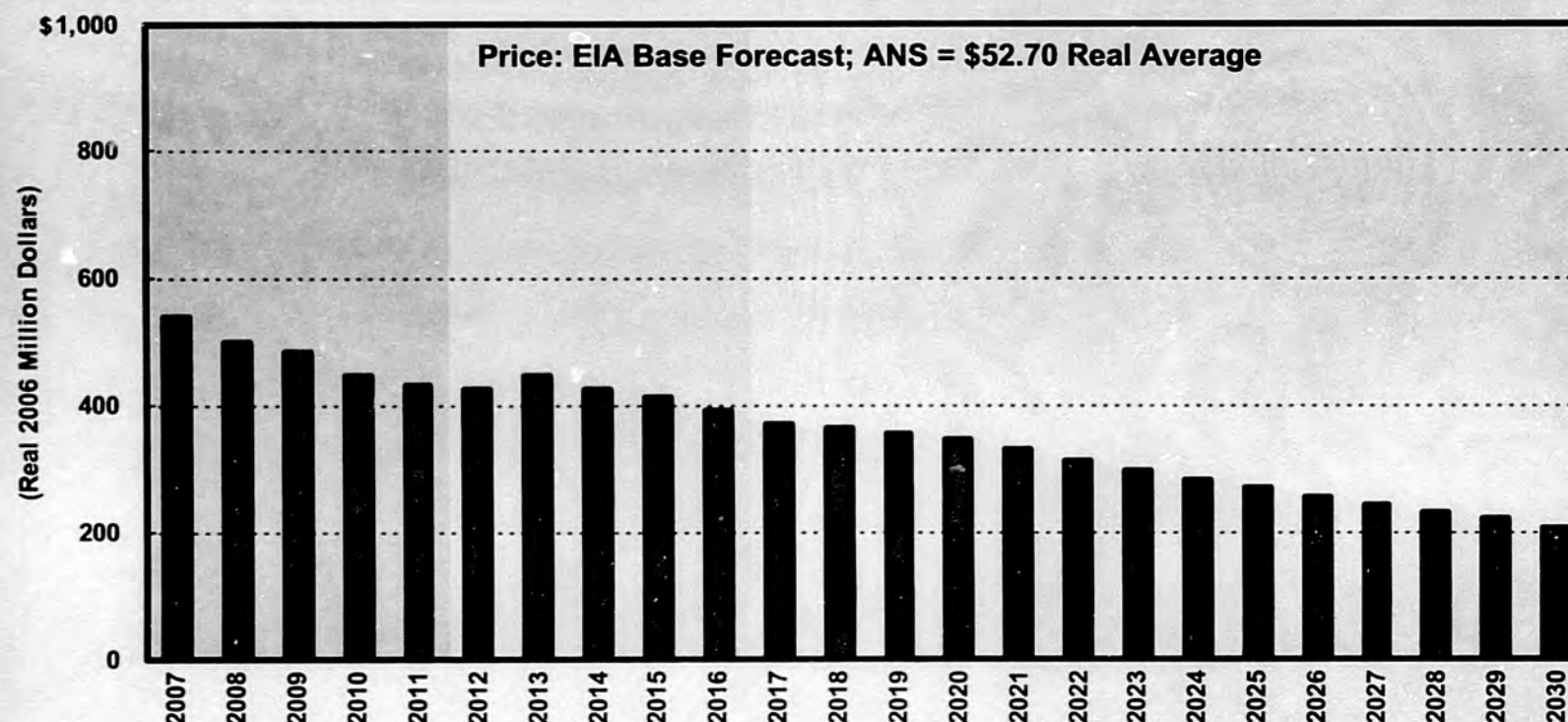


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Difference in Projected Taxes Between a 25/20 and a 20/20 Tax DOR Forecast Production (FY 2007-2030)*



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from 20/20 PPT Tax (\$Million)	\$2,398	\$4,497	\$8,584
Annual Average Difference from 20/20 PPT Tax (\$Million)	\$480	\$450	\$358
25/20 PPT Effective Tax Rate (Percent)	15.8%	16.0%	16.4%
20/20 PPT Effective Tax Rate (Percent)	12.2%	12.4%	12.6%

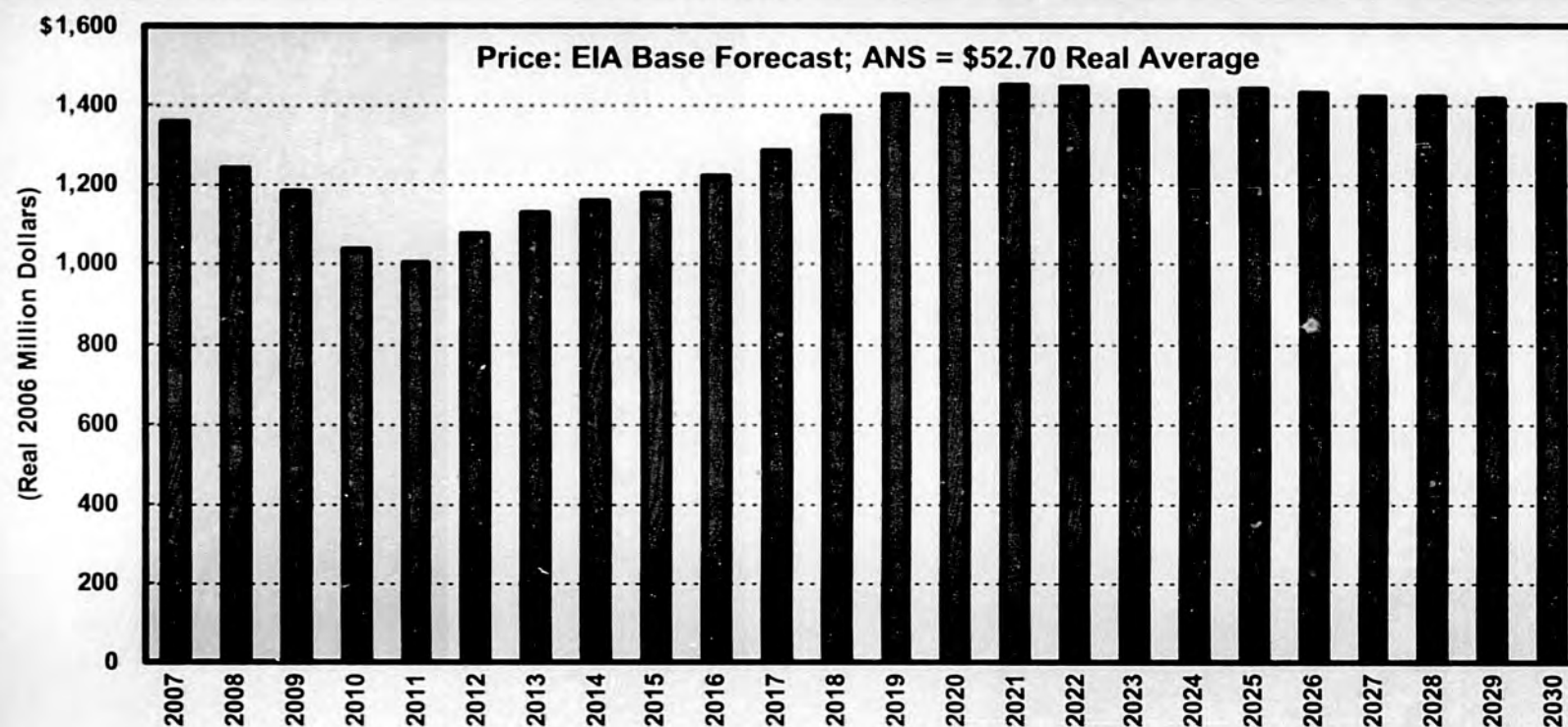
* Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection

Difference in Projected Taxes Between a 25/20 and a 20/20 Tax DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	-	-	-
FY 2007-2011							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$2,398	\$2,021	\$2,855	\$1,610	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$480	\$404	\$571	\$322	-	-	-
25/20 PPT Effective Tax Rate (Percent)	15.8%	14.8%	16.9%	14.1%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.2%	11.4%	13.2%	10.7%	-	-	-
FY 2007-2016							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$4,497	\$3,126	\$5,969	\$3,162	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$450	\$313	\$597	\$316	-	-	-
25/20 PPT Effective Tax Rate (Percent)	16.0%	13.6%	17.7%	14.2%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.4%	10.3%	13.8%	10.8%	-	-	-
FY 2007-2030							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$8,584	\$4,462	\$12,455	\$5,814	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$358	\$186	\$519	\$242	-	-	-
25/20 PPT Effective Tax Rate (Percent)	16.4%	11.7%	18.5%	14.0%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.6%	8.7%	14.5%	10.6%	-	-	-

Change in Projected Taxes Under the House Resources CS DOR Forecast Production (FY 2007-2030)*

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	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from SQ (\$Million)	\$5,823	\$11,578	\$31,386
Annual Average Difference from SQ (\$Million)	\$1,165	\$1,158	\$1,308
PPT Effective Tax Rate (Percent)	15.8%	15.7%	18.4%
SQ Effective Tax Rate (Percent)	7.1%	6.3%	4.9%

* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Change in Projected Taxes Under the House Resources CS DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$30.30	\$28.30	\$25.40
FY 2007-2011							
Total Difference from Status Quo (Million 2006\$)	\$5,823	\$3,794	\$8,602	\$1,703	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,165	\$759	\$1,720	\$341	\$0	-	-
House Resources CS Effective Tax Rate (Percent)	15.8%	13.7%	18.4%	10.7%	7.2%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.2%	-	-
FY 2007-2016							
Total Difference from Status Quo (Million 2006\$)	\$11,578	\$4,993	\$21,512	\$4,310	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,158	\$499	\$2,151	\$431	-	\$0	-
House Resources CS Effective Tax Rate (Percent)	15.7%	11.8%	20.3%	10.9%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-
FY 2007-2030							
Total Difference from Status Quo (Million 2006\$)	\$31,386	\$7,186	\$75,604	\$13,246	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,308	\$299	\$3,150	\$552	-	-	\$0
House Resources CS Effective Tax Rate (Percent)	18.4%	10.3%	29.2%	12.6%	-	-	5.0%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	5.0%

* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Change in Projected Taxes Under the House Resources CS Costs Increased by 20% DOR Forecast Production (FY 2007-2030)*

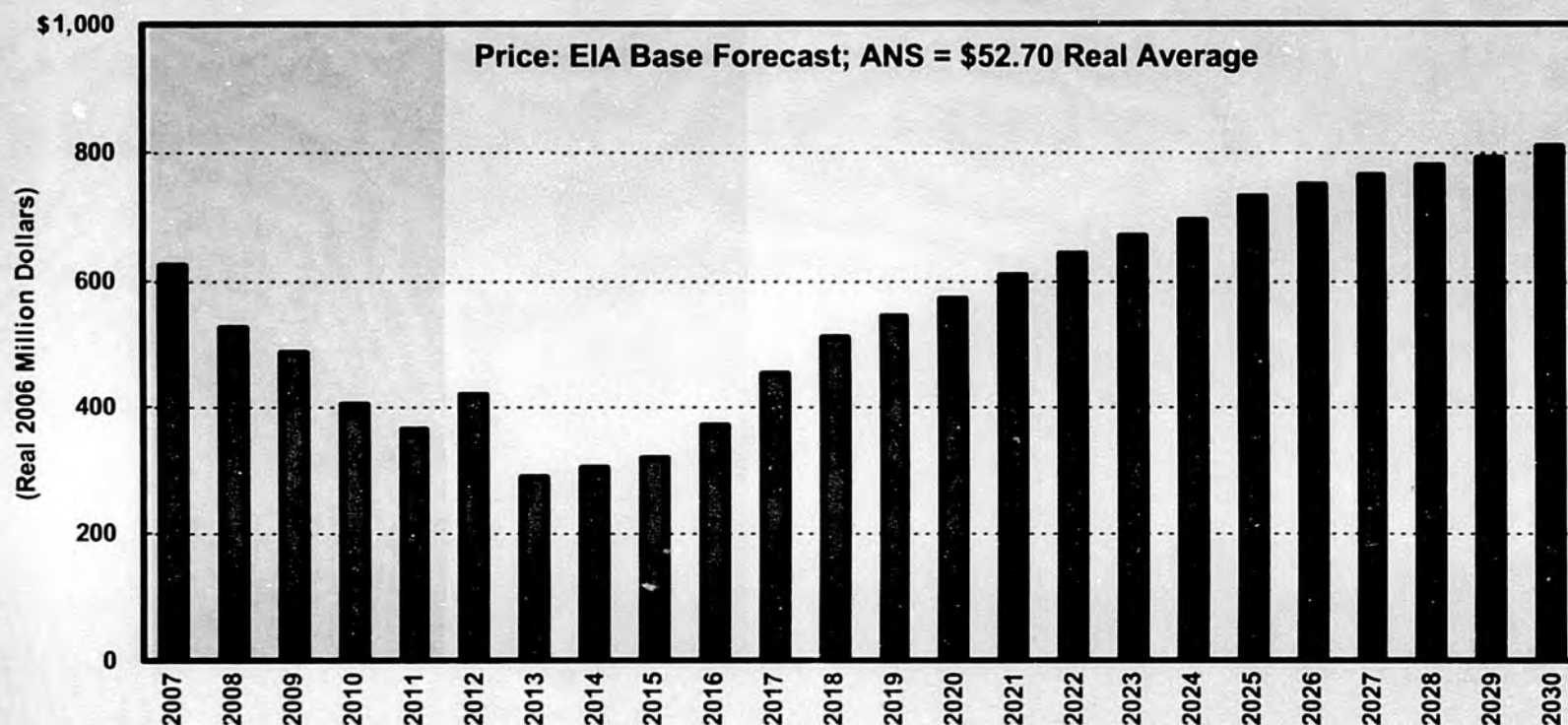
73

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$34.60	\$32.30	\$29.00
FY 2007-2011							
Total Difference from Status Quo (Million 2006\$)	\$5,064	\$3,035	\$7,843	\$944	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,013	\$607	\$1,569	\$189	\$0	-	-
House Resources CS Effective Tax Rate (Percent)	14.7%	12.4%	17.4%	9.1%	7.1%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.1%	-	-
FY 2007-2016							
Total Difference from Status Quo (Million 2006\$)	\$10,109	\$3,524	\$20,043	\$2,841	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,011	\$352	\$2,004	\$284	-	\$0	-
House Resources CS Effective Tax Rate (Percent)	14.5%	10.2%	19.3%	9.3%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-
FY 2007-2030							
Total Difference from Status Quo (Million 2006\$)	\$28,635	\$4,435	\$72,854	\$1,496	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,193	\$185	\$3,036	\$437	-	-	\$0
House Resources CS Effective Tax Rate (Percent)	17.3%	8.4%	28.3%	11.0%	-	-	4.9%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	4.9%

* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

Difference in Projected Taxes Between the House Resources CS¹ and a 20/20² Tax DOR Forecast Production (FY 2007-2030)

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	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from 20/20 PPT Tax (\$Million)	\$2,405	\$4,107	\$13,415
Annual Average Difference from 20/20 PPT Tax (\$Million)	\$481	\$411	\$559
House Resources CS Effective Tax Rate (Percent)	15.8%	15.7%	18.4%
20/20 PPT Effective Tax Rate (Percent)	12.2%	12.4%	12.6%

¹ Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection

Difference in Projected Taxes Between the House Resources CS¹ and a 20/20² Tax DOR Forecast Production (FY 2007-2030)

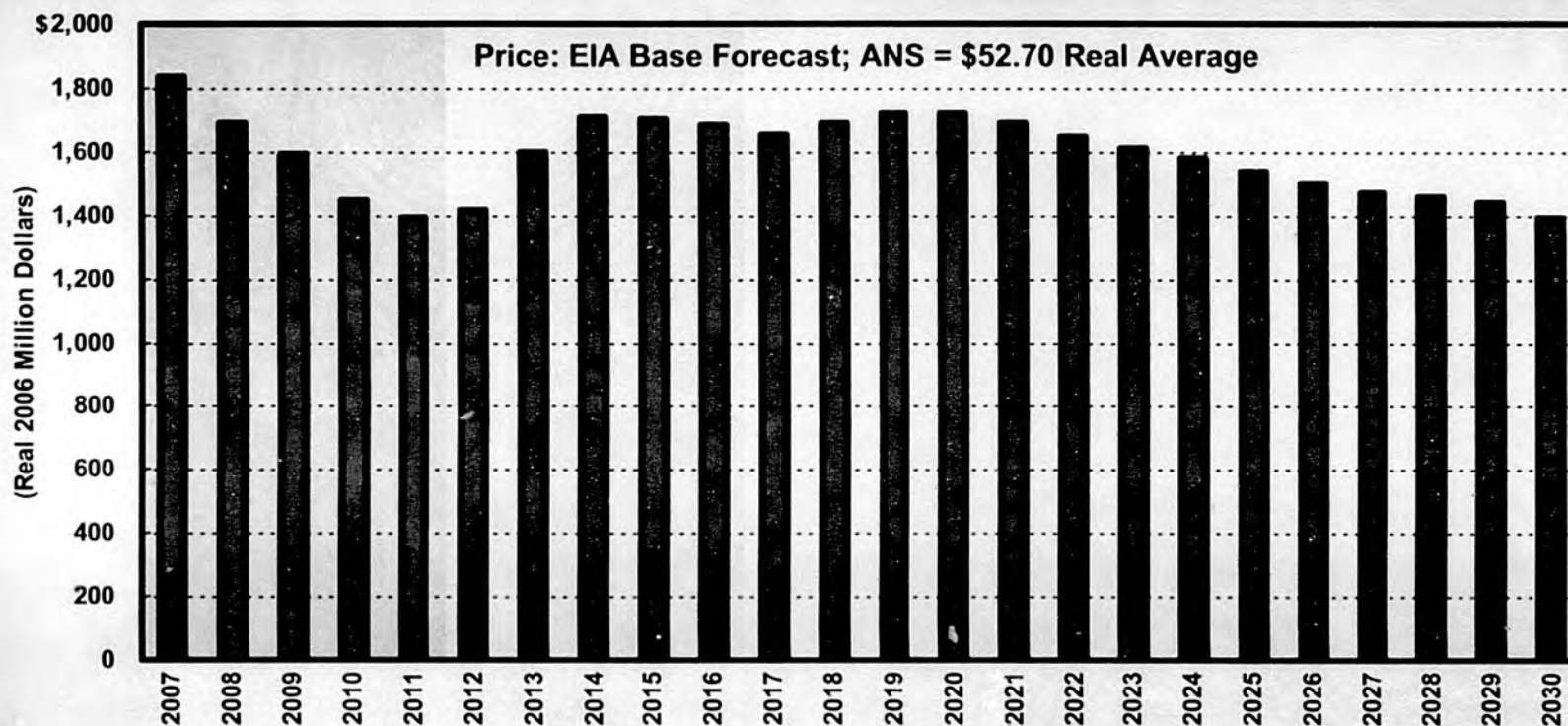
75

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	-	-	-
FY 2007-2011							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$2,405	\$1,335	\$3,965	\$29	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$481	\$267	\$793	\$6	-	-	-
House Resources CS Effective Tax Rate (Percent)	15.8%	13.7%	18.4%	10.7%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.2%	11.4%	13.2%	10.7%	-	-	-
FY 2007-2016							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$4,107	\$1,380	\$9,824	\$154	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$411	\$138	\$982	\$15	-	-	-
House Resources CS Effective Tax Rate (Percent)	15.7%	11.8%	20.3%	10.9%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.4%	10.3%	13.8%	10.8%	-	-	-
FY 2007-2030							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$13,415	\$2,362	\$45,342	\$3,450	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$559	\$98	\$1,889	\$144	-	-	-
House Resources CS Effective Tax Rate (Percent)	18.4%	10.3%	29.2%	12.6%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.6%	8.7%	14.5%	10.6%	-	-	-

¹ Calculated from April 2006. \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from July 2006. includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies. volumes per DOR Fall 2005 Forecast with Oooguruk projection

Change in Projected Taxes Under the Senate Resources CS DOR Forecast Production (FY 2007-2030)*



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from SQ (\$Million)	\$7,955	\$16,061	\$38,179
Annual Average Difference from SQ (\$Million)	\$1,521	\$1,606	\$1,591
Senate Resources CS Effective Tax Rate (Percent)	19.0%	19.3%	21.4%
SQ Effective Tax Rate (Percent)	7.1%	6.3%	4.9%

* Calculated from April 2006, includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection

Change in Projected Taxes Under the Senate Resources CS DOR Forecast Production (FY 2007-2030)*

	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$28.30	\$25.50	\$23.10
FY 2007-2011							
Total Difference from Status Quo (Million 2006\$)	\$7,955	\$5,716	\$10,644	\$2,909	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,591	\$1,143	\$2,129	\$582	\$0	-	-
Senate Resources CS Effective Tax Rate (Percent)	19.0%	17.0%	21.1%	13.3%	7.2%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.2%	-	-
FY 2007-2016							
Total Difference from Status Quo (Million 2006\$)	\$16,061	\$8,192	\$25,540	\$7,641	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,606	\$819	\$2,554	\$764	-	\$0	-
Senate Resources CS Effective Tax Rate (Percent)	19.3%	15.2%	22.9%	14.6%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-
FY 2007-2030							
Total Difference from Status Quo (Million 2006\$)	\$38,179	\$12,112	\$68,505	\$19,417	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,591	\$505	\$2,854	\$809	-	-	\$0
Senate Resources CS Effective Tax Rate (Percent)	21.4%	13.6%	26.9%	16.2%	-	-	5.0%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	5.0%

* Calculated from April 2006; includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection

Change in Projected Taxes Under the Senate Resources CS Costs Increased by 20% DOR Forecast Production (FY 2007-2030)*

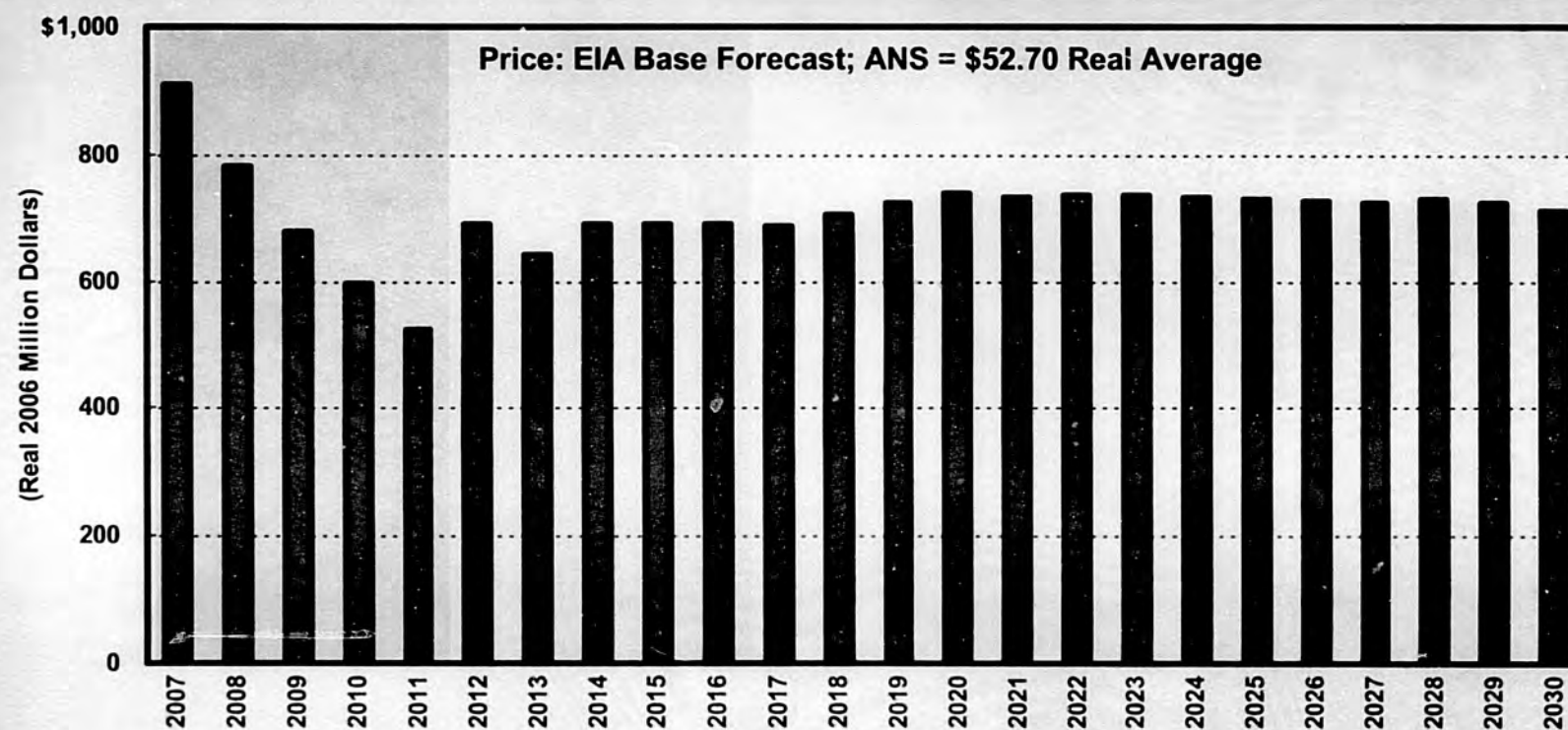
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	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$32.70	\$29.00	\$26.30
FY 2007-2011							
Total Difference from Status Quo (Million 2006\$)	\$6,901	\$4,662	\$9,590	\$1,855	\$0	-	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,380	\$932	\$1,918	\$371	\$0	-	-
Senate Resources CS Effective Tax Rate (Percent)	17.4%	15.2%	19.7%	11.0%	7.1%	-	-
Status Quo Effective Tax Rate (Percent)	7.1%	7.2%	7.1%	7.1%	7.1%	-	-
FY 2007-2016							
Total Difference from Status Quo (Million 2006\$)	\$14,353	\$6,484	\$23,832	\$5,933	-	\$0	-
Annual Average Difference from Status Quo (Million 2006\$)	\$1,435	\$648	\$2,383	\$593	-	\$0	-
Senate Resources CS Effective Tax Rate (Percent)	17.9%	13.4%	21.8%	12.7%	-	6.3%	-
Status Quo Effective Tax Rate (Percent)	6.3%	6.5%	6.2%	6.3%	-	6.3%	-
FY 2007-2030							
Total Difference from Status Quo (Million 2006\$)	\$34,987	\$8,920	\$65,313	\$16,225	-	-	\$0
Annual Average Difference from Status Quo (Million 2006\$)	\$1,458	\$372	\$2,721	\$676	-	-	\$0
Senate Resources CS Effective Tax Rate (Percent)	20.0%	11.4%	25.8%	14.4%	-	-	5.0%
Status Quo Effective Tax Rate (Percent)	4.9%	5.4%	4.7%	4.9%	-	-	5.0%

* Calculated from April 2006; includes transition (50% of capex over 17 years to maximum of \$5 Billion) and 15 BPD exemption volumes per DOR Fall 2005 Forecast with Oooguruk projection



Difference in Projected Taxes Between the Senate Resources CS¹ and a 20/20² Tax DOR Forecast Production (FY 2007-2030)



	FY 2007-2011	FY 2007-2016	FY 2007-2030
Total Difference from 20/20 PPT Tax (\$Million)	\$3,484	\$6,882	\$17,016
Annual Average Difference from 20/20 PPT Tax (\$Million)	\$697	\$688	\$709
Senate Resources CS Effective Tax Rate (Percent)	17.4%	17.9%	20.0%
20/20 PPT Effective Tax Rate (Percent)	12.2%	12.4%	12.6%

¹ Calculated from April 2006; includes transition (50% of capex over 1¹/₂ years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection

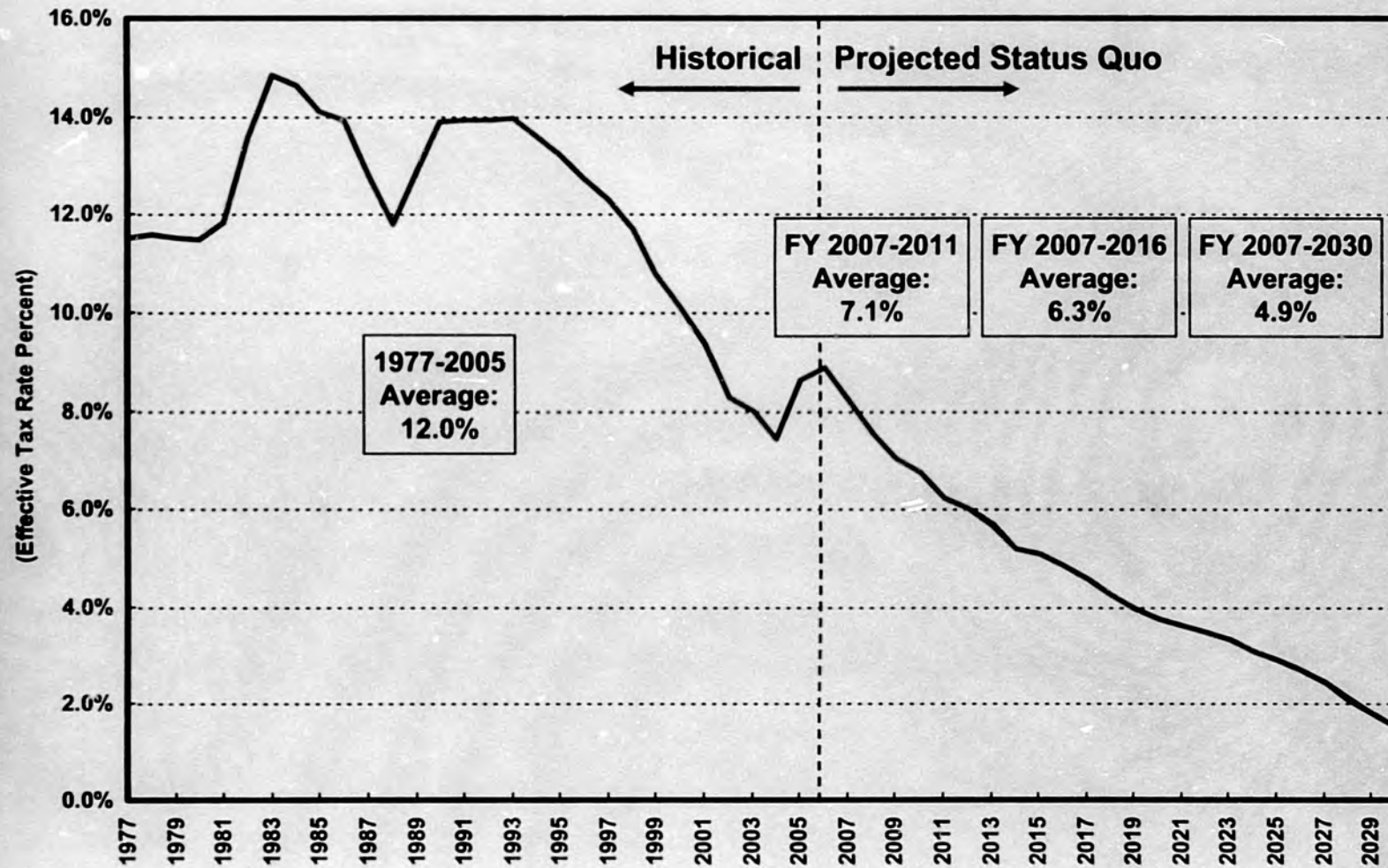
Difference in Projected Taxes Between the Senate Resources CS¹ and a 20/20² Tax DOR Forecast Production (FY 2007-2030)

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	EIA WTI Price Forecast:			Fixed \$40 ANS Price	FY2007-2011 Breakeven	FY2007-2016 Breakeven	FY2007-2030 Breakeven
	Base	Low	High				
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	-	-	-
FY 2007-2011							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$3,484	\$2,203	\$4,953	\$182	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$697	\$441	\$991	\$36	-	-	-
Senate Resources CS Effective Tax Rate (Percent)	17.4%	15.2%	19.7%	11.0%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.2%	11.4%	13.2%	10.7%	-	-	-
FY 2007-2016							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$6,882	\$2,870	\$12,144	\$1,778	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$688	\$287	\$1,214	\$178	-	-	-
Senate Resources CS Effective Tax Rate (Percent)	17.9%	13.4%	21.8%	12.7%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.4%	10.3%	13.8%	10.8%	-	-	-
FY 2007-2030							
Total Difference from 20/20 PPT Tax (Million 2006\$)	\$17,016	\$4,096	\$35,051	\$6,429	-	-	-
Annual Average Difference from 20/20 PPT Tax (Million 2006\$)	\$709	\$171	\$1,460	\$268	-	-	-
Senate Resources CS Effective Tax Rate (Percent)	20.0%	11.4%	25.8%	14.4%	-	-	-
20/20 PPT Effective Tax Rate (Percent)	12.6%	8.7%	14.5%	10.6%	-	-	-

¹ Calculated from April 2006, includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption, volumes per DOR Fall 2005 Forecast with Oooguruk projection.
² Calculated from July 2006, includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies, volumes per DOR Fall 2005 Forecast with Oooguruk projection.

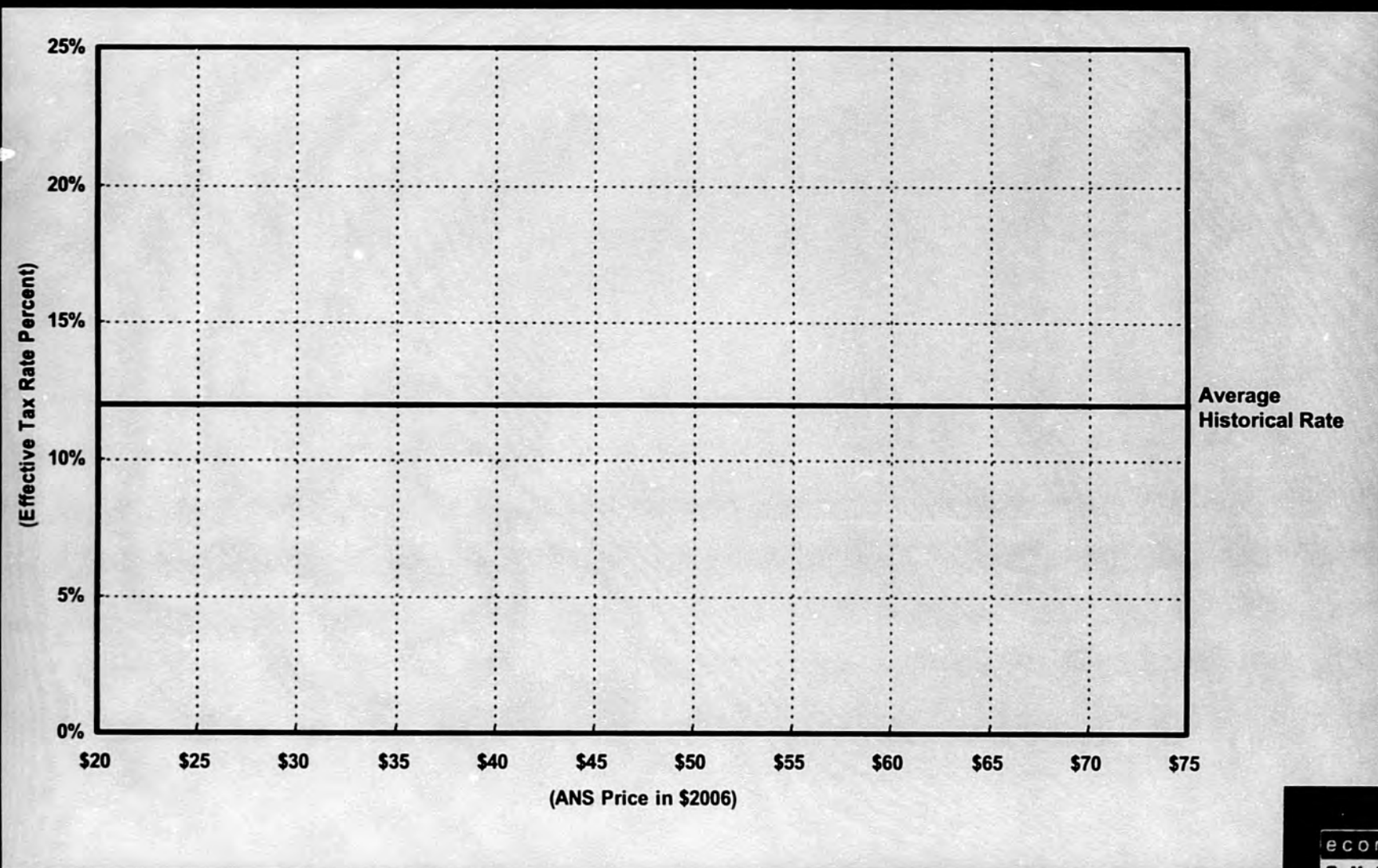
Effective Severance Tax Rates Over Time



Source: Historical: Alaska Department of Revenue

Effective Average Tax Rates at Various Price Levels

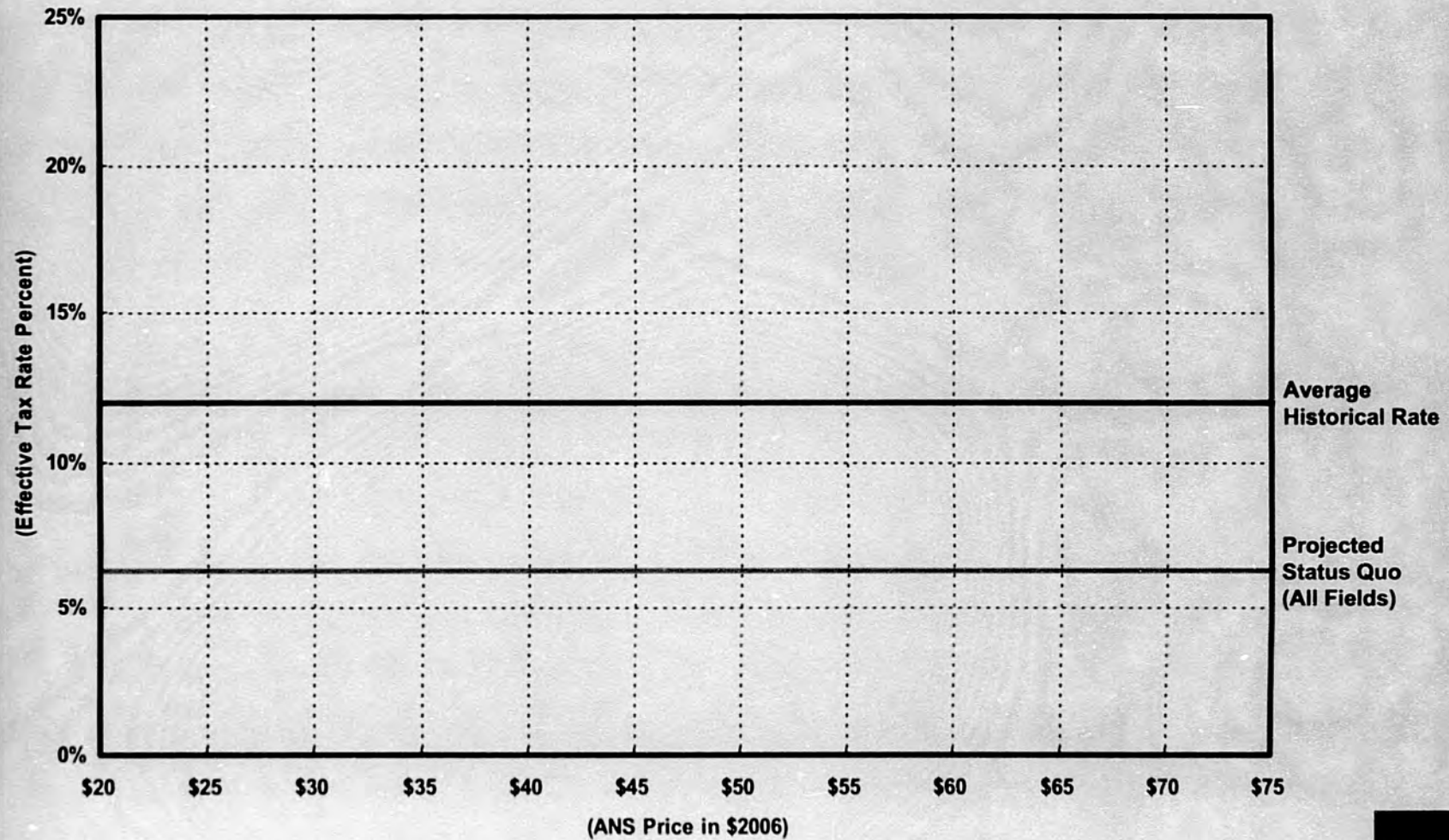
(FY 2007-2016)



Source: Alaska Department of Revenue.

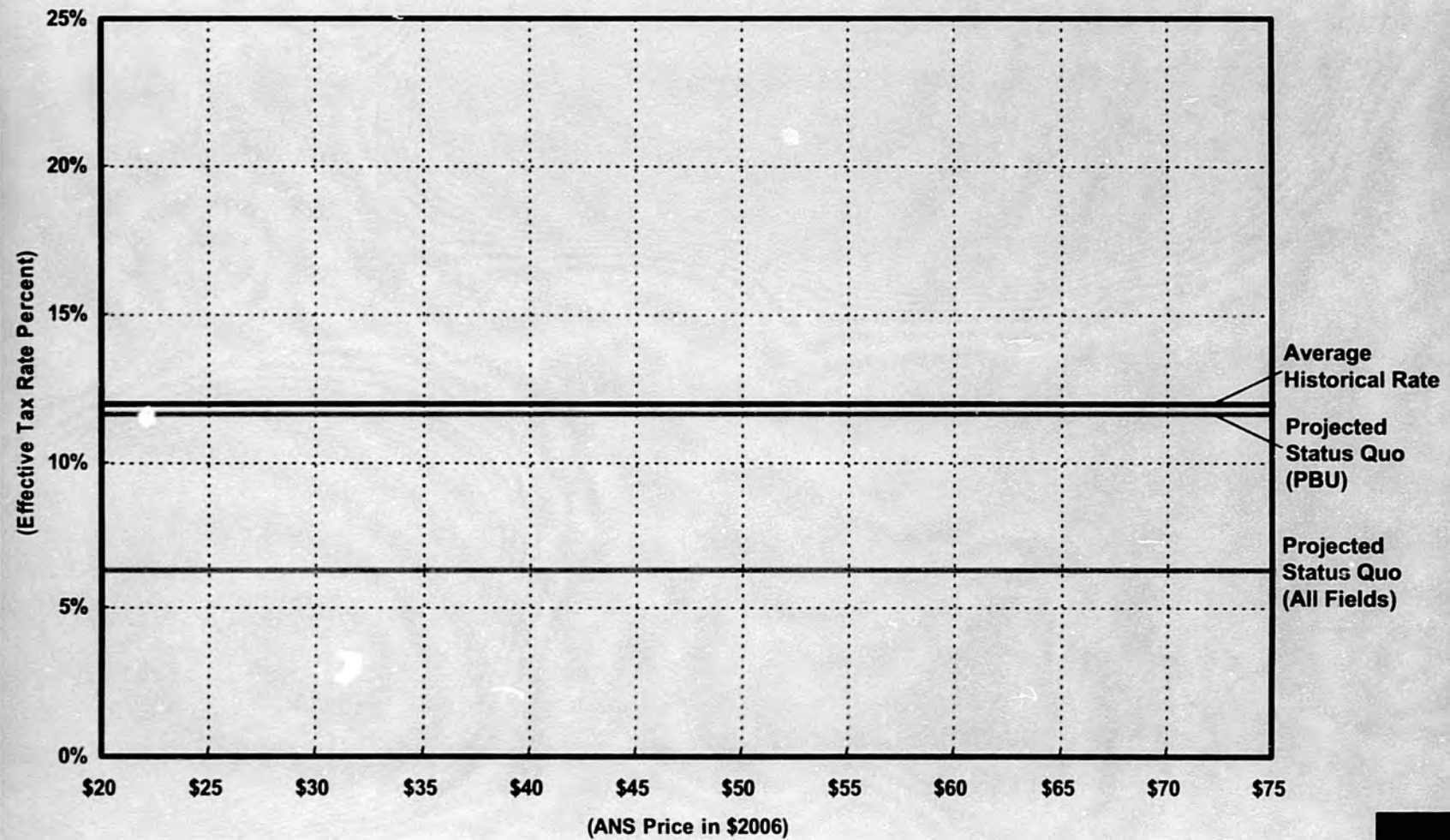


Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



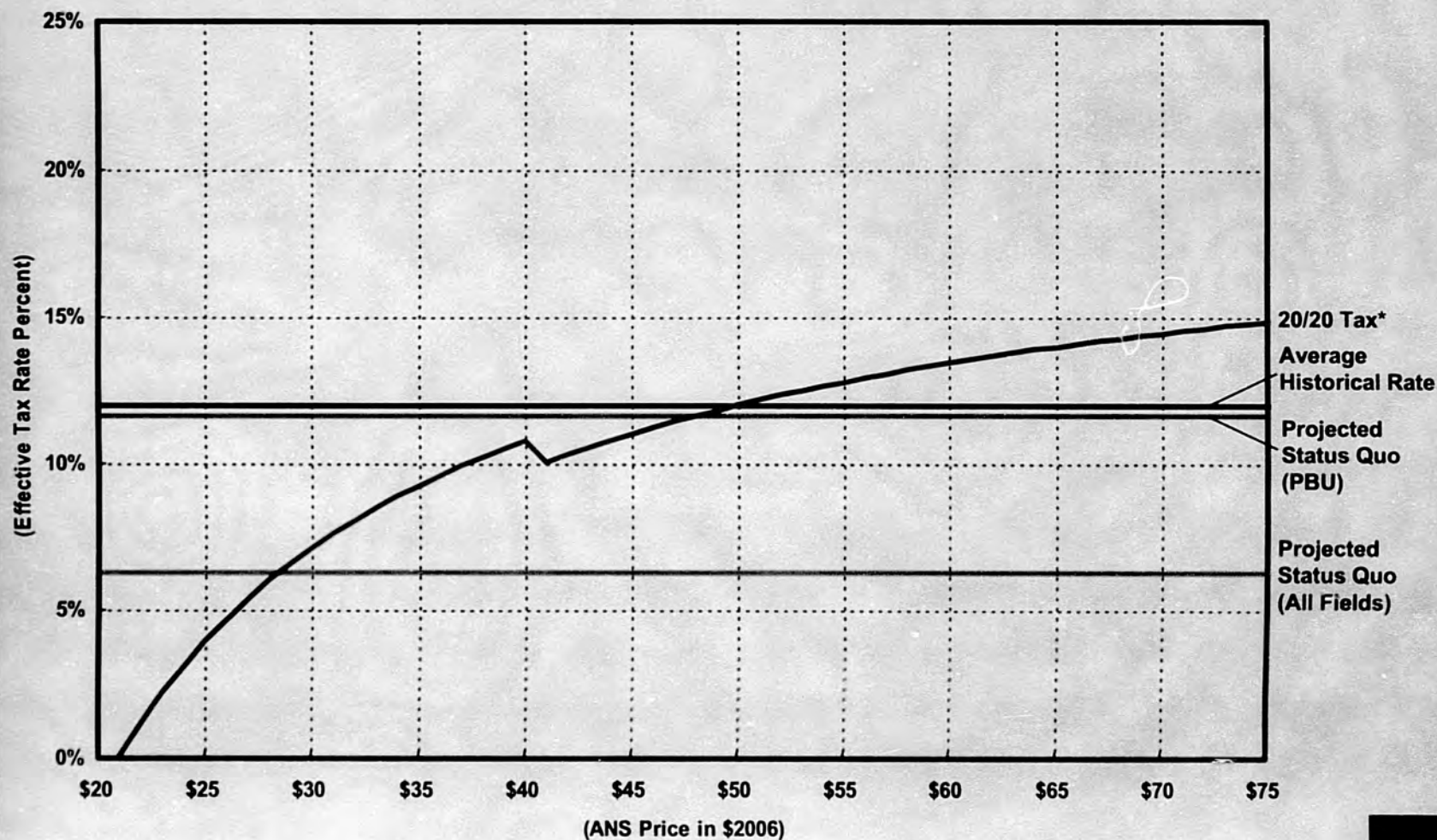
Source: Historical: Alaska Department of Revenue.

Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Source: Historical: Alaska Department of Revenue.

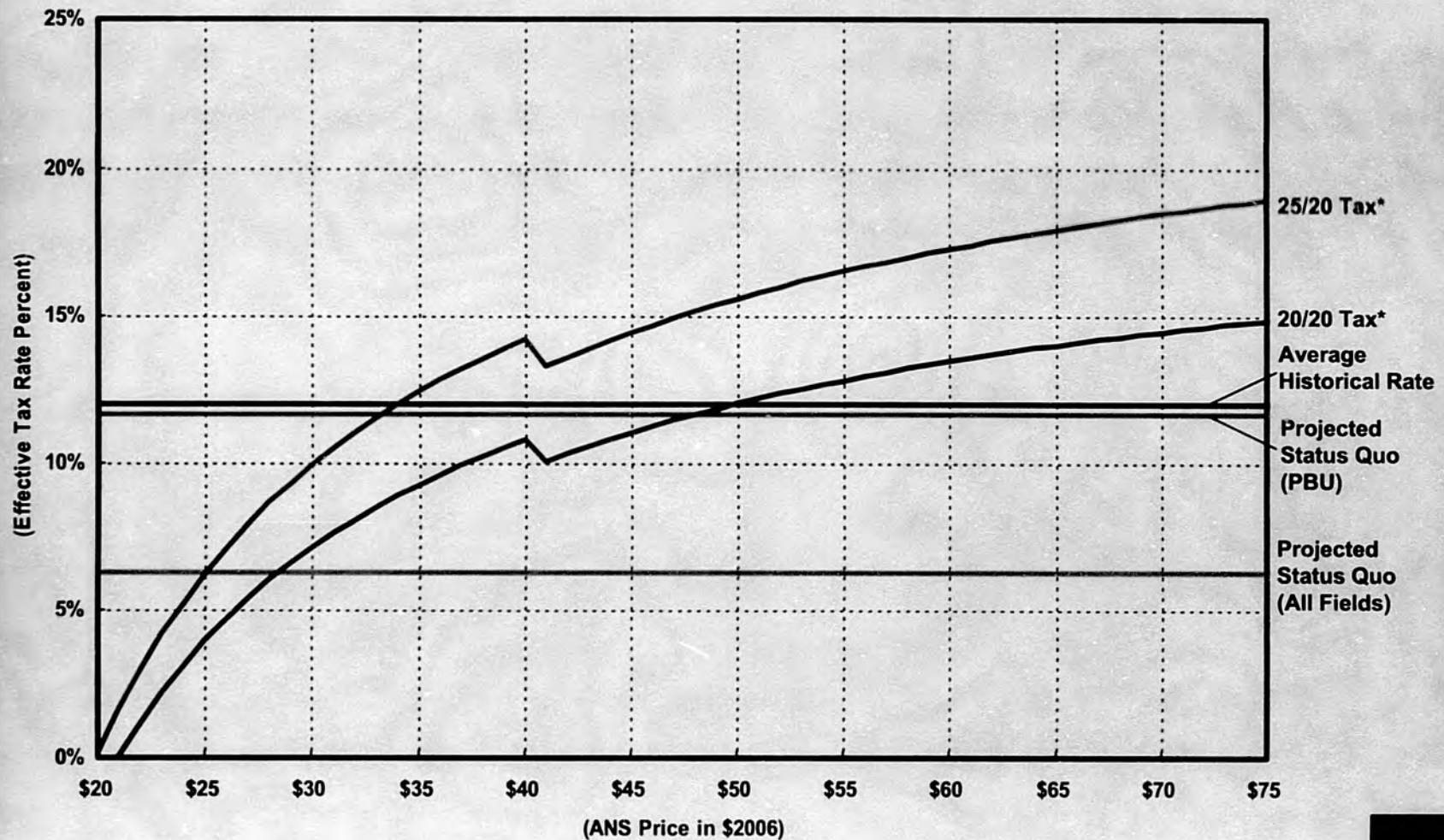
Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



* Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.

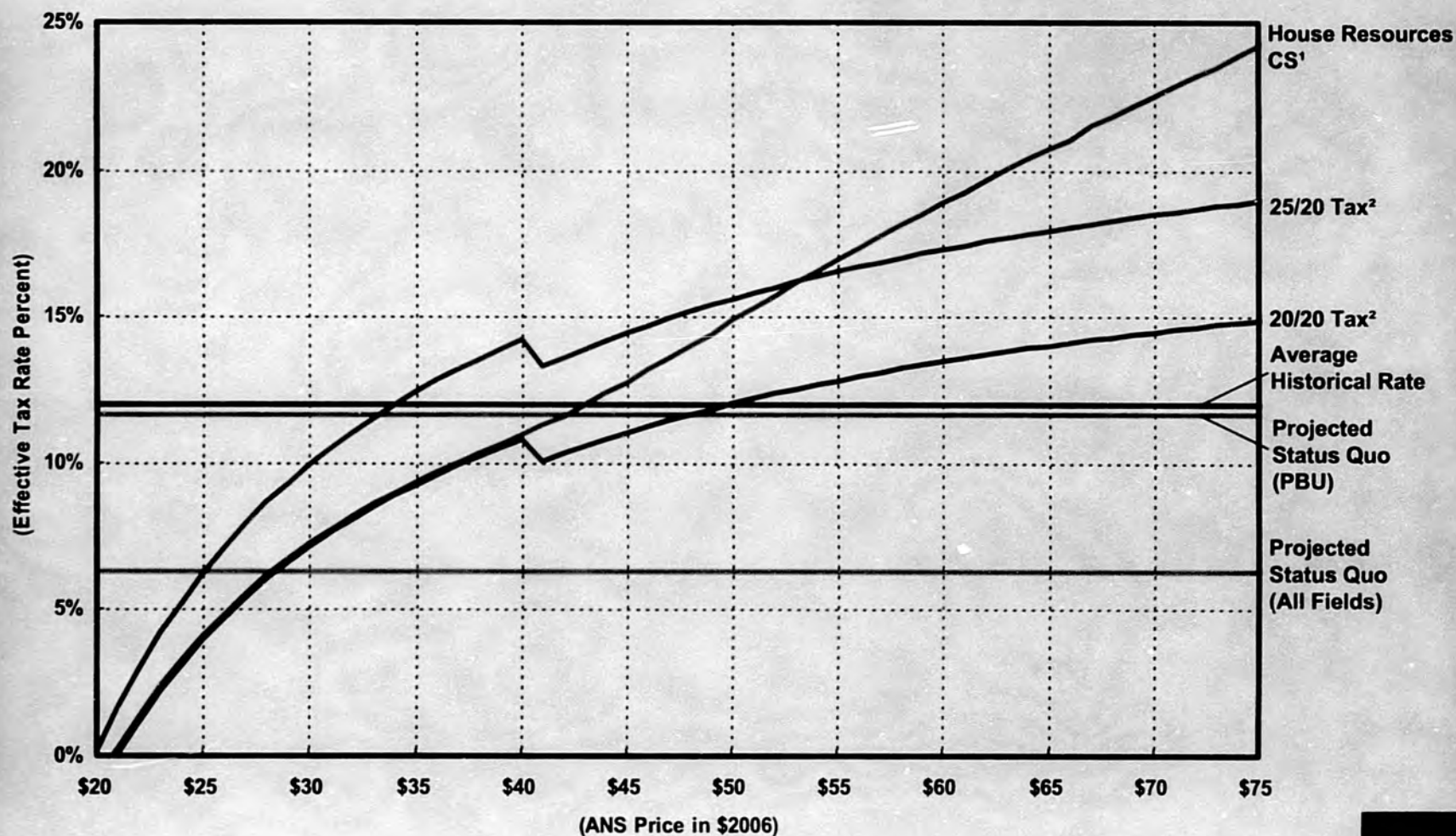
Source: Historical: Alaska Department of Revenue.

Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



* Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection.
Source: Historical: Alaska Department of Revenue.

Effective Average Tax Rates at Various Price Levels (FY 2007-2016)

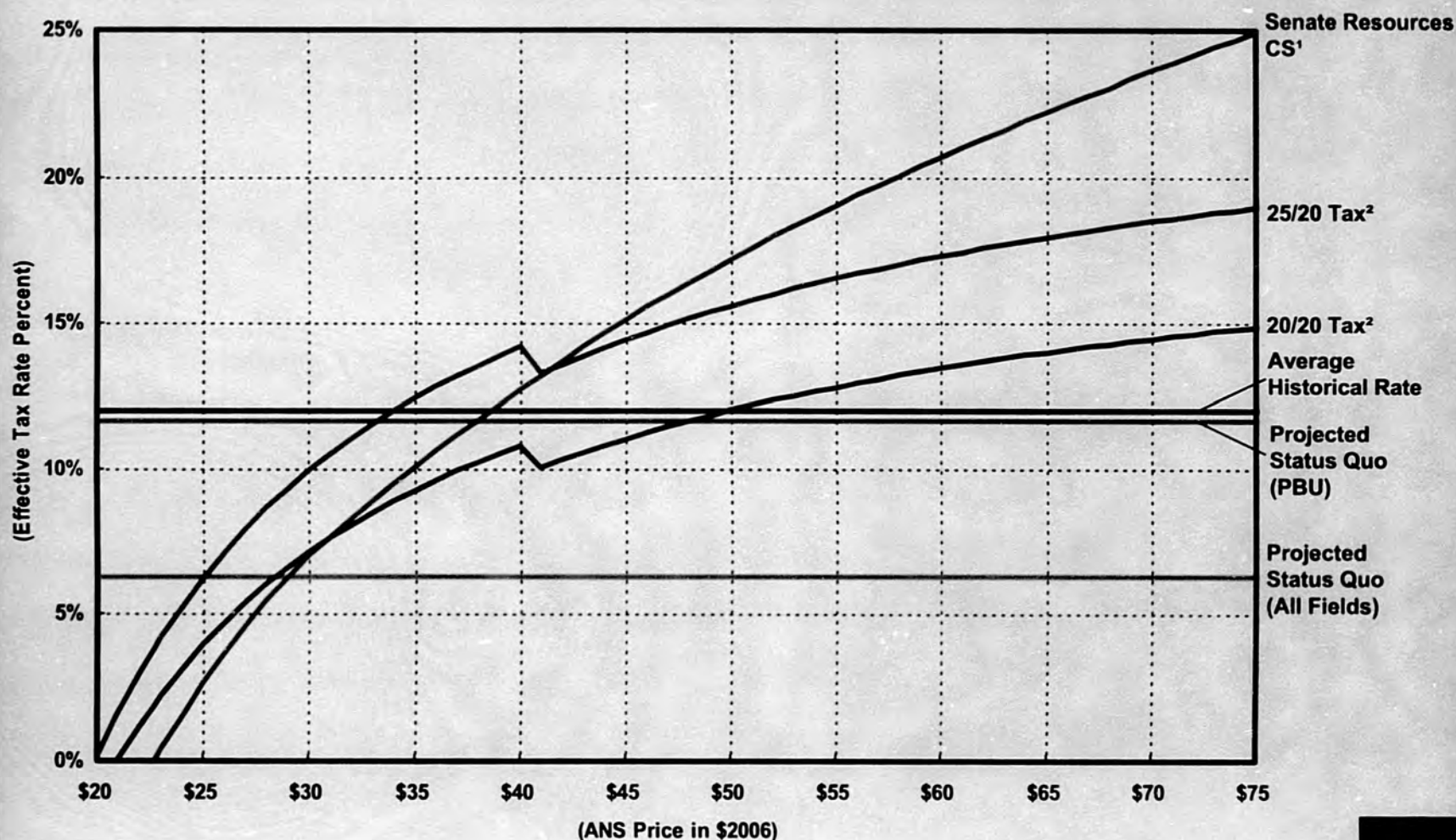


¹ Calculated from April 2006. \$60 Million exemption over 8 companies for 10 years. volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from July 2006. includes 6 year transition (100% 2001-2005) and \$73 Million exemption over 7 companies. volumes per DOR Fall 2005 Forecast with Oooguruk projection

Source: Alaska Department of Revenue

Effective Average Tax Rates at Various Price Levels (FY 2007-2016)

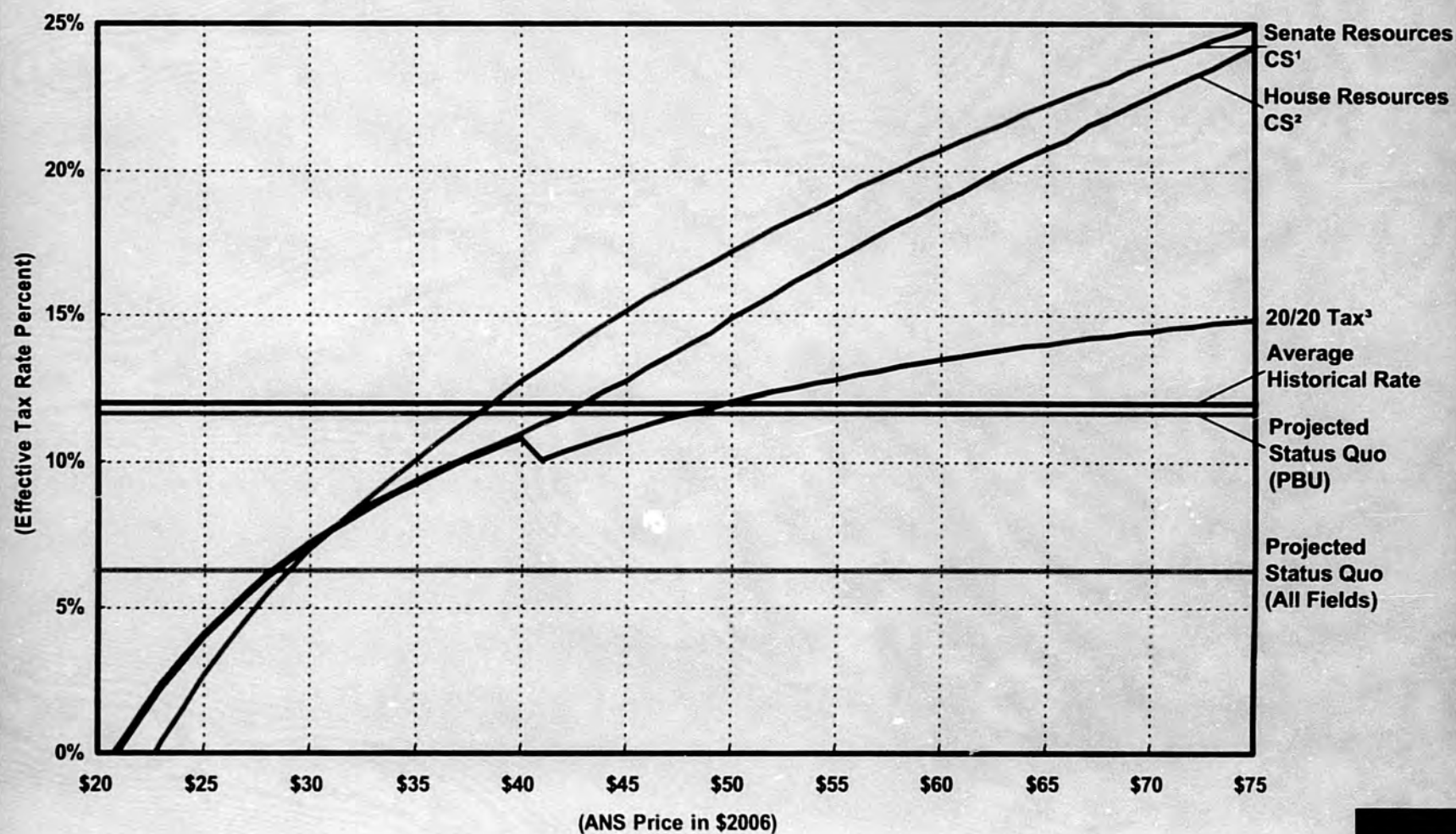


¹ Calculated from April 2006; includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection

Source: Alaska Department of Revenue

Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



¹ Calculated from April 2006, includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption; volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from April 2006, \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection

³ Calculated from July 2006, includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection

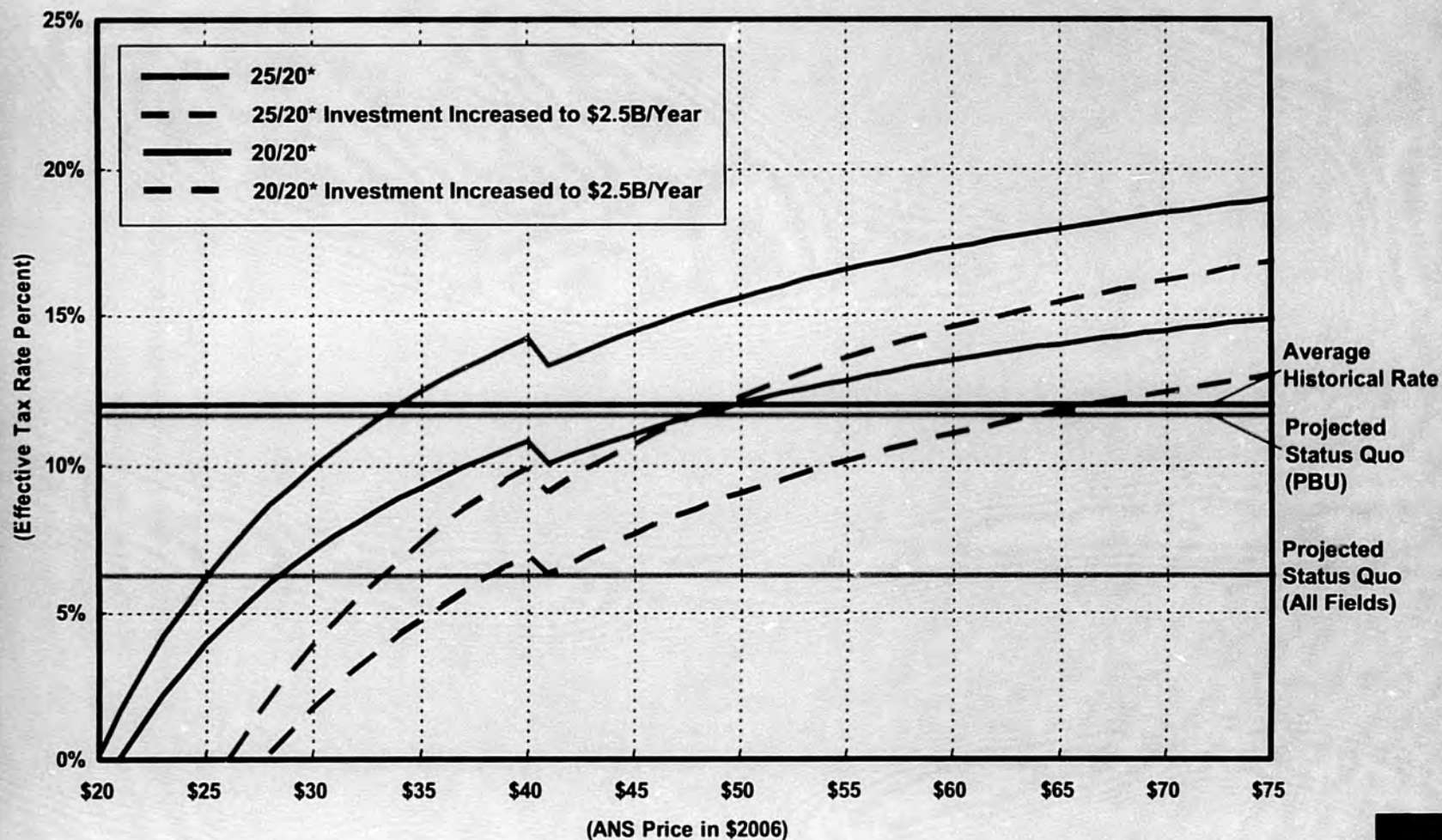
Source: Alaska Department of Revenue

Effective Average Tax Rates at Various Price Levels

Impact of Increased Investment

(FY 2007-2016)

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* Calculated from July 2006; includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies; volumes per DOR Fall 2005 Forecast with Oooguruk projection
Source: Historical Alaska Department of Revenue



Projected Government Takes DOR Forecast Production (FY 2007-2030)

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	Total Government Take (Percent)				Alaska Take (Percent)			
	EIA WTI Price Forecast:			Fixed \$40 ANS Price	EIA WTI Price Forecast:			Fixed \$40 ANS Price
	Base	Low	High		Base	Low	High	
Average ANS Price in Real 2006 Dollars:	\$52.70	\$33.40	\$70.00	\$40.00	\$52.70	\$33.40	\$70.00	\$40.00

FY 2007-2011

Status Quo	54.4%	55.3%	53.8%	56.9%	25.9%	26.8%	25.2%	28.2%
20/20 PPT ¹	57.7%	58.1%	57.6%	59.4%	31.0%	31.0%	31.1%	32.1%
25/20 PPT ¹	60.0%	60.3%	59.9%	61.7%	34.5%	34.6%	34.8%	35.7%
House Resources CS ²	60.0%	59.5%	60.8%	59.4%	34.5%	33.4%	36.2%	32.1%
Senate Resources CS ³	62.3%	62.0%	62.8%	61.5%	37.4%	36.3%	38.6%	34.3%

FY 2007-2016

Status Quo	53.3%	55.0%	52.4%	55.0%	24.8%	26.9%	23.7%	26.7%
20/20 PPT ¹	57.2%	57.6%	57.1%	58.1%	30.9%	30.9%	31.0%	31.5%
25/20 PPT ¹	59.6%	59.9%	59.6%	60.5%	34.5%	34.5%	34.8%	35.2%
House Resources CS ²	59.4%	58.6%	61.1%	58.2%	34.2%	32.5%	37.2%	31.7%
Senate Resources CS ³	62.0%	61.2%	63.0%	61.0%	37.8%	36.0%	39.8%	35.4%

FY 2007-2030

Status Quo	51.9%	54.7%	50.8%	53.3%	23.4%	27.2%	22.0%	25.2%
20/20 PPT ¹	56.9%	57.1%	56.9%	57.3%	31.2%	30.9%	31.3%	31.4%
25/20 PPT ¹	59.3%	59.3%	59.3%	59.6%	34.9%	34.3%	35.2%	35.0%
House Resources CS ²	60.6%	58.2%	65.9%	58.7%	37.0%	32.7%	45.4%	33.5%
Senate Resources CS ³	62.7%	60.8%	64.7%	61.3%	39.9%	36.2%	43.3%	37.3%

¹ Calculated from July 2006, includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies, volumes per DOR Fall 2005 Forecast with Oooguruk projection

² Calculated from April 2006, includes transition (50% of capex over 1st 7 years to maximum of \$5 Billion) and 15 BPD exemption, volumes per DOR Fall 2005 Forecast with Oooguruk projection

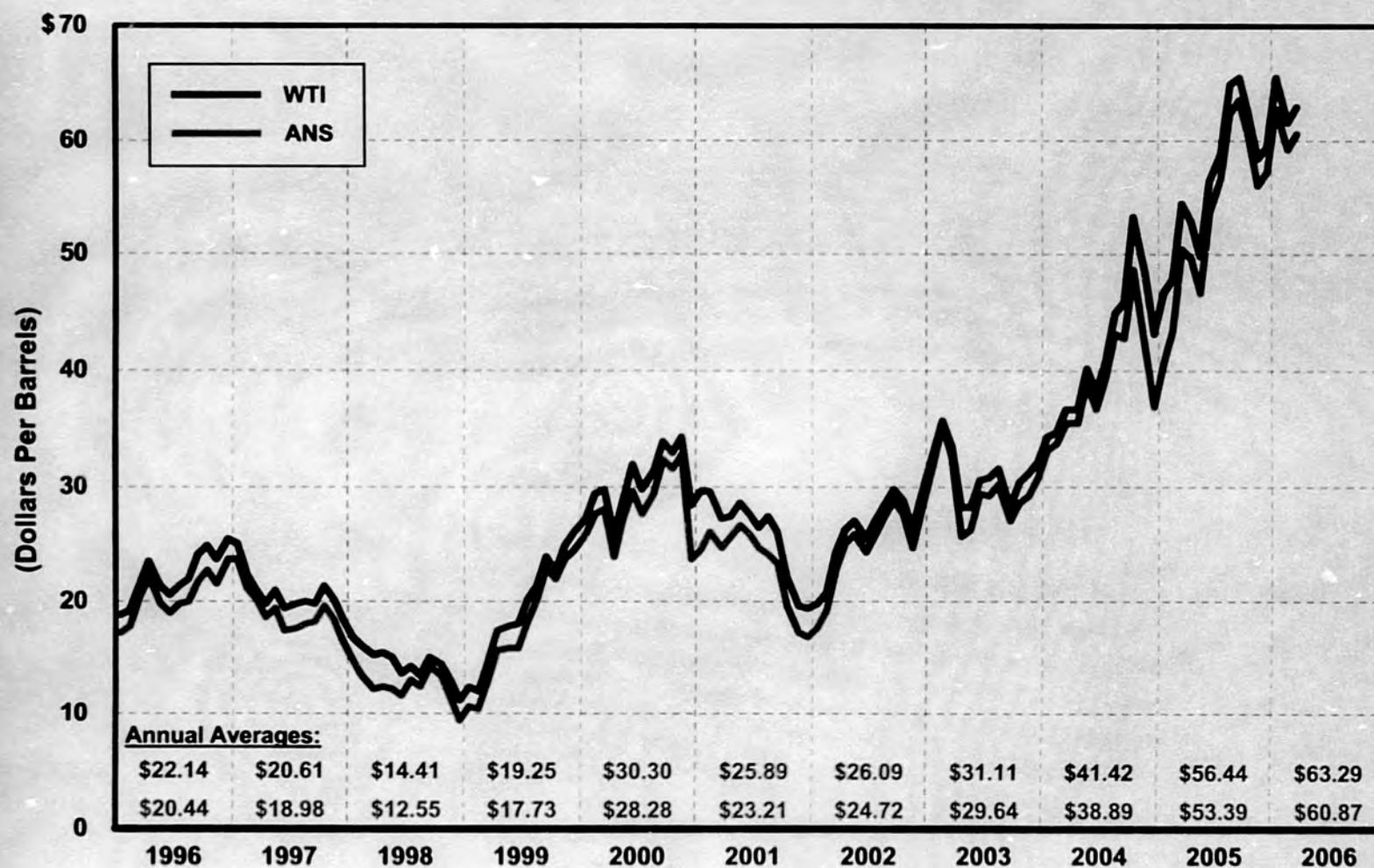
³ Calculated from July 2006, includes 6-year transition (100% 2001-2005) and \$73 Million exemption over 7 companies, volumes per DOR Fall 2005 Forecast with Oooguruk projection

Progressivity Issues

- **Choice of Threshold Price**
- **WTI v. ANS**
- **Real v. Nominal**
- **Deductibility**
- **Cap**

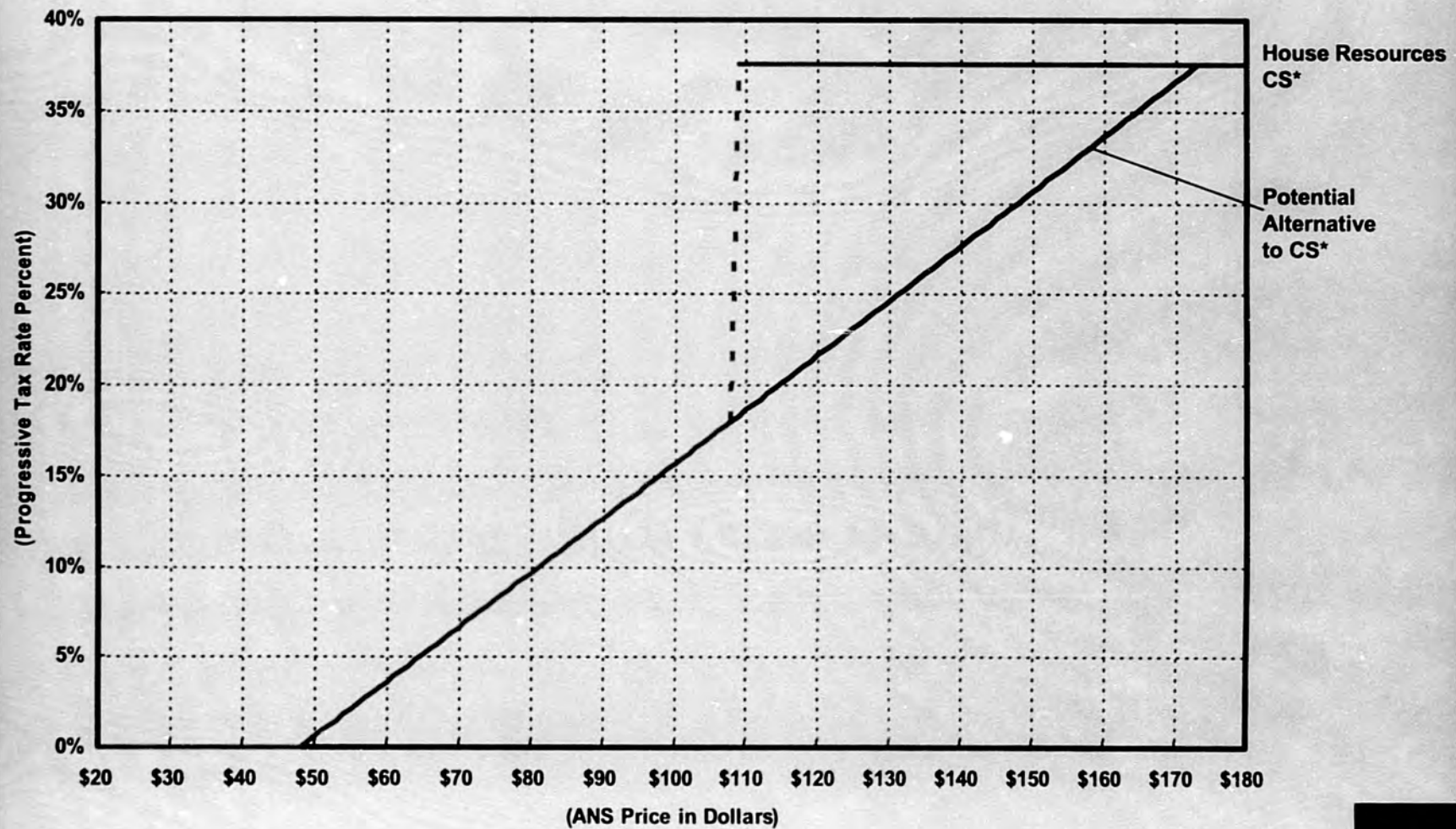
Platt's WTI and ANS Prices

(January 1996 - March 2006)



Source: Platt's

Progressive Tax Rates at Various Price Levels (FY 2007-2016)



* Calculated from April 2006; \$60 Million exemption over 8 companies for 10 years; volumes per DOR Fall 2005 Forecast with Oooguruk projection

Source: Historical Average; Alaska Department of Revenue

bp



NEWS RELEASE

BP AMERICA INC.

October 25, 2007

BP America announces resolution of Texas City, Alaska, propane trading law enforcement investigations

HOUSTON, TX -- BP America today announced two plea agreements and a deferred prosecution agreement with the U.S. Department of Justice and a consent order with the Commodity Futures Trading Commission which end governmental investigation of company wrongdoing on matters related to the March 2005 explosion and fire at the Texas City refinery, the March and August 2006 oil transit line spills in Alaska and improper propane trading in April 2003 and February 2004.

"These agreements are an admission that, in these instances, our operations failed to meet our own standards and the requirements of the law. For that, we apologize," said BP America Chairman and President Bob Malone. "They represent an absolute commitment to work with the government as we continue our efforts to prevent another tragedy like Texas City, to make our Prudhoe Bay pipeline corrosion program more responsive to changing operating conditions and to ensure that our participation in the nation's energy markets is always appropriate.

"In the months and years since these violations occurred, we have made real progress in the areas of process safety performance and risk management. Oversight of our trading operations has also been greatly enhanced. However, there is more to do and we are committed to doing it," Malone said.

Texas City

BP Products North America Inc. will plead guilty to a felony for failing to have adequate written procedures for maintaining the ongoing mechanical integrity of process equipment at the Texas City refinery and for failing to inform contractors of the hazards related to their occupancy of temporary trailers in the vicinity of the refinery's Isomerization Unit.

BP Products has agreed to a \$50 million fine and three years probation. The agreement requires BP Products to continue its cooperation with the government's ongoing

investigation of the circumstances leading to the March 23, 2005 Texas City refinery explosion and fire which claimed the lives of 15 workers and injured hundreds more. The agreement also requires, as a condition of probation, compliance with all terms of the September 2005 Settlement Agreement with the U.S. Occupational Safety and Health Administration (OSHA) and the June 2006 Agreed Order issued by the Texas Commission on Environmental Quality.

Under the agreement the Justice Department agrees not to bring additional criminal charges against BP Products in connection with the March 2005 explosion.

"If our approach to process safety and risk management had been more disciplined and comprehensive, this tragedy could have been prevented," Malone said. "We did not provide our people with systems and processes that would have enabled them to appreciate the risk of a catastrophic release from the F20 blowdown stack and understand the danger of placing occupied trailers so close to it. We deeply regret the loss of life, the injuries and the community disruption caused by the explosion."

BP Product's response to the Texas City explosion and fire has been guided by the recommendations of its own incident investigation and by the findings and recommendations of OSHA, the U.S. Chemical Safety and Hazard Investigation Board and the BP U.S. Refineries Independent Safety Review Panel, led by former U.S. Secretary of State James A. Baker, III.

BP America is in the midst of a comprehensive effort to improve its safety culture and to strengthen and standardize process safety and risk management programs at all BP-operated facilities.

At the Texas City refinery, BP Products eliminated the use of blow down systems like the one involved in the March 2005 explosion and removed temporary occupied structures (office trailers) from process areas. The refinery is expected to return to near full production by the end of 2007 after a 25-month, \$1 billion renewal program that included the inspection and refurbishment of every major process unit in the refinery and extensive re-training of refinery personnel.

Alaska

BP Exploration Alaska, Inc. (BPXA) will plead guilty to a misdemeanor violation of the U.S. Federal Water Pollution Control Act and admits, in the plea agreement, that the company's approach to monitoring and managing corrosion in Prudhoe Bay oil transit lines failed to properly consider the risks posed by changing operating conditions in the field and that, as a result, BPXA failed to take necessary actions to prevent the March 2006 pipeline spill.

BPXA has agreed to a \$12 million fine and 3 years probation. Under the agreement, BPXA will also pay restitution of \$4 million to the State of Alaska, which has agreed not

to prosecute the company, and make a \$4 million payment to the National Fish and Wildlife Foundation for Arctic environmental research.

The Justice Department and State of Alaska have agreed not to bring further criminal charges against BPXA in connection with the March and August 2006 spills.

The leak and the resulting 4,800 barrel spill impacted 1.9 acres and is the largest oil spill to ever occur at Prudhoe Bay. The plea agreement acknowledges that BPXA promptly and thoroughly cleaned up the discharged oil. No lasting harm to the surrounding environment is expected.

"This leak, and the spill that resulted from it, revealed a significant gap in our corrosion management program -- a gap that existed because our approach to assessing and managing corrosion risk in these lines was not robust or systematic enough," Malone said.

"We regret that our monitoring of these lines did not meet the expectations of the State of Alaska and the U.S. government," Malone said. "Since this incident we have worked with state and federal regulators to ensure the safe, reliable operation of critical Prudhoe Bay pipelines which deliver processed oil to the Trans Alaska Pipeline."

Following the March spill, BPXA worked with the U.S. Department of Transportation to make periodic maintenance and smart pigging part of BPXA's oil transit line corrosion inspection, monitoring and inhibition program.

BPXA will complete replacement of the 16-mile Prudhoe Bay oil transit line system in 2008. BPXA began construction of the \$250 million project in early 2007.

April 2003, February 2004 propane trades

BP America has entered a deferred prosecution agreement (DPA) with the U.S. Justice Department under which the company admits that it manipulated the price of February 2004 TET physical propane and attempted to manipulate the price of TET propane in April 2003. The DPA concludes all criminal investigations of BP America on matters related to propane, gasoline, crude oil and other commodity trading.

BP Products North America Inc. also has entered a companion consent order with the U.S. Commodity Futures Trading Commission (CFTC) resolving all civil enforcement matters concerning the company's propane and gasoline trading.

BP America will pay fines, penalties and restitution totaling just over \$303.5 million, including \$53.5 million to a victim restitution fund, a criminal penalty of \$100 million, a civil penalty of \$125 million and a \$25 million payment to the U.S. Postal Inspection Service Consumer Fraud Fund.

The DPA has a term of three years. Charges will be dismissed at the end of the term following Justice Department determination that BP America has complied with the terms of the DPA. The DPA requires BP America's continued cooperation with the U.S. government investigation of the trades in question.

The DPA will result in the appointment of an independent monitor to make sure BP America has appropriate trading compliance policies and programs in place, that the policies and programs are implemented appropriately, and that they are being enforced. The independent monitor will have authority to investigate and report alleged violations of the Commodity Exchange Act or CFTC regulations and to recommend corrective action.

BP America conducted its own investigation and cooperated with the Justice Department and the CFTC investigations of propane trading in April 2003 and February 2004. The February 2004 TET propane trades resulted in a loss of \$10 million to the company.

"Our view of the legality of these trades changed as our knowledge of the facts surrounding them became more complete," Malone said. "This settlement acknowledges our failure to adequately oversee our trading operation. The agreement provides compensation for victims and establishes a foundation for working with the government to ensure our participation in the nation's energy markets is always appropriate. We are determined to restore the trust of regulators in our trading operations."

After investigating the propane trades, BP America developed an enhanced compliance program specifically fit for the trading organization; increased compliance and legal resources; enhanced training for traders; upgraded transaction monitoring capability and improved metrics to measure compliance performance.

Notes to Editors

Texas City

- Early on, BP Products accepted responsibility for the Texas City incident and for the management system failures and employee mistakes which were contributing factors.
- BP Products has spent \$1.6 billion to compensate victims of the explosion and has resolved more than 1,650 personal injury claims arising from the incident. Settlements have been achieved with the families of the workers who died and with most workers who suffered injuries.
- In October 2005, BP Products entered a settlement with the U.S. Occupational Safety and Health Administration resolving more than 300 separate alleged violations of OSHA safety regulations. BP Products paid a fine of \$21.4 million and agreed to a number of corrective actions, including the hiring of process safety and organizational experts for the refinery.

- In June 2006, BP Products negotiated an "Agreed Order" with the Texas Commission on Environmental Quality which authorized the Texas City refinery to quickly replace blowdown stacks in heavier than air, light hydrocarbon service with flares. BP Products paid a fine of \$336,556 and has agreed to bring all of the new flares into compliance with New Source Performance Standards (NSPS) by June 15, 2011 at an estimated cost of \$250 million. This condition of probation can be extended if the work required under the Agreed Order is not completed within the initial term of probation.
- The BP Texas City incident investigation team published its report in December 2005. The team "found no evidence of anyone consciously or intentionally taking actions or decisions that put others at risk."
- The Texas City refinery is owned and operated by BP Products North America Inc. It is BP's largest and most complex refinery with a rated capacity of 470,000 barrels per day and an ability to produce up to 11 million gallons of gasoline per day.

Alaska

- In August 2006, smart pigging of sections of the Prudhoe Bay oil transit line system revealed unexpected severe corrosion in isolated locations and led to the discovery of a 199 barrel spill. BPXA halted production from the eastern side of the field for 47 days while bypass lines were commissioned and the integrity of the oil transit line system was confirmed.
- All BP-operated oil transit lines on the North Slope are now included in the U.S. Department of Transportation's Integrity Management Program.
- After the 2006 oil transit line leaks, BP America retained three leading corrosion and infrastructure experts to independently review and make recommendations for improving BPXA's corrosion inspection, monitoring and prevention program.

April 2003, February 2004 TET Propane trades

- Propane is a natural gas liquid, used by petrochemical industries to produce plastics and for residential/commercial purposes.
- Primary means of delivery to the Northeast and Midwest U.S. is the Texas Eastern Products Pipeline Company (TEPPCO) system. Propane in the TEPPCO system is identified as TET propane.
- BP America has taken disciplinary action, including dismissal of employees for failure to adhere to BP policies following the company's investigation of the April 2003, February 2004 TET propane trades.

For additional information: Ronnie Chappell, 281-236-3529 or 281-366-5174

October 24, 2007

Representative Kurt Olson, Chair
House Oil and Gas Committee
State Capital Room 408
Juneau, AK 99801-1182

The Honorable Chair & Members of the House Oil and Gas Committee,

The Alaska State Chamber of Commerce is concerned about the legislation, Alaska's Clear and Equitable Share (ACES) and the changes proposed to the tax structure of the recently enacted Petroleum Production Tax (PPT). The State Chamber believes changing the tax structure so quickly will have long-term negative impacts on the future of Alaska's economy. We believe that the consequences of adoption of ACES have not been fully considered with regards to all businesses in Alaska.

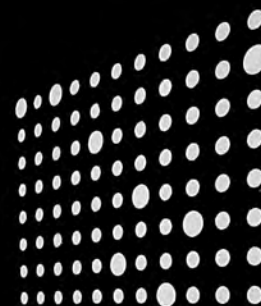
The Alaska State Chamber of Commerce is a business advocacy organization whose mission is to drive positive change for Alaska's business environment and to improve our member organizations by providing leadership, advocacy, connectivity and support. The policy debate on everyone's mind these days is the special session. During our most recent Board meeting, we noted the following observations.

Renewing Public Faith in PPT

State Chamber members have a strong commitment to ethical business conduct and understand your commitment to ethical conduct among elected and public officials. Because you have heard from Alaskans that their faith in the current petroleum production tax (PPT) is shaken, we understand the desire to see the production tax debated again but believe this comes with great risk. We urge caution in the rush to find a fix for something that may not be broken.

The concern is that while the Governor and the Legislature work to restore public faith, outcomes based more on emotion than economics will further chill the oil investment climate. A second concern is the stated goal of generating more revenue for the treasury. The chamber does not agree with that goal, and our members fear that Alaskans will confuse the outcome of higher tax revenue with the goal of fair share.

Our membership believes tax debate creates unwelcome risk and stalls investment planning and decisions. Taxes are a key consideration in all business investment decisions, so any time tax law is debated, investments can be delayed. The wrong tax rate can end all consideration of investment.



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Certainly working to induce investment such that the pipe is full of oil at \$80+/bbl would generate more revenue at the current tax rate than would a dwindling quantity of oil at a higher tax rate.

RAISING THE TAX RATE

Most of our members do not understand the finer details of petroleum exploration and production. However, they all understand two major trends in Alaska's oil patch:

- Taxes on the oil industry have increased at a rate no other business segment could survive; and,
- Despite billions of dollars invested by the oil industry on the North Slope and in Cook Inlet, production continues to decline at an alarming rate.

Many have repeatedly noted this decline. To propose a new increase to the production tax is a risky policy given the desire to encourage increased production. We have watched a decade-old production tax regime for Cook Inlet - essentially zero - encourage very limited investment. On the Slope, recent investments were committed under the significantly lower ELF tax and historically high oil prices, yet the exploration activity pales in comparison to that taking place in Canada and the Gulf of Mexico.

Raising production taxes in light of limited investment is counter intuitive. Instead of referring to fiscal notes and revenue projections, we urge you to set the policy outcomes you desire in the oil patch and then debate language to achieve those outcomes. We suggest the following statement can guide the debate:

- Adopt an oil tax regime that will generate reasonable revenue for state government, while encouraging maximum utilization of oil reserves.

FISCAL PLAN

The State Chamber has advocated for decades for a state fiscal plan. We applaud the identification of the fiscal dilemma our state faces, and the willingness of many to check spending. A clear plan, however, is not guiding spending or revenue collection, or the question of how the state can invest new revenue in projects that will render a return on investment. Given today's oil prices, the Alaska's Clear and Equitable Share (ACES) legislation proposes to collect surplus revenue for a fiscal system that results in increased spending but lacks a strategic business plan for the state. This policy outcome does not warrant worsening the investment environment.

ALASKA'S BUSINESS IMAGE

As stated earlier, State Chamber members have a strong commitment to ethical business conduct. This includes our many members from the oil and gas industry. Given the daily headlines and investigations, our concern is that many Alaskans now view "business" negatively.



This impression is further fueled by the implications that the oil and gas industry has slighted the state through its accounting practices.

We encourage our policy leaders in Juneau to consider this dynamic and avoid making unfair accusations that further fuels this distrust of our Alaska businesses big and small. At the end of the day, differences of opinions exist and reasonable people can disagree.

TAX AUDIT EXPERTISE

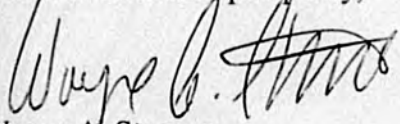
We offer assistance in boosting the state's tax audit capabilities. We are confident that if industry can acquire talent to administer a wide range of complex tax regimes throughout the world, Alaska can recruit the best and brightest to administer our single regime. This expertise will be found in a combination of state employees and private contractors.

TAX ON PROFITS IS GOOD FOR BUSINESS

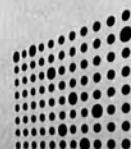
Although we are concerned with a proposed minimum tax on certain fields, we would like to thank you for recognizing the wisdom of a profits tax. So many today illogically condemn petroleum industry profits. Alaskans should cheer since those profits will allow the same companies to make the world-class investments Alaska needs to monetize our oil and gas.

Thank you again for taking time to address these critical issues for Alaska's future. I would be delighted to meet with you to discuss the points above in further detail.

Yours in economic prosperity,



Wayne A. Stevens
President/CEO

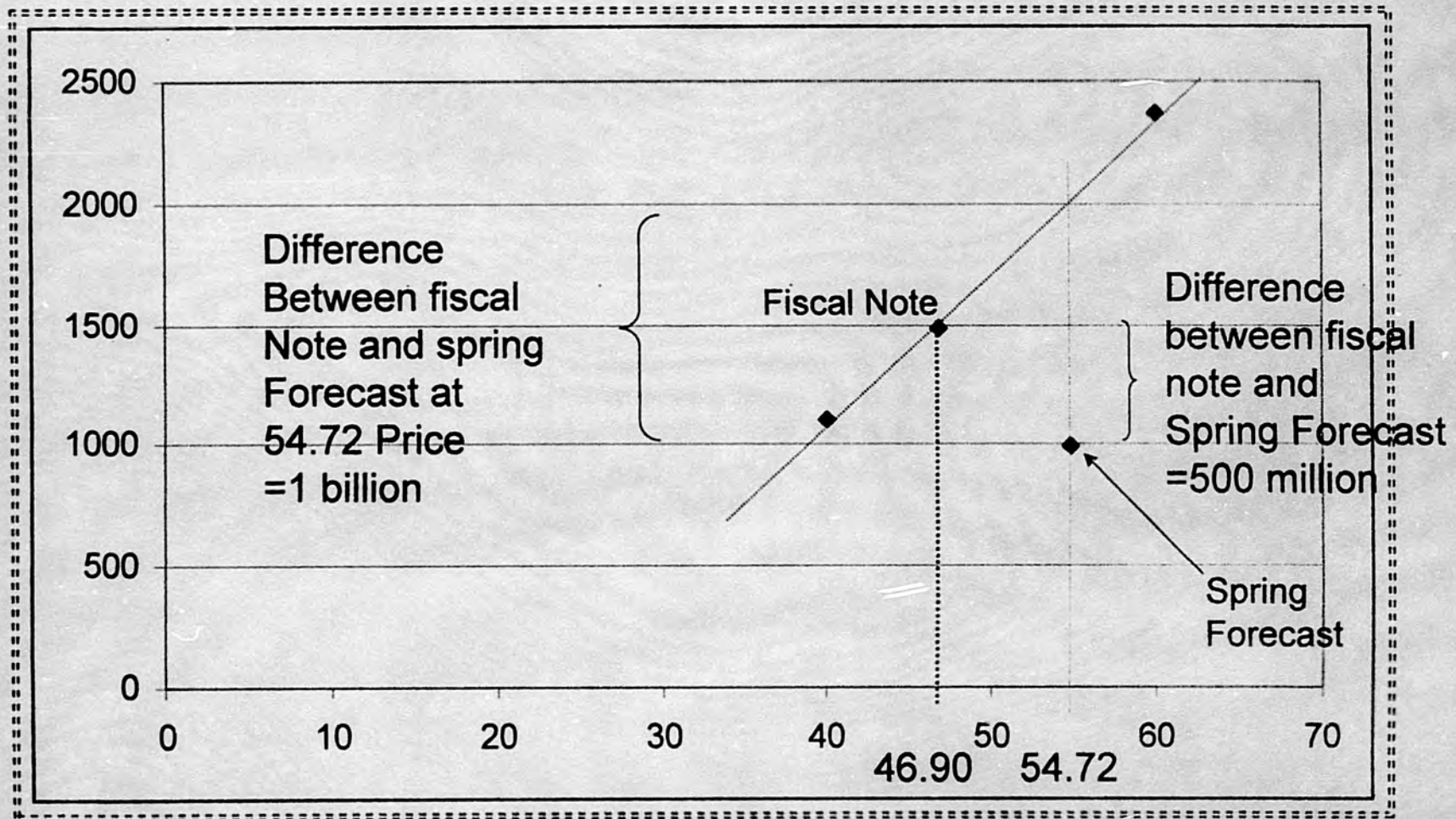


High Level Estimate of \$800 Million Shortfall in FY 2008
Driven by higher reported costs

Estimated Costs - \$2 billion	
Doubled - additional \$2 billion	2,000 (in millions)
Effect of Opex	22.5%
Effect of Capex	22.5%
Credit	20%
Assumed 100% TIE Match	10%
	52.5%
Assume 50/50 split	37.5%
Tax difference from 2000	750.0 (in millions)

Dickinson
10/25/07

Summer 06 Fiscal Note versus Spring 2007 Forecast for FY 2008



Dickinson
10/25/07



NORTHWEST TECHNICAL SERVICES

House Testimony
Regarding HB 2001
October 24, 2007

Mr. Chairman and members of the committee:

Thank you for hearing my testimony, today, October 24, 2007.

As General Manager for Northwest Technical Services, a company which provides employees to a variety of industries, including the oil industry, I find it critical that I approach you and other members of the Legislature regarding this Bill. Needless to say, I am concerned its impact on the future employment for NWTs' 100+ employees and other Alaska workers may not be as obvious to you as it is to me.

This body spent considerable time in discussions and debate prior to passing the current tax on petroleum profits. The interchange of ideas, facts and beliefs used to arrive at what has become the 22.5% tax rate and current credits and escalator was thorough and a decision was reached – by 60 members of the Legislature. Then, to be entirely certain that it was the right decision for the long term, you established a provision to do a complete review of the system in 2011.

I ask that you give the system you have – after a great deal of public testimony – already established. Let us, at a minimum, get the first returns audited and the regulations for the Petroleum Production Tax promulgated before major changes are contemplated. You can't fix a system unless you know it is broken – and, we don't. If the State needs to hire additional auditors at a compensation rate consistent with their expertise in order to analyze these returns, a mechanism should be established to make that possible. Steps to make certain that data is timely can be put into place. I do, however, ask that you give considerable thought and consideration before making significant changes to the PPT that will again increase taxes and costs and which could easily result in a reduction of dollars available for investment in new and refurbished production facilities in Alaska.

It is those investment dollars that help provide jobs, not just for NWTs employees, and not just for employees who work directly in the oil and gas industry, but also for the individuals that work in the "fallout jobs" at grocery stores, hardware stores, educational facilities, the State of Alaska, - and the list goes on.

House Testimony
Regarding HB 2001
October 24, 2007
Page Two

I ask that as you deliberate over the next few days that you step back and consider all the ramifications of your decisions, particularly the impact on jobs, future development and the quality of life for this and the next generations of Alaskan citizens. The old saying that we can't tax ourselves into prosperity is still true.

Respectfully yours,



Mary E. Shields
General Manager

HOUSE OIL & GAS TESTIMONY
on HB 2001
October 24, 2007

Thank you, Chairman Olson and members of the House Oil & Gas Committee. My name is Eric Dompeling. I'm a technical representative at Baker Oil Tools and president of the Alaska Support Industry Alliance, a trade organization representing companies and individuals that provide goods and services to Alaska's oil, gas and mining industries. I'm testifying on behalf of the Alliance.

Our 400 member companies and their 35,000-plus Alaska employees don't make the multibillion-dollar investments in oil and gas development that fuel Alaska's economy ... they make the investments work.

As companies and workers whose livelihoods depend on oil and gas investment, we're deeply concerned about constant changes in fiscal policy that put some of those investments at risk.

It's difficult for us to understand why you're back in Juneau so soon to fix a system that hasn't even had time to work, let alone for compelling evidence that it's broken. Regulations for the PPT adopted just 14 months ago haven't even been finalized, and the first returns haven't been audited.

So far, proponents of this tax increase have presented you with a plethora of projections and a paucity of proof.

We don't know if a 22.5% tax rate with the current escalator and credits strikes the right balance between ensuring the state its fair share of oil revenues and encouraging long-term investment and production. We don't know if 25% is the right rate ... or 20 ... or 15.

None of us does ... not the Alliance, not the legislature, not the administration and not even the producers.

We do know that every dollar in additional taxes is a dollar that won't be invested in sustaining production, in creating business opportunities for Alaska companies like Alliance members, in generating good-paying private sector jobs for Alaskans.

We do know that while the extent to which yet another tax increase will discourage investment is debatable, the fact that it will do absolutely nothing to encourage new oil production and construction of a gas project is not.

Isn't that what this discussion should be about: how we can work together to promote investments ... how we can ensure our "fair share" of long-term jobs and business opportunities for Alaskans, rather than how much more money we can extract from the private sector without further risking our long-term future ... just so state government can have more money to spend in the short term?

When you adopted the new PPT in 2006 after months of deliberations, debate and countless votes, you included provisions requiring a complete review of the system five years later - in 2011. You understood then that it would take several years to reasonably determine how and if it's working. That hasn't changed.

Do what you need to do in the short term to make the PPT work - hire more auditors, pay them more, take steps to ensure the timely flow of accurate data from the producers to the state, authorize the state to buy back credits.

But we urge you to reject premature, fundamental changes to the PPT that will increase taxes, increase costs, jeopardize the economics of critical long-term investments and put production, Alaska jobs and business opportunities at risk.

The testimony of Jerry McCutcheon

The taxes as proposed are FAR TOO LOW.

Increasing AK take will decrease the Fed's take, a good thing. The percent attributed to the Fed's take is much more than the oil companies actually pay.

Van Meurs pointed out that the State's take should be more and made that argument to Governor Murkowski in memo withheld from the legislature. Van Meurs also pointed out that PPT and Governor Palin's ACES' take, the percentage of the State of Alaska's take, actually declines with the increasing price of oil and they, Johnston also, thought that was stupid; the state percentage should increase with the increasing price of oil. Van Meurs quoted takes from 75% to 85% as usual and customary and takes of 90% to 95 % as not unusual and some takes were up to 98.5% and still the oil companies came. Johnston concurred.

Gross take on Alaska oil should approach 90%. See Shell oil's contract on North Star; it was over 90%, not the 80% that Johnston guessed for an example and that was when oil was \$18/barrel.

Also see the other lease about the same time, those were willing bids; nobody held a gun to their heads. Maybe AK should go back that system.

AS both van Meurs and Johnston pointed that having the oil companies threaten to leave Alaska or actually leaving Alaska is not a bad thing and it maybe in Alaska's best interest for the long term if some of the oil companies did leave. Alaska should not be magnet for every body.

However, considering the fact that the FBI and the grand jury have not completed their investigation and the fact the grand jury may bring a RICO Act indictment against not only the oil companies but also some legislators, not yet investigated, when the FBI begins to address the mechanics of passing legislation and what happened in the process. Remember the standards of proof are much lower under RICO and far broader in scope.

It would appear the legislature should adopt a clean tax on the gross pending the completion of the FBI and grand jury investigations. Then modify I, aft, to include any tax credits thought necessary.

Jerry McCutcheon susitnahydronow@yahoo.com

State of Alaska
Department of Revenue
Commissioner's Office



SARAH PALIN, GOVERNOR
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Phone: (907) 465-2300
Fax: (907) 465-2394

To: All Legislators
From: Marcia Davis, Deputy Commissioner, DOR
Re: North Slope Production Data Request

October 23, 2007

North Slope Production (Preliminary)¹

FY 2007	Thousand Bls/day
June	794
July	685
August	623
September	668
October	739
November	670
December	810
January	799
February	778
March	767
April	760
May	787
FY 2008	
June	726
July	727
August	672
September	651
October	723 (10 days est.)

¹ Finalized Production numbers due November 11th

State Oil Tax Comparison

Distributed by Department of Revenue 10/24/07

State	Production Tax Rate	Royalty Rate from State Lands (On Gross Value)*	Capital Expense Deductions Allowed	Depreciation Period	Capital Credits Available	Period	Information Disclosure Reports
Texas	4.60% of gross value	1/8 (12.5%)	no	--	no	--	completions; well logs; production
Wyoming	4.00% to 6.00% of gross value	1/6 (16.7%)	no	--	no	--	completions; well logs; production
Louisiana	3.125% to 12.5% of gross value	1/5 - 1/4 (20%-25%)	no	--	no	--	completions; well logs; production
Oklahoma	7.00% of gross value	3/16 (18.75%)	no	--	no	--	completions; well logs
Alaska--PPT	22.50% of net value	1/8 (12.5%)	yes	1 year	yes	1 year	gross revenue; lease expenditures; credits (aggregated)
Alaska--ACES	25.00% of net value	1/8 (12.5%)	yes	1 year	yes	2 years	production; transportation; interruptions; lease expenditures; credits; contracts (by property)

* Historically, royalty rates on state lands have started at 12.5%. New royalty rates now average between 20% - 30%. More recent royalties have been negotiated as high as 40%.
Summary of State statutes and Regulations for Oil and Gas Production (2006); Our Fair Share: Report of the Alberta Royalty Review Panel (2007).

Sources:

SCOMM

148:17



Official Business

ALASKA STATE LEGISLATURE

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

Friday, October 26, 2007

House Finance Committee Room 519

10 am – 1 pm

AGENDA

HB 2001 - Oil and Gas Production Tax Amendments

- **Robert Mintz, K&L Gates**
Review of Sectional Analysis

Please Note:

The Oil & Gas committee will be vacating the House Finance room no later than 1:30 pm to make it available for the Economic Development, Trade and Tourism Committee meeting to be held at 2 pm.

Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907) 272-1481 Fax: (907) 279-8114

October 24, 2007

The Honorable Kurt Olson, Chair
House Special Oil & Gas Committee
State Capitol
Juneau, AK 99801

Re: HB 2001 – Error in AOGA Testimony Yesterday to Your Committee

Dear Representative Olson:

It may be indicative of the abundance of issues raised by House Bill 2001 that we have discovered an error in our written and oral testimony to the House Special Committee on Oil and Gas yesterday. At the end of the last full paragraph on page 10 of our written testimony, there are two sentences from an earlier draft that were left in by mistake, which said:

You could probably repeal AS 43.55.165(d) and keep subsection (c) on the books without taking much risk, because the text of (d) is very repetitive of that in (c).
But repealing them both is taking a needless chance.

I have attached a corrected version of the testimony.

Neither subsection of AS 43.55.165 should be deleted. Subsection (d) allows DOR to authorize or require the use of amounts "billed" by an operator to a producer, while (c) allows DOR to authorize or require the use of amounts "billable" by an operator to a producer. Thus, subsection (d) is required to allow the use of the actual joint-interest billings by an operator, which we believe is essential if PPT or the tax under HB 2001 can ever be paid correctly by non-operators when it is due. Subsection (c) is also essential to allow the extension of joint-interest billings that DOR finds acceptable for one field, so the accounting system for those billings can be allowed or required by DOR for a nearby field.

We apologize for any inconvenience or misunderstanding our error may have caused.

Sincerely,

Marilyn Crockett
Executive Director

cc: Members, House Special Committee on Oil and Gas

Guiding Principles for New Production Tax System

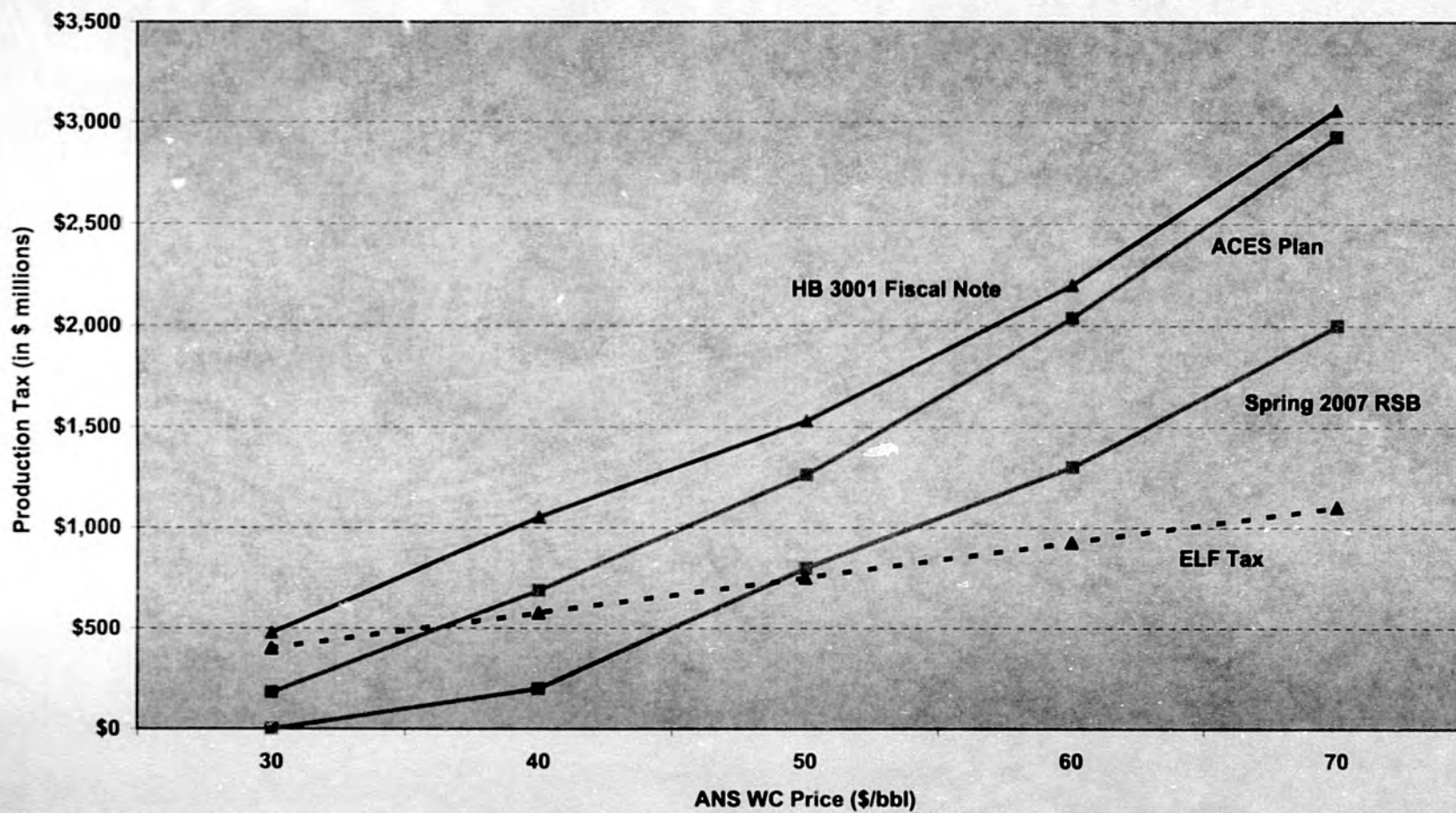
- Fair Revenue to the State
- Attractive Investment Climate
 - New Exploration
 - Re-investment in Existing Fields (including "Heavy Oil")
- Transparency – Minimize Risk to the State

Alaska's Clear and Equitable Share (ACES) Plan

- 10% Gross-based Tax Floor on Legacy Fields
- 25% Tax Rate on Net Profits
- Progressive Feature that Kicks In at \$30 Net Value (annual) and Rises at Two-tenths of a Percent per Dollar
- Eliminates the Transitional Investment Expenditures "TIE" Credits
- Requires Capital Expenditure Costs to be Taken as Credits Over Two Years, Rather than Immediately
- Fixes "Corrosion" Issue – SB 80 Type Approach
- Excludes Dismantlement, Removal & Restoration (DR&R) Costs from Allowable Expenditures
- Expands Exploration Incentive Credit Program to Include One Exploration Well and Up to Two Delineation Wells
- Provides Vehicle for New Explorers to Get the Same Value for their Credits as Producers
- Transparency - Minimize Risk to the State
 - Requires Taxpayers to Provide Cost Projections to Allow State to Better Forecast State Revenues and Pursue Changes in Reported Costs
 - Authorizes Public Reporting of Some Cost Data
 - Authorizes a Short-term Audit Program
 - Designates an Exempt Class of Oil and Gas Auditors

FY 2008 Production Tax Estimates

HB 3001 Fiscal Note, Spring 2007 Revenue Sources Book, ELF Tax and ACES Plan



Project Net Present Value of Cash Flows (10% Discount Rate)				
\$40 Test Price (\$ Millions)				
	Status Quo PPT	ACES Plan	16% Gross Tax <i>No Capital Credits</i>	19% Gross Tax <i>With Capital Credits</i>
Field/Project A	178	128	-35	27
Field/Project B	72	48	-22	9
Field/Project C	59	27	-53	-22
Field/Project D	-64	-90	-398	-282
<i>Production Tax Revenues FY2008 @ \$60 oil price</i>	<i>\$1.3B</i>	<i>\$2.0B</i>	<i>\$2.1B</i>	<i>\$2.0B</i>

Government Take Metrics

	At \$60
Marginal Government Take (%) (Fiscal Year 2008)	
ACES	68
International Average – All Fiscal Regimes (Median)	67
International Average – PSA Fiscal Regimes (Median)	74
International Average – Tax Royalty Regimes (Median)	55

Source: International Data from PFC Energy Consultants

October 24, 2007

Representative Kurt Olson, Chair
House Oil and Gas Committee
State Capital Room 408
Juneau, AK 99801-1182

The Honorable Chair & Members of the House Oil and Gas Committee,

The Alaska State Chamber of Commerce is concerned about the legislation, Alaska's Clear and Equitable Share (ACES) and the changes proposed to the tax structure of the recently enacted Petroleum Production Tax (PPT). The State Chamber believes changing the tax structure so quickly will have long-term negative impacts on the future of Alaska's economy. We believe that the consequences of adoption of ACES have not been fully considered with regards to all businesses in Alaska.

The Alaska State Chamber of Commerce is a business advocacy organization whose mission is to drive positive change for Alaska's business environment and to improve our member organizations by providing leadership, advocacy, connectivity and support. The policy debate on everyone's mind these days is the special session. During our most recent Board meeting, we noted the following observations.

Renewing Public Faith in PPT

State Chamber members have a strong commitment to ethical business conduct and understand your commitment to ethical conduct among elected and public officials. Because you have heard from Alaskans that their faith in the current petroleum production tax (PPT) is shaken, we understand the desire to see the production tax debated again but believe this comes with great risk. We urge caution in the rush to find a fix for something that may not be broken.

The concern is that while the Governor and the Legislature work to restore public faith, outcomes based more on emotion than economics will further chill the oil investment climate. A second concern is the stated goal of generating more revenue for the treasury. The chamber does not agree with that goal, and our members fear that Alaskans will confuse the outcome of higher tax revenue with the goal of fair share.

Our membership believes tax debate creates unwelcome risk and stalls investment planning and decisions. Taxes are a key consideration in all business investment decisions, so any time tax law is debated, investments can be delayed. The wrong tax rate can end all consideration of investment.



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Certainly working to induce investment such that the pipe is full of oil at \$80+/bbl would generate more revenue at the current tax rate than would a dwindling quantity of oil at a higher tax rate.

RAISING THE TAX RATE

Most of our members do not understand the finer details of petroleum exploration and production. However, they all understand two major trends in Alaska's oil patch:

- Taxes on the oil industry have increased at a rate no other business segment could survive; and,
- Despite billions of dollars invested by the oil industry on the North Slope and in Cook Inlet, production continues to decline at an alarming rate.

Many have repeatedly noted this decline. To propose a new increase to the production tax is a risky policy given the desire to encourage increased production. We have watched a decade-old production tax regime for Cook Inlet - essentially zero - encourage very limited investment. On the Slope, recent investments were committed under the significantly lower ELF tax and historically high oil prices, yet the exploration activity pales in comparison to that taking place in Canada and the Gulf of Mexico.

Raising production taxes in light of limited investment is counter intuitive. Instead of referring to fiscal notes and revenue projections, we urge you to set the policy outcomes you desire in the oil patch and then debate language to achieve those outcomes. We suggest the following statement can guide the debate:

- Adopt an oil tax regime that will generate reasonable revenue for state government, while encouraging maximum utilization of oil reserves.

FISCAL PLAN

The State Chamber has advocated for decades for a state fiscal plan. We applaud the identification of the fiscal dilemma our state faces, and the willingness of many to check spending. A clear plan, however, is not guiding spending or revenue collection, or the question of how the state can invest new revenue in projects that will render a return on investment. Given today's oil prices, the Alaska's Clear and Equitable Share (ACES) legislation proposes to collect surplus revenue for a fiscal system that results in increased spending but lacks a strategic business plan for the state. This policy outcome does not warrant worsening the investment environment.

ALASKA'S BUSINESS IMAGE

As stated earlier, State Chamber members have a strong commitment to ethical business conduct. This includes our many members from the oil and gas industry. Given the daily headlines and investigations, our concern is that many Alaskans now view "business" negatively.



This impression is further fueled by the implications that the oil and gas industry has slighted the state through its accounting practices.

We encourage our policy leaders in Juneau to consider this dynamic and avoid making unfair accusations that further fuels this distrust of our Alaska businesses big and small. At the end of the day, differences of opinions exist and reasonable people can disagree.

TAX AUDIT EXPERTISE

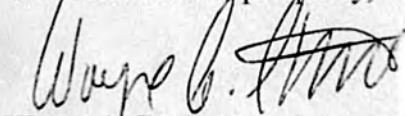
We offer assistance in boosting the state's tax audit capabilities. We are confident that if industry can acquire talent to administer a wide range of complex tax regimes throughout the world, Alaska can recruit the best and brightest to administer our single regime. This expertise will be found in a combination of state employees and private contractors.

TAX ON PROFITS IS GOOD FOR BUSINESS

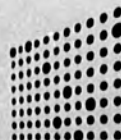
Although we are concerned with a proposed minimum tax on certain fields, we would like to thank you for recognizing the wisdom of a profits tax. So many today illogically condemn petroleum industry profits. Alaskans should cheer since those profits will allow the same companies to make the world-class investments Alaska needs to monetize our oil and gas.

Thank you again for taking time to address these critical issues for Alaska's future. I would be delighted to meet with you to discuss the points above in further detail.

Yours in economic prosperity,



Wayne A. Stevens
President/CEO



Alaska Oil and Gas Association



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TESTIMONY OF THE
ALASKA OIL AND GAS ASSOCIATION
TO THE HOUSE SPECIAL COMMITTEE ON OIL & GAS
ON HOUSE BILL 2001

October 23, 2007 (*corrected 10/24/07*)

Mr. Chairman and Members of the Committee. Thank you for the opportunity to testify before you today on House Bill 2001.

My name is Marilyn Crockett and I am the Executive Director of the Alaska Oil and Gas Association ("AOGA"). AOGA is the trade association for the oil and gas industry in Alaska. Our 17 members account for the majority of oil and gas exploration, development, production, transportation, refining and marketing activities in the state. In addition to Alaska's instate refiners, Agrium and Alyeska, our membership includes companies new to Alaska hoping for the opportunity to explore, companies which are exploring today but do not yet have production (but hope to in the future) and those companies which are producing today.

One of the important functions the Association performs is to provide a forum for member companies to consider regulatory and legislative proposals, and to reach agreement on an industry position on those proposals. To establish an AOGA position, a 5/6 vote of the members is required. What this means, of course, is that when AOGA voices that position, regulators and legislators can be assured that that position is the position of the overwhelming majority of Alaska's oil and gas industry.

But on tax issues, AOGA members have taken this approval process to the highest level. AOGA positions on tax-related issues require 100% consensus of the AOGA Members. Let me be clear: my testimony today reflects the full consensus of the members of the AOGA Tax Committee, with no dissent.

The focus of our testimony today will be on the practical impact of declining production levels on industry operations and the State of Alaska. And while we are not in a position at this early date in this Special Session to provide you with a complete analysis of the many components of HB 2001, we will describe for you but a few of the troubling aspects of this legislation. The AOGA Tax Committee is in the midst of a comprehensive review of the legislation and will be in a position at a future date to characterize those concerns.

Here we are in Juneau for the fourth time in the past two years to deliberate whether one of the State's taxes on oil and gas should be changed, and if so, what it should be changed to.

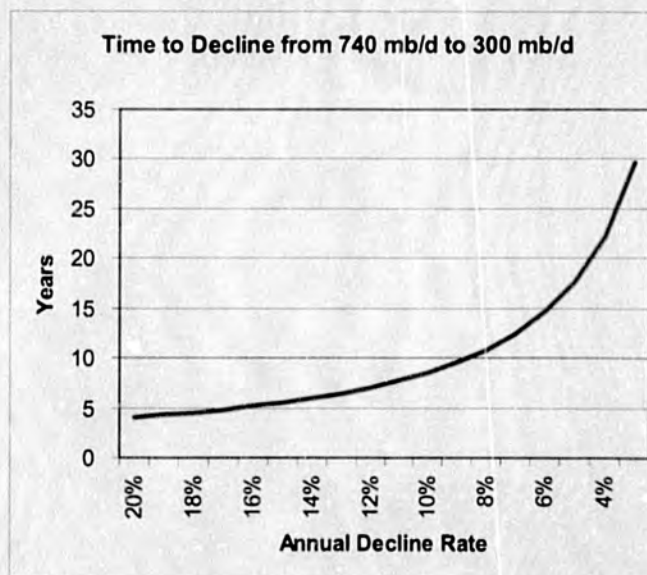
Last year the Legislature passed the Petroleum Production Tax, or PPT. Now, less than a year later, the Administration is telling you that the PPT is broken. They say it's too complicated to forecast, it isn't bringing in the revenue that was forecast last year, and they don't have enough capable auditors to enforce it.

In discussing the merits of HB 2001 versus PPT and the Administration's concerns, we must always keep in mind the real-world situation that Alaska faces. The greatest challenge that confronts this generation of Alaskans and the next is the ongoing decline of oil production, which has been, is today, and promises to remain the cornerstone of the finances of state government.

Production decline is eroding this cornerstone. It is a historical fact that even with the massive investments being made, North Slope production declined an average of 6.2% a year from FY 1997 to FY 2007, and Cook Inlet oil production declined at 8.0% a year.¹ Without those investments, decline would have been 15%.

With respect to the future of the North Slope, there is going to be a major challenge when ANS production gets down to about 300,000 barrels a day. According to Alyeska Pipeline Service Company, which operates the trans-Alaska oil pipeline (TAPS), the minimum mechanical capacity of the new electronic pumps that are being installed is about 300,000 barrels a day.

Here is a graph showing how long we have before ANS production reaches this 300,000 barrel-a-day mechanical threshold, depending on what the rate of decline is. If decline continues at the



historical rate of 6%, ANS will decline to 300,000 barrels a day in about 15 years, or FY 2022.

On the other hand, if decline can be held to 3% or less as DOR assumes, then we would have 30 years or so before we hit the mechanical threshold.

Let me stress that this graph is not a prediction. It merely plots the results of the mathematical calculations² of how long it would take to get to 300,000 barrels a day from the level of 740,000 barrels a day in FY 2007, depending on what decline rate you choose. What it does show is how important the rate of production decline is for Alaska's future. The difference between a 6% decline rate and 3% doesn't sound like much, but as you can see from the graph, that difference determines whether the 300,000 barrier is reached around FY 2022 or FY 2037. If you have a child in junior high school, this represents the difference between that child being able to grow up and have a career on the North Slope, and not having this opportunity.

Investment in new production is the only way to slow the decline enough to give the children of this state a future with the North Slope similar to what we have enjoyed. That's why new investment is such a crucial question facing the State, both in the context of the proposed tax proposal and in other areas that affect the business climate here.

There are three categories of investment that can slow the rate of decline on the North Slope, or at least keep it from getting any worse. These are, first, investment in exploration to discover new fields; second, investment in existing fields to prevent their decline from accelerating; and third, investment in innovation, technology, and new infrastructure to allow development of the vast but challenging resource of heavy and viscous oil that has already been discovered.

A great deal of the testimony to the Legislature, and a lot of the questions being asked, have focused on the fiscal terms of the "government take" for exploring in Alaska and the competitiveness of these terms relative to the terms in regimes elsewhere in the world. This kind of "who takes more" analysis is faulty for two fundamental reasons.

First, it assumes that the geologic prospects for making a commercial discovery in Alaska are comparable to those other regimes. This assumption is unsound. The North Slope has three major areas of significant oil and gas potential: the state lands in the central North Slope between the Colville and Canning rivers, the federal land in the National Petroleum Reserve – Alaska to the west of the state lands, and the coastal plain of ANWR to the east of the state lands. The exploration potential of the state lands is limited today primarily to the discovery of new satellite fields, as opposed to fields large enough to stand on their own economically. Exploration is still active in NPR-A and by no means over, but the courts have recently blocked federal leasing of the geologically promising lands around Teshekpuk Lake. And even if the Ninth Circuit decides to let that leasing go forward, the pro-leasing Bush Administration has less than 14 months left in office in which to hold the lease sale. Elsewhere in NPR-A, the relinquishment earlier this fall of some 300,000 acres of lands reflects disappointing results from leaseholder exploration efforts there. As for ANWR, despite Republican majorities in both houses of Congress and a pro-development president in the White House, the coastal plain is still closed.

And this brings me to the second reason why it is unwise to focus too much on investment in exploration as the solution to production decline. Exploration is a risky business, and there is no assurance that spending money to test a particular prospect will ever yield a dime of payback. Even when exploration succeeds in discovering a commercially viable field, it will take years from the time of its discovery until the time production from it begins. But the challenge of declining production confronts Alaska today — not eight, ten or a dozen years from now. By its nature, investing in exploration can make a significant contribution toward solving the challenge of declining production in the longer term, but not the shorter term when results are urgently needed.

Investment in heavy and viscous oil development is also a solution in the mid to long term. The first well ever drilled to test production from the Ugnu Formation was only drilled earlier this year in the Milne Point Unit, and it is still being tested and evaluated to gain a better understanding of the physical characteristics of the Ugnu oil. There are plans to use the results of these tests and evaluations to plan and develop a pilot project for producing Ugnu oil. Until then, West Sak will continue to be the only commercial heavy/viscous opportunity.

This gets us to investment in currently producing fields. Fortunately, there are investments that can be made, and are being made, in these fields to slow their decline. In the short term, this is in-fill drilling — that is, drilling new wells into the portions of a reservoir that are between the wells that have already been drilled. This accelerates the drainage of oil from the rock that currently lies in between existing wells. In-fill drilling last year contributed some 70,000 barrels a day to production from the Prudhoe Bay field. To put this into perspective, a 70,000 barrel per day field would be the 4th largest stand-alone field on the North Slope today.

There are also major investments being made, and yet to be made, in “renewal” of the surface facilities for existing fields. For instance, the gathering centers and flow stations for the Prudhoe Bay field have been in service for over 30 years now. For them the situation is not all that different from what yours would be if you bought a minivan van years ago when your children were young, and now that the kids are all grown up and it's just you and your spouse who are driving it, it's time to replace that minivan with a new vehicle that suits your needs better. If Prudhoe Bay and the other producing fields are to continue producing in the decades to come, their original production facilities will need to be overhauled or replaced. Also, as increasing amounts of heavy and viscous oil come into production, even relatively new facilities that were designed for comparatively light “conventional” oil will probably need to be modified, refitted or replaced in order to minimize operating problems in handling that heavy/viscous oil. Regardless of the stimulus or purpose for making them, renewal investments in production infrastructure present a very similar cash-flow pattern as there is for investments in the original infrastructure to develop a field. And consequently, an incentive that is effective for the initial development infrastructure is equally effective for renewal as well.

So, this is the harsh reality in which we — government, industry, the present generation of Alaskans, and the next one — find ourselves. For all of us, decline is the great challenge that

we must grapple with. It already threatens us now, and if unaddressed, will only get worse. Massive new investments for additional oil production are the only way to deal with this menace, and there are three areas of investment that can be made to deal with it: exploration, heavy and viscous oil development, and slowing decline of existing fields. The first two are of greatest benefit for the long term, and the other one is of great benefit for the near term. We need all three kinds of investment and don't have the luxury of ignoring one or two of them. I have explained our collective situation in such detail so we can each see for ourselves why declining production is the great issue of the day for Alaska.

Turning now to the relative merits of HB 2001 versus PPT, AOGA submits there are several self-evident principles of taxation that should be used to test those merits. First, a tax must be "fit for purpose" — that is, it must do the things it is intended to do, and it should do them well. Second, the administration and enforcement of a tax should be as efficient as possible, consistent with ensuring compliance by taxpayers. Third, for a taxpayer who wants to calculate and pay the correct amount of tax when it comes due, it must be possible to do so.

Regarding the first test — achieving what the tax is supposed to achieve — most new taxes have as their primary or only purpose the new revenues that they will bring in for the government. In the case of PPT, however, things were not so simple. In part its purpose certainly was revenue-related, because most legislators viewed the prior ELF-based production tax as outdated and unduly generous to producers in terms of the reduction in tax rate that the ELF caused. But, as Pedro van Meurs explained repeatedly in his testimony last year and again at the beginning of this special session, the PPT was also designed to provide incentives for investing in production and in that way answering the threat of declining production.

With respect to the revenue side, no one disputes that PPT has brought the State more tax revenue since April last year than ELF would have. According to DOR, the increase was more than \$800 million in the last nine months of 2006,³ and at that rate it would have been over a billion dollars in additional production tax revenue for a full year. DOR also said at the time that the March 31st payments were about \$137 million less than the \$950 million that it had estimated, and in due course I'll come back to the questions of forecasting the PPT and higher-than-forecasted lease expenditures. For now, my point is that PPT has certainly outperformed the old ELF tax, which is just what it is supposed to do.

As a consequence of the fact that field costs are higher than DOR predicted last year, this Administration criticizes PPT for failing to generate all the tax revenues that the fiscal note for HB 3001 predicted. It has even been suggested that Alaskans were somehow promised that PPT would generate \$800 million more this year than is now being projected, and that it is therefore necessary to raise the tax rate in order to make good on that promise.

That whole line of reasoning is flawed. First of all, DOR is complaining that they can't forecast PPT accurately because it has so many variables that affect the results. However, if they can't forecast it accurately, then why should so much reliance be placed on its current forecast

that shows the prior forecast was off by \$800 million? If the first forecast was poor, what has changed to make this latest one so good?

As I explained just a while ago, the purpose of PPT was more than just the tax revenues it would generate. It was to create incentives for attracting the massive new investments that will be needed in order to meet the threat posed by declining production. The system of tax credits under PPT provides significant incentives for investing in capital assets to explore for, develop, and produce more oil and gas.

- Current capital expenditures generate a 20% tax credit in addition to being immediately deductible as lease expenditures. For the kinds of economic analysis that reflect the time-value of money, these front-end benefits have the greatest possible positive effects on the results of the analysis.
- The incentive to invest sooner rather than later is materially increased by the fact that the "transitional investment expenditure" or "TIE" credit for pre-PPT capital investments can only be taken to the extent those prior expenditures are matched two for one by new capital expenditures, and taxpayers have only until the end of 2013 to use up their "TIE" credits.⁴
- The 20% tax credit for a carried-forward annual loss particularly benefits explorers and those who are bringing new fields into production for the first time in Alaska and don't have production yet that they can deduct their costs against.
- The "section 024(c) credit" of up to \$12 million a year for producers with less than 100,000 barrels a day of production is an incentive for independents and other smaller players to come to Alaska for oil and gas.
- The \$6 million annual credit under AS 43.55.024(c) is an incentive for exploration and development in the areas of Alaska outside the North Slope and Cook Inlet basin.

Have these incentives under PPT worked? The preliminary results so far say yes. DOR's August 3rd report on PPT states that capital investments for FY 2008 are 80% greater than previously estimated, despite the fact that operating expenditures are up by 101% over the prior projections.⁵ Of course, it will take time before companies can fully respond to these incentives, and it will take even more time to tell whether the new investments to increase oil production succeed in actually getting more production. But so far things appear to be moving in the right direction.

There is the question of whether the inability of explorers and almost-producers to sell their credit certificates near face value has been a material problem. As the Executive Director of AOGA, I can assure you there is no one among AOGA's membership who thinks any problem in selling the certificates has been serious enough to justify amending the PPT.

Now, moving on to HB 2001, how well does it stack up under the standard of being fit for purpose? Certainly, it would generate even more tax revenue than the PPT will, at least in