

**SB**

**2001**

**(FILE 27)**

**FINEBERG**

Transportation  
Talking points

## Amendments to AS 43.55.150<sup>1</sup>

### General Comments

→ The following changes to existing production tax statute dealing with transportation deductions will enable ADOR to reduce the deduction for TAPS tariffs for shippers operating at less than arm's length without similarly penalizing independent shippers or producers, and without creating problems for tanker auditors.

→ The effect of this amendment will be to increase production tax revenues by an estimated \$100 million to \$160 million per year, depending on throughput levels, filed tariffs and prices. That money will come to the state treasury from the major owners of TAPS, who will still be earning a just and reasonable profit on their pipeline investment.

→ In addition to generating general fund revenue, this amendment will send a signal that the state is truly committed to leveling the North Slope playing field for independent developers.

### Background

The amendments to AS 43.55.150(a) and (b), as discussed and passed by both the House Resources and Senate Judiciary Committee and forwarded to their respective Finance Committees, would prevent TAPS owners shipping their own oil from taking a high deduction for transportation when they actually incur much lower costs for shipping their own oil.<sup>2</sup> The higher transportation deduction results in significantly lower production tax payments to the state for the shipper/owner, costing the state an estimated \$160 million per year at current pipeline throughput and tariff levels.<sup>3</sup> Subsequent to passing out of both committees, the administration recognized the need for the addition of clarifying language to assure that these amendments accomplished their purpose; that language was added to the existing statutory language on the attached draft.

### Final Comment

Since 2002, regulatory and court decisions that have consistently confirmed that the state has lost more than \$2 billion during the 30-year history of TAPS;<sup>4</sup> as noted above, the administration estimates that the state stands to gain \$160 million / year through the proposed correction to the PPT. As a matter of fairness – and, more importantly, to encourage independent development – I believe it is important to enact the appropriate statutory fix to remedy the aspects of this problem relating to the PPT during this Special Session.

<sup>1</sup> Attached amendment contains all of the administration's recommended modifications to AS 43.55.150.

<sup>2</sup> Secs. 52 and 53 of CSSB 2001(JUD) (version 25-GS0014L) and Secs. 48 and 49 of CSHB 2001(RES).

<sup>3</sup> Estimate by Antony Scott, Department of Natural Resources, to Senate Judiciary Committee, Oct. 30, 2007. The reduction in production tax payments due to tariff overcharges accrues to the TAPS owners – not to the independent producer or shipper (see spreadsheets attached to my memos of Oct. 29 [rev5] and Nov. 5, 2007).

<sup>4</sup> References to source information on historical and current TAPS tariff issues can be found at <http://www.finebergresearch.com>.

AS 43.55.150(a) is amended to read:

(a) For the purposes of AS 43.55.011 - 43.55.180, the gross value at the point of production is calculated using the reasonable costs of transportation of the oil or gas. The reasonable costs of transportation are the actual costs, except when the

(1) shipper [PARTIES TO THE TRANSPORTATION] of oil or gas is [ARE] affiliated with the transportation carrier or with a person that owns an interest in the transportation facility;

(2) contract for the transportation of oil or gas is not an arm's length transaction [OR IS NOT REPRESENTATIVE OF THE MARKET VALUE OF THAT TRANSPORTATION]; or [AND]

(3) method or terms of transportation of oil or gas is not reasonable in view of existing alternative [METHODS OF] transportation options.

AS 43.55.150(b) is amended to read:

(b) If the department finds that a condition [THE CONDITIONS] in (a)(1), (2), or [AND] (3) of this section is [ARE] present, the department shall determine the reasonable costs of transportation, if lower than actual costs, using the fair market value of like transportation, the fair market value of equally efficient and available alternative modes of transportation, or other reasonable methods; for marine transportation, the department may determine that reasonable costs are actual costs. Transportation costs fixed by tariff rates that have been adjudicated as just and reasonable by [PROPERLY ON FILE WITH] the Regulatory Commission of Alaska or other regulatory agency and transportation costs paid by parties not affiliated with an owner of the method of transportation in an arm's length transaction shall be considered prima facie reasonable.

Note: The phrases "for marine transportation, the department may determine that reasonable costs are actual costs" and "and transportation costs paid by parties not affiliated with an owner of the method of transportation in an arm's length transaction" have been added to earlier drafts to accommodate concerns recently expressed. - Nov. 11, 2007

### **What We Know about Petroleum Pipeline Tariff Levels (Historical Lessons)**

With 95% overlap between Major Producers and Major TAPS Owners, the state's tax and royalty structure creates incentive to inflate tariffs

Excessive tariffs create two classes of producers on the North Slope:

- independents (non-pipeline owners), who are severely handicapped by excessive tariffs;
- TAPS owners, who are not.

Due to its royalty and tax interest in tariffs, the State is also severely penalized by inflated tariffs.

Litigation is a flawed but potentially effective means to deal with these problems. Litigation success – defined as an appropriate outcome – is problematical. Moreover, tariff litigation is liable to take 10 years to complete.

- Independent shippers may lack the standing or the resources to challenge excessive tariffs.
- Historically, state participation in litigation has been less than effective due to agency structure and workload and political vicissitudes.

### **Petroleum Pipeline Tariff Levels Today (Current Situation)**

In 2002, the RCA culminated a 6-year challenge to TAPS tariffs by independent shipper Tesoro with an order reducing tariffs under the 1985 TAPS Settlement Methodology (TSM) from approximately \$3.05/bbl. to \$1.96/bbl. The RCA ruling rendered the 1985 TSM irrelevant to current rates for oil under its jurisdiction – approximately 11% of the oil shipped on TAPS.

Although the state was publicly committed to standing "in the shoes" of the shippers, in 2004, the State, which had opposed Tesoro's efforts for seven years, joined the owners in a court challenge to the RCA ruling; in 2006, State Superior Court ruled in favor of the RCA "in every respect." That ruling was challenged by the TAPS owners before the State Supreme Court, which heard the argument in March 2007.

Meanwhile, under the TSM methodology, the TAPS Owners have increased tariffs on the remaining 89% of TAPS oil to approximately \$5.11/bbl.

Independent Shippers Anadarko and Tesoro have appealed the tariff at FERC; the FERC Trial Staff supported the A/T position; in May 2007, the FERC Administrative Law Judge (ALJ) hearing the case adopted A/T numbers and recommended the FERC reduce tariffs to approximately \$2.04/bbl.

Meanwhile, the higher tariffs remain in place for 89% of TAPS oil – to the detriment of state revenue and the open competition that would encourage North Slope development.

### **Fiscal Consequences**

Unlike pipeline owners (for whom excess charges are an internal transfer), independent producers pay excess tariffs out of pocket.

As a result, under the higher TSM tariff on 89% of TAPS oil the independent shipper clears about \$1.97/bbl. less than the TAPS owner on production and sale of a similar barrel of North Slope crude.

Primarily because transportation charges are subtracted from the tax and royalty base, under the TSM tariff the State loses approximately \$0.90/bbl. on overcharges in reduced royalties and production taxes.

### Recommended Solution

Going forward, correcting this problem for production taxes through AS 43.55.150 would get roughly half that revenue back immediately and would send a positive signal to potential independent investors. Note, however, that this is only a partial remedy to state petroleum pipeline tariff management issues.

An immediate correction to production tax effects is preferable to waiting for the conclusion of court decisions on past tariffs for two reasons: (1) Full refunds are always problematical; and (2) continued litigation over them would exacerbate uncertainty (adversely affecting the investment climate).

However, this "fix" must be carefully crafted to avoid harming the independent producers / shippers by causing them to pay higher production taxes without reducing their actual tariff payments (which are not regulate under AS 43.55).

Immediate correction of production tax tariff calculations also helps chart a clear course on present and potential future ratemaking proceedings.

### Classes of Shippers / Effects

TAPS Owner Shipping on Own Pipeline:

- Pockets Excess Charges

TAPS "Net Shipper" Owner Shipping on Another's Pipeline:

- With excess capacity on pipeline, the possibility exists for some shippers that lower tariffs on one carrier's pipeline may offset the higher tariffs on another's. Moreover, for the small percentage of barrels shipped under a co-owner's tariff, this is a problem of the TAPS owners' own making through their opposition to a single tariff on TAPS, adopted by the RCA and recommended by the FERC ALJ.<sup>1</sup>

Independent Producer/Shipper:

- The production tax levy under AS 43.55 requires calculation of transportation charges but does not actually set the tariff. Therefore, to avoid further penalizing the independent shipper by increasing production tax levy without reducing the actual tariff, the recommended statutory "fix" is designed to exempt independent Producer/Shippers who are still paying the higher tariff from the proposed production tax correction.

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<sup>1</sup> CY 2007 tariffs filed at FERC are:

BP (46.93%)	\$5.10 / bbl.
ConocoPhillips (28.29%)	\$5.29 / bbl.
Exx/Mobil (20.34%)	\$4.95 / bbl.
Koch (3.08%)	\$4.75 / bbl.
Unocal (1.36%)	\$4.63 / bbl.
<i>Weighted Avg. Tariff</i>	<i>\$5.11 / bbl.</i>

(State of Alaska. "Protest and Petition for Investigation into the Proposed 2007 TAPS Tariffs by the State of Alaska and Intervention in These and Any Subsequent Related Proceedings," Dec. 13, 2006 [FERC Docket # IS07-62-000, etc.], p. 8.)

CY 2006 filed tariffs were:

BP (46.93%)	\$4.08 / bbl.
ConocoPhillips (28.29%)	\$3.78 / bbl.
Exx/Mobil (20.34%)	\$3.93 / bbl.
Koch (3.08%)	\$4.41 / bbl.
Unocal (1.36%)	\$4.38 / bbl.
<i>Weighted Avg. Tariff</i>	<i>\$3.98 / bbl.</i>

(Regulatory Commission of Alaska. "Order Rejection 2006 Intrastate TAPS Methodology Rates," Docket P-06-01, Order No. 1, Dec. 16, 2005, p. 3.)

**Sharon Long**

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**From:** Davis, Marcia R (DOR) [marcia.davis@alaska.gov]  
**Sent:** Tuesday, November 06, 2007 4:04 PM  
**To:** Sharon Long; stevenbporter@gmail.com  
**Subject:** One word fix from Fineberg

Here was what Richard sent me today. This is a one word change for Jud Section 53 which affects .150(b):

**Amend Sec. 53 (AS 43.55.150(b) of CSSB 2001(JUD) at p. 36, line 29 by changing "shall" to "may."**

This was Richard's explanation of why change was needed:

**The Problem**

The operational change in the deduction for TAPS shipping charges is set in motion by the Senate Judiciary Committee's proposed change to AS 43.55.150(b) of "and" to "or" at Line 29 of p. 36 (Sec. 53). This amendment requires the Department of Revenue to determine the reasonable costs of transportation if any of the conditions in AS 43.55.150(a) are present; one of those conditions is that the contract for transportation is not representative of the market value of that transportation.<sup>2</sup> A principal purpose of this pair of amendments, as discussed in both committees, is to prevent TAPS owners shipping their own oil from taking a high deduction for transportation when they actually incur much lower costs for shipping their own oil. The higher transportation deduction results in lower production tax payments to the state for the shipper/owner.<sup>3</sup>

The problem is that the amendment to AS 43.55.150(b), as passed, would also require the Department of Revenue to reduce the deduction for TAPS tariffs for an independent shipper shipping under the higher tariff, even though the independent shipper actually pays the higher tariff to the TAPS owner.

### Attachment I. Proposed Statutory Language

The following amendments to AS 43.55.150(a) and (b) will enable the Department of Revenue to assure just and reasonable tariffs are applicable to production tax collections under AS 43.55 when producers or shippers do not have an arms' length relationship with the pipeline owners. The proposed amendments to AS 43.55.150 (below) rest on the understanding that transportation charges determined by ratemaking mechanisms – including filed tariffs, tariffs filed in accord with an approved settlement agreement and litigated tariffs – may not ensure that shipping charges are reasonable. Experience shows that state revenue and exploration and development by independent companies suffer when the overlap between pipeline owners and shippers removes the shipper's incentive to secure just and reasonable tariffs from the pipeline owner. Therefore, it is recommended that:

AS 43.55.150(a) is amended to read:

**Sec. 43.55.150. Determination of gross value at the point of production. (a)**

For the purposes of AS 43.55.011 – 43.55.180, the gross value at the point of production is calculated using the reasonable costs of transportation of the oil or gas. The reasonable costs of transportation are the actual costs, except when the

(1) both parties to the transportation of oil or gas are affiliated, for example, as subsidiaries of the same corporation or as co-owners of the pipeline;

(2) contract for the transportation of oil and gas is not an arm's length transaction and [OR] is not representative of the value of that transportation; or [AND]

(3) method of transportation of oil or gas is not reasonable in view of existing alternative methods of transportation.

AS 43.55.150(b) is amended to read:

(b) If the department finds that a [THE] condition[S] in (a)(1), (2) or [AND] (3) is [ARE] present, the department may [SHALL] determine the reasonable costs of transportation, using the fair market value of like transportation, the fair market value of equally efficient and available alternative modes of transportation, or other reasonable methods. [TRANSPORTATION COSTS FIXED BY TARIFF RATES PROPERLY ON FILE WITH THE REGULATORY COMMISSION OF ALASKA OR OTHER REGULATORY AGENCY SHALL BE CONSIDERED PRIMA FACIE REASONABLE.]

The following proposed amendment to AS 42.06.140(a)(10) would vest responsibility for formulating tariff policy with the Department of Natural Resources.

AS 42.06.140(a), which enumerates the powers of the Regulatory Commission of Alaska (RCA), should be amended at subsection (10) to state that the RCA "shall provide all reasonable assistance to the Department of Natural Resources [LAW] in intervening in, offering evidence in, and participating in proceedings involving a pipeline carrier or an affiliated interest and affecting the interests of the state, before an officer, department, board, commission or court of another state or the United States."

### **Attachment II. Worksheets**

The following worksheets show how the various elements of petroleum prices, production, pipeline charges and government tax and royalty collections fit together to produce industry and government net revenue shares. Figure 1 shows how pipeline tariffs affect net revenues from Alaska petroleum operations. Figure 2 uses the same framework to delineate the differential effects on a pipeline owner shipping its own oil, v. an independent producer or shipper transporting its oil on TAPS (shown in Figure 2). This distinction is crucial to understanding the ways in which the overlap between the major North Slope producers and the TAPS owners handicaps independent North Slope operators.

Figure 1

## Estimated Industry-Wide Pipeline Tariff Effect on ANS Net Revenue Share (Production + Pipelines; \$60 / bbl.)

\$60 / bbl. case – Hypothetical Example – CY 2007 (Estimated from Public Data Sources)

<b>Major ANS Cost and Profit Elements *</b>	<b>How Calculated . . .</b>	<b>TSM Tariff</b>	<b>(Share %)</b>	<b>RCA Tariff</b>	<b>(Share %)</b>
1 ANS Market Price	(Assumed)	\$60.00		\$60.00	
2 TAPS Tariff	Approx. 2007 TSM (FERC) and RCA Tariffs	(\$5.10)		(\$1.96)	
3 Other Transportation	Est. \$0.60 Feeder P/L Tariff + \$1.80 Tanker	(\$2.40)		(\$2.40)	
4 Production Tax & Royalty Base	Sum of Lines 1 thru 3	\$52.50		\$55.64	
5 Royalty	((Line 4) less est. processing costs) * 0.125	(\$6.44)		(\$6.83)	
6 Operating and Capital Costs <sup>(1)</sup>	Estimated at \$4.00 lifting + \$4.00 capital	(\$8.00)		(\$8.00)	
7 Production Tax	18.7% per CS HB 3001 Fiscal Note graph	(\$7.12)		(\$7.63)	
8 Property Tax (including TAPS)	From ADOR Revenue Sources data	(\$1.00)		(\$1.00)	
9 Industry Production Profit (before income tax)	Sum of Lines 4 thru 8	\$29.94		\$32.18	
10 State Income Tax (Production) <sup>(2)</sup>	Est. (565.1/279.6) - (Line 14)	(\$1.69)		(\$1.98)	
11 Fed. Income Tax (Production)	(Sum of Lines 9 + 10) * 0.35	(\$9.89)		(\$10.57)	
12 Industry After-Tax Production Profit	Sum of Lines 9 thru 11	\$18.37		\$19.60	
13 Industry Pre-Tax Pipeline Profit <sup>(3)</sup>	TAPS + Feeder Line Profit	\$3.57		\$0.43 <sup>(3)</sup>	
14 State Income Tax (Pipeline)	(Est. Pre-Tax Tariff Profit) * 0.094	(\$0.34)		(\$0.04)	
15 Federal Income Tax (Pipeline) <sup>(2)</sup>	(Sum of Lines 13 + 14) * 0.35	(\$1.13)		(\$0.14)	
16 Industry After-Tax Pipeline Profit	Sum of Lines 13 thru 15	\$2.10		\$0.25	
<b>17 Total Alaska Net Revenue Share</b>	Sum of Lines 5, 7, 8, 10 and 14	<b>\$16.58</b>	<b>34.49%</b>	<b>\$17.48</b>	<b>36.37%</b>
<b>18 Total Federal Net Revenue Share</b>	Sum of Lines 11 + 15	<b>\$11.02</b>	<b>22.93%</b>	<b>\$10.70</b>	<b>22.27%</b>
<b>19 Industry After-Tax Net Revenue Share</b>	Sum of Lines 12 + 16	<b>\$20.47</b>	<b>42.58%</b>	<b>\$19.88</b>	<b>41.36%</b>

**Notes:**

- \* Assumed ANS production of 766,000 barrels per day (Spring 2007 Revenue Sources FY 2007 - 08 avg); additional information on calculating factors on pp. 2, 3.
- (1) Production costs fixed for purposes of this analysis.
- (2) State Income Tax estimated from Spring 2007 Revenue Sources (assumes all calculated industry net revenues are captured by the state and federal government at nominal income tax rates).
- (3) Pipeline tariff totals include estimated pre-tax profit from North Slope feeder pipelines + TAPS from Line 3. (See page 3 of this worksheet for estimated tariff calculations.) The difference between FERC (TSM) and RCA tariff (shown here as \$3.16 per barrel) is assumed to be industry pre-tax profit.

**Fig. 1. Estimated Industry-Wide Pipeline Tariff Effect on ANS Net Revenue Share (Production + Pipelines; \$60 / bbl.)**

**Line 2**

**TSM Tariff** shows the weighted average TAPS tariff charged in 2007 for 89% of TAPS oil regulated by FERC (\$5.10 / bbl.); this line includes profit on TAPS operations (see discussion in text).

**RCA Tariff** shows the TAPS tariff charged in 2007 for 11% of TAPS oil regulated by the RCA (\$1.96 / bbl.); this line includes allowed just and reasonable profit on TAPS operations (see discussion in text and p. 3 for tariff calculating inputs).

**Line 3**

This line includes the tariff element for North Slope feeder pipelines (estimated \$0.64 per barrel; see page 3 for tariff calculating inputs) and marine transportation charges.

**Line 4**

The reduced RCA tariff increases the production tax and royalty base for in-state oil. Because three companies that produce approximately 95% of North Slope oil also own a similar percentage of TAPS, tariff payments result in an internal transfer of funds and this is just a bookkeeping entry. But the independent shipper pays the entire tariff out of pocket. The results of this unusual circumstance are estimated in lines 5, 7, 10, 11 and 13 below

**Lines 5, 7, 10 and 11**

These elements of the government net revenue share are higher in the "RCA Tariff" column because the reduced tariff charge for in-state shipments increased the tax and royalty base in this column at Line 4. (Note that if a company pays less than the nominal income tax rate, government share estimates at Lines 10 and 11 may be overstated.)

**Line 13**

Since the RCA tariff includes a just and reasonable profit on allowable costs, the \$5.10 tariff in the "TSM Tariff" column does not represent an actual cost. The difference between the two tariffs is added into industry pre-tax profits here. (This line also includes a similar estimated excess profit from North Slope feeder line operations.)

**Lines 14, 15**

If a company pays less than the nominal income tax rate, these elements of government net revenue share also may be overstated.

**Lines 17, 18 and 19**

Bottom-line net revenue shares are summarized by adding net revenue from Alaska production and pipeline operations.

Figure 1

**Estimated Industry-Wide Pipeline Tariff Effect on ANS Net Revenue Share (Production + Pipeline; \$60 / bbl.)**

*This page reproduces the calculating values used to derive the estimated pipeline profits shown in Line 13 of Figure 1.*

**Estimated North Slope Feeder Line Revenue, SIT, FIT and Profits**

Estimated North Slope feeder line profits on \$0.64bbl.

- 0.64000 Average FY2006 - 2007 tariffs, Spring 2007 *Revenue Sources*, pp. 94-95)
- 0.10484 Total feeder line pre-tax profit (grossed up to allow 12% after-tax return on allowable costs)
- 0.09400 Nominal SIT Rate (9.4%)
- 0.00985 per-barrel SIT
- 0.09498 Pre-tax profit - SIT
- 0.35000 Nominal FIT rate (35%)
- 0.03324 per-barrel FIT
- 0.04310 SIT -FIT
- 0.06174 After-Tax Profit (\$0.095 - SIT -FIT)

**Estimated TAPS Costs, Revenue, SIT, FIT and Profits**

Estimated TAPS pre-tax profit on \$1.96 per barrel (RCA Order No. 151, P-97-4, Nov. 2002, *et seq.*)

- 1.96000 Regulatory Commission of Alaska, Order No. 151 (Docket P-97-4), Nov. 2002, *et seq.*
- 0.32106 Total TAPS Pre-tax Profit (grossed up to provide 12% after-tax return on estimated costs)
- 0.09400 Nominal SIT Rate (9.4%)
- 0.03018 per-barrel SIT
- 0.29088 Pre-tax profit - SIT
- 0.35000 Nominal FIT rate (35%)
- 0.10181 per-barrel FIT
- 0.13199 SIT -FIT
- 0.18907 After-Tax Profit (\$0.321 - SIT -FIT)

**Estimated Feeder Line + TAPS profit and taxes**

Sum of Feeder Line + TAPS Profits

- 0.42590 Total TAPS + Feeder Line Pre-tax Profit
- 0.04003 per-barrel SIT
- 0.13505 per-barrel FIT
- 0.17509 SIT -FIT
- 0.25081 After-Tax Profit (\$0.321 - SIT -FIT)

**Note:** The weighted average TAPS tariffs for CY2007 at FRC is \$5.10 per barrel – \$3.16 in excess of the RCA tariff of \$1.96 per barrel.

Figure 2

**Estimated Pipeline Tariff Effect on State, Federal, TAPS Owner and Independent Shipper Net Revenue Shares  
(Production + Pipelines; \$60 / bbl.)**

\$60 / bbl. case – Hypothetical Example -- CY 2007 (Estimated from Public Data Sources)

<b>Major ANS Cost and Profit Elements *</b>	<b>TAPS Owner (Shipping Own Barrels)</b>				<b>Independent Shipper</b>				<b>TAPS Owner (Shipping Others' Barrels)</b>			
	<b>TSM Tariff</b>	<b>(Share %)</b>	<b>RCATariff</b>	<b>(Share %)</b>	<b>TSM Tariff</b>	<b>(Share %)</b>	<b>RCATariff</b>	<b>(Share %)</b>	<b>TSM Tariff</b>	<b>(Share %)</b>	<b>RCATariff</b>	<b>(Share %)</b>
1 ANS Market Price	\$60.00		\$60.00		\$60.00		\$60.00		\$60.00		\$60.00	
2 TAPS Tariff	(\$5.10)		(\$1.96)		(\$5.10)		(\$1.96)		(\$5.10)		(\$1.96)	
3 Other Transportation	(\$2.40)		(\$2.40)		(\$2.40)		(\$2.40)		(\$2.40)		(\$2.40)	
4 Production Tax & Royalty Base	\$52.50		\$55.64		\$52.50		\$55.64		\$52.50		\$55.64	
5 Royalty	(\$6.44)		(\$6.83)		(\$6.44)		(\$6.83)					
6 Operating and Capital Costs	(\$8.00)		(\$8.00)		(\$8.00)		(\$8.00)					
7 Production Tax	(\$7.12)		(\$7.63)		(\$7.12)		(\$7.63)					
8 Property Tax (including TAPS)	(\$1.00)		(\$1.00)		(\$0.80)		(\$0.80)					
9 Industry Production Profit (before inc. tax)	\$29.94		\$32.18		\$30.14		\$32.38					
10 State Income Tax (Production)	(\$1.69)		(\$1.98)		(\$1.69)		(\$1.98)					
11 Fed. Income Tax (Production)	(\$9.89)		(\$10.57)		(\$9.96)		(\$10.64)					
12 Industry After-Tax Production Profit	\$18.37		\$19.63		\$18.50		\$19.76					
13 Industry Pre-Tax Pipeline Profit	\$3.57		\$0.43						\$3.57		\$0.43	
14 State Income Tax (Pipeline)	(\$0.34)		(\$0.04)						(\$0.34)		(\$0.04)	
15 Federal Income Tax (Pipeline)	(\$1.13)		(\$0.14)						(\$1.13)		(\$0.14)	
16 Industry After-Tax Pipeline Profit	\$2.10		\$0.25		\$0.00		\$0.00	====>	\$2.10		\$0.25	
<b>17 Total Alaska Net Revenue Share</b>	<b>\$16.58</b>	<b>34.49%</b>	<b>\$17.48</b>	<b>36.37%</b>	<b>\$16.04</b>	<b>36.05%</b>	<b>\$17.24</b>	<b>36.19%</b>	<b>\$0.34</b>	<b>9.40%</b>	<b>\$0.04</b>	<b>9.40%</b>
<b>18 Total Federal Net Revenue Share</b>	<b>\$11.02</b>	<b>22.93%</b>	<b>\$10.70</b>	<b>22.27%</b>	<b>\$9.96</b>	<b>22.38%</b>	<b>\$10.64</b>	<b>22.33%</b>	<b>\$1.13</b>	<b>31.71%</b>	<b>\$0.14</b>	<b>31.71%</b>
<b>19 Industry After-Tax Net Revenue Share</b>	<b>\$20.47</b>	<b>42.58%</b>	<b>\$19.88</b>	<b>41.36%</b>	<b>\$18.50</b>	<b>41.57%</b>	<b>\$19.76</b>	<b>41.47%</b>	<b>\$2.10</b>	<b>58.89%</b>	<b>\$0.25</b>	<b>58.89%</b>

Notes

\* This worksheet starts (left-hand panel) with the values shown in Figure 1. (See Figure 1 and page 2 of this worksheet for additional information on these calculations.) The center panel and right-hand panels show the net revenue on production and pipeline transport of North Slope oil produced by companies that do not have an ownership share in TAPS. Total net revenue (the sums of Lines 17, 18 and 19) in the left-hand panel "TSM" and "RCA" columns – \$48.07 per barrel – equals the sum of producer and pipeline operator net revenues in the corresponding columns of the center and right panels.

*When three companies control 95% of North Slope production and own a similar share of the Trans-Alaska Pipeline System (TAPS), it is important to note how tariff revenues affect independent (non-owner) producers. According to a consistent stream of regulatory and court determinations since 2002, for the entire three decades of TAPS operations these revenues have included both allowable regulatory profits and excess profits. Building on the aggregate revenues shown in Figure 1 (left-hand panel), this worksheet contrasts estimated TAPS owner net revenues, which include pipeline profits, with independent producer net revenues, which do not (central panel). The pipeline profits paid by the independent producer/shipper (right-hand panel) wind up in the hands of one of the three major producers (as 95% owners of TAPS) or one of their two minor partners on TAPS.*

Figure 2

**Estimated Pipeline Tariff Effect on State, Federal, TAPS Owner and Independent Shipper Net Revenue Shares  
(Production + Pipelines; \$60 / bbl.)**

*This worksheet identifies the assumptions used to derive the estimated property taxes (Line 8 of Figure 1) and State Income taxes (Lines 10 and 14 of Figure 1).*

**Property Tax Adjustment (Line 8)**

Independent shipper property tax reduced by 20% to reflect the fact that the independent shipper does not have a taxable interest in TAPS. (Estimating factor derived from ADOR data.)

**State Income Tax Adjustments (sum of Lines 10 and 14)**

Total state income tax estimated from Spring 2007 *Revenue Sources* data, divided as follows: Pipeline SIT (Line 14) = (Line 13) \* 9.4%. Estimated Production SIT (Line 10) = Total SIT - Line (14).