SB
305
(FILE 15)

LIBRARY

CS for Senate Bill No 305 (RES)

Commentary

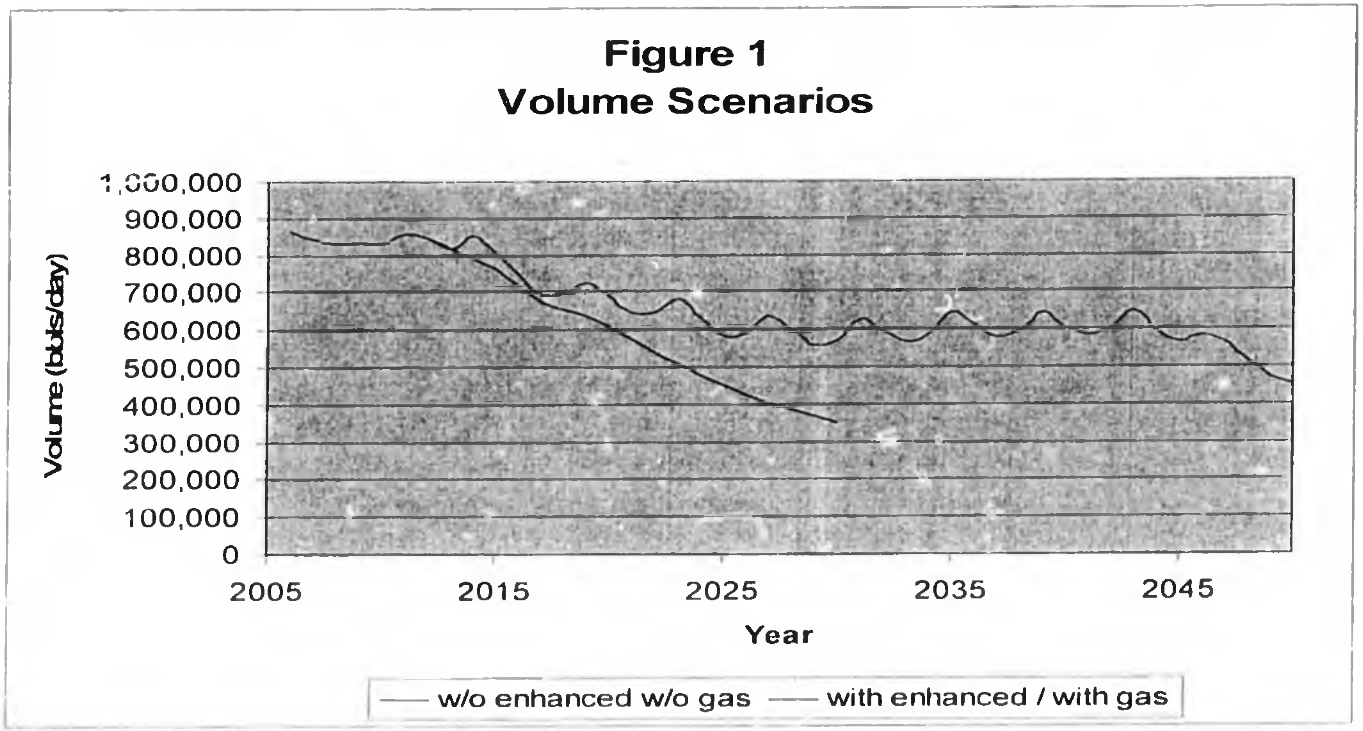
March 18, 2006

Dr. Pedro Van Meurs

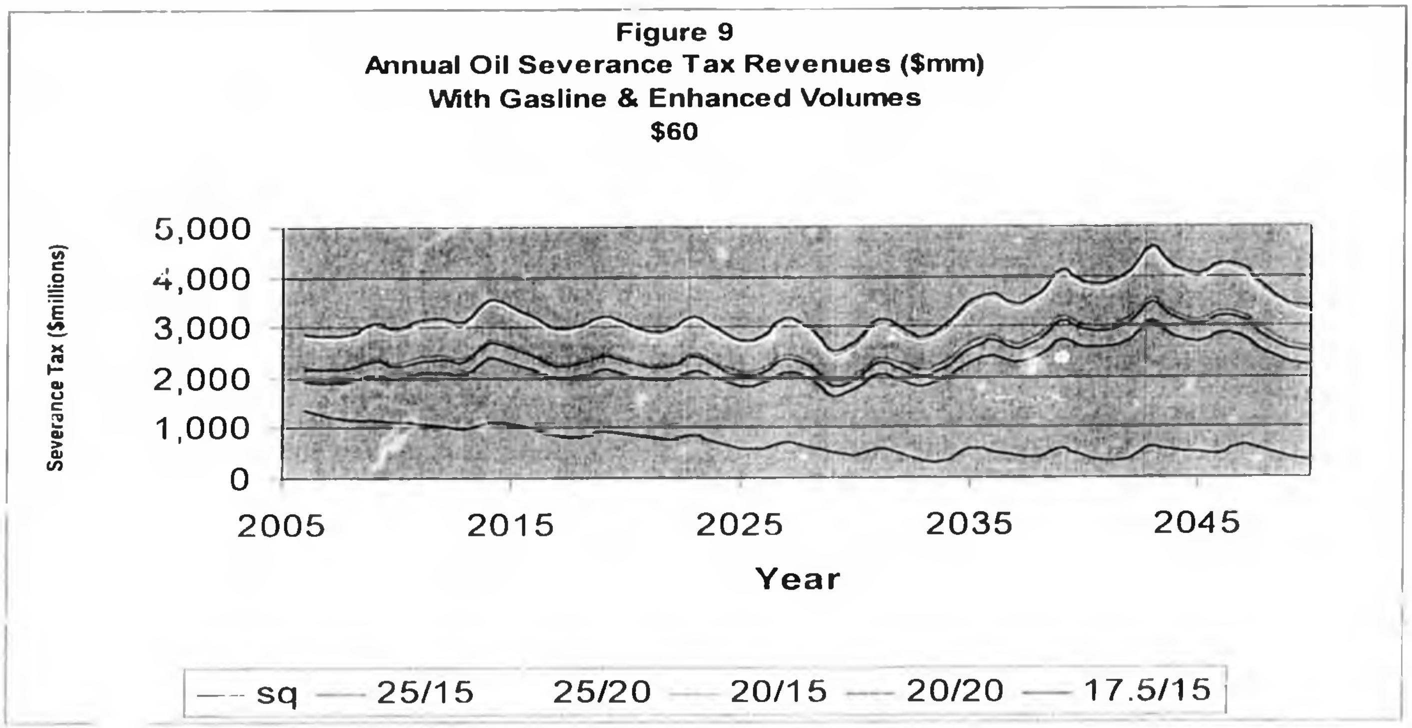
TOTAL VISION

PPT bill is the first step in a process that may lead to a stranded gas contract. The gas line in turn will significantly prolong the life of the oil pipeline and lead to considerable additional oil developments.

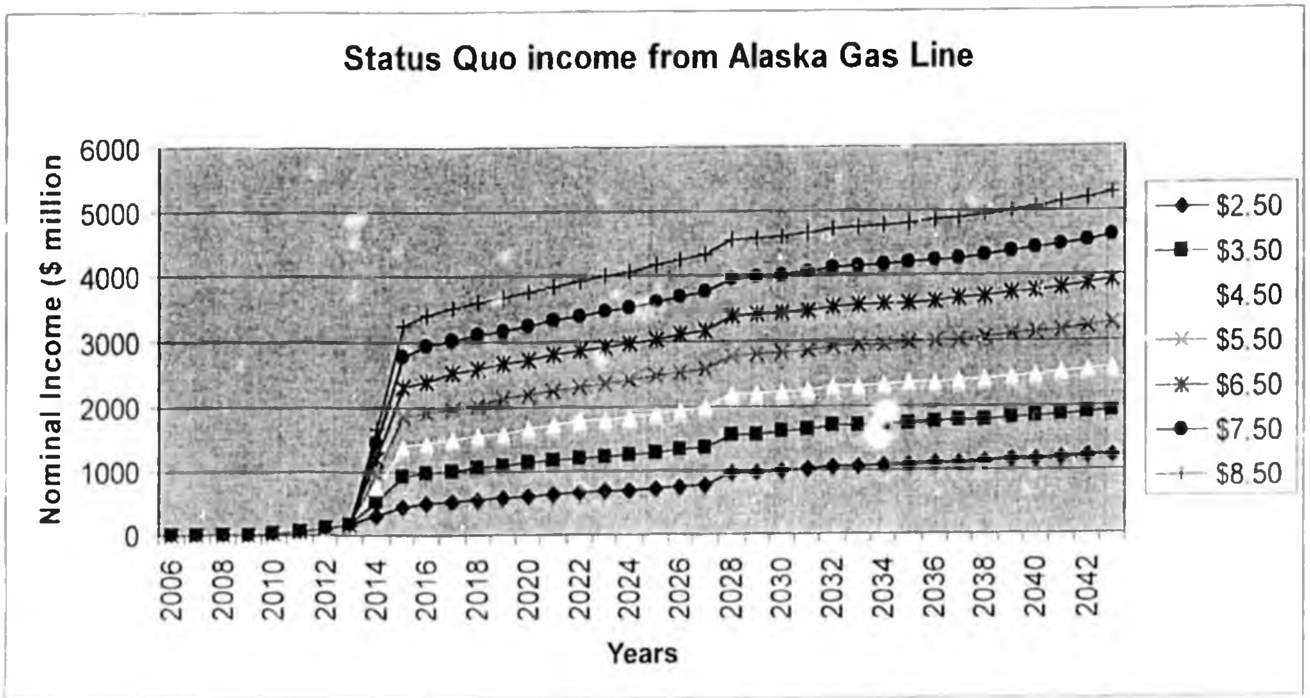
TOTAL VISION



TOTAL VISION



TOTAL VISION



Tax rate and Investment

Within the range of PPT tax rates that were evaluated, there is a relationship between level of investment and tax rate.

TAX RATE AND INVESTMENT

Large Companies

COMPETITIVENESS RATING INDEX

$36	20-20-0	25-20-0	30-20-0	30-15-0
Alaska Current	161	158	157	156
Alaska PPT	147	153	160	166
Norway	214	214	214	213
UK	63	63	63	63
US GOM	25	25	25	25
Nigeria	92	92	90	89
Alberta-Oil Sands	74	74	74	73
Angola	160	158	157	156
Russia-Sakhalin	226	226	224	224
Azerbaijan	158	157	156	155

TAX RATE AND INVESTMENT

Level of Investment

	20-20	25-20	30-20	30-15
Large Producers	more	same	less	much less
New Investors	more	more	more	more

COOK INLET

Carving out regions in Alaska from the PPT will complicate administration and creates unfair practices across Alaska.

Promotion of Exploration

20/20 rating

Overall	IRR Subtotal	NPV Subtotal	EMV Subtotal	GOV TAKE Subtotal	SUM TOTAL
Alaska Current	100	97	88	78	363
20-20-73	49	78	57	65	249
Norway	90	108	86	115	399
UK	31	30	24	52	137
US GOM	14	12	[illegible]	12	53
Nigeria	46	36	[illegible]	45	178
Alberta-Oil Sands	41	42	[illegible]	37	163
Angola	76	73	80	95	324
Russia-Sakhalin	116	103	118	108	445
Azerbaijan	97	81	98	53	329

Promotion of Exploration

The PPT bill as introduced already strongly promotes exploration. There is no need for special further features that would complicate the administration of the PPT

Small Companies

There is a need to provide long term support for small companies. These companies play a special role and often contribute significantly to the local economy.

This can be achieved:

-- with the $ 73 million allowance per company or equivalent credit, or

-- by making a level of production per company exempt from the PPT

State Owned Assets

Clause 43.55.024 (i) (3) (B) is out of place and seems to prejudge a possible stranded gas contract.

21BRAR4

BP Presentation on Senate Bill 305 (PPT)

Alaska State Legislature
Senate Resources Committee
18th March 2006

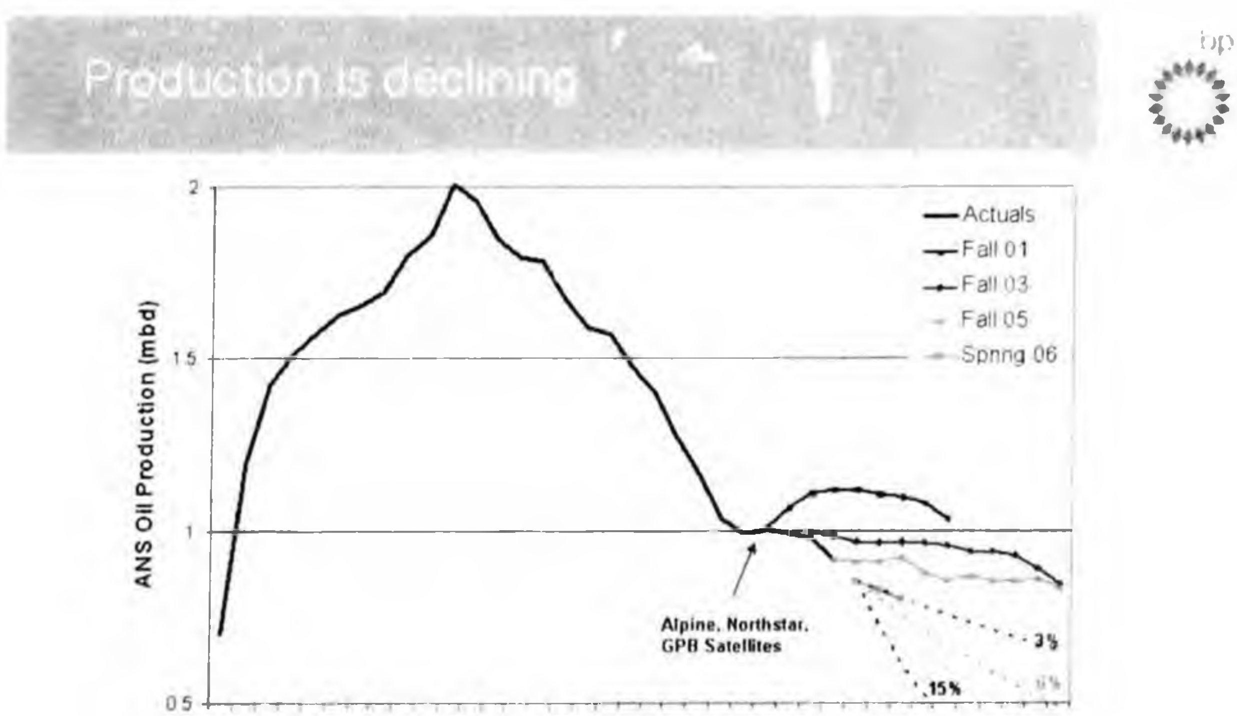
I am Angus Walker and I am the Commercial Vice President of BP Alaska.

I would like to start by thanking this Committee for the opportunity to provide further testimony on Senate Bill 305.

I will not repeat our previous testimony, but will build upon some key issues raised and provide our view of the substantive changes this Committee is considering to Senate Bill 305.

Investment & Decline

Since 1999, both Industry and DOR have consistently overestimated production and have annually revised production forecasts down significantly. This is of great concern to us as it should be to you. A one hundred thousand barrel per day drop in production represents a drop in state revenue of around $500 million per year at current prices.

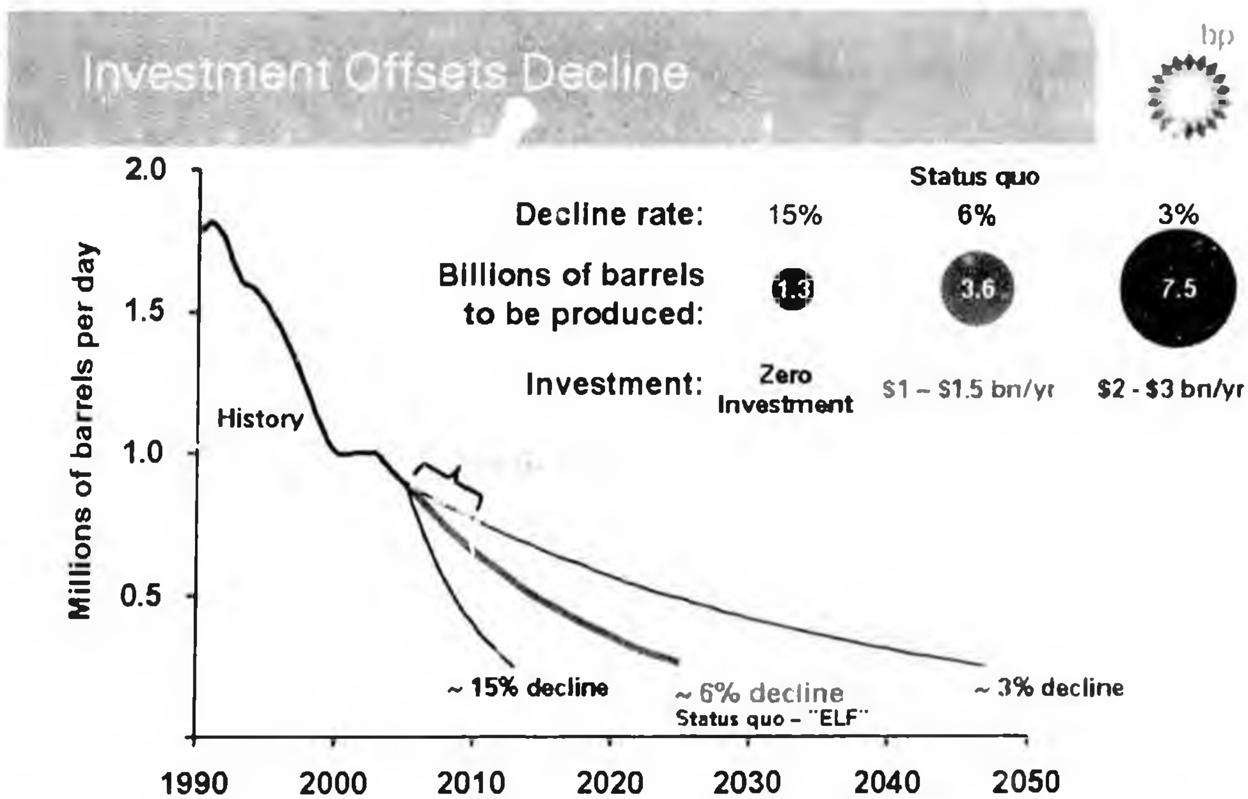


- Historical basin decline has been around 6% per year
- Flattening of production from 2002-2004 due to Alpine & Northstar
- Decline since 2004 has mirrored historical basin decline

This chart shows a subset of the DOR forecasts from 2001, 2003, 2005, along with the latest view of the Spring 2006 forecast, against actual production in red. The dashed lines describe the trajectories of a 3%, 6% and 15% decline.

Whilst development of Alpine, Northstar, and the Prudhoe Bay Satellites between 2000 and 2002 successfully flattened North Slope production for a number of years, 2005 saw decline return to the 6% rate that has characterized this basin in the past. Unfortunately for all of us, there are no more fields of Alpine or Northstar's magnitude waiting to be developed.

You will recognise the following slide from my presentation two weeks ago when I outlined the current reality of the North Slope oil business.



DOR Spring Forecast cannot be met without significant additional investment
The vast majority of that investment must be made in existing fields

With no investment the natural decline of the fields would be the lower red line. At the current levels of investment ($1-1.5 bn / year) that decline will be around six percent per year. The latest DOR 2006 Spring forecast translates into an approximate 3% decline which you can see is above the current status quo.

However, the 3% decline cannot be met without significant additional investment, in the order of 2 to 3 billion dollars per year. Unless those investments are made, history will repeat itself, decline will continue at the current rate, and the DOR will be revising its production forecast down yet again.

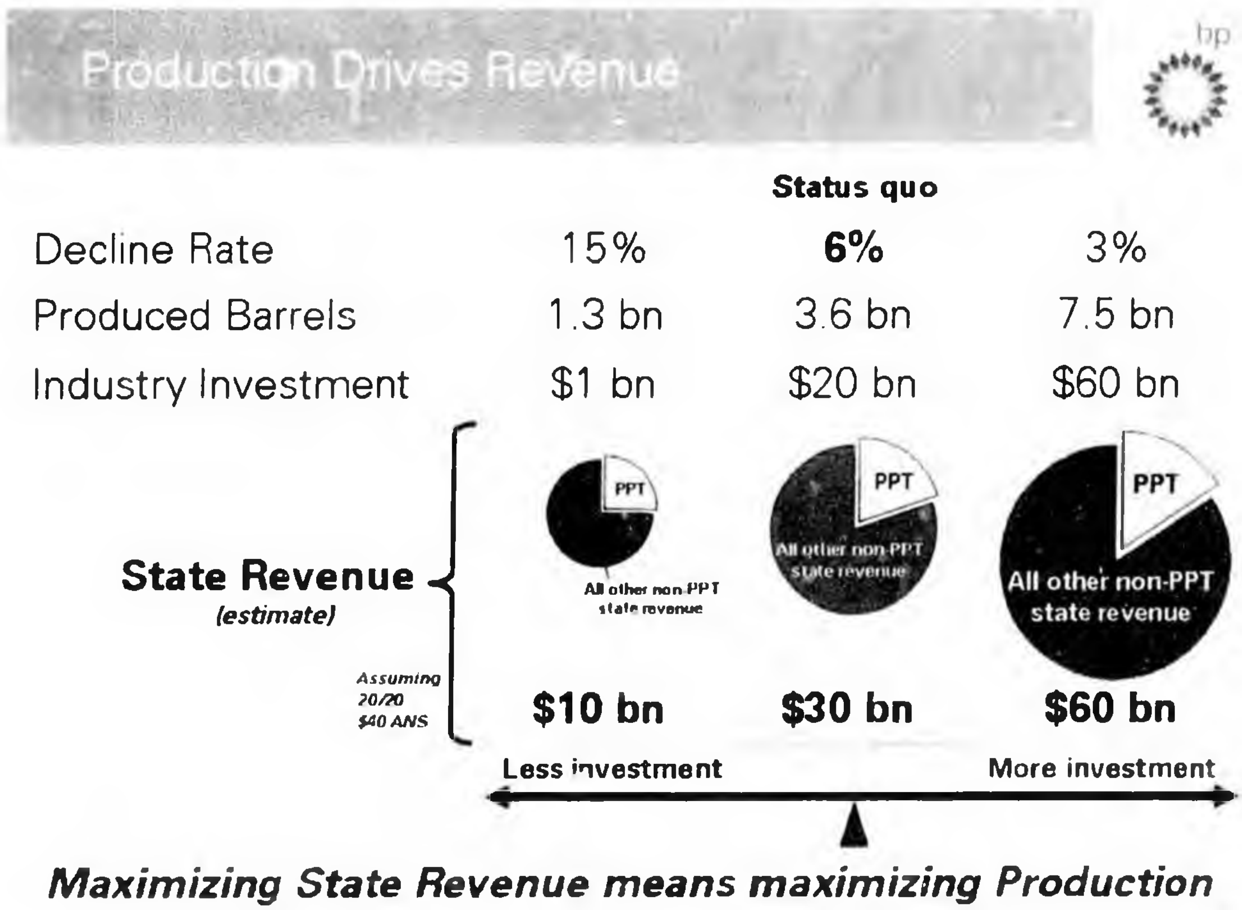
<u>The real question for you to be asking industry and the consultants is 'what would it take to double investment in the Alaska North Slope?'</u>

Encouraging new exploration is good but it is a fact, acknowledged by all who have testified, that the resources expected to be discovered through exploration will likely be significantly less than the resources we already know about. It is investment in these known resources that offers the greatest chance of stemming the decline of ANS production. As you look at incentives for exploration you must not overlook incentives for investments which are more likely to succeed.

Decline Scenarios & State Revenues

The tax regime you approve will directly impact how attractive Alaska is for investment and that will translate into what the future decline will be. It is in the interest of all (industry and Alaska) that we focus on growing the pie rather than increasing state take from a declining pie.

The following slide is an attempt to show how growing the pie by incentivizing investment is in the best interest of the state over the long term.



I'd like to draw your attention to the capital investments necessary in each scenario and an estimate of the total state revenue. **The highest state revenue is derived from the scenario which delivers the greatest production regardless of what severance tax (PPT) you collect.** You could collect zero severance tax (PPT) and this would be a better outcome for the State than one where you collect a high severance tax (PPT) and have less resource development.

The size of the pie is the most important consideration. **Maximizing the value of resources for Alaskans means maximizing state revenue by maximizing production. Resources left in the ground are simply a wasted opportunity.**

This should be the focus of our deliberations.

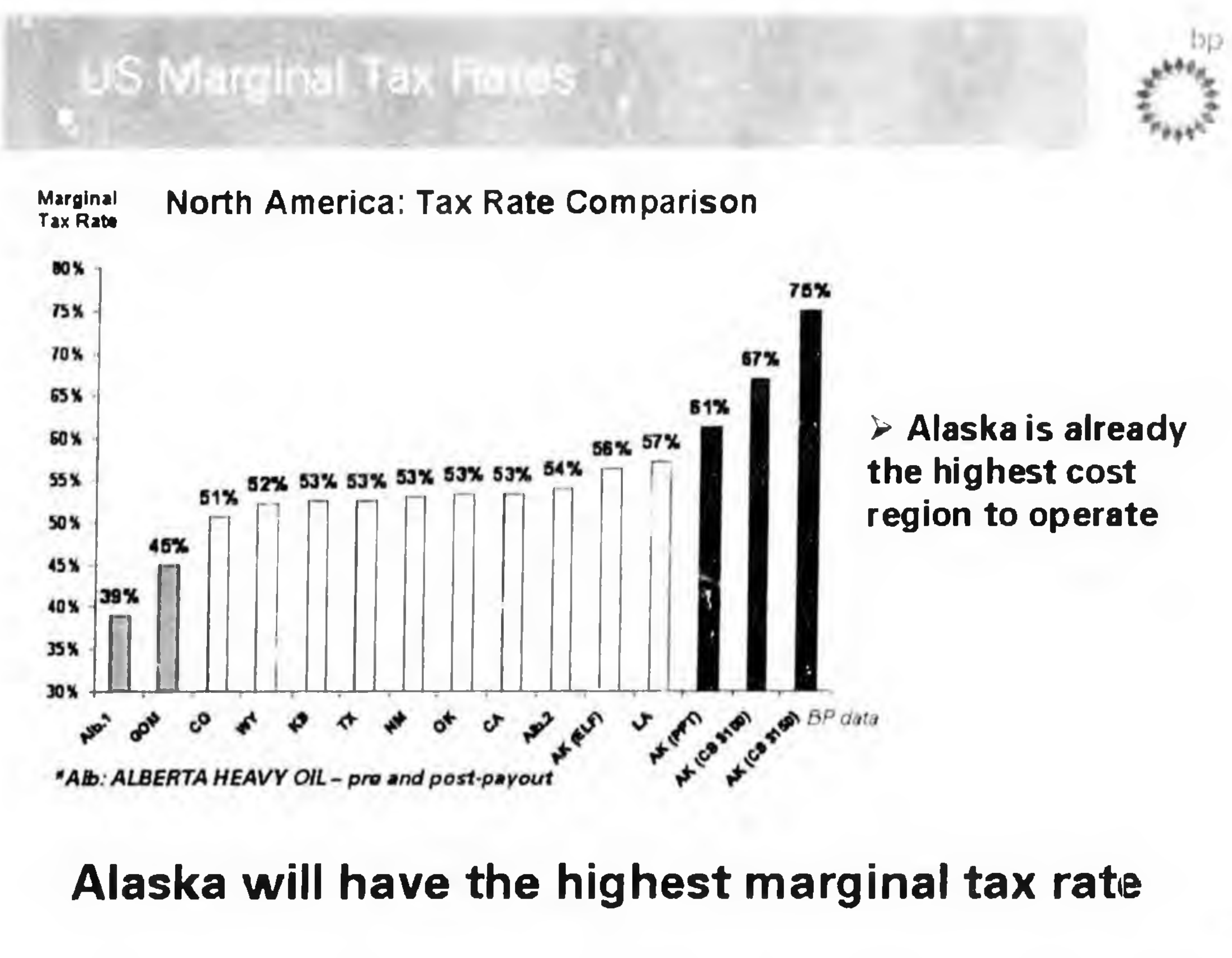
US Marginal Rates

The good news for Alaska is that there is a huge known resource base on the North Slope.

The bad news is that it going to be ***technically difficult*** to extract that resource out of the ground. Every barrel gets more difficult.

Alaska is already ***one of the most expensive places in the world to produce oil and gas***.

Assuming the new 20/20 PPT is put in place, Alaska would also become the area with the ***highest marginal tax rate*** in the US. Needless to say this introduces one more barrier to attracting investment. **The incorporation of yet higher tax rates at higher prices is yet another take from industry and creates a bizarre fiscal regime, being regressive at low prices and progressive at high prices, thus reducing space for industry and creating yet more barriers to attracting investment.** The following graph shows how Alaska compares to other North America regimes both under 20/20 PPT and the scenario outlined in the House CS. A similar graph including the rates outlined in the Senate CS is included in the addendum.



To maximize the value of the resources in the ground, the legislature should be focussed on maximizing North Slope production by attracting investment. The priority for the state of Alaska should be to encourage investments to help industry develop those known resources, not to make it more difficult and risky than it already is.

UK – a role model for attracting investment

bp

"Ordinary measures of Government take throughout the 1990's made the United Kingdom government appear rather crazy and irresponsible **The "gross benefits" to the UK Government go way beyond direct tax revenues and royalties received from the upstream sector of the petroleum industry. The economic impact of the industrial hyperactivity in the UK sector of the North Sea, a direct result of the "lenient" terms of the 1990's, is difficult to measure** Furthermore, the activity in the UK started in the late 1980's and early 1990's when the UK Government dropped the ring fence for the 75% PRT before Government take, as it is ordinarily measured, was drastically reduced **The UK offshore became the most active offshore province in the world. Reducing the Government take in the following years managed to sustain that boom. Activity and employment in the British petroleum sector is healthy and robust.."**

Daniel Johnston

23 Oct 2002, Washington DC
Petroleum Tax Design

You have heard much over the recent weeks about the impacts of reducing taxes in the UK. The UKCS has been our backyard for many years and we couldn't agree more with Daniel Johnston that reducing taxes firstly created and subsequently sustained an economic boom. The UK's decision to reduce Government Take led to a significant increase in activity in the North Sea, more production, higher revenues for the Government and a ripple effect throughout the whole economy.

The actions of the UK during the 1980's and 1990's provide an excellent role model for any Government hoping to attract investment.

Let us please not forget the urgent need to stem decline and attract significantly more capital (about twice what is being spent today) to the North Slope.

In order to maximise the value of Alaska's resources we believe you should be adopting tax rates lower than those proposed by the Governor. In so doing you would maximize investment, maximize production and maximize jobs for Alaskans. You would also take an important step towards creating a healthy oil business which will be the foundation for gas.

We recognize the burden on your shoulders in making these decisions. There are many people advising you to increase taxes, which will indeed increase state revenue, but for how long? One year? Two years? .....but at what cost to future production?

At the time of going to press, we are awaiting details of the substantive changes you are considering making to Senate Bill 305. Our view of these changes and key messages from this testimony are contained in the addendum.

On behalf of BP I would like to thank you for this opportunity to testify.

ADDENDUM: BP Presentation on Senate Bill 305 (PPT)

Alaska State Legislature
Senate Resources Committee
18th March 2006

BP has not yet had opportunity to review the details of the CS, but from the summary provided I have the following comments. The substantive changes you are considering making to Senate Bill 305 are yet more takes from industry over and above the Governor's bill and we cannot support them:

Our key objections to the proposed changes are:-

1. The base rate of 25% is too high.

2. This level of tax is harmful given Alaska's urgent need to attract very large amounts of capital to stem decline.

3. Reality is:
   a. challenged resource base
   b. high cost environment
   c. distance to market

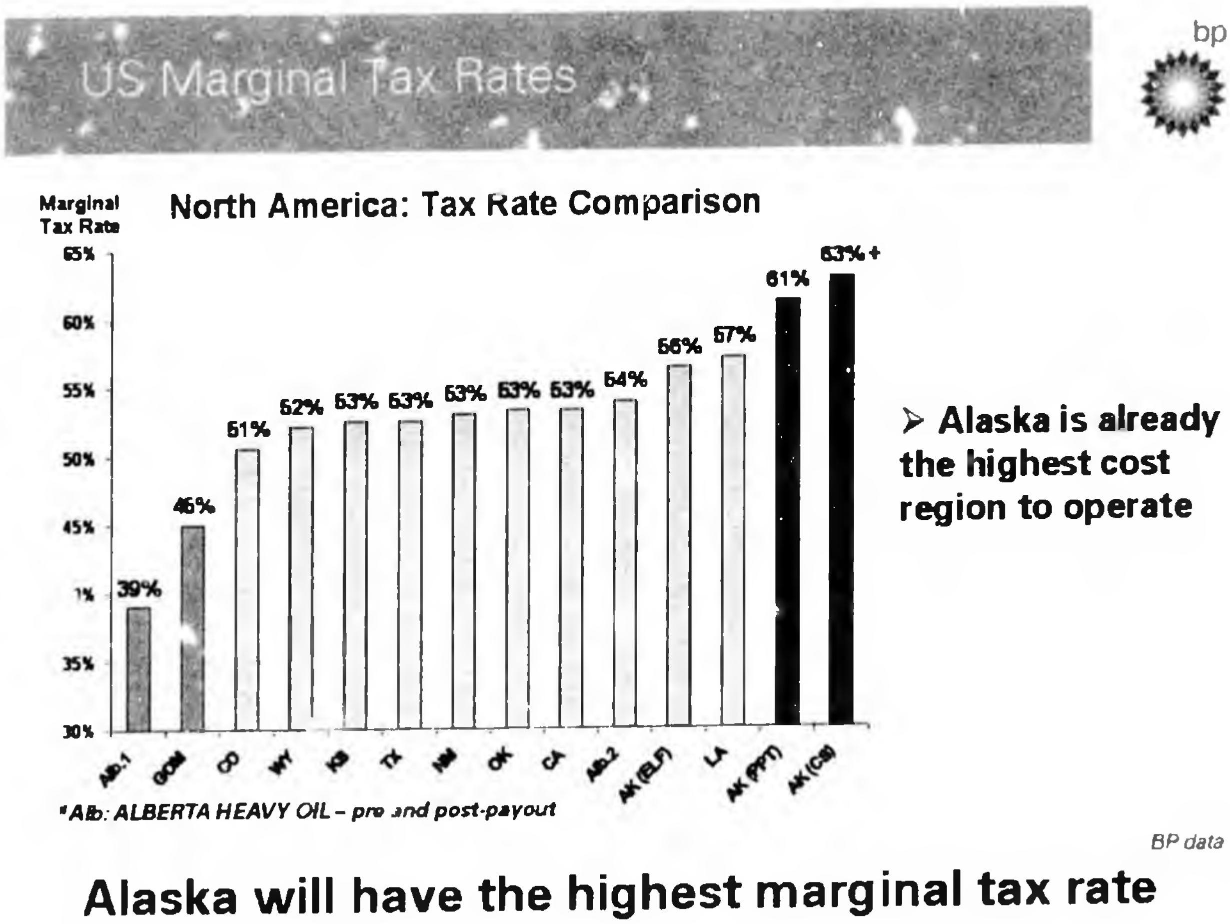
   In order to attract investment, Alaska needs an appropriate and competitive fiscal regime.

4. The cumulative effect of these proposed changes is to further increase tax and decrease the incentives in the previous 20/20 structure.

5. The change in the effective date means this tax will be implemented before it is enacted by the Legislature.

6. The transition provisions have been significantly reduced making the implementation unfair on historic investors.

The following chart shows how the changes proposed in the CS raise Alaska's marginal tax rate even higher above the other areas in the US.



I would like to leave you with the key messages from this testimony.

Key Messages

bp

- Production is declining
- To maximize State revenue we must increase investment to reduce decline
- Alaska will have the highest tax rate and the highest cost structure in the US
- The proposed amendments to SB 305 will not maximize the benefits to Alaskans from the State's resources (oil or gas)
- The UK is a great role model for reducing taxes to increase investment, production and revenue

We believe the proposed amendments to SB 305, if enacted, would be a serious mistake for Alaska and we urge you not to adopt them.

In any event, we will continue to participate fully in the legislative process and will be urging the legislature not to enact the substantive changes being considered by this Committee, but to enact instead a bill close in structure to the original Bill, but with tax levels lower than the 20% first proposed.

On behalf of BP I would like to thank you for this opportunity to testify.

Angus J. Walker
Commercial Vice President

BP Exploration (Alaska) Inc.
P.O. Box 196612
900 East Benson Boulevard
Anchorage, Alaska 99519-6612
(907) 564-4761
(907) 561-5111
Fax (907) 564-5598
WalkerA4@BP.com

Date: 15/03/2006

To:
Senator Thomas Wagoner, Chair Senate Resources Committee
Representative Ralph Samuels, Co-Chair House Resources Committee
Representative Jay Ramras, Co-Chair House Resources Committee

Re: **Testimony of Mr Daniel Johnston on SB 305/HB 488 Production Profit Tax (PPT)**

Dear Senator Wagoner and Representatives Samuels and Ramras:

In his testimony of 6th March 2006 to the House & Senate Resource Committees, Mr Johnston raised a number of issues related to BP's prior testimony to which I am compelled to respond. As well as setting the record straight I believe this response will be helpful to you and your committee's deliberations.

Our response relates to two issues raised by Mr Johnston:

1) The impact of 1993 tax cuts on investment in the UK North Sea.
2) The Marginal rate of taxation in the UKCS.

1) The impact of 1993 tax cuts on investment in the UK North Sea.
In BP's February 28th testimony, my colleague Ray Hall presented data from the UK North Sea, Gulf of Mexico and Alberta that illustrates the cause-and-effect relationship between fiscal policy and investment. With regard to the UK example, Mr Johnston contended that the data BP presented "is not a fair representation of what the result of lowering the tax rate in 1993 was". Clearly it is difficult to unequivocally attribute any outcome to the events that preceded it, and there will be many views of what might have happened without the tax change. However:-

For BP, the position is clear
- We increased capital investment in response to the 1993 changes
- We sanctioned 5 large projects in the matter of a few years (Andrew, Harding, Foinaven, Schiehallion and ETAP). These projects committed circa $8 billion in capital and 2 billion boe in reserves.

For the UK Government the position is clear
- UKCS Exploration & Appraisal spend was the largest of any basin in the world between 1994-1999
- The number of development wells increased one and a half fold between 1993 and 1995
- Basin production rose following the reform
- Tax revenues increased following the reform

Mr Johnston himself is on record as saying:-

"Ordinary measures of Government take throughout the 1990's made the United Kingdom government appear rather crazy and irresponsible. ...... The "gross benefits" to the UK Government go way beyond direct tax revenues and royalties received from the upstream sector of the petroleum industry. **The economic impact of the industrial hyperactivity in the UK sector of the North Sea, a direct result of the "lenient" terms of the 1990's, is difficult to measure**. Furthermore, the activity in the UK started in the late 1980's and early 1990's when the UK Government dropped the ring fence for the 75% PRT before Government take, as it is ordinarily measured, was drastically reduced. **The UK offshore became the most active offshore province in the world. Reducing the Government take in the following years managed to sustain that boom**. Activity and employment in the British petroleum sector is healthy and robust.." (*Source: Petroleum Tax Design page 6 by Daniel Johnston 23 Oct 2002, Washington DC*)

It is our sincere belief that there is a close relationship between fiscal policy and investment, a relationship acknowledged by Mr Johnston in earlier publications, and that the UK offers one of several notable examples where reducing taxes has stimulated investment. The attached slide pack provides additional detail.

2) The marginal rate of taxation in the UKCS
In BP's testimony, Ray Hall compared the marginal government take under PPT 20/20 (61%) to that of the UK (50%). Mr Johnston challenged this figure, asking "why has nobody mentioned the 75% Government Take in the UK?" The 75% Government Take to which Mr Johnston is referring is that paid by the small number of the fields in the UK that are subject to Petroleum Revenue Tax (PRT). PRT is currently levied at 50% on fields given development consent prior to March 1993. Out of a total 208 fields in the UKCS, only 94 fields are liable to, and only 29 actually pay PRT (the rest are protected by volume and other allowances). These 29 fields contributed approximately 29% of the UK oil and gas production in 2005. In any event, the 50% marginal tax rate described by Mr Hall applies to all fields developed after 1993 and as such is a more appropriate comparator to future investments in Alaska.

I trust this letter is clear and would be happy to discuss any issues raised with you and your committees.

BP appreciates the opportunity to testify on this very important issue and intend to remain fully and constructively engaged in the process.

Sincerely yours,

Angus Walker

Commercial Vice President, BP Alaska

Attachments: 6 slides providing further context to the outcome of the UK 1983 and 1993 tax cuts

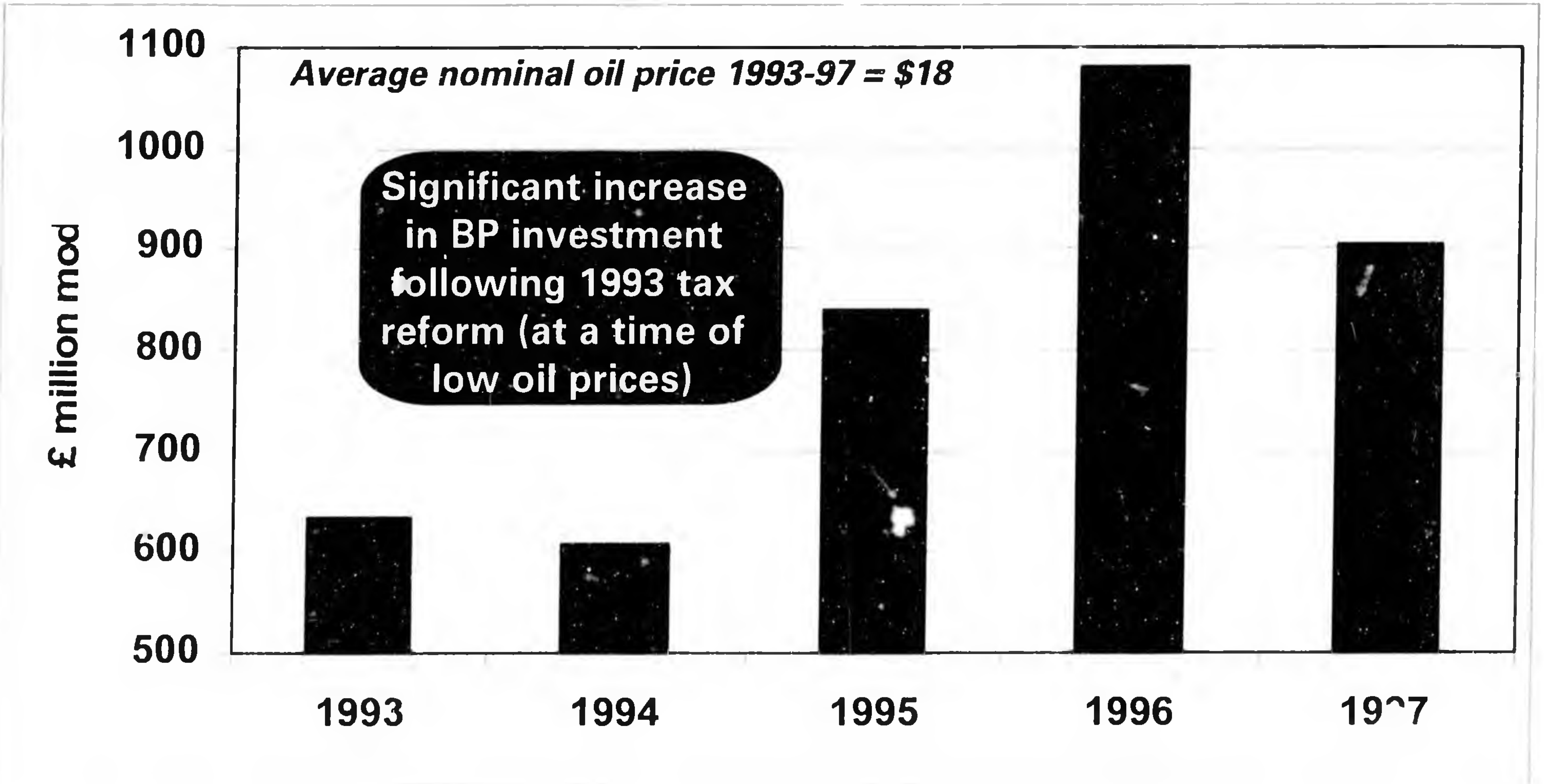
BP response to recent testimony

Attachment to letter to Senator Wagoner, Representative Samuels & Representative Ramras

15th March 2006

BP annual investment in UKCS

bp

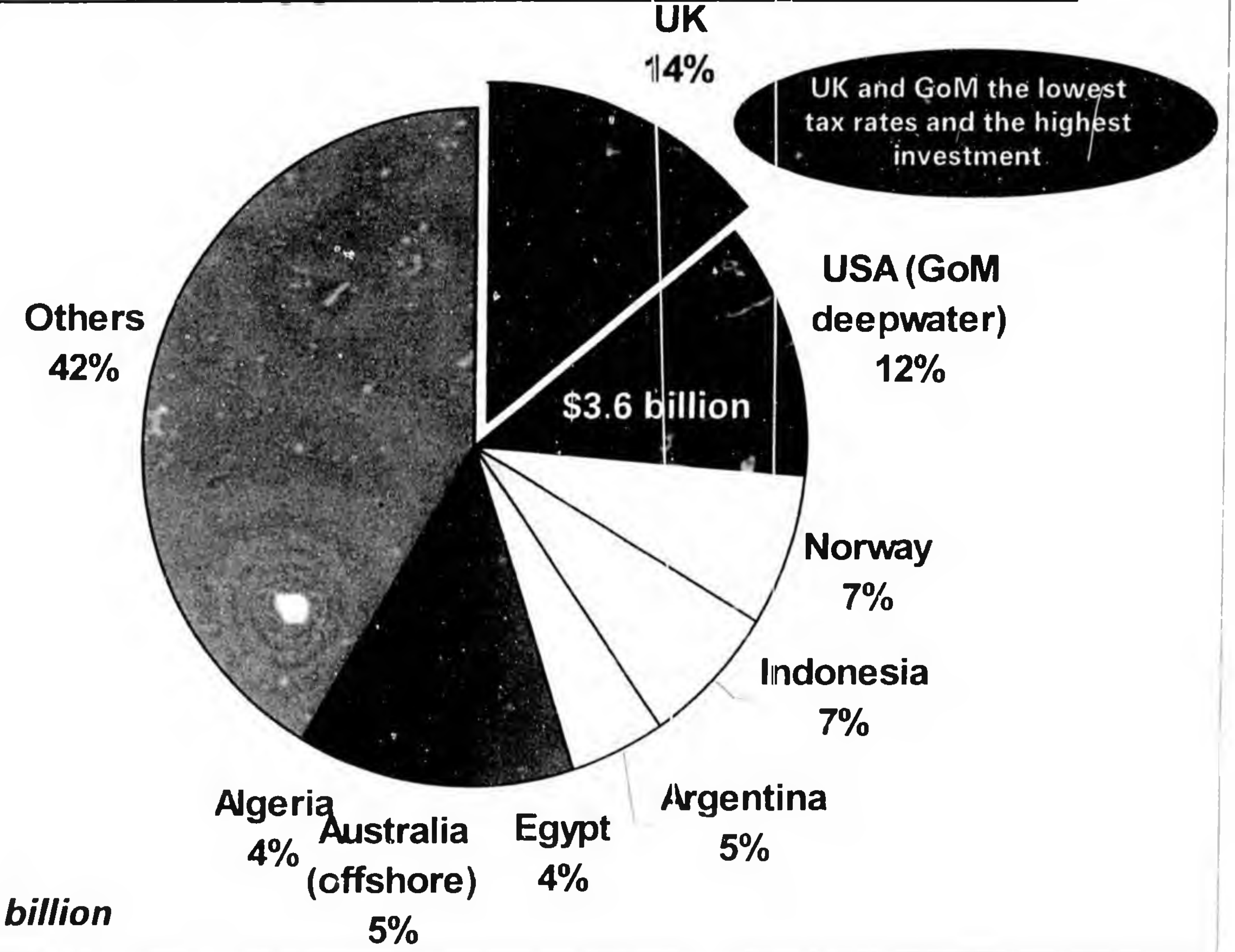


Source : BP Financial and Operating information

UK the leading basin 1994-99 for E & A spend

bp

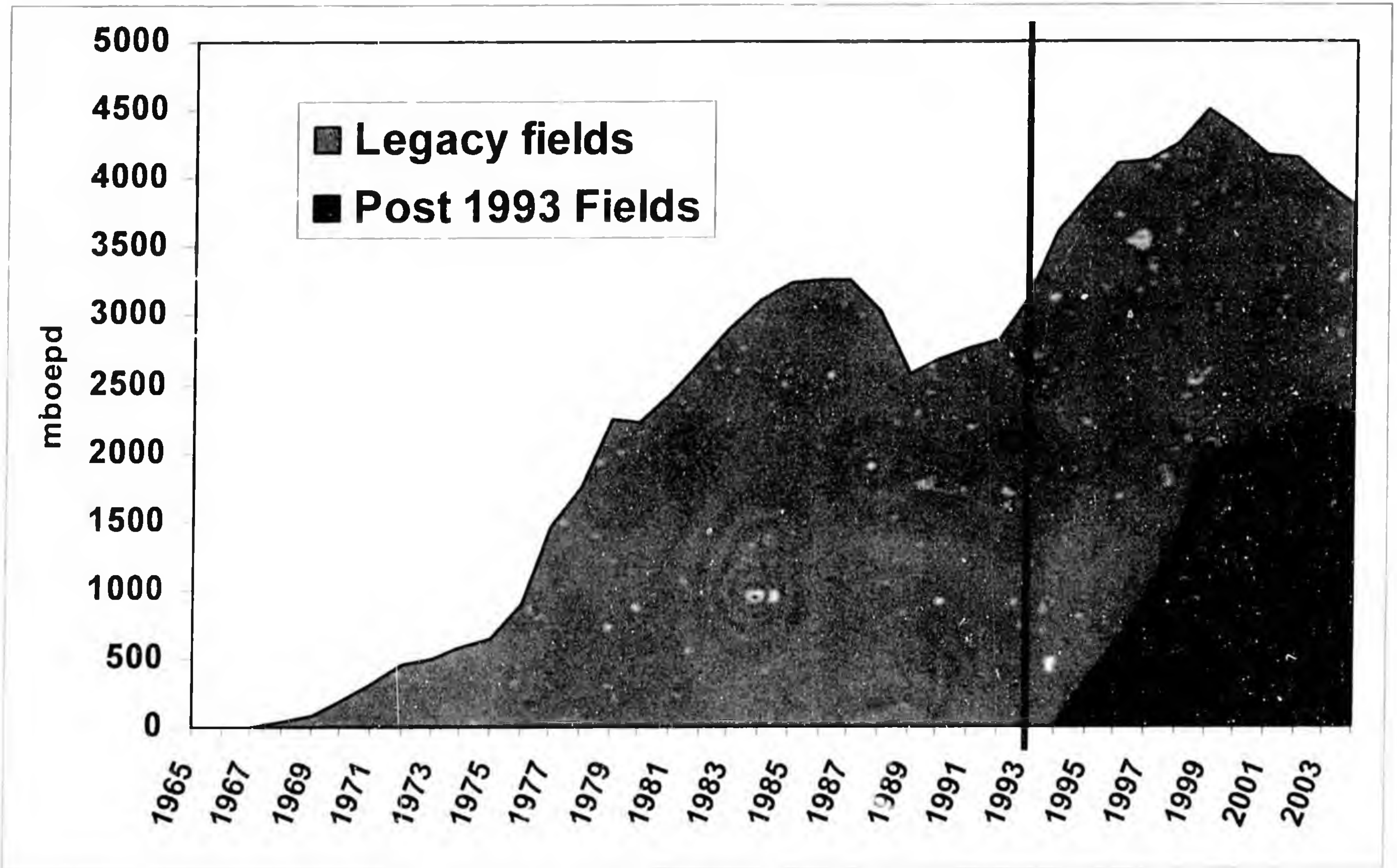
Exploration and appraisal investment: 1994-1999



Total = $30 billion

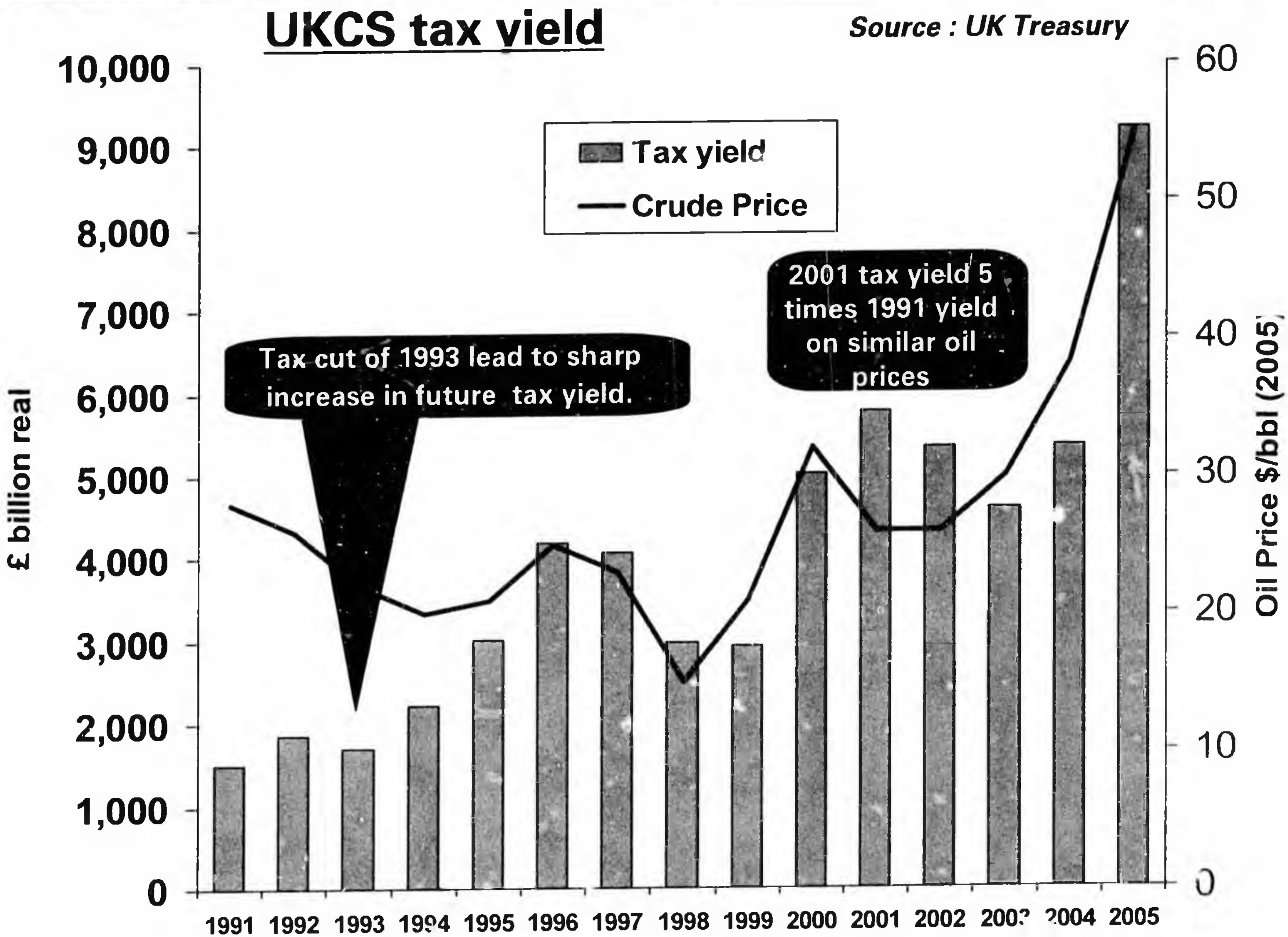
Source : Wood MacKenzie ' Global oil & gas risks and rewards study'

Impact on basin production is clear

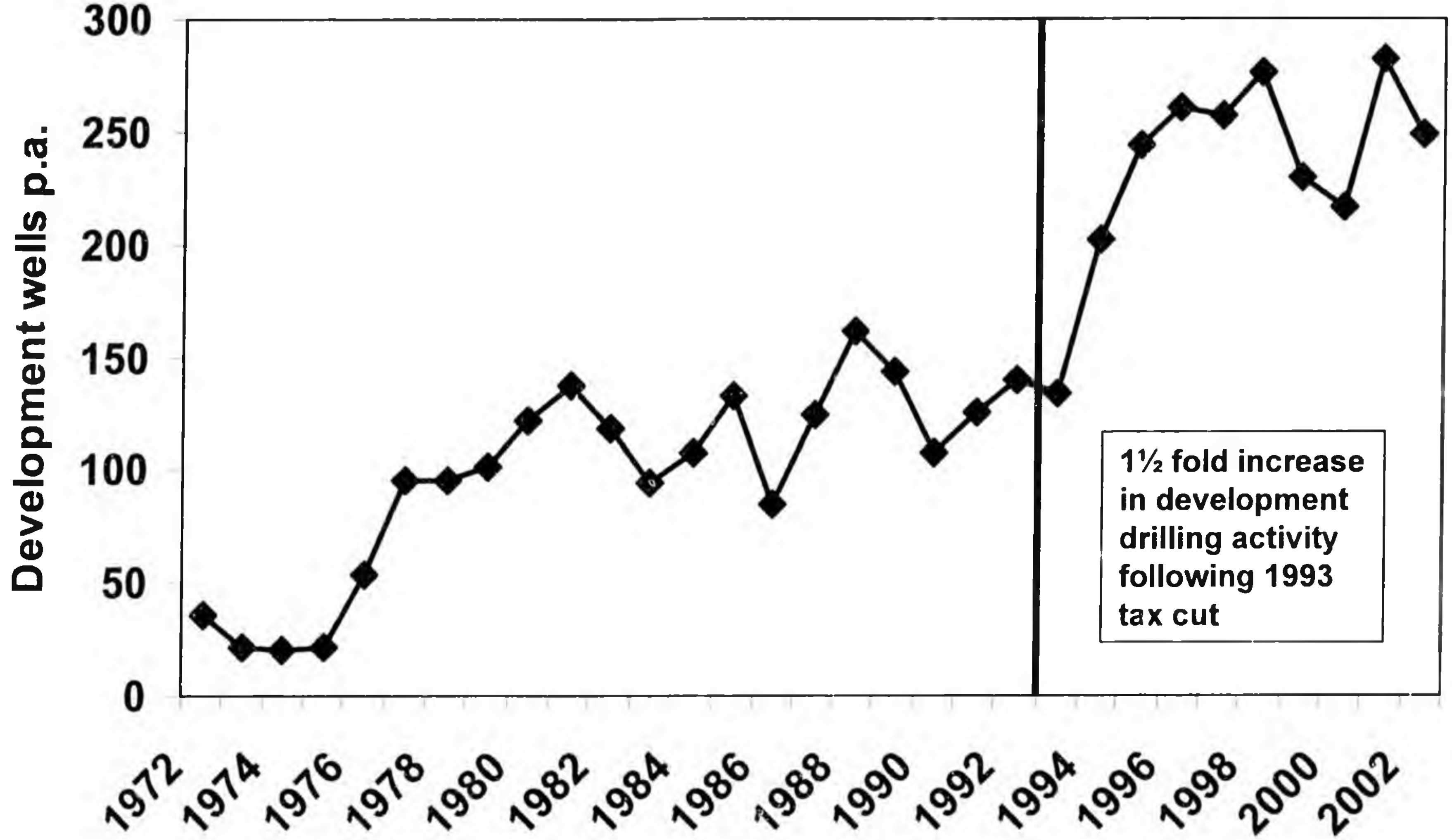


Source: Wood Mackenzie

Dramatic tax yield increase in response to 1993 reform



UK Development Drilling Activity



Source of data: UK Department of Trade & Industry

Daniel Johnston

"Ordinary measures of Government take throughout the 1990's made the United Kingdom government appear rather crazy and irresponsible. ...... The "gross benefits" to the UK Government go way beyond direct tax revenues and royalties received from the upstream sector of the petroleum industry. **The economic impact of the industrial hyperactivity in the UK sector of the North Sea, a direct result of the "lenient" terms of the 1990's, is difficult to measure**. Furthermore, the activity in the UK started in the late 1980's and early 1990's when the UK Government dropped the ring fence for the 75% PRT before Government take, as it is ordinarily measured, was drastically reduced. **The UK offshore became the most active offshore province in the world. Reducing the Government take in the following years managed to sustain that boom**. Activity and employment in the British petroleum sector is healthy and robust.."

Daniel Johnston

23 Oct 2002, Washington DC
Petroleum Tax Design

Satellite Fields Developed in Past 10 Years

Year Discovered	Satellite	First Production	Maximum Rate (mbd)	Recoverable Reserves (mmbbl)	Operator
1999	Aurora	2000	11.5	44	BP
1969	Borealis	2001	35.0	100	BP
1998	Eider	1998	2.5	4	BP
1992	Fiord	2006	25.0	50	CPAI
2000	Meltwater	2001	8.0	26	CPAI
1997	Midnight Sun	1998	8.7	21	BP
2000	Nanuq	2006	20.0	40	CPAI
1998	Orion	2003	40.0	200	BP
2001	Palm	2002	18.0	30	CPAI
1969	Polaris	1999	13.9	40	BP
1986	Tabasco	1998	7.0	25	CPAI
1991	Tarn	1998	35.1	110	CPAI
1969	West Sak	1997	8.0	35	CPAI
2002 (est)	Oooguruk	2008	18-20	75	Pioneer

LIBRARY

Testimony Regarding the Committee Substitute for SB 305,

a Petroleum Production Tax Bill

Brian Wenzel

ConocoPhillips Alaska

Before the

Senate Resources Committee

March 18, 2006

Chairman Wagoner, members of the committee:

Good morning. My name is Brian Wenzel, and I am the Vice President, Finance & Administration, for ConocoPhillips Alaska.

I would like to present ConocoPhillips' views on this committee's proposed changes to SB 305. Your Committee Substitute, if enacted into law, is going to have a negative impact on the attractiveness of Alaska for

ConocoPhillips' investment dollars. ConocoPhillips absolutely opposes this CS and any proposal that increases our industry's taxes beyond the $1 billion per year proposed by the Governor. The proposal before us today, although difficult to interpret and confusing in several places, might increase oil taxes by an annual average of more than $2.4 billion – if today's prices continue, this is $24 billion over the next 10 yrs. The approach reflected in this Committee Substitute is clearly to maximize short term State revenue while putting at risk long term production, State revenue, growth in the private sector and jobs for Alaskans. The CS you are considering destroys the balance in the original bill.

ConocoPhillips' view is that our relationship with the State is one in which we are partners that share a common, all-important goal ---- MAXIMIZING PRODUCTION in Alaska. For the State, maximized production will naturally lead to maximized state revenues and jobs. We must both strive to find ways to maintain current production, mitigate natural field production decline and where possible develop new production. In our industry, production projections and reserves can be more important than current cash flow and earnings – this is because we take a long term view about how to create value in the future regardless of our inability to predict prices. Alaska, also, needs to take a long-term view by focusing on how to motivate long term investment and increase production rather than extracting incremental short term revenue increases above and beyond the $1B already accepted by the industry.

We realize you have developed this revised bill after listening to the advice of various consultants. If we understand your consultants' testimony, they are suggesting that you can jettison the balance of the original proposal and adopt an approach like that reflected in the CS with no adverse consequence on investment. Indeed, they suggest you will actually increase investment in the State by doing so.

We also have hired a number of consultants and will use their input as we lay out for the House and Senate Finance committees the same points we were unsuccessful in demonstrating to you. However, at the end of the day neither your consultants nor ours must make or live with the decision currently before the Alaska State Legislature. Similarly, none of these consultants ever has, or ever will, make an investment decision on behalf of ConocoPhillips. To the extent your consultants are telling you that the CS you are considering will not have a negative effect on ConocoPhillips' investment decisions going forward, I can tell you they are 100% wrong.

Taking billions of dollars from our industry will have a negative impact on investment. Taking away a significant portion of the upside potential in a basin with lead times (from initial investment to first production) of a decade or more, in an area with low prospectivity and higher costs than almost anywhere in the world, will negatively affect investment – and consequently, production, state revenues and jobs. This is a natural consequence of the action you are taking.

Moreover, the negative effect on our decision-making, and on the decision-making of others, will not result *just* from the increased tax burden you are seeking to impose. There is also the question of our and others' confidence in the future investment climate in the State. Adverse changes in the key parameters of the originally proposed bill will result in a fundamental shift in the balance of risks and rewards for investments in Alaska. Unreasonable changes like those imbedded in the CS will cause not only ConocoPhillips but also other investors to question *not whether, but when,* Alaska will again change its fiscal regime and impose unfair and unreasonable burdens on those who have taken great risks and invested billions to help develop the State's resources.

It is irrelevant whether that future change will be in the State's production tax, its property tax, its corporate income tax or in the creation of some entirely new tax. The point is that investors will now need to consider another significant risk in making their economic decisions in Alaska – the risk that Alaska will not approach future fiscal policy changes in a reasonable manner that recognizes the commitment and contribution of companies like ConocoPhillips.

When you're considering how to finalize this CS, I'd encourage you to ask yourselves is Alaska getting enough industry investment today? If you don't think there's enough investment today, how can raising taxes lead to more investment? Granted, the investment incentives for exploration can be expected to garner some additional production, but that will be years away. The additional production we need to stem decline over the next several years can only come from additional investment around existing infrastructure. Raising taxes on the existing infrastructure as you're doing in this CS only deters that investment.

From our quick review of your CS, it appears that you have changed nearly every key parameter in the original bill in a decidedly one-sided manner that benefits the State and is at the expense of ConocoPhillips and the other major North Slope producers. You have destroyed the balance previously represented in the bill.

Through the CS, you propose to not only significantly increase the base PPT rate to 25% but also further increase that tax rate on the industry at all prices above $40. At current prices, depending on how we interpret the unfinished language in the CS, the additional surcharge will result i anywhere from $1.8 to $2.4 billion in tax liability for the industry over the current system. This change is neither fair nor reasonable to existing investors and will be viewed as *unfair* and *unreasonable* by potential future investors.

You have severely reduced the intended transition plan such that investors with large, recent capital investment projects (which haven't even begun producing yet) are penalized for apparently investing in Alaska *too early* and being *too optimistic* about the future of Alaska. I want to emphasize this point….this CS penalizes the very companies that have been investing, creating jobs and building the resource base in the State.

You have provided for differentially higher exploration tax credits, but as one of the few companies who have actually applied for exploration credits under the current statute, our experience is that, in fact, current regulation effectively reduces the value of these credits to 70% or less of their stated value. Further, these credits only affect about 4% of the DOR's expected future sources of production and investment in Alaska.

You have moved the effective date of this bill back to a date that is completely impractical -- the necessary regulations, procedures and computer systems can not possibly be adopted and put in place by April 1st of this year which means that production tax payers in Alaska will have to guess at their tax liability and make un-supported payments of tax in an uncertain attempt to avoid punitive interest costs.

Unfortunately, we are unable to precisely quantify the dollar impact from this CS due to the short turn around time and the fact that many of the key parameters are apparently still subject to change. However, in our view, these changes from the original bill are completely inconsistent with the goals of a fair and reasonable fiscal policy, increased long-term investment in Alaska and a vibrant, secure Alaska oil industry. We urge you to reconsider the long-term impact of this bill on future production, Alaska jobs and the future of the State Alaska generally. We urge you *not* to move this bill out of Committee until it can be re-crafted with a more balanced, long-term perspective.

Thank you for considering our views.

LIBRARY

TESTIMONY OF RICHARD OWEN

ON PROPOSED CSSB 305 TO THE SENATE RESOURCES COMMITTEE

March 18, 2006

Mr. Chairman, Members of the Committee:

Good afternoon. My name is Richard Owen and I am the Production Manager for ExxonMobil in Alaska and Vice President of ExxonMobil Alaska Production.

I am here today to express ExxonMobil's concerns with the proposed Committee Substitute to SB 305. On February 28, I testified about our key concerns with SB 305 as originally proposed. These changes exacerbate the concerns I described on February 28. Specifically, I will make comments on two areas: the proposal to change the tax rate; and the proposal around reduced transition provisions.

SB 305, as originally proposed, represented a dramatic tax increase on the industry. As I previously testified, we expressed concern that the higher tax rate included in the bill could prevent some of Alaska's challenged resources from being developed. We understand the Committee is now considering even higher tax rates.

Too high a tax rate discourages investment. Companies are willing to accept the risks of long-term, capital intensive investments when there is a corresponding opportunity for upside potential through a variety of factors, such as increased production or higher prices. When you limit or reduce the benefit that Companies can achieve from the upside factors, you reduce the attractiveness of those investment opportunities. The proposal to increase the already high base tax rate and then further increase that tax rate as oil prices rise, does reduce or limit the upside potential and will result in Companies recalibrating investment decisions. Reduced investment will result in reduced resource recovery, diminished state revenues and fewer employment opportunities, with a resultant negative impact on the state's economy. Again, let me reemphasize this point. While higher taxes may bring in additional revenues in the short-term, any reduction in investment and subsequent production will significantly impact those revenues in the longer term. We believe the focus of the tax bill should be to encourage investment and grow production.

ExxonMobil is concerned with the significant change from the ELF based system to the PPT system and the need for sufficient transition provisions to mitigate the adverse impact on recent investments. We understand the Committee is considering reducing those transition provisions. While the benefits from a typical oil and gas investment take many years to be realized, the Administration's proposed five year transition into the higher tax PPT system represented a reasonable transition. The Committee Substitute's proposed transition provisions do not sufficiently address the significant increase in tax burden these past investments will now have to bear.

Despite our concerns with SB 305 as originally proposed, we are prepared to move forward under that system since it sought to provide a balance of revenues to the state and producers across a range of oil prices, provided sufficient incentive for producers to undertake exploration and development risks, and included reasonable transition provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase.

It is important that the quality of the resources, the risks undertaken by a producer, and the impact on the state's overall investment climate be factored into the design of the tax system. While industry needs predictably and durability under which to gauge investment decisions, the attractiveness of that predictably and durability is lost if it comes at too high a cost.

As I mentioned earlier, the Committee's proposed substitute exacerbates our key concerns regarding both tax rates and transition provisions. We urge this Committee to support SB 305 as originally proposed.

Thank you again Mr. Chairman for the opportunity to testify today.

LIBRARY

CS for Senate Bill No 305 (RES)

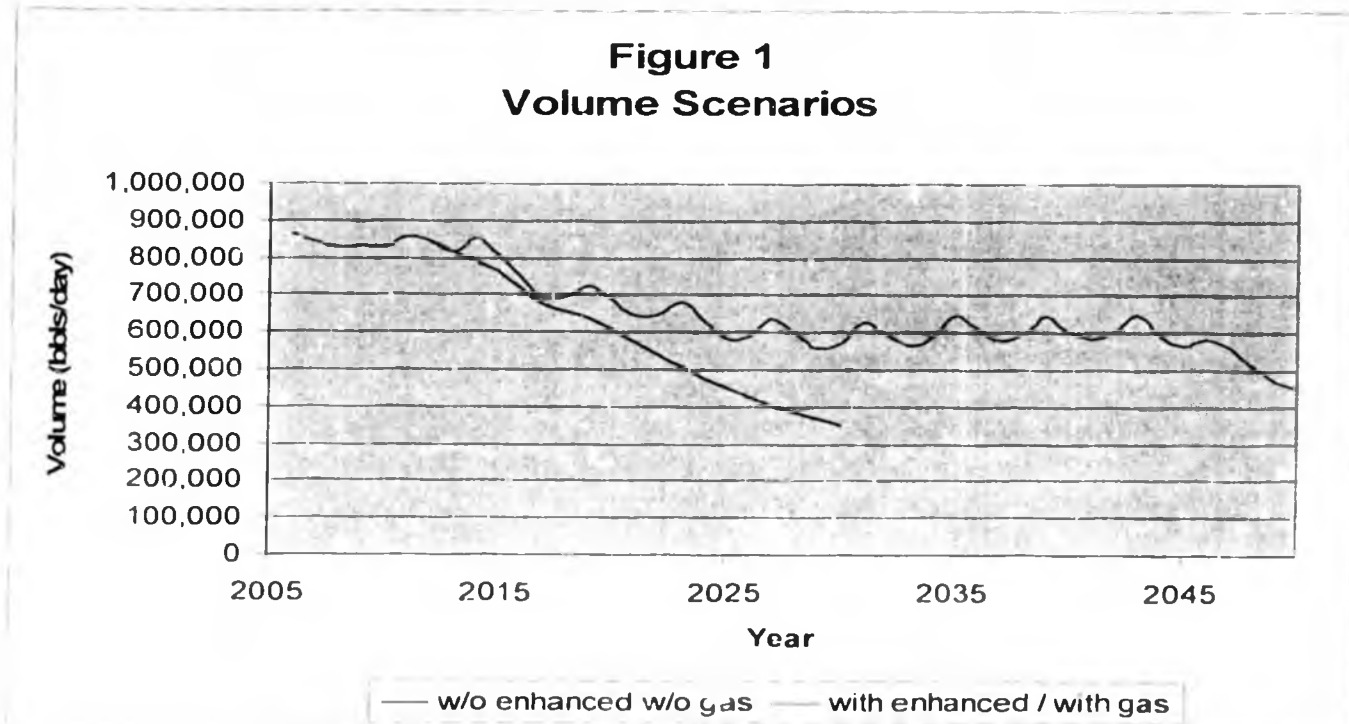
Commentary

March 18, 2006

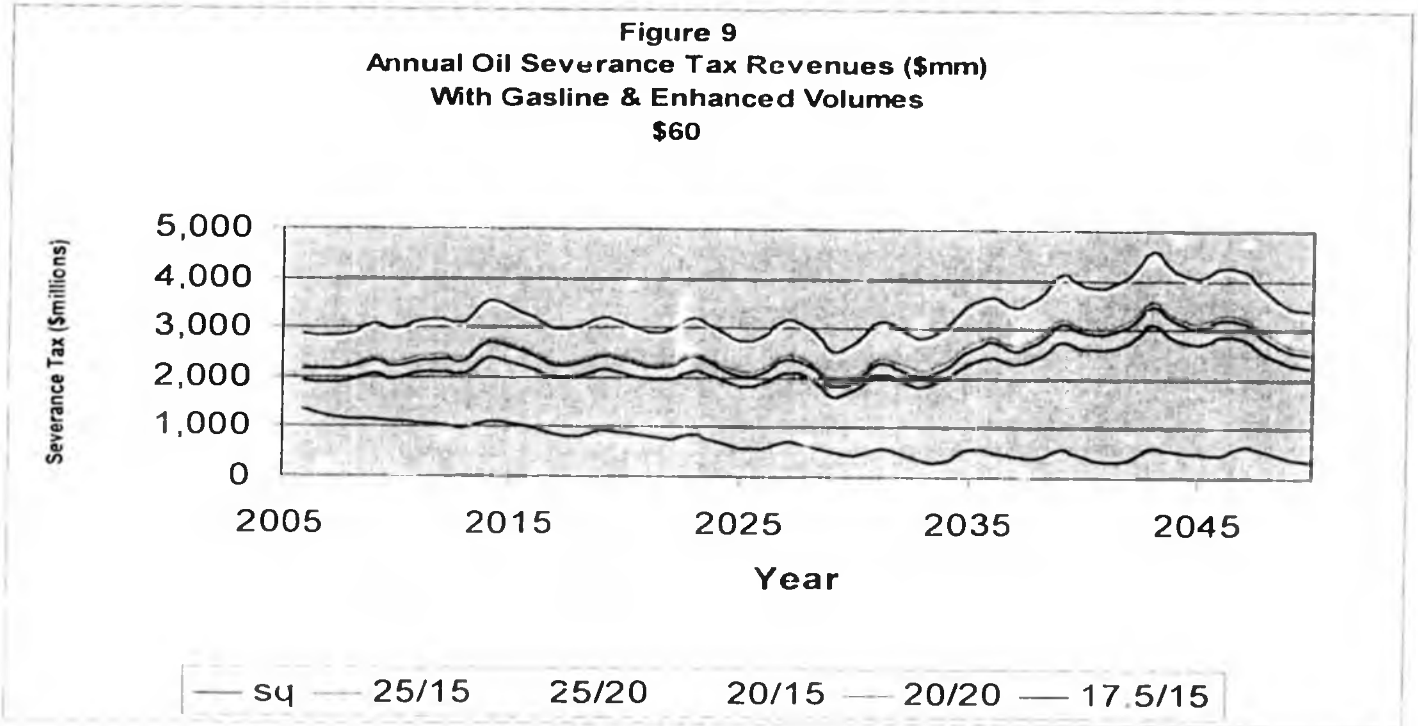
TOTAL VISION

PPT bill is the first step in a process that may lead to a stranded gas contract. The gas line in turn will significantly prolong the life of the oil pipeline and lead to considerable additional oil developments.

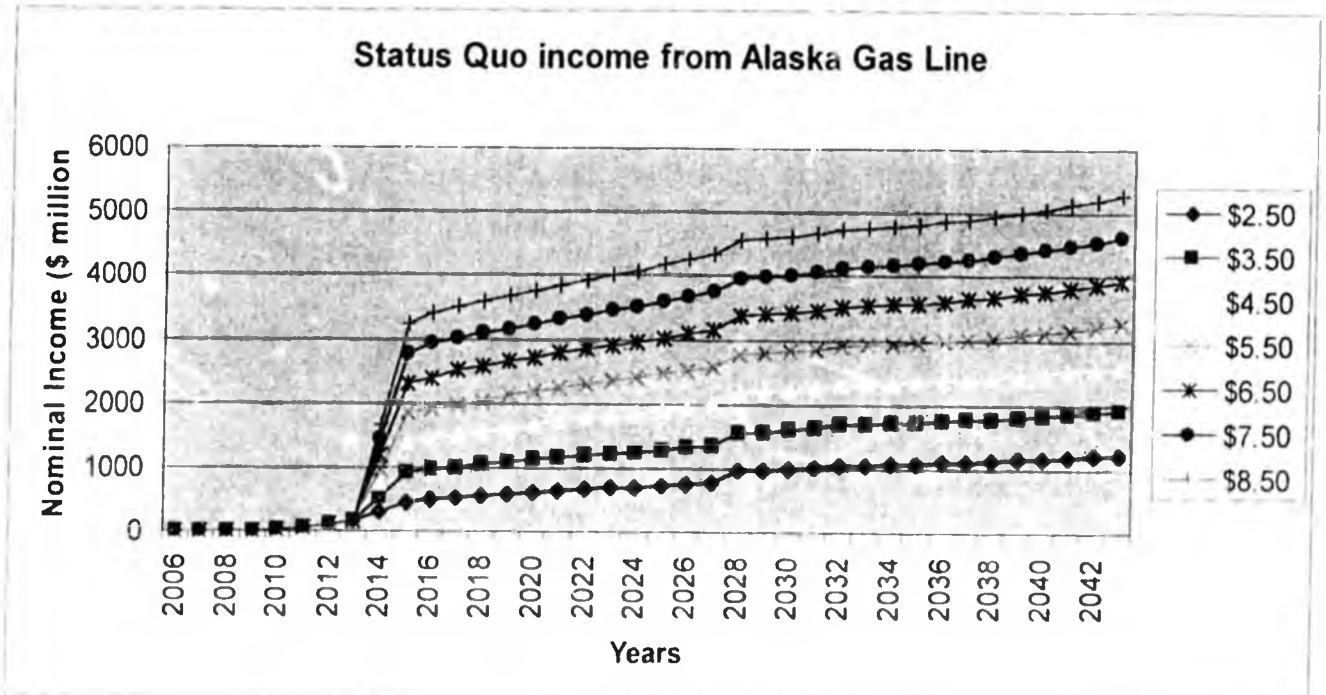
TOTAL VISION



TOTAL VISION



TOTAL VISION



Tax rate and Investment

Within the range of PPT tax rates that were evaluated, there is a relationship between level of investment and tax rate.

TAX RATE AND INVESTMENT

Large Companies

COMPETITIVENESS RATING INDEX

$36	20-20-0	25-20-0	30-20-0	30-15-0
Alaska Current	161	158	157	156
Alaska PPT	147	153	160	166
Norway	214	214	214	213
UK	63	63	63	63
US GOM	25	25	25	25
Nigeria	92	92	90	89
Alberta-Oil Sands	74	74	74	73
Angola	160	158	157	156
Russia-Sakhalin	226	226	224	224
Azerbaijan	158	157	156	155

TAX RATE AND INVESTMENT

Level of Investment

	20-20	25-20	30-20	30-15
Large Producers	more	same	less	much less
New Investors	more	more	more	more

COOK INLET

Carving out regions in Alaska from the PPT will complicate administration and creates unfair practices across Alaska.

Promotion of Exploration

20/20 rating

Overall	IRR Subtotal	NPV Subtotal	EMV Subtotal	GOV TAKE Subtotal	SUM TOTAL
Alaska Current	100	97	88	78	363
20-20-73	49	78	57	65	249
Norway	90	108	86	115	399
UK	31	30	24	52	137
US GOM	14	12	15	12	53
Nigeria	46	36	51	45	178
Alberta-Oil Sands	41	42	43	37	163
Angola	76	73	80	95	324
Russia-Sakhalin	116	103	118	108	445
Azerbaijan	97	81	98	53	329

Promotion of Exploration

The PPT bill as introduced already strongly promotes exploration. There is no need for special further features that would complicate the administration of the PPT

Small Companies

There is a need to provide long term support for small companies. These companies play a special role and often contribute significantly to the local economy.

This can be achieved:

-- with the $ 73 million allowance per company or equivalent credit, or

-- by making a level of production per company exempt from the PPT

State Owned Assets

Clause 43.55.024 (i) (3) (B) is out of place and seems to prejudge a possible stranded gas contract.

CS for Senate Bill No 305 (RES)

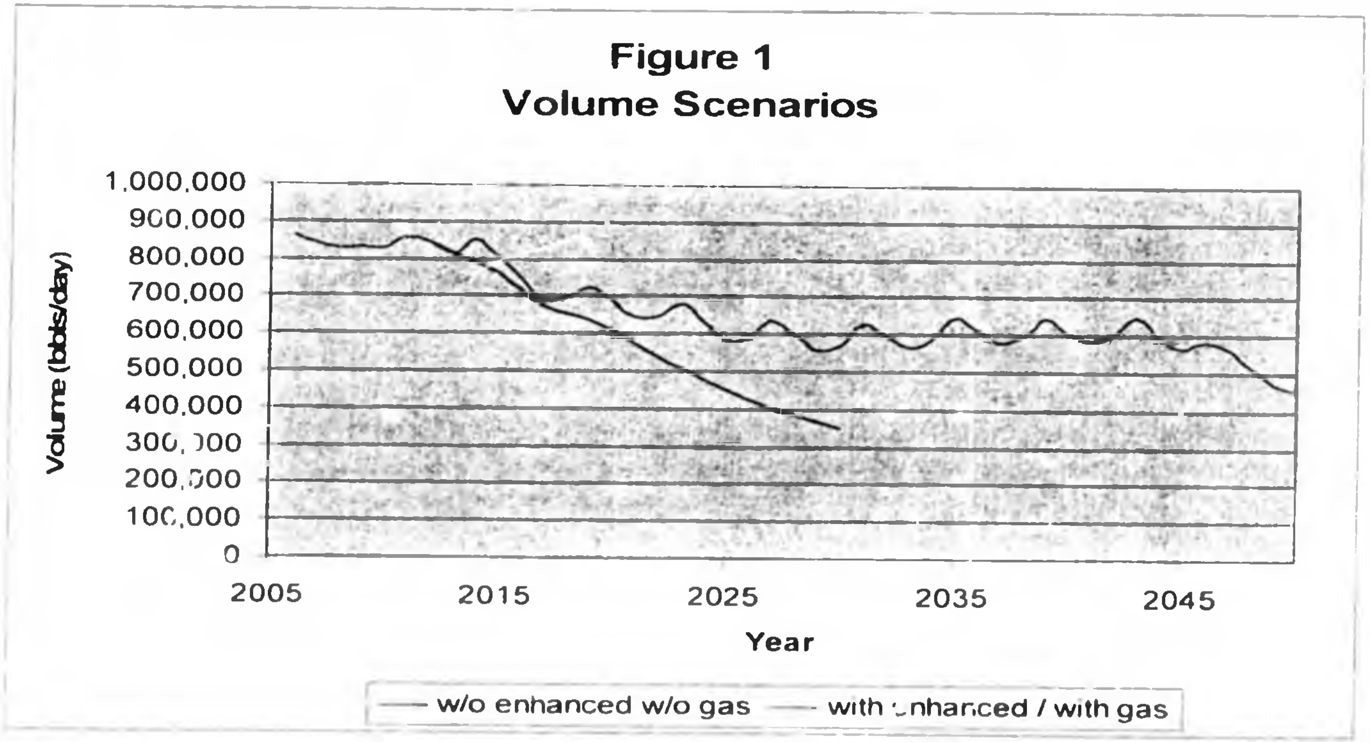
Commentary

March 18, 2006

TOTAL VISION

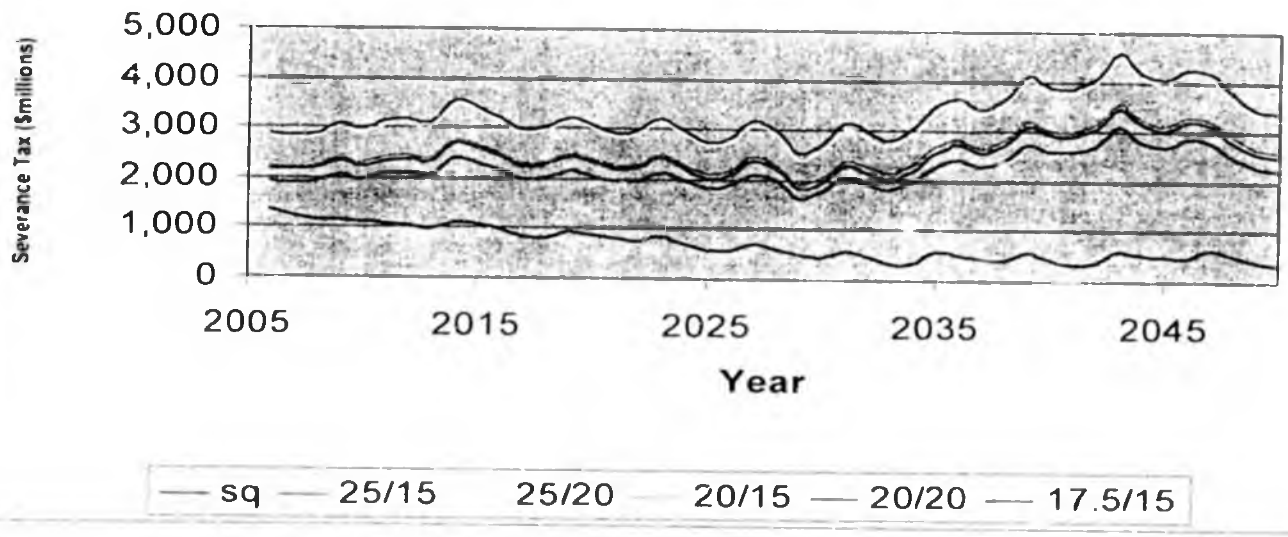
PPT bill is the first step in a process that may lead to a stranded gas contract. The gas line in turn will significantly prolong the life of the oil pipeline and lead to considerable additional oil developments.

TOTAL VISION

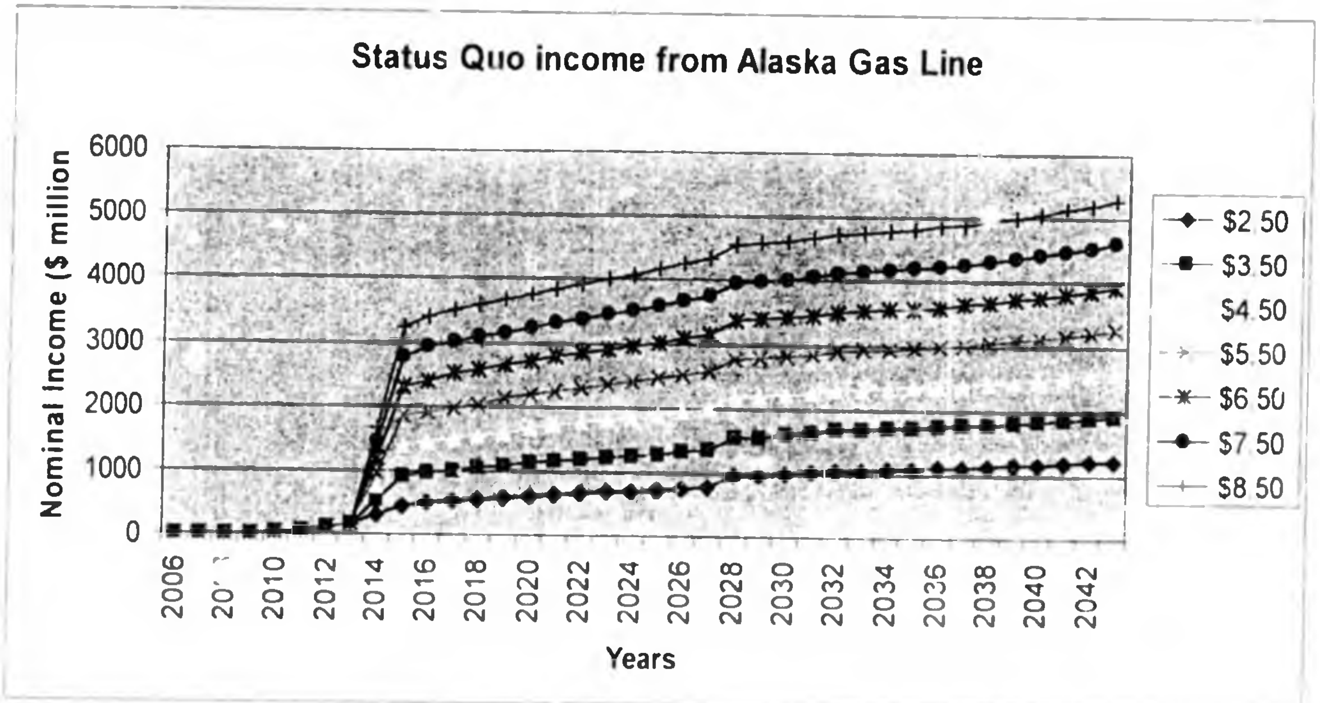


TOTAL VISION

Figure 9
Annual Oil Severance Tax Revenues ($mm)
With Gasline & Enhanced Volumes
$60



TOTAL VISION



Tax rate and Investment

Within the range of PPT tax rates that were evaluated, there is a relationship between level of investment and tax rate.

TAX RATE AND INVESTMENT

Large Companies

COMPETITIVENESS RATING INDEX

$36	20-20-0	25-20-0	30-20-0	30-15-0
Alaska Current	161	158	157	156
Alaska PPT	147	153	160	166
Norway	214	214	214	213
UK	63	63	63	63
US GOM	25	25	25	25
Nigeria	92	92	90	89
Alberta-Oil Sands	74	74	74	73
Angola	160	158	157	156
Russia-Sakhalin	226	226	224	224
Azerbaijan	158	157	156	155

TAX RATE AND INVESTMENT

Level of Investment

	20-20	25-20	30-20	30-15
Large Producers	more	same	less	much less
New Investors	more	more	more	more

COOK INLET

Carving out regions in Alaska from the PPT will complicate administration and creates unfair practices across Alaska.

Promotion of Exploration

20/20 rating

Overall	IRR Subtotal	NPV Subtotal	EMV Subtotal	GOV TAKE Subtotal	SUM TOTAL
Alaska Current	100	97	88	78	363
20-20-73	49	78	57	65	249
Norway	90	108	86	115	399
UK	31	30	24	52	137
US GOM	14	12	15	12	53
Nigeria	46	36	51	45	178
Alberta-Oil Sands	41	42	43	37	163
Angola	76	73	80	95	324
Russia-Sakhalin	116	103	118	108	445
Azerbaijan	97	81	98	53	329

Promotion of Exploration

The PPT bill as introduced already strongly promotes exploration. There is no need for special further features that would complicate the administration of the PPT

Small Companies

There is a need to provide long term support for small companies. These companies play a special role and often contribute significantly to the local economy.

This can be achieved:

-- with the $ 73 million allowance per company or equivalent credit, or

-- by making a level of production per company exempt from the PPT

State Owned Assets

Clause 43.55.024 (i) (3) (B) is out of place and seems to prejudge a possible stranded gas contract.

CS for Senate Bill No 305 (RES)

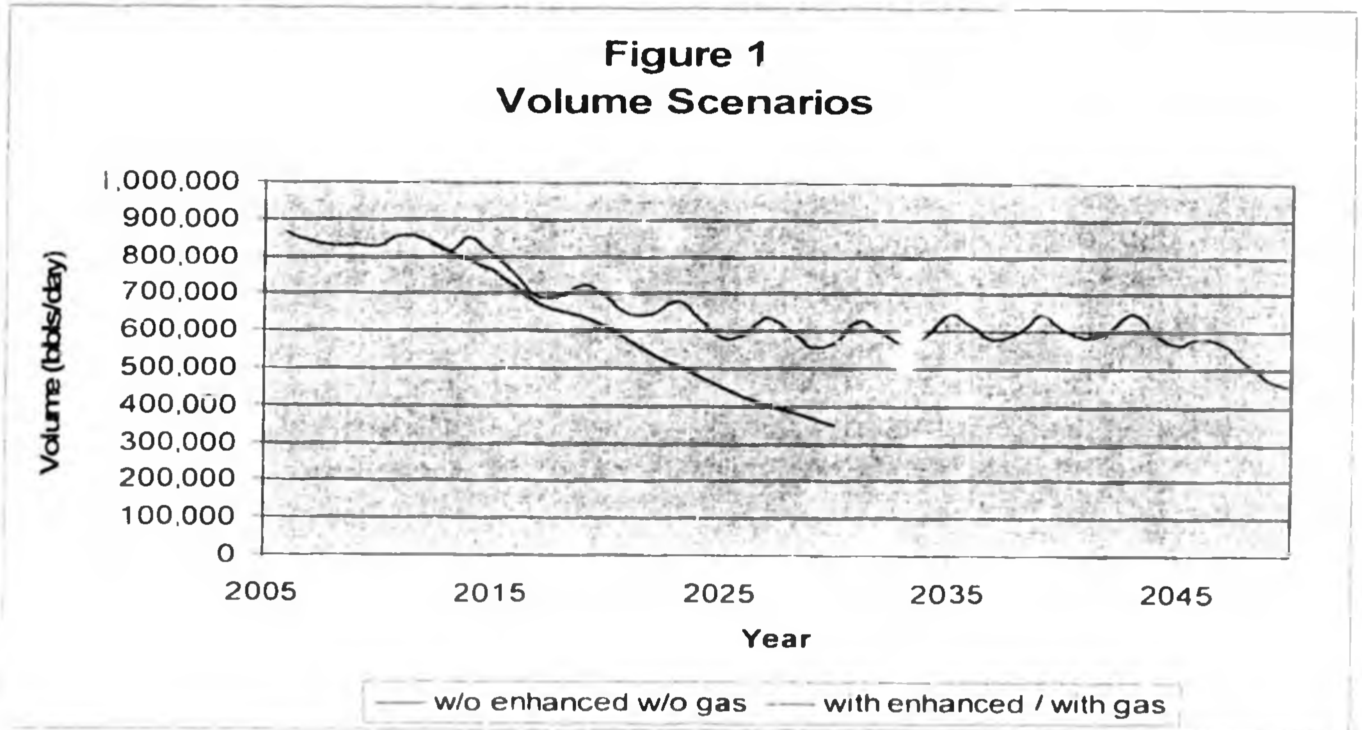
Commentary

March 18, 2006

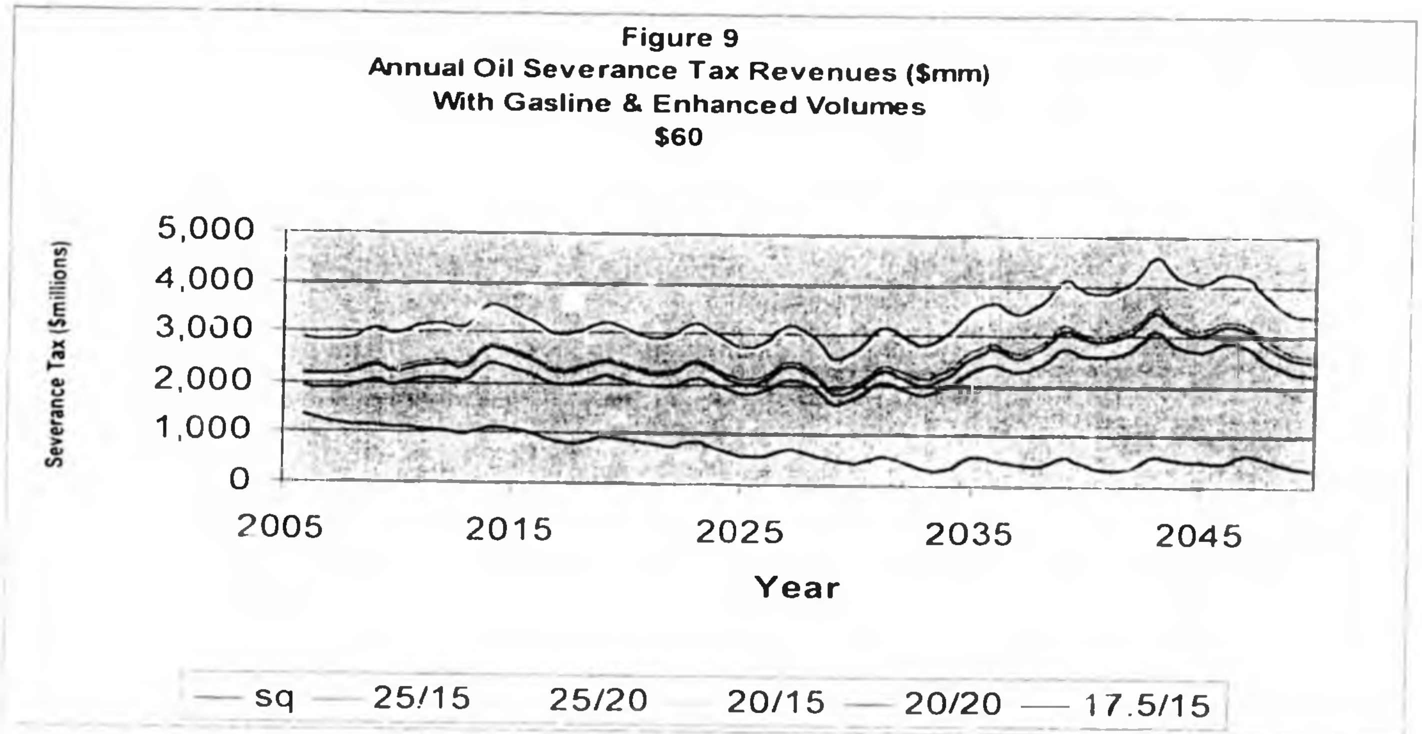
TOTAL VISION

PPT bill is the first step in a process that may lead to a stranded gas contract. The gas line in turn will significantly prolong the life of the oil pipeline and lead to considerable additional oil developments.

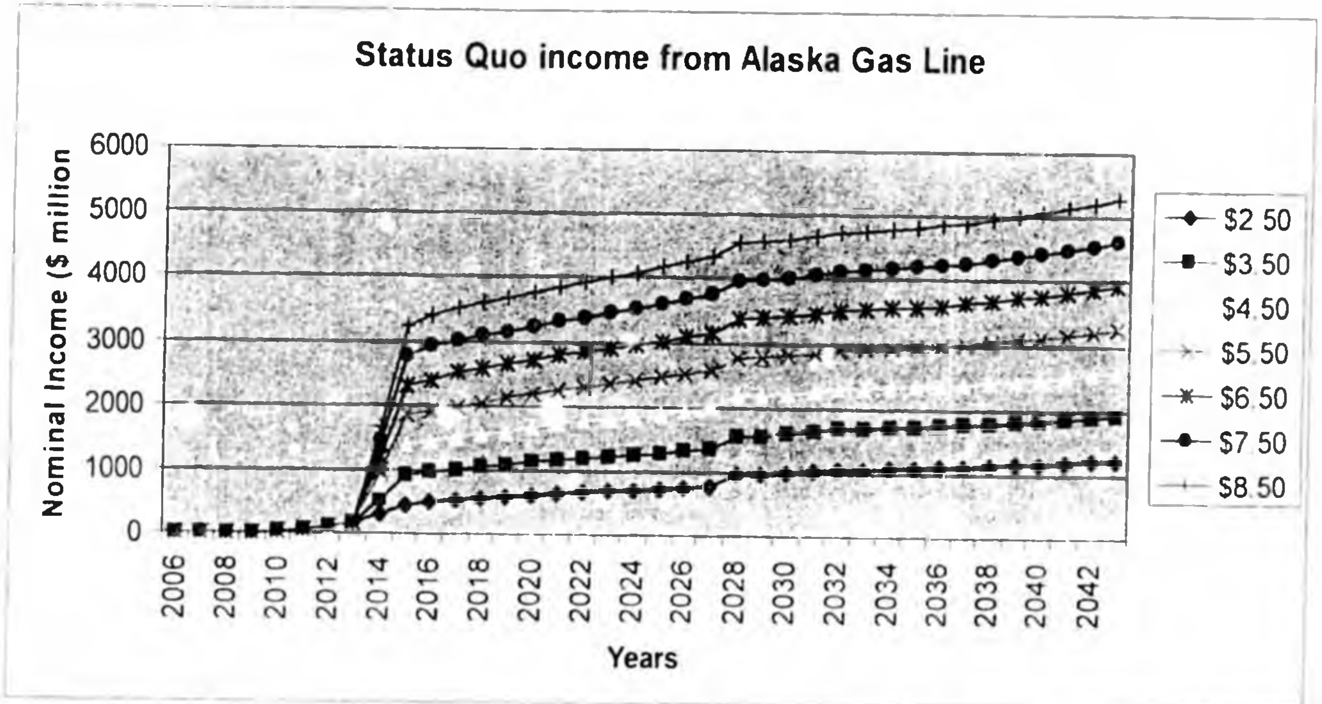
TOTAL VISION



TOTAL VISION



TOTAL VISION



Tax rate and Investment

Within the range of PPT tax rates that were evaluated, there is a relationship between level of investment and tax rate.

TAX RATE AND INVESTMENT

Large Companies

COMPETITIVENESS RATING INDEX

$36	20-20-0	25-20-0	30-20-0	30-15-0
Alaska Current	161	158	157	156
Alaska PPT	147	153	160	166
Norway	214	214	214	213
UK	63	63	63	63
US GOM	25	25	25	25
Nigeria	92	92	90	89
Alberta-Oil Sands	74	74	74	73
Angola	160	158	157	156
Russia-Sakhalin	226	226	224	224
Azerbaijan	158	157	156	155

TAX RATE AND INVESTMENT

Level of Investment

	20-20	25-20	30-20	30-15
Large Producers	more	same	less	much less
New Investors	more	more	more	more

COOK INLET

Carving out regions in Alaska from the PPT will complicate administration and creates unfair practices across Alaska.

Promotion of Exploration

20/20 rating

Overall	IRR Subtotal	NPV Subtotal	EMV Subtotal	GOV TAKE Subtotal	SUM TOTAL
Alaska Current	100	97	88	78	363
20-20-73	49	78	57	65	249
Norway	90	108	86	115	399
UK	31	30	24	52	137
US GOM	14	12	15	12	53
Nigeria	46	36	51	45	178
Alberta-Oil Sands	41	42	43	37	163
Angola	76	73	80	95	324
Russia-Sakhalin	116	103	118	108	445
Azerbaijan	97	81	98	53	329

Promotion of Exploration

The PPT bill as introduced already strongly promotes exploration. There is no need for special further features that would complicate the administration of the PPT

Small Companies

There is a need to provide long term support for small companies. These companies play a special role and often contribute significantly to the local economy.

This can be achieved:

-- with the $ 73 million allowance per company or equivalent credit, or

-- by making a level of production per company exempt from the PPT

State Owned Assets

Clause 43.55.024 (i) (3) (B) is out of place and seems to prejudge a possible stranded gas contract.