

Guiding Principles for New Production Tax System

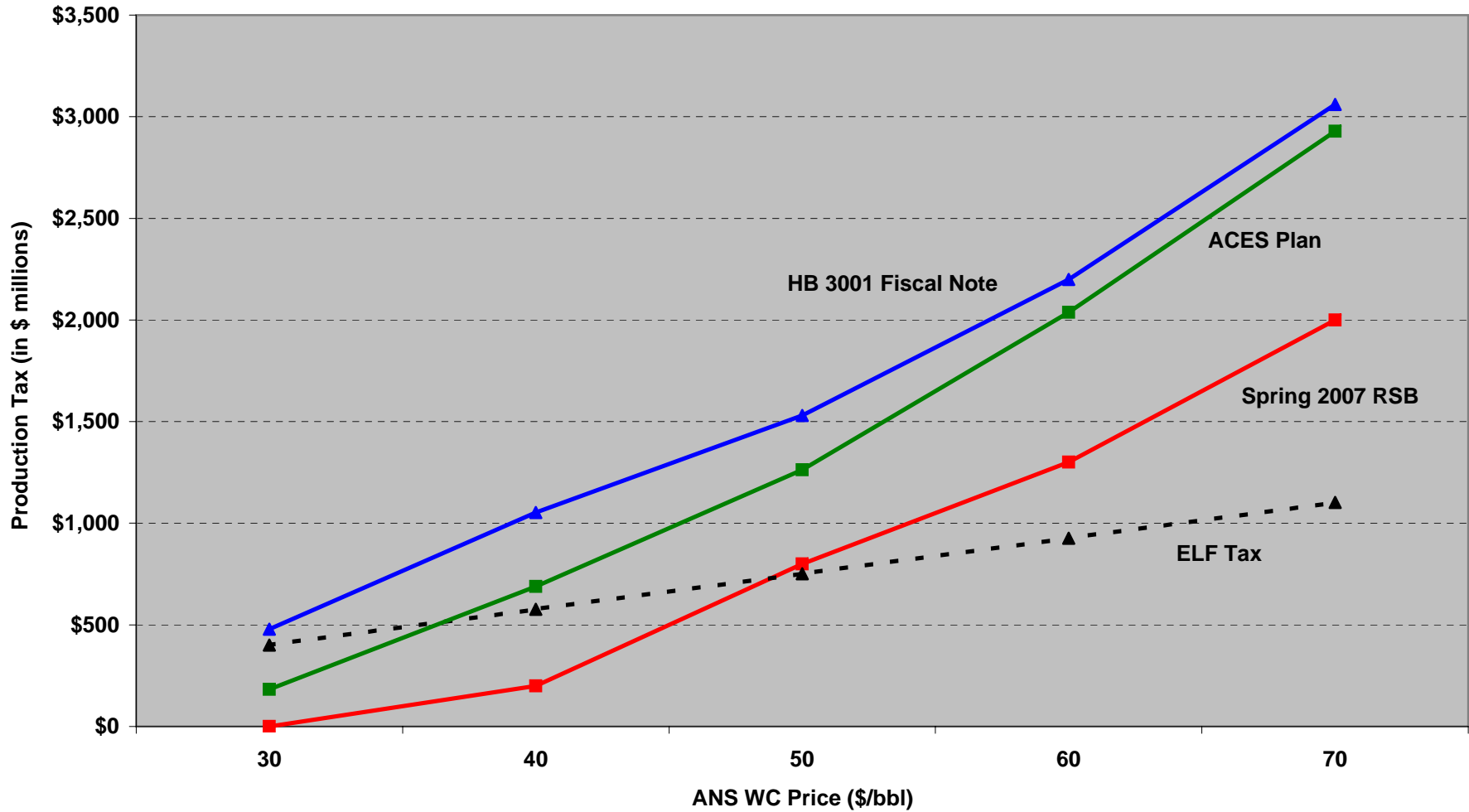
- Fair Revenue to the State
- Attractive Investment Climate
 - New Exploration
 - Re-investment in Existing Fields (including “Heavy Oil”)
- Transparency – Minimize Risk to the State

Alaska's Clear and Equitable Share (ACES) Plan

- 10% Gross-based Tax Floor on Legacy Fields
- 25% Tax Rate on Net Profits
- Progressive Feature that Kicks In at \$30 Net Value (annual) and Rises at Two-tenths of a Percent per Dollar
- Eliminates the Transitional Investment Expenditures "TIE" Credits
- Requires Capital Expenditure Costs to be Taken as Credits Over Two Years, Rather than Immediately
- Fixes "Corrosion" Issue – SB 80 Type Approach
- Excludes Dismantlement, Removal & Restoration (DR&R) Costs from Allowable Expenditures
- Expands Exploration Incentive Credit Program to Include One Exploration Well and Up to Two Delineation Wells
- Provides Vehicle for New Explorers to Get the Same Value for their Credits as Producers
- Transparency - Minimize Risk to the State
 - Requires Taxpayers to Provide Cost Projections to Allow State to Better Forecast State Revenues and Pursue Changes in Reported Costs
 - Authorizes Public Reporting of Some Cost Data
 - Authorizes a Short-term Audit Program
 - Designates an Exempt Class of Oil and Gas Auditors

FY 2008 Production Tax Estimates

HB 3001 Fiscal Note, Spring 2007 Revenue Sources Book, ELF Tax and ACES Plan



Project Net Present Value of Cash Flows (10% Discount Rate)

\$40 Test Price (\$ Millions)

	Status Quo PPT	ACES Plan	16% Gross Tax <i>No Capital Credits</i>	19% Gross Tax <i>With Capital Credits</i>
Field/Project A	178	128	-35	27
Field/Project B	72	48	-22	9
Field/Project C	59	27	-53	-22
Field/Project D	-64	-90	-398	-282

*Production Tax Revenues
FY2008 @ \$60
oil price*

\$1.3B

\$2.0B

\$2.1B

\$2.0B

Government Take Metrics

	At \$60
Marginal Government Take (%) (Fiscal Year 2008)	
ACES	68
International Average – All Fiscal Regimes (Median)	67
International Average – PSA Fiscal Regimes (Median)	74
International Average – Tax Royalty Regimes (Median)	55

Source: International Data from PFC Energy Consultants