SCOMM

#12:5

SOHIO 5/77

HYPOTHETICAL THREE COMPANY OWNERSHIP OF PRUDHOE BAY FIELD AND TAPS
COMPARISON OF THE TAX BURDEN UNDER THE TAX STRUCTURE OF ALASKA AND THE TAX STRUCTURE
OF TEXAS, LOUISIANA, AND CALIFORNIA - 1977 THROUGH 1986 10 yrs.
(Assumes oil sells for a constant of $13.00/Bbl in California. Dollars are in millions.)

		Alaska	If Alaska had the tax structure of Texas	Louisiana	California
I.	Tax burdens under (a) existing severance, ad valorem and state income tax laws for all four states, plus (b) intangible tax in Texas, franchise taxes in Texas and Louisiana and sales and use tax in California	$5,479	$3,974	$5,863	$5,152
	Alaska's burden as a percent of the other states		138%	93%	106%
II.	Tax burdens, as in I above but assuming that Alaska passes a severance tax law which has an effective tax rate of 11.3%	6,650	3,974	5,863	5,152
	Alaska's burden as a percent of Alaska's burden under existing laws	121%			
	Alaska's burden as a percent of the other states		167%	113%	129%
III.	Tax burdens as in I above but assuming that Alaska passes the administration's franchise (income tax) bill CS HB 322	6,372	3,974	5,863	5,152
	Alaska's burden as a percent of Alaska's burden under existing laws	116%			
	Alaska's burden as a percent of the other states		160%	109%	124%
IV.	Tax burdens, as in I above but assuming that Alaska passes both a severance tax law with an effective rate of 11.3% and the administration's franchise (income tax) bill CS HB 322	7,510	3,974	5,863	5,152
	Alaska's burden as a percent of Alaska's burden under existing laws	137%			
	Alaska's burden as a percent of the other states		189%	128%	146%

AGO 531097

- SOHIO (outdates)

HYPOTHETICAL THREE COMPANY OWNERSHIP OF PRUDHOE BAY FIELD AND TAPS
COMPARISON OF THE TAX BURDEN UNDER THE TAX STRUCTURE OF ALASKA AND THE TAX STRUCTURE OF TEXAS, LOUISIANA, AND CALIFORNIA - 1977 THROUGH 1986
(Assumes oil sells for a constant $13.00/Bbl. in California. Dollars are in millions.)

	Alaska's Existing Laws	If Alaska had the tax structure of: Texas	Louisiana	California
1. Tax burden for severance tax, ad valorem tax, and state income taxes, as per "Sohio Submission Two", dated 1/21/77.	$5,479	$3,108	$5,532	$4,930
2. Tax burden, as shown in line 1 above, modified as a result of Sohio's restudy of its "Submission Two".	5,479	3,204	5,752	5,022
3. Tax burden, shown in 2 above, for severance, ad valorem, and income, plus other taxes[a/] which are included in tax structures of Texas, Louisiana and California.	5,479	3,974	5,863	5,152
4. Alaska under existing laws as percents of taxes under other tax structure:				
Taxes shown in line 1		176%	99%	111%
Taxes shown in line 2		171%	95%	109%
Taxes shown in line 3		138%	93%	106%
5. If the severance tax bill proposed by the Alaskan Senate is passed, the figures become:	$6,885[b/]	$3,974	$5,863	$5,152
Alaska's burden as a percent of other states becomes:		173%	117%	134%

a/ Includes intangibles tax of Texas, franchise tax of Texas and Louisiana and use and sales tax of California.
b/ Assuming an effective severance tax rate of 12 percent under the Senate bill.

4/25/77

AGO 531098

Explanation of Total Tax Burden: differences bt Dept Rev & Sohio figures

SOHIO THE STANDARD OIL COMPANY

MIDLAND BUILDING, CLEVELAND, OHIO 44115

RICHARD M. DONALDSON
VICE PRESIDENT
GOVERNMENT AND PUBLIC AFFAIRS

April 25, 1977

The Honorable Steve Cowper
Chairman, House Finance Committee
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Cowper:

On April 13, I testified before your Committee and provided copies of a writing called "Sohio Submission Two". Over three months ago, I gave copies of this Submission to the Legislative Affairs Agency and to the Department of Revenue. This writing sets out our estimate of the total tax burden on the Prudhoe Bay field and on the Trans Alaska Pipeline over the next ten years under Alaska's existing laws and compares that tax burden with the burden that would exist if Alaska had the tax structure of Louisiana, California, or Texas. Our figures indicated that Alaska's burden is slightly lower than that of Louisiana, but greater than that of California or Texas.

On April 14, the Department of Revenue told your Committee that it felt the tax burden of Alaska was greater than that of Texas, but less than that of Louisiana, Wyoming, or California.

Since then, we have made a thorough review of our work, and this review confirms that we were correct in telling you that Alaska's burden is a little less than it would be under Louisiana's tax structure, but greater than it would be under the tax structure of California or Texas.

The figures shown in "Sohio Submission Two" and those provided by the Department of Revenue included severance tax, ad valorem tax, and income tax.

AGO 531099

Questions have been raised about the inclusion of the intangibles tax of Texas, the franchise taxes of Louisiana and Texas, and the sales and use taxes of California. We studied these points, as well, and came to the following conclusions: When we include our best estimates of these other taxes, the numbers change a little bit, but the basic picture we set forth in "Sohio Submission Two" remains unchanged. Alaska still has a higher tax burden than it would have under the tax structure of California and Texas. In fact, the burden remains substantially greater than that of Texas.

We recognize that there were many basic differences between the Department of Revenue's work and ours. For example, we used a constant oil price of $13 per barrel in California, while the Department escalated the oil price to about $21 by 1985. The Department included Prudhoe gas production; we included no gas because of uncertainties as to its price and as to the start of its production. However, we believe the principal reason why the relative ranking of state tax burdens that we calculated differs from that of the Department of Revenue is the manner in which the ad valorem taxes were figured. We used ad valorem taxes which reflect actual industry experience in the three states that we examined. On the other hand, the Department calculated ad valorem figures by applying its estimate of each state's overall tax rate to a single set of assessed values for Alaskan properties, not the actual assessment experience which varies from state to state, and among the taxing jurisdictions within the states.

More specifically, when we started doing the work on "Sohio Submission Two" we considered using a system somewhat similar to that the Department has used. However, we soon gave up on that idea because we felt the results

could be misleading. There are two reasons for this. First, we felt it was not possible to select a representative tax rate or an overall assessment value for a state which would properly reflect the various assessment practices of all these independent jurisdictions (some 1,500 or so in Texas, for example). Second, we felt that a tax rate of one state, even if it could be arrived at, could not be applied to the assessment value of another state.

As a consequence, we decided to use what industry has actually experienced in paying taxes in a way that would hopefully avoid assessment and tax rate problems. In the case of the tax on property in the field, we used data assembled by the Alaska Oil and Gas Association (AOGA) for major producing states. AOGA expressed taxes actually paid as a percent of wellhead revenue. In other words, out of a dollar's worth of revenue, so many cents of the dollar were paid for ad valorem taxes on property in the field. This is a practice used by some companies in economic studies. However, before using AOGA's work, we asked ourselves whether it would be appropriate to use these percentages considering the fact that there might be a difference in wellhead value in the major producing states in the lower 48 compared to the wellhead value in Alaska. Obviously, if there were high wellhead values in these states, taxes divided by wellhead value might provide a percent that could give misleading results if applied to a different wellhead value in Alaska. We concluded that this was not a problem.

The Federal Energy Administration indicates that the average wellhead prices for domestic oil last year ranged from $7.79 to $8.60. The AOGA study represents the average prices received by the various companies, and so its data should be generally reflective of the domestic average.

In our work on "Sohio Submission Two", we used Prudhoe wellhead values ranging from $6.25 to $6.70 during 1977, the year of startup; $7.30 to $7.70 during 1978, when the producing rate was assumed to be 1.2 million barrels per day; and from $8.00 to $8.60 during 1979, and the balance of the ten-year period when production was assumed to be 1.5 million barrels per day. Results, therefore, should not be misleading.

In the case of pipeline ad valorem tax, we knew of no industry figures to which we could refer. Consequently, we made our own survey by contacting other companies and developing figures from industry experience. Here again, we tried to avoid assessments and millage rate problems as much as we could. Consequently, we took the actual taxes paid as a percent of original pipeline cost in the states of Louisiana and Texas and actual taxes paid as a percent of depreciated reproduction cost in California.

After rethinking and re-examining "Sohio Submission Two", we believe our idea of using industry experience is valid and that the manner in which we applied this experience provides the correct results. Upon reviewing our work, we detected a few errors, as one might expect, but they did not change the results we provided to you.

In summary, then, I believe the results shown in "Sohio Submission Two" are correct and hope that this confirmation will be of help. We will, of course, be glad to review our work with the Department of Revenue, if that should be desirable.

Sincerely,

Richard M. Donaldson

RMD/pmk
cc: Members of House Finance Committee
Senator John Rader
Commissioner Sterling Gallagher, Alaska Department of Revenue
Mr. Kenneth E. Showalter, Sohio

Alaska State Legislature

Senate

JUNEAU, ALASKA

4/28/77 FOR OFFICE USE ONLY

TO: Sen Rader
FR: Connie
RE: O & G Taxation - conversation with John Messenger

COMPARISON OF OVERALL TAX BURDENS

The main points of difference between the SOHIO figures and REVENUE'S data are:

1. Revenue included gas severence in the comparison; Sohio did not.
2. Revenue included Cook Inlet; Sohio only used Prudhoe
3. Revenue & Sohio calculated ad valorem taxes in different ways.

The most significant difference is number 3 (ad valorem taxes). From talking with Donaldson on Tuesday and Messenger on Wednesday, I tend to lean in support of Messenger's views.

Messenger says that Sohio's data (based on a survey by the Western Oil & Gas Association) has 2 problems:

(1) While the Sohio data does use actual property taxes paid; rather than culminating in an average mill rate (which can then be compared to Alaska's 20 mil rate), the figures are expressed in terms of "% of well-head value".

This can be misleading, unless the ratio of property value/well-head value is the same for the states compared.

Example:

State X - Averages 1$ property value / 10$ well-head value
@ 20 mill tax rate this means:
.02$ tax / 1$ property value
.002$ tax / 1$ well-head value
property tax = .002% of well-head value

Alaska - Averages 2$ property value / 10$ well-head value (hypothetical)
@ 20 mill tax rate this means:
.02$ tax / 1$ property value
.004$ tax / 1$ well-head value
property tax = .004% of well-head value

Hence, altho hypothetical Alaska and State X have the same mill rate, by translating taxation into % of well=head value, Alaska shows twice the rate of taxation as State X. (This is because Alaska has a higher property to wellhead value than does State X.)

(1)

AGO 531103

(2) Sohio assumed Alaskan (Prudhoe) wellhead value to be $7.50. However California's average wellhead value is probably much higher (more like upper tier $11.00). Hence if property taxes are shown as % of wellhead value, rather than actual mill rates, Alaska will show a higher property tax than California, even if their mill rate is the same.

AGO 531104

EXXON

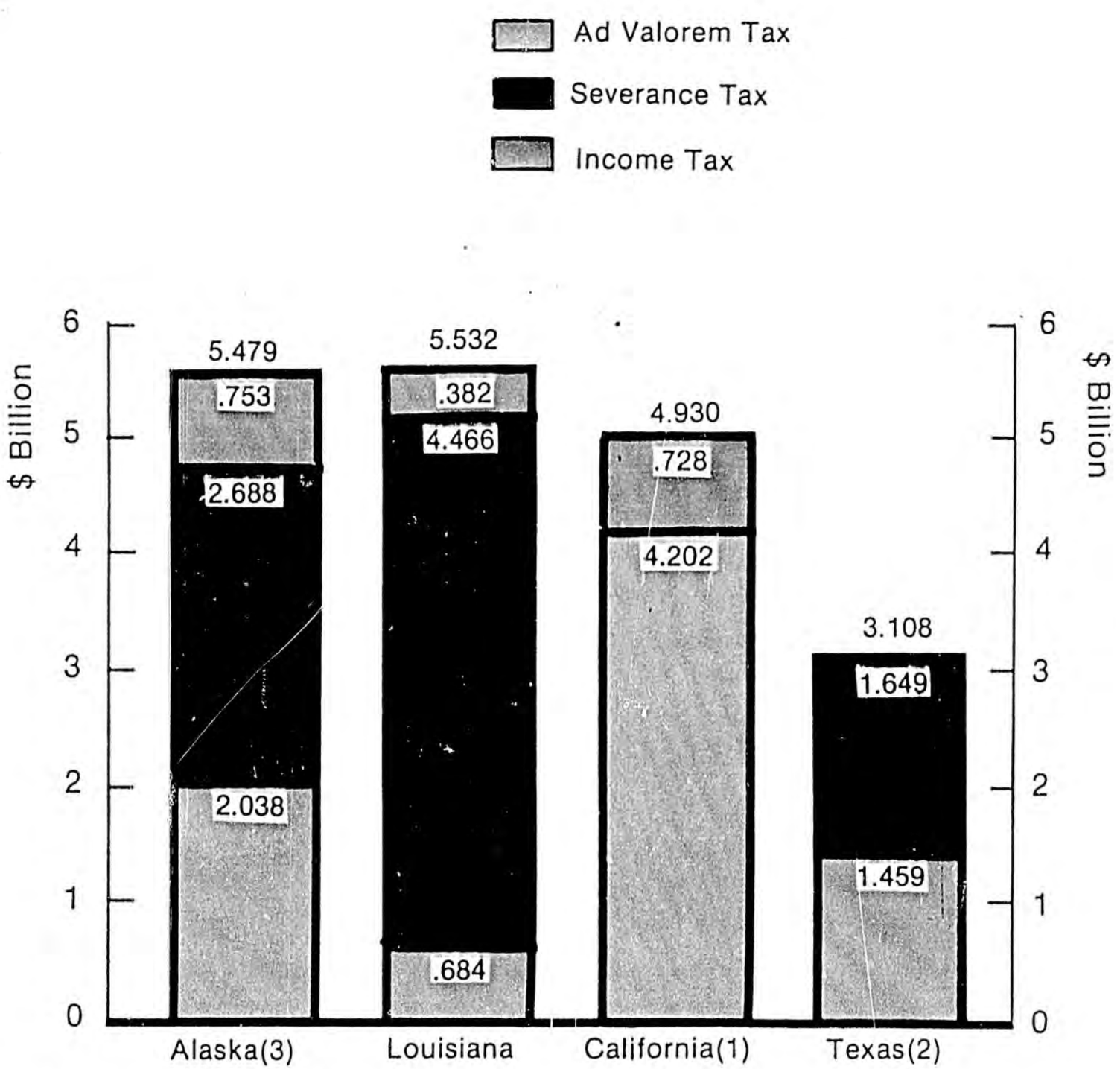
TOTAL TAX BURDEN OF ALASKA COMPARED WITH THE TAX BURDEN OF LOUISIANA, CALIFORNIA AND TEXAS

Chart 1 - Existing Laws

Chart 2 - Administration's Tax Package

Chart 3 - Legislature's Tax Package

TOTAL TAX BURDEN*



(1) California does not have severance tax

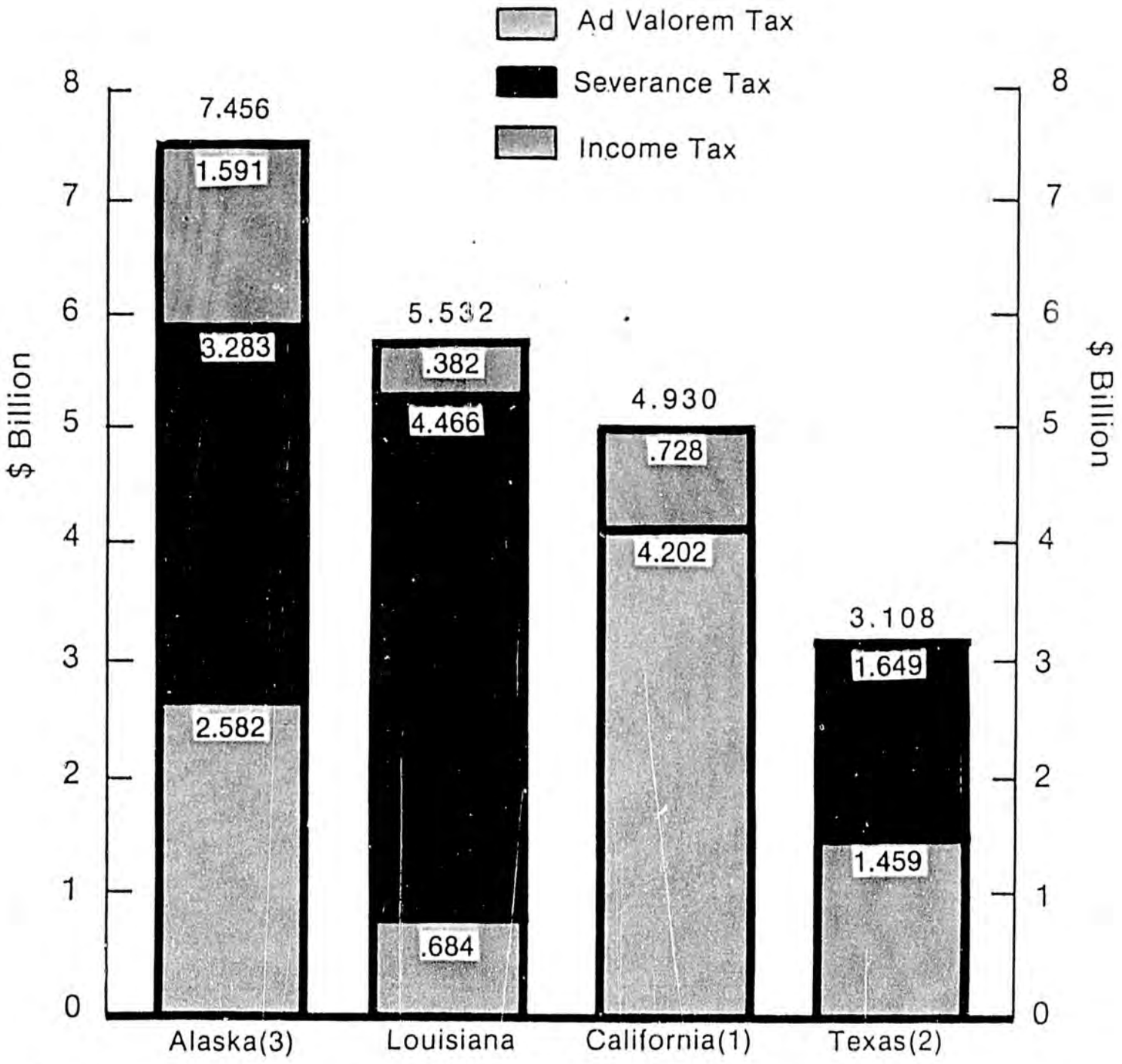
(2) Texas does not have income tax

*Sohio Hypothetical Three Company Ownership of Prudhoe Bay and Taps comparison of tax burden under the laws of Alaska, Louisiana and California - 1977 through 1986 assumes constant $13.00/Bbl. price in California - constant 1976 dollars

(3) Alaska Existing Tax Laws

AGO 531106

TOTAL TAX BURDEN*



(1) California does not have severance tax

(2) Texas does not have income tax

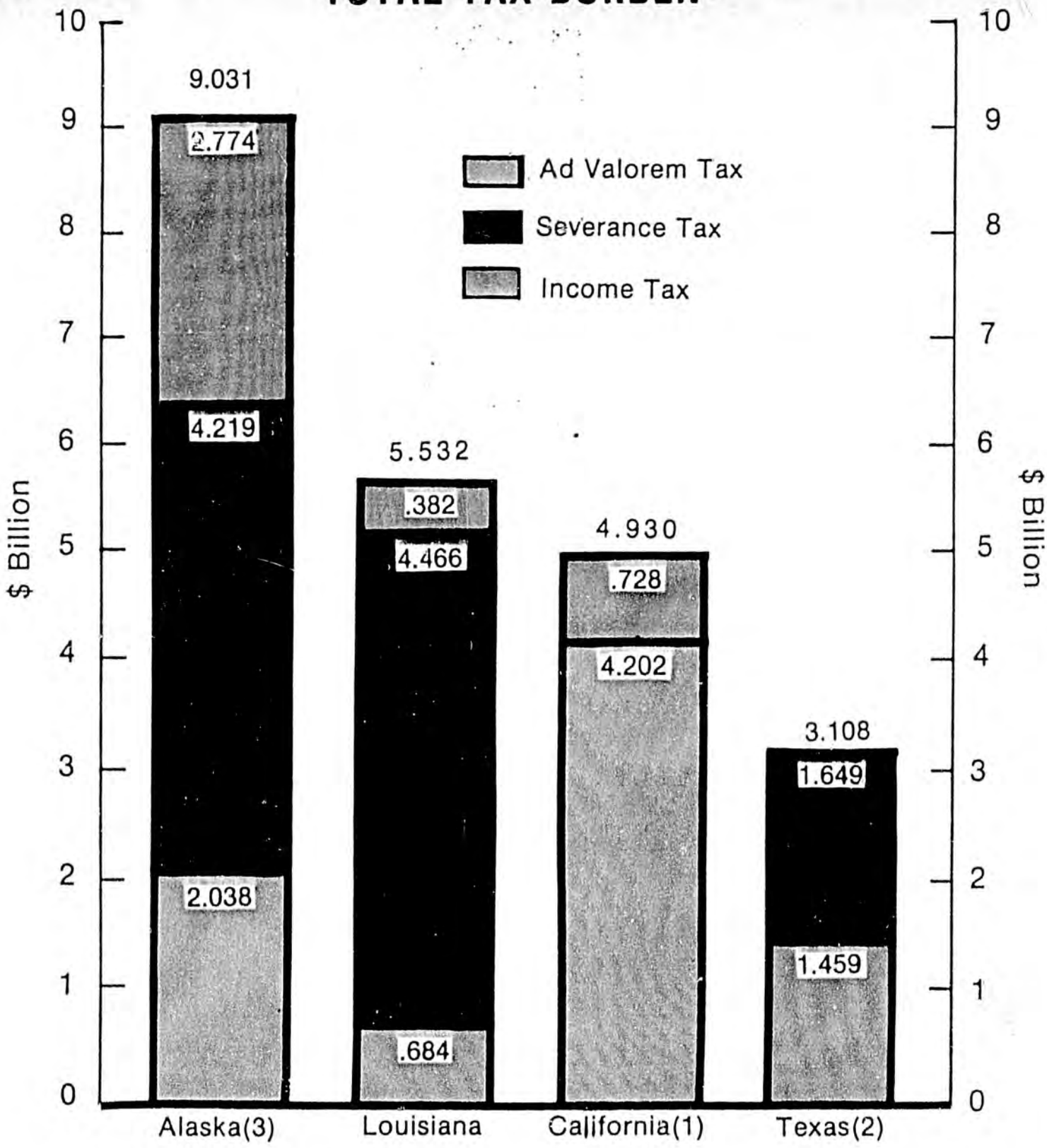
*Sohio Hypothetical Three Company Ownership of Prudhoe Bay and Taps comparison of tax burden under the laws of Alaska, Louisiana and California - 1977 through 1986 assumes constant $13.00/Bbl. price in California - constant 1976 dollars

(3) Proposed Alaska Tax Laws embodying the Administration tax package

AGO 531107

Chart 3

TOTAL TAX BURDEN*



(1) California does not have severance tax

(2) Texas does not have income tax

*Sohio Hypothetical Three Company Ownership of Prudhoe Bay and Taps comparison of tax burden under the laws of Alaska, Louisiana and California - 1977 through 1986 assumes constant $13.00/Bbl. price in California - constant 1976 dollars

(3) Proposed Alaska Tax Laws embodying the Legislature's tax package

AGO 531108

ADMIN - Dept Revenue: John Messenger

4/77

COMPARING TAX BURDENS

In the Department of Revenue's study of Alaska's oil and gas structure, it had planned to make a comprehensive comparison of Alaska's tax structure with that of other oil and gas producing states. Unfortunately with the short time available and the number of topics to be covered, it was not possible to complete this particular task in time.

due to

We have subsequently, however, been able to make a comparison of Alaska's tax burden with 7 of the major oil and gas producing states. These include Texas, Louisiana, California, Oklahoma, Wyoming, New Mexico and Kansas. In making the comparison the department has used the basic method used by Standard Oil of Ohio in its "Sohio Submission Two." That is - each state's tax structure is applied against Alaska oil and gas property,values, production and income. Accordingly, the department has taken its projections of Alaska property values, production volumes, well head values and apportioned income and applied the other state tax rates to them. In addition, like SOHIO we have not included the reserve tax payments nor the resulting reserve tax credits against severance tax.

Although we might have chosen another method in the beginning, we think that the SOHIO method is helpfull in making a basic comparison of tax burdens. A more complete analysis

would include additional taxes in the comparison with other states such as sales and use taxes, franchise taxes, special pipeline taxes and intangible taxes. For example California has a six percent sales and use tax that would apply to the sale and use of oil and gas properties in that state. Alaska on the other hand has sales taxes only at the option of the municipality and they range from two percent to five percent. Furthermore in Alaska oil and gas properties are exempt from local sales and use taxes except for the first $1,000 of each sale.

For property tax comparisons the department used property from 1977 through 1986. In some states both oil and gas hardware and reserves are taxed. In others only hardware property is taxed. Accordingly we included projections of property values for hardware and reserves separately. These values were then applied against the tax rates in other states. These property tax rates in the other states are a mixture of average assessment ratios and millage rates of the various municipalities throughout each state. The assessment ratio is the percentage of full and true value that is taxed and the millage rate is the actual percentage tax rates. Both the assessment ratio and the millage rate must be calculated to arrive at the adjusted tax rate. Since the millage rates vary from one part of a state to another, average millage rates and assessment ratios were used.

Note: Unless stated "hardware only", or "pipeline only" (excludes field hardware), property taxes include non-credited reserves taxes.

Unless noted, severance is for Oil oil & gas.
Only AK has a ¢/barrel (calls LA has $/MCF)

For severance tax comparisons the department used projections of production volumes and well head values and then applied these against the severance tax rates in other states.

no other state on a sliding scale. Severance rate used for AK was 7.8% for Prudhoe & ¢/barrel for Cook Inlet.

In the income tax comparisons the department used its projections of apportioned net income and then applied the other state tax rates to those projected incomes.

After making a comparison of all the taxes in these eight states the department found that Alaska ranked fourth behind the states of Louisiana, Wyoming, and California under existing law. Specifically the total taxes from 1977 through 1986 for Alaska totaled 7.6 billion dollars or 2.2 billion dollars below Louisiana - the highest state. Accordingly we estimate that Alaska's tax burden is not one of the highest but in the mid range of the major oil and gas producing states.

TOTAL TAXES
(1977 - 1986)

1.	Louisiana	9,896.6
2.	Wyoming	8,368.5
3.	California	8,331.9
4.	Alaska	7,680.4
5.	Texas	7,489.8
6.	Oklahoma	6,432.5
7.	New Mexico	6,181.1
8.	Kansas	6,031.2

LOUISIANA

I.	Property Tax (1977-1986)	
	Alaska Property Values (Hardware Only)	
	at 90 mills X .15 assessment ratio (adjusted millage rate - 13.5 mills)	1,762.3
II.	Severance Tax (1977-1986)	
	Alaska Production and Wellhead Values	
	at 12.5 percent - oil at 7¢ per Mcf - gas	7,905.3
III.	Income Tax (1977-1986)	
	Alaska Apportioned Income at 4 percent	228.9
TOTAL TAXES		9,896.5

WYOMING

I.	Property Tax (1977-1986)	
	Alaska Property Values (Hardward Only)	
	at 60 mills X .25 assessment ratio (adjusted millage rate - 15 mills)	1,958.2
II.	Severance Tax (1977-1986)	
	Alaska Production and Wellhead Values 10 percent at 7/8 (4 percent - local; 6 percent - state)	6,410.3
III.	Income Tax	-0-
TOTAL TAXES		8,368.5

WYOMING

I.	Property Tax (1977-1986)	
	Alaska Property Values (Hardward Only)	
	at 60 mills X .25 assessment ratio (adjusted millage rate - 15 mills)	1,958.2
II.	Severance Tax (1977-1986)	
	Alaska Production and Wellhead Values 10 percent at 7/8 (4 percent - local; 6 percent - state)	6,410.3
III.	Income Tax	-0-
TOTAL TAXES		8,368.5

CALIFORNIA

I.	Property Tax (1977-1986) ① O&G Hardware ② O&G Reserves	
	Alaska Property Values at 113 mills X .25 assessment ratio (adjusted millage rate - ~~38.5~~ 28.5 mills)	7,816.9
II.	Severance Tax	-0-
III.	Income Tax (1977-1986)	
	Alaska Apportioned Income at 9 percent	515.0
TOTAL TAXES (1977-1986)		8,331.9

ALASKA
(Existing Tax Structure)

I.	Property Tax (1977-1986)	2,610.9
II.	Severance Tax (1977-1986) ??	4,531.5
III.	Income Tax (1977-1986)	538.0
TOTAL TAXES		7,680.4

TEXAS

I.	Property Tax (1977-1986)	
	Alaska Property Tax Values at average adjusted mill rate 16 mills (12.5 mills X .30 assessment ratio) (18 mills X .60 assessment ratio) (1.45 mills)	4,427.3 ~~7,489.8~~
II.	Severance Tax (1977-1986)	
	Alaska Production and Wellhead Values at 4.6 percent - oil at 7.5 percent - gas	3,062.5
III.	Income Tax	-0-
TOTAL TAXES		7,489.8

OKLAHOMA

I.	Property Tax	
	Alaska Property Values (Pipeline Only) at 71 mills X .30 assessment ratio (adjusted millage rate - 21.3)	1,716.8
II.	Severance Tax (1977-1986)	
	Alaska Production and Wellhead Values at 7 percent on 7/8 production	4,486.7
III.	Income Tax (1977-1986)	
	Alaska Apportioned Income at 4 percent	229.0
TOTAL TAXES (1977-1986)		6,432.5

NEW MEXICO

I.	Property Tax (1977-1986)	
	Alaska Property Values (Pipeline Only)	
	at 28 mills X .33 1/3 assessment ratio (adjusted mill rate - 9.3 mills)	749.6
II.	Severance & Production Taxes (1977-1986)	
	Alaska Production and Wellhead Values at 7.95 percent on 7/8 (2.55% + 3.75% + 1.4% + .25%)	5,145.3
III.	Income Tax (1977-1986)	
	Alaska Apportioned Income at 5 percent	386.2
TOTAL TAXES		6,181.1

↑ in lieu of resources tax ↑ in lieu of field hardware

KANSAS

I.	Property Tax (1977-1986)	
	Alaska Property Values at 68 mills X .30 assessment ratio (adjusted millage rate - 20.4 mills	5,6448.8
II.	Severance Tax	-0-
III.	Income Tax (1977-1986)	
	Alaska Apportioned Income at 6.75 percent	386.4
TOTAL TAXES (1977-1986)		6,031.2

ALASKA

(Tax Structure under HB 321, 322, 323)

I.	Property Tax (1977-1986)	2,610.9
II.	Severance Tax (1977-1986)	4,877.4
III.	Income Tax (1977-1986)	2,152.0
TOTAL TAXES		9,640.3

PROJECTED PRUDHOE BAY WELLHEAD VALUE
(IN CURRENT DOLLARS PER BARREL)

YEAR (QTR)	ARABIAN 31° F.O.B. RAS TANURA	PG/US TANKER TARIFF	REFINERY PRICE	AK/US TANKER TARIFF	LOWER 48 TARIFF	TAPS TARIFF	TOTAL TARIFF	PRUDHOE BAY WELLHEAD VALUE
1977	11.56 (a)	1.65 (b)	13.21	.57 (c)	--	--	--	--
1978 (I)	11.84	1.72	13.56	.58	--	5.92 (d)	6.50	7.06
1978 (II)	11.84	1.72	13.56	.58	--	5.92	6.50	7.06
1978 (III)	12.68	1.90 (e)	14.58	.60	1.10 (f)	5.15	6.85	7.73
1978 (IV)	12.68	1.90	14.58	.60	1.10	5.15	6.85	7.73
1978	12.26	1.81	14.07	.59	.55	5.54	6.68	7.39
1979 (I)	12.68	1.98	14.66	.62	.80 (g)	5.15	6.57	8.09
1979 (II)	12.68	1.98	14.66	.62	.80	5.15	6.57	8.09
1979 (III)	13.30	1.98	15.28	.64	.80	5.09	6.53	8.75
1979 (IV)	13.30	1.98	15.28	.64	.80	5.09	6.53	8.75
1979	12.99	1.98	14.97	.63	.80	5.12	6.55	8.42
1980	13.77	2.06	15.83	.66	1.20 (h)	4.79	7.65	9.18
1981	14.60	2.14	16.74	.68	1.30	4.38	6.36	10.38
1982	15.47	2.23	17.70	.71	1.40	4.15	6.26	11.44
1983	16.40	2.32	18.72	.74	.80 (i)	3.88	5.42	13.30
1984	17.38	2.41	19.79	.77	.80	3.64	5.21	14.58
1985	19.43	2.51	20.94	.80	.81	3.45	5.06	15.88

AGO 531123

NOTES: PROJECTED PRUDHOE BAY WELLHEAD VALUE (table on preceding page)

(a) As explained in the text preceding the table, the cost to a refiner to obtain imported replacement oil of comparable quality to Prudhoe Bay crude represents the extent to which the open market would justify the price of Prudhoe Bay oil. Saudi Arabian "Medium" crude (31° API gravity, 2.5% sulfur) serves as the benchmark from which Prudhoe Bay prices are derived. The $11.56 price represents the average price for Saudi Arabian "Medium" F.O.B. at Ras Tanura on the Persian Gulf. This average price reflects the December 1976 pricing action by Saudi Arabia. In the projection the price is assumed to rise at six percent per annum to offset U.S. and European inflation; in terms of dollars with constant value (constant buying power), the Arabian price is unchanging. In light of a developing global shortage of energy sources, particularly oil and gas, this assumption may be conservative, especially after 1985. On the other hand, assuming that the real (constant-value dollar) price increases at 3% a year yields a nominal-dollar price of $91.45 ($23.50 in real terms, as of January 1977) by the year 2000, and at that price oil as an energy source may have been significantly supplanted.

(b) Tanker transportation tariffs for the Persian Gulf to U.S. West Coast route during Fiscal Year 1976 were approximately $1.59 per barrel when computed on an average annual AFRA basis. While the current world tanker market could continue to suppress tanker tariffs in the future, tariff rates are projected to cover annual increases in variable costs. Tanker tariffs consequently are increased in this projection at an annual rate of four percent. The $0.21 per barrel import excise tax has been considered in arriving at these transportation costs.

(c) Tanker tariffs for the route between Valdez and the U.S. West Coast are computed on a weighted average basis according to port of destination and throughput volume. As in the case of foreign flag tankers, tariffs are increased 4% per annum from the composite base rate computed for operations in Fiscal Year 1978.

(d) The TAPS tariff each year will generate enough revenue to cover expenses, depreciation of the capital investment and a profit. A major determinant of the tariff is the number of barrels transported during the year. The more barrels, the lower the tariff can be in order to produce the necessary annual income.

AGO 531124

Annual average throughput for TAPS is projected as follows (in millions of barrels per day): FY 78 - 0.94; FY 79 - 1.3; FY 80 - 1.53; FY 81 - 1.6; FY 82 - 1.7; FY 83 - 1.78; FY 84 - 1.88; FY 85 - 1.9. These rates reflect production in addition to that of the main Prudhoe Bay reservoir. TAPS tariffs are calculated on the basis of the pipeline's operating year, which is assumed to be the calendar year. The low average throughput expected during the 1977 operating year (i.e., the first two quarters of FY 78) is the reason for the high initial tariff. Some have predicted that the initial tariff will be a "break even" tariff, and on that basis it could be as low as $4.13. A tariff based on the average throughput during the first year of operation (which will correspond to the State's fiscal year but which would end in the middle of the pipeline's second operating year) would be about $4.85. The tariff projection is made on the basis of the entire pipeline, not on the basis of the financial situation of the eight individual companies that own it. Capital costs for the 1.2 million-barrel-a-day capacity are estimated at $9.45 billion, including capitalized interest. Expansion of TAPS capacity to 2 million barrels a day is assumed to cost an additional $995 million. All tariff projections assume that interest on debt financing for the pipeline will be recognized as an allowable expense in setting the tariff.

(e) Beginning in early 1978 (calendar year), the expected West Coast crude oil surplus is expected to develop. The surplus oil is assumed to go to the Gulf of Mexico area. Accordingly, the tanker tariffs are those for the trade between the Persian Gulf and the Gulf of Mexico. The tariffs are projected from the average AFRA basis during Fiscal Year 1976 and escalated at four percent per annum. Again, the 21 cent excise tax on imports is recognized.

(f) The "Lower 48 Tariff" here is the extra tankering costs assumed for moving the oil via the Panama Canal to the Gulf of Mexico. It is assumed that this is done on a temporary basis while one or more pipelines are built eastward across the Rocky Mountains from the West Coast.

(g) This is the projected tariff for a pipeline of 500,000 barrels a day capacity. The SOHIO pipeline has been used as the basis for the projection. Total cost for this capacity are estimated at $500 million.

AGO 531125

(h) It is assumed that the West Coast surplus continues to develop beyond the initial pipeline capacity (500,000 barrels per day) to move it eastward. While additional capacity is coming on line (expansion of the first pipeline or construction of a second line), tankers are again employed to transport oil to the Gulf of Mexico area.

(i) At this point additional pipeline capacity becomes available to transport the entire surplus out of the West Coast area.

PROPERTY TAX VALUE PROJECTIONS
(Millions)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	TOTAL
HARDWARE VALUATION											
Prudhoe Bay Area Hardware Value	1,884	2,473	2,788	3,054	3,646	4,380	5,507	6,323	7,212	7,308	44,575
Cook Inlet Area Hardware Value	461	459	456	452	445	433	416	395	370	338	4,225
Other Areas Hardware Value	114	114	114	114	114	114	114	114	114	114	1,140
Trans-Alaska Pipeline Value	6,121	7,344	7,587	7,829	8,066	8,300	8,526	8,743	8,948	9,139	80,603
GRAND TOTAL	8,580	10,390	10,945	11,449	12,271	13,227	14,563	15,575	16,644	16,899	130,543
RESERVES VALUATION											
Prudhoe Bay Area Reserves Value	13,500.0	16,021.0	16,778.0	17,471.0	16,848.0	15,775.0	14,209.0	12,672.0	11,080.0	9,446.0	143,800.0
Cook Inlet Area Reserves Value	371.5	351.8	290.6	234.3	219.8	206.5	194.6	180.7	164.5	149.0	2,363.3
GRAND TOTAL	13,871.5	16,372.8	17,068.6	17,705.3	17,067.8	15,981.5	14,403.6	12,852.7	11,244.5	9,595.0	146,163.3

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