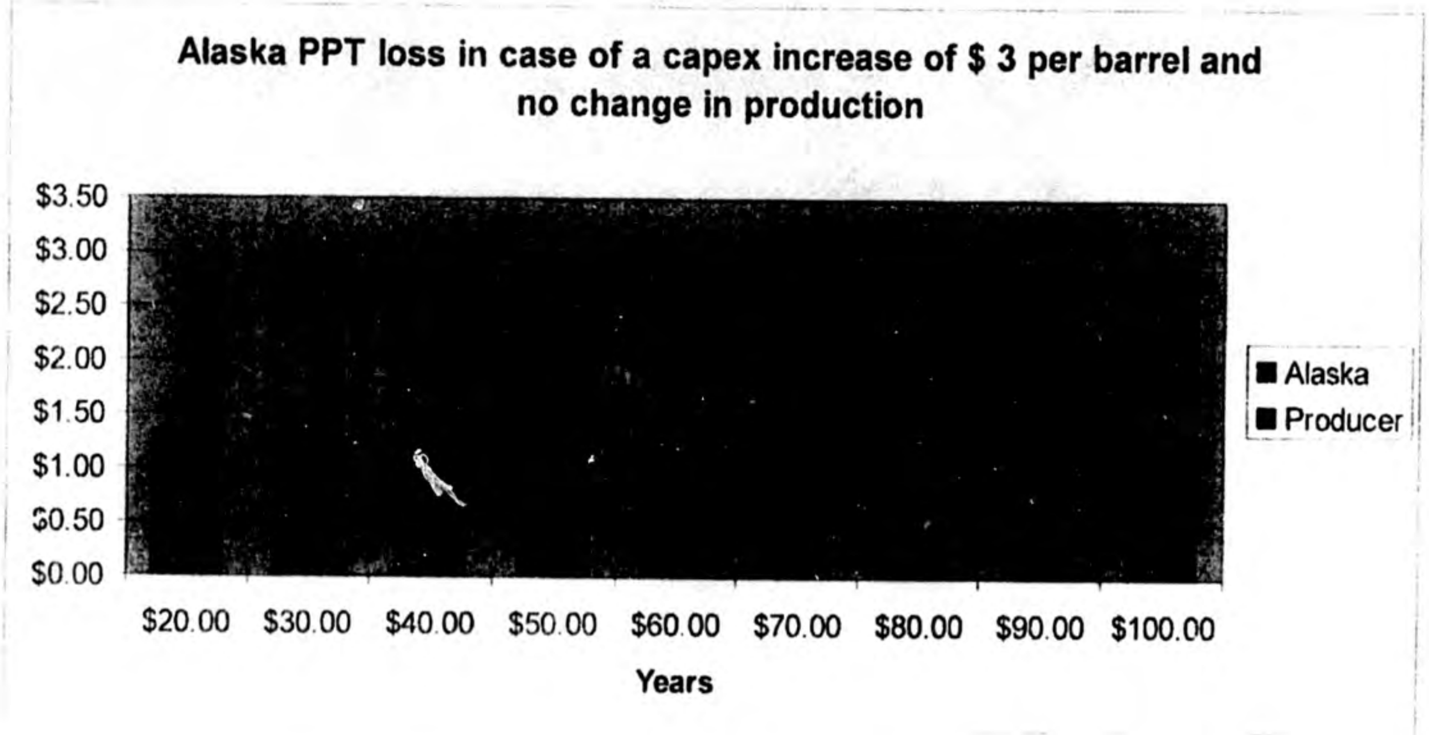
ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3114 SCOMM 143: SENATE SPEC.COMM.ON NATURAL GAS DEV. 2005-2006

Alaska PPT Loss

Based on a company with a $ 3/bbl investment rate



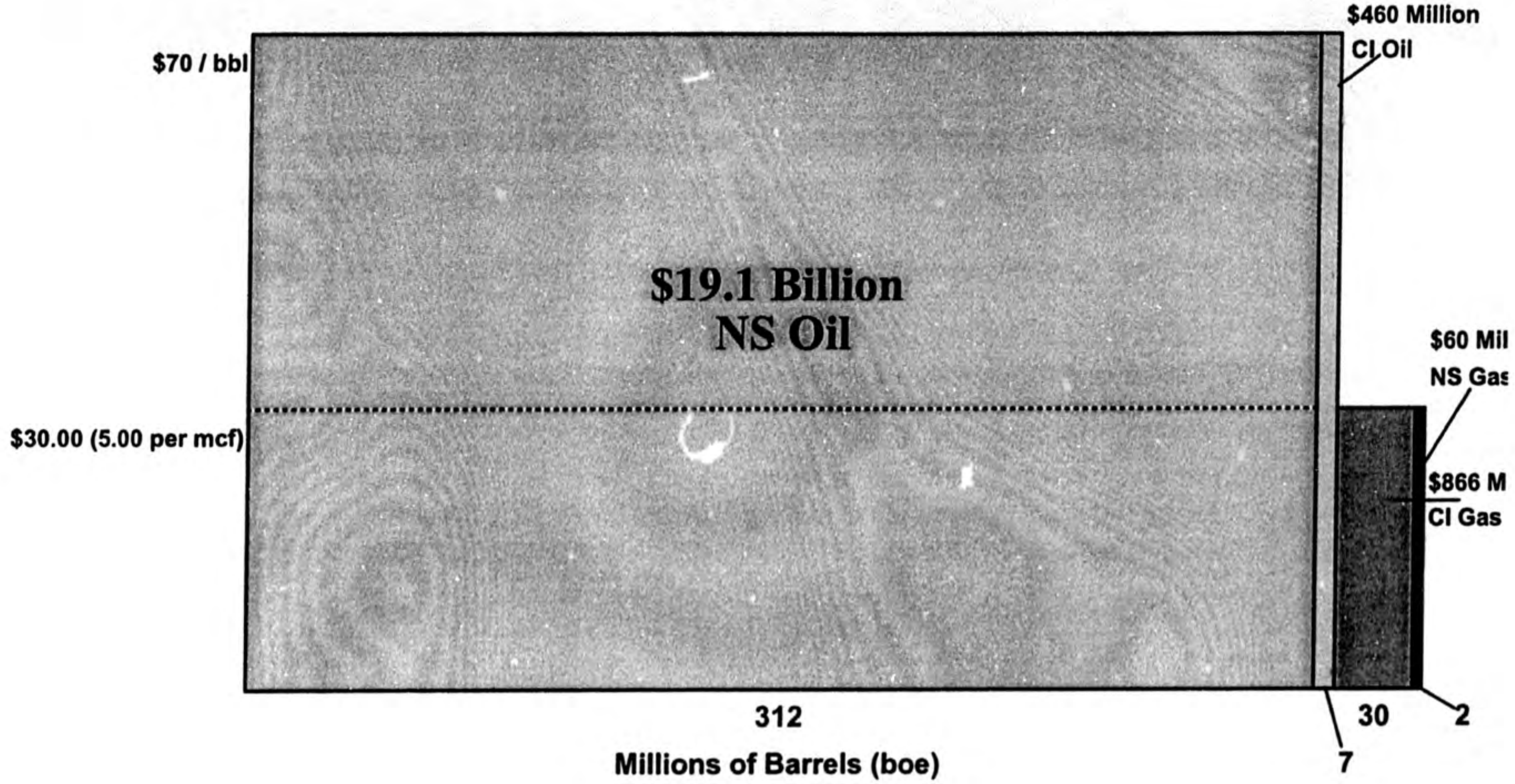
PPT loss would be higher if production would be less and PPT loss would be less if production would be higher as a result of the capex investment. This does not include yet the 2 for 1 feature.

Roadmap of modified sections
Comparison of House POP plan
to Conference CS for S. Bill No. 2001 version CA

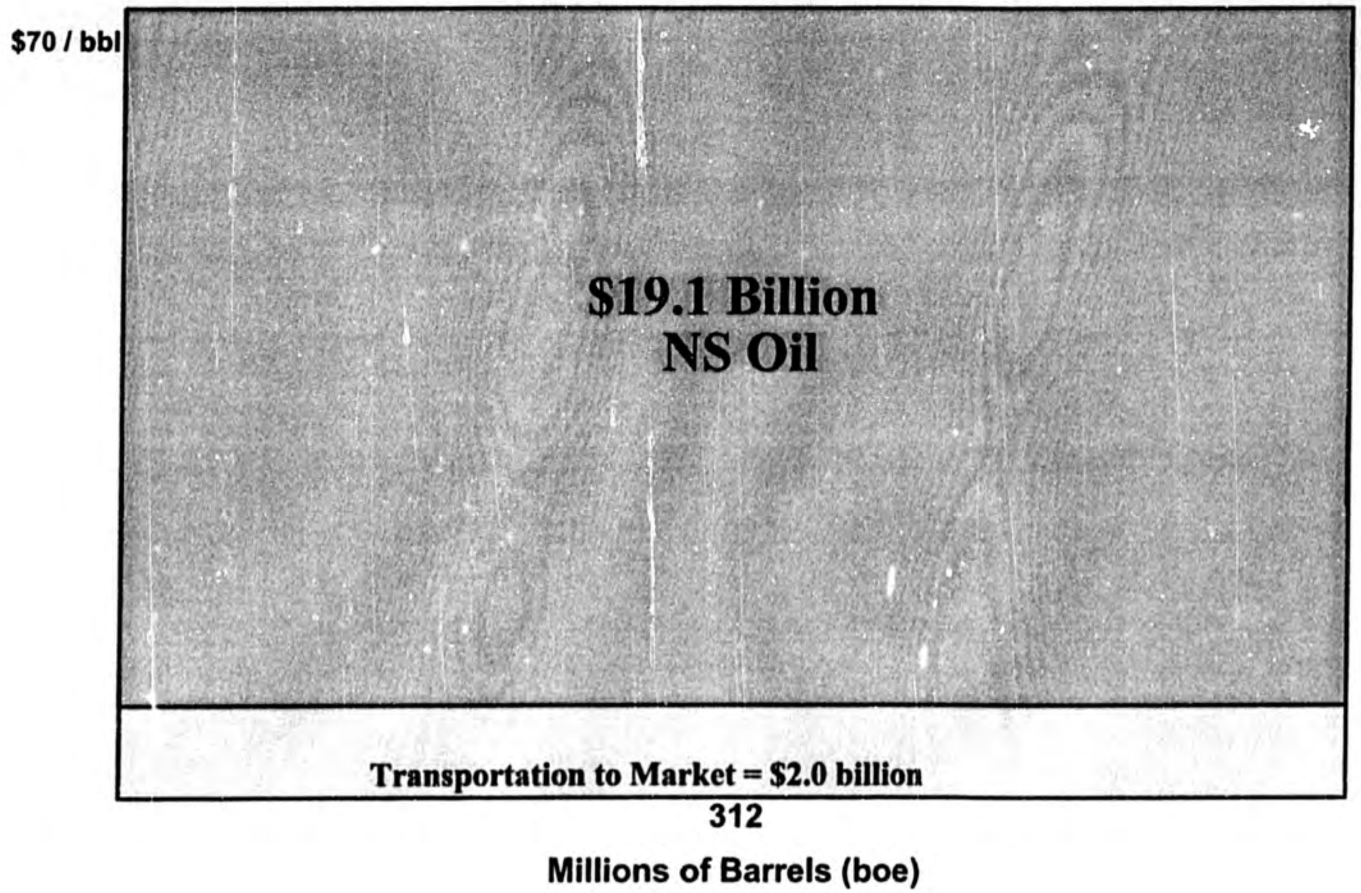
source: AK DOR
8/8/2006

	Conf. Com. Ver. CA		POP Plan House CS Version P
PPT/POP rate	.011(e)		.011(e)(f)
progressivity feature	.011(g), (h)		.011(g), (h)
private royalty rates	.011(f)		.011(i)
Cook Inlet gas ELF ceiling	.011(i)		.011(j)
Cook Inlet oil ELF ceiling	.011(j)		.011(k)
clarification of Cook Inlet tax reduction application			.011(L)
application of credits for Cook Inlet	.011(k)		.011(m)
regulations for allocation of credits	.011(L)		.011(n)
regulations for testing heating value	.011(m)		.011(o)
BTU equivalent barrel definition			.900(18)
95% safe harbor	.020(a)		n/a
monthly installment payments			.020(a)
monthly installment rules for private royalties			.020(d)
interest rules for monthly installment payments			.020(g), (h)
capex credits	.024		.023(a)(1)
losses converted to credits	.024(b)		.023(b)
transitional investment credits (TIE)	.024(j)		.023(i)
anti-churning rules	.024(i)		.023(k)(2)(B)
additional non transferable tax credits	.170		.024
New Area Development credit	.170(a), (b)		.024(a)-(e)
Base Allowance credit	.170(c), (d)		.024(c),(d)
non-arms length (re: IRC §482)	.160(i)		.165(i)
production tax value calculation	.160(a)-(b)		.160
lease expenditures--allowed	.160(c)		,165(c)
lease expenditures--disallowed	.160(d)		.165(e)
adjustments to lease expenditures	.160(e)		.170
election to utilize 1/2 lease expenditures rather than actual	.160(f)		n/a

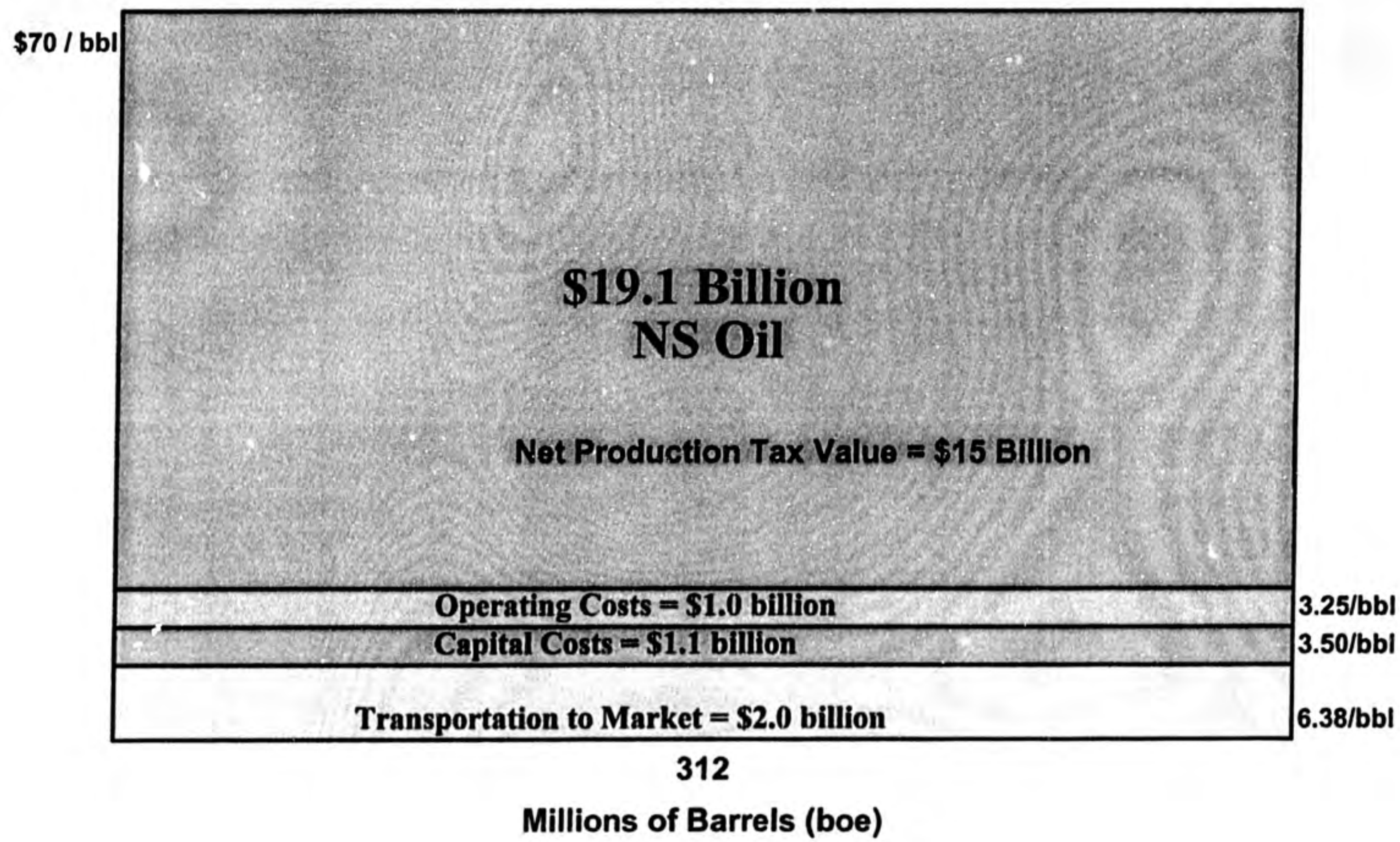
Sale at Market



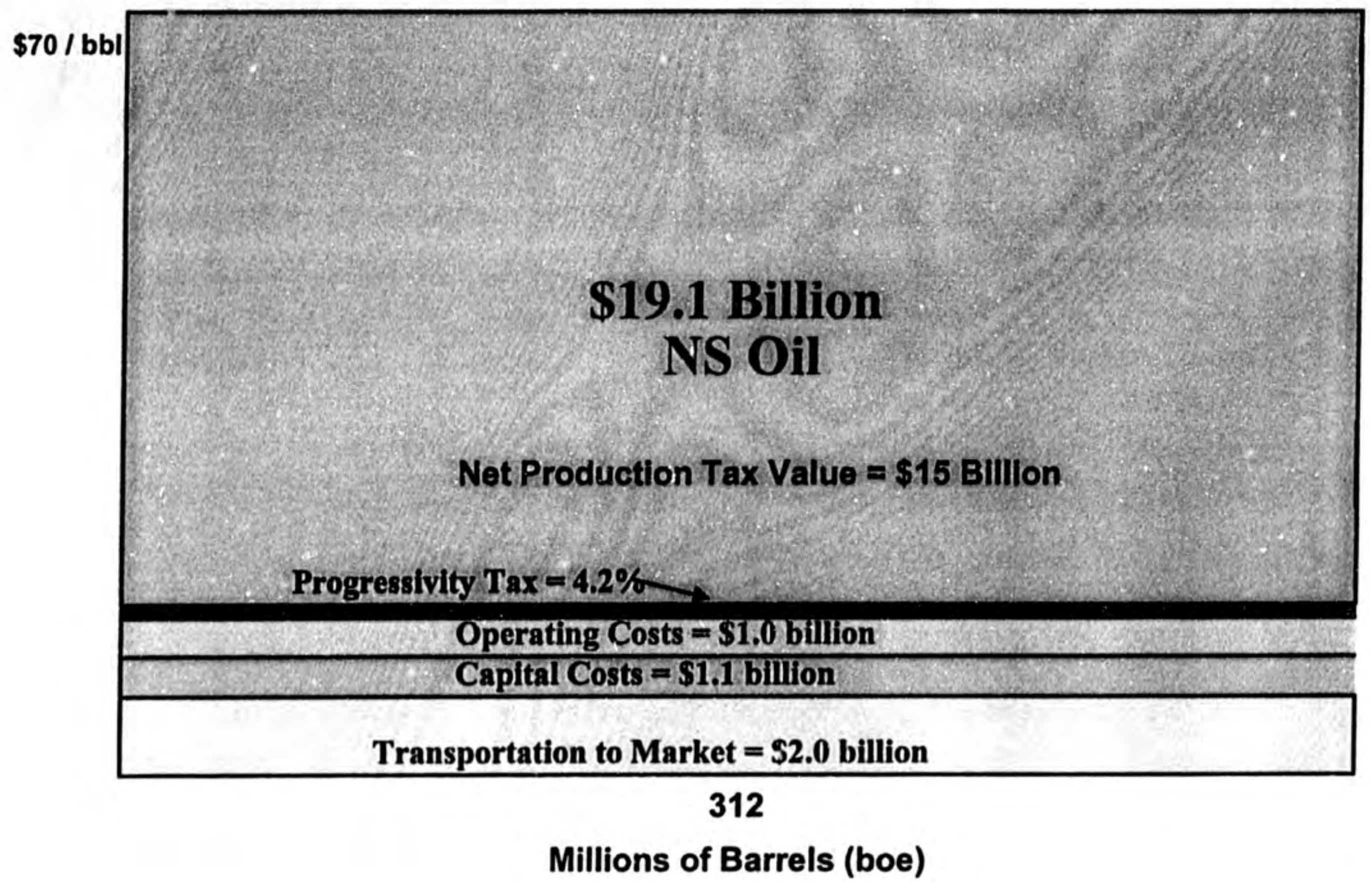
Gross Value at Point of Production



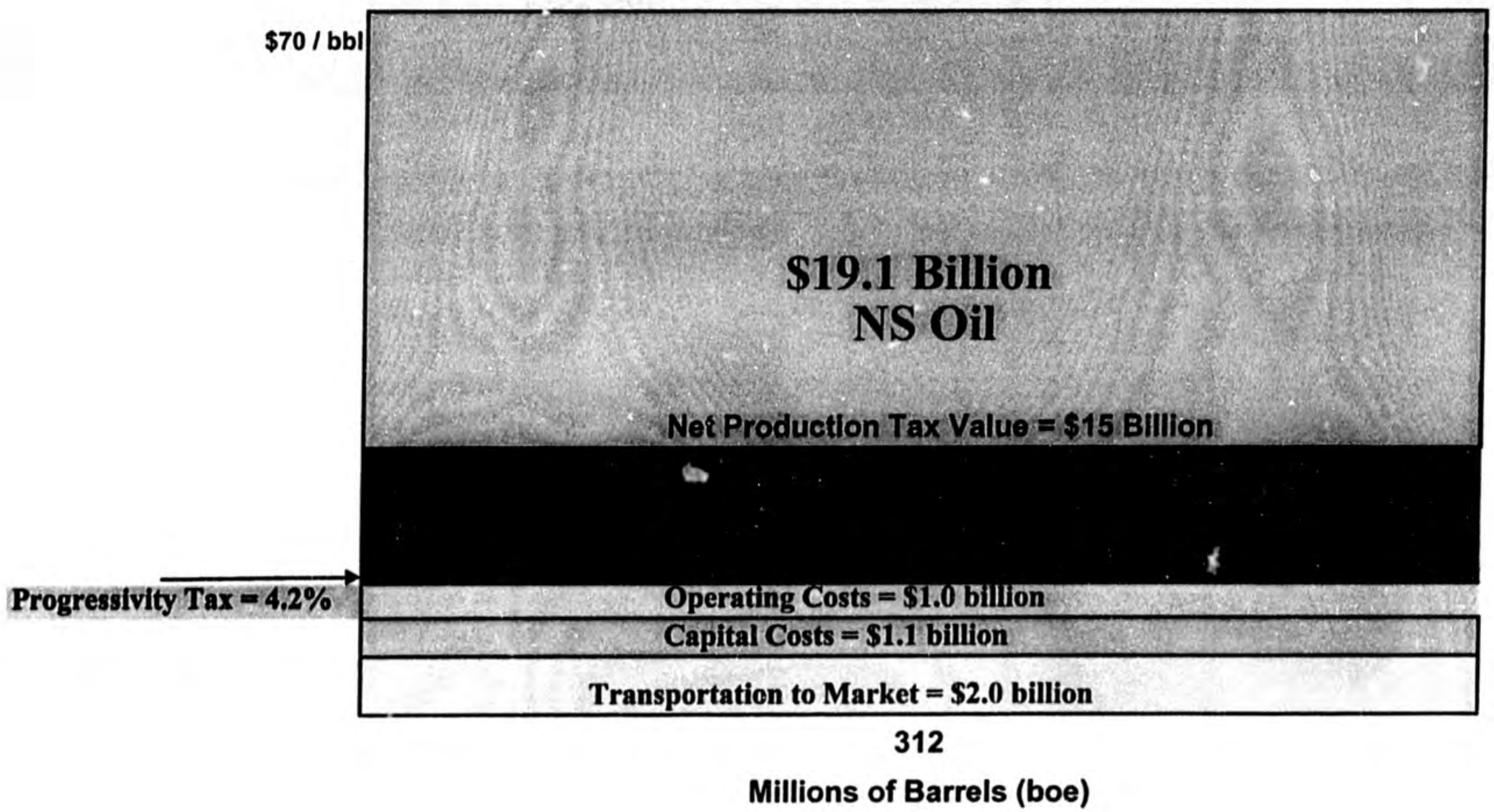
Net Value or Production Tax Value



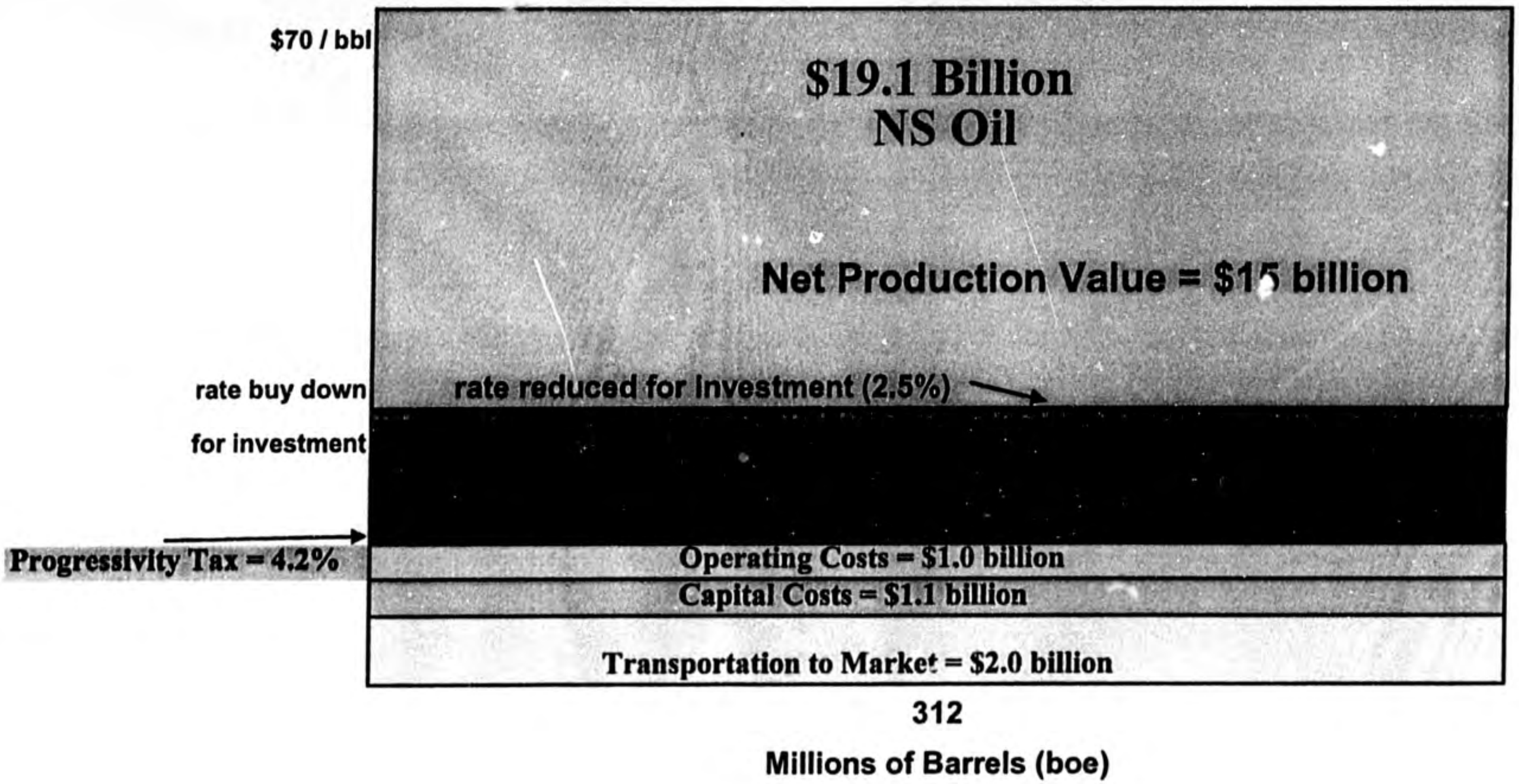
Progressivity Tax



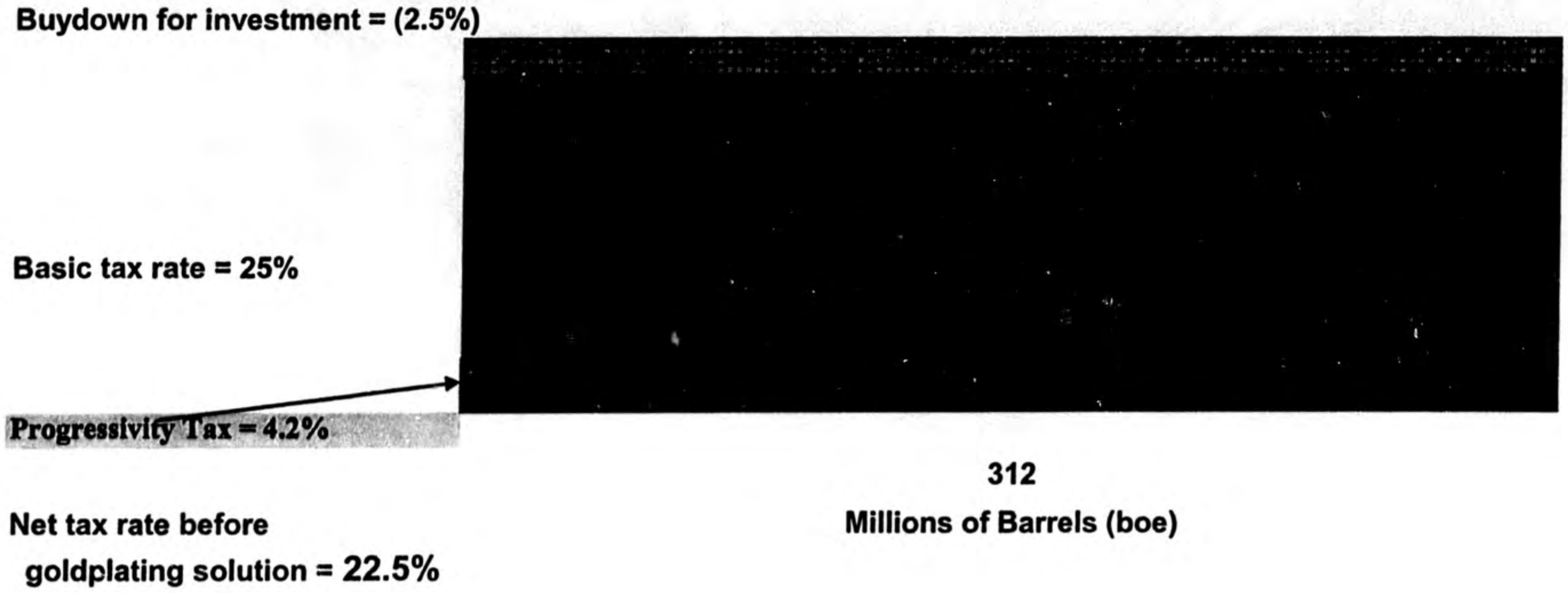
Basic Tax Rate



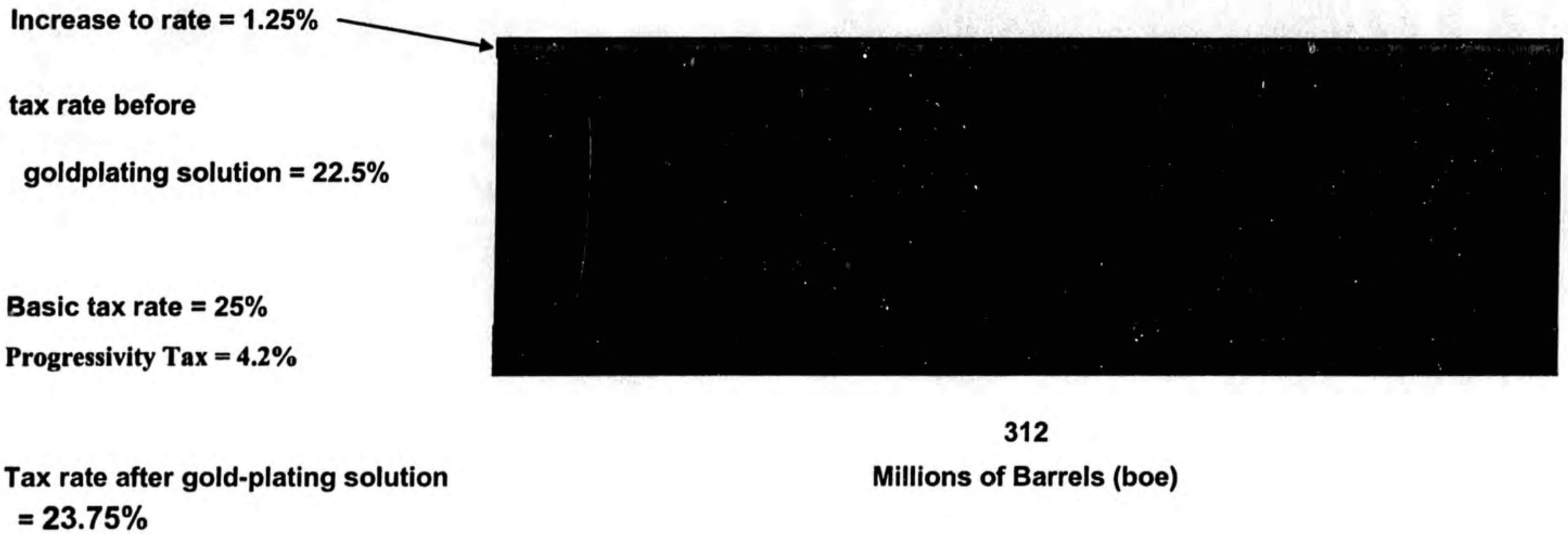
Tax Rate buy down for investment
Before gold-plating solution



Tax Rate buy down for investment



Tax after gold-plating solution



Tax After Credits

Base allowance credit: $12m x 4 users = $48 million

TIE credit: 1.1b x .5 x .2 = $110 million

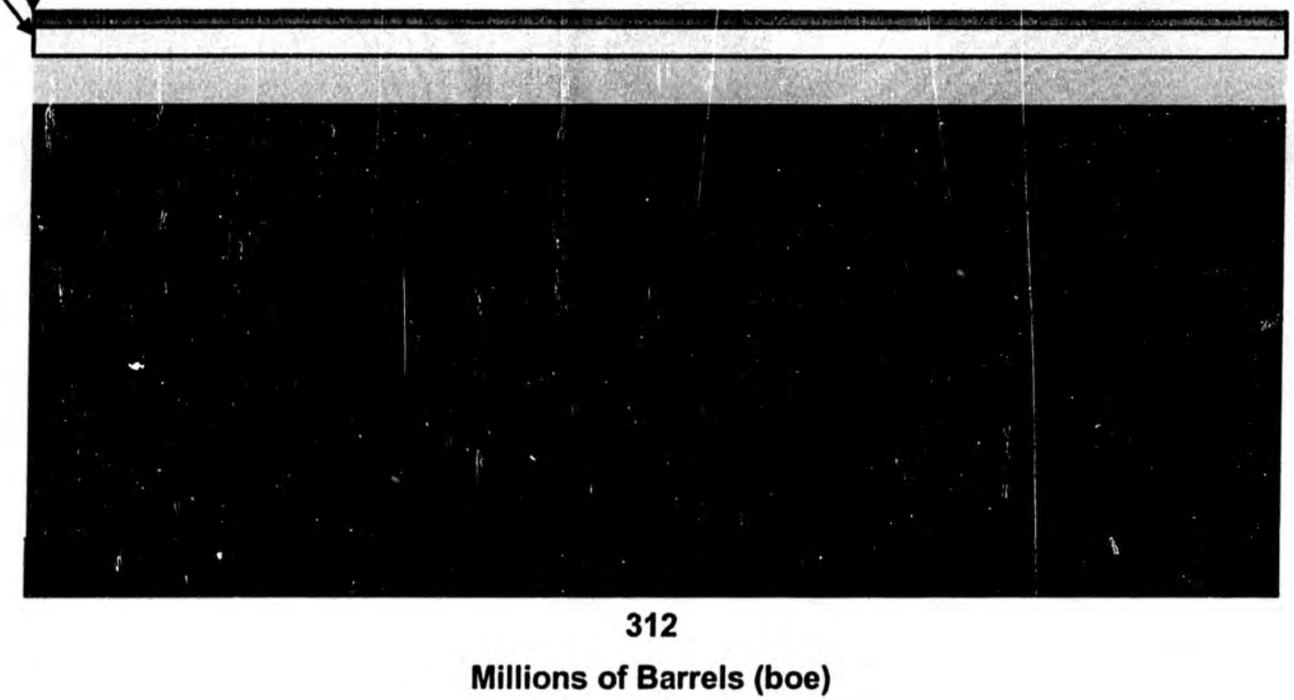
Qualified Capital Expenditure Credits:

1.1 b x .20 = $220 million

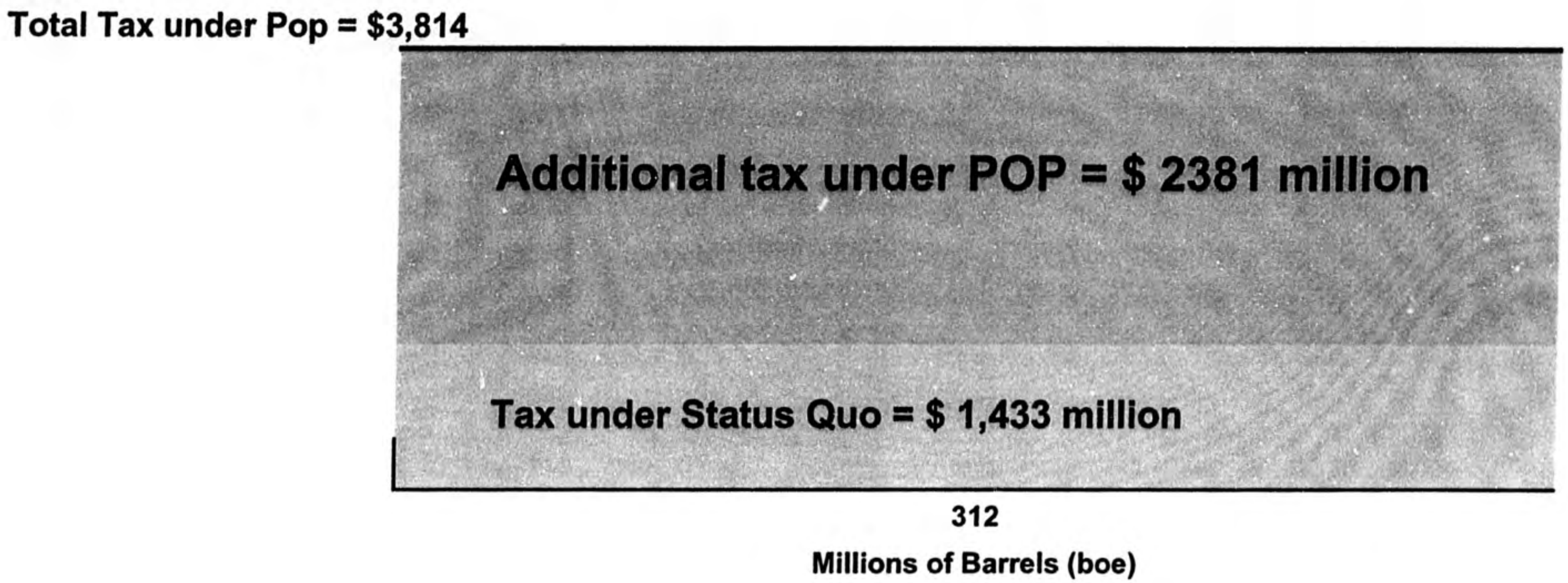
Basic tax before credits

= $3,562 million

Total Tax = $3,814



Comparison to Status Quo



Simplified Comparison [illegible]T, POP and Status Quo
All North Slope, 300 million Bbls Annual, $30/bbl

	CSHB 3001 (Fin) Mechanism		Final Senate Bill 2001 (Fin)		Final House Bill 2001 (Fin)		PPT as introduced		Status Quo on Gross	
	Per Bbl or Rate	Total Dollars (mms)	Per Bbl or Rate	Total Dollars (mms)	Per Bbl or Rate	Total Dollars (mms)	Rate	Total Dollars (mms)	Rate	Total Dollars (mms)
Destination	$ 30.00	$ 7,875.00	$ 30.00	$ 7,875.00	$ 30.00	$ 7,875.00				$ 7,875.00
Opex and Trans	$ (12.00)	$ (3,150.00)	$ (12.00)	$ (3,150.00)	$ (12.00)	$ (3,150.00)				$ (1,575.00)
Capital	$ (4.63)	$ (1,215.38)	$ (4.63)	$ (1,215.38)	$ (4.63)	$ (1,215.38)				
	$ 13.37	$ 3,509.63	$ 13.37	$ 3,509.63	$ 13.37	$ 3,509.63				$ 6,300.00
Progressivity										
Insert Point	$ 40.00		$ 35.00		$ 35.00					
Difference	$ (26.63)		$ (21.63)		$ (21.63)					
Slope	0.250%		0.100%		0.250%					
resulting rate increment	0.000%		0.000%		0.000%					
Base rate	25.000%	$ 877.41	22.500%	$ 789.67	23.500%	$ 824.76	20.000%	701.93	7.50%	$ 472.50
Adjustment for investment	-3.630%	$ (127.40)								
resulting rate	21.370%	$ 750.01								
Gold Plating Correction	0.000%	$ -								
resulting rate	21.370%	$ 750.01								
add progressivity	0.000%	$ -	0.000%	$ -	0.000%	$ -				
Actual Tax rate	21.370%	$ 750.01	22.500%	$ 789.67	23.500%	$ 824.76				
Non royalty barrels	262.50		262.50		262.50					
net value	$ 13.37		$ 13.37		$ 13.37					
tax rate	21.370%		22.500%		23.500%					
tax due (millions)	750.01		789.67		824.76					
Investment Credit		$ (277.80)		$ (277.80)		$ (277.80)		$ (277.80)		
"12 Million" Credit		$ (72.00)		$ (108.00)		$ (108.00)		$ (72.00)		
Max TIE		$ (138.90)		$ (138.90)		$ (138.90)		$ (138.90)		
TOTAL TAX		$ 261.31		$ 264.97		$ 300.06		213.23		$ 472.50
Effective Rate on gross		4.1%		4.2%		4.8%		3.4%		7.5%

Simplified Comparison [illegible]PT, POP and Status Quo
All North Slope, 300 million Bbls Annual, $50/bbl

	CSHB 3001 (Fin) Mechanism		Final Senate Bill 2001 (Fin)		Final House Bill 2001 (Fin)		PPT as introduced		Status Quo on Gross	
	Per Bbl or Rate	Total Dollars (mms)	Per Bbl or Rate	Total Dollars (mms)	Per Bbl or Rate	Total Dollars (mms)	Rate	Total Dollars (mms)	Rate	Total Dollars (mms)
Destination	$ 50.00	$ 13,125.00	$ 50.00	$ 13,125.00	$ 50.00	$ 13,125.00				$ 13,125.00
Opex and Trans	$ (12.00)	$ (3,150.00)	$ (12.00)	$ (3,150.00)	$ (12.00)	$ (3,150.00)				$ (1,575.00)
Capital	$ (4.63)	$ (1,215.38)	$ (4.63)	$ (1,215.38)	$ (4.63)	$ (1,215.38)				
	$ 33.37	$ 8,759.63	$ 33.37	$ 8,759.63	$ 33.37	$ 8,759.63				$ 11,550.00
Progressivity										
Insert Point	$ 40.00		$ 35.00		$ 35.00					
Difference	$ (6.63)		$ (1.63)		$ (1.63)					
Slope	0.250%		0.100%		0.250%					
resulting rate increment	0.000%		0.000%		0.000%					
Base rate	25.000%	$ 2,189.91	22.500%	$ 1,970.92	23.500%	$ 2,058.51	20.000%	1,751.93	7.50%	$ 866.25
Adjustment for investment	-3.630%	$ (317.97)								
resulting rate	21.370%	$ 1,871.93								
Gold Plating Correction	0.510%	$ 44.67								
resulting rate	21.880%	$ 1,916.61								
add progressivity	0.000%	$ -	0.000%	$ -	0.000%	$ -				
Actual Tax rate	21.880%	$ 1,916.61	22.500%	$ 1,970.92	23.500%	$ 2,058.51				
Non royalty barrels	262.50		262.50		262.50					
net value	$ 33.37		$ 33.37		$ 33.37					
tax rate	21.880%		22.500%		23.500%					
tax due (millions)	1,916.61		1,970.92		2,058.51					
Investment Credit		$ (277.80)		$ (277.80)		$ (277.80)		$ (277.80)		
"12 Million" Credit		$ (72.00)		$ (108.00)		$ (108.00)		$ (72.00)		
Max TIE		$ (138.90)		$ (138.90)		$ (138.90)		$ (138.90)		
TOTAL TAX		$ 1,427.91		$ 1,446.22		$ 1,533.81		1,263.23		$ 866.25
Effective Rate on gross		12.4%		12.5%		13.3%		10.9%		7.5%

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8/7/2006

Alaska Department of Revenue

Simplified Comparison [illegible]T, POP and Status Quo
All North Slope, 300 million Bbls Annual, $70/bbl

	CSHB 3001 (Fin) Mechanism		Final Senate Bill 2001 (Fin)		Final House Bill 2001 (Fin)		PPT as introduced		Status Quo on Gross	
	Per Bbl or Rate	Total Dollars (mms)	Per Bbl or Rate	Total Dollars (mms)	Per Bbl or Rate	Total Dollars (mms)	Rate	Total Dollars (mms)	Rate	Total Dollars (mms)
Destination	$ 70.00	$ 18,375.00	$ 70.00	$ 18,375.00	$ 70.00	$ 18,375.00				$ 18,375.00
Opex and Trans	$ (12.00)	$ (3,150.00)	$ (12.00)	$ (3,150.00)	$ (12.00)	$ (3,150.00)				$ (1,575.00)
Capital	$ (4.63)	$ (1,215.38)	$ (4.63)	$ (1,215.38)	$ (4.63)	$ (1,215.38)				
	$ 53.37	$ 14,009.63	$ 53.37	$ 14,009.63	$ 53.37	$ 14,009.63				$ 16,800.00
Progressivity										
Insert Point	$ 40.00		$ 35.00		$ 35.00					
Difference	$ 13.37		$ 18.37		$ 18.37					
Slope	0.250%		0.100%		0.250%					
resulting rate increment	3.343%		1.837%		4.593%					
Base rate	25.000%	$ 3,502.41	22.500%	$ 3,152.17	23.500%	$ 3,292.26	20.000%	2,801.93	7.50%	$ 1,260.00
Adjustment for investment	-3.630%	$ (508.55)								
resulting rate	21.370%	$ 2,993.86								
Gold Plating Correction	1.810%	$ 253.57								
resulting rate	23.180%	$ 3,247.43								
add progressivity	3.343%	$ 468.27	1.837%	$ 257.36	4.593%	$ 643.39				
Actual Tax rate	26.523%	$ 3,715.70	24.337%	$ 3,409.52	28.093%	$ 3,935.65				
Non royalty barrels	262.50		262.50		262.50					
net value	$ 53.37		$ 53.37		$ 53.37					
tax rate	26.523%		24.337%		28.093%					
tax due (millions)	3,715.70		3,409.52		3,935.65					
Investment Credit		$ (277.80)		$ (277.80)		$ (277.80)		$ (277.80)		
"12 Million" Credit		$ (72.00)		$ (108.00)		$ (108.00)		$ (72.00)		
Max TIE		$ (138.90)		$ (138.90)		$ (138.90)		$ (138.90)		
TOTAL TAX		$ 3,227.00		$ 2,884.82		$ 3,410.95		2,313.23		$ 1,260.00
Effective Rate on gross		19.2%		17.2%		20.3%		13.8%		7.5%

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8/7/2006

Alaska Department of Revenue

Five Step Calculation of Tax Rate under "Produce or Pay"
CSHB 3001 (Fin)

Percentage of Net Value Reinvested

		$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 70.00	$ 80.00	$ 90.00	$ 100.00
		$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00
		$ 8.00	$ 18.00	$ 28.00	$ 38.00	$ 48.00	$ 58.00	$ 68.00	$ 78.00	$ 88.00
-	$ -	0%	0%	0%	0%	0%	0%	0%	0%	0%
150.00	$ 0.50	8%	3%	2%	2%	1%	1%	1%	1%	1%
300.00	$ 1.00	16%	7%	4%	3%	2%	2%	2%	1%	1%
450.00	$ 1.50	26%	10%	6%	5%	4%	3%	3%	2%	2%
600.00	$ 2.00	38%	14%	9%	6%	5%	4%	3%	3%	3%
750.00	$ 2.50	52%	18%	11%	8%	6%	5%	4%	4%	3%
900.00	$ 3.00	69%	23%	14%	10%	8%	6%	5%	5%	4%
1,050.00	$ 3.50	89%	28%	16%	12%	9%	7%	6%	5%	5%
1,200.00	$ 4.00	114%	33%	19%	13%	10%	8%	7%	6%	5%
1,350.00	$ 4.50	147%	38%	22%	15%	12%	10%	8%	7%	6%
1,500.00	$ 5.00	190%	44%	25%	17%	13%	11%	9%	8%	7%
1,650.00	$ 5.50	251%	50%	28%	19%	15%	12%	10%	9%	8%
1,800.00	$ 6.00	343%	57%	31%	21%	16%	13%	11%	10%	8%
1,950.01	$ 6.50	495%	65%	35%	24%	18%	14%	12%	10%	9%
2,100.01	$ 7.00	800%	73%	38%	26%	20%	16%	13%	11%	10%
2,250.01	$ 7.50	1714%	82%	42%	28%	21%	17%	14%	12%	11%
2,400.01	$ 8.00	#DIV/0!	91%	46%	30%	23%	18%	15%	13%	11%
2,550.01	$ 8.50	-1943%	102%	50%	33%	25%	20%	16%	14%	12%
2,700.01	$ 9.00	-1029%	114%	54%	35%	26%	21%	17%	15%	13%
2,850.01	$ 9.50	-724%	128%	59%	38%	28%	22%	19%	16%	14%
3,000.01	$ 10.00	-571%	143%	63%	41%	30%	24%	20%	17%	15%
3,150.01	$ 10.50	-480%	160%	69%	44%	32%	25%	21%	18%	15%
3,300.01	$ 11.00	-419%	180%	74%	47%	34%	27%	22%	19%	16%
3,450.01	$ 11.50	-376%	202%	80%	50%	36%	28%	23%	20%	17%
3,600.01	$ 12.00	-343%	229%	86%	53%	38%	30%	24%	21%	18%
3,750.01	$ 12.50	-317%	260%	92%	56%	40%	31%	26%	22%	19%
3,900.01	$ 13.00	-297%	297%	99%	59%	42%	33%	27%	23%	20%
4,050.01	$ 13.50	-281%	343%	106%	63%	45%	35%	28%	24%	21%
4,200.01	$ 14.00	-267%	400%	114%	67%	47%	36%	30%	25%	22%
4,350.01	$ 14.50	-255%	473%	123%	71%	49%	38%	31%	26%	23%
4,500.01	$ 15.00	-245%	571%	132%	75%	52%	40%	32%	27%	23%

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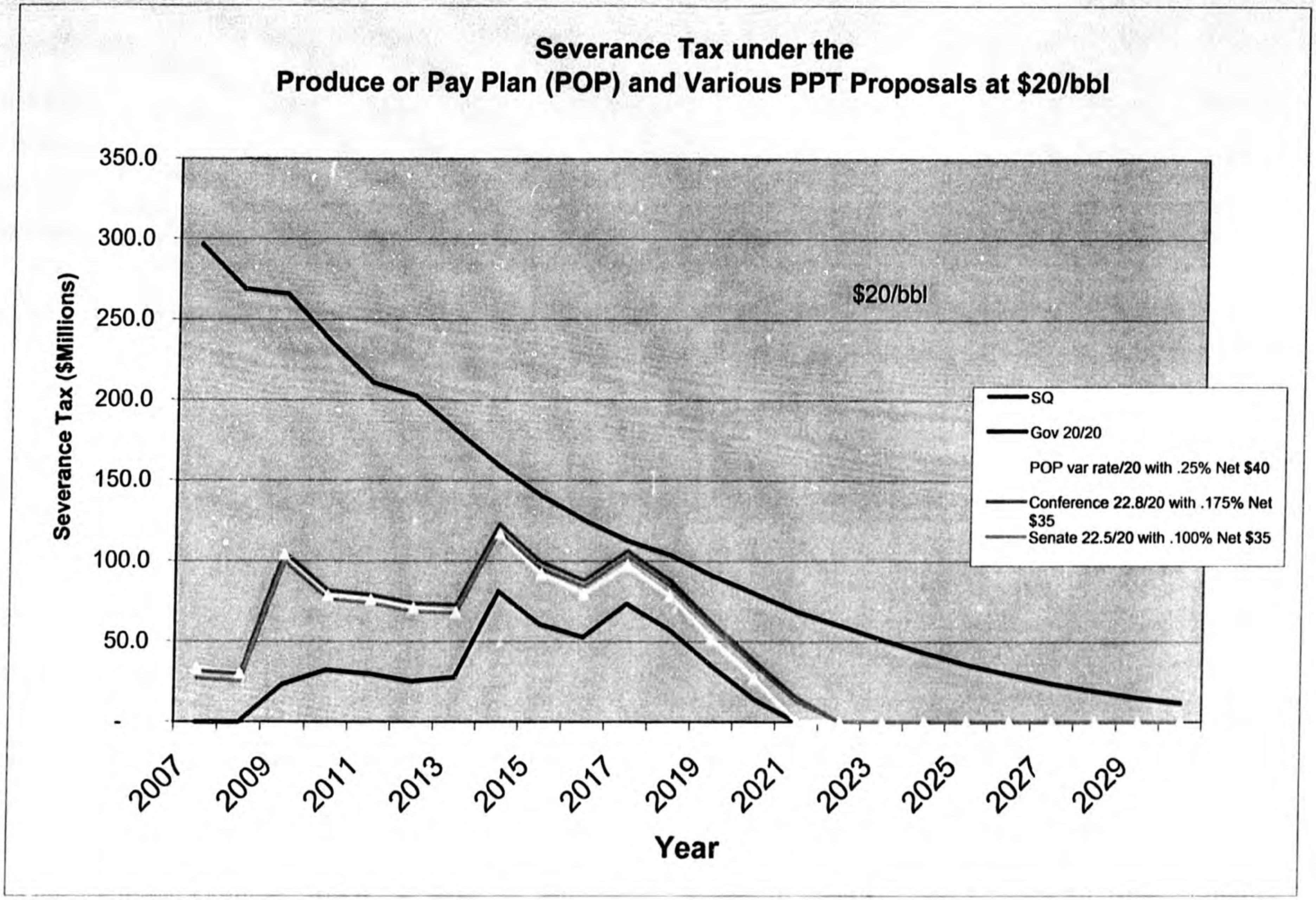
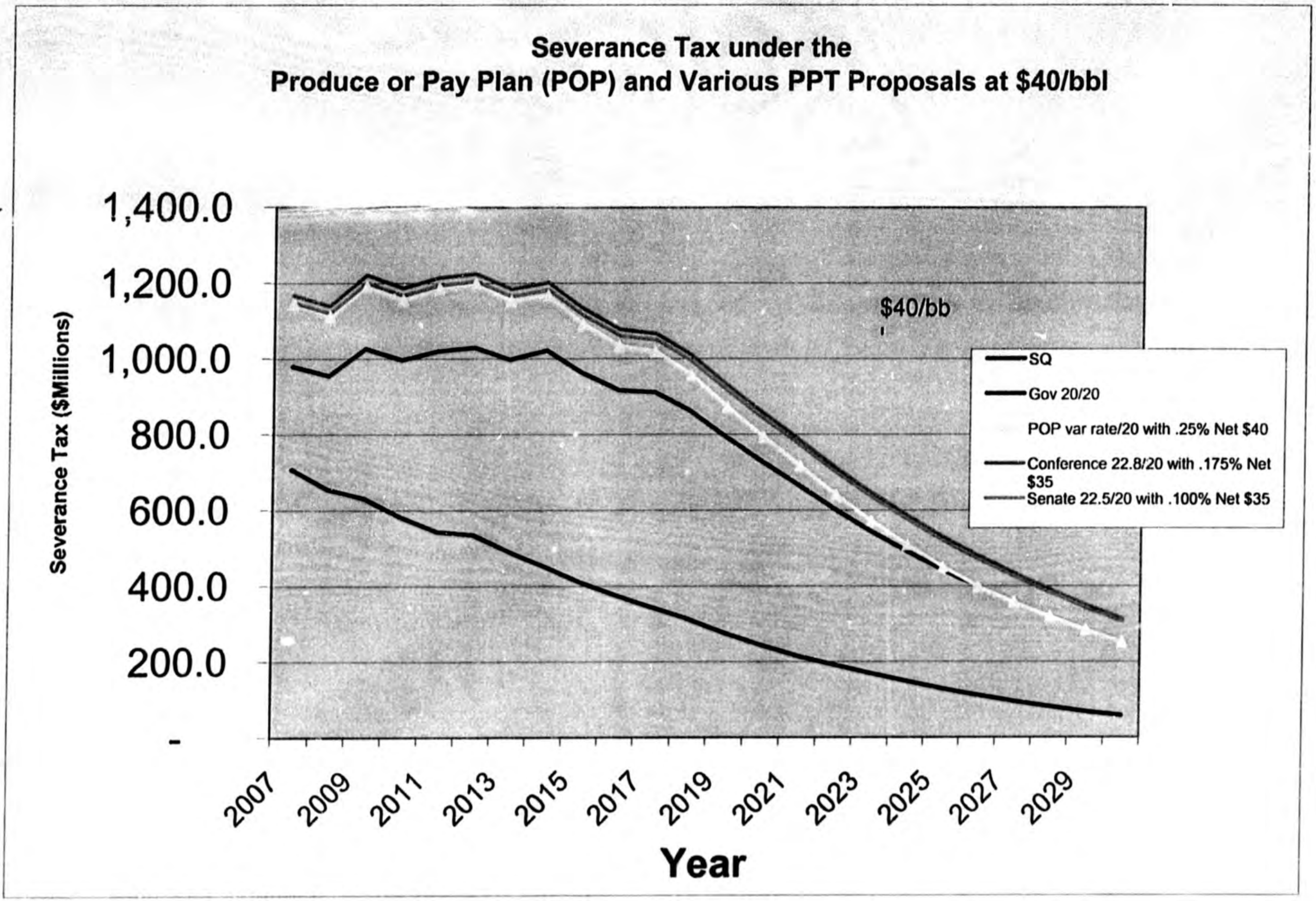
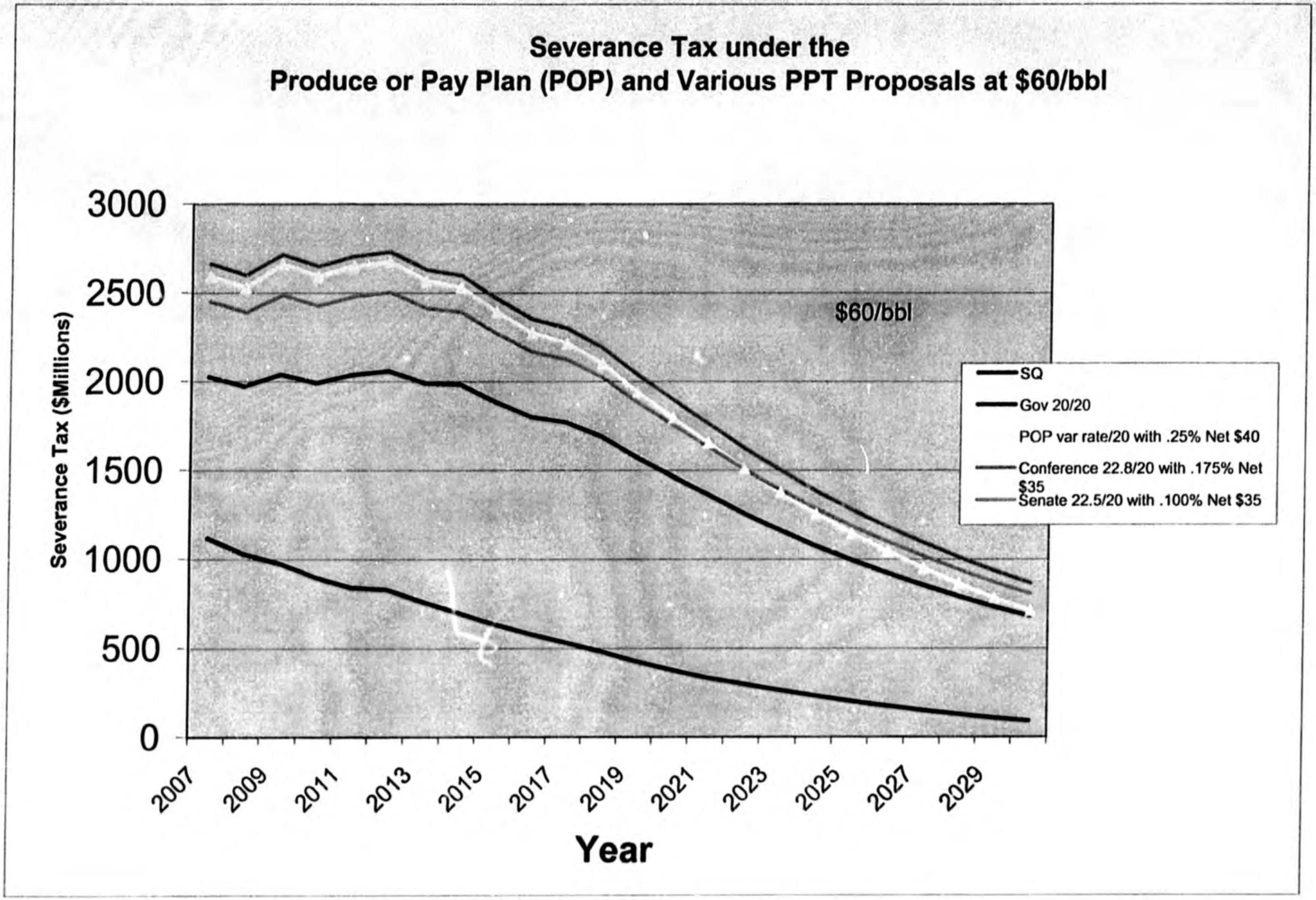
8/7/2006
10:39 PM

Alaska Department of Revenue



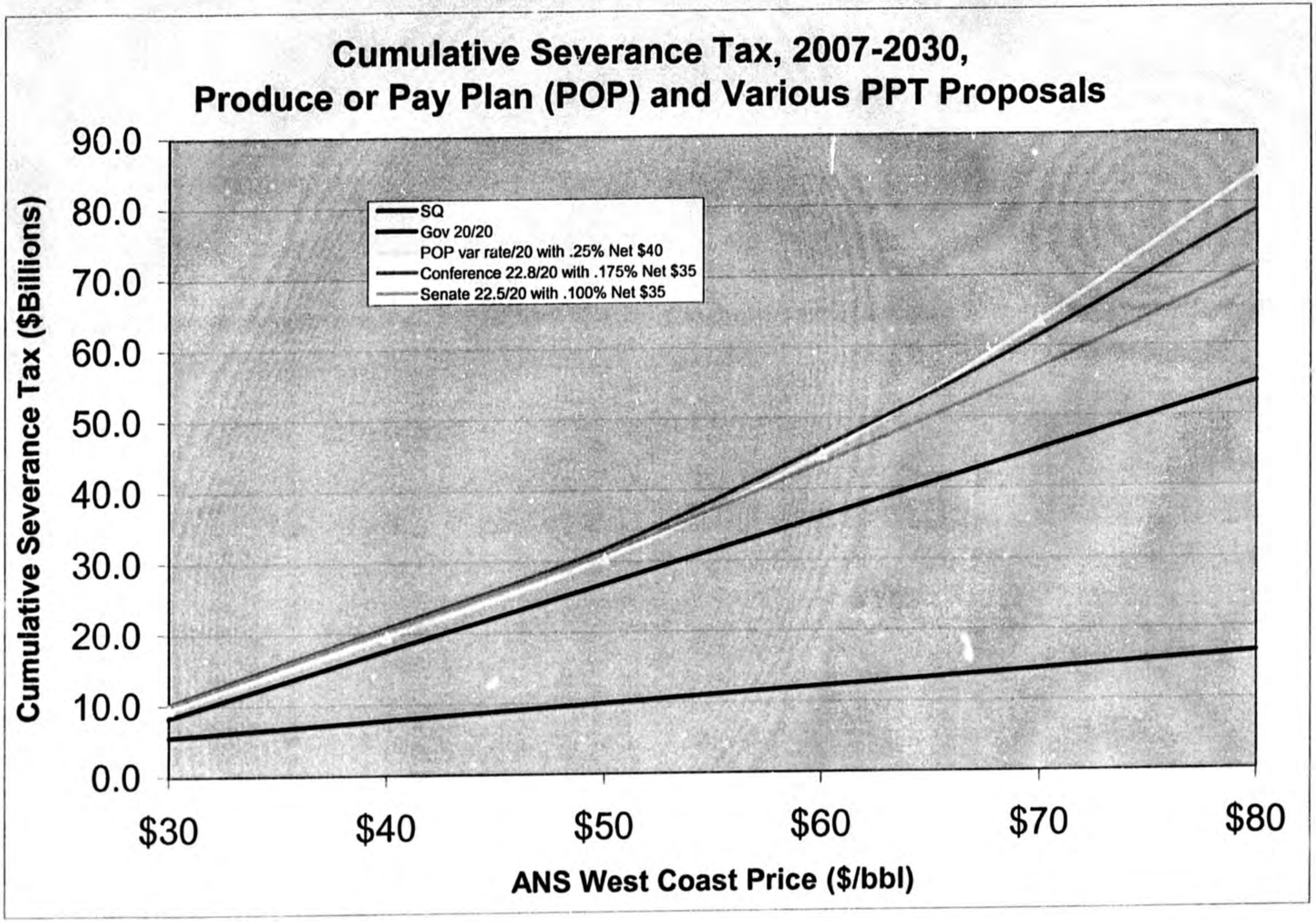
Severance Tax under the
Produce or Pay Plan (POP) and Various PPT Proposals at $20/bbl
350.0
300.0
250.0
200.0
150.0
100.0
50.0
-
Severance Tax ($Millions)
$20/bbl
SQ
Gov 20/20
POP var rate/20 with .25% Net $40
Conference 22.8/20 with .175% Net $35
Senate 22.5/20 with .100% Net $35
2007
2009
2011
2013
2015
2017
2019
2021
2023
2025
2027
2029
Year


Severance Tax under the
Produce or Pay Plan (POP) and Various PPT Proposals at $40/bbl
1,400.0
1,200.0
1,000.0
800.0
600.0
400.0
200.0
-
Severance Tax ($Millions)
$40/bb
SQ
Gov 20/20
POP var rate/20 with .25% Net $40
Conference 22.8/20 with .175% Net $35
Senate 22.5/20 with .100% Net $35
2007
2009
2011
2013
2015
2017
2019
2021
2023
2025
2027
2029
Year



Alaska Dept. of Revenue

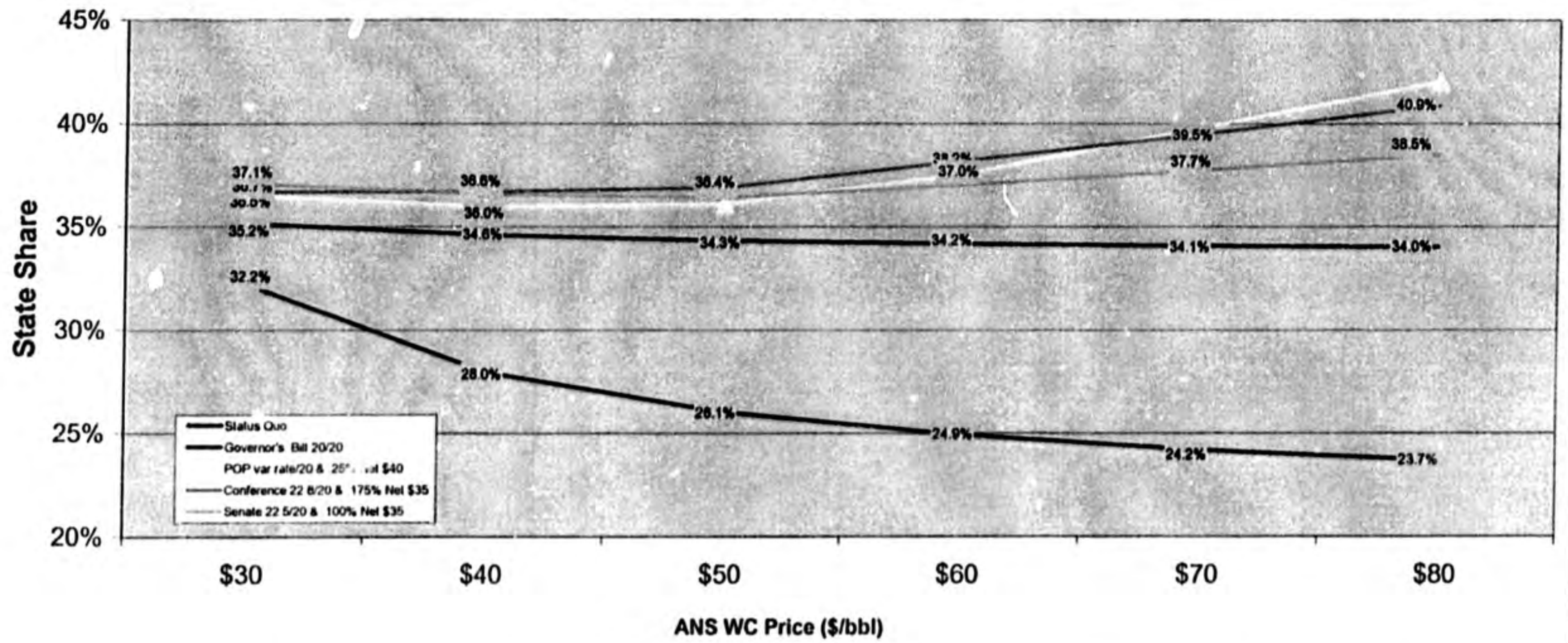
August 7, 2006



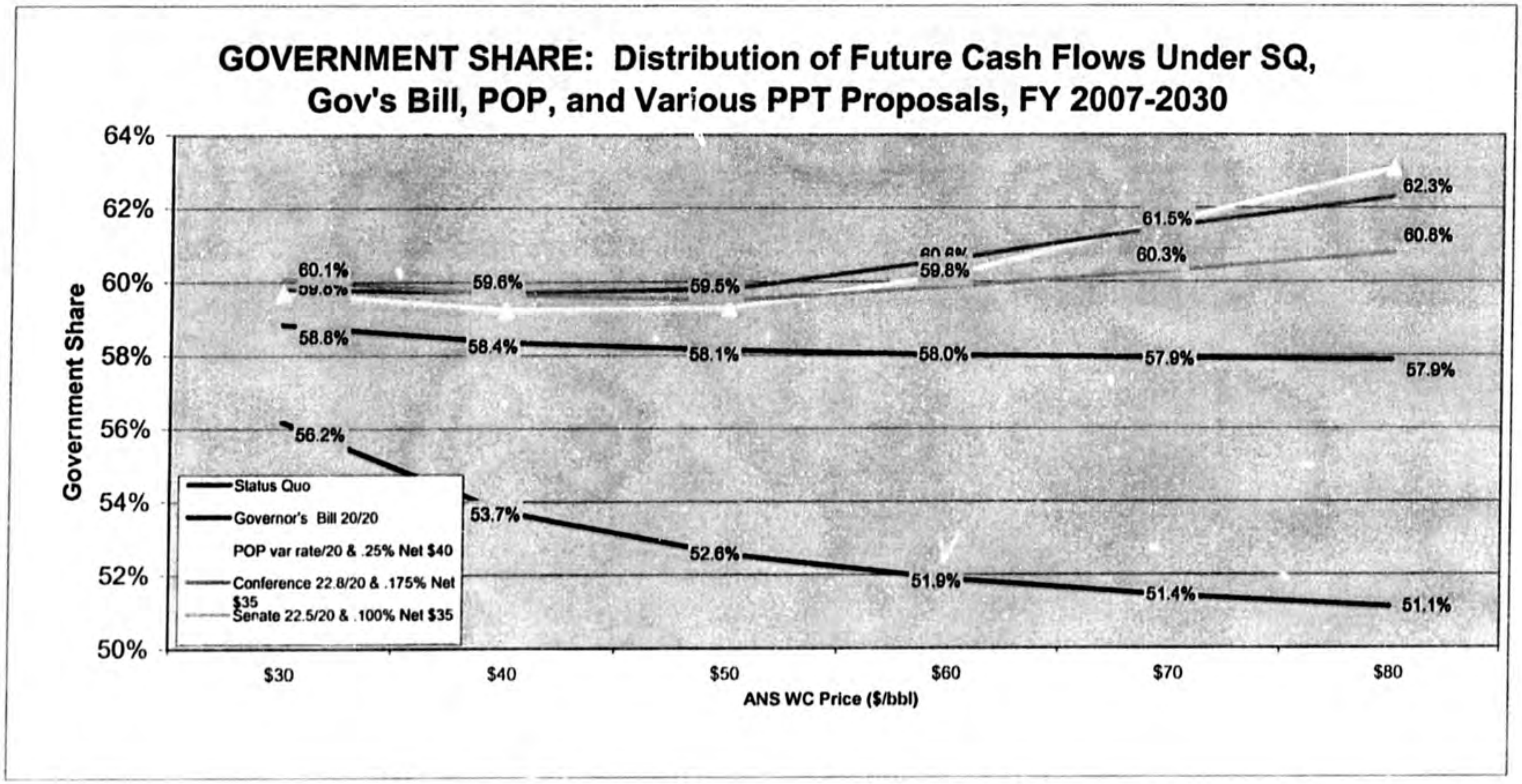
Cumulative Severance Tax, 2007-2030,
Produce or Pay Plan (POP) and Various PPT Proposals
SQ
Gov 20/20
POP var rate/20 with .25% Net $40
Conference 22.8/20 with .175% Net $35
Senate 22.5/20 with .100% Net $35
Cumulative Severance Tax ($Billions)
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
$30
$40
$50
$60
$70
$80
ANS West Coast Price ($/bbl)

STATE SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030					
ANS WC $/bbl	Status Quo	Governor's Bill 20/20	POP var rate/20 & .25% Net $40	Conference 22.8/20 & .175% Net $35	Senate 22.5/20 & .100% Net $35
$30	32.2%	35.2%	36.5%	36.7%	37.1%
$40	28.0%	34.6%	36.0%	36.7%	36.6%
$50	26.1%	34.3%	36.1%	36.9%	36.4%
$60	24.9%	34.2%	37.5%	38.2%	37.0%
$70	24.2%	34.1%	39.8%	39.5%	37.7%
$80	23.7%	34.0%	42.0%	40.9%	38.5%

STATE SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030



GOVERNMENT SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030					
ANS WC $/bbl	Status Quo	Governor's Bill 20/20	POP var rate/20 & .25% Net $40	Conference 22.8/20 & .175% Net $35	Senate 22.5/20 & .100% Net $35
$30	56.2%	58.8%	59.7%	59.8%	60.1%
$40	53.7%	58.4%	59.2%	59.7%	59.6%
$50	52.6%	58.1%	59.3%	59.8%	59.5%
$60	51.9%	58.0%	60.2%	60.6%	59.8%
$70	51.4%	57.9%	61.7%	61.5%	60.3%
$80	51.1%	57.9%	63.1%	62.3%	60.8%



ENHANCEMENT OF THE "GROSS" CHARACTER OF THE PPT BILL
August 5, 2006
Pedro van Meurs

This memo has been written at the request of Senator Wagoner. The request was to provide ideas as to how the "gross" character of the PPT bill can be enhanced.

This memo does not reflect the views of the Administration and is solely meant to provide Senator Wagoner with my professional advice on these ideas.

FLOOR

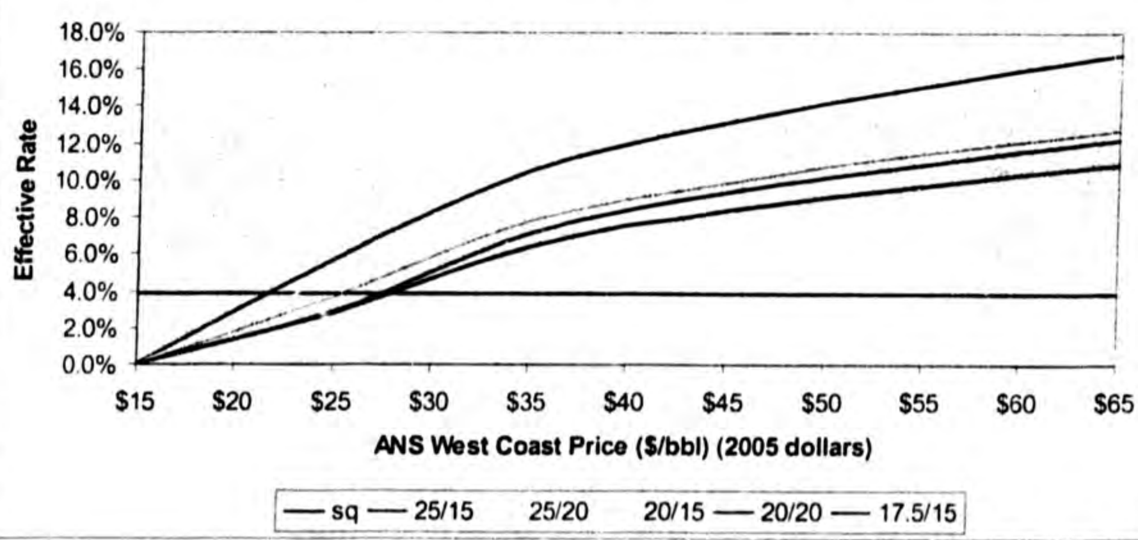
Considerable concern has been expressed about the fact that under some circumstances of low prices and high levels of investment, the PPT may result in less severance tax than we would have received otherwise under the current severance tax.

This can be prevented with the introduction of a "floor", very similar as was introduced in House Bill 3004.

The floor would be based on the **gross value** at the point of production of the taxable oil and gas.

Roger Marks presented to the Legislature in February this year a direct comparison between the various proposed PPT systems and the 4% average on gross that would be otherwise applicable to the year 2006.

Figure 10
Effective Oil Severance Tax Rate
Without Gasline / Without Enhanced Volumes



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(2)

These graphs prove that at about $ 25 per barrel the current ELF produces about the same amount as a 22.5/20 PPT.

If we assume the adoption of a 22.5/20 PPT than one could take the position that the PPT should not be less than 4% of gross when the ANS West Coast price exceeds $ 25 per barrel.

HB 3004 introduced the concept that at lower prices the North Slope oil becomes obviously less economic and it would be counter productive to continue to tax the oil industry. Therefore HB 3004 proposes a scale with a lower floor at lower prices.

This overall concept could be combined with the results of the analysis of Roger Marks as follows:

Over an ANS price of $ 25 per barrel	-- 4%
When ANS is between $ 20 and $ 25 per barrel	-- 3%
When ANS is between $ 17.50 and $ 20 per barrel	-- 2%
When ANS is between $ 15 and $ 17.50 per barrel	-- 1%
Below $ 15 per barrel	-- 0%

Each year the floor would be compared with the tax payable under the PPT and if the floor is higher, the higher amount would be paid.

Following is an example how the floor would work based on a PPT tax rate of 20% and a floor of 4%:

Gross Revenues	100	100	100
Cost deductions	40	90	120
Net Revenues	60	10	- 20
PPT Tax	12	2	-4
Floor	4	4	4
Tax payable	**12**	**4**	**4**

If the Gross Revenue based PPT is higher than the Net Revenue based PPT this extra payment can not be recovered in following years as a deduction. In other words this excess cannot be carried forward in order to be recovered in future years.

Of course, the payment of the differential between the Gross and Net Revenue based PPT cannot be taken as a deduction for the Net Revenue based PPT.

However, any carry forward credits as a result of a tax loss based on the Net Revenue based PPT remain unaltered.

Also under this scheme companies would not loose their capital investment credits of 20%.

It is also suggested that the additional non-transferable tax credits under Sec. 43.55.024 of the proposed House Bill 3001 (FIN) will still be creditable against the Gross Revenue Based PPT if this is higher than the Net Revenue Based PPT. These additional non-transferable tax credits were meant to protect small companies and encourage companies outside Cook Inlet and the North Slope. The Gross Revenue based PPT should not harm such companies.

INCREASE THE NON DEDUCTABLE ITEMS

The more costs are being excluded from the Net Revenue calculation the more the overall calculation becomes more similar to a Gross Revenue calculation. Therefore, the Gross Revenue character of the tax can be enhanced by simply adding to the list of items that are not considered lease expenditures.

There are two important cost components that could be excluded from lease expenditures:

- Costs related to gas development under a stranded gas contract, and
- Capital maintenance expenditures.

Gas development costs under a stranded gas contract.

Much concern has been expressed about the fact that with a net revenue based system there could be a joint cost problem in Point Thomson and other similar fields if the stranded gas contract would be implemented.

It is argued that all Point Thomson development and operating costs would be deductible under the PPT. At the same time under the stranded gas contract, companies would provide a 7.25% share to the State on gross and not pay the 20% or 22.5% PPT on gas. It is perceived that Point Thomson is being cross subsidized from what otherwise would be tax on oil under the PPT.

My view is that this is not a fair comparison, since reasonably all costs can be absorbed by the condensates. Nevertheless, this issue remains a concern of the Legislators.

It would be possible to add a further item on the list of non deductible costs under proposed AS. 43.55.165 (e) of House Bill 3001 (FIN) written as follows *(non legal language):*

- "(19) 75% of the capital and operating costs associated with the Point Thomson Unit and other gas fields that are being developed under a contract under AS.43.82, with respect to working interest owners which have concluded such a contract."

The 75% is based on the energy equivalent value considering that Point Thomson may have 400 million barrels of condensates and 7 – 8 Tcf of gas. In other words, the capital and operating costs would be allocated on an energy equivalent basis between condensates and gas. It is believed that many potential gas fields on the North Slope will have condensates and that these percentages may vary. For purposes of the bill, this percentage would be simply fixed.

The 25% allocated to condensates would be deductible for PPT purposes and would receive the related tax credits.

The 75% allocated to gas would not be deductible for PPT purposes and would not receive the related tax credits.

It can be assumed that the PTU would require a $ 2.5 billion capital expenditure. Based on a 100% working interest, this arrangement would not receive a PPT tax reduction of $ 750 million during development of the field. Assuming a $ 1 billion operating expenditure over the life time of the field, it would mean that over time companies would pay $ 150 million more tax during the operation of the field.

This is a significant tax increase, but in the total scheme of PPT taxation over the next 30 years this may represent only 1%-2% more tax.

Nevertheless, it would make the economics of Point Thomson development less attractive on an incremental basis and it would therefore make the entire gas project less attractive economically.

An interesting side effect of this arrangement is that it would place Chevron and other minority interest holders in a much better position relative to the sponsors. These companies have expressed concern that they would be discriminated against relative to the three sponsors. If Chevron and others do not join the stranded gas contract or would not be able to enter into a uniform upstream contract, they would at least benefit considerably relative to the Sponsors since they would receive the full tax deductions and credits. At the same time such companies would, of course, have to pay the full PPT on their gas income and therefore it is logical to permit them these tax credits and deductions.

Deemed Capital Maintenance Costs

Another concern that is regularly expressed is that the State should not permit the deduction of costs related to replacing equipment that is becoming defective or gathering lines that need to be replaced because of corrosion or other problems. The argument is that these assets should have been better maintained in the first place.

It should be noted that in most oil and gas fields, assets will have to be replaced after the technical life of such assets has expired. Therefore, such replacements are reasonable lease expenditures and are required to protect the health and safety of the workers and to protect the environment. Nevertheless, it is possible to exclude them from the lease expenditures under AS 43.55.165 (e) if this is politically desirable. A section could be added as follows *(non legal language):*

- (20) deemed capital maintenance expenditures which shall be capital expenditures equal to US $ 0.30 per BTU equivalent barrel taxable production.

The US $ 0.30 per BTU equivalent barrel is based on reasonable capital maintenance costs of fields for which I have (confidential) information. Based on a production of 900,000 barrel equivalent per day, this means that about $ 100 million in capital expenditures per year will not be deductible for PPT purposes. Based on a PPT rate of 22.5% and a tax credit rate of 20% this means that the companies will pay $ 42.5 million more tax per year.

An interesting side effect is that companies that would have a low level of capital expenditure per barrel would feel the effect more on a relative basis than companies that would have a high level of capital expenditures per barrel. Companies that re-invest strongly are therefore harmed less by this provision than typical harvesters.

DOD

Dollar Per barrel investment will determine tax rate between 20% and 25%
for year of investment

Per Bbl Investment		Amount below 25%	Tax Rate
$	-	0.00%	25.00%
$	0.50	0.00%	25.00%
$	1.00	0.00%	25.00%
$	1.50	0.50%	24.50%
$	2.00	1.00%	24.00%
$	2.50	1.50%	23.50%
$	3.00	2.00%	23.00%
$	3.50	2.50%	22.50%
$	4.00	3.00%	22.00%
$	4.50	3.50%	21.50%
$	5.00	4.00%	21.00%
$	5.50	4.50%	20.50%
$	6.00	5.00%	20.00%
$	6.50	**5.00%**	20.00%
$	7.00	**5.00%**	20.00%

8/7/06 2:30pm
Presentation by
Dan Dickenson

DED
8.2.06

Alaska Department of Revenue

Five Step Calculation of Tax Rate under "Produce or Pay"

	Destination	$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 73.46	$ 83.46	$ 93.46	$ 103.46
	Opex	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
	result	**$ 8.00**	**$ 18.00**	**$ 28.00**	**$ 38.00**	**$ 48.00**	**$ 61.46**	**$ 71.46**	**$ 81.46**	**$ 91.46**
Capex:	$ -	8.00	18.00	28.00	38.00	48.00	61.46	71.46	81.46	91.46
	$ 0.50	7.50	17.50	27.50	37.50	47.50	60.96	70.96	80.96	90.96
	$ 1.00	7.00	17.00	27.00	37.00	47.00	60.46	70.46	80.46	90.46
	$ 1.50	6.50	16.50	26.50	36.50	46.50	59.96	69.96	79.96	89.96
	$ 2.00	6.00	16.00	26.00	36.00	46.00	59.46	69.46	79.46	89.46
	$ 2.50	5.50	15.50	25.50	35.50	45.50	58.96	68.96	78.96	88.96
	$ 3.00	5.00	15.00	25.00	35.00	45.00	58.46	68.46	78.46	88.46
	$ 3.50	4.50	14.50	24.50	34.50	44.50	57.96	67.96	77.96	87.96
	$ 4.00	4.00	14.00	24.00	34.00	44.00	57.46	67.46	77.46	87.46
	$ 4.63	3.37	13.37	23.37	33.37	43.37	56.83	66.83	76.83	86.83
	$ 5.00	3.00	13.00	23.00	33.00	43.00	56.46	66.46	76.46	86.46
	$ 5.50	2.50	12.50	22.50	32.50	42.50	55.96	65.96	75.96	85.96
	$ 6.00	2.00	12.00	22.00	32.00	42.00	55.46	65.46	75.46	85.46
	$ 6.50	1.50	11.50	21.50	31.50	41.50	54.96	64.96	74.96	84.96
	$ 7.00	1.00	11.00	21.00	31.00	41.00	54.46	64.46	74.46	84.46
	$ 7.50	0.50	10.50	20.50	30.50	40.50	53.96	63.96	73.96	83.96
	$ 8.00	-	10.00	20.00	30.00	40.00	53.46	63.46	73.46	83.46
	$ 8.50	(0.50)	9.50	19.50	29.50	39.50	52.96	62.96	72.96	82.96
	$ 9.00	(1.00)	9.00	19.00	29.00	39.00	52.46	62.46	72.46	82.46
	$ 9.50	(1.50)	8.50	18.50	28.50	38.50	51.96	61.96	71.96	81.96
	$ 10.00	(2.00)	8.00	18.00	28.00	38.00	51.46	61.46	71.46	81.46
	$ 10.50	(2.50)	7.50	17.50	27.50	37.50	50.96	60.96	70.96	80.96
	$ 11.00	(3.00)	7.00	17.00	27.00	37.00	50.46	60.46	70.46	80.46
	$ 11.50	(3.50)	6.50	16.50	26.50	36.50	49.96	59.96	69.96	79.96
	$ 12.00	(4.00)	6.00	16.00	26.00	36.00	49.46	59.46	69.46	79.46
	$ 12.50	(4.50)	5.50	15.50	25.50	35.50	48.96	58.96	68.96	78.96
	$ 13.00	(5.00)	5.00	15.00	25.00	35.00	48.46	58.46	68.46	78.46
	$ 13.50	(5.50)	4.50	14.50	24.50	34.50	47.96	57.96	67.96	77.96
	$ 14.00	(6.00)	4.00	14.00	24.00	34.00	47.46	57.46	67.46	77.46
	$ 14.50	(6.50)	3.50	13.50	23.50	33.50	46.96	56.96	66.96	76.96
	$ 15.00	(7.00)	3.00	13.00	23.00	33.00	46.46	56.46	66.46	76.46

Five Step Calculation of Tax Rate under "Produce or Pay"

Step One: "Invest Down" of Tax Rate (independent of price)

		$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 70.00	$ 80.00	$ 90.00	$ 100.00
$ -	0.000%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
$ 0.50	0.000%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
$ 1.00	0.000%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
$ 1.50	0.500%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
$ 2.00	1.000%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
$ 2.50	1.500%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%
$ 3.00	2.000%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
$ 3.50	2.500%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
$ 4.00	3.000%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
$ 4.50	3.500%	21.5%	21.5%	21.5%	21.5%	21.5%	21.5%	21.5%	21.5%	21.5%
$ 5.00	4.000%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
$ 5.50	4.500%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
$ 6.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 6.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 7.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 7.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 8.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 8.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 9.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 9.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 10.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 10.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 11.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 11.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 12.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 12.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 13.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 13.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 14.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 14.50	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
$ 15.00	5.000%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%

Five Step Calculation of Tax Rate under "Produce or Pay"

Step Two: Calculation of "R"

	$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 70.00	$ 80.00	$ 90.00	$ 100.00
$ -	25%	25%	25%	25%	25%	25%	25%	25%	25%
$ 0.50	24%	24%	25%	25%	25%	25%	25%	25%	25%
$ 1.00	22%	24%	24%	24%	25%	25%	25%	25%	25%
$ 1.50	19%	23%	24%	24%	24%	24%	25%	25%	25%
$ 2.00	15%	22%	23%	24%	24%	24%	24%	24%	25%
$ 2.50	7%	21%	23%	24%	24%	24%	24%	24%	24%
$ 3.00	-11%	20%	22%	23%	24%	24%	24%	24%	24%
$ 3.50	-107%	19%	22%	23%	23%	24%	24%	24%	24%
$ 4.00	157%	17%	21%	22%	23%	23%	24%	24%	24%
$ 4.50	71%	14%	20%	22%	23%	23%	23%	24%	24%
$ 5.00	60%	12%	20%	22%	22%	23%	23%	24%	24%
$ 5.50	52%	8%	19%	21%	22%	23%	23%	23%	24%
$ 6.00	48%	3%	18%	20%	22%	22%	23%	23%	23%
$ 6.50	46%	-5%	16%	20%	21%	22%	23%	23%	23%
$ 7.00	44%	-19%	15%	19%	21%	22%	23%	23%	23%
$ 7.50	43%	-49%	13%	19%	21%	22%	22%	23%	23%
$ 8.00	42%	-151%	11%	18%	20%	21%	22%	23%	23%
$ 8.50	41%	775%	9%	17%	20%	21%	22%	22%	23%
$ 9.00	40%	157%	5%	16%	19%	21%	22%	22%	23%
$ 9.50	40%	101%	2%	15%	19%	20%	21%	22%	22%
$ 10.00	39%	80%	-4%	14%	18%	20%	21%	22%	22%
$ 10.50	39%	69%	-11%	12%	17%	19%	21%	21%	22%
$ 11.00	38%	62%	-22%	11%	16%	19%	20%	21%	22%
$ 11.50	38%	58%	-40%	9%	16%	18%	20%	21%	22%
$ 12.00	38%	54%	-74%	7%	15%	18%	20%	21%	21%
$ 12.50	38%	52%	-170%	4%	14%	17%	19%	20%	21%
$ 13.00	37%	50%	-1695%	1%	13%	17%	19%	20%	21%
$ 13.50	37%	48%	300%	-3%	12%	16%	18%	20%	21%
$ 14.00	37%	47%	157%	-8%	10%	16%	18%	19%	20%
$ 14.50	37%	46%	114%	-15%	9%	15%	18%	19%	20%
$ 15.00	37%	45%	93%	-23%	7%	14%	17%	19%	20%

Five Step Calculation of Tax Rate under "Produce or Pay"
CSHB 3001 (Fin)

Step Three: Higher of, between 20% and 25%

	$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 73.46	$ 83.46	$ 93.46	$ 103.46
$ -	25%	25%	25%	25%	25%	25%	25%	25%	25%
$ 0.50	25%	25%	25%	25%	25%	25%	25%	25%	25%
$ 1.00	25%	25%	25%	25%	25%	25%	25%	25%	25%
$ 1.50	25%	25%	25%	25%	25%	25%	25%	25%	25%
$ 2.00	24%	24%	24%	24%	24%	24%	24%	25%	25%
$ 2.50	24%	24%	24%	24%	24%	24%	24%	24%	24%
$ 3.00					24%	24%	24%	24%	24%
$ 3.50						24%	24%	24%	24%
$ 4.00	20%					24%	24%	24%	24%
$ 4.50	20%	[illegible]	[illegible]				24%	24%	24%
$ 5.00	20%	[illegible]	21%					24%	24%
$ 5.50	20%	21%	20%	21%				24%	24%
$ 6.00	20%	20%	20%	20%					24%
$ 6.50	20%	20%	20%	20%	[illegible]				
$ 7.00	20%	20%	20%	20%	[illegible]				
$ 7.50	20%	20%	20%	20%	21%				
$ 8.00	20%	20%	20%	20%	20%				
$ 8.50	20%	20%	20%	20%	20%	[illegible]			
$ 9.00	20%	20%	20%	20%	20%	[illegible]			
$ 9.50	20%	20%	20%	20%	20%	[illegible]	21%		
$ 10.00	20%	20%	20%	20%	20%	20%	[illegible]		
$ 10.50	20%	20%	20%	20%	20%	20%	[illegible]		
$ 11.00	20%	20%	20%	20%	20%	20%	21%	21%	
$ 11.50	20%	20%	20%	20%	20%	20%	20%	21%	
$ 12.00	20%	20%	20%	20%	20%	20%	20%	21%	
$ 12.50	20%	20%	20%	20%	20%	20%	20%	21%	21%
$ 13.00	20%	20%	20%	20%	20%	20%	20%	20%	21%
$ 13.50	20%	20%	20%	20%	20%	20%	20%	20%	21%
$ 14.00	20%	20%	20%	20%	20%	20%	20%	20%	21%
$ 14.50	20%	20%	20%	20%	20%	20%	20%	20%	20%
$ 15.00	20%	20%	20%	20%	20%	20%	20%	20%	20%

DED
8/7/2006
1:55 PM

Alaska Department of Revenue

Five Step Calculation of Tax Rate under "Produce or Pay"

Step four: Prop Version (prior to credits) with variable rate
Progressivity slope: 0.0025 insert: 40

	$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 70.00	$ 80.00	$ 90.00	$ 100.00
$ -	0.0%	0.0%	0.0%	0.0%	2.0%	4.5%	7.0%	9.5%	12.0%
$ 0.50	0.0%	0.0%	0.0%	0.0%	1.9%	4.4%	6.9%	9.4%	11.9%
$ 1.00	0.0%	0.0%	0.0%	0.0%	1.8%	4.3%	6.8%	9.3%	11.8%
$ 1.50	0.0%	0.0%	0.0%	0.0%	1.6%	4.1%	6.6%	9.1%	11.6%
$ 2.00	0.0%	0.0%	0.0%	0.0%	1.5%	4.0%	6.5%	9.0%	11.5%
$ 2.50	0.0%	0.0%	0.0%	0.0%	1.4%	3.9%	6.4%	8.9%	11.4%
$ 3.00	0.0%	0.0%	0.0%	0.0%	1.3%	3.750%	6.3%	8.8%	11.3%
$ 3.50	0.0%	0.0%	0.0%	0.0%	1.1%	3.6%	6.1%	8.6%	11.1%
$ 4.00	0.0%	0.0%	0.0%	0.0%	1.0%	3.5%	6.0%	8.5%	11.0%
$ 4.50	0.0%	0.0%	0.0%	0.0%	0.8%	3.343%	5.8%	8.3%	10.8%
$ 5.00	0.0%	0.0%	0.0%	0.0%	0.8%	3.3%	5.8%	8.3%	10.8%
$ 5.50	0.0%	0.0%	0.0%	0.0%	0.6%	3.1%	5.6%	8.1%	10.6%
$ 6.00	0.0%	0.0%	0.0%	0.0%	0.5%	3.0%	5.5%	8.0%	10.5%
$ 6.50	0.0%	0.0%	0.0%	0.0%	0.4%	2.9%	5.4%	7.9%	10.4%
$ 7.00	0.0%	0.0%	0.0%	0.0%	0.3%	2.8%	5.3%	7.8%	10.3%
$ 7.50	0.0%	0.0%	0.0%	0.0%	0.1%	2.6%	5.1%	7.6%	10.1%
$ 8.00	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	7.5%	10.0%
$ 8.50	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	4.9%	7.4%	9.9%
$ 9.00	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	4.8%	7.3%	9.8%
$ 9.50	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%	4.6%	7.1%	9.6%
$ 10.00	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	4.5%	7.0%	9.5%
$ 10.50	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	4.4%	6.9%	9.4%
$ 11.00	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	4.3%	6.8%	9.3%
$ 11.50	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	4.1%	6.6%	9.1%
$ 12.00	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	4.0%	6.5%	9.0%
$ 12.50	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	3.9%	6.4%	8.9%
$ 13.00	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	3.8%	6.3%	8.8%
$ 13.50	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	3.6%	6.1%	8.6%
$ 14.00	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	3.5%	6.0%	8.5%
$ 14.50	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	3.4%	5.9%	8.4%
$ 15.00	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	3.3%	5.8%	8.3%

Five Step Calculation of Tax Rate under "Produce or Pay"

Step Five:Net Tax Rate Plus Progressivity

	$ 20.00	$ 30.00	$ 40.00	$ 50.00	$ 60.00	$ 70.00	$ 80.00	$ 90.00	$ 100.00
$ -	25.0%	25.0%	25.0%	25.0%	27.0%	29.5%	32.0%	34.5%	37.0%
$ 0.50	25.0%	25.0%	25.0%	25.0%	26.9%	29.4%	31.9%	34.4%	36.9%
$ 1.00	25.0%	25.0%	25.0%	25.0%	26.8%	29.3%	31.8%	34.3%	36.8%
$ 1.50	24.5%	24.5%	24.5%	24.5%	26.1%	28.6%	31.2%	33.7%	36.3%
$ 2.00	24.0%	24.0%	24.0%	24.0%	25.6%	28.3%	30.9%	33.5%	36.0%
$ 2.50	23.5%	23.5%	23.5%	23.6%	25.3%	28.0%	30.6%	33.2%	35.8%
$ 3.00	23.0%	23.0%	23.0%	23.2%	24.9%	27.7%	30.3%	33.0%	35.6%
$ 3.50	22.5%	22.5%	22.5%	22.8%	24.5%	27.3%	30.0%	32.7%	35.3%
$ 4.00	20.0%	22.0%	22.0%	22.4%	24.1%	27.0%	29.7%	32.4%	35.0%
$ 4.50	20.0%	21.5%	21.5%	21.9%	23.5%	26.5%	29.3%	32.1%	34.7%
$ 5.00	20.0%	21.0%	21.0%	21.5%	23.2%	26.3%	29.1%	31.8%	34.5%
$ 5.50	20.0%	20.5%	20.0%	21.0%	22.8%	25.9%	28.8%	31.6%	34.3%
$ 6.00	20.0%	20.0%	20.0%	20.5%	22.3%	25.5%	28.4%	31.3%	34.0%
$ 6.50	20.0%	20.0%	20.0%	20.0%	21.8%	25.1%	28.1%	31.0%	33.7%
$ 7.00	20.0%	20.0%	20.0%	20.0%	21.2%	24.7%	27.8%	30.6%	33.4%
$ 7.50	20.0%	20.0%	20.0%	20.0%	20.7%	24.2%	27.4%	30.3%	33.2%
$ 8.00	20.0%	20.0%	20.0%	20.0%	20.1%	23.8%	27.0%	30.0%	32.9%
$ 8.50	20.0%	20.0%	20.0%	20.0%	20.0%	23.3%	26.6%	29.7%	32.6%
$ 9.00	20.0%	20.0%	20.0%	20.0%	20.0%	22.9%	26.3%	29.4%	32.3%
$ 9.50	20.0%	20.0%	20.0%	20.0%	20.0%	22.4%	25.9%	29.0%	32.0%
$ 10.00	20.0%	20.0%	20.0%	20.0%	20.0%	22.0%	25.4%	28.7%	31.7%
$ 10.50	20.0%	20.0%	20.0%	20.0%	20.0%	21.9%	25.0%	28.3%	31.3%
$ 11.00	20.0%	20.0%	20.0%	20.0%	20.0%	21.8%	24.6%	27.9%	31.0%
$ 11.50	20.0%	20.0%	20.0%	20.0%	20.0%	21.6%	24.1%	27.6%	30.7%
$ 12.00	20.0%	20.0%	20.0%	20.0%	20.0%	21.5%	24.0%	27.2%	30.4%
$ 12.50	20.0%	20.0%	20.0%	20.0%	20.0%	21.4%	23.9%	26.8%	30.0%
$ 13.00	20.0%	20.0%	20.0%	20.0%	20.0%	21.3%	23.8%	26.3%	29.7%
$ 13.50	20.0%	20.0%	20.0%	20.0%	20.0%	21.1%	23.6%	26.1%	29.3%
$ 14.00	20.0%	20.0%	20.0%	20.0%	20.0%	21.0%	23.5%	26.0%	28.9%
$ 14.50	20.0%	20.0%	20.0%	20.0%	20.0%	20.9%	23.4%	25.9%	28.6%
$ 15.00	20.0%	20.0%	20.0%	20.0%	20.0%	20.8%	23.3%	25.8%	28.3%

Millions of Dollar of Annual Investment

Million Bbls daily production	Million Bbls Annual production	$ 400	$500	$600	$700	$ 800	$ 900	$1,000	$1,100	$1,200	$1,300	$1,400	$1,500	$1,600	$1,700	$1,800	$1,900	$2,000
0.900	328.500	1.22	1.52	1.83	2.13	2.44	2.74	3.04	**3.35**	3.65	3.96	4.26	4.57	4.87	5.18	5.48	5.78	6.09
0.850	310.250	1.29	1.61	1.93	2.26	2.58	2.90	3.22	**3.55**	3.87	4.19	4.51	4.83	5.16	5.48	5.80	6.12	6.45
0.800	292.000	1.37	1.71	2.05	2.40	2.74	3.08	**3.42**	3.77	4.11	4.45	4.79	5.14	5.48	5.82	6.16	6.51	6.85
0.750	273.750	1.46	1.83	2.19	2.56	2.92	**3.29**	**3.65**	4.02	4.38	4.75	5.11	5.48	5.84	6.21	6.58	6.94	7.31
0.700	255.500	1.57	1.96	2.35	2.74	3.13	**3.52**	3.91	4.31	4.70	5.09	5.48	5.87	6.26	6.65	7.05	7.44	7.83
0.650	237.250	1.69	2.11	2.53	2.95	**3.37**	3.79	4.21	4.64	5.06	5.48	5.90	6.32	6.74	7.17	7.59	8.01	8.43
0.600	219.000	1.83	2.28	2.74	3.20	**3.65**	4.11	4.57	5.02	5.48	5.94	6.39	6.85	7.31	7.76	8.22	8.68	9.13
0.550	200.750	1.99	2.49	2.99	**3.49**	3.99	4.48	4.98	5.48	5.98	6.48	6.97	7.47	7.97	8.47	8.97	9.46	9.96
0.500	182.500	2.19	2.74	**3.29**	**3.84**	4.38	4.93	5.48	6.03	6.58	7.12	7.67	8.22	8.77	9.32	9.86	10.41	10.96
0.450	164.250	2.44	3.04	**3.65**	4.26	4.87	5.48	6.09	6.70	7.31	7.91	8.52	9.13	9.74	10.35	10.96	11.57	12.18
0.400	146.000	2.74	**3.42**	4.11	4.79	5.48	6.16	6.85	7.53	8.22	8.90	9.59	10.27	10.96	11.64	12.33	13.01	13.70
0.350	127.750	**3.13**	**3.91**	4.70	5.48	6.26	7.05	7.83	8.61	9.39	10.18	10.96	11.74	12.52	13.31	14.09	14.87	15.66
0.300	109.500	**3.65**	4.57	5.48	6.39	7.31	8.22	9.13	10.05	10.96	11.87	12.79	13.70	14.61	15.53	16.44	17.35	18.26
0.250	91.250	4.38	5.48	6.58	7.67	8.77	9.86	10.96	12.05	13.15	14.25	15.34	16.44	17.53	18.63	19.73	20.82	21.92
0.200	73.000	5.48	6.85	8.22	9.59	10.96	12.33	13.70	15.07	16.44	17.81	19.18	20.55	21.92	23.29	24.66	26.03	27.40

Shaded areas without respect to anti-gold plating brake

Capital Spending on the North Slope, 2001 - 2006

BP			
Year	Volume	Investment	$/bbl
2001	122.2048	$612	$5.008
2002	125.8920	$358	$2.844
2003	129.9084	$257	$1.978
2004	126.1286	$264	$2.093
2005	114.7406	$284	$2.475
2006 est	*106.9320*	*$326*	*$3.049*
Averages		$350	$2.908

ConocoPhillips			
Year	Volume	Investment	$/bbl
2001	144.2077	$603	$4.181
2002	145.0393	$460	$3.172
2003	140.6935	$365	$2.594
2004	135.4255	$484	$3.574
2005	129.2072	$561	$4.342
2006 est	*120.4140*	*$608*	*$5.049*
Averages		$514	$3.819

Exxon/Mobil			
Year	Volume	Investment	$/bbl
2001	84.3135	$175	$2.076
2002	77.8699	$162	$2.080
2003	74.0578	$142	$1.917
2004	69.6960	$173	$2.482
2005	62.7572	$150	$2.390
2006 est	*58.4860*	*$175*	*$2.992*
Averages		$163	$2.323

Others			
Year	Volume	Investment	$/bbl
2001	13.3438	$120	$8.993
2002	15.2663	$120	$7.860
2003	15.1419	$86	$5.680
2004	14.9356	$89	$5.959
2005	15.2026	$110	$7.236
2006 est	*14.1680*	*$281*	*$19.833*
Averages		$134	$9.260

Capital Spending on the North Slope, 2001 - 2006			
ALL COMPANIES			
Year	Volume (in mmbbls/yr)	Investment	$/bbl
2001	364.0698	$1,510	$4.148
2002	364.0675	$1,100	$3.021
2003	359.8016	$850	$2.362
2004	346.1857	$1,010	$2.918
2005	321.9078	$1,105	$3.433
2006 est	*300.0000*	*$1,390*	*$4.633*
Averages		$1,160.83	$3.419

Source: Volumes - DOR, Investment - ConocoPhillips estimates

Simplified Comparison of PPT, POP and Status Quo
All North Slope, 300 million Bbls, Friday's closing ANS price

	"Produce or Pay" CSHB 3001 (fin) Mechanism			PPT as introduced in Special Session		Status Quo on Gross	
	Per Bbl or Rate	Total Dollars (millions)	Total Dollars (simp)	Per Bbl or Rate	Total Dollars (millions)	Per Bbl or Rate	Total Dollars (millions)
Destination (Friday's Close)	$ 73.46	$ 19,283.25					$ 19,283.25
Opex and Trans	$ (12.00)	$ (3,150.00)					$ (1,575.00)
Capital	$ (4.63)	$ (1,215.38)					
	$ 56.83	$ 14,917.88					$ 17,708.25
Progressivity							
Insert Point	$ 40.00						
Difference	$ 16.83						
Slope	0.250%						
resulting rate increment	4.208%	$ 627.67					
Base rate	25.000%	$ 3,729.47	3,729.47	20.000%	2,983.58	7.50%	$ 1,328.12
Adjustment for investment	-3.630%	$ (541.52)	(541.52)				
resulting rate	21.370%	$ 3,187.95					
Gold Plating Correction	1.932%	$ 288.21	288.21				
resulting rate	23.302%	$ 3,476.16					
add progressivity	4.208%	$ 627.67	627.67				
Actual Tax rate	27.510%	$ 4,103.83					
Non royalty barrels	262.50						
net value	$ 56.83						
tax rate	27.510%						
tax due (millions)	4,103.83						
Investment Credit	$ (277.80)	$ (277.80)	(277.80)		$ (277.80)		
"12 Million" Credit	$ (72.00)	$ (72.00)	(72.00)		$ (72.00)		
Max TIE	$ (138.90)	$ (138.90)	(138.90)		$ (138.90)		
TOTAL TAX	$ 3,615.13	$ 3,615.13	3,615.13		2,494.88		$ 1,328.12

DED
8.5.06

Alaska Department of Revenue

XON

	"Produce or Pay" CSHB 3001 (fin) Mechanism			PPT as introduced in Special Session		Status Quo on Gross	
	Per Bbl or Rate	Total Dollars (millions)	Total Dollars (simp)	Per Bbl or Rate	Total Dollars (millions)	Per Bbl or Rate	Total Dollars (millions)
Destination (Friday's Close)	$ 73.46	$ 3,759.33					$ 3,759.33
Opex and Trans	$ (12.00)	$ (614.10)					$ (307.05)
Capital	$ (2.99)	$ (153.17)					
	$ 58.47	$ 2,992.06					$ 3,452.28
Progressivity							
Insert Point	$ 40.00						
Difference	$ 18.47						
Slope	0.250%						
resulting rate increment	4.617%	$ 138.14					
Base rate	25.000%	$ 748.02	748.02	20.000%	598.41	12.75%	$ 440.17
Adjustment for investment	-1.993%	$ (59.63)	(59.63)				
resulting rate	23.007%	$ 688.38					
Gold Plating Correction	0.963%	$ 28.81	28.81				
resulting rate	23.970%	$ 717.20					
add progressivity	4.617%	$ 138.14	138.14				
Actual Tax rate	28.587%	$ 855.33					
Non royalty barrels	51.18						
net value	$ 58.47						
tax rate	28.587%						
tax due (millions)	855.33						
Investment Credit	$ (35.01)	$ (35.01)	(35.01)		$ (35.01)		
"12 Million" Credit	$ -	$ -	-		$ -		
Max TIE	$ (17.50)	$ (17.50)	(17.50)		$ (17.50)		
TOTAL TAX	$ 802.82	$ 802.82	802.82		545.90		$ 440.17

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 3001
(H) Publish Date: 7/12/06

Revision Date/Time (Note if correction):
Title: Repealing the oil production tax and gas production tax etc.
Sponsor: Rules by Request of Governor
Requester: Governor

Dept. Affected: Natural Resources
RDU: Resource Development
Component: Oil & Gas Development
Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						

CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

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

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

Prepared by: Bill VanDyke, Acting Director
Division: Oil & Gas
Phone: 907-269-8800
Date/Time: 7/11/2006

Approved by: Michael Menge, Commissioner
Agency: Natural Resources
Date: 7/11/2006

(Revised 9/7/2005 OMB)

FISCAL NOTE

STATE OF ALASKA		Fiscal Note Number:	2 **CORRECTED**
2006 LEGISLATIVE SESSION		Bill Version:	HB 3001
		(H) Publish Date:	7/13/06
Revision Date/Time (Note if correction):		Dept. Affected:	Revenue
Title	An Act Relating to the Production Tax on Oil and Gas	RDU	Tax and Treasury
		Component	Tax
Sponsor	Rules Committee		
Requester	Governor	Component No.	2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	875.0	892.5	910.4	928.6	947.1	966.1
Travel						
Contractual	525.0	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous (OH office, etc)	53.0	53.0	53.0	53.0	53.0	53.0
TOTAL OPERATING	**1,495.0**	**1,433.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**

CAPITAL EXPENDITURES						

CHANGE IN REVENUES ( )	***See analysis section***	

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,495.0	1,433.4	1,081.6	1,100.2	1,121.1	1,142.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,495.0**	**1,433.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**

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

Full-time	10	10	10	10	10	10
Part-time						
Temporary						

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

Relative to Status Quo

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a 20% tax, less a credit of 20% which applies to capital costs upstream of the point of production. 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 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.

Prepared by:	Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis	Phone	269-1019
Division	Tax Division	Date/Time	7/13/06 7:00 AM
Approved by:	Jerry Burnett	Date	7/13/2006
Agency	Department of Revenue		

(Revised 9/7/2005 OMB)

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB 3001

ANALYSIS CONTINUATION

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 Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

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

The table shows the 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 2 additional Tax Tech III positions (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.

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB 3001

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 $260 million over the status quo system.

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$53.60	989	1,718	729
2008	$46.90	759	1,339	580
2009	$25.50	355	316	-38
2010	$25.50	315	285	-30
2011	$25.50	281	282	0
2012	$25.50	271	278	6

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$40.00	708	972	264
2008	$40.00	655	947	292
2009	$40.00	631	1,015	384
2010	$40.00	582	984	402
2011	$40.00	544	1,006	462
2012	$40.00	536	1,015	479

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$60.00	1,120	1,994	875
2008	$60.00	1,032	1,941	909
2009	$60.00	978	2,003	1,025
2010	$60.00	901	1,954	1,053
2011	$60.00	842	1,995	1,153
2012	$60.00	831	2,015	1,184

*Numbers may not sum due to rounding.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 3001(FIN)
(H) Publish Date: 8/4/06

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

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)

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

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 variable tax rate with a floor of 20% and a ceiling of 25%, less a credit of 20% which applies to capital costs upstream of the point of production. The variable tax rate would be determined by the level of capital investment, limited by tax benefits generated by capital investments. The capital investment benefit limitation is 75% of qualified capital costs. 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 production tax value. 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: 8/4/06 9:00 AM

Approved by: Tom Boutin, Deputy Commissioner
Agency: Department of Revenue
Date: 8/4/2006

(Revised 9/7/2005 OMB)

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 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 #3

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CSHB 3001(FIN)

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 $440 million over the status quo system.

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$53.60	989	1985	996
2008	$46.90	784	1509	725
2009	$25.50	355	342	-12
2010	$25.50	315	304	-11
2011	$25.50	281	300	19
2012	$25.50	271	296	25

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$40.00	708	1132	424
2008	$40.00	655	1099	444
2009	$40.00	631	1175	544
2010	$40.00	582	1137	556
2011	$40.00	544	1166	622
2012	$40.00	536	1178	642

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$60.00	1,120	2541	1,421
2008	$60.00	1,032	2476	1,445
2009	$60.00	978	2603	1,625
2010	$60.00	901	2534	1,633
2011	$60.00	842	2587	1,744
2012	$60.00	831	2610	1,778

*Numbers may not sum due to rounding.

Gross vs Net Production Tax

A back ground discussion

July 25, 2006

Presentation to

The House Finance Committee

Pedro van Meurs

General Comments

HB 3004 contains several elements of a proposal which I made on April 29, 2001 to the Knowles administration for changes in the production tax.

However, there are also important differences between HB 3004 and my earlier proposal. These differences are central to the understanding of "gross vs net".

General Comments

My 2001 proposal was a modification of the then existing ELF based production tax. It contained:

- Stronger tax rates in case of small fields with low productivities.
- A strongly price sensitive tax, which much higher rates under high prices and zero tax under low prices.
- Provisions for heavy oil incentives
- Tax credits in order to encourage re-investment in the State.

Revenues versus Structure

In order to understand the various concepts it is very important to distinguish clearly between:

- The structure of the production tax, and
- The level of revenues that the State would receive.

This presentation deals with the **structure** of the production tax.

Under any structure the level of revenues can be set higher or lower depending on the perception of the competitive international framework.

Three Fiscal Options

The three different options reflect the three main choices that the Government of Alaska has in creating a new production tax:

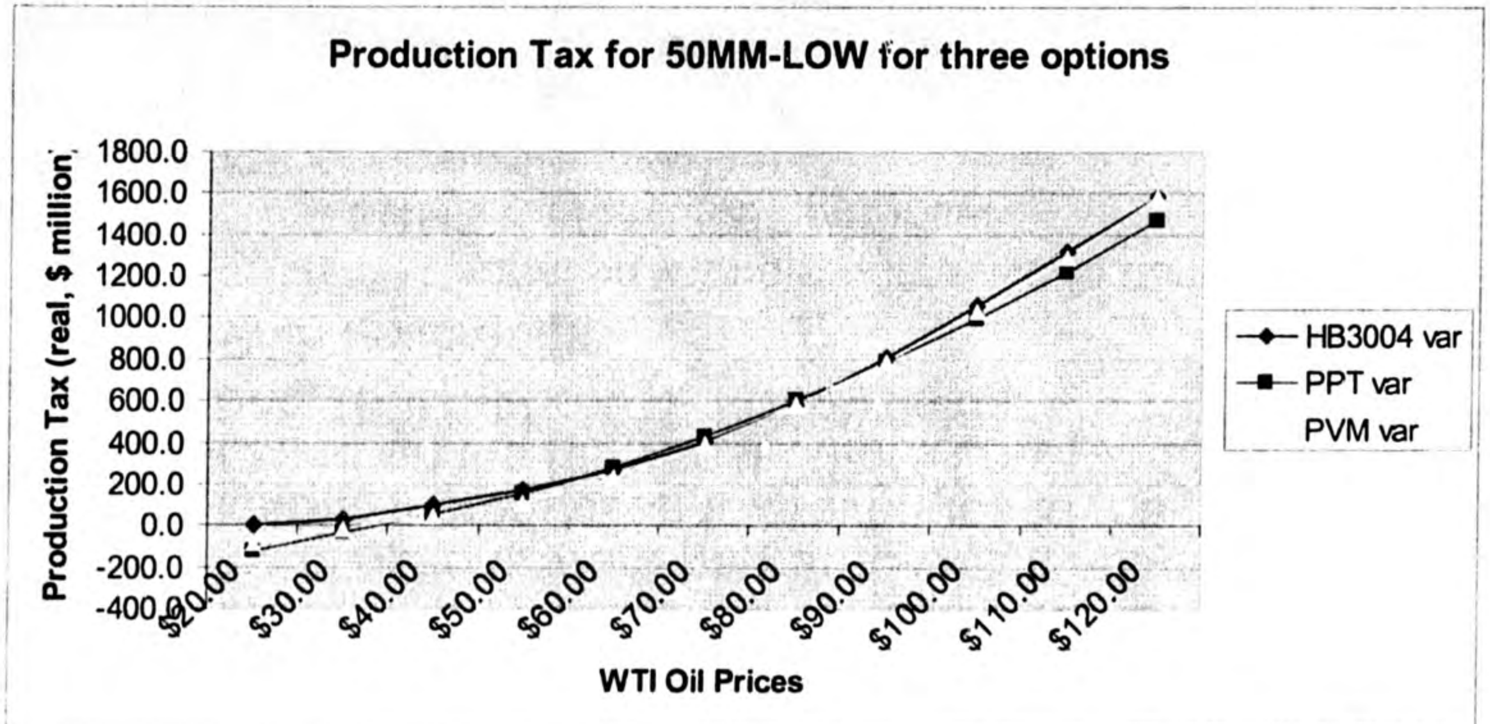
- A structure based on tax credits:
  - Based on State wide net revenues, or
  - Based on gross revenues per "field" with no deductions for capital and operating costs.
- No or minor tax credits:
  - A structure based on gross revenues per "field".

Three Fiscal Options

In order to evaluate the various **structures** three fiscal options were prepared which result in identical production tax revenues to the State based on the high cost 50MM-Low ($13.50/bbl) and 150MM-Low ($ 11/bbl) fields:

- With tax credits:
  - A PPT variation with a progressive feature
  - A variation of my 2001 proposal
- No or minor tax credits:
  - A variation of HB 3004

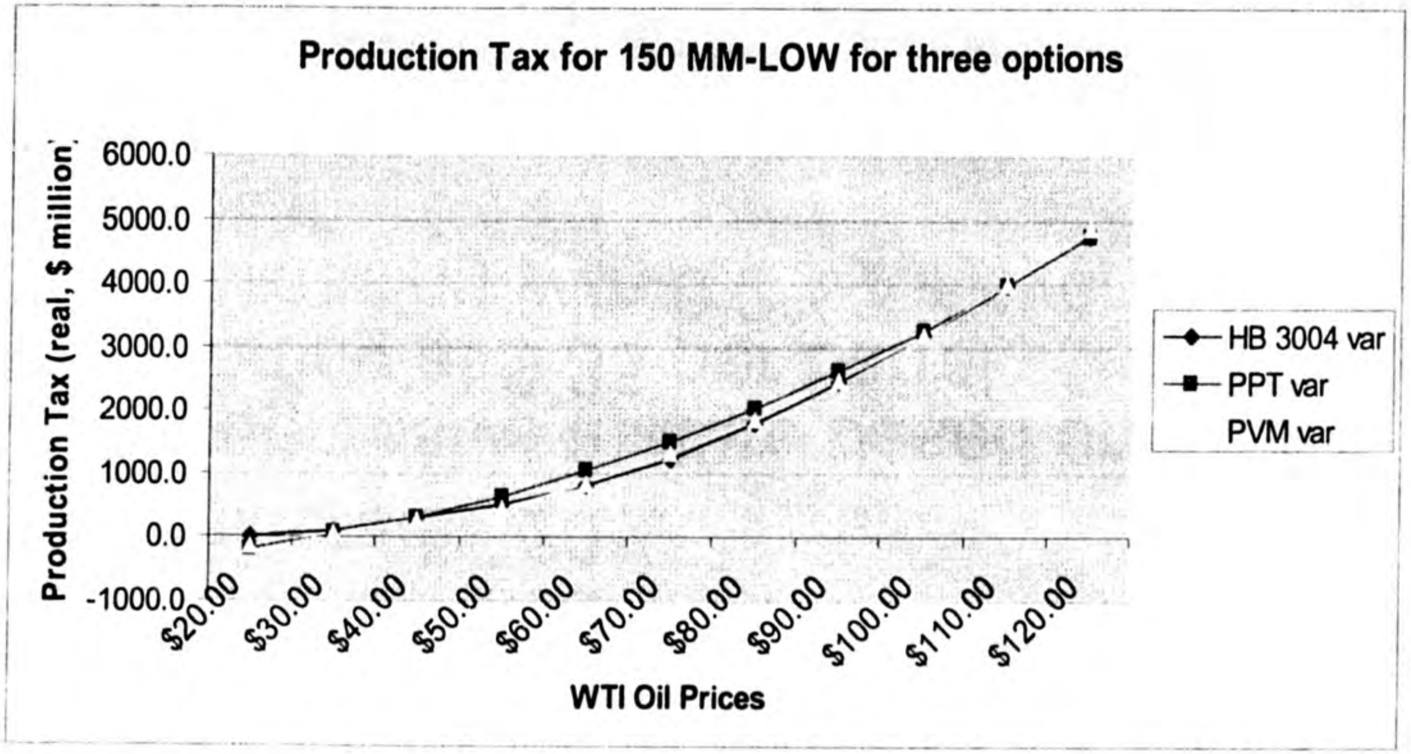
Three Fiscal Options
50MM-Low-high cost



The Three fiscal options are calibrated to create almost the same undiscounted revenues to the State for the 50 MM-Low case.

Three Fiscal Options

150MM-Low-high cost



The Three fiscal options are calibrated to create almost the same undiscounted revenues to the State under the 150 MM-Low case.

Three Fiscal Options

PPT variation

- Tax rate: 20%
- Tax credit: 20%
- Progressive feature based on net, starting at $ 35 per barrel, increasing with 0.2% for every dollar.
- Maximum rate: 50%
- No corporate wide basic allowance.

Three Fiscal Options

PVM 2001 variation

- Flat nominal rate of 15%.
- Investment tax credits of 40% on all capital expenditures
- Price adjustment factor starting at $ 50 per barrel based on ANS/50, price adjustment includes escalation.
- Maximum rate: 40%

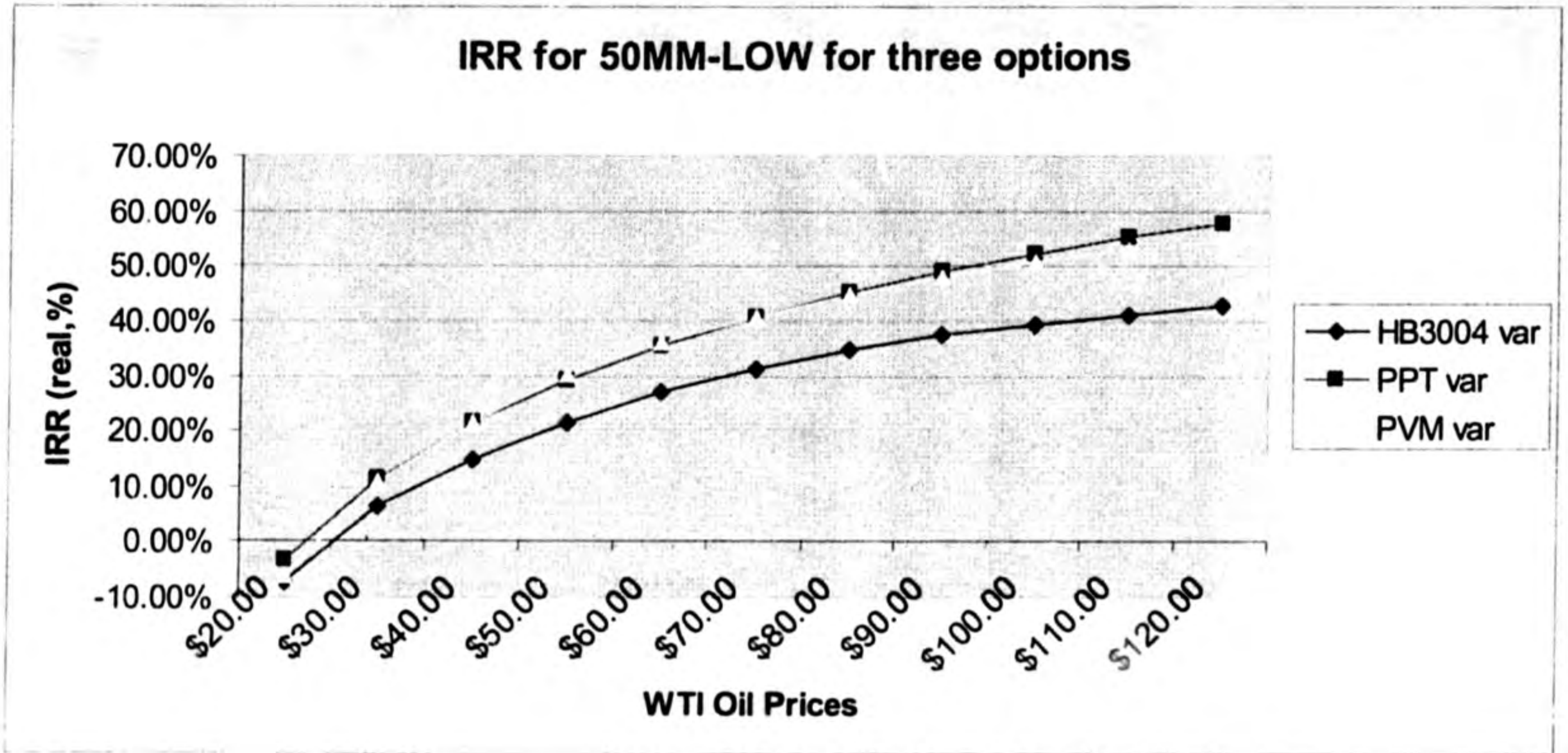
Three Fiscal Options

HB 3004 variation

- Existing nominal rates and existing ELF
- Minimum rate of 6.5%
- Rate reduction below $ 35 by 6% to $ 20 per barrel.
- Price adjustment factor starting at $ 35 per barrel based on ANS/35, price adjustment includes escalation.
- Extra percentage increase by 3% between $ 70 and $ 120 per barrel.
- Maximum rate: 40%

Impact on Investors

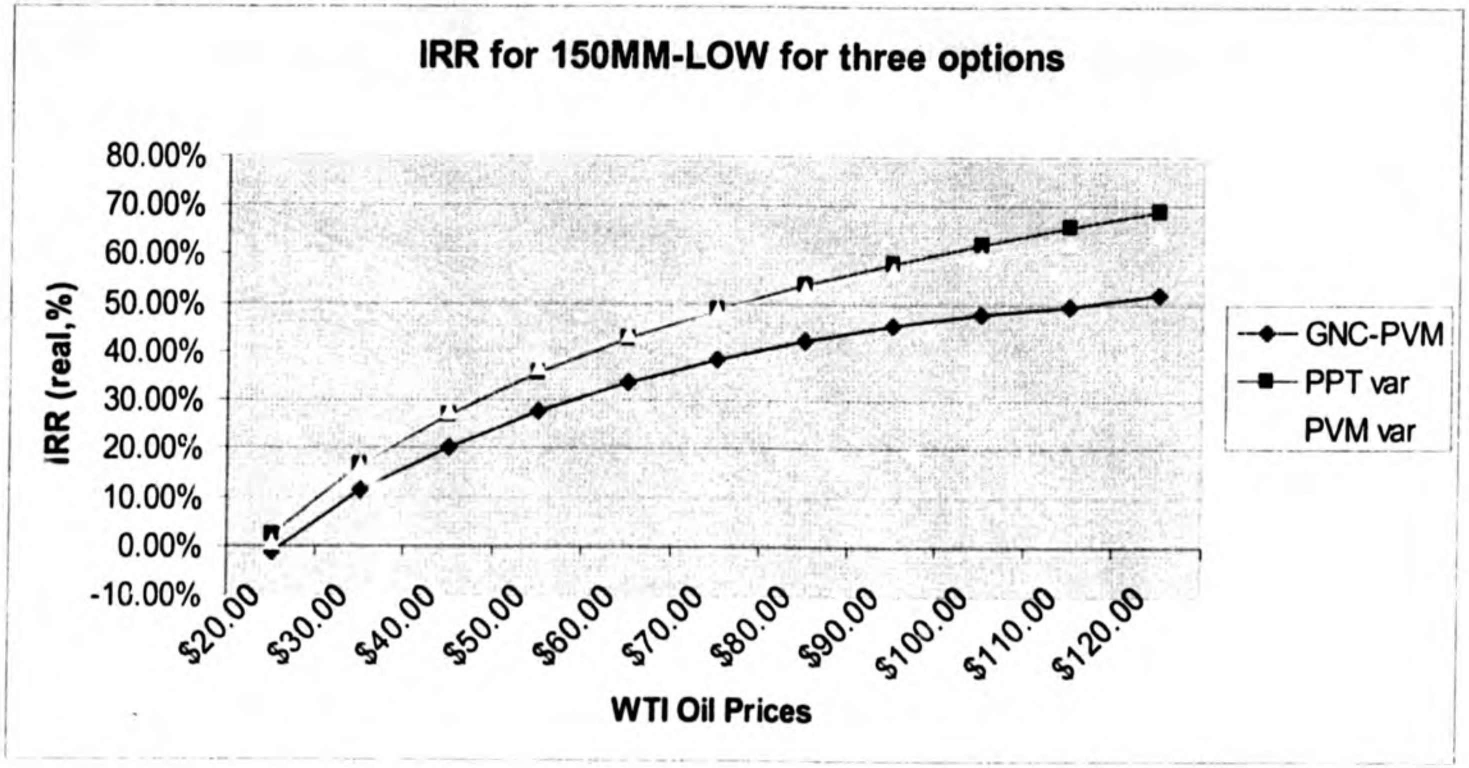
Three options – IRR – 50 MM Low



The PPT and PVM variations provide for a near identical IRR. The HB 3004 variation results in a much lower IRR.

Impact on Investors

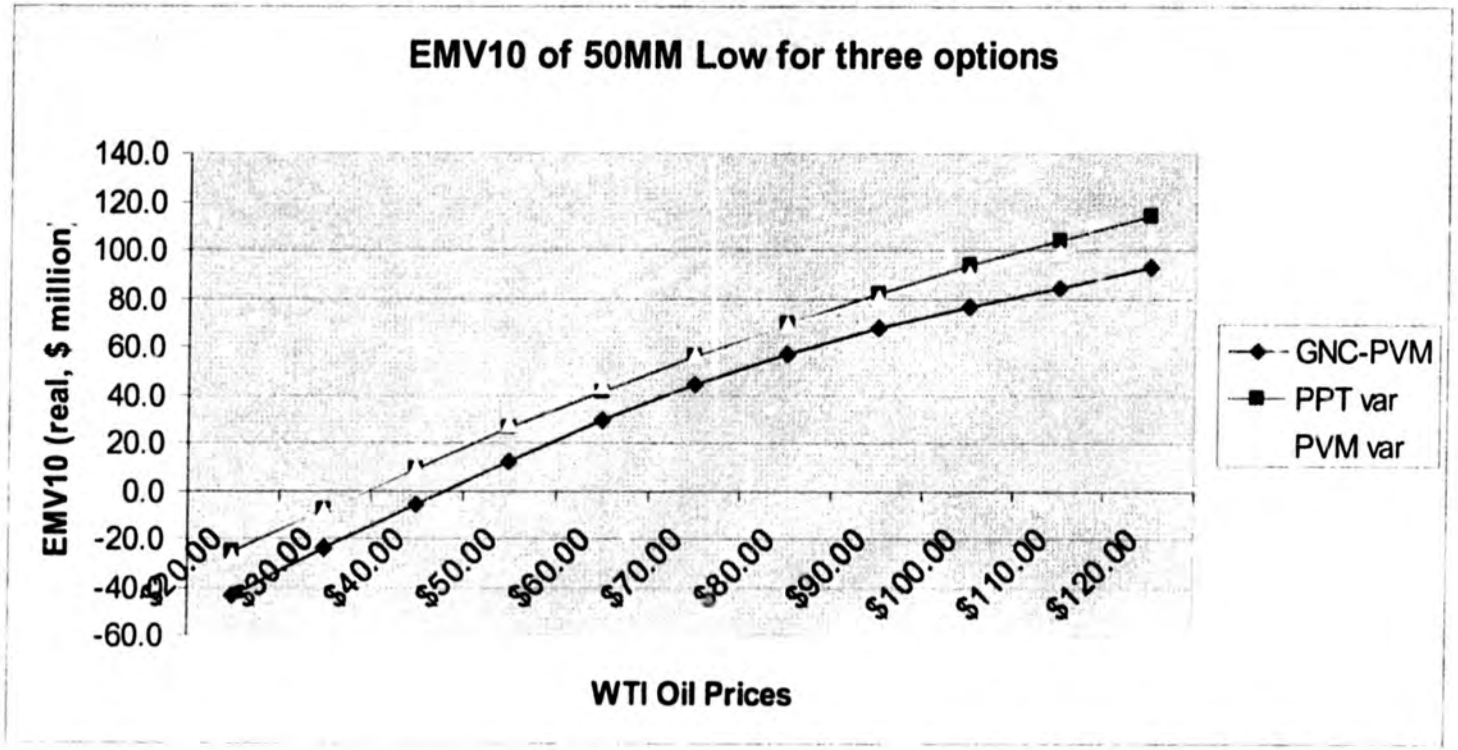
Three options – IRR – 150 MM Low



The PPT and PVM variations provide for a near identical IRR. The HB 3004 variation results in a much lower IRR.

Impact on Investors

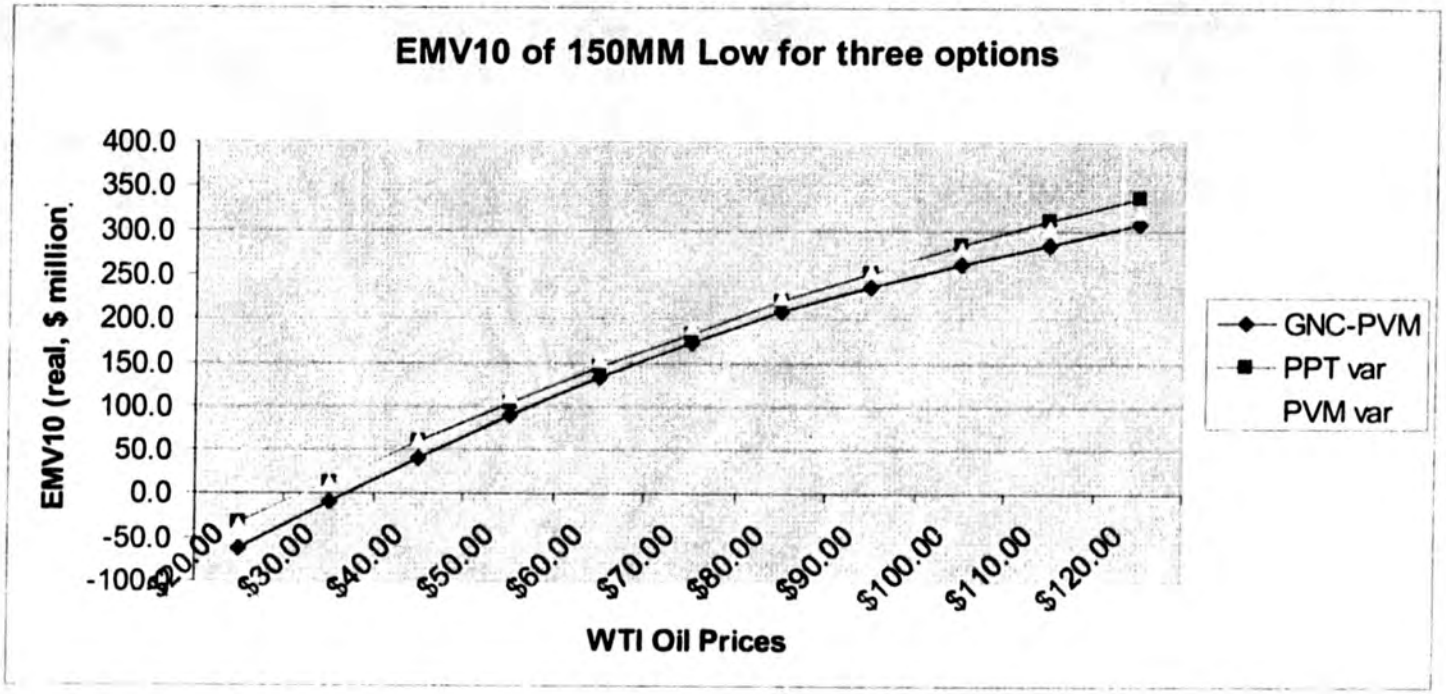
Three options – EMV10 – 50 MM Low



The PPT and PVM variations provide for a near identical EMV10. The HB 3004 variation results in a much lower EMV10.

Impact on Investors

Three options – EMV10 – 150 MM Low



The PPT and PVM variations provide for a near identical EMV10. The HB 3004 variation results in a much lower EMV10.

Impact on Investors

The HB 3004 variation is less attractive because as far as the production tax is concerned:

- Under the HB 3004 variation, if investors invest $ 1 million, they count it as $ 1 million because there are no tax deductions.

- Under the PPT and PVM2001 variations if investors invest $ 1 million, they count is as $ 600,000, because they will get a reduction in tax of $ 400,000. The fact that the **net investment** is only $ 600,000 makes the project more profitable on an incremental basis.

Fiscal Structure

However, the government ends up with the same undiscounted revenues under all three variations, because under the PPT and PVM2001 variations the government compensates the PPT tax saving by investors with a higher tax later on. This means the structure of these two variations is more back end loaded.

Under the PPT and PVM 2001 variations the government first levies a **higher** tax and then permits the tax reduction in order to end up with the same revenues as under the HB 3004 variation.

Fiscal Structure

International Framework

Many jurisdictions have already discovered that the best way to encourage investment is to ensure that the **net investments are low.** Providing tax deductions and tax credits is the best way to encourage re-investment.

Fiscal Structure

International Framework

Alaska is competing with jurisdictions that provide such incentives to re-invest. In the OECD area the most important examples are Norway, UK, the Netherlands, Denmark, Alberta, Newfoundland, NWT and Australia. However, there are more than 60 other nations with profit based or profit oil based systems.

Fiscal Structure

Reinvestment or No Reinvestment

The fiscal structure issue is therefore not "gross versus net".

The issue is whether Alaska will establish a new production tax that:

- **encourages re-investment in Alaska, such as the PPT and PVM 2001 variations with tax credits and/or tax deductions of cost, or**

- **does not encourage re-investment in Alaska, such as the HB 3004 variation.**

Fiscal Structure

Two Options with Tax Credits

In early 2003 two different fiscal structures were considered with tax credits:

- A revised version of the 2001 proposal which consisted of a production tax on gross and tax credits, and
- The PPT concept.

Both systems can be designed in such a way to result in a very similar overall incentive to re-invest in Alaska.

Why was the PPT fiscal structure recommended to the Governor?

Fiscal Structure

Gross with tax credits

A production tax based on gross with tax credits has a number of disadvantages compared to the PPT related to:

- “Shelf life” of formulas
- Definition of “field”
- Heavy oil provisions