

PPT REVENUE STUDIES

Presentation to
House & Senate Resources

Alaska Department of Revenue
Tax Division
February 23, 2006

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OVERVIEW

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

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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

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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

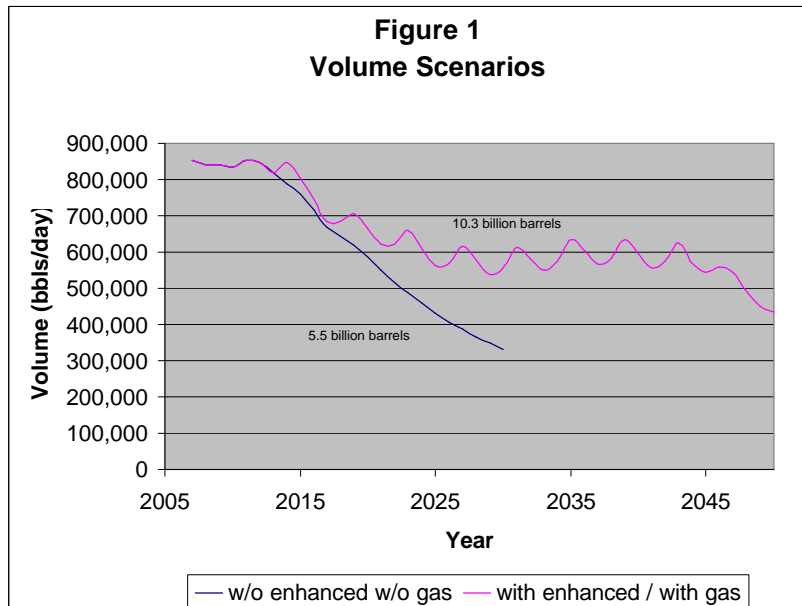
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Volume Scenarios

- 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

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Figure 1
Volume Scenarios



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Costs and Prices

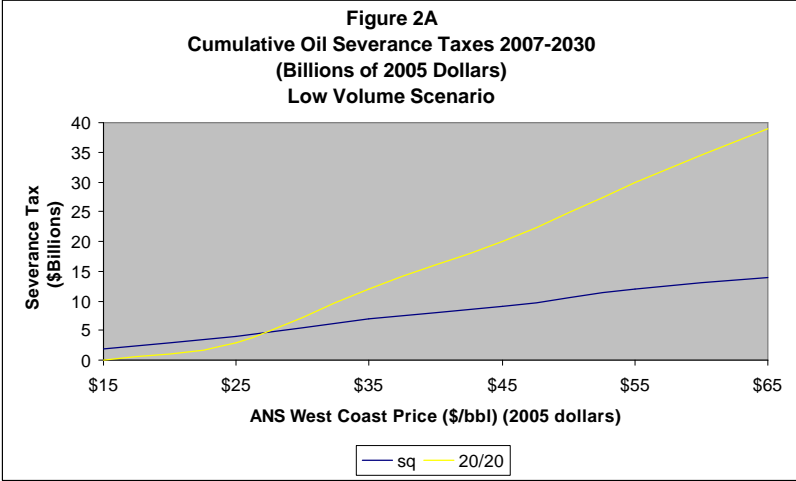
- Costs
 - \$100 mm/yr exploration through 2040
 - \$1/bbl on-going capital on all barrels
 - \$3.50/bbl developmental capital on 2/3 of existing conventional oil
 - \$8/bbl developmental capital on 2/3 of existing heavy oil
 - \$3.50/bbl developmental capital on new conventional oil
 - \$8/bbl developmental 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

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Cumulative Revenues

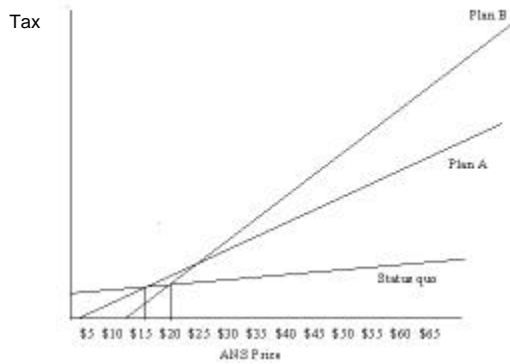
- Without enhanced volumes / without gasoline (through 2030)
- With enhanced volumes / with gasoline (through 2050)
 - Does not include gasoline severance taxes
 - Includes gasoline costs

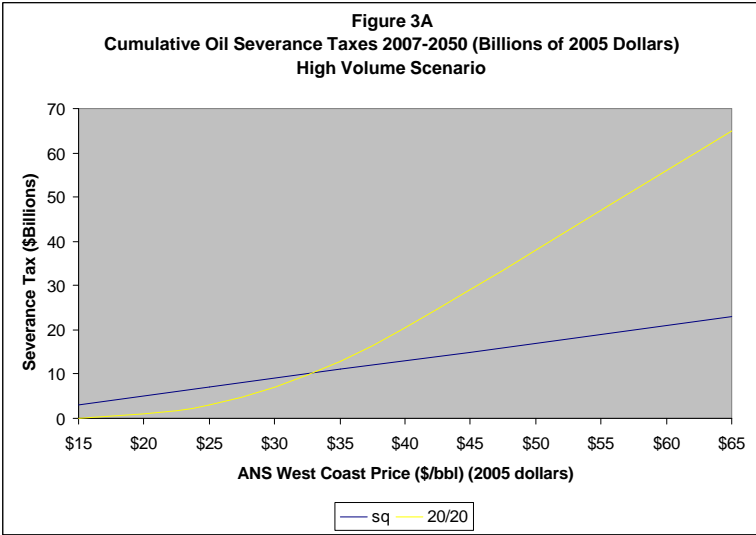
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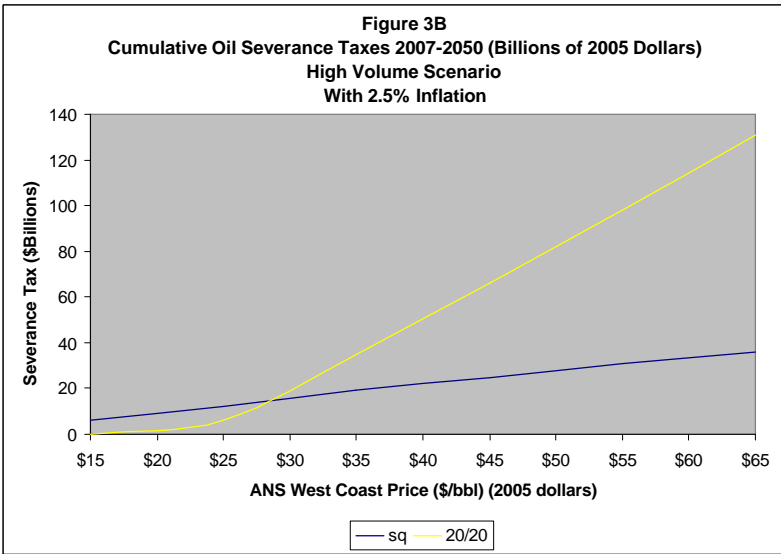
Total revenues \$2 billion less to \$25 billion more than status quo

Figure 2B
Crossover Point and Slope





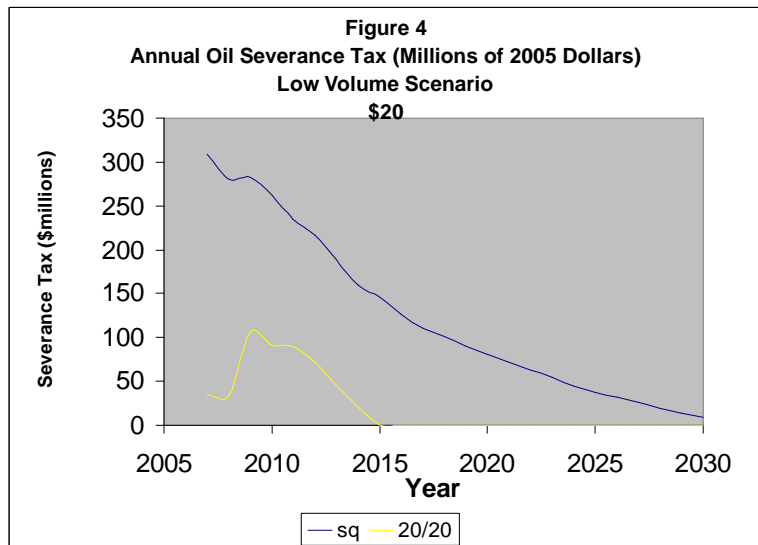
Total revenues \$3 billion less to \$42 billion more than status quo



Annual Revenues

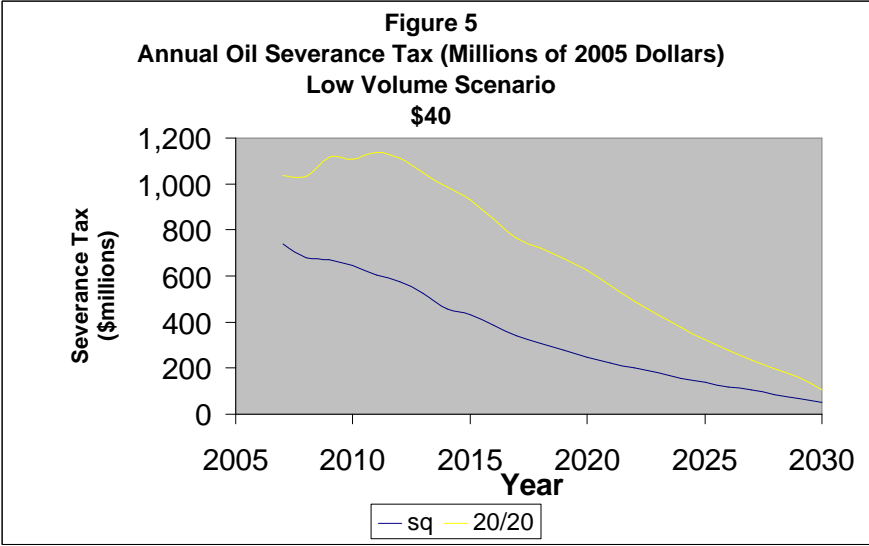
- Without enhanced volumes / without gasoline (through 2030)
 - \$20
 - \$40
 - \$60
- With gasoline / with enhanced volumes (through 2050) (does not include gasoline severance taxes; includes gasoline costs)
 - \$20
 - \$40
 - \$60

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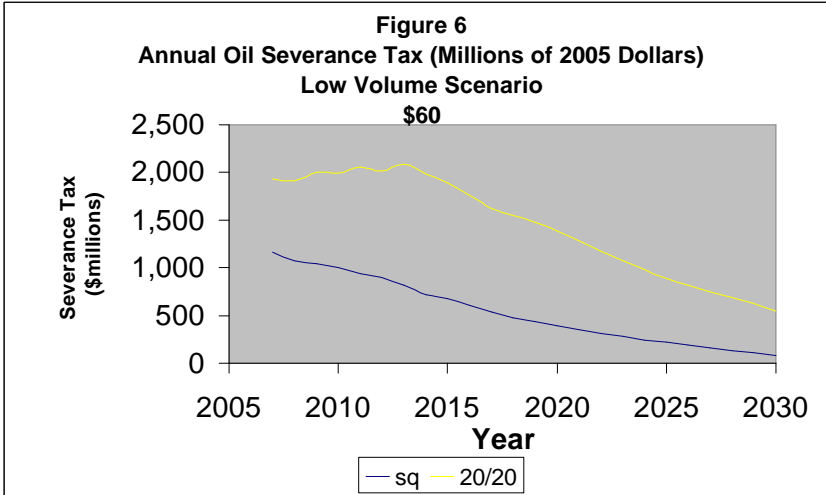


Average annual revenues \$100 million less than status quo

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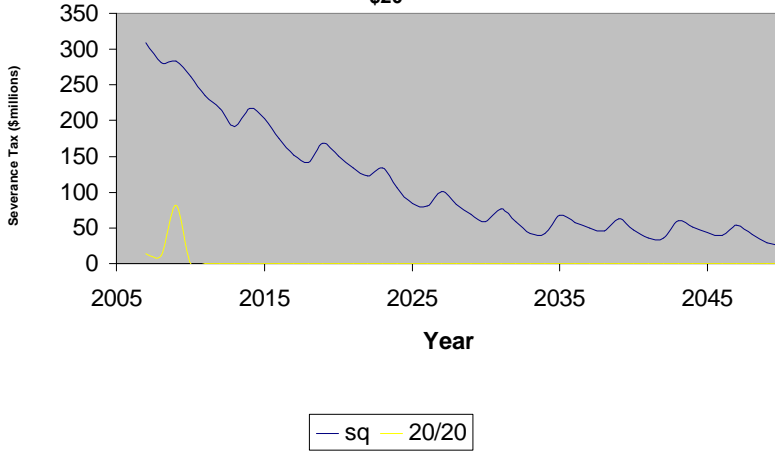
Average annual revenues \$330 million more than status quo



Average annual revenues \$900 million more than status quo

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

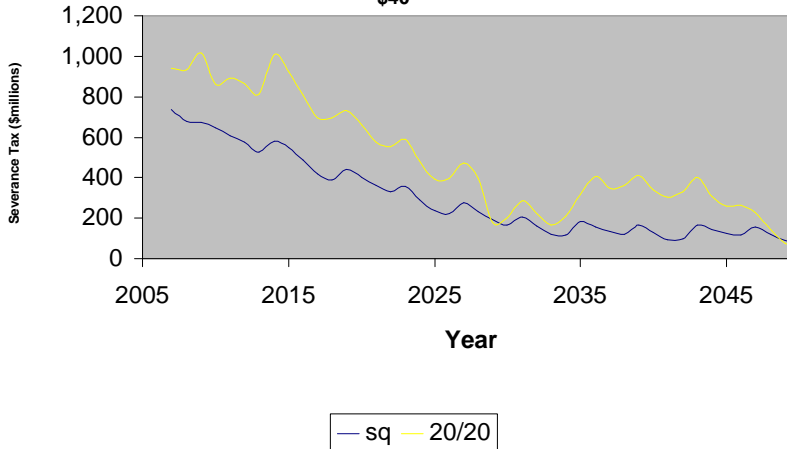
Figure 7
Annual Oil Severance Tax Revenues (Millions of 2005 Dollars)
High Volume Scenario
\$20



Average annual revenues \$110 million less than status quo

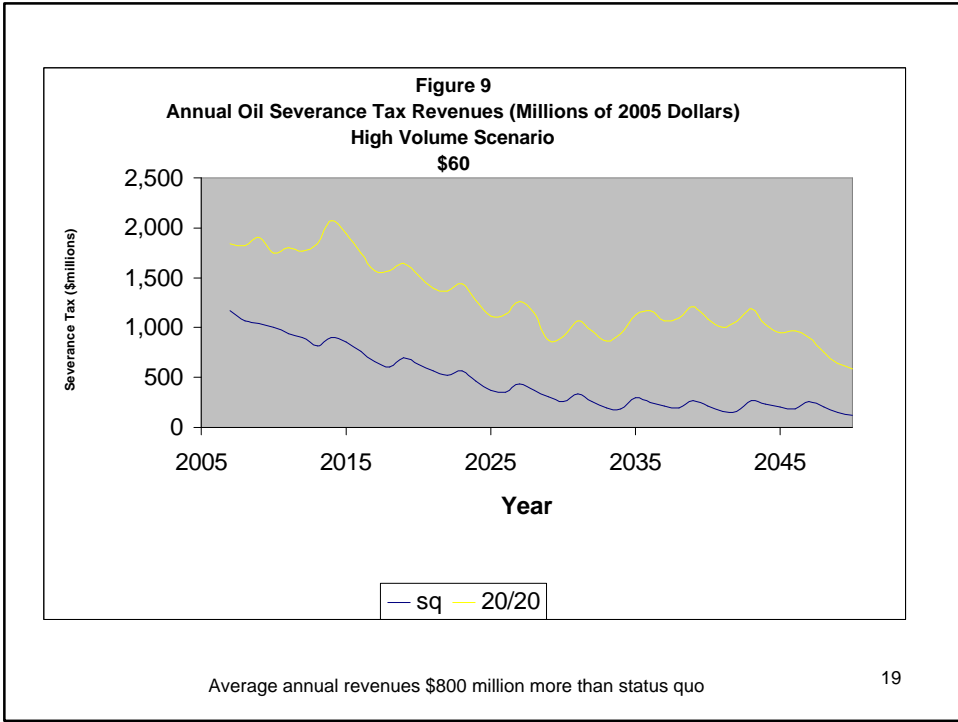
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Figure 8
Annual Oil Severance Tax Revenues (Millions of 2005 Dollars)
High Volume Scenario
\$40



Average annual revenues \$190 million more than status quo

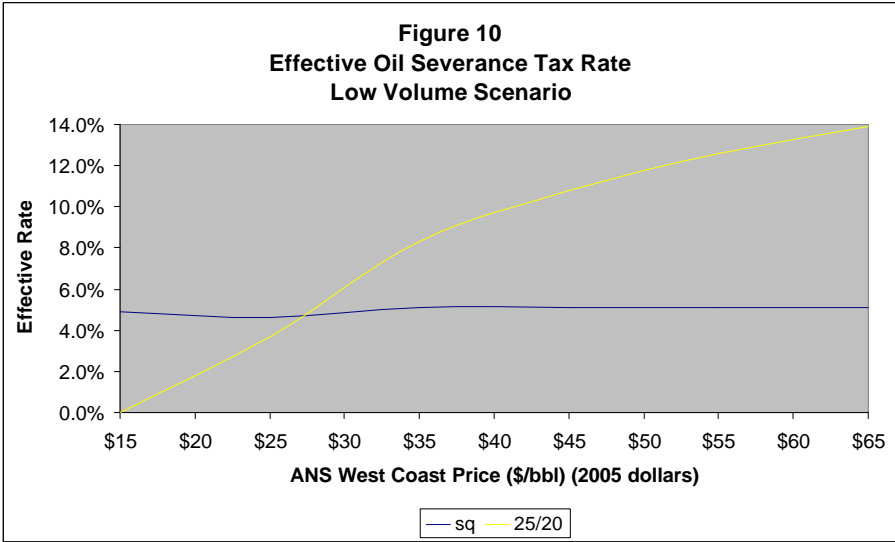
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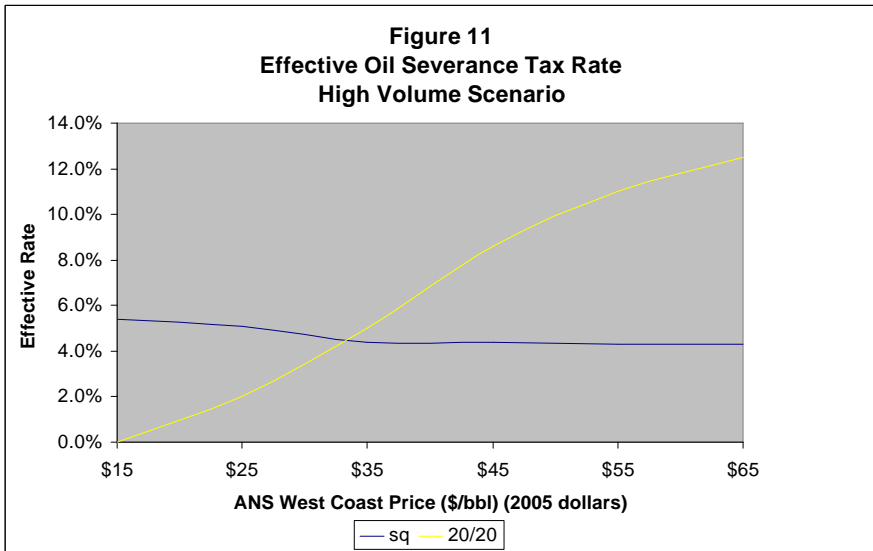
Effective Tax Rate

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

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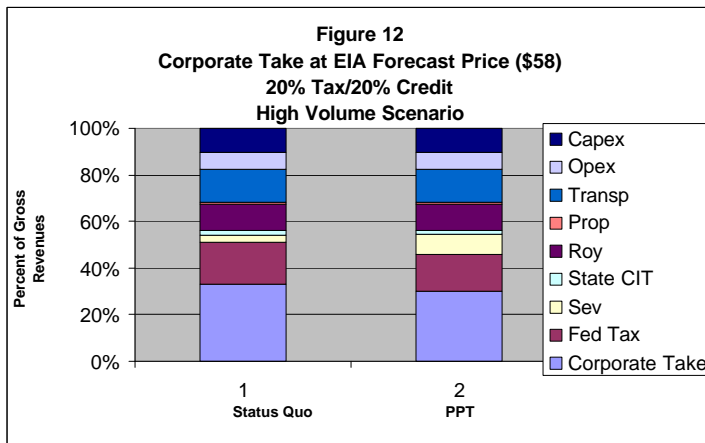
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Conclusion: Corporate Take

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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

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