THE STATE *of* ALASKA

GOVERNOR SEAN PARNELL

Department of Revenue

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February 21, 2013

The Honorable Cathy Giessel
Alaska State Senator
Chair, Senate Resources Committee
State Capitol Room 427
Juneau, AK 99801

Dear Senator Giessel:

The purpose of this letter is to provide you with a response to questions posed by Senator French, in writing on February 12, 2013. Please see questions in italics and our responses immediately below the questions.

1. *Quantify the number of additional barrels of new production (factoring in the GRE for new oil) it will take to offset the loss of revenue under SB21 at $90, $110, $130/bbl oil.*

   The legislature's consultant PFC Energy addressed this question in testimony before the House and Senate Resources Committees on February 15, 2013. On slide 5 of that presentation, PFC stated that at $100 per barrel, "If an improvement in fiscal terms can stimulate sufficient new investment to stem declines, it has the long run potential to increase revenue, despite the near-term cost of the change. To maintain revenues to the state at a steady level in real terms, a reduction in government take such as that under SB 21 would need to spur sufficient investment to reduce the North Slope base decline from 6% as currently forecast to 1%."

   Additionally, the DOR fiscal note for SB 21, on page 4, includes hypothetical examples of additional production. The additional production scenarios compare additional production under SB 21 to ACES without the additional production. At $90 per barrel, revenue is equal or greater than ACES with no additional production. At $100 per barrel, revenue is greater than ACES under "Additional Production Scenario B", and at $120 per barrel, revenue is greater than ACES under "Additional Production Scenario C." These scenarios are not intended as forecasts, but give a helpful illustration of the order of magnitude of new investment and production that would offset the reduction in government take under SB 21.

2. *Provide a detailed description of the tax credits for brownfields the U.K. is providing in the North Sea. Include the current government take before the credits, how the credits are targeted, and whether the tax credits go on forever or are capped (and if so, how).*

   It is our understanding that the expectation is for PFC to respond to this question. If not, please let us know and we will work to provide it.

3. *What are federal tax implications for an oil producer in Alaska of any reductions in state taxes? If the state reduces its oil taxes by $1 billion, for example, how much of that is available for reinvestment in Alaska?*

   Our modeling of producer take assumes a 35% federal corporate income tax rate. That is, a reduction in state taxes of $1 billion would lead to a net increase in producer take of $650 million.

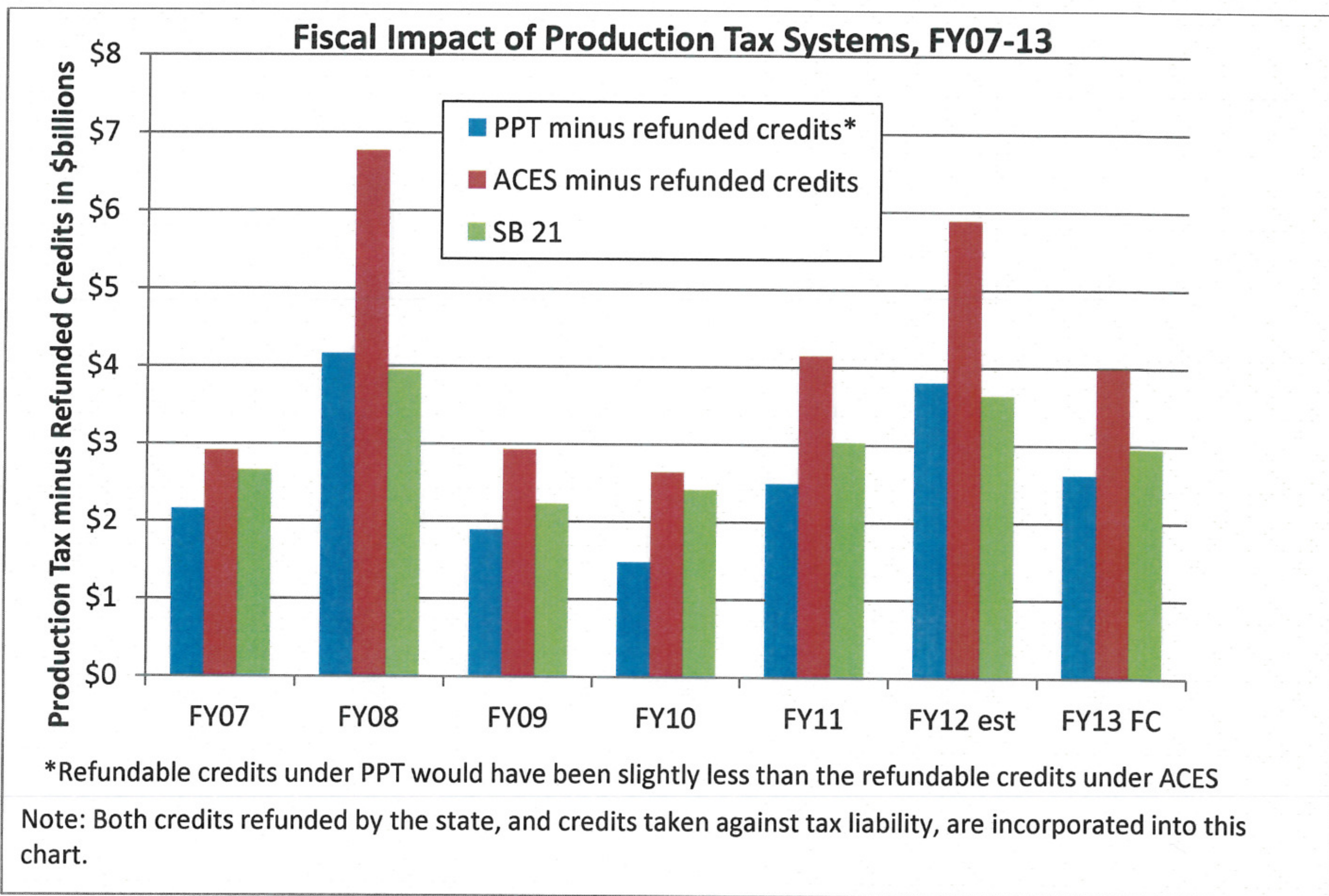
4. *When total government take is modeled by PFC and DOR, are federal taxes modeled in the abstract, or are they tied to actual federal taxes paid? Since federal tax payment information is part of SEC filings, can we see a model of government take that reflects actual federal tax rates paid?*

   Federal corporate income taxes are modeled using an assumption of a 35% federal corporate income tax rate. Given the complexity and nuances of federal tax code and SEC required filings, as well as activities outside of Alaska, we would caution against using SEC filings as the basis for estimating the federal corporate income tax rate that is applicable to oil produced in Alaska. Also, since the marginal 35% federal corporate income tax rate is typically used to model government take, an Alaska government take number calculated using a different assumption would no longer be comparable to calculations and benchmarks for other oil producing jurisdictions.

5. *Provide a chart of the effect on state revenues of adopting SB21. Using the annual production and prices from FY07 through FY13, report the revenue for each year under ACES, under PPT, and under SB21.*

   Shown below is a chart of the estimated fiscal impact of ACES, PPT and the proposed SB21 production tax systems. Production tax revenue under ACES has been reduced to illustrate the impact of the credits that were refunded under ACES that would not have been refunded under SB21. Production tax under PPT was reduced by the same amount, although the amount of credits refunded under PPT would have been slightly less than the amount refunded under ACES.

   It is also important to note that the amount of production in each of these years might have been different under SB21 than it was under ACES and PPT.



Note: Both credits refunded by the state, and credits taken against tax liability, are incorporated into this chart.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Bryan Butcher
Commissioner