

**HB**

**3005**

**HFIN**

**FILE**

# ALASKA STATE HOUSE OF REPRESENTATIVES

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## HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

### MEMORANDUM

From: House State Affairs Committee Chair, Representative Paul Seaton  
To: House Finance Committee Co-Chair, Representative Mike Chenault  
House Finance Committee Co-Chair, Representative Kevin Meyer  
Date: August 1, 2006  
Re: Amendments to HB 3005

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Attached to this memorandum are two amendments that were reviewed by the House State Affairs Committee. The first amendment provides financial incentives for companies to develop their heavy oil resources. This amendment is based upon the concept presented in HB 498 sponsored by Representative Rokeberg during the regular session and worked on extensively by the House Resources committee.

The second amendment provides for an extension of the 185 exploration credits included in nearly every version of the PPT legislation to date.

These amendments were not adopted by the House State Affairs Committee as an effort was made to keep HB 3005 as straightforward as possible. However, the amendments are being passed along with HB 3005 in the event that a more complete PPT package does not appear likely to emerge during this special session. The House State Affairs Committee believes that heavy oil incentives, and the 185 credits should be included in whatever tax package finally passes the legislature, and would respectfully request the House Finance Committee to consider these amendments as another tool in the toolbox should they be needed.

A M E N D M E N T

OFFERED IN THE HOUSE  
TO: HB 3005

BY REPRESENTATIVE SEATON

1 Page 1, line 2, following "amount;":

2 Insert "relating to credits for expenditures for the development of challenged oil  
3 pools;"

4

5 Page 2, following line 16:

6 Insert a new bill section to read:

7 **\*\* Sec. 2.** AS 43.55 is amended by adding a new section to read:

8 **Sec. 43.55.026. Credits for expenditures for development of challenged oil**  
9 **pools.** (a) A producer that incurs a qualified development expenditure may elect to  
10 take a tax credit in the amount of 15 percent of that expenditure. A credit under this  
11 subsection may be applied against a tax due under AS 43.55.011 on oil produced after  
12 March 31, 2006.

13 (b) A credit or portion of a credit under this section may not be used to reduce  
14 a person's tax liability under AS 43.55.011 for any month below zero, and any unused  
15 credit or portion of a credit not used under this subsection may be applied in a later  
16 month.

17 (c) A credit under this section is not transferable.

18 (d) For an expenditure to qualify for a credit under this section, the  
19 expenditure

20 (1) must be incurred before April 1, 2016; and

21 (2) if it is for an oil pool determined to be a challenged oil pool under

22 (e) of this section, must be incurred more than 45 days after the Department of Natural

23 Resources provides notice of the determination to the Legislative Budget and Audit

1 Committee.

2 (e) A lessee under an oil and gas lease issued under AS 38.05.180 may apply  
3 to the Department of Natural Resources for a determination that an oil pool within the  
4 lessee's lease, other than an oil pool described in (l)(1)(A) - (D) of this section, is a  
5 challenged oil pool under this subsection. The Department of Natural Resources shall  
6 prescribe the application form to be used and the information to be provided by an  
7 applicant. After consulting with the Alaska Oil and Gas Conservation Commission,  
8 the Department of Natural Resources shall make a determination within six months  
9 after receiving a complete application and shall provide notice of the determination to  
10 the Department of Revenue and the Legislative Budget and Audit Committee. For  
11 purposes of this subsection, a challenged oil pool is

12 (1) an oil pool

13 (A) no part of which is located at a true vertical depth of  
14 greater than 5,500 feet as measured from sea level; and

15 (B) with oil that has an average API gravity of 25 or less; or

16 (2) an oil pool whose reservoir rock primarily consists of carbonates  
17 and has an average permeability of three millidarcies or less.

18 (f) If the department determines under (h) of this section that the average price  
19 of Alaska North Slope oil on the United States West Coast during the period April 1,  
20 2006, through March 31, 2016, is \$50 a barrel or more, a producer that takes a credit  
21 under this section shall repay to the department, before July 1, 2016, the amount of the  
22 credit, with interest at the rate prescribed in this subsection. Interest is at a rate equal  
23 to the rate of return, as determined by the department, that is earned by the budget  
24 reserve fund established under art. IX, sec. 17, Constitution of the State of Alaska,  
25 from the date the credit was applied against the producer's tax liability until the earlier  
26 of June 30, 2016, or the date the payment is made to the department. Interest on an  
27 amount unpaid after June 30, 2016, is at the rate prescribed under AS 43.05.225(1)  
28 from July 1, 2016, until the date the payment is made to the department.

29 (g) A producer that otherwise is allowed to apply a credit under this section  
30 against a tax due for a month ending before April 1, 2016, may defer using the credit  
31 until after April 30, 2016. If the department determines under (h) of this section that

1 the average price of Alaska North Slope oil on the United States West Coast during  
2 the period April 1, 2006, through March 31, 2016, is less than \$50 a barrel, the  
3 producer then may apply the credit against a tax due under AS 43.55.011 or may  
4 request a refund from the department of the amount of the credit, with interest at the  
5 rate prescribed in this subsection. Interest is at a rate equal to the rate of return, as  
6 determined by the department, that is earned by the budget reserve fund established  
7 under art. IX, sec. 17, Constitution of the State of Alaska, from the date the tax under  
8 AS 43.55.011 was due against which the amount of a credit could have been applied  
9 against the producer's tax liability in accordance with (b) of this section, until (1) the  
10 date the amount of the credit is actually applied against a tax under this subsection, if  
11 it is applied; or (2) the earlier of 90 days after a refund request for the amount of the  
12 credit is received by the department or the refund is paid, if a refund is requested.  
13 Interest on an amount unpaid 90 days after a refund request is received by the  
14 department is at the rate prescribed under AS 43.05.225(1) from the 91st day after the  
15 refund request is received until the date the refund is paid.

16 (h) The department shall, by regulation, specify the method by which the  
17 average price of Alaska North Slope oil on the United States West Coast shall be  
18 calculated, with reference to one or more published sources of price information. The  
19 department shall make available to the public before May 1, 2016, its determination of  
20 the average price of Alaska North Slope oil on the United States West Coast during  
21 the period April 1, 2006, through March 31, 2016.

22 (i) For purposes of the period of limitations provided under AS 43.05.260, an  
23 amount that a producer is obligated to repay to the department under (f) of this section  
24 is considered a tax imposed by this title for which a return is filed on June 30, 2016. A  
25 producer that incurs an expenditure before April 1, 2016, for which a credit is claimed  
26 under this section shall maintain until July 1, 2019, its records sufficient to show  
27 whether the expenditure is a qualified development expenditure and to show the tax  
28 liability against which the credit is or, under (g) of this section, could have been  
29 applied.

30 (j) Except as provided in (k) of this section, the department may adopt  
31 regulations to carry out the purposes of this section, including prescribing reporting.

1 record keeping, and other procedures and requirements to verify the accuracy of the  
 2 credits claims and to ensure that a credit is not used more than once, and otherwise  
 3 implementing this section.

4 (k) The Department of Natural Resources shall adopt regulations to implement  
 5 (e) of this section, including regulations prescribing the method to be used to  
 6 determine the average API gravity of oil contained in an oil pool and the method to be  
 7 used to determine the average permeability of an oil pool's reservoir rock.

8 (l) In this section,

9 (1) "challenged oil pool" means an oil pool

10 (A) in the Ugnu or Schrader Bluff formation within

11 (i) the Prudhoe Bay Unit; or

12 (ii) the Milne Point Unit;

13 (B) in the West Sak or Ugnu formation within the Kuparuk  
 14 River Unit;

15 (C) in the Ugnu, Schrader Bluff, or West Sak formation within

16 the

17 (i) Tuvaaq Unit;

18 (ii) Nikaitchuk Unit; or

19 (iii) Rockflour Unit;

20 (D) in the Lisburne group within the Lisburne Participating  
 21 Area of the Prudhoe Bay Unit; or

22 (E) that is determined by the Department of Natural Resources  
 23 to be a challenged oil pool under (e) of this section;

24 (2) "develop" does not include the drilling, testing, or evaluation of  
 25 delineation wells;

26 (3) "qualified development expenditure" means, except as otherwise  
 27 provided in (d) of this section, an expenditure

28 (A) the primary purpose of which is development of a  
 29 challenged oil pool within an oil and gas lease issued under AS 38.05.180; and

30 (B) that is treated as a capitalized expenditure under 26 U.S.C.  
 31 (Internal Revenue Code), as amended, regardless of elections made under 26

1 U.S.C. 263(c) (Internal Revenue Code), as amended, and is  
2 (i) treated as a capitalized expenditure for federal  
3 income tax reporting purposes by the person incurring the expenditure;  
4 or  
5 (ii) eligible to be deducted as an expense under 26  
6 U.S.C. 263(c) (Internal Revenue Code), as amended."  
7

8 Renumber the following bill sections accordingly.

9  
10 Page 2, following line 24:

11 Insert a new subsection to read:

12 "(b) Notwithstanding any contrary provision of AS 44.62.240, a regulation adopted  
13 by the Department of Revenue or Department of Natural Resources to implement, interpret,  
14 make specific, or otherwise carry out the provisions of sec. 2 of this Act may apply  
15 retroactively to April 1, 2006, if the agency adopting the regulation expressly designates in  
16 the regulation that the regulation applies retroactively to that date."  
17

18 Reletter the following subsections accordingly.

19

20 Page 3, line 6, following "RETROACTIVITY":

21 Insert "(a)"  
22

23 Page 3, following line 7:

24 Insert a new subsection to read:

25 "(b) Section 2 of this Act is retroactive to April 1, 2006."

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: HB 3005

1 Page 1, line 2, following "amount;":

2 Insert "relating to a production tax credit for an exploration expenditure;"

3

4 Page 2, following line 16:

5 Insert new bill sections to read:

6 "\* Sec. 2. AS 43.55.025(b) is amended to read:

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

16 (1) may be for seismic or geophysical exploration costs not connected  
17 with a specific well;

18 (2) if for an exploration well,

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

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

22 and

23 (C) must be for goods, services, or rentals of personal property

1 reasonably required for the surface preparation, drilling, casing, cementing,  
2 and logging of an exploration well, and, in the case of a dry hole, for the  
3 expenses required for abandonment if the well is abandoned within 18 months  
4 after the date the well was spudded;

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

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

13 \* **Sec. 3.** AS 43.55.025(f) is amended to read:

14 (f) For a production tax credit under this section,

15 (1) an explorer shall, in a form prescribed by the department and  
16 within six months of the completion of the exploration activity, claim the credit and  
17 submit information sufficient to demonstrate to the department's satisfaction that the  
18 claimed exploration expenditures qualify under this section;

19 (2) an explorer shall agree, in writing,

20 (A) to notify the Department of Natural Resources, within 30  
21 days after completion of seismic or geophysical data processing, completion of  
22 a well, or filing of a claim for credit, whichever is the latest, for which  
23 exploration costs are claimed, of the date of completion and submit a report to  
24 that department describing the processing sequence and providing a list of data  
25 sets available; if, under (c)(2)(B) of this section, an explorer submits a claim  
26 for a credit for expenditures for an exploration well that is located within three  
27 miles of a well already drilled for oil and gas, in addition to the submissions  
28 required under (1) of this subsection, the explorer shall submit the information  
29 necessary for the commissioner of natural resources to evaluate the validity of  
30 the explorer's claim that the well is directed at a distinctly separate exploration  
31 target, and the commissioner of natural resources shall, upon receipt of all

1 evidence sufficient for the commissioner to evaluate the explorer's claim, make  
2 that determination within 60 days;

3 (B) to provide to the Department of Natural Resources, within  
4 30 days after the date of a request, specific data sets, ancillary data, and reports  
5 identified in (A) of this paragraph;

6 (C) that, notwithstanding any provision of AS 38, information  
7 provided under this paragraph will be held confidential by the Department of  
8 Natural Resources for 10 years following the completion date, at which time  
9 that department will release the information after 30 days' public notice;

10 (3) if more than one explorer holds an interest in a well or seismic  
11 exploration, each explorer may claim an amount of credit that is proportional to the  
12 explorer's cost incurred;

13 (4) the department may exercise the full extent of its powers as though  
14 the explorer were a taxpayer under this title, in order to verify that the claimed  
15 expenditures are qualified exploration expenditures under this section; and

16 (5) if the department is satisfied that the explorer's claimed  
17 expenditures are qualified under this section, the department shall issue to the explorer  
18 a production tax credit certificate for the amount of credit to be allowed against  
19 production taxes due under AS 43.55.011 [THIS CHAPTER; HOWEVER,  
20 NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE  
21 DEPARTMENT MAY NOT ISSUE TO AN EXPLORER A PRODUCTION TAX  
22 CREDIT CERTIFICATE IF THE TOTAL OF PRODUCTION TAX CREDITS  
23 SUBMITTED FOR COOK INLET PRODUCTION, BASED ON EXPLORATION  
24 EXPENDITURES FOR WORK PERFORMED DURING THE PERIOD  
25 DESCRIBED IN (b) OF THIS SECTION FOR THAT PRODUCTION, THAT HAVE  
26 BEEN APPROVED BY THE DEPARTMENT EXCEEDS \$20,000,000]."

27  
28 Renumber the following bill sections accordingly.

29  
30 Page 2, line 22, following "Act,"

31 Insert "and AS 43.55.025(f), as amended by sec. 3 of this Act,"

1

2 Page 3, lines 6 - 7:

3 Delete all material and insert:

4 "RETROACTIVITY. (a) Section 1 of this Act is retroactive to April 1, 2006, and  
5 applies to oil produced after March 31, 2006.

6 (b) Section 3 of this Act is retroactive to April 1, 2006."

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## HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

### Sponsor Statement HB 3005

HB 3005 creates a mechanism for the State to capture a portion of industry windfall profits that occur due to extremely high oil prices. It is similar to the progressivity feature discussed and adopted in numerous drafts of the prior PPT legislation.

HB 3005 proposes a progressive production tax at a rate of .35% per dollar on the gross value of oil at the point of production beginning when the price of the West Texas Intermediate (WTI) crude index reaches \$50 a barrel. This progressive production tax caps when WTI reaches \$150 per barrel. By multiplying the \$100 increase by the .35% escalator, we reach the cap 35% tax rate. This 35% in addition to the existing production tax rate of 15% brings Alaska the equal 50% split that the legislature determined to be an appropriate cap during previous discussions of the progressive tax rate.

HB 3005 does not propose any changes to the existing production tax at AS 43.55.011, including the Economic Limit Factor. However, it would be compatible with any production tax based on either profit or gross.

This bill has a retroactive effective date of April 1, 2006, allowing the recent high oil prices to fall under this progressive tax structure. The accrued payment is due 30 days after the effective date of the bill. It may be paid in a lump sum without interest or remitted in six equal monthly payments with any unpaid balance accruing interest at the rate proscribed in AS 43.05.225.

HB 3005 allows the state to capture a fair share of windfall profits at extremely high oil prices.

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## HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

### HB 3005 Questions

*1. Does progressivity "take away all the upside?"*

No. ELF will reduce in 2006 the 15% gross production tax to zero for all but nine oil fields in Alaska. HB 3005 would only raise a 7% tax at a \$70 monthly average price. The WTI index price would need to average over \$92 per barrel just to offset the reduction in current production tax by the application of ELF. Of course, the purpose of the ELF was to allow development of smaller fields whose volume could not as economically support independent production facilities without the economy of scale of large fields. Progressivity at the rate of .35% per dollar above \$50 WTI does not even start until the price level is high enough to make these developments economic without the tax incentive of ELF. However, HB 3005 does not repeal ELF.

Nearly every PPT proposal that has passed from a legislative committee has capped the total production tax at 50%. HB 3005 caps the progressivity increase at \$150 WTI, which means the highest progressive tax rate is 35%. When combined with the 15% current production tax, this creates a 50% tax cap. HB 3005 did not include the calculation of ELF prior to the assessment of the progressive tax because that would have meant that at high prices more money would have been assessed on the zero ELF fields than those paying production tax.

*2. What is the purpose of HB 3005?*

HB 3005 is not meant to replace a comprehensive tax package but is a back-up for the legislature in case agreement can't be reached on a comprehensive package of both the base production tax structure and progressivity. HB 3005 just reaps some of the additional value created by that high oil prices that were not anticipated in the development of the original production tax or ELF.

Alaska North Slope Average Monthly Wellhead Price Per Barrel January-May 2006

January	\$54
February	\$50
March	\$52
April	\$59
May	\$60

Alaska North Slope Average Monthly Volume in Millions of Barrels . s Jan-May 2006

January	26.8
February	23.7
March	23.9
April	24.8
May	25.5

Prepared by the office of Rep. Seaton  
Based on information provided by the Department of Revenue

Average Value X average volume = approximate Monthly value

Monthly value X WTI- 50 X .35% = tax due

	value	volume	Total	WTI-50	X.35%	tax rate %	tax total
January	\$54	26.8	1,447.20	15.48	X.35%	5.41	78.29
Feb	\$50	23.7	1,185.00	11.63	X.35%	4.07	48.23
March	\$52	23.9	1,242.80	12.69	X.35%	4.44	55.18
April	\$59	24.8	1,463.20	19.44	X.35%	6.8	99.5
May	\$60	25.5	1,530.00	20.84	X.35%	7.28	111.40
June				20.95	X.35%	7.33	
total			6,868.20				392.6

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est max	\$143	25	3,575.00	100	X.35%	35	1,251.30
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Petroleum Navigator

Note: These data are available in spreadsheet format by clicking the "Download Series History" link on the previous page (with drop-down menu bar at top).

View History:  Daily  Weekly  Monthly  Annual

Cushing, OK WTI Spot Price FOB (Dollars per Barrel)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1986	22.93	15.45	12.61	12.84	15.38	13.43	11.58	15.10	14.87	14.90	15.22	16.11
1987	18.65	17.75	18.30	18.68	19.44	20.07	21.34	20.31	19.53	19.86	18.85	17.27
1988	17.13	16.80	16.20	17.86	17.42	16.53	15.50	15.52	14.54	13.77	14.14	16.38
1989	18.02	17.94	19.48	21.07	20.12	20.05	19.78	18.58	19.59	20.10	19.86	21.10
1990	22.86	22.11	20.39	18.43	18.20	16.70	18.45	27.31	33.51	36.04	32.33	27.28
1991	25.23	20.48	19.90	20.83	21.23	20.19	21.40	21.69	21.89	23.23	22.46	19.50
1992	18.79	19.01	18.92	20.23	20.98	22.38	21.77	21.34	21.88	21.68	20.34	19.41
1993	19.03	20.09	20.32	20.25	19.95	19.09	17.89	18.01	17.50	18.15	16.61	14.51
1994	15.03	14.78	14.68	16.42	17.89	19.06	19.65	18.38	17.45	17.72	18.07	17.16
1995	18.04	18.57	18.54	19.90	19.74	18.45	17.32	18.02	18.23	17.43	17.99	19.03
1996	18.85	19.09	21.33	23.50	21.16	20.42	21.30	21.90	23.97	24.88	23.70	25.23
1997	25.13	22.18	20.97	19.70	20.82	19.26	19.66	19.95	19.80	21.32	20.19	18.33
1998	16.72	16.06	15.12	15.35	14.91	13.72	14.17	13.47	15.03	14.46	13.00	11.35
1999	12.51	12.01	14.68	17.31	17.72	17.92	20.10	21.28	23.80	22.69	25.00	26.10
2000	27.26	29.37	29.84	25.72	28.79	31.82	29.70	31.26	33.88	33.11	34.42	28.44
2001	29.59	29.61	27.24	27.49	28.63	27.60	26.42	27.37	26.20	22.17	19.64	19.39
2002	19.71	20.72	24.53	26.18	27.04	25.52	26.97	28.39	29.66	28.84	26.35	29.46
2003	32.95	35.83	33.51	28.17	28.11	30.66	30.75	31.57	28.31	30.34	31.11	32.13
2004	34.31	34.68	36.74	36.75	40.27	38.02	40.78	44.90	45.94	53.28	48.47	43.15
2005	46.84	48.15	54.19	52.98	49.83	56.35	58.99	64.98	65.59	62.26	58.32	59.41
2006	65.48	61.63	62.69	69.44	70.84	70.95						

Updated on 7/19/2006  
Source: U.S. Energy Information Administration

2005-Aug	08/05	61.64	08/12	64.85	08/19	64.92	08/26	66.34	
2005-Sep	09/02	68.47	09/09	64.81	09/16	63.84	09/23	66.43	09/30 66.06
2005-Oct	10/07	63.06	10/14	62.87	10/21	62.28	10/28	61.33	
2005-Nov	11/04	60.34	11/11	58.80	11/18	57.00	11/25	58.13	
2005-Dec	12/02	57.78	12/09	59.83	12/16	60.32	12/23	57.97	12/30 59.82
2006-Jan	01/06	63.38	01/13	63.74	01/20	66.78	01/27	66.82	
2006-Feb	02/03	66.59	02/10	63.06	02/17	59.37	02/24	59.93	
2006-Mar	03/03	62.27	03/10	60.89	03/17	62.64	03/24	61.36	03/31 65.67
2006-Apr	04/07	66.56	04/14	68.84	04/21	71.87	04/28	70.38	
2006-May	05/05	72.14	05/12	71.50	05/19	69.07	05/26	70.35	
2006-Jun	06/02	71.53	06/09	71.54	06/16	69.48	06/23	69.94	06/30 72.65
2006-Jul	07/07	74.65	07/14	75.21					

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Updated on 7/19/2006

Source: U.S. Energy Information Administration

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## Excerpts From Dr. van Meurs 2<sup>nd</sup> Report on Progressivity 5 March, 06

### Option 2 – Basic Production Tax based on a windfall profits style formula

After some analysis of alternative formula's, a simple windfall profits style formula seems the best. The Basic Production Tax Rate would be based on the following formula:

$$\text{Basic Tax Rate} = (\text{WTI} - 50.00) * 0.25\%$$

A maximum rate of 50% is recommended. This would be reached for a WTI price of \$ 250.00.

As for the above SPT the WTI would be based on nominal prices. In other words if the WTI price is \$ 60.00 per barrel, the Basic Tax Rate would be  $(60-50) * 0.25\%$  or 2.5%.

The PPT based on the 20/20 proposal would be in addition to this 2.5% rate. The Basic Production Tax would be a deduction for the calculation of the 20/20 PPT.

### ECONOMIC ANALYSIS

Following is a detailed economic analysis of the formula concept.

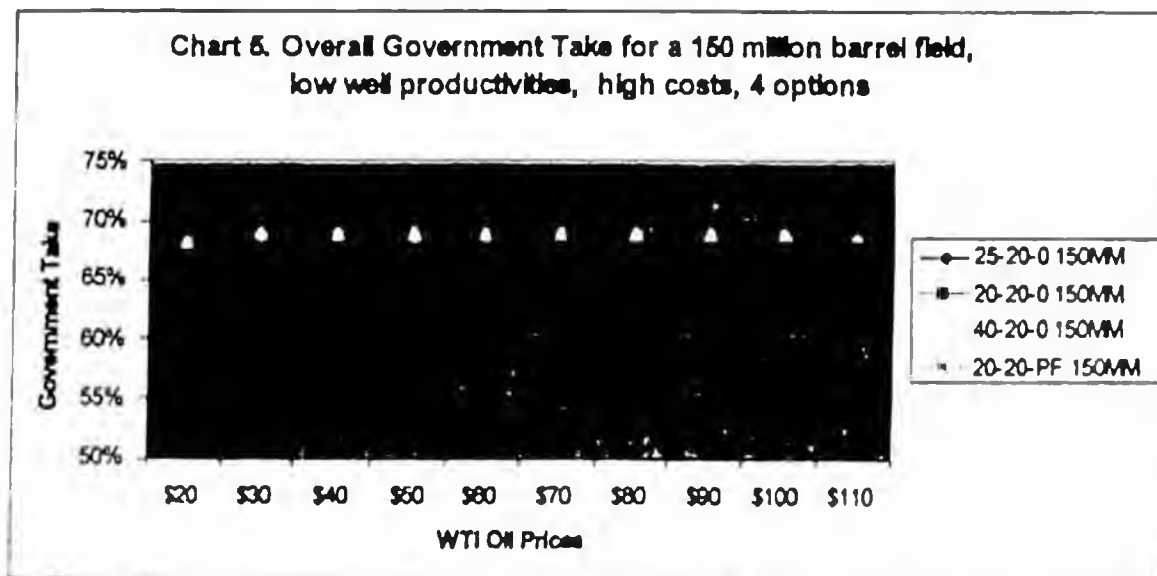
The graphs illustrate the economic effects of this feature – not considering the \$ 73 million tax free allowance.

The graphs are based on four scenarios:

- 25-20-0
- 20-20-0
- 40-20-0
- 20-20-with the above formula ("PF" means progressive feature)

Graphs are shown for the \$ 20 to \$ 110 range. However, as explained above the Basic Production Tax, the scale goes up to \$ 250 per barrel, where a maximum percentage of 50% basic production tax is being reached.

The 20% tax rate is the proposed legislation. The 25% tax rate was my original recommendation. The 40% tax scenario is included as a reference point. The analysis is done on the basis of the same fields as were used in my previous PPT study. The WTI prices on the graphs are constant dollar prices, escalated by 2%.



Notice: From \$50 to \$110/BBL Gvt. Take increases by 10 points (60 to nearly 70%). DJ

*Profit showing in Kuykanan & Lindcott*

### GROSS VS. NET - HEAVY OIL

	Light Oil	Heavy Oil
West Coast ANS Price	\$40.00	\$40.00
Shipping	\$2.00	\$2.00
Pipeline	\$3.00	\$3.00
GROSS <i>at lease boundary</i>	\$35.00	\$35.00
Royalty	\$4.38	\$4.38
UPSTREAM COSTS	\$7.50	\$15.00
NET	\$23.13	\$15.63

-----  
SUPPOSE THE TAX IS 15% OF GROSS:

Tax on Gross (15% X \$35.00)	\$5.25	\$5.25
Tax as Percent of Net	22.7%	33.6%

# Projected Government Takes with Sliding Scale Tax DOR Forecast Production (FY 2007-2030)\*

WTI Price (\$ 2006)	Status Quo	20/20	20/20 with Sliding Scale Tax								
			\$35 Threshold Price				\$40 Threshold Price				
			0.20% Increment	0.25% Increment	0.30% Increment	0.35% Increment	0.20% Increment	0.25% Increment	0.30% Increment	0.35% Increment	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		
\$30	57.0%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%
\$40	53.7%	57.3%	57.9%	58.0%	58.2%	58.3%	57.3%	57.3%	57.3%	57.3%	57.3%
\$50	52.3%	56.9%	58.5%	58.9%	59.3%	59.7%	58.0%	58.2%	58.5%	58.7%	58.7%
\$60	51.5%	56.9%	59.4%	60.0%	60.7%	61.3%	58.9%	59.4%	59.8%	60.4%	60.4%
\$70	50.9%	56.9%	60.3%	61.2%	62.0%	62.9%	59.8%	60.6%	61.3%	62.0%	62.0%
\$80	50.6%	56.9%	61.2%	62.3%	63.4%	64.5%	60.7%	61.7%	62.7%	63.6%	63.6%

WTI Price (\$ 2006)	No sliding scale 25/20	20/20 with Sliding Scale Tax								
		\$45 Threshold Price				\$50 Threshold Price				
		0.20% Increment	0.25% Increment	0.30% Increment	0.35% Increment	0.20% Increment	0.25% Increment	0.30% Increment	0.35% Increment	
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)		
\$30	59.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%
\$40	59.7%	57.3%	57.3%	57.3%	57.3%	57.3%	57.3%	57.3%	57.3%	57.3%
\$50	59.3%	57.4%	57.6%	57.7%	57.8%	56.9%	56.9%	56.9%	56.9%	56.9%
\$60	59.3%	58.4%	58.8%	59.2%	59.5%	57.9%	58.1%	58.4%	58.4%	58.7%
\$70	59.3%	59.3%	59.9%	60.6%	61.2%	58.8%	59.3%	59.8%	59.8%	60.3%
\$80	59.4%	60.2%	61.1%	61.9%	62.8%	59.8%	60.5%	61.2%	61.2%	61.9%

\* Calculated from July 2006, includes 6-year transition and \$73 Million exemption, volumes per DOR Fall 2005 Forecast with Ooguruk projection

## PROGRESSIVITY SCHEMES

CSHB 488 (RES)	Over \$50/bbl WTI, $(.3\% \times (WTI-50)) \times \text{gross}$ ; at \$110 WTI the surcharge caps at 37.5%. Deducted against the net tax this yields a 50% tax rate.
CSSB 305 (RES)	Over \$40/bbl, $(ANS_{wc}-\$40) \times .002 \times ANS_{wh} \times .75 \times \text{bbls}$
CSSB 305 (FIN)	Over \$50/bbl, $(ANS_{wc}-\$50) \times .002 \times ANS_{wh} \times .775 \times \text{bbls}$
HCS CSSB 305 (FIN)	Over \$35/bbl (net value/boe) $\times .0025 \times \text{net value}$
HCS CSSB 305 (FIN) am H	Over \$35/bbl (net value/boe) $\times .0025 \times \text{net value}$ . Surcharge caps when, in combination with the PPT, the total tax reaches 50%.
CSSB 2001 (FIN)	Over \$35/bbl (net value/boe) $\times .001 \times \text{net value}$ . Surcharge + PPT, caps at 50%. GRE modification of price index used to calculate surcharge.
HCS CSSB 2001 (FIN)	Over \$45/bbl (net value/boe) $\times .00175 \times \text{net value}$ . Surcharge + PPT, caps at 50%.
HCS CSSB 2001 (FIN) am H	Over \$35/bbl (net value/boe) $\times .0025 \times \text{net value}$ . Surcharge + PPT, caps at 50%.

## PROGRESSIVITY SCHEMES

Conference CS SB 2001	Over \$35/bbl (net value/boe) x .00175 x net value. Surcharge + PPT caps at 50%.
HB 3003	Over \$50/bbl of gross value at the point of production the tax increases by .002% per dollar or fraction of dollar over \$50 per barrel. Tax caps at \$100 per barrel at 25%.
Senator Wagoner's Draft Bill	Over \$40/bbl ANSwc $[(ANS \text{ West Coast price} - 40) \times .003] \times (ANS \text{ wellhead price} \times .85) \times (\text{total taxable barrels of oil at the point of production})$
HB 3005	Over \$50/bbl WTI, $(.35\% \times (WTI-50) \times \text{gross})$ ; at \$150 WTI the surcharge caps at 35%.

## A BRIEF HISTORY OF PROGRESSIVITY

HB 488 (RES) 3/22/06

(f) In addition to the taxes levied under (a) and (e) of this section, for each  
08 month for which the oil price index determined under this section is greater than zero,  
09 there is levied upon the producer of oil a tax for all oil produced during that month  
10 from each lease or property in the state, less any oil the ownership or right to which is  
11 exempt from taxation. The tax is equal to .30 percent of the gross value at the point of  
12 production of the oil multiplied by the oil price index as determined under this section.

(g) The oil price index for a month is the number equal to the average United  
14 States Gulf Coast price determined under (h) of this section for that month of West  
15 Texas Intermediate crude oil in dollars per barrel, less 50, except that, if the average  
16 price determined under (h) of this section is

17 (1) not more than \$50 per barrel, the oil price index is zero;

18 (2) more than \$110 per barrel, the oil price index is 125.

(h) For purposes of (g) of this section, the department may calculate the  
20 average price or may, by regulation, specify the method by which the average price  
21 shall be calculated with reference to one or more published sources of price  
22 information. If, in the department's judgment, reliable published sources of price  
23 information on West Texas Intermediate crude oil cease, or appear likely to soon  
24 cease, to be available, or if, in the department's judgment, the price of West Texas  
25 Intermediate crude oil ceases, or appears likely to soon cease, to be a reliable indicator  
26 of the general price level of crude oils, the department shall, by regulation, specify a  
27 substitute formula for computing the oil price index. The substitute formula specified  
28 by the department under this subsection must bear, as nearly as is reasonably possible,  
29 the same relationship to the general price level of crude oils as did the United States  
30 Gulf Coast price of West Texas Intermediate crude oil.

(i) In addition to the taxes levied under (a), (e), and (f) of this section, for each  
31 month that the gas price index determined under (j) of this section is greater than zero,  
01 there is levied upon the producer of gas a tax for all gas produced during that month  
02 from each lease or property in the state, less any gas the ownership or right to which is  
03 exempt from taxation. The tax is equal to two percent of the gross value at the point of  
04 production of the gas multiplied by the gas price index as determined under (j) of this  
05 section.  
06

07 (j) The gas price index for a month is the number equal to the average Henry  
08 Hub gas price determined under (k) of this section for that month in dollars per million  
09 British thermal units, less eight, except that if the average price determined under (k)  
10 of this section is

11 (1) not more than \$8 per million British thermal units, the gas price  
12 index is zero; and

13 (2) more than \$18 per million British thermal units, the gas price index  
14 is 18.75.

15 (k) For purposes of (i) and (j) of this section, the department may calculate the  
16 average price or may, by regulation, specify the method by which the average price  
17 shall be calculated with reference to one or more published sources of price  
18 information. If, in the department's judgment, reliable published sources of Henry Hub  
19 gas price information cease, or appear likely to soon cease, to be available, or if, in the  
20 department's judgment, the Henry Hub gas price ceases, or appears likely to soon  
21 cease, to be a reliable indicator of the general price level of gas, the department shall,  
22 by regulation, specify a substitute formula for computing the gas price index. The  
23 substitute formula specified by the department under this subsection must bear, as  
24 nearly as is reasonably possible, the same relationship to the general price level of gas  
25 as did the Henry Hub gas price.

### SB 305 (RES) 3/30/2006

(g) In addition to the taxes levied under (e) and (f) of this section, if the  
16 average ANS West Coast price per barrel of oil during a month exceeds \$40, there is  
17 levied on the producer of oil a tax for oil produced during that month from each lease  
18 or property in the state, less any oil the ownership or right to which is exempt from  
19 taxation. The tax levied under this subsection is equal to

20 
$$(((\text{ANS West Coast price} - \$40) \times .002) \times [\text{ANS wellhead price} \times (1 - \text{PPT rate})])$$
  
21 
$$\times (\text{total taxable barrels of oil at the point of production})$$

22 where

23 (1) "ANS wellhead price" means the prevailing value for oil produced  
24 in the Alaska North Slope area; and

25 (2) the PPT, or production profit tax, rate is 25 percent.

26 (h) For purposes of (g) of this section, the department may calculate the

27 average price or may, by regulation, specify the method by which the average price  
28 shall be calculated with reference to one or more published sources of price  
29 information. If, in the department's judgment, reliable published sources of price  
30 information on Alaska North Slope crude oil cease, or appear likely to soon cease, to  
31 be available, or if, in the department's judgment, the price of Alaska North Slope crude  
01 oil ceases, or appears likely to soon cease, to be a reliable indicator of the general  
02 price level of crude oils, the department shall, by regulation, specify a substitute  
03 formula for computing the oil price index. The substitute formula specified by the  
04 department under this subsection must bear, as nearly as is reasonably possible, the  
05 same relationship to the general price level of crude oils as did the price of Alaska  
06 North Slope crude oil.

#### SB 305 (FIN) 4/22/06

(g) In addition to the taxes levied under (e) and (f) of this section, if the  
28 average ANS West Coast price per barrel of oil during a month exceeds \$50, there is  
29 levied on the producer of oil a tax for oil produced during that month from each lease  
30 or property in the state, less any oil the ownership or right to which is exempt from  
31 taxation. The tax levied under this subsection is equal to

01 
$$(((\text{ANS West Coast price} - \$50) \times .002) \times [\text{ANS wellhead price} \times (1 - \text{PPT rate})])$$
  
02 
$$\times (\text{total taxable barrels of oil at the point of production})$$

03 where

04 (1) "ANS wellhead price" means the prevailing value for oil produced  
05 in the Alaska North Slope area; and

06 (2) the PPT, or production profit tax, rate is the tax rate described in (e)  
07 of this section.

08 (h) For purposes of (g) of this section, the department may calculate the  
09 average price or may, by regulation, specify the method by which the average price  
10 shall be calculated with reference to one or more published sources of price  
11 information. If, in the department's judgment, reliable published sources of price  
12 information on Alaska North Slope crude oil cease, or appear likely to soon cease, to  
13 be available, or if, in the department's judgment, the price of Alaska North Slope crude  
14 oil ceases, or appears likely to soon cease, to be a reliable indicator of the general  
15 price level of crude oils, the department shall, by regulation, specify a substitute

16 formula for computing the oil price index. The substitute formula specified by the  
17 department under this subsection must bear, as nearly as is reasonably possible, the  
18 same relationship to the general price level of crude oils as did the price of Alaska  
19 North Slope crude oil.

### HCS CSSB 305(FIN) 5/06/06

(g) In addition to the taxes levied under (e) and (f) of this section, during each  
24 month for which the price index determined under (h) of this section is greater than  
25 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced  
26 during that month from each lease or property in the state, less any oil and gas the  
27 ownership or right to which is exempt from taxation or constitutes a landowner's  
28 royalty interest. Except as otherwise provided under (i) of this section, the tax levied  
29 under this subsection is equal to .25 percent of the production tax value of the taxable  
30 oil and gas as calculated under AS 43.55.160, multiplied by the price index  
31 determined under (h) of this section.

01 (h) For purposes of (g) of this section, the price index for a month is calculated  
02 by subtracting 35 from the number that is equal to the quotient of the production tax  
03 value of the taxable oil and gas produced during that month, as calculated under  
04 AS 43.55.160, divided by the number of barrels of oil equivalent of that oil and gas.  
05 For purposes of this subsection, a barrel of oil equivalent is a barrel of oil, in the case  
06 of oil, or 6,000 cubic feet of gas, in the case of gas.

### HCS CSSB 305(FIN) am H 5/08/06

(g) In addition to the taxes levied under (e) and (f) of this section, during each  
24 month for which the price index determined under (h) of this section is greater than  
25 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced  
26 during that month from each lease or property in the state, less any oil and gas the  
27 ownership or right to which is exempt from taxation or constitutes a landowner's  
28 royalty interest. Except as otherwise provided under (i) of this section, the tax levied  
29 under this subsection is equal to .25 percent of the production tax value of the taxable

30 oil and gas as calculated under AS 43.55.160, multiplied by the price index  
31 determined under (h) of this section. However, application of this subsection may not,  
01 when added to the tax levied under (e) of this section, impose a total tax levy of more  
02 than 50 percent of the production tax value of taxable oil and gas as calculated under  
03 AS 43.55.160. The legislature may appropriate amounts from the annual estimated  
04 balance of the account maintained under AS 37.05.142 for deposits into the general  
05 fund of the proceeds of the tax levied under this subsection to the high energy cost  
06 offset fund established by AS 43.55.420.

07 (h) For purposes of (g) of this section, the price index for a month is calculated  
08 by subtracting 35 from the number that is equal to the quotient of the production tax  
09 value of the taxable oil and gas produced during that month, as calculated under  
10 AS 43.55.160, divided by the number of barrels of oil equivalent of that oil and gas.  
11 For purposes of this subsection, a barrel of oil equivalent is a barrel of oil, in the case  
12 of oil, or 6,000 cubic feet of gas, in the case of gas.

## CSSB 2001(FIN) 5/21/06

(g) In addition to the taxes levied under (e) and (f) of this section, during each  
04 month for which the price index determined under (h) of this section is greater than  
05 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced  
06 during that month from each lease or property in the state, less any oil and gas the  
07 ownership or right to which is exempt from taxation or constitutes a landowner's  
08 royalty interest. Except as otherwise provided under (i) of this section, the tax levied  
09 under this subsection is equal to .1 percent of the production tax value of the taxable  
10 oil and gas as calculated under AS 43.55.160, multiplied by the price index  
11 determined under (h) of this section. However, application of this subsection may not,  
12 when added to the tax levied under (e) of this section, impose a tax levy of more than  
13 50 percent of the production tax value of taxable oil and gas as calculated under  
14 AS 43.55.160.

15 (h) For purposes of (g) of this section, the price index for a month is calculated  
16 by subtracting 35 from the number that is equal to the quotient of the production tax  
17 value of the taxable oil and gas produced during that month, as calculated under  
18 AS 43.55.160, divided by the sum of (1) the number of barrels of that oil less three-  
19 quarters of the number of barrels of the taxable oil produced during that month from

20 leases or properties in the Cook Inlet sedimentary basin, and (2) two-thirds of the  
21 number of barrels of oil equivalent of that gas, less (A) one-sixth of the number of  
22 barrels of oil equivalent of the taxable gas produced during that month from leases or  
23 properties in the state located south of 68 degrees 15 minutes North latitude outside  
24 the Cook Inlet sedimentary basin, and less (B) one-third of the number of barrels of oil  
25 equivalent of the taxable gas produced during that month from leases or properties in  
26 the Cook Inlet sedimentary basin. For purposes of this subsection, "barrel of oil  
27 equivalent" means the amount of gas that has an energy content of 6,000,000 British  
28 thermal units. The department by regulation shall establish sampling, testing, and  
29 averaging methods for determining the energy content of a producer's gas produced  
30 during a month.

#### HCS CSSB 2001(FIN) 6/03/06

(g) In addition to the taxes levied under (e) and (f) of this section, during each  
04 month for which the price index determined under (h) of this section is greater than  
05 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced  
06 during that month from each lease or property in the state, less any oil and gas the  
07 ownership or right to which is exempt from taxation or constitutes a landowner's  
08 royalty interest. Except as otherwise provided under (i) and (j) of this section, the tax  
09 levied under this subsection is equal to .175 percent of the production tax value of the  
10 taxable oil and gas as calculated under AS 43.55.160, multiplied by the price index  
11 determined under (h) of this section. However, application of this subsection may not,  
12 when added to the tax levied under (e) of this section, impose a tax levy of more than  
13 50 percent of the production tax value of taxable oil and gas as calculated under  
14 AS 43.55.160.

15 (h) For purposes of (g) of this section, the price index for a month is calculated  
16 by subtracting 45 from the number that is equal to the quotient of the production tax  
17 value of the taxable oil and gas produced during that month, as calculated under  
18 AS 43.55.160, divided by the amount of the taxable oil and gas produced during that  
19 month, in Btu equivalent barrels. The production tax value is calculated (1) using the  
20 monthly average of the producer's costs of transportation for the calendar year, as  
21 provided by AS 43.55.160(i), and (2) substituting for the month's lease expenditures  
22 1/12 of the adjusted lease expenditures for the calendar year, as provided by

23 AS 43.55.160(f). For purposes of this subsection, "Btu equivalent barrel" means (1) in  
24 the case of oil, one barrel; (2) in the case of gas, the amount of gas that has an energy  
25 content of 6,000,000 British thermal units.

## HCS CSSB 2001(FIN) am H

(g) In addition to the taxes levied under (e) and (f) of this section, during each  
04 month for which the price index determined under (h) of this section is greater than  
05 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced  
06 during that month from each lease or property in the state, less any oil and gas the  
07 ownership or right to which is exempt from taxation or constitutes a landowner's  
08 royalty interest. Except as otherwise provided under (i) and (j) of this section, the tax  
09 levied under this subsection is equal to .25 percent of the production tax value of the  
10 taxable oil and gas as calculated under AS 43.55.160, multiplied by the price index  
11 determined under (h) of this section. However, application of this subsection may not,  
12 when added to the tax levied under (e) of this section, impose a tax levy of more than  
13 50 percent of the production tax value of taxable oil and gas as calculated under  
14 AS 43.55.160.

(h) For purposes of (g) of this section, the price index for a month is calculated  
16 by subtracting 35 from the number that is equal to the quotient of the production tax  
17 value of the taxable oil and gas produced during that month, as calculated under  
18 AS 43.55.160, divided by the amount of the taxable oil and gas produced during that  
19 month, in Btu equivalent barrels. The production tax value is calculated (1) using the  
20 monthly average of the producer's costs of transportation for the calendar year, as  
21 provided by AS 43.55.160(i), and (2) substituting for the month's lease expenditures  
22 1/12 of the adjusted lease expenditures for the calendar year, as provided by  
23 AS 43.55.160(f). For purposes of this subsection, "Btu equivalent barrel" means (1) in  
24 the case of oil, one barrel; (2) in the case of gas, the amount of gas that has an energy  
25 content of 6,000,000 British thermal units.

Conference CS CSSB 2001 6/08/06

(g) In addition to the taxes levied under (e) and (f) of this section, during each  
04 month for which the price index determined under (h) of this section is greater than  
05 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced  
06 during that month from each lease or property in the state, less any oil and gas the  
07 ownership or right to which is exempt from taxation or constitutes a landowner's  
08 royalty interest. Except as otherwise provided under (i) and (j) of this section, the tax  
09 levied under this subsection is equal to .175 percent of the production tax value of the  
10 taxable oil and gas as calculated under AS 43.55.160, multiplied by the price index  
11 determined under (h) of this section. However, application of this subsection may not,  
12 when added to the tax levied under (e) of this section, impose a tax levy of more than  
13 50 percent of the production tax value of taxable oil and gas as calculated under  
14 AS 43.55.160.

(h) For purposes of (g) of this section, the price index for a month is calculated  
16 by subtracting 35 from the number that is equal to the quotient of the production tax  
17 value of the taxable oil and gas produced during that month, as calculated under  
18 AS 43.55.160, divided by the amount of the taxable oil and gas produced during that  
19 month, in Btu equivalent barrels. The production tax value is calculated (1) using the  
20 monthly average of the producer's costs of transportation for the calendar year, as  
21 provided by AS 43.55.160(i), and (2) substituting for the month's lease expenditures  
22 1/12 of the adjusted lease expenditures for the calendar year, as provided by  
23 AS 43.55.160(f). For purposes of this subsection, "Btu equivalent barrel" means (1) in  
24 the case of oil, one barrel; (2) in the case of gas, the amount of gas that has an energy  
25 content of 6,000,000 British thermal units.

HB 3003 7/13/06

\* Sec. 2. AS 43.55.011(b) is amended to read:

(b) The percentage-of-value amount equals [12.25 PERCENT OF THE  
09 GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL  
10 PRODUCED ON OR BEFORE JUNE 30, 1981, FROM THE LEASE OR  
11 PROPERTY AND 15 PERCENT OF THE GROSS VALUE AT THE POINT OF  
12 PRODUCTION OF TAXABLE OIL PRODUCED FROM THE LEASE OR

13 PROPERTY AFTER JUNE 30, 1981; EXCEPT THAT FOR A LEASE OR  
14 PROPERTY COMING INTO COMMERCIAL OIL PRODUCTION AFTER JUNE  
15 30, 1981, THE PERCENTAGE-OF-VALUE AMOUNT EQUALS 12.25 PERCENT  
16 OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL  
17 PRODUCED FROM THE LEASE OR PROPERTY IN THE FIRST FIVE YEARS  
18 AFTER THE START OF COMMERCIAL OIL PRODUCTION AND EQUALS] 15  
19 percent of the taxable gross value at the point of production of taxable oil produced  
20 [THEREAFTER] from the lease or property, except that, if the gross value at the  
21 point of production of taxable oil produced from the lease or property is  
22 (1) more than \$50 a barrel but not more than \$100 a barrel, the  
23 tax rate is equal to 15 percent plus 0.2 percent for each dollar or fraction of a  
24 dollar by which the gross value at the point of production exceeds \$50 a barrel;  
25 and  
26 (2) more than \$100 a barrel, the tax rate is 25 percent.

## HB 3005 7/25/06

Sec. 43.55.014. Additional production tax on oil. (a) In addition to the taxes  
06 levied under AS 43.55.011(a) - (c), for each month for which the oil price index  
07 determined under (b) of this section is greater than zero, there is levied on the  
08 producer of oil a tax for all oil produced during that month from each lease or property  
09 in the state, less any oil the ownership or right to which is exempt from taxation. The  
10 tax is equal to .35 percent of the gross value at the point of production of the oil  
11 multiplied by the oil price index as determined under this section.  
12 (b) The oil price index for a month is the number of dollars equal to the  
13 average United States Gulf Coast price per barrel determined under (c) of this section  
14 for that month of West Texas Intermediate crude oil, less 50, except that, if the  
01 average price determined under (c) of this section is  
02 (1) not more than \$50 a barrel, the oil price index is zero; and  
03 (2) more than \$150 a barrel, the oil price index is 100.

SB\_\_\_\_ Senator Wagoner 7/27/06

(g) In addition to the taxes levied using the percentage-of value amount under (e) of this section, if the average ANS West Coast price per barrel of oil during a month exceeds \$40, there is levied on the producer of oil a tax for oil produced during that month from each lease or property in the state outside of the Cook Inlet sedimentary basin, less any oil the ownership or right to which is exempt from taxation. The tax levied under this subsection is equal to

$$[[(\text{ANS West Coast price} - 40) \times .003] \times (\text{ANS wellhead price} \times .85)]$$

$$\times (\text{total taxable barrels of oil at the point of production})$$

where "ANS wellhead price" means the prevailing value for oil produced in the Alaska North Slope Area.

## PRESENTATION ON ALASKA PPT

to House Resources Committee  
March 13, 2006

Analysis of PPT

Barry Pulliam

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- We provide consulting services in various industries, including petroleum and natural gas, regulated utilities, electricity, telecommunications, and computer software
- We have worked for:
  - A number of state governments on energy-related matters, including the States of Alaska, California, Hawaii, Louisiana, New Mexico, New York, and Texas
  - Federal government agencies, including the Department of Justice, the Federal Trade Commission, the Department of the Interior, and the President's Council of Economic Advisors
  - A number of foreign countries and international agencies, including the World Bank, Mexico, Nigeria, Turkey, and Tanzania on matters related to economic development and privatization of state-owned utilities
  - A number of companies in the petroleum and natural gas industries, including BP, Occidental Petroleum, ANR Pipeline, Koch Gateway Pipeline, Sempra Energy, KN Energy Corp., Lyondell-CITGO Refining, Total Petrochemicals U.S.A., Panhandle Eastern Corp., and ONEOK, Inc.



## Example of Tax with Sliding Scale

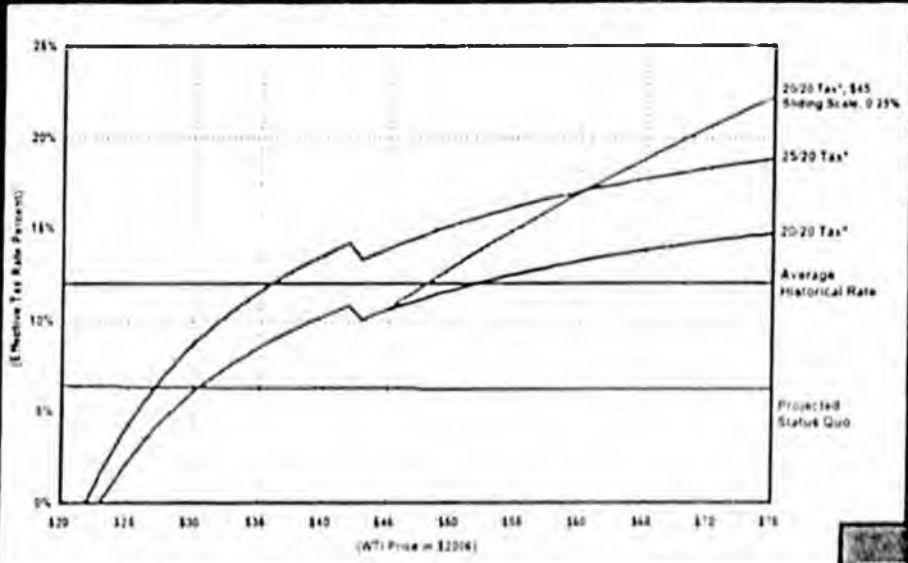
Assumptions: 0.25% per dollar over \$45/barrel WTI (threshold);  
 \$55/barrel WTI price;  
 \$47/barrel ANS wellhead price;  
 20/20 PPT.

- Sliding Scale Tax in Addition to PPT, and Deductible Against PPT
- If WTI is  $\leq$  Threshold price (e.g., \$45): No Additional Tax
- If WTI is  $>$  Threshold price: Additional Tax Equals 0.25% Per Dollar Over Threshold x Gross Wellhead Value

$$\begin{aligned} \text{Additional Tax} &= (\text{WTI Price} - \text{Threshold}) \times \text{Increment Rate} \times \\ &\quad \text{ANS Wellhead Price} \times (1 - \text{PPT Tax Rate}) \\ &= (\$55 - \$45) \times 0.25\% \times \$47 \times (1 - 20\%) \\ &= 2.5\% \times \$47 \times 80\% \\ &= \$0.94 \end{aligned}$$



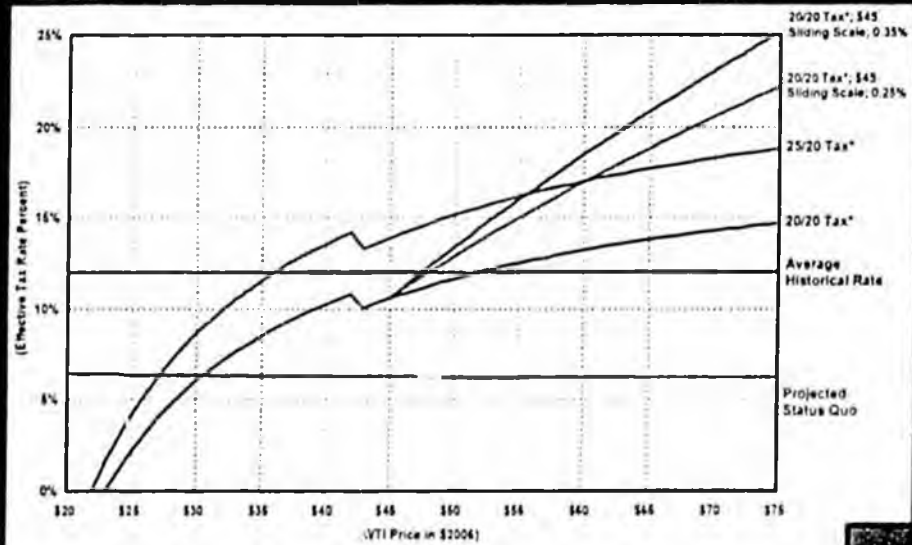
## Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



\* Calculated from July 2006, Initials 2 and 2006 and 27 million barrels, volume per DOE Fall 2009 Forecast with Original projection.



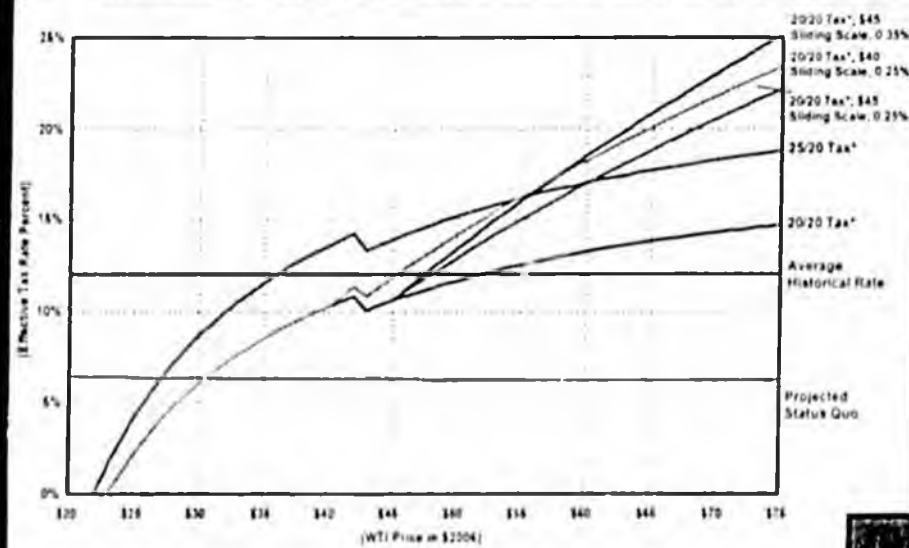
### Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



\* Calculated MMS July 2006, includes 6-year transition and \$75 million exemption, volume per DGR Fall 2006 Forecast with Oxytech projection.  
Source: Missouri, MMS's Department of Mineral Resources



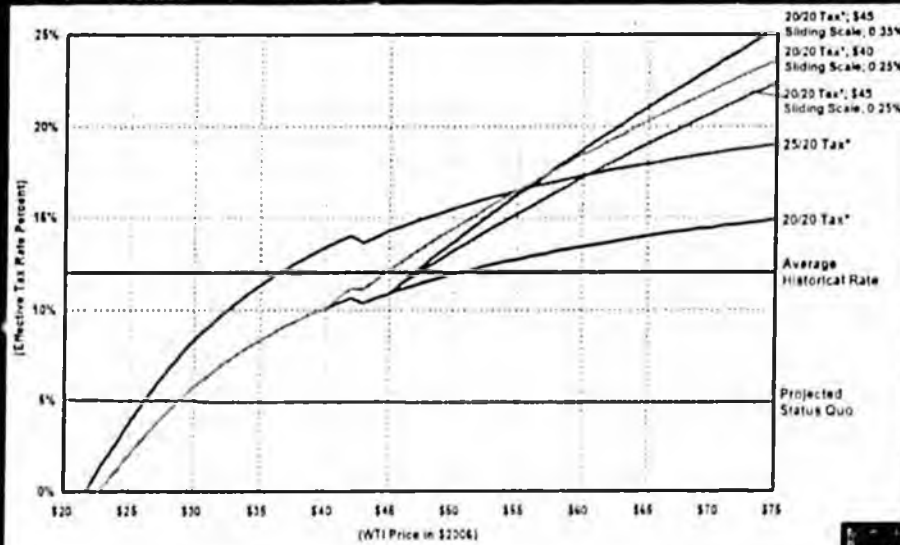
### Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Calculated from July 2006, includes 6-year transition and \$75 million exemption, volume per DGR Fall 2006 Forecast with Oxytech projection.



### Effective Average Tax Rates at Various Price Levels (FY 2007-2030)



\* Calculated from July 2006, includes 6-year transition and \$72 billion exemption, assumes gas DOR Fall 2008 Forecast with Oregon's production. Source: Historical: Alaska Department of Revenue.



### Projected Effective Tax Rates with Sliding Scale Tax DOR Forecast Production (FY 2007-2030)\*

WTI Price (\$ 2004)	2020 with Sliding Scale Tax									
	2020		\$45 Forecast Price				\$40 Forecast Price			
	0.25%	0.35%	0.25%	0.30%	0.35%	0.25%	0.30%	0.35%	0.35%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
\$30	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
\$40	4.0%	10.0%	11.0%	11.0%	11.5%	11.0%	12.0%	12.0%	12.0%	12.0%
\$50	4.0%	13.0%	14.0%	15.0%	16.0%	15.0%	16.0%	16.0%	16.0%	16.0%
\$60	4.0%	15.0%	16.0%	17.0%	18.0%	17.0%	17.0%	17.0%	17.0%	17.0%
\$70	4.0%	16.0%	17.0%	18.0%	19.0%	18.0%	18.0%	18.0%	18.0%	18.0%
\$80	4.0%	16.0%	17.0%	18.0%	19.0%	18.0%	18.0%	18.0%	18.0%	18.0%

WTI Price (\$ 2004)	2020 with Sliding Scale Tax									
	2020		\$45 Forecast Price				\$40 Forecast Price			
	0.25%	0.35%	0.25%	0.30%	0.35%	0.25%	0.30%	0.35%	0.35%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
\$30	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
\$40	13.0%	12.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
\$50	16.0%	12.0%	12.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
\$60	17.0%	14.0%	14.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
\$70	18.0%	16.0%	16.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
\$80	18.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%



### Projected Government Takes with Sliding Scale Tax DOR Forecast Production (FY 2007-2030)\*

		2020 with Sliding Scale Tax									
		\$30 Threshold Flow				\$40 Threshold Flow					
WTL Price (\$ 2004)	Take (%)	2020	Increment				Increment				Increment
			0.25%	0.25%	0.30%	0.35%	0.20%	0.25%	0.30%	0.35%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
\$30	57.0%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	
\$40	57.7%	57.7%	58.0%	58.2%	58.4%	58.6%	57.7%	57.7%	57.7%	57.7%	
\$50	52.3%	58.8%	58.8%	58.4%	58.2%	57.4%	58.2%	58.5%	58.8%	58.2%	
\$60	51.5%	58.8%	60.2%	60.8%	61.6%	62.4%	58.4%	60.0%	60.1%	61.3%	
\$70	50.9%	58.8%	61.2%	62.3%	63.3%	64.4%	60.6%	61.5%	62.4%	63.2%	
\$80	50.6%	58.8%	62.3%	63.7%	65.0%	66.4%	61.7%	62.9%	64.1%	65.2%	

		2020 with Sliding Scale Tax							
		\$45 Threshold Flow				\$50 Threshold Flow			
WTL Price (\$ 2004)	2020	Increment				Increment			
		0.20%	0.25%	0.30%	0.35%	0.20%	0.25%	0.30%	0.35%
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
\$30	58.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%
\$40	58.7%	57.7%	57.2%	57.2%	57.2%	57.2%	57.2%	57.2%	57.2%
\$50	68.7%	57.8%	57.7%	57.6%	58.1%	58.9%	58.9%	58.9%	58.9%
\$60	58.7%	58.9%	59.3%	58.7%	60.2%	58.1%	58.5%	58.6%	58.1%
\$70	58.3%	58.9%	60.1%	61.5%	62.2%	58.3%	58.9%	60.6%	61.2%
\$80	58.4%	61.1%	62.1%	63.2%	64.3%	60.5%	61.6%	62.1%	62.5%

\* Calculated from July 2006, includes 8-year transition and \$7.3 billion exemption, released per DOR Fall 2005 Forecast with Ogeun's projection.



### House Bill 305 Tax Rate with \$50 WTI per Barrel Trigger Point

Oil Sales Price		Progressive Surcharge Rate											
ANS	WTI	0.175%	0.200%	0.225%	0.250%	0.275%	0.300%	0.325%	0.350%	0.375%	0.400%	0.425%	0.450%
\$50	\$52	0.35%	0.40%	0.45%	0.50%	0.55%	0.60%	0.65%	0.70%	0.75%	0.80%	0.85%	0.90%
\$55	\$57	1.23%	1.40%	1.58%	1.75%	1.93%	2.10%	2.28%	2.45%	2.63%	2.80%	2.98%	3.15%
\$60	\$62	2.10%	2.40%	2.70%	3.00%	3.30%	3.60%	3.90%	4.20%	4.50%	4.80%	5.10%	5.40%
\$65	\$67	2.98%	3.40%	3.83%	4.25%	4.68%	5.10%	5.53%	5.95%	6.38%	6.80%	7.23%	7.65%
\$70	\$72	3.85%	4.40%	4.95%	5.50%	6.05%	6.60%	7.15%	7.70%	8.25%	8.80%	9.35%	9.90%
\$75	\$77	4.73%	5.40%	6.08%	6.75%	7.43%	8.10%	8.78%	9.45%	10.13%	10.80%	11.48%	12.15%
\$80	\$82	5.60%	6.40%	7.20%	8.00%	8.80%	9.60%	10.40%	11.20%	12.00%	12.80%	13.60%	14.40%
\$85	\$87	6.48%	7.40%	8.33%	9.25%	10.18%	11.10%	12.03%	12.95%	13.88%	14.80%	15.73%	16.65%
\$90	\$92	7.35%	8.40%	9.45%	10.50%	11.55%	12.60%	13.65%	14.70%	15.75%	16.80%	17.85%	18.90%
\$95	\$97	8.23%	9.40%	10.58%	11.75%	12.93%	14.10%	15.28%	16.45%	17.63%	18.80%	19.98%	21.15%
\$100	\$102	9.10%	10.40%	11.70%	13.00%	14.30%	15.60%	16.90%	18.20%	19.50%	20.80%	22.10%	23.40%
\$105	\$107	9.98%	11.40%	12.83%	14.25%	15.68%	17.10%	18.53%	19.95%	21.38%	22.80%	24.23%	25.65%
\$110	\$112	10.85%	12.40%	13.95%	15.50%	17.05%	18.60%	20.15%	21.70%	23.25%	24.80%	26.35%	27.90%
\$115	\$117	11.73%	13.40%	15.08%	16.75%	18.43%	20.10%	21.78%	23.45%	25.13%	26.80%	28.48%	30.15%
\$120	\$122	12.60%	14.40%	16.20%	18.00%	19.80%	21.60%	23.40%	25.20%	27.00%	28.80%	30.60%	32.40%
\$125	\$127	13.48%	15.40%	17.33%	19.25%	21.18%	23.10%	25.03%	26.95%	28.88%	30.80%	32.73%	34.65%
\$130	\$132	14.35%	16.40%	18.45%	20.50%	22.55%	24.60%	26.65%	28.70%	30.75%	32.80%	34.85%	36.90%
\$135	\$137	15.23%	17.40%	19.58%	21.75%	23.93%	26.10%	28.28%	30.45%	32.63%	34.80%	36.98%	39.15%
\$140	\$142	16.10%	18.40%	20.70%	23.00%	25.30%	27.60%	29.90%	32.20%	34.50%	36.80%	39.10%	41.40%
\$145	\$147	16.98%	19.40%	21.83%	24.25%	26.68%	29.10%	31.53%	33.95%	36.38%	38.80%	41.23%	43.65%
\$150	\$152	17.85%	20.40%	22.95%	25.50%	28.05%	30.60%	33.15%	35.70%	38.25%	40.80%	43.35%	45.90%
\$155	\$157	18.73%	21.40%	24.08%	26.75%	29.43%	32.10%	34.78%	37.45%	40.13%	42.80%	45.48%	48.15%
\$160	\$162	19.60%	22.40%	25.20%	28.00%	30.80%	33.60%	36.40%	39.20%	42.00%	44.80%	47.60%	50.40%
\$165	\$167	20.48%	23.40%	26.33%	29.25%	32.16%	35.10%	38.03%	40.95%	43.88%	46.80%	49.73%	52.65%
\$170	\$172	21.35%	24.40%	27.45%	30.50%	33.55%	36.60%	39.65%	42.70%	45.75%	48.80%	51.85%	54.90%
\$175	\$177	22.23%	25.40%	28.58%	31.75%	34.93%	38.10%	41.28%	44.45%	47.63%	50.80%	53.98%	57.15%
\$180	\$182	23.10%	26.40%	29.70%	33.00%	36.30%	39.60%	42.90%	46.20%	49.50%	52.80%	56.10%	59.40%
\$185	\$187	23.98%	27.40%	30.83%	34.25%	37.69%	41.10%	44.53%	47.95%	51.38%	54.80%	58.23%	61.65%
\$190	\$192	24.85%	28.40%	31.95%	35.50%	39.05%	42.60%	46.15%	49.70%	53.25%	56.80%	60.35%	63.90%
\$195	\$197	25.73%	29.40%	33.08%	36.75%	40.43%	44.10%	47.78%	51.45%	55.13%	58.80%	62.48%	66.15%
\$200	\$202	26.60%	30.40%	34.20%	38.00%	41.80%	45.60%	49.40%	53.20%	57.00%	60.80%	64.60%	68.40%
\$205	\$207	27.48%	31.40%	35.33%	39.25%	43.18%	47.10%	51.03%	54.95%	58.88%	62.80%	66.73%	70.65%
\$210	\$212	28.35%	32.40%	36.45%	40.50%	44.55%	48.60%	52.65%	56.70%	60.75%	64.80%	68.85%	72.90%
\$215	\$217	29.23%	33.40%	37.58%	41.75%	45.93%	50.10%	54.28%	58.45%	62.63%	66.80%	70.98%	75.15%
\$220	\$222	30.10%	34.40%	38.70%	43.00%	47.30%	51.60%	55.90%	60.20%	64.50%	68.80%	73.10%	77.40%
\$225	\$227	30.98%	35.40%	39.83%	44.25%	48.68%	53.10%	57.53%	61.95%	66.38%	70.80%	75.23%	79.65%
\$230	\$232	31.85%	36.40%	40.95%	45.50%	50.05%	54.60%	59.15%	63.70%	68.25%	72.80%	77.35%	81.90%
\$235	\$237	32.73%	37.40%	42.08%	46.75%	51.43%	56.10%	60.78%	65.45%	70.13%	74.80%	79.48%	84.15%
\$240	\$242	33.60%	38.40%	43.20%	48.00%	52.80%	57.60%	62.40%	67.20%	72.00%	76.80%	81.60%	86.40%
\$245	\$247	34.48%	39.40%	44.33%	49.25%	54.18%	59.10%	64.03%	68.95%	73.88%	78.80%	83.73%	88.65%
\$250	\$252	35.35%	40.40%	45.45%	50.50%	55.55%	60.60%	65.65%	70.70%	75.75%	80.80%	85.85%	90.90%