OIL &
GAS
HEARING
1995

Alaska Oil and Gas Association

AOGA

121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907)272-1481 Direct: (907)272-7424 Fax: (907)279-8114
L. A. (Ardie) Gray, Public Affairs Manager

January 31, 1995

The Honorable Loren Leman, Chairman
Resources Committee
Alaska State Senate
Capitol Building
Juneau, Alaska

Dear Senator Leman:

Attached, for your information and reference, is a synopsis of Alaska oil and gas taxes and a listing of current incentives.

The listing of incentives was compiled by AOGA based on conversations with agency personnel from the Departments of Natural Resources and Revenue. Input also was received from Gordon Harrison, Legislative Research Agency. Information on the application of some of the incentives was based on the recollection of agency staff.

Please let us know if we can be of any additional assistance.

Sincerely,

L. A. Gray

L. A. GRAY
Public Affairs Manager

Attachment

BagS Srea incentives

ALASKA

CURRENT TAXES

Income Taxes		9.4% Corporate Income Tax
Property Tax		20 mils/2% of assessed value
Severance/Production	Gas	10% of Market Value or $0.064 per MCF, whichever is greater
	Oil	12.25% of Market Value for first five years 15% after first five years or $0.80 per barrel, whichever is higher.
	• Oil	Oil and Gas Severance Taxes subject to Economic Limit Factor (ELF). See Below.
Conservation Tax	Gas	4 tenths of a percent per 50,000 cubic feet of natural gas
	Oil	4 tenths of one percent per barrel with conservation surcharge of $0.03 and $0.02 per barrel of crude oil to fund Oil and Hazardous Substance Release Prevention and Response Fund ($0.02 per barrel surcharge suspended when Response Account balance equals $50 million.)

ECONOMIC INCENTIVES - PRODUCTION/DEVELOPMENT

AS 43.55.013 - Economic Limit Factor - The respective severance tax rates for oil and gas are reduced by a fields' ELF. During the life of a field, production diminishes faster than operating costs. At the economic limit total costs including operation costs, royalties and production taxes exceed gross revenue and the field becomes uneconomic. Production tax rates for each individual field are modified by the economic limit factor (ELF) which is a value between zero and one. The ELF is a factor which is multiplied by the nominal production tax rate to derive an effective production tax rate for each field. The ELF varies based upon a field's size, as measured in total throughput, and by the field's average per well productivity. Severance taxes paid on oil production - Of the 26 producing leases or properties, four major fields pay the majority of severance taxes, two fields pay nominal severance taxes.

Co-Mingling: 15 AAC 55.027 of the new production tax regulations (effective Jan. 1995) will allow producing fields to share facilities while maintaining each fields' "distinct field" status for ELF purposes. Three "sets" of fields are currently sharing facilities. No application for co-mingling/shared facilities has been denied. Section 027 of the new regulations provide for appealing DOR's decision if an application is denied. The Commissioner of Revenue makes the ultimate decision.

Non-Taxed Produced Gas 15 AAC 55.151 (a) of the new production tax regulations allow free use of gas for enhanced recovery purposes.

AS 38.05.180 (j) - Royalty Reduction After two years of lease production, royalty may be reduced to prolong economic life of a field. Lessee must show revenue is insufficient to yield a reasonable rate of return. According to Dept. of Natural Resources, only one has been granted in the recent past (Note-information from DNR is not conclusive). The DNR Commissioner has ultimate authority to approve royalty reduction.

Code Sec. 43 - EOR Credit Federal Enhanced Recovery income tax credit deduction may be claimed on state income tax. May be taken as a line item deduction on state income tax return. DOR does not have compiled information on number of companies or amount of credits claimed or allowed.

AS 43.20.042 - Industrial Incentive Credit of 10% of cost for gas processing projects applied against income tax. May be taken as a line item deduction on state income tax return. DOR does not have compiled information on the number of companies or amount of credits claimed or allowed. Through the audit process claims can be contested or denied. Appeals are handled through the existing appeals process i.e., informal conference and formal hearing process. The Commissioner of Revenue ultimately signs the findings of the formal hearing.

AS 38.05.180 - Discovery Royalty Credit - Repealed by Chapter 65 SLA 1969 - Provides that a lessee who makes first discovery of oil or gas in commercial quantities in a geologic structure pay a royalty of five percent for 10 years following the date of discovery and 12.5 percent royalty thereafter. Some leases issued up to the point of repeal could still quality.

ECONOMIC INCENTIVES - EXPLORATION

AS 38.05.180 (l) - Exploration Credits Provides for a credit of up to 50% of certain exploration costs that can be applied against royalty, rentals and severance taxes due the state. This provision is accomplished by state leases. Covers two years following the lease sale and applies to well footage drilled and geophysical costs. Geophysical data must be made public. EIC has been offered in 10 sales. Credits have been granted on 20 EIC wells. Only one application for credits has been denied recently, according to DNR (Note-information from DNR is not conclusive). 11 AAC 83.820 defines the process for appeal to the DNR Commissioner, who makes the final decision.

NEW EXPLORATION INCENTIVES

AS 41.09.100 - Exploration Incentive Credits Provides for a credit of $5 million per project (total of all credits $30 million) for geophysical work, exploration or strat test wells. Credit may be applied against taxes or bonus payments. Credit may not exceed 50% of eligible costs on state-owned land and 25% on land not owned by the state. Credit must be used within 5 years and may be assigned. Data confidential for 24 months. Status - Regulations pending.

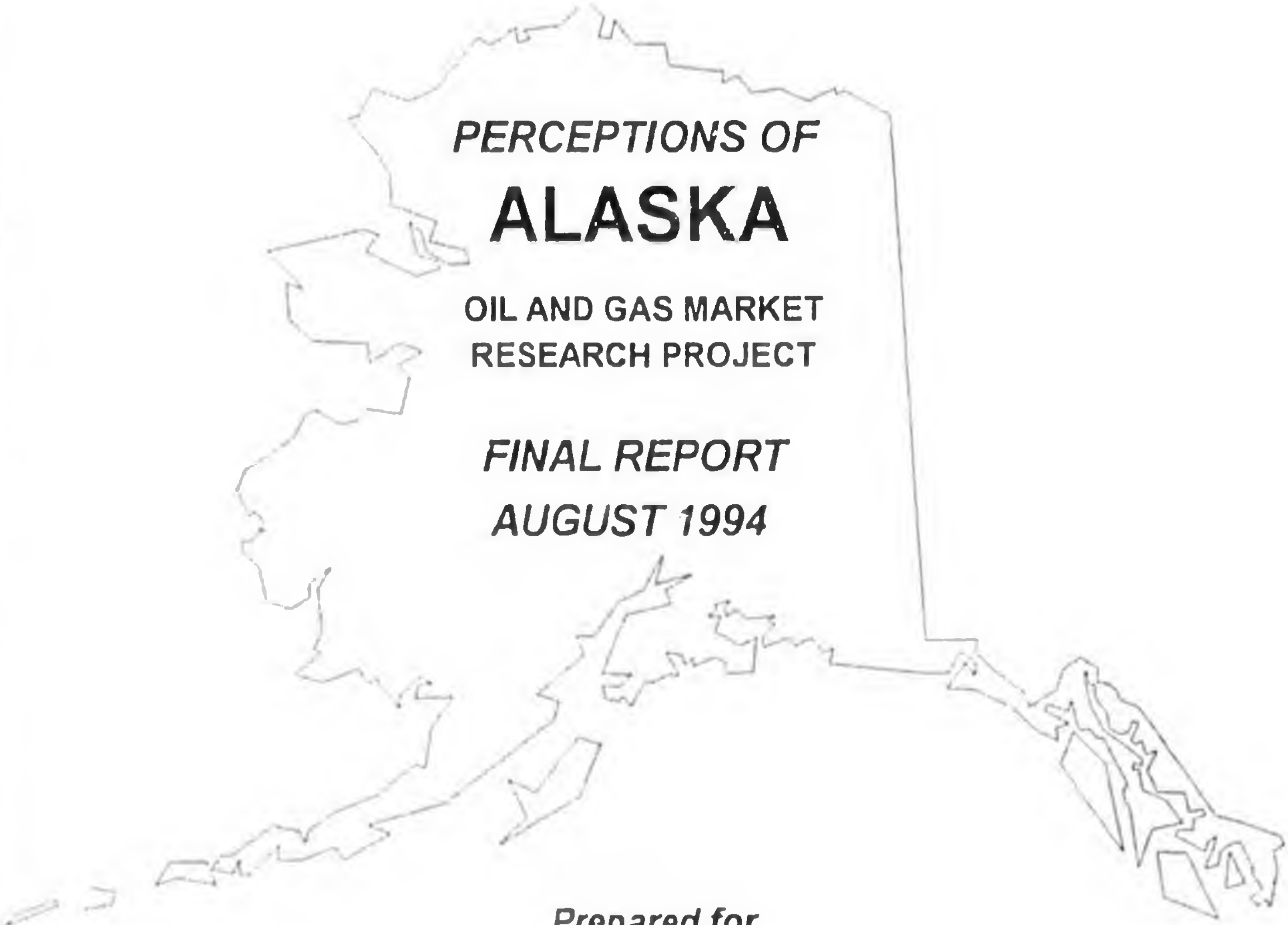
Exploration Licensing Provides for licensing of up to 500,000 acres conditioned upon an obligation to perform a specific work commitment. (Maximum acres which can be held under license 2 million acres.) Gives licensee option to convert to lease upon completion of work commitment. Status - Regulations pending.

AOGA key policy issues recommendations

The 17 AOGA member companies identified and developed consensus positions on the following key issues which, if resolved, would enhance oil and gas development to the benefit of industry and the State of Alaska.

AGENCY	*DESIRED ACTION*	*BENEFIT*
REVENUE	Initiate an independent review of state tax audit and appeals process.	A timely, fair, impartial tax audit and appeals system will benefit both the state and the industry by cutting back the amount of expensive and time-consuming litigation, giving needed certainty as to what taxes are actually currently owed.
REVENUE	Clarify and simplify regulations for taxable value of production and ROI for tankers.	The issues of prevailing value and "ROI" have been a continuing source of complex, changing and inconsistent audit decisions over the years, resulting in continuing rounds of controversy and litigation. The industry and the state would benefit from simple-to-apply, and as a result, timely and litigation-free rules for these two issues.
NATURAL RESOURCES	Develop policies and regulations which accomplish the certainty of lease closure.	Adoption of policies and regulations will provide guidance to both state and industry on the full extent of obligations upon lease termination.
NATURAL RESOURCES	Implement an oil and gas leasing policy work session to improve and strengthen the state's leasing program.	A predictable oil and gas leasing program allows the state, public, local governments and the industry to efficiently plan for oil and gas related activities and fiscal expenditures.
ENVIRONMENTAL CONSERVATION	ADEC should (1) implement water quality regulations developed during finalize Phase I of the Triennial Review; (2) establish an Advisory Group process for Phase II that will result in timely development of scientifically-based Standards; and (3) coordinate with other state agencies in comments to EPA supporting technically and economically based Coastal Effluent Guidelines and NPDES permits.	These regulations will set the stage for standards to be developed under Phase II. Restructuring the Advisory Group to a smaller number of participants who are empowered to represent their constituencies and are allowed to participate in the drafting of regulatory proposals will increase the efficiency of the process and ensure the concerns of Alaskans are appropriately considered. Coordination of a state response to EPA proposals governing offshore discharges will ensure the state's interests in both environmental protection and continued oil and gas production are considered.
ENVIRONMENTAL CONSERVATION	Streamline oil spill prevention and response requirements.	Limited public and private resources will be reduced without sacrificing protection.

AGENCY	DESIRED ACTION	BENEFIT
ENVIRONMENTAL CONSERVATION	ADEC should adopt air quality regulations which incorporate recommendations received from the regulated community; centralize the permit program in Anchorage; and report regularly on program and administrative costs and fees.	Adoption of a state program ensures the unique conditions faced by Alaska facilities are recognized and allows the state to set fees which are fair and equitable. Administration of the program by a centralized function operating out of Anchorage will result in reduced program costs, increased permitting efficiency and consistent statewide permit decisions.
ENVIRONMENTAL CONSERVATION	ADEC should provide for flexible solid waste management regulations for municipal landfills and facilitate permitting a new North Slope Borough landfill near Deadhorse.	New federal landfill criteria could drive small communities to avoid permitting a landfill altogether, leading to the potential for open dumping and environmental degradation. Unless EPA allows the state to have added flexibility in the management of local landfills, the state may have to provide financial assistance to small bush communities in order to establish compliance, thereby increasing the demand on state funds at a time when oil and gas revenues are declining.
ENVIRONMENTAL CONSERVATION	ADEC should promulgate Solid Waste Regulations that provide for timely, cost effective closure of reserve pits.	Adoption of appropriate regulations will add clarity and certainty to the process, facilitate state decision-making on these reserve pits, and resolve long-standing reserve pit issues.
GOVERNOR	A task force should be established to review authorities and regulations governing oil and gas operations to identify opportunities for consolidation and elimination of redundancy.	The independence and funding of the Alaska Oil and Gas Conservation Commission is fundamental to the state's interests. Identification and elimination of overlapping or duplicative authorities will result in increased efficiency of state agencies, with commensurate savings of state expenditures.
GOVERNOR	The State should work with Alaska Stakeholders and the Congressional Delegation to secure legislation in the 104th Congress addressing Alaska's wetlands problems.	Development of reasonable wetlands legislation and regulations and adoption of policies which recognize the unique position of Alaska will allow development of needed infrastructure in coastal communities and allow Alaska's resources to be developed without sacrificing environmental protection.
GOVERNOR	The State should encourage the USFWS to develop a Polar Bear Habitat Conservation Strategy that does not restrict subsistence activities or access to lands such as ANWR and offshore areas.	State involvement in commenting on this federal initiative will protect the state's interests in development of resources on state lands and subsistence rights of native Alaskans.



PERCEPTIONS OF

ALASKA

OIL AND GAS MARKET RESEARCH PROJECT

FINAL REPORT
AUGUST 1994

Prepared for

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF ECONOMIC DEVELOPMENT

Prepared under
ASPS Number 94-0101

Gaffney, Cline & Associates
A816.00 August 1994

1. EXECUTIVE SUMMARY

Alaska represents the principal remaining potential for significant oil and gas discoveries and development in the United States. It comprises some 25% of total domestic production and will become an increasingly important part of the U.S. oil supply as production from the Lower-48 inexorably declines. The state also contains major natural gas resources which, with the right confluence of markets and investment capital, could provide the basis for a world-scale gas development project.

Against this backdrop and the persistent low oil price environment, it is fair to say that the oil and gas industry in Alaska is in a state of near-crisis which, left unattended, has the potential for severe long-term damage to both public and private interests in the state.

The oil and gas industry worldwide is undergoing significant and traumatic changes as it struggles to compete for capital in an environment where the value of a barrel of oil has been at its lowest level in *real* terms for a quarter century. The price softness evidenced over the second half of 1993 and first half of 1994 is perceived by most observers to be a longer term rather than transitory phenomenon and, as a result, areas in which oil production has lower value (because of high operating costs, high transportation costs, high state-stake, poor quality or disadvantaged markets) are under enormous pressure. Alaska, on every count, is in this category.

There are ways in which the negative effects of low value or high-cost production can be mitigated – many of the areas with which Alaska competes are aggressively modifying their fiscal and regulatory terms and conditions to attract the industry's increasingly scarce capital. Although Alaska enjoys certain advantages relative to other areas, they are not sufficient to offset or overcome the disadvantages that result from the high-cost environment and a fiscally regressive and perhaps divisively-administered fiscal and regulatory system that developed its approach and culture during the extremely volatile (in terms of oil prices) period between 1976 and 1986.

Recent initiatives in respect of large-block leasing, exploration incentives and the increased industry participation towards the resolution of the long-standing production tax issues are clearly positive and commendable steps. So, too, are the state's recent suggestions in respect of tieing together smaller accumulations that on a stand-alone basis are sub-economic, but with shared facilities and cooperation may, in aggregate, be commercially viable.

The single largest step towards improving and optimizing the situation would be an improvement in the communications and working relationships between the industry and the government. Any improvement in this critical area can lead only to mutual benefit, a fact which perhaps both industry and government appreciate, but this relationship, notwithstanding more recent cooperative initiatives, has so far eluded the level of effort and cooperation demanded of each party. As a consequence of the era in which the Alaskan oil industry grew so rapidly and, perhaps, as a partial consequence of the state's isolation, the key players have retained views on the industry which are largely out-of-step with the current economic realities of the business and the fierce competition for capital from other areas.

Protection of the state's interests in the longer term will, we believe, require:

- A more fiscally progressive approach to legislation that encourages development, especially of existing discoveries, at lower oil prices, but claws back revenue from the more profitable projects or after prices rise, i.e., moving the system more towards a profit rather than revenue-based taxation system

- A more aggressive effort to spur increased industry investment in the Alaska petroleum sector.

- A heightened appreciation of industry trends, fundamentals and economics on the part of the state's regulators which might encourage an improved relationship between state and industry to the ultimate benefit of both parties.

- On the part of the industry, a re-assessment of priorities which recognizes the criticality of the industry's effective handling of public policy issues in a state where the industry has both the key economic role and the highest profile

- An extraordinary effort to overcome the natural communication gap and disruption that occurs between the two critical players as both the key managers in the private companies in Alaska and the state commissioners are rotated or replaced before either can gain (and act on) a more complete appreciation of the industry's role in Alaska or develop a more stable working relationship with their counterparts

Selected charts from the following report:

PRODUCTION = JOBS & REVENUES

PROPOSED ECONOMIC PROGRAMS

PREPARED FOR

CENTER FOR LEGISLATIVE ENERGY AND ENVIRONMENTAL RESEARCH (CLEER)

CLEER Program Advisory Board Member Companies Participating in the Preparation of this Report

Coastal
Louisiana Land & Exploration
Marathon Oil Company
Meridian Oil, Inc.
Phillips Petroleum Company
Shell

Presented December 1993
Keystone, Colorado

Full report available from:

Kim Randle, CLEER Liaison
Center for Legislative Energy + Environmental Research
122 N. Carpenter Freeway
Suite 525
Irving, Texas 75039
(214) 717-8105 PH
(214) 717-6107 FAX

SUMMARY OF TAXES AND RATES FOR THE MEMBER STATES / PROVINCE

The taxes, set out below, of the member states and province are summarized on the following pages:

Tax — States / Province — X = Tax exists in State / Province

Tax	Al	Ak	Ar	Co	La	Ms	NM	Ok	Tx	Wy	AB
Income	x	x	x	x	x	x	x	x	x	No	x
Property	x	x	x	x	x	No	x	x	x	x	x
Severance	x	x	x	x	x	x	x	x	x	x	x
Conservation	x	x	x	x	No	No	x	x	x	x	No
Sales / Use	x	No	x	x	x	x	x	x	x	x	x
Franchise	x	No	x	No	x	No	No	x	x	x	No

INCOME TAXES

Summary of Taxes and Rates by Member States/Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	See Franchise Tax	No	Yes
5.0% of Taxable Income with 27.5% Depletion Allowance	9.4% Corporate Income Tax	1% to 6% incremental rate on net income under $100,000 Flat rate of 6.5% on net income over $100,000	5.0% Effective 7/1/93	4% 1st 25K 5% 2nd 25K 6% next 50K 7% next 100K 8% > 200 K	3% 1st $5K 4% 2d $5K 5% on all amounts in excess of $10,000	4.8% 1st 500K 6.4% 2d 500K 7.6% > 1 mil	6.0% of Income			15.5% Province Corporate Rate on taxable income in the province

GENERAL PROPERTY TAXES

Summary of Taxes by Member States/Province*

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	Yes	Yes	Yes	Yes		Yes	Yes	Yes	Yes	Yes
. O/G Prod is Exempt . Well Equip Assessed at Book Value x 20% assessment ratio	20 mils / 2% of assessed value	Oil and Gas Production at a 20% rate of assessed Market Value	. O/G Prod Valued at 87.6% of Sell Price of Prev. Years Production Excluding Govt Royalty . Well Equip is Valued at 29% of Replacement Cost Less First Year's Depreciation	. O/G Prod is Exempt . Surface Well Equip Valued at 16% of Market Value less Depreciation	. O/G Prod is Exempt	. Assess on 33.3% of 150% of Prior Year's Value . Equip Assessed at 33.3% of 27% of Prior Years Value less Exempt Royalties	. O/G Prod is Exempt . Shut In Wells are assessed at 10% of Market Value of Equip	. O/G Prod Valued at 100% Market Value of Remaining Reserves Using DCF Approach . Well Equip Valued 100% of Market Value	. O/G Prod 100% of Previous Year's Value Less Exempt Royalties . Surface Well Equip Assessed at 11.5% of Actual Value	Local tax only. No cap. Based on market value. Effective tax rate ranges between 1.2% to 3+%.

* All assessments times Local Levy

States that Exempt Oil and Gas Production are Alabama, Louisiana, Mississippi and Oklahoma

SEVERANCE / PRODUCTION TAXES

Summary of Taxes and Rates by Member States/Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wells Drilled before 7/1/88 Onshore 10% of Value Offshore 8% of Value After 7/1/88 Onshore 8% of Value Offshore 6% of Value	Gas - 10 % of Market Value or $0.64 per MCF, whichever is greater Oil - 12.25% of Market Value for first five yrs 15% thereafter or $0.80 per barrel, whichever is higher Subject to Economic Limit Factor	Gas - 3/10ths of one cent per MCF Oil - 5% of market value at time and point of severance	Gas - 2% - 1st 25K 3%-next 75K 4%-next200K 5% > 300 K Oil - 2% - 1st 25K 3%-next 75K 4%-next200K 5% > 300 K	Gas - $0.078 MCF Gas 0.03 MCF Oil 0.013 MCF from wells with less than 250,000 CF Daily Prod. Oil - 12.5% of Value at the Wellhead 6.25% - Wells < 25 BPD/50% Saltwater 3.125% - Wells < 10 BPD	6% of Market Value for Oil and Gas	Gas -3.75% of Value + Privilege Tax of 4% of Value Oil - 3.75% of Value + Privilege Tax of 3.15% of Value	7.095% of Market Value for Oil and Gas	Gas - 7.5% of Value at the Well Sweet/Sour Gas Not Less than 121/1600 of 1 Cent Per MCF Oil - Greater of 4.6% of Value or 4.6 Cents per Barrel	6% of Market Value for Oil and Gas Subject to Wildcat Well at 2% for first 4 years Tertiary and Stripper - Rate reduced to 4% for 5 years New Wells betwn 7/1/93 and 12/31/96 excluding horz wells, first 40 BPD or 240 MCFD taxed at 2% for 24 months Workovers - betwn 7/1/93 and 12/31/96, Incr. prod. at 2% for first 24 months	Freehold Mineral tax on privately held mineral rights. Price and Prod. sensitive formula.

CONSERVATION TAXES

Summary of Taxes and Rates by Member States/Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No
Gas - 2% of Value	Gas - 4 tenths of a percent per 50,000 CF	Gas - 5 mills per MCF	Gas - 1.5 Mills Per Dollar of Value at the Well			Gas - 18/100 of 1% of Value (Fund over $1 Million)	Gas - $0.07 per 1,000 CF Less 7% of Value of casinghead Gas (Max Tax of 1/3 of Value)	Gas .003 Cent per MCF	Gas - .06% of Value	See Royalty Provisions
Oil - 2% of Value	Oil - 4 tenths of a percent per barrel with conservation surcharge of $0.05 per barrel of oil	Oil - 25 mills per barrel	Oil - 1.5 Mills Per Dollar of Value at the Well			Oil - 18/100 of 1% of Value (Fund over $1 Million)		Oil - 3/16 of 1 Cent per BBL + 5/16 Cent per BBL for Clean Up	Oil - .06% of Value	

SALES AND USE TAXES

Summary of Taxes and Rates by Member States/Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4% - State		4.5% - State	3% - State	4% - State	7% - State	5% - State	4.5% - State	6.25% -State	4% - State	7% Federal Goods and Services tax
6% - County, Local, MTA		Varies among locals, but total tax can not exceed $25 on single purchase	4% - County, Local, MTA	4% - County, Local, MTA		2.06% - County, Local, MTA	6.25% - County, Local, MTA	2% - County, Local, MTA	2% County, Local, MTA	

FRANCHISE TAX

Summary of Taxes and Rates by Member States/Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	No	Yes	No	Yes	No	No	Yes	Yes	Yes	No
$3 per $1,000 of Taxable Alabama Capital		0.11% of par value of capital stock in Ark. real and personal property bears to total value of real and personal property of corporation		$1.50 Per $1000 of 1st $300,000 $3 Per $1000 on Remainder of Equity in State			$1.50 / 1000 of Stockholder Equity in the State Maximum of $20,000 per Year	Higher of 4.5% of Taxable Income Apportioned to the State or $2.50/1000 Stockholder Equity in State	$100 Per $1,000,000 Assets in the State	

SUMMARY OF EXISTING ECONOMIC PROGRAMS

BY

MEMBER STATE / PROVINCE

The following economic programs of the member states / province are summarized on the following pages:

Program States / Province X = Program exists in State / Province

	Al	Ak*	Ar	Co	La	Ms	NM	Ok	Tx	Wy	AB
Enhanced Rec	x	No	No	No	No	No	x	x	x	No	x
High Cost Gas	x	No	No	No	No	x	No	No	x	No	x
Horizontal Wells	No	No	No	No	x	No	No	x	No	No	x
Inactive Wells	No	No	No	No	No	No	No	No	x	No	x
Marginal Well	x	No	x	x	x	No	No	No	No	x	x
New Fields	No	No	No	No	x	No	No	No	x	x	x
Tertiary	No	No	No	No	x	x	x	x	No	x	x

* Economic Limit Factor helps in some of these areas, but none of these specific programs exist.

ENHANCED OIL RECOVERY

Summary of Existing Economic Programs by Member State / Province

Alabama	Alaska	Arkansas	Colorado	Louisiana*	Mississippi	N. Mexico	Oklahoma*	Texas*	Wyoming*	Alberta
Yes	No	No	No	No	No	Yes	Yes	Yes	NO	Yes
6% of Value on any incremental oil produced from a "Qualified Enhanced Recovery Project"				See Tertiary Summary	See Tertiary Summary	Reduced rate of 1.875% for Qualified EOR Projects Only when Texas Crude is below $28 per Barrel	Incremental Production is Exempt until Payback See Tertiary Summary	Reduced Severance Tax Rate from 4.6% to 2.3 % for EOR Projects and Incremental Production See High Cost Summary	See Tertiary Summary	Approved costs deducted from Crown Royalty

* Identifies State / Province as one that has either Tertiary or High Cost Economic Program or both.

See individual State / Province Summaries for additional information on their Economic Programs

HIGH COST GAS and COAL SEAM GAS

Summary of Existing Economic Programs by Member State /Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	No	No	No	No	Yes	No	No	Yes	No	Yes
Tax Rate of 2% on Natural Gas Prod. from Coal Seam Wells until 6/7/94					3.5% rate on Coal Seam Gas only for 5 years			Total Sev Tax Exemption on High Cost Gas from wells drilled betwn 8/31/91 and 9/1/96. Exempt until 8/31/01		Scaled benefit tied to depth of well

High Cost Gas and Coal Seam Gas defined as Section 107 gas under the Natural Gas Policy Act.

MARGINAL and STRIPPER PRODUCTION

Summary of Existing Economic Programs by States / Province

Alabama	Alaska	Arkansas	Colorado	Louisiana	Mississippi	N. Mexico	Oklahoma	Texas	Wyoming	Alberta
Yes	No	Yes	Yes	Yes	No	No	No	No	Yes	Yes
6% Severance tax rate on stripper wells; i.e. produce less than 25 barrels or 200,000 CF Per Day	See Economic Limit Factor in Summary	4% of market value for well or wells producing 10 barrels or less per day during calendar month	Reduced rate for wells that produce 10 Barrels or Less	Gas - $0.013 MCF for wells that produce Less than 250,000 CF Daily Production Oil - 6.25% for Wells that Produce 25 BPD/50% Saltwater 3.125% for Wells that Produce 10 BPD					4% rate on Tertiary and Stripper Projects for 5 years Workovers betwn 7/1/93 and 12/31/98 incremental production taxed at 2% for first 24 months	Lower royalty rate of 5% or oil royalty formula. See p.47

ALASKA

CURRENT TAXES

Income Taxes	9.4% Corporate Income Tax
General Property Tax	20 mils / 2 % of assessed value
Severance / Production*	**Gas** 10% of Market Value or $0.064 per MCF, whichever is greater
	Oil 12.25 % of Market Value for first five years 15% after first five years or $0.80 per barrel, which ever is higher
*	Oil and Gas Severance Taxes subject to Economic Limit Factor (ELF). See Below
Conservation Tax	**Gas** 4 tenths of a percent per 50,000 cubic feet of natural gas
	Oil 4 tenths of one percent per barrel with conservation surcharge of $0.05 per barrel of crude oil
Sales and Use Taxes	Not Applicable
Franchise Tax	Not Applicable

Existing Economic Programs

Economic Limit Factor The respective severance tax rates for oil and gas are reduced by a fields' ELF. During the life of a field, production diminishes while some operating costs remain fixed. At some point the total costs including operation costs, royalties and production taxes will exceed gross revenue and the field becomes unprofitable. This is called the economic limit. The ELF is designed in recognition of the economic limit of a field. The formula protects fields as they decline and encourages operators to drill development wells.

Exploration Credits Provides for a credit up to 50% of certain exploration costs that can be applied against royalty, rentals and severance taxes due the state. This provision is accomplished by state leases. Covers two years following the lease sale and applies to well footage drilled and geophysical costs. Geophysical data must be made public.

Royalty Reduction After two years of lease production, royalty may be reduced to prolong economic life of field. Lessee must show revenue is insufficient to yield a reasonable rate of return.

TEXAS

CURRENT TAXES

Income Taxes	See Franchise Taxes	
General Property Taxes	Oil/Gas Production valued at 100% of Market Value of Remaining Reserves using Discounted Cash Flow Approach x Local Levy Well Equipment is valued at 100% of market value x Local Levy	
Severance/Production	**Gas**	7.5% of value at the wellhead except on sweet/sour gas shall not be less than 121/1500 of 1 cent per MCF
	Oil	Greater of 4.6% of Value or 4.6 cents per barrel
Conservation Tax	**Gas**	Clean-Up tax of .003 cent per MCF
	Oil	3/16th of 1 cent per barrel plus Clean-Up of 5/16th cent per barrel
Sales and Use	**State**	6.25 %
	County,City, MTA,etc.	2.00%
Franchise Tax	Higher of 4.5% of Taxable Income apportioned to state or $2.50/1000 stockholders equity in state	

EXISTING ECONOMIC PROGRAMS

Enhanced Oil Recovery	Reduced rate of 2.3% severance tax for ten years that begin after 12/31/89 but before 1/1/98
Enhanced Oil Recovery	Reduced rate of 2.3% severance tax for ten years on incremental production from EOR projects that begin after 9/1/89 and expanded after 8/31/91. Application for expanded projects is now 1/98.
High Cost Gas.	Total severance tax exemption through 8/31/01 for "High Cost Gas Wells" spudded or completed between 6/16/89 and 9/1/96