

2. One Year Example

note: **INPUTS** in yellow

Single Year Calculation			Producer Share	Costs	Government Take	
					State*	Federal Share
Destination Value (DV) Starts Producer Share						
Production	272	Million Barrels				
Value:	72.64	\$/bbl				
Destination Value (Sales Revenue) (Price * Production)	19,753	Million Dollars	19,752.6			
Point of Production						
Subtract Transportation *Costs between Point of Production and Point of Sale from DV						
Transportation costs (note: equal \$6.34 a bbl)	1,724	Million Dollars	(1,724.0)	1,724.0		
*Portion of DS Costs that are AK property taxes				(100.0)		100.0
DV From Above	19,753	Million Dollars				
Transportation Costs From Above	(1,724)	Million Dollars				
Yields Point of Production	18,029	Million Dollars				
1. Royalty						
If Royalty in Value (RIV) calculate as set percentage of Wellhead (minus field costs in some fields)						
Value at Point of Production from above	18,029	Million Dollars				
Royalty Rate	12.5%	Percentage				
Subtract from Wellhead	2,254	Million Dollars				
Assume 95% of Royalties are State (95%) rest Federal (5%) shares					95%	5%
Distribution			(2,253.6)		2,140.9	112.7
Less Field Costs						
Result - Field Cost Deduction	20	Million Dollars	20.0		(20.0)	
Subtract from Producer Share and add to State Share	2,234	Million Dollars				

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note: **INPUTS** in yellow

Single Year Calculation		Producer Share	Costs	Government Take	
				State* Share	Federal Share
Production Tax Value (PTV)					
Calculate PTV as wellhead without royalty, less qualified upstream capex and opex					
Production Tax Value (Wellhead less Royalty and Allowable Upstream Costs)					
Wellhead Value From Above	18,029	Million Dollars			
less Royalty Value (prior to field cost deduction) from above	(2,254)	Million Dollars			
Subtract Allowable *Opex from Non-Royalty Wellhead, total from Producer Share					
Upstream Opex Costs	(2,149)	Million Dollars	(2,149.0)	2,149.0	
Portion of US Costs that are AK Property Taxes				(146.2)	146.2
Costs not allowed to be deducted (inc OCS costs)			(107.5)	107.5	
Subtract Allowable *Capex From Non- Royalty Wellhead, total from Producer Share					
Upstream Capex Costs	(2,188)	Million Dollars	(2,188.0)	2,188.0	-
Portion of US Costs that are AK Property Taxes				(43.8)	43.8
30 cents a taxable barrel exclusion			(67.8)	67.8	
Other Costs not allowed to be deducted (including OCS costs)			(109.4)	109.4	
Subtract Non - Royalty OCS Wellhead	(901)	Million Dollars			
Yields Production Tax Value (PTV)	10,537	Million Dollars			
2. Production Tax					
Calculate progressivity tax as % of PTV					
PTV From above	10,537	Million Dollars			
Taxable Barrels ((1-royalty %)* total bbls)	226	Million Barrels			
Per Barrel Amount	46.61	\$/bbl			
Progressivity Shield	30	\$/bbl			
Subject to Progressivity	16.61	\$/bbl			
.4%per dollar of PTV between \$30 and \$92.5	0.40%	percentage			
.1%per dollar of PTV between \$92.5 and \$342.5	0.10%	percentage			
Progressivity Percentage (4/10 or 1/10 per dollar)	6.6%	percentage			
Add progressivity to base tax as 25% of PTV	25.0%	percentage			
Total Production Tax Rate	31.6%	percentage			
Production Tax prior to credits	3,334.4	Million Dollars			
Adjust for floors, ceilings					
Apply Credits					
Less Investment Credits (1/2 prior year)	(200.00)	Million Dollars			
Less Investment Credits (1/2 current year)	(201.08)	Million Dollars			
Calculate total Production Tax (If incremental must subtract tax without increment)	2,933.32	Million Dollars			
Add private royalty taxes if any					
Conservation Surcharge on Oil	11.30				
5 cents a taxable barrel					
Subtract from Producer Share and add to State Share	2,944.62		(2,944.6)		2,944.6

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Single Year Calculation	Producer Share	Costs	Government Take	
			State* Share	Federal Share
3. Property Tax (State and Local) already moved from Producer to State Share (where an asterisked cost)				
Typically totals 2% of taxable property's value				
4. AK Corporate Income Tax				
Start with other World Wide Taxable Income, calculated using AK depreciation	120,000.00	Million Dollars		
Add Producer Share so far, with adjustment for treatment of Capex				
Plus Wellhead from Above	18,028.63	Million Dollars		
Less Royalty from Above	(2,233.58)	Million Dollars		
Less Production Tax from Above	(2,933.32)	Million Dollars		
Less Total Opex (Including Property Tax) from above	(2,256.45)	Million Dollars		
Less AK Depreciation from Capital Investment	(500.00)	Million Dollars		
Yields Pre Apportionment World Wide Income	130,105.28	Million Dollars		
Apply Alaska Apportionment Factor and 9.4% tax rate (and apply credits)				
Alaska Allocation Factor	0.05	percentage		
Alaska Taxable Income	6,505.26	Million Dollars		
Alaska Income Tax Rate	9.4%	percentage		
Yields AK Corporate Income Tax	611.49	Million Dollars		
(If incremental must subtract tax without increment)				
Subtract from Producer Share and add to State Share			(611.5)	611.5
5. Federal Income Tax (FIT) (incremental)				
FIT (incremental) is Producer Share so far (With adjustment for Capex) multiplied by federal tax rate (35%)				
Wellhead from Above	18,028.63	Million Dollars		
Less Royalty from Above	(2,233.58)	Million Dollars		
Less Production Tax from Above	(2,933.32)	Million Dollars		
Less Total Opex (Including Property Tax) from above	(2,256.45)	Million Dollars		
Less Federal Depreciation from Capital Investment	(700.00)	Million Dollars		
Less State Income Tax from Above	(611.49)	Million Dollars		
Income Subject to Federal Taxation	9,293.79	Million Dollars		
Federal Tax Rate	0.35	percentage		
Subtract from producer share and add to federal share			(3,252.8)	3,252.8
Total Shares				
Totals:	19,752.63	19,752.6	4,364.4 #	6,055.7 5,967.0 3,365.5
*State and Local property taxes included in Downstream, Opex or Capex costs and local :				
Shares in Percentage				
% of Total Revenue	100%	19,753	22%	31% 30% 17%
% of Total Revenue less non govt. take Costs	100%	13,697	32%	44% 25%

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3. History – prologue to the future?

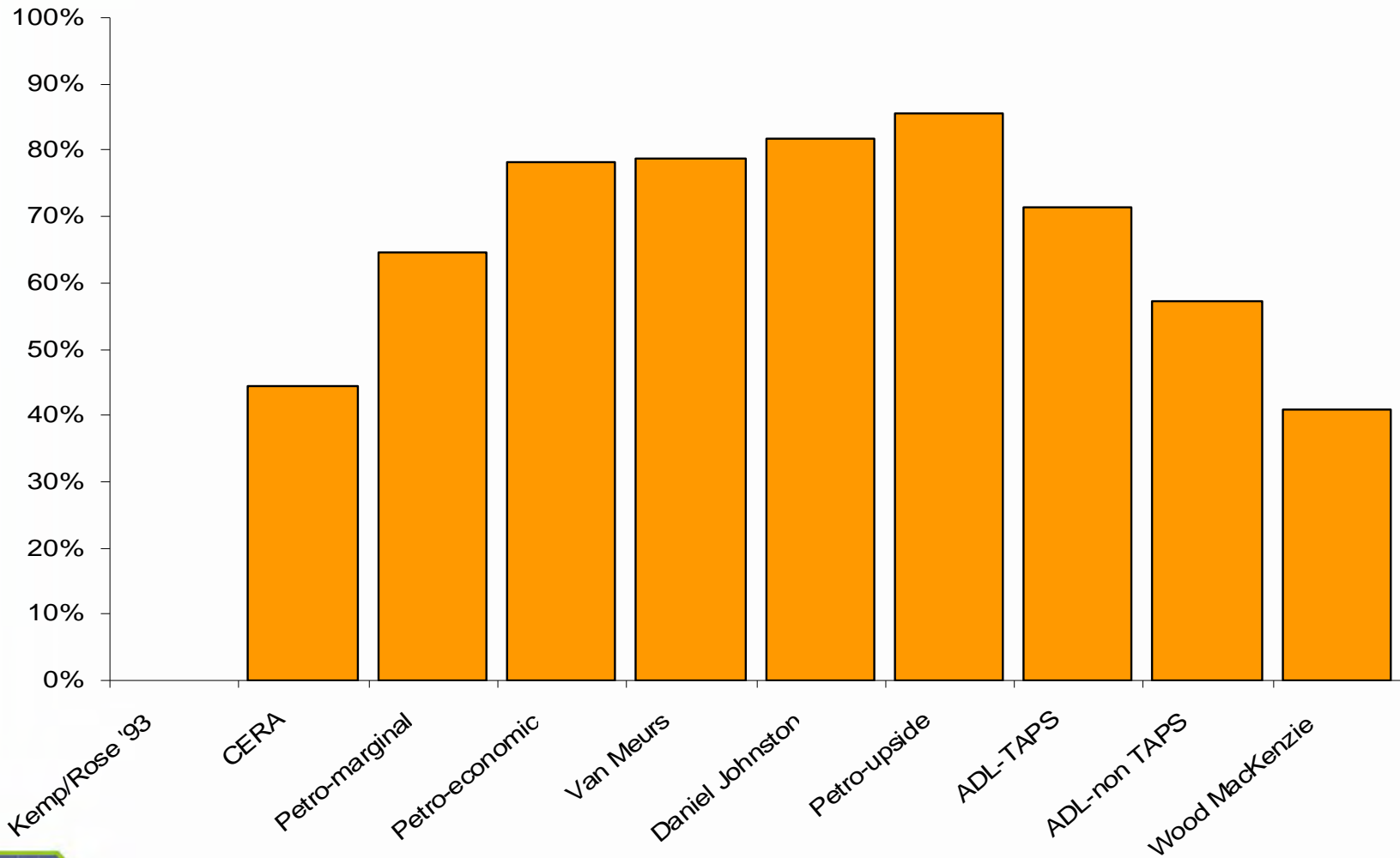
- In 1977 as Prudhoe Bay was coming on line and eclipsing the Cook Inlet
 - New property tax (on pipelines under construction) in 1973 special session (AS 43.56)
 - Raised production taxes from max rate of 8% to 12.25% and replaced “stair step” with “economic limit factor” (ELF) driven by well productivity in 1977, then in 1981 added “rounding rule” so Prudhoe Bay ELF = 1
 - Tried four years of ‘separate accounting’ income tax from 1977 to 1980
 - replaced with modified apportionment income tax in 1981
- 1989 added field size factor to ELF and dropped rounding rule. Small field taxes go down, large field taxes go up
- 2003 Exploration Credits (AS 43.55.025) added to production tax
- 2005 – Dickinson signs aggregation order combining small Prudhoe satellite fields with large mother-field for ELF purposes

3. History – prologue to the future

- In 2005
- Production tax for oil was nominal 15% (reduced to 12.5% for first five years of production from a field) of “gross value at point of production” times Economic Limit Factor (ELF), which in 2005 generated an effective tax rate of about 7.5% for North Slope Crude. Cook Inlet oil ELFs were all zero so effective tax rate was zero.
- Production tax for gas was nominal 10% of “gross value at point of production” times a different Economic Limit Factor formula (ELF), which in 2005 coincidentally generated an effective tax rate of about 7.5%. Cook Inlet gas taxed.

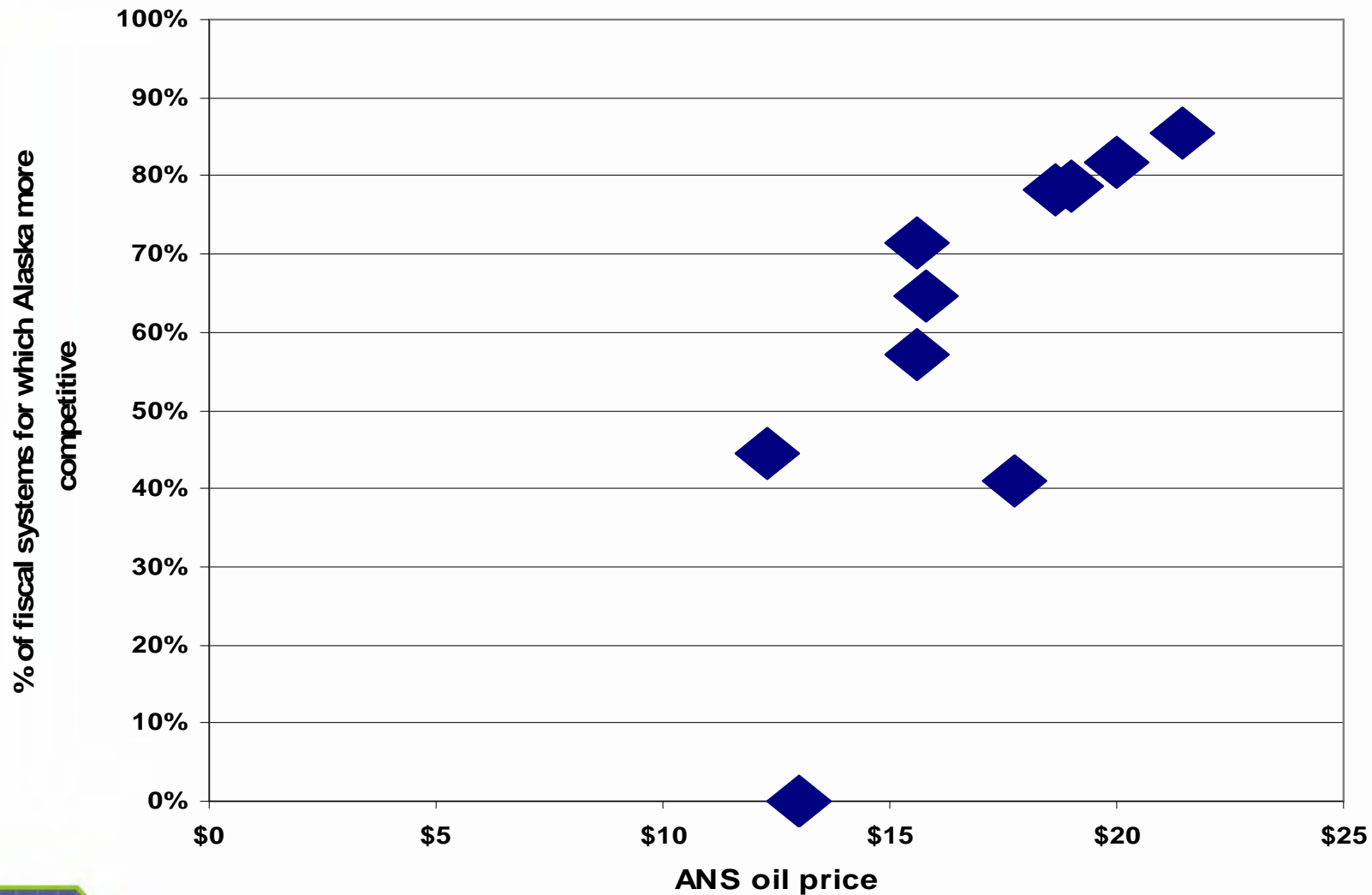
3. History – How Competitive was Alaska?

Most Experts Rate Alaska as Competitive
(100% is most competitive, 0% is least competitive)



3. History – How Competitive was Alaska?

Alaska's Fiscal System Ranking Dependent on Underlying Price Assumption



3. History – prologue to the future?

- In 2003 Stranded Gas Development Act (SGDA) amended to include project to Canada
- *In 2004 ANS WC monthly price breaks \$40 for first time*
- *In 2005 ANS WC monthly price breaks \$60 for first time*
- In 2006 after 2 ½ years of negotiation, Governor Murkowski announced 3 largest taxpayers had agreed to production tax reform to be part of SGDA contract package to be introduced presently.
 - Key elements of “20/20” Oil Tax reform –
 - switch from “gross to net” at 20% rate
 - investment and loss carryforward credits of 20%
- Conforming law for SGDA contract and oil tax reform die in 2006 regular session
- SGDA contract introduced
- *In July 2006 ANS WC monthly price breaks \$70 for first time*
- No oil or gas bills emerge from first special session
- Production Tax reform passes in second special session

3. History – prologue to the future?

- 2006 Production Tax Reform (“PPT”)
 - Switch from “gross to net”,
 - Tax on 22.5% of PTV or “net value”
 - Progressivity (above \$40 of PTV, at rate of .25% per dollar)
 - 20% investment credit
 - 20% loss carryforward credit
 - 20%/20%/40% Exploration credits incorporated
 - Transitional Investment Expenditure Credits
 - Small producer credits of up to \$12 million a year
 - US costs focus on unit operating agreement and working interest owner audits (with 18 exclusions)
 - Retroactive to April 1, 2006

3. History – prologue to the future?

- Aug 2006 Governor Murkowski loses in Republican primary
- Sept 2006 FBI raids 6 legislators offices (two of those have subsequently been convicted of felonies including bribery and are serving prison sentences of 5 years +)
- November 2006 Governor Palin Elected
 - Among her campaign issues is that switch in production tax from net to gross was mistake
- 2007 legislative session focuses on creation of AGIA license
- Sept 2007 Governor Palin announces special session that will reexamine production taxes – proposes “ACES” package of reforms
- *In Oct 2007 ANS WC monthly price breaks \$80 for first time*
- *In Nov 2007 ANS WC monthly price breaks \$90 for first time*
- November 2007 special session passes production tax reforms

3. History – prologue to the future?

- 2007 Production Tax Reform (ACES)
 - Switch from gross to net **maintained**
 - Tax **from** 22.5% to **25%** of PTV
 - Progressivity (above \$30 of PTV, at rate of **.4%** per dollar)
 - Changed from \$40 and .25%
 - 20% investment credit **now spread over 2 years**
 - **25%** loss carryforward credit (from 20%)
 - **30%/30%/40%** Exploration credits incorporated (from 20%/20%)
 - Transitional Investment Expenditure Credits **ended/restricted**
 - Small producer credits of up to \$12 million a year
 - US costs focus **from** unit operating agreement and working interest owner audits **to “allowed by dept. by regulation”** (with **21** exclusions)
 - Retroactive to **July 1, 2007**

3. History – prologue to the future?

- *In Mar 2008 ANS WC monthly price breaks \$100 for first time*
- *In Apr 2008 ANS WC monthly price breaks \$110 for first time*
- *In May 2008 ANS WC monthly price breaks \$120 for first time*
- *In Jun 2008 ANS WC monthly price breaks \$130 for first time*

- **Go to Progressivity Unit**

4. Investment Incentives (Marginal Effect of One Dollar)

- Marginal Effect of \$1/bbl increase in price.

Who receives?

Way Simple Analysis

	\$/bbl	\$/bbl	Diff
Destination Price West Coast	120.36	121.36	1.000
Less Transportation Cost	6.00	6.00	-
Gross Value at Point of Production	114.36	115.36	1.000
Royalty (12.5% of Gross Value)	14.30	14.42	0.125
Less Upstream Costs*	20.00	20.00	-
"PTV" or net value	80.07	80.94	0.875
Taxable Barrels	87.5%	87.5%	
PTV / taxable bbl	91.50	92.50	
Production Tax - Progressivity Rate	24.6%	25.0%	
Production Tax - Base Rate	25.0%	25.0%	
Total Production Tax Rate	49.6%	50.0%	0.40%
Royalty (12.5% of Gross Value)	14.30	14.42	0.125
Pre Credits Production Tax (rate * PTV)	39.71	40.47	0.758
Production Tax Credits (assumed)	(10.00)	(10.00)	-
Property Tax (Assumed)	0.50	0.50	-
State Income Tax (9.4% * PTV less taxes)	4.69	4.70	0.011
Federal Income Tax (35% * PTV less taxes)	15.81	15.85	0.037
Government Take	65.00	65.93	0.931

4. Investment Incentives Marginal Effect of One Dollar

- Marginal Effect of \$1/bbl capital investment.

Who pays?

Way Simple Analysis	\$/bbl	\$/bbl	Diff
Destination Price West Coast	121.36	121.36	-
Less Transportation Cost	6.00	6.00	-
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Gross Value at Point of Production	115.36	115.36	-
Royalty (12.5% of Gross Value)	14.42	14.42	-
Less Upstream Costs*	20.00	21.00	1.000
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"PTV" or net value	80.94	79.94	(1.000)
Taxable Barrels	87.5%	87.5%	
PTV / taxable bbl	92.50	91.36	
Production Tax - Progressivity Rate	25.0%	24.5%	
Production Tax - Base Rate	25.0%	25.0%	
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Total Production Tax Rate	50.0%	49.5%	-0.46%
Royalty (12.5% of Gross Value)	14.42	14.42	-
Pre Credits Production Tax (rate * PTV)	40.47	39.61	(0.865)
Production Tax Credits (assumed)	(10.00)	(10.10)	(0.100)
Property Tax (Assumed)	0.50	0.50	-
State Income Tax (9.4% * PTV less taxes)	4.70	4.69	(0.003)
Federal Income Tax (35% * PTV less taxes)	15.85	15.83	(0.011)
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Government Take	65.93	64.95	(0.980)

4. Investment Incentives - Credits

- AS 43.55.023 - 20% Investment Credit for Capital investments, 25% credit for loss carryforward
- AS 43.55.024 – “Small Producer” Credits and New Area Development Credits
- AS 43.55.025 – Exploration credits of up to 40% for exploration investments
- AS 43.55.028 – Ability to redeem credits in cash from state under certain circumstances.