

**James Feldman**

**From:** Rep. Les Gara  
**Sent:** Thursday, October 11, 2007 1:51 PM  
**To:** Davis, Marcia R (DOR)  
**Cc:** Rep. Beth Kerttula; Sen. Bill Wielechowski; Sen. Hollis French; Rep. Mike Doogan; Rep. Harry Crawford; James Feldman; Cindy Smith  
**Subject:** Clarification of Total "Government Take" Number we discussed.

Hi Marcia – Hope all's well. The other day we discussed a misunderstanding I took from the Department's "Total Government Take" PowerPoint presentation. While the PowerPoint states that ACES is projected to produce a 68% government take in the future, you mentioned that it will (unless I misunderstood you) produce a smaller government take – something in the 62% range, in next fiscal year if implemented. That seems more in line with the numbers we received from our experts last year.

I think your point may have been that while much of our production is coming from highly profitable, relatively low cost legacy fields, ACES will result in a smaller government take (with higher profits, the company share will be greater), but that in the future, as we rely increasingly on higher cost, lower profit production the government take will rise (because company profit margins will shrink).

Anyway – so we're working off the same page, can we please have the Department's best estimate of the total government take DOR expects ACES will produce if implemented for next fiscal year? That information would be helpful. Many of us thought the ACES presentation addressed the government take percentage for next fiscal year, not the "full cycle" period I think you explained it actually addresses.

Also, is my understanding above correct as to why the short term government take under ACES will be lower than the long term number?

Thanks. We'd appreciate this information before Session starts – even if it's just a best estimate, that gets followed by a more detailed one later.

Best, Les

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- 68% is full cycle
- govt. take next yr. under ACES is 62%?
- Daniel Thurston - on comparable fields: Russia: 90%; Norway: 78%; UK: 75%
- Cooper + BP - large profit margins in AK  
 2006 - 35% profit margin (before tax mg) (which was \$1.16)

10/19/2007

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

October 3, 2007

**BY FACSIMILE**

Deputy Commissioner Marcia Davis  
Department of Revenue  
550 W. 7<sup>th</sup> Ave, Suite 1820  
Anchorage, AK 99501

Dear Deputy Commissioner Davis:

A few weeks ago we talked about my concern that the "government take" numbers given to us by the Administration's current consultants differs, by close to \$1 billion, from the numbers we were given last year. Based on last year's information, it seems the current projections by the Administration's consultants possibly overstate the "total government take" that will be produced under Alaska's Clear and Equitable Share plan (ACES), and possibly understates the world average government take. The fact that the Petroleum Production Tax revenue came in \$800 million lower than forecasted does not appear to explain this for the reasons stated below.

I agree completely that the "world average government take" is not a be all and end all number. The tax rate on similar fields worldwide, and how a tax rate fares for producers who need fair profit prospects, are arguably even more important than the average on fields, and in systems, that are vastly different from Alaska's. However, I'd like to ask your consultants to review, and correct if needed, what I believe may be mistakes as we go forward on the world take issue.

1. The Projected Government Take Under ACES May Be Overstated. According to last year's analysis by EconOne, PPT was forecast to produce a total government take of roughly 61% at \$60/bbl. In fact, PPT came in roughly \$800 million short, so it stands to reason that in fact it produced a government take of well below 61%.

The world average government take is, according to Wood Mackenzie and Daniel Johnston, somewhere between 67 and 73%, and your consultants picked the low end number of 67% as their view of the "world average." According to EconOne, at \$60/bbl, each additional percentage in added government take, at \$60/bbl, should bring in roughly \$200 million in additional state revenue.

Therefore, here is the problem:

According to last year's numbers, by raising government take from 61% to 68% (the Department of Revenue presentation says ACES creates a 68% government take at \$60/bbl), ACES should bring in an additional \$1.4 billion at \$60/bbl. That is, if each percent in additional "take" raises \$200 million, and government take has been raised under ACES by 7%, ACES should bring in roughly \$1.4 billion more than PPT, not just \$700 million more. Furthermore, since PPT in practice resulted in less than a 61% government take, the additional state revenue that would be produced for the state, if the government take truly were at 68% under ACES should be well above \$1.4 billion.

Under the analysis we have, it seems incorrect that a 7% (or likely greater) rise in government take should only produce \$700 million in additional revenue. The 68% government take estimate for ACES appears overestimated.

I hope you can run this information by your consultants. Attached is the EconOne and Wood Mackenzie information showing: 1) each additional percent in government take should raise an additional \$200 million at \$60/bbl; 2) that the plan they analyzed closest to what passed in 2006 produced a 61% government take at \$60/bbl; and that 3) estimates of world average government take from Wood Mackenzie and Daniel Johnston are between 67% - 73%.

2. World Average Government Take. According to Daniel Johnston and Wood Mackenzie, both hired by the Legislature in 2005 and 2006, estimates of the world average total government take range between 67% and 73%. It causes me concern that your consultants chose the lowest of these estimated world averages. I wonder if they could try to explain the difference between what Wood Mackenzie has estimated, and what Daniel Johnston has estimated, and explain why their numbers are so different. Or, if they state that Johnston's and Wood Mackenzie's estimates are fair too – then that would be an acceptable response as well.

The world take issue isn't crucial at all, but these questions have been raised by the current projections, and the vastly different numbers our experts provided last year.

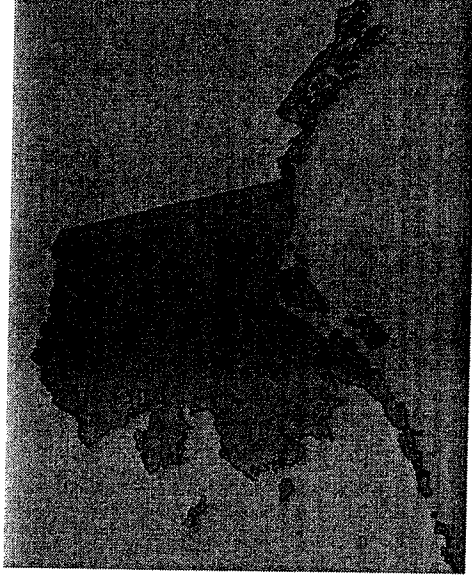
The expert information from last year on these points is attached. Feel free to call with any questions.

Sincerely,

Rep. Les Gara

# Expert Information from the 2006 Oil Tax Debate Showing Alaska's Oil Tax

## Shortfall



# PPT Taxes Much Less Than the Average World Oil Tax Rate

- PPT Tax Rate = 61%
- Wood Mackenzie estimates world average at 71%
- Expert Daniel Johnston estimates world average at 67%  
– 70%
- Alaska taxes between \$1.2 billion and \$2 billion less  
than the world average tax rate

# Consultant Daniel Johnston on Average Worldwide Government Take

*“... the world average government take even right now is probably 67 or 70 depending upon how you calculate it. Wood Mackenzie aggregates their statistics a little bit differently too [inaudible] but in the Wood Mackenzie world average government take statistic from their study was I think 71%.”*

Joint House Resources / House Finance Committee  
March 6, 2006

# WOOD MACKENZIE

## GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

### Alaska's Profitability — Full Cycle, Post Government Take

#### Rate of Return (IRR — Nominal)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	15/49	14/52	14/53
Alaska's IRR	18.09%	23.57%	29.11%
Global Average IRR	15.20%	18.94%	23.07%

### Full Cycle Government Take

#### Full Cycle Gov't Take (% Of Pre-Take Net Cash Flow, Undiscounted)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	33/54	24/54	19/55
Take on AK Production	71.70%	63.63%	58.40%
Global Ave. Take	70.86%	70.26%	73.34%

\*

From: Sen. Bill Wielechowski  
10/21/07

# Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Average ANS West Coast Price in Real 2006 Dollars: \$20.00 \$30.00 \$40.00 \$50.00 \$60.00 \$70.00 \$80.00

**Total Government Take (Percent)**

22.S/20, 0.25% at \$35 Net Trigger	62.6%	59.3%	58.9%	59.4%	60.8%	62.2%	63.7%
23.0/20, 0.25% at \$35 Net Trigger	62.6%	59.6%	59.1%	59.7%	61.1%	62.5%	63.9%
23.S/20, 0.25% at \$35 Net Trigger	62.6%	59.8%	59.4%	59.9%	61.3%	62.7%	64.2%

**Annual Average Tax Difference Above/(Below) Status Quo (\$2006 M)**

22.S/20, 0.25% at \$35 Net Trigger	(\$240)	\$111	\$525	\$1,068	\$1,843	\$2,760	\$3,818
23.0/20, 0.25% at \$35 Net Trigger	(\$240)	\$130	\$556	\$1,112	\$1,900	\$2,829	\$3,900
23.S/20, 0.25% at \$35 Net Trigger	(\$240)	\$148	\$588	\$1,156	\$1,956	\$2,898	\$3,981



# Effective Average Tax Rates at Various Price Levels (FY 2007-2016)



Average ANS West Coast Price in Real 2008 Dollars: \$20.00 \$30.00 \$40.00 \$50.00 \$60.00 \$70.00 \$80.00

### Total Government Take (Percent)

	\$20.00	\$30.00	\$40.00	\$50.00	\$60.00	\$70.00	\$80.00
Administration 20/20*	62.0%	58.9%	58.1%	57.3%	57.2%	57.1%	57.1%
Senate Resources CS* (25% TAX + 20% Credit)	63.4%	61.1%	60.9%	61.7%	62.5%	63.4%	64.3%
Original Senate Finance CS*	62.0%	58.7%	58.4%	58.3%	60.6%	60.1%	60.7%
Final Senate Finance CS*	62.0%	60.7%	60.4%	60.6%	60.6%	60.9%	61.0%

### Annual Average Tax Difference Above (Below) Status Quo (\$2006 M)

	\$20.00	\$30.00	\$40.00	\$50.00	\$60.00	\$70.00	\$80.00
Administration 20/20*	(\$256)	\$55	\$416	\$683	\$1,044	\$1,405	\$1,768
Senate Resources CS*	(\$238)	\$240	\$787	\$1,489	\$2,280	\$3,160	\$4,128
Original Senate Finance CS*	(\$256)	\$42	\$463	\$685	\$1,364	\$1,972	\$2,609
Final Senate Finance CS*	(\$256)	\$42	\$463	\$678	\$1,873	\$2,470	\$3,368

# Effective Average Tax Rates at Various Price Levels<sup>1</sup>

## (FY 2007-2016)

Average AMS West Coast Price in Real 2006 Dollars:    \$20.00    \$30.00    \$40.00    \$50.00    \$60.00    \$70.00    \$80.00

### Total Government Take (Percent)

HCS for SB 2001 <sup>2</sup>	67.2%	59.8%	59.4%	59.8%	61.3%	62.7%	64.2%
CC for SB 2001 (22.8/20, 0.175% at \$35 Net Trigger) <sup>3</sup>	66.3%	59.5%	59.0%	59.4%	60.3%	61.3%	62.3%
SB 2001 <sup>4</sup>	62.6%	58.9%	58.6%	58.8%	59.3%	59.9%	60.4%

### Annual Average Tax Difference Above/(Below) Status Quo (\$2006 M)

HCS for SB 2001 <sup>2</sup>	(\$78)	\$146	\$588	\$1,156	\$1,956	\$2,898	\$3,981
CC for SB 2001 (22.8/20, 0.175% at \$35 Net Trigger) <sup>3</sup>	(\$109)	\$122	\$544	\$1,056	\$1,730	\$2,504	\$3,376
SB 2001 <sup>4</sup>	(\$240)	\$76	\$490	\$956	\$1,514	\$2,129	\$2,801

<sup>1</sup> Assumes the average price is \$20.

<sup>2</sup> Calculated from 2006-2016 average price of \$20.8/20, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger.

<sup>3</sup> Calculated from 2006-2016 average price of \$20.8/20, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger.

<sup>4</sup> Calculated from 2006-2016 average price of \$20.8/20, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger, 0.175% at \$35 net trigger.