State of Alaska
Department of Revenue

Commissioner Bryan Butcher

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March 15, 2011

The Honorable Bill Thomas, Jr
Alaska State Representative
State Capitol Room 505
Juneau AK, 99801

The Honorable Bill Stoltze
Alaska State Representative
State Capitol Room 515
Juneau AK, 99801

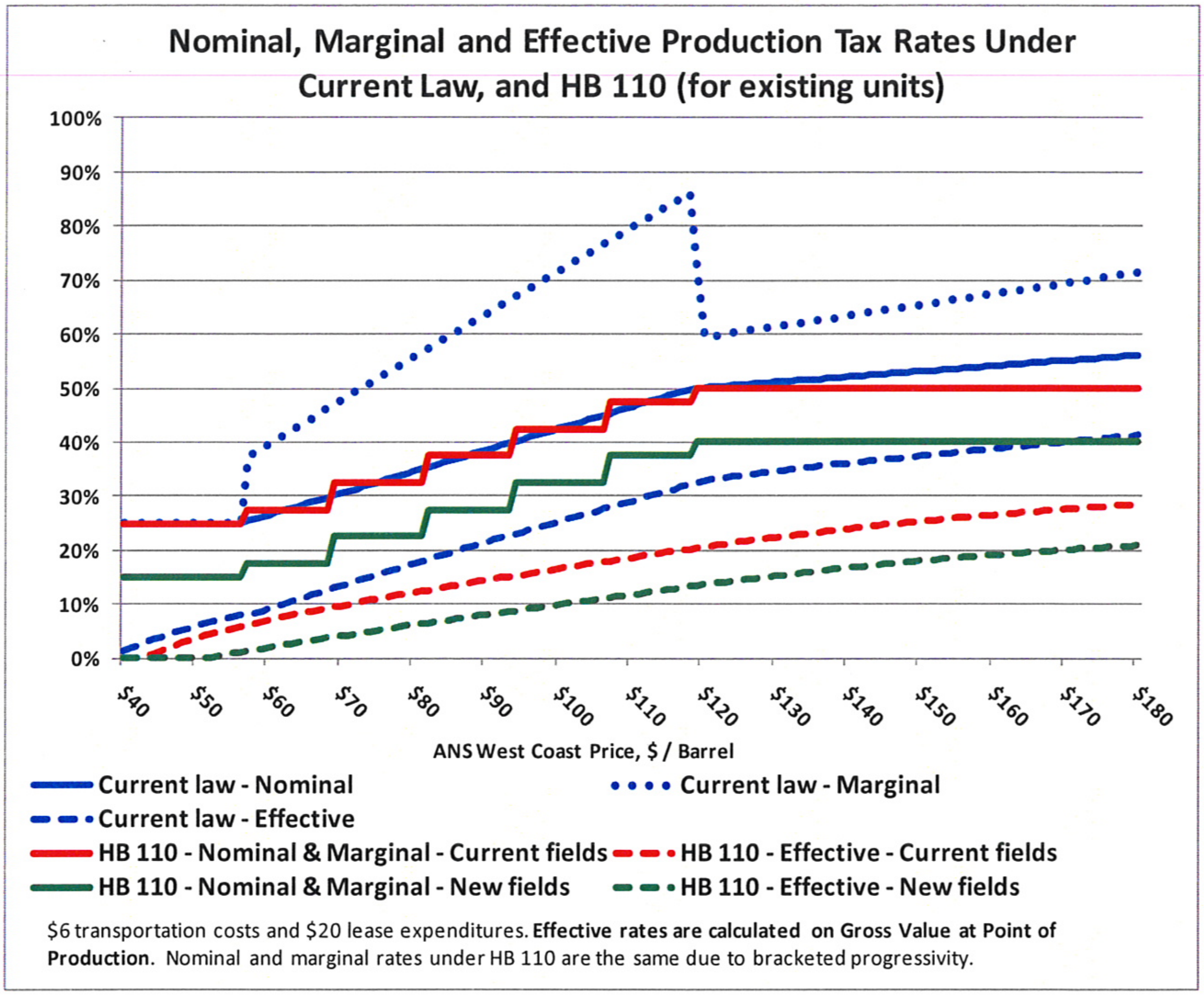
SUBJECT: Response to Questions from House Finance Meeting on March 14, 2011

Dear Representatives Thomas and Stoltze:

The purpose of this document is in response to the follow-up questions from the House Finance Committee meeting on March 14, 2011. The requests/questions and responses follow. In addition, several suggestions were raised in regards to information for inclusion in our future presentations to the committee; these are appreciated and have been noted.

(1) Provide a chart showing nominal, marginal, and effective tax rates under ACES and HB 110.

The chart on the following page shows the nominal, marginal and effective tax rates under ACES and HB 110. The nominal tax rate reflects the tax rate listed in statute for the relevant oil price. The marginal tax rate reflects the tax rate on a $1 increase in production tax value. The effective tax rate is the average tax rate assessed on the gross value at the point of production after credits have been applied. This chart shows tax rates for production tax only and do not include other government revenue such as royalty, corporate income tax, or property tax.



(2) Explain why only one exploration well was drilled on the North Slope in 2003.

It has been brought to our attention that the drilling data we had been provided by the AOGCC contained some inaccuracies, and it is our intent to provide corrected statistics as soon as possible.

We have verified with DNR that in 2010 there was one true exploration well drilled on the North Slope, and in 2011 the projection is for one exploration well to be drilled.

(3) Evaluate what production taxes would have been in previous years if HB110 had been in place instead of ACES.

The following table provides the estimated impact of HB 110 using historical Department of Revenue models, which are set up to provide revenue forecasts by fiscal year. HB 110 as proposed would use calendar year prices to determine the average price for calculating progressivity and then allocate the revenue to fiscal years. This structural difference might cause the impacts to be slightly more in one year and less in the next, but the revenue impact should be the same over time.

Note also that this table does not reflect production level increases that would likely have been experienced had HB 110 been implemented during these years.

Production Tax Revenue under ACES and the Estimated Impact of HB 110/SB 49 on Production Tax Revenue in Prior Years*

(in $billions)

Year	Production Tax Revenue under ACES	Impact of Tax Rate Change	Impact of Well Lease Exp Credit	**Total Estimated Impact**	Estimated Production Tax Revenue under HB 110/SB 49
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

***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.

This analysis does not consider the likely production increases had HB 110 been in effect.

(4) Explain why the reduction in State take leads to greater Federal Government take.

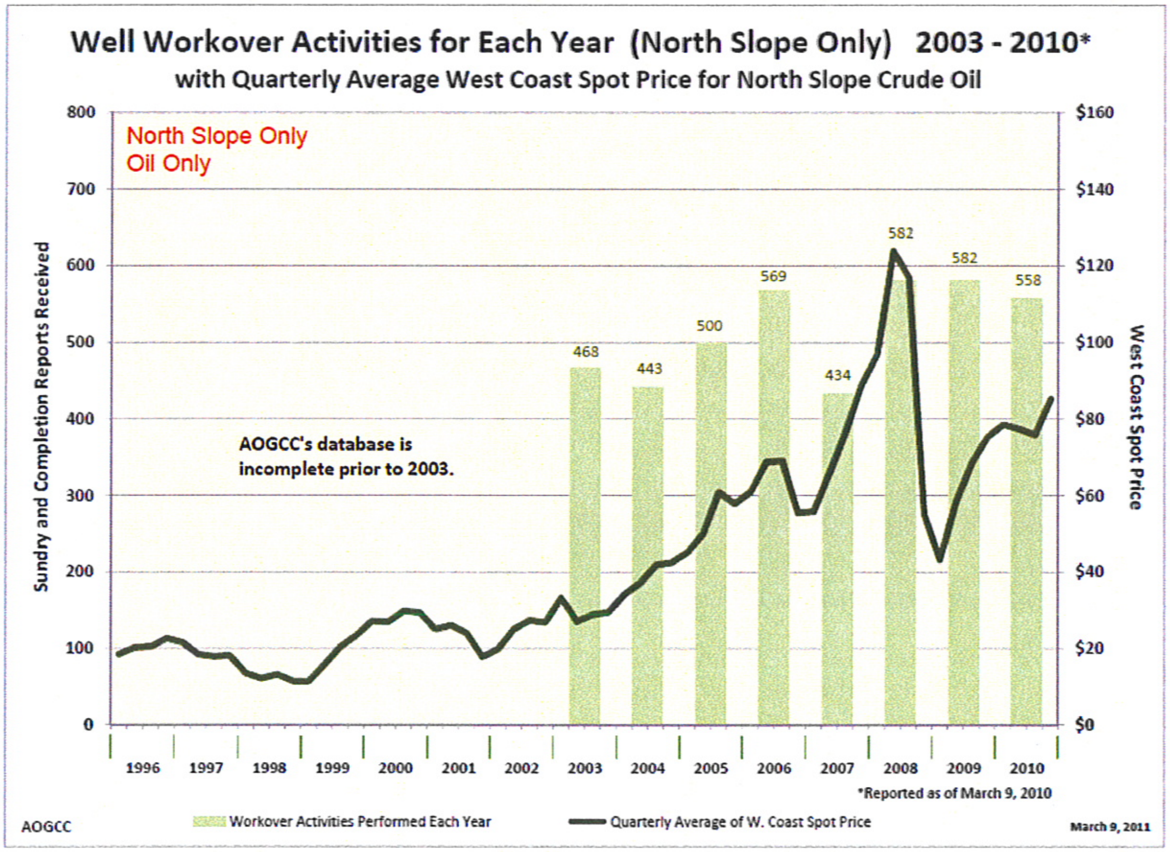
Federal income tax laws allow deductions for certain state taxes paid, including state oil and gas production taxes. Using a flat 35% federal income tax rate, the amount of state production tax paid would not be taxed under the federal income tax. The following example illustrates this concept:

Scenario 1		**Scenario 2**	
Profit before Production Taxes	$100	Profit before Production Taxes	$100
Less Production Taxes Paid	$40	Less Production Taxes Paid	$20
Profit after Production Taxes	$60	Profit after Production Taxes	$80
Federal Corporate Income Tax Rate	35%	Federal Corporate Income Tax Rate	35%
Federal Corporate Income Tax Paid *(Profit after Production Taxes times Federal Corporate Income Tax Rate)*	**$21.00**	**Federal Corporate Income Tax Paid** *(Profit after Production Taxes times Federal Corporate Income Tax Rate)*	**$28.00**

In this example, a 50% decrease in State Take increases both Producer and Federal Govt Take each by 33%

(5) How many of the development wells are new wells, versus recompletions.

The Alaska Oil & Gas Conservation Commission reports well workover activity separately versus new development wells. The following chart shows well workover activities by year as reported by the AOGCC.[1] They can provide additional detail when they testify before the committee.



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[1] Source: AOGCC web site at http://doa.alaska.gov/ogc/ActivityCharts/Well%20Workovers/CHARTS_Workovers_for_each_Year_and_Quarter_NS_vs_ANS_W_Coast_Spot_110309.pdf

(6) Provide estimates of unrestricted state revenue with no oil or gas production in the state.

Assuming the state had no oil or gas production and that there are no new sources of revenue introduced to make up for the loss, the state's forecast would look similar to the following:

FY 2010 Actual and Forecast of Unrestricted Non-Oil Revenue (in $millions)			
Non-Oil Revenue Sources	**FY 2010**	**FY 2011**	**FY 2012**
Non-Oil Taxes	$293.7	$321.0	$328.1
Charges for Services	$17.1	$19.3	$19.3
Fines and Forfeitures	$9.7	$9.0	$9.0
Licenses & Permits	$39.5	$40.4	$40.7
Rents & Royalties	$13.2	$12.4	$12.4
Other	$40.8	$78.4	$77.6
Investment Revenue*	$184.0	$217.4	$195.7
Total Non-Oil Revenue	**$598.0**	**$697.9**	**$682.8**
Oil Revenue	*$4,914.7*	*$4,673.9*	*$5,061.1*

*Investment Revenue not adjusted for loss of oil revenue

We hope our responses fully answer your questions.

Sincerely,

Bruce Tangeman
Deputy Commissioner