

PPT REVENUE STUDIES

Presentation to
House & Senate Resources

Alaska Department of Revenue
Tax Division
February 23, 2006

OVERVIEW

- Description of tax
- Description of model
- Long-term cumulative revenues
- Annual revenues
- Corporate take

PPT

- Start with **WELLHEAD VALUE** (market value less transportation)
- Subtract **UPSTREAM COSTS** (capital, operating, royalties, property tax)
- Subtract additional **STANDARD ALLOWANCE** of \$73 million
- This is **TAXABLE INCOME**
- Multiply taxable income by **TAX RATE**
- This is the **TAX BEFORE CREDITS**
- Credits are capital costs multiplied by **CREDIT RATE**
- This is subtracted from the tax before credits to yield the **PPT PAID**

PPT Example

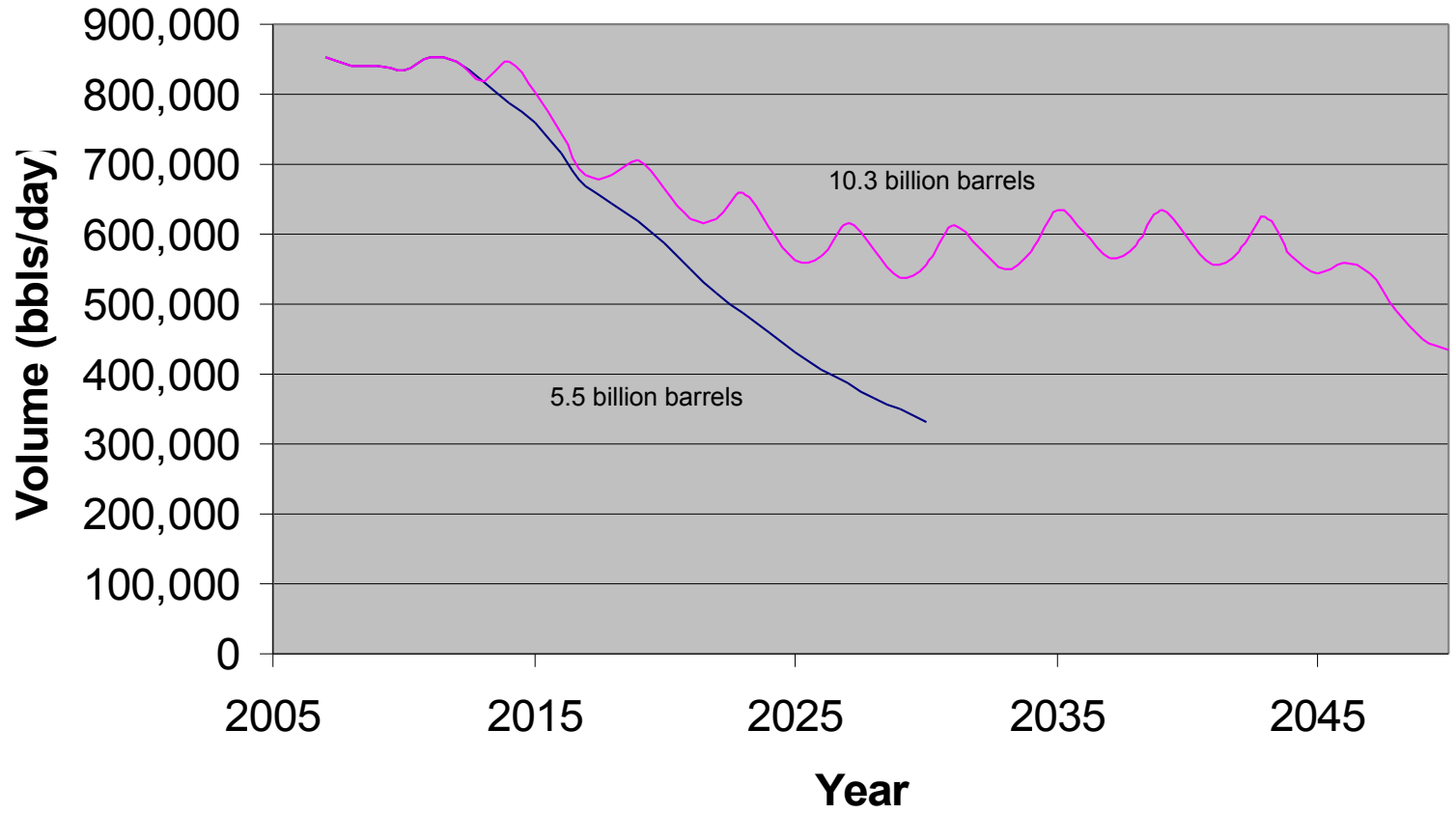
- 20 million barrels @ \$50/bbl ANS West Coast = MARKET VALUE of \$1,000 million
- \$2/bbl shipping + \$3/bbl TAPS = \$5/bbl = \$100 million
- WELLHEAD VALUE = \$900 million
- UPSTREAM COST = Capital + Operating + Royalty + Property Tax = \$300 million
- STANDARD ALLOWANCE of \$73 million
- TAXABLE INCOME = \$900 - \$300 - \$73 = \$527 million
- If TAX RATE = 20%, TAX BEFORE CREDITS = 20% X \$527 = \$105 million
- If capital = \$200 million and the CREDIT RATE = 20%, credit = \$40 million
- PPT PAID = \$105 - \$40 = \$65 million

Volume Scenarios

- No enhanced volumes / No gasline
 - Totals 5.5 billion barrels through 2030
 - Including 0.8 billion barrels of heavy oil
 - No additional heavy oil at prices under \$30
- Gasline and enhanced volumes
 - Totals 10.5 billion barrels through 2050
 - Includes additional 3.2 billion barrels conventional
 - 700 million barrels net stemming from gasline
 - Including additional 1.8 billion barrels heavy oil
 - No additional heavy oil at prices under \$30

Figure 1

Volume Scenarios



— w/o enhanced w/o gas — with enhanced / with gas

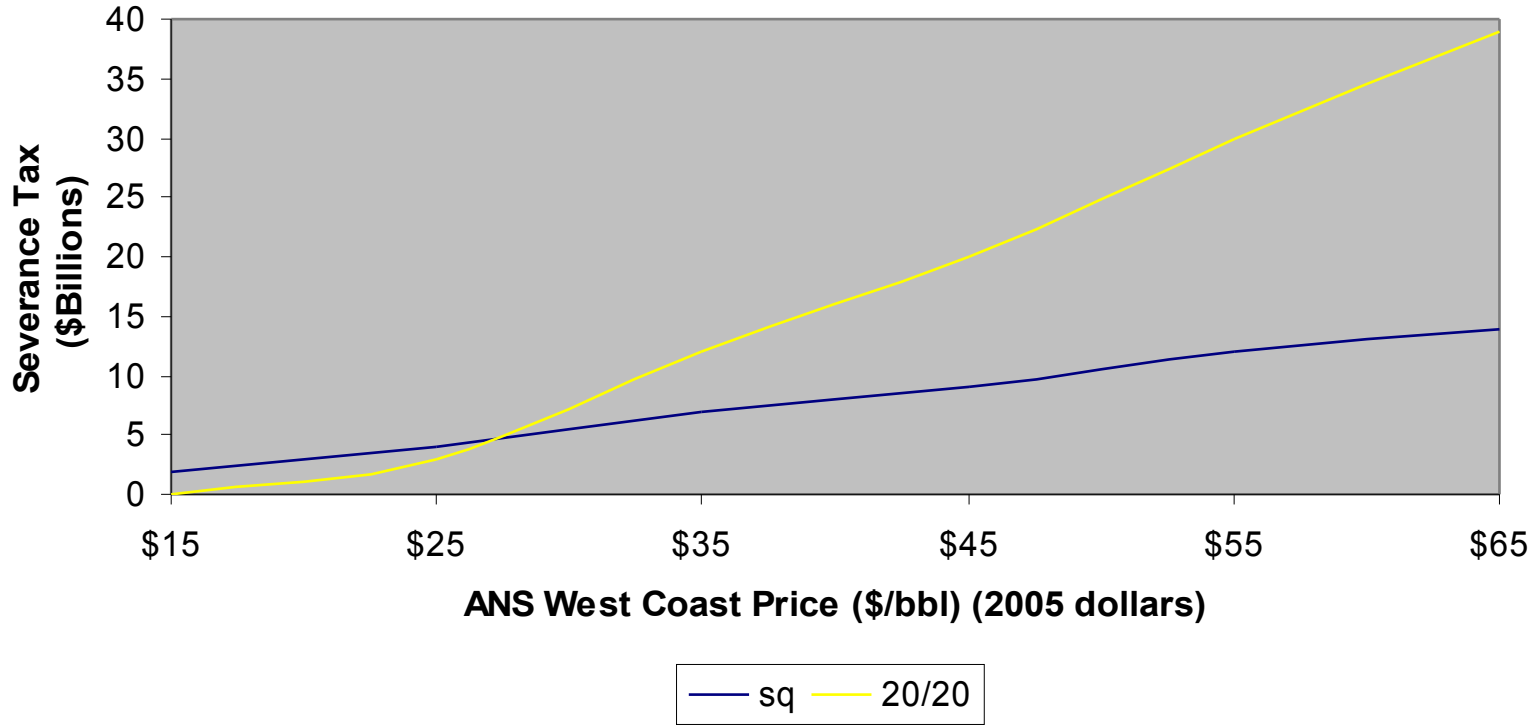
Costs and Prices

- Costs
 - \$100 mm/yr exploration through 2040
 - \$1/bbl on-going capital on all barrels
 - \$3.50/bbl developmental capital on 2/3 of existing conventional oil
 - \$8/bbl developmental capital on 2/3 of existing heavy oil
 - \$3.50/bbl developmental capital on new conventional oil
 - \$8/bbl developmental capital on new heavy oil
 - \$3/bbl operating costs on conventional oil
 - \$5/bbl operating costs on heavy oil
- Costs and prices are real \$2005 dollars
- Heavy oil discounted 8% for quality

Cumulative Revenues

- Without enhanced volumes / without gasline (through 2030)
- With enhanced volumes / with gasline (through 2050)
 - Does not include gasline severance taxes
 - Includes gasline costs

Figure 2A
Cumulative Oil Severance Taxes 2007-2030
(Billions of 2005 Dollars)
Low Volume Scenario



Total revenues \$2 billion less to \$25 billion more than status quo

Figure 2B
Crossover Point and Slope

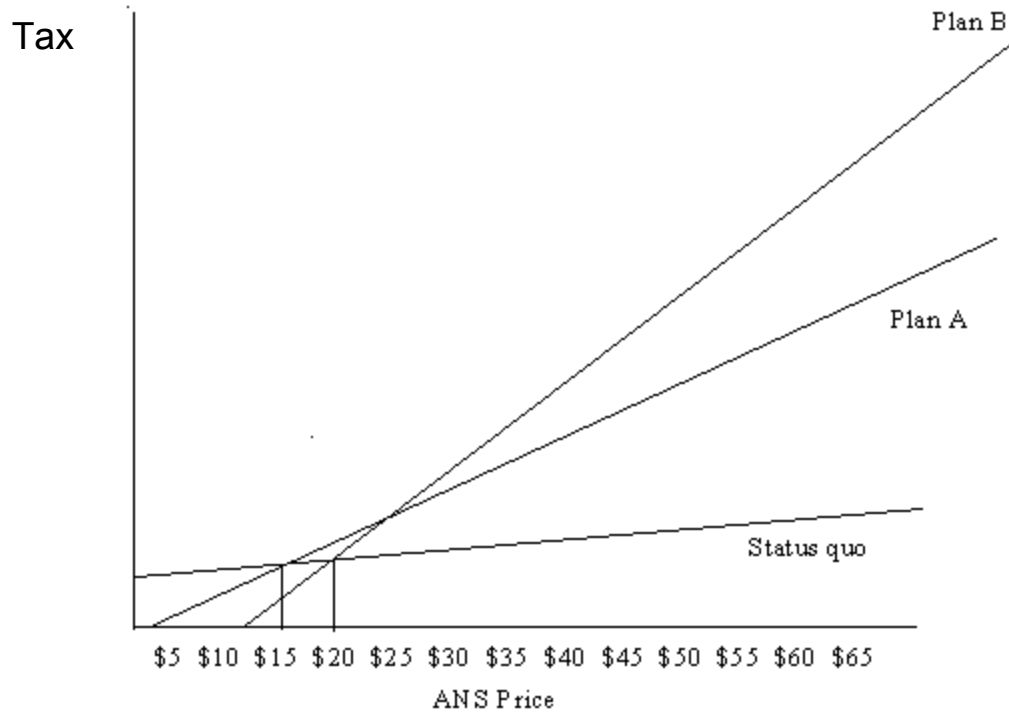
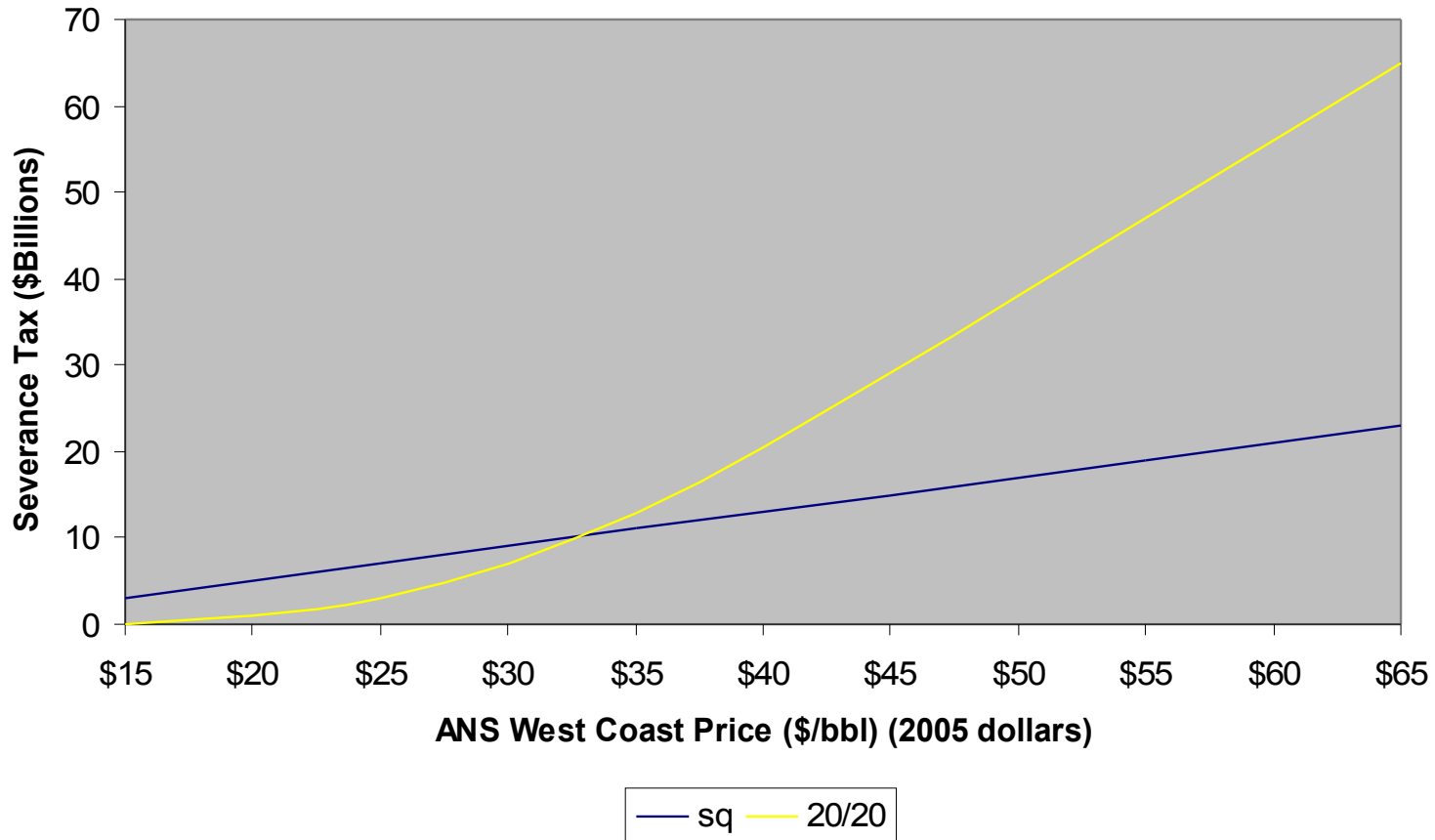
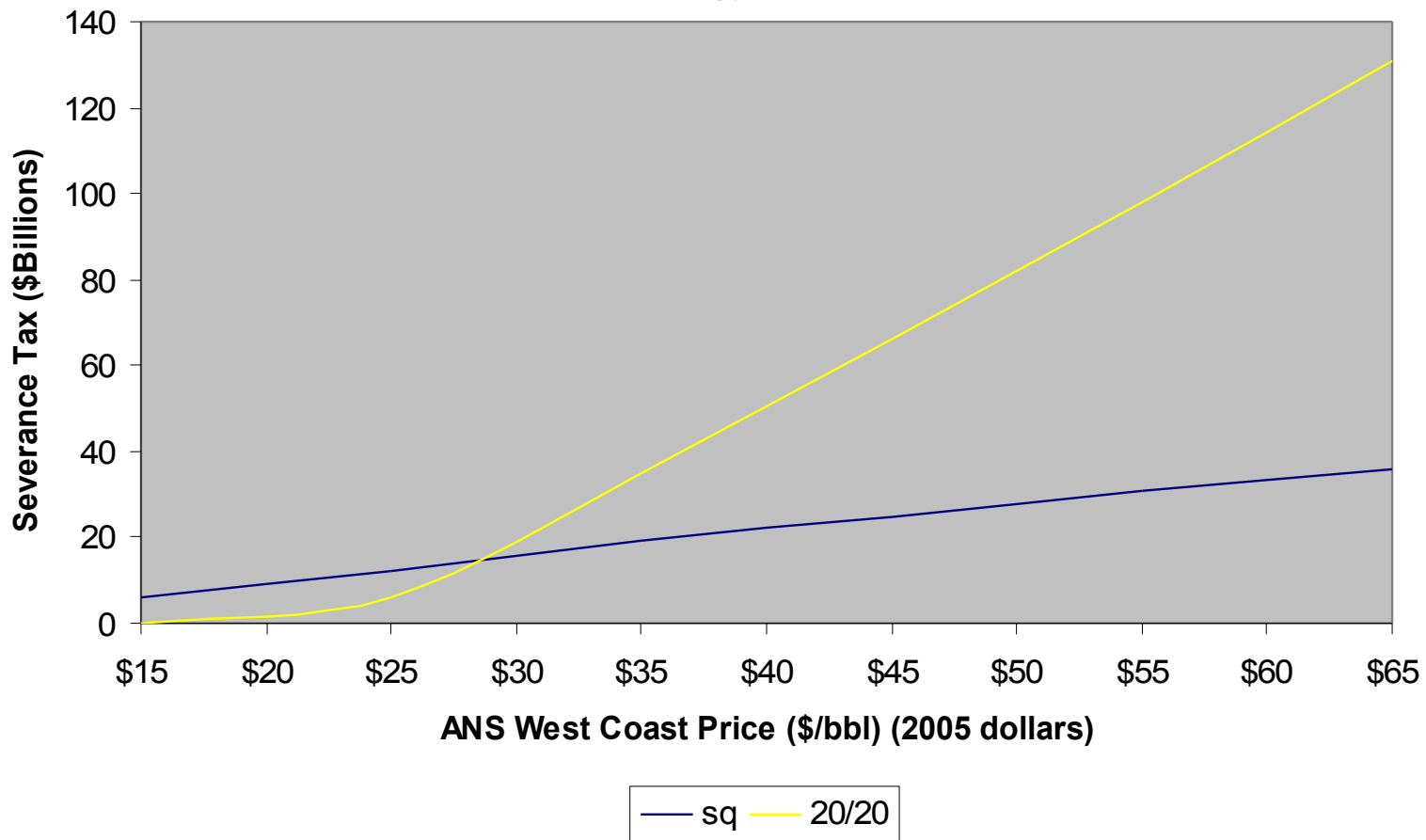


Figure 3A
Cumulative Oil Severance Taxes 2007-2050 (Billions of 2005 Dollars)
High Volume Scenario



Total revenues \$3 billion less to \$42 billion more than status quo

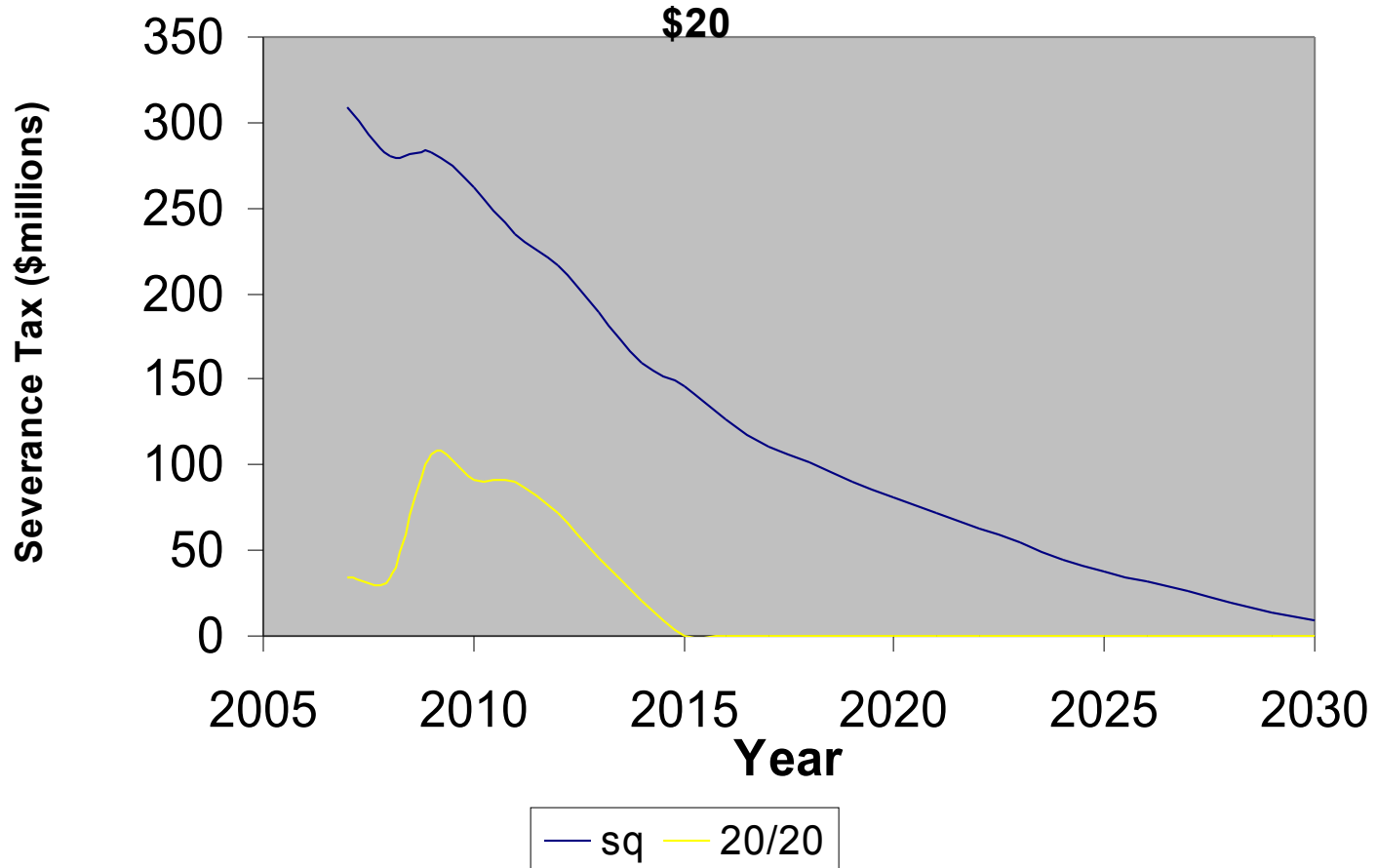
Figure 3B
Cumulative Oil Severance Taxes 2007-2050 (Billions of 2005 Dollars)
High Volume Scenario
With 2.5% Inflation



Annual Revenues

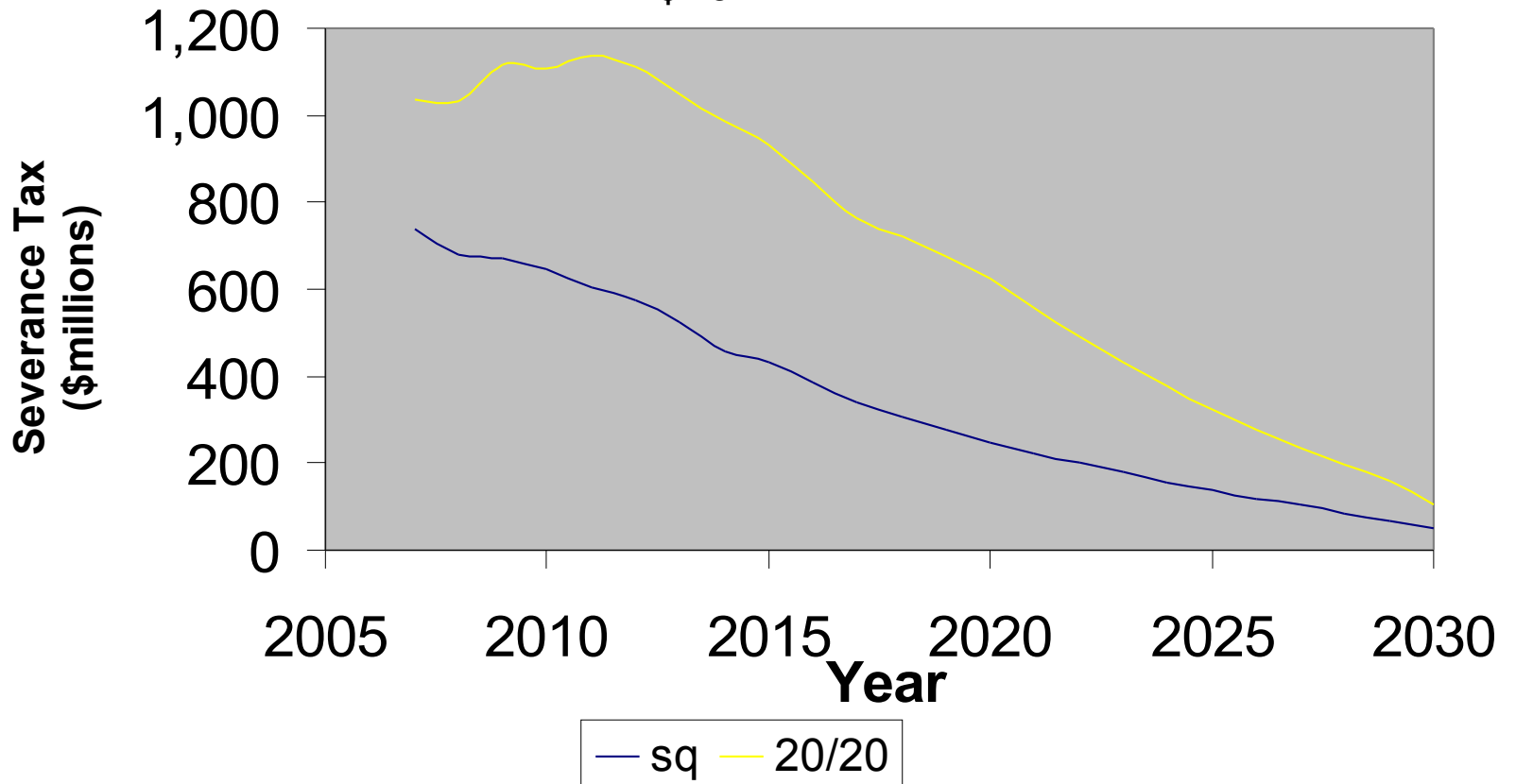
- Without enhanced volumes / without gasline (through 2030)
 - \$20
 - \$40
 - \$60
- With gasline / with enhanced volumes (through 2050) (does not include gasline severance taxes; includes gasline costs)
 - \$20
 - \$40
 - \$60

Figure 4
Annual Oil Severance Tax (Millions of 2005 Dollars)
Low Volume Scenario



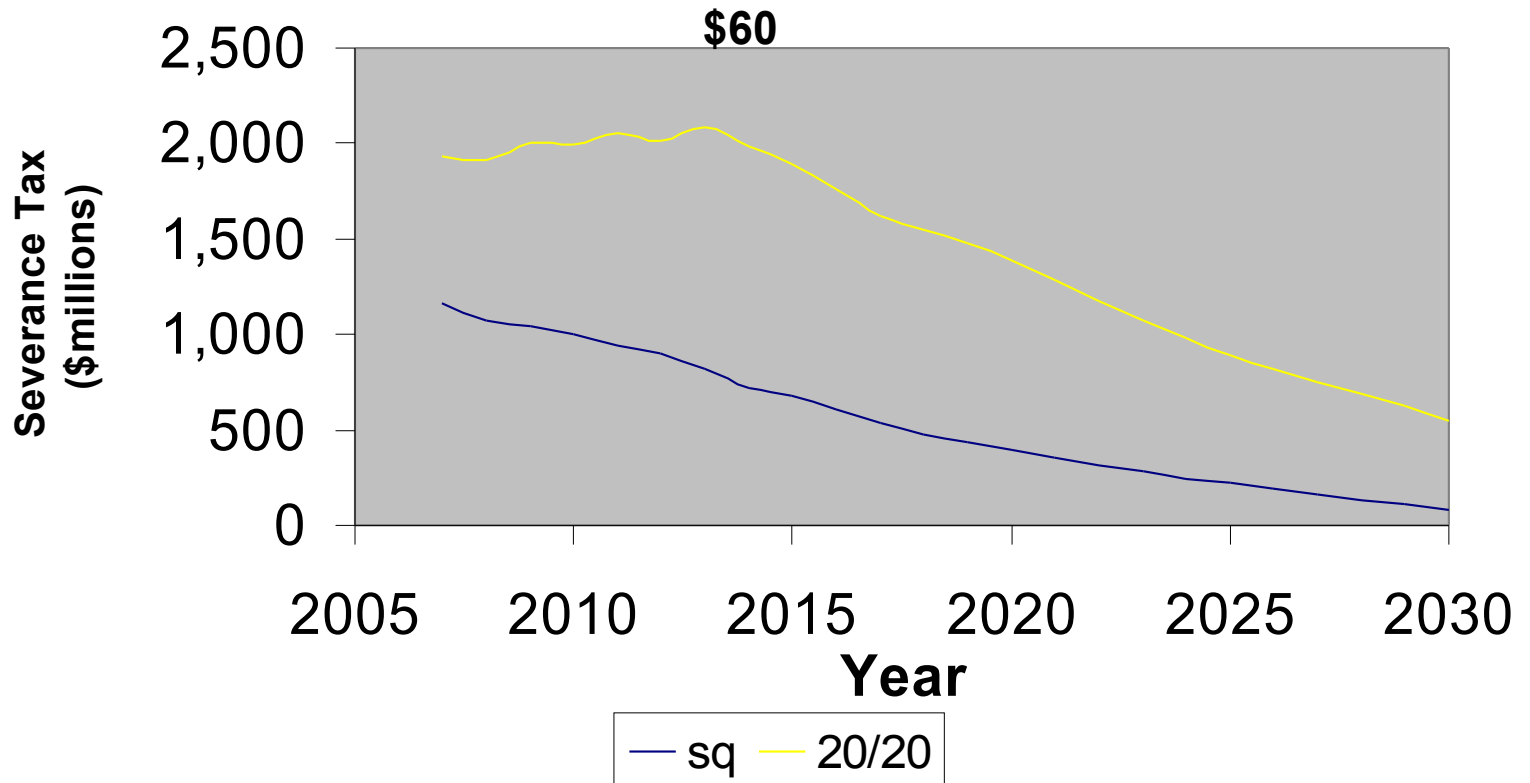
Average annual revenues \$100 million less than status quo

Figure 5
Annual Oil Severance Tax (Millions of 2005 Dollars)
Low Volume Scenario
\$40



Average annual revenues \$330 million more than status quo

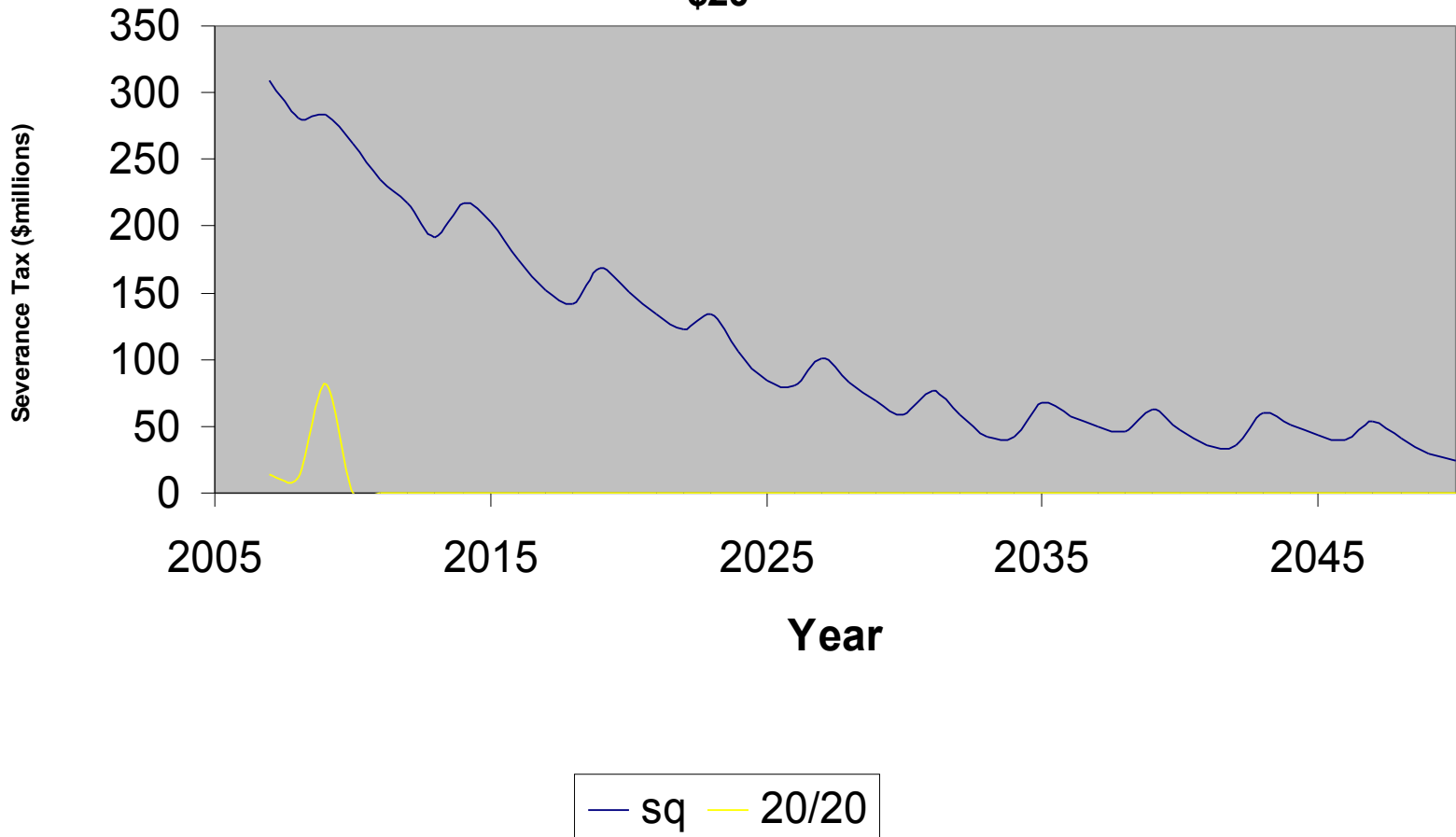
Figure 6
Annual Oil Severance Tax (Millions of 2005 Dollars)
Low Volume Scenario



Average annual revenues \$900 million more than status quo

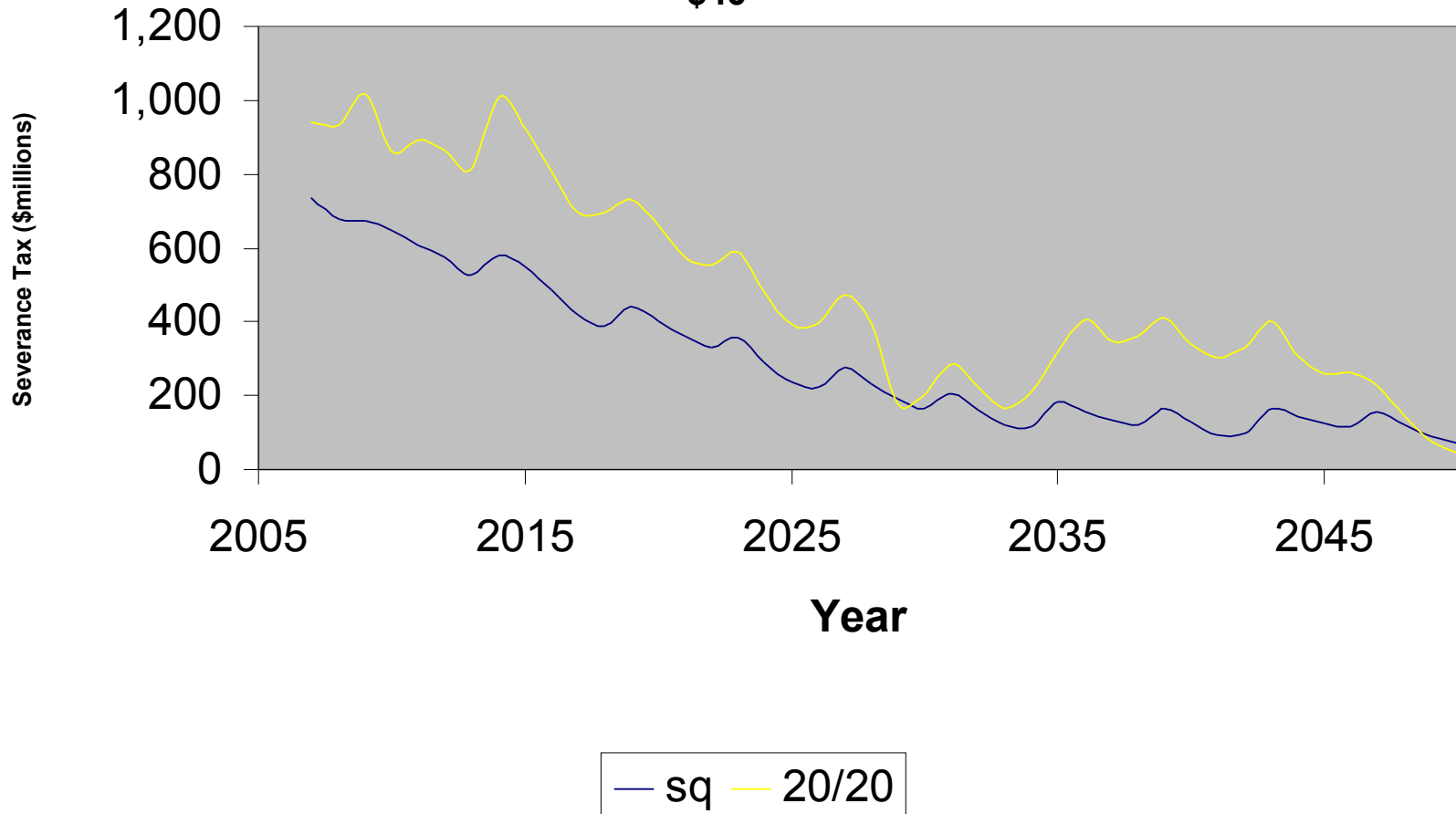
This is equivalent to total State Gasline revenues at a \$4.70/mmmbtu market price

Figure 7
Annual Oil Severance Tax Revenues (Millions of 2005 Dollars)
High Volume Scenario
\$20



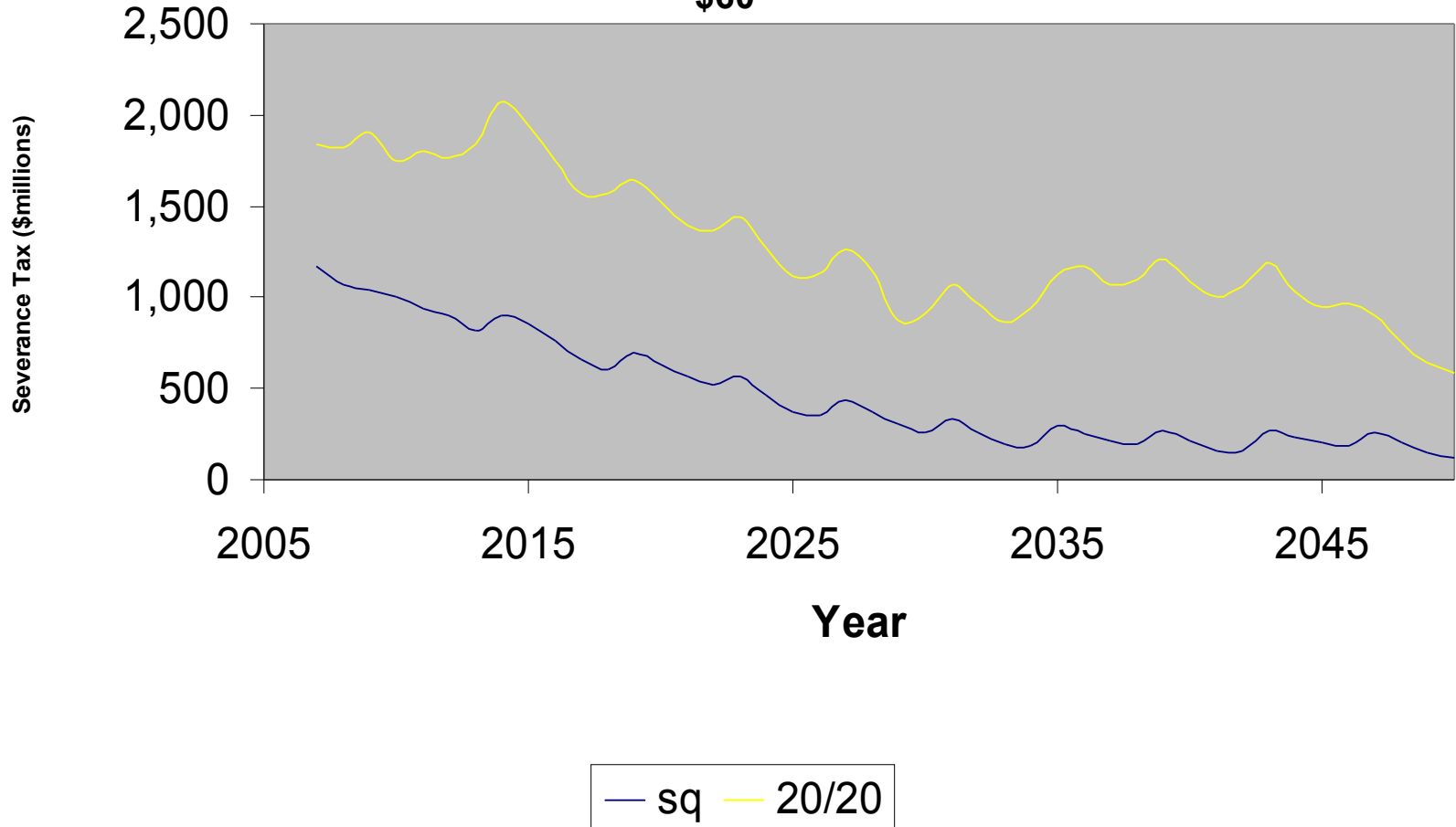
Average annual revenues \$110 million less than status quo

Figure 8
Annual Oil Severance Tax Revenues (Millions of 2005 Dollars)
High Volume Scenario
\$40



Average annual revenues \$190 million more than status quo

Figure 9
Annual Oil Severance Tax Revenues (Millions of 2005 Dollars)
High Volume Scenario
\$60



Average annual revenues \$800 million more than status quo

Effective Tax Rate

- Without enhanced volumes / without gasline
- With enhanced volumes / with gasline

Figure 10
Effective Oil Severance Tax Rate
Low Volume Scenario

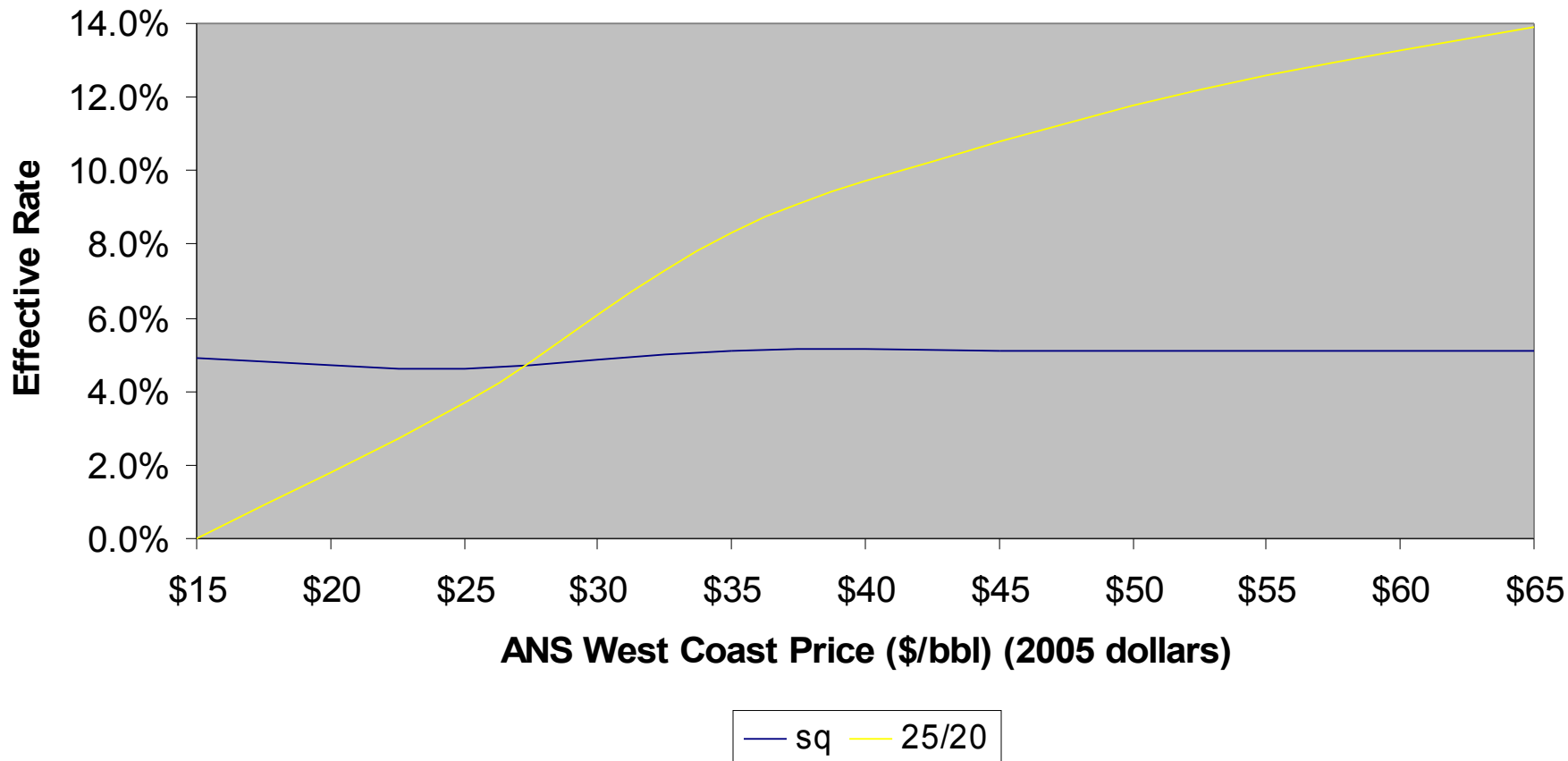
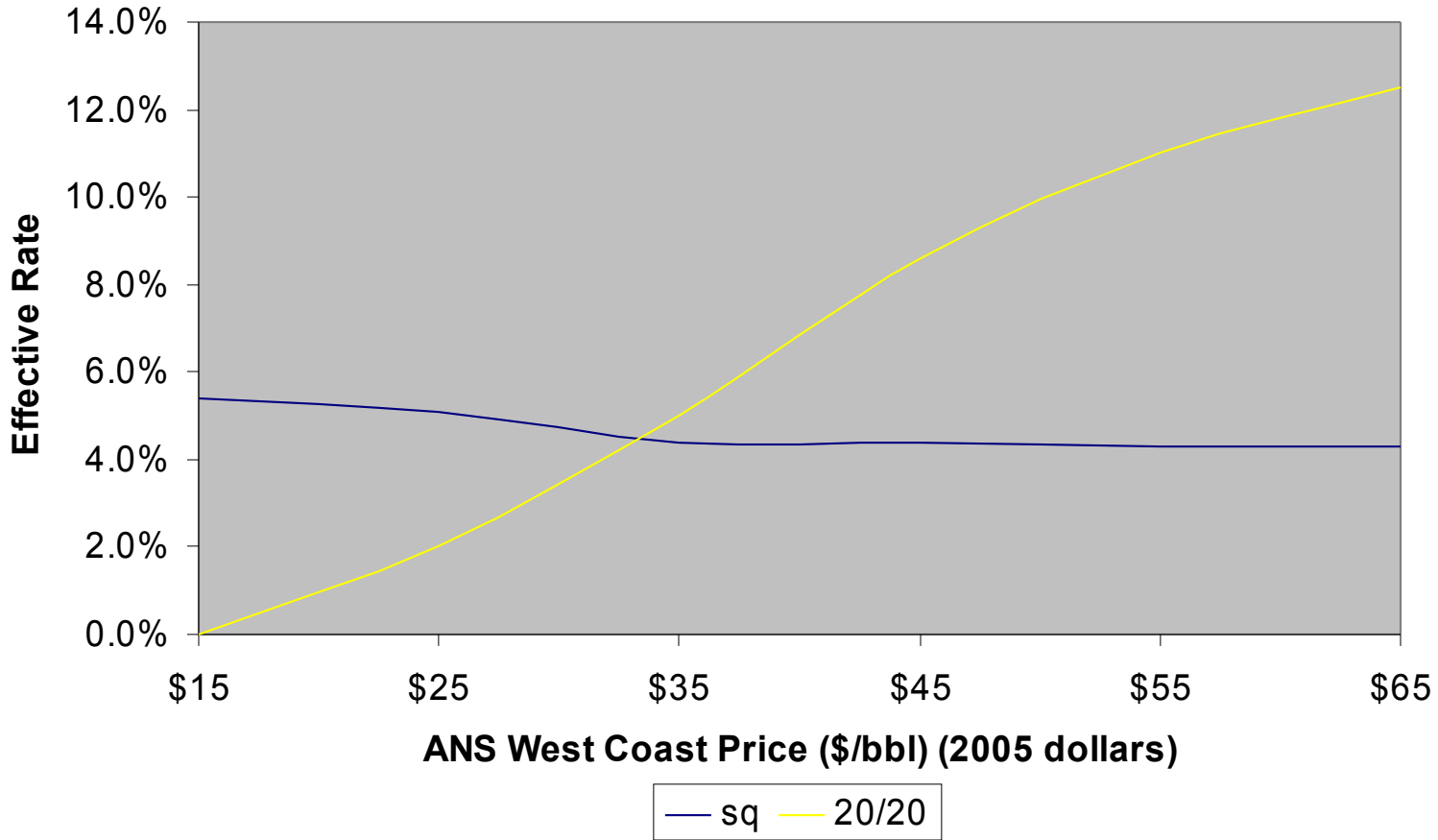
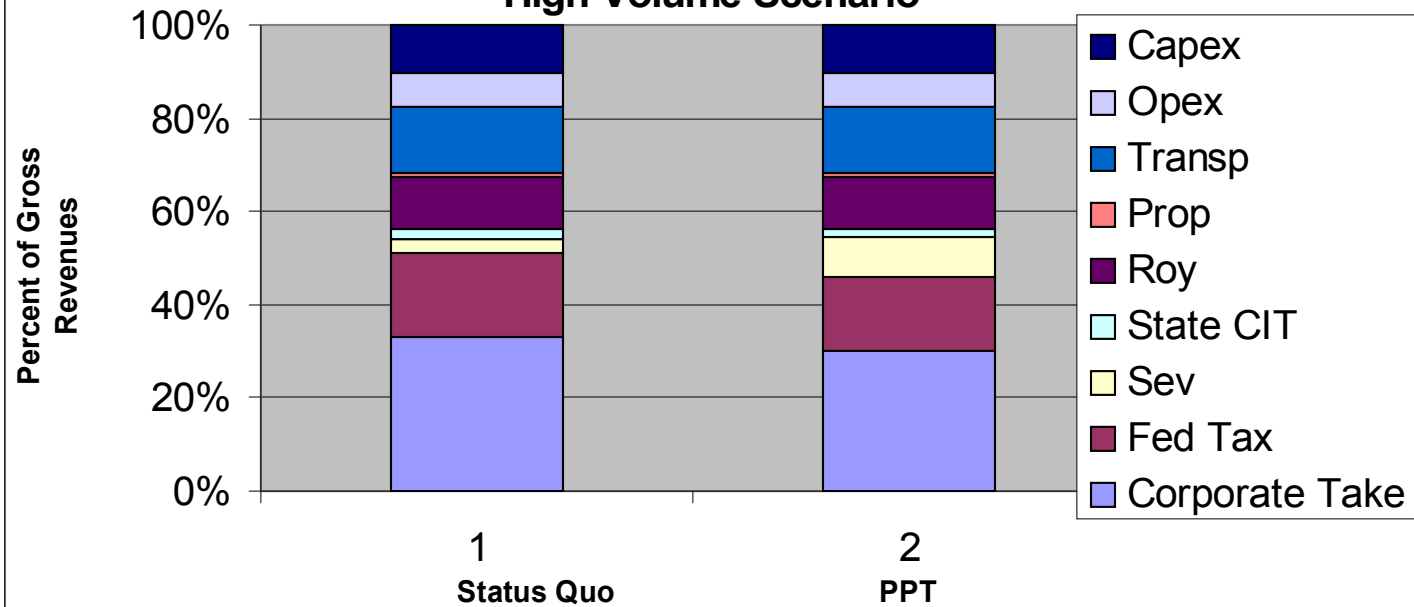


Figure 11
Effective Oil Severance Tax Rate
High Volume Scenario



Conclusion: Corporate Take

Figure 12
Corporate Take at EIA Forecast Price (\$58)
20% Tax/20% Credit
High Volume Scenario



Corporate take goes from:
 33% to 30% of gross income
 49% to 44% of economic rent

State take goes from:
 17% to 22% of gross income
 25% to 32% of economic rent