State of Alaska
Department of Revenue
Commissioner Bryan Butcher

DOR
ANGDA ~ Tax ~ Treasury ~ ARMB ~ AMBBA ~ APFC ~ PFD ~ AHFC ~ CSSD ~ AMHTA

SEAN PARNELL, GOVERNOR
333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99800-0400
Phone: (907) 465-2300
Fax: (907) 465-2389

March 26, 2011

Representative Les Gara
State Capitol Room 500
Juneau AK, 99801

Re: Answers to questions posed March 16, 2011

Dear Representative Gara:

The purpose of this document is to respond to the questions you raised in our meeting with you on March 16, 2011. The requests/questions and responses follow.

1. **What would the impact have been had HB110 been in place for the last four Fiscal Years, as well as the first three quarters of FY 2011? Provide an estimate of the fiscal impact of the change from a monthly calculation of taxes to an annual calculation.**

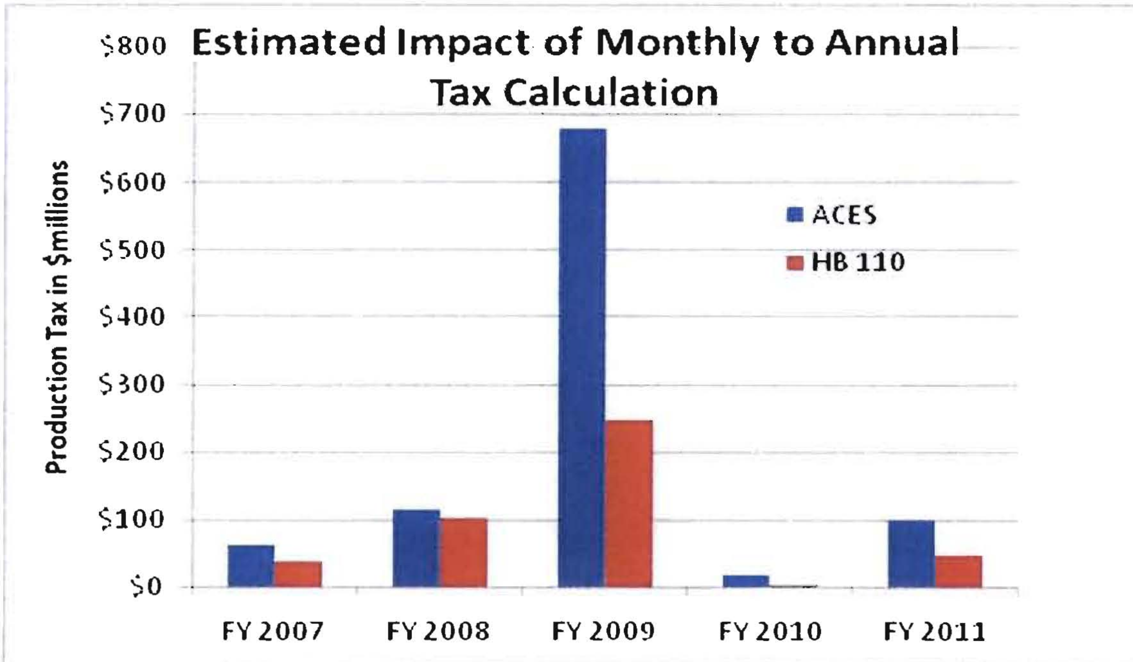
   The table on the following page provides our best estimates of the production tax revenue impacts of HB 110 if it were in place in the five fiscal years starting in FY 2007. The estimates consider the impacts of the change in progressivity and the well lease expenditure credit and do not reflect any potential changes in investment or production levels that could have resulted from the lower tax rate in prior years.

Distributed by Rep. Gara 3/26/11

Production Tax Revenue under ACES and the Estimated Impact of HB 110/SB 49 on Production Tax Revenue FY 2007 - FY 2011 (estimated)* (in $billions)					
Year	Production Tax Revenue under ACES (PPT in FY07)	Impact of Tax Rate Change	Impact of Well Lease Exp Credit	**Total Estimated Impact**	Estimated Production Tax Revenue under HB 110/SB 49
FY 2007	$2.20	$0.25	-$0.30	**-$0.05**	$2.15
FY 2008	$6.81	-$2.06	-$0.30	**-$2.36**	$4.45
FY 2009	$3.10	-$0.99	-$0.30	**-$1.29**	$1.81
FY 2010	$2.86	-$0.60	-$0.30	**-$0.90**	$1.96
FY 2011	$4.32	-$1.30	-$0.30	**-$1.60**	$2.72

***Notes regarding this analysis**
This analysis considers revenue impacts of only those provisions of HB 110 and SB 49 that can be reasonably quantified and that are not considered revenue neutral over time (such as the elimination of the credit split). Additionally, because historical models are maintained on a fiscal year basis, fiscal year inputs such as prices, production and costs were used for this analysis, even though annual tax calculations in HB 110 and SB 49 are based on calendar year inputs. For the well lease expenditure credit, we chose a median of the range of $200 to $400 million per year as stated in the fiscal note.
FY 2007 includes 14 months of production tax; FY 2011 uses actual prices and production through Feb 2011.
This analysis does not consider the likely production increases had HB 110 been in effect.

The impact of changing from a monthly calculation of the production tax to an annual calculation of the production tax, while significant under the current ACES progressivity structure during years in which oil prices are volatile, is much less significant under the bracketed progressivity structure in HB 110. The following graph provides an estimate of the change from monthly to annual progressivity for the five fiscal years starting in FY 2007 for both the current ACES structure and for HB 110.



***Notes regarding this analysis** This analysis considers revenue impacts of only those provisions of HB 110 and SB 49 that can be reasonably quantified and that are not considered revenue neutral over time (such as the elimination of the credit split). Additionally, because historical models are maintained on a fiscal year basis, fiscal year inputs such as prices, production and costs were used for this analysis, even though annual tax calculations in HB 110 and SB 49 are based on calendar year inputs. For the well lease expenditure credit, we chose a median of the range of $200 to $400 million per year as stated in the fiscal note. FY 2007 includes 14 months of production tax: FY 2011 uses actual prices and production through Feb 2011. **This analysis does not consider the likely production increases had HB 110 been in effect.**

A change from monthly to annual progressivity under current ACES law does not always result in less production tax revenue. In a year in which one or more monthly oil prices produce production tax values at or above $92.50, the monthly calculation could result in less revenue than the annual calculation. Our table below showing hypothetical production and oil prices illustrates this point.

Example of Monthly to Annual Calculation under Current ACES

(Assumes 30 days per month for illustration purposes)

	Taxable Daily Production (mmb/d)	Price / bbl	Costs / bbl	PTV total ($M)	PTV / bbl	Tax Rate	Tax Liability ($M)
Jan	0.600000	$120	$30	$1,620	$90	49.0%	$794
Feb	0.600000	$120	$30	$1,620	$90	49.0%	$794
Mar	0.600000	$150	$30	$2,160	$120	52.8%	$1,139
Apr	0.600000	$120	$30	$1,620	$90	49.0%	$794
May	0.600000	$120	$30	$1,620	$90	49.0%	$794
Jun	0.600000	$120	$30	$1,620	$90	49.0%	$794
Jul	0.600000	$120	$30	$1,620	$90	49.0%	$794
Aug	0.600000	$120	$30	$1,620	$90	49.0%	$794
Sep	0.600000	$120	$30	$1,620	$90	49.0%	$794
Oct	0.600000	$120	$30	$1,620	$90	49.0%	$794
Nov	0.600000	$120	$30	$1,620	$90	49.0%	$794
Dec	0.600000	$120	$30	$1,620	$90	49.0%	$794
Sum of monthly calculation							**$9,871**
Calculated Annually	0.600000	$123	$30	$19,980	$93	50.0%	**$9,990**
						Annual over monthly	**$119**

2. **Provide scenarios showing the fiscal impact of passing HB 110, using Department of Revenue oil price and production estimates, and spending increases based on recent history. Also provide the Department's scenarios showing the impact of increased production if HB 110 passes.**

   The Department has prepared fiscal modeling that provides insight into state General Fund revenue, General Fund appropriations, and savings account balances over time, under HB 110 and ACES. We will be presenting this information to the committee in today's hearing.

3. **Provide an revised fiscal note which shows the effects of the monthly-to-annual provisions of the bill.**

   As stated by the department several times, we do not forecast price or production on a monthly basis therefore it is not feasible to predict the impacts going forward. We will however be addressing this issue in the fiscal note that will be included in the next committee substitute.

4. **Provide a list of oil companies doing business in North Dakota.**

Please find below a list of the companies currently drilling in North Dakota, according to the North Dakota Department of Mineral Resources, Oil and Gas Division (https://www.dmr.nd.gov/oilgas/riglist.asp). This list is not exhaustive, as certain companies who have been investing in North Dakota may not be currently drilling, but this does provide an indication as to the range of companies that are currently active in North Dakota. Note that ExxonMobil and ConocoPhillips are active in North Dakota through their recent acquisitions XTO and Burlington Resources.

AMERICAN OIL & GAS INC	NORTH PLAINS ENERGY LLC
ANSCHUTZ EXPL CORP	OASIS PETRO NO AMER
ARSENAL ENERGY USA INC.	OIL FOR AMERICA
BAYTEX ENERGY USA LTD	OXY USA INC
BRIGHAM OIL & GAS LP	PEAK NO DAK LLC
BURLINGTON RES O&G CO	PETRO HUNT LLC
CONTINENTAL RESOURCES	QEP ENERGY CO
CORNERSTONE NAT RES LLC	SAMSON RESOURCES CO
DENBURY ONSHORE	SBG TIOGA FACILITY
EOG RESOURCES INC	SEQUEL ENERGY LLC
FIDELITY EXPL & PROD CO	SINCLAIR OIL & GAS CO
FRAM OPERATING LLC	SLAWSON EXPLORATION
G3 OPERATING LLC	SM ENERGY CO
HELIS OIL & GAS CO. LLC	TRACKER RES DEVMNT
HESS CORPORATION	TRUE OIL LLC
HUNT OIL COMPANY	WHITING OIL AND GAS CORP
KODIAK OIL & GAS (USA) INC	XTO ENERGY INC
MARATHON OIL CO	ZAVANNA LLC
MUREX PETROLEUM CORP	ZENERGY OPERATING CO LLC
NEWFIELD PROD CO	ZENITH PRODUCED WATER

5. **Provide information about royalty relief.**

Royalty relief is one possible tool to help encourage oil production on state land. The royalty program for state lands is managed by the Department of Natural Resources and we understand that DNR has provided the committee with testimony on royalty relief provisions.

We hope our responses fully answer your questions.

Sincerely,

Bruce Tangeman
Deputy Commissioner