

**SCOMM**

**143:5**

# LEGAL SERVICES

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

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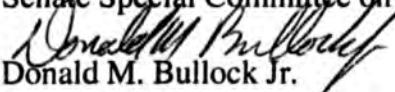
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## 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

Special Committee on Natural Gas Development

HB 3001

| AMEND #       | SPONSOR                  | TOPIC  | MOVED | OBJECT                       | AMEND | VOTE                 | ADOPT |
|---------------|--------------------------|--|-------|------------------------------|-------|----------------------|-------|
| <del>#1</del> | Stedman                  | 22.5%<br>P.16 -                              |       | Replaced before distribution |       |                      |       |
| <del>#1</del> | Stedman                  | P.30 -                                       |       | Replaced before distribution |       |                      |       |
| #2            | Eiton                    | P.7  |       | NOT OFFERED                  |       |                      |       |
| #3            | ↓                        | P.27   |       |                              |       | Failed               |       |
| #4            |                          | P.31   |       |                              |       | Failed               |       |
| #5            | Wagoner                  | P.33   |       |                              |       | * twice              | ✓     |
| #6            | Dyson                    | Pg 31 in 20<br>amendations                   |       |                              |       |                      | ✓     |
| #1            | Stedman                  | P.36<br>(1)                                  |       |                              |       | * twice              | ✓     |
| #7            | Wagoner                  | Pg 32 in 9<br>cap. expend. less than 430x... |       | defer to #10                 |       | WITHDRAWN            |       |
| #8            | Eiton                    | P.2  |       |                              |       | Failed               |       |
| #9            | Wagoner<br>for Theriault | P.32   |       | defer to #3                  |       | WITHDRAWN<br>* twice |       |
| #10           | Wagoner                  | Pg 32 in 9<br>cap. expend. replace #7        |       |                              |       | *                    | ✓     |
| #11           | ↓                        | P.34   |       |                              |       | *                    | ✓     |
| #12           | Dyson                    | 22.5% credit                                 |       |                              |       | Failed               |       |
| #13           | Wagoner<br>for Theriault | P.37<br>#9 amended                           |       |                              |       | Failed               |       |
| X             |                          |  |       |                              |       |                      |       |

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |                       |             |   |
|----------------------------|-----------------------|-------------|---|
| Bill Number                | HB 3001               |             |   |
| Amendment                  | CS "P" as amended     |             |   |
| Motion                     | report from committee |             |   |
| <u>Motion by</u>           | Green                 |             |   |
| <u>Objection by</u>        | Elton                 |             |   |
| <u>Removed</u>             | ✓                     |             |   |
| <u>Second Objection by</u> |                       |             |   |
| <u>Committee Member</u>    | Y                     | <u>Vote</u> | 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              |                       |             |   |
|                            |                       |             |   |
| <u>Tally</u>               |                       |             |   |
| Yea                        |                       |             |   |
| Nay                        |                       |             |   |
| Absent                     |                       |             |   |
|                            |                       |             |   |
| <u>MOTION</u>              |                       |             |   |

SENATE FINANCE  
COMMITTEE

Amendment #

#1 Amended

To Bill Number:

HB 3001

24-GH2096/P.36

Sponsor:

Stedman

Chenoweth

Date

8/9/06

Logged by:

Mindy

8/9/06

AMENDMENT

adopted

OFFERED IN THE SENATE

BY SENATOR STEDMAN

TO: CSHB 3001(FIN)

1 Page 3, line 8:

2 Delete "(j) and (k)"

3 Insert "(i) and (j)"

4

5 Page 3, line 9: following "equal to" :

6 ~~Delete "the annual"~~

7 Insert "22.5 percent of ~~the~~"

8

9 Page 3, lines 10 - 11:

10 Delete "multiplied by the tax rate determined under (f) of this section"

11

12 Page 3, line 12, through page 4, line 25:

13 Delete all material.

14

15 Reletter the following subsections accordingly.

16

17 Page 4, line 27:

18 Delete "(h)"

19 Insert "(g)"

20

21 Page 4, line 31:

22 Delete "(j) and (k)"

23 Insert "(i) and (j)"

amendments to the  
amendment on  
page 1 and 2

1

2 ~~Page 5, line 2:~~3 ~~Delete ".25"~~4 ~~Insert ".20"~~

5

6 Page 5, line 4:

7 Delete "(h)"

8 Insert "(g)"

9

10 Page 5, line 8:

11 Delete "(g)"

12 Insert "(f)"

13

14 Page 5, line 29:

15 Delete "(g)"

16 Insert "(f)"

17

18 Page 6, line 17:

19 Delete "(g)"

20 Insert "(f)"

21

22 Page 7, line 5:

23 Delete "(j) or (k)"

24 Insert "(i) or (j)"

25

26 Page 7, line 6:

27 Delete "(g)"

28 Insert "(f)"

29

30 Page 7, line 9:

31 Delete "(g)"

1           Insert "(f)"

2

3   Page 7, line 23:

4           Delete "(j) or (k)"

5           Insert "(i) or (j)"

6

7   Page 7, line 24:

8           Delete "(g)"

9           Insert "(f)"

10

11   Page 8, line 5:

12           Delete "(m)"

13           Insert "(l)"

14

15   Page 8, lines 16 - 17:

16           Delete all material.

17

18   Page 8, lines 28 - 29:

19           Delete "AS 43.55.011(e), (g), and (i)"

20           Insert "AS 43.55.011(e), (f), and (h)"

21

22   Page 8, line 31:

23           Delete "(g)"

24           Insert "(f)"

25

26   Page 9, line 12, following "by":

27           Insert "22.5 percent;"

28

29   Page 9, lines 13 - 21:

30           Delete all material.

31

1 Page 9, line 24:

2 Delete "AS 43.55.011(g)"

3 Insert "AS 43.55.011(f)"

4

5 Page 9, line 26:

6 Delete "AS 43.55.011(i)"

7 Insert "AS 43.55.011(h)"

8

9 Page 9, line 30:

10 Delete "AS 43.55.011(i)"

11 Insert "AS 43.55.011(h)"

12

13 Page 9, line 31:

14 Delete "AS 43.55.011(i)"

15 Insert "AS 43.55.011(h)"

16

17 Page 10, line 3:

18 Delete "AS 43.55.011(i)"

19 Insert "AS 43.55.011(h)"

20

21 Page 10, line 4:

22 Delete "AS 43.55.011(i)"

23 Insert "AS 43.55.011(h)"

24

25 Page 10, line 6:

26 Delete "AS 43.55.011(e), (g), and (i)"

27 Insert "AS 43.55.011(e), (f), and (h)"

28

29 Page 10, line 22:

30 Delete "(g)"

31 Insert "(f)"

1

2 Page 10, line 28:

3 Delete "(g)"

4 Insert "(f)"

5

6 Page 10, line 30:

7 Delete "(g)"

8 Insert "(f)"

9

10 Page 23, line 19, following "department":

11 Insert "and"

12

13 Page 23, line 20:

14 Delete all material.



*Committee Intent:  
delete all language  
of subparagraph (b)*

15

16 Renumber the following paragraph accordingly.

17

18 Page 26, line 21:

19 Delete "AS 43.55.011(g)"

20 Insert "AS 43.55.011(f)"

21

22 Page 26, line 25:

23 Delete "AS 43.55.011(g)"

24 Insert "AS 43.55.011(f)"

25

26 Page 27, line 1:

27 Delete "AS 43.55.011(g)"

28 Insert "AS 43.55.011(f)"

29

30 Page 27, line 8:

31 Delete "AS 43.55.011(g)"

- 1           Insert "AS 43.55.011(f)"
- 2
- 3   Page 27, line 14:
- 4           Delete "AS 43.55.011(g)"
- 5           Insert "AS 43.55.011(f)"
- 6
- 7   Page 27, line 22:
- 8           Delete "AS 43.55.011(g)"
- 9           Insert "AS 43.55.011(f)"
- 10
- 11   Page 35, line 22:
- 12           Delete "AS 43.55.011(i)"
- 13           Insert "AS 43.55.011(h)"
- 14
- 15   Page 40, line 30:
- 16           Delete "AS 43.55.011(e), (g), and (i)"
- 17           Insert "AS 43.55.011(e), (f), and (h)"
- 18
- 19   Page 42, lines 2 - 6:
- 20           Delete all material.
- 21
- 22   Reletter the following subsection accordingly.

Amendment #1  
Amend- (#1)  
adopted

- 1
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- 30
- 31

~~Page 5, line 2:~~

~~Delete ".25"~~

~~Insert ".20"~~

Page 5, line 4:

Delete "(h)"

Insert "(g)"

Page 5, line 8:

Delete "(g)"

Insert "(f)"

Page 5, line 29:

Delete "(g)"

Insert "(f)"

Page 6, line 17:

Delete "(g)"

Insert "(f)"

Page 7, line 5:

Delete "(j) or (k)"

Insert "(i) or (j)"

Page 7, line 6:

Delete "(g)"

Insert "(f)"

Page 7, line 9:

Delete "(g)"

retain language  
of version "P"

AMENDMENT

adopted

OFFERED IN THE SENATE  
TO: CSHB 3001(FIN)

BY SENATOR STEDMAN

- 1 Page 3, line 8:
- 2 Delete "(j) and (k)"
- 3 Insert "(i) and (j)"
- 4
- 5 Page 3, line 9: following "equal to" :
- 6 ~~Delete "the annual"~~
- 7 Insert "22.5 percent of ~~the~~"
- 8
- 9 Page 3, lines 10 - 11:
- 10 Delete "multiplied by the tax rate determined under (f) of this section"
- 11
- 12 Page 3, line 12, through page 4, line 25:
- 13 Delete all material.
- 14
- 15 Reletter the following subsections accordingly.
- 16
- 17 Page 4, line 27:
- 18 Delete "(h)"
- 19 Insert "(g)"
- 20
- 21 Page 4, line 31:
- 22 Delete "(j) and (k)"
- 23 Insert "(i) and (j)"

(Amendment #1)

- 1
- 2 Page 10, line 28:
- 3 Delete "(g)"
- 4 Insert "(f)"
- 5
- 6 Page 10, line 30:
- 7 Delete "(g)"
- 8 Insert "(f)"
- 9
- 10 Page 23, line 19, following "department":
- 11 Insert "and"
- 12
- 13 Page 23, line 20:
- 14 Delete all material.
- 15
- 16 Renumber the following paragraph accordingly.
- 17
- 18 Page 26, line 21:
- 19 Delete "AS 43.55.011(g)"
- 20 Insert "AS 43.55.011(f)"
- 21
- 22 Page 26, line 25:
- 23 Delete "AS 43.55.011(g)"
- 24 Insert "AS 43.55.011(f)"
- 25
- 26 Page 27, line 1:
- 27 Delete "AS 43.55.011(g)"
- 28 Insert "AS 43.55.011(f)"
- 29
- 30 Page 27, line 8:
- 31 Delete "AS 43.55.011(g)"



Committee Intent:  
delete all language  
of subparagraph (b)

SENATE FINANCE  
COMMITTEE

Amendment # #1

To Bill Number: HB 3001

Sponsor: Stedman

Date: 8/9/06 Logged by: Mindy

24-GH2096P.36

Chenoweth

8/9/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR STEDMAN

TO: CSHB 3001(FIN)

1 Page 3, line 8:

2 Delete "(j) and (k)"

3 Insert "(i) and (j)"

4

5 Page 3, line 9:

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7 Insert "22.5 percent of the"

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9 Page 3, lines 10 - 11:

10 Delete "multiplied by the tax rate determined under (f) of this section"

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15 Reletter the following subsections accordingly.

16

17 Page 4, line 27:

18 Delete "(h)"

19 Insert "(g)"

20

21 Page 4, line 31:

22 Delete "(j) and (k)"

23 Insert "(i) and (j)"

1

2 Page 5, line 2:

3 Delete ".25"

4 Insert ".20"

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6 Page 5, line 4:

7 Delete "(h)"

8 Insert "(g)"

9

10 Page 5, line 8:

11 Delete "(g)"

12 Insert "(f)"

13

14 Page 5, line 29:

15 Delete "(g)"

16 Insert "(f)"

17

18 Page 6, line 17:

19 Delete "(g)"

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21

22 Page 7, line 5:

23 Delete "(j) or (k)"

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26 Page 7, line 6:

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29

30 Page 7, line 9:

31 Delete "(g)"

- 1           Insert "(f)"
- 2
- 3   Page 7, line 23:
- 4           Delete "(j) or (k)"
- 5           Insert "(i) or (j)"
- 6
- 7   Page 7, line 24:
- 8           Delete "(g)"
- 9           Insert "(f)"
- 10
- 11   Page 8, line 5:
- 12           Delete "(m)"
- 13           Insert "(l)"
- 14
- 15   Page 8, lines 16 - 17:
- 16           Delete all material.
- 17
- 18   Page 8, lines 28 - 29:
- 19           Delete "AS 43.55.011(e), (g), and (i)"
- 20           Insert "AS 43.55.011(e), (f), and (h)"
- 21
- 22   Page 8, line 31:
- 23           Delete "(g)"
- 24           Insert "(f)"
- 25
- 26   Page 9, line 12, following "by":
- 27           Insert "22.5 percent;"
- 28
- 29   Page 9, lines 13 - 21:
- 30           Delete all material.
- 31

1 Page 9, line 24:

2 Delete "AS 43.55.011(g)"

3 Insert "AS 43.55.011(f)"

4

5 Page 9, line 26:

6 Delete "AS 43.55.011(i)"

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9 Page 9, line 30:

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11 Insert "AS 43.55.011(h)"

12

13 Page 9, line 31:

14 Delete "AS 43.55.011(i)"

15 Insert "AS 43.55.011(h)"

16

17 Page 10, line 3:

18 Delete "AS 43.55.011(i)"

19 Insert "AS 43.55.011(h)"

20

21 Page 10, line 4:

22 Delete "AS 43.55.011(i)"

23 Insert "AS 43.55.011(h)"

24

25 Page 10, line 6:

26 Delete "AS 43.55.011(e), (g), and (i)"

27 Insert "AS 43.55.011(e), (f), and (h)"

28

29 Page 10, line 22:

30 Delete "(g)"

31 Insert "(f)"

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31

Page 10, line 28:

Delete "(g)"

Insert "(f)"

Page 10, line 30:

Delete "(g)"

Insert "(f)"

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

Insert "and"

Page 23, line 20:

Delete all material.

Renumber the following paragraph accordingly.

Page 26, line 21:

Delete "AS 43.55.011(g)"

Insert "AS 43.55.011(f)"

Page 26, line 25:

Delete "AS 43.55.011(g)"

Insert "AS 43.55.011(f)"

Page 27, line 1:

Delete "AS 43.55.011(g)"

Insert "AS 43.55.011(f)"

Page 27, line 8:

Delete "AS 43.55.011(g)"

- 1           Insert "AS 43.55.011(f)"
- 2
- 3   Page 27, line 14:
- 4           Delete "AS 43.55.011(g)"
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- 7   Page 27, line 22:
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- 9           Insert "AS 43.55.011(f)"
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- 11   Page 35, line 22:
- 12           Delete "AS 43.55.011(i)"
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- 14
- 15   Page 40, line 30:
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- 17           Insert "AS 43.55.011(e), (f), and (h)"
- 18
- 19   Page 42, lines 2 - 6:
- 20           Delete all material.
- 21
- 22   Reletter the following subsection accordingly.

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |                  |             |          |
|----------------------------|------------------|-------------|----------|
| <b>Bill Number</b>         | HB 3001          |             |          |
| <b>Amendment</b>           | #1               |             |          |
| <b>Motion</b>              | adopt as amended |             |          |
| <b>Motion by</b>           | Stedman (twice)  |             |          |
| <b>Objection by</b>        | Stedman          |             |          |
| <b>Removed</b>             | ✓                |             |          |
| <b>Second Objection by</b> |                  |             |          |
| <b>Committee Member</b>    | <b>Y</b>         | <b>Vote</b> | <b>N</b> |
| 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              |                  |             |          |
|                            |                  |             |          |
| <b>Tally</b>               |                  |             |          |
| Yea                        |                  |             |          |
| Nay                        |                  |             |          |
| Absent                     |                  |             |          |
|                            |                  |             |          |
| <b>MOTION</b>              | Adopted          |             |          |

Special Committee on Natural Gas Development

8/9 /2006

**COMMITTEE ACTION**

|                                |            |             |          |
|--------------------------------|------------|-------------|----------|
| Bill Number                    | HB 3001    |             |          |
| Amendment                      | #1         |             |          |
| Motion                         | amend - #1 |             |          |
| <i>Motion by</i>               | Wilken     |             |          |
| <i>Objection by</i>            | Wilken     |             |          |
| <i>Removed</i>                 | ✓          |             |          |
| <i>Second Objection by</i>     | Green      |             |          |
| <b><u>Committee Member</u></b> | <b>Y</b>   | <b>Vote</b> | <b>N</b> |
| → 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                  | ✓          |             |          |
| <b><u>Tally</u></b>            |            |             |          |
| Yea                            | 8          |             |          |
| Nay                            | 4          |             |          |
| Absent                         | 1          |             |          |
| <b>MOTION</b>                  | Pass       |             |          |

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                                   |            |                    |          |
|-----------------------------------|------------|--------------------|----------|
| <b>Bill Number</b>                | HB 3001    |                    |          |
| <b>Amendment</b>                  | #1         |                    |          |
| <b>Motion</b>                     | amend - #2 |                    |          |
| <b><i>Motion by</i></b>           | Stedman    |                    |          |
| <b><i>Objection by</i></b>        | none       |                    |          |
| <b><i>Removed</i></b>             |            |                    |          |
| <b><i>Second Objection by</i></b> |            |                    |          |
| <b><i>Committee Member</i></b>    | <b>Y</b>   | <b><u>Vote</u></b> | <b>N</b> |
| 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                     |            |                    |          |
|                                   |            |                    |          |
| <b><i>Tally</i></b>               |            |                    |          |
| <b><i>Yea</i></b>                 |            |                    |          |
| <b><i>Nay</i></b>                 |            |                    |          |
| <b><i>Absent</i></b>              |            |                    |          |
|                                   |            |                    |          |
| <b><i>MOTION</i></b>              | Pass       |                    |          |

Replaced  
before distribution  
w/ \ P.30

AMENDMENT

1P.16  
Natural Gas Development  
COMMITTEE  
Amendment # 1  
To Bill Number: HB 3001  
Sponsor: Stedman  
Date: 8/8/06 Logged by: Rose

OFFERED IN THE SENATE

BY SENATOR STEDMAN

TO: CSHB 3001(FIN)

- 1 Page 3, line 8:
- 2 Delete "(j) and (k)"
- 3 Insert "(i) and (j)"
- 4
- 5 Page 3, line 9:
- 6 Delete "the annual"
- 7 Insert "22.5 percent of the"
- 8
- 9 Page 3, lines 10 - 11:
- 10 Delete "multiplied by the tax rate determined under (f) of this section"
- 11
- 12 Page 3, line 12, through page 4, line 25:
- 13 Delete all material.
- 14
- 15 Reletter the following subsections accordingly.
- 16
- 17 Page 4, line 27:
- 18 Delete "(h)"
- 19 Insert "(g)"
- 20
- 21 Page 4, line 31:
- 22 Delete "(j) and (k)"
- 23 Insert "(i) and (j)"

1

2 Page 5, line 2:

3 Delete ".25"

4 Insert ".20"

5

6 Page 5, line 4:

7 Delete "(h)"

8 Insert "(g)"

9

10 Page 5, line 8:

11 Delete "(g)"

12 Insert "(f)"

13

14 Page 5, line 29:

15 Delete "(g)"

16 Insert "(f)"

17

18 Page 6, line 17:

19 Delete "(g)"

20 Insert "(f)"

21

22 Page 7, line 5:

23 Delete "(j) or (k)"

24 Insert "(i) or (j)"

25

26 Page 7, line 6:

27 Delete "(g)"

28 Insert "(f)"

29

30 Page 7, line 9:

31 Delete "(g)"

- 1           Insert "(f)"
- 2
- 3   Page 7, line 23:
- 4           Delete "(j) or (k)"
- 5           Insert "(i) or (j)"
- 6
- 7   Page 7, line 24:
- 8           Delete "(g)"
- 9           Insert "(f)"
- 10
- 11   Page 8, line 5:
- 12           Delete "(m)"
- 13           Insert "(l)"
- 14
- 15   Page 8, lines 16 - 17:
- 16           Delete all material.
- 17
- 18   Page 8, lines 28 - 29:
- 19           Delete "AS 43.55.011(e), (g), and (i)"
- 20           Insert "AS 43.55.011(e), (f), and (h)"
- 21
- 22   Page 8, line 31:
- 23           Delete "(g)"
- 24           Insert "(f)"
- 25
- 26   Page 9, line 12, following "by":
- 27           Insert "22.8 percent;"
- 28
- 29   Page 9, lines 13 - 21:
- 30           Delete all material.
- 31

- 1 Page 9, line 24:  
2 Delete "AS 43.55.011(g)"  
3 Insert "AS 43.55.011(f)"  
4
- 5 Page 9, line 26:  
6 Delete "AS 43.55.011(i)"  
7 Insert "AS 43.55.011(h)"  
8
- 9 Page 9, line 30:  
10 Delete "AS 43.55.011(i)"  
11 Insert "AS 43.55.011(h)"  
12
- 13 Page 9, line 31:  
14 Delete "AS 43.55.011(i)"  
15 Insert "AS 43.55.011(h)"  
16
- 17 Page 10, line 3:  
18 Delete "AS 43.55.011(i)"  
19 Insert "AS 43.55.011(h)"  
20
- 21 Page 10, line 4:  
22 Delete "AS 43.55.011(i)"  
23 Insert "AS 43.55.011(h)"  
24
- 25 Page 10, line 6:  
26 Delete "AS 43.55.011(e), (g), and (i)"  
27 Insert "AS 43.55.011(e), (f), and (h)"  
28
- 29 Page 10, line 22:  
30 Delete "(g)"  
31 Insert "(f)"

1

2 Page 10, line 28:

3 Delete "(g)"

4 Insert "(f)"

5

6 Page 10, line 30:

7 Delete "(g)"

8 Insert "(f)"

9

10 Page 23, line 19, following "department:":

11 Insert "and"

12

13 Page 23, line 20:

14 Delete all material.

15

16 Renumber the following paragraph accordingly.

17

18 Page 26, line 21:

19 Delete "AS 43.55.011(g)"

20 Insert "AS 43.55.011(f)"

21

22 Page 26, line 25:

23 Delete "AS 43.55.011(g)"

24 Insert "AS 43.55.011(f)"

25

26 Page 27, line 1:

27 Delete "AS 43.55.011(g)"

28 Insert "AS 43.55.011(f)"

29

30 Page 27, line 8:

31 Delete "AS 43.55.011(g)"

- 1           Insert "AS 43.55.011(f)"  
2  
3   Page 27, line 14:  
4           Delete "AS 43.55.011(g)"  
5           Insert "AS 43.55.011(f)"  
6  
7   Page 27, line 22:  
8           Delete "AS 43.55.011(g)"  
9           Insert "AS 43.55.011(f)"  
10  
11   Page 32, line 29, following "AS 38.05.132":  
12           Insert ";  
13                               (19) 75 percent of the lease expenditures for a lease from which gas is  
14           produced and in which the holder of a working interest is a party to a contract under  
15           AS 43.82"  
16  
17   Page 35, line 22:  
18           Delete "AS 43.55.011(i)"  
19           Insert "AS 43.55.011(h)"  
20  
21   Page 40, line 30:  
22           Delete "AS 43.55.011(e), (g), and (i)"  
23           Insert "AS 43.55.011(e), (f), and (h)"  
24  
25   Page 42, lines 2 - 6:  
26           Delete all material.  
27  
28   Reletter the following subsection accordingly.

Replaced before  
distribution  
with V.P. 36

Natural Gas Development  
COMMITTEE #  
Amendment # ~~1~~  
To Bill Number: HB 3001  
Sponsor: Stedman  
Date: ~~8/10/06~~ logged by: Mindy

24-GH2096P.30  
Mischel/Bullock  
8/8/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR STEDMAN

TO: CSHB 3001(FIN)

- 1 Page 3, line 8:
- 2 Delete "(j) and (k)"
- 3 Insert "(i) and (j)"
- 4
- 5 Page 3, line 9:
- 6 Delete "the annual"
- 7 Insert "22.5 percent of the"
- 8
- 9 Page 3, lines 10 - 11:
- 10 Delete "multiplied by the tax rate determined under (f) of this section"
- 11
- 12 Page 3, line 12, through page 4, line 25:
- 13 Delete all material.
- 14
- 15 Reletter the following subsections accordingly.
- 16
- 17 Page 4, line 27:
- 18 Delete "(h)"
- 19 Insert "(g)"
- 20
- 21 Page 4, line 31:
- 22 Delete "(j) and (k)"
- 23 Insert "(i) and (j)"

1

2 Page 5, line 2:

3 Delete ".25"

4 Insert ".20"

5

6 Page 5, line 4:

7 Delete "(h)"

8 Insert "(g)"

9

10 Page 5, line 8:

11 Delete "(g)"

12 Insert "(f)"

13

14 Page 5, line 29:

15 Delete "(g)"

16 Insert "(f)"

17

18 Page 6, line 17:

19 Delete "(g)"

20 Insert "(f)"

21

22 Page 7, line 5:

23 Delete "(j) or (k)"

24 Insert "(i) or (j)"

25

26 Page 7, line 6:

27 Delete "(g)"

28 Insert "(f)"

29

30 Page 7, line 9:

31 Delete "(g)"

- 1           Insert "(f)"
- 2
- 3   Page 7, line 23:
- 4           Delete "(j) or (k)"
- 5           Insert "(i) or (j)"
- 6
- 7   Page 7, line 24:
- 8           Delete "(g)"
- 9           Insert "(f)"
- 10
- 11   Page 8, line 5:
- 12           Delete "(m)"
- 13           Insert "(l)"
- 14
- 15   Page 8, lines 16 - 17:
- 16           Delete all material.
- 17
- 18   Page 8, lines 28 - 29:
- 19           Delete "AS 43.55.011(e), (g), and (i)"
- 20           Insert "AS 43.55.011(e), (f), and (h)"
- 21
- 22   Page 8, line 31:
- 23           Delete "(g)"
- 24           Insert "(f)"
- 25
- 26   Page 9, line 12, following "by":
- 27           Insert "22.5 percent;"
- 28
- 29   Page 9, lines 13 - 21:
- 30           Delete all material.
- 31

- 1 Page 9, line 24:  
2 Delete "AS 43.55.011(g)"  
3 Insert "AS 43.55.011(f)"  
4
- 5 Page 9, line 26:  
6 Delete "AS 43.55.011(i)"  
7 Insert "AS 43.55.011(h)"  
8
- 9 Page 9, line 30:  
10 Delete "AS 43.55.011(i)"  
11 Insert "AS 43.55.011(h)"  
12
- 13 Page 9, line 31:  
14 Delete "AS 43.55.011(i)"  
15 Insert "AS 43.55.011(h)"  
16
- 17 Page 10, line 3:  
18 Delete "AS 43.55.011(i)"  
19 Insert "AS 43.55.011(h)"  
20
- 21 Page 10, line 4:  
22 Delete "AS 43.55.011(i)"  
23 Insert "AS 43.55.011(h)"  
24
- 25 Page 10, line 6:  
26 Delete "AS 43.55.011(e), (g), and (i)"  
27 Insert "AS 43.55.011(e), (f), and (h)"  
28
- 29 Page 10, line 22:  
30 Delete "(g)"  
31 Insert "(f)"

- 1
- 2 Page 10, line 28:
  - 3 Delete "(g)"
  - 4 Insert "(f)"
  - 5
- 6 Page 10, line 30:
  - 7 Delete "(g)"
  - 8 Insert "(f)"
  - 9
- 10 Page 23, line 19, following "department:":
  - 11 Insert "and"
  - 12
- 13 Page 23, line 20:
  - 14 Delete all material.
  - 15
- 16 Renumber the following paragraph accordingly.
- 17
- 18 Page 26, line 21:
  - 19 Delete "AS 43.55.011(g)"
  - 20 Insert "AS 43.55.011(f)"
  - 21
- 22 Page 26, line 25:
  - 23 Delete "AS 43.55.011(g)"
  - 24 Insert "AS 43.55.011(f)"
  - 25
- 26 Page 27, line 1:
  - 27 Delete "AS 43.55.011(g)"
  - 28 Insert "AS 43.55.011(f)"
  - 29
- 30 Page 27, line 8:
  - 31 Delete "AS 43.55.011(g)"

- 1           Insert "AS 43.55.011(f)"
- 2
- 3   Page 27, line 14:
- 4           Delete "AS 43.55.011(g)"
- 5           Insert "AS 43.55.011(f)"
- 6
- 7   Page 27, line 22:
- 8           Delete "AS 43.55.011(g)"
- 9           Insert "AS 43.55.011(f)"
- 10
- 11   Page 32, line 29, following "AS 38.05.132":
- 12           Insert ";
- 13                               (19) 75 percent of the lease expenditures for a lease from which gas is
- 14           produced and in which the holder of a working interest is a party to a contract under
- 15           AS 43.82"
- 16
- 17   Page 35, line 22:
- 18           Delete "AS 43.55.011(i)"
- 19           Insert "AS 43.55.011(h)"
- 20
- 21   Page 40, line 30:
- 22           Delete "AS 43.55.011(e), (g), and (i)"
- 23           Insert "AS 43.55.011(e), (f), and (h)"
- 24
- 25   Page 42, lines 2 - 6:
- 26           Delete all material.
- 27
- 28   Reletter the following subsection accordingly.

Natural Gas Development  
COMMITTEE  
Amendment # #2  
To Bill Number: HB 3001  
Sponsor: Elton  
Date: 8/3/06 Logged by: Mindy

24-GH2096P.7  
Kane/Bullock  
8/4/06



Not Offered

AMENDMENT

To CS HB 3001 (Fin)

by Sen. Elton

1 Page 32, lines 21 - 27:

2 Delete all material and insert:

3 "(17) costs incurred for containment, control, cleanup, or removal in  
4 connection with any unpermitted release of oil or a hazardous substance; any liability  
5 for damages, fines, and penalties imposed on the producer or explorer; or the cost of  
6 developing and maintaining an oil discharge prevention and contingency plan under  
7 AS 46.04.030;"

Natural Gas Development

COMMITTEE

Amendment # #3

To Bill Number: HB 3001

Sponsor: Elton

Date: 8/9/06 Logged by: Mindy

24-GH2096\P.27

Bullock

8/8/06

AMENDMENT

Failed

by: Sen. Elton

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

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

2 Insert ";

3 (19) for a lease from which gas is produced and in which the holder of  
4 a working interest is a party to a contract under AS 43.82, costs related to

5 (A) a gas processing plant or gas treatment facility upstream  
6 from the point of production; and

7 (B) transportation of the gas from a well to the point of  
8 production"

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                                   |          |             |          |
|-----------------------------------|----------|-------------|----------|
| <b>Bill Number</b>                | HB 3001  |             |          |
| <b>Amendment</b>                  | #3       |             |          |
| <b>Motion</b>                     | Table    |             |          |
| <b><u>Motion by</u></b>           | Stevens  |             |          |
| <b><u>Objection by</u></b>        | Elton    |             |          |
| <b><u>Removed</u></b>             |          |             |          |
| <b><u>Second Objection by</u></b> |          |             |          |
| <b><u>Committee Member</u></b>    | <b>Y</b> | <b>Vote</b> | <b>N</b> |
| 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                     | ✓        |             |          |
| <b><u>Tally</u></b>               |          |             |          |
| Yea                               |          | 7           |          |
| Nay                               |          | 4           |          |
| Absent                            |          | 1           |          |
| <b><u>MOTION</u></b>              | Pass     |             |          |

Special Committee on Natural Gas Development

8/9 /2006

**COMMITTEE ACTION**

|                            |                 |             |   |
|----------------------------|-----------------|-------------|---|
| Bill Number                | HB 3001         |             |   |
| Amendment                  | #3              |             |   |
| Motion                     | bring off table |             |   |
| <u>Motion by</u>           | Seekins Elton   |             |   |
| <u>Objection by</u>        | Stevens         |             |   |
| <u>Removed</u>             |                 |             |   |
| <u>Second Objection by</u> |                 |             |   |
| <u>Committee Member</u>    | Y               | <u>Vote</u> | 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              | ✓               |             |   |
| <u>Tally</u>               |                 |             |   |
| Yea                        | 7               |             |   |
| Nay                        | 5               |             |   |
| Absent                     |                 |             |   |
| <u>MOTION</u>              | PASS            |             |   |

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |          |             |          |
|----------------------------|----------|-------------|----------|
| Bill Number                | HB 3001  |             |          |
| Amendment                  | #3       |             |          |
| Motion                     | adopt    |             |          |
| <u>Motion by</u>           | Elton    |             |          |
| <u>Objection by</u>        | Seekins  |             |          |
| <u>Removed</u>             |          |             |          |
| <u>Second Objection by</u> |          |             |          |
| <u>Committee Member</u>    | <u>Y</u> | <u>Vote</u> | <u>N</u> |
| 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              |          |             | ✓        |
| <u>Tally</u>               |          |             |          |
| Yea                        | 3        |             |          |
| Nay                        | 0        |             |          |
| Absent                     | 1        |             |          |
| <u>MOTION</u>              | Failed   |             |          |

8/9 1:20 pm motion Tabled  
 2:45 pm returned

Natural Gas Development  
COMMITTEE  
Amendment # #4  
To Bill Number: HB 3001  
Sponsor: Elton  
Date: 8/8/06 Logged by: Mindy

24-GH2096P.31  
Bullock  
8/8/06

AMENDMENT

Failed

by: Sen. Elton

OFFERED IN THE SENATE  
TO: CSHB 3001(FIN)

- 1 Page 6, line 2:
- 2 Delete "April 1, 2006"
- 3 Insert "January 1, 2006"
- 4
- 5 Page 6, line 5:
- 6 Delete "March 31, 2006"
- 7 Insert "December 31, 2005"
- 8
- 9 Page 6, line 8:
- 10 Delete "March 31, 2006"
- 11 Insert "December 31, 2005"
- 12
- 13 Page 6, line 10:
- 14 Delete "March 31, 2006"
- 15 Insert "December 31, 2005"
- 16
- 17 Page 6, line 14:
- 18 Delete "March 31, 2006"
- 19 Insert "December 31, 2005"
- 20
- 21 Page 6, line 15:
- 22 Delete "March 31, 2006"
- 23 Insert "December 31, 2005"

1

2 Page 6, line 21:

3 Delete "April 1, 2006"

4 Insert "January 1, 2006"

5

6 Page 6, line 24:

7 Delete "March 31, 2006"

8 Insert "December 31, 2005"

9

10 Page 6, line 27:

11 Delete "March 31, 2006"

12 Insert "December 31, 2005"

13

14 Page 6, line 29:

15 Delete "March 31, 2006"

16 Insert "December 31, 2005"

17

18 Page 7, line 2:

19 Delete "March 31, 2006"

20 Insert "December 31, 2005"

21

22 Page 7, line 3:

23 Delete "March 31, 2006"

24 Insert "December 31, 2005"

25

26 Page 15, line 28:

27 Delete "March 31, 2001"

28 Insert "December 31, 2000"

29

30 Page 15, line 29:

31 Delete "April 1, 2006"

1           Insert "January 1, 2006"

2

3   Page 15, line 30:

4           Delete "March 31, 2006"

5           Insert "December 31, 2005"

6

7   Page 15, line 31:

8           Delete "April 1, 2006"

9           Insert "January 1, 2006"

10

11   Page 16, line 3:

12           Delete "April 1, 2006"

13           Insert "January 1, 2006"

14

15   Page 16, line 4:

16           Delete "March 31, 2006"

17           Insert "December 31, 2005"

18

19   Page 16, line 18:

20           Delete "April 1, 2006"

21           Insert "January 1, 2006"

22

23   Page 17, line 16:

24           Delete "March 31, 2006"

25           Insert "December 31, 2005"

26

27   Page 18, line 2:

28           Delete "May 1, 2016"

29           Insert "February 1, 2016"

30

31   Page 18, line 7:

1 Delete "April 1, 2006"

2 Insert "January 1, 2006"

3

4 Page 18, line 28:

5 Delete "April 1, 2006"

6 Insert "January 1, 2006"

7

8 Page 18, line 30:

9 Delete "May 1, 2016"

10 Insert "February 1, 2016"

11

12 Page 28, line 16:

13 Delete "March 31, 2006"

14 Insert "December 31, 2005"

15

16 Page 32, line 7:

17 Delete "April 1, 2006"

18 Insert "January 1, 2006"

19

20 Page 32, line 10:

21 Delete "April 1, 2006"

22 Insert "January 1, 2006"

23

24 Page 34, line 17:

25 Delete "March 31, 2006"

26 Insert "December 31, 2005"

27

28 Page 40, line 11:

29 Delete "March 31, 2006"

30 Insert "December 31, 2005"

31

1 Page 40, lines 16 - 19:

2 Delete "(a) Notwithstanding any contrary provision of AS 43.55.023(i), enacted by  
3 sec. 13 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007,  
4 the phrase "20 percent" in AS 43.55.023(i)(2), enacted by sec. 13 of this Act, shall be replaced  
5 by the phrase "15 percent.""

6

7 Reletter the following subsections accordingly.

8

9 Page 40, line 20:

10 Delete "April 1, 2006"

11 Insert "January 1, 2006"

12

13 Page 40, line 21:

14 Delete "April 1, 2006"

15 Insert "January 1, 2006"

16

17 Page 40, line 24:

18 Delete "March 31, 2006"

19 Insert "December 31, 2005"

20

21 Page 40, line 27:

22 Delete "March 31, 2006"

23 Insert "December 31, 2005"

24

25 Page 41, line 3:

26 Delete "March 31, 2006"

27 Insert "December 31, 2005"

28

29 Page 41, line 6:

30 Delete "(c)(1)"

31 Insert "(b)(1)"

1

2 Page 41, line 7:

3 Delete "March 31, 2006"

4 Insert "December 31, 2005"

5

6 Page 41, line 8:

7 Delete "(c)(2)"

8 Insert "(b)(2)"

9

10 Page 41, line 12:

11 Delete "March 31, 2006"

12 Insert "December 31, 2005"

13

14 Page 41, line 14:

15 Delete "March 31, 2006"

16 Insert "December 31, 2005"

17

18 Page 41, line 22:

19 Delete "March 31, 2006"

20 Insert "December 31, 2005"

21

22 Page 41, line 23:

23 Delete "(e)(1)"

24 Insert "(d)(1)"

25

26 Page 41, line 25:

27 Delete "March 31, 2006"

28 Insert "December 31, 2005"

29

30 Page 41, line 26:

31 Delete "(e)(2)"

1           Insert "(d)(2)"

2

3   Page 41, line 29:

4           Delete "(c)(1)"

5           Insert "(b)(1)"

6

7   Page 41, line 30:

8           Delete "(d)(1)"

9           Insert "(c)(1)"

10

11   Page 41, line 31, through page 42, line 1:

12           Delete "March 31, 2006"

13           Insert "December 31, 2005"

14

15   Page 42, lines 7 - 10:

16           Delete all material.

17

18   Page 42, line 16:

19           Delete "April 1, 2006"

20           Insert "January 1, 2006"

21

22   Page 43, line 4:

23           Delete "April 1, 2006"

24           Insert "January 1, 2006"

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                                   |          |             |          |
|-----------------------------------|----------|-------------|----------|
| <b>Bill Number</b>                | HB 3001  |             |          |
| <b>Amendment</b>                  | #4       |             |          |
| <b>Motion</b>                     | adopt    |             |          |
| <b><u>Motion by</u></b>           | Elton    |             |          |
| <b><u>Objection by</u></b>        | Seekins  |             |          |
| <b><u>Removed</u></b>             |          |             |          |
| <b><u>Second Objection by</u></b> |          |             |          |
| <b><u>Committee Member</u></b>    | <b>Y</b> | <b>Vote</b> | <b>N</b> |
| Senator Kockesh                   | ✓        |             |          |
| → 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                     |          |             | ✓        |
| <b><u>Tally</u></b>               |          |             |          |
| Yea                               | 3        |             |          |
| Nay                               | 0        |             |          |
| Absent                            |          |             |          |
| <b><u>MOTION</u></b>              | Failed   |             |          |

8/9 1:20 pm held - motion made to adopt

Natural Gas Development  
COMMITTEE  
Amendment # #5 Amended  
To Bill Number: HB 3001 24-GH2096P.33  
Sponsor: Wagoner Bullock  
Date: 8/9/06 Logged by: Mindy 8/9/06

AMENDMENT

adopted

OFFERED IN THE SENATE  
TO: CSHB 3001(FIN)

BY SENATOR WAGONER

1 Page 32, lines 21 - 27:

2 Delete all material and insert:

3 "(17) costs incurred for containment, control, cleanup, or removal in  
4 connection with any unpermitted release of oil or a hazardous substance and any  
5 liability for damages, ~~finer, and penalties~~ imposed on the producer or explorer for that  
6 unpermitted release;

*this paragraph does not  
apply to the cost of developing and  
maintaining an oil discharge prevention  
and contingency plan under AS 46.04.030;*

Natural Gas Development  
COMMITTEE  
Amendment # #5 Amend #2  
To Bill Number: HB 3001 24-GH2096\P.33  
Sponsor: Wagoner Bullock  
Date: 8/9/06 Logged by: Mindy 8/9/06

AMENDMENT

adopted

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSHB 3001(FIN)

1 Page 32, lines 21 - 27:

2 Delete all material and insert:

3 "(17) costs incurred for containment, control, cleanup, or removal in  
4 connection with any unpermitted release of oil or a hazardous substance and any  
5 liability for damages, fines, and penalties imposed on the producer or explorer for that  
6 unpermitted release;

this paragraph does not apply  
to the cost of developing and maintaining  
an oil discharge prevention and  
contingency plan under AS 46.04.030;

Natural Gas Development  
COMMITTEE  
Amendment # #5  
To Bill Number: HB 3001  
Sponsor: Wagoner  
Date: 8/9/06 Logged by: Mindy

24-GH2096/P.33  
Bullock  
8/9/06

AMENDMENT

OFFERED IN THE SENATE  
TO: CSHB 3001(FIN)

BY SENATOR WAGONER

1 Page 32, lines 21 - 27:

2 Delete all material and insert:

3 "(17) costs incurred for containment, control, cleanup, or removal in  
4 connection with any unpermitted release of oil or a hazardous substance and any  
5 liability for damages, fines, and penalties imposed on the producer or explorer for that  
6 unpermitted release;"

Natural Gas Development  
COMMITTEE  
Amendment # #5 Amend #1  
To Bill Number: HB 3001 24-GH2096P.33  
Sponsor: Wagoner Bullock  
Date: 8/9/06 Logged by: Mindy 8/9/06

AMENDMENT

adopted

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSHB 3001(FIN)

1 Page 32, lines 21 - 27:

2 Delete all material and insert:

3 "(17) costs incurred for containment, control, cleanup, or removal in  
4 connection with any unpermitted release of oil or a hazardous substance and any  
5 liability for damages,  ~~fines, and penalties~~ imposed on the producer or explorer for that  
6 unpermitted release;"

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                                   |             |                    |          |
|-----------------------------------|-------------|--------------------|----------|
| Bill Number                       | HB 3001     |                    |          |
| Amendment                         | #5          |                    |          |
| Motion                            | Amend #1    |                    |          |
| <b><u>Motion by</u></b>           | Bunde       |                    |          |
| <b><u>Objection by</u></b>        | none        |                    |          |
| <b><u>Removed</u></b>             |             |                    |          |
| <b><u>Second Objection by</u></b> |             |                    |          |
| <b><u>Committee Member</u></b>    | <b>Y</b>    | <b><u>Vote</u></b> | <b>N</b> |
| 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                     |             |                    |          |
| <b><u>Tally</u></b>               |             |                    |          |
| Yea                               |             |                    |          |
| Nay                               |             |                    |          |
| Absent                            |             |                    |          |
| <b>MOTION</b>                     | <b>Pass</b> |                    |          |

Special Committee on Natural Gas Development

8/9 /2006

**COMMITTEE ACTION**

|                            |                  |             |          |
|----------------------------|------------------|-------------|----------|
| <b>Bill Number</b>         | HB 3001          |             |          |
| <b>Amendment</b>           | #5 <del>Am</del> |             |          |
| <b>Motion</b>              | adopt as amended |             |          |
| <b>Motion by</b>           | Wagoner          |             |          |
| <b>Objection by</b>        | None             |             |          |
| <b>Removed</b>             |                  |             |          |
| <b>Second Objection by</b> |                  |             |          |
| <b>Committee Member</b>    | <b>Y</b>         | <b>Vote</b> | <b>N</b> |
| 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              |                  |             |          |
| <b>Tally</b>               |                  |             |          |
| Yea                        |                  |             |          |
| Nay                        |                  |             |          |
| Absent                     |                  |             |          |
| <b>MOTION</b>              | Pass             |             |          |

Special Committee on Natural Gas Development

8/9 /2006

**COMMITTEE ACTION**

|                            |            |             |          |
|----------------------------|------------|-------------|----------|
| <b>Bill Number</b>         | HB 3001    |             |          |
| <b>Amendment</b>           | #5         |             |          |
| <b>Motion</b>              | amend (#2) |             |          |
| <b>Motion by</b>           | Green      |             |          |
| <b>Objection by</b>        | none       |             |          |
| <b>Removed</b>             |            |             |          |
| <b>Second Objection by</b> |            |             |          |
| <b>Committee Member</b>    | <b>Y</b>   | <b>Vote</b> | <b>N</b> |
| 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              |            |             |          |
| <b>Tally</b>               |            |             |          |
| Yea                        |            |             |          |
| Nay                        |            |             |          |
| Absent                     |            |             |          |
| <b>MOTION</b>              | Pass       |             |          |

Natural Gas Development  
COMMITTEE  
Amendment # #6  
To Bill Number: HB 3001  
Sponsor: Dyson  
Date: 8/1/06 Logged by: Mindy

Natural Gas Development  
Committee

adopted

AMENDMENT No. #6

To: Version "P" By San Dyson  
House BILL No. 3001  
To: \_\_\_\_\_ SENATE BILL No. \_\_\_\_\_

page 31, line 20

delete:

(9) donations

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |         |             |   |
|----------------------------|---------|-------------|---|
| Bill Number                | HB 3001 |             |   |
| Amendment                  | #0      |             |   |
| Motion                     | adopt   |             |   |
| <u>Motion by</u>           | Dyson   |             |   |
| <u>Objection by</u>        | Dyson   |             |   |
| <u>Removed</u>             | ✓       |             |   |
| <u>Second Objection by</u> |         |             |   |
| <u>Committee Member</u>    | Y       | <u>Vote</u> | 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              |         |             |   |
| <u>Tally</u>               |         |             |   |
| Yea                        |         |             |   |
| Nay                        |         |             |   |
| Absent                     |         |             |   |
| <u>MOTION</u>              | Pass    |             |   |

Natural Gas Development  
COMMITTEE  
Amendment # #7  
To Bill Number: HB 3001  
Sponsor: Wagoner  
Date 8/2/06 Logged by: Mindy

AMENDMENT

OFFERED IN THE SENATE  
To: CSHB 3001(FIN)

BY SENATOR WAGONER

Withdrawn

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

2

3 Insert ";

4 (19) that portion of capital expenditures incurred during a  
5 calendar year that are less than the product of \$0.30 multiplied by the  
6 total taxable production from the lease in BTU equivalent barrels  
7 during that calendar year.

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |          |             |          |
|----------------------------|----------|-------------|----------|
| Bill Number                | HB 3001  |             |          |
| Amendment                  | # 7      |             |          |
| Motion                     | adopt    |             |          |
| <u>Motion by</u>           | Wagoner  |             |          |
| <u>Objection by</u>        | Seekins  |             |          |
| <u>Removed</u>             | ✓        |             |          |
| <u>Second Objection by</u> |          |             |          |
| <u>Committee Member</u>    | <u>Y</u> | <u>Vote</u> | <u>N</u> |
| 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              |          |             |          |
|                            |          |             |          |
| <u>Tally</u>               |          |             |          |
| Yea                        |          |             |          |
| Nay                        |          |             |          |
| Absent                     |          |             |          |
|                            |          |             |          |
| <b>MOTION</b>              |          |             |          |

8/9 11:55 am HB 3001 - motion made to adopt

2:55 pm With drawn to defer to amendment #10

AMENDMENT

Offered in the Senate by: Sen. Elton  
To: CS HB 3001 (Fin)

1 Page 8, line 17:

2 Delete "AS 43.55.023(k)"

3 Insert "AS 43.55.023(l)"

4

5 Page 12, line 16:

6 Delete "A"

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

8

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

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

11

12 Page 16, following line 31:

13 Insert a new subsection to read:

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

19

20 Reletter the following subsection accordingly.

21

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

23 Insert ";

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

3

4 Page 33, following line 25:

5 Insert a new paragraph to read:

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

8

9 Renumber the following paragraph accordingly.

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

3

4   Page 33, following line 25:

5           Insert a new paragraph to read:

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

8

9   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 22<sup>nd</sup> 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 stated that a gas cycling project was not commercially viable and the 22<sup>nd</sup> 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 achieve 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 22<sup>nd</sup> POD is unacceptable.

## VI. DECISION

The 22<sup>nd</sup> 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 22<sup>nd</sup> POD makes no commitment to timely develop and produce PTU oil, gas, or gas condensate. The 22<sup>nd</sup> 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   |             |   |
| <u>Motion by</u>           | Elton   |             |   |
| <u>Objection by</u>        | Seekins |             |   |
| <u>Removed</u>             |         |             |   |
| <u>Second Objection by</u> |         |             |   |
| <u>Committee Member</u>    | Y       | <u>Vote</u> | 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 Wayoner         |         |             | ✓ |
| Chair Seekins              |         |             | ✓ |
| <u>Tally</u>               |         |             |   |
| Yea                        | 4       |             |   |
| Nay                        | 8       |             |   |
| Absent                     | 1       |             |   |
| <u>MOTION</u>              | Failed  |             |   |

SENATE FINANCE  
COMMITTEE

Amendment #

#9 Amended

To Bill Number: HB 3001

24-GH2096P.32

Sponsor: Wagoner

Bullock

Date: 8/2/06 Logged by: Mindy

8/8/06

AMENDMENT

Withdrawn to  
defer to #13

by: Sen Wagoner

by request

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

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

2 Insert ";

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

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

8 (B) incurred to maintain the operational capability of facilities  
9 or equipment shut down or <sup>the incremental costs of</sup> operating at diminished capacity because of  
10 improper maintenance of property or equipment"

SENATE FINANCE  
COMMITTEE

Amendment # #9 Amend #1

To Bill Number: HB 3001 24-GH2096P.32

Sponsor: Wagoner Bullock

Date: 8/2/06 Logged by: Mindy 8/8/06

AMENDMENT

adopted

by: Sen Wagoner  
by request

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

- 1 Page 32, line 29, following "AS 38.05.132":
- 2 Insert ";
- 3 (19) costs or a portion of the costs determined by the commissioner, in
- 4 consultation with the commissioner of environmental conservation and the chair of the
- 5 Alaska Oil and Gas Conservation Commission, to be
- 6 (A) related to the repair and replacement of improperly
- 7 maintained property or equipment; or
- 8 (B) incurred to maintain the operational capability of facilities
- 9 or equipment shut down <sup>the incremental costs of</sup> or operating at diminished capacity because of
- 10 improper maintenance of property or equipment"

SENATE FINANCE  
COMMITTEE

Amendment # #9 amend #2

To Bill Number: HB 3001 24-GH2096P.32

Sponsor: Wagoner Bullock

Date: 8/1/06 Logged by: Mindy 8/8/06

AMENDMENT

*adopted*

*by: Sen Wagoner  
by request*

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

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

2 Insert ";

3 (19) costs or <sup>that</sup> a portion of the costs determined by the commissioner, in  
4 consultation with the commissioner of environmental conservation and the chair of the  
5 Alaska Oil and Gas Conservation Commission, to be

6 (A) related to the repair and replacement of im<sup>properly</sup>  
7 maintained property or equipment; or

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

SENATE FINANCE  
COMMITTEE

Amendment # #9

To Bill Number: HB 3001

24-GH2096P.32

Sponsor: Wagoner

Bullock

Date: 8/2/06 Logged by: Mindy

8/8/06

AMENDMENT

OFFERED IN THE SENATE

TO: CSHB 3001(FIN)

by: Sen Wagoner  
by request

- 1 Page 32, line 29, following "AS 38.05.132":
- 2 Insert ";
- 3 (19) costs or a portion of the costs determined by the commissioner, in
- 4 consultation with the commissioner of environmental conservation and the chair of the
- 5 Alaska Oil and Gas Conservation Commission, to be
- 6 (A) related to the repair and replacement of improperly
- 7 maintained property or equipment; or
- 8 (B) incurred to maintain the operational capability of facilities
- 9 or equipment shut down or operating at diminished capacity because of
- 10 improper maintenance of property or equipment"

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |                    |             |          |
|----------------------------|--------------------|-------------|----------|
| <b>Bill Number</b>         | HB 3001            |             |          |
| <b>Amendment</b>           | #9                 |             |          |
| <b>Motion</b>              | adopt - as amended |             |          |
| <b>Motion by</b>           | Wagoner            |             |          |
| <b>Objection by</b>        | Green              |             |          |
| <b>Removed</b>             |                    |             |          |
| <b>Second Objection by</b> |                    |             |          |
| <b>Committee Member</b>    | <b>Y</b>           | <b>Vote</b> | <b>N</b> |
| 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              |                    |             |          |
|                            |                    |             |          |
| <b>Tally</b>               |                    |             |          |
| <b>Yea</b>                 |                    |             |          |
| <b>Nay</b>                 |                    |             |          |
| <b>Absent</b>              |                    |             |          |
|                            |                    |             |          |
| <b>MOTION</b>              |                    |             |          |

8/9 2:40pm H&K 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  |             |   |
| <u>Motion by</u>           | Wilken      |             |   |
| <u>Objection by</u>        | none        |             |   |
| <u>Removed</u>             |             |             |   |
| <u>Second Objection by</u> |             |             |   |
| <u>Committee Member</u>    | Y           | <u>Vote</u> | 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              |             |             |   |
| <u>Tally</u>               |             |             |   |
| Yea                        |             |             |   |
| Nay                        |             |             |   |
| Absent                     |             |             |   |
| <b>MOTION</b>              | <b>Pass</b> |             |   |

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                                   |            |                    |          |
|-----------------------------------|------------|--------------------|----------|
| <b>Bill Number</b>                | HB 3001    |                    |          |
| <b>Amendment</b>                  | #9         |                    |          |
| <b>Motion</b>                     | amend - #2 |                    |          |
| <b><u>Motion by</u></b>           | Dyson      |                    |          |
| <b><u>Objection by</u></b>        | none       |                    |          |
| <b><u>Removed</u></b>             |            |                    |          |
| <b><u>Second Objection by</u></b> |            |                    |          |
| <b><u>Committee Member</u></b>    | <b>Y</b>   | <b><u>Vote</u></b> | <b>N</b> |
| 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                     |            |                    |          |
| <b><u>Tally</u></b>               |            |                    |          |
| Yea                               |            |                    |          |
| Nay                               |            |                    |          |
| Absent                            |            |                    |          |
| <b><u>MOTION</u></b>              | Pass       |                    |          |

Natural Gas Development  
COMMITTEE  
Amendment # #10 Amended  
To Bill Number: HB 3001  
Sponsor: Wagoner  
Date: 8/20/06 Lodged by: Mindy

AMENDMENT

OFFERED IN THE SENATE  
To: CSHB 3001(FIN)

BY SENATOR WAGONER

adopted

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

2

3 Insert ";

4 (19) that portion of expenditures, that would otherwise be  
5 qualified capital expenditures as defined in AS 43.55.024(k), incurred

6 during a calendar year that are less than the product of \$0.30  
7 multiplied by the total taxable production from <sup>each or property</sup> ~~the~~ lease in BTU

8 equivalent barrels during that calendar year, except when a portion of

9 a calendar year is subject to this provision, the expenditures and

10 volumes shall be prorated within that calendar year.

Natural Gas Development  
COMMITTEE  
Amendment # #10  
To Bill Number: HB 3001  
Sponsor: Wagoner  
Date: 8/1/06 Lodged by: Mindy

**AMENDMENT**

OFFERED IN THE SENATE  
To: CSHB 3001(FIN)

BY SENATOR WAGONER

*adopted -  
rescinded to amend*

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

2

3 Insert “;

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

Special Committee on Natural Gas Development

①

8/9/2006

**COMMITTEE ACTION**

|                                   |          |             |          |
|-----------------------------------|----------|-------------|----------|
| <b>Bill Number</b>                | HB 3001  |             |          |
| <b>Amendment</b>                  | # 10     |             |          |
| <b>Motion</b>                     | adopt    |             |          |
| <b><u>Motion by</u></b>           | Wagoner  |             |          |
| <b><u>Objection by</u></b>        | Seekins  |             |          |
| <b><u>Removed</u></b>             | ✓        |             |          |
| <b><u>Second Objection by</u></b> |          |             |          |
| <b><u>Committee Member</u></b>    | <b>Y</b> | <b>Vote</b> | <b>N</b> |
| 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                     |          |             |          |
|                                   |          |             |          |
| <b><u>Tally</u></b>               |          |             |          |
| Yea                               |          |             |          |
| Nay                               |          |             |          |
| Absent                            |          |             |          |
|                                   |          |             |          |
| <b><u>MOTION</u></b>              | Pass     |             |          |

Special Committee on Natural Gas Development

2

8/9/2006

**COMMITTEE ACTION**

|                                   |                               |                    |          |
|-----------------------------------|-------------------------------|--------------------|----------|
| <b>Bill Number</b>                | HB 3001                       |                    |          |
| <b>Amendment</b>                  | # 10                          |                    |          |
| <b>Motion</b>                     | rescind<br>action in adopting |                    |          |
| <b><u>Motion by</u></b>           | Wagoner                       |                    |          |
| <b><u>Objection by</u></b>        | none                          |                    |          |
| <b><u>Removed</u></b>             |                               |                    |          |
| <b><u>Second Objection by</u></b> |                               |                    |          |
| <b><u>Committee Member</u></b>    | <b>Y</b>                      | <b><u>Vote</u></b> | <b>N</b> |
| 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                     |                               |                    |          |
|                                   |                               |                    |          |
| <b><u>Tally</u></b>               |                               |                    |          |
| Yea                               |                               |                    |          |
| Nay                               |                               |                    |          |
| Absent                            |                               |                    |          |
|                                   |                               |                    |          |
| <b><u>MOTION</u></b>              | Pass                          |                    |          |

Special Committee on Natural Gas Development

3

8/9/2006

**COMMITTEE ACTION**

|                            |         |             |   |
|----------------------------|---------|-------------|---|
| Bill Number                | HB 3001 |             |   |
| Amendment                  | #10     |             |   |
| Motion                     | amend   |             |   |
| <u>Motion by</u>           | Wagoner |             |   |
| <u>Objection by</u>        | Dyson   |             |   |
| <u>Removed</u>             | ✓       |             |   |
| <u>Second Objection by</u> |         |             |   |
| <u>Committee Member</u>    | Y       | <u>Vote</u> | 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              |         |             |   |
| <u>Tally</u>               |         |             |   |
| Yea                        |         |             |   |
| Nay                        |         |             |   |
| Absent                     |         |             |   |
| <u>MOTION</u>              | Pass    |             |   |

8/9/2006

**COMMITTEE ACTION**

|                            |                    |      |   |
|----------------------------|--------------------|------|---|
| Bill Number                | HB 3001            |      |   |
| Amendment                  | #10 as amended     |      |   |
| Motion                     | adopt              |      |   |
| <u>Motion by</u>           | Committee Intent   |      |   |
| <u>Objection by</u>        |                    |      |   |
| <u>Removed</u>             | action rolled into |      |   |
| <u>Second Objection by</u> | motion to amend    |      |   |
| <u>Committee Member</u>    | 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              |                    |      |   |
|                            |                    |      |   |
| <u>Tally</u>               |                    |      |   |
| Yea                        |                    |      |   |
| Nay                        |                    |      |   |
| Absent                     |                    |      |   |
|                            |                    |      |   |
| <u>MOTION</u>              | Pass               |      |   |

Wagoner

none

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

Natural Gas Development  
COMMITTEE #11 Amended  
Amendment #  
To Bill Number: HB 3001 24-GH2096P.34  
Sponsor: Wagoner Bullock  
Date: 8/9/06 Logged by: Mindy 8/9/06

AMENDMENT

adopted

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSHB 3001(FIN)

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

2 Delete all material and insert:

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

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

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

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

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

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

\* insert: for sale on the United States  
West Coast

1 (5) zero percent of the gross value at the point of production when the  
2 average price per barrel for Alaska North Slope crude oil <sup>\*</sup> during the calendar year for  
3 which the tax is due is \$15 or less."  
4

5 Page 8, lines 11 - 17:

6 Delete all material.  
7

8 Page 8, lines 28 - 29:

9 Delete all material and insert:

10 "(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),  
11 (g), or (i), and notwithstanding that a producer may be liable for the tax under  
12 AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as  
13 follows:"  
14

15 Page 8, line 31:

16 Delete "and (g)"

17 Insert "or (f)"  
18

19 Page 9, line 12, following "by":

20 Insert "22.5 percent;"  
21

22 Page 9, lines 13 - 21:

23 Delete all material.  
24

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

26 Insert "(f),"  
27

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

29 Insert ", (f),"  
30

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

\* see page 1

1           Insert "(f),"

2

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

4           Insert "or (f)"

5

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

7           Insert "or (f)"

8

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

10          Insert "or (f)"

11

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

13          Insert "or (f)"

14

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

16          Insert "or (f)"

17

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

19          Insert "or (f)"

20

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

22          Insert "or (f)"

23

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

25          Insert "or (f)"

26

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

28          Insert "or (f)"

29

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

31          Insert "or (f)"

1

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

3 Insert "or (f)"

4

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

6 Insert "or (f)"

7

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

9 Insert "or (f)"

10

11 Page 23, line 19, following "department:":

12 Insert "and"

13

14 Page 23, line 20:

15 Delete all material.

16

17 Renumber the following paragraph accordingly.

18

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

20 Insert "(f),"

21

22 Page 42, lines 2 - 6:

23 Delete all material.

24

25 Reletter the following subsection accordingly.

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSHB 3001(FIN)

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

2 Delete all material and insert:

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

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

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

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

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

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

1 (5) zero percent of the gross value at the point of production when the  
2 average price per barrel for Alaska North Slope crude oil during the calendar year for  
3 which the tax is due is \$15 or less."  
4

5 Page 8, lines 11 - 17:

6 Delete all material.  
7

8 Page 8, lines 28 - 29:

9 Delete all material and insert:

10 "(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),  
11 (g), or (i), and notwithstanding that a producer may be liable for the tax under  
12 AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as  
13 follows:"  
14

15 Page 8, line 31:

16 Delete "and (g)"

17 Insert "or (f)"  
18

19 Page 9, line 12, following "by":

20 Insert "22.5 percent;"  
21

22 Page 9, lines 13 - 21:

23 Delete all material.  
24

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

26 Insert "(f),"  
27

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

29 Insert "(f),"  
30

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

1           Insert "(f),"

2

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

4           Insert "or (f)"

5

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

7           Insert "or (f)"

8

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

10          Insert "or (f)"

11

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

13          Insert "or (f)"

14

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

16          Insert "or (f)"

17

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

19          Insert "or (f)"

20

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

22          Insert "or (f)"

23

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

25          Insert "or (f)"

26

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

28          Insert "or (f)"

29

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

31          Insert "or (f)"

1

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

3 Insert "or (f)"

4

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

6 Insert "or (f)"

7

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

9 Insert "or (f)"

10

11 Page 23, line 19, following "department":

12 Insert "and"

13

14 Page 23, line 20:

15 Delete all material.

16

17 Renumber the following paragraph accordingly.

18

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

20 Insert "(f),"

21

22 Page 42, lines 2 - 6:

23 Delete all material.

24

25 Reletter the following subsection accordingly.

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |                    |             |   |
|----------------------------|--------------------|-------------|---|
| Bill Number                | HB 3001            |             |   |
| Amendment                  | # 11               |             |   |
| Motion                     | adopt - as amended |             |   |
| <u>Motion by</u>           | Wagoner            |             |   |
| <u>Objection by</u>        | Seekins            |             |   |
| <u>Removed</u>             | ✓                  |             |   |
| <u>Second Objection by</u> |                    |             |   |
| <u>Committee Member</u>    | Y                  | <u>Vote</u> | 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              |                    |             |   |
| <u>Tally</u>               |                    |             |   |
| Yea                        |                    |             |   |
| Nay                        |                    |             |   |
| Absent                     |                    |             |   |
| <u>MOTION</u>              | PASS               |             |   |

Special Committee on Natural Gas Development

8/9 /2006

**COMMITTEE ACTION**

|                                   |          |                    |          |
|-----------------------------------|----------|--------------------|----------|
| <b>Bill Number</b>                | HB 3001  |                    |          |
| <b>Amendment</b>                  | # 11     |                    |          |
| <b>Motion</b>                     | amend    |                    |          |
| <b><u>Motion by</u></b>           | Wagoner  |                    |          |
| <b><u>Objection by</u></b>        | none     |                    |          |
| <b><u>Removed</u></b>             |          |                    |          |
| <b><u>Second Objection by</u></b> |          |                    |          |
| <b><u>Committee Member</u></b>    | <b>Y</b> | <b><u>Vote</u></b> | <b>N</b> |
| 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                     |          |                    |          |
|                                   |          |                    |          |
| <b><u>Tally</u></b>               |          |                    |          |
| <b>Yea</b>                        |          |                    |          |
| <b>Nay</b>                        |          |                    |          |
| <b>Absent</b>                     |          |                    |          |
|                                   |          |                    |          |
| <b><u>MOTION</u></b>              | Pass     |                    |          |

Natural Resource Develop.  
COMMITTEE  
Amendment # #12  
To Bill Number: HB 3001  
Sponsor: Dyson  
Date 8/10/07 Logged by: Mindy

Natural Resource  
Development COMMITTEE  
AMENDMENT No. 12

Failed

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**

|                                   |            |             |          |
|-----------------------------------|------------|-------------|----------|
| <b>Bill Number</b>                | HB 3001    |             |          |
| <b>Amendment</b>                  | # 12       |             |          |
| <b>Motion</b>                     | adopt      |             |          |
| <b><u>Motion by</u></b>           | Dyson      |             |          |
| <b><u>Objection by</u></b>        | B. Stevens |             |          |
| <b><u>Removed</u></b>             |            |             |          |
| <b><u>Second Objection by</u></b> |            |             |          |
| <b><u>Committee Member</u></b>    | <b>Y</b>   | <b>Vote</b> | <b>N</b> |
| 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                     |            |             | ✓        |
| <b><u>Tally</u></b>               |            |             |          |
| Yea                               | 6          |             |          |
| Nay                               | 6          |             |          |
| Absent                            |            |             |          |
| <b><u>MOTION</u></b>              | Fail       |             |          |

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

24-GH2096P.37  
Bullock  
8/9/06

AMENDMENT

failed

OFFERED IN THE SENATE  
TO: CSHB 3001(FIN)

by Sen. Wagner  
by request of  
Sen. Therriault

- 1 Page 32, line 29, following "AS 38.05.132":  
2 Insert "; <sup>20</sup>  
3 ~~(19)~~ costs or that portion of the costs determined by the commissioner,  
4 in consultation with the commissioner of environmental conservation and the chair of  
5 the Alaska Oil and Gas Conservation Commission and relying on the standard  
6 practices of the industry, to be  
7 (A) related to the repair and replacement of improperly  
8 maintained property or equipment; or  
9 (B) incurred to maintain the operational capability of facilities  
10 or equipment shut down or for the incremental cost of operating at diminished  
11 capacity because of improper maintenance of property or equipment"

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

24-GH2096P.37  
Bullock  
8/9/06

AMENDMENT

OFFERED IN THE SENATE  
TO: CSHB 3001(FIN)

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

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                                   |            |             |          |
|-----------------------------------|------------|-------------|----------|
| <b>Bill Number</b>                | HB 3001    |             |          |
| <b>Amendment</b>                  | #13        |             |          |
| <b>Motion</b>                     | adopt      |             |          |
| <b><u>Motion by</u></b>           | Wagoner    |             |          |
| <b><u>Objection by</u></b>        | B. Stevens |             |          |
| <b><u>Removed</u></b>             |            |             |          |
| <b><u>Second Objection by</u></b> |            |             |          |
| <b><u>Committee Member</u></b>    | <b>Y</b>   | <b>Vote</b> | <b>N</b> |
| 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                     |            |             | ✓        |
| <b><u>Tally</u></b>               |            |             |          |
| Yea                               | 5          |             |          |
| Nay                               | 7          |             |          |
| Absent                            |            |             |          |
| <b><u>MOTION</u></b>              | Failed     |             |          |

Special Committee on Natural Gas Development

8/9/2006

**COMMITTEE ACTION**

|                            |          |             |          |
|----------------------------|----------|-------------|----------|
| <b>Bill Number</b>         | HB 3001  |             |          |
| <b>Amendment</b>           | #13      |             |          |
| <b>Motion</b>              | amend    |             |          |
| <b>Motion by</b>           | Wagoner  |             |          |
| <b>Objection by</b>        | none     |             |          |
| <b>Removed</b>             |          |             |          |
| <b>Second Objection by</b> |          |             |          |
| <b>Committee Member</b>    | <b>Y</b> | <b>Vote</b> | <b>N</b> |
| 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              |          |             |          |
| <b>Tally</b>               |          |             |          |
| Yea                        |          |             |          |
| Nay                        |          |             |          |
| Absent                     |          |             |          |
| <b>MOTION</b>              | 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

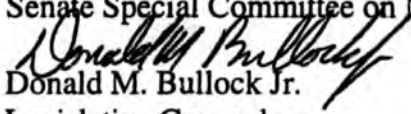
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## 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: *Today's 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

|                                     |                          |
|-------------------------------------|--------------------------|
| <b>SENATE BILL:</b>                 |                          |
| <input type="checkbox"/>            | Same Title               |
| <input type="checkbox"/>            | New Title                |
| <hr/>                               |                          |
| <b>HOUSE BILL:</b>                  |                          |
| <input checked="" type="checkbox"/> | Same Title               |
| <input type="checkbox"/>            | Technical Title Change   |
| <input type="checkbox"/>            | 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   |
|            |         |        |       |      |     |
|            |         |        |       |      |     |
|            |         |        |       |      |     |

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

RE: HB 3001

# FISCAL NOTE

To Be Published Today  
 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): \_\_\_\_\_ Dept. Affected: Revenue  
 Title An Act Relating to the Production Tax on RDU Tax and Treasury  
Oil and Gas Component Tax  
 Sponsor Rules Committee Component No. 2476  
 Requester Senate NGD

**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           |
| <b>TOTAL OPERATING</b>         | <b>1,425.3</b> | <b>1,367.8</b> | <b>1,014.6</b> | <b>1,032.0</b> | <b>1,051.5</b> | <b>1,071.5</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

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) |                |                |                |                |                |                |
| <b>TOTAL</b>                           | <b>1,425.3</b> | <b>1,367.8</b> | <b>1,014.6</b> | <b>1,032.0</b> | <b>1,051.5</b> | <b>1,071.5</b> |

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 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

**STATE OF ALASKA  
2006 LEGISLATIVE SESSION****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 /or 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.

8/8/2006

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

8/8/2006

Los Angeles, CA 90071

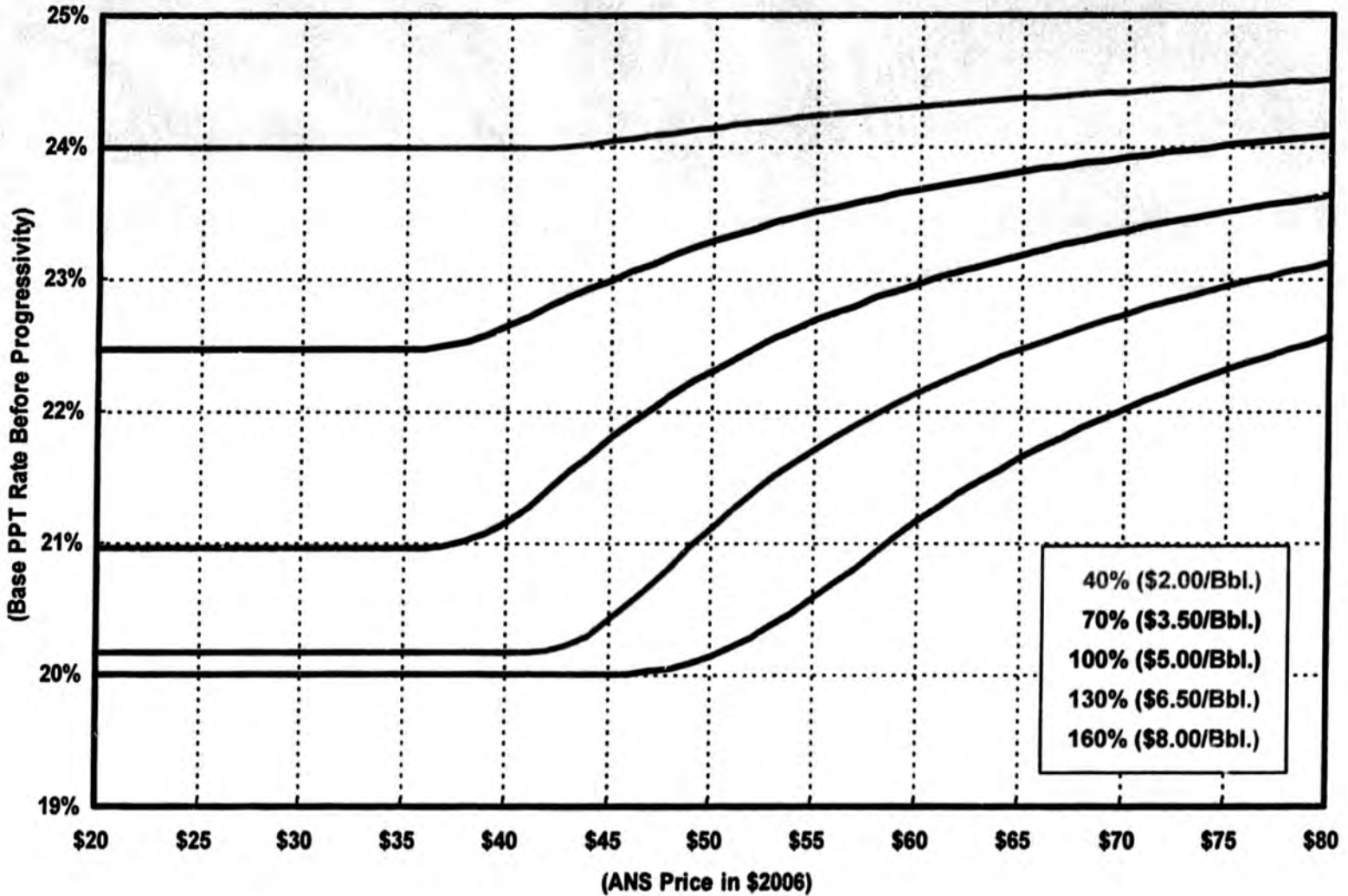
(213) 624-9600 Tel

(213) 624-6994 Fax

<mailto:bpulliam@econone.com>

8/8/2006

**Base PPT Rates Under CS for HB3001 at Various Price Levels  
After "Goldplating" Provision  
Excluding Progressive Component\*(FY 2007-2016)**



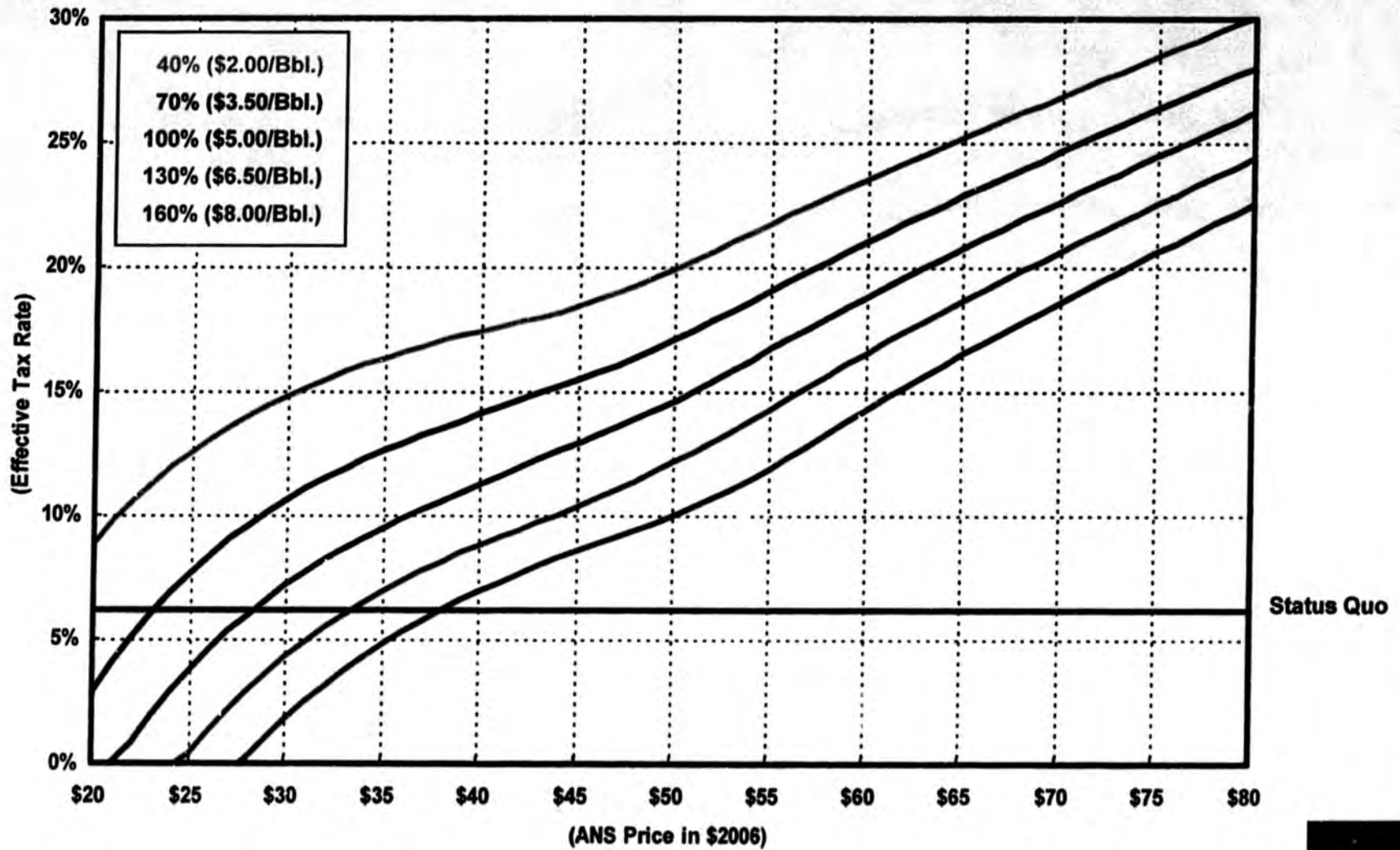
August 8, 2006  
7:08 AM

Note: Assumes no major gas sale.



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

(FY 2007-2016)

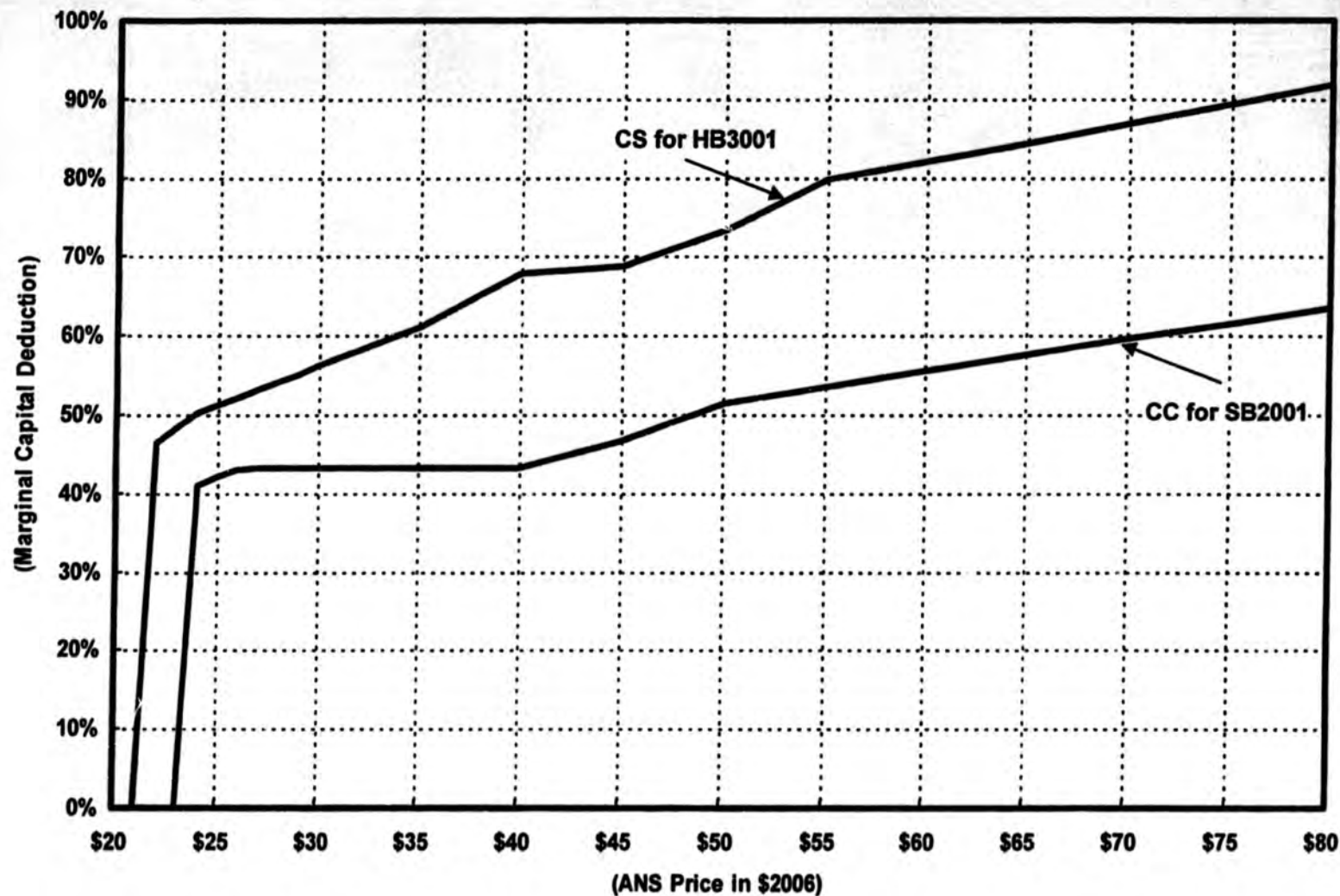


August 8, 2006:  
7:08 AM

Note: Assumes no major gas sale.



# 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.



# Comments on variable PPT rate of CS 3001(FIN)

August 8, 2006

Presentation to  
The Senate Special Committee  
Pedro van Meurs

# “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

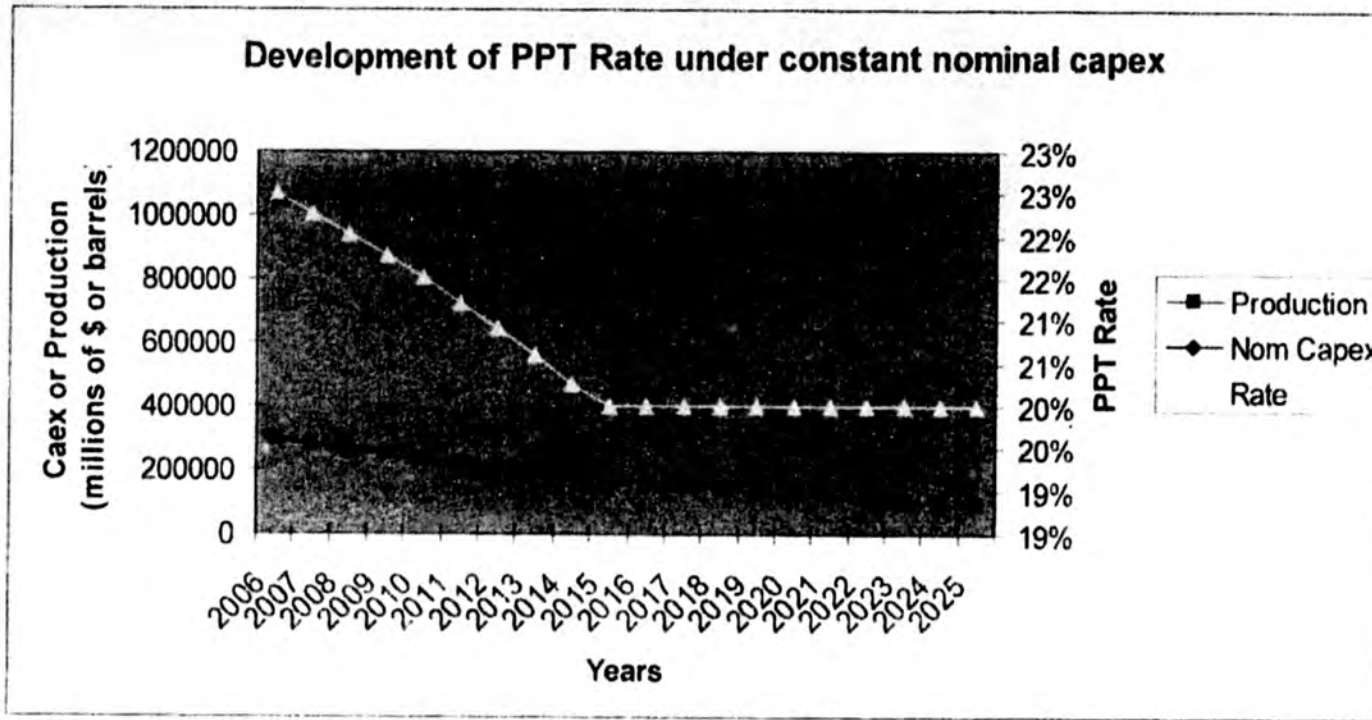
The \$ per barrel rate is very sensitive to the production decline curve and the level of investment.

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.

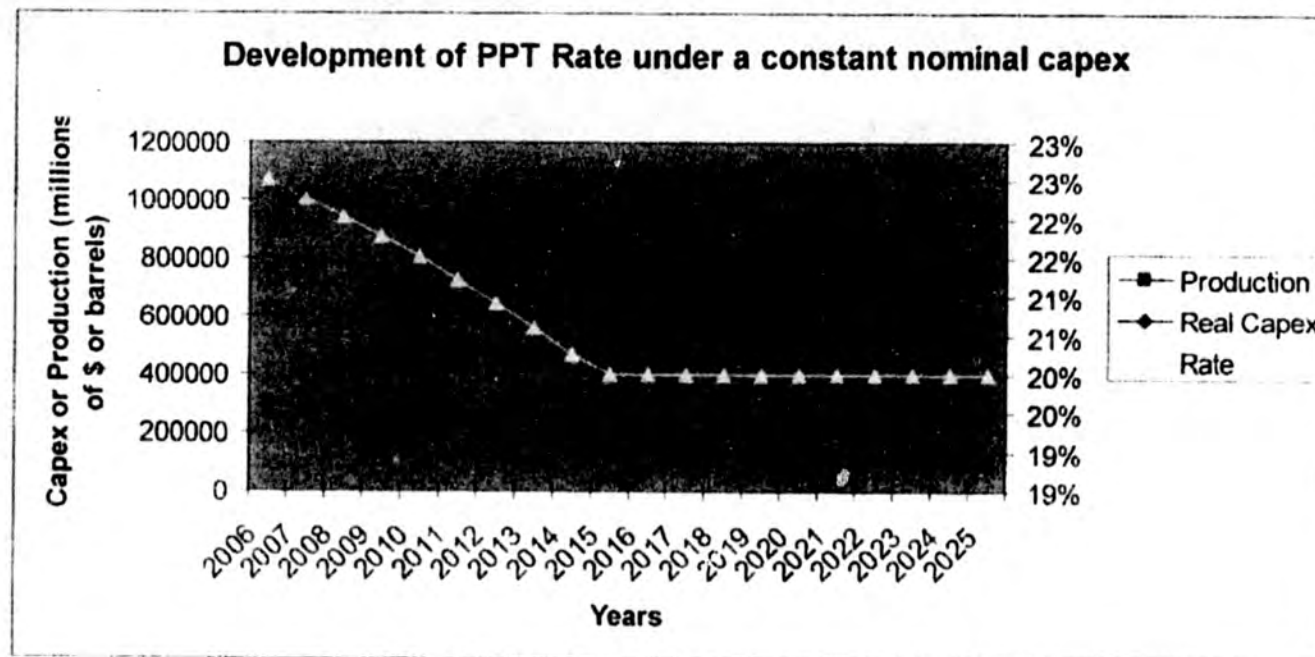
This means that in real terms the level of investment would decline.

# \$ per barrel rate



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

# \$ per barrel rate



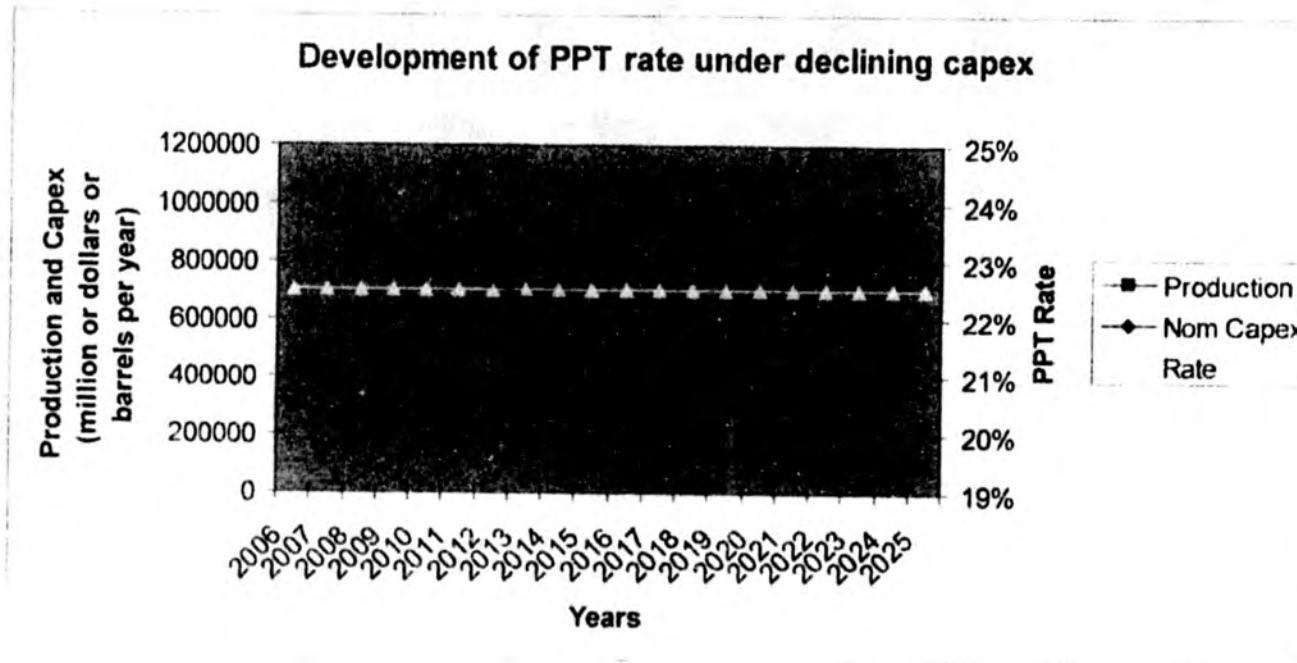
The PPT rate would drop to 20% in 10 years if the level of investment remains constant in nominal dollars while production declines 6% per year.

# \$ 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.

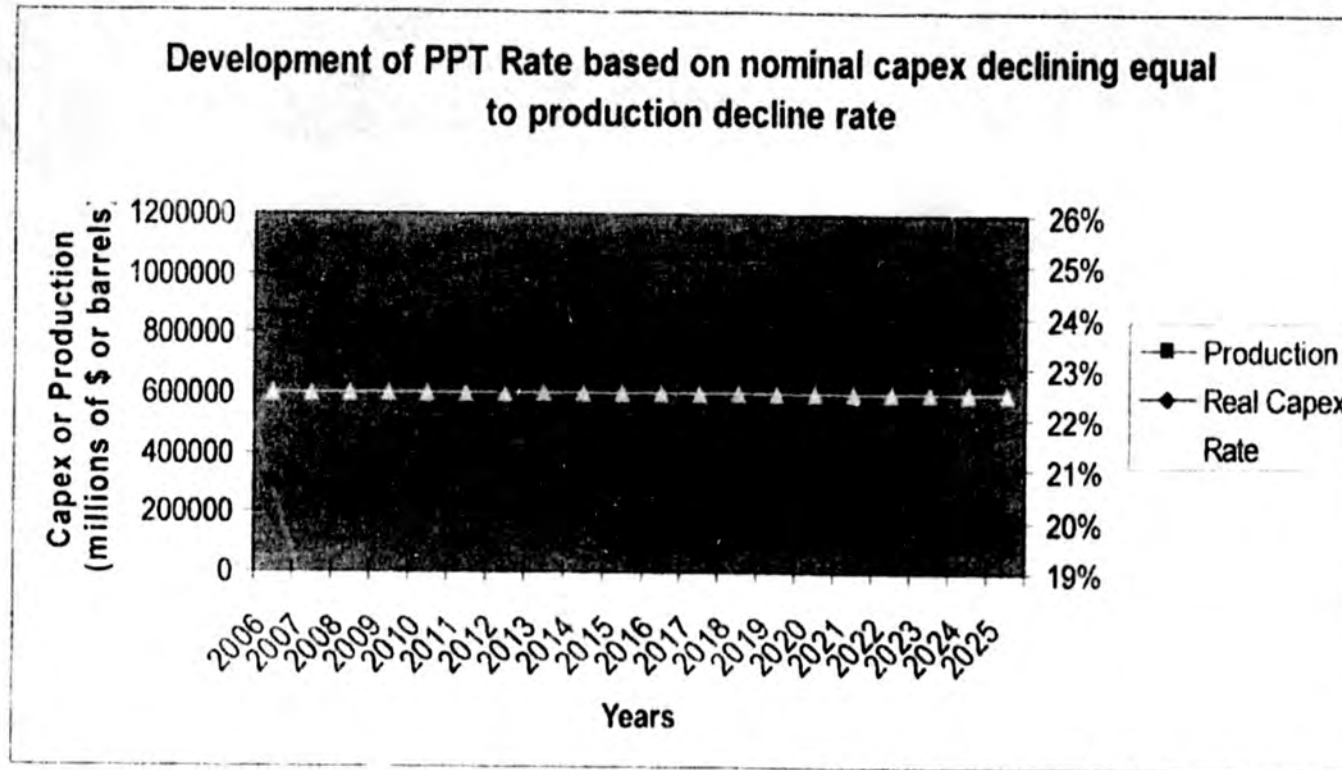
This means that the company could have a very steep decline of investment in real terms and the PPT rate would not go up.

# \$ 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

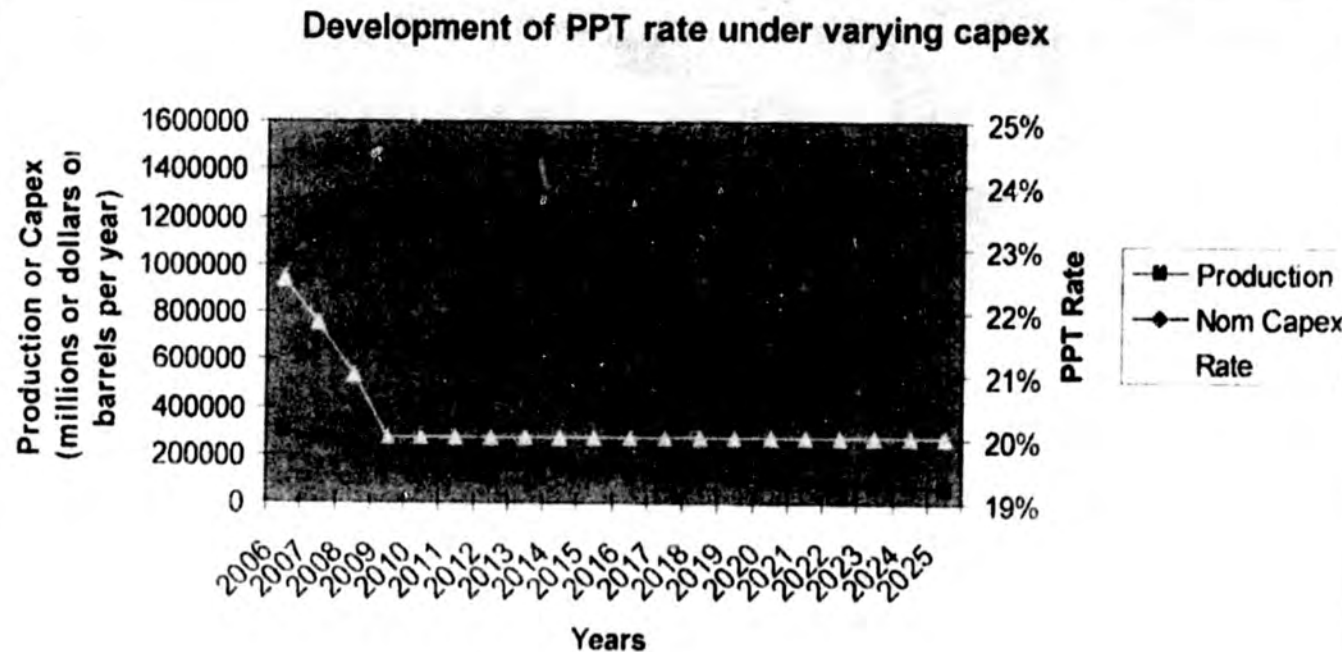


If the Investments decline at the same nominal capex rate as the production the PPT rate would remain constant.

# \$ per barrel rate

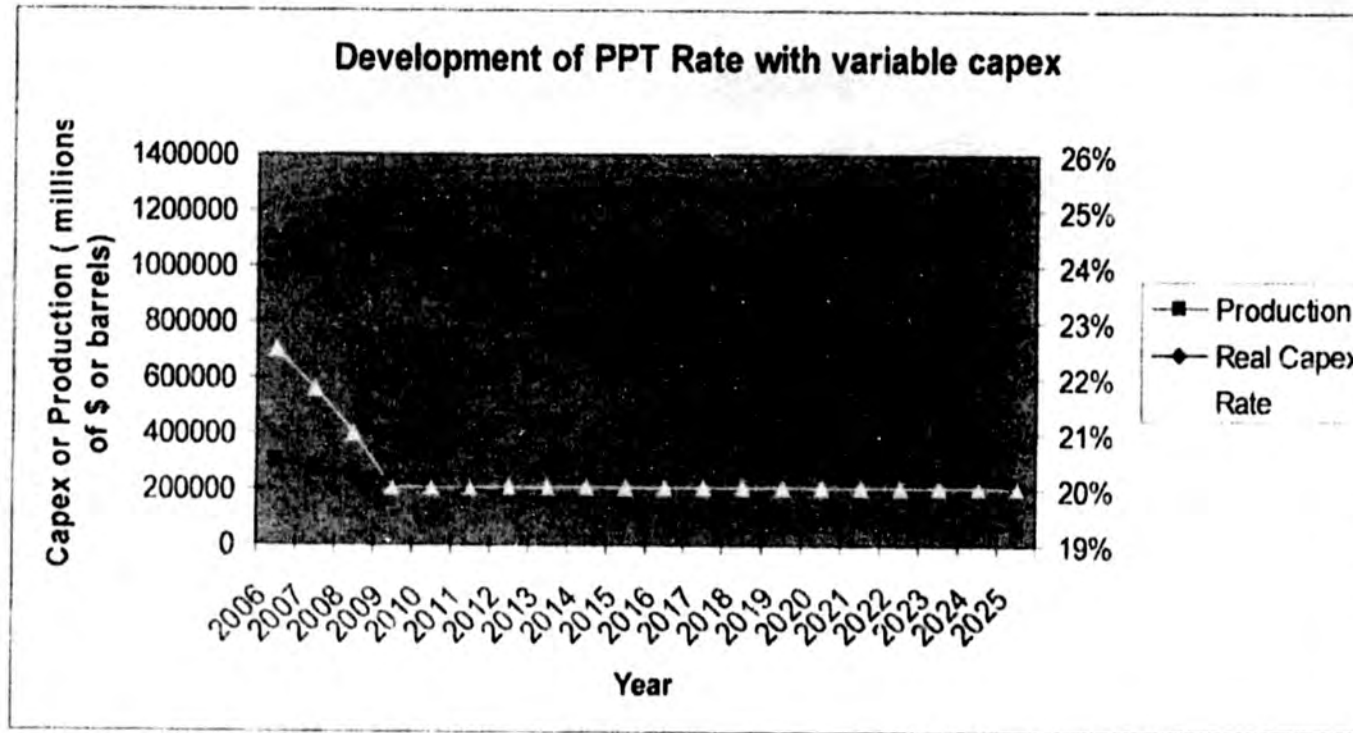
The following two graphs show that based on the \$ per barrel rate a company could develop a business plan by accelerating initially for a short period of time the level of investment in order to bring the rate down to 20% and subsequently let the level of investment decline with production decline in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

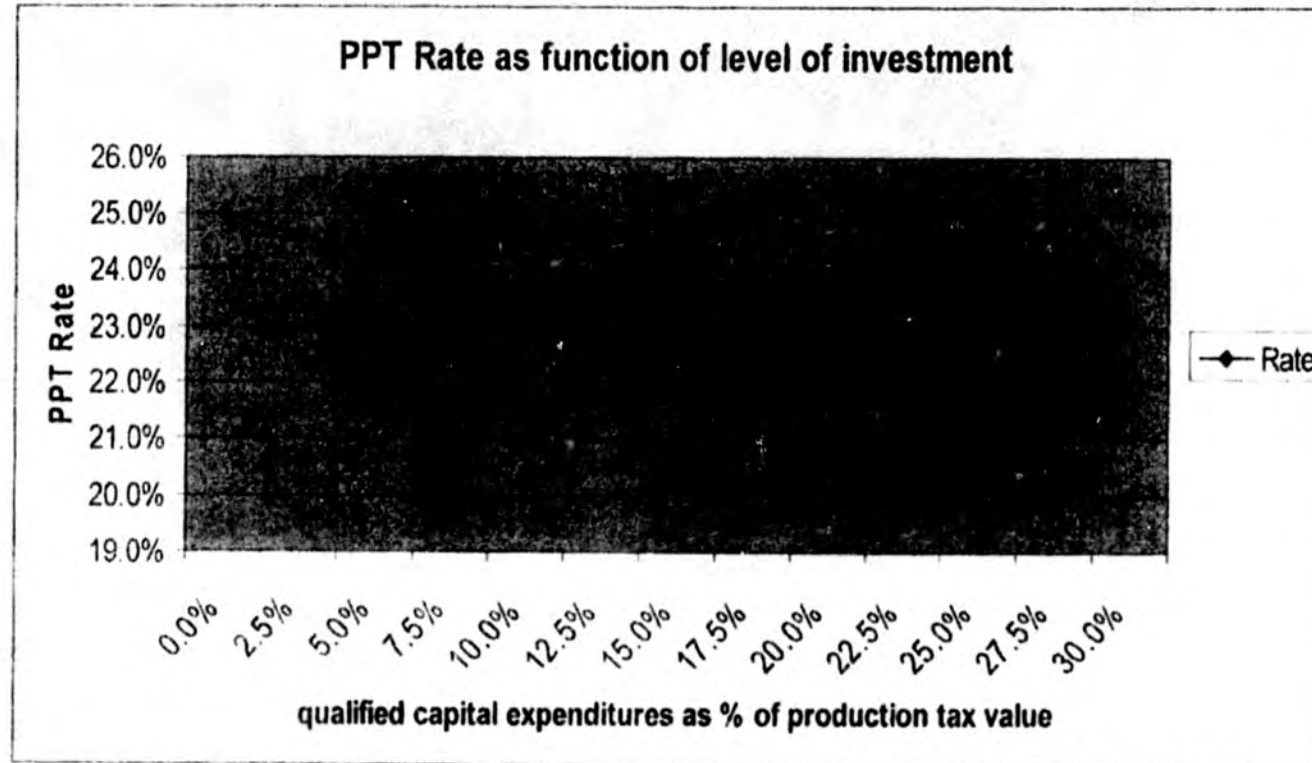
## R rate

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 reinvestment rate of the qualified capital expenditures as percentage of the PT.

With zero reinvestment, the rate is 25% with a reinvestment 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      | 20      |         |          |



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

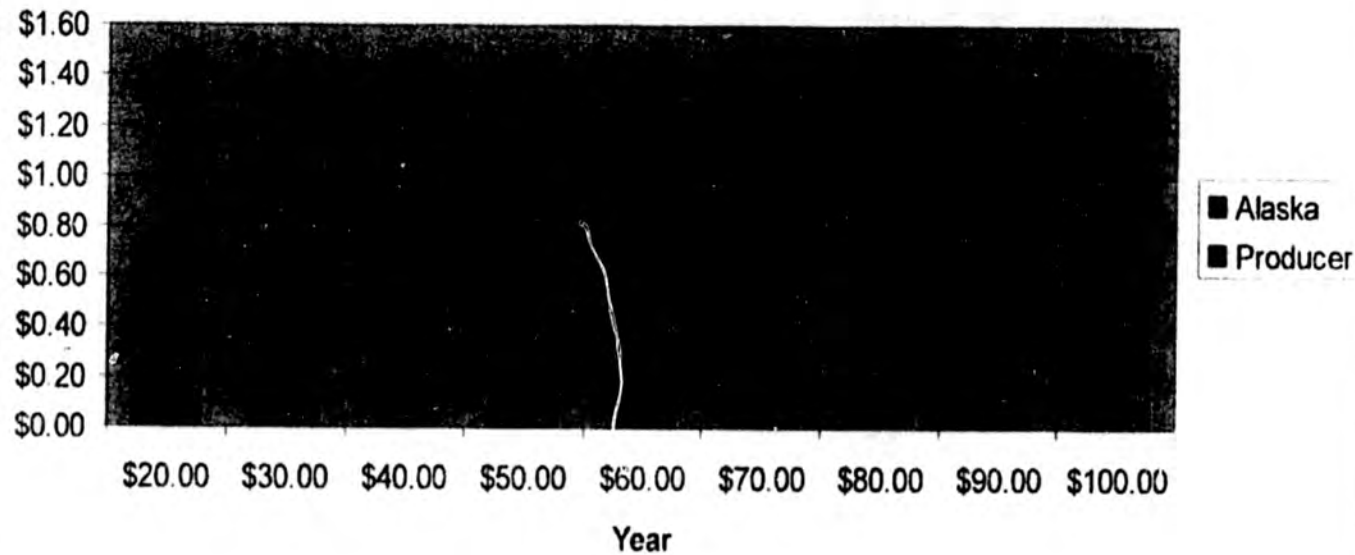
## PPT loss

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

Alaska PPT loss per barrel in case of \$ 1.5 per barrel increase in capex and no change of production



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.

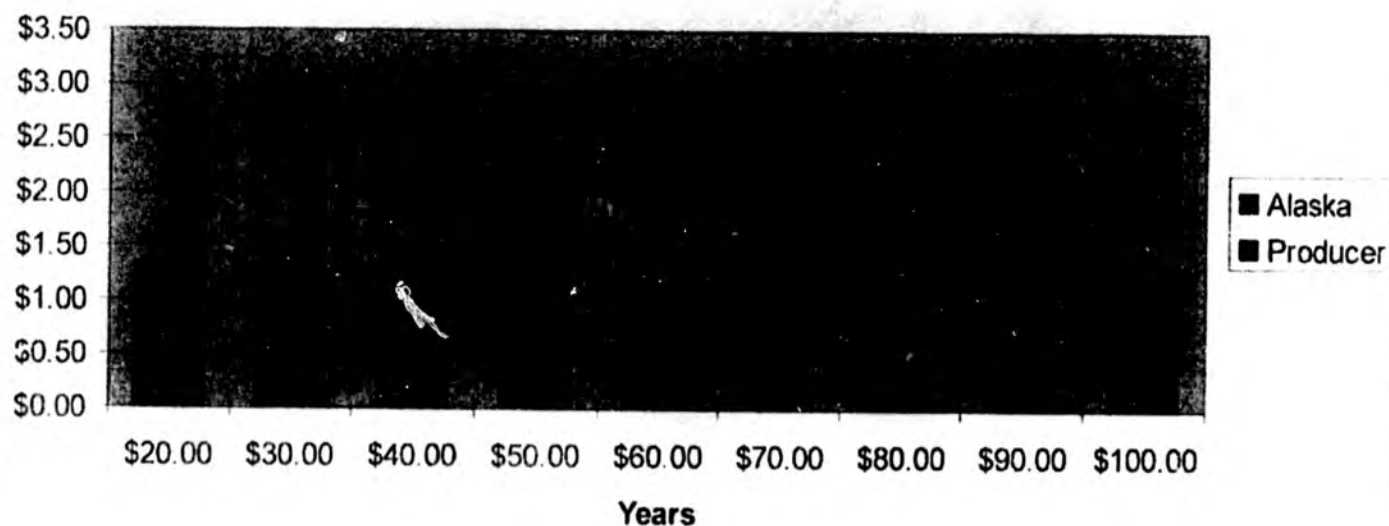
## PPT loss

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".

# Alaska PPT Loss

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

Alaska PPT loss in case of a capex increase of \$ 3 per barrel and no change in production



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.

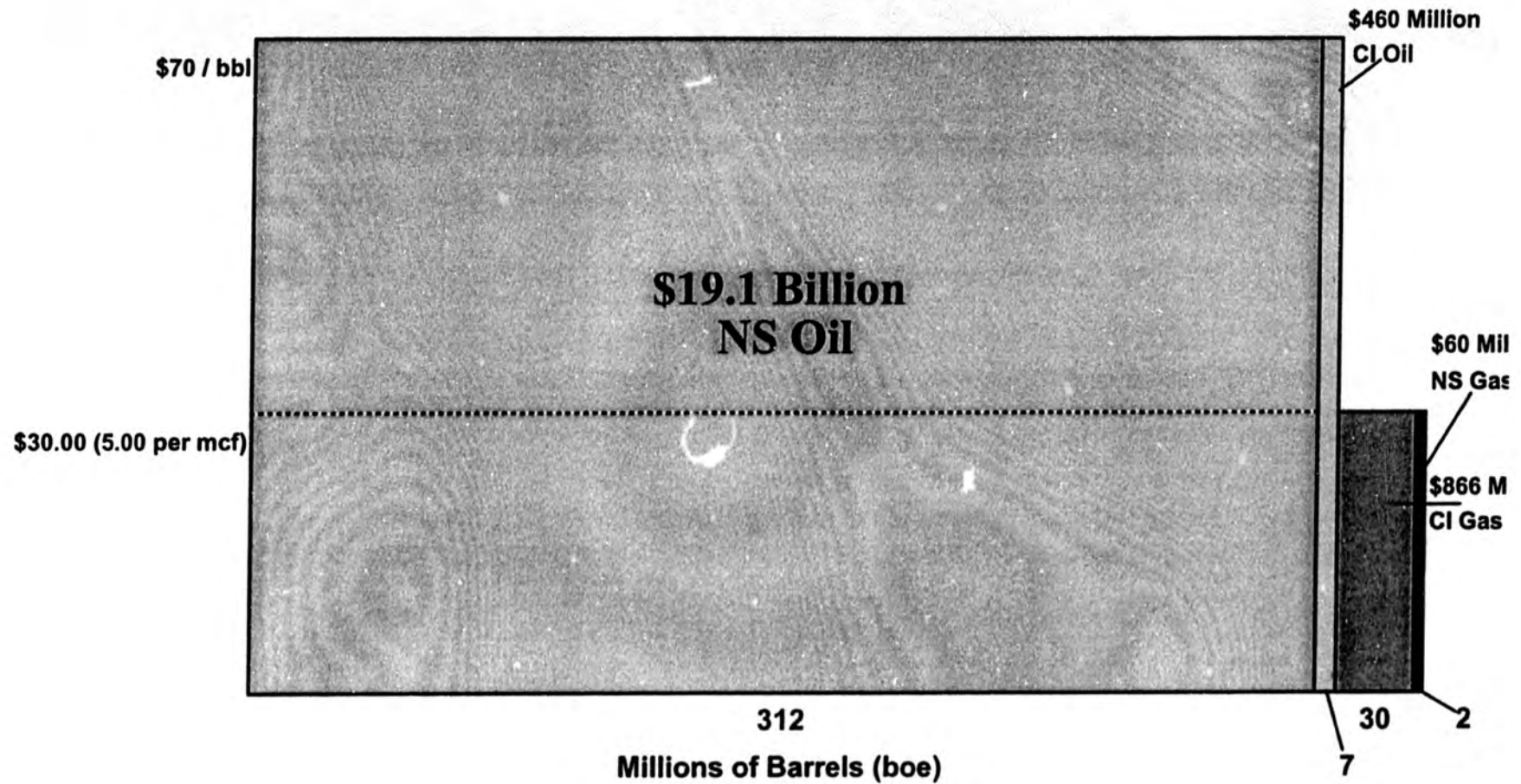
## Roadmap of modified sections

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

source: AK DOR  
8/8/2006

|   | Conf. Com.<br>Ver. CA | POP Plan<br>House CS<br>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



August 7, 2006

AK Dept. of Revenue

## Gross Value at Point of Production

\$70 / bbl



312

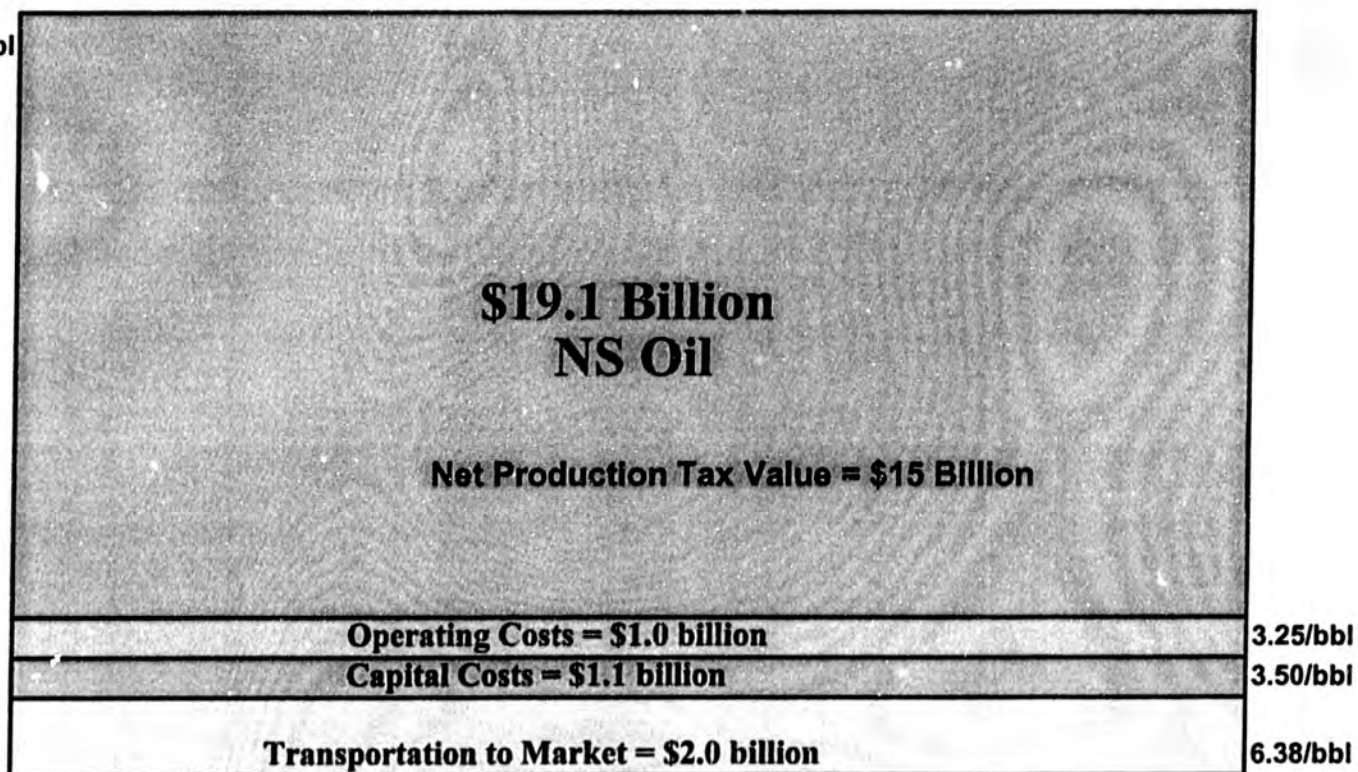
Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

## Net Value or Production Tax Value

\$70 / bbl



312

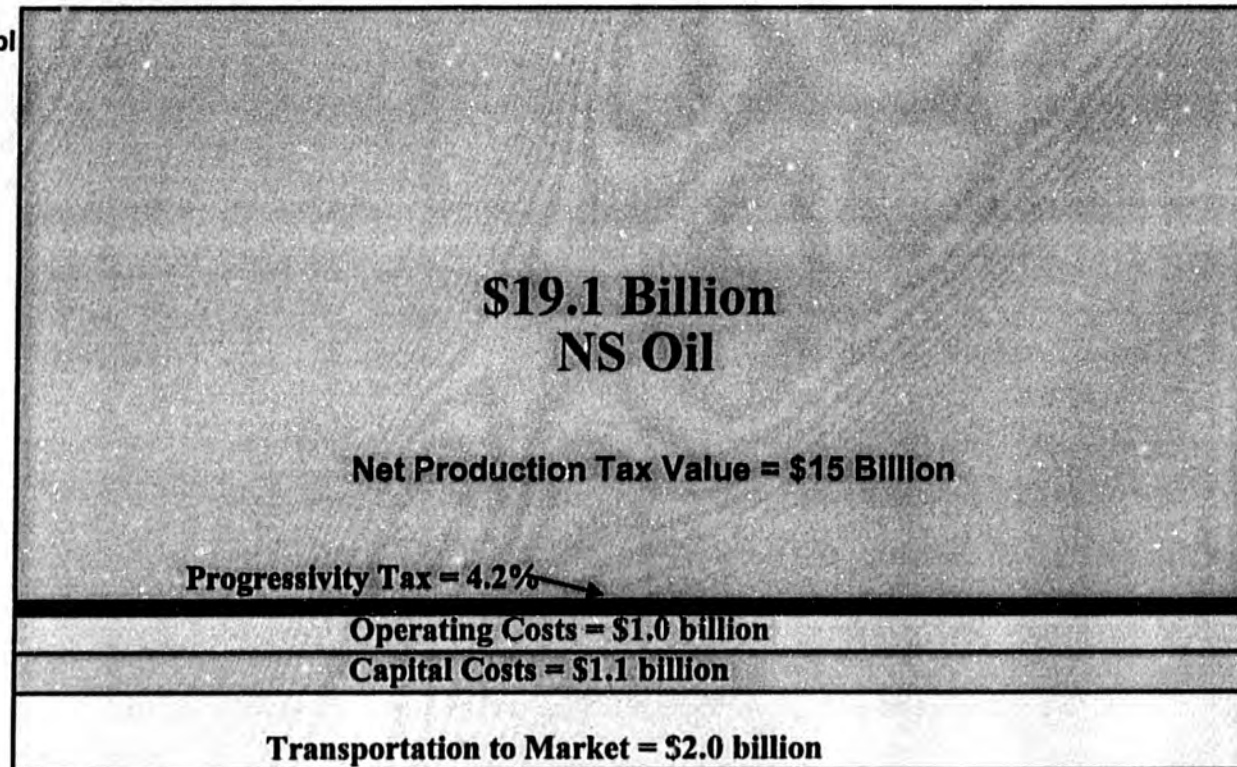
Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

## Progressivity Tax

\$70 / bbl



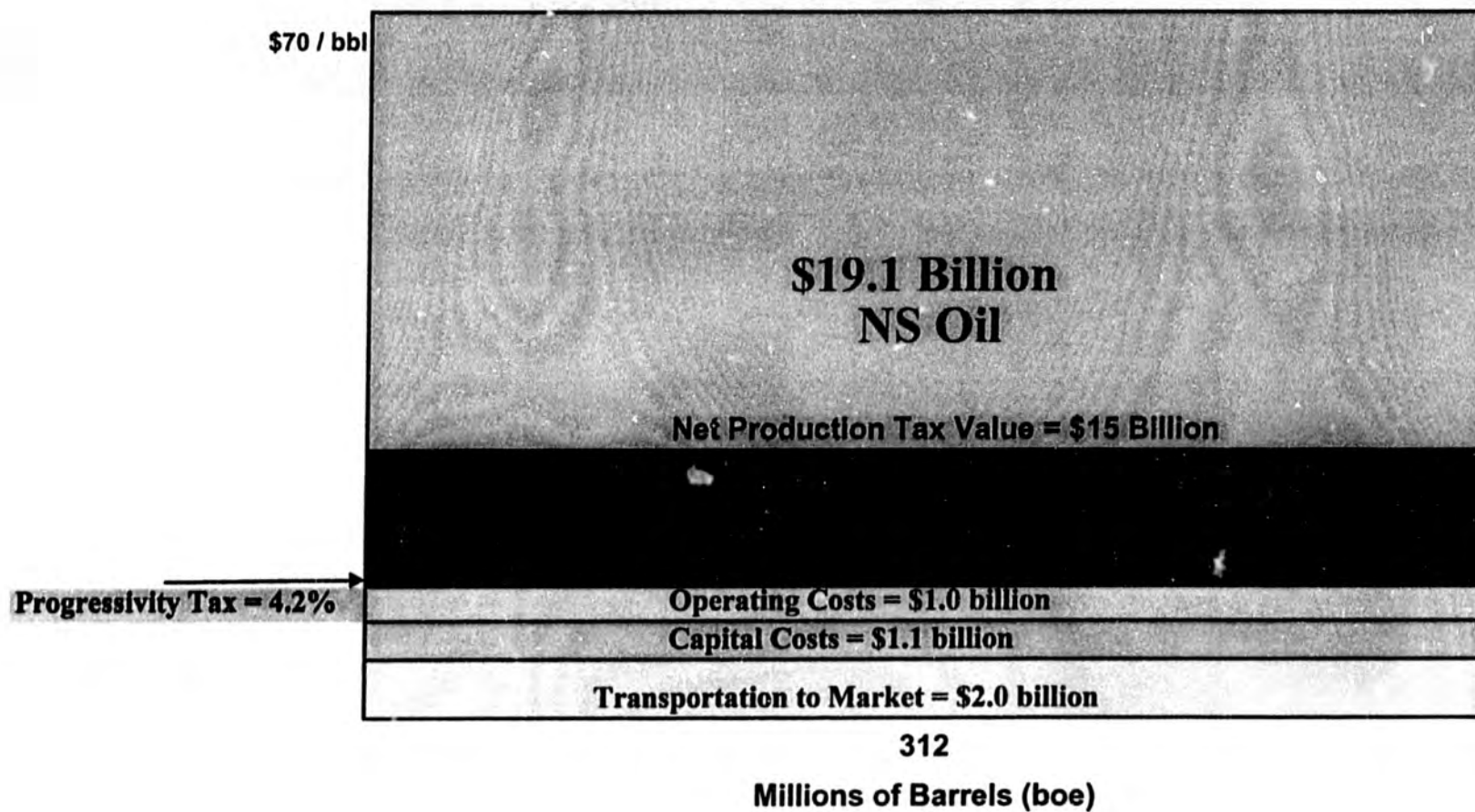
312

Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

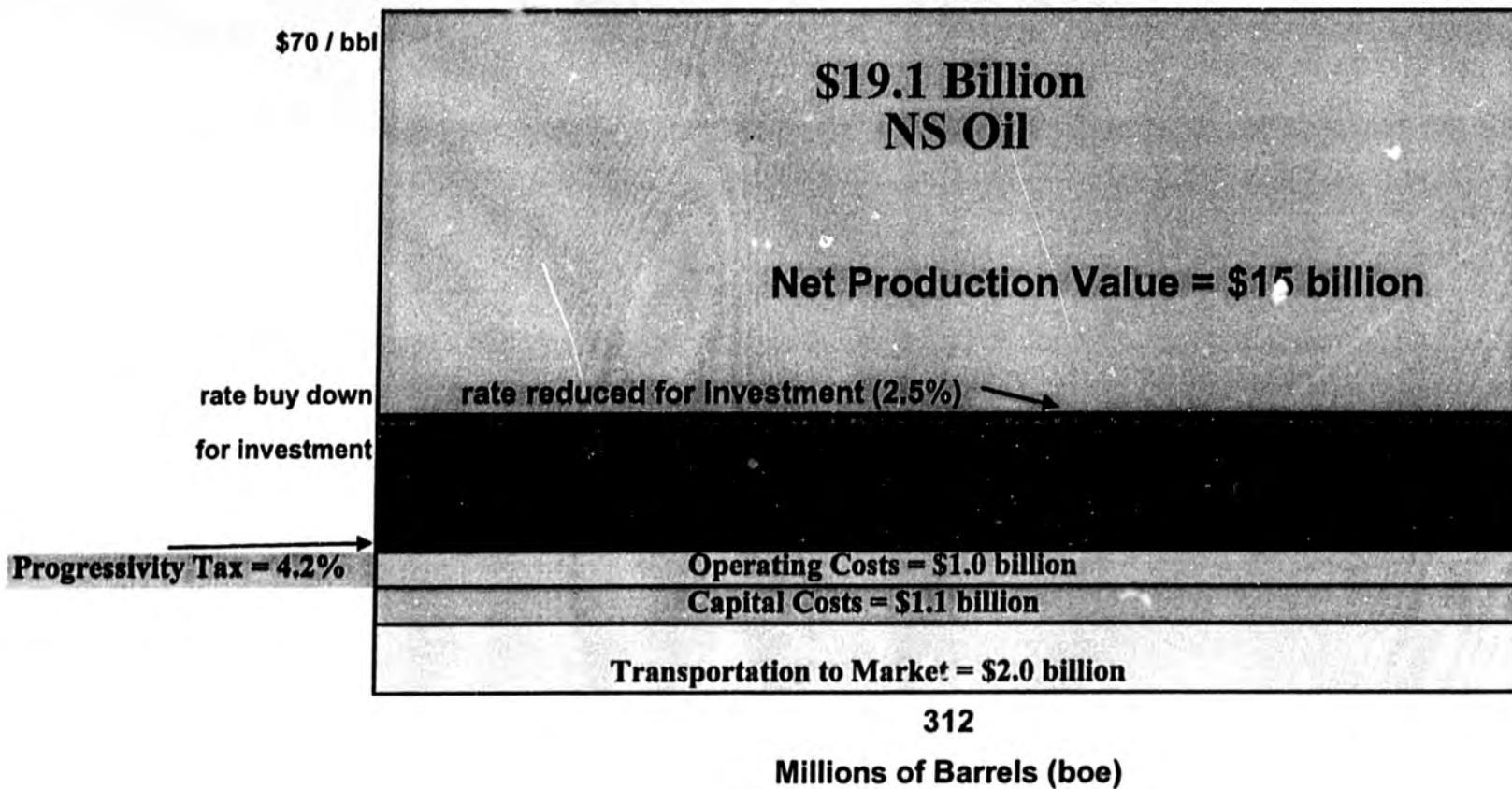
## Basic Tax Rate



August 7, 2006

AK Dept. of Revenue

## Tax Rate buy down for investment Before gold-plating solution



August 7, 2006

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## Tax Rate buy down for investment

Buydown for investment = (2.5%)

Basic tax rate = 25%

Progressivity Tax = 4.2%

Net tax rate before  
goldplating solution = 22.5%



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Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

## Tax after gold-plating solution

Increase to rate = 1.25%



tax rate before

goldplating solution = 22.5%

Basic tax rate = 25%

Progressivity Tax = 4.2%



Tax rate after gold-plating solution  
= 23.75%

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Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

## Tax After Credits

Base allowance credit:  $\$12\text{m} \times 4 \text{ users} = \$48 \text{ million}$

TIE credit:  $1.1\text{b} \times .5 \times .2 = \$110 \text{ million}$

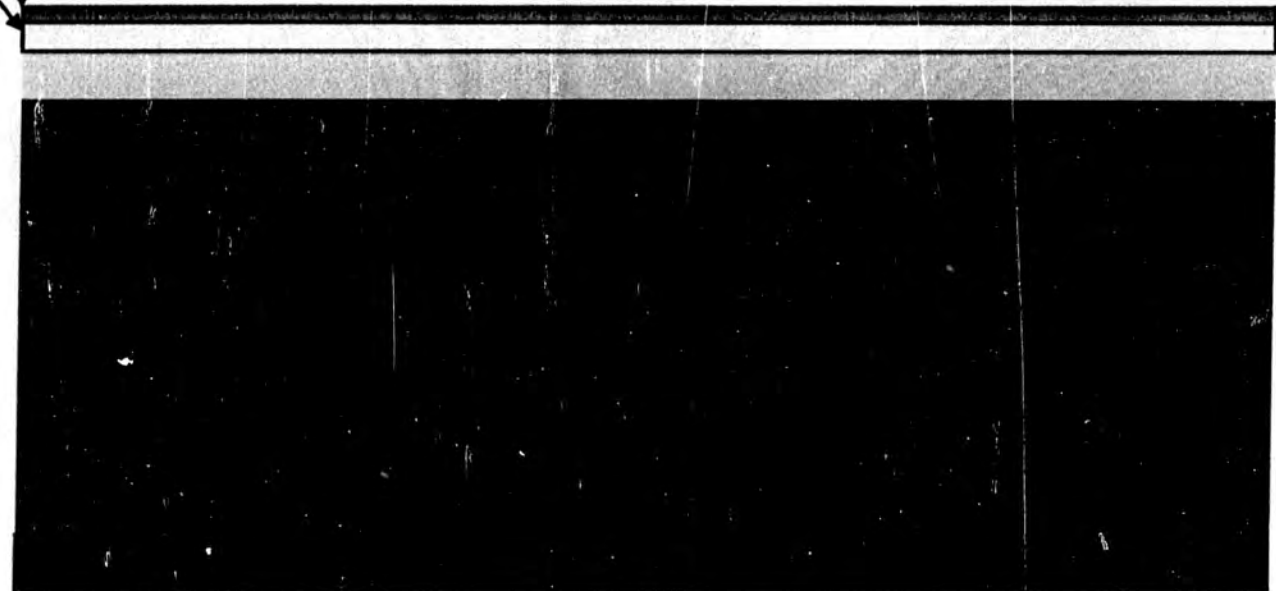
Qualified Capital Expenditure Credits:

$1.1 \text{ b} \times .20 = \$220 \text{ million}$

Basic tax before credits

$= \$3,562 \text{ million}$

**Total Tax = \$3,814**



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Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

## Comparison to Status Quo

Total Tax under Pop = \$3,814

Additional tax under POP = \$ 2381 million

Tax under Status Quo = \$ 1,433 million

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Millions of Barrels (boe)

August 7, 2006

AK Dept. of Revenue

Simplified Comparison of PPT, 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 PPT, 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)       |                     | \$ (277.80)         |                     |
| "12 Million" Credit       | \$ (72.00)                |                     | \$ (108.00)                  |                     | \$ (108.00)                 |                     | \$ (72.00)        |                     | \$ (72.00)          |                     |
| Max TIE                   | \$ (138.90)               |                     | \$ (138.90)                  |                     | \$ (138.90)                 |                     | \$ (138.90)       |                     | \$ (138.90)         |                     |
| <b>TOTAL TAX</b>          | \$ 1,427.91               |                     | \$ 1,446.22                  |                     | \$ 1,533.81                 |                     | 1,283.23          |                     | \$ 866.25           |                     |
| Effective Rate on gross   | 12.4%                     |                     | 12.5%                        |                     | 13.3%                       |                     | 10.9%             |                     | 7.5%                |                     |

Simplified Comparison of PPT, 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%                      | \$ 643.99           |                   |                     |                     |                     |
| 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)       |                     |                     |                     |
| <b>TOTAL TAX</b>          | \$ 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%                |                     |

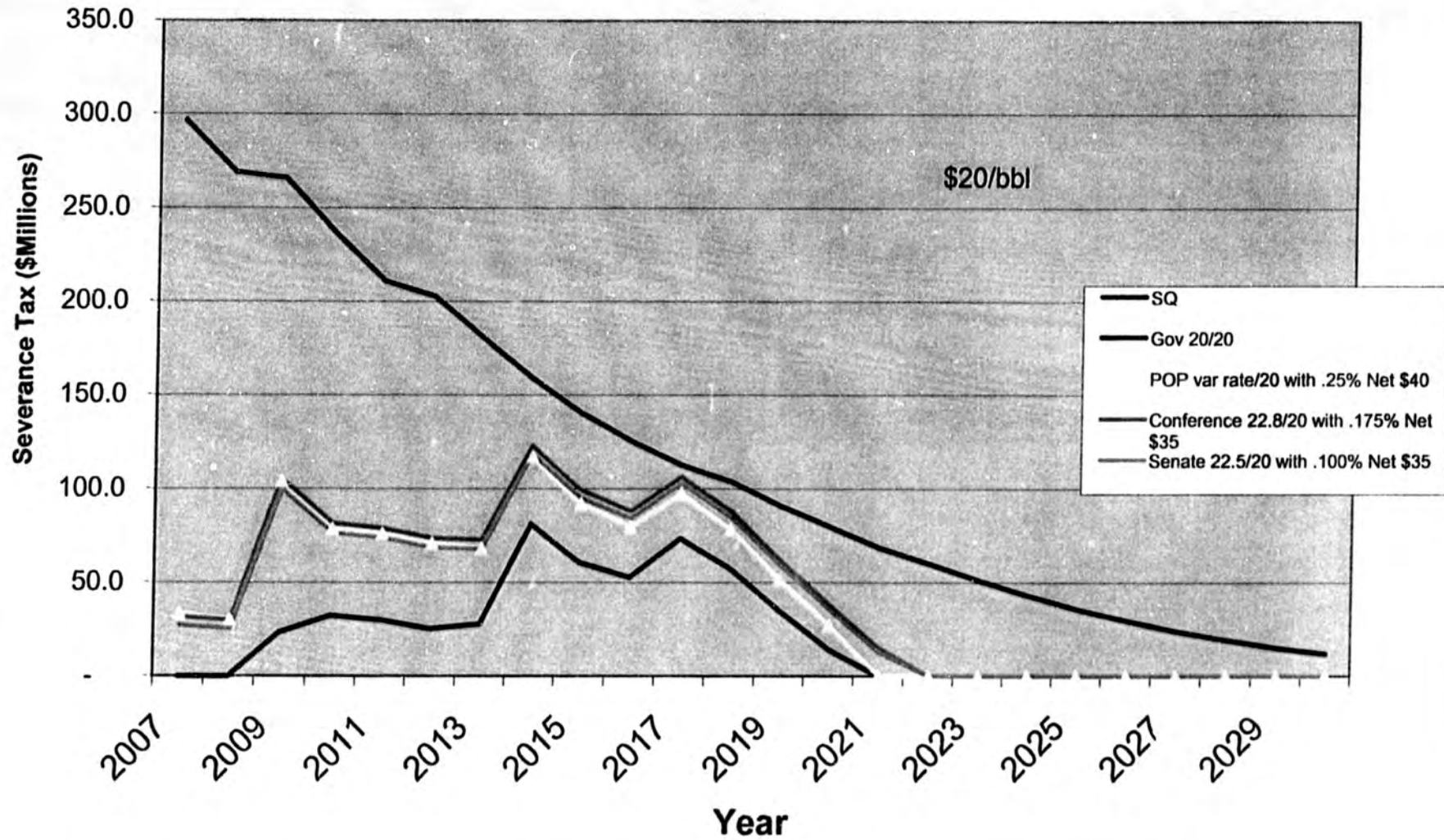
Five Step Calculation of Tax Rate under "Produce or Pay"  
CSHB 3001 (Fin)

|          |          | 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%      | 5%       | 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%       |

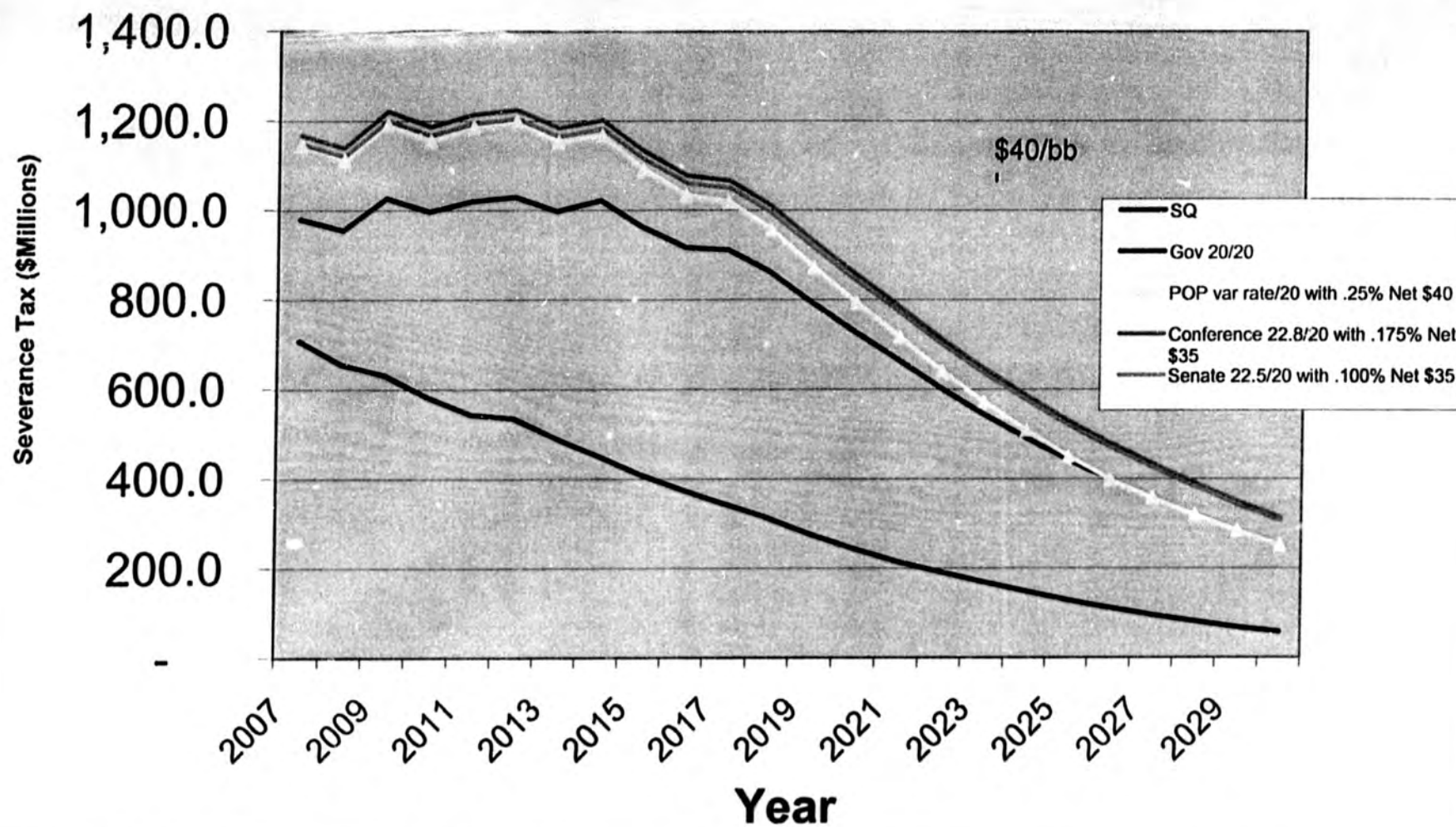
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Alaska Department of Revenue

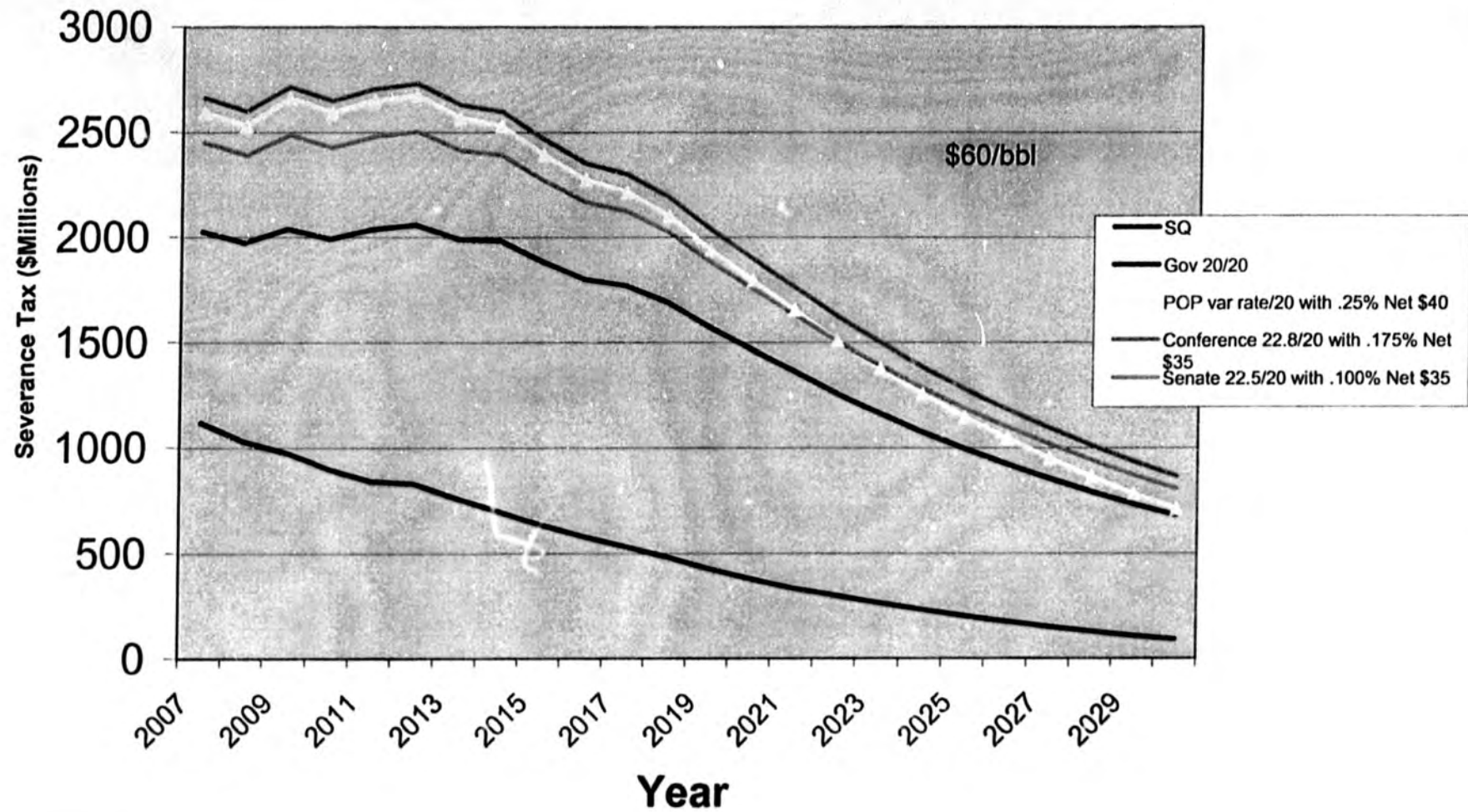
### Severance Tax under the Produce or Pay Plan (POP) and Various PPT Proposals at \$20/bbl



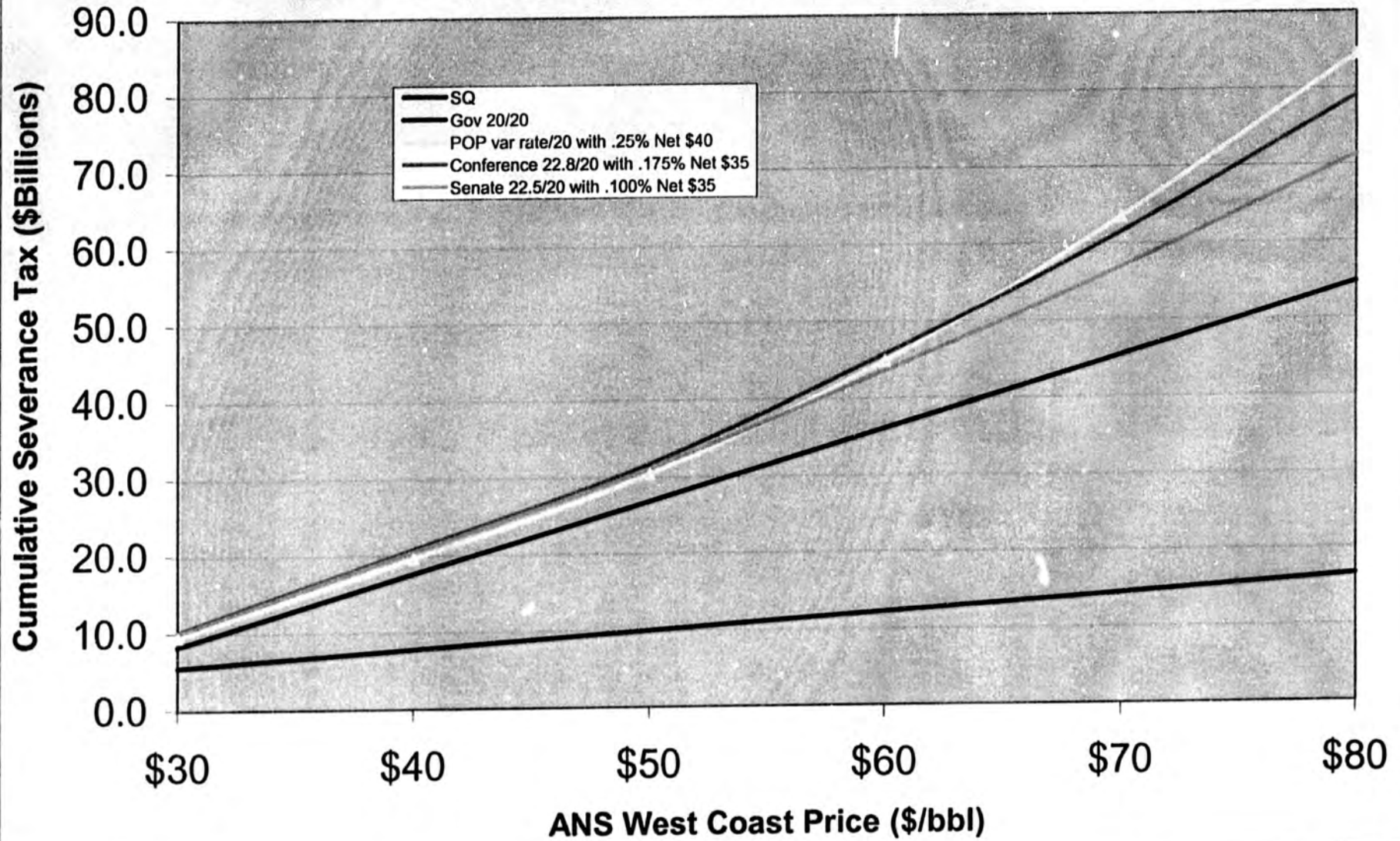
### Severance Tax under the Produce or Pay Plan (POP) and Various PPT Proposals at \$40/bbl



**Severance Tax under the  
Produce or Pay Plan (POP) and Various PPT Proposals at \$60/bbl**



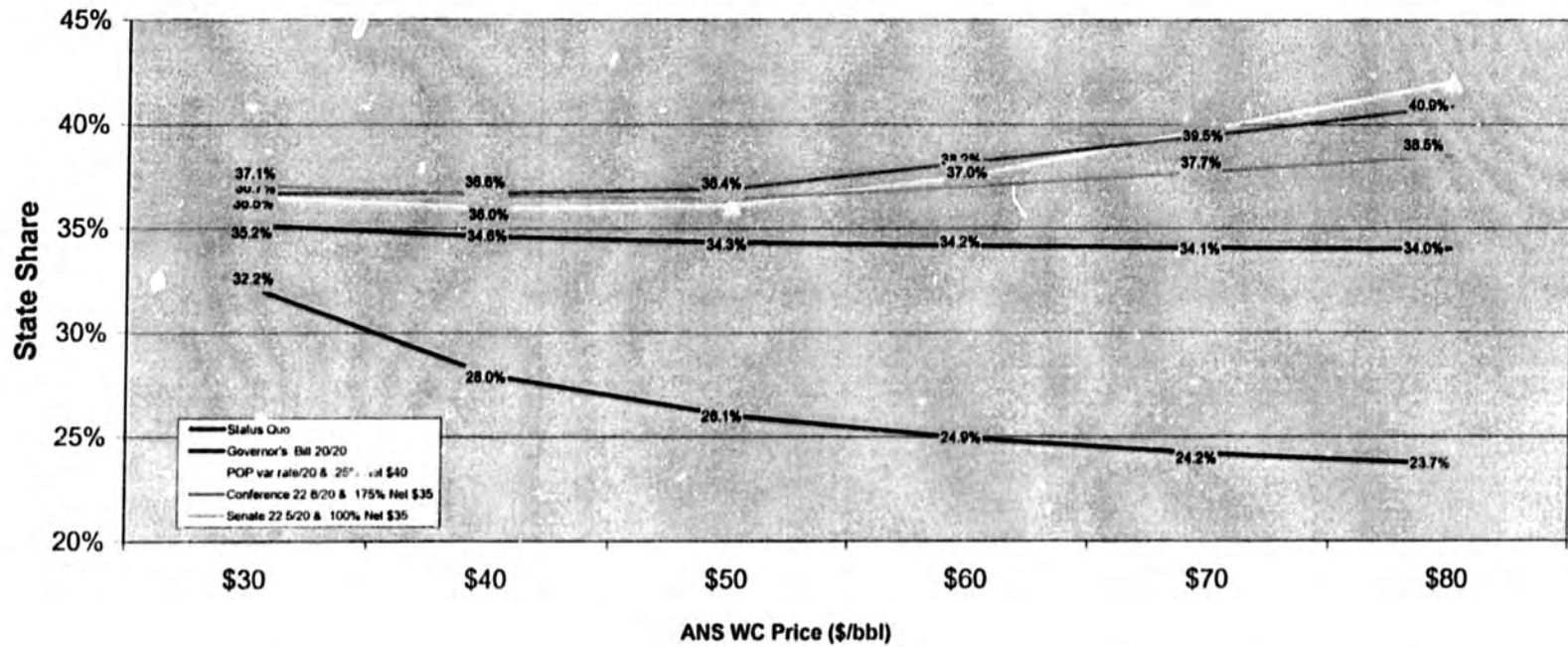
## Cumulative Severance Tax, 2007-2030, Produce or Pay Plan (POP) and Various PPT Proposals



**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%                           |

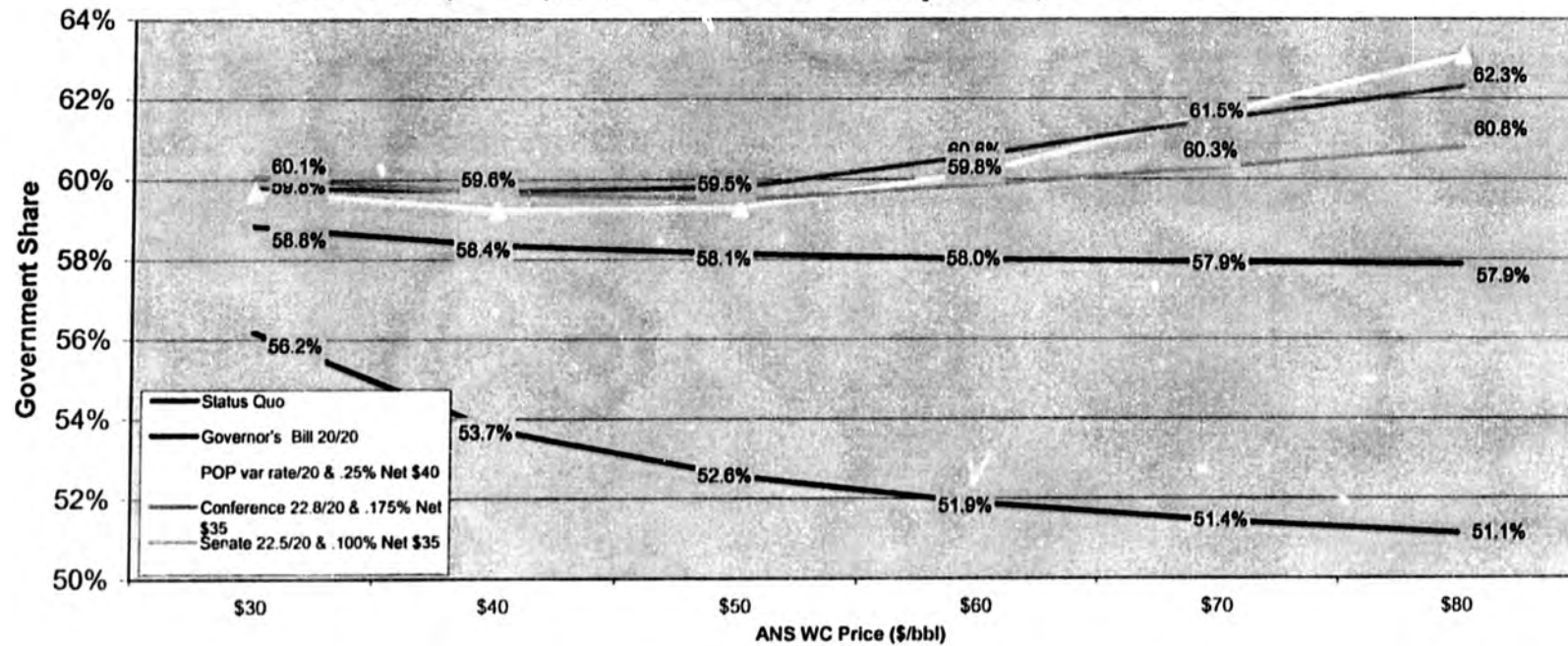
**STATE SHARE: Distribution of Future Cash Flows Under SQ, Gov's Bill, POP, and Various PPT Proposals, FY 2007-2030**



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

| ANS WC<br>\$/bbl | Status<br>Quo | Governor's<br>Bill<br>20/20 | POP<br>var rate/20 &<br>.25% Net \$40 | Conference<br>22.8/20 &<br>.175% Net \$35 | Senate<br>22.5/20 &<br>.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%                                 |

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



# 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.

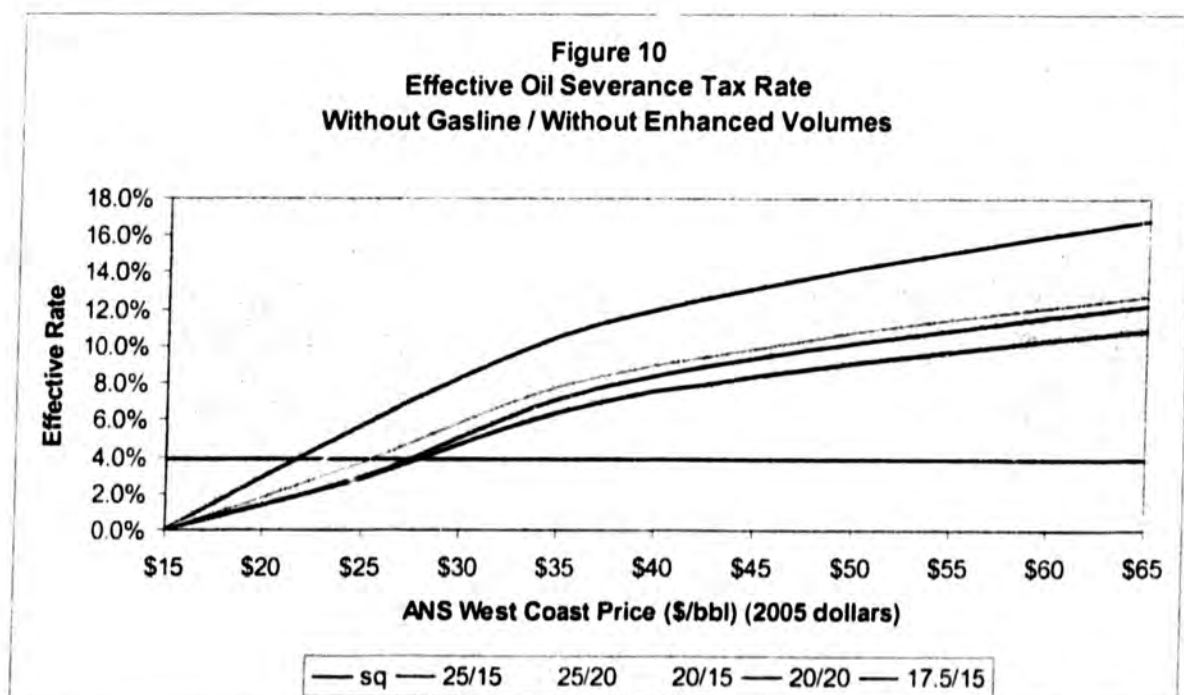
## FLOOR

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.



8/7/06 3:45 pm

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        |
| <b>Tax payable</b> | <b>12</b> | <b>4</b> | <b>4</b> |

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 lose 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.

DDO

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 2:30 pm  
Presentation by  
Dan Dickenson

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%      |          |          |          |          |          | 24%      | 24%      | 24%       |
| \$ 5.00  | 20%      |          |          |          |          |          |          | 24%      | 24%       |
| \$ 5.50  | 20%      | 21%      | 20%      | 21%      |          |          |          | 24%      | 24%       |
| \$ 6.00  | 20%      | 20%      | 20%      | 20%      |          |          |          |          | 24%       |
| \$ 6.50  | 20%      | 20%      | 20%      | 20%      |          |          |          |          |           |
| \$ 7.00  | 20%      | 20%      | 20%      | 20%      |          |          |          |          |           |
| \$ 7.50  | 20%      | 20%      | 20%      | 20%      | 21%      |          |          |          |           |
| \$ 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%      |          |          |          |           |
| \$ 10.00 | 20%      | 20%      | 20%      | 20%      | 20%      | 20%      |          |          |           |
| \$ 10.50 | 20%      | 20%      | 20%      | 20%      | 20%      | 20%      |          |          |           |
| \$ 11.00 | 20%      | 20%      | 20%      | 20%      | 20%      | 20%      |          | 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%       |

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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<br>daily<br>production | Million Bbls<br>Annual<br>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        | <b>3.35</b> | 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        | <b>3.55</b> | 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        | <b>3.42</b> | 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        | <b>3.29</b> | 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        | <b>3.52</b> | 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        | <b>3.37</b> | 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        | <b>3.65</b> | 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        | <b>3.49</b> | 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        | <b>3.29</b> | <b>3.84</b> | 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        | <b>3.65</b> | 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        | <b>3.42</b> | 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                              | <b>3.65</b> | 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        |
| <b>Averages</b> |          | <b>\$350</b> | <b>\$2.908</b> |

| 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        |
| <b>Averages</b> |          | <b>\$514</b> | <b>\$3.819</b> |

| 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        |
| <b>Averages</b> |         | <b>\$163</b> | <b>\$2.323</b> |

| 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       |
| <b>Averages</b> |         | <b>\$134</b> | <b>\$9.260</b> |

**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        |
| <b>Averages</b> |                       | <b>\$1,160.83</b> | <b>\$3.419</b> |

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)                          |                          |                     |                          |
| <b>TOTAL TAX</b>             | \$ 3,615.13                                | \$ 3,615.13              | 3,615.13             | 2,494.88                             | 2,494.88                 | \$ 1,328.12         | \$ 1,328.12              |

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): \_\_\_\_\_ Dept. Affected: Natural Resources  
 Title Repealing the oil production tax and gas RDU Resource Development  
production tax etc. Component Oil & Gas Development  
 Sponsor Rules by Request of Governor  
 Requester Governor 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          |            |            |            |            |            |            |
| <b>TOTAL OPERATING</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES ( )</b> |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|

**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) |            |            |            |            |            |            |
| <b>TOTAL</b>                            | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

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 Phone 907-269-8800  
 Division Oil & Gas Date/Time 7/11/2006  
 Approved by: Michael Menge, Commissioner Date 7/11/2006  
 Agency Natural Resources

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: 2 \*\*CORRECTED\*\*  
 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 RDU: Tax and Treasury  
Oil and Gas 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           |
| <b>TOTAL OPERATING</b>          | <b>1,495.0</b> | <b>1,433.4</b> | <b>1,081.6</b> | <b>1,100.2</b> | <b>1,121.1</b> | <b>1,142.5</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |                             |
|-------------------------------|-----------------------------|
| <b>CHANGE IN REVENUES ( )</b> | <i>See analysis section</i> |
|-------------------------------|-----------------------------|

**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) |                |                |                |                |                |                |
| <b>TOTAL</b>                            | <b>1,495.0</b> | <b>1,433.4</b> | <b>1,081.6</b> | <b>1,100.2</b> | <b>1,121.1</b> | <b>1,142.5</b> |

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  
 Division: Tax Division

Phone: 269-1019  
 Date/Time: 7/13/06 7:00 AM

Approved by: Jerry Burnett  
 Agency: Department of Revenue

Date: 7/13/2006

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.

FISCAL NOTE 2 \*\*CORRECTED\*\*

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             |

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| 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): \_\_\_\_\_ Dept. Affected: Revenue  
 Title An Act Relating to the Production Tax on RDU Tax and Treasury  
Oil and Gas 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              | 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           |
| <b>TOTAL OPERATING</b>         | <b>1,425.3</b> | <b>1,367.8</b> | <b>1,014.6</b> | <b>1,032.0</b> | <b>1,051.5</b> | <b>1,071.5</b> |

|                             |  |  |  |  |  |  |
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| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |                             |
|-------------------------------|-----------------------------|
| <b>CHANGE IN REVENUES ( )</b> | <i>See analysis section</i> |
|-------------------------------|-----------------------------|

**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) |                |                |                |                |                |                |
| <b>TOTAL</b>                           | <b>1,425.3</b> | <b>1,367.8</b> | <b>1,014.6</b> | <b>1,032.0</b> | <b>1,051.5</b> | <b>1,071.5</b> |

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

FISCAL NOTE #3

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

BILL NO. CSHB 3001(FIN)

**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.

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      | 706            | 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”.

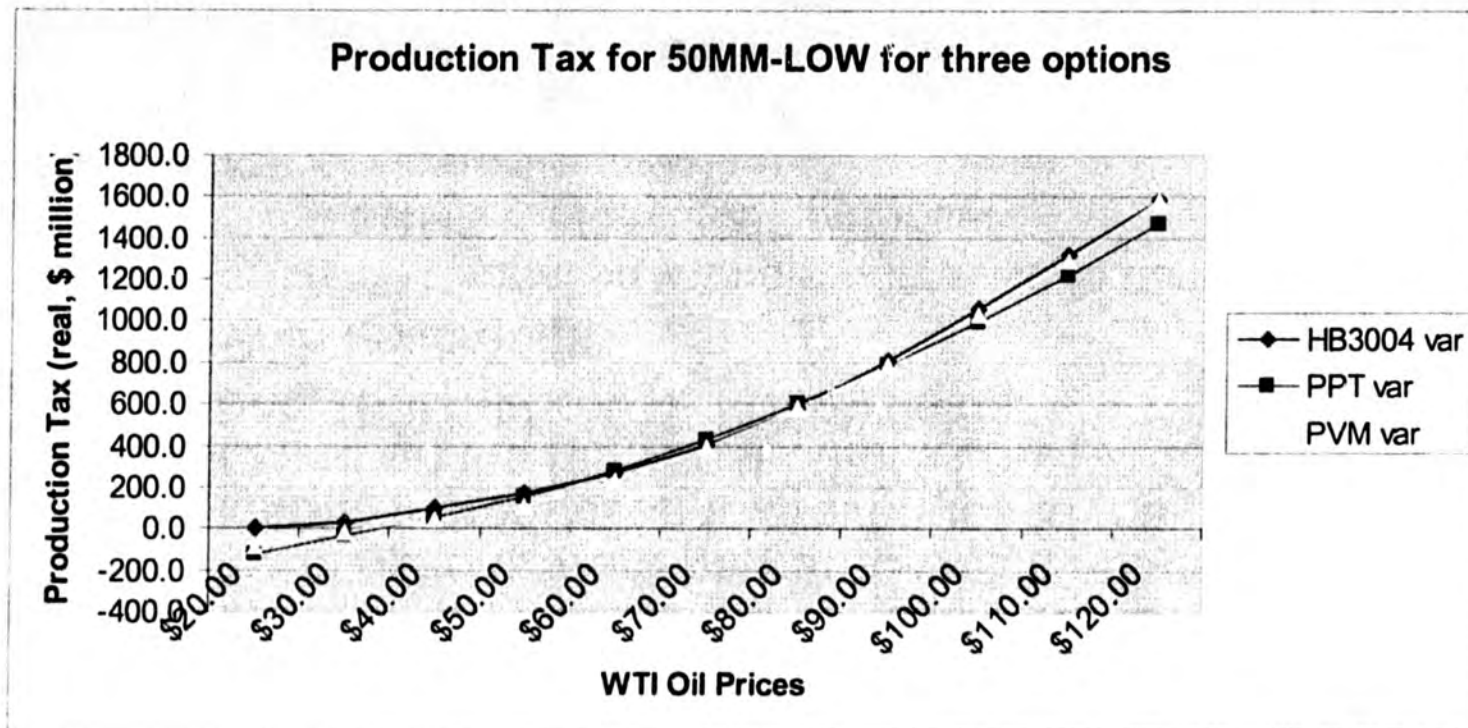
# Three Fiscal Options

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

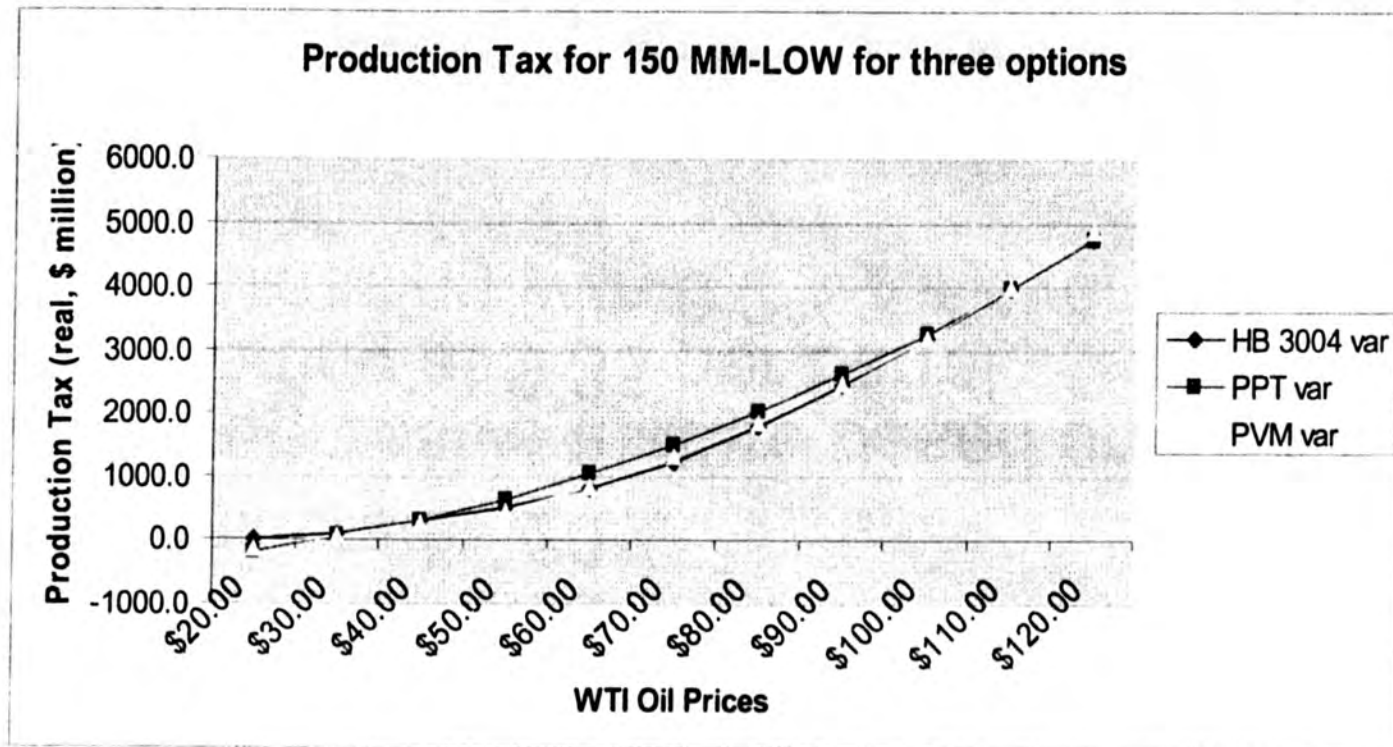
## 50MM-Low-high cost



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%

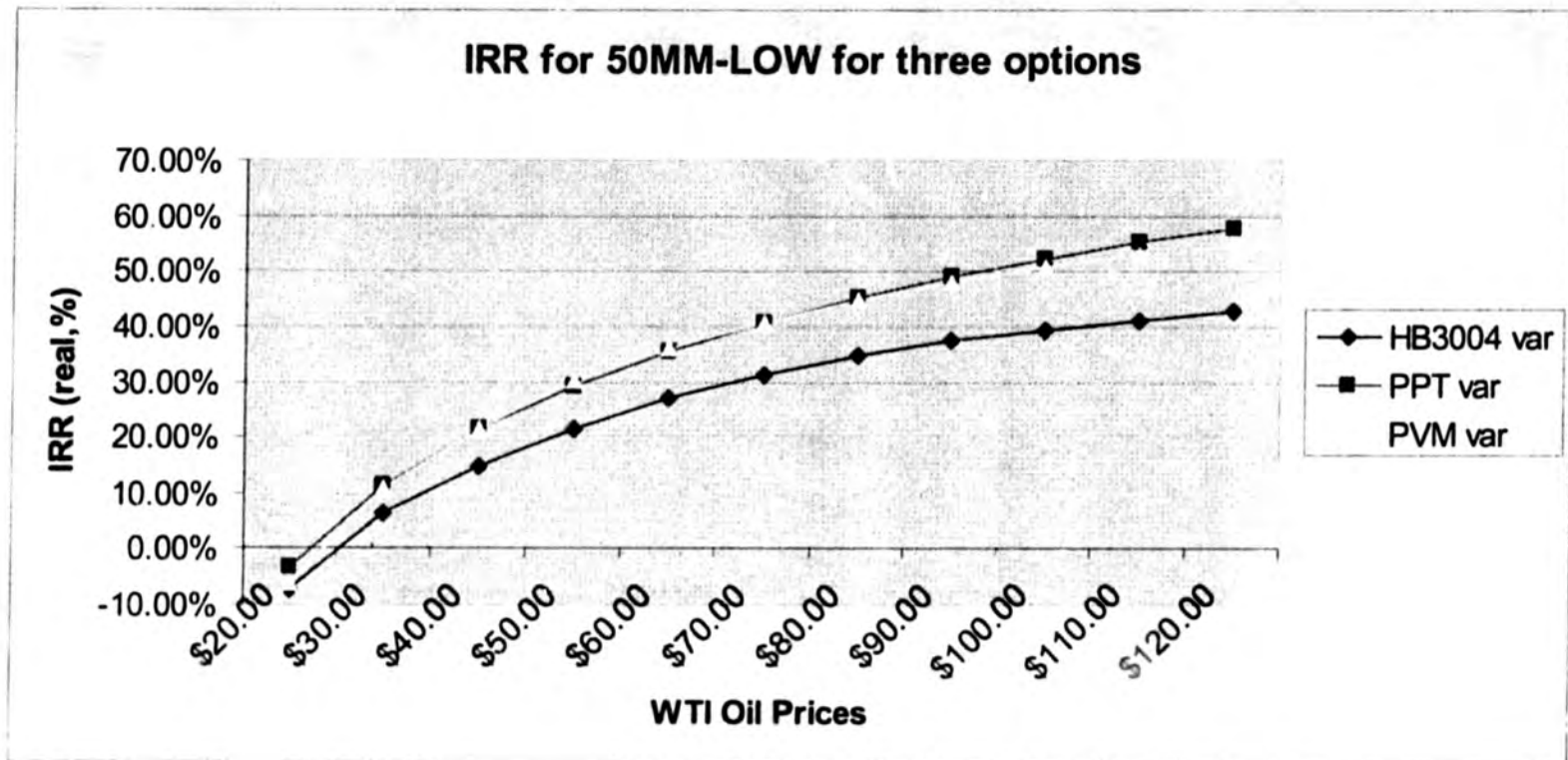
# Three Fiscal Options

## 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

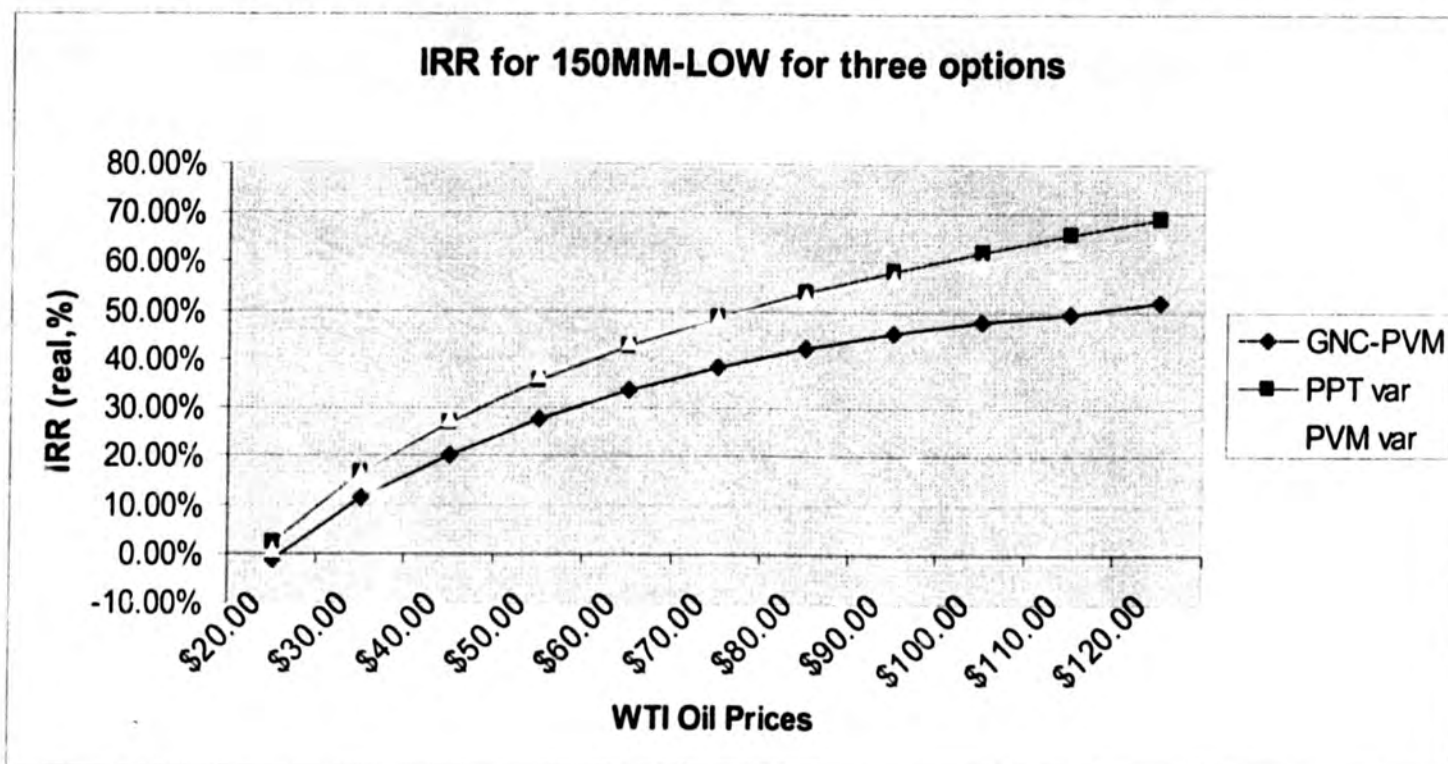
## *Three options – IRR – 50 MM Low*



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

# Impact on Investors

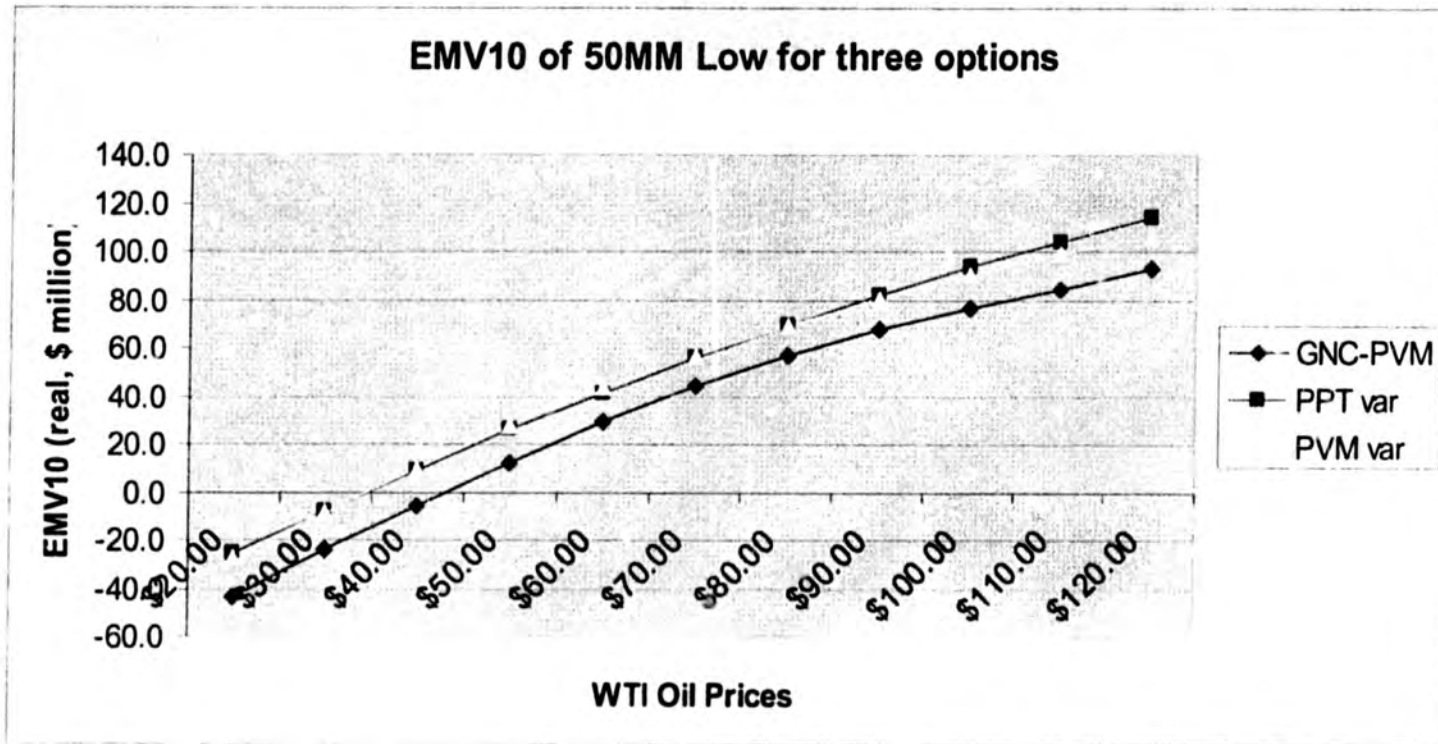
*Three options – IRR – 150 MM Low*



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

# Impact on Investors

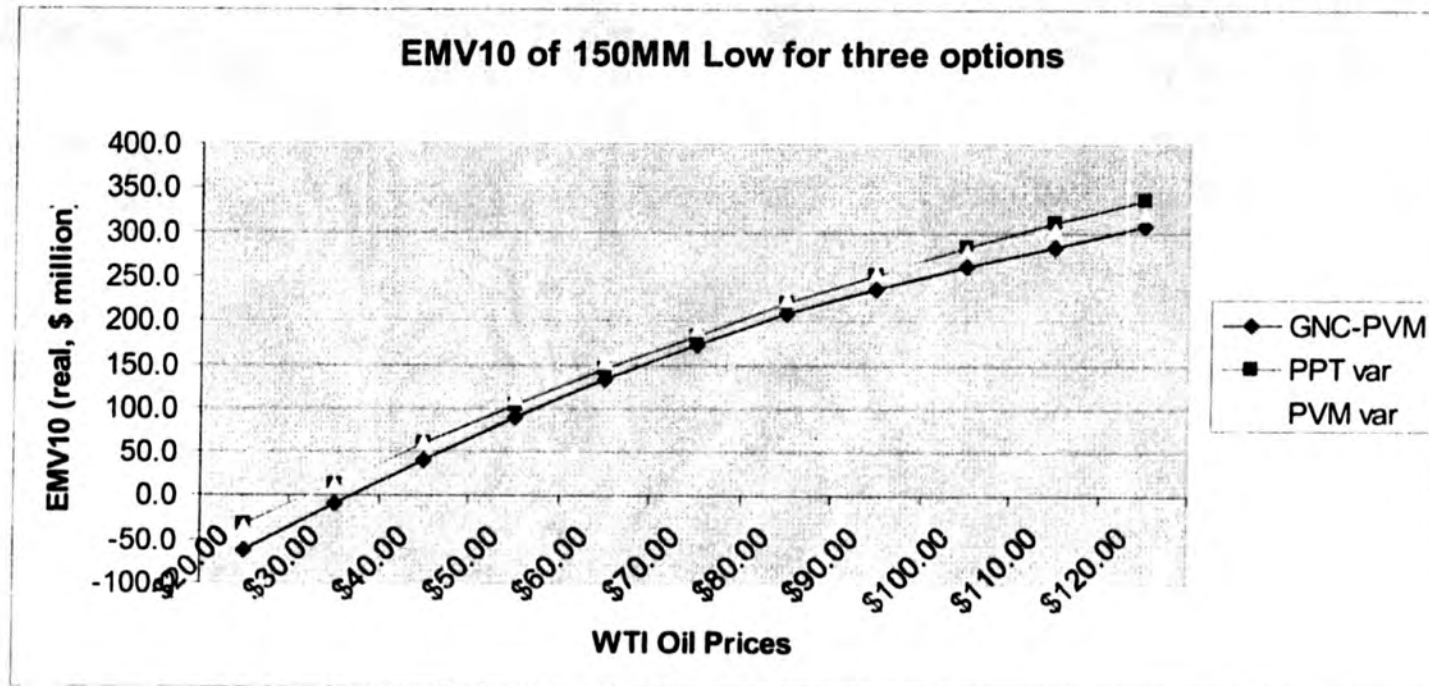
*Three options – EMV10 – 50 MM Low*



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 it 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

# Fiscal Structure

## Gross with Tax credits: "Shelf life"

Alaska has already a fiscal feature that is based on gross: the royalty.

Royalties provide about half of the State's oil and gas income.

To design a tax also largely based on gross in addition to the royalty is difficult economically.

In order to make the tax fit with the economic reality of the Alaska North Slope resources it is necessary to introduce sliding scales and formulas in order to make the widest possible range of investment opportunities economic. This resulted 1989 in the ELF formula.

# Fiscal Structure

## Gross with Tax Credits: “Shelf life”

The problem is that the “shelf life” of such formulas is relatively short. The ELF became outdated after about 10 years and it has now already taken more than five years to try to get a replacement of the ELF.

The reason for the short “shelf life” is that economic and technical conditions change rapidly and therefore the economic basis for the formula becomes rapidly outdated.

It is far simpler to base a system on net revenues. A system based on net revenues adjusts better to changing economic circumstances.

# Fiscal Structure

## Gross with Tax Credits: "Field" definition

In order to make a system based on "gross" work it is necessary to define a "field" or some type of area or unit to which the production tax formulas relate.

It is increasingly difficult to define such "fields". Most investments on the North Slope relate to deeper or shallower reservoirs, reservoir extensions, satellite fields, EOR in existing reservoirs, etc.

# Fiscal Structure

Gross with Tax Credits: "Field" definition

Therefore, a system based on gross creates automatically inequities between different types of investments. If investments are made in the same "field", taxes may be high, if investments are made in new "fields" taxes may be low. These problems have already emerged.

A State or North Slope wide system based on net revenues avoids all these problems.

# Fiscal Structure

Gross with Tax Credits: Heavy Oil

An important problem is that the future of the North Slope oil production will be largely based on heavy oil.

A system based on “gross” for light oil is not applicable to “heavy oil”. Therefore special provisions need to be made.

# Fiscal Structure

Gross with Tax Credits: Heavy Oil

Creating such special provisions for heavy oil is difficult with respect to the following:

- Definition of heavy oil
- Definition of economic difference between light oil and heavy oil. Rapid technological progress will change costs.
- Administration of special heavy oil provisions.

# Fiscal Structure

## Gross with Tax Credits: Conclusion

The North Slope developments are now at a mature stage in the traditional State lease areas. This creates a situation where it is no longer possible to define economics based on simple “field” or “unit” definitions and where it is important to kick off major developments in heavy and viscous oil.

This mature situation no longer lends itself to a gross production tax even if significant tax credits are introduced.

# Fiscal Structure

## Conclusion

**A State wide system based on net revenues, such as the PPT, requiring a single tax return per company, is much easier to administer than a production tax based on gross revenues.**

**A PPT is also more durable. This is important.**

However, what about cost control?

# Fiscal Structure

PPT and cost control

The fact that so many nations have successfully worked with profit based systems during the last three decades indicates that these systems “work”.

Cost control is an important issue, but it should not be overblown.

# Fiscal Structure

## PPT and Cost Control

For instance, even if an company would illegally claim 30% more costs than actually are permitted as deductions, and Alaska auditors would not identify this, the effect on overall tax collection would be modest.

Assuming average costs of \$ 6 per barrel (operating and capital). The tax and tax credit losses under the 20/20 PPT would be \$ 0.54 per barrel. In an environment of \$ 30 to \$ 60 per barrel at the point of production, this is a relatively modest problem.

# Fiscal Structure

## PPT and Cost Control

Nevertheless, Section 25 of the PPT bill provides for a long list of non-deductible costs, including:

1. Depreciation, depletion, amortization
2. Financing charges and cost of raising equity
3. Acquisition costs of leases
4. Cost for arbitration, litigation
5. Partnership, JV, and other organizational costs
6. Any expenditures in excess of fair market value
7. Expenditures to purchase another company or business
8. Certain abandonment costs
9. Losses and damages of oil discharges.

7/13/06

**LIMITED COMPARISON OF PPT BILL VERSIONS-**

source: DOR

|  | CSSB 2001 (FIN)<br>Version F  | House CS for SB 2001(FIN)<br>Version X.A  | Conference CS for SB 2001<br>Version C.A.   | Governor's Bill<br>Version A  |
|--|---|---|---|---|
| <b>tax rate</b>                              | general 22.5%<br>.011(e) - page 3<br>Cook Inlet Oil 3/4 rev. excl for Cook Inlet oil<br>.160(a) - page 19<br>Cook Inlet Gas ELF tax ceiling on Cook Inlet gas<br>.011(j) - page 4 | 23.5%<br>.011(e) - page 3<br>ELF tax ceiling on Cook Inlet oil<br>.011(j) - page 5<br>ELF tax ceiling on Cook Inlet gas<br>.011(j) - page 4 | 22.8%<br>.011(e) - page 3<br>ELF tax ceiling on Cook Inlet oil<br>.011(j) - page 5<br>ELF tax ceiling on Cook Inlet gas<br>.011(j) - page 4 | 20.0%<br>.011(e) - page 3<br>ELF tax ceiling on Cook Inlet oil<br>.011(h) - page 4<br>ELF tax ceiling on Cook Inlet gas<br>.011(g) - page 4 |
| <b>progressivity surcharge</b>               | .001 x net value with new boe rules<br>PPT rate + prog rate not to exceed 50%<br>.011(g) & (h)-page 4   | over \$35/bbl (net value/boe) x .0025 x net value with new boe rules<br>PPT rate + prog rate not to exceed 50%<br>.011(g) & (h)-page 4      | over \$35/bbl (net value/boe) x .00175 x net value with new boe rules<br>PPT rate + prog rate not to exceed 50%<br>.011(g) & (h)-page 4     | none<br>n/a   |
| <b>credits for annual loss</b>               | yes, at 22.5%<br>.024(b)-page 8   | yes, at 23.5%<br>.024(b)-page 10  | yes, at 22.8%<br>.024(b)-page 10  | yes, at 20%<br>.024(b)-page 9   |
| <b>credit usage floor</b>                    | n/a   | .024 credits cannot be used to reduce PPT tax to below 4% of gross for ANS region<br>.024(c)-page 10  | .024 credits cannot be used to reduce PPT tax to below 3% of gross for ANS region<br>.024(c)-page 10  | none  |
| <b>Gas (GRE)</b>                             | ANS gas 2/3 included (1/3 excl.);<br>CI gas 1/3 included;<br>new gas 1/2 included<br>.160(a) pages 19-20  | n/a   | n/a   | n/a   |
| <b>transition (TIE) credit</b>               | 5 yrs.lookback capex 2 for 1 recoupment<br>.024(j)-pages 11-12  | 5 yrs.lookback capex 2 for 1 recoupment (CORRECTED)<br>.024(j)-page 13  | 5 yrs.lookback capex 2 for 1 recoupment (CORRECTED)<br>.024(j)-page 13  | 5 yrs.lookback capex 2 for 1 recoupment (CORRECTED)<br>.024(j)-page 12  |
| <b>base allowance credit</b>                 | \$12M credit (\$1M per month) (equates to \$53.3M ded.)<br>NOT based on production<br>.170(a)-page 26   | \$12M credit (\$1M per month) (equates to \$51M ded.)<br>based on production<br>.170(c)-page 29   | \$12M credit (\$1M per month) (equates to \$52.6M ded.)<br>based on production<br>.170(c)-page 29   | \$12M credit (\$1M per month) (equates to \$60M ded.)<br>based on production<br>.170(c)-page 27   |
| <b>new area development credit</b>           | n/a   | \$6M credit (\$500,000 per mo) for areas NOT ANS, NOT Cook Inlet<br>.170(a)-page 28   | \$6M credit (\$500,000 per mo) for areas NOT ANS, NOT Cook Inlet<br>.170(a)-page 28   | \$6M credit (\$500,000 per mo) for areas NOT ANS, NOT Cook Inlet<br>.170(a)-page 27   |
| <b>sunset of new area development credit</b> | n/a   | 10 yr rolling<br>.170(b)-page 28  | 10 yr rolling<br>.170(b)-page 28  | 10 yr rolling<br>.170(b)-page 28  |
| <b>oil spill</b>                             | any oil spill cleanup costs not ded.(exception for gravel pad)<br>.160(d)(17)-page 24   | any oil spill cleanup costs not ded.(improved pad language)<br>.160(d)(17)-page 25  | any oil spill cleanup costs not ded.(improved pad language)<br>.160(d)(17)-page 25  | any oil spill cleanup costs not ded.(improved pad language)<br>.160(d)(17)-page 24  |
| <b>transition payment</b>                    | 10 mos. pymt on old system; true-up in 11th mo.<br>Sec. 37(f)(g)-pages 33-34  | 10 mos. pymt on old system; true-up in 10th mo. (clarification)<br>Sec. 36(g)(h)-pages 36-37  | 10 mos. pymt on old system; true-up in 10th mo. (clarification)<br>Sec. 36(g)(h)-pages 36-37  | 10 mos. pymt on old system; true-up in 10th mo. (clarification)<br>Sec. 36(g)(h)-pages 335  |

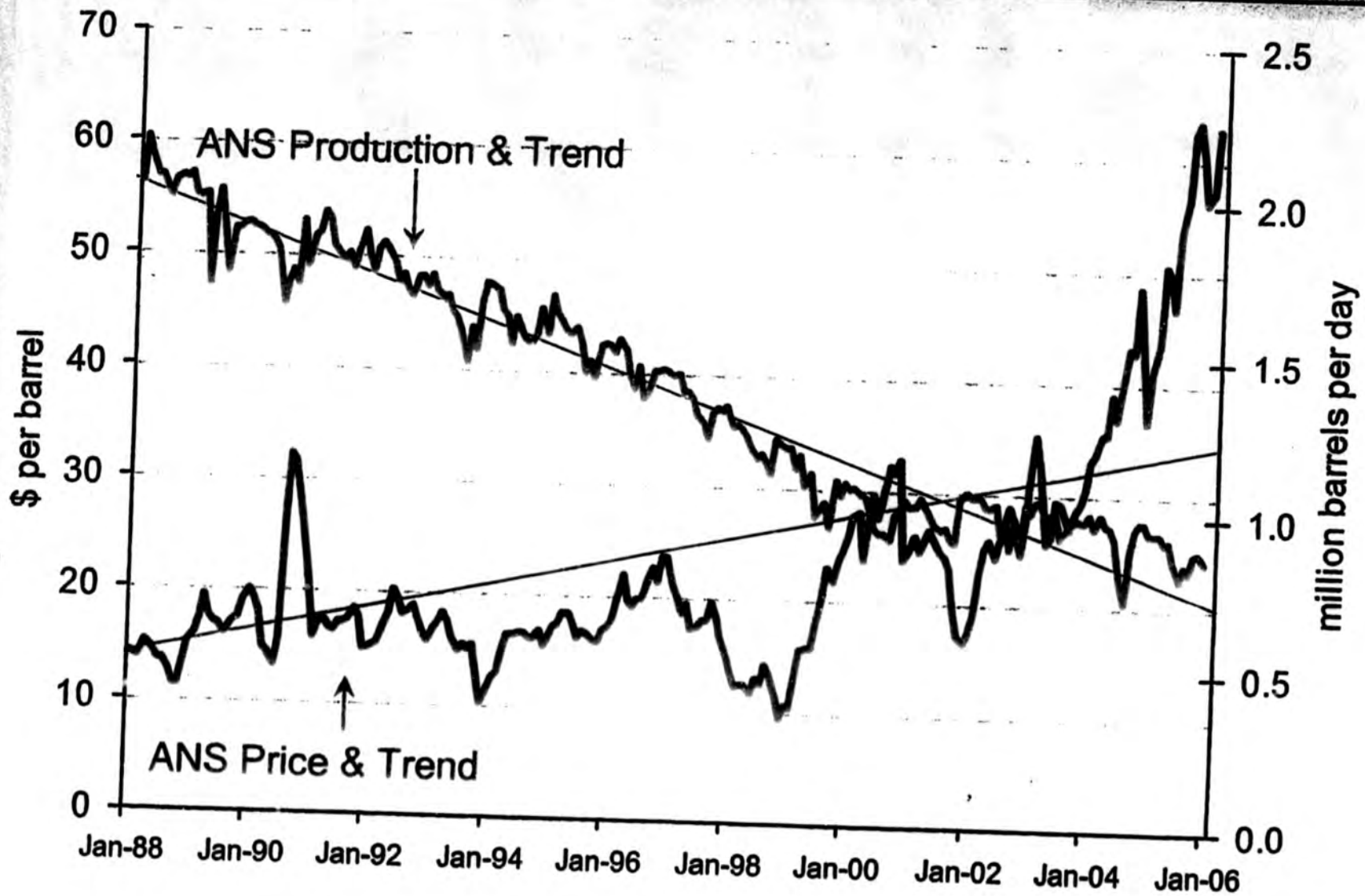
7/13  
9:20am

|                      | Light Oil | Heavy Oil |
|----------------------|-----------|-----------|
| West Coast ANS Price | \$30.00   | \$30.00   |
| Shipping             | \$2.00    | \$2.00    |
| Pipeline             | \$3.00    | \$3.00    |
| GROSS                | \$25.00   | \$25.00   |
| UPSTREAM COSTS       | \$7.50    | \$15.00   |
| NET                  | \$17.50   | \$10.00   |

-----  
 SUPPOSE WE SIMPLY "SHELF THE ELF" AND TAX IS 15% OF GROSS:

|                              |        |        |
|------------------------------|--------|--------|
| Tax on Gross (15% X \$25.00) | \$3.75 | \$3.75 |
| Tax as Percent of Net        | 21.4%  | 37.5%  |

# ANS West Coast Price & Oil Production



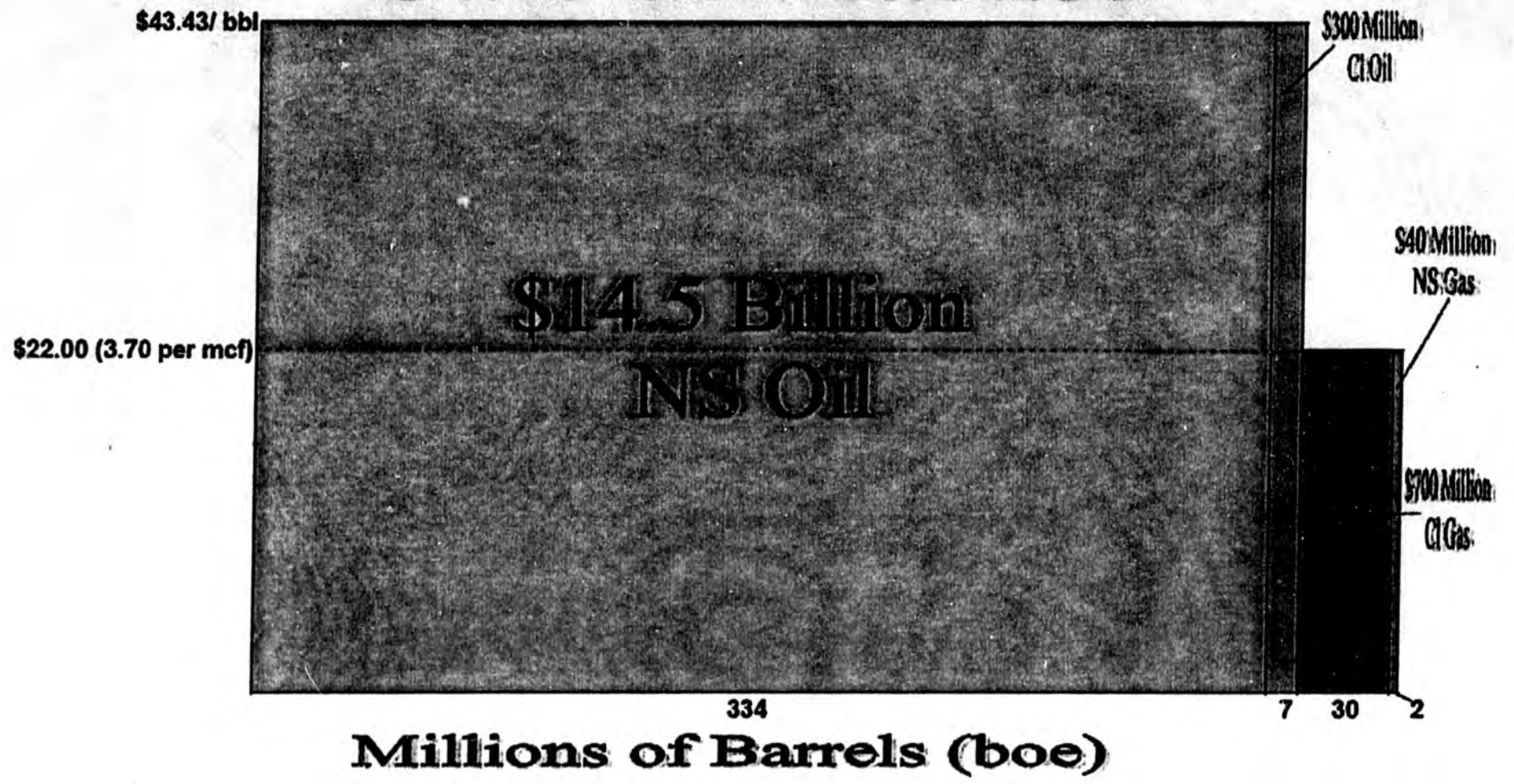
|                      | Light Oil | Heavy Oil |
|----------------------|-----------|-----------|
| West Coast ANS Price | \$30.00   | \$30.00   |
| Shipping             | \$2.00    | \$2.00    |
| Pipeline             | \$3.00    | \$3.00    |
| GROSS                | \$25.00   | \$25.00   |
| UPSTREAM COSTS       | \$7.50    | \$15.00   |
| NET                  | \$17.50   | \$10.00   |

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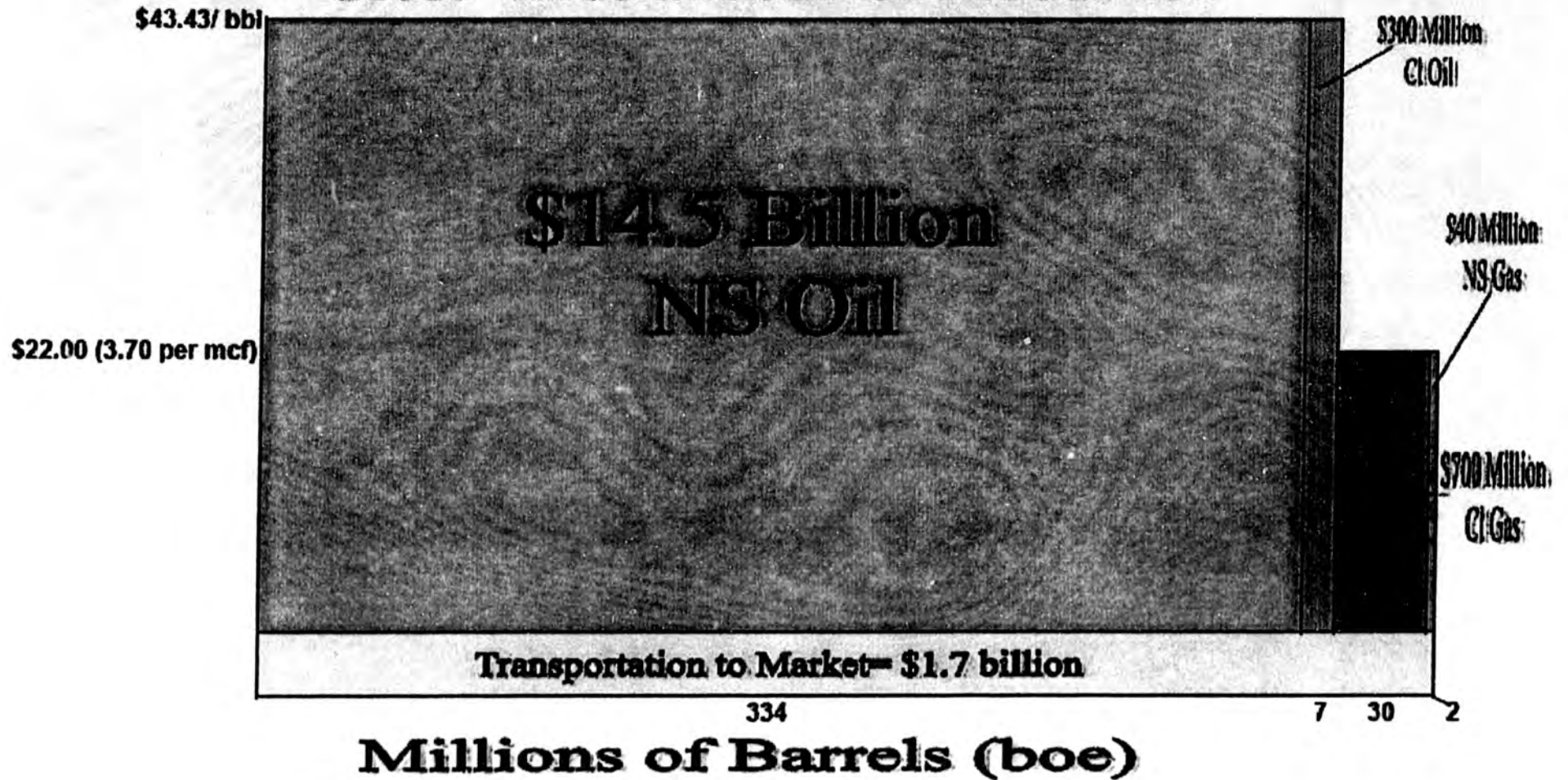
SUPPOSE WE SIMPLY "SHELF THE ELF" AND TAX IS 15% OF GROSS:

|                              |        |        |
|------------------------------|--------|--------|
| Tax on Gross (15% X \$25.00) | \$3.75 | \$3.75 |
| Tax as Percent of Net        | 21.4%  | 37.5%  |

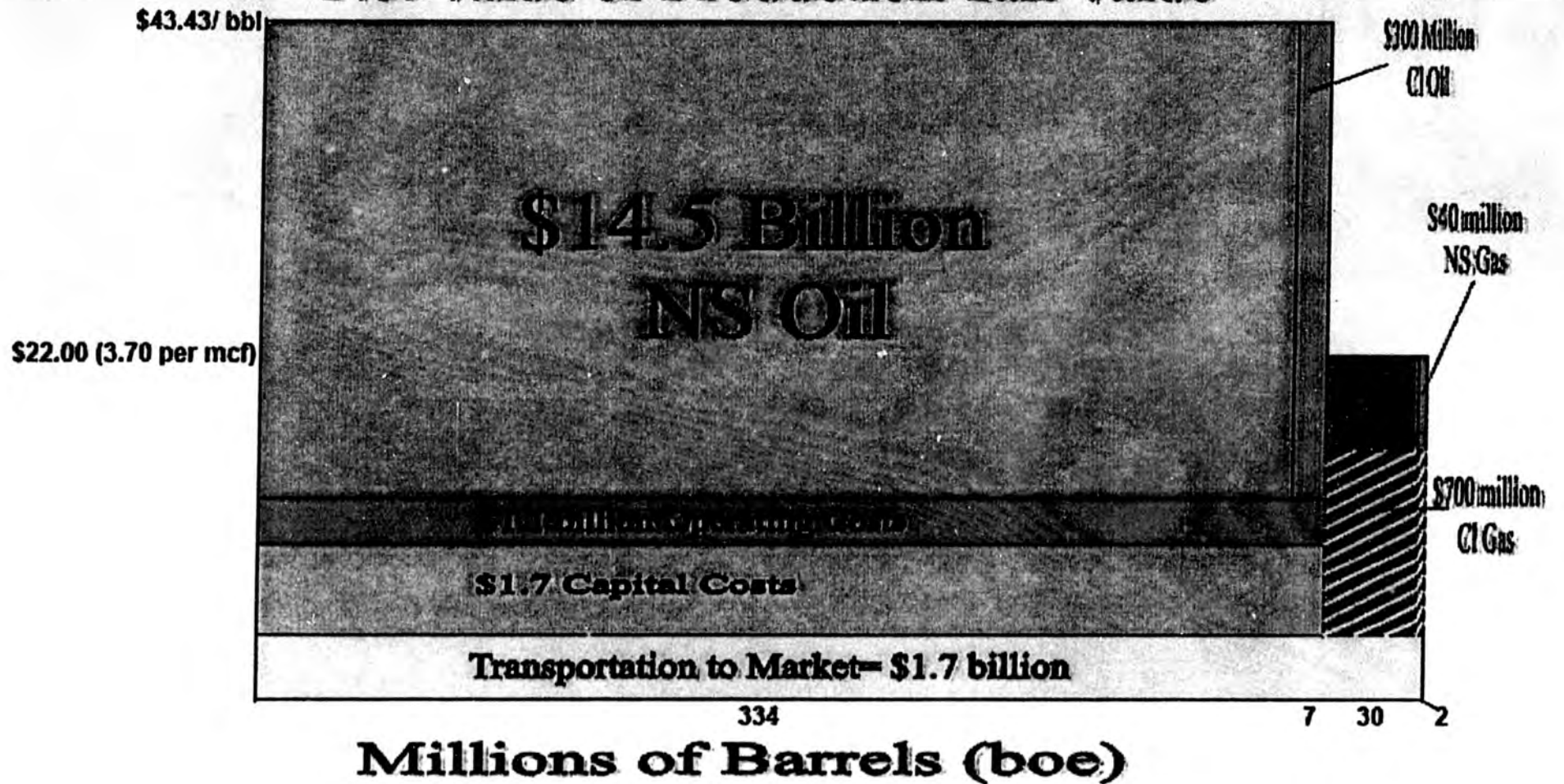
# Sale at Market



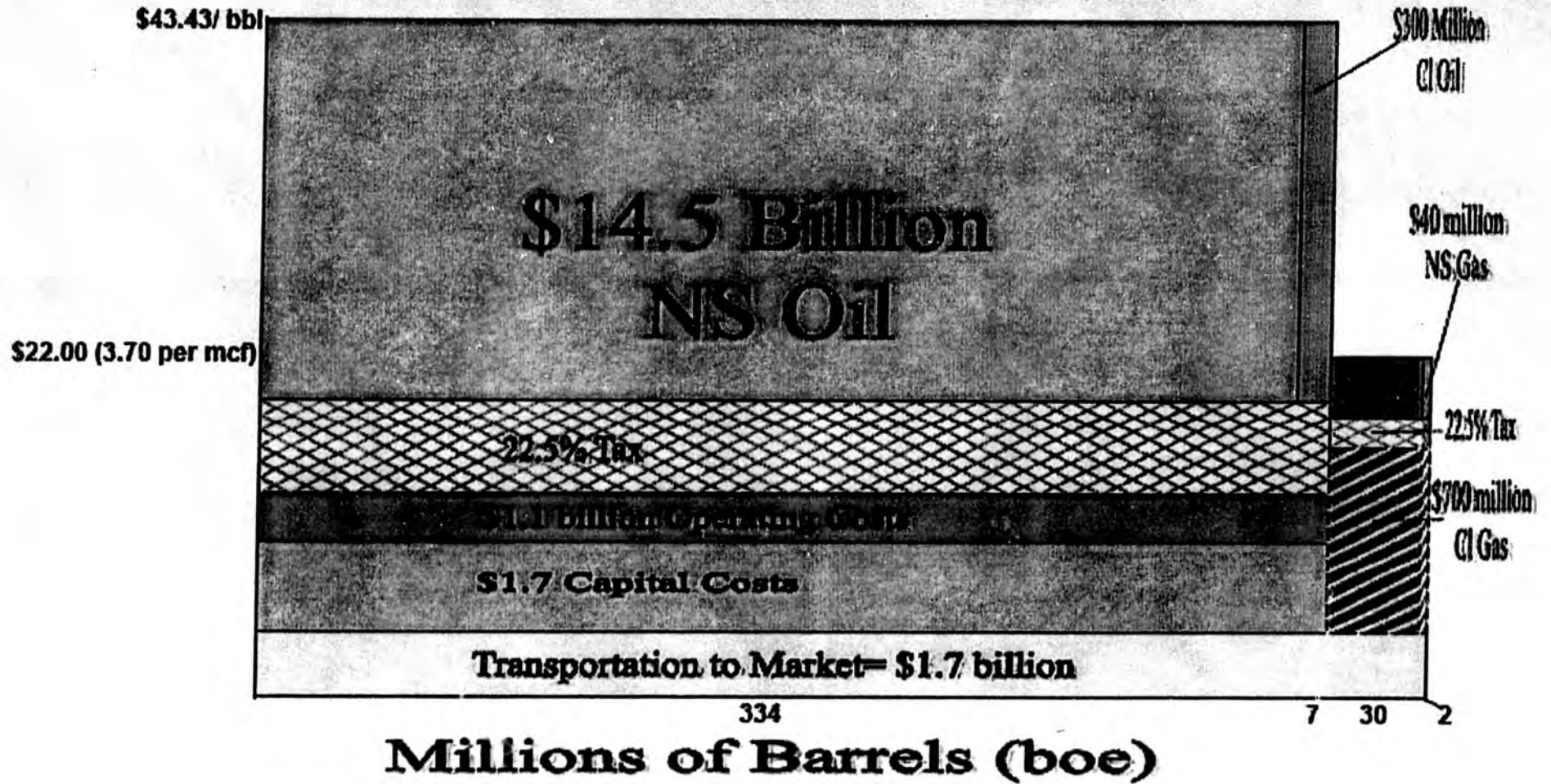
# Gross Value at Point of Production



# Net Value or Production Tax Value



# Net Value or Production Tax Value



# Tax Before Credits



2.4 billion

# Tax After Credits

Tax After Credits 1.7 billion

5,000 bbl equivalent credit 8 users at max of 14 million = 112 million

100% credit 17 million = 170 million

1.7b x .25 = 425 million Qualified Capital Expenditure Credits

# Tax After Credits

Tax After Credits 1.7 billion

5,000 bbl equivalent credit 8 users at max of 14 million = 112 million

112 million x .25 = 28 million

1.7b x .25 = 425 million Qualified Capital Expenditure Credits

Tax Under Status Quo ~ .9 billion