

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2953

Average Effective Tax Rate Under the Fair Share Bill

Price of Oil	\$20.00	\$40.00	\$60.00	\$80.00
Status Quo	7.8%	7.8%	7.8%	7.8%
Fair Share Bill	9.0%	18.0%	21.4%	23.2%

Incentive Rebate At Very Low Prices

If oil prices fall below \$10 per barrel, the bill would waive half the production tax and would defer payment of the other half until prices rise above \$16 per barrel.

20 – 40 % Tax Credits

- Bill extends the 20% and 40% tax credits for New Exploration established by SB185. (AS 43.55.025)
- Might Amend to Allow Credit For Expenses to Extend The Life of Existing Fields, though existing company incentives to do that might not justify credits.

Incentives for Heavy Oil

- The bill exempts 'heavy oil' (less than 20 API gravity) from any of its measures.
- Heavy oil, like that contained in the West Sak reservoir, requires more expensive drilling and production measures.
- Alternatively Approaches To Heavy Oil Should Also Be Considered

Fair Tax Relief

- The bill allows taxpayers “production tax relief.” Borrows from 2003’s Royalty Relief law (HB 28).
- If Production Tax Relief is needed for field to be “*economically feasible*”, DOR has the power to waive all of any of the additional Production Tax, and Royalties for that field. Uses standards in AS 38.05.180(j).



A Major Development Incentive – Facilities Access

- Former Division of Oil & Gas Director Mark Myers concluded that facilities access is one of the most important things Alaska can do to encourage new development
- SSHB 3004 Requires that if there is excess capacity at a facility, the facility owner shall make it available to independent producers at a “reasonable rate” – a standard currently used by the RCA in the telecommunications area
(AS 42.05.381)

Giving Companies More Profit Doesn't Guarantee More Investment

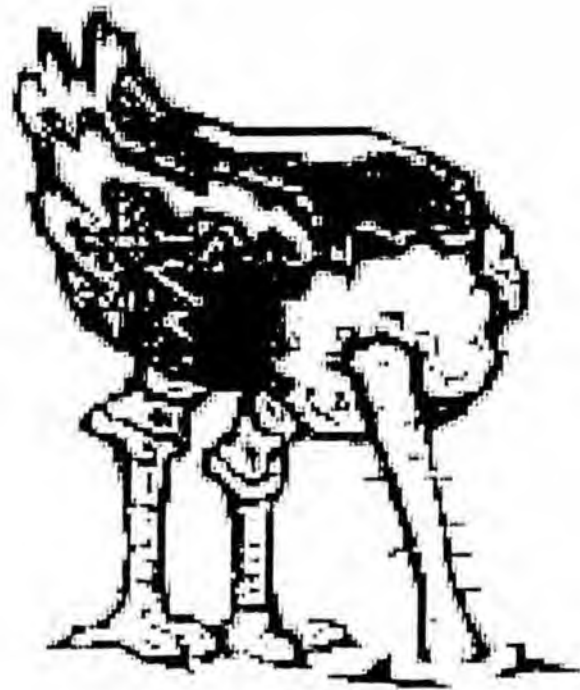
- “...as the world grapples with high prices, tight refining capacity and fears of shortages throughout the business, executives are finding that that’s **more money than they can spend.**” Source: N.Y. Times, “Oil Companies in Quandary Over Cash Glut,” 2/12/05
- “BP, which earned **\$16.2 billion** in 2004, will return as much as **\$23 billion** to its investors this year and next, mostly as dividends.” Source: N.Y. Times 2/12/05

Providing Extra Revenue to Oil Companies Does Not Equal Additional Investment

	FY 2002	FY 2003	FY 2004	FY 2005
<i>Price of Oil</i>	\$21.78	\$28.15	\$31.74	\$43.44
<i>Company Revenue</i>	\$1.7 Billion	\$2.9 Billion	\$3.5 Billion	\$5.2 Billion

- Company investment in Alaska has stayed at roughly \$1 Billion

What if we do nothing?



Other Options

- Add A New Exploration Credit
- Van Meurs: Gross Tax Can Be Modified TO Achieve Desired Revenue Level; Credit Will Attract Investment By Companies Seeking To Reduce Tax Burden.
- Heavy Oil: Impose A Modified Tax, Allow Companies to Apply for Royalty and Tax Relief
- Van Meurs: Stopping the Bleeding on Lost Revenue On Existing Fields Is A Priority. Apply New Rules Only To Existing Fields?

Reform Needed By Any Measure

- The Production Tax effectively exempts Huge Fields.
- The exemptions apply even at prices where oil companies earn windfall profits.
- At average & high prices, Corporate Profit Share vastly exceeds Alaska's Share.
- Corporate Profit Margins Bigger in Alaska than in less safe places worldwide.

We Can Make the ELF Work Better



HB

3005

HFIN

FILE

ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:
345 W. Sterling Hwy
Suite 102B
Homer, Alaska 99603
Phone: (907) 235-2921
Fax: (907) 235-4008



Session Address:
State Capitol, Room 102
Juneau, Alaska 99801
Phone: (907) 465-2689
Fax: (907) 465-3472

HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

MEMORANDUM

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

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

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

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

A M E N D M E N T

OFFERED IN THE HOUSE
TO: HB 3005

BY REPRESENTATIVE SEATON

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

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

4

5 Page 2, following line 16:

6 Insert a new bill section to read:

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

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

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

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

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

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

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

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

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

1 Committee.

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

12 (1) an oil pool

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

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

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

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

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

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

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

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

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

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

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

8 (l) In this section,

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

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

11 (i) the Prudhoe Bay Unit; or

12 (ii) the Milne Point Unit;

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

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

16 the

17 (i) Tuvaaq Unit;

18 (ii) Nikaitchuk Unit; or

19 (iii) Rockflour Unit;

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

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

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

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

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

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

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

8 Renumber the following bill sections accordingly.

9

10 Page 2, following line 24:

11 Insert a new subsection to read:

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

17

18 Reletter the following subsections accordingly.

19

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

21 Insert "(a)"
22

22

23 Page 3, following line 7:

24 Insert a new subsection to read:

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

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: HB 3005

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

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

3

4 Page 2, following line 16:

5 Insert new bill sections to read:

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

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

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

18 (2) if for an exploration well,

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

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

22 and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27
28 Renumber the following bill sections accordingly.

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

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

1

2 Page 3, lines 6 - 7:

3 Delete all material and insert:

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

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

ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:
345 W. Sterling Hwy
Suite 102B
Homer, Alaska 99603
Phone: (907) 235-2921
Fax: (907) 235-4008



Session Address:
State Capitol, Room 102
Juneau, Alaska 99801
Phone: (907) 465-2689
Fax: (907) 465-3472

HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

Sponsor Statement HB 3005

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

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

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

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

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

ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:
345 W. Sterling Hwy
Suite 102B
Homer, Alaska 99603
Phone: (907) 235-2921
Fax: (907) 235-4008



Session Address:
State Capitol, Room 102
Juneau, Alaska 99801
Phone: (907) 465-2689
Fax: (907) 465-3472

HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

HB 3005 Questions

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

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

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

2. What is the purpose of HB 3005?

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

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

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

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

January	26.8
February	23.7
March	23.9
April	24.8
May	25.5

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

Average Value X average volume = approximate Monthly value

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

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

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



Petroleum Navigator

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

View History: Daily Weekly Monthly Annual

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

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

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

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

Updated on 7/19/2006

Source: U.S. Energy Information Administration

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Excerpts From Dr. van Meurs 2nd Report on Progressivity 5 March, 06

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

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

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

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

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

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

ECONOMIC ANALYSIS

Following is a detailed economic analysis of the formula concept.

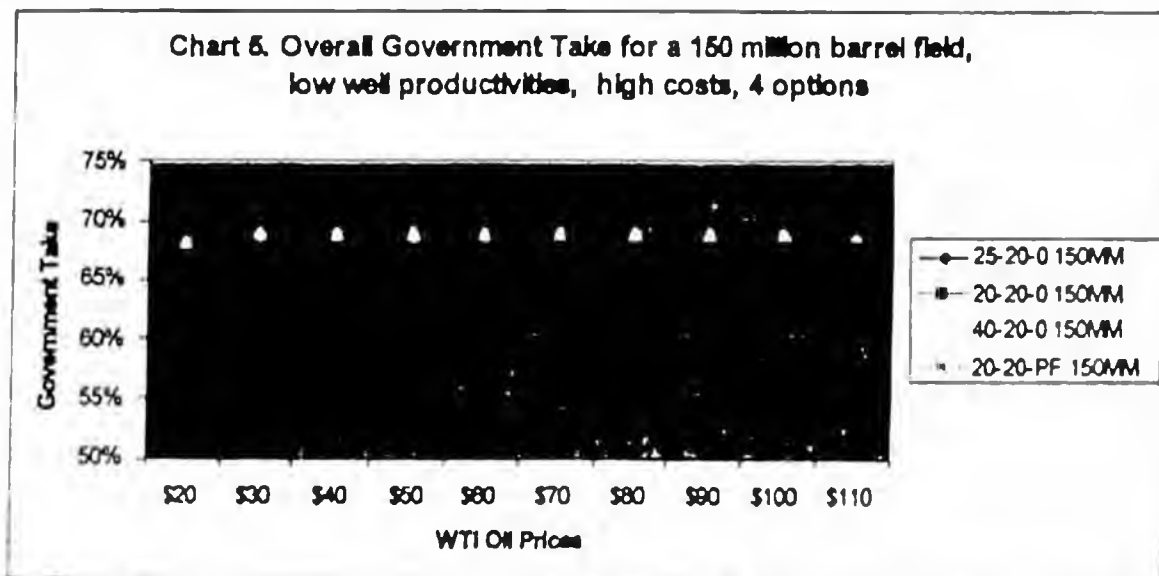
The graphs illustrate the economic effects of this feature – not considering the \$ 73 million tax free allowance.

The graphs are based on four scenarios:

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

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

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



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

Profit showing in Kuykanan & Lindcott

GROSS VS. NET - HEAVY OIL

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

SUPPOSE THE TAX IS 15% OF GROSS:

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

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

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

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

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

PROGRESSIVITY SCHEMES

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

PROGRESSIVITY SCHEMES

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

A BRIEF HISTORY OF PROGRESSIVITY

HB 488 (RES) 3/22/06

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

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

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

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

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

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

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

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

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

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

SB 305 (RES) 3/30/2006

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

20
$$(((\text{ANS West Coast price} - \$40) \times .002) \times [\text{ANS wellhead price} \times (1 - \text{PPT rate})])$$

21
$$\times (\text{total taxable barrels of oil at the point of production})$$

22 where

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

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

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

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

SB 305 (FIN) 4/22/06

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

01
$$(((\text{ANS West Coast price} - \$50) \times .002) \times [\text{ANS wellhead price} \times (1 - \text{PPT rate})])$$

02
$$\times (\text{total taxable barrels of oil at the point of production})$$

03 where

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

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

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

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

HCS CSSB 305(FIN) 5/06/06

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

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

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

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

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

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

CSSB 2001(FIN) 5/21/06

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

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

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

HCS CSSB 2001(FIN) 6/03/06

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

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

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

HCS CSSB 2001(FIN) am H

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

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

Conference CS CSSB 2001 6/08/06

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

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

HB 3003 7/13/06

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

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

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

HB 3005 7/25/06

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

SB____ Senator Wagoner 7/27/06

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

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

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

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

PRESENTATION ON ALASKA PPT

to House Resources Committee
March 13, 2006

Analysis of PPT

Barry Pulliam

Dr. Tony Finizza

5th Floor
601 W. 5th Street
Los Angeles, California 90071
213 624 9630

Suite 1172
1215 K Street
Sacramento, California 95811
916 448 2860

Suite 2821
Three Allen Center
333 Clay Street
Houston, Texas 77002
713 218 1700

Suite 230
108 E. Rich Street
Austin, Texas 78701
512 476 3711



Econ One Research, Inc.

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



Example of Tax with Sliding Scale

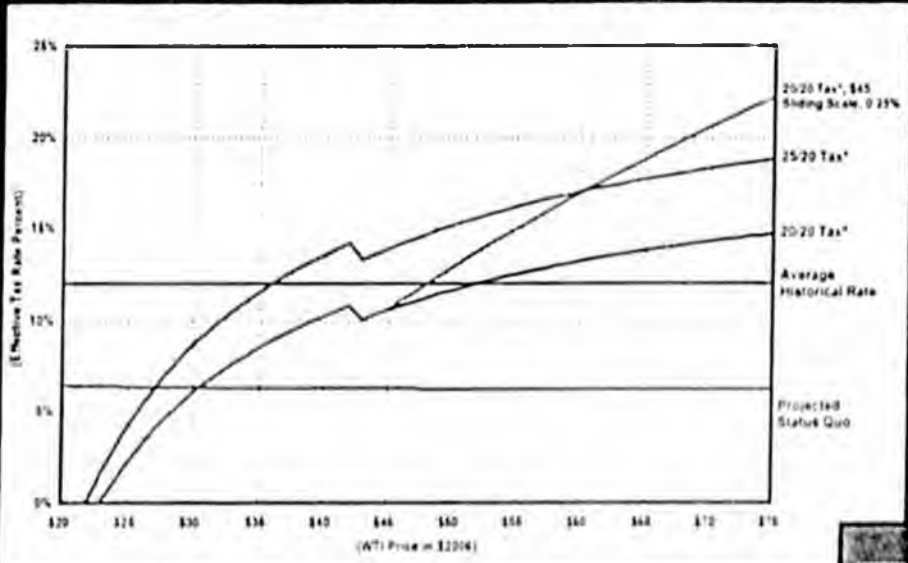
Assumptions: 0.25% per dollar over \$45/barrel WTI (threshold);
 \$55/barrel WTI price;
 \$47/barrel ANS wellhead price;
 20/20 PPT.

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

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



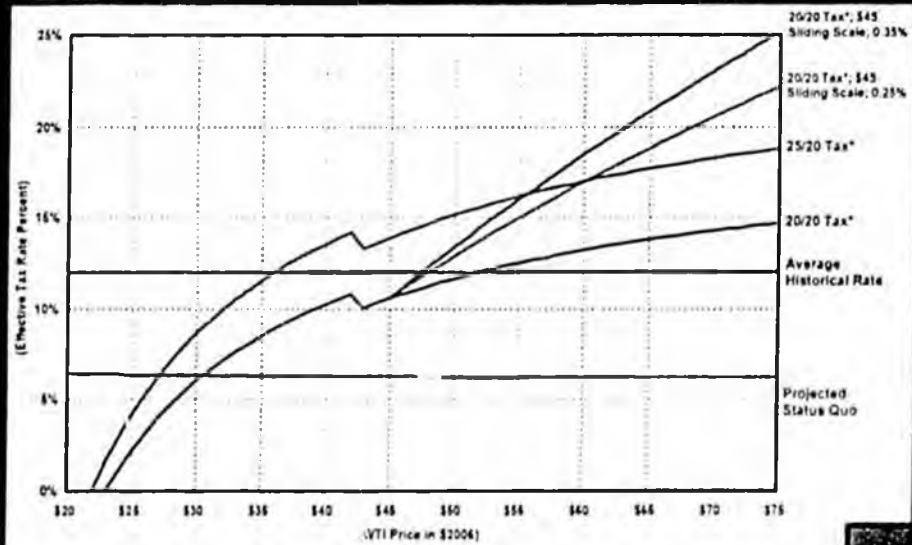
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



* Calculated from July 2006, Initial \$20 and \$45 thresholds and 27 million equivalent volumes per DOE Fall 2009 Forecast with Original projection.



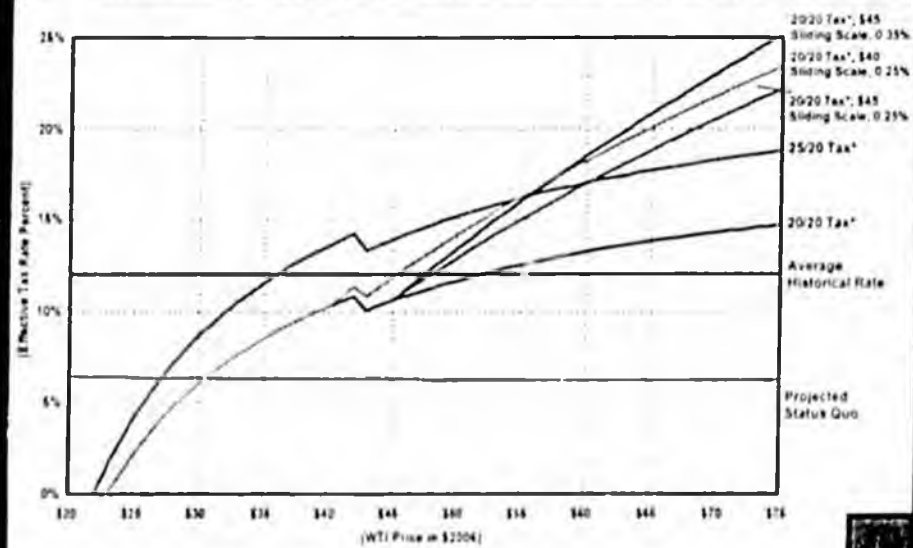
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



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



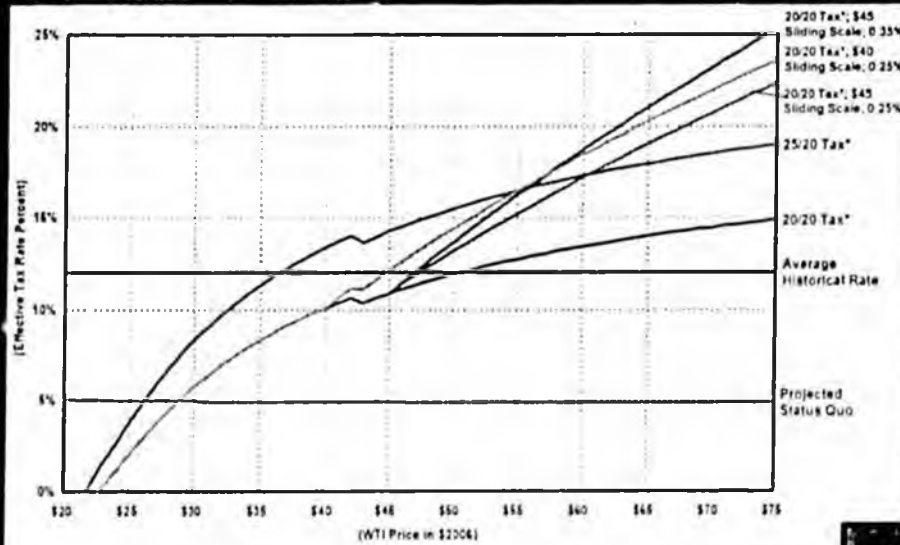
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Calculated from July 2006, includes 6-year transition and \$71.4 million exemption, volume per DGR Fall 2006 Forecast with Oxytech projection.



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



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



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

WTI Price (\$ 2004)	2020 with Sliding Scale Tax									
	2020		\$45 Forecast Price				\$45 Forecast Price			
	Base	Sliding	0.25%	0.35%	0.25%	0.35%	0.25%	0.35%	0.25%	0.35%
\$30	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
\$40	4.0%	10.0%	11.0%	11.1%	11.5%	11.8%	12.2%	12.5%	12.8%	13.2%
\$50	4.0%	13.0%	14.0%	15.0%	16.0%	17.2%	18.0%	19.0%	19.8%	20.8%
\$60	4.0%	15.0%	16.0%	17.0%	18.0%	19.2%	20.0%	21.0%	22.0%	23.0%
\$70	4.0%	16.0%	17.0%	18.0%	19.0%	20.2%	21.0%	22.0%	23.0%	24.0%
\$80	4.0%	17.0%	18.0%	19.0%	20.0%	21.2%	22.0%	23.0%	24.0%	25.0%

WTI Price (\$ 2004)	2020 with Sliding Scale Tax									
	2020		\$45 Forecast Price				\$45 Forecast Price			
	Base	Sliding	0.25%	0.35%	0.25%	0.35%	0.25%	0.35%	0.25%	0.35%
\$30	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
\$40	13.2%	12.2%	10.2%	10.5%	11.2%	12.0%	10.0%	10.8%	12.0%	13.2%
\$50	18.5%	12.0%	12.2%	13.0%	13.5%	14.0%	11.0%	11.0%	11.0%	11.0%
\$60	17.2%	14.0%	14.2%	15.0%	15.5%	16.0%	13.0%	13.0%	13.0%	13.0%
\$70	18.5%	18.5%	19.5%	20.0%	20.2%	20.5%	18.0%	18.0%	18.5%	19.5%
\$80	18.4%	21.2%	21.5%	22.5%	23.5%	23.5%	21.0%	21.0%	21.0%	21.0%



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

		2020 with Sliding Scale Tax									
		\$30 Threshold Flow				\$40 Threshold Flow					
WTI Price (\$ 2004)	Take (\$/b)	2020	Increment				Increment				Increment
			0.25%	0.25%	0.30%	0.35%	0.20%	0.25%	0.30%	0.35%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
\$30	57.0%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	
\$40	57.7%	57.7%	58.0%	58.2%	58.4%	58.6%	57.7%	57.7%	57.7%	57.7%	
\$50	58.3%	58.8%	58.8%	58.4%	58.2%	57.4%	58.2%	58.5%	58.8%	58.2%	
\$60	57.5%	58.8%	60.2%	60.8%	61.6%	62.4%	58.4%	60.0%	60.1%	61.3%	
\$70	58.9%	58.8%	61.2%	62.3%	63.3%	64.4%	60.6%	61.5%	62.4%	63.2%	
\$80	58.6%	58.8%	62.3%	63.7%	65.0%	66.4%	61.7%	62.9%	64.1%	65.2%	

		2020 with Sliding Scale Tax							
		\$45 Threshold Flow				\$50 Threshold Flow			
WTI Price (\$ 2004)	2020	Increment				Increment			
		0.20%	0.25%	0.30%	0.35%	0.20%	0.25%	0.30%	0.35%
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
\$30	58.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%	57.7%
\$40	58.7%	57.7%	57.2%	57.2%	57.2%	57.2%	57.2%	57.2%	57.2%
\$50	58.7%	57.8%	57.7%	57.6%	58.1%	58.9%	58.9%	58.9%	58.9%
\$60	58.7%	58.9%	59.3%	58.7%	60.2%	58.1%	58.5%	58.6%	58.1%
\$70	58.3%	58.8%	60.1%	61.5%	62.2%	58.3%	58.9%	60.6%	61.2%
\$80	58.4%	61.1%	62.1%	63.2%	64.3%	60.5%	61.6%	62.1%	62.5%

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



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

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

HB

3006

HFIN

FILE

*Amended
8-4-06*

24G-2
8/3/06
(1:05 PM)

AMENDMENT

OFFERED IN THE HOUSE FINANCE

BY _____

COMMITTEE

TO: HB 3006

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

2 Insert "making appropriations from the Railbelt energy fund to facilitate electric
3 generation and transmission projects;"

4
5 Page 1, line 4, following "* Section 1.":

6 Insert "GAS PIPELINE SPUR LINE STUDY."

7
8 Page 1, following line 5:

9 Insert a new bill section to read:

10 "* Sec. 2. RAILBELT ENERGY FUND. (a) The sum of \$12,500,000 is appropriated from
11 the Railbelt energy fund (AS 37.05.520) to the Alaska Energy Authority for payment as a grant
12 under AS 44.83.080 to Chugach Electric Association for new substations and transmission lines,
13 generation site acquisition, and infrastructure development.

14 (b) The sum of \$12,500,000 is appropriated from the Railbelt energy fund
15 (AS 37.05.520) to the Alaska Energy Authority for payment as a grant under AS 44.83.080 to
16 Homer Electric Association for augmentation of existing and new generation at the Homer
17 Electric Association Nikiski facility and upgrade of bulk transmission facilities within the Kenai
18 Peninsula Borough subdivision.

19 (c) The sum of \$12,500,000 is appropriated from the Railbelt energy fund
20 (AS 37.05.520) to the Alaska Energy Authority for payment as a grant under AS 44.83.080 to
21 Matanuska Electric Association for new substations and transmission lines, generation site

1 acquisition, and infrastructure development.

2 (d) The sum of \$14,000,000 is appropriated from the Railbelt energy fund
3 (AS 37.05.520) to the Alaska Energy Authority for payment as a grant under AS 44.83.080 to the
4 Matanuska Electric Association for a 115 kilovolt transmission line from the Douglas substation
5 to the Stevens substation.

6 (e) The sum of \$1,000,000 is appropriated from the Railbelt energy fund (AS 37.05.520)
7 to the Alaska Energy Authority for payment as a grant under AS 44.83.080 to Seward Electric
8 System for a new backup generator.

9 (f) The sum of \$4,000,000 is appropriated from the Railbelt energy fund (AS 37.05.520)
10 to the Alaska Energy Authority for payment as a grant under AS 44.83.080 to Anchorage
11 Municipal Light and Power for new substations and transmission lines generation site
12 acquisition, and infrastructure development.

13 (g) The sum of \$12,500,000 is appropriated from the Railbelt energy fund
14 (AS 37.05.520) to the Alaska Industrial Development and Export Authority for the restart of the
15 Healy Clean Coal Plant.

16 (h) The sum of \$4,500,000 is appropriated from the Railbelt energy fund (AS 37.05.520)
17 to the Alaska Energy Authority for payment as a grant under AS 44.83.080 to the Copper Valley
18 Electric Association for reimbursement of capital projects expenditures."

19

20 Renumber the following bill sections accordingly.

21

22 Page 1, line 6:

23 Delete "appropriation made by this Act is for a capital project and lapses"

24 Insert "appropriations made by this Act are for capital projects and lapse"

25

26 Page 1, following line 7:

27 Insert new bill sections to read:

28 * Sec. 4. **CONDITIONAL EFFECT.** Section 2(a) - (g) of this Act take effect only if the board
29 of directors of the Alaska Energy Authority approves a plan for the formation of an organization
30 to encourage the economic dispatch of Railbelt electricity.

31 * Sec. 5. If sec. 2(a) - (g) of this Act take effect under sec. 4 of this Act, they take effect on the

1 date that the chair of the Alaska Energy Authority certifies to the lieutenant governor and the
2 revisor of statutes that the action described in sec. 4 of this Act has been taken."

3

4 Renumber the remaining bill section accordingly.

5

6 Page 1, line 8:

7 Delete "This Act"

8 Insert "Except as provided in sec. 5 of this Act, this Act"

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

STATE OF ALASKA



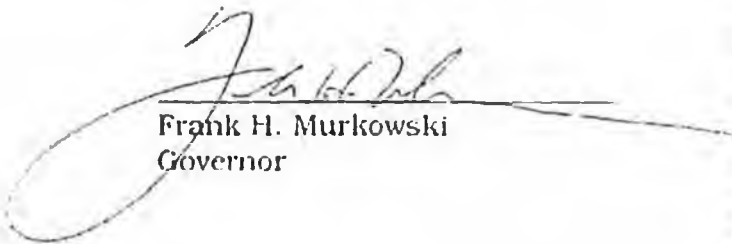
Executive Proclamation
by
Frank H. Murkowski, Governor

Under the authority of art. II, sec. 9, and art. III, sec. 17, of the Alaska Constitution, and in the public interest, I am supplementing my proclamations of June 26, 2006, and July 25, 2006, concerning the third special session of the Twenty-Fourth Legislature of the State of Alaska, with the addition of the following subject:

Making appropriations from the Railbelt energy fund (AS 37.05.520) to facilitate electric generation and transmission projects and to facilitate providing for the economic dispatch of Railbelt electricity.

This proclamation supplements my proclamations of June 26, 2006, and July 25, 2006.

Dated at Juneau, Alaska this 3rd day of August, 2006.


Frank H. Murkowski
Governor

STATE OF ALASKA



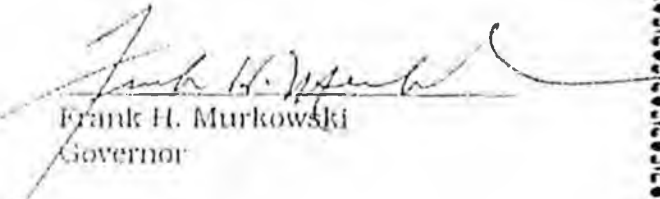
Executive Proclamation
by
Frank H. Murkowski, Governor

Under the authority of art. II, sec. 9, and art. III, sec. 17, of the Alaska Constitution, and in the public interest, I am supplementing my proclamation of June 26, 2006, calling the Twenty-Fourth Legislature of the State of Alaska into its third special session at Juneau, Alaska on July 12, 2006, with the addition of the following subjects:

1. Relating to gang-related violence and to contempt of court and to temporary detention and identification of persons;
2. Making an appropriation to study the feasibility of a spur line from the gas pipeline in the state.

This proclamation supplements my proclamation of June 26, 2006.

Dated at Juneau, Alaska this 25 day of July, 2006.


Frank H. Murkowski
Governor

HB

40001

HFIN

FILE

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 4001
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Law
Title An Act prohibiting the commissioner of BRU _____
administration from drafting, adopting, filing, Component: _____
or publishing regulations granting or extending _____
employment-related benefits for same-sex _____
partners of unmarried state employees; and _____
providing for an effective date. _____

Sponsor _____
Requestor _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	XXXXXX	XXXXXX	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	------------	------------	------------	------------	------------	------------

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	XXXXXX	XXXXXX	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	XXXXXX	XXXXXX	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Deputy Attorney General Craig Tillery testified that there would be legal costs but they would be absorbed in the regular budget process.

Prepared by: Sharon Kelly Phone 465 6619
Division: House Finance Date/Time 11/16/06 8:38 AM
Approved by: Moyer/Chenault Date 11/16/2006
Agency: House Finance

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 4001
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act prohibiting the commissioner of administration RDU Centralized Administrative Services
from drafting, adopting, filing, or publishing regulations granting Component Retirement and Benefits
Sponsor Rules Component No. 64
Requester Rules

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURE	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES (
-----------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1097 Aetna Res						
1142 RHF/MM						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Traci Carpenter, Director
Division: Retirement and Benefits
Approved by: Chansse Millott, Legislative Liaison
Agency: Department of Administration

Phone 465-4817
Date/Time 11/15/06 4:40 PM
Date 11/15/2006

adopted 11/16/06 N/D

24-LS2005-L
Wayne
11/16/06

CS FOR HOUSE BILL NO. 4001(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FOURTH SPECIAL SESSION

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act prohibiting the commissioner of administration from adopting, allowing to
2 become law, or implementing regulations that grant or extend employment-related
3 benefits to same-sex partners of state employees and members of the state retirement
4 systems unless expressly authorized by statute; providing for the authority of the
5 commissioner of administration to take certain actions relating to those benefits if a
6 contingency is met; and providing for an effective date."

7 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

8 * Section 1. AS 44.21 is amended by adding a new section to read:

9 **Sec. 44.21.015. Regulations and other actions prohibited.** The
10 commissioner of administration may not adopt, allow to become law, or implement
11 regulations that grant or extend employment-related benefits to same-sex partners of
12 state employees or members of the state retirement systems unless expressly
13 authorized by statute.

1 * Sec. 2. AS 44.21.015 is repealed and reenacted to read:

2 **Sec. 44.21.015. Regulations and other actions authorized.** The
3 commissioner of administration may adopt, allow to become law, and implement
4 regulations that grant or extend employment-related benefits to same-sex partners of
5 state employees or members of the state retirement systems. Regulations adopted
6 under this section relate to internal management and are not subject to AS 44.62
7 (Administrative Procedure Act). The commissioner of administration shall follow the
8 procedures set out in AS 39.35.005 to adopt regulations under this section.

9 * Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 **CONTINGENCY.** Section 2 of this Act is contingent on the occurrence of the earliest
12 of the following events:

13 (1) the date that the director of elections certifies the results of a special
14 election of an advisory vote on whether the legislature should adopt a proposed constitutional
15 amendment to the state constitution to be considered by the voters at the 2008 general election
16 that would prohibit the state or a municipality or other subdivision of the state from providing
17 employment benefits to same-sex partners of public employees that is authorized by the
18 Fourth Special Session of the Twenty-Fourth Alaska State Legislature in which the majority
19 of qualified voters voting voted "No";

20 (2) the legislature has not passed, by August 1, 2008, a joint resolution to
21 place on the 2008 general election ballot a constitutional amendment that would prohibit the
22 state or a municipality or other subdivision of the state from providing employment benefits
23 to same-sex partners of public employees;

24 (3) the date that the director of elections certifies the results of the 2008
25 general election concerning the constitutional amendment described in (2) of this section in
26 which the majority of the qualified voters voting on the question voted "No."

27 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to
28 read:

29 **RETROACTIVITY.** AS 44.21.015, added by sec. 1 of this Act, is retroactive to
30 June 1, 2006.

31 * Sec. 5. If, under sec. 3 of this Act, sec. 2 of this Act takes effect, it takes effect the day

- 1 following the date that the appropriate contingency described in sec. 3 of this Act is met.
- 2 * Sec. 6. Except as provided in sec. 5 of this Act, this Act takes effect immediately under
- 3 AS 01.10.070(c).

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

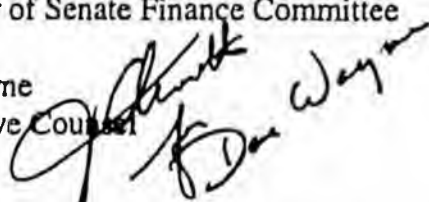
MEMORANDUM

November 15, 2006

SUBJECT: Employment-Related Same-Sex Partner Benefits
(Draft CSSB 4001(FIN); Work Order No. 24-GS4033\G)

TO: Senator Lyda Green
Co-Chair of Senate Finance Committee

FROM: Dan Wayne
Legislative Counsel



The draft CSSB 4001(FIN), prohibiting the commissioner of administration from adopting employment-related same-sex partner benefits for state employees, has potential legal problems.

1. Equal Protection Issues.

The committee substitute as drafted creates a conflict between its prohibition, current statutory authorizations, and the Alaska Constitution as recently interpreted. Current statutory authorizations allow for same-sex benefit regulations, including the mandate under AS 39.28.020 to carry out equal employment opportunity responsibilities provided under state and federal laws.¹ At the same time, as you know, the Alaska Supreme Court has, in *Alaska Civil Liberties Union v. State*,² mandated the provision of same-sex

¹ In addition to AS 39.28.030, which applies to all benefits related to employment, AS 14.25.003(b), AS 14.25.005, AS 22.25.027, AS 39.35.003(b), and AS 39.35.005 confer broad regulation-making authority on the commissioner of administration with respect to retirement benefits. Regulations related to supplemental employee benefit options under AS 39.30.150 - AS 39.30.180 (supplemental benefits and supplemental health, death, disability and dependent care) may be adopted under AS 14.25.004(13), made applicable through AS 39.30.154, which allows the commissioner of administration to do *whatever is necessary* to carry out the purposes of the supplemental benefits statutes.

² 122 P.3d 781 (Alaska 2005). The case cites article I, section 1 of the Alaska State Constitution, which reads:

Inherent Rights. This constitution is dedicated to the principles that all persons have a natural right to life, liberty, the pursuit of happiness, and the enjoyment of the rewards of their own industry; that all persons are

employment benefits by January 1, 2007, and the Alaska Superior Court Third Judicial District, in the same case³ on remand, has ordered the commissioner to provide for that. The commissioner proposed regulations as the method of compliance. Without a stay of those decisions and reconciliation of existing authority to provide for same-sex partner benefits, the commissioner may face contempt of court charges if this committee substitute passes and the commissioner complies with its prohibition.

The Supreme Court has already interpreted the state constitution's equal protection clause in art. I, sec. 1, and the employment protections under art. XII, sec. 6 to require same-sex partner benefits for state employees. If, in addition to the provisions of the committee substitute, the legislature also enacted statutes that complied with the court's decision, the prohibition against regulations would probably be upheld.

If, however, the committee substitute becomes law without statutes that comply with the court's decision, the court would probably either declare the law unconstitutional or simply order the commissioner to provide the benefits without regulations under rules the court will establish. Courts prefer to defer to statutory or regulatory methods of complying with constitutional requirements, but if the legislature does not act and the agency is prohibited from acting, courts will act, as happened in the busing cases following *Brown v. Bd. of Education*.

2. Retroactivity provision in sec. 2 of the bill draft.

The committee substitute is made retroactive to the Supreme Court's order of June 1, 2006, in the *ACLU* case. This order required the state to provide benefits, although it did not specifically require regulations. I am more than a little skeptical that the courts will accept the retroactive application of this committee substitute to invalidate valid, existing rights as of the effective date of the committee substitute for the reasons discussed below.

A. Retroactivity clause in the constitution.

The state constitution art. I, sec. 15, prohibits ex post facto laws and laws that would impair contracts. A "retrospective" or "retroactive" law is generally defined as a law that takes away or impairs vested rights acquired under existing laws, or creates new obligations, imposes a new duty or attaches a new disability in respect to transactions or considerations already past. Whether a particular provision may be applied retroactively in other than a purely procedural context without violating the constitution is a complex issue. It seems clear that this committee substitute has more than a purely procedural reach. The state constitution also expressly prohibits the impairment or reduction of

equal and entitled to equal rights, opportunities, and protection under the law; and that all persons have corresponding obligations to the people and to the State.

³ Trial Court Case No. 3 AN-99-11179 CI.

Senator Lyda Green
November 15, 2006
Page 3

employee benefits under art. XII, sec. 6.

The regulations promulgated so far as 2 AAC 38 have been through the Department of Administration's public procedure for adoption of regulations. Regulations adopted under AS 14.25.005(g), AS 22.25.027(f), and AS 39.35.005(g) were adopted October 13, 2006, and took effect November 12, 2006. However, under an emergency order issued November 10, 2006, those regulations are applicable to members of the retirement systems on November 22, 2006, to the extent the eligibility and documentation requirements of the regulations are consistent with any legislation passed in the Fourth Special Session. The emergency regulation looks like an attempt to prevent vesting of rights on or after November 12 under the originally adopted regulations. I am not positive that it will succeed, especially if the effective date of the legislation is after November 22.⁴ It is possible, in short, that rights of some employees will have vested before legislation can be enacted to prevent that.

B. Due Process.

The retroactivity provision contained in sec. 2 of the committee substitute may also be unconstitutional as applied to vested rights under the due process clause contained in art. I, sec. 7 of the state constitution and the 14th amendment to the federal constitution. Under the state constitution, vested property rights are protected against state action by the due process clause. *See, Bidwell v. Scheele*, 355 P.2d 584 (1960). Once again, the constitutional implications depend on whether the rights have vested before the effective date of the legislation.

If I may be of further assistance, please advise.

DCW:ljw
06-368.ljw

⁴ The active employee benefits, which were adopted under AS 39.28 and AS 39.30.154 and are subject to the procedures of AS 44.62, must be filed to become effective and therefore have not created vested rights.

Liberty

home about us blog books & films core concepts stories research debates links

concepts

Unintended Consequences

The law of unintended consequences states that our actions – especially those of government – always have effects that are unanticipated or unintended. Economists and other social scientists have been aware of the law of unintended consequences for centuries. For just as long, politicians and the general public have largely ignored it.

The concept of unintended consequences is one of the building blocks of economics. Adam Smith's "invisible hand," the most famous metaphor in social science, describes a positive unintended consequence of self-interested behavior. Smith thought that each individual, seeking only his own gain, "is led by an invisible hand to promote an end which was no part of his intention," that end being the public interest. "It is not from the benevolence of the butcher, or the baker, that we expect our dinner," Smith wrote, "but from regard to their own self interest."

Too often, however, the law of unintended consequences is illustrated by the perverse effects of legislation and regulation. In 1692, John Locke, the English philosopher and a forerunner of modern economists, urged the defeat of a parliamentary bill that would have capped interest rates at 4 percent. Locke argued that the law would hurt borrowers instead of helping them. Lenders would find ways to circumvent the law, and the costs of circumvention would be passed on to their customers. To the extent the law was obeyed, Locke also predicted, it would reduce the amount of available credit and would redistribute of wealth away from widows, orphans and all those who have their estates in money.

The first and most complete analysis of the concept of unintended consequences was written by American sociologist Robert K. Merton in 1936. In an influential article titled "The Unanticipated Consequences of Purposive Social Action," Merton identified five sources of unanticipated consequences. The first two – and the most pervasive – were ignorance and error.

Merton labeled the third source the "imperial immediacy of interest." He was referring to instances in which an individual wants the intended consequence of an action so much that he purposefully chooses to ignore any unintended effects. For example, lawmakers might require new cars to come equipped with airbags to show constituents that they care about highway safety, even though air bags make new cars too expensive for some people, causing them to drive older, less safe cars. Keeping more low income people in older cars is an unintended consequence of the air bag law, but not an unforeseen one.

"Basic values" was Merton's fourth example. The Protestant ethic of hard work and asceticism "paradoxically leads to its own decline through the accumulation of wealth and possessions," he wrote. His final case was the "self-defeating prediction." Here he was referring to the instances when the public prediction of a social development proves false precisely because the prediction changes the course of history. For example, the warnings earlier in this century that population growth would lead to mass starvation helped spur scientific breakthroughs in agricultural productivity that have since made it unlikely that the gloomy prophecy will come true. Merton later developed the flip side of this idea, coining the phrase "the self-fulfilling prophecy" to refer to events that come to pass only because they are publicly predicted.

The law of unintended consequences provides the basis for many criticisms of government programs. As the critics see it, unintended consequences can add so much to the costs of some programs that they make the programs unwise even if they achieve their stated goals. For example, when Vermont outlawed roadside billboards in 1968, giant "sculptures" soon appeared adjacent to businesses. An auto dealer commissioned a twelve-foot, sixteen-ton gorilla, clutching a real Volkswagen Beetle. A carpet store is marked by a nineteen-foot genie holding aloft a rolled carpet.

In other cases, unintended consequences can make a particular law completely ineffective while imposing other kinds of costs on the general public. In recent years, the city of New York has raised tobacco taxes so much that a single pack of cigarettes now sells for about \$8.00. The result has been an explosion in the black market for cigarettes, which supplies New York smokers and also generates revenues for organized crime.



Alaska Academy of Family Physicians

PO Box 222665, Anchorage, AK 99522 akafp@gci.net www.alaskaafp.org 907 258-2255 office
530 326-5612 fax

March 11, 2006

Dear Legislator:

The Alaska Academy of Family Physicians strongly opposes SJR 20/HJR 32.

This proposed amendment violates a national American Academy of Family Physicians policy, established in 2002, and would have a negative impact on the health of Alaskans.

The national AAFP policy regarding children's health which the Alaska Academy of Family Physicians supports is as follows: "The American Academy of Family Physicians establishes policy and be supportive of legislation which promotes a safe and nurturing environment, including psychological and legal security, for all children, including those of adoptive parents, regardless of the parents' sexual orientation. (2002) (2003)"

We urge you to vote against SJR 20/HJR 32, as representatives and protectors of the good health of all Alaskans.

Respectfully,

Katy M. Sheridan M.D.
President

The Alaska Academy of Family Physicians represents 355 family physicians throughout the state.

Founded in 1947, the AAFP represents more than 94,000 physicians and medical students nationwide. It is the only medical society devoted solely to primary care.

Nearly one in four of all office visits are made to general and family physicians. That is 215 million office visits each year - 59 million more than to any other medical specialty. Today, family physicians provide the majority of care for America's underserved and rural populations.

In the increasingly fragmented world of health care where many medical specialties limit their practice to a particular organ, disease, age or sex, family physicians are dedicated to treating the whole person across the full spectrum of ages. Family medicine's cornerstone is an ongoing, personal patient-physician relationship focused on integrated care.

To learn more about the American Academy of Family physicians and about the specialty of family medicine, please visit <http://www.aafp.org/>



Alaska State Legislature

Please enter into the record my testimony to the SFIN + HFIN
 committee name
 committee on SB 4001, dated 11-15-06
 bill/subject

Re: Bill 4001

I am opposed to legislative actions to hamper health benefits being extended to all state workers. This is a health issue. This is a civil rights issue. The court has made the remedy clear. And Alaska now is moving toward the direction reflected in the nation and the world, recognizing the need and justice of equal benefits for all. I support the judicial mandate to grant equal benefits to all workers including benefits to the families of same sex partnerships. This is ultimately for the increased health of all Alaskans. As a health care provider, I encourage you to work toward the benefit and health of ALL Alaskans and not legislate your prejudicial opinions.

Sincerely,
 Maureen Longworth, M.D.

Signed: _____
 Testifier

From:
 Maureen Longworth, M.D.
 119 Seward Street, Suite 17
 Juneau, AK 99801

 Phone No



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE
 committee name
 committee on HB4002 + HB4001 , dated 15 NOV 2006
 bill/subject

"An Act authorizing an advisory vote on employment benefits for same-sex partners of public employees; and providing for an effective date."
 AND

"An Act prohibiting the commissioner of administration from drafting, adopting, filing, or publishing regulations granting or extending employee-related benefits for same-sex partners of unmarried state employees; and providing for an effective date."

Signed: [Signature]
 Testifier

My partner, myself, and our two children.
 Representing (Optional)

5980 YUKON ROAD, ANCHORAGE, AK, 99507.
 Address

907-350-2111.
 Phone No.

PAGE 3 OF 3.

A senator in the Finance Committee earlier asked if arrests and handcuffs might be involved if the executive or legislative branches were to deliberately flout a direct court order requiring implementation of equal treatment under the law. In reply, not only would it be an appalling display of disrespect for the rule of law in our democracy if a court order were to be defied by another branch, but it would also be unwise in opening the door to actual physical conflict as citizens seek to take corrective action. The answer to the senator's question is "yes, there would be handcuffs and arrests" (though probably not for those who would really deserve such) as citizens come to Juneau --with handcuffs-- and attempt to place anyone necessary under citizen's arrest. The judicial branch may not have uniformed troopers for enforcement but I myself, and many others I am sure, would be entirely willing to go to jail if necessary in attempting to place whomever necessary in the administration or legislature under citizen's arrest if such a court order is defied.

Thank you.

Any questions?