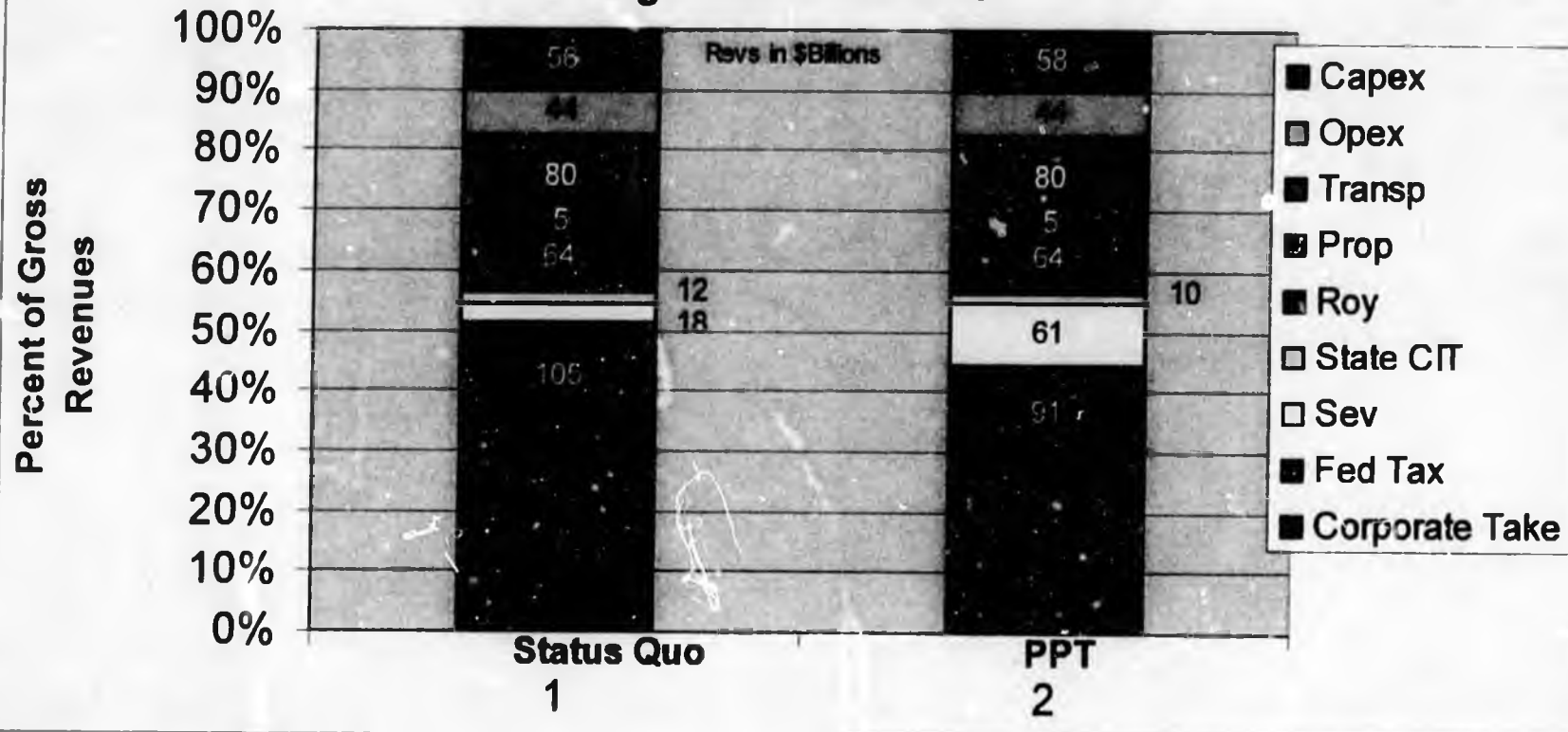


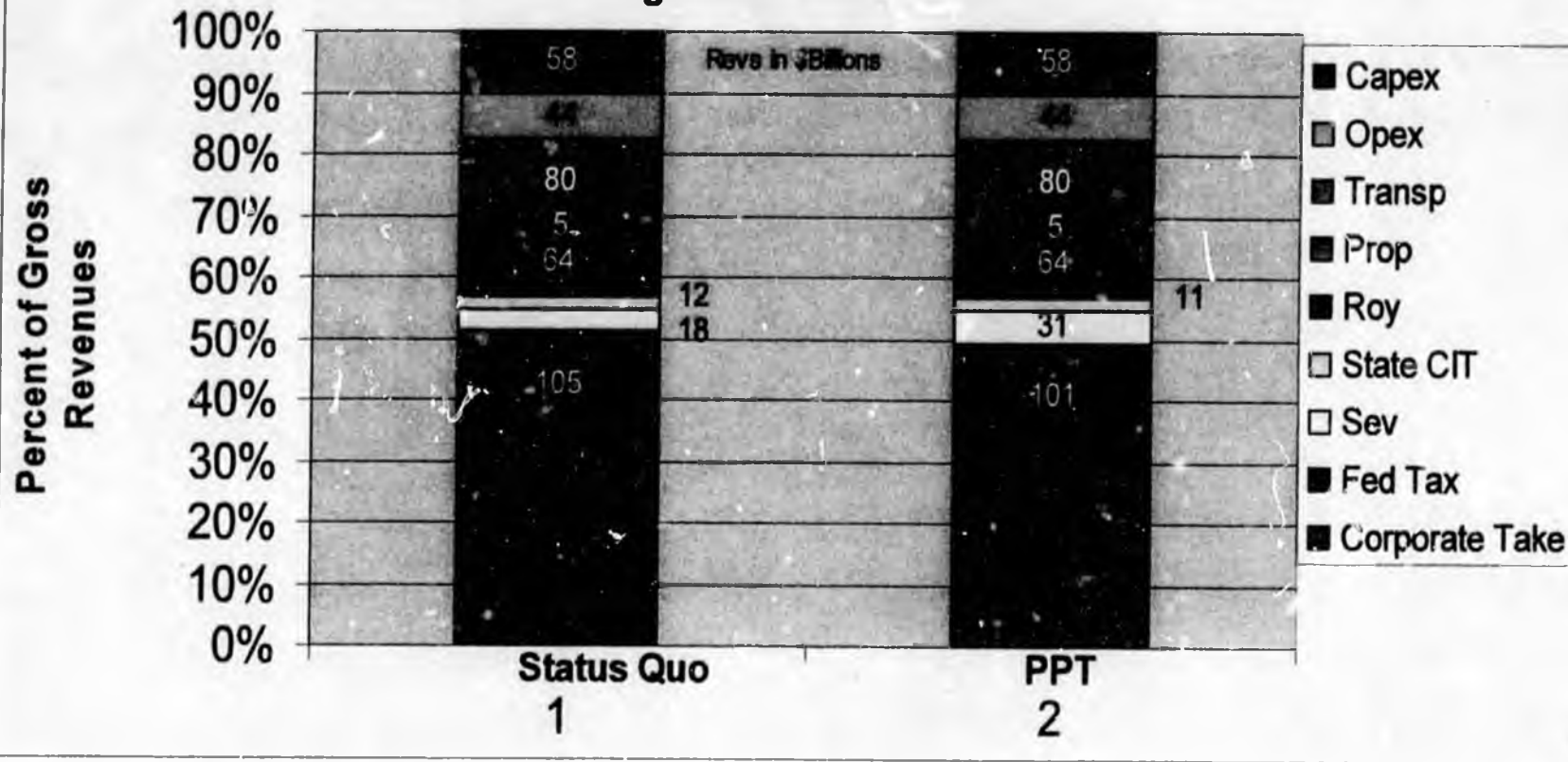
11594 HOUSE RESOURCES

Question 71(e) - 25/25
Corporate Take at EIA Forecast Price (Avg \$57/bbl)
Total Cumulative Revenues = \$580 Billion (2005 Dollars)
25% Tax/25% Credit
High Volume Scenario



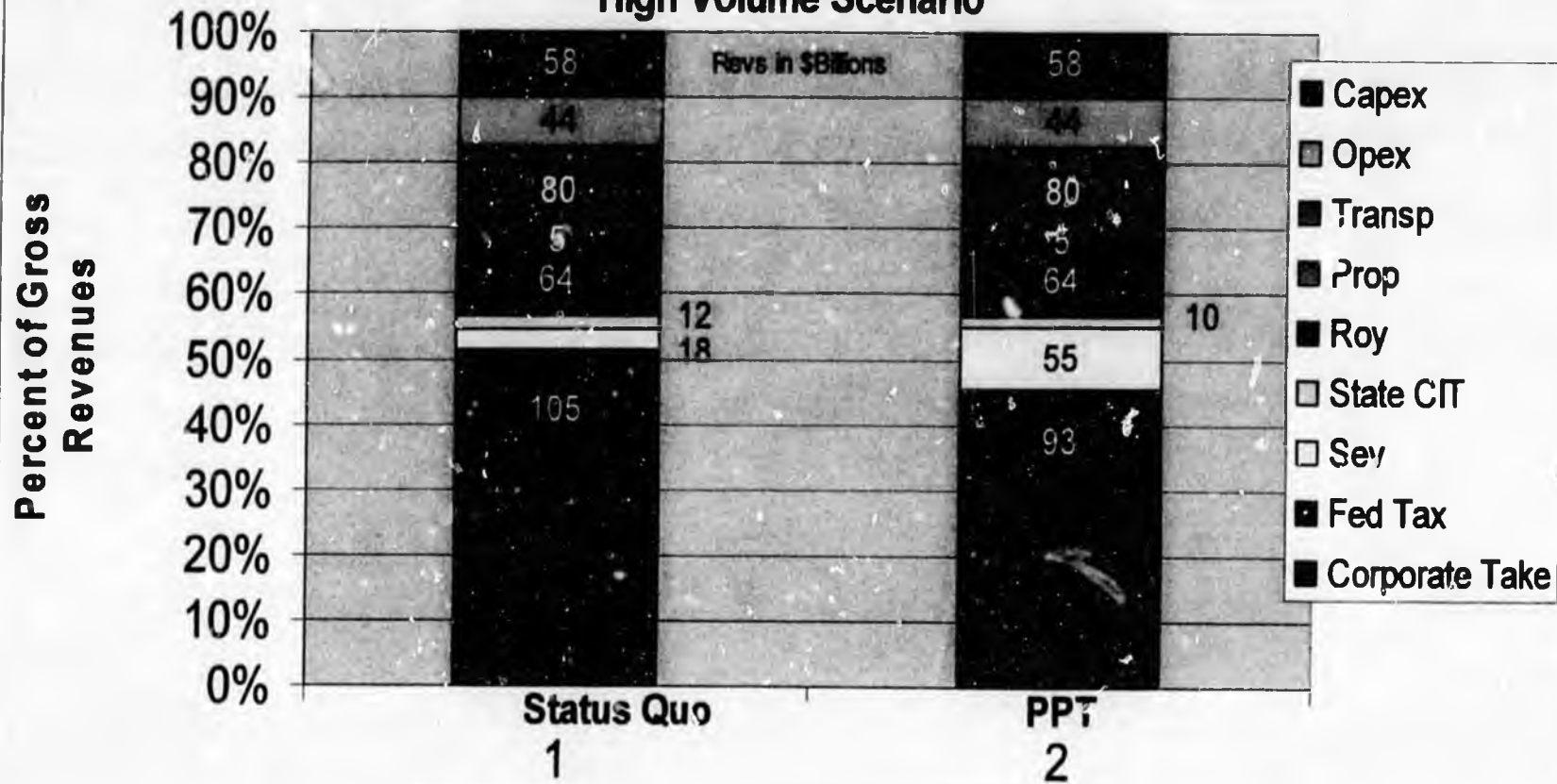
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Question 71(f) - 15/25
Corporate Take at EIA Forecast Price (Avg \$57/bbl)
Total Cumulative Revenues = \$580 Billion (2005 Dollars)
15% Tax/25% Credit
High Volume Scenario



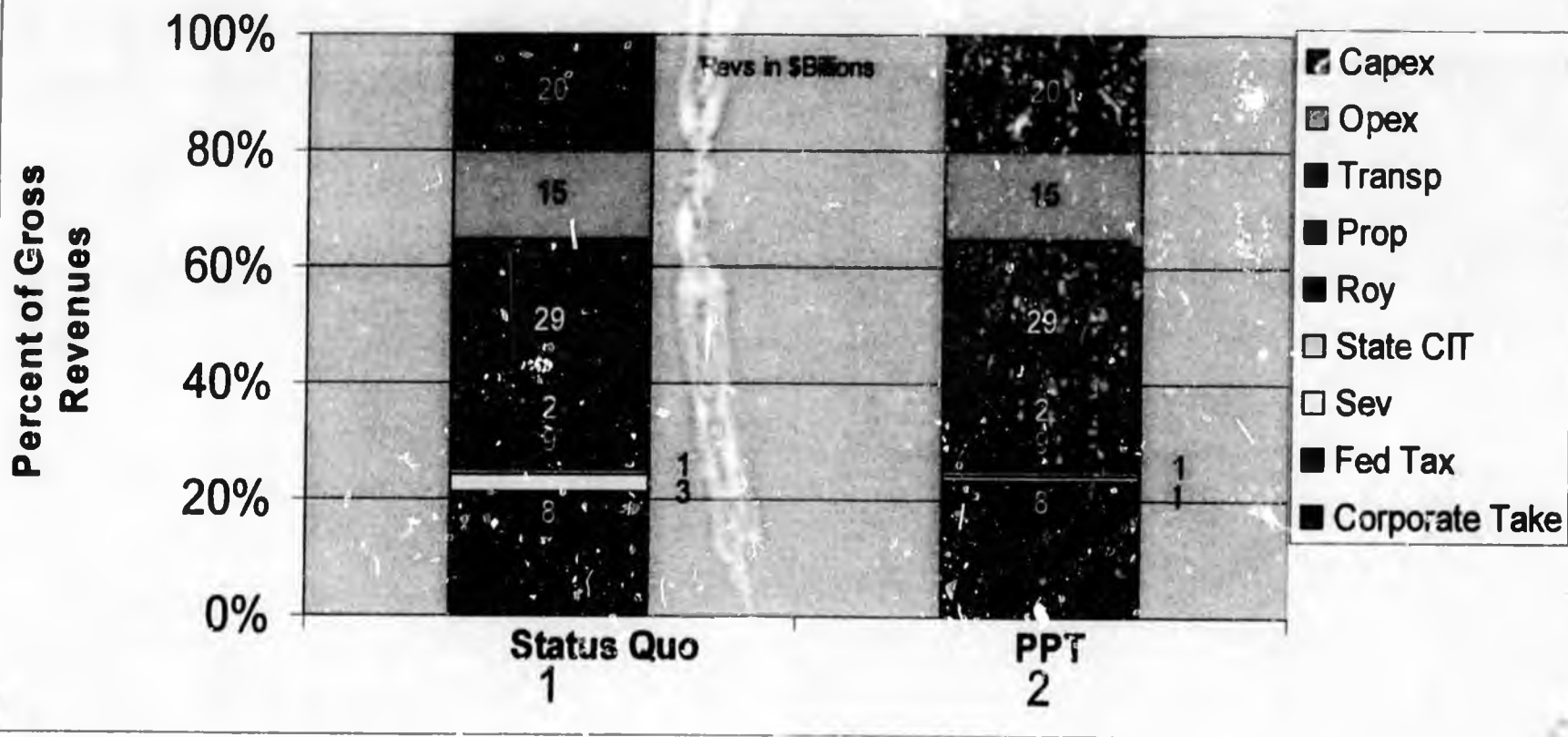
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Question 71(g) - 22.5/22.5
Corporate Take at EIA Forecast Price (Avg \$57/bbl)
Total Cumulative Revenues = \$580 Billion (2005 Dollars)
22.5% Tax/22.5% Credit
High Volume Scenario



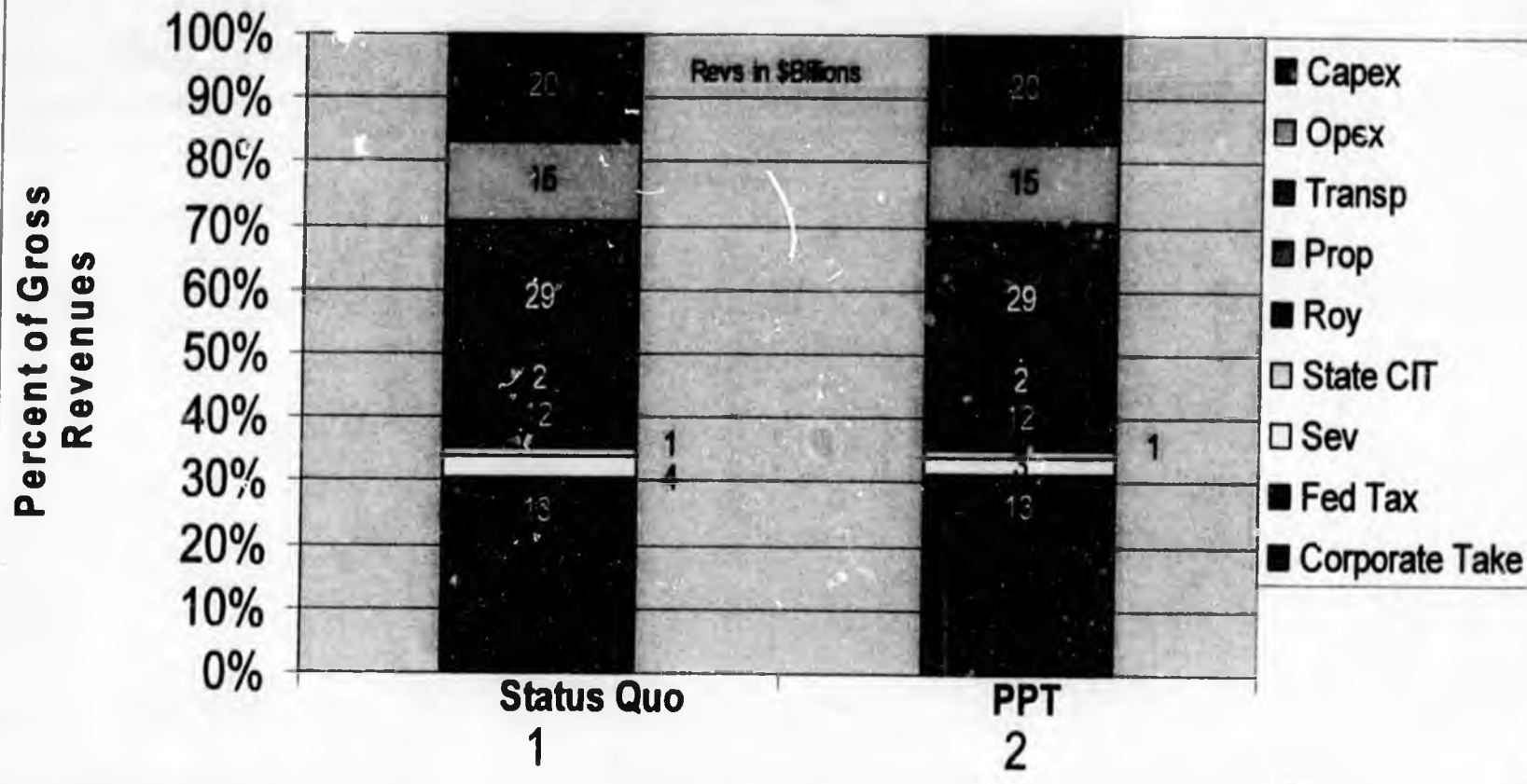
DRAFT

Question 72(a)
Price Corp Take @ 15% = \$20.50/bbl ANS
Total Cumulative Revenues = \$100 Billion (2005 Dollars)
20% Tax/20% Credit
Low Volume Scenario



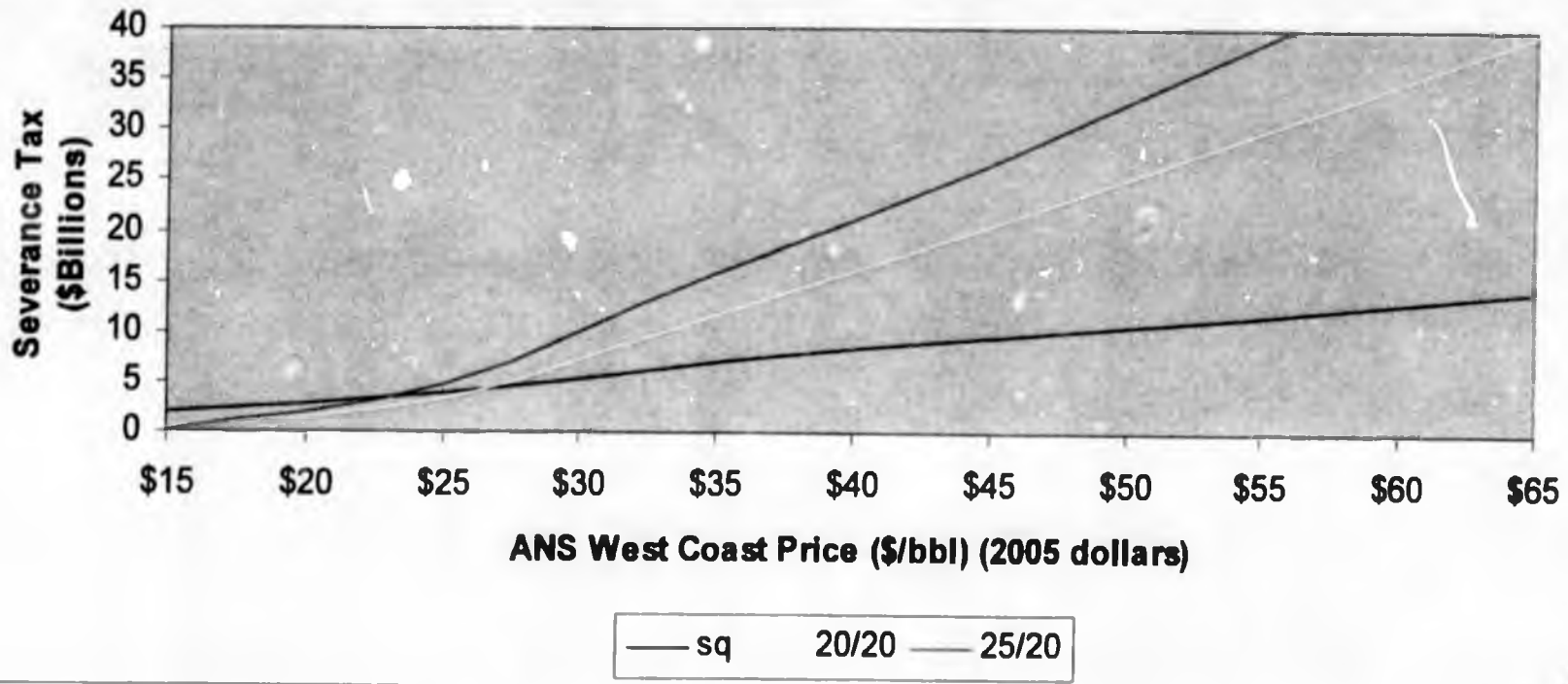
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Question 72(b)
Price Corp Take @ 20% = \$24.50/bbl ANS
Total Cumulative Revenues = \$121 Billion (2005 Dollars)
20% Tax/20% Credit
Low Volume Scenario



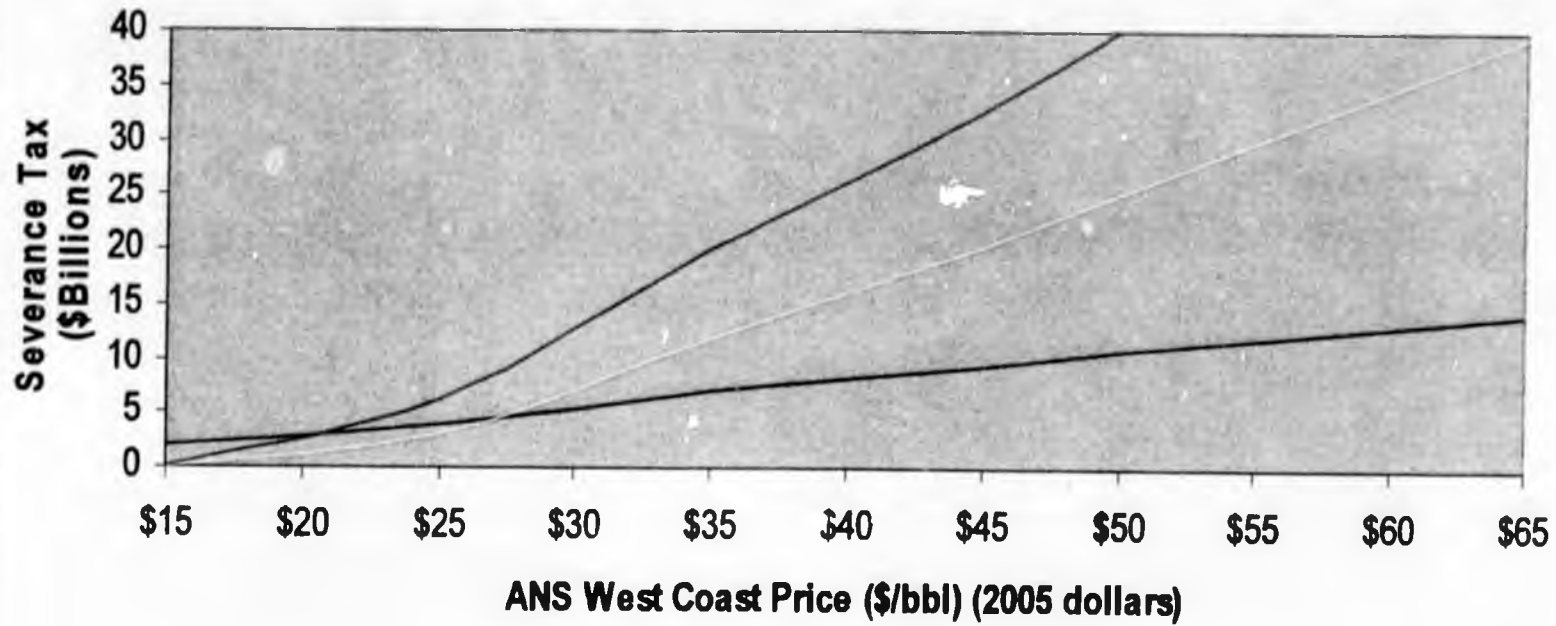
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Question 90(a) - 25/20
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



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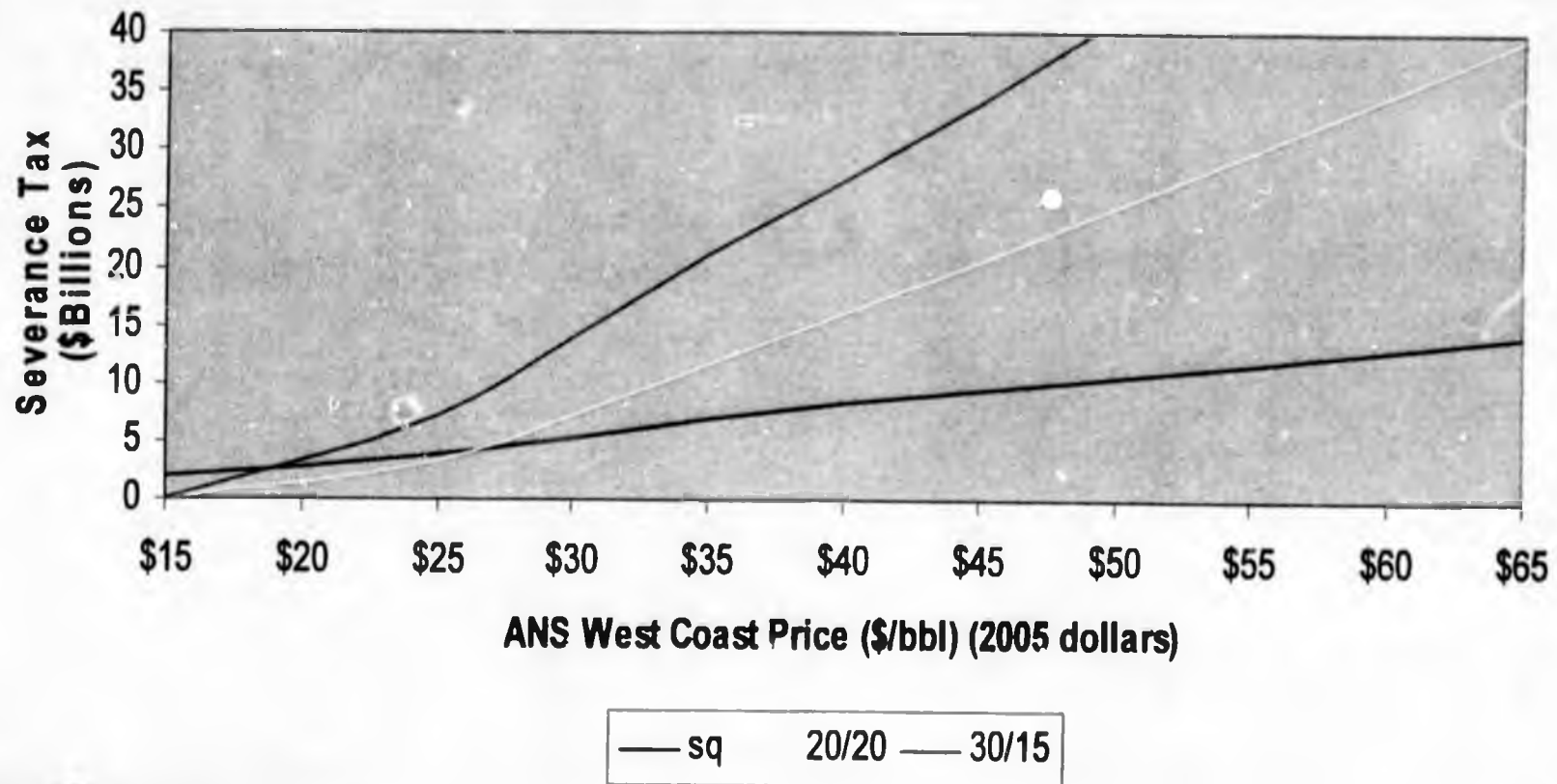
Question 90(b) - 30/20
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



— sq 20/20 — 30/20

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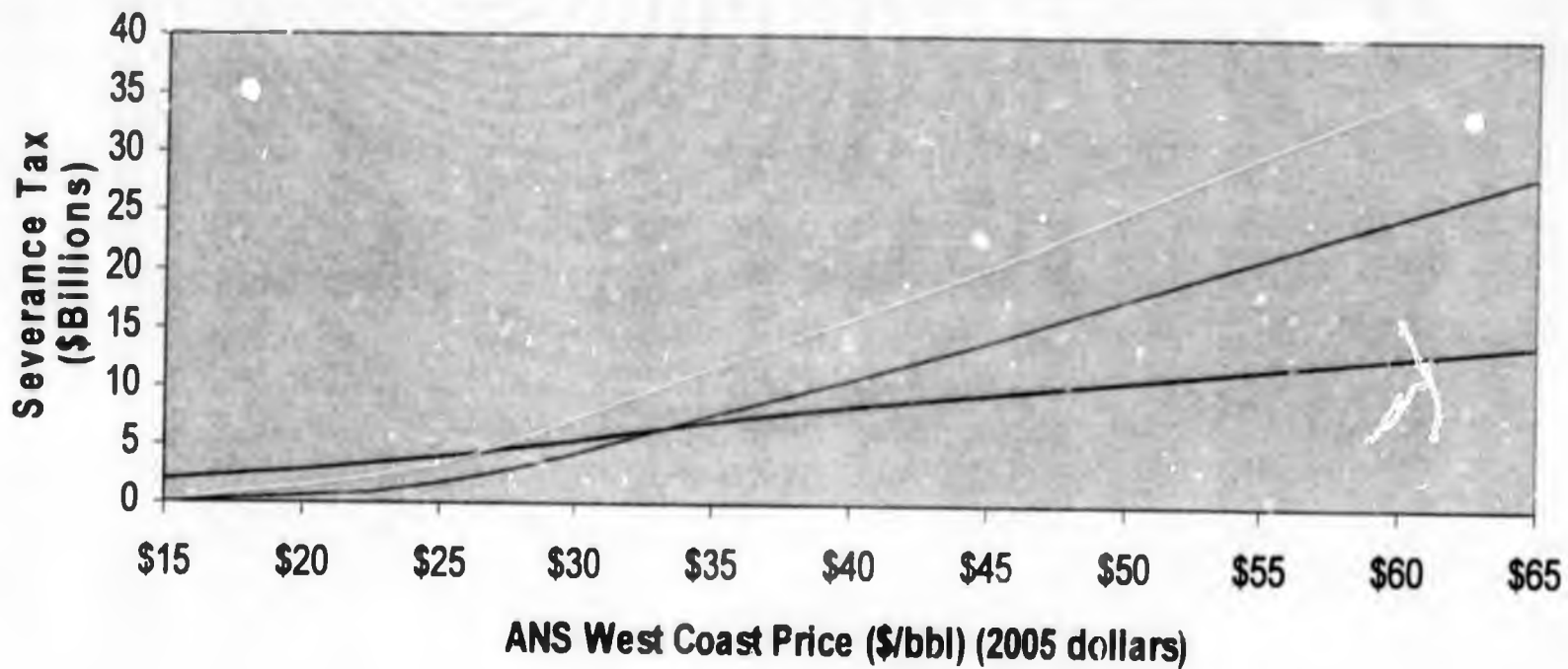
Question 90(c) - 30/15
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



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Question 90(d) - 15/20
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)

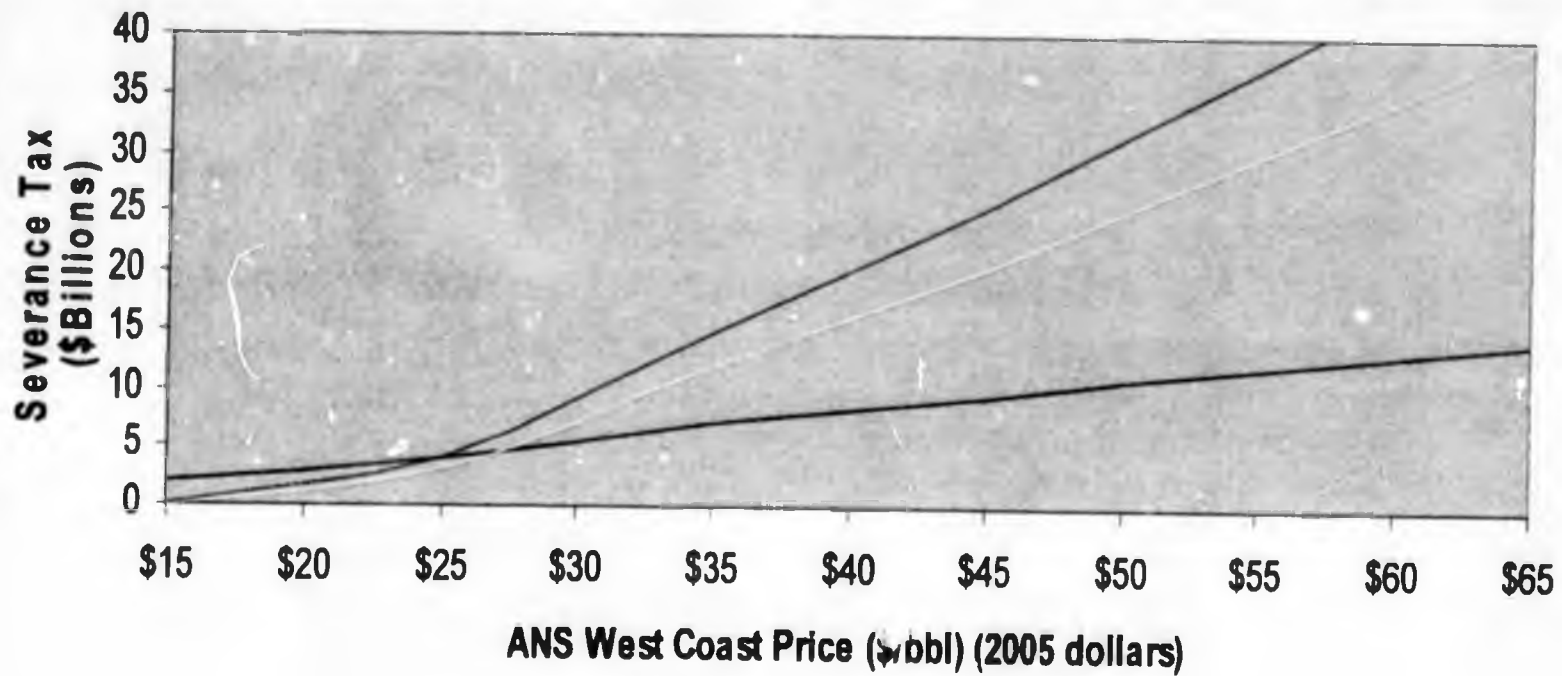
Low Volume Scenario



— sq 20/20 — 15/20

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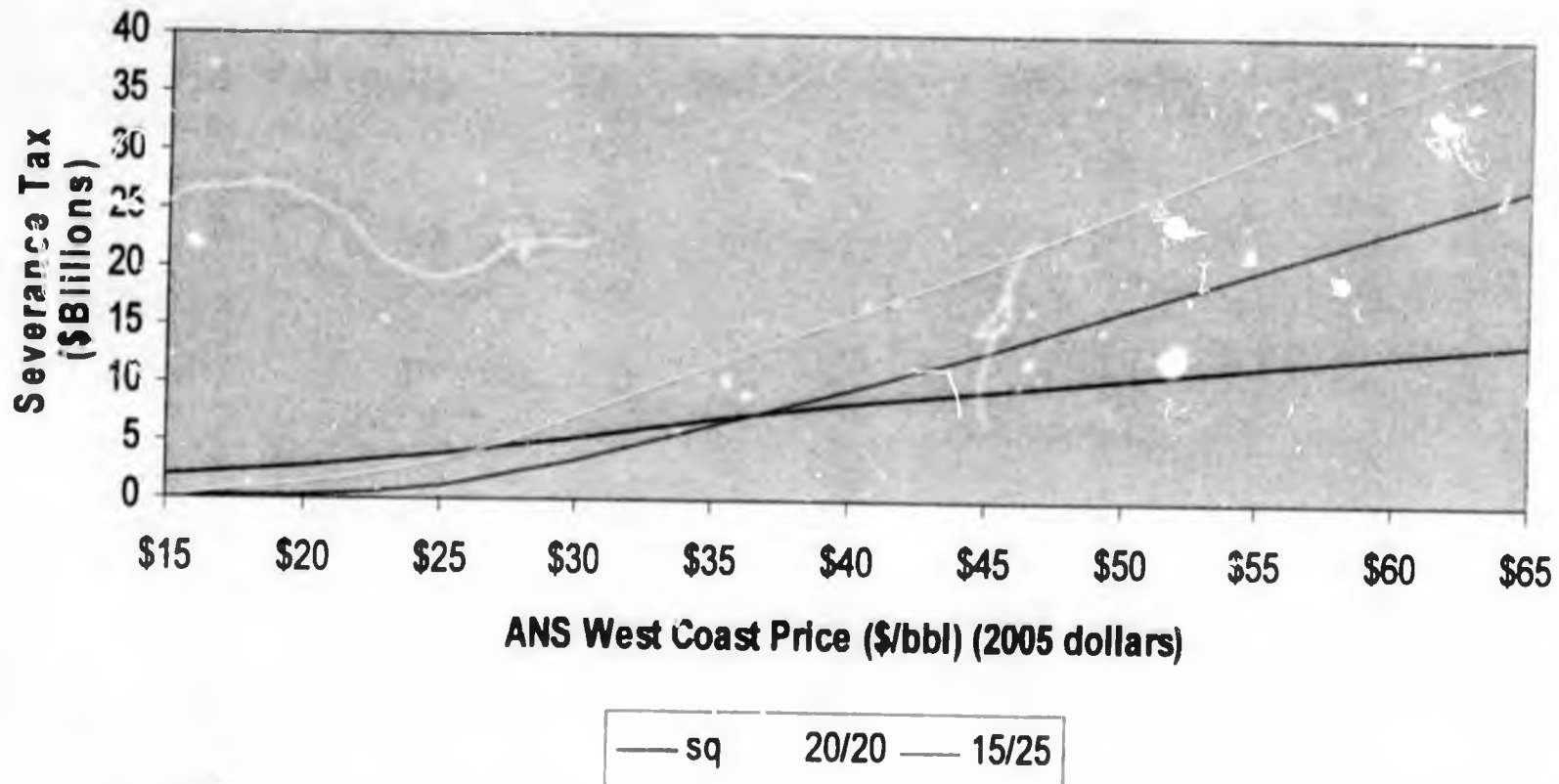
Question 90(e) - 25/25
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



— sq 20/20 — 25/25

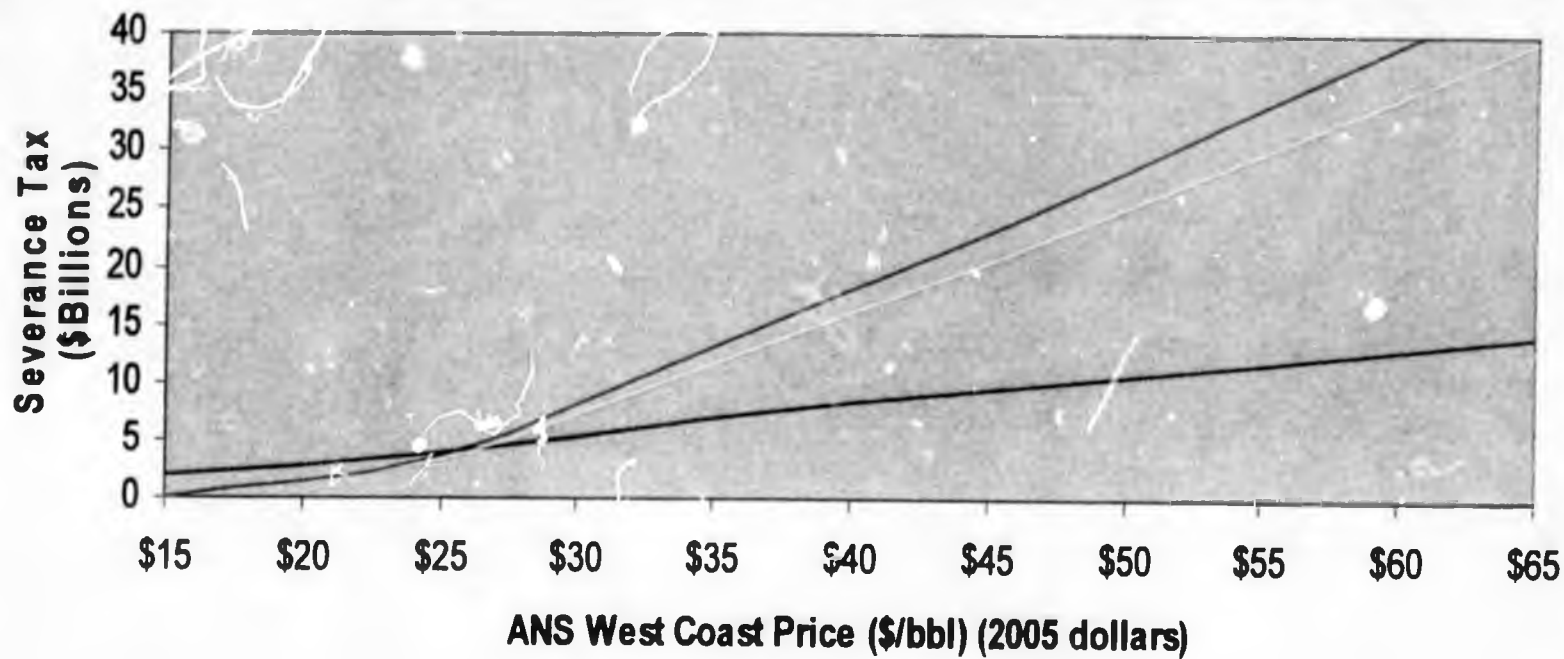
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Question 30(f) - 15/25
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



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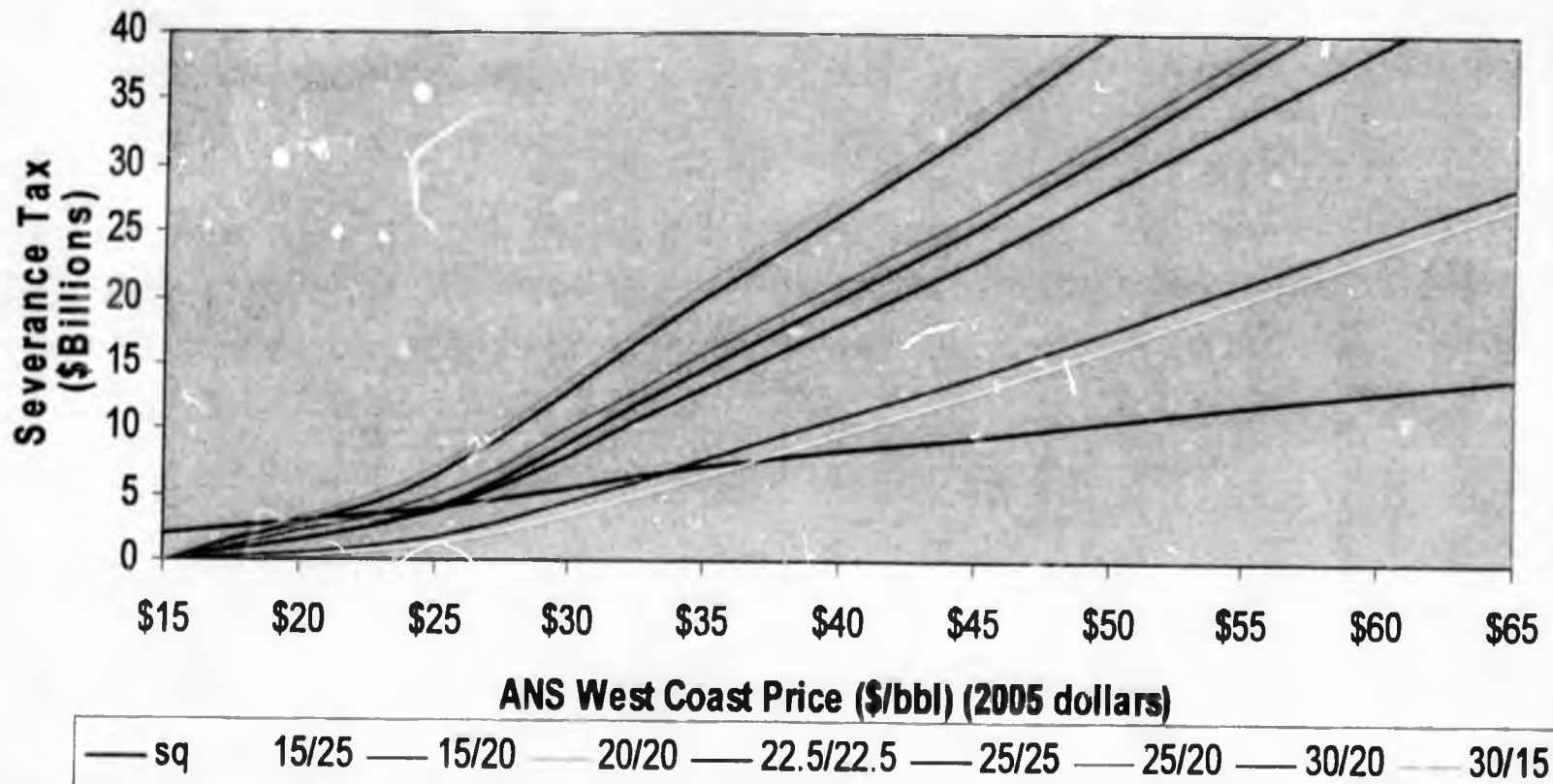
Question 90(g) - 22.5/22.5
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



— sq 20/20 — 22.5/22.5

DRAFT

Question 90(h)
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



DRAFT

**Question 90(I) - Cumulative Severance Tax Revenues, Low
Volume Scenario, No Gasline (in Millions of Dollars)**

Tax Rate/Credit Rate	\$20/bbl	\$40/bbl	\$60/bbl
Status Quo	2,959	8,211	12,870
PPT 20/20	498	16,458	34,649
PPT 25/20	1,041	21,782	44,521
PPT 30/20	1,614	27,107	54,393
PPT 30/15	2,133	28,317	55,603
PPT 15/20	43	11,134	24,777
PPT 25/25	622	20,572	43,311
PPT 15/25	-	9,930	23,567
PPT 22.5/22.5	560	18,515	38,980
PPT 19/20	399	15,793	32,674
PPT 20/19	580	16,700	34,891
PPT 20/21	424	16,216	34,407
PPT 21/20	605	17,523	36,623

DRAFT

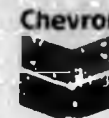
Chevron



Chevron - Alaska Area
Testimony on HB 488

John P. Zager
General Manager

March 15, 2006



General Comments on CS

■ Previous Testimony by Chevron

- Cook Inlet must be treated differently than the North Slope
- Do not pull all of the "levers" in the same direction
- Keep it as simple as possible

■ We find none of this counsel retained in the CS

Comments on Substantive Changes



- Make tax rate progressive
 - Very complex to track (daily?)
 - Why pegged to WTI?
 - ▶ What about ANS? What about Gas?
 - The price step up *is not* inflated
 - Taking away the “windfalls”, no matter how you couch it, lowers expected value to investors
 - A move against industry

Comments on Substantive Changes



■ Reduce Transitional Money as Deductible Allowance

- Reduces Chevron's annual deduction by >80%
- The \$40 indexing price is inflated
- Another move against the industry

Comments on Substantive Changes



■ Exploration Enhancement

- Reducing capital credit to 20% is not encouraging exploration
 - ▶ We run full cycle economics to justify an exploration program
- Dramatically shifts the balance of new taxes and investment incentives
- Another move against industry

Comments on Substantive Changes



- No Credit for Abandonment
 - Inclusion would encourage timely abandonment of operations
 - State has benefited from the assets for many years, it is a legitimate cost of production
 - Another move against industry



Comments on Substantive Changes

■ Private Royalties

- No comment

■ AOGA technical changes

- Let's get it right

■ Contingency surcharge

- Another move against industry

■ Effective Date

- Another move against industry

Comments on Substantive Changes



- Issues surrounding the \$73 million allowance
 - Another move against industry
- Tax Credit Repurchase Program
 - Helps a few, but not Chevron
- Penalties on underpayment of less than 90% of monthly tax liability
 - 5% is punitive
 - Need market based interest rate
 - Another move against industry



Biggest Disappointment of All

- The unique value and challenged position of the Cook Inlet is not recognized
- Revisions as proposed significantly lowers the economics of capital investments in the Cook Inlet
 - Puts Chevron's four year capital program in serious jeopardy
 - Without capital McArthur River Field is gone in ~4 years
 - Critical mass is gone - Cook Inlet oil industry shrivels and dies
 - Industry produces out remaining proven gas reserves



Final Score

State	Industry
8	0

This bill has gone from being somewhat balanced and thus having the "reluctant support" of industry, to one that is lopsided in favor of the state, and is therefore one that Chevron cannot support.

BP Presentation on House Bill 488 (PPT)

Alaska State Legislature
House Resource Committee
15th March 2006

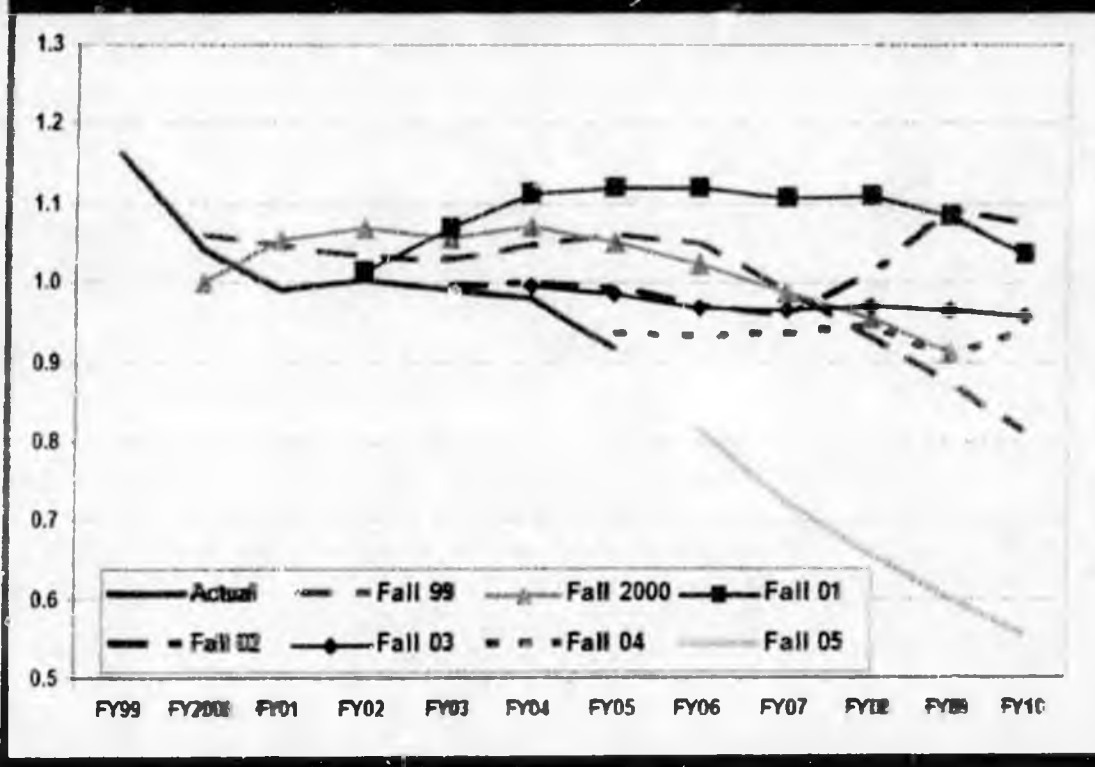
I am Angus Walker and I am the Commercial Vice President of BP Alaska. Alongside me today is Tom Williams, Tax Counsel for BP Alaska.

I would like to start by thanking this Committee for the opportunity to provide further testimony on House Bill 488 / Senate Bill 305.

I will not repeat the previous testimony, but will build upon some key issues raised and provide our view of the substantive changes this Committee is considering to House Bill 488.

Fall Oil Production Forecasts

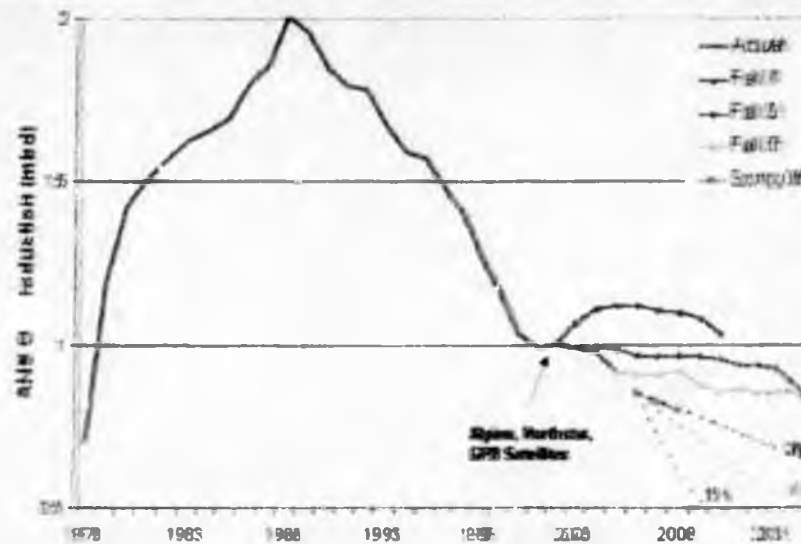
ANS, Millions of Barrels per Day



One of the key moments in recent testimony was the slide Michael Williams presented showing the Department of Revenue forecasts of oil production made each year going back to 1999. In red is the actual production.

Whilst there's a lot of detail on this slide, it highlights the challenge of accurately forecasting production. Since 1999, both Industry and DOR have consistently overestimated production and have annually revised production forecasts down significantly. This is of great concern to us as it should be to you. A one hundred thousand barrel per day drop in production represents a drop in state revenue of around \$500 million per year at current prices.

DOR Production Forecasts



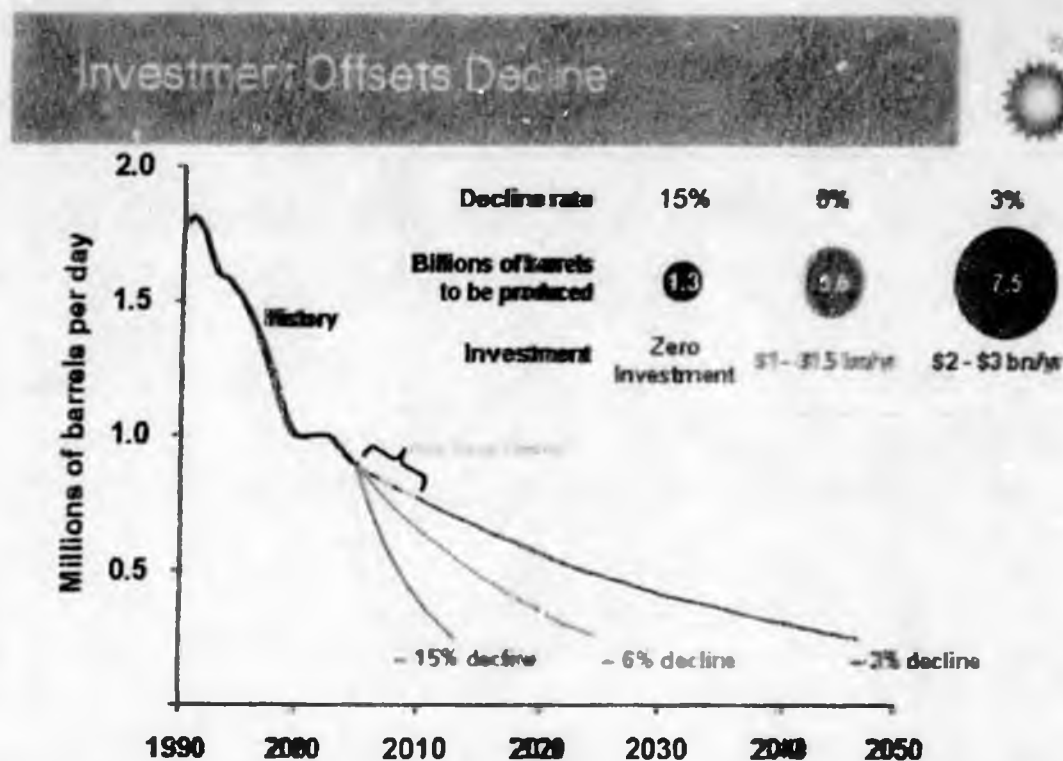
- **Historical** basin decline has been around **6% per year**
- **Flattening** of production from **2002-2004** due to **Alpine & Northstar**
- **Decline** since 2004 has mirrored **historical** basin decline

This chart shows a subset of the DOR forecasts from 2001, 2003, 2005, along with the latest view of the Spring 2006 forecast, against actual production in red. The dashed lines describe the trajectories of a 3%, 6% and 15% decline.

Whilst development of Alpine, Northstar, and the Prudhoe Bay Satellites between 2000 and 2002 successfully flattened North Slope production for a number of years, 2005 saw decline return to the 6% rate that has characterized this basin in the past. Unfortunately for all of us, there are no more fields of Alpine or Northstar's magnitude waiting to be developed.

Investment & Decline

You will recognise the following slide from my presentation two weeks ago when I outlined the current reality of the North Slope oil business.



**DOR Spring Forecast cannot be met without significant additional investment
The vast majority of that investment must be made in existing fields**

With no investment the natural decline of the fields would be the lower red line. With the current levels of investment (\$1-1.5 bn / year) that decline will be around six percent per year. The latest DOR 2006 Spring forecast translates into an approximate 3% decline.

However, the 3% decline cannot be met without significant additional investment, in the order of 2 to 3 billion dollars per year. Unless those investments are made, history will repeat itself, decline will continue at the current rate, and the DOR will be revising its production forecast down yet again.

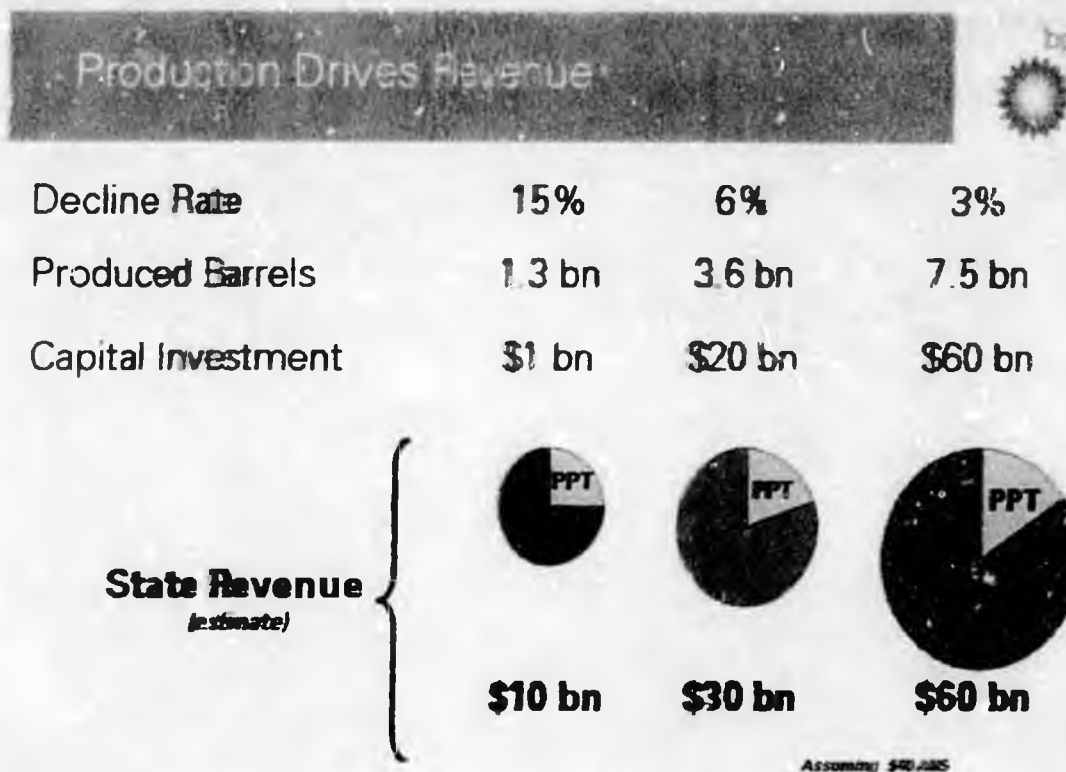
The real question for you to be asking industry and the consultants is "what would it take to double investment in the Alaska North Slope?"

Encouraging new exploration is good but it is a fact, acknowledged by all who have testified, that the resources expected to be discovered through exploration will likely be significantly less than the resources we already know about. It is investment in these known resources that offers the greatest chance of stemming the decline of ANS production. As you look at incentives for exploration you must not overlook incentives for investments which are more likely to succeed.

Decline Scenarios & State Revenues

The tax regime you approve will directly impact how attractive Alaska is for investment and that will translate into what the future decline will be. It is in the interest of all (industry and Alaska) that we focus on growing the pie rather than increasing state take from a declining pie.

The following slide is an attempt to show how growing the pie by incentivizing investment is in the best interest of the state over the long term.



Maximizing State Revenue means maximizing Production

I'd like to draw your attention to the capital investments necessary in each scenario and an estimate of the total state revenue. The highest state revenue is derived from the scenario which delivers the greatest production regardless of what severance tax (PPT) you collect. You could collect zero severance tax (PPT) and this would be a better outcome for the State than one where you collect a high severance tax (PPT) and have less resource development.

The size of the pie is the most important consideration. Maximizing the value of resources for Alaskans means maximizing state revenue by maximizing production. Resources left in the ground are simply a wasted opportunity.

This should be the focus of our deliberations.

US Marginal Rates

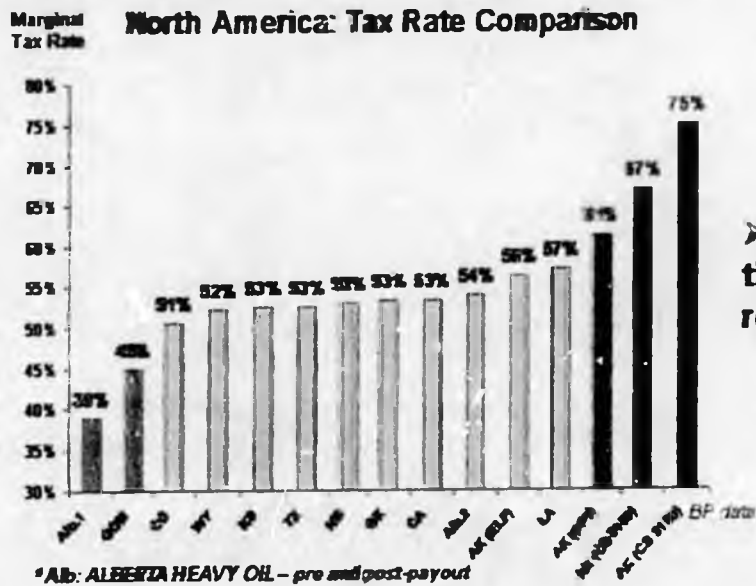
The good news for Alaska is that there is a huge known resource base on the North Slope.

The bad news is that it is going to be technically difficult to extract that resource out of the ground. Every barrel gets more difficult.

Alaska is already one of the most expensive places in the world to produce oil and gas.

Assuming the new 20/20 PPT is put in place, Alaska would also become the area with the highest marginal tax rate in the US. Needless to say this introduces one more barrier to attracting investment. The incorporation of yet higher tax rates at higher prices is yet another take from industry and creates a bizarre fiscal regime, being regressive at low prices and progressive at high prices, thus reducing space for industry and creating yet more barriers to attracting investment.

US Marginal Tax Rates



➤ Alaska is already the highest cost region to operate

Alaska will have the highest marginal tax rate

To maximize the value of the resources in the ground, the legislature should be focussed on maximizing North Slope production by attracting investment. The priority for the state of Alaska should be to encourage investments to help industry develop those known resources, not to make it more difficult and risky than it already is.

UK – a role model for attracting investment

"Ordinary measures of Government take throughout the 1990's made the United Kingdom government appear rather crazy and irresponsible. The "gross benefits" to the UK Government go way beyond direct tax revenues and royalties received from the upstream sector of the petroleum industry. The economic impact of the industrial hyperactivity in the UK sector of the North Sea, a direct result of the "lenient" terms of the 1990's is difficult to measure. Furthermore, the activity in the UK started in the late 1980's and early 1990's when the UK Government stopped the ring fence for the 75% PRT before Government take, as it is ordinarily measured, was drastically reduced. The UK offshore became the most active offshore province in the world. Reducing the Government take in the following years managed to sustain that boom. Activity and employment in the British petroleum sector is healthy and robust."

Daniel Johnston

*23 Oct 2002, Washington DC
Petroleum Tax Design*

You have heard much over the recent weeks about the impacts of reducing taxes in the UK. The UKCS has been our backyard for many years and we couldn't agree more with Daniel Johnston that reducing taxes firstly created and subsequently sustained an economic boom. The UK's decision to reduce Government Take led to a significant increase in activity in the North Sea, more production, higher revenues for the Government and a ripple effect throughout the whole economy.

The actions of the UK during the 1980's and 1990's provide an excellent role model for any Government hoping to attract investment.

Let us please not forget the urgent need to stem decline and attract significantly more capital (about twice what is being spent today) to the North Slope.

In order to maximise the value of Alaska's resources we believe you should be adopting tax rates lower than those proposed by the Governor. In so doing you would maximize investment, maximize production and maximize jobs for Alaskans. You would also take an important step towards creating a healthy oil business which will be the foundation for gas.

We recognize the burden on your shoulders in making these decisions. There are many people advising you to increase taxes, which will indeed increase state revenue, but for how long? One year? Two years?but at what cost to future production?

The substantial changes you are considering making to House Bill 488 are yet more takes from industry over and above the Governor's bill and we cannot support them:

Our key objections to the proposed changes are:-

1. The proposed progressive tax system is inappropriate given Alaska's circumstances:
 - a. challenged resource base
 - b. high cost environment
 - c. distance to market
 - d. regressive nature of the rest of the fiscal regime
 - e. urgent need to attract very large amounts of capital to stem decline
2. Almost every proposed change in this CS amounts to an increase in take on the industry from the previous proposal. These changes represent a significant increase in tax across the board and will not help attract the additional investment required to stem decline of the ANS.
3. The change in the effective date means this tax will be implemented before it is enacted by the legislature.
4. The transition provisions, included for good reason in the Governor's bill, have been significantly reduced making the implementation unfair on historic investors.
5. The penalties and interest proposed under note 1) are inappropriate.
6. At the time of writing this testimony, we have not yet seen the CS or which of AOCIA's proposed changes have been adopted.

I would like to leave you with the key messages from this testimony.

Key Message



- Production is declining
- To maximize State revenue we must increase investment to reduce decline
- Alaska will have the highest tax rate and the highest cost structure in the US
- The proposed amendments to HB 488 will not maximize the benefits to Alaskans from the State's resources (oil or gas)
- The UK is a great role model for reducing taxes to increase investment, production and revenue

We believe the proposed amendments to HB 488, if enacted, would be a serious mistake for Alaska and we urge you not to adopt them.

In any event, we will continue to participate fully in the legislative process and will be urging the legislature not to enact the substantive changes being considered by this Committee, but to enact instead a bill close in structure to the original Bill, but with tax levels lower than the 20% first proposed.

On behalf of IAP I would like to thank you for this opportunity to testify.

TALISMAN
E N E R G Y

TALISMAN ENERGY INC.

SUITE 3400, 888 3RD STREET S.W.
CALGARY, ALBERTA, T2P 5C5
FAX (403) 237-1902
TEL. (403) 237-1234
www.talisman-energy.com

Good afternoon co-Chairman Samuels and Ramras, Committee Members. My name is Tim England. I am Senior Manager, Global New Ventures for Talisman Energy Inc., which is the group in Talisman that searches for exploration opportunities internationally. I led the entry into Alaska for Talisman in 2003. With me today are my colleagues Rod Wade, General Manager, International Operations, and Jon Handforth, International Operations Commercial Analyst.

This afternoon I would like to provide you with a brief description of Talisman Energy, our current activity in Alaska, through our FEX L.P subsidiary, and the potential impact of changing the Alaska fiscal regime on our future investments in Alaska

Talisman is a Canadian independent company with production and exploration activity around the world. We have an enterprise value of US \$23 billion, and have a capital investment program in the order of US \$3 to 4 billion per year. We currently produce and/or explore in North America, the North Sea (UK and Norway), Malaysia, Vietnam, Indonesia, Australia, Trinidad, Peru, Colombia, Qatar, Algeria, Tunisia, Gabon and Romania.

We are a new player in Alaska. We entered in 2003 and have since invested over US \$30 million in land and over US \$100 million in drilling and seismic acquisition. The wells we are drilling in Alaska have cost in the order of \$30 to 35 million each. Due to the remoteness of our exploration activity and other factors, a commercial discovery would take 5 to 10 years to put on production, that is, it would take a long time from initial investment to begin to recoup the investment. The front-end investment in exploration is risky and, of course, comes with no guarantees for returns.

Our decision to enter Alaska was based on the current fiscal regime continuing for the duration of our activity in Alaska. Talisman accepts the risks associated with commodity price volatility as well as the risks of rising and changing costs. But fiscal stability is important if we are to successfully manage these risks

The proposed fiscal changes will have several predictable impacts from the perspective of explorers in Alaska such as Talisman: first, many exploration ventures which were economic under the previous fiscal regime will no longer meet our economic hurdles for investment (even after taking the proposed incentives into consideration); second, investment proposals for Alaska will not be able to compete as effectively with investment proposals in other countries and jurisdictions; and third, bonus bids paid for

land will be reduced. Increasing the tax/royalty take after initial investments have been made does not bode well to promoting a stable environment for future commitments.

In summary, Talisman is a global oil and gas producer who has made a significant exploration investment in the last three years and has plans to invest heavily in the near-term. Alaska is a high-risk, high-cost exploration area. If Alaska taxes and royalties are increased, potential resources that would have been economic to explore for under the existing fiscal regime would have to be larger to attract investment dollars. In the exploration business one thing is sure: the chance of finding larger potential resources is much less than smaller potential resources. If Alaska taxes and royalties are increased, attracting investment dollars to Alaska in competition with other jurisdictions will be, simply put, more difficult. If Alaska taxes and royalties are increased, more oil will be left in the ground.

If increasing exploration activity in order to add production for the future benefit of the Alaska people is an objective of the Alaskan government, Talisman submits that the proposed increases in the tax and royalty structure will not serve this objective well.

In closing, Talisman would like to express our appreciation for the opportunity to address the House Resources Committee this afternoon.

March 15, 2006

Testimony before the House Resources Committee offered by:

J. Patrick Foley
Manager – Land & External Affairs
Pioneer Natural Resources Alaska, Inc.

Representative Ralph Samuels and other members of the House Resources Committee:

Thank you for the opportunity to share Pioneer's views regarding **HB 488**.

Pioneer is a relatively new investor in the State of Alaska and we appreciate the opportunity to participate in this process.

A member of this Committee wisely stated in previous hearings on this matter, that when considering changes to the existing tax system, the Legislature could shoot a little high or shoot a little low, this committee chooses to shoot a little low and leave a vibrant industry left to invest in the State. Pioneer believes that the Committee has missed the mark in the suggested changes to HB 488 that may likely appear in the Committee Substitute.

1. The proposed changes to the tax rate structure and the reduction in the value of the exemption do not create the same investor friendly climate that the administrations' original legislative proposal intended.
2. The progressive tax rate structure fails to take into account the fact that at higher oil prices the investors' costs increase dramatically. In 2005 Pioneer's costs to drill development wells in the lower 48 increased by 50%. Additional cost

increase will be experienced in 2006. The Industry's profit margin does not directly widen with price increase.

3. The 10 extension to the EIC program created by SB 185 is helpful, but in a rather limited way. The 40% credit rate that applies to certain investments translates to an effective credit of closer to 30% due to the exclusive of certain costs that are not eligible for the calculation of credits. A more effective tool to mitigate the effects of the high tax rate would be to increase the credit percentage rate under the PPT, which applies to both exploration as well as development.
4. The offer to buy annually up to \$ 10 MM in credits from each company is helpful, but again, in only a modest way. This would help small explorers, but would not have big impact on those that develop the successful exploration results. Pioneer will spend roughly \$100MM each year for the next two years at Oooguruk alone. 2008 and 2009 will likely see capital investment of roughly \$50MM or more at Oooguruk. This development program, combined with a robust exploration program, will develop credits well in excess of the \$10MM considered by the Committee's purchase proposal. Pioneer's excess credits must be sold into the market at an unknown discount. A standing offer to purchase all available credits at a fixed discount would better ensure Pioneer's ability to timely monetize its earned credits and enjoy more fully their intended benefit. Additionally, an expansion of the pool into which credits could be sold and utilized would be helpful. Specifically, we ask the Committee to consider a modification that would allow the credits to be used to offset any income taxes paid in the State of Alaska. This would expand the pool of potential buyers beyond the oil industry large producers.
5. If the bill must have a progressive tax rate structure and if oil price is used to benchmark rate changes, the price should

include an inflation adjustment to make the real dollar value derived from that price have equivalent purchasing power that exists today. We would also suggest that the trigger points be tied to an ANS West Coast price rather than WTI, to be consistent with proposed Sections 53.55.160(g) and (h) that relate to transitional capital.

Thank you for the opportunity to express Pioneer's views on the proposed changes to HB 488

TESTIMONY OF RICHARD OWEN
ON PROPOSED CSHB 488 TO THE HOUSE RESOURCES COMMITTEE

March 15, 2006

Mr. Chairman, Members of the Committee:

Good afternoon. My name is Richard Owen and I am the Production Manager for ExxonMobil in Alaska and Vice President of ExxonMobil Alaska Production.

I am here today to express ExxonMobil's concerns with the proposed Committee Substitute to HB 488. On February 28, I testified about our key concerns with HB 488 as originally proposed. While we have not yet seen the substitute bill, we have been made aware of the key changes being considered by this Committee. These changes exacerbate the concerns I described on February 28. Specifically, I will make comments on two areas: the proposal to change the tax rate, and the proposal around reduced transition provisions.

HB 488, as originally proposed, represented a dramatic tax increase on the industry. As I previously testified, we expressed concern that the higher tax rate included in the bill could prevent some of Alaska's challenged resources from being developed. We understand the Committee is now considering even higher tax rates.

Too high a tax rate discourages investment. Companies are willing to accept the risks of long-term, capital intensive investments when there is a corresponding opportunity for

upside potential through a variety of factors, such as increased production or higher prices. When you cap or limit the benefit that Companies can achieve from the upside factors, you reduce the attractiveness of those investment opportunities. The proposal to increase the already high base tax rate as prices increase does reduce or limit the upside potential and will result in Companies recalibrating investment decisions. Reduced investment will result in reduced resource recovery, diminished state revenues and fewer employment opportunities, with a resultant negative impact on the state's economy.

ExxonMobil is concerned with the significant change from the ELF based system to the PPT system and the need for sufficient transition provisions to mitigate the adverse impact on recent investments. We understand that the Committee is considering reducing those transition provisions. While the benefits from a typical oil and gas investment take many years to be realized, the Administration's proposed five year transition into the higher tax PPT system represented a reasonable transition. The Committee Substitute's proposed transition provisions do not sufficiently address the significant increase in tax burden these past investments will now have to bear.

Despite our concerns with HB 488 as originally proposed, we are prepared to move forward under that system since it sought to provide a balance of revenues to the state and producers across a range of oil prices, provided sufficient incentive for producers to undertake exploration and development risks, and included reasonable transition provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase.

It is important that the quality of the resources, the risks undertaken by a producer, and the impact on the state's overall investment climate be factored into the design of the tax system. While industry needs predictably and durability under which to gauge investment decisions, the attractiveness of that predictably and durability is lost if it comes at too high a cost.

As I mentioned earlier, the Committee's proposed substitute exacerbates our key concerns regarding both tax rates and transition provisions. We urge this Committee to support HB 488 as originally proposed.

Thank you again Mr. Chairman for the opportunity to testify today.

Testimony Regarding the Committee Substitute for HB 488,
a Petroleum Production Tax Bill

Brian Wenzel
ConocoPhillips Alaska

Before the
House Resources Committee

March 15, 2006

Co-Chairmen Samuels and Ramras, members of the committee:

Good afternoon. My name is Brian Wenzel, and I am the Vice
President, Finance & Administration, for ConocoPhillips Alaska.

I would like to present ConocoPhillips' views on this committee's
proposed changes to HB 488. Based on the *Substantive Changes* document

handed out yesterday at the meeting of this committee, the Committee Substitute (CS) you are working on is going to have a negative impact on the attractiveness of Alaska for ConocoPhillips' investment dollars.

ConocoPhillips absolutely opposes this CS and any proposal that increases our industry's taxes beyond the \$1 billion per year proposed by the Governor. The proposal before us today increases oil taxes by an annual average of \$1.8 billion – if today's prices continue, this is \$18 billion over the next 10 yrs. The approach reflected in this Committee Substitute is clearly to maximize short term State revenue while putting at risk long term production, State revenue, jobs for Alaskans and growth of the private sector. The CS you are considering destroys the balance in the original bill.

We realize you have come to this conclusion after listening to the advice of various consultants. If we understand your consultants' testimony, they are suggesting that you can jettison the balance of the original proposal and adopt an approach like that reflected in the CS with no adverse consequence on investment. Indeed, they suggest you will actually increase investment in the State by doing so.

We also have hired a number of consultants and will use their input as we lay out for the House and Senate Finance committees the same points we were unsuccessful in demonstrating to you. However, at the end of the day

neither your consultants nor ours must make or live with the decision currently before the Alaska State Legislature. Similarly, none of these consultants ever has, or ever will, make an investment decision on behalf of ConocoPhillips. To the extent your consultants are telling you that the CS you are considering will not have a negative effect on ConocoPhillips' investment decisions going forward, I can tell you they are 100% wrong.

Taking billions of dollars from our industry will have a negative impact on investment. Taking away a significant portion of the upside potential in a basin with lead times (from initial investment to first production) of a decade or more, in an area with low prospectivity and higher costs than almost anywhere in the world, will negatively affect investment – and consequently, production, state revenues and jobs. This is a natural consequence of a action you are taking.

Moreover, the negative effect on our decision-making, and on the decision-making of others, will not result just from the increased tax burden you are seeking to impose. There is also the question of our and others' confidence in the future investment climate in the State. Adverse changes in the key parameters of the originally proposed bill will result in a fundamental shift in the balance of risks and rewards for investments in Alaska. Unreasonable changes like those imbedded in the CS will cause not

only ConocoPhillips but also other investors to question *not whether, but when*, Alaska will again change its fiscal regime and impose unfair and unreasonable burdens on those who have taken great risks and invested billions to help develop the State's resources.

It is irrelevant whether that future change will be in the State's production tax, its property tax, its corporate income tax or in the creation of some entirely new tax. The point is that investors will now need to consider another significant risk in making their economic decisions in Alaska – the risk that Alaska will not approach future fiscal policy changes in a reasonable manner that recognizes the commitment and contribution of companies like ConocoPhillips.

As an example of the type of thinking that will negatively affect potential future investors' view of Alaska, ConocoPhillips received a letter this morning from Representative Gara and Senator French concerning our recent media ads. If you haven't already received a copy of the letter, I am happy to share it with you. This letter suggests that somehow private sector company profits are bad, that the State government has not shared in the benefit of higher oil prices, and that our commitment and long term investment in Alaska, one of the largest for our company anywhere in the world, is essentially irrelevant. We disagree with each of those suggestions.

The antipathy toward industry expressed in this letter is what concerns us most about the current debate on oil taxes - it has become for some an exercise in seeing how much the State can take from the private sector for no reason other than to simply take more.

Unfortunately, this CS seems structured to take more from the very industry participants that are most committed to Alaska's future.

According to the Substantive Changes document, you have changed nearly every key parameter in the original bill in a one-sided way that benefits the State and is at the expense of ConocoPhillips and the other major North Slope producers. You have destroyed the balance previously represented in the bill.

Through the CS, you propose to further increase the PPT tax rate on the industry via a surcharge at high prices - in effect a windfall profits tax. At current prices the additional surcharge will more than triple, the effective tax rate over the current system. This is essentially another \$1B per year at today's prices on top of the average \$1 billion already raised by the original proposal. This change is neither fair nor reasonable to current investors and will be viewed as unfair and unreasonable by potential future investors.

You have severely reduced the intended transition plan such that investors with large, recent capital investment projects (which haven't even begun producing yet) are penalized for apparently investing in Alaska *too early* and being *too optimistic* about the future of Alaska. I want to emphasize this point ...this CS penalizes the very companies that have been investing, creating jobs and building the resource base in the State.

You have extended the current statutory exploration tax credits available to explorers, but as one of the few companies who have actually applied for credits under the current statute, our experience is that, in fact, current regulation effectively reduces the value of these credits to 70% or less of their stated value. Further, these credits only affect about 4% of the DOR's expected future sources of production and investment in Alaska.

You have reduced by over 30% the effective value of the base allowance which is intended to encourage small explorers and new entrants.

You have moved the effective date of this bill back to a date that is completely impractical -- the necessary regulations, procedures and

computer systems can not possibly be adopted and put in place by April 1st of this year which means that production tax payers in Alaska will have to guess at their tax liability and make un-supported payments of tax in an uncertain attempt to avoid punitive interest costs.

And, you have suggested a punitive interest penalty rate of 5% on top of a statutory tax rate of 11%.

In our view, these changes from the original bill are completely inconsistent with the goals of a fair and reasonable fiscal policy, increased long-term investment in Alaska and a vibrant, secure Alaska oil industry. We urge you to reconsider the long-term impact of this bill on the future of the State Alaska. We urge you *not* to move this bill out of Committee until it can be re-crafted with a more balanced, long-term perspective.

Thank you for considering our views.

**March 16, 2006, Written Comments To The House Resources Committee
Response To The Committee's List Of Changes Dated March 14, 2006
By Ken Thompson**

Personal Background

For the record, my name is Ken Thompson. I reside in Anchorage, Alaska. I am the Managing Director of Alaska Venture Capital Group, or AVCG LLC, an independent oil exploration company with a focus on the North Slope of Alaska. AVCG is a consortium of 15 independent oil and gas companies and individuals from Kansas and me as an owner/investor from Alaska. AVCG has a technical and operational services' subsidiary company called Brooks Range Petroleum, with offices in Anchorage. I am the former President of ARCO Alaska, Inc.

AVCG LLC has been very active in the past six North Slope (NS) areawide lease sales and we have acquired over 160,000 acres of exploration leases in five exploration prospect areas, including new acreage we acquired in the recent March 1, 2006, NS lease sale. Our exploration strategy is to explore in the central part of the North Slope for fields in the 25-100+ million barrels range, fields that may be too small for the giant producers but fields that can be produced profitably by smaller companies like ours. We believe there are hundreds of millions if not billions of barrels of oil left on the North Slope in smaller fields of this size and these fields near infrastructure can be brought on more quickly. Our first exploration well in partnership with Pioneer Natural Resources – the Cronus #1 – is currently drilling about 10 miles southwest of the large Kuparuk Field.

Let me focus my comments on the March 14, 2006, document written by the House Resources Committee listing 11 changes being considered after many hearings and debates.

AVCG Owners' Perspectives

First, let me say that while I am Managing Director of AVCG LLC, our other owners disagree strongly that any change should be made to the 20/20 PPT formula. The 20% PPT tax rate and the 20% credit originally presented in the Governor's bill should be the tax rate and credit enacted. The AVCG owners representing 15 new exploration investors in Alaska are concerned enough that the current system is being revised after they have made almost \$10 million investment in North Slope leases and other costs and are planning a 3-year \$46 million exploration program with our first well now drilling. Quite honestly, the AVCG owners listened in disbelief when I told them the production profits tax rate being considered by the House Resources Committee could escalate at high oil prices to 50% in addition to the 12.5-16.7% royalty, the ad valorem property tax, the 3-9% corporate income tax, the ongoing annual lease bid amounts and the rentals expenditures, and the Federal income tax rates averaging 20-35% of taxable income. It all adds up, and AVCG Owners are saying, "enough is enough."

My Personal Perspective

Now let me shift gears in my written comments to you. Because I could not get buy-in for any alternatives from the AVCG owners except the 20/20 case, I have decided to speak out alone. As an Alaskan, I am concerned and feel I must try to share a personal perspective trying to balance what is best for my continued involvement in spending my family's personal money for exploration on the North Slope in balance with how the State must change its system to be competitive in the world and realize more government share at high prices like so many other countries are doing.

I realize by stepping out like this, I could jeopardize my management status with AVCG and perhaps even jeopardize how I am viewed by the major oil companies and my friends in the independent company sector. But I have taken such personal risks in the past, and I don't mind doing so again today to simply do what I think is the right thing to do regardless of others' opinions. I often do not "run with the herd."

So, let me turn my attention to the March 14, 2006, document prepared by the House Resources Committee and let me share my perspective on the 11 suggested changes to the original HB 488. Again, my views are not supported by AVCG owners; rather they are my personal views.

1) Make Tax Rate Progressive

When the Governor's office first announced a 25% tax rate then amended that to 20%, I could see the move by legislators to somehow bridge the gap from 20% to 25%. However, the approach being currently considered by the House Resources Committee based on the outside consultants work of last week is simply too complex and will be arduous to implement. I think – and perhaps all of you think – the Federal tax code is too complex....the changes to HB488 are also too complex and will lead to different interpretation, "gamesmanship" possibly by some companies because of the unwieldy progressive tax structure formula, and future costly lawsuits when the State disagrees with a company's calculations. And the number of accountants to keep track of these complexities on both sides will balloon! I urge you to simplify, simplify simplify...yet still have some progression that you seem set on.

For my company which drills the smaller traps that may add up over time, we do not have a lot of upside potential in seeing these smaller fields grow much larger over time. So our main upside is in oil price escalation to offset exploration risks and to offset the cycles of oil prices downward, a reality over time for any commodity. I find it disturbing – and personally unfair – that the Committee has tax rates going as high as 50% at high prices. I found it so interesting to see the Econ1 consultants and consultant Daniel Johnston saying the government should take more and more at high prices when not one member of the Committee asked them a very important question they should have been asked: "how much are you investing in Alaska?" I was shocked to see that these consultants, when calculating the future revenues to

the State at various escalating rates, used the same oil production curves. In reality, less capital will be spent by industry at exorbitant tax rates (tax rates above 25% when coupled with all other payments such as royalty, corporate income tax, ad valorem tax, lease costs and rentals, etc.). With less capital spending, the production curve will be lower...an increasingly higher tax rate may not in the end yield the forecasted revenues for the State.

On a related note, our company plans to go into the private or public equity markets to raise funds and capital for any future development. Such equity investors invest in the oil markets to be exposed to crude price upside. When they look at investments all over the world, and see that Alaska could tax at a 50% rate at much higher crude prices, they will place their capital elsewhere to continue their exposure to higher crude in investments without alternative taxing structures such as the Lower 48 states, the Gulf of Mexico deep water with royalty relief, or other countries. The consultants did not address this issue that I face month in and month out...the private and public equity markets and the desire for such investors to fully benefit from upside commodity price swings without hedging or excessive, escalated taxation.

I could not believe the consultants did not show capital spending elasticity graphs from different countries. They did you a disservice by not doing so. Their work showed a biased perspective in my opinion; if they get the House Resources Committee to adopt a complex progressive tax rate structure the consultants will feel they have been successful...but not one of these consultants will be around to defend their views in the future when capital spending does decline at exorbitantly high and unfair tax rates above the 25% level.

Bottomline: there is a point of unfair taxation which causes rebellion as our early settlers in America experienced first hand!

My first suggestion to the progressive tax dilemma: the cap on the tax rate should be capped at the 25% level...continue to keep in mind added to this at high prices will be the 12.5-16.7% royalty, ad valorem taxes, corporate income taxes, Federal income taxes, etc.

Secondly, I do not think the "trigger point" that increases the PPT tax rate from 20% should be based on West Texas Intermediate (WTI) oil price. The "trigger point" should be when a company's average realized wellhead price in Alaska exceeds \$50 per barrel. Some say lower, but I do think there is strong merit that those who have invested and taken exploration risk and exposure to low prices should be able to benefit from increased profits at higher prices..."share the pain, share the gain"...to this \$50/barrel wellhead level. However, I personally am fine with the State increasing the tax rate eventually to a cap of 25% when wellhead prices exceed \$50/barrel. Having said this, you need to know that I do not know anyone else in industry who thinks this; everyone I know continues to press the 20/20 formula.

Why should you tie the PPT calculation to a company's realized wellhead price? In reality on the North Slope, not one company sees WTI prices. Every crude oil in Alaska is different in quality with viscous crude receiving less and oil produced from wells farther away from infrastructure receiving less wellhead value due to higher shipping costs. Conversely, oil in the Cook Inlet is close to actual refining or on the water to ship out of state and thus realizes on average much higher wellhead value than most North Slope crude oils, a substantial plus to Cook Inlet operators who face higher operating costs with maturing fields. Our company's crude when discovered on the North Slope will be farther west, and when we have to transport the oil via the major producers' gathering system lines to TAPS pump station #1, we will pay the majors a certain tariff of \$0.50-1.00/barrel or more, giving us a lower wellhead value for our crude while they make a profit on shipping in their crude lines. The majors further make profits from tariffs for shipping down TAPS and in their marine tankers.

So I ask, why should the tax rate increase with WTI price when there is such a variance in crude oil pricing factors on the Slope at the wellhead affecting each field's economics and economic limit differently? The production profits tax rate should not go up at the same time for those who produce viscous crude or oil from a farther distance as compared to those who have good quality oil right next to the TAPS line. If there is a "trigger point", it should be one based on a company's average monthly realized wellhead price for production.

My second suggestion to the progressive tax dilemma: the "trigger point" should be \$50 per barrel realized wellhead price based on a monthly average and not based on \$50 WTI, thus allowing explorers and producers to share in the upside profits at prices to this level with no higher burden than the 20% PPT tax rate (plus burden of royalty, corporate income tax, ad valorem tax, Federal tax, etc.).

Thirdly on this issue, let me address a way to transition from the 20% tax rate to the 25% tax rate without getting too complicated. I found the formula suggested by the consultants with the incremental rate being calculated dollar by dollar and based on revenues, not profits, to be unfair. This wasn't a production profits tax change, but really – in a way – a change to increase the royalty rate on production, in my view. Bottomline: keep the production profits tax rate simply that...a tax on production profits. Having the PPT at higher prices being a mixture of taxation of profits and a separate incremental tax on incremental revenues is unwieldy and an accounting nightmare.

A third suggestion to the progressive tax dilemma: Keep the production profits tax simply that...a tax on production profits, and not an underhanded way to further burden gross revenues...that is done through the royalty rate on leases at lease sales.

Lastly let me address a simpler way of getting the progressive rate from 20% to 25% without the dollar to dollar treatment complexity and without the complexity of taxing

production profits while also incrementally and differentially taxing gross revenues one more time.

A fourth and final suggestion to the progressive tax dilemma to simplify, simplify, simplify is the following production profits tax schedule that everyone could understand and implement with the State realizing upside at higher prices yet not too much upside is taken away from explorers/producers:

Up to monthly average wellhead price of \$50/barrel for a company: PPT rate of 20%

When monthly average wellhead price is between \$50-75/barrel: PPT rate of 22.5%

When monthly average wellhead price exceeds \$75/barrel: PPT rate of 25%

By the way, if the State were to pass a complex, unwieldy production profits tax like that one proposed by last week's consultants and favored by some on the Resources Committee with escalating production profits tax rates of up to 50%, I predict Alaska will make the cover of the industry-wide influential magazine "The Oil and Gas Journal" and perhaps even a cover spot in the "Wall Street Journal." And I don't mean this media coverage in a positive way...I think all in industry will say the State is taking advantage of industry at high prices. Whether or not industry makes money or not and good, solid returns is not the issue with such extremes...the perceived fairness of taxation in a high cost, remote area like Alaska is the issue. Keep in mind that America's early settlers were still taking money home to their families...it was just the tax rate from England had crossed the point of fairness not from England's perspective but from the settlers' perspectives. And rebellion began!

Now, let me move the discussion forward to the second item on the list of 11 House Resources Committee changes.

2) Reduce Transitional Money As Deductible Allowance

I think this compromise to a four-year staged and tiered "look back" is fair. You are right...many investments made over 2001-2005 were based on oil prices of \$20-40+/barrel and actual prices have been much higher with all companies – and the State - obtaining more cash flows than predicted when originally approved.

3) Exploration enhancement

Thank you very much for extending the SB 185 exploration tax credits for the next 10 years.

4) No credit for abandonment costs

I would prefer that abandonment costs would be eligible for tax credits; these costs are a cost of doing business and an essential part of a field development's

expenditures for the life of a field. Having such credits may expedite more timely abandonment of wells and facilities rather than wells and facilities being "mothballed" or simply shut-in for longer periods of time while operators postpone abandonment and delay expenditures that, in some cases, may indeed be needed sooner.

5) Private royalties

I believe overriding royalties should also just have the burden of a 5% tax rate. I understand that ASRC was a big driver in seeing this lower tax rate for "private royalties." While some ASRC royalties are indeed "private royalties" where they have owned subsurface lease rights and leased land out to explorers/developers keeping a straight royalty, I do believe that ASRC and a few other Alaska Native Corporations have acquired "overriding royalties" in production by virtue of demanding overriding royalties in subsurface oil production in exchange for granting use of their surface rights and surface access. I think it would be fair to them – and to any company owning overriding royalties – that the tax rate is only 5%.

Commonly, even an overriding royalty owner that has "farmed out" their leases to others to drill due to high perceived risk would be taxed at 20% and not be able to receive the benefits of investment capital credits even though they may have made substantial investments in lease bonuses, lease rentals and seismic before they converted their working interest to an overriding royalty interest. A lower rate of 5% even for overriding royalties would be appropriate.

6) AOGA Technical Changes

I have not reviewed the AOGA technical changes, so could not address those.

7) Contingency Surcharges

Surcharges are just one more example that government take in Alaska is comprised of many different components – royalty, corporate income tax, ad valorem tax, lease bonuses, lease rental payments, etc. – emphasizing that the production tax is not the sole source of revenue to the State off oil production.

8) Effective Date

The State has made far more money at high prices than anyone ever dreamed. The State had, in a way, received a rich windfall at high oil prices. The change in the production profits tax is controversial in its own right. I would not dare "pour salt in the wound" by making the tax effective on April 1, 2006, but allow the transition as originally planned to a July 1, 2006, date. This will also give all of us time to hire additional accountants to do the monthly, complex filings!

9) Issues Surrounding The \$73 Million Allowance

I would prefer the \$73,000,000 annual allowance, but accept the \$50,000,000 annual allowance as a reasonable compromise...provided the above amended PPT tax rate schedule listed above with a trigger point at \$50 wellhead price and capped at 25% is concurrently amended.

I do think it is wise to convert this for communication purposes to the public as a \$10 million credit. I also remain supportive of expressing this as a 5,000 barrels of oil per day allowance if you have to go that way for buyin in the Legislature and with the public.

10) Tax Credit Repurchase Program

Thank you for this approach. Our company would be willing to return these funds to purchase leases, run seismic and drill wells to find us both some more oil!

11) Penalties On Underpayment Of Less Than 90% Of Monthly Tax Liability

This is understandable and helps enforcement. But this is yet another reason to keep the original implementation date at July 1, 2006, to help all in industry get ready for the increased accounting workload and avoid wrong filings of this new system.

Concluding Remarks

The above comments are my personal views offered with a hope there can be an eventual win-win solution to this complex subject of the State realizing more revenues at higher prices while attracting exploration and development investors who can also realize upside at higher prices. Many – if not most – in industry would disagree with some – if not all – my personal views expressed above. But I did feel compelled at this point to "tell it like it is" from my perspective.

Respectfully submitted by:

Ken Thompson

passed

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24-GH2052Y.4
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 488(RES), Draft Version "Y"

- 1 Page 21, lines 3 - 4:
- 2 Delete "any payment or credit"
- 3 Insert "certain payments or credits received by the producer, as provided in this
- 4 subsection. If, during a month or, under (f) of this section, during a calendar year, a producer
- 5 receives one or more payments or credits subject to this subsection and if either the total
- 6 amount of the payments or credits exceeds the amount of the producer's lease expenditures or
- 7 the producer does not have any lease expenditures, the producer shall nevertheless subtract
- 8 the payments or credits from the lease expenditures or from zero, respectively, and the
- 9 producer's adjusted lease expenditures for that month or calendar year are a negative number.
- 10 The producer shall apply that negative number to the calculation made under (a) of this
- 11 section. The payments or credits that a producer must subtract from the producer's lease
- 12 expenditures, or from zero, under this subsection are payments or credits that"

passed

2

24-GH2052Y.5
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 488(RES), Draft Version "Y"

1 Page 24, lines 3 - 4:

2 Delete "may apply a tax credit against that liability under this section."

3 Insert "and, during the calendar year, has incurred a qualified capital expenditure, as
4 that term is defined in AS 43.55.024, may apply a tax credit, in an amount that does not
5 exceed the amount of that expenditure, against that liability under this section. An unused
6 portion of a tax credit may be applied to the extent otherwise allowed under this section for
7 one or more months during the same calendar year."

8

9 Page 24, lines 6 - 7:

10 Delete "before applications for any credits under this chapter"

11 Insert "for any month"

12

13 Page 24, line 23, following "qualified":

14 Insert "capital"

passed

3

24-GH2052Y.6
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 488(RES), Draft Version "Y"

1 Page 29, line 31, following "REGULATIONS":

2 Delete "."

3 Insert "AND RETROACTIVITY OF REGULATIONS. (a)"

4

5 Page 30, following line 3:

6 Insert a new subsection to read:

7 "(b) Notwithstanding any contrary provision of AS 44.62.240, a regulation adopted
8 by the Department of Revenue to implement, interpret, make specific, or otherwise carry out
9 the provisions of secs. 5, 6, 8 - 11, 13 - 15, 17 - 20, 22, and 25 - 41 of this Act may apply
10 retroactively as of April 1, 2006, if the Department of Revenue expressly designates in the
11 regulation that the regulation applies retroactively to that date."

passed

4

24-GH2052Y.7
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 488(RES), Draft Version "Y"

- 1 Page 29, lines 5 - 6:
- 2 Delete "the sections of this Act that are not effective April 1, 2006"
- 3 Insert "secs. 8 and 13 of this Act"
- 4
- 5 Page 29, lines 14 - 15:
- 6 Delete "the sections of this Act that are not effective April 1, 2006"
- 7 Insert "secs. 5 and 6 of this Act"
- 8
- 9 Page 29, line 17, following "Act,":
- 10 Insert "or AS 43.55.030(e), added by sec. 22 of this Act,"
- 11
- 12 Page 29, lines 18 - 19:
- 13 Delete "the sections of this Act that are not effective April 1, 2006"
- 14 Insert "secs. 20 and 22 of this Act"

passed

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7

24-GH2052\Y.9
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 488(RES), Draft Version "Y"

1 Page 4, line 9, following "for":

2 Insert "all"

3

4 Page 5, line 31:

5 Delete "AS 43.55.011"

6 Insert "AS 43.55.011(a)"

7

8 Page 30, line 22:

9 Delete "24,"

passed

5

3-16-06

A M E N D M E N T

OFFERED IN THE HOUSE
TO: CSHB 488 (RES)

BY REPRESENTATIVE OLSON

Page 4, line 9:
delete "or gas" "and gas"

Page 4, line 10
delete "and gas"

Page 4, line 12
delete "and gas"

failed

6

24-GH2052V.1
Chenoweth
3/15/06

AMENDMENT

OFFERED IN THE HOUSE
TO: CSHB 488(RES)

BY REPRESENTATIVE KAPSNER

- 1 Page 9, line 24:
- 2 Delete "April 1, 2006"
- 3 Insert "January 1, 2006"
- 4
- 5 Page 16, lines 2 - 3:
- 6 Delete "April 1, 2006"
- 7 Insert "January 1, 2006"
- 8
- 9 Page 18, line 15:
- 10 Delete "April 1, 2006"
- 11 Insert "January 1, 2006"
- 12
- 13 Page 18, lines 26 - 27:
- 14 Delete "April 1, 2006"
- 15 Insert "January 1, 2006"
- 16
- 17 Page 18, line 28:
- 18 Delete "April 1, 2006"
- 19 Insert "January 1, 2006"
- 20
- 21 Page 18, line 29:
- 22 Delete "April 1, 2006"
- 23 Insert "January 1, 2006"

1

2 Page 19, line 1:

3 Delete "April 1, 2006"

4 Insert "January 1, 2006"

5

6 Page 19, line 2:

7 Delete "April 1, 2006"

8 Insert "January 1, 2006"

9

10 Page 19, line 8:

11 Delete "April 1, 2006"

12 Insert "January 1, 2006"

13

14 Page 21, line 23:

15 Delete "March 31, 2016"

16 Insert "December 31, 2015"

17

18 Page 25, line 1:

19 Delete "April 1, 2006"

20 Insert "January 1, 2006"

21

22 Page 25, lines 6 - 24:

23 Delete all material and insert:

24 "TRANSITIONAL PROVISIONS. (a) For oil and gas produced before January 1,
25 2006, the provisions of AS 43.55, and regulations adopted under AS 43.55, that were in effect
26 before January 1, 2006, and that were applicable to the oil and gas continue to apply to that oil
27 and gas.

28 (b) Notwithstanding any provision in this Act to the contrary,

29 (1) a report and payment of production tax on oil and gas due under AS 43.55,
30 as enacted by this Act, for any period before the effective date of this Act is due on the last
31 day of the month following the month in which the effective date of this Act occurs; and

1 (2) penalty provisions of AS 43.55.020(h), added by sec. 13 of this Act, and of
2 AS 43.55.030(d), amended by sec. 17 of this Act, apply to taxes that are due and unpaid and
3 reports that are not filed by the date described in (1) of this subsection."
4

5 Page 26, lines 13 - 20:

6 Delete all material and insert:

7 "* Sec. 42. The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 **RETROACTIVITY.** Sections 5, 6, 8 - 11, 13, 14, 16 - 18, and 22 - 37 are retroactive
10 to January 1, 2006, and apply to oil and gas produced on and after that date.

11 * Sec. 43. This Act takes effect immediately under AS 01.10.070(c)."

passed

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8

3-16-06

CONCEPTUAL AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE KAPSNER

TO: CSHB 488 (RES), Version Y

Delete sections relating to transitional investment expenditures.

held for
3-17-06

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9

3-16-06

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE KAPSNER

TO: CSHB 488 (RES), Version Y

Delete Sec. 27, page 16, line 23 through page 17, line 17.

3-17-06

FAILED

Y N
2 - 6

failed

10

3-16-06

AMENDMENT

OFFERED IN THE HOUSE
TO: CSHB 488 (RES)

BY REPRESENTATIVE
KAPSNER

- 1 Page 31, line 1
2 Add the following :
3 "Sec. 49. AS 43.55 is amended to read:
4 Sec.43.55.400. High energy cost offset fund.
5 (a) The high energy cost offset fund is established as a separate fund in the general fund.
6 The fund consists of all money appropriated to it.
7 (b) The high energy cost offset fund shall be invested by the Department of Revenue so
8 as to yield competitive market rates, as provided in AS 37.10.071. Money in the fund may
9 be appropriated to provide cost offsets for high energy costs of consumers.
10 (c) Nothing in this section creates a dedication of funds

~~held for
3-17-06 to
be restructured~~

11 / 11-A

BY REP. CRAWFORD

3-16-06

CONCEPTUAL AMENDMENT

WITHDRAWN

OFFERED IN THE HOUSE

TO: CSHB 488 (RES) Draft Version Y

This amendment would prevent a deduction from taxable income for the clean-up of oil spills, as in existing law Sec. 43.55.150 (c)(1) on the severance tax.

The existing language reads "the amount of loss of or damage to, or of expense incurred due to the loss of or damage to, a vessel used to transport oil if the loss, damage, or expense is incurred in connection with a catastrophic oil discharge from the vessel into the marine or inland waters of the state".

In addition, unless prohibited elsewhere in this bill, a provision should be added preventing a taxpayer from deducting the cost of any oil-spill related damage or penalty payments to a governmental or private party.

THE
FOLLOWING
DOCUMENT(S)
ARE
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43.55.110. Administration. (a) The department may adopt regulations for the purpose of making and filing reports required by this chapter and otherwise necessary to enforcement of this chapter.

The department may require a sufficient bond from every person charged with the filing and filing of reports and the payment of the tax. The bond shall run to the state and shall be conditioned upon the making and filing of reports as required by law, upon compliance with the regulations of the department, and for the prompt payment, by the principal on the bond, of all taxes due the state by virtue of this chapter.

If reports required have not been filed, or are insufficient to furnish the information required by the department, the department shall institute, in the name of the state upon application of the department, the necessary action or proceedings to enjoin the person from continuing operations until the reports are filed.

Upon showing that the state is in danger of losing its claims or the property is being mismanaged, dissipated or concealed, a receiver shall be appointed at the suit of the state. (§ 13 ch 7 ESLA 1955)

Sec. 43.55.120 — 43.55.130. Noncompliance and false reports. [Repealed, § 46 ch 113 AS 1980. For criminal penalties, see AS 43.05.290.]

43.55.135. Measurement. For the purposes of AS 43.55.011 — 43.55.150, oil shall be measured in terms of a "barrel of oil" and gas shall be measured in terms of a "cubic foot of gas." (§ 16 ch 101 SLA 1972)

Revisor's notes. — A reference to "AS 43.55.011 — 43.55.150" was substituted for "this chapter" in this section in 1989 to reflect the enactment of AS 43.55.200 — 43.55.240.

Sec. 43.55.140. [Renumbered as AS 43.55.900.]

43.55.150. Determination of gross value. (a) For the purposes of AS 43.55.011 — 43.55.150, the gross value shall be calculated using the reasonable costs of transportation of the oil or gas. The reasonable costs of transportation shall be the actual costs, except

- (1) when the parties to the transportation of oil or gas are affiliated;
- (2) when the contract for the transportation of oil or gas is not an arm's length transaction or is not representative of the market value of that transportation;
- (3) when the method of transportation of oil or gas is not reasonable in view of existing alternative methods of transportation.

(b) If the department finds that the conditions in (a)(1), (2), and (3) of this section are not met, the department shall determine the reasonable costs of transportation, using the fair market value of like transportation, the fair market value of equally efficient and available alternative modes of transportation, or other reasonable methods. Transportation costs fixed by tariff rates properly on file with the Regulatory Commission of Alaska or other regulatory agency shall be considered prima facie reasonable.

(c) In determining the gross value of oil under (a) of this section, the department may allow as reasonable costs of transportation

(1) the amount of loss of or damage to, or of expense incurred due to the loss of or damage to, a vessel used to transport oil if the loss, damage, or expense is incurred in connection with a catastrophic oil discharge from the vessel into the marine or inland waters of the state;

(2) the incremental costs of transportation of the oil that are attributable to temporary use of or chartered or substituted service provided by another vessel due to the loss of or damage to a vessel regularly used to transport oil and that are incurred in connection with a catastrophic oil discharge into the marine or inland waters of the state; and

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24-GH2052Y.8
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 488(RES), Draft Version "Y"

- 1 Page 4, line 16:
- 2 Delete "50"
- 3 Insert "45"
- 4
- 5 Page 4, line 18:
- 6 Delete "\$50"
- 7 Insert "\$45"
- 8
- 9 Page 4, line 19:
- 10 Delete "\$150"
- 11 Insert "\$145"

held for
3-17-06

FP 13

Conceptual Amendment

KAPFNER

OFFERED IN THE HOUSE

TO: CSHB 488 (RES), Draft Version "Y"

This amendment would substitute the progressive 20% income tax with a 25% income tax which increases at the same rate and at the same price points as provided in the current version of HB 488.

3-17-06

WITHDRAWN

Consultant Statements On An Appropriate PPT Tax Rate

p. 2

Daniel Johnston, Legislative Consultant:

(Joint House Resources / House Finance Committee – March 6, 2006)

(Quoted in the Anchorage Daily News – March 7, 2006):

"I am just not happy with 20/20. 25/20 is a starting point, and then it's got to be progressive from there."

Barry Pulliam, EconOne Consultant

(House Resources Committee – March 13, 2006):

"Our view, we sat down with the administration folks who came up with the PPT, Dr. Van Meurs, and considered those very questions when he was first submitting his recommendations. And in our view certainly the 20/20 was very safe. Very safe. The 25/20 we even thought was safe."

"But you don't want to lose a lot of interest and as, as economists who have worked with forecasting, and looking at decision-making, I think our view would also be you don't want to be in a position where you're... you've calculated that you've taken every last penny of what's available. You want to leave something... *you want to make it attractive. You want to leave enough to make it attractive. Keep people real interested. We don't think the 25/20 goes beyond that at all, and then with some increment above that, we think it still stays real attractive.* Now, in thinking about the sliding scale. What would you do? I think our view in general would be if you're thinking about starting it lower, have a lower increment. If you're thinking about starting it higher, have a higher increment. I think that's probably... just as a general thing. Otherwise, if you start real low and have a real high increment, you go pretty steep. So, that would be our..."

Rep. Samuels: Representative Gatto.

....
Rep. Seaton: Thank you. And, so just to be clear, within these scenarios, are there any of them that you've projected here that you think are, from your standpoint, in your analysis, that would be detrimental to investment in the industry here in Alaska?

Barry Pulliam: No. Looking at these, *I don't see any that would be, that would fall into the detrimental area.* I put, as I look at this, I try to put these into a historical context – look at what the rates have been at given price levels. And as you look at those, even as you look at the highest one of these that you'd have, which would be the 35 threshold with a .35% increment, you see as you... you know, when you're at 40 dollar prices there your tax rate is only 11.4%. That's at a higher price level, that's a lower percentage than your historical average. You start to ratchet up beyond there, but you have some pretty high prices that those are associated with. So, there might be a little bit of stuff around the margin that would look at that and say that's not of interest. I don't think for the majority of what you have that would be the case. But, I can see reasons why you wouldn't do that either. You might have a more cautious approach."

Dr. Tony Finizza, EconOn! Consultant
(House Resources Committee March 13, 2006):

p. 3

"And, to illustrate this question that was raised earlier about is 25/20, *could it look better for a producer, and in a funny kind of way it does.* I'm saying... lets... no one's going to drill a one well program, but just say you did, and it was 20 million dollars - and that's the number I'm actually going to use for a well, 20 million - it's pretty expensive, but this is an expensive state and they're low product wells, etc. and eventually we have the high cost assumptions to make. If you did this well exploration - 20 million dollars - with a pattern I put in here under a status quo your negative cash flow would be roughly 20 million dollars. There's inflation in there that makes it higher, and then there's some tax sheltering that goes on. In the other cases, the PPT, you get to deduct capital as a credit, etc. and sell it and all that stuff. So naturally in actuality the producer or the explorer has less cash flow. Negative cash flow. And by this calculation, *marginally better off with 25/20 than 20/20.*"

Rep. Gara: Just a follow up so I'm clearer in your answer to Representative Berkowitz. He asked you, you said at 25/20, you might be, that might be the point where you start maximizing revenues before you start hitting diminishing returns. Is that, did I understand that fairly?

Dr. Finizza: I said that I had a gut reaction that that was a point of diminishing returns, and that's... for an exploration, yup. I wouldn't think that you would have to go further than that to encourage or, you wouldn't, and then take a greater risk yourself.

Rep. Gara: Am I wrong in assuming... If I'm looking for the point where's you've started to maximize your long term state revenue but before you start losing money because you're taxing too much - that's your gut reaction on 25/20 or am I missing...?

Dr. Finizza: That's my gut reaction, yeah.

Dr. Pedro Van Meurs, Consultant
(House Resources Committee - February 23, 2006):

"The 25/20 and the 20/20 both are very competitive systems, that you could see from the investment. If I say competitive, it means that both systems would be considered quite attractive by investors."

"Whether you start the tax on January 1 or July 1 really has no impact on the competitiveness of the system. Because new investors would look at new investments and would not even have to pay tax for now, for awhile. So consequently whether you have a July or January start day, that would not have impact on new investors. So would be equally, say, attractive either way. The only difference between the January 1 and the July 1 start date is that of course it has enormous impact on existing production. So as far as existing production, you would have 6 months more of revenues if you moved the date back to January 1st of this year."

adopted

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24-GH2052\Y.12
Chenoweth
3/16/06

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 488(RES), Draft Version "Y"

1 Page 18, line 31, through page 19, line 1:

2 Delete "April 1, 2006"

3 Insert "January 1, 2006"

4

5 Page 28, line 10, following "TRANSITIONAL PROVISIONS.":

6 Insert "(a) Notwithstanding any contrary provision of AS 43.55.024(a), enacted by
7 sec. 14 of this Act, a producer or explorer may apply for a credit under AS 43.55.024 based
8 on a qualified capital expenditure incurred on or after January 1, 2006."

9

10 Reletter the following subsections accordingly.

11

12 Page 29, line 21:

13 Delete "(f)(1)"

14 Insert "(g)(1)"

15

16 Page 29, line 23:

17 Delete "(f)(2)"

18 Insert "(g)(2)"

19

20 Page 29, line 25:

21 Delete "(f)(1)"

22 Insert "(g)(1)"

23

1 Page 29, line 26:

2 Delete "(g)(1)"

3 Insert "(h)(1)"

4

5 Page 30, following line 16:

6 Insert a new bill section to read:

7 **"* Sec. 46.** The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 **RETROACTIVITY OF CERTAIN EXPENDITURES USED TO SUPPORT**
10 **PRODUCTION TAX CREDIT CLAIM AND DETERMINATION OF PRODUCTION TAX**
11 **VALUE OF OIL AND GAS.** AS 43.55.160(c)(1), enacted by sec. 28 of this Act, applies to
12 allow a producer to claim as lease expenditures certain expenditures incurred on or after
13 January 1, 2006, and before the effective date of AS 43.55.160, added by sec. 28 of this Act,
14 and sec. 43(a) of this Act applies to authorize a producer or explorer to apply for a credit
15 under AS 43.55.024, enacted by sec. 14 of this Act, based on a qualified capital expenditure
16 incurred on or after January 1, 2006, and before the effective date of AS 43.55.024, enacted
17 by sec. 14 of this Act. To the extent these provisions give legal effect to prior conduct, they
18 are retroactive to January 1, 2006."

19

20 Renumber the following bill sections accordingly.

21

22 Page 30, line 19:

23 Delete "sec. 48"

24 Insert "sec. 49"

25

26 Page 30, line 22:

27 Delete "46"

28 Insert "47"

29

30 Page 30, line 24:

31 Delete "sec. 47"