

Illustration of Effective Tax Rate on Gas Production Under Different Tax Systems
Potential Prudhoe Bay Gas Development

	Administration's 20/20			Senate Finance 22.5/25 With Gas Revenue Reduction To 1/3 of Actual Value			Current Elf System		
Gross Volume (MCF)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Royalty Volume (12.5% Royalty)	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125
Taxable Volume	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875
Downstream Value (\$/MCF)	\$ 4.000	\$ 6.000	\$ 8.000	\$ 4.000	\$ 6.000	\$ 8.000	\$ 4.000	\$ 6.000	\$ 8.000
Cost to Downstream Market	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)
Wellhead Value	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.500	\$ 3.500	\$ 5.500
Taxable Wellhead Value	\$ 1.500	\$ 3.500	\$ 5.500	\$ 0.500	\$ 1.167	\$ 1.833	\$ 1.500	\$ 3.500	\$ 5.500
Production Costs (\$ Per Taxable MCF)									
Prop Tax	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)
OPEX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPEX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net "Profit" Per Taxable MCF	\$ 1.477	\$ 3.477	\$ 5.477	\$ 1.477	\$ 3.477	\$ 5.477	\$ 1.477	\$ 3.477	\$ 5.477
Taxable Value	\$ 1.477	\$ 3.477	\$ 5.477	\$ 0.477	\$ 1.144	\$ 1.810	\$ 1.500	\$ 3.500	\$ 5.500
PPT Tax (20% or 22.5%)	\$ 0.295	\$ 0.695	\$ 1.095	\$ 0.107	\$ 0.257	\$ 0.407	N/A	N/A	N/A
Current Elf System (10%, 0.7 ELF)	N/A	N/A	N/A	N/A	N/A	N/A	\$ 0.105	\$ 0.245	\$ 0.385
Less Capital Credit (20% or 25%)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Total Tax (\$ Per Taxable MCF)	\$ 0.295	\$ 0.695	\$ 1.095	\$ 0.107	\$ 0.257	\$ 0.407	\$ 0.105	\$ 0.245	\$ 0.385
Tax as % of Wellhead Value	19.7%	19.9%	19.9%	7.2%	7.4%	7.4%	7.0%	7.0%	7.0%

Note: Assumes no incremental capital costs or operating costs associated with gas production at PBU; property taxes of \$0.02/gross mcf of production; ELF = 0.7 over first 10 years of production; average royalty rate of 12.5%.

Illustration of Effective Tax Rate on Gas Production Under Different Tax Systems
Potential Prudhoe Bay Gas Development

	Administration's 20/20			Senate Finance 22.5/25 Alt: With Gas Revenue Reduction To 2/3 of Actual Value			Current Elf System		
Gross Volume (MCF)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Royalty Volume (12.5% Royalty)	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125
Taxable Volume	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875
Downstream Value (\$/MCF)	\$ 4.000	\$ 6.000	\$ 8.000	\$ 4.000	\$ 6.000	\$ 8.000	\$ 4.000	\$ 6.000	\$ 8.000
Cost to Downstream Market	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)
Wellhead Value	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.500	\$ 3.500	\$ 5.500
Taxable Wellhead Value	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.000	\$ 2.333	\$ 3.667	\$ 1.500	\$ 3.500	\$ 5.500
Production Costs (\$ Per Taxable MCF)									
Prop Tax	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)
OPEX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPEX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net "Profit" Per Taxable MCF	\$ 1.477	\$ 3.477	\$ 5.477	\$ 1.477	\$ 3.477	\$ 5.477	\$ 1.477	\$ 3.477	\$ 5.477
Taxable Value	\$ 1.477	\$ 3.477	\$ 5.477	\$ 0.977	\$ 2.310	\$ 3.644	\$ 1.500	\$ 3.500	\$ 5.500
PPT Tax (20% or 22.5%)	\$ 0.295	\$ 0.695	\$ 1.095	\$ 0.220	\$ 0.520	\$ 0.820	N/A	N/A	N/A
Current Elf System (10%, 0.7 ELF)	N/A	N/A	N/A	N/A	N/A	N/A	\$ 0.105	\$ 0.245	\$ 0.385
Less Capital Credit (20% or 25%)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Total Tax (\$ Per Taxable MCF)	\$ 0.295	\$ 0.695	\$ 1.095	\$ 0.220	\$ 0.520	\$ 0.820	\$ 0.105	\$ 0.245	\$ 0.385
Tax as % of Wellhead Value	19.7%	19.9%	19.9%	14.7%	14.9%	14.9%	7.0%	7.0%	7.0%

Note: Assumes no incremental capital costs or operating costs associated with gas production at PBU; property taxes of \$0.02/gross mcf of production; ELF = 0.7 over first 10 years of production; average royalty rate of 12.5%.

Illustration of Effective Tax Rate on Gas Production Under Different Tax Systems
Potential Prudhoe Bay Gas Development

	Administration's 20/20			Senate Finance 20/20 Alt: With Gas Revenue Reduction To 2/3 of Actual Value			Current Elf System		
Gross Volume (MCF)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Royalty Volume (12.5% Royalty)	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125	-0.125
Taxable Volume	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875
Downstream Value (\$/MCF)	\$ 4.000	\$ 6.000	\$ 8.000	\$ 4.000	\$ 6.000	\$ 8.000	\$ 4.000	\$ 6.000	\$ 8.000
Cost to Downstream Market	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)	\$ (2.500)
Wellhead Value	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.500	\$ 3.500	\$ 5.500
Taxable Wellhead Value	\$ 1.500	\$ 3.500	\$ 5.500	\$ 1.000	\$ 2.333	\$ 3.667	\$ 1.500	\$ 3.500	\$ 5.500
Production Costs (\$ Per Taxable MCF)									
Prop Tax	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)	\$ (0.023)
OPEX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPEX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net "Profit" Per Taxable MCF	\$ 1.477	\$ 3.477	\$ 5.477	\$ 1.477	\$ 3.477	\$ 5.477	\$ 1.477	\$ 3.477	\$ 5.477
Taxable Value	\$ 1.477	\$ 3.477	\$ 5.477	\$ 0.977	\$ 2.310	\$ 3.644	\$ 1.500	\$ 3.500	\$ 5.500
PPT Tax (20%)	\$ 0.295	\$ 0.695	\$ 1.095	\$ 0.195	\$ 0.462	\$ 0.729	N/A	N/A	N/A
Current Elf System (10%, 0.7 ELF)	N/A	N/A	N/A	N/A	N/A	N/A	\$ 0.105	\$ 0.245	\$ 0.385
Less Capital Credit (20%)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Total Tax (\$ Per Taxable MCF)	\$ 0.295	\$ 0.695	\$ 1.095	\$ 0.195	\$ 0.462	\$ 0.729	\$ 0.105	\$ 0.245	\$ 0.385
Tax as % of Wellhead Value	19.7%	19.9%	19.9%	13.0%	13.2%	13.3%	7.0%	7.0%	7.0%

Note: Assumes no incremental capital costs or operating costs associated with gas production at PBU; property taxes of \$0.02/gross mcf of production; ELF = 0.7 over first 10 years of production; average royalty rate of 12.5%.