

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3097

Change in Projected Taxes Under a 25/20 Tax with Costs Increased by 20% DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
<i>Average ANS Price in Real 2006 Dollars:</i>	\$52.70	\$33.40	\$70.00	\$40.00	\$30.10	\$28.60	\$27.30

FY 2007-2011

Total Difference from Status Quo (Million 2006\$)	\$4,938	\$3,602	\$6,614	\$2,405	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$988	\$720	\$1,323	\$481	\$0	-	-
PPT Effective Tax Rate (Percent)	14.5%	13.3%	15.8%	12.2%	7.2%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.2%	-	-

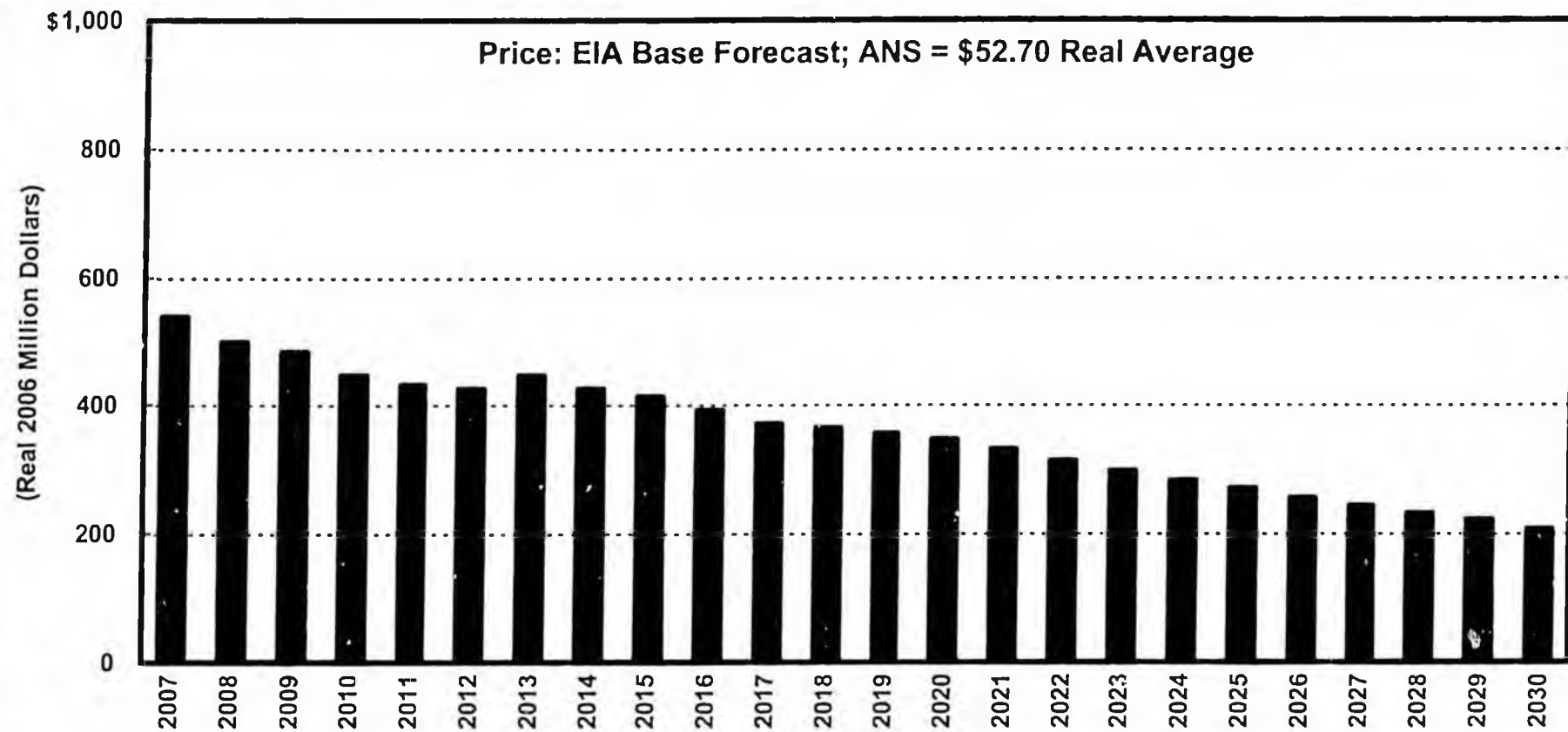
FY 2007-2016

Total Difference from Status Quo (Million 2006\$)	\$10,268	\$5,040	\$15,956	\$5,617	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,027	\$504	\$1,596	\$562	-	\$0	-
PPT Effective Tax Rate (Percent)	14.6%	11.8%	16.6%	12.4%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-

FY 2007-2030

Total Difference from Status Quo (Million 2006\$)	\$23,371	\$6,110	\$39,533	\$12,426	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$974	\$255	\$1,647	\$518	-	-	\$0
PPT Effective Tax Rate (Percent)	15.0%	9.5%	17.5%	12.1%	-	-	4.9%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	4.9%

Difference in Projected Taxes Between a 25/20 and a 20/20 Tax DOR Forecast Production (FY 2007-2030)*



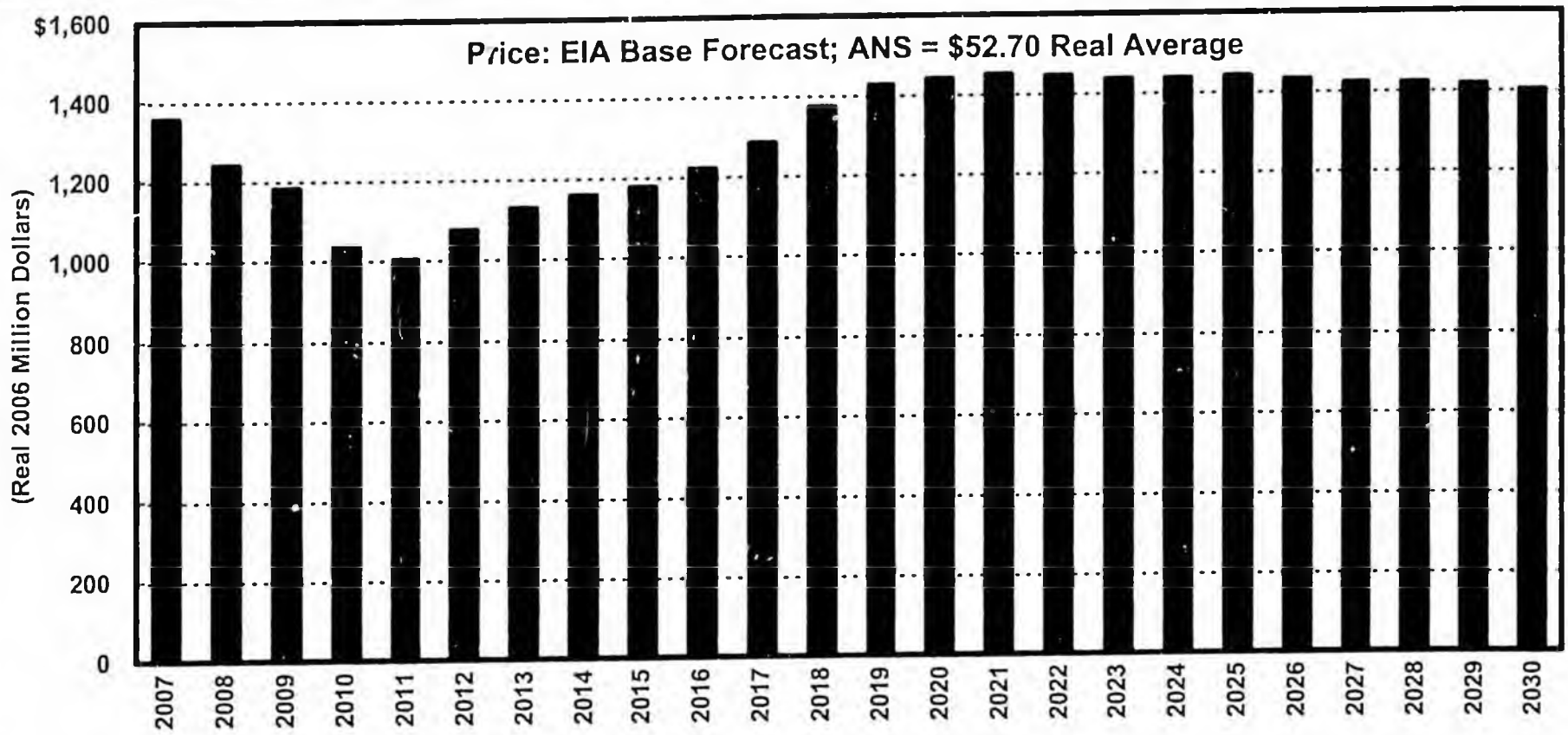
	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from 20/20 PPT Tax (\$Million)	\$2,398	\$4,497	\$8,584
Annual Average Difference from 20/20 PPT Tax (\$Million)	\$480	\$450	\$358
25/20 PPT Effective Tax Rate (Percent)	15.8%	16.0%	16.4%
20/20 PPT Effective Tax Rate (Percent)	12.2%	12.4%	12.6%

* Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Difference in Projected Taxes Between a 25/20 and a 20/20 Tax DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
<i>Average ANS Price in Real 2006 Dollars:</i>	\$52.70	\$33.40	\$70.00	\$40.00	-	-	-
FY 2007-2011							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$2,398	\$2,021	\$2,855	\$1,610	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$480	\$404	\$571	\$322	-	-	-
25/20 PPT Effective Tax Rate (Percent)	15.8%	14.8%	16.9%	14.1%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.2%	11.4%	13.2%	10.7%	-	-	-
FY 2007-2016							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$4,497	\$3,126	\$5,909	\$3,162	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$450	\$313	\$597	\$316	-	-	-
25/20 PPT Effective Tax Rate (Percent)	16.0%	13.6%	17.7%	14.2%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.4%	10.3%	13.8%	10.8%	-	-	-
FY 2007-2030							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$8,584	\$4,462	\$12,455	\$5,814	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$358	\$186	\$519	\$242	-	-	-
25/20 PPT Effective Tax Rate (Percent)	16.4%	11.7%	18.5%	14.0%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.6%	9.7%	14.5%	10.6%	-	-	-

Change in Projected Taxes Under the House Resources CS DOR Forecast Production (FY 2007-2030)*



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from SQ (\$Million)	\$5,823	\$11,578	\$31,386
Annual Average Difference from SQ (\$Million)	\$1,165	\$1,158	\$1,308
PPT Effective Tax Rate (Percent)	15.8%	15.7%	18.4%
SQ Effective Tax Rate (Percent)	7.1%	6.3%	4.9%

* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Ooguruk projection.



Change in Projected Taxes Under the House Resources CS DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
<i>Average ANS Price in Real 2006 Dollars:</i>	\$52.70	\$33.40	\$70.00	\$40.00	\$30.30	\$28.30	\$25.40

FY 2007-2011

Total Difference from Status Quo (Million 2006\$)	\$5,823	\$3,794	\$8,602	\$1,703	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,165	\$759	\$1,720	\$341	\$0	-	-
House Resources CS Effective Tax Rate (Percent)	15.8%	13.7%	18.4%	10.7%	7.2%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.2%	-	-

FY 2007-2016

Total Difference from Status Quo (Million 2006\$)	\$11,570	\$4,993	\$21,512	\$4,310	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,158	\$499	\$2,151	\$431	-	\$0	-
House Resources CS Effective Tax Rate (Percent)	15.7%	11.8%	20.3%	10.9%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-

FY 2007-2030

Total Difference from Status Quo (Million 2006\$)	\$31,386	\$7,186	\$75,604	\$13,246	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,308	\$299	\$3,150	\$552	-	-	\$0
House Resources CS Effective Tax Rate (Percent)	18.4%	10.3%	29.2%	12.6%	-	-	5.0%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	5.0%

Change in Projected Taxes Under the House Resources CS Costs Increased by 20% DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$34.60	\$32.30	\$29.00

<i>FY 2007-2011</i>							
Total Difference from Status Quo (Million 2006\$)	\$5,064	\$3,035	\$7,843	\$944	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,013	\$607	\$1,569	\$189	\$0	-	-
House Resources CS Effective Tax Rate (Percent)	14.7%	12.4%	17.4%	9.1%	7.1%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.1%	-	-

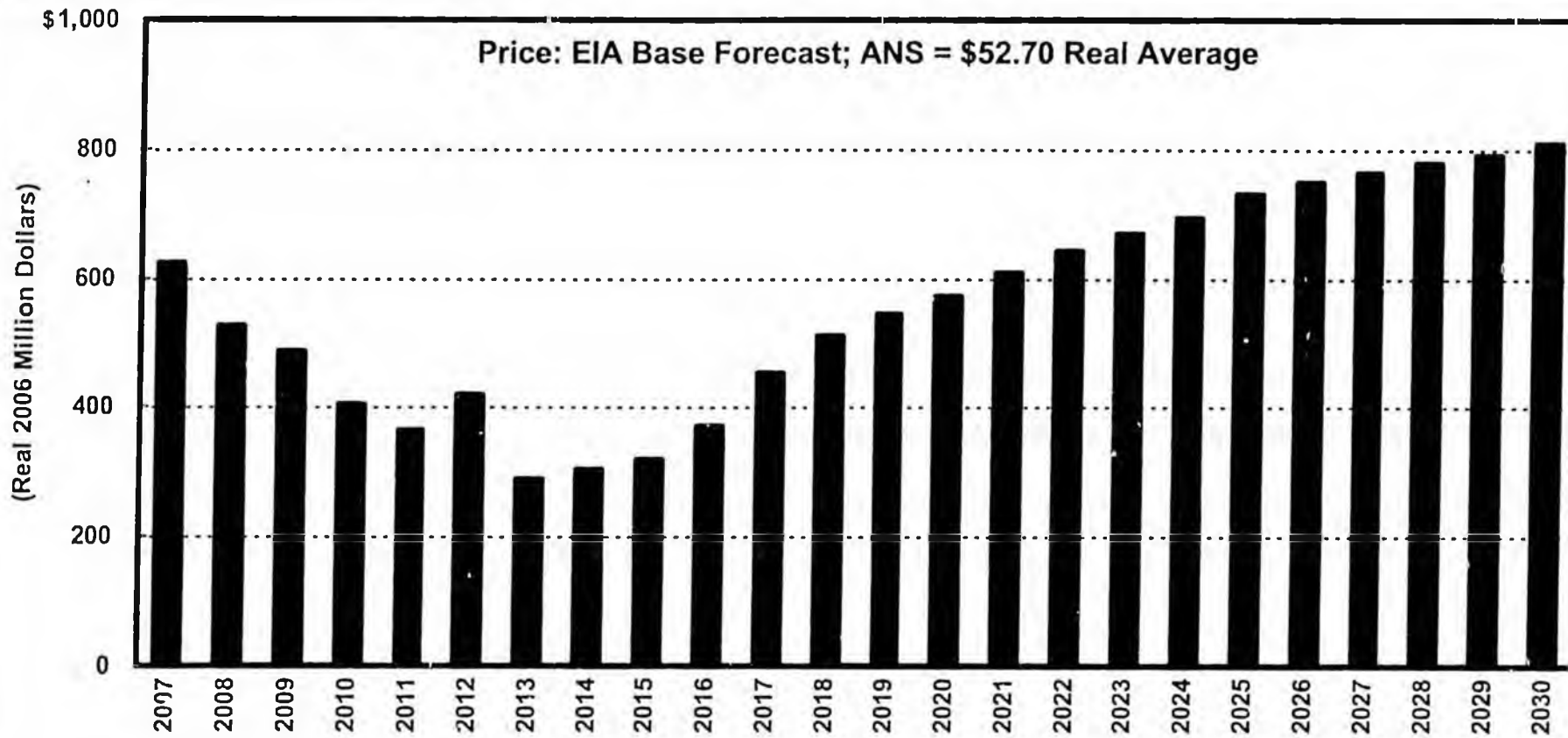
<i>FY 2007-2016</i>							
Total Difference from Status Quo (Million 2006\$)	\$10,109	\$3,524	\$20,043	\$2,841	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,011	\$352	\$2,004	\$284	-	\$0	-
House Resources CS Effective Tax Rate (Percent)	14.5%	10.2%	19.3%	9.3%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-

<i>FY 2007-2030</i>							
Total Difference from Status Quo (Million 2006\$)	\$28,635	\$4,435	\$72,854	\$10,496	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,193	\$185	\$3,036	\$437	-	-	\$0
House Resources CS Effective Tax Rate (Percent)	17.3%	8.4%	28.3%	11.0%	-	-	4.9%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	4.9%

* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Difference in Projected Taxes Between the House Resources CS¹ and a 20/20² Tax

DOR Forecast Production (FY 2007-2030)



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from 20/20 PPT Tax (\$Million)	\$2,405	\$4,107	\$13,415
Annual Average Difference from 20/20 PPT Tax (\$Million)	\$481	\$411	\$559
House Resources CS Effective Tax Rate (Percent)	15.8%	15.7%	18.4%
20/20 PPT Effective Tax Rate (Percent)	12.2%	12.4%	12.6%

¹ Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

² Calculated from July 2008; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.



Difference in Projected Taxes Between the House Resources CS¹ and a 20/20² Tax DOR Forecast Production (FY 2007-2030)

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	-	-	-

<i>FY 2007-2011</i>							
Total Difference from 20/20 PPT Tax (Million 2006S)	\$2,405	\$1,335	\$3,965	\$29	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006S)	\$481	\$267	\$793	\$6	-	-	-
House Resources CS Effective Tax Rate (Percent)	15.8%	13.7%	18.4%	10.7%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.2%	11.4%	13.2%	10.7%	-	-	-

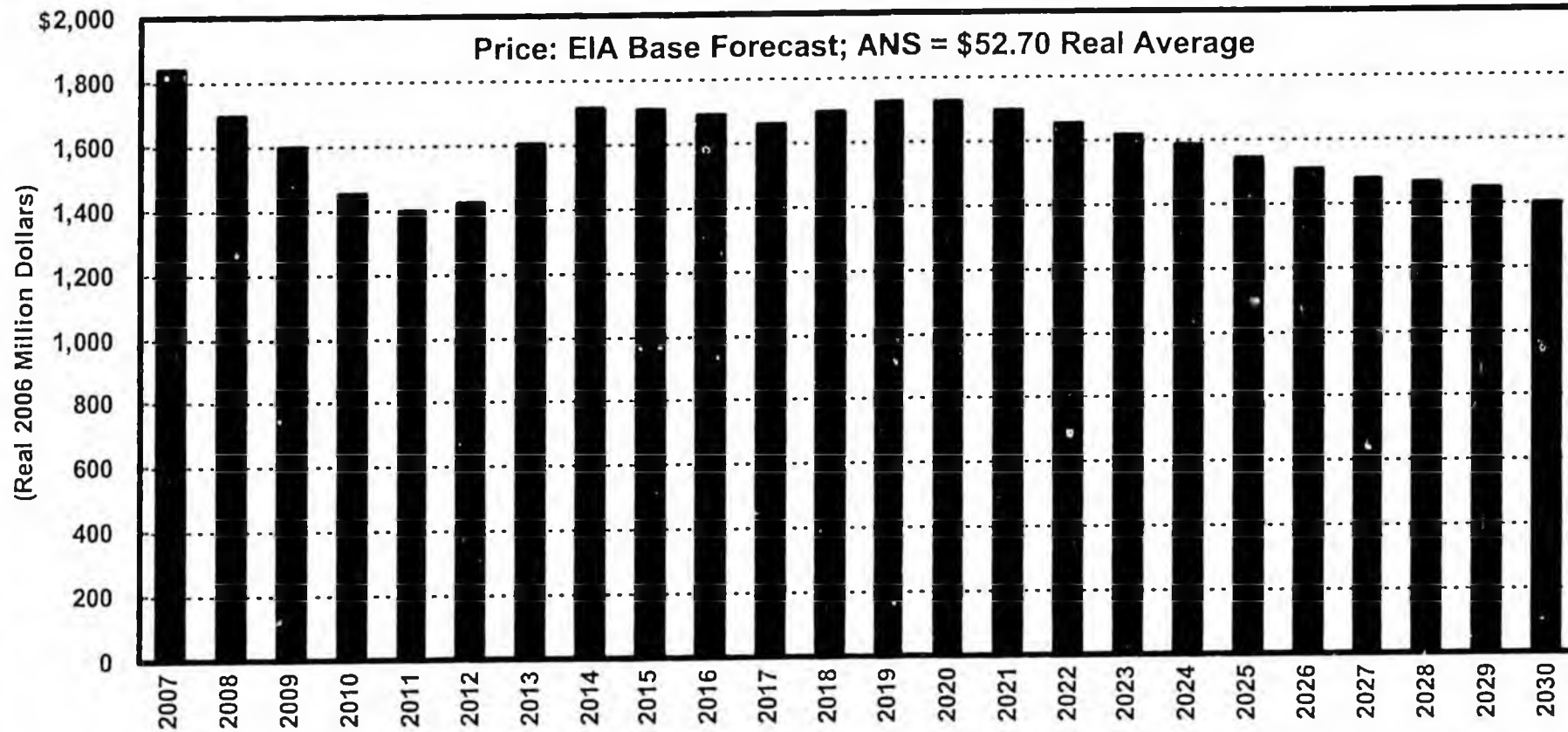
<i>FY 2007-2016</i>							
Total Difference from 20/20 PPT Tax (Million 2006S)	\$4,107	\$1,380	\$9,824	\$154	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006S)	\$411	\$138	\$982	\$15	-	-	-
House Resources CS Effective Tax Rate (Percent)	15.7%	11.8%	20.3%	10.9%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.4%	10.3%	13.8%	10.8%	-	-	-

<i>FY 2007-2030</i>							
Total Difference from 20/20 PPT Tax (Million 2006S)	\$13,415	\$2,362	\$45,342	\$3,450	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006S)	\$559	\$98	\$1,889	\$144	-	-	-
House Resources CS Effective Tax Rate (Percent)	18.4%	10.3%	29.2%	12.6%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.6%	8.7%	14.5%	10.6%	-	-	-

¹ Calculated from April 2006; \$80 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

² Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Change in Projected Taxes Under the Senate Resources CS DOR Forecast Production (FY 2007-2030)*



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from SQ (\$Million)	\$7,955	\$16,061	\$38,179
Annual Average Difference from SQ (\$Million)	\$1,521	\$1,606	\$1,591
Senate Resources CS Effective Tax Rate (Percent)	19.0%	19.3%	21.4%
SQ Effective Tax Rate (Percent)	7.1%	6.3%	4.9%

* Calculated from April 2006; includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Cooguruk projection.

Change in Projected Taxes Under the Senate Resources CS DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$28.30	\$25.50	\$23.10

FY 2007-2011

Total Difference from Status Quo (Million 2006\$)	\$7,955	\$5,716	\$10,644	\$2,909	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,591	\$1,143	\$2,129	\$582	\$0	-	-
Senate Resources CS Effective Tax Rate (Percent)	19.0%	17.0%	21.1%	13.3%	7.2%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.2%	-	-

FY 2007-2016

Total Difference from Status Quo (Million 2006\$)	\$16,061	\$8,192	\$25,540	\$7,641	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,606	\$819	\$2,554	\$764	-	\$0	-
Senate Resources CS Effective Tax Rate (Percent)	19.3%	15.2%	22.9%	14.6%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-

FY 2007-2030

Total Difference from Status Quo (Million 2006\$)	\$38,179	\$12,112	\$68,505	\$19,417	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,591	\$505	\$2,854	\$809	-	-	\$0
Senate Resources CS Effective Tax Rate (Percent)	21.4%	13.6%	26.9%	16.2%	-	-	5.0%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	5.0%

* Calculated from April 2006; Includes transition (50% of capex over 1st 7 years to maximum of \$5 billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Cooguruk projection.

Change in Projected Taxes Under the Senate Resources CS Costs Increased by 20% DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
<i>Average ANS Price in Real 2006 Dollars:</i>	\$52.70	\$33.40	\$70.00	\$40.00	\$32.70	\$29.00	\$26.30

FY 2007-2011

Total Difference from Status Quo (Million 2006\$)	\$6,901	\$4,662	\$9,590	\$1,855	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,380	\$932	\$1,918	\$371	\$0	-	-
Senate Resources CS Effective Tax Rate (Percent)	17.4%	15.2%	19.7%	11.0%	7.1%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.1%	-	-

FY 2007-2016

Total Difference from Status Quo (Million 2006\$)	\$14,353	\$6,484	\$23,832	\$5,933	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,435	\$648	\$2,383	\$593	-	\$0	-
Senate Resources CS Effective Tax Rate (Percent)	17.9%	13.4%	21.8%	12.7%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-

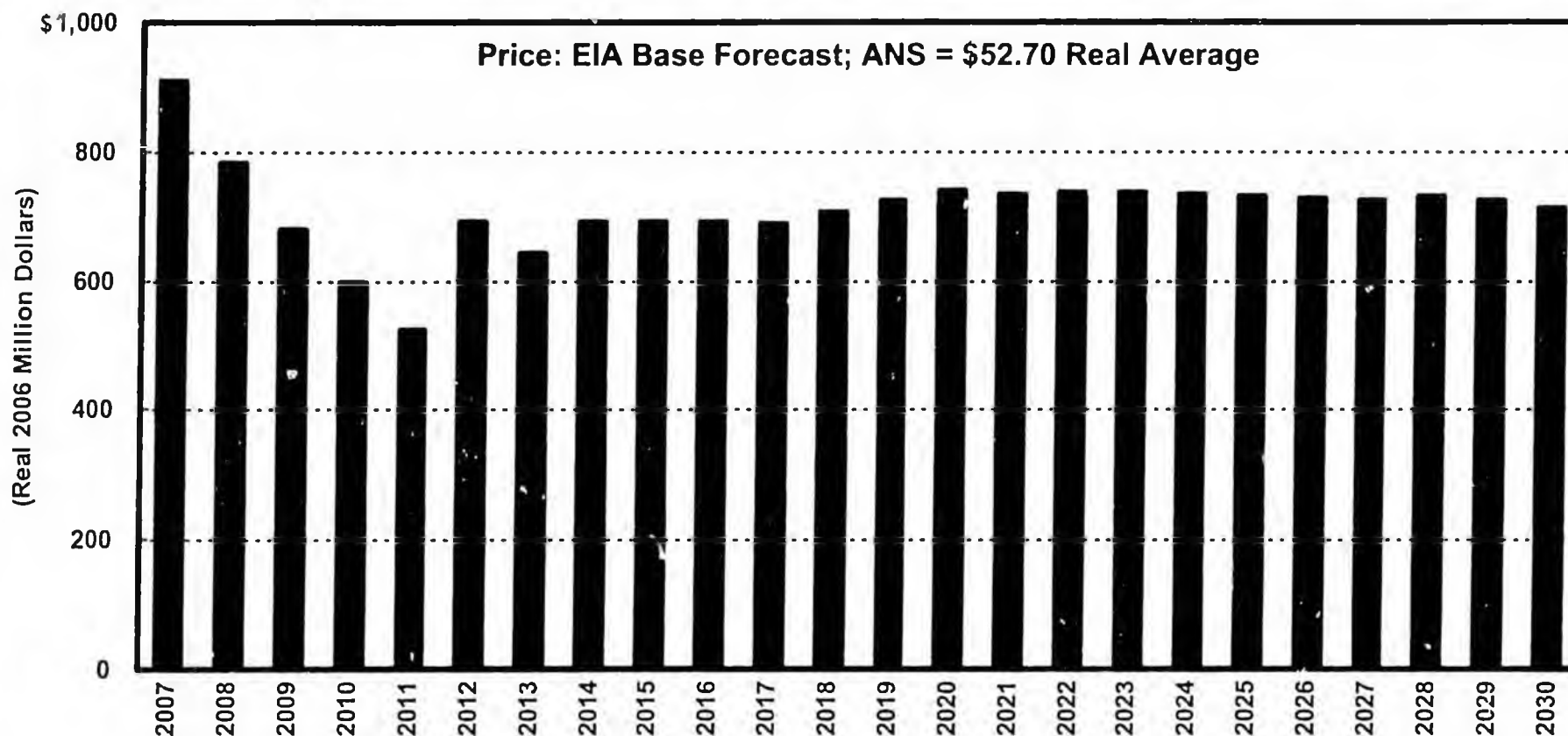
FY 2007-2030

Total Difference from Status Quo (Million 2006\$)	\$34,987	\$8,920	\$65,313	\$16,225	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,458	\$372	\$2,721	\$676	-	-	\$0
Senate Resources CS Effective Tax Rate (Percent)	20.0%	11.4%	25.8%	14.4%	-	-	5.0%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	5.0%

* Calculated from April 2006; includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 18 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Difference in Projected Taxes Between the Senate Resources CS¹ and a 20/20² Tax

DOR Forecast Production (FY 2007-2030)



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from 20/20 PPT Tax (\$Million)	\$3,484	\$6,882	\$17,016
Annual Average Difference from 20/20 PPT Tax (\$Million)	\$697	\$688	\$709
Senate Resources CS Effective Tax Rate (Percent)	17.4%	17.9%	20.0%
20/20 PPT Effective Tax Rate (Percent)	12.2%	12.4%	12.6%

¹ Calculated from April 2006; Includes transition (50% of capex over 147 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

² Calculated from July 2006; Includes 8-year transition (100% 2001-2008) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.



Difference in Projected Taxes Between the Senate Resources CS¹ and a 20/20² Tax

DOR Forecast Production (FY 2007-2030)

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	-	-	-

FY 2007-2011

Total Difference from 20/20 PPT Tax (Million 2006\$)	\$3,484	\$2,203	\$4,953	\$182	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$697	\$441	\$991	\$36	-	-	-
Senate Resources CS Effective Tax Rate (Percent)	17.4%	15.2%	19.7%	11.0%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.2%	11.4%	13.2%	10.7%	-	-	-

FY 2007-2016

Total Difference from 20/20 PPT Tax (Million 2006\$)	\$6,882	\$2,870	\$12,144	\$1,778	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$688	\$287	\$1,214	\$178	-	-	-
Senate Resources CS Effective Tax Rate (Percent)	17.9%	13.4%	21.8%	12.7%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.4%	10.3%	13.8%	10.8%	-	-	-

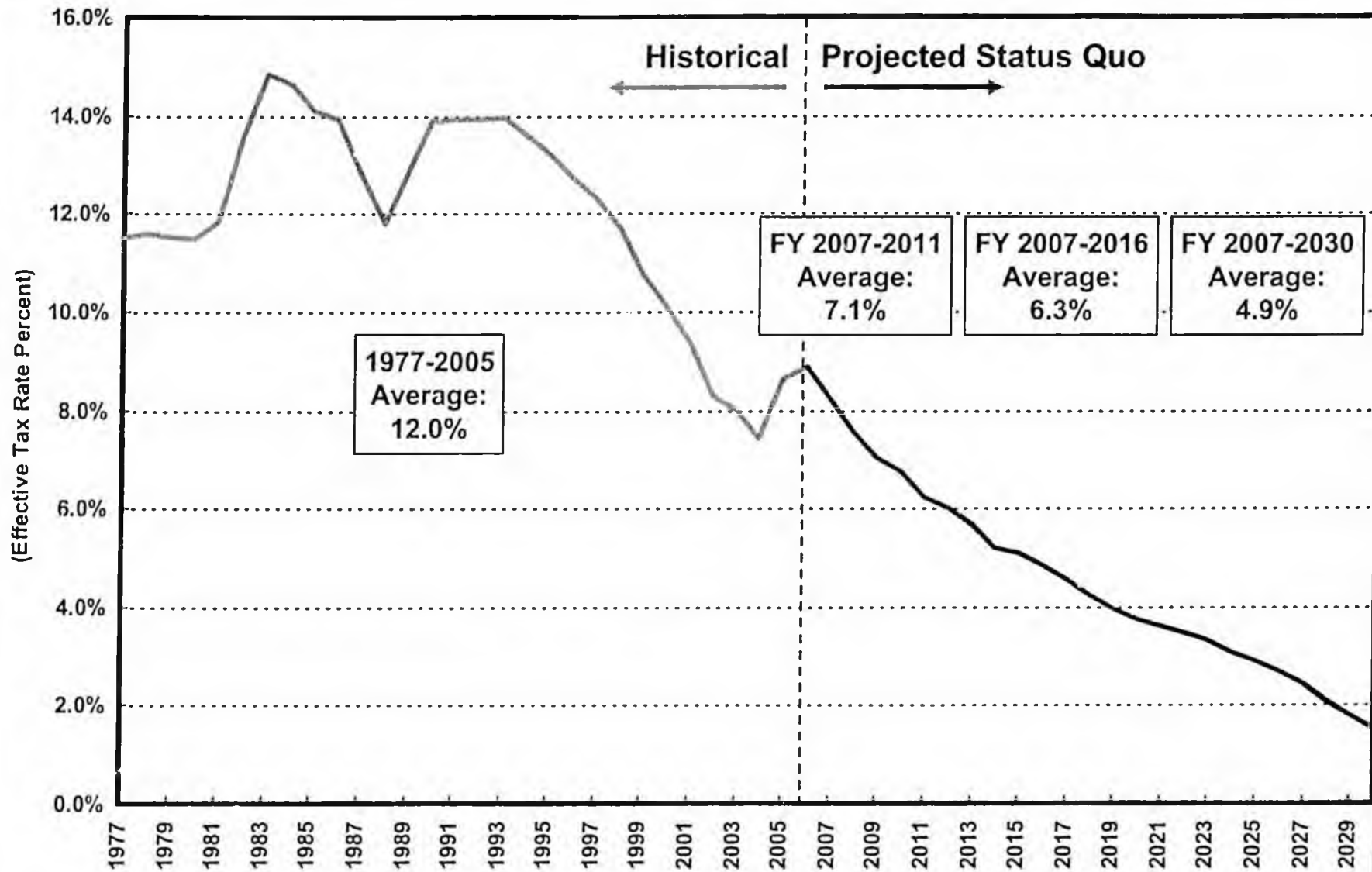
FY 2007-2030

Total Difference from 20/20 PPT Tax (Million 2006\$)	\$17,016	\$4,096	\$35,051	\$6,429	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$709	\$171	\$1,460	\$268	-	-	-
Senate Resources CS Effective Tax Rate (Percent)	20.0%	11.4%	25.8%	14.4%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.6%	8.7%	14.5%	10.6%	-	-	-

¹ Calculated from April 2008; includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

² Calculated from July 2008; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

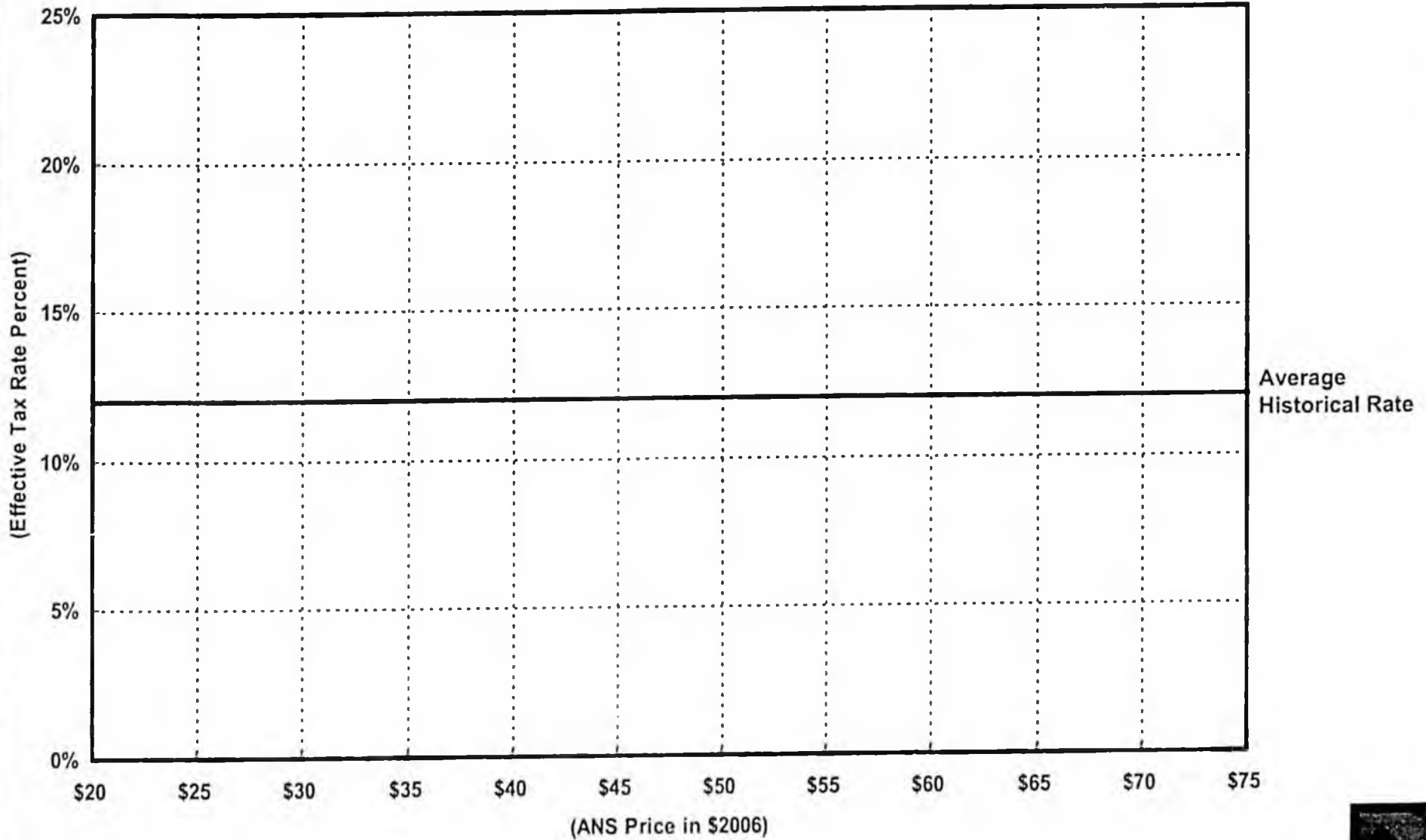
Effective Severance Tax Rates Over Time



Source: Historical: Alaska Department of Revenue.



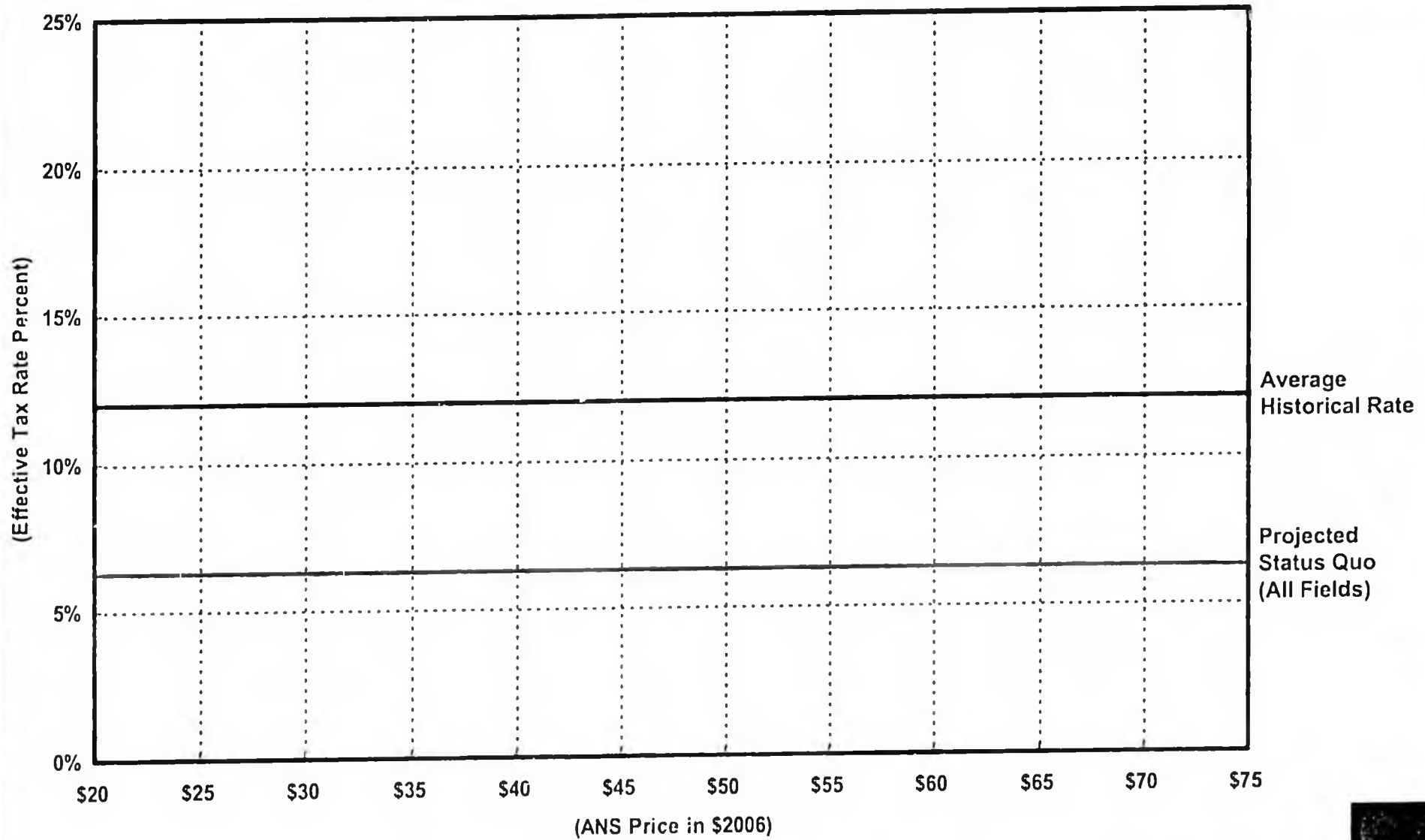
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Source: Alaska Department of Revenue.



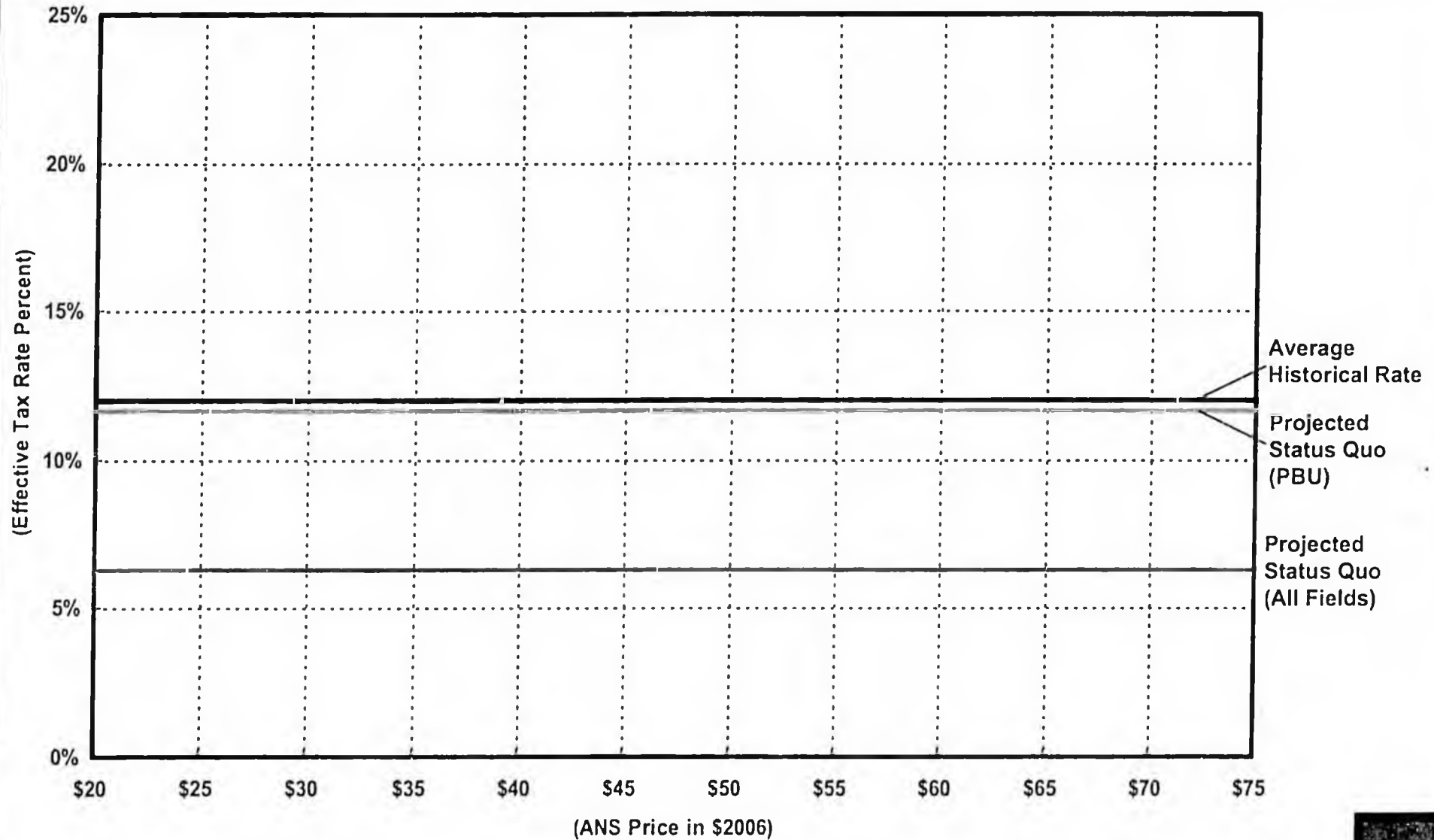
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Source: Historical: Alaska Department of Revenue.

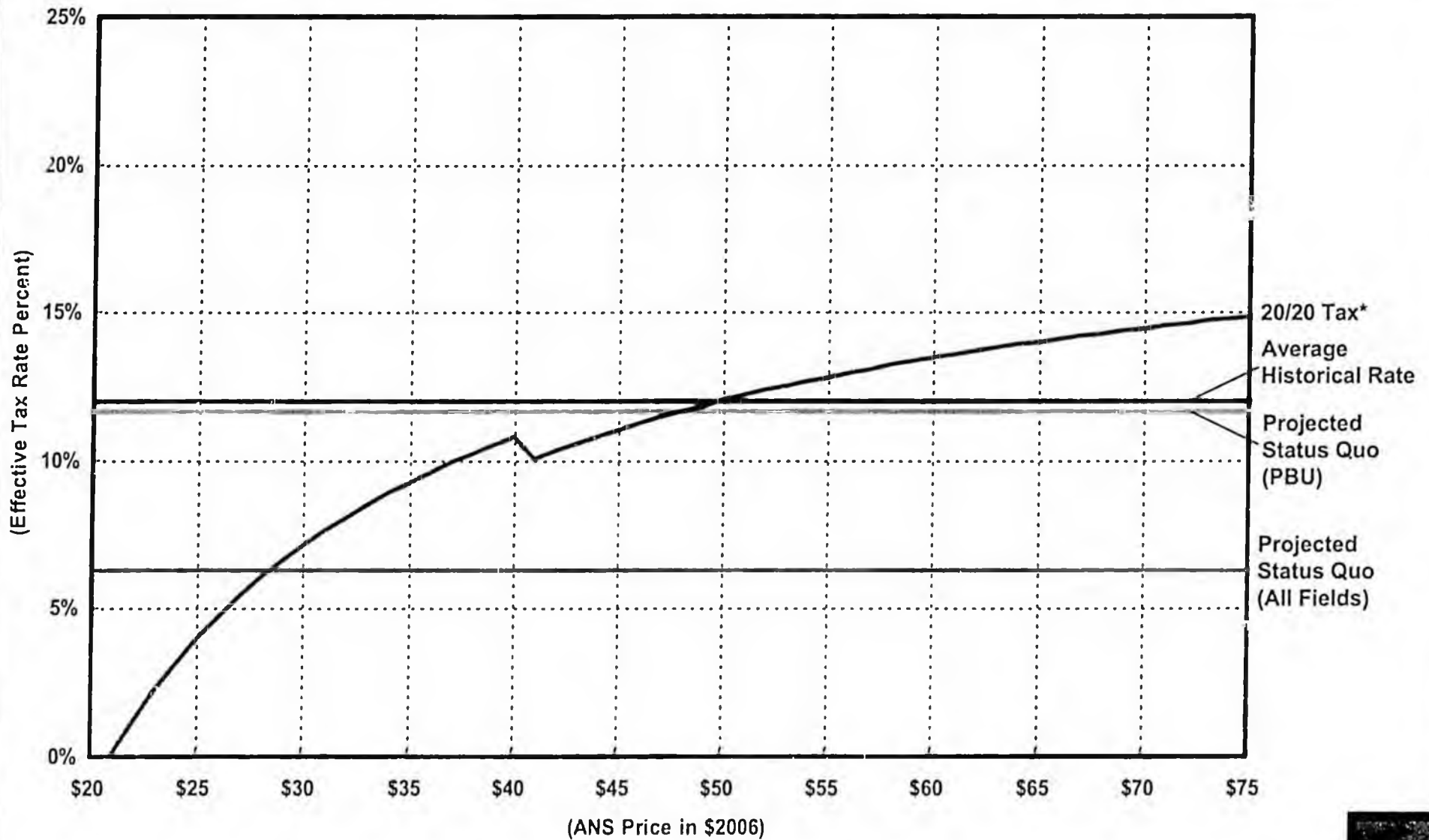


Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Source: Historical: Alaska Department of Revenue.

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

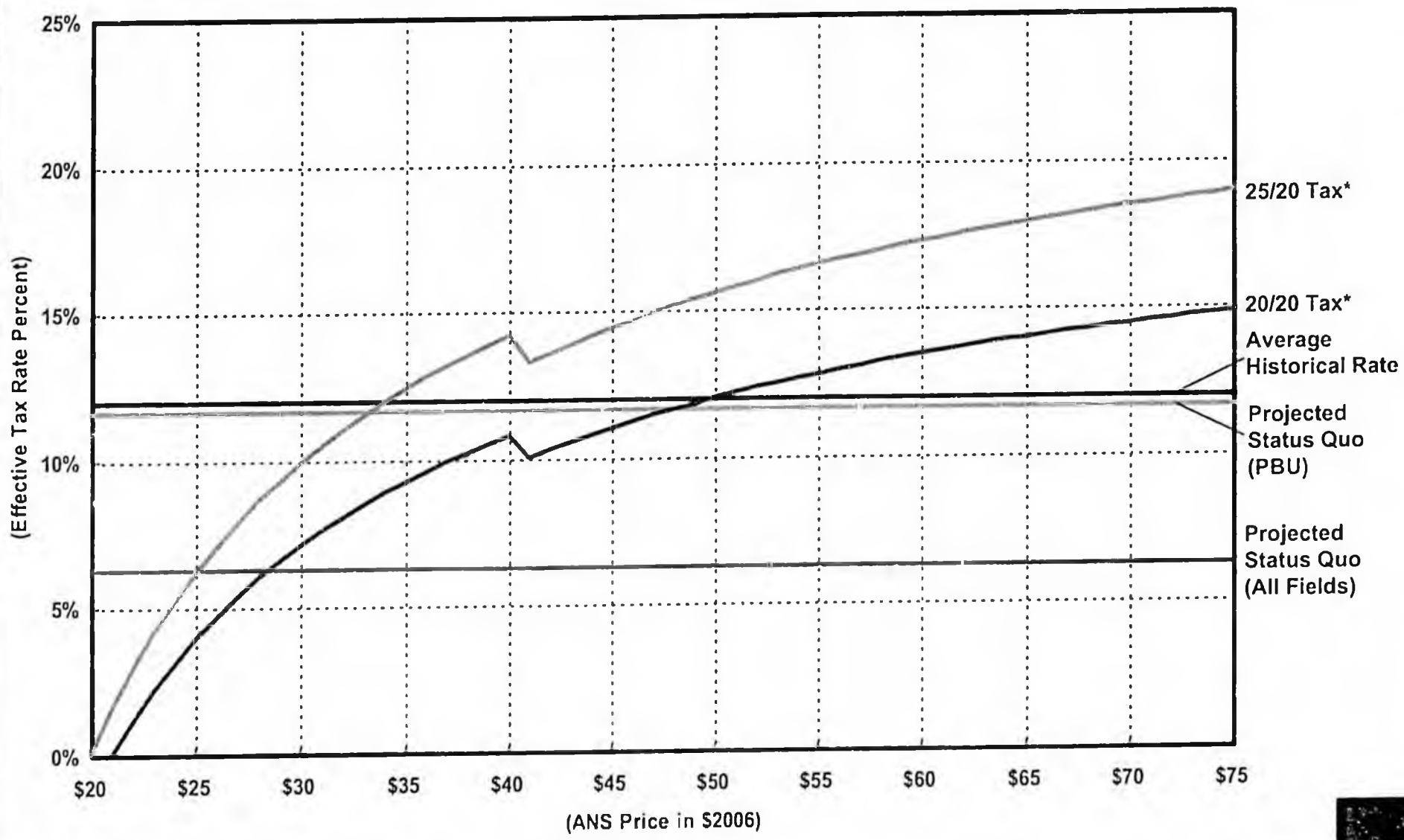


* Calculated from July 2006; Includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Ooguruk projection.

Source: Historical: Alaska Department of Revenue.



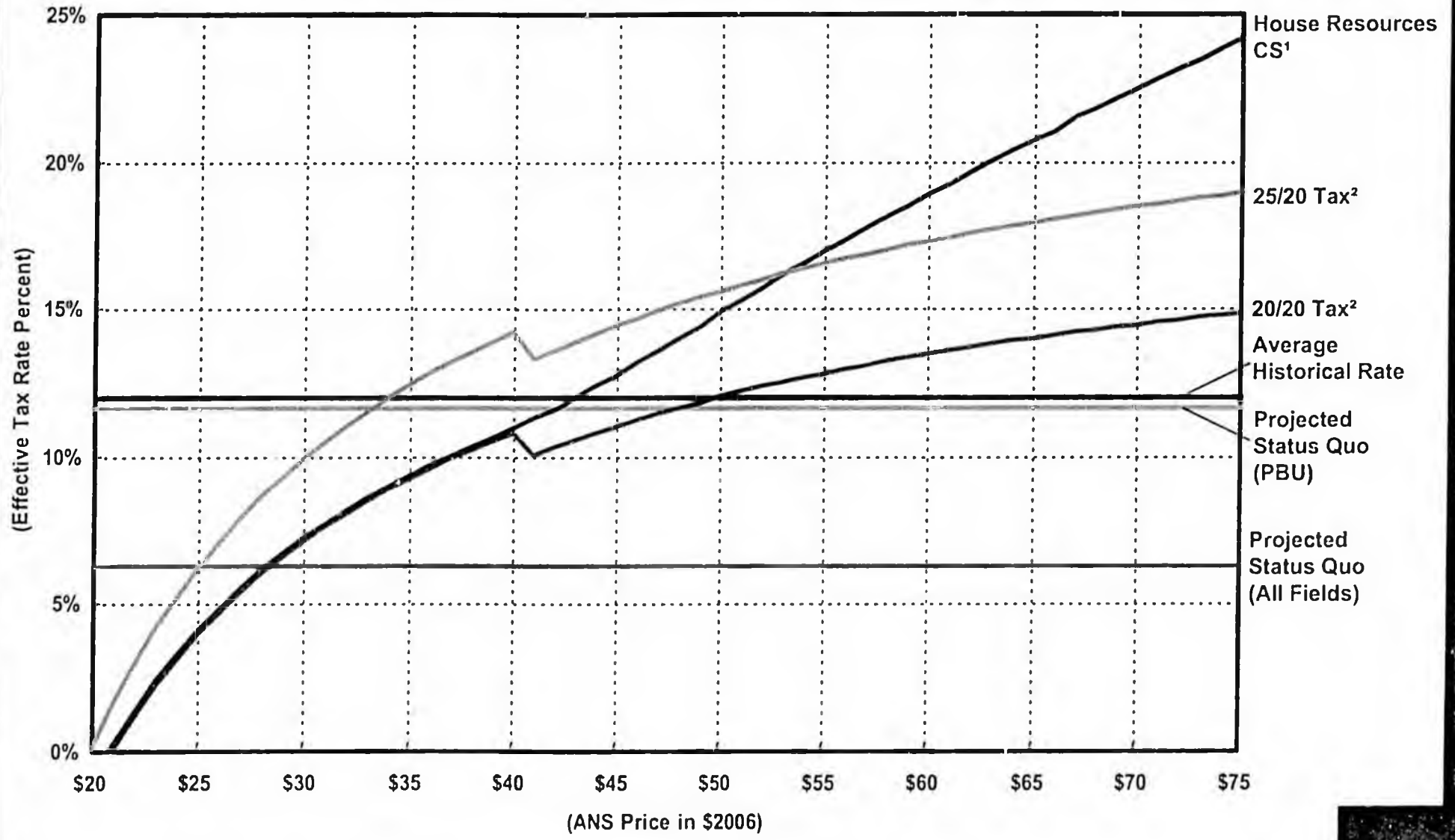
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



* Calculated from July 2008; Includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Qooguruk projection.
Source: Historical: Alaska Department of Revenue.



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

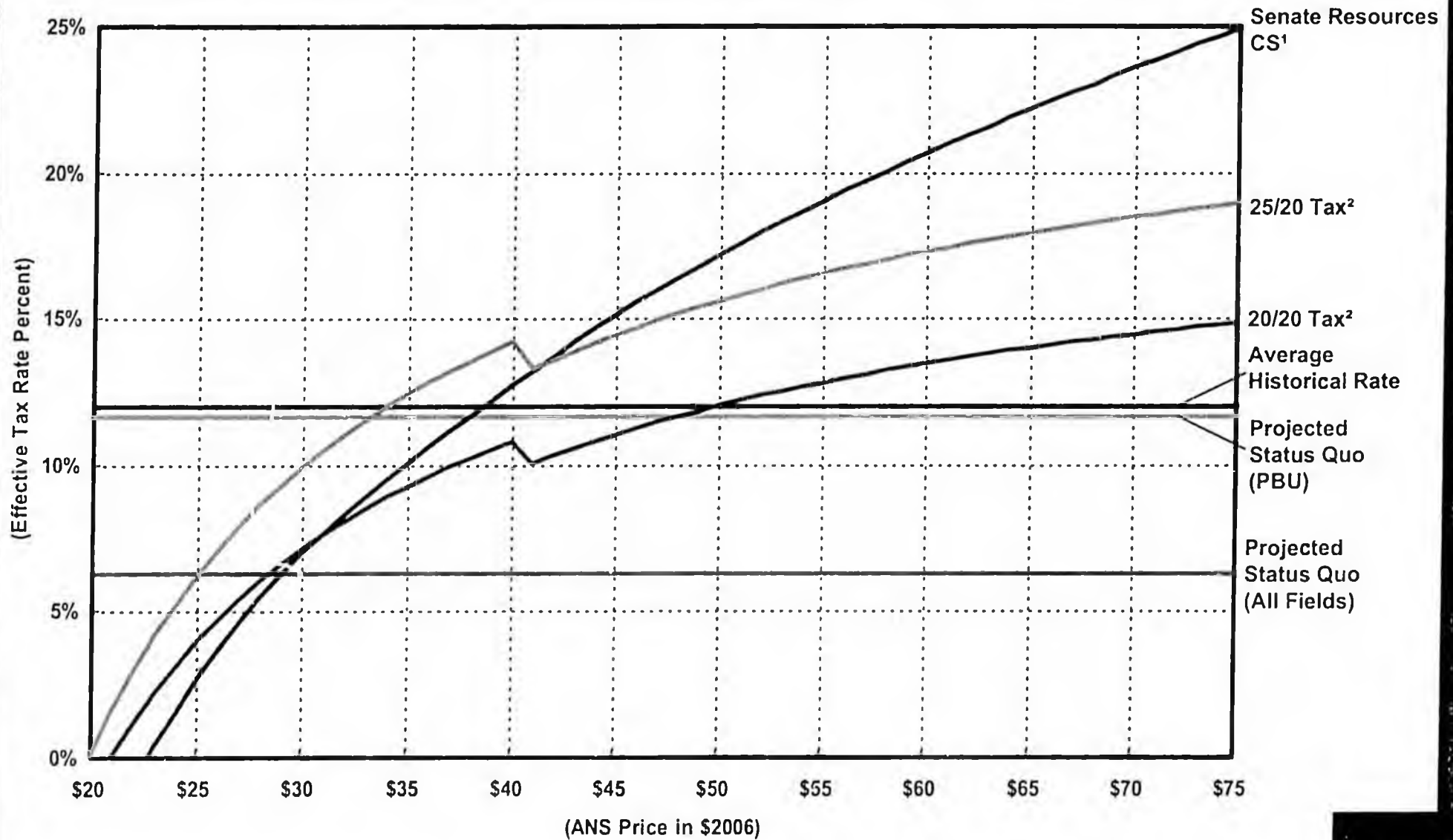


¹ Calculated from April 2008; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2008 Forecast with Oooguruk projection.

² Calculated from July 2008; Includes 6-year transition (100% 2001-2008) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2008 Forecast with Oooguruk projection.



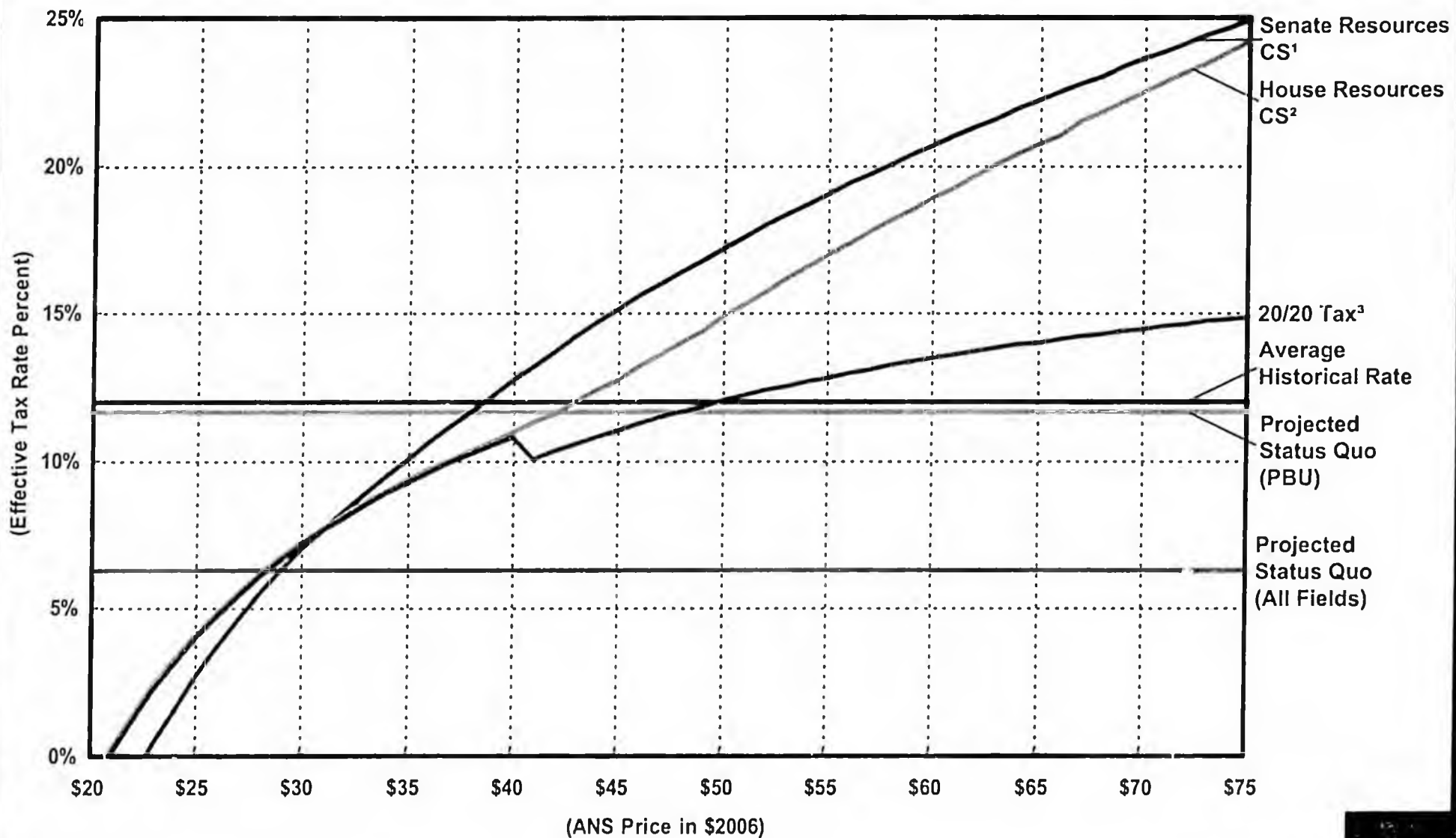
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



¹ Calculated from April 2006; Includes transition (50% of capex over 1st 7 years to maximum of \$8 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection.
² Calculated from July 2006; Includes 6-year transition (100% 2001-2006) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.



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



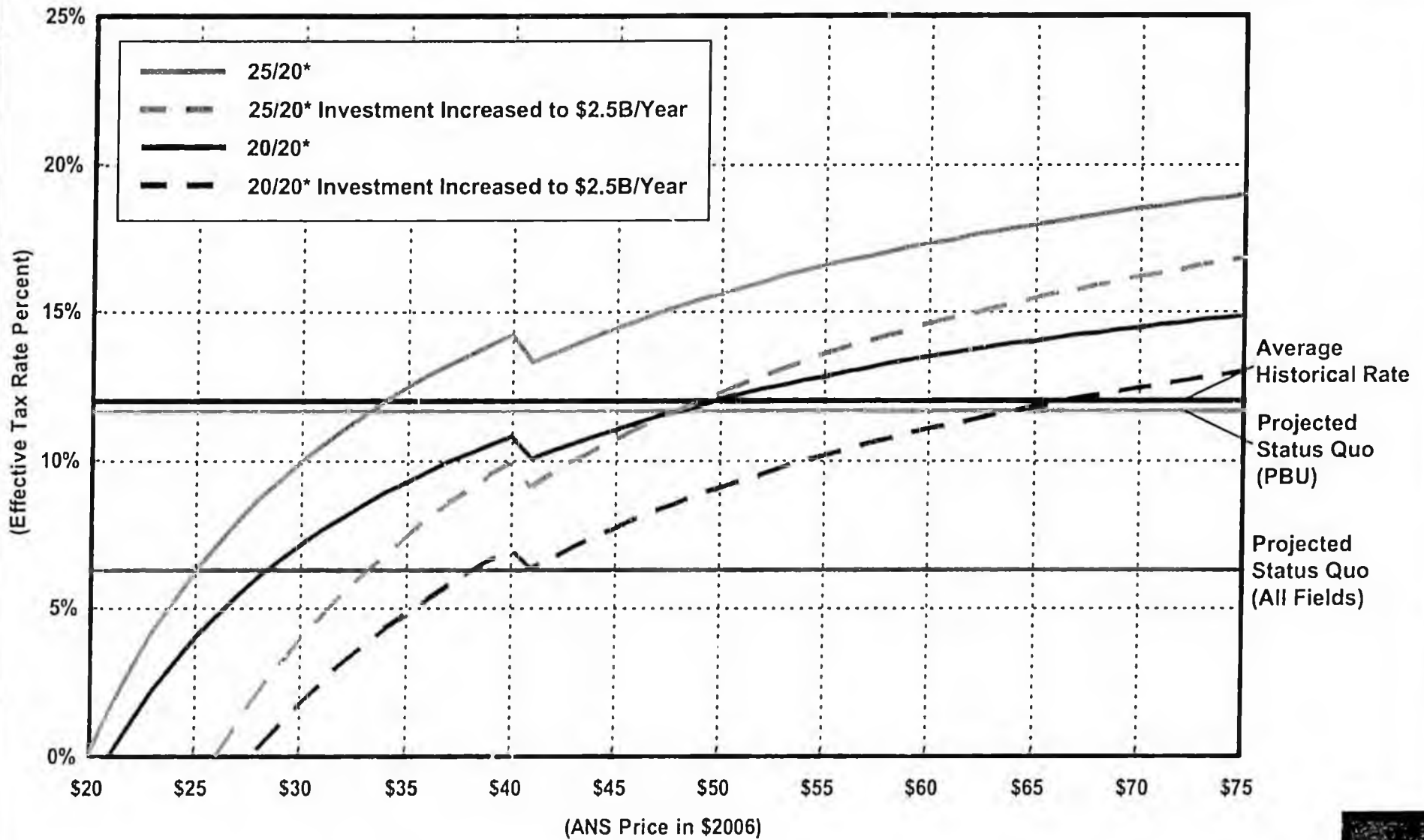
¹ Calculated from April 2006; Includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection.
 ² Calculated from April 2006; \$80 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.
 ³ Calculated from July 2006; Includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.
 Source: Alaska Department of Revenue.



Effective Average Tax Rates at Various Price Levels

Impact of Increased Investment

(FY 2007-2016)



* Calculated from July 2006; Includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.
 Source: Historical: Alaska Department of Revenue.



Projected Government Takes

DOR Forecast Production (FY 2007-2030)

Average ANS Price in Real 2006 Dollars:	Total Government Take (Percent)				Alaska Take (Percent)			
	EIA WTI Price Forecast:			Fixed \$40 ANS Price	EIA WTI Price Forecast:			Fixed \$40 ANS Price
	Base	Low	High		Base	Low	High	
	\$52.70	\$33.40	\$70.00	\$40.00	\$52.70	\$33.40	\$70.00	\$40.00

FY 2007-2011

Status Quo	54.4%	55.3%	53.8%	56.9%	25.9%	26.8%	25.2%	28.2%
20/20 PPT ¹	57.7%	58.1%	57.6%	59.4%	31.0%	31.0%	31.1%	32.1%
25/20 PPT ¹	60.0%	60.3%	59.9%	61.7%	34.5%	34.6%	34.8%	35.7%
House Resources CS ²	60.0%	59.5%	60.8%	59.4%	34.5%	33.4%	36.2%	32.1%
Senate Resources CS ³	62.3%	62.0%	62.8%	61.5%	37.4%	36.3%	38.6%	34.3%

FY 2007-2016

Status Quo	53.3%	55.0%	52.4%	55.0%	24.8%	26.9%	23.7%	26.7%
20/20 PPT ¹	57.2%	57.6%	57.1%	58.1%	30.9%	30.9%	31.0%	31.5%
25/20 PPT ¹	59.6%	59.9%	59.6%	60.5%	34.5%	34.5%	34.8%	35.2%
House Resources CS ²	59.4%	58.6%	61.1%	58.2%	34.2%	32.5%	37.2%	31.7%
Senate Resources CS ³	62.0%	61.2%	63.0%	61.0%	37.8%	36.0%	39.8%	35.4%

FY 2007-2030

Status Quo	51.9%	54.7%	50.8%	53.3%	23.4%	27.2%	22.0%	25.2%
20/20 PPT ¹	56.9%	57.1%	56.9%	57.3%	31.2%	30.9%	31.3%	31.4%
25/20 PPT ¹	59.3%	59.3%	59.3%	59.6%	34.9%	34.3%	35.2%	35.0%
House Resources CS ²	60.6%	58.2%	65.9%	58.7%	37.0%	32.7%	45.4%	33.5%
Senate Resources CS ³	62.7%	60.8%	64.7%	61.3%	39.9%	36.2%	43.3%	37.3%

¹ Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

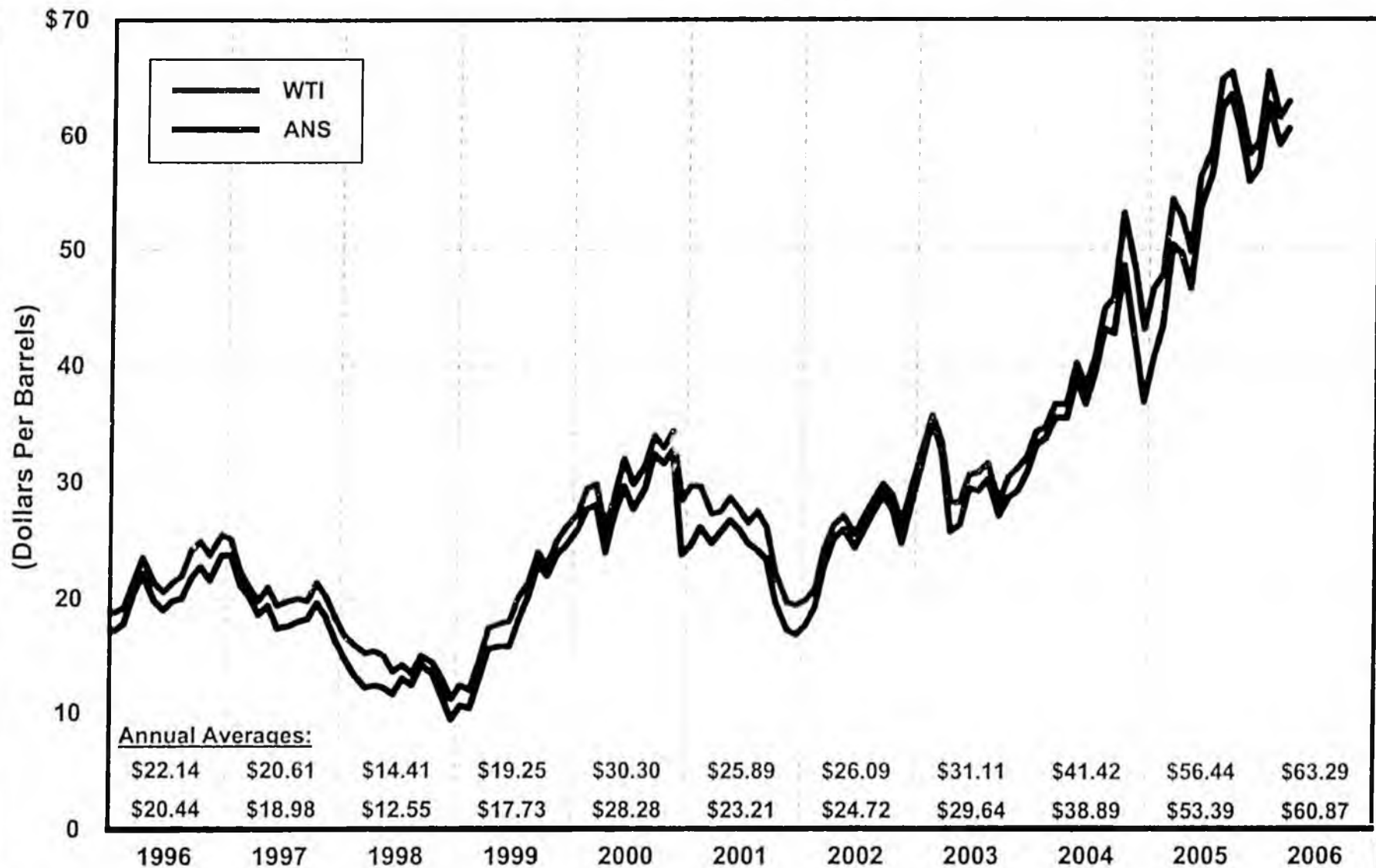
² Calculated from April 2006; includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

³ Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Progressivity Issues

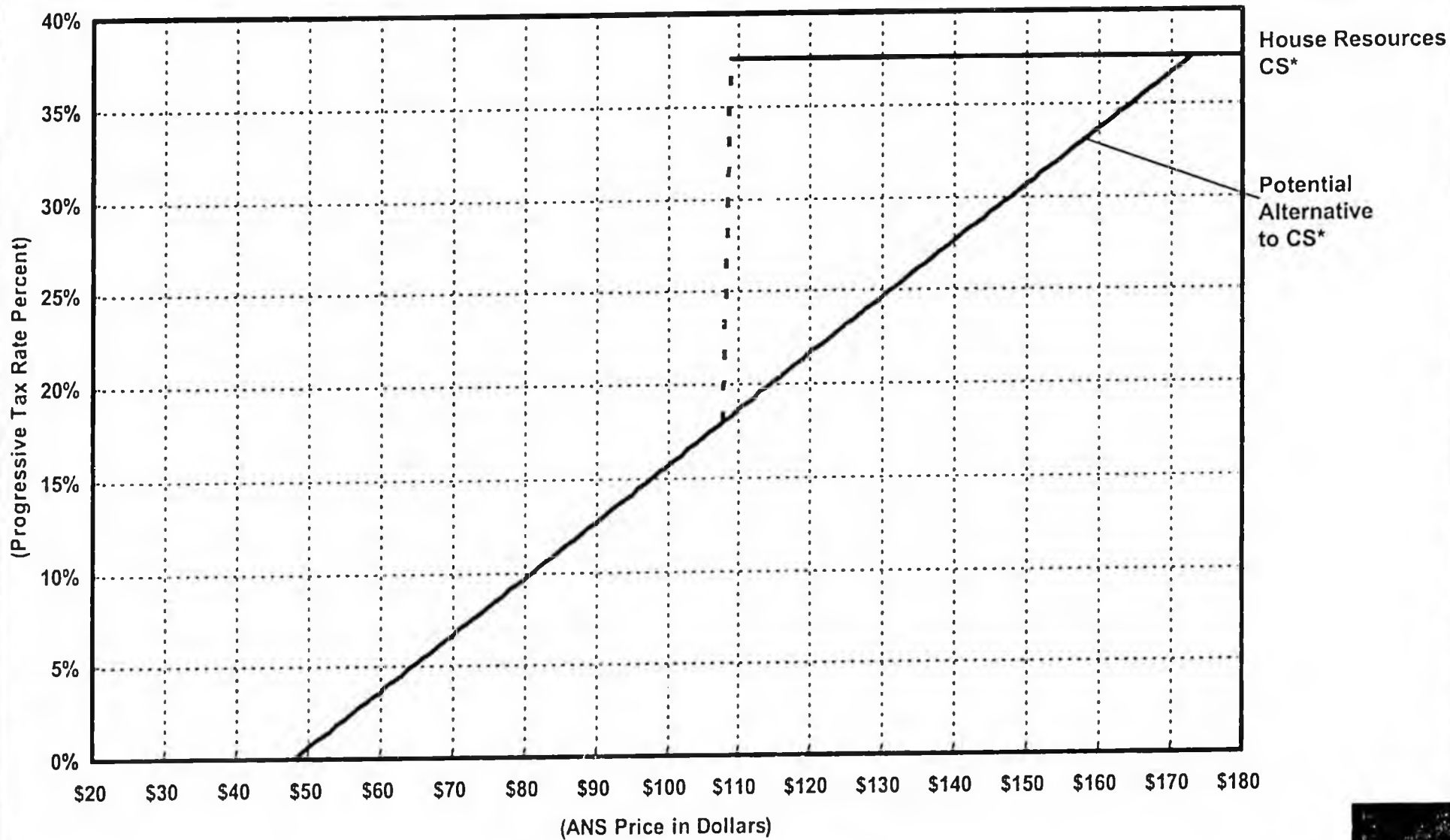
- **Choice of Threshold Price**
- **WTI v. ANS**
- **Real v. Nominal**
- **Deductibility**
- **Cap**

Platt's WTI and ANS Prices (January 1996 - March 2006)



Source: Platt's.

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



* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Source: Historical Average; Alaska Department of Revenue.



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Alaska State Legislature

Please enter into the record my testimony to the _____ HFIN _____
(committee name)

committee on _____ HB488 _____, dated 040106

Thank you Chairman Chenault and Members of the House Fin. Comm. for allowing me to speak on HB 488. Like all us Alaskan Resource owners we "trust embody" your decisions on making proper adjustment to collect a fair Tax Revenue from our depleting oil resource. Elf was a fair Tax Scheme some 15 years ago when oil profits and world markets seemed more proportional to Alaska's economy and it's extraction & producing Partners but that's not the case today as we all know. Its time that our Partners need to share like any good 50/50 Partner should.

Over thirty years of Tax incentives and investment credits given to our Partners has qualified Alaska as a "Rightful Partnership Share" of current Windfall Profits. Evidence provided to your committee proves that today's profits at today's price per barrel of oil sold on the world market exceeds most traditionally normal levels. War in the middleeast continues and any sight of market change is unforeseeable at present. So it's prudent that Alaska change ELF and get it's fair share of today's inflated world market prices.

I propose that your committee keep the 25/20% initial Tax portion of the bills tax scheme but modify the after certain price addition/escalation balance of the bill. We know that the producers make 23% on 20 dollar oil and we know they make 38% on 40 dollar oil and so on. I propose that Alaska at 40 dollars a barrel price, start to get our fair share. This would be a "keep it simple stupid" additional tax with an 50% "Partnership Share" on every dollar a barrel thereafter. Period

Additionally if the State Dept. of Revenue forecasts a future drop in price to say 47 dollars a barrel and places the risk of future budget deficits upon Alaska we will not be back here in a year or so redoing this work all over again. We have learned that unless conflict in today's world changes dramatically, history will be correct in its view that resource prices don't drop in such social climate. Infact if public/private opinion was to be a good indicator the price of non-renewable resources can and will continue to go up. A boom for Alaska's resource owners!

With that being said, it makes even more sense that Alaska get it's share before it's gone and with gratitude to all those in the industry for their unselfishness in the making of Alaska's Great State's future even more greater. Thank you very much for listening to my two cents of wisdom.
Sincerely, Ed Martin Jr. P O Box 521, Cooper Landing, AK 99572

Louanne Christian

From: Rep. Kevin Meyer
Sent: Saturday, April 01, 2006 12:51 PM
To: Louanne Christian
Subject: FW: Fwd: teleconferences 3-31

Can you provide this to the committee members? Thank you.

From: Kathleen Martin [mailto:keaaumartins@yahoo.com]
Sent: Saturday, April 01, 2006 11:49 AM
To: LIO Kenai
Subject: Re: Fwd: teleconferences 3-31

Mary Bea,

If, I for what ever reason can't personally testify today please read and/or forward this to the House Fin. Comm. today. Thank you so very much...Ed

Thank you Chairman Chenault and Members of the House Fin. Comm. for allowing me to speak on HB 488. Like all us Alaskan Resource owners we "trust embody" your decisions on making proper adjustment to collect a fair Tax Revenue from our depleting oil resource. Elf was a fair Tax Scheme some 15 years ago when oil profits and world markets seemed more proportional to Alaska's economy and it's extraction & producing **Partners** but that's not the case today as we all know. Its time that our 50/50 **Partners** need to share like any good 50/50 **Partner** should.

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Additionally if the State Dept. of Revenue forecasts a future drop in price to say 47 dollars a barrel and places the risk of future budget deficits upon Alaska we will not be back here in a year or so redoing this work all over again. We have learned that unless conflict in today's world changes dramatically, history will be correct in its view that resource prices don't drop in such social climate. Infact if public/ private opinion was to be a good indicator the price of non-renewable resources can and will continue to go up. A boom for Alaska's resource owners!

With that being said, it makes even more sense that Alaska get it's share before it's gone and with gratitude to all those in the industry for their unselfishness in the making of Alaska's Great State's future even more greater. Thank you very much for listening to my two cents of wisdom. Sincerely Ed Martin Jr.

Kathleen Martin <keaaumartins@yahoo.com> wrote:

Note: forwarded message attached. Subject: teleconferences 3-31
Date: Fri, 31 Mar 2006 20:24:47 -0900
From: "MaryBea Byrne" <MaryBea_Byrne@legis.state.ak.us>
To: "etree" <liocmbb+etree@legis.state.ak.us>,
"education" <liocmbb+education@legis.state.ak.us>,
"fish" <liocmbb+fish@legis.state.ak.us>

See the attached.
mb

**Alaska State Legislature
HOUSE FINANCE COMMITTEE
AGENDA**

***Testimony by invitation only.**

April 1, 2006 – Saturday

10:00 a.m. – 2:00 p.m.

HB 488-OIL AND GAS PRODUCTION TAX

Public Testimony:

10:00 a.m. 11:15 a.m. Anchorage

11:30 a.m. – 11:45 a.m. Testimony by invitation:

Paul Laird, The Alliance

Bob Stinson, Conam Construction

Chris Johansen, Flowline Alaska

David Gottstien,

12:00 p.m. – 1:15 p.m. Fairbanks

1:15 p.m. – 2:00 p.m. All other sites (including Juneau)

**Kevin Ritchie, Executive Director, Alaska Municipal
League**

Testimony of Mike Koy on HB488

The table below (Table 1) shows the yearly impact to State revenues of the Governor's proposed oil tax legislation and consequent Legislative revisions relative to the current oil tax system. The incremental revenues shown are the cumulative impacts to State revenues from each version of the oil tax bill. For example, as introduced HB488 generates an extra \$810 million for the State at \$60/bbl relative to the current tax system. Implementing a graduated profit tax rate of 0.3% per \$1/bbl increases the State's revenue to \$1,175 million at the same oil price. The impact of the graduated profit tax is therefore \$365 million at \$60/bbl. No clawback (removing credits on historic investment) increases the State's revenues \$145 million at \$60/bbl making the total change of the new oil tax legislation including revisions, relative to the current tax system, to be \$1,320 million. At the same oil price, the changes made by the Senate give an increase of \$1,980 million in State revenues relative to the current tax structure. This is through the 50% clawback reduction shown in Table 1. Completely eliminating the clawback, is shown for completeness. With this basic understanding let's consider the current versions of the oil tax legislation under review by the House and Senate.

Table 1. Change in Yearly State Revenues Relative to the Current Fiscal Regime

	Break-even Oil Price	Oil Price (\$/bbl)					
		15	20	30	40	50	60
HB 488							
As introduced	29	(250)	(260)	10	275	550	810
0.3% per \$1/bbl after \$50	29	(250)	(260)	10	275	550	1175
No Clawback	24	(220)	(110)	160	430	695	1320
SB 305							
As introduced	29	(250)	(260)	10	275	550	810
0.2% per \$1/bbl after \$40	29	(250)	(260)	10	276	735	1175
25% Base Rate	24	(250)	(150)	240	635	1220	1900
50% clawback	22	(225)	(75)	320	710	1295	1980
No clawback	20	(180)	1	395	785	1370	2055

HB488:

As introduced - impact of Governor's proposed oil tax changes

0.3% per \$1/bbl after \$50 - total change after including sliding scale of an extra 0.3% in tax for every \$10/bbl increase above \$50/bbl

No clawback - cumulative change after including sliding scale and eliminating tax credit (clawback) for investment made in the previous five years

SB305

As introduced - impact of Governor's proposed oil tax changes

0.2% per \$1/bbl after \$40 - total change after including sliding scale of an extra 0.2% in tax for every \$10/bbl increase above \$40/bbl (actual language might say 2% for every \$10/bbl, but these are approximately equal for illustrative purposes here)

25% base rate - cumulative impact after including sliding scale and increasing the base profit tax rate from 20% to 25%

50% clawback - cumulative impact after including sliding scale, increasing the base profit tax rate from 20% to 25%, and reducing the number of years that tax credits (clawback) can be earned for previous investment

100% clawback - cumulative impact after including sliding scale, increasing the base profit tax rate from 20% to 25% and eliminating tax credit (clawback) for investment made in the previous five years

First, both versions of the oil tax legislation are progressive in nature. That is, they increase the State's share of oil revenues earned by the industry as oil price increases. This is seen more clearly in the graph below (Figure 1). In Figure 1, it is clear that under the current oil tax system (the red line) the State's share of oil revenues goes down as oil price goes up - flattening out at about 29% of oil revenues. This leads to the world of today where oil companies are earning excessive profits with really high oil prices and the State isn't proportionally sharing in that upside.

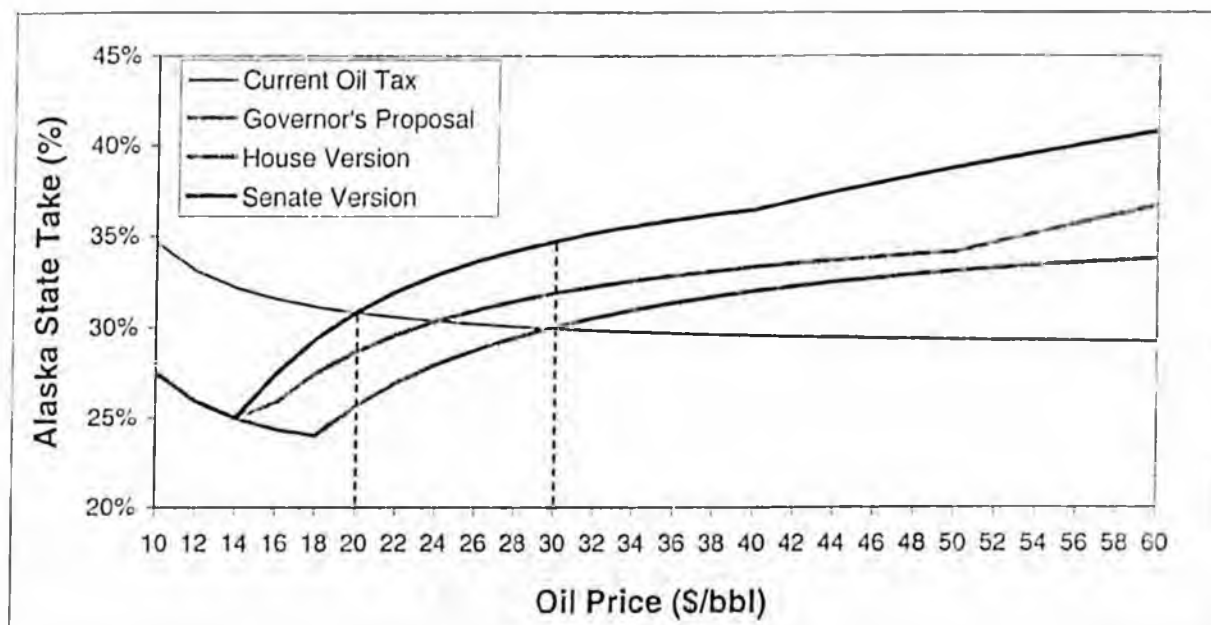


Figure 1. Alaska State tax as a percentage of Pump Station 1 netback prices

The next three lines show that the Governor's proposal (the pink line), the House version (the green line) and the Senate version (the blue line) of the Governor's proposed oil tax legislation all correct the problem with the current oil tax structure and increase the State's share of oil revenues as oil price increases. This is good. The question is, does any version of new oil tax legislation meet the State's needs of increasing revenues from oil & gas production while providing incentive for further investment? To answer this we need to look at how oil companies make investments and something called risk/reward balance.

Investments by Oil & Gas Companies

Most oil companies, and likely all the major oil companies, use a fixed oil price when making investment decisions. For the majors this oil price is usually between \$20-\$30/bbl. In this price range projects need to look attractive relative to other projects the company has around the world in order to attract investment dollars. Alaska currently has a regressive tax structure that makes Alaska in this price range, all else being equal, look unattractive relative to other regions of the world. To attract investment dollars, any new tax structure should make Alaska look more attractive within this price range than does the current oil tax structure. Looking back at Figure 1, the Governor's proposed tax structure indeed does make Alaska look more attractive in the \$20-\$30/bbl price range while the Senate's version makes it look distinctly less attractive. The House version splits the difference. Because the \$20-\$30/bbl oil price range is the only set of prices that really matter when making investment decisions, the Governor's proposal will attract more investment to Alaska while the Senate's version will attract investment away from Alaska all else being equal.

Risk/Reward Balance

Now the discussion needs to be put in context of risk & reward. The premise here is that greater risk should attract greater reward. No rational person or organization should be willing to take on additional risk without being compensated for it (i.e. receiving higher reward). To see how the State has done we'll look at three risks: oil price risk, profitability risk and exploration risk.

Oil Price Risk

With the current oil tax structure the State is rather immune to oil price in terms of the share of oil revenue it takes. In fact, as seen in Figure 1 the State's share of oil revenues actually goes up as oil price goes down (this doesn't mean that the State's revenue goes up – it just means that the decrease in State revenue isn't as much as the decrease in oil price). This is called a regressive tax system and it allows the State to slightly insulate itself from low oil prices. To move to a progressive tax structure where the State shares more in the upside when prices are high it is

reasonable to expect the State would give up some of this insulating affect (make oil taxes less regressive) on the downside. On balance, given that the State is increasing its exposure to oil price risk by doing this we'd expect the State to earn a higher reward. Does this happen?

Long term oil prices are between \$18-\$22/bbl. This means for every year that oil prices are \$60/bbl, as they are today, there needs to be eight years with oil prices at \$15/bbl in order for oil prices to average \$20/bbl - the long term average oil price. Look back at Table 1. With any of the oil tax versions the State makes \$225-\$250 million per year less than with the current tax structure when oil prices are \$15/bbl. This is supposedly offset by the extra revenues being earned at \$60/bbl. The extra revenue is \$810 million under the Governor's proposal, \$1,320 million under the House version and \$1,980 million under the Senate version. The net impact to State revenues is shown in Table 2.

Table 2. Impact to State Revenues over Long-Term

	Governor's Proposal	House Version	Senate Version
8 years at \$15/bbl	(\$2,000)	(\$1,760)	(\$1,800)
1 year at \$60/bbl	\$810	\$1,320	\$1,980
Net Impact	(\$1,190)	(\$440)	\$180

Table 2 doesn't include changes to investment, natural decline in production or other timing issues, but the point is still the same. Under the Governor's proposal the State actually loses over \$1bn every nine years. For taking on the extra risk of a progressive tax system the State clearly is not getting enough reward. Only with the Senate's version does the State earn enough additional revenue at \$60/bbl to justify reducing the tax rate at lower oil prices.

Profitability Risk

Unlike severance tax which is largely a tax based on revenues, a profits tax is obviously based on profits. To get from revenues to profits one must include operating and capital costs (in terms of depreciation). This means that State will be taking on operating and capital cost risk as part of a new oil tax structure since the amount of revenue the State collects is directly dependent on the costs of generating the profits which are taxed. In principle this might be fine, but the additional risk the State is taking on and should come with additional reward. Look back at Table 2. Where is the additional reward? After considering price risk only the Senate version generates a net increase to State revenues. Assuming the price risk is perfectly balanced, is \$180 million (or \$20 million per year) in the Senate's version enough of a reward payment for taking this additional risk? What about the Governor's proposal and House version?

Exploration Risk

Exploring for new oil and gas reserves is arguably the riskiest part of the oil & gas industry and thus why successful exploration companies earn higher returns than say refineries. With the current oil tax system the oil companies for all practical purposes take 100% of the exploration risk. Under the Governor's proposal, and the House and Senate versions, oil companies will be able to earn tax credits on all capital investment including exploration costs. In addition, these tax credits are transferable which means that companies will be able to buy and sell the credits. Doesn't sound important, but it is. With transferable investment tax credits the State becomes a de facto equity investor in exploration - the riskiest part of the business. Every time there is a well drilled looking for oil that finds anything but oil the State will be obligated to pay 20% of the costs just as if it were an investor in the well. However, if the well finds oil the State doesn't get a 20% equity stake in the discovery. Some will say that the State will benefit through more oil being discovered which will be more oil that can be taxed. Maybe, but what is more certain is that a lot more exploration wells will be drilled and way more often than not these wells will not find commercially viable reserves and the marginal well drilled will be more risky than if the State weren't involved. This means the State's risk profile will increase even more. There are better ways for the State to create incentives for more oil production that expose the State to a lot less risk.

Summary

Where does this leave us? In terms of providing incentive for investment, the only price range that is relevant is the \$20-\$30/bbl range. In this range only the Governor's proposal reduces the tax on the oil industry which will provide an incentive for investment. However, the Governor's proposal does this while exposing the State to some

horrendous oil price risk not to mention cost and exploration risk. The Senate version fixes the oil price risk issue but at the same time creates a disincentive for future investment by increasing taxes substantially in the \$20-\$30/bbl range. The House version is a halfway house that doesn't protect the State enough from oil price risk and doesn't create enough incentive for investment in the all important \$20-\$30/bbl range.

What can the State do? Below are some suggestions that would allow the State to meet it's objectives of increasing State revenues, increase incentives for oil companies to invest and keep the State's risk/reward balance in line:

Oil prices below \$20/bbl – The biggest decrease in taxes generated by the State relative to the current tax structure occurs when oil prices are below \$20/bbl. While this is a fairly important price range for oil companies it is not that important. This means that the State is giving away value in this range that it does not need to as the oil companies won't give the State credit for doing so. Oil prices in this range also happen to be where the State will really be hurting for funds. The State needs to do a better job of protecting itself when prices drop below the \$20/bbl range, but any system needs to be less regressive than the current tax structure.

Solution: The easiest solution is to implement a minimum tax per barrel of oil produced. Depending on the profit tax rate selection, a per barrel rate of \$0.35-\$0.75 is reasonable.

Oil prices between \$20-\$30/bbl - This is the important oil price range as this is the range of prices oil companies reference when making investment decisions. Incentives, or an advantaged tax regime in this price range, are fully valued by oil companies which means the State gets the largest bang for its buck by making concessions valid in this range. The State should do what it can to concentrate its efforts to make Alaska look as attract in this range as possible.

Solution: A 20% profits tax works well in this range.

Oil prices above \$30/bbl - While it may not seem like it now, oil prices above \$30/bbl are pretty high. This range is where excess profits are generated and where the State should be looking to gain a growing proportion of revenues. This price range also is where the State needs to cover (i.e. earn reward) for the risks it is taking on by making the tax structure less regressive and for providing an advantageous tax structure at oil prices between \$20-\$30/bbl. Will increasing taxes in this range reduce investment by the oil companies? Absolutely not! Oil companies do not value highly what happens in this price range so increasing the State's share of revenue, within reason, will not impact investment because the price used by oil companies to balance their business (\$20-\$30/bbl) looks good. They also know the State is taking on greater risks and needs to be compensated for doing so.

Solution: A graduated progressive tax allows the State to continually increase its share in revenues as oil price increase, but the rate needs to be higher than any of the current proposals in order to protect the State from the oil price risk it is taking. A graduated progressive tax of 0.3 per every \$1/bbl increase in oil price above \$30/bbl accomplishes this. The State could easily also phase out the investment tax credit at higher oil prices since higher oil prices themselves provide enough incentive for investment.

Exploration Risk: There is no reason for the State to take on exploration risk. This is especially true when there is a significant resource of discovered heavy oil sitting on the North Slope close to infrastructure. There is no exploration risk to get this to market, but it does need some additional economic incentive.

Solution: Eliminate the investment credit for exploration costs and instead increase the investment credit for viscous oil development. Traditional development only – we don't want tar sands mining in Alaska.

These changes to the prevailing oil tax proposals are pretty basic, but they fundamentally alter the shape of the tax structure in a positive way that increases investment and provides more revenue for the State.

Note: Mike Koy has over eleven years experience in the oil & gas industry with BP. In addition to working in Australia, Papua New Guinea, Russia and England, he has extensive oil & gas experience in Alaska including strategy development and economic modeling of various North Slope gas development options.

BACKBONE II

FOR ALASKA'S FUTURE

Mr Chairman, and other distinguished members of the committees, thank you very much for the opportunity to present to you today. My name is David Gottstein, and I live at 2341 Hialeah Drive in Anchorage, Alaska. I, along with former Governor Walter Hickel, Co-Chair a group called Backbone2. I thank you, as all Alaskans do, for your hard work and efforts on this most important topic.

You have the daunting task of ferreting out a very complex subject. One I do not envy you for. You must assess the balance between making sure that Alaska gains the maximum value for it's oil and gas resources, while at the same time, not discourage in more than an offsetting manner, a tax structure that is sound, fair, and rational.

We must incentivize exploration, but not sacrifice the values of economic production. As a capital markets analyst, I am gravely concerned that you are being asked to evaluate the impacts of such hugely important fiscal matters with meager access to suitable revenue sensitivity models. You should, as a normal course of analysis, as is done in the private sector for fractions of the value at risk here, have full access to a robust model to conduct a full sensitivity analysis of all the key components extended to their reasonable extremes in isolation, and in aggregate, just to get a sample profile of the impacts of the decisions you are faced with.

I first must offer that it would be my preference that the State enact an understandable and enforceable severance tax that is based upon a progressive structure levied against the well-head value of the resources. It has all the advantages of being able to assess a tax that rewards appropriately, risk takers, with a higher level of percent of value at lower oil and gas prices, insuring adequate returns on capital, with higher shares going to the state as prices rise.

Inasmuch as this body has focused on a net profits tax, it places a very heavy burden of enforcement in the natural environment where the oil and gas industry has ample incentive to account for costs in manners that are self-serving. We should expect nothing else. In order to protect the State from being victim of efforts that are primarily under the control of industry executives in terms of cost allocations and other decisions, I would strongly encourage you to consider two protective devices;

One would be to conduct an audit, conducted by a large public accounting firm, not directly retained by the companies themselves, to audit their financial statements, but with that accounting firm reporting to the State of Alaska as it's client in verifying what the oil companies report, in addition to what our Department of Revenue can otherwise hopefully confirm. The second would be to impose a severe penalty, that is bonded,

perhaps costing the industry five to ten times the amount of any under-reporting, in a manner that requires immediate payment even in the event of challenge. Thus creating a strong economic incentive to be forthright and honest. If you don't do that, you will expose the State to great risk of substantial losses.

Another important point is that the question of fair share is critically important. We are constantly being barraged by the industry in their information campaigns that higher taxes are always unfair and act as a disincentive. When in fact the word tax should not solely be viewed as a cost or burden of doing business, but rather it just happens to be the method by which the State is able to garner its fair value of the resource. It is really the state revenue base collected by way of taxing authority.

As you consider questions of rates and oil price base-lines for a progressive tax structure, and how to achieve a fair apportionment, it might be constructive to be reminded that income is an accounting opinion, but cash is a fact. In my prepared statement, which I have provided you a copy of, I have included, for illustrative purposes, both copies of key portions of Conoco Phillips annual reports for years 2003 and 2005, along with a spreadsheet analysis that uses both their own published numbers, along with other oil price numbers obtained from our Department of Revenue.

It is a cash-flow analysis of apportionment, not income. The severance tax is supposed to be a tax on the depletion of our non-renewable resources, and therefore exploration expenses are not included. As they are an investment in future production, not an expense of current production. It also doesn't include depreciation, amortization, or depletion allowances. Instead it appropriately considers revenue, production expenses, and transportation expenses primarily. A truer direct cash generating picture. What share of the cash value of the resource does the State get to keep is really the most important metric, I believe.

In the analysis there are some glaring conclusions that can be reached, that would not otherwise be obvious absent this analytical approach. The first is that the claw-back provision has a less than accurate basis for justification in arguing that the oil industry wasn't anticipating as high a tax payment when the investments were made in past years. The truth is that the incremental tax that has been suggested, even at the highest levels proposed, is more than offset by the higher than anticipated oil prices that have occurred. It is after-tax cash-flow that is important, not simply taxes paid.

Another important observation is that as prices have risen, Conoco's before-tax profit margin has expanded over the last five years from 50% to 80%, and their after-tax margin has increase from 37% to 57%. That is consistent with dramatically higher resources values without commensurately higher expenses. In other words, the industry is making huge profits at our expense, well beyond their prior investment planning projections.

Another set of remarkable statistics show that the multiple of Conoco Phillips share of revenue versus the State's ranges from a low of 340% to over 950% at times over the last five years. Not even close to the 1/3, 1/3, 1/3 parity take that is often argued as being

fair. Additionally, when you do the analysis on a net cash-flow basis, after production and transportations costs, etc., it still ranges between 250% and 450%. Indicating the State in the past has received a dismal share.

If we were to approach our ownership position as the private sector would as shareholders, we are falling significantly short of the scrutiny that our shareholders deserve. The secret pact to promote a 20/20 PPT, as bait to get a gas line via a secret contract, would not even come close to passing muster with the S.E.C. This kind of lack of transparency is sometimes what sends executives to jail. Even the stranded gas act negotiations are circumspect as we can't rationally conclude the gas is stranded unless we put the gas out to open bid, and nobody shows up. That is why it is essential to pass HB71, retrieve Pt. Thomson, and put our gas out to bid.

The oil and gas industry spends millions of dollars a year to blur our vision with advertising, lobbying, philanthropy, and threats, to serve their shareholders, because they understand the magnitudes of the equations. They are prepared for the invasion of Normandy, while the administration, in comparison, is only prepared for Wimbledon. You as the legislature are our last line of defense, against overpowering forces. We plead with you to not fail us.

We need to step up to the plate, be tough, and do it right. We need a fair and rational oil and gas tax structure irrespective of whether a gas line is ever built. And let's not forget that the administration has already said that their secret contract only contains a commitment to study the gasline for 4 or 5 more years, not an actual commitment to build a project.

Alaskans will be forever thankful for those of you who are not unduly influenced by the oil industry spin doctors, and not be bullied by their tactics, and instead carefully look at the facts. Listen to your consultants who say the state takes too much risk in the deal, and doesn't get enough reward. I would be very surprised if we even bump up against our fair share with a base rate of 25% at \$49 a barrel, 30% at \$50, and 35% at \$60 per barrel, with further progressivity from there. Let's do the math right, and not give the farm away. We've done that in the past. Let's not repeat those costly mistakes.

I thank you very much for taking the time to listen, and encourage you to take a serious look at what I have offered you.

Thank you again.

	2,005	2,004	2,003	2,002	2,001
Dept. Revenue Tax Division					
Ak North Slope Average Spot Price					
Calendar Year		\$38.84	\$29.64	\$24.72	\$23.20
Percentage Change		31.0%	19.9%	6.6%	
Fiscal Year	\$43.43	\$31.74	\$28.15	\$21.78	\$27.85
Percentage Change	36.8%	12.8%	29.2%	-21.8%	
Average Well Head Value					
Calendar Year		\$32.20	\$24.61	\$19.96	\$17.36
Percentage Change		30.8%	23.3%	15.0%	
Fiscal Year	\$38.76	\$26.78	\$23.27	\$16.80	\$22.24
Percentage Change	44.7%	15.1%	38.5%	-24.5%	

Alaska Results From Operations From Conoco Phillips Annual Reports
Conoco Phillips Annual Report

	2,005	2,004	2,003	2,002	2,001
Total Production Revenues (1,000,000)	\$5,927	\$4,378	\$3,656	\$3,097	\$3,020
Cash Expenses					
Production Costs	\$488	\$430	\$792	\$769	\$784
Transportation Costs	\$665	\$598	\$666	\$681	\$726
Other Related	\$67	\$14	\$7	\$23	\$2
Total Cash Exp.	\$1,220	\$1,042	\$1,465	\$1,473	\$1,512
Expense % of Revenue	20.6%	23.8%	40.1%	47.6%	50.1%
Conoco Pre-Tax Production Cashflow	\$4,707	\$3,336	\$2,191	\$1,624	\$1,508
Conoco Pre-Tax Profit Margin	79.4%	76.2%	59.9%	52.4%	49.9%
Cashflow Percentage Change	41.1%	52.3%	34.9%	7.7%	
Provision for Taxes	\$1,342	\$888	\$595	\$294	\$392
Conoco Net Cashflow	\$3,365	\$2,448	\$1,596	\$1,330	\$1,116
Percentage Change	37.5%	53.4%	20.0%	19.2%	
Conoco After-Tax Profit Margin	56.8%	55.9%	43.7%	42.9%	37.0%
Conoco Revenue Share %	77.4%	79.7%	83.7%	90.5%	87.0%
State Revenue Share %	22.6%	20.3%	16.3%	9.5%	13.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Conoco Multiple of Revenue Share	341.7%	393.0%	514.5%	953.4%	670.4%
Conoco Net Cashflow % of Revenue	56.8%	55.9%	43.7%	42.9%	37.0%
Production Expense % of Revenue	20.6%	23.8%	40.1%	47.6%	50.1%
State Tax % of Revenue	22.6%	20.3%	16.3%	9.5%	13.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Conoco Net Cashflow Multiple of State Share	250.7%	275.7%	268.2%	452.4%	284.7%
Conoco Share of Net Cashflow %	71.5%	73.4%	72.8%	81.9%	74.0%
State Share of Net Cashflow %	28.5%	26.6%	27.2%	18.1%	26.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Conoco Multiple of State Share	250.7%	275.7%	268.2%	452.4%	284.7%

■ Results of Operations

Years Ended
December 31

Millions of Dollars

	Consolidated Operations								Equity Affiliates	Combined Total
	Alaska	Lower 48	Total U.S.	European North Sea	Asia Pacific	Canada	Other Areas	Total		
2003										
Sales	\$3,564	2,464	6,028	3,872	879	225	677	11,681	423	12,104
Transfers	103	545	648	903	142	841	77	2,611	266	2,877
Other revenues	(11)	93	82	8	33	31	10	164	34	198
Total revenues	3,656	3,102	6,758	4,783	1,054	1,097	764	14,456	723	15,179
Production costs	792	657	1,449	645	175	271	170	2,710	179	2,889
Exploration expenses	56	143	199	121	51	94	127	592	2	594
Depreciation, depletion and amortization	436	571	1,007	954	163	326	40	2,490	104	2,594
Property impairments	—	65	65	160	—	5	—	230	—	230
Transportation costs	666	188	854	266	40	40	23	1,223	20	1,243
Other related expenses	7	78	85	29	13	91	44	262	27	289
Accretion	25	18	43	50	5	11	2	111	2	113
	1,674	1,382	3,056	2,558	607	259	358	6,838	389	7,227
Provision for income taxes	595	486	1,081	1,539	225	57	362	3,264	83	3,347
Results of operations for producing activities	1,079	896	1,975	1,019	382	202	(4)	3,574	306	3,880
Other earnings	223	34	257	51	3	68*	(46)	333	(51)	282
Cumulative effect of accounting change	143	(1)	142	20	—	(8)	(12)	142	(2)	140
E&P net income (loss)	\$1,445	929	2,374	1,890	385	262	(62)	4,049	253	4,302
2002										
Sales	\$2,997	927	3,924	1,194	347	125	400	5,990	180	6,170
Transfers	102	401	503	1,315	—	235	—	2,053	62	2,115
Other revenues	(2)	3	1	63	7	7	14	92	12	104
Total revenues	3,097	1,331	4,428	2,572	354	367	414	8,135	254	8,389
Production costs	769	444	1,213	343	76	118	114	1,864	57	1,921
Exploration expenses	101	108	209	67	45	32	231	584	—	584
Depreciation, depletion and amortization	552	334	886	480	59	105	26	1,556	30	1,586
Property impairments	4	8	12	41	—	—	—	53	—	53
Transportation costs	681	87	768	125	10	—	5	908	8	916
Other related expenses	23	16	39	75	1	14	11	140	12	152
	967	334	1,301	1,441	163	98	27	3,030	147	3,177
Provision for income taxes	294	66	360	981	79	49	196	1,665	(18)	1,647
Results of operations for producing activities	673	268	941	460	84	49	(169)	1,365	165	1,530
Other earnings	197	18	215	10	(2)	24*	(4)	243	(24)	219
E&P net income (loss)	\$ 870	286	1,156	470	82	73	(173)	1,608	141	1,749
2001										
Sales	\$3,020	1,178	4,198	546	154	31	324	5,253	8	5,261
Transfers	119	119	238	1,039	—	—	—	1,277	—	1,277
Other revenues	34	26	60	23	(4)	5	—	84	1	85
Total revenues	3,173	1,323	4,496	1,608	150	36	324	6,614	9	6,623
Production costs	784	328	1,112	165	37	6	55	1,375	2	1,377
Exploration expenses	61	69	130	31	33	—	121	315	—	315
Depreciation, depletion and amortization	531	203	734	233	22	4	27	1,020	2	1,022
Property impairments	—	—	—	—	—	—	23	23	—	23
Transportation costs	726	77	803	60	—	3	6	872	—	872
Other related expenses	2	5	7	(8)	5	1	23	28	2	30
	1,069	641	1,710	1,127	53	22	69	2,981	3	2,984
Provision for income taxes	392	173	565	779	22	7	117	1,490	—	1,490
Results of operations for producing activities	677	468	1,145	348	31	15	(48)	1,491	3	1,494
Other earnings	189	8	197	17	—	—	(9)	205	—	205
E&P net income (loss)	\$ 866	476	1,342	365	31	15	(57)	1,696	3	1,699

*Includes \$63 million and \$27 million in 2003 and 2002, respectively, for a Syncrude oil project in Canada that is defined as a mining operation by U.S. Securities and Exchange Commission regulations.

- Results of operations for producing activities consist of all the activities within the E&P organization, except for pipeline and marine operations, liquefied natural gas operations, a Canadian Syncrude operation, and crude oil and gas marketing activities, which are included in Other earnings. Also excluded are non-E&P activities, including our Midstream segment, downstream petroleum and chemical activities, as well as general corporate administrative expenses and interest.
- Transfers are valued at prices that approximate market.

- Other revenues include gains and losses from asset sales, including net gains of approximately \$165 million in 2003; certain amounts resulting from the purchase and sale of hydrocarbons; and other miscellaneous income.
- Production costs consist of costs incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. These costs also include taxes other than income taxes, depreciation of support equipment and administrative expenses related to the

Results of Operations

Years Ended
December 31

Millions of Dollars

	Consolidated Operations									Equity Affiliates	
	Alaska	Lower 48	Total U.S.	European North Sea	Asia Pacific	Canada	Middle East and Africa	Other Areas	Total	Venezuela	Russia and Other Areas
2005											
Sales	\$ 5,927	3,385	9,312	5,142	2,795	1,642	423	—	19,314	1,055	2,415
Transfers	172	1,206	1,378	2,207	26	—	640	—	4,251	455	1,003
Other revenues	2	168	170	(253)	11	40	4	—	(28)	37	1
Total revenues	6,101	4,759	10,860	7,096	2,832	1,682	1,067	—	23,537	1,547	3,419
Production costs excluding taxes	488	492	980	611	274	316	115	45	2,341	196	256
Taxes other than income taxes	537	311	848	41	26	33	18	2	968	3	1,632
Exploration expenses	120	66	186	86	139	147	69	42	669	—	56
Depreciation, depletion and amortization	443	848	1,291	1,074	329	399	53	—	3,146	140	148
Property impairments	—	1	1	(10)	—	13	—	—	4	—	—
Transportation costs	665	350	1,015	296	64	59	5	—	1,433	—	255
Other related expenses	67	48	115	28	38	(12)	32	8	209	21	5
Accretion	29	19	48	84	7	16	2	—	157	—	1
	3,752	2,624	6,376	4,886	1,955	717	773	(97)	14,610	1,187	1,066
Provision for income taxes	1,342	900	2,242	3,311	747	228	759	(19)	7,268	370	303
Results of operations for producing activities	2,410	1,724	4,134	1,575	1,208	489	14	(78)	7,342	817	763
Other earnings	141	15	156	53	—	93	(28)	35	316	(58)	(32)
(Cumulative effect of accounting change)	1	(3)	(2)	(2)	—	—	—	—	(4)	—	—
Net income (loss)	\$ 2,552	1,736	4,288	1,626	1,213	582	(14)	(43)	7,654	759	731
2004											
Sales	\$ 4,378	2,568	6,946	4,215	1,777	1,214	704	—	14,856	470	397
Transfers	121	832	953	1,255	71	—	75	—	2,354	359	122
Other revenues	4	(36)	(32)	9	10	116	5	14	122	32	1
Total revenues	4,503	3,364	7,867	5,479	1,858	1,330	784	14	17,332	861	520
Production costs excluding taxes	430	422	852	523	216	271	120	36	2,018	154	46
Taxes other than income taxes	373	267	640	38	17	35	12	1	747	—	206
Exploration expenses	82	101	183	85	106	112	67	144	697	—	5
Depreciation, depletion and amortization	426	586	1,012	1,095	275	349	43	—	2,774	94	43
Property impairments	6	12	18	2	—	47	—	—	67	—	—
Transportation costs	598	241	839	296	48	43	2	—	1,228	—	57
Other related expenses	14	43	57	20	(2)	4	14	7	100	39	—
Accretion	21	21	42	72	6	14	2	—	136	—	1
	2,553	1,671	4,224	3,348	1,192	455	524	(174)	9,569	566	162
Provision for income taxes	888	584	1,472	2,233	477	127	514	(94)	4,729	67	41
Results of operations for producing activities	1,665	1,087	2,752	1,115	715	328	10	(80)	4,840	499	121
Other earnings	167	23	190	102	(2)	130	(35)	(10)	375	(53)	(6)
Net income (loss)	\$ 1,832	1,110	2,942	1,217	713	458	(25)	(90)	5,215	446	115



THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

HOUSE FINANCE TESTIMONY

On CS HB488

April 1, 2006

Thank you, Chairman Chenault. My name is Paul Laird, and I'm general manager of the Alaska Support Industry Alliance. I'm testifying on behalf of the Alliance, a trade organization representing companies and individuals that provide goods and services to Alaska's oil, gas and mining industries.

Throughout this debate on a new profits-based oil and gas production tax, we've heard a lot about finding the right tax rate and investment credits. Is ~~20%~~ 20% the right tax? 25%? 30%? How about 17½% ... or 12½%? Should it be progressive? How about the investment credits?

Frankly, Mr. Chairman, we don't know. But here are some things we do know:

We know that the 20/20 deal reflected in the original legislation will result in roughly \$1 billion a year in additional state revenues, and the state already projects a \$1.4 billion budget surplus this year.

We know that the major North Slope producers have agreed to this unprecedented tax increase, and have said that with fiscal certainty, it can be the catalyst to a \$25 billion gas project.

We know that the changes contained in the committee substitute would increase taxes by hundreds of millions of dollars on top of the \$1 billion in the original bill, and it would water down the incentives for investment.

We know that every dollar in additional taxes is a dollar that won't be invested in sustaining production, in creating business opportunities for Alaskan companies, in generating good-paying jobs for Alaskans.

We know that our 400 members and their 30,000 Alaskan employees will be here long after the legislature's consultants on this issue are gone, and they'll be the ones to bear the consequences if higher taxes really do result in less investment ... a novel economic concept, to be sure.

So will their children ... and theirs, and theirs ... as long as there are still enough opportunities to keep them here.

ALASKA SUPPORT INDUSTRY ALLIANCE

Mr. Chairman, we know that we're not just talking about a tax bill here. We're not just talking about a revenue bill, or a resource development bill.

We're talking about Alaska's future.

And we know that Alaska's future has never held so much potential ... or so much peril.

We can encourage investment and have a gas project, continuing oil exploration and development and 50 years of good-paying jobs, robust business activity and steady state revenues.

Or we can impose the highest possible tax rate on production and have an even bigger state government for a while ... at the expense of a strong and sustainable economy ...

At the expense of our future.

We know that that's what's at stake here. Mr. Chairman and members of the Finance Committee, don't put oil investment and a gas project ... don't put generations of jobs and business opportunities ... don't put our future at risk.

Thank you.



Alaska Conservation Alliance

Uniting for Alaska's Future

March 24, 2006

The Honorable Kevin Meyer
Co-Chair, House Finance Committee
House of Representatives
Alaska State Capitol, Room 519
Juneau, Alaska 99801-1182

The Honorable Mike Chenault
Co-Chair, House Finance Committee
House of Representatives
Alaska State Capitol, Room 519
Juneau, Alaska 99801-1182

Dear Representatives Meyer and Chenault,

I am writing to thank members of the legislature for work thus far in analyzing the proposed revision to the oil production profits tax (PPT). Clearly, this debate is of far-reaching consequence to every Alaskan, and the diligence undertaken by legislators to this point is highly encouraging.

On behalf of the 40 conservation groups and businesses represented by the Alaska Conservation Alliance, I urge you to continue to take the time necessary to ensure that the proposal is a good deal for the State of Alaska and the citizens and communities who are depending on you to represent their interests in this debate.

Talk of intense pressure to sign off on a handshake deal, and of the PPT being tied to an as-yet-unseen gas line project, gives one reason for concern. I trust that your committee will take as much time as needed to fully understand the proposal and to ensure that Alaskans are indeed receiving the best possible outcome.

As you well know, the stakes could not be higher, and I am sure there is pressure from many different sides. In the end, I am encouraged that you will make the tough choices at the end of the day, and history will look kindly on your work.

Thank you, again, for your efforts on behalf of the people of Alaska.

Sincerely,

Kate Troll
Executive Director



Alaska State Legislature

Please enter into the record my testimony to the House Finance
committee name

Committee on HB 488, dated 4-1-06
bill # / subject public hearing date

What we do with regard with taxing "OUR" oil is and will effect Alaska and it's citizens for years to come or until the oil runs out. We currently allow the oil companies to produce from the "best producing wells" and those wells could and do happen to be those wells that Alaska doesn't receive any tax revenue. Check it out! The oil and gas committee can colaberate that fact.

If, in fact, the oil companies are our partners, than our fair share surely is 50 % after their 38% profit margin would you not think? At 47 dollars a barrel and at a rate of 50 cents on the dollar for every dollar over 40 dollars a barrel the state would not see a deficit ever. Think "PEAK OIL" it's that time folks better get our fair share now!

Do what is right with regard to this tax situation ,please push my Tax scheme 50% On every dollar over 40 dollars a barrel and the state will not see a budget deficit after next year.

Why would you approve a tax scheme that will ultimately place us in a future continued budget deficit ? Approve my idea and we will still benefit if the price does as the Department of Revenue's wizards say it will.

(See also attached 2 page article from the Anchorage Daily News, March 30, 2006)

Signed: Ed Martin, Jr.
Testifier
Self
Representing (optional)
PO Box 521 Cooper Landing, AK 99572
Address
595-1632
Phone number



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Budget approved by House

\$7.5 BILLION: Lawmakers on both sides of aisle call it unsustainable.

By MATT VOLZ
The Associated Press

(Published: March 30, 2006)

JUNEAU -- Good thing the price of North Slope crude closed at \$64.50 Wednesday.

If not for the windfall profits brought by those high oil prices, the state would be operating in the red next year under the budget approved Wednesday by the Alaska House.

The House's budget for fiscal 2007, which begins July 1, includes a 6 percent increase over last year in state treasury spending for operating costs.

That doesn't take into account another \$1.2 billion in state money that would go to the state's public education fund and for capital projects, according to an analysis by the Legislative Finance Division.

The \$7.5 billion budget includes federal, state and other sources of money that will be used to increase spending in every state governmental agency.

The budget passed the House 27-12, but lawmakers on both sides of the aisle say it's unsustainable and something needs to be done about the rise in spending.

"This budget is underwater, it's in deficit," said Rep. Norm Rokeberg, R-Anchorage.

The Senate Finance Committee is still in the process of closing out its own budget subcommittees. The two chambers will eventually meet in a conference committee to finalize the spending plan for next year.

Without the surpluses from this and last year paying for some of next year's programs, the House's budget would have the state in a \$285.5 million deficit next year, the Legislative Finance Division's analysis reads.

The creeping budget is due to a number of things. The increase in federal money coming to Alaska has slowed. The price of fuel has made running the Alaska Marine Highway System and other operations more costly. Fixed program costs continue to rise steadily, and there is also pressure to increase the number of state programs and employees when fiscal times are good like now.

Even with the increases over last year's budget, the House's spending plan still reduces by 5 percent the one Gov. Frank Murkowski proposed in December.

The governor's budget director, Cheryl Frasca, told House Finance Committee members last week that their cuts to Murkowski's budget were too deep, particularly those to the Department of Corrections and for rural energy aid.

Most House Democrats also disagreed with the House's product, saying while bloated, the budget shortchanges municipalities, the elderly and some health services.

Democrats failed to pass amendments to save an additional \$700 million of next year's surplus, restart the \$250 dividend program for elderly residents and bulk up funding for substance abuse and fetal alcohol syndrome programs.

adn.com | legislature : Budget approved by House

Page 2 of 2

If oil prices remain high next year, the state can count on saving more money. But after that, the price of oil is forecast by the Department of Revenue to drop to \$46.90 per barrel, which would plunge Alaska into a deficit if there isn't a fix.

One change in the works that would affect that outcome is a plan to replace Alaska's oil production tax with a tax based on oil companies' net profits. That system, if approved, would bring the state hundreds of millions more in revenue each year when the price of oil is high.

But that's not enough, lawmakers say. A long-range fiscal plan is needed.

"The state can't afford to wait any longer," said Rep. Max Gruenberg, D-Anchorage.

Vote tally on state operating budget

Results Wednesday as the Alaska House, on a 27-12 vote, passed the 2007 state operating budget. Conferees from the House and Senate will meet later in the session to work out a final budget.

Voting yes were 24 Republicans and three Democrats. Voting no were 11 Democrats and 1 Republican.

A yes vote is for passing the budget.

Representatives are listed by name and hometown.

YES VOTES

• Republicans: Anderson, Anchorage; Chenault, Nikiski; Coghill, North Pole; Elkins, Ketchikan; Gaito, Palmer; Harris, Valdez; Hawker, Girdwood; Holm, Fairbanks; Kelly, Fairbanks; Kohring, Wasilla; Kott, Eagle River; LeDoux, Kodiak; Lynn, Anchorage; McGulre, Anchorage; Meyer, Anchorage; Neuman, Big Lake; Olson, Kenai; Ramras, Fairbanks; Rokeberg, Anchorage; Samuels, Anchorage; Seaton, Homer; Stoltze, Chugiak; Thomas, Haines; Weyhrauch, Juneau.

• Democrats: Kapsner, Bethel; Foster, Nome; Moses, Unalaska.

NO VOTES

• Republicans: Dahlstrom, Eagle River.

• Democrats: ...kowitz, Anchorage; Cissna, Anchorage; Crawford, Anchorage; Croft, Anchorage; Gara, Anchorage; Gardner, Anchorage; Gruenberg, Anchorage; Guttenberg, Fairbanks; Joule, Kotzebue; Kerttula, Juneau; Salmon, Beaver.

DID NOT VOTE

• Republicans: Wilson, Wrangell.

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fax (907) 562-5816

RE: House Finance Hearing RE: CS HB 488 April 1, 2006

Good morning Mr. Chairman and distinguished members of the House Finance Committee. My name is Lynn Johnson, and I am a 32 year Alaska resident and President and co-founder of Dowland-Bach Corporation, a 31 year old Alaska manufacturing and specialty design and fabrication firm. I am a past President of the Alaska Support Industry Alliance, the Anchorage International Rotary Club, and currently serve on several boards, including the American Red Cross of Alaska, Girdwood 2020, and the Whittier Ports and Harbors Commission.

As many of you know, our firm is one of the rare manufacturing firms in the State of Alaska. We employ 28 people year round, and have taken great pride that we essentially avoided the cyclical ramp up and ramp down over the past 31 years. We were the Export Council's "Small Business" Exporter of the Year in 2002, primarily for our manufacturing and exporting of wellhead control systems to Colombia, South America. In this instance, we used the knowledge and expertise that we learned on the North Slope to expand our controls and systems business to another oil basin of the world. This controls and systems niche that we compete in serves us well worldwide, but the bulk of our business still does originate from the North Slope and Cook Inlet. For that reason, I urge you to think very seriously about substantially changing any portion of Governor Murkowski's PPT proposal. To make additional investment in Alaska unattractive through excessive taxation would devastate companies like ours and my fellow member companies of the Alaska Support Industry Alliance.

As a business owner, I am a firm believer that economies grow through the private sector, and not necessarily public sector expansion. Greatly increased production taxes on North Slope oil will curtail investment in facilities and additional expansions necessary on the North Slope and Cook Inlet to extend production the keep TAPS full. With excessive taxation, as we have all heard time and time again, investment capital from the major producers will flow to other oil basins of the world.

In summary, lets think about this increased taxation issue from our personal perspective. If the personal tax rate on our individual incomes suddenly doubled or tripled, would you be that willing to work that extra two or three hours of overtime?? In addition, let's consider the message that we are sending to the oil industry head corporate offices worldwide. We want to double or triple your taxes on oil, we want you to continue to invest hundreds and hundreds of millions of dollars yearly in our Alaskan economy and we also you want to build a 25 billion dollar gas pipeline as soon as possible. Does that sound like to good plan to a shareholder of one of the major producers that owns stock and has no real concern about Alaska?? That shareholder is just concerned that his investment in that oil stock and where the oil comes from is none of his or her concern. For that very reason, hold the tax rates down and keep Alaska competitive with other oil producing basins of the world. Do we want the industry in Alaska for another ten or fifteen years or another fifty??? I think the answer to that question is crystal clear. We need to let the industry know this by making Alaska a good climate in which to invest over the long term. Please think long and hard about any substantial changes in taxation. The economic future of Alaska depends on it. Thank you.

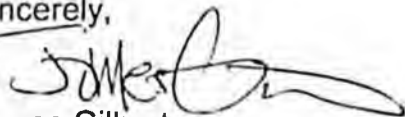
4-1-2006
HFIN
HB 488

April 1, 2006

House Finance (CS HB488)

- Every one of the changes in the Governor's bill jeopardizes oil & gas investment in our state, which means the House Finance Committee is jeopardizing the future of every small business owner in Alaska that supports the oil & gas industry if you modify the governors bill. Every current **AND** prospective producer has testified to that effect, including the independents Alaska is trying to lure to explore here. Even the independents are watching what you do with this bill.
- If enacted, the CS will leave Alaska with the **highest tax rate and highest cost structure in the United States**, putting Alaska at a competitive disadvantage for new investment. Already two of the three majors do not explore, why make it a slam dunk and have three out of three curtail their exploration activity. We've all seen the charts and graphs, we need another Kuparuk or Alpine every 5 or 6 years to sustain growth, you will not find them without exploration.
- Our concern for the future of Alaskans is compounded by the lack of a state fiscal plan for managing surpluses in high-price environments like we're currently experiencing. How will we balance the budget when prices are low? The state budget was slightly more than \$2 billion two years ago; it's projected to be as high as \$3.8 billion in another two years.
- As the President of the Alliance and also as President of my own company, I urge you to choose sustainable economic growth through new investment over unsustainable government growth through higher taxes in crafting new severance tax methodology.
- **Please consider this as you move on this bill, House Finance (CS HB488).**

Sincerely,



James Gilbert
President of the Alliance

President of Udelhoven Oilfield Services, Inc.
184 E 53rd Ave
Anchorage, AK 99518

home address:

9201 Main Tree Dr.

Anchorage, AK 99507

1 April 2006

To: Members of the House Finance Committee:-

My name is Maynard Tapp, I am an Alaska dreamer since 1954; an Alaskan worker since 1972; an Alaskan business owner since 1985; and an Alaskan resident since 1990.

I prefer a Production Profits Tax of 15% / 20%.

I appreciate the time you, and your Senate colleagues, have given me over the past month. I am fortunate to belong to a great organization, The Alaska Support Industry Alliance. I have gained great insight and understanding of the PPT issue through their educational campaigns.

I have also learned from the various presentations on the PPT presented by the economists, and producers, and the legislators of the State of Alaska.

I believe these bills need to be viewed as "Resource Development" legislation not as state tax revenues.

I believe we are all partners in this deal; the government, the people, and the "producers".

The "producers" reinvest the revenues and grow the source of those revenues.

The people get jobs from/and related to the "producers" reinvestment and grow their wealth; spend money in the community, and grow its wealth and viability.

The government takes its share and grows the government.

As a partner, shouldn't the government support the growth of the revenue resource and not the growth of the government. Ultimately, the growth of the revenue source supports the growth of government but within our means.

I believe the 20% / 20% is the wrong number, it should be closer to a 15% / 20% PPT. What should the PPT number be to get to a 0% to 3% rate of decline? What are we doing to ensure the states revenue source viability lasting to our next generation?

In today's economic climate we are declining at 6% per year. Starting at 880,000 bbl/d I calculate the pipeline being mechanically inoperable by 2015. Then what?

The new technologies to bring viscous oil to market are not guaranteed and not cheap.

What can the government do to encourage investment? It doesn't seem like raising the rent does anything to put more money into exploration. We cannot tax our way to state solvency, in the long run we must invest our way to state solvency and success.

I started a business here twenty years ago waiting for the stars to align.

1. Continuing investment on the Northslope
2. Build the Alaska Gas Pipeline to the lower 48.
3. Get legislation in place to encourage development of ANWR.

What are our state representatives in the House and Senate doing to encourage development and growth of our resource pool, the source of our state revenues? Please invest in maintaining the "seed corn" to keep Alaska growing, now and into the future.

Thank-you
Maynard Tapp
200 West 34th Ave. #809
Anchorage, Alaska -- 99503



NORTHWEST TECHNICAL SERVICES

HFIN
HB 488

April 1, 2006

Testimony at Anchorage LIO Office

The Honorable Kevin Meyer
The Honorable Mike Chenault
Co-Chairmen, House Finance Committee
and Committee members
Juneau, Alaska

Subject: CSHB 488

Thank you for hearing my testimony, today, Saturday, April 1, 2006. At this time, I ask that you and your committee reexamine the changes made to HB488 which are contained in House Resources Committee substitute, CSHB 488.

As General Manager for Northwest Technical Services, a company which provides employees to a variety of industries, including the oil industry, I usually approach you and other members of the Legislature on matters that deal very specifically with Wage and Hour, Worker's Compensation and Workforce Training both in title and content. In this case, however, I am concerned that the impact on the workforce and future employment for NWTS' 100+ employees and other Alaska workers may not be quite as evident to others as it is to us.

The crux of the matter is – the more money that goes into the State government in taxes, the less money there will be for investment by the companies in the private sector into new projects and the redefinition of current fields to stem declining production. Reduction of investment will mean reduction of jobs some of which are directly related to the oil and gas industry, many of which are the "fallout jobs" where most Alaskans work, i.e. at grocery stores, hardware stores, the State of Alaska, etc.

It has also been made very clear that the PPT is, in some fashion, being tied to the gas contract. This impacts even more jobs and opportunities – for Alaskans and, to go beyond our borders, for other U. S. citizens. It has taken us too long to get to this point in history to jeopardize it now with a taxation rate that could result in a tax and cost rate higher than anywhere else in the United States. This gas line is our future and the future of our state. The monies it will generate will far outweigh those we might realize by the change in the tax rate that has been proposed by the House Resource Committee.

Representative Kevin Meyer
Representative Mike Chenault
Co-Chairmen, House Finance Committee
and Committee Members
April 1, 2006
PageTwo

I ask that as you deliberate over the next few days as to which changes you are going to retain prior to sending this Bill forward, you step back and consider all the ramifications of these decisions, particularly the impact on jobs, future development and the quality of life for this and the next generations of Alaskan citizens.

With the resistance of the U.S. Congress to the opening of ANWR, this is our next "big strike". As Senator Ted Stevens' stated in his address to the Legislative body, it is a decision that will set the course of the State of Alaska for many years to come.

Respectfully yours,



Mary E. Shields
General Manager

4-1-2006
HF
HB 488

Good morning & thank you for this opportunity

My name is Mike Koy.

I've worked with BP for over eleven years in various capacities including numerous roles in business development, strategy, economic evaluation and long term planning. The last three positions I've held in BP are Business Development Manager in Alaska, Planning Manager in BP's corporate headquarters in London and Project Manager in BP's Global Mergers & Acquisitions Team, also in London.

I am currently on a leave of absence from BP, representing myself and not the company, and therefore free to speak with all the knowledge and perspective of someone from within the industry but without any of the associated limitations or constraints.

There are three things I would like to address in the time I have investment ^{me} ~~and~~ ^{taxed} ~~as a gas pipeline~~ projects.

Let me start by saying that most oil companies, and all of the majors, use fixed prices when making investment decisions and those prices have tended to be in the \$20-\$30/bbl range. Within this price range is where the tax regime needs to look attractive relative to other places in the world in order to attract investment. What happens outside of this range is important, but largely immaterial when companies are making investment decisions.

With that as background, the version of HB488 as passed out of the Resources committee, creates a higher tax burden on industry through most of the \$20-\$30/bbl range than the current oil tax structure. To attract investment, the tax rate in this range only should be lowered from the 20% currently in the bill.

At oil prices below \$20/bbl, is where HB488 provides the greatest reduction in taxes relative to the current oil tax structure ironically right when the State will need funds most. While some relief in this price range would be welcomed by the oil industry, the State will not get full credit for providing reduced taxes in this range which means the State is giving away value for nothing in return. HB488 should include a provision which increase the regressive nature of oil taxes in the under \$20/bbl range relative to what is currently in the bill but less regressive than the current oil tax structure. This is easy to do.

WHAT THAT IN MIND, HB488 reduce oil taxes too much at oil prices below \$20, too little at oil prices between \$20-\$30/bbl, and leaves taxes too little at oil prices above \$30/bbl

For oil prices above \$30/bbl, in a range that increased taxes will not impact investment or the health of the underlying business, it is reasonable for the State to progressively share in revenues. HB488 implements a progressive, or graduated, profits tax structure, but it does not go as far as it could and still not impact investment and more importantly doesn't go far enough to cover the State's oil price risk. In fact, as HB488 currently stands the State will take in less tax revenues on average than they currently do with the existing tax structure. To overcome this, HB488 should include a more progressive tax structure which easily could be done by lowering the oil price at which the graduated profits tax kicks in from \$50/bbl to \$30/bbl.

With regards to risk/reward balance, oil companies understand this as well as anyone and it is clear in HB488 where the State is taking on most of the risks and not getting compensated with a proportional share of reward. I've already mentioned price risk, but the State would also be taking on cost risk and exploration risk as part of this bill. With exploration in particular, the State is going to find it very expensive including investment tax credit on exploration with little in the way of benefit. The State would do much better to eliminate the investment tax credit on exploration costs, thereby eliminating the State's exposure to this risk, and instead place a greater investment tax credit on heavy oil which has already been discovered in large quantities, is close to infrastructure and can be brought on-line much quicker with a bit of economic help.

The final thing I would like to say is around the relationship of oil fiscal terms and a gas pipeline project. Oil fiscal terms have no bearing whatsoever on the economics of a gas pipeline project. They are not related at all except through negotiation with the oil companies recognizing they have an opportunity now to create leverage for better oil terms than they could otherwise get. Oil taxes will not impact the viability of a gas pipeline project or the interest in the oil companies of progressing a gas pipeline project. The State needs to stop treating one as having an impact on the other as it gives away value for no reason. Related to this, the legislature should consider including only the oil tax terms in HB488 and remove gas related components and ask that these be included in the gas contract ~~not the oil terms~~. There are components in there which have much more of an affect than pure tax consequences and need to be considered in totality with the rest of the gas contract. No oil consultant will be able to help in this area.

Losses the state ^{relative to the current tax structure} In terms of risk, with HB488 is ^{since} making an independent estimate amount of risk. ^{was planned never pl}

In summary, while I think there are better starting points for amending the State's oil fiscal terms than this bill, if it is to be the basis for a new system amendments should be made to make it slightly more regressive on the low price side, implement a higher graduated progressive tax on the high side, consider a tax incentive for viscous oil and most importantly consider oil tax legislation separate from a gas pipeline project and ensure oil fiscal terms are not included in a gas contract. Remember, the oil companies want to develop a gas project as much as the State wants them to.

Thank you.

4-1-2006
HFIN

Thank you, Mr. Chairman, for this opportunity to speak today on the Committee Substitute to HB 488.

My name is Joanna Caselli, and I have lived in Alaska for more than 15 years. I went to college here, and I am now carving out a career for myself here. Having recently married, I also wish to have children here, raise them here, and give them every opportunity to succeed—that is, if the future of Alaska's economy remains strong.

My livelihood and my husband's—and, consequently, that of our future family—is directly linked to the oil & gas industry. We want to stay here and continue to be productive Alaskans, but we need to know there's a future for us here.

That said, what happens if this higher tax rate *does* have the negative impact on investment that oil producers are predicting? My husband faces the very real possibility of losing lucrative contracts, of seeing his business decline. Losing contracts translates into having to eliminate positions—and the men my husband works with are supporting families and can absolutely not afford to lose work. No one can.

If the work opportunities are not here for my husband and I, we certainly won't stick around to raise a family in that kind of environment, no matter how much we love Alaska.

Higher taxes equal less investing. Less investing means fewer job and work opportunities. Please, play your cards right. There is no room for mistakes at this poker table. The jackpot is the future of this state.

Thank you.

Joanna Caselli
13342 Diggins Dr.
Anchorage, AK 99515

Thank you for this opportunity to speak on the Committee Substitute to HB488. Mr. Chairman, my name is Hillary McIntosh and I live in South Anchorage. I am here to tell you how your decisions on this tax bill will affect my family. My husband and I both derive our livelihood from the oil and gas industry...reaching further, so does my sister, brother-in-law, uncle and many friends. I am sure this is a common statement among most Alaskans.

Every producer, majors and independents, has indicated that higher taxes as proposed by the legislature will result in less investment in the Slope. What does that mean to me? What does that mean to my husband, my family members and friends that support the oil and gas industry? I believe it means fewer opportunities for professional growth, a fear of job instability and a distinct disincentive to stay in Alaska.

Short term revenues for government are not worth throwing away long-term investment for Alaska's future. How will this all pan out when my daughter graduates from college in 2027? Will she want to stay in Alaska? Will the oil and gas market be thriving then? It may not be if you overstep the producers' threshold. Don't let Alaska's biggest export become its children.

Less money to invest in the majors' own industry will certainly mean less money to invest in Alaska's communities as well. Between my husband and me, we sit on several boards and are involved in many area non-profit entities. In fact, I even work for a non-profit. The oil industry, majors and their contractors, have been very generous to the non-profit community and it would be detrimental if their support is reduced due to your important decisions on this tax. Less investment in our communities means less support for programs that I value and feel Alaska's children need.

In the event that community support is reduced, will the State of Alaska subsidize the difference? What plan is in place to manage these windfall profits?

You can shave a sheep many times, but you can only skin him once. I watch gavel to gavel, I read the papers, I watch the news, I've read the bills themselves...and I think the changes made to the Governor's bill have destroyed the delicate balance between state and industry needed to ensure a healthy economy and much-needed gas line. Let's not forget that two year of negotiations went into the agreement. I am not asking you to "give in" to the producers' every whim, but I am asking you to think about the negative externalities your changes will cause and how Alaska's future may look in 10, 20 or 30 years. Do not stray too far from the Governor's proposal. Please do not jeopardize my family's future in Alaska.

Hillary McIntosh
2530 Cleo Avenue
Anchorage, AK 99516

SB

305

(FILE 1)

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
 APR 22 2006
 SENATE FINANCE COMMITTEE

DATE: 3/30/06

FURTHER:

DATE TURNED IN TO OFFICE: 22 April 2006

Finance Committee considered

SENATE BILL NO. 305

SB 305 OIL AND GAS PRODUCTION TAX

"An Act repealing the oil production tax and gas production tax and providing for a production tax on the net value of oil and gas; relating to the relationship of the production tax to other taxes; relating to the dates tax payments and surcharges are due under AS 43.55; relating to interest on overpayments under AS 43.55; relating to the treatment of oil and gas production tax in a producer's settlement with the royalty owner; relating to flared gas, and to oil and gas used in the operation of a lease or property, under AS 43.55; relating to the prevailing value of oil or gas under AS 43.55; providing for tax credits against the tax due under AS 43.55 for certain expenditures, losses, and surcharges; relating to statements or other information required to be filed with or furnished to the Department of Revenue, and relating to the penalty for failure to file certain reports, under AS 43.55; relating to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue, under AS 43.55; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the oil and gas production tax; relating to the deposit of money collected by the Department of Revenue under AS 43.55; relating to the calculation of the gross value at the point of production of oil or gas; relating to the determination of the net value of taxable oil and gas for purposes of a production tax on the net value of oil and gas; relating to the definitions of 'gas,' 'oil,' and certain other terms for purposes of AS 43.55; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with _____ CS SB 305 (FIN)
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

CS Senate Bill:

- Same Title
- New Title

SCS House Bill:

- Same Title
- Technical Title Change
- New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
	forthcoming				
	f/n				
	dept Revenue				
	\$				

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
DNR	4/15/06			✓	#1

APPF - no fiscal note

SIGNATURES AND RECOMMENDATIONS	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>			x	
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>			✓	
COCHAIR: <i>[Signature]</i>	✓			

FISCAL NOTE

REPORTED OUT
APR 22 2006
 SENATE FINANCE COMMITTEE

STATE OF ALASKA
 2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CS for SB 305(FIN)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title An Act Relating to the Production Tax on RDU Tax and Treasury
Oil and Gas Component Tax
 Sponsor Rules Committee
 Requester Governor Component No. 2476

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	359.2	366.4	373.7	381.2	388.8	396.6
Travel						
Contractual	400.0	370.0				
Supplies	24.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	18.0	18.0	18.0	18.0	18.0	18.0
TOTAL OPERATING	801.2	754.4	391.7	399.2	406.8	414.6

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()	<i>See analysis section</i>					

FUND SOURCE (Thousands of Dollars)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
1002 Federal Receipts						
1003 GF Match						
1004 GF	801.2	754.4	391.7	399.2	406.8	414.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	801.2	754.4	391.7	399.2	406.8	414.6

Estimate of any current year (FY2006) cost: 275.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time	4	4	4	4	4	4
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Relative to Status Quo

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, property taxes. The net income would be subject to a 22.5% tax, less a credit of 25% which applies to capital costs upstream of the point of production. There would also be a progressive surcharge based on .2% of one less the tax rate (22.5%) on the difference between actual the Alaska North Slope (ANS) oil price and \$50 applied to the gross value at the point of production. There would be no surcharge when the ANS price was under \$50. The surcharge would not be considered a deductible lease expenditure. There would be an additional allowance of 22.5% of the production tax value multiplied by the quotient of 5,000 divided by the average daily production, limited to \$14 million annually, which sunsets in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001

Prepared by: Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis
 Division: Tax Division

Phone 269-1019
 Date/Time 4/23/06 7:00 PM

Approved by: Jerry Burnett
 Agency: Department of Revenue

Date 4/24/2006

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CS for SB 305 (FIN)

ANALYSIS CONTINUATION

through April 1, 2006, which can be realized over the first 7 years following the effective date. However, credits in a given year are limited to expenditures based on one-half the qualified capital expenditures incurred in that year. It is estimated this would reduce revenues about \$700 million total over that period. Finally, the conservation surcharge on oil is decreased from 2 cents/bbl to 1 cent/bbl, while the additional conservation surcharge on oil is increased from 3 cents to 5 cents. The net impact of this, assuming that the oil and hazardous substance release prevention account is at capacity, would be a 2 cent/bbl increase in revenues.

The bill would be effective April 1, 2006.

Relative to Governor's Bill

The Governor's bill had no progressive surcharge. There was an deductible allowance of up to \$73 million of net income per company per year. There was a transition provision where all qualified capital expenditures incurred between July 1, 2001 through July 1, 2006 would be deductible over six years. The 3 cent conservation surcharge on oil would have been a credit against the oil tax.

The bill would have been effective July 1, 2006.

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. Columns 1-3 reflect the original fiscal note for the bill. Columns 4-5 reflect adjustments to the original fiscal note that correspond with net adjustments in state corporate income tax from changes in the severance tax, the recognition of the credit for the additional conservation surcharge on oil, the re-assessment of the number of full allowances from 7 company equivalents to nine, and minor model changes. Columns 6-8 reflect changes from converting from the Fall 2005 Department of Revenue Source Book data to Spring 2006. The volumes for the last quarter have been adjusted to reflect short-term production impacts resulting from the North Slope oil spill in March. Columns 9-11 reflect the Senate Resources CS. Columns 12-14 reflect the Senate Finance CS. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

- \$100 mm/yr exploration
- \$1/bbl on-going capital on all barrels
- \$3.50/bbl developmental capital on 2/3 of existing conventional oil
- \$8/bbl developmental capital on 2/3 of existing heavy oil
- \$3.50/bbl developmental capital on new conventional oil
- \$8/bbl developmental capital on new heavy oil
- \$3/bbl operating cost on conventional oil
- \$5/bbl operating cost on heavy oil

The table shows the 2006-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a \$40 price, and a \$60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 3 additional positions for auditors: 1 O & G Specialist (Range 23), 1 O & G Revenue Auditor IV (Range 22), and 1 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax. In addition, we request 1 additional position for a Tax Tech III (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase.

Contractual expenditures include \$100,000 and \$70,000 for programming in FY 07 and FY 08, respectively, and \$300,000 in each of FY 07 and FY 08 for help in writing regulations. Supplies include computers and other supplies necessary for new positions.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CS for SB 305 (FIN)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

GOVERNOR'S BILL
ORIGINAL FISCAL NOTE

GOVERNOR'S BILL
WITH CORPORATE INCOME TAX,
CONSERVATION SURCHARGE
NINE COMPANY ALLOWANCES
MINOR MODEL CHANGES

Fiscal Year	DOR Forecast	Col.	Col.	Col.	Col.	Col.
		1	2	3	4	5
		Status Quo Tax	Tax from Bill	Gain from Bill	Tax from Bill	Gain from Bill
2006	na	na	na	na	na	na
2007	\$49.20	934	1,363	429	1,317	383
2008	\$40.95	697	915	217	876	179
2009	\$25.50	404	349	-55	320	-84
2010	\$25.50	387	339	-48	310	-77
2011	\$25.50	362	351	-11	319	-43
2012	\$25.50	343	332	-10	300	-42

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill	Tax from Bill	Gain from Bill
2006	na	na	na	na	na	na
2007	\$40.00	737	1,038	301	997	260
2008	\$40.00	679	1,031	353	988	309
2009	\$40.00	673	1,118	445	1,070	397
2010	\$40.00	646	1,106	460	1,058	411
2011	\$40.00	606	1,138	532	1,086	480
2012	\$40.00	576	1,112	536	1,059	483

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill	Tax from Bill	Gain from Bill
2006	na	na	na	na	na	na
2007	\$60.00	1,165	1,938	773	1,879	714
2008	\$60.00	1,069	1,917	848	1,855	786
2009	\$60.00	1,042	2,007	965	1,939	897
2010	\$60.00	1,003	1,992	989	1,923	921
2011	\$60.00	941	2,051	1,110	1,977	1,036
2012	\$60.00	896	2,014	1,117	1,939	1,043

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CS for SB 305 (FIN)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

GOVERNOR'S BILL
CHANGES FROM FALL 2005 FORECAST
TO SPRING 2006 FORECAST

Fiscal Year	DOR Forecast	Col. 6 Status Quo Tax	Col. 7 Tax from Bill	Col. 8 Gain from Bill	Col. 9 Status Quo Tax	Col. 10 Tax from Bill	Col. 11 Gain from Bill
2006	na	na	na	na	262	658	396
2007	\$53.60	989	1,514	526	989	2,379	1,390
2008	\$46.90	759	1,136	377	759	1,766	1,006
2009	\$25.50	355	302	-52	355	491	136
2010	\$25.50	315	283	-32	315	451	136
2011	\$25.50	281	291	10	281	445	164
2012	\$25.50	271	291	20	271	439	168

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill	Status Quo Tax	Tax from Bill	Gain from Bill
2006	na	na	na	na	174	315	141
2007	\$40.00	708	978	270	708	1,288	580
2008	\$40.00	655	953	298	655	1,255	600
2009	\$40.00	631	1,021	390	631	1,336	705
2010	\$40.00	582	990	408	582	1,296	715
2011	\$40.00	544	1,012	468	544	1,321	778
2012	\$40.00	536	1,021	485	536	1,330	794

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill	Status Quo Tax	Tax from Bill	Gain from Bill
2006	na	na	na	na	275	693	418
2007	\$60.00	1,120	1,840	720	1,120	2,834	1,715
2008	\$60.00	1,032	1,786	754	1,032	2,759	1,728
2009	\$60.00	978	1,848	871	978	2,839	1,861
2010	\$60.00	901	1,800	899	901	2,772	1,871
2011	\$60.00	842	1,841	999	842	2,824	1,982
2012	\$60.00	831	1,861	1,029	831	2,848	2,017

INCLUDES VOLUMES, PRICE, TAPS, MARINE, UPSTREAM, WELLS

SPRING 2006 VOLUMES FOR THE LAST QUARTER OF FY 2006 HAVE BEEN REDUCED TO REFLECT SHORT TERM ADJUSTMENTS FROM THE NORTH SLOPE OIL SPILL

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CS for SB 305 (FIN)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE
SENATE FINANCE CS

Fiscal Year	DOR Forecast	Col. 12 Status Quo Tax	Col. 13 Tax from Bill	Col. 14 Gain from Bill
2006	\$57.45	262	546	284
2007	\$53.60	989	1,937	948
2008	\$46.90	759	1,404	645
2009	\$25.50	355	377	22
2010	\$25.50	315	341	26
2011	\$25.50	281	337	56
2012	\$25.50	271	332	61

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2006	\$40.00	174	255	81
2007	\$40.00	708	1,050	342
2008	\$40.00	655	1,022	367
2009	\$40.00	631	1,099	468
2010	\$40.00	582	1,065	483
2011	\$40.00	544	1,090	546
2012	\$40.00	536	1,099	563

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2006	\$60.00	275	580	305
2007	\$60.00	1,120	2,382	1,262
2008	\$60.00	1,032	2,317	1,285
2009	\$60.00	978	2,393	1,415
2010	\$60.00	901	2,334	1,433
2011	\$60.00	842	2,384	1,542
2012	\$60.00	831	2,409	1,578

FISCAL NOTE

REPORTED OUT
APR 22 2006
 SENATE FINANCE COMMITTEE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 305
 (S) Publish Date: 2/21/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Repealing the oil production tax and gas RDU Resource Development
production tax etc. Component Oil & Gas Development
 Sponsor Rules by Request of Governor
 Requester Governor Component No. 439

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						
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						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
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

POSITIONS	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There is no anticipated fiscal impact for DNR associated with implementation of this legislation.

Prepared by: Bill VanDyke, Acting Director Phone 907-269-8800
 Division Oil & Gas Date/Time 2/15/2006
 Approved by: Michael Menge, Commissioner Date 2/15/2006
 Agency Natural Resources

ADOPTE

4/19/06

WORK DRAFT

WORK DRAFT

WORK DRAFT

24-GS2052P
Chenoweth
4/18/06

CS FOR SENATE BILL NO. 305(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act repealing the oil production tax and the gas production tax and providing for a
2 production tax on oil and gas; relating to the calculation of the gross value at the point
3 of production of oil and gas and to the determination of the value of oil and gas for
4 purposes of the production tax on oil and gas; providing for tax credits against the tax
5 for certain expenditures and losses; relating to the relationship of the production tax on
6 oil and gas to other taxes, to the dates those tax payments and surcharges are due, to
7 interest on overpayments of the tax, and to the treatment of the tax in a producer's
8 settlement with the royalty owners; relating to flared gas, and to oil and gas used in the
9 operation of a lease or property under the production tax; relating to the prevailing
10 value of oil and gas under the production tax; relating to surcharges on oil; relating to
11 statements or other information required to be filed with or furnished to the
12 Department of Revenue, to the penalty for failure to file certain reports for the tax, to

1 the powers of the Department of Revenue, and to the disclosure of certain information
2 required to be furnished to the Department of Revenue as applicable to the
3 administration of the tax; relating to criminal penalties for violating conditions
4 governing access to and use of confidential information relating to the tax, and to the
5 deposit of tax money collected by the Department of Revenue; amending the definitions
6 of 'gas,' 'oil,' and certain other terms for purposes of the production tax, and as the
7 definition of the term 'gas' applies in the Alaska Stranded Gas Development Act, and
8 adding further definitions; making conforming amendments; and providing for an
9 effective date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
12 to read:

13 INTENT OF SEC. 11 OF THIS ACT. It is the intent of the legislature through sec. 11
14 of this Act to confirm by clarification the long-standing interpretation of AS 43.55.020(f) by
15 the Department of Revenue.

16 * Sec. 2. AS 43.05.230(f) is amended to read:

17 (f) A wilful violation of the provisions of this section or of a condition
18 imposed under AS 43.55.040(1)(B) is punishable by a fine of not more than \$5,000,
19 or by imprisonment for not more than two years, or by both.

20 * Sec. 3. AS 43.20.031(c) is amended to read:

21 (c) In computing the tax under this chapter, the taxpayer is not entitled to
22 deduct any taxes based on or measured by net income. The taxpayer may deduct the
23 tax levied and paid under AS 43.55.

24 * Sec. 4. AS 43.20.072(b) is amended to read:

25 (b) A taxpayer's business income to be apportioned under this section to the
26 state shall be the federal taxable income of the taxpayer's consolidated business for the
27 tax period, except that

28 (1) taxes based on or measured by net income that are deducted in the

1 determination of the federal taxable income shall be added back; the tax levied and
2 paid under AS 43.55 may not be added back:

3 (2) intangible drilling and development costs that are deducted as
4 expenses under 26 U.S.C. 263(c) (Internal Revenue Code) in the determination of the
5 federal taxable income shall be capitalized and depreciated as if the option to treat
6 them as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) had not been
7 exercised;

8 (3) depletion deducted on the percentage depletion basis under 26
9 U.S.C. 613 (Internal Revenue Code) in the determination of the federal taxable income
10 shall be recomputed and deducted on the cost depletion basis under 26 U.S.C. 612
11 (Internal Revenue Code); and

12 (4) depreciation shall be computed on the basis of 26 U.S.C. 167
13 (Internal Revenue Code) as that section read on June 30, 1981.

14 * Sec. 5. AS 43.55.011 is amended by adding new subsections to read:

15 (e) There is levied on the producer of oil or gas a tax for all oil and gas
16 produced each month from each lease or property in the state, less any oil and gas the
17 ownership or right to which is exempt from taxation or constitutes a lessor's royalty
18 interest under an oil and gas lease. The tax is equal to 22.5 percent of the production
19 tax value of the taxable oil and gas as calculated under AS 43.55.160.

20 (f) There is levied on the producer of oil or gas a tax for all oil and gas
21 produced each month from each lease or property in the state the ownership or right to
22 which constitutes a lessor's royalty interest under an oil and gas lease, except for oil
23 and gas the ownership or right to which is exempt from taxation. The provisions of
24 this subsection apply to a lessor's royalty interest under an oil and gas lease as follows:

25 (1) the rate of tax levied on oil produced from a lease is equal to five
26 percent of the gross value at the point of production of the oil;

27 (2) the rate of tax levied on gas produced from a lease is equal to 1.667
28 percent of the gross value at the point of production of the gas;

29 (3) if the department determines that, for purposes of reducing the
30 producer's tax liability under (1) or (2) of this subsection, the producer has received or
31 will receive consideration from the lessor offsetting all or a part of the producer's

1 royalty obligation, other than a deduction under AS 43.55.020(d) of the amount of a
2 tax paid,

3 (A) notwithstanding (1) of this subsection, the tax is equal to
4 22.5 percent of the gross value at the point of production of the oil; and

5 (B) notwithstanding (2) of this subsection, the tax is equal to
6 7.5 percent of the gross value at the point of production of the gas.

7 (g) In addition to the taxes levied under (e) and (f) of this section, during each
8 month for which the price index determined under (h) of this section is greater than
9 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced
10 during that month from each lease or property in the state, less any oil and gas the
11 ownership or right to which is exempt from taxation or constitutes a lessor's royalty
12 interest under an oil and gas lease. The tax levied under this subsection is equal to 1/10
13 of one percent of the production tax value of the taxable oil and gas as calculated
14 under AS 43.55.160, multiplied by the price index determined under (h) of this
15 section.

16 (h) For purposes of (g) of this section, the price index for a month is calculated
17 by subtracting 45 from the number that is equal to the quotient of the production tax
18 value of the taxable oil and gas produced during that month, as calculated under
19 AS 43.55.160, divided by the number of barrels of oil equivalent of that oil and gas.
20 For purposes of this subsection, a barrel of oil equivalent is a barrel of oil, in the case
21 of oil, or 6,000 cubic feet of gas, in the case of gas.

22 * Sec. 6. AS 43.55.017(a) is amended to read:

23 (a) Except as provided in this chapter, the taxes imposed by this chapter are in
24 place of all taxes now imposed by the state or any of its municipalities, and neither the
25 state nor a municipality may impose a tax on [UPON]

26 (1) producing oil or gas leases;

27 (2) oil or gas produced or extracted in the state;

28 (3) the value of intangible drilling and development costs, as
29 described in 26 U.S.C. 26. (Internal Revenue Code), as amended through
30 January 1, 1974 [EXPLORATION EXPENSES].

31 * Sec. 7. AS 43.55.020(a) is repealed and reenacted to read:

1 (a) Ninety-five percent of the total tax levied under AS 43.55.011(e) - (g), net
 2 of any credits applied under this chapter, is due on the last day of each calendar month
 3 on oil and gas produced from each lease or property during the preceding month. The
 4 remaining portion of the tax levied under AS 43.55.011(e) - (g), net of any credits
 5 applied under this chapter, is due on March 31 of the year following the calendar year
 6 during which the oil and gas were produced. An unpaid amount of tax that is not paid
 7 when due in accordance with this subsection becomes delinquent. An overpayment of
 8 tax with respect to a month may be applied against the tax due for any later month.
 9 Notwithstanding any contrary provision of AS 43.05.280, interest on an overpayment
 10 is allowed only from a date that is 90 days after the later of

11 (1) the March 31 described in this subsection; or

12 (2) the date that the statement required under AS 43.55.030(a) and (e)
 13 to be filed on or before that March 31 is filed. Interest is not allowed if the
 14 overpayment was refunded within the 90-day period.

15 * Sec. 8. AS 43.55.020(b) is amended to read:

16 (b) The production tax on oil and [OR] gas shall be paid by or on behalf of the
 17 producer.

18 * Sec. 9. AS 43.55.020(d) is amended to read:

19 (d) In making settlement with the royalty owner for oil and gas that is
 20 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on
 21 taxable royalty oil and [OR] gas, or may deduct taxable royalty oil or gas equivalent
 22 in value at the time the tax becomes due to the amount of the tax paid. Unless
 23 otherwise agreed between the producer and the royalty owner, the amount of the
 24 tax paid under AS 43.55.011(e) on taxable royalty oil and gas for a month other
 25 than oil and gas the ownership or right to which constitutes a lessor's royalty
 26 interest under an oil and gas lease is considered to be the gross value at the point
 27 of production of the taxable royalty oil and gas produced during the month
 28 multiplied by a figure that is a quotient, in which

29 (1) the numerator is the producer's total tax liability under
 30 AS 43.55.011(e) for the month of production; and

31 (2) the denominator is the total gross value at the point of

1 production of the oil and gas taxable under AS 43.55.011(e) produced by the
2 producer from all leases and properties in the state during the month.

3 * Sec. 10. AS 43.55.020(e) is repealed and reenacted to read:

4 (e) Gas flared, released, or allowed to escape in excess of the amount
5 authorized by the Alaska Oil and Gas Conservation Commission is considered, for the
6 purpose of AS 43.55.011 - 43.55.170, as gas produced from a lease or property. Oil or
7 gas used in the operation of a lease or property in the state in drilling for or producing
8 oil or gas, or for repressuring, except to the extent determined by the Alaska Oil and
9 Gas Conservation Commission to be waste, is not considered, for the purpose of
10 AS 43.55.011 - 43.55.170, as oil or gas produced from a lease or property.

11 * Sec. 11. AS 43.55.020(f) is amended to read:

12 (f) If oil or gas is produced but not sold, or if oil or gas is produced and
13 sold under circumstances where the sale price does not represent the prevailing value
14 for oil or gas of like kind, character, or quality in the field or area from which the
15 product is produced, the department may require the tax to be paid upon the basis of
16 the value of oil or gas of the same kind, quality, and character prevailing for that field
17 or area during the calendar month of production or sale [FOR THAT FIELD OR
18 AREA].

19 * Sec. 12. AS 43.55 is amended by adding a new section to read:

20 Sec. 43.55.024. Tax credits for certain losses and expenditures. (a) A
21 producer or explorer may take a tax credit for a qualified capital expenditure as
22 follows:

23 (1) notwithstanding that a qualified capital expenditure may be a
24 deductible lease expenditure for purposes of calculating the production tax value of oil
25 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
26 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025.

27 (A) a producer or explorer that incurs a qualified capital
28 expenditure may also elect to take a tax credit against a tax due under
29 AS 43.55.011(e) in the amount of 25 percent of that expenditure;

30 (B) for a calendar year for which the producer makes an
31 election under AS 43.55.160(f), instead of taking a tax credit at a rate

1 authorized by (A) of this paragraph as to each separate qualified capital
2 expenditure after it has been incurred, a producer that incurs a qualified capital
3 expenditure during that year and that wishes to apply a credit based on that
4 expenditure against a tax due under AS 43.55.011(e) shall calculate and apply
5 every month an annualized tax credit in an amount equal to 2 1/12 percent of
6 the total qualified capital expenditures incurred during that year and for which
7 the tax credit is taken for that year;

8 (2) a producer or explorer may take a credit for a qualified capital
9 expenditure incurred in connection with geological or geophysical exploration or in
10 connection with an exploration well only if the producer or explorer provides to the
11 department, as part of the statement required under AS 43.55.030(a) for the month for
12 which the credit is sought to be taken, the producer's or explorer's written agreement

13 (A) to notify the Department of Natural Resources, within 30
14 days after completion of the geological or geophysical data processing or
15 completion of the well, or within 30 days after the statement is filed, whichever
16 is the latest, of the date of completion and to submit a report to that department
17 describing the processing sequence and provide a list of data sets available;

18 (B) to provide to the Department of Natural Resources, within
19 30 days after the date of a request, specific data sets, ancillary data, and reports
20 identified in (A) of this paragraph;

21 (C) that, notwithstanding any provision of AS 38, the
22 Department of Natural Resources shall hold confidential the information
23 provided to that department under this paragraph for 10 years following the
24 completion date, after which the department shall publicly release the
25 information after 30 days' public notice.

26 (b) A producer or explorer may elect to take a tax credit in the amount of 22.5
27 percent of a carried-forward annual loss. A credit under this subsection may be applied
28 against a tax due under AS 43.55.011(e) and may be applied irrespective of whether
29 the producer or explorer also claims a credit for transitional investment expenditures
30 authorized by (i) of this section. For purposes of this subsection, a carried-forward
31 annual loss is the amount of a producer's or explorer's adjusted lease expenditures

1 under AS 43.55.160 for a previous calendar year that was not deductible in any month
2 under AS 43.55.160(a) and (b).

3 (c) A credit or portion of a credit under this section may not be used to reduce
4 a person's tax liability under AS 43.55.011(e) for any month below zero, and any
5 unused credit or portion of a credit not used under this subsection may be applied in a
6 later month.

7 (d) Except as limited by (i) of this section, a person entitled to take a tax credit
8 under this section that wishes to transfer the unused credit to another person may
9 apply to the department for a transferable tax credit certificate. An application under
10 this subsection must be on a form prescribed by the department and must include
11 supporting information and documentation that the department reasonably requires.
12 The department shall grant or deny an application, or grant an application as to a lesser
13 amount than that claimed and deny it as to the excess, not later than 60 days after the
14 latest of (1) March 31 of the year following the calendar year in which the qualified
15 capital expenditure or carried-forward annual loss for which the credit is claimed was
16 incurred; (2) if the applicant is required under AS 43.55.030(a) and (e) to file a
17 statement on or before March 31 of the year following the calendar year in which the
18 qualified capital expenditures or carried-forward annual loss for which the credit was
19 incurred, the date the statement was filed; or (3) the date the application was received
20 by the department. If, based on the information then available to it, the department is
21 reasonably satisfied that the applicant is entitled to a credit, the department shall issue
22 the applicant a transferable tax credit certificate for the amount of the credit. A
23 certificate issued under this subsection does not expire.

24 (e) A person to which a transferable tax credit certificate is issued under (d) of
25 this section may transfer the certificate to another person, and a transferee may further
26 transfer the certificate. Subject to the limitations set out in (a) - (c) of this section, and
27 notwithstanding any action the department may take with respect to the applicant
28 under (f) of this section, the owner of a certificate may apply the credit or a portion of
29 the credit shown on the certificate only against a tax due under AS 43.55.011(e).
30 However, a credit shown on a transferable tax credit certificate may not be applied to
31 reduce a transferee's total tax due under AS 43.55.011(e) on oil and gas produced