The Palin-Parnell Administration presents

ACES

Alaska's Clear and Equitable Share

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ACES VS. PPT SCHEMATIC

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

Alaska's Clear and Equitable Share

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

Principles

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- 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

New Fields

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- 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

Legacy Fields

- 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

Legacy Fields: Marginal Tax Rate

- 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

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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

Fundamental Changes from Past Efforts

- 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