ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3090 SCOMM 142: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

PROVINCIAL BORROWING REQUIREMENTS

	2004/05 Budget Estimate	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
			($ millions)		
Operating surplus[1]	(100)	(1,440)	(220)	(200)	(200)
Capital requirements	2,934	3,187	3,857	3,755	3,342
Refinancing requirements	2,328	2,961	2,245	2,894	2,491
Other financing sources[2]	(901)	(3,364)	(2,250)	(2,190)	(2,172)
Gross borrowing requirements	**4,261**	**1,344**	**3,632**	**4,259**	**3,461**
Add:					
Increase in debt guarantees	67	179	146	250	248
Increase in SUCH sector debt	29	26	142	190	11
Debt reclassification	215[3]	—	—	—	—
Gross increase in debt	**4,572**	**1,549**	**3,920**	**4,699**	**3,720**
Less:					
Year to date — gross long-term borrowing		(1,044)			
Increase in debt guarantees		(179)			
Increase in SUCH sector debt		(26)			
Remaining borrowing requirements		**300[1]**			

[1] Includes the forecast allowance.

[2] Includes other financing requirements/(sources) for the province, the SUCH sector and Crown corporations and adjustments for non-cash budgetary items.

[3] Reclassification of Columbia Basin Power project debt to taxpayer-supported.

- *The updated gross borrowing requirements for 2004/05 are forecast to total $1.3 billion.*
- *The estimated borrowing requirements of $3.6 billion for 2005/06, $4.3 billion for 2006/07 and $3.5 billion for 2007/08 are primarily to fund capital expenditures.*

2004/05 MARKET SUMMARY[1]

	($ millions)
Canadian Public	500
Canadian MTN's	355
Canada Pension Plan	189
	1,044

[1] Includes long-term debt issued to February 15, 2005.

RECONCILIATION OF GROSS BORROWING TO THE CHANGE IN DEBT

	2004/05 Budget Estimate	2004/05 Updated Forecast	Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
			($ millions)		
Gross increase in debt	4,572	1,549	3,920	4,699	3,720
Less: debt maturities and changes in sinking fund balances	(2,961)	(3,252)	(2,651)	(3,283)	(2,869)
Net increase in provincial debt	**1,611**	**(1,703)**	**1,269**	**1,416**	**851**

BRITISH COLUMBIA

Ministry of Finance

Provincial Treasury
Debt Management Branch

February 15, 2005

Mailing Address:
PO Box 9423 Stn Prov Govt
Victoria BC V8W 9V1

Telephone: 250 387-7125
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Internet: http://www.fin.gov.bc.ca/PT/dmb/index.shtml

Location:
2nd Floor, 620 Superior Street, Victoria

CREDIT RATINGS OF THE PROVINCE

Moody's[1]	**Aa2**
Standard and Poor's[2]	**AA**
DBRS[1]	**AA (low)**

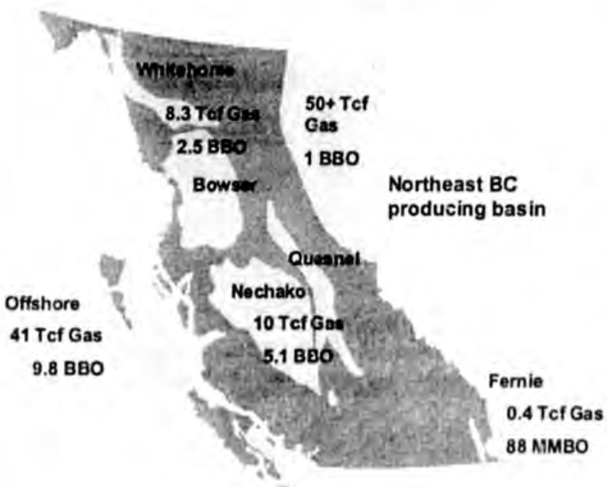
[1] with a positive outlook.

[2] upgraded in November 2004 with a stable outlook.

Outlook for Oil and Gas Prices in British Columbia

The petroleum industry is one of BC's biggest success stories. In 2003, industry invested approximately $3.8 billion in BC, and is forecast to contribute over $1.8 billion in government revenues from royalties, resource tax and tenures in 2004/05.

The northeast area of BC is the only area of the province currently producing commercial quantities of oil and gas. However, considerable natural gas and oil potential remain in other areas of the province.



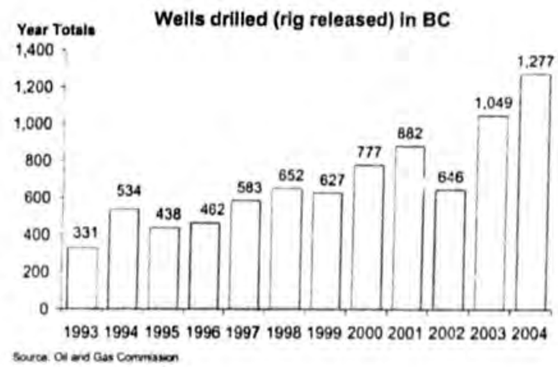
Government Initiatives

A number of economic fundamentals have contributed to the rapid growth of the BC oil and gas industry over the last three years. These include higher natural gas prices and strong North American demand for energy – natural gas in particular, despite high prices. In addition, a number of government initiatives specifically designed to promote BC's oil and gas potential have contributed to a positive investment climate.

The topic box in *Budget 2004* detailed BC's oil and gas resources and the Oil and Gas Development Strategy.

Further strategies and initiatives to be implemented over the next year include:

- a net profit royalty scheme and a new tight gas royalty to promote development of unconventional and remote resources in BC;
- continuation of the Resource Road Royalty Credit program which is expected to facilitate up to $60 million in road construction;
- up to $12 million expansion related to the Oil and Gas Training Centre of Excellence;
- staged updates to the Producer Cost of Service allowance[1]; and
- increased oil and gas related research funding.



Industry response and market trends

The oil and gas industry has responded quickly and positively to market signals and government initiatives. In 2004, 1,277 wells were drilled, up 22 per cent from 2003 and almost double the 2002 activity. After rising 4.8 per cent in 2004/05, natural gas production is forecast to increase 4.0 per cent in 2005/06 and 3.2 per cent in 2006/07.

Natural gas is an important element in the total North American energy picture, and it influences and is influenced by other energy sources. After more than doubling over the last decade, natural gas prices have remained high, inducing more

[1] The producer cost of service reduces government's royalty to account for the producers' costs of transporting the crown share of natural gas from the well to the plant inlet.

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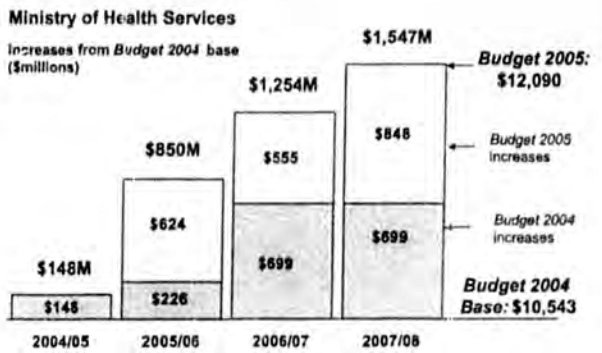
Budget and Fiscal Plan 2005/06 – 2007/08 February 15, 2005

Health Care Funding



Budget 2005 maintains BC's commitment to health care, as health funding will increase by over $1.5 billion by 2007/08 – the largest ministry increase. BC continues its promise to reinvest every dollar of federal health funding back into health care services focused on improving access to care and reducing wait times. The new funding will provide for enhanced public health initiatives to promote healthy lifestyles, immunization programs, early screening for children with key health problems, and improved wait times for critical services such as cancer, cardiac, joint replacements and sight restoration.

Communities

Budget 2005 also commits additional funding to strengthen BC communities, by focusing on people in need. Additional funding is included in this budget for contributions to persons with disabilities, for initiatives aimed at winter homelessness and for social housing. As well, the New Era commitment to share traffic fines with municipalities is now fulfilled, enabling local governments to fund improved policing or other services at the community level.

Communities

($ millions)	2004/05	2005/06	2006/07	2007/08
Traffic fine revenue sharing	32	29	17	17
Skilled immigrant accreditation	-	5	5	5
Public library funding	-	3	4	5
Arts funding	25	3	3	3
Persons with disabilities	18	56	58	62
Adult community living services	-	22	28	41
Homelesssness	8	15	8	17
Social housing – independent living	-	12	10	14
Family law funding	-	5	5	5

Safety

Budget 2005 provides new funding to help address crime and violence, increasing the provincial police force by an additional 215 RCMP officers. The corresponding additional resources in the courts and the correctional system are also provided.

Safety

($ millions)	2004/05	2005/06	2006/07	2007/08
Personal safety for women and girls	-	13	12	12
Policing strategy	-	35	42	45
Related courts and corrections costs	-	9	14	16

Enhancing Services for Children

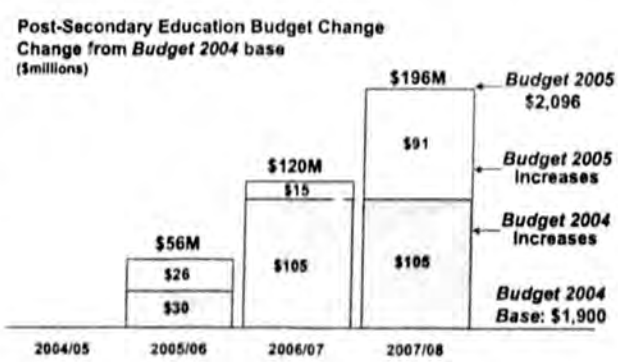
Budget 2005 provides $241 million in additional funding to support greater access to child care, to help protect vulnerable children and youth, and to provide additional services for special needs children. Anticipated federal funding for child care has not been included in *Budget 2005*; the new funds will be committed to the child care budget once details of the transfer arrangements are known and the accounting treatment is confirmed.

Children

($ millions)	2004/05	2005/06	2006/07	2007/08
Increased access to childcare	-	4	1	-
Children and Youth with special needs				
– Assessments	-	3	5	6
– Reduced waitlists	-	11	14	17
– Services for school aged children	-	26	26	26
Early childhood screening	3	21	25	27
Children in care and Family Development	-	8	9	9

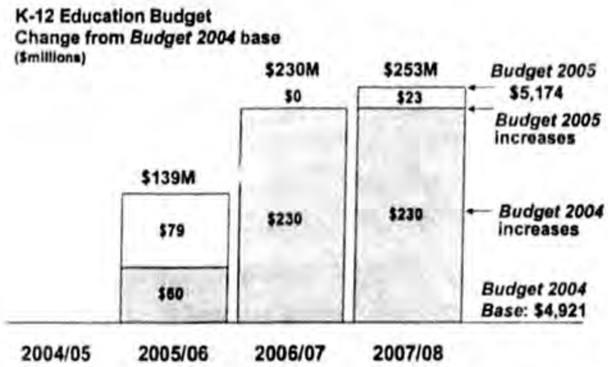
Post-Secondary Education and Skills Development

The government continues to develop a top-notch education system for students of all ages. Additional funds were provided in *Budget 2004*, and are increased in *Budget 2005*, to expand access to post-secondary education. By the end of 2007/08 there will be 16,205 new seats, and 25,000 new spaces will have been added at BC's universities and colleges by 2010. *Budget 2005* also provides over



$450 million over the next three years in funding for a comprehensive student financial assistance system including loan-reduction and loan-forgiveness programs.

K-12 Education



Budget 2005 accelerates the *Budget 2004* increase in K–12 funding to 2005/06, continuing the trend of increased per pupil funding to school districts. This increased funding will ensure that every student has access to school libraries and quality learning resources, music and art programs and improved services to support every special needs student. Funding is also provided to seismically upgrade all at-risk schools within 15 years.

Promoting Economic Growth

Budget 2005 provides funding for BC's natural resource industries; promoting economic growth in areas such as tourism; participating in local infrastructure funding with other governments; and accelerating where practical provincial commitments to the 2010 Olympic and Paralympic Winter Games.

Economic Development Initiatives

($ millions)	2004/05	2005/06	2006/07	2007/08
Agriculture and aquaculture	41	4	2	2
Forestry initiatives	123	61	19	63
Mining plan, geoscience, oil and gas	45	45	11	9
Municipal and regional infrastructure	32	75	27	13
Tourism marketing	14	24	22	21

Protecting the Environment

Additional funding has been provided in *Budget 2005* to support land use planning, contaminated site investigation and remediation, the drinking water action plan, and other conservation activities.

Environment

($ millions)	2004/05	2005/06	2006/07	2007/08
BC Conservation Corps, park services	-	5	5	6
Contaminated sites remediation	25	21	22	23
Drinking water action plan	-	2	3	3
Environmental assessment capacity	-	1	2	2
Land-use planning	2	12	8	8

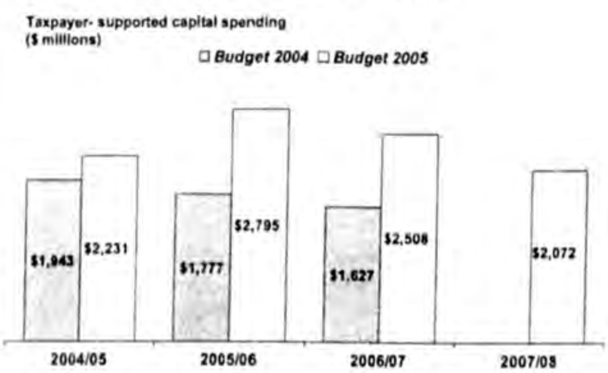
Public Sector Compensation

The current public sector compensation mandate of 0-0-0 until March 31, 2006 remains unchanged. Seventy per cent of all public sector employees have agreements in place under this mandate. As the next mandate is still under development, no compensation increase has been included in the fiscal plan. As government has publicly acknowledged the need for compensation increases in the next wage mandate, future wage settlements are likely to create a pressure against the surplus and forecast allowance in 2006/07 and 2007/08.

Capital

Budget 2005 includes a capital plan for ministries and taxpayer supported agencies that is substantially higher than last year's plan, including an additional $1 billion in 2005/06 and $881 million in 2006/07. This reflects increased capital spending to address government priorities in the K–12, post-secondary and health sectors along with transportation projects. The expanded level of capital spending is financed in part by new borrowing.

Expanded capital plan the main driver of new debt

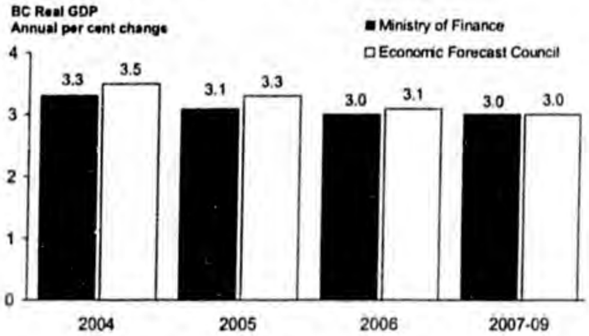


Robust economic performance to continue

The BC economy performed impressively in 2004, with robust domestic demand evident in strong growth rates for employment, consumer spending, home construction and non-residential investment. The export sector also gathered momentum early in the year, fueled by demand for forest products and other industrial goods such as copper, aluminum and molybdenum.

This broadly based economic activity is expected to yield real economic growth of 3.3 per cent in 2004. The Ministry of Finance forecasts economic growth of 3.1 per cent for 2005 and 3.0 per cent in 2006, slightly below the independent Economic Forecast Council's average.

BC economic growth forecast at 3.0 per cent or higher



2004/05 forecast

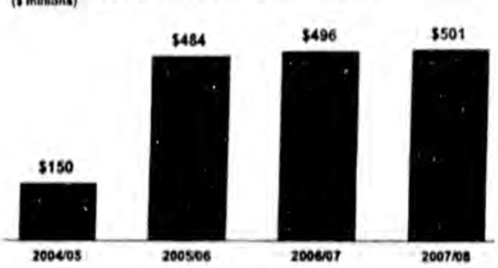
The updated fiscal plan reflects government's decision to allocate $452 million from the 2004/05 surplus to one-time or accelerated spending initiatives, matching the one-time nature of some of the 2004/05 revenues. *Supplementary Estimates* will be introduced in the Legislature to authorize this additional spending.

Ensuring a fair and competitive tax system

Since 2001, the government has cut taxes by a total of $1.4 billion to improve competitiveness and make the tax system more fair. The cuts include:

- A 25 per cent average reduction in provincial personal income taxes and a 28 per cent reduction for taxpayers earning less than $30,000;
- An 18 per cent cut in the general corporate income tax rate;

Financial impact of *Budget 2005* revenue measures
($ millions)



- Exempting production machinery and equipment from the provincial sales tax;
- Eliminating the corporation capital tax for general corporations; and
- Introducing a range of more targeted cuts to improve the competitiveness of sectors such as mining exploration and provincial ports.

In October 2004, the provincial sales tax rate was reduced to 7 per cent, reversing a half point increase introduced in 2002 to fund compensation increases for health care professionals.

Budget 2005 builds on this foundation by introducing new cuts to:

- reduce taxes for those with low and moderate incomes;
- help meet environmental goals; and
- further enhance competitiveness.

The new $120 million BC Tax Reduction will ensure that low and moderate income British Columbians have the lowest income taxes in Canada. The new tax credit will eliminate provincial personal income taxes for British Columbians earning less than $15,500 and will reduce taxes for those earning under $26,000. The BC Reduction will benefit 730,000 British Columbians of which 330,000 will have their provincial income taxes eliminated. In addition, the MSP premium assistance program will be enhanced effective August 1, 2005 to reduce or eliminate premiums for about 215,000 people, many of whom are seniors.

In recognition of the impact of rising home values, and as previously announced, the threshold at which the home owner grant starts to be phased out is increased by $100,000 to $685,000 and the grant for homes valued above that will be phased out more slowly. In addition, the thresholds for the First Time Homebuyers program under the property transfer tax will be raised by 18 per cent across the province.

The government will promote greenhouse gas reductions and energy conservation by enhancing the incentives available for hybrid vehicles and introducing a new provincial sales tax exemption for highly efficient residential heating equipment effective February 16, 2005. Both of these measures will be time-limited.

A partial property tax exemption is introduced for environmentally friendly energy projects such as run of the river hydro projects. This will make it easier for BC Hydro to achieve its goal of 50 per cent of incremental power requirements from clean energy sources.

The threshold income level that will qualify for the provincial small business corporate income tax rate is increased to $400,000 from $300,000 effective January 1, 2005.

The Mineral Exploration Tax Credit will be extended for ten years to 2016. The extension will build on the renewed interest in BC's mining industry and the resurgence in mineral exploration.

To meet competitive pressures at home and abroad, and as an interim measure, the province's film tax credits are increased until March 31, 2006. The basic Film Incentive BC credit available for domestic productions is increased to 30 per cent from 20 per cent and the productions services tax credit for foreign productions is increased to 18 per cent from 11 per cent, effective January 1, 2005.

Combined with the October sales tax cut, these measures will reduce revenues by $484 million in 2005/06, $496 million in 2006/07 and $501 million in 2007/08.

Prudent Fiscal Management

A $300 million forecast allowance is included in 2004/05 to protect the bottom line against unanticipated revenue shortfalls or spending pressures, which may arise before the end of the fiscal year. *Budget 2005* includes forecast allowances of $400 million in 2005/06, $450 million in 2006/07, and $550 million in 2007/08 to protect the fiscal plan from revenue risks such as sudden changes in energy prices or forest fires or spending pressures such as future public sector wage settlements.

Over and above the expected surpluses and forecast allowances, a $270 million contingency vote is included in 2005/06 and 2006/07 for unexpected spending requirements by government ministries. The contingency vote is increased by $40 million to $310 million in 2007/08 to include a portion of the 2010 Olympics contingency budget, as part of the government's $600 million commitment to the 2010 Games.

Balanced, Transparent and Accountable

Balanced budgets are required under the British Columbia's balanced budget legislation. The three-year fiscal plan is also required to conform to the standards set by the accounting profession for senior governments in Canada referred to as generally accepted accounting principles or "GAAP". Continuing the practice established in *Budget 2004*, financial forecasts for schools, universities, colleges and health authorities (the SUCH sector) are incorporated into government's revenue, spending and balance sheet projections.

To complete government's accountability framework, the three-year fiscal plan is complemented by government's strategic plan, and service plans that detail the goals, objectives and performance targets of ministries and Crown corporations. Government ministers are subject to ministerial salary deductions for not achieving financial targets and ministers of state are subject to salary deductions if performance targets are not achieved.

Virginia's Future

[redacted]

Establishing the Council on Virginia's Future

CHAPTER 900

An Act to amend and reenact §§ 2.2-1501, 2.2-1509, 2.2-1511, and 2.2-2101 of the Code of Virginia; to amend the Code of Virginia by adding in Chapter 26 of Title 2.2 an article numbered 28, consisting of sections numbered 2.2-2681 through 2.2-2687, and by adding in Title 2.2 a chapter numbered 55.1, consisting of sections numbered 2.2-5510 and 2.2-5511; and to repeal the second enactment of Chapter 424 of the Acts of Assembly of 2000, relating to the administration of government; long-term planning; Roadmap for Virginia's Future.
[H 2097]
Approved March 22, 2003

Be it enacted by the General Assembly of Virginia:
1. That §§ 2.2-1501, 2.2-1509, 2.2-1511 and 2.2-2101 of the Code of Virginia are amended and reenacted, and that the Code of Virginia is amended by adding in Chapter 26 of Title 2.2 an article numbered 28, consisting of sections numbered 2.2-2681 through 2.2-2687, and by adding in Title 2.2 a chapter numbered 55.1, consisting of sections numbered 2.2-5510 and 2.2-5511, as follows:

§ 2.2-1501. Duties of Department (of Planning and Budget).

The Department shall have the following duties:

1. Development and direction of an integrated policy analysis, planning, and budgeting process within state government.
2. Review and approval of all sub-state district systems boundaries established or proposed for establishment by state agencies.
3. Formulation of an executive budget as required in this chapter. In implementing this provision, the Department shall utilize the resources and determine the manner of participation of any executive agency as the Governor may determine necessary to support an efficient and effective budget process notwithstanding any contrary provision of law. The budget shall include reports, or summaries thereof, provided by agencies of the Commonwealth pursuant to subsection E of § 2.2-603.
4. Conduct of policy analysis and program evaluation for the Governor.
5. Continuous review of the activities of state government focusing on budget requirements in the context of the goals and objectives determined by the Governor and the General Assembly and monitoring the progress of agencies in achieving goals and objectives.
6. Operation of a system of budgetary execution to ensure that agency activities are conducted within fund limitations provided in the appropriation act and in accordance with gubernatorial and legislative intent. The Department shall make an appropriate reduction in the appropriation and maximum employment level of any state agency or institution in the executive branch of government that reports involuntary separations from employment with

the Commonwealth due to budget reductions, agency reorganizations, or workforce downsizings, or voluntary separations from employment with the Commonwealth as provided in the second and third enactments of the act of the General Assembly creating the Workforce Transition Act of 1995 (§ 2.2-3200.). In the event an agency reduces its workforce through privatization of certain functions, the funds associated with such functions shall remain with the agency to the extent of the savings resulting from the privatization of such functions.

7. Development and operation of a system of standardized reports of program and financial performance for management.

8. Coordination of statistical data by reviewing, analyzing, monitoring, and evaluating statistical data developed and used by state agencies and by receiving statistical data from outside sources, such as research institutes and the federal government.

9. Assessment of the impact of federal funds on state government by reviewing, analyzing, monitoring, and evaluating the federal budget, as well as solicitations, applications, and awards for federal financial aid programs on behalf of state agencies.

10. Review and verify the accuracy of agency estimates of receipts from donations, gifts or other nongeneral fund revenue.

11. Development, coordination and implementation of a performance management system involving strategic planning, performance measurement, evaluation, and performance budgeting within state government. The Department shall ensure that information generated from these processes is useful for managing and improving the efficiency and effectiveness of state government operations, and is available to citizens and public officials. The Department shall submit annually on or before the second Tuesday in January to the Chairman of the House Appropriations Committee and the Chairman of the Senate Finance Committee a report that sets forth state agencies' strategic planning information and performance measurement results pursuant to this subdivision for the immediately preceding fiscal year.

12. Development, implementation and management of an Internet-based information technology system to ensure that citizens have access to performance information.

13. Development, implementation and management of an Internet-based information technology system to ensure that citizens have access to meeting minutes and information pertaining to the development of regulatory policies.

§ 2.2-1509. Budget bill.

A. On or before December 20 of the year immediately prior to the beginning of each regular session of the General Assembly held in an even-numbered year, the Governor also shall submit to the presiding officer of each house of the General Assembly, at the same time he submits "The Executive Budget," copies of a tentative bill for all proposed appropriations of the budget, for each year in the ensuing biennial appropriation period, which shall be known as "The Budget Bill." "The Budget Bill" shall be organized by function, primary agency, and proposed appropriation item and shall include *(i)* an identification of, and authorization for, common programs and *(ii)* the appropriation of funds according to programs. *Strategic plan information and performance measurement results developed by each agency shall be made available to the General Assembly as it considers "The Budget Bill."* Except as expressly provided in an appropriation act, whenever the amounts in a schedule for a single appropriation item are shown in two or more lines, the portions of the total amount shown on separate lines are for information purposes only and are not limiting. No such bill shall contain any appropriation the expenditure of which is extend to boards, commissions, and councils engaged solely in policy studies or commemorative activities. If any law directs the appointment of any member of the General Assembly to a board, commission, or council in the executive branch of state government that is responsible for administering programs established by the General Assembly, such portion of such law shall be void, and the Governor shall appoint another person from the Commonwealth at large to fill such a position.

The provisions of this section shall not apply to members of the Board for Branch Pilots, who shall be appointed as provided for in § 54.1-901; to members of the Board on Veterans' Affairs, who shall be appointed as provided for in § 2.2-2421; to members of the Council on Indians, who shall be appointed as provided for in § 2.2-2628; to members of the Board of Trustees of the Southwest Virginia Higher Education Center, who shall be appointed as provided for in § 23-231.3; to members of the Maternal and Child Health Council, who shall be appointed as provided for in § 2.2-2642; to members of the Virginia Interagency Coordinating Council who shall be appointed as provided for in § 2.2-5204; to members of the Advisory Council on the Virginia Business-Education Partnership Program, who shall be appointed as provided in § 2.2-2600; to members of the Virginia Correctional Enterprises Advisory Board, who shall be appointed as provided for in § 53.1-45.3; to members appointed to the Virginia Veterans Cemetery Board pursuant to § 2.2-2438; to members appointed to the Board of Trustees of the Roanoke Higher Education Authority pursuant to § 23-231.15; to members of the Commonwealth Competition Commission, who shall be appointed as provided for in § 2.2-2621; to members of the Virginia Geographic Information Network Advisory Board, who shall be appointed as provided for in § 2.2-2423; to members of the Advisory Commission on the Virginia Schools for the Deaf and the Blind, who shall be appointed as provided for in § 22.1-346.1; to members of the Substance Abuse Services Council, who shall be appointed as provided for in § 37.1-207; to members of the Criminal Justice Services Board, who shall be appointed as provided in § 9.1-108; *to members of the Council on Virginia's Future, who shall be appointed as provided in § 2.2-2683;* or to members of the Virginia Workforce Council, who shall be appointed as provided for in § 2.2-2669.

Article 28.

Council on Virginia's Future.

§ 2.2-2681. Definitions.

As used in this article:

"Long-term objective" means a measurable standard of desired performance achievement extending at least five years into the future.

"Performance budgeting" means a systematic incorporation of planning, strategic performance and productivity measurement, and program evaluation information into the budgetary process.

"Performance management" means a management system consisting of strategic planning, strategic performance and productivity measurement, program evaluation, and performance budgeting.

"Program evaluation" means an evaluation of the progress made toward the achievement of long-term objectives, current initiatives, and increased productivity.

"Roadmap" or "Roadmap for Virginia's Future" means a planning process that may include some or all of the following sequential steps: (i) developing a set of guiding principles that

contingent upon the receipt of revenues in excess of funds unconditionally appropriated.

B. The salary proposed for payment for the position of each cabinet secretary and administrative head of each agency and institution of the executive branch of state government shall be specified in "The Budget Bill," showing the salary ranges and levels proposed for such positions.

C. "The Budget Bill" shall include all proposed capital appropriations, including each capital project to be financed through revenue bonds or other debt issuance, the amount of each project, and the identity of the entity that will issue the debt.

D. Concurrently with the submission of "The Budget Bill," the Governor shall submit a tentative bill involving a request for authorization of additional bonded indebtedness if its issuance is authorized by, or its repayment is proposed to be made in whole or in part, from revenues or appropriations contained in "The Budget Bill."

E. On or before December 20 of the year immediately prior to the beginning of each regular session held in an odd-numbered year of the General Assembly, the Governor shall submit to the presiding officer of each house printed copies of all gubernatorial amendments proposed to the general appropriation act adopted in the immediately preceding even-numbered year session. In preparing the amendments, the Governor may obtain estimates in the manner prescribed in §§ 2.2-1504, 2.2-1505, and 2.2-1506. On the same date he shall also submit a tentative bill during the second year of the appropriation period, a request for authorization of additional bonded indebtedness if its issuance is authorized by, or its repayment is proposed to be made in whole or in part, from revenues or appropriations contained in the proposed gubernatorial amendments.

F. The proposed capital appropriations or capital projects described in, or for which proposed appropriations are made pursuant to, this section shall include the capital outlay projects required to be included in "The Budget Bill" pursuant to § 2.2-1509.1. The Governor shall propose appropriations for such capital outlay projects in "The Budget Bill" in accordance with the minimum amount of funding and the designated sources of funding for such projects as required under § 2.2-1509.1.

§ 2.2-1511. Consideration of budget by committees.

The standing committees of the House of Delegates and of the Senate in charge of appropriation measures shall begin consideration of the budget within five calendar days after the convening of the regular session of the General Assembly to which the budget is submitted. The committees or subcommittees thereof, may meet jointly on matters concerning the budget at such times as the chairmen of the two committees deem appropriate. The committees or subcommittees may cause the attendance of heads or responsible representatives of the departments, institutions and all other agencies of the Commonwealth to furnish such information and answer such questions as they require. *The committees shall consider strategic plan information and performance-measurement results developed by each agency pursuant to Chapter 55.1 (§ 2.2-5510 et seq.) of this title and submitted by the Governor pursuant to § 2.2-1509.* All persons interested in the matters under consideration shall be admitted to the meetings and shall have the right to be heard.

§ 2.2-2101. Prohibition against service by legislators on boards, commissions, and councils within the executive branch; exceptions.

Members of the General Assembly shall be ineligible to serve on boards, commissions, and councils within the executive branch of state government who are responsible for administering programs established by the General Assembly. Such prohibition shall not *are reflective of public sentiment and relevant to critical decision-making; (ii) establishing a long-term vision for the Commonwealth; (iii) conducting a situation analyses of core state service categories; (iv) setting long-term objectives for state services; (v) aligning state services to the long-term objectives; (vi) instituting a planning and performance management system consisting of strategic planning, performance measurement, program evaluation, and performance budgeting; and (vii) performing plan adjustments based on public input and evaluation of the results of the Roadmap.*

"Situational analyses" means the assessment of state agency performance in core service areas.

"Strategic planning" means the systematic clarification and documentation of what a state agency wishes to achieve and how to achieve it. The objective of strategic planning is a set of goals, action steps, and measurements constructed to guide performance.

"Strategic performance and productivity measures" means the use of data to review the current performance, improvement in productivity, and progress against the long-term objectives.

"Vision" means an aspirational expression of a future condition for the Commonwealth that is both essential and desirable and extends at least 10 years into the future.

§ 2.2-2682. Council on Virginia's Future; purpose.

The Council on Virginia's Future (the Council) is established as an advisory council, within the meaning of § 2.2-2100, in the executive branch of state government. The purpose of the Council is to advise the Governor and the General Assembly on the implementation of the Roadmap for Virginia's Future process.

§ 2.2-2683. Membership; terms; chairman and vice chairman; quorum; meetings.

A. The Council shall be composed of 18 members that include eight legislative members and 10 nonlegislative members as follows:

1. The Governor;
2. The Speaker of the House;
3. The majority and minority leaders of the House of Delegates;
4. The Chairman of the House Committee on Appropriations;
5. The President Pro Tempore of the Senate;
6. The majority and minority leaders of the Senate;
7. The Chairman of the Senate Finance Committee;
8. One nonlegislative citizen member appointed by the Speaker of the House;
9. One nonlegislative citizen member appointed by the Senate Committee on Privileges and Elections;
10. Two Cabinet Secretaries appointed by the Governor; and
11. Five nonlegislative citizen members appointed by the Governor.

B. Legislative members and the two Cabinet Secretaries appointed by the Governor shall serve terms coincident with their terms of office. In the event that a legislative member holds more than one of the positions listed in subsection A, such legislative member shall designate another legislative member or members, as applicable, to serve as the representative for the other position or positions. The initial appointments of nonlegislative citizen members shall be staggered as follows: one member for a term of three years appointed by the Speaker of the House of Delegates; one member for a term of three years appointed by the Senate Committee on Privileges and Elections; one member for a term of one year, two members for a term of two years, and two members for a term of three years *appointed by the Governor. Thereafter, nonlegislative citizen members appointed by the Speaker of the House of Delegates or the Senate Committee on Privileges and Elections shall be appointed for a term of two years, and nonlegislative citizen members appointed by the Governor shall be appointed for a term of four years. Appointments to fill vacancies, other than by expiration of a term, shall be for the unexpired terms. All members may be reappointed. No nonlegislative citizen member appointed by the Speaker of the House of Delegates or the Senate Committee on Privileges and Elections shall serve more than four consecutive two-year terms and no nonlegislative citizen member appointed by the Governor shall serve more than two consecutive four-year terms. The remainder of any term to which a member is appointed to fill a vacancy shall not constitute a term in determining the member's eligibility for reappointment. Vacancies shall be filled in the same manner as the original appointments.*

The Governor shall serve as the chairman of the Council. The Council shall elect a vice chairman from its membership. A majority of members of the Council shall constitute a quorum. The Council shall meet at least four times each year. The meetings of the Council shall be held at the call of the chairman or whenever four or more members so request.

§ 2.2-2684. Duties of the Council.

A. The Council shall have the following duties:

1. Recommend a timetable for phasing in and establishing guiding principles for the Roadmap;

2. Recommend long-term objectives for the Commonwealth and monitor and advise the Governor and the General Assembly regarding the progress toward the objectives;

3. Provide advice on the implementation of the performance-management system across state government;

4. Disseminate information to the public on the Commonwealth's performance-management system;

5. Recommend a systematic process for the periodic evaluation of the Roadmap and adherence to the long-term goals and recommend improvements to the Governor and the General Assembly. The periodic evaluation process shall provide for enhanced opportunities for public participation and input;

6. Beginning November 1, 2004, develop and submit annually to the General Assembly and the Governor and publish to the public a balanced accountability scorecard containing an assessment of (i) current service performance, (ii) productivity improvement, and (iii) progress against long-term objectives. The balanced scorecard shall also contain other evaluative recommendations that will enhance the provision of state services and suggested measures to evaluate progress against long-term objectives; and

7. Solicit public input on appropriate aspects of the Roadmap as determined by the Council.

B. By January 1, 2004, the Council shall recommend to the Governor and the General Assembly legislation defining the vision, long-term objectives, and appropriate performance measures for state government. The Council shall review the long-term objectives for state government every two years.

§ 2.2-2685. Advisory committees.

The Council may form such advisory committees as it deems necessary, convenient, or desirable to advise and assist in performing the duties conferred by this article. The disclosure requirements of subsection B of § 2.2-3114 of the State and Local Government

Conflict of Interests Act shall apply to members of the advisory committees.

§ 2.2-2686. Staff; cooperation and assistance.

A. The Department of Planning and Budget shall provide staff assistance to the Council. Additional assistance as needed shall be provided by the Joint Legislative Audit and Review Commission, the Auditor of Public Accounts, and the staffs of the House Committee on Appropriations and the Senate Finance Committee. All agencies, authorities, and institutions of the Commonwealth shall cooperate and provide such assistance to the Commission as the Commission may request.

B. The Chairman, in consultation with the Council, may hire or appoint an Executive Director for the Council if deemed appropriate.

§ 2.2-2687. Chairman's executive summary of activity and work of the Council.

The chairman shall submit to the Governor and the General Assembly an annual executive summary of the interim activity and work of the Council no later than the first day of each regular session of the General Assembly. The executive summary shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.

CHAPTER 55.1.

GOVERNMENT PERFORMANCE AND RESULTS ACT.

§ 2.2-5510. Strategic plan.

A. Each agency shall develop and maintain a strategic plan for its operations. The plan shall include:

1. A statement of the mission, goals, strategies, and performance measures of the agency that are linked into the performance management system directed by long-term objectives;

2. Identification of priority and other service populations under current law and how those populations are expected to change within the time period of the plan; and

3. An analysis of any likely or expected changes in the services provided by the agency.

B. Strategic plans shall also include the following information:

1. Input, output, and outcome measures for the agency;

2. A description of the use of current agency resources in meeting current needs and expected future needs, and additional resources that may be necessary to meet future needs; and

3. A description of the activities of the agency that have received either a lesser priority or have been eliminated from the agency's mission or work plan over the previous year because of changing needs, conditions, focus, or mission.

C. The strategic plan shall cover a period of at least two years forward from the fiscal year in which it is submitted and shall be reviewed by the agency annually.

D. Each agency shall post its strategic plan on the Internet.

§ 2.2-5511. Review of strategic plan information.

The Governor shall develop an implementation plan providing for each agency to develop a strategic plan. Such implementation plan shall provide for agency submission of individual strategic plans over a three-year period beginning December 1, 2003, and ending December 1, 2006, and require, at a minimum, one-third of state agencies each year to so *submit. Thereafter, each agency shall submit, on a biennial basis by December 1 in even-numbered years, its strategic plan including goals, strategies, and performance measures for consideration and review by the Council on Virginia's Future. After review, the Council may submit comments to the Governor regarding any concerns about the strategic plan or recommendations to improve the plan.*

2. That the second enactment of Chapter 424 of the Acts of the Assembly of 2000 is repealed.
3. That the provisions of this act shall expire on July 1, 2008.

SCOMM

142:15

HOUSE COMMITTEE REPC T

(7)
Date Referred to Committee: January 12, 2005

FURTHER REFERRALS: Oil & Gas Resources Finance

Date of Committee Action: Feb. 3, 2006

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered: **HB 63**

HOUSE BILL NO. 63 — **OIL SEVERANCE TAX**

"An Act relating to the oil and gas properties production (severance) tax as it applies to oil; establishing a minimum rate of tax for certain fields of five percent; providing for an adjustment to increase the tax collected when oil prices exceed $20 per barrel and to reduce the tax collected when oil prices fall below $16 per barrel; and providing for relief from the tax when the price per barrel is low or when the taxpayer demonstrates that a reduction in the tax is necessary to establish or reestablish production from an oil field or pool that would not otherwise be economically feasible."

Recommends it be replaced with [ ] HCS *or* [ ] CS for ________________ (________)
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_______ **[ ] Same Title [ ] New Title**

[ ] attach amendments
[ ] add new referral to ___________Committee
[ ] Letter of Intent__________Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

***NEW* FISCAL NOTES** *Assigned by Chief Clerk's Office

List by Dept(s):	*FN#	Fiscal	Indet.	Zero
Rev		✓		

***PREVIOUS* FISCAL NOTES**

List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
Peggy Wilson	Wilson			✓	
Paul Seaton	Seaton			✓	
Max Gruenberg	Gruenberg	–			
[illegible]	SAMUELS			X	
Chair: Weyhrauch	Weyhrauch			Y	
Chair:					

Alaska State Legislature

House of Representatives

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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%.

E-mail: Representative_Les_Gara@legis.state.ak.us

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.

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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, ½ of a field's production tax will be waived, and ½ 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):
Title: An Act relating to the oil and gas properties production (severance) tax
Sponsor: Gara, Kerttula, Croft, Guttenberg
Requester: House Committee on Ways and Means

Dept. Affected: Revenue
RDU: Taxation and Treasury
Component: Tax Division
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						
CHANGE IN REVENUES ( )	*	*	*	*	*	*

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 — Phone 269-1019
Division: Tax Division — Date/Time 1/4/05 4:00PM

Approved by: Tom Boutin, Deputy Commissioner — Date 1/6/2006
Agency: Department of Revenue

(Revised 9/7/2005 OMB)

FISCAL NOTE

STATE OF ALASKA **BILL NO.** HB63

2006 LEGISLATIVE SESSION

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 Bluff 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 $)

	Status Quo		HB63 Minimum Elf		HB63 with Price Adj		Revenue Gain		
FY	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):
Title: An Act relating to the oil and gas properties production (severance) tax
Sponsor: Gara, Kerttula, Croft, Guttenberg
Requester: House Committee on Ways and Means

Dept. Affected: Revenue
RDU: Revenue Operations
Component: Tax Division
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						
CHANGE IN REVENUES ( )	*	*	*	*	*	*

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 — Phone 269-1033
Division: Tax Division — Date/Time
Approved by: Tom Boutin, Deputy Commissioner — Date 3/17/2005
Agency: Department of Revenue

(Revised 9/23/2004 OMB)

FISCAL NOTE

STATE OF ALASKA **BILL NO.** HB63
2005 LEGISLATIVE SESSION

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 $)

	Status Quo		HB63 Minimum Elf		HB63 with Price Adj		Revenue Gain		
FY	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	0.4601	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

Forecasted Prices and Production Fall 2004 DOR Forecast
Updated for aggregate Elf and CY2005 Taps refiling

COMPANY PROFITABILITY, FEDERAL, AND STATE REVENUES PROJECTED FOR FY06 FOR DIFFERENT OIL PRICES USING DEPT OF REVENUE FALL 2004 ASSUMPTIONS from NO

	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 Aggregation[1]														
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 Aggregation[1]														
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, ANV2004CUT

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 Aggregation[1]														
Federal Revenue (Millions $)	876.0	970.9	1065.9	1160.8	1255.8	1350.7	1445.6	1564.4	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 Aggregation[1]														
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

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 Pı														
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 Aggregation[1]														
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 gation[1]														
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

COMPANY PROFITABILITY, FEDERAL, AND STATE REVENUES PROJECTED FOR FY06 FOR DIFFERENT OIL PRICES USING DEPT OF REVENUE FALL 2004 ASSUMPTIONS from NO

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 aggregation[1]														
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, ANV2004CUT

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 aggregation[1]														
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%**
St'ta 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 aggregation[1]														
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	-6.4	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 miminum 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 mi
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 mi
For 12.25 % fields minimurr

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 Logsden

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	4.67	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

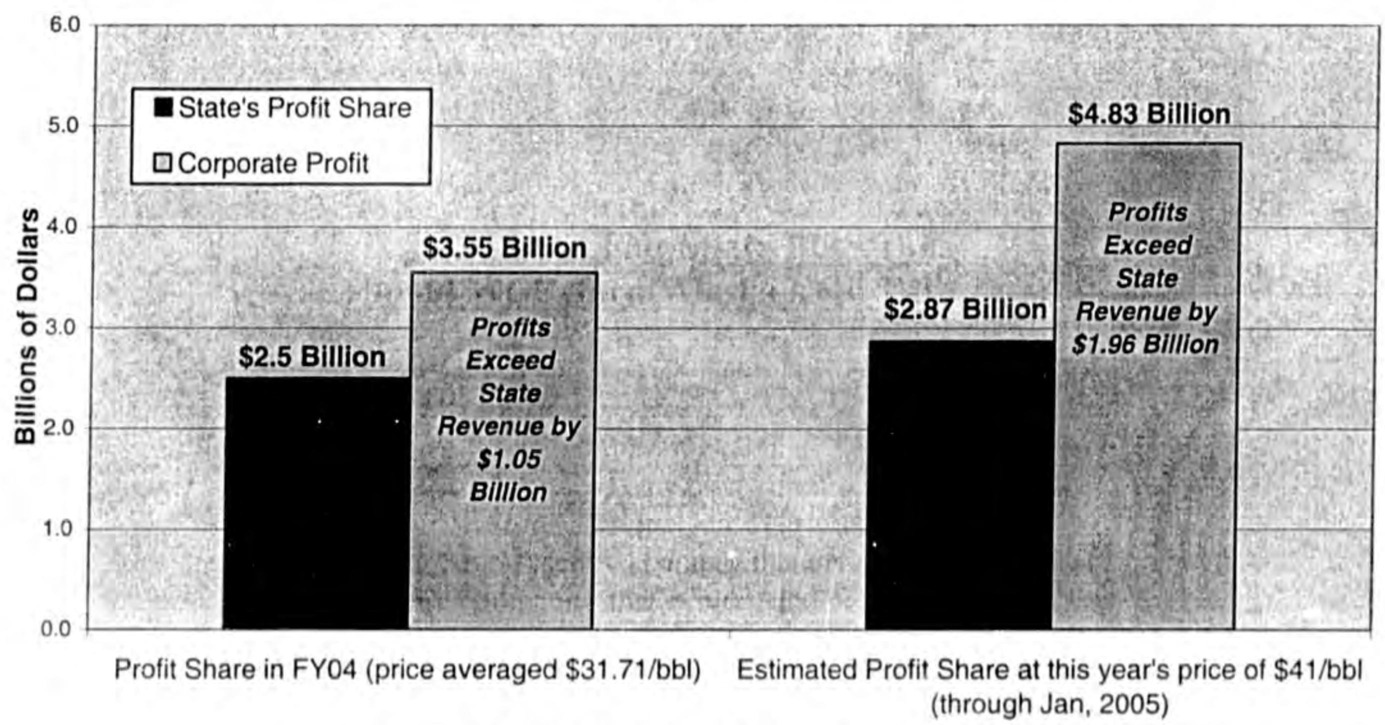
REPRESENTATIVE LES GARA

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.

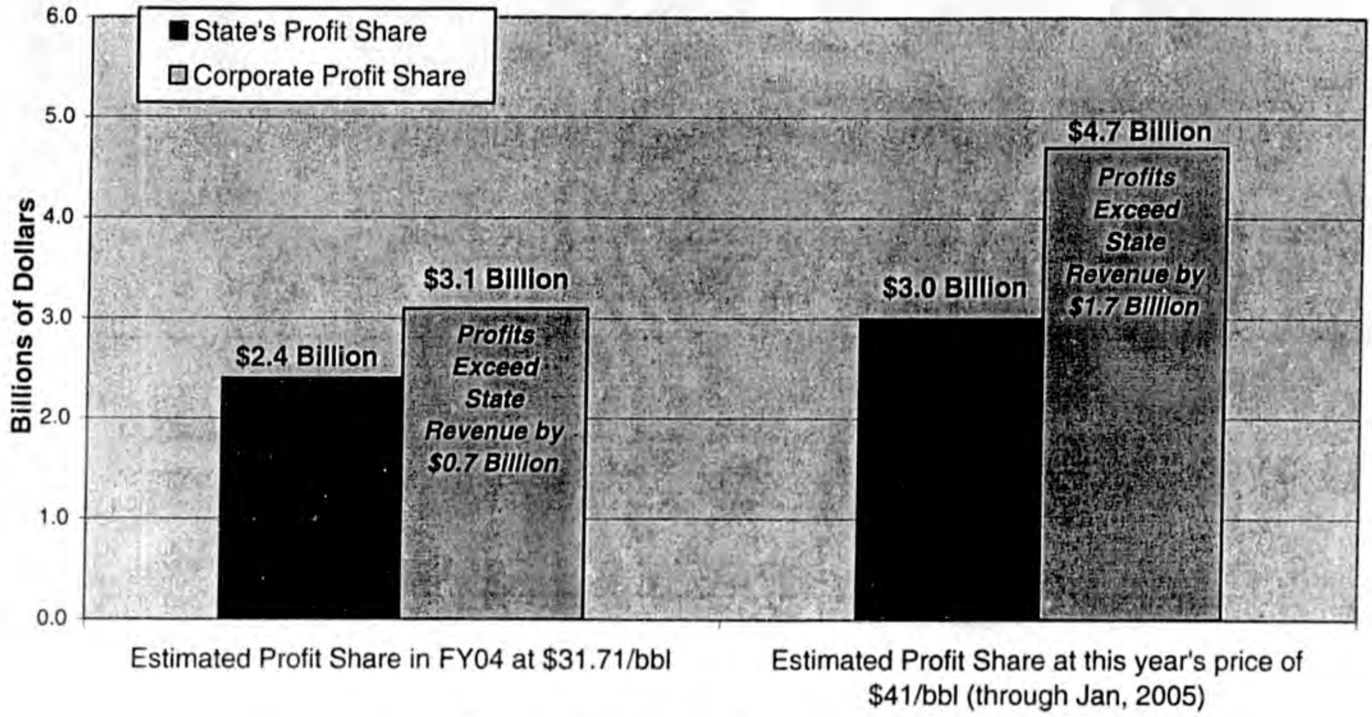
CHART 1: Oil Company vs. State North Slope Oil Revenue Under Current Law



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 oil[2] 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.*

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[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 multiples the severance tax rate (15%) by the ELF. Thus, a field with an ELF of "0" pays a severance tax of 0 x 15%, or 0%. A field with a .5 ELF pays a severance tax of .5 x 15%, or 7.5%. A field with a 1.0 ELF pays a severance tax of 1.0 x 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. or 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.

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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

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION

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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 Mad 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."

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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 shortchanges 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

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

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 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

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 guv. 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:

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Photo 2: WhoUpDownlogo_080104.tif

Photo 3: 1edit pg1_8.1_080104.tif

Edition: Final
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Page: J2

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Anchorage

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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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Anchorage Daily News

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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.

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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 gasoiine 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. Have 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

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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 administrate 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,

Frank H. Murkowski

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.

January-May: State Capitol • Juneau, AK 99801-1182 • (907) 465-2647 • Fax (907) 465-3518
June-December: 716 W. 4th Avenue • Anchorage, AK 99501• (907) 269-0106• Fax (907) 269-0109
Representative_Les_Gara@legis.state.ak.us

ALASKA STATE LEGISLATURE

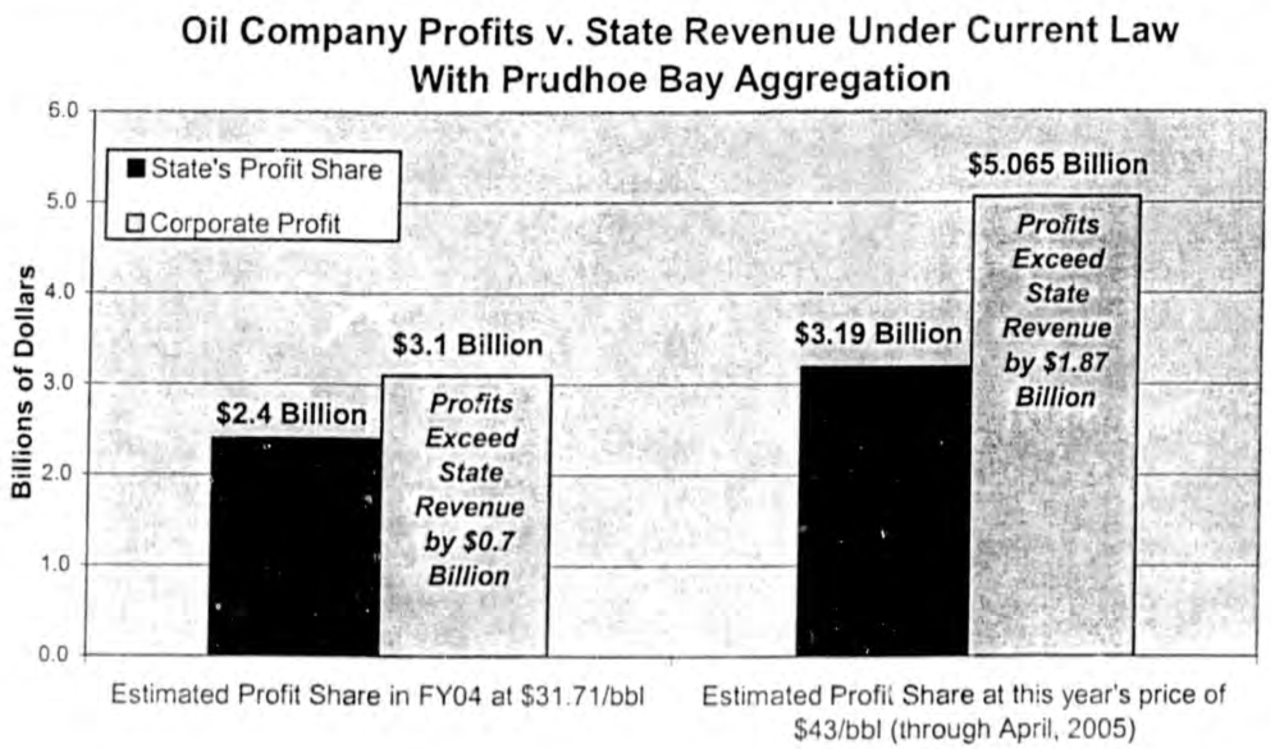
REPRESENTATIVE LES GARA

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.



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 oil[2] 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 multiples the severance tax rate (15%) by the ELF. Thus, a field with an ELF of "0" pays a severance tax of 0 x 15%, or 0%. A field with a .5 ELF pays a severance tax of .5 x 15%, or 7.5%. A field with a 1.0 ELF pays a severance tax of 1.0 x 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. or 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.

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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 DEPTARTMENT 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%**	**69.2%**	**61.5%**	**55.9%**	**51.7%**	**48.4%**	**45.7%**
Total Revenue Shared State, Federal, Compa	(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

(If Revenue Shared is negative then state revenue gains are less than the total revenue losses by state and companies)

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 (Mil	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	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

(If Revenue Shared is negative then state rev
are less than the total revenue losses by stat