11984 SENATE RESOURCES

SB

25

Alaska State Legislature

Senator Kim Elton
State Capitol, Room 115
Juneau, Alaska 99801-1182
465-4947 phone ♦ 465-2108 fax

Senator Gary Stevens
State Capitol, Room 103
Juneau, Alaska 99801-1182
465-4925 phone ♦ 465-3517 fax

MEMORANDUM

DATE: February 8, 2005

TO: Senator Tom Wagoner, Chair
Senate Resources Committee

FROM: Senator Kim Elton and Senator Gary Stevens

SUBJ: Hearing Request for SB 25, an Act relating to labeling and identification of genetically modified fish and fish products.

We respectfully request a hearing for SB 25, amending section 17.20.040 of the Alaska Food, Drug, and Cosmetic Act to require Alaskan retailers to label genetically modified fish and shellfish, or food products containing genetically modified fish and shellfish when sold in retail.

This bill gives Alaska seafood consumers the ability to choose between genetically modified and non-genetically modified products. Additionally, SB 25 helps bolster the "purity" message that Alaskan seafood marketers have worked to convey, serving to further differentiate wild Alaskan seafood from seafood that has been either bred, or engineered by humans.

SB 25 is similar to legislation introduced in Oregon and California, and comes with the unanimous support of the Joint Legislative Salmon Industry Task Force.

We ask that you hear SB 25 at your earliest convenience.

Alaska State Legislature

Senator Kim Elton
State Capitol, Room 115
Juneau, Alaska 99801-1182
465-4947 phone ♦ 465-2108 fax

Senator Gary Stevens
State Capitol, Room 103
Juneau, Alaska 99801-1182
465-4925 phone ♦ 465-3517 fax

SB 25
Sponsor Statement

"An Act relating to labeling and identification of genetically modified fish and fish products."

Transgenic foods are those in which the genetic structure has been altered at the molecular level by means that are not possible under natural conditions or processes. There has been widespread concern throughout the world over the largely unknown effects of transgenic, or genetically modified (GM) products on human and environmental health.

In an effort to address concerns raised by consumer, environmental, health, and Alaska fish marketing groups, SB 5 requires Alaska retailers to identify and label foods containing fish and shellfish, or fish and shellfish products that have been genetically modified.

The message that Alaska seafood is more natural than seafood that has been engineered or bred is a highly important marketing tool. This bill, by requiring a differentiation between GM and wild seafood helps highlight Alaska seafood as distinct from GM seafood, thereby doing away with any vagueness that may exist to the consumer when purchasing seafood without labeling, and reinforcing the natural message.

Many GM agricultural products are currently allowed on the U.S. market, and an application submitted by an aquaculture company for the use of a GM, growth-enhanced salmon is pending before the Food and Drug Administration's Center For Veterinary Medicine. The Pacific Fisheries Legislative Task Force *Fish* Review dated December 2004 reports that Aqua Bounty, a biotechnology company with offices in the United States and Canada, is planning to ask Canadian authorities for approval to use GM fish in Canada's fish farms.

Currently, legislation in the European Union, Japan, New Zealand, and Australia requires labeling on foods made from, or containing GM products. SB 5 is similar to legislation introduced in other states, such as Oregon and California, and it comes with the unanimous support of the Joint Legislative Salmon Industry Task Force, a committee comprised of legislators, seafood harvesters and seafood processors.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SB025-LAW-NR-2-1-05
() Publish Date:

Revision Da: Time (Note if correction):
Dept Affected: LAW
Title "An Act relating to labeling and identification of genetically modified fish and fish products."
RDU CIVIL
Component Environmental
Sponsor Senator Elton
Requester Senate Resources Committee
Component No.

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type–Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

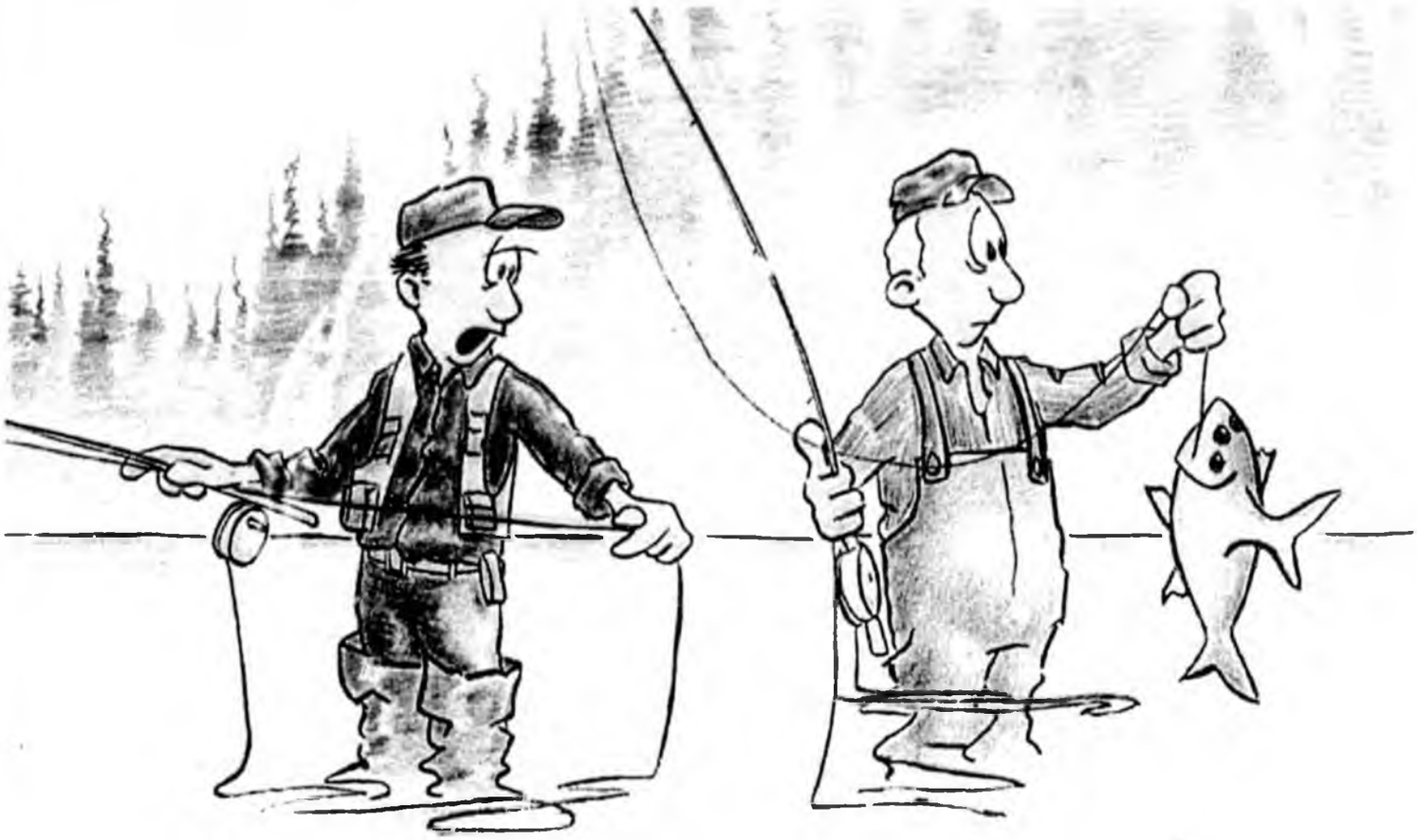
ANALYSIS: *(Attach a separate page if necessary)*

This bill amends the Alaska Food, Drug, and Cosmetic Act, AS 17.20.040 by adding genetically modified fish or fish product to the list of misbranded food, unless conspicuously labeled or identified as such. Legislation at the federal level already prohibits the sale of any genetically modified foods.

Passage of this legislation will have no fiscal impact on the Department of Law.

Prepared by: Kathryn Daughhetee, Director
Phone 465-3673
Division Administrative Services Division
Date/Time 2/2/05 3:07 PM
Approved by: Kathryn Daughhetee for Gregg D. Renkes, Attorney General
Date 2/2/2005
Agency Department of Law

(Revised 9/23/2004 OMB)



"THAT MUST BE ONE OF THOSE FARMED SALMON
WE'VE BEEN HEARING ABOUT."

The Seattle Times
seattletimes.com

Tuesday, June 08, 2004, 12:37 A.M. Pacific

Research fuels fear of gene-altered fish

By Sandi Doughton
Seattle Times staff reporter

In a head-to-head battle for food, normal coho salmon lose out to their genetically engineered cousins, says a new study that adds to the controversy over what critics call "frankenfish."

Not only did the aggressive, gene-modified salmon gobble up most of the feed when raised in tanks with ordinary salmon, but they also gobbled up their weaker competitors — including their own type, British Columbia scientists reported in yesterday's online edition of the Proceedings of the National Academy of Sciences.

The results were often dramatic population crashes, with only one or two of the genetically modified fish surviving in tanks that originally held 50 animals, said lead author Robert Devlin of Fisheries and Oceans Canada.

"When food supplies are low, transgenic (genetically modified) fish have a very significant effect on the population," he said, adding the caveat that laboratory experiments may not predict what would happen if bioengineered salmon escaped into the environment.

But that's a question that needs to be answered soon.

Massachusetts-based Aqua Bounty Farms has asked the U.S. Food and Drug Administration for approval to market what could be the first transgenic food fish: Atlantic salmon that grow twice as fast as normal fish. Aqua Bounty hopes to raise its transgenic salmon in coastal net pens in the United States and market the eggs around the world, said Joseph McGonigle, vice president for external affairs. "We are constantly hearing from companies that are interested in it," he said.

Faster-growing salmon would cut costs dramatically for fish farmers and lead to lower prices in the supermarket, McGonigle said.

Consumer groups, commercial fishermen and some scientists say studies such as Devlin's show the potential ecological consequences of unleashing man-made breeds of fish.

"We should not be taking a risk like this at a time when native salmon stocks are already in trouble," said Doug Gurian-Sherman, senior scientist at the Center for Food Safety, a consumer group based in Washington, D.C.

enlarge STEVE RINGMAN / THE SEATTLE TIMES

Although gene-modified fish grow much faster than normal coho salmon, they don't get much bigger at maturity, researchers say.

A 2002 National Academy of Sciences report expressed moderate concern that genetically engineered fish might pose risks to consumers if, for example, a person who was allergic to scallops ate fish with a scallop gene spliced into its DNA. But experts agreed that the biggest danger is that some of the gene-modified fish would inevitably escape into the environment.

Hundreds of thousands of Atlantic salmon have escaped into Northwest waters from salmon farms over the past several years when floating pens were ripped apart by storms or marauding sea lions.

The worst-case scenario involving transgenic fish is the "Trojan gene" hypothesis proposed by Purdue University geneticist William Muir: Genetically engineered salmon outcompete normal fish for food and mates, leading to less-hardy hybrids and the eventual extinction of the entire wild population.

McGonigle says the net pens would hold only sterile females, eliminating the possibility that escapees could breed in the wild. Several other studies, including some in Devlin's lab, have shown that the genetically engineered fish aren't likely to survive well outside of captivity because they're more susceptible to disease and oblivious to predators.

"We realize we have no chance of getting approval unless we can clearly demonstrate these fish are completely sterile, and they represent no genetic threat and no behavioral threat, in terms of competition for resources," he said.

Washington's Fish and Wildlife Commission banned genetically engineered fish from marine net pens, but the state has no rules that bar them from land-based tanks or fresh water, said John Kerwin, who manages the state's hatchery program. Oregon has similar restrictions, while California bans the creatures entirely — including the fluorescent Glo Fish, a genetically engineered aquarium fish that went on sale last year.

Devlin's research for the Canadian government is attempting to unravel the possible impacts of genetically engineered food fish before they're approved.

"We're just starting to gather the kinds of laboratory information which we hope will provide us with understanding about these animals," he said.

He works with coho salmon that overproduce growth hormone as a result of genetic tinkering. Aqua Bounty's Atlantic salmon were engineered in a similar way, using genes from chinook salmon and a species called ocean pout.

In both cases, the genetically engineered fish grow much faster than ordinary fish but don't get much bigger at maturity.

At 1 year of age, Devlin's gene-engineered fish are 10 times the size of ordinary coho.

For the study reported yesterday, Devlin and his colleagues manipulated the amount of food available to the fish. When food was abundant, normal and genetically modified fish coexisted well. It was only when

food was scarce that competition turned deadly for the normal fish.

While populations made up only of normal fish were able to ride out food shortages, mixed populations invariably crashed.

But the experiments also revealed another wrinkle: Populations made up of only genetically engineered fish also crashed when food supplies were low.

Does that mean transgenic fish might pose little risk if they escaped into the environment because they would die out when food supplies drop?

It's possible, Devlin said.

"If you had a small population, where the fish couldn't migrate out of the area, transgenic fish might eat themselves out of house and home and there would be no risks," he said.

But on the other hand, if numbers boomed when food was plentiful, the bioengineered fish could devastate normal fish in the cutthroat competition that would ensue.

McGonigle says he hopes to have an FDA ruling within the next two years, but the target date has been pushed back repeatedly.

Because of regulations to protect businesses, the agency's evaluation process is largely secret, leading critics to call for a new system that is open and gives more authority to environmental and wildlife agencies.

"FDA has absolutely no experience with these kinds of issues," said Gurian-Sherman, the Center for Food Safety scientist. "And we know nothing about what they're doing."

Sandi Doughton: 206-464-2491 or sdoughton@seattletimes.com

GLOBEANDMAIL.COM

Print this Page

Both sides in fight over genetically modified fish are hoping this big one does not get away

By MARK HUME

UPDATED AT 2:21 PM EST

Friday, Dec 10, 2004

VANCOUVER -- They are swimming lazily in a few fish tanks right now, but Atlantic salmon that were developed in Canada may soon be the focus of the next big fight over genetically modified food.

To critics, the salmon designed to grow up to six times as fast as ordinary farmed salmon, are freaks of nature -- Frankenfish that shouldn't be allowed out of the lab.

Proponents say they're a remarkable creation that will help feed an increasingly hungry world and can reduce the environmental impact of fish farming by producing bigger fish, in less time, with less food.

"There's no question that this is the way things will go . . . this is the way salmon and many other fish will be grown in the future," Joseph McGonigle, the vice-president of Aqua Bounty Technologies, said yesterday.

His company, which has offices in the United States and Canada, has developed a fish that has trademark protection. Aqua Bounty has applied to the U.S. Food and Drug Administration for approval to market the salmon and is preparing to make a similar application in Canada, perhaps next year.

The first genetically modified fish approved in North America appeared on the market last year. The GloFishtm, a pet that glows in the dark, was cleared for sale in the United States with little opposition. Some shipments were made to Canada but have stopped pending a review by Environment Canada.

But the AquAdvantage salmon is a more complicated product; it is meant for human consumption, and it could survive in the wild.

"If these salmon get into fish farms, it will only be a matter of time before they get out," the Sierra Club's Vicky Husband said. "All you need is to have one escape and then they are interbreeding with the wild populations. It's horrific. We say absolutely no way to these fish."

Theresa Rothenbush of the Raincoast Conservation Society, said "consumers would be in shock if this fish was to ever get to market."

Mr. McGonigle said much of the criticism he hears is unfair and the Frankenfish label makes him bristle. "It's just silly. This is professional spin-doctoring going on."

AquAdvantage salmon are like any other Atlantic salmon, except for the genetic change that allows them to grow more rapidly, he said.

Has he ever eaten one?

"I have. I've had them smoked. They are absolutely indistinguishable from any other farmed fish. . . . They are perfectly good-looking fish. I mean they are normal."

The AquAdvantage salmon were developed by Canadian scientists trying to help farmed Atlantic salmon survive winter. Those experiments, which involved introducing fish anti-freeze protein genes into Atlantic salmon from flounders, led to a growth breakthrough when genes from Chinook salmon (a Pacific species) and pout (a type of cod) were introduced.

In the early stages of life, the AquAdvantage salmon grow four to six times as fast as unaltered fish. They then slow down and approach the normal rate of growth. The early growth spurt could allow fish farmers to get fish to market size in 18 months rather than 36 months.

AquAdvantage salmon are found only in experimental fish tanks in the company hatchery in Prince Edward Island and at Memorial University in Newfoundland. A similar type of genetically modified salmon is also under study in a federal government lab in Vancouver.

washingtonpost.com

Salmon Spawn Rainbow Trout

Scientists in Japan have engineered Asian salmon to produce the eggs and sperm of North American trout, an unprecedented bit of reproductive manipulation that may someday allow researchers to recruit common critters to replenish dwindling endangered species.

The team dissected newly hatched embryos of rainbow trout and removed small batches of "primordial germ cells." Those eventually become eggs or sperm in response to signals they receive from the developing fish.

The researchers, from the Tokyo University of Marine Science and Technology, injected those germ cells into newly hatched Pacific salmon embryos. Some of the cells made their way into the developing ovaries and testes of the recipient salmon, where they matured into rainbow trout eggs and sperm.

A year later, the team collected the milt – the could of sperm that make fish release into the water at maturity – of one of those salmon and mixed it with trout eggs. The result was a crop of purebred baby trout, sired by a salmon. (That salmon also produced salmon sperm, which when mixed with trout eggs created hybrid fish that did not survive.)

Other scientists have transplanted primordial germ cells from one fly species to another and from one bird species to another, resulting in the growth of sperm and eggs of one species inside the sex organs of the other. But the new experiment, described in the Aug. 5 issue of the journal Nature, marks the first such success in fish and the first to create progeny in any species.

Rainbow trout are plentiful, but the technique could help rare species. For example, salmon take one year to become sexually mature while trout take two, suggesting endangered species may be aided through reproductive by faster-breeding species.

-- Rick Weiss

Southeast Alaska Fishermen's Alliance
9369 North Douglas Highway
Juneau, AK 99801

Phone 907-586-6652 Fax 907-523-1168 E-mail: seafa@gci.net

January 31, 2005

Senate Labor & Commerce Committee
Senator Con Bunde, Chair
Alaska State Legislature, State Capitol
Juneau, AK 99801-1182

RE: Support for SB 25

The Southeast Alaska Fishermen's Alliance supports SB 25, which would require genetically modified fish or fish products to be labeled. The Joint Legislative Salmon Industry Task Force offered unanimous support for this legislation last year although it failed to make it through the process.

It is important that Alaska have this type of labeling law in place prior to the advent of genetically modified fish or fish products make it into the marketplace. Aqua Bounty has already applied to the United States FDA and Canadian officials for the permits to grow genetically modified fish in fish farms. By being proactive on labeling requirements you help differentiation between genetically altered fish or fish products and our natural wild Alaskan fish in the marketplace. This allows us the use of an important marketing tool.

The Southeast Alaska Fishermen's Alliance is a non-profit membership organization located in Juneau representing our members involved in salmon, crab, shrimp and longline fisheries of Southeast Alaska.

Respectfully,

Kathy Hansen
Executive Director

THE CENTER FOR
FOOD SAFETY

660 PENNSYLVANIA AVE., SE, SUITE 302, WASHINGTON, DC 20003
(202) 547-9359 ⊃ FAX (202) 547-9429
1009 GENERAL KENNEDY AVE., #2, SAN FRANCISCO, CA 94129
(415) 561-2524 ⊃ FAX (415) 561-7651
WWW.CENTERFORFOODSAFETY.ORG

January 31, 2005

Senator Kim Elton
State Capitol, Room 115
Juneau, AK 99801-1182

Dear Senator Elton:

The Center for Food Safety is pleased to endorse Senate Bill No. 25 and your efforts for a mandatory labeling requirement to identify genetically engineered (GE) fish and shellfish. Because GE fish are being developed for commercial use, the potential release into the environment and the use of these fish as food is imminent. Therefore, Senate Bill No. 25 would give Alaskan consumers the right-to know whether their seafood is genetically altered.

GE fish present a host of serious risks to humans and the environment. Human health effects include the potential for toxicity, allergenicity, and antibiotic resistance. As for the environmental impacts, the risk of biological contamination from GE fish is particularly acute, since GE fish may be raised in net pens from which they can easily escape and breed with native strains. The harm of such interbreeding would be severe. A Purdue University study concluded that the release of GE fish could cause the extinction of an entire fish species in a matter of a few generations. The National Academy of Sciences also issued a report warning that GE fish that escape could wreck havoc on the environment.

Despite these potentially irreversible human health and environmental risks, there is a profoundly disturbing lack of federal regulation of marine biotechnology. As such, we applaud your leadership on this issue and hope the Alaskan legislature can step into the void by ensuring that consumers are aware of genetically engineered seafood products through a mandatory labeling requirement.

Sincerely,

Tracie Letterman

Tracie Letterman
Fish Program Director

United Southeast Alaska Gillnetters
P.O. Box 23378, Ketchikan, AK 99901 Phone & Fax (907) 247 2471 Email: usag_gillnetters@att.net

January 29, 2005

The Honorable Gary Stevens
The State Senate
State Capitol, Room 103
Juneau, Alaska 99801 Send Via Fax to: 465-3517

Dear Senator Stevens,

The United Southeast Alaska Gillnetters (USAG) is an association of about 150 small business owners who catch salmon by drift gillnetting in Southeast Alaska and market salmon throughout the United States. Many of our members also participate in other fisheries such as crab, shrimp, longline, and dive fisheries. USAG strongly supports SB 25 which requires the labeling of genetically modified (GM) fish and fish products sold in the State of Alaska. We believe the Alaskan consumer wants to know and has the right to know if the fish and seafood products they are considering buying for their families have been genetically modified. This is in part a marketing issue as we believe that Alaska wild-caught seafood is the best and most healthy in the world and the Alaska consumer will choose it over a genetically modified product if they are given that information about the respective products. More than that, some GM fish may have attributes that allow those fish to be raised and brought to market at a price point with which quality wild fish cannot compete. If these GM fish are not labeled, the cost conscious consumer may choose the GM product on the basis of price, whereas if that consumer knew it was a GM product, they may not purchase it.

Thank you for introducing this legislation and for your continuing support for our seafood industry.

Yours truly,

Kenneth Duckett
Executive Director

cc: Senator Elton Via Fax to: 465-2108
Senator Bunde, Chair Senate Labor & Commerce Via Fax to: 465-3871

Senate Resources February 23, 2005

SB 25 Packet - materials

- Sponsor Statement (1 page)\
- Bill (4 pages)
- Fiscal Note DEC (1 page)
- Fiscal Note LAW (1 page)
- Support Letter - Center for Food Safety (1 page)
- Support Letter - United SE Alaska Gillnetters (1 page)
- Support Letter – SE AK Fisherman's Alliance (1 page)
- Seattle Times Article (3 pages)
- Washington Post Article (1 page)
- Globeandmail Article (2 pages)
- CARTOON (1 page)

Alaska State Legislature

Senator Kim Elton
State Capitol, Room 115
Juneau, Alaska 99801-1182
465-4947 phone • 465-2108 fax

Senator Gary Stevens
State Capitol, Room 103
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SB 25
Sponsor Statement

"An Act relating to labeling and identification of genetically modified fish and fish products."

Transgenic foods are those in which the genetic structure has been altered at the molecular level by means that are not possible under natural conditions or processes. There has been widespread concern throughout the world over the largely unknown effects of transgenic, or genetically modified (GM) products on human and environmental health.

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The message that Alaska seafood is more natural than seafood that has been engineered or bred is a highly important marketing tool. This bill, by requiring a differentiation between GM and wild seafood helps highlight Alaska seafood as distinct from GM seafood, thereby doing away with any vagueness that may exist to the consumer when purchasing seafood without labeling, and reinforcing the natural message.

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Currently, legislation in the European Union, Japan, New Zealand, and Australia requires labeling on foods made from, or containing GM products. SB 5 is similar to legislation introduced in other states, such as Oregon and California, and it comes with the unanimous support of the Joint Legislative Salmon Industry Task Force, a committee comprised of legislators, seafood harvesters and seafood processors.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 25
(S) Publish Date: 2/9/05

Revision Date/Time (Note if correction):
Dept. Affected: Environmental Conservation
Title: Genetically modified fish
RDU: Environmental Health
Component: Food Safety and Sanitation
Sponsor: Senator Elton
Requester: (S) Labor & Commerce
Component No.: 2343

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type--Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2005) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: *(Attach a separate page if necessary)*

Under current federal rules, genetically modified fish and fish products cannot be used or sold in the United States. Under the current FDA rules, this bill will have no fiscal impact on the department. Should the FDA allow the sale and use of genetically modified fish and fish products in the future, increased inspection and compliance resources will be required to comply with the provision of this bill.

Prepared by: Kristin Ryan, Director
Phone: (907) 269-7644
Division: Environmental Health
Date/Time: 1/28/05 4:04 PM
Approved by: Kurt Fredriksson
Date:
Agency: Department of Environmental Conservation

(Revised 12/2003 OMB)

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 25
(S) Publish Date: 2/9/05

Revision Date/Time (Note if correction):
Dept. Affected: LAW
Title "An Act relating to labeling and identification of genetically modified fish and fish products."
RDU CIVIL
Component Environmental
Sponsor Senator Elton
Requester Senate Resources Committee
Component No.

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2005) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill amends the Alaska Food, Drug, and Cosmetic Act, AS 17.20.040 by adding genetically modified fish or fish product to the list of misbranded food, unless conspicuously labeled or identified as such. Legislation at the federal level already prohibits the sale of any genetically modified foods.

Passage of this legislation will have no fiscal impact on the Department of Law.

Prepared by: Kathryn Daughhetee, Director
Phone 465-3673
Division Administrative Services Division
Date/Time 2/2/05 3:07 PM
Approved by: Kathryn Daughhetee for Gregg D. Renkes, Attorney General
Date 2/2/2005
Agency Department of Law

(Revised 9/23/2004 OMB)

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24-LS0290\\.1
Craver
1/19/05

AMENDMENT

OFFERED IN THE SENATE BY SENATOR THERRIAULT

TO: SB 32

Page 1, line 1:

Delete "**regulated**"

Page 2, line 17, following "if":

Insert "(1)"

Page 2, line 18, following "AS 42.05":

Insert "; or

(2) the utility is owned and operated by a political subdivision of the state that is a municipality"

ALASKA STATE LEGISLATURE

SENATOR
Gene Therriault
119 N. Cushman Suite 101
Fairbanks, Alaska 99701
(907) 488-0857
FAX (907) 488-4271

While in Juneau
State Capitol
Juneau, Alaska
99801-1182
(907) 465-4797
FAX (907) 465-3884

Senate
Senate District F

Senate Bill 32
Sponsor Statement

Senate Bill 36 was introduced to correct a problem that manifested itself when the sale of the Fairbanks Municipal Water System unintentionally disenfranchised all Fairbanks water utility consumers.

The State of Alaska provides a water system grant program specifically to keep water utility rates affordable. The program is authorized through AS 46.03.030, and available funds are accessed through grant applications. However, because of changing patterns of ownership, not all state regulated public utilities under the RCA (Regulatory Commission of Alaska) are now eligible for these state grants.

The Fairbanks water utility became ineligible to apply for these grants when it was sold to a private entity. SB 32 amend current law to accommodate the growing trend of publicly regulated, privately owned utility systems while remaining consistent with the laws original intent of keeping safe water affordable to the public.

With the changes to AS 46.03.030 made in SB 32, all public utilities subject to the burdens and associated costs imposed by state RCA regulations will now be eligible to apply for the grants as currently established under AS 46.03.030.

24-LS0290\A.1
Craver
1/19/05

AMENDMENT

OFFERED IN THE SENATE BY SENATOR THERRIAULT

TO: SB 32

Page 1, line 1:

Delete "**regulated**"

Page 2, line 17, following "if":

Insert "(1)"

Page 2, line 18, following "AS 42.05":

Insert "; or

(2) the utility is owned and operated by a political subdivision of the state that is a municipality"

SB

50

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SB 50
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Revenue
Title: An Act relating to the oil and gas properties production (severance) tax
RDU: Revenue Operations
Component: Tax Division
Sponsor: French
Requester: Senate Resources
Component No.

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	20.3	20.3	20.3	20.3	20.3	20.3
Travel	2.0	2.0	2.0	2.0	2.0	2.0
Contractual	50.0	0.6	0.6	0.6	0.6	0.6
Supplies	0.3	0.3	0.3	0.3	0.3	0.3
Equipment	2.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**74.5**	**23.1**	**23.1**	**23.1**	**23.1**	**23.1**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	•	•	•	•	•	•

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	74.5	23.1	23.1	23.1	23.1	23.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**74.5**	**23.1**	**23.1**	**23.1**	**23.1**	**23.1**

Estimate of any current year (FY2005) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill would amend the oil and gas production tax by changing the effective tax rate on North Slope oil production other than for heavy oil. With the exception of the tax rate for heavy oil, a minimum effective rate of 5% and a maximum effective rate of 25% would be established. To determine the effective tax rate, a price adjustment would be added to the current law that would increase the effective rate when prices are above $20 per barrel and lower the effective rate when oil prices are below $16 per barrel. The formula for the adjustment is Prevailing Value/20 for prices above $20 or Prevailing Value/16 for prices below $16. No price adjustment would be made for prices equal to $16 per barrel or equal to or less than $20 per barrel. The 20 or 16 would be annually revised to reflect inflation. Heavy oil production, defined here as oil that has an assay of 20 degrees API or less, would not be subject to either the 5% minimum or the price adjustment. There are adjustments for prices below $10 per barrel. Since monthly oil prices have only averaged less than $10 per barrel twice in the last 25 years we have not analyzed this provision.

Prepared by: Dan Dickinson, Michael Williams and Phyllis Rogers — Phone 269-1033
Division: Tax Division — Date/Time
Approved by: Tom Boutin, Deputy Commissioner — Date 3/17/2005
Agency: Department of Revenue

(Revised 9/23/2004 OMB)

FISCAL NOTE

STATE OF ALASKA **BILL NO.** SB 50
2005 LEGISLATIVE SESSION

ANALYSIS CONTINUATION

Properties, excluding those defined as heavy oil, with a current ELF above the minimum will have an increased effective tax rate when prices are above $20 per barrel. Properties, excluding those defined as heavy oil, whose current ELF is below the minimum will have an increased effective tax rate at all prices. The net effect of these changes is to raise the average effective tax rate at our forecast price.

This analysis does not tax production from West Sak or Tabasco because in 2004 both those fields had gravities below 20 degrees API. Other fields such as Schrader Bluff, Orion and Polaris have gravities close to 20 degrees API and as production increases may see their average gravities falling below 20 degrees API thus yielding tax free production.

This bill specifically limits its scope to North Slope production. This means that current taxpayers will pay the balance of the revenue change. We estimate a one time IT change will be required, which we have ball parked at $50,000, and one quarter FTE for additional audit work pertinent to North Slope fields that currently pay little or no tax.

The figures below result from simply changing the ELF mechanism in our production forecast model. The ELF was designed to affect taxpayers behavior, however this analysis does not account for any change in the taxpayer's production as a consequence of changes to the ELF.

A decade from now, one quarter of the oil in our forecast comes from fields not now producing. To bring those fields on line will require billions in additional investment. It appears to us that any tax increase that does not simultaneously involve the recognition of the need to make capital investments may well imperil that investment. Quantifying that peril, especially against the background of other aspect of the investment environment is difficult. Thus we have indicated an uncertain revenue effect, showing the figures below to offer insight into the mechanics of the bill.

Revenue Sensitivity for SB 50 Changes in Oil Production Tax
(millions of $)

	Status Quo		SB50 Minimum Elf		SB50 with Price Adj		Revenue Gain		
FY	Sev Tax	Avg Elf	Sev Tax	Avg Elf	Sev Tax	Effective Elf	Min ELF to Current	Price Adj Elf to Min ELF	Price Adj to Current
2006	715.1	0.5794	823.4	0.6698	1,420.1	1.1553	108.4	596.7	705.0
2007	616.2	0.5540	720.3	0.6532	1,108.1	1.0046	104.1	387.8	492.0
2008	485.6	0.5365	573.2	0.6441	721.2	0.8114	87.7	147.9	235.6
2009	448.7	0.5224	534.5	0.6341	672.2	0.7966	85.8	137.6	223.5
2010	422.1	0.4801	521.9	0.9012	653.7	1.1361	99.8	131.8	231.6
2011	422.3	0.4998	520.4	1.0014	653.1	1.2808	98.0	132.7	230.8
2012	375.9	0.4652	477.9	0.9644	599.8	1.2501	102.0	121.9	223.9
2013	334.8	0.4224	445.7	0.8703	561.9	1.1412	110.9	116.2	227.1
2014	295.1	0.3918	410.2	0.7444	518.2	0.9832	115.1	108.0	223.1
2015	259.9	0.3608	373.5	0.6979	472.7	0.9185	113.6	99.2	212.8
2016	228.2	0.3401	333.4	0.6622	421.8	0.8706	105.2	88.4	193.6
2017	196.5	0.3202	292.9	0.6273	372.0	0.8234	96.3	79.1	175.4
2018	174.3	0.3018	262.5	0.6015	333.9	0.7903	88.2	71.4	159.6
2019	152.7	0.2843	233.0	0.5778	296.9	0.7573	80.4	63.8	144.2
2020	133.7	0.2666	208.5	0.5566	265.4	0.7275	74.8	56.8	131.6
2021	136.3	0.2920	206.5	0.5770	263.3	0.7541	70.2	56.8	127.0
2022	122.1	0.2806	188.0	0.5624	239.7	0.7333	65.9	51.7	117.6
2023	107.0	0.2626	168.4	0.5410	214.7	0.7036	61.4	46.3	107.7
2024	91.9	0.2416	151.3	0.5215	193.0	0.6765	59.5	41.6	101.1
2025	82.6	0.2327	137.1	0.5054	174.8	0.6543	54.5	37.7	92.2
2026	75.3	0.2270	125.5	0.4926	160.0	0.6366	50.2	34.5	84.7
2027	67.1	0.2155	113.4	0.4745	144.6	0.6120	46.4	31.2	77.5
2028	59.4	0.2033	102.2	0.4558	130.3	0.5868	42.9	28.1	71.0
2029	52.6	0.1917	92.3	0.4379	117.7	0.5628	39.7	25.4	65.1
2030	46.4	0.1807	83.0	0.4204	105.8	0.5395	36.5	22.8	59.4

Forecasted Prices and Production Fall 2004 DOR Forecast
Updated for aggregate Elf and CY2005 Taps refiling

SPONSOR'S PRESENTATION
3-18-05

SB 50 The Fair Share Bill

March 18, 2005
Senate Resources Committee

The 'ELF' in Alaska's Oil Taxes

- There are four main taxes that the oil industry pays:
- Royalty – 12.5%
- Property – 20 mils per dollar, or 2%.
- Corporate income – 9.4% .
- Production – 15% before ELF.

The 'ELF' in Alaska's Oil Taxes

- The 15% production, or severance tax varies because of the ELF, or economic limit factor.
- At its simplest, the ELF is a number between zero and one. Multiplying the production tax by a field's ELF lowers that field's tax burden.

The 'ELF' in Alaska's Oil Taxes

- **Kuparuk's ELF is .054 for FY 2006**
- **.054 times 15 equals .081**
- **Thus, Kuparuk pays a 0.81% production tax.**
- **Prudhoe's ELF is .8435.**
- **Prudhoe pays a 12.65% production tax.**

The 'ELF' in Alaska's Oil Taxes

- **The formula is actually quite complex:**

AS 43.55.013. Economic Limit Factor.

(b) The economic limit factor for [illegible] shall be calculated according to the following formula

(1-[PEL/TP]) exp ([150.000/(TP/Days)] exp [(460 X WD)/PEL])

where

PEL = the monthly production rate at the economic limit

TP = the total production during the month for which the tax is to be paid

WD = the total number of well days in the month for which the tax is to be paid

Days = the number of days in the month for which the tax is to be paid, and

exp = expense

The 'ELF' in Alaska's Oil Taxes

- **ELF was designed to encourage "small" field development.**
- **There are twenty fields now producing on the North Slope.**
- **Nine pay no production tax at all.**

Production Tax Revenue

- In 2003, the State took in $599 million in production taxes.
- The average price that year was $28 per barrel.
- The average ELF was .50, meaning the average production tax rate was 7.5%.

Kuparuk and its neighbors

Tarn,
Meltwater,
Tabasco,
and
West Sak

Kuparuk and its neighbors

- The Tarn field made 696,248 bbls in January 2005. Approx. 22,450 per day.
- The field has produced 65,000,000 bbls to date. It is one of the top thirty largest fields in the U.S.
- Tarn has a 0.013% ELF meaning it will pay a 0.2% production tax in 2005.
- Tarn's ELF will go to zero in 2007.

Kuparuk and its neighbors

- Tarn is produced via Kuparuk's facilities.

Kuparuk and its neighbors

- Tarn required two drill sites and three ten mile pipelines

Kuparuk and its neighbors

- The Meltwater field, also produced through Kuparuk's facilities, required only one drill site.
- In 2003, Meltwater produced 5800 bbls of oil per day and paid no production tax.
- This modest field will make the producers 2,000,000 bbls of oil this year.
- At $50 per barrel, that is $100 million.

How the "Fair Share" bill works

- Two principle reforms:
- The first simply establishes a minimum 5% production tax. All fields must pay the minimum 5%.
- In January 2004, the Dept. of Revenue estimated that this provision alone would raise $75 million at $22 per barrel.

How the "Fair Share" bill works

- The second major reform bases the ELF on the price of a barrel of oil.
- As the price rises, so does the ELF. As the price of oil falls, so does the ELF.
- The bill sets $16 to $20 oil as the norm, and allows this "range" to increase with inflation, to recognize that prices rise over time.

How the "Fair Share" bill works

- Example: At lower oil prices the production tax would be reduced. If oil goes to $12 per barrel, the formula would divide 12 by 16 to yield .75. Thus the production tax on an oil field would be reduced by 25%.

How the "Fair Share" bill works

- If oil prices fall below $10 per barrel, the bill would waive half the production tax and would defer the other half until prices rise above $16 per barrel.

How the "Fair Share" bill works

- Higher prices: At $30 oil, the new formula would divide 30 by 20 yielding 1.5.
- Thus, a field with a 10% production tax would pay an adjusted 15% production tax.
- The production tax cannot exceed 25% under the bill.

How the "Fair Share" bill works

- The bill exempts 'heavy oil' (less than 20 API gravity) from any of its measures. Heavy oil, like that contained in the West Sak reservoir, requires more expensive drilling and production measures.

How the "Fair Share" bill works

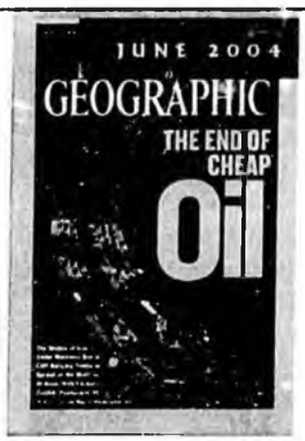
- **Finally, the bill allows taxpayers "production tax relief." If the taxpayer can demonstrate that the field would be economical but for the production tax, the Department of Revenue has the power to waive the tax for that field.**

Why Make a Change?

- **"Despite its name of Economic Limit Factor, it ignores the biggest single economic determinant, which is price."**

  -- Dan Dickenson, Director, Tax Division quoted in The Petroleum News January 11 2004.

Why Make a Change?



LEADING THE NEWS

Spike in Oil Prices Is Likely in '05

As oil prices approached a new high yesterday, industry analysts said they are anticipating price increases to more than $60 a barrel this year. Some analysts are even beginning to talk of the possibility of greater increases—to $75 or $80 a barrel—in the event of a major supply disruption, unless red hot demand for crude cool[s] in Asia and the U.S.

Wall Street Journal, March 5, 2005; p. A3

Oil Industry Profits

- ExxonMobil: Fourth quarter 2004 profits were $8.4 billion, the biggest quarterly profit ever for a U.S. company.
- BP: $4.4 billion
- ConocoPhillips: $2.4 billion
- Total quarterly profits: $15.2 billion in ninety days. $7 million per hour.

Governor Walter J. Hickel

"Crisis in the Commons: the Alaska Solution"

Governor Walter J. Hickel

- "Few world leaders are thinking about how we should care for and use the commons…for the benefit of the total."
- "Especially for the benefit of the local population…rather than for a political leader, a ruling family, an oligarch, or a group of multi-national corporations."

Governor Walter J. Hickel

- In 1909 President Roosevelt began the process of separating the ownership of land from the minerals below.
- "The Mineral Leasing Act of 1920 … recognized that the commons belonged to the public and required that income from the development of the commons must be paid to the public's government."

Governor Walter J. Hickel

- Alaska's Statehood Act was modeled on the 1920 Mineral Act. The subsurface energy resources were specifically designated to the new state.
- "We kept the resou[illegible] wealth in public hands…but we harnessed the free enterprise system to develop our wealth…all in the framework of a constitutional democracy."

Wood Mackenzie Study

- An international consulting firm says Alaska is a more profitable place to do business than the average of almost 60 oil and gas producing regions it surveyed worldwide.
- Higher than average costs, but lower than average government "take" at prices above $16 per barrel.

Wood Mackenzie Study

- At $35 per barrel, Alaska is 19th of 55, well above the median.
- At $35 per barrel, the total "take" is 58% compared to a global average of 73%.
- The difference between 58% and 73% -- 15% -- amounts to a subsidy of the oil industry.

Other Countries' Adjustments

- United Kingdom upped their minimum rate from 30 to 40 percent.
- Argentina introduced an export tax.
- Venezuela removed heavy oil royalty incentives.
- Nigeria increased its share of government profit.

Source: Petroleum News January 30, 2005

What Will the Industry Say?

- **Won't discuss the fact the bill lowers taxes at low prices.**
- **Won't discuss the fact the bill raises the "normal range" each year to account for inflation.**
- **Won't discuss the fact the bill allows for production tax relief if it is justified.**

ELF in 1989

"To the extent that production, net production, stays in the ground, the Permanent Fund is going to be a loser because the royalties that would have been collected won't be collected. The oil is still in the ground where it doesn't do anybody any good."

-- Tom Williams of British Petroleum on 2/22/89 before the House Resources Committee.

ELF in 1989

"My concern is that any additional taxes on the oil industry will have an adverse affect on the future drilling on the North Slope. This action will fundamentally impact not only the petroleum industry, but also the State's ability to encourage new economic development."

-- Morris Thompson, President, Doyon Drilling on 1/13/89 before the House Resources Committee.

ELF in 1989

"[This bill] woul l place an onerous additional tax burden on the oil industry that would remove to other states or countries funds that otherwise would be spent on additional investments in Alaska."

-- Ben Odom, Senior VP of Operations, ARCO Alaska, on 1/13/89 before the House Resources Committee.

Actual Development -- 1977

Actual Development -- 1989

Actual Development -- 1999

What Will the Industry Say?

- **"A deal is a deal."**

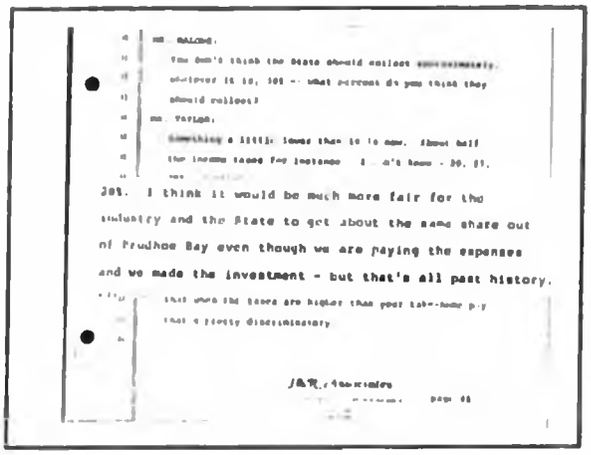
  Article IX, Section 1, Alaska State Constitution: "The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided by this article."

What Will the Industry Say?

- **"A deal is a deal."**

  In conversations between Hugh Malone and industry leaders in 1981, when the original ELF was crafted, the idea was to allow industry and the State to have equal portions of the oil revenue.

  Testimony of Greg Erickson before the House Resources Committee, February 10, 1989 at pp 24-26.



MR. MALONE:

You don't think the State should collect [illegible]. whatever it is, 10% -- what percent do you think they should collect?

MR. TAYLOR:

Something a little lower than it is now. About half the income taxes for instance. I don't know - 30, 35, [illegible]. I think it would be much more fair for the industry and the State to get about the same share out of Prudhoe Bay even though we are paying the expenses and we made the investment - but that's all past history. [illegible] that where the taxes are higher than your take-home pay that's pretty discriminatory.

[illegible] page 46

What Will the Industry Say?

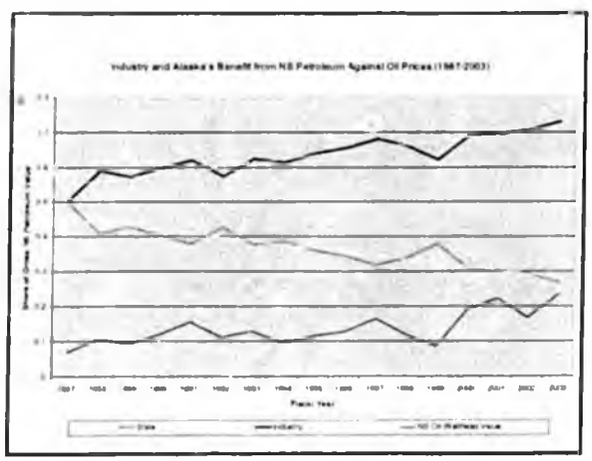
MR. MALONE:

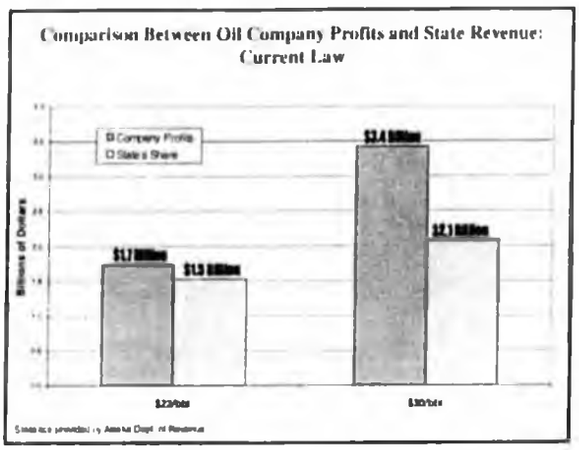
So you think it should be brought down to the point where the State and the industry get roughly equal shares in this. You like that better?

MR. TAYLOR:

Yes, sir.

Exchange between Rep. Hugh Malone and Monte Taylor, Alaska Operations Manager for Exxon





What Will the Industry Say?

- **"Tax increases will kill development"**

The real issue is the "net" effect. Increasing tax rates may decrease new investment and production, but it will also increase state revenues. The real analysis is to compare the increase in revenues with the decrease in investment.

What if we do nothing?

Production Tax Revenue

- By 2013, the average ELF will fall to .27, meaning the average production tax will fall to 4.05% (before aggregation).
- 2003: $599 million in production taxes.
- 2013: $180 million.

Production Tax Revenue

- Under this bill, the State would gain:
  an additional $90 million at $22/bbl.
  an additional $400 million at $30/bbl.
  an additional $886 million at $38/bbl.
  an additional $1.363 billion at $50/bbl.
  (with aggregation at Prudhoe).

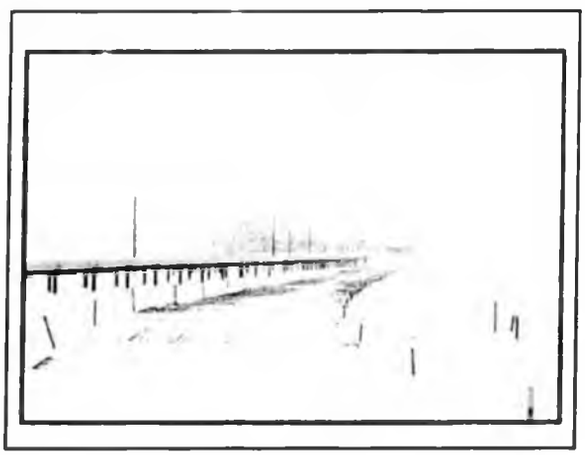
Conclusion

- The bill lowers taxes at low prices
- The bill allows the [illegible] with inflation
- The bill provides for production tax relief where it is justified.

Fair Deal!

Conclusion

- It is better to address this issue now, when there is no immediate crisis.
- It is better to take an incremental approach, rather than a wholesale "shelf the ELF" approach.
- It is better to give the oil industry certainty during the planning and design phases of the gas pipeline.



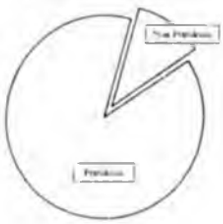
(SB 50)

AOGA Presentation
3-18-05

Alaska's Current Oil and Gas Fiscal System

Oil & Gas: Vital to Alaska

FY05 Unrestricted Revenue



"Oil revenue will provide at least 75% of forecasted Unrestricted General Purpose Revenue through FY 2014. Two elements are critical to the oil revenue forecast: price and volume."

Present System's Four Elements

	To General Fund	To "Other"
Royalty	1,043.6	485.2
Production Tax	651.9	-
Property Tax	47.3	218.7
Oil & Gas Corp. Income Tax	298.8	-
TOTAL	2,041.6	703.9
ALL OIL & GAS PAYMENTS	2,745.5	

Point No. 1

Even if ELF makes the production tax zero for a field, the field –

- **pays full royalty to the State**
- **pays full property taxes on its facilities**
- **contributes fully to the owners' income taxes**
- **increases the netback value by lowering tariffs**
- **creates Alaska jobs**

Production Tax

- **A tax on the act of producing oil, gas**
- **Tax = ELF × Base Rate × Gross Resource Value**
  - **Gross Resource Value = Netback × Taxable Volume**
  - **Base Rate: gas 10%; oil 12½% 1st 5 yr, then 15%**
  - **ELF: a field-specific number from zero to one**
    Oil ELF is based on field size and well productivity; larger fields have larger ELFs and higher tax rates, as do fields with more productive wells; smaller fields and ones with low well productivity have smaller ELFs and lower tax rates. Gas ELF is based on well productivity only

Netback Methodology

West Coast Spot Price	$25.00
Marine Transportation	(1.61)
TAPS	(3.05)
Netback at Pump Stn. 1	$20.34

Why Have an ELF?

To allow a high-rate production tax early in a typical field's life, while avoiding the adverse consequences as the field is depleted

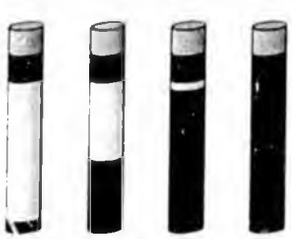
March 18, 2005 7 AOGA

The Adverse Consequences of a High Rate

"As operating costs rise during the life of the field, the profit margin shrinks. At some point the total production costs overtake the value of the oil or gas produced, and production can then be continued only by operating at a loss. As one of the costs of doing business, the production tax contributes to the total costs and tends to hasten the time when this break-even point (called the economic limit) is reached."

March 18, 2005 8 AOGA

The Adverse Consequences of a High Rate



March 15, 2005 9 AOGA

Producers' Responses to the "Squeeze"

- "Do nothing" stage
- "Drive for efficiency" stage
- "Harvest" stage
- "Running in the red" stage

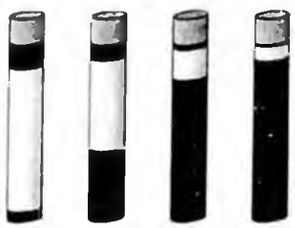
"[T]he Department of Revenue recommends an Economic Limit Factor (ELF), based on the ratio of the rate at the true economic limit to the current production, as a mechanism for scaling down the tax rate as the production declines toward the economic limit."

[illegible]

$\left(1-\frac{PEL}{TP}\right)$ *PEL* = Production at Economic Limit

TP = Total Production in tax period

How ELF Avoided the Adverse Consequences



Point No. 2

ELF was enacted in 1977 over industry's strenuous objections

- **Why object? ELF allowed effective tax rate for Prudhoe Bay to be increased to ~11.7% from ~7.8%**

How the Oil ELF was Changed in 1989

1977 formula was driven by "well productivity"

1989 added "field size" (total daily production) to the formula

- **Larger fields have larger ELFs, higher tax rates**
- **Smaller fields have smaller ELFs, lower tax rates**
- **"Field size" is the dominant factor in the formula**

Reasons Given in 1989 for the ELF Change

1. **To get more revenue**

Reasons Given in 1989 for the ELF Change

2. To give an incentive for small fields

"Marginal fields are fields with either relatively low per well productivity or relatively low daily production."

[illegible]

Reasons Given in 1989 for the ELF Change

3. To give an incentive for West Sak viscous oil

"[T]he new ELF will increase drilling production and employment at the truly marginal fields … and, let's hope someday, West Sak …. In those fields the severance tax, under HB 118, will either be sharply reduced or eliminated entirely. That's a pro-development impact on those fields."

[illegible]

Reasons Given in 1989 for the ELF Change

4. Prudhoe Bay & Kuparuk could afford it

What legislators were told the change would do

1. Reduce rates for all fields except Prudhoe Bay & Kuparuk

"[For] marginal fields, …the severance tax, under HB 118, will either be sharply reduced or eliminated entirely."

[illegible]

"In Alaska the marginal fields are the six Cook Inlet fields … [and] Milne Point, Lisburne, Endicott, Niakuk, West Sak, Point Thomson, Seal Island, and probably any other field that will be discovered in Alaska."

[illegible]

What legislators were told the change would do

2. Tax rates for some fields could go to zero under the new ELF that weren't zero under the old ELF

"[For] marginal fields, …the severance tax, under HB 118, will either be sharply reduced or eliminated entirely."

[illegible]

What legislators were told the change would do

3. Smaller fields pay less tax even with the same well productivity as larger fields

What legislators were told the change would do

4. State revenue gains from changing the ELF

- **Projected cumulative effect through FY2010**

Prudhoe Bay	$2.500 billion
Kuparuk	0.391 billion
All others	(0.200 billion)
Net	$2.691 billion

Point No. 3

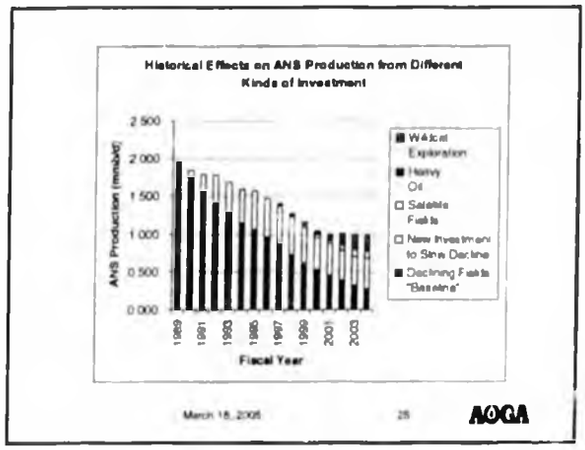
The 1989 ELF change has worked exactly the way legislators were told it would work

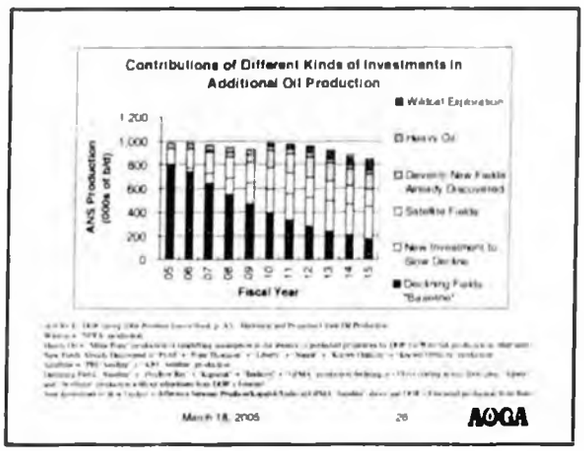
- **Prudhoe & Kuparuk still have higher production tax**
- **Some fields don't pay production tax**
- **Small fields pay less even with same well productivity**
- **State already is over $2.7 billion ahead (net)**

Point No. 4

1989 ELF change was enacted over industry's strenuous objections

- **Why? Major tax increase for Prudhoe Bay & Kuparuk**





Point No. 5

More investment is <u>CRUCIAL</u>

Different kinds of oil investment have different economic profiles

A given tax change promises to impact different classes of oil investment differently

Any change must be carefully examined for "unintended consequences"

March 18, 2005 27 AOGA

What the Governor's ELF Decision Did

Lumped 6 smaller fields within the Prudhoe Bay Unit with the main Prudhoe Bay Field (aggregation)

Because of the "field size" component of the ELF formula, aggregating the fields increased the ELF and tax rate for all of them

Two of the 6 fields aggregated with the main Prudhoe Bay field are West Sak viscous oil

Recent Legislative Proposals – HB63/SB50

AOGA Opposes Passage of HB63/SB50

- Industry views these proposals as a structural tax increase at all price levels except extremely low ones
- Imposes a 27.5% structural tax increase at DOR's expected $25.50 price
- Raises the maximum tax rate by 67% (from 15% to 25%)
- 5% minimum imposes a heavy burden on satellite development
- Fails to protect significant amounts of viscous oil (West Sak)
- Proposed without analysis of the consequences for investments
- Makes Alaska less competitive

Senate Resources **March 18, 2005**

SB 50 Materials List

- Sponsor Statement – 2 pages
- Sectional Analysis – 2 pages
- SB 50 – 8 pages
- ***Power Point Presentation – 50 pages (not included in committee members materials packet - color version will be supplied Thursday afternoon).***
- Materials used with PPP – 32 pages
  NOTE: There is a hand-written number on these materials – it is the order in which the sponsor will refer to them during the PPP.
- Excerpts from Transcripts:
  - 1981: Oil & Gas Pipeline Committee: 32 pages
  - 2-10-89: House Resources Committee: 29 pages
  - 2-11-89: House Resources Committee: 30 pages

ALASKA STATE LEGISLATURE

SENATOR HOLLIS FRENCH

SPONSOR STATEMENT

SB 50– Alaska Fair Share Bill

Under the Alaska Constitution, the State is charged with ensuring that our natural resources are used "for the maximum benefit of the people." In terms of dollar value, oil is indisputably our most valuable natural resource. It is imperative, therefore, that state government ensure that Alaskans receive a fair share of the revenue from this public resource. It is also important that a fair share of the resource be provided to the companies that have contracted with the State to produce and sell Alaska's oil.

The production tax, sometimes called a severance tax, is a major part of the State's oil and gas tax structure. The production tax, like most taxes, is calculated by using a complicated formula. In general, the tax rate is set at 15 percent of the net production value. Unfortunately, however, few producers are required to pay the full 15 percent, and revenue from the production tax is decreasing every year.

Producers are required to only pay a portion of the production tax because of the ELF (Economic Limit Factor). Under the ELF formula, smaller fields are partially or wholly exempt from the production tax, and larger fields see their production tax rate drop every year. Of the twenty producing fields on the North Slope, twelve pay no production tax at all. Several of the larger fields – including Kuparuk, which is producing over 100,000 barrels of oil per day -- pay less than 3 percent in production tax. Eleven of the last fourteen North Slope oilfields that have come into production since 1989 pay no production tax, or almost none (less than 1%).

That exemption applies whether oil is at $10/barrel, and profit margins are low, or at $30, $40, or $50/barrel, when corporate profit margins balloon. At $20/barrel, profit margins are high enough that BP announced last year it would use excess

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Senator_Hollis_French@legis.state.ak.us

profits at that price, and above, to send increased dividends to shareholders and to engage in a corporate stock buy-back program.

The Alaska Fair Share bill will make two adjustments to the state's production tax on oil. The first adjustment is simple: it would require all producing fields to pay a minimum 5 percent production tax. This provision alone would raise $75 million in state revenue at an oil price of $22 per barrel.

The second adjustment is more substantive. It would tie the production tax rate to the price of oil. The bill sets a 'normal' price range of $16 to $20 per barrel. Within that range, no adjustment would be made to the production tax rate. However, outside that range, the bill would allow the production tax rate to go up as prices go up and, to be fair, to go down as oil prices go down.

If no adjustments to the production tax structure are made, the State's return from this tax will diminish rapidly over time. For example, in 2003, the State earned $599 million in production taxes. Looking ahead, the Department of Revenue estimates that the State's production tax receipts will drop to $180 million in 2013.

The current severance tax law also gives the producers an unfair share of the state's oil wealth at average and high oil prices. As prices increase, the state's relative profit share falls. Conversely, state taxes are arguably too high at very low prices. The imbalance in favor of industry at high prices is much greater than the imbalance in favor of the state at low prices.

The Fair Share Bill is not a so-called "Shelf the ELF" proposal, which seeks to impose a flat 15 percent tax on all fields, at all prices. This bill recognizes that smaller and older fields should receive some tax relief under the ELF . However, it provides for a modestly higher production tax at higher oil prices, and a lower production tax at lower prices.

Please join me in making a revision to our production tax structure. Let's be sure that Alaska gets its fair share of our most valuable natural resource.

February 16, 2005

ALASKA STATE LEGISLATURE

SENATOR HOLLIS FRENCH

SECTIONAL ANALYSIS

SB 50 -- Alaska Fair Share Bill

Section 1 Amends definition sections regarding tax relief appeals filed with the Department of Revenue.

Sections 2-4 5% minimum production tax in most cases. This provision seeks to remove a current exemption that lets most new oil fields pay less than 1% in production taxes. While not all fields can pay Alaska's full 15% production tax, the state should at least set the minimum tax at 5% (to be reduced at low prices see below). Under provisions of Section 5, companies can apply for an exemption from this minimum tax if they can show it is necessary.

Taken together, these sections establish a minimum production tax rate. Currently the production tax is 15%, reduced by the ELF. In most recent cases, the ELF has reduced the production tax rate to 1% or less. Sections 2 - 4 set a field's production tax rate at the current rate, as determined by the ELF, but prevent the ELF-adjusted production tax from falling below 5%, except in certain circumstances when prices fall below $16/barrel.

Section 5 Increases to production tax when oil is above $20/barrel. Decreases to production tax when oil is between $16 and $10/barrel. Deferral and waiver of taxes when oil is below $10/barrel. This provision aims to make the current tax code more progressive, so that at low prices oil companies are protected from high taxes and at high prices the State of Alaska may share fairly in high oil company profits.

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Senator_Hollis_French@legis.state.ak.us

Enhanced tax factor above $20/barrel. Above $20/barrel, the severance tax rate is multiplied by the average monthly price of oil (West Coast price) divided by 20. Thus, at $20/barrel, the severance tax is multiplied by 20/20 -- "1" -- and is left unchanged. At $30/barrel, the severance tax is multiplied by 30/20 -- "1.5." In that case, a field with a 5% base production tax will pay 5% times 1.5, or 7.5%. The production tax will never exceed 25%.

Reduced tax factor below $16/barrel. Below $16/barrel, the production tax rate is reduced by the price divided by 16. Thus, at $12/barrel, the rate on a field with a 5% base production tax would be 12/16 -- ".75" -- times 5%, or 3.75 %.

Reduced taxes below $10/barrel. Below $10/barrel, one half of a field's production tax will be waived, and one half will be deferred until a month when prices average above $16/barrel.

Heavy oil exempted. "Heavy oil" is more expensive to produce than normal crude oil. Many believe the future of oil production will rely largely upon the production of heavy oil. The bill exempts heavy oil from the new enhanced tax provisions. It may be determined during hearings that a minimum tax should also be set for heavy oil, but that would have to be shown by testimony.

Reduction in tax. Provides a process for companies to seek a reduction in the production tax through an application to the Department of Revenue. The Alaska Fair Share Bill provides that any enhanced taxes under the bill may be waived if a company shows that tax relief is needed to make new or continued production at a field "economically feasible." This is modeled on Alaska's existing "royalty relief" law, and uses the same standards and process.

Section 6: This section provides a conforming amendment to existing law to include new provisions in this bill.

adn.com
Anchorage Daily News

Oil producers profit more in Alaska

CONFIDENTIAL STUDY: Operating costs are high, but small tax bite makes up for it.

By LARRY PERSILY
Anchorage Daily News

(Published: February 2, 2005)

JUNEAU -- An international consulting firm says Alaska is a more profitable place to do business than the average of almost 60 oil and gas producing regions it surveyed worldwide.

The analysis, however, looks only at oil and gas fields where development started between 1994 and 2003, producing a limited view of overall North Slope costs and government tax bites compared with other projects started during that same period.

Legislators on Tuesday released two pages of data excerpted from the competitiveness study by Wood Mackenzie Ltd. The firm, based in Edinburgh, Scotland, late last year completed its report, "Global Oil and Gas: Risks and Rewards 2004."

The state paid $50,000 to subscribe to the report, but Wood Mackenzie's confidentiality requirements prevent the Legislature from releasing the entire 2-inch-thick document.

numbers show Alaska oil and gas projects started during the 10-year period were among the costliest worldwide for development capital and operating expenses.

The oil and gas industry often makes the case that Alaska is an expensive place to do business because of its remoteness and Arctic conditions, and the Wood Mackenzie report appears to verify that claim. It shows Alaska ranked as the 52nd most expensive region out of 58 in the survey for development and operating costs.

Alaska averaged almost $10 per barrel in those costs, compared to the worldwide average of close to $6.

But Alaska producers fare much better when it comes to paying taxes and royalties, the report said. The total government tax bite in Alaska -- federal, state and municipal taxes and royalties -- is lower than two-thirds of the comparison regions.

Wood Mackenzie's analysis also shows the tax and royalty take in Alaska falls as a percentage of total net revenue when oil prices rise, verifying what proponents of higher oil taxes have long argued -- that the state is taking a smaller share of oil revenue at high prices.

The total government take after oil company expenses over the life of the field is about 71 percent on a worldwide average, the report said, regardless whether the price of a barrel of oil is $16, $22 or $35. In Alaska, however, the government share of the net is about 71 percent at $16 oil, 64 percent at $22 and 58 percent at $35, according to the survey.

Producer return on their investment in projects between 1994 and 2003 were three percentage points higher in Alaska than worldwide at $16 oil and six percentage points higher at $35 oil, Wood Mackenzie reported.

'This does not surprise me," said Dan Dickinson, director of the state Tax Division. "By definition, we are a regressive system," taking a smaller percentage of total revenue when prices are high.

Gov. Frank Murkowski has asked lawmakers to review the state's oil tax structure, particularly to look at the state's share when prices are high, but he has not committed himself to backing any specific change in tax law. The state did, however, raise the tax rate administratively on almost half of North Slope production as of Tuesday.

The information released Tuesday is limited and does not include all of the data that went into ranking the regions. Alaska is the only state surveyed for the report, which included federal leases in the Gulf of Mexico, two areas of Canada, and more than 50 foreign nations.

Although the company bars subscribers from publicly releasing the full report, the Legislative Budget and Audit Committee negotiated for release of some of the Alaska-specific numbers, said Committee Chairman Sen. Gene Therriault, R-North Pole.

Legislators are required to sign confidentiality agreements to read the entire report. As of Tuesday, six had signed agreements.

The committee, meanwhile, has contracted with Chuck Logsdon, who retired last fall after more than two decades as the state's chief petroleum economist, to review and verify the report and summarize its relevance for Alaska.

Logsdon's work likely will not be released to the public, Therriault said, under the same rules that govern the report itself.

"This could be the one glimpse under the covers the public gets," Therriault said of the two pages released Tuesday.

"It's tough to start changing policies based on these six graphs," Rep. Ralph Samuels, R-Anchorage, said of the short summary. Samuels, vice chairman of the Legislative Budget and Audit Committee, said he wants to wait for Logsdon's analysis before judging the state's oil and gas tax structure.

"Your best test for competitiveness is looking out the window," said Judy Brady, executive director of the Alaska Oil and Gas Association. The list of companies willing to invest big money in North Slope projects or the companies that have left the state is a good indication of Alaska's competitive position, she said.

The association, which also subscribed to the Wood Mackenzie report, will undertake its own analysis of the study, Brady said.

Reporter Larry Persily can be contacted at lpersily@adn.com or at 1-907-523-9306.

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Sen. Hollis French

From: Sen. Ben Stevens
Sent: Monday, March 07, 2005 3:26 PM
To: Sen. Hollis French
Subject: FW: *****SPAM*****

The article I referenced today.

Oil's Run Is Likely to Keep Fast Clip

Price May Top $60 or More
If Supplies Are Disrupted
And Demand Fails to Cool

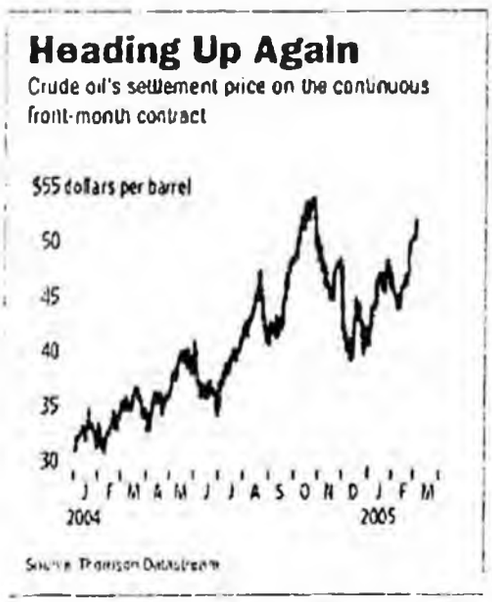
By BHUSHAN BAHREE
Staff Reporter of THE WALL STREET JOURNAL
March 4, 2005; Page A3

The big oil-price spike of 2004 looks increasingly likely to get a sequel.

As oil prices approached a new high yesterday, industry analysts said they are anticipating price increases to more than $60 a barrel this year. Some analysts are even beginning to talk of the possibility of greater increases -- to $75 or $80 a barrel -- in the event of a major supply disruption, unless red-hot demand for crude cools in Asia and the U.S.

Unlike last year, when rising prices sparked protests in the U.S. and elsewhere, opposition to the increase ha become quieter as businesses and consumers have become accustomed to more expensive oil.

Yesterday, the acting secretary general of the Organization of Petroleum Exporting Countries, Adnan Shihab Eldin, acknowledged in remarks to journalists the possibility of prices rising to greater levels if supplies are disrupted, suggesting the cartel believes it has a limited ability to curb world oil prices. Talk of a renewal of la year's run-up in prices comes as OPEC's energy ministers prepare to meet in Iran on March 16. While they could raise production quotas, OPEC already is pumping close to capacity.



U.S. benchmark oil shot above the previous settlement high of $55.17 a barrel in intraday trading on the New York Mercantile Exchange yesterday before retreating. Futures for April delivery settled at $53.57 a barrel, up 52 cents, after hitting as high as $55.20. On an inflation-adjusted basis, oil is still well below highs of about $90 reached in the early 1980s.

Like last year, growing world demand -- particularly from the U.S. and China -- underlies much of the price increase. The continued weaknes of the dollar also has set the stage for increases, because oil is priced in dollars around the globe, and a weaker dollar means less revenue per barrel for oil producers.

The current surge in prices also comes amid realizations by OPEC nations and oil traders that higher prices have had a limited impact on world economic growth. While costlier energy has been a significant drag on relatively weak economies such as Japan and Germany, higher prices haven't been enough to derail recoveries in the U.S.,

Most major oil companies have been struggling with sluggish or declining production, faced with maturing oilfields in regions like the U.S. Gulf of Mexico and lack of access to regions that house some of the world's largest reserves.

An Exxon executive said on a conference call the company was not among the winners when Libya on Saturday awarded its first exploration contracts to U.S. companies in 18 years. U.S. oil majors are eager to reenter Libya after U.S. sanctions were eased last year.

ChevronTexaco Corp. (CVX.N), the No. 2 U.S. oil company, bid successfully on one onshore block in Libya. ChevronTexaco on Friday reported that quarterly profit nearly doubled, also on the back of record oil and gas prices.

Exxon shares were up 38 cents, or less than 1 percent, to $51.65 in afternoon trading on the New York Stock Exchange.

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North America's Source for Oil and Gas News
January 2004

Vol. 9, No. 2 Week of January 11, 2004

Alaska's tax formula an ongoing debate

State's average crude oil production tax rate continues to decline due to the Economic Limit Factor formula adopted in 1989

Larry Persily

Petroleum News Juneau Correspondent

The holiday season is over, but at least one ELF is still working in Alaska.

The ELF, or Economic Limit Factor, is a formula in state statute that reduces a field's oil and gas production tax rates based on the average daily total production and average per-well production from a reservoir.

The current formula, adopted by the Legislature in 1989, was intended as an incentive for producers to keep pumping — and investing — in older, declining fields. The 1989 amendment looked ahead to declining production at the giant Prudhoe Bay field and boosted short-term tax revenues to the state in exchange for cutting the rate in later years of the field's productive life.

Meanwhile, smaller and newer fields, even with their higher per-well productivity, benefit from the ELF formula, too, because their total daily production from all wells gives them a low tax rate — or no taxes at all in many cases.

No field in Alaska pays the full rate

Alaska's full production tax rate is 15 percent of the wellhead value of the oil, but there isn't a single field in Alaska paying the full rate. The ELF formula assigns each field a value between 0.0 and 1.0, which is then multiplied against the 15 percent rate to determine the field's actual tax rate. There is a separate ELF formula for natural gas production.

Prudhoe Bay's oil ELF in August 2003 was 0.857, for an effective tax rate of 12.86 percent.

The tax break for declining older fields and new, smaller fields — especially the satellite fields around Prudhoe Bay and Kuparuk — has been bringing down the North Slope's overall tax yield to the state for the past 10 years.

The average tax rate for all North Slope production in fiscal 1994 was 13.5 percent. The Department of Revenue estimates the average tax rate will be 7.6 percent in fiscal 2004, falling to about 6 percent in 2008 and under 5 percent by 2013.

Tax revenues falling faster than production

A department review in 2001 noted that North Slope production fell 34 percent between 1990 and 2000 yet, because of the ELF formula, production tax revenues dropped 53 percent when calculated at the same price for each year.

Production taxes will supply about one-third of the state's total take from oil and gas fields in fiscal 2004, with royalties, property and corporate income taxes providing the other two-thirds of the estimated $1.7 billion general fund revenue.

Supporters of the ELF formula say it's not the average tax rate or even the total dollars but the total production that counts, arguing that without the lower taxes there would be less oil coming off the slope. The ELF formula does not diminish the state's royalty share.

"ELF is working exactly as was planned, extending the life of older, mature fields like Kuparuk," said Dawn Patience, spokeswoman for ConocoPhillips in Anchorage. "ELF has also encouraged the development of several satellite fields surrounding Kuparuk over the past five years (Tarn, Tabasco and Meltwater), which account for more than a third of Kuparuk area production today."

BP is equal in its praise. "It is not a perfect system but has done what it was intended to do — support development that is burdened by low production rates at a high relative cost," said company spokesman Daren Beaudo of Anchorage.

"The North Slope is a high-cost, low-margin oil and gas basin characterized by a resource base of declining quality," Beaudo said. "High-cost, low-margin developments are beneficiaries of the current ELF formula."

He cited heavy oil as an example of North Slope production benefiting from ELF. Flow from the slope's heavy oil operations at West Sak and Schrader Bluff is estimated at a combined 31,000 barrels per day in fiscal 2004, up from 18,000 barrels a day in 2002. There is no production tax on either field.

ExxonMobil declined to comment on ELF.

No legislative action to change ELF

Proponents of changing ELF have debated for the past few years whether the state is seeing more production because of the lower tax rates but have never introduced legislation to amend the formula, other than a single bill that quickly disappeared during the past legislative session.

Rep. Beverly Masek, a five-term Republican, introduced a bill on May 6 to eliminate ELF, meaning all mature production in Alaska would have been charged the full 15 percent tax rate. Then, just 24 hours later, she withdrew the measure.

Not only did Masek fail to attract a single co-sponsor for her bill, but she managed to draw four committee assignments from the House speaker — a sure political sign that the measure likely would have died of old age before ever getting to the House floor for a vote.

Masek, from Willow, north of Anchorage, will serve as co-chair of the House Resources Committee this session. She did not return calls for this story.

Meanwhile, a freshman Democrat, Anchorage Rep. Les Gara, is working on his own bill to change the formula.

"It has been said within the Department of Revenue for a long time that many of the satellite fields are profitable enough to pay a production tax," Gara said, explaining he is looking at whether a price factor could be added to the ELF formula. The state could share the risk at low prices and, in return, earn a larger take at high prices.

Freshman legislator considers minimum tax rate

"I am considering whether it is responsible to set a minimum tax rate," he said.

And though Gara is working on his bill, he doesn't know when it might

be ready for introduction. "I want it to be responsible enough so that it doesn't slow down oil development."

Development of new fields has helped slow down the rate of decline on the North Slope, keeping total production around 1 million barrels a day since 2000. But the price to the state has been falling production tax revenues.

The state collects no oil production taxes or a very small fraction of a percent from several North Slope fields that averaged a total of 136,000 barrels a day in fiscal 2003, according to Department of Revenue numbers: Milne Point, 34,000 barrels; Endicott, 26,000; Schrader Bluff, 17,000; Niakuk, 14,000; Lisburne, 9,000; Aurora, 8,000; Meltwater, 8,000; Midnight Sun, 7,000; West Sak, 6,800; Tabasco, 3,600, and Polaris, 2,600.

"The ELF reduces the tax rate on smaller oil fields such that most fields producing less than 20,000 barrels per day will pay little or no production tax," the Department of Revenue said in its December 2003 state revenue forecast book.

Only seven fields pay more than a 1% tax rate

Unless it's a very large field or a very productive field, the tax rate will be zero or close to it, state Tax Division Director Dan Dickinson told a gathering of oil companies invited to Juneau to meet with the governor and other state officials last month.

And while some of the slope's smaller fields probably would not have been developed if they had to pay the full 15 percent tax rate, Dickinson said, it's also likely that some would have gone ahead at a rate higher than the zero they are charged.

"Did they need the magnitude of the incentive they got, that's a much tougher question," he said.

"Despite its name of Economic Limit Factor, it ignores the biggest single economic determinant, which is price," Dickinson said.

Other than Prudhoe Bay's almost 13 percent tax rate in August 2003, the only other North Slope fields with a double-digit tax rate are Northstar, at almost 12.5 percent that month and an estimated average daily production this year of 66,000 barrels, and Alpine, at about the same tax rate for its estimated 2004 production of 99,000 barrels per day.

Kuparuk, Borealis, Point McIntyre and Tarn pay between 1 percent and close to 3.5 percent, with everything else below 1 percent.

Kuparuk benefits from ELF formula

Perhaps just as controversial as the zero tax rate for new and satellite fields is the rapidly declining tax rate for Kuparuk, the second biggest oil field in the nation — Prudhoe is No. 1. The Department of Revenue expects Kuparuk will average 155,000 barrels a day this fiscal year, half its peak in 1993.

Kuparuk, which went online in 1981, is populated with less efficient wells, which, because of their lower per-well productivity, means a dropping tax rate for the entire field under the ELF formula. Kuparuk producers paid a 3.3 percent tax rate in September 2003, according to the Department of Revenue. ConocoPhillips, at 55 percent, and BP, at 39 percent, are the majority owners.

Department of Revenue projections in 2001 estimated that Kuparuk's oil flow will still be above 100,000 barrels a day in 2010, but its tax rate will be zero. "The field is forecast to keep producing 10 years beyond that. Is the ELF going to zero sooner than it needs to ensure maximum production?" the department asked in its December 2001 state revenue forecast book.

ELF is as old as the trans-Alaska oil pipeline itself, dating back to 1977 when the Legislature raised the top oil production tax rate from 8 percent to 12.25 percent while also adopting a formula to reduce the rate on less productive fields. Then, in 1981, while eliminating the personal income tax Alaskans had paid since 1949, lawmakers raised the top oil production tax rate to 15 percent.

The big battle came in 1989, when legislators voted to amend the ELF formula after realizing the state's take from Prudhoe Bay was slipping faster than many had envisioned. The intent was to boost the state's immediate share of Prudhoe Bay revenues, a politically popular move after the oil price crash of 1986-1987 and the Exxon Valdez oil spill in March 1989.

Balance Sheet Data

Source: MGFS

$ In Millions	Fiscal Year End: Dec 31	
	2003	**2002**
Current Assets	54,465	45,066
Non-Current Assets	123,107	114,059
Total Assets	**177,572**	**159,125**
Current Liabilities	50,584	46,301
Non-Current Liabilities	51,050	43,415
Total Liabilities	**101,634**	**89,716**
Shareholder's Equity	75,938	69,409
Total Liab. & Equity	**177,572**	**159,125**
Debt / Equity	29%	32%
Curr. Liabilities / Curr. Assets	0.9	1.0

Quarterly Income Data

Source: MGFS

$ In Millions				$ Per Share		
	Revenue	Net Inc.	Profit Margin	EPS	Div.	Payout (Div/EPS)
2004 Q3	70,885	4,483	6%	1.22	0.43	35%
2004 Q2	69,091	3,896	6%	1.05	0.43	41%
2004 Q1	67,602	4,818	7%	1.28	0.45	35%
2003 Q4	52,334	1,972	4%	0.52	0.43	83%

Last Three Months Price History

Source: WSOD, 3/10/2005

Five Year Price History

Source: WSOD, 3/10/2005

These charts show the stock's open, high, low, and closing price. They are called 'candlestick' charts because the area between the open and the close looks like a candlestick, and the trading range outside, the high and the low, look like the candle's wicks. If the candlestick is filled in black, the stock closed below its open. If the candlestick is white, the stock closed above its open.

CONOCO INC

Balance Sheet Data

Source: MGFS

$ In Millions	Fiscal Year End: Dec 31	
	2004	**2003**
Current Assets	15,021	11,192
Non-Current Assets	77,840	71,263
Total Assets	**92,861**	**82,455**
Current Liabilities	15,586	14,011
Non-Current Liabilities	34,552	34,078
Total Liabilities	**50,138**	**48,089**
Shareholder's Equity	42,723	34,366
Total Liab. & Equity	**92,861**	**82,455**
Debt / Equity	35%	52%
Curr. Liabilities / Curr. Assets	1.0	1.3

Quarterly Income Data

Source: MGFS

$ In Millions				$ Per Share		
	Revenue	Net Inc.	Profit Margin	EPS	Div.	Payout (Div/EPS)
2004 Q4	35,140	2,432	7%	3.44	0.50	15%
2004 Q3	30,258	2,006	7%	2.86	0.43	15%
2004 Q2	27,343	2,075	8%	2.97	0.43	14%
2004 Q1	25,978	1,616	6%	2.33	0.43	18%

Last Three Months Price History

Source: WSOD, 3/10/2005

Five Year Price History

Source: WSOD, 3/10/2005

These charts show the stock's open, high, low, and closing price. They are called 'candlestick' charts because the area between the open and the close looks like a candlestick, and the trading range outside, the high and the low, look like the candle's wicks. If the candlestick is filled in black, the stock closed below its open. If the candlestick is white, the stock closed above its open.

EXXON MOBIL CORP

Balance Sheet Data

Source: MGFS

$ In Millions	Fiscal Year End: Dec 31	
	2004	2003
Current Assets	60,377	45,960
Non-Current Assets	134,879	128,318
Total Assets	**195,256**	**174,278**
Current Liabilities	42,831	38,386
Non-Current Liabilities	50,669	45,977
Total Liabilities	**93,500**	**84,363**
Shareholder's Equity	101,756	89,915
Total Liab. & Equity	**195,256**	**174,278**
Debt / Equity	8%	11%
Curr. Liabilities / Curr. Assets	0.7	0.8

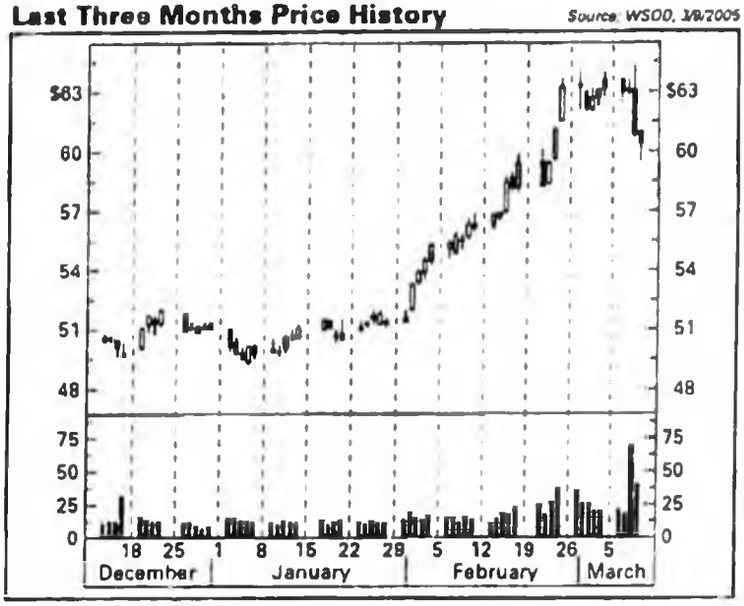
Quarterly Income Data

Source: MGFS

$ In Millions	Revenue	Net Inc.	Profit Margin	$ Per Share EPS	Div.	Payout (Div/EPS)
2004 Q4	73,830	8,420	11%	1.30	0.27	21%
2004 Q3	67,809	5,680	8%	0.88	0.27	31%
2004 Q2	62,706	5,790	9%	0.88	0.27	31%
2004 Q1	59,644	5,440	9%	0.83	0.25	30%

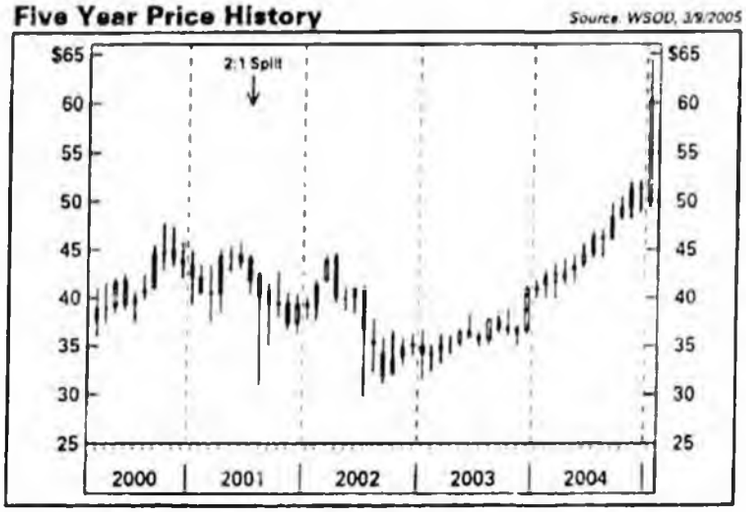
Last Three Months Price History

Source: WSOD, 3/9/2005



Five Year Price History

Source: WSOD, 3/9/2005



These charts show the stock's open, high, low, and closing price. They are called 'candlestick' charts because the area between the open and the close looks like a candlestick, and the trading range outside, the high and the low, look like the candle's wicks. If the candlestick is filled in black, the stock closed below its open. If the candlestick is white, the stock closed above its open.

Summary by Pool: Oil Production January, 2005

Oil Field / Pool Name	Crude Oil (BBL)	Water (BBL)	Gas (MCF)	Producing Completions	Cum. Crude Oil (BBL)	Cum. Water (BBL)	Cum. Gas (MCF)
BADAMI							
BADAMI OIL					4,347,065	0	22,891,313
Field Total					4,347,065	0	22,891,313
BEAVER CREEK							
BEAVER CREEK OIL	4,130	1,090	1,923	2	5,730,067	66,292	2,043,792
Field Total	4,130	1,090	1,923	2	5,730,067	66,292	2,043,792
COLVILLE RIVER							
ALPINE OIL	3,700,977	153,702	4,248,724	43	141,339,541	1,372,330	166,607,645
NANUQ UNDF OIL					19,582	0	299,846
Field Total	3,700,977	153,702	4,248,724	43	141,359,123	1,372,330	166,907,491
ENDICOTT							
EIDER OIL	896	43,901	31,940	1	2,687,868	3,227,277	23,354,968
ENDICOTT OIL	640,689	7,313,131	12,402,009	56	427,877,328	741,075,473	1,837,003,923
MISHAK OIL	436	14,122	274	1	7,948,341	31,258,795	6,507,845
Field Total	642,021	7,371,154	12,434,223	58	438,513,537	775,561,545	1,866,866,736
GRANITE PT							
HEMLOCK UNDEF OIL	4,469	2,126	3,964	2	1,968,697	128,303	2,004,469
MIDDLE KENAI OIL	105,128	20,862	99,422	26	139,885,726	16,678,641	124,485,390
Field Total	109,597	22,988	103,386	28	141,854,423	16,806,944	126,489,859
KATALLA							
KATALLA OIL					154,000	0	-
Field Total					154,000	0	0
KUPARUK RIVER							
CRETACEOUS UNDEF W					0	56,455,530	0
KUPARUK RIVER OIL	4,296,579	17,974,272	8,468,582	458	1,975,490,229	2,486,883,670	2,394,395,245
MELTWATER OIL	239,755	24,263	597,371	13	7,897,524	274,696	17,737,735
TABASCO OIL	157,055	673,175	43,756	8	9,892,529	26,862,881	1,372,736
TARN OIL	696,248	437,404	909,298	25	65,299,499	7,868,016	92,316,297
WEST SAK OIL	464,373	130,353	394,362	30	16,095,124	5,312,712	5,850,336
Field Total	5,854,010	19,239,467	10,413,369	534	2,074,674,405	2,583,657,505	2,511,472,349
MCARTHUR RIVER							
HEMLOCK OIL	156,834	2,336,783	75,192	40	533,304,496	797,030,987	213,265,465
MIDDLE KENAI G OIL	79,153	436,058	31,565	31	61,647,023	64,546,154	33,788,443
UNDEFINED OIL					332,951	188,772	175,472
WEST FORELAND OIL	6,539	98,068	2,019	4	24,277,810	26,187,927	8,431,518
Field Total	242,526	2,920,909	108,776	75	619,562,280	887,953,840	255,660,898

Summary by Pool: Oil Production January, 2005

Oil Fields Pool Name	Crude Oil (BBL)	Water (BBL)	Gas (MCF)	Producing Completions	Cum. Crude Oil (BBL)	Cum. Water (BBL)	Cum. Gas (MCF)
MIDDLE GROUND SHOAL							
A OIL					2,838,227	3,146,841	5,322,225
B C AND D OIL					12,010,325	5,509,414	8,797,239
E F AND G OIL	123,572	55,740	40,856	27	177,020,864	99,320,781	78,028,416
Field Total	123,572	55,740	40,856	27	191,869,416	107,977,036	92,147,880
MILNE POINT							
KUPARUK RIVER OIL	903,213	1,370,315	531,923	82	181,18[illegible],610	138,662,224	92,023,892
SAG RIVER OIL	21,300	73,275	15,302	1	1,610,310	1,487,366	1,611,150
SCHRADER BLUFF OIL	607,517	570,794	440,444	46	38,733,774	15,468,341	24,354,739
TERTIARY UNDEF WTRS	0	1,094,106	0	4	0	186,961,697	0
UGNU UNDEF WTRSP	0	180,712	0	1	0	11,791,474	0
UGNU UNDEFINED OIL					16,746	0	3,370
Field Total	1,532,030	3,289,202	987,669	134	221,550,440	354,371,102	117,993,151
NORTHSTAR							
NORTHSTAR OIL	2,109,271	354,312	11,672,464	15	69,323,975	4,225,147	237,218,619
Field Total	2,109,271	354,312	11,672,464	15	69,323,975	4,225,147	237,218,619
OOOGURUK							
UNDEFINED OIL					3,828	0	0
Field Total					3,828	0	0
PRUDHOE BAY							
AURORA OIL	268,885	212,894	808,878	8	11,666,280	5,364,334	48,391,798
BOREALIS OIL	602,248	492,087	715,058	19	31,451,008	10,635,261	27,794,922
LISBURNE OIL	283,962	[illegible]7,563	5,158,844	30	139,995,06[illegible]	37,071,623	1,450,343,342
MIDNIGHT SUN OIL	176,702	75,143	948,241	2	11,518,936	1,705,250	41,040,900
N PRUDHOE BAY OIL					1,984,791	2,989,263	6,616,438
NIAK IVSH-SR UNDEF OIL					65,388	85,330	504,427
NIAKUK OIL	239,066	1,142,865	175,098	14	80,506,696	58,362,144	67,615,813
ORION SCHRADER BLUF	314,979	781	446,881	4	2,624,613	82,493	2,440,641
PM UNDEFINED OIL					33,480	13,127	30,008
POLARIS OIL	78,002	5,100	74,242	6	3,616,569	532,801	4,160,993
PRUDHOE OIL	10,968,778	37,458,455	259,726,871	692	10,709,487,609	7,351,952,168	48,447,026,751
PRUDHOE UNDEFINED W					0	1,112,346	0
PT MCINTYRE OIL	1,080,338	[illegible],154,452	5,642,237	47	377,152,322	33[illegible],331,073	644,406,875
UGNU UNDEFINED WTRS	0	579,448	0	1	0	1,626,294	0
W BEACH OIL					3,360,694	137,174	20,011,808
W BEACH TERTIARY UND					0	5,432,157	0

Summary by Pool: Oil Production January, 2005

Oil Fields Pool Name	Crude Oil (BBL)	Water (BBL)	Gas (MCF)	Producing Completions	Cum. Crude Oil (BBL)	Cum. Water (BBL)	Cum. Gas (MCF)
Field Total	14,012,960	45,278,788	273,696,350	823	11,373,463,446	7,816,432,838	50,760,384,716
REDOUBT SHOAL							
UNDEFINED OIL	23,784	27,623	5,827	4	1,543,066	1,426,867	377,815
Field Total	23,784	27,623	5,827	4	1,543,066	1,426,867	377,815
SWANSON RIVER							
HEMLOCK OIL	17,412	176,065	115,147	20	228,637,369	117,735,483	2,858,679,556
UNDEFINED OIL					51,239	4,170	323,888
Field Total	17,412	176,065	115,147	20	228,688,608	117,739,653	2,859,003,444
TRADING BAY							
G-NE/HEMLOCK-NE OIL					23,630,100	30,468,431	6,484,662
HEMLOCK OIL	9,361	41,927	8,937	5	14,110,459	8,826,199	14,623,656
M.KENAI UNALLOCAT ZO					0	0	1,193,899
MIDDLE KENAI B OIL	7,532	3,012	1,185	4	4,010,431	821,270	3,384,887
MIDDLE KENAI C OIL	6,228	39,295	1,979	3	20,660,073	29,957,340	14,355,525
MIDDLE KENAI D OIL	11,287	48,123	3,975	6	29,269,147	24,250,381	24,021,231
MIDDLE KENAI E OIL	4,506	4,894	2,050	2	8,283,655	3,898,952	6,706,771
UNDEFINED OIL	1,953	3,538	1,673	1	1,391,661	933,776	649,941
W FORELAND OIL					61,120	9,611	28,517
Field Total	40,867	140,789	19,799	21	101,416,646	99,165,960	71,449,089
W MCARTHUR RIV							
W MCARTHUR RIV OIL	47,995	82,524	13,610	3	10,535,718	10,776,257	2,502,027
Field Total	47,995	82,524	13,610	3	10,535,718	10,776,257	2,502,027
Total Fields	28,461,152	79,114,353	313,862,123	1,787	15,624,590,543	12,777,533,316	59,093,409,179
Daily Average	918,102	2,552,076	10,124,585				

Condensate Total	3,321,094
Condensate YTD Total	958,974,595

*Condensate Totals apply to Crude Oil and Cum. Crude Oil totals for Prudhoe Oil Pool, Prudhoe Bay Oil Field only.

Summary by Pool: Gas Production January, 2005

Gas Fields Pool Name	Condensate (BBL)	Water (BBL)	Gas (MCF)	Producing Completions	Cum. Condensate (BBL)	Cum. Water (BBL)	Cum. Gas (MCF)
ALBERT KALOA							
UNDEFINED GAS	0	43	133,776	1	0	112	691,630
Field Total	0	43	133,776	1	0	112	691,630
BARROW							
EAST BARROW GAS	0	0	7,445	1	0	1,694	8,069,262
SOUTH BARROW GAS	0	0	3,146	1	0	1,040	22,485,647
Field Total	0	0	10,591	2	0	2,734	30,574,909
BEAVER CREEK							
BELUGA GAS	0	1,425	330,786	3	0	261,770	47,652,012
STERLING GAS					0	527,683	125,934,574
TYONEK UNDEF GAS	0	29	17,016	1	0	5,980	5,226,464
Field Total	0	1,454	347,802	4	0	795,433	178,813,050
BELUGA RIVER							
UNDEFINED GAS	0	621	5,152,974	14	0	32,223	909,933,184
Field Total	0	621	5,152,974	14	0	32,223	909,933,184
BIRCH HILL							
UNDEFINED GAS					0	0	65,331
Field Total					0	0	65,331
DEEP CREEK							
TYONEK UNDEF GAS	0	1,599	418,689	5	0	2,894	717,627
Field Total	0	1,599	418,689	5	0	2,894	717,627
GRANITE PT							
UNDEFINED GAS					0	0	844,378
Field Total					0	0	844,378
IVAN RIVER							
UNDEFINED GAS	0	15	157,203	3	0	12,500	75,876,032
Field Total	0	15	157,203	3	0	12,500	75,876,032
KENAI							
BELUGA UNDEFINED GA					0	0	120
STERLING 3 GAS	0	16	16,658	1	0	134,866	330,239,564
STERLING 4 GAS	0	312	304,487	6	0	150,725	447,381,881
STERLING 5.1 GAS					0	154,689	484,679,341
STERLING 5.2 GAS					0	12,700	44,031,635
STERLING 6 GAS	0	1,365	781,214	11	0	109,238	518,441,251
TYONEK GAS	0	21	92,267	1	8,994	72,508	184,644,174
UPPER TYONEK BELUGA	0	7,600	1,311,467	17	2,879	455,576	262,825,758
Field Total	0	9,314	2,506,093	36	11,873	1,090,302	2,272,243,724

Summary by Pool: Gas Production January, 2005

Gas Fields Pool Name	Condensate (BBL)	Water (BBL)	Gas (MCF)	Producing Completions	Cum. Condensate (BBL)	Cum. Water (BBL)	Cum. Gas (MCF)
KENAI C.L.U.							
BELUGA GAS	0	18,519	836,905	3	104	321,574	44,999,503
STERLING UNDEFINED G	0	102	273,624	1	0	664	13,128,160
TYONEK D GAS					0	9,410	1,399,385
UPPER TYONEK GAS	0	1,356	294,905	2	394	44,167	66,288,405
Field Total	0	19,977	1,405,434	6	498	375,815	125,815,453
LEWIS RIVER							
UNDEFINED GAS	0	0	43,311	1	0	1,895	11,294,940
Field Total	0	0	43,311	1	0	1,895	11,294,940
LONE CREEK							
UNDEFINED GAS	0	0	139,197	1	0	22	2,933,720
Field Total	0	0	139,197	1	0	22	2,933,720
MCARTHUR RIVER							
MIDDLE KENAI GAS	0	1,370	3,047,853	15	0	364,360	1,002,345,354
Field Total	0	1,370	3,047,853	15	0	364,360	1,002,345,354
MIDDLE GROUND SHOAL							
UNDEFINED GAS					0	131	16,383,183
Field Total					0	131	16,383,183
MOQUAWKIE							
UNDEFINED GAS	0	179	142,585	1	0	526	1,895,536
Field Total	0	179	142,585	1	0	526	1,895,536
NICOLAI CREEK							
UNDEFINED GAS	0	0	508	1	0	32,201	3,189,859
Field Total	0	0	508	1	0	32,201	3,189,859
NINILCHIK							
FC TYONEK UNDEFINED	0	401	386,289	3	0	7,276	6,365,354
GO TYONEK UNDEFINED	0	46	197,485	2	0	2,127	5,659,489
PAX TYONEK UNDEFINE	0	0	7,428	1	0	0	7,428
SD TYONEK UNDEFINED	0	260	308,320	1	0	12,381	4,296,789
Field Total	0	707	899,522	7	0	21,784	16,329,060
NORTH COOK INLET							
TERTIARY GAS	0	4,063	4,055,470	12	0	596,309	1,666,420,955
Field Total	0	4,063	4,055,470	12	0	596,309	1,666,420,955
NORTH FORK							
UNDEFINED GAS					0	0	104,595
Field Total					0	0	104,595
PIONEER							

The New York Times
nytimes.com

January 31, 2005

Record Oil Prices Spur Exxon Mobil Profit

By REUTERS

Filed at 2:11 p.m. ET

NEW YORK (Reuters) - Exxon Mobil Corp. (XOM.N), the world's largest publicly traded oil company, on Monday posted the biggest quarterly profit ever for a U.S. company -- $8.42 billion -- driven by high crude oil and natural gas prices.

The blockbuster results easily topped Wall Street forecasts, capping an exceptional year for the Irving, Texas, behemoth. Exxon's revenue in 2004 was more than $298 billion, surpassing the gross domestic product of countries such as Austria and Indonesia.

Surging demand from fast-growing Asian giants India and China, coupled with fears of a disruption in supplies from countries such as Russia, Iraq and Nigeria, kept oil prices surging for much of last year. Crude prices topped $55 a barrel in late October.

Exxon's fourth-quarter profit was equal to $1.30 a share, up from $1.01 a share, or $6.65 billion, a year earlier. Analysts' average forecast was $1.05, according to Reuters Estimates.

"They're managing their business like a Swiss watch," said Oppenheimer & Co. analyst Fadel Gheit.

Revenue jumped to $83.36 billion from $65.95 billion a year earlier.

The results did not produce a surge in Exxon shares. One analyst said Wall Street has come to expect extraordinary results from the oil giant. Also, the shares have been climbing for much of the past year and were already near a 52-week high.

STRENGTH ACROSS THE BOARD

All three major business lines at Exxon posted a sharp rise in earnings.

The rise in prices drove earnings at its exploration and production unit to $4.89 billion, up from $3.27 billion a year earlier. Profit from refining and marketing operations tripled, to $2.34 billion from $736 million a year earlier, on strong refining margins.

Healthy worldwide demand pushed up earnings at its chemicals business to $1.25 billion from $476 million.

"This is a particularly impressive set of results given that every segment outperformed expectations," Credit Suisse First Boston analysts said in a research note.

Capital spending fell slightly, to $4.23 billion from $4.36 billion a year earlier.

Oil and gas production fell 2 percent in the quarter, hurt by divestments and the impact of higher prices on production-sharing agreements. Excluding the those items, production rose by 1 percent.

Most major oil companies have been struggling with sluggish or declining production, faced with maturing oilfields in regions like the U.S. Gulf of Mexico and lack of access to regions that house some of the world's largest reserves.

An Exxon executive said on a conference call the company was not among the winners when Libya on Saturday awarded its first exploration contracts to U.S. companies in 18 years. U.S. oil majors are eager to reenter Libya after U.S. sanctions were eased last year.

ChevronTexaco Corp. (CVX.N), the No. 2 U.S. oil company, bid successfully on one onshore block in Libya. ChevronTexaco on Friday reported that quarterly profit nearly doubled, also on the back of record oil and gas prices.

Exxon shares were up 38 cents, or less than 1 percent, to $51.65 in afternoon trading on the New York Stock Exchange.

Announcement of Data Release

The Legislative Budget and Audit Committee sought and received permission to release information on Alaska's relative global ranking in three general areas:

1. Costs—both capital and operating
2. Government Take
3. Profitability

About the Study

Wood Mackenzie is a consulting firm headquartered in Edinburgh, Scotland that has been providing commercial analysis and strategic advice to the world's leading energy companies for 30 years. They have covered upstream oil and gas, oil refining and marketing, gas and power.

Global Oil and Gas—Risks and Rewards (GOGRR) was first published in 2002 and considered data from 1991 to 2000. It had two main objectives:

- To measure and rank the relative attractiveness of 60 areas (in 50 countries) for exploration
- To measure the relative attractiveness of the same areas for acquisitions of interest in existing commercial upstream oil and gas developments.

The 2004 study focuses on the period 1994 to 2003, adding more depth to some of the key areas.

Methodology Concerns

The Legislative Budget and Audit Committee has retained the services of Chuck Logsdon, former chief petroleum economist for the State of Alaska, to perform a review and evaluation of the study. The review will:

- Evaluate the cost assumptions for their appropriateness for Alaska;
- Evaluate the cost assumptions for any systematic bias for or against exploration and development economics in Alaska;
- Verify the accuracy of the modeling of the Alaska fiscal system;
- Establish whether the assumed field sizes, transportation, and location logistics are appropriate;
- Identify the effect that varying the cost assumptions would have on Alaska's competitive ranking;
- Review the appropriateness of the low, mid and high price projections;
- Identify other regions that might be appropriate to be included in a comparative analysis;
- Review the study for discussions of other intangible risk factors that might be more favorable in Alaska, including, but not limited to, physical security and political stability;