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Testimony Regarding the Committee Substitute for SB 305,
a Petroleum Production Tax Bill

Brian Wenzel
ConocoPhillips Alaska

Before the
Senate Resources Committee
March 18, 2006

Chairman Wagoner, members of the committee:

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

I would like to present ConocoPhillips' views on this committee's proposed changes to SB 305. Your Committee Substitute, if enacted into law, is going to have a negative impact on the attractiveness of Alaska for

ConocoPhillips' investment dollars. ConocoPhillips absolutely opposes this CS and any proposal that increases our industry's taxes beyond the \$1 billion per year proposed by the Governor. The proposal before us today, although difficult to interpret and confusing in several places, might increase oil taxes by an annual average of more than \$2.4 billion – if today's prices continue, this is \$24 billion over the next 10 yrs. The approach reflected in this Committee Substitute is clearly to maximize short term State revenue while putting at risk long term production, State revenue, growth in the private sector and jobs for Alaskans. The CS you are considering destroys the balance in the original bill.

ConocoPhillips' view is that our relationship with the State is one in which we are partners that share a common, all-important goal ----
MAXIMIZING PRODUCTION in Alaska. For the State, maximized production will naturally lead to maximized state revenues and jobs. We must both strive to find ways to maintain current production, mitigate natural field production decline and where possible develop new production. In our industry, production projections and reserves can be more important than current cash flow and earnings – this is because we take a long term view about how to create value in the future regardless of our inability to predict prices. Alaska, also, needs to take a long-term view by focusing on

how to motivate long term investment and increase production rather than extracting incremental short term revenue increases above and beyond the \$1B already accepted by the industry.

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

We also have hired a number of consultants and will use their input as we lay out for the House and Senate Finance committees the same points we were unsuccessful in demonstrating to you. However, at the end of the day neither your consultants nor ours must make or live with the decision currently before the Alaska State Legislature. Similarly, none of these consultants ever has, or ever will, make an investment decision on behalf of ConocoPhillips. To the extent your consultants are telling you that the CS you are considering will not have a negative effect on ConocoPhillips' investment decisions going forward, I can tell you they are 100% wrong.

Taking billions of dollars from our industry will have a negative impact on investment. Taking away a significant portion of the upside

potential in a basin with lead times (from initial investment to first production) of a decade or more, in an area with low prospectivity and higher costs than almost anywhere in the world, will negatively affect investment – and consequently, production, state revenues and jobs. This is a natural consequence of the action you are taking.

Moreover, the negative effect on our decision-making, and on the decision-making of others, will not result *just* from the increased tax burden you are seeking to impose. There is also the question of our and others' confidence in the future investment climate in the State. Adverse changes in the key parameters of the originally proposed bill will result in a fundamental shift in the balance of risks and rewards for investments in Alaska. Unreasonable changes like those imbedded in the CS will cause not only ConocoPhillips but also other investors to question *not whether, but when*, Alaska will again change its fiscal regime and impose unfair and unreasonable burdens on those who have taken great risks and invested billions to help develop the State's resources.

It is irrelevant whether that future change will be in the State's production tax, its property tax, its corporate income tax or in the creation of some entirely new tax. The point is that investors will now need to consider another significant risk in making their economic decisions in Alaska – the

risk that Alaska will not approach future fiscal policy changes in a reasonable manner that recognizes the commitment and contribution of companies like ConocoPhillips.

When you're considering how to finalize this CS, I'd encourage you to ask yourselves, is Alaska getting enough industry investment today? If you don't think there's enough investment today, how can raising taxes lead to more investment? Granted, the investment incentives for exploration can be expected to garner some additional production, but that will be years away. The additional production we need to stem decline over the next several years can only come from additional investment around existing infrastructure. Raising taxes on the existing infrastructure as you're doing in this CS only deters that investment.

From our quick review of your CS, it appears that you have changed nearly every key parameter in the original bill in a decidedly one-sided manner that benefits the State and is at the expense of ConocoPhillips and the other major North Slope producers. You have destroyed the balance previously represented in the bill.

Through the CS, you propose to not only significantly increase the base PPT rate to 25% but also further increase that tax rate on the industry at

all prices above \$40. At current prices, depending on how we interpret the unfinished language in the CS, the additional surcharge will result in anywhere from \$1.8 to \$2.4 billion in tax liability for the industry over the current system. This change is neither fair nor reasonable to existing investors and will be viewed as *unfair* and *unreasonable* by potential future investors.

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

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

You have moved the effective date of this bill back to a date that is completely impractical -- the necessary regulations, procedures and computer systems can not possibly be adopted and put in place by April 1st of this year which means that production tax payers in Alaska will have to guess at their tax liability and make un-supported payments of tax in an uncertain attempt to avoid punitive interest costs.

Unfortunately, we are unable to precisely quantify the dollar impact from this CS due to the short turn around time and the fact that many of the key parameters are apparently still subject to change. However, in our view, these changes from the original bill are completely inconsistent with the goals of a fair and reasonable fiscal policy, increased long-term investment in Alaska and a vibrant, secure Alaska oil industry. We urge you to reconsider the long-term impact of this bill on future production, Alaska jobs and the future of the State Alaska generally. We urge you *not* to move this bill out of Committee until it can be re-crafted with a more balanced, long-term perspective.

Thank you for considering our views.

LIBRARY

TESTIMONY OF RICHARD OWEN

ON PROPOSED CSSB 305 TO THE SENATE RESOURCES COMMITTEE

March 18, 2006

Mr. Chairman, Members of the Committee:

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

I am here today to express ExxonMobil's concerns with the proposed Committee Substitute to SB 305. On February 28, I testified about our key concerns with SB 305 as originally proposed. These changes exacerbate the concerns I described on February 28. Specifically, I will make comments on two areas: the proposal to change the tax rate; and the proposal around reduced transition provisions.

SB 305, as originally proposed, represented a dramatic tax increase on the industry. As I previously testified, we expressed concern that the higher tax rate included in the bill could prevent some of Alaska's challenged resources from being developed. We understand the Committee is now considering even higher tax rates.

Too high a tax rate discourages investment. Companies are willing to accept the risks of long-term, capital intensive investments when there is a corresponding opportunity for upside potential through a variety of factors, such as increased production or higher prices. When you limit or reduce the benefit that Companies can achieve from the

provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase.

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

As I mentioned earlier, the Committee's proposed substitute exacerbates our key concerns regarding both tax rates and transition provisions. We urge this Committee to support SB 305 as originally proposed.

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

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Central Microfilm Services
Department of Education & Early Development
State of Alaska

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upside factors, you reduce the attractiveness of those investment opportunities. The proposal to increase the already high base tax rate and then further increase that tax rate as oil prices rise, does reduce or limit the upside potential and will result in Companies recalibrating investment decisions. Reduced investment will result in reduced resource recovery, diminished state revenues and fewer employment opportunities, with a resultant negative impact on the state's economy. Again, let me reemphasize this point. While higher taxes may bring in additional revenues in the short-term, any reduction in investment and subsequent production will significantly impact those revenues in the longer term. We believe the focus of the tax bill should be to encourage investment and grow production.

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

Despite our concerns with SB 305 as originally proposed, we are prepared to move forward under that system since it sought to provide a balance of revenues to the state and producers across a range of oil prices, provided sufficient incentive for producers to undertake exploration and development risks, and included reasonable transition

provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase.

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

As I mentioned earlier, the Committee's proposed substitute exacerbates our key concerns regarding both tax rates and transition provisions. We urge this Committee to support SB 305 as originally proposed.

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

CS for Senate Bill No 305 (RES)

Commentary

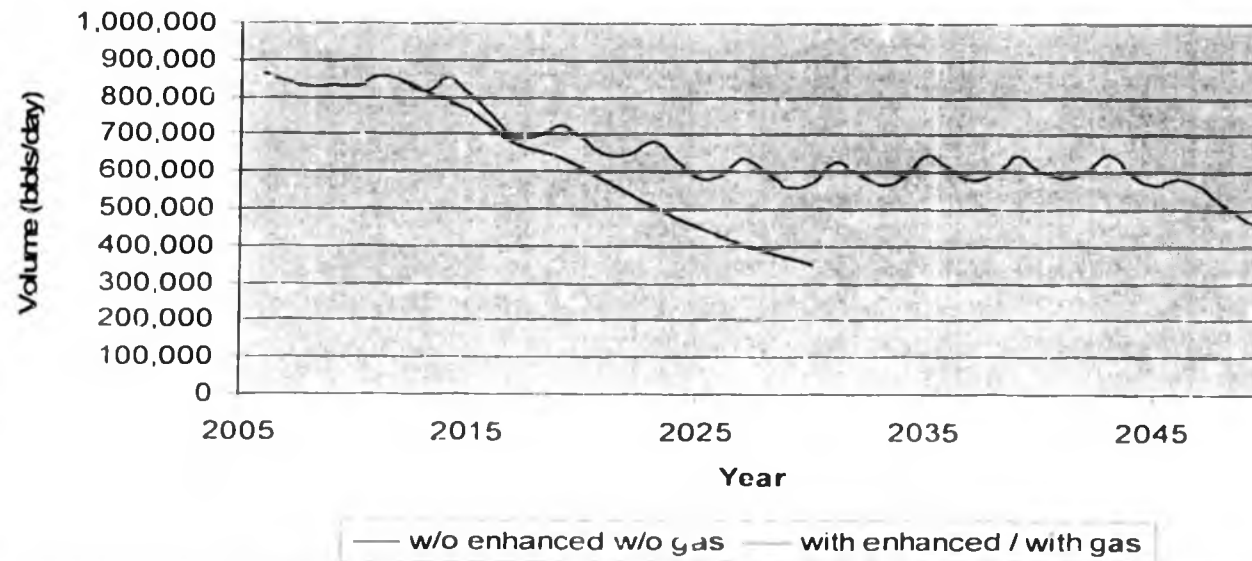
March 18, 2006

TOTAL VISION

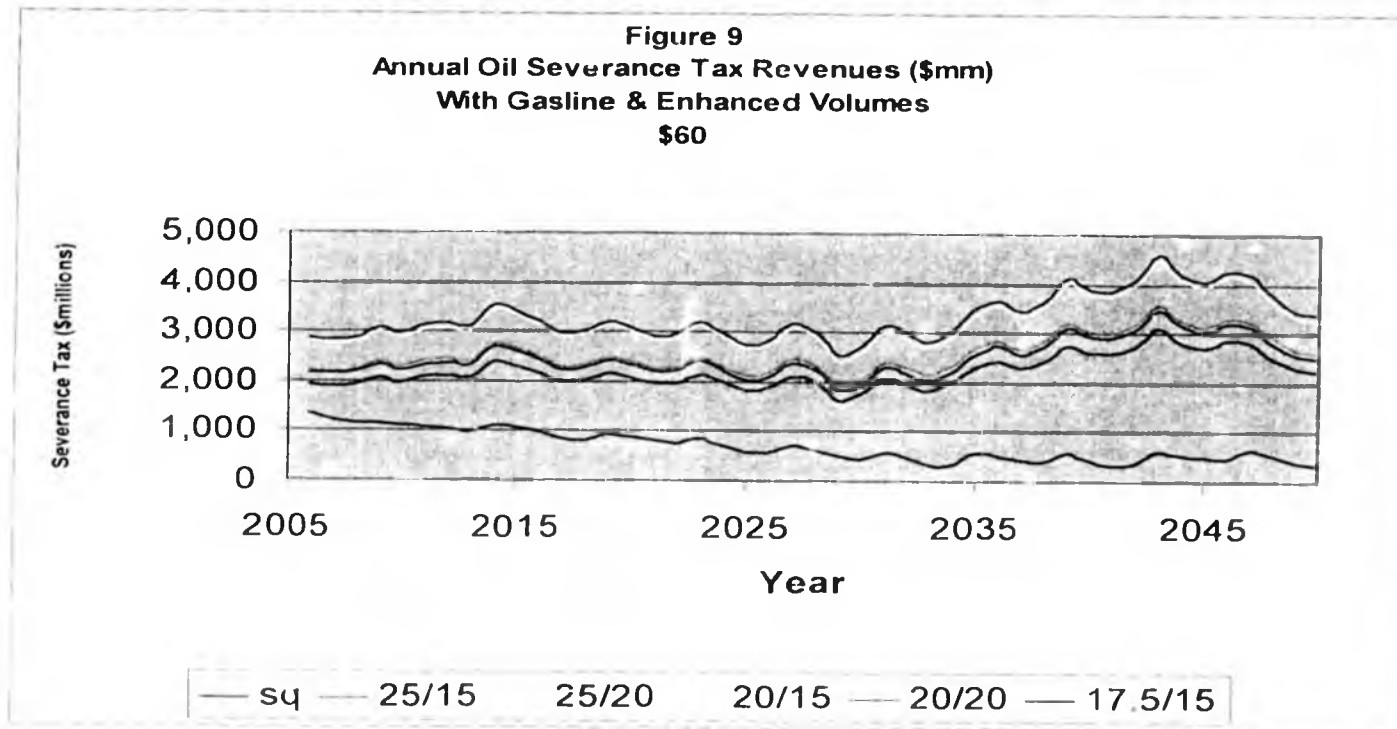
PPT bill is the first step in a process that may lead to a stranded gas contract. The gas line in turn will significantly prolong the life of the oil pipeline and lead to considerable additional oil developments.

TOTAL VISION

Figure 1
Volume Scenarios

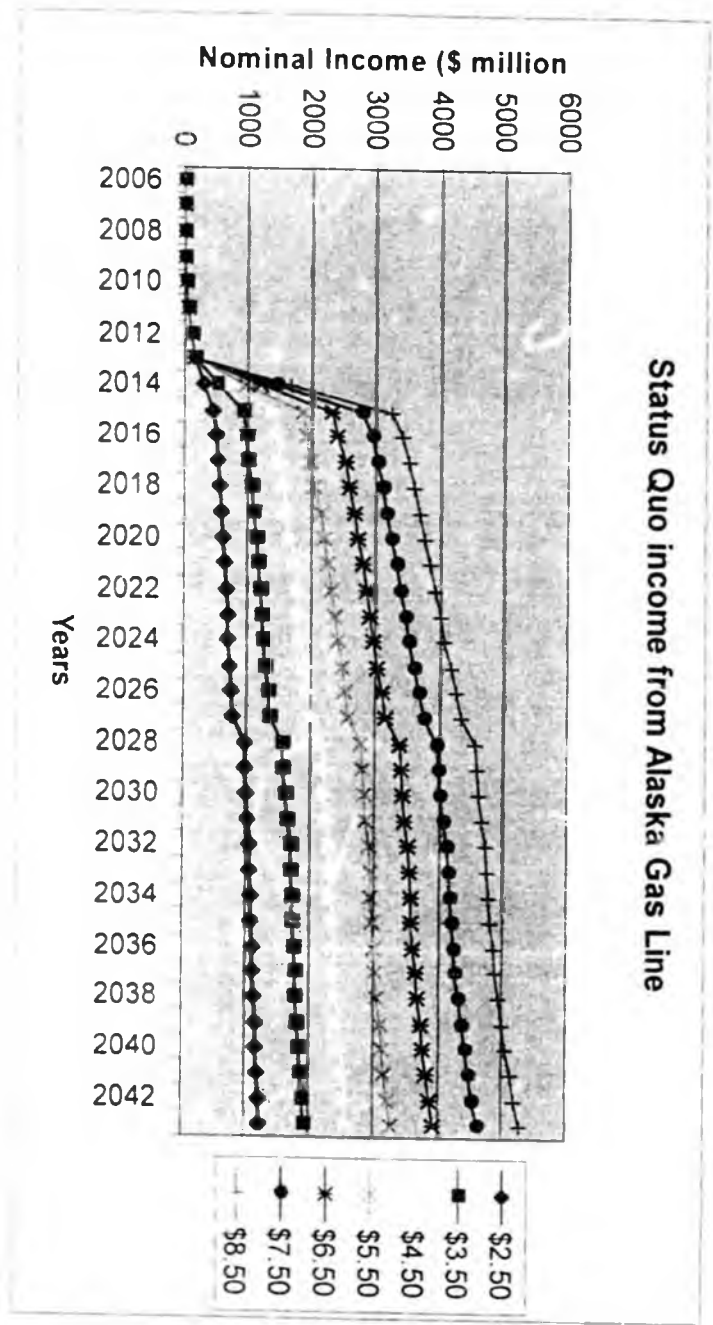


TOTAL VISION



TOTAL VISION

Status Quo income from Alaska Gas Line



Tax rate and Investment

Within the range of PPT tax rates that were evaluated, there is a relationship between level of investment and tax rate.

TAX RATE AND INVESTMENT

Large Companies

COMPETITIVENESS RATING INDEX

\$36

20-20-0

25-20-0

30-20-0

30-15-0

Alaska Current	161	158	157	156
Alaska PPT	147	153	160	166
Norway	214	214	214	213
UK	63	63	63	63
US GOM	25	25	25	25
Nigeria	92	92	90	89
Alberta-Oil Sands	74	74	74	73
Angola	160	158	157	156
Russia-Sakhalin	226	226	224	224
Azerbaijan	158	157	156	155

TAX RATE AND INVESTMENT

Level of Investment

	20-20	25-20	30-20	30-15
Large Producers	more	same	less	much less
New Investors	more	more	more	more

COOK INLET

Carving out regions in Alaska from the PPT will complicate administration and creates unfair practices across Alaska.

Promotion of Exploration

20/20 rating

Overall	IRR Subtotal	NPV Subtotal	EMV Subtotal	GOV TAKE Subtotal	SUM TOTAL
Alaska Current	100	97	88	78	363
20-20-73	49	78	57	65	249
Norway	90	108	86	115	399
UK	31	30	24	52	137
US GOM	14	12	15	12	53
Nigeria	46	36	51	45	178
Alberta-Oil Sands	41	42	43	37	163
Angola	76	73	80	95	324
Russia-Sakhalin	116	103	118	108	445
Azerbaijan	97	81	98	53	329

Promotion of Exploration

The PPT bill as introduced already strongly promotes exploration. There is no need for special further features that would complicate the administration of the PPT

Small Companies

There is a need to provide long term support for small companies. These companies play a special role and often contribute significantly to the local economy.

This can be achieved:

- with the \$ 73 million allowance per company or equivalent credit, or
- by making a level of production per company exempt from the PPT

State Owned Assets

Clause 43.55.024 (i) (3) (B) is out of place and seems to prejudge a possible stranded gas contract.

CS for Senate Bill No 305 (RES)

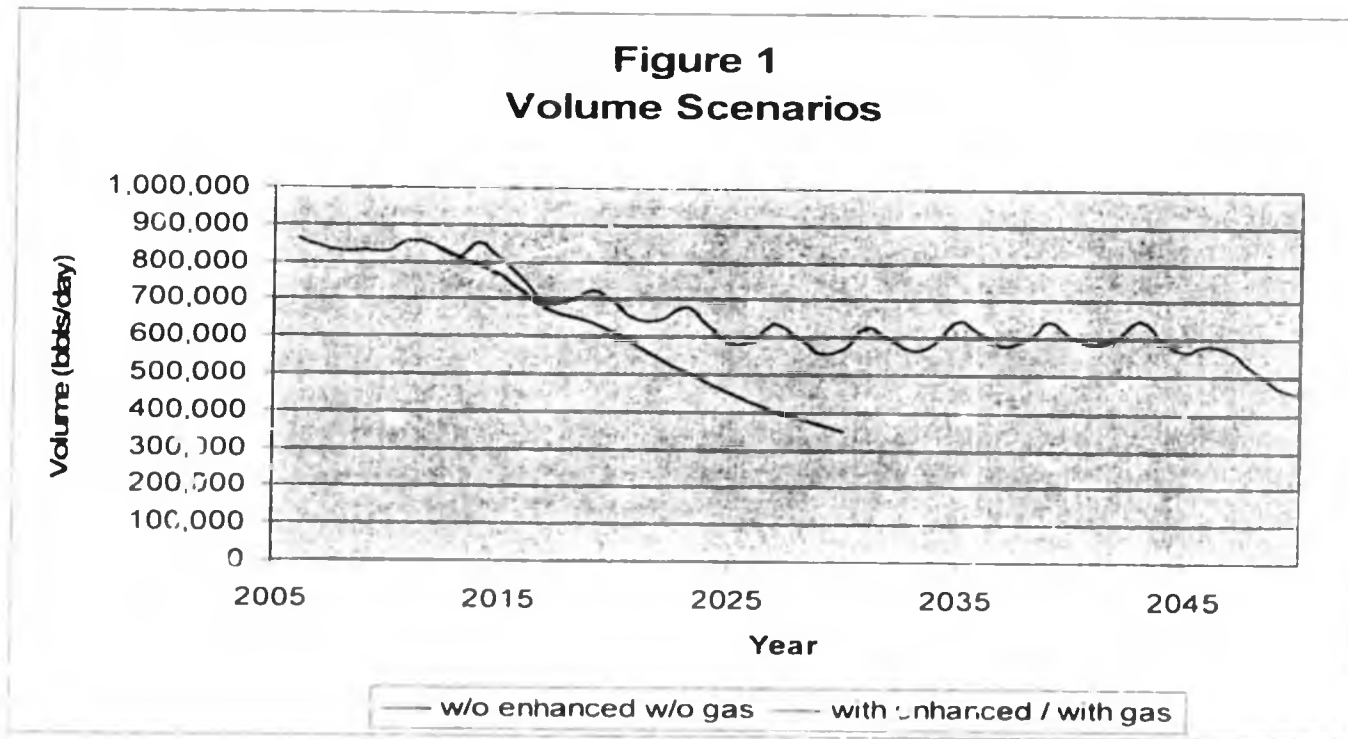
Commentary

March 18, 2006

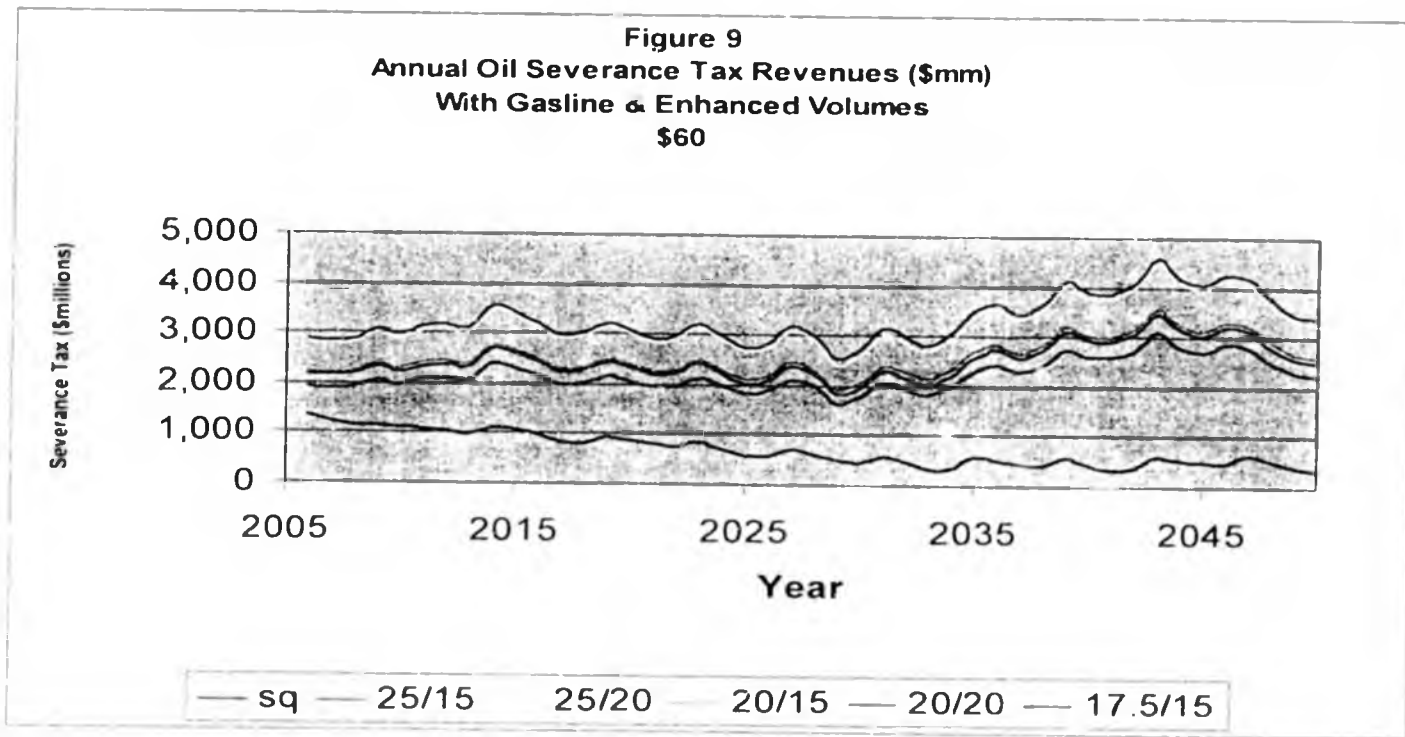
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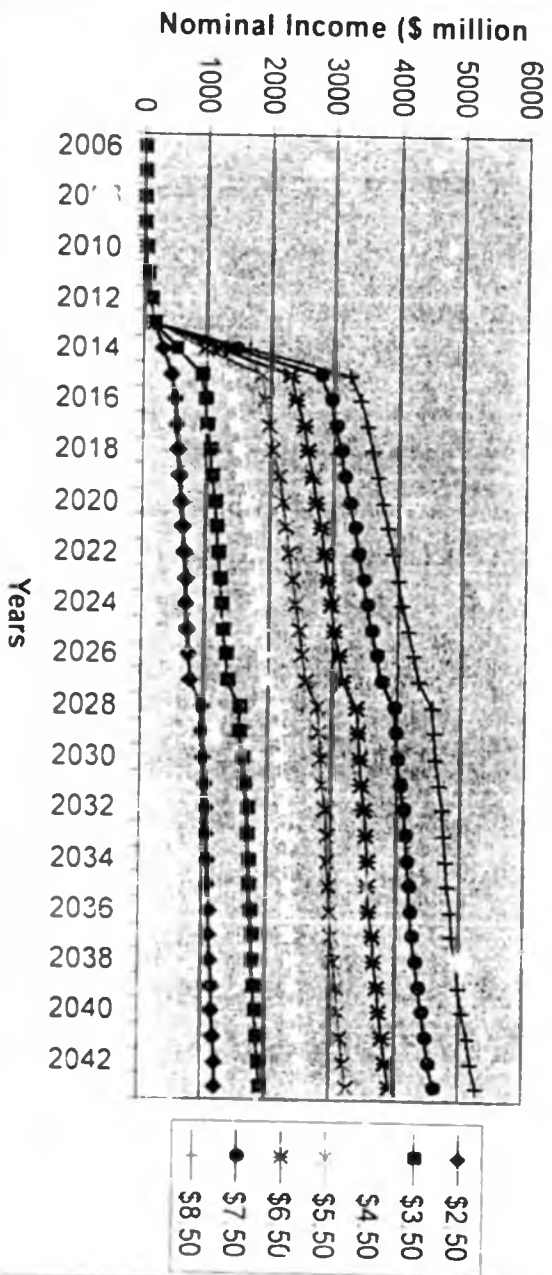


TOTAL VISION



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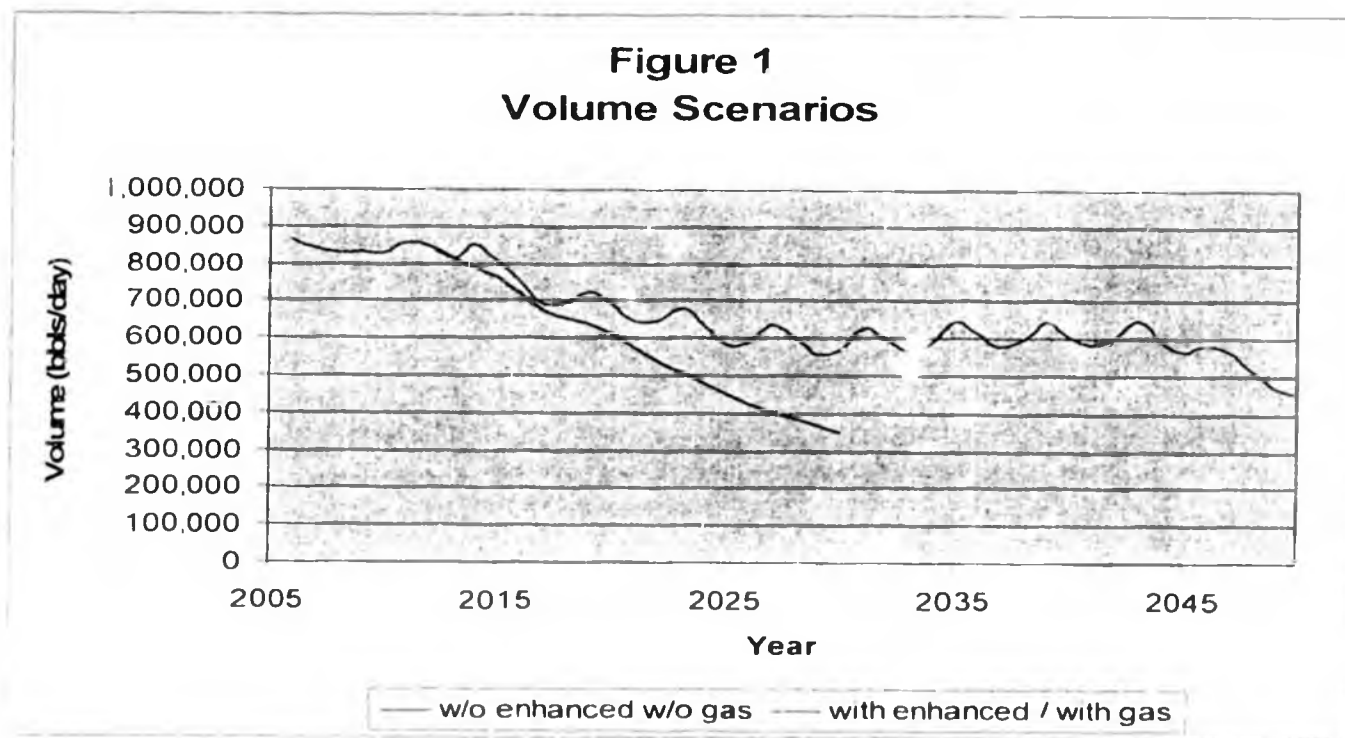
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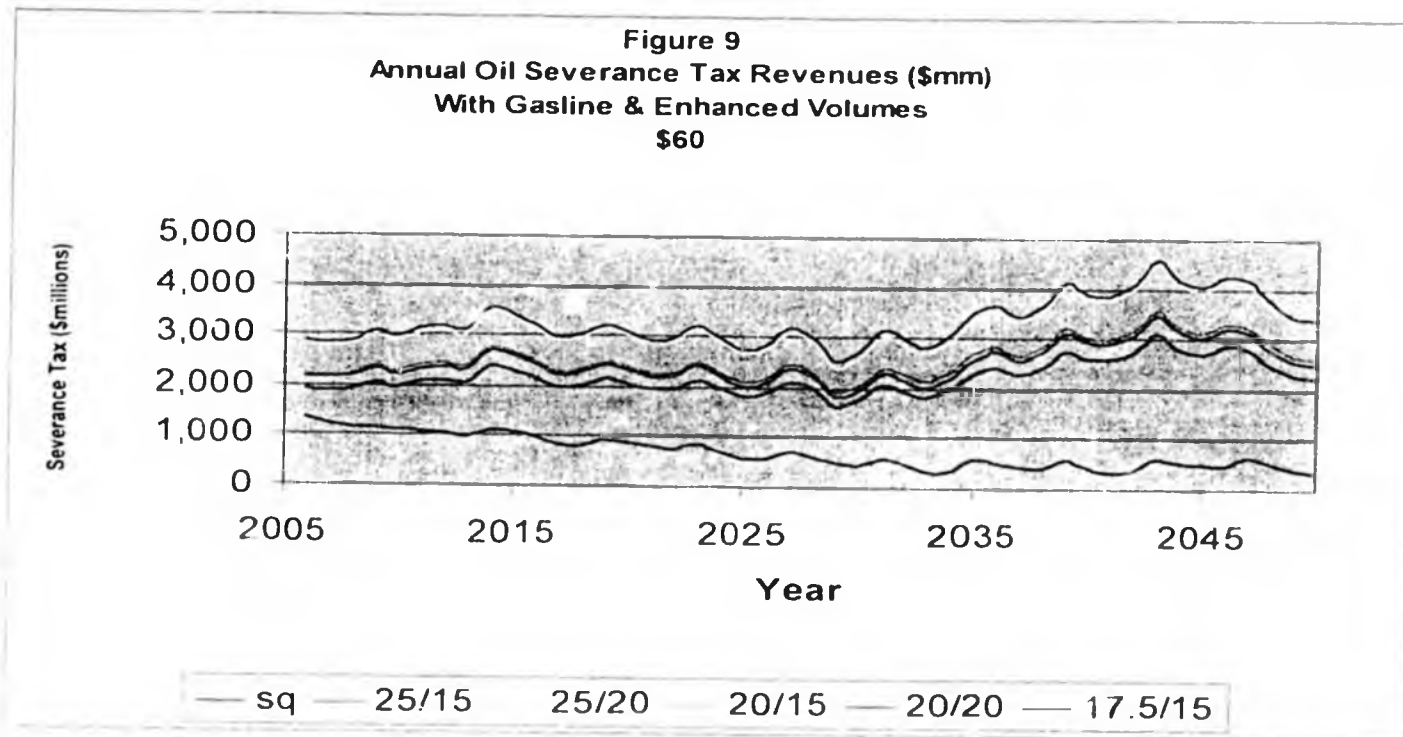
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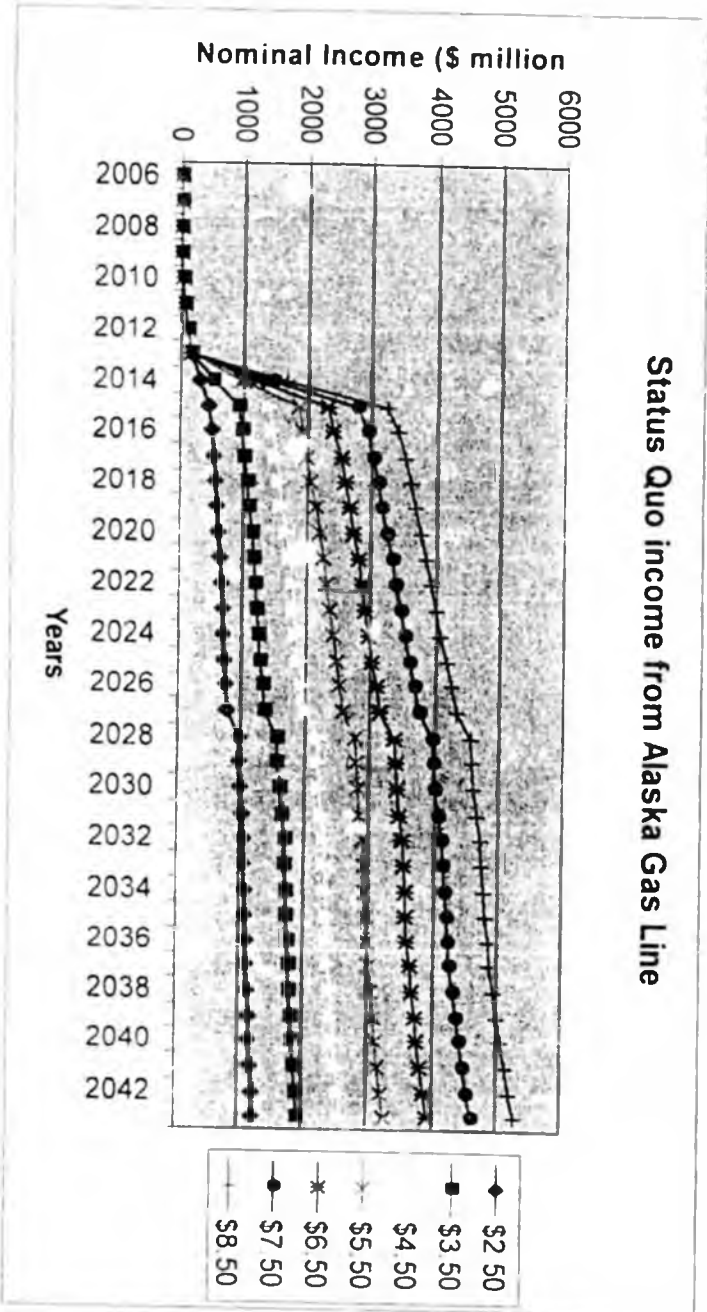


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SB

305

(FILE 16)

Chevron



**Chevron - Alaska Area
Testimony on SB 305**

**John P. Zager
General Manager**

March 19, 2006



General Comments on CS

■ Previous Testimony by Chevron

- We will support the bill and the key terms as written with the following stipulations:
 - ▶ The bill must recognize the marginal nature of the Cook Inlet
- Do not pull all of the "levers" in the same direction

■ We applaud the recognition in the current CS that the Cook Inlet oil cannot support an additional tax burden

■ However, because of the substantive changes in many areas we can no longer support this bill in its entirety



Cook Inlet Provision – *One Size Does Not Fit All*

- I will not repeat previous testimony on Cook Inlet, which I believe demonstrated
 - the difficult financial position of the Cook Inlet oil
 - the unique value of the Cook Inlet oil and gas production to the economy of south central Alaska
 - co-dependent aspect of the Cook Inlet energy business
- Several Cook Inlet options were presented
 - Carving out current Cook Inlet oil production is the one adopted in the CS
 - Other options could work if they:
 - ▶ do not increase taxes
 - ▶ provide incentives for exploration and development



General Comments on CS

- Agree with many of the points that have already been made by other producers
 - Balance of the original bill is gone
 - Lever's pulled in the same direction
 - ▶ Tax rate at 25% is a disincentive
 - ▶ April 1, commencement date, not practical, punitive penalty and interest rate
 - ▶ Transition capital credit greatly diminished
 - ▶ Loss of "standard deduction"
 - ▶ Progressivity - taking away the "windfalls", no matter how you couch it, lowers expected value to investors
 - Other issues
 - ▶ WTI vs. ANS, oil marker for gas?
 - Makes Alaska less competitive



General Comments on CS

■ Debate between "get it now" and "grow the pie"

- "Get it now" option will balloon short term revenue creating a state windfall that must be well managed
- "Grow the pie" option will create long term opportunities for investors and for Alaska
- I am optimistic about the ingenuity and technology available in our industry and the people of Alaska to greatly extend oil production for the next generation

■ Consultants will one day leave and we will be left to deal with our decisions

- First you vote on behalf of the people of Alaska
- Then over the coming years investors vote with their dollars
 - ▶ Original industry support was quite astounding
 - ▶ However, Investors big and small, old and new, are now saying that the Senate CS structure will discourage investment in Alaska



Summary Comments on CS

- Chevron cannot support the Senate CS in its current form
- Urge return to original PPT terms, while retaining a Cook Inlet provision
- Chevron has been in Alaska for many years and intends to continue an active exploration and production operation in the state if a sound and stable fiscal regime can be offered

ALASKA STATE LEGISLATURE



Official Business

SENATE RESOURCES COMMITTEE

Senator Tom Wagoner, Chair

State Capitol, Room 427

Juneau, AK 99801-1182

Phone: (907) 465-4907 Fax: (907) 465-4779

Senator Ralph Seekins, Vice-Chair

Senator Ben Stevens

Senator Kim Elton

Senator Fred Dyson

Senator Bert Stedman

Senator Albert Kookesh

DATE: March 19, 2006

TO: Members, Senate Resources Committee

FROM: Senator Tom Wagoner, Chair *Tom*
Senate Resources Committee

RE: SB 305 Amendment procedures

I had hoped to have a new committee substitute in time for you to review it and make present your amendments to that new CS. However, it is not possible to get it to you in a timely manner.

Thus, we are going to use the current cs, version "Y", dated 3/16/06 as the base document.

I am preparing a memorandum to the drafter to provide amendments to that document. I will have that memorandum completed tomorrow and will provide you with a copy of it, so you will have specifics on what will be provided as amendments.

The memorandum will be structured to reflect the following:

1. Technical Amendments
2. Administrative Amendments
3. Substantive Amendments

Technical Amendments will include items previously identified on Friday by Mary Jackson and noted in her hand out on that date. Also included as a technical amendment will be the matter on page 11, line 14, subsection (f) that was an incorrect drafting insertion from language in the companion house bill. (This was identified during the Friday meeting by Sen. Ben Stevens.)

Administrative Amendments will be those suggestions, that I concur with, that were identified by either Mr. Dickerson or Ms. Wilson at their presentation on Saturday. They brought up a number of points, most of which had been previously identified as items of concern and are addressed as technical amendments. I note that there were two suggested "fixes" that they provided and they did not provide any written documentation of their testimony on Saturday.

Substantive Amendments that I have identified are three fold:

- One is a replacement for the progressivity issue on pages 5 and 6, (this has been previously identified by my office as an issue that was expected to change.) We are working with one of the committee members on this and expect to have a resolution to it either late this afternoon or tomorrow morning.
- The second is the replacement for the \$73 million deduction (also noted as an issue that was expected to change) and I am attaching two options that I will be placing before the committee for your consideration. Please note that that "standards" have been identified as an issue and I was advised by Mr. Dickinson last Friday that he would provide some. I have yet to receive such standards.
- The third issue for consideration is a new "claw-back" provision, based on Dr. Pedro Van Muers concept of \$2 in future to claim \$1 in the past. I am attaching a copy of his proposal to this memorandum.

There are two other issues I am finalizing – abandonment and the Cook Inlet exemption.

Replacing \$73 Million Per Producer Per Year Tax-Free Allowance
With 4,000 B/D Tax Exemption for 7 Years for New Fields
March 16, 2006

Option #1

Changes to select provisions of SB 305 as introduced:

Delete Section 21(i) and (j).
Delete Section 36(d).

Insert the following as Section 21(i):

(i) Except as limited by this subsection, for each oil and gas unit in the state, and for each oil or gas field in the state but outside an oil and gas unit which first commences commercial production on or after July 1, 2006, the first 4,000 barrels of oil or oil equivalent produced each day during the first seven consecutive years of production shall be exempt from taxes levied under AS 43.55.011, and their value shall be excluded from the calculation of gross value at the point of production, except that to the extent that the gross value at the point of production for any one barrel of oil or oil equivalent exceeds \$40, then the excess above \$40 on that barrel of oil or oil equivalent is not exempt from taxes levied under AS 43.55.011 and shall be included in the calculation of gross value at the point of production. No producer may claim an exemption under this subsection to the extent that the exemption would result in a carried forward loss credit under AS 43.55.024. No single producer may claim further exemptions under this subsection once the total of all exemptions claimed on or after July 1, 2006 by the producer under this subsection equals or exceeds 10,220,000 barrels of oil or oil equivalent. The Alaska Oil and Gas Conservation Commission shall have jurisdiction to resolve any disputes about what constitutes an oil and gas field or oil and gas unit for purposes of this subsection. The Department of Revenue, after consultation with the Department of Natural Resources, shall resolve any dispute about the allocation of tax exemptions among multiple producers under this subsection.¹

¹ DOR is working on standards to support this option.

Replacing \$73 Million Per Producer Per Year Tax-Free Allowance
With 4,000 B/D Tax Exemption for 7 Years for New Fields
March 16, 2006

Option #2

Changes to select provisions of SB 305 as introduced:

Delete Section 21(i) and (j).
Delete Section 36(d).

Insert the following as Section 21(i):

(i) Except as limited by this subsection, for each oil and gas unit in the state, and for each oil or gas field in the state but outside an oil and gas unit, which first commences commercial production on or after July 1, 2006, the first 4,000 barrels of oil or oil equivalent produced each day during the first seven consecutive years of production shall be exempt from taxes levied under AS 43.55.011, and their value shall be excluded from the calculation of gross value at the point of production, except that to the extent that the gross value at the point of production for a ~~ix~~ one barrel of oil or oil equivalent exceeds \$40, then the excess above \$40 ~~on~~ that barrel of oil or oil equivalent is not exempt from taxes levied under AS 43.55.011 and shall be included in the calculation of gross value at the point of production. No producer may claim an exemption under this subsection to the extent that the exemption would result in a carried forward loss credit under AS 43.55.024. No single producer may claim further exemptions under this subsection once the total of all exemptions claimed on or after July 1, 2006 by the producer under this subsection equals or exceeds 10,220,000 barrels of oil or oil equivalent. The Alaska Oil and Gas Conservation Commission shall have jurisdiction to resolve any disputes about what constitutes an oil and gas field or oil and gas unit for purposes of this subsection. The Department of Revenue, after consultation with the Department of Natural Resources, shall resolve any dispute about the allocation of tax exemptions among multiple producers under this subsection.¹

¹ DOR is working on standards to support this option.

Two for One System

March 18, 2006

Pedro van Meurs

The "Two for One" concept is designed to reform the "claw back" into a feature that would reward companies that have been traditionally strong investors in Alaska and are now, as a result of the PPT law, be prepared to significantly increase the level of investment.

The past investments would be the investments made from January 1, 2001 to December 31, 2005.

It is suggested to establish a 7 year period from January 1, 2006 to December 31, 2012. During this period investors would be able to recover for every two new dollars invested, one dollar of previous capital. On this investment recovery companies would get the tax credit of 20% related to the capital cost deduction, but not the investment tax credit of 20%.

However, this recovery of capital can only be used in any month where the price is above the floor price of \$ 40 per barrel, escalated with CPI inflation.

Any past investment not recovered on December 31, 2012, "falls of the table" and can no longer be used.

The fixed period of 7 years seems reasonable since it can be anticipated that there will be one or more years where the price is below the floor price. Also companies would need one or two years to gear up for a higher level of investment.

The following table provides a comprehensive example of how the system would work.

It is assumed that in years 2009 and 2010 the actual price would be below the escalated floor price and therefore during these two years no investment recovery would take place. CPI escalation is assumed to be 2%.

Examples:

Company A has invested \$ 1800 million during the last five years. This company is prepared to significantly increase the level of investment. In fact, in total the company actually invests \$ 5400 during the 7 year period. Company A would fully recover the prior investment in 2012. During years 2006, 2007, 2008 and 2011 when prices are high the company receives a tax credit of 50%. Due to the two years of no recovery the tax credits are only 40%. The average tax credit rate is 46.7%.

Company B has invested only \$ 500 million during the prior five years. However, this company is also accelerating its investments in the future significantly. Total investments over the 7 year period are \$ 3700 million. This company recovers its past investment in the first three years and receives a tax credit of 50% in these years. Thereafter the company is no further eligible for past investment recovery. In years 4 – 7 the company therefore only receives the 40% tax credit. The company fully recovers its capital, but the average tax credit rate over the 7 year period is only 42.7%

Company C decides to reduce its rate of investment. Over the 7 year period the investments are \$ 1500 million, equal to the total incurred during the prior 5 years. In this case the company will get a tax credit of 50% in every year that the price is over the floor price. However, in total Company will only recover \$ 550 million of its \$ 1500 million prior investment. On December 31, 2012 \$ 950 million "falls of the table".

2 for 1 concept of Investment Recovery based on 20/20 system
(\$ million)

	2006	2007	2008	2009	2010	2011	2012	Total	Recovery percentage	Average Tax Credit
Price Floor	\$40.00	\$40.80	\$41.62	\$42.45	\$43.30	\$44.16	\$45.05			
Actual Price	\$60	\$55	\$52	\$39	\$41	\$46	\$49			
Company A										
Previous Investments	1800									
Investments	400	600	800	600	800	1000	1200	5400		
Investment Recovery	200	300	400	0	0	500	400	1800	100.0%	
Tax Credits	200	300	400	240	320	500	560	2520		46.7%
Net Investment	200	300	400	360	480	500	640	2880		
Company B										
Previous Investments	500									
Investments	200	400	600	600	700	600	600	3700		
Investment Recovery	100	200	200	0	0	0	0	500	100.0%	
Tax Credits	100	200	280	240	280	240	240	1580		42.7%
Net Investment	100	200	320	360	420	360	360	2120		
Company C										
Investments	1500									
Investments	200	300	200	200	200	200	200	1500		
Investment Recovery	100	150	100	0	0	100	100	550	36.7%	
Tax Credits	100	150	100	80	80	100	100	710		47.3%
Net Investment	100	150	100	120	120	100	100	790		

ALASKA STATE LEGISLATURE



Official Business

SENATE RESOURCES COMMITTEE

Senator Tom Wagoner, Chair

State Capitol, Room 427

Juneau, AK 99801-1182

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Senator Ralph Seekins, Vice-Chair

Senator Ben Stevens

Senator Kim Elton

Senator Fred Dyson

Senator Bert Stedman

Senator Albert Kookesh

DATE: March 19, 2006

TO: Members, Senate Resources Committee

FROM: Senator Tom Wagoner, Chair *Tom*
Senate Resources Committee

RE: SB 305 Amendment procedures

I had hoped to have a new committee substitute in time for you to review it and make present your amendments to that new CS. However, it is not possible to get it to you in a timely manner.

Thus, we are going to use the current cs, version "Y", dated 3/16/06 as the base document.

I am preparing a memorandum to the drafter to provide amendments to that document. I will have that memorandum completed tomorrow and will provide you with a copy of it, so you will have specifics on what will be provided as amendments.

The memorandum will be structured to reflect the following:

1. Technical Amendments
2. Administrative Amendments
3. Substantive Amendments

Technical Amendments will include items previously identified on Friday by Mary Jackson and noted in her hand out on that date. Also included as a technical amendment will be the matter on page 11, line 14, subsection (f) that was an incorrect drafting insertion from language in the companion house bill. (This was identified during the Friday meeting by Sen. Ben Stevens.)

Administrative Amendments will be those suggestions, that I concur with, that were identified by either Mr. Dickerson or Ms. Wilson at their presentation on Saturday. They brought up a number of points, most of which had been previously identified as items of concern and are addressed as technical amendments. I note that there were two suggested "fixes" that they provided and they did not provide any written documentation of their testimony on Saturday.

Substantive Amendments that I have identified are three fold:

- One is a replacement for the progressivity issue on pages 5 and 6, (this has been previously identified by my office as an issue that was expected to change.) We are working with one of the committee members on this and expect to have a resolution to it either late this afternoon or tomorrow morning.
- The second is the replacement for the \$73 million deduction (also noted as an issue that was expected to change) and I am attaching two options that I will be placing before the committee for your consideration. Please note that that "standards" have been identified as an issue and I was advised by Mr. Dickinson last Friday that he would provide some. I have yet to receive such standards.
- The third issue for consideration is a new "claw-back" provision, based on Dr. Pedro Van Muers concept of \$2 in future to claim \$1 in the past. I am attaching a copy of his proposal to this memorandum.

There are two other issues I am finalizing – abandonment and the Cook Inlet exemption.

**Replacing \$73 Million Per Producer Per Year Tax-Free Allowance
With 4,000 B/D Tax Exemption for 7 Years for New Fields
March 16, 2006**

Option #1

Changes to select provisions of SB 305 as introduced:

Delete Section 21(i) and (j).
Delete Section 36(d).

Insert the following as Section 21(i):

(i) Except as limited by this subsection, for each oil and gas unit in the state, and for each oil or gas field in the state but outside an oil and gas unit, which first commences commercial production on or after July 1, 2006, the first 4,000 barrels of oil or oil equivalent produced each day during the first seven consecutive years of production shall be exempt from taxes levied under AS 43.55.011, and their value shall be excluded from the calculation of gross value at the point of production, except that to the extent that the gross value at the point of production for any one barrel of oil or oil equivalent exceeds \$40, then the excess above \$40 on that barrel of oil or oil equivalent is not exempt from taxes levied under AS 43.55.011 and shall be included in the calculation of gross value at the point of production. No producer may claim an exemption under this subsection to the extent that the exemption would result in a carried forward loss credit under AS 43.55.024. No single producer may claim further exemptions under this subsection once the total of all exemptions claimed on or after July 1, 2006 by the producer under this subsection equals or exceeds 10,220,000 barrels of oil or oil equivalent. The Alaska Oil and Gas Conservation Commission shall have jurisdiction to resolve any disputes about what constitutes an oil and gas field or oil and gas unit for purposes of this subsection. The Department of Revenue, after consultation with the Department of Natural Resources, shall resolve any dispute about the allocation of tax exemptions among multiple producers under this subsection.¹

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