State of Alaska

Department of Revenue

Commissioner's Office

SARAH PALIN, GOVERNOR

333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99811-0405
Phone: (907) 465-2300
Fax: (907) 465-2394

The Honorable Jay Ramras
Alaska State Representative
State Capitol, Room 118
Juneau, AK 99801-1182

October 27, 2007

Dear Representative Ramras,

You have requested that we provide you with what you call a "risk delta" associated with passage of ACES through year 2020. We have interpreted your inquiry as a request for a quantification of "what would happen if ACES were passed and investment decreased." To evaluate your question, we compared state revenues through 2020 under the scenarios of PPT with a 3% decline and ACES with a 6% decline. Slide 1 of the attached PowerPoint presentation depicts total severance taxes and royalties. The assumptions we used in this calculation were:

-Starting production of 750,000 bbls/day in 2008
-Most current DOR price forecast
-Capex of $7.00/bbl in the 3% decline case and $4.50/bbl in the 6% decline case
-Opex of $8.00/bbl in the 3% decline case and $7.00/bbl in the 6% decline case
-These cost estimates are based on our research

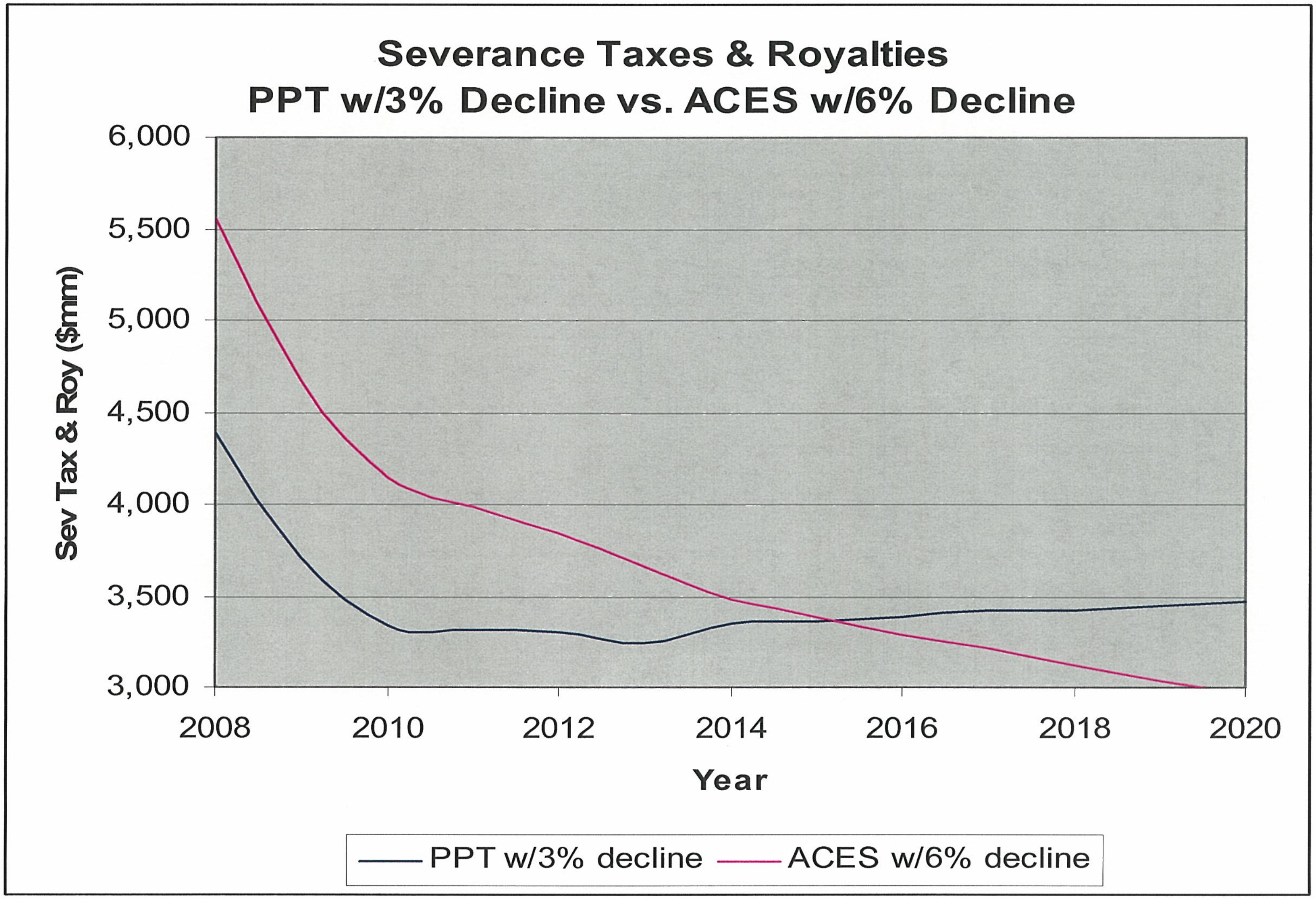
Slide 1 demonstrates that notwithstanding the lower total oil production should ACES result in reduced investment and thus, lower production through a higher decline rate, the total revenues under the ACES case with higher decline rate were slightly higher than PPT base case with lower decline rate: $48 billion under ACES vs. $45 billion under PPT.

Slide 2 supports the administration's statements that ACES would not cause a curtailment of investment, and associated increase in oil production decline until oil prices dropped below $30-40 a barrel. Above this oil price range, the higher taxes paid under ACES pales in comparison to the additional revenue investors would receive as a result of selling additional oil resulting from the additional investment. At prices above $35/bbl the net present value (NPV) to the producers of their additional investments to achieve a 3% decline under ACES is higher than the NPV of reducing investment and having 6% decline under ACES.

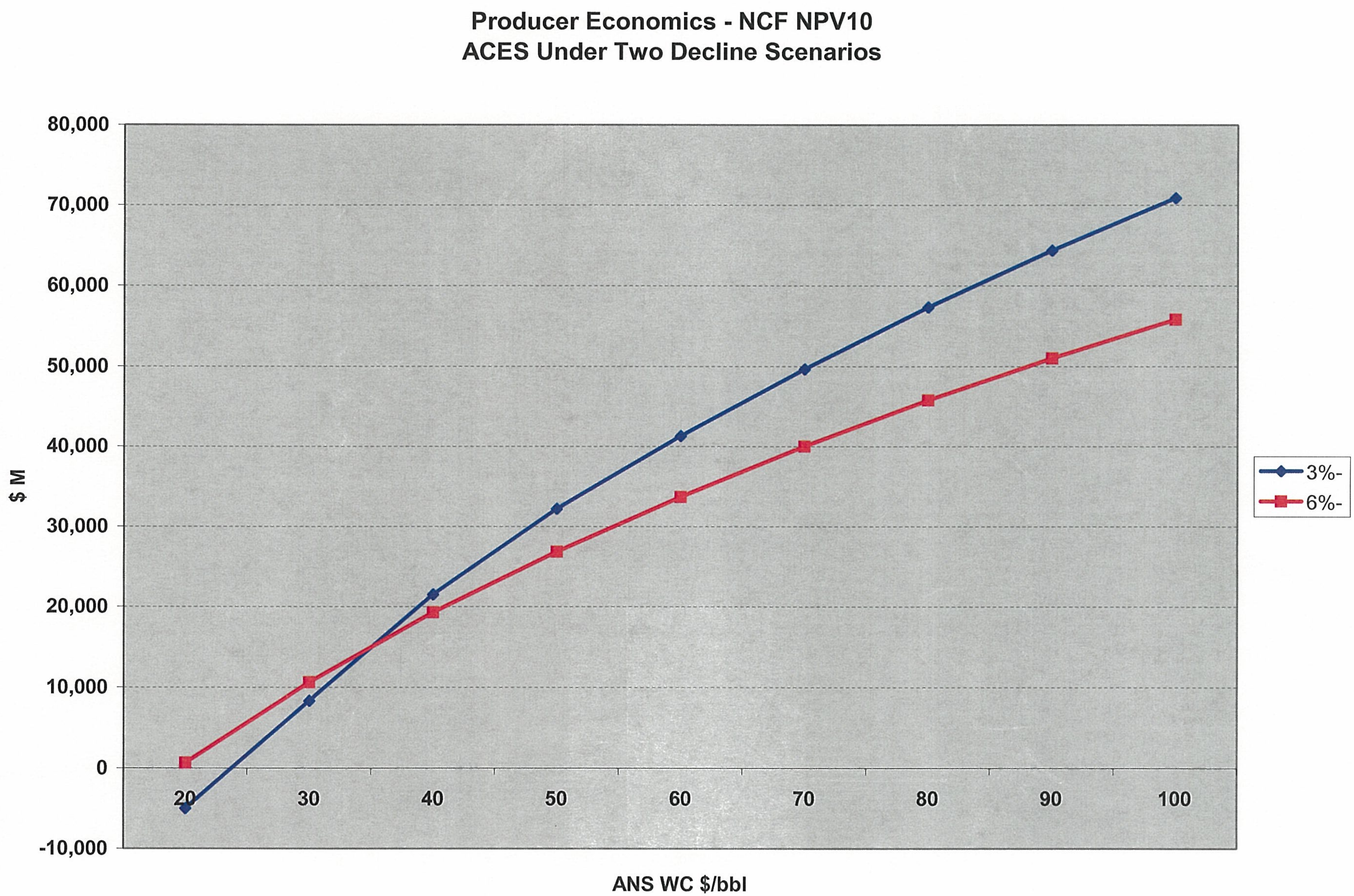
Sincerely,

Marcia Davis

Marcia Davis, Deputy Commissioner
Department of Revenue



Severance Taxes & Royalties
PPT w/3% Decline vs. ACES w/6% Decline
Sev Tax & Roy ($mm)
6,000
5,500
5,000
4,500
4,000
3,500
3,000
2008
2010
2012
2014
2016
2018
2020
Year
PPT w/3% decline
ACES w/6% decline


Producer Economics - NCF NPV10
ACES Under Two Decline Scenarios
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
-10,000
$ M
20
30
40
50
60
70
80
90
100
ANS WC $/bbl
3%-
6%-