ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3113 SCOMM 143: SENATE SPEC.COMM.ON NATURAL GAS DEV. 2005-2006

Natural Gas Development
COMMITTEE
Amendment # #8
To Bill Number: HB 3001
Sponsor: Elton
Date: 8/3/06 Logged by: Mindy

24-GH2096\P.2
Bullock
8/4/06

AMENDMENT

Offered in the Senate by: Sen. Elton
To: CSHB 3001(FIN)

Page 8, line 17:

Delete "AS 43.55.023(k)"

Insert "AS 43.55.023(*l*)"

Page 12, line 16:

Delete "A"

Insert "Except as provided in (k) of this section, a"

Page 15, line 26, following "section,":

Insert "and except as provided in (k) of this section,"

Page 16, following line 31:

Insert a new subsection to read:

"(k) A person engaged in the production of gas in the Point Thomson Unit may not take a credit under this section for a qualified capital expenditure upstream from the point of production of gas from the Point Thomson Unit for a gas processing plant or a gas treatment facility. In this subsection, "Point Thomson Unit" means the land identified by the Department of Natural Resources as the "Point Thomson Unit.""

Reletter the following subsection accordingly.

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) costs related to a gas processing plant or a gas treatment facility upstream from the point of production of gas from the Point Thomson Unit"

Page 33, following line 25:

Insert a new paragraph to read:

"(3) "Point Thomson Unit" means the land identified by the Department of Natural Resources as the "Point Thomson Unit";"

Renumber the following paragraph accordingly.

AMENDED DECISION

DENIAL OF THE PROPOSED PLANS FOR DEVELOPMENT OF THE POINT THOMSON UNIT

October 27, 2005

Findings and Decision of the Director, Division of Oil and Gas
Under Delegation of Authority from the
Commissioner, Department of Natural Resources, State Of Alaska

CORRECTION

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

Natural Gas Development
COMMITTEE
Amendment # #8
To Bill Number: HB 3001
Sponsor: Elton
Date: 8/7/06 Logged by: Mindy

24-GH2096\P.2
Bullock
8/4/06

AMENDMENT

Offered in the Senate by: Sen. Elton
To: CSHB 3001(FIN)

Page 8, line 17:
Delete "AS 43.55.023(k)"
Insert "AS 43.55.023(*l*)"

Page 12, line 16:
Delete "A"
Insert "Except as provided in (k) of this section, a"

Page 15, line 26, following "section,":
Insert "and except as provided in (k) of this section,"

Page 16, following line 31:
Insert a new subsection to read:

"(k) A person engaged in the production of gas in the Point Thomson Unit may not take a credit under this section for a qualified capital expenditure upstream from the point of production of gas from the Point Thomson Unit for a gas processing plant or a gas treatment facility. In this subsection, "Point Thomson Unit" means the land identified by the Department of Natural Resources as the "Point Thomson Unit.""

Reletter the following subsection accordingly.

Page 32, line 29, following "AS 38.05.132":
Insert ";

(19) costs related to a gas processing plant or a gas treatment facility upstream from the point of production of gas from the Point Thomson Unit"

Page 33, following line 25:

Insert a new paragraph to read:

"(3) "Point Thomson Unit" means the land identified by the Department of Natural Resources as the "Point Thomson Unit";"

Renumber the following paragraph accordingly.

(19) costs related to a gas processing plant or a gas treatment facility upstream from the point of production of gas from the Point Thomson Unit"

Page 33, following line 25:

Insert a new paragraph to read:

"(3) "Point Thomson Unit" means the land identified by the Department of Natural Resources as the "Point Thomson Unit";"

Renumber the following paragraph accordingly.

AMENDED DECISION

DENIAL OF THE PROPOSED PLANS FOR DEVELOPMENT OF THE POINT THOMSON UNIT

October 27, 2005

Findings and Decision of the Director, Division of Oil and Gas
Under Delegation of Authority from the
Commissioner, Department of Natural Resources, State Of Alaska

4. Environmental Costs and Benefits of the PTU Owners' Plans for Development of the PTU.

The PTU Owners do not propose any exploration, delineation, or development operations within the PTU. Therefore, the section 11 AAC 83.303(b)(1) environmental criteria neither supports nor condemns approval of the PTU Owners' plans for development of the PTU.

5. Other Relevant Factors to Protect the Public Interest

The PTU contains wells certified as capable of production in paying quantities. Considering the facts, it is now time to develop and produce the underlying hydrocarbons. If the PTU Owners have been unable to identify a commercial project in nearly 30 years, it is time to terminate the unit and re-offer the acreage to new lessees who will have the opportunity to develop the State's resources in a timely manner.

The Division has given the PTU Owners many opportunities over many years to develop the PTU. It is not in the public interest to grant a state lessee an indefinite extension on development merely because development in their view is not currently profitable enough or is too risky.

The intent of oil and gas leases is to give producers an opportunity to explore, develop, and produce within the primary term of the lease. That intent has been met and exceeded in this case. It is not in the public interest to change leasehold intent by allowing a lessee's parochial interests to supersede the State interest for orderly and reasonably prompt development.

The state's primary interest in oil and gas leases is development of hydrocarbons which yield oil and gas revenue. The state's interest is not met by allowing the producers to delay production until such time as the lessee determines that it is the lessee's optimum time to develop a known resource or the State agrees to compromise its tax and royalty system.

It is not fair to the public or other potential lessees to allow the current PTU Owners to continue to hold the leases, thereby precluding others from the opportunity to develop the resource.

V. FINDINGS

The PTU Owners' Plans for Development of the PTU fail to meet the criteria in 11 AAC 83.303(a) as follows.

A. Promote the Conservation of All Natural Resources.

If the Unit Operator proposed any operations under the 22nd POD, there would be environmental impacts associated with reservoir development. However, unitized development of the unit area would reduce the disruption of land and fish and wildlife habitat that would occur under individual lease development. This reduction in environmental impacts and preservation of subsistence access would, when taken in isolation, be in the public interest. While unitized operations conserve natural resources when compared to lease-by-lease development, development on a lease basis maybe preferable to no development at all. However, development of the Thomson Sand Reservoir is possible under a new unit agreement.

Additionally, before undertaking any specific operations, the unit operator must submit a unit plan of operations to the Division and other appropriate state and local agencies for review and approval, and the lessees may not commence exploration or development operations until all agencies have granted the required permits. The Division may condition its approval of a unit plan of operations and other permits on performance of mitigation measures in addition to those in the leases, if necessary or appropriate. Compliance with the mitigation measures would minimize, reduce or completely avoid adverse environmental impacts. Lease-by-lease operations would also require agency approvals, including mitigation measures.

B. Promote the Prevention of Economic and Physical Waste.

Exxon submitted geological, geophysical, and engineering data to support its interpretation of the hydrocarbon accumulations underlying the unit area. The available data indicates the PTU encompasses all or part of one or more hydrocarbon accumulations, but the PTU Owners' plans do not provide for delineation and timely development of those resources.

The PTU Owners tated that a gas cycling project was not commercially viable and the 22nd POD focuses on evaluating gas sales, but does not commit to produce and sell PTU gas. There is uncertainty regarding continuity of the reservoir in the western unit area, which could be addressed by drilling additional delineation wells. The Unit Operator has not adequately considered alternate development scenarios that incorporate both gas sales and gas cycling. Nor has Exxon evaluated the cumulative benefits of simultaneously developing the multiple hydrocarbon accumulations within the unit area. Timely development and production from the PTU does not preclude PTU gas sales at a later date. Focusing on gas sales at the exclusion of all other development options may result in waste of natural resources.

Gas cycling theoretically allows the recovery of significantly more liquids than would be recovered in a pure gas blow down project. In a gas blow down scenario, oil and gas condensates that remain in the field following gas sales may be largely unrecoverable. In addition, delaying timely production also constitutes waste. The Division and AOGCC must determine whether the proposed development will promote the conservation of oil and gas, but the Unit Operator has yet to apply to AOGCC for conservation orders and to the Division for approval of a depletion plan. The Director has the authority to modify the rate of development to achie . the conservation objectives under the PTU Agreement, and I find that increasing the rate of development in the PTU is necessary and advisable.

C. Provide for the Protection of All Parties of Interest, Including the State

A majority of the State's general fund revenue is derived from North Slope oil and gas operations in the form of royalty, net profit shares, production tax, property tax, and corporate income tax. Failure to develop and produce known hydrocarbon accumulations deprives the State of incremental revenue, economic activity and jobs. Should the PTU terminate, the area could be re-leased and unitized again under an acceptable unit plan of development that includes commitments to develop and produce the underlying hydrocarbon accumulations.

Continuing this 30-year record of non-development and delay of an oil and gas lessee's obligations to develop and produce its oil and gas leases makes a mockery of the statutory, regulatory and contractual protections for the State as owner of the oil and gas estate. Therefore, the 22nd POD is unacceptable.

VI. DECISION

The 22nd POD fails to meet the requirements of 11 AAC 83.303 and .343 because it does not provide for the reasonable delineation and timely development of the hydrocarbon accumulations in the unit area. Nearly 30 years ago, lessees discovered the Thomson Sand Reservoir underlying the PTU, which to date has not been developed or put into commercial production. The PTU contains significant gas condensate and oil resources. Eighteen wells have been drilled within and around the PTU, but the most recent PTU well was drilled by BPXA nearly 10 years ago. Although some of the leases are more than 40 years old, and several hydrocarbon accumulations within the unit area contain wells that are certified as capable of producing in paying quantities, the Unit Operator has not stated that production from the PTU is economic and has not committed to development and commercial production. To the contrary, the Unit Operator has stated the production from the unit is not economic.

1. The 22nd POD makes no commitment to timely develop and produce PTU oil, gas, or gas condensate. The 22nd POD is hereby denied.

2. Failure to obtain approval of the unit plan is grounds for default under the PTU Agreement and the State oil and gas regulations. The PTU Owners are hereby notified that effective October 1, 2005, the PTU Agreement is in default.

3. To cure the default, the Unit Operator shall submit an acceptable POD within 90 days, by Thursday, December 29, 2005.

   a) An acceptable unit plan must contain specific commitments to timely delineate the hydrocarbon accumulations underlying the PTU and develop the unitized substances. The following commitments represent an example of an acceptable PTU plan of development:

      - Development activities for the unit, including plans and deadlines to delineate the Thomson Sand Reservoir, bring the reservoir into commercial production, maximize oil, condensate, and gas recovery, and maintain and enhance production once established; and plans for the exploration or delineation and production of other hydrocarbon accumulations and lands that lie stratigraphically above or below the Thomson Sand Reservoir;

      - The PTU Owners shall sanction a commercial PTU development project by October 1, 2006, and provide the Division with evidence of corporate approval and commitment of project funding.

      - The PTU Operator shall begin commercial production of unitized substances from the PTU by October 1, 2009.

Special Committee on Natural Gas Development

8/9 /2006

COMMITTEE ACTION

Bill Number	HB 3001
Amendment	#8
Motion	adopt
Motion by	Elton
Objection by	Seekins
Removed	
Second Objection by	

Committee Member	Y (Vote)	N
Senator Kookesh	✓	
Senator B. Stevens		✓
Senator Stedman		✓
Senator Bunde		✓
Senator Olson	✓	
Senator Dyson		✓
Senator Wilken		✓
Senator Elton	✓	
Senator Hoffman	✓	
Vice-Chair Green		✓
Vice-Chair Wagoner		✓
Chair Seekins		✓
Tally		
Yea	4	
Nay	8	
Absent	—	
MOTION	Failed	

SENATE FINANCE COMMITTEE
Amendment # #9 Amended
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

24-GH2096\P.32
Bullock
8/8/06

AMENDMENT

Withdrawn to defer to #13
by: Sen Wagoner
by request

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) costs or ~~a~~ that portion of the costs determined by the commissioner, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission, to be

(A) related to the repair and replacement of improperly maintained property or equipment; or

(B) incurred to maintain the operational capability of facilities or equipment shut down or the incremental costs of operating at diminished capacity because of improper maintenance of property or equipment"

SENATE FINANCE COMMITTEE
Amendment # #9 Amend #1
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/8/06 Logged by: Mindy

24-GH2096\P.32
Bullock
8/8/06

adopted

AMENDMENT

by: Sen Wagoner
by request

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) costs or a portion of the costs determined by the commissioner, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission, to be

(A) related to the repair and replacement of improperly maintained property or equipment; or

(B) incurred to maintain the operational capability of facilities or equipment shut down or the incremental costs of operating at diminished capacity because of improper maintenance of property or equipment"

SENATE FINANCE COMMITTEE
Amendment # #9 Amend #2
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

24-GH2096\P.32
Bullock
8/8/06

AMENDMENT

adopted
by: Sen Wagoner
by request

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) costs or ~~a~~ that portion of the costs determined by the commissioner, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission, to be

(A) related to the repair and replacement of improperly maintained property or equipment; or

(B) incurred to maintain the operational capability of facilities or equipment shut down or operating at diminished capacity because of improper maintenance of property or equipment"

SENATE FINANCE COMMITTEE
Amendment # #9
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

24-GH2096\P.32
Bullock
8/8/06

AMENDMENT

by: Sen Wagoner
by request

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) costs or a portion of the costs determined by the commissioner, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission, to be

(A) related to the repair and replacement of improperly maintained property or equipment; or

(B) incurred to maintain the operational capability of facilities or equipment shut down or operating at diminished capacity because of improper maintenance of property or equipment"

Special Committee on Natural Gas Development

8/ 9 /2006

COMMITTEE ACTION

Bill Number	HB 3001
Amendment	#9
Motion	adopt - as amended
Motion by	Wagoner
Objection by	Green
Removed	
Second Objection by	

Committee Member	**Y**	***Vote***	**N**
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
→ Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION			

8/9 2:40pm Held motion made to adopt & amended twice

Special Committee on Natural Gas Development

8/9/2006

COMMITTEE ACTION

Bill Number	HB 3001
Amendment	#9
Motion	amend - #1
Motion by	Wilken
Objection by	none
Removed	
Second Objection by	

Committee Member	Y	***Vote***	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION	Pass		

Special Committee on Natural Gas Development

8/ 9 /2006

COMMITTEE ACTION

Bill Number	HB 3001		
Amendment	#9		
Motion	amend - #2		
Motion by	Dyson		
Objection by	none		
Removed			
Second Objection by			
Committee Member	**Y**	***Vote***	**N**
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION	Pass		

Natural Gas Development
COMMITTEE
Amendment #: #10 Amended
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

AMENDMENT

OFFERED IN THE SENATE
To: CSHB 3001(FIN)

BY SENATOR WAGONER

adopted

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) that portion of expenditures, that would otherwise be qualified capital expenditures as defined in AS 43.55.024(k), incurred during a calendar year that are less than the product of \$0.30 multiplied by the total taxable production from ~~the~~ each lease or property in BTU equivalent barrels during that calendar year, except when a portion of a calendar year is subject to this provision, the expenditures and volumes shall be prorated within that calendar year.

Natural Gas Development
COMMITTEE
Amendment # #10
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

AMENDMENT

OFFERED IN THE SENATE
To: CSHB 3001(FIN)

BY SENATOR WAGONER

adopted -
rescinded to amend

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) that portion of expenditures, that would otherwise be qualified capital expenditures as defined in AS 43.55.024(k), incurred during a calendar year that are less than the product of $0.30 multiplied by the total taxable production from the lease in BTU equivalent barrels during that calendar year, except when a portion of a calendar year is subject to this provision, the expenditures and volumes shall be prorated within that calendar year.

1

Special Committee on Natural Gas Development

8/9 /2006

COMMITTEE ACTION

Bill Number	HB 3001		
Amendment	# 10		
Motion	adopt		
Motion by	Wagoner		
Objection by	Seekins		
Removed	✓		
Second Objection by			
Committee Member	Y	***Vote***	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator,Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION	Pass		

2

Special Committee on Natural Gas Development

8/9/2006

COMMITTEE ACTION

Bill Number	HB 3001
Amendment	#10
Motion	rescind
	action in adopting
Motion by	Wagoner
Objection by	none
Removed	
Second Objection by	

Committee Member	**Y**	**N**
Senator Kookesh		
Senator B. Stevens		
Senator Stedman		
Senator Bunde		
Senator Olson		
Senator Dyson		
Senator Wilken		
Senator Elton		
Senator Hoffman		
Vice-Chair Green		
Vice-Chair Wagoner		
Chair Seekins		

Tally	
Yea	
Nay	
Absent	
MOTION	Pass

Special Committee on Natural Gas Development

8/9/2006

COMMITTEE ACTION

③

Bill Number	HB 3001		
Amendment	#10		
Motion	amend		
Motion by	Wagoner		
Objection by	Dyson		
Removed	✓		
Second Objection by			
Committee Member	Y	***Vote***	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION	Pass		

4

Special Committee on Natural Gas Development

8/9/2006

COMMITTEE ACTION

Bill Number	HB 3001	
Amendment	#10 as amended	
Motion	adopt	
Motion by	Committee	Wagoner
	Intent	
Objection by		
Removed	action rolled into	none
Second Objection by	motion to amend	
Committee Member	**Y**	**Vote** **N**
Senator Kookesh		
Senator B. Stevens		
Senator Stedman		
Senator Bunde		
Senator Olson		
Senator Dyson		
Senator Wilken		
Senator Elton		
Senator Hoffman		
Vice-Chair Green		
Vice-Chair Wagoner		
Chair Seekins		
Tally		
Yea		
Nay		
Absent		
MOTION	Pass	

Sen. Hoffman pointed out omission of formal motion motion was then correctly made

Natural Gas Development
COMMITTEE
Amendment # #11 Amended
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

24-GH2096\P.34
Bullock
8/9/06

AMENDMENT

adopted

OFFERED IN THE SENATE BY SENATOR WAGONER

TO: CSHB 3001(FIN)

Page 3, line 5, through page 4, line 25:

Delete all material and insert:

"(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each month from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax is equal to the greater of 22.5 percent of the production tax value of the taxable oil and gas as calculated under AS 43.55.160, or the minimum tax determined under (f) of this section.

(f) The levy of tax under this section on a producer of oil and gas produced north of 68 degrees North latitude may not be less than

(1) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil * during the calendar year for which the tax is due is more than $25;

(2) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil * during the calendar year for which the tax is due is over $20 but not over $25;

(3) two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil * during the calendar year for which the tax is due is over $17.50 but not over $20;

(4) one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil * during the calendar year for which the tax is due is over $15 but not over $17.50; or

* insert: for sale on the United States West Coast

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(cont. →)

(5) zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil* during the calendar year for which the tax is due is $15 or less."

Page 8, lines 11 - 17:

Delete all material.

Page 8, lines 28 - 29:

Delete all material and insert:

"(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f), (g), or (i), and notwithstanding that a producer may be liable for the tax under AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as follows:"

Page 8, line 31:

Delete "and (g)"

Insert "or (f)"

Page 9, line 12, following "by":

Insert "22.5 percent;"

Page 9, lines 13 - 21:

Delete all material.

Page 10, line 6, following "(e),":

Insert "(f),"

Page 10, line 28, following "**AS 43.55.011(e)**":

Insert "**, (f),**"

Page 10, line 30, following "**AS 43.55.011(e)**":

* see page 1

Insert "**, (f),**"

Page 17, line 24, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 9, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 12, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 15, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 22, following "AS 43.55.011(e)":

Insert "or (f)"

Page 19, line 6, following "AS 43.55.011(e)":

Insert "or (f)"

Page 19, line 13, following "AS 43.55.011(e)":

Insert "or (f)"

Page 19, line 20, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 5, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 15, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 24, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 27, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 29, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 23, line 19, following "**department;**":

Insert "**and**"

Page 23, line 20:

Delete all material.

Renumber the following paragraph accordingly.

Page 40, line 30, following "(e),":

Insert "(f),"

Page 42, lines 2 - 6:

Delete all material.

Reletter the following subsection accordingly.

Natural Gas Development
COMMITTEE
Amendment # #11
To Bill Number: HB 3001
Sponsor: Wagoner
Date: 8/9/06 Logged by: Mindy

24-GH2096\P.34
Bullock
8/9/06

AMENDMENT

OFFERED IN THE SENATE BY SENATOR WAGONER

TO: CSHB 3001(FIN)

Page 3, line 5, through page 4, line 25:

Delete all material and insert:

"(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each month from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax is equal to the greater of 22.5 percent of the production tax value of the taxable oil and gas as calculated under AS 43.55.160, or the minimum tax determined under (f) of this section.

(f) The levy of tax under this section on a producer of oil and gas produced north of 68 degrees North latitude may not be less than

(1) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil during the calendar year for which the tax is due is more than $25;

(2) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil during the calendar year for which the tax is due is over $20 but not over $25;

(3) two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil during the calendar year for which the tax is due is over $17.50 but not over $20;

(4) one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil during the calendar year for which the tax is due is over $15 but not over $17.50; or

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(5) zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil during the calendar year for which the tax is due is $15 or less."

Page 8, lines 11 - 17:

Delete all material.

Page 8, lines 28 - 29:

Delete all material and insert:

"(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f), (g), or (i), and notwithstanding that a producer may be liable for the tax under AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as follows:"

Page 8, line 31:

Delete "and (g)"

Insert "or (f)"

Page 9, line 12, following "by":

Insert "22.5 percent;"

Page 9, lines 13 - 21:

Delete all material.

Page 10, line 6, following "(e),":

Insert "(f),"

Page 10, line 28, following "**<u>AS 43.55.011(e)</u>**":

Insert "**<u>, (f),</u>**"

Page 10, line 30, following "**<u>AS 43.55.011(e)</u>**":

L

Insert "**, (f),**"

Page 17, line 24, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 9, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 12, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 15, following "AS 43.55.011(e)":

Insert "or (f)"

Page 18, line 22, following "AS 43.55.011(e)":

Insert "or (f)"

Page 19, line 6, following "AS 43.55.011(e)":

Insert "or (f)"

Page 19, line 13, following "AS 43.55.011(e)":

Insert "or (f)"

Page 19, line 20, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 5, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 15, following "**AS 43.55.011(e)**":

Insert "**or (f)**"

Page 22, line 24, following "**<u>AS 43.55.011(e)</u>**":

Insert "**<u>or (f)</u>**"

Page 22, line 27, following "**<u>AS 43.55.011(e)</u>**":

Insert "**<u>or (f)</u>**"

Page 22, line 29, following "**<u>AS 43.55.011(e)</u>**":

Insert "**<u>or (f)</u>**"

Page 23, line 19, following "**<u>department;</u>**":

Insert "**<u>and</u>**"

Page 23, line 20:

Delete all material.

Renumber the following paragraph accordingly.

Page 40, line 30, following "(e),":

Insert "(f),"

Page 42, lines 2 - 6:

Delete all material.

Reletter the following subsection accordingly.

L

Special Committee on Natural Gas Development

8/9 /2006

COMMITTEE ACTION

Bill Number	HB 3001
Amendment	#11
Motion	adopt - as amended
Motion by	Wagoner
Objection by	Seekins
Removed	✓
Second Objection by	

Committee Member	Y	***Vote***	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
→ Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION	Pass		

Special Committee on Natural Gas Development

8/9 /2006

COMMITTEE ACTION

Bill Number	HB 3001
Amendment	#11
Motion	amend
Motion by	Wagoner
Objection by	none
Removed	
Second Objection by	
Committee Member	Y ***Vote*** N
Senator Kookesh	
Senator B. Stevens	
Senator Stedman	
Senator Bunde	
Senator Olson	
Senator Dyson	
Senator Wilken	
Senator Elton	
Senator Hoffman	
Vice-Chair Green	
Vice-Chair Wagoner	
Chair Seekins	
Tally	
Yea	
Nay	
Absent	
MOTION	Pass

Natural Resource Develop.
COMMITTEE
Amendment # #12
To Bill Number: HB 3001
Sponsor: Dyson
Date 3/9/06 Logged by: Mindy

Natural Resource Development COMMITTEE

Failed

AMENDMENT No. 12

By Sen. Dyson

To: Version "P" ~~SENATE~~ BILL No. HB 3001

To: ______ SENATE BILL No. ______

page 13 line 14
delete : 20
insert : 22.5

Special Committee on Natural Gas Development

8/9 /2006

COMMITTEE ACTION

Bill Number	HB 3001	
Amendment	#12	
Motion	adopt	
Motion by	Dyson	
Objection by	B. Stevens	
Removed		
Second Objection by		
Committee Member	**Y**	**N**
Senator Kookesh	✓	
Senator B. Stevens		✓
Senator Stedman		✓
Senator Bunde	✓	
Senator Olson		✓
Senator Dyson	✓	
Senator Wilken	✓	
Senator Elton	✓	
Senator Hoffman		✓
Vice-Chair Green		✓
Vice-Chair Wagoner	✓	
Chair Seekins		✓
Tally		
Yea	6	
Nay	6	
Absent		
MOTION	Fail	

Natural Gas Development
COMMITTEE
Amendment # #13 Amended
To Bill Number: HB 3001
Sponsor: Wagoner
Date 8/9/06 Logged by: Mindy

24-GH2096\P.37
Bullock
8/9/06

failed

AMENDMENT

OFFERED IN THE SENATE
TO: CSHB 3001(FIN)

by Sen. Wagoner
by request of
Sen. Therriault

Page 32, line 29, following "AS 38.05.132":

Insert ";

20 ~~(19)~~ costs or that portion of the costs determined by the commissioner, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission and relying on the standard practices of the industry, to be

(A) related to the repair and replacement of improperly maintained property or equipment; or

(B) incurred to maintain the operational capability of facilities or equipment shut down or for the incremental cost of operating at diminished capacity because of improper maintenance of property or equipment"

L

Natural Gas Development
COMMITTEE
Amendment # #13
To Bill Number: HB 3001
Sponsor: Wagoner
Date 8/9/06 Logged by: Mindy

24-GH2096\P.37
Bullock
8/9/06

AMENDMENT

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

by Sen. Wagoner
by request of
Sen. Therriault

Page 32, line 29, following "AS 38.05.132":

Insert ";

(19) costs or that portion of the costs determined by the commissioner, in consultation with the commissioner of environmental conservation and the chair of the Alaska Oil and Gas Conservation Commission and relying on the standard practices of the industry, to be

(A) related to the repair and replacement of improperly maintained property or equipment; or

(B) incurred to maintain the operational capability of facilities or equipment shut down or for the incremental cost of operating at diminished capacity because of improper maintenance of property or equipment"

L

Special Committee on Natural Gas Development

8/9 /2006

COMMITTEE ACTION

Bill Number	HB 3001	
Amendment	#13	
Motion	adopt	
Motion by	Wagoner	
Objection by	B. Stevens	
Removed		
Second Objection by		
Committee Member	Y	***Vote*** N
Senator Kookesh	✓	
Senator B. Stevens		✓
Senator Stedman		✓
Senator Bunde		✓
Senator Olson		✓
Senator Dyson	✓	
Senator Wilken	✓	
Senator Elton	✓	
Senator Hoffman		✓
Vice-Chair Green		✓
Vice-Chair Wagoner	✓	
Chair Seekins		✓
Tally		
Yea	5	
Nay	7	
Absent		
MOTION	Failed	

Special Committee on Natural Gas Develo[illegible]ent

8/9/2006

COMMITTEE ACTION

Bill Number	HB 3001		
Amendment	#13		
Motion	amend		
Motion by	Wagoner		
Objection by	none		
Removed			
Second Objection by			
Committee Member	**Y**	***Vote***	**N**
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
Tally			
Yea			
Nay			
Absent			
MOTION	Pass		

Alaska State Senate

Senate Finance Committee

Official Business

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 9 Aug 2006 TIME: 4:10 pm

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 14

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please
SCS CS HB 3001 (NGD) 24-GH2096\P
Plus 5 amendments - attached
Amendment #1: \P.36 - amended
#5: \P.33 - amended
#6
#10
#11: \P.34 - amended

Thx
mindy

LEGAL SERVICES

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

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

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

MEMORANDUM August 9, 2006

SUBJECT: Technical corrections in SCS CSHB 3001(NGD)
(Work Order No. 4-GH2096\B)

TO: Senator Ralph Seekins, Chair
Senate Special Committee on Natural Gas Development

FROM: Donald M. Bullock Jr.
Legislative Counsel

While making changes to CSHB 3001(FIN) based on amendments adopted by your committee, we found an error in Amendment #11 that was adopted by the committee. Also, we corrected a reference to the definition of "qualified capital expenditure" that appears in AS 43.55.023(k), that would be enacted by sec. 13 of SCS CSHB 3001(FIN).

On page 2, line 25, through page 3, line 1 of Amendment #11, a reference to subsection (f) of AS 43.55.011 was offered as an insertion to CSHB 3001(FIN) on page 10, lines 6, 28, and 30. I inadvertently failed to insert the same reference in the amendment for page 10, line 22 of CSHB 3001(FIN). As you recall, AS 43.55.011(f), that was offered as part of Amendment #11, establishes the minimum amount of tax to be paid by a person who produces oil north of 68 degrees North latitude. This error has been corrected in the committee's bill, SCS CSHB 3001(NGD), on page 9, line 14.

On line 5 of Amendment #10, the amendment referred to the definition of "qualified capital expenditures" in AS 43.55.024(k). The correct reference for the definition is AS 43.55.023(k). The corrected reference appears on page 31, line 21 of the committee substitute.

If I may be of further assistance, please advise.

DMB:lmb
06-208.lmb

Enclosure

SENATE COMMITTEE REPORT

DATE: 8/7/06

FURTHER: Todays Calendar

DATE TURNED IN TO OFFICE: 8/9/06

Senate Special Committee on Natural Gas Development considered CS FOR HOUSE BILL NO. 3001(FIN)

HB 3001 OIL/GAS PROD. TAX

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date."

and recommends:

[✓] be **replaced** with [✓] **SCS** or [ ] **CS** CS HB 3001 (NGD)

[ ] adopt **previous** [ ] **SCS** or [ ] **CS** SCS Forthcoming)

[ ] attached amendment(s)

[ ] adopt ______________ Letter of Intent

[ ] further referral to ______________ Committee

SENATE BILL:
[ ] Same Title
[ ] New Title

HOUSE BILL:
[X] Same Title
[ ] Technical Title Change
[ ] New Title w/ SCR #____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet	Zero	FN#
REV	8/9/06	✓			4

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet	Zero	FN#
DNR	7/11/06			✓	1
[illegible]	[illegible]				

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	B. Stevens	✓			
	Bunde	✓			
	Hoffman	✓			
	Olson			✓	
	Elton				✓
	Kookesh	✓			
	Stedman	✓			
	Wilken	✓			
	Green	✓			
	Wagoner	✓			
	Dyson	✓			
CHAIR	Seekins	✓			

Fiscal Note for Calendar Backup

RE: HB 3001

To Be Published Today

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: SCS CSHB 3001(NGD)
() Publish Date: 8/9/06

Revision Date/Time (Note if correction):
Title: An Act Relating to the Production Tax on Oil and Gas
Sponsor: Rules Committee
Requester: Senate NGD

Dept. Affected: Revenue
RDU: Tax and Treasury
Component: Tax
Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	813.1	829.4	845.9	862.9	880.1	897.7
Travel						
Contractual	522.5	485.4	115.7	116.1	118.4	120.8
Supplies	36.7					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	53.0	53.0	53.0	53.0	53.0	53.0
TOTAL OPERATING	**1,425.3**	**1,367.8**	**1,014.6**	**1,032.0**	**1,051.5**	**1,071.5**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	***See analysis section***					

FUND SOURCE (Thousands of Dollars)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
1002 Federal Receipts						
1003 GF Match						
1004 GF	1,425.3	1,367.8	1,014.6	1,032.0	1,051.5	1,071.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,425.3**	**1,367.8**	**1,014.6**	**1,032.0**	**1,051.5**	**1,071.5**

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

POSITIONS

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Full-time	9	9	9	9	9	9
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a tax of 22.5% less a credit of 20% which applies to capital costs upstream of the point of production. Thirty cents per barrel are exempt from the capital deduction and credit. There would also be a progressive surcharge based on 0.25% of the difference between actual per barrel net income and $40, applied to net income. The surcharge would not be considered a deductible lease expenditure.

There would be an additional allowance of up to $12 million per company for companies producing less than 50,000 barrels of oil equivalent per day; this amount is reduced as production reaches 100,000 boe per day, the point at

Prepared by: Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis
Division: Tax Division
Phone: 269-1019
Date/Time: 8/9/06 5:00 PM

Approved by: Jerry Burnett
Agency: Department of Revenue
Date: 8/9/2006

(Revised 9/7/2005 OMB)

FISCAL NOTE #4

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. SCS CSHB 3001(NGD)

ANALYSIS CONTINUATION

which no allowance is authorized. The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001 through April 1, 2006, recoverable at $1 for every $2 in capital expenditures. Transition costs cannot be recovered after 2013. The minimum tax is 1% of gross income when West Coast ANS prices are $15-$17.50, 2% when $17.50-$20, 3% when $20-$25, and 4% when over $25.

The additional conservation surcharge on oil is increased from 3 cents to 4 cents.

The bill would be effective April 1, 2006.

The figures in the table on the next page reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Dept. of Revenue for Prudhoe Bay stands.

The cost assumptions are as follows:

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

The table shows the 2007-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a $40 price, and a $60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 8 additional positions for auditors: 1 O & G Specialist (Range 23), 3 O & G Revenue Auditor IV (Range 22), and 4 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax. In addition, we request 1 additional Tax Tech III position (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase.

Contractual expenditures include $100,000 and $70,000 for programming in FY 07 and FY 08, respectively, $300,000 in each of FY 07 and FY 08 for help in writing regulations, $100,000 in each year for consulting services and an estimate of chargeback costs. Supplies include computers and other supplies necessary for new positions.

FISCAL NOTE #4

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. SCS CSHB 3001(NGD)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

The revenues provided in the table below do not reflect increased revenues in FY06 that would result from an effective date of 4/1/06. At a preliminary estimated quarter end price of $65, the bill would provide approximately $450 million over the status quo system.

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$53.60	989	2021	1,032
2008	$46.90	784	1591	807
2009	$25.50	355	496	141
2010	$25.50	315	455	140
2011	$25.50	281	451	170
2012	$25.50	271	447	176

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$40.00	708	1239	531
2008	$40.00	655	1208	553
2009	$40.00	631	1284	653
2010	$40.00	582	1248	666
2011	$40.00	544	1275	731
2012	$40.00	536	1287	751

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$60.00	1,120	2545	1,425
2008	$60.00	1,032	2483	1,451
2009	$60.00	978	2600	1,622
2010	$60.00	901	2534	1,633
2011	$60.00	842	2585	1,743
2012	$60.00	831	2607	1,776

*Numbers may not sum due to rounding.

To: Joseph Balash
Subject: RE: PPT Charts

From: Joseph Balash [mailto:Joseph_Balash@legis.state.ak.us]
Sent: Tuesday, August 08, 2006 9:10 AM
To: lsncjrb+pptdistribution@legis.state.ak.us
Subject: FW: PPT Charts

-----Original Message-----

From: Barry Pulliam [mailto:BPulliam@econone.com]

Sent: Tuesday, August 08, 2006 8:39 AM

To: Joseph Balash

Cc: Anthony Finizza

Subject: PPT Charts

Joe:

Late last week we prepared charts for the House Finance Committee showing the effective tax rates and other statistics under our base case capital investment and production assumptions for the next 10 years. As requested, we have prepared some additional analysis of the impact of different investment rate assumptions under the House PPT bill "CS For HB 3001." The analysis is set forth in the attached tables and described briefly below.

1. The first chart, entitled "Base PPT Rates under CS for HB 3001 at Various Price Levels After Gold Plating Provisions" shows the average base PPT rate at different levels of investment over the next ten years (FY2007-FY2016).

Our "base case" assumptions incorporate a capital spending amount that is equal to an average of approximately $5.00/bbl over the next 10 years.

This chart shows the PPT rate over this period for investment rates that vary between a low of $2.00/bbl on average to $8.00/bbl on average.

The PPT rate under the bill is set at 25%, with the ability to "buy down" to a minimum rate of 20% as investment levels rise. The bill also has what has been described as an "anti gold plating" provision that is designed to prevent or dampen the incentive for gold plating. This is the "R" factor.

The R factor limits the buy-down aspect of the bill under higher price

scenarios. As a result, under higher prices, the minimum PPT tax rate

allowed under the bill does not fall to 20% even at higher investment levels.

The rates shown in this chart (#1) are the PPT base rates only and do not include the progressive component of the bill.

2. The second chart, entitled "Average Effective Tax Rates at Various Price Levels and Capital Investment Rates Under CS for HB 3001" shows the effective tax rate over the next 10 years at different levels of investment, ranging from $2.00/bbl to $8.00/bbl. The effective tax rate is equal to the total tax projected after all deductions and credits divided by total wellhead value for taxable oil (i.e., not including royalty oil). The charts we prepared last week for the House showed effective tax rates under our base case capital spending assumption of approximately $5.00/bbl over the period. Consistent with earlier analyses we have presented of the PPT, the effective tax rate is higher at lower investment rates and lower at

higher investment rates. This is because capital spending is a deductible

expense under the PPT.

3. The third chart, entitled "Marginal Capital Deduction at Various Price Levels Assuming Base Investment Rate Under Different Plans" looks at the marginal (or incremental) capital deduction rate under CS for HB 3001 as well as the last conference committee bill (CC for SB 2001), assuming a $5.00/bbl base investment case. Capital expenditures under the PPT are deductible as an expense. In addition, taxpayers receive a capital credit of 20%. Under the current house plan, increased capital spending also allows a taxpayer to "buy down" the tax rate (to a minimum of 20%). The effect of the PPT provisions are to provide an investment "incentive" by the State through either deduction, credit, or a reduced tax rate under the current house bill. This investment incentive can also be thought of as the amount of State participation in capital investments. This chart shows the impact of the State incentive on incremental investment over an average rate of $5.00/bbl. As seen in the chart, the house bill provides for higher incentive rates by the State on average. In addition, under higher price scenarios the incentive offered by the State at the margin can exceed 80%.

There has been considerable discussion about the potential for "gold plating" under the current bill. The R factor included in the bill attempts to address or put a "brake" on the incentive for gold plating. Indeed, without that provision the State participation factor at higher prices would exceed 100%, which is clearly not a desirable result. This chart shows, however, that even with the R factor in place, the marginal State participation rate can rise to fairly high levels (in excess of 80% or 90%) with higher prices. At price levels below the point that the progressive component triggers (i.e., about $55 ANS West Coast), the marginal State participation rate in capital spending under the bill can rise to approximately 70%. All else equal, these relatively high participation rates provide incentives to move capital spending, where possible, to periods in which prices are higher.

I would be happy to discuss this information further if you have any questions.

Barry

<<CS for HB3001 CAPEX Charts.pdf>>

Barry Pulliam

Senior Economist

Econ One Research, Inc.

601 W. 5th Street, Suite 500

Los Angeles, CA 90071

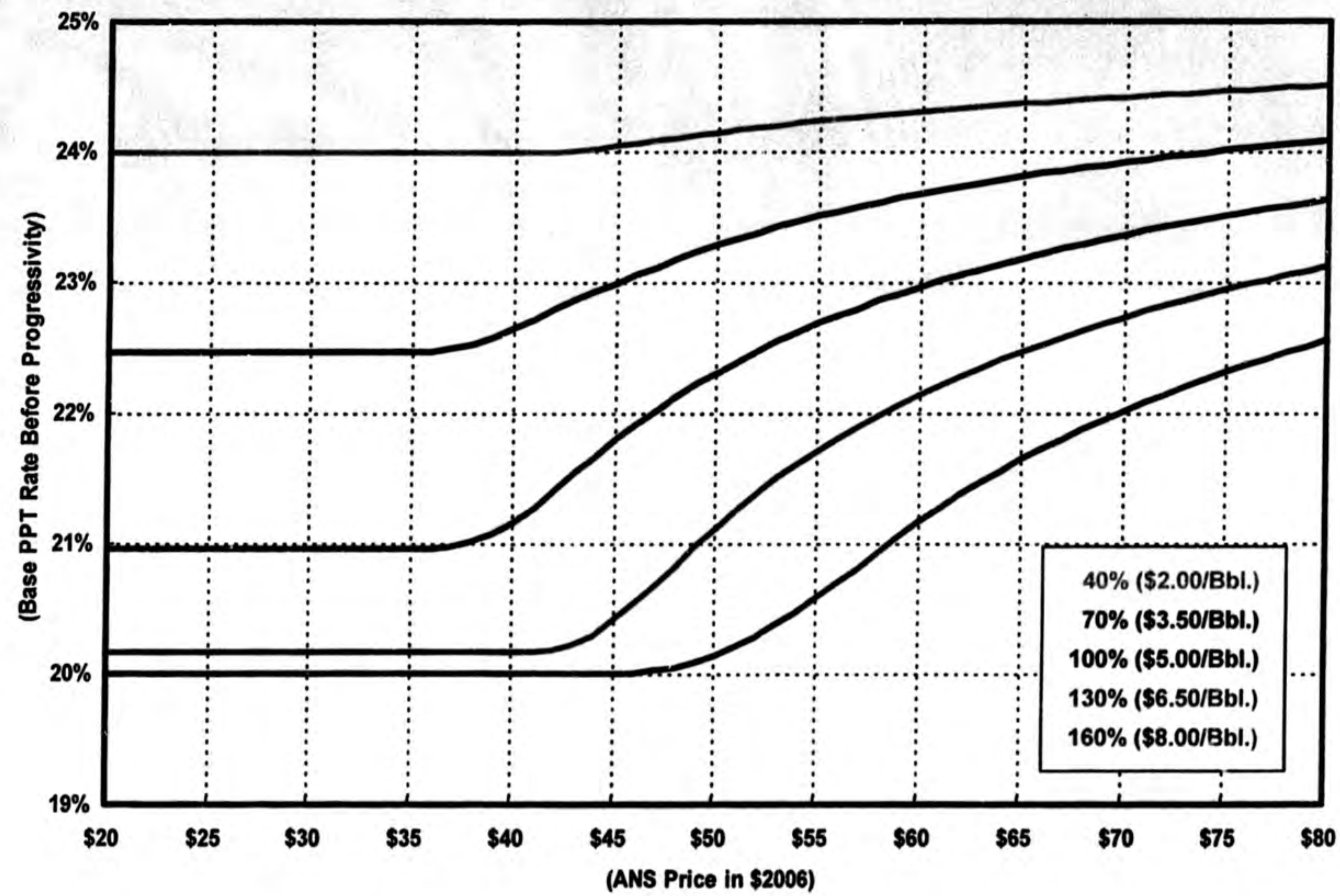
(213) 624-9600 Tel

(213) 624-6994 Fax

mailto:bpulliam@econone.com

Base PPT Rates Under CS for HB3001 at Various Price Levels After "Goldplating" Provision Excluding Progressive Component*

(FY 2007-2016)



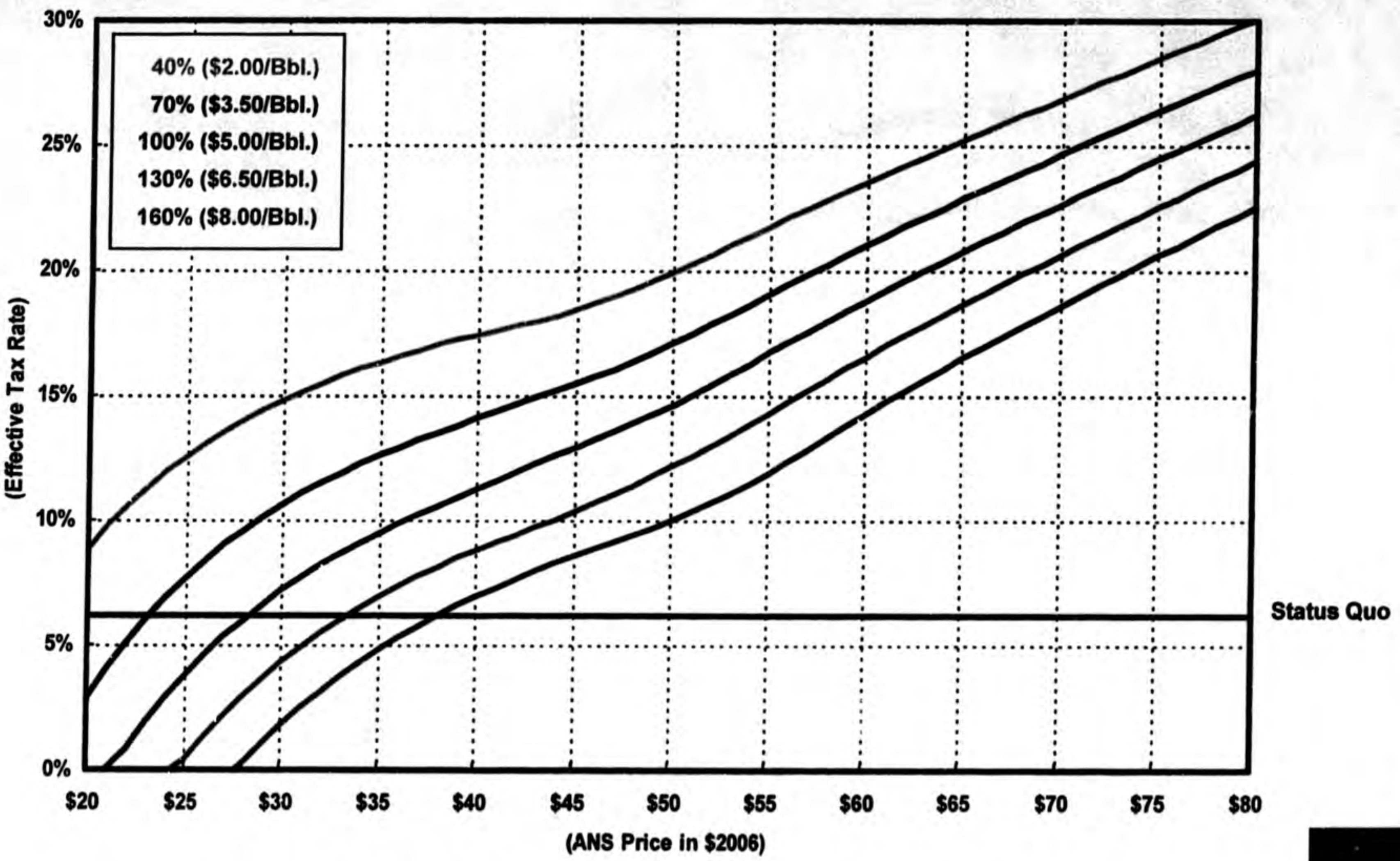
August 8, 2006
7:08 AM

Note. Assumes no major gas sale.

econ ONE

Average Effective Tax Rates at Various Price Levels and Capital Investment Rates Under CS for HB3001*

(FY 2007-2016)



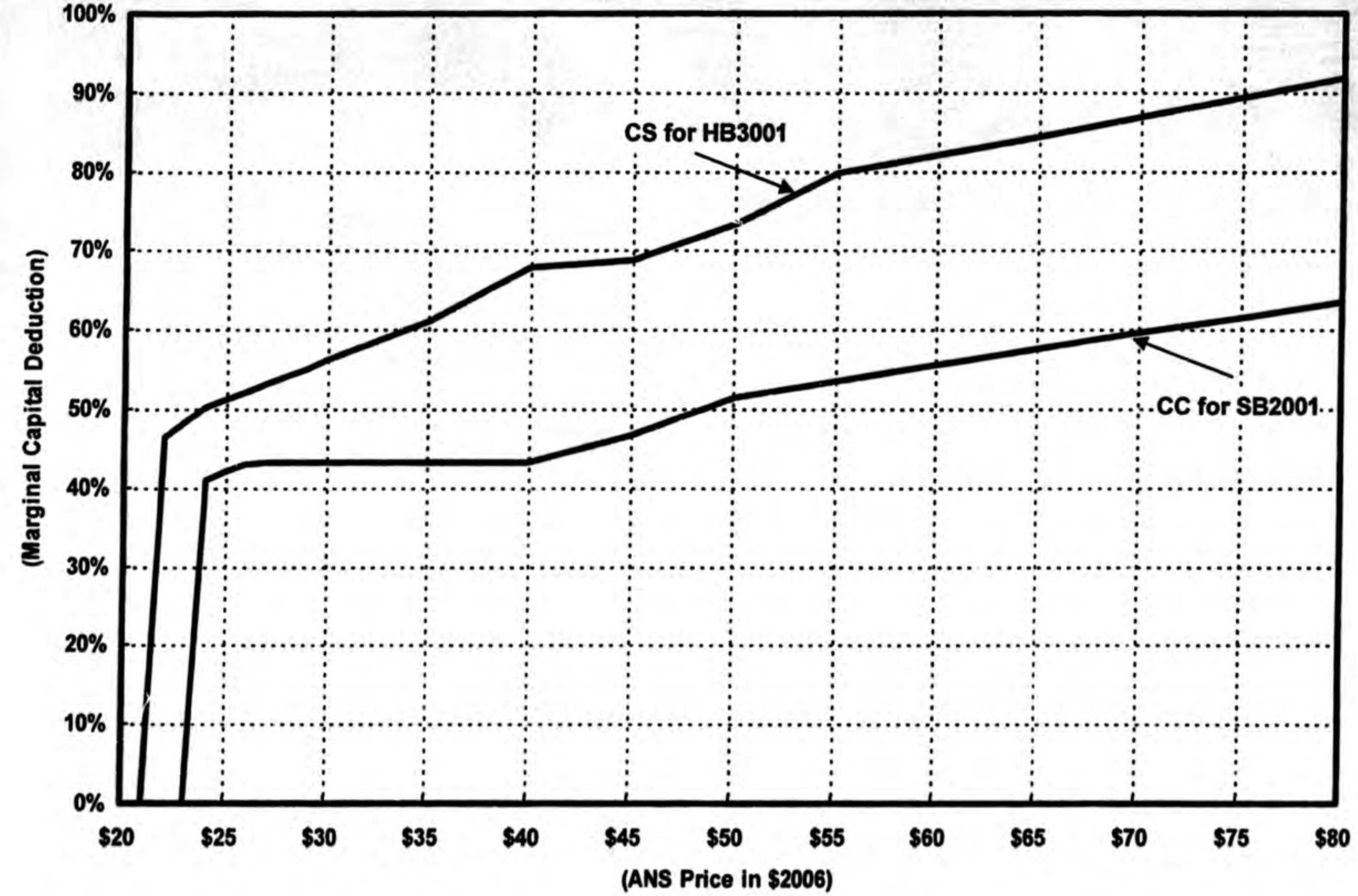
August 8, 2006
7:08 AM

Note: Assumes no major gas sale.

econ ONE

Marginal Capital Deduction at Various Price Levels Assuming Base (~$5.00/Bbl.) Investment Rate Under Different Plans*

(FY 2007-2016)



August 8, 2006
7:08 AM

Note: Assumes no major gas sale.

econ ONE

Comments on variable PPT rate of CS 3001(FIN)

August 8, 2006

Presentation to

The Senate Special Committee

Pedro van Meurs

8/8/06 9:15am

"Invest or Pay"

CS 3001(FIN) includes a new concept for determining the PPT rate. It is an "Invest or Pay" whereby the highest of two alternative rates is being selected:

(1) based on the level of investment per barrel (the "$/barrel rate")

(2) based on the relationship between qualified investments and production tax value (the "R rate").

$ per barrel rate

The $ per barrel rate changes with the level of investment:

-- $ 1 per barrel - 25%

-- $ 6 per barrel - 20%

In between the rate is:

25% - 1% (IF – 1)

IF = Qualified Capex/production

$ per barrel rate

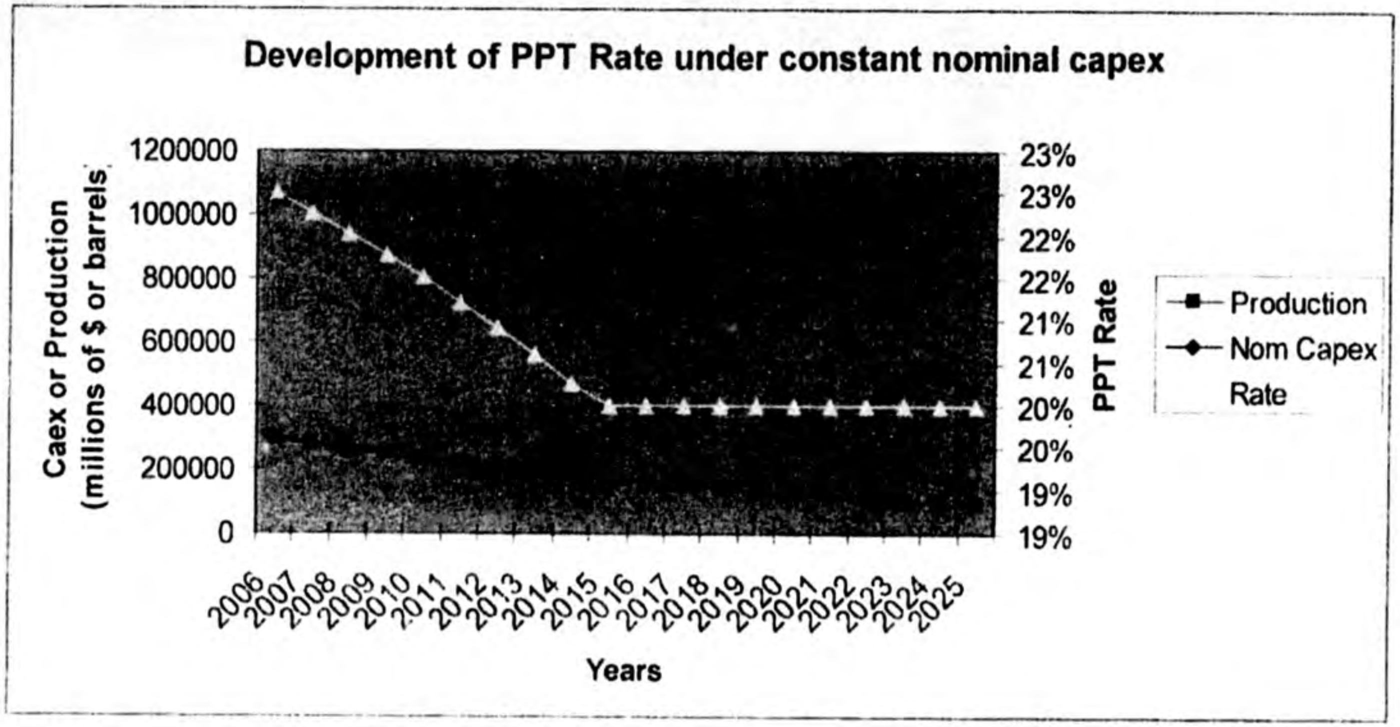
The $ per barrel rate is very sensitive to the production decline curve and the level of investment.

The investment is measured in nominal dollars.

The following two graphs show that if companies would keep their investments at current levels in nominal terms with a declining production that they would eventually get a 20% rate.

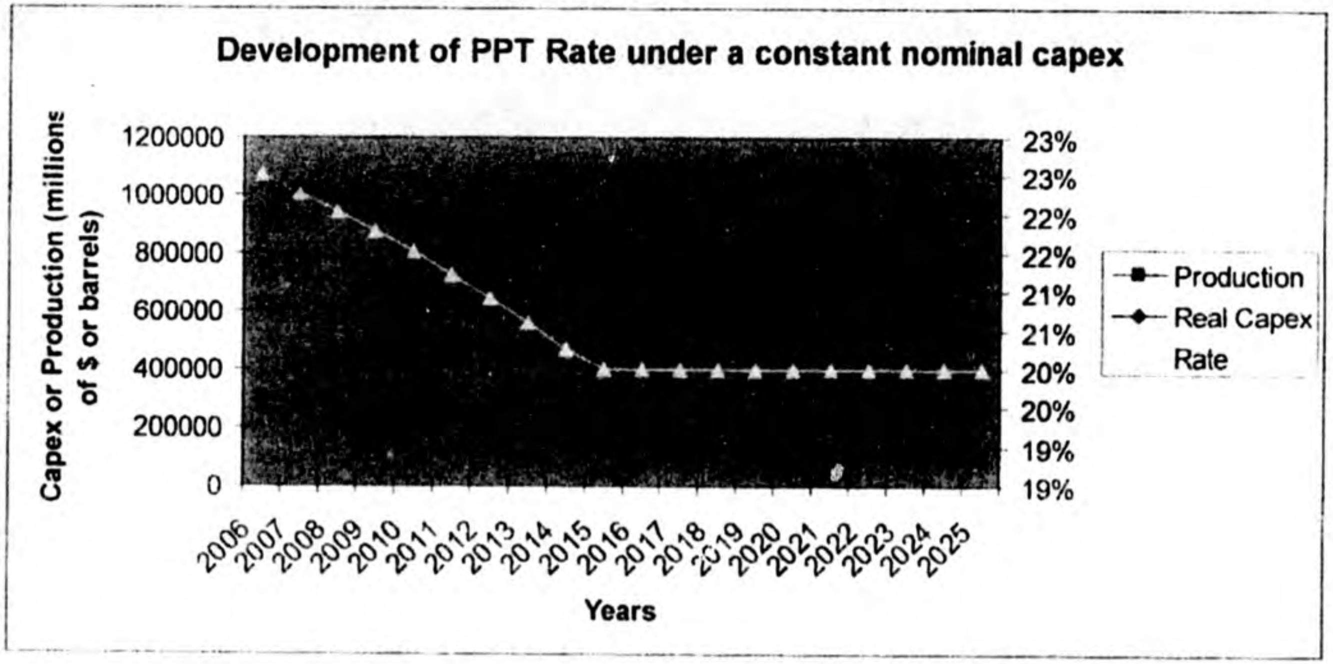
This means that in real terms the level of investment would decline.

$ per barrel rate



The PPT rate would drop to 20% in 10 years if the level of investment remains constant in nominal doiiars while production declines 6% per year.

$ per barrel rate



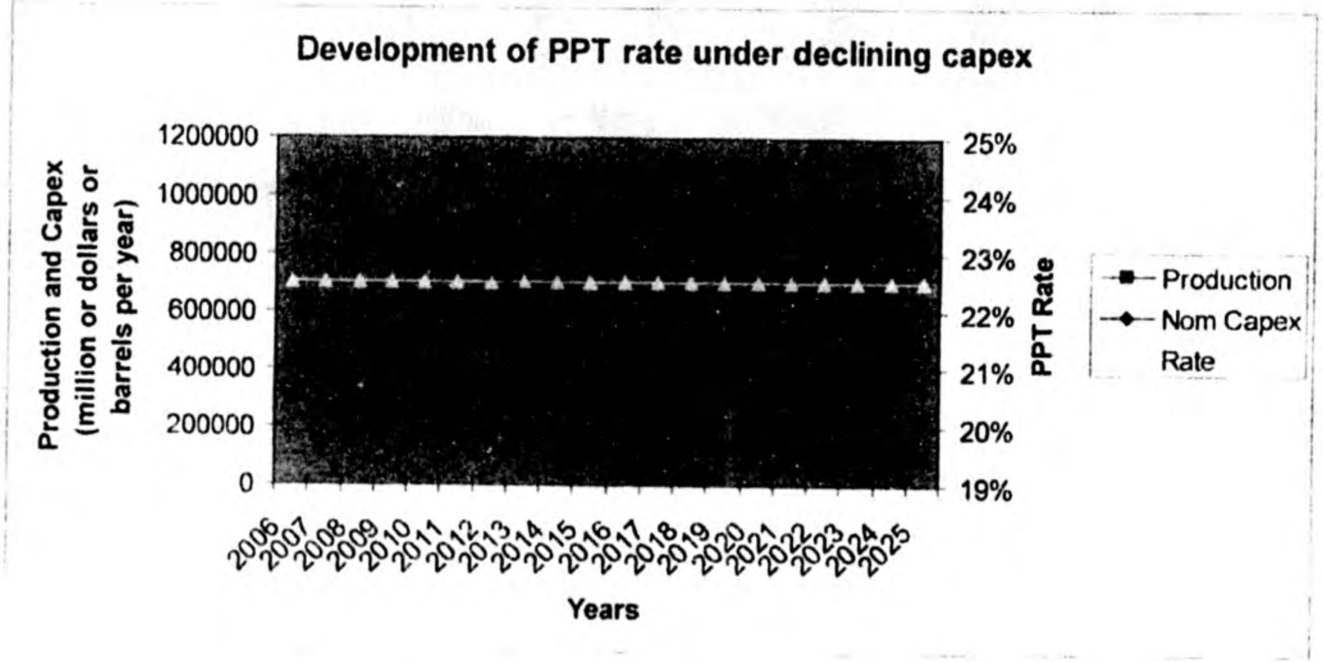
The PPT rate would drop to 20% in 10 years if the level of investment remains constant in nominal dollars while production declines 6% per year.

$ per barrel rate

The following two graphs show that the $ per barrel rate permits a company to let its investments in nominal terms decline at the same rate as the production decline while maintaining the PPT rate at 22.5% or whatever percentage the start out rate is.

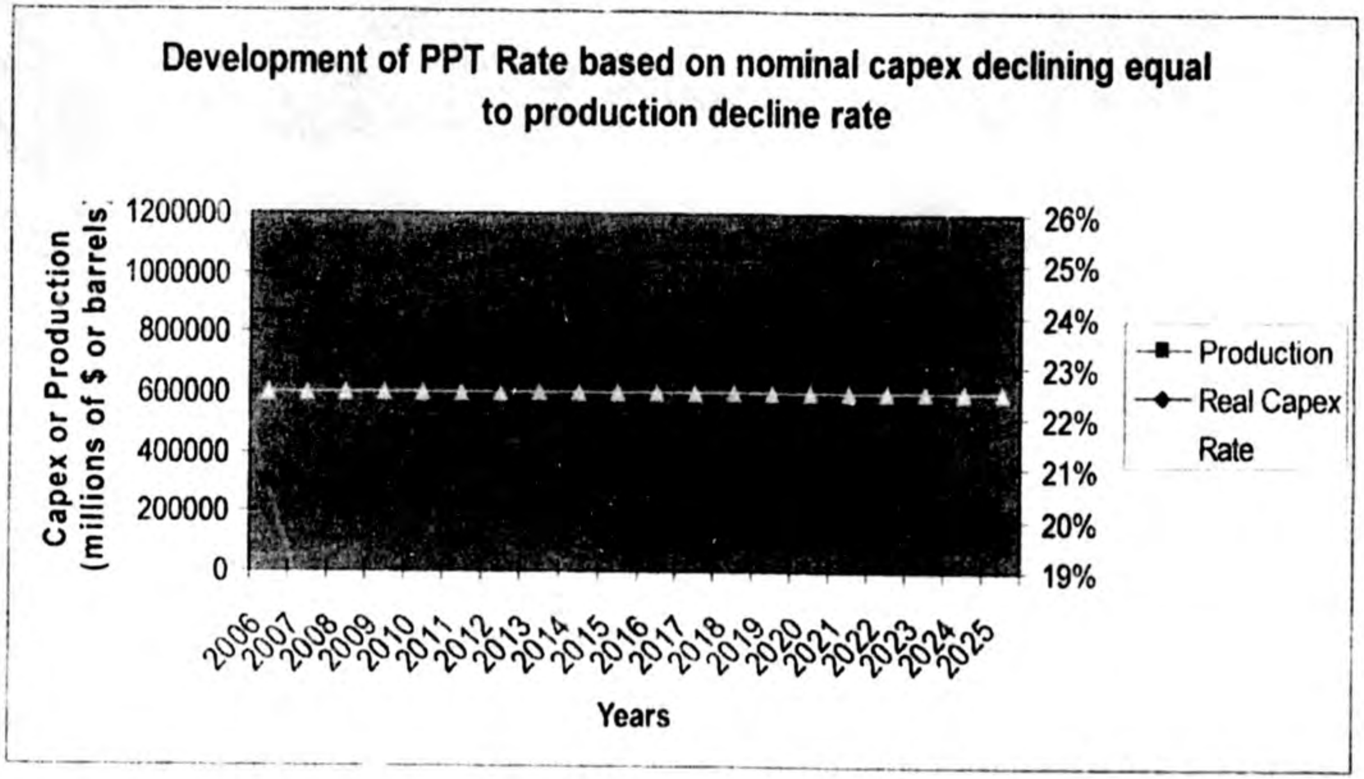
This means that the company could have a very steep decline of investment in real terms and the PPT rate would not go up.

$ per barrel rate



If the Investments decline at the same nominal capex rate as the production the PPT rate would remain constant.

$ per barrel rate

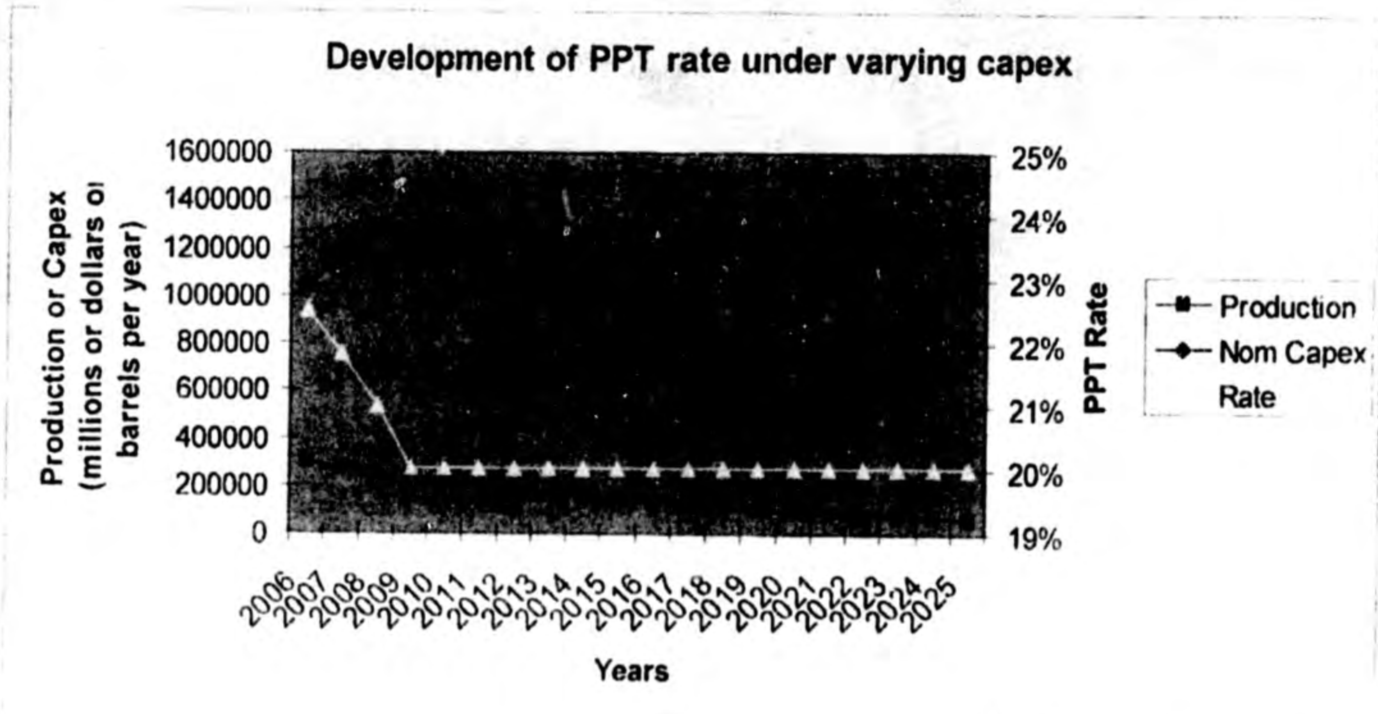


If the Investments decline at the same nominal capex rate as the production the PPT rate would remain constant.

$ per barrel rate

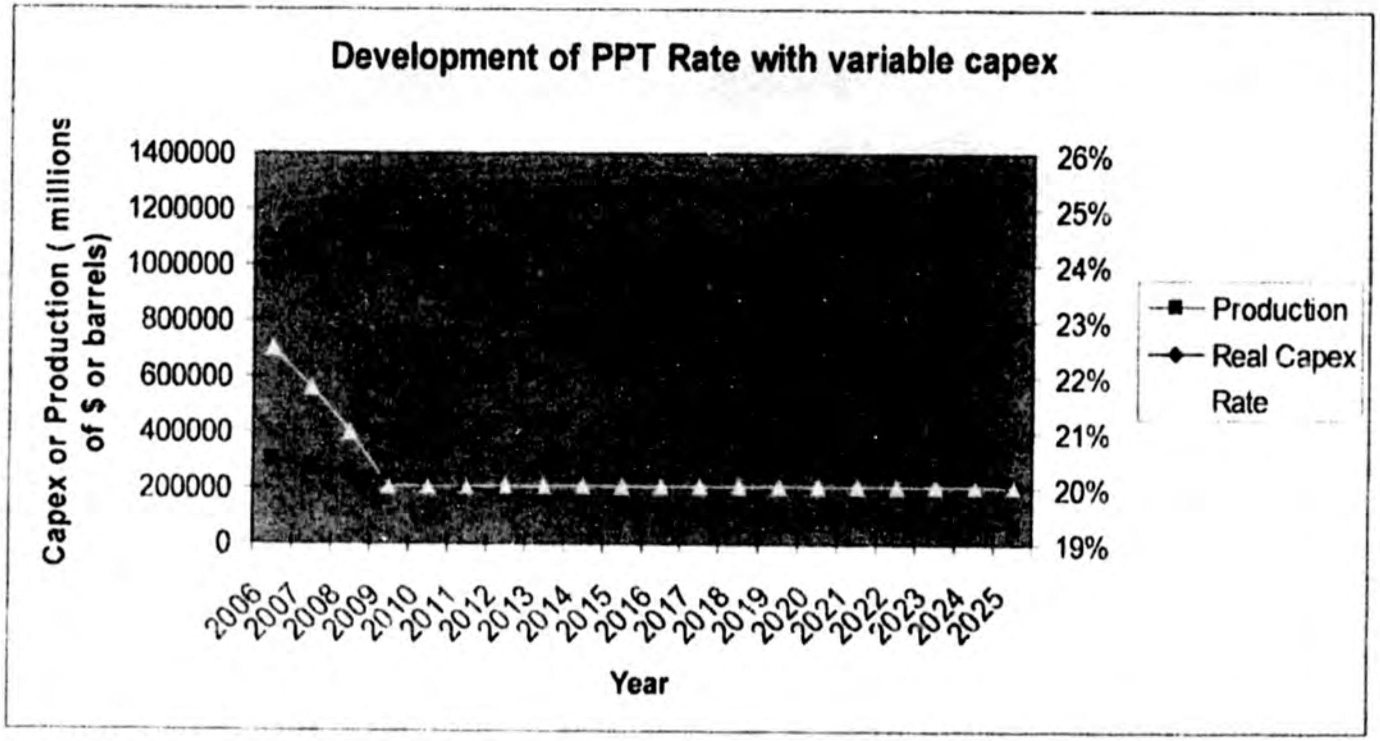
The following two graphs show that based on the $ per barrel rate a company could develop a business plan by accelerating initially for a short period of time the level of investment in order to bring the rate down to 20% and subsequently let the level of investment decline with production decline in order to maintain 20%.

$ per barrel rate



Companies could develop a business plan whereby they would accelerate certain capital investments until the PPT rate is quickly down to 20% and afterwards investment could decline with production and maintain the 20% rate.

$ per barrel rate



Companies could develop a business plan whereby they would accelerate certain capital investments until the PPT rate is quickly down to 20% and afterwards investment could decline with production and maintain the 20% rate.

R rate

The R rate is based the following formula:

[{(r*qc)+(0.2*qc)+[(0.25-r)*PT]}*(1-ir)+(qc*ir) = 0.75*qc

r = rate

qc = qualified capex

pt = production tax value

ir = US tax rate

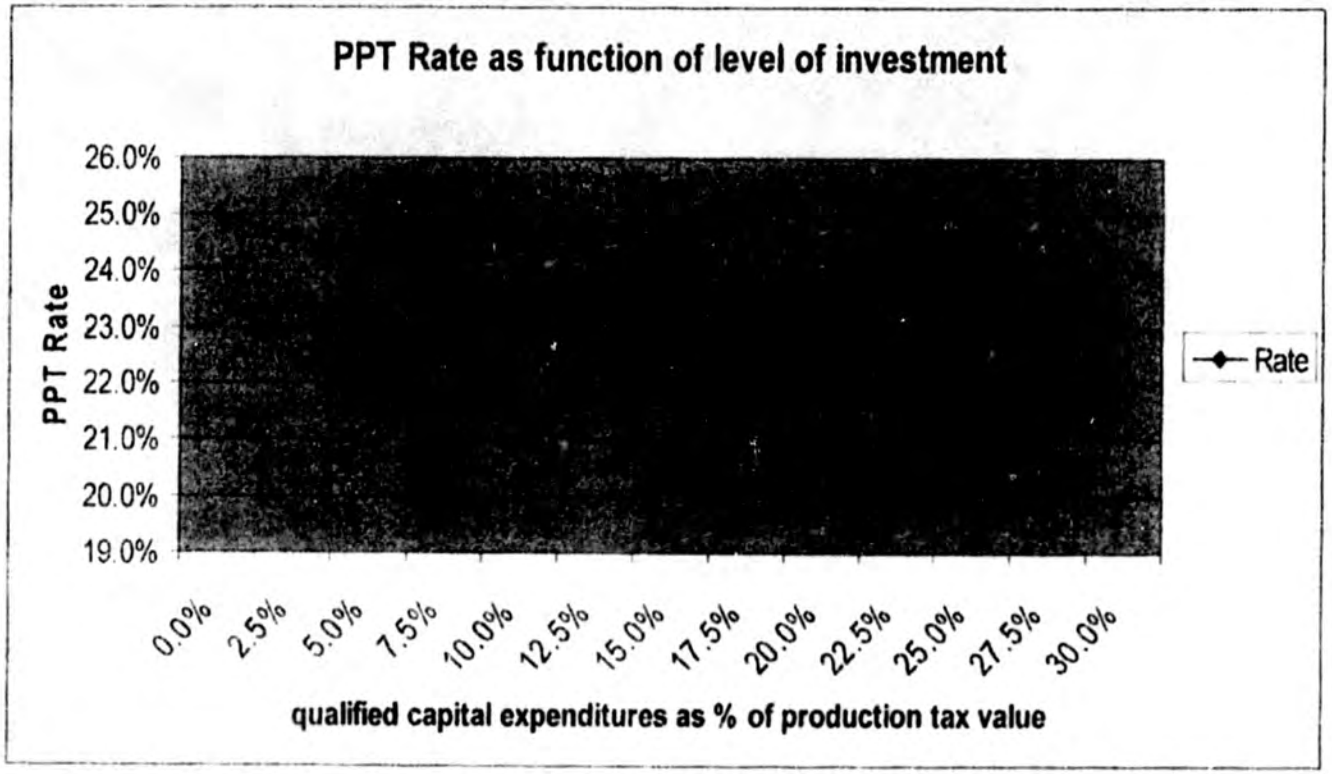
R rate

If we assume that the IR equals 35% and the PT is a given value in any particular year, the formula establishes essentially a relationship between the re-investment rate of the qualified capital expenditures as percentage of the PT.

With zero reinvestment, the rate is 25% with a re-investment of 23.2% the PPT rate would be 20%. This relationship is displayed in the following graph.

A company which only reinvest 25% of its net revenues and transfers 75% to other jurisdictions could reasonably be considered a "harvester".

R Rate



The R rate is directly linked to the percentage that companies reinvest of their net revenues. If they reinvest 23% of their net revenues the PPT rate is 20%. In order to maintain a 22.5% PPT rate all that is required is to reinvest 12.5% of the net revenues.

Selection of higher rate

The following colored table illustrates that it is relatively easy to reach a 20% PPT rate as long as oil prices (net of royalties) are up to $ 50 per barrel. Modest increases in investment will bring down the rate quickly to 20%.

Under higher prices the required 23.2% reinvestment rate in order to arrive at 20% PPT would involve increasingly higher levels of re-investment and therefore the R rate slows down the rate decline.

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Selection of higher rate

	$20.00	$30.00	$40.00	$50.00	$60.00	$70.00	$80.00	$90.00	$100.00
$0.00	25	25	25	25	25	25	25	25	25
$0.50			25	25	25	25	25	25	25
$1.00					25	25	25	25	25
$1.50									
$2.00									
$2.50									
$3.00									
$3.50									
$4.00									
$4.50									
$5.00									
$5.50									
$6.00	20	20	20	20					
$6.50	20	20	20	20					
$7.00	20	20	20	20					
$7.50	20	20	20	20					
$8.00	20	20	20	20	20				
$8.50	20	20	20	20	20				
$9.00	20	20	20	20	20				
$9.50	20	20	20	20	20	20			
$10.00	20	20	20	20	20	20			

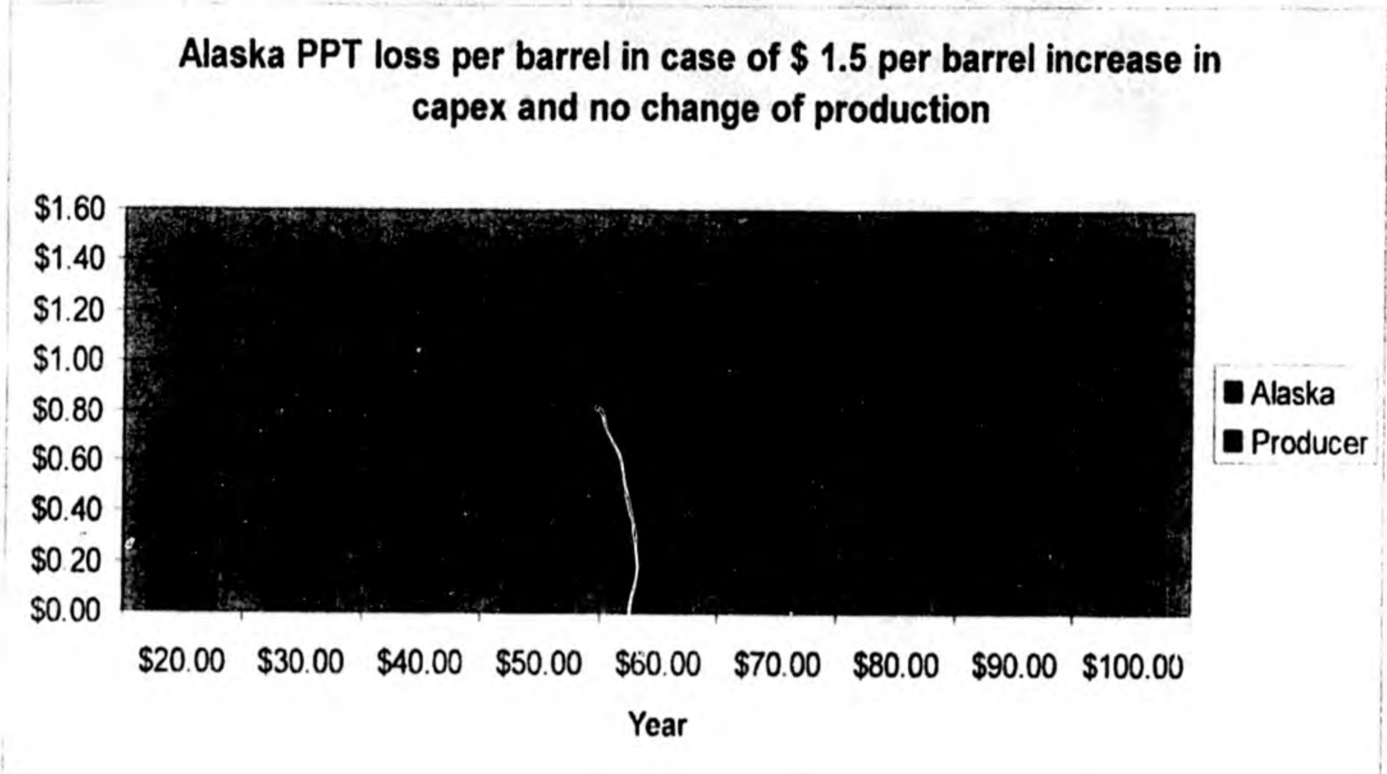
No difference between $ per barrel and R rates
$ per barrel higher
R rate higher

PPT loss

The following chart illustrates how Alaska would contribute up to $ 1.20 in PPT loss to a company that would increase investment by $ 1.50 per barrel from $ 3 per barrel or 80%. Companies that would benefit from the 2 for 1 feature would receive another $ 0.15 per barrel for a total of $ 1.35 per barrel State contribution. Of the remaining $ 0.15 the US federal tax results in a reduction of a further $ 0.05 per barrel. Therefore, a company which would increase investment by $ 1.50 per barrel would only contribute $ 0.10 per barrel from "its own pocket".

Alaska PPT Loss

Based on a company with $ 3/bbl investment rate



The PPT Loss would be higher if there is a loss in production and less if there is a gain in production as a result of the capex. This does not include yet the 2 for 1 feature.

PPT loss

The following chart illustrates how Alaska would contribute up to $ 2.36 in PPT loss to a company that would increase investment by $ 3 per barrel from $ 3 per barrel. Companies that would benefit from the 2 for 1 feature would receive another $ 0.30 per barrel for a total of $ 2.66 per barrel State contribution. Of the remaining $ 0.34 the US federal tax results in a reduction of a further $ 0.12 per barrel. Therefore, a company which would increase investment by $ 3.00 per barrel would only contribute $ 0.22 per barrel from "its own pocket".