

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1517 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987

1317

TABLE 11-5-4
TAPS-SEPARAT
(8-1986 9)

[illegible]

TABLE 11-5-3

PRODUCTION, PIPELINE & EXPLORATION-SEPARATE ACCT (HB353) INCOME TAX ESTS (6-1986 Q)																		
SENSITIVITY ANALYSIS \$5/B MUV																		
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TABLE 11-5-6
CURRENT LAW-MODIFIED APPORTIONMENT (AS4320) INCOME TAX ESTS
(8-19864)

SENSITIVITY ANALYSIS 45/D MMV

FISCAL YEAR					CALENDAR YEAR					FISCAL YEAR	
					TOP 3 COMPANIES						
FISCAL YEAR	TOTAL AK OIL & GAS PROD MMB/Y	CHG TOTAL AK OIL & GAS PROD MMB/Y	APPMT FACTOR CHG FACTOR	NET PROFIT APPMT FACTOR	CALENDAR YEAR	MM NET PROFIT MMB/Y	AK TAXABLE INCOME MMB/Y	AK TAX LIAB MMB/Y	TOTAL TAX LIAB MMB/Y	FISCAL YEAR	TOTAL AK TAX COLLECT MMB/Y
	EQUIV %										
1986	693.67	0.0000	0.0000	0.2787	1986	3511.50	978.66	91.99	102.22	1986	163.73
1987	695.00	0.1921	1.0012	0.2763	1987	3511.50	970.00	91.19	101.32	1987	101.77
1988	650.68	-6.3768	0.9586	0.2622	1988	3511.50	920.57	86.53	96.15	1988	98.66
1989	612.89	-3.8076	0.9623	0.2497	1989	3511.50	876.96	82.43	91.59	1989	93.81
1990	574.34	-6.2896	0.9591	0.2371	1990	3511.50	832.70	78.27	86.97	1990	89.22
1991	519.53	-9.5433	0.9380	0.2202	1991	3511.50	773.23	72.68	80.76	1991	83.77
1992	465.74	-10.3544	0.9327	0.2033	1992	3511.50	713.98	67.11	74.57	1992	77.57
1993	417.98	-10.2541	0.9333	0.1879	1993	3511.50	659.73	62.01	68.91	1993	71.65
1994	371.35	-11.1567	0.9275	0.1725	1994	3511.50	605.77	56.94	63.27	1994	66.00
1995	334.00	-10.0576	0.9346	0.1596	1995	3511.50	560.50	52.69	58.54	1995	60.83
1996	298.48	-10.6343	0.9309	0.1471	1996	3511.50	516.54	48.56	53.95	1996	56.17
1997	268.45	-10.0600	0.9346	0.1361	1997	3511.50	477.94	44.93	49.92	1997	51.87
1998	243.42	-9.3265	0.9394	0.1266	1998	3511.50	444.48	41.78	46.42	1998	48.12
1999	51.82	-78.7096	0.1735	0.0217	1999	3511.50	76.37	7.18	7.98	1999	26.51
2000	50.78	-2.0123	0.9789	0.0211	2000	3511.50	74.01	6.96	7.73	2000	7.85
2001	48.66	-4.1860	0.9560	0.0199	2001	3511.50	70.05	6.58	7.32	2001	7.52
2002	49.15	1.0100	1.0106	0.0200	2002	3511.50	70.08	6.59	7.32	2002	7.32
2003	47.22	-3.9124	0.9589	0.0189	2003	3511.50	66.53	6.25	6.95	2003	7.13
2004	46.15	-2.2718	0.9761	0.0183	2004	3511.50	64.29	6.04	6.72	2004	6.83
2005	45.55	-1.3032	0.9843	0.0179	2005	3511.50	62.78	5.90	6.56	2005	6.63

TABLE 11-5-7

REVENUE COMPARISON

CURRENT LAW

INCOME TAX-MODIFIED APPORTIONMENT (AS4320)

PRODUCTION TAX-15% MAX NOMINAL RATE (AS4353)

PROPOSED LAW (HB353)

INCOME TAX-SEPARATE ACCOUNTING

PRODUCTION TAX-12.25% MAX NOMINAL RATE

BEGINNING IN CY 1987

(1986-05)

SENSITIVITY ANALYSIS 05/8 MMV
INCOME TAX COLLECTIONS

PRODUCTION TAX LIABILITY

INCOME TAX COLLECTIONS +
PRODUCTION TAX LIABILITY

FISCAL YEAR	CURRENT			CURRENT			CURRENT		
	LAW		DIFF HB353 LESS CURRENT	LAW		DIFF HB353 LESS CURRENT	LAW		DIFF HB353 LESS CURRENT
	MMV/Y	MMV/Y		MMV/Y	MMV/Y		MMV/Y	MMV/Y	
1986	143.74	119.60	-44.14	434.04	434.04	0.00	597.79	553.65	-44.14
1987	101.77	63.19	-38.58	432.16	432.15	-0.01	533.94	495.34	-38.59
1988	98.66	28.08	-70.58	339.13	339.11	-0.02	437.79	367.19	-70.60
1989	93.81	4.72	-89.09	316.72	316.70	-0.01	410.53	321.42	-89.10
1990	89.22	0.00	-89.22	295.40	295.39	-0.01	384.62	295.39	-89.23
1991	83.77	6.02	-77.75	264.66	264.66	0.00	348.43	270.68	-77.75
1992	77.57	11.71	-65.86	234.21	234.21	0.00	311.78	245.93	-65.86
1993	71.65	15.70	-55.95	209.24	209.24	0.00	280.89	224.94	-55.95
1994	66.00	25.32	-40.68	192.06	192.06	0.00	258.06	217.38	-40.68
1995	60.83	40.86	-19.97	185.19	185.19	0.00	246.02	226.05	-19.97
1996	56.17	46.79	-9.38	165.30	165.30	0.00	221.47	212.09	-9.38
1997	51.87	48.64	-3.23	150.17	150.17	0.00	202.04	198.81	-3.23
1998	48.12	50.27	2.15	139.99	139.99	0.00	188.11	190.26	2.15
1999	26.51	50.00	23.49	58.99	58.99	0.00	85.50	108.99	23.49
2000	7.85	49.65	41.80	57.73	57.73	0.00	65.58	107.38	41.80
2001	7.52	48.21	40.70	54.36	54.36	0.00	61.87	102.57	40.70
2002	7.32	48.47	41.15	54.10	54.10	0.00	61.42	102.57	41.15
2003	7.13	46.90	39.77	52.03	52.03	0.00	59.16	98.93	39.77
2004	6.83	45.00	38.18	50.84	50.84	0.00	57.67	95.84	38.18
2005	6.63	43.90	37.26	50.24	50.24	0.00	56.87	94.14	37.26
SUM86-05	1132.98	793.03	-339.95	3736.57	3736.51	-0.06	4849.55	4529.54	-340.00

TABLE 11-5-B
PERCENTAGE SHARE COMPARISON
CALCULATION OF STATE PETROLEUM PRODUCTION REVENUES
AS A PERCENTAGE OF
PETROLEUM PRODUCTION NET INCOME
(1986-1986)

SENSITIVITY ANALYSIS 65/B UNV

FISCAL YEAR	TOTAL PETRO PRODN GROSS INCOME MM\$/Y	TOTAL PETRO PRODN NON TAX DEDUCTS MM\$/Y	TOTAL PETRO PRODN NET INCOME MM\$/Y	CURRENT LAN STATE PETRO PRODN REVENUE MM\$/Y	REVENUE VS NET INCOME %	NO353 STATE PETRO PRODN REVENUE MM\$/Y	REVENUE VS NET INCOME %
	-----	-----	-----	-----	-----	-----	-----
1986	3471.70	3534.90	-63.29	1220.95	NA	1120.60	NA
1987	3460.02	3817.11	-357.09	1152.96	NA	1051.17	NA
1988	3260.60	3813.52	-552.92	1031.79	NA	933.11	NA
1989	3085.79	3763.01	-678.02	975.30	NA	881.56	NA
1990	2947.06	3619.45	-672.39	917.62	NA	828.40	NA
1991	2798.61	3366.36	-567.75	845.44	NA	767.69	NA
1992	2696.00	3128.90	-522.10	768.09	NA	703.03	NA
1993	2420.31	2923.51	-495.20	699.28	NA	643.33	NA
1994	2368.32	2693.01	-324.69	649.93	NA	609.25	NA
1995	2392.23	2491.35	-99.13	621.49	NA	601.51	NA
1996	2234.50	2291.02	-57.31	553.67	NA	544.28	NA
1997	2110.25	2134.77	-24.52	499.42	NA	496.19	NA
1998	2014.00	1982.09	31.12	453.56	1457.60	455.71	1464.52
1999	1084.23	352.05	732.18	229.12	31.29	252.61	34.50
2000	1061.02	335.94	725.08	206.01	20.30	247.01	34.14
2001	1016.55	319.03	696.72	196.27	20.17	236.96	34.01
2002	1027.43	319.03	707.60	196.78	27.01	237.93	33.63
2003	995.34	319.03	675.51	190.13	28.15	229.90	34.03
2004	972.60	319.03	652.77	185.40	28.40	223.58	34.25
2005	960.51	319.03	640.68	182.72	28.52	219.98	34.34

TABLE II-5-9

PERCENTAGE SHARE COMPARISON

CALCULATION OF STATE PETROLEUM PRODUCTION & PIPELINE REVENUES

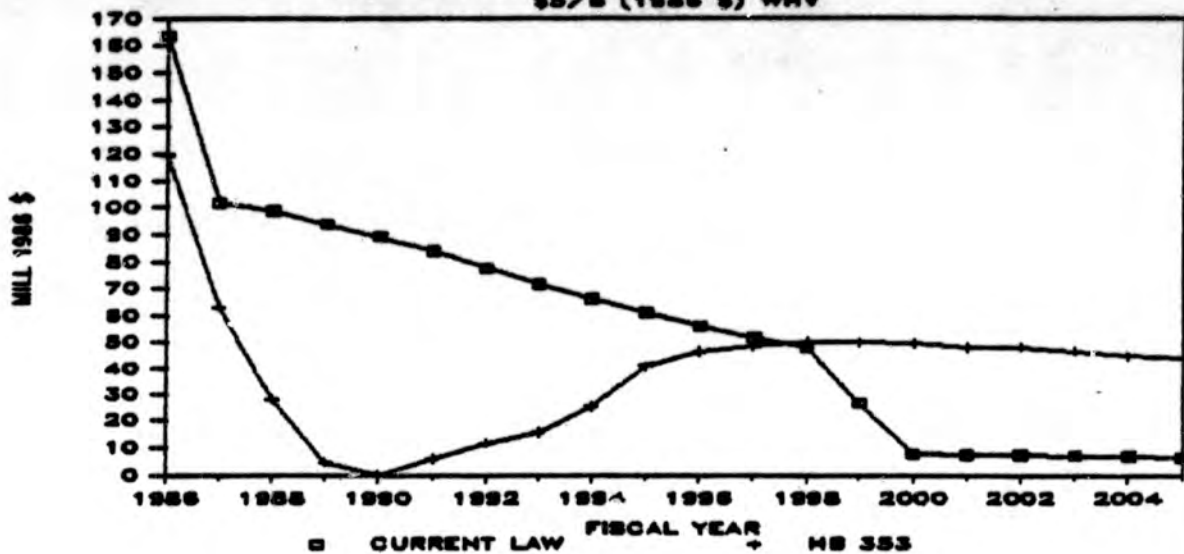
AS A PERCENTAGE OF

PETROLEUM PRODUCTION & PIPELINE NET INCOME

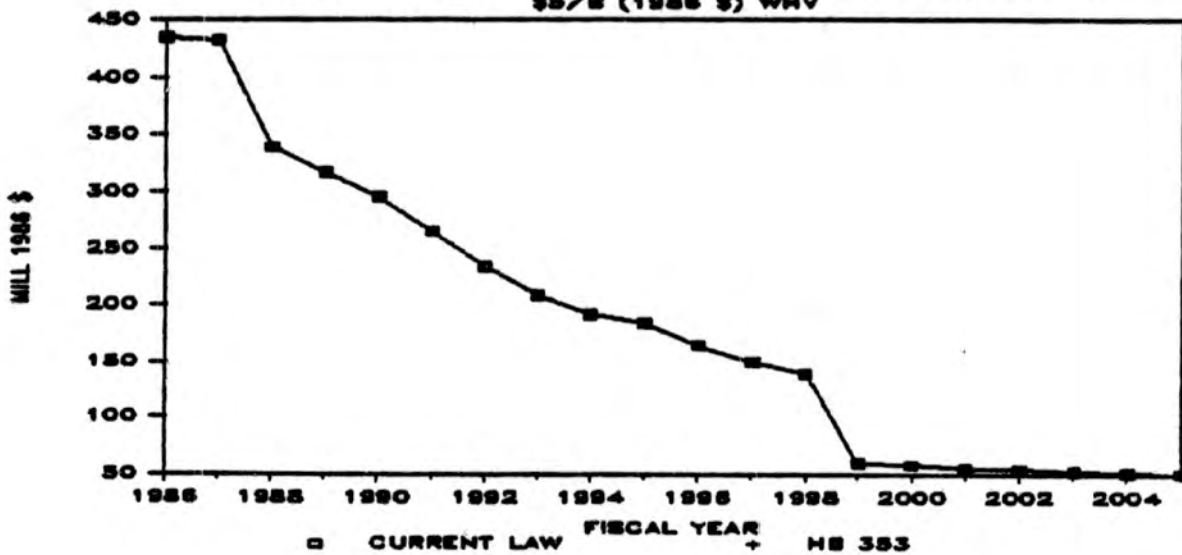
(B=1984)

FISCAL YEAR	SENSITIVITY ANALYSIS 85/8 UNV			CURRENT		H833	
	TOTAL PETRO PRODN & PIPE GROSS INCOME MM/Y	TOTAL PETRO PRODN & PIPE NON TAX DEDUCTS MM/Y	TOTAL PETRO PRODN & PIPE NET INCOME MM/Y	LAN STATE PETRO PRODN & PIPE REVENUE MM/Y	REVENUE VS NET INCOME %	STATE PETRO PRODN & PIPE REVENUE MM/Y	REVENUE VS NET INCOME %
1986	4557.18	4472.55	2084.63	1411.95	67.73	1367.81	65.61
1987	4427.75	4727.04	1700.70	1309.57	77.00	1270.97	74.73
1988	5068.93	4682.58	1186.35	1161.19	97.88	1090.59	91.93
1989	5305.90	4599.53	706.37	1080.24	152.93	991.13	140.31
1990	4837.06	4420.88	416.19	1001.42	240.62	912.20	219.18
1991	4397.02	4114.02	283.60	911.37	322.04	833.62	294.54
1992	3946.21	3840.37	105.84	819.53	774.31	753.67	712.09
1993	3532.84	3599.75	-66.47	737.21	NA	681.25	NA
1994	3288.15	3337.27	-49.12	677.57	NA	636.89	NA
1995	3164.57	3110.43	54.15	640.68	1083.18	620.71	1049.41
1996	2844.34	2887.13	-42.77	565.76	NA	556.38	NA
1997	2600.85	2707.22	-106.36	505.97	NA	502.74	NA
1998	2388.77	2533.21	-144.43	456.15	NA	458.30	NA
1999	1084.23	352.05	732.18	229.12	31.29	252.61	34.50
2000	1061.82	335.94	725.88	206.01	28.38	247.81	34.14
2001	1016.55	319.83	696.72	196.27	28.17	236.96	34.01
2002	1027.43	319.83	707.60	196.78	27.81	237.93	33.63
2003	995.34	319.83	675.51	190.13	28.15	229.90	34.03
2004	972.60	319.83	652.77	185.40	28.40	223.58	34.25
2005	960.51	319.83	640.68	182.72	28.52	219.98	34.34

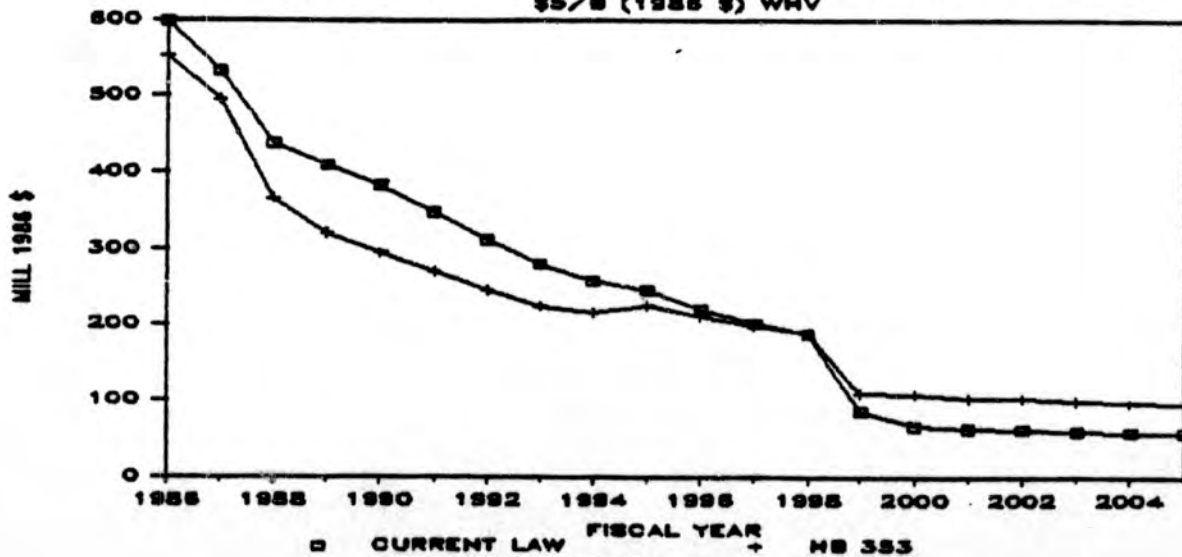
GRAPH II-5-1
INCOME TAX COMPARISON
\$B/B (1986 \$) WHV



GRAPH II-5-2
PRODUCTION TAX COMPARISON
\$B/B (1986 \$) WHV



GRAPH II-5-3
INCOME + PRDND TAX COMPARISON
\$B/B (1986 \$) WHV



SECTION II-3

REVENUE PROJECTION COMPARISON

**HB 353 vs CURRENT LAW
FOR FISCAL YEARS 1986-2005**

ASSUMING \$3/BARREL (1986 \$) WELLHEAD VALUE

SUMMARY TABLES AND GRAPHS

TABLE 11-3-1

ALL NORTH SLOPE PRODUCING FIELDS-SEPARATE ACCT (HB353) INCOME TAX ESTS

(1-1986 \$) SENSITIVITY ANALYSIS \$3/B MMV

FISCAL YEAR	PROD VOL MT AVG GROSS WELLHEAD VALUE \$/B	TOTAL GROSS PROD VOL MMB/Y	TOTAL GROSS REV MM\$/Y	ROYALTY SHARE MM\$/Y	PROD & CONS TAX MM\$/Y	PTY TAX MM\$/Y	OPER COSTS MM\$/Y	DEPREC EXPENSE MM\$/Y	AMORT EXPENSE MM\$/Y	UNCAP INTEREST & EXPENSE ALLOWED MM\$/Y	ADMIN & OVERHD EXPENSE ALLOWED MM\$/Y	EXPLOR (UNSUCCESS) EXPENSE ALLOWED MM\$/Y	TOTAL DEDUCT MM\$/Y	TOTAL TAXABLE INCOME MM\$/Y	TOTAL TAX LIAB MM\$/Y	WINDFALL PROFITS TAX MM\$/Y	TOTAL DEDUCT MM\$/Y	TOTAL TAXABLE INCOME MM\$/Y	TOTAL TAX LIAB MM\$/Y	PROD TAX CURRENT MM\$/Y	PROD TAX HB353 MM\$/Y
1986	2.84254	642.00	1825.20	202.02	417.64	306.40	1081.30	1695.11	1.08	105.00	240.00	0.00	3948.56	-2123.36	-199.60	0.00	3948.56	-2123.36	-199.60	416.94	416.94
1987	2.83474	639.00	1811.40	184.76	411.47	209.58	1079.15	1908.90	1.09	105.00	240.00	0.00	4139.94	-2328.54	-218.88	0.00	4139.94	-2328.54	-218.88	410.77	410.77
1988	2.81788	593.00	1671.00	170.36	310.64	205.69	1029.57	1944.47	1.05	105.00	240.00	0.00	4006.78	-2335.78	-219.56	0.00	4006.78	-2335.78	-219.56	310.00	310.00
1989	2.80576	556.00	1560.00	158.98	287.02	196.31	989.24	1925.18	1.00	105.00	240.00	0.00	3902.74	-2342.74	-220.22	0.00	3902.74	-2342.74	-220.22	286.41	286.41
1990	2.79029	515.00	1437.00	146.38	261.12	179.53	944.55	1818.89	0.96	105.00	240.00	0.00	3696.44	-2259.44	-212.39	0.00	3696.44	-2259.44	-212.39	260.56	260.56
1991	2.79825	458.00	1281.60	130.58	226.50	159.58	878.78	1612.29	0.84	105.00	240.00	0.00	3353.57	-2071.97	-194.77	0.00	3353.57	-2071.97	-194.77	226.00	226.00
1992	2.79901	406.00	1136.40	115.79	195.27	139.64	819.58	1420.79	0.74	105.00	240.00	0.00	3044.81	-1908.41	-179.39	0.00	3044.81	-1908.41	-179.39	194.82	194.82
1993	2.80112	356.00	997.20	101.61	166.59	119.69	762.56	1251.74	0.65	105.00	240.00	0.00	2747.84	-1750.64	-164.56	0.00	2747.84	-1750.64	-164.56	166.20	166.20
1994	2.79615	312.00	872.40	88.88	141.08	99.74	712.92	1099.20	0.57	105.00	240.00	0.00	2487.48	-1615.08	-151.82	0.00	2487.48	-1615.08	-151.82	140.74	140.74
1995	2.79055	275.00	767.40	78.17	121.96	79.79	671.19	971.15	0.51	105.00	240.00	0.00	2267.78	-1500.38	-141.04	0.00	2267.78	-1500.38	-141.04	121.66	121.66
1996	2.79500	240.00	670.80	64.39	102.50	59.84	631.08	846.00	0.44	105.00	240.00	0.00	2049.25	-1378.45	-129.57	0.00	2049.25	-1378.45	-129.57	102.23	102.23
1997	2.79429	210.00	586.80	56.33	86.99	39.90	596.98	740.47	0.39	105.00	240.00	0.00	1866.05	-1279.25	-120.25	0.00	1866.05	-1279.25	-120.25	86.76	86.76
1998	2.80000	186.00	520.80	49.99	75.40	19.95	569.42	654.30	0.34	105.00	240.00	0.00	1714.40	-1193.60	-112.20	0.00	1714.40	-1193.60	-112.20	75.20	75.20
1999	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2001	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2003	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2004	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	0.00000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

TABLE 11-3-2

COOK INLET-SEPARATE ACCT (H0333) INCOME TAX ESTS
(10-1986 \$)

SENSITIVITY ANALYSIS 03/0 H/V

FISCAL YEAR	OIL GROSS WELLHEAD VALUE \$/B	OIL GROSS PRODN VOL HHB/Y	OIL GROSS REV HHB/Y	GAS GROSS WELLHEAD VALUE \$/MCF	GAS GROSS PRODN VOL BCF/Y	GAS GROSS REV HHB/Y	TOTAL GROSS REV HHB/Y	OIL RYALTY SHARE HHB/Y	GAS RYALTY SHARE HHB/Y	OIL PRODN & CONS TAX CURRENT HHB/Y	OIL PRODN & CONS TAX H0333 HHB/Y	GAS PRODN TAX HHB/Y	PTY TAX HHB/Y	OPER COSTS HHB/Y	OTHER DEDUCT HHB/Y	TOTAL TAXABLE INCOME HHB/Y	TOTAL TAX LIAB HHB/Y	WINDFALL PROFITS TAX HHB/Y	TOTAL TAXABLE INCOME H/MPY HHB/Y	TOTAL TAX LIAB H/NPT HHB/Y
1986	9.00	18.03	162.27	0.79	193.45	152.83	315.10	20.28	19.10	0.19	0.19	9.09	11.00	225.54	135.74	-105.85	-9.95	0.00	-105.85	-9.95
1987	9.00	12.67	114.03	0.93	226.30	210.46	324.49	14.25	26.31	0.14	0.12	12.15	11.60	241.65	140.20	-121.96	-11.46	0.00	-121.96	-11.46
1988	9.00	10.18	91.62	1.06	255.50	270.83	362.45	11.45	33.85	0.10	0.08	15.17	12.32	241.65	142.62	-94.69	-8.90	0.00	-94.69	-8.90
1989	9.00	8.87	79.83	1.14	259.15	295.43	375.26	9.98	36.93	0.07	0.06	16.54	11.94	241.65	142.62	-84.46	-7.94	0.00	-84.46	-7.94
1990	9.00	7.15	64.35	1.32	288.35	380.62	444.97	8.04	47.58	0.05	0.04	21.31	11.55	241.65	142.62	-27.83	-2.62	0.00	-27.83	-2.62
1991	9.00	6.21	55.89	1.65	310.25	511.91	567.80	6.99	63.99	0.01	0.01	26.88	11.17	241.65	142.62	74.50	7.00	0.00	74.50	7.00
1992	9.00	5.33	47.97	1.80	324.85	584.73	632.70	6.00	73.09	0.01	0.01	30.19	10.78	241.65	142.62	128.37	12.07	0.00	128.37	12.07
1993	9.00	4.53	40.77	1.93	332.15	641.05	681.82	5.10	80.13	.00	.00	33.09	10.40	241.65	142.62	168.82	15.87	0.00	168.82	15.87
1994	9.00	3.94	35.46	2.46	324.85	799.13	834.59	4.43	99.89	.00	.00	42.65	10.01	241.65	142.62	293.33	27.57	0.00	293.33	27.57
1995	9.00	3.07	27.63	3.07	328.50	1008.50	1036.13	3.45	126.06	.00	.00	54.71	9.63	225.54	142.62	474.11	44.57	0.00	474.11	44.57
1996	9.00	3.03	27.27	3.07	332.15	1019.70	1046.97	3.41	127.46	.00	.00	56.21	9.24	209.43	142.62	498.59	46.87	0.00	498.59	46.87
1997	9.00	2.96	26.64	3.07	339.45	1042.11	1068.75	3.33	130.26	.00	.00	57.45	8.86	209.43	142.62	516.80	48.58	0.00	516.80	48.58
1998	9.00	2.88	25.92	3.07	346.75	1064.52	1090.44	3.24	133.07	.00	.00	59.61	8.47	209.43	142.62	534.00	50.20	0.00	534.00	50.20
1999	9.00	2.81	25.29	3.07	343.10	1053.32	1078.61	3.16	131.66	.00	.00	58.99	8.09	209.43	142.62	524.65	49.32	0.00	524.65	49.32
2000	9.00	2.81	25.29	3.07	335.80	1030.91	1056.20	3.16	128.86	.00	.00	57.73	7.70	193.32	142.62	522.80	49.14	0.00	522.80	49.14
2001	9.00	2.77	24.93	3.07	321.20	986.08	1011.01	3.12	123.26	.00	.00	54.36	7.32	177.21	142.62	503.13	47.29	0.00	503.13	47.29
2002	9.00	2.74	24.66	3.07	324.85	997.29	1021.95	3.08	124.66	.00	.00	54.10	6.93	177.21	142.62	513.34	48.25	0.00	513.34	48.25
2003	9.00	1.86	16.74	3.07	317.55	974.88	991.62	2.09	121.86	.00	.00	52.83	6.55	177.21	142.62	489.25	45.99	0.00	489.25	45.99
2004	9.00	1.83	16.47	3.07	310.25	952.47	968.94	2.06	119.06	.00	.00	50.84	6.16	177.21	142.62	470.99	44.27	0.00	470.99	44.27
2005	9.00	1.75	15.75	3.07	306.60	941.26	957.01	1.97	117.66	.00	.00	50.24	5.78	177.21	142.62	461.53	43.38	0.00	461.53	43.38

TABLE 11-3-3
ALL PRODUCING FIELDS-SEPARATE ACCT (H0353) INCOME TAX ESTS
(1-1986-6) SENSITIVITY ANALYSIS 03/0 MW

[illegible]

TABLE 11-3-4
TPMS-SEPARATE MCCT (HB353) INCOME TAX ESTS
(8-1986 \$)

SENSITIVITY ANALYSIS 83/8 MW

FISCAL YEAR	TARIFF \$/B	PIPELINE THRUPT HMB/Y	TOTAL GROSS REV HMB/Y	OPER COSTS HMB/Y	DEPREC EXPENSE HMB/Y	AMORT & UNCAP INT HMB/Y	PTV TAX HMB/Y	TOTAL DEDUCT HMB/Y	TOTAL TAXABLE INCOME HMB/Y	TOTAL TAX LIAB HMB/Y
1986	4.80	442.00	3083.65	257.65	268.65	409.86	182.62	1118.79	1964.87	184.70
1987	4.64	439.00	2964.75	256.95	268.65	381.77	156.21	1063.58	1901.17	178.71
1988	4.39	593.00	2605.32	246.16	268.65	351.48	128.98	995.46	1609.86	151.33
1989	3.99	556.00	2217.08	237.48	268.65	327.01	104.41	937.54	1279.53	120.28
1990	3.65	515.00	1878.15	227.86	268.65	302.34	83.32	882.17	995.98	93.62
1991	3.47	458.00	1586.98	199.14	268.65	277.65	65.50	810.95	776.03	72.95
1992	3.28	406.00	1330.96	188.69	268.65	252.44	50.28	760.06	570.91	53.67
1993	3.07	356.00	1094.23	178.63	268.65	226.53	37.40	711.42	382.81	35.98
1994	2.92	312.00	910.56	169.78	268.65	204.91	27.38	649.83	240.74	22.63
1995	2.79	275.00	768.14	162.34	268.65	186.27	18.99	636.25	131.89	12.40
1996	2.59	240.00	621.71	155.30	268.65	169.75	11.95	605.66	16.05	1.51
1997	2.30	210.00	483.51	149.27	268.65	153.12	4.46	577.51	-93.99	-8.84
1998	1.99	186.00	349.73	144.44	268.65	136.22	2.55	551.87	-182.14	-17.12
1999	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2003	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2004	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

TABLE 11-3-5
PRODUCTION, PIPELINE & EXPLORATION-SEPARATE ACCT (H8353) INCOME TAX ESTS
(8-1986 \$) SENSITIVITY ANALYSIS 83/B UNV

SENSITIVITY ANALYSIS 13/8 MWY																TOTAL				TOTAL			
FISCAL YEAR	NS		TAPS		NS+TAPS		NS+TAPS		C1		TOTAL		HDD		TOTAL		TOTAL		HDD		DIFF		
	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	APFN	DIFF	NS353	NS353	NS353	NS353	APFN	DIFF		
	TAXABLE	TAXABLE	TAXABLE	TAX	INCOME	INCOME	LIAB	TAX	LIAB	TAX	NS353	NS353	NS353	AS4320	NS353	LIAB	COLLECT	TAX	AS4320	TAX	W/MT		
	INCOME	INCOME	INCOME	LIAB	M/MT	M/MT	M/MT	LIAB	M/MT	LIAB	COLLECT	COLLECT	AS4320	M/MT	M/MT	M/MT	COLLECT	AS4320	M/MT	M/MT			
1986	-2123.36	1964.07	-158.49	0.00	-2123.36	-158.49	0.00	0.00	0.00	0.00	55.39	153.96	-98.56	0.00	55.39	153.96	-98.56	0.00	55.39	153.96	-98.56		
1987	-2328.54	1901.17	-427.36	0.00	-2328.54	-427.36	0.00	0.00	0.00	0.00	0.00	82.76	-82.76	0.00	0.00	82.76	-82.76	0.00	0.00	82.76	-82.76		
1988	-2335.78	1609.86	-725.92	0.00	-2335.78	-725.92	0.00	0.00	0.00	0.00	0.00	86.02	-86.02	0.00	0.00	86.02	-86.02	0.00	0.00	86.02	-86.02		
1989	-2342.74	1279.53	-1063.21	0.00	-2342.74	-1063.21	0.00	0.00	0.00	0.00	0.00	76.03	-76.03	0.00	0.00	76.03	-76.03	0.00	0.00	76.03	-76.03		
1990	-2259.44	995.98	-1263.46	0.00	-2259.44	-1263.46	0.00	0.00	0.00	0.00	0.00	72.26	-72.26	0.00	0.00	72.26	-72.26	0.00	0.00	72.26	-72.26		
1991	-2071.97	776.03	-1295.95	0.00	-2071.97	-1295.95	0.00	7.00	7.00	7.00	5.25	67.78	-62.52	7.00	5.25	67.78	-62.52	7.00	5.25	67.78	-62.52		
1992	-1908.41	570.91	-1337.50	0.00	-1908.41	-1337.50	0.00	12.07	12.07	12.07	10.80	62.80	-52.00	12.07	10.80	62.80	-52.00	12.07	10.80	62.80	-52.00		
1993	-1750.64	382.81	-1367.83	0.00	-1750.64	-1367.83	0.00	15.87	15.87	15.87	14.92	57.96	-43.04	15.87	14.92	57.96	-43.04	15.87	14.92	57.96	-43.04		
1994	-1615.08	240.74	-1374.34	0.00	-1615.08	-1374.34	0.00	27.57	27.57	27.57	24.65	53.26	-28.62	27.57	24.65	53.26	-28.62	27.57	24.65	53.26	-28.62		
1995	-1500.38	131.89	-1368.49	0.00	-1500.38	-1368.49	0.00	44.57	44.57	44.57	40.32	49.05	-8.73	44.57	40.32	49.05	-8.73	44.57	40.32	49.05	-8.73		
1996	-1378.45	16.05	-1362.40	0.00	-1378.45	-1362.40	0.00	46.87	46.87	46.87	46.29	45.25	1.04	46.87	46.29	45.25	1.04	46.87	46.29	45.25	1.04		
1997	-1279.25	-93.99	-1373.24	0.00	-1279.25	-1373.24	0.00	48.58	48.58	48.58	48.15	41.80	6.35	48.58	48.15	41.80	6.35	48.58	48.15	41.80	6.35		
1998	-1193.60	-182.14	-1375.74	0.00	-1193.60	-1375.74	0.00	50.20	50.20	50.20	49.79	38.85	10.94	50.20	49.79	38.85	10.94	50.20	49.79	38.85	10.94		
1999	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49.32	49.32	49.32	49.54	21.54	28.00	49.32	49.54	21.54	28.00	49.32	49.54	21.54	28.00		
2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49.14	49.14	49.14	49.19	6.52	42.67	49.14	49.19	6.52	42.67	49.14	49.19	6.52	42.67		
2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	47.29	47.29	47.29	47.76	6.24	41.51	47.29	47.76	6.24	41.51	47.29	47.76	6.24	41.51		
2002	0.00	0.00	0.00	0.00	0.00	0.00	0.00	48.25	48.25	48.25	48.01	6.08	41.93	48.25	48.01	6.08	41.93	48.25	48.01	6.08	41.93		
2003	0.00	0.00	0.00	0.00	0.00	0.00	0.00	45.99	45.99	45.99	46.56	5.92	40.63	45.99	46.56	5.92	40.63	45.99	46.56	5.92	40.63		
2004	0.00	0.00	0.00	0.00	0.00	0.00	0.00	44.27	44.27	44.27	44.70	5.67	39.03	44.27	44.70	5.67	39.03	44.27	44.70	5.67	39.03		
2005	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43.38	43.38	43.38	43.61	5.51	38.09	43.38	43.61	5.51	38.09	43.38	43.61	5.51	38.09		

TABLE 11-3-6
CURRENT LAW-MODIFIED APPORTIONMENT (AS4320) INCOME TAX ESTS
(9-1986)

SENSITIVITY ANALYSIS 83/8 UNV

FISCAL YEAR					CALENDAR YEAR					FISCAL YEAR	
					TOP 3 COMPANIES						
FISCAL YEAR	TOTAL AK OIL & GAS PROD MM\$/Y EQUIV	CHG TOTAL AK OIL & GAS PROD MM\$/Y I	APPMT FACTOR CHG FACTOR	NET PROFIT APPMT FACTOR	CALENDAR YEAR	MM NET PROFIT MM\$/Y	AK TAXABLE INCOME MM\$/Y	AK TAX LIAB MM\$/Y	TOTAL AK TAX LIAB MM\$/Y	FISCAL YEAR	TOTAL AK TAX COLLECT MM\$/Y
1986	687.67	0.0000	0.0000	0.2787	1986	2862.50	797.78	74.99	83.32	1986	153.96
1987	684.00	-0.5333	0.9965	0.2750	1987	2862.50	787.06	73.98	82.20	1987	82.76
1988	639.68	-6.4793	0.9579	0.2607	1988	2862.50	746.38	70.16	77.95	1988	80.02
1989	601.89	-5.9074	0.9616	0.2482	1989	2862.50	710.54	66.79	74.21	1989	76.03
1990	563.34	-6.4046	0.9584	0.2355	1990	2862.50	674.15	63.37	70.41	1990	72.26
1991	508.53	-9.7297	0.9368	0.2184	1991	2862.50	625.20	58.77	65.30	1991	67.78
1992	457.74	-9.9884	0.9351	0.2022	1992	2862.50	578.76	54.40	60.45	1992	62.80
1993	407.98	-10.8702	0.9293	0.1860	1993	2862.50	532.49	50.05	55.62	1993	57.96
1994	362.35	-11.1851	0.9273	0.1708	1994	2862.50	488.84	45.95	51.06	1994	53.26
1995	325.00	-10.3074	0.9330	0.1577	1995	2862.50	451.53	42.44	47.16	1995	49.05
1996	290.48	-10.6211	0.9310	0.1454	1996	2862.50	416.15	39.12	43.46	1996	45.25
1997	261.45	-9.9928	0.9350	0.1346	1997	2862.50	385.23	36.21	40.24	1997	41.80
1998	238.42	-8.8112	0.9427	0.1256	1998	2862.50	359.53	33.80	37.53	1998	38.85
1999	51.82	-78.2631	0.1782	0.0222	1999	2862.50	63.44	5.96	6.63	1999	21.54
2000	50.78	-2.0123	0.9789	0.0215	2000	2862.50	61.88	5.78	6.42	2000	6.52
2001	48.66	-4.1860	0.9560	0.0203	2001	2862.50	58.19	5.47	6.08	2001	6.24
2002	49.15	1.0100	1.0104	0.0203	2002	2862.50	58.22	5.47	6.08	2002	6.08
2003	47.22	-3.9124	0.9589	0.0193	2003	2862.50	55.27	5.20	5.77	2003	5.92
2004	46.15	-2.2718	0.9761	0.0187	2004	2862.50	53.41	5.02	5.58	2004	5.67
2005	45.55	-1.3032	0.9863	0.0182	2005	2862.50	52.15	4.90	5.45	2005	5.51

TABLE 11-3-7

REVENUE COMPARISON

CURRENT LAW

INCOME TAX-MODIFIED APPORTIONMENT (AS4320)

PRODUCTION TAX-15% MAX NOMINAL RATE (AS4353)

PROPOSED LAW (HB353)

INCOME TAX-SEPARATE ACCOUNTING

PRODUCTION TAX-12.25% MAX NOMINAL RATE

BEGINNING IN CY 1987

(1-1986)

SENSITIVITY ANALYSIS AS/O MHV

INCOME TAX COLLECTIONS

PRODUCTION TAX LIABILITY

INCOME TAX COLLECTIONS +

PRODUCTION TAX LIABILITY

FISCAL YEAR	INCOME TAX COLLECTIONS			PRODUCTION TAX LIABILITY			INCOME TAX COLLECTIONS + PRODUCTION TAX LIABILITY		
	CURRENT	DIFF HB353 LESS	CURRENT	CURRENT	DIFF HB353 LESS	CURRENT	CURRENT	DIFF HB353 LESS	CURRENT
	LAW MM/Y	HB353 MM/Y		LAW MM/Y	HB353 MM/Y		LAW MM/Y	HB353 MM/Y	
1986	153.96	53.39	-98.56	426.21	426.21	0.00	580.16	481.60	-98.56
1987	82.76	0.00	-82.76	423.04	423.03	-0.01	505.80	423.03	-82.77
1988	80.02	0.00	-80.02	325.25	325.23	-0.02	405.27	325.23	-80.03
1989	76.03	0.00	-76.03	303.02	303.00	-0.01	379.05	303.00	-76.04
1990	72.26	0.00	-72.26	281.92	281.91	-0.01	354.17	281.91	-72.27
1991	67.78	5.25	-62.52	252.87	252.87	0.00	326.45	258.12	-62.52
1992	62.80	10.80	-52.00	225.01	225.01	0.00	287.81	235.81	-52.00
1993	57.96	14.92	-43.04	199.29	199.29	0.00	257.25	214.21	-43.04
1994	53.26	24.65	-28.62	183.39	183.39	0.00	236.66	208.04	-28.62
1995	49.05	40.32	-8.73	176.37	176.37	0.00	225.42	216.69	-8.73
1996	45.25	46.29	1.04	158.44	158.44	0.00	203.70	204.74	1.04
1997	41.80	48.15	6.35	144.21	144.21	0.00	186.01	192.36	6.35
1998	38.85	49.79	10.94	134.81	134.81	0.00	173.67	184.61	10.94
1999	21.54	49.54	28.00	58.99	58.99	0.00	86.52	108.52	28.00
2000	6.52	49.19	42.67	57.73	57.73	0.00	64.25	106.92	42.67
2001	6.24	47.76	41.51	54.36	54.36	0.00	60.50	102.11	41.51
2002	6.08	48.01	41.93	54.10	54.10	0.00	60.18	102.12	41.93
2003	5.92	46.56	40.63	52.03	52.03	0.00	57.96	98.59	40.63
2004	5.67	44.70	39.03	50.84	50.84	0.00	56.51	95.54	39.03
2005	5.51	43.61	38.09	50.24	50.24	0.00	55.75	93.85	38.09
SUM86-05	939.27	624.92	-314.34	3612.12	3612.07	-0.05	4551.38	4236.99	-314.39

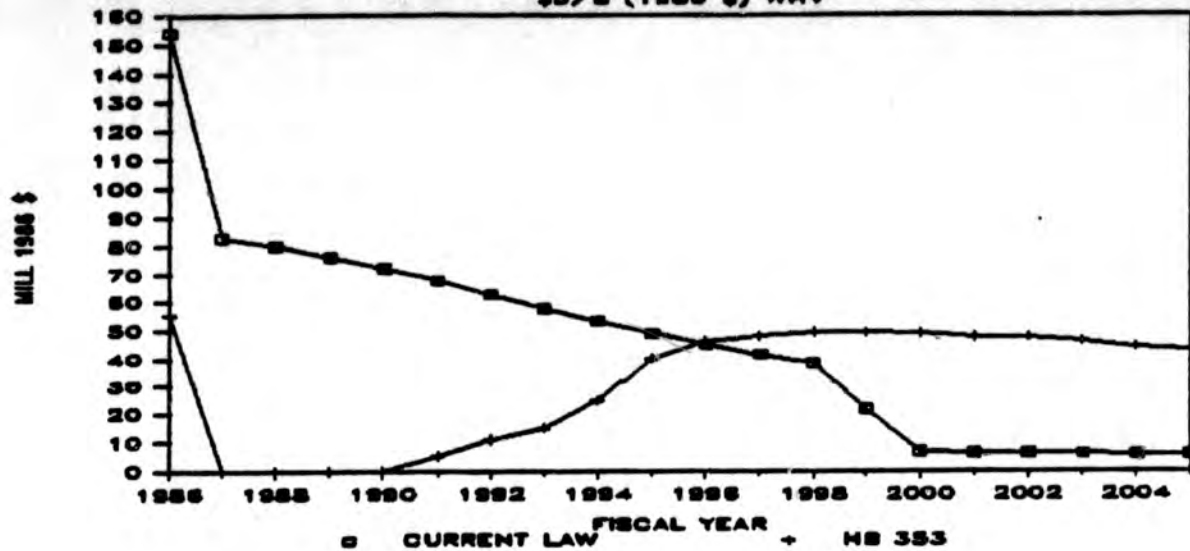
TABLE 11-3-B
 PERCENTAGE SHARE COMPARISON
 CALCULATION OF STATE PETROLEUM PRODUCTION REVENUES
 AS A PERCENTAGE OF
 PETROLEUM PRODUCTION NET INCOME
 (1-1986)

FISCAL YEAR	SENSITIVITY ANALYSIS 83/8 MHV			CURRENT		H8353	
	TOTAL PETRO PRODN GROSS INCOME MM\$/Y	TOTAL PETRO PRODN NON TAX DEDUCTS MM\$/Y	TOTAL PETRO PRODN NET INCOME MM\$/Y	STATE PETRO PRODN REVENUE MM\$/Y	REVENUE VS NET INCOME %	STATE PETRO PRODN REVENUE MM\$/Y	REVENUE VS NET INCOME %
1986	2140.30	3483.77	-1343.47	1039.70	NA	941.13	NA
1987	2135.89	3716.06	-1580.18	953.09	NA	870.32	NA
1988	2033.45	3704.36	-1670.91	839.60	NA	759.56	NA
1989	1935.26	3644.69	-1709.43	793.81	NA	717.77	NA
1990	1881.97	3493.67	-1611.70	747.83	NA	675.56	NA
1991	1849.40	3221.18	-1371.78	693.47	NA	630.94	NA
1992	1769.10	2978.38	-1209.28	633.55	NA	581.55	NA
1993	1679.02	2744.22	-1065.20	574.57	NA	531.53	NA
1994	1706.99	2542.04	-835.05	539.96	NA	511.34	NA
1995	1803.53	2356.01	-552.49	522.83	NA	514.10	NA
1996	1717.77	2174.57	-456.80	468.31	NA	469.34	NA
1997	1655.55	2034.89	-379.34	424.92	NA	431.27	NA
1998	1611.24	1921.11	-309.87	388.58	NA	399.52	NA
1999	1078.61	352.05	726.56	223.44	30.75	251.44	34.61
2000	1056.20	335.94	720.26	203.98	28.32	246.64	34.24
2001	1011.01	319.83	691.18	194.30	28.11	235.81	34.12
2002	1021.95	319.83	702.12	194.86	27.75	236.79	33.73
2003	991.62	319.83	671.79	188.46	28.05	229.09	34.10
2004	968.94	319.83	649.11	183.79	28.31	222.82	34.33
2005	957.01	319.83	637.18	181.16	28.43	219.25	34.41

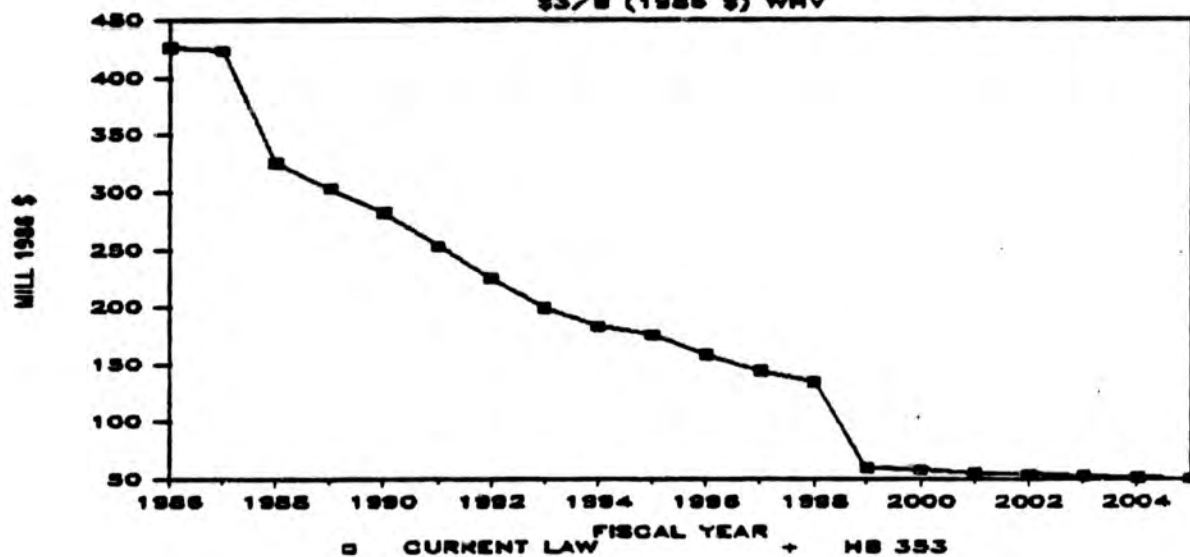
TABLE 11-3-9
PERCENTAGE SHARE COMPARISON
CALCULATION OF STATE PETROLEUM PRODUCTION & PIPELINE REVENUES
AS A PERCENTAGE OF
PETROLEUM PRODUCTION & PIPELINE NET INCOME
(19=1986)

FISCAL YEAR	SENSITIVITY ANALYSIS 83/8 NHV			CURRENT		H853	
	TOTAL PETRO PRODN & PIPE GROSS INCOME NHV/Y	TOTAL PETRO PRODN & PIPE NON TAX DEDUCTS NHV/Y	TOTAL PETRO PRODN & PIPE NET INCOME NHV/Y	LAW STATE PETRO PRODN & PIPE REVENUE NHV/Y	REVENUE VS NET INCOME %	STATE PETRO PRODN & PIPE REVENUE NHV/Y	REVENUE VS NET INCOME %
1986	5223.95	4419.93	804.02	1222.32	152.03	1123.76	139.77
1987	5100.64	4623.43	477.21	1109.30	232.46	1026.53	215.11
1988	4638.77	4570.85	67.93	968.58	1425.89	888.54	1308.06
1989	4152.34	4477.83	-325.49	898.22	NA	822.17	NA
1990	3760.12	4292.52	-532.40	831.15	NA	758.88	NA
1991	3436.38	3966.63	-530.25	758.97	NA	696.45	NA
1992	3100.06	3688.16	-588.10	683.83	NA	631.83	NA
1993	2773.25	3418.03	-644.79	612.18	NA	569.14	NA
1994	2617.56	3184.49	-566.93	567.34	NA	538.73	NA
1995	2571.67	2973.28	-401.61	541.82	NA	533.09	NA
1996	2339.48	2768.28	-428.80	480.26	NA	481.30	NA
1997	2139.06	2605.93	-466.86	431.38	NA	437.73	NA
1998	1980.97	2470.43	-489.45	391.14	NA	402.08	NA
1999	1878.61	352.05	726.56	223.44	30.75	251.44	34.61
2000	1856.20	335.94	720.26	203.98	28.32	246.64	34.24
2001	1811.01	319.83	691.18	194.30	28.11	235.81	34.12
2002	1821.95	319.83	702.12	194.86	27.75	236.79	33.73
2003	991.62	319.83	671.79	188.46	28.05	229.09	34.10
2004	968.94	319.83	649.11	183.79	28.31	222.82	34.33
2005	957.01	319.83	637.18	181.16	28.43	219.25	34.41

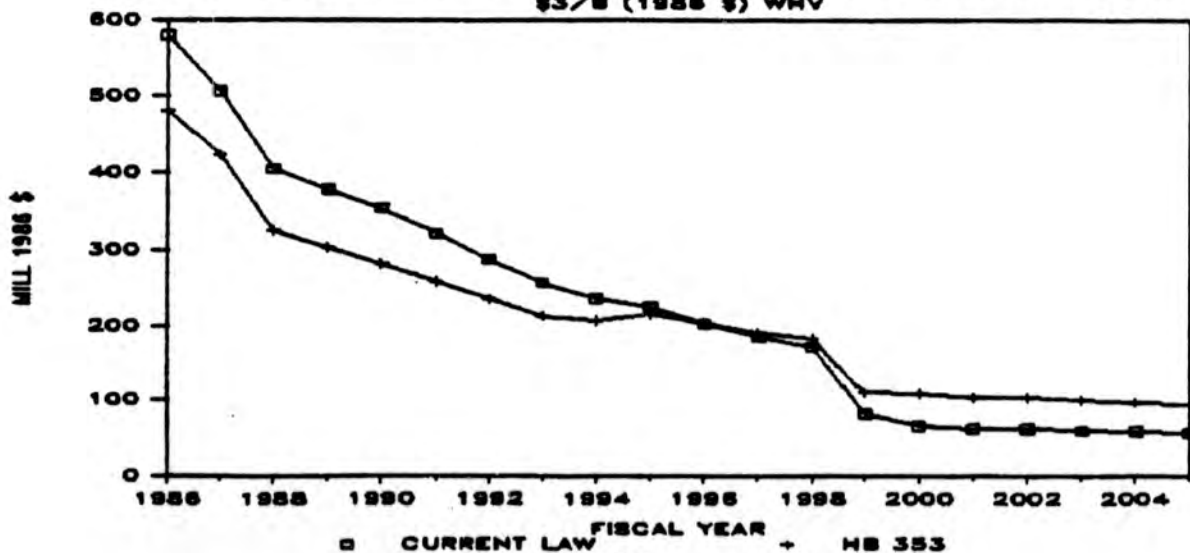
GRAPH II-3-1
INCOME TAX COMPARISON
\$3/B (1986 \$) WHV



GRAPH II-3-2
PRODUCTION TAX COMPARISON
\$3/B (1986 \$) WHV



GRAPH II-3-3
INCOME + PRODN TAX COMPARISON
\$3/B (1986 \$) WHV



SECTION II-1

REVENUE PROJECTION COMPARISON

HB 353 vs CURRENT LAW
FOR FISCAL YEARS 1986-2005

ASSUMING \$1/BARREL (1986 \$) WELLHEAD VALUE

SUMMARY TABLES AND GRAPHS

ALL NORTH SLOPE PRODUCING FIELDS-SEPARATE ACCT (M0353) INCOME TAX ESTS
(6-1986 01) SENSITIVITY ANALYSIS 01/0 MWV

[illegible]

TABLE 11-1-2

COOK INLET-SEPARATE ACCT (H0353) INCOME TAX ESTS
(8-1986 \$)

SENSITIVITY ANALYSIS 81/8 HHV

FISCAL YEAR	OIL GROSS WELLHEAD VALUE \$/B	OIL GROSS PRODN VOL HHB/Y	OIL GROSS REV HH\$ /Y	GAS GROSS WELLHEAD VALUE \$/NCF	GAS GROSS PRODN VOL BCF/Y	GAS GROSS REV HH\$ /Y	TOTAL GROSS REV HH\$ /Y	OIL ROYALTY SHARE HH\$ /Y	GAS ROYALTY SHARE HH\$ /Y	OIL PRODN & CONS TAX CURRENT HH\$ /Y	OIL PRODN & CONS TAX H0353 HH\$ /Y	GAS PRODN TAX HH\$ /Y	PTY TAX HH\$ /Y	OPER COSTS HH\$ /Y	OTHER DEDUCT HH\$ /Y	TOTAL TAXABLE INCOME HH\$ /Y	TOTAL TAX LIAB HH\$ /Y	WINDFALL PROFITS TAX HH\$ /Y	TOTAL TAXABLE INCOME HH\$ /Y	TOTAL TAX LIAB HH\$ /Y
1986	7.00	18.03	126.21	0.79	193.45	152.83	279.04	15.78	19.10	0.15	0.15	9.09	11.00	225.54	135.74	-137.37	-12.91	0.00	-137.37	-12.91
1987	7.00	12.67	88.69	0.93	226.30	210.46	299.15	11.09	26.31	0.11	0.10	12.15	11.68	241.65	140.28	-144.11	-13.55	0.00	-144.11	-13.55
1988	7.00	10.18	71.26	1.06	255.50	270.83	342.09	8.91	33.85	0.08	0.06	15.17	12.32	241.65	142.62	-112.49	-10.57	0.00	-112.49	-10.57
1989	7.00	8.87	62.09	1.14	259.15	295.43	357.52	7.76	36.93	0.06	0.05	16.54	11.94	241.65	142.62	-99.97	-9.40	0.00	-99.97	-9.40
1990	7.00	7.15	50.05	1.32	288.35	380.62	430.67	6.26	47.58	0.04	0.03	21.31	11.55	241.65	142.62	-40.33	-3.79	0.00	-40.33	-3.79
1991	7.00	6.21	43.47	1.65	310.25	511.91	555.38	5.43	63.99	0.01	0.01	26.88	11.17	241.65	142.62	63.64	5.98	0.00	63.64	5.98
1992	7.00	5.33	37.31	1.80	324.85	584.73	622.04	4.66	73.09	0.01	0.01	30.19	10.78	241.65	142.62	119.04	11.19	0.00	119.04	11.19
1993	7.00	4.53	31.71	1.93	332.15	641.05	672.76	3.96	80.13	.00	.00	33.09	10.40	241.65	142.62	160.90	15.12	0.00	160.90	15.12
1994	7.00	3.94	27.58	2.46	324.85	799.13	826.71	3.45	99.89	.00	.00	42.65	10.01	241.65	142.62	286.43	26.92	0.00	286.43	26.92
1995	7.00	3.07	21.49	3.07	328.50	1008.50	1029.99	2.69	126.06	.00	.00	54.71	9.63	225.54	142.62	468.73	44.06	0.00	468.73	44.06
1996	7.00	3.03	21.21	3.07	332.15	1019.70	1040.91	2.65	127.46	.00	.00	56.21	9.24	209.43	142.62	493.29	46.37	0.00	493.29	46.37
1997	7.00	2.96	20.72	3.07	339.45	1042.11	1062.83	2.59	130.26	.00	.00	57.45	8.86	209.43	142.62	511.62	48.09	0.00	511.62	48.09
1998	7.00	2.88	20.16	3.07	346.75	1064.52	1084.68	2.52	133.07	.00	.00	59.61	8.47	209.43	142.62	528.96	49.72	0.00	528.96	49.72
1999	7.00	2.81	19.67	3.07	343.10	1053.32	1072.99	2.46	131.66	.00	.00	58.99	8.09	209.43	142.62	519.73	48.86	0.00	519.73	48.86
2000	7.00	2.81	19.67	3.07	335.80	1030.91	1050.58	2.46	128.86	.00	.00	57.73	7.70	193.32	142.62	517.88	48.68	0.00	517.88	48.68
2001	7.00	2.77	19.39	3.07	321.20	986.08	1005.47	2.42	123.26	.00	.00	54.36	7.32	177.21	142.62	498.28	46.84	0.00	498.28	46.84
2002	7.00	2.74	19.18	3.07	324.85	997.29	1016.47	2.40	124.66	.00	.00	54.10	6.93	177.21	142.62	508.54	47.80	0.00	508.54	47.80
2003	7.00	1.86	13.02	3.07	317.55	974.88	987.90	1.63	121.86	.00	.00	52.03	6.55	177.21	142.62	486.00	45.68	0.00	486.00	45.68
2004	7.00	1.83	12.81	3.07	310.25	952.47	965.28	1.60	119.06	.00	.00	50.84	6.16	177.21	142.62	467.79	43.97	0.00	467.79	43.97
2005	7.00	1.75	12.25	3.07	306.60	941.26	953.51	1.53	117.66	.00	.00	50.24	5.78	177.21	142.62	458.47	43.10	0.00	458.47	43.10

TABLE 11-1-3

ALL PRODUCING FIELDS-SEPARATE ACCT (H0353) INCOME TAX ESTS
(6-1986 6) SENSITIVITY ANALYSIS 61/8 MHV

FISCAL YEAR	NS			NS			NS			CI			CI			NS+CI			NS+CI		
	TOTAL	NS	TOTAL	TOTAL	NS	TOTAL	TOTAL	NS	TOTAL	TOTAL	NS	TOTAL	TOTAL	NS	TOTAL	TOTAL	NS	TOTAL	TOTAL	NS	
	GROSS	DEDUCT	TAXABLE	TAX	DEDUCT	INCOME	TAX	DEDUCT	INCOME	GROSS	DEDUCT	TAXABLE	TAX	DEDUCT	INCOME	TAX	TOTAL	TOTAL	TAX	COLLECT	
	REV		INCOME	LIAB	W/MPT	W/MPT	LIAB	W/MPT	W/MPT	REV		INCOME	LIAB	W/MPT	W/MPT	LIAB	LIAB	W/MPT	W/MPT	W/MPT	
	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	MH/Y	
1986	558.00	3637.33	-3079.33	0.00	3637.33	-3079.33	0.00	279.04	416.40	-137.37	0.00	416.40	-137.37	0.00	0.00	55.39	0.00	55.39	0.00	55.39	
1987	551.00	3822.82	-3271.82	0.00	3822.82	-3271.82	0.00	299.15	443.26	-144.11	0.00	443.26	-144.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1988	503.00	3768.28	-3265.28	0.00	3768.28	-3265.28	0.00	342.09	454.58	-112.49	0.00	454.58	-112.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1989	466.00	3676.47	-3210.47	0.00	3676.47	-3210.47	0.00	357.52	457.49	-99.97	0.00	457.49	-99.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1990	425.00	3484.00	-3059.00	0.00	3484.00	-3059.00	0.00	430.67	471.00	-40.33	0.00	471.00	-40.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1991	381.00	3164.87	-2783.87	0.00	3164.87	-2783.87	0.00	555.38	491.75	63.64	5.98	491.75	63.64	5.98	5.98	4.49	5.98	4.49	5.98	4.49	
1992	338.00	2877.64	-2539.64	0.00	2877.64	-2539.64	0.00	622.04	503.00	119.04	11.19	503.00	119.04	11.19	11.19	9.89	11.19	9.89	11.19	9.89	
1993	297.00	2599.91	-2302.91	0.00	2599.91	-2302.91	0.00	672.76	511.86	160.90	15.12	511.86	160.90	15.12	15.12	14.14	15.12	14.14	15.12	14.14	
1994	259.00	2357.61	-2098.61	0.00	2357.61	-2098.61	0.00	826.71	540.28	286.43	26.92	540.28	286.43	26.92	26.92	23.97	26.92	23.97	26.92	23.97	
1995	227.00	2151.59	-1924.59	0.00	2151.59	-1924.59	0.00	1029.99	561.25	468.73	44.06	561.25	468.73	44.06	44.06	39.78	44.06	39.78	44.06	39.78	
1996	199.00	1948.28	-1749.28	0.00	1948.28	-1749.28	0.00	1040.91	547.62	493.29	46.37	547.62	493.29	46.37	46.37	45.79	46.37	45.79	46.37	45.79	
1997	174.00	1776.89	-1602.89	0.00	1776.89	-1602.89	0.00	1062.83	551.21	511.62	48.09	551.21	511.62	49.09	48.09	47.66	48.09	47.66	48.09	47.66	
1998	155.00	1635.17	-1480.17	0.00	1635.17	-1480.17	0.00	1084.68	555.72	528.96	49.72	555.72	528.96	49.72	49.72	49.31	49.72	49.31	49.72	49.31	
1999	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1072.99	553.20	519.73	48.86	553.25	519.73	48.86	48.86	49.07	48.86	49.07	48.86	49.07	
2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1050.58	532.70	517.88	48.68	532.70	517.88	48.68	48.68	48.72	48.68	48.72	48.68	48.72	
2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1005.47	507.20	498.28	46.84	507.20	498.28	46.84	46.84	47.30	46.84	47.30	46.84	47.30	
2002	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1016.47	507.92	508.54	47.80	507.92	508.54	47.80	47.80	47.56	47.80	47.56	47.80	47.56	
2003	0.00	0.00	0.00	0.00	0.00	0.00	0.00	987.90	501.90	486.00	45.68	501.90	486.00	45.68	45.68	46.21	45.68	46.21	45.68	46.21	
2004	0.00	0.00	0.00	0.00	0.00	0.00	0.00	965.28	497.49	467.79	43.97	497.49	467.79	43.97	43.97	44.40	43.97	44.40	43.97	44.40	
20**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	953.51	495.04	458.47	43.10	495.04	458.47	43.10	43.10	43.32	43.10	43.32	43.10	43.32	

TABLE II-1-4
TAPS-SEPARATE ACCT (H0353) INCOME TAX ESTS
(1-1986 0) SENSITIVITY ANALYSIS 01/0 MW

FISCAL YEAR	TARIFF \$/B	PIPELINE THRUPT MMB/Y	TOTAL GROSS REV MMB/Y	OPER COSTS MMB/Y	AMORT & DEPREC EXPENSE MMB/Y	UNCAP INT EXPENSE MMB/Y	PTY TAX MMB/Y	TOTAL DEDUCT MMB/Y	TOTAL TAXABLE INCOME MMB/Y	TOTAL TAX LIAB MMB/Y
1986	4.00	642.00	3083.65	257.65	268.65	409.86	182.62	1118.79	1964.86	184.76
1987	4.64	639.00	2964.75	256.95	268.65	381.77	156.21	1063.58	1901.17	178.71
1988	4.39	593.00	2605.32	246.16	268.65	351.68	128.98	995.46	1609.86	151.33
1989	3.99	556.00	2217.08	237.48	268.65	327.01	104.41	937.54	1279.53	120.28
1990	3.65	515.00	1878.15	227.86	268.65	302.34	83.32	882.17	995.98	93.62
1991	3.47	458.00	1586.98	199.14	268.65	277.65	65.50	810.95	776.03	72.95
1992	3.28	406.00	1330.96	188.69	268.65	252.44	50.28	760.06	570.91	53.67
1993	3.07	356.00	1094.23	178.63	268.65	226.53	37.60	711.42	382.81	35.98
1994	2.92	312.00	910.56	169.78	268.65	204.01	27.38	669.83	240.74	22.63
1995	2.79	275.00	768.14	162.34	268.65	186.27	18.99	636.25	131.89	12.40
1996	2.59	240.00	621.71	155.30	268.65	169.75	11.95	605.66	16.05	1.51
1997	2.30	210.00	483.51	149.27	268.65	153.12	6.46	577.51	-93.99	-8.84
1998	1.99	186.00	369.73	144.44	268.65	136.22	2.55	551.87	-182.14	-17.12
1999	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2003	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2004	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

PRODUCTION, PIPELINE & EXPLORATION-SEPARATE ACCT (H0353) INCOME TAX ESTS
(10-1986 0) SENSITIVITY ANALYSIS 01/8 WHV

[illegible]

TABLE 11-1-6

CURRENT LAW-MODIFIED AFFORTIONMENT (AS4320) INCOME TAX ESTS
(6-1986)

SENSITIVITY ANALYSIS 61/D NHV

FISCAL YEAR					CALENDAR YEAR					FISCAL YEAR	
					TOP 3 COMPANIES						
FISCAL YEAR	TOTAL AK OIL & GAS PROD NHV/Y	CHG TOTAL AK OIL & GAS PROD NHV/Y	APPMT FACTOR CHG FACTOR	NET PROFIT APPMT FACTOR	CALENDAR YEAR	WM NET PROFIT NHV/Y	AK TAXABLE INCOME NHV/Y	AK TAX LIAB NHV/Y	TOTAL AK TAX LIAB NHV/Y	FISCAL YEAR	TOTAL AK TAX COLLECT NHV/Y
	EQUIV	%									
1986	687.67	0.0000	0.0000	0.2787	1986	2213.50	616.90	57.99	64.43	1986	144.17
1987	684.00	-0.5333	0.9965	0.2750	1987	2213.50	608.62	57.21	63.57	1987	64.00
1988	639.68	-6.4793	0.9579	0.2607	1988	2213.50	577.15	54.25	60.28	1988	61.88
1989	601.89	-5.9074	0.9616	0.2482	1989	2213.50	549.44	51.65	57.39	1989	58.79
1990	563.34	-6.4046	0.9584	0.2355	1990	2213.50	521.30	49.00	54.45	1990	55.88
1991	508.53	-9.7297	0.9368	0.2184	1991	2213.50	483.45	45.44	50.49	1991	52.41
1992	457.74	-9.9884	0.9351	0.2022	1992	2213.50	447.54	42.07	46.74	1992	48.56
1993	407.98	-10.8702	0.9293	0.1860	1993	2213.50	411.76	38.71	43.01	1993	44.82
1994	362.35	-11.1851	0.9273	0.1708	1994	2213.50	378.01	35.53	39.48	1994	41.19
1995	325.00	-10.3074	0.9330	0.1577	1995	2213.50	349.15	32.82	36.47	1995	37.93
1996	290.48	-10.6211	0.9310	0.1454	1996	2213.50	321.80	30.25	33.61	1996	34.99
1997	261.45	-9.9928	0.9350	0.1346	1997	2213.50	297.89	28.00	31.11	1997	32.32
1998	238.42	-8.8112	0.9427	0.1256	1998	2213.50	278.02	26.13	29.04	1998	30.04
1999	51.82	-78.2631	0.1782	0.0222	1999	2213.50	49.04	4.61	5.12	1999	16.65
2000	50.78	-2.0123	0.9789	0.0215	2000	2213.50	47.54	4.47	4.97	2000	5.04
2001	48.66	-4.1860	0.9560	0.0203	2001	2213.50	45.00	4.23	4.70	2001	4.83
2002	49.15	1.0100	1.0106	0.0203	2002	2213.50	45.02	4.23	4.70	2002	4.70
2003	47.22	-3.9124	0.9589	0.0193	2003	2213.50	42.74	4.02	4.46	2003	4.58
2004	46.15	-2.2718	0.9761	0.0187	2004	2213.50	41.30	3.88	4.31	2004	4.39
2005	45.55	-1.3032	0.9863	0.0182	2005	2213.50	40.33	3.79	4.21	2005	4.26

TABLE 11-1-7

REVENUE COMPARISON

CURRENT LAW

INCOME TAX-MODIFIED APPORTIONMENT (AS4320)

PRODUCTION TAX-15% MAX NOMINAL RATE (AS4355)

PROPOSED LAW (HB353)

INCOME TAX-SEPARATE ACCOUNTING

PRODUCTION TAX-12.25% MAX NOMINAL RATE

BEGINNING IN CY 1987

(19-1986)

SENSITIVITY ANALYSIS 81/8 NHV

INCOME TAX COLLECTIONS

PRODUCTION TAX LIABILITY

INCOME TAX COLLECTIONS +

PRODUCTION TAX LIABILITY

FISCAL YEAR	INCOME TAX COLLECTIONS			PRODUCTION TAX LIABILITY			INCOME TAX COLLECTIONS + PRODUCTION TAX LIABILITY		
	CURRENT		DIFF HB353 LESS	CURRENT		DIFF HB353 LESS	CURRENT		DIFF HB353 LESS
	LAW NHV/Y	HB353 NHV/Y	CURRENT NHV/Y	LAW NHV/Y	HB353 NHV/Y	CURRENT NHV/Y	LAW NHV/Y	HB353 NHV/Y	CURRENT NHV/Y
1986	144.17	55.39	-88.78	273.34	273.34	0.00	417.50	328.73	-88.78
1987	64.00	0.00	-64.00	263.45	263.44	-0.01	327.45	263.44	-64.01
1988	61.00	0.00	-61.00	232.72	232.71	-0.01	294.60	232.71	-61.89
1989	58.79	0.00	-58.79	213.49	213.48	-0.01	272.28	213.48	-58.80
1990	55.00	0.00	-55.00	195.97	195.97	0.00	251.05	195.97	-55.08
1991	52.41	4.49	-47.92	176.74	176.74	0.00	229.15	181.23	-47.92
1992	48.56	9.89	-38.67	157.64	157.64	0.00	206.20	167.53	-38.67
1993	44.82	14.14	-30.68	138.88	138.88	0.00	183.70	153.02	-30.68
1994	41.19	23.97	-17.21	130.20	130.20	0.00	171.39	154.17	-17.21
1995	37.93	39.78	1.85	127.73	127.73	0.00	165.66	167.51	1.85
1996	34.99	45.79	10.80	116.45	116.45	0.00	151.44	162.24	10.80
1997	32.32	47.66	15.34	106.65	106.65	0.00	138.97	154.31	15.34
1998	30.04	49.31	19.27	101.30	101.30	0.00	131.35	150.62	19.27
1999	16.65	49.07	32.42	58.99	58.99	0.00	75.64	108.06	32.42
2000	5.04	48.72	43.68	57.73	57.73	0.00	62.77	106.46	43.68
2001	4.83	47.30	42.47	54.36	54.36	0.00	59.19	101.66	42.47
2002	4.70	47.56	42.86	54.10	54.10	0.00	58.00	101.66	42.86
2003	4.58	46.21	41.63	52.03	52.03	0.00	56.61	98.25	41.63
2004	4.39	44.40	40.01	50.84	50.84	0.00	55.22	95.24	40.01
2005	4.26	43.32	39.05	50.24	50.24	0.00	54.50	93.56	39.05
SUM86-05	751.43	617.01	-134.42	2612.86	2612.82	-0.04	3364.29	3229.84	-134.45

TABLE 11-1-8
PERCENTAGE SHARE COMPARISON
CALCULATION OF STATE PETROLEUM PRODUCTION REVENUES
AS A PERCENTAGE OF
PETROLEUM PRODUCTION NET INCOME
(1-1984) (1)

[illegible]

TABLE 11-1-9

PERCENTAGE SHARE COMPARISON

CALCULATION OF STATE PETROLEUM PRODUCTION & PIPELINE REVENUES

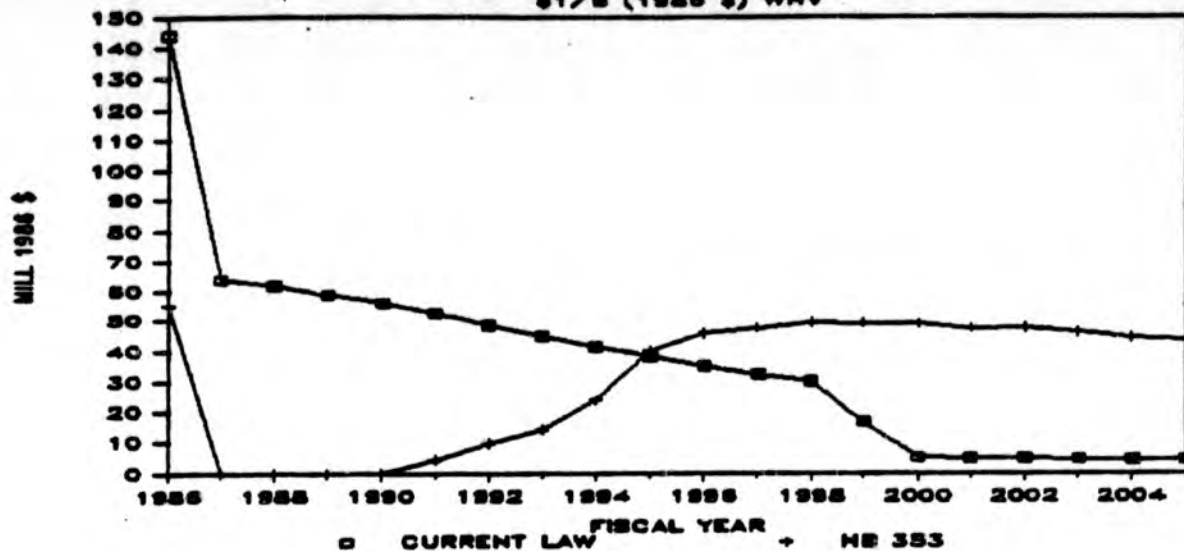
AS A PERCENTAGE OF

PETROLEUM PRODUCTION & PIPELINE NET INCOME:

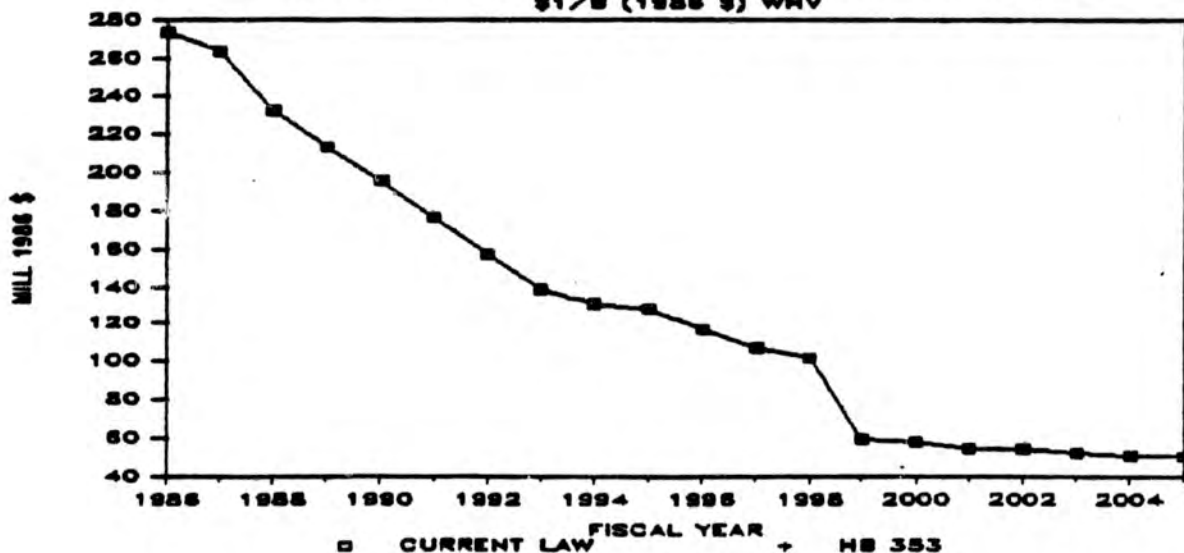
(8-1986)

FISCAL YEAR	SENSITIVITY ANALYSIS \$1/0 MMV			CURRENT		H8353	
	TOTAL PETRO PRODN & PIPE GROSS INCOME MM\$/Y	TOTAL PETRO PRODN & PIPE GROSS INCOME MM\$/Y	TOTAL PETRO PRODN & PIPE NET INCOME MM\$/Y	LAN STATE PETRO PRODN & PIPE REVENUE MM\$/Y	REVENUE VS NET INCOME %	STATE PETRO PRODN & PIPE REVENUE MM\$/Y	REVENUE VS NET INCOME %
1986	3920.69	4419.93	-499.24	896.76	NA	807.98	NA
1987	3814.90	4623.43	-808.53	778.23	NA	704.22	NA
1988	3450.41	4570.85	-1120.43	709.37	NA	647.48	NA
1989	3040.60	4477.83	-1437.23	652.48	NA	593.68	NA
1990	2733.82	4292.52	-1558.70	600.53	NA	544.65	NA
1991	2523.36	3966.63	-1443.27	553.35	NA	505.42	NA
1992	2291.00	3688.16	-1397.16	501.09	NA	462.42	NA
1993	2043.99	3418.03	-1354.05	449.97	NA	419.29	NA
1994	1996.28	3184.49	-1188.21	424.41	NA	407.20	NA
1995	2025.13	2973.28	-948.15	413.75	NA	415.60	NA
1996	1861.62	2768.28	-906.66	368.27	NA	379.07	NA
1997	1720.34	2605.93	-885.58	332.01	NA	347.34	NA
1998	1609.41	2470.43	-861.01	302.37	NA	321.65	NA
1999	1672.99	352.05	720.94	217.86	30.22	250.27	34.72
2000	1050.58	335.94	714.64	201.80	28.24	245.48	34.35
2001	1005.47	319.83	685.64	192.19	28.03	234.66	34.23
2002	1016.47	319.83	696.64	192.80	27.68	235.66	33.83
2003	987.90	319.83	668.07	186.65	27.94	228.29	34.17
2004	965.28	319.83	645.45	182.05	28.20	222.06	34.40
2005	953.51	319.83	633.68	179.47	28.32	218.53	34.49

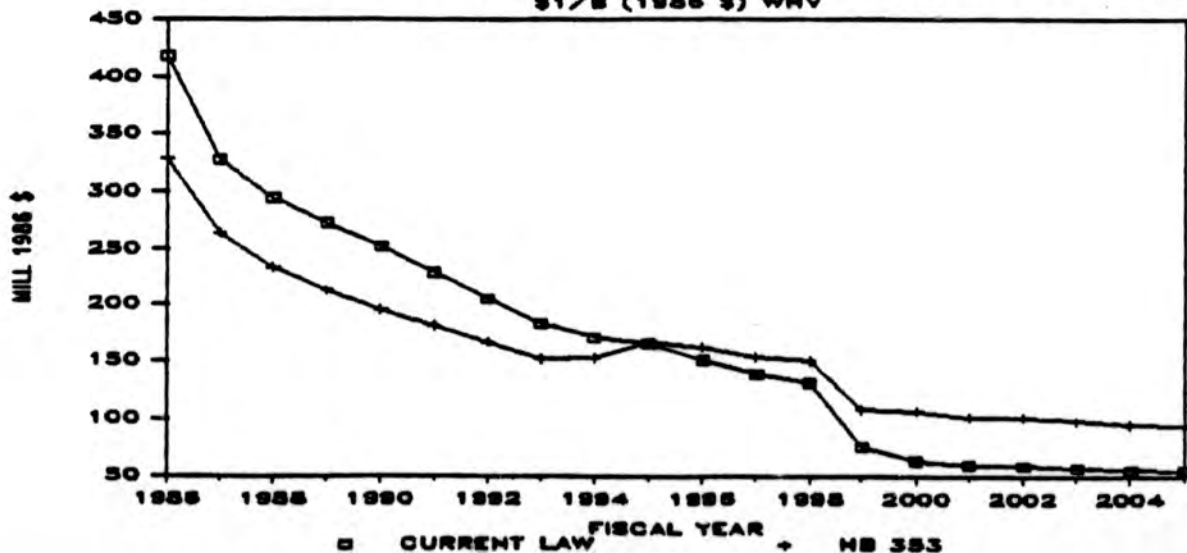
GRAPH II-1-1
INCOME TAX COMPARISON
\$1/B (1986 \$) WHV



GRAPH II-1-2
PRODUCTION TAX COMPARISON
\$1/B (1986 \$) WHV



GRAPH II-1-3
INCOME + PRODN TAX COMPARISON
\$1/B (1986 \$) WHV



SECTION III

SENSITIVITY ANALYSIS RESULTS

**PETROLEUM CORPORATE INCOME TAX & PETROLEUM PRODUCTION TAX
HB 353 vs CURRENT LAW**

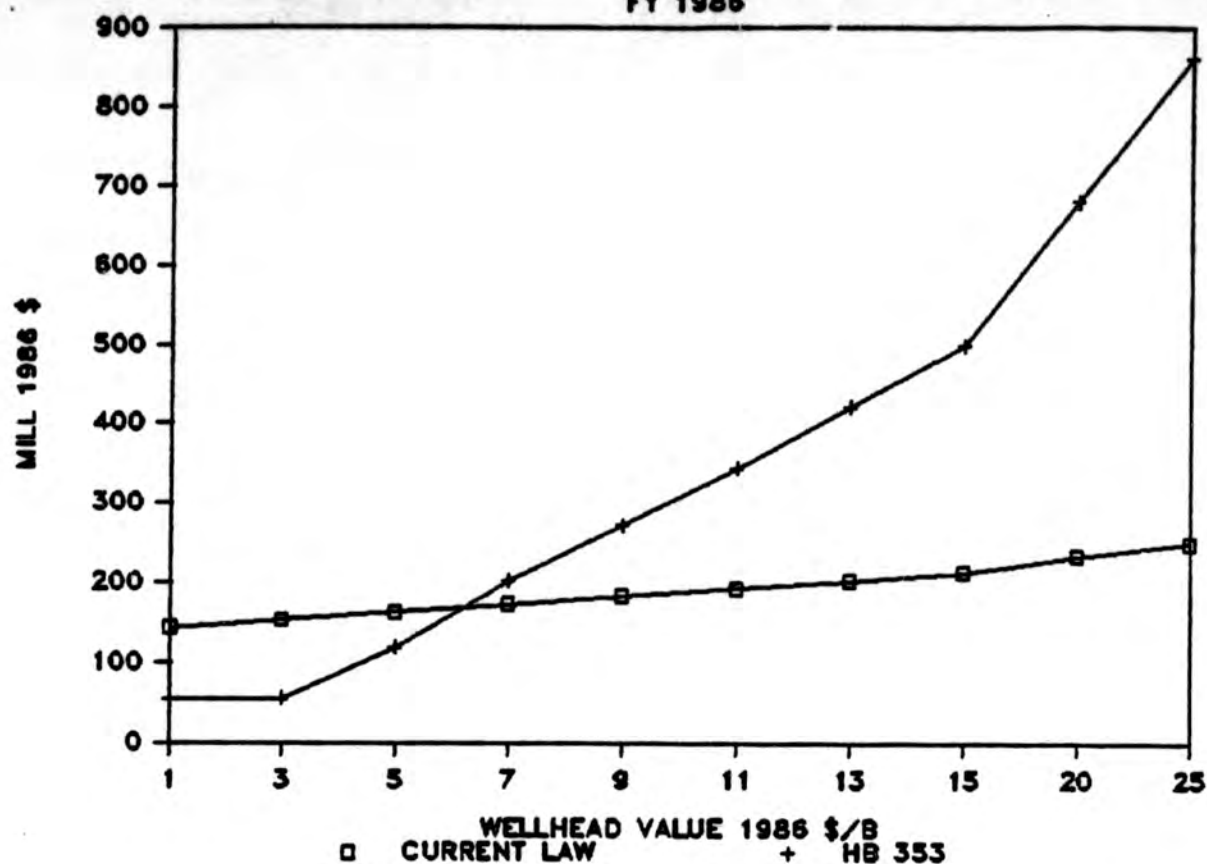
FOR WELLHEAD VALUES (1986 \$) \$25 - \$1 PER BARREL

FOR SELECTED YEARS AND CUMULATIVE FISCAL YEARS 1986-2005

SUMMARY GRAPHS

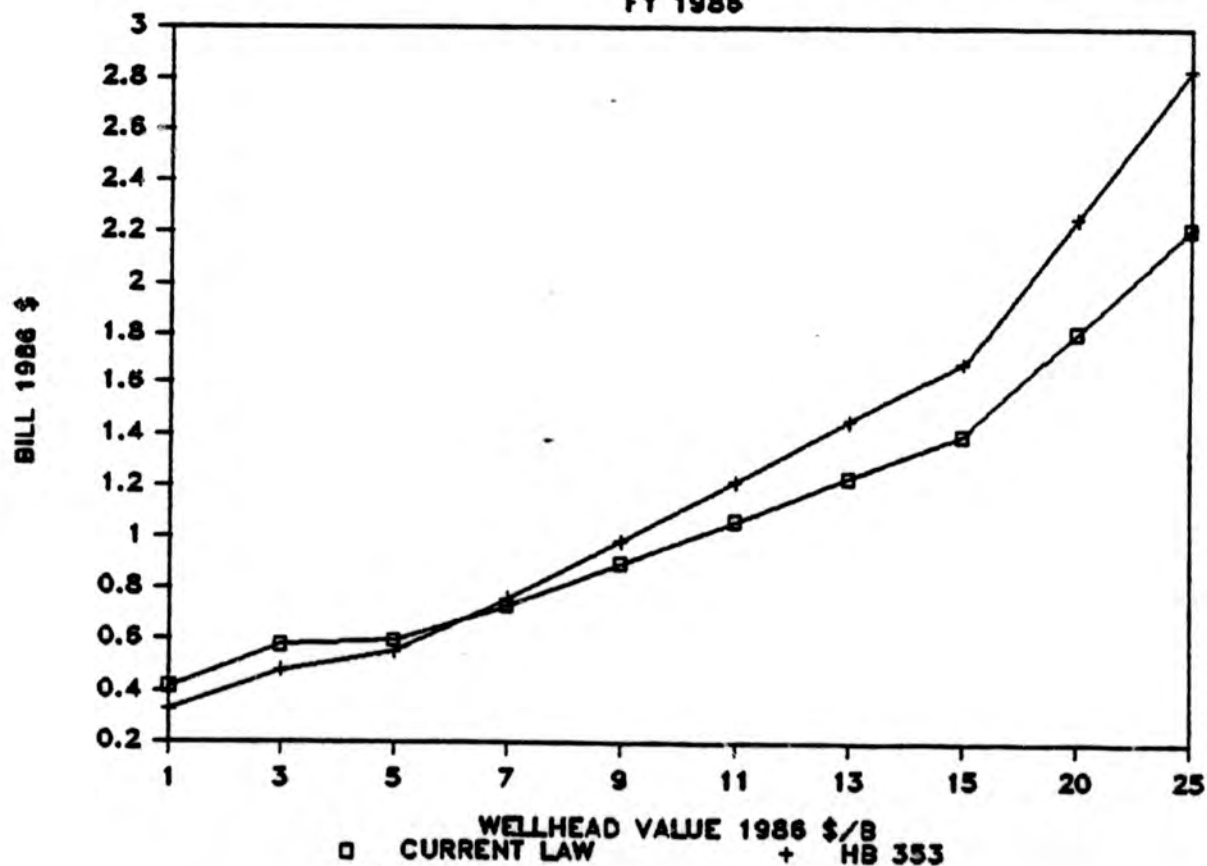
GRAPH III-86-1

INCOME TAX COMPARISON FY 1986



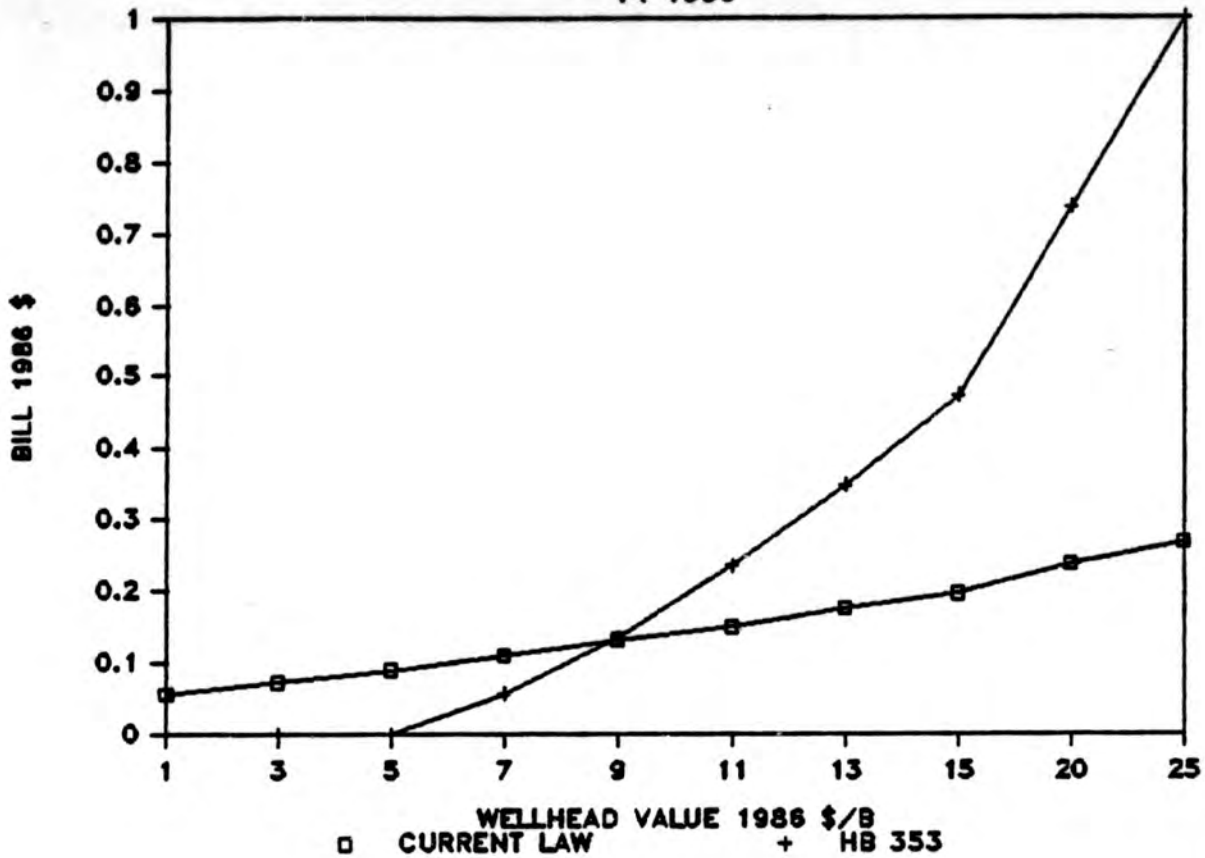
GRAPH III-86-2

INCOME + PRODN TAX COMPARISON FY 1986



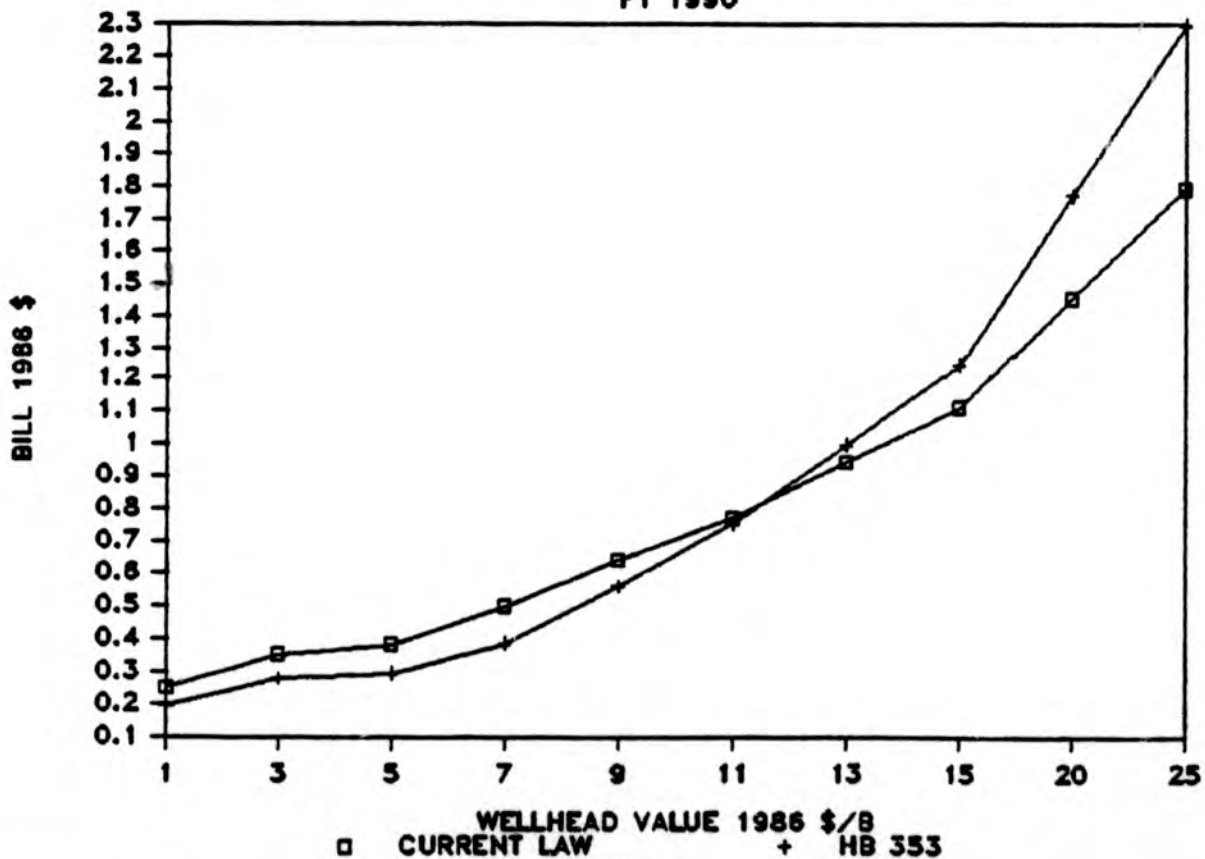
GRAPH III-90-1

INCOME TAX COMPARISON FY 1990



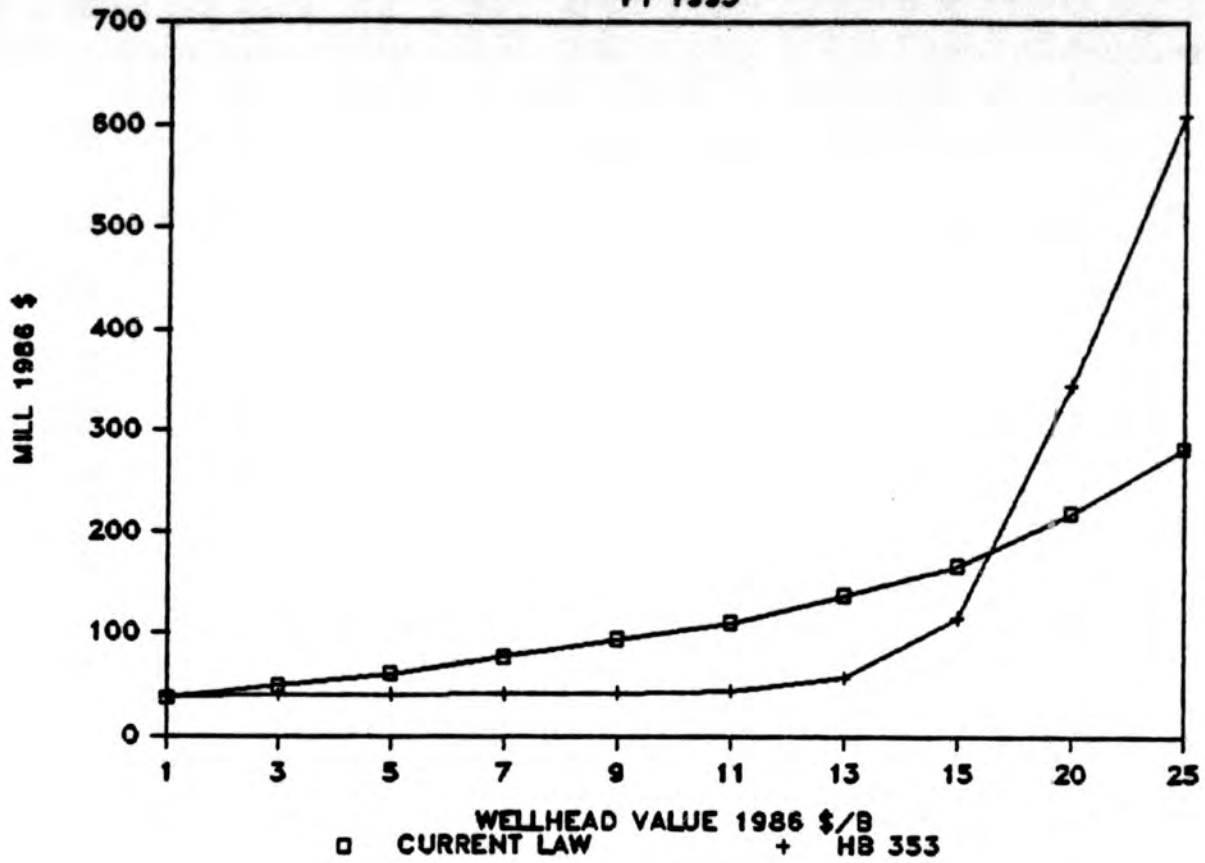
GRAPH III-90-2

INCOME + PRODN TAX COMPARISON FY 1990



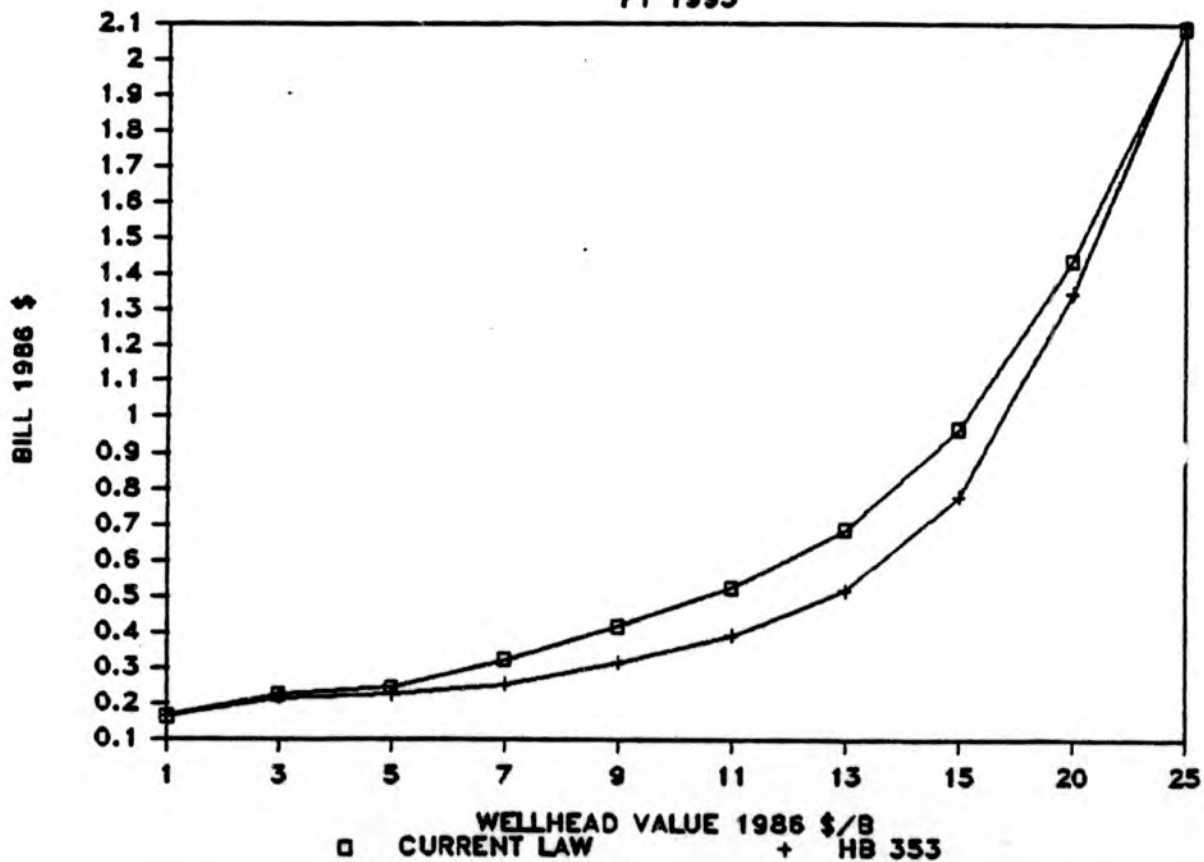
GRAPH III-95-1

INCOME TAX COMPARISON FY 1995



GRAPH III-95-2

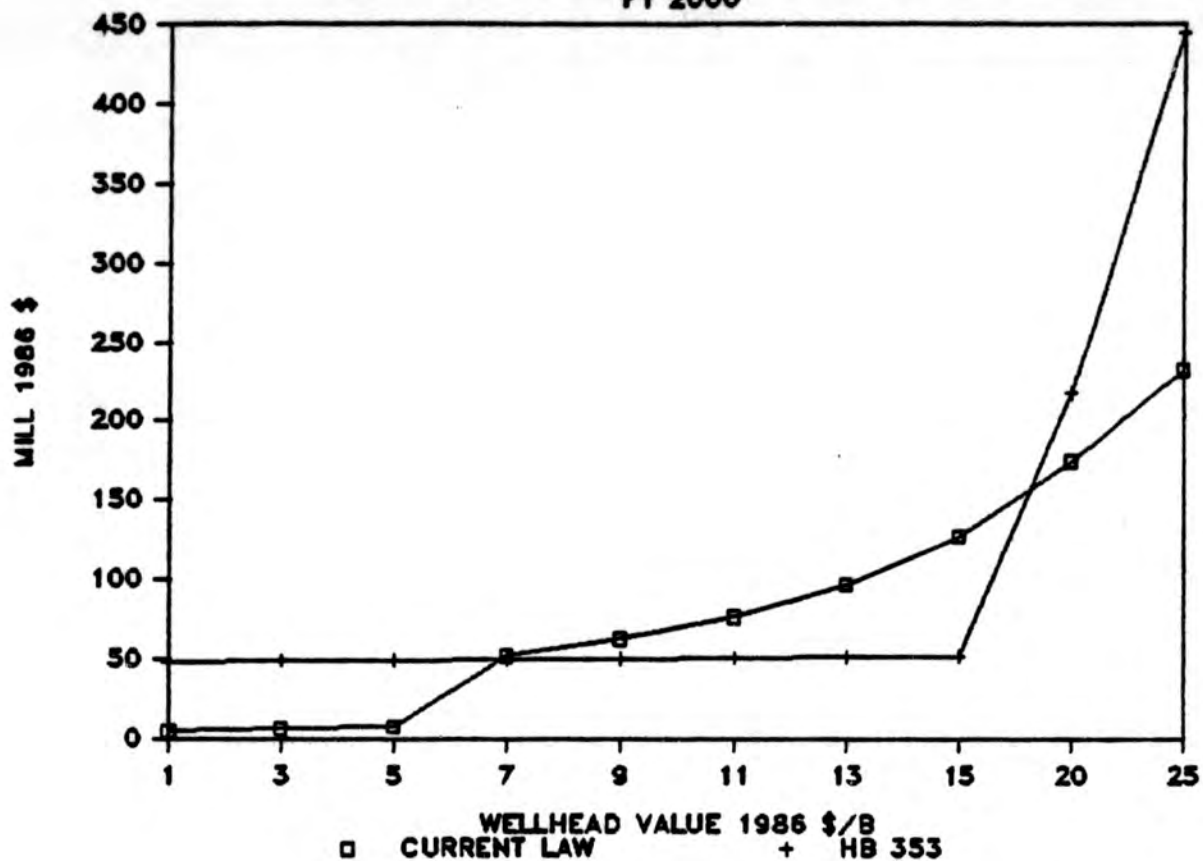
INCOME + PRODN TAX COMPARISON FY 1995



GRAPH III-00-1

INCOME TAX COMPARISON

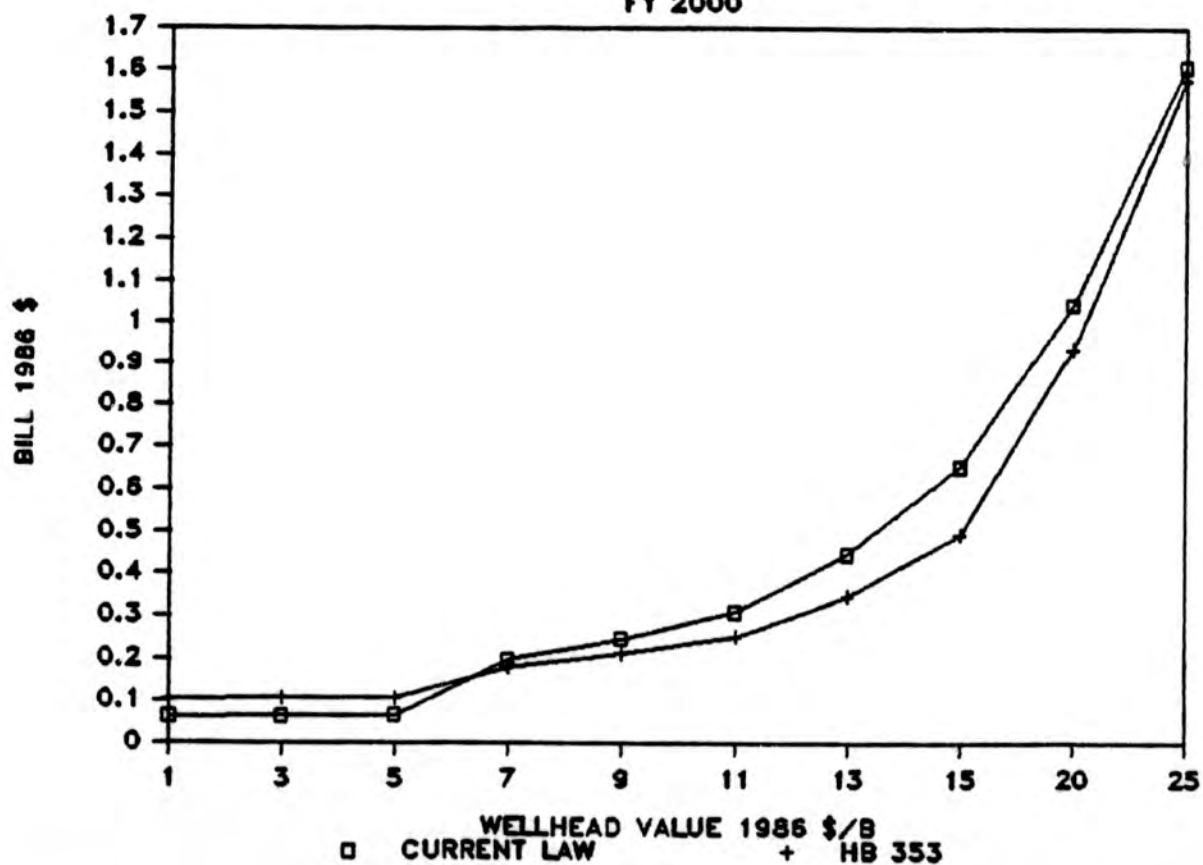
FY 2000



GRAPH III-00-2

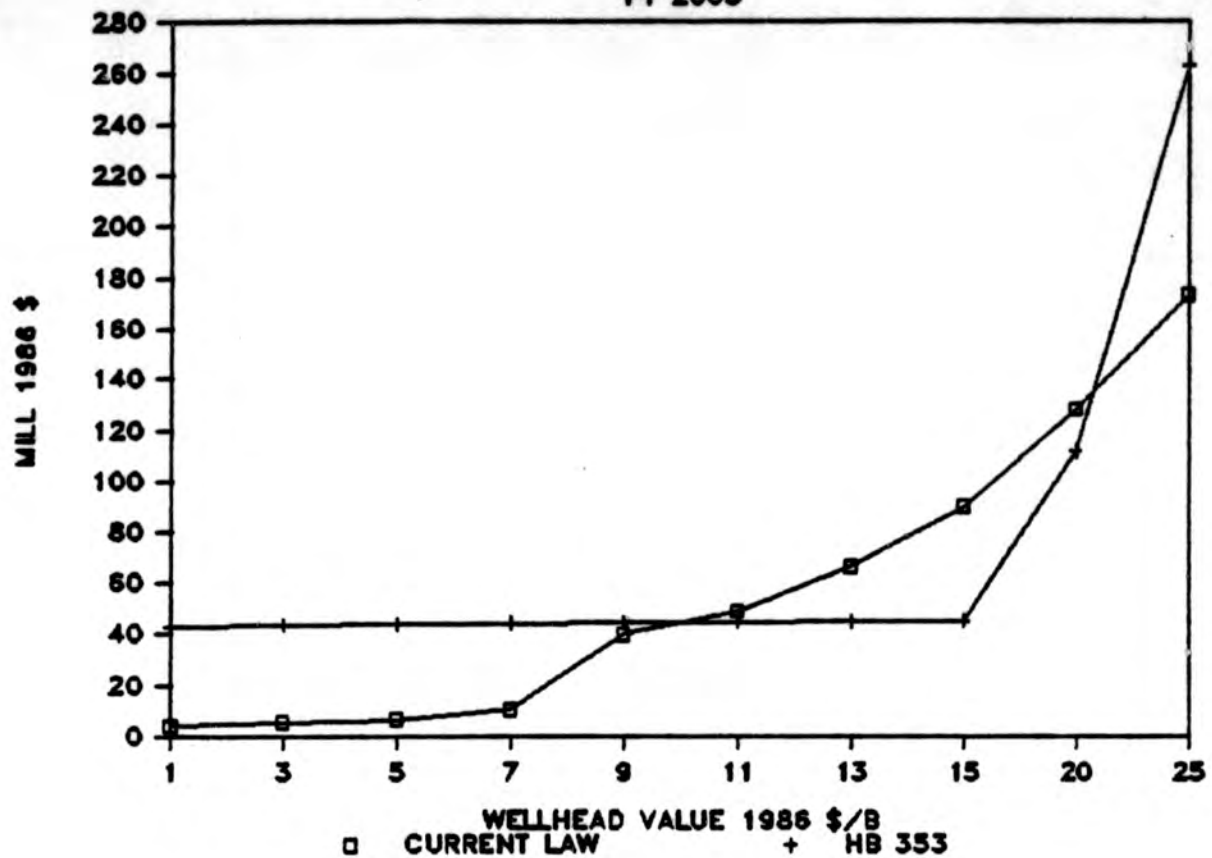
INCOME + PRODN TAX COMPARISON

FY 2000



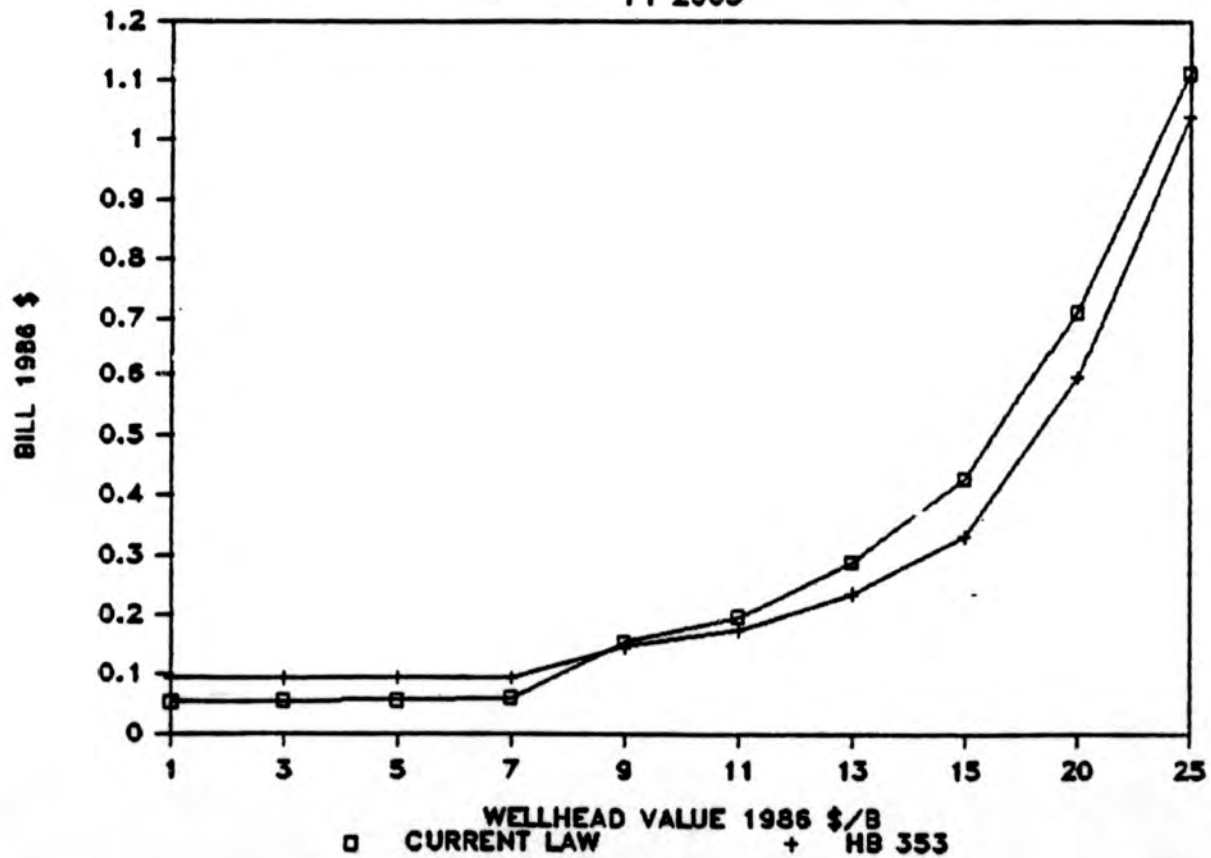
GRAPH III-05-1

INCOME TAX COMPARISON FY 2005



GRAPH III-05-2

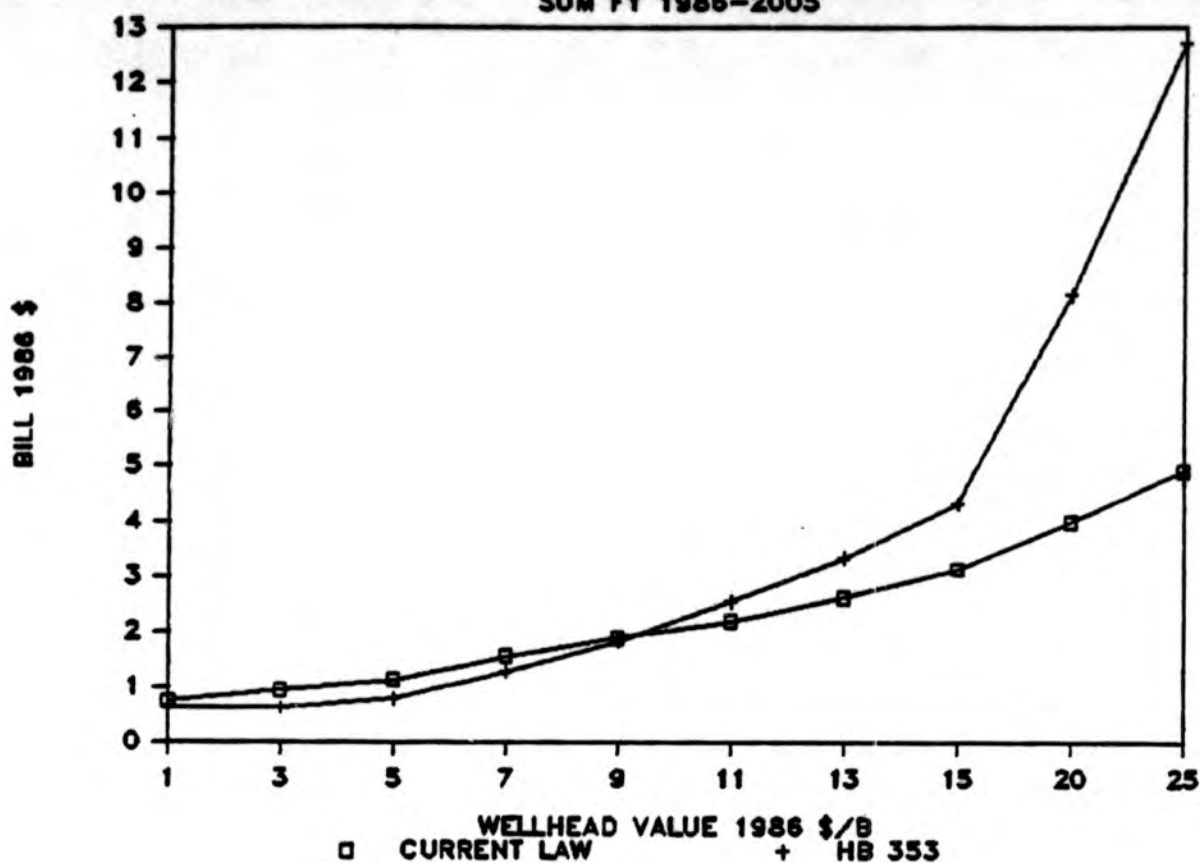
INCOME + PRODN TAX COMPARISON FY 2005



GRAPH III-8605-1

INCOME TAX COMPARISON

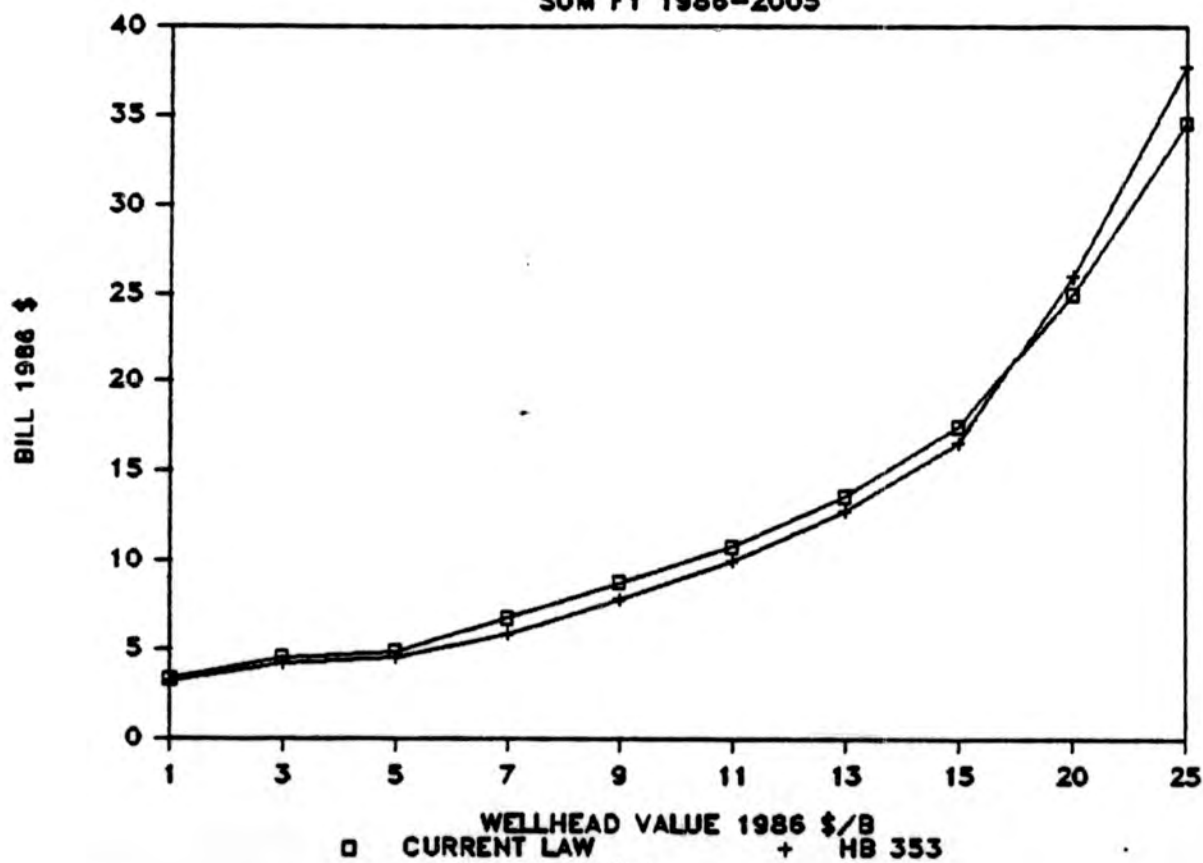
SUM FY 1986-2005



GRAPH III-8605-2

INCOME + PRODN TAX COMPARISON

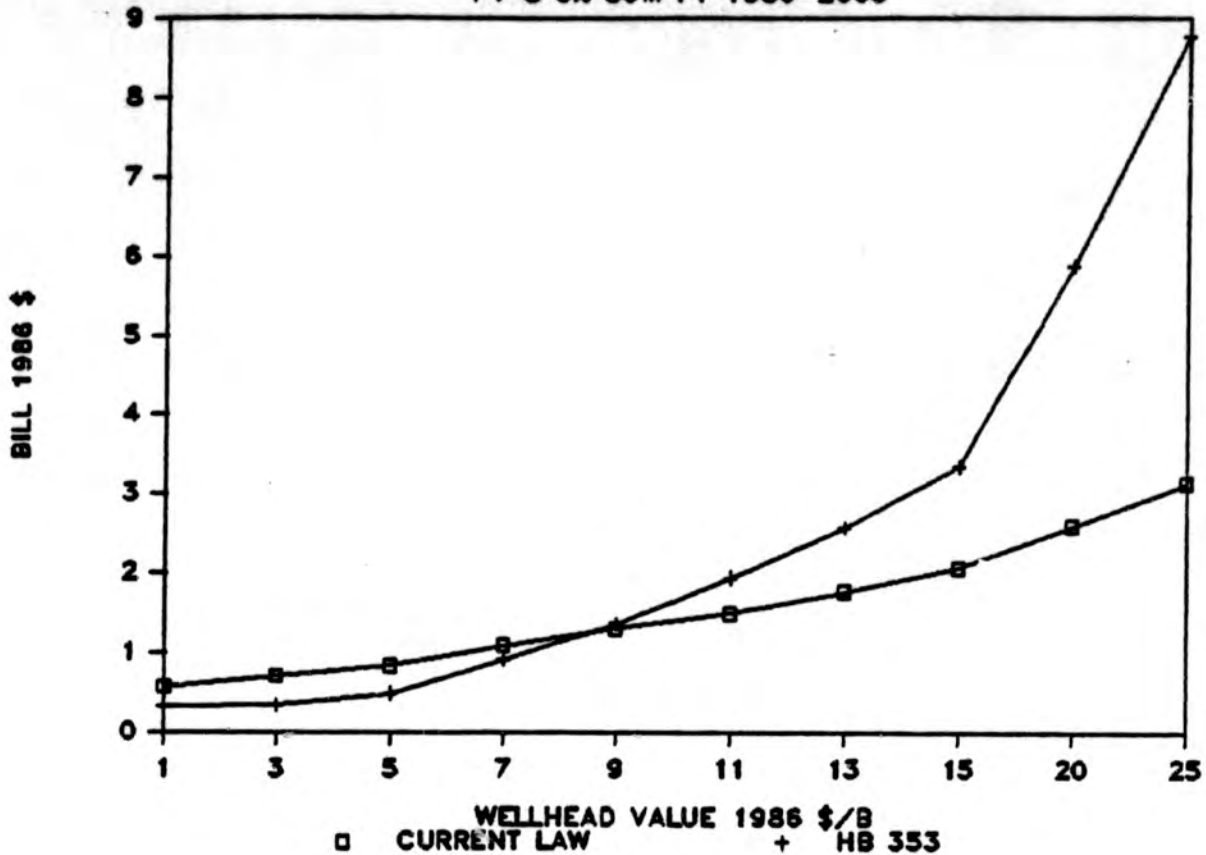
SUM FY 1986-2005



GRAPH III-8605-PV85-1

INCOME TAX COMPARISON

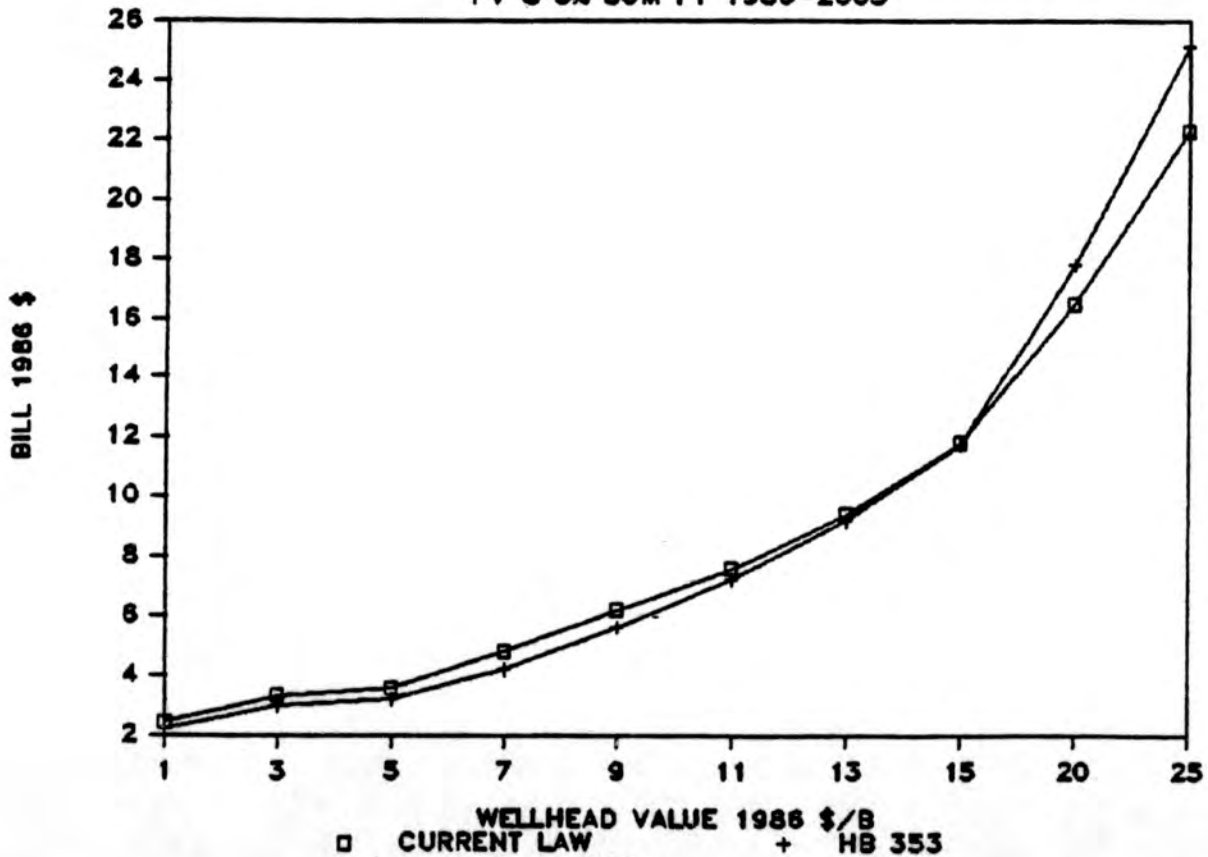
PV @ 5% SUM FY 1986-2005



GRAPH III-8605-PV85-2

INCOME + PRODN TAX COMPARISON

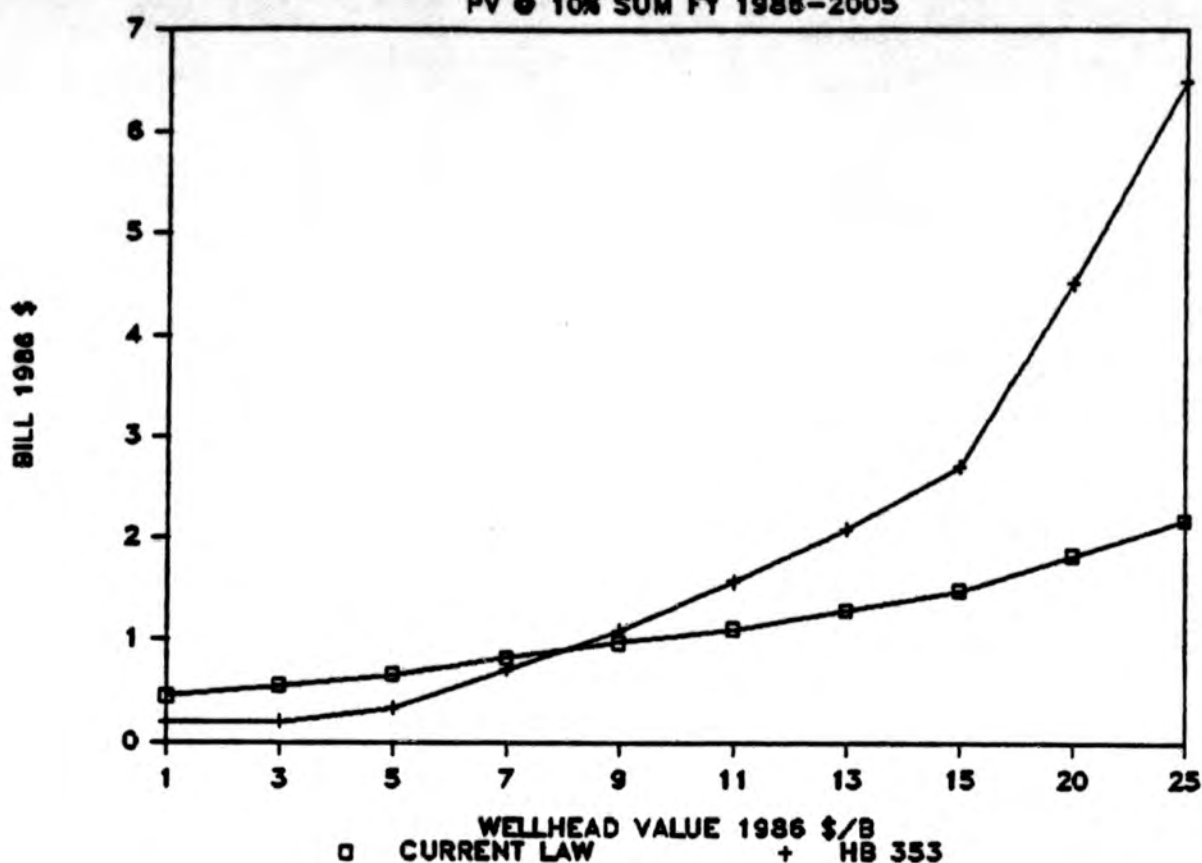
PV @ 5% SUM FY 1986-2005



GRAPH III-8605-PV010-1

INCOME TAX COMPARISON

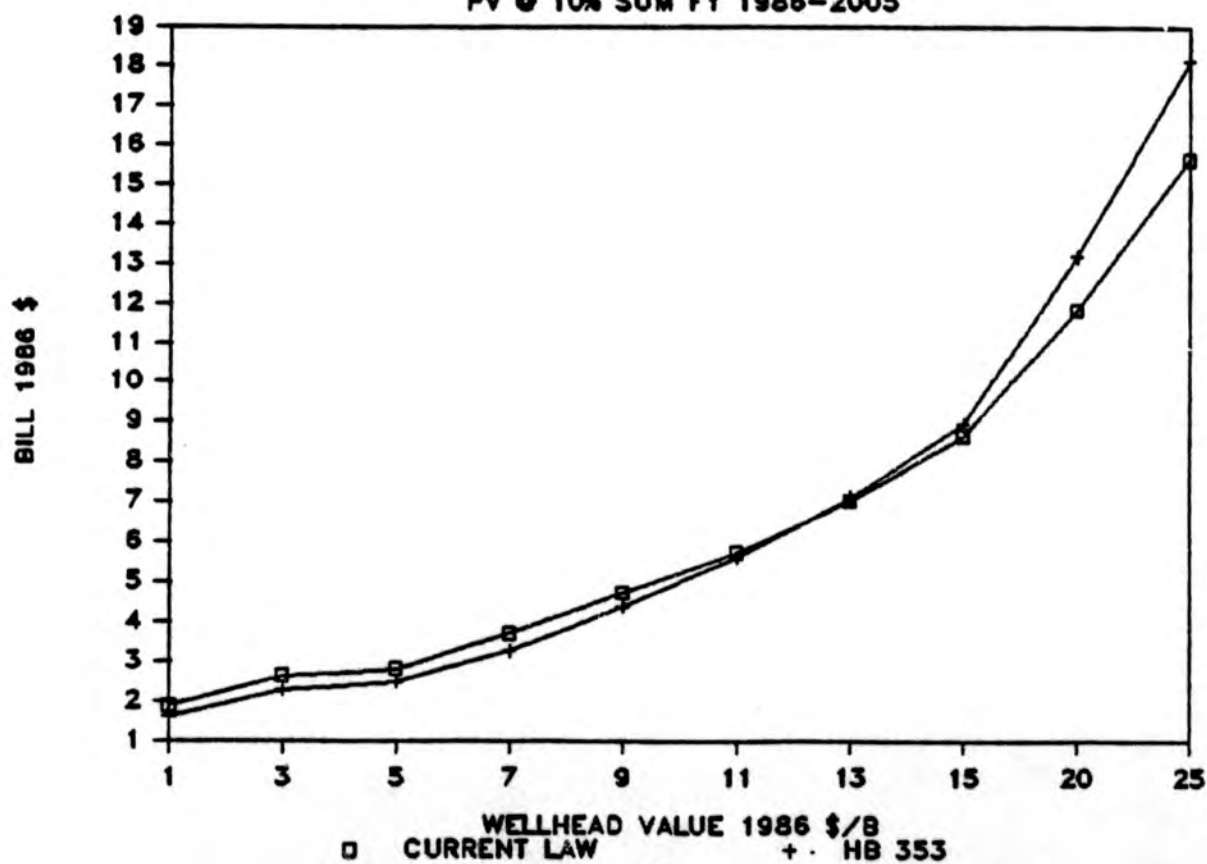
PV @ 10% SUM FY 1986-2005



GRAPH III-8605-PV010-2

INCOME + PRODN TAX COMPARISON

PV @ 10% SUM FY 1986-2005



C.

Methodology

The methodology and assumptions used in this analysis are summarized in this part of the report.

As discussed above the purpose of this study is to determine the sensitivity of revenue collections under HB 353 and current law to alternative crude oil price levels. The purpose is not to project the most likely revenue collections which would result from enactment of HB 353 based on a set of assumptions about future levels of crude oil production and WHV's in Alaska which presently seem reasonable. Therefore, a deterministic sensitivity type of analysis was used in this study. In the analysis, various Sadlerochit crude oil WHV scenarios were specified as given starting points for the analysis and the oil production volumes and revenue values associated with each WHV senario were projected. This type of analysis is in direct contrast to the probabilistic simulation type of analysis which is used to produce the Department of Revenue's quarterly forecasts of state petroleum revenues. In the simulation type analysis probability distributions for oil prices, production, etc., are specified and sampled at random to determine a range of revenue estimates which can then be assigned various probabilities of occurrence. The results of this study which uses the sensitivity type analysis are not directly comparable to the quarterly Petroleum Production Revenue forecasts which use the simulation type of analysis.

In this study all dollar values are in terms of constant 1986 dollars. The time frame for the analysis is from FY 1986 through FY 2005. The Alaska North Slope (Sadlerochit-TAPS Pump Station NO. 1) 1986 dollar WHV scenarios which were examined are 25, 20, 15, 13, 11, 9, 7, 5, 3 and 1 dollars per barrel. Thus, there are ten different oil price scenarios presented in this study. It is assumed in each scenario that the real 1986 dollar WHV remains constant for the entire period from FY 1986 through FY 2005. The analysis includes all currently producing Alaska oil and gas fields and most prospective North Slope oil fields. Specifically included are the Cook Inlet oil and gas fields and the Sadlerochit, Kuparuk, Milne Point, Endicott, Lisburne, West Sak and other onshore North Slope oil fields. The Seal Island and other offshore oil fields on the North Slope were excluded as they are not expected to have significant commercial production prior to FY 2005. Also note that no commercial North Slope gas production was assumed to occur within the time frame of this analysis. In addition the TAPS crude oil pipeline was also included in the analysis.

Petroleum Corporate Income Tax HB 353 - Separate Accounting

In this analysis projections of Petroleum Corporate Income Tax collections under HB 353 were done on a disaggregated basis, that is separately for each field and for the TAPS pipeline. Using the Field Feasibility Analysis submodel of the Petroleum Production Revenue Forecasting Simulation model, each North Slope field was evaluated under each different WHV scenario for both HB 353 and current law. The results

of this evaluation indicated that for a given WHV scenario there would be no significant feasibility impacts on the fields as a result of the tax law changes proposed under HB 353. It was therefore assumed that production for each field would be the same under HB 353 as under current law for a given WHV scenario.

The feasibility analysis was based on a real after tax discounted cash flow rate of return (DCF ROR) methodology. Assumptions for each field as to WHV, reserve estimates, primary and enhanced recovery production rates, development costs and operating costs, effective tax rates and desired rates of return were made. The model then tests the resulting after tax DCF ROR against a specified hurdle rate to determine the level of development which is feasible. A detailed description of the Field Feasibility submodel can be found in the appendix to the June, 1985 quarterly Petroleum Production Revenue Forecast.

This feasibility model was used to project an oil production volume profile from FY 1986 through FY 2005 for each North Slope field corresponding with each WHV scenario. It should be noted that all the WHV scenarios are stated in terms of Sadlerochit-TAPS Pump Station No. 1 values. The WHVs for North Slope fields other than Sadlerochit differ from the WHV stated in the scenario by a fixed amount equal to the estimated transportation cost to get oil from the field to TAPS. In the analysis the potential start up year for any given prospective field was assumed to be the first year commercial production could begin from a technical engineering standpoint, given when the field was leased and the estimated time required for exploration and development. The feasibility

test was structured such that the field either would be feasible and begin commercial production at some minimum level or it would fail the feasibility test and never go into commercial production given the specific WHV scenario assumed. This was because the analysis assumes no change in real WHV over time, so if a field is not feasible at the earliest opportunity for development it will never become feasible. However, if a field was feasible the level of development, which was projected to occur through investment in enhanced recovery techniques, did increase with higher WHV scenarios. Thus, production volume profiles, economically recoverable reserves estimates, and productive life estimates for a given field do increase with higher WHV scenarios.

The WHV and associated production volume profile for each North Slope oil field were used to calculate gross oil production revenue on a separate accounting basis under HB 353.

North Slope field specific allowable separate accounting deductions were then calculated for each field for each WHV and production volume scenario. The deductions from gross oil production income were projected as follows:

Oil Royalties:

Oil royalties were projected for each field based on the State's royalty share of the field's oil production which was determined at the time the field was leased. Both in-value and in-kind royalties were projected where applicable. In-value royalties

for each field were projected based on the field's WHV less any gathering and cleaning charges, the field's oil production volume associated with the particular WHV scenario, and the specific state royalty share for the field. In-kind royalties were projected based on the terms of the in-kind royalty contracts currently in effect. Sadlerochit is the only field for which there are currently in-kind royalty contracts. The "in-kind" royalty WHV is generally tied to the in-value royalty WHV plus some specified per barrel premium.

Oil Conservation Taxes:

Oil conservation taxes were projected for each field based on a flat one-eighth of a cent per barrel multiplied by the production volume for the field for the specific WHV scenario.

Oil Production Taxes:

Oil production taxes were projected under both current law and the provisions of HB 353 for each field for each WHV scenario. The economic limit factor (ELF) and cents per barrel floor provisions are the same under both laws. The nominal oil production tax rate provisions do differ. Under current law, the rate for Sadlerochit is 15 percent and the rate for other North Slope fields is 12.25 percent for the first five years of production and 15 percent thereafter. Under HB 353, the rate would be changed to 12.25 percent beginning in CY 1987 for all

fields. The production tax projected under the provisions of HB 353 for a field was used as a deduction for calculating the corporate income tax under HB 353 for the field. The production tax projected under current law was used for comparison purposes only. The average number of producing wells was specified for each field for each year. The number of producing wells in a field was assumed to remain unchanged for all WHV and production volume scenarios. Higher production volume scenarios would require enhanced recovery techniques which could involve additional injection wells but would not require a significant number of additional production wells. Thus, the average per well production used in the ELF calculation changed with the various production volume scenarios. Average production volume per well, estimated direct operating costs per barrel and WHV per barrel were used to calculate production at the economic limit (PEL) which was in turn used to calculate the ELF for each field for each WHV scenario. The ELF for a field was set equal to one if the calculated ELF was greater than .7 and the field was in the first ten years of commercial production, otherwise the actual calculated ELF was used. The WHV for the field was then multiplied by the nominal production tax rate. If this product was below the 80¢ per barrel floor, the production tax was calculated by taking the product of the 80¢ per barrel floor, the ELF, and net, after royalty, production volume. If the WHV times the nominal rate was above the floor then the production tax was calculated as the product of net production volume, WHV, nominal tax rate and ELF. It should be noted that under either current law or HB 353, both the nominal rate and the floor are subject to modification by the ELF.

Operating Costs:

Field specific operating costs deducted are direct operating costs only and include no general administration and overhead or interest costs. They do, however, include the costs of gathering, treating, processing, storage, dehydration, cleaning, conditioning, labor, fuel, insurance, repairs, maintenance, well work overs and field engineering. Operating cost functions for each field were derived based on the functions used in the petroleum revenue feasibility analysis model. The operating cost projections include both a primary and enhanced component. The production volume scenarios for each field were separated into a primary production volume stream and an enhanced recovered production volume stream. It should be noted that under some WHV scenarios for each field there would be no enhanced recovery production volumes. These would be scenarios where enhanced recovery investments would not be economically feasible. Primary operating costs were projected as a function of primary production volume with a fixed and variable cost component. Enhanced recovery operating costs for each year of enhanced production were projected as a function of primary production operating costs for that year and estimated total primary and enhanced production volumes over the life of the field for the specific WHV scenario assumed. Total operating costs for each field were projected as the sum of primary and enhanced operating costs each year.

Development Costs - Depreciation and Property Taxes:

Development or capital cost functions for each field were also derived based on the functions used in the petroleum revenue feasibility analysis model. Again, primary and enhanced recovery development costs for each field were projected separately. The development costs projected by these functions include both tangible and intangible development costs. Primary development cost projections were made and input directly for the relevant years. Total enhanced recovery development costs were projected as a function of estimated total primary development costs and estimated total primary and total enhanced production volumes over the life of the field. Enhanced recovery development costs were assumed to occur in the two years prior to the first year in which enhanced recovery was deemed technically feasible. Total enhanced recovery development costs were divided equally between those two years for each field. Again, it should be noted that under some WHV scenarios no enhanced recovery would be feasible. Total development costs were projected as the sum of primary and enhanced development costs for each year.

Depreciation expense for each field was projected based on total development costs, which included tangible and intangible, primary, and enhanced costs. The depreciation method used, as specified in HB 353, was the units of production method. Under this method undepreciated average cumulative development costs

for each year are multiplied by a units of production (UPD) factor, which is production volume during the year divided by estimated remaining reserves at the beginning of the year, to derive the depreciation expense deduction for the year. Development costs, production volumes and reserve estimates all vary with alternative WHV scenarios for each field.

Petroleum property taxes are levied at the rate of 2 percent of the assessed value of tangible petroleum production property. Estimates of tangible production property for each field were derived as a specified proportion of projected total development costs. Tangible production property was assumed to be assessed using a trended original cost (TOC) method of valuation taking account of the economic life of the field. Economic lives for each field were assumed to vary with alternative WHV, production volume, reserves, and development cost scenarios.

Aquisition Costs-Amortization:

Aquisition cost estimates for each field were made which included lease bonus payments, successful exploration expenses and property taxes paid before the start of commercial production. Unamortized total aquisition costs were amortized on a units of production basis in the same way development costs were depreciated for each field. Amortization expense varies for each field with alternative WHV scenarios as reserve estimates and production volumes change.

Federal Crude Oil Windfall Profits Tax:

Federal Crude Oil Windfall Profits Tax (WPT) was projected for Sadlerochit, the only North Slope field which is subject to the tax. WPT is not an allowable deduction under the provisions of HB 353. However, it was an allowable deduction under the old separate accounting corporate income tax law, AS 43.21. WPT was thus projected for comparison purposes only. The WPT calculation was based on the difference between WHV and adjusted base price modified by a production tax adjustment. In this analysis the adjusted base price was assumed to remain constant in 1986 dollars over the entire period from FY 1986 to FY 2005. This was necessary in order to be consistent with the constant 1986 dollar WHV assumptions of the various scenarios. It should be noted that the only WHV scenarios for which Sadlerochit would have WPT liability are \$25 and \$20 per barrel. In all the other WHV scenarios the WHV will be below the adjusted base price. The WPT was calculated by multiplying the net windfall per barrel by the non-royalty production volume and then by the WPT rate. The WPT rate is 70 percent through 1990 and then phases out over a four year period such that by 1995 the tax rate is zero.

There are three additional categories of corporate income tax deductions which are allowed under HB 353. These deductions were projected on an aggregate basis for the entire North Slope,

1.e. all corporations operating on the North Slope and not on a field by field basis. These non-field specific deductions were projected as follows:

Uncapitalized Interest and General Administration and Overhead:

Uncapitalized interest and general administration and overhead expenses were projected based on historical data for North Slope fields collected from AS 43.21 tax returns through CY 1981 and adjusted for estimated real and inflationary changes to FY 1986. The projections for these two deductions were assumed to remain constant throughout the time frame of the analysis as long as there was North Slope Oil production volume for all WHV scenarios.

Unsuccessful Exploration Expense:

Unsuccessful exploration and abandonment expenses are allowed as a deduction under HB 353. North Slope exploration expenses were projected as a function of WHV with a fixed and variable component. However, at WHV's of \$7/barrel and below exploration expense was assumed to be zero. Under each scenario the exploration expenses thus derived were assumed to remain constant throughout the entire period from FY 1986 to FY 2005 in constant FY 86 dollars. The function used to project exploration expenses was derived from historical data collected from AS 43.21 returns and other confidential company information.

compiled by the petroleum research section. The full amount of the projected exploration expense was assumed to be deducted in the year of abandonment. For those corporations without sufficient production income, exploration expense deductions would have to be carried forward into the future years. Also, under HB 353 corporations with exploration expenses but no production income would fall under separate accounting, a provision different from the old AS 43.21 law. This could result in additional total exploration expenses being reported on HB 353 separate accounting corporate income tax returns. However, these corporations would be carrying losses forward until they had production income to expense their losses against and thus, this difference would not materially impact tax collections within the time frame of this analysis.

The next step in projecting the petroleum corporate income tax under HB 353 was to aggregate all of the North Slope field specific income and deductions and the non-field specific deductions. This allowed calculation of an aggregated income tax estimate for all North Slope producing fields combined. This was done for each year under each different WHV scenario. Total North Slope gross oil production revenue less total North Slope oil production deductions both including and excluding Sadlerochit WPT were calculated to derive total North Slope taxable income estimates. Taxable income estimates were then multiplied by the 9.4 percent tax rate to derive estimates of total North Slope oil production tax liability.

The projections of Petroleum Corporate Income Tax liability under HB 353 were then done separately for the Cook Inlet fields. Cook Inlet oil production and gas production volume projections were assumed to be fixed and not to vary with alternative North Slope WHV scenarios. The 1986 dollar WHV for Cook Inlet oil WHV was assumed to be \$6 per barrel higher than the North Slope-Sadlerochit WHV in each scenario. The gas WHV in Cook Inlet was projected based on current contracts in constant 1986 dollars and did not change under alternative WHV scenarios. The oil production volume profile is based on the decline curve of existing Cook Inlet oil fields. The gas production volume profile is based on future estimates of demand for Cook Inlet Gas and estimated gas reserves. Since future demand growth will be related to population and income growth which will in turn be related to state government revenue and spending, it may have been more realistic to modify Cook Inlet gas production volume projections with alternative WHV assumptions. However, the problems of modeling that relationship outweigh the significance of the revenue change which would result in this analysis.

Cook Inlet oil production and gas production volumes were multiplied by oil and gas WHV's and summed to derive Cook Inlet gross oil and gas production revenues under HB 353 for each WHV scenario for each year. Allowable deductions from total gross production revenue which were projected are as follows:

Oil and Gas Royalties:

Royalties on both oil and gas production were projected as 12.5 percent of oil and gas gross production revenues for each year under each scenario.

Oil Conservation Tax:

Oil conservation taxes were projected as one-eighth of a cent per barrel on each barrel of oil produced.

Oil Production Taxes:

Oil production taxes were projected under both current law and the provisions of HB 353 for each scenario. The difference between the two is that under current law the nominal production tax rate is 15 percent and under HB 353 the rate would be changed to 12.25 percent beginning CY 1987. The oil ELF for Cook Inlet was estimated for each year and used to modify the nominal rates under both laws. The oil ELF was assumed not to change under alternative WHV scenarios. This is because per well production volumes are so low in Cook Inlet that the ELF factor would not change significantly with alternative WHV assumptions. Only net after royalty oil production was subject to production tax. Oil production taxes for Cook Inlet also have an 80 cents per barrel floor provision. However, in none

of the scenarios analyzed did the WHV result in the application of the floor.

Gas Production Taxes:

Gas production taxes would not be changed under the provisions of HB 353. The nominal gas production tax rate would remain at 10 percent as under the current law. The gas ELF for Cook Inlet was estimated for each year and did not differ with alternative WHV scenarios as gas production volumes did not change with the various scenarios. Again, only net after royalty gas production was subject to production tax. Gas production taxes provide for a 6.4 cents per thousand cubic feet (MCF) floor. However, in no year was the gas price scenario used low enough to trigger this floor provision. Since neither gas production volumes nor WHV were changed for alternative scenarios, gas production taxes did not change either.

Property Taxes:

Petroleum property taxes are levied at the rate of 2 percent of the assessed value of tangible petroleum production property. Since only one production volume scenario was used for both Cook Inlet oil and gas, the same property tax projection was used in all WHV scenarios. This projection came from the Department of Revenue petroleum property assessors section and was based on a trended original cost (TOC) approach.

Operating Costs:

Direct operating costs were projected based on the estimated number of production platforms which would be operating in Cook Inlet. Again, since production volume scenarios did not change neither did operating cost projections for alternative WHV scenarios.

Other Deductions:

The other deductions category projected for Cook Inlet includes depreciation, general administration and overhead and uncapitalized interest. Uncapitalized interest and general administration and overhead were projected based on historical data for Cook Inlet fields collected from AS 43.21 tax returns through CY 1981 and adjusted for estimated real and inflationary changes to FY 1986. These items were projected to remain constant throughout the time frame of the analysis. Depreciation was projected on a straight line basis accounting for estimated field life and changes to field capital investment. A single depreciation projection was used for all scenarios.

Federal Crude Oil Windfall Profits Tax:

Cook Inlet oil is subject to the WPT. Even though the WPT is

not an allowable deduction under the provisions of HB 353, it was projected for comparison purposes. The methodology used to project Cook Inlet oil WPT was identical to that which was used to project Sadlerochit oil WPT except that the adjusted base price was slightly different for the two fields. Since oil WHV is assumed to be \$6 per barrel higher in Cook Inlet than in Sadlerochit, the WHV scenarios for which Cook Inlet would have WPT liability are \$25, \$20, \$15, and \$13 per barrel.

After all allowable HB 353 deductions were projected for Cook Inlet, the next step in projecting HB 353 corporate income tax liability was to aggregate the deductions and subtract them from gross oil and gas production revenues. This was done for all scenarios both including and excluding the WPT from total deductions to produce estimates of Cook Inlet taxable income. Taxable income estimates for all scenarios were multiplied by the 9.4 tax rate to derive estimates of total Cook Inlet separate accounting income tax liability.

The petroleum corporate income tax under HB 353's separate accounting provisions would be levied against petroleum pipeline transportation income as well as petroleum production income. It was therefore necessary to project the tax liability for the TAPS oil pipeline as well as the various producing fields previously discussed. Subsequent to the previous October 31, 1985 analysis, the State and the TAPS owner corporations have negotiated a settlement on TAPS tariffs. The provisions of this

settlement will be referred to as the TAPS Settlement Methodology (TSM). Under TSM, the TAPS gross revenue requirement (GRR) is defined in a manner such that it is dependent on TAPS thruput volume in conjunction with certain fixed costs and specified allowable after tax rates of return. The TAPS GRR is then divided by thruput to determine the allowable TAPS per barrel tariff. In this analysis the provisions of TSM have been modeled. Again, the analysis was done entirely in terms of constant 1986 dollars.

TAPS thruput for each WHV scenario was assumed to be the sum of oil production volumes for all North Slope fields for each year. The TAPS GRR and tariff were then determined using that thruput volume in conjunction with TSM. It should be noted that in this analysis there was no inter-connection assumed between the TAPS tariff and North Slope WHV. Crude oil WHV is generally determined by netting back to the wellhead from the refinery by deducting transportation costs, including pipeline tariffs. However, in this analysis North Slope WHV was specified as the starting point for each scenario.

Thus for a given WHV scenario the associated North Slope production volume and TAPS thruput and tariff were determined. Also, in this analysis no minimum TAPS thruput volume was assumed. There does exist a minimum TAPS thruput volume below which from a technical engineering standpoint TAPS cannot operate. Estimates of the exact magnitude of this minimum

volume, however, vary. In this analysis there were WHV scenarios in which TAPS shuts down prior to FY 2005 because all North Slope fields ceased production.

TAPS gross petroleum pipeline transportation revenue under HB 353 was assumed to equal the TSM GRR for each WHV scenario for each year. Allowable deductions from gross pipeline transportation revenues were projected as follows:

Operating Costs:

Operating costs including general administration and overhead costs were projected based on TSM with both a fixed and a variable component. Operating costs vary with the WHV scenario assumed due to the variable cost component and different thruputs associated with each scenario.

Amortization and Depreciation Expense:

Amortization and depreciation expenses were projected on a straight line basis as specified in HB 353 and not on the accelerated basis allowed under TSM. The straight line depreciation was not assumed to vary between scenarios and was based on useful life estimates provided by the Department of Revenue's petroleum property assessor's section.

Uncapitalized Interest:

The uncapitalized interest expense deduction for TAPS was

projected based on the actual TAPS debt service schedule of the owner corporations and did not vary between scenarios. TSM assumes no debt in setting TAPS GRR. However, in reality the owner corporations did use some debt financing and the interest on that debt is an allowable deduction under HB 353.

Property Taxes:

As with the producing fields, petroleum property taxes are levied at the rate of 2 percent of assessed value of tangible pipeline transportation property. Unlike production property, transportation property is assessed on an economic value (EV) basis as opposed to a TOC basis. Under EV the discounted present value of projected future after tax net cash flow is used to assess the taxable value of the property. Due to the fact that property taxes are one of the costs allowed under TSM in determining TAPS GRR and that GRR is used in the EV method to determine TAPS property taxes, these two elements of the analysis were determined simultaneously in the model. Therefore, for each WHV and resulting TAPS thruput scenario there is a different TAPS GRR and property tax projection.

TAPS pipeline transportation corporate tax liability under HB 353 was projected by subtracting the sum of all allowable deductions from gross revenue and multiplying by the 9.4 percent tax rate for each year under each scenario.

Once separate estimates of HB 353 petroleum corporate income tax liability were made for the North Slope fields, the Cook Inlet fields and the TAPS pipeline, the next step was to combine all the elements to derive projections of total income tax liability and collections. This was done assuming two different combinations. The first was for all producing fields and shows what the HB 353 separate accounting tax would be for production activities only, within the State. The second included TAPS with the producing fields and shows the complete impact of HB 353.

In the case of combining all producing fields, tax liability was determined separately for the North Slope and Cook Inlet. The two tax liabilities were added together to determine total tax liability. This method was used as opposed to summing gross revenue for the two areas and subtracting the sum of total deductions for the two areas to arrive at a total tax liability. Most of the production from the two areas is controlled by different corporations. Therefore the deductions of corporations operating in one area cannot be applied to the revenue of corporations operating in the other area to determine a total tax liability. It was also assumed that when the taxable income for either area was less than or equal to zero, i.e. deductions were greater than or equal to revenues, that the tax liability for the area would be zero, i.e. no negative tax liability was possible. Also no provisions were assumed for carrying losses forward. For the North Slope, once taxable income turned negative in a given scenario, it never turned positive and therefore there would be no impact of carrying losses forward. This is due to the constant real WHV assumption and the fact that in all WHV scenarios production declined over the period. This was also the

situation with TAPS in this analysis. For Cook Inlet there were scenarios where taxable income was negative and then turned positive in subsequent years due to the increasing gas production volumes assumed over the period. However, the impact of carrying Cook Inlet losses forward would not be significant for the overall analysis and there is also uncertainty as to whether the corporations with losses in earlier years would be the same ones with income in later years.

In the case where TAPS was combined with the producing fields, taxable income was determined for the TAPS and the North Slope fields jointly and then a joint tax liability was determined. The corporations which control most of the North Slope production are the same corporations which own the majority of TAPS. Thus, it was appropriate to combine revenues and deductions for those two components of the total HB 353 tax liability. Taxable income and tax liability were projected separately for Cook Inlet. Then the projected tax liability for the North Slope fields and TAPS combined was added to the projected Cook Inlet fields' tax liability to determine projected total HB 353 petroleum corporate income tax liability. In this case, all the other assumptions about non-negative tax liability and loss carry forwards were the same as in the case of producing fields only.

The final step in this analysis of HB 353 corporate income taxes was to adjust the projected tax liability in the two cases to a tax collection basis. Liability was determined on a fiscal year basis. Tax collections in a given fiscal year were assumed to be equal to three quarters of the tax liability for that fiscal year plus one quarter of

the tax liability for the previous fiscal year. This method accounts for the timing of estimated payments and tax return filing. It should then be noted that part of FY 1986 projected collections come from FY 1985 liability where the actual existing tax was assumed to be in effect. This explains why there are some scenarios where FY 1986 tax liability is zero and FY 1986 tax collections are positive.

Petroleum Corporate Income Tax - Current Law - Modified Apportionment

Projections of petroleum corporate income tax collections under the current law were done on a disaggregated basis, by corporation, rather than by field and pipeline as the HB 353 projections were done. This is because under apportionment the worldwide petroleum business income of each corporation is apportioned to Alaska based on factors specific to that corporation. Thus, for example, even though two corporations may have identical production, revenues and costs in Alaska, they may not have the same taxable income under apportionment if their worldwide operations and hence apportionment factors are different.

Three taxpayers, Atlantic Richfield, Exxon and Standard Oil - British Petroleum, account for approximately 90 percent of the total tax collected under the current petroleum corporate income tax law. The current apportionment tax has been in effect since the beginning of 1982. Corporations have filed returns for three years, CY 1982, CY 1983, and CY 1984 under this tax structure. Based on data from these returns, estimates were made of worldwide net profits and Alaska apportionment

factors for the "Big Three" corporations for tax year 1986. An analysis was then performed to estimate the impact on the corporations' worldwide net profits of alternative world crude oil prices. The world crude prices selected corresponded to each of the North Slope oil 1986 dollar WHVs assumed as starting points for each scenario in this study. The difference between the North Slope value and the world market value was estimated based on weighted average transportation costs for North Slope oil in various markets and marketing differentials between various types of crude oil. Since a constant 1986 dollar North Slope WHV was assumed for projection purposes in each scenario, a constant 1986 dollar world oil price was also assumed to prevail over the FY 1986 to FY 2005 time period for each scenario. The estimated difference in worldwide net profits also includes the impact of the WPT on U.S. domestic upstream earnings of these corporations in the higher price scenarios through WPT phaseout in 1995. No real change in the size of the corporations was assumed to occur over the period. This is a neutral assumption which implies a no-growth scenario for these corporations.

The extraction factor, Alaska net oil and gas production divided by worldwide net oil and gas production, is the most significant factor for these corporations in determining their average Alaska apportionment factors. The weighted average Alaska apportionment factor for the "Big Three" was therefore projected based on the change in total Alaska oil and gas production over the period in each WHV scenario. Again, this assumption is consistent with constant worldwide production for these corporations over the period. The assumption of constant worldwide production for these corporations implies that, over time, they will

replace declining production from their known Alaskan reserves barrel for barrel with incremental production from areas outside of Alaska. Reserve replacement success, and the elasticity of that success relative to price will vary widely among the various corporations, and for a given corporation, over time. There are also very significant elements of chance involved. Thus, rather than attempt to estimate the price elasticity of reserves and production replacement for these corporations, the price neutral assumption of constant worldwide production in all the various scenarios was adopted. However, based on economic theory, it would be expected that there would be less of an incentive to replace declining Alaskan production in the lower price scenarios and more of an incentive in the higher price scenarios. If a corporation's Alaskan production is replaced on less than a barrel for barrel basis over time, the corporation's Alaska apportionment factor would decline less than in proportion to the decline in its Alaskan production. If, on the other hand, a corporation's Alaskan production is replaced on more than a barrel for barrel basis over time, the corporations Alaskan apportionment factor would decline more than in proportion to the decline in its Alaskan production. Therefore, the assumption of constant worldwide production may result in understating projected current law income tax collections in the lower price scenarios and overstating them in the higher price scenarios.

Projected total worldwide net profits and weighted average Alaska apportionment factors for the "Big Three" were used to project Alaska taxable income on a calendar year basis for the "Big Three" under each scenario. Taxable income was then multiplied by the 9.4 percent tax rate

to compute tax liability. The "Big Three" were assumed to continue to account for 90 percent of the total tax liability under the current petroleum corporate income tax over the period projected, under each scenario. Total tax liability on a calendar year basis was then adjusted to a fiscal year tax collections basis. A given fiscal year's tax collections were assumed to equal .5181 times the same calendar year's tax liability plus .4821 times the previous calendar year's tax liability. This method accounts for the historical relationship which has been observed as to the timing of estimated payments and return filings relative to tax liability. Also note that part of FY 1986 collections are dependent on estimated CY 1985 tax liability.

Alaska State Legislature
House of Representatives.



Official Business

Al Adams
Chairman
Committee on Finance

WHILE IN SESSION
Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3706

OUT OF SESSION
P.O. Box 333
Kotzebue, Alaska 99752
(907) 442-3320
1024 W. 6th
Anchorage, Alaska 99501
(907) 274-0615

October 10, 1985

MEMORANDUM

TO: Representative Al Adams, Chair

Representative Sam Cotten, Chair,
Oil & Gas Revenues Subcommittee

FROM: *Loann*
Loann Cutler, Special Assistant

SUBJ: **Overview of Issues Involved in Consideration of HB 353**

At your request, I have prepared an overview of the major issues involved in consideration of HB 353, the Committee's oil and gas tax legislation.

I. What does HB 353 do?

- A. HB 353 would reinstate separate accounting as the method that the oil industry must use to compute income earned in Alaska to determine their income tax liability to the state.
- B. HB 353 returns the nominal severance tax rate from 15% to its pre-1981 level of 12.25%. The nominal rate was raised in 1981 at the same time that separate accounting was repealed in order to compensate for the loss in tax revenue anticipated at the time due to implementation of modified apportionment.

II. Executive Summary

- A. HB 353 is well constructed tax reform legislation that will restore the state's fair share of Alaskan oil wealth. The industry's share has increased since the changeover to modified apportionment while the state's share has decreased. The changeover has cost the state at least \$800 million and an additional \$1 billion

will be raised if the state returns to separate accounting.

- B. The Alaska Supreme Court has found that separate accounting is constitutional in every respect. The court even declared that it is a better measure of oil industry income in Alaska than formula apportionment.
- C. Separate accounting is a fairer tax because it will lower the income tax on less profitable investments like marginal field exploration and development and raise the income tax on highly profitable fields like Prudhoe Bay (i.e., conventional recovery in the Sadlerochit reservoir). The industry can afford a higher income tax on Prudhoe because it made as much in FY 85 as it made in FY 82 (about \$6 billion in real terms) even with the downward price spiral. Additionally, the income tax increase on Prudhoe would be coupled with a 22% severance tax decrease under HB 353.
- D. Future tax policy should be directed by the overwhelming importance of Prudhoe Bay to our revenue stability. Even with marginal field development, Prudhoe is still expected to provide almost 80% of production through 2010. Almost two thirds of recoverable reserves in Alaska are found in Prudhoe.

III. Background

- A. After four years of comprehensive study, the 1978 legislature changed the method of accounting that oil companies must use to compute their corporate income tax liability from formula apportionment to separate accounting. It was determined that separate accounting would more accurately reflect how much of an oil company's income is earned in Alaska.
- B. The constitutionality of separate accounting was quickly challenged by the major oil companies in Arco v. State. The legislature was faced with the threat of having to refund about \$9 billion in 1985 when resolution of the litigation was expected. In response to this threat, the 1981 legislature repealed separate accounting and enacted modified apportionment in its place. In 1983, an Anchorage superior court judge ruled that separate accounting is constitutional. This decision was unanimously upheld by the Alaska Supreme Court in August, 1985. (The potential

liability from 1978 to 1981 is currently about \$2 billion. This will only have to be refunded to the companies if the Alaska Supreme Court decision is reversed by the US Supreme Court.)

C. Definitions:

1. Formula apportionment: If a firm operates in several states and one of the states wishes to tax its income, a method must be chosen to determine how much income was actually earned in the taxing state. The formula apportionment method looks at the firm's worldwide income and, by use of a formula, attributes part of it to the taxing state. The standard formula uses three indicators of business presence in the state: payroll, property and sales.
2. Modified apportionment: This is a modified version of formula apportionment. It is different because of the substitution of the extraction factor for the payroll factor since the former is a better indicator of oil industry presence in Alaska. The extraction factor helps to determine income from oil production by measuring the amount of a company's in-state production activity. Since in Alaska production is far more prevalent than marketing and refining, modified apportionment more accurately determines oil company income and profitability in Alaska than does the standard formula apportionment method.
3. Separate accounting: This method does not use a formula to carve out a portion of worldwide income and attribute it to Alaska. Instead, it takes the wellhead value of oil (gross income) in Alaska and deducts from it all the costs of production to arrive at net income. This amount is then taxed at the same corporate income tax rate that all other non-oil businesses pay. Because it is considered by many to be the most accurate way to measure the value of oil production activity it comes closest to measuring income earned only in Alaska, and therefore, the income of oil companies directly attributable to business activities in Alaska.

IV. What important issues are involved in deciding whether to enact HB 353?

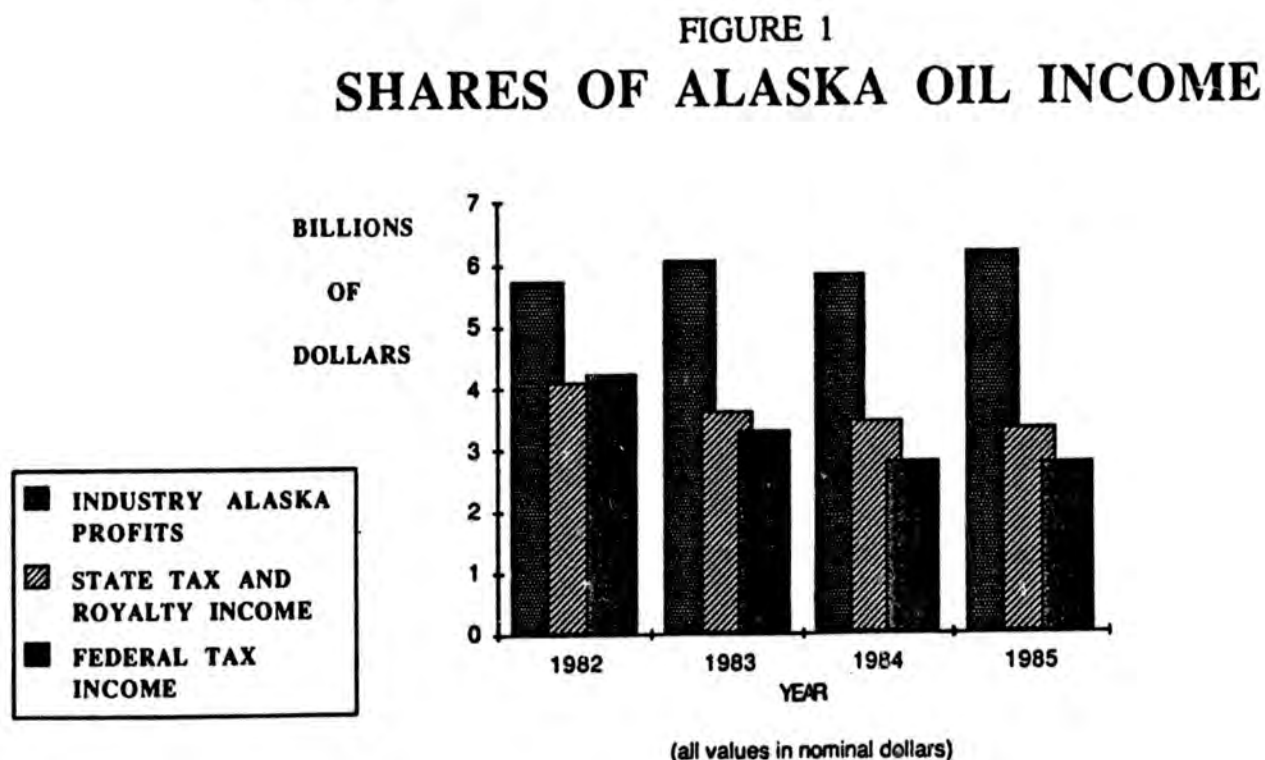
- A. Is separate accounting a better, fairer way to tax the oil industry in Alaska?
 - B. Will HB 353 discourage further exploration and development of new oil fields in Alaska?
 - C. Will HB 353 destabilize Alaska's business climate?
 - D. How will a return to separate accounting affect our tax revenues and what kinds of projects could be funded with any additional revenues?
 - E. How will a reduction in the severance tax affect our tax revenues?
 - F. How will the inevitable decline in Prudhoe Bay production affect Alaska's revenue picture?
 - G. Should the legislature consider any other changes to our oil & gas tax structure?
 - H. What is the current status of Arco v. State?
 - I. Was there a conspiracy in 1981?
 - J. How healthy is the oil industry at present?
 - K. How does taxation of the oil industry in Alaska compare to taxation of the industry in other states and at the federal level?
- V. Is separate accounting a better and fairer tax accounting method for Alaska?
- A. This issue poses two major questions: (1) Which method -- separate accounting or formula apportionment type of accounting -- best measures the amount of income earned within the taxing state? A fair tax will only apply to income earned in that particular state. (2) What is Alaska's "fair share" of the oil wealth provided by our oil resources?
 - B. Question #1 was answered by the legislature in 1978 and again by Alaska courts in both 1983 and 1985. In August, '85, the Alaska Supreme Court stated that separate accounting is the prevailing method throughout the United States for reporting income from oil production because it conforms more to an oil company's financial accounting procedures and "more accurately reflects income than formula apportionment. ...[T]he Alaska

legislature turned to separate accounting for oil producing businesses only after it determined that the use of formula apportionment to compute Alaska's share of oil production income would seriously underestimate the production income that was rightly subject to taxation by this state (emphasis added)." The Court noted further that the case of Sohio is the best illustration of the superiority of separate accounting as a means of allocating income earned in a particular jurisdiction. During the period 1978-80, Sohio maintained that only 10% of its payroll, 12% of its sales and 50% of its property were in Alaska. Yet its 1980 annual report states that over 90% of its total oil production derived from reserves in Alaska. Additionally, documents submitted to the Court (and not disputed by the companies) indicate that Sohio's earnings had elevated it from 17th to 7th industrywide. So, the Court concluded, "... the traditional formula apportionment method would inadequately reflect the phenomenal value of the companies' oil reserves in Alaska."

- C. Separate accounting is also superior to modified apportionment because it taxes conventional recovery at Prudhoe Bay more heavily than less profitable ventures, such as new technology applications at Prudhoe, and exploration and development in marginal fields. These less profitable ventures will actually experience an income tax reduction under separate accounting, just as Prudhoe will experience a tax increase. Prudhoe can afford to pay more taxes and still be highly profitable. A 1984 Institute of Social & Economic Research (ISER) study found that Prudhoe had made the companies about \$9 billion in net profits and that its 1982 profit rate hovered around 25%. But some of the riskier investments that industry is making in Alaska that are expected to yield a less-than-average profit could use an additional tax break. This is a much more equitable approach than modified apportionment which taxes all industry activities at approximately the same rate regardless of risk and expected profit.
- D. With regard to question #2, Alaska's fair share should be thought of principally in philosophical terms rather than only in terms of numbers. The following comments were made in a joint statement from the Governor and the legislative leadership in March, 1981: "[A]ny significant decreases in State oil and gas revenues appear both

unwarranted and unsupported by the majority of Alaskans. The State's current level of taxation ... provides that both the oil companies and the federal government will receive greater shares of Alaska's wealth than will Alaskans. Accordingly, any greater percentage granted the former at the expense of the latter would be inequitable... All agree that any changes [to the tax code] that would give large sums of money to the oil industry at the expense of the people of Alaska are unacceptable." These statements express the philosophy behind Alaska's oil and gas tax code and provide a framework for determining if Alaska receives its fair share of the oil wealth. They continue to be relevant in 1985.

- E. With the philosophy behind the tax code firmly in mind, consider the following measures of whether Alaska continues to receive its fair share. According to economist Eban Goodstein, in FY82, shares of oil wealth in Alaska were divided as follows: industry: 41%, federal government: 30%, and state: 29%. By FY85, the shares had shifted such that industry received 50%, the federal government received 22% and the state received 27%. Figure 1 expresses this same information in dollars:



- F. Alaska is not receiving its fair share as defined by the Governor and the legislature in 1981

because its share has declined while the oil industry's share has increased. Goodstein's analysis further suggests that the change from separate accounting to modified apportionment is one of the reasons why Alaska's share has diminished and the industry's share has increased. If separate accounting had not been repealed, the FY82 shares would have been 42% industry, 30% federal government and 28% state government while the FY85 shares would have been 47% industry, 21% federal government and 33% state government.

VI. Will HB 353 discourage exploration and development?

- A. The major determinants of a company's decision to explore and develop a particular oil field are availability of the oil, the price of oil, and the cost of production in that particular field. These factors determine the rate of return which in turn determines whether or not a field will be explored or developed. Since a state's tax rate is only one aspect of the cost of production, and the cost of production is only one factor in the rate of return equation, it follows that the tax rate can only play a small role in the company's final decision to explore or develop. Although taxation may have a psychological affect on a company's decision, it will rarely be the principal factor in the decision making process. The overall rate of return is the ultimate decision maker and the rate of taxation plays only a small part in determining that rate of return. As the ISER report states: "[F]our factors are typically more important than state tax rates in shaping the pattern of resource development." These factors are described as geologic good fortune, ownership of the mineral rights, cost environment and world energy prices.
- B. Unlike formula or modified formula apportionment, separate accounting only taxes a company on profits made in Alaska. In fact, a company will only pay a tax on profitable fields in Alaska so that if it has production activity at Prudhoe Bay and exploratory activities elsewhere, it will only pay taxes on the Prudhoe production activity because it does not yet derive any income from its exploratory work. Moreover, separate accounting would allow the company to deduct its exploratory expenses from its Prudhoe tax liability. Apportionment, on the other hand, taxes a portion of a company's worldwide income

so the company will pay taxes in Alaska even if all its profits were made elsewhere and even if its Alaskan activities operate at a loss. Separate accounting, then, is a better incentive for exploration and development since a company will not pay taxes until the field it is exploring or developing starts to produce and generates a profit. In a letter to the House Finance Committee, ISER economics professor Matthew Berman explained this effect as follows: "[S]eparate accounting...has virtually no adverse effect on development of marginal fields. A firm ...will make the investment only if it expects such development to be profitable after subtracting all taxes. Under... separate accounting... the proposed investment...will generate a tax liability...only if the investment is profitable anyway." Berman continues, "Corporate income taxes assessed under the modified apportionment system... may have some adverse effects [because] any investment, profitable or not, will generate an Alaska income tax liability." Berman reaches the same conclusion for exploration of marginal fields. A recent issue of Pacific OCS News, an industry newsletter, made a similar observation about Conoco's development of Milne Point: "The start up of this field begins a new era of marginal, N. Slope projects ... If the state returns to the pre-1982 'separate accounting' tax methods, it could offer a significant incentive to this type of small development, because it would be taxed on its own profitability and not on the companies' national profit base."

- C. Exploration and development takes place in many jurisdictions that require separate accounting. Foreign nations, the US Government, Oklahoma, Louisiana and Mississippi all utilize separate accounting and all have experienced exploration and development activity.
- D. Although the industry indicated to the legislature last session that a return to separate accounting would hamper their exploration and development activities in Alaska, their annual reports appear to lead their shareholders to a much different conclusion. Take, for example, the annual reports of ARCO from 1978 to 1981, the years that separate accounting was on the books. In 1978, ARCO's earnings were up 15%; in 1979, they were up 45%; in 1980, they were up 42%; and in 1981, they were up slightly again. "As it was in 1978", ARCO

informed its shareholders, "the North Slope of Alaska was a prime source of the Company's earnings improvement in 1979." Clearly, separate accounting did not interfere with its earnings nor its exploration and development plans. These plans were in fact expanded dramatically during the separate accounting years. The 1979 annual report states: "For its part, Atlantic Richfield has dramatically intensified its search for new domestic reserves of oil and gas." Exploration and development occurred within Alaska during these years. For example, Kuparuk development was started in 1979 and completed in 1981, "three months ahead of schedule", according to the 1981 ARCO annual report. Surprisingly, the first year that ARCO complains about its tax burden to its shareholders is 1982 -- a full year after Alaska repealed its separate accounting statute.

- E. According to economist Goodstein, the oil companies made so much money in Alaska between 1982 and 1985 that \$24 billion in profits went outside. According to ARCO Alaska president Harold Heinze's remarks to the Committee last spring, the industry has invested about \$6 billion in Alaska during this period. Perhaps more of the \$24 billion that went outside would also have been invested in Alaska if separate accounting had been on the books to encourage marginal exploration and development without paying taxes.
- F. HB 353 should also encourage exploration and development because it reduces the amount of severance tax that a company would pay. As Vince Wright with the Department of Revenue pointed out to the House Finance Committee last May, "On the severance tax side ... what you have done is lowered the rate from 15% to 12.25% so in fact ... this might be more of an inducement to expand exploration." For fields that have a 15% rate now, HB 353 would result in a 22.4% reduction in severance taxes.
- G. The House Research Agency is currently preparing a study of HB 353's effect on future exploration and development in individual marginal fields in Alaska. The study will be available in early 1986.

VII. Will HB 353 create an unstable business climate for the oil industry in Alaska?

- A. Since HB 353 will encourage exploration and development, it should make Alaska's business climate even more attractive to the industry.
- B. Since 1955, the state's oil tax structure has been through eleven major changes. HB 353 must be viewed in this historical context. A state's tax code should be dynamic and flexible as well as a reflection of a state's changeable economic picture and public policy goals.
- C. HB 353 does not create any new taxes. It merely reinstates taxes that were on the books before 1981. Moreover, separate accounting was repealed in 1981 largely because of the threat posed by the lawsuit. The Alaska Supreme Court has laid that issue to rest and HB 353 merely returns our system to its pre-1981 state. The House floor debate on the 1981 amendments indicates that a bill like HB 353 was in fact anticipated. Consider the comments of the majority leader in the House at the time the amendments were enacted: "[B]y that time... we should have an answer to that lawsuit. And with that answer, we should be able to develop possibly a more consistent taxing policy at that time." Apparently it was expected that the legislature would reconsider its oil and gas tax structure once the constitutional status of separate accounting was determined.
- D. It is perhaps more appropriate to view the legislature's 1981 action as the one that created an unstable business climate. This is especially true in light of the fact that the 1981 revisions did create an entirely new method of accounting for income tax liability. Modified apportionment is not used by any other state that relies heavily on oil production activity. And, whereas separate accounting was adopted only after four years of careful, comprehensive study of all tax possibilities, modified apportionment was adopted with little analysis and hardly any debate.
- E. Another way to look at stability is from the state's point of view. A stable revenue stream to provide necessary public services is just as important to Alaskans as maintaining a stable business climate. This is especially true in light of the fact that government dollars in large part determine the health of Alaska's economy. The 1981 amendments destabilized our revenue stream because they reduced our share of the oil money. HB 353 returns us to the old

system, returns us to our pre-1981 share of the wealth, and, therefore, stabilizes our revenue stream.

VIII. How will a return to separate accounting affect our tax revenues and how will the additional funds be used?

- A. The Department of Revenue's 5/2/85 fiscal note for HB 353 shows that the bill would increase our tax revenues by about \$1 billion between FY87 and FY95. (A new fiscal note from DOR is expected in November. The new note will include the impact of the various TAPS settlement scenarios, the latest revenue projections, and will include a range of projections, i.e. 10th, 30th, 50th, 70th percentile.) Beginning in FY93, the DOR fiscal note predicts that the state would make less from separate accounting and the lowering of the severance tax than if the higher severance tax and modified apportionment were in effect. This is because of Prudhoe's decline in relation to profits companies will make elsewhere in the world.
- B. It is disturbing to note that, as Vince Wright indicated to the Committee last May, the Department's analysis shows that the changeover to modified apportionment has cost the state approximately \$800 million in tax revenues from FY82 through the current fiscal year.
- C. The additional tax revenue could be spent or saved as Alaskans and their elected representatives wish. But several possibilities come to mind: increased deposits to the permanent fund; energy price supports for rural Alaska and energy projects for urban Alaska; water, sewer, health facilities, and other basic needs for rural Alaska as well as roads, parks, bike trails, and other projects for urban Alaska; increased mineral development, increased tourism, and increased economic development in general; continuation of the state's low interest loan programs; and continued provision of government jobs and services throughout Alaska.
- D. Since it is becoming increasingly evident that without additional revenues, spending priorities cannot continue to be met, enacting HB 353 could put off many painful choices such as reimposition of a personal income tax, repeal of the permanent fund dividend program, or increasing our bonded

indebtedness to such an extent that our bond rating is jeopardized.

IX. How will the proposed severance tax affect our tax revenues?

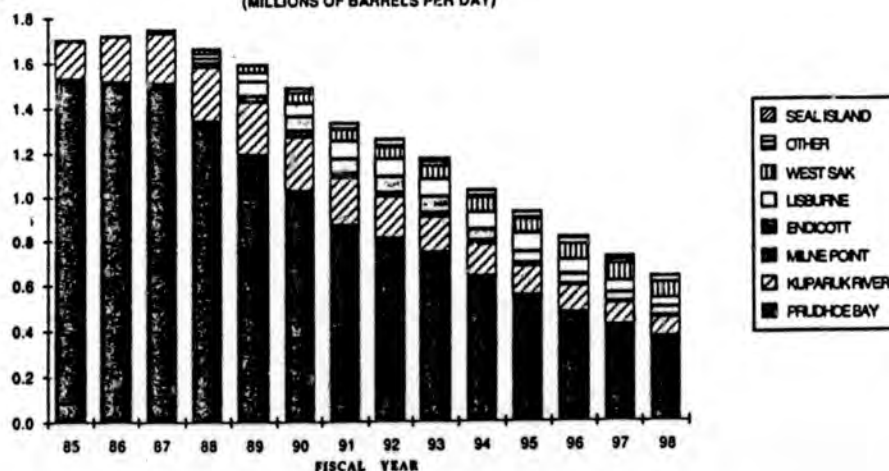
- A. Because HB 353 lowers the nominal severance tax rate from 15% to 12.25%, severance tax revenues are reduced. However, because of the separate accounting impact, overall tax revenues are increased (see previous section). The DOR fiscal note shows that if the nominal rate was not reduced in HB 353, the state would gain an additional \$1.3 billion between FY87 and FY95 or a total additional gain of approximately \$2.3 billion from reimposition of separate accounting and leaving the nominal severance tax rate at 15%.
- B. It is important to understand another impact of reducing the nominal severance tax. The actual severance tax paid by the taxpayer depends on the economic limit factor (ELF). When applied to the nominal rate, the ELF reduces the effective rate and therefore the actual amount of severance tax that is paid to the state. Beginning in FY88 when Prudhoe production starts to decline, the ELF will cause our severance tax receipts to decline dramatically because it will lower our severance tax revenues from Prudhoe considerably. According to DOR's June revenue forecast, FY88 severance tax receipts will be \$230 million less than FY87 receipts. Since HB 353 drops the nominal rate, that change in combination with the ELF will increase the \$230 million drop by another \$143 million, according to calculations made from OMB data.
- C. An OMB analysis indicates that repeal of the ELF could bring the state an additional \$2.4 billion in revenues from FY87 to FY94.
- D. The ELF was developed because it was thought that the burden of the severance tax would tend to close a field down before all the oil was taken out of it. The ELF is designed to prolong the life of a field -- and therefore stretch oil revenues out further over time -- by lowering the tax burden when the field is not producing very much oil. But in its 1984 report, ISER concluded that the ELF does not do a very good job of stretching out our revenues; in fact it

only adds an additional year or two to the revenue stream. However, the report does conclude that the ELF is valuable as an incentive to explore and develop marginal fields. This is because marginal fields generally have lower production rates per well, so that the ELF significantly lowers their actual severance tax burden. These conclusions suggest that further consideration of the ELF's impact on revenues and production is warranted and that it should be looked at on an individual field basis since it may encourage production where there otherwise might not be any, such as in a marginal field, but may not have its intended affect on a very profitable field, such as Prudhoe Bay.

X. How does the decline of Prudhoe Bay affect our revenues?

- A. Prudhoe Bay production to date far outweighs production from any other field in Alaska. The ISER study shows that of the 3.6 billion barrels of oil produced in Alaska from 1959 to 1983, about 3.2 billion of those barrels -- or 90.3% came out of Prudhoe even though the field did not start production until 1977. ISER also forecast production in the future and found a similar pattern. Using their base case assumptions (real wellhead price of \$17.50 per barrel, declining TAPS tariff, and no change in the federal or state tax structure), they find that of the 8.9 billion barrels likely to be produced between 1983 and 2010, about 6.9 billion -- or 79.4% -- will come from Prudhoe. These figures show that the Prudhoe Bay field is extremely important to Alaska's revenue stability. One draws the same conclusion from figure 2, which depicts production for FY85 through FY98.

FIGURE 2
PROJECTED DAILY OIL PRODUCTION
NORTH SLOPE FIELDS
(MILLIONS OF BARRELS PER DAY)



- B. As Prudhoe declines then, so do our revenues. What is perhaps less apparent is that analysis of future oil production shows that even if all the currently known marginal fields are developed, their combined production cannot make up for the decline of Prudhoe. Lease, tax, and other revenue from development of these fields will not come close to providing Alaska with the wealth it now receives from Prudhoe Bay. As Kay Brown, Director of the Division of Oil & Gas stated to the Permanent Fund trustees, "[B]ased on current knowledge, it is unlikely that new oil and gas discoveries from state lands alone will be sufficient to offset the decline in the main Prudhoe Reservoir. Most of the remaining best prospects appear to be in federal waters and perhaps in the Arctic National Wildlife Refuge." The Division of Oil & Gas estimates that about 62% of recoverable state reserves in Alaska are in the Sadlerochit (Prudhoe Bay) reservoir.
- C. The importance of Prudhoe to our revenue stability should be a driving force in determining the future of Alaska's oil and gas tax structure. It is certainly a valid public policy goal to tax the tremendous profits of Prudhoe Bay. Policy makers should not forget that revenue from production in new fields is not going to make up for the loss of Prudhoe Bay revenues. The \$24 billion in profits that the companies took out of Alaska in the last four years is gone forever; it would be a mistake to continue encouraging them to take their money elsewhere.
- D. Although much of Alaska's oil reserves lie off shore, development of these resources will not be a panacea for the decline of Prudhoe, either. These resources are owned by the federal government and therefore, most tax and other revenue benefits will flow back to the feds, not to the state. The only taxes that the state will get are property taxes from onshore facilities. It will not get any lease payments (except from 3-6 miles offshore if President Reagan approves a bill currently moving through Congress).

XI. Should any additional changes to the tax code be considered?

- A. Ideally, the Alaskan tax code will provide revenue stability to the state even when market forces bring about lower oil prices and even when

the quantity of oil in Alaska that can be taxed diminishes. Measuring price and quantity sensitivity is not easy, however.

- B. Section VI discusses the fact that separate accounting is a better incentive for exploration and development than modified apportionment because it only requires the payment of taxes when a field is profitable. Many economists believe that a state can facilitate exploration and development of marginal oil fields if it increases the reliance on income taxes and decreases the reliance on severance taxes in the marginal fields. In other words, the state should consider emphasizing taxation of net income instead of gross income in marginal fields. For this reason, Professor Berman concludes that, for marginal fields, net income taxes and net profit shares in leases are superior to excise (such as severance) taxes and royalty shares in leases because a company shares profit with government, not income that just covers expenses. Although 1986 may not be the appropriate time to consider a complete overhaul of our tax and leasing policies, some comprehensive changes may eventually be desirable.

XII. What is the current status of ARCO v. State?

- A. The Alaska Supreme Court ruled unanimously in the state's favor on August 16, 1985. The decision fully supported the state's position that separate accounting is constitutional in every respect.
- B. In fact, the Supreme Court went even farther than it had to in upholding the lower court's decision. Instead of stating that separate accounting was an acceptable method of tax accounting, it stated that it is the preferable method for Alaska. (See section V for further details.)
- C. The oil companies declined to petition the Alaska Supreme Court for a rehearing of the case. They have until November, 1985 to appeal the decision to the US Supreme Court (unless they ask for a 60 day extension, but this is not expected). The Department of Law anticipates that the companies will appeal and that the Court will decide whether to hear the case by January, 1986. If the Court decides not to hear it, the case is officially closed. On the other hand, if the

Court decides to hear the case, it is unlikely that a decision would come out before the end of the 1986 session.

- D. Though the industry is challenging the use of separate accounting in Alaska, it has argued strenuously to be allowed to use it in other states. In at least two states, Wisconsin and South Carolina, the industry took their arguments to the top levels of the court system -- to the state supreme court in South Carolina and to the US Supreme Court in the Wisconsin case. Also, before Prudhoe Bay was in the production stage, the industry tried to file separate accounting returns in Alaska. This demonstrates that the industry is interested in separate accounting when it lowers their tax burden; in other words, when their operations in a state are less profitable than the industry average.

XIII. Was there a conspiracy in 1981?

- A. It has been suggested that the oil companies and the Department of Revenue conspired to convince the legislature to enact amendments in 1981 that substantially lowered our fair share of Alaskan oil wealth. Although this point of view is strengthened by the fact that the 1981 amendments now appear to have cost the state about \$800 million, an analysis prepared by OMB suggests that there probably was no conspiracy. The fiscal information provided by the companies to the department, which in turn was used to prepare the legislation's fiscal note, has turned out to be wrong. But it does not appear likely that wrong information was intentionally provided. According to Gregg Erickson, Senior Economist at OMB, "I know of no evidence which would positively rule out the possibility that this discrepancy resulted from an effort to mislead; ... a more plausible explanation is that the oil company experts simply goofed."
- B. Although the above information is interesting, what did or did not happen in 1981 should not be the motivation for a return to our pre-81 tax structure. Rather, the motivating forces should be such aspects of HB 353 as the superiority of separate accounting as evidenced by the recent court ruling, its incentives for exploration and development, and the goal of restoring Alaska's fair share of the wealth created by our abundant

oil. In this context it is interesting to note that when the legislature enacted the 1981 changes, it did not repeal the findings section of the original 1978 statute which stated the superiority of separate accounting over an apportionment method.

XIV. Is the oil industry healthy?

- A. It would certainly appear that Exxon is healthy. A recent Business Week article made the following observations: "The only surplus at Exxon Corp. is a surplus of cash. ... The bottom line is that Exxon can make a nice living even if the price of oil falls quite a bit more. ... Salomon Bros. estimates that Exxon will have as much as \$7 billion in spare cash to spend through 1988. ... In fact, Exxon's real limitation is not a lack of money but of enough places in which to invest it profitably." Because prices are down right now, Exxon is frugal with investments and cautious about the future. But it is hardly suffering and couldn't be accurately characterized as anything but very healthy.
- B. The legislature commissioned a report by Tanzer Economic Associates, Inc. in 1977. Among other things, the report examined many historical examples of tax changes throughout the world. It concluded that "there is one effect almost invariably caused by such tax changes. Namely, an almost automatic reaction of the oil companies to claim that such increased taxation will force them to look elsewhere for increased future production. These claims are sometimes backed up by actions, aimed at getting the country to rescind the tax increase, such as temporarily cutting present production or reducing exploration and development efforts. ... Some of the actions and much of the rhetoric ... is "theater", aimed at improving a bargaining position, and often needs to be taken with a very large grain of salt." One can infer from this conclusion that the industry will often exaggerate how it will be affected by a tax change in order to keep the change from occurring.
- C. In 1985, however, the industry insists that times are hard and profits are slim. It uses the current production surplus and price decline pattern as justification for laying off hundreds of Alaskans and cutting daily rates paid to the various oil industry support companies that