

The Palin-Parnell Administration presents

ACES

Alaska's Clear and Equitable Share



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ACES VS. PPT SCHEMATIC



Alaska's Clear and Equitable Share

ANS West Coast Price

- (minus Shipping/TAPS)

= Gross Value at the Point of Production

- (minus upstream capital costs [less 30 cents/bbl])

- (minus upstream operating costs)

= Net Income

	PPT	ACES	\$ DFNC
Base Tax Rate on Net Income	22.5%	25.0%	\$0.2 B
Plus Progressivity Surcharge:			
Per Barrel Net Income "Kicker"	\$40	\$30	\$0.2 B
Surcharge Rate applied to Net Income	0.25% / \$	0.20% / \$	
(Minus Credits)			
- (Capital (023a) [20%])	Yes	Yes	
- (NOL (023b))	Yes	Yes	
- (Transition [TIE] (023i))	Yes	No	\$0.2 B
- (Small Producer (024) [\$12mm])	Yes	Yes	
- (Exploration (025))	Yes	Yes	
= Tax Payment	\$1.4 B	\$2.0 B	\$0.60

FLOOR

PPT - HIGHER OF:

PPT Net Tax Payment

vs.

4% of Gross Income
(If ANS West Coast above \$25/bbl)

ACES

**FOR EACH UNIT WITH CUMULATIVE PRODUCTION OVER ONE BILLION BARRELS
AND DAILY PRODUCTION OVER 100,000 BARRELS PER DAY
PAYMENT IS HIGHER OF:**

ACES Net Tax Payment

vs.

10% of Gross

Measuring Government Fair Share: New Fields and Legacy Fields

- Fair share to government is an objective of fiscal systems (from the perspective of government)
- Based on international competitive opportunities commensurate with risk: make Alaska an attractive place to invest
- Needs to be an objective measurement of fair share that is systematically comparable
- The pattern of development is a) first comes investment, then b) returns are realized in subsequent years
- Measurement needs to recognize that investment decisions are based on forward-looking economics
- New fields are different from legacy fields

- All costs are prospective
- Look at “take”
 - Take is a life-cycle concept
 - Percentage of economic rent going to government
 - Economic rent is gross revenues less costs (before taxes)
 - Discounting recognizes cost of capital – timing of take matters

- Many costs have already been incurred
- Measurements that look at cash flow in a single year can be deceptive as:
 - Large costs are often incurred in discreet time-frames (lumpiness)
 - Returns are realized after these investments
 - A single year cannot depict the economic picture
 - Systematic international comparisons for a particular year are meaningless

- Look at share of the incremental dollar going to government (marginal tax rate [MTR])
 - Derived by looking at total per barrel government revenues at one price, and then increasing the price by one dollar
 - The difference in per barrel government revenues (from that at the lower price) is the marginal tax rate
 - Increasing the price by one dollar has no effect on costs
 - Cost issues are minimized
 - Limitations of annual “share” data

Alaska and its Competitors



Alaska's Clear and Equitable Share

- Governments use two major methods to take their fair share
- Royalty & Production Taxes
 - Developed nations
 - Stable democratic governments
 - Diverse economies
- Production Sharing Contracts (PSC)
 - Developing nations
 - Less stable governments – fiscal system administered by contract
 - Oil centered economies – better geology
- Alaska should be compared with tax/royalty jurisdictions
 - UK, Norway, Gulf of Mexico, Alberta, Canada
 - Under PPT & ACES, Alaska government take & MTR is between UK and Norway

- Data base
 - More exhaustive inventory of international jurisdictions (PFC effort)
 - Real projects (PFC effort)
 - Internal Schlumberger PEEP model with detailed fiscal systems – real projects analyzed
- Two fundamental changes to approach
 - Differences between legacy and new fields
 - Comparison to relevant competition