

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2788

Current Project Status

- ▶ **Zone Controllers in Anchorage and Fairbanks**
- ▶ **15 sites currently operational:**
 - ✓ **2 in Anchorage**
 - ✓ **2 in Fairbanks**
 - ✓ **1 in Valdez**
 - ✓ **2 in Juneau**
 - ✓ **8 from Fairbanks to Delta**
- ▶ **Valdez Police Department currently using the system under a Beta agreement**
- ▶ **Fairbanks service to begin in 2005**

Funding History - State Portion

Year	Source	Requested (2)	Appropriated			Difference (2)
			Program Office	Infrastructure	Total	
1998	State GF	485,000		485,000	485,000	-
1999	State ISF	850,000	850,000		850,000	-
2000	State ISF	539,900	539,900		539,900	-
2000	State GF	1,033,175	383,175	650,000	1,033,175	-
2000	State GF	120,000	120,000		120,000	-
2002	COPS	2,000,000		2,000,000	2,000,000	-
2003	NIJ	6,680,000		1,987,000	1,987,000	(4,693,000)
2004	State GF	680,000	400,000		400,000	(280,000)
2004	COPS (1)	8,840,000		2,474,000	2,474,000	(6,366,000)
2005	State GF	700,000	400,000		400,000	(300,000)
2005	COPS (1)	8,855,000		2,467,000	2,467,000	(6,388,000)
2006	State GF	700,000				(700,000)
2006	Fed Request	9,055,000				(9,055,000)
	Totals	31,698,075	2,693,075	10,063,000	12,756,075	18,942,000

Note 1: 2004 COPS grant has been awarded. 2005 COPS grant is an earmark. No funding has been received yet for either grant.

Note 2: Amounts are not additive. The Federal request in 2005 includes money originally requested in 2004, but not fully funded, and the 2006 request includes money originally requested in 2005, but not fully funded.

ALMR

FY05 Project Office Budget

FY2004 Carryover	75,000
2005 GF Appropriation	50,000
2005 GF Reappropriation	350,000
Total Funds Available	475,000
FCC Licensing	75,000
Project Office Expenses	390,000
Projected 2005 Carryover	10,000

FY05 Buildout Capital Budget

FY2004 Carryover	1,875,000
FFY2004 COPS Earmark Grant	2,474,000
FFY2005 COPS Earmark Grant	2,467,000
Total Funds Appropriated	6,816,000
Projected Costs	
Key Bank Financing	1,867,000
Lena Point and Willow Creek	433,000
Blueberry Hill	513,000
Site Summit	280,000
Projected 2005 Carryover	3,723,000

Large State Agency Subscriber Purchases

▶ DOT/PF

- ✓ \$3.3 million Federal Hwy funds available
 - \$1.7 million spent
 - \$1.6 million pending

▶ DPS/AST

- ✓ \$1 million spent (COPS grant)

ALMR

DoD Contributions - Project To Date

Category	Amount
Infrastructure	\$50,952,915
Project Mgt	\$4,385,382
Total Funded	\$55,338,297
FY06 Request	\$8,100,000
Grand Total	\$63,438,297

1/11/06

**PRESENTA-
TION:
EDUCATION
FINANCING
BY DEED**

SFIN

FILE

State of Alaska
OFFICE OF THE GOVERNOR

Frank H. Murkowski
Governor
P.O. Box 110001
Juneau, Alaska 99811-0001
NEWS RELEASE



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FOR IMMEDIATE RELEASE: January 11, 2006

Governor Proposes Incentives for School Staff to Raise
Student Achievement

(Juneau) -- Governor Frank H. Murkowski will introduce bills in the House and Senate to establish monetary incentives for staff at public schools to significantly improve student academic performance.

"The Alaska School Performance Incentive Program is intended to encourage everyone on a school's staff to collaborate and take shared responsibility for all students, use instructional time effectively, and use the results of standards-based assessments to target students' academic needs," said Education Commissioner Roger Sampson.

The program will award bonuses to a school's administrators, teachers and support staff if a substantial number of students show more than a year's academic growth as measured by scores on the state's standards-based assessments. Some school district central office staff may receive a bonus as well.

The bonuses, which are not part of an employee's base pay, will range from \$2,500 to \$5,500 for certificated staff and \$1,000 to \$2,500 for non-certificated staff. There will be several levels of bonuses, based on how much growth students have shown.

"The performance incentive program will inspire and empower Alaska's outstanding educators to use their expertise and innovative instructional practices to improve student growth and achievement," Murkowski said. "This program will enhance Alaska's teacher recruitment efforts, raise accountability by linking the incentive payments directly to increased levels of student achievement, and promote effective instruction."

To determine whether a school's staff is eligible for bonuses, each student's test score will be placed in one of six categories: advanced, proficient, below proficient plus, below proficient minus, far below proficient plus, and far below proficient minus.

At the end of every school year, the state will compare each student's performance with his or her performance the year before, as shown by the six categories. Schools will receive various points for students based on whether a student moved up or down in the categories or stayed in the same one.

The points for a school's students will be totaled and then divided by the number of students to produce a school score. The score will be applied to an index that has several levels. The higher the score, the larger the bonus. Schools that show only a year's growth or less will not receive bonuses.

"The program meets a need in Alaska schools for accountability," Commissioner Sampson said. "The money is directly linked to increasingly high levels of student learning. The program provides an incentive for a school's staff to work differently and creatively."

The proposed program differs from merit pay, an idea that has had a mixed reception in other states. Merit pay programs often pitted staff against one another; thus, in order for one to win, others must lose. Such programs hindered cooperation and collaboration.

- Alaska's incentive plan awards bonuses for student growth, even if students aren't yet proficient. Therefore, every school has an equal opportunity to win a bonus.
- Alaska's plan applies to all school staff.
- The targets for school achievement are clear and objective.

The cost will depend on how many people earn bonuses, and on details of the point system and the index, which will be set in regulation by the State Board of Education & Early Development.

A fiscal note prepared by the Department of Education & Early Development estimates the range of what the program could cost. For example, if 5 percent of the state's school staff members won the highest level of bonus, it would cost nearly \$3.1 million. If 25 percent of the state's school staff members won the highest level of bonus, it would cost about \$15.4 million.

More information: At the Department of Education & Early Development, contact Les Morse, Director of Assessment & Accountability, 465-8691; or Eric Fry, Information Officer, 465-2851.

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School Performance Incentive Program

Goal: To accelerate growth in student achievement.

Overview of benefits to Alaska

1. **Accountability:** money directly linked to high levels of student learning.
2. Promotes effective instruction, staff collaboration, and shared responsibility.
3. Enhances Alaska's teacher recruitment efforts.
4. No-risk program: no performance = no cost.

Why is this program different from other bonus programs?

- Focuses on how the same students(s) performed this year compared to last year – student growth.
- Provides clear targets for meeting success.
- Provides an incentive for ALL school staff to work together, be creative, and design and implement systems to improve student performance.
- Provides a system for policy makers to evaluate school performance.
- Focuses on improving each student's performance from where they currently are to proficiency.

Why have other models failed?

- Not based on individual student growth related to achievement standards.
- Unrealistic or unclear targets for success.
- Competition among staff – some must lose for others to win.
- Excluded building administrators and other school staff.
- The instrument/criteria used to measure success was not reliable and consistent.
- Compensation was not large enough to change behavior.

What will be the outcomes from this program?

- Ownership of instruction and results by all school staff resulting in less turf guarding.
- Incentive to work differently and create partnerships that will result in more than a year's growth in learning for students.
- Cause creative and effective use of instructional time in schools – scheduling the school day and year with a focus on higher levels of student learning.
- Accountability and incentive to cause students to reach proficiency and higher levels of advanced achievement.



School Performance Incentive Program

The bottom line: The program will award bonuses to a school's administrators, teachers and support staff each year that its students show more than a year's academic growth. In some cases, school district central office staff will receive bonuses as well.

How growth is measured:

1. Each student's score on state standards-based assessments will be placed in one of six achievement categories: advanced, proficient, below proficient plus, below proficient minus, far below proficient plus, and far below proficient minus.
2. Each student's performance will be compared with his or her performance the previous year. Schools will earn various points based on whether a student moves up or down in the categories or remains in the same one.
3. The points will be totaled, and then divided by the number of students in the school to produce a school score. That score will be applied to an index that has several levels.
4. The higher the points, the larger the bonus, up to the maximum set in law. Schools that do not show progress will not earn a bonus.

Cost:

1. Bonuses will range from \$2,500 to \$5,500 for certificated staff (administrators and teachers) and \$1,000 to \$2,500 for noncertificated staff (support staff such as aides and custodians). School district central office staff, except for superintendents, who play a significant role in a school's growth will be eligible for bonuses of up to \$5,500.
2. The cost will depend on how many people earn bonuses, and on details of the point system and the index, which will be set in regulation by the State Board of Education & Early Development.
3. A fiscal note prepared by the department estimates the range of what the program could cost. For example, if 5 percent of the state's school staff members won the highest level of bonus, it would cost nearly \$3.1 million. If 25 percent of the state's school staff members won the highest level of bonus, it would cost about \$15.4 million.

Alaska School Performance Incentive Program

Measuring Individual Student Achievement

January 11, 2006



What is the Program?

School Performance Incentive Program

- Performance incentive pay for improved student achievement
- Entire staff in a school receive incentive (all or none)
- Target based on growth, or sustained advanced performance of student achievement
- All schools qualify if they meet growth target
- Based on a reliable tool aligned to the Grade Level Expectations
- Program is unlike merit pay programs which cause conflict rather than cooperation

January 11, 2006



Why have the Program?

School Performance Incentive Program

- Accelerate growth in student achievement
- Stimulate the educational system by using a proven private sector concept
- Utilize and empower expertise within the schools to work together for the benefit of Alaska students
- Increase return on Alaska's investment in public schools

January 11, 2006



Benefits

School Performance Incentive Program

- No risk program: no performance = no cost
- Create a strong workforce for Alaska
- Enhance teacher recruitment efforts
- Accountability: directly linked to high levels of achievement
- Promote collaboration, effective instruction and spread responsibility across grade levels and content areas
- Involve all staff: currently in large high schools only 15% of staff are responsible for reading, writing and mathematics

January 11, 2008



Why Measure Growth?

School Performance Incentive Program

- Focus on individual student learning
- Expect high performing and low performing students to grow in achievement
- Provide visible and objective targets to meet
- Incentive for all school staff to team together, think creatively, and design systems to improve student performance
- Evaluate school performance
- Focus is on improving each student from where he or she is to proficiency and beyond

January 11, 2008



How Growth is Measured

School Performance Incentive Program

- How did "Student: A" do in the current year compared to the previous year
- How did all of the students perform within the school
- Did the school demonstrate growth based on a comparison of the same individual students from current year to the previous year

January 11, 2008



Value Table

School Performance Incentive Program

Performance Level	Current Year Level					
	Far Below Prof. Min.	Far Below Prof. Plus	Below Proficient Min.	Below Proficient Plus	Proficient	Advanced
Level A	0	100	170	200	220	220
Level B	0	80	140	170	200	200
Level C	0	60	90	140	180	180
Level D	0	30	50	90	140	150
Level E	0	0	20	50	100	130
Level F	0	0	20	50	100	110

Values may change as a result of 2014 state teacher, public input, and State Board regulations.

January 11, 2016



Computing Index

School Performance Incentive Program

Student	Last Year	Current Year	Points
Student A	Proficient		
Student B	Below Prof. Min.		
Student C	Advanced		
Student D	Below Prof. Plus		
Student E	Far Below Prof. Plus		
Student F	Proficient		
Student G	Far Below Prof. Plus		
Student H	Below Prof. Min.		
Student I	Below Prof. Plus		
Student J	Advanced		
School Index Score			

January 11, 2016



Computing Index

School Performance Incentive Program

Student	Last Year	Current Year	Points
Student A	Proficient	Advanced	
Student B	Below Prof. Min.	Below Prof. Min.	
Student C	Advanced	Proficient	
Student D	Below Prof. Plus	Far Below Prof. Plus	
Student E	Far Below Prof. Plus	Below Prof. Min.	
Student F	Proficient	Below Prof. Plus	
Student G	Far Below Prof. Plus	Below Prof. Plus	
Student H	Below Prof. Min.	Below Prof. Plus	
Student I	Below Prof. Plus	Below Prof. Plus	
Student J	Advanced	Advanced	
School Index Score			

January 11, 2016



Computing Index

School Performance Incentive Program

Student	Last Year	Current Year	Points
Student A	Proficient	Advanced	130
Student B	Below Prof. Min.	Below Prof. Min.	90
Student C	Advanced	Proficient	100
Student D	Below Prof. Min.	Below Prof. Min.	10
Student E	Ex. Below Prof. Min.	Below Prof. Min.	140
Student F	Proficient	Below Prof. Min.	90
Student G	Ex. Below Prof. Min.	Below Prof. Min.	170
Student H	Below Prof. Min.	Below Prof. Min.	140
Student I	Below Prof. Min.	Below Prof. Min.	90
Student J	Advanced	Advanced	110
School Index = 972			10.70/10 = 903

January 11, 2008



Performance Levels

School Performance Incentive Program

Growth Index Level	Index Point Value
Strong	102-104.99
High	105-107.99
Excellent	108-109.99
Outstanding	110 and Greater

Multiple levels provide greater recognition and achievement gradations, but recognize and reward growth in achievement.

January 11, 2008



Performance Level Incentive

School Performance Incentive Program

Level	Certificated	Non-Certificated
Strong	\$2,500	\$1,000
High	\$3,500	\$1,500
Excellent	\$4,500	\$2,000
Outstanding	\$5,500	\$2,500

Multiple levels provide greater recognition and achievement gradations, but recognize and reward growth in achievement.

January 11, 2008



Expected Outcomes

School Performance Incentive Program

- All staff have ownership of instruction and share responsibility for results
- Incentive to work differently, embrace innovation and create partnerships to improve student achievement
- Accountability and incentive to cause all students to reach proficiency and higher levels of advanced achievement

January 11, 2006



Why Other Models Fail

School Performance Incentive Program

- Not based on student growth
- Unrealistic targets
- Conflict among staff: Some must lose for others to win
- Exclude building administrators
- Instrument used to measure is not reliable and consistent
- Compensation not large enough to provide incentive for change
- Weak commitment to the program

January 11, 2006



What Lies Ahead

School Performance Incentive Program

- The final target or value table will be established by examination of 2005 to 2006 assessment results to create a baseline
- Once the incentive program is in place, then motivation exists to accelerate academic achievement beyond a year's growth
- The cost of the program will vary from year to year

January 11, 2006



School Performance Incentive Program

- Based on growth in student achievement
- Empowers expertise of educators and school personnel
- Includes all staff: all make it or no one makes it
- Based on an understandable system

Form 11-718



2/1/06

OVERVIEW:

PROFIT

SHARING

PRODUC-

TION TAX

ANALYSIS

SFIN

FILE

PPT, new investments and international competition

February 1, 2006

Presentation to the Joint
Senate House Finance
Committee

INTERNATIONAL TRENDS

The high oil prices have had an important impact on the international government take.

Progressive countries:

- “One Way” adjustment
NWT, Angola, Russia, Azerbaijan, Libya
- “Two way” adjustment
Alberta, Norway, Indonesia

Regressive-Neutral countries:

US, UK, Egypt, Argentina

INTERNATIONAL TRENDS

The high oil prices create a possibility for the regressive-neutral countries to increase their government take. Several countries have already done so:

- UK
- Trinidad & Tobago
- Kazakhstan
- Bolivia
- Venezuela

PPT AND CURRENT TERMS

The PPT on new investments depend on the costs, field size and well productivity assumptions.

Six field cases were analyzed under high cost and low cost scenarios:

50 MM – low well productivity
150 MM - low well productivity
500 MM - low well productivity

50 MM - high well productivity
150 MM - high well productivity
500 MM - high well productivity

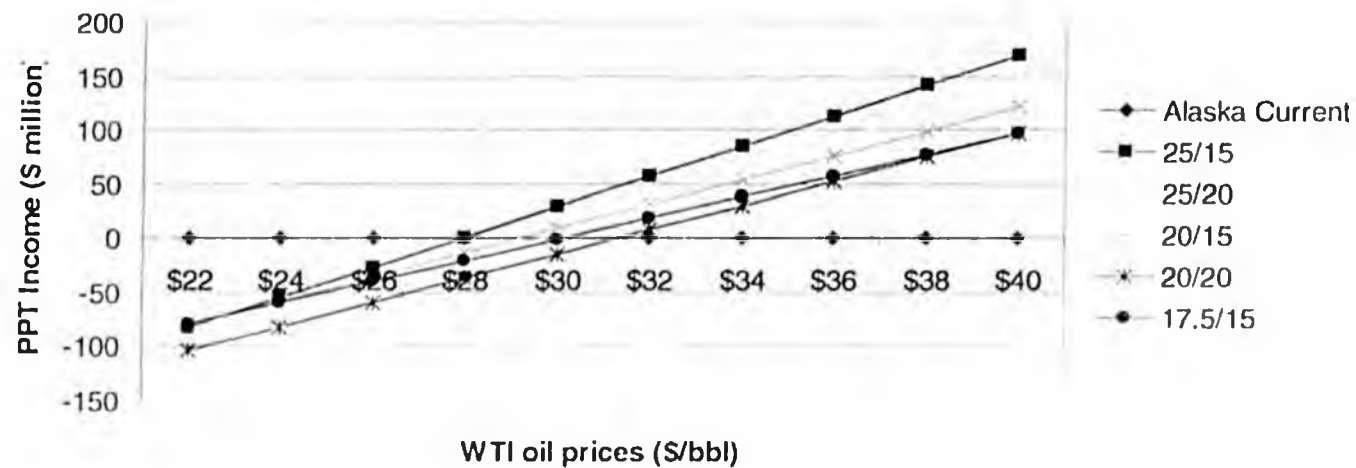
Because of special support for small producers, two scenarios will be evaluated:

First Investment
Re-investment

PPT AND CURRENT TERMS

Re-investment in a 50 MM barrel field

PPT income, re-investment, 50 MM bbls, high costs, low well productivities

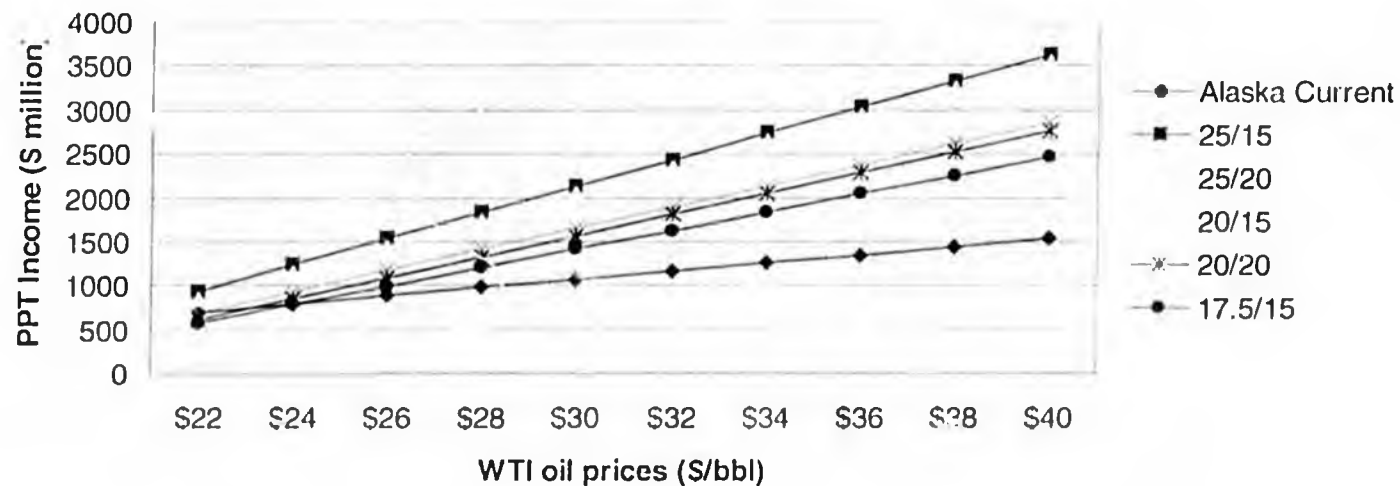


Alaska will collect more production tax under high oil prices even on a small 50 million barrel field.

PPT AND CURRENT TERMS

Re-investment in a 500 million barrel field

PPT income, re-investment, 500 MMbbls, high costs, high well productivities

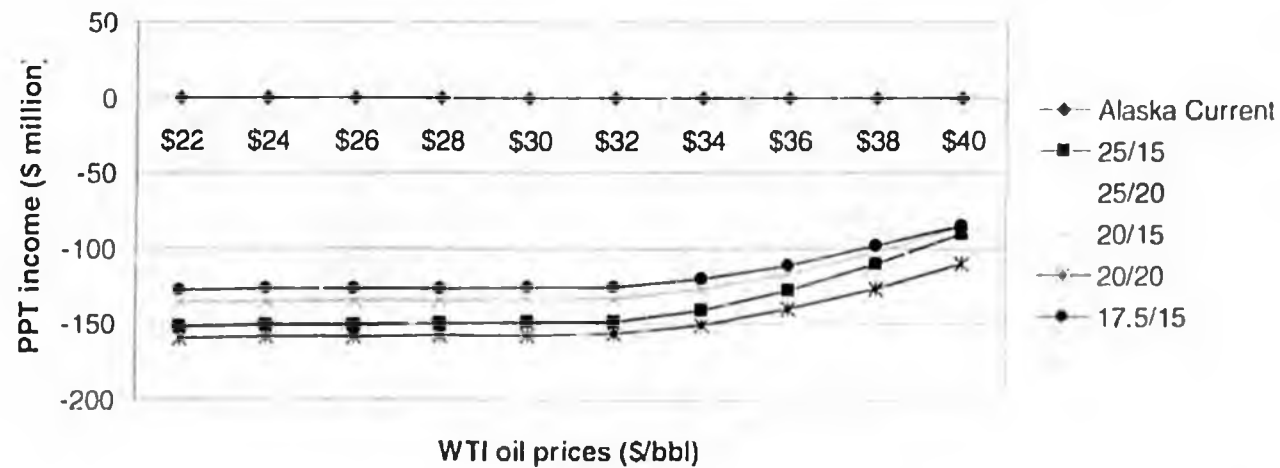


On large fields, Alaska will collect more production tax under average and high oil prices

PPT AND CURRENT TERMS

First investment in a 50 million barrel field

PPT income, first investment, 50 MM bbis, high costs, low well productivities

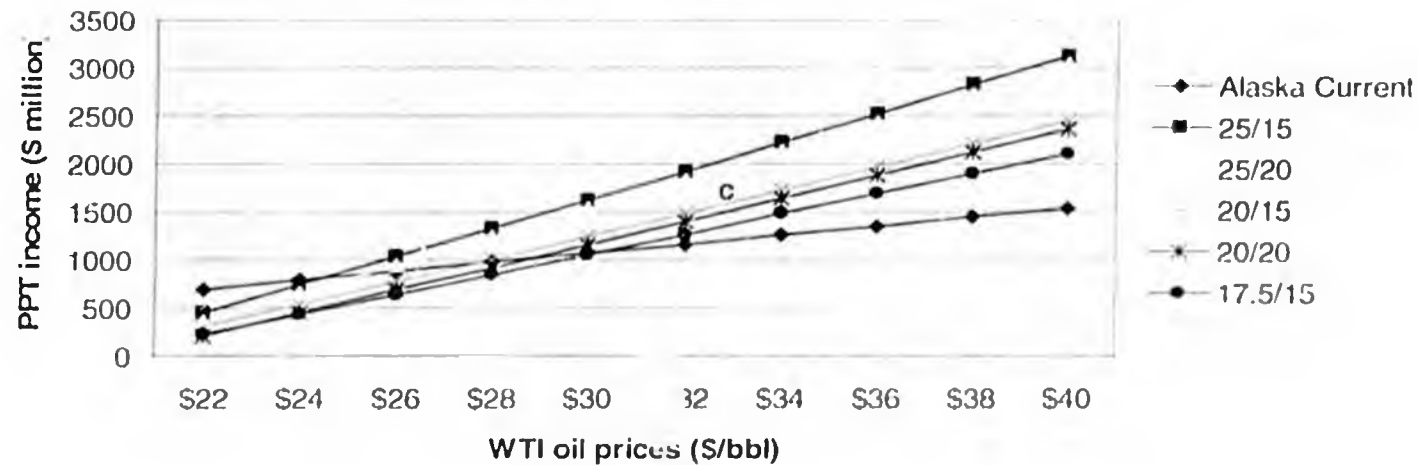


A small producer will not pay PPT and therefore on a small field, such producer will only earn tax credits, which can be traded.

PPT AND CURRENT TERMS

First investment in a 500 million barrel field

PPT income, first investment, 500 MM bbls, high cost, high well productivities

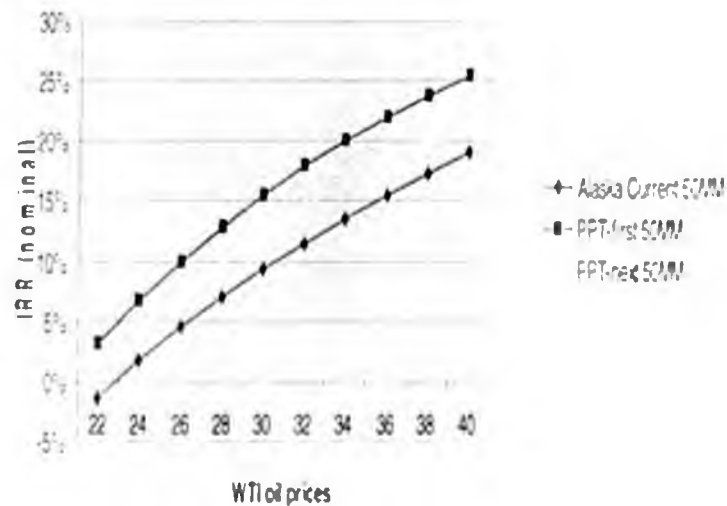


A first investment in a large field will result in considerable PPT under high prices, but less than under a re-investment scenario.

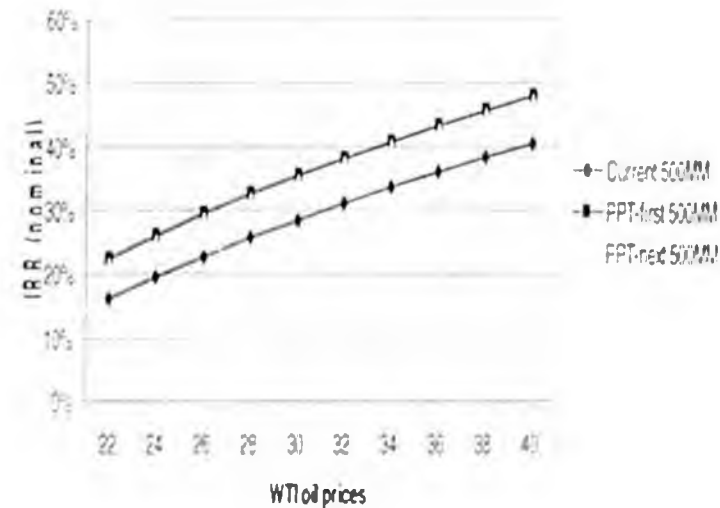
PPT AND CURRENT TERMS

Impact on investors: 50 and 500 MM barrel fields

IRR for 50 million barrel - low productivity case, high costs



IRR of 500 million barrel - high productivity case, high costs



The tax credits under the PPT improve the IRR for first investment or re-investment, regardless of field size and cost conditions (20/15 case was used for illustration)

PPT AND COMPETITION

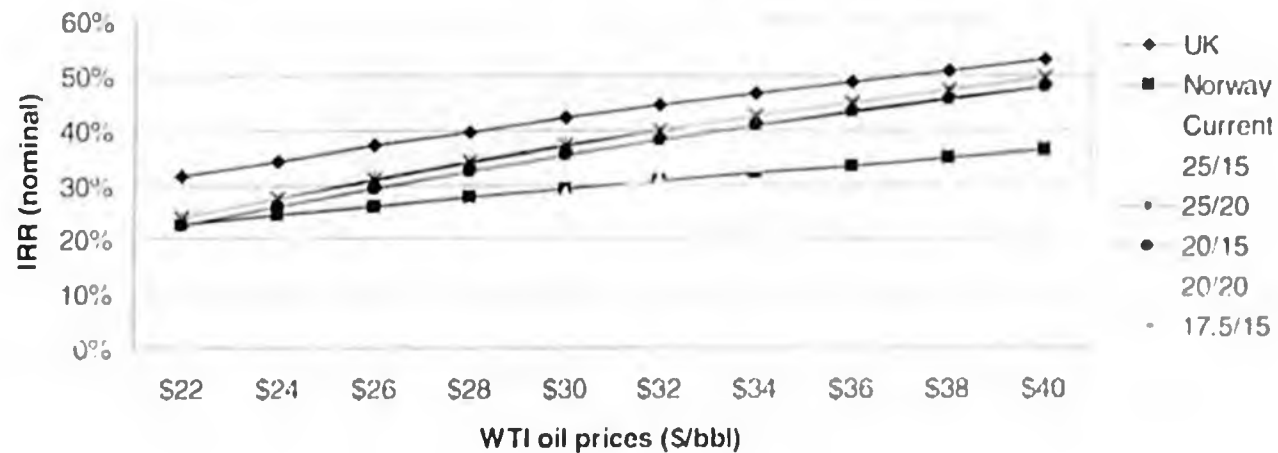
The competitive position of the Alaska system was analyzed using the same field sizes and applying international terms. Eight fiscal systems were analyzed. They all reflect areas in the world where currently considerable investment is taking place:

- Norway
- UK
- US Gulf Coast
- Alberta Oil Sands
- Nigeria
- Angola
- Russia-Sakhalin
- Azerbaijan

PPT AND COMPETITION

First Investment in 500 MM barrel field

IRR, first investment, 500 MM barrels, high costs, high well productivity

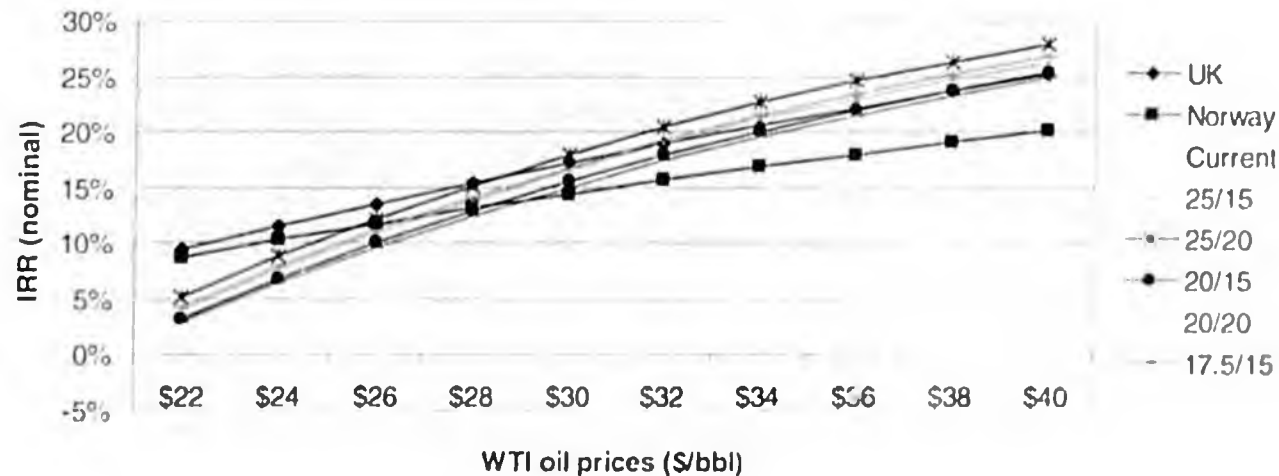


The PPT creates a very material improvement in IRR relative to Norway and UK, for a first investment in a large field.

PPT AND COMPETITION

First Investment in 50 MM barrel field

IRR, first investment, 50 MM barrels, high costs, low well productivity

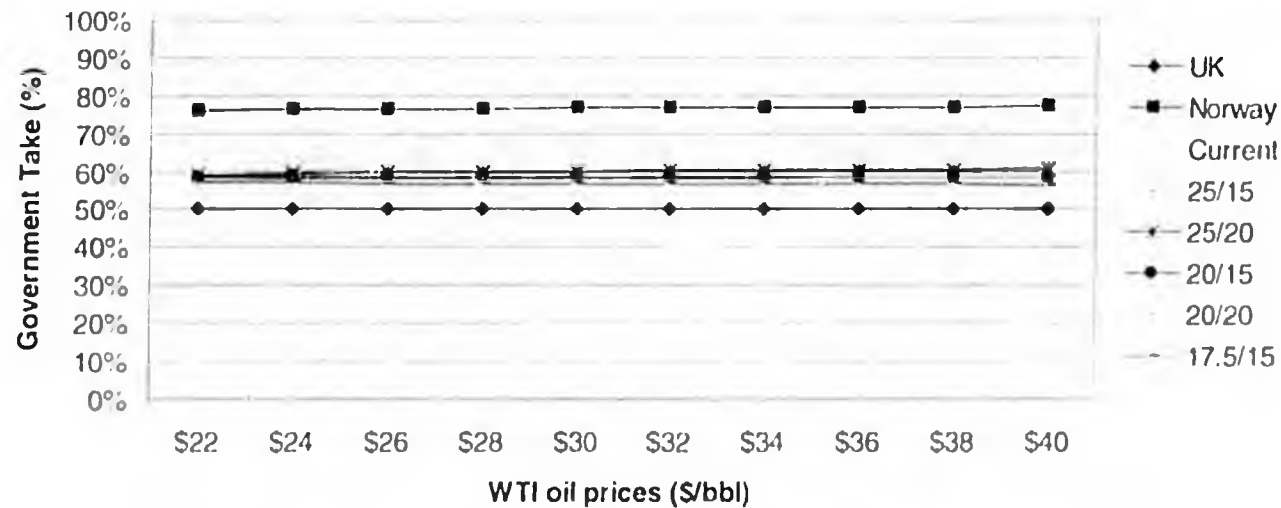


The PPT creates a very significant improvement in IRR relative to Norway and UK, for a first investment in a small field.

PPT AND COMPETITION

First Investment in 500 MM barrel field

Government Take for a 500 MM barrel field

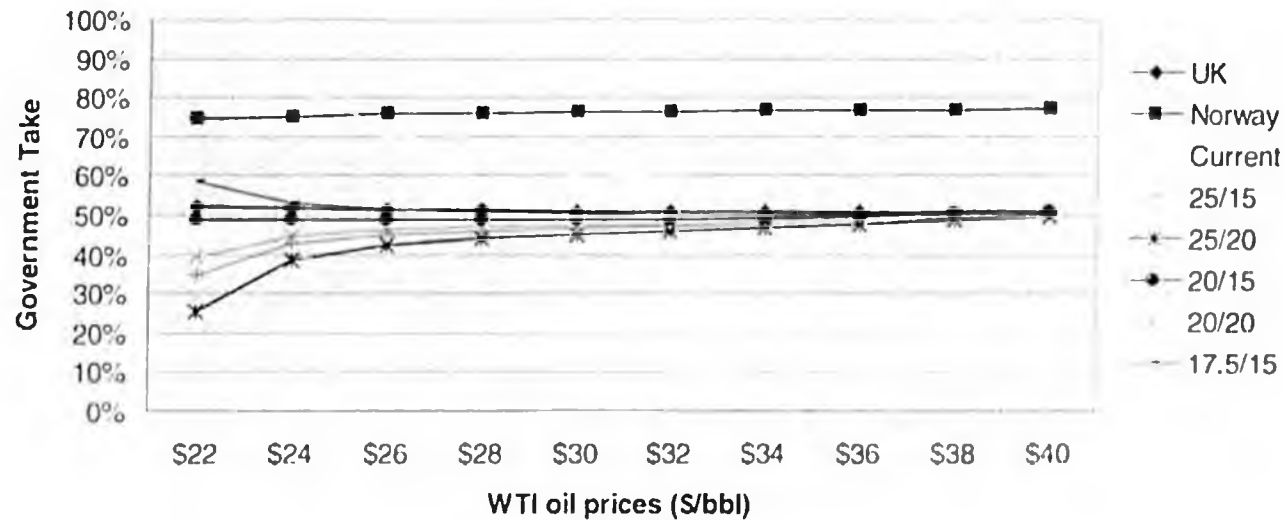


The PPT provides for a modest total government take for each of the five options, in order to compensate for the low net back prices and high costs.

PPT AND COMPETITION

First Investment in 50 MM barrel field

Government Take for a 50 MM barrel field



For first investors or small producers there is a reduction of government take compared to the Current System. The regressive nature of the government take is removed for each of the five options.

PPT AND COMPETITION

First Investment

COMPETITIVENESS INDEX

Hypothetical best	48	
US GOM	52	#1
UK	135	#2
Alberta-Oil Sands	157	#3
Nigeria	172	#4
Alaska PPT	272	#5
Angola	318	#6
Azerbaijan	329	#7
Alaska Current	364	#8
Norway	397	#9
Russia-Sakhalin	444	#10
Hypothetical worst	480	

The lower the number the better the rating. The table shows a considerable improvement in overall competitiveness for the PPT for new investors (20/15 options was used)

PPT AND COMPETITION

Next Investment

COMPETITIVENESS INDEX

Hypothetical best	48	
US GOM	51	#1
UK	131	#2
Alberta-Oil Sands	153	#3
Nigeria	169	#4
Angola	307	#5
Alaska PPT	322	#6
Azerbaijan	323	#7
Alaska Current	353	#8
Norway	391	#9
Russia-Sakhalin	440	#10
Hypothetical worst	480	

The lower the number the better the rating. The table shows a modest improvement in overall competitiveness for the PPT for investors who do not benefit from the small producer incentive (20/15 option was used).

PPT STUDIES

Alaska Department of Revenue

February 1, 2006

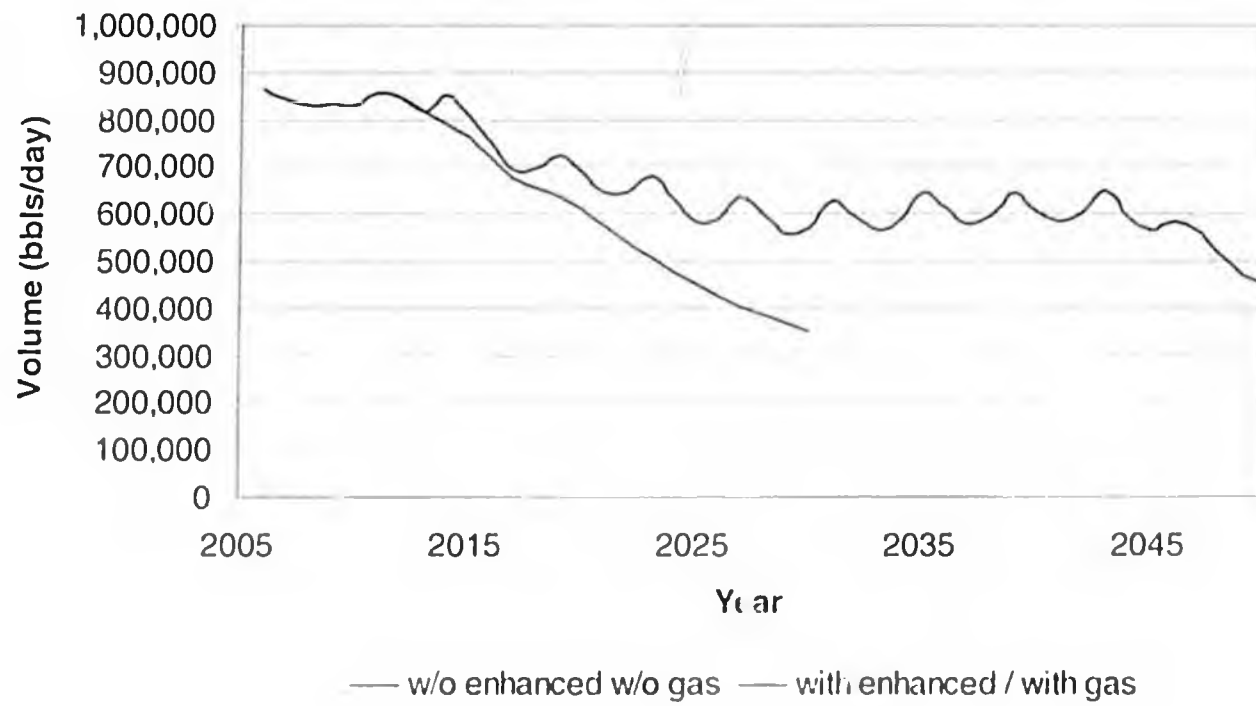
PPT

- Wellhead Value less:
 - Operating cost
 - Property tax
 - Royalty
 - Capital cost
- x tax rate
- y credit on capital costs

Volume Scenarios

- No enhanced volumes / No gasline
- Gasline and enhanced volumes

Figure 1
Volume Scenarios



Costs and Prices

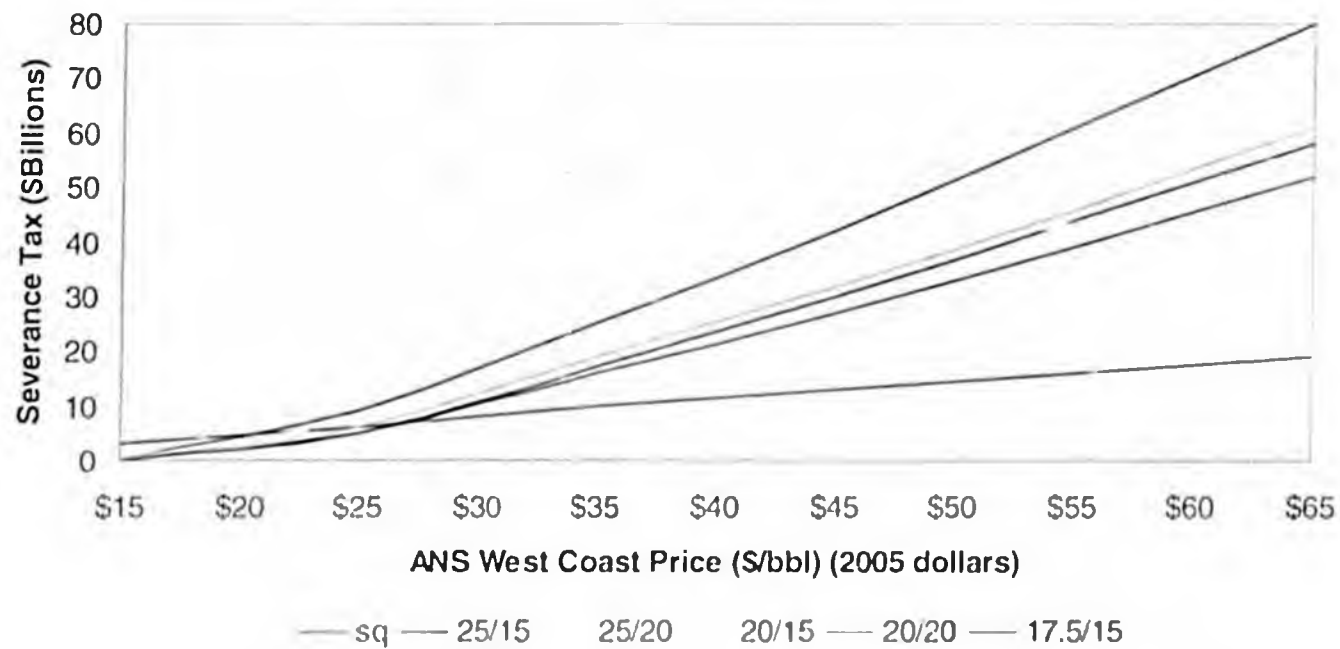
- Costs
 - \$100 mm/yr exploration
 - \$1/bbl on-going capital
 - \$4/bbl developmental capital on 2/3 of oil on existing fields
 - \$4/bbl developmental capital on new fields
 - \$4/bbl operating costs

Costs and prices are real \$2005 dollars
escalating at 2%/year

Cumulative Revenues

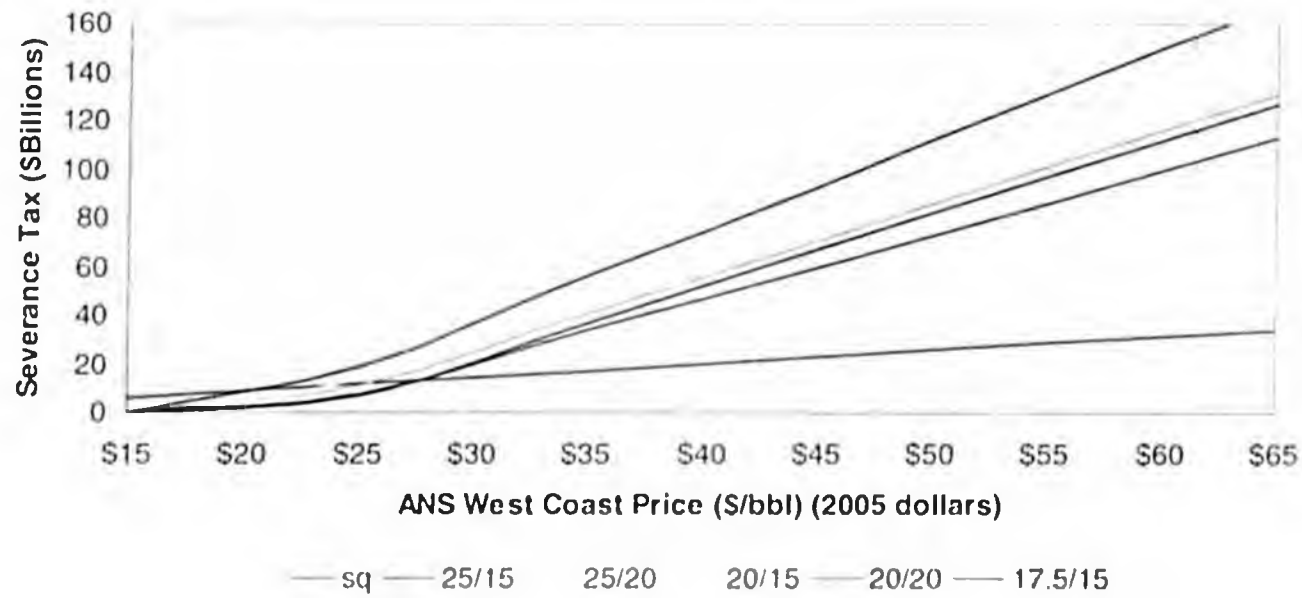
- Without enhanced volumes / without gasline (through 2030)
- With enhanced volumes / with gasline (through 2050)

Figure 2
Cumulative Oil Severance Taxes 2006-2030 (\$)
Without Gasline / Without Enhanced Volumes



Total revenues \$3 billion less to \$61 billion more than status quo

Figure 3
 Cumulative Oil Severance Taxes 2006-2050 (\$B)
 With Gasline / With Enhanced Volumes

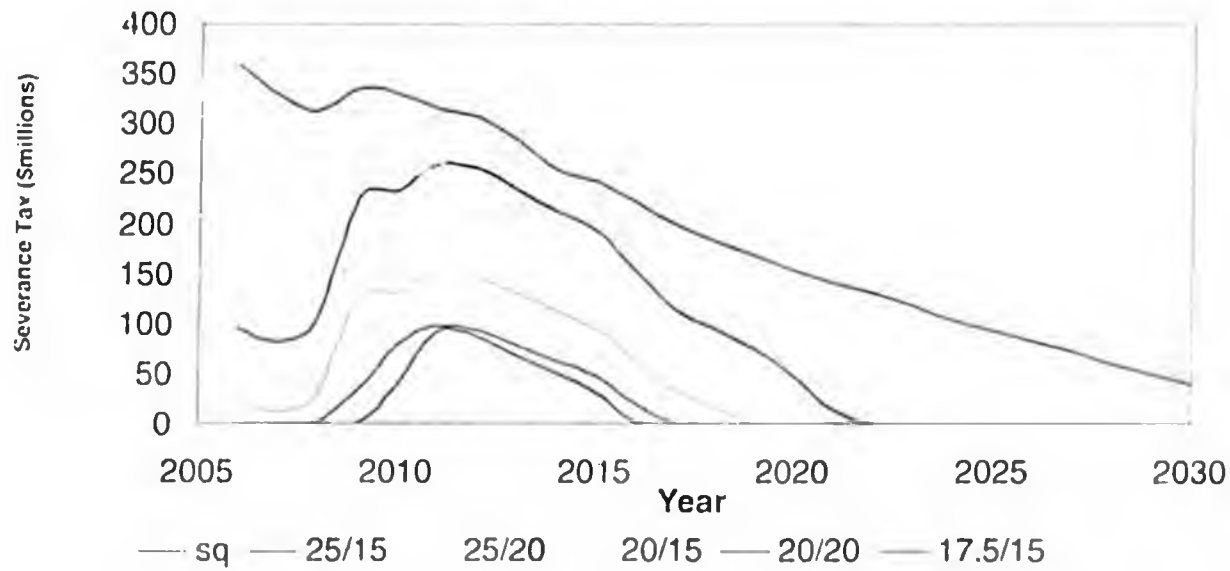


Total revenues \$6 billion less to \$134 billion more than status quo

Annual Revenues

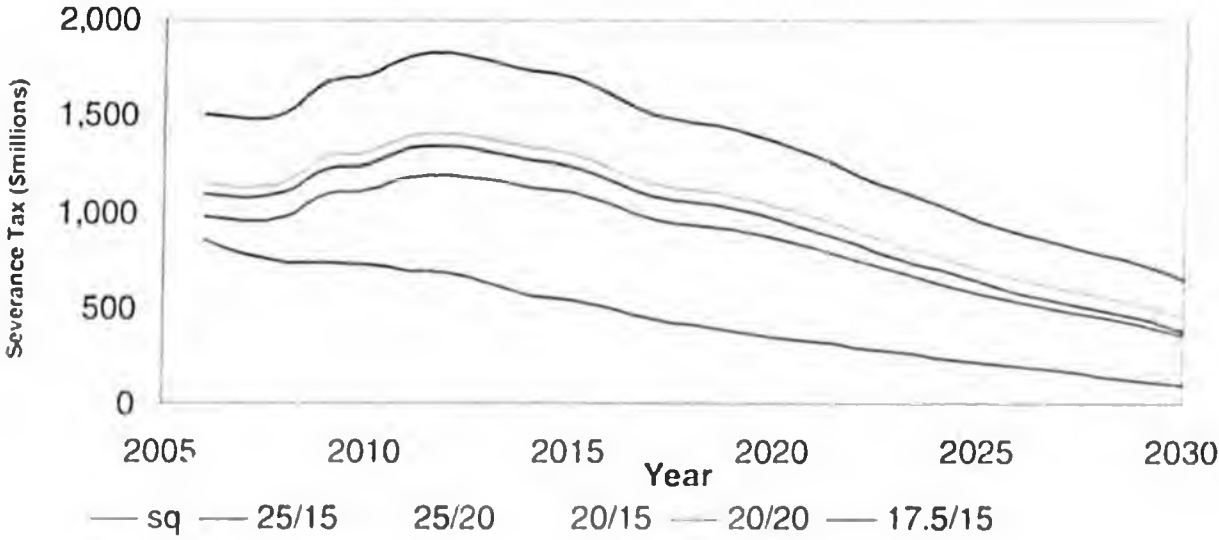
- Without enhanced volumes / without gasline (through 2030)
 - \$20
 - \$40
 - \$60
- With gasline / with enhanced volumes (through 2050)
 - \$20
 - \$40
 - \$60

Figure 4
 Annual Oil Severance Tax (\$mm)
 No Gasline / No Enhanced Volumes
 \$20



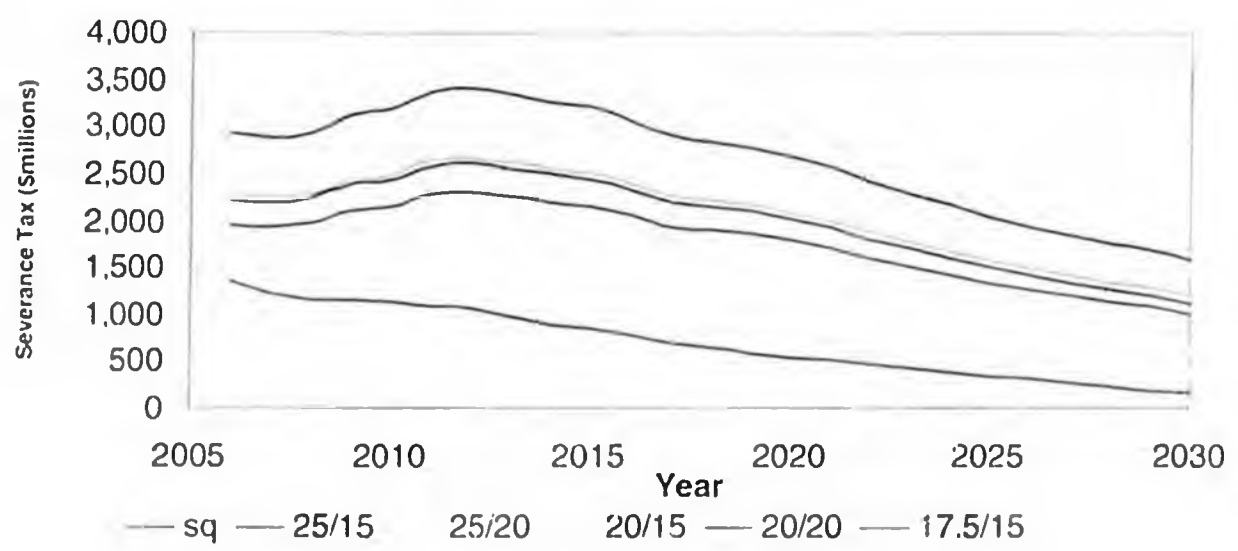
Average annual revenues \$100 - \$180 million less than status quo

Figure 5
 Annual Oil Severance Tax (\$mm)
 No Gasline / No Enhanced Volumes
 \$40



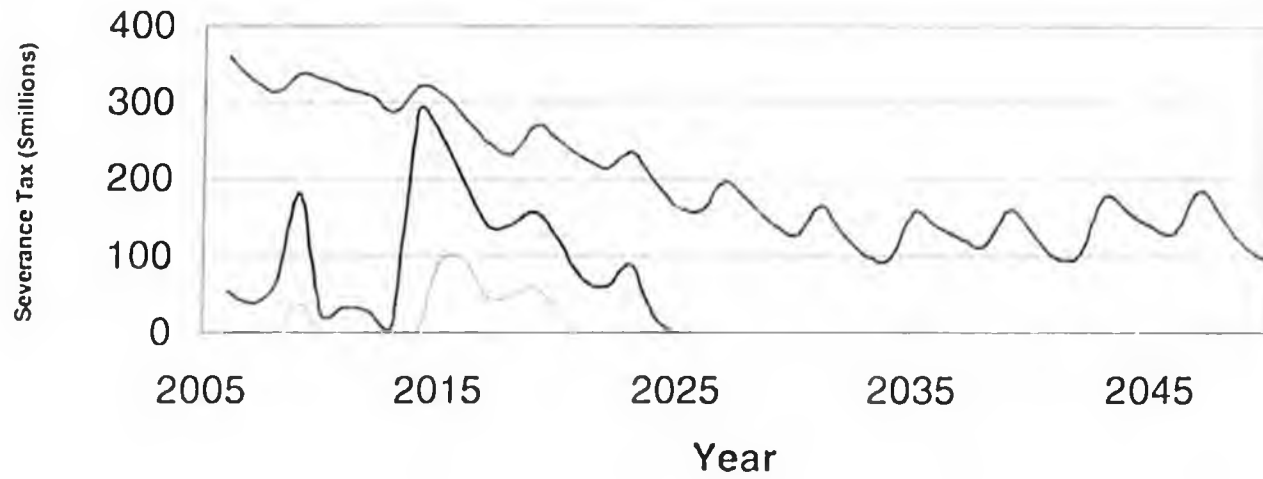
Average annual revenues \$400 - \$900 million more than status quo

Figure 6
 Annual Oil Severance Tax (\$mm)
 No Gasline / No Enhanced Volumes
 \$60



Average annual revenues \$1.1 - \$2.0 billion more than status quo
 This is equivalent to total State Gasline revenues at a \$5/mmbtu market price

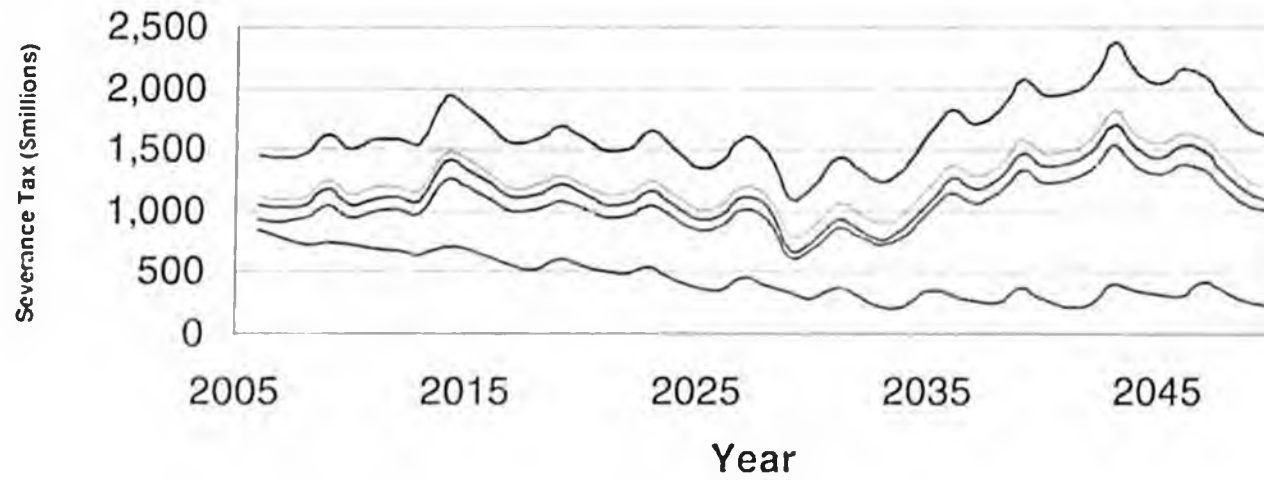
Figure 7
 Annual Oil Severance Tax Revenues (\$mm)
 With Gasline & Enhanced Volumes
 \$20



— sq — 25/15 — 25/20 — 20/15 — 20/20 — 17.5/15

Average annual revenues \$150 - \$200 million less than status quo

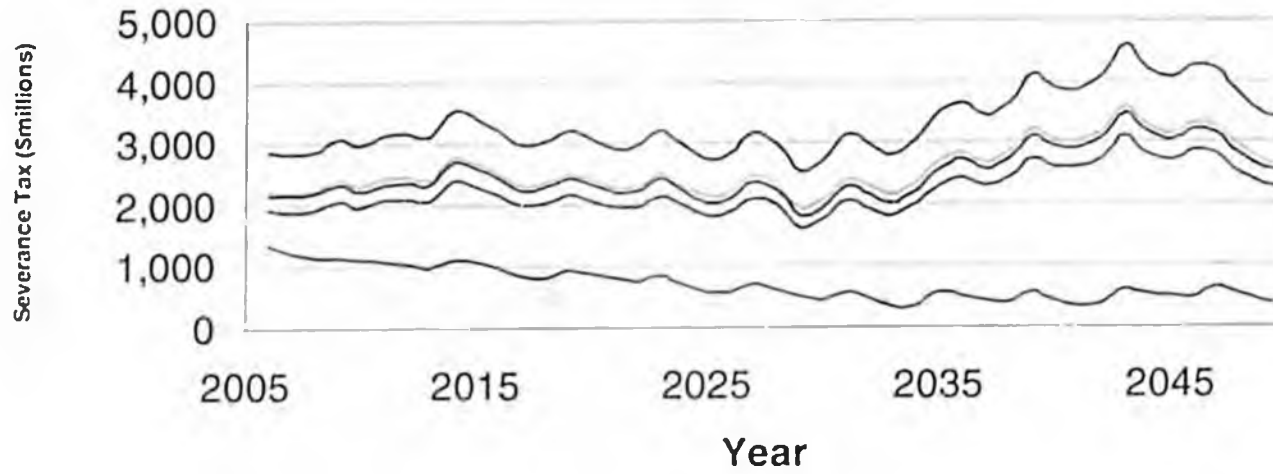
Figure 8
 Annual Oil Severance Tax Revenues (Smm)
 With Gasline & Enhanced Volumes
 \$40



— sq — 25/15 — 25/20 — 20/15 — 20/20 — 17.5/15

Average annual revenues \$0.6 - \$1.2 billion more than status quo

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



— sq — 25/15 25/20 20/15 — 20/20 — 17.5/15

Average annual revenues \$1.5 - \$2.6 billion more than status quo

Effective Tax Rate

- Without enhanced volumes / without gasline

With enhanced volumes / with gasline

Figure 10
 Effective Oil Severance Tax Rate
 Without Gasline / Without Enhanced Volumes

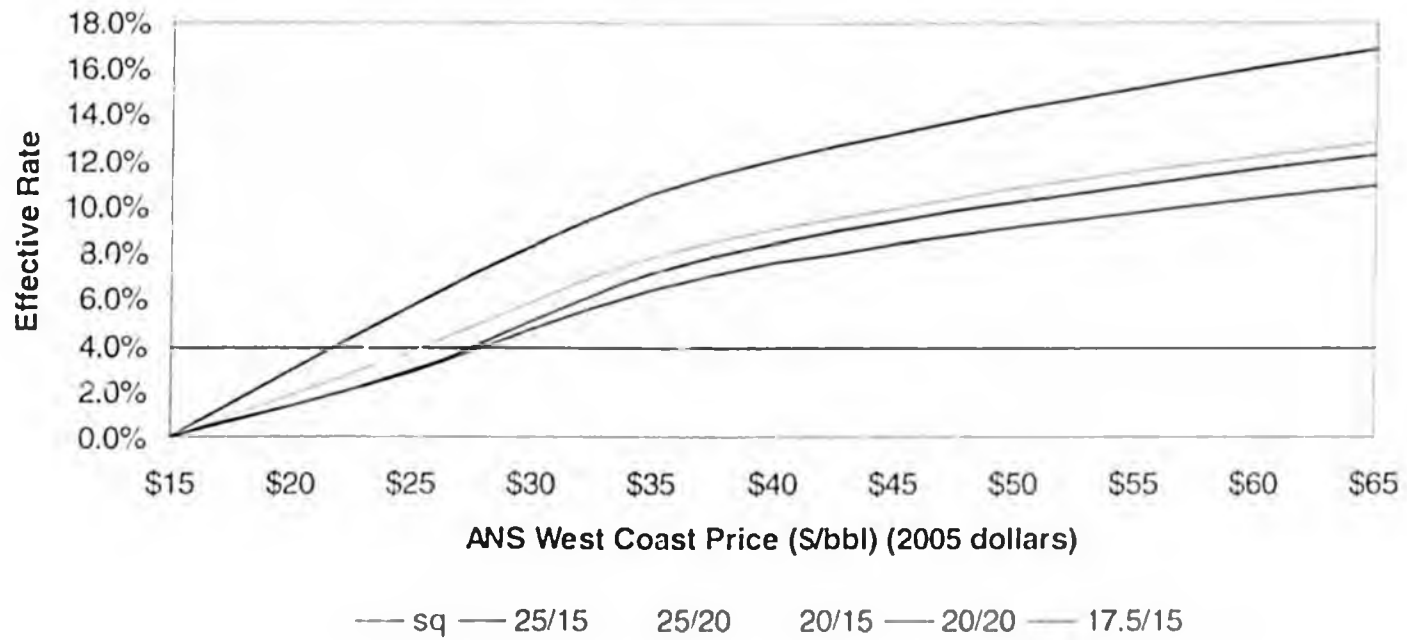
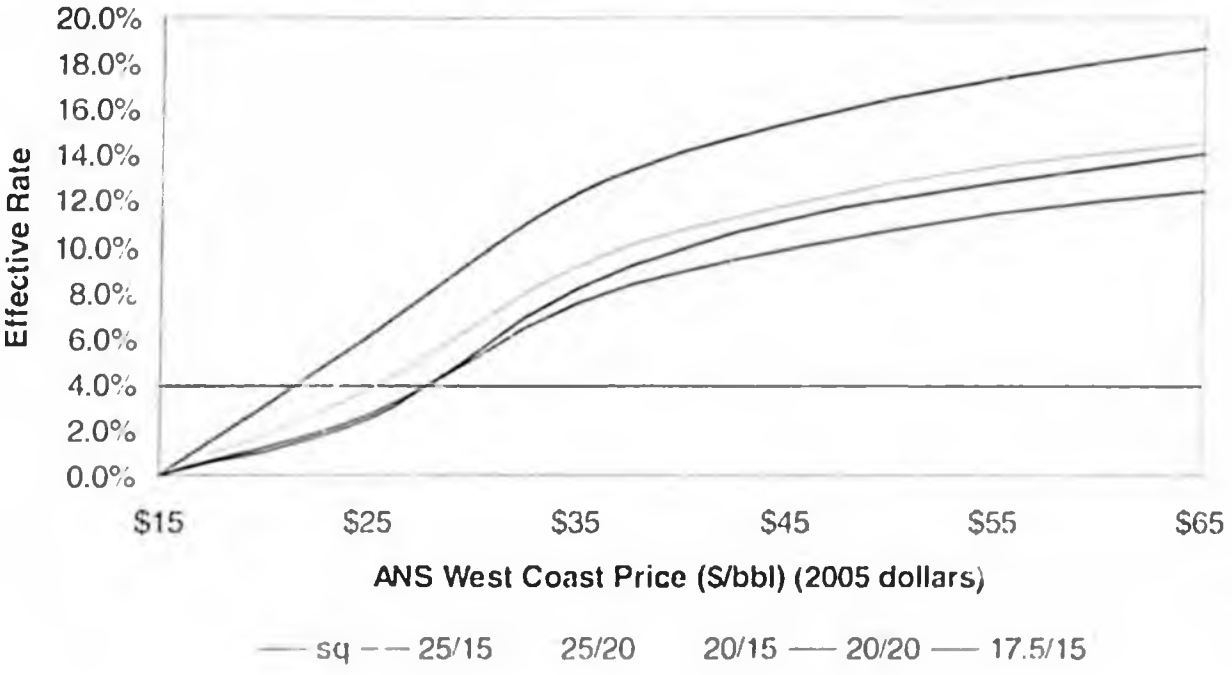
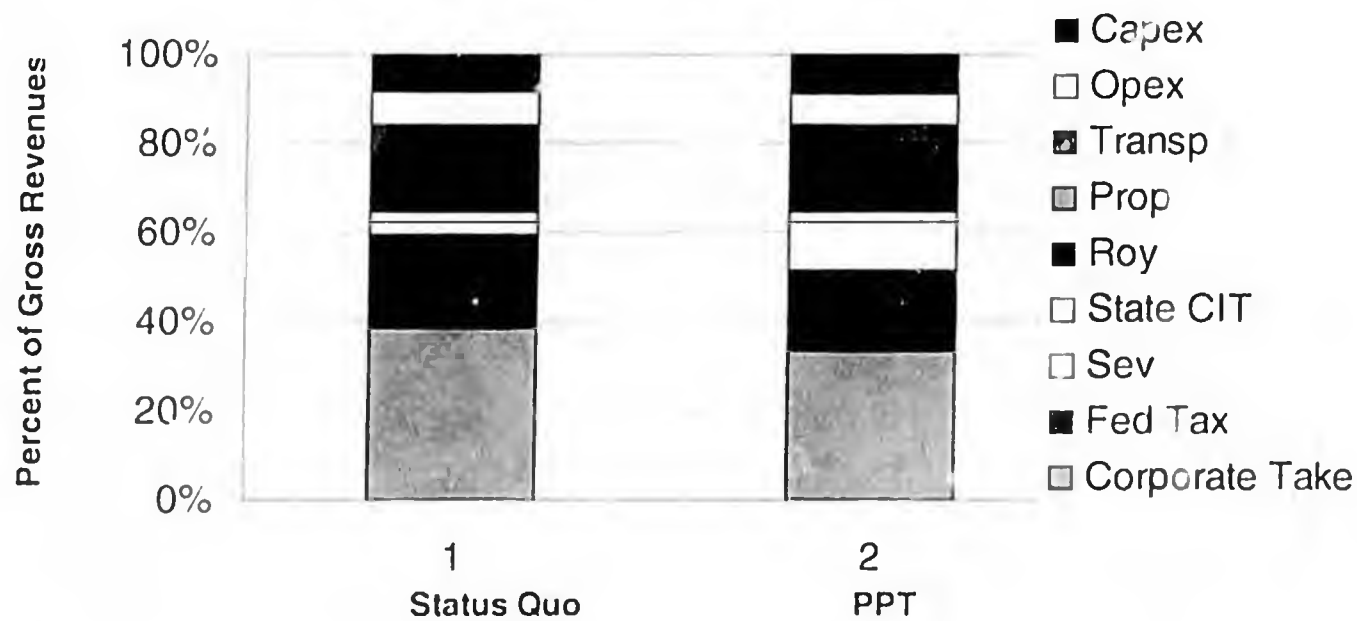


Figure 11
 Effective Oil Severance Tax Rate
 With Gasline & Enhanced Volumes



Conclusion: Corporate Take

Figure 12
Corporate Take at EIA Forecast Price (\$58)
20% Tax/15% Credit
With Gasline & Enhanced Volumes



Corporate take goes from 39% to 33% of gross revenues,
 or from 51% to 44% of the economic rent

PROFIT SHARING PRODUCTION TAX

Presentation to the Senate and
House Finance Committee

February 1, 2006

FISCAL SYSTEM OF ALASKA

The fiscal system applicable to oil and gas of Alaska consists primarily of four components:

- Royalties
- Production tax (severance tax, "ELF")
- Property tax
- State corporate income tax

Additionally, there is federal corporate income tax.

This presentation is about proposed changes in the production tax.

CURRENT PRODUCTION TAX

The current production tax for oil is 12.25% net of royalty for the first five years of production and 15% thereafter. These percentages are multiplied by the Economic Limit Factor (between 0 and 1). The ELF lowers the production tax rate for smaller fields and fields with low productivity wells.

CURRENT PRODUCTION TAX

The current version of the production tax ("ELF") was introduced in 1989. The formula reflects economic conditions in 1989 when oil prices were in the \$ 14 - \$ 17 per barrel range and the values of 300 bopd for well productivity and 150,000 bopd for field productivity represented reasonable economic benchmarks.

Also the formula did not contemplate the subsequent development of a variety of satellite fields.

While the production tax stimulated the development of a variety of marginal fields, the benchmarks are now outdated.

Therefore, an overhaul of the production tax is in the interest of the State.

CURRENT PRODUCTION TAX

The production tax has serious deficiencies:

- ELF is no longer rational in relation to well productivity and field production.
- ELF is not responding reasonably in case of field production decline
- ELF does not provide a reasonable balance under a range of oil prices
- ELF does not provide a sufficient incentive for re-investment

CURRENT PRODUCTION TAX

$$ELF = \left[1 - \frac{(300 \times \text{wells})}{\text{volume}} \right]^{\left[\left(\frac{150,000}{\text{volume}} \right)^{1.53333} \right]}$$

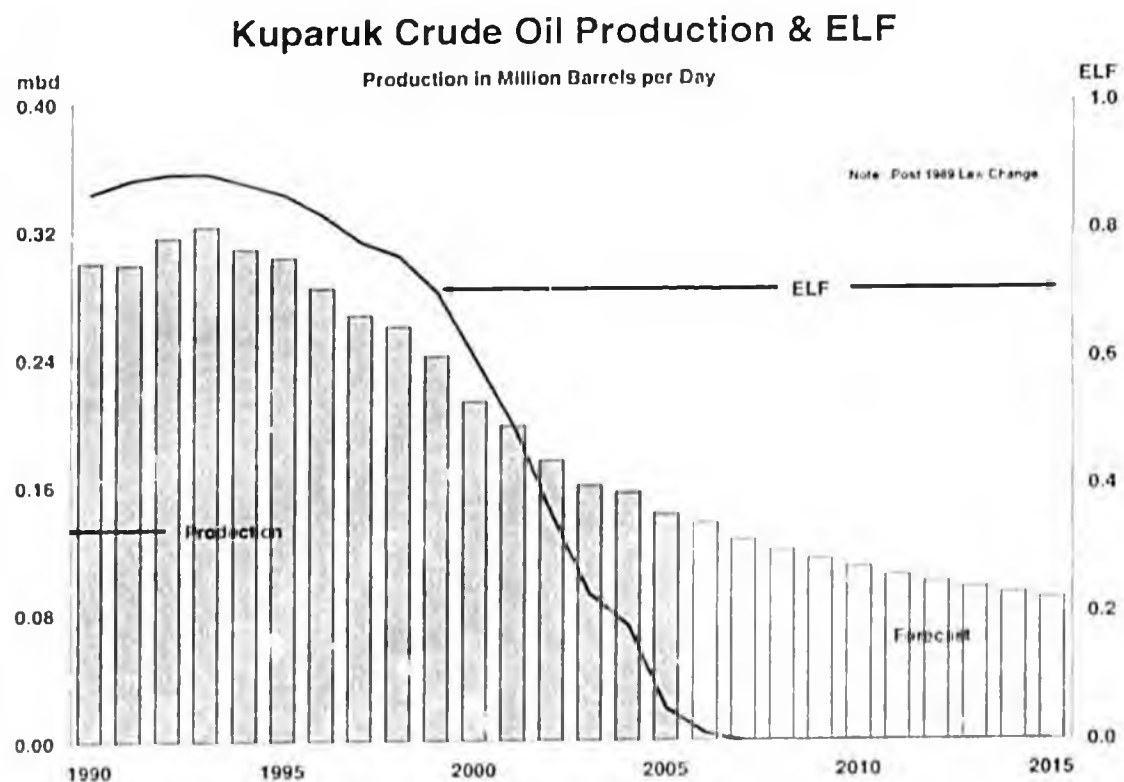
"wells" is the number of producing wells in the field; "volume" is the total daily production for the field

Well Prod	Wells	Volume	ELF
bopd		bopd	
300	2000	600000	0.00
300	500	150000	0.00
1500	100	150000	0.80
1500	20	30000	0.07
6000	5	30000	0.55

An ELF of 0.00 means that the production tax is zero. However, royalties, property tax and corporate income tax remain payable.

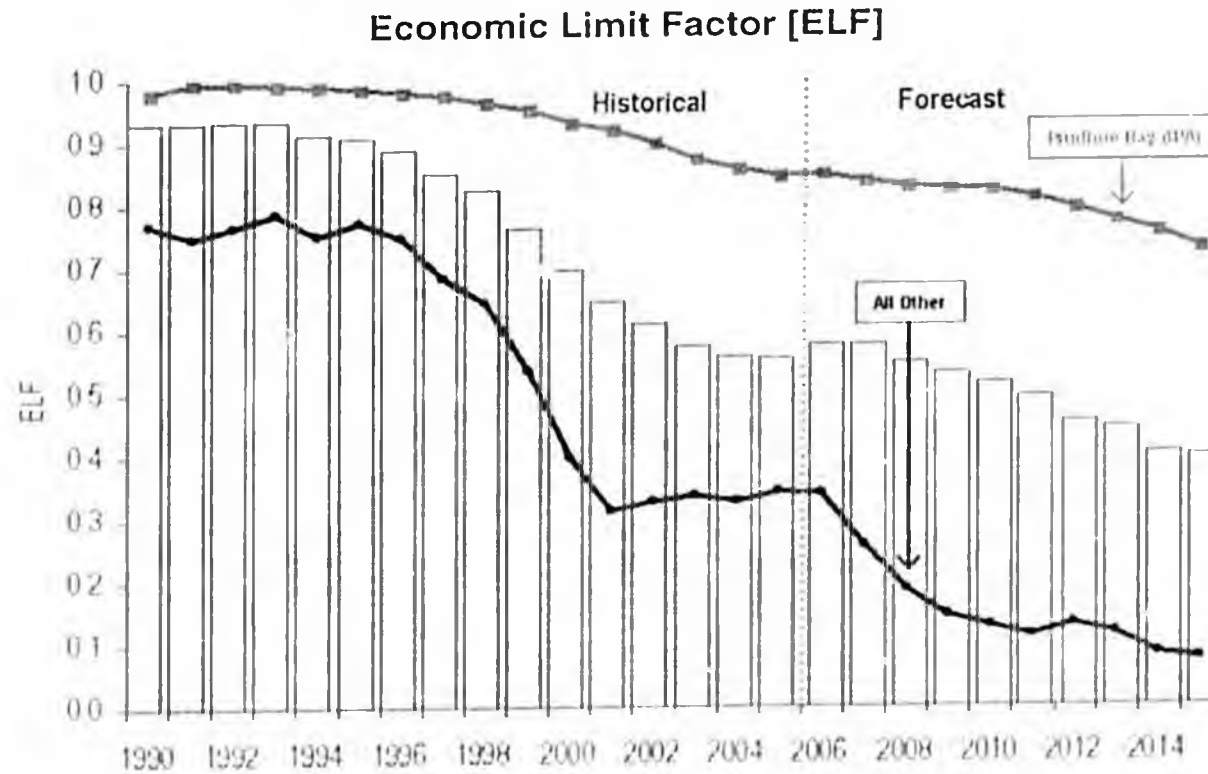
CURRENT PRODUCTION TAX

ELF is declining faster than production in some fields.



CURRENT PRODUCTION TAX

ELF is declining faster than production in some fields.



PROFIT SHARE CONCEPT

The Governor proposes a profit sharing production tax ("PPT") which is a complete replacement of the current ELF based version of the production tax on oil and gas.

The PPT will be a law of general application.

PPT

The PPT is calculated as a tax rate multiplied by the corporate cash flow from production in Alaska from oil and gas, with tax credits to encourage investments.

It is a consolidated tax at the corporate level.

The cash flow is calculated as:

Gross production revenues (net of royalties) based on wellhead prices, less the producer's lease expenditures.

PPT

There will be tax credits to encourage investment based on a percentage of the amount of the investment

Losses in any year can be converted to tax credits by multiplying the amount of the loss with the tax rate.

Tax credits can be transferred and traded

Explorers and independents will be able to monetize part of their investments immediately, thereby strongly encouraging exploration.

PPT

The tax rate and tax credit rate are currently being discussed in the context of negotiations.

The Joint Senate/House Finance requested data around five specific scenarios,

Tax Rate	Tax Credit Rate on Capital Expenditures
25%	15%
25%	20%
20%	15%
20%	20%
17.5%	15%

These requested cases are not necessarily reflective of what may ultimately be decided.

PPT

Small Producers

There will be features to ensure that there is no tax on a low level of production per company in order to encourage explorers and independents. Several alternatives are being considered:

- The tax rate on the first 5000 barrel of oil equivalent per day per company is 0%, or
- There will be a tax free allowance equal the lower of an agreed level per company or the actual profits per company. This allowance could be in the range of \$ 50 to \$ 100 million per year.

PPT

Heavy Oil

The State is also considering the possibility for having a somewhat higher tax credit on capital investments in the development of heavy oil

Increased development of heavy oil will add to the level of North Slope production. It represents an important possible future development that is clearly high cost.