

SB

305

(FILE 17)

CS for Senate Bill No 305 (RES)

Further Commentary

March 20, 2006

2 for 1 system

2 for 1 concept of Investment Recovery based on 20/20 system (\$ million)

	2006	2007	2008	2009	2010	2011	2012	Total	Recovery percentage	Average Tax Credit
Price Floor	\$40.00	\$40.80	\$41.62	\$42.45	\$43.30	\$44.16	\$45.05			
Actual Price	\$60	\$55	\$52	\$39	\$41	\$46	\$49			
Company A										
Previous Investments	1800									
Investments	400	600	800	600	800	1000	1200	5400		
Investment Recovery	200	300	400	0	0	500	400	1800	100.0%	
Tax Credits	200	300	400	240	320	500	560	2520		46.7%
Net Investment	200	300	400	360	480	500	640	2880		
Company B										
Previous Investments	500									
Investments	200	400	600	600	700	600	600	3700		
Investment Recovery	100	200	200	0	0	0	0	500	100.0%	
Tax Credits	100	200	280	240	280	240	240	1580		42.7%
Net Investment	100	200	320	360	420	360	360	2120		
Company C										
Investments	1500									
Investments	200	300	200	200	200	200	200	1500		
Investment Recovery	100	150	100	0	0	100	100	550	36.7%	
Tax Credits	100	150	100	80	80	100	100	710		47.3%
Net Investment	100	150	100	120	120	100	100	790		

Rating at \$ 46 per barrel

large Companies

	\$26 20-20-0	\$36 20-20-0	\$26 25-20-0	\$36 25-20-0	
Alaska Current	196	161	193	158	regressive
Alaska PPT	154	147	158	153	neutral
No way	182	214	181	214	progressive
UK	68	63	68	63	neutral
US GOM	27	25	27	25	regressive
Nigeria	80	92	80	92	progressive
Alberta-Oil Sands	80	74	80	74	neutral
Angola	151	160	151	158	progressive
Russia-Sakhalin	214	226	214	226	progressive
Azerbaijan	168	158	168	157	U-shape

Costs included in 20% tax credit

Capital costs that will be subject to a 20% tax credit:

- Geophysical surveys
- Exploration Wells
- Development Wells (incl. intangible costs).
- Field facilities (tanks, separators, etc.)
- Gas processing plants

Cook Inlet feature

Provide a tax free allowance for each company based on barrels of oil equivalent per day.

In order to ensure that it would only apply to small companies, the amount of the allowance could be determined on the basis of the following formula:

$$\text{Boepd} = 5000 - (\text{Prod} - 5000) \times 0.1$$

Amount cannot be more than 5000 or less than 0

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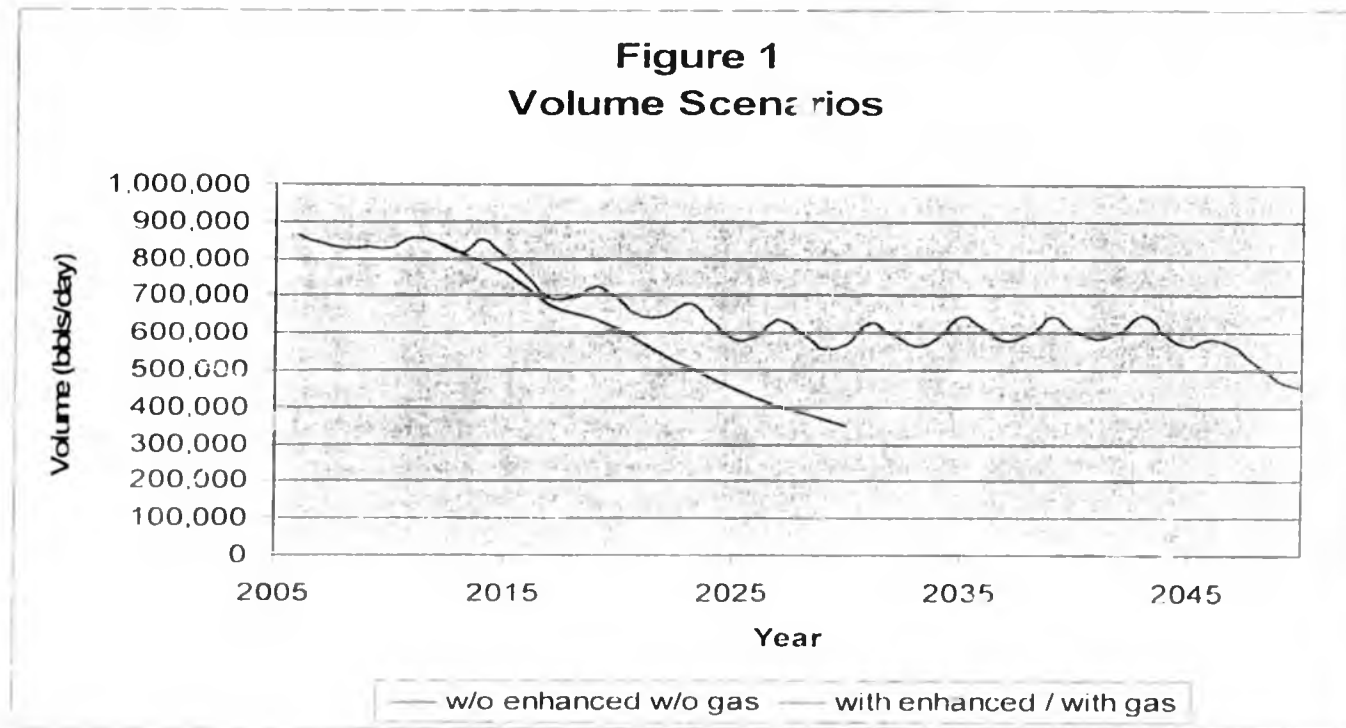
Commentary

March 18, 2006

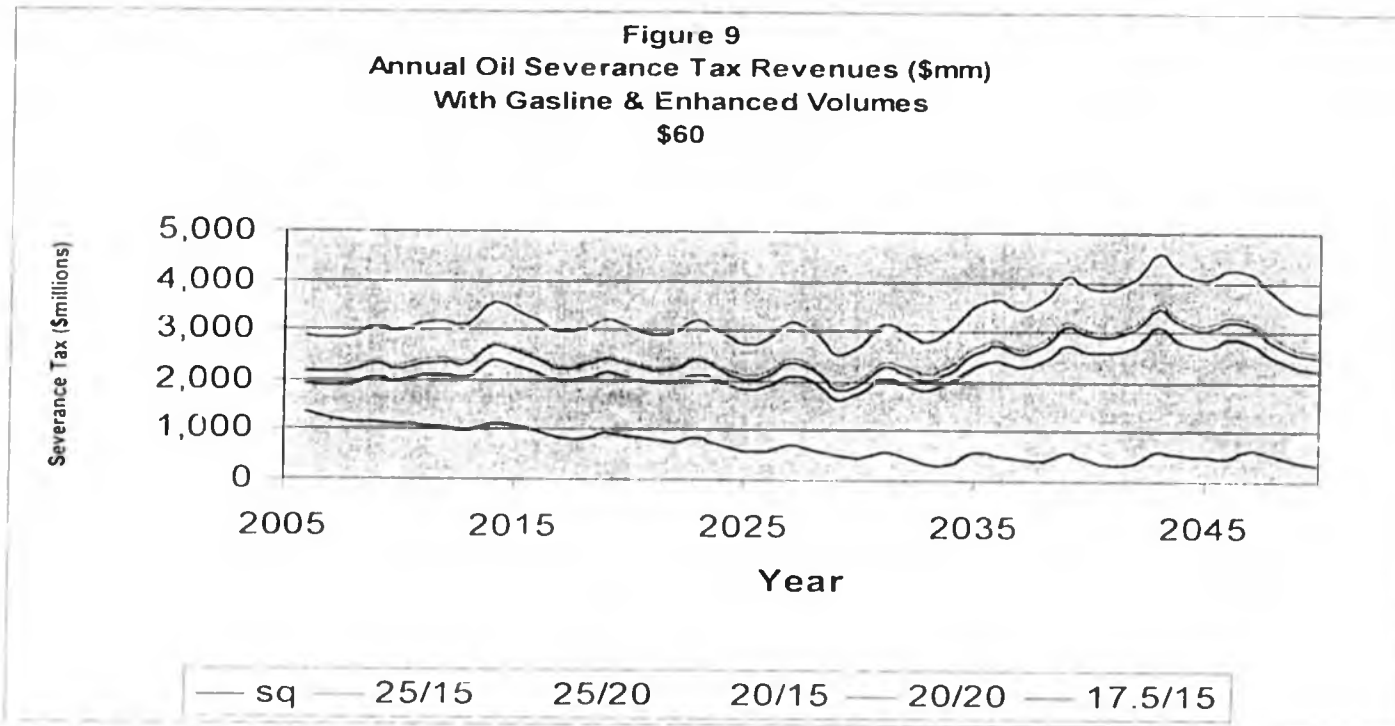
TOTAL VISION

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.

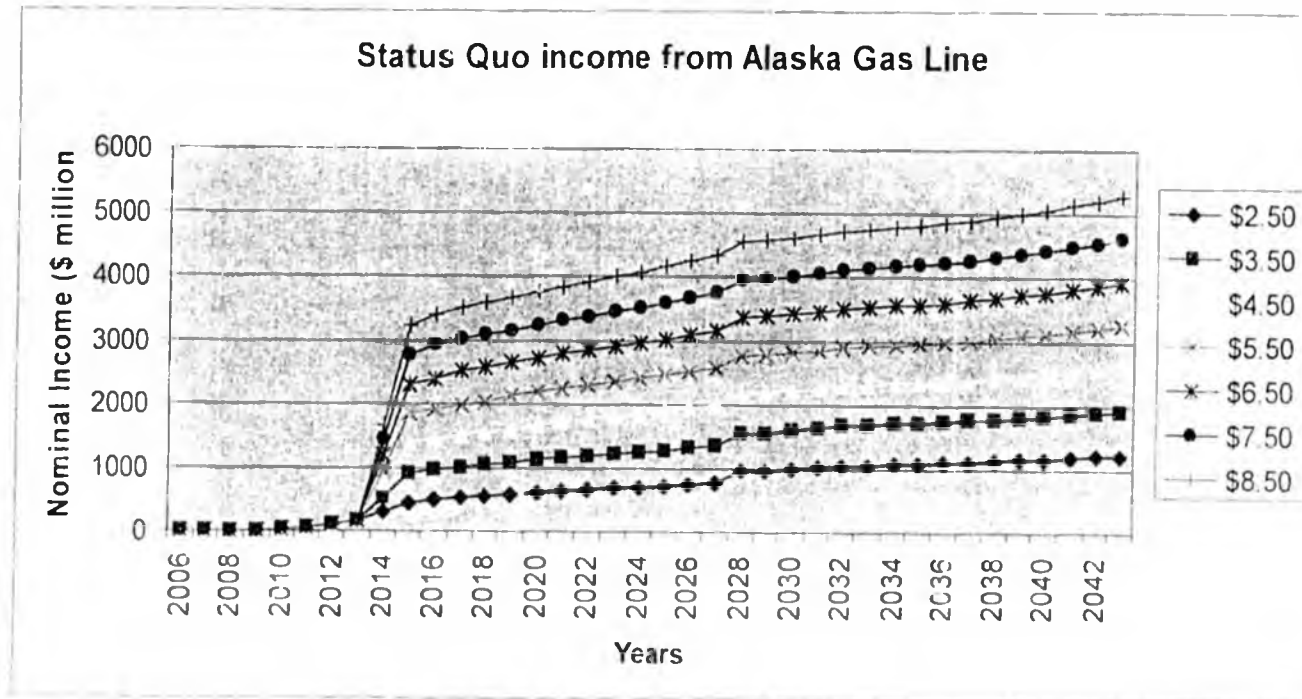
TOTAL VISION



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.

ALASKA LEGISLATURE - LEGISLATIVE AFFAIRS AGENCY - ONLINE TELECONFERENCE ORDER FORM

Note: All Fields Must Be Completed

New Meeting Update to an existing meeting Cancel Meeting

Sponsor and/or Committee Name:

Date of Teleconference:

Start Time: End Time:

Chairing Site: Juneau Room:

Testimony: Yes No Invitation Only N/A

Testimony Time Limit: 1 min 2 min 3 min 5 min no time limit other - see instructions

Will there be an Executive Session during this meeting? Yes No

Contact Person

Telephone Number

Email Address

LIO sites: Anchorage Barrow Bethel Cordova Delta Junction Dillingham Fairbanks Glennallen Homer Juneau Kenai Ketchikan Kodiak Kotzebue Matsu Nome

Other sites may add? Yes No

Offnet Name (s)

Please list all offnet callers

- Petersburg
- Seward
- Sitka
- Tok
- Valdez
- Wrangell
- No LIOs

Subject of meeting and/or Bills on Agenda

Monday	March 20:	3:30 pm Room 205	
		SB 305 Oil and Gas Production Tax	
		Public Hearing - testimony limited to 3 minutes person; 5 minutes for a group's representative	
Tuesday	March 21:	3:30 pm Room 205	
		SB 305 Oil and Gas Production Tax (invited testimony only)	

VIDEO CONFERENCING - Video Conferencing is available in the Juneau, Anchorage and Fairbanks Legislative Information Offices. For more information or to schedule a video conference call the Juneau LIO at (907) 465-4648.

**Testimony of James D. Weeks
On CS for SB 305
Oil and Gas Production Tax
Alaska State Senate Resources Committee**

20 March, 2006

Mr. Chairman, distinguished members of the Senate Resources Committee. My name is Jim Weeks, and I am here today representing UltraStar Exploration LLC, based in Anchorage, with offices at 3111 C Street, Suite 500. Thanks for the opportunity to testify on this important legislation again.

I want to make a few brief comments on the Committee Substitute: I've seen two options being proposed to replace the \$73 million allowance. UltraStar prefers Option 2, which eliminates the \$40/barrel oil price ceiling above which the exemption would not apply. It seems that if the legislature is willing to grant a 10,220,000 barrel per new field exemption, then it shouldn't matter how fast that exemption is recovered, and sooner is better than later for industry. I also hear that the Committee may be considering an increase of the 4000 barrels per day to 5000, and lifting the total of the exemptions to a corresponding 12,775,000 barrels. This is more consistent with the Administration's initial proposal, and is a change I encourage you to make.

I question the need for a 7 year time limit after which the tax exemption will expire. Again, it seems if you're willing to grant a 10 or 13 million barrel exemption, then there is no need for a time limit, and we recommend that it be deleted. Industry will do everything economically feasible to use up the exemption as soon as possible, but well productivity and conservation issues may not allow for that to be the case in all instances.

Both options to replace the \$73 million allowance name the Alaska Oil and Gas Conservation Commission (AOGCC) as being the "referee" to resolve disputes about what constitutes an oil and gas field or unit. We agree with the selection of the AOGCC for this role, but recommend you clarify your intent regarding eligibility for the 4000 barrels per day exemption described in the first three lines of Section 21(i). In addition to providing incentives and tax exemptions for the drilling of new field wildcats, if the Committee wants every company, large and small, current producer, or wannabes like us, to be poking around the fringes of existing reservoirs, as well as looking deeper and shallower within the boundaries of existing units; then I suggest the following:

When the PPT becomes effective, establish a "ring fence" around existing, producing units. Current production from these units would not receive the 4000 barrel per day exemption. If peripheral drilling outside of that ring fence confirms commercial hydrocarbons and justifies unit expansions, then those expanded

areas should be eligible for the tax exemptions and exploration and development credits contemplated in CSSB 305. Deeper and shallower accumulations, drilled within existing units after July 1, 2006, should also be eligible. If the current producing unit owners receive a 4000 barrel per day exemption on current production, which means very little to them, they have will no additional incentive to push the envelope. If however, the exemption applies only to new production within an existing or expanded unit, it provides a meaningful incentive.

Lastly, I'd like to register my support of Dr. Van Meurs "Two for One System" that he summarized on March 18.

Thanks for the opportunity to testify at this important proceeding.

James D. Weeks
Managing Member
UltraStar Exploration LLC
907-258-2969

Mary Jackson

From: Wayne Stevens [wstevens@alaskachamber.com]
Sent: Monday, March 20, 2006 7:19 PM
To: Mary Jackson
Subject: Testimony for CSSB 305

Attachments: Wayne A. Stevens.vcf; testimony for CSSB 305 PPT.doc



Wayne A. Stevens.vcf (808 B) testimony for CSSB 305 PPT.doc...

Ms. Jackson,

At the request of Senator Waggoner, I am forwarding my comments presented at the Senate Resources Committee meeting this afternoon.

Regards
Wayne

Wayne A. Stevens
President/CEO
Alaska State Chamber of Commerce
217 Second St., Suite 201
Juneau, Alaska 99801
907-586-2010

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The Alaska State Chamber of Commerce supports a revision to the current Alaska oil & gas production tax. We also support a change in production tax, to a net profit tax with tax incentives for oil & gas exploration and reinvestment.

Through the PPT legislation, the Legislature has the opportunity to help define the pace of North Slope oil production for both the near- and long-term.

While the oil and gas industry in the State appears to be generally supportive of the Governor's 20/20 oil tax proposal, the State Chamber stands firm with its traditional position that any increase in taxes needs to be carefully scrutinized for detrimental impacts on investment in the State.

If the Legislature chooses a tax rate that is higher than that proposed by the Governor, the Chamber has concerns about the impact on exploration and other investment, job growth and economic development in the State. We believe higher taxes could accelerate the rate of production decline, with even greater impact on jobs and economic growth in the State.

The Chamber is concerned that calls for a greater tax take from the oil and gas industry may result in damage to the long-term future for Alaskans in favor of a short term unsustainable revenue gain.

Current North Slope production is not declining because taxes are too low.

While the Legislature addresses an increase in oil taxes, the Chamber recommends they also consider developing a long-term state fiscal plan that would make Alaska a more stable economy attractive to private sector investment.



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

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 Senator Tim Stevens
 Senator Lisa Murkowski
 Congressman Don Young
 Governor Frank Murkowski

March 20, 2006

Senator Tom Wagoner
 Chair, Senate Resources Committee
 Alaska State Legislature
 State Capitol
 Juneau, AK 99801-1182

Re: CSSB 305 – Petroleum Production Tax

Dear Senator Wagoner:

On behalf of the Resource Development Council for Alaska, Inc., (RDC), I am writing to provide comments on the Committee Substitute (CS) to Senate Bill 305.

RDC is a private, non-profit business association comprised of individuals and leading companies from Alaska's oil and gas, mining, forest products, fisheries and tourism industries. The association's membership also includes construction companies, local communities, Native corporations, organized labor and a wide range of industry-support firms. RDC's mission is to grow Alaska's economy through the responsible development of the state's natural resources.

There is a strong consensus among our oil and gas members, both large and small, that the Legislature is moving in the wrong direction with the Governor's proposed petroleum production tax. Even our members outside the oil patch fear the legislation would enact a new tax regime with massive potential long-term consequences to the well-being of Alaska's largest industry, the state's general fund and the economy.

The proposed legislation targets the one industry already responsible for providing nearly 90 percent of Alaska's general fund revenues through taxes and royalties during a time when the state is already experiencing budget surpluses and does not have a long-term plan in place to manage the money going forward. RDC has been working with other business, community and social service organizations in advocating for the development of a long-term state fiscal plan for nearly a decade. We have argued the state must do more to bring recurring revenues in line with expenditures in order to achieve tax stability and create a positive and predictable business climate. How the state manages surplus revenues is as important as managing deficits when it comes to accomplishing these policy goals.

A major concern of our members is that the committee substitute appears to have an increasing concentration on short-term revenues for the state, but potentially at the expense of the long-term investment needed to slow the decline in oil production. By jeopardizing investment, the bill puts at risk long-term production and corresponding state revenues. Approximately half of the production currently forecasted over the next



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

decade directly hinges on new investments yet to be committed by industry. Unless additional investments are made, the decline will continue at the current rate and state revenues will fall short of projections. Alaska needs more industry investment to slow the decline, not the same or less.

The tax regime ultimately approved by the Legislature will directly impact how attractive Alaska is for investment, and that in turn will have a direct impact on declining production. RDC believes it is in the best interest of Alaska to focus on production – growing the pie – rather than increasing the state take from a sharply declining production curve. Greater investment means higher production, which will result in increased revenues to the state over a longer period of time.

Almost every proposed change in the committee substitute amounts to an increase in government take on the industry when compared with the Governor's original proposal and will not help attract the additional investment to maximize resource production.

In conclusion, RDC is concerned the committee substitute will put Alaska at a competitive disadvantage, given its challenged resource base, high cost environment, distance to market and the urgent need to attract very large amounts of capital to slow the decline in production. If enacted, the committee substitute will leave Alaska with the highest cost structure in the United States, when total government take (federal, state, local) and operating costs are factored into the investment equation.

The challenge for the Legislature is to strike the proper balance between Alaska getting its appropriate share of the wealth generated by its own resources and providing the fiscal certainty necessary to encourage the investment required to turn those resources into wealth. We believe the direction the legislature is moving with regard to the Governor's original proposal will discourage investment and elevate the risk to long-term production and revenue.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
For Alaska, Inc.

Tadd Owens
Executive Director

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1) Call to Order – note time – note members present

Bring attention of committee to memo from me laying on the procedure on amendments and also added info on proposed amendments.

2) Today we have a public hearing and then we will continue with questions from Pedro van Muers.

3) We will distribute the memo to legal on the amendments by 5pm today.

We will NOT have a meeting tomorrow, so everyone can consider what amendments are being offered and what amendments you may wish to offer.

4) Meeting adjourned at ____.

Put (2) concepts into the CS

Pedro: ① 2/1 working now [NON SALEABLE]
② drafting memo now on \$000