Proposed “Fair Share” Oil Tax Ballot Initiative

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Initiative Approach to “Fair Share” From the Initiative Web Site

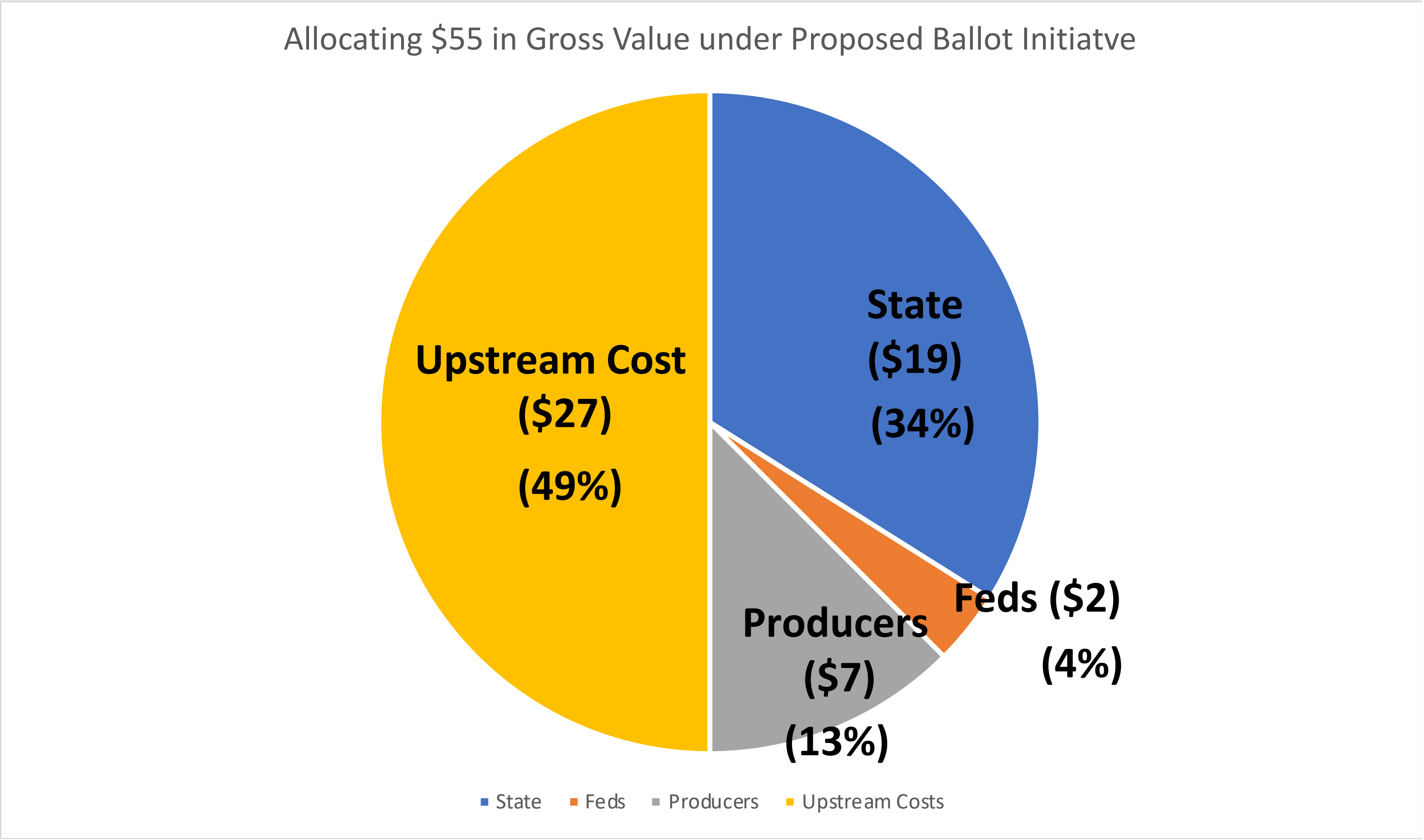
“One-third of the *gross revenues* from the sale of our oil is a good standard to apply in determining if Alaskans are getting their fair share. Governor Hammond was a key architect of our economic relationship with the oil industry. He stated the original agreement was one-third to the state, one-third to the federal government, and one-third to the producers.”

The Problem

- Gross pie needs to be allocated among 4 slices, not three
- The 4th slice is the upstream operating and capital development costs

Income Summary

ANS West Coast Price	$64
(Transportation)	-$9
Gross Value	$55
Upstream costs	-$27
Net Value	$28


Allocating $55 in Gross Value under Proposed Ballot Initiatve
Upstream Cost ($27) (49%)
State ($19) (34%)
Feds ($2) (4%)
Producers ($7) (13%)
State
Feds
Producers
Upstream Costs

Gross Revenues

- A 3-way split of revenues implies:
  - The producers spend $27/bbl to develop oil
  - Sell oil for $55
  - Pay taxes
  - Make $55 less taxes
- Of course they make $55 less taxes and the upstream costs
- The only way there is a 3-way split is to take the upstream costs out
  - That is what net revenues are

Provisions of Oil Tax Ballot Initiative:

(How gets 1/3 of gross at current prices)

- 35% of net value
- 10% gross minimum when price less than $50 (up from 4%)
- Up to 15% gross minimum at $70 (up from 4%)
- Elimination of per barrel credit
- Additional progressivity of 15% of net value greater than $50 (market price of $89):
  - 70% marginal tax rate

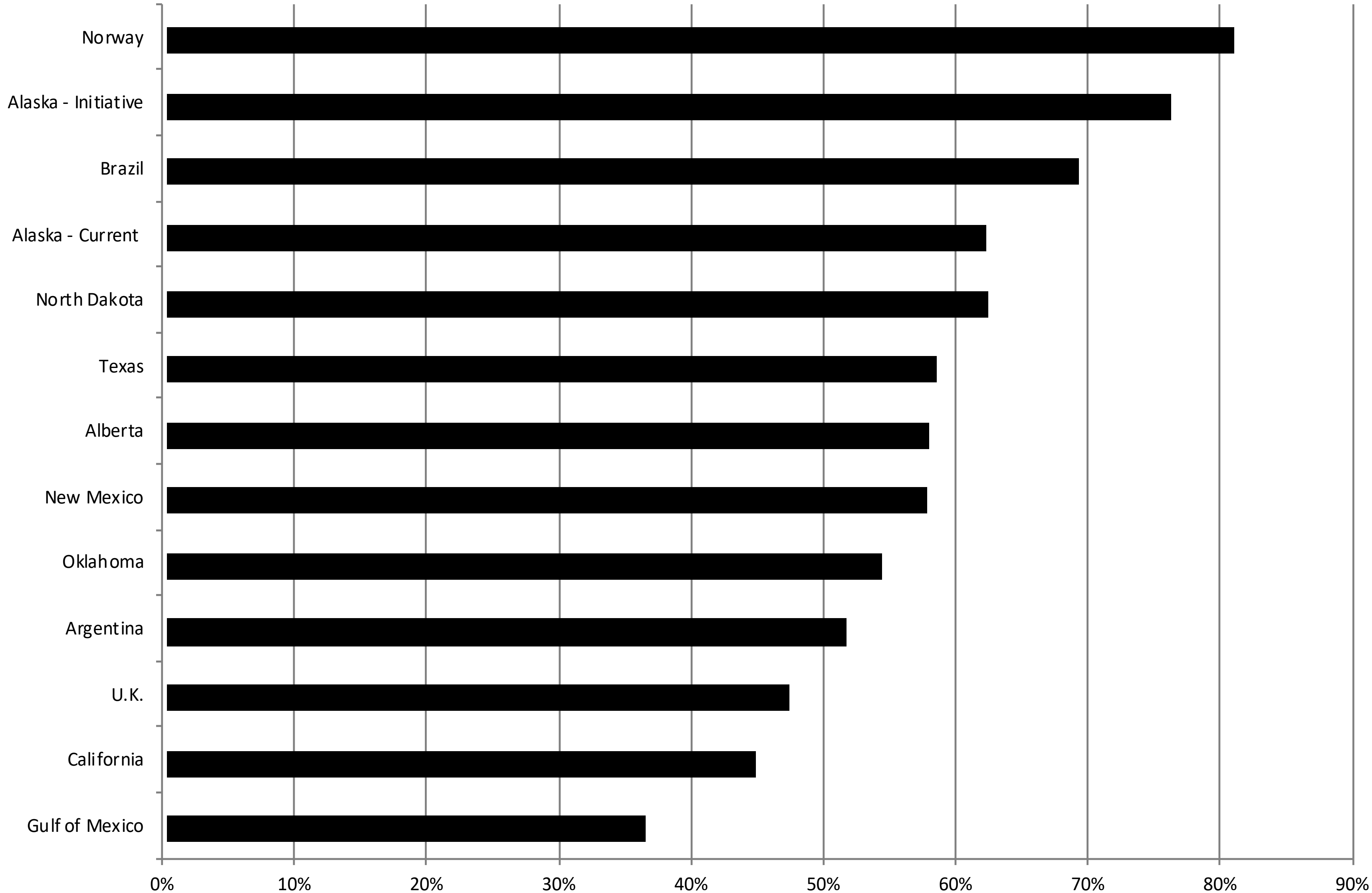
Additional Provisions of Initiative

- Applies to units that have produced more than 400 million barrels cumulatively, and more than 40,000 barrels a day in previous year (Prudhoe, Kuparuk, Alpine)
- Ring fencing of units (a company cannot offset income from one unit with losses from another)
- Additional reporting requirements

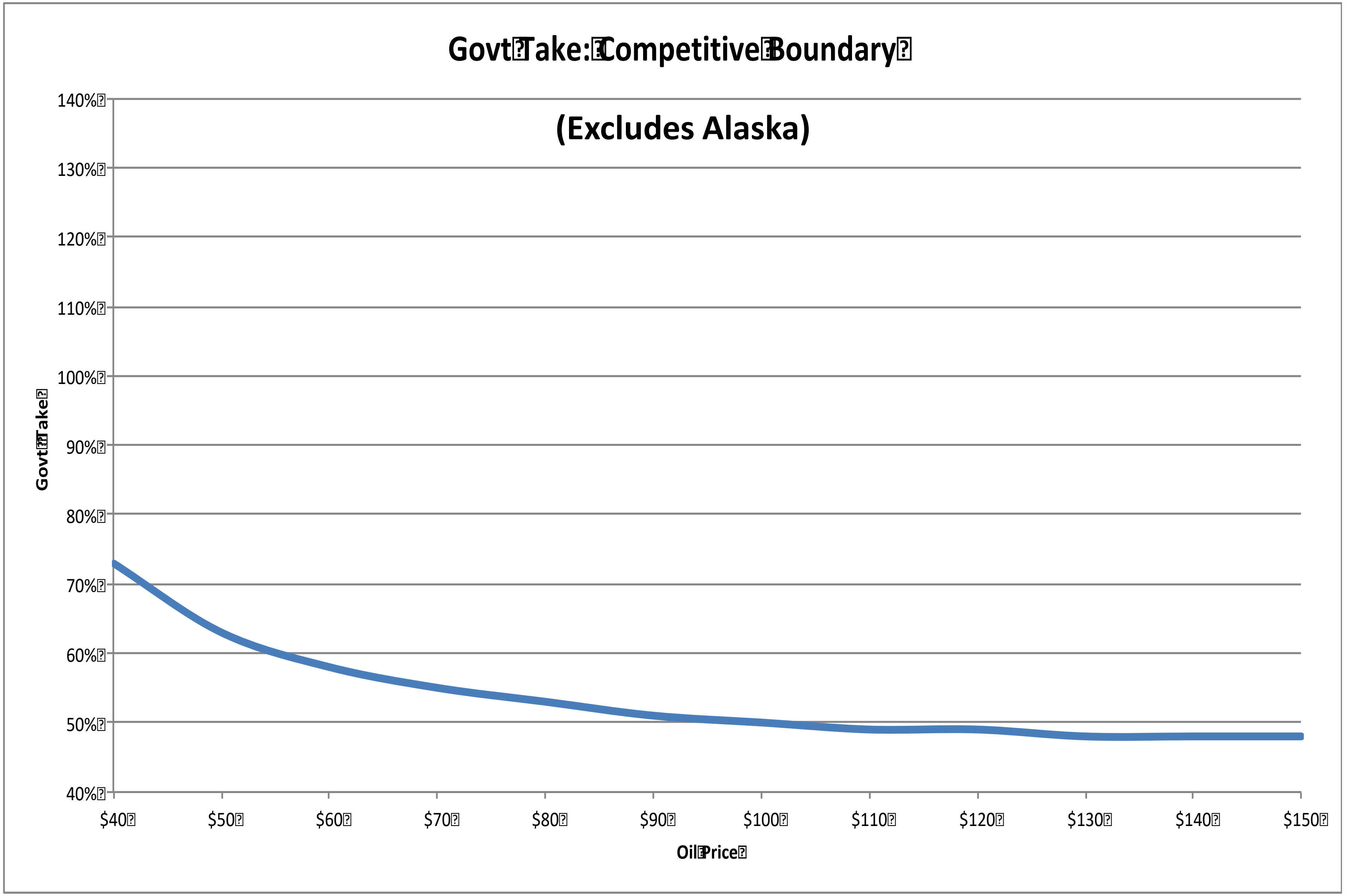
Competitiveness Analysis

- Government take: percentage of ***net*** income that goes to government (all taxes & royalties)
- Issues of judgment
  - Which peer groups?
  - Which costs?
  - Which metrics (mean, median, etc.)?
- Peers – other similar jurisdictions that competes with Alaska for investment
  - Tax & royalty regimes
  - Democracies
  - Set in legislative setting

Govt Take @ $60 Oil Price



Govt take includes all taxes and royalties



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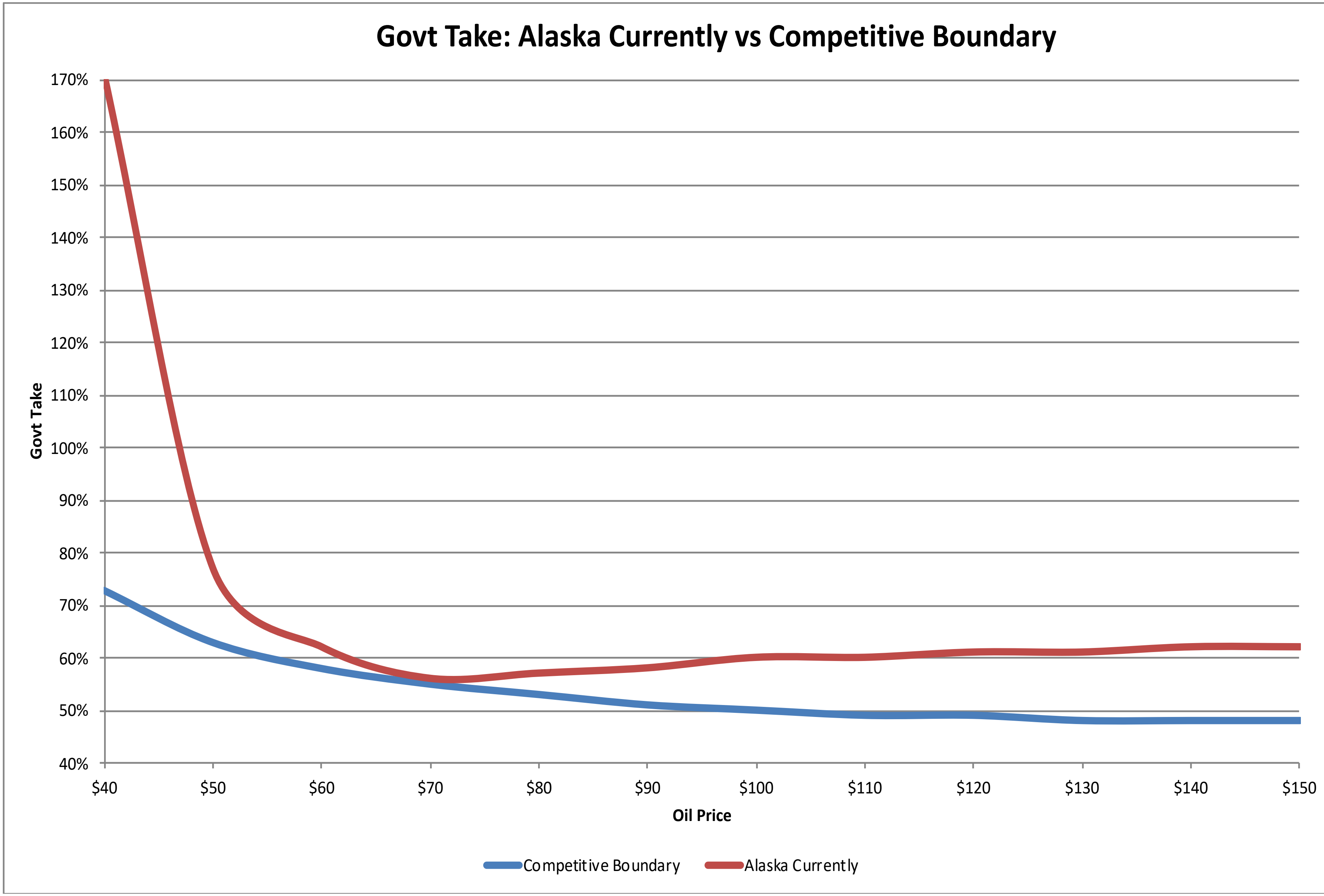
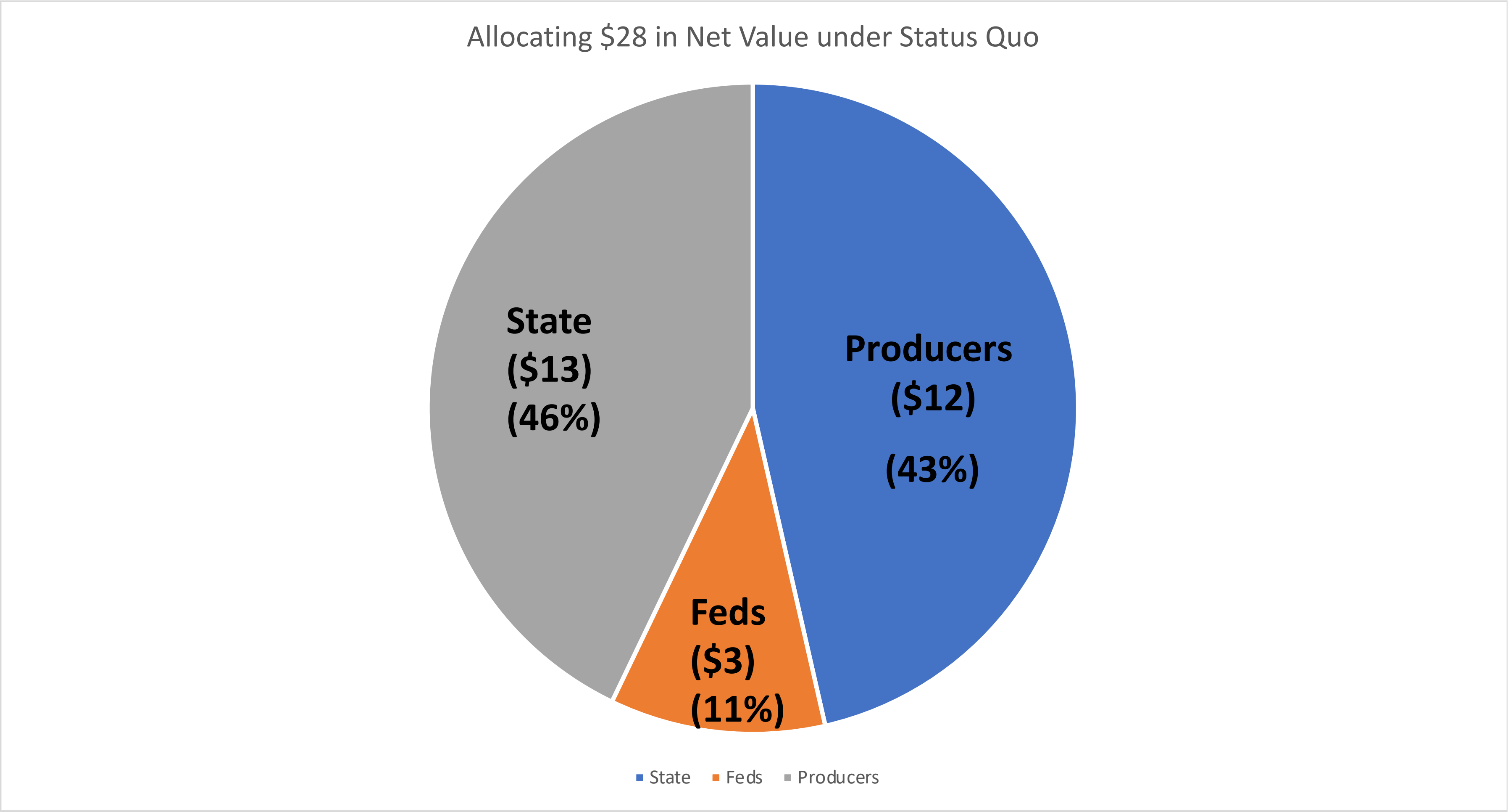
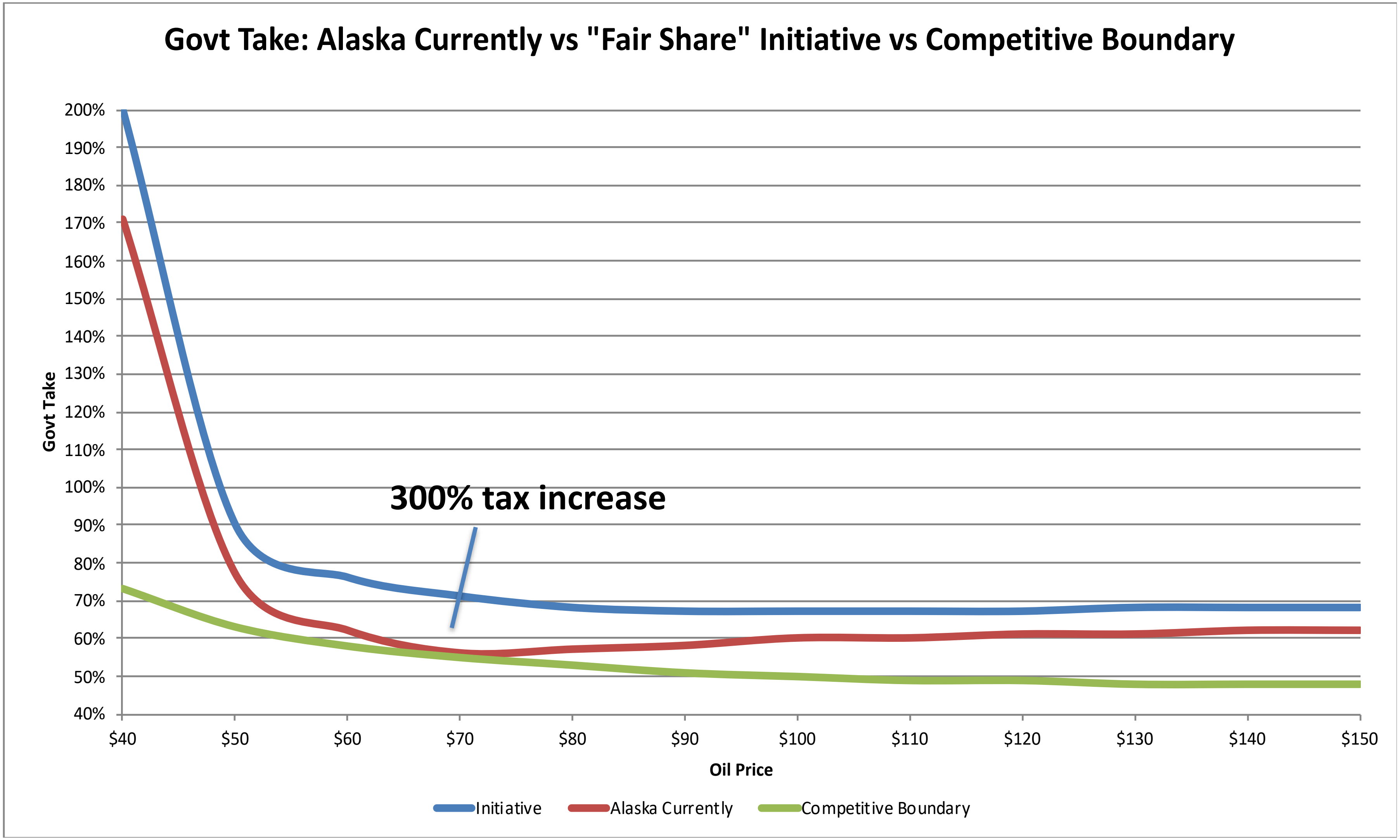
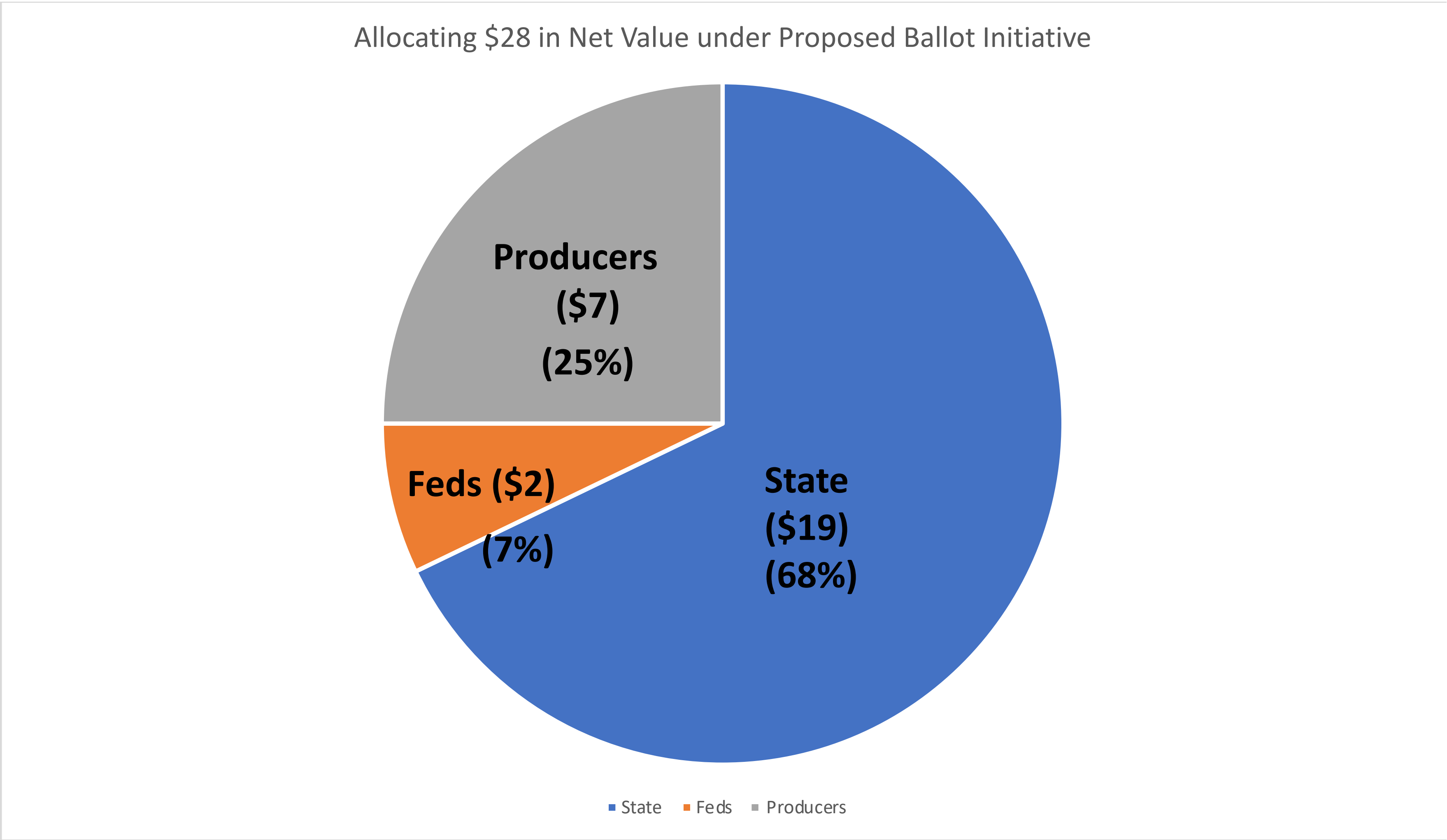


Govt take includes all taxes and royalties


Allocating $28 in Net Value under Status Quo
State
($13)
(46%)
Producers
($12)
(43%)
Feds
($3)
(11%)
State
Feds
Producers



Govt take includes all taxes and royalties


Allocating $28 in Net Value under Proposed Ballot Initiative
Producers
($7)
(25%)
Feds ($2)
(7%)
State
($19)
(68%)
State
Feds
Producers