

STATE OF ALASKA

DEPARTMENT OF REVENUE

Tax Division

Sarah Palin, Governor

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October 8, 2007

Senator Hollis French & Representatives Les Gara
716 West 4th Avenue
Anchorage, Alaska 99501

Dear Senator French & Representatives Gara:

Am in receipt of your letter of October 3 and pleased that our work has been useful to you. You raised a number of issues which I would like to respond to in the order in which they were presented.

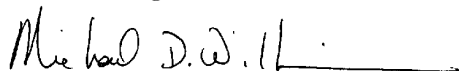
In your first request you discuss estimating **profit margin by field** at ANS crude prices of \$40, \$60 and \$80. We are unable to make those calculations because we do not have the necessary data. The Petroleum Profits Tax [PPT] legislation did not provide for collecting data by field. This is one of the topics that Alaska's Clear and Equitable Share [ACES] plan seeks to remedy – see pages 27 and 28 of the bill. The bill also requests forward looking data to help with forecasting [see pages 30 and 31].

Your second request for slope-wide profit margins (or free cash flow) under various scenarios is one we can begin processing and forward to you as soon as possible. Please understand, however, that without field-specific data, calculations can only be made from producer's aggregated data. These combine revenues and expenses from a range of different project types and various stages of development. As a result, any calculations involving various tax scenarios are insensitive to impacts on specific fields, which can compromise the accuracy of any outcomes. That being said, I have attached a similar table that contains the information for FY 2007 – the most recent fiscal year for which we have complete unaudited data. You will note we have “cleaned” up the presentation in an effort to make it more readable and easier to understand.

Regarding the request for a gross tax of 20% that increases as prices increase, I assume the price you are referring to is Alaska North Slope [ANS] crude oil sold on the West Coast [WC]. Please confirm my interpretation is correct. I will communicate the results of our analysis as soon as we have completed it.

I look forward to seeing you during the Special Session.

With best regards,



Michael D. Williams
Chief Economist

Cc: Marcia Davis
Jonathan Iversen
Richard Tremaine
Ian Laing