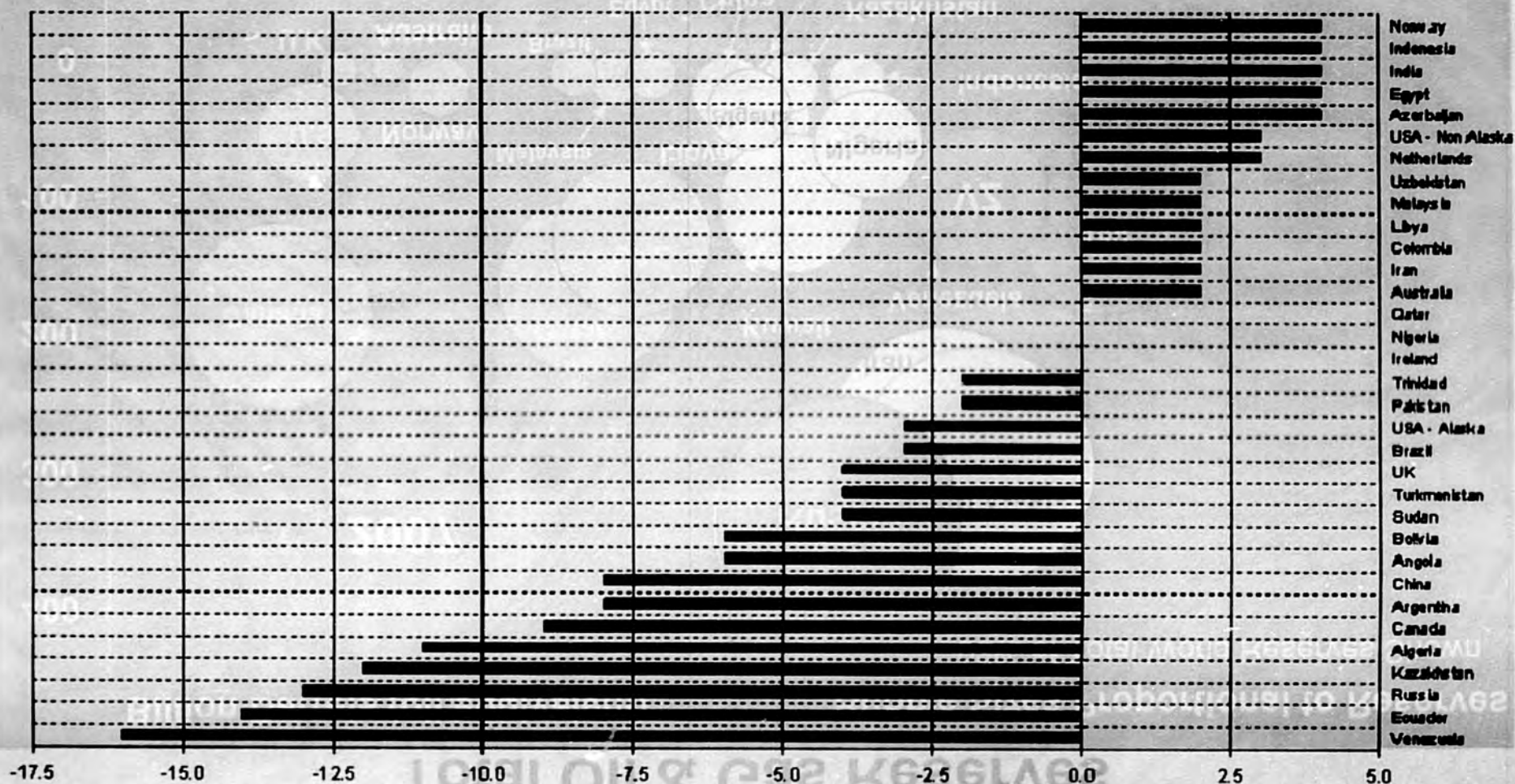


AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 148 3225₁₉

Fiscal Stability

Cumulative Stability Score

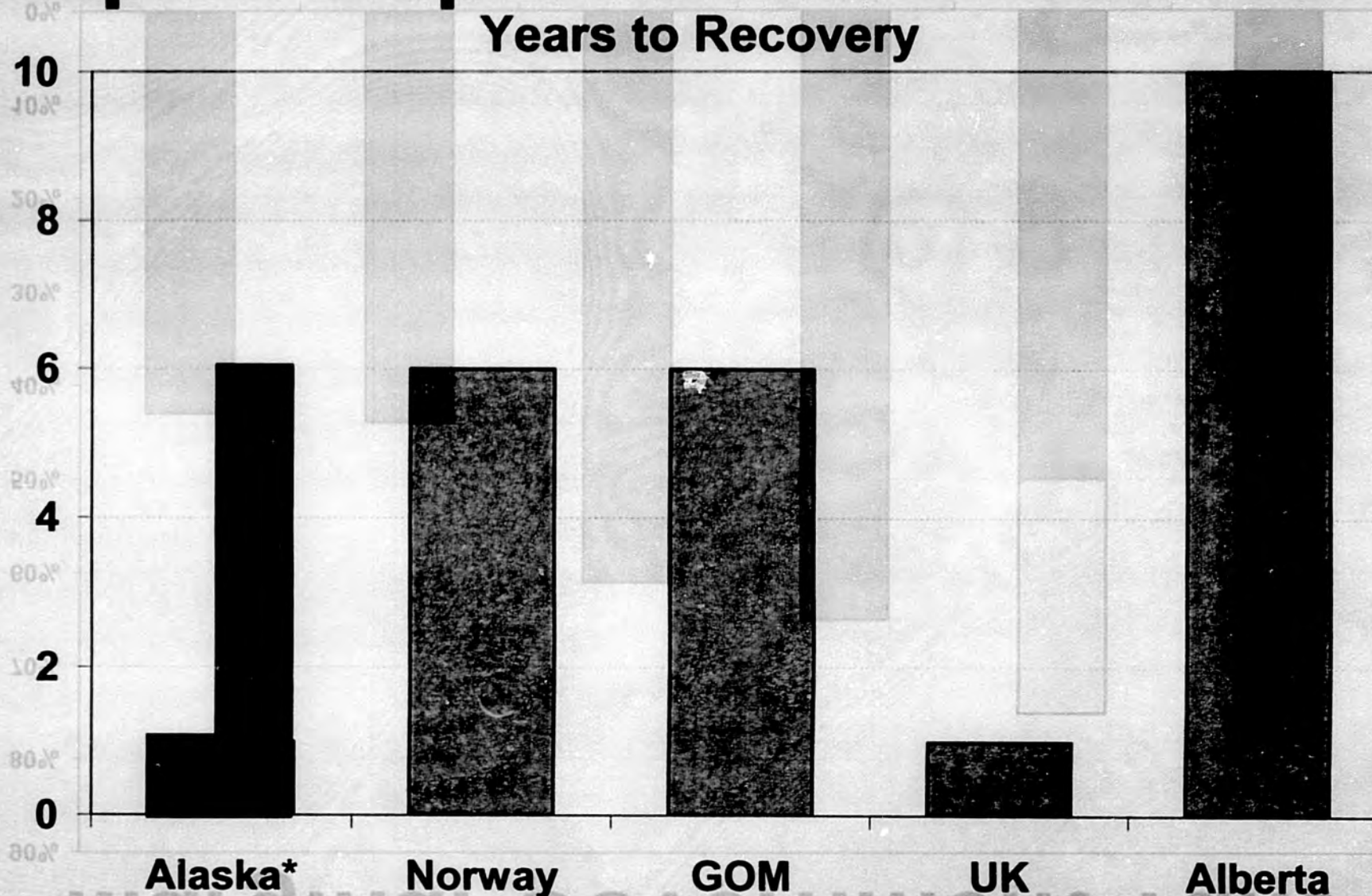


Negative

*Tax/Royalty System

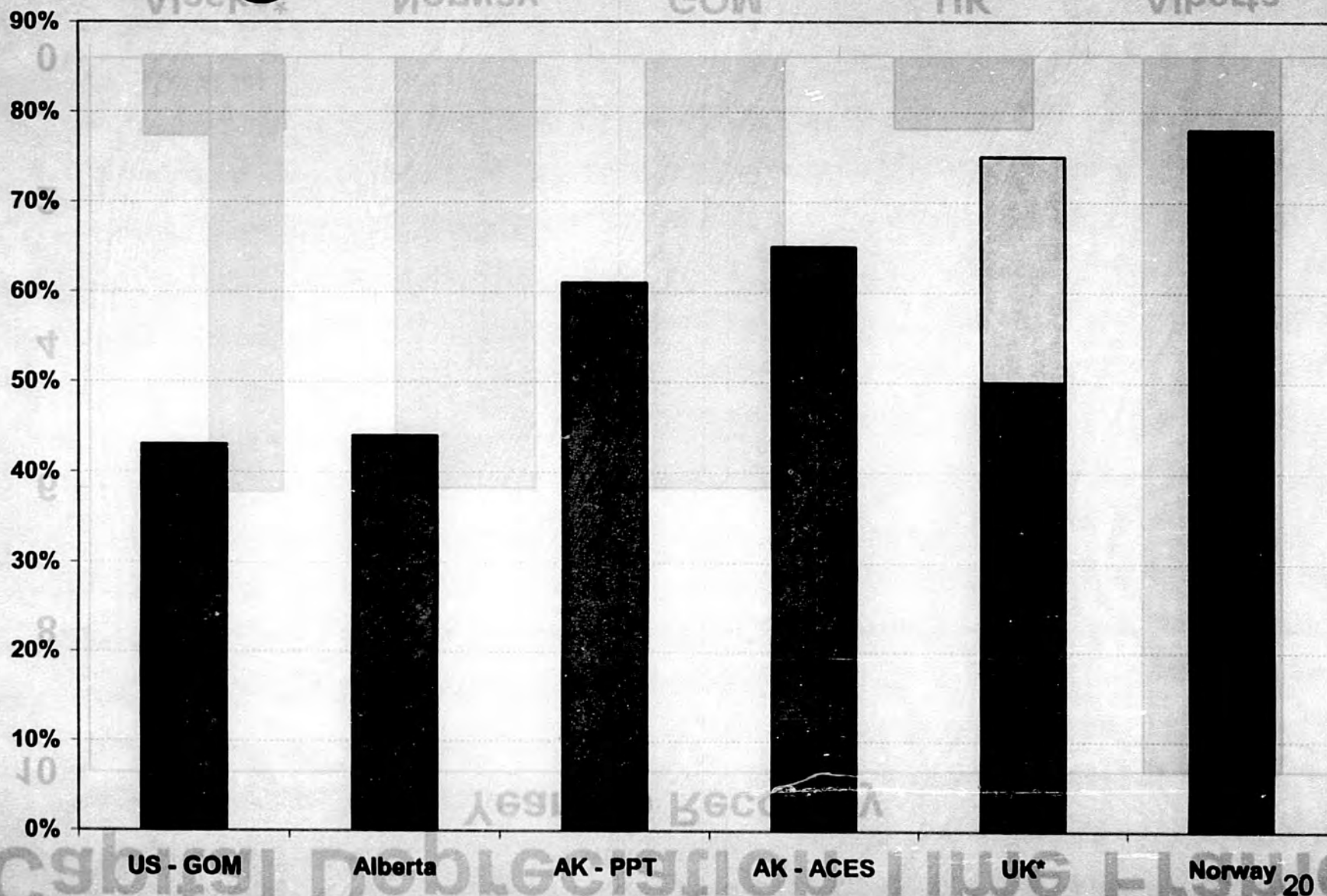
Positive

Capital Depreciation Time Frame



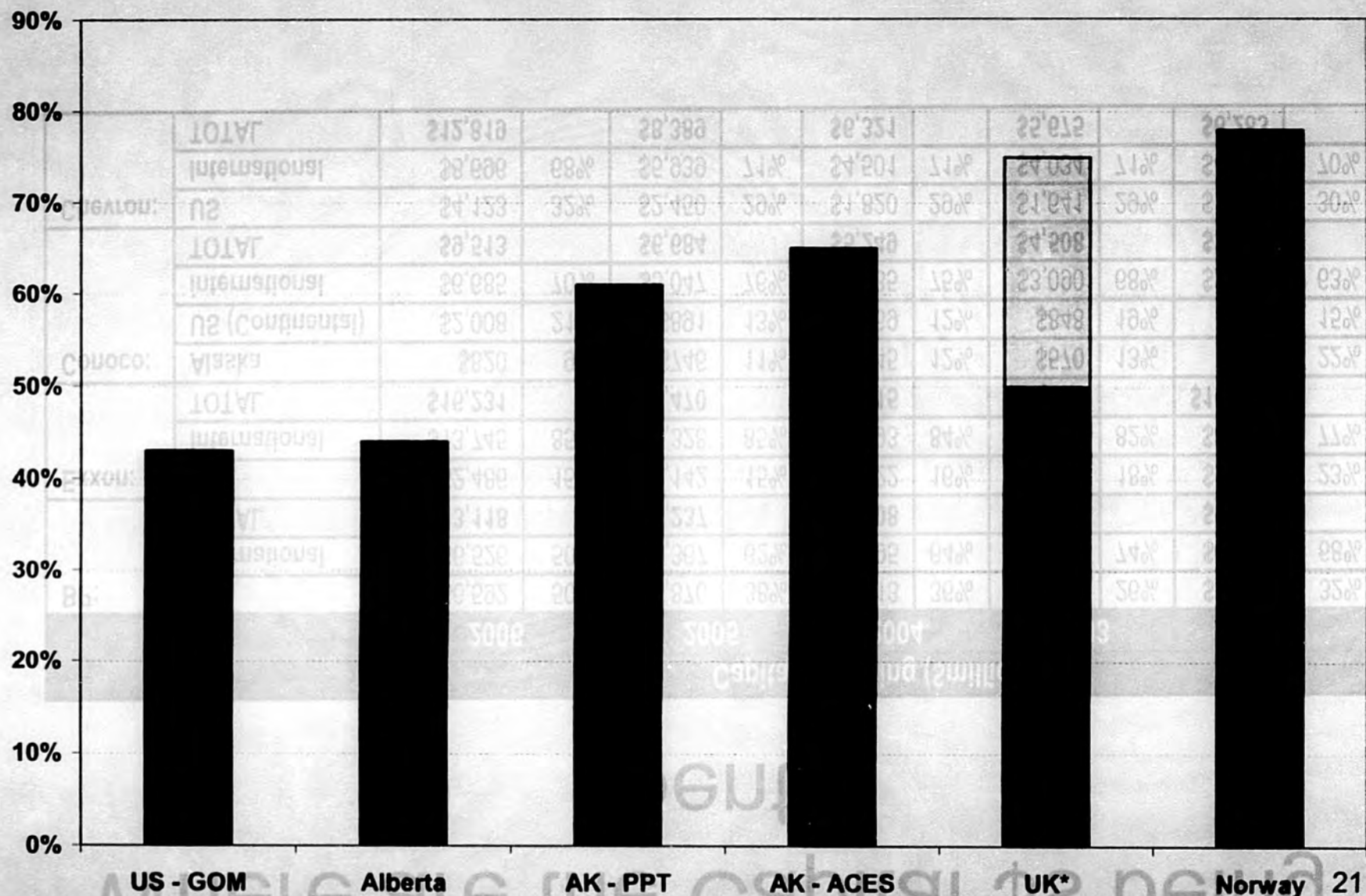
* Under PPT there is a one year write off, for Federal Corporate Income Taxes there is a depreciation schedule.

Marginal Government Take



Sources include Alberta Panel Review 2007, Wood Mackenzie 2007, PFC 2007, US General Accounting Office 2007

Cradle to Grave Government Take



Sources include Alberta Panel Review 2007, Wood Mackenzie 2007, PFC 2007, US General Accounting Office 2007

Where are the Capital \$s being spent?

Capital Spending (\$millions)											
		2006		2005		2004		2003		2002	
BP:	US	\$6,592	50%	\$3,870	38%	\$3,913	36%	\$3,906	26%	\$3,100	32%
	International	\$6,526	50%	\$6,367	62%	\$7,095	64%	\$11,286	74%	\$6,559	68%
	TOTAL	\$13,118		\$10,237		\$11,008		\$15,192		\$9,659	
Exxon:	US	\$2,486	15%	\$2,142	15%	\$1,922	16%	\$2,125	18%	\$2,357	23%
	International	\$13,745	85%	\$12,328	85%	\$9,793	84%	\$9,863	82%	\$8,037	77%
	TOTAL	\$16,231		\$14,470		\$11,715		\$11,988		\$10,394	
Conoco:	Alaska	\$820	9%	\$746	11%	\$645	12%	\$570	13%	\$706	22%
	US (Continental)	\$2,008	21%	\$891	13%	\$669	12%	\$848	19%	\$499	15%
	International	\$6,685	70%	\$5,047	76%	\$3,935	75%	\$3,090	68%	\$2,071	63%
	TOTAL	\$9,513		\$6,684		\$5,249		\$4,508		\$3,276	
Chevron:	US	\$4,123	32%	\$2,450	29%	\$1,820	29%	\$1,641	29%	\$1,888	30%
	International	\$8,696	68%	\$5,939	71%	\$4,501	71%	\$4,034	71%	\$4,395	70%
	TOTAL	\$12,819		\$8,389		\$6,321		\$5,675		\$6,283	

Mentioned in 2006 Reporting Exploration and Development

- **BP**
 - Algeria, Angola, Australia, Azerbaijan, China, Egypt, Indonesia, Russia and Trinidad & Tobago
- **Chevron**
 - Angola, Australia, Brazil, Canada, Indonesia, Kazakhstan, Nigeria, Norway, the Partitioned Neutral Zone, Thailand, UK, and Trinidad/Venezuela.
- **ConocoPhillips**
 - Australia, Canada, China, Indonesia, Kazakhstan, Libya, Malaysia, Peru, Qatar, Russia, UK, Vietnam, and Venezuela
- **XOM**
 - Australia, Canada, Indonesia, Ireland Venezuela, Norway, Philippines, Qatar, and UAE

Conclusions

- **1. Alaska is Competitive**
 - Peer Group
 - Worldwide
- **2. Possible to Increase Government Take & Remain Competitive**

Comparable Salaries for the State of Alaska's Oil and Gas Revenue Auditor III and Corporate Income Tax Auditor III Positions

30 January 2006

Alaska Department of Revenue
Tax Division
Nels Tomlinson

Purpose

This report is intended to present salaries for positions in the private and government sectors which are comparable to the State's Oil and Gas Revenue Auditor III and Corporate Income Tax Auditor III Positions.

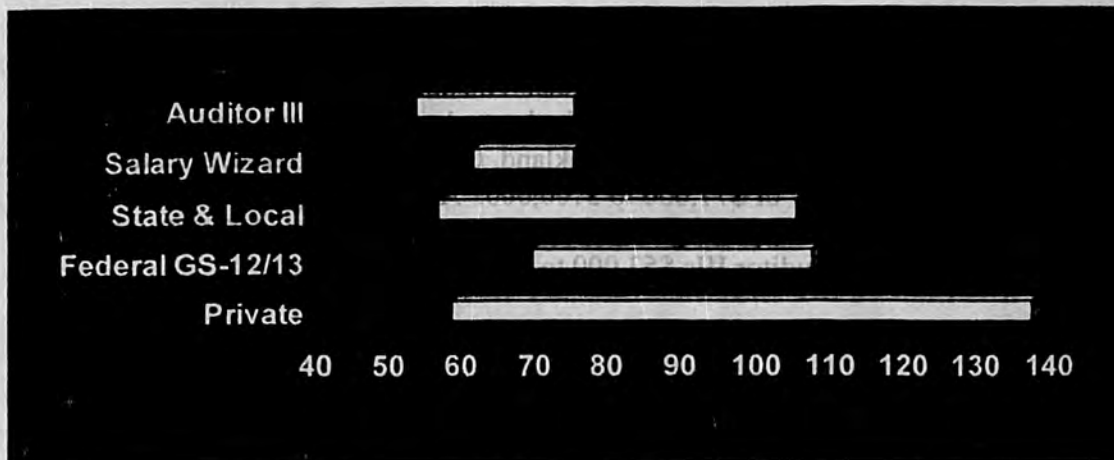
Findings

The pay range for the State's Auditor III positions is on the low end of the pay range for roughly similar jobs. The pay range for similar jobs is \$56,000 to \$120,000, while the pay range for Auditor III jobs is \$53,000 to \$75,000.

Comparable private jobs pay between \$60,000 and \$120,000 after adjusting for the cost of living differential. Comparable Federal jobs pay between \$93,000 and \$121,000, including the Federal COLA. The fact that the COLA is tax free means that those numbers understate the attractiveness of the Federal pay scale. Comparable state and local government jobs in the Lower 48 pay between \$56,000 and \$105,000, after adjusting for the cost of living differential. Internet salary wizards suggest a range between \$61,000 and \$75,000 for accountants in Anchorage.

Jobs which give comparable pay involve less responsibility and typically require less experience, while jobs which require comparable knowledge and responsibility offer higher pay, often require more training and experience, and often involve management or corporate officer responsibilities.

The chart below shows the pay ranges for the several categories of salary information. The starting pay for the Auditor III position is the lowest pay for any of the comparable positions found. The top pay for the Auditor III matches the upper end suggested by the internet salary wizards for simple accountants (title "Accountant III") in Anchorage. The Private and State & Local pay ranges start nearly 10% higher than our Auditor III pay range, and go far higher. The Federal pay range starts \$16,000 above the low end of the Auditor III range, which is \$8,000 above the high end, and tops out at \$107,000, more than 40% above the high end of the Auditor III pay range.



The Requirements of the State Auditor Positions

The positions Oil and Gas Revenue Auditor III and Corporate Income Tax Auditor III require people with significant skills and large knowledge sets. The auditors must be able to independently audit the tax returns of a company which is reporting income from operations of a number of business units in a number of countries, which potentially use different accounting systems and operate under different laws. Their work can significantly affect the State's revenues and is likely to result in legal appeals. The auditors may have to provide expert testimony to courts or the legislature, and provide tax consultation to government and private parties. This demands several years of appropriate experience, and appropriate credentials.

The minimum requirements for the positions are a Bachelor's degree in Accounting, Finance or Business with at least 18 semester hours in accounting and either successful completion of the Auditor II flexible training plan criteria or one year experience as an Auditor II. The total experience requirement is three years of applicable, professional experience. A CPA license may substitute for the education, but not for the experience.

The Nature of the Comparison

Since the purpose of this report is to determine an appropriate level of compensation for these auditor positions, it seems reasonable to look at the resources which a prospective applicant might consult to determine his target salary, and his other opportunities. These include "salary wizards" at various internet bulletin boards; private, state and federal job postings; and news articles which address the issue.

Private Sector Comparisons

State auditor jobs seem to involve an unusual level of complexity for non-management positions. Many private jobs whose description indicated a comparable level of complexity involved either managerial or corporate officer responsibilities. A further difficulty in finding salaries for comparable private sector positions is that most companies do not provide details about salary in their job postings, other than to boast of "competitive salaries and benefits."

Salaries for Outside jobs were adjusted using cost-of-living information found on the Internet. Even after adjusting for the higher-than-Anchorage cost of living in New York and California's Bay Area, comparable jobs in those places pay more than the Auditor III range. For example, a Senior Manager in Oakland, CA is being offered, after adjusting downward by 23%, a salary of \$77,000 to \$100,000. A Tax manager in Midtown New York is being offered, after adjusting downward by 12%, \$79,000 to \$97,000. The State of Alaska is offering its Auditor IIIs \$53,000 to \$75,000.



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Selected Private Sector Auditor/Accountant Salaries					
Job Title	Location	Education	CPA?	Experience	Salary ¹
Audit/Tax professional ²	New Jersey	BS Accounting	Preferred	2 to 10+	\$60 - \$120
Auditor ²	New Jersey	BS Accounting	No	3 minimum	\$72 +
Auditor ²	New Jersey	BS Accounting	MBA/ CPA preferred	3 to 6 years audit experience	\$72 - \$96
Tax Analyst ²	New Jersey	BS Accounting	No	1 to 3 years private tax accounting	\$72 - \$78
Audit Manager ²	New Jersey	BS Accounting	Required	3+ years with CPA	\$90 - \$114
Senior Tax Manager ³	Paramus, NJ	BS Accounting, MS preferred	Required	7+ years	\$137
Tax Manager-Public ⁴	Midtown NY	Not listed	Not listed	7+ years, international experience preferred	\$79 - \$97
Tax Manager-Public ⁵	Oakland, CA	BS or higher	Not listed	3+ years	Up to \$58
Senior Manager ⁶	Oakland, CA	Not listed	Required	6+ years significant and progressive experience	\$77 - \$100

1 Salary in \$1,000s.

2 From Nauticus Group, http://www.nauticugroup.com/career_jobs.html. Salaries have been multiplied by 1.2 to adjust for Alaska's higher cost of living.

3 From Robert Half Associates, <http://www.roberthalffinance.com>, Job Order Number: 272-9295903, retrieved 26 January 06. Salary multiplied by 1.1 to adjust for Alaska's higher cost of living.

4 From Robert Half Associates, <http://www.roberthalffinance.com>, Job Order Number: 294-9303325, retrieved 26 January 06. Salary multiplied by 0.88 to adjust for Alaska's cost of living. Note: Cost of living calculated using Queens, NY, NY. If the incumbent chose to live in New Jersey and commute, the multiplier would have been 1.1 to 1.2.

5 From Robert Half Associates, <http://www.roberthalffinance.com>, Job Order Number: 221-100612, retrieved 26 January 06. Salary multiplied by 0.77 to adjust for Alaska's cost of living. Note: Cost of living calculated using Oakland, Ca. If the incumbent chose to live in Castro Valley, CA, the multiplier would have been 0.80.

6 From Robert Half Associates, <http://www.roberthalffinance.com>, Job Order Number: 034-107191, retrieved 26 January 06. Salary multiplied by 0.77 to adjust for Alaska's cost of living. Note: Cost of living calculated using Oakland, Ca. If the incumbent chose to live in Castro Valley, CA, the multiplier would have been 0.80.

Federal Sector Comparisons

It is difficult to compare private sector positions to government positions, even when their responsibilities are apparently similar. It is also difficult to compare positions in the lower 48 with positions in Alaska, because of the very different amenities and living conditions. These difficulties don't apply to Federal positions in Alaska: they are in government service, they do very similar jobs, and they live in the same communities as the State workers. This makes them the ideal comparison for State employees.

The IRS has many jobs which seem roughly comparable to Alaska's Auditor IIIs, though none seem to require the familiarity with multiple jurisdictions which is required of our Auditor IIIs. All of the IRS's somewhat comparable positions are titled "Internal Revenue Agent," and the non-supervisory positions range from GS-05 to GS-11, with base salaries in the lower 48 ranging from \$25,000 to \$60,000. The IRS uses GS-13 level employees to perform comparable audits. The base pay of the GS-13 pay range is \$66,000 to \$86,000. The Selected Federal Auditor/Accountant Salaries table, below, shows two GS-13 positions which have levels of responsibility and knowledge requirements comparable to the Auditor III positions.

In Alaska, these positions would receive an additional (above the base pay) 25% cost of living allowance (COLA), which is tax free. The Federal Government apparently believes that they need to offer this COLA to attract and retain good employees in Alaska. Because this COLA is tax free, it is not straightforward to compare it to a state salary. For an employee in the 28% tax bracket, the 25 % tax free COLA is equivalent to a 34% taxable COLA, ignoring any possible change in tax bracket resulting from the increase. Therefore, the Federal salaries reported below are probably far more attractive than the numbers would imply.

The 2003 U.S. Office of Personnel Management (OPM) report¹ on COLA in Alaska shows that according to their method, in 2003, the cost of living in Anchorage, AK was 12.63% higher than in Washington, D.C. As a result, the published policy is to gradually reduce the Federal COLA to 18%. An 18% tax free Federal COLA would be roughly equivalent to a 25% taxable COLA for an employee in the 28% tax bracket, again ignoring any possible change in tax bracket resulting from the increase. Thus, the eventual Federal COLA will be roughly equivalent to a 25% higher salary for Alaskan workers.

Interestingly, the Internet salary calculator² shows that the cost of living in Anchorage, AK is 79% of that in Washington, D.C. The difference between the OPM COLA and the salary wizard number is that the Federal number assumes that the employees will live in Virginia or Maryland rather than in D.C. For example, the salary wizard shows that an

¹ 2003 Nonforeign Area Cost-of-Living Allowance Survey Report; Alaska and Washington D.C. Areas; Notice. Federal Register, Vol. 69, No. 49/Friday, March 12, 2004, pp. 12002-12048.

² See the "Methods" section, at the end of this report.

employee who lived in Fredricksburg, VA, would face a 12% higher cost of living in Anchorage.

In a 1999 study³ for the OPM, Joel Popkin and Company considered the methods used to compute the Federal COLA. Their conclusion was that the current method underestimates the actual cost of living differential between Washington, D.C. and Alaska. An example they give of this is that the amount of heating oil in the "consumption basket" is the amount appropriate for Washington, which drastically understates the importance of the difference in the amount spent on heating oil. The report also mentions non-price factors not included in the current methodology, such as the need for air travel, quality of schools and climate. Every refinement they propose would have the effect of increasing the COLA. It seems probable, therefore, that the proposed future Federal COLA of 18% may underestimate the actual additional pay necessary to compensate for the cost of living differential.

The Federal salary range for the GS-11 positions, the responsibilities of which are slightly less demanding than those of our Auditor IIIs, is \$65,000 to \$92,000 after adding the current, tax free COLA. The experience requirements are quite similar to those of the State's Auditor III positions, though the education requirements are slightly more exacting, requiring 30 rather than 18 semester hours of accounting. The Federal salary range for the GS-13 positions, comparable to our Auditor III positions, is \$83,000 to \$107,000, after adding the current, tax free COLA. Our Auditor IIIs receive \$53,000 to \$75,000.

Job Title	Internal Revenue Agent, GS-13	Foreign Auditor, GS-13	Internal Revenue Agent, GS-11	Internal Revenue Agent, GS-11	Internal Revenue Agent, GS-11
Experience	1 year+ specialized experience	1 year+ specialized experience	1 year+ specialized experience	1 year+ specialized experience	1 year+ specialized experience
Education	BS Accounting, CPA for education	BS Accounting or related, with 34 credits accounting	BS Accounting	BS Accounting	BS Accounting
Salary	\$53,000 - \$75,000	\$53,000 - \$75,000	\$53,000 - \$75,000	\$53,000 - \$75,000	\$53,000 - \$75,000

³ Non-Foreign Area Cost-of-Living Allowances: Final Report: A summary of SHWG Research Tasks. Joel Popkin and Company, 1999, retrieved from <http://www.opm.gov/oca/cola/research.asp>, 19 January 2006.

Three representative positions are reported below.

Selected Federal Auditor/Accountant Salaries					
Job Title	Location	Education	CPA?	Experience	Salary ¹
Internal Revenue Agent, Bank Secrecy Act Examiner, GS-5 to GS-09 ²	Central U.S.	BS Accounting, 30 credits accounting minimum	May substitute CPA for education.	Experience may substitute for up to 2 years of college.	\$31 - \$63
Internal Revenue Agent, Bank Secrecy Act Examiner, GS-11 ³	Central U.S.	BS Accounting, 30 credits accounting minimum	May substitute CPA for education.	3 years of PH.D. studies or 1+ years of experience at next lower level ⁴ .	\$58 - \$75
Internal Revenue Agent, GS-11 ³	Central U.S.	BS Accounting, 30 credits accounting	May substitute CPA for education.	3 years of PH.D. studies or 1+ years of experience at next lower level ⁴ .	\$58 - \$75
Internal Revenue Agent, GS-13 ⁵	Hypothetical	Unknown BS Accounting, 30 credits accounting.	May substitute CPA for education.	1 year+ specialized experience ⁶ .	\$83 - \$107
Forensic Auditor, GS-12/13 ⁷	Atlanta, GA	BS Accounting or related, with 24 credits accounting.	May substitute for degree.	1 year+ specialized experience ⁶ .	\$69 - \$107
1 Salary in \$1,000s. Outside salaries have been multiplied by 1.25, the amount of the federal COLA for employees in Alaska.					
2 This position has responsibilities comparable to the State's Auditor I or II. Federal job descriptions retrieved from http://www.usajobs.opm.gov/ , 10 January 06					
3 This position has responsibilities somewhat less than those of the State's Auditor III. Although the requirements are broadly similar, the GS-11 Agent does not take the lead in independently auditing multi-national companies. Federal job descriptions retrieved from http://www.usajobs.opm.gov/ , 10 January 06					
4 The next lower level for the GS-11 positions is GS-09, which requires two years of progressively responsible experience (GS-05/07), for a total of 3 years.					
5 This position has responsibilities directly comparable to the State's Auditor III. Information retrieved from http://jobs.irs.gov/opp_acc_iraSr.html on 27 January 2006.					
6 The next lower level for the GS-13 is GS-12, which requires four years of progressively responsible experience (GS-05/07/09/11), for a total of 5 years.					

Salary Wizard Results

Potential applicants for State jobs are likely to use one of the salary wizards available on the Internet to evaluate salary offers. I have therefore consulted several of these to determine what our potential applicants might see.

Yahoo!'s hotjobs site has a salary wizard which reports that an Accountant III in Anchorage should expect a median salary of \$67,000, with two-thirds of them receiving between \$61,000 and \$75,000. The State of Alaska's Auditor IIIs currently earn a salary range of \$53,000 to \$75,000.

Kforce Professional Staffing's salary wizard reports essentially the same numbers for an Accountant III in Anchorage.

Business Finance Magazine's salary wizard reports that median compensation for a Senior Accountant with 3+ years of experience in the Western U.S. (including Alaska) will be \$55,000. If that median salary is multiplied by 1.25, as an applicant might choose to do to allow for Alaska's higher costs, he would expect a median salary of \$69,000 in Alaska. The State of Alaska's Auditor IIIs currently earn a salary range of \$53,000 to \$75,000.

The Creative Financial Staffing salary wizard reports that accountants working in Alaska's Rail Belt earn an average salary of \$49,000. However, the average accountant's job is less demanding and less responsible than the average Auditor III's job. An accountant will typically be working with, at most, the Federal Income Tax code and the Alaska Corporate Income Tax code, while the State's Auditor IIIs must work with the Federal code, and with the income tax codes of Alaska and an arbitrary number of other states and foreign countries.

State and Local Sector Comparisons

Several state and local government jobs outside Alaska show a wide range of requirements and salaries. The lowest-paying is an Auditor 3 in Louisiana, which seems to be a less demanding, less complicated position than Alaska's Auditor III positions. The highest paying is a Revenue Tax Specialist in Alabama, which requires incumbents to have an MS in Tax Accounting, or an MS in Tax Laws, and to spend 20% of their work time in continuing education. The salary range for positions whose responsibilities are comparable to Auditor III is \$56,000 to \$105,000, after adjusting to Alaska's cost of living. The State of Alaska's Auditor IIIs currently earn a salary range of \$53,000 to \$75,000. Salaries for Outside jobs were adjusted using cost-of-living information found on the Internet.

Selected State and Local Sector Auditor/Accountant Salaries					
Job Title	Location	Education	CPA?	Experience	Salary ¹
Internal Auditor ²	Oregon	BS Accounting	In progress	None	Up to \$86
Auditor 3 ³	Louisiana	BS Accounting	No	2+	\$46 +
Foreign Audit Specialist ⁴	Alabama	BS Accounting	No	1+	\$56 - \$86
Revenue Tax Specialist ⁴	Alabama	MS Accounting	No	None	\$69 - \$105
¹ Salary in \$1,000s. Salaries adjusted for cost of living differential.					
² Found at http://www.jobsinthemoney.com/pb/guest/viewjob.cfm?JobsID=229473 . Salary multiplied by 1.38 to adjust for cost of living.					
³ Found at http://www.civilservice.louisiana.gov/Examining/JobFliers/PrintableFliers/accounting.doc . Salary multiplied by 1.45 to adjust for cost of living. The responsibilities of this position are comparable to Alaska's Auditor I or Auditor II.					
⁴ From State of Alabama Personnel Department. Salary multiplied by 1.41 to adjust for cost of living.					

Relevant News Articles

The U.S. Department of Labor's Occupational Outlook Handbook reports that employment for accountants will grow faster than average well into the next decade.

The Wall Street Journal, in 2004, listed Forensic Accountants as one of ten bright spots in the employment picture.⁴ Also in 2004, the Wall Street Journal reported that the Sarbanes-Oxley act had greatly increased the demand for experienced accountants.⁵ The Houston Chronicle reported in 2004 that PricewaterhouseCoopers had to "import" accountants from Canada to meet the demand.⁶ In 2005, the Wall Street Journal reported that accounting firms are scrambling to find experienced CPAs, as demand for accountants outstrips supply.⁷ The Epoch Times reported in 2005 that a shortage of accountants in the U.S. is sharply driving up salaries.⁸

Methods

To adjust Outside salaries to Alaska's cost of living, I used a salary calculator on the Internet, typical of the resource which a job candidate might use to make such comparisons. The calculator was found at

⁴ Wall Street Journal Article, "Ten Bright Spots in a Jobless Recovery," retrieved from <http://college.wsj.com/careerpaths/findcareerpath/20040330-neuborne.html> on 13 January 2006.

⁵ Wall Street Journal Article, "Tougher Regulations Create New Accounting Opportunities," retrieved from <http://www.careerjournal.com/salaryhiring/industries/accounting/20041201-buss.html> on 13 January 2006.

⁶ Houston Chronicle, 11 December 2004, "Accountants Can't Keep Up With Numbers," retrieved from <http://www.chron.com/dispatch/story.mpl/business/2942660.html> on 13 January 2006.

⁷ Wall Street Journal Article, "Accounting Firms Scramble to Find Experienced CPAs," retrieved from <http://www.careerjournal.com/salaryhiring/industries/accounting/20050322-mcgee.html> on 13 January 2006.

⁸ The Epoch Times, 18 July 2005, "U.S. Accountant Shortage Drives Salaries up Sharply," retrieved from <http://english.epochtimes.com/news/5-7-18/30411.html> on 13 January 2006.

<http://www.jobsinthemoney.com/common/salarytables.cfm?link=http://www.homefair.com/calc/salcalc.html>.

This report considers only base pay, since useful information on bonuses and fringe benefits seems to be unobtainable.

Private industry positions often add bonuses to base pay, and those bonuses are often a substantial fraction of the total compensation. Therefore, a comparison based only on base pay might understate the attractiveness of private sector salaries.

Most large private employers have benefit packages which are nearly as complete as the State of Alaska's. They typically include medical benefits and contribution matching for 401k plans, but may not include dental and vision coverage, and may require that the employee pay a higher portion of the cost. A comparison which excludes benefits might overstate the attractiveness of private sector jobs.

Federal positions have a benefit package roughly comparable to the State of Alaska's. Federal pay presented here includes a 25% tax free COLA, which is worth significantly more than a 25% taxable COLA, as discussed above in the section on Federal positions.

Copies of POMS received October 19
to present

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 11:59 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Mike Fair
Po Box 70128

Fairbanks 99707-0128,

Stop being the oil industry stooge and stand for Alaska.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 10:46 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Scott Mansfield
11901 Circle Dr

Anchorage 99507,

Steelhead, Grayling and King Salmon platforms are not on the North Slope - They are in the Cook inlet. The pipeline is 1/3 empty because BO mismanaged the resource. Tell AOGA to stop feeding us lies. Vote In favor of a new tax structure. We're tired of lies and deceit.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 5:20 PM
To: Konrad Jackson
Subject: New Pom:Taxation

Sherry Whitstine
Po Box 871985

Wasilla 99687-1985,tswhit

Don't cut off my nose to spite your face! You have to do something? You better do NOTHING! Listen up, how can 22.5% be Tainted.. that is not enough for you? You are pitiful people.. You have disqualified yourself. Stupid is what Stupid does! You are all fools!

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 2:44 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Bobby Neeley
Po Box 2415

Valdez 99686-2415,

Northslope oilfields: tax B.P. (big oil profits), rich corporations in the oil business.
Lower gasoline prices. Lower heating oil prices.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 2:38 PM
To: Konrad Jackson
Subject: New Pom:Pipelines

Bobby Neeley
Po Box 2415

Valdez 99686-2415,

Alaska Gasline & Alaska jobs not Canadian. No U.S. citizen can get a job in Canada on a gasline. I tried to get a job on the Alcan hiway U.S. Put in \$90 million dollars Canada side & was told to take a job no Canadian wanted in 1990, Delta.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 2:36 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Bob Neeley
P.O. Box 237

Gakona 99586,

Tax the big oil corporations and lower the price on gasoline and oil (heating oil)for the Alaskan Natives, the landlords.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 2:28 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Jerry Mccutcheon
Po Box 101838

Anchorage 99510-1838,
susitnahydronow@yahoo.com

Chairman Huggins: PPT Auditors: It was clear from Meurs and Johnston that high priced external auditors who do the audits for the various countries is what is needed. Home grown who can be intimidated is not what state needs that is penny wise and pound foolish. Tax on gross better.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 1:15 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Kenneth Mears
1941 Wickersham Dr

Anchorage 99507-1353, liocrek

907-563-7616

Before you determine the proper tax that oil companys should pay, a comparison of what others charge is absolutely essential. This will also disclose how well Alaska has done in the past. Anything works with \$90.00 oil but what about the downturn and all those hefty longterm retirements.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 11:30 AM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Burle Beard
1721 Moose Trl

Fairbanks 99709-6617,

479-3640

Remember Mario Tuzo who wrote The Godfather. He got nothing for the Net earnings of Paramount. The oil tax should apply to gross revenue.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 11:04 AM
To: Konrad Jackson
Subject: New Pom:SB2001 Oil & Gas Tax Amendments

Andrew Drabeck Jr
Po Box 2828

Palmer 99645,

Kurds in Iraq just signed a contract with major oil companies giving them 85% of the profits plus 2 new refineries. Keep this in mind with knowing resources of Alaska belong to people of Alaska when you deliberate. Get the best for Alaskans with price of oil goes to \$100.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 9:59 AM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Barbara Winkley
8120 Rabbit Creek Rd

Anchorage 99516,
baofrabbithcreek@gci.net
345-1954

Please consider an oil tax on gross production; not the existing net profit tax which seems pretty dicey to say the least.
To avoid confusion oil and gas taxes should definitely be separated.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 9:29 AM
To: Konrad Jackson
Subject: New Pom:Ethics

William McCauley
704 Stewart St

Fairbanks 99701-4042,

9074516127

PPT and all politicians are tainted or worse. You're either guilty or turned a blind eye. You politicians have cost us billions by your actions or inaction. A pox on both parties. You all should resign in shame or be jailed as needed for years.

Konrad Jackson

From: Shay Wilson
Sent: Friday, October 19, 2007 8:10 AM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Adam Pollock
Hc 3 Box 8108-x
13565 East wilderness Lane
Palmer 99645-9401,

745-5426

Please consider a gross based system for you PPT discussions. The fundamental principles behind a net profits based approach includes a trust in the producers motivation to be honest and open about their profits. It is also imperative to include and enforce timelines.

Konrad Jackson

From: Shay Wilson
Sent: Thursday, October 18, 2007 11:51 PM
To: Konrad Jackson
Subject: New Pom:Oil & Gas

Mike Fair
Po Box 70128

Fairbanks 99707-0128,

Recently Gail Philips wrote that the oil companies will need to invest \$2 billion a year for the next 50 years to extract our oil. She now needs to tell them. There has been no such annual investment since the line was built. The companies will always cry over taxes and trumpet investment, so make it simple: a straight gross tax.

Konrad Jackson

From: Rep. Kurt Olson
Sent: Friday, October 19, 2007 6:46 PM
To: Konrad Jackson
Subject: FW: Special Session Resolution from Chugiak Eagle River Chamber

From: CER Chamber Susan Gorski [info@cer.org]
Sent: Friday, October 19, 2007 1:21 PM
To: info@cer.org
Subject: Special Session Resolution from Chugiak Eagle River Chamber

**CHUGIAK-EAGLE RIVER
CHAMBER OF COMMERCE
BOARD OF DIRECTORS
RESOLUTION 2007-3**

A resolution to the Alaska State Legislature on the state of the oil and gas taxes up for review at the Special Session in October 2007

WHEREAS, the most significant fiscal issue for Alaska is the decline in oil production; and

WHEREAS, new oil can replace declining production; and

WHEREAS, opportunities to create new oil require substantial investment in existing fields, including heavy oil, satellites, new fields, and undiscovered fields; and

WHEREAS, threats to substantial investment include high costs, high risk, and fiscal uncertainty; and

WHEREAS, the Chamber believes that with few exceptions the 25th Legislature is comprised of hardworking, honest and dedicated public servants; and

WHEREAS, after much deliberation, PPT was passed by a significant majority in the legislature; and

WHEREAS, PPT generated \$1 billion more this past year than the previous tax structure under ELF ; and

WHEREAS, PPT has a 5 year review built in allowing adequate time for proper assessment; and

WHEREAS, Alaska oil and gas production operates in a global market and the State needs to take into serious consideration that other locations may be more financially

attractive than Alaska for future investment; and

WHEREAS, a stable PPT creates an environment of certainty and fiscal stability in a competitive global climate.

NOW THEREFORE BE IT RESOLVED that the Chugiak-Eagle River Chamber of Commerce Board of Directors strongly encourages the Legislature to

- 1. restore public trust by assuring that the debate leading to PPT is free of additional improprieties**
- 2. recognize the negative impacts on Alaska of making changes to the PPT formula in a global market**
- 3. refrain from trading off short term financial gains for the legacy we leave to our children and grandchildren.**
- 4. review PPT in 2011**

Signed this 19th day of October, 2007

BY,

Michael Melielo

**Michael Melielo
Its President**

Susan Gorski
Executive Director
Chugiak-Eagle River
Chamber of Commerce
PO BOX 770353
Eagle River, AK 99577
907-694-4702 phone
907-694-1205 fax
e-mail: info@cer.org
web: www.cer.org

"Life is not measured by the number of breaths we take, but by the moments that take our breath away."

SCOMM

148:12

ALASKA STATE LEGISLATURE



Official Business

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Representative Kurt Olson, Chair
State Capitol, Room 408
Juneau, AK 99801-1182
Phone 907-465-2693 Fax 907-465-3835

HB 2001 Bill Packet Information
October 21, 2007

Enclosed Documents:

- No documents or document labels available at time of printing

ALASKA STATE LEGISLATURE



**Joint Meeting
Senate Resources and
House Oil and Gas
House Finance Room 519
Sunday, October 21, 2007
1:00 p.m. - 6:00 p.m.**

AGENDA

**SB 2001/HB 2001 - Oil and Gas Production Tax
Presentation by: Governor's Production Tax Team**

**III - ACES Preserves Investment Climate
and**

Sectional Analysis of SB 2001/HB 2001

Patrick Galvin, Commissioner, Dept. of Revenue

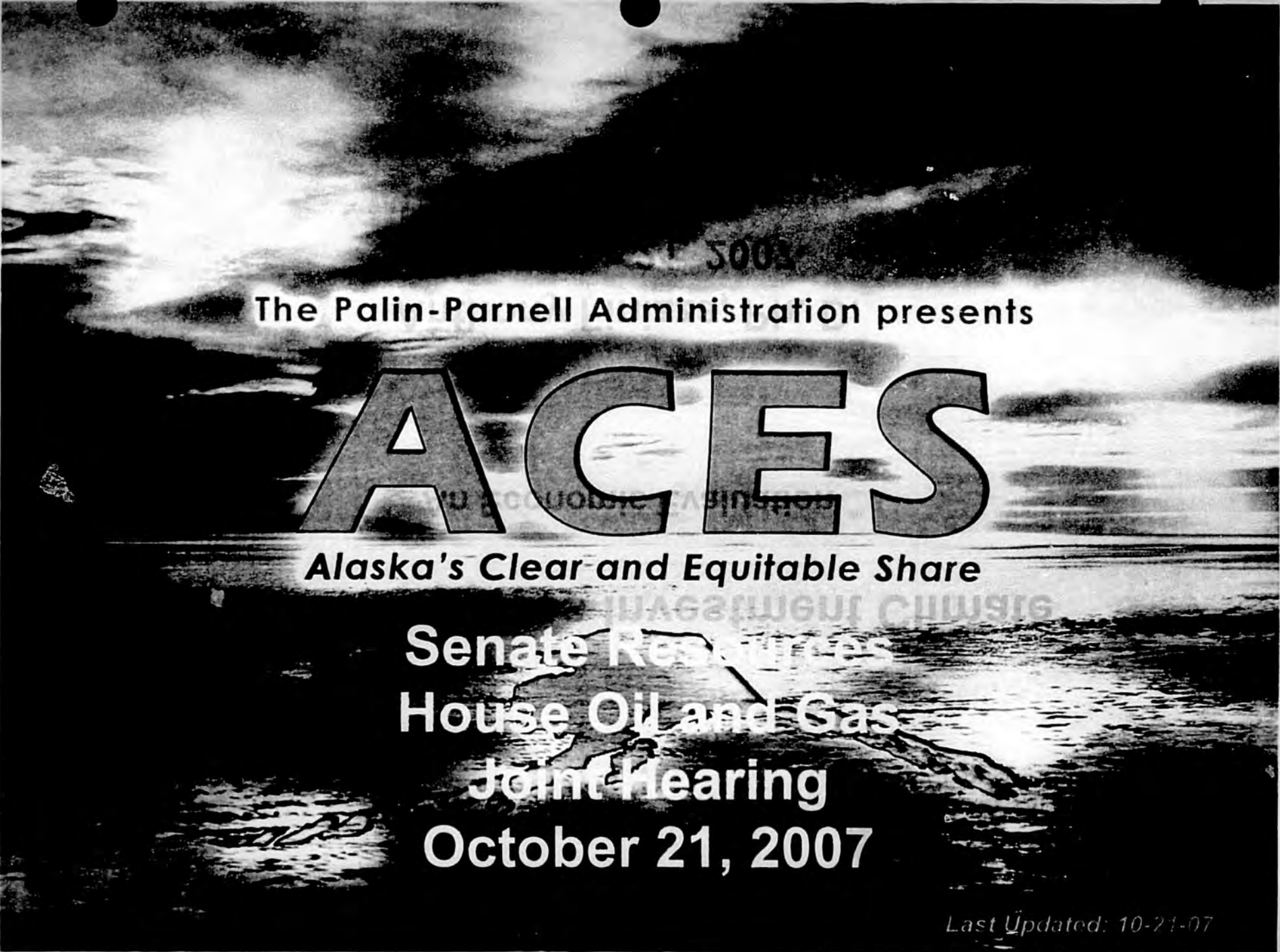
Tony Finizza, Consulting Economist

Cherie Nienhuis, Petroleum Economist, Dept. of Revenue

Kevin Banks, Acting Director, Division of Oil & Gas

Robert Mintz, Preston Gates

Marcia Davis, Deputy Commissioner, Dept. of Revenue



5003

The Palin-Parnell Administration presents

ACES

Alaska's Clear and Equitable Share

Senate Resources
House Oil and Gas
Joint Hearing
October 21, 2007

Last Updated: 10-21-07

ACES

Alaska's Clear and Equitable Share

ACES Preserves Investment Climate

An Economic Evaluation

Anthony Finizza, Ph. D.

October 21, 2007

Framework and Methodology for Analysis

- NPV – Net Present Value (“Value today

Financial Metrics

Product Economic Metrics

Producer Economic Metrics

- **NPV – Net Present Value (“Value today of Project Cash Flows”)**

Metrics Used

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Alaska's Clear and Equitable Share

	Legacy Fields	New Fields	
Producer Point-of-View	"Reinvestment Economics" Net Cash Flow NPV10	"Investment Economics" Net Cash Flow NPV10	Does the project have NPV>0 at stress price?
Financial Evaluation			
Alaska Point-of-View	Marginal Government Take	Life Cycle Discounted (10%) Government Take	Does the SOA receive a fair share of the economic profit?
"Fairness"			

Financial Criterion Net Present Value (NPV)

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Alaska's Clear and Equitable Share

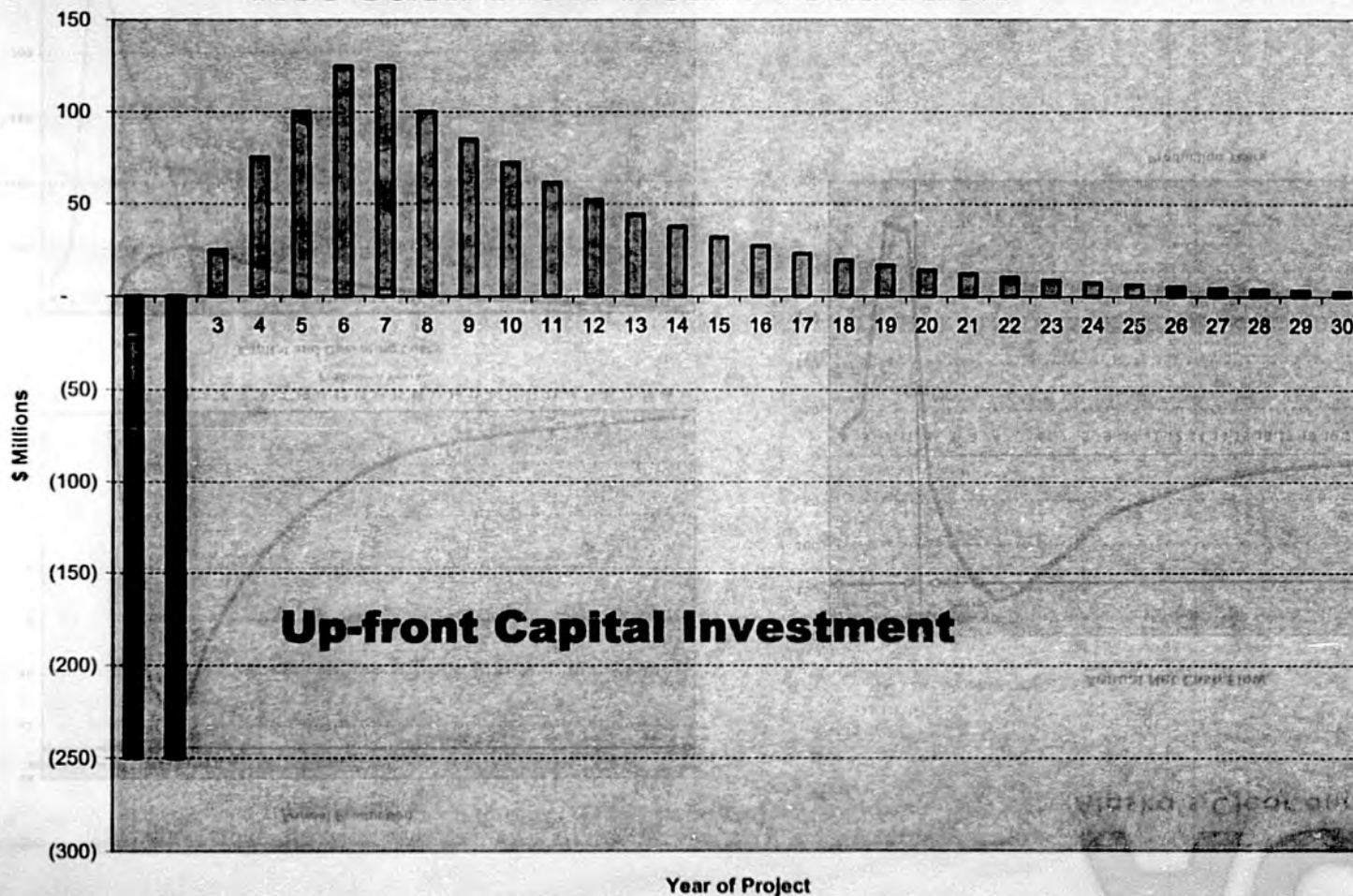
- **Present value of future cash flows including capital investment**
- **This is the “supreme” financial metric since a project with a positive NPV adds value to the firm**
 - **Value of the firm = PV of all future cash flows**
 - = PV of cash flows from assets in place**
 - + PV of cash flows from future investments**
- **Future cash flows discounted at rate that represents uncertainty of cash flows and when they are expected**
- **If a project generates cash in excess of that to compensate for the risk taken, the value of the firm increases**

Stylized Project Cash Flow

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Alaska's Clear and Equitable Share

Net Cash Flow from Production



Cash Flows for New Fields

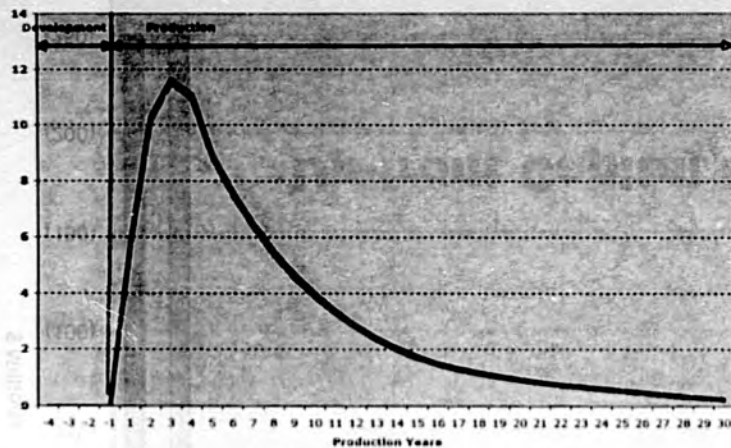
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Cash Flows for New Fields

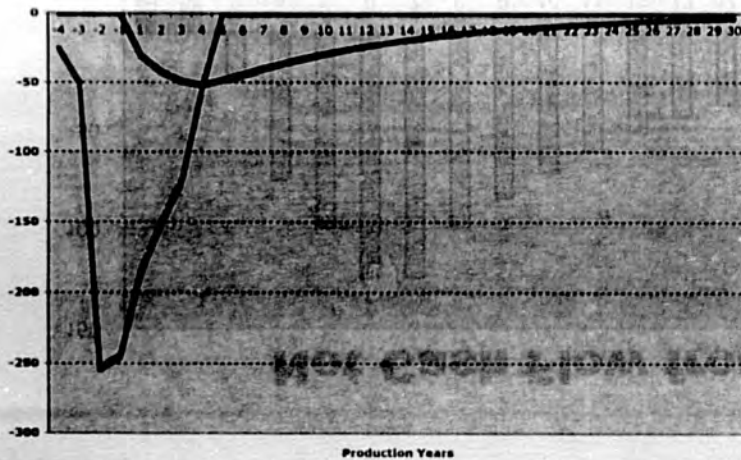
ACES

Alaska's Clear and Equitable Share

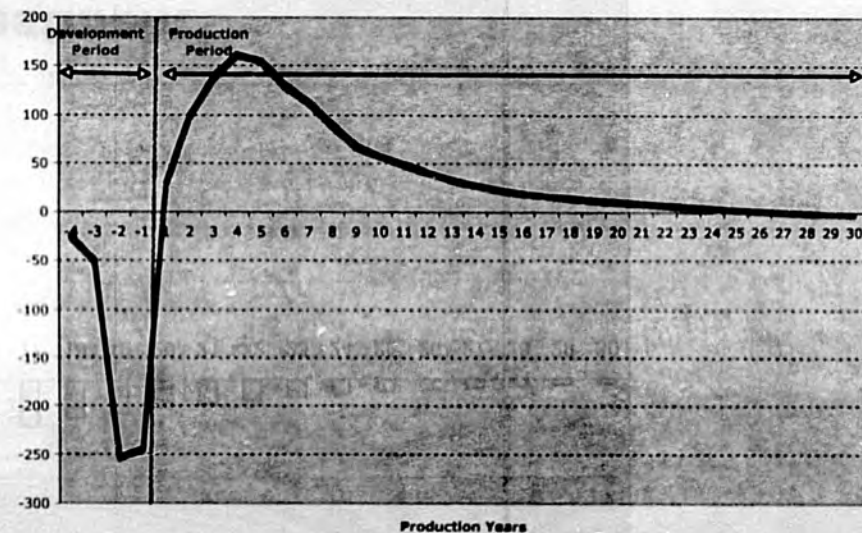
Annual Production



Capital and Operating Costs



Annual Net Cash Flow



Producer View of Future Oil Prices



Alaska's Clear and Equitable Share

- Producers have been “burned” by forecasts of high oil prices in the past
- The consequences of error are not symmetrical
- Producers will test their projects against a price path that is below their “Most Likely” view
 - They use the “official price view” as a speed limit to signal caution
 - By “high-grading,” they will have a suite of projects resilient to price risk
 - Their price view lags the current market price by as much as 5-7 years as prices rise, and by 2 years as prices fall.
 - Current “best guess” view might be: \$50/barrel
 - Producers will also “stress” test their projects at \$40/barrel

Common Assumptions Used In Analyses

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For comparing results, we have used a common set of assumptions:

- **Oil prices:**
 - **Base case price; \$60**
 - **Stress test price: \$40**
 - **Analysis done at price continuum from \$20 to \$100**
- **Inflation: 3% per year**
- **Producer discount rate: 10% and 15% (results shown at 10%)**
- **State discount rate: 5% and 8% (results shown at 5%)**

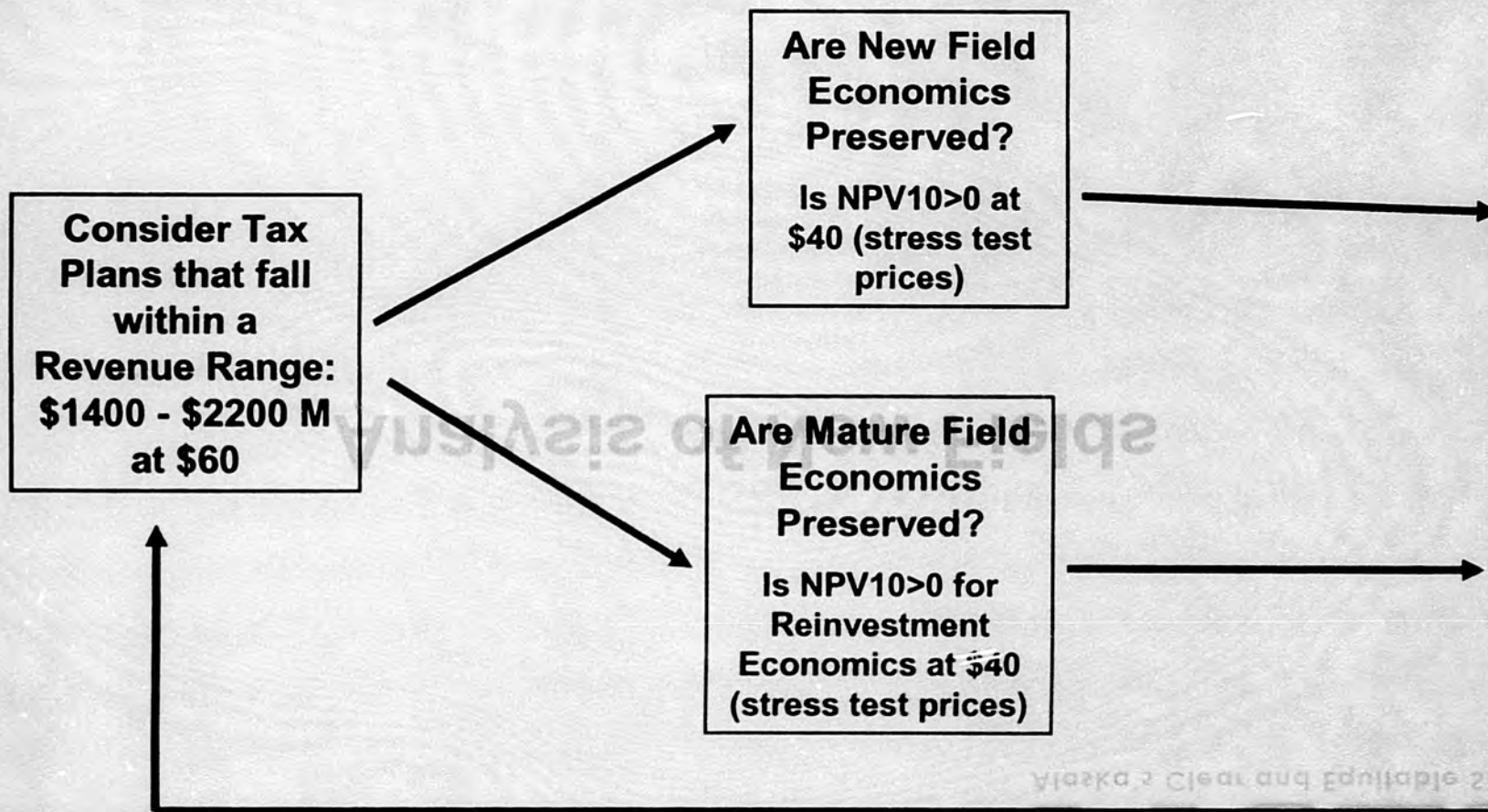
Alaska's Clear and Equitable Share

VCE2

Tax Plan Evaluation Process

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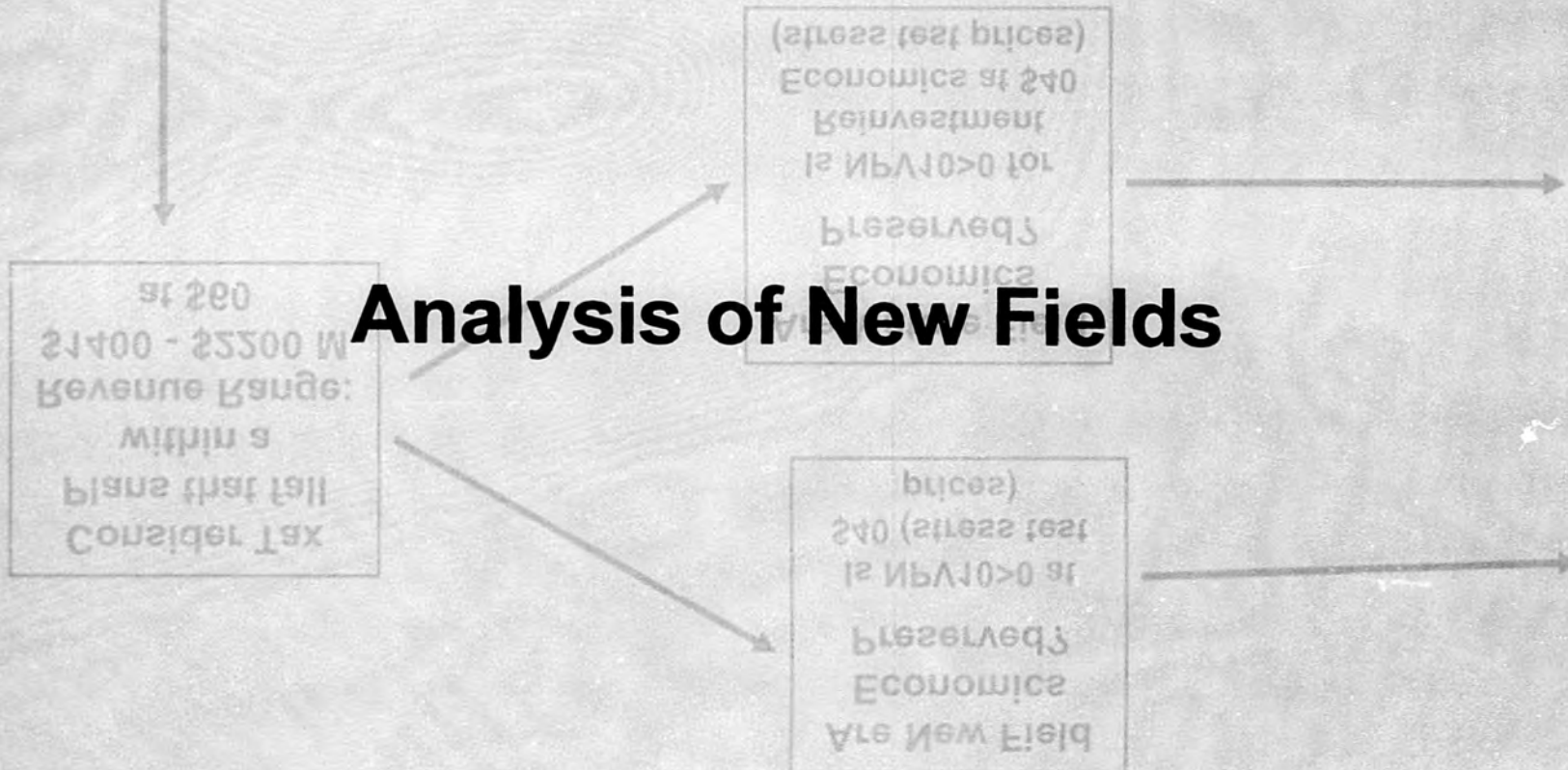
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Analysis of New Fields



Tax Plan Evaluation Process

Seven New-Fields Analysis



- Hypothetical fields based on operating and capital costs, and production profiles of known field types
- Source of information derived from publicly available data, and industry information supplied in state agency interactions

D: Remote field

C: Satellite in existing unit

B: Offshore small reserves

A: Medium heavy oil satellite in existing mature unit

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Characteristics of Seven Fields

Characteristics of Seven Fields

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A: Medium heavy oil satellite in existing mature unit

B: Offshore small reserves

C: Satellite in existing unit

D: Remote field

E: New unit with very heavy oil

F: Offshore medium reserves

G: New unit with large reserves

- Reserves range from 40 to 300 MB
- Various combinations of ownerships among incumbents, small producers, new entrants



Alaska's Clear and Equitable Share

Characteristics of the Seven Fields

	Field A	Field B	Field C	Field D	Field E	Field F	Field G
Legacy Field	●						
Satellite	●	●	●		●		
Stand Alone				●		●	●
Heavy Oil	●				●		
Reserves (MMB)	80	60	40	200	100	120	320
Ownership	Existing	New	Existing	New	Existing	New	Existing
Capital (\$ / B)	\$11	\$10	\$11	\$13	\$16	\$8	\$5
Expense (\$ / B)	\$7	\$9	\$8	\$12	\$8	\$5	\$6

Tax Scenarios

(A small sample of scenarios considered)

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Alaska's Clear and Equitable Share

- Net

- ACES: 10% Floor
- ACES: No Floor
- PPT (Status Quo)
- 35% Mature Fields / 22.5% Other

- Gross

- 13% / No credits
- 16% / With 20% credits
- 16% / No credits
- 19% / With 20% credits
- Back-end loaded progressive tax table / With 20% Credits

**** All Models use a progressivity factor**

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DESCRIPTION OF NEW FIELD MODEL

Alaska's Clear and Equitable Share

CASH FLOW SCHEMATIC FOR SINGLE YEAR

TOTAL REVENUES: (VOLUME X ANS WEST COAST PRICE)

Less:

Shipping
TAPS Tariff =

☐ GROSS VALUE (AT THE POINT OF PRODUCTION)

Less:

Upstream Capital Costs
Upstream Operating Costs =

DIVISIBLE INCOME

Less:

Royalties =

TAXABLE INCOME FOR PRODUCTION TAX

Less:

Production Tax =

TAXABLE INCOME FOR INCOME TAX

Less:

State Corporate Income Tax
Federal Corporate Income Tax =

NET CASH FLOW FOR A SINGLE YEAR

NET PRESENT VALUE

DISCOUNTED NET CASH FLOW YEAR 1

+ DISCOUNTED NET CASH FLOW YEAR 2

+ DISCOUNTED NET CASH FLOW YEAR 3

+ DISCOUNTED NET CASH FLOW YEAR 4

+ DISCOUNTED NET CASH FLOW YEAR 5

+ DISCOUNTED NET CASH FLOW YEAR 6

+ DISCOUNTED NET CASH FLOW YEAR 7

+ DISCOUNTED NET CASH FLOW YEAR 8

+ DISCOUNTED NET CASH FLOW YEAR 9

+ DISCOUNTED NET CASH FLOW YEAR 10

+ DISCOUNTED NET CASH FLOW YEAR ...

+ DISCOUNTED NET CASH FLOW YEAR ...

+ DISCOUNTED NET CASH FLOW YEAR ...

+ DISCOUNTED NET CASH FLOW YEAR Last Year =

NET PRESENT VALUE

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New Field Tax Analysis - NPV Impact

NET PRODUCTION TAX SCENARIOS

Scenario	Rate		Progressivity		Capital	Industry NPV @ 10% at \$40/bbl real ANS WC (mm\$)						
	Mature Fields	Other Fields	Trigger	Rate	Investment Credit	Field A	Field B	Field C	Field D	Field E	Field F	Field G
ACES - 10% Floor	25.0%	25.0%	\$30	0.0020	20%	10	60	40	40	(500)	210	1,000
ACES - NO Floor	25.0%	25.0%	\$30	0.0020	20%	120	60	40	40	(300)	210	1,000
PPT Status Quo	22.5%	22.5%	\$40	0.0025	20%	180	50	60	10	(200)	220	1,100
High Net Tax	35.0%	22.5%	\$30	0.0030	20%	150	50	50	0	(200)	140	1,100

GROSS PRODUCTION TAX SCENARIOS

Scenario	Rate (All Fields)	Other Incentives	Progressivity		Capital Investment Credit	Industry NPV @ 10% at \$40/bbl real ANS WC (mm\$)						
			Trigger	Rate		Field A	Field B	Field C	Field D	Field E	Field F	Field G
Low Rate - No Credits	13%		\$40	0.0020	None	(30)	(40)	(30)	(500)	(600)	80	700
Medium rate	16%		\$40	0.0020	20%	30	0	0	(300)	(500)	130	800
Former Tax no ELF	16%		NA	NA	none	(40)	(50)	(30)	(400)	(600)	80	800
High Rate Flat Tax	19%		NA	NA	20%	20	(10)	0	(300)	(500)	130	900
Sliding Scale	Tax Table	5 Yr Holiday	NA	NA	20%	130	40	40	20	(400)	180	1,100

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New Field Tax Analysis - NPV Impact

NET PROFIT TAX SCENARIOS

Case	Tax Rate		Progressivity		Capital
	Mature	Other	Trigger	Rate	Investment
	Fields	Fields			Credit
ACES - 10% Floor	25%	25%	\$30	0%	20%
ACES - NO Floor	25%	25%	\$30	0%	20%
PPT Status Quo	23%	23%	\$40	0%	20%
High Net Tax	35%	23%	\$30	0%	20%

State NPV at 5% at \$60/bbl ANS WC (mm\$)

Field A	Field B	Field C	Field D	Field E	Field F	Field G
1,000	530	610	2,000	1,000	1,800	5,700
1,000	530	610	2,000	740	1,800	5,700
850	500	550	1,800	480	1,700	5,300
1,100	550	580	2,000	590	1,800	5,700

Median Government Take By Tax Structures

**"Cradle to Grave" Government Share of Pre-Tax Income
Discounted at 10% @ \$60 (Applicable to New Fields)**

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Median Government Take By Tax Structures

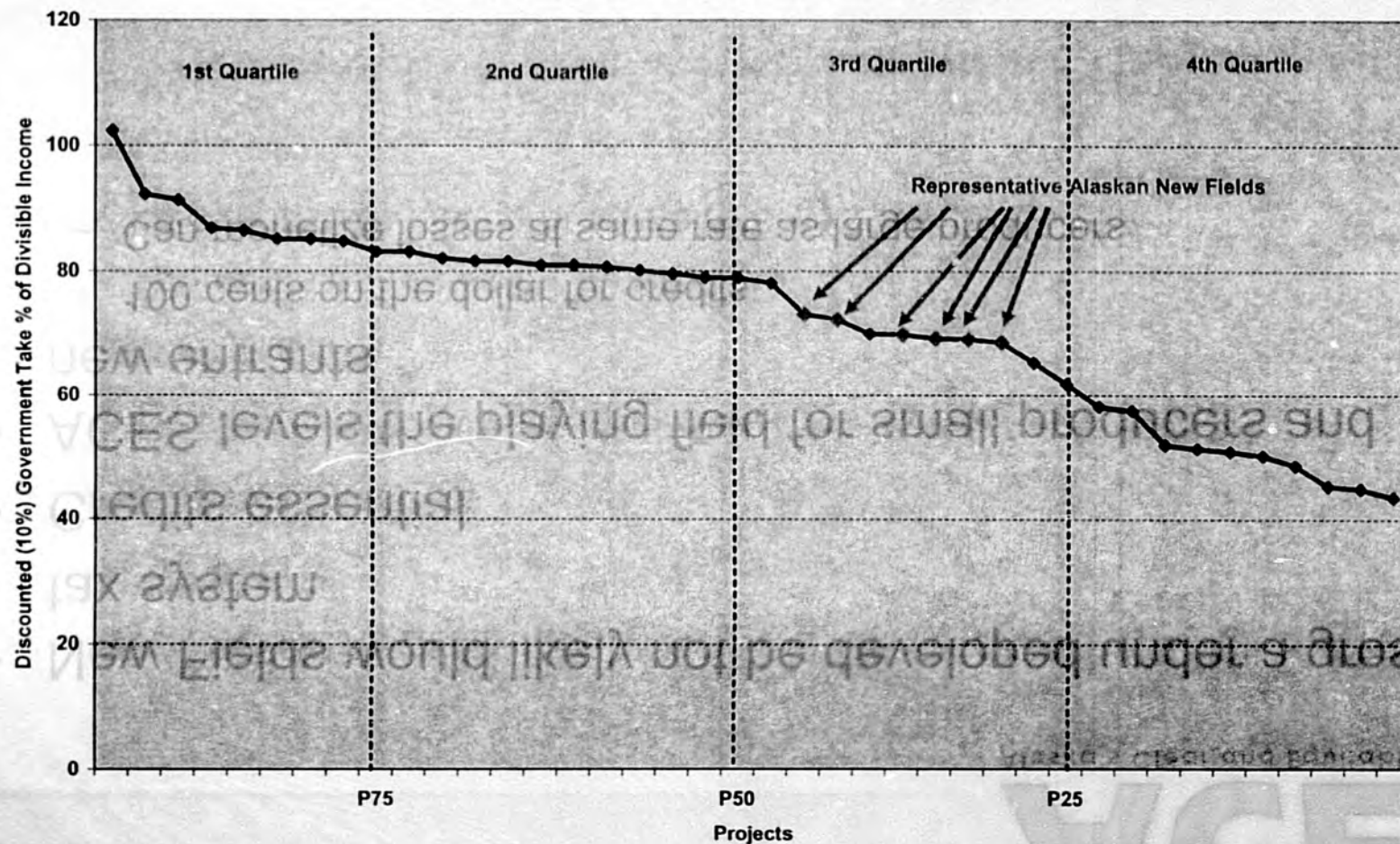
	Median (Mid-Point)
All Governments	48%
Profit Sharing Governments	76%
Tax Royalty Governments	50%
Norway	81%
Alaska - ACES Six Potential New Fields	68% to 74% (Median 70%)
Alaska - PPT Six Potential New Fields	65% to 72% (Median 68%)
UK	51%
Gulf of Mexico	48%

Source: PFC Study September 2007, Alaska data by DOR

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Discounted Government Take @ \$60
Tax & Royalty Fiscal Regimes (excluding GOM)

Alaska's Clear and Equitable Share



Conclusions

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Alaska's Clear and Equitable Share

- New Fields would likely not be developed under a gross tax system
- Credits essential
- ACES levels the playing field for small producers and new entrants
 - 100 cents on the dollar for credits
 - Can monetize losses at same rate as large producers

Tax & Royalty Fiscal Regimes (excluding GOM)
Discounted Government Take @ 250

Alaska's Clear and Equitable Share

VCE2

NPV of Harvest

- Compare the NPV of Reinvestment with the exclusive project
- Treat each mode as a separate (mutually exclusive) project
 - Reinvestment: assume 10% decline
 - Harvest: allow field to decline naturally (12% decline)

Analysis of Mature Fields

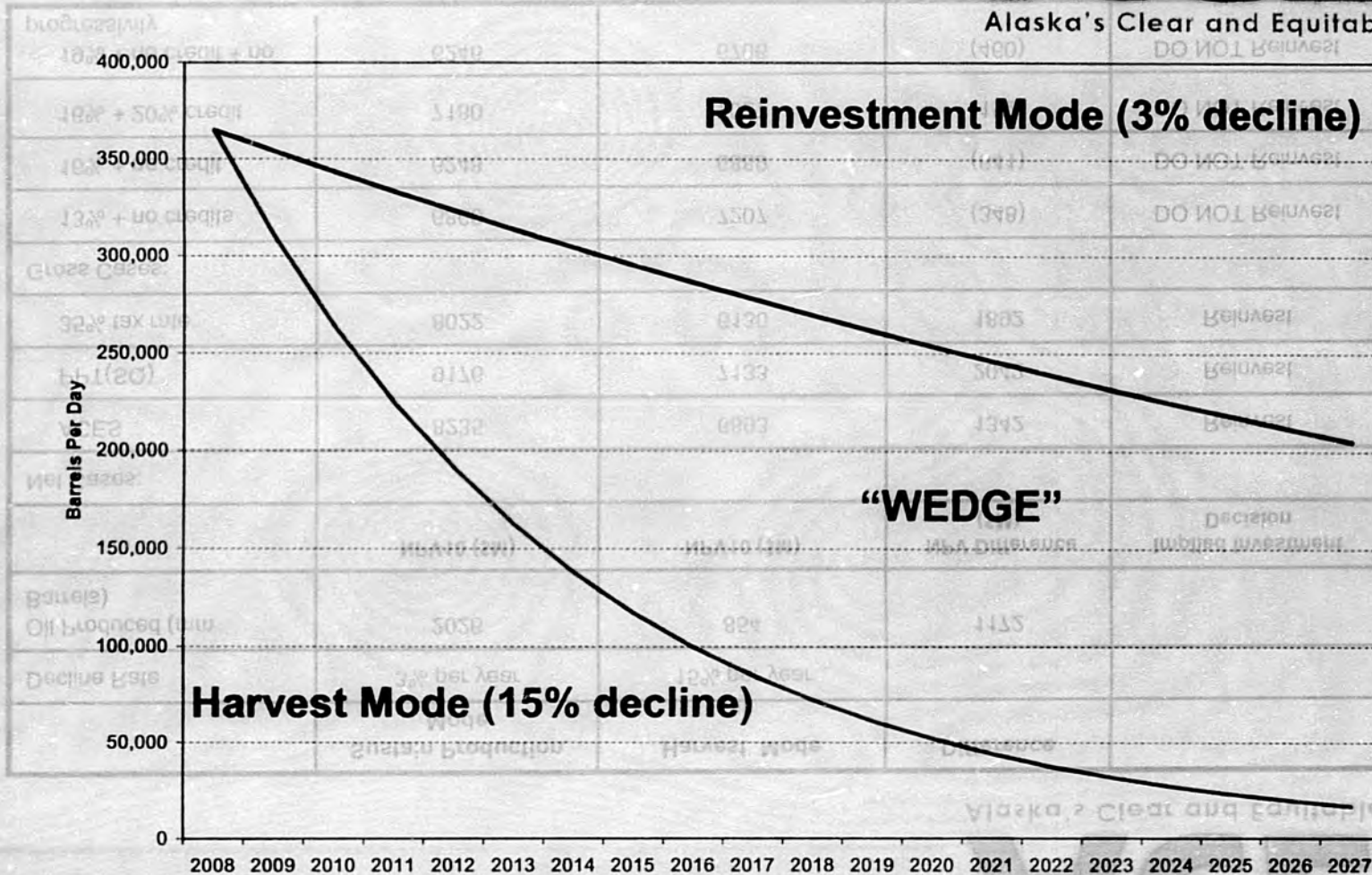
- Consider two modes:
 - Reinvestment: requires substantial capital
 - Harvest: requires less capital
- Recognize that reinvestment requires
- Hampered by lack of specific knowledge

- Hampered by lack of specific knowledge
- Recognize that reinvestment requires substantial capital
- Consider two modes:
 - Harvest: allow field to decline naturally (15% decline)
 - Reinvestment: invest to stem decline (3% decline)
- Treat each mode as a separate (mutually exclusive) project
- Compare the NPV of Reinvestment with the NPV of Harvest

Legacy Field Scenarios

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Legacy Field Reinvestment Comparison @ \$40

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	Sustain Production Mode	Harvest Mode	Difference	
Decline Rate	3% per year	15% per year		
Oil Produced (mm Barrels)	2026	854	1172	
	NPV10 (\$M)	NPV10 (\$M)	NPV Difference (\$M)	Implied Investment Decision
Net Cases:				
ACES	8235	6893	1342	Reinvest
PPT(SQ)	9176	7133	2042	Reinvest
35% tax rate	8022	6130	1892	Reinvest
Gross Cases:				
13% + no credits	6860	7207	(348)	DO NOT Reinvest
16% + no credit	6248	6889	(641)	DO NOT Reinvest
16% + 20% credit	7180	7027	152	DO NOT Reinvest
19% + no credit + no progressivity	6246	6706	(460)	DO NOT Reinvest

Assumes: 20 year horizon, OPEX+CAPEX=\$5/BOE for Harvest, \$15/BOE for Reinvestment. All cases assume 26 progressivity unless noted.

How Much of a \$1.00 Oil Price Increase is Captured by Producer

(Mature fields - In production > 10 years)

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Alaska's Clear and Equitable Share

Governmental Tax Structures

	Median (Mid-Point)
All Governments	57¢
Production Sharing Governments	15¢
Tax Royalty Governments	57¢
Norway	22¢
Alaska - ACES	35¢
Alaska - PPT (Status Quo)	39¢
UK	50¢
Gulf of Mexico	57¢

Source: PFC Study, September 2007. Alaska data by DOR using FY 2008 estimates

Marginal Government Take @ \$60
Tax & Royalty Tax Regimes (excluding GOM)
Mature Fields

ACES

ire

