

SCOMM

142:15

(7)

FURTHER REFERRALS: Oil & Gas
Resources
Finance

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered:

HB 63

OIL SEVERANCE TAX

Recommends it be replaced with [] HCS or [] CS for _____(_____)

[] attach amendments
[] add new referral to _____ Committee
[] Letter of Intent _____ Committee

[illegible][illegible]

Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
Beggy Wilson		Wilson			✓	
Paul Seaton		Seaton			✓	
Mr. Linschey		Grueenberg	-			
SS		SAMUELS			X	
Chair: Bluphary		Weybrauch			Y	
Chair:						

Alaska State Legislature

House of Representatives

Session address:
Alaska State Capitol
Juneau, Alaska 99801-1182
1-888-465-2647 (toll free)
1-907-465-3518 (fax)



Interim address:
716 West 4th Avenue
Anchorage, Alaska 99501-2133
1-907-269-0106
1-907-269-0109 (fax)

Representative Les Gara

Sponsor Statement House Bill 63 Alaska Fair Share Bill

Eleven of the last fourteen North Slope oilfields that have come into production since 1989 pay none, or almost none (less than 1%) of Alaska's 15% Production Tax. That exemption applies whether oil is at \$10/barrel, and profit margins are low, or at \$30, \$40 and \$50/barrel when profit margins balloon. At \$20/barrel, profit margins are high enough that BP announced last year it would use excess profits at that price, and above, to send to shareholders in increased dividends, and to engage in a corporate stock buy-back program (BP announcement attached).

According to the Department of Revenue, current laws, with the existing system of exemptions, allowed producers roughly \$1 billion more in profits from North Slope operations last fiscal year than the state received in total North Slope Tax and Royalty revenues. Oil averaged roughly \$31.50/bbl last year. At the \$41/bbl oil has averaged the first seven months of the fiscal year, the margin by which corporate profits exceed state revenue for North Slope operations would jump to over \$2 billion (Alaska Department of Revenue, 2005 estimate).

The Governor recently did what he felt was possible without a statutory change, and made a real but relatively small dent in this imbalance. Absent the Governor's proposal, current law would send roughly 95 million barrels of ANS crude oil out of state at a Production Tax of between 0% and 1% in FY '06. Under the Governor's proposal, roughly 85 million barrels still remain subject to a Production Tax of between 0% - 1%. This year, Kuparuk, North America's 2nd largest field, will pay less than a 1% production tax, and Tarn, a Kuparuk satellite that produces 8 million barrels/year, will pay a production tax of 0%. At \$41/bbl, even with the Governor's proposal, the Department of Revenue estimates oil company profits will exceed total state North Slope oil revenue by roughly \$2 billion. At \$31/barrel, that gap still approaches \$1 billion.

The Fair Share Bill is not a so-called "Shelf the ELF" proposal. "Shelf the ELF" proposals seek to impose a flat 15% tax on all fields, at all prices. This bill recognizes smaller and older fields should receive some tax relief under the ELF (Economic Limit Factor). But it provides for a modestly higher Production Tax at higher oil prices, and a lower Production Tax at lower prices. It also allows the ELF to reduce a field's Production Tax below the maximum rate of 15%, but sets a modest minimum Production Tax of 5%.

HB63 also provides for tax relief and incentives. It expands the current "Royalty Relief" law from 2003's HB 28, using the standards and procedures in that law, and provides that any additional taxes imposed by this bill may be waived upon a showing by a producer that tax relief is needed to make development of a new field, or continued production at an older field economically feasible. Tax relief is also provided at very low prices to further encourage development.

In all, the bill provide Alaskans with a fair share at average and higher prices, when production is quite profitable, and producers with fair tax relief and additional incentives at low prices, so they can have assurances that taxes will not be too high when production is less profitable.

Oil is a non-renewable resource, and state tax laws should reflect the state's interest in meeting our Constitutional mandate that the state "provide for the utilization, development and conservation of all natural resources belonging to the state, including lands and waters, for the *maximum benefit of the people*." Alaska Const. Art. 8 Sec. 2.

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Representative Les Gara

Sectional Analysis, HB 63: Alaska Fair Share Bill

Section 1: Amends definition sections regarding tax relief appeals filed with the Department of Revenue.

Sections 2-4: 5% Minimum Production Tax in Most Cases: This provision seeks to remove a current exemption that lets most new oil fields pay less than 1% in production taxes. While not all fields can pay the state's full 15% production tax, the state should at least set a minimum tax at 5% (to be reduced at low prices, see below). Companies can apply for an exemption from this minimum tax if they show it is necessary under Section 5.

Taken together, these sections establish a minimum production tax rate. Currently the production tax is 15%, reduced by the ELF. In most recent cases, the ELF has reduced the production tax rate to 1% or less. Sections 1 – 3 set a field's production tax rate at the current rate, as determined by the ELF, but prevents the ELF-adjusted production tax from falling below 5%, except in certain circumstances when prices fall below \$16/barrel, or rise above \$20/barrel.

Section 5: Modest Increases to Production Tax above \$20/barrel, and below \$16/barrel; Deferral and Waiver of Taxes when price falls below \$10/barrel.

This provision aims to make the current tax code more progressive, so that at low prices oil companies are protected from high taxes, and at high prices, the state may share fairly in high oil company profits.

Sectional Analysis
House Bill 63, Page Two

Enhanced Tax Factor Above \$20/Barrel. Above \$20/barrel, the severance tax rate is multiplied by the average monthly price of oil (West Coast Price) divided by 20. Thus, at \$20/barrel, the severance tax is multiplied by 20/20, or "1", and is left unchanged. At \$30/barrel, the severance tax is multiplied by 30/20, or "1.5." In that case, a field with a 5% base production tax will pay 5% time 1.5, or 7.5%.

Reduced Tax Factor Below \$16/Barrel. Below \$16/barrel, the production tax rate is reduced by the price divided by 16. Thus, at \$12/barrel, the rate on a field with a 5% base production tax would be 12/16 times 5%, or 3.75%.

Reduced Taxes Below \$10/Barrel. Below \$10/barrel, 1/2 of a field's production tax will be waived, and 1/2 will be deferred until a month when prices average above \$16/barrel.

Heavy Oil Exempted. Heavy Oil is more expensive to produce than normal crude oil. Many believe the future of oil production will rely heavily upon the production of heavy oil. The bill exempts heavy oil from the new enhanced tax provisions. It may be determined during hearings that a minimum tax should also be set for Heavy oil, but that would have to be shown by testimony.

Reduction in Tax. Provides a process for companies to see reduction in production tax through an application to the Department of Revenue. The Alaska Fair Share Bill provides that any enhanced taxes under the bill may be waived if a company shows that tax relief is needed to make new or continued production at a field "economically feasible." This is modeled on Alaska's existing "Royalty Relief" law, and uses the same standards and process.

Section 6: This section provides a conforming amendment to existing law to include new provisions in this bill.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB63
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title An Act relating to the oil and gas RDU Taxation and Treasury
properties production (severance) tax Component Tax Division
Sponsor Gara, Kertula, Croft, Gultenberg
Requester House Committee on Ways and Means Component No. _____

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	20.8	20.8	20.8	20.8	20.8	20.8
Travel	2.1	2.1	2.1	2.1	2.1	2.1
Contractual	50.0	0.6	0.6	0.6	0.6	0.6
Supplies	0.3	0.3	0.3	0.3	0.3	0.3
Equipment	2.1					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	75.1	23.7	23.7	23.7	23.7	23.7

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	75.1	23.7	23.7	23.7	23.7	23.7
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	75.1	23.7	23.7	23.7	23.7	23.7

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS:

(Attach a separate page if necessary)

This bill would amend the oil and gas production tax by changing the effective tax rate on North Slope oil production other than for heavy oil. With the exception of the tax rate for heavy oil, a minimum effective rate of 5% and a maximum effective rate of 25% would be established. To determine the effective tax rate, a price adjustment would be added to the current law that would increase the effective rate when prices are above \$20 per barrel and lower the effective rate when oil prices are below \$16 per barrel. The formula for the adjustment is Prevailing Value/20 for prices above \$20 or Prevailing Value/16 for prices below \$16. No price adjustment would be made for prices equal to \$16 per barrel or equal to or less than \$20 per barrel. The \$16 or \$20 would be annually revised to reflect inflation. We used nominal forecast prices in this analysis so we kept the floor and ceiling prices constant. Heavy oil production [defined as crude oil with an assay of 20 degrees or less using the American Petroleum Institute (API) scale] would not be subject to either the 5% minimum or the price adjustment. There are adjustments for prices below \$10 per barrel. Since monthly oil prices have only averaged less than \$10 per barrel twice in the last 25 years we have not analyzed this provision.

Prepared by: Robynn Wilson, Michael Williams and Phyllis Rogers
Division: Tax Division
Approved by: Tom Boutin, Deputy Commissioner
Agency: Department of Revenue

Phone 269-1019
Date/Time 1/4/05 4:00PM
Date 1/6/2006

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO.

HB63

ANALYSIS CONTINUATION

Oil producing properties, excluding those defined as heavy oil, with a current Economic Limit Factor (ELF) above the minimum will have an increased effective tax rate when prices are above \$20 per barrel. Oil producing properties, excluding those defined as heavy oil, whose current ELF is below the minimum will have an increased effective tax rate at all prices. The net effect of these changes is to raise the average effective tax rate at our forecast price.

For this analysis, heavy oil fields that have API gravities below 20 degrees API include West Sak, Tabasco, Schrader Elf and Ugnu. Polaris and Orion are close to this designation and to be conservative, we included them as producing heavy oil. API gravity within a property can vary widely by well. Currently the Department of Revenue (DOR) receives average API gravity data from oil flows through pipelines. Much of the increased personnel cost incurred from this bill is in monitoring the heavy oil designation. A clear description of the frequency with which the heavy oil designation will be reviewed and the location where API gravity will be measured would facilitate the implementation of this bill.

This bill specifically limits its scope to North Slope production. This means that current taxpayers will pay the balance of the revenue change. Costs associated with this bill fall into two categories: [1] A one-time information technology/database change estimated to be \$50,000; and [2] one quarter full-time equivalent individual for additional audit work pertinent to North Slope fields that currently pay little or no tax.

The figures in the table below result from simply changing the ELF mechanism in our production forecast model. The ELF was designed to affect taxpayers behavior, i.e. to encourage additional development of smaller oil finds. This analysis, however, does not take into account any change in the taxpayer's production as a consequence of changes to the ELF.

A decade from now, one quarter of the oil in the DOR forecast will come from fields not now producing. To bring those fields on-line will require billions of dollars in additional investment. It appears to us that any tax increase that does not simultaneously involve the recognition of the need to make capital investments may well imperil that investment. Quantifying that peril, especially against the background of other aspects of the investment environment is difficult. Thus we have indicated an uncertain revenue effect, showing the figures below to offer insight into the mechanics of the bill.

Revenue Sensitivity for HB63 Changes in Oil Production Tax
(millions of \$)

FY	Status Quo		HB63 Minimum Elf		HB63 with Price Adj		Revenue Gain		
	Severance Tax	Average Elf	Severance Tax	Average Elf	Severance Tax	Average Elf	Min ELF to Current	Price Adj Elf to Min ELF	Price Adj to Current
2007	892.5	0.5316	1,041.6	0.6247	2,157.1	1.2969	149.1	1,115.5	1,264.6
2008	670.8	0.4881	799.6	0.5904	1,582.7	1.1694	128.7	783.2	911.9
2009	362.3	0.4618	439.7	0.5763	552.6	0.7245	77.4	112.9	190.3
2010	347.2	0.4449	425.3	0.5620	532.5	0.7039	78.1	107.2	185.3
2011	321.5	0.4111	410.5	0.8665	512.2	1.0904	89.0	101.7	190.7
2012	299.2	0.4030	392.3	0.9842	488.5	1.2513	93.1	96.2	189.4
2013	270.0	0.3815	367.6	0.9648	456.8	1.2379	97.6	89.2	186.8
2014	243.6	0.3517	344.0	0.8672	426.9	1.1262	100.5	82.8	183.3
2015	225.9	0.3340	322.6	0.7959	399.5	1.0330	96.7	76.9	173.6
2016	244.5	0.3583	338.0	0.6972	419.8	0.9031	93.5	81.8	175.2
2017	211.4	0.3271	300.6	0.6472	374.8	0.8391	89.1	74.3	163.4
2018	191.3	0.3059	272.2	0.6041	340.8	0.7835	80.9	68.6	149.4
2019	165.2	0.2844	238.9	0.5709	299.8	0.7399	73.7	60.9	134.6
2020	143.2	0.2649	210.5	0.5396	264.5	0.7001	67.3	54.1	121.3
2021	122.2	0.2450	182.8	0.5080	229.9	0.6595	60.6	47.2	107.7
2022	105.8	0.2308	160.6	0.4876	202.1	0.6330	54.8	41.5	96.3
2023	90.3	0.2142	142.2	0.4707	179.0	0.6109	51.9	36.8	88.8
2024	76.9	0.1979	125.8	0.4530	158.5	0.5879	48.9	32.7	81.6
2025	64.7	0.1822	109.7	0.4345	138.3	0.5638	45.0	28.5	73.6
2026	54.7	0.1678	96.0	0.4160	121.0	0.5397	41.3	25.0	66.3
2027	45.9	0.1533	83.7	0.3964	105.5	0.5143	37.7	21.9	59.6
2028	38.8	0.1404	76.5	0.3897	96.6	0.5053	37.7	20.1	57.8
2029	32.1	0.1274	69.6	0.3845	88.0	0.4984	37.5	18.4	55.9
2030	27.1	0.1164	64.2	0.3797	81.2	0.4918	37.1	17.0	54.1

Forecasted Prices and Production Fall 2005 DOR Forecast

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB63
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title An Act relating to the oil and gas RDU Revenue Operations
properties production (severance) tax Component Tax Division
Sponsor Gara, Kerttula, Croft, Guttenberg
Requester House Committee on Ways and Means Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	20.3	20.3	20.3	20.3	20.3	20.3
Travel	2.0	2.0	2.0	2.0	2.0	2.0
Contractual	50.0	0.6	0.6	0.6	0.6	0.6
Supplies	0.3	0.3	0.3	0.3	0.3	0.3
Equipment	2.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	74.5	23.1	23.1	23.1	23.1	23.1

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	74.5	23.1	23.1	23.1	23.1	23.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	74.5	23.1	23.1	23.1	23.1	23.1

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would amend the oil and gas production tax by changing the effective tax rate on North Slope oil production other than for heavy oil. With the exception of the tax rate for heavy oil, a minimum effective rate of 5% and a maximum effective rate of 25% would be established. To determine the effective tax rate, a price adjustment would be added to the current law that would increase the effective rate when prices are above \$20 per barrel and lower the effective rate when oil prices are below \$16 per barrel. The formula for the adjustment is Prevailing Value/20 for prices above \$20 or Prevailing Value/16 for prices below \$16. No price adjustment would be made for prices equal to \$16 per barrel or equal to or less than \$20 per barrel. The 20 or 16 would be annually revised to reflect inflation. Heavy oil production, defined here as oil that has an assay of 20 degrees API or less, would not be subject to either the 5% minimum or the price adjustment. There are adjustments for prices below \$10 per barrel. Since monthly oil prices have only averaged less than \$10 per barrel twice in the last 25 years we have not analyzed this provision.

Prepared by: Dan Dickinson, Michael Williams and Phyllis Rogers
Division: Tax Division
Approved by: Tom Boutin, Deputy Commissioner
Agency: Department of Revenue

Phone 269-1033
Date/Time _____
Date 3/17/2005

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO.

HB63

ANALYSIS CONTINUATION

Properties, excluding those defined as heavy oil, with a current ELF above the minimum will have an increased effective tax rate when prices are above \$20 per barrel. Properties, excluding those defined as heavy oil, whose current ELF is below the minimum will have an increased effective tax rate at all prices. The net effect of these changes is to raise the average effective tax rate at our forecast price.

This analysis does not tax production from West Sak or Tabasco because in 2004 both those fields had gravities below 20 degrees API. Other fields such as Schrader Bluff, Orion and Polaris have gravities close to 20 degrees API and as production increases may see their average gravities falling below 20 degrees API thus yielding tax free production.

This bill specifically limits its scope to North Slope production. This means that current taxpayers will pay the balance of the revenue change. We estimate a one time IT change will be required, which we have ball parked at \$50,000, and one quarter FTE for additional audit work pertinent to North Slope fields that currently pay little or no tax.

The figures below result from simply changing the ELF mechanism in our production forecast model. The ELF was designed to affect taxpayers behavior, however this analysis does not account for any change in the taxpayer's production as a consequence of changes to the ELF.

A decade from now, one quarter of the oil in our forecast comes from fields not now producing. To bring those fields on line will require billions in additional investment. It appears to us that any tax increase that does not simultaneously involve the recognition of the need to make capital investments may well imperil that investment. Quantifying that peril, especially against the background of other aspect of the investment environment is difficult. Thus we have indicated an uncertain revenue effect, showing the figures below to offer insight into the mechanics of the bill.

Revenue Sensitivity for HB63 Changes in Oil Production Tax (millions of \$)

FY	Status Quo		HB63 Minimum Elf		HB63 with Price Adj		Revenue Gain		
	Sev Tax	Avg Elf	Sev Tax	Avg Elf	Sev Tax	Effective Elf	Min ELF to Current	Price Adj Elf to Min ELF	Price Adj to Current
2006	715.1	0.5794	823.4	0.6698	1,420.1	1.1553	108.4	596.7	705.0
2007	616.2	0.5540	720.3	0.6532	1,108.1	1.0046	104.1	387.8	492.0
2008	485.6	0.5365	573.2	0.6441	721.2	0.8114	87.7	147.9	235.6
2009	448.7	0.5224	534.5	0.6341	672.2	0.7966	85.8	137.6	223.5
2010	422.1	0.4801	521.9	0.9012	653.7	1.1361	99.8	131.8	231.6
2011	422.3	0.4998	520.4	1.0014	653.1	1.2808	98.0	132.7	230.8
2012	375.9	0.4652	477.9	0.9644	599.8	1.2501	102.0	121.9	223.9
2013	334.8	0.4224	445.7	0.8703	561.9	1.1412	110.9	116.2	227.1
2014	295.1	0.3918	410.2	0.7444	518.2	0.9832	115.1	108.0	223.1
2015	259.9	0.3608	373.5	0.6979	472.7	0.9185	113.6	99.2	212.8
2016	228.2	0.3401	333.4	0.6622	421.8	0.8706	105.2	88.4	193.6
2017	196.5	0.3202	292.9	0.6273	372.0	0.8234	96.3	79.1	175.4
2018	174.3	0.3018	262.5	0.6015	333.9	0.7903	88.2	71.4	159.6
2019	152.7	0.2843	233.0	0.5778	296.9	0.7573	80.4	63.8	144.2
2020	133.7	0.2666	208.5	0.5566	265.4	0.7275	74.8	56.8	131.6
2021	136.3	0.2920	206.5	0.5770	263.3	0.7541	70.2	56.8	127.0
2022	122.1	0.2806	188.0	0.5624	239.7	0.7333	65.9	51.7	117.6
2023	107.0	0.2626	168.4	0.5410	214.7	0.7036	61.4	46.3	107.7
2024	91.9	0.2416	151.3	0.5215	193.0	0.6765	59.5	41.6	101.1
2025	82.6	0.2327	137.1	0.5054	174.8	0.6543	54.5	37.7	92.2
2026	75.3	0.2270	125.5	0.4926	160.0	0.6366	50.2	34.5	84.7
2027	67.1	0.2155	113.4	0.4745	144.6	0.6120	46.4	31.2	77.5
2028	59.4	0.2033	102.2	0.4558	130.3	0.5868	42.9	28.1	71.0
2029	52.6	0.1917	92.3	0.4379	117.7	0.5628	39.7	25.4	65.1
2030	46.4	0.1807	83.0	0.4204	105.8	0.5395	36.5	22.8	59.4

COMPANY PROFITABILITY, FEDERAL, AND STATE REVENUES PROJECTED FOR FY06 FOR DIFFERENT OIL PRICES USING DEPT OF REVENUE FALL 2004 ASSUMPTIONS from NOI

	2006 Fall 2004 Price													
Sales Price (\$/Bbl)	\$34.50	\$10.00	\$11.00	\$12.00	\$13.00	\$14.00	\$15.00	\$16.00	\$17.00	\$18.00	\$19.00	\$20.00	\$21.00	\$22.00
Avg Trans To Market	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40
Wellhead Price (\$/Bbl)	\$29.10	\$4.60	\$5.60	\$6.60	\$7.60	\$8.60	\$9.60	\$10.60	\$11.60	\$12.60	\$13.60	\$14.60	\$15.60	\$16.60
Volume														
Oil production (millions bbls/day)	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896
NGL production (millions bbls/day)	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036
ANS Production (oil and NGL) (Million Bbl/Yr)	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2
Production Value (Million \$)	9900.2	1565.8	1905.9	2246.1	2586.3	2926.5	3266.7	3606.9	3947.0	4287.2	4627.4	4967.6	5307.8	5648.0
Production Costs (average 2001-2003, infl adj 2005) (\$/Bbl)	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70
Production Costs (Million \$)	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2
Severance Taxes														
NGL Severance Tax	14.71	2.41	2.41	2.93	3.46	3.98	4.50	5.03	5.55	6.07	6.60	7.12	7.64	8.17
Gas Severance Tax	2.19	0.42	0.42	0.50	0.57	0.65	0.72	0.80	0.87	0.95	1.03	1.10	1.18	1.25
Hazardous Release	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57
Oil Severance Tax with ELF prior to Aggregation	566.1	119.0	119.0	136.8	155.3	174.4	193.5	212.6	231.7	250.8	269.9	289.0	308.2	327.3
Oil Severance Tax with Aggregated ELF	715.0	149.5	149.5	172.2	195.8	219.9	244.1	268.2	292.4	316.5	340.7	364.8	389.0	413.1
Oil Severance Tax with HB63 Elf	1367.2	102.4	112.6	140.4	173.3	210.2	250.5	294.1	321.1	348.0	375.0	401.9	450.3	501.4
Total Production Tax, Property Tax, Royalties (inc muni Property tax) (Millions \$)														
Under ELF prior to aggregation	2455.2	794.8	801.1	868.7	937.0	1006.0	1074.9	1143.8	1212.7	1281.7	1350.6	1419.5	1488.4	1557.4
Under Aggregated elf	2604.1	825.4	831.7	904.1	977.5	1051.5	1125.4	1199.4	1273.4	1347.3	1421.3	1495.3	1569.2	1643.2
Under HB63 ELF	3256.3	778.2	794.7	872.4	955.0	1041.8	1131.9	1225.3	1302.1	1378.8	1455.6	1532.4	1630.6	1731.5
Per Barrel Oil & NGL Severance Tax														
Prior to Aggregation	\$1.66	\$0.35	\$0.35	\$0.40	\$0.46	\$0.51	\$0.57	\$0.62	\$0.68	\$0.74	\$0.79	\$0.85	\$0.91	\$0.96
With Aggregation	\$2.10	\$0.44	\$0.44	\$0.51	\$0.58	\$0.65	\$0.72	\$0.79	\$0.86	\$0.93	\$1.00	\$1.07	\$1.14	\$1.21
Under HB63	\$4.02	\$0.30	\$0.33	\$0.41	\$0.51	\$0.62	\$0.74	\$0.86	\$0.94	\$1.02	\$1.10	\$1.18	\$1.32	\$1.47
Gross Royalty	1337.3	292.5	292.5	335.4	378.3	421.2	464.1	507.1	550.0	592.9	635.8	678.7	721.7	764.6
per bbl royalty	\$3.93	\$0.86	\$0.86	\$0.99	\$1.11	\$1.24	\$1.36	\$1.49	\$1.62	\$1.74	\$1.87	\$2.00	\$2.12	\$2.25
Adjustment for Cook Inlet Production Revenues	29.6	12.5	13.2	13.9	14.6	15.3	16.0	16.7	17.4	18.1	18.8	19.5	20.2	20.9
Property Tax State Share	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3
Property Tax Muni Share	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6
Total property tax (production plus TAPS)	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9
Property tax per bbl	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76
Total State Income Tax	\$296.00	\$124.50	\$131.50	\$138.50	\$145.50	\$152.50	\$159.50	\$166.50	\$173.50	\$180.50	\$187.50	\$194.50	\$201.50	\$208.50
Income Tax Production	262.2	90.7	97.7	104.7	111.7	118.7	125.7	132.7	139.7	146.7	153.7	160.7	167.7	174.7
State Income Tax TAPS	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8
TAPS tax allowance (Millions \$)	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05
TAPS after tax margin	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17
TAPS deferred return	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07
Revenue Share Prior to Aggregation¹														
Federal Revenue (Millions \$)	1955.1	-380.8	-264.0	-168.6	-73.4	21.5	116.5	211.4	306.4	401.3	496.2	591.2	686.1	781.1
Percentage Total	24.2%	0.0%	0.0%	0.0%	0.0%	1.9%	8.1%	11.8%	14.4%	16.3%	17.7%	18.8%	19.7%	20.4%
Company Net Revenue (Millions \$)	3668.0	-670.2	-453.2	-276.0	-99.3	77.1	253.4	429.7	606.0	782.3	958.6	1135.0	1311.3	1487.6
Percentage Total	45.4%	0.0%	0.0%	0.0%	0.0%	7.0%	17.5%	24.1%	28.5%	31.7%	34.2%	36.1%	37.6%	38.9%
State Revenue + Muni Share Oil Property (Millions \$)	2455.2	794.8	801.1	868.7	937.0	1006.0	1074.9	1143.8	1212.7	1281.7	1350.6	1419.5	1488.4	1557.4
Percentage Total	30.4%	0.0%	0.0%	0.0%	0.0%	91.1%	74.4%	64.1%	57.1%	52.0%	48.1%	45.1%	42.7%	40.7%
Total Revenue Shared State, Federal, Company	8078.3	-256.2	84.0	424.2	764.4	1104.6	1444.7	1784.9	2125.1	2465.3	2805.5	3145.7	3485.8	3826.0
Revenue Share with Aggregation¹														
Federal Revenue (Millions \$)	1903.0	-391.5	-274.7	-181.0	-87.6	5.6	98.8	192.0	285.1	378.3	471.5	564.7	657.8	751.0
Percentage Total	23.6%	0.0%	0.0%	0.0%	0.0%	0.5%	6.8%	10.8%	13.4%	15.3%	16.8%	18.0%	18.9%	19.6%
Company Net Revenue (Millions \$)	3571.2	-690.0	-473.0	-299.0	-125.6	47.5	220.5	393.6	566.6	739.6	912.7	1085.7	1258.8	1431.8
Percentage Total	44.2%	0.0%	0.0%	0.0%	0.0%	4.3%	15.3%	22.0%	26.7%	30.0%	32.5%	34.5%	36.1%	37.4%
State Revenue + Muni Share Oil Property (Millions \$)	2604.1	825.4	831.7	904.1	977.5	1051.5	1125.4	1199.4	1273.4	1347.3	1421.3	1495.3	1569.2	1643.2
Percentage Total	32.2%	0.0%	0.0%	0.0%	0.0%	95.2%	77.9%	67.2%	59.9%	54.7%	50.7%	47.5%	45.0%	42.9%
Total Revenue Shared State, Federal, Company	8078.3	-256.2	84.0	424.2	764.4	1104.6	1444.7	1784.9	2125.1	2465.3	2805.5	3145.7	3485.8	3826.0

COMPANY PROFITABILITY, FEDERAL, AN/2004CUT

Sales Price (\$/Bbl)	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	\$36.00
Avg Trans To Market	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40
Wellhead Price (\$/Bbl)	\$17.60	\$18.60	\$19.60	\$20.60	\$21.60	\$22.60	\$23.60	\$24.60	\$25.60	\$26.60	\$27.60	\$28.60	\$29.60	\$30.60
Volume														
Oil production (millions bbls/day)	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896
NGL production (millions bbls/day)	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036
ANS Production (oil and NGL) (Million Bbl/Yr)	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2
Production Value (Million \$)	5988.1	6328.3	6668.5	7008.7	7348.9	7689.1	8029.2	8369.4	8709.6	9049.8	9390.0	9730.2	10070.3	10410.5
Production Costs (average 2001-2003, Infl adj 2005\$) (\$/Bbl)	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.50	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70
Production Costs (Million \$)	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2211.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2
Severance Taxes														
NGL Severance Tax	8.69	9.21	9.74	10.26	10.78	11.31	11.83	12.35	12.88	13.40	13.92	14.45	14.97	15.49
Gas Severance Tax	1.33	1.40	1.48	1.55	1.63	1.70	1.78	1.86	1.93	2.01	2.08	2.16	2.23	2.31
Hazardous Release	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57
Oil Severance Tax with ELF prior to Aggregation	346.4	365.5	384.6	403.7	422.8	441.9	461.0	480.1	499.3	518.4	537.5	556.6	575.7	594.8
Oil Severance Tax with Aggregated ELF	437.3	461.4	485.6	509.7	533.9	558.0	582.2	606.3	630.5	654.6	678.8	702.9	727.1	751.2
Oil Severance Tax with HB63 Elf	555.2	611.6	670.8	732.6	797.2	864.4	934.4	1007.0	1082.3	1160.4	1241.1	1324.5	1410.6	1499.4
Total Production Tax, Property Tax, Royalties (Inc muni P)														
Under ELF prior to aggregation	1626.3	1695.2	1764.1	1833.1	1902.0	1970.9	2039.9	2108.8	2177.7	2246.6	2315.6	2384.5	2453.4	2522.3
Under Aggregated elf	1717.2	1791.1	1865.1	1939.1	2013.0	2087.0	2161.0	2234.9	2308.9	2382.9	2456.8	2530.8	2604.8	2678.7
Under HB63 ELF	1835.1	1941.4	2050.3	2162.0	2276.4	2393.4	2513.2	2635.6	2760.8	2888.6	3019.2	3152.4	3288.3	3426.9
Per Barrel Oil & NGL Severance Tax														
Prior to Aggregation	\$1.02	\$1.07	\$1.13	\$1.19	\$1.24	\$1.30	\$1.36	\$1.41	\$1.47	\$1.52	\$1.58	\$1.64	\$1.69	\$1.75
With Aggregation	\$1.29	\$1.36	\$1.43	\$1.50	\$1.57	\$1.64	\$1.71	\$1.78	\$1.85	\$1.92	\$2.00	\$2.07	\$2.14	\$2.21
Under HB63	\$1.63	\$1.80	\$1.97	\$2.15	\$2.34	\$2.54	\$2.75	\$2.96	\$3.18	\$3.41	\$3.65	\$3.89	\$4.15	\$4.41
Gross Royalty	807.5	850.4	893.3	936.2	979.2	1022.1	1065.0	1107.9	1150.8	1193.8	1236.7	1279.6	1322.5	1365.4
per bbl royalty	\$2.37	\$2.50	\$2.63	\$2.75	\$2.88	\$3.00	\$3.13	\$3.26	\$3.38	\$3.51	\$3.64	\$3.76	\$3.89	\$4.01
Adjustment for Cook Inlet Production Revenues	21.6	22.3	23.0	23.7	24.4	25.1	25.8	26.5	27.2	27.9	28.6	29.3	30.0	30.7
Property Tax State Share	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3
Property Tax Muni Share	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6
Total property tax (production plus TAPS)	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9
Property tax per bbl	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76
Total State Income Tax	\$215.50	\$222.50	\$229.50	\$236.50	\$243.50	\$250.50	\$257.50	\$264.50	\$271.50	\$278.50	\$285.50	\$292.50	\$299.50	\$306.50
Income Tax Production	181.7	188.7	195.7	202.7	209.7	216.7	223.7	230.7	237.7	244.7	251.7	258.7	265.7	272.7
State Income Tax TAPS	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8
TAPS tax allowance (Millions \$)	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05
TAPS after tax margin	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17
TAPS deferred return	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07
Revenue Share Prior to Aggregation¹														
Federal Revenue (Millions \$)	876.0	970.9	1065.9	1160.8	1255.8	1350.7	1445.6	1540.4	1635.5	1730.4	1825.4	1920.3	2015.3	2110.2
Percentage Total	21.0%	21.5%	22.0%	22.4%	22.7%	23.0%	23.3%	23.6%	23.7%	23.9%	24.1%	24.3%	24.4%	24.6%
Company Net Revenue (Millions \$)	1663.9	1840.2	2016.5	2192.9	2369.2	2545.5	2721.8	2942.4	3074.5	3250.8	3427.1	3603.4	3779.7	3956.0
Percentage Total	39.9%	40.8%	41.6%	42.3%	42.9%	43.4%	43.8%	44.5%	44.6%	45.0%	45.3%	45.6%	45.8%	46.1%
State Revenue + Muni Share Oil Property (Millions \$)	1626.3	1695.2	1764.1	1833.1	1902.0	1970.9	2039.9	2108.8	2177.7	2246.6	2315.6	2384.5	2453.4	2522.3
Percentage Total	39.0%	37.6%	36.4%	35.3%	34.4%	33.6%	32.9%	31.9%	31.6%	31.1%	30.6%	30.2%	29.7%	29.4%
Total Revenue Shared State, Federal, Company	4166.2	4506.4	4846.6	5186.8	5526.9	5867.1	6207.3	6615.5	6887.7	7227.9	7568.0	7908.2	8248.4	8588.6
Revenue Share with Aggregation¹														
Federal Revenue (Millions \$)	844.2	937.4	1030.5	1123.7	1216.9	1310.1	1403.2	1520.2	1589.6	1682.8	1775.9	1869.1	1962.3	2055.5
Percentage Total	20.3%	20.8%	21.3%	21.7%	22.0%	22.3%	22.6%	23.0%	23.1%	23.3%	23.5%	23.6%	23.8%	23.9%
Company Net Revenue (Millions \$)	1604.8	1777.9	1950.9	2124.0	2297.0	2470.1	2643.1	2860.4	2989.2	3162.2	3335.3	3508.3	3681.3	3854.4
Percentage Total	38.5%	39.5%	40.3%	40.9%	41.6%	42.1%	42.6%	43.2%	43.4%	43.8%	44.1%	44.4%	44.6%	44.9%
State Revenue + Muni Share Oil Property (Millions \$)	1717.2	1791.1	1865.1	1939.1	2013.0	2087.0	2161.0	2234.9	2308.9	2382.9	2456.8	2530.8	2604.8	2678.7
Percentage Total	41.2%	39.7%	38.5%	37.4%	36.4%	35.6%	34.8%	33.8%	33.5%	33.0%	32.5%	32.0%	31.6%	31.2%
Total Revenue Shared State, Federal, Company	4166.2	4506.4	4846.6	5186.8	5526.9	5867.1	6207.3	6615.5	6887.7	7227.9	7568.0	7908.2	8248.4	8588.6

DOR Feb 2005 Profit & Revenue Share Analysis (FY '06 Projections) xls RevenueShare

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COMPANY PROFITABILITY, FEDERAL, AN

Sales Price (\$/Bbl)	\$37.00	\$38.00	\$39.00	\$40.00	\$41.00	\$42.00	\$43.00	\$44.00	\$45.00	\$46.00	\$47.00	\$48.00	\$49.00	\$50.00
Avg Trans To Market	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40	\$5.40
Wellhead Price (\$/Bbl)	\$31.60	\$32.60	\$33.60	\$34.60	\$35.60	\$36.60	\$37.60	\$38.60	\$39.60	\$40.60	\$41.60	\$42.60	\$43.60	\$44.60
Volume														
Oil production (millions bbls/day)	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896	0.896
NGL production (millions bbls/day)	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036	0.036
ANS Production (oil and NGL) (Million Bbl/Yr)	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2	340.2
Production Value (Million \$)	10750.7	11090.9	11431.1	11771.3	12111.4	12451.6	12791.8	13132.0	13472.2	13812.4	14152.5	14492.7	14832.9	15173.1
Production Costs (average 2001-2003, Infl adj 2005) (\$/Bbl)	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70	\$6.70
Production Costs (Million \$)	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2	2279.2
Severance Taxes														
NGL Severance Tax	16.02	16.54	17.06	17.59	18.11	18.63	19.16	19.68	20.20	20.73	21.25	21.77	22.30	22.82
Gas Severance Tax	2.38	2.46	2.53	2.61	2.68	2.76	2.84	2.91	2.99	3.06	3.14	3.21	3.29	3.36
Hazardous Release	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57
Oil Severance Tax with ELF prior to Aggregation	613.9	633.0	652.1	671.2	690.4	709.5	728.6	747.7	766.8	785.9	805.0	824.1	843.2	862.4
Oil Severance Tax with Aggregated ELF	775.4	799.5	823.7	847.8	872.0	896.1	920.3	944.4	968.6	992.7	1016.9	1041.0	1065.2	1089.3
Oil Severance Tax with HB63 Elf	1590.9	1685.1	1755.7	1817.9	1880.7	1942.7	2004.6	2067.0	2130.0	2193.4	2257.3	2321.7	2386.6	2452.1
Total Production Tax, Property Tax, Royalties (inc muni P)														
Under ELF prior to aggregation	2591.3	2660.2	2729.1	2798.0	2867.0	2935.9	3004.8	3073.8	3142.7	3211.6	3280.5	3349.5	3418.4	3487.3
Under Aggregated elf	2752.7	2826.7	2900.6	2974.6	3048.6	3122.5	3196.5	3270.5	3344.4	3418.4	3492.4	3566.3	3640.3	3714.3
Under HB63 ELF	3568.2	3712.2	3832.7	3944.7	4057.4	4169.1	4280.9	4393.1	4505.8	4619.1	4732.8	4847.1	4961.8	5077.0
Per Barrel Oil & NGL Severance Tax														
Prior to Aggregation	\$1.80	\$1.86	\$1.92	\$1.97	\$2.03	\$2.09	\$2.14	\$2.20	\$2.25	\$2.31	\$2.37	\$2.42	\$2.48	\$2.53
With Aggregation	\$2.28	\$2.35	\$2.42	\$2.49	\$2.56	\$2.63	\$2.71	\$2.78	\$2.85	\$2.92	\$2.99	\$3.06	\$3.13	\$3.20
Under HB63	\$4.68	\$4.95	\$5.16	\$5.34	\$5.53	\$5.71	\$5.89	\$6.08	\$6.26	\$6.45	\$6.64	\$6.82	\$7.02	\$7.21
Gross Royalty	1408.3	1451.3	1494.2	1537.1	1580.0	1622.9	1665.8	1708.8	1751.7	1794.6	1837.5	1880.4	1923.4	1966.3
per bbl royalty	\$4.14	\$4.27	\$4.39	\$4.52	\$4.64	\$4.77	\$4.90	\$5.02	\$5.15	\$5.28	\$5.40	\$5.53	\$5.65	\$5.78
Adjustment for Cook Inlet Production Revenues	31.4	32.1	32.8	33.5	34.2	34.9	35.6	36.3	37.0	37.7	38.4	39.1	39.8	40.5
Property Tax State Share	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3	45.3
Property Tax Muni Share	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6
Total property tax (production plus TAPS)	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9	259.9
Property tax per bbl	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76
Total State Income Tax	\$313.50	\$320.50	\$327.50	\$334.50	\$341.50	\$348.50	\$355.50	\$362.50	\$369.50	\$376.50	\$383.50	\$390.50	\$397.50	\$404.50
Income Tax Production	279.7	286.7	293.7	300.7	307.7	314.7	321.7	328.7	335.7	342.7	349.7	356.7	363.7	370.7
State Income Tax TAPS	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8
TAPS tax allowance (Millions \$)	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05	169.05
TAPS after tax margin	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17	242.17
TAPS deferred return	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07	46.07
Revenue Share Prior to Aggregation¹														
Federal Revenue (Millions \$)	2205.1	2300.1	2395.0	2490.0	2584.9	2679.8	2774.8	2869.7	2964.7	3059.6	3154.5	3249.5	3344.4	3439.4
Percentage Total	24.7%	24.8%	24.9%	25.0%	25.1%	25.2%	25.3%	25.4%	25.4%	25.5%	25.6%	25.6%	25.7%	25.8%
Company Net Revenue (Millions \$)	4132.4	4308.7	4485.0	4661.3	4837.6	5013.9	5190.3	5366.6	5542.9	5719.2	5895.5	6071.8	6248.2	6424.5
Percentage Total	46.3%	46.5%	46.7%	46.9%	47.0%	47.2%	47.3%	47.4%	47.6%	47.7%	47.8%	47.9%	48.0%	48.1%
State Revenue + Muni Share Oil Property (Millions \$)	2591.3	2660.2	2729.1	2798.0	2867.0	2935.9	3004.8	3073.8	3142.7	3211.6	3280.5	3349.5	3418.4	3487.3
Percentage Total	29.0%	28.7%	28.4%	28.1%	27.9%	27.6%	27.4%	27.2%	27.0%	26.8%	26.6%	26.4%	26.3%	26.1%
Total Revenue Shared State, Federal, Company	8928.8	9269.0	9609.1	9949.3	10289.5	10629.7	10969.9	11310.1	11650.2	11990.4	12330.6	12670.8	13011.0	13351.2
Revenue Share with Aggr. gation¹														
Federal Revenue (Millions \$)	2148.6	2241.8	2335.0	2428.2	2521.4	2614.5	2707.7	2800.9	2894.1	2987.2	3080.4	3173.6	3266.8	3359.9
Percentage Total	24.1%	24.2%	24.3%	24.4%	24.5%	24.6%	24.7%	24.8%	24.8%	24.9%	25.0%	25.0%	25.1%	25.2%
Company Net Revenue (Millions \$)	4027.4	4200.5	4373.5	4546.5	4719.6	4892.6	5065.7	5238.7	5411.7	5584.8	5757.8	5930.9	6103.9	6277.0
Percentage Total	45.1%	45.3%	45.5%	45.7%	45.9%	46.0%	46.2%	46.3%	46.5%	46.6%	46.7%	46.8%	46.9%	47.0%
State Revenue + Muni Share Oil Property (Millions \$)	2752.7	2826.7	2900.6	2974.6	3048.6	3122.5	3196.5	3270.5	3344.4	3418.4	3492.4	3566.3	3640.3	3714.3
Percentage Total	30.8%	30.5%	30.2%	29.9%	29.6%	29.4%	29.1%	28.9%	28.7%	28.5%	28.3%	28.1%	28.0%	27.8%
Total Revenue Shared State, Federal, Company	8928.8	9269.0	9609.1	9949.3	10289.5	10629.7	10969.9	11310.1	11650.2	11990.4	12330.6	12670.8	13011.0	13351.2

DOR Feb 2005 Profit & Revenue Share Analysis (FY '06 Projections) x1a RevenueShare

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COMPANY PROFITABILITY, FEDERAL, AND STATE REVENUES PROJECTED FOR FY06 FOR DIFFERENT OIL PRICES USING DEPT OF REVENUE FALL 2004 ASSUMPTIONS from NO1

Sales Price (\$/Bbl)	2006 Fall 2004 Price													
	\$34.50	\$10.00	\$11.00	\$12.00	\$13.00	\$14.00	\$15.00	\$16.00	\$17.00	\$18.00	\$19.00	\$20.00	\$21.00	\$22.00
Revenue Share Under HB63 with aggregation¹														
Federal Revenue (Millions \$)	1674.7	-375.0	-261.7	-169.8	-79.7	9.0	96.5	182.9	275.1	367.3	459.5	551.7	636.4	720.1
Percentage Total	20.7%	0.0%	0.0%	0.0%	0.0%	0.8%	6.7%	10.2%	12.9%	14.9%	16.4%	17.5%	18.3%	18.8%
Company Net Revenue (Millions \$)	3147.3	-659.4	-449.0	-278.3	-111.0	53.8	216.3	376.7	547.9	719.2	890.4	1061.6	1218.9	1374.4
Percentage Total	39.0%	0.0%	0.0%	0.0%	0.0%	4.9%	15.0%	21.1%	25.8%	29.2%	31.7%	33.7%	35.0%	35.9%
State Revenue + Muni Share Oil Property (Millions \$)	3256.3	778.2	794.7	872.4	955.0	1041.8	1131.9	1225.3	1302.1	1378.8	1455.6	1532.4	1630.6	1731.5
Percentage Total	40.3%	0.0%	0.0%	0.0%	0.0%	94.3%	78.3%	68.6%	61.3%	55.9%	51.9%	48.7%	46.8%	45.3%
Total Revenue Shared State, Federal, Company	8078.3	-256.2	84.0	424.2	764.4	1104.6	1444.7	1784.9	2125.1	2465.3	2805.5	3145.7	3485.8	3826.0
Revenue Share Under HB63 without aggregation¹														
Federal Revenue (Millions \$)	1733.5	-370.7	-256.9	-163.7	-72.2	18.1	107.4	195.6	289.0	382.3	475.7	569.0	655.8	741.7
Percentage Total	21.5%	0.0%	0.0%	0.0%	0.0%	1.6%	7.4%	11.0%	13.6%	15.5%	17.0%	18.1%	18.8%	19.4%
Company Net Revenue (Millions \$)	3256.4	-651.3	-440.1	-267.0	-97.0	70.7	236.5	400.4	573.7	747.1	920.4	1093.8	1255.0	1414.6
Percentage Total	40.3%	0.0%	0.0%	0.0%	0.0%	6.4%	16.4%	22.4%	27.0%	30.3%	32.8%	34.8%	36.0%	37.0%
State Revenue + Muni Share Oil Property (Millions \$)	3088.5	765.7	781.0	855.0	933.5	1015.7	1100.8	1188.9	1262.4	1335.9	1409.4	1482.8	1575.1	1669.7
Percentage Total	38.2%	0.0%	0.0%	0.0%	0.0%	92.0%	76.2%	66.6%	59.4%	54.2%	50.2%	47.1%	45.2%	43.6%
Total Revenue Shared State, Federal, Company	8078.3	-256.2	84.0	424.2	764.4	1104.6	1444.7	1784.9	2125.1	2465.3	2805.5	3145.7	3485.8	3826.0

COMPANY PROFITABILITY, FEDERAL, AN/2004CUT

Sales Price (\$/Bbl)	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	\$36.00
Revenue Share Under HB63 with aggregation¹														
Federal Revenue (Millions \$)	802.9	884.8	965.7	1045.7	1124.7	1202.8	1280.0	1380.0	1431.4	1505.8	1579.1	1651.6	1723.1	1793.6
Percentage Total	19.3%	19.6%	19.9%	20.2%	20.3%	20.5%	20.6%	20.9%	20.8%	20.8%	20.9%	20.9%	20.9%	20.9%
Company Net Revenue (Millions \$)	1528.2	1680.2	1830.5	1979.1	2125.8	2270.9	2414.1	2599.9	2695.4	2833.5	2969.7	3104.3	3237.0	3368.1
Percentage Total	36.7%	37.3%	37.8%	38.2%	38.5%	38.7%	38.9%	39.3%	39.1%	39.2%	39.2%	39.3%	39.2%	39.2%
State Revenue + Muni Share Oil Property (Millions \$)	1835.1	1941.4	2050.3	2162.0	2276.4	2393.4	2513.2	2635.6	2760.8	2888.6	3019.2	3152.4	3288.3	3426.9
Percentage Total	44.0%	43.1%	42.3%	41.7%	41.2%	40.8%	40.5%	39.8%	40.1%	40.0%	39.9%	39.9%	39.9%	39.9%
Total Revenue Shared State, Federal, Company	4166.2	4506.4	4846.6	5186.8	5526.9	5867.1	6207.3	6615.5	6887.7	7227.9	7568.0	7908.2	8248.4	8588.6
Revenue Share Under HB63 without aggregation¹														
Federal Revenue (Millions \$)	826.8	911.1	994.6	1077.2	1159.0	1240.0	1320.1	1423.3	1478.0	1555.6	1632.5	1708.5	1783.7	1858.0
Percentage Total	19.8%	20.2%	20.5%	20.8%	21.0%	21.1%	21.3%	21.5%	21.5%	21.5%	21.6%	21.6%	21.6%	21.6%
Company Net Revenue (Millions \$)	1572.6	1729.2	1884.2	2037.6	2189.5	2339.9	2488.8	2680.3	2781.9	2926.1	3068.8	3210.0	3349.6	3487.7
Percentage Total	37.7%	38.4%	38.9%	39.3%	39.6%	39.9%	40.1%	40.5%	40.4%	40.5%	40.5%	40.6%	40.6%	40.6%
State Revenue + Muni Share Oil Property (Millions \$)	1766.7	1866.1	1967.8	2071.9	2178.4	2287.2	2398.4	2511.9	2627.8	2746.1	2866.8	2989.8	3115.2	3242.9
Percentage Total	42.4%	41.4%	40.6%	39.9%	39.4%	39.0%	38.6%	38.0%	38.2%	38.0%	37.9%	37.8%	37.8%	37.8%
Total Revenue Shared State, Federal, Company	4166.2	4506.4	4846.6	5186.8	5526.9	5867.1	6207.3	6615.5	6887.7	7227.9	7568.0	7908.2	8248.4	8588.6

COMPANY PROFITABILITY, FEDERAL, AN

Sales Price (\$/Bbl)	\$37.00	\$38.00	\$39.00	\$40.00	\$41.00	\$42.00	\$43.00	\$44.00	\$45.00	\$46.00	\$47.00	\$48.00	\$49.00	\$50.00
Revenue Share Under HB63 with aggregation¹														
Federal Revenue (Millions \$)	1863.2	1931.9	2008.8	2088.6	2168.3	2248.2	2328.2	2408.0	2487.6	2567.0	2646.3	2725.3	2804.2	2883.0
Percentage Total	20.9%	20.8%	20.9%	21.0%	21.1%	21.2%	21.2%	21.3%	21.4%	21.4%	21.5%	21.5%	21.6%	21.6%
Company Net Revenue (Millions \$)	3497.3	3624.8	3767.7	3916.0	4063.9	4212.3	4360.8	4509.0	4656.8	4804.4	4951.5	5098.4	5244.9	5391.2
Percentage Total	39.2%	39.1%	39.2%	39.4%	39.5%	39.6%	39.8%	39.9%	40.0%	40.1%	40.2%	40.2%	40.3%	40.4%
State Revenue + Muni Share Oil Property (Millions \$)	3568.2	3712.2	3832.7	3944.7	4057.4	4169.1	4280.9	4393.1	4505.8	4619.1	4732.8	4847.1	4961.8	5077.0
Percentage Total	40.0%	40.1%	39.9%	39.6%	39.4%	39.2%	39.0%	38.8%	38.7%	38.5%	38.4%	38.3%	38.1%	38.0%
Total Revenue Shared State, Federal, Company	8928.8	9269.0	9609.1	9949.3	10289.5	10629.7	10969.9	11310.1	11650.2	11990.4	12330.6	12670.8	13011.0	13351.2
Revenue Share Under HB63 without aggregation¹														
Federal Revenue (Millions \$)	1931.5	2004.2	2076.7	2150.7	2223.9	2296.5	2376.4	2456.6	2536.6	2616.3	2695.9	2775.2	2854.3	2933.1
Percentage Total	21.6%	21.6%	21.6%	21.6%	21.6%	21.6%	21.7%	21.7%	21.8%	21.8%	21.9%	21.9%	21.9%	22.0%
Company Net Revenue (Millions \$)	3624.2	3759.2	3893.9	4031.2	4167.2	4302.1	4450.5	4599.4	4747.9	4896.0	5043.7	5191.0	5337.9	5484.3
Percentage Total	40.6%	40.6%	40.5%	40.5%	40.5%	40.5%	40.6%	40.7%	40.8%	40.8%	40.9%	41.0%	41.0%	41.1%
State Revenue + Muni Share Oil Property (Millions \$)	3373.0	3505.5	3638.5	3767.5	3898.4	4031.1	4143.0	4254.1	4365.8	4478.1	4591.0	4704.6	4818.9	4933.7
Percentage Total	37.8%	37.8%	37.9%	37.9%	37.9%	37.9%	37.8%	37.6%	37.5%	37.3%	37.2%	37.1%	37.0%	37.0%
Total Revenue Shared State, Federal, Company	8928.8	9269.0	9609.1	9949.3	10289.5	10629.7	10969.9	11310.1	11650.2	11990.4	12330.6	12670.8	13011.0	13351.2

Impact of ELF Changes on Oil Severance Tax with Price Sensitivity

ANS Market Price	\$34.5 ¹	\$10	\$11	\$12	\$13	\$14	\$15	\$16	\$17	\$18	\$19	\$20	\$21	\$22
Oil Severance Tax														
Prior to Aggregation	566.1	119.0	119.0	136.8	155.3	174.4	193.5	212.6	231.7	250.8	269.9	289.0	308.2	327.3
With Aggregation	715.0	149.5	149.5	172.2	195.8	219.9	244.1	268.2	292.4	316.5	340.7	364.8	389.0	413.1
Under HB63	1,367.2	102.4	112.6	140.4	173.3	210.2	250.5	294.1	321.1	348.0	375.0	401.9	450.3	501.4
Tax \$ Impact of ELF Change														
Aggregation - prior	148.8	30.5	30.5	35.4	40.5	45.5	50.6	55.6	60.6	65.7	70.7	75.8	80.8	85.8
HB63 - Prior	801.1	-16.7	-5.4	3.7	18.0	35.8	57.0	81.5	89.3	97.2	105.0	112.9	142.1	174.1
Average Oil ELF														
Prior to Aggregation	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773
With Aggregation	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422
Under HB63	1.107904	0.401527	0.441662	0.481797	0.521932	0.562067	0.602202	0.642337	0.642337	0.642337	0.642337	0.642337	0.674445	0.706553
Average Effective Tax Rate														
Prior to Aggregation	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067
With Aggregation	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084
Under HB63	0.162	0.059	0.065	0.071	0.076	0.082	0.088	0.094	0.094	0.094	0.094	0.094	0.099	0.103

¹ FY2006 Price from Fall 2004 Forecast. Assumptions based on FY2006 from NOVCUT2004

5% minimum tax rate for all fields except heavy oil

Therefore for 15% fields minimum elf is .05/.15 or 0.3333333

For 12.25 % fields minimum elf is .05/.1225 or 0.4081633 (in fy2006 no fields in this minimum)

Aggregated ELF used for minimum elf for PBU unit (except Lisburne and Niakuk)

Price adj factor

1 if ANS price between \$16 and \$20

Price Factor*Minimum ELF * TaxRate cannot exceede 25%

Therefore for 15% fields maximum price factor * minimum ELF is less than or equal to 1.6666667

Impact of ELF Changes on Oil Severance Tax with Price Sensitivity

ANS Market Price	\$23	\$24	\$25	\$26	\$27	\$28	\$29	\$30	\$31	\$32	\$33	\$34	\$35	\$36
Oil Severance Tax														
Prior to Aggregation	346.4	365.5	384.6	403.7	422.8	441.9	461.0	480.1	499.3	518.4	537.5	556.6	575.7	594.8
With Aggregation	437.3	461.4	485.6	509.7	533.9	558.0	582.2	606.3	630.5	654.6	678.8	702.9	727.1	751.2
Under HB63	555.2	611.6	670.8	732.6	797.2	864.4	934.4	1,007.0	1,082.3	1,160.4	1,241.1	1,324.5	1,410.6	1,499.4
Tax \$ Impact of ELF Change														
Aggregation - prior	90.9	95.9	101.0	106.0	111.0	116.1	121.1	126.2	131.2	136.2	141.3	146.3	151.4	156.4
HB63 - Prior	208.8	246.1	286.2	328.9	374.4	422.5	473.3	526.9	583.1	642.0	703.6	767.9	834.9	904.6
Average Oil ELF														
Prior to Aggregation	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773
With Aggregation	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422
Under HB63	0.738661	0.770769	0.802877	0.834985	0.867093	0.899201	0.931309	0.963417	0.995525	1.027633	1.059742	1.091850	1.123958	1.156066
Average Effective Tax Rate														
Prior to Aggregation	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067
With Aggregation	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084
Under HB63	0.108	0.113	0.118	0.122	0.127	0.132	0.136	0.141	0.146	0.150	0.155	0.160	0.165	0.169

¹ FY2006 Price from Fall 2004 For

5% minimum tax rate for all
Therefore for 15% fields min
For 12.25 % fields minimum

Aggregated ELF used for m

Price adj factor
1 if ANS price between \$16

Price Factor*Minimum ELF
Therefore for 15% fields ma

Impact of ELF Changes on Oil Severance Tax with Price Sensitivity

ANS Market Price	\$37	\$38	\$39	\$40	\$41	\$42	\$43	\$44	\$45	\$46	\$47	\$48	\$49	\$50
Oil Severance Tax														
Prior to Aggregation	613.9	633.0	652.1	671.2	690.4	709.5	728.6	747.7	766.8	785.9	805.0	824.1	843.2	862.4
With Aggregation	775.4	799.5	823.7	847.8	872.0	896.1	920.3	944.4	968.6	992.7	1,016.9	1,041.0	1,065.2	1,089.3
Under HB63	1,590.9	1,685.1	1,755.7	1,817.9	1,880.7	1,942.7	2,004.6	2,067.0	2,130.0	2,193.4	2,257.3	2,321.7	2,386.6	2,452.1
Tax \$ Impact of ELF Change														
Aggregation - prior	161.4	166.5	171.5	176.6	181.6	186.6	191.7	196.7	201.8	206.8	211.8	216.9	221.9	227.0
HB63 - Prior	977.0	1,052.1	1,103.5	1,146.7	1,190.4	1,233.2	1,276.0	1,319.3	1,363.2	1,407.5	1,452.3	1,497.6	1,543.4	1,589.7
Average Oil ELF														
Prior to Aggregation	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773	0.456773
With Aggregation	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422	0.579422
Under HB63	1.188174	1.220282	1.234527	1.242513	1.250498	1.257458	1.264053	1.270647	1.277241	1.283836	1.290430	1.297025	1.303619	1.310213
Average Effective Tax Rate														
Prior to Aggregation	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.067
With Aggregation	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084
Under HB63	0.174	0.179	0.181	0.182	0.183	0.184	0.185	0.186	0.186	0.187	0.188	0.189	0.190	0.191

¹ FY2006 Price from Fall 2004 For

5% minimum tax rate for all
Therefore for 15% fields min
For 12.25 % fields minimum

Aggregated ELF used for m

Price adj factor
1 if ANS price between \$16

Price Factor*Minimum ELF
Therefore for 15% fields ma

Compile by Charles Logsdon

SHARES OF ALASKA'S OIL REVENUE PIE (PRODUCTION AND VALUE ADDED BY TAPS)

	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Note 1																	
Sales Price (\$/Bbl)	\$16.45	\$14.80	\$17.34	\$21.72	\$16.88	\$17.93	\$14.22	\$16.83	\$17.81	\$20.85	\$16.03	\$12.70	\$23.27	\$27.85	\$21.78	\$28.15	\$31.71
Transportation Cost to Market (\$/Bbl)	\$5.92	\$5.44	\$5.44	\$6.34	\$5.67	\$5.13	\$4.65	\$5.32	\$5.21	\$4.45	\$4.12	\$4.23	\$4.45	\$5.61	\$4.98	\$4.80	4.5
Wellhead Price (\$/Bbl)	\$10.53	\$9.36	\$11.90	\$15.38	\$11.21	\$12.80	\$9.57	\$11.51	\$12.60	\$16.40	\$11.91	\$8.47	\$18.82	\$22.24	\$16.80	\$23.35	\$27.21
ANS Production (Million Bbl/Yr)	717.4	696.8	658.1	636.2	628.5	588.4	558.8	573.8	538.0	512.5	465.4	424.5	387.5	361.7	366.1	361.5	360.72338
Production Value (Million \$)	7554.4	6521.4	7828.9	9785.0	7045.8	7532.1	5347.9	6604.2	6778.9	8404.3	5542.6	3595.5	7292.5	8044.5	6150.4	8440.9	9815.3
Note 2																	
Production Costs (\$/Bbl)	4.00	3.80	3.70	3.50	3.50	3.31	3.07	2.97	3.09	3.67	4.24	4.57	5.10	5.96	6.44	6.44	6.50
Production Costs (Million \$)	2869.4	2647.8	2435.0	2226.7	2199.9	1947.5	1715.6	1704.1	1662.5	1880.7	1973.2	1982.4	1976.2	2154.4	2356.9	2327.3	2344.7
Note 1																	
State Revenue + Muni Oil Prop (Millions \$)	2225.3	2003.5	2407.1	3077.6	2446.9	2435.5	1658.1	2019.5	2066.5	2446.6	1693.5	1223.1	2097.4	2371.1	1736.8	2227.7	2517.6
Severance Tax	818.7	698.8	1001.6	1284.8	1053.2	1017.6	692.1	793.9	787.2	921.6	577.8	371.1	702.7	703.1	496.3	599.0	652.68558
Avg Economic Limit Factor (ELF)	0.792	0.785	0.938	0.926	0.926	0.927	0.917	0.905	0.883	0.839	0.812	0.742	0.680	0.639	0.593	0.552	0.5244016
Gross Royalty	964.4	854.5	1020.2	1336.7	964.3	1051.5	703.1	858.2	873.5	1032.0	691.3	506.1	1038.4	1134.7	861.7	1278.7	1368.0
Adjustment for Cook Inlet Revenues	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Property Tax State Share	96.2	89.7	89.8	85.0	69.0	66.9	61.5	57.3	56.0	53.6	51.3	48.5	45	45.0	49.7	48.7	48.5
Property Tax Muni Share	258.0	264.5	248.3	256.0	264.8	251.9	253.6	251.7	246.1	240.0	243.0	222.3	218.6	220.2	220.7	220.2	219.49487
Total Income Tax	158.0	166.0	117.2	185.1	165.5	117.6	17.8	128.5	173.7	269.4	200.1	145.1	162.7	338.1	178.4	151.1	299
Income Tax Production	44.7	65.2	17.1	87.6	74.1	34.0	-59.1	57.8	111.1	217.0	156.6	105.1	123.3	297.7	136.7	109.4	257.3
Income Tax TAPS	113.3	100.8	100.1	97.5	91.4	83.6	76.9	70.7	62.6	52.4	43.5	40.0	39.4	40.4	41.7	41.7	41.7
Note 3																	
TAPS tax allowance (Millions \$)	566.7	503.9	500.7	487.4	457.0	418.2	384.7	353.5	312.9	262.1	217.3	200.0	197.1	202.2	208.5	208.5	208.5
TAPS after tax margin	308.2	257.4	303.0	326.1	336.3	320.8	322.0	318.2	309.1	290.1	275.2	254.7	243.2	248.5	256.7	256.7	256.7
TAPS deferred return	558.7	515.1	463.7	419.8	363.5	296.9	245.4	203.7	153.7	81.5	49.5	48.6	50.1	51.1	51.2	51.2	51.2
Note 4																	
Federal Revenue (Millions \$)	1353.9	1092.9	1481.0	1992.3	1237.3	1466.0	1025.7	1315.7	1339.7	1655.0	845.6	310.5	1298.1	1407.6	901.2	1541.5	1914.9
Percentage Federal	22.1%	21.2%	22.2%	22.7%	20.6%	22.1%	22.4%	22.8%	22.7%	23.1%	20.6%	14.7%	22.4%	22.0%	20.9%	23.2%	24.0%
Note 5																	
Company Net Revenue (Millions \$)	2539.3	2053.5	2773.2	3721.7	2318.6	2718.9	1900.7	2440.1	2485.9	3055.7	1572.3	582.8	2411.2	2613.3	1671.8	2860.9	3554.4
Percentage Company	41.5%	39.9%	41.6%	42.3%	38.6%	41.1%	41.5%	42.3%	42.2%	42.7%	38.2%	27.5%	41.5%	40.9%	38.8%	43.2%	44.5%
State Revenue + Muni Property (Millions \$)	2225.3	2003.5	2407.1	3077.6	2446.9	2435.5	1658.1	2019.5	2066.5	2446.6	1693.5	1223.1	2097.4	2371.1	1736.8	2227.7	2517.6
Percentage State & Local	36.4%	38.9%	36.1%	35.0%	40.8%	36.8%	36.2%	35.0%	35.1%	34.2%	41.2%	57.8%	36.1%	37.1%	40.3%	33.6%	31.5%
Total Revenue Shared State, Federal, Company	6118.5	5150.0	6661.3	8791.6	6002.7	6620.5	4584.4	5775.4	5892.2	7157.3	4111.4	2116.4	5806.7	6392.0	4309.9	6630.0	7987.0

Notes:

1. Revenues, Prices, and Production taken from Fall Revenue sources. Sales Price is the average market price on the US West Coast except for prior to FY 2000 which includes Far East and Gulf Coast sales.
2. Production Cost is taken from "How Much is Enough" by Richard Fineberg for FY 1988-FY1996. Dept. of Revenue estimates for FY 1997-FY 2003.
3. TAPS tax, after tax margin, and deferred return allowances from actual filings.
4. Federal Revenue is calculated as 35% of the difference between production value and production cost (including state taxes on production) plus 80% of the TAPS tax allowance. 80% is the fed rate divided by the sum of the fed and state rates. The maximum marginal fed rate is 35%, the state rate is 9.4%.
5. Company net revenue is calculated as production value less production costs less taxes on production plus the TAPS after tax allowance plus deferred return.

ALASKA STATE LEGISLATURE



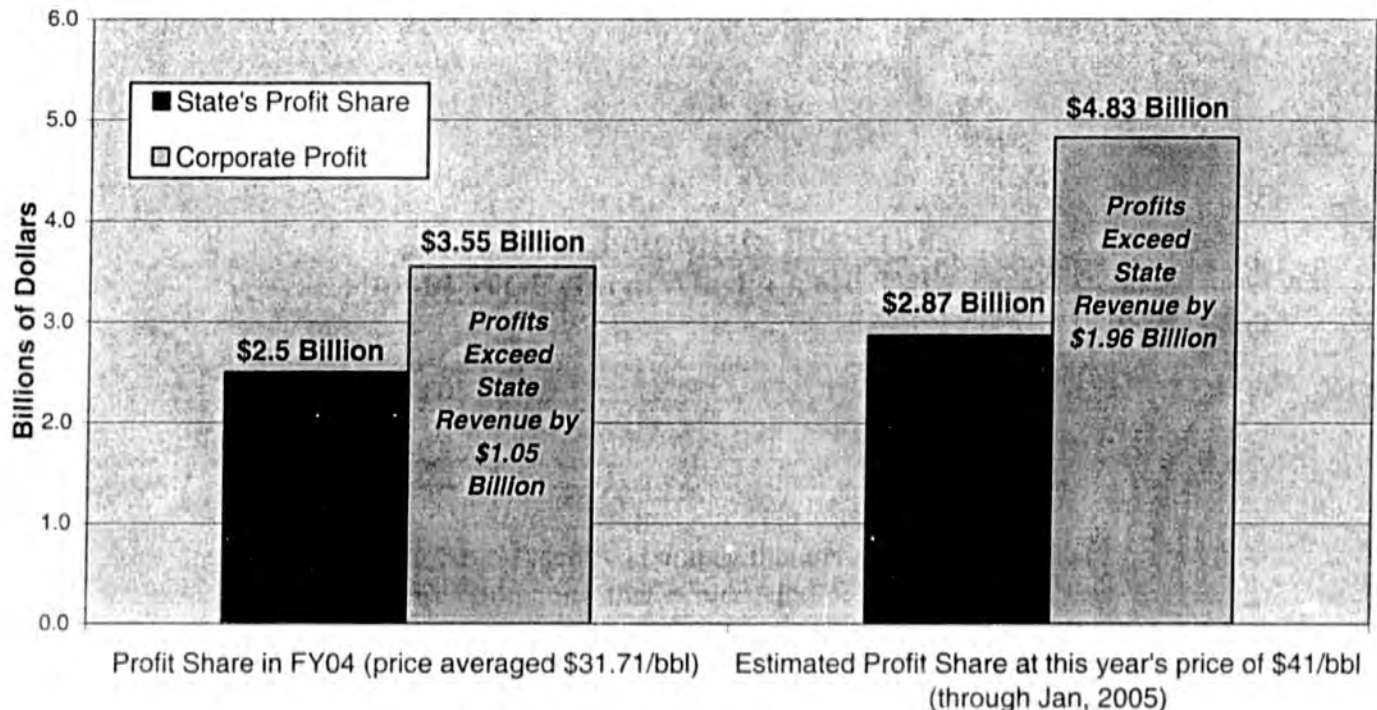
REPRESENTATIVE LES GARA

February 8, 2005

The Alaska Fair Share Bill (HB63): Should We Reform Alaska's Oil Tax Laws?

The Alaska Constitution states that Alaska's natural resources should be managed "for the maximum benefit of the people." *Constitution Article 8, Section 2.* In 2004 the State of Alaska received \$1 billion less in revenue for its North Slope oil than North Slope producers received in net profits. *Source, Ak. Dept. of Revenue*¹. As the price of oil increases, that gap widens considerably, and reaches \$2 billion at the current fiscal year's average price of \$41/barrel. The Alaska Fair Share bill (HB 63 & SB 50) seeks a balance that achieves both fairness to Alaskans, who own the state's oil, and those companies that explore and produce our oil.

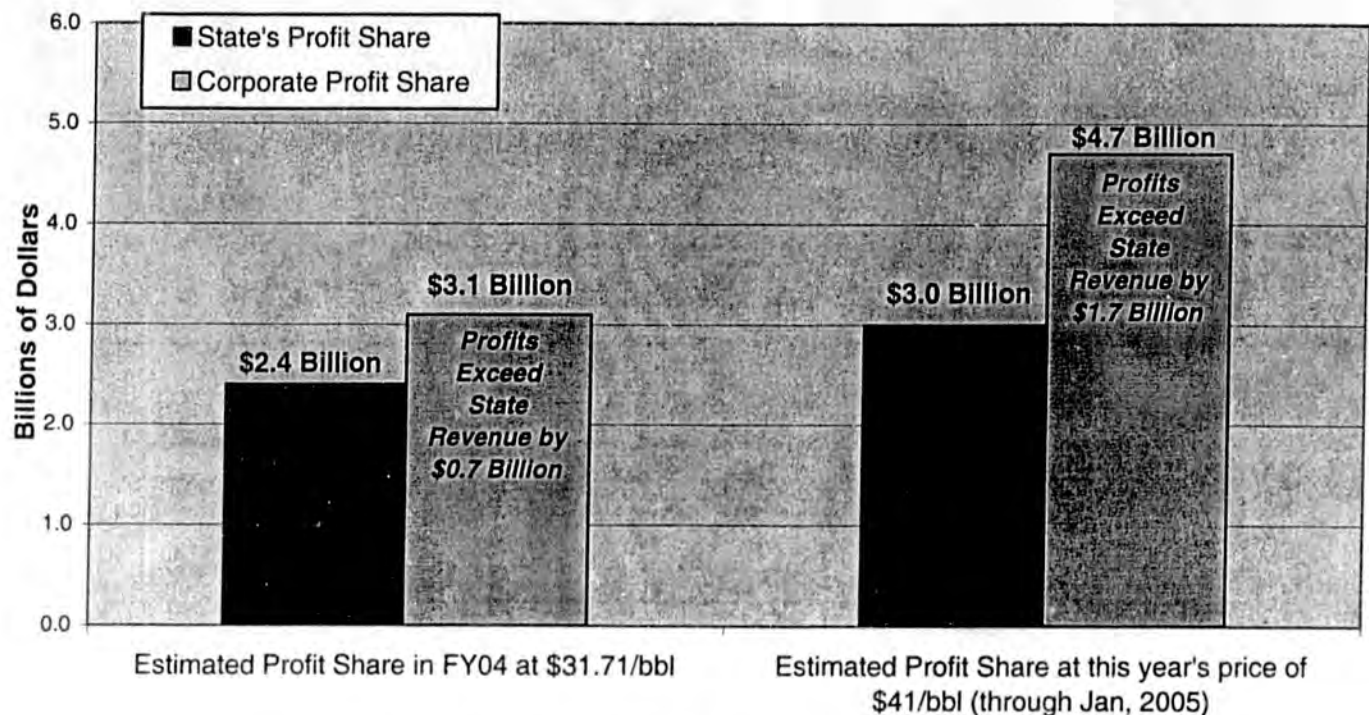
CHART 1: Oil Company vs. State North Slope Oil Revenue Under Current Law



Source: February 2005, Dept. of Revenue Analysis

¹ A February, 2005 Alaska Dept. of Revenue analysis estimates that oil company profits from North Slope production and exploration activities totaled \$3.554 billion last year. State oil tax and royalty revenues for North Slope production totaled roughly \$2.5 billion in FY '04. In early 2004 the Dept. of Revenue issued a similar analysis. The current revenue share analysis is based upon FY '06 projected costs and production volume.

CHART 2: Oil Company Profits v. State Revenue Under Current Law, With Governor's Proposed Prudhoe Bay Aggregation



Source: February 2005, Dept. of Revenue Analysis

Two flaws in Alaska's current oil taxation system have presented themselves in recent years.

One flaw comes from the way Alaska's Economic Limit Factor (ELF) is written. Without a statutory change, Governor Murkowski's recent "Aggregation" proposal can only address a relatively small portion of this problem.

Under the ELF, the production or "severance" tax rate on oil companies has fallen for over a decade, and will continue to fall. That is because under the ELF most new fields are completely or almost completely exempted from Alaska's 15% severance tax. Those fields include both medium sized fields, and some of the nation's largest oil fields.

For example, in FY '06 Kuparuk, the second largest field in North America, is projected to produce 140,000 barrels/day. According to the Department of Revenue, the Production Tax rate at Kuparuk in FY '06 will be less than 1%.

Governor Murkowski's proposal doesn't affect Kuparuk, and leaves a total of 240,000 barrels/day of North Slope oil² subject either no Production Tax rate, or a Production Tax of less than 1%. Every field on the North Slope apart from Prudhoe Bay, Alpine and Northstar will pay a Production Tax of either 0%, or less than 1%. *See Attachment 2.*

² This figure doesn't include heavy oil, which arguably should be taxed at a low rate given its higher cost of production.

A second flaw is that oil companies have arguably received an unfair share of the state's oil wealth at average and high oil prices. As prices increase, the state's relative profit share falls. Conversely, state taxes are arguably too high at very low prices. The imbalance in favor of industry at high prices is much greater than the imbalance in favor of the state at very low prices.

In January, 2005, Governor Murkowski proposed a change in the law that, while significant, has a modest impact on this imbalance. See Chart 2. It will be addressed below.

This portion of the tax structure has not been reviewed in 15 years. Under Alaska's Constitution, our oil belongs to all citizens in common. It is incumbent upon the Legislature to make sure Alaskans receive a fair share for this public resource, and that a fair return is allowed to those companies who have contracted with us to develop and sell it.

HB 63 was calibrated to provide for fair corporate and state returns. The relative corporate profit and state revenue shares produced by HB 63 were designed before Governor Murkowski's aggregation proposal. Some adjustments are arguably in order now that the Governor's proposals have been made. Legislative committee members, with input from state and industry experts and the public, will be able to determine appropriate modifications as the legislative process continues, and the Governor's proposal is finalized.

A Fair Profit Margin for Alaska's Producers

Ultimately, any tax system should provide a fair rate of return both for Alaskans and Alaska's oil producers. The Department of Revenue's estimates show the following.

At an average annual price of \$22/barrel, the Department of Revenue estimates the producer profit margin (net profits divided by gross revenue) for Alaska North Slope production and exploration operations at 27%. That profit margin is 26% if the additional taxes under the Governor's aggregation proposal are added. That profit margin rises to 40% at this fiscal year's average price of \$41/barrel. Again, if the Governor's aggregation proposal is added to the company tax burden, the profit margin falls slightly to 39%.

The U.S. Energy Information Administration, which forecasts long-term oil prices for the U.S. Government, forecasts in its December, 2004, report that oil will average \$52 barrel (\$30/barrel adjusted for inflation in 2004 Dollars) through 2025. At the forecast long-term price of \$30/barrel, the company profit margin on North Slope operations is 35%. It falls to 34% when the additional taxes paid under the Governor's aggregation proposal are added.

S&P 500 companies, when profitable, commonly earn rates of return in the 5% - 20% range. Between \$22/bbl and \$41/bbl, the profit margin for producing and exploring on the North Slope ranges from 26% to 40%.

As prices decrease, the rate of return for Alaska producers falls. According to AOGA, "it costs \$12.82 per barrel to find, produce and transport oil from the North Slope. . . ." According to AOGA, this is considered "a high end estimate." *Juneau Empire*, 12/13/04. The Department of Revenue estimates that this figure is closer to \$12/bbl. At \$12/barrel, the state still receives roughly \$870 million in total revenues. Roughly \$200 million of this amount is then transferred to local governments under state property tax laws.

Analysis Of Impacts and Current Shortfalls

Alaska raises oil revenue under 4 different provisions. In order of magnitude, we raise revenue from oil under our royalty laws, our severance tax, our corporate profits tax and our property tax. In 2003 (FY '04) the State received:

- \$1.06 billion in royalties;
 - \$652 million in severance taxes;
 - \$299 million in corporate taxes; and,
 - \$47 million in property taxes.
- Total: \$2.054 billion.

Fall 2004 DOR Revenue Sources Book

House Bill 63 would grant the state a more equitable share of oil revenue at average and higher prices. According to the Department of Revenue, if passed for FY '06, HB 63 would raise:

- an additional \$90 million at a \$22/barrel average price;
- an additional \$400 million at \$30/barrel; and,
- an additional \$1 billion at \$41/barrel.

2005 Dept. of Revenue Estimates.

The Current ELF

Because of the way the ELF works, state oil revenue is projected to steadily fall over the next decade, assuming an average price of \$22/barrel, and even assuming stable levels of production. The most recent DOR forecast is for a slight decline in production over the next decade, which will contribute to an even greater decline in severance tax revenue. Of the most recent 14 fields that have come on line since 1989, 11 of them pay a severance tax of 0% or less than 1%. In addition, starting this coming year, Kuparuk will be added to the list of fields that pay less than a 1% Production tax.

The ELF was enacted in part because Prudhoe Bay was declining in production by the late 1980's. Proponents argued economies of scale justified a lower tax rate for older, declining fields, and for smaller fields as well. The ELF, which ranges from 0 to 1.0 determines how much of the state's 15% severance tax a field operator must pay.

To determine the severance tax for a particular field, one multiplies the severance tax rate (15%) by the ELF. Thus, a field with an ELF of "0" pays a severance tax of $0 \times 15\%$, or 0%. A field with a .5 ELF pays a severance tax of $.5 \times 15\%$, or 7.5%. A field with a 1.0 ELF pays a severance tax of $1.0 \times 15\%$, or 15%.

A field's ELF is based upon its size and productivity. As production at Prudhoe Bay declines, its ELF has fallen to roughly .875, so that it pays a roughly 13% severance tax. No field has a 1.0 ELF anymore.

The addition of newer, smaller fields with ELF's that give them near or complete exemptions from the state's severance tax, combined with less production at high ELF fields like

Prudhoe Bay, are the major reasons state oil revenue is projected to continue to decline in future years.

Governor Murkowski's Aggregation Plan

In January, 2005, Governor Murkowski proposed to "aggregate" the Prudhoe Bay satellite fields. As a result, the Prudhoe Bay satellite fields, which paid almost none of the state's 15% Production Tax, will now pay the rate paid at Prudhoe Bay – roughly 13%. Also, by adding these fields to the Prudhoe Bay unit, Prudhoe Bay itself will be considered a larger field for ELF purposes, and its Production Tax rate will increase marginally from 12% to 13%. *Dept. of Revenue.*

While this aggregation proposal significantly changes the tax rate for Prudhoe Bay's satellite fields, it doesn't affect most of the fields in this state that pay less than a 1% severance tax under current law. Given that, in January the Governor agreed with the sponsors of this bill that the Legislature should look at statutory changes.

Even after Governor Murkowski's proposal is taken into account, roughly half the oil produced in this state outside of Prudhoe Bay will come from fields that pay either no Production Tax, or less than a 1% Production Tax.

That is, next fiscal year the Department of Revenue estimates roughly 240,000 barrels a day, or 87 million barrels a year will come from North Slope fields that pay no Production Tax, or less than a 1% tax. They include:

- Kuparuk: produces 51 million bbl/yr., and will be charged a 0.8% Production Tax;
- Tarn: produces 8 million bbl/yr, and will be charged a 0% Production Tax;
- Endicott: produces 8 million bbl/yr., and will be charged a 0% Production Tax.

According to a 2004 U.S. Government ranking of field sizes, Endicott was the nation's 29th largest oil field. Kuparuk remains the nation's 2nd largest field behind Prudhoe Bay.

Apart from the incidental effect on the Prudhoe Bay Production Tax rate (increased from 12% to 13%), the Governor's proposal affects fields that produce 36 million barrels/yr., or roughly 100,000 barrels/day. The Production Tax on those fields, many of which paid a 0% Production Tax, has been increased to 13%.

Still, most of the fields that would have effectively escaped Alaska's Production Tax under the ELF will continue to do so under the Governor's proposal.

Attachment 2, based on data from the Dept. of Revenue, lists the FY '06 Production Tax rate, and daily production volume, for the North Slope fields that still effectively escape the state's Production Tax.

The Alaska Fair Share Bill:

The Alaska Fair Share bill modifies the ELF in a way that reflects that oil production is more profitable at high prices, and less profitable at low prices. It also reflects the point made by

the Governor in presenting his aggregation plan. Today most fields that pay no production tax are less expensive to produce than was assumed in 1989 when the ELF was adopted. Satellite field production on the North Slope allows fields like Tarn to pipe their oil to existing processing facilities on neighboring fields. The economy of scale of shared facilities enjoyed by the Prudhoe Bay, Kuparuk and Alpine satellite fields is not accounted for under the ELF, which discounts all satellite fields to a 0% or near 0% Production Tax Rate.

HB 63 allows the state to share more equally at high prices, and allows tax relief at low prices.

The bill also recognizes that while some tax break might be justified depending on the size of a field, a complete exemption from Alaska's 15% severance tax doubtfully serves the state's best interests. To encourage investment in truly marginal oil fields, companies can avoid any tax burden imposed by HB 63 by demonstrating the provisions of this bill would make production of a new or aging field "uneconomic."

Here are the major components of the Alaska Fair Share bill.

1. Establish a Minimum 5% Severance Tax. Eleven of the last 14 fields that have come on line since 1989 pay none, or almost none of the state's 15% severance tax. This proposal establishes a minimum severance tax at 5%. This is more modest than so-called "Shelf the ELF" proposals, which would apply the full 15% severance tax to all fields.

2. Adjust Severance Tax Amount Upwards above \$20/barrel & Downwards Below \$16/barrel. This provision will allow the state's share at average and high prices to rise and fall as oil prices rise and fall. Under this proposal, the state would recover about \$500 million more than it does today at \$32/barrel.

The Formula: Above \$20/barrel, the proposal would multiply the severance tax by this formula: *The Price Per Barrel / 20*. Thus, nothing would change at \$20/barrel because the severance tax would be multiplied by 20/20, or by 1. But at \$30/barrel, the severance tax would be multiplied by 30/20, or 1.5. Thus, at \$30, a field with a 10% severance tax would pay an adjusted 15% severance tax (1.5 X 10%). This still allows oil company income to increase significantly at higher prices. This price factor will never increase the severance tax to more than 25%, thereby also protecting the interest of oil companies in high profits at high prices.

Below \$16/barrel, the severance tax is reduced by multiplying it by this formula: *The Price/16*. Thus, for example, at \$12/barrel, the severance tax would be multiplied by 12/16, and thereby waiving twenty-five percent of the production tax.

3. Tax Relief To Encourage Additional Exploration and Production:

- Deferral Of Severance Taxes Below \$10/barrel. Below \$10/barrel, half the severance tax would be waived and the other half may be deferred. Severance tax payments may be deferred at this price until prices exceed \$16/barrel.
- Promoting Profitability – Severance Tax Relief: Currently Alaska law allows companies a reduction in their Royalty if they can demonstrate to the Department of Revenue that a tax break is needed to make a future or aging field economic to produce. The Alaska Fair Share bill adds that companies can similarly apply for a

reduction or elimination of any additional taxes imposed by its provisions by showing that relief is needed to make production of a field economic and profitable.

4. Heavy Oil Not Affected; Bill Applies Only To North Slope Oil.

HB 63 exempts "heavy oil" from any of the enhanced taxes to encourage development of that resource. Heavy oil entails a more expensive and intensive extraction process. It also exempts Cook Inlet, and other non-North Slope oil produces from smaller, more expensive fields.

Hearings may show some of these factors should be shifted one way or the other, or that, for example, perhaps some minimum tax might be appropriate for heavy oil.

Conclusion

Many Alaskans have called for a re-examination of Alaska's oil tax rules, and the exemptions they provide. They've included Former Governors Jay Hammond and Wally Hickel, Former Dept. of Revenue Deputy Commissioner and Assistant Attorney General Deborah Vogt, Former Reps. Ray Metcalfe, and John Torgerson, and oil policy consultant Richard Fineberg, among many others. At a time of budget shortfalls, it is important to make sure the state does not grant large tax exemptions to those who don't need them.

HB 63 seeks a balance between fairness to the state and those companies that are willing to explore and produce in Alaska. At a time when the state is having trouble funding our schools, protecting our neighborhoods and our seniors, and maintaining our roads, state government cannot afford to maintain outdated tax exemptions. Reform of the ELF is needed now.

ATTACHMENT 1a:**Corporate and State Profit Share at Various Annual Average Prices,
Current Law Without Impact By Governor's Aggregation Proposal**

Sales Price (\$/Bbl)	\$15.00	\$22.00	\$30.00	\$41.00	\$50.00
Company Gross Revenue (Million \$)	3266.7	5648.0	8369.4	12111.4	15173.1
Production & Exploration Costs (\$/bbl)	6.70	6.70	6.70	6.70	6.70
Production Costs (Million \$)	2211.2	2211.2	2211.2	2211.2	2211.2
Company Net Profit (Millions \$)	253.4	1487.6	2942.4	4837.6	6424.5
State Revenue + Muni Share Oil Property (Millions \$)	1074.9	1557.4	2108.8	2867.0	3487.3

Source: February, 2005, Department of Revenue Estimates

ATTACHMENT 1b:**Corporate and State Profit Share at Various Annual Average Prices,
Current Law, with Governor's Proposed Prudhoe Bay Aggregation**

Sales Price (\$/Bbl)	\$15.00	\$22.00	\$30.00	\$41.00	\$50.00
Company Gross Revenue (Million \$)	3266.7	5648.0	8369.4	12111.4	15173.1
Production & Exploration Costs (\$/bbl)	6.70	6.70	6.70	6.70	6.70
Production Costs (Million \$)	2211.2	2211.2	2211.2	2211.2	2211.2
Company Net Profit (Millions \$)	220.5	1431.8	2860.4	4719.6	6277.0
State Revenue + Muni Share Oil Property (Millions \$)	1125.4	1643.2	2234.9	3048.6	3714.3

Source: February, 2005, Department of Revenue Estimates

ATTACHMENT 2: Projected FY '06 Production Tax and Production Volume for Certain North Slope Oil Fields

Field	Producing Since	Location of Processing Facilities	Annual Oil bbl	Production Tax in FY '06	Production Tax Rate with Governor's Aggregation Proposal
MIDNIGHT SUN	1998	Prudhoe Bay Unit	1,095,000	0.000	13.125
POLARIS (heavy oil)	1999	Prudhoe Bay Unit	1,460,000	0.000	13.125
ORION (heavy oil)	2002	Prudhoe Bay Unit	5,475,000	0.000	13.125
AURORA	2000	Prudhoe Bay Unit	4,015,000	0.000	13.125
WEST SAK (heavy oil)	1997	Kuparuk River Unit	10,950,000	0.075	0.075
TABASCO (heavy oil)	1998	Kuparuk River Unit	1,460,000	0.000	0.000
TARN	1998	Kuparuk River Unit	8,030,000	0.000	0.000
MELTWATER	2001	Kuparuk River Unit	4,015,000	0.000	0.000
KUPARUK	1981	Kuparuk River Unit	51,100,000	0.810	0.810
MILNE POINT	1985-87 and 1989	Milne Point Unit	9,490,000	0.000	0.000
SCHRADER BLUFF (heavy oil)	1991	Milne Point Unit	9,125,000	0.000	0.000
ENDICOTT	1987	Endicott	8,395,000	0.000	0.000
EIDER	1998	Endicott	0	0.000	0.000
LISBURNE	1987	Lisburne Prod. Center	3,650,000	0.000	0.000
NIAKUK	1994	Lisburne Prod. Center	2,920,000	0.000	0.000

Source: January, 2005, Department of Revenue Estimates

October 27, 2004

Surging Oil Prices Lift BP's Quarterly Profit 43%

By ALAN COWELL

LONDON, Oct. 26 - After months of soaring crude oil prices, BP, the world's second-biggest publicly traded oil company, reported a 43 percent rise in third-quarter profit on Tuesday and forecast that prices would stay above \$30 a barrel, and possibly higher, for years to come.

BP is the first of the oil giants to report quarterly results since oil hit record highs in excess of \$55 a barrel. While its income grew, however, the company increased its estimate of its spending next year on major capital projects like oil rigs by about \$1 billion, to \$14 billion, raising some doubts among analysts about its ability to please investors with continued high levels of share buybacks and dividends. The company's stock retreated 1.2 percent, to 531 pence.

Lord Browne, BP's chief executive, told reporters in London that he believed that a combination of high demand for oil, particularly from China, and a reduction in spare capacity among oil producers had pushed prices to record highs.

"It seems that, on the basis of the recent track record and the supply-demand balance, oil prices have a support level of \$30 per barrel for at least the medium term," Lord Browne said, indicating that his forecast was for the next four years.

"Prices could spike above this level if demand strength outpaces the rate at which additional production capacity comes on stream each year," he said.

At the same time, though, he took issue with assertions that global oil supplies are running out. "I think it is not helpful for the world to believe that we are running out of oil, which we are not," he said.

Lord Browne was speaking after BP announced that its pro forma profit rose to \$3.94 billion in the third quarter from \$2.76 billion in the period a year ago. What it calls its replacement-cost profit rose to \$3.46 billion in the quarter from \$2.26 billion a year ago. Sales increased one-quarter, to \$73.8 billion, from \$59 billion, the company said.

Some analysts argued that the profits should have been much higher in light of the surge in oil prices, which have risen almost 70 percent this year.

But the company acknowledged that capital expenditure, now expected to be in the region of \$14 billion this year and next, was higher than previously forecast.

"What they have gained on oil prices has been offset by expenditure," said Richard Griffith, an analyst with the brokerage firm Williams de Broë, which rates BP stock a buy.

"It is pointing to what you might expect in two, three, four years' time when this investment is

producing results," Mr. Griffith said.

BP executives said the increase in capital spending was caused by a variety of factors, including higher prices for steel used in building oil industry equipment and a weak dollar.

But the company said its ability to buy back shares and pay dividends would be maintained by continuing to use a nominal price of \$20 a barrel to calculate "the balance between the amount of cash used for investment and that returned to our shareholders."

Lord Browne said the company was on track to achieve three targets it had set for shareholders, including increased dividends and "to distribute to shareholders 100 percent of all free cash flows in excess of investment and dividend needs, generally when the price of oil is above \$20 per barrel."

BP said exceptional costs grew by some \$400 million in the third quarter, partly as a result of a fire at an oil rig in Egypt and production shutdowns caused by Hurricane Ivan at BP installations in the Gulf of Mexico.

Some analysts said those problems could prevent the company from reaching its production target of 4 million barrels of oil and gas a day. But Lord Browne rejected those suggestions, saying he still estimated that the company would meet its 2004 production target. The company said third-quarter production was just more than 3.9 million barrels of oil and gas a day - 11.5 percent higher than a year ago.

That figure reflected the rapidly rising production at new Russian fields. BP said its share of oil and gas from the TNK-BP joint venture in Russia totaled 945,000 barrels a day as production there rose by 14 percent.

Lord Browne was asked what BP planned in Iraq. He indicated that his company is holding off seeking major business until security improves and the Iraqi authorities decide how they wish to develop the country's oil industry.

"We recruit people who are executives," he said. "They are not recruited as soldiers and therefore do not expect to go into places as difficult as Iraq at this time."

"The government of Iraq must decide what it wants to do" with its oil businesses, Lord Browne said. It is not as clear "as night follows day that foreign companies need to be involved," he said. "These decisions have yet to be made."



BP to buy back shares with free cash flow when oil price exceeds \$20 a barrel

Release date: 29 March 2004

BP said today that, barring unexpected developments – or acquisitions it does not currently foresee – it expects to be able to deliver significant extra cash to its shareholders over the next three years and at the same time strongly grow production and long-term returns.

Chief executive Lord Browne said that a \$20 oil price would allow the company to meet its capital requirements and pay a progressive dividend, and that all the free cash generated when the oil price is above that level would be returned to shareholders through buybacks.

Confirming that BP had already bought back some 155 million shares for \$1.25 billion in the first quarter of 2004 and has today made special arrangements to continue repurchases during a 'close' period, Browne said: "There appears, at present, to be overwhelmingly more chance of the oil price being above \$20 a barrel for the next few years, than not."

Previewing a strategy presentation to investors and analysts in London, Browne said that as well as increasing dividends in line with improvements in underlying results, BP intends "to distribute 100 per cent of all excess free cash flow to our shareholders, as part of our determination to provide them with additional returns through disciplined cash flow management."

BP has increased its dividends by 6.8 per cent a year in dollar terms since 1999. It bought back some 775 million of its shares at a cost of \$6 billion between 2000 and end-2003, shrinking its equity base by 2.5 per cent.

Laying out the Group's strategy to end-2006, Browne said BP was in transition from a period of acquisition and consolidation to a phase of strong organic growth. It intends over the next three years to focus on performance, particularly cash returns, while investing at a rate appropriate for long-term growth.

He said capital spending is expected to moderate from the "relatively high levels" of 2002 and 2003 to some \$13.5 billion this year, \$12–\$12.5 billion in 2005 and 2006 and \$12–\$13 billion beyond 2007, with the company maintaining its five-year rolling average finding and development cost for oil and gas at between \$4 and \$5 a barrel.

BP's production is expected to grow by five per cent a year between 2003 and 2008, or some seven per cent if the contribution of TNK-BP, its Russian joint venture, is included. TNK-BP's output alone is set to climb by 12 per cent this year and BP estimates it will rise a further five per cent annually to 2007.

BP's oil and gas reserves currently stand at 18.3 billion barrels of oil and gas equivalent, including its share of TNK-BP. This compares with a pre-merger figure of 8.6 billion barrels at end-1997 and includes replacing the Group's annual production at an average rate of 153 per cent over the last five years.

In addition, the company has estimated unproved resources of 24 billion barrels, excluding Russia which could contribute a further 13 billion net barrels.

Browne said BP's positive view of Russia remains unchanged. "The company's

investment is attractive and self-financing in the short term but with significant longer term strategic importance in a region where yet-to-find estimates for the industry exceed 300 billion barrels."

At an oil price of \$20 a barrel BP anticipates TNK-BP can pay dividends equal to 40 per cent of its net income at the same time as funding its forward investment programme. "Our estimate is that replacement operating profit, in a \$20-a-barrel environment, divided by our average capital employed in TNK-BP, will be around 25 per cent on a steady-state basis."

Browne said all the ongoing developments in the company's five other new profit centres around the world are on track to meet their first-production dates. The Atlas methanol project in Trinidad, the Kizomba A field in Angola, Holstein in the Gulf of Mexico, and the fourth LNG train in Australia's North West Shelf, are due on stream this year, as is In Salah gas in Algeria.

Next year will see start-up of the Mud Dog and Thunderhorse fields in the deepwater Gulf of Mexico, the Azeri field in Azerbaijan, the fourth LNG train in Trinidad and the In Amenas project in Algeria.

As these and subsequent new upstream projects begin producing, BP expects to see underlying pre-tax cash returns rise by two per cent between 2003 and 2006, and an increase in operating capital employed of some 15 per cent during the same period.

Browne said BP had invested significantly in its customer-facing businesses – refining and marketing, petrochemicals and gas, power and renewables – essentially pumping back all the operating cash flow they had generated in recent years. The average pre-tax cash return from these businesses combined was some 20 per cent in 2001 to 2003.

"During their building, these segments produced no surplus cash flow to the Group and BP's intention now is to target them to produce underlying free cash flow in proportion to their capital employed – at least when compared with the potential of the upstream business at around \$20 oil price," Browne said.

In petrochemicals, with cash returns of only 10 per cent, BP will invest more in 'advantaged' products – paraxylene, PTA and acetyls – which account for some \$5 billion of operating capital employed. These have higher market shares, more proprietary technology, greater exposure to high-growth Asian markets and better returns.

BP said capital spending in the olefins and derivatives business will be held to very low levels and "all options examined for further improvement in this area"

Browne said that, while the oil price remains impossible to predict, the 20-year average for Brent has been some \$20 a barrel in nominal terms. "BP's view is that it is quite reasonable to use \$20 as a base case for balancing cash flows over the next couple of years.

"Over time, as production rises and capital spending declines, we expect the oil price at which cash flows balance to fall below \$20 a barrel."

The company manages its gearing in the range of 25-30 per cent, allowing itself headroom to 35 per cent if the oil price falls to \$16 a barrel.

Browne concluded: "As we look at how the company has developed, we believe BP already holds the assets, market positions and capability to enable us to go forward, expanding our capital base while maintaining underlying cash returns at broadly the same average level as in 2001 to 2003, thereby growing the cash flow generated.

"We expect to do this without affecting the financial risk profile of the Group so that we have sufficient financial capability to cover a contingency if oil prices dropped to \$16 a barrel, maintain a balance between sources and uses of funds if oil prices are at \$20 a barrel, and to generate cash flows in excess of the financial needs for long-term growth if oil prices are above this level.

"So, we have three targets

- First, to underpin growth by a focus on performance, particularly on cash returns, investing at a rate appropriate for long-term growth
- Second, to maintain a progressive dividend policy
- And third, to distribute to shareholders 100 per cent of all free cash flow in excess of operating investment and dividend needs, generally when the price of oil is above \$20 a barrel.

"Back in 1998 when we announced the merger with Amoco, we were only partly conscious of the chain of events we were setting in train. It is hard to predict the consequence of any particular step.

"We feel we are now at a similar point of change. The logic of restructuring is not just about making companies bigger. It is about using size and scale to do what was previously unachievable.

"We believe we're beginning to open that door, and beginning to be able to deliver a level of return – consistently, and sustainably year by year – which will improve on anything we've seen so far."

[▲ back to](#)

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COMPASS: Points of view from the community

Reform can fix flawed oil tax system

By REP. LES GARA
and SEN. HOLLIS FRENCH

What would you say if the state exempted almost every new oil field, even some of the largest ones in the country, from Alaska's 15 percent oil production tax? And what if you knew the state was handing out this tax exemption, not just at \$12 per barrel when oil profits are skinny, but at \$30, \$40 and \$50 per barrel when oil production is wildly profitable?

For the past year, we've worked to educate our colleagues and the public that it's time to reform some very outdated tax exemptions. By objective measures, these exemptions threaten to cost the state more than \$1 billion this year.

Alaska's oil tax system greatly short-changes Alaskans at average and high prices, when oil production generates billions in windfall revenue for oil companies. On the flip side, at very low prices when oil production is less profitable the state modestly overtaxes industry. The threat of high taxes at times of low prices can deter investment on the North Slope. Our Alaska Fair Share Bill (House Bill 63 and Senate Bill 50), which we filed last year and again last week, fixes both problems.

When we began our efforts a year ago, Gov. Frank Murkowski and some legislative leaders responded that Alaska's current tax exemptions were fine as is. We continued our push, and to the governor's credit, he's changed course. Last week he proposed a solution for some of the many profitable fields that are currently exempted, or largely exempted from Alaska's 15 percent oil production tax.

We applaud the governor for taking this step and for joining us in saying that the job won't be completed until the Legislature takes a close look at the many profitable fields that will continue to pay none or almost none of the state's production tax.



Gara

Today, roughly 60 million barrels of oil a year leave the North Slope with a complete or nearly complete exemption from the state's 15 percent production tax. Even under the governor's proposal, which was limited because of what he can do without a statutory change, 50 million barrels per year will still leave the state paying no or almost no production tax. We need action by the Legislature to produce a fix to this problem.

Looking at a few numbers helps determine whether the state is receiving a fair share for our oil.

One measure is to compare the revenue the state and industry receive from Alaska oil. According to estimates from the Department of Revenue, last year industry received roughly \$1 billion more in pure profits from North Slope operations than the state received in total oil-related taxes and royalties.

In just the first six months of this fiscal year (the state fiscal year begins July 1) oil company profits have dwarfed state revenue by more than \$1 billion. Oil has averaged \$41 per barrel in this period. As the price of oil increases, the gap grows by leaps and bounds. If oil averages \$41 per barrel for the remainder of the fiscal year, current tax exemptions will send roughly \$2.2 billion more in profits to North Slope producers than Alaska will receive for its

Roughly 60 million barrels of oil a year leave the North Slope with a complete or nearly complete exemption from the state's 15 percent production tax.



French

tax and royalty share. Early estimates indicate the governor's proposal may raise \$150 million next year, still leaving a very significant gap between oil industry profits and state revenue.

Here's another measure. On Wall Street, a 10 percent profit rate is considered healthy for a large company. A 2004 Department of Revenue estimate tells us that at \$40 per barrel, North Slope producers generate a 40 percent profit margin on their operations. At \$30 per barrel, which the federal government recently predicted would be the long-term price through 2025, industry earns 35 percent in profits. If oil sinks to \$20 per barrel, that profit rate remains a healthy 25 percent. That's why BP announced that whenever oil rises above \$20 per barrel it will buy back its stock and return its excess windfall profits to shareholders.

With interest by legislators, we can produce a fair return for Alaskans and a fair investment climate for producers. With \$1 billion ready to leave the state in excessive tax exemptions this year, this isn't a problem we should ignore.

■ Rep. Les Gara and Sen. Hollis French are Anchorage Democrats, and they are co-sponsors of the Alaska Fair Share bill (HB 63 and SB 50). For more information, contact them at representative_les_gara@legis.state.ak.us and senator_hollis_french@legis.state.ak.us.

DISTRIBUTED BY REP. LES GARA

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OPINION

Anchorage Daily News (AK)

August 1, 2004

Author: Staff

Estimated printed pages: 4**Money on the table**

With oil taxes, Alaska should share the gain, share the pain

"Conoco Phillips' profit swells"

-- Houston Chronicle

"Exxon Mobil profit surges"

-- Toronto Star

Alaska's major oil producers are riding record-high prices to produce banner profits. Good for their shareholders. While high prices have helped the state treasury too, it's fair to ask if the state's tax and royalty structure leaves too much **money** on the table in boom times like these.

In the fiscal year that just ended, the industry collected \$1.05 billion more in profit than the entire amount the state received from oil taxes and royalties. That's according to an estimate by the Murkowski administration's Department of Revenue. Almost all of the state's oil production and industry profits come from state-owned tracts on the North Slope.

The state could have collected significantly more money. The state gives automatic tax breaks to oil fields that don't require them, especially when prices sit at record levels.

On paper, the state charges a nominal tax rate of 15 percent on all oil pumped out of the ground. That tax rate is cut in half by a tax break called the Economic Limit Factor.

The ELF is meant to lessen the burden on smaller, higher-cost fields that might otherwise yield marginal profits. It takes no account, though, of how profits change with the ups and downs of oil prices. Eleven of 14 fields brought on line since 1989 pay no severance tax at all, according to state Rep. Les Gara.

Alaska is paying a steep price these days for this clumsily constructed tax break. Rep. Gara estimates the state would collect at least \$75 million more by capping the ELF so the severance tax rate doesn't drop below 5 percent. Those savings are based on more normal prices of \$22 a barrel for oil. The extra money would be far greater at today's record prices.

Alaska shouldn't just skim more cream in the good times. The state also should share the pain when prices fall. Instead, the state charges the same severance tax rate even when low prices cause industry profits to wither.

Instead, Rep. Gara suggests a sliding scale tax rate. Above \$20 a barrel, the severance tax percentage would go up. Below \$16 a barrel, the rate would go down. Below \$10 a barrel, the state would defer or waive severance taxes. To encourage development of heavy oil, which is abundant but technically complicated and costly to produce, he'd

exempt it from any enhanced severance taxes.

Rep. Gara's proposal would make Alaska's oil tax system more progressive and more rational. It would let the state share more of the unexpected gains from high prices and take on more of the burden when prices are low. That kind of risk sharing should give the industry more certainty about the range of possible returns. That in turn should encourage more investment.

Gov. Frank Murkowski has suggested he's open to discussing how to restructure the state's severance tax. It's unclear whether he'll make good on that rhetoric, though. It's also unclear whether fellow Republican legislators will brook any serious discussion of oil tax reform, since they often rely heavily on oil industry campaign contributions.

But the basic point raised by reformers is correct. Alaska can and should make its oil tax system fairer by trimming today's generous breaks and giving the industry more protection against low prices.

BOTTOM LINE: Alaska could be smarter and fairer with the state's oil production tax. Rep. Les Gara's reform proposal is worth a good look.

WHO'S UP / WHO'S DOWN

UP - Fort Richardson: Army plans another 2,000 soldiers at Anchorage post. Stryker up the band!

DOWN - Lyda Green: Valley senator's dream of large Mat-Su prison goes on hold with veto by the gov. Payback time for giving Frank the fiscal freeze?

UP - Ben Stevens: Gentle Ben visits the Valley, sez his "Valley trash" remarks were the "wrong words," gets a civil reception. Did he buy a T-shirt?

UP - Wasillans: Mayor and Chamber exec offer an olive branch to Gentle Ben. Classy move.

DOWN - Anchorage-area hikers: Vandals and thieves plunder vehicles at local trail heads. Forget rogue bears; let's have Fish and Game dart a few rogue humans.

DOWN - The Human Cannonball: Circus projectile Luis Munoz gets hammered when cannon fails to launch him. Didn't his mother tell him not to play with guns?

UP - Agrium: Arbitration award gives struggling Kenai fertilizer/ammonia plant \$38 million and a little longer supply of cheap natural gas. Every little bit helps.

DOWN - Young Drivers: New provisional license says youths need more supervised time behind the wheel before restrictions are loosened. Awww, Dad, why can't I just drive alone?

DOWN - Deadbeat Drivers: The city's going after unpaid fines and fees. Pony up!

EVEN - Juneau state workers: Lightning slashes through State Office Building, but nobody gets hurt. Hey, this is supposed to be a rainforest. What's next? Tornadoes?

Caption:

Photo 1: Edit Arrows_080104.jpg

Photo 2: WhoUpDownlogo_080104.tif

Photo 3: 1edit pg1_8.1_080104.tif

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Page: J2

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OUR VIEW

Re-examine oil taxes

*State should consider changes to
share the windfalls, share the risk*

Even if Alaska lawmakers weren't struggling to balance the state's ledgers, this would be a good time to reconsider taxes on oil production. Almost all oil produced in Alaska comes from leases owned by the state on behalf of all Alaskans. Alaskans are entitled to ask if we are getting a full and fair share of the income those publicly owned resources produce. Today's long run of \$30-plus per barrel oil has pointed out how backwards the state's oil tax structure is.

The basic problem is this: Alaska's oil production tax takes a big bite of the meager margins when prices are low and takes a small share of the windfall when prices are high. That's backwards. The state should share the downside risk, taking relatively less when prices are low, and also share the upside gains, taking relatively more when prices stay high. The state's current production tax is regressive: It takes a bigger share of lower profits and a smaller share of bigger profits.

A more progressive tax rate should make Alaska a less risky place for oil industry investment — and the Legislature now should take a hard look at whether that's true.

The state does make one effort to soften the bite of the production tax, also known as the severance tax. Oil fields in Alaska face a nominal severance tax rate of 15 percent. Older fields with declining production, smaller fields and fields where the wells don't produce great gushers of oil get a significant break through the Economic Limit Factor, or ELF. In fact, thanks to the ELF, most of the new fields brought on line in the past few years pay little or no severance tax.

Only Prudhoe Bay pays anything close to the 15 percent rate. Kuparuk, the second largest oil field in the nation, pays a 2 percent severance tax. With the ELF, the average severance tax on all fields is 7.6 percent, barely half the nominal

rate.

Eliminating the ELF outright would be a mistake. It makes sense to scale the tax rate to the size of a field and the productivity of each well. Developing a new field in the Arctic is costly, especially if it requires a lot of wells, each pumping a modest amount of oil. As fields age, production goes down and operating costs go up. The ELF helps counter those economic realities.

But a zero tax rate is too generous. Even the smaller fields should contribute something. There ought to be a floor to the ELF, perhaps 5 percent, as Rep. Les Gara and some other Democrats have suggested.

The ELF has a second flaw: It is a one-way ratchet. It provides a significant break for a field that is expected to be less profitable. It makes no adjustment, though, when unexpectedly high prices produce unexpectedly high profits. The ELF deals only with the cost side of the equation; it leaves out the revenue side.

A field's profitability varies greatly with the price of oil. Even if the ELF were revised, the state should explore ways to take less when prices drop below a certain range and share in the windfall when prices jump higher.

Adjusting rates to variable economic conditions is not a radical concept. Millions of Americans have adjustable-rate mortgages, for example. Borrowers share the good fortune when interest rates are low and share the burden with lenders when interest rates rise.

A similar shared-risk principle appeared in discussions about tax breaks for the Alaska gas line to the Lower 48. Producers wanted protection against the downside risk facing the multibillion-dollar project. They wanted a tax credit that would be triggered by unusually low natural gas prices. In return, the federal treasury would get money back if gas prices jumped above a certain level.

In revisiting Alaska's oil taxes, the point is not to grab easy money as state budgets get tighter and tighter. The point is not to continue the free ride Alaskans have enjoyed for two decades, thanks to oil money. The point is not whether Alaskans can find one last way to avoid a state sales or income tax.

The point of revisiting oil taxes is to find out whether those taxes make economic sense. The point is to find out whether Alaskans are getting the appropriate return on our oil. With today's astronomical oil prices, there's some reason to believe the answer is no to both questions. That's why restructuring oil taxes merits thorough and vigorous discussion in this year's Legislature. A more progressive oil tax structure might make sense for both the industry and Alaska.

■ BOTTOM LINE: Fiscal squeeze or not, lawmakers should revisit Alaska's oil production taxes.

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Print Page

Close Window

Out with ELF; give Alaska a fair share

COMPASS: POINTS OF VIEW FROM THE COMMUNITY

By RICHARD SEIFERT

(Published: March 17, 2004)

The Alaska Legislature needs to eliminate the ELF, the Economic Limit Factor, and restore a fair severance tax on our one-time oil treasure.

The ELF was established in 1989 as an incentive to oil companies to develop marginal fields. Under the ELF, the severance tax rate on oil companies has fallen for more than a decade and will continue to fall if the Legislature allows it to remain in effect. That is because under the ELF most new fields are completely or almost completely exempted from Alaska's 15 percent severance tax.

The ELF was not necessary or wise in 1989, and it is absurdly foolish to allow it to continue now. Marginal wells are in production. Alaska shouldn't continue to sell oil at well below the world average rate of taxation. For oil companies, high oil prices mean huge profits. With oil at the fabulous price of \$35 a barrel today, we are giving away much of the value of an irreplaceable resource by not getting a fair severance tax. Once severed from the ground, it is gone forever.

Rep. Les Gara has presented an idea for how to remedy this raw deal for Alaskans. It is called the Alaska Fair Share Bill.

Under the ELF, the oil severance tax rate on oil companies falls as the fields age. But worse, most new fields that have come on line since 1989 pay vastly less than the 15 percent rate of severance tax that state law is supposed to demand. So at \$30 per barrel, oil companies receive \$1.2 billion more in profits than the state receives in total oil revenues. Is this a fair return for our oil?

Rep. Gara suggests a minimum severance tax of 5 percent and an increasing, graduated severance tax on all oil, based on the world price.

His proposal would generate:

- An additional \$110 million at a \$22-per-barrel price;
- An additional \$400 million at a \$30-per-barrel price;
- An additional \$500 million at a \$32-per-barrel price.

If we do not change the ELF now, our effective severance tax rate will continue to fall from a present average of 7.5 percent (2003) to 6 percent in 2009 and to 4.05 percent in 2013. The corresponding revenues drop from \$599 million in 2003 to \$180 million by 2013 (Source: Alaska Department of Revenue).

Rep. Gara's proposal ties the severance tax to the price of oil, raising it with higher world prices and lowering it when the price is low.

The formula is uncomplicated and very clear. It drops the severance tax entirely when the price goes below \$10 a barrel and caps it at a maximum of 25 percent.

Oil taxation plans with similar merit have also been presented by Ray Metcalfe for changing the lease bid process along with other good policies; oil industry analyst Richard Feinberg has advocated a Windfall Equal Sharing Tax. Progressively taxing high oil prices for the future, however, is a sound means for receiving a fair take for our oil. We must achieve fair economic value for our vanishing oil treasure now. Every day that we don't recover full value for Alaska's oil means revenue and Permanent Fund deposits are lost forever.

Continuance of the current ELF is a clear violation of the state constitutional mandate to provide maximum benefit to all Alaskans from the state's natural resources (Article VIII, Section 2, Alaska State Constitution). More than that, it is a crime against the future. This oil revenue will not come again.

All reasonable Alaskans should ask why these sensible and fair taxation proposals to fill the fiscal gap aren't dominating the front page of every newspaper in the state. Tapping Permanent Fund earnings may not be necessary yet, if we just get what every other oil-producing government averages for its black gold and are willing to pay our own way to even out world oil price fluctuations. The halls of the Legislature should be resounding with your loud calls for action on these crucial changes in taxation.

Richard Seifert is an energy and housing specialist and professor at the University of Alaska Fairbanks.

[Print Page](#)[Close Window](#)

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... LETTERS TO THE EDITOR

Daily News Letters

(Published: March 21, 2004)

Legislature is afraid to stand up to big oil to ensure our fair share

Oil prices have reached record highs, which should mean that all Alaskans, who own a share of those resources, should be reaping record profits. It's in our constitution that we Alaskans should receive the maximum benefit for those resources.

Yet our Legislature is too afraid to contend with its big oil Contributors and stand up for Alaskans. As Rich Seifert pointed out ("Out with ELF; give Alaska a fair share," March 17), "With oil at the fabulous price of \$35 a barrel today, we are giving away much of the value of an irreplaceable resource by not getting a fair severance tax."

We consistently hear legislators claiming that government should be run like a business. Yet what business would enter a partnership like this -- where your partner reaps all the benefits of \$35 a barrel oil while you get next to nothing?

As oil prices continue to increase, so too will the price at the gasoline pump. Not only will Alaska consumers pay more for gasoline, but the fact that the Alaska Legislature is too timid to stand up for Alaska will mean that these higher prices will only benefit oil companies.

Rep. Les Gara has introduced a bill that would graduate the oil severance tax -- meaning that as oil company profits increase, so do those of regular Alaskans. That's good, sensible business.

-- Steve Cleary, executive director, AkPIRG

Anchorage

Legislators need backbone to pass tough gas taxes, protect our future

Well, well. Another cute "spin" piece by David Reaume (aka "Big oil mouthpiece").

The Jan. 9 pile of "spin-doctoring" tells us in several turns that "Big Oil" (gas-line suppliers) are not about to willingly participate ("Rate of return on gas line is questionable").

Our pal and trusted adviser also tells us that we Alaskans are smart enough to "accept what we have been offered or find a new recipe." I've not received any correspondence from Gov. Frank ("the Bank") or any of the crack negotiators regarding our gas line. I 'ave you?

If our legislators had the spine (backbone) to pass punishing "ELF taxes," and tough "stranded gas taxes," the Big Oil producers might find that the gas line made economic sense without the state of Alaska's having to invest a penny or worse, make foolish promises and concessions that will hurt Alaskans for 70 years or more.

-- Henry Wojtusik

ADN 1/13/05

Democrats' plan to make big oil pay looks after interests of Alaskans

Kudos to Democratic Reps. Gara, Croft, Guttenberg and Kertulla for sponsoring HB 441 -- finally, some legislators with the moral fortitude to stand up to the oil industry!

The Republican administration wants to tap our Permanent Fund to help pay for government while giving the oil industry tax breaks. The governor is looking after his rich industry friends. These Democrats want to re-examine the ELF (the severance tax break the state gives the oil industry on small fields) and increase oil taxes when barrel price (and industry profit) are high, while at the same time protecting our Permanent Fund. It would seem they actually care about the average Alaskan. That's refreshing, and I just wanted to thank them and all others (including former governors Hammond and Hickel) who vocally favor re-examining Alaska's oil industry tax structure.

-- Rob Earl

Anchorage

ADN 2/9/04

Raise severance taxes; let's make oil companies pay their fair share

Alaska's production or "severance" tax rate on oil companies is declining due to the Economic Limit Factor. With the ELF, most new fields are completely or almost completely exempted from Alaska's 15 percent severance tax. What is going on here? Oil companies are making millions of dollars in profits while Alaskans are soon going to be getting nothing in return. We have a budget deficit, yet the Legislature is letting the oil companies get off with paying less than a fair share? Hello, Alaskans -- there is something really wrong with this scenario!

If the severance taxes were increased as proposed under HB 441, the state would recover about \$500 million more than it would when oil prices are at \$32 per barrel. Whether the Legislature passes this bill or one of the more aggressive "Shelf the Elf" proposals, it still comes down to requiring the oil companies to pay a fair share. Rep. Mike Hawker, chair of the Ways and Means committee, should have a public debate and a hearing for HB 441. Legislators must stop pandering to oil companies' whining that they are not going to stay in Alaska if taxes are raised.

Let's start taxing the oil companies for what rightly belongs to all Alaskans and close the budget deficit. The era of oil company giveaways should come to an end!

-- Nina Faust

Homer

ADN
3/19/04

Tax reform would protect Alaska from crisis caused by high oil prices

The headlines in papers suggest that oil prices may reach \$50 a barrel by fall. Just in time for the elections!

While most legislators are campaigning for the next election, I want to re-affirm a point I made last spring: Unless each of our Republican legislators, especially senators, seriously changes their attitude toward removing the ELF and establishing a progressive severance tax, they'll certainly be vulnerable to huge criticism for not doing so.

More than that, not getting a fair share of this oil price escalation is a crime against us all and the future. Rising oil prices will make everything cost more, so there will be a spiraling cost effect that will push us into deeper fiscal crisis -- unless of course, there is corresponding revenue to counter this oil price increase.

Alaska is in a unique position to soften the blows of oil price rises, but only if the Legislature enacts a change in our oil taxes to reap a fair share of the escalating price. As voters, we must demand this, and they will certainly have to explain to all why, if they don't remove the ELF and get progressive severance taxes, because never has it been more necessary or wise.

-- Rich Seifert

Fairbanks

ADN
8/12/04

FRANK H. MURKOWSKI
Governor



P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 3, 2005

Dear Commonwealth North Member,

I welcomed the opportunity to participate in this year's Meet Alaska Energy Conference and to share with you my recent announcement about positive, administrative changes to the Economic Limit Factor (ELF). Due to my administration's action, effective February 1, 2005, the tax regime that will apply to Prudhoe Bay and six of its satellites will be consistent with how their owner's actually operate and administer them.

The purpose of the ELF was to encourage companies to continue to operate marginal fields which, absent this incentive, would be shut down or perhaps never drilled because of the field's economics.

While the math of the ELF can be complex, the underlying concept is simple: Every field has an economic limit, which is a proxy for operating costs. Production below the economic limit is not taxed, thereby allowing a producer to recover its costs. If a field has production above the economic limit then the tax kicks in. If a satellite field has an ELF of zero, that implies that all the production is needed to recover costs.

The Department of Revenue's (DOR) decision recognizes that for Prudhoe Bay satellites, an ELF of zero overstates the proxy costs. The situation is much like a taxpayer who claims expenses of \$7, which upon audit are shown to be only \$3. The DOR was given the statutory authority to make these adjustments to make sure that the proxy cost deductions don't get too far out of line from the intended cost deductions.

Currently 51 percent of all North Slope barrels are free barrels to pay no tax to the state. By 2042 over 81 percent of all North Slope barrels will not be taxed under the current ELF formula.

Because it is my administration's goal to get Alaska oil to market, I support the intended purpose of ELF to enable companies to produce sufficient oil to recover costs from an individual field before taxes are paid to the state on the remaining oil. It is our policy is to make certain that taxes are never a reason to shut down a field.

However, ELF was never intended to provide tax breaks to profitable fields. This decision does not change ELF - just its application to six fields near Prudhoe Bay that now are being operated as one. This consolidation was determined by the owner companies.

Borealis, Midnight Sun, Orion, Polaris, Point McIntyre, and Aurora are not remote satellite fields. They are integrated into the Prudhoe Bay Production facilities and are collectively managed and viewed by the oil companies as a single robust field. My approval of the DOR decision simply mirrors how the oil companies are treating these fields – as a single production unit. Other fields such as Kuparuk and Alpine are not affected by this decision.

It has been 15 years since ELF was last modified. Reflecting my concerns I directed a review of how ELF was operating under existing statutes. I met with the producers in November specifically to ask that they propose a solution in helping us modify the application of ELF. Their trade organization, the Alaska Oil and Gas Association, responded in a letter dated December 16, 2004, that there should be no change. In light of their letter I agreed that this administrative change was appropriate based on the information we had. I contacted each major producer prior to the ELF announcement.

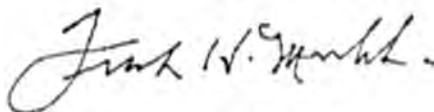
Under our constitution, I have a responsibility to the Alaska people to ensure Alaska is paid its fair share of resources that are extracted. The producers are not without recourse. I have invited them to show DOR any information which they may possess which shows the DOR's decision was wrong or misapplied.

Another important consideration for Alaskans is that the owners of TAPS have proposed a 20 percent increase in the TAPS tariff for 2005. This increased charge imposes, on average, a 64 cent charge on every barrel of oil shipped through TAPS by any company who doesn't own a piece of the pipeline. Every state royalty barrel and every independent producer's barrel now faces a higher cost hurdle. If unchanged, this decision alone will cost Alaska over \$60 million by the end of next year. This is hardly consistent with the argument that any additional charges borne by North Slope crude will simply price it out of the market.

Moreover, there is absolutely no excuse for shutting down a field based on the ELF adjustment. The first satellite field, Point McIntyre, began operating in FY1994 when oil was \$14 per barrel. Oil is currently more than \$40 per barrel. Alaska is a competitive investment target. The recent decision to update ELF does not change that. The DOR was correct in its recommendations on adjusting the ELF application.

Finally, I continue to be ready to review any proposal to modify ELF and other incentives to increase oil exploration, investment and oil flow through TAPS – as long as it's right for Alaska.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Frank H. Murkowski". The signature is fluid and cursive, with a long horizontal stroke at the end.

Frank H. Murkowski
Governor

ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

MEMORANDUM

DATE: Jan 11, 2006
TO: House Ways and Means Committee Members
FROM: Representative Gara
RE: Friday House Bill 63 Hearing

Thank you for considering the issue of oil taxation, and whether Alaska is receiving its fair share for this state-owned natural resource. Attached is a memorandum that explains the current law, and the changes the bill makes to ensure what we believe would be a more fair share of revenue for the state and oil companies. The paper also discusses an important production incentive contained in the bill to help spur the development of expansive, marginal oil fields.

This memo is based upon profit and revenue estimates provided by the Department of Revenue last year, and based upon the state's forecasted FY 2006 oil production numbers. HB 63 will not go into effect until FY 2007, and we have the following estimates from the Department of Revenue for this fiscal year. The Department stresses these are just their best estimates. The latter are attached.

According to the U.S. Government's December 2005 long term oil price forecast, oil prices are predicted to average roughly \$47/barrel over the next two decades. In the first 6 months of the fiscal year, North Slope oil has averaged roughly \$60/barrel.

Current Law: Oil Company Profit vs. State's Revenue Share:

According to Dept. of Revenue estimates, under current tax rules and exemptions oil companies, with oil averaging \$60/barrel as it has the first half of this fiscal year, would receive roughly \$7.3 billion in after-tax profit for their North Slope production and exploration operations in FY 2007. That's roughly 90% greater than the state's forecasted revenue share of roughly \$3.95 billion.

At the forecasted average of \$47/barrel the oil company profit share is forecasted to be roughly \$5.2 billion, or 68% more than the state's revenue share of \$3.1 billion.

More importantly, oil company profit margins, under current law, vastly exceed the Wall Street Average for large companies. That is, our law permits what we regard as excessive profit margins at the expense of state revenue. Even at a low price of \$25/barrel, profit margins (profits as a % of gross revenue) approximate 29%. At \$47/barrel they approximate 41%, and at this fiscal year's average prices of \$60/barrel, profit margins approximate 43%.

HB 63 would have only a modest impact of these very large profit margins, but would provide needed money to this state for its schools, roads, services, and savings accounts.

Please let me know if you have any questions or would like additional materials.

ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

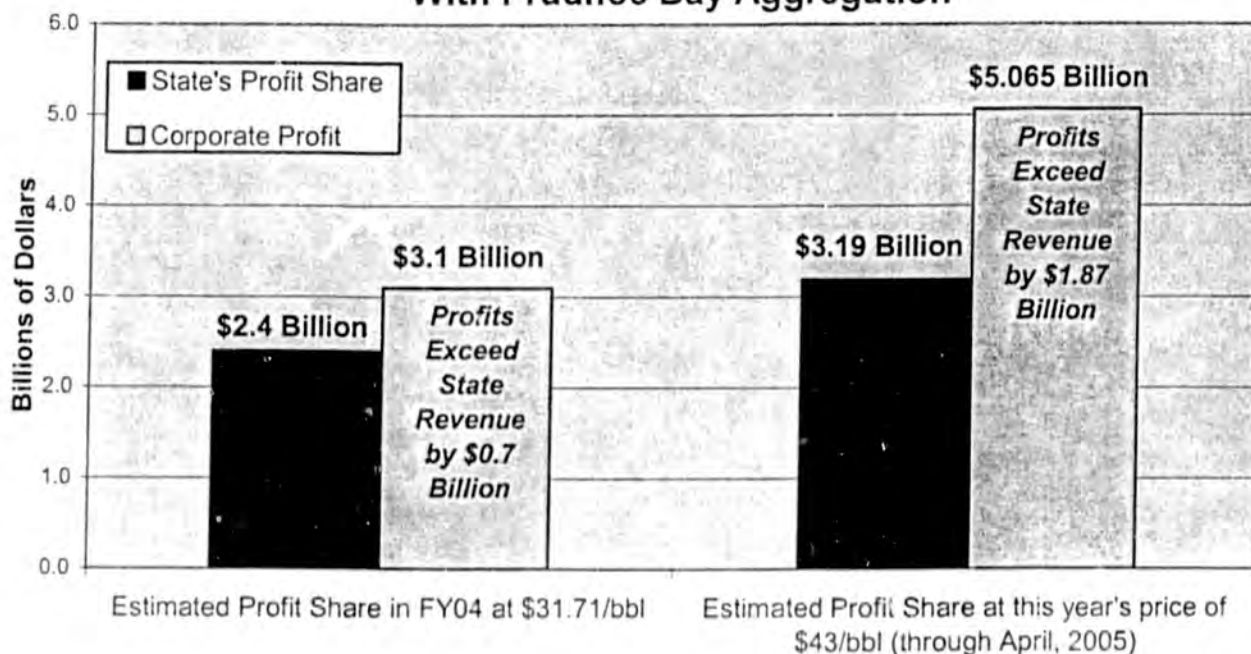
June, 2005

The Alaska Fair Share Bill (HB63): Should We Reform Alaska's Oil Tax Laws?

In 2004 the State of Alaska received \$1 billion less in revenue for its North Slope oil than North Slope producers received in net profits. *Source, Ak. Dept. of Revenue*¹. This year oil company profits on Alaska North Slope oil topped \$5 billion, and dwarfed the state's North Slope oil revenue share by \$2 billion. *Dept. of Revenue FY '05 Revenue Share Estimate*. As the price of oil increases, that gap, which is considerable at \$30 oil, continues to widen. In June of 2005 the price for a barrel of North Slope oil approached \$60.

The Alaska Constitution states that Alaska's natural resources should be managed "for the maximum benefit of the people." *Constitution Article 8, Section 2*. The Alaska Fair Share bill (HB 63 & SB 50) seeks a balance that achieves both fairness to Alaskans, who own the state's oil, and those companies that explore and produce our oil.

Oil Company Profits v. State Revenue Under Current Law With Prudhoe Bay Aggregation



Source: February, 2005, Dept. of Revenue Analysis

¹ A February, 2005 Alaska Dept. of Revenue analysis estimates that oil company profits from North Slope production and exploration activities totaled \$3.554 billion last year. State oil tax and royalty revenues for North Slope production totaled roughly \$2.5 billion in FY '04. In early 2004 the Dept. of Revenue issued a similar analysis. The current revenue share analysis is based upon FY '06 projected costs and production volume.

Two flaws in Alaska's current oil taxation system have presented themselves in recent years.

One flaw comes from the way Alaska's Economic Limit Factor (ELF) is written. Without a statutory change, Governor Murkowski's recent "Aggregation" proposal can only address a relatively small portion of this problem.

Under the ELF, the production or "severance" tax rate on oil companies has fallen for over a decade, and will continue to fall. That is because under the ELF most new fields are completely or almost completely exempted from Alaska's 15% severance tax. Those fields include both medium sized fields, and some of the nation's largest oil fields.

For example, in FY '06 Kuparuk, the second largest field in North America, is projected to produce 140,000 barrels/day. According to the Department of Revenue, the Production Tax rate at Kuparuk in FY '06 will be less than 1%.

Governor Murkowski's proposal doesn't affect Kuparuk, and leaves a total of 240,000 barrels/day of North Slope oil² subject either no Production Tax rate, or a Production Tax of less than 1%. Every field on the North Slope apart from Prudhoe Bay, Alpine and Northstar will pay a Production Tax of either 0%, or less than 1%. *See Attachment 2.*

A second flaw is that oil companies have arguably received an unfair share of the state's oil wealth at average and high oil prices. As prices increase, the state's relative profit share falls. Conversely, state taxes are arguably too high at very low prices. The imbalance in favor of industry at high prices is much greater than the imbalance in favor of the state at very low prices.

In January, 2005, Governor Murkowski proposed a change in the law that, while significant, has a modest impact on this imbalance. It will be addressed below.

This portion of the tax structure has not been reviewed in 15 years. Under Alaska's Constitution, our oil belongs to all citizens in common. It is incumbent upon the Legislature to make sure Alaskans receive a fair share for this public resource, and that a fair return is allowed to those companies who have contracted with us to develop and sell it.

HB 63 was calibrated to provide for fair corporate and state returns. The relative corporate profit and state revenue shares produced by HB 63 were designed before Governor Murkowski's aggregation proposal. Some adjustments are arguably in order now that the Governor's proposals have been made. Legislative committee members, with input from state and industry experts and the public, will be able to determine appropriate modifications as the legislative process continues, and the Governor's proposal is finalized.

A Fair Profit Margin for Alaska's Producers

Ultimately, any tax system should provide a fair rate of return both for Alaskans and Alaska's oil producers. The Department of Revenue's estimates show the following.

At an average annual price of \$22/barrel, the Department of Revenue estimates the producer profit margin (net profits divided by gross revenue) for Alaska North Slope production and exploration operations at 27%. That profit margin is 26% if the additional taxes under the

² This figure doesn't include heavy oil, which arguably should be taxed at a low rate given its higher cost of production.

Governor's aggregation proposal are added. That profit margin rises to 40% at this fiscal year's average price of \$41/barrel. Again, if the Governor's aggregation proposal is added to the company tax burden, the profit margin falls slightly to 39%.

The U.S. Energy Information Administration, which forecasts long-term oil prices for the U.S. Government, forecasts in its December, 2004, report that oil will average \$52 barrel (\$30/barrel adjusted for inflation in 2004 Dollars) through 2025. At the forecast long-term price of \$30/barrel, the company profit margin on North Slope operations is 35%. It falls to 34% when the additional taxes paid under the Governor's aggregation proposal are added.

S&P 500 companies, when profitable, commonly earn rates of return in the 5% - 20% range. Between \$22/bbl and \$41/bbl, the profit margin for producing and exploring on the North Slope ranges from 26% to 40%.

As prices decrease, the rate of return for Alaska producers falls. According to AOGA, "it costs \$12.82 per barrel to find, produce and transport oil from the North Slope. . . ." According to AOGA, this is considered "a high end estimate." *Juneau Empire*, 12/13/04. The Department of Revenue estimates that this figure is closer to \$12/bbl. At \$12/barrel, the state still receives roughly \$870 million in total revenues. Roughly \$200 million of this amount is then transferred to local governments under state property tax laws.

Analysis Of Impacts and Current Shortfalls

Alaska raises oil revenue under 4 different provisions. In order of magnitude, we raise revenue from oil under our royalty laws, our severance tax, our corporate profits tax and our property tax. In 2003 (FY '04) the State received:

- \$1.06 billion in royalties;
 - \$652 million in severance taxes;
 - \$299 million in corporate taxes; and,
 - \$47 million in property taxes.
- Total: \$2.054 billion.

Fall 2004 DOR Revenue Sources Book

House Bill 63 would grant the state a more equitable share of oil revenue at average and higher prices. According to the Department of Revenue, if passed for FY '06, HB 63 would raise:

- an additional \$90 million at a \$22/barrel average price;
- an additional \$400 million at \$30/barrel; and,
- an additional \$1 billion at \$41/barrel.

2005 Dept. of Revenue Estimates.

The Current ELF

Because of the way the ELF works, state oil revenue is projected to steadily fall over the next decade, assuming an average price of \$22/barrel, and even assuming stable levels of production. The most recent DOR forecast is for a slight decline in production over the next decade, which will contribute to an even greater decline in severance tax revenue. Of the most

recent 14 fields that have come on line since 1989, 11 of them pay a severance tax of 0% or less than 1%. In addition, starting this coming year, Kuparuk will be added to the list of fields that pay less than a 1% Production tax.

The ELF was enacted in part because Prudhoe Bay was declining in production by the late 1980's. Proponents argued economies of scale justified a lower tax rate for older, declining fields, and for smaller fields as well. The ELF, which ranges from 0 to 1.0 determines how much of the state's 15% severance tax a field operator must pay.

To determine the severance tax for a particular field, one multiplies the severance tax rate (15%) by the ELF. Thus, a field with an ELF of "0" pays a severance tax of $0 \times 15\%$, or 0%. A field with a .5 ELF pays a severance tax of $.5 \times 15\%$, or 7.5%. A field with a 1.0 ELF pays a severance tax of $1.0 \times 15\%$, or 15%.

A field's ELF is based upon its size and productivity. As production at Prudhoe Bay declines, its ELF has fallen to roughly .875, so that it pays a roughly 13% severance tax. No field has a 1.0 ELF anymore.

The addition of newer, smaller fields with ELF's that give them near or complete exemptions from the state's severance tax, combined with less production at high ELF fields like Prudhoe Bay, are the major reasons state oil revenue is projected to continue to decline in future years.

Governor Murkowski's Aggregation Plan

In January, 2005, Governor Murkowski proposed to "aggregate" the Prudhoe Bay satellite fields. As a result, the Prudhoe Bay satellite fields, which paid almost none of the state's 15% Production Tax, will now pay the rate paid at Prudhoe Bay - roughly 13%. Also, by adding these fields to the Prudhoe Bay unit, Prudhoe Bay itself will be considered a larger field for ELF purposes, and its Production Tax rate will increase marginally from 12% to 13%. *Dept. of Revenue.*

While this aggregation proposal significantly changes the tax rate for Prudhoe Bay's satellite fields, it doesn't affect most of the fields in this state that pay less than a 1% severance tax under current law. Given that, in January the Governor agreed with the sponsors of this bill that the Legislature should look at statutory changes.

Even after Governor Murkowski's proposal is taken into account, roughly half the oil produced in this state outside of Prudhoe Bay will come from fields that pay either no Production Tax, or less than a 1% Production Tax.

That is, next fiscal year the Department of Revenue estimates roughly 240,000 barrels a day, or 87 million barrels a year will come from North Slope fields that pay no Production Tax, or less than a 1% tax. They include:

- Kuparuk: produces 51 million bbl/yr., and will be charged a 0.8% Production Tax;
- Tarn: produces 8 million bbl/yr, and will be charged a 0% Production Tax;
- Endicott: produces 8 million bbl/yr., and will be charged a 0% Production Tax.

According to a 2004 U.S. Government ranking of field sizes, Endicott was the nation's 29th largest oil field. Kuparuk remains the nation's 2nd largest field behind Prudhoe Bay.

Apart from the incidental effect on the Prudhoe Bay Production Tax rate (increased from 12% to 13%), the Governor's proposal affects fields that produce 36 million barrels/yr., or roughly 100,000 barrels/day. The Production Tax on those fields, many of which paid a 0% Production Tax, has been increased to 13%.

Still, most of the fields that would have effectively escaped Alaska's Production Tax under the ELF will continue to do so under the Governor's proposal.

Attachment 2, based on data from the Dept. of Revenue, lists the FY '06 Production Tax rate, and daily production volume, for the North Slope fields that still effectively escape the state's Production Tax.

The Alaska Fair Share Bill:

The Alaska Fair Share bill modifies the ELF in a way that reflects that oil production is more profitable at high prices, and less profitable at low prices. It also reflects the point made by the Governor in presenting his aggregation plan. Today most fields that pay no production tax are less expensive to produce than was assumed in 1989 when the ELF was adopted. Satellite field production on the North Slope allows fields like Tarn to pipe their oil to existing processing facilities on neighboring fields. The economy of scale of shared facilities enjoyed by the Prudhoe Bay, Kuparuk and Alpine satellite fields is not accounted for under the ELF, which discounts all satellite fields to a 0% or near 0% Production Tax Rate.

HB 63 allows the state to share more equally at high prices, and allows tax relief at low prices.

The bill also recognizes that while some tax break might be justified depending on the size of a field, a complete exemption from Alaska's 15% severance tax doubtfully serves the state's best interests. To encourage investment in truly marginal oil fields, companies can avoid any tax burden imposed by HB 63 by demonstrating the provisions of this bill would make production of a new or aging field "uneconomic."

Here are the major components of the Alaska Fair Share bill.

1. Establish a Minimum 5% Severance Tax. Eleven of the last 14 fields that have come on line since 1989 pay none, or almost none of the state's 15% severance tax. This proposal establishes a minimum severance tax at 5%. This is more modest than so-called "Shelf the ELF" proposals, which would apply the full 15% severance tax to all fields.

2. Adjust Severance Tax Amount Upwards above \$20/barrel & Downwards Below \$16/barrel. This provision will allow the state's share at average and high prices to rise and fall as oil prices rise and fall. Under this proposal, the state would recover about \$500 million more than it does today at \$32/barrel.

The Formula: Above \$20/barrel, the proposal would multiply the severance tax by this formula: *The Price Per Barrel / 20*. Thus, nothing would change at \$20/barrel because the severance tax would be multiplied by 20/20, or by 1. But at \$30/barrel, the severance tax would be multiplied by 30/20, or 1.5. Thus, at \$30, a field with a 10% severance tax would pay an adjusted 15% severance tax (1.5 X 10%). This still allows oil company income to increase

significantly at higher prices. This price factor will never increase the severance tax to more than 25%, thereby also protecting the interest of oil companies in high profits at high prices.

Below \$16/barrel, the severance tax is reduced by multiplying it by this formula: *The Price/16*. Thus, for example, at \$12/barrel, the severance tax would be multiplied by 12/16, and thereby waiving twenty-five percent of the production tax.

3. Tax Relief To Encourage Additional Exploration and Production:

- Deferral Of Severance Taxes Below \$10/barrel. Below \$10/barrel, half the severance tax would be waived and the other half may be deferred. Severance tax payments may be deferred at this price until prices exceed \$16/barrel.
- Promoting Profitability – Severance Tax Relief: Currently Alaska law allows companies a reduction in their Royalty if they can demonstrate to the Department of Revenue that a tax break is needed to make a future or aging field economic to produce. The Alaska Fair Share bill adds that companies can similarly apply for a reduction or elimination of any additional taxes imposed by its provisions by showing that relief is needed to make production of a field economic and profitable.

4. Heavy Oil Not Affected; Bill Applies Only To North Slope Oil.

HB 63 exempts "heavy oil" from any of the enhanced taxes to encourage development of that resource. Heavy oil entails a more expensive and intensive extraction process. It also exempts Cook Inlet, and other non-North Slope oil produces from smaller, more expensive fields.

Hearings may show some of these factors should be shifted one way or the other, or that, for example, perhaps some minimum tax might be appropriate for heavy oil.

Conclusion

Many Alaskans have called for a re-examination of Alaska's oil tax rules, and the exemptions they provide. They've included Former Governors Jay Hammond and Wally Hickel, Former Dept. of Revenue Deputy Commissioner and Assistant Attorney General Deborah Vogt, Former Reps. Ray Metcalfe, and John Torgerson, and oil policy consultant Richard Fineberg, among many others. At a time of budget shortfalls, it is important to make sure the state does not grant large tax exemptions to those who don't need them.

HB 63 seeks a balance between fairness to the state and those companies that are willing to explore and produce in Alaska. At a time when the state is having trouble funding our schools, protecting our neighborhoods and our seniors, and maintaining our roads, state government cannot afford to maintain outdated tax exemptions. Reform of the ELF is needed now.

ATTACHMENT 1a:**Corporate and State Profit Share at Various Annual Average Prices,
Current Law Without Impact By Governor's Aggregation Proposal**

Sales Price (\$/Bbl)	\$15.00	\$22.00	\$30.00	\$41.00	\$50.00
Company Gross Revenue (Million \$)	3266.7	5648.0	8369.4	12111.4	15173.1
Production & Exploration Costs (\$/bbl)	6.70	6.70	6.70	6.70	6.70
Production Costs (Million \$)	2211.2	2211.2	2211.2	2211.2	2211.2
Company Net Profit (Millions \$)	253.4	1487.6	2942.4	4837.6	6424.5
State Revenue + Muni Share Oil Property (Millions \$)	1074.9	1557.4	2108.8	2867.0	3487.3

Source: February, 2005, Department of Revenue Estimates

ATTACHMENT 1b:**Corporate and State Profit Share at Various Annual Average Prices,
Current Law, with Governor's Proposed Prudhoe Bay Aggregation**

Sales Price (\$/Bbl)	\$15.00	\$22.00	\$30.00	\$41.00	\$50.00
Company Gross Revenue (Million \$)	3266.7	5648.0	8369.4	12111.4	15173.1
Production & Exploration Costs (\$/bbl)	6.70	6.70	6.70	6.70	6.70
Production Costs (Million \$)	2211.2	2211.2	2211.2	2211.2	2211.2
Company Net Profit (Millions \$)	220.5	1431.8	2860.4	4719.6	6277.0
State Revenue + Muni Share Oil Property (Millions \$)	1125.4	1643.2	2234.9	3048.6	3714.3

Source: February, 2005, Department of Revenue Estimates

ATTACHMENT 2: Projected FY '06 Production Tax and Production Volume for Certain North Slope Oil Fields

Field	Producing Since	Location of Processing Facilities	Annual Oil bbl	Production Tax in FY '06	Production Tax Rate with Governor's Aggregation Proposal
MIDNIGHT SUN	1998	Prudhoe Bay Unit	1,095,000	0.000	13.125
POLARIS (heavy oil)	1999	Prudhoe Bay Unit	1,460,000	0.000	13.125
ORION (heavy oil)	2002	Prudhoe Bay Unit	5,475,000	0.000	13.125
AURORA	2000	Prudhoe Bay Unit	4,015,000	0.000	13.125
WEST SAK (heavy oil)	1997	Kuparuk River Unit	10,950,000	0.075	0.075
TABASCO (heavy oil)	1998	Kuparuk River Unit	1,460,000	0.000	0.000
TARN	1998	Kuparuk River Unit	8,030,000	0.000	0.000
MELTWATER	2001	Kuparuk River Unit	4,015,000	0.000	0.000
KUPARUK	1981	Kuparuk River Unit	51,100,000	0.810	0.810
MILNE POINT	1985-87 and 1989	Milne Point Unit	9,490,000	0.000	0.000
SCHRADER BLUFF (heavy oil)	1991	Milne Point Unit	9,125,000	0.000	0.000
ENDICOTT	1987	Endicott	8,395,000	0.000	0.000
EIDER	1998	Endicott	0	0.000	0.000
LISBURNE	1987	Lisburne Prod. Center	3,650,000	0.000	0.000
NIAKUK	1994	Lisburne Prod. Center	2,920,000	0.000	0.000

Source: January, 2005, Department of Revenue Estimates

**SENSITIVITY WITH DIFFERENT OIL PRICES USING DEPARTMENT OF REVENUE FALL 2005 ASSUMPTIONS
FOR FY 2007**

Sales Price (\$/Bbl)	\$10.00	\$11.00	\$12.00	\$13.00	\$14.00	\$15.00	\$16.00	\$17.00	\$18.00	\$19.00	\$20.00	\$21.00
Transportation Cost to Market (\$/Bbl)	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93
Wellhead Price (\$/Bbl)	\$4.07	\$5.07	\$6.07	\$7.07	\$8.07	\$9.07	\$10.07	\$11.07	\$12.07	\$13.07	\$14.07	\$15.07
ANS Production (oil and NGL) (Million Bbl)	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843
Production Value (Million \$)	1250.8	1558.4	1865.9	2173.4	2480.9	2788.5	3096.0	3403.5	3711.0	4018.6	4326.1	4633.6
Production Costs (\$/Bbl)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Production Costs (Million \$)	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9
State Revenue + Muni Oil Property (Millions \$)	725.0	790.0	855.0	920.0	985.1	1050.1	1115.1	1180.1	1245.2	1310.2	1375.2	1440.2
Severance Tax (Inc Haz Release)	94.8	115.8	136.9	157.9	179.0	200.0	221.0	242.1	263.1	284.1	305.2	326.2
wtd avg severance tax rate	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%
wtd avg Economic Limit Factor (ELF)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
per bbl severance tax	\$0.31	\$0.38	\$0.45	\$0.51	\$0.58	\$0.65	\$0.72	\$0.79	\$0.86	\$0.92	\$0.99	\$1.06
Gross Royalty	132.8	171.2	209.5	247.9	286.3	324.7	363.1	401.5	439.9	478.2	516.6	555.0
wtd avg royalty rate	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%
wtd avg field costs	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
per bbl royalty	\$0.43	\$0.56	\$0.68	\$0.81	\$0.93	\$1.06	\$1.18	\$1.31	\$1.43	\$1.56	\$1.68	\$1.80
Property Tax State Share	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00
Property Tax Muni Share	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
property tax per bbl	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Total State Income Tax	\$259.20	\$264.80	\$270.40	\$276.00	\$281.60	\$287.20	\$292.80	\$298.40	\$304.00	\$309.60	\$315.20	\$320.80
Income Tax Production	217.3	222.9	228.5	234.1	239.7	245.3	250.9	256.5	262.1	267.7	273.3	278.9
State Income Tax TAPS	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
TAPS tax allowance (Millions \$)	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37
TAPS after tax margin	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83
TAPS deferred return	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64
Federal Revenue (Millions \$)	-333.4	-248.5	-163.7	-78.8	6.1	91.0	175.8	260.7	345.6	430.5	515.3	600.2
Percentage Total	142.3%	-339.3%	-43.0%	-11.4%	0.6%	7.0%	10.9%	13.6%	15.5%	17.0%	18.1%	19.1%
Company Net Revenue (Millions \$)	-625.8	-468.2	-310.6	-152.9	4.7	162.3	319.9	477.6	635.2	792.8	950.5	1108.1
Percentage Total	267.1%	-639.1%	-81.6%	-22.2%	0.5%	12.5%	19.9%	24.9%	28.5%	31.3%	33.5%	35.2%
State Revenue + Muni Share Oil Property (Mil)	725.0	790.0	855.0	920.0	985.1	1050.1	1115.1	1180.1	1245.2	1310.2	1375.2	1440.2
Percentage Total	-309.5%	1078.3%	224.5%	133.7%	98.9%	80.6%	65.2%	61.5%	55.9%	51.7%	48.4%	45.7%
Total Revenue Shared State, Federal, Compa (If Revenue Shared is negative then state revenue gains are less than the total revenue losses by state and companies)	(234.3)	73.3	380.8	688.3	995.8	1,303.4	1,610.9	1,918.4	2,226.0	2,533.5	2,841.0	3,148.5

SENSITIVITY WITH DIFFERENT FOR FY 2007

Sales Price (\$/Bbl)	\$22.00	\$23.00	\$24.00	\$25.00	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00
Transportation Cost to Market (\$/Bbl)	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93
Wellhead Price (\$/Bbl)	\$16.07	\$17.07	\$18.07	\$19.07	\$20.07	\$21.07	\$22.07	\$23.07	\$24.07	\$25.07	\$26.07	\$27.07	\$28.07
ANS Production (oil and NGL) (Million Bbl)	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843
Production Value (Million \$)	4941.2	5248.7	5556.2	5863.7	6171.3	6478.8	6786.3	7093.9	7401.4	7708.9	8016.4	8324.0	8631.5
Production Costs (\$/Bbl)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Production Costs (Million \$)	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9
State Revenue + Muni Oil Property (Millions \$)	1505.3	1570.3	1635.3	1700.3	1765.4	1830.4	1895.4	1960.5	2025.5	2090.5	2155.5	2220.6	2285.6
Severance Tax (Inc Haz Release)	347.3	368.3	389.3	410.4	431.4	452.5	473.5	494.5	515.6	536.6	557.6	578.7	599.7
wtd avg severance tax rate	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%
wtd avg Economic Limit Factor (ELF)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
per bbl severance tax	\$1.13	\$1.20	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	\$1.61	\$1.68	\$1.74	\$1.81	\$1.88	\$1.95
Gross Royalty	593.4	631.8	670.2	708.6	747.0	785.3	823.7	862.1	900.5	938.9	977.3	1015.7	1054.1
wtd avg royalty rate	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%
wtd avg field costs	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
per bbl royalty	\$1.93	\$2.05	\$2.18	\$2.30	\$2.43	\$2.55	\$2.68	\$2.80	\$2.93	\$3.05	\$3.18	\$3.30	\$3.43
Property Tax State Share	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00
Property Tax Muni Share	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
property tax per bbl	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Total State Income Tax	\$326.40	\$332.00	\$337.60	\$343.20	\$348.80	\$354.40	\$360.00	\$365.60	\$371.20	\$376.80	\$382.40	\$388.00	\$393.60
Income Tax Production	284.5	290.1	295.7	301.3	306.9	312.5	318.1	323.7	329.3	334.9	340.5	346.1	351.7
State Income Tax TAPS	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
TAPS tax allowance (Millions \$)	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37
TAPS after tax margin	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83
TAPS deferred return	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64
Federal Revenue (Millions \$)	685.1	770.0	854.8	939.7	1024.6	1109.5	1194.3	1279.2	1364.1	1449.0	1533.8	1618.7	1703.6
Percentage Total	19.8%	20.5%	21.0%	21.5%	21.9%	22.2%	22.5%	22.8%	23.1%	23.3%	23.5%	23.7%	23.8%
Company Net Revenue (Millions \$)	1265.7	1423.3	1581.0	1738.6	1896.2	2053.8	2211.5	2369.1	2526.7	2684.3	2842.0	2999.6	3157.2
Percentage Total	36.6%	37.8%	38.8%	39.7%	40.5%	41.1%	41.7%	42.2%	42.7%	43.1%	43.5%	43.9%	44.2%
State Revenue + Muni Share Oil Property (Millions \$)	1505.3	1570.3	1635.3	1700.3	1765.4	1830.4	1895.4	1960.5	2025.5	2090.5	2155.5	2220.6	2285.6
Percentage Total	43.6%	41.7%	40.2%	38.8%	37.7%	36.7%	35.8%	35.0%	34.2%	33.6%	33.0%	32.5%	32.0%
Total Revenue Shared State, Federal, Compa (If Revenue Shared is negative then state rev are less than the total revenue losses by stat	3,456.1	3,763.6	4,071.1	4,378.7	4,686.2	4,993.7	5,301.2	5,608.8	5,916.3	6,223.8	6,531.4	6,838.9	7,146.4

SENSITIVITY WITH DIFFERENT FOR FY 2007

Sales Price (\$/Bbl)	\$35.00	\$36.00	\$37.00	\$38.00	\$39.00	\$40.00	\$41.00	\$42.00	\$43.00	\$44.00	\$45.00	\$46.00	\$47.00
Transportation Cost to Market (\$/Bbl)	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93
Wellhead Price (\$/Bbl)	\$29.07	\$30.07	\$31.07	\$32.07	\$33.07	\$34.07	\$35.07	\$36.07	\$37.07	\$38.07	\$39.07	\$40.07	\$41.07
ANS Production (oil and NGL) (Million Bbl)	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843
Production Value (Million \$)	8939.0	9246.6	9554.1	9861.6	10169.1	10476.7	10784.2	11091.7	11399.3	11706.8	12014.3	12321.8	12629.4
Production Costs (\$/Bbl)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Production Costs (Million \$)	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9
State Revenue + Muni Oil Property (Millions \$)	2350.6	2415.6	2480.7	2545.7	2610.7	2675.7	2740.8	2805.8	2870.8	2935.8	3000.9	3065.9	3130.9
Severance Tax (Inc Haz Release)	620.8	641.8	662.8	683.9	704.9	726.0	747.0	768.0	789.1	810.1	831.2	852.2	873.2
wtd avg severance tax rate	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%
wtd avg Economic Limit Factor (ELF)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
per bbl severance tax	\$2.02	\$2.09	\$2.16	\$2.22	\$2.29	\$2.36	\$2.43	\$2.50	\$2.57	\$2.63	\$2.70	\$2.77	\$2.84
Gross Royalty	1092.4	1130.8	1169.2	1207.6	1246.0	1284.4	1322.8	1361.1	1399.5	1437.9	1476.3	1514.7	1553.1
wtd avg royalty rate	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%
wtd avg field costs	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
per bbl royalty	\$3.55	\$3.68	\$3.80	\$3.93	\$4.05	\$4.18	\$4.30	\$4.43	\$4.55	\$4.68	\$4.80	\$4.93	\$5.05
Property Tax State Share	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00
Property Tax Muni Share	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
property tax per bbl	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Total State Income Tax	\$399.20	\$404.80	\$410.40	\$416.00	\$421.60	\$427.20	\$432.80	\$438.40	\$444.00	\$449.60	\$455.20	\$460.80	\$466.40
Income Tax Production	357.3	362.9	368.5	374.1	379.7	385.3	390.9	396.5	402.1	407.7	413.3	418.9	424.5
State Income Tax TAPS	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
TAPS tax allowance (Millions \$)	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37
TAPS after tax margin	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83
TAPS deferred return	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64
Federal Revenue (Millions \$)	1788.5	1873.4	1958.2	2043.1	2128.0	2212.9	2297.7	2382.6	2467.5	2552.4	2637.2	2722.1	2807.0
Percentage Total	24.0%	24.1%	24.3%	24.4%	24.5%	24.6%	24.7%	24.8%	24.9%	25.0%	25.0%	25.1%	25.2%
Company Net Revenue (Millions \$)	3314.9	3472.5	3630.1	3787.7	3945.4	4103.0	4260.6	4418.2	4575.9	4733.5	4891.1	5048.7	5206.4
Percentage Total	44.5%	44.7%	45.0%	45.2%	45.4%	45.6%	45.8%	46.0%	46.2%	46.3%	46.5%	46.6%	46.7%
State Revenue + Muni Share Oil Property (Million \$)	2350.6	2415.6	2480.7	2545.7	2610.7	2675.7	2740.8	2805.8	2870.8	2935.8	3000.9	3065.9	3130.9
Percentage Total	31.5%	31.1%	30.7%	30.4%	30.1%	29.8%	29.5%	29.2%	29.0%	28.7%	28.5%	28.3%	28.1%
Total Revenue Shared State, Federal, Company (If Revenue Shared is negative then state revenue is less than the total revenue losses by state)	7,453.9	7,761.5	8,069.0	8,376.5	8,684.0	8,991.6	9,299.1	9,606.6	9,914.2	10,221.7	10,529.2	10,836.7	11,144.3

SENSITIVITY WITH DIFFERENT FOR FY 2007

Sales Price (\$/Bbl)	\$48.00	\$49.00	\$50.00	\$51.00	\$52.00	\$53.00	\$54.00	\$55.00	\$56.00	\$57.00	\$58.00	\$59.00	\$60.00
Transportation Cost to Market (\$/Bbl)	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93	\$5.93
Wellhead Price (\$/Bbl)	\$42.07	\$43.07	\$44.07	\$45.07	\$46.07	\$47.07	\$48.07	\$49.07	\$50.07	\$51.07	\$52.07	\$53.07	\$54.07
ANS Production (oil and NGL) (Million Bbl)	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843	0.843
Production Value (Million \$)	12936.9	13244.4	13551.9	13859.5	14167.0	14474.5	14782.1	15089.6	15397.1	15704.6	16012.2	16319.7	16627.2
Production Costs (\$/Bbl)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Production Costs (Million \$)	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9	1998.9
State Revenue + Muni Oil Property (Millions \$)	3195.9	3261.0	3326.0	3391.0	3456.0	3521.1	3586.1	3651.1	3716.1	3781.2	3846.2	3911.2	3976.2
Severance Tax (Inc Haz Release)	894.3	915.3	936.3	957.4	978.4	999.5	1020.5	1041.5	1062.6	1083.6	1104.7	1125.7	1146.7
wtd avg severance tax rate	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%	14.70%
wtd avg Economic Limit Factor (ELF)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
per bbl severance tax	\$2.91	\$2.98	\$3.04	\$3.11	\$3.18	\$3.25	\$3.32	\$3.39	\$3.46	\$3.52	\$3.59	\$3.66	\$3.73
Gross Royalty	1591.5	1629.9	1668.2	1706.6	1745.0	1783.4	1821.8	1860.2	1898.6	1937.0	1975.3	2013.7	2052.1
wtd avg royalty rate	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%	12.48%
wtd avg field costs	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
per bbl royalty	\$5.18	\$5.30	\$5.42	\$5.55	\$5.67	\$5.80	\$5.92	\$6.05	\$6.17	\$6.30	\$6.42	\$6.55	\$6.67
Property Tax State Share	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00
Property Tax Muni Share	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2	204.2
Total property tax (production plus TAPS)	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2	238.2
property tax per bbl	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Total State Income Tax	\$472.00	\$477.60	\$483.20	\$488.80	\$494.40	\$500.00	\$505.60	\$511.20	\$516.80	\$522.40	\$528.00	\$533.60	\$539.20
Income Tax Production	430.1	435.7	441.3	446.9	452.5	458.1	463.7	469.3	474.9	480.5	486.1	491.7	497.3
State Income Tax TAPS	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
TAPS tax allowance (Millions \$)	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37	209.37
TAPS after tax margin	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83	259.83
TAPS deferred return	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64	44.64
Federal Revenue (Millions \$)	2891.9	2976.7	3061.6	3146.5	3231.4	3316.2	3401.1	3486.0	3570.9	3655.7	3740.6	3825.5	3910.4
Percentage Total	25.3%	25.3%	25.4%	25.4%	25.5%	25.5%	25.6%	25.6%	25.7%	25.7%	25.7%	25.8%	25.8%
Company Net Revenue (Millions \$)	5364.0	5521.6	5679.3	5836.9	5994.5	6152.1	6309.8	6467.4	6625.0	6782.6	6940.3	7097.9	7255.5
Percentage Total	46.8%	47.0%	47.1%	47.2%	47.3%	47.4%	47.5%	47.5%	47.6%	47.7%	47.8%	47.8%	47.9%
State Revenue + Muni Share Oil Property (Mil	3195.9	3261.0	3326.0	3391.0	3456.0	3521.1	3586.1	3651.1	3716.1	3781.2	3846.2	3911.2	3976.2
Percentage Total	27.9%	27.7%	27.6%	27.4%	27.3%	27.1%	27.0%	26.8%	26.7%	26.6%	26.5%	26.4%	26.3%
Total Revenue Shared State, Federal, Compa (If Revenue Shared is negative then state rev are less than the total revenue losses by stat	11,451.8	11,759.3	12,066.9	12,374.4	12,681.9	12,989.4	13,297.0	13,604.5	13,912.0	14,219.6	14,527.1	14,834.6	15,142.1

ALASKA STATE LEGISLATURE



JAN 18 2006

REPRESENTATIVE LES GARA

MEMORANDUM

DATE: January 17, 2006
TO: House Ways and Means Committee Members
FROM: Rep. Les Gara
RE: Follow up on Committee Questions on HB63

There was a question asked in the January 13 HB63 hearing that I wanted to follow up on.

Rep. Gruenberg asked for information about how Alaska's tax rates and oil company profitability compares to other countries. I have attached the public portion of last year's Wood Mackenzie study. This study shows Alaska's taxes on companies are low compared to other areas of the world, and that company profits here are higher than elsewhere.

I've also attached a recent article from *The Economist* that gives examples of tax rates in other countries.

Thank you for your consideration.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Oil and gas

Till the pipes squeal

Overnight

M...

Mr Brown says that Britain will benefit from low taxes compared with other countries – oil and gas producers in Norway, for example, face a net marginal rate of 76%, while countries such as Libya and

boosted receipts from North Sea oil. Whether or not this improvement can be sustained is moot. Most analysts reckon that there is a hole of at least £10 billion in the public finances. Judging by the measures Mr Brown announced this week, he agrees with them. But it seems that he will not fill the hole with a similar-sized tax increase in his 2006 budget. Instead he has taken a swipe at North Sea oil producers, helping himself to a further £2 billion a year. The move has infuriated oil companies (see box).

► boosted receipts from North Sea oil.

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More unexpectedly, the chancellor intends to squeeze spending from spring 2008, when the next set of expenditure plans comes into effect. Current spending will grow in real terms by 1.9% a year in the three years to 2010-11, somewhat less than likely economic growth. The resulting squeeze will deliver spending in five years' time that is some £8 billion less, in today's money, than was previously expected, according to the Institute for Fiscal Studies, an independent think-tank.

Mr Brown is writing the third act of his lengthy stint as chancellor. In the first, from 1997 to 1999, he controlled spending rigorously and pushed up taxes. In the second, which started in 2000, he pumped up spending and ran big deficits, despite a substantial tax increase in his 2002 budget.

Now the prudent-turned-prodigal chancellor plans to clamp down on spending in the second half of this parliament, when he expects to be prime minister.

Mr Brown cannot claim a return to prudence, however. For one thing, he is taking a risk by postponing the harsh medicine, since it leaves him with little room for manoeuvre if things go wrong meanwhile. For another, his forecasts assume that economic slowdown has opened up plenty of spare capacity, which will allow strong recovery in 2007 and 2008.

This optimistic view is not shared by the OECD, which said in a survey of the British economy in October that "output remains close to capacity". And Mr Brown has again altered the dates of the cycle over which the golden rule is assessed, so that it extends for 12 years to 2008-09. This latest change has robbed it of what little credibility remained to it as a guide to his fiscal performance.

Despite these risks, the political attractions of the chancellor's strategy are clear. It will be much harder for the Conservatives to argue for lower taxes if Mr Brown is already tightening spending budgets and seeking better value for money in public services. As long as the economy avoids a recession, Mr Brown will still be a formidable foe at the next election. ■

Child care

A faltering start

A pet programme for poor families may not be doing much good

FOR parents of pre-school children in Abbey, a poor neighbourhood in Cambridge, Monday means Baby Rhyme Time. On Tuesday, it's swimming; on Wednesday, messy play; on Thursday, a pregnancy support group. And on Friday, parents can drop their toddlers off at a creche and get advice on benefits.

Take the train from Cambridge into London and you arrive at Kings Cross station. Nearby, there's a nursery with nearly 120 subsidised places, some reserved for children with special needs. Residents can use a parents' centre offering everything from yoga for mothers to baby massage. It all sounds jolly, and potentially useful – and the activities are all free.

But will local children go on to do better in school, or grow up more employable and less likely to turn to crime? These are the grand claims behind Sure Start, the government's flagship programme to provide child care, early-years education and parental support in the most deprived areas of England.

Deprivation does its damage pretty fast: by the time poor children are two or three years old, they are outperformed by rich ones in verbal ability and social functioning. So helping them early would seem crucial. Since Sure Start was launched in 1999, 524 local programmes have opened, £3.1 billion (\$5.4 billion) has been spent ►



Less Sure than they should be

WOOD MACKENZIE

GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

(EXCERPT)

Alaska's Profitability – Full Cycle, Post Government Take

Rate of Return (IRR – Nominal)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	15/49	14/52	14/53
Alaska's IRR	18.09%	23.57%	29.11%
Global Average IRR	15.20%	18.94%	23.07%

Full Cycle Government Take

Full Cycle Gov't Take (% Of Pre-Take Net Cash Flow, Undiscounted)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	33/54	24/54	19/55
Take on AK Production	71.70%	63.63%	58.40%
Global Ave. Take	70.86%	70.26%	73.34%