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SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 3004

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - THIRD SPECIAL SESSION

BY REPRESENTATIVES GARA, Berkowitz, Gardner, Kerttula, Gruenberg, Guttenberg

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

"An Act relating to oil and gas, and to the oil and gas properties production (severance) tax as it applies to oil; providing for an adjustment to increase the tax collected when oil prices exceed $20 per barrel and to reduce the tax collected when oil prices fall below $16 per barrel; providing for relief from the tax when the price per barrel is low or when the taxpayer demonstrates that a reduction in the tax is necessary to establish or reestablish production from an oil field or pool that would not otherwise be economically feasible; delaying until July 1, 2016, the deadline for certain exploration expenditures that form the basis for a credit against the tax on oil and gas produced from a lease or property in the state; amending the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to the conservation surcharge and additional conservation surcharge on oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

New Text Underlined [DELETED TEXT BRACKETED]

* **Section 1.** AS 31.05.030(d) is amended to read:

(d) The commission may require

(1) identification of ownership of wells, producing leases, tanks, plants, and drilling structures;

(2) the making and filing of reports, well logs, drilling logs, electric logs, lithologic logs, directional surveys, and all other subsurface information on a well drilled for oil or gas, or for the discovery of oil or gas, or for geologic information, and the required reports and information shall be filed within 30 days after the completion, abandonment, or suspension of the well;

(3) the drilling, casing, and plugging of wells in a manner that will prevent the escape of oil or gas out of one stratum into another, the intrusion of water into an oil or gas stratum, the pollution of fresh water supplies by oil, gas, or salt water, and prevent blowouts, cavings, seepages and fires;

(4) the furnishing of a reasonable bond with sufficient surety conditions for the performance of the duty to plug each dry or abandoned well or the repair of wells causing waste;

(5) the operation of wells with efficient gas-oil and water-oil ratios, and may fix these ratios;

(6) the gauging or other measuring of oil and gas to determine the quality and quantity of oil and gas;

(7) every person who produces oil or gas in the state to keep and maintain for a period of five years in the state complete and accurate records of the quantities of oil and gas produced, which shall be available for examination by the Department of Natural Resources or its agents at all reasonable times;

(8) the measuring and monitoring of oil and gas pool pressures;

(9) the filing and approval of a plan of development and operation for a field or pool in order to prevent waste, ensure [INSURE] a greater ultimate recovery of oil and gas, and protect the correlative rights of persons owning interests in the tracts of land affected;

(10) working interest owners to provide, at cost plus a reasonable rate of return determined under regulations adopted by the commission and

without causing substantial injury to the owner, access to production and other facilities whenever necessary; for purposes of this paragraph, the commission's regulations must be consistent with the standards of the Regulatory Commission of Alaska adopted to implement AS 42.05.311(a); the commission may act under this paragraph

(A) to

(i) maximize the economic and physical recovery of the state's oil and gas resources;

(ii) maximize competition among parties seeking to explore and develop the state's oil and gas resources;

(iii) minimize the adverse affects of exploration, development, production, and transportation activity; or

(iv) otherwise protect the best interest of the state; and

(B) only if the commission finds that the facility has excess capacity and that directing the working interest owner to provide access by or for the benefit of others would not materially interfere with the owner's paramount use of the facility.

* Sec. 2. AS 36.30.850(b)(33) is amended to read:

(33) contracts between the Department of Natural Resources or the Department of Revenue, as appropriate, and contractors qualified to evaluate hydrocarbon development, production, transportation, and economics, to assist the commissioner of natural resources or the commissioner of revenue, as appropriate, in evaluating applications for

(A) royalty increases or decreases or other royalty adjustments, and evaluating the related financial and technical data, entered into under AS 38.05.180(j); or

(B) tax reductions, and evaluating the related financial and technical data, as authorized by AS 43.55.011(i) and (j);

* Sec. 3. AS 43.55.011(a) is amended to read:

(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,

(1) in the case of North Slope oil, either the percentage-of-value amount calculated under (b)(1) [(b)] of this section or the cents-per-barrel amount calculated under (c)(1) [(c)] of this section, whichever is greater; if [, 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)(1) and (c)(1) [(b) AND (c)] of this section are equal, the amount calculated under (b)(1) [(b)] of this section shall be treated as if it were the greater for purposes of this section;

(2) in the case of oil that is not North Slope oil, either the percentage-of-value amount calculated under (b)(2) of this section or the cents-per-barrel amount calculated under (c)(2) 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)(2) and (c)(2) of this section are equal, the amount calculated under (b)(2) of this section shall be treated as if it were the greater for purposes of this section.

* Sec. 4. AS 43.55.011(b) is amended to read:

(b) The percentage-of-value amount equals,

(1) in the case of North Slope oil, the tax rate set out in (e) of this section multiplied by the gross value at the point of production of taxable oil produced from the lease or property;

(2) in the case of oil that is not North Slope oil, [12.25 PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL PRODUCED ON OR BEFORE JUNE 30, 1981, FROM THE LEASE OR PROPERTY AND] 15 percent of the gross value at the point of production of taxable oil produced from the lease or property, [AFTER JUNE 30, 1981;] except that [FOR A LEASE OR PROPERTY COMING INTO COMMERCIAL OIL PRODUCTION AFTER JUNE 30, 1981,] the percentage-of-value amount equals 12.25 percent of the gross value at the point of production of taxable oil produced from the lease or property in the first five years after the date that is the start of commercial oil

production [AND EQUALS 15 PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL PRODUCED THEREAFTER FROM THE LEASE OR PROPERTY].

* Sec. 5. AS 43.55.011(c) is amended to read:

(c) The cents-per-barrel amount equals,

(1) in the case of North Slope oil, $0.80 per barrel for taxable crude oil produced from the lease or property, as adjusted by AS 43.55.012, multiplied by the economic limit factor determined for oil production of the lease or property under AS 43.55.013 and by the price adjustment factor set out in (e)(2)(D) of this section;

(2) in the case of oil that is not North Slope oil, [$0.60 PER BARREL OF TAXABLE OLD CRUDE OIL PRODUCED FROM THE LEASE OR PROPERTY, AND] $0.80 per barrel for [ALL OTHER] taxable crude oil produced from the lease or property, [BOTH] as adjusted by AS 43.55.012.

* Sec. 6. AS 43.55.011 is amended by adding new subsections to read:

(e) This subsection and (f) - (k) of this section apply only to North Slope oil. Except as provided in (h) of this section for heavy oil, the tax rate is the lesser of

(1) 27.5 percent; or

(2) the product of the volume adjusted tax rate multiplied by the price adjustment factor; for purposes of

(A) this paragraph, the volume adjusted tax rate is the greater of

(i) the applicable tax rate determined under (C) of this paragraph, except that, if during a month in which the average ANS West Coast price per barrel of oil is less than $12, the applicable tax rate is zero and the volume adjusted tax rate is determined only by the application of (ii) of this subparagraph; or

(ii) the economic limit factor determined for the oil production of the lease or property under AS 43.55.013 multiplied by the nominal tax rate;

(B) subparagraph (A) of this paragraph, the nominal tax rate is

(i) 12.25 percent during the first five years from the date that is the start of commercial oil production; and

(ii) 15 percent after the first five years from the date that is the start of commercial oil production;

(C) sub-subparagraph (A)(i) of this paragraph, during each month in which the average ANS West Coast price per barrel of oil averages

(i) at least $16, the applicable rate is five percent;

(ii) at least $15, but less than $16, the applicable rate is four percent;

(iii) at least $14, but less than $15, the applicable rate is three percent;

(iv) at least $13, but less than $14, the applicable rate is two percent; and

(v) at least $12, but less than $13, the applicable rate is one percent; and

(D) this paragraph and for the purpose of determining the cents-per-barrel amount under (c)(1) of this section, the price adjustment factor is one, except that the price adjustment factor is the average ANS West Coast price per barrel of oil for the month divided by

(i) 16 during each month in which the average ANS West Coast price per barrel of oil is less than $16 per barrel;

(ii) 20 during each month in which the average ANS West Coast price per barrel of oil is more than $20 per barrel.

(f) During a month in which the average ANS West Coast price per barrel of oil is less than $10 per barrel, the payment of

(1) one-half of the tax due and payable under this chapter is waived; and

(2) the remaining one-half of the tax due and payable under this chapter is deferred, subject to the following:

(A) the amount of tax payment that is deferred under this paragraph is payable by the taxpayer

(i) during each month in which the average ANS West Coast price per barrel of oil is at least $16 per barrel; and

(ii) sequentially on a month-for-month basis in the order in which the tax payment was deferred based on payment of one month's deferred tax during each month that the average ANS West Coast price per barrel of oil is at least $16 per barrel; and

(B) amounts due and payable because of a payment deferral under this paragraph bear interest at the rate of a 10-year note of the United States treasury at the time of the deferral.

(g) Before February 1 of each year, the commissioner shall review the prices described in (e) and (f) of this section and the related denominators set out in (e)(2)(D)(i) and (ii) of this section and recommend to the legislature whether the prices and denominators should be adjusted.

(h) Notwithstanding (e) of this section, the tax rate for heavy oil is the volume adjusted tax rate provided in this subsection. The volume adjusted tax rate for heavy oil is determined by multiplying the economic limit factor determined for the oil production of the lease or property under AS 43.55.013 by the tax rate set out in (e)(2)(A)(i) and (ii) of this section. In this subsection, "heavy oil" means oil equal to or less than 20 degrees API gravity.

(i) A producer of North Slope oil may apply for a reduction of the tax due under (e), (j), and (k) of this section on the production of North Slope oil

(1) if and to the extent that the amount calculated under (A) of this paragraph is greater than the amount calculated under (B) of this paragraph, but a reduction of the tax may not result in collection of tax due under this section that is less than the amount calculated under (B) of this paragraph:

(A) the amount of tax on the production of the oil that results from applying the provisions of (e) of this section;

(B) the amount of tax on the production of the oil that would result from applying the provisions of (a)(2) and (b)(2) of this section as if the oil were not North Slope oil; and

(2) if the commissioner in consultation with the commission of natural

resources determines that the application meets the requirements of AS 38.05.180(j)(1)(A), (j)(1)(B), or (j)(1)(C).

(j) When the commissioner receives an application under (i) of this section, the commissioner

(1) may not approve a tax reduction

(A) unless the applicant makes a clear and convincing showing that the tax reduction meets the requirements of (i) of this section and this subsection and is in the best interests of the state;

(B) that reduces the amount of the tax recovered to less than the amount determined under (i)(1)(B) of this section;

(C) without including an explicit condition that the tax reduction is not assignable without the prior written approval, which may not be unreasonably withheld, of the commissioner; in the preliminary and final findings and determinations prepared under this subsection, the commissioner shall set out the conditions under which the tax reduction may be assigned;

(2) shall require the applicant to submit financial and technical data that demonstrate that the requirements of (i) of this section and this subsection are met; the commissioner

(A) may require disclosure of only the financial and technical data related to development, production, and transportation of oil and gas or gas only from the field or pool that are reasonably available to the applicant; and

(B) shall, at the request of the applicant, keep confidential under AS 38.05.035(a)(9) and AS 43.05.230 the dates described in (A) of this paragraph; the confidential data may be disclosed by the commissioner to legislators and to the legislative auditor and, if authorized by the chair or vice-chair of the Legislative Budget and Audit Committee, to the director of the division of legislative finance, the permanent employees of their respective divisions who are responsible for evaluating a tax reduction, and to agents or contractors of the legislative auditor or the legislative finance director who are engaged under contract to evaluate the tax reduction if each signs an appropriate confidentiality agreement;

(3) may require the applicant for the tax reduction under (i) of this section and this subsection to pay for the services of an independent contractor, selected by the applicant from a list of qualified consultants compiled by the commissioner, to evaluate hydrocarbon development, production, transportation, and economics and to assist the commissioner in evaluating the application and financial and technical data; if, under this paragraph, the commissioner requires payment for the services of an independent contractor, the total cost of the services to be paid for by the applicant may not exceed $150,000 for each application, and the commissioner shall determine the relevant scope of the work to be performed by the contractor; selecti n of an independent contractor under this paragraph is not subject to AS 36.30;

(4) shall make and publish a preliminary findings and determination on the tax reduction application, give reasonable public notice of the preliminary findings and determination, and invite public comment on the preliminary findings and determination during a 30-day period for receipt of public comment;

(5) shall offer to appear before the Legislative Budget and Audit Committee, on a day that is not earlier than 10 days and not later than 20 days after giving public notice under (4) of this subsection, to provide the committee a review of the commissioner's preliminary findings and determination on the tax reduction application and administrative process; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to all members of the legislature;

(6) shall make copies of the preliminary findings and determination available to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the legislature's standing committees on resources; and

(C) the chairs of the legislature's special committees on oil and gas, if any; and

(7) shall, within 30 days after the close of the public comment period under (4) of this subsection,

(A) prepare a summary of the public response to the commissioner's preliminary findings and determination;

(B) make a final findings and determination; the commissioner's final findings and determination prepared under this subparagraph regarding a tax reduction is final and not appealable to the court;

(C) transmit a copy of the final findings and determination to the lessee; and

(D) make copies of the final findings and determination available to each person who submitted comment under (4) of this subsection and who has filed a request for the copies.

(k) In this section, "North Slope oil" means oil produced from a portion of a reservoir located north of 68 degrees North latitude.

* Sec. 7. AS 43.55.012(b) is amended to read:

(b) The cents-per-barrel amount set out in <u>AS 43.55.011(c)(1) and (2)</u> [AS 43.55.011(c)] applies to oil of 27 degrees API gravity. For each degree of API gravity less than 27 degrees, the cents-per-barrel amount shall be reduced by $.005 and for each degree of API gravity greater than 27 degrees the cents-per-barrel amount shall be increased by $.005 except that oil above 40 degrees API gravity shall be taxed as 40 degree oil. In applying the gravity adjustment under this subsection, fractional degrees of API gravity shall be disregarded.

* Sec. 8. AS 43.55.025(b) is amended to read:

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed on or after July 1, 2003, and before July 1, <u>2016</u> [2007], except that an exploration expenditure for a Cook Inlet prospect must be incurred for work performed on or after July 1, 2005, [AND BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

(1) may be for seismic or geophysical exploration costs not connected

with a specific well:

(2) if for an exploration well,

(A) must be incurred by an explorer that holds an interest in the exploration well for which the production tax credit is claimed;

(B) may be for either an oil or gas discovery well or a dry hole; and

(C) must be for goods, services, or rentals of personal property reasonably required for the surface preparation, drilling, casing, cementing, and logging of an exploration well, and, in the case of a dry hole, for the expenses required for abandonment if the well is abandoned within 18 months after the date the well was spudded;

(3) may not be for testing, stimulation, or completion costs; administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; or other costs that are generally recognized as indirect costs or financing costs; and

(4) may not be incurred for an exploration well or seismic exploration that is included in a plan of exploration or a plan of development for any unit on May 13, 2003.

* Sec. 9. AS 43.55.201 is amended to read:

Sec. 43.55.201. Surcharge levied. (a) Every producer of oil shall pay a surcharge of $.01 [$.02] per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation.

(b) The surcharge imposed by (a) of this section is in addition to **the tax imposed by AS 43.55.011** and **is due on the last day of the month on oil produced from each lease or property during the preceding month. The surcharge** [SHALL BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 - 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 - 43.55.310.

(c) A producer of oil shall make reports of production in the same manner and under the same penalties as required under **AS 43.55.011 - 43.55.180** [AS 43.55.011 -

43.55.150].

* **Sec. 10.** AS 43.55.201 is amended by adding a new subsection to read:

(d) Oil not considered under AS 43.55.020(e) to be produced from a lease or property is not considered to be produced from a lease or property for purposes of this section.

* **Sec. 11.** AS 43.55.221(d) is amended to read:

(d) If the commissioner of administration reports that the sum reported under (b) of this section equals or exceeds **$71,000,000 as adjusted under AS 43.55.225** [$50,000,000], the commissioner of revenue shall suspend imposition and collection of the surcharge levied and collected under AS 43.55.201. Suspension of the imposition and collection of the surcharge begins on the first day of the calendar quarter next following the commissioner's receipt of the commissioner of administration's report under (b) of this section. Before the first day of a suspension authorized by this subsection, the commissioner shall make a reasonable effort to notify all persons who are known to the department to be paying the surcharge under AS 43.55.201 that the surcharge will be suspended.

* **Sec. 12.** AS 43.55.221(e) is amended to read:

(e) Except as provided in AS 43.55.231, if the commissioner of administration reports that the sum reported under (b) of this section is less than **$71,000,000 as adjusted under AS 43.55.225** [$50,000,000], the commissioner of revenue shall require imposition and collection of the surcharge authorized under AS 43.55.201. If the surcharge is not in effect, reimposition of the surcharge begins on the first day of the calendar quarter next following the commissioner's receipt of the commissioner of administration's report under (b) of this section. Before the first day of reimposition of the surcharge authorized by this subsection, the commissioner shall make a reasonable effort to notify all persons who are known to the department to be required to pay the surcharge under AS 43.55.201 that the surcharge will be reimposed.

* **Sec. 13.** AS 43.55 is amended by adding a new section to read:

Sec. 43.55.225. Adjustment of dollar amounts. (a) The dollar amounts in AS 43.55.221(d) and (e) change, as provided in this section, according to and to the extent of changes in the Consumer Price Index for all urban consumers for the

Anchorage metropolitan area compiled by the Bureau of Labor Statistics, United States Department of Labor (the index). The index for January 2006 is the reference base index.

(b) The dollar amounts change on October 1 of each year according to the percentage change between the index for January of that year and the most recent index used to determine whether to change the dollar amounts. After calculation of the new amounts, the resulting amounts shall be rounded to the nearest cent.

(c) If the index is revised, the percentage of change is calculated on the basis of the revised index. If a revision of the index changes the reference base index, a revised reference base index is determined by multiplying the reference base index applicable by the rebasing factor furnished by the Bureau of Labor Statistics, United States Department of Labor. If the index is superseded, the index referred to in this section is the one represented by the Bureau of Labor Statistics as reflecting most accurately changes in the purchasing power of the dollar for Alaska consumers.

(d) The department shall adopt a regulation announcing,

(1) on or before June 30 of each year, the changes in dollar amounts required by (b) of this section; and

(2) promptly after the changes occur, changes in the index required by (c) of this section, including, if applicable, the numerical equivalent of the reference base index under a revised reference base index and the designation or title of any index superseding the index.

* **Sec. 14.** AS 43.55.300 is amended to read:

Sec. 43.55.300. Surcharge levied. (a) Every producer of oil shall pay a surcharge of **$.05** [$.03] per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation.

(b) The surcharge imposed by (a) of this section is in addition to **the tax imposed by AS 43.55.011** and **is due on the last day of the month on oil produced from each lease or property during the preceding month. The surcharge** [SHALL BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 - 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 - 43.55.231.

(c) A producer of oil shall make reports of production in the same manner and under the same penalties as required under <u>**AS 43.55.011 - 43.55.180**</u> [AS 43.55.011 - 43.55.150].

* **Sec. 15.** AS 43.55.300 is amended by adding a new subsection to read:

(d) Oil not considered under AS 43.55.020(e) to be produced from a lease or property is not considered to be produced from a lease or property for purposes of this section.

* **Sec. 16.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY. Sections 3 - 10, 14, and 15 of this Act are retroactive to January 1, 2006, and apply to oil produced after December 31, 2005.

* **Sec. 17.** This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB3004SS-DNR-O&G-07-2(
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Natural Resources
Title: Oil and Gas Tax
RDU: Resource Development
Component: Oil and Gas Development
Sponsor: Reps Gara, Berkowitz, Gardner, Kertlula, Gruenberg, Guttenberg
Requester: House Finance
Component No. 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill pertains to the oil production tax providing for an increase in tax when oil exceeds certain prices and a reduction when oil prices fall below a certain level. In addition, HB 3004 grants AOGCC authority to require working interest owners to share facilities under certain terms and with a reasonable rate of return.

There is no anticipated fiscal impact to the Department of Natural Resources.

Prepared by: William Van Dyke, Acting Director — Phone 269-8800
Division: Oil and Gas — Date/Time 7/26/2006
Approved by: Michael Menge, Commissioner — Date 7/26/2006
Agency: Natural Resources

(Revised 9/7/2005 OMB)

FISCAL NOTE

STATE OF ALASKA		Fiscal Note Number:	
2006 LEGISLATIVE SESSION		Bill Version:	HB 3004
		() Publish Date:	
Revision Date/Time (Note if correction):		Dept. Affected:	Revenue
Title	An Act Relating to the Oil and Gas Properties Production (Severance) Tax	RDU	Tax and Treasury
		Component	Tax
Sponsor	Rep. Gara		
Requester	House Finance	Component No.	2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	98.4	98.4	98.4	98.4	98.4	98.4
Travel	7.2	7.2	7.2	7.2	7.2	7.2
Contractual	112.5	3.1	3.1	3.1	3.1	3.1
Supplies	5.3	0.3	0.3	0.3	0.3	0.3
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]						
TOTAL OPERATING	223.4	109.0	109.0	109.0	109.0	109.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	*See analysis section*					

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	223.4	109.0	109.0	109.0	109.0	109.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	223.4	109.0	109.0	109.0	109.0	109.0

Estimate of any current year (FY2006) cost:

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill would amend the oil and gas production tax by establishing a minimum tax rate on most North Slope oil production. With the exception of heavy oil, a minimum effective base tax rate of 5% would apply to all North Slope oil production when ANS WC prices are $16 per barrel or higher. This base rate is then adjusted for price by multiplying the rate by the price adjustment factor, which is either (1) the prevailing value divided by 16 (for ANS WC prices less than or equal to $16 per barrel) or (2) the prevailing value divided by 20 (for ANS WC prices greater than or equal to $20 per barrel). No price adjustment would be made for prices that fall between $16 and $20 per barrel. The maximum effective tax rate under this proposal would be 27.5%. Heavy oil production (defined as crude oil with an assay of 20 degrees or less using the American Petroleum Institute (API) scale) would not be subject to the 5% minimum or the price adjustment, and would be taxed as current law requires under the ELF-based production tax.

Prepared by:	Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis	Phone	269-1019
Division	Tax Division	Date/Time	7/25/06 1:00 PM
Approved by:	Jerry Burnett	Date	7/25/2006
Agency	Department of Revenue		

(Revised 9/7/2005 OMB)

ANALYSIS CONTINUATION

Oil producing properties, excluding those defined as heavy oil, that currently have an effective tax rate of 5% or more, after application of the Economic Limit Factor (ELF), will have an increased effective tax rate when prices are above $20 per barrel. Oil producing properties, excluding those defined as heavy oil, that currently have an effective tax rate of less than 5% after application of the ELF, will have an increased effective tax rate at all prices. The net effect of these changes is to raise the average effective tax rate at our forecast price.

For this analysis, heavy oil fields that have API gravities below 20 degrees API include Polaris, Orion, West Sak, and Schrader Bluff. API gravity within a property can vary widely by well. Currently, the Department of Revenue (DOR) receives average API gravity data from oil flows through pipelines. Much of the increased personnel cost associated with the tax changes proposed in this bill would go to monitoring the heavy oil designation. A clear description of the frequency with which the heavy oil will be reviewed and the location where API gravity will be measured would facilitate the implementation of this bill. We have submitted for your consideration a report that details the difficulties in taxing heavy oil at a rate separate from other non-heavy oil.

Costs associated with this bill fall into three categories: (1) A one-time information technology/database change estimated to be $50,000; (2) A one-time expenditure of about $60,000 for assistance with drafting regulations; and (3) two half-time equivalent individuals for additional engineering and audit work pertinent to the heavy oil designation and to North Slope fields that currently play little or no tax.

The bill would also increase the conservation surcharge on oil from 3 cents to 5 cents.

The bill would be effective January 1, 2006.

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. Both the status quo and the proposed tax changes assume the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The table shows the 2007-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a $40 price, and a $60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB 3004

ANALYSIS CONTINUATION

The revenues provided in the table below do not reflect increased revenues in FY06 that would result from an effective date of 1/1/06. At the reported 6-month average price of $63.77, the bill would provide approximately $1.025 billion over the status quo system for FY2006.

All revenues in the table below are in millions of 2005 dollars

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$53.60	989	2,548	1,559
2008	$46.90	759	1,984	1,225
2009	$25.50	355	546	192
2010	$25.50	315	500	184
2011	$25.50	281	473	192
2012	$25.50	271	462	191

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$40.00	708	1,581	873
2008	$40.00	655	1,472	817
2009	$40.00	631	1,453	821
2010	$40.00	582	1,356	774
2011	$40.00	544	1,314	770
2012	$40.00	536	1,299	763

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$60.00	1,120	2,966	1,846
2008	$60.00	1,032	2,792	1,760
2009	$60.00	978	2,745	1,768
2010	$60.00	901	2,550	1,649
2011	$60.00	842	2,507	1,665
2012	$60.00	831	2,536	1,705

7/26/06
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GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

Alaska's Costs – Before Government Take

	Capital Costs	Operating Costs	Total Costs
Alaska's Ranking	45/58	56/58	52/58
Alaska's Cost	$3.75	$6.20	$9.94
Global Average Cost	$2.55	$3.34	$5.89

Full Cycle Government Take

Full Cycle Gov't Take (% Of Pre-Take Net Cash Flow, Undiscounted)

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	33/54	24/54	19/55
Take on AK Production	71.70%	63.63%	58.40%
Global Ave. Take	70.86%	70.26%	73.34%

Full Cycle Gov't Take (% Of Pre-Take NPV @10%)

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	22/47	16/49	17/53
Take on AK Production	82.17%	72.09%	64.56%
Global Ave. Take	81.05%	74.16%	71.91%

WOOD MACKENZIE

GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

Alaska's Profitability – Full Cycle, Post Government Take

Rate of Return (IRR – Nominal)

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	15/49	14/52	14/53
Alaska's IRR	18.09%	23.57%	29.11%
Global Average IRR	15.20%	18.94%	23.07%

Net Present Value (NPV @10% in $/Bbl of Oil Equivalent)

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	17/58	11/58	8/58
Alaska's NPV	$0.90	$2.14	$4.43
Global Average NPV	$0.65	$1.33	$2.35

Value Creation Ratio

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	22/66	22/66	19/66
Alaska's VCR	1.98	3.33	5.82
Global Ave. VCR	1.90	2.84	4.26

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Federal, Company and State Revenue Shares under the 2005 ELF Based Severance Tax System & HB63

Using FY 2007 Production Volumes from the Spring 2006 *Revenue Sources Book*

	Forecast Price															
Sales Price ($/Bbl)	$53.60	$10	$12	$14	$16	$18	$20	$22	$24	$26	$28	$30	$32	$34	$36	$38
Costs																
Avg Trans To Market	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20
Wellhead Price ($/Bbl)	$47.40	$3.80	$5.80	$7.80	$9.80	$11.80	$13.80	$15.80	$17.80	$19.80	$21.80	$23.80	$25.80	$27.80	$29.80	$31.80
Volume																
Oil production (millions bbls/day)	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792
NGL production (millions bbls/day)	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033
ANS Production (oil and NGL) (Million Bbl/Yr)	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2
Production Value (Million $)	14275.2	1143.1	1745.5	2347.9	2950.3	3552.7	4155.1	4757.5	5359.8	5962.2	6564.6	7167.0	7769.4	8371.8	8974.2	9576.6
Production Costs ($/Bbl)	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32
Production Costs (Million $)	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9
Severance Taxes																
NGL Severance Tax	19.83	1.55	2.38	3.22	4.06	4.90	5.74	6.58	7.42	8.26	9.10	9.93	10.77	11.61	12.45	13.29
Gas Severance Tax	3.10	0.25	0.38	0.51	0.64	0.77	0.90	1.03	1.16	1.29	1.43	1.56	1.69	1.82	1.95	2.08
Hazardous Release	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59
Oil Severance Tax with ELF Based Severance	953.4	107.7	128.5	168.0	207.7	247.3	287.0	326.7	366.3	406.0	445.7	485.4	525.0	564.7	604.4	644.0
Oil Severance Tax with HB63	2553.1	63.3	109.6	165.4	231.3	276.9	322.4	404.7	496.1	596.7	706.3	825.1	953.0	1090.0	1236.1	1391.4
Per Barrel Oil &NGL Severance Tax																
With Aggregation	$3.17	$0.36	$0.43	$0.56	$0.69	$0.82	$0.95	$1.08	$1.22	$1.35	$1.48	$1.61	$1.74	$1.87	$2.01	$2.14
Under HB63	$8.48	$0.21	$0.36	$0.55	$0.77	$0.92	$1.07	$1.34	$1.65	$1.98	$2.35	$2.74	$3.16	$3.62	$4.10	$4.62
Royalty																
Gross ANS	1841.8	204.2	279.3	354.3	429.4	504.5	579.6	655.3	731.0	806.4	881.7	957.0	1032.3	1107.6	1182.9	1258.2
per bbl royalty	$6.11	$0.68	$0.93	$1.18	$1.43	$1.67	$1.92	$2.18	$2.43	$2.68	$2.93	$3.18	$3.43	$3.68	$3.93	$4.18
Property Tax																
State Share (ANS only)	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Muni ShareShare (ANS only)	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
Property tax per bbl	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79
Total Severance, Royalty, State and Local Property taxes																
Under ELF Based Severance Tax	3063.9	559.5	656.3	771.9	887.6	1003.3	1119.1	1235.3	1351.7	1467.7	1583.7	1699.6	1815.5	1931.5	2047.4	2163.4
Under HB63	4663.6	515.1	637.4	769.3	911.2	1032.8	1154.5	1313.4	1481.5	1658.4	1844.2	2039.4	2243.5	2456.8	2679.2	2910.7
Corporate Income Tax (ANS)																
Production	495.1	189.9	203.9	217.9	231.9	245.9	259.9	273.9	287.9	301.9	315.9	329.9	343.9	357.9	371.9	385.9
TAPS	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2
Total Petroleum	$538.38	$233.18	$247.18	$261.18	$275.18	$289.18	$303.18	$317.18	$331.18	$345.18	$359.18	$373.18	$387.18	$401.18	$415.18	$429.18
TAPS tax allowance (Millions $)	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22
TAPS after tax margin	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39
TAPS deferred return	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88
Revenue Share with Under ELF Based Severance Tax																
Federal Revenue (Millions $)	3040.5	-566.3	-394.3	-228.8	-63.3	102.1	267.5	432.8	598.0	763.3	928.7	1094.0	1259.4	1424.7	1590.1	1755.4
Percentage Total	**24.8%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**6.5%**	**12.3%**	**15.6%**	**17.7%**	**19.1%**	**20.2%**	**21.1%**	**21.7%**	**22.3%**	**22.7%**	**23.1%**
Company Net Revenue (Millions $)	5650.9	-1068.7	-739.2	-431.8	-124.6	182.7	489.8	796.7	1103.5	1410.6	1717.7	2024.8	2331.9	2639.0	2946.0	3253.1
Percentage Total	**45.9%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**11.8%**	**22.5%**	**28.6%**	**32.6%**	**35.4%**	**37.4%**	**39.0%**	**40.2%**	**41.3%**	**42.1%**	**42.8%**
State Revenue + Muni Share Oil Property (Mil	3602.3	792.7	903.5	1033.0	1162.7	1292.4	1422.3	1552.5	1682.9	1812.9	1942.8	2072.8	2202.7	2332.7	2462.6	2592.6
Percentage Total	**29.3%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**81.9%**	**65.3%**	**55.8%**	**49.7%**	**45.5%**	**42.3%**	**39.9%**	**38.0%**	**36.5%**	**35.2%**	**34.1%**
Total Revenue Shared State, Federal, Company	12293.8	-832.3	-229.9	372.5	974.8	1577.2	2179.6	2782.0	3384.4	3986.8	4589.2	5191.6	5794.0	6396.3	6998.7	7601.1
Revenue Share Under HB63																
Federal Revenue (Millions $)	2486.6	-550.8	-387.6	-227.9	-71.6	91.8	255.1	405.4	552.5	696.6	837.4	975.1	1109.6	1240.9	1369.0	1493.9
Percentage Total	**20.2%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**5.8%**	**11.7%**	**14.6%**	**16.3%**	**17.5%**	**18.2%**	**18.8%**	**19.2%**	**19.4%**	**19.6%**	**19.7%**
Company Net Revenue (Millions $)	4611.1	-1329.8	-720.0	-430.2	-140.0	163.5	466.8	746.0	1019.2	1286.7	1548.3	1803.9	2053.7	2297.5	2535.4	2767.4
Percentage Total	**37.5%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**10.4%**	**21.4%**	**26.8%**	**30.1%**	**32.3%**	**33.7%**	**34.7%**	**35.4%**	**35.9%**	**36.2%**	**36.4%**
State Revenue + Muni Share Oil Property (Mil	5202.0	748.3	884.6	1030.5	1186.4	1322.0	1457.7	1630.6	1812.7	2003.6	2203.5	2412.6	2630.7	2858.0	3094.4	3333.9
Percentage Total	**42.3%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**83.8%**	**66.9%**	**58.6%**	**53.6%**	**50.3%**	**48.0%**	**46.5%**	**45.4%**	**44.7%**	**44.2%**	**43.9%**
Total Revenue Shared State, Federal, Company	12299.8	-832.3	-229.9	372.5	974.8	1577.2	2179.6	2782.0	3384.4	3986.8	4589.2	5191.6	5794.0	6396.3	6998.7	7601.1

$40	$42	$44	$46	$48	$50	$52	$54	$56	$58	$60
$6 20 $33 80	$6 20 $35 80	$6 20 $37 80	$6 20 $39 80	$6 20 $41 80	$6 20 $43 80	$6 20 $45 80	$6 20 $47 80	$6 20 $49 80	$6 20 $51 80	$6 20 $53 80
0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2
10179 0	10781 3	11383 7	11986 1	12588 5	13190 9	13793 3	14395 7	14998 1	15600 5	16202 9
$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9
14 13 2 21 7 59	14 97 2 34 7 59	15 81 2 47 7 59	16 65 2 60 7 59	17 48 2 73 7 59	18 32 2 86 7 59	19 16 3 00 7 59	20 00 3 13 7 59	20 84 3 26 7 59	21 68 3 39 7 59	22 52 3 52 7 59
683 7 1555 7	723 4 1729 2	763 0 1911 7	802 7 2057 8	842 4 2178 9	882 0 2301 0	921 7 2424 9	961 4 2550 4	1001 0 2677 7	1040 7 2806 8	1080 4 2937 6
$2 27 $5 17	$2 40 $5 74	$2 53 $6 35	$2 67 $6 83	$2 80 $7 23	$2 93 $7 64	$3 06 $8 05	$3 19 $8 47	$3 32 $8 89	$3 46 $9 32	$3 59 $9 75
1333 5 $4 43	1408 8 $4 68	1484 1 $4 93	1559 4 $5 18	1634 7 $5 43	1710 0 $5 68	1785 3 $5 93	1860 6 $6 18	1935 9 $6 43	2011 2 $6 68	2086 6 $6 93
34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79
2279 3 3151 3	2395 3 3401 1	2511 2 3659 9	2627 2 3882 3	2743 1 4079 7	2859 0 4278 0	2975 0 4478 1	3090 9 4680 0	3206 9 4883 6	3322 8 5088 9	3438 8 5295 9
399 9 43 2 $443 18	413 9 43 2 $457 18	427 9 43 2 $471 18	441 9 43 2 $485 18	455 9 43 2 $499 18	469 9 43 2 $513 18	483 9 43 2 $527 18	497 9 43 2 $541 18	511 9 43 2 $555 18	525 9 43 2 $569 18	539 9 43 2 $583 18
216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88
1920 8 23.4%	2086 1 23.7%	2251 5 23.9%	2416 9 24.1%	2582 2 24.3%	2747 6 24.5%	2912 9 24.6%	3078 3 24.8%	3243 6 24.9%	3409 0 25.0%	3574 4 25.1%
3560 2 43.4%	3867 3 43.9%	4174 4 44.4%	4481 5 44.8%	4788 6 45.1%	5095 7 45.4%	5402 8 45.7%	5709 8 46.0%	6016 9 46.2%	6324 0 46.4%	6631 1 46.6%
2722 8 33.2%	2852 4 32.4%	2982 4 31.7%	3112 3 31.1%	3242 3 30.5%	3372 2 30.1%	3502 2 29.6%	3632 1 29.2%	3762 1 28.9%	3892 0 28.6%	4021 0 28.3%
8203 5	8805 9	9408 3	10010 7	10613 1	11215 5	11817 9	12420 2	13022 6	13625 0	14227 4
1615 6 19.7%	1734 1 19.7%	1849 5 19.7%	1977 6 19.8%	2114 4 19.9%	2250 9 20.1%	2386 8 20.2%	2522 1 20.3%	2650 8 20.4%	2790 9 20.5%	2924 3 20.8%
2993 4 36.5%	3213 5 36.5%	3427 7 36.4%	3665 7 36.6%	3910 6 36.9%	4173 3 37.2%	4425 7 37.4%	4677 0 37.7%	4927 1 37.8%	5176 1 38.0%	5423 9 38.1%
3594 5 43.8%	3858 3 43.8%	4131 1 43.9%	4367 4 43.6%	4578 0 43.1%	4791 2 42.7%	5005 3 42.4%	5221 2 42.0%	5438 7 41.8%	5658 1 41.5%	5879 1 41.3%
8203 5	8805 9	9408 3	10010 7	10613 1	11215 5	11817 9	12420 2	13022 6	13625 0	14227 4

$62	$64	$66	$68	$70	$72	$74	$76	$78	$80
$6 20 $55 80	$6 20 $57 80	$6 20 $59 80	$6 20 $61 80	$6 20 $63 80	$6 20 $65 80	$6 20 $67 80	$6 20 $69 80	$6 20 $71 80	$6 20 $73 80
0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2	0 792 0 033 301 2
16805 2	17407 6	18010 0	18612 4	19214 8	19817 2	20419 6	21022 0	21624 4	22226 7
$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9	$8 32 2505 9
23 36 3 65 7 59	24 20 3 78 7 59	25 04 3 91 7 59	25 87 4 04 7 59	26 71 4 17 7 59	27 55 4 30 7 59	28 39 4 43 7 59	29 23 4 57 7 59	30 07 4 70 7 59	30 91 4 83 7 59
1120 1 3070 1	1159 7 3204 3	1199 4 3340 3	1239 1 3478 1	1278 7 3617 6	1318 4 3758 8	1358 1 3901 7	1397 7 4046 4	1437 4 4192 9	1477 1 4341 0
$3 72 $10 19	$3 85 $10 64	$3 98 $11 09	$4 11 $11 55	$4 25 $12 01	$4 38 $12 48	$4 51 $12 95	$4 64 $13 43	$4 77 $13 92	$4 90 $14 41
2161 9 $7 18	2237 2 $7 43	2312 5 $7 68	2387 8 $7 93	2463 1 $8 18	2538 4 $8 43	2613 7 $8 68	2689 0 $8 93	2764 3 $9 18	2839 6 $9 43
34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79	34 0 204 2 238 2 $0 79
3554 7 5504 7	3670 7 5715 3	3786 6 5927 6	3902 5 6141 6	4018 5 6357 3	4134 4 6574 8	4250 4 6794 0	4366 3 7015 0	4482 3 7237 7	4598 2 7462 2
553 9 43 2 $597 18	567 9 43 2 $611 18	581 9 43 2 $625 18	595 9 43 2 $639 18	609 9 43 2 $653 18	623 9 43 2 $667 18	637 9 43 2 $681 18	651 9 43 2 $695 18	665 9 43 2 $709 18	679 9 43 2 $723 18
216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88	216 22 267 39 46 88
3739 7 25.2%	3905 1 25.3%	4070 4 25.4%	4235 8 25.5%	4401 1 25.5%	4566 5 25.6%	4731 8 25.7%	4897 2 25.7%	5062 6 25.8%	5227 9 25.8%
6938 2 46.8%	7245 3 46.9%	7552 4 47.1%	7859 5 47.2%	8166 6 47.4%	8473 6 47.5%	8780 7 47.6%	9087 8 47.7%	9394 9 47.8%	9702 0 47.9%
4151 9 28.0%	4281 8 27.7%	4411 8 27.5%	4541 7 27.3%	4671 7 27.1%	4801 6 26.9%	4931 6 26.7%	5061 5 26.6%	5191 4 26.4%	5321 4 26.3%
14829 8	15432 2	16034 6	16637 0	17239 4	17841 7	18444 1	19046 5	19648 9	20251 3
3057 2 20.6%	3189 4 20.7%	[illegible] 20.7%	3452 1 20.7%	3582 5 20.8%	3712 4 20.8%	3841 6 20.8%	3970 2 20.8%	4098 1 20.9%	4225 6 20.9%
5670 7 38.2%	5910 3 38.3%	6160 8 38.4%	6404 1 38.5%	6646 3 38.6%	6887 4 38.6%	7127 4 38.8%	7366 2 38.7%	7603 9 38.7%	7840 4 38.7%
6101 9 41.1%	6326 5 41.0%	6552 7 40.9%	6780 7 40.8%	7010 5 40.7%	7242 0 40.6%	7475 2 40.5%	7710 2 40.5%	7946 9 40.4%	8185 3 40.4%
14829 8	15432 2	16034 6	16637 0	17239 4	17841 7	18444 1	19046 5	19648 9	20251 3

ANS State Severance Tax Collections and Effective Tax Rate Under the Current ELF based system and the proposed HB63

ANS Market Price	$3.60	$10	$12	$14	$16	$18	$20	$22	$24	$26	$28	$30	$32	$34	$36	$38	$40	$42	$44
ANS Oil Severance Tax Collections (millions of $)																			
Status Quo	953.4	107.7	128.5	168.0	207.7	247.3	287.0	326.7	366.3	406.0	445.7	485.4	525.0	564.7	604.4	644.0	683.7	723.4	763.0
Under HB63	2,553.1	63.3	109.6	165.4	231.3	276.9	322.4	404.7	496.1	596.7	706.3	825.1	953.0	1,090.0	1,236.1	1,391.4	1,555.7	1,729.2	1,911.7
Difference	1,599.7	-44.4	-18.9	-2.6	23.7	29.5	35.4	78.0	129.8	190.7	260.7	339.8	428.0	525.3	631.8	747.4	872.0	1,005.8	1,148.7
Average Effective Tax Rate																			
Status Quo	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Under HB63	21.1%	6.2%	7.1%	8.0%	9.0%	9.0%	9.0%	9.9%	10.8%	11.7%	12.6%	13.5%	14.4%	15.3%	16.2%	17.1%	18.0%	18.8%	19.7%

[1] FY2007 Price from Spring 2006 Forecast

ANS State Severance

ANS Market Price	$46	$48	$50	$52	$54	$56	$58	$60	$62
ANS Oil Severance Tax Collectic									
Status Quo	802.7	842.4	882.0	921.7	961.4	1,001.0	1,040.7	1,080.4	1,120.1
Under HB63	2,057.8	2,178.9	2,301.0	2,424.9	2,550.4	2,677.7	2,806.8	2,937.6	3,070.1
Difference	1,255.1	1,336.6	1,419.0	1,503.2	1,589.1	1,676.7	1,766.1	1,857.2	1,950.0
Average Effective Tax Rate									
Status Quo	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Under HB63	20.2%	20.4%	20.6%	20.7%	20.9%	21.1%	21.2%	21.4%	21.6%

ANS Market Price	$64	$66	$68	$70	$72	$74	$76	$78	$80
ANS Oil Severance Tax Collectic									
Status Quo	1,159.7	1,199.4	1,239.1	1,278.7	1,318.4	1,358.1	1,397.7	1,437.4	1,477.1
Under HB63	3,204.3	3,340.3	3,478.1	3,617.6	3,758.8	3,901.7	4,046.4	4,192.9	4,341.0
Difference	2,044.6	2,140.9	2,239.0	2,338.8	2,440.4	2,543.7	2,648.7	2,755.4	2,863.9
Average Effective Tax Rate									
Status Quo	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Under HB63	21.8%	21.9%	22.1%	22.3%	22.5%	22.6%	22.8%	23.0%	23.2%

[1] FY2007 Price from Spring 2006 F

Title: **Revenue Share with HB63**

Purpose: To present estimates of the distribution of ANS oil & gas revenue among the federal government, the state government and the companies at various ANS crude oil prices. This workbook estimates revenue to the state from oil and gas under the production tax system in place during 2005 and the proposed HB63.

Data Sources: Revenues, Prices, and Production based on the *Spring 2006 Revenue Source Book*
This model looks at oil and gas revenue from the North Slope only. It does ***not include Cook Inlet.***
Production Taxes include ANS oil and gas severance and hazardous release

Production Cost is taken from analysis conducted by the Department of revenue for various PPT alternatives. The data are based on revenue share models prepared for FY07 only. The Department will be evaluating production costs in the future.

TAPS tax allowance, TAPS after tax margin, and TAPS Deferred returns from Department files.

Key Assumptions: The Spring 2006 Forecast calculates Corporate Income Tax [CIT] for all of Alaska. This model assumes 10% of this revenue is from Cook Inlet. This total CIT is reduced by 10% to calculate CIT from the North Slope.

Federal Revenue is calculated as 35% of the difference between production value and production cost (including state taxes on production) plus 80% of the TAPS tax allowance.

80% is the federal rate divided by the sum of the fed and state rates. The maximum marginal fed rate is 35%, the state rate is 9.4%.

Company net revenue is calculated as production value less production costs less taxes on production plus the TAPS after tax allowance plus deferred return.

HB63 proposes to increase the Current ELF for prices above $20, and reduces the current ELF for prices below $16. It also proposes a 5% effective tax rate floor & a 27.5% effective tax ceiling. It only pertains to North Slope Oil and does not include

Heavy oil (20 degrees API or below) are excluded from the minimum tax rate for purposed of this analysis: Tabasco, West Sak, Orion, Polaris, Schrader Bluff were deemed to be heavy oil

History: Originally created Fall 2003 by Chuck Logsdon
Charts added by Michael Williams June 2005
Updated with FY2005 data and the Fall2005 forecast November 2005
Updated with Spring 2006 Forecast assumptions July 2006

Disclaimer: The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could yield different results.

ALASKA STATE LEGISLATURE

7/26/06

REPRESENTATIVE LES GARA
REPRESENATIVE BETH KERTTULA

July 24, 2006

Re: A Fix To the Current Gross Production Tax & A Fair Share for Alaskans: HB 3004

Dear Colleagues:

We've recently been given revenue projections from the Department of Revenue on the company and State of Alaska revenue shares that would result under HB 3004. We plan on taking them into account in filing a Sponsor Substitute this coming week. We hope you might look at the projections, the tax rate in HB 3004, the progressivity factor, and perhaps work through a version that you feel is the most fair to all.

At forecasted average (BP and the U.S. Energy Information Administration have forecast future prices in the $40/bbl range) and high prices current Alaska law provides oil companies a much larger share of Alaska's oil revenue than the state receives. Under SSHB 3004, by capping the tax rate so it doesn't rise above a 27.5% rate, the Department of Revenue forecasts that these shares, at average and high prices, would nearly level out (See table below).

By adopting a more equitable tax rate, and adding a fair progressivity factor (there is not one under current law) we can do a better job leveling the profit shares between the state and producers at average and high prices, while providing fair returns to industry as well.

Many have proposed we tax our oil on a percentage of its verifiable sales value, as current law does – but with a more equitable tax rate, progressivity, and the closure of the more-extreme ELF-related loopholes. Current ELF loopholes allow almost every oil field in Alaska, including Kuparuk, to pay less than a 1% production tax, even as prices rise.

The following shows the difference between how current law and SSHB 3004 would share oil revenue between the state and the producers as projected by the Department of Revenue.

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Current Law Revenue Shares

	$20/bbl	$40/bbl	$60/bbl	$80/bbl
Company Net Revenue	$489 million	$3.56 billion	$6.63 billion	$9.7 billion
Company Profit Margin[1]	11.8%	34.96%	40.9%	43.7%
State Revenue	$1.46 billion	$2.72billion	$4.02 billion	$5.3 billion

HB 3004 (with a 25% Tax Rate Ceiling)

Company Net Revenue	$467 million	$2.99 billion	$5.55 billion	$8.02 billion
Company Profit Margin	11.2%	29.4%	34.3%	36.1%
State Revenue	$1.46 billion	$3.59 billion	$5.67 billion	$7.9 billion

HB 3004 (with a 27.5% Tax Rate Ceiling as Proposed in the Sponsor Substitute)

Company Net Revenue	$467 million	$2.99 billion	$5.42 billion	$7.84 billion
Company Profit Margin	11.2%	29.4%	33.5%	35.3%
State Revenue	$1.46 billion	$3.59 billion	$5.88 billion	$8.19 billion

SSHB 3004 starts with a modest 5% tax on most fields, and progressivity starts at $20/bbl. You could certainly achieve similar results by implementing the progressivity feature at a higher price, and by starting with a stronger base tax rate (shelf the ELF proponents propose a base 15% tax). This proposal, with its incentive provisions, would provide a fair share to Alaskans, fair returns to industry, and help spur oilfield development. Any of these components can be altered quite easily.

As before, we'd prefer to follow advice we've received to adopt a staggered tax system - a higher rate for more profitable legacy fields, and lower rate for new fields that might be less profitable. But to date that idea has not garnered needed support. We haven't included a proposal on utilizing a different rate for legacy fields, but that's a topic worthy of consideration.

A Gross Value Tax Can Provide:

1) **A Fair State and Company Revenue Share &**

2) **More Effective Investment Incentives**

Under current law it is projected that Alaska's oil producers generated $7 billion or more in revenue from their North Slope operations in FY '06 – and that the State received roughly $2.5 - $3 billion less than that amount (we are awaiting the final FY '06 numbers). Company

[1] Profit margin is calculated as net profits divided by total sales value.

profit margins[2] range from 35% at $40/bbl to over 40% at $60/bbl. All fields outside the Prudhoe Bay, Alpine and Northstar Units benefit from the windfall of a 0% production tax as prices and profits soar. See attached Dept. of Revenue 3/23/06 Profit Margin Chart.

HB 3004 includes some simple changes to the current gross production tax to provide for both fair revenue to Alaskans, and better exploration and development incentives that encourage new investment. Incentives should be carefully tailored to encourage new investment, but not pay companies for investment they'd engage in anyway.

This proposal can be modified to produce an amount of revenue that is similar to, for example, what a 25% PPT (as passed by the Senate Resources Committee) or other PPT rate might raise, with the advantage that taxing a percentage of the sales value of oil will produce the revenue that's projected.

HB 3004 includes the following revenue producing and incentive features, and can be modified if you'd like to raise different revenue amounts.

A Straightforward Fix To Alaska's Current Production Tax

The Current ELF system suffers from a few problems. The tax rate on most fields, including 6 of the 100 largest fields in the United States, is 0%, or less than 1%. That rate remains the same even as prices rise. Current law imposes this tax rate on the gross value of oil, or sales price (minus transportation costs and other minor costs).

Most agree that current law results in too small a tax on most fields. While current law imposes a 12 % tax rate on Prudhoe Bay and Alpine, and 6% on Northstar, most fields pay a 0% tax.

The average production tax on the North Slope is roughly 7.5%, and is projected to fall below 4% as more fields taxed at 0% come on line (11 of the last 14 fields to come on line through 2005 pay a 0% tax).

HB 3004 fixes these problems as follows.

The Base Tax Rate

All fields that currently pay more than a 5% production tax will still pay the same base tax rate as they do now (Prudhoe Bay, Alpine and Northstar). The base tax is then adjusted upwards by a progressivity feature at high prices, and adjusted downwards at low prices.

All fields that currently pay less than 5% will, under HB 3004, pay a modest 5% minimum base tax. Attached is a chart showing the current tax rate for Alaska's North Slope oil fields.

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[2] The Department of Revenue estimates company "free cash flow" – the amount of revenue that exceeds their out of pocket costs. While that's regarded my many as a "profit margin", and referred to here as profit, it does not reflect soft costs like depreciation, which the Department has difficulty estimating.

Progressivity at Lower Prices

Because HB 3004 starts with a fairly modest base tax rate, the progressivity feature kicks in at $20/bbl. BP re-confirmed last year that it generates excess profits at oil prices above $20 ("a $20 oil price would allow the company to meet its capital requirements and pay a progressive dividend, and that all the free cash generated when the oil price is above that level would be returned to shareholders through buybacks"). See attached press release.

At prices above $20/bbl, the base tax rate in HB 3004 is multiplied by:

The price of oil divided by 20.

For example, at $30/bbl, a field that has a 5% base tax rate would pay:

30/20 X 5% = 7.5%.

To protect companies at lower prices, HB 3004 does the following:

At prices below $16/bbl, the fields that pay a 5% base tax rate, will pay:

4% when the price falls to $15/bbl;

3% when it falls to $14/bbl;

2% when it falls to $13/bbl;

1% when it falls to $12/bbl; and

0% when the price falls below $11/bbl.

In addition, one-half of the severance tax is waived when prices fall below $10/bbl.

For the fields that pay more than a 5% base tax rate (Prudhoe, Alpine and Northstar), the tax rate will fall more slowly below $16/bbl. Currently it remains the same no matter how low the price of oil.

HB 3004 provides that when prices fall below $16/bbl, the rate on those fields will be:

The price of oil divided by 16 and then multiplied by the field's base tax rate. So, at $12/bbl, Prudhoe Bay, which is currently taxed at roughly a 12% rate, would be taxed as follows:

12/16 X 12 = 9%.

Tax Ceiling

SSHB 3004 protects profits on the upside for companies by setting a 27.5% tax ceiling. That is, no matter how high the price of oil rises, the progressivity factor will stop raising the tax once it reaches 27.5%. That occurs at around $100/bbl for most fields.

Exploration and Development Incentives

We should provide incentives that promote exploration that would not occur without the added incentive provision. By the same token, we should refrain from granting tax relief for expenditures companies would make without any state subsidy. Flat subsidies given to companies for all exploration or development expenditures suffer from the latter flaw.

1. Lower The Production Tax When Needed.

Under current law a company can apply for a lower royalty by showing the reduction is needed to make a new field, or continued production at an existing field, profitable.

HB 3004 extends that right to seek a tax reduction to a company's production tax as well. Thus, in any circumstance where HB 3004 imposes an excessive tax rate, the rate will be reduced once the developer meets the statutory "clear" evidence standard that is applied to a party seeking royalty relief.

2. Fair Access To Processing Facilities By Independent Producers.

Former Director of the Division of Oil & Gas, Mark Myers, has concluded that facilities access is one of the most important things – and perhaps the most important thing - this state can do to encourage new development. Financial incentives only work to a certain point. For example, as company profits from Alaska production have multiplied, and ranged in the past 5 years from a low of $1.7 billion in FY 2002 to $5.2 billion in FY 2005, and likely over $7 billion this past fiscal year, investment stayed the same – at roughly $1 billion. See attached DOR company 1996 – 2005 net income estimate.

Providing companies with additional free cash does not simply lead to additional investment.

Large producers (BP, Conoco and Exxon) can afford to develop small North Slope fields because they ship oil from those fields to their processing facilities located on their large fields. This is why they've been able to develop satellite fields (small fields that send their oil by pipe for processing at a larger field), and why independent companies generally have not.

It appears to be the case that in recent history no producer has made its processing facilities available for use to allow an independent company to produce North Slope oil. A processing facility can cost upwards of $100 million, and forcing companies to build new processing facilities for each small field makes many fields uneconomic.

HB 3004 requires that if there is excess capacity at a facility, the facility owner shall make it available to independent producers at a "reasonable rate" – a standard currently used by the RCA in the telecommunications area.

3. Extend Existing Exploration Tax Credits

The bill extends Alaska's existing exploration tax credits.

Encouraging Cook Inlet, Heavy Oil & Other Challenging Projects

The bill exempts all fields south of the Brooks Range, and heavy oil, from the enhanced tax provisions, and current law will apply to those projects. Certainly, one might argue this break is not needed for all heavy oil fields, and this section is worthy of detailed discussion.

Conclusion

By closing the current ELF system's loopholes, adding a progressivity feature and workable incentive provisions, we can provide a fair revenue share to Alaskans, a fair investment climate, and meet the constitutional mandate that we develop our oil resource for the maximum benefit of Alaskans.

Please call if you have any questions. We hope we can come up with a bi-partisan fix to a system that is costing Alaskans $1.5 - $2 billion a year in revenue to an outdated, loophole-ridden tax system.

Sincerely,

Les Gara

Beth Kerttula

FY2007 Production and ELF by Field

Field	Heavy Oil	Daily Production (bbl/day)	Annual Production (bbl/year)	Production Tax
PRUDHOE BAY (includes aggregated fields)		297,723	108,668,811	**12.38%** *
KUPARUK		126,201	46,063,365	0.00%
WEST SAK	HVY	20,839	7,606,381	0.00%
TABASCO	HVY	4,339	1,583,735	0.00%
TARN		18,847	6,879 155	0.00%
MELTWATER		3,302	1,205,048	0.00%
MILNE POINT		2,500	912,500	0.00%
SCHRADER BLUFF	HVY	1,765	6,442,250	0.00%
ENDICOTT/SAG DELTA		1,570	5,729,588	0.00%
EIDER		0	0	0.00%
BADAMI		90	328,500	0.00%
LISBURNE		834	3,045,918	0.00%
NIAKUK		656	2,393,416	0.00%
N PBAY STATE		346	1,263,265	0.00%
NANUQ		2,045	746,425	0.00%
ALPINE		105,438	38,484,870	**11.93%**
NORTH STAR (includes federal volume)		44,264	16,156,360	**6.10%**
LIBERTY		0	0	0.00%
KNOWN ONSHORE		0	0	0.00%
KNOWN OFFSHORE (O3 + NIQ)		0	0	0.00%
FIORD		755	2,755,750	0.00%
FIORD-KUP		341	1,245,745	0.00%

***Approximate of Prudhoe & Aggregated Fields**

Data comes from 2006 Spring Revenue Sources Book & AK Dept. of Revenue

FY 2007 Oil Company Post-Tax Profit Margins Under Current Law

Sales Price ANS West Coast	$60.00	$40.00	$20.00
Gross Revenue	$16.20 Billion	$10.18 Billion	$4.16 Billion
Corporate Profit	$6.94 Billion	$3.86 Billion	$0.77 Billion
Corporate Profit Margin	*42.8%*	*37.9%*	*18.5%*
State Revenue	$3.89 Billion	$2.62 Billion	$1.34 Billion

FY 2007 Profits/Profit Margin Under Various PPT Rates

Sales Price ANS West Coast	$60.00	$40.00 & $40.01*	$20.00
30/20			
Corporate Profit	$5.77 Billion	$3.28 & $3.44 Billion	$0.95 Billion
Corporate Profit Margin	*35.6%*	*32.2% & 33.8*	*23.0%*
25/20			
Corporate Profit	$6.11 Billion	$3.48 & $3.61 Billion	$0.96 Billion
Corporate Profit Margin	*37.7%*	*34.2% & 35.5%*	*23.1%*
20/20			
Corporate Profit	$6.45 Billion	$3.68 & $3.79 Billion	$0.96 Billion
Corporate Profit Margin	*39.8%*	*36.1% & 37.2%*	*23.1%*

*We also provided information based on a sales price of $40.01 in order to show the impact of the transition provisions, which are activated when prices exceed $40/bbl.

Volumes and transportation charges from March 2006 Department of Revenue Spring 2006 projections.

PPT analysis based on HB 488 as originally presented; variance at $40 per barrel shown to demonstrate corporate incentive from transition credits.

Corporate Profit Margin is defined as: [well head revenues less (ANS operating and capital costs, State royalties, production taxes and surcharges, property taxes, and State and federal corporate income taxes)] divided by (gross ANS well head revenues).

To create these estimates, calculations separate from the PPT model were made because the PPT model accrues capital costs over 40 years. Thus, assumptions had to be made about the timing of capital costs.

The department has numerous models that serve specific purposes. The PPT Model meets the need to forecast long-term effects and should not be utilized within a time horizon of ten years or less. The Revenue-Share Model used for this analysis meets the need to analyze short-term forecasts to determine the distribution of petroleum revenues.

All department models are periodically updated based on new information and understandings of industry operations.

BP Boosts Dollar Dividend By 26 Per Cent

Release date: 08 February 2005

Download the full version of the results using the link on the right.

View or download the presentation hosted by John Browne (Group Chief Executive), Byron Grote (Chief Financial Officer) and Fergus MacLeod (Head of Investor Relations).

▸ View or download an archive of the webcast

BP today announced a 26 per cent boost to its fourth quarter dollar dividend compared with last year, the biggest single increase in its recent history.

Citing the "strong prevailing circumstances of the Group, along with future investment patterns and the forward trading environment", chief executive Lord Browne said BP had decided to make a significant one-time step-change in the dividend from 7.1 to 8.5 cents a share.

"Thereafter, we would expect to grow the dividend in line with our view of future sustainable performance. We estimate that this level of dividend allows us to maintain prudent earnings cover even if oil prices went down to $25 dollars a barrel," he said.

Previewing an update on Group strategy to financial analysts scheduled for later today, Browne said: "We are aware that many of our investors are sterling-based and that the dollar's weakness has had an impact on their sterling cash flows. This change will be to their benefit, with a sterling increase of 23 per cent in the fourth quarter dividend compared with last year.

"For the year as a whole, dollar-based investors will see an increase of 13 per cent and sterling-based investors a rise of 4 per cent."

Browne said the company had bought back more than $7.5 billion of shares during 2004 and remained committed to returning "100 per cent of excess free cash flow to investors so long as oil prices remain above $20 a barrel, all other things being appropriate.

"Looking at the potential cash that could be distributed over 2005 and 2006 through share buybacks and dividends, assuming an oil price of $30 a barrel and depending on refining margins and other factors, the total amount available for distribution could be around $23 billion.

"We could use some of the excess free cash flow, for example, for material acquisitions if we saw opportunities which fitted our strategy. But we see no such opportunities at present."

Commenting on BP's record replacement cost profit of $16.2 billion for 2004, up 26 per cent from the previous year, Browne said the company was in a strong financial condition. Post-tax cash flow for the year totalled $24 billion, a rise of 42 per cent from 2003, and gearing stood at 24 per cent.

"Our strategy is on track and unchanged, our operations are in line with our previous indications, and we have a strong base of material assets and markets for a sustainable future."

In Exploration and Production, he said that on a UK GAAP basis the company had more than replaced annual output for the 12th year running – by 106 per cent for the Group and 110 per cent, including equity-accounted entities such as in Abu Dhabi and TNK-BP.

Major discoveries were made in Egypt, Sakhalin, the deepwater Gulf of Mexico, Trinidad and Angola, adding [illegible] 1 billion barrels of oil equivalent to BP's resource base over the year.

Production in existing profit centres, mainly Alaska and the North Sea, showed a net decline of between 4.5 and 5 per cent, a trend expected to continue at an annual average rate of 3 per cent out to 2008. This was partly offset by a rise in output from new profit centres to over 1 million barrels a day of oil equivalent – a figure likely to increase substantially in 2005.

Capital expenditure in existing profit centres rose from $3.2 billion in 2003 to $3.5 billion last year and is expected to rise [illegible] this year as a result of specific oil field inflation and a weaker dollar. [illegible] $5.5 billion in 2004 and, with new project spending now over its peak, [illegible]

TNK-BP's 2004 oil production rose nearly 14 per cent to 1.45 million barrels a day, or 1.66 million barrels including the 50 per cent of Slavneft added at the start of the year. Output is estimated to grow by some 5 per cent this year. Capex, which is self-funded, was $1.5 billion in 2004, up from around $1 billion in 2003, and is expected to reach approximately $1.8 billion this year as new prospects are developed, including new extensions to Samotlor and the Uvat project, both 1 billion barrel development options in West Siberia.

"Since the formation of TNK-BP, the total investment we've made has been $5.3 billion and the total dividends received have been $2.2 billion," Browne said.

Group production as a whole grew by 11 per cent in 2004. Output for 2005 would likely hit 4.1 million to 4.2 million barrels a day of oil equivalent before divestments, keeping BP on track to average annual production growth in excess of 5 per cent for the period 2004-2008. The exact level would depend on oil prices, the extent of divestments and various other factors. Capex for Exploration and Production would likely be between $9.5 billion and $10 billion in 2005 and 2006, depending on foreign exchange impacts and inflation.

Capex in refining would be level in 2005 at around $1.3 billion. "The majority of our refining capacity is in the US where margins are structurally advantaged and our refineries are in the top quartile on net cash margins and return on investment. In Europe, after the divestment of Lavera and Grangemouth, our position should improve considerably. In retail, where store sales continue to grow, along with sales of BP's Ultimate premium fuel, capital spending would also remain stable at around $950 million this year," Browne said.

"Our global gas sales rose to 32 billion cubic feet a day in 2004. In North America, where BP is the leading marketer, our gas sales were up 16 per cent over 2003. Going forward, we expect medium-term global growth of 2 to 3 per cent a year, in line with world gas demand, and we will concentrate increasingly on customers who best fit our capabilities."

In petrochemicals the company was on track with plans to divest the bulk of its olefins and derivatives business in phases commencing in the second half of this year, probably by way of an IPO, subject to market conditions and necessary approvals. BP spent $200 million in its high-growth aromatics and acetyls business which generated competitive cash returns in 2004 – a figure likely to rise slightly this year as the company invests to keep its leadership position in the segment.

Browne said he expected capital spending for BP as a whole to total some $14 billion in 2005. "The exact level will depend on the level of the dollar and our continuing track record of offsetting normal underlying annual inflation of some 2 per cent. For the medium term an investment level of around $14 billion is a reasonable expectation.

"Divestments, with the exception of olefins and derivatives, are not presently expected to be large this year. We expect proceeds of around $1.3 billion, composed of the balance due from the sale of Ormen Lange and normal portfolio optimisation."

Commenting on the oil price, he said that while he expected that demand for oil in 2005 would moderate compared to last year, "we've concluded that on the basis of the supply-demand balance and OPEC's five-year track record of maintaining production discipline, oil prices are likely to have a support level of around $30 a barrel for at least the medium term.

"As far as BP is concerned, we will continue to use a Brent oil price of $20 a barrel for the purpose of testing projects and planning our activity level in exploration and production. This allows us to maintain a portfolio of activities with strong returns."

Browne said that, while BP had been helped by the environment, "our success so far is due to our combination of strategy and discipline. Over the past few years we have built a strong base for the Group with material assets and markets into which we are investing. We're achieving the targets for growth we set ourselves, we're improving quality and we're maintaining financial strength.

"Importantly, in spite of the significantly better than expected trading environment, we are maintaining a disciplined approach to the execution of our strategy and consequently making sure that excess free cash flows are appropriately distributed to shareholders."

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DISTRIBUTION OF ANS OIL & GAS REVENUES BETWEEN THE PRODUCERS, ALASKA GOVERNMENTS AND THE US FEDERAL GOVERNMENT*

Production & Value Added By TAPS

		FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1996
Note 1	ANS West Coast Oil Price ($/Bbl)	$16.12	$14.61	$17.22	$21.57	$16.64	$17.83	$14.05	$16.77
	Transportation Cost to Market ($/Bbl)	$5.59	$5 25	$5.32	$6.19	$5.43	$5.02	$4.48	$5.26
	ANS Oil Wellhead Price ($/Bbl)	$10.53	$9.36	$11.90	$15.38	$11.21	$12.81	$9.57	$11.51
	ANS Oil & NGL Production (Million Bbl)	2.006	1.962	1.846	1.704	1.783	1.679	1.593	1.572
	Oil & NGL Production Value (Million $)	7,710.6	6,702.4	8,015.6	10,071.3	7,295.4	7,850.4	5,564.4	6,604.2
Note 2	Production Costs ($/Bbl)	4.00	3.80	3.70	3.50	3.50	3.31	3.07	2.97
	Oil & NGL Production Costs (Million $)	2,928.8	2,721.3	2,493.0	2,291.8	2,277.8	2,028.5	1,785.0	1,704.1
Note 1	State Revenue + Muni Oil Prop (Millions $)	2,175.4	1,936.2	2,347.6	2,998.7	2,213.2	2,322.4	1,646.3	1,974.7
	Oil & Gas Production Tax (inc Exp Credit)	804.0	680.2	977.1	1,289.8	898.1	968.6	675.4	772.5
	Avg Economic Limit Factor (ELF)	0.792	0.785	0.938	0.926	0.926	0.927	0.917	0.905
	Gross Oil & Gas Royalty	890.1	778.8	944.4	1,236.0	855.9	937.5	648.6	794.6
	Property Tax State Share	96.4	89.9	83.4	82.8	78.3	63.3	63.1	58.2
	Property Tax Muni Share	258.4	254.5	248.9	242.0	248.4	258.8	245.0	246.6
	Corporate Petroleum Income Tax	126.4	132.8	93.8	148.1	132.4	94.1	14.2	102.8
	Income Tax Production	13.1	32.0	(6.4)	50.6	41.0	10.4	(62.7)	32.1
	Income Tax TAPS	113.3	100.8	100.1	97.5	91.4	83.6	76.9	70.7
Note 3	TAPS tax allowance (Millions $)	566.708	503.938	500.714	487.333	456.971	418.238	384.609	353.510
	TAPS after tax margin	308.2	257.4	303.0	326.1	336.2	320.8	322.0	318.2
	TAPS deferred return	558.7	515.1	463.7	419.7	363.4	298.9	245.5	203.7
Note 4	Federal Revenue (Millions $)	1,405.3	1,154.2	1,546.9	2,097.2	1,379.1	1,588.7	1,081.3	1,331.4
	Percentage Federal	22.6%	22.0%	22.8%	23.3%	22.3%	23.2%	22.9%	23.1%
Note 5.	Company Net Revenue (Millions $)	2,634.7	2,167.3	2,895.5	3,916.6	2,582.0	2,946.8	2,004.0	2,469.3
	Percentage Company	42.4%	41.2%	42.6%	43.5%	41.8%	43.0%	42.4%	42.8%
	State Revenue + Muni Property (Millions $)	2,175.4	1,936.2	2,347.6	2,998.7	2,213.2	2,322.4	1,646.3	1,974.7
	Percentage State & Local	35.0%	36.8%	34.6%	33.3%	35.8%	33.9%	34.8%	34.2%
	Total Revenue Shared State, Federal, Company	6,215.4	5,257.6	6,790.0	9,012.6	6,174.3	6,857.9	4,731.5	5,775.5

* The Department of Revenue is in the process of reviewing the historical data with an eye to revising and improving the accuracy of these estimates.

Notes:

1 Revenues, Prices, and Production taken from *Fall Revenue Source Book* Appendices

Production Taxes include oil and gas severance, regulation and conservation and hazardous release Production Tax, Exploration Incentives and Royalties, 1996 thru 2005 from ShortCut History

Total Alaska CIT is reduced by the percent oil volume produced in Cook Inlet (2%) to calculate a CIT for ANS.

2 Production Cost is taken from "How Much is Enough" by Richard Fineberg for FY 1988–FY1996, Dept of Revenue estimates for FY 1997–FY 2003. The Department will be evaluating production costs in the future

3 TAPS tax, after tax margin, and deferred return allowances from actual filings

4 Federal Revenue is calculated as 35% of the difference between production value and production cost (including state taxes on production) plus 80% of the TAPS tax allowance

80% is the fed rate divided by the sum of the fed and state rates. The maximum marginal fed rate is 35%, the state rate is 9.4%.

5 Company net revenue is calculated as production value less production costs less taxes on production plus the TAPS after tax allowance plus deferred return.

DISTRIBUTION OF ANS OIL & GAS REVENUES BETWEEN THE PRODUCERS, ALASKA GOVERNMENTS AND THE US FEDERAL GOVERNMENT*

Production & Value Added By TAPS

		FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Note 1	ANS West Coast Oil Price ($/Bbl)	$17.74	$20.90	$15.80	$12.73	$23.27	$27.85	$21.78	$28.15	$31.74	$43.44
	Transportation Cost to Market ($/Bbl)	$5.14	$4.50	$3.95	$4.26	$4.21	$5.61	$4.98	$4.88	$4.90	$4.51
	ANS Oil Wellhead Price ($/Bbl)	$12.60	$16.40	$11.91	$8.47	$19.08	$22.24	$16.80	$23.27	$26.78	$38.92
	ANS Oil & NGL Production (Million Bbl)	1.474	1.404	1.275	1.164	1.035	0.991	1.004	0.991	0.980	0.917
	Oil & NGL Production Value (Million $)	6,778.9	8,404.3	5,542.6	3,598.6	7,200.4	8,044.5	6,156.5	8,417.1	9,579.2	13,032.4
Note 2	Production Costs ($/Bbl)	3.09	3.07	4.24	4.67	5.10	5.96	6.44	6.44	6.50	6.70
	Oil & NGL Production Costs (Million $)	1,662.5	1,880.7	1,973.2	1,984.1	1,926.7	2,154.4	2,359.3	2,328.7	2,325.1	2,243.3
Note 1	State Revenue + Muni Oil Prop (Millions $)	2,011.7	2,429.5	1,620.7	1,144.9	1,955.1	2,324.4	1,621.5	2,095.6	2,412.9	3,223.5
	Oil & Gas Production Tax (Inc Exp Credit)	754.2	915.2	576.7	351.4	664.5	696.4	462.8	571.3	621.7	796.1
	Avg Economic Limit Factor (ELF)	0.8847	0.8422	0.8176	0.7404	0.6817	0.6429	0.5975	0.5519	0.5322	0.530
	Gross Oil & Gas Royalty	819.7	1,007.2	603.3	403.4	898.2	1,100.9	762.8	1,146.4	1,296.1	1,754.5
	Property Tax State Share	53.9	51.1	49.1	47.4	45.3	42.5	40.1	44.3	43.5	42.5
	Property Tax Muni Share	245.0	240.5	231.6	226.6	217.0	214.1	213.0	212.6	212.5	211.2
	Corporate Petroleum Income Tax	139.0	215.5	160.1	116.1	130.2	270.5	142.7	120.9	239.0	419.2
	Income Tax Production	76.4	163.1	116.6	76.1	90.7	230.0	101.2	79.5	108.3	377.9
	Income Tax TAPS	62.6	52.4	43.5	39.9	39.4	40.4	41.5	41.4	40.8	41.3
Note 3	TAPS tax allowance (Millions $)	312.900	262.094	217.331	190.651	197.131	202.201	207.427	206.771	203.922	206.702
	TAPS after tax margin	309.1	290.0	275.2	250.6	243.2	248.5	255.1	257.2	253.2	256.9
	TAPS deferred return	153.7	99.0	48.9	47.2	50.1	51.1	61.2	47.1	46.2	45.5
Note 4	Federal Revenue (Millions $)	1,358.9	1,661.0	871.1	338.0	1,333.0	1,423.9	942.0	1,577.3	1,871.9	2,827.8
	Percentage Federal	23.1%	23.2%	21.2%	16.0%	23.1%	22.3%	21.9%	23.9%	24.1%	25.0%
Note 5.	Company Net Revenue (Millions $)	2,521.6	3,084.4	1,619.0	629.0	2,476.0	2,643.7	1,747.4	2,926.5	3,472.7	5,247.0
	Percentage Company	42.8%	43.0%	39.4%	29.8%	43.0%	41.4%	40.5%	44.3%	44.8%	46.4%
	State Revenue + Muni Property (Millions $)	2,011.7	2,429.5	1,620.7	1,144.9	1,955.1	2,324.4	1,621.5	2,095.6	2,412.9	3,223.5
	Percentage State & Local	34.1%	33.9%	39.4%	54.2%	33.9%	36.4%	37.6%	31.8%	31.1%	28.5%
	Total Revenue Shared State, Federal, Company	5,892.2	7,174.8	4,110.8	2,111.9	5,764.2	6,392.0	4,310.9	6,599.5	7,757.5	11,298.3

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Notes:

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5 Company net revenue is calculated as production value less production costs less taxes on production plus the TAPS after tax allowance plus deferred return

Federal, Company and State Revenue Shares under the 2005 ELF Based Severance Tax System & HB63

Using FY 2007 Production Volumes from the Spring 2006 *Revenue Sources Book*

Sales Price ($/Bbl)	Forecast Price $53.60	$10	$12	$14	$16	$18	$20	$22	$24	$26	$28	$30	$32	$34	$36	$38
Costs																
Avg Trans To Market	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20
Wellhead Price ($/Bbl)	$47.40	$3.80	$5.80	$7.80	$9.80	$11.80	$13.80	$15.80	$17.80	$19.80	$21.80	$23.80	$25.30	$27.80	$29.80	$31.80
Volume																
Oil production (millions bbls/day)	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792
NGL production (millions bbls/day)	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033
ANS Production (oil and NGL) (Million Bbl/Yr)	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2
Production Value (Million $)	14276.2	1143.1	1745.5	2347.9	2950.3	3552.7	4155.1	4757.5	5359.8	5962.2	6564.6	7167.0	7769.4	8371.8	8974.2	9576.6
Production Costs ($/Bbl)	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32
Production Costs (Million $)	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9
Severance Taxes																
NGL Severance Tax	19.83	1.55	2.38	3.22	4.06	4.90	5.74	6.58	7.42	8.26	9.10	9.93	10.77	11.61	12.45	13.29
Gas Severance Tax	3.10	0.25	0.38	0.51	0.64	0.77	0.90	1.03	1.16	1.29	1.43	1.56	1.69	1.82	1.95	2.08
Hazardous Release	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59
Oil Severance Tax with ELF Based Severance	953.4	107.7	128.6	168.0	207.7	247.3	287.0	326.7	366.3	406.0	445.7	485.4	525.0	564.7	604.4	644.0
Oil Severance Tax with HB63	2553.1	83.3	109.8	165.4	231.3	276.9	322.4	404.7	498.1	596.7	708.3	825.1	953.0	1090.0	1236.1	1391.4
Per Barrel Oil & NGL Severance Tax																
With Aggregation	$3.17	$0.36	$0.43	$0.56	$0.69	$0.82	$0.95	$1.08	$1.22	$1.35	$1.48	$1.61	$1.74	$1.87	$2.01	$2.14
Under HB63	$8.48	$0.21	$0.36	$0.55	$0.77	$0.92	$1.07	$1.34	$1.65	$1.98	$2.35	$2.74	$3.16	$3.62	$4.10	$4.62
Royalty																
Gross ANS	1041.6	204.2	279.3	354.3	429.4	504.5	579.6	655.3	731.0	806.4	881.7	957.0	1032.3	1107.6	1182.9	1258.2
per bbl royalty	$6.11	$0.68	$0.93	$1.18	$1.43	$1.67	$1.92	$2.18	$2.43	$2.68	$2.93	$3.18	$3.43	$3.68	$3.93	$4.18
Property Tax																
State Share (ANS only)	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Muni ShareShare (ANS only)	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
Property tax per bbl	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79
Total Severance, Royalty, State and Local Property taxes																
Under ELF Based Severance Tax	3063.9	559.5	656.3	771.9	887.6	1003.3	1119.1	1235.3	1351.7	1467.7	1583.7	1699.6	1815.5	1931.5	2047.4	2163.4
Under HB63	4663.6	516.1	637.4	769.3	911.2	1032.8	1154.5	1313.4	1481.5	1658.4	1844.3	2039.4	2243.5	2456.8	2679.2	2910.7
Corporate Income Tax (ANS)																
Production	495.1	189.9	203.9	217.9	231.9	245.9	259.9	273.9	287.9	301.9	315.9	329.9	343.9	357.9	371.9	385.9
TAPS	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2
Total Petroleum	$538.38	$233.16	$247.16	$261.16	$275.16	$289.16	$303.16	$317.16	$331.16	$345.16	$359.16	$373.16	$387.16	$401.16	$415.16	$429.16
TAPS tax allowance (Millions $)	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22
TAPS after tax margin	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39
TAPS deferred return	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88
Revenue Share with Under ELF Based Severance Tax																
Federal Revenue (Millions $)	3046.5	-568.3	-394.3	-228.8	-63.3	102.1	267.5	432.8	598.0	763.3	928.7	1094.0	1259.4	1424.7	1590.1	1755.4
Percentage Total	24.8%	0.0%	0.0%	0.0%	0.0%	6.5%	12.3%	15.6%	17.7%	19.1%	20.2%	21.1%	21.7%	22.3%	22.7%	23.1%
Company Net Revenue (Millions $)	5650.9	-1056.7	-739.2	-431.8	-124.6	182.7	489.8	796.7	1103.5	1410.6	1717.7	2024.8	2331.9	2639.0	2946.0	3253.1
Percentage Total	46.0%	0.0%	0.0%	0.0%	0.0%	11.6%	22.5%	28.6%	32.6%	35.4%	37.4%	39.0%	40.2%	41.3%	42.1%	42.8%
State Revenue + Muni Share Oil Property (Millions $)	3602.3	792.7	903.5	1033.0	1162.7	1292.4	1422.3	1552.5	1682.9	1812.9	1942.8	2072.8	2202.7	2332.7	2462.6	2592.6
Percentage Total	29.3%	0.0%	0.0%	0.0%	0.0%	81.9%	65.3%	55.8%	49.7%	45.5%	42.3%	39.9%	38.0%	36.5%	35.2%	34.1%
Total Revenue Shared State, Federal, Company	12299.6	-832.3	-229.9	372.5	974.8	1577.2	2179.6	2782.0	3384.4	3986.8	4589.2	5191.6	5794.0	6396.3	6998.7	7601.1
Revenue Share Under HB63																
Federal Revenue (Millions $)	2486.6	-550.8	-387.8	-227.9	-71.6	91.8	255.1	405.4	[illegible]	696.6	837.4	975.1	1109.6	1240.9	1369.0	1493.9
Percentage Total	20.2%	0.0%	0.0%	0.0%	0.0%	5.8%	11.7%	14.6%	16.3%	17.5%	18.2%	18.8%	19.2%	19.4%	19.6%	19.7%
Company Net Revenue (Millions $)	4611.1	-1029.8	-726.9	-430.2	-140.0	163.5	466.8	746.0	1019.2	1288.7	1548.3	1801.9	2053.7	2297.6	2535.4	2787.4
Percentage Total	37.5%	0.0%	0.0%	0.0%	0.0%	10.4%	21.4%	26.8%	30.1%	32.3%	33.7%	34.7%	35.4%	35.9%	36.2%	36.4%
State Revenue + Muni Share Oil Property (Millions $)	5202.0	748.3	884.6	1030.5	1160.4	1322.0	1457.7	1630.6	1812.7	2003.6	2203.5	2412.6	2630.7	2858.0	3094.4	3339.9
Percentage Total	42.3%	0.0%	0.0%	0.0%	0.0%	83.8%	66.9%	58.6%	53.6%	50.3%	48.0%	46.5%	45.4%	44.7%	44.2%	43.9%
Total Revenue Shared State, Federal, Company	12299.6	-832.3	-229.9	372.5	974.8	1577.2	2179.6	2782.0	3384.4	3986.8	4589.2	5191.6	5794.0	6396.3	6998.7	7601.1

$40	$42	$44	$46	$48	$50	$52	$54	$56	$58	$60	$62	$64	$66	$68	$70	$72	$74	$76	$78	$80
$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20	$6.20
$33.80	$35.80	$37.80	$39.80	$41.80	$43.80	$45.80	$47.80	$49.80	$51.80	$53.80	$55.80	$57.80	$59.80	$61.80	$63.80	$65.80	$67.80	$69.80	$71.80	$73.80
0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792	0.792
0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033	0.033
301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2
10179.0	10781.3	11383.7	11986.1	12588.5	13190.9	13793.3	14395.7	14998.1	15600.5	16202.9	16805.2	17407.6	18010.0	18612.4	19214.8	19817.2	20419.6	21022.0	21624.4	22226.7
$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32	$8.32
2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9	2505.9
14.13	14.97	15.81	16.65	17.48	18.32	19.16	20.00	20.84	21.68	22.52	23.36	24.20	25.04	25.87	26.71	27.55	28.39	29.23	30.07	30.91
2.21	2.34	2.47	2.60	2.73	2.86	3.00	3.13	3.26	3.39	3.52	3.65	3.78	3.91	4.04	4.17	4.30	4.43	4.57	4.70	4.83
7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59	7.59
683.7	723.4	763.0	802.7	842.4	882.0	921.7	961.4	1001.0	1040.7	1080.4	1120.1	1159.7	1199.4	1239.1	1278.7	1318.4	1358.1	1397.7	1437.4	1477.1
1555.7	1729.2	1911.7	2057.8	2178.9	2301.0	2424.9	2550.4	2677.7	2806.8	2937.6	3070.1	3204.3	3340.3	3478.1	3617.6	3758.8	3901.7	4046.4	4192.9	4341.0
$2.27	$2.40	$2.53	$2.67	$2.80	$2.93	$3.06	$3.19	$3.32	$3.46	$3.59	$3.72	$3.85	$3.98	$4.11	$4.25	$4.38	$4.51	$4.64	$4.77	$4.90
$5.17	$5.74	$6.35	$6.83	$7.23	$7.64	$8.06	$8.47	$8.89	$9.32	$9.75	$10.19	$10.64	$11.09	$11.55	$12.01	$12.48	$12.95	$13.43	$13.92	$14.41
1333.5	1408.8	1484.1	1559.4	1634.7	1710.0	1785.3	1860.6	1935.9	2011.2	2086.6	2161.9	2237.2	2312.5	2387.8	2463.1	2538.4	2613.7	2689.0	2764.3	2839.6
$4.43	$4.68	$4.93	$5.18	$5.43	$5.68	$5.93	$6.18	$6.43	$6.68	$6.93	$7.18	$7.43	$7.68	$7.93	$8.18	$8.43	$8.68	$8.93	$9.18	$9.43
34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79	$0.79
2279.3	2395.3	2511.2	2627.2	2743.1	2859.0	2975.0	3090.9	3206.9	3322.8	3438.8	3554.7	3670.7	3786.6	3902.5	4018.5	4134.4	4250.4	4366.3	4482.3	4598.2
3151.3	3401.1	3650.9	3882.3	4079.7	4278.0	4478.1	4680.0	4883.6	5088.9	5295.9	5504.7	5715.3	5927.6	6141.6	6357.3	6574.8	6794.0	7015.0	7237.7	7462.2
399.9	413.9	427.9	441.9	455.9	469.9	483.9	497.9	511.9	525.9	539.9	553.9	567.9	581.9	595.9	609.9	623.9	637.9	651.9	665.9	679.9
43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2
$443.18	$457.18	$471.18	$485.18	$499.18	$513.18	$527.18	$541.18	$555.18	$569.18	$583.18	$597.18	$611.18	$625.18	$639.18	$653.18	$667.18	$681.18	$695.18	$709.18	$723.18
216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22	216.22
267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39	267.39
46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88	46.88
1920.8	2086.1	2251.5	2416.9	2582.2	2747.6	2912.9	3078.3	3243.6	3409.0	3574.4	3739.7	3905.1	4070.4	4235.8	4401.1	4566.5	4731.8	4897.2	5062.6	5227.9
23.4%	**23.7%**	**23.9%**	**24.1%**	**24.3%**	**24.5%**	**24.6%**	**24.8%**	**24.9%**	**25.0%**	**25.1%**	**25.2%**	**25.3%**	**25.4%**	**25.5%**	**25.5%**	**25.6%**	**25.7%**	**25.7%**	**25.8%**	**25.8%**
3560.2	3867.3	4174.4	4481.5	4788.6	5095.7	5402.8	5709.8	6016.9	6324.0	6631.1	6938.2	7245.3	7552.4	7859.5	8166.6	8473.6	8780.7	9087.8	9394.9	9702.0
43.4%	**43.9%**	**44.4%**	**44.8%**	**45.1%**	**45.4%**	**45.7%**	**46.0%**	**46.2%**	**46.4%**	**46.6%**	**46.8%**	**46.9%**	**47.1%**	**47.2%**	**47.4%**	**47.5%**	**47.6%**	**47.7%**	**47.8%**	**47.9%**
2722.5	2852.4	2982.4	3112.3	3242.3	3372.2	3502.2	3632.1	3762.1	3892.0	4021.9	4151.9	4281.8	4411.8	4541.7	4671.7	4801.6	4931.6	5061.5	5191.4	5321.4
33.2%	**32.4%**	**31.7%**	**31.1%**	**30.5%**	**30.1%**	**29.6%**	**29.2%**	**28.9%**	**28.6%**	**28.3%**	**28.0%**	**27.7%**	**27.5%**	**27.3%**	**27.1%**	**26.9%**	**26.7%**	**26.6%**	**26.4%**	**26.3%**
8203.5	8805.9	9408.3	10010.7	10613.1	11215.5	11817.9	12420.2	13022.6	13625.0	14227.4	14829.8	15432.2	16034.6	16637.0	17239.4	17841.7	18444.1	19046.5	19648.9	20251.3
1615.6	1734.1	1849.5	1977.6	2114.4	2250.9	2386.8	2522.1	2656.8	2790.9	2924.3	3057.2	3189.4	3321.1	3452.1	3582.5	3712.4	3841.6	3970.2	4098.1	4225.5
19.7%	**19.7%**	**19.7%**	**19.8%**	**19.9%**	**20.1%**	**20.2%**	**20.3%**	**20.4%**	**20.5%**	**20.6%**	**20.6%**	**20.7%**	**20.7%**	**20.7%**	**20.8%**	**20.8%**	**20.8%**	**20.8%**	**20.9%**	**20.9%**
2993.4	3213.5	3427.7	3665.7	3919.8	4173.3	4425.7	4677.0	4927.1	5176.1	542[illegible].3	5670.7	5916.3	6160.6	6404.1	6646.3	6887.4	7127.4	7366.2	7603.9	7840.4
36.5%	**36.5%**	**36.4%**	**36.6%**	**36.9%**	**37.2%**	**37.4%**	**37.7%**	**37.8%**	**38.0%**	**38.1%**	**38.2%**	**38.3%**	**38.4%**	**38.5%**	**38.6%**	**38.6%**	**38.6%**	**38.7%**	**38.7%**	**38.7%**
3594.5	3858.3	4131.1	4367.4	4578.9	4791.2	5005.3	5221.2	5438.7	5658.1	5879.1	6101.9	6326.5	6552.7	6780.7	7010.5	7242.0	7475.2	7710.2	7946.9	8185.3
43.8%	**43.8%**	**43.9%**	**43.6%**	**43.1%**	**42.7%**	**42.4%**	**42.0%**	**41.8%**	**41.5%**	**41.3%**	**41.1%**	**41.0%**	**40.9%**	**40.8%**	**40.7%**	**40.6%**	**40.5%**	**40.5%**	**40.4%**	**40.4%**
8203.5	8805.9	9408.3	10010.7	10613.1	11215.5	11817.9	12420.2	13022.6	13625.0	14227.4	14829.8	15432.2	16034.6	16637.0	17239.4	17841.7	18444.1	19046.5	19648.9	20251.3

ANS State Severance Tax Collections and Effective Tax Rate Under the Current ELF based system and the proposed HB63

ANS Market Price	$53.60	$10	$12	$14	$16	$18	$20	$22	$24	$26	$28	$30	$32	$34	$36	$38	$40	$42	$44
ANS Oil Severance Tax Collections (millions of $)																			
Status Quo	953.4	107.7	128.5	168.0	207.7	247.3	287.0	326.7	366.3	406.0	445.7	485.4	525.0	564.7	604.4	644.0	683.7	723.4	763.0
Under HB63	2,553.1	63.3	109.6	165.4	231.3	276.9	322.4	404.7	496.1	596.7	706.3	825.1	953.0	1,090.0	1,236.1	1,391.4	1,555.7	1,729.2	1,911.7
Difference	1,599.7	-44.4	-18.9	-2.6	23.7	29.5	35.4	78.0	129.8	190.7	260.7	339.8	428.0	525.3	631.8	747.4	872.0	1,005.8	1,148.7
Average Effective Tax Rate																			
Status Quo	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Under HB63	21.1%	0.2%	7.1%	8.0%	9.0%	9.0%	9.0%	9.9%	10.8%	11.7%	12.6%	13.5%	14.4%	15.3%	16.2%	17.1%	18.0%	18.8%	19.7%

[1] FY2007 Price from Spring 2006 Forecast

ANS State Severance

ANS Market Price	$46	$48	$50	$52	$54	$56	$58	$60	$62
ANS Oil Severance Tax Collectic									
Status Quo	802.7	842.4	882.0	921.7	961.4	1,001.0	1,040.7	1,080.4	1,1[illegible]0.1
Under HB03	2,057.8	2,178.9	2,301.0	2,424.9	2,550.4	2,677.7	2,806.8	2,937.6	3,070.1
Difference	1,255.1	1,336.6	1,419.0	1,503.2	1,589.1	1,676.7	1,766.1	1,857.2	1,950.0
Average Effective Tax Rate									
Status Quo	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Under HB03	20.2%	20.4%	20.6%	20.7%	20.9%	21.1%	21.2%	21.4%	21.6%

ANS Market Price	$64	$66	$68	$70	$72	$74	$76	$78	$80
ANS Oil Severance Tax Collectic									
Status Quo	1,159.7	1,199.4	1,239.1	1,278.7	1,318.4	1,358.1	1,397.7	1,437.4	1,477.1
Under HB03	3,204.3	3,340.3	3,478.1	3,617.6	3,758.8	3,901.7	4,046.4	4,192.9	4,341.0
Difference	2,044.6	2,140.9	2,239.0	2,338.8	2,440.4	2,543.7	2,648.7	2,755.4	2,863.9
Average Effective Tax Rate									
Status Quo	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Under HB03	21.8%	21.9%	22.1%	22.3%	22.5%	22.6%	22.8%	23.0%	23.2%

[1] FY2007 Price from Spring 2006 F

House Finance Committee

HB3004: "The Alaska Fair Share Bill"

July 2006

"[Legislators] should during this session adopt a gross production tax for oil, separate from gas taxes."

-Jack Coghill & Vic Fischer

Anchorage Daily News - July 19, 2006

"Currently the companies pay taxes based on the price of a barrel of oil produced from Alaska oil fields. It's an uncomplicated and transparent system. We know the price of oil and we know how much oil moves through our pipeline.

-Larry Carr

Anchorage Daily News - July 8, 2006

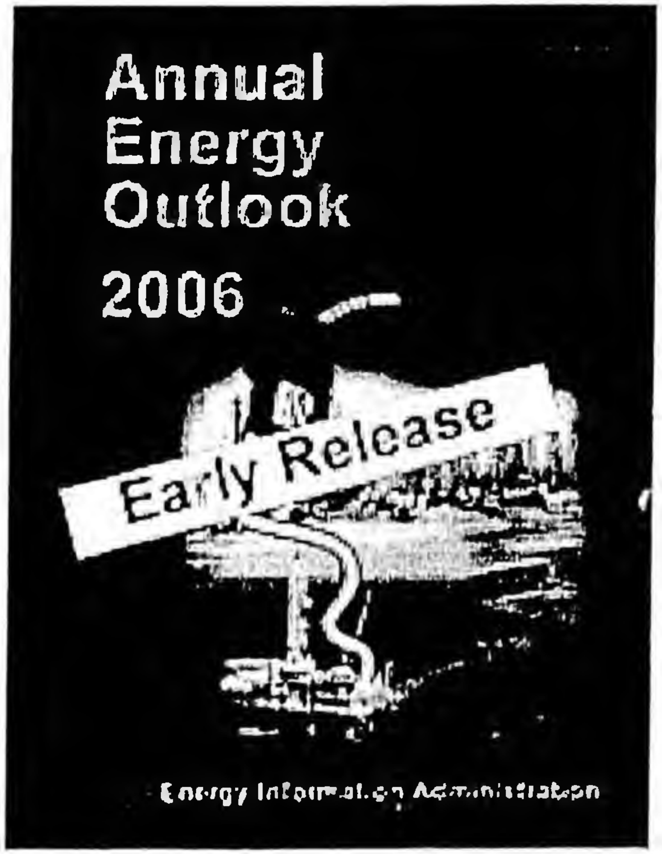
Taxing on the Gross is Straightforward

- Current law taxes a percentage of the sales value of oil

- The sales value is easier to verify than company profits

PPT Bets Alaska's Future On High Prices

According to the U.S. Energy Information Administration:



The long term annual average world oil price is forecasted to be $**47** per barrel through 2025.

According to BP….

- "It is very likely that, in the medium term, prices will stand at about **<u>$40 on average</u>**.

-Lord John Browne, CEO of BP

(Guardian Unlimited, 7/12/2006)*

* http://business.guardian.co.uk/print/0,,329502870-108725,00.html, "BP's Browne predicts oil price fall"

Gas Field Costs

Key Model Assumptions

• Production Rate of Gas (Excluding CO_2)	~4.5 Bcf/d
• Delivery into Pipeline	4.3 Bcf/d
• Gas Delivered at Alberta	4.2 Bcf/d
• Pipeline, GTP Construction Costs (2005 $M)	
-- to AECO (Most Likely Case)	$13,600
-- to Chicago (Unlikely)	$21,000
• Additional Upstream Investment Including PTU Capital, PT Feeder Line & YTF Gas Capital -- 80% Gas-Related (2005 $M)	$9,200
• Pipeline Commission Date	2015
• Full Capacity Date	2016

What is Additional PPT Revenue at $40/bbl?

According to Econ One:

Governor's PPT[1]:	$490 Million over status quo
House PPT[2]:	$588 Million over status quo
Senate PPT[3] :	$492 Million over status quo

[1] SB 2001

[2] HCS CSSB 2001

[3] CSSB 2001

EconOne, 5/26/06, 6/8/06

PPT Gas Credits & Deductions Largely Erase PPT Revenue Benefits

10 years of Additional PPT Revenue at $40/barrel:

Governor's PPT[1]:	$4.9 Billion over status quo
House PPT[2]:	$5.88 Billion over status quo
Senate PPT[3] :	$4.92 Billion over status quo

40% of $9.2 billion in gas field costs = <u>**$3.7 Billion**</u>

[1] SB 2001

[2] HCS CSSB 2001

[3] CSSB 2001

Gas Field Credits & Deductions Should be Taken from Gas Taxes, not Oil Taxes

"[Legislators] should during this session adopt a gross production tax for oil, ***separate from gas taxes***."

-Jack Coghill & Vic Fischer

Anchorage Daily News 7/19/06

WOOD MACKENZIE

GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

Alaska's Profitability – Full Cycle, Post Government Take

Rate of Return (IRR – Nominal)

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	15/49	14/52	14/53
Alaska's IRR	18.09%	23.57%	29.11%
Global Average IRR	15.20%	18.94%	23.07%

Full Cycle Government Take

Full Cycle Gov't Take (% Of Pre-Take Net Cash Flow, Undiscounted)

	Low Price ($16)	Base Price ($22)	High Price ($35)
Alaska's Ranking	33/54	24/54	19/55
Take on AK Production	71.70%	63.63%	58.40%
Global Ave. Take	70.86%	70.26%	73.34%

A Straightforward Fix to Current Law

The ELF: Intent & Effect

- Designed to promote the development of less profitable small and older fields.

- Has it provided producers with more of a benefit than needed?

The ELF Rate

- The ELF ranges between 0 and 1 depending upon a combination of factors.

- Generally speaking, they are:
  - The size of a field
  - The field's per well production

The ELF & The Production Tax

- The 15% "Oil Production", or "Severance" Tax varies because of the ELF, or economic limit factor.

- At its simplest, the ELF is a number between 0 and 1. (Production Tax = ELF X 15).

The ELF Ignores Economic Reality

- A field that pays 0% in production taxes pays that rate at $20/bbl, $40/bbl, even $100/bbl oil.

Why Make a Change?

- "Despite its name of Economic Limit Factor, it ignores the biggest single economic determinant, **which is price.**"

-- Dan Dickenson, Director, Tax Division quoted in The Petroleum News January 11, 2004.

ELF Now Exempts Larger Fields

Field	Rank Among U.S. 100 Largest Fields	Heavy Oil	Annual Production (bbl/year)	Production Tax
PRUDHOE BAY (includes aggregated fields)			108,668,811	**12.38%**
KUPARUK	2nd Largest in US		46,063,365	0.00%
WEST SAK	29th largest in US	HVY	7,606,381	0.00%
TABASCO		HVY	1,583,735	0.00%
TARN	67th largest in US		6,879,155	0.00%
MELTWATER	94th largest in US		1,205,048	0.00%
MILNE POINT	13th largest in US		912,500	0.00%
SCHRADER BLUFF		HVY	6,442,250	0.00%
ENDICOTT/SAG DELTA	27th largest in US		5,729,588	0.00%
EIDER			0	0.00%
BADAMI			328,500	0.00%
LISBURNE			3,045,918	0.00%
NIAKUK	93rd largest in US		2,393,416	0.00%
NANUQ			746,425	0.00%
ALPINE			38,484,870	**11.93%**
NORTH STAR (includes federal volume)			16,156,360	**6.10%**
LIBERTY			0	0.00%
KNOWN ONSHORE			0	0.00%
KNOWN OFFSHORE (O3 + NIQ)			0	0.00%
FIORD			2,755,750	0.00%
FIORD-KUP			1,245,745	0.00%

*Approximate of Prudhoe & Aggregated Fields

** Prudhoe Bay aggregated fields included Polaris (57th), Orion (83rd), Borealis (44th) and Pt. McIntyre (28th)

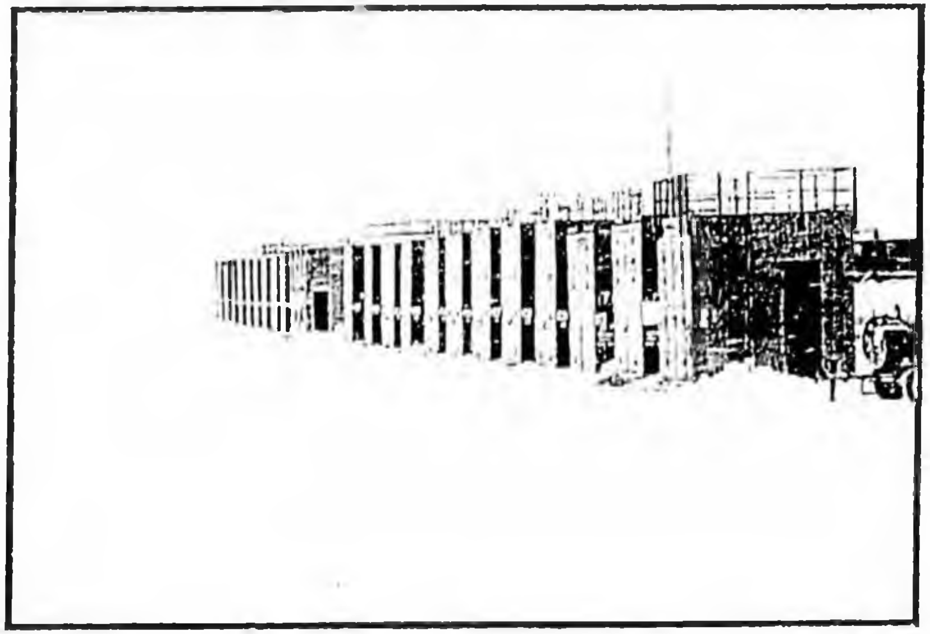
Source: AK Dept of Revenue

Post 1989 Company Cost Savings – Shared Facilities

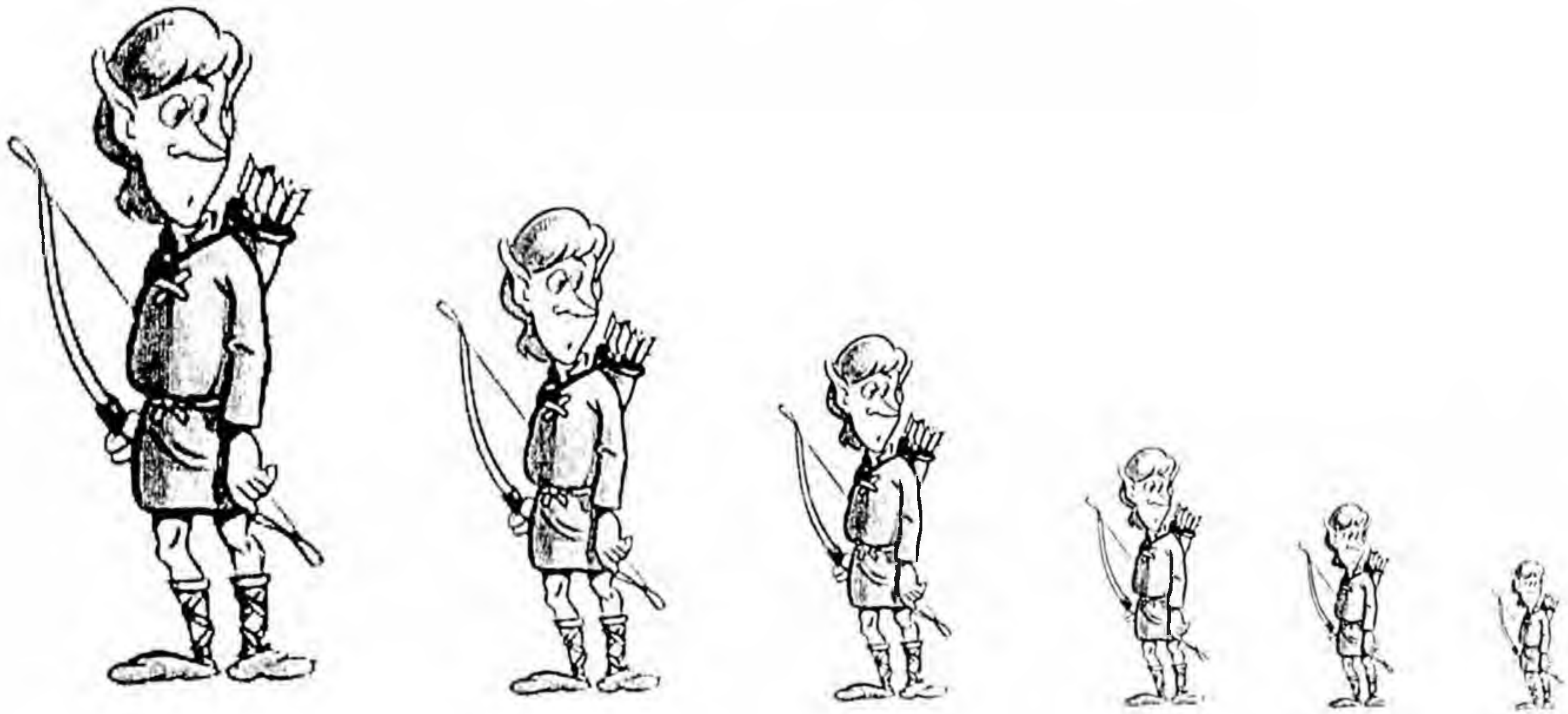
- Tarn is produced via Kuparuk's facilities.

Cost Savings at Tarn

- Nation's 67th largest oil field.
- Tarn required only two drill sites and three ten mile pipelines to Kuparuk's facilities.
- Pays 0% Production Tax.



Alaska's Shrinking ELF



The Shrinking ELF

- 1993 avg. North Slope Production Tax: 13.5%
- In 2004 it had fallen to 7.5%
- If we do nothing, it will fall to approximately 1.5% by 2015
  - Source: Dept. of Revenue 2005 Source Book

Current Fields are Profitable at Oil Prices of $20/barrel

Release date: 29 March 2004

"… all the free cash generated when the oil price is above that level would be returned to shareholders through buybacks." Source: BP Press Release 3/29/04

Policy Restated in 2/08/05 BP Press Release

Profits At Lower Prices?

- AOGA states \$12.82/bbl is a "**<u>high end estimate</u>**" of what producers need to "**<u>find, produce and transport</u>**" ANS oil.

Source: Juneau Empire, 12/13/04

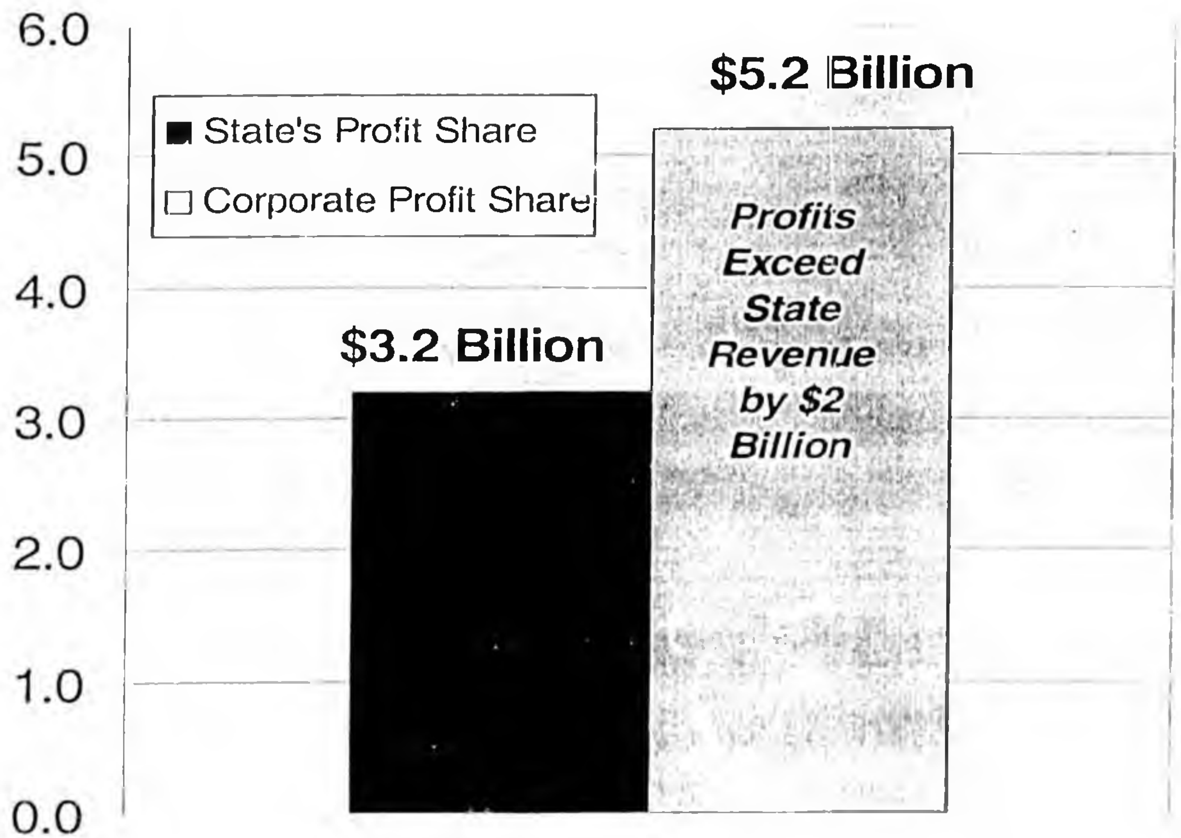
BP & ConocoPhillips
Alaska Profits

Year	2002	2003	2004	2005
Average Price of Oil	$24.72	$29.64	$38.84	$53.48
Alaska Profits				
ConocoPhillips	$870 Million	$1.4 Billion	$1.8 Billion	$2.55 Billion
BP	$550 Million	$872 Million	$1.8 Billion	$2.6 Billion
Company Profit Margin				
ConocoPhillips	29.0%	40.5%	41.8%	43.1%
BP	23.3%	27.5%	48.0%	53.0%

** ConocoPhillips information from ConocoPhillips annual reports. BP Information from SEC filings form 20-F.

A Fair Share?

In FY '05 oil company North Slope profits were **<u>$2 Billion more</u>** than State share.



Source: AK Dept of Revenue

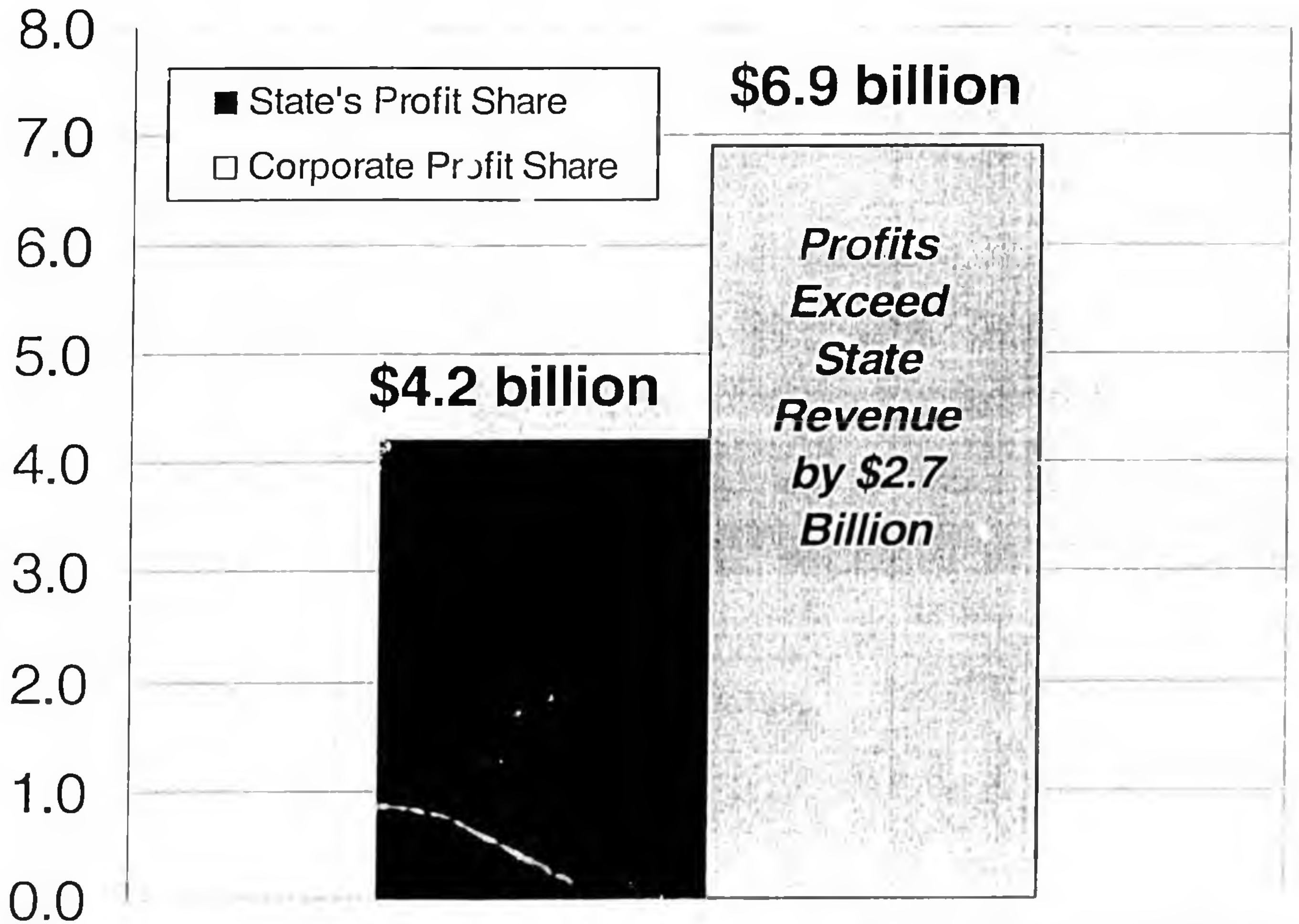
FY 2005 Oil Company Profit Margins

Gross Revenue from North Slope Operation:	$13 billion
Estimated Corporate Profits:	$5.2 billion
Corporate Profit Margin:	**40.3%**

Source: AK Dept of Revenue

Last Year's Profits

In FY '06 oil company North Slope profits grew to an estimated **$2.7 Billion more** than the State's share.



Source: AK Department of Revenue

Last Year's Profits?

In FY'06 ANS Prices Averaged Approximately $62/bbl

At $62/bbl:

Producer Gross Revenue:	**$16.8 Billion**
Est. Producer Net Profit:	**$6.9 Billion**
Profit Margin	**41%**
Exceeds State Share by:	**$2.7 Billion**

Source: Alaska Dept. of Revenue estimates, 2006
Awaiting final FY06 numbers from DOR

Fair Changes = Fair Revenue

Current Law Revenue Shares

	$20/bbl	$40/bbl	$60/bbl	$80/bbl
Company Net Revenue	$489 million	$3.56 billion	$6.63 billion	$9.7 billion
Company Profit Margin	11.80%	34.96%	40.90%	43.70%
State Revenue	$1.46 billion	$2.72 billion	$4.02 billion	$5.3 billion

Fair Share Bill (with a 27.5% Tax Rate Ceiling)

Company Net Revenue	$467 million	$2.99 billion	$5.42 billion	$7.84 billion
Company Profit Margin	11.20%	29.40%	33.50%	35.30%
State Revenue	$1.46 billion	$3.59 billion	$5.88 billion	$8.19 billion

Source: AK Department of Revenue Projections

Very Healthy Profits

The Profit Margin (Corporate Profits / Gross Revenue) for North Slope Producers is:

Price	Current Law	SSHB3004
$20/bbl	11.8%	11.2%
$26/bbl	23.7%	21.6%
$40/bbl	35%	29.4%
$60/bbl	40.9%	33.5%
$80/bbl	43.7%	35.3%

Source: July 2006 Dept. of Revenue Estimates

How the bill works –
5% "Minimum" Tax

Fair Share Bill

– Minimum 5% base tax. All fields must pay the minimum 5%.

– Current law base tax remains same for larger fields

- Differs from "Shelf The ELF" efforts, which impose a flat 15% tax on all fields.

Van Meurs Gross Tax ?

- Increases Base Tax On Fields Paying 0% (by changing ELF formula)

-Current law base tax remains same for larger fields

-Differs from "Shelf The ELF" efforts, which impose a flat 15% tax on all fields.

How the bill works – Base Tax on Large Fields

The base tax rate remains the same on the 3 Alaska Fields that pay more than 5%:

Prudhoe Bay	12.38%
Alpine	11.93%
North Star	6.10%

How the bill works – Price Factor

- Pedro Van Meurs' proposal (?) and the Fair Share Bill start with a modest tax and progressivity at $20/barrel
- As the price rises (above $20/bbl), so does the Production Tax.
- The second major reform bases the production tax on the price on Company profitability.
- As the price rises (above $20/bbl), so does the Production Tax
- BP: profits at prices above $20/bbl are "in excess of the financial needs" of the company. Source: BP Press Release 3/29/04
- Company Upside Reward Protected: 27.5% Max. Tax.
- As price of oil falls (below $16/bbl), so does the tax.

Average Effective Tax Rate Under the Fair Share Bill

Price of Oil	$20.00	$40.00	$60.00	$80.00
Status Quo	7.8%	7.8%	7.8%	7.8%
Fair Share Bill	9.0%	18.0%	21.4%	23.2%

Source: AK Dept of Revenue, 2006

Incentive Rebate At Very Low Prices

If oil prices fall below $10 per barrel, the bill would waive half the production tax and would defer payment of the other half until prices rise above $16 per barrel.

20 – 40 % Tax Credits

- Bill extends the 20% and 40% tax credits for New Exploration established by SB185. (AS 43.55.025)

- Might Amend to Allow Credit For Expenses to Extend The Life of Existing Fields, though existing company incentives to do that might not justify credits.

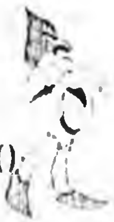
Incentives for Heavy Oil

- The bill exempts 'heavy oil' (less than 20 API gravity) from any of its measures.
- Heavy oil, like that contained in the West Sak reservoir, requires more expensive drilling and production measures.
- Alternatively Approaches To Heavy Oil Should Also Be Considered

Fair Tax Relief

- The bill allows taxpayers "production tax relief." Borrows from 2003's Royalty Relief law (HB 28).

- If Production Tax Relief is needed for field to be "***economically feasible***", DOR has the power to waive all of any of the additional Production Tax, and Royalties for that field. Uses standards in AS 38.05.180(j).



A Major Development Incentive – Facilities Access

- Former Division of Oil & Gas Director Mark Myers concluded that facilities access is one of the most important things Alaska can do to encourage new development

- SSHB 3004 Requires that if there is excess capacity at a facility, the facility owner shall make it available to independent producers at a "reasonable rate" – a standard currently used by the RCA in the telecommunications area (AS 42.05.381)

Giving Companies More Profit Doesn't Guarantee More Investment

- "…as the world grapples with high prices, tight refining capacity and fears of shortages throughout the business, executives are finding that that's **more money than they can spend**." Source: N.Y. Times, "Oil Companies in Quandary Over Cash Glut," 2/12/05

- "BP, which earned **$16.2 billion** in 2004, will return as much as **$23 billion** to its investors this year and next, mostly as dividends." Source: N.Y. Times 2/12/05

Providing Extra Revenue to Oil Companies Does Not Equal Additional Investment

	FY 2002	FY 2003	FY 2004	FY 2005
Price of Oil	$21.78	$28.15	$31.74	$43.44
Company Revenue	$1.7 Billion	$2.9 Billion	$3.5 Billion	$5.2 Billion

- Company investment in Alaska has stayed at roughly $1 Billion

What if we do nothing?

Other Options

- Add A New Exploration Credit
- Van Meurs: Gross Tax Can Be Modified TO Achieve Desired Revenue Level; Credit Will Attract Investment By Companies Seeking To Reduce Tax Burden.
- Heavy Oil: Impose A Modified Tax, Allow Companies to Apply for Royalty and Tax Relief
- Van Meurs: Stopping the Bleeding on Lost Revenue On Existing Fields Is A Priority. Apply New Rules Only To Existing Fields?

Reform Needed By Any Measure

- The Production Tax effectively exempts Huge Fields.
- The exemptions apply even at prices where oil companies earn windfall profits.
- At average & high prices, Corporate Profit Share vastly exceeds Alaska's Share.
- Corporate Profit Margins Bigger in Alaska than in less safe places worldwide.

We Can Make the ELF Work Better