

Governor Palin Unveils “ACES” – Sept. 4, 2007

Governor Palin released the following five-page outline of her plan for correcting problems in the state’s production tax at a press conference September 4, 2007. Persons unable to attend the Anchorage press conference were invited to obtain the original version of the 5-page press handout on line. But the original handout was displayed against a light gray background showing Alaska’s state flag and seal that ate up so much computer space that it required nearly 2-1/2 minutes to download on a typical computer.¹ (The copy of the original version displayed here will download in far less time.)

To reduce the downloading difficulties, the Palin administration created and released a second version of the 5-page handout without the obstreperous background art. In the process, however, the last two pages of the stripped version were transposed and a key block of information was omitted.² A copy of the faulty, stripped version follows the original.

¹ Governor Palin’s Sept. 4, 2007 press release with links to the 5-page handout can be accessed in the governor’s press archives (<http://www.gov.state.ak.us/news.php?id=563>). The full original chart (“*Alaska’s New Production Tax System – Press Conference HANDOUT – Sept. 4*”) can be accessed at the same site (http://www.gov.state.ak.us/pdf/PPT_Sept4Presser_RevDocs.pdf), or through the set of posted ACES documents discussed in the text of this report.

² The incomplete and more confusing stripped version remained on the governor’s web site for approximately 24 hours.

Guiding Principles for New Production Tax System

- Fair Revenue to the State
- Attractive Investment Climate
 - New Exploration
 - Re-investment in Existing Fields (including "Heavy Oil")
- Transparency - Minimize Risk to the State



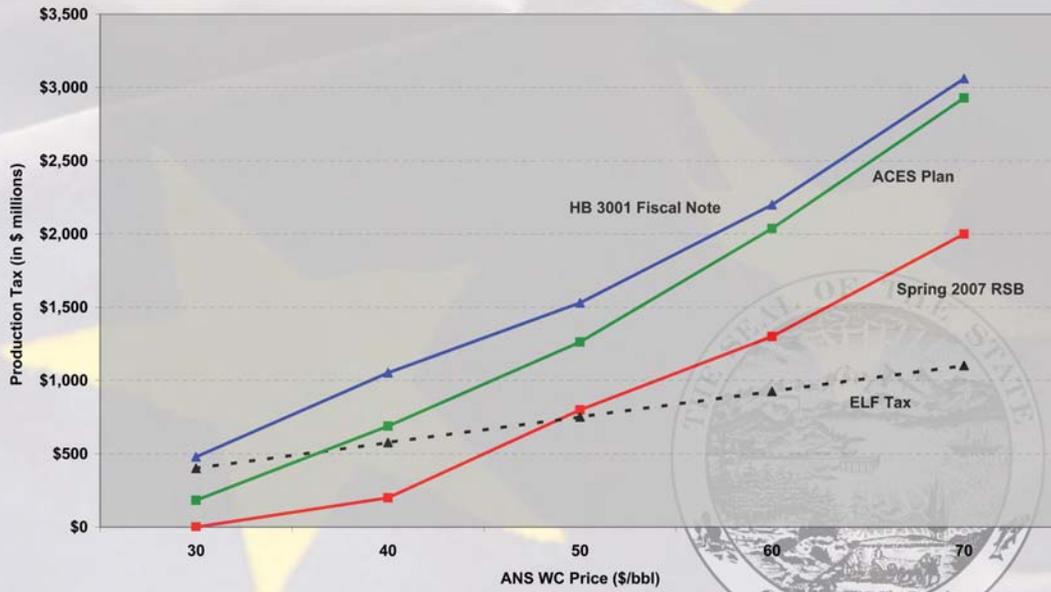
Alaska's Clear and Equitable Share (ACES) Plan

- 10% Gross-based Tax Floor on Legacy Fields
- 25% Tax Rate on Net Profits
- Progressive Feature that Kicks In at \$30 Net Value (annual) and Rises at Two-tenths of a Percent per Dollar
- Eliminates the Transitional Investment Expenditures "TIE" Credits
- Requires Capital Expenditure Costs to be Taken as Credits Over Two Years, Rather than Immediately
- Fixes "Corrosion" Issue - SB 80 Type Approach
- Excludes Dismantlement, Removal & Restoration (DR&R) Costs from Allowable Expenditures
- Expands Exploration Incentive Credit Program to Include One Exploration Well and Up to Two Delineation Wells
- Provides Vehicle for New Explorers to Get the Same Value for their Credits as Producers
- Transparency - Minimize Risk to the State
 - Requires Taxpayers to Provide Cost Projections to Allow State to Better Forecast State Revenues and Pursue Changes in Reported Costs
 - Authorizes Public Reporting of Some Cost Data
 - Authorizes a Short-term Audit Program
 - Designates an Exempt Class of Oil and Gas Auditors



FY 2008 Production Tax Estimates

HB 3001 Fiscal Note, Spring 2007 Revenue Sources Book, ELF Tax and ACES Plan



Project Net Present Value of Cash Flows (10% Discount Rate)

\$40 Test Price (\$ Millions)

	Status Quo PPT	ACES Plan	16% Gross Tax No Capital Credits	19% Gross Tax With Capital Credits
Field/Project A	178	128	-35	27
Field/Project B	72	48	-22	9
Field/Project C	59	27	-53	-22
Field/Project D	-64	-90	-398	-282
<i>Production Tax Revenues FY2008 @ \$60 oil price</i>	\$1.3B	\$2.0B	\$2.1B	\$2.0B



Government Take Metrics

	At \$60
Marginal Government Take (%) (Fiscal Year 2008)	
ACES	68
International Average – All Fiscal Regimes (Median)	67
International Average – PSA Fiscal Regimes (Median)	74
International Average – Tax Royalty Regimes (Median)	55

Source: International Data from PFC Energy Consultants



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(Continued)

The faulty, stripped version of the ACES proposal handout released by the governor's office Sept. 4, 2007 follows.² Here is some additional background on its appearance and subsequent removal from the governor's web site:

In an effort to get around the transmission barrier created by the dysfunctional artwork in the original Palin administration release, within hours of the original release the governor's office posted a second version of the handout with the troublesome background removed.³ But in the process, pages 4 and 5 of the stripped or plain version were transposed and a key block of data from the original page 4 was dropped, breaking the connections (which were none too clear in the first place) between the chart on page 3 and the data on the misplaced final page.⁴ As a result, the three pages of data in the simplified version were even more difficult to interpret than the data in the original version.

The flawed second version of the ACES proposal handout remained on the governor's web site for approximately 24 hours, when it was replaced with a corrected version.⁵

² The faulty, second version displayed here was taken from the *Anchorage Daily News* web site (<http://dwb.adn.com/static/includes/news/principles.pdf>).

³ The second version reduced the size of the original post to an easy download size (from 6.2 MB to 0.042 MB [42 K]).

⁴ Due to inconsistent labeling and lack of definitions, the three pages of charts and data at the back of both versions of the Sept. 4 handout were difficult to interpret. But in the original version, the careful reader could discern a link between the chart on page 3 and the data on page 4: the bottom block of numbers on page 4 listed estimated production tax receipts for fiscal year 2008 at \$60 per barrel increasing from \$1.3 billion under the old tax to \$2.0 billion under ACES; the same amounts were shown on page 3. But with the bottom block of numbers missing and the pages reversed on the faulty, stripped version of Sept. 4, 2007, there was no clear link between the chart on page 3 to the numbers on the subsequent pages.

⁵ I became aware of the transmission difficulties associated with the original version of the release during the day on Sept. 4, 2007, when I was unable to receive a copy via e-mail. That evening, after the original and the faulty second version of the handout were posted on the governor's web site, I observed the differences and immediately contacted the governor's office to alert them to this problem.

Guiding Principles for New Production Tax System

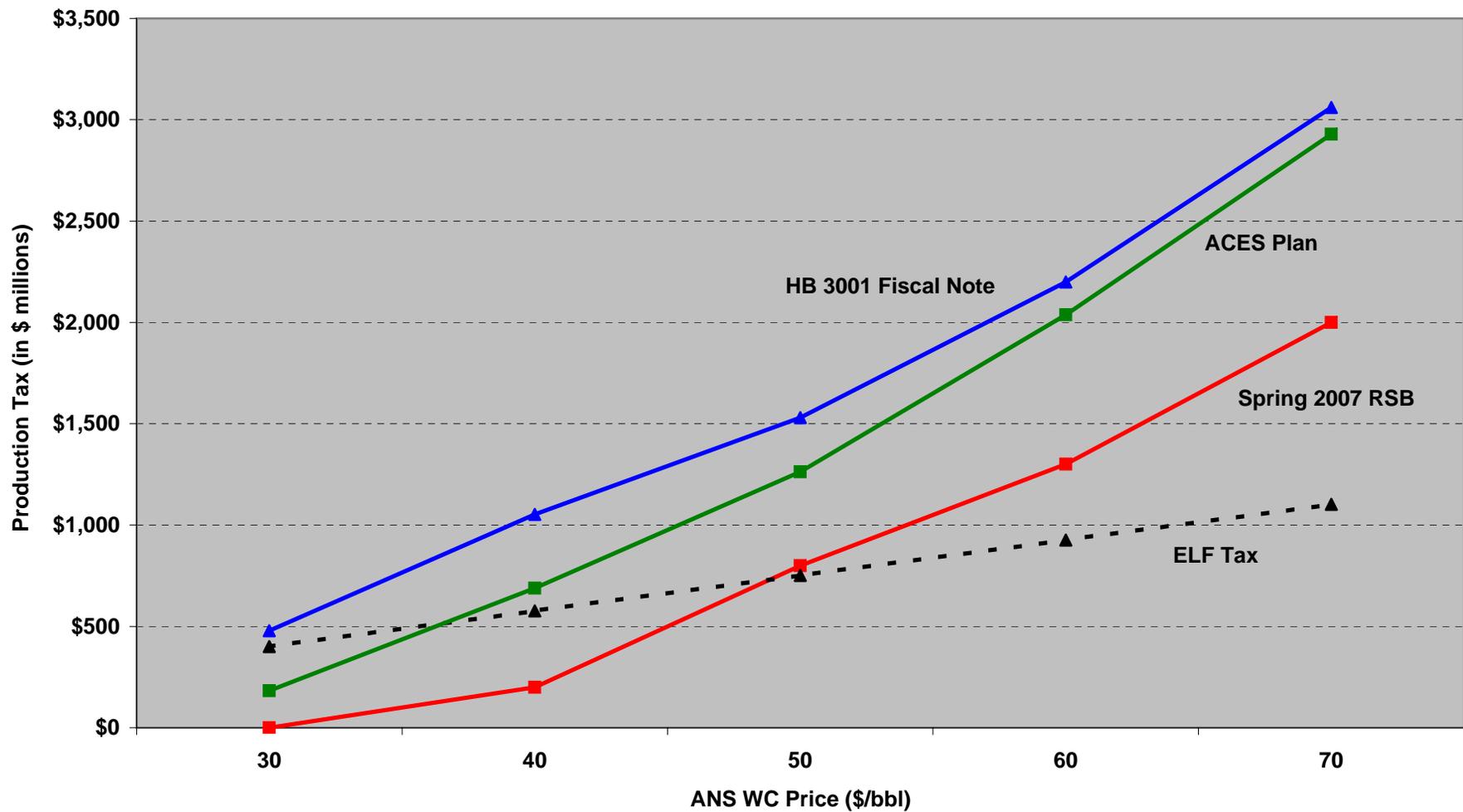
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