ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 SRES 12705

Key Messages

- Production, not tax rate, is the major factor in determining state revenue for the future years
- Delivering the production forecast will require tens of billions of investment
- Investment decisions are made on the basis of strategy, resources, technology, economics, and risk, including fiscal stability
- SB/HB2001 significantly deteriorates economics on 70% of investment options in the next 20 years
- Higher prices and developing technology could give the Alaska fields a new lease on life, but huge investments are needed
- The focus of the tax policy should be on encouraging large investments in existing fields as well as exploration
- The proposed bill creates **uncertainty** for taxpayers and potentially distorts business decision making

The time to influence the future outcome for the state is now

SB2001 Testimony

October 24, 2007

ConocoPhillips Alaska

Kevin Mitchell

Vice President, Finance & Administration

Jim Taylor

Vice President, Commercial Assets

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ConocoPhillips in Alaska Today

- **Alaska's Largest Producer**
  - 2006 oil production: 280,000 barrels of oil per day
  - 2006 gas production: 145 million cubic feet per day
- **Alaska's Largest Lease Holder**
  - Interest in 1.7 million gross (federal) acres in the NPRA
  - Nearly 2.6 million gross undeveloped acres in total outside of producing fields
- **Alaska's Leading Explorer**
  - 60 exploration wells since 1999, including 17 wells in NPRA
- **Alaska's Largest Industry Community Supporter**
  - 2006 > $12 Million Contributions
  - 2007 > $14 million (projected)
- **Alaska's Largest Royalty and Taxpayer**
  - 2006 taxes paid to government: $2.3 billion
  - 2006 royalties: $730 million

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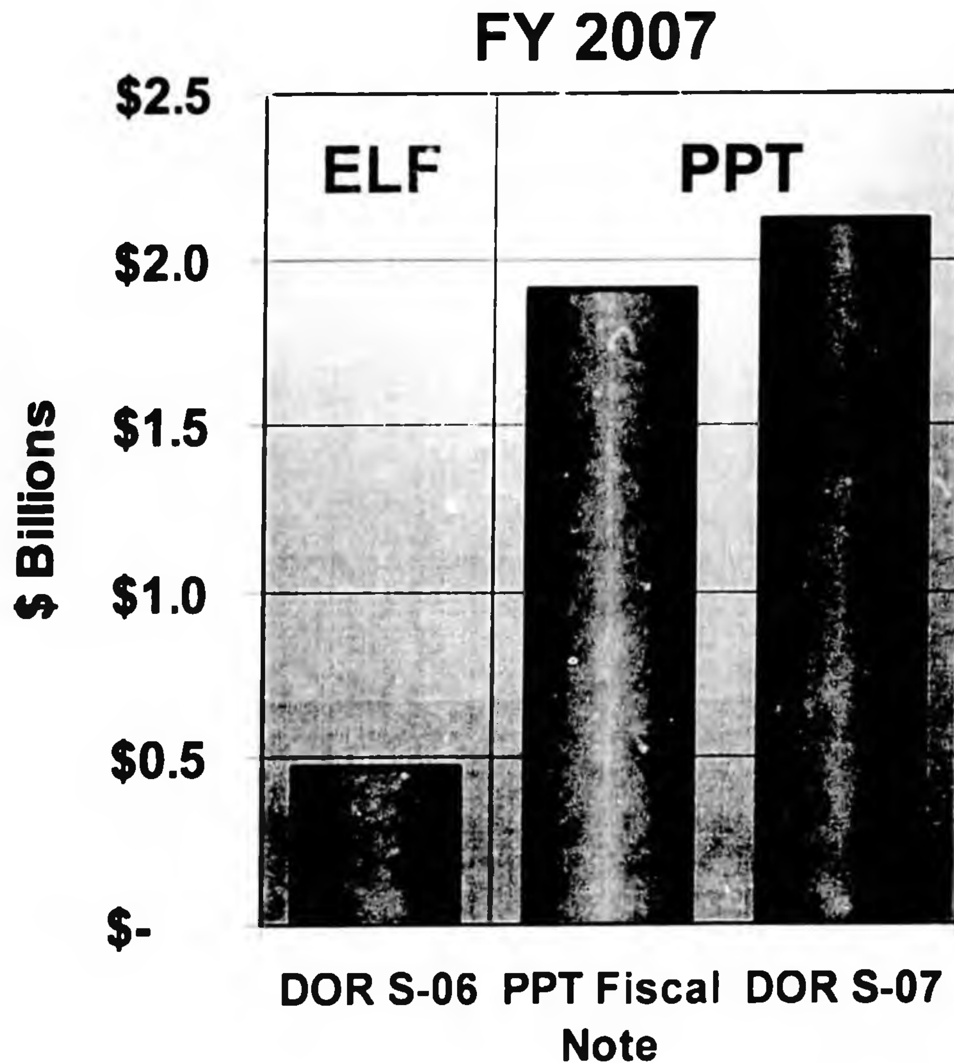
Summary Comment

- Interest between state and industry should be aligned
- Too early to change PPT
- Tax changes will impact investment
  - Increased tax take
  - Effect of 10% legacy floor
  - Uncertainty with frequent tax changes

Revenue Forecasts



Revenues meeting targets despite forecasting uncertainty associated with:

- Price
- Production
- Operating costs
- Capital costs

Too early to change

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Impact of the 10% Legacy Floor

- The 10% minimum gross on the legacy fields can have a broader impact than simply downside price protection

- Minimum tax can be triggered by:
  - Low prices
  - Investment

Base Rate vs 10% Legacy Floor

Level of Investment

Base Tax Calculations	Low	
Wellhead Revenue	$ 50.00	
- Opex	$ (10.00)	
- Capex	**$ (10.00)**	
= Net Profit	$ 30.00	
25% Net Profit Tax	$ 7.50	= 25% * $30
- 20% Capital Credits	$ (2.00)	= 20% * $10
= **Net Tax After Credits**	**$ 5.50**	

Min Tax Calculations		
Wellhead Revenue	$ 50.00	
x Gross Tax Rate	10%	
= **Min Tax ($)**	**$ 5.00**	

Net Exceeds Min:

Tax Due = $5.50

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Investment Can Trigger Legacy Floor

Level of Investment

	Low	Potential
Base Tax Calculations		
Wellhead Revenue	$ 50.00	$ 50.00
- Opex	$ (10.00)	$ (10.00)
- Capex	**$ (10.00)**	**$ (20.00)**
= Net Profit	$ 30.00	$ 20.00
25% Net Profit Tax	$ 7.50	$ 5.00
- 20% Capital Credits	$ (2.00)	$ (4.00)
= **Net Tax After Credits**	**$ 5.50**	**$ 1.00**
Min Tax Calculations		
Wellhead Revenue	$ 50.00	$ 50.00
x Gross Tax Rate	10%	10%
= **Min Tax ($)**	**$ 5.00**	**$ 5.00**

Min Exceeds Net:

Tax Due = $5.00

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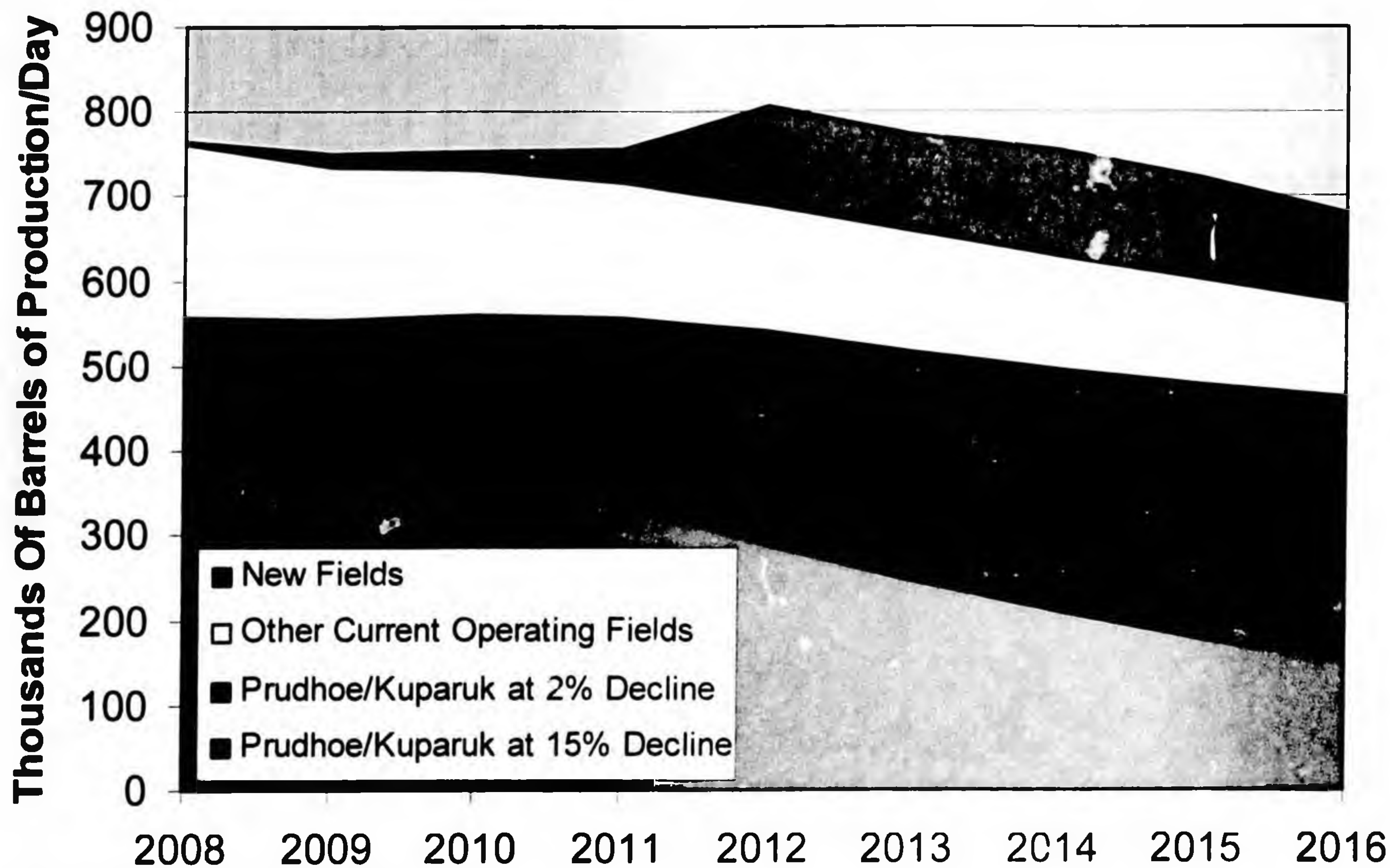
Potential Kuparuk Tax Calculation

	Level of Investment	
	DOR	Potential
Base Tax Calculations		
Wellhead Revenue	$ 2,800 bl	$ 2,800 bl
- Opex	$ (450) ml	$ (450) ml
- Capex	$ (400)	$ (800)
= Net Profit	$ 1,950	$ 1,550
25% Net Profit Tax	$ 488	$ 388
- 20% Capital Credits	$ (80)	$ (160)
= **Net Tax After Credits**	**$ 408**	**$ 228**
Min Tax Calculations		
Wellhead Revenue	$ 2,800	$ 2,800
x Gross Tax Rate	10%	10%
= **Min Tax ($)**	**$ 280**	**$ 280**

Data based on State DOR Spring Revenue Forecast 2007 for Kuparuk 2009 production and wellhead price
Opex of $7.75/bbl and capex of $6.81/bbl based on Aug 3, 2007 PPT Status Report

Significance of Legacy Assets



Deparment of Revenue 2007 Spring Forecast

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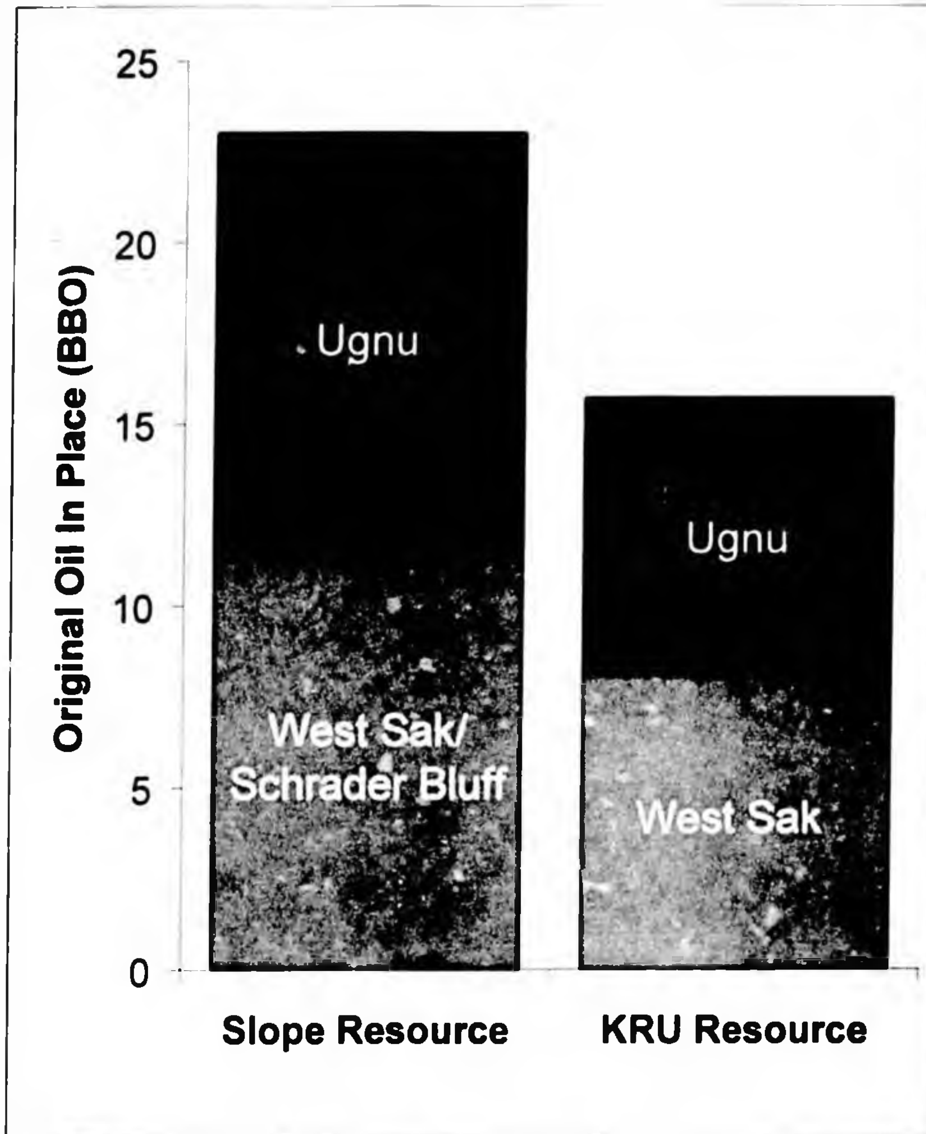
The Prize: North Slope Heavy Oil Resources



19 API Crude

10 API Crude

- **Shallow reservoirs (3,000 to 4,500')**
- **1,800' of permafrost**
- **"Cold" Temperature (40° to 90° F)**
- **High viscosities for given API gravities (10's to 1000's cp)**
- **Low rates and recovery factors**

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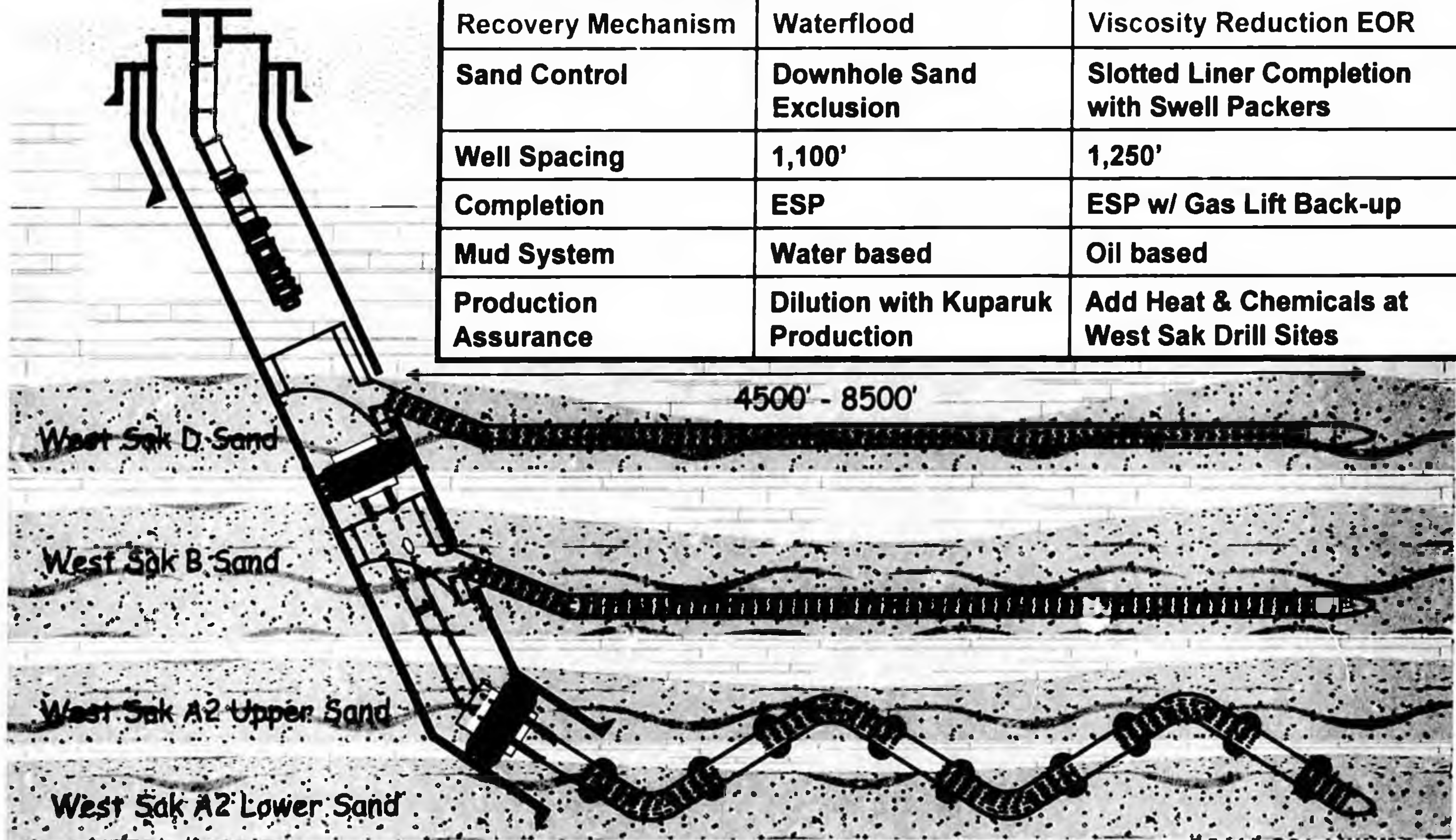
West Sak Tri-Lateral Producer

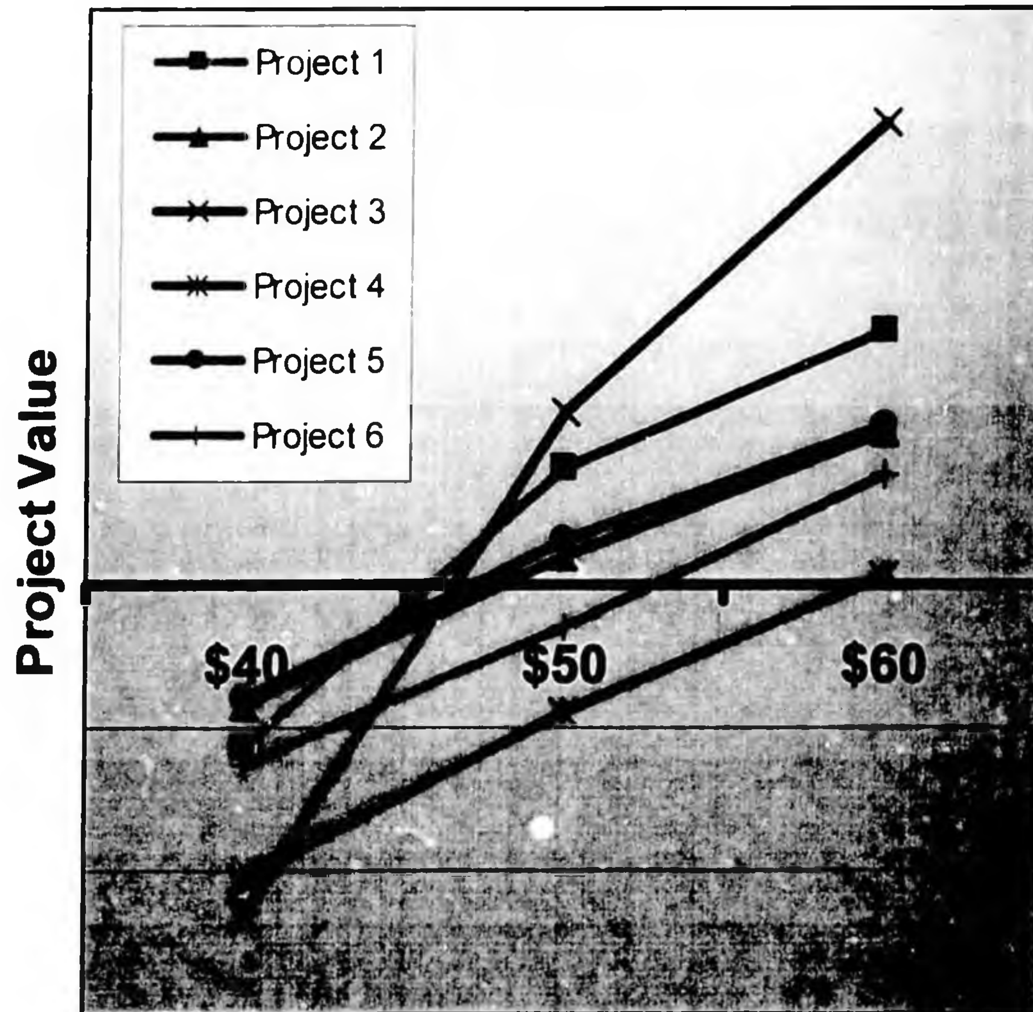
Component of Development Plan	1998	2004+
Well Types	Vertical	Horizontal Multi-Lateral
Drilling Reach	Moderate	Extended
Recovery Mechanism	Waterflood	Viscosity Reduction EOR
Sand Control	Downhole Sand Exclusion	Slotted Liner Completion with Swell Packers
Well Spacing	1,100'	1,250'
Completion	ESP	ESP w/ Gas Lift Back-up
Mud System	Water based	Oil based
Production Assurance	Dilution with Kuparuk Production	Add Heat & Chemicals at West Sak Drill Sites



Project Analysis

	Finniza's Field A	Prudhoe/Kuparuk Projects 1	2	3	4	5	6	Totals
Legacy Field	●	●	●	●	●	●	●	
Satellite	●			●	●	●	●	
Stand Alone								
Heavy Oil	●		●	●	●	●	●	
Reserves (MMB)	80	56	60	53	19	18	52	258 MMB
Ownership	Existing	Existing	Existing	Existing	Existing	Existing	Existing	
Capital ($/B)	$ 11	$ 11	$ 15	$ 16	$ 21	$ 19	$ 16	$3.9 B
Expense ($/B)	$ 7	$ 6	$ 7	$ 5	$ 8	$ 5	$ 11	$1.8 B
Production Start	hypothetical	2010	2010	2010	2012	2012	2013	

Project Economics Under Current PPT



- Projects challenged with higher development costs
- Higher price environment has enabled viability
- Tax change will erode economics

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Impact on Investment

	PPT	Bill 25/20	Bill 10% Min
Project 1	Economic	Economic	Marginal
Project 2	Economic	Marginal	Marginal
Project 3	Economic	Economic	Marginal
Project 4	Marginal	Marginal	Not Economic
Project 5	Economic	Economic	Not Economic
Project 6	Marginal	Marginal	Not Economic

- Six real projects under evaluation
- \$3.5-\$4.0B gross capital spend
- Over \$6.0B revenue to state
- 250MM Bbls
- 1st production 2010-2013

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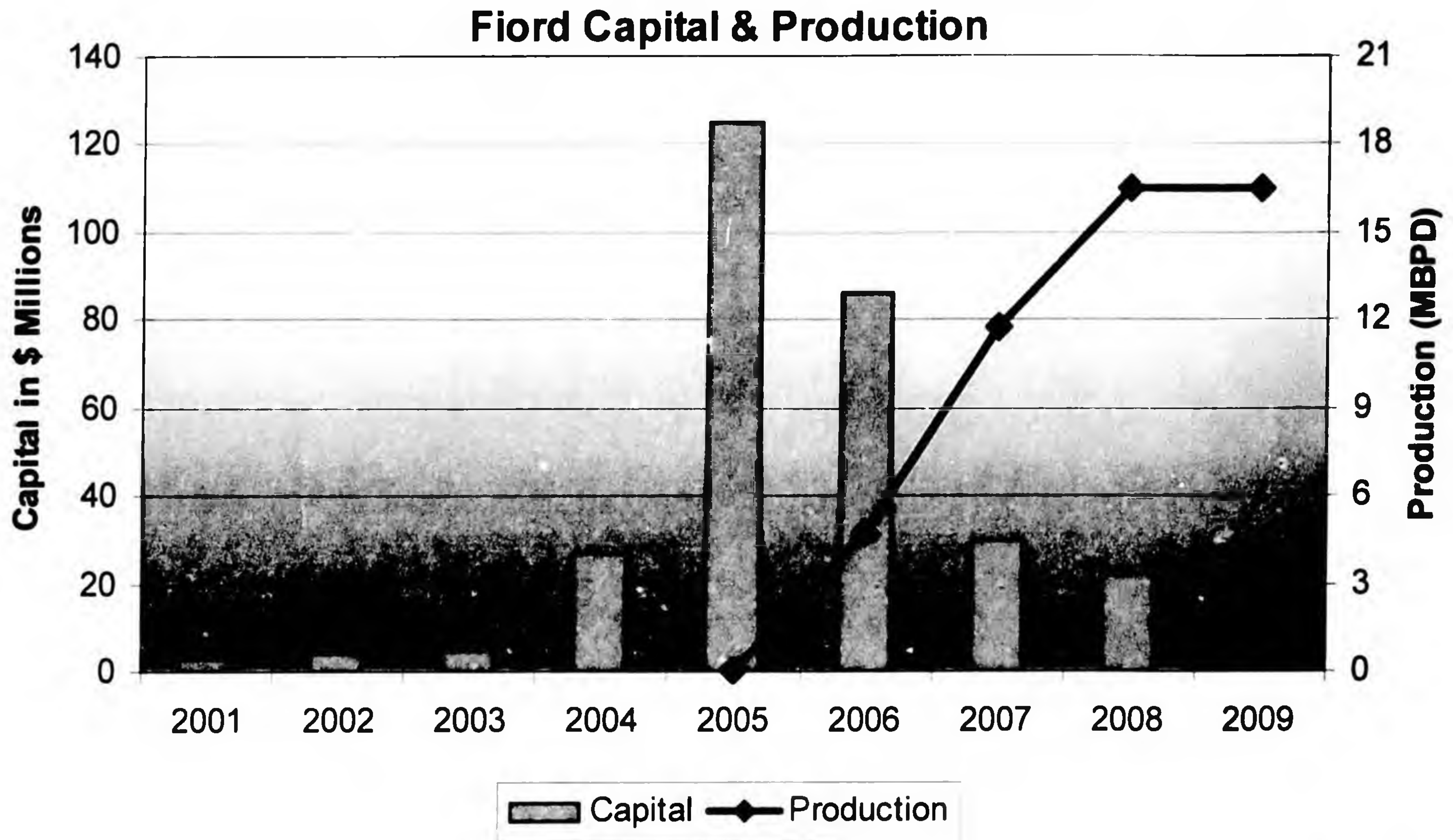
TIE Credits

- Included in PPT legislation to recognize the impact of “changing rules” after investment decisions made
- Provides for equitable treatment of past expenditures
- TIE credits soften the impact of fiscal instability

2 for 1

Example of TIE Impact
Fiord Development



Other Provisions

- Supportive of additional transparency in reporting
- But, certain areas of concern in bill:
  - Exploration confidentiality
  - Cost Deductions:
    - Statute should define lease expenditure deduction
    - Unscheduled maintenance exclusion
    - Exclusion of topping plant expenditures and investment
    - Exclusion of dismantlement costs

Summary Comment

- Interest between state and industry should be aligned
- Too early to change PPT
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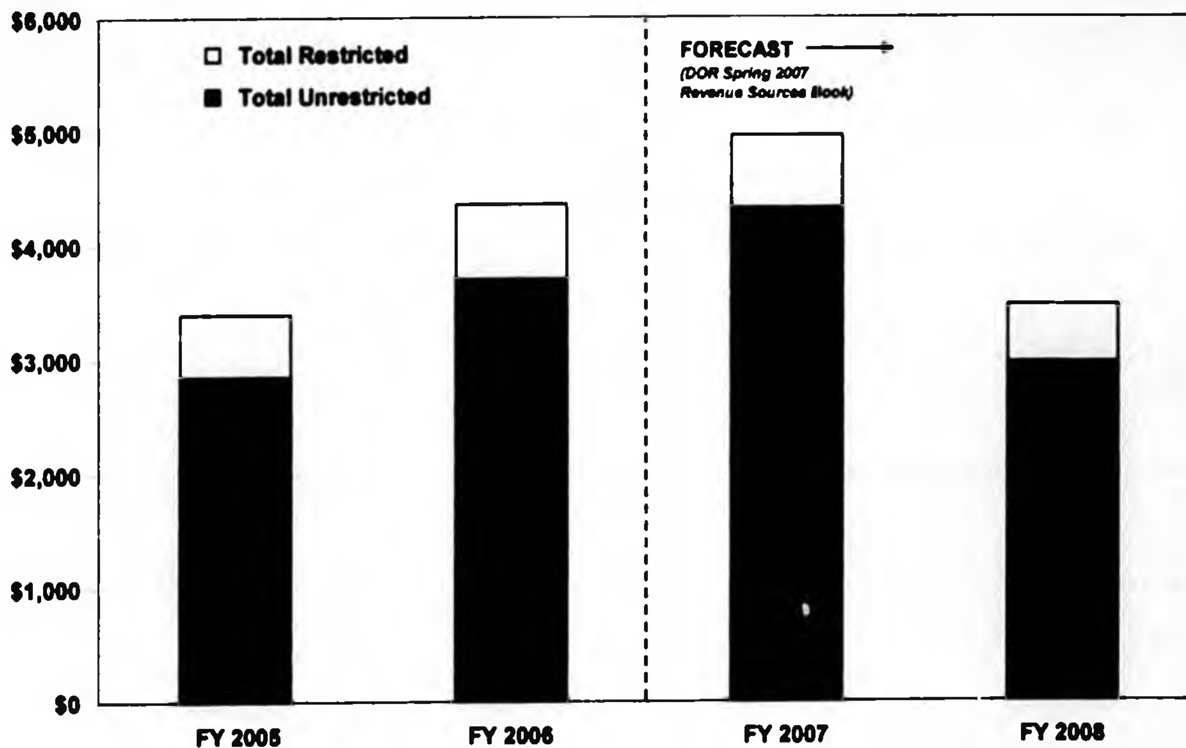
  - Increased tax take
  - Effect of 10% legacy floor
  - Uncertainty with frequent tax changes

Attached is response to Senate Resources Chairman, Sen. Huggins request for an illustration of ALL sources of revenue/income from the oil industry in Alaska, by category, showing actuals for years '05,'06,'07 and projected for 2008.

From DOR 10/23/07

Title:	**FY2005 to FY 2008 Petroleum Revenue**
Data Sources:	Alaska Department of Revenue, Tax Division FY 2005 & FY 2006 from DOR historical database FY 2007 Preliminary estimates FY 2008 forecast from the Spring 2007 *Revenue Sources Book*
Prepared by:	Jennifer Duval, Economist jennifer.duval@alaska.gov
Date:	October 23, 2007
Purpose:	Request by Senator Huggins
Notes:	Dollar amounts are millions of nominal dollars



Historical and Forecast Oil Revenues FY 2005 - FY 2008

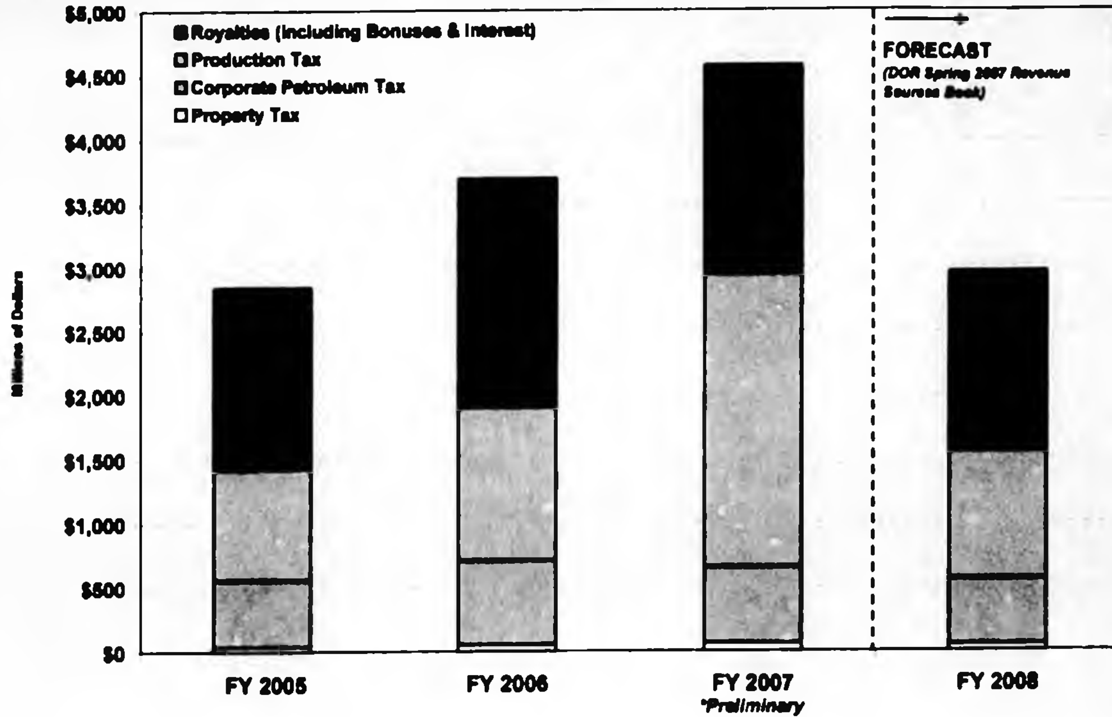
Source: DOR Spring 2007 Revenue Sources Book

In Millions of Dollars	ACTUAL FY 2005	ACTUAL FY 2006	PRELIM ACTUAL FY 2007 (10/22/07)	SPR 07 FORECAST FY 2008
Unrestricted				
Property Tax	**42.5**	**54.5**	**66.6**	**53.2**
Corporate Petroleum Tax	**524.0**	**661.1**	**594.4**	**612.1**
Oil & Gas Production	854.9	1,191.7	2 282 2	983.1
Oil & Gas Hazardous Release	8.3	7.8	10.1	12.3
Production Tax	**863.2**	**1199.5**	**2,292.3**	**995.4**
Mineral Bonuses & Rents	17.4	11.6	22 2	14.8
Oil and Gas Royalties	1401.1	1772 2	1 583.8	1,390.3
Interest	1.4	0.3	7.0	1.4
Royalties (including Bonuses & Interest)	**1419.9**	**1784.1**	**1,613.0**	**1406.4**
Total Unrestricted	**2,849.6**	**3,699.2**	**4,565.3**	**2967.10**
Year-over-Year change	795.5	849.6	866.1	-1,598.2
Year-over-Year % change	38.7%	29.8%	23.4%	-35.0%
Restricted				
Oil Royalties, Bonuses & Rents to Permanent Fund	476.9	599.5	535.0	471.5
Oil Royalties, Bonuses & Rents to School Fund	9.6	12	10.6	9.4
Royalties to Permanent Fund & School Fund + Bonuses & Interest	486.5	611.5	545.7	480.9
Settlements to CBRF	27.4	43.7	113.6	20
NPR-A Royalties, Rents & Bonuses	31.6	4.5	12.8	7.6
Total Restricted	**545.5**	**659.7**	**672.1**	**508.5**
Total Oil	**3,395.1**	**4,358.9**	**5,237.4**	**3,475.6**

Percent of Total Oil	FY 2005	FY 2006	FY 2007	FY 2008
Property Tax	**1.3%**	**1.3%**	**1.3%**	**1.5%**
Corporate Petroleum Tax	**15.4%**	**15.2%**	**11.3%**	**14.7%**
Oil & Gas Production	25.2%	27.3%	43.6%	28.3%
Oil & Gas Hazardous Release	0.2%	0.2%	0.2%	0.4%
Production Tax	**25.4%**	**27.5%**	**43.8%**	**28.6%**
Mineral Bonuses & Rents	0.5%	0.3%	0.4%	0.4%
Oil and Gas Royalties	41.3%	40.7%	30.2%	40.0%
Interest	0.0%	0.0%	0.1%	0.0%
Royalties (including Bonuses & Interest)	**41.8%**	**40.9%**	**30.8%**	**40.5%**
Total Unrestricted	**83.9%**	**84.9%**	**87.2%**	**85.4%**
Restricted				
Oil Royalties, Bonuses & Rents to Permanent Fund	14.0%	13.8%	10.2%	13.6%
Oil Royalties, Bonuses & Rents to School Fund	0.3%	0.3%	0.2%	0.3%
Royalties to Permanent Fund & School Fund + Bonuses & Interest	14.3%	14.0%	10.4%	13.8%
Settlements to CBRF	0.8%	1.0%	2.2%	0.6%
NPR-A Royalties, Rents & Bonuses	0.9%	0.1%	0.2%	0.2%
Total Restricted	**16.1%**	**15.1%**	**12.8%**	**14.6%**
Total Oil	**100%**	**100%**	**100%**	**100%**

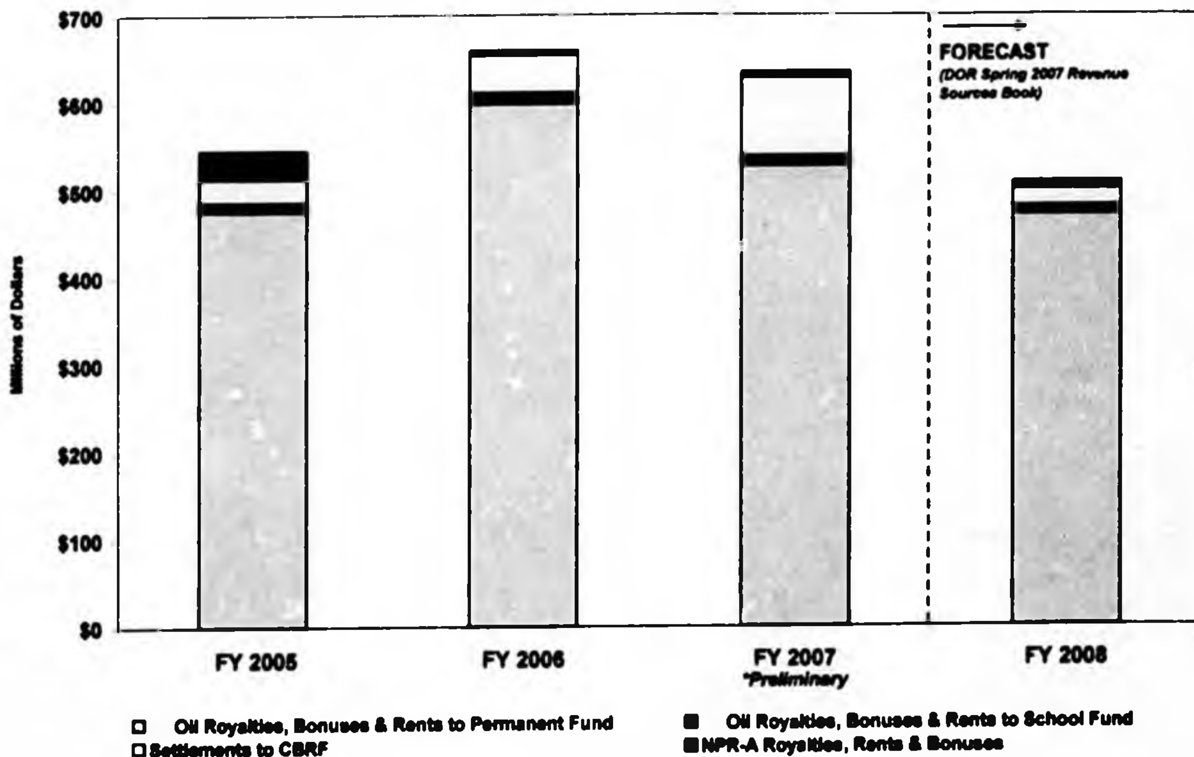
Unrestricted Oil Revenue by Category

FY 2005 to FY 2008



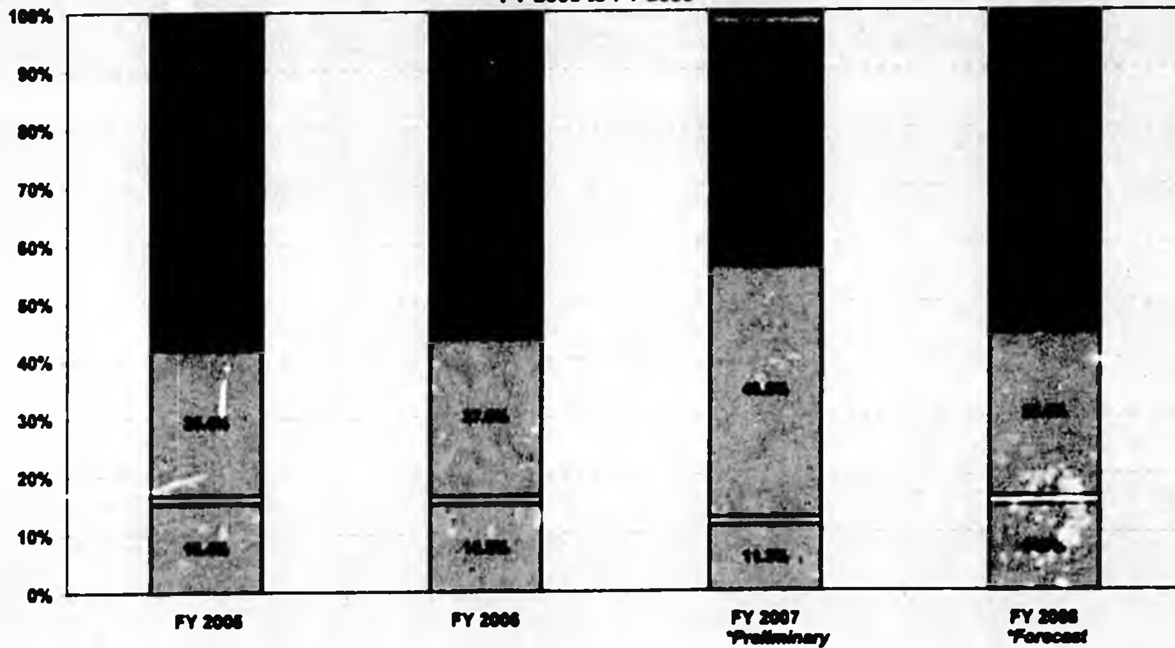
Restricted Oil Revenue

FY 2005 to FY 2008

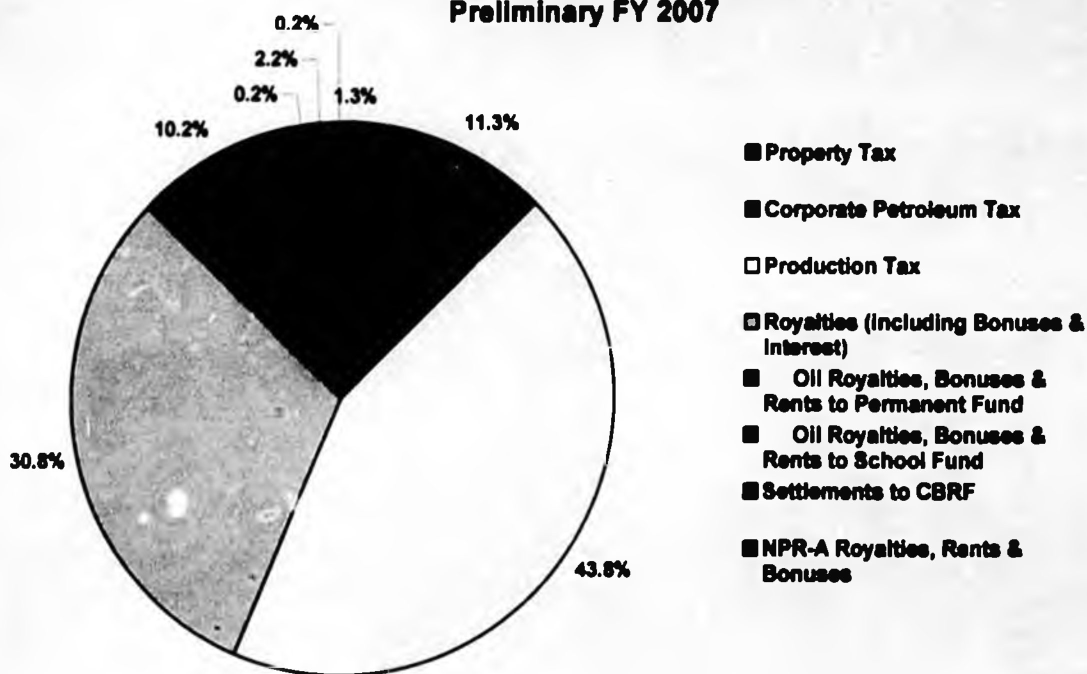


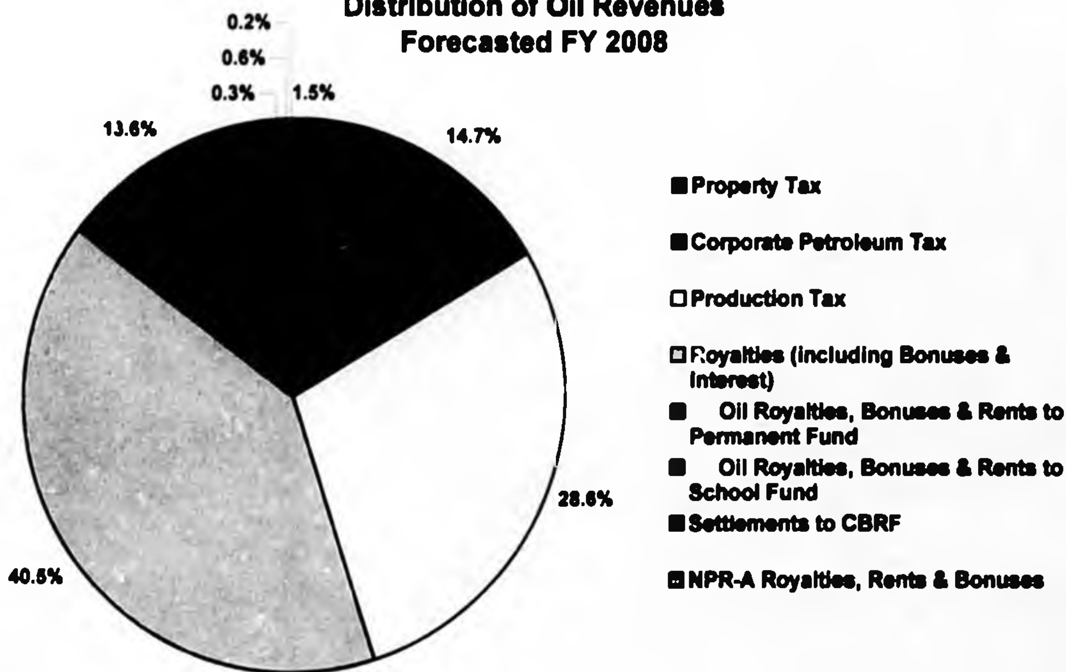
Percent Distribution of Total Oil Revenues by Year

FY 2005 to FY 2008



- Corporate Petroleum Tax
- Production Tax
- Oil Royalties, Bonuses & Rents to Permanent Fund
- Other Restricted
- Property Tax
- Royalties (including Bonuses & Interest)
- Settlements to CBRF


Distribution of Oil Revenues
Preliminary FY 2007
0.2%
2.2%
0.2%
1.3%
10.2%
11.3%
30.8%
43.8%
Property Tax
Corporate Petroleum Tax
Production Tax
Royalties (including Bonuses & Interest)
Oil Royalties, Bonuses & Rents to Permanent Fund
Oil Royalties, Bonuses & Rents to School Fund
Settlements to CBRF
NPR-A Royalties, Rents & Bonuses


Distribution of Oil Revenues
Forecasted FY 2008
0.2%
0.6%
0.3%
1.5%
13.6%
14.7%
28.6%
40.5%
Property Tax
Corporate Petroleum Tax
Production Tax
Royalties (including Bonuses & Interest)
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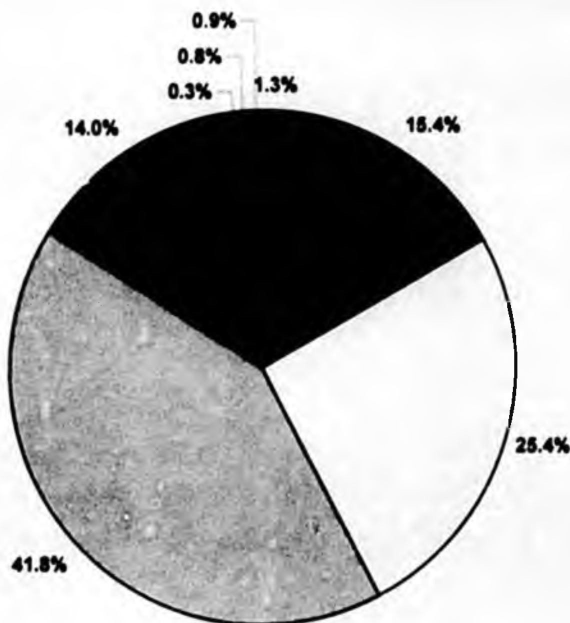
Distribution of Oil Revenues
FY 2005



- Property Tax
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- Royalties (including Bonuses & Interest)
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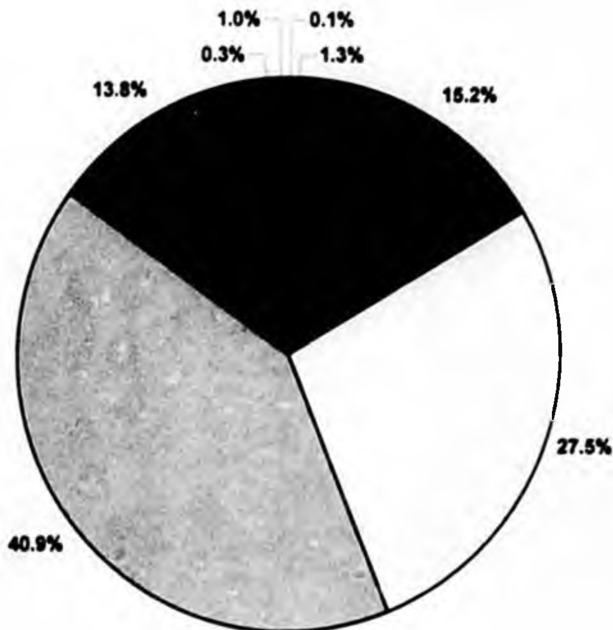
- NPR-A Royalties, Rents &

Distribution of Oil Revenues
FY 2006



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Deborah Grundmann

From: Sen. Charlie Huggins
Sent: Thursday, October 25, 2007 9:33 AM
To: Deborah Grundmann; Sharon Long
Subject: FW: Hearing testimony by ADNR and AOGCC

Karen Sawyer
Staff to Senator Charlie Huggins

907-376-4866
907-373-4724 Fax
600 E Railroad Avenue
Wasilla AK 99654
Karen_Sawyer@legis.state.ak.us

From: Tom Lakosh [mailto:lakosh@gci.net]
Sent: Thursday, October 25, 2007 7:49 AM
To: Rep. Kurt Olson; Sen. Charlie Huggins
Cc: jody.colombie@alaska.gov; tom.irwin@alaska.gov
Subject: Hearing testimony by ADNR and AOGCC

Dear Senator Huggins and Representative Olson;

Yesterday I provided testimony to your committees suggesting that ADNR and AOGCC be given the enhanced responsibility and tools to ensure the revenue maximizing administration of hydrocarbon leases. Would you please call the appropriate personnel from these agencies to testify on their roles in maximizing revenue and the potential for improved optimization if they were given new tools for incentivizing development?

While the ability to incentivize development with a broader range of royalty rates for new leases should be obvious, it may not be so obvious with regard to existing leases. ADNR already exhibited the ability to adjust the increased financial liability for existing leases by determining that satellite fields were indeed only extensions of the Prudhoe Units. I am only suggesting that, in cooperation with AOGCC and ADOR, that ADNR be mandated and permitted to evaluate the feasibility of proffering adjusted lease royalty rates where revenue optimization indicates that with projected oil prices, optimization would be infeasible given the cost of extraction of certain hydrocarbons on specific leased units. For example, if the long term revenue optimization requires concurrent development of heavy oils at West Sak and the

projected price does not warrant extraction of the heavy oils with the most cost effective extraction technology, then ADNR would have the authority to offer lessees a lower royalty rate under an AOGCC conservation plan that requires the concurrent extraction of the optimal ratio of light and heavy oils.

My sense of the situation is however, that the current projected prices and existing agency mandates already support this type of concurrent extraction of heavy oil and light oils but the oversight of the responsible agencies is somewhat lacking and a renewal and enhancement of agency mandates is necessary to spur proper resource development/conservation policies.
Tom Lakosh

Testimony provided for the benefit of ADNR and AOGCC:

TOM LAKOSH P.O. BOX 100648 ANCHORAGE, AK 99510 Ph/Fax (907) 563-7380

October 24, 2007

TESTIMONY ON HB 2001 ACES

My alternative to ACES is called TRIPS, Taxes, Royalties and Infrastructure for the Petroleum Sector. There are some, albeit few, sections of ACES that would be useful but basic principles at work that require a wholesale reworking of the Bill are:

- Virtually all oil bearing structures on state lands have been explored so there's little reason to provide incentives to the industry to explore where they have already exploited everything they could. BP made this clear in their statement that 70% of their future investment would be in the greater Prudhoe area where they are obligated to wisely extract the hydrocarbons pursuant to the applicable leases and AOGCC guidelines. If producers don't provide full and efficient extraction, their leases are subject to revocation and "there's always other fish in the sea". We should not give existing producers kickbacks where they're obligated to do the job properly and within technological feasibility and economic limits under existing contracts and law. With the price of oil above $80 there should be little left to recover in our legacy fields and we must demand heavy oil extraction now while we still have light oil to mix into TAPS shipments and the price is still high enough to warrant extraction without subsidy.

- Where extraction of heavy or viscous oils is necessarily tied to the availability of lighter oils, the ADNR and AOGCC must conduct the proper technology and economic analyses to insure the optimization of revenues from regulation of the rates heavy and light oils

are extracted. The ADNR and AOGCC must thereafter issue the necessary directives to lessees to insure that lessees are producing each type of hydrocarbon on their leases in manner that optimizes the total revenues to the state. There is no quantifiable correlation between the oil production rates or total state revenues and the tax rates so the proper mandates for our regulatory agencies must be codified in statute to insure that they regulate lessees to the optimal benefit of the state.

- If absolutely necessary, we can subsidize production of hydrocarbons that are difficult to develop by adjusting royalty rates instead of taxes. This would allow for lease by lease evaluation that is clearly more sensible than the broad subsidies to all operations. The royalty rates apply to gross production so the 19% range I've suggested has more than enough value available to provide incentive for development of heavy oils and remote gas should existing lessees submit, or new lessees sign on, to the new adjusted royalty rates that express the relative accessibility and marketability of specific lease types at specific distances from established infrastructure.

- The testimony clearly enforced the principle that "if you build it they will come". Angola got a $1 billion for its leases and rabid global competition because the oil co's knew there was oil to develop. If there's oil/gas to be found, the state should find it and define the field before it puts out leases so it can garner the highest bids among many competitors. The state would also be better able to predict development, classify fields to establish proper royalty rates and determine appropriate deadlines for relinquishment. The more we improve information on prospective fields and insure access, the less we need speculators that demand high rates of return. When we eliminate the discovery and access impediments we essentially only need contractors to build the production facilities and pump the oil as regulated by ADNR and AOGCC.

- If we have to subsidize the industry we should do it in a way that benefits other businesses and public interests. Taking money from royalties to improve transportation to the fields/pipelines floats everybody's boat. The heavy lift helicopters and low impact transport would also reduce tundra impacts, allow a longer exploration season and year round deliveries to isolated drilling/production pads. They would also be extremely effective tools for getting spill response equipment to remote sites and help repair global warming damage in remote areas that is directly caused by the oil we peddle.

- Our economic future through 40 - 60 years depends on our ability to market gas and the gas will not be marketable until the relative BTU value of gas approaches the price of oil BTUs, (PVM said it was at 40% of oil because Northern Tier coal companies successfully

marketed their coal to power plants). The relative BTU value of gas can only be increased by de-valuing coal as a power plant fuel with a federal carbon tax. The carbon tax would also likely save us as much in damages to infrastructure from global warming as we would make on oil exports, billions and billions in prevented damage that we wouldn't have to spend our revenue on to mitigate.

- Providing tax incentives to explore on federal land will mostly provide returns for the federal gov't, leaving us with enormous development bills and not much revenue to show for it.

- The least impact to exploration on federal land/OCS can be accomplished by increasing the corporate income tax on hazardous operations because an increase in state corporate tax is used as a direct offset to federal income taxes so there' no net increase in taxes on the oil co's. This tax will affect new fields and existing fields that we've been getting a raw deal on, (i.e. the 90/10 vs 50/50 split, justice w/o a court).

- If we allow the oil co's to write off their Alaskan expenses it would tend to increase the price of our hydrocarbons and make them less competitive on the open market. Taxes do have an effect on corporate behavior and only taxing the gross at the point of export or in-state delivery will serve to keep a market check on expenditures in-state and therefore keep our hydrocarbons as cheap as possible in the market. We would surely have a strong case for upholding the gross tax where it measured value IN ALASKA. Both PPT and ACES are inviting fly by might wildcatters that will sell their credits and leave. The majors will be just as susceptible to the notion that spending controls are less of a priority given that they can sell the credits for marginal projects if they fail. Why not just take the money we'd spend on credits and provide the needed oversight to exploration contractors we hire on a competitive bid? The discrepancies between projected and collected revenues under PPT suggests that either the state is incapable of properly assessing tax provisions or that tax payers are withholding taxes. Both results suggest we must have a simple tax structure to avoid revenue shortfalls and costly litigation.

- The whole TRIPS scheme is designed to enhance certainty of development, (pre-defined leases and improved access), while alleviating risk due to low prices but eliminating any windfalls to industry, (the progressive production tax spanning a $190 price range). Although I haven't done a precise analysis of the total government take, I strongly suspect that these rates would keep us below the Norwegian standard of 78% up to about $70-$90/bbl and I would suggest lowering the base production tax and/or raising the new class of corporate income tax until this parity was reached. I'm sure that the Norwegians never anticipated the blistering oil market we have today and so did not include progressivity. The gas problem can

only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.

TRIPS beats ACES every day of the week and I would appreciate your feedback. Tom Lakosh phone 563 7380 in Anchorage

Proposed Principles and Rates for Design of an Oil Tax Bill:

Production and Corporate Income Taxes, Royalty Rates and Lease Provisions with

State Commitments to Exploration, Infrastructure and Carbon Conservation

Production Taxes: The gross tax on hydrocarbons produced in Alaska shall be set at the value of the hydrocarbons at the Alaskan terminus of export or point of sale within Alaska, (e.g. Valdez Marine Terminal for TAPS oil, Drift River or KPL Dock for Cook Inlet oil and gas, at the Canadian border in the case of gas transport by pipeline, at any in-state refinery or point of sale), in order to provide a market check on production costs and pipeline tariffs in furtherance of the relative competitiveness of Alaskan resources. This tax system would also encourage export of value added petrochemical and refined products. The tax rates for crude oil are as follows:

1. There shall be a minimum PT of 15% of gross value for oil prices between $0 and $20/bbl;

2. At $21/bbl the PT increases to 15.5% and increases by a rate of 0.5% for each $1/bbl increase in price to $30 ;

3. At a price of $31/bbl the PT shall be raised to 20.2% of gross value and shall increase at a rate of 0.2% for each $1 in value per barrel until a price of $110/bbl at which point the tax will have accumulated increases to provide a rate of 36% of value;

4. At a price of $111/bbl the PT shall be assessed at 36.1% of value and shall increase at a rate of 0.2% for each $1 in value per barrel until a price of $210/bbl at which point the production tax will have reached its maximum rate of 46% of value.

Corporate Income Tax: A distinct class of Alaskan corporations shall include those operations that handle substantial quantities of hydrocarbons and other hazardous materials, as classified by the ADEC, and be subject to a corporate income tax of 14%. The safety and security issues presented by these operations require significant oversight, security and public safety assets

that warrant an enhanced level of corporate classification in such regard.

Royalty Rates: Lease bidders will proffer a signing bonus payment and a bid above an adjustable royalty floor/minimum established between 1% for the least marketable hydrocarbon, (e.g. inaccessible, undefined gas fields), to a maximum of 20% for the highest wellhead value hydrocarbon, (e.g. well defined, light and accessible liquids such as those at Point Thompson). Each lessee shall consent to an adjustment of its royalty rate every 5 years after production startup that reflects any increase or decrease in the market valuation of the BTU content of the hydrocarbon(s) under development and/or by a substantial improvement in accessibility of leased properties as generated by state efforts. Lessees shall provide all necessary information needed to assess the relative BTU values of Alaskan hydrocarbons.

Hydrocarbon Exploration, Production and Transport Lease Provisions: ADNR and AOGCC, shall in their administration of lessees operations, conduct the necessary analyses and issue appropriate directives to lessees to provide for the revenue optimizing extraction rates and use of technologies with respect to recovery of viscous and heavy oil recovery as such extraction may be tied to concurrent availability of lighter oils. All new leases shall have relinquishment provisions that reflect the realistic development timelines given the difficulty perfecting necessary permitting and development tasks. All lessees consent to regulation and assistance by the ADEC to effectively utilize and otherwise abate or sequester greenhouse gases released by exploration, production, transport, power generation and refinery operations associated with its leases. Lessees shall proportionately supply all necessary fuel for state aircraft and vehicles used to assist and administer lessees' operations.

Exploration Commitment: In order to exact the highest signing payments and royalty bids and to provide for a most efficient and predictable development of Alaska's hydrocarbon resources, the ADNR will commit to obtaining the services of exploration experts, whether contracted or employed, with the most advanced geologic mapping and analysis capability to define hydrocarbon resources to their greatest practicable extent prior to leasing of hydrocarbon fields to enhance "prospectivity".

Infrastructure Commitment: The ADOT in an MOU with DNR shall employ all due diligence in coordinating interested state and federal agencies to develop, subsidize or otherwise facilitate transportation of exploration and production materials to proposed leasing areas and for access of gas by Alaskan communities. A dedicated 4% portion of total royalty payments shall be set aside for this Safe Transport Development fund. The ADOT shall minimally provide heavy lift helicopters and other low impact vehicles to advance preservation of sensitive areas, enhance spill response, protect wildlife and maintain security in leasing areas as training for

their primary public safety and security duties that shall include repair and prevention of Global Warming impacts across Alaska. The ADOT shall also advance planning and construction of ports, port services, rail systems and pipelines necessary to promote efficient materials transport along established Alaskan transport corridors and extensions along the AGIA certified ROW(s).

Carbon Conservation Commitment: The state shall employ all due diligence with appropriate funding of legislative and regulatory efforts to establish in state and federal law establishing a transferable carbon tax and to additionally advance CO_2 sequestration and secondary utilization, methane capture and abatement, and Arctic-appropriate carbon-neutral energy generation technologies using a dedicated 4% portion of total royalty payments. The ADEC shall develop regulations establishing a carbon tax, appropriate emissions standards and/or other carbon limiting constraints upon hydrocarbon lessees. The ADEC shall conduct the necessary analyses to establish abatement technology standards and pursue advancement of the best available technologies with a bi-annual $3 million grant funding that may accumulate beyond the $3 million level to ensure appropriate funding of appreciably superior and effective technologies.

Sincerely, Tom Lakosh

NORTHWEST TECHNICAL SERVICES

SenateTestimony
Regarding HB 2001
October 24, 2007

Mr. Chairman and members of the committee:

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

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

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

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

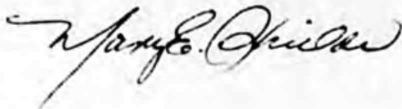
It is those investment dollars that help provide jobs, not just for NWTS employees, and not just for employees who work directly in the oil and gas industry, but also for the individuals that work in the "fallout jobs" at grocery stores, hardware stores, educational facilities, the State of Alaska, -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

4401 Business Park Boulevard, Bldg N, Ste 26 • Anchorage, AK 99503-4580 • 907 562-1633 • 907 562-5875 fax
E-Mail: ak@pdstech.com • Website: www.NWTS-ak.com

Senate Testimony
Regarding HB 2001
October 24, 2007
Page Two

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

Respectfully yours,



Mary E. Shields
General Manager

4401 Business Park Boulevard, Bldg N, Ste 26 • Anchorage, AK 99503-4580 • 907 562-1633 • 907 562-5875 fax
E-Mail: ak@pdstech.com • Website: www.NWTS-ak.com

The testimony of Jerry McCutcheon

The taxes as proposed are FAR TOO LOW.

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

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

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

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

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

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

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

Jerry McCutcheon susitnahydronow@yahoo.com

Senate Resources Public Testmony 10-24-2007

October 24, 2007

Senator Charlie Huggins, Chair
Senate Resources Committee
State Capital Room 205
Juneau, AK 99801-1182

The Honorable Chair & Members of the Senate Resource Committee,

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

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

Renewing Public Faith in PPT

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

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

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

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

RAISING THE TAX RATE

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

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

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

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

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

FISCAL PLAN

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

ALASKA'S BUSINESS IMAGE

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

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

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

TAX AUDIT EXPERTISE

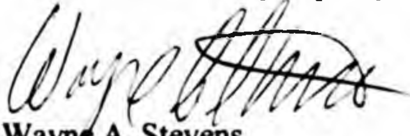
We offer assistance in boosting the state's tax audit capabilities. We are confident that if industry can acquire talent to administer a wide range of complex tax regimes throughout the world, Alaska can recruit the best and brightest to administer our single regime. This expertise will be found in a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

TAX ON PROFITS IS GOOD FOR BUSINESS

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

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

Yours in economic prosperity,



Wayne A. Stevens
President/CEO

SB

2001

(FILE 15)

10/25/07

ALASKA STATE LEGISLATURE

Sen. Charlie Huggins, Chair
Sen. Bert Stedman, Vice Chair
Sen. Lyda Green
Sen. Gary Stevens
Sen. Lesil McGuire
Sen Bill Wielechowski
Sen. Thomas Wagoner

State Capitol, Room 119
Juneau AK 99801-1182
907-465-3878
Fax: 907-465-3265
800-862-3878

Senate Resources Committee

Butrovich Rm 205

Thursday, October 25, 2007
10:00 a.m. – 5:00 p.m.

<u>Recessed to 2:30 p.m. for afternoon session</u>

<u>AGENDA</u>

SB 2001 - Oil and Gas Production Tax
PPT Amendments

<u>Afternoon Agenda</u>
Roundtable Discussion

Legislative Budget & Audit Consultants
Dan Dickinson
Steven Porter

BP
Claire Fitzpatrick

ConocoPhillips
Kevin Mitchell

ExxonMobil
Craig Haymes

Alaska Venture Capital Group-Brooks Range Petroleum Did not call in
Ken Thompson
ANADARKO - MARK HANLEY

Administration
Pat Galvin, Commissioner Dept. of Revenue

***(Possibly to call* in)**
Mr. Pat Foley, Pioneer Natural Resources Alaska Inc.,) Did not call in

SENATE RESOURCES COMMITTEE 10-00- 5:00 & 6:15-TBD Thursday October 25 , 2007

1. Gavel In & Call to Order : Note time – members present

I CALL THE SENATE RESOURCES COMMITTEE TO ORDER ON THURSDAY OCTOBER 25, 2007. LET THE RECORD REFLECT THAT IT IS _______ A.M..

PRESENT ARE:
Vice-Chairman Senator Bert Stedman
Senator Gary Stevens
Senator Lyda Green
Senator Lesil McGuire
Senator Bill Wielechowski
Senator Tom Wagoner
& myself, Senator Charlie Huggins

2. SB 2001 OIL & GAS TAX AMENDMENTS

Alaska State Chamber of Commerce
Wayne Stevens - President and CEO

Brooks Range Petroleum
Ken Thompson – via phone

ExxonMobil
Craig Haymes – Production Manager, ExxonMobil Alaska

Possible call backs of Previous Presenters + Ex 10:45

+3. **Announce:** We'll be back tomorrow @ 10 AM, --THIS IS A TIME CHANGE-- And may be delayed until after our floor session.

6. Meeting adjourned @ __________.

Comments On ACES Petroleum Tax Proposal, October, 2007
By Ken Thompson, Managing Director, AVCG/Brooks Range Petroleum

Personal Background

For the record, my name is Ken Thompson. I reside at 12031 Lilac Drive, Anchorage, Alaska. I am the Managing Director for Alaska Venture Capital Group, or AVCG LLC, an independent oil exploration company formed with a sole focus on the North Slope of Alaska. AVCG is a privately held member LLC comprised of private equity investors made up of 15 independent oil and gas companies and individuals from Kansas and me as an owner/member partner from Alaska. AVCG has a technical and operational services' subsidiary company called Brooks Range Petroleum, with offices and staff in Anchorage. In Alaska and on the North Slope, we operate under the name Brooks Range Petroleum.

AVCG has lease holdings and explores currently only in Alaska...and nowhere else. AVCG/Brooks Range Petroleum likes to think of our company as "Alaska's *Independent* Oil and Gas Company."

AVCG LLC has been very active in the past seven North Slope areawide lease sales and active in acquiring acreage held by other companies where we see potential. We and our partners currently hold over 300,000 acres of exploration leases in five exploration prospect areas on the Slope. Our exploration strategy is to explore in the central part of the North Slope for fields in the 10-100+ million barrels range, fields that may be too small for the giant producers but satisfy as niche fields that can be "company makers" for a small independent. We believe there are hundreds of millions if not billions of barrels of oil left on the central North Slope in smaller fields of this size for small independents like ours that want to take this type of exploration risk.

Last year, AVCG LLC announced joint venture agreements with two Canadian independents, TG World Energy and Bow Valley Energy, and with a private exploration company from Houston, Ramshorn Exploration. Together, as working interest co-owners we are exploring the central part of the North Slope.

In the winter of 2006, AVCG participated with an ownership interest in the Cronus exploration well about 10 miles southwest of the Kuparuk Field, operated by Pioneer Natural Resources. Unfortunately, that well was a dry hole.

This past winter for the first time, our operations subsidiary, Brooks Range Petroleum operated the drilling of two exploration wells for our working interest partners in the Gwydyr Bay area of the North Slope, just northwest of Prudhoe Bay. One well, the Sak River #1, was a dry hole, but we were excited to announce earlier this year that our Northshore #1 well northwest of the Prudhoe Bay Field did strike oil. We plan to complete and test this well this winter. In addition, we ran a 130-square mile 3D

seismic survey over our acreage and surrounding area in the Gwydyr Bay area on the North Slope. In total this past drilling season, our JV Group invested over $44 million on land, seismic and drilling activities.

This winter our Joint Venture Group will be among the most active of explorers as we plan to shoot over 200 square miles of new seismic data on the extreme western and eastern sides of the Central North Slope and to drill up to four exploration wells. We plan to test the Northshore #1 well and also drill one or two other exploration wells nearby to see if we can discover a sufficient volume of oil to warrant a commercial development at Gywdyr Bay. We will drill our Tofkat #1 well south of the Alpine Field and also drill a fourth exploration well on a prospect to be named. In total, our group will spend over $40 million in seismic and exploratory drilling in winter 2008. If our Northshore oil completion test is as suspected and one of the wells strikes oil close by, we may proceed with Northshore development with more substantial apital investment in the second half of 2008.

My comments today represent the perspectives of a small, independent exploration company that is actively exploring on the North Slope with a good level of activity, generally on prospects that because of smaller size no longer interests the major companies. At the end of next drilling season, AVCG since 1999 and our partners since last year will have jointly invested over $100 million in Alaska even though none in our group have generated any revenues yet from Alaska oil, so we sincerely appreciate being listened to. We think in the long run we can bring substantial, incremental value to the State of Alaska. Please wish us good luck.

Many of you also know me as the past President of ARCO Alaska, Inc. from 1994-1998. I also served as Executive Vice-President for ARCO and head of global oil and gas exploration for ARCO. I do have exploration and production experience in 10 U.S. states and in over 20 countries throughout the world, so I'll also share my perspective in how I see the ACES bill in the context of competitiveness in the United States and in the world.

<u>General Comments On ACES Legislation</u>

At this point, I would like to address various key points in the ACES legislation.

First, our company prefers that the PPT be allowed to run its course in the next few years, and that ACES not be approved with its current provisions. I agree with Dr. Pedro van Meurs that in the light of declining oil production in the state of Alaska and prospectivity trending to smaller field sizes, the State should not once again increase its taxes after having done so last year. I will tell you that when recruiting companies to join in our Alaska ventures in 2005 and 2006, many were concerned about the threat of tax increases in Alaska. PPT proved tax increases were not a threat but a reality. Adding yet another tax increase via the ACES bill this year shows instability

in Alaska's tax policy which results in uncertainty and risk when making investment decisions.

I heard that consultant Daniel Johnston differed strongly from Dr. van Meurs and urged the oil industry to understand the "cloud of corruption" over the existing Petroleum Profits Tax, or PPT, and that this alone provides a good reason to change PPT. I challenge Daniel Johnston that the bushel should not be thrown out because of a few bad apples.

In fact, last year during the PPT debates, I recall those who are guilty of paying bribes and some who are accused of taking bribes actually supported a 20% base tax rate, not the 22.5% base rate that was finally adopted. In fact, I'd like to think that the almost all in the Legislature and in Industry were honest, that they could be trusted in their deliberations last year, and that the final answer of PPT was a good answer and an honorable answer.

It is also very important to keep in mind that the progressivity tax was added at high oil prices to drive the real tax rate to even higher levels than 22.5%, with a range exceeding 30% now possible at certain prices. And let's not forget to tack on the royalty, the corporate tax, the ad valorem property tax, and environmental and permitting fees. It appeared to me that the checks and balances in the system worked in the Legislature last year, and I applaud the honesty of the legislators who in the end made a positive difference.

But I sit here feeling as if the honest and trustworthy investors in this industry are being punished alongside the guilty. I personally think this will have negative consequences for Alaska in the long haul in relationships and even in sustainable increased value.

But I am politically astute enough to know that the ACES train is moving fast down the track, so I can stand out of the way or jump on board and try to make the ACES bill better before we reach derailment in the long-term relationships between this industry I love and this State I love.

So, I have some suggestions of things not to change and things to change in the ACES proposal.

Five Things *Not* To Change In ACES

1) **Keep the exploration and development investment tax credits.** For a small explorer startup company like AVCG LLC, the exploration economics with the exploration tax credits ranging from 20-40% as provided by PPT and with ACES are more favorable with an improvement in the investor's rate of return as compared with Alaska's old severance tax system. Near-term cash flow because of the investment tax credits is higher which improves the return

on investment. Plus refund of cash to companies like AVCG and our working interest partners via the credits mean that we can apply that cash to our capital budget the next year to run adequate seismic and do additional drilling that increases the chance of more oil production and reserves for us and for the State.

Likewise, the credits for losses for a startup company like ours while we establish production and also the development investment credit can take substantial risk out of development of smaller fields that our company is focusing on. May of these smaller fields can add up over time and provide significant incremental revenue to the State.

2) **Keep the "standard tax deduction/exemption" for smaller companies.** The "Small Producer Tax Credit" that exempts up to the first $12,000,000 in production taxes for smaller companies can allow us to return a larger share of our annual cash flow for exploration and investment while we build the company to a critical mass of reserves and production necessary to expand staffing and have a routine level of major capital spending each year.

3) **Keep the new ACES tax credit allowance for qualified delineation wells.** A new proposal in the ACES bill that was not in the PPT law is the possible tax credit allowance for the investment in up to two delineation wells following a discovery. This would be very helpful to small explorers as well as for large companies on the North Slope where often one well is not enough to determine if field size is large enough to warrant development.

   A real case in point is that should we have a discovery this coming winter at our Tofkat exploration well on the western side of the Slope, we will have to drill one or two delineation wells to confirm if field size is sufficient to develop the resource at this remote location. Often, due to the nature of these complex stratigraphic traps where sands unpredictably come and go, the delineation wells can be almost as risky as the initial exploration well. Having a credit where the State, in a real sense, is sharing in the risk will – I think – expedite delineation of new fields and advance development for revenues.

4) **Keep the revised progressivity tax rate at 0.2% per dollar increase in oil price.** The PPT tax law had an incremental tax rate of 0.25% per each dollar increase in oil price above a trigger price while the new ACES reduces this incremental tax rate to 0.2% per dollar increase in oil price at a trigger price. While we can debate all day long the competitiveness of Alaska's tax rate with other countries' fiscal systems, giving some reduction in this surcharge keeps the government take at more reasonable levels. However, as I'll outline below, I would change the ACES trigger price back to $40 per barrel net and not the proposed $30 per barrel net if Alaska wants to better balance revenues with industry capital investment at low prices as I'll more fully discuss.

5) **Do establish the Oil and Gas Tax Credit Fund** for the purposes of purchasing certain tax credits from explorers and producers. This ACES provision would establish a procedure and standard for appropriation into this fund and management of this fund. Having a clear and transparent way for small explorers to receive their credits at full value is extremely important for AVCG to then be able to plow those credits back into seismic and exploration on the North Slope.

Four Things To Change In ACES

1) **Change the recovery of tax credits from two years as proposed in ACES back to the recovery of credits in one year currently provided for in the PPT law.** In the PPT law, a company could file for the various credits, and if approved, would receive those full capital credits not to exceed credits of $25 million per company. In the new ACES law, while the cap has been removed which is very positive, the credits are refunded over two years instead of over one year, e.g., 50% of qualified credits can be applied for in the first year once a well is completed or abandoned and 50% in the following year.

For a small company like ours, this will definitely affect our capital spending in a given winter as we plow all the credit refunds back into seismic or exploration drilling. As a very real example, AVCG and our working interest owners are projecting to spend $41 million in seismic and exploration drilling this coming winter and likely around the same in 2009. We calculate that we could receive $16 million cash in qualified credits in mid-year 2008. So essentially, our working interest owners are planning to provide cash out of pocket of $25 million for the 2009 drilling season; this is a fixed number based on cash availability in these small companies to spend toward the Alaska portfolio. If the State refunds only one-half of this credit in the first year, or only $8 million instead of $16 million, AVCG and our partners will still provide $25 million out of our pockets as now planned and budgeted…meaning our overall spending in 2009 will be $33 million, not $41 million, i.e. $25 million from our available funds and only $8MM from the State. This would mean one less well that will be drilled by our group in 2009. And one less chance for another discovery that eventually could provide revenues to us all. With small companies, this is just the way our cash flow situation works. And for some of our AVCG investors like me, when I say "out of pocket," I mean "out of pocket."

So, we hope the full credit can be applied for and refunded in a given year. We hope this happens for all of industry. As an innovative compromise, however, the Legislature may consider a "Small Company Refund" provision that allows for companies that meet the no production or low production measures in the "Small Company Tax Credit" provision of the PPT law - that remains in ACES - to receive tax credit refunds that are fully refunded in the

first year for qualified costs. Once a company grows in production beyond this "small company" measure with more substantial cash flow, perhaps refunds of 50% each year would apply as outlined in ACES.

2) **Change the base tax rate in ACES from 25% back to the PPT tax rate of 22.5%, and re-review again in 2011 after some time has passed as allowed for in current law.** As I mentioned in my introduction, I felt the 22.5% base tax rate was reasonable. And the real tax rate is much higher with the tax progressivity factor. But what is fair, and how exactly is "fair" determined?

   I saw a copy of a presentation entitled "Guiding Principles For A New Production Tax System" by the Department of Revenue urging the changes in ACES, arguing that the average government take in various international countries averaged 67% for all types of fiscal regimes internationally, averaged 74% for production sharing agreements, but only 55% for tax and royalty regimes internationally. Somehow, the Department of Revenue representatives concluded an average of 68% as provided for in ACES would be close to the average of 67% for all types of regimes internationally.

   First, the average recommended to Alaska is the average of all regimes, i.e. the averaging of government take from tax and royalty regimes with the government take from production sharing agreement (PSA) regimes. In some countries that I worked in that had production sharing regimes, the risk profile for capital development was often much different that in regimes that use a tax and royalty regime such as Alaska. In PSA countries, it was not unusual for a producer on capital projects to have a very low initial tax burden until the capital investment was fully recovered plus a negotiated rate-of-return was achieved. Then and only then was the government take increased substantially…thus giving the average take for such countries as 74%. But the risk profile was often much better than Alaska, i.e. there was up front recovery of capital and a preferred investor rate-of-return. That is not the risk profile of Alaska when a company first has production…the ACES high tax rate and the added progressivity tax will start immediately along with royalties, corporate taxes, property tax and other charges rather than allowing for recovery of capital and a contractual rate-of-return.

   As another distinction, most of the individual people and company investors specifically in AVCG, LLC, do not consider international regimes as areas to consider as competition for our investment dollars with Alaska. Rather, the main competition for most AVCG Owners' cash is in other states in the U.S. I found it astounding and concerning that the average of 67% for all international regimes did not consider weight-averaging in the major American producing states. As examples, the current government takes in the Gulf of Mexico offshore – one of the main competing areas for Alaska investment