISE | AS 43.60 | 1 | 1 | 0 | 0 |
| COIN OPERATED DEVICE | AS 43.35 | 0 | 0 | 0 | 0 |
| TOTAL TAX ACCOUNTS | | 1,499 | 1,213 | 274 | 12 |

PERCENT OF TOTAL ACCOUNTS 100.00% 80.92% 18.28% 0.80%

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5
JUNEAU, ALASKA 99911
PHONE: (907) 465-2300

January 30, 1986

The Honorable Al Adams
Chairman
House Finance Subcommittee on Oil and Gas
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Re: Expedite Collection of
Disputed Taxes

Dear Representative Adams:

A proposal has been raised in the Interim Report of the House Finance Subcommittee on Oil and Gas (January 17, 1986) to require prepayment of disputed taxes at some stage in the appeal process in order to expedite the collection of disputed taxes. We appreciate the opportunity afforded us to comment on this issue.

The Department of Revenue is concerned that the proposal will have a detrimental impact on its operations, emphasis, and ability to litigate tax challenges. Rather than expedite resolution of tax disputes, it is the Department's view that the prepayment requirement concerning disputed taxes will create delays. The adverse impact will be greater the earlier the prepayment requirement is imposed. Additionally, the prepayment proposal will affect taxpayers other than oil and gas companies if it is imposed on the corporation net income tax under AS 43.20 et. seq.

Instead, we believe the collection of disputed taxes can be expedited more successfully through approaches other than the prepayment requirement. These approaches have been recently adopted and their effect is already being felt.

In this letter, we outline the handling of disputed tax controversies by examining the assessment and appeal process, discussing the reasons for delays, and the effect the prepayment requirement may have on the various levels of the Department's appeal process.

I. The Assessment And Appeal Process

There are two levels of administrative appeal within the Department, the informal conference and the formal hearing. Appeal after the formal hearing decision is to Alaska Superior Court. The appeal process can proceed through the courts to the U.S. Supreme Court. Final resolution of the appeal occurs after exhaustion or waiver of judicial appeal rights. It is only then that the disputed taxes must be paid if the final determination is against the taxpayer.

A. The Assessment Level Of Review

The Audit Division is responsible for reviewing tax returns and monitoring taxpayers through audits to insure that taxable income is properly calculated and reported. If the Division determines that an adjustment is required, it will inform the taxpayer that either more taxes are owed or a refund is warranted. If more taxes are due, an assessment notice will be issued.

As a practical matter, assessments are often made as the three year statute of limitations is about to expire. These assessments are often high as compared to the final adjusted assessment made during the appeal period. The reason is that auditors must make an aggressive although reasonable evaluation in order to insure that the State receives the money it is entitled to. They cannot later amend the assessment after the statute of limitations for assessments has expired except under limited circumstances. The taxpayer has the right to appeal an assessment within 60 days of being notified of an assessment.

1. Reasons For Delay

There are two primary reasons for delay during the assessment period. Assessments often are made as the three year statute of limitations is about to expire because audits of taxpayers, especially large multi-state and multi-national taxpayers, can take years to complete. Other audits underway may deal with the same issue or taxpayer. It is not an administratively sound practice to litigate the same issue for each taxpayer for each tax year. Accordingly, a delay may occur to allow a "lead" audit to proceed to completion.

2. Prepayment after Assessment

As a practical matter, if prepayment were required after the assessment, taxpayers might not be as cooperative in providing the information during the three year audit period, or in waiving the statute of limitations. This lack of cooperation would require the department to employ more discovery devices (subpoenas, summons, interrogatories, depositions, etc.), which would be costly in both time and money.

B. Informal Conference

The informal conference is the first level of review of a challenged assessment. A conference officer discusses the assessment with the taxpayer through correspondence, in-person, or through telephone conferences. Unlike the formal hearing in which the Appeals Section does take an adversary role on behalf of the Audit Division, the purpose of the informal conference is to provide an opportunity for discussion. As a result of this nonadversarial approach, the expertise

of the Appeals Section, and its ability to settle cases, nearly 90% of all assessment disputes are resolved at the informal conference level of review.

1. Reasons For Delay

There are a number of reasons for delay at the informal conference level. Many of these reasons are identical to those experienced at the assessment level. The time frame for holding an informal conference may vary, depending on the complexity of the issues, stays and consolidations of appeal, the availability of the pertinent officials of the taxpayer, the number of informal conference officers, etc.. A great deal of the assessment actions have been stayed until resolution of certain basic issues. Staying appeal cases allows the Department to screen similar cases and proceed with the "best" test case.

2. Prepayment after Informal Conference

If prepayment of disputed taxes is required after the informal conference decision, the nature of the informal conference will become adversarial. Part of the reason for this change in atmosphere is that attorneys will be forced to enter the tax appeal process at an earlier stage of review.

C. Formal Hearing

The formal hearing is the administrative trial level for tax disputes. A Department of Revenue hearing examiner is appointed by the Commissioner to serve as a hearing officer for the appeal. A formal hearing is often preceded by a prehearing conference, briefing, and discovery requests. Full due process safeguards are provided with adequate notice and full opportunity to be heard by an impartial hearing officer. A formal hearing decision is issued after the record is closed and reviewed.

1. Delays In The Formal Hearing Process

Delays have occurred in the formal hearing process for some of the same reasons previously mentioned. In addition, the nature of the hearing process in affording both the taxpayer and the Audit Division the full opportunity to explain their respective cases causes delays. Additionally, since the Hearing Examiner Section handles not only tax appeals but other revenue appeals, staff limitations and backlogs of cases contribute to delays. Delays have also resulted because of stays pending resolution of a number of tax cases before the courts, both at the federal and state levels.

2. Prepayment of Disputed Taxes After Formal Hearing

Payment after formal hearing occurs, of course, if the taxpayer does not appeal to the Superior Court. Prepayment as a condition or prerequisite for judicial action may require the creation of a different form of action. In other words, instead of an appeal, a taxpayer would file an original action claiming a refund. The Superior Court would not be limited to review of the formal administrative record, but would, in effect, try the case de novo. The Department's concerns about such a procedure are two-fold: one, delays of substantial periods would be encountered; and, two, the Court's decisions on tax issues would not be based upon the administrative record, but upon new findings of fact and conclusions of law. In effect, contested cases will have two trials with potentially differing results, creating confusion in the interpretation of Alaska's tax law.

D. Other State's Assessment And Appeal Processes

We are unaware of any state that requires prepayment of disputed income taxes during the administrative appeal process, although some require payment at later levels of judicial review. State Tax Review Agencies: Organization and Practices, Federation of Tax Administrators Research Report No. 79 (December 1978). The prepayment requirement for disputed taxes is often limited to certain types of taxes that would therefore effect a limited group of taxpayers. See In the Matter of the Tax Appeal of Simpson Mannor, Inc., 548 P.2d 246 (Haw. 1976) (excise taxpayers required to pay before proceeding to Tax Appeals Court, although net income, real property, public service company and bank franchise taxpayers could appeal without prepayment of disputed taxes).

II. Alternative means to Expedite Collections Of Disputed Taxes

There are a number of alternatives to prepayment of disputed taxes, many of which we have implemented to expedite the collection process for appealed taxes.

At the audit level, assessments are progressing at a more rapid rate. The major reason for this change is that through experience, advanced marketing data, familiarity with the various taxpayers' businesses, and clarification of legal issues and positions, audits are shorter in duration and more thorough. Also, resolution of certain issues has resulted in fewer contested issues.

At the informal conference level, a major breakthrough in the dam of backlogged cases was the judicial resolution of the constitutionality of the separate accounting methodology under AS 43.21 et. seq.. ARCO v. State of Alaska, Department of Revenue, Alaska Supreme Ct. Op. No. 2965 (August 16, 1985, appeal dismissed by the U.S. Supreme Ct on January 13, 1986. Now, other issues that were stayed pending the resolution of the constitutional issues are progressing through informal conferences.

Another major change is the transfer of the informal conference functions to the Appeals Section of the Audit Division. The Appeals Section has five conference staff members who are attorneys, CPAs, or audit staff with extensive years of experience in tax matters.

At the formal hearing level, the Alaska Supreme Court's resolution of various tax issues has greatly impacted the number of cases or issues stayed at the formal hearing level of appeal. The reduction in the backlog of cases and additional staff should enable the Hearing Examiner Section to be able to issue a decision within six months of closure of a hearing by the end of 1986.

Another major change affecting the collection of disputed tax monies was the increase in the tax interest rate. AS 43.05.225 was amended in 1982 by raising the interest rate on delinquent taxes from eight percent to twelve percent. As a result, taxpayers no longer have the disincentive to pay and then to use the disputed taxes on other investment opportunities while the appeal is pending.

III. Summation

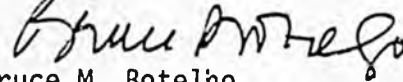
We have strong concerns that the requirement to prepay disputed taxes at some level in the review process will not expedite the resolution of disputed tax cases. Rather, we think it could impair the strategy and ability of the Department to defend its assessments and may create an adversary relationship that could permeate the assessment and appeal process, end the practice of voluntary compliance, hamper the ability of the Department to obtain needed information, diminish the Department's success rate in defending its assessments and decisions, delay the resolution process, and require additional staff at every level of the assessment and appeal process.

We believe that expedition of collecting disputed taxes is better accomplished through other approaches, many of which are currently being implemented. Greater experience and knowledge at the audit level in administering the new tax programs, a more proficient appeals staff, negotiated settlements of cases at the informal conference level,


The Honorable Al Adams
January 30, 1986
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reduction of the backlog of appeals at the formal hearing level, and recent Alaska Supreme Court cases have and will greatly expedite the resolution of disputed tax cases. An increase in the interest rate has already spurred early payment of disputed taxes. These changes should insure earlier payment of taxes owed the State.

Sincerely,



Bruce M. Botelho
Deputy Commissioner, Taxation



Theresa Hillhouse
Revenue Chief Hearing
Examiner

cc: Members of the House Finance Committee

Karen L. Loeffler
Shelly J. Higgins
Oil and Gas Section
Department of Law

BB:TH:mkw
86-14

BILL SHEFFIELD, GOVERNOR

REPLY TO:

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DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

January 29, 1986

Honorable Al Adams
Alaska State Legislature
Pouch V
State Capital
Juneau, Alaska 99811

Re: Prepayment of disputed taxes
Our file: 166-268-86

Dear Representative Adams:

You have requested our opinion on the constitutionality of requiring payment of disputed taxes from taxpayers pending proper appeal of the assessed amounts. You have also asked our opinion on when in the dispute resolution process such payment would be appropriate and whether the collected sums must be put in escrow pending the outcome of the dispute. You have noted that you are especially interested in these questions as they concern taxes owed to the state by the oil and gas corporations under AS 43.21, AS 43.20 and AS 43.55, since, you have stated, "back taxes under these three statutes currently total about \$900 million." Thus, you are interested in whether any proposed changes in the appeal process to require payment of disputed taxes may be applied to the cases currently pending.

We conclude that a requirement that disputed taxes be paid at some point prior to final resolution of the dispute in the courts is permissible under both the Alaska and United States constitutions. We also believe that a statute requiring that taxes be paid pending appeal could be drafted so as to apply to disputes pending at the administrative level at the time of enactment and further, that the state need not escrow payments of disputed taxes but could enact valid legislation authorizing such procedures.

Finally, although we have found nothing that would bar legislation creating a prepayment requirement, we think that there are some practical and policy concerns that would have to be addressed in connection with any specific proposal to change the procedures for the collection of disputed taxes. The Department of Revenue has a number of comments as to the practical implications of any proposed legislation in this area and will be providing you with a list of their concerns.

BACKGROUND: EXISTING PROCEDURES AND APPLICABLE STATUTES AND REGULATIONS

The procedures for taxpayer appeals are currently governed by AS 43.05.240 and Alaska Appellate Rules 602(c) and 204. AS 43.05.240 controls the administrative appeal process and generally provides for a two step process. 1/ In most instances the

1/ AS 43.05.240 provides as follows:

Taxpayer remedies. (a) A person aggrieved by the action of the department in fixing the amount of a tax or in imposing a penalty may apply to the department within 60 days from the date of mailing the notice [of assessment] ... giving notice of the grievance and requesting an informal conference. At the conference the person aggrieved may present arguments and evidence relevant to the amount of tax or penalty due the state. If the department determines that a correction is warranted, the department shall make the correction.

(b) A person aggrieved by the action of the department in fixing the amount of a tax or in imposing a penalty may apply to the department and request a formal hearing

(1) in place of the informal conference provided for in (a) of this section ...or;

(2) within 30 days after decision resulting from an informal conference.

(c) At the formal hearing the department may subpoena witnesses and may administer oaths and make inquiries necessary to determine the amount of the tax or penalty due the state. The person aggrieved may present arguments and evidence relevant to the amount of the tax penalty due the state. If the department determines that a correction is warranted, the department shall make the correction.

(d) Within 30 days after the formal hearing and decision by the department, a person aggrieved by the decision of the department may appeal to the superior court in the judicial district in which the person resides. If after the appeal is heard it appears that the tax was correct, the court shall confirm the tax. If incorrect, the court shall determine the amount of the tax and if the person aggrieved is entitled to recover the tax or part of it,

(footnote continued)

taxpayer who wishes to protest an assessment begins by requesting an informal conference. 2/ The purpose of the informal conference is both to resolve the dispute, if possible, and to clarify those issues left to be resolved at the formal hearing. In fact, many disputes are resolved at this level.

A taxpayer who does not agree with the informal conference decision may then request a formal hearing. However, the taxpayer first pays any part of the assessment that relates to issues resolved at the informal conference level, thus, streamlining the matters to be addressed at the formal hearing.

The formal hearing is conducted by a hearing officer and is governed by trial-type procedures under which the taxpayer and audit staff may call witnesses to testify under oath, cross-examine witnesses, and introduce documentary evidence relevant to determining the amount of tax due. 3/ AS 43.05.240; 15 AAC 05.030.

If, after the formal hearing decision, any part of the assessment is still in dispute, appeal is to the superior court. AS 43.05.240(d) provides that a taxpayer may appeal to superior court within 30 days after the formal hearing decision is issued. This statute does not expressly require the taxpayer to pay the disputed taxes before appealing to a superior court. However, Section 240(d) can reasonably be interpreted to require prepayment prior to judicial review and this interpretation is reflected in the department's regulations. 15 AAC 05.040 requires full payment of

but never enforced.

(footnote continued)

the court shall order the repayment and the department shall immediately pay the amount due....

2/ Although the informal conference can be waived, see AS 43.05.240 (b)(1), the department discourages this practice since it often leads to delays in the formal hearing process as numerous pre-conference hearings become necessary to clarify issues and generally accomplish those matters usually accomplished by the informal conference.

3/ According to representatives of the Department of Revenue, at formal hearing taxpayers win at least a partial abatement in approximately 50% of the appeals of assessments under all tax laws.

*Continue
to Rev.
Position?*

If you're referring to 15 AAC 05.040...

the amount determined to be due by the final administrative decision of the department pending appeal to the court.

When an appeal is filed in court, the Appellate Rules of the Alaska Courts come into play. Appellate Rules 602(c) and 204(d) grant the appealing taxpayer the right to stay the administrative decision by filing an approved supersedeas bond for the amount of a potential judgment. ^{4/} Any legislation aimed at removing the superior court's power to approve the filing of a supersedeas bond in lieu of payment of the disputed taxes would have to provide for amending these Appellate Rules. This can be done, but only by a two-thirds vote of the members of each house. Alaska Const. Art. IV, sec. 15.

You should also be aware that a number of other statutory provisions would be affected by a prepayment requirement. An example is AS 43.20.270 which provides that the department may collect taxes by distraint and sale from a taxpayer who has not appealed from the assessment.

I. CONSTITUTIONALITY OF REQUIRING PAYMENT OF DISPUTED TAXES PRIOR TO FINAL DETERMINATION OF TAX LIABILITY

The obligation to pay taxes is purely a statutory creation. The methods by which the state may assess and collect a tax, as well as taxpayer remedies, are controlled by the express wording of the taxing statutes. The state legislature has discretion to set the conditions precedent to any refund, limited only by constitutional considerations of due process. See generally 71 Am. Jur. 2d, State and Local Taxation, secs. 596,608 (1973).

The due process clause of the Alaska Constitution is set out in Article I, Section 7 and provides: "No person shall be deprived of life, liberty, or property, without due process of law..." The core of this guarantee is the right to notice and a hearing when

^{4/} This may be why the Department of Revenue has not generally enforced its regulation requiring payment of disputed taxes pending appeal. We know of one case in which the Department asked the superior court to require full payment of taxes in lieu of a supersedeas bond but the court approved a bond in accordance with the Appellate Rules.

state action threatens the deprivation of some material right. Matanuska Maid, Inc. v. State, 620 P.2d 182 (1980). The language of the parallel federal due process guarantee, contained in the fifth and fourteenth amendments, is identical to that contained in the Alaska Constitution.

Under the applicable federal tax procedures, a taxpayer is given the choice of appealing through administrative procedures to Tax Court or going directly to federal district court. A taxpayer may appeal to Tax Court without paying disputed taxes and on to the Court of Appeals upon paying a bond. However, full payment of all disputed taxes is a prerequisite to going directly to federal district court, since jurisdiction over tax matters in the district courts exists only for actions "for the recovery of taxes alleged to have been erroneously or illegally assessed or collected," 28 U.S.C. sec. 1346. The requirement that a taxpayer pay the disputed taxes in full as a precondition of judicial review has been challenged on due process grounds and upheld by the federal courts. Johnston v. Comm'r of Int. Rev., 429 F.2d 804 (6th Cir. 1970) (due process not violated where taxpayer was barred from administrative appeal and had to pay full disputed tax amount to challenge tax in federal court); see, Flora v. United States, 357 U.S. 63 (1958).

Thus, while a taxpayer who disputes an assessment is guaranteed some right to a notice and hearing on the disputed amount, it is unlikely that the hearing must occur prior to any attempt at collection of the taxes assessed by the taxing authority. Both federal courts and courts in other states have held that due process is satisfied by the provision for a hearing after payment of taxes on the taxpayer's liability for taxes it alleges are wrongfully collected. See e.g., Phillips v. Comm'r of Int. Rev., 283 U.S. 589 (1931); Johnston v. Commissioner of Internal Revenue, 429 F.2d 804 (6th Cir. 1970); Cohen v. U.S., 297 F.2d 760 (9th Cir. 1962); State Tax Commission v. Yavapai County, 29 P. 2d 733 (Ariz. 1934); Anderson Bros. Corp. v. Stone, 85 So. 2d 767 (Miss. 1956); see generally 72 Am Jur 2d, State and Local Taxation, sec. 786 (1973).

The Alaska Courts have not addressed the issue of prepayment of taxes. While the Alaska courts certainly look to federal precedent, they are not limited to these rulings, since the provisions of the state constitution may have broader safeguards than the federal standards. Shagloak v. State, 597 P.2d 142 (Alaska 1979). However, based on the federal precedent and other caselaw cited above, we believe that the Alaska Supreme Court would uphold,

against due process challenge, a statutory requirement that taxes be paid at some point in the appeal process as a prerequisite to further review. ^{5/}

You have asked, however, at what point in the process we believe prepayment would be "appropriate". As a matter of policy the choice of when to require full payment is of course up to the legislature. However, as a legal matter, we believe that the likelihood of any successful challenge to a prepayment requirement would decrease in direct proportion to the number of procedural safeguards available for use by the taxpayer prior to required payment. Thus, we believe that imposition of the requirement at the conclusion of the formal hearing is the least vulnerable point. However, we have found nothing to suggest that payment could not be required after the informal conference or possibly even earlier as long as there remains notice and an opportunity for a hearing to challenge the tax at some reasonable stage of the proceedings.

II. APPLICATION OF THE PREPAYMENT REQUIREMENT TO CURRENTLY PENDING CASES

It is our opinion that a change in the taxing procedures to require a prepayment of disputed tax liabilities could legally be applied to appeals that are currently pending at the administrative level. A taxpayer might attempt to challenge the application of any prepayment requirement to existing cases on the grounds that such an application would be unconstitutionally retroactive. However, we do not believe such a challenge would succeed.

^{5/} We think, however, that a small taxpayer appealing corporate income tax assessments under 43.20 might challenge a prepayment requirement on due process or other grounds. An argument that a specific taxpayer cannot afford to pay the full, assessed amount before appeal and would therefore be irreparably harmed by strict application of the prepayment requirement might be receptively received by a court. In such a case, the court could decide to stay the application of the prepayment statute or reduce the amount required to be paid on due process grounds or as an exercise of its general equitable powers. It would be unlikely, however, to hold the statute unconstitutional on its face.

A retroactive ^{6/} statute is "one which gives to pre-enactment conduct a different legal effect from that which it would have had without the passage of the statute," Norton v. Alcoholic Beverage Control Board, 695 P. 2d 1090, 1093 (Alaska 1985) citing Hochman, The Supreme Court and the Constitutionality of Retroactive Legislation, 73 Harv. L. Rev. 692 (1960). While this definition might lead to arguments over whether applying a statutory change to require prepayment of disputed taxes to pending cases is a retroactive application, the argument would be largely irrelevant. Procedural changes that do not effect substantive rights may be retroactively applied. Matanuska Maid, Inc. v. State, 620 P.2d 182, 187 (Alaska 1980). The theory behind the constitutional prohibition against retroactivity is that a statute should not operate to deprive a person of vested rights. However, for over a century, the rule has been that no party has a vested right in any statutory remedy. See The Collector (Brainard) v. Hubbard, 79 U.S. 1 (1871) cited in Bidwell v. Scheele, 355 P.2d 584, 586 (Alaska 1960).

Thus, in the Bidwell case, the Alaska Supreme Court held that the repeal of a statute requiring a person bringing a claim of title to lands against the holder of tax title to pay the equivalent of the sale price of the lands into the court should be applied to a pending action. The purchaser had no right in the previous procedure. Similarly, a taxpayer has no right to the present tax appeal procedures that permit a full appeal prior to any requirement to pay disputed liabilities.

The intent to apply a change in the tax appeal procedures to pending cases, however, would have to be stated expressly in the statute. AS 01.10.090 provides: "No statute is retrospective unless expressly declared therein." The statute need not use the specific word, "retrospective" but the legislature must clearly express its intent. See also, AS 01.10.100 (repeal or amendment of a law does not extinguish existing rights unless act expressly so states).

III. ESCROW OF DISPUTED TAX LIABILITIES

While your opinion request asks only whether payments received under a prepayment scheme must be escrowed, further conversations suggest you are also interested in the legislature's

^{6/} Legislation may be referred to as either retroactive or retrospective; for our purposes the terms are synonymous.

authority to set up some sort of procedure for holding the prepaid amounts for future refund pending resolution of tax disputes. Thus, we perceive your question to be whether or not the decision to escrow these sums may legally be left to the legislature.

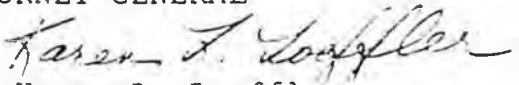
As to the first part of your question, we have found nothing that would require the state to escrow disputed tax liabilities. The federal government, for example, does not escrow the amounts it collects pending district court tax proceedings. ^{7/} Moreover, the contrary view, if applied to all tax disputes, might seriously impair a government's ability to function.

It is more difficult to respond to your inquiry concerning the validity of a mechanism for holding funds for possible repayment in the event the state does not prevail on its tax claims. There are many different methods that could be proposed for holding the disputed funds, and, while we believe that the legislature has broad discretion to choose among these methods, we think that there could be problems associated with some of them. See, e.g., 1982 Op. Att'y Gen. No. 13 (Nov. 30) (discussing dedicated funds prohibition as it applies to various types of funding mechanisms). In short, we think that a valid procedure for holding disputed funds for possible refund could be devised, however, we cannot give any more specific advice without more information.

We hope that this answers your immediate questions. We will be happy to assist you in any further questions you might have.

Sincerely yours,

HAROLD M. BROWN
ATTORNEY GENERAL

By: 
Karen L. Loeffler
Assistant Attorney General

KLL/ma

^{7/} As a practical matter however, Alaska's situation does not resemble that of the federal government. While the latter operates from a deficit, we do not. Thus, the need to reserve disputed funds could differ.

DRAFT

January 17, 1986

Honorable Al Adams
Alaska State Legislature
Pouch V
State Capital
Juneau, Alaska 99811

Re: Prepayment of disputed
taxes
Our file: 166-268-86

Dear Representative Adams:

You have requested our opinion on the constitutionality of requiring payment of disputed taxes from taxpayers pending proper appeal of the assessed amounts. You have also asked our opinion on when in the dispute resolution process such payment would be appropriate and whether the collected sums must be put in escrow pending the outcome of the dispute. You have noted that you are especially interested in these questions as they concern taxes owed to the state by the oil and gas corporations under AS 43.21, AS 43.20 and AS 43.55, since, you have stated, "back taxes under these three statutes currently total about \$900 million." Thus, you are interested in whether any proposed changes in the appeal process to require payment of disputed taxes may be applied to the cases currently pending.

We conclude that a requirement that disputed taxes be paid at some point prior to final resolution of the dispute in the courts is permissible under both the Alaska and United States constitutions. We also believe that a statute requiring that taxes be paid pending appeal could be drafted so as to apply to disputes pending at the administrative level at the time of enactment and further, that the state need not escrow payments of disputed taxes but could enact valid legislation authorizing such procedures.

Finally, although we have found nothing that would bar legislation creating a prepayment requirement, we think that there are some practical and policy concerns that would have to be addressed in connection with any specific proposal to change the

procedures for the collection of disputed taxes. The Department of Revenue has a number of comments as to the practical implications of any proposed legislation in this area and will be providing you with a list of their concerns.

BACKGROUND: EXISTING PROCEDURES AND APPLICABLE STATUTES AND REGULATIONS

The procedures for taxpayer appeals are currently governed by AS 43.05.240 and Alaska Appellate Rules 602(c) and 204. AS 43.05.240 controls the administrative appeal process and generally provides for a two step process. 1/ In most instances the

1/ AS 43.05.240 provides as follows:

Taxpayer remedies. (a) A person aggrieved by the action of the department in fixing the amount of a tax or in imposing a penalty may apply to the department within 60 days from the date of mailing the notice [of assessment] ... giving notice of the grievance and requesting an informal conference. At the conference the person aggrieved may present arguments and evidence relevant to the amount of tax or penalty due the state. If the department determines that a correction is warranted, the department shall make the correction.

(b) A person aggrieved by the action of the department in fixing the amount of a tax or in imposing a penalty may apply to the department and request a formal hearing

(1) in place of the informal conference provided for in (a) of this section ...or;

(2) within 30 days after decision resulting from an informal conference.

(c) At the formal hearing the department may subpoena witnesses and may administer oaths and make inquiries necessary to determine the amount of the tax or penalty due the state. The person aggrieved may present arguments and evidence relevant to the amount of the tax penalty due the state. If the department determines that a correction is warranted, the department shall make the correction.

(d) Within 30 days after the formal hearing and decision by the department, a person aggrieved by the decision of the department may appeal to the superior court in the

(footnote continued)

taxpayer who wishes to protest an assessment begins by requesting an informal conference. 2/ The purpose of the informal conference is both to resolve the dispute, if possible, and to clarify those issues left to be resolved at the formal hearing. In fact, many disputes are resolved at this level.

A taxpayer who does not agree with the informal conference decision may then request a formal hearing. However, the taxpayer first pays any part of the assessment that relates to issues resolved at the informal conference level, thus, streamlining the matters to be addressed at the formal hearing.

The formal hearing is conducted by a hearing officer and is governed by trial-type procedures under which the taxpayer and audit staff may call witnesses to testify under oath, cross-examine witnesses, and introduce documentary evidence relevant to determining the amount of tax due. 3/ AS 43.05.240; 15 AAC 05.030.

If, after the formal hearing decision, any part of the assessment is still in dispute, appeal is to the superior court. AS 43.05.240(d) provides that a taxpayer may appeal to superior court within 30 days after the formal hearing decision is issued.

(footnote continued)

judicial district in which the person resides. If after the appeal is heard it appears that the tax was correct, the court shall confirm the tax. If incorrect, the court shall determine the amount of the tax and if the person aggrieved is entitled to recover the tax or part of it, the court shall order the repayment and the department shall immediately pay the amount due....

2/ Although the informal conference can be waived, see AS 43.05.240 (b)(1), the department discourages this practice since it often leads to delays in the formal hearing process as numerous pre-conference hearings become necessary to clarify issues and generally accomplish those matters usually accomplished by the informal conference.

3/ According to representatives of the Department of Revenue, at formal hearing taxpayers win at least a partial abatement in approximately 50% of the appeals of assessments under all tax laws.

This statute does not expressly require the taxpayer to pay the disputed taxes before appealing to superior court. However, Section 240(d) can be reasonably interpreted to require prepayment prior to judicial review and this interpretation is reflected in the department's regulations. 15 AAC 05.040 requires full payment of the amount determined to be due by the final administrative decision of the department pending appeal to the court.

When an appeal is filed in court, the Appellate Rules of the Alaska Courts come into play. Appellate Rules 202(c) and 204(d) grant the appealing taxpayer the right to stay the administrative decision by filing an approved supersedeas bond for the amount of a potential judgment. 4/ Any legislation aimed at removing the superior court's power to approve the filing of a supersedeas bond in lieu of payment of the disputed taxes would have to provide for amending these Appellate Rules. This can be done, but only by a two-thirds vote of the members of each house. Alaska Const. Art. IV, sec. 15.

You should also be aware that a number of other statutory provisions would be affected by a prepayment requirement. An example is AS 43.20.270 which provides that department may collect taxes by distraint and sale from taxpayer who has not appealed from assessment.

I. CONSTITUTIONALITY OF REQUIRING PAYMENT OF DISPUTED TAXES PRIOR TO FINAL DETERMINATION OF TAX LIABILITY

The obligation to pay taxes is purely a statutory creation. The methods by which the state may assess and collect a tax, as well as taxpayer remedies, are controlled by the express wording of the taxing statutes. The state legislature has discretion to set the conditions precedent to any refund, limited only by

4/ This may be why the Department of Revenue has not generally enforced its regulation requiring payment of disputed taxes pending appeal. We know of one case in which the Department asked the superior court to require full payment of taxes in lieu of a supersedeas bond but the court approved a bond in accordance with the Appellate Rules.

constitutional considerations of due process. See generally 71 Am. Jur. 2d, State and Local Taxation, secs. 596,608 (1973).

The due process clause of the Alaska Constitution is set out in Article I, Section 7 and provides: "No person shall be deprived of life, liberty, or property, without due process of law..." The core of this guarantee is the right to notice and a hearing when state action threatens the deprivation of some material right. Matanuska Maid, Inc. v. State, 620 P.2d 182 (1980). The language of the parallel federal due process guarantee, contained in the fifth and fourteenth amendments, is identical to that contained in the Alaska Constitution.

Under the applicable federal tax procedures, a taxpayer is given the choice whether to appeal through administrative procedures or go directly to federal district court. However, full payment of all disputed taxes is a prerequisite to the latter action, since jurisdiction over tax matters in the district courts exists only for actions "for the recovery of taxes alleged to have been erroneously or illegally assessed or collected," 28 U.S.C. sec. 1346. Full payment of disputed taxes is also required before an appeal may be taken from a final administrative decision. The requirement that a taxpayer pay the disputed taxes in full as a precondition of judicial review has been challenged on due process grounds and upheld by the federal courts. Johnston v. Comm'r of Int. Rev., 429 F.2d 804 (6th Cir. 1970) (due process not violated where taxpayer was barred from administrative appeal and had to pay full disputed tax amount to challenge tax in federal court); see, Flora v. United States, 357 U.S. 63 (1958).

Thus, while a taxpayer who disputes an assessment is guaranteed some right to a notice and hearing on the disputed amount, it is unlikely that the hearing must occur prior to any attempt at collection of the taxes assessed by the taxing authority. Both federal courts and courts in other states have held that due process is satisfied by the provision for a hearing after payment of taxes on the taxpayer's liability for taxes it alleges are wrongfully collected. See e.g., Phillips v. Comm'r of Int. Rev., 283 U.S. 589 (1931); Johnston v. Commissioner of Internal Revenue, 429 F.2d 804 (6th Cir. 1970); Cohen v. U.S., 297 F.2d 760 (9th Cir. 1962); State Tax Commission v. Yavapai County, 29 P. 2d 733 (Ariz. 1934); Anderson Bros. Corp. v. Stone, 85 So. 2d 767 (Miss. 1956); see generally 72 Am Jur 2d, State and Local Taxation, sec. 786 (1973).

The Alaska Courts have not addressed the issue of prepayment of taxes. While the Alaska courts certainly look to federal precedent, they are not limited to these rulings, since the provisions of the state constitution may have broader safeguards than the federal standards. Shaqloak v. State, 597 P.2d 142 (Alaska 1979). However, based on the federal precedent and other caselaw cited above, we believe that the Alaska Supreme Court would uphold, against due process challenge, a statutory requirement that taxes be paid at some point in the appeal process as a prerequisite to further review. 5/

You have asked, however, at what point in the process we believe prepayment would be "appropriate". As a matter of policy the choice of when to require full payment is of course up to the legislature. However, as a legal matter, we believe that the likelihood of any successful challenge to a prepayment requirement would decrease in direct proportion to the number of procedural safeguards available for use by the taxpayer prior to required payment. Thus, we believe that imposition of the requirement at the conclusion of the formal hearing is the least vulnerable point. However, we have found nothing to suggest that payment could not be required after the informal conference or possibly even earlier as long as there remains notice and an opportunity for a hearing to challenge the tax at some reasonable stage of the proceedings.

II. APPLICATION OF THE PREPAYMENT REQUIREMENT TO CURRENTLY PENDING CASES

It is our opinion that a change in the taxing procedures to require a prepayment of disputed tax liabilities could legally be applied to appeals that are currently pending at the administrative level. A taxpayer might attempt to challenge the application of any prepayment requirement to existing cases on the grounds that such an

5/ We think however, that a due process challenge is likely in the event that a prepayment requirement is applied to small taxpayers appealing corporate income tax assessments under AC 43.20. Moreover, it stands to reason that an Alaska court might be receptive to a due process claim by a taxpayer who asserts that he cannot afford to pay the full assessed amount pending appeal and is, therefore, effectively denied the right to appeal.

application would be unconstitutionally retroactive. However, we do not believe such a challenge would succeed.

A retroactive ^{6/} statute is "one which gives to pre-enactment conduct a different legal effect from that which it would have had without the passage of the statute," Norton v. Alcoholic Beverage Control Board, 695 P. 2d 1090, 1093 (Alaska 1985) citing Hochman, The Supreme Court and the Constitutionality of Retroactive Legislation, 73 Harv. L. Rev. 692 (1960). While this definition might lead to arguments over whether applying a statutory change to require prepayment of disputed taxes to pending cases is a retroactive application, the argument would be largely irrelevant. Procedural changes that do not effect substantive rights may be retroactively applied. Matanuska Maid, Inc. v. State, 620 P.2d 182, 187 (Alaska 1980). The theory behind the constitutional prohibition against retroactivity is that a statute should not operate to deprive a person of vested rights. However, for over a century, the rule has been that no party has a vested right in any statutory remedy. See The Collector (Brainard) v. Hubbard, 79 U.S. 1 (1871) cited in Bidwell v. Scheele, 355 P.2d 584, 586 (Alaska 1960).

Thus, in the Bidwell case, the Alaska Supreme Court held that the repeal of a statute requiring a person bringing a claim of title to lands against the holder of tax title to pay the equivalent of the sale price of the lands into the court should be applied to a pending action. The purchaser had no right in the previous procedure. Similarly, a taxpayer has no right to the present tax appeal procedures that permit a full appeal prior to any requirement to pay disputed liabilities.

The intent to apply a change in the tax appeal procedures to pending cases, however, would have to be stated expressly in the statute. AS 01.10.090 provides: "No state is retrospective unless expressly declared therein." The statute need not use the specific word, "retrospective" but the legislature must clearly express its intent. See also, AS 01.10.100 (repeal or amendment of a law does not extinguish existing rights unless act expressly so states).

III. ESCROW OF DISPUTED TAX LIABILITIES

^{6/} Legislation may be referred to as either retroactive or retrospective; for our purposes the terms are synonymous.

While your opinion request asks only whether payments received under a prepayment scheme must be escrowed, further conversations suggest you are also interested in the legislature's authority to set up some sort of procedure for holding the prepaid amounts for future refund pending resolution of tax disputes. Thus, we perceive your question to be whether or not the decision to escrow these sums may legally be left to the legislature.

As to the first part of your question, we have found nothing that would require the state to escrow disputed tax liabilities. The federal government, for example, does not escrow the amounts it collects pending district court tax proceedings. ^{7/} Moreover, the contrary view, if applied to all tax disputes, might seriously impair a government's ability to function.

It is more difficult to respond to your inquiry concerning the validity of a mechanism for holding funds for possible repayment in the event the state does not prevail on its tax claims. There are many different methods that could be proposed for holding the disputed funds, and, while we believe that the legislature has broad discretion to chose among these methods, we think that there could be problems associated with some of them. See, e.g., 1982 Op. Att'y Gen. No. 13 (Nov. 30) (discussing dedicated funds prohibition as it applies to various types of funding mechanisms). In short, we think that a valid procedure for holding disputed funds for possible refund could be devised, however, we cannot give any more specific advice without more information.

We hope that this answers your immediate questions. We will be happy to assist you in any further questions you might have.

Sincerely yours,

HAROLD M. BROWN
ATTORNEY GENERAL

By:
Karen L. Loeffler

^{7/} As a practical matter, however, Alaska's situation does not resemble that of the federal government. While the latter operates from a deficit, we do not. Thus, the need to reserve disputed funds could differ.

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL

April 1, 1986

| TAX TYPE | STATUTE | VALUE | | | |
|--------------------------------------|----------|-------------------------|-------------------------|-------------------------|------------------------|
| | | OF ACCOUNTS | CONFERENCE | FORMAL | COURT |
| OIL & GAS CORP INC | AS 43.21 | \$506,481,444.82 | \$402,164,501.43 | \$104,316,937.39 | \$.00 |
| OIL & GAS PRODUCTION | AS 43.55 | 157,432,830.98 | 148,593,702.81 | 8,472,607.12 | 366,521.05 |
| CORPORATE INCOME | AS 43.20 | 51,623,002.11 | 35,210,630.63 | 8,192,218.47 | 8,220,153.01 |
| INDIVIDUAL INCOME | AS 43.20 | 3,436,943.76 | 3,426,212.71 | 10,731.05 | .00 |
| BUSINESS LIC GR RCPT | AS 43.70 | 2,396,624.00 | 1,715,212.61 | 681,411.39 | .00 |
| MINING | AS 43.65 | 1,928,731.23 | 1,928,731.23 | .00 | .00 |
| FISHERIES | AS 43.75 | 1,328,931.09 | 621,575.94 | 707,355.15 | .00 |
| MOTOR FUEL | AS 43.40 | 469,953.94 | 426,024.16 | 43,929.78 | .00 |
| FIDUCIARY INCOME | AS 43.20 | 96,993.89 | 96,993.89 | .00 | .00 |
| SALMON ENHANCEMENT | AS 43.76 | 43,817.74 | 30,900.74 | 12,917.00 | .00 |
| ESTATE | AS 43.31 | 33,392.57 | 33,392.57 | .00 | .00 |
| SEAFOOD MARKETING | AS 16.51 | 9,358.43 | 9,093.95 | 264.48 | .00 |
| TOBACCO (CIGARETTE) | AS 43.50 | 4,531.35 | 4,531.35 | .00 | .00 |
| WHSL CANNED SALMON | AS 43.80 | 2,250.00 | 1,600.00 | 650.00 | .00 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 1,053.86 | 1,053.86 | .00 | .00 |
| LIQUOR EXCISE | AS 43.60 | 496.22 | 496.22 | .00 | .00 |
| COIN OPERATED DEVICE | AS 43.35 | .00 | .00 | .00 | .00 |
| OIL & GAS PROPERTY | AS 43.56 | .00 | .00 | .00 | .00 |
| TOTAL TAX ACCOUNTS RECEIVABLE | | \$725,290,355.99 | \$594,264,660.10 | \$122,439,021.83 | \$ 8,586,674.06 |
| PERCENT OF TOTAL VALUE | | 100.00% | 81.93% | 16.88% | 1.18% |

| TAX TYPE | STATUTE | NUMBER | | | |
|----------------------------------|----------|----------------|---------------|---------------|--------------|
| | | OF ACCOUNTS | CONFERENCE | FORMAL | COURT |
| OIL & GAS PRODUCTION | AS 43.55 | 517 | 424 | 91 | 2 |
| CORPORATE INCOME | AS 43.20 | 391 | 297 | 68 | 26 |
| INDIVIDUAL INCOME | AS 43.20 | 260 | 252 | 8 | 0 |
| MOTOR FUEL | AS 43.40 | 196 | 144 | 52 | 0 |
| BUSINESS LIC GR RCPT | AS 43.70 | 49 | 31 | 16 | 2 |
| FISHERIES | AS 43.75 | 42 | 28 | 14 | 0 |
| OIL & GAS CORP INC | AS 43.21 | 29 | 21 | 8 | 0 |
| SALMON ENHANCEMENT | AS 43.76 | 20 | 18 | 2 | 0 |
| MINING | AS 43.65 | 13 | 13 | 0 | 0 |
| SEAFOOD MARKETING | AS 16.51 | 9 | 8 | 1 | 0 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 5 | 5 | 0 | 0 |
| FIDUCIARY INCOME | AS 43.20 | 4 | 4 | 0 | 0 |
| ESTATE | AS 43.31 | 4 | 4 | 0 | 0 |
| WHSL CANNED SALMON | AS 43.80 | 3 | 2 | 1 | 0 |
| OIL & GAS PROPERTY | AS 43.56 | 3 | 3 | 0 | 0 |
| TOBACCO (CIGARETTE) | AS 43.50 | 2 | 2 | 0 | 0 |
| LIQUOR EXCISE | AS 43.60 | 1 | 1 | 0 | 0 |
| COIN OPERATED DEVICE | AS 43.35 | 0 | 0 | 0 | 0 |
| TOTAL TAX ACCOUNTS | | 1,548 | 1,257 | 261 | 30 |
| PERCENT OF TOTAL ACCOUNTS | | 100.00% | 81.20% | 16.86% | 1.94% |

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL
April 1, 1986

NOTE:

- A. The value of receivables reported, especially those in appeal status, are still subject to some review and correction.

At the end of October, 1985, the Enforcement Division completed the consolidation of all receivables on to a new computer based accounts receivable system, giving the Department the ability to generate summary statistics of tax receivables. Upon review of these statistics, certain anomalies have been identified, some of which have resulted in correction of reported receivables. In a few instances keypunch errors have been identified. In a few other cases unposted payments have been identified, most notably involving those assessments under appeal.

The Enforcement and Audit Divisions are currently working to reconcile what the accounts receivable system shows in appeal status with what Audit's conference staff shows in appeal status. As that reconciliation is conducted the number of accounts and the aggregate value of those accounts may change.

- B. The number of accounts identifies the number of actual billings, not the number of taxpayers. A single taxpayer may have billings for several different tax periods and/or for several different tax types. Accordingly, the actual number of taxpayer appeal cases will be less than the number of accounts identified on this summary.

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL
 February 3, 1986

| TAX TYPE | STATUTE | VALUE | | | | |
|---------------------------------|----------|-------------------------|-------------------------|-------------------------|------------------------|---------------------|
| | | OF ACCOUNTS (A) | CONFERENCE | FORMAL | COURT | OTHER |
| OIL & GAS CORP INC | AS 43.21 | \$ 27,485,990.47 | \$455,503,880.05 | \$ 71,982,110.42 | \$.00 | \$.00 |
| OIL & GAS PRODUCTION | AS 43.55 | 325,016,332.24 | 322,651,429.58 | 2,364,902.66 | .00 | .00 |
| CORPORATE INCOME | AS 43.20 | 55,249,333.30 | 40,145,294.09 | 13,937,958.84 | 1,163,080.37 | 3,000.00 |
| INDIVIDUAL INCOME | AS 43.20 | 3,442,679.72 | 3,427,488.64 | 15,191.08 | .00 | .00 |
| BUSINESS LIC GR RCPT | AS 43.70 | 2,668,170.57 | 1,729,058.06 | 526,865.59 | 386,139.33 | 26,113.59 |
| FISHERIES | AS 43.75 | 1,416,400.91 | 744,272.94 | 672,127.97 | .00 | .00 |
| MOTOR FUEL | AS 43.40 | 1,178,727.72 | 613,699.40 | 565,028.32 | .00 | .00 |
| MINING | AS 43.65 | 833,694.36 | 833,694.36 | .00 | .00 | .00 |
| OIL & GAS PROPERTY | AS 43.56 | 387,314.37 | 9,358.73 | .00 | 377,955.64 | .00 |
| FIDUCIARY INCOME | AS 43.20 | 184,425.54 | 184,425.54 | .00 | .00 | .00 |
| SALMON ENHANCEMENT | AS 43.76 | 43,777.02 | 30,860.02 | 12,917.00 | .00 | .00 |
| ESTATE | AS 43.31 | 31,262.01 | 31,262.01 | .00 | .00 | .00 |
| SEAFOOD MARKETING | AS 16.51 | 8,155.78 | 8,155.78 | .00 | .00 | .00 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 7,616.16 | 7,616.16 | .00 | .00 | .00 |
| TOBACCO (CIGARETTE) | AS 43.50 | 4,501.75 | 4,501.75 | .00 | .00 | .00 |
| WHL CANNED SALMON | AS 43.80 | 2,250.00 | 1,600.00 | 650.00 | .00 | .00 |
| LIQUOR EXCISE | AS 43.60 | 488.78 | 488.78 | .00 | .00 | .00 |
| COIN OPERATED DEVICE | AS 43.35 | .00 | .00 | .00 | .00 | .00 |
| TOTAL TAX RECEIVABLE (A) | | \$917,961,126.70 | \$825,927,085.89 | \$ 90,077,751.88 | \$ 1,927,175.34 | \$ 29,113.59 |
| PERCENT OF TOTAL VALUE | | 100.00% | 89.97% | 9.81% | 0.21% | 0.00% |

| TAX TYPE | STATUTE | NUMBER | | | | |
|-------------------------------|----------|-----------------|--------------|------------|-----------|----------|
| | | OF ACCOUNTS (B) | CONFERENCE | FORMAL | COURT | OTHER |
| OIL & GAS PRODUCTION | AS 43.55 | 498 | 430 | 68 | 0 | 0 |
| CORPORATE INCOME | AS 43.20 | 415 | 314 | 87 | 12 | 2 |
| INDIVIDUAL INCOME | AS 43.20 | 272 | 262 | 10 | 0 | 0 |
| MOTOR FUEL | AS 43.40 | 201 | 139 | 62 | 0 | 0 |
| FISHERIES | AS 43.75 | 54 | 41 | 13 | 0 | 0 |
| BUSINESS LIC GR RCPT | AS 43.70 | 48 | 33 | 11 | 2 | 2 |
| OIL & GAS CORP INC | AS 43.21 | 35 | 21 | 14 | 0 | 0 |
| SALMON ENHANCEMENT | AS 43.76 | 21 | 19 | 2 | 0 | 0 |
| MINING | AS 43.65 | 8 | 8 | 0 | 0 | 0 |
| SEAFOOD MARKETING | AS 16.51 | 7 | 7 | 0 | 0 | 0 |
| FIDUCIARY INCOME | AS 43.20 | 7 | 7 | 0 | 0 | 0 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 5 | 5 | 0 | 0 | 0 |
| OIL & GAS PROPERTY | AS 43.56 | 5 | 4 | 0 | 1 | 0 |
| TOBACCO (CIGARETTE) | AS 43.50 | 3 | 3 | 0 | 0 | 0 |
| WHL CANNED SALMON | AS 43.80 | 3 | 2 | 1 | 0 | 0 |
| ESTATE | AS 43.31 | 2 | 2 | 0 | 0 | 0 |
| LIQUOR EXCISE | AS 43.60 | 1 | 1 | 0 | 0 | 0 |
| COIN OPERATED DEVICE | AS 43.35 | 0 | 0 | 0 | 0 | 0 |
| TOTAL TAX ACCOUNTS (B) | | 1,585 | 1,298 | 268 | 15 | 4 |
| PERCENT OF TOTAL ACCOUNTS | | 100.00% | 81.89% | 16.91% | 0.5% | 0.25% |

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL

February 3, 1986

NOTE:

- A. The value of receivables reported, especially those in appeal status, are still subject to some review and correction.

At the end of October, 1985, the enforcement Division completed the consolidation of all receivables on to a new computer based accounts receivable system, giving the Department the ability to generate summary statistics of tax receivables. Upon review of these statistics, certain anomalies have been identified, some of which have resulted in correction of reported receivables. In a few instances keypunch errors have been identified. In a few other cases unposted payments have been identified, most notably involving those assessments under appeal.

The Enforcement and Audit Divisions are currently working to reconcile what the accounts receivable system shows in appeal status with what Audit's conference staff shows in appeal status. As that reconciliation is conducted the number of accounts and the aggregate value of those accounts may change.

In addition, several accounts related to a settlement announced January 13, 1986 have not yet been posted although payment was received January 15, 1986.

- B. The number of accounts identifies the number of actual billings, not the number of taxpayers. A single taxpayer may have billings for several different tax periods and/or for several different tax types. Accordingly, the actual number of taxpayer appeal cases will be less than the number of accounts identified on this summary.

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL
 January 27, 1936

| TAX TYPE | STATUTE | VALUE | | | |
|----------------------------------|----------|-------------------------|-------------------------|-------------------------|------------------------|
| | | OF ACCOUNTS (A) | CONFERENCE | FORMAL | COURT |
| OIL & GAS CORP INC | AS 43.21 | \$512,075,822.99 | \$440,186,209.21 | \$ 71,889,613.78 | \$.00 |
| OIL & GAS PRODUCTION | AS 43.55 | 305,381,467.08 | 303,019,890.13 | 2,361,576.95 | .00 |
| CORPORATE INCOME | AS 43.20 | 62,532,919.02 | 47,546,847.21 | 13,824,401.56 | 1,161,670.25 |
| INDIVIDUAL INCOME | AS 43.20 | 2,669,881.90 | 2,654,709.57 | 15,172.33 | .00 |
| BUSINESS LIC GR RCPT | AS 43.70 | 2,664,285.70 | 1,752,384.11 | 526,244.27 | 385,657.32 |
| MOTOR FUEL | AS 43.40 | 1,535,943.79 | 971,721.17 | 564,222.62 | .00 |
| FISHERIES | AS 43.75 | 1,415,850.94 | 744,198.46 | 671,652.48 | .00 |
| MINING | AS 43.65 | 832,445.10 | 832,445.10 | .00 | .00 |
| OIL & GAS PROPERTY | AS 43.56 | 386,930.57 | 9,349.54 | .00 | 377,581.03 |
| FIDUCIARY INCOME | AS 43.20 | 184,229.30 | 184,228.30 | .00 | .00 |
| SALMON ENHANCEMENT | AS 43.76 | 43,887.78 | 30,970.78 | 12,917.00 | .00 |
| SEAFOOD MARKETING | AS 16.51 | 8,146.73 | 8,146.73 | .00 | .00 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 7,614.84 | 7,614.84 | .00 | .00 |
| TOBACCO (CIGARETTE) | AS 43.50 | 4,498.12 | 4,498.12 | .00 | .00 |
| WHSL CANNED SALMON | AS 43.80 | 2,250.00 | 1,600.00 | 650.00 | .00 |
| LIQUOR EXCISE | AS 43.60 | 487.87 | 487.87 | .00 | .00 |
| COIN OPERATED DEVICE | AS 43.35 | .00 | .00 | .00 | .00 |
| ESTATE | AS 43.31 | .00 | .00 | .00 | .00 |
| TOTAL TAX RECEIVABLES (A) | | \$889,746,660.73 | \$797,955,301.14 | \$ 89,866,450.99 | \$ 1,924,908.60 |
| PERCENT OF TOTAL VALUE | | 100.00% | 89.68% | 10.10% | 0.22% |

| TAX TYPE | STATUTE | NUMBER | | | |
|-------------------------------|----------|-----------------|--------------|------------|-----------|
| | | OF ACCOUNTS (B) | CONFERENCE | FORMAL | COURT |
| OIL & GAS PRODUCTION | AS 43.55 | 482 | 414 | 68 | 0 |
| CORPORATE INCOME | AS 43.20 | 425 | 327 | 86 | 12 |
| INDIVIDUAL INCOME | AS 43.20 | 267 | 257 | 10 | 0 |
| MOTOR FUEL | AS 43.40 | 151 | 89 | 62 | 0 |
| FISHERIES | AS 43.75 | 54 | 41 | 13 | 0 |
| BUSINESS LIC GR RCPT | AS 43.70 | 48 | 35 | 11 | 2 |
| OIL & GAS CORP INC | AS 43.21 | 34 | 20 | 14 | 0 |
| SALMON ENHANCEMENT | AS 43.76 | 21 | 19 | 2 | 0 |
| MINING | AS 43.65 | 8 | 8 | 0 | 0 |
| SEAFOOD MARKETING | AS 16.51 | 7 | 7 | 0 | 0 |
| FIDUCIARY INCOME | AS 43.20 | 7 | 7 | 0 | 0 |
| INDIVIDUAL WITHHOLD | AS 43.20 | 5 | 5 | 0 | 0 |
| OIL & GAS PROPERTY | AS 43.56 | 5 | 4 | 0 | 1 |
| TOBACCO (CIGARETTE) | AS 43.50 | 3 | 3 | 0 | 0 |
| WHSL CANNED SALMON | AS 43.80 | 3 | 2 | 1 | 0 |
| ESTATE | AS 43.31 | 1 | 1 | 0 | 0 |
| LIQUOR EXCISE | AS 43.60 | 1 | 1 | 0 | 0 |
| COIN OPERATED DEVICE | AS 43.35 | 0 | 0 | 0 | 0 |
| TOTAL TAX ACCOUNTS (B) | | 1,522 | 1,240 | 267 | 15 |
| PERCENT OF TOTAL ACCOUNTS | | 100.00% | 81.47% | 17.54% | 0.99% |

ALASKA DEPARTMENT OF REVENUE
APPEALED TAX ASSESSMENTS BY APPEAL LEVEL
January 27, 1986

NOTE:

- A. The value of receivables reported, especially those in appeal status, are still subject to some review and correction.

At the end of October, 1985, the Enforcement Division completed the consolidation of all receivables on to a new computer based accounts receivable system, giving the Department the ability to generate summary statistics of tax receivables. Upon review of these statistics, certain anomalies have been identified, some of which have resulted in correction of reported receivables. In a few instances keypunch errors have been identified. In a few other cases unposted payments have been identified, most notably involving those assessments under appeal.

The Enforcement and Audit Divisions are currently working to reconcile what the accounts receivable system shows in appeal status with what Audit's conference staff shows in appeal status. As that reconciliation is conducted the number of accounts and the aggregate value of those accounts may change.

In addition, several accounts related to a settlement announced January 13, 1986 have not yet been posted although payment was received January 15, 1986.

- B. The number of accounts identifies the number of actual billings, not the number of taxpayers. A single taxpayer may have billings for several different tax periods and/or for several different tax types. Accordingly, the actual number of taxpayer appeal cases will be less than the number of accounts identified on this summary.

PREPAYMENT OF ASSESSED TAXES

THE SOHIO ALASKA PETROLEUM COMPANY JOINS THE DEPARTMENT OF REVENUE IN OPPOSING LEGISLATION THAT WOULD REQUIRE THE PREPAYMENT OF ASSESSED TAXES PRIOR TO FINAL DETERMINATION OF THE CORRECT TAX.

FIRST AND FOREMOST IT MUST BE UNDERSTOOD THAT THE AMOUNTS INITIALLY ASSESSED IN THE AUDIT PROCESS ARE NOT TAXES DUE AND OWING. THE DEPARTMENT OF REVENUE CHALLENGES VALUATIONS AND ACCOUNTING PROCEDURES AND, USING EVERY ASSUMPTION AND INTERPRETATION FAVORABLE TO THE STATE, MAKES AN INITIAL ASSESSMENT. IT IS THE BEGINNING, NOT THE END, OF THE TAX AUDIT PROCEDURE. IT IS THE CEILING - THE MAXIMUM LIABILITY - NOT THE BOTTOM LINE. TO REQUIRE PAYMENT AT THIS STAGE OR AT ANY STAGE PRIOR TO FINAL DETERMINATION, WOULD HAVE ABSOLUTELY NO BENEFICIAL EFFECT:

1. ALASKA HAS HAD NO DIFFICULTY COLLECTING TAXES FROM THE OIL INDUSTRY ONCE THE AMOUNT OF TAX HAS BEEN FINALLY DETERMINED. PREPAYMENT WOULD ONLY BE NECESSARY TO ENSURE THE COLLECTION OF REVENUES. HOWEVER, THE OIL INDUSTRY HAS ENORMOUS FIXED ASSETS IN ALASKA THAT CAN BE MADE SUBJECT TO LIENS SHOULD THAT PROVE NECESSARY.

THEREFORE IMPOSING A PREPAYMENT PROVISION WILL NOT IMPROVE THE STATE'S PROVEN ABILITY TO COLLECT TAXES, ONCE THEY ARE DUE AND OWING.

2. PREPAYMENT WOULD NOT ACCELERATE THE AUDIT PROCESS AND IN ALL LIKELIHOOD WOULD SLOW AND COMPLICATE AN ALREADY DIFFICULT PROCEDURE. TAXPAYERS WOULD INSIST ON THE ENFORCEMENT OF THEIR RIGHTS TO A FAIR HEARING AND DUE PROCESS. LAWYERS AND HEARING OFFICERS WOULD REPLACE AUDITORS AND ACCOUNTANTS. RULES OF EVIDENCE WOULD REPLACE NEGOTIATION.

3. THE ABSENCE OF A PREPAYMENT PROVISION DOES NOT RESULT IN TAXPAYERS DELAYING THE AUDIT PROCESS TO FORESTALL PAYMENT. IF A TAXPAYER KNOWS THAT HE WILL EVENTUALLY HAVE TO PAY THE TAX, IT IS IN HIS BEST INTEREST TO PAY TODAY RATHER THAN DELAYING THE PROCEDURE. COMPANIES CHALLENGE AND CONTEST ASSESSMENTS NOT BECAUSE THEY WANT TO DELAY PAYMENT BUT BECAUSE THEY BELIEVE THE ASSESSED AMOUNT IS INCORRECT. CONSEQUENTLY, A PREPAYMENT PROVISION WOULD NOT CHANGE THE TAXPAYER'S PRACTICE OF CHALLENGING ASSESSMENTS.

4. THE STATE WOULD NOT BENEFIT FROM EARLIER COLLECTION OF THE MONEY. IT WOULD NOT BE IN THE STATE'S BEST INTEREST TO USE PREPAYMENTS FOR THE OPERATING OR CAPITAL BUDGET WHEN, HISTORICALLY, THE INITIAL ASSESSMENTS ARE CHALLENGED AND OFTEN DECREASED. TO ASSURE THAT FUNDS WOULD BE AVAILABLE FOR REFUNDS, PREPAYMENTS WOULD HAVE TO GO INTO A TRUST FUND WHICH WOULD NOT BENEFIT EITHER PARTY.

MOREOVER, THE REQUIREMENT TO PREPAY ASSESSMENTS BEFORE THEY ARE DUE COULD CAUSE IRREPARABLE HARM TO THE TAXPAYER AND THE STATE OF ALASKA. WE BELIEVE THAT PREPAYMENT MAY IN CERTAIN INSTANCES VIOLATE THE TAXPAYER'S RIGHTS TO DUE PROCESS.

THE DUTIES OF THE DEPARTMENT OF REVENUE WILL BE MADE MORE DIFFICULT BY REQUIRING PREPAYMENT OF ASSESSED TAXES. THE AUDIT PROCEDURE WILL BECOME FAR MORE FORMAL AND ADVERSARIAL AT A MUCH EARLIER STAGE. BOOKS AND RECORDS THAT ARE NOW ROUTINELY SUBMITTED TO THE STATE IN ORDER TO SETTLE MINOR VALUATION OR ACCOUNTING PROBLEMS WILL PROBABLY BE PRODUCED ONLY AS A RESULT OF LENGTHY DISCOVERY MOTIONS. AUDITS WILL NOT BE ACCELERATED BUT DELAYED AND EVEN WITH PREPAYMENT INTO A TRUST, THE STATE WILL HAVE A LONGER WAIT BEFORE IT HAS ACCESS TO THE FUNDS.

THE SOHIO ALASKA PETROLEUM COMPANY HAS ALWAYS DEALT IN GOOD FAITH WITH THE DEPARTMENT OF REVENUE. THE AUDIT PROCESS IS

CUMBERSOME AND LENGTHY AND CAN BE IMPROVED. WE ARE WILLING TO WORK WITH THE DEPARTMENT, AND THE LEGISLATURE ON CHANGES THAT COULD BENEFIT ALL PARTIES. THE LENGTH OF THE AUDIT IS DETERMINED, FOR THE MOST PART, BY THE DIFFICULTY OF THE ISSUES, THE AMOUNT OF MONEY INVOLVED, AND THE EXPERIENCE OF TECHNICIANS DOING THE WORK. THE PREPAYMENT OF ASSESSED TAXES WILL NOT CHANGE THESE PARAMETERS AND SPEED REDUCTION OF THE OUTSTANDING ASSESSMENTS.

HOUSE BILL 502
CONFIDENTIALITY

THE SOHIO ALASKAN PETROLEUM COMPANY RECOGNIZES THE STATE OF ALASKA'S LEGITIMATE RIGHT TO ADMINISTER THE AUDIT, ASSESSMENT AND COLLECTION OF REVENUES FOUND LEGALLY DUE AND OWING. HOWEVER, WE OPPOSE ANY LEGISLATION THAT WOULD RELAX THE REQUIREMENTS OF CONFIDENTIALITY IMPOSED UPON THE STATE IN MATTERS RELATING TO THE ASSESSMENT AND COLLECTION OF TAXES.

WE OPPOSE HB 502 NOT ONLY BECAUSE IT WOULD ESTABLISH A BAD PRECEDENT AND UNDERMINE THE STATE'S AUDIT PROCESS, BUT BECAUSE THE BILL WOULD NOT ACCOMPLISH ANY OF THE OBJECTIVES STATED IN THE "LEGISLATIVE PURPOSE" OF THE BILL.

THE BILL WOULD PERMIT THE PUBLICATION OF TAX ASSESSMENTS MADE BY THE DEPARTMENT OF REVENUE EVEN THOUGH THEY ARE NOT DELINQUENT. IN FACT, THEY ARE TAXES THAT ARE NOT EVEN DUE AND OWING. WE DO NOT OBJECT TO THE PUBLICATION OF NAMES OF TAXPAYERS THAT ARE DELINQUENT IN PAYING TAXES THAT ARE DUE AND WE WOULD EXPECT THE STATE TO PURSUE THOSE TAXPAYERS. HOWEVER, THE PUBLICATION OF ASSESSMENTS AGAINST TAXPAYERS WOULD SERVE NO USEFUL PURPOSE OTHER THAN TO VIOLATE, WE BELIEVE, THE TAXPAYER'S RIGHTS TO PRIVACY AND DUE PROCESS. THE INITIAL ASSESSMENT IS SIMPLY A STARTING POINT. THE TAXPAYER MAY NOT

EVEN HAVE HAD AN OPPORTUNITY TO REVIEW THE ASSUMPTIONS ON WHICH IT IS BASED. IN A LETTER TO MEMBERS OF THE HOUSE FINANCE COMMITTEE ON JANUARY 20, 1986, OPPOSING THE COLLECTION OF ASSESSMENTS PRIOR TO FINAL ADJUDICATION, THE DEPARTMENT OF REVENUE FOUND THAT: "IN CASES INVOLVING DESK AUDITS, THE TAXPAYER MAY NEVER HAVE EVEN BEEN CONTACTED BY THE DEPARTMENT UNTIL THE ASSESSMENT NOTICE IS RECEIVED."

THE PUBLICATION OF ASSESSMENTS AGAINST THE TAXPAYER, PRIOR TO FINAL ADJUDICATION, WOULD SERVE TO EMBARRASS THE CITIZEN. THE INITIAL ASSESSMENTS MADE AGAINST TAXPAYERS ARE BASED ON ASSUMPTIONS MOST FAVORABLE TO THE STATE'S POSITION ON VALUATION, CALCULATION AND INTERPRETATION OF STATUTE AND REGULATIONS. THESE INITIAL ASSESSMENTS ARE CHALLENGED, COMPROMISED AND OFTEN COMPLETELY ELIMINATED WHEN THE TAXPAYER HAS HAD A CHANCE TO EXPLAIN THE FACTS. THE FINAL TAX FOUND DUE AND OWING OFTEN BEARS LITTLE RESEMBLANCE TO THE INITIAL ASSESSMENT. HOW THEN DOES THE PUBLICATION OF THE ASSESSMENT AND THE TAXPAYER'S NAME SERVE TO ENSURE THAT "THE STATE IS RECEIVING ALL REVENUE DUE THE STATE," AS STATED IN THE "LEGISLATIVE PURPOSE" OF THE BILL? HOW WILL THE EMBARRASSMENT TO THE CITIZEN ENSURE THAT "REVENUE DUE TO THE STATE IS AVAILABLE..." WHEN IT IS ACKNOWLEDGED THAT THE INITIAL

ASSESSMENT OF REVENUE IS NOT DUE TO THE STATE AT THAT TIME NOR IS IT LIKELY EVER TO BE DUE IN THE FULL AMOUNT.

BUT IN FAILING TO ACHIEVE THEIR LEGISLATIVE PURPOSE, THE BILL IS NOT MERELY INNOCUOUS. THEY COULD BE A SOURCE OF REAL HARM AND ECONOMIC HARDSHIP TO THE TAXPAYER. AS NOTED IN THE JANUARY 17, 1986 LETTER FROM THE ATTORNEY GENERAL'S OFFICE TO THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE:

"THE DEPARTMENT OF REVENUE HAS EXPRESSED CONCERN THAT SIMPLE DISCLOSURE OF THE AMOUNT OF AN ASSESSMENT MIGHT REVEAL SENSITIVE INFORMATION ABOUT TAXPAYERS....IN THE OIL INDUSTRY, IT IS POSSIBLE THAT DISCLOSURE OF ASSESSMENTS COULD ALLOW ONE TAXPAYER TO LEARN VALUABLE INFORMATION ABOUT THE TRANSPORTATION COSTS OR VALUATION PRACTICES OF ITS COMPETITORS."

FINALLY, WE RECOGNIZE THE DESIRE OF THE LEGISLATURE TO FULFILL ITS OVERSIGHT RESPONSIBILITIES OF THE REVENUE COLLECTING FUNCTION BUT WE SUBMIT THAT THE LEGISLATURE ALREADY HAS THE TOOLS IN HAND TO FULFILL THAT FUNCTION THROUGH OVERSIGHT OF THE DEPARTMENT OF REVENUE. THE LEGISLATURE MAY AND SHOULD ENSURE THAT THE DEPARTMENT OF REVENUE IS AUDITING AND COLLECTING REVENUES IN AN EFFICIENT AND EXPEDITIOUS MANNER. BUT IT CAN DO SO WITHOUT BREACHING THE CONFIDENTIALITY THAT PRESENTLY EXIST BETWEEN THE DEPARTMENT OF REVENUE AND THE TAXPAYER.

FEDERAL TAX SYSTEM - AVOIDANCE OF ADMINISTRATIVE PROCEDURES
FOR DISPUTED TAX YEARS

The federal tax system contains a mechanism for challenging disputed taxes without proceeding through the IRS administrative review procedures. The mechanism operates as follows.

Step 1

The taxpayer must pay any disputed tax and file a claim for refund from the IRS using the appropriate forms. The claim for refund must be filed within a stated time period. It is contemplated that the refund claim would cover all open issues for that year. The payment of tax may occur at the time

- of filing the return,
- after audit of the return but prior to issuance of a 30 day letter describing the taxpayer's appeal rights, or
- during the IRS administrative appeal process.

Generally, language is included in an agreement to pay disputed tax to the effect that the payment does not constitute a waiver of judicial appeal rights.

Step 2

The taxpayer may file a suit for refund in the federal district court or Court of Claims at the earlier of

- 6 months after the claim for refund was filed, or
- the date of denial of the claim for refund by the IRS (prior to the expiration of the 6 months).

The suit for refund must be filed within a stated time period.

DEPARTMENT OF REVENUE

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SA
JUNEAU, ALASKA 99811

February 4, 1986

The Honorable Al Adams
Chairman, House Finance Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Adams:

At the conclusion of last Friday's hearing there remained some confusion concerning why the Audit Division had several existing vacancies among its authorized positions.

Currently we have seven vacant positions, three in our Appeals Branch, two in the Juneau Audit Group and one each in the Petroleum Audit Group and the Anchorage Audit Group. These seven represent about eighteen percent of the auditor staffing allowed. We also have five clerical/technician positions vacant at this time, representing about twelve percent of the total clerical staffing authorized.

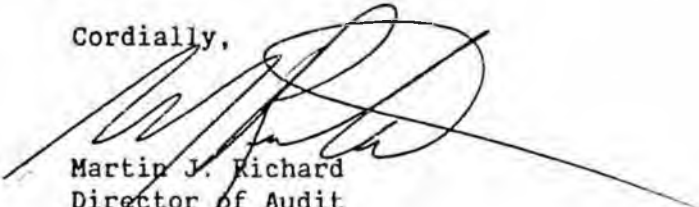
We are aware that the vacancy factor, at least in the number of positions that are vacant, is higher than the 6.1% budgeted for FY86. Several situations have caused our current high vacancy level. These are listed as follows:

- a) As was testified at the hearing, one position was intentionally left vacant by past management of the Petroleum Revenue Division to meet the budgeted vacancy factor.
- b) The Division was required to reclassify several auditor positions at a cost of \$48,000. Funding for this FY86 cost was generated by increasing our vacancy level.
- c) The Division was required to fund a part of the negotiated salary increase without additional legislative appropriation.
- d) Due to continued revenue declines, the Audit Division, with all other Department of Revenue BRU's was required to lapse FY85 personal service funds totaling \$67,600. Plans for this lapse were begun in March 1985 and the Division postponed its plan to fill existing vacancies at that time.

- e) Earlier in this fiscal year, we were required to reconcile PACS to actual payroll costs incurred and take into consideration position vacancies. This exercise took place after the divisional reorganization. To ensure flexibility while our managers completed a review of the new Division's operations, the PACS reconciliation did not fund all PCNs for the full twelve months. After completing the review, the Division's management was able to direct vacant positions to those phases of our operation which were understaffed. Consequently, three vacant positions located in the Division have been allocated to the Appeals Branch and steps to fill them are currently being taken. Likewise, vacant clerical/technician positions located in the old Audit Division in Juneau are being transferred to the Petroleum Audit Group and the Appeals Branch and are to be filled by early March.

Although we are scheduled to fill nearly every vacant position in this Division by fiscal year end, budgetary constraints will not allow us to fill them all. For FY87, full funding of our budget request will enable us to operate at full staff as shown on the PACS computer run which was made a part of our budget document. However, when a position does become vacant during the year, we will be unable to fill it immediately due to the vacancy adjustment factor required to be built into our budget. This factor computed at 6.1% of our total personnel service costs for all authorized PCN's totals \$236,000 which would fund four journeyman auditors for an entire year.

Cordially,



Martin J. Richard
Director of Audit
(907) 465-2320

MJR/SEK/tb

cc: House Finance Committee Members

86-32

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

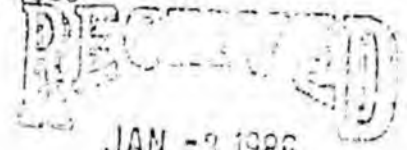
DEPARTMENT OF REVENUE

POUCH 5
JUNEAU ALASKA 99811
PHONE (907) 465 2500

OFFICE OF THE COMMISSIONER

*Bank up
in
yellow
paper*

January 2, 1986



JAN - 2 1986

LEGISLATIVE
AUDIT

Gerald L. Wilkerson
Division of Legislative Audit
Pouch W
Juneau, AK 99811

Dear Mr. Wilkerson:

We appreciate the opportunity to provide information to you concerning our audit program. Your memorandum of December 3 posed five questions, each asking for statistical information. Our audit staff has compiled this data and are confident that it represents a conservative estimate.

Question #1 How many oil and gas tax years per taxpayer does the Department of Revenue currently have under audit?

Answer:

Chapter 21

| <u># of taxpayers under audit</u> | <u>Tax year(s) under audit</u> |
|-----------------------------------|--------------------------------|
| 4 | 1981 |
| 3 | 1980-1981 |
| 3 | 1979-1981 |
| Total 10 | 19 |

Chapter 55

| <u># of taxpayers under audit</u> | <u>Tax year(s) under audit</u> |
|-----------------------------------|--------------------------------|
| 1 | 1982 |
| 3 | 1981-1982 |
| 3 | 1980-1981 |
| 3 | 1982-1983 |
| 4 | 1981-1983 |
| 2 | 1980-1982 |
| Total 16 | 51 |

Question #2 Based on historical experience, how much uncollected tax revenue do these backlogged tax audits represent?

Answer:

Potential Deficiency *\$463,351,000

* Note: This figure represents potential tax assessments in addition to the \$840 million currently in appeal status.

Comment: Presently we have seven auditors assigned to the Chapter 21 and 55 taxes. Often, the field work will require the presence of two or more auditors in order to complete it within a reasonable period of time. Thus, our most experienced auditors may be the lead auditor on one case and be required to assist others on another case. We estimate that with the addition of several more auditors, our most experienced auditors would be able to devote themselves entirely to the larger cases, and not be required to assist in the less productive capacity as an assistant.

Question #3 How many of the tax years referred to in question #1 face "statute of limitations" deadlines within the next twelve months that foreseeably could restrict the State's authority to eventually collect unpaid taxes as determined by an audit?

Answer: There is no restriction on the state's ability to assess taxes in accordance with law. All tax years scheduled in the answer to question #1 will expire on or before December 31, 1986. We expect that each taxpayer will routinely continue to extend the expiration date by signing waivers. While signing waivers effectively gives us additional time in which to complete our audits, in actuality this approach only temporarily postpones work that must be done and increases the backlog of audit cases to be scheduled and completed. See also our answer to Question #5.

Question #4 How many auditors would be needed to alleviate this backlog, plus maintain an adequate ongoing audit effort over the next three fiscal years?

Answer: It should be noted that audits are usually commenced a year or more following the year for which a return is filed. The complexity and number of issues involved in the audits has increased over time and is only now generally understood. As a consequence, our analysis of workload and personnel requirements is undergoing review.

In order to complete the audits of tax years 1979-1983, within the three year period, to begin conducting net profit share lease and royalty audits, and to devote audit resources to smaller producing companies we would need eleven additional

auditors. Of the eleven, one position would be hired at the revenue auditor V level as a lead auditor, five would be hired as senior auditors at the revenue auditor IV level and five at the revenue auditor III journeyman level. Adding untrained staff will not immediately alleviate our understaffing problems. At least one year of intensive classroom and on-the-job training is required to bring each recruit to the point where they can perform field audits without close supervision from a lead auditor. Although we would attempt to hire candidates with experience in oil and gas accounting and auditing, the training period involved remains lengthy. As a general rule, an auditor cannot ascend to the lead position without three years experience.

* Note: We have not commented on associated costs which would necessarily be incurred with the hiring of additional auditors. These costs include space lease and computer and data processing expenses, clerical support, office equipment and travel expenses.

Question #5 Based on historical experience, how much increased State revenue would you estimate each additional auditor would produce, over and above each position's associated costs?

Answer: Your question asks "how much increased State revenue" would be generated by adding audit staff. Many variables make this difficult to answer with certainty. The estimate given in question #2 of \$463 million is based upon our experience in auditing prior years' oil and gas returns. The issues developed in audits currently under appeal are anticipated to exist on subsequent returns filed. As most of the audit issues are being appealed by the taxpayers, future court decisions may also have a substantial impact on the amount of increased revenue actually received by the State. The \$463 million is an estimate of the potential deficiency our auditors may assess. This amount also represents assessments which presumably would be assessed whether or not the audit staff was increased. Additional staff would probably speed assessments and ultimate collections. Appeal, and eventual collection may be postponed several years.

We must also point out that this non-assessed revenue is not in jeopardy at this time. As stated in the answer to question #3, taxpayers willingly sign statute extension waivers. Should they discontinue this practice, the department would have other alternatives available to it, including jeopardy assessments.

There would be two advantages to increasing the number of auditors on our staff. First, a more comprehensive audit could be conducted and issues which we are currently "passing on" can be further developed, possibly resulting in larger assessments.

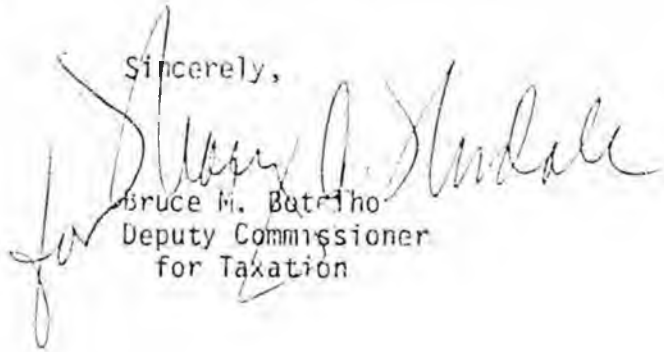
Gerald L. Wilkerson
January 2, 1986
Page 4

Second, by freeing our lead auditors to devote themselves entirely to their own cases, field audits could be completed and assessments issued quicker.

As you are undoubtedly aware, there has been increasing pressure on State government to reduce spending in response to falling revenues. Although it is often times difficult to measure the revenue impact our audit and compliance programs have, we are confident that this agency's audit presence has a significant bearing on revenues ultimately received into the general fund. Using the statistics we compile to measure our performance, for every dollar we spend administering the petroleum related tax types we return \$9.58 in additional tax assessments.

Recently we asked several states how much their tax administration programs cost in comparison to total revenues administered. We found that on the low end Washington spends \$3.97 per thousand dollars of total receipts. On the high end Montana spends \$7.22 and Kansas \$8.50 per thousand. At the present time Alaska spends approximately \$2.50 for every one thousand dollars in actual tax receipts. Certainly our tax structure differs substantially from those states which impose individual income tax and sales taxes. We do not require the one hundred or more auditors which these states employ.

Sincerely,


for Bruce M. Botelho
Deputy Commissioner
for Taxation

BMB:SEK:m11

cc: Ray Gillespie
Chief of Staff
Office of the Governor

Alaska State Legislature
House of Representatives



Official Business

Al Adams
Chairman
Committee on Finance

February 22, 1986

WHILE IN SESSION
Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3706

OUT OF SESSION
P.O. Box 335
Kotzebue, Alaska 99752
(907) 442-3320
1024 W. 6th
Anchorage, Alaska 99501
(907) 274-0615

Mary A. Nordale
Commissioner
Department of Revenue
Pouch S
Juneau, Alaska 99811

Dear Commissioner Nordale:

I received your letter reiterating your opposition to prepayment of assessed taxes, especially anytime before the close of formal hearing deliberations. Let me assure you that I am well aware of your opposition to the prepayment proposal.

With my concurrence and approval, Representative Cotten is preparing a draft bill to provide for prepayment. The draft is not yet finished, but as soon as it is, you will receive a copy so that you can review it and comment on it.

Even though you do not agree with us on this matter, we hope to continue working cooperatively with you. I trust that your letter was also written in the spirit of cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Al Adams".

Al Adams, Chair
House Finance Committee

cc: Representative Sam Cotten

Overview and Sectional Analysis - HB 353

Overview.

Separate accounting and apportionment by formula. Whenever a business operates in more than one state, and a state wishes to impose a corporate income tax on that business, some method must be used to determine how much of the business' overall income was earned within the taxing state. There are two historic solutions to this problem: the separate accounting approach and the formula apportionment approach. Separate accounting, sometimes known as the "direct" method, the "arm's length" method, or the "separate entity" method, does what those names imply: it treats the in-state activity as if it were a separate entity dealing at arm's length with the remainder (the out-of-state portion) of the corporation. It looks only at in-state revenues and expenses and ignores the remainder of the corporate activity outside the state. Apportionment by formula, on the other hand, looks at the overall income of the corporation, both in-state and out-of-state. It then attributes a part of that overall income to the taxing state by a formula based on certain indicators of business presence such as payroll, property and sales. Thus, if one half of each of a business' payroll, property and sales are in the state, that formula would attribute one half of the corporation's overall income to the state.

Historically, states have generally preferred to use apportionment formulas rather than separate accounting because they are easier to administer, and because of a fear that

corporate taxpayers, under separate accounting, can manipulate intercompany transactions so that their books show that little or no profit was earned in the taxing state.

History of corporate income tax in Alaska. Prior to 1978, Alaska used a form of formula apportionment for all corporate taxpayers. Between 1974 and 1978, the legislature studied carefully how the standard apportionment formula (based on payroll, property and sales) would work for oil production income when Prudhoe Bay production began. The legislature determined that the formula would be an extremely defective tool for properly determining the income from production in Alaska. Some of the reasons follow: since oil production is generally far more profitable than the other activities of an oil company (such as refining and marketing), and since formula apportionment looks at the overall profitability of a company, the profitability of production is diluted when a formula is used. Further, none of the traditional factors used in the formula is suited to oil production in Alaska. The property factor does not include the value of the oil itself, but rather only the cost of the lease and the value of the wells. Thus, the most important asset which an oil company has (its oil reserves) is not reflected in the formula. The sales factor is not sensitive to the magnitude of production in Alaska, since only a few barrels are sold in Alaska. No matter how many more barrels are produced, the sales

factor attributes the sale of that oil out-of-state. Finally, oil production is not labor intensive, so that the payroll necessary for oil production is disproportionate to the payroll necessary for refining and marketing. As a result of the failure of the formula to properly attribute income to Alaska, oil companies would pay tax on only a fraction of the income which they actually earned in Alaska, and thus the effective tax rate for oil producers would be only a fraction of the effective tax rate for other businesses.

For all these reasons, the legislature adopted the separate accounting approach (AS 43.21) in 1978. Separate accounting for oil production takes the wellhead value of the oil (gross income) and deducts all the costs associated with producing that income to arrive at net income, which is then taxed at the general corporate income tax rate. For pipelines, net income is the income reported to the Federal Energy Regulatory Commission (FERC) with minor adjustments.

Shortly after the law was passed in 1978, the major oil companies challenged the law, asserting primarily that separate accounting was invalid under the Commerce Clause of the United States Constitution. In 1983, an Anchorage superior court ruled that AS 43.21 was constitutional. The oil companies appealed, and the case is presently pending before the state supreme court. A decision could come out anytime within the next 18 months.

By 1981, more than \$2 billion had been collected under the challenged statute and it was estimated that by 1986, when the litigation might finally be resolved, the state's potential liability would rise to more than \$9 billion. There were attempts to settle the litigation in the 1981 session. After those attempts failed, the legislature, recognizing that the \$9 billion contingent liability was too great a risk to take, passed a bill which did three things. First, it made retroactive amendments to AS 43.21 which resolved many of the oil companies' complaints about that act. Second, it repealed the separate accounting statute for tax years beginning in 1982, and adopted in its place a modified apportionment formula. That system uses a two factor (extraction and property) formula for producers, and a two factor (property and sales) formula for pipelines and, if a taxpayer does both, a three factor (extraction, property and sales) formula. This modified formula is better than the old standard three factor formula, but is not as accurate as separate accounting. Finally, it raised the severance tax from a nominal rate of 12.25% to a nominal rate of 15%. At the time the bill was passed, it was estimated that the net effect of changing both the income tax and the severance tax would be a slight decline in revenue over the long term.

Section-by-section Analysis

Section 1.

Expresses the legislature's reasons for returning to the separate accounting method of determining the in-state income of a multi-state taxpayer that produces or transports by pipeline oil or natural gas.

Section 2.

Amends the corporate income tax chapter that applies to all corporations (AS 43.20) to indicate that a taxpayer that is exploring, producing, or transporting by pipeline oil or gas in the state is subject to the separate accounting provisions of new AS 43.22. Further, this section modifies the calculations for an AS 43.20 taxpayer (for example, a company that does business in Alaska other than production, but has production income in another state or a company doing business in Alaska that is affiliated with a company which has production or pipeline income) to separate out exploration, production and pipeline transportation income from the apportionment provisions of that chapter. The second part of this section is a "mirror image" of the provision in the separate accounting statute which accounts for a 43.22 taxpayer's "other" income (AS 43.22.040). Thus, whichever chapter a taxpayer is subject to, the production

and pipeline income will be separately accounted and the remainder of the income will be apportioned by formula.

Section 3.

Enacts a new chapter applicable to taxpayers engaged in exploration, production and pipeline transportation of oil and gas in the state. The section largely re-enacts the separate accounting law which was in effect prior to 1981 with minor modifications which clarify certain aspects of the former approach. Under the new chapter, a taxpayer's in-state exploration and production income is separately accounted (AS 43.22.020). Gross income is wellhead value. From this, the taxpayer deducts taxes, royalty payments, operating costs, interest, depreciation, overhead, and other costs associated with production to arrive at net income. There is no deduction for the Windfall Profits Tax. Recent cases have held that it is permissible for a state to treat that tax as it treats other federal income taxes, and not allow a deduction. Pipeline income under the statute is simply the net income that the corporation reports to FERC with minor modifications (AS 43.22.030). Any other income of the corporation, such as refining, marketing or marine transportation income, is calculated by the formula apportionment method. AS 43.22.040.

(Due to a drafting error, there is no Section 4.)

Section 5.

Reduces the severance tax to the pre-1981 amendment level of 12.25%. The section recognizes that when separate accounting was repealed in 1981, the severance tax was raised. The current nominal rate is 15%.

Section 6.

Repeals the current modified formula apportionment method for taxing oil and gas production and pipeline transportation income.

Section 7.

Makes the separate account provisions of the Act retroactive to January 1, 1985. Tax laws should operate throughout entire tax years; commonly, when tax laws are enacted mid-year, they are retroactive to the beginning of that year.

Section 8.

Delays applicability of the severance tax reduction provision until January 1, 1987. This delay is intended to

recoup the unanticipated loss of revenue which resulted from
the 1981 legislation.

Section 9.

Makes the Act take effect only if the state Supreme Court
wholly affirms the decision of the lower court upholding the
validity of former AS 43.21. Thus, if the court were only
to uphold part of the former act or were to send the case
back to the lower court for any reason the Act will not
become effective. Additionally, the section does not
address the possibility of the United States Supreme Court
reversing the Alaska court.

II.

OVERVIEW OF ISSUES
PERTAINING TO HB 353

It was determined that separate accounting would more accurately reflect how much of an oil company's income is earned in Alaska.

B. The constitutionality of separate accounting was quickly challenged by the major oil companies in Arco v. State. The 1981 legislature was faced with the threat of having to refund about \$9 billion in 1985 when resolution of the litigation was expected. In response to this threat, the legislature repealed separate accounting and enacted modified apportionment in its place. In 1983, an Anchorage superior court judge ruled that separate accounting is constitutional. This decision was unanimously upheld by the Alaska Supreme Court in August, 1985. It was again upheld this past Monday, January 13, 1986, when the US Supreme Court refused to review the industry's appeal of the state supreme court's ruling, thus ending the lawsuit.

C. Definitions:

1. Formula apportionment: If a firm operates in several states and one of the states wishes to tax its income, a method must be chosen to determine how much income was actually earned in the taxing state. The formula apportionment method looks at the firm's worldwide income and, by use of a formula, attributes part of it to the taxing state. The standard formula uses three indicators of business presence in the state: payroll, property and sales.
2. Modified apportionment: This is a modified version of formula apportionment. It is different because of the substitution of the extraction factor for the payroll factor since the former is a better indicator of oil industry presence in Alaska. The extraction factor helps to determine income from oil production by measuring the amount of a company's in-state production activity. Since in Alaska production is far more prevalent than marketing and refining, modified apportionment more accurately determines oil company income and profitability in Alaska than does the standard formula apportionment method.
3. Separate accounting: This method does not use a formula to carve out a portion of worldwide income and attribute it to Alaska. Instead, it takes the wellhead value of oil (gross income) in Alaska and deducts from it all the costs of production to arrive at net income. This amount is then taxed at the same corporate income tax rate that all other non-oil businesses pay. Because it is considered by many to be the most accurate way to measure the value of oil production activity it comes closest to measuring income earned only in Alaska, and therefore, the income of oil companies directly attributable to business activities in Alaska.

IV. What important issues are involved in deciding whether to enact HB 353?

- A. Is separate accounting a better, fairer way to tax the oil

I. What does HB 353 do?

- A. HB 353 would reinstate separate accounting as the method that the oil industry must use to compute income earned in Alaska to determine its income tax liability to the state.
- B. HB 353 returns the nominal severance tax rate from 15% to its pre-1981 level of 12.25%. The nominal rate was raised in 1981 at the same time that separate accounting was repealed in order to compensate for the loss in tax revenue anticipated at the time due to implementation of modified apportionment.

II. Summary

- A. HB 353 will insure that the state receives its fair share of Alaskan oil wealth. The industry's share has increased since the 1981 tax changes while the state's share has decreased. The changeover has cost the state approximately \$850 million from FY82 through FY86 and an additional \$1.4 billion can be raised from FY87 through FY2005 if the state returns to its pre-1981 tax structure.
- B. The Alaska Supreme Court has found that separate accounting is constitutional in every respect. The court even declared that it is a better measure of oil industry income in Alaska than formula apportionment. The US Supreme Court essentially concurred in this decision on January 13, 1986, when it refused to review the industry's appeal of the state court's ruling.
- C. Separate accounting is a fairer tax because it will lower the income tax on less profitable investments like marginal field exploration and development and raise the income tax on highly profitable fields like Prudhoe Bay (i.e., conventional recovery in the Sadlerochit reservoir). The industry can afford a higher income tax on Prudhoe because it made as much in FY 85 as it made in FY 82 (about \$6 billion in real terms) even with the downward price spiral. Additionally, the income tax increase on Prudhoe would be coupled with a 22% severance tax decrease under HB 353.
- D. Future tax policy should be directed by the overwhelming importance of Prudhoe Bay to our revenue stability. Even with marginal field development, Prudhoe is still expected to provide almost 80% of production through 2010. Almost two thirds of recoverable reserves in Alaska are found in Prudhoe.

III. Background

- A. After four years of comprehensive study, the 1978 legislature changed the method of accounting that oil companies must use to compute their corporate income tax liability from formula apportionment to separate accounting.

industry in Alaska?

- B. Will HB 353 discourage further exploration and development of new oil fields in Alaska?
- C. Will HB 353 destabilize Alaska's business climate?
- D. How will a return to separate accounting affect our tax revenues?
- E. How will a reduction in the severance tax affect our tax revenues?
- F. How will the inevitable decline in Prudhoe Bay production affect Alaska's revenue picture?
- G. Should the legislature consider any other changes to our oil & gas tax structure?
- H. What is the current status of Arco v. State?
- I. Was there a conspiracy in 1981?
- J. How healthy is the oil industry at present?
- K. How does taxation of the oil industry in Alaska compare to taxation of the industry in other states and at the federal level?

These questions are answered in the following sections.

V. Is separate accounting a better and fairer tax accounting method for Alaska?

- A. This issue poses two major questions: (1) Which method -- separate accounting or formula apportionment type of accounting -- best measures the amount of income earned within the taxing state? A fair tax will only apply to income earned in that particular state. (2) What is Alaska's "fair share" of the oil wealth provided by our oil resources?
- B. Question #1 was answered by the legislature in 1978, again by Alaska courts in both 1983 and 1985, and again by the US Supreme Court last Monday. In August, '85, the Alaska Supreme Court stated that separate accounting is the prevailing method throughout the United States for reporting income from oil production because it conforms more to an oil company's financial accounting procedures and "more accurately reflects income than formula apportionment. ...[T]he Alaska legislature turned to separate accounting for oil producing businesses only after it determined that the use of formula apportionment to compute Alaska's share of oil production income would

seriously underestimate the production income that was rightly subject to taxation by this state (emphasis added)." The Court noted further that the case of Sohio is the best illustration of the superiority of separate accounting as a means of allocating income earned in a particular jurisdiction. During the period 1978-80, Sohio maintained that only 10% of its payroll, 12% of its sales and 50% of its property were in Alaska. Yet its 1980 annual report states that over 90% of its total oil production derived from reserves in Alaska. Additionally, documents submitted to the Court (and not disputed by the companies) indicate that Sohio's earnings had elevated it from 17th to 7th industrywide. So, the Court concluded, "... the traditional formula apportionment method would inadequately reflect the phenomenal value of the companies' oil reserves in Alaska."

C. Separate accounting is also superior to modified apportionment because it taxes conventional recovery at Prudhoe Bay more heavily than less profitable ventures, such as new technology applications at Prudhoe, and exploration and development in marginal fields. These less profitable ventures will actually experience an income tax reduction under separate accounting, just as Prudhoe will experience a tax increase. Prudhoe can afford to pay more taxes and still be highly profitable. A 1984 Institute of Social & Economic Research (ISER) study found that Prudhoe had made the companies about \$9 billion in net profits and that its 1982 profit rate hovered around 25%. But some of the riskier investments that industry is making in Alaska that are expected to yield a less-than-average profit could use an additional tax break. This would be a much more equitable approach than modified apportionment which taxes all industry activities at approximately the same rate regardless of risk and expected profit.

D. With regard to question #2, Alaska's fair share should be thought of principally in philosophical terms rather than only in terms of numbers. The following comments were made in a joint statement from the Governor and the legislative leadership in March, 1981: "[A]ny significant decreases in State oil and gas revenues appear both unwarranted and unsupported by the majority of Alaskans. The State's current level of taxation ... provides that both the oil companies and the federal government will receive greater shares of Alaska's wealth than will Alaskans. Accordingly, any greater percentage granted the former at the expense of the latter would be inequitable ... All agree that any changes [to the tax code] that would give large sums of money to the oil industry at the expense of the people of Alaska are unacceptable." These statements express the philosophy behind Alaska's oil and gas tax code and provide a framework for determining if Alaska receives its fair share of the oil wealth. They continue to be relevant in 1986.

E. With this philosophy firmly in mind, consider a "shares" analysis prepared by economist Eban Goodstein in mid 1985. He found that in FY82, shares of oil wealth in Alaska were divided as follows: industry - 41%, federal government - 30%, and state government - 29%. By FY85, the shares had shifted such that industry received 50%, the federal government received 22% and the state received 27%.

F. Alaska is not receiving its fair share as defined by the Governor and the legislature in 1981 because its share has declined while the oil industry's share has increased. Goodstein's analysis further suggests that the change from separate accounting to modified apportionment was one of the reasons why Alaska's share diminished and the industry's share increased. His study concludes that if separate accounting had not been repealed, the FY82 shares would have been 42% industry, 30% federal government and 28% state government while the FY85 shares would have been 47% industry, 21% federal government and 33% state government. A shares analysis prepared by the House Research Agency in December, 1985, compares closely with the Goodstein analysis for the years FY82 through FY85.

VI. Will HB 353 discourage exploration and development?

A. The major determinants of a company's decision to explore and develop a particular oil field are availability of the oil, the price of oil, and the cost of production in that particular field. These factors determine the rate of return which in turn determines whether or not a field will be explored or developed. Since a state's tax rate is only one aspect of the cost of production, and the cost of production is only one factor in the rate of return equation, it follows that the tax rate can only play a small role in the company's final decision to explore or develop. Although taxation may have a psychological affect on a company's decision, it will rarely be the principal factor in the decision making process. The overall rate of return is the ultimate decision maker and the rate of taxation plays only a small part in determining that rate of return. As the ISER report states: "[F]our factors are typically more important than state tax rates in shaping the pattern of resource development." These factors are described as geologic good fortune, ownership of the mineral rights, cost environment and world energy prices.

B. Unlike formula or modified formula apportionment, separate accounting only taxes a company on profits made in Alaska. In fact, a company will only pay a tax on profitable fields in Alaska so that if it has production activity at Prudhoe Bay and exploratory activities elsewhere, it will only pay taxes on the Prudhoe production activity because it does not yet derive any income from its exploratory work. Moreover, separate accounting would allow the company to deduct its

exploratory expenses from its Prudhoe tax liability. Apportionment, on the other hand, taxes a portion of a company's worldwide income so the company will pay taxes in Alaska even if all its profits were made elsewhere and even if its Alaskan activities operate at a loss. Separate accounting, then, is a better incentive for exploration and development since a company will not pay taxes until the field it is exploring or developing starts to produce and generates a profit. In a letter to the House Finance Committee, ISER economics professor Matthew Berman explained this effect as follows: "[S]eparate accounting...has virtually no adverse effect on development of marginal fields. A firm ...will make the investment only if it expects such development to be profitable after subtracting all taxes. Under... separate accounting... the proposed investment...will generate a tax liability...only if the investment is profitable anyway." Berman continues, "Corporate income taxes assessed under the modified apportionment system... may have some adverse effects [because] any investment, profitable or not, will generate an Alaska income tax liability." Berman reaches the same conclusion for exploration of marginal fields. A mid 1985 issue of Pacific OCS News, a trade journal, made a similar observation about Conoco's development of Milne Point: "The start up of this field begins a new era of marginal, N. Slope projects ... If the state returns to the pre-1982 'separate accounting' tax methods, it could offer a significant incentive to this type of small development, because it would be taxed on its own profitability and not on the companies' national profit base."

C. Exploration and development takes place in many jurisdictions that require separate accounting. Foreign nations, the US Government, Oklahoma, Louisiana and Mississippi all utilize separate accounting and all have experienced exploration and development activity.

D. Although the industry indicated to the legislature last session that a return to separate accounting would hamper their exploration and development activities in Alaska, their annual reports appear to lead their shareholders to a much different conclusion. Take, for example, the annual reports of ARCO from 1978 to 1981, the years that separate accounting was on the books. In 1978, ARCO's earnings were up 15%; in 1979, they were up 45%; in 1980, they were up 42%; and in 1981, they were up slightly again. "As it was in 1978", ARCO informed its shareholders, "the North Slope of Alaska was a prime source of the Company's earnings improvement in 1979." Clearly, separate accounting did not interfere with its earnings nor its exploration and development plans. These plans were in fact expanded dramatically during the separate accounting years. The 1979 annual report states: "For its part, Atlantic Richfield has dramatically intensified its search for new domestic reserves of oil and gas." Exploration and development occurred within Alaska during

these years. For example, Kuparuk development was started in 1979 and completed in 1981, "three months ahead of schedule", according to the 1981 ARCO annual report. Surprisingly, the first year that ARCO complains about its tax burden to its shareholders is 1982 -- a full year after Alaska repealed its separate accounting statute.

E. According to economist Goodstein, the oil companies made so much money in Alaska between 1982 and 1985 that \$24 billion in profits went outside. According to ARCO Alaska president Harold Heinze's remarks to the Committee last spring, the industry has invested about \$6 billion in Alaska during this period. Perhaps more of the \$24 billion that went outside would also have been invested in Alaska if separate accounting had been on the books to encourage marginal exploration and development without paying taxes.

F. HB 353 should also encourage exploration and development because it reduces the amount of severance tax that a company would pay. As Vince Wright with the Department of Revenue pointed out to the House Finance Committee in May, 1985, "On the severance tax side ... what you have done is lowered the rate from 15% to 12.25% so in fact ... this might be more of an inducement to expand exploration." For fields that have a 15% rate now, HB 353 would result in a 22.4% reduction in severance taxes.

VII. Will HB 353 create an unstable business climate for the oil industry in Alaska?

A. Since HB 353 will encourage exploration and development, it should make Alaska's business climate even more attractive to the industry.

B. Since 1955, the state's oil tax structure has been through eleven major changes. HB 353 must be viewed in this historical context. A state's tax code should be dynamic and flexible as well as a reflection of a state's changeable economic picture and public policy goals.

C. HB 353 does not create any new taxes. It merely reinstates taxes that were on the books before 1981. Moreover, separate accounting was repealed in 1981 largely because of the threat posed by the lawsuit. The US Supreme Court has laid that issue to rest and HB 353 merely returns our system to its pre-1981 state. The House floor debate on the 1981 amendments indicates that a bill like HB 353 was in fact anticipated. Consider the comments of the majority leader in the House at the time the amendments were enacted: "[...] that time... we should have an answer to that lawsuit. And with that answer, we should be able to develop possibly a more consistent taxing policy at that time." Apparently it was expected that the legislature would reconsider its oil and gas tax structure

once the constitutional status of separate accounting was determined.

D. It is perhaps more appropriate to view the legislature's 1981 action as the one that created an unstable business climate. This is especially true in light of the fact that the 1981 revisions did create an entirely new method of accounting for income tax liability. Modified apportionment is not used by any other state that relies heavily on oil production activity. And, whereas separate accounting was adopted only after four years of careful, comprehensive study of all tax possibilities, modified apportionment was adopted with little analysis and hardly any debate.

E. Another way to look at stability is from the state's point of view. A stable revenue stream to provide necessary public services is just as important to Alaskans as maintaining a stable business climate. This is especially true in light of the fact that government dollars in large part determine the health of Alaska's economy. The 1981 amendments destabilized our revenue stream because they reduced our share of the oil money. HB 353 returns us to the old system, returns us to our pre-1981 share of the wealth, and, therefore, stabilizes our revenue stream.

VIII. How will a return to separate accounting affect our tax revenues?

A. The Department of Revenue's 10/31/85 fiscal analysis of HB 353 shows that, according to the mean revenue projections, the bill would increase our tax revenues by about \$1.4 billion between FY87 and FY2005. (A new fiscal analysis from DOR is expected in early 1986 that will analyze the impact of the TAPS settlement on the tax structure proposed in HB 353.) Beginning in FY2000, the DOR fiscal note predicts that the state would make less from separate accounting and the lowering of the severance tax than if the higher severance tax and modified apportionment were in effect. This is because of Prudhoe's decline in relation to profits companies will make elsewhere in the world.

B. It is disturbing to note that the Department's analysis shows that the 1981 tax changes have cost the state approximately \$850 million in tax revenues from FY82 through the end of the current fiscal year.

IX. How will the proposed severance tax affect our tax revenues?

A. Because HB 353 lowers the nominal severance tax rate from 15% to 12.25%, severance tax revenues are reduced. However, because of the separate accounting impact, overall tax revenues are increased (see previous section). The DOR fiscal note shows that if the nominal rate was not reduced in HB 353,

the state would gain an additional \$1.5 billion between FY87 and FY2005 or a total additional gain of approximately \$2.9 billion from reimposition of separate accounting and leaving the nominal severance tax rate at 15%.

B. It is important to understand another impact of reducing the nominal severance tax. The actual severance tax paid by the taxpayer depends on the economic limit factor (ELF). When applied to the nominal rate, the ELF reduces the effective rate and therefore the actual amount of severance tax that is paid to the state. Beginning in FY88 when Prudhoe production starts to decline, the ELF will cause our severance tax receipts to decline dramatically because it will lower our severance tax revenues from Prudhoe considerably. According to DOR's June 1985 revenue forecast, FY88 severance tax receipts will be \$230 million less than FY87 receipts. Since HB 353 drops the nominal rate, that change in combination with the ELF will increase the \$230 million drop by another \$143 million, according to calculations made from OMB data.

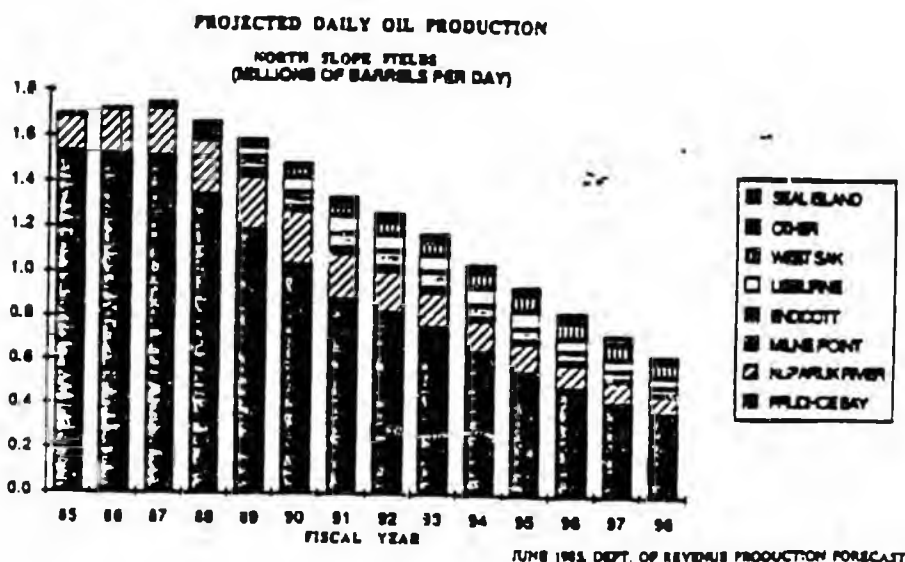
C. An OMB analysis indicates that repeal of the ELF could bring the state an additional \$2.4 billion in revenues from FY87 to FY94.

D. The ELF was developed because it was thought that the burden of the severance tax would tend to close a field down before all the oil was taken out of it. The ELF is designed to prolong the life of a field -- and therefore stretch oil revenues out further over time -- by lowering the tax burden when the field is not producing very much oil. But in its 1984 report, ISER concluded that the ELF does not do a very good job of stretching out our revenues; in fact it only adds an additional year or two to the revenue stream. However, the report does conclude that the ELF is valuable as an incentive to explore and develop marginal fields. This is because marginal fields generally have lower production rates per well, so that the ELF significantly lowers their actual severance tax burden. These conclusions suggest that further consideration of the ELF's impact on revenues and production is warranted and that it should be looked at on an individual field basis since it may encourage production where there otherwise might not be any, such as in a marginal field, but may not have its intended effect on a very profitable field, such as Prudhoe Bay. (Another chapter of this report deals specifically with this problem and proposes one solution to it.)

X. How does the decline of Prudhoe Bay affect our revenues?

A. Prudhoe Bay production to date far outweighs production from any other field in Alaska. The ISER study shows that of the 3.6 billion barrels of oil produced in Alaska from 1959 to 1983, about 3.2 billion of those barrels -- or 90.3% came out of Prudhoe even though the field did not start production

until 1977. ISER also forecast production in the future and found a similar pattern. Using ISER's base case assumptions (real wellhead price of \$17.50 per barrel, declining TAPS tariff, and no change in the federal or state tax structure), of the 8.9 billion barrels likely to be produced between 1983 and 2010, about 6.9 billion -- or 79.4% -- will come from Prudhoe. These figures show that the Prudhoe Bay field is extremely important to Alaska's revenue stability. One draws the same conclusion from the following chart, which depicts production for FY85 through FY98.



B. As Prudhoe declines then, so do our revenues. What is perhaps less apparent is that analysis of future oil production shows that even if all the currently known marginal fields are developed, their combined production cannot make up for the decline of Prudhoe. Lease, tax, and other revenue from development of these fields will not come close to providing Alaska with the wealth it now receives from Prudhoe Bay. As Kay Brown, Director of the Division of Oil & Gas stated to the Permanent Fund trustees, "[B]ased on current knowledge, it is unlikely that new oil and gas discoveries from state lands alone will be sufficient to offset the decline in the main Prudhoe Reservoir. Most of the remaining best prospects appear to be in federal waters and perhaps in the Arctic National Wildlife Refuge." The Division of Oil &

Gas estimates that about 62% of recoverable state reserves in Alaska are in the Sadlerochit (Prudhoe Bay) reservoir.

C. The importance of Prudhoe to our revenue stability should be a driving force in determining the future of Alaska's oil and gas tax structure. It is certainly a valid public policy goal to tax the tremendous profits of Prudhoe Bay. Policy makers should not forget that revenue from production in new fields is not going to make up for the loss of Prudhoe Bay revenues. The \$24 billion in profits that the companies took out of Alaska in the last four years is gone forever; it would be a mistake to continue encouraging them to take their money elsewhere.

D. Although much of Alaska's oil reserves lie off shore, development of these resources will not be a panacea for the decline of Prudhoe, either. These resources are owned by the federal government and therefore, most tax and other revenue benefits will flow back to the feds, not to the state. The only taxes that the state will get are property taxes from onshore facilities. It will not get any lease payments (except from 3-6 miles offshore if President Reagan approves a bill that may be taken up again by Congress in early 1986).

XI. Should any additional changes to the tax code be considered?

A. Ideally, the Alaskan tax code will provide revenue stability to the state even when market forces bring about lower oil prices and even when the quantity of oil in Alaska that can be taxed diminishes. Measuring price and quantity sensitivity is not easy, however.

B. Section VI discusses the fact that separate accounting is a better incentive for exploration and development than modified apportionment because it only requires the payment of taxes when a field is profitable. Many economists believe that a state can facilitate exploration and development of marginal oil fields if it increases the reliance on income taxes and decreases the reliance on severance taxes in the marginal fields. In other words, the state should consider emphasizing taxation of net income instead of gross income in marginal fields. For this reason, Professor Berman concludes that, for marginal fields, net income taxes and net profit shares in leases are superior to excise (such as severance) taxes and royalty shares in leases because a company shares profit with government, not income that just covers expenses. Although 1986 may not be the appropriate time to consider a complete overhaul of our tax and leasing policies, some comprehensive changes may eventually be desirable.

XII. What is the current status of ARCO v. State?

A. The Alaska Supreme Court ruled unanimously in the state's

favor on August 16, 1985. The decision fully supported the state's position that separate accounting is constitutional in every respect.

B. In fact, the Supreme Court went even farther than it had to in upholding the lower court's decision. Instead of stating that separate accounting was an acceptable method of tax accounting, it stated that, for Alaska, separate accounting is preferable to formula apportionment. (See section V for further details.)

C. The oil companies declined to petition the Alaska Supreme Court for a rehearing of the case. In November, 1985 they appealed the decision to the US Supreme Court. The justices declined to take the case on January 13, 1986, thus ending the lawsuit.

D. Though the industry challenged the use of separate accounting in Alaska, it has argued strenuously to be allowed to use it in other states. In at least two states, Wisconsin and South Carolina, the industry took their arguments to the top levels of the court system -- to the state supreme court in South Carolina and to the US Supreme Court in the Wisconsin case. Also, before Prudhoe Bay was in the production stage, the industry tried to file separate accounting returns in Alaska. This demonstrates that the industry is interested in separate accounting when it lowers its tax burden; in other words, when its operations in a state are less profitable than the industry average.

XIII. Was there a conspiracy in 1981?

A. It has been suggested that the oil companies and the Department of Revenue conspired to convince the legislature to enact amendments in 1981 that substantially lowered our fair share of Alaskan oil wealth. Although this point of view is strengthened by the fact that the 1981 amendments now appear to have cost the state about \$850 million, an analysis prepared by OMB suggests that there probably was no conspiracy. The fiscal information provided by the companies to the department, which in turn was used to prepare the legislation's fiscal note, has turned out to be wrong. But it does not appear likely that wrong information was intentionally provided. According to Gregg Erickson, Senior Economist at OMB, "I know of no evidence which would positively rule out the possibility that this discrepancy resulted from an effort to mislead; ... a more plausible explanation is that the oil company experts simply goofed."

B. Although the above information is interesting, what did or did not happen in 1981 should not be the motivation for a

return to our pre-81 tax structure. Rather, the motivating forces should be such aspects of HB 353 as the superiority of separate accounting as evidenced by the recent court ruling, its incentives for exploration and development, and the goal of restoring Alaska's fair share of the wealth created by our abundant oil. In this context it is interesting to note that when the legislature enacted the 1981 changes, it did not repeal the findings section of the original 1978 statute which stated the superiority of separate accounting over an apportionment method.

XIV. Is the oil industry healthy?

A. It would certainly appear that Exxon is healthy. A recent Business Week article made the following observations: "The only surplus at Exxon Corp. is a surplus of cash. ... The bottom line is that Exxon can make a nice living even if the price of oil falls quite a bit more. ... Salomon Bros. estimates that Exxon will have as much as \$7 billion in spare cash to spend through 1988. ... In fact, Exxon's real limitation is not a lack of money but of enough places in which to invest it profitably." Because prices are down right now, Exxon is frugal with investments and cautious about the future. But it is hardly suffering and couldn't be accurately characterized as anything but very healthy.

B. The legislature commissioned a report by Tanzer Economic Associates, Inc. in 1977. Among other things, the report examined many historical examples of tax changes throughout the world. It concluded that "there is one effect almost invariably caused by such tax changes. Namely, an almost automatic reaction of the oil companies to claim that such increased taxation will force them to look elsewhere for increased future production. These claims are sometimes backed up by actions, aimed at getting the country to rescind the tax increase, such as temporarily cutting present production or reducing exploration and development efforts. ... Some of the actions and much of the rhetoric ... is 'theater', aimed at improving a bargaining position, and often needs to be taken with a very large grain of salt." One can infer from this observation that the industry will often exaggerate how it will be affected by a tax change in order to keep the change from occurring.

C. In 1985, the industry uses the current production surplus and price decline pattern as justification for laying off hundreds of Alaskans and cutting daily rates paid to the various oil industry support companies that operate on the Slops. Not surprisingly, it also comes to Juneau and complains bitterly about HB 353, implying that the bill is forcing it to cut back and to consider leaving Alaska. Industry testimony is difficult to accept since we know it is not leaving Alaska, with our Prudhoe bonanza and our

undeveloped reserves, and since we know that HB 353 provides the proper incentives to stay. It becomes even harder to accept when one considers the major factor that explains the majors' current restructuring efforts. Because of falling world oil prices, the fear of takeover is prevalent in industry thinking and the desire to cut costs to a minimum is really motivated by the need to have enough cash around to prohibit an unfriendly takeover (or in the case of some majors, to acquire less healthy companies). Furthermore, declining oil prices is a major factor in the majors' cut backs in exploration activity.

XV. How does taxation of the industry in Alaska compare to taxation in other states and at the federal level?

A. Of the top five oil producing states -- Alaska, California, Texas, Oklahoma and Louisiana, two currently require the use of separate accounting to determine income derived from oil production. These states are Louisiana and Oklahoma. California utilizes formula apportionment and Texas does not have a corporate income tax. (Actually California does require separate accounting in cases where formula apportionment under represents income generation within the state.) In addition, the United States government requires the use of separate accounting in certain instances. Moreover, President Reagan has recently taken an active stance against formula apportionment based on worldwide combination. Since apportionment taxes a portion of a company's worldwide income, some important US trading partners oppose it because they feel that American states take tax dollars away from them. Thus, Reagan has asked Congress to prohibit the use of this kind of formula apportionment at the state level.

B. Another way to compare taxation of the industry in Alaska to industry taxation elsewhere is to compare how much is collected by states from the whole tax code and leasing structure, not just the income tax. The ISER study compared tax and leasing policies in Alaska to such policies in Texas and concluded that "... Alaska and Texas collected approximately the same amount of revenue from oil and gas production." This is interesting because the tax and leasing structure in Texas and Alaska are very different yet, essentially, industry is treated the same. Alaska should not be judged by whether it has a separate accounting or a formula apportionment based income tax but rather by how its policies as a whole impact the oil industry.

XVI. Conclusion

A. HB 353 is well constructed tax reform legislation. It is an attempt to restore Alaska's fair share of the oil wealth to provide Alaskans with desired public services, provide an atmosphere that encourages the oil industry to remain in Alaska, and return Alaska's tax structure to the exhaustively

studied and carefully refined one that existed before it was
challenged by the oil companies in the late 1970s.

John

REINSTATING SEPARATE ACCOUNTING
by Rep. Sam Cotten, D-Eagle River

There has been much recent publicity to the effect that the legislature wants to enact a new oil tax. This is not true. A tax proposal currently under consideration would reinstate a former tax — one recently upheld and endorsed by the Alaska Supreme Court.

In anticipation of Prudhoe Bay productions, two legislatures spent four years intensely studying and debating taxes. In 1978 we determined that separate accounting, used by other oil-producing states and by the federal government itself, was the fairest policy.

The oil companies immediately sued the state. The 1981 legislature was told it might have to repay up to \$5 billion in collected taxes. Under this threat, we repealed separate accounting in 1981 and instituted modified formula apportionment.

This summer, however, the Alaska Supreme Court unanimously upheld the separate accounting law, calling it the preferable tax method for Alaska. The court further noted that formula apportionment would "inadequately reflect the phenomenal value of the companies' oil reserves in Alaska."

In light of the court's ruling, it is only logical that the legislature consider reinstating the tax law it discarded under pressure in 1981. Legislation (HB 353) to bring back separate accounting has been introduced by the House Finance Committee.

The court said separate accounting is fair because it accurately reflects the enormous profitability of the companies' Alaska oil operations, a profitability mostly due to Prudhoe Bay. Separate accounting takes the wellhead value of oil and deducts costs. The net income is then taxed at the same corporate rate that all other Alaska businesses pay. Modified apportionment dilutes the companies' Alaska profitability because it gives the state a percentage of a company's worldwide income. Under our present tax structure, if a company has a loss abroad, that loss will be reflected in Alaska's tax share, regardless of how profitable the company's in-state operations are.

What effect will separate accounting have on the oil companies?

To begin with, the industry did very well under the former separate accounting law. Take, for example, the annual reports of ARCO for 1978 to 1981, the years separate accounting was in effect. In 1978, ARCO's earnings were up 13%, up 45% in 1979, up 42% in 1980 and up slightly again in 1981. "As it was in 1978," ARCO informed its shareholders, "the North Slope of Alaska was a prime source of the Company's earnings improvement in 1979."

Additionally, separate accounting apparently had no ill effects upon exploration and development. Again a quote from the 1979 annual report: "For its part,

Atlantic Richfield has dramatically intensified its search for new domestic reserves of oil and gas." For example, ARCO developed Puyarui, the second largest oil field in North America, during this period of separate accounting.

The key provision of separate accounting is that it taxes only profitable fields, like Prudhoe. This means it is a better incentive for exploration and development of marginal fields because these fields aren't taxed unless they make a profit. Furthermore, the separate accounting bill calls for a 28% decrease in the severance tax -- an additional incentive for smaller fields.

Under the current apportionment tax, a marginal field is taxed even before it starts producing, before it makes a profit.

Some oil companies would like us to believe they make their investment decisions based on long-term value and that any tax changes will discourage exploration and development. Any businessman knows that tax is but one of a whole range of factors; the main issue is the rate of return. Oil companies make their decisions based on major factors such as the price of oil, availability of the oil, and cost of production.

What will have an adverse effect on exploration and development of marginal fields is falling oil prices, and, unfortunately, neither the state nor Alaska oil producers have control over the price of oil.

An important point to keep in mind is the phenomenal size and profitability of Prudhoe Bay, which is entirely on State land. All Alaskans should remember that we own Prudhoe; we have given the oil companies the rights of production.

Prudhoe Bay production far outweighs that of any other field in Alaska; in 1984 it comprised almost 90% of the state's total oil production. This high percentage will continue in the future. Other known reservoirs will not come close to replacing the revenues provided by Prudhoe. These fields are much smaller and more difficult and costly to develop. In addition, some of the most promising areas for exploration are offshore or in the National Wildlife Refuge. These are under federal jurisdiction and will not provide tax benefits to Alaska. This is why it's important that we collect our tax share now, before Prudhoe production declines.

It goes without saying that Alaska will experience less as oil prices drop and production declines. This is the situation regardless of the tax policy. Declining revenues means we will cut state spending (the state operating budget should be reduced in any event) and will at some point be forced to consider additional revenue sources.

Declining revenues will also bring pressure to dip into our savings accounts, such as the Permanent Fund undistributed income account and the "rainy day" fund.

These accounts are our nest egg for the future and I believe it is extremely shortsighted to spend them at this time.

Reinstating separate accounting will have the double benefit of easing this immediate pressure while returning a fair share of Prudhoe's profits to the people of Alaska.

The Supreme Court ruling makes this course of action an obvious one.

MEMORANDUM

State of Alaska

TO: Mary A. Nordale
Commissioner of Revenue

FROM: Vincent D. Wright *VW*
Chief, Research Section

DATE: October 31, 1985

FILE NO

TELEPHONE NO

SUBJECT: HB 353

The HB 353 versus current law analysis is virtually complete with the exception of the TAPS settlement impact. The incorporation of the TAPS settlement and its impact on HB 353 versus current law we hope to complete by the end of November.

I naturally have greater confidence in the results of this project as compared to our preliminary work in that we took the time to conduct a thorough analysis of all the revenue and expenditure items necessary to put together this report. The various items, particularly on the expenditure side, are very complex in their construction and require a great deal of time and effort in order to obtain accuracy and objectivity. I insisted on this approach, however, in the belief that our decision-makers would prefer being able to make informed, and therefore, responsible decisions.

The basis of this report is also much broader in scope than our original analysis in that we addressed additional questions such as the effect of differing tax structures on the "marginal fields", various definitions of the "pie", alternative price scenarios, and a much longer time period.

The scope of study, assumptions, and conclusions are attached but I would like to reiterate in this letter our basic conclusions in synopsis form.

1. If, for the years FY 1982 through FY 1985, the old separate accounting and severance tax laws had been in effect, the State would have received more revenue disregarding, of course, what might happen in future court actions.
2. Our projections indicate that under a proposal such as HB 353 and for the period projected (FY 1985 - FY 2005), the amount of cumulative revenue would be greater than under current tax law.
3. During the first few years, more revenue is generated under HB 353 than under current law. Our projections also indicate, however, that in later years a crossover point exists with the result that more revenue is generated under the current tax structure than under the HB 353 proposal. The causes for this are discussed in detail in the report.

Under both tax structures, revenues will decline on a year-to-year basis.

Mary A. Nordale
Commissioner of Revenue
October 31, 1985
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5. A proposal such as HB 353 is more oil price sensitive than the current tax structure. This means that if oil prices move up, the State would gain more revenue under an HB 353 type proposal than under existing law. It also means that if oil prices move down, the State will lose more revenue under an HB 353 type proposal than under existing tax law.

6. The State's share of the "pie" is defined via two approaches, both described in detail later in this report. In the period FY 1982 through FY 1985, there is no evidence to support a trend indicating that the State received more or less of the total "pie".

7. Based on the period FY 1985 through FY 2005 and under all scenarios, the State generally receives an increasing share of the "pie".

8. The proposed change from existing law to HB 353 does not, given our assumptions, materially effect the feasibility of developing the "marginal fields". However, there are other factors which must be considered that are explained in the body of this report.

9. The change in the price of oil does have a significant impact, relatively speaking, on whether or not a corporation would pursue the development of a "marginal field".

ANALYSIS OF HB 353

The following materials contain our analysis of the projected revenue impact of HB 353 based on the June, 1985, Petroleum Revenue Forecast assumptions. The analysis was performed for the time period fiscal year (FY) 1985 through FY 2005 and for three alternative oil price and production scenarios; moderate, low and high, corresponding approximately with the Mean, 30 percent and 70 percent forecast assumptions. The analysis shows the projected change in Petroleum Corporate Income Tax and Petroleum Severance Tax collections for the time period under the three scenarios, as a result of enacting HB 353 given the provisions and effective dates contained in that bill.

The materials also contain our analysis of the estimated revenue impact of SB 524 (current law) for the time period FY 1982 through FY 1985, given the oil and price and production which actually occurred during that time period. Again, the analysis shows the estimated change in Petroleum Corporate Income Tax and Petroleum Severance Tax collections for the time period as a result of the enactment of SB 524.

The materials are presented in the following order:

- I. A description of the changes made and proposed changes to the Petroleum Corporate Income Tax and the Petroleum Severance Tax as a result of the enactment of SB 524 and the proposed enactment of HB 353.

- II. A description of the methodology and assumptions used to estimate the revenue collections under the pre-SB 524 separate accounting Petroleum Corporate Income Tax for fiscal years 1982 through 1985 and to project what the revenue collections under the HB 353 separate accounting Petroleum Corporate Income Tax would be for fiscal years 1985 through 2005.

- III. A description of the methodology and assumptions used to project what revenue collections will be under the current modified apportionment Petroleum Corporate Income Tax for fiscal years 1985 through 2005.

- IV. Summary tables and descriptions showing the numerical results of the analysis.

- V. Conclusions of our analysis and comparison with earlier analysis.

- 1.

Prior to enactment of SB 524, the Petroleum Corporate Income Tax was determined on a separate accounting basis and taxed at a maximum marginal rate of 9.4 percent. This separate accounting corporate tax structure was in effect for calendar years 1978 through 1981.

Under separate accounting, a corporation's gross petroleum production and gross petroleum pipeline transportation income was the starting point for calculation of taxable income. Gross petroleum production income was determined by taking the product of the corporation's field production and wellhead value. Gross petroleum pipeline transportation income was determined by taking the product of the corporation's pipeline thruput and tariff. Deductions from gross petroleum production or gross petroleum pipeline transportation income specifically associated with those activities in the State were allowed in calculating the corporation's net income subject to the tax rate.

The Oil Severance Tax, which was in effect prior to the enactment of SB 524, and which was an allowable deduction from gross petroleum production income under the separate accounting corporate tax, had a rate of 12.25 percent modified by an economic limit factor (ELF) for production from all fields. The effective tax rate, the product of 12.25 percent and the ELF, was levied against the product of net (after royalty share) production and gross wellhead value to determine the tax liability.

With enactment of SB 524, the current tax structure with respect to the Petroleum Corporate Income Tax and the Petroleum Severance Tax was put into effect. The determination of taxable income under the Petroleum Corporation Tax was changed from the separate accounting basis described above to a modified apportionment basis which is currently in effect.

Under the provisions of SB 524, modified apportionment was put into effect starting in calendar year (CY) 1982 with a maximum marginal tax rate of 9.4 percent. In addition, the maximum marginal tax rate for the last year that separate accounting was in effect, CY 1981, was increased to 11 percent. Under modified apportionment, a corporation's adjusted worldwide petroleum business federal taxable income is allocated to Alaska based on an apportionment factor to determine its Alaska net petroleum business income subject to the tax rate. If the corporation is engaged in both petroleum production and petroleum pipeline transportation in Alaska, the apportionment factor is calculated as the average of three factors. The factors are: (1) extraction, the corporation's Alaska net petroleum production divided by its total worldwide net petroleum production; (2) property, the corporation's Alaska average petroleum business property divided by its total worldwide average petroleum business property; and (3) sales, the corporation's Alaska petroleum business sales and tariffs divided by its total worldwide petroleum business sales and tariffs.

The Oil Severance Tax rate under the provisions of SB 524 was changed from 12.25 percent to 15 percent for production from the Sadlerochit and Cook Inlet fields. The ELF was set to equal 1.00 as long as the calculated ELF was .7 or greater or for the first 10 years of production. The tax rate for production from Kuparuk and other North

Slope fields remained at 12.25 percent for the first 5 years of production from the field and then went to 15 percent. The ELF provisions for these fields were the same as for Sadlerochit and Cook Inlet. This represents the current Oil Severance Tax structure and has been in effect since the beginning of FY 1982.

HB 353 proposes to once again change the tax structure with respect to the Petroleum Corporate Income Tax and the Petroleum Severance Tax. Under the provisions of HB 353, the Petroleum Corporation Income Tax would again be determined on a separate accounting basis, very similar to the method used prior to passage of SB 524. For corporations engaged in petroleum production or petroleum pipeline transportation, gross petroleum production and transportation income would be determined in the same manner as pre-SB 524. Deductions allowed in determining net taxable income would also be similar but with a few exceptions. Under HB 353, the Federal Crude Oil Windfall Profits Tax would not be an allowable deduction where it was under the pre-SB 524 separate accounting corporate income tax. Also, although Oil Severance Taxes are allowed as a deduction under both laws, HB 353 proposes to change the Oil Severance Tax law provisions. Thus, the severance tax would be different under each law. Under HB 353, corporations engaged in petroleum exploration activities in Alaska but with no petroleum production or pipeline transportation activities would also be subject to the separate

accounting tax. This was not the case under the pre-SB 524 law. The maximum marginal tax rate would remain at 9.4 percent. HB 353 would enact this new separate accounting Petroleum Corporate Income Tax beginning with CY 1985.

HB 353 would change the Oil Severance Tax rate back to 12.25 percent for all fields beginning in CY 1987. The ELF provisions would remain the same as in the current law.

II.

The analysis of Petroleum Corporate Income Tax collections under separate accounting was performed on a disaggregated basis by producing field and pipeline. Estimates and projections of gross production income and allowable production deductions were developed for all fields which have produced in Alaska since FY 1982 or which are projected to have commercial production by FY 2005. The fields included were Cook Inlet, Sadlerochit and Kuparuk, all of which are currently producing. In addition, the "marginal" North Slope fields of Milne Point, Endicott, Lisburne, West Sak and Point Thompson were also included. The only prospective North Slope field excluded was Seal Island as it is not expected to have commercial production before FY 2005. Estimates and projections of gross pipeline transportation income and allowable deductions were also developed for TAPS for fiscal years 1982 through 2005.

Actual gross production and wellhead values by field were used to derive estimated gross production income for fiscal years 1982 through 1985. Also, actual TAPS thruput and tariffs were used to derive estimated gross transportation income for this period.

Using the Petroleum Revenue Forecasting Simulation model with its feasibility analysis capabilities, six separate production scenarios by field were generated for fiscal years 1986 through 2005. This means that for each field where three different price scenarios and two different tax structures (current law and HB 353) are considered, then six different production scenarios will result. The three different future oil price scenarios corresponded approximately with the June, 1985 Forecast, Mean, 30 percent and 70 percent price assumptions. It should be noted that for the purposes of this sensitivity analysis, three distinct future price scenarios were used in the model whereas for the normal forecasting analysis, the Mean, 30 percent and 70 percent scenarios are a result of an entire probability distribution of inputs and outputs. Therefore, the correspondence with the June, 1985 Forecast will not be exact.

In addition, production effects by field for each future oil price scenario were analyzed assuming both the current tax structure and the proposed HB 353 tax structure would be in effect for the period. The results of this analysis indicated that the aggregate production impacts of HB 353 over the time period would be insignificant when compared to

the current tax structure. Cumulative North Slope production for the period FY 1986 through FY 2005 would be only 0.43 percent lower under HB 353 than under current law given the Mean case price scenario, 0.27 percent lower given the 30 percent case price scenario and 0.10 percent lower given the 70 percent case price scenario.

The impact of alternative price scenarios, however, was found to be much more significant than alternative law scenarios. Cumulative North Slope production through FY 2005 given the current law was found to be 3.39 percent lower under the 30 percent price scenario than under the Mean and 7.32 percent higher under the 70 percent price scenario when compared to the Mean.

This feasibility analysis was based on a real after tax discounted cash flow rate of return (DCFROR) analysis applied to each current and prospective North Slope field along with assumptions about oil prices, development and operating costs, effective tax rates and desired rates of return. A detailed description of the feasibility submodel can be found in the appendix to the June, 1985 quarterly Petroleum Production Revenue Forecast.

The gross production and wellhead values under HB 353 given each future price scenario generated by this analysis were used to project future gross production income by field. The sum of production from all North Slope fields under each price scenario was used to project TAPS thrupt under each scenario. The TAPS tariff was assumed to remain at

\$6.00 per barrel from FY 1986 through FY 2005 and along with TAPS thruput was used to project gross pipeline transportation income. Possible effects of the TAPS tariff settlement have not been considered in this analysis but will be analyzed in the near future. All wellhead value projections in this analysis assume a \$6.00 per barrel TAPS tariff. If the tariff were changed it would impact wellhead value and therefore, also production and thruput which could in turn impact the tariff itself. So, the analysis is somewhat complex and will be presented separately.

Allowable separate accounting deductions by field and TAPS were estimated for FY 1982 through FY 1985 under the pre-SB 524 Petroleum Corporate Income tax law. Allowable deductions by field and TAPS were projected based on the three price and production scenarios for FY 1985 through 2005 under HB 353.

Deductions from gross production income by field were derived as follows:

Royalties which would have been deductible under the pre-SB 524 separate accounting law for FY 1982 through FY 1985 and which would be deductible under the proposed HB 353 for FY 1985 through FY 2005 were derived on the same basis. For each field, royalties were based on the State's royalty share of the field, the production from the field and the

field wellhead value less any field gathering and cleaning costs. For the period from FY 85 through FY 2005, under HB 353, royalties were different under each price scenario as each scenario had a different wellhead value and production associated with it.

Severance taxes were calculated as a deduction under both pre-SB 524 and proposed HB 353 income tax laws. However, since both SB 52 and HB 353 also change the severance tax law, the basis for calculation had to be different. For the period from FY 1982 through FY 1985 under the pre-SB 524 severance tax law, a rate of 12.25 percent modified by a calculated ELF was applied to the net after royalty share production multiplied by the wellhead value for all fields. Under HB 353, the current severance tax structure was applied to all fields from FY 1982 through the first half of FY 1987. The current tax structure taxes the Sadlerochit and Cook Inlet fields at a rate of 15 percent modified by an ELF set equal to 1.00 as long as the calculated ELF is .7 or above or for the first 10 years the field produces. Kuparuk and all other North Slope fields are taxed at a rate of 12.25 percent for the first 5 years of production and 15 percent thereafter with ELF provisions the same as for Sadlerochit and Cook Inlet. Since HB 353 proposes to change the severance tax law beginning in CY 1987, the proposed new tax structure was applied to all fields for the period from the second half of FY 1987 through FY 2005. That structure taxes production from all fields at a

rate of 12.25 percent with ELF provisions the same as under the current law. Severance taxes will be different under each price scenario for the period through FY 2005 as production and wellhead values would differ in each scenario.

Property taxes under the Alaska Petroleum Production and Pipeline Property Tax were computed as a deduction under both the pre-SB 524 law and the HB 353 proposal. The basis for each producing field was the same under both approaches. The property tax is levied at a rate of 2 percent on the assessed value of tangible production property in the field. Assessed value for production property is based on trended original cost of tangible investments considering both depreciation and replacement cost. Property taxes for most fields did not vary between one price scenario and another as the production differences were not great enough to require significantly different development costs given the capital cost functions of the Petroleum Revenue Forecasting model. The only fields for which there were property tax differences between alternative scenarios were West Sak and Sadlerochit due to the enhanced recover phase.

Federal Crude Oil Windfall Profits Tax (WPT) was calculated as a deduction under the pre-SB 524 law for the period from FY 1982 through FY 1985. The only fields subject to this tax are Sadlerochit and Cook Inlet. The tax calculation was based on the difference between wellhead value and the adjusted base price modified by a severance tax adjustment. This net windfall per barrel was multiplied by the

production from the field and then by the WPT rate of 70 percent to calculate the tax. The WPT is not an allowable deduction under HB 353 and therefore, was not deducted in calculation of net income under the tax.

Direct operating costs for each field are allowed as a deduction under both pre-SB 524 and HB 353. Operating costs were calculated for each field based on cost functions in the Petroleum Revenue Forecasting model. These functions were specified with a fixed component and a variable component which was a function of production volume. They also contained specific cost escalation rates. Operating costs varied between scenarios for each field as production volumes varied. It should be noted that operating costs used in this analysis are significantly higher than those used in the March, 1985 analysis of HB 353. This is because the operating cost estimates used in March were "bare bones" minimum estimates and included no well workovers or field engineering.

Depreciation of development costs and amortization of lease acquisition costs calculated on a units of production basis were deducted for each field for both pre-SB 524 and HB 353. Development costs include both tangible and intangible costs and are consistent with capital cost functions in the Petroleum Revenue Forecasting Model. Development cost scenarios for the fields considered did not vary with price scenarios except in the case of West Sak and Sadlerochit in the enhanced recovery

phase. Acquisition costs include lease bonus payments, successful exploration expenses and property taxes paid before production. Reserve estimates used for calculating units of production factors were based on estimated total recoverable reserves. Unit of production factors varied between scenarios as production volumes varied.

In addition to the aforementioned production deductions developed by field for analysis of pre-SB 524 and HB 353, three other deductions are allowed under both laws and were estimated on an aggregate basis instead of by field. These deductions were made against the total gross production income of all producing fields.

Uncapitalized interest and general overhead and administration expense were projected based on historical trends actually reported under the pre-SB 524 separate accounting law through CY 1981. The projections also consider the provisions of both laws which cap the maximum allowable deduction a corporation may claim for each item. The cap is the total expense of the corporation's consolidated worldwide business in those categories multiplied by the ratio of the cost of real and tangible personal property used in production in Alaska to the cost of real and tangible personal property used in the consolidated business worldwide.

Unsuccessful exploration and abandonment expenses are also allowed as a deduction under both pre-SB 524 and HB 353 separate accounting approaches. The projections were based on historical trends actually reported under the pre-SB 524 separate accounting law and allowing for

possible impacts on exploration expenditures of alternative price scenarios. The projected exploration expense was assumed to be deducted in the year of abandonment even though it may be that the corporation with the expense would have insufficient production income against which to write off their full exploration expense and hence, would have to carry losses forward. Also, as mentioned earlier under HB 353, corporations with exploration expenses but no production income would fall under separate accounting, a provision different from the pre-SB 524 law. This could increase total exploration expenses reported. However, these corporations would be carrying losses forward until they had production income to expense against and thus, this difference would not materially impact tax collections in the time frame of this analysis.

Deductions from gross transportation for TAPS were derived as follows:

All deductions allowed from gross transportation income are the same for both pre-SB 524 and HB 353 separate accounting approaches and therefore, were projected on the same basis throughout the FY 1982 through FY 2005 time period.

Direct operating costs were projected based on an operating cost function with both a fixed component and a variable component based on thruput. Specific cost escalation factors were also considered. The function was derived based on actual FERC filings. The projections differ between price scenarios as thruput varies.

Depreciation and amortization were calculated on a straight line basis and using useful life estimates as allowed by FERC. This would be the same regardless of thruput and those would not vary between scenarios.

Uncapitalized interest was calculated based on the actual TAPS debt schedule and would not vary between scenarios.

Property taxes under the Alaska Petroleum Production and Pipeline Property Tax were computed based on the assessed value of tangible TAPS property multiplied by the rate of 2 percent. The assessed value was assumed not to vary between scenarios.

Total separate accounting gross production income for all fields and gross transportation income for TAPS less all allowable production and transportation separate accounting deductions were calculated to arrive at net separate accounting income subject to the tax rate for each year. Pre-SB 524 provisions were applied for FY 1982 through FY 1985. HB 353 provisions were applied for FY 1985 through 2005. Thus, two estimates for FY 85 were made: one under pre-SB 524; the other under HB 353. This was done in order to be able to show the impact of SB 524 from FY 1982 through FY 1985 and also, the impact of HB 353 from FY 1985 through FY 2005. Net separate accounting income on a fiscal year basis was used to derive separate accounting tax liability on a fiscal year basis which in turn, was used to derive estimated separate accounting tax collections on a fiscal year basis.

III.

Under the current (SB 524) Petroleum Corporate Income Tax, corporate income is taxed on a modified apportionment basis as described earlier. The projection of future tax collections under this tax was performed on a disaggregated basis by corporation instead of by field. This is because under apportionment, the worldwide petroleum business income of each corporation is apportioned to Alaska based on factors specific to that corporation. Thus, for example, even though two corporations may have identical production, income and costs in Alaska they may not have the same taxable income under apportionment if their worldwide operations and hence, apportionment factors are different.

The current apportionment tax has been in effect since the beginning of CY 1982. Corporations thus far have filed returns for two years, CY 1982 and CY 1983, under this tax structure. The three major taxpayers are ARCO, Exxon and Sohio-BP which account for approximately 90 percent of the total tax collected. Using the information for CY 1982 and CY 1983 as a basis, projections of worldwide apportionable petroleum business income and Alaska apportionment factors for each of these three corporations were made on a calendar year basis through 2005. Calendar year tax liability for the "Big Three" corporations was thus derived. Based on the corporate ownership percentages of current and prospective fields the Big Three were assumed to continue to account for 90 percent

of total tax liability throughout the period to 2005. Thus, projections of total apportionment tax liability on a calendar year basis were derived and used to project apportionment tax collections on a fiscal year basis through FY 2005.

For each corporation, projections of Alaska Production, Property and Sales used in calculating the apportionment factors were made based on the various field production and development costs and TAPS thruput and tariff rates associated with the three different price scenarios. Also, the specific corporation's ownership percentage of each field and TAPS was considered. Worldwide income, production, sales and property projections were also made assuming different growth rates consistent with the various price scenarios.

IV.

The following tables summarize the results of our analysis under the Mean, 30 percent and 70 percent price and production scenarios.

There are three sections, each corresponding with a specific scenario.

Each section contains seven tables. The tables are described as follows:

Table 1:

The first part of Table 1 summarizes the estimated impact of SB 524 (current law) on both the Petroleum Corporate Income Tax and the Petroleum Severance Tax for FY 1982 through FY 1985.

The comparison on the Petroleum Corporate Income Tax side of the table is between the pre-SB 524 separate accounting corporate tax and the current apportionment corporate tax. Two sets of figures are shown for FY 1982. The first is as if apportionment had been in effect for the full year. The second is the actual amount collected for FY 1982 which is a combination of apportionment and separate accounting. The reason for this is that SB 524 put the current apportionment tax in effect at the beginning of CY 1982, midway through FY 1982, and also raised the maximum marginal rate under the pre-SB 524 separate accounting tax from 9.4 percent to 11 percent for the last year it was in effect, CY 1981.

The comparison on the Petroleum Severance Tax side of the table is between the pre-SB 524 severance tax and the current (SB 524) severance tax. Again, two sets of figures are shown for FY 1982, however, they are both the same because SB 524 changed the severance tax effective at the beginning of FY 1982.

The second part of Table 1 summarizes the projected impact of HB 353 on both the Petroleum Corporate Income tax and the Petroleum Severance Tax for FY 1985 through FY 2005.

The comparison on the Petroleum Corporate Income Tax side is between the current apportionment corporate tax and the proposed HB 353 separate accounting corporate tax. The figures presented assume the HB 353 separate accounting tax will be effective at the beginning of CY 1985, midway through FY 1985.

The comparison on the Petroleum Severance Tax side is between the current severance tax and the proposed HB 353 severance tax. The figures presented assume the HB 353 severance tax will be effective at the beginning of CY 1987, midway through FY 1987.

Table 2a:

Table 2a summarizes estimated and projected state petroleum revenues from production as a percentage of net production revenues.

Gross revenue for each year is the sum of production multiplied by wellhead value for all producing fields. Costs are all allowable, non-tax, separate accounting deductions associated with production. Net revenue for each year is gross revenue less costs.

State petroleum revenues include royalties, severance taxes, property taxes on production facilities and income taxes. Royalties and property taxes included are the same for all tax structures presented. Property taxes are gross and include amounts credited to local governments. Severance taxes are included on the same basis and timing

as those shown in Table 1 as to pre-SB 524, current (SB 524) and proposed HB 353 laws. Income taxes included are on the same basis and timing as those shown in Table 1 except separate accounting corporate tax under pre-SB 524 and HB 353 exclude amounts attributable to TAPS which are included in Table 1. No such adjustment was made to apportionment income taxes included under current law as it was not possible to calculate separately amounts attributable to TAPS.

Table 2b:

Table 2b summarizes estimated and projected state petroleum revenues from production and pipeline transportation as a percentage of net production and transportation revenues.

Gross revenue for each year is the sum of production multiplied by wellhead value for all producing fields plus thruput multiplied by tariff for TAPS. Costs are all allowable, non-tax, separate accounting deductions associated with production and pipeline transportation. Net revenue for each year is gross revenue less costs.

State petroleum revenues include royalties, severance taxes, property taxes on production and TAPS facilities and income taxes. Royalties and property taxes included are the same for all tax structures presented. Property taxes are gross and include amounts credited to local governments. Severance taxes are included on the same basis and

timing as those shown in Table 1 as to pre-SB 524, current (SB 524) and proposed HB 353 laws. Income taxes are included on the same basis and timing as those shown in Table 1. Separate accounting corporate tax included under pre-SB 524 and HB 353 includes amounts attributable to TAPS.

Table 3:

Table 3 summarizes income and deductions on a separate accounting basis for all petroleum production, pipeline transportation and exploration activities in the State. The fields included in production activities are Cook Inlet, Sadlerochit and Kuparuk, all of which are currently in commercial production. In addition, the prospective "marginal" North Slope fields of Milne Point, Lisburne, Endicott, West Sak and Point Thompson are also included. TAPS is included in transportation activities.

The figures presented in all columns from FY 1982 through the first FY 1985 row are based on pre-SB 524 separate accounting law. The figures presented from the second FY 1985 row through FY 2005 are based on the proposed HB 353 separate accounting law. As discussed earlier, the severance tax law and the WPT deductibility provisions are different under these two laws. The figures shown in the severance tax column were calculated based on pre-SB 524 severance tax law through the first FY 1985 row and on HB 353 severance tax law from the second FY 1985 row on.

Figures shown in the WPT column are included in total deductions and deducted in calculating net income only under pre-SB 524 law through the first FY 1985 row. All tax liability and collection figures shown in this table are calculated assuming the relevant tax structure is in effect for the full year.

Table 4:

Table 4 summarizes income and deductions on a separate accounting basis for all producing fields. All calculations are on the same basis as in Table 3 except only the producing fields are included.

Table 5:

Table 5 summarizes income and deductions on a separate accounting basis for TAPS. As discussed earlier, treatment of petroleum pipeline transportation income and deductions is the same under both the pre-SB 524 and the proposed HB 353 separate accounting tax laws. All figures presented are calculated assuming separate accounting is in effect for a full year.

Table 6:

Table 6 summarizes the impact of the WPT deduction on separate accounting tax liability. Only Sadlerochit and Cook Inlet production is subject to the WPT. All other North Slope fields are exempt.

HB 353 AND SB 524
ANALYSIS
JUNE, 1985
MEAN CASE ASSUMPTIONS

SUMMARY TABLES

TABLE I
 Old Law (Pre SB 524)
 Current Law (AS43.20 & AS 43.55)
 Proposed Law (HB 353)
 (all current FY \$)

| Fiscal Year | To. Corp Inc Tax Collections | | | Total Prodn Tax Liability | | | Total Gain or Loss |
|-------------|------------------------------|----------|---------------|---------------------------|----------|---------------|--------------------|
| | Pre SB 524 | AS 43.20 | Diff | Pre SB 524 | AS 43.55 | Diff | |
| 82 | 837.62 | 742.50 | -595.12 1) | 1219.03 | 1581.70 | 362.67 | -232.45 |
| | | | Impact SB 524 | | | Impact SB 524 | Impact SB 524 |
| 82 | 837.62 | 668.90 | -168.72 2) | 1219.03 | 1581.70 | 362.67 | 193.95 |
| 83 | 796.15 | 236.00 | -560.15 | 1098.94 | 1493.70 | 394.76 | -165.39 |
| 84 | 782.86 | 265.10 | -517.76 | 1032.93 | 1393.10 | 360.17 | -157.59 |
| 85 | 797.00 | 168.60 | -628.40 | 1013.56 | 1388.50 | 374.64 | -253.76 |
| | | | Impact HB 353 | existing AS 43.55 | | Impact HB 353 | Impact HB 353 |
| 85 | 448.48 | 168.60 | 279.88 3) | 1388.50 | 1388.50 | 0.00 | 279.88 |
| 86 | 698.21 | 226.07 | 470.15 | 1204.74 | 1204.74 | 0.00 | 470.15 |
| | | | HB 353 | | | | |
| 87 | 607.04 | 241.37 | 365.67 | 979.68 | 1072.99 | -93.31 | 272.36 |
| 88 | 567.21 | 249.25 | 317.96 | 685.93 | 830.45 | -144.52 | 173.44 |
| 89 | 550.19 | 252.48 | 297.71 | 661.33 | 794.12 | -132.79 | 164.92 |
| 90 | 519.30 | 254.00 | 265.30 | 640.39 | 761.26 | -120.87 | 144.43 |
| 91 | 476.82 | 251.48 | 224.55 | 603.23 | 707.14 | -103.91 | 120.64 |
| 92 | 464.96 | 248.45 | 218.51 | 610.04 | 715.61 | -105.57 | 112.94 |
| 93 | 466.49 | 244.40 | 222.09 | 609.35 | 719.25 | -109.90 | 112.19 |
| 94 | 434.66 | 236.62 | 197.24 | 582.39 | 660.95 | -98.57 | 98.67 |
| 95 | 403.64 | 228.19 | 175.44 | 535.46 | 631.20 | -95.74 | 79.70 |
| 96 | 370.16 | 219.58 | 150.58 | 490.99 | 580.20 | -89.21 | 61.37 |
| 97 | 343.05 | 211.75 | 131.69 | 456.78 | 539.66 | -82.88 | 48.81 |
| 98 | 321.73 | 204.17 | 117.89 | 427.43 | 503.60 | -76.17 | 41.63 |
| 99 | 302.91 | 197.49 | 105.42 | 402.28 | 471.98 | -69.72 | 35.70 |
| 2000 | 290.31 | 190.00 | 100.31 | 372.55 | 437.26 | -64.71 | 35.60 |
| 01 | 257.19 | 180.10 | 77.09 | 326.22 | 377.30 | -51.08 | 26.01 |
| 02 | 217.73 | 169.31 | 43.42 | 279.22 | 322.12 | -42.90 | 0.52 |
| 03 | 170.62 | 159.32 | 10.81 | 245.16 | 260.13 | -34.97 | -24.16 |
| 04 | 141.77 | 150.55 | -8.78 | 221.49 | 247.03 | -25.54 | -24.32 |
| 05 | 109.67 | 140.64 | -31.57 | 201.86 | 221.37 | -19.51 | -51.08 |
| SUM85-05 | 8157.35 | 4426.09 | 3731.26 | 11905.00 | 13466.67 | -1561.67 | 2169.39 |

1) FY 1982 receipts are estimated as if AS43.21 were in effect for the whole year in column 2 then as if AS43.20 were in effect for the whole year in column 3 though each was in effect only half the fiscal year.

2) FY 1982 collections under SB 524 of \$668.90 are comprised of \$538.20 from AS43.21 "OLD SEPARATE ACCT" law and \$130.7 from AS43.20 "CURRENT MODIFIED AFFORTIONMENT" law.

3) FY 1985 HB353 Corp. Inc. Tax includes \$60.80 of AS43.20 already collected through December 31, 1984.

4) FY 1985 AS43.20 collections are expected to be low due to substantial refunds and credits for prior year's tax overpayments. Tax liability on a calendar year basis under AS43.20 was Cr82, \$236.50a; Cr83, \$224.01a; Cr84, \$241.54a.

5) Based on 6/85 Mean case price and production assumptions.

TABLE 2a
 Calculation of State Petroleum Revenues as a
 Percent of Adjusted Production Income
 6/85 Forecast Assumptions Mean Case FY 85-05 Using MHV

| Fiscal Year | Total Petroleum Production | | | State Petrol Revenues | State / Net Rev % | With AS 43.20 Corporate Income Tax & AS 43.55 Production Tax | | | | | | | |
|------------------------|----------------------------|------------------|----------------|-----------------------------|-------------------------|--|------------------|------------------|----------------|-----------------------------|-------------------------|--------------|--|
| | Gross Revenue | Cost Deductns | Net Revenue | | | Fiscal Year | Gross Revenue | Cost Deductns | Net Revenue | State Petrol Revenues | State / Net Rev % | | |
| 82 | 12958.93 | 1740.58 | 11218.35 | 3525.22 | 31.42% | 82 | 12958.93 | 1740.58 | 11218.35 | 3502.40 | 31.22% | AS43.20 & 55 | |
| Pre SB 524 | | | | | | | | | | | | | |
| Impact SB 524 | | | | | | | | | | | | | |
| 82 | 12958.93 | 1740.58 | 11218.35 | 3525.22 | 31.42% | 82 | 12958.93 | 1740.58 | 11218.35 | 3928.80 | 35.02% | | |
| 83 | 11941.70 | 2113.21 | 9828.49 | 3270.36 | 33.27% | 83 | 11941.70 | 2113.21 | 9828.49 | 3321.58 | 33.80% | | |
| 84 | 11327.62 | 2511.29 | 8816.33 | 3148.49 | 35.71% | 84 | 11327.62 | 2511.29 | 8816.33 | 3220.43 | 36.53% | | |
| 85 | 11382.33 | 2832.59 | 8549.74 | 3161.10 | 36.97% | 85 | 11382.33 | 2832.59 | 8549.74 | 3154.10 | 36.89% | | |
| HB 353 as of 1/1/85 1) | | | | | | | | | | | | AS43.20 & 55 | |
| Impact HB 353 | | | | | | | | | | | | | |
| 85 | 11382.33 | 2832.59 | 8549.74 | 3297.36 | 38.57% | 85 | 11382.33 | 2832.59 | 8549.74 | 3154.10 | 36.89% | | |
| 86 | 10144.92 | 3016.23 | 7128.69 | 3133.99 | 43.96% | 86 | 10144.92 | 3016.23 | 7128.69 | 2918.12 | 40.93% | | |
| 87 | 9186.96 | 3365.90 | 5821.05 | 2739.56 | 47.06% | 87 | 9186.96 | 3365.90 | 5821.05 | 2728.41 | 46.87% | | |
| 88 | 9007.17 | 3588.61 | 5418.56 | 2386.40 | 44.04% | 88 | 9007.17 | 3588.61 | 5418.56 | 2463.54 | 45.46% | | |
| 89 | 9143.65 | 3773.47 | 5370.17 | 2372.84 | 44.19% | 89 | 9143.65 | 3773.47 | 5370.17 | 2446.11 | 45.55% | | |
| 90 | 9095.93 | 3923.57 | 5172.36 | 2363.66 | 45.70% | 90 | 9095.93 | 3923.57 | 5172.36 | 2441.83 | 47.21% | | |
| 91 | 8808.87 | 3896.45 | 4912.42 | 2277.76 | 46.37% | 91 | 8808.87 | 3896.45 | 4912.42 | 2354.81 | 47.94% | | |
| 92 | 9018.44 | 3900.45 | 5117.99 | 2314.22 | 45.22% | 92 | 9018.44 | 3900.45 | 5117.99 | 2381.93 | 46.54% | | |
| 93 | 9112.08 | 3835.75 | 5276.33 | 2336.99 | 44.29% | 93 | 9112.08 | 3835.75 | 5276.33 | 2390.22 | 45.30% | | |
| 94 | 8711.44 | 3691.57 | 5019.87 | 2233.22 | 44.49% | 94 | 8711.44 | 3691.57 | 5019.87 | 2275.33 | 45.33% | | |
| 95 | 8469.24 | 3564.66 | 4904.58 | 2163.87 | 44.12% | 95 | 8469.24 | 3564.66 | 4904.58 | 2202.06 | 44.90% | | |
| 96 | 8114.79 | 3453.17 | 4661.62 | 2058.35 | 44.16% | 96 | 8114.79 | 3453.17 | 4661.62 | 2191.17 | 47.00% | | |
| 97 | 7908.83 | 3371.45 | 4537.38 | 1983.17 | 43.71% | 97 | 7908.83 | 3371.45 | 4537.38 | 2010.93 | 44.32% | | |
| 98 | 7745.92 | 3316.04 | 4429.88 | 1918.21 | 43.30% | 98 | 7745.92 | 3316.04 | 4429.88 | 1936.69 | 43.72% | | |
| 99 | 7613.86 | 3292.00 | 4321.86 | 1861.46 | 43.07% | 99 | 7613.86 | 3292.00 | 4321.86 | 1871.94 | 43.31% | | |
| 2000 | 7505.98 | 3233.04 | 4272.94 | 1803.53 | 42.21% | 2000 | 7505.98 | 3233.04 | 4272.94 | 1802.25 | 42.18% | | |
| 01 | 7058.19 | 3191.10 | 3867.09 | 1646.97 | 42.59% | 01 | 7058.19 | 3191.10 | 3867.09 | 1640.85 | 42.43% | | |
| 02 | 6540.09 | 3147.51 | 3392.58 | 1468.94 | 43.30% | 02 | 6540.09 | 3147.51 | 3392.58 | 1473.12 | 43.42% | | |
| 03 | 6137.45 | 3175.88 | 2961.57 | 1311.45 | 44.28% | 03 | 6137.45 | 3175.88 | 2961.57 | 1327.19 | 44.81% | | |
| 04 | 5800.91 | 3099.70 | 2701.21 | 1185.11 | 43.87% | 04 | 5800.91 | 3099.70 | 2701.21 | 1199.96 | 44.42% | | |
| 05 | 5388.99 | 3063.13 | 2325.86 | 1051.88 | 45.23% | 05 | 5388.99 | 3063.13 | 2325.86 | 1072.99 | 46.13% | | |

1) FY 1985 HB353 Corp. Inc. Tax includes \$60.8m of AS43.20 already collected through December 31, 1984 and half a year of the new tax.

2) Based on 6/85 Mean case price and production assumptions.

TABLE 2b
 Calculation of State Petroleum Revenues as a
 and as a Percent of Prod'n & Pipeline Income
 6/85 Forecast Assumptions Mean Case FY 85-05 Using NHV

| Fiscal Year | -----Total Petroleum----- | | | State Petrol Revenues | State / Net Rev % | Fiscal Year | With AS 43.20 Corporate Income Tax & AS 43.55 Production Tax -----Total Petroleum----- | | | State Petrol Revenues | State / Net Rev % |
|-------------|---------------------------|------------------|----------------|-----------------------------|-------------------------|-------------|---|------------------|----------------|-----------------------------|-------------------------|
| | Gross Revenue | Cost Deductns | Net Revenue | | | | Gross Revenue | Cost Deductns | Net Revenue | | |
| 82 | 16455.80 | 2839.52 | 13616.28 | 3896.85 | 28.62% | 82 | 16455.80 | 2839.52 | 13616.28 | 3664.40 | 26.91% |
| | | | | Pre SB 524 | | | | | | AS43.20 & 55 | |
| | | | | Impact SB 524 | | | | | | | |
| 82 | 16455.80 | 2839.52 | 13616.28 | 3896.85 | 28.62% | 82 | 16455.80 | 2839.52 | 13616.28 | 4090.80 | 30.04% |
| 83 | 15469.75 | 3156.70 | 12313.06 | 3644.37 | 29.60% | 83 | 15469.75 | 3156.70 | 12313.06 | 3478.98 | 28.25% |
| 84 | 14955.03 | 3492.67 | 11462.37 | 3544.02 | 30.92% | 84 | 14955.04 | 3492.67 | 11462.37 | 3386.43 | 29.54% |
| 85 | 15135.98 | 3750.89 | 11385.10 | 3569.86 | 31.36% | 85 | 15135.99 | 3750.89 | 11385.10 | 3316.10 | 29.13% |
| | | | | HB 353 as of 1/1/85 1) | | | | | | AS43.20 & 55 | |
| | | | | Impact HB 353 | | | | | | | |
| 85 | 15135.98 | 3750.89 | 11385.10 | 3585.00 | 31.49% | 85 | 15135.98 | 3750.89 | 11385.10 | 3316.10 | 29.13% |
| 86 | 13905.72 | 3905.70 | 10000.02 | 3544.03 | 35.44% | 86 | 13905.72 | 3905.70 | 10000.02 | 3073.89 | 30.74% |
| 87 | 13017.77 | 4248.71 | 8769.06 | 3150.31 | 35.93% | 87 | 13017.77 | 4248.71 | 8769.06 | 2877.95 | 32.82% |
| 88 | 12634.59 | 4451.25 | 8183.34 | 2790.29 | 33.97% | 88 | 12634.59 | 4451.25 | 8183.34 | 2606.85 | 31.86% |
| 89 | 12632.58 | 4620.60 | 8011.98 | 2748.11 | 34.30% | 89 | 12632.58 | 4620.60 | 8011.98 | 2583.19 | 32.24% |
| 90 | 12386.26 | 4760.52 | 7625.75 | 2717.11 | 35.63% | 90 | 12386.26 | 4760.52 | 7625.75 | 2572.68 | 33.74% |
| 91 | 11789.54 | 4722.70 | 7066.85 | 2600.06 | 36.79% | 91 | 11789.54 | 4722.70 | 7066.85 | 2479.43 | 35.09% |
| 92 | 11834.36 | 4712.14 | 7122.22 | 2613.25 | 36.69% | 92 | 11834.36 | 4712.14 | 7122.22 | 2500.31 | 35.11% |
| 93 | 11738.58 | 4632.28 | 7106.30 | 2614.56 | 36.79% | 93 | 11738.58 | 4632.28 | 7106.30 | 2502.37 | 35.21% |
| 94 | 11023.65 | 4473.66 | 6550.00 | 2479.92 | 37.86% | 94 | 11023.65 | 4473.66 | 6550.00 | 2381.25 | 36.36% |
| 95 | 10538.09 | 4336.33 | 6201.77 | 2381.46 | 38.40% | 95 | 10538.09 | 4336.33 | 6201.77 | 2301.75 | 37.11% |
| 96 | 9936.752 | 4216.39 | 5720.36 | 2248.00 | 39.30% | 96 | 9936.752 | 4216.39 | 5720.36 | 2284.63 | 39.94% |
| 97 | 9515.632 | 4126.62 | 5389.01 | 2146.93 | 39.84% | 97 | 9515.632 | 4126.62 | 5389.01 | 2098.16 | 38.43% |
| 98 | 9171.577 | 4062.83 | 5108.75 | 2059.32 | 40.31% | 98 | 9171.577 | 4062.83 | 5108.75 | 2017.69 | 39.49% |
| 99 | 8885.202 | 4032.89 | 4852.31 | 1982.41 | 40.85% | 99 | 8885.202 | 4032.89 | 4852.31 | 1946.71 | 40.12% |
| 2000 | 8645.682 | 3969.34 | 4676.34 | 1906.39 | 40.77% | 2000 | 8645.682 | 3969.34 | 4676.34 | 1870.79 | 40.01% |
| 01 | 8025.031 | 3925.09 | 4099.94 | 1729.17 | 42.18% | 01 | 8025.031 | 3925.09 | 4099.94 | 1703.16 | 41.54% |
| 02 | 7343.314 | 3884.93 | 3458.38 | 1529.72 | 44.23% | 02 | 7343.314 | 3884.93 | 3458.38 | 1529.20 | 44.22% |
| 03 | 6811.310 | 3922.66 | 2888.65 | 1352.87 | 46.83% | 03 | 6811.310 | 3922.66 | 2888.65 | 1377.04 | 47.67% |
| 04 | 6367.785 | 3858.14 | 2509.65 | 1209.26 | 48.18% | 04 | 6367.785 | 3858.14 | 2509.65 | 1243.58 | 49.55% |
| 05 | 5850.748 | 3834.13 | 2016.62 | 1059.29 | 52.53% | 05 | 5850.748 | 3834.13 | 2016.62 | 1110.37 | 55.06% |

1) FY 1985 HB353 Corp. Inc Tax includes \$60.8m of AS43.20 already collected through December 1, 1984 and half a year of the new tax.

2) Based on 6/85 Mean case price and production assumptions.

TABLE 3
Pipeline, Production & Exploration
Income Tax Estimates
(all current FY \$)

| Fiscal Year | Total Revenue | State Royalty Share | Prod'n& Cons Tax | Total Property Tax | Total Oper'g Costs | Total Depre | Total Acquis Costs | Windfall Profits Tax | Interest Expense Uncap | Exploratn Costs | Admin Costs | Other Deductns | Total Deductns | Total Net Income | Liability----- | | Collections----- | | Diff |
|-------------|---------------|---------------------|------------------|--------------------|--------------------|-------------|--------------------|----------------------|------------------------|-----------------|-------------|----------------|----------------|------------------|----------------|-----------|------------------|--------|------|
| | | | | | | | | | | | | | | | HB 353 1) | HB 353 1) | AS 43.20 2) | | |
| 82 | 16455.80 | 1564.30 | 1219.03 | 275.90 | 939.80 | 602.58 | 0.77 | 2017.66 | 720.69 | 190.90 | 236.20 | 148.58 | 7916.41 | 8539.40 | 802.70 | 837.62 | 130.72 | 706.90 | |
| 83 | 15469.75 | 1442.73 | 1098.94 | 306.55 | 1100.56 | 780.16 | 0.98 | 1018.38 | 676.04 | 204.26 | 252.30 | 142.39 | 7023.30 | 8446.46 | 793.97 | 796.15 | 236.00 | 560.15 | |
| 84 | 14955.04 | 1370.57 | 1032.93 | 357.66 | 1259.34 | 998.45 | 1.09 | 412.33 | 614.13 | 210.56 | 264.90 | 136.20 | 6666.16 | 8288.87 | 779.15 | 782.86 | 265.10 | 517.76 | |
| 85 | 15135.99 | 1362.44 | 1013.86 | 396.56 | 1449.17 | 1093.32 | 0.80 | 70.26 | 565.55 | 233.86 | 278.20 | 130.00 | 6594.01 | 6541.97 | 802.95 | 797.00 | 168.60 | 628.40 | |
| 85 | 15135.99 | 1362.44 | 1377.52 | 396.56 | 1449.17 | 1093.32 | 0.80 | 69.59 | 565.55 | 233.86 | 278.20 | 130.00 | 6887.41 | 8248.58 | 775.37 | 581.52 | 168.60 | 412.92 | |
| 86 | 13905.72 | 1220.81 | 1204.74 | 420.27 | 1477.66 | 1224.05 | 0.76 | 39.85 | 541.76 | 245.55 | 292.10 | 123.82 | 6751.52 | 7154.20 | 672.50 | 698.21 | 228.07 | 470.15 | |
| 87 | 13017.78 | 1098.54 | 979.68 | 465.05 | 1599.63 | 1441.20 | 7.86 | 18.80 | 517.87 | 257.83 | 306.70 | 117.63 | 6791.98 | 6225.79 | 585.22 | 607.04 | 241.37 | 365.67 | |
| 88 | 12634.59 | 1025.54 | 685.93 | 501.61 | 1644.96 | 1583.60 | 25.26 | 9.83 | 490.28 | 270.72 | 322.00 | 114.43 | 6664.33 | 5970.26 | 561.20 | 567.21 | 249.25 | 317.96 | |
| 89 | 12632.59 | 1017.67 | 661.33 | 518.92 | 1672.48 | 1698.84 | 55.27 | 6.32 | 466.41 | 284.26 | 338.10 | 105.24 | 6818.52 | 5814.06 | 546.52 | 550.19 | 252.48 | 297.71 | |
| 90 | 12386.27 | 1014.66 | 640.39 | 542.76 | 1760.02 | 1711.70 | 93.64 | 4.14 | 442.64 | 298.47 | 355.00 | 99.05 | 6958.33 | 5427.94 | 510.23 | 519.30 | 254.00 | 265.30 | |
| 91 | 11789.55 | 983.67 | 603.23 | 537.14 | 1747.62 | 1653.39 | 124.08 | 2.71 | 418.55 | 313.40 | 72.80 | 92.86 | 6846.74 | 4942.81 | 464.62 | 476.02 | 251.48 | 224.55 | |
| 92 | 11034.36 | 1008.16 | 610.04 | 528.09 | 1763.64 | 1618.38 | 129.44 | 1.72 | 393.54 | 329.07 | 341.40 | 86.67 | 6858.43 | 4975.93 | 467.74 | 466.96 | 248.45 | 218.51 | |
| 93 | 11738.58 | 1022.99 | 609.35 | 515.73 | 1761.02 | 1535.91 | 130.52 | 0.70 | 367.83 | 345.52 | 411.00 | 80.48 | 6780.35 | 4958.23 | 466.07 | 466.49 | 244.40 | 222.09 | |
| 94 | 11023.66 | 982.41 | 562.39 | 501.06 | 1727.71 | 1405.20 | 126.96 | 0.03 | 345.21 | 362.79 | 431.50 | 74.29 | 6519.52 | 4504.14 | 423.39 | 434.06 | 236.82 | 197.24 | |
| 95 | 10538.10 | 958.25 | 535.46 | 484.11 | 1674.87 | 1305.73 | 124.63 | 0.00 | 328.97 | 380.93 | 453.10 | 68.10 | 6314.15 | 4223.95 | 397.05 | 403.64 | 228.19 | 175.44 | |
| 96 | 9936.75 | 922.47 | 490.99 | 464.38 | 1649.40 | 1199.88 | 113.07 | 0.00 | 316.45 | 399.98 | 475.70 | 61.91 | 6094.23 | 3842.52 | 361.20 | 370.16 | 236.82 | 133.34 | |
| 97 | 9515.63 | 904.71 | 456.78 | 442.44 | 1632.22 | 1116.78 | 97.80 | 0.00 | 304.62 | 419.98 | 499.50 | 55.72 | 5930.55 | 3585.08 | 337.00 | 343.05 | 211.35 | 131.69 | |
| 98 | 9171.58 | 891.76 | 427.43 | 418.20 | 1621.84 | 1052.52 | 80.44 | 0.00 | 293.02 | 440.98 | 524.50 | 49.55 | 5800.22 | 3371.36 | 316.91 | 321.93 | 204.13 | 117.80 | |
| 99 | 8865.20 | 884.73 | 402.26 | 392.51 | 1619.95 | 1002.70 | 70.07 | 0.00 | 283.10 | 463.03 | 550.70 | 43.34 | 5712.39 | 3172.81 | 298.21 | 302.91 | 197.49 | 105.42 | |
| 2000 | 8645.68 | 877.78 | 372.55 | 365.75 | 1584.89 | 949.30 | 59.65 | 0.00 | 273.89 | 486.18 | 578.30 | 37.14 | 5585.42 | 3060.26 | 287.66 | 290.31 | 190.00 | 100.31 | |
| 01 | 8025.03 | 831.91 | 326.22 | 313.85 | 1580.39 | 879.42 | 50.65 | 0.00 | 265.99 | 510.49 | 607.20 | 30.95 | 5397.07 | 2627.96 | 247.03 | 257.19 | 180.10 | 77.09 | |
| 02 | 7343.31 | 775.51 | 279.22 | 262.26 | 1567.70 | 812.85 | 43.16 | 0.00 | 262.91 | 536.01 | 637.50 | 24.76 | 5201.92 | 2141.39 | 201.29 | 212.73 | 169.31 | 43.42 | |
| 03 | 6811.31 | 725.47 | 245.16 | 211.62 | 1580.84 | 762.60 | 35.11 | 0.00 | 263.33 | 562.81 | 699.40 | 18.57 | 5104.91 | 1706.40 | 160.40 | 170.62 | 159.82 | 10.81 | |
| 04 | 6367.79 | 684.66 | 221.49 | 161.34 | 1539.73 | 719.23 | 28.51 | 0.00 | 264.44 | 590.95 | 702.90 | 12.38 | 4925.63 | 1442.16 | 135.56 | 141.77 | 150.55 | -8.78 | |
| 05 | 5850.75 | 637.09 | 201.86 | 111.27 | 1507.31 | 672.99 | 24.26 | 0.00 | 264.88 | 620.50 | 738.00 | 6.19 | 4784.35 | 1066.40 | 100.24 | 109.07 | 140.64 | -31.57 | |

1) These estimates assume the tax plan is in effect for the whole year; for FY 1982-85 this is Pre CB 524, for FY 1985-05 this is '85 353.

2) FY82 collections of \$130.72a are the actual amounts collected or credited to CY82 liability. The estimate for a full year under AS43.20 in FY82 is \$242.5a which would result in a difference of \$95.12a as presented in column 4 of Table 1. FY 1985 AS43.20 collections are expected to be low due to substantial refunds and credits for prior year's tax overpayments. Tax liability on a calendar year basis under AS43.20 was CY82, \$236.50a; CY83, \$224.01a; CY84 \$241.54a.

3) based on 6/85 Mean case price and production assumptions.

TABLE 4
All Producing Fields
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Oil Prod'n (mil B/D) | Wellhead Value (cur \$) | Gas Prod'n (acft/day) | Gas Price (/acft) | Total Revenue (cur \$) | State Royalty Share | Prod'n Cons Tax | Property Tax | Total Oper'tg Costs | Depre Devel Costs | Acquis Costs | Windfall Profits Tax | Interest Expense | Exploratin Costs (expen'd) | Meie Other Cost Deductns | Total Deductns | Total Taxable Income | Total Tax Liability | Total Tax Collectns | |
|-------------|----------------------|-------------------------|-----------------------|-------------------|------------------------|---------------------|-----------------|--------------|---------------------|-------------------|--------------|----------------------|------------------|----------------------------|--------------------------|----------------|----------------------|---------------------|---------------------|--------|
| 82 | 1.6533 | 21.293 | 507000 | 0.590 | 12958.93 | 1564.30 | 1219.03 | 113.90 | 710.80 | 333.93 | 0.77 | 2017.66 | 119.40 | 190.90 | 236.20 | 148.58 | 6655.47 | 6303.46 | 592.53 | 627.99 |
| 83 | 1.7006 | 19.040 | 503000 | 0.670 | 11941.70 | 1442.73 | 1098.94 | 149.15 | 880.56 | 511.51 | 0.98 | 1018.38 | 121.20 | 204.26 | 252.30 | 142.39 | 5822.41 | 6119.30 | 575.21 | 579.54 |
| 84 | 1.7183 | 17.864 | 505000 | 0.670 | 11327.62 | 1370.57 | 1032.93 | 191.66 | 1038.34 | 729.80 | 1.09 | 412.33 | 122.40 | 218.56 | 264.90 | 136.20 | 5518.78 | 5608.83 | 546.03 | 553.33 |
| 85 | 1.7523 | 17.483 | 565091 | 0.971 | 11382.33 | 1362.44 | 1013.86 | 234.56 | 1237.67 | 824.67 | 0.80 | 70.26 | 127.40 | 233.86 | 278.20 | 130.00 | 5513.71 | 5868.61 | 551.65 | 550.24 |
| 85 | 1.7523 | 17.483 | 565091 | 0.971 | 11382.33 | 1362.44 | 1377.52 | 234.56 | 1237.67 | 824.67 | 0.80 | 69.59 | 127.40 | 233.86 | 278.20 | 130.00 | 5807.11 | 5575.22 | 524.07 | 393.05 |
| 86 | 1.7528 | 15.521 | 537624 | 1.097 | 10144.92 | 1220.81 | 1204.74 | 264.50 | 1266.70 | 955.40 | 0.76 | 39.85 | 131.90 | 245.55 | 292.10 | 123.82 | 5706.28 | 4438.64 | 417.23 | 443.94 |
| 87 | 1.7888 | 13.713 | 625000 | 1.200 | 9186.96 | 1098.54 | 979.68 | 315.51 | 1367.24 | 1172.55 | 7.86 | 18.80 | 136.10 | 257.83 | 306.70 | 117.63 | 5759.63 | 3427.32 | 322.17 | 345.93 |
| 88 | 1.6838 | 14.108 | 705650 | 1.306 | 9007.17 | 1025.54 | 685.93 | 358.30 | 1402.65 | 1314.95 | 25.26 | 9.83 | 138.60 | 270.72 | 322.00 | 114.43 | 5658.38 | 3348.79 | 314.79 | 316.63 |
| 89 | 1.6171 | 14.872 | 714549 | 1.400 | 9143.65 | 1017.67 | 661.33 | 381.84 | 1421.01 | 1430.19 | 55.27 | 6.32 | 139.40 | 284.26 | 319.10 | 105.24 | 5874.31 | 3309.33 | 311.03 | 312.00 |
| 90 | 1.5236 | 15.535 | 797800 | 1.570 | 9095.93 | 1014.66 | 640.39 | 411.91 | 1494.06 | 1443.05 | 93.64 | 4.14 | 140.30 | 298.47 | 355.00 | 99.05 | 5990.53 | 3105.40 | 291.91 | 296.70 |
| 91 | 1.3796 | 16.431 | 858950 | 1.706 | 8808.87 | 983.67 | 603.23 | 412.52 | 1467.67 | 1384.74 | 124.08 | 2.71 | 140.90 | 313.40 | 372.60 | 92.86 | 5895.87 | 2913.00 | 273.82 | 278.34 |
| 92 | 1.3020 | 17.691 | 902485 | 1.856 | 9018.44 | 1008.16 | 610.04 | 409.71 | 1473.04 | 1349.73 | 129.44 | 1.72 | 141.10 | 329.07 | 391.40 | 86.67 | 5928.36 | 3090.08 | 290.47 | 286.31 |
| 93 | 1.2133 | 19.063 | 920067 | 1.995 | 9112.08 | 1022.99 | 609.35 | 403.58 | 1459.67 | 1267.26 | 130.52 | 0.70 | 141.30 | 345.52 | 411.00 | 80.48 | 5871.67 | 3240.41 | 304.60 | 301.07 |
| 94 | 1.0681 | 20.548 | 893060 | 2.149 | 8711.44 | 982.41 | 562.39 | 395.14 | 1418.28 | 1136.55 | 126.96 | 0.03 | 141.20 | 362.79 | 431.50 | 74.29 | 5631.51 | 3079.93 | 289.51 | 293.28 |
| 95 | 0.9565 | 2.107 | 906549 | 2.270 | 8469.24 | 958.25 | 535.46 | 384.42 | 1358.12 | 1037.08 | 124.63 | 0.00 | 142.70 | 380.93 | 453.10 | 68.10 | 5442.79 | 3026.45 | 284.49 | 285.74 |
| 96 | 0.8435 | 23.745 | 920462 | 2.395 | 8114.79 | 922.47 | 490.99 | 370.92 | 1324.58 | 931.23 | 113.07 | 0.00 | 146.70 | 399.98 | 475.70 | 61.91 | 5237.55 | 2877.24 | 270.46 | 273.97 |
| 97 | 0.7449 | 25.868 | 936358 | 2.52 | 7908.83 | 904.71 | 456.78 | 355.21 | 1298.82 | 848.13 | 97.80 | 0.00 | 151.50 | 419.98 | 499.50 | 55.72 | 5088.15 | 2820.68 | 265.14 | 266.47 |
| 98 | 0.6617 | 28.124 | 954349 | 2.72 | 7745.92 | 891.76 | 427.43 | 337.20 | 1279.92 | 783.87 | 80.44 | 0.00 | 156.80 | 440.98 | 524.50 | 49.53 | 4972.43 | 2773.45 | 260.71 | 261.82 |
| 99 | 0.5910 | 30.529 | 943764 | 2.981 | 7613.86 | 884.73 | 402.26 | 317.74 | 1268.61 | 734.05 | 70.07 | 0.00 | 162.20 | 463.03 | 550.70 | 43.34 | 4896.73 | 2717.13 | 255.41 | 256.73 |
| 2000 | 0.5296 | 33.163 | 924739 | 3.244 | 7505.98 | 877.78 | 372.55 | 297.21 | 1223.13 | 680.65 | 59.65 | 0.00 | 168.00 | 486.18 | 578.30 | 37.14 | 4780.58 | 2725.40 | 256.19 | 255.99 |
| 01 | 0.4497 | 35.970 | 890963 | 3.550 | 7058.19 | 831.91 | 326.22 | 251.54 | 1207.04 | 610.77 | 50.65 | 0.00 | 174.00 | 510.49 | 607.20 | 30.95 | 4600.77 | 2457.42 | 231.00 | 237.30 |
| 02 | 0.3739 | 38.662 | 899667 | 3.847 | 6540.09 | 775.51 | 279.22 | 206.18 | 1181.44 | 544.24 | 43.16 | 0.00 | 180.40 | 536.01 | 637.50 | 24.76 | 4408.42 | 2131.67 | 200.38 | 208.03 |
| 03 | 0.3140 | 41.858 | 879601 | 4.172 | 6137.45 | 725.47 | 245.16 | 161.77 | 1178.94 | 493.95 | 35.11 | 0.00 | 187.10 | 562.81 | 699.40 | 18.57 | 4308.28 | 1829.17 | 171.94 | 179.05 |
| 04 | 0.2645 | 45.394 | 860541 | 4.518 | 5800.91 | 684.66 | 221.49 | 117.72 | 1120.38 | 450.58 | 28.51 | 0.00 | 194.00 | 590.95 | 702.90 | 12.38 | 4123.57 | 1677.34 | 157.67 | 161.24 |
| 05 | 0.2158 | 49.264 | 843787 | 4.896 | 5388.99 | 637.09 | 201.86 | 73.89 | 1068.44 | 404.34 | 24.26 | 0.00 | 201.40 | 620.50 | 738.67 | 6.19 | 3975.97 | 1413.02 | 132.82 | 139.04 |

1) These prices are weighted average wellhead values derived from the various values at the N. Slope and Cook Inlet fields evaluated in this study.

TABLE 5
Trans Alaska Pipeline
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Pipeline Tariff Thruput (\$/B) (mil B/D) | Total Revenue | Operat'g Costs/ Year | Amort & Deprec | Uncap Interest | Property Tax | Total Deduction | Net Income | Tax Liability (9.4%) | |
|-------------|--|---------------|----------------------|----------------|----------------|--------------|-----------------|------------|----------------------|--------|
| 82 | 1.5680 | 6.11 | 3496.88 | 229.00 | 268.65 | 601.29 | 162.00 | 1260.94 | 2235.94 | 210.18 |
| 83 | 1.6300 | 5.93 | 3528.05 | 229.00 | 268.65 | 554.84 | 157.40 | 1200.89 | 2327.16 | 218.75 |
| 84 | 1.6536 | 6.01 | 3627.42 | 221.00 | 268.65 | 491.73 | 166.00 | 1147.38 | 2480.04 | 233.12 |
| 85 | 1.7140 | 6.00 | 3753.66 | 211.50 | 268.65 | 438.15 | 162.00 | 1080.30 | 2673.36 | 251.30 |
| 86 | 1.7173 | 6.00 | 3760.80 | 210.96 | 268.65 | 409.86 | 155.77 | 1045.24 | 2715.56 | 255.26 |
| 87 | 1.7492 | 6.00 | 3830.82 | 232.39 | 268.65 | 381.77 | 149.54 | 1032.35 | 2798.47 | 263.06 |
| 88 | 1.6564 | 6.00 | 3627.42 | 242.31 | 268.65 | 351.68 | 143.31 | 1005.95 | 2621.47 | 246.42 |
| 89 | 1.5931 | 6.00 | 3488.94 | 251.47 | 268.65 | 327.01 | 137.08 | 984.21 | 2504.73 | 235.44 |
| 90 | 1.5024 | 6.00 | 3290.34 | 265.96 | 268.65 | 302.34 | 130.85 | 967.80 | 2322.54 | 218.32 |
| 91 | 1.3610 | 6.00 | 2980.68 | 279.95 | 268.65 | 277.65 | 124.62 | 950.87 | 2029.81 | 190.80 |
| 92 | 1.2858 | 6.00 | 2815.92 | 290.60 | 268.65 | 252.44 | 118.38 | 930.07 | 1885.85 | 177.27 |
| 93 | 1.1993 | 6.00 | 2626.50 | 301.35 | 268.65 | 226.53 | 112.15 | 908.68 | 1717.82 | 161.48 |
| 94 | 1.0558 | 6.00 | 2312.22 | 309.43 | 268.65 | 204.01 | 105.92 | 888.01 | 1424.21 | 133.88 |
| 95 | 0.9447 | 6.00 | 2068.86 | 316.75 | 268.65 | 186.27 | 99.69 | 871.36 | 1197.50 | 112.57 |
| 96 | 0.8319 | 6.00 | 1821.96 | 324.82 | 268.65 | 169.75 | 93.46 | 856.68 | 965.28 | 90.74 |
| 97 | 0.7337 | 6.00 | 1606.80 | 333.40 | 268.65 | 153.12 | 87.23 | 842.40 | 764.40 | 71.85 |
| 98 | 0.6510 | 6.00 | 1425.66 | 341.92 | 268.65 | 136.22 | 81.00 | 827.79 | 597.87 | 56.20 |
| 99 | 0.5805 | 6.00 | 1271.34 | 351.34 | 268.65 | 120.90 | 74.77 | 815.66 | 455.68 | 42.83 |
| 2000 | 0.5204 | 6.00 | 1139.70 | 361.76 | 268.65 | 105.89 | 68.54 | 804.84 | 334.86 | 31.48 |
| 01 | 0.4415 | 6.00 | 966.84 | 373.35 | 268.65 | 91.99 | 62.31 | 796.30 | 170.54 | 16.03 |
| 02 | 0.3668 | 6.00 | 803.22 | 386.26 | 268.65 | 82.51 | 56.08 | 793.50 | 9.72 | 0.91 |
| 03 | 0.3077 | 6.00 | 673.86 | 401.90 | 268.65 | 76.23 | 49.85 | 796.63 | -122.77 | -11.54 |
| 04 | 0.2588 | 6.00 | 566.88 | 419.35 | 268.65 | 70.44 | 43.62 | 802.06 | -235.18 | -22.11 |
| 05 | 0.2108 | 6.00 | 461.76 | 438.87 | 268.65 | 63.48 | 37.30 | 808.38 | -346.62 | -32.58 |

-
- 1) No gas production considered (26 TCF).
 - 2) No TAPS settlement.
 - 3) Some amount of total crude taken off at N. Pole i.e. does not go to Valdez.
 - 4) Based on 6/85 Mean case price and production assumptions.
 - 5) Seal Is. excluded.

ASSUMPTIONS:

Property taxes per AS43.56 @2% gross.

TABLE 6
WINDFALL PROFITS TAX DEDUCTION
(mil current FY \$)

DEDUCTION FROM F^y TAXABLE INCOME

| <u>Fiscal Year</u> | <u>Sadlerochit</u> | <u>Cook Inlet</u> | <u>Total</u> | <u>Impact on FY Tax Liability (Total * .094)</u> |
|-------------------------|--------------------|-------------------|--------------|--|
| <u>Under Pre-SB 524</u> | | | | |
| a) | | | | |
| 82 | 1750.61 | 267.05 | 2017.66 | 189.66 |
| 83 | 848.78 | 169.60 | 1018.38 | 95.73 |
| 84 | 289.25 | 123.08 | 412.33 | 38.76 |
| 85 | 8.93 | 61.33 | 70.26 | 6.60 |
| <u>Under HB 353</u> | | | | |
| b) | | | | |
| 85 | 8.51 | 61.09 | 69.60 | 6.54 |
| 86 | -0- | 39.85 | 39.85 | 3.75 |
| 87 | -0- | 18.80 | 18.80 | 1.77 |
| 88 | -0- | 9.83 | 9.83 | .92 |
| 89 | -0- | 6.32 | 6.32 | .59 |
| 90 | -0- | 4.14 | 4.14 | .39 |
| 91 | -0- | 2.71 | 2.71 | .25 |
| 92 | -0- | 1.72 | 1.72 | .16 |
| 93 | -0- | .70 | .70 | .07 |
| 94 | -0- | .03 | .03 | -0- |

Note:

- 1/ Based on 6/85 Mean case price and production assumptions.
 - 2/ Windfall Profits Tax is phased out and no longer in effect in FY 1995 and thereafter.
 - 3/ The reason for the slight difference in FY 85 under Pre-SB 524 compared to HB 353 is the difference in the Oil Severance Tax law and thus, the severance tax adjustment under the WPT.
- a) For FY 1982 through 1985, these impacts are included in Tables 3 and 4 under the Pre-SB 524 separate accounting corporate tax. If the WPT was not a deduction for those years, the total tax liability columns would have been increased by these amounts.
 - b) For FY 1982 through 2005, these impacts are not included in Tables 3 and 4 under the HB 353 separate accounting corporate tax. If the WPT was a deduction for these years, the total tax liability columns would be reduced by these amounts. In FY 1985, the reduction would be approximately one half the amount because HB 353 goes into effect midway through the fiscal year.

HB 353 AND SB 524
ANALYSIS
JUNE, 1985
30% CASE ASSUMPTIONS

SUMMARY TABLES

June '85
projections

TABLE I
Old Law (Pre SB 524)
Current Law (AS43.20 & AS 43.55)
Proposed Law (HB 353)
(mil current FY \$)

| Fiscal Year | To. Corp Pre | Inc Tax Collections | | Total Prodn Tax Liability | | | Total Gain or Loss |
|------------------------|----------------|---------------------|----------------|---------------------------|-----------------|-----------------|--------------------|
| | | AS 43.20 | Diff | Pre | AS 43.55 | Diff | |
| | SB 524 | | | SB 524 | | | |
| <i>hypothetical</i> 82 | 837.62 | 242.50 | -595.12 1) | 1219.03 | 1581.70 | 362.67 | -232.45 |
| | | | Impact SB 524 | | | Impact SB 524 | Impact SB 524 |
| <i>actual</i> 82 | 837.62 | 668.90 | -168.72 2) | 1219.03 | 1581.70 | 362.67 | 193.95 |
| 83 | 796.15 | 236.00 | -560.15 | 1098.94 | 1493.70 | 394.76 | -165.39 |
| 84 | 782.86 | 265.10 | -517.76 | 1032.93 | 1393.10 | 360.17 | -157.59 |
| 85 | 797.00 | 168.60 | -628.40 | 1013.36 | 1388.50 | 374.64 | -253.76 |
| | | | Impact HB 353 | existing AS 43.55 | | Impact HB 353 | Impact HB 353 |
| | HB 353 | | | | | | |
| 85 | 448.48 | 168.60 | 279.88 3) | 1588.50 | 1388.50 | 0.00 | 279.88 |
| 86 | 684.73 | 223.67 | 461.06 | 1172.84 | 1172.84 | 0.00 | 461.06 |
| | | | | HB 353 | | | |
| 87 | 563.79 | 232.71 | 331.08 | 904.34 | 989.98 | -85.64 | 25.44 |
| 88 | 515.28 | 238.38 | 276.90 | 638.67 | 773.71 | -135.04 | 11.86 |
| 89 | 491.39 | 241.26 | 250.13 | 610.81 | 737.68 | -127.07 | 13.06 |
| 90 | 456.84 | 241.28 | 215.56 | 586.91 | 703.35 | -116.44 | 99.12 |
| 91 | 410.91 | 238.09 | 172.82 | 541.91 | 642.15 | -100.24 | 72.58 |
| 92 | 401.05 | 235.48 | 165.57 | 546.70 | 646.31 | -99.61 | 65.96 |
| 93 | 401.31 | 232.44 | 168.87 | 552.78 | 639.54 | -86.76 | 82.11 |
| 94 | 373.10 | 225.67 | 147.43 | 507.40 | 595.90 | -88.50 | 58.93 |
| 95 | 344.91 | 217.58 | 127.33 | 480.40 | 562.13 | -81.73 | 45.60 |
| 96 | 316.61 | 209.73 | 106.88 | 443.18 | 516.64 | -73.46 | 33.42 |
| 97 | 292.49 | 202.00 | 90.49 | 415.23 | 484.75 | -69.52 | 20.97 |
| 98 | 270.06 | 194.51 | 75.55 | 388.95 | 451.24 | -62.29 | 15.26 |
| 99 | 247.16 | 187.15 | 60.01 | 361.51 | 418.64 | -57.13 | 2.88 |
| 2000 | 226.90 | 178.63 | 48.27 | 332.77 | 384.15 | -51.38 | -3.11 |
| 01 | 184.23 | 167.79 | 16.45 | 283.19 | 328.46 | -45.27 | -28.82 |
| 02 | 141.64 | 156.78 | -15.14 | 245.12 | 278.92 | -33.80 | -48.94 |
| 03 | 102.09 | 147.24 | -45.15 | 214.35 | 243.63 | -29.28 | -74.43 |
| 04 | 70.65 | 137.62 | -66.97 | 198.20 | 217.30 | -19.10 | -86.07 |
| 05 | 29.57 | 126.56 | -96.99 | 181.65 | 199.61 | -18.16 | -115.15 |
| SUM 85-05 | 6973.24 | 4203.18 | 2770.05 | 10995.41 | 12375.83 | -1380.42 | 1369.63 |

\$382.79
\$309 loss

-85-2005

1) FY 1982 receipts are estimated as if AS43.21 were in effect for the whole year in column 2 then as if AS43.20 were in effect for the whole year in column 3 though each was in effect only half the fiscal year.

2) FY 1982 collections under SB 524 of \$668.9m are comprised of \$538.2m from AS43.21 "OLD SEPARATE ACCT" law and \$130.7 from AS43.20 "CURRENT MODIFIED APPORTIONMENT" law.

3) FY 1985 HB353 Corp. Inc. Tax includes \$60.8m of AS43.20 already collected through December 31, 1984.

4) FY 1985 AS43.20 collections are expected to be low due to substantial refunds and credits for prior year's tax overpayments. Tax liability on a calendar year basis under AS43.20 was CY82, \$236.50m; CY83, \$224.01m; CY84 \$241.54m.

5) Based on 6/85 (30% case price) and production assumptions.

no TAXS

TABLE 2a
 Calculation of State Petroleum Revenues as a
 Percent of Adjusted Production Income
 6/85 Forecast Assumptions 30% Case FY 85-05 Using WHV

| Fiscal Year | Total Petroleum Production | | | State Petrol Revenues | State / Net Rev % | With AS 43.20 Corporate Income Tax & AS 43.55 Production Tax | | | | | |
|-------------|----------------------------|------------------|----------------|-----------------------------|-------------------------|--|------------------|------------------|----------------|-----------------------------|-------------------------|
| | Gross Revenue | Cost Deductns | Net Revenue | | | Fiscal Year | Gross Revenue | Cost Deductns | Net Revenue | State Petrol Revenues | State / Net Rev % |
| 82 | 12958.93 | 1740.58 | 11218.35 | 3525.22 | 31.42% | 82 | 12958.93 | 1740.58 | 11218.35 | 3502.40 | 31.22% |
| | | | | Pre SB 524 | | | | | | AS43.20 & 55 | |
| | | | | Impact SB 524 | | | | | | | |
| 82 | 12958.93 | 1740.58 | 11218.35 | 3525.22 | 31.42% | 82 | 12958.93 | 1740.58 | 11218.35 | 3928.80 | 35.02% |
| 83 | 11941.70 | 2113.21 | 9828.49 | 3270.36 | 33.27% | 83 | 11941.70 | 2113.21 | 9828.49 | 3321.58 | 33.80% |
| 84 | 11327.62 | 2511.29 | 8816.33 | 3148.49 | 35.71% | 84 | 11327.62 | 2511.29 | 8816.33 | 3220.43 | 36.53% |
| 85 | 11382.33 | 2832.59 | 8549.74 | 3161.10 | 36.97% | 85 | 11382.33 | 2832.59 | 8549.74 | 3154.10 | 36.89% |
| | | | | HB 353 as of 1/1/85 1) | | | | | | AS43.20 & 55 | |
| | | | | Impact HB 353 | | | | | | | |
| 85 | 11382.33 | 2332.59 | 8549.74 | 3297.36 | 38.57% | 85 | 11382.33 | 2832.59 | 8549.74 | 3154.10 | 36.89% |
| 86 | 9887.72 | 3015.48 | 6872.24 | 3055.24 | 44.46% | 86 | 9887.72 | 3015.48 | 6872.24 | 2848.45 | 41.45% |
| 87 | 8471.80 | 3356.83 | 5114.97 | 2532.10 | 49.50% | 87 | 8471.80 | 3356.83 | 5114.97 | 2547.16 | 49.80% |
| 88 | 8329.60 | 3543.97 | 4785.63 | 2211.37 | 46.21% | 88 | 8329.60 | 3543.97 | 4785.63 | 2316.57 | 48.41% |
| 89 | 8353.24 | 3632.71 | 4720.52 | 2186.06 | 46.31% | 89 | 8353.24 | 3632.71 | 4720.52 | 2290.29 | 48.52% |
| 90 | 8258.78 | 3741.13 | 4517.65 | 2166.34 | 47.95% | 90 | 8258.78 | 3741.13 | 4517.65 | 2274.97 | 50.36% |
| 91 | 7904.70 | 3688.01 | 4216.70 | 2064.21 | 48.95% | 91 | 7904.70 | 3688.01 | 4216.70 | 2173.54 | 51.55% |
| 92 | 8107.26 | 3709.46 | 4397.81 | 2094.52 | 47.63% | 92 | 8107.26 | 3709.46 | 4397.81 | 2194.70 | 49.90% |
| 93 | 8221.24 | 3673.21 | 4548.02 | 2123.74 | 46.70% | 93 | 8221.24 | 3673.21 | 4548.02 | 2194.89 | 48.26% |
| 94 | 7865.09 | 3559.52 | 4325.56 | 2028.93 | 46.91% | 94 | 7885.09 | 3559.52 | 4325.56 | 2101.34 | 48.58% |
| 95 | 7646.27 | 3432.19 | 4214.09 | 1957.90 | 46.46% | 95 | 7646.27 | 3432.19 | 4214.09 | 2021.91 | 47.98% |
| 96 | 7363.98 | 3335.04 | 4028.95 | 1867.70 | 46.36% | 96 | 7363.98 | 3335.04 | 4028.95 | 2019.17 | 50.12% |
| 97 | 7169.51 | 3252.94 | 3916.57 | 1796.94 | 45.88% | 97 | 7169.51 | 3252.94 | 3916.57 | 1847.31 | 47.17% |
| 98 | 6955.00 | 3173.31 | 3781.69 | 1724.47 | 45.60% | 98 | 6955.00 | 3173.31 | 3781.69 | 1766.06 | 46.70% |
| 99 | 6738.45 | 3115.29 | 3623.15 | 1649.99 | 45.54% | 99 | 6738.45 | 3115.29 | 3623.15 | 1687.16 | 46.57% |
| 2000 | 6513.93 | 3032.96 | 3480.97 | 1573.83 | 45.21% | 2000 | 6513.93 | 3032.96 | 3480.97 | 1604.07 | 46.03% |
| 01 | 5912.10 | 2940.61 | 2971.49 | 1388.82 | 46.74% | 01 | 5912.10 | 2940.61 | 2971.49 | 1428.57 | 48.08% |
| 02 | 5485.48 | 2915.17 | 2570.31 | 1232.63 | 47.96% | 02 | 5485.48 | 2915.17 | 2570.31 | 1277.36 | 49.70% |
| 03 | 5109.57 | 2945.74 | 2163.83 | 1091.16 | 50.43% | 03 | 5109.57 | 2945.74 | 2163.83 | 1148.81 | 53.09% |
| 04 | 4743.44 | 2867.67 | 1875.77 | 974.30 | 51.94% | 04 | 4743.44 | 2867.67 | 1875.77 | 1032.52 | 55.05% |
| 05 | 4269.43 | 2865.16 | 1404.27 | 830.15 | 59.12% | 05 | 4269.43 | 2865.16 | 1404.27 | 906.04 | 64.52% |

1) FY 1985 HB353 Corp. Inc. Tax includes \$60.8m of AS43.20 already collected through December 31, 1984 and half a year of the new tax.

2) Based on 6/85 30% case price and production assumptions.

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TABLE 26

Calculation of State Petroleum Revenues as a
and as a Percent of Prod'n & Pipeline Income
6/85 Forecast Assumptions 30% Case FY 85-05 Using HW

| Fiscal Year | -----Total Petroleum----- | | | State Petrol Revenues | State / Net Rev % | Fiscal Year | -----Total Petroleum----- | | | State Petrol Revenues | State / Net Rev % |
|-------------|---------------------------|---------------|-------------|-----------------------------|-------------------------|-------------|---------------------------|---------------|-------------|-----------------------------|-------------------------|
| | Gross Revenue | Cost Deductns | Net Revenue | | | | Gross Revenue | Cost Deductns | Net Revenue | | |
| 62 | 16455.80 | 2839.52 | 13616.28 | 3896.85 | 28.62% | 82 | 16455.80 | 2839.52 | 13616.28 | 3664.40 | 26.91% |
| | | | | Pre SB 524 | | | | | | AS43.20 & 55 | |
| | | | | Impact SB 524 | | | | | | | |
| 82 | 16455.80 | 2839.52 | 13616.28 | 3896.85 | 28.62% | 82 | 16455.80 | 2839.52 | 13616.28 | 4090.80 | 30.04% |
| 83 | 15469.75 | 3156.70 | 12313.06 | 3644.37 | 29.60% | 83 | 15469.75 | 3156.70 | 12313.06 | 3478.98 | 28.25% |
| 84 | 14955.03 | 3492.67 | 11462.37 | 3544.02 | 30.92% | 84 | 14955.04 | 3492.67 | 11462.37 | 3386.43 | 29.54% |
| 85 | 15135.98 | 3750.89 | 11385.10 | 3569.86 | 31.36% | 85 | 15135.99 | 3750.89 | 11385.10 | 3316.10 | 29.13% |
| | | | | HB 353 as of 1/1/85 1) | | | | | | AS43.20 & 55 | |
| | | | | Impact HB 353 | | | | | | | |
| 85 | 15135.98 | 3750.89 | 11385.10 | 3585.00 | 31.49% | 85 | 15135.98 | 3750.89 | 11385.10 | 3316.10 | 29.13% |
| 86 | 13648.51 | 3904.95 | 9743.57 | 3465.28 | 35.56% | 86 | 13648.51 | 3904.95 | 9743.57 | 3004.22 | 30.83% |
| 87 | 12293.67 | 4239.30 | 8054.38 | 2942.14 | 36.53% | 87 | 12293.67 | 4239.30 | 8054.38 | 2696.70 | 33.48% |
| 88 | 11908.05 | 4404.62 | 7503.44 | 2601.74 | 37.67% | 88 | 11908.05 | 4404.62 | 7503.44 | 2459.88 | 32.78% |
| 89 | 11697.09 | 4473.67 | 7223.42 | 2550.43 | 35.31% | 89 | 11697.09 | 4473.67 | 7223.42 | 2427.37 | 33.60% |
| 90 | 11377.10 | 4570.41 | 6806.69 | 2504.94 | 36.80% | 90 | 11377.10 | 4570.41 | 6806.69 | 2405.82 | 35.35% |
| 91 | 10708.14 | 4505.98 | 6202.17 | 2370.74 | 38.22% | 91 | 10708.14 | 4505.98 | 6202.17 | 2298.16 | 37.05% |
| 92 | 10766.04 | 4517.45 | 6252.60 | 2379.04 | 38.05% | 92 | 10766.04 | 4513.45 | 6252.60 | 2313.08 | 36.99% |
| 93 | 10718.43 | 4463.08 | 6255.35 | 2389.15 | 38.19% | 93 | 10718.43 | 4463.08 | 6255.35 | 2307.04 | 36.88% |
| 94 | 10099.08 | 4336.29 | 5762.79 | 2266.19 | 39.32% | 94 | 10099.08 | 4336.29 | 5762.79 | 2207.26 | 38.30% |
| 95 | 9623.390 | 4198.63 | 5424.77 | 2167.20 | 39.95% | 95 | 9623.390 | 4198.63 | 5424.77 | 2121.60 | 39.11% |
| 96 | 9118.502 | 4094.19 | 5024.32 | 2050.85 | 40.50% | 96 | 9118.502 | 4094.19 | 5024.32 | 2112.63 | 42.05% |
| 97 | 8719.606 | 4004.47 | 4715.14 | 1955.51 | 41.47% | 97 | 8719.606 | 4004.47 | 4715.14 | 1934.54 | 41.03% |
| 98 | 8319.520 | 3915.96 | 4403.56 | 1860.32 | 42.25% | 98 | 8319.520 | 3915.96 | 4403.56 | 1847.06 | 41.94% |
| 99 | 7936.706 | 3850.96 | 4085.74 | 1764.81 | 43.19% | 99 | 7936.706 | 3850.96 | 4085.74 | 1761.93 | 43.12% |
| 2000 | 7567.890 | 3762.81 | 3805.08 | 1669.50 | 43.88% | 2000 | 7567.890 | 3762.81 | 3805.08 | 1672.61 | 43.96% |
| 01 | 6769.499 | 3665.94 | 3103.56 | 1462.05 | 47.11% | 01 | 6769.499 | 3665.94 | 3103.56 | 1490.88 | 48.04% |
| 02 | 6187.359 | 3643.99 | 2543.37 | 1284.50 | 50.50% | 02 | 6187.359 | 3643.99 | 2543.37 | 1333.44 | 52.43% |
| 03 | 5687.426 | 3684.00 | 2003.43 | 1124.23 | 56.12% | 03 | 5687.426 | 3684.00 | 2003.43 | 1198.66 | 59.83% |
| 04 | 5211.317 | 3616.86 | 1594.46 | 990.07 | 62.09% | 04 | 5211.317 | 3616.86 | 1594.46 | 1076.14 | 67.49% |
| 05 | 4618.090 | 3624.93 | 993.16 | 828.28 | 83.40% | 05 | 4618.090 | 3624.93 | 993.16 | 943.42 | 94.99% |

1) FY 1985 HB353 Corp. Inc Tax includes \$60.0m of AS43.20 already collected through December 1, 1984 and half a year of the new tax.

2) Based on 6/85 30% case price and production assumptions.

TABLE 3
Pipeline, Production & Exploration
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Total Revenue | State Royalty Share | Prod'n& Cons Tax | Total Property Tax | Total Oper'g Costs | Total Depre | Total Acquis Costs | Windfall Profits Tax | Interest Expense Uncap | Exploratr'n Costs | Admin Costs | Other Deduc'tns | Total Deduc'tns | Total Net Income | Liability-----Collections----- | | | |
|-------------|---------------|---------------------|------------------|--------------------|--------------------|-------------|--------------------|----------------------|------------------------|-------------------|-------------|-----------------|-----------------|------------------|--------------------------------|-----------|-------------|--------|
| | | | | | | | | | | | | | | | HB 353 1) | HB 353 1) | AS 43.20 2) | Diff |
| 82 | 16455.80 | 1564.30 | 1219.03 | 275.90 | 939.80 | 602.58 | 0.77 | 2017.66 | 720.69 | 190.90 | 236.20 | 148.58 | 7916.41 | 8539.40 | 802.70 | 837.62 | 130.72 | 706.90 |
| 83 | 15469.75 | 1442.73 | 1098.94 | 306.55 | 1100.56 | 780.16 | 0.98 | 1018.38 | 676.04 | 204.26 | 252.30 | 142.39 | 7023.30 | 8446.46 | 793.97 | 796.15 | 236.00 | 560.15 |
| 84 | 14955.04 | 1370.57 | 1032.93 | 357.66 | 1259.34 | 998.45 | 1.09 | 412.33 | 614.13 | 218.56 | 264.90 | 136.20 | 6666.16 | 8288.87 | 779.15 | 782.86 | 265.10 | 517.76 |
| 85 | 15135.99 | 1362.44 | 1013.86 | 396.56 | 1449.17 | 1093.32 | 0.80 | 70.26 | 565.55 | 233.86 | 278.20 | 130.00 | 6594.01 | 8541.97 | 802.95 | 797.00 | 168.60 | 628.40 |
| 85 | 15135.99 | 1362.44 | 1377.52 | 396.56 | 1449.17 | 1093.32 | 0.80 | 69.59 | 565.55 | 233.86 | 278.20 | 130.00 | 6887.41 | 8248.58 | 775.37 | 581.52 | 168.60 | 412.92 |
| 86 | 13648.52 | 1187.44 | 1172.84 | 420.27 | 1477.66 | 1224.05 | 0.76 | 35.96 | 541.76 | 244.80 | 292.10 | 123.82 | 6685.50 | 6963.02 | 654.52 | 684.73 | 223.67 | 461.06 |
| 87 | 12293.68 | 1008.96 | 904.34 | 465.05 | 1597.00 | 1437.62 | 6.25 | 10.87 | 517.87 | 256.24 | 306.70 | 117.63 | 6617.65 | 5676.03 | 533.55 | 563.79 | 232.71 | 331.08 |
| 88 | 11908.06 | 946.18 | 638.67 | 501.61 | 1629.36 | 1562.56 | 17.75 | 4.06 | 490.28 | 268.23 | 322.00 | 114.43 | 6491.08 | 5416.98 | 509.20 | 515.28 | 238.38 | 276.90 |
| 89 | 11697.10 | 929.31 | 610.81 | 518.92 | 1625.11 | 1624.89 | 33.16 | 2.14 | 466.41 | 280.77 | 338.10 | 105.24 | 6532.71 | 5154.38 | 485.45 | 491.39 | 241.26 | 250.13 |
| 90 | 11377.10 | 922.19 | 586.91 | 539.00 | 1702.64 | 1619.49 | 57.70 | 0.51 | 442.64 | 293.90 | 355.00 | 99.05 | 6618.51 | 4758.59 | 447.31 | 456.84 | 241.28 | 215.56 |
| 91 | 10708.14 | 685.09 | 541.91 | 532.83 | 1686.99 | 1546.15 | 80.98 | 0.00 | 418.55 | 307.65 | 372.80 | 92.86 | 6465.81 | 4242.34 | 398.78 | 410.91 | 238.09 | 172.82 |
| 92 | 10766.04 | 908.04 | 546.70 | 523.25 | 1709.49 | 1516.09 | 94.23 | 0.00 | 393.54 | 322.03 | 391.40 | 86.67 | 6491.44 | 4274.61 | 401.81 | 401.05 | 235.48 | 165.57 |
| 93 | 10718.44 | 924.67 | 552.78 | 510.39 | 1715.39 | 1448.71 | 102.58 | 0.00 | 367.83 | 337.09 | 411.00 | 80.48 | 6450.92 | 4267.51 | 401.15 | 401.31 | 232.44 | 168.87 |
| 94 | 10099.09 | 890.42 | 507.40 | 495.27 | 1691.98 | 1333.24 | 107.22 | 0.00 | 345.21 | 352.86 | 431.50 | 74.29 | 6229.38 | 3869.70 | 363.75 | 373.10 | 225.67 | 147.43 |
| 95 | 9623.39 | 863.98 | 480.40 | 477.91 | 1640.12 | 1230.56 | 109.41 | 0.00 | 328.97 | 369.36 | 453.10 | 68.10 | 6020.92 | 3602.48 | 338.63 | 344.91 | 217.58 | 127.33 |
| 96 | 9118.50 | 833.24 | 443.18 | 457.82 | 1621.89 | 1127.87 | 103.73 | 0.00 | 316.45 | 386.65 | 475.70 | 61.91 | 5828.43 | 3290.08 | 309.27 | 316.61 | 225.67 | 90.93 |
| 97 | 8719.61 | 812.20 | 415.23 | 435.59 | 1606.92 | 1035.88 | 97.12 | 0.00 | 304.62 | 404.71 | 499.50 | 55.72 | 5667.49 | 3052.12 | 286.90 | 292.49 | 202.00 | 90.49 |
| 98 | 8319.52 | 789.94 | 388.95 | 411.37 | 1592.93 | 947.57 | 84.77 | 0.00 | 293.02 | 423.64 | 524.50 | 49.53 | 5506.22 | 2813.30 | 254.45 | 270.06 | 194.51 | 75.55 |
| 99 | 7936.71 | 770.14 | 361.51 | 386.00 | 1584.30 | 871.20 | 74.87 | 0.00 | 283.10 | 443.45 | 550.70 | 43.34 | 5368.61 | 2568.09 | 241.40 | 247.16 | 187.15 | 60.01 |
| 2000 | 7567.89 | 750.23 | 332.77 | 359.60 | 1542.65 | 802.43 | 64.20 | 0.00 | 273.89 | 464.19 | 578.30 | 37.14 | 5205.41 | 2362.48 | 222.07 | 226.90 | 178.63 | 48.27 |
| 01 | 6769.50 | 687.20 | 283.19 | 307.43 | 1513.33 | 707.22 | 53.36 | 0.00 | 265.99 | 485.89 | 607.20 | 30.95 | 4943.76 | 1825.74 | 171.62 | 184.23 | 167.79 | 16.45 |
| 02 | 6187.36 | 640.81 | 245.12 | 256.93 | 1516.82 | 647.61 | 45.77 | 0.00 | 262.91 | 508.62 | 637.50 | 24.76 | 4786.85 | 1400.51 | 131.65 | 141.64 | 156.78 | -15.14 |
| 03 | 5687.43 | 601.02 | 214.35 | 206.77 | 1533.59 | 598.56 | 38.15 | 0.00 | 263.33 | 532.40 | 699.40 | 18.57 | 4706.14 | 981.29 | 92.24 | 102.09 | 147.24 | -45.15 |
| 04 | 5211.32 | 564.20 | 198.20 | 157.02 | 1489.05 | 559.16 | 31.62 | 0.00 | 264.44 | 557.30 | 702.90 | 12.38 | 4536.28 | 675.04 | 63.45 | 70.65 | 137.62 | -66.97 |
| 05 | 4618.09 | 509.52 | 181.65 | 107.53 | 1494.37 | 511.86 | 26.27 | 0.00 | 264.88 | 583.36 | 738.00 | 6.19 | 4423.63 | 194.46 | 18.28 | 29.57 | 126.56 | -96.99 |

- 1) These estimates assume the tax plan is in effect for the whole year; for FY 1982-85 this is Pre SB 524, for FY 1985-05 this is HB 353.
- 2) FY82 collections of \$130.72m are the actual amounts collected or credited to CY82 liability. The estimate for a full year under AS 43.20 in FY82 is \$242.5m which would result in a difference of \$595.12m as presented in column 4 of Table 1. FY 1985 AS43.20 collections are expected to be low due to substantial refunds and credits for prior year's tax overpayments. Tax liability on a calendar year basis under AS43.20 was CY82, \$236.50m; CY83, \$224.01m; CY84 \$241.54m.
- 3) Based on 6/85 30% case price and production assumptions.

TABLE 4
All Producing Fields
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Oil Prod'n (mil B/D) | Wellhead Value (\$/cur \$) | Gas Prod'n (mcf/day) | Gas Price (\$/mcf) | Total Revenue (cur \$) | State Royalty Share | Prod'n Cons Tax | Property Tax | Total Oper'tg Costs | Depre Devel Costs | Amort Acquis Costs | Windfall Profits Tax | Interest Expense | Exploratr'n Costs (expen'd) | Adain Cost | Other Deductns | Total Deductns | Total Taxable Income | Total Tax Liability | Total Tax Collectns |
|-------------|----------------------|----------------------------|----------------------|--------------------|------------------------|---------------------|-----------------|--------------|---------------------|-------------------|--------------------|----------------------|------------------|-----------------------------|------------|----------------|----------------|----------------------|---------------------|---------------------|
| 82 | 1.6533 | 21.293 | 507000 | 0.590 | 12958.93 | 1564.30 | 1219.03 | 113.90 | 710.80 | 333.93 | 0.77 | 2017.66 | 119.40 | 190.90 | 236.20 | 148.58 | 6655.47 | 6303.46 | 592.53 | 627.99 |
| 83 | 1.7006 | 19.040 | 503000 | 0.670 | 11941.70 | 1442.73 | 1098.94 | 149.15 | 880.56 | 511.51 | 0.98 | 1018.38 | 121.20 | 204.26 | 252.30 | 142.39 | 5822.41 | 6119.30 | 575.21 | 579.54 |
| 84 | 1.7183 | 17.864 | 505000 | 0.670 | 11327.62 | 1370.57 | 1032.93 | 191.66 | 1038.34 | 729.80 | 1.09 | 412.33 | 122.40 | 218.56 | 264.90 | 136.20 | 5518.78 | 5808.83 | 546.03 | 553.33 |
| 85 | 1.7523 | 17.483 | 565091 | 0.971 | 11382.33 | 1362.44 | 1013.86 | 234.56 | 1237.67 | 824.67 | 0.80 | 70.26 | 127.40 | 233.86 | 278.20 | 130.00 | 5513.71 | 5868.61 | 551.65 | 550.24 |
| 85 | 1.7523 | 17.483 | 565091 | 0.971 | 11382.33 | 1362.44 | 1377.52 | 234.56 | 1237.67 | 824.67 | 0.80 | 69.59 | 127.40 | 233.86 | 278.20 | 130.00 | 5807.11 | 5575.22 | 524.07 | 393.05 |
| 85 | 1.7528 | 15.119 | 537624 | 1.097 | 9887.72 | 1187.44 | 1172.84 | 264.50 | 1266.70 | 955.40 | 0.76 | 35.96 | 131.90 | 244.80 | 292.10 | 123.82 | 5640.26 | 4247.46 | 399.26 | 430.46 |
| 87 | 1.7767 | 12.642 | 625000 | 1.200 | 8471.80 | 1008.96 | 904.34 | 315.51 | 1364.95 | 1168.97 | 6.25 | 10.87 | 136.10 | 256.24 | 306.70 | 117.63 | 5585.64 | 2886.16 | 271.30 | 303.29 |
| 88 | 1.6615 | 13.181 | 705650 | 1.306 | 8329.60 | 946.18 | 638.67 | 358.30 | 1389.04 | 1293.91 | 17.75 | 4.06 | 138.60 | 268.23 | 322.00 | 114.43 | 5487.12 | 2842.48 | 267.19 | 268.22 |
| 89 | 1.5509 | 14.111 | 714549 | 1.400 | 8353.24 | 929.31 | 610.81 | 381.84 | 1379.81 | 1356.24 | 33.16 | 2.14 | 139.40 | 280.77 | 338.10 | 105.24 | 5554.67 | 2798.36 | 263.06 | 264.10 |
| 90 | 1.4450 | 14.792 | 797800 | 1.570 | 8258.78 | 922.19 | 586.91 | 408.15 | 1444.35 | 1350.84 | 57.70 | 0.51 | 140.30 | 293.90 | 335.00 | 99.05 | 5658.39 | 2600.40 | 244.44 | 249.09 |
| 91 | 1.2987 | 15.548 | 858950 | 1.706 | 7904.70 | 885.09 | 541.91 | 408.21 | 1415.32 | 1277.50 | 80.98 | 0.00 | 140.90 | 307.65 | 372.80 | 92.86 | 5523.24 | 2381.49 | 223.86 | 229.00 |
| 92 | 1.2302 | 16.693 | 902485 | 1.856 | 8107.26 | 908.04 | 546.70 | 404.87 | 1426.59 | 1247.44 | 94.23 | 0.00 | 141.10 | 322.03 | 391.40 | 86.67 | 5589.07 | 2538.20 | 238.59 | 234.91 |
| 93 | 1.1542 | 17.924 | 920067 | 1.995 | 8221.24 | 924.67 | 552.78 | 398.24 | 1420.70 | 1180.06 | 102.58 | 0.00 | 141.30 | 337.09 | 411.00 | 80.48 | 5548.90 | 2672.33 | 251.20 | 248.05 |
| 94 | 1.0233 | 19.236 | 893060 | 2.149 | 7885.09 | 890.42 | 507.40 | 389.35 | 1387.87 | 1064.59 | 107.22 | 0.00 | 141.20 | 352.86 | 431.50 | 74.29 | 5346.69 | 2538.39 | 238.61 | 241.76 |
| 95 | 0.9146 | 20.654 | 906549 | 2.270 | 7646.27 | 863.98 | 480.40 | 378.22 | 1328.60 | 961.91 | 108.41 | 0.00 | 142.70 | 369.36 | 453.10 | 68.10 | 5154.79 | 2491.49 | 234.20 | 235.30 |
| 96 | 0.8127 | 22.114 | 920462 | 2.395 | 7363.98 | 833.24 | 443.18 | 364.36 | 1301.14 | 859.22 | 103.73 | 0.00 | 146.70 | 386.63 | 475.70 | 61.91 | 4975.82 | 2388.17 | 224.49 | 226.92 |
| 97 | 0.7190 | 23.983 | 936358 | 2.562 | 7169.51 | 812.20 | 415.23 | 348.36 | 1277.16 | 767.23 | 97.12 | 0.00 | 151.50 | 404.71 | 499.50 | 55.72 | 4828.73 | 2340.78 | 220.03 | 221.15 |
| 98 | 0.6338 | 25.944 | 954349 | 2.737 | 6955.00 | 789.94 | 388.95 | 330.37 | 1255.15 | 678.92 | 84.77 | 0.00 | 156.80 | 423.64 | 524.50 | 49.53 | 4682.57 | 2272.43 | 213.61 | 215.21 |
| 99 | 0.5576 | 28.054 | 943764 | 2.987 | 6738.45 | 770.14 | 361.51 | 311.23 | 1238.18 | 602.55 | 74.87 | 0.00 | 162.20 | 443.45 | 550.70 | 43.34 | 4558.17 | 2180.27 | 204.95 | 207.11 |
| 2000 | 0.4905 | 30.268 | 924739 | 3.244 | 6513.93 | 750.23 | 332.77 | 291.06 | 1187.35 | 533.78 | 64.20 | 0.00 | 168.00 | 464.19 | 578.30 | 37.14 | 4407.02 | 2106.91 | 198.05 | 199.77 |
| 01 | 0.3997 | 32.611 | 890963 | 3.550 | 5912.10 | 687.20 | 283.19 | 245.12 | 1148.64 | 440.57 | 53.36 | 0.00 | 174.00 | 485.89 | 607.20 | 30.95 | 4156.12 | 1755.98 | 165.06 | 173.31 |
| 02 | 0.3277 | 35.304 | 899667 | 3.847 | 5485.48 | 640.81 | 245.12 | 200.85 | 1139.16 | 378.96 | 45.77 | 0.00 | 180.40 | 508.62 | 637.50 | 24.76 | 4001.95 | 1483.53 | 139.45 | 145.85 |
| 03 | 0.2762 | 38.227 | 879601 | 4.172 | 5109.57 | 601.02 | 214.35 | 156.92 | 1140.21 | 329.91 | 38.15 | 0.00 | 187.10 | 532.40 | 699.40 | 18.57 | 3918.03 | 1191.54 | 112.00 | 118.87 |
| 04 | 0.2193 | 41.539 | 860541 | 4.518 | 4743.44 | 564.20 | 198.20 | 113.40 | 1078.95 | 290.51 | 31.62 | 0.00 | 194.00 | 557.30 | 702.90 | 12.38 | 3743.47 | 999.97 | 94.00 | 98.50 |
| 05 | 0.1642 | 46.078 | 843787 | 4.896 | 4269.43 | 509.52 | 181.65 | 70.15 | 1066.73 | 243.21 | 26.27 | 0.00 | 201.40 | 583.36 | 738.00 | 6.19 | 3626.48 | 642.95 | 60.44 | 68.83 |

1) These prices are weighted average wellhead values derived from the various values at the N. Slope and Cook Inlet fields evaluated in this study.

TABLE 5
Trans Alaska Pipeline
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Pipeline Input (mil B/D) | Tariff (\$/B) | Total Revenue | Operat'g Costs/Year | Amort & Deprec | Uncap Interest | Property Tax | Total Deduction | Net Income | Tax Liability (9.4%) |
|-------------|--------------------------|---------------|---------------|---------------------|----------------|----------------|--------------|-----------------|------------|----------------------|
| 82 | 1.5680 | 6.11 | 3496.88 | 229.00 | 268.65 | 601.29 | 162.00 | 1260.94 | 2235.94 | 210.18 |
| 83 | 1.6300 | 5.93 | 3528.05 | 220.00 | 268.65 | 554.84 | 157.40 | 1200.89 | 2327.16 | 218.75 |
| 84 | 1.6536 | 6.01 | 3627.42 | 221.00 | 268.65 | 491.73 | 166.00 | 1147.38 | 2480.04 | 233.12 |
| 85 | 1.7140 | 6.00 | 3753.66 | 211.50 | 268.65 | 438.15 | 162.00 | 1060.30 | 2673.36 | 251.30 |
| 86 | 1.7173 | 6.00 | 3760.80 | 210.96 | 268.65 | 409.86 | 155.77 | 1045.24 | 2715.56 | 255.26 |
| 87 | 1.7452 | 6.00 | 3821.88 | 232.05 | 268.65 | 381.77 | 149.54 | 1032.01 | 2789.87 | 262.25 |
| 88 | 1.6340 | 6.00 | 3578.46 | 240.32 | 268.65 | 351.68 | 143.31 | 1003.96 | 2574.50 | 242.00 |
| 89 | 1.5269 | 6.00 | 3343.86 | 245.30 | 268.65 | 327.01 | 137.08 | 978.04 | 2365.82 | 222.39 |
| 90 | 1.4239 | 6.00 | 3118.32 | 258.29 | 268.65 | 302.34 | 130.85 | 960.13 | 2158.19 | 202.87 |
| 91 | 1.2801 | 6.00 | 2803.44 | 271.67 | 268.65 | 277.65 | 124.62 | 942.59 | 1860.85 | 174.92 |
| 92 | 1.2141 | 6.00 | 2658.78 | 282.90 | 268.65 | 252.44 | 118.38 | 922.37 | 1736.41 | 163.22 |
| 93 | 1.1403 | 6.00 | 2497.20 | 294.69 | 268.65 | 226.53 | 112.15 | 902.02 | 1595.18 | 149.95 |
| 94 | 1.0110 | 6.00 | 2214.00 | 304.11 | 268.65 | 204.01 | 105.92 | 882.69 | 1331.31 | 125.14 |
| 95 | 0.9028 | 6.00 | 1977.12 | 311.52 | 268.65 | 186.27 | 99.69 | 866.13 | 1110.99 | 104.43 |
| 96 | 0.8012 | 6.00 | 1754.52 | 320.75 | 268.65 | 169.75 | 93.46 | 852.61 | 901.91 | 84.78 |
| 97 | 0.7078 | 6.00 | 1550.10 | 329.76 | 268.65 | 153.12 | 87.23 | 838.76 | 711.34 | 66.87 |
| 98 | 0.6231 | 6.00 | 1364.52 | 337.78 | 268.65 | 136.22 | 81.00 | 833.65 | 540.87 | 50.84 |
| 99 | 0.5472 | 6.00 | 1198.26 | 346.12 | 268.65 | 120.90 | 74.77 | 810.44 | 387.82 | 36.46 |
| 2000 | 0.4813 | 6.00 | 1053.96 | 355.31 | 268.65 | 105.89 | 68.54 | 798.39 | 255.57 | 24.02 |
| 01 | 0.3915 | 6.00 | 857.40 | 364.69 | 268.65 | 91.99 | 62.31 | 787.64 | 69.76 | 6.56 |
| 02 | 0.3205 | 6.00 | 701.88 | 377.66 | 268.65 | 82.51 | 56.08 | 784.90 | -83.02 | -7.80 |
| 03 | 0.2639 | 6.00 | 577.86 | 393.38 | 268.65 | 76.23 | 49.85 | 788.11 | -210.25 | -19.76 |
| 04 | 0.2136 | 6.00 | 467.88 | 410.10 | 268.65 | 70.44 | 43.62 | 792.81 | -324.93 | -30.54 |
| 05 | 0.1592 | 6.00 | 348.66 | 427.64 | 268.65 | 63.48 | 37.38 | 797.15 | -448.49 | -42.16 |

- 1) No gas production considered (26 TCF).
- 2) No TAPS settlement.
- 3) Some amount of total crude taken off at N. Pole i.e. does not go to Valdez.
- 4) Based on 6/85 30% case price and production assumptions.
- 5) Seal Is. excluded.

ASSUMPTIONS:

Property taxes per AS45.56 @2% gross.

TABLE 6
WINDFALL PROFITS TAX DEDUCTION
(mil current FY \$)

DEDUCTION FROM FY TAXABLE INCOME

| <u>Fiscal Year</u> | <u>Sadlerochit</u> | <u>Cook Inlet</u> | <u>Total</u> | <u>Impact on FY Tax Liability (Total * .094)</u> |
|-------------------------|--------------------|-------------------|--------------|--|
| <u>Under Pre-SB 524</u> | | | | |
| a) | | | | |
| 82 | 1750.61 | 267.05 | 2017.66 | 189.66 |
| 83 | 848.78 | 169.60 | 1018.38 | 95.73 |
| 84 | 289.25 | 123.08 | 412.33 | 38.76 |
| 85 | 8.93 | 61.33 | 70.26 | 6.60 |
| <u>Under HB 353</u> | | | | |
| b) | | | | |
| 85 | 8.51 | 61.09 | 69.60 | 6.54 |
| 86 | -0- | 35.96 | 35.96 | 3.38 |
| 87 | -0- | 10.87 | 10.87 | 1.02 |
| 88 | -0- | 4.06 | 4.06 | .38 |
| 89 | -0- | 2.14 | 2.14 | .20 |
| 90 | -0- | .51 | .51 | .05 |
| 91 | -0- | -0- | -0- | -0- |
| 92 | -0- | -0- | -0- | -0- |
| 93 | -0- | -0- | -0- | -0- |
| 94 | -0- | -0- | -0- | -0- |

Note:

- 1/ Based on 6/85 30% case price and production assumptions.
- 2/ Windfall Profits Tax is phased out and no longer in effect in FY 1995 and thereafter.
- 3/ The reason for the slight difference in FY 85 under Pre-SB 524 compared to HB 353 is the difference in the Oil Severance Tax law and thus, the severance tax adjustment under the WPT.
 - a) For FY 1982 through 1985, these impacts are included in Tables 3 and 4 under the Pre-SB 524 separate accounting corporate tax. If the WPT was not a deduction for those years, the total tax liability columns would have been increased by these amounts.
 - b) For FY 1982 through 2005, these impacts are not included in Tables 3 and 4 under the HB 353 separate accounting corporate tax. If the WPT was a deduction for these years, the total tax liability columns would be reduced by these amounts. In FY 1985, the reduction would be approximately one half the amount because HB 353 goes into effect midway through the fiscal year.

HB 353 AND SB 524
ANALYSIS
JUNE, 1985
70% CASE ASSUMPTIONS

SUMMARY TABLES

TABLE 1
 Old Law (Pre SB 524)
 Current Law (AS43.20 & AS 43.55)
 Proposed Law (HB 353)
 (mil current FY \$)

| Fiscal Year | To, Corp Inc Tax Collections | | | Total Prodn Tax Liability | | | Total Gain or Loss |
|-------------|------------------------------|----------|---------------|---------------------------|----------|---------------|--------------------|
| | Pre SB 524 | AS 43.20 | Diff | Pre SB 524 | AS 43.55 | Diff | |
| 82 | 837.62 | 242.50 | -595.12 1) | 1219.03 | 1581.70 | 362.67 | -232.45 |
| | | | Impact SB 524 | | | Impact SB 524 | Impact SB 524 |
| 82 | 837.62 | 668.90 | -168.72 2) | 1219.03 | 1581.70 | 362.67 | 193.95 |
| 83 | 796.15 | 236.00 | -560.15 | 1098.94 | 1493.70 | 394.76 | -165.39 |
| 84 | 782.86 | 265.10 | -517.76 | 1032.93 | 1393.10 | 360.17 | -157.59 |
| 85 | 797.00 | 168.60 | -628.40 | 1013.86 | 1388.50 | 374.64 | -253.76 |
| | | | Impact HB 353 | existing AS 43.55 | | Impact HB 353 | Impact HB 353 |
| 85 | 448.48 | 168.60 | 279.88 3) | 1388.50 | 1388.50 | 0.00 | 279.88 |
| 86 | 723.72 | 235.73 | 487.99 | 1262.27 | 1262.27 | 0.00 | 487.99 |
| | | | | HB 353 | | | |
| 87 | 664.57 | 260.61 | 403.96 | 1076.73 | 1180.56 | -103.83 | 300.13 |
| 88 | 652.24 | 286.69 | 365.54 | 785.41 | 949.86 | -164.45 | 201.09 |
| 89 | 666.33 | 305.76 | 360.57 | 778.54 | 930.19 | -151.65 | 208.92 |
| 90 | 670.13 | 314.61 | 355.52 | 784.53 | 927.21 | -142.68 | 212.84 |
| 91 | 644.76 | 313.14 | 331.61 | 749.98 | 872.96 | -122.98 | 208.63 |
| 92 | 652.14 | 311.00 | 341.14 | 768.16 | 894.45 | -126.29 | 214.65 |
| 93 | 664.12 | 306.83 | 357.28 | 772.90 | 912.04 | -139.14 | 218.14 |
| 94 | 633.70 | 298.04 | 335.66 | 718.76 | 844.67 | -125.91 | 209.75 |
| 95 | 604.66 | 287.54 | 317.12 | 691.55 | 819.80 | -128.25 | 188.87 |
| 96 | 566.06 | 276.00 | 290.06 | 636.25 | 755.74 | -119.49 | 170.57 |
| 97 | 571.12 | 263.02 | 268.09 | 588.58 | 700.65 | -112.07 | 156.02 |
| 98 | 579.12 | 249.03 | 250.09 | 535.28 | 635.29 | -100.01 | 150.08 |
| 99 | 464.59 | 234.66 | 229.93 | 481.42 | 567.82 | -86.40 | 143.53 |
| 2000 | 429.55 | 219.24 | 210.31 | 426.21 | 502.15 | -75.94 | 134.37 |
| 01 | 368.43 | 201.62 | 166.81 | 354.12 | 415.11 | -60.99 | 105.82 |
| 02 | 297.67 | 183.82 | 113.85 | 285.39 | 333.00 | -47.61 | 66.24 |
| 03 | 228.30 | 167.72 | 60.58 | 237.25 | 270.88 | -33.63 | 26.95 |
| 04 | 158.93 | 152.99 | 5.94 | 195.90 | 221.31 | -25.41 | -19.47 |
| 05 | 103.98 | 139.26 | -35.28 | 173.46 | 194.21 | -20.75 | -56.03 |
| SUM85-05 | 10672.59 | 5175.91 | 5496.67 | 13691.19 | 15578.67 | -1687.48 | 3609.19 |

1) FY 1982 receipts are estimated as if AS43.21 were in effect for the whole year in column 2 then as if AS43.20 were in effect for the whole year in column 3 though each was in effect only half the fiscal year.

2) FY 1982 collections under SB 524 of \$668.9m are comprised of \$539.2m from AS43.21 "OLD SEPARATE ACCT" law and \$130.7 from AS43.20 "CURRENT MODIFIED APPORTIONMENT" law.

3) FY 1985 HB353 Corp. Inc. Tax includes \$60.8m of AS43.20 already collected through December 31, 1984.

4) FY 1985 AS43.20 collections are expected to be low due to substantial refunds and credits for prior year's tax overpayments. Tax liability on a calendar year basis under AS43.20 was CY82, \$236.50m; CY83, \$224.01m; CY84 \$241.54m.

5) Based on 6/85 (70% case price) and production assumptions.

TABLE 2a
 Calculation of State Petroleum Revenues as a
 Percent of Adjusted Production Income
 6/85 Forecast Assumptions 70% Case FY 85-05 Using WHV

| Fiscal Year | Total Petroleum Production | | | State Petrol Revenues | State / Net Rev % | With AS 43.20 Corporate Income Tax & AS 43.55 Production Tax | | | | | | | |
|-------------|----------------------------|------------------|----------------|-----------------------------|-------------------------|--|------------------|------------------|----------------|-----------------------------|-------------------------|--------------|--|
| | Gross Revenue | Cost Deductns | Net Revenue | | | Fiscal Year | Gross Revenue | Cost Deductns | Net Revenue | State Petrol Revenues | State / Net Rev % | | |
| 82 | 12958.93 | 1740.58 | 11218.35 | 3525.22 | 31.42% | 82 | 12958.93 | 1740.58 | 11218.35 | 3502.40 | 31.22% | AS43.20 & 55 | |
| | | | | | | Impact SB 524 | | | | | | | |
| 82 | 12958.93 | 1740.58 | 11218.35 | 3525.22 | 31.42% | 82 | 12958.93 | 1740.58 | 11218.35 | 3928.80 | 35.02% | | |
| 83 | 11941.70 | 2113.21 | 9828.49 | 3270.36 | 33.27% | 83 | 11941.70 | 2113.21 | 9828.49 | 3321.58 | 33.80% | | |
| 84 | 11327.62 | 2511.29 | 8816.33 | 3148.49 | 35.71% | 84 | 11327.62 | 2511.29 | 8816.33 | 3220.43 | 36.53% | | |
| 85 | 11382.33 | 2832.59 | 8549.74 | 3161.10 | 36.97% | 85 | 11382.33 | 2832.59 | 8549.74 | 3154.10 | 36.89% | | |
| | | | | | | HB 353 as of 1/1/85 1) | | | | | | | |
| | | | | | | Impact HB 353 | | | | | | | |
| 85 | 11382.33 | 2832.59 | 8549.74 | 3297.36 | 38.57% | 85 | 11382.33 | 2832.59 | 8549.74 | 3154.10 | 36.89% | | |
| 86 | 10626.57 | 3018.24 | 7608.33 | 3277.37 | 43.08% | 86 | 10626.57 | 3018.24 | 7608.33 | 3043.65 | 40.00% | | |
| 87 | 10097.40 | 3372.15 | 6725.24 | 3008.16 | 44.73% | 87 | 10097.40 | 3372.15 | 6725.24 | 2969.30 | 44.15% | | |
| 88 | 10290.63 | 3724.11 | 6566.52 | 2737.62 | 41.69% | 88 | 10290.63 | 3724.11 | 6566.52 | 2794.18 | 42.55% | | |
| 89 | 10851.82 | 4006.66 | 6845.16 | 2811.92 | 41.08% | 89 | 10851.82 | 4006.66 | 6845.16 | 2856.64 | 41.73% | | |
| 90 | 11219.23 | 4192.75 | 7026.48 | 2890.57 | 41.14% | 90 | 11219.23 | 4192.75 | 7026.48 | 2921.76 | 41.58% | | |
| 91 | 11135.31 | 4239.84 | 6895.47 | 2845.35 | 41.26% | 91 | 11135.31 | 4239.84 | 6895.47 | 2858.94 | 41.46% | | |
| 92 | 11619.35 | 4306.37 | 7312.98 | 2937.53 | 40.17% | 92 | 11619.35 | 4306.37 | 7312.98 | 2929.87 | 40.06% | | |
| 93 | 11906.75 | 4294.64 | 7612.10 | 2957.89 | 39.41% | 93 | 11906.75 | 4294.64 | 7612.10 | 2974.17 | 39.07% | | |
| 94 | 11555.98 | 4200.03 | 7355.96 | 2896.65 | 39.38% | 94 | 11555.98 | 4200.03 | 7355.96 | 2853.84 | 38.80% | | |
| 95 | 11412.40 | 4134.28 | 7278.12 | 2839.38 | 39.01% | 95 | 11412.40 | 4134.28 | 7278.12 | 2793.96 | 38.39% | | |
| 96 | 11031.65 | 4068.39 | 6963.25 | 2715.29 | 38.99% | 96 | 11031.65 | 4068.39 | 6963.25 | 2775.67 | 39.86% | | |
| 97 | 10742.51 | 3988.64 | 6753.87 | 2606.71 | 38.60% | 97 | 10742.51 | 3988.64 | 6753.87 | 2548.60 | 37.74% | | |
| 98 | 10330.41 | 3814.79 | 6515.62 | 2478.65 | 38.03% | 98 | 10330.41 | 3814.79 | 6515.62 | 2405.06 | 36.91% | | |
| 99 | 9886.53 | 3668.77 | 6217.76 | 2343.22 | 37.69% | 99 | 9886.53 | 3668.77 | 6217.76 | 2257.66 | 36.31% | | |
| 2000 | 9386.09 | 3490.23 | 5895.86 | 2196.96 | 37.26% | 2000 | 9386.09 | 3490.23 | 5895.86 | 2103.35 | 35.68% | | |
| 01 | 8490.22 | 3343.89 | 5146.33 | 1936.40 | 37.63% | 01 | 8490.22 | 3343.89 | 5146.33 | 1852.20 | 35.99% | | |
| 02 | 7572.23 | 3202.43 | 4369.80 | 1665.97 | 38.12% | 02 | 7572.23 | 3202.43 | 4369.80 | 1602.40 | 36.67% | | |
| 03 | 6788.11 | 3173.14 | 3614.98 | 1430.85 | 39.58% | 03 | 6788.11 | 3173.14 | 3614.98 | 1390.72 | 38.47% | | |
| 04 | 5928.08 | 3088.80 | 2839.28 | 1190.54 | 41.93% | 04 | 5928.08 | 3088.80 | 2839.28 | 1182.56 | 41.65% | | |
| 05 | 5324.82 | 3045.12 | 2279.70 | 1009.80 | 44.30% | 05 | 5324.82 | 3045.12 | 2279.70 | 1027.10 | 45.05% | | |

1) FY 1985 HB353 Corp. Inc. Tax includes \$60.8m of AS43.20 already collected through December 31, 1984 and half a year of the new tax.

2) Based on 6/85 70% case price and production assumptions.

TABLE 2b
 Calculation of State Petroleum Revenues as a
 and as a Percent of Prod'n & Pipeline Income
 6/85 Forecast Assumptions 70% Case FY 85-05 Using WHV

| Fiscal Year | -----Total Petroleum----- | | | State Petrol Revenues | State / Net Rev % | Fiscal Year | -----Total Petroleum----- | | | State Petrol Revenues | State / Net Rev % |
|-------------|---------------------------|------------------|----------------|-----------------------------|-------------------------|-------------|---------------------------|------------------|----------------|-----------------------------|-------------------------|
| | Gross Revenue | Cost Deductns | Net Revenue | | | | Gross Revenue | Cost Deductns | Net Revenue | | |
| 82 | 16455.00 | 2839.52 | 13616.28 | 3896.85 | 28.62% | 82 | 16455.80 | 2839.52 | 13616.28 | 3664.40 | 26.91% |
| | | | | Pre SB 524 | | | | | | AS43.20 & 55 | |
| | | | | Impact SB 524 | | | | | | | |
| 82 | 16455.80 | 2839.52 | 13616.28 | 3896.85 | 28.62% | 82 | 16455.80 | 2839.52 | 13616.28 | 4090.80 | 30.04% |
| 83 | 15469.75 | 3156.70 | 12313.06 | 3644.37 | 29.60% | 83 | 15469.75 | 3156.70 | 12313.06 | 3478.98 | 28.25% |
| 84 | 14955.03 | 3492.67 | 11462.37 | 3544.02 | 30.92% | 84 | 14955.04 | 3492.67 | 11462.37 | 3386.43 | 29.54% |
| 85 | 15135.98 | 3750.89 | 11385.10 | 3569.86 | 31.36% | 85 | 15135.99 | 3750.89 | 11385.10 | 3316.10 | 29.13% |
| | | | | HB 353 as of 1/1/85 1) | | | | | | AS43.20 & 55 | |
| | | | | Impact HB 353 | | | | | | | |
| 85 | 15135.98 | 3750.89 | 11385.10 | 3585.00 | 31.49% | 85 | 15135.98 | 3750.89 | 11385.10 | 3316.10 | 29.13% |
| 86 | 14387.36 | 3907.71 | 10479.66 | 3687.41 | 35.19% | 86 | 14387.36 | 3907.71 | 10479.66 | 3199.42 | 30.53% |
| 87 | 13930.61 | 4255.05 | 9675.56 | 3418.97 | 35.34% | 87 | 13930.61 | 4255.05 | 9675.56 | 3118.84 | 32.23% |
| 88 | 14021.78 | 4590.92 | 9430.87 | 3138.59 | 33.28% | 88 | 14021.78 | 4590.92 | 9430.87 | 2937.49 | 31.15% |
| 89 | 14534.91 | 4861.97 | 9672.95 | 3202.64 | 33.11% | 89 | 14534.91 | 4861.97 | 9672.95 | 2993.72 | 30.95% |
| 90 | 14762.89 | 5041.00 | 9721.89 | 3265.45 | 33.59% | 90 | 14762.89 | 5041.00 | 9721.89 | 3052.61 | 31.40% |
| 91 | 14396.60 | 5079.20 | 9317.41 | 3192.20 | 34.26% | 91 | 14396.60 | 5079.20 | 9317.41 | 2983.56 | 32.02% |
| 92 | 14737.37 | 5132.85 | 9604.52 | 3263.10 | 33.97% | 92 | 14737.37 | 5132.85 | 9604.52 | 3048.25 | 31.74% |
| 93 | 14836.00 | 5106.76 | 9729.24 | 3304.47 | 33.96% | 93 | 14836.00 | 5106.76 | 9729.24 | 3086.32 | 31.72% |
| 94 | 14159.38 | 4997.89 | 9161.50 | 3169.51 | 34.60% | 94 | 14159.38 | 4997.89 | 9161.50 | 2959.76 | 32.31% |
| 95 | 13768.29 | 4922.30 | 8846.00 | 3082.52 | 34.85% | 95 | 13768.29 | 4922.30 | 8846.00 | 2893.65 | 32.71% |
| 96 | 13116.52 | 4847.39 | 8269.13 | 2928.73 | 35.42% | 96 | 13116.52 | 4847.39 | 8269.13 | 2869.13 | 34.70% |
| 97 | 12584.20 | 4758.72 | 7825.49 | 2791.86 | 35.68% | 97 | 12584.20 | 4758.72 | 7825.49 | 2635.83 | 33.68% |
| 98 | 11935.47 | 4573.61 | 7361.86 | 2636.14 | 35.81% | 98 | 11935.47 | 4573.61 | 7361.86 | 2486.06 | 33.77% |
| 99 | 11277.87 | 4418.18 | 6859.69 | 2475.96 | 36.09% | 99 | 11277.87 | 4418.18 | 6859.69 | 2332.43 | 34.00% |
| 2000 | 10584.46 | 4230.95 | 6353.52 | 2306.26 | 36.30% | 2000 | 10584.46 | 4230.95 | 6353.52 | 2171.89 | 34.18% |
| 01 | 9464.018 | 4078.47 | 5385.55 | 2020.33 | 37.51% | 01 | 9464.018 | 4078.47 | 5385.55 | 1914.51 | 35.55% |
| 02 | 8342.030 | 3937.21 | 4404.82 | 1724.72 | 39.16% | 02 | 8342.030 | 3937.21 | 4404.82 | 1658.48 | 37.65% |
| 03 | 7399.393 | 3914.46 | 3484.94 | 1467.52 | 42.11% | 03 | 7399.393 | 3914.46 | 3484.94 | 1440.57 | 41.34% |
| 04 | 6391.219 | 3837.70 | 2553.52 | 1206.71 | 47.26% | 04 | 6391.219 | 3837.70 | 2553.52 | 1226.18 | 48.02% |
| 05 | 5683.742 | 3806.07 | 1877.49 | 1008.45 | 53.71% | 05 | 5683.562 | 3806.07 | 1877.49 | 1064.48 | 56.70% |

1) FY 1985 HB353 Corp. Inc Tax includes \$60.0m of AS43.20 already collected through December 1, 1984 and half a year of the new tax.

2) Based on 6/85 70% case price and production assumptions.

TABLE 3
Pipeline, Production & Exploration
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Total Revenue | State | Prod'n | Total | Total | Total | Total | Windfall | Interest | Exploratn | Admin | Other | Total | Total | Liability----- | | Collections----- | |
|-------------|---------------|---------------|----------|--------------|--------------|---------|--------------|-------------|---------------|-----------|--------|----------|----------|------------|----------------|-----------|------------------|--------|
| | | Royalty Share | Cons Tax | Property Tax | Oper'g Costs | Depre | Acquis Costs | Profits Tax | Expense Uncap | Costs | Costs | Deductns | Deductns | Net Income | HB 353 1) | HB 353 1) | AS 43.20 2) | Diff |
| 82 | 16455.80 | 1564.30 | 1219.03 | 275.90 | 939.80 | 602.58 | 0.77 | 2017.66 | 720.69 | 190.90 | 236.20 | 148.58 | 7916.41 | 8539.40 | 802.70 | 837.62 | 130.72 | 706.90 |
| 83 | 15469.75 | 1442.73 | 1098.94 | 306.55 | 1100.56 | 780.16 | 0.98 | 1018.38 | 676.04 | 204.26 | 252.30 | 142.39 | 7023.30 | 8446.46 | 793.97 | 796.15 | 236.00 | 560.15 |
| 84 | 14955.04 | 1370.57 | 1032.93 | 357.66 | 1259.34 | 998.45 | 1.09 | 412.33 | 614.13 | 218.56 | 264.90 | 136.20 | 6666.16 | 8288.87 | 779.15 | 782.86 | 265.10 | 517.76 |
| 85 | 15135.99 | 1362.44 | 1013.86 | 396.56 | 1449.17 | 1093.32 | 0.80 | 70.26 | 565.55 | 233.86 | 278.20 | 130.00 | 6594.01 | 8541.97 | 802.95 | 797.00 | 168.60 | 628.40 |
| 85 | 15135.99 | 1362.44 | 1377.52 | 396.56 | 1449.17 | 1093.32 | 0.80 | 69.59 | 565.55 | 233.86 | 278.20 | 130.00 | 6887.41 | 8243.58 | 775.37 | 581.52 | 168.60 | 412.92 |
| 86 | 14387.37 | 1281.15 | 1262.27 | 420.27 | 1477.66 | 1224.05 | 0.76 | 46.77 | 541.76 | 247.56 | 292.10 | 123.82 | 6871.40 | 7515.97 | 706.50 | 723.72 | 235.73 | 487.99 |
| 87 | 13930.62 | 1212.62 | 1076.73 | 465.05 | 1600.34 | 1442.16 | 8.29 | 29.02 | 517.87 | 262.07 | 306.70 | 117.63 | 7009.45 | 6921.16 | 650.59 | 664.57 | 260.61 | 403.96 |
| 88 | 14021.79 | 1178.25 | 785.41 | 522.69 | 1735.17 | 1619.02 | 32.60 | 20.35 | 490.28 | 277.42 | 322.00 | 114.43 | 7077.27 | 6944.52 | 652.78 | 652.24 | 286.69 | 365.54 |
| 89 | 14534.92 | 1214.68 | 778.5 | 543.09 | 1796.67 | 1790.55 | 71.31 | 17.39 | 466.41 | 293.68 | 338.10 | 105.24 | 7398.28 | 7136.64 | 670.84 | 666.33 | 305.76 | 360.57 |
| 90 | 14762.89 | 1259.40 | 784.53 | 551.39 | 1854.43 | 1861.31 | 117.68 | 16.27 | 442.64 | 310.89 | 355.00 | 99.05 | 7636.32 | 7126.57 | 669.90 | 670.13 | 314.61 | 355.52 |
| 91 | 14396.61 | 1251.54 | 749.98 | 545.92 | 1855.24 | 1859.87 | 150.78 | 14.42 | 418.55 | 329.10 | 372.80 | 92.86 | 7626.64 | 6769.97 | 636.38 | 644.76 | 313.14 | 331.61 |
| 92 | 14737.37 | 1305.88 | 768.16 | 536.92 | 1880.35 | 1880.23 | 152.28 | 9.36 | 393.54 | 348.38 | 391.40 | 86.67 | 7743.81 | 6993.56 | 657.39 | 652.14 | 311.00 | 341.14 |
| 93 | 14836.01 | 1343.04 | 772.90 | 524.41 | 1881.28 | 1846.17 | 151.20 | 3.87 | 367.83 | 368.80 | 411.00 | 80.49 | 7747.11 | 7088.89 | 666.36 | 664.12 | 306.83 | 357.28 |
| 94 | 14159.38 | 1307.55 | 718.76 | 509.50 | 1846.56 | 1764.64 | 145.28 | 0.14 | 345.21 | 390.40 | 431.50 | 7 | 733.70 | 6625.69 | 622.81 | 633.70 | 298.04 | 335.66 |
| 95 | 13768.30 | 1294.13 | 691.55 | 492.18 | 1794.52 | 1721.36 | 142.96 | 0.00 | 328.97 | 413.28 | 453.10 | 0 | 700.16 | 6368.14 | 598.61 | 604.66 | 287.54 | 317.12 |
| 96 | 13116.53 | 1255.86 | 636.25 | 470.56 | 1762.00 | 1665.21 | 128.63 | 0.00 | 316.45 | 437.49 | 475.70 | 61.91 | 7210.06 | 5906.46 | 555.21 | 566.06 | 298.04 | 268.02 |
| 97 | 12584.21 | 1226.77 | 588.58 | 445.39 | 1735.20 | 1590.25 | 110.30 | 0.00 | 304.62 | 463.13 | 499.50 | 55.72 | 7019.46 | 5564.75 | 523.09 | 531.12 | 263.02 | 268.09 |
| 98 | 11935.47 | 1182.46 | 535.28 | 419.28 | 1701.13 | 1425.06 | 90.11 | 0.00 | 293.02 | 490.26 | 524.50 | 49.53 | 6710.63 | 5224.84 | 491.14 | 499.12 | 249.03 | 250.09 |
| 99 | 11277.87 | 1136.99 | 481.42 | 392.96 | 1672.97 | 1271.87 | 77.21 | 0.00 | 283.10 | 518.99 | 550.70 | 43.34 | 6429.55 | 4848.32 | 455.74 | 464.59 | 234.66 | 229.93 |
| 2000 | 10584.47 | 1085.01 | 426.21 | 365.49 | 1609.52 | 1120.11 | 62.59 | 0.00 | 273.89 | 549.40 | 578.30 | 37.14 | 6107.66 | 4476.81 | 420.82 | 429.55 | 219.24 | 210.31 |
| 01 | 9464.02 | 984.97 | 354.12 | 312.81 | 1579.08 | 962.54 | 51.13 | 0.00 | 265.99 | 581.59 | 607.20 | 30.95 | 5730.37 | 3733.65 | 350.96 | 368.43 | 201.62 | 166.81 |
| 02 | 8342.03 | 881.27 | 285.39 | 260.39 | 1541.87 | 813.50 | 41.00 | 0.00 | 262.91 | 615.66 | 637.50 | 24.76 | 5364.26 | 2977.77 | 279.91 | 297.67 | 183.82 | 113.85 |
| 03 | 7399.39 | 793.12 | 237.25 | 208.85 | 1539.02 | 708.25 | 34.14 | 0.00 | 263.33 | 651.74 | 699.40 | 18.57 | 5153.68 | 2245.72 | 211.10 | 228.30 | 167.72 | 60.58 |
| 04 | 6391.22 | 694.26 | 195.90 | 157.62 | 1538.45 | 605.57 | 24.04 | 0.00 | 264.44 | 689.92 | 702.90 | 12.38 | 4885.48 | 1505.74 | 141.54 | 158.93 | 152.99 | 5.94 |
| 05 | 5683.56 | 624.48 | 173.46 | 106.53 | 1518.24 | 530.99 | 17.43 | 0.00 | 264.88 | 730.35 | 738.00 | 6.19 | 4710.54 | 973.02 | 91.46 | 103.99 | 139.26 | -35.28 |

1) These estimates assume the tax plan is in effect for the whole year; for FY 1982-85 this is Pre SB 524 for FY 1985-05 this is HB 353.

2) FY82 collections of \$130.72m are the actual amounts collected or credited to CY82 liability. The estimate for a full year under AS43.20 in FY82 is \$242.5m which would result in a difference of \$595.12m as presented in column 4 of Table 1. FY 1985 AS43.20 collections are expected to be low due to substantial refunds and credits for prior year's tax overpayments. Tax liability on a calendar year basis under AS43.20 was CY82, \$236.50m; CY83, \$224.01m; CY84 \$241.54m.

3) Based on 6/85 70% case price and production assumptions.

TABLE 4
All Producing Fields
Income Tax Estimates
(oil current FY \$)

| Fiscal Year | Oil Prod'n (oil B/D) | Wellhead Value (cur \$) | Gas Prod'n (acf/day) | Gas Price (acfl) | Total Revenue (cur \$) | State Royalty Share | Prod'n Cons Tax | Property Tax | Total Oper'tg Costs | Depre Level Costs | Acort of Acquis Costs | Windfall Profits Tax | Interest Expense | Exploratin Costs (expen'd) | Admin Cost | Other Deductns | Total Deductns | Total Taxable Income | Total Tax Liability | Total Tax Collectns |
|-------------|----------------------|-------------------------|----------------------|------------------|------------------------|---------------------|-----------------|--------------|---------------------|-------------------|-----------------------|----------------------|------------------|----------------------------|------------|----------------|----------------|----------------------|---------------------|---------------------|
| 82 | 1.6533 | 21.293 | 507000 | 0.590 | 12958.93 | 1564.30 | 1219.03 | 113.90 | 710.80 | 333.93 | 0.77 | 2017.66 | 119.40 | 190.90 | 236.20 | 148.58 | 6655.47 | 6303.46 | 592.53 | 627.99 |
| 83 | 1.7006 | 19.040 | 503000 | 0.670 | 11941.70 | 1442.73 | 1098.94 | 149.15 | 880.56 | 511.51 | 0.98 | 1018.38 | 121.20 | 204.26 | 252.30 | 142.39 | 5822.41 | 6119.30 | 575.21 | 579.54 |
| 84 | 1.7183 | 17.864 | 505000 | 0.670 | 11327.62 | 1370.57 | 1032.93 | 191.66 | 1038.34 | 729.80 | 1.09 | 412.33 | 122.40 | 218.56 | 264.90 | 136.70 | 5518.78 | 5808.83 | 546.03 | 553.33 |
| 85 | 1.7523 | 17.493 | 565091 | 0.971 | 11382.33 | 1362.44 | 1013.86 | 234.56 | 1237.67 | 824.67 | 0.80 | 70.26 | 127.40 | 233.86 | 278.20 | 130.20 | 5513.71 | 5868.61 | 551.65 | 550.24 |
| 85 | 1.7523 | 17.483 | 565091 | 0.971 | 11382.33 | 1362.44 | 1377.52 | 234.56 | 1237.67 | 824.67 | 0.80 | 69.59 | 127.40 | 233.86 | 278.20 | 130.00 | 5807.11 | 5575.22 | 524.07 | 393.05 |
| 86 | 1.7528 | 16.273 | 537624 | 1.097 | 10626.57 | 1281.15 | 1262.27 | 264.50 | 1266.70 | 955.40 | 0.76 | 46.77 | 131.90 | 247.56 | 292.10 | 123.82 | 5826.16 | 4800.41 | 451.24 | 469.45 |
| 87 | 1.7819 | 15.105 | 625000 | 1.200 | 10097.40 | 1212.62 | 1076.73 | 315.51 | 1367.86 | 1173.51 | 8.29 | 29.02 | 136.10 | 262.07 | 306.70 | 117.63 | 5977.01 | 4120.38 | 387.32 | 403.30 |
| 88 | 1.7312 | 15.753 | 705650 | 1.306 | 10290.63 | 1178.25 | 785.41 | 379.38 | 1488.69 | 1350.37 | 32.60 | 20.35 | 138.60 | 277.42 | 322.00 | 114.43 | 6067.15 | 4223.48 | 397.01 | 394.58 |
| 89 | 1.7058 | 16.843 | 714549 | 1.400 | 10851.82 | 1214.68 | 778.54 | 406.01 | 1537.02 | 1521.90 | 71.31 | 17.39 | 139.40 | 293.68 | 338.10 | 105.24 | 6405.89 | 4445.93 | 417.92 | 412.69 |
| 90 | 1.6392 | 17.987 | 797800 | 1.570 | 11219.23 | 1259.40 | 784.53 | 420.54 | 1577.17 | 1592.66 | 117.68 | 16.27 | 140.30 | 310.89 | 355.00 | 99.05 | 6657.22 | 4562.01 | 428.83 | 426.10 |
| 91 | 1.5077 | 19.262 | 858950 | 1.706 | 11135.31 | 1251.54 | 749.98 | 421.30 | 1562.18 | 1591.22 | 150.78 | 14.42 | 140.90 | 329.10 | 372.80 | 92.86 | 6662.66 | 4472.65 | 420.43 | 422.53 |
| 92 | 1.4399 | 20.945 | 902485 | 1.856 | 11619.35 | 1305.88 | 768.16 | 418.54 | 1574.96 | 1611.58 | 152.28 | 9.36 | 141.10 | 348.38 | 391.40 | 86.67 | 6798.95 | 4820.40 | 453.12 | 444.95 |
| 93 | 1.3515 | 22.778 | 920067 | 1.995 | 11906.75 | 1343.04 | 772.90 | 412.26 | 1564.34 | 1577.52 | 151.20 | 3.87 | 141.30 | 368.80 | 411.00 | 80.48 | 6822.84 | 5083.90 | 477.89 | 471.69 |
| 94 | 1.2011 | 24.762 | 893060 | 2.149 | 11555.98 | 1307.55 | 718.76 | 403.58 | 1521.36 | 1495.99 | 145.28 | 0.14 | 141.20 | 390.40 | 431.50 | 74.29 | 6629.92 | 4926.07 | 463.05 | 466.76 |
| 95 | 1.0876 | 26.856 | 906549 | 2.270 | 11412.40 | 1294.13 | 691.55 | 392.49 | 1461.42 | 1452.71 | 142.96 | 0.00 | 142.70 | 413.28 | 453.10 | 68.10 | 6512.45 | 4899.95 | 460.60 | 461.21 |
| 96 | 0.9635 | 29.080 | 920462 | 2.395 | 11031.65 | 1255.86 | 636.25 | 377.10 | 1421.40 | 1396.56 | 128.63 | 0.00 | 146.70 | 437.49 | 475.70 | 61.91 | 6337.60 | 4694.94 | 441.21 | 446.68 |
| 97 | 0.8521 | 31.723 | 936358 | 2.562 | 10742.51 | 1226.77 | 588.58 | 358.16 | 1386.89 | 1321.60 | 110.30 | 0.00 | 151.50 | 463.13 | 499.50 | 55.72 | 6162.15 | 4580.36 | 430.55 | 433.23 |
| 98 | 0.7436 | 34.548 | 954349 | 2.737 | 10330.41 | 1182.46 | 535.28 | 338.28 | 1347.18 | 1156.41 | 96.11 | 0.00 | 156.80 | 490.26 | 524.50 | 49.53 | 5870.81 | 4459.60 | 419.20 | 422.04 |
| 99 | 0.6457 | 37.580 | 943764 | 2.987 | 9886.53 | 1136.99 | 481.42 | 318.19 | 1313.11 | 1003.22 | 77.21 | 0.00 | 162.20 | 518.99 | 550.70 | 43.34 | 5605.37 | 4281.16 | 402.43 | 406.62 |
| 2000 | 0.5564 | 40.823 | 924739 | 3.244 | 9386.09 | 1085.01 | 426.21 | 296.95 | 1243.34 | 851.46 | 62.59 | 0.00 | 168.00 | 549.40 | 578.30 | 37.14 | 5258.40 | 4087.69 | 384.24 | 388.79 |
| 01 | 0.4528 | 44.381 | 890963 | 3.550 | 8490.22 | 984.97 | 354.12 | 250.50 | 1265.14 | 693.89 | 51.13 | 0.00 | 174.00 | 581.59 | 607.20 | 30.95 | 4933.48 | 3556.74 | 334.33 | 346.81 |
| 02 | 0.3587 | 48.191 | 899667 | 3.847 | 7572.23 | 881.27 | 285.39 | 204.31 | 1158.25 | 544.85 | 41.00 | 0.00 | 180.40 | 615.66 | 637.50 | 24.76 | 4573.40 | 2998.83 | 281.89 | 295.00 |
| 03 | 0.2855 | 52.293 | 879601 | 4.172 | 6788.11 | 793.12 | 237.25 | 159.00 | 1142.58 | 439.60 | 34.14 | 0.00 | 187.10 | 651.74 | 699.40 | 18.57 | 4362.51 | 2425.61 | 228.01 | 241.48 |
| 04 | 0.2171 | 56.904 | 860541 | 4.518 | 5928.08 | 694.26 | 195.90 | 114.00 | 1128.64 | 336.92 | 24.04 | 0.00 | 194.00 | 689.92 | 702.90 | 12.38 | 4092.96 | 1835.12 | 172.50 | 186.38 |
| 05 | 0.1688 | 61.951 | 843787 | 4.896 | 5324.82 | 624.48 | 173.46 | 69.15 | 1089.42 | 262.34 | 17.43 | 0.00 | 201.40 | 730.35 | 738.00 | 6.19 | 3912.21 | 1412.61 | 132.79 | 142.71 |

11 These prices are weighted average wellhead values derived from the various values at the W. Slope and Cook Inlet fields evaluated in this study.

TABLE 5
Trans Alaska Pipeline
Income Tax Estimates
(mil current FY \$)

| Fiscal Year | Pipeline Thrupt (mil B/D) | Tariff (\$/B) | Total Revenue | Operat'g Costs/Year | Amort & Deprec | Uncap Interest | Property Tax | Total Deduction | Net Income | Tax Liability (9.4%) |
|-------------|---------------------------|---------------|---------------|---------------------|----------------|----------------|--------------|-----------------|------------|----------------------|
| 82 | 1.5680 | 6.11 | 3496.88 | 229.00 | 268.65 | 601.29 | 162.00 | 1260.94 | 2235.94 | 210.18 |
| 83 | 1.6300 | 5.93 | 3528.05 | 220.00 | 268.65 | 554.84 | 157.40 | 1200.89 | 2327.16 | 218.75 |
| 84 | 1.6536 | 6.01 | 3627.42 | 221.00 | 268.65 | 491.73 | 166.00 | 1147.38 | 2480.04 | 233.12 |
| 85 | 1.7140 | 6.00 | 3753.66 | 211.50 | 268.65 | 438.15 | 162.00 | 1080.30 | 2673.36 | 251.30 |
| 86 | 1.7173 | 6.00 | 3760.80 | 210.96 | 268.65 | 409.86 | 155.77 | 1045.24 | 2715.56 | 255.26 |
| 87 | 1.7503 | 6.00 | 3833.22 | 232.48 | 268.65 | 381.77 | 149.54 | 1032.44 | 2800.78 | 263.27 |
| 88 | 1.7037 | 6.00 | 3731.16 | 246.48 | 268.65 | 351.68 | 143.31 | 1010.12 | 2721.04 | 255.78 |
| 89 | 1.6818 | 6.00 | 3683.10 | 259.65 | 268.65 | 327.01 | 137.08 | 992.39 | 2690.71 | 252.93 |
| 90 | 1.6181 | 6.00 | 3543.66 | 277.26 | 268.65 | 302.34 | 130.85 | 979.10 | 2564.56 | 241.07 |
| 91 | 1.4892 | 6.00 | 3261.30 | 293.06 | 268.65 | 277.65 | 124.62 | 963.98 | 2297.32 | 215.95 |
| 92 | 1.4238 | 6.00 | 3118.02 | 305.39 | 268.65 | 252.44 | 118.38 | 944.86 | 2173.16 | 204.28 |
| 93 | 1.3376 | 6.00 | 2929.26 | 316.94 | 268.65 | 226.53 | 112.15 | 924.27 | 2004.99 | 188.47 |
| 94 | 1.1888 | 6.00 | 2603.40 | 325.20 | 268.65 | 204.01 | 105.92 | 903.78 | 1699.62 | 159.76 |
| 95 | 1.0758 | 6.00 | 2355.90 | 333.10 | 268.65 | 186.27 | 99.69 | 887.71 | 1468.19 | 138.01 |
| 96 | 0.9520 | 6.00 | 2084.88 | 340.60 | 268.65 | 169.75 | 93.46 | 872.46 | 1212.42 | 113.97 |
| 97 | 0.8410 | 6.00 | 1841.70 | 348.31 | 268.65 | 153.12 | 87.23 | 857.31 | 984.39 | 92.53 |
| 98 | 0.7329 | 6.00 | 1605.06 | 353.95 | 268.65 | 136.22 | 81.00 | 839.82 | 765.24 | 71.93 |
| 99 | 0.6353 | 6.00 | 1391.34 | 359.86 | 268.65 | 120.90 | 74.77 | 824.18 | 567.16 | 53.31 |
| 2000 | 0.5472 | 6.00 | 1198.38 | 366.18 | 268.65 | 105.89 | 68.54 | 809.26 | 389.12 | 36.58 |
| 01 | 0.4447 | 6.00 | 973.80 | 373.94 | 268.65 | 91.99 | 62.31 | 796.89 | 176.91 | 16.63 |
| 02 | 0.3515 | 6.00 | 769.80 | 383.62 | 268.65 | 82.51 | 56.08 | 790.86 | -21.06 | -1.98 |
| 03 | 0.2791 | 6.00 | 611.28 | 396.44 | 268.65 | 76.23 | 49.85 | 791.17 | -179.89 | -16.91 |
| 04 | 0.2115 | 6.00 | 463.14 | 409.81 | 268.65 | 70.44 | 43.62 | 792.52 | -329.38 | -30.96 |
| 05 | 0.1638 | 6.00 | 358.74 | 428.82 | 268.65 | 63.48 | 37.38 | 798.33 | -439.59 | -41.32 |

-
- 1) No gas production considered (26 TCF).
 - 2) No TAPS settlement.
 - 3) Some amount of total crude taken off at N. Pole i.e. does not go to Valdez.
 - 4) Based on 6/85 70% case price and production assumptions.
 - 5) Seal Is. excluded.

ASSUMPTIONS:

Property taxes per AS43.56 @2% gross.

TABLE 6
WINDFALL PROFITS TAX DEDUCTION
(mil current FY \$)

DEDUCTION FROM FY TAXABLE INCOME

| <u>Fiscal Year</u> | <u>Sadlerochit</u> | <u>Cook Inlet</u> | <u>Total</u> | <u>Impact on FY Tax Liability (Total * .094)</u> |
|-------------------------|--------------------|-------------------|--------------|--|
| <u>Under Pre-SB 524</u> | | | | |
| a) | | | | |
| 82 | 1750.61 | 267.05 | 2017.66 | 189.66 |
| 83 | 848.78 | 169.60 | 1018.38 | 95.73 |
| 84 | 289.25 | 123.08 | 412.33 | 38.76 |
| 85 | 8.93 | 61.33 | 70.26 | 6.60 |
| <u>Under HB 353</u> | | | | |
| b) | | | | |
| 85 | 8.51 | 61.09 | 69.60 | 6.54 |
| 86 | -0- | 46.77 | 46.77 | 4.40 |
| 87 | -0- | 29.02 | 29.02 | 2.73 |
| 88 | -0- | 20.35 | 20.35 | 1.91 |
| 89 | -0- | 17.39 | 17.39 | 1.63 |
| 90 | -0- | 16.27 | 16.27 | 1.53 |
| 91 | -0- | 14.42 | 14.42 | 1.36 |
| 92 | -0- | 9.36 | 9.36 | .88 |
| 93 | -0- | 3.87 | 3.87 | .36 |
| 94 | -0- | .14 | .14 | .01 |

Note:

- 1/ Based on 6/85 70% case price and production assumptions.
- 2/ Windfall Profits Tax is phased out and no longer in effect in FY 1995 and thereafter.
- 3/ The reason for the slight difference in FY 85 under Pre-SB 524 compared to HB 353 is the difference in the Oil Severance Tax law and thus, the severance tax adjustment under the WPT.
 - a) For FY 1982 through 1985, these impacts are included in Tables 3 and 4 under the Pre-SB 524 separate accounting corporate tax. If the WPT was not a deduction for those years, the total tax liability columns would have been increased by these amounts.
 - b) For FY 1982 through 2005, these impacts are not included in Tables 3 and 4 under the HB 353 separate accounting corporate tax. If the WPT was a deduction for these years, the total tax liability columns would be reduced by these amounts. In FY 1985, the reduction would be approximately one half the amount because HB 353 goes into effect midway through the fiscal year.

This section will present comments and conclusions relative to HB 353 based on the analysis outlined and summarized in preceding sections.

As to the feasibility analysis performed relative to the impact of HB 353 on development and production of the "marginal" North Slope fields, the following qualifications should be noted:

The feasibility analysis performed in the Petroleum Revenue Forecasting Model tests the real after tax discounted cash flow rate of return from a field against an assumed "hurdle" real rate of return to determine feasibility. If the rate of return for the field given projected production, prices, development costs, operating costs and tax rates exceeds the hurdle rate, development of the field is deemed feasible.

There are three potential problems with applying this quantitative analysis to the "marginal" North Slope fields and then drawing conclusions about the actual timing and magnitude of their development. The first is the "hurdle" rate used in the model may not be the same as the "hurdle" rate actually used by the corporations with lease rights to develop the field. The second is that the model analysis assumes no capital budget constraint. In reality, the corporations have a limited amount of capital to invest in the development of fields in Alaska and

elsewhere in the world. Even though development of a field in Alaska may be projected by the corporation to provide an acceptable rate of return given the corporation's actual "hurdle" rate, there may be other even more attractive projects elsewhere which would be developed instead, given a limited capital budget. Finally, there may be non-quantifiable judgmental factors which the corporations consider in making their investment decisions. These types of judgmental considerations are necessary to distinguish between two investment alternatives which are projected to be equally attractive on a quantitative basis.

Regardless of these three potential problems in applying the feasibility model to analyze when and at what level a field will actually be developed, the model is useful in analyzing the relative effect of alternative tax structures on rates of return and feasibility of development given projected production, costs and prices. Here, as discussed earlier, our analysis indicated the impact of the HB 353 tax structure with respect to Petroleum Corporate Income Tax and Petroleum Severance Tax on the feasibility of development was relatively insignificant. The future of oil prices will have a much more significant effect on the feasibility of development for these fields.

As to the revenue impact of HB 353, the analysis indicated that under all alternative price and production scenarios examined, cumulative revenues from income and severance taxes for FY 1985 through FY 2005 were greater under HB 353 than under the current tax structure. The absolute and percentage gain, however, varied significantly between scenarios.

For example, cumulative revenues from income and severance taxes for FY 1985 through FY 2005 were 12.12 percent higher under HB 353 than under current law given the Mean case price and production scenario, 8.38 percent higher given the 30 percent scenario and 17.39 percent higher given the 70 percent scenario.

This is because the tax structure proposed by HB 353 is more sensitive to price and production changes than the current tax structure. The severance tax under HB 353 is slightly less sensitive to price and production changes than the current severance tax simply because it is levied at a lower maximum rate, 12.25 percent as compared to 15 percent under the current law. However, this is more than offset by the income tax which is significantly more sensitive under HB 353 than under current law resulting in greater overall revenue sensitivity under HB 353.

The cumulative revenues collected from income taxes for FY 1985 through FY 2005 under the current apportionment tax structure were projected to be 5.04 percent lower given the 30 percent scenario as compared to the Mean scenario and 16.94 percent higher given the 70 percent scenario as compared to the Mean scenario. The cumulative revenues collected under the proposed HB 353 separate accounting income tax were projected to be 14.52 percent lower given the 30 percent scenario compared to the Mean scenario and 30.83 percent higher given the 70 percent scenario compared to the Mean scenario. The reason for this

is under separate accounting, revenue collections are directly dependent upon the level of production and wellhead values in Alaska. Under apportionment, however, revenue collections are dependent on both worldwide income and the level of Alaska activity compared to worldwide activity as measured by apportionment factors. Therefore, the apportionment tax structure is less directly sensitive to changes in Alaska production and wellhead values. Also, it should be noted that a given percentage change in worldwide oil prices results in a greater percentage change in Alaska wellhead values due to the fixed transportation cost differential which exists between the two. For example, if world crude prices were \$20.00 per barrel and there was a total fixed transportation cost of \$10.00 per barrel to get Alaska crude to market, the wellhead value of Alaska crude would be \$10.00 per barrel. If world prices were to increase by 5 percent to \$21.00 per barrel, Alaska wellhead value would increase from \$10.00 to \$11.00 per barrel which would represent a 10 percent increase. Therefore, alternative price scenarios result in greater percentage differences in Alaska activity and income upon which separate accounting is based than in worldwide activity and income upon which apportionment is based.

The HB 353 proposal, because it is more sensitive to oil prices, has the potential for greater upside gain should prices increase and the potential for greater downside risk should prices decrease when compared to the current tax structure.

It should be noted that by FY 2005, the revenues collected under apportionment were projected to be greater than under separate accounting given all alternative scenarios. This is because under apportionment, worldwide income was assumed to increase over time and was only partially offset by declining apportionment factors as Alaska activity declined. Under separate accounting, collections declined directly over time with declining Alaska activity and income.

It is also interesting to note that by FY 2005, collections under the current apportionment tax are approximately equal given both the Mean and 70 percent assumptions. This is because even though the 70 percent case assumes a higher long-run worldwide apportionable income growth rate it also assumes a higher growth rate in worldwide production which acts to reduce the apportionment factor at a faster rate thus offsetting the higher income growth rate. As noted earlier, however, over the entire period from FY 1985 through FY 2005, the 70 percent case assumptions resulted in revenue collections which were 16.94 percent higher than the Mean.

In comparing revenue collections under separate accounting in FY 2005 given Mean and 70 percent scenario assumptions, the 70 percent case generates less revenue than the Mean case. The reason for this is that under the 70 percent scenario, development of fields in Alaska occurs earlier and at a more rapid pace. Therefore, by FY 2005, production

under the 70 percent scenario is less than production under the Mean scenario. As noted earlier, however, over the entire period from FY 1985 through FY 2005, the 70 percent case assumptions resulted in revenue collections which were 30.83 percent higher than the Mean.

A number of revisions have been made to the analysis compared with the preliminary analysis previously presented to the Legislature during the 1985 legislative session. The previous analysis was based on March, 1985 Mean case price assumptions whereas this analysis is based on June, 1985 price assumptions which are significantly lower in the Mean case. This analysis includes two additional marginal fields, West Sak and Point Thompson which were not included before. The March analysis included projections only through FY 1995. Total projected cumulative revenue collections from both income and severance taxes given Mean case assumptions under both current and proposed tax structures are lower now than in March.

Severance taxes projected under both laws are lower due to lower price and wellhead value projections in spite of somewhat higher production from the inclusion of the two additional fields in the analysis.

Income tax projections under the current apportionment law are lower due primarily to lower expectations for long-run worldwide apportionable income growth rates. Income tax projections under the proposed HB 353 separate accounting law are lower due to lower wellhead

values and hence, gross revenues. The inclusion of additional fields does not result in enough additional production to offset the effect of lower wellhead values on gross revenues, and the additional fields included also had deductions associated with them which reduced net taxable income even more. Also, as discussed earlier, separate accounting deductions primarily operating cost estimates, have been revised upward since March.

The revisions since March have resulted in a greater downward revision in projected collections under the current income and severance tax laws than under the proposed HB 353 income and severance tax laws. Therefore, the absolute and percentage revenue gain from HB 353 is projected to be greater now than in March. Total cumulative revenues collected for FY 1985 through FY 1995 were projected to be 13.46 percent higher under HB 353 than under current law given the Mean case assumptions in March and now are projected to be 16.79 percent higher for the same period (1985-1995) given the Mean case assumptions.

It should also be noted that due to the revision in the operating cost deduction, the estimates of revenues which would have been collected under the pre-SB 524 separate accounting corporate tax for FY 1982 through FY 1985 are lower now than in March.

MEMORANDUM

State of Alaska

TO: Mary A. Nordale
Commissioner
Department of Revenue

DATE: May 2, 1985

FILE NO:

TELEPHONE NO: 465-2173

FROM: Vincent D. Wright *V.D.W.*
Chief of Research
Department of Revenue

SUBJECT: Analysis of HB 353

The attached package represents our fiscal note analysis of HB 353.

The package contains 6 out of 12 summary tables broken down as follows:

Table 1

- ° A comparison from FY 82 to FY 84 of Pre SB 524 or AS 43.21 vs. AS 43.20 corporate taxes.
- ° A comparison from FY 85 to FY 95 of HB 353 vs. AS 43.20 (the corporate tax under HB 353 is assumed to commence January 1, 1985) corporate taxes.
- ° A comparison from FY 82 to FY 84 of Pre SB 524 vs. AS 43.55 severance taxes.
- ° A comparison from FY 87 to FY 95 of HB 353 vs. AS 43.55 (the severance tax under HB 353 is assumed to commence January 1, 1987) severance taxes.

Table 2

- ° An analysis, assuming the "pie" is defined at the wellhead, of the State's percentage share of oil revenues.
- ° The "pie" is first calculated assuming pre SB 524 or AS 43.21 corporate taxes and severance taxes for FY 82 to FY 84.
- ° The "pie" is then calculated assuming HB 353 corporate (effective January 1, 1985) and severance (effective January 1, 1987) taxes from FY 85 to FY 95.
- ° The "pie" is also calculated assuming AS 43.20 corporate and AS 43.55 severance taxes from FY 82 to FY 95.

Handwritten notes and stamps:
- "Shirley" (signature)
- "June 1985" (stamp)
- "With [unclear]" (handwritten)
- "Data [unclear]" (handwritten)

Table 3

- The total production, exploration, and pipeline revenue picture. The production revenue is calculated for Sadlerochit, Kaparuk, Cook Inlet, Endicott, Lisburne, and Milne Pt.
- The expenditures for each of the aforementioned fields as well as the pipeline are then calculated and deducted. The expenditures relative to each of the fields include state royalties, production conservation taxes, property taxes, operating costs, depreciation, acquisition costs, windfall profits taxes (for FY 82 - 84 and first half of FY 85 only), interest expenses (uncapitalized), exploration costs, administration costs, and other deductions.

Table 4

- The production income and production expenditure data for the aforementioned producing fields.

Table 5

- The pipeline income and expenditure data for TAPS.

Table 6

- The windfall profits tax is not allowed as a deduction under HB 353. The legislature, however, asked for the figures and they are presented separately.
- The windfall profits tax deduction would have had only a minor effect in FY 85 on Sadlerochit and no effect on this field after that date because the adjusted base price exceeds the wellhead value.
- The newer fields such as Kaparuk, Endicott, Lisburne, and Milne Pt. are exempt from the windfall profits tax.
- The only field affected from FY 85 on is Cook Inlet.

VDW:bv
Attachment

ASSUMPTIONS

1. Oil and Gas Production and Price and TAPS thruput:
FY 82 - 84, actuals. FY 85 forward, based on March 1985 Petroleum Production Revenue Forecast, Mean Case.
2. TAPS tariff:
Proposed settlement ignored, weighted average TAPS tariff assumed to be \$6 per barrel.
3. Oil and Gas royalties as a deduction from gross production income:
FY 82 - 84, actuals. FY 85 forward, based on March 1985 Petroleum Production Revenue Forecast, Mean Case.
4. Oil severance taxes as a deduction from gross production income:
FY 82 - 84, pre SB 524 rates and ELF's used - 12.25% rate with calculated ELF.

FY 85 - 86 and first half FY 87, current rates and ELF's used - Sadlerochit and Cook Inlet 15% rate with ELF = 1 if calculated ELF is .7 or above for first 10 years of production. Kuparuk and other North Slope fields 12.25% rate for first 5 years of production, then 15% with ELF = 1 if calculated ELF is .7 or above for first 10 years of production.

January 1987 forward, HB 353 rates, 12.25% for all fields, ELF provisions same as current law.
5. Crude oil windfall profits taxes as a deduction from gross production income:

Calculated and used as a deduction for purposes of estimating AS 43.21 collections from FY 82 - 84 for both Sadlerochit and Cook Inlet.

No windfall profits tax deduction allowed under HB 353 from FY 85 on.
6. Ad Valorem property taxes as a deduction from both gross production income and gross oil transportation (TAPS) income:

Calculated at 2% of estimated assessed tangible property value for both production and transportation facilities.

7. Direct operating costs as a deduction from gross production income:

Estimates are consistent with March 1985 Petroleum Production Revenue Forecast, Mean Case production assumptions.

8. Direct operating costs as a deduction from gross oil transportation (TAPS) income:

Estimates are based on actual FERC filings and projected based on thruput and inflation assumptions consistent with March 1985 Petroleum Production Revenue Forecast, Mean Case.

9. Depreciation of development costs and amortization of lease acquisition costs as a deduction from gross production income:

Calculated on a units of production basis using production estimates consistent with the March 1985 Petroleum Production Revenue Forecast, Mean Case and reserves estimates from the Alaska Oil and Gas Conservation Commission. Both were calculated using total recoverable reserves as a base.

Development cost estimates include an estimate of capitalized intangible drilling costs.

Acquisition cost estimates include capitalized lease bonus payments, successful exploration expenses and property taxes paid before production.

10. Depreciation as a deduction from gross oil transportation (TAPS) income:

Calculated on a straight line basis as allowed by FERC.

11. Uncapitalized interest as a deduction from gross production income:

Projected based on historical trends reported on AS 43.21 returns from CY 1978 - 81 and accounting for the statutory cap provisions setting the maximum allowable uncapitalized interest deduction for a corporation equal to total interest expense of the consolidated worldwide business multiplied by the ratio of the cost of real and tangible personal property used in production in Alaska to cost of total real and tangible personal property used in the consolidated business worldwide.

12. Uncapitalized interest as a deduction from gross oil transportation (TAPS) income:

Projected based on actual TAPS debt schedule.

13. General overhead and administration expenses as a deduction from gross production income:

Projected based on historical trends reported on AS 43.21 returns from CY 78 - 81 and accounting for the statutory cap provisions setting the maximum allowable general overhead and administration deduction for a corporation equal to total general overhead and administration expense of the consolidated worldwide business multiplied by the ratio of the cost of real and tangible personal property used in production in Alaska to the cost of total real and tangible personal property used in the consolidated business worldwide.

14. Unsuccessful exploration and abandonment expenses as a deduction from gross production income:

Projected based on historical trends reported on AS 43.21 returns from CY 78 - 81.

Projected total exploration expenses are assumed to be deducted in total from gross production income in year of abandonment, even though it may be that some corporations will have insufficient production income to write off their full exploration expenses against and hence would have to carry losses forward. Also under HB 353 corporations with exploration expenses but no production income would fall under separate accounting, a provision different from AS 43.21. This could increase total exploration expenses reported. However, these corporations would be carrying losses forward until they had production income to expense against and thus this provision would not materially impact tax collections in the time frame of this analysis.

TABLE 2
Calculation of State Petroleum Revenues as a
Percent of Adjusted Production Income
3/85 Forecast Assumptions Mean Case FY 85-95 Using WHV

| Fiscal Year | Total Petroleum Production | | | State / Petrol Revenues | State / Net Rev % | Fiscal Year | Total Petroleum Production | | | State / Petrol Revenues | State / Net Rev % |
|--|----------------------------|--------------|-------------|-------------------------------|-------------------------|-------------|----------------------------|--------------|-------------|-------------------------------|-------------------------|
| | Gross Revenue | Cost Deducts | Net Revenue | | | | Gross Revenue | Cost Deducts | Net Revenue | | |
| With A5 43.20 Corporate Income Tax & A5 43.55 Production Tax | | | | | | | | | | | |
| Pre 5B 524 | | | | | | | | | | | |
| 82 | 12958.93 | 1346.69 | 11612.24 | 3525.22 | 0.3036 | 82 | 12958.93 | 1346.69 | 11612.24 | 3889.46 | 0.3349 |
| 83 | 11941.70 | 1636.27 | 10305.43 | 3313.25 | 0.3215 | 83 | 11941.70 | 1636.27 | 10305.43 | 3321.58 | 0.3223 |
| 84 | 11327.62 | 1903.30 | 9424.32 | 3201.84 | 0.3397 | 84 | 11327.62 | 1903.30 | 9424.32 | 3220.43 | 0.3417 |
| HB 353 as of 1/1/85 1) | | | | | | | | | | | |
| 85 | 11481.87 | 2039.82 | 9442.05 | 3568.78 | 0.3780 | 85 | 11481.87 | 2039.82 | 9442.05 | 3151.33 | 0.3338 |
| 86 | 10645.15 | 2350.70 | 8294.45 | 3309.05 | 0.3989 | 86 | 10645.15 | 2350.70 | 8294.45 | 3007.07 | 0.3625 |
| 87 | 10323.23 | 2691.74 | 7631.49 | 3092.73 | 0.4053 | 87 | 10323.23 | 2691.74 | 7631.49 | 2981.84 | 0.3907 |
| 88 | 10370.84 | 2937.38 | 7433.46 | 2820.23 | 0.3794 | 88 | 10370.84 | 2937.38 | 7433.46 | 2791.48 | 0.3755 |
| 89 | 10132.39 | 3101.75 | 7030.64 | 2761.80 | 0.3928 | 89 | 10132.39 | 3101.75 | 7030.64 | 2776.31 | 0.3949 |
| 90 | 10077.12 | 3242.94 | 6834.18 | 2778.62 | 0.4066 | 90 | 10077.12 | 3242.94 | 6834.18 | 2848.93 | 0.4169 |
| 91 | 9601.91 | 3323.96 | 6277.95 | 2617.50 | 0.4169 | 91 | 9601.91 | 3323.96 | 6277.95 | 2721.63 | 0.4335 |
| 92 | 9533.60 | 3327.22 | 6204.38 | 2573.94 | 0.4149 | 92 | 9533.60 | 3329.22 | 6204.38 | 2685.70 | 0.4329 |
| 93 | 9553.63 | 3360.51 | 6193.12 | 2566.27 | 0.4144 | 93 | 9553.63 | 3360.51 | 6193.12 | 2691.89 | 0.4347 |
| 94 | 9090.33 | 3382.09 | 5708.24 | 2419.91 | 0.4239 | 94 | 9090.33 | 3382.09 | 5708.24 | 2555.60 | 0.4477 |
| 95 | 8507.01 | 3365.37 | 5221.64 | 2257.98 | 0.4324 | 95 | 8587.01 | 3365.37 | 5221.64 | 2408.09 | 0.4612 |

FY 1985 HB353 Corp. Inc. Tax includes \$60.8m of A543.20 already collected through December 31, 1984 and half a year of the new tax.

FOOTNOTES

1. Total production income for each fiscal year is the sum of Sadlerochit weighted average oil production volume times Sadlerochit weighted average oil wellhead value, Kuparuk weighted average oil production volume times Kuparuk weighted average oil wellhead value, Endicott weighted average oil production volume times Endicott weighted average oil wellhead value, Lisburne weighted average oil production volume times Lisburne weighted average oil wellhead value, Milne Pt. weighted average oil production volume times Milne Pt. weighted average oil wellhead value, Cook Inlet weighted average oil production volume times Cook Inlet weighted average oil wellhead value, and Cook Inlet weighted average gas production volume times Cook Inlet weighted average gas wellhead value.
2. The deductions for each fiscal year include those defined under AS 43.21 and HB 353 less State severance taxes, royalties, property taxes, and federal crude oil windfall profits tax.
3. Adjusted production income for each fiscal year is total production income less total production deductions.
4. Total state petroleum revenues for each fiscal year is the sum of Sadlerochit, Kuparuk, Endicott, Lisburne, Milne Pt., and Cook Inlet oil royalties, production taxes, and property taxes associated with oil production activities and facilities, and Cook Inlet gas royalties, production taxes, and property taxes associated with gas production activities and facilities, and corporate income taxes attributable to those oil and gas production activities.

TABLE 3

Pipeline, Production & Exploration
Income Tax Estimates
(current FY \$)

| Fiscal Year | Total Revenue | State | Prod'n. | Total | Total | Total | Total | Windfall | Interest | Exploratin | Admin | Other | Total | Total | Liability----- | | Collections----- | | Diff |
|-------------|---------------|---------------|----------|--------------|--------------|---------|--------------|-------------|---------------|------------|--------|----------|----------|------------|----------------|--------|------------------|--------|------|
| | | Royalty Share | Cons Tax | Property Tax | Oper'g Costs | Depre | Acquis Costs | Profits Tax | Expense Uncap | Costs | Costs | Deductns | Deductns | Net Income | HB 353 | HB 353 | A5 43.20 | 21 | |
| 82 | 14455.80 | 1564.30 | 1219.03 | 278.40 | 645.59 | 601.54 | 0.76 | 2017.53 | 698.10 | 190.90 | 236.20 | 50.00 | 7502.35 | 8953.45 | 841.62 | 837.62 | 130.72 | 706.90 | |
| 83 | 15469.75 | 1442.73 | 1098.94 | 308.85 | 710.90 | 781.97 | 1.00 | 1018.33 | 653.20 | 210.00 | 252.30 | 47.60 | 6525.82 | 8943.93 | 840.73 | 840.95 | 236.00 | 604.95 | |
| 84 | 14547.14 | 1370.57 | 1032.93 | 353.36 | 729.60 | 997.32 | 1.08 | 422.58 | 590.80 | 230.10 | 264.90 | 47.60 | 6040.84 | 8906.30 | 837.19 | 838.08 | 265.10 | 572.98 | |
| 85 | 15182.97 | 1377.88 | 1379.81 | 367.64 | 733.70 | 1080.94 | 0.78 | 0.00 | 541.40 | 254.10 | 270.10 | 45.00 | 6059.35 | 9123.62 | 857.62 | 852.51 | 190.00 | 662.51 | |
| 86 | 14433.85 | 1278.11 | 1243.84 | 404.02 | 849.20 | 1225.47 | 6.73 | 0.00 | 518.00 | 279.50 | 292.10 | 42.00 | 6138.97 | 8294.88 | 779.72 | 799.19 | 240.00 | 559.19 | |
| 87 | 14177.63 | 1244.21 | 1075.97 | 441.25 | 943.90 | 1441.66 | 15.18 | 0.00 | 494.60 | 307.40 | 306.70 | 39.00 | 6309.87 | 7867.76 | 739.57 | 749.61 | 260.00 | 489.61 | |
| 88 | 13962.44 | 1219.43 | 804.18 | 466.13 | 1023.20 | 1560.48 | 20.10 | 0.00 | 467.70 | 338.20 | 322.00 | 36.00 | 6265.42 | 7697.02 | 723.52 | 727.53 | 275.00 | 452.53 | |
| 89 | 13437.29 | 1198.80 | 773.49 | 477.24 | 1094.40 | 1606.49 | 39.56 | 0.00 | 444.50 | 372.00 | 338.10 | 33.00 | 6377.58 | 7061.71 | 663.80 | 678.73 | 305.00 | 373.73 | |
| 90 | 13143.12 | 1230.07 | 765.25 | 490.33 | 1228.60 | 1565.45 | 52.09 | 0.00 | 421.40 | 409.20 | 355.00 | 30.00 | 6547.39 | 6595.73 | 620.00 | 630.95 | 340.00 | 290.95 | |
| 91 | 12339.41 | 1184.46 | 688.95 | 480.83 | 1334.90 | 1485.41 | 68.05 | 0.00 | 397.90 | 450.10 | 372.80 | 27.00 | 6490.40 | 5849.01 | 549.81 | 567.35 | 350.00 | 217.35 | |
| 92 | 12030.20 | 1103.43 | 668.52 | 465.70 | 1393.10 | 1386.40 | 67.32 | 0.00 | 373.70 | 495.10 | 391.40 | 24.00 | 6448.67 | 5581.52 | 524.66 | 530.95 | 350.00 | 180.95 | |
| 93 | 11875.03 | 1192.82 | 664.83 | 447.50 | 1451.90 | 1305.95 | 66.46 | 0.00 | 348.75 | 544.60 | 411.00 | 21.00 | 6454.81 | 5420.22 | 509.50 | 513.29 | 365.00 | 148.29 | |
| 94 | 11127.03 | 1143.17 | 605.78 | 429.33 | 1521.10 | 1196.52 | 67.37 | 0.00 | 326.80 | 599.10 | 431.50 | 18.00 | 6338.67 | 4788.36 | 450.11 | 464.95 | 365.00 | 99.95 | |
| 95 | 10339.01 | 1084.87 | 552.83 | 406.29 | 1574.90 | 1064.54 | 58.83 | 0.00 | 311.10 | 659.00 | 453.10 | 15.00 | 6180.46 | 4158.55 | 390.90 | 405.70 | 360.00 | 45.70 | |

These estimates assume the tax plan is in effect for the whole year; for FY 1982-84 this is Pre SB 524, for FY 1985-95 this is HB 353.

FY82 collections of \$130.72m are the actual amounts collected or credited to CY82 liability. The estimate for a full year under A543.20

FY82 is \$242.5m which would result in a difference of \$595.12m as

presented in column 4 of Table 1. FY 1985 A543.20 collections are expected to be low due to substantial refunds and credits for prior

years' tax overpayments. Tax liability on a calendar year basis under A543.20 was CY82, \$235.50m; CY83, \$224.01m; CY84 \$240.37m.

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TABLE 4
All Producing Fields
Income Tax Estimates
(current FT \$)

| Fiscal Year | Oil Prod'n (all O/D) (cur \$) | Wellhead Value \$ (cur \$) | Gas Prod'n (cur \$) | Gas Price (cur \$/bbl) | Total Revenue (cur \$) | State Royalty Share | Prod'n Costs Tax | Property Tax | Total Oper'g Costs | Depr. Devel. Costs | Amort. Acquis. Costs | Windfall Profit Tax | Interest Expense | Exploratio. Costs (expn'd) | Adm'n. Cost | Other Deductio. Cost | Total Deductio. Income | Total Taxable Income | Total Tax Liability | Total Tax Collected |
|-------------|-------------------------------|----------------------------|---------------------|------------------------|------------------------|---------------------|------------------|--------------|--------------------|--------------------|----------------------|---------------------|------------------|----------------------------|-------------|----------------------|------------------------|----------------------|---------------------|---------------------|
| 82 | 1.6533 | 21.273 | 307400 | 0.590 | 12958.93 | 1564.36 | 1219.03 | 113.90 | 416.59 | 332.84 | 0.76 | 2017.53 | 119.40 | 190.90 | 236.20 | 50.00 | 6261.45 | 6497.40 | 629.56 | 627.99 |
| 83 | 1.7004 | 19.040 | 303000 | 0.670 | 11941.70 | 1442.73 | 1098.94 | 149.15 | 490.90 | 513.27 | 1.00 | 1018.33 | 121.20 | 210.00 | 252.30 | 47.60 | 3345.42 | 6576.28 | 620.85 | 622.43 |
| 84 | 1.7103 | 17.864 | 305000 | 0.670 | 11327.62 | 1370.57 | 1032.93 | 191.66 | 508.60 | 728.62 | 1.00 | 422.58 | 122.40 | 239.10 | 264.90 | 47.60 | 4921.04 | 6406.58 | 602.22 | 605.68 |
| 85 | 1.7380 | 17.776 | 536715 | 0.983 | 11481.87 | 1377.88 | 1379.81 | 203.64 | 522.20 | 812.24 | 0.78 | 0 | 127.40 | 254.10 | 278.10 | 45.00 | 3001.15 | 6489.72 | 609.19 | 607.45 |
| 86 | 1.7783 | 16.084 | 523625 | 1.073 | 10645.15 | 1278.11 | 1243.84 | 245.12 | 641.70 | 956.77 | 6.73 | 0 | 131.90 | 279.50 | 292.10 | 42.00 | 5117.77 | 5527.30 | 519.57 | 541.98 |
| 87 | 1.3045 | 15.347 | 526000 | 1.126 | 10323.23 | 1244.21 | 1075.97 | 280.55 | 714.40 | 1172.96 | 15.18 | 0 | 136.10 | 307.40 | 306.70 | 39.00 | 3300.47 | 5022.76 | 472.14 | 484.00 |
| 88 | 1.6784 | 16.553 | 527650 | 1.195 | 10370.84 | 1219.43 | 804.18 | 319.73 | 782.70 | 1291.78 | 28.10 | 0 | 138.60 | 338.20 | 322.00 | 38.00 | 5280.72 | 5090.12 | 478.47 | 476.89 |
| 89 | 1.5443 | 17.530 | 533300 | 1.292 | 10132.39 | 1198.80 | 773.49 | 337.04 | 841.90 | 1337.79 | 39.56 | 0 | 139.40 | 372.00 | 338.10 | 33.00 | 5411.08 | 4721.31 | 443.80 | 452.47 |
| 90 | 1.4234 | 18.780 | 537300 | 1.632 | 10077.12 | 1230.07 | 765.25 | 356.33 | 959.60 | 1296.73 | 52.09 | 0 | 140.30 | 409.20 | 355.00 | 70.00 | 5594.59 | 4402.53 | 421.36 | 426.97 |
| 91 | 1.2723 | 19.861 | 542300 | 1.912 | 9601.91 | 1184.46 | 688.95 | 353.13 | 1048.40 | 1216.71 | 68.05 | 0 | 140.90 | 450.10 | 372.80 | 27.00 | 5550.50 | 4051.41 | 380.03 | 370.96 |
| 92 | 1.1619 | 21.451 | 546300 | 2.188 | 9533.60 | 1103.43 | 668.52 | 344.20 | 1092.60 | 1117.70 | 67.32 | 0 | 141.10 | 495.10 | 391.40 | 24.00 | 5525.37 | 4008.22 | 376.77 | 377.79 |
| 93 | 1.0746 | 23.140 | 538000 | 2.431 | 9553.63 | 1192.82 | 664.83 | 332.20 | 1138.90 | 1037.25 | 66.46 | 0 | 141.30 | 544.60 | 411.00 | 21.00 | 5550.36 | 4003.27 | 376.31 | 376.42 |
| 94 | 0.9402 | 24.931 | 545000 | 2.488 | 9090.33 | 1143.17 | 605.78 | 320.33 | 1197.10 | 927.82 | 67.37 | 0 | 141.20 | 599.10 | 431.50 | 18.00 | 5451.37 | 3638.96 | 342.06 | 350.62 |
| 95 | 0.8163 | 26.845 | 550000 | 2.932 | 8587.01 | 1084.87 | 552.93 | 303.49 | 1240.90 | 795.84 | 58.83 | 0 | 142.70 | 659.00 | 453.10 | 15.00 | 5306.56 | 3280.45 | 308.36 | 316.79 |

1) These prices are weighted average wellhead values derived from the various values at the H. Slope and Cook Inlet fields evaluated in this study.

TABLE 5
Trans Alaska Pipeline
Income Tax Estimates
(current FY \$)

| Fiscal Year | Pipeline Throughput (mil B/D) | Tariff (\$/B) | Total Revenue | Operat'g Costs/Year | Amort & Deprec | Uncap Interest | Property Tax | Total Deduction | Net Income | Tax Liability (9.4%) |
|-------------|-------------------------------|---------------|---------------|---------------------|----------------|----------------|--------------|-----------------|------------|----------------------|
| 82 | 1.568 | 6.11 | 3496.88 | 229.00 | 266.70 | 578.70 | 164.50 | 1240.90 | 2255.98 | 212.06 |
| 83 | 1.630 | 5.93 | 3528.05 | 220.00 | 268.70 | 532.00 | 159.70 | 1180.40 | 2347.65 | 220.48 |
| 84 | 1.650 | 6.01 | 3619.52 | 221.00 | 268.70 | 468.40 | 161.70 | 1119.80 | 2499.72 | 234.97 |
| 85 | 1.690 | 6.00 | 3701.10 | 211.50 | 268.70 | 414.00 | 164.00 | 1058.20 | 2642.90 | 248.43 |
| 86 | 1.730 | 6.00 | 3788.70 | 207.50 | 268.70 | 386.10 | 158.90 | 1021.20 | 2767.50 | 260.15 |
| 87 | 1.760 | 6.00 | 3854.40 | 229.50 | 268.70 | 358.50 | 152.70 | 1009.40 | 2845.00 | 267.43 |
| 88 | 1.640 | 6.00 | 3591.60 | 240.50 | 268.70 | 329.10 | 146.40 | 984.70 | 2606.90 | 245.05 |
| 89 | 1.510 | 6.00 | 3306.90 | 252.50 | 268.70 | 305.10 | 140.20 | 966.50 | 2340.40 | 220.00 |
| 90 | 1.400 | 6.00 | 3066.00 | 269.00 | 268.70 | 281.10 | 134.00 | 952.80 | 2113.20 | 198.64 |
| 91 | 1.250 | 6.00 | 2737.50 | 286.50 | 268.70 | 257.00 | 127.70 | 939.90 | 1797.60 | 168.97 |
| 92 | 1.140 | 6.00 | 2496.60 | 300.50 | 268.70 | 232.60 | 121.50 | 923.30 | 1573.30 | 147.89 |
| 93 | 1.060 | 6.00 | 2321.40 | 313.00 | 268.70 | 207.45 | 115.30 | 904.45 | 1416.95 | 133.19 |
| 94 | 0.930 | 6.00 | 2036.70 | 324.00 | 268.70 | 185.60 | 109.00 | 887.30 | 1149.40 | 108.04 |
| 95 | 0.800 | 6.00 | 1752.00 | 334.00 | 268.70 | 168.40 | 102.80 | 873.90 | 878.10 | 82.54 |

- 1) The gas picture isn't considered (26 TCF).
- 2) No TAPS settlement.
- 3) Some amount of total crude taken off at N. Pole i.e. does not go to Valdez.
- 4) Corporate overhead i.e. administrative costs excluded.
- 5) U. Sai, Pt. Thom. & Seal Is. excluded.

ASSUMPTIONS:

Property taxes per AS43.56 22% gross.

Table 6
Windfall Profits Tax
Deduction
(current \$ - 000,000)

| <u>FY</u> | <u>Deduction from FY Taxable Income</u> | | | <u>Impact on FY Tax Liability</u> |
|-----------|---|-------------------|--------------|---|
| | <u>Sadlerochit</u> | <u>Cook Inlet</u> | <u>Total</u> | (Total deduction) (x .094) <u>1/</u> |
| 82 | 1,750.48 | 267.05 | 2,017.53 | -189.65 |
| 83 | 848.74 | 169.59 | 1,018.33 | -95.72 |
| 84 | 299.50 | 123.04 | 422.58 | -39.72 |
| 85 | 89.47 | 79.06 | 168.53 | -15.84 |
| 86 | | 55.86 | 55.86 | -5.25 |
| 87 | | 41.18 | 41.18 | -3.87 |
| 88 | | 32.65 | 32.65 | -3.07 |
| 89 | | 28.45 | 28.45 | -2.67 |
| 90 | | 26.80 | 26.80 | -2.52 |
| 91 | | 23.86 | 23.86 | -2.24 |
| 92 | | 14.32 | 14.32 | -1.34 |
| 93 | | 5.49 | 5.49 | -.52 |
| 94 | | .19 | .19 | -.02 |
| 95 | | 0 | 0 | 0 |

Note: Based on prices and production volumes consistent with the March 1985 Petroleum Production Revenue Forecast, Mean Case.

1/ For FY 82 - 84, these impacts are included in Tables 3 and 4. If windfall profits tax was not a deduction for these years, the total tax liability columns would be increased by these amounts.

For FY 85 forward, these impacts are not included in Tables 3 and 4 because HB 353 has no provision for a windfall profits tax deduction. If such a provision were added the total tax liability columns in Tables 3 and 4 would be reduced by these amounts. The exception, however, is in FY 85 where the reduction would be approximately one half the listed amount due to the fact that HB 353 would go into effect midway through the fiscal year.

MEMORANDUM

State of Alaska

TO: Mary A. Nordale
Commissioner
Department of Revenue

DATE: May 3, 1985

FILE NO:

TELEPHONE NO: 465-2173

FROM: Vincent D. Wright *VDW*
Chief of Research
Department of Revenue

SUBJECT: HB 353

Because of time constraints involved in this project only one base case was considered relative to our analysis of HB 353. The case we adopted, identified by our assumptions, was a mean thruput and price approach and no consideration for a possible TAPS settlement between the State and the oil companies.

We intend to evaluate various oil price scenarios and what affect a TAPS settlement will have on HB 353 during the next few weeks. This is important because obviously any change in prices or tariffs will no doubt have a major impact on the revenues that would be generated under a separate accounting approach such as HB 353.

VDW:bv

MEMORANDUM

State of Alaska

TO: Mary A. Nordale
Commissioner
Department of Revenue

DATE: May 3, 1985

FILE NO:

TELEPHONE NO: 465-2173

FROM: Vincent D. Wright *VDW*
Chief of Research
Department of Revenue

SUBJECT: HB 353

I would like to take this opportunity to inform you that we received excellent cooperation and a great deal of aid from various agencies in gathering the data for our analysis of HB 353. The Oil and Gas Conservation Commission supplied us with crucial data relative to the number of exploratory wells drilled in fields not yet developed. The Department of Natural Resources provided us as they usually do with volume production numbers by field. We also utilized information from federal agencies such as FERC which supplied us with operating cost information on TAPS.

Finally, your own staff in the Petroleum Revenue Division and the Research Section, which did the bulk of work and supplied a great deal of raw data, were very helpful in identifying and resolving conceptual problems and working diligently to complete the analysis by May 6, 1985.

VDW:bv

HISTORY OF OIL AND GAS SEVERANCE TAXES IN ALASKA

In 1955 the Alaska Legislature enacted two measures that imposed a tax on the production of crude oil and natural gas in the state. One of those statutes represents the foundation from which the state's existing oil and gas production properties tax evolved but the rate of tax at that time was only one percent of the gross value of that production. The other statute, that has since been repealed, was a conservation tax of five mills for each barrel of oil and every 50,000 cubic feet of gas produced.

Between 1955 and 1967 no changes were made in this tax structure. Then, in 1967, the legislature convened in a special session to provide statutory relief for the victims of the Fairbanks flood in that year. Faced with these emergency programs, the legislature enacted an additional one percent disaster severance tax based on the gross value of oil and gas production.

In 1968 the legislature raised the "regular" production tax from one percent to three percent, but did not change the one percent disaster severance tax or the five mill conservation tax.

In 1979, the legislature by amendment, embodied a progressive or "stair-stepped" rate structure for oil based on average daily production per well. The rates were three percent on the first 300 barrels per day, five percent on the next 700, six percent on the next 1,500 and eight percent on the production exceeding 2,500 barrels per day. Gas production was taxed at four percent. Since the one percent disaster severance tax and the five mill conservation tax were simultaneously repealed, there was no increase in the overall nominal gas tax rate.

In 1972 the Joint Pipeline Impact Committee requested legislation be enacted to protect state revenues from unacceptably low wellhead prices at Prudhoe Bay as the result of the high pipeline tariffs that could stem from either inadequate tariff regulation or construction cost overruns, or both. In response to that request the legislature enacted a cents-per-barrel tax with a credit for royalties paid to the state. If the cents-per-barrel tax, minus the royalty credit exceeded the tax collected under the existing percentage-of-value method, then the cents-per-barrel tax would be payable; however, almost immediately after this tax was enacted it became subject to litigation.

As a result, the tax measure that emerged from the 1973 Special Session of the Legislature repealed the royalty credit provision, increased the effective tax rate as it would apply to oil production by increasing the effective floor of the cents-per-barrel tax from \$2.65 to \$3.375 and instead of four "stair steps" there were three: the first 300 barrels a day from a well were taxed on the higher of five percent of the oil's value or \$0.16875 per barrel, the next 700 at six percent or \$0.2025 per barrel, and all production over 1,000 barrels a day at eight percent or \$0.27 per barrel. In addition, the cents-per-barrel amounts

increased or decreased by two percent for each degree of API gravity above or below 27 degrees. Thus a complete schedule of three cents-per-barrel rates (one for each "stair step") could be established for various API gravities. The whole schedule of rates was in turn to be increased or decreased monthly based on changes in the Wholesale Price Index for crude oil, published by the U.S. Bureau of Labor Statistics. The tax on gas production remained a simple four percent of value. In addition, an oil and gas regulation and conservation tax at a rate of \$0.00125 per barrel removed or sold was enacted during this legislative session.

In 1976 no changes were made to the production tax rates but the legislature did replace the "cash price prevailing" language with "prevailing value" and enacted a section titled "Determination of Gross Value". That section of the production tax statutes made it very clear that value is to be determined by using reasonable costs of transportation, if any. Therefore, to the extent of any previous confusion these changes made it obvious that the legislature did not believe the terms price and value were necessarily synonymous and that taxable gross value is to be determined by subtracting reasonable transportation costs from the full consideration realized by the producer at the point of sale.

The production tax was amended again in 1977 when the legislature enacted a statute to adopt an economic limit factor (ELF) for the purpose of reducing the effective production tax rate as the amount of production from a lease or property declines. Therefore, while the nominal tax rate for oil was 12.25 percent, and 10 percent for gas, in both cases the actual rate was determined by applying the ELF. The cents-per-barrel and cents-per-mcf rates were also subject to the ELF. Nominally they were 6.4 cents per mcf (corresponding to a 64 cent floor), 60 cents per barrel for "old oil" (a \$4.90 floor) and 80 cents for all other oil (a \$6.53 floor). Before being reduced by the ELF, the cents-per-barrel amounts were adjusted up or down by a half-cent for each degree above or below 27 degrees API gravity. There is no automatic escalator for either the cents-per barrel or cents-per-mcf rates; instead the Department of Revenue could recommend any changes to the rates that may be appropriate in light of transaction prices and market conditions. Also, the removed and sold standard that historically was used as the measure of taxable production was changed to a produced standard. At the same time, as a result of Alaska's protracted royalty litigation with oil and gas producers in the Cook Inlet area, the definitions of the point of production were either established or better defined.

It is also noteworthy that some of the complexities of this 1977 legislation caused the Department of Revenue to promulgate the state's first substantive interpretive production tax regulations that eventually became the nucleus of the more sophisticated versions promulgated by the Department in 1980, 1981 and 1982.

The remaining major amendment to the production tax statute occurred in 1981 when the nominal rate of tax on oil was changed from

12.25 percent to 15 percent on any oil produced after June 30, 1981 from a lease or property that was in commercial production prior to that date. The nominal rate of tax on oil produced from a lease or property coming in to production after that date is 12.25 percent during the first five years of production and 15 percent thereafter. Also, modifications were made to the economic limit factors for both gas and oil. The major impact of this legislation changed the effective rate of this tax on over 90 percent of the oil produced in Alaska from approximately 11.5 percent to 15 percent. That change, based on the unaudited reported value of production, increased the amount of production tax revenues by about \$350 million for FY 82 and \$325 million for FY 83.

On the following page is a summary of production events and tax changes by year beginning in 1954.

MEMORANDUM

State of Alaska

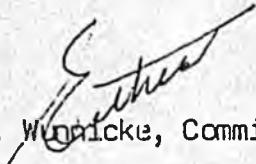
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

TO: Governor Bill Sheffield

DATE: January 22, 1986

FILE NO:

TELEPHONE NO: 561-2020

FROM:  Esther C. Wunnicke, Commissioner

SUBJECT: Incentives for
Development of Marginal
Fields

At your request I asked the Division of Oil and Gas to provide a more detailed written discussion of the issues Kay Brown and I discussed briefly with you January 6. This paper summarizes several possible incentives that the state could employ to encourage marginal field development, and identifies some of the potential benefits and costs associated with each.

What are marginal fields? As used by oil industry spokesmen, this term apparently encompasses all North Slope fields except Prudhoe Bay and Kuparuk River, two of the largest producing fields in the United States. The term implies that we are talking about fields that are "at or close to the margin" in terms of projected profitability. If projected profits do not meet the lessees' expected or required rates of return on capital, then a field would not be developed.

A number of factors influence the lessees' decision to develop any particular field. These factors include 1) the size of the reservoir; 2) the quality of the reservoir and the oil; 3) expected costs of development; 4) projected world oil prices; and 5) the royalty and taxes imposed.

Some discoveries will remain non-economic regardless of any action (or inaction) by the state. Factors such as remoteness from markets, lack of infrastructure, labor and material costs, fluctuating world oil prices and the availability of competitively priced alternative fuels--all factors over which the state has little, if any, control--will continue to influence lessees' future resource development decisions just as they have in the past.

The term "marginal fields" is itself a relative term. Today's marginal field may be tomorrow's nest egg, and vice versa. Producer price expectations will continue to be the driving force in determining not only which fields will be developed, but also when development will begin and end. Most producers' near-term price expectations are currently very conservative. These same expectations are mirrored in the state's revenue projections.

Options. Listed below are several options that theoretically could be effective in influencing lessees either to commit to the development of marginal fields or to continue existing development which would otherwise be non-economic.

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JAN 24 1986

DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

Governor Bill Sheffield

Page 2

January 22, 1986

While most of these options entail demonstrable near-term costs to the state, the adoption of any or all of them does not guarantee corresponding returns unless their use is contingent upon reciprocal commitments from the producers.

Most of the measures described below will involve short-term revenue losses in return for potential long-term gains.

Rely on existing tools. On numerous occasions in recent years the department has used net profit share leasing and exploration incentive credits for exploratory drilling and geophysical exploration. Both of these tools encourage the development of marginal fields.

Net profit share leasing with a fixed royalty percentage undeniably reduces the bonus the state receives, but it guarantees successful lessees the opportunity to recoup development expenses plus interest for future discoveries before having to share profits with the state. This assurance effectively minimizes lessees' initial financial exposure, and thus provides an incentive to develop any discovery--marginal or otherwise. Similarly, the use of exploration incentive credits (EIC's) reduces lessees' direct expenditures for exploration--regardless of whether that exploration is successful or not. Theoretically, the use of EIC's should not only encourage exploration, but it should also make more money available for delineation and development of new discoveries.

In the case of the Milne Point field, it appears that Conoco and the other Working Interest Owners made commitments to develop this small reservoir (60 million barrels, recoverable) several years ago when oil prices were somewhat higher. Now, they say, declining prices make the existing development non-economic at a 20 percent royalty rate. As you know, the companies have asked the state to reduce their royalty to 12.5 percent. The companies claim that a reduction to 12.5 percent would extend the life of the producing formation as well as encourage development of the shallower, yet more marginal, West Sak Sands.

After analysis of the legal and policy questions, we have offered Conoco the opportunity to change (not reduce) their royalty obligation to a 12.5 percent royalty and a 30 percent Net Profit Share. We believe this option would ultimately provide the state with at least the same amount of revenue, and may possibly encourage West Sak development that would not otherwise occur. This option, should it be acceptable to Conoco and the other lessees, would not require a statutory change.

Any action by the state which either reduces lessees' costs or provides them increased "cost certainty" should increase the likelihood that marginal fields will be developed. In addition to the actions described above, which the department presumably will continue to employ on a sale-specific basis, there are additional measures the department could recommend which may positively influence new or continued development.

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Settle TAPS

Reduce Royalties

Separate acct.

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Governor Bill Sheffield

Page 3

January 22, 1986

Settle disputes to provide more certainty. Expedited resolution of the Amerada-Hess litigation, as well as adoption of the proposed TAPS settlement by the remaining parties, would clarify lessees' royalty obligations and provide them a measure of certainty for evaluating potential returns on future projects. Resolution of these issues—judicial or otherwise—in the companies' favor would clearly enhance the value of marginal discoveries. Although the effects will never be directly quantifiable, it is almost axiomatic that legal and financial certainty will encourage exploration and development.

Allow flexibility in establishing tariffs. Providing flexibility in establishing tariffs for future pipelines could also contribute to earlier development of marginal fields. Allowing companies to "front-load" tariffs would shield early cash flows from royalty and severance taxes, and thereby improve project economics. The downside to this option is that it could result either in early abandonment of declining fields, unexpectedly sharp rises in tariffs as throughput declines, or both.

Propose legislation to allow reductions in royalty or tax burdens. There are several alternatives for adjusting royalty rates (or severance taxes, for that matter) to influence development. These alternatives include offering total "royalty/tax holidays" for some fixed period of time early in the life of new producing fields, reducing royalties/taxes for either all or a part of production from marginal fields, issuing leases with sliding scale royalties which decline with either total production or average production per well or reducing royalties/taxes on production from innovative and costly secondary and tertiary recovery projects such as the West Sak Pilot Project or the Enhanced Oil Recovery (EOR) project within the Prudhoe Bay Unit.

Under AS 38.05.180(j), the commissioner currently has the authority to reduce royalties, but only after two years of initial production from a field and then only upon a clear showing by each affected lessee that "...the revenue from all hydrocarbons produced from the field is insufficient to produce a reasonable rate of return with respect to that lessee's total investment in the field." To provide the department greater latitude, the administration could introduce legislation to enable the commissioner to reduce royalty rates at any time upon a showing of non-commerciality under prevailing royalty rates, or if necessary to encourage development.

A sub-option could include establishing the authority through new legislation to reduce royalties on production from secondary producing intervals. For example, reductions could be applied selectively to production from the shallower West Sak interval but not for production from a primary producing horizon, such as the Kuparuk formation. This approach would provide an incentive to produce reserves not currently planned for

times change - as
everyone is aware
during high prices

Fed Taxation

lower price less
fed tax & @ "share"
went up.

Prices

we have no control
over either

in fact - we
could end up at
zero or even negative
cash flow!

SO - were all fighting
our belts run / ~~market~~
& industry

state taxes - sensitive
subject because it
is something we can do
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JOBS current activity
appears optimal
most important & most
interest areas of state policy

INTRO -
Resources goals - maximizing benefit
Budget to citizens of AR states
over years
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maximize benefit - many adaptations
most overused phrases are
"fear share" & "don't kill the goose"

Attempt to ensure that
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also recognizing that
or least produce will
decline & less revenue
will be coming in. Therefore
Save in **Plan** ^{for} **Build**
infrastructure - roads, power etc
to **Provide** services ed, health
etc.

SO - They to strike balance
loyalties - $\uparrow \downarrow \rightarrow$
Production taxes
Income taxes -

Governor Bill Sheffield
Page 4
January 22, 1986

production, while at the same time not setting a precedent of granting royalty reductions for production which has not been demonstrated to be non-commercial by objectively verifiable production data.

Make permit stipulations more lenient. In addition to the "carrots," there are alternatives which include "removing the sticks." Operational delays are costly (time is money), and permit stipulations obviously have direct costs. Any additional reduction in the time required to secure permits or in the number of permit and lease stipulations could translate into increased development. However, there are obvious trade-offs in both reduced public participation and, perhaps, environmental protection. Accepting those potential trade-offs would require careful inter-agency analysis and consensus.

Form a task force to study problem. Given the potential sensitivity of this subject, and the implications for the state's future revenue stream, you might wish to consider forming a task force of state, industry and public interest representatives to consider the problem, and recommend constructive measures.

Conclusion. In considering these options, please remember the caveats. The economic conditions affecting the state's producing lessees will be the same as those influencing the budget debates within the administration and the legislature. Declining state revenues undoubtedly will engender lively debate about these and other options. While there will be pressure to encourage incremental development and production, there likely will be corresponding pressure to maintain the state's current revenue stream. While these goals may seem compatible at first glance, they are not necessarily so.

As I mentioned earlier, use of most of these options would involve near-term revenue losses as a trade-off for potential (but not guaranteed) future revenues. Compared to other factors, particularly the strength of world oil prices, the state's efforts may themselves have only a "marginal" effect on the producers' decisions to develop marginal fields. For example, according to staff calculations, total elimination of state taxes would be approximately equivalent to a \$5.00 per barrel increase in the price of oil. However, the corresponding increase in federal taxes would reduce this incentive to approximately \$3.00 per barrel.

Any policy change should be capable of standing the test of time. It would be short-sighted to react to current market conditions without providing adequate protection for the state should market conditions improve in the future.

I look forward to discussing these options at your convenience.

cc: Molly McCammon

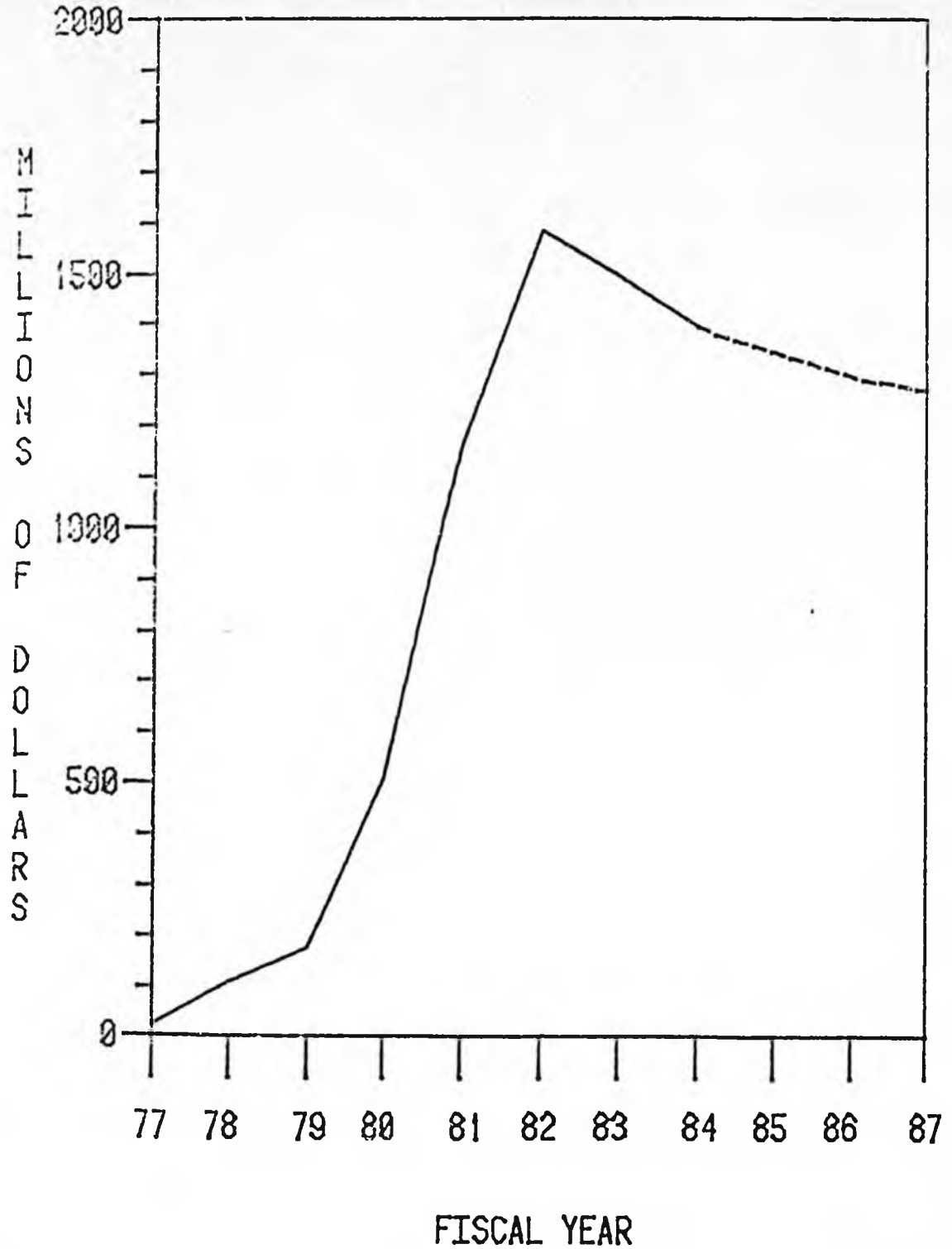
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OIL AND GAS PRODUCTION AND TAX TIMELINE

- 1954 - BLM issued 272 oil and gas leases
- 1955 - Oil and gas conservation tax enacted (5 mills)
 - Production tax enacted (1% of value of production)
- 1957 - Swanson River oil discovered
- 1959 - Kenai gas field discovered
- 1962 - Cook Inlet oil discovered
- 1965 - Three additional Cook Inlet oil fields discovered
- 1967 - Fairbanks struck by flood
 - 1% disaster severance tax enacted
- 1968 - Legislature increased oil severance tax from 1% to 3%
 - Prudhoe Bay oil discovered
- 1969 - Prudhoe Bay lease sale
- 1970 - Disaster severance and conservation taxes repealed
 - Oil production tax changed to a graduated tax
 - Gas severance tax increased to 4%
- 1972 - Minimum tax established based on "cents per barrel" equivalent to percent of value tax on oil with wellhead value of \$2.65 .
- 1973 - Effective oil tax rates increased
 - Five mill tax on oil for conservation reenacted
 - OPEC quadrupled world market price for crude oil
- 1977 - Nominal tax rate on oil increased to 12.25%
 - Nominal tax rate on gas increased to 10%
 - Economic Limit Factor introduced to adjust effective tax rates
 - New floors for oil and gas severance taxes established
 - Prudhoe Bay oil began flowing to Valdez
- 1979 - Prudhoe Bay well head prices increased from \$5.80 per barrel in January to \$10.57 in June as a result of the loss of imports from Iran.
- 1981 - Nominal tax rates on oil increased to 15%
 - Tax on oil production beginning after 6/30/81 remained 12.25% for the first five years of production
 - Oil ELF equal to 1 if calculated to be greater than 0.7 during first 10 years of production
 - Kuparuk field production began

OIL & GAS PRODUCTION TAX
(FY 1977-87)

— ACTUALS
- - - PROJECTIONS



OIL & GAS PRODUCTION TAX

CODES 065 & 068

| <u>Fiscal Year Ended</u> | <u>Net Collections</u> | <u>\$ Increase Over Prior Fiscal Year</u> | <u>% Increase Over Prior Fiscal Year</u> | <u>% of Estimate Realized</u> |
|--------------------------|------------------------|---|--|-------------------------------|
| 6-30-84 | \$1,392,302,205.76 | \$(101,025,121.56) | (6.77) | 101.86 |
| 6-30-83 | 1,493,327,327.32 | (87,782,646.75) | (5.55) | 98.65 |
| 6-30-82 | 1,581,109,974.07 | 411,232,234.21 | 35.15 | 100.00 |
| 6-30-81 | 1,169,877,739.86 | 663,716,104.67 | 131.13 | 98.70 |
| 6-30-80 | 506,161,635.19 | 332,580,692.53 | 191.60 | 101.03 |
| 6-30-79 | 173,580,942.66 | 65,980,455.42 | 61.32 | 104.32 |
| 6-30-78 | 107,600,487.24 | 83,948,336.98 | 354.93 | 101.32 |
| 6-30-77 | 23,652,150.35 | Base Year | Base Year | 87.25 |

*pertinent sections from old
sep. accting. law*

Sec. 43.21.050. ASSESSMENT OF INCOME AND TAX [REPEALED EFFECTIVE JANUARY 1, 1982]. (a) The department shall assess taxable income and the amount of tax payable on that taxable income.

(b) On or before August 15 of each year the department shall send to every corporation taxable under AS 43.21.010--43.21.120 a notice of assessment showing the amount of income taxable under AS 43.21.010--43.21.120 for the previous year and the amount of tax payable on that taxable income.

(c) For purposes of AS 43.21.010--43.21.120 the department may combine taxable incomes of corporations subject to tax under AS 43.21.010--43.21.120 who are part of the same consolidated business.

(d) If the methods of allocation and apportionment provided in AS 43.21.010--43.21.120 do not fairly represent the extent of a corporation's business activity in the state, the corporation may petition for or the department may require, in respect to all or any part of the corporation's business activity, if reasonable, the employment of any method authorized under art. IV, sec. 18, of the Multistate Tax Compact (AS 43.19.010) to effectuate an equitable allocation and apportionment of the corporation's income. The commissioner shall include in his annual report required in AS 43.21.110 a report on all relief granted under this subsection, including for each case a statement of the changes in tax liability resulting from the granting of relief, the tax years involved, and a description of the method of determining taxable income that was substituted for those provided in AS 43.21.010--43.21.120.

Sec. 43.21.060. RETURNS [REPEALED EFFECTIVE JANUARY 1, 1982]. On or before April 15 of each year, a corporation subject to tax under AS 43.21.010--43.21.120 shall submit a return in a form prescribed by the department setting out information required by the department to determine taxable income. For purposes of AS 43.21.010--43.21.120, the department may require corporations subject to tax under AS 43.21.010--43.21.120 who are part of the same consolidated business to file a single return.

Sec. 43.21.070. PAYMENT OF TAX [REPEALED EFFECTIVE JANUARY 1, 1982]. The tax levied under AS 43.21.010--43.21.120 is payable to the department on or before September 30 of each year or in installments, including prepayments of estimated tax, at the times and under the conditions the department may by regulation require. (This tax is payable on the due date set out in this section even though the assessment is under appeal or the validity, enforceability or application of AS 43.21.010--

*no audit
checklist
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43.21.120 or any provision of AS 43.21.010--43.21.120 is challenged before the department or in the courts.

Sec. 43.21.080. TRANSITIONAL RULES [REPEALED EFFECTIVE JANUARY 1, 1982]. The department shall provide by regulation transition rules for corporations subject to tax under AS 43.20.011--43.20.350 before July 9, 1978 to avoid double taxation of the same income or double deduction of the same expense of those corporations as a result of becoming subject to tax under AS 43.21.010--43.21.120.

Sec. 43.21.090. REGULATIONS [REPEALED EFFECTIVE JANUARY 1, 1982]. The department may adopt regulations in accordance with the Administrative Procedure Act (AS 44.62.010--44.62.650) as appropriate to administer and enforce AS 43.21.010--43.21.120.

Sec. 43.21.100. PENALTIES [REPEALED EFFECTIVE JANUARY 1, 1982]. The penalties established in AS 43.20.011--43.20.350 apply to AS 43.21.010--43.21.120.

Sec. 43.21.110. PUBLIC REPORTING [REPEALED EFFECTIVE JANUARY 1, 1982]. (a) The commissioner of revenue shall compile and transmit to the legislature an annual consolidated report of state revenues and taxation policies under AS 43.21.010--43.21.120. This report shall include total aggregate income tax paid by corporations covered under AS 43.21.010--43.21.120 and aggregate income and deductions by category, so classified as to prevent the identification of particular returns or reports.

(b) The legislative auditor shall transmit to the legislature an annual report reviewing the actions of the department in administering AS 43.21.010--43.21.120.

Sec. 43.21.120. DEFINITIONS [REPEALED EFFECTIVE JANUARY 1, 1982]. Unless the context requires otherwise the definitions contained in AS 43.55.140 are applicable to AS 43.21.010--43.21.120. In addition, in AS 43.21.010--43.21.120

(1) "base of operations" means the closest point on land to the offshore oil or gas production operations from which goods, services and supplies flow to those offshore oil or gas production operations;

(2) "consolidated business" means a corporation or group of corporations having more than 50 percent common ownership direct or indirect, or a group of corporations in which

MEMORANDUM

Division of Strategic Planning
Office of Management and Budget
MS 0164

TO: Gordon Harrison
Associate Director

DATE: 28 March 1986

FROM: Tom Chester *TC*
Senior Economist
Gregg Erickson *SEE*
Senior Economist
Richard Fineberg
Policy Analyst

SUBJECT: Revenue From Separate Accounting

You asked us to determine the changes in revenue that would result from a return to the separate accounting method of calculating corporate petroleum income taxes. Using the March 1986 mean forecast case, additional revenue for FY 86-87 would be \$483 million. At the 30 percent level the expected increase is \$359 million. If separate accounting were adopted beginning in FY 87, the gains would be \$319 million at the mean and \$62 million at the 30 percent level for FY 87-88.

We assume that separate accounting would apply to income earned after the July 1 preceding adoption. The Department of Law informally advises that this would be constitutional, but a formal legal opinion should be requested if this option is pursued.

Calculations, attached in Tables 1-4, show that under the FY 1988 30 percent case assumptions, separate accounting produces less revenue for the state when compared to the forecast of revenue under present law. This result is an artifact of the methodology DOR uses to forecast revenue under modified apportionment. Currently, DOR provides only single point estimates for the modified apportionment tax. If the wellhead price falls to \$7.75 per barrel as assumed in the 30 percent case, revenue under modified apportionment will also fall. (Projected FY 87 modified apportionment revenue fell 24 percent between the January and March forecasts, from \$236.4 million to \$180 million.)

In our opinion, separate accounting will produce more revenue than the present system within the range of prices and production levels described in the March forecast for FY 86-88. Note, however, that revenue gains will be reduced significantly if separate accounting is made effective only for years after FY '86, and if oil prices continue to be depressed.

enclosures: Tables 1-4

cc: Ray Gillespie, Chief of Staff, OOG
Jim Ayers, Legislative Assistant, OOG
Jay Hogan, Associate Director
Deborah Vogt, Assistant Attorney General

TABLE 1

REVENUE UNDER CURRENT INCOME TAX AND UNDER SEPARATE ACCOUNTING
(millions, based on March 1986 forecast)

| Fiscal Year | State Tax Under Current Law* | MEAN CASE | | 30 PERCENT CASE | |
|----------------|--|--|---|--|---|
| | | State Tax Under Separate Accounting† | Gain (Loss) Due To Separate Accounting | State Tax Under Separate Accounting† | Gain (Loss) Due To Separate Accounting |
| 1986 | \$200 | \$469 | \$269 | \$469 | \$269 |
| 1987 | \$180 | \$393 | \$213 | \$270 | \$90 |
| 1988 | \$170 | \$276 | \$106 | \$142 | (\$28) |

*Official DOR March 1986 forecast value; DOR provides only single point projections for the corporate income tax.

†Tax applied to income earned after June 30, 1985.

TABLE 2
TRANS-ALASKA PIPELINE SYSTEM
ALASKA OIL AND GAS CORPORATE INCOME TAX PAYMENTS UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|------------------------|---|-------------------------------|-----------------------|----------------------|-------------------------|--|--------------------------------|---------------|--------------------|
| | Pipe- line Thru- put (MM/D) | Estimated Tariff (\$/B) | Total Rev- enue | Prop- erty Tax | Oper- ating Costs | Amort- ization & Depre- ciation | Uncapi- talized Interest | Net Income | In- come Tax |
| FISCAL YEAR | | | | | | | | | |
| 1986 | 1.80 | 4.71 | 3,093 | 156 | 211 | 269 | 410 | 2,047 | 192 |
| 1987 | 1.80 | 4.56 | 2,995 | 145 | 232 | 269 | 382 | 1,967 | 185 |
| 1988 | 1.59 | 4.90 | 2,842 | 136 | 242 | 269 | 352 | 1,843 | 173 |

Notes:

Column 1: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.

Column 2: (column 3)/(column 1)/365.

Column 3: net operating revenue requirement under TAPS settlement (projected by T. Horst, consultant to the Dept. of Law, March 24, 1986, adjusted by OMB to fiscal year basis), plus property tax and operating costs.

Columns 4-7: V. Wright, memorandum to Nordale, Oct. 31, 1985, Table 5 (FY '87-'88 property tax adjusted by OMB for effects of TAPS settlement).

Column 8: column 3-(sum of columns 4-7)

Column 9: (.094)*(column 8).

TABLE 3
PRODUCING FIELDS-MEAN CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

| FISCAL YEAR | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|----------------|----------------------------------|-------------------------------------|--------------------------------|------------------|-------------------------------------|----------------------|-------------------------|-----------------------------------|
| | Well- head Value (\$/B) | Daily Produc- tion (MMB/D) | Revenue at Well- head | State Royalty | Produc- tion & Conser. Tax | Prop- erty Tax | Oper- ating Costs | Depre- ciated Dev. Costs |
| 1986 | 12.93 | 1.80 | 8,495 | 1,140 | 1,115 | 265 | 1,267 | 955 |
| 1987 | 11.65 | 1.80 | 7,654 | 973 | 956 | 316 | 1,367 | 1,173 |
| 1988 | 11.15 | 1.59 | 6,471 | 929 | 747 | 358 | 1,403 | 1,315 |

| FISCAL YEAR | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
|----------------|---------------------------------|--|---------------------|-----------------------------|------------------------------|--------------------------|--|--|
| | Amort. Of Acqui. Costs | Federal Wind- fall Profits Tax | Interest Expense | Explor- ation Expense | Adminis- trative Costs | Other Deduc- tions | Net Alaska Produc- tion Income | Alaska Produc- tion Income Tax |
| 1986 | 1 | 40 | 132 | 221 | 292 | 124 | 2,944 | 277 |
| 1987 | 8 | 0 | 136 | 103 | 307 | 118 | 2,218 | 208 |
| 1988 | 25 | 0 | 139 | 27 | 322 | 114 | 1,092 | 103 |

Notes:

Columns 1-2: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.

Column 3: (365 days)*(column 1)*(column 2).

Column 4: for 1986, forecast value in Nordale memorandum adjusted for perm. fund contributions (value/.75); for 1987-8, DOR, C. Logsdon, March 13, 1986.

Column 5: for 1986, forecast value in Nordale memorandum; for 1987-8, Logsdon to Chester, March 13, 1986.

Column 6-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.

Column 10: OMB estimates.

Column 11: Wright, op. cit.

Column 12: OMB projections, reduced from figures in Wright by 10 %, 60 %, and 90 % in 1986-8 respectively.

Columns 13-14: Wright, op. cit.

Column 15: (column 3)-(sum of columns 4-14).

Column 16: (.094)*(column 15).

TABLE 4

PRODUCING FIELDS-30 PERCENT CASE*
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

| <u>FISCAL YEAR</u> | (1) Well-head Value (\$/B) | (2) Daily Production (MMB/D) | (3) Revenue at Well-head | (4) State Royalty | (5) Production & Conser. Tax | (6) Prop-erty Tax | (7) Oper-ating Costs | (8) Depre-iated Dev. Costs |
|--------------------|-------------------------------|---------------------------------|-----------------------------|----------------------|---------------------------------|----------------------|-------------------------|-------------------------------|
| 1986 | 12.93 | 1.80 | 8,495 | 1,140 | 1,115 | 265 | 1,267 | 955 |
| 1987 | 9.02 | 1.80 | 5,926 | 799 | 771 | 316 | 1,367 | 1,173 |
| 1988 | 7.75 | 1.59 | 4,498 | 620 | 534 | 358 | 1,403 | 1,315 |

| <u>FISCAL YEAR</u> | (9) Amort. Of Acqui. Costs | (10) Federal Wind-fall Profits Tax | (11) Interest Expense | (12) Explor-ation Expense | (13) Adminis-trative Costs | (14) Other Deduc-tions | (15) Net Alaska Production Income | (16) Alaska Produc-tion Income Tax |
|--------------------|-------------------------------|---------------------------------------|--------------------------|------------------------------|-------------------------------|---------------------------|--------------------------------------|---------------------------------------|
| 1986 | 1 | 40 | 132 | 221 | 292 | 124 | 2,944 | 277 |
| 1987 | 8 | 0 | 136 | 26 | 307 | 118 | 906 | 85 |
| 1988 | 25 | 0 | 139 | 0 | 322 | 114 | (332) | (31) |

*Mean case for fiscal 1986.

Notes:

Columns 1-2: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.

Column 3: (365 days)*(column 1)*(column 2).

Column 4: for 1986, forecast value in Nordale memorandum adjusted for perm. fund contributions (value/.75); for 1987-8, DOR, C. Logsdon, March 13, 1986.

Column 5: for 1986, forecast value in Nordale memorandum; for 1987-8, Logsdon to Chester, March 13, 1986.

Column 6-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.

Column 10: OMB estimates.

Column 11: Wright, op. cit.

Column 12: OMB projections, reduced from figures in Wright by 10 %, 90 %, and 100 % in 1986-8 respectively

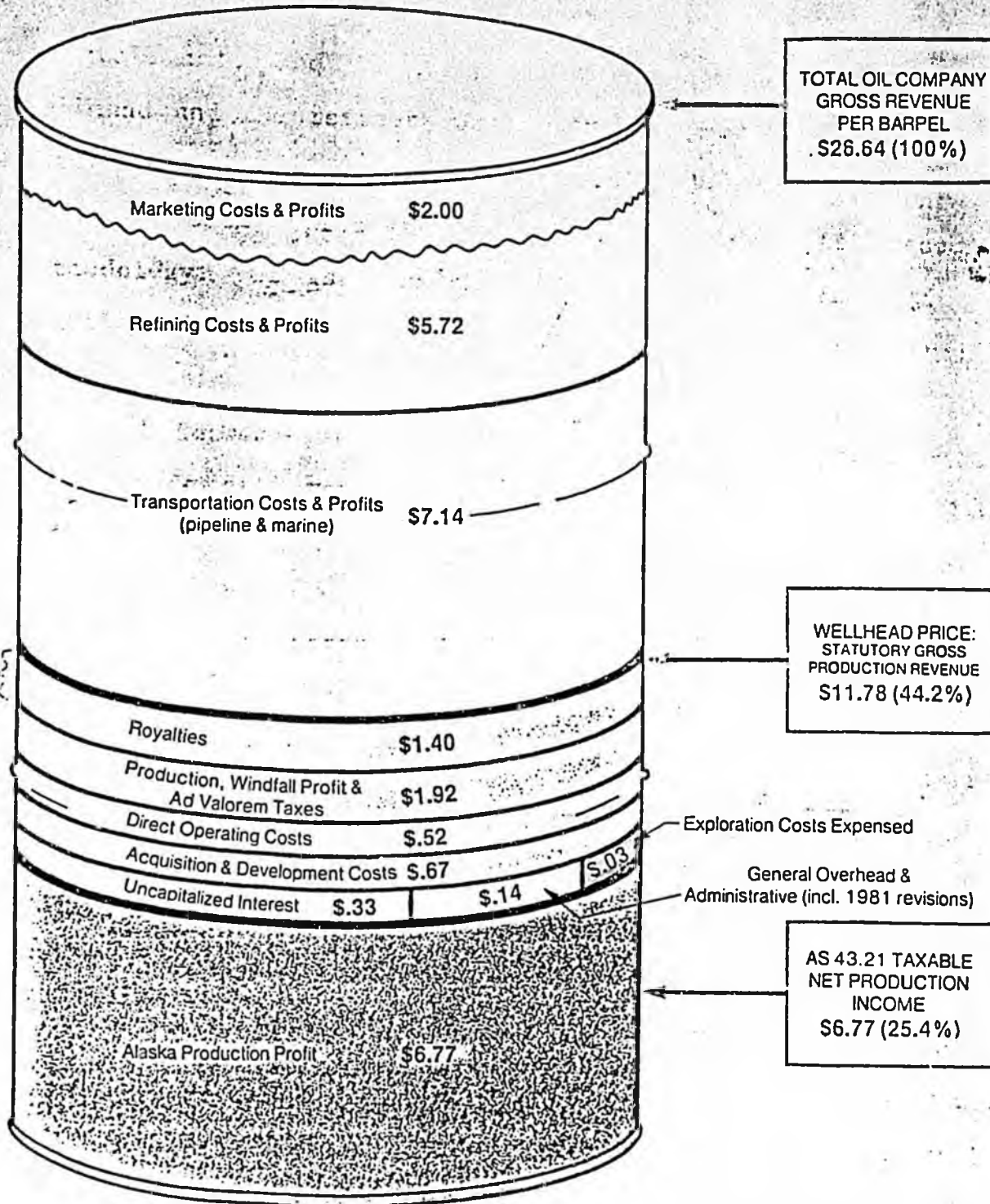
Columns 13-14: Wright, op. cit.

Column 15: (column 3)-(sum of columns 4-14).

Column 16: (.094)*(column 15).

ESTIMATED REVENUES AND COSTS
PER BARREL OF ALASKAN CRUDE OIL
1978 - 1980

| | GATE | PF |
|----|--------|-------|
| 78 | 441.5 | 50.5 |
| 79 | 821.6 | 83.9 |
| 80 | 2256.5 | 230.3 |
| 81 | 3304.3 | 395.1 |
| 84 | 2861.6 | 366.2 |



SOURCE: Deakin 2d Supplemental Affidavit 15, R. 16917, 16929.

CHART 1

DRAFT

MEAN CASE:

ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING (millions of dollars except as noted)

| <u>FISCAL YEAR</u> | (1) Well- head Value (\$/B) | (2) Daily Produc- tion (MMB/D) | (3) TAPS Tariff (\$/B) | (4) Revenue at Well- head | (5) Gross Pipeline Revenue | (6) Total Gross Revenue | (7) State Royalty | (8) Produc- tion & Conser. Tax | (9) Prop- erty Tax |
|------------------------|---|--|---------------------------------|---------------------------------------|-------------------------------------|----------------------------------|-------------------------|--|-----------------------------|
| 1986 | 12.93 | 1.80 | 5.18 | 8,495 | 3,403 | 11,898 | 1,140 | 1,115 | 420 |
| 1987 | 11.65 | 1.80 | 4.66 | 7,654 | 3,062 | 10,716 | 973 | 936 | 419 |
| 1988 | 11.15 | 1.59 | 5.32 | 6,471 | 3,087 | 9,558 | 929 | 747 | 451 |

| <u>FISCAL YEAR</u> | (10) Total Oper- ating Costs | (11) Total Depre- ciation | (12) Federal Wind- fall Profits Tax | (13) Uncap- italized Interest Expense | (14) Explor- ation Expense | (15) Adminis- tration Costs | (16) Other Deduc- tions | (17) Net Income Earned In Alaska | (18) Alaska Income Tax |
|------------------------|--|------------------------------------|--|---|-------------------------------------|--------------------------------------|----------------------------------|---|---------------------------------|
| 1986 | 1,477 | 1,224 | 40 | 542 | 221 | 292 | 124 | 5,303 | 499 |
| 1987 | 1,600 | 1,441 | 0 | 518 | 103 | 307 | 118 | 4,301 | 404 |
| 1988 | 1,645 | 1,583 | 0 | 490 | 27 | 322 | 114 | 3,250 | 306 |

Notes:

- Columns 1-3: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.
- Column 4: (365 days)*(column 1)*(column 2).
- Column 5: (365 days)*(column 2)*(column 3).
- Column 6: (column 4)+(column 5).
- Column 7: for 1986, forecast value in Nordale memorandum adjusted for perm. fund contributions (value/.75); for 1987-8, DOR, personal communication, C. Logsdon to T. Chester, March 13, 1986.
- Column 8: for 1986, forecast value in Nordale memorandum; for 1987-8, Logsdon to Chester, March 13, 1986.
- Column 9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985, except 1987 and 1988 reduced by 10 % and 20 % respectively to account for TAPS tariff settlement effects.
- Columns 10-11: Wright, *ibid.*
- Column 12: OMB estimates.
- Column 13, 15, and 16: Wright, *ibid.*
- Column 14: Wright, *ibid.*, reduced by 10 %, 60 %, and 90 % in 1986-8 respectively.
- Column 17: (column 6)-(sum of columns 7-16).
- Column 18: (.094)*(column 17).

DRAFT

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**30 PERCENT CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)**

| <u>FISCAL YEAR</u> | (1) Well-head Value (\$/B) | (2) Daily Production (MMB/D) | (3) TAPS Tariff (\$/B) | (4) Revenue at Well-head | (5) Pipeline Revenue | (6) Total Gross Revenue | (7) State Royalty | (8) Production & Conser. Tax | (9) Property Tax |
|--------------------|-------------------------------|---------------------------------|---------------------------|-----------------------------|-------------------------|----------------------------|----------------------|---------------------------------|---------------------|
| 1986 | 12.93 | 1.80 | 5.18 | 8,495 | 3,403 | 11,898 | 1,140 | 1,115 | 420 |
| 1987 | 9.02 | 1.80 | 4.66 | 5,926 | 3,062 | 8,988 | 799 | 771 | 419 |
| 1988 | 7.75 | 1.59 | 5.32 | 4,498 | 3,087 | 7,585 | 620 | 534 | 451 |

| <u>FISCAL YEAR</u> | (10) Total Operating Costs | (11) Total Depreciation | (12) Federal Wind-fall Profits Tax | (13) Uncap-italized Interest Expense | (14) Exploration Expense | (15) Adminis-tration Costs | (16) Other Deduc-tions | (17) Net Income Earned In Alaska | (18) Alaska Income Tax |
|--------------------|-------------------------------|----------------------------|---------------------------------------|---|-----------------------------|-------------------------------|---------------------------|-------------------------------------|---------------------------|
| 1986 | 1,477 | 1,224 | 40 | 542 | 221 | 292 | 124 | 5,303 | 499 |
| 1987 | 1,600 | 1,441 | 0 | 518 | 26 | 307 | 118 | 2,989 | 281 |
| 1988 | 1,645 | 1,583 | 0 | 490 | 0 | 322 | 114 | 1,826 | 172 |

Notes:

- Columns 1-3: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.
- Column 4: (365 days)*(column 1)*(column 2).
- Column 5: (365 days)*(column 2)*(column 3).
- Column 6: (column 4)+(column 5).
- Column 7: for 1986, forecast value in Nordale memorandum adjusted for perm. fund contributions (value/.75); for 1987-8, DOR, personal communication, C. Logsdon to T. Chester, March 13, 1986.
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- Columns 10-11: Wright, *ibid.*
- Column 12: OMB estimates.
- Column 13, 15, and 16: Wright, *ibid.*
- Column 14: Wright, *ibid.*, reduced by 10 %, 90 %, and 100 % in 1986-8 respectively.
- Column 17: (column 6)-(sum of columns 7-16).
- Column 18: (.094)*(column 17).

DRAFT

DRAFT

CHANGE IN REVENUE FROM ADOPTION OF SEPARATE ACCOUNTING (millions, based on March 1986 forecast)

| Fiscal Year | Current Law* | MEAN CASE | | 30 PERCENT CASE | |
|----------------|-----------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
| | | Separate Accounting† | Gain Due To Separate Accounting | Separate Accounting† | Gain Due To Separate Accounting |
| 1986 | \$200 | \$499 | \$299 | \$499 | \$299 |
| 1987 | \$180 | \$404 | \$224 | \$281 | \$101 |
| 1988 | \$170 | \$306 | \$136 | \$172 | \$2 |

| | | MEAN CASE | 30 PERCENT CASE |
|------------|---------------------|--------------|-----------------------|
| FY '86-'87 | ADDITIONAL REVENUE: | \$523 | \$400 |
| FY '86-'88 | ADDITIONAL REVENUE: | \$659 | \$402 |

*Official DOR March 1986 forecast value; DCR provides only single point projections for the corporate income tax.

†Tax applied to income earned after June 30, 1985.

DRAFT

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No.: HB 545
 Title: An Act relating to the oil production tax
 Sponsor: House Finance Committee
 Requestor: House Finance Committee
 Date of Request: 2-3-86

FISCAL DETAIL

Agency Affected: _____
 BRU: _____
 Components: _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

| OPERATING | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | | | | | |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|---------|--|-----|---------|---------|---------|---------|
| REVENUE | | 450 | 155,720 | 143,140 | 155,310 | 138,410 |
|---------|--|-----|---------|---------|---------|---------|

FUNDING : (Thousands of Dollars)

| | | | | | | |
|---------------|--|--|--|--|--|--|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | | | | | | |

POSITIONS :

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS : Attach a separate page if necessary

See attached.

Prepared by: Charles L. Lopez
 Division: Research

Phone: 276-5361
 Date: 2-6-86

Approved by Commissioner: Henry A. Stankala
 Agency: Revenue

Date: 2/12/86

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

This bill would change the oil production tax by altering the formula for calculating the Economic Limit Factor (ELF) and making the calculated value of ELF apply to the tax rate in all instances. The change in the formula results in a value for ELF which is higher or lower than currently calculated depending on whether an oil field produced more or less than 80,436 bbls-day. Applying the calculated value of ELF in all instances results in a lower effective tax rate for fields producing less than 80,436 bbl-day, and for fields which have an ELF equal or greater than .7 and which will have been in production less than ten years upon the effective date of the bill. The effective tax rate will increase for those fields which produce more than 80,436 bbl/day, and which have been in production more than ten years.

Under current law, the ELF is set to 1.0 when a field has been in production less than 10 years and has a calculated ELF greater than or equal to .7, otherwise the calculated ELF applies.

Prudhoe Bay, because of its immense size and productivity is in this category of oil fields. Prudhoe Bay began production in 1977 so under current law the production tax rate is scheduled to fall in FY 1988 since an ELF less than 1.0 will be applied to the nominal tax rate. This bill would apply an ELF much greater than that calculated under the current formula. So as a result the tax rate on Prudhoe Bay will decrease only a small amount in FY 1988 and beyond, so that tax revenues for Prudhoe Bay will increase over the current projections.

The revenue impacts estimated in this fiscal note are for the 30% case. The effect of this bill was analyzed using the Petroleum revenue model. The product effect is based on the change in the average expected production from the North Slope oil fields using the economic feasibility subroutine of that model. The actual realized production impact could be much larger or smaller if assumptions other than tax rates were changed, i.e. price, however, several issues are suggested by these results. The first is that the effect of the tax on feasibility given the Petroleum Revenue December oil price assumption does not appear large since Prudhoe Bay produces 45 million bbl every month. Second, the major impacts on production would occur in Prudhoe Bay, Kuparuk and West Sak Sands. This occurs because of the impact on enhanced recovery for Prudhoe and Kuparuk and because of the marginal economic and production characteristics of West Sak (significant production but a very large number of wells).

Production Effect

FY 1987 - FY 2000

| Field | Average Expected Production Effect |
|----------------|---------------------------------------|
| Prudhoe Bay * | -22.37 million bbls. |
| Kuparuk * | -15.72 million bbls. |
| Niline Pt. | 3.3 million bbls. |
| Endicott | -1.45 million bbls. |
| Lisburne | -.67 million bbls. |
| West Sak | -15.97 million bbls. |
| Other Onshore | 6.85 million bbls. |
| Other Offshore | .47 million bbls. |
| TOTAL | -45.56 million bbls. |

*Enhanced Recovery Effect

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 545
 Title : An Act relating to the oil production tax
 Sponsor : House Finance Committee
 Requestor : House Finance Committee
 Date of Request : 2-3-86

FISCAL DETAIL

Agency Affected : _____
 BRU : _____
 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

| OPERATING | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 |
|------------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | | | | | |

| | | | | | | |
|----------------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|----------------|--|--|--|--|--|--|

| | | | | | | |
|----------------|--|-----|---------|---------|---------|---------|
| REVENUE | | 450 | 155,720 | 143,140 | 155,310 | 138,410 |
|----------------|--|-----|---------|---------|---------|---------|

FUNDING : (Thousands of Dollars)

| | | | | | | |
|---------------|--|--|--|--|--|--|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | | | | | | |

POSITIONS :

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS : Attach a separate page if necessary

See attached.

Prepared by : *Wanda L. Lopez*
 Division : Research

Phone : 276-536-1
 Date : 2-6-86

Approved by Commissioner : *Shirley G. Stedahl*
 Agency : Revenue

Date : 2/12/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Analysis

This bill would change the oil production tax by altering the formula for calculating the economic limit factor (ELF) and making the calculated value of ELF apply to the tax rate in all instances. The change in formula results in a value for ELF which is higher or lower than currently calculated depending upon whether an oil field produces more or less than 80,436 Bbls/Day. The net result is to raise production taxes on the fields producing more than this amount, and lower production taxes on those producing less.

The Revenue impacts estimated in this fiscal note are for the 30 percent case. The effect of this bill was analyzed using the Petrev model. Further, the calculation of the reduction in production is based upon the economic feasibility subroutine of that model.

Production Effect

FY 1987 - FY 2000

| Field | Average Expected Production Effect |
|----------------|---------------------------------------|
| Prudhoe Bay | * -22.37 million bbls. → |
| Kuparuk | * -15.72 million bbls. |
| Milne Pt. | 3.3 million bbls. |
| Endicott | -1.45 million bbls. |
| Lisburne | -.67 million bbls. |
| West Sak | -15.97 million bbls. |
| Other Onshore | 6.85 million bbls. |
| Other Offshore | .47 million bbls. |
| TOTAL | -45.56 million bbls. |

Handwritten notes: 151225, 121, 60

*Enhanced Recovery Effect

EXXON COMPANY, U.S.A.

P.O. BOX 6601 • ANCHORAGE, ALASKA 99502-0601 (907) 561-5331

ALASKA OPERATIONS
WESTERN DIVISION

LARRY M. SMEDLEY
AREA MANAGER

February 20, 1986

Commissioner Mary A. Nordale
Alaska Department of Revenue
Pouch S
Juneau, Alaska 99811

Dear Commissioner Nordale:

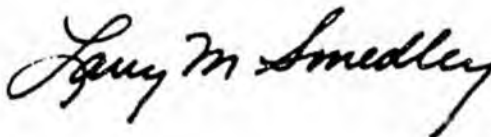
This is in reference to the Alaska Department of Revenue's fiscal note on H.B. 545 which was released at last Friday's House Finance Committee hearing. As I indicated during the hearing, the finding in the fiscal note that H.B. 545 would result in a production loss of only 22 million barrels at Prudhoe Bay significantly understates the potential impact of the bill.

As we pointed out during the hearing, H.B. 545 will significantly increase severance taxes on production from major fields in Alaska by a modification in the economic limit factor. This change in the ELF would have a negative impact on marginal project development in these fields. At Prudhoe Bay alone, over 10 billion barrels will be left unrecovered under the current production plan. Although no one knows how much of this remaining oil can be recovered through sophisticated recovery techniques which are continually being developed and refined, a very significant volume is at risk. Future additional recovery projects will be very costly and marginal economically. Additional costs such as the proposed tax increase will place such marginal projects in jeopardy.

While the fiscal note recognized a negative production impact of H.B. 545 on the planned enhanced oil recovery project at Prudhoe Bay, the barrel calculation is not correct. Moreover, the fiscal note did not consider other additional recovery projects at Prudhoe Bay which would be affected. For example, drilling wells on closer spacing and in thinner oil columns and other projects involving new technologies would also be adversely impacted by H.B. 545. Because of these deficiencies, the Department of Revenue's estimates should be considered only a qualitative indication of the adverse impact of H.B. 545 on future oil recovery. Mr. Logsdon suggested this via teleconference during the hearing.

In order to avoid further confusion regarding this matter, I urge you to write a supplementary note to the House Finance Committee pointing out the limitations of the fiscal note on H.B. 545. I would be happy to discuss this with you in greater detail at your convenience.

Sincerely,



LMS/THG3/342:vh
cc: House Finance Committee

BILL SHEFFIELD, GOVERNOR

OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET
DIVISION OF STRATEGIC PLANNING

POUCH AD
JUNEAU, ALASKA 99811
PHONE: (907) 465 3568

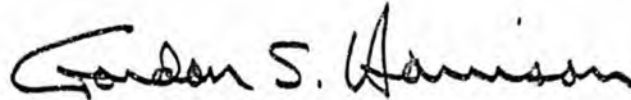
February 3, 1986

The Honorable Sam Cotten
Representative
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Cotten:

Please find enclosed our analysis of your proposed changes to the Economic Limit Factor.

Sincerely,



Gordon S. Harrison
Associate Director

GSH/TC/dmc

Enclosure

cc: Jim Ayers, Director
Legislative Relations
Office of the Governor

MEMORANDUM

State of Alaska

TO: The Honorable Bill Sheffield
Governor

DATE: February 13, 1986

FILE NO: 86F-482

TELEPHONE NO: 465-3568

FROM: Tom Chester, ^{PC} Principal Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Oil Shares

Attached is an updated and revised oil shares analysis. It contains no substantive changes from the one you received dated January 9, 1986.

TC/dmc

Attachment

cc: Representative Sam Cotten
Alaska State Legislature

Ray Gillespie, Chief of Staff
Jim Ayers, Director, Legislative Relations
Office of the Governor

Vince Wright, Chief, Research Section
Department of Revenue

**STATE, FEDERAL AND INDUSTRY SHARES OF ALASKA OIL RESOURCE
INCOME: ACTUAL FOR FISCAL '82-'84, ESTIMATED FOR FISCAL '85**
(millions of dollars except as noted)

| Fiscal year | [1] Total Revenue | [2] State Royalty | [3] Sever. Conser. tax | [4] Total Prop. tax | [5] Total Oper. Costs | [6] Total Deprec. | [7] Total Acquis. Costs | [8] Windfall Profits Tax |
|-------------|----------------------|----------------------|---------------------------|------------------------|--------------------------|----------------------|----------------------------|-----------------------------|
| 1982 | \$16,456 | \$1,553 | \$1,581 | \$276 | \$940 | \$602 | \$1 | \$2,018 |
| 1983 | \$15,470 | \$1,448 | \$1,494 | \$307 | \$1,101 | \$780 | \$1 | \$1,018 |
| 1984 | \$14,955 | \$1,409 | \$1,393 | \$358 | \$1,259 | \$998 | \$1 | \$412 |
| 1985 | \$15,136 | \$1,390 | \$1,389 | \$.97 | \$1,449 | \$1,093 | \$1 | \$70 |

| Fiscal Year | [9] Uncap. Interest Expense | [10] Explore. Costs | [11] Admin. Costs | [12] Other Deducs. | [13] Total Deducs. | [14] State Taxable Net Income | [15] Corp. Petrol Income Tax | [16] Federal Taxable Income |
|-------------|--------------------------------|------------------------|----------------------|-----------------------|-----------------------|----------------------------------|---------------------------------|--------------------------------|
| 1982 | \$721 | \$191 | \$236 | \$149 | \$7,916 | \$8,539 | \$669 | \$7,870 |
| 1983 | \$676 | \$204 | \$252 | \$142 | \$7,023 | \$8,446 | \$236 | \$8,210 |
| 1984 | \$614 | \$219 | \$265 | \$136 | \$6,666 | \$8,289 | \$265 | \$8,024 |
| 1985 | \$566 | \$234 | \$278 | \$130 | \$6,594 | \$8,542 | \$169 | \$8,373 |

| Fiscal Year | [17] Federal Corp. Income Tax | [18] Oil Industry Alaska Profits | [19] Total Federal Tax | [20] Total State Tax & Royalty | ----Share of Oil Income---- | | |
|-------------|----------------------------------|-------------------------------------|---------------------------|-----------------------------------|-----------------------------|-----------------|------------------|
| | | | | | [21] State | [22] Federal | [23] Industry |
| 1982 | \$2,142 | \$5,728 | \$4,160 | \$4,079 | 29% | 30% | 41% |
| 1983 | \$2,131 | \$6,079 | \$3,149 | \$3,485 | 27% | 25% | 48% |
| 1984 | \$2,368 | \$5,656 | \$2,780 | \$3,425 | 29% | 23% | 48% |
| 1985 | \$2,433 | \$5,940 | \$2,503 | \$3,345 | 28% | 21% | 50% |

SOURCES AND FORMULAS --

Column [1]: Vincent Wright, chief of research, to Mary Nordale, Commissioner of Revenue, Memorandum of October 31, 1985, Table 3.

Columns [2] & [3]: January 1986 DOR Revenue Sources, p. 39.

Columns [4] to [14]: Vincent Wright, loc. cit.

Column [15]: Revenue Sources, p. 39.

Column [16]: column [14] - column [15].

Column [17]: column [16] * (production-weighted average tax rate -- 1982 = .279; 1983 = .274; 1984 = .294; 1985 = .294). Company effective rates for '82-84 from R. McIntire and R. Folen, "Corporate Income Taxes in the Reagan Years," Oct. 1984, pp. 32-36; '85 estimated by OMB.

Column [18]: column [16] - column [17].

Column [19]: column [8] + column [17].

Column [20]: sum of columns [2], [3], [4], and [15].

Column [21]: (column [18])/(sum of columns [18], [19], and [20]).

Column [22]: (column [19])/(sum of columns [18], [19], and [20]).

Column [23]: (column [20])/(sum of columns [18], [19], and [20]).

Office of Management and Budget
Division of Strategic Planning
revised February 13, 1986

MEMORANDUM

Division of Strategic Planning

TO: Representative Sam Cotten
 FROM: Thomas P. Chester
 RE: Computation of the Economic Limit Factor

DATE: January 15, 1986

In response to your request the following provides the information needed to compute the Economic Limit Factor (current and as you propose), a numerical example, and a chart which displays the effect of field size on the value of the proposed Economic Limit Factor (ELF).

The current and proposed Economic Limit Factor formulas are:

$$\text{Current ELF} = (1 - \text{PEL}/\text{TP})((460 * \text{WD})/\text{PEL})$$

$$\text{Proposed ELF} = (1 - \text{PEL}/\text{TP})((37,000,000 * \text{WD})/(\text{PEL} * \text{TP}/\text{Days}))$$

The following definitions are used in computing ELF values:

PEL (Production at the Economic Limit) =
 (300 barrels per day)*

(average number of operating wells during the month)*

(number of days of production for the month). For example:

$$300 \text{ barrels} * 541 \text{ wells} * 30 \text{ days} = 4,869,000 \text{ barrels per month at the Economic Limit}$$

TP (Total Production for the field) =

(average number of operating wells during the month)*

(number of days of production for the month)*

(average daily production per well). For example:

$$541 \text{ wells} * 30 \text{ days} * 2477 \text{ barrels per well} = 40,201,710 \text{ barrels of production per month}$$

WD (Well Days) =

(average number of operating wells during the month)*

(number of days of production for the month). For example:

$$541 \text{ wells} * 30 \text{ days} = 16,230 \text{ well days}$$

TP/Days =

(average number of operating wells during the month)*

(average daily production per well). For example:

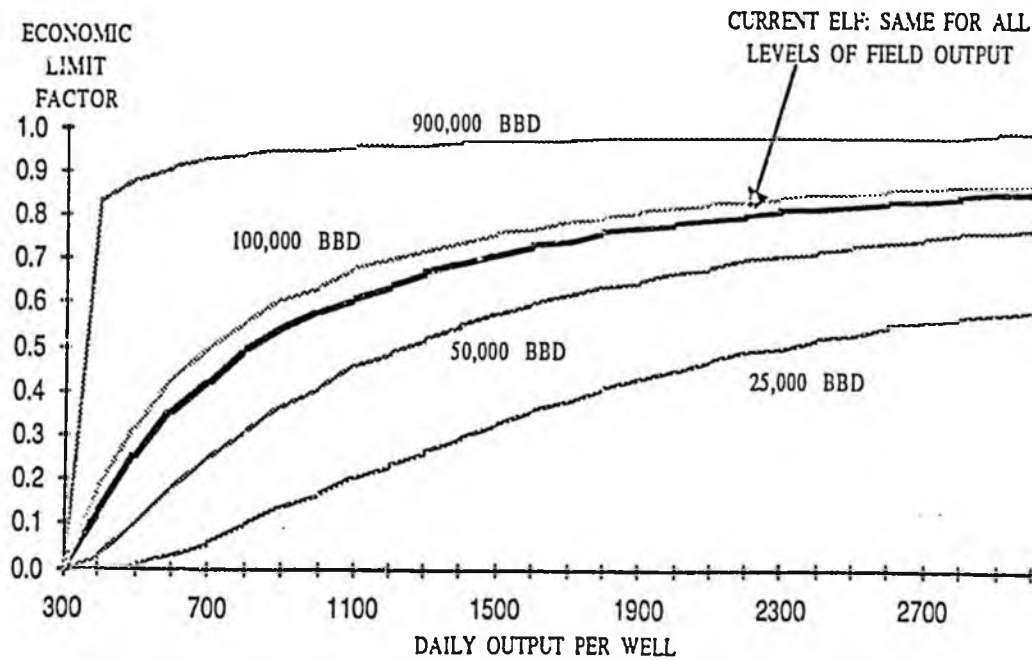
$$541 \text{ wells} * 2477 \text{ barrels per well} = 1,340,057 \text{ barrels of production per day}$$

Table 1.
 Hypothetical ELF
 Under Current and Proposed Law Using
 Values Given In Examples Above

| |
|---|
| Current ELF $(1 - 4,869,000/40,201,710)(460*16,230/4,869,000) = .82$ |
| Proposed ELF $(1 - 4,869,000/40,201,710)(37,000,000*16,230/(4,869,000*1,340,057)) = .99$ |

chart 1

THE ECONOMIC LIMIT FACTOR (ELF):
 CURRENT AND PROPOSED FOR VARIOUS LEVELS OF
 WELL OUTPUT AND FIELD PRODUCTION



NOTE: BBD FIGURES REPRESENT DAILY FIELD PRODUCTION IN BARRELS PER DAY

When the formulas are written out incorporating the definitions given above they become unwieldy. For the curious they are:

$$\begin{aligned} \text{Current ELF (Economic Limit Factor)}^1 &= (1 - \text{PEL}/\text{TP})((460 * \text{WD})/\text{PEL}) \\ &= (1 - \{(300 \text{ barrels per day}) * (\text{average number of operating wells during the month}) * (\text{number of days of production for the month})\} / \\ &\quad \{(\text{average number of operating wells during the month}) * (\text{number of days of production for the month}) * (\text{average daily production per well})\}) (460 * (\text{average number of operating wells during the month}) * (\text{number of days of production for the month}) / \{(300 \text{ barrels per day}) * (\text{average number of operating wells during the month}) * (\text{number of days of production for the month})\}) \end{aligned}$$

$$\begin{aligned} \text{Proposed ELF}^2 &= (1 - \text{PEL}/\text{TP})((37,000,000 * \text{WD})/(\text{PEL} * \text{TP}/\text{Days})) \\ &= (1 - \{(300 \text{ barrels per day}) * (\text{average number of operating wells during the month}) * (\text{number of days of production for the month})\} / \\ &\quad \{(\text{average number of operating wells during the month}) * (\text{number of days of production for the month}) * (\text{average daily production per well})\}) (37,000,000 * (\text{average number of operating wells during the month}) * (\text{number of days of production for the month})) / ((300 \text{ barrels per day}) * (\text{average number of operating wells during the month}) * (\text{number of days of production for the month}) * (\text{average daily production per well})) \end{aligned}$$

¹The formula for the existing ELF can be simplified through cancellation of like terms in the numerator and denominators of the various formula terms. Consider: $\text{PEL}/\text{TP} = (300 * \text{days} * \text{wells})/(\text{days} * \text{wells} * \text{well_prod}) = 300/\text{well_prod}$ and $(460 * \text{wells} * \text{days})/(300 * \text{wells} * \text{days}) = 460/300 = 1.533$. Making these substitutions into the ELF formula gives:

$$\text{ELF} = (1 - 300/\text{well_prod})1.533$$

²The formula for the proposed ELF can be simplified through cancellation of like terms in the numerator and denominators of the various terms. consider: $\text{PEL}/\text{TP} = (300 * \text{days} * \text{wells})/(\text{days} * \text{wells} * \text{well_prod}) = 300/\text{well_prod}$ and $(37,000,000 * \text{wells} * \text{days})/(300 * \text{wells} * \text{wells} * \text{well_prod}) = 37,000,000/(300 * \text{wells} * \text{well_prod}) = 37,000,000/(300 * \text{total field production})$.

Making these substitutions into the proposed ELF formula gives:

$$\text{ELF} = (1 - 300/\text{well_prod})^{123,333/\text{TP}/\text{Days}}$$

III.

THE SEVERANCE TAX AND THE
ECONOMIC LIMIT FACTOR

I. Introduction

It is generally known that oil producers in Alaska are assessed severance tax rates of 12.25 or 15 percent. However, it may not be so well known that the actual tax rates they pay are much lower than this because of the economic limit factor or ELF. (A severance tax or production tax is a flat tax based solely on the amount produced; in contrast, an income tax is based on profits.)

The ELF is a statutory reduction to the severance tax. It was adopted in 1977¹ to promote production on oil and gas fields with low output and presumably little profit. As the cost of producing the oil gets closer to its value -- the economic limit -- the ELF reduces the tax that is owed. When a field reaches the economic limit the ELF reduces the severance tax to 0. The ELF is applied to both oil and gas, but this discussion deals only with oil.

In practical terms, the ELF dramatically reduces the state's base severance tax rates of 12.25% or 15% on all fields. Prudhoe Bay is a temporary exception to this

¹In anticipation of North Slope production, the Department of Revenue recommended the ELF in its exhaustive 1977 study: "Alaska's Oil and Gas Tax Structure: A Study with Recommendations for Improvement." Previously a "stair-step" approach to severance taxes was used, keyed to Cook Inlet production, with graduated rates to 8 percent. The ELF improved upon the stair steps, retaining the idea that the tax should be reduced as production declined. The ELF also was able to adjust tax rates for both high-volume North Slope fields and the lower-volume Cook Inlet fields.

because of a provision that suspends the ELF for 10 years on high volume fields. However, in FY 88 the 10-year limit expires and Prudhoe will also enjoy tax concessions of the ELF -- and the state will lose \$156 million, according to OMB calculations (see Attachment A). Another example is Kuparuk. In FY 86 the ELF reduced Kuparuk's effective severance tax rate to 6%, and the state lost \$58 million.

An unforeseen consequence of the ELF is that it will greatly reduce the severance tax rates on most of the fields that have yet to begin producing. For example, in FY 90 the effective severance tax rate for Lisburne will be 3% and for Endicott it will be 4%. These cases show that the ELF is actually providing these marginal fields with a substantial incentive -- reducing costs at field start-up.

The ELF's original goal was to extend the life of fields, and thus extend revenues to the state. However, one study shows that the ELF only prolongs a field's life for one or two years, thus its direct benefit to the state is limited. Nonetheless, the ELF does appear to provide an incentive to developers of marginal fields because it reduces the severance tax rate. If the ELF were eliminated, for example, it is likely that some of the marginal fields would not be feasible to develop.²

²In a study entitled "Alaska North Slope Oil Production and Revenue Projections" published Feb. 1985 by the Institute of Social and Economic Research, author and UAA economist Matthew Berman concluded that the Endicott and Milne Point fields might not be feasible to develop without the ELF.

It's also apparent that fields with substantial output and correspondingly high profit rates, such as Prudhoe and Kuparuk, do not require the production incentive that the ELF provides.

II. How the ELF Works

The ELF is a formula that is multiplied by the nominal rate of 12.25% or 15% to obtain the effective rate actually applied to a field. The ELF will never be more than 1. If the ELF is 1, then 100% of the severance tax is owed. An ELF of .8 means 80% of the tax is owed; 80% of 15% equals an effective tax rate of 12%.

Since 1981 the severance tax rate has been 15%, with an exception for new fields; fields that start producing after June 30, 1981 pay a reduced rate of 12.25% for the first five years. The law also requires that the ELF be calculated at 1 during the first 10 years of a field's production any time the ELF goes above .7. (Currently this provision only affects Prudhoe.) For fields with an ELF at or below .7, the actual ELF used. After 10 years the actual ELF is used in all cases.

For example, the ELF for Prudhoe Bay in FY 85 was .864. Since this is more than .7 and within the first 10 years of production, the 1 figure is used. Thus the full 15% severance tax was owed.

In FY 88, however, the 10-year limit will no longer be in effect for Prudhoe (production began in FY 78) and the actual ELF of .82 will be used. This means the amount of severance tax owed will be 82% of 15%, or an effective rate

of 12.5%. The amount to be paid to the state will be \$714 million, \$156 million less than if the full 15% severance tax were paid.

III. Modifying the ELF

It is apparent that the ELF accomplishes its goals but not without some drawbacks. One drawback is providing and unnecessary tax reduction for Prudhoe and Kuparuk. Another issue is whether it goes far enough in reducing the severance tax rate on marginal fields. (A problem with a severance tax as opposed to an income tax is that it is not sensitive to profits or costs, thus a fair tax rate for a large field may be a burden for a small field.)

An additional problem with the current ELF formula is that it is based on daily output per well; total field production is not taken into account. This penalizes a marginal field like Milne Point (30,000 bbls/day) which has high output per well but few wells (about 22). Under the current ELF formula Milne is subject to a severance tax rate almost as high as the tax applied to Kuparuk (240,000 bbls/day), which is clearly not a marginal field. For example, in FY 88, Milne Point will be paying a 7.35% severance tax compared to Kuparuk's rate of 7.6%.

Instead of basing the ELF on individual wells, total field production could be included in the ELF formula to compensate for this inequity, keeping the severance tax low on the smaller fields that would benefit most from a tax break.

The ELF could be modified to accomplish these goals:

-- Dramatically reduce the effective severance tax rates for all marginal fields, including Cook Inlet.

-- Prevent a premature reduction to the severance tax rates for Prudhoe and Kuparuk. These highly profitable fields are years away from being marginal. When they do start approaching the economic limit, the ELF formula will provide them with a tax break.

-- More equitably set the tax rate for each field.

This formula modification would bring Prudhoe's ELF to .99 (now it is at .83); raise Kuparuk's to .8 and drop Milne Point's to .3. These ELFs translate into effective severance tax rates of about 14.85%, 12% and 4.5%.

Here are the current ELFs compared with ELFs under the revised formula.

| | Current ELF | Modified ELF | % change |
|-------------|----------------|-----------------|-------------|
| Prudhoe Bay | .80 | .99 | +23 |
| Kuparuk | .50 | .86 | +72 |
| Milne Point | .60 | .31 | -48 |
| Endicott | .31 | .0 | -100 |
| Lisburne | .11 | .05 | -54 |
| West Sak | .0 | .0 | no change |
| Cook Inlet | .03 | .0 | -100 |

The formula change would result in the following positive state severance tax collections*:

| FY | millions | |
|----|----------|---|
| 87 | \$ 32 | * These numbers, based on June 1985 revenue projections, assume the actual ELF is used in all cases and assume a 15% severance tax rate across the board. (If the 12.25% for the first 5 years were retained, there would be little change in these amounts.) |
| 88 | 179 | |
| 89 | 192 | |
| 90 | 184 | |
| 91 | 175 | |
| 92 | 173 | |
| 93 | 170 | |
| 94 | 158 | |

IV. What Legislation Would Require

1) Simplify the law so the actual ELF is always applied. Current law requires that an ELF of 1 be used if the actual ELF goes above .7 any time during the first 10 years of a field's production. (AS 43.55.013)

2) Change the ELF formula. (AS 43.55.013) This modification only alters the exponent part of the formula. It uses a different number as a constant and takes into account average daily production from the whole field.

Current ELF formula:

$$ELF = \left(1 - \frac{PEL}{TP} \right) \exp \left(\frac{460 \times WD}{PEL} \right)$$

Revised ELF formula:

$$ELF = \left(1 - \frac{PEL}{TP} \right) \exp \left(\frac{55,000,000 \times WD}{PEL \times TP / \text{Days}} \right)$$

PEL = monthly production rate at the economic limit
(300 barrels x number of well days a month)
TP = total production (number of barrels) during the month
WD = well days in the month
exp = the expression following this is an exponent
Days = The number of days in the month for which the tax is to be paid

The numbers 460 and 37,000,000 are constants or scaling factors.

V. Conclusion

Enacting these changes to the severance tax would not only maintain our current level of severance tax revenue. More importantly, the revised ELF would provide a new

incentive for future oil exploration and production in Alaska by lowering the severance tax on marginal fields.

ALASKA NORTH SLOPE OIL AND GAS REVENUES

Alaska North Slope Oil Revenue

| | Fiscal Years | | | | | | | | | |
|--|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
| June 1985 Est. Rev. Assumptions | | | | | | | | | | |
| World Oil Price | 26.37 | 24.01 | 22.41 | 22.206 | 22.733 | 23.464 | 24.362 | 25.565 | 26.934 | 28.379 |
| Average Rate of Inflation | 4.03 | 3.92 | 4.01 | 4.76 | 4.76 | 4.76 | 4.76 | 4.76 | 5.104 | 5.104 |
| ANS/World Oil & Marketing Adjust | 3.253 | 2.532 | 2.663 | 2.639 | 2.386 | 2.447 | 2.475 | 2.520 | 2.507 | 2.612 |
| TransAlaska Pipeline Tariff | 6.007 | 6.007 | 6.007 | 6.007 | 6.007 | 6.007 | 6.007 | 6.007 | 6.007 | 6.007 |
| ANS Netback Price 9801 (\$/bbl) | 17.11 | 15.471 | 13.74 | 13.56 | 14.34 | 15.01 | 15.00 | 17.03 | 18.34 | 19.76 |
| Prudhoe Bay Prod. (MMbbl/d) | 1.520 | 1.517 | 1.500 | 1.34 | 1.100 | 1.03 | .874 | .815 | .753 | .641 |
| Prudhoe Bay Price (\$/bbl) | 17.11 | 15.471 | 13.74 | 13.56 | 14.34 | 15.01 | 15.00 | 17.03 | 18.34 | 19.76 |
| Wells | 460.25 | 509.6 | 527.1 | 540.6 | 524.05 | 505.15 | 489.9 | 466.45 | 447.65 | 420.65 |
| ELP | .0648307 | .0496945 | .0437062 | .0205200 | .0041141 | .7834653 | .7540433 | .7491265 | .7399201 | .7145022 |
| Nominal Tax Rate | .15 | .15 | .15 | .15 | .15 | .15 | .15 | .15 | .15 | .15 |
| Effective Tax Rate | .15 | .15 | .15 | .1230793 | .1206171 | .1175190 | .1131065 | .1123690 | .1109092 | .1071753 |
| Royalty Percentage | .125 | .125 | .125 | .125 | .125 | .125 | .125 | .125 | .125 | .125 |
| SEVERANCE TAX (ELP) | 1252.465 | 1124.336 | 902.6137 | 714.2504 | 656.2593 | 500.2696 | 501.3609 | 490.1035 | 469.5263 | 433.5515 |
| SEVERANCE TAX (NO ELP) | 1252.465 | 1124.336 | 992.6137 | 870.4757 | 816.1270 | 740.6450 | 664.8966 | 664.9124 | 561.5063 | 606.7802 |
| CONSERVATION TAX | .6100063 | .6056140 | .6020219 | .5349531 | .4742719 | .4111953 | .3409172 | .3253633 | .3006117 | .2550992 |
| Gathering & Cleaning Charge | .7 | .72021 | .7567550 | .7071017 | .8245670 | .8630172 | .9049349 | .9400090 | .9931331 | 1.044619 |
| ROYALTIES | 1144.023 | 1020.395 | 893.2797 | 700.9031 | 732.5702 | 664.7022 | 597.1494 | 597.9900 | 595.9624 | 547.3410 |
| TOTAL OIL PROD REVENUES | 2396.400 | 2144.731 | 1805.093 | 1495.153 | 1300.079 | 1245.052 | 1090.510 | 1096.102 | 1005.409 | 900.0945 |
| Kuparuk River Prod. (MMbbl/d) | .167 | .2 | .219 | .239 | .239 | .239 | .21 | .187 | .162 | .141 |
| Kuparuk River Price (\$/bbl) | 16.29 | 14.651 | 12.92 | 12.74 | 13.52 | 14.19 | 15.06 | 16.21 | 17.52 | 18.94 |
| Wells | 154.5 | 240.5 | 284 | 205.25 | 205.25 | 205.25 | 276.5 | 276.5 | 254 | 254 |
| ELP | .69 | .4091136 | .4697705 | .5067938 | .5067938 | .5067938 | .4627634 | .4070192 | .3773622 | .3112742 |
| Nominal Tax Rate | .1275 | .1275 | .1363 | .15 | .15 | .15 | .15 | .15 | .15 | .15 |
| Effective Tax Rate | .004525 | .0599164 | .0640297 | .0760191 | .0760191 | .0760191 | .0694145 | .0610529 | .0566043 | .0466911 |
| Royalty Percentage | .125 | .125 | .125 | .125 | .125 | .125 | .125 | .125 | .125 | .125 |
| SEVERANCE TAX (ELP) | 73.43040 | 56.07173 | 57.06143 | 73.92490 | 70.45092 | 82.33065 | 70.11249 | 59.10602 | 51.30973 | 40.30790 |
| SEVERANCE TAX (NO ELP) | 106.4326 | 114.6393 | 123.1696 | 145.0670 | 154.7905 | 162.4697 | 151.5003 | 145.2160 | 135.9694 | 129.7502 |
| CONSERVATION TAX | .0666695 | .0790430 | .0874209 | .0954133 | .0954133 | .0954133 | .0830359 | .0706539 | .0646734 | .0570003 |
| Gathering & Cleaning Charge | .4 | .4005 | .4010006 | .4015019 | .4020030 | .4025063 | .4030094 | .4035132 | .4040175 | .4045226 |
| ROYALTIES | 121.0719 | 130.0350 | 125.0003 | 134.5436 | 143.0436 | 150.3460 | 140.3323 | 134.0590 | 126.5005 | 120.9324 |
| TOTAL OIL PROD REVENUES | 194.3103 | 106.1075 | 102.9497 | 200.4605 | 221.4945 | 232.6027 | 210.5440 | 193.9650 | 177.0102 | 161.3203 |
| Milne Point Prod. (MMbbl/d) | 0 | 0 | .000 | .023 | .023 | .023 | .023 | .023 | .010 | .016 |
| Milne Point Price (\$/bbl) | 17.40 | 15.041 | 14.11 | 13.93 | 14.71 | 15.30 | 16.25 | 17.4 | 18.71 | 20.13 |
| Wells | 1 | 1 | 21.15 | 21.15 | 21.15 | 21.15 | 21.15 | 19.6 | 17.1 | 15.6 |
| ELP | 0 | 0 | .0092001 | .6096111 | .6096111 | .6096111 | .6096111 | .6150020 | .5970649 | .5802759 |
| Nominal Tax Rate | .15 | .15 | .15 | .15 | .15 | .15 | .15 | .15 | .15 | .15 |
| Effective Tax Rate | 0 | 0 | .0133920 | .0914417 | .0914417 | .0914417 | .0914417 | .0951053 | .0896797 | .0802414 |
| Royalty Percentage | .1625 | .1625 | .1625 | .1625 | .1625 | .1625 | .1625 | .1625 | .1625 | .1625 |
| SEVERANCE TAX (ELP) | 0 | 0 | .4621040 | 0.955726 | 9.457195 | 9.087944 | 10.44720 | 11.46907 | 9.232479 | 0.607079 |
| SEVERANCE TAX (NO ELP) | 0 | 0 | 5.175901 | 14.69000 | 15.51349 | 16.22000 | 17.13761 | 10.35042 | 15.44242 | 14.76037 |

| | | | | | | | | | | |
|-----------------------------|---|---|---|---|---|---|---|---|---|---|
| SEVERANCE TAX (MILL) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CONSERVATION TAX (MILL ELP) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CONSERVATION TAX | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gathering & Cleaning Charge | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ROYALTIES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OIL PROD REVENUES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| MONTH SLOPE Prod. (MMbbl/D) | 1.695 | 1.717 | 1.744 | 1.66 | 1.504 | 1.40 | 1.33 | 1.257 | 1.17 | 1.031 |
| AVG. MONTH SLOPE PRICE (\$/bbl) | 17.02921 | 15.37540 | 13.63733 | 13.40789 | 14.13640 | 14.74674 | 15.57237 | 16.70890 | 17.00509 | 19.39853 |
| AVG. NOMINAL TAX RATE | .1472906 | .1467967 | .1401377 | .1460136 | .1425015 | .1450169 | .1469192 | .1465657 | .1462150 | .1475127 |
| AVG. EFFECTIVE TAX RATE | .1435491 | .1395069 | .1370037 | .1115651 | .1036090 | .0996205 | .0934909 | .0912105 | .0892272 | .0830136 |
| AVG. ROYALTY PERCENTAGE | .125 | .125 | .1251720 | .1257340 | .1262922 | .1264004 | .1265956 | .1267191 | .1267017 | .1266031 |
| SEVERANCE TAX | 1325.903 | 1100.400 | 1050.937 | 797.1311 | 746.6525 | 693.3015 | 623.0119 | 617.2010 | 605.4633 | 548.1976 |
| CONSERVATION TAX | .6766750 | .6054866 | .6961006 | .6621466 | .6314206 | .5890927 | .5299927 | .5010326 | .4661775 | .4100400 |
| ROYALTIES | 1265.095 | 1150.430 | 1030.594 | 960.9079 | 902.9065 | 861.0279 | 816.9057 | 832.5029 | 836.9096 | 870.0760 |
| TOTAL OIL PROD REVENUES | 2591.199 | 2371.524 | 2082.220 | 1766.701 | 1730.190 | 1655.759 | 1541.240 | 1550.366 | 1542.039 | 1431.404 |
| | 14.35 | 17.95069 | 13.70037 | 11.15651 | 10.36090 | 9.162954 | 9.349006 | 9.121049 | 8.922717 | 8.301330 |

FISCAL IMPACT OF ELP REPEAL ON SEVERANCE TAX INCOME
ALL NORTH SLOPE FIELDS

| | F85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| SEVERANCE TAX (MILLIONS OF \$) | | | | | | | | | | |
| NO ELP | 1350.097 | 1230.976 | 1125.702 | 1039.074 | 1023.750 | 1011.059 | 971.7900 | 903.0472 | 803.7061 | 941.9207 |
| WITH ELP | 1325.903 | 1100.400 | 1050.937 | 797.1311 | 746.6525 | 693.3015 | 623.0119 | 617.2010 | 605.4633 | 548.1976 |
| REVENUES RESULTING FROM REPEAL OF ELP | 32.99410 | 30.56776 | 74.76406 | 242.7425 | 277.0974 | 310.4690 | 347.9070 | 365.7653 | 370.2429 | 401.7331 |
| CUMULATIVE TOTAL | 32.99410 | 91.56106 | 166.3267 | 409.0693 | 606.1667 | 1004.636 | 1352.623 | 1710.300 | 2096.631 | 2490.362 |

PRUDHOE BAY ONLY

| | | | | | | | | | | |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| SEVERANCE TAX (MILLIONS OF \$) | | | | | | | | | | |
| NO ELP | 1252.465 | 1124.336 | 902.6137 | 870.4757 | 816.1270 | 740.6450 | 664.0966 | 664.9126 | 661.5063 | 698.7902 |
| WITH ELP | 1252.465 | 1124.336 | 992.6337 | 714.2504 | 656.2593 | 500.2696 | 501.3609 | 490.1035 | 409.5263 | 432.5515 |
| REVENUES RESULTING FROM REPEAL OF ELP | 0 | 0 | 0 | 156.2253 | 159.0670 | 160.3754 | 163.5357 | 166.0009 | 172.0600 | 173.2387 |
| CUMULATIVE TOTAL | 0 | 0 | 0 | 156.2253 | 316.0931 | 476.4605 | 640.0042 | 806.0131 | 970.0730 | 1152.110 |

Figures calculated by OMB

20 MOST IMPORTANT POINTS

1. ELF was always meant to prolong oil production in Alaska by prolonging the life of individual fields.
2. Proposed ELF does a better job of prolonging production than original one because it looks at total field production not individual well production.
3. Have 10 years of experience now to base the proposed formula on.
4. Original ELF was designed for Cook Inlet. Now, we need to finetune it for NS fields.
5. The proposed ELF has the added benefit of giving the marginal fields a tax break in a time of low oil prices. This will enhance the economics of a marginal field, thus prolonging oil production in Alaska.
6. Encouraging marginal field production prolongs the life of oil production on the North Slope. This is consistent with the purpose of the original ELF.
7. Proposed ELF will reduce the ELF on Milne by 48%, on Endicott by 100% and on Lisburne by 54%.
8. Prudhoe and Kuparuk are not marginal fields. Even if there was no ELF at all, they would still be highly profitable. The ELF is no longer needed to prolong the life of these fields, only the marginal ones.
9. If ELF is not changed, in FY88, Milne will have a higher effective severance tax (9%) than Kuparuk (7.5%) even though Milne is the marginal field. (Proposed ELF would give Milne a 4.65% effective rate and Kuparuk a 12.9% rate.)
10. Industry profitability: It made \$6B in Ak. in FY85. It took \$24B in profits out of Ak. in the last four years. Business Week quote: "Exxon has \$7B in spare cash to spend through 1988."

Sam - Hope these help. Let us know if you need anything else. - Louann

Conversation with Chuck

1. If someone questions why OMB's projection of production effects are different from Revenue's, Chuck can explain it with a very simple example. It will be kind of hard to do it over the phone but if someone wants to know, he will try to explain it.
2. The reason that the fiscal note shows \$450K in FY87 revenue is that he probably put the wrong effective date in the model. It should be zero.
3. Rieger's question about the effect of HB 545 on enhanced recovery at Prudhoe is answered in the fiscal note -- see the production table. Basically, the effect is minimal. It is difficult to separate out EOR from regular production, but the model attempts to do that. Plus, since enhanced recovery is at the end of the production cycle and since it is the most expensive, it makes sense that the 22 million production decrease would be enhanced recovery production. Keep in mind that this is 22 million out of almost 10 billion expected recovery from Prudhoe, about 1.5 billion of which comes from enhanced recovery (according to Sohio's Tim Holt at the seminar Sharman and I went to last summer.)
4. The statement that the ELF is dependent on whether the field produces more or less than 80,436 barrels/day is dependent on the price assumption. A different price scenario would change that number. I think a related comment would be that the lower the price goes, the higher number of barrels would have to be produced for the field to be economic.
5. He is more than willing to discuss the fact that taxes are not nearly as important to the company's production decision as the price is. Of course the taxes have an impact, but it is not nearly as significant as price.

Conversation with Tom Chester

1. He will be here to answer questions if you need help -- especially if the companies are really ragging you, you can call on him to give the debate some perspective if you need.
2. He hopes that Chuck is as friendly a witness as you think, only because he feels that Chuck is not in favor of any changes in the tax code at present.

Conversation with Deb Vogt

1. Maynard is not working on a bill. She has checked with everyone, and informed Gillespie.
2. She is prepared to testify today on the new compromise idea about waiving legislative immunity, having the Ethics Cmttee. sanction legislators who spill the beans, etc. Revenue knows what she's doing as does Gillespie. They support what she is doing.

TABLE 1
(millions of current dollars unless otherwise noted)

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
|-----|-----------------|----------------|-----------------|-----------|---------------|-------------|--------------------|----------------------------|-------------------|------------------------|
| FY | SEVERANCE TAXES | PROPERTY TAXES | OIL&GAS INC TAX | ROYALTIES | MINERAL RENTS | BONUS SALES | PETROLEUM REVENUES | NON-PETR NON-INTR REVENUES | INTEREST REVENUES | TO REVS INCL PERM FUND |
| 81 | 1170.2 | 143.0 | 860.1 | 1501.6 | 7.9 | 14.1 | 3696.9 | 186.1 | 377.7 | 4260.7 |
| 82 | 1581.7 | 142.7 | 668.9 | 1553.2 | 26.4 | 10.3 | 3983.2 | 209.0 | 693.1 | 4885.3 |
| 83 | 1493.7 | 152.6 | 716.0 | 1447.4 | 54.2 | 73.1 | 3457.0 | 228.6 | 846.9 | 4532.5 |
| 84 | 1393.1 | 131.0 | 265.1 | 1409.0 | 21.9 | 16.7 | 3236.8 | 245.8 | 812.2 | 4294.8 |
| 85 | 1389.4 | 128.4 | 168.6 | 1390.3 | 23.7 | 23.6 | 3124.0 | 283.0 | 891.3 | 4298.3 |
| 86 | 1329.2 | 113.6 | 219.8 | 1350.3 | 23.6 | 17.3 | 3052.8 | 241.2 | 929.6 | 4223.7 |
| 87 | 1077.2 | 117.4 | 236.4 | 1125.9 | 24.2 | 0.0 | 2581.1 | 250.8 | 928.4 | 3760.3 |
| 88 | 780.7 | 121.2 | 237.9 | 979.1 | 24.2 | 0.0 | 2143.1 | 247.0 | 945.3 | 3335.4 |
| 89 | 691.6 | 124.3 | 236.1 | 909.0 | 24.2 | 0.0 | 1985.2 | 259.4 | 960.1 | 3204.7 |
| 90 | 612.4 | 128.8 | 232.2 | 845.8 | 24.2 | 0.0 | 1843.4 | 272.4 | 1014.8 | 3130.6 |
| 91 | 576.9 | 124.4 | 225.4 | 814.7 | 24.2 | 0.0 | 1765.6 | 286.0 | 1077.3 | 3129.0 |
| 92 | 557.6 | 118.9 | 219.3 | 792.9 | 24.2 | 0.0 | 1712.7 | 300.3 | 1145.6 | 3158.7 |
| 93 | 563.0 | 114.0 | 216.5 | 796.3 | 24.2 | 0.0 | 1714.0 | 317.7 | 1329.7 | 3361.4 |
| 94 | 549.5 | 101.2 | 212.8 | 782.5 | 24.2 | 0.0 | 1675.2 | 336.0 | 1422.5 | 3433.8 |
| 95 | 532.7 | 99.5 | 206.2 | 767.7 | 24.2 | 0.0 | 1630.3 | 355.5 | 1519.5 | 3505.3 |
| 96 | 496.4 | 101.8 | 198.1 | 738.2 | 24.2 | 0.0 | 1558.8 | 376.0 | 1619.0 | 3553.8 |
| 97 | 484.2 | 122.9 | 189.1 | 727.5 | 24.2 | 0.0 | 1548.0 | 397.7 | 1727.8 | 3673.4 |
| 98 | 458.4 | 137.5 | 178.6 | 699.8 | 24.2 | 0.0 | 1498.4 | 423.2 | 1957.8 | 3879.4 |
| 99 | 231.6 | 138.2 | 153.4 | 462.0 | 24.2 | 0.0 | 1009.3 | 450.2 | 2051.0 | 3510.5 |
| 0 | 132.0 | 128.6 | 128.3 | 253.0 | 24.2 | 0.0 | 666.1 | 479.0 | 2157.2 | 3302.4 |
| 1 | 49.7 | 117.4 | 113.6 | 129.3 | 24.2 | 0.0 | 434.1 | 509.7 | 2273.2 | 3217.0 |
| 2 | 53.6 | 102.8 | 98.2 | 143.1 | 24.2 | 0.0 | 421.9 | 542.3 | 2411.7 | 3376.0 |
| 3 | 56.1 | 75.1 | 81.9 | 152.8 | 24.2 | 0.0 | 390.0 | 577.0 | 2555.8 | 3522.8 |
| 4 | 58.3 | 41.2 | 67.4 | 162.9 | 24.2 | 0.0 | 354.0 | 613.9 | 2708.4 | 3676.3 |
| 5 | 61.3 | 27.9 | 50.8 | 174.0 | 24.2 | 0.0 | 342.3 | 653.1 | 2872.8 | 3868.2 |

Decrease in sev tax receipts projected 1/86:

FY 88 296.5
 FY 89 89.1
 FY 90 79.2
 FY 91 35.5
 FY 92 19.3
 Total 5 yrs. loss 519.6

| (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) | (24) |
|------|-----------------|--------------|------------|-----------------|------------------|-------------------|------------------------|------------------------------|---------------------------|--------------------|--------------------|---------------------|
| FY | TO REVS INCL PF | PUB SCH FUND | NPR-A FUND | RENEW RES FUNDS | PERM FUND CONTRI | GEN FUND UNRESTRD | REVENUES TOTAL SUSTAIN | -ROYALTIES -PERM FUND 25 PCT | SUBJ TO- CONTRIB- 250 PCT | ROYALT, PF CONTRIB | -INTEREST GEN FUND | EARNINGS- PERM FUND |
| 81 | 4260.7 | 7.5 | 0.0 | 74.3 | 385.1 | 3643.9 | 563.8 | 1501.6 | 0.0 | 358.3 | 227.8* | 149.9 |
| 82 | 4885.3 | 8.0 | 0.0 | 0.0 | 400.5 | 4108.4 | 902.1 | 1553.2 | 0.0 | 388.3 | 324.7* | 368.4 |
| 83 | 4532.5 | 9.4 | 0.0 | 0.0 | 421.0 | 3631.0 | 844.3 | 1447.4 | 0.0 | 361.8 | 375.8* | 471.1 |
| 84 | 4294.8 | 9.0 | 0.0 | 0.0 | 366.2 | 3390.1 | 907.0 | 1409.0 | 0.0 | 354.6 | 282.7 | 529.5 |
| 85 | 4298.3 | 7.1 | 5.4 | 0.0 | 368.0 | 3260.0 | 939.7 | 1390.3 | 0.0 | 349.5 | 233.5 | 657.8 |
| 86 | 4223.7 | 7.1 | 5.5 | 0.0 | 356.9 | 3124.6 | 938.2 | 1330.4 | 20.0 | 342.6 | 200.0 | 729.6 |
| 87 | 3760.3 | 5.9 | 5.5 | 0.0 | 296.7 | 2718.8 | 916.5 | 1090.8 | 35.1 | 290.3 | 195.0 | 733.4 |
| 88 | 3335.4 | 5.2 | 5.5 | 0.0 | 272.0 | 2257.4 | 862.5 | 896.1 | 83.0 | 265.5 | 150.0 | 795.3 |
| 89 | 3204.7 | 4.8 | 5.5 | 0.0 | 266.5 | 2109.1 | 830.8 | 777.7 | 131.3 | 260.1 | 141.4 | 818.7 |
| 90 | 3130.6 | 4.5 | 5.5 | 0.0 | 256.3 | 1980.4 | 866.1 | 692.2 | 153.6 | 249.9 | 131.0 | 883.8 |
| 91 | 3129.0 | 4.4 | 5.5 | 0.0 | 251.4 | 1715.5 | 908.6 | 649.5 | 165.2 | 245.0 | 125.2 | 952.1 |
| 92 | 3158.7 | 4.3 | 5.5 | 0.0 | 250.0 | 1814.6 | 955.9 | 611.8 | 181.1 | 243.5 | 121.2 | 1024.4 |
| 93 | 3361.4 | 4.3 | 5.5 | 0.0 | 252.0 | 1903.7 | 1079.8 | 610.6 | 185.7 | 245.5 | 133.7 | 1195.9 |
| 94 | 3433.8 | 4.2 | 5.5 | 0.0 | 250.3 | 1881.8 | 1103.4 | 589.7 | 192.3 | 243.8 | 130.5 | 1292.0 |
| 95 | 3505.3 | 4.1 | 5.5 | 0.0 | 248.1 | 1854.9 | 1117.7 | 569.0 | 198.7 | 241.6 | 126.9 | 1392.7 |
| 96 | 3553.8 | 4.0 | 5.5 | 0.0 | 238.3 | 1808.2 | 1233.1 | 549.2 | 189.0 | 231.8 | 121.2 | 1497.8 |
| 97 | 3673.4 | 3.9 | 5.5 | 0.0 | 235.9 | 1820.7 | 1305.9 | 537.2 | 190.3 | 229.5 | 120.4 | 1607.3 |
| 98 | 3879.4 | 3.8 | 5.5 | 0.0 | 225.3 | 1812.5 | 1453.8 | 524.3 | 175.5 | 218.8 | 125.5 | 1832.3 |
| 99 | 3510.5 | 2.6 | 5.5 | 0.0 | 157.6 | 1378.1 | 1457.4 | 319.3 | 142.7 | 151.2 | 84.3 | 1966.7 |
| 0 | 3302.4 | 1.6 | 5.5 | 0.0 | 88.4 | 1106.0 | 1644.1 | 178.5 | 74.5 | 81.9 | 56.3 | 2100.9 |
| 1 | 3217.0 | 0.9 | 5.5 | 0.0 | 48.7 | 925.7 | 1790.1 | 89.5 | 39.8 | 42.3 | 37.1 | 2236.1 |
| 2 | 3376.0 | 1.0 | 5.5 | 0.0 | 54.4 | 939.1 | 1926.9 | 94.6 | 48.5 | 47.9 | 35.8 | 2376.0 |
| 3 | 3522.8 | 1.1 | 5.5 | 0.0 | 60.1 | 932.9 | 2059.2 | 91.2 | 61.5 | 53.6 | 32.6 | 2523.2 |
| 4 | 3676.3 | 1.1 | 5.5 | 0.0 | 64.4 | 926.1 | 2199.0 | 94.3 | 68.6 | 57.9 | 29.1 | 2679.3 |
| 5 | 3868.2 | 1.2 | 5.5 | 0.0 | 71.5 | 945.0 | 2350.1 | 87.8 | 86.3 | 65.1 | 27.8 | 2845.0 |

* General Fund interest revenues include the amounts transferred from the Permanent Fund earnings in these years. Interest earnings totals therefore double count the transfer which is detail in col. 18 of Table 3.

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

January 24, 1986

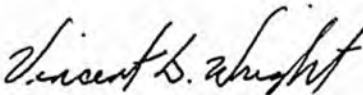
The Honorable Sam Cotten
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Cotten:

Per your request, I have examined the revenue impact of eliminating the ELF from North Slope severance tax calculations. Based on the December 85 mean case forecast, elimination of the ELF will yield approximately 244 million additional dollars from North Slope production in FY 1988 of which approximately 179 million comes from the Sadlerochit formation.

Similarly, using the December 85 mean case forecast, elimination of the ELF will yield approximately 258 million additional dollars from North Slope production in FY 1989 of which approximately 169 million comes from the Sadlerochit formation.

Sincerely,


Vincent D. Wright
Chief of Research

VDW:AZ:mkw
86-21

Governor's letter transmitting original ELF bill to the legislature.

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HOUSE JOURNAL

March 9, 1977

The Governor's transmittal letters appear following the bill to which it pertains; fiscal notes appear in House Supplement No. 31 to today's journal.

"March 8, 1977

RB
321

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the oil and gas properties production tax.

As a result of a recent study of Alaska's oil and gas tax structure, the Department of Revenue has recommended several changes in the state's production or "severance" tax. This bill incorporates those specific recommendations.

Currently the state's oil production tax is calculated according to "stair stepped" rates depending upon the level of production for the lease or property. As currently structured the tax may have an adverse impact upon a particular property as it reaches its economic limit. The "stair step" approach may not alleviate this adverse effect since the economic limit may vary substantially from one part of the state to another. This is because it may be more costly to produce and transport the oil in the more remote areas of the state. Accordingly, the bill contains an economic limit mechanism which automatically scales the tax rate down as the production nears its economic limit. This will insure that the tax will not unduly inhibit oil production as it reaches its economic limit.

One of the immediate dangers which face the state's revenue picture is the potential for artificially depressed pricing of the state's North Slope oil. This could result from federal pricing decisions or excessive tariff costs from the wellhead to the refinery. To insulate the state's petroleum revenues from these forces, the bill provides for a mechanism which would raise the cents-per-barrel floor to correspond to a mid-range market value for North Slope oil and tie that floor to an index which will let the floor keep pace with inflation.



2 examples
describing original
ELF's purpose.
(Shows that proposed
ELF conforms to
purpose of original
one.)

March 9, 1977

HOUSE JOURNAL

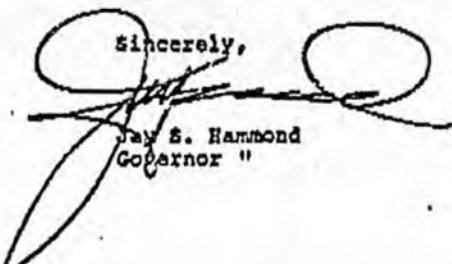
487

One of the Department of Revenue's recommendations -- the oil and gas surtax -- which was designed to offset revenue losses due to depressed pricing of North Slope oil and which was to be imposed only on holders of state-owned leaseholds was deleted on the advice of this department because of the substantial legal problems involved.

HB
321

The bill places the tax on gas at a parity with the tax on oil. Currently gas is taxed at only 4 percent while oil is taxed from 5 to 8 percent. The bill would tax both oil and gas at 10 percent. In addition, the bill sets a cents-per-Mcf floor for the gas tax similar to the cents-per-barrel floor for oil. This new floor for gas corresponds to the highest market price in the state, and it too is tied to an index to keep pace with inflation.

Sincerely,


Jay S. Hammond
Governor "

HOUSE BILL NO. 322 by the Rules Committee by request of the Governor, entitled:

HB
322

"An Act establishing an oil and gas corporate franchise tax; and providing for an effective date."

was introduced, read the first time and referred to the Committee on Resources and Finance.

"March 8, 1977

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.50.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill establishing an oil and gas corporate franchise tax.

The Department of Revenue, in its oil and gas tax study, found two basic deficiencies with the corporate income tax as it relates to oil and gas corporations. This bill would correct those deficiencies.

PROFITS FROM ITS PRODUCTION OPERATION TO OTHER PHASES OF ITS

BUSINESS AND REDUCE ITS ROYALTY AND SEVERANCE TAX LIABILITIES,

THESE POTENTIAL ACTIONS MUCH AS FEDERAL PRICING WOULD EFFECTIVELY

REDUCE THE WELL HEAD PRICE BELOW WHAT WOULD OTHERWISE BE THE

MARKET VALUE OF THE OIL. BY RAISING THE CENTS-PER-BARREL TAX

FLOOR YOU PROTECT THE STATE AGAINST THESE POSSIBILITIES.

THE SECOND MAJOR GOAL OF OUR SEVERANCE TAX BILL AFTER ASSURING

THAT OUR SEVERANCE TAX REVENUES ARE PROTECTED FROM THE VAGARIES

OF FEDERAL PRICING ACTIONS AND CORPORATE MANIPULATION, IS TO

PROVIDE TAX RELIEF FOR PRODUCTION WHICH IS APPROACHING, OR IS AT,

ITS ECONOMIC LIMIT. AS MENTIONED IN OUR REPORT THE SEVERANCE

TAX CAN ACT AS A DISINCENTIVE TO CONTINUED PRODUCTION AS

PRODUCTION FROM A PROPERTY REACHES ITS ECONOMIC LIMIT. A

PARTICULAR PROPERTY'S ECONOMIC LIMIT IS NOT SOLELY A FUNCTION

OF THE VOLUME OF PRODUCTION BECAUSE THE COSTS OF PRODUCING OIL

MAY VARY SUBSTANTIALLY IN DIFFERENT REGIONS OF THE STATE. FOR

EXAMPLE: WELL PRODUCING 1,000 BARRELS A DAY IN COOK INLET.

Testimony of Commissioner Gallagher
to Joint House & Sen. Resources Committee
on original
ELF bill

MAY BE NOWHERE NEAR ITS ECONOMIC LIMIT BUT A WELL PRODUCING

AT THE SAME RATE ON THE NORTH SLOPE OR IN INTERIOR ALASKA

MAY ACTUALLY HAVE REACHED ITS ECONOMIC LIMIT BECAUSE OF

THE HIGHER COSTS OF PRODUCTION AND TRANSPORTATION IN THOSE AREAS.

ACCORDINGLY A STAIR STEP APPROACH BASED UPON PRODUCTION LEVELS

MAY WORK WELL FOR ONE PART OF THE STATE BUT NOT ANOTHER.

THEREFORE HB 32L AND SB 238 PROVIDE A MECHANISM WHEREBY THE

TAX RATE IS SCALED DOWN OR REDUCED AS A PARTICULAR PROPERTY

REACHES ITS TRUE ECONOMIC LIMIT. THIS FEATURE ESSENTIALLY

TAILORS THE TAX RATE SCHEDULE TO THE ECONOMICS OF EACH PRODUCING

PROPERTY. INSTEAD OF STAIR-STEPS IT PROVIDES A CONTINUOUS

SERIES TAX RATES FROM 10 PERCENT TO ZERO AND WHICH DECLINE AS

PRODUCTION APPROACHES THE PRODUCTION LEVEL AT THE PROPERTY'S

ECONOMIC LIMIT.

THERE WAS SOME SUGGESTION EARLIER IN THE WEEK BY MR. KILGORE,

THAT THE ECONOMIC LIMIT FACTOR WAS DEFICIENT IN PRACTICE SINCE

IT SEEMED TO RESULT IN HIGHER EFFECTIVE TAX RATES FOR SOME

Response By ARCO Alaska, Inc.

To: Interim Report Of The House Finance
Subcommittee On Oil And Gas

The report to the Legislature from its oil and gas subcommittee is a thinly-veiled attempt to once again increase taxes on the oil industry.

It would appear the staff members who prepared the report are living in a vacuum, and are unaware of the impact of dramatically lower crude prices on the oil industry.

While we in the industry have spent this week worrying about how to pay for new capital investments on the North Slope -- investments which will have the positive effect of creating new state income and new jobs for Alaskans -- this legislative sub-committee is figuring out ways to further reduce our rapidly decreasing margin of profit.

The report argues for reinstating the separate accounting method of levying income tax on the oil industry.

The subcommittee's insistence on the merits of separate accounting ignores the state Department of Revenue's study, which shows that the state would receive more tax income now through this method, but less in the future. Under either the present method of taxing income (modified apportionment) or separate accounting, the state Department of Revenue estimates the tax income would be about the same in the long run. Those few legislators who are urging a change in the tax law simply want more money now at the expense of future generations of Alaskans.

The effect of raising income taxes now, however, would be devastating to new oil development in Alaska, and would threaten the orderly development of existing fields.

A tax increase would have made new development difficult even if oil prices had remained static. But as prices decline, the economics of marginal oil fields becomes even more difficult. Legislators whose assigned task is to study oil and gas should understand that impact.

We also take issue with the committee's charge that the state's share of oil income has declined since 1981. That simply is not true. The Department of Revenue's own figures show that the state's share of income from oil production has increased from 31 percent in 1981 to an expected 41 percent in 1986.

The subcommittee contends that the producers made a profit and that money therefore left the state. In ARCO's case, we have invested more in Alaska than our after-tax profits every year since development began on the North Slope. If we failed to make a profit, there would be no new investment. It's that simple.

After all, it's the producers who must bear the costs of developing an oil field, the wells that must be drilled, and the facilities that must be built and installed and operated. The state's royalties and severance taxes are levied without regard to whether or not the oil is sold at a profit. Now that oil has become a world commodity, Alaskan oil must compete in the world market. If prices continue to decline, the question becomes, "Can Alaskan oil compete?"

The subcommittee argues that House Bill 353 (separate accounting) will encourage exploration because it allows for writeoffs of unsuccessful wells. On the contrary. The bill will discourage exploration because the investor knows that if you are successful, you will be penalized. And no one invests millions of dollars in exploration unless they hope to be successful.

Regarding pre-payment of taxes in dispute, which the committee report suggests is another way to boost state income: The report acknowledges that the possibility that the taxpayer could prevail and the state would have to repay the money. That is precisely our argument: that taxes in dispute are not due and payable unless--and until--the dispute is resolved in favor of the state.

In the meantime the state's pocketbook is protected with regard to contested taxes because the state is entitled to interest at the rate of 12 percent a year, if the state wins the argument.

If the state requires prepayment of contested taxes by the oil industry, it should also require prepayment by all taxpayers who have a dispute with the state.

The subcommittee suggests that repealing the Economic Limit Factor (ELF) would be another way to bring the state additional income. Again, the legislators are choosing to ignore the reason the ELF was put in place and are looking for more revenue now. They are not taking into account the state's future best interests. The ELF was designed to encourage continued production when fields start to decline. That will happen to Prudhoe Bay just as it does to other fields. And the application of ELF will result in greater production from the field in the long run.

Other oil-producing states and nations are looking to ways to encourage the petroleum industry. In Texas, university economists are speaking out that oil bears a disproportionate share of the tax burden. That fact could be ignored, said one economist, in the heady days when prices were going up. But it can no longer be ignored. And in Texas, taxes on oil and gas production constitute only 20 percent of the total tax pie. In Alaska, petroleum royalties and taxes account for 90 percent of the state's total revenues.

Instead of spending six months figuring out how the state can extract more money from the oil industry, the oil and gas subcommittee would perform a better service to the state if it concentrated its efforts on ways to encourage more oil development in Alaska.

We find it ironic that, during a time when Alaska's oil industry is struggling to remain competitive in a world of rapidly declining oil prices, a few legislators would be proposing to increase costs through taxation. We believe the current law gives the state a fair share of the wealth produced. We know that any increase in taxes will result in decreased future production.

#

TESTIMONY OF
LARRY M. SMEDLEY
EXXON COMPANY, U.S.A.

HOUSE BILL 545

MY NAME IS LARRY SMEDLEY, I AM AREA MANAGER FOR EXXON COMPANY, U.S.A. IN ALASKA. SITTING WITH ME IS TED GHIZ, OUR ALASKA TAX ATTORNEY.

I WANT TO THANK YOU FOR GIVING US THIS OPPORTUNITY TO EXPLAIN WHY HOUSE BILL 545 WOULD BE BAD FOR THE STATE OF ALASKA.

MY REMARKS WILL FOCUS ON HOW THIS BILL WOULD JEOPARDIZE THE RECOVERY OF ADDITIONAL OIL FROM PRUDHOE BAY, WHICH IS THE MOST SIGNIFICANT OIL FIELD IN THE STATE.

WE ARE ALL AWARE OF THE UNCERTAINTY IN ALASKA ABOUT FUTURE STATE REVENUES. FALLING OIL PRICES ON WORLD SCALE COUPLED WITH THE ANTICIPATED DECLINE OF PRUDHOE BAY PRODUCTION MAKE IT APPARENT THAT BOTH THE STATE AND OIL PRODUCERS FACE DECLINING REVENUES IN THE NEXT FEW YEARS.

HOWEVER, WHILE OUR TOTAL OIL INCOME WILL DECLINE, CURRENT TAX LAWS PROVIDE THE STATE AN INCREASING SHARE OF OIL REVENUES. THIS IS ILLUSTRATED ON THE CHART. THESE FIGURES WERE DEVELOPED BY THE ALASKA DEPARTMENT OF REVENUE. THEY SHOW THAT THE STATE'S SHARE OF NET PRODUCTION REVENUES HAS GROWN DRAMATICALLY.

(CHART
UP)

IN 1982, WHEN ALASKA'S TAX LAWS WERE LAST CHANGED, THE 31% SHARE WAS THOUGHT BY STATE OFFICIALS TO BE "FAIR". THE STATE'S SHARE HAS SINCE GROWN TO 41% AND IS PROJECTED TO GROW TO 47% IN 1990 UNDER EXISTING TAX LAWS. HOUSE BILL 545 WOULD INCREASE SEVERANCE TAXES AND CAUSE THE STATE'S SHARE TO INCREASE TO EVEN HIGHER LEVELS.

(CHART
DOWN) WE BELIEVE THAT THE STATE IS GETTING A VERY LARGE SHARE UNDER EXISTING LAW AND NO FORM OF INCREASED OIL TAXATION IS WARRANTED.

HOWEVER, HB 545 PROPOSES TO COLLECT ADDITIONAL SEVERANCE TAXES BY ALTERING THE ECONOMIC LIMIT FACTOR OR ELF. ACCORDING TO OMB, THE IDEA IS TO, QUOTE "INCREASE THE EFFECTIVE SEVERANCE TAX RATE ON LARGE, PRODUCTIVE FIELDS SUCH AS PRUDHOE BAY AND KUPARUK, AND REDUCE THE EFFECTIVE TAX RATE ON THE SMALL, MARGINAL FIELDS THAT MOST NEED THE ECONOMIC BENEFITS OF THE LOWER TAX BURDEN." UNQUOTE. THEIR ASSUMPTION IS THAT THE TAX INCREASE WON'T HURT MAJOR FIELDS LIKE PRUDHOE BAY. THIS ASSUMPTION IS NOT CORRECT.

IN FACT, MANY FUTURE PROJECTS TO INCREASE OIL RECOVERY AT PRUDHOE BAY ARE VERY MARGINAL INVESTMENTS JUST LIKE THE SMALLER FIELDS TO BE DEVELOPED ON THE NORTH SLOPE. HB 545 WOULD MAKE MARGINAL PROJECTS AT PRUDHOE BAY UNPROFITABLE. THE RESULT WOULD BE LESS TOTAL OIL RECOVERY FROM PRUDHOE BAY AND CONSEQUENTLY LESS ROYALTY AND TAXES FOR THE STATE OF ALASKA AND FEWER JOBS FOR ALASKANS.

LET'S LOOK AT THE PRUDHOE BAY SITUATION A LITTLE CLOSER TO BETTER UNDERSTAND WHAT IS AT RISK.

SINCE THE INITIAL DEVELOPMENT, WE HAVE EVALUATED AND JUSTIFIED SEVERAL PROJECTS TO INCREASE RECOVERY AT PRUDHOE BAY. THESE PROJECTS HAVE INCLUDED WELLS ON CLOSER SPACING, ENLARGEMENT OF FLUID HANDLING FACILITIES, ARTIFICIAL LIFT AND WATER INJECTION. THE COST PER BARREL FOR THESE PROJECTS TO INCREASE RECOVERY WAS TWICE THE COST OF THE INITIAL DEVELOPMENT.

THIS TREND TOWARD LESS PROFITABLE PROJECTS WILL CONTINUE. FUTURE PROJECTS WHICH ARE BEING PLANNED INCLUDE WELLS ON EVEN CLOSER SPACING AND IN THINNER OIL COLUMNS, ADDITIONAL ENHANCED OIL RECOVERY, DEVELOPMENT OF SMALLER RESERVOIRS, AND NEW IDEAS SUCH AS HORIZONTAL WELLS. THE COST PER BARREL RECOVERED FOR THESE PROJECTS WILL BE MORE THAN FIVE TIMES AS MUCH AS THE INITIAL DEVELOPMENT. IN THE FUTURE, OTHER MARGINAL PROJECTS WILL BE DEFINED AS RESEARCH CONTINUES.

JUST HOW MANY OF THESE MARGINAL PROJECTS WILL BE JUSTIFIED AT PRUDHOE BAY? HOW MUCH OF THE MORE THAN 10 BILLION BARRELS TO BE LEFT WITH CURRENT DEVELOPMENT CAN BE RECOVERED? PERHAPS A BILLION BARRELS OR MORE?

NO ONE KNOWS FOR SURE BECAUSE THE ECONOMICS ARE MARGINAL AND A NUMBER OF FACTORS WILL HAVE AN IMPACT ON THE LIMIT TO WHICH SUCH PROJECTS CAN BE JUSTIFIED.

BUT ONE THING IS FOR SURE, HOUSE BILL 545 WOULD PLACE FUTURE MARGINAL PROJECTS AT PRUDHOE BAY IN JEOPARDY.

(CHART
IP)

THIS CHART SHOWS AN EXAMPLE OF THE IMPACT OF HOUSE BILL 545 ON A MARGINAL BARREL AT PRUDHOE BAY IN THE MID-1990'S. WE HAVE USED A WELLHEAD VALUE OF \$20 PER BARREL AND A TOTAL PRUDHOE BAY PRODUCING RATE OF 500 KBOPD. THESE WERE TAKEN FROM THE ALASKA DEPARTMENT OF REVENUE PROJECTIONS. (THE AVERAGE WELL RATE WOULD BE ABOUT 500 BOPD.) FOR THIS EXAMPLE, WE HAVE SHOWN A MARGINAL BARREL INVESTMENT AND OPERATING COST OF \$15 PER BARREL. ACTUAL COSTS WOULD, OF COURSE, VARY FOR DIFFERENT PROJECTS, BUT THIS COST IS WITHIN THE RANGE OF WHAT WE EXPECT TO FACE FOR FUTURE MARGINAL PROJECTS AT PRUDHOE BAY.

STATE ROYALTY, PROPERTY AND INCOME TAXES TOTAL \$3.50 PER BARREL. UNDER CURRENT LAW, SEVERANCE TAX WOULD BE 70¢ PER BARREL, LEAVING A MARGINAL BARREL PROFIT OF ONLY \$0.80 UNDER THE EXISTING LAW (BEFORE FEDERAL INCOME TAX).

NOW CONTRAST THAT WITH THE MARGINAL BARREL ECONOMICS THAT WOULD RESULT FROM HB 545. THE CRUDE VALUE AND COSTS ARE THE SAME. BUT HB 545 WOULD TRIPLE THE SEVERANCE TAX FROM 70¢ TO \$2.10 PER BARREL. THE RESULT IS A LOSS OF 60¢ PER BARREL.

THIS EXAMPLE SHOWS THAT THE PROPOSED SEVERANCE TAX INCREASE SIGNIFICANTLY REDUCES THE INCENTIVE TO PRODUCE MARGINAL BARRELS. REGARDLESS OF THE PROFIT LEVEL REQUIRED TO BARELY JUSTIFY A MARGINAL INVESTMENT WITH THE CURRENT TAX LAW, TRIPLING OF THE SEVERANCE TAX WOULD MAKE THAT PROJECT UNECONOMIC.

(CHART
DOWN)

LOSS OF MARGINAL PROJECTS AT PRUDHOE BAY WILL REDUCE THE RATE OF PRODUCTION AND ULTIMATE OIL RECOVERY, THEREBY REDUCING JOBS,

STATE ROYALTY AND TAX INCOME. THESE IMPACTS WERE NOT CONSIDERED IN THE OMB ANALYSIS OF HB 545.

WHEN THESE IMPACTS ARE CONSIDERED, IT IS CLEAR THAT HB 545 IS NOT IN THE BEST INTEREST OF THE STATE OF ALASKA.

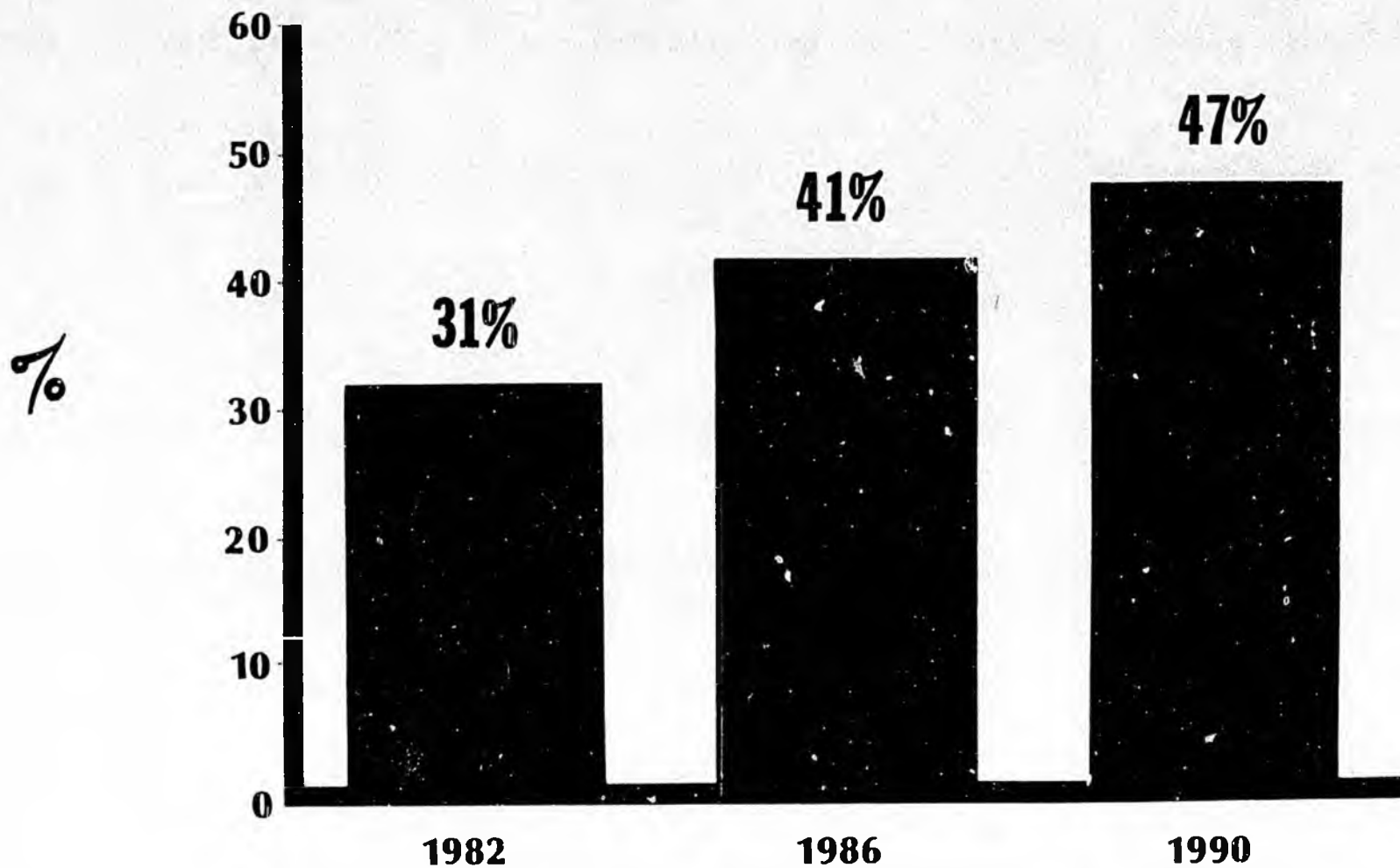
IN FACT, IT IS UNFORTUNATE THAT INCREASED TAXATION IS EVEN BEING DISCUSSED. SUCH PROPOSALS CREATE UNCERTAINTY, AND IN TODAY'S ENVIRONMENT, INVESTMENT DECISIONS ARE VERY DIFFICULT EVEN WITHOUT THIS ADDED UNCERTAINTY.

WE URGE THE HOUSE FINANCE COMMITTEE TO DROP CONSIDERATION OF HB 545 AND TO ENDORSE A POLICY OF STABLE TAXATION TO ENCOURAGE THE INVESTMENTS NECESSARY FOR DEVELOPMENT OF ADDITIONAL RESOURCES IN ALASKA. SUCH POLICY WILL BENEFIT ALL ALASKANS.

LMS/sJM/144

2/13/86

ALASKA SHARE OF OIL PRODUCTION REVENUE UNDER EXISTING LAW



Source: Alaska Department of Revenue, October, 1985
Average Expected Case.

Prudhoe Bay Marginal Barrel

CURRENT

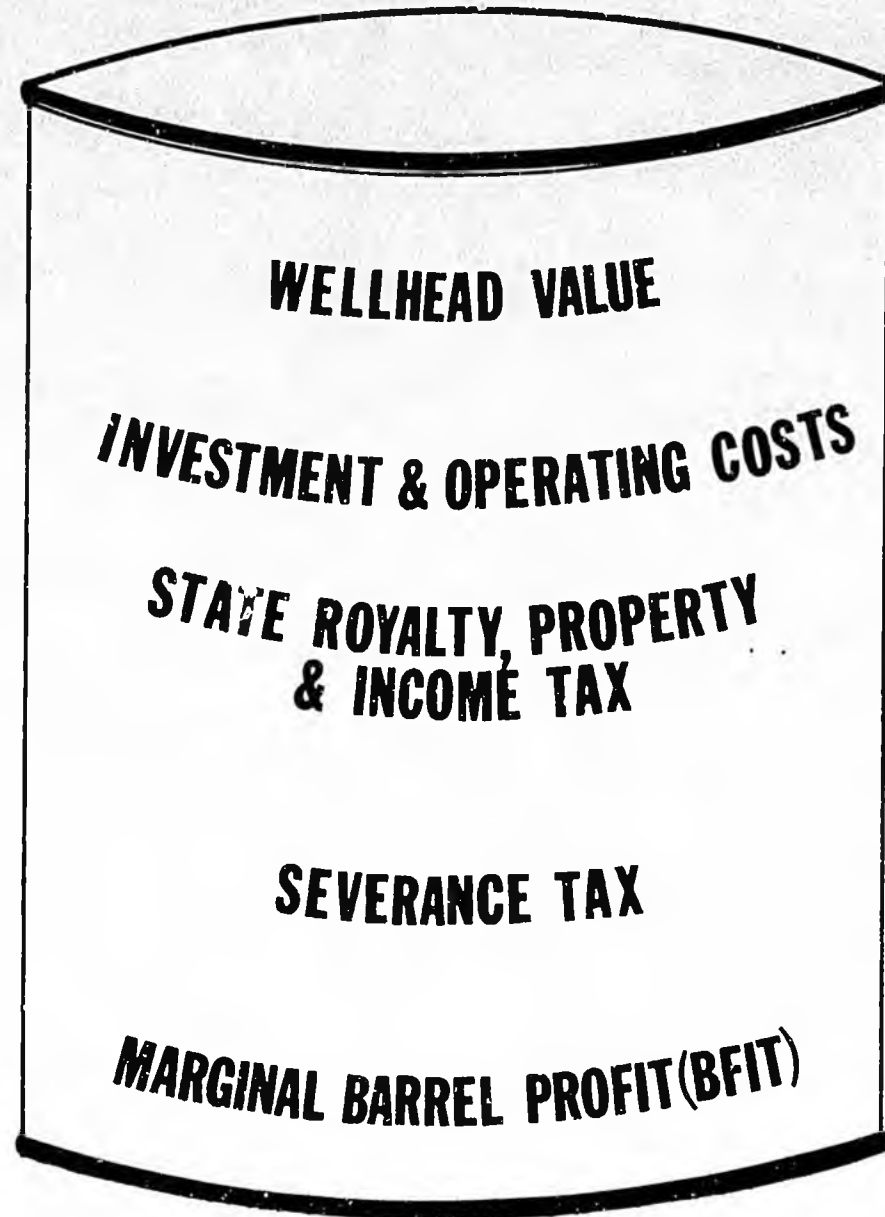
\$20.00

15.00

3.50

.70

—
+ \$.80



PROPOSED

\$20.00

15.00

3.50

2.10

—
- \$.60

Statement of John Miller on behalf of BP Alaska Exploration Inc.
before the House Finance Committee Hearing on HB 545.
February 14, 1986

Good afternoon. My name is John Miller, Alaska Area Manager for BP Alaska Exploration Inc. With me are Robin Pinchbeck, Manager of Kuparuk Development, and Joel Niegelberg, Tax Manager, BP North America. BP Alaska Exploration Inc. (BPAE) welcomes this opportunity to address the House Finance Committee on the severance tax changes proposed in House Bill No. 545, and to put the record straight regarding some of the assertions which appear in the discussion paper prepared by the Office of Management and Budget in support of this bill. Despite the long history of BP involvement in Alaskan exploration and production, including our current involvement as 29% owners of the Kuparuk River Field, this is the first time that BPAE has given testimony in Alaska on oil production tax matters.

BPAE is in a business which undertakes high risks in the exploration for, and production of, oil and gas. The risks are undertaken in the expectation of reaping commensurate rewards in those ventures which are successful. The rewards must remunerate the many failures which are in the nature of the business of exploration and production. Since the formation of BP Alaska Exploration in 1978, we have invested one billion dollars in Kuparuk development alone. It is a misconception to suppose that Kuparuk is a highly profitable field, for under

BP's best estimate of future oil prices it will be well into the 1990's before we recoup our original Kuparuk investment, let alone start to generate cash to offset the additional half billion dollars invested so far in other Alaskan exploration.

Our Kuparuk investment was made recognizing both the technical and price risks which lay ahead. However, with price risk now manifest in an extreme form, it is not the time to introduce adverse fiscal changes. The fall in oil prices adversely affects State revenues. However, oil company revenues have been more seriously damaged. To take further profits from the oil industry at this time would only compound the problem and leave the companies with less cash for future exploration and development. Now is not the time to make decisions on oil taxation which will have far-reaching and almost certainly damaging effects on the Alaskan oil industry. This is particularly true in view of the extraordinary degree of uncertainty over oil prices; seldom can the picture have been less clear; seldom could it have been more difficult to make investment or tax decisions with any confidence. It would be far better to wait for the dust to settle before major decisions are made.

Another misconception concerns the value of Kuparuk's

productivity. A 1000 barrel per day production well-rate and a 250,000 barrel per day field rate are undoubtedly high by Lower 48 standards. However, in relation to capital and operating costs on the North Slope, and taking into consideration distance from markets, field rates have to be high to make economic sense of development; even the Kuparuk field is currently at the economic margin.

BPAE further challenges the assumption of the discussion paper that the proposed tax change can achieve its stated aim - to encourage further oilfield development on the North Slope. The most likely additional contributors to the State of Alaska's long term revenues are those reserves which have already been identified but which will prove difficult to extract. In particular, within the Kuparuk River Unit we see potential exploitation in the coming thirty years of some 3 billion barrels of as yet undeveloped reserves. These will come from enhanced recovery in the Kuparuk River Reservoir itself, and from development of the West Sak and Ugnu accumulations. These real opportunities require further massive capital investment. BPAE's contribution is likely to be more than two billion dollars in current money. Only companies like BPAE will consider undertaking the huge technical and price risks associated with such investments.

The individual investments are huge and they require innovative and expensive technology to achieve economic field rates. Our analysis shows that both Ugnu and West Sak developments, which require high production to offset corresponding high capital and operating costs, are likely to be discouraged by the proposals under discussion. We suggest it is in the State of Alaska's best interest to encourage development of these resources.

In summary, BPAE submits that Kuparuk is not a good candidate for additional taxation. After-the-fact tax changes create a climate of investment uncertainty not conducive to continued risk-taking. Additional taxation burdens in the present oil price environment will make the investment decisions on Kuparuk enhanced recovery, West Sak and Ugnu development, and future exploration even more difficult.

MR. CHAIRMAN, MEMBERS OF THE FINANCE COMMITTEE, I AM BRIAN DAVIES, VICE PRESIDENT, PRUDHOE BAY PROGRAMS FOR SOHIO ALASKA PETROLEUM COMPANY. MY RESPONSIBILITIES INCLUDE PLANNING AND EVALUATION OF RECOVERY PROJECTS THAT WILL INCREASE PRODUCTION FROM THE PRUDHOE BAY FIELD.

WITH ME IS BOB VAN HOOK, TAX COUNSEL FOR SOHIO ALASKA PETROLEUM COMPANY.

SOHIO APPRECIATES THE OPPORTUNITY TO TESTIFY BEFORE YOU ON HOUSE BILL 545. ADDITIONALLY, WE WILL SUBMIT WRITTEN COMMENTS ON H.B. 502 AND PROPOSALS FOR PREPAYMENT.

WE ARE OPPOSED TO THE REVISION TO THE ECONOMIC LIMITATION FACTOR (ELF) CONTAINED IN H.B. 545 FOR SEVERAL REASONS. FIRST, WE VIEW THE CHANGE AS A TAX INCREASE. THERE IS SUBSTANTIAL ADDITIONAL TAX COST VS. EXISTING LAW. OUR INVESTMENT DECISIONS UNDERSTANDABLY HAVE BEEN BASED ON EXISTING LAW.

SECOND, JUST LIKE THE STATE, WE ARE SUFFERING FROM DECLINING OIL PRICES. AS A RESULT, SOHIO HAS GONE THROUGH A PAINFUL BELT TIGHTENING IN THE LAST SEVEN MONTHS. IN THAT PERIOD, BUSINESSES HAVE BEEN SOLD, PERSONNEL HAVE BEEN SUBSTANTIALLY REDUCED, AND THE EXPLORATION BUDGET HAS BEEN SUBSTANTIALLY CUT FOR 1986. INCREASING TAXES WOULD FURTHER LIMIT SOHIO'S ABILITY TO EXPLORE FOR AND PRODUCE OIL IN ALASKA.

THIRD, A RESULT OF MODIFYING THE ELF IN A MANNER THAT TAXES LARGER FIELDS SUCH AS PRUDHOE AND KUPARUK MORE HEAVILY IS THAT THERE WILL BE AN EARLIER DECLINE AND LOWER ULTIMATE RECOVERY FROM THESE FIELDS.

ADDITIONALLY, THIS BILL'S STATED GOAL OF ENCOURAGING THE DEVELOPMENT OF MARGINAL FIELDS IS NOT MET WITH REGARD TO SMALLER FIELDS LIKE ENDICOTT. CONTRARY TO OMB'S ANALYSIS, OUR OWN REVIEW SHOWS NO SIGNIFICANT REDUCTION IN SEVERANCE TAXES FOR THE ENDICOTT FIELD UNDER THIS PROPOSAL.

THE PROPOSAL FOR INCREASING TAXES ON LARGER, MATURE FIELDS, SUCH AS PRUDHOE BAY AND KUPARUK, FAILS TO RECOGNIZE THAT WITHIN SUCH FIELDS OPPORTUNITIES ARE AVAILABLE TO INCREASE THE OVERALL RECOVERY. THESE OPPORTUNITIES ARE GENERALLY MARGINALLY ECONOMIC AND THEY REQUIRE GREATER EXPENDITURES FOR EACH INCREMENTAL BARREL. THE ULTIMATE DEVELOPMENT OF EVERY FIELD IS GOVERNED BY THESE DECISIONS.

FOR EXAMPLE, ENHANCED OIL RECOVERY PROJECTS DESIGNED TO RECOVER BARRELS OF OIL THAT WOULD BE LEFT IN THE GROUND BY TRADITIONAL METHODS ARE VERY EXPENSIVE. INCREASING THE EFFECTIVE SEVERANCE TAX RATE ON A FIELD WILL DISCOURAGE THE ONGOING RESEARCH THAT THE COMPANIES ARE CONDUCTING RELEVANT TO DEVELOPING NEW ENHANCED OIL RECOVERY METHODS. IT IS NOT PRUDENT TO DISCOURAGE SUCH EFFORTS INASMUCH AS THE STATE WILL BE A MAJOR BENEFICIARY OF SUCH ENHANCED RECOVERY PROJECTS.

ON A LESS TECHNICAL BASIS, MORE WELLS IN THESE LARGER FIELDS WILL RESULT IN MAINTAINING MAXIMUM PRODUCTION LONGER AND WILL INCREASE THE ULTIMATE RECOVERY OF OIL. AGAIN, BOTH THE RISK TAKERS AND THE STATE GAIN FROM THESE ACTIONS.

THE PROPOSED LEGISLATION DISCOURAGES THE DRILLING OF ADDITIONAL WELLS FOR TWO REASONS. FIRST, ALL PRODUCTION WILL BE TAXED AT A HIGHER ABSOLUTE RATE. SECOND, THE INCENTIVE TO DRILL NEW WELLS WHICH IS CONTAINED IN EXISTING STATUTES IS SUBSTANTIALLY DECREASED.

THE DECISION TO DRILL ADDITIONAL WELLS INVOLVES A NUMBER OF FACTORS - ASSUMPTIONS ON THE PRICE OF OIL, TAX STABILITY, RESERVOIR PERFORMANCE AND GEOLOGICAL PREDICTIONS AS WELL AS COST ESTIMATES. THE RESULTS ARE TESTED AGAINST ALTERNATIVE USES OF FUNDS. BECAUSE THE DECISION IS BASED ON A COMPOSITE OF FACTORS, IT IS IMPOSSIBLE TO ASSESS THE EXACT EXTENT OF REDUCED FIELD DEVELOPMENT RESULTING FROM IMPLEMENTATION OF THIS PROPOSAL. I CAN SAY THAT THIS CHANGE WILL CURTAIL FIELD DEVELOPMENT.

EVEN WHERE A PARTICULAR OIL AND GAS FIELD HAS A LONG LIFE SUCH AS PRUDHOE BAY, INDIVIDUAL WELLS IN A FIELD BECOME MARGINAL OR REACH THEIR ECONOMIC LIMIT BEFORE THE LIFE OF OTHER WELLS IN THE FIELD. INCREASING THE ELF BASED ON PRODUCTION LEVELS FROM THE TOTAL FIELD WILL RESULT IN PREMATURE SHUT-IN OF SUCH WELLS AND WILL DISCOURAGE THE EXTENSIVE WELL WORKOVER ACTIVITIES THAT WILL BE REQUIRED TO MAXIMIZE RECOVERY FROM THE FIELD.

WE FEEL THAT THE PROPOSAL BEFORE YOU TO CHANGE THE SEVERANCE TAX ECONOMIC LIMIT FACTOR IS NOT IN THE INTEREST OF THE STATE. BEFORE ANY DECISION IS MADE, HOWEVER, THE SHORT AND LONG TERM IMPACTS FROM SUCH CHANGE SHOULD BE THOROUGHLY STUDIED TO MAKE SURE THAT THE POTENTIAL IMPACTS ON FUTURE INVESTMENT DECISIONS IN THE STATE ARE FULLY UNDERSTOOD. WE FEEL THAT A THOROUGH STUDY OF LONG-RANGE TAX POLICY SHOULD BE CONDUCTED BEFORE MAKING ANY MAJOR CHANGES TO THE EXISTING TAX STRUCTURE. SUCH APPROACH SHOULD ASSIST IN IDENTIFYING FOR THE STATE THE TAX STRUCTURE WHICH MAXIMIZES THE STATE'S REVENUES IN SUCH A WAY AS TO CONTINUE FOSTERING ECONOMIC GROWTH IN THE STATE.

IN SUMMARY, WE ARE OPPOSED TO H.B. 545 FOR THESE REASONS.

1. H.B. 545 IS A TAX INCREASE AT A TIME WHEN THE OIL INDUSTRY IS BEING NEGATIVELY IMPACTED BY LOW PRICES.

2. IN CONTRAST WITH THE EXISTING ELF, H.B. 545 DISCOURAGES THE FULL DEVELOPMENT OF LARGE FIELDS BY REDUCING OR ELIMINATING THE MARGINAL ECONOMICS OF ENHANCED OIL RECOVERY; BY INCREASING THE COST OF NEW WELLS; AND BY REDUCING INCENTIVES TO MAINTAIN EXISTING PRODUCTION THROUGH WELL WORKOVERS.

3. AS OUR ANALYSIS OF THE IMPACT ON ENDICOTT SHOWS, H.B. 545 FAILS IN ITS STATED PURPOSE OF GIVING SEVERANCE TAX RELIEF TO ALL MARGINAL FIELDS.

PRUDHOE BAY CONTAINS 13 BILLION BARRELS OF OIL WHICH WILL NOT BE RECOVERED UNDER CURRENT DEVELOPMENT PLANS. SIMILARLY, KUPARUK CONTAINS 3.5 BILLION BARRELS THAT WILL BE LEFT. THESE BARRELS REPRESENT LARGE RESOURCES, PART OF WHICH ARE MARGINAL. H.B. 545 IS A DISINCENTIVE TO ATTEMPT RECOVERY OF ANY OF THOSE ADDITIONAL BARRELS.

THANK YOU FOR YOUR ATTENTION.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 10, 1986

SUBJECT: Prepayment of disputed taxes
(Work Order 14-1715)

TO: Representative Sam Cotten

FROM: Theresa L. Bannister *TB*
Legislative Counsel

This memo accompanies the draft of your bill relating to payment of oil and gas properties production tax and including a provision requiring payment of the entire amount of taxes due within 30 days even if the tax is appealed.

Article 1, section 7 of the Alaska constitution requires an opportunity for a hearing before a person is deprived of property except in certain situations not relevant here. Etheredge v. Bradley, 502 P.2d 146, 151 (Alaska 1972). It is unclear what type of hearing is necessary to satisfy Etheredge. It is possible the informal conference under AS 43.05.240 that begins the appellate procedure would satisfy Etheredge. The Etheredge case did not deal with taxes and was based in large part on a U.S. Supreme Court case that has been greatly limited by subsequent U.S. Supreme Court decisions. See Fuentes v. Shevin, 407 U.S. 67, 32 L.Ed.2d 556, 92 S.Ct. 1983 (1972), Mitchell v. W.T. Grant Co., 416 U.S. 600, 40 L.Ed.2d 406, 94 S.Ct. 1895 (1974), and New Motor Vehicle Board v. Orrin W. Fox Co., 434 U.S. 1345, 54 L.Ed. 439, 98 S.Ct. 359 (1977). However, the holding in Etheredge has been cited with approval in subsequent Alaska Supreme Court cases, so the Etheredge hearing requirement appears to still be in effect. See Graham v. State, 633 P.2d 211, 216 (1981).

TLB:mkr
M3:005

Enclosure

1 IN THE HOUSE

BY COTTEN

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the payment of oil and gas prop-
7 erties production taxes; and providing for an effec-
8 tive date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 43.55 is amended by adding new sections to read:

11 Sec. 43.55.033. INTERIM PAYMENT OF ADDITIONAL TAX DUE. (a)
12 Within 60 days of the end of each six-month period beginning
13 January 1, 1987, the department shall determine and publish an interim
14 value for oil from each oil-producing field or area in the state for
15 each month of the preceding six-month period for the market where the
16 oil is sold.

17 (b) If a producer reports a monthly price under AS 43.55.030
18 that is less than the interim value of the oil determined under (a) of
19 this section for the month covered by the producer's report, the pro-
20 ducer shall pay to the department the additional tax estimated to be
21 due for the difference between the tax due or paid on the reported
22 price and the tax due on the interim value within 30 days following
23 the publication of the interim value by the department.

24 (c) The department may defer taking action on a claim by a
25 producer for a refund of the additional tax paid under (b) of this
26 section until the department makes a final determination of the tax
27 due from the producer under this chapter for the period covered by the
28 claim.

29 (d) The additional tax due under (b) of this section is

1 delinquent and accrues interest under AS 43.55.060 from the day the
2 tax was originally due under AS 43.55.020 to the day the additional
3 tax is paid.

4 (e) The additional tax that a producer owes under (b) of this
5 section becomes delinquent if not paid by the 31st day following the
6 department's publication of the interim value for the month for which
7 the estimated tax is owed.

8 (f) The department shall allow and pay interest under AS 43.05.-
9 280 on that part of the payment of additional tax made by a producer
10 under (b) of this section that exceeds the tax finally determined by
11 the department to be due for the period for which the producer paid
12 the additional tax.

13 Sec. 43.55.037. PAYMENT UNDER PROTEST. A producer shall pay a
14 tax due to the department under this chapter within 30 days after the
15 date the tax was due even if the producer pursues the remedies pro-
16 vided under AS 43.05.240.

17 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
18 10.070(c).

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

BILL SHEFFIELD, GOVERNOR

REPLY TO:

1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

February 25, 1986

Louann Cutler
Special Assistant to Representative Adams
Pouch V
Juneau, Alaska 99811

Dear Louann,

Enclosed and telexed to you please find the prepayment bill and the bill to amend Court Rule 603. I am sending you the hard copies by DHL today.

Please call me with any questions you may have.

Very truly yours,

HAROLD M. BROWN
ATTORNEY GENERAL

By: *Karen L. Loeffler*
Karen L. Loeffler
Assistant Attorney General

IN THE HOUSE

BY THE FINANCE COMMITTEE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act amending Rule 603 of the Rules of Appellate Procedure of the State of Alaska; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Appellate Rule 603(a) is amended to read:

a) Civil Appeals.

(1) Automatic Stay. Stays of execution or enforcement of district court judgments shall be as set forth in District Court Civil Rule 24(a).

(2) Stay Upon Appeal - Supersedeas Bond. When an appeal is taken, the appellant may obtain a stay of proceedings to enforce the judgment by filing a supersedeas bond with the district court, or with the superior court in administrative appeals, not later than 30 days after the date shown in the clerk's certificate of distribution on the judgment or the date of mailing or delivery of the administrative order appealed from. The bond shall be conditioned for the satisfaction in full of any judgment (including interest and costs) which may be given against the appellant by the superior court, or for satisfaction in full of the judgment (including interest and costs) of the district court if the appeal is dismissed. The bond shall comply with the provisions of Civil Rule 80.

(3) Appeals of Disputed Oil and Gas Taxes. Notwithstanding subdivision 2 of this rule, the appellant may not obtain a stay of

proceedings by filing a supersedeas bond with the superior court in appeals of disputed oil and gas taxes under AS 43.05.240(e).

4 [3] Proceedings on Stay. When an appeal is taken, the district court judge or magistrate shall enter a written order indicating whether or not the proceedings to enforce a judgment have been stayed. If the proceedings are stayed, and process has been issued to enforce the judgment, the judge or magistrate must recall the same by written notice to the officer holding the process. Thereupon the process must be returned to the magistrate, and all property seized or levied upon by virtue of such process must be released if it has not been sold, and in cases of civil arrest, the person arrested must be released from custody. This subdivision of this rule shall not be construed as making any stay retroactive or as invalidating any proceedings or levies prior to the time the stay becomes effective.

* Sec. 2. This Act takes effect upon the effective date of an Act relating to the payment of oil and gas income and properties production taxes; and providing for an effective date.

BY THE FINANCE COMMITTEE

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the payment of oil and gas income and properties production taxes; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 43.05.240 is amended by adding a new subsection to read:

(e) A taxpayer aggrieved by the action of the department in fixing the amount of a tax under AS 43.20.072, former AS 43.21 (Repealed effective January 1, 1982; sec. 19, ch. 116, SLA 1981), or AS 43.55, who wishes to request a formal hearing after the informal conference, shall pay the taxes, penalties, and interest declared to be due in the decision resulting from the informal conference. A taxpayer who has elected to request a formal hearing in place of the informal conference under the procedures set out in (b)(1) of this section shall pay the taxes, penalties, and interest declared to be due in the notice of assessment required to be given the taxpayer by the department. The taxes, penalties, and interest due shall be paid within the time limits for requesting a formal hearing set out in (b) of this section.

* Sec. 2. AS 43.05 is amended by adding a new section to read:

Sec. 43.05.242. INTERIM DEPOSIT OF AMOUNTS PAID UNDER PROTEST.

(a) There is created in the Department of Revenue the interim depository of disputed oil and gas taxes trust account.

(b) The department shall deposit amounts paid by a taxpayer under AS 43.05.240(e) into the interim depository of disputed oil and gas taxes trust account and shall retain those amounts in that account until final resolution of the taxpayer's appeal, by settlement or otherwise, at which time the amounts determined to be due the state must be deposited in the general fund and the amounts determined to be due the taxpayer must be paid to the taxpayer out of the interim depository of disputed oil and gas taxes trust account.

* Sec. 3. AS 43.20.270(a) is amended to read:

(a) The department may collect taxes, with interest, penalties, and other additional amounts permitted by law, by distraint and sale, in the manner provided by this section, of the property of a person liable to pay the taxes, interest, penalties, or other additional amounts who neglects or refuses to pay them within 10 days from the mailing of notice and demand for payment of them, and who has not appealed from the assessment of the taxes, interest, penalties, and other additional amounts under AS 43.05.240. The department's authority to collect taxes, with interest, penalties, and other additional amounts permitted by law, in the manner provided in this section, applies to a taxpayer who neglects or refuses to pay the amounts due under AS 43.05.240(e).

* Sec. 4. This Act applies to all appeals under AS 43.20.072, former AS 43.21, and AS 43.55 currently pending before the department as of the effective date of the Act.

* Sec. 5. This Act takes effect immediately in accordance with AS 01.10.070(c).

April 18, 1986

POTENTIAL "ELF" PROBLEM

Alaska's petroleum severance tax is a major source of the state's revenues, an estimated \$770.5 million of the \$2077.6 million projected for FY 87. North Slope producers currently pay the full 15 percent nominal severance tax rate, with a downward adjustment scheduled to begin in 1987 on the Prudhoe Bay field.

The formula for the adjustment of the nominal severance tax rate is called the economic limit factor, fondly known as the ELF. Under the ELF, actual severance tax paid equals [ELF X statutory tax rate]. The severance tax features an 80¢/barrel minimum tax, supposedly an insulating barrier from low oil prices. But, the 80¢/barrel minimum tax is also subject to the ELF under AS 43.55.011(a). The ELF is not operative until its calculated value is .7 or less, or until a field begins its eleventh year of production.

The ELF formula is:

$$[(460 \times WD)/PEL]$$

$$ELF = (1 - PEL/TP)$$

This unwieldy formula can be simplified to the following:

1.533

$$\text{Current ELF} = (1 - 300/\text{well production})$$

(See Attachment A for further explanation of terms and detail).

The controlling factor of the ELF formula is the PEL. Put simply, PEL is the amount of production needed to cover direct operating costs. Under current statute, that amount is specified to be 300 barrels per day. But, as wellhead values decrease, PEL increases since it takes more barrels to cover actual operating costs. The producers can request a change in the official PEL, based on one month's market prices and four consecutive months' of operating costs. Given the predictions that prices will stay low, on average, for the next 18 months, then operating costs will be proportionately larger as a percentage of the total production than in the past. As the PEL increases, the value of ELF decreases, eventually becoming zero. A zero ELF means, of course, zero severance taxes.

Low wellhead prices make it conceivable that producers will request the necessary administrative hearing(s) to increase the PEL which will, in turn, decrease the ELF, which will, in turn, decrease the amount of severance tax received by the State. The Dept. of Revenue calculates that at today's prices the PEL is greater than 300 barrels/day at three North Slope fields - Kuparuk, Milne Point and Lisburne.

The ELF for Prudhoe Bay production becomes sensitive to price after wellhead prices go below \$2/barrel, or \$11/barrel on the West Coast and \$13.50 on the Gulf. The Prudhoe Bay wellhead value becomes zero at a West Coast market price of \$6.50 and a Gulf Coast price of \$9.00. Thus, it may be to the producers' economic advantage to ask for a new Prudhoe Bay PEL/ELF calculation if the price falls to \$11 West Coast and \$13.50 Gulf. Prudhoe Bay will provide between 83.7 and 86 percent of the expected FY87 production.

The ELFs for the Kuparuk, Milne Point and Lisburne fields are considerably more sensitive to probable oil prices than is Prudhoe Bay.

The ELF for Kuparuk becomes sensitive to prices when the wellhead price falls below \$3/bbl. The Kuparuk ELF reaches .7 at approximately \$12.50 West Coast and \$15.00 Gulf, and drops to zero at \$8.10 West Coast and \$10.60 Gulf. Kuparuk will provide between 11.8 and 12 percent of the expected FY87 production.

The ELF for Milne Point becomes sensitive to prices when the wellhead falls below \$5.00/bbl. The Milne Point ELF reaches .7 at approximately \$13.70 West Coast and \$16.20 Gulf, and drops to zero at \$10.30 West Coast and \$12.80 Gulf. Milne Point will provide between 1.6 and 2 percent of the expected FY87 production.

Production at Lisburne is still scheduled to begin in December 1986 or early 1987. The Lisburne ELF also becomes sensitive to prices when the wellhead drops below \$5.00/bbl. The Lisburne ELF reaches .7 at approximately \$10.60 West Coast and \$13.10 Gulf, and drops to zero at \$7.20 West Coast and \$9.50 Gulf. If Lisburne goes on line on schedule, it will provide about 2.7 percent of the expected FY87 production.

To trigger the re-evaluation of the value of the PEL/ELF, the producers must request an administrative hearing, either by February 15 of the affected year or within the first six months after commencement of a field's production. Once set, the ELF cannot be changed during that calendar year [AS 43.55.013(d)].

For Prudhoe Bay, the ELF kicks in automatically under current statute on June 17, 1977, although a change could take place as early as the beginning of 1987. A changed PEL/ELF could be established for Kuparuk, effective January 1, 1987, while different PEL/ELFs for both Milne Point and Lisburne fields could be established retroactive to the beginning of production as both fields are or will be in their respective first six months of production. Once the PEL/ELF is changed, its new valuation is set for the calendar year. Whether a change takes place depends on market prices and the producers' willingness to request the necessary administrative hearing this fall. Under the provisions of AS 43, the hearing would be confidential and action would proceed without any notification to the legislature.

Also, the statute does not provide the Dept. of Revenue with discretionary powers. The direct operating costs are tightly and narrowly defined in statute [AS 43.55.013(e)]. Thus, the request would be evaluated on mathematics -- does it now take more than 300 barrels per day to pay direct operating costs? At this time it appears that the actual PEL is more than 300 barrels/day in the Kuparuk, Milne Point, and Lisburne fields.

At risk is some portion of about \$38.5 million in FY 87 severance taxes from Milne Point, Lisburne, and Kuparuk production. The Dept. of Revenue and OMB expect the loss of at least \$12 to 14 million. The \$38.5 million equals about 5% of total severance taxes expected, or about 2% of total state revenues. Also at risk is some portion of about \$28.2 million in FY 88 severance taxes, or about 2% of total state revenues.

These calculations are based on the March 1986 revenue projections, including TAPS. For FY87, Milne Point and Lisburne are each expected to bring in \$7.7 million, while Kuparuk would bring in \$23.1 million for the period January 1, 1987 through June 30, 1987. For FY88, Milne Point, Lisburne, and Kuparuk should generate \$56.4 million in severance taxes. Half this amount, or \$28.2 million would be at risk because the new ELFs would remain in effect through the calendar year 1987.

A simple statutory change can provide a fundamental protection for the State's severance tax income so that it is never calculated on less than the 80¢/bbl floor set out in AS 43.55.011(c).

The necessary language would be as follows:

* Section 1. AS 43.55.011(a) is amended to read:

Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon the producer of oil a tax for all oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation. The tax is equal to either the percentage-of-value amount calculated under (b) of this section, multiplied by the economic limit factor determined for the oil production of the lease or property under AS 43.55.013, or the cents-per-barrel amount calculated under (c) of this section, whichever is greater[, MULTIPLIED BY THE ECONOMIC LIMIT FACTOR DETERMINED FOR THE OIL PRODUCTION OF THE LEASE OR PROPERTY UNDER AS 43.55.013]. If the amounts calculated under (b) and (c) of this section are equal, the amount calculated under (c) [(b)] shall be treated as if it were the greater for purposes of this section.

* Section 2. Section 1 of this Act takes effect immediately in accordance with AS 01.10.070(c).

This language does not attempt to solve another identified issue - inflation-proofing the cents-per-barrel floor. The 80c/bbl floor was originally established in 1977, and has not been revised since that time, despite the considerable effects of inflation during the past nine years. In today's dollars, the 80c of 1977 would be about \$1.25.

There also exist potential problems with royalty revenue. At zero wellhead value, the State receives no royalty revenue except from those sales contracts which specify a premium over "in value" price. Those contracts affect only about 25% of the royalty share, providing 30¢ to 35¢/barrel premium. (The following royalty contracts currently provide premiums above the "in value" price: Tesoro- second contract, 13.876% of Prudhoe Bay royalty production; Chevron, 9.6% of Prudhoe Bay royalty production; GVEA, 2.667% of Prudhoe Bay royalty production; and Petrostar, 19.198% of Kuparuk royalty production).

Unfortunately, the economic interests of the producers and the State are not the same because of the TAPS tariff, shipping costs, and the producers' federal taxes. It is apparently in the producers' economic interests to maintain the flow of Prudhoe Bay oil until the market price drops to approximately \$3 on the West Coast and \$5.50 on the Gulf. Thus, the State could conceivably find itself in the situation where its royalty oil has little or no value in terms of state revenues yet the oil is pumped daily into TAPS. In fact, there is even the remote possibility of a 70¢/bbl cleaning and dehydration charge on all royalty barrels being levied against the State by the producers even when the wellhead value is zero.

The possible actions necessary to protect the State's royalty revenue seem to be administrative in nature, and would involve cooperative negotiations with the producers. In contrast, the severance tax floor can be fixed only through legislative action.

NORTH SLOPE PRODUCTION AND THE ELF

| FIELD | PRUDHOE BAY | KUPARUK | MILNE POINT | LISBURNE |
|---|--------------------------------------|---|--|---|
| Wellhead price at which field becomes sensitive to ELF | \$2.00 or less/bbl | \$3.61 or less/bbl PEL > 300 at 3.61 WH | \$5.00 or less/bbl PEL > 300 at \$4.85 WH | \$5.00 or less/bbl PEL > 300 at \$4.90 WH |
| Sales price/value at which ELF reaches .7 West Coast Gulf | Now above .7 7.15 WC 9.65 Gulf | Now below .7 Approx 12.50 WC 15.00 Gulf | Now below .7 Approx 13.70 WC 16.20 Gulf | Now below .7 Approx 10.60 WC 13.10 Gulf |
| Sales price/value at which ELF reaches 0 West Coast Gulf | 6.50 WC 9.00 Gulf | > \$1.20 Wellhead 8.10 WC 10.60 Gulf | > \$1.50 Wellhead 10.30 WC 12.80 Gulf | > \$1.50 Wellhead 7.20 WC 9.50 Gulf |
| Time period for confidential hearing request | By Feb. 15, 1987 | By Feb. 15, 1987 | (1) Within first 6 months of production (by May 15, 1986) or (2) By Feb. 15, 1987 | (1) Within first 6 months of production (Scheduled to begin Dec. 1986 or Jan 1987), or (2) Feb 15, 1987, whichever is latest |
| Time period when new ELF would apply | 1987 | 1987 | (1) Retroactive to beginning of production or (2) 1987, depending on timing of request | (1) Retroactive to beginning of production or (2) 1987 |
| Basis for calculation of current direct operating costs (PEL) | 300 bbls/day | 300 bbls/day | 300 bbls/day | 300 bbls/day |
| Percentage of North Slope production: w/o Lisburne with Lisburne | 86% 83.7% | 12% 11.8% | 2% 1.6% | N/A 2.7% |
| Percentage of expected severance tax for FY 87 (based on March forecast) and dollar value | 92% \$708.9 million | 6% \$46.2 million | 1% \$7.7 million | 1% \$7.7 million |
| Percentage of expected severance tax for FY 88 (based on March forecast) and dollar value | 89.4% \$476.5 million | 7.1% \$37.8 million | 1.3% \$6.9 million | 2.2% \$11.7 million |