

State of Alaska
Department of Revenue

Commissioner Bryan Butcher



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The Honorable Eric Feige
The Honorable Paul Seaton
Co-Chairs, House Resources Committee
Alaska State House
Juneau AK, 99801

February 23, 2011

SUBJECT: Response to Questions regarding House Bill 110 on February 11, 2011

Dear Representatives Feige and Seaton:

The purpose of this document is to respond to questions that were asked of the Department of Revenue during the department's testimony on House Bill 110 on February 11, 2011. The questions and answers to those questions follow.

(1) Could DOR use the regulations process to require information from producers that would help identify the portion of capital spending that represents investment in new exploration and production, compared to maintaining existing facilities and production?

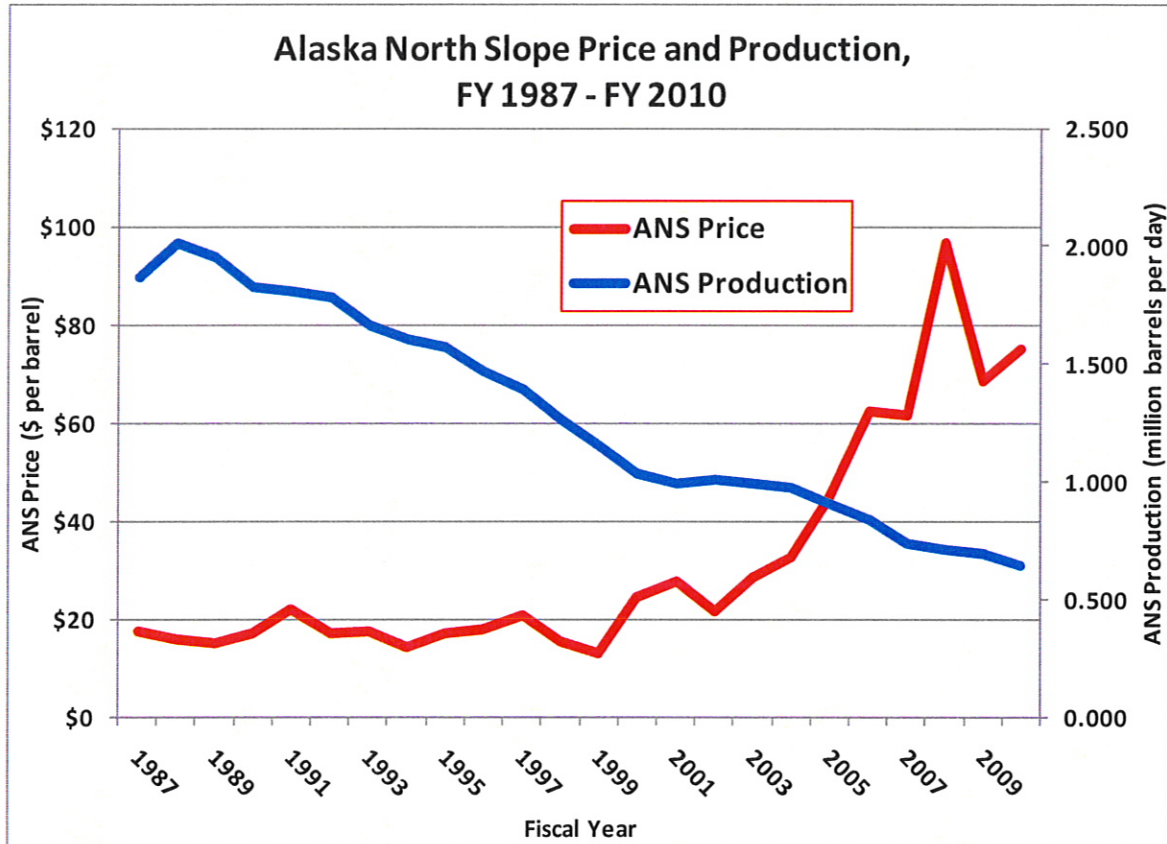
Under current statutes, the Department may request taxpayer information needed to provide forecasts and to administer the production tax, including information needed to audit claimed capital credit expenditures. Current statutes authorize the Department to adopt regulations requiring taxpayers to submit more detailed information about capital expenditures.

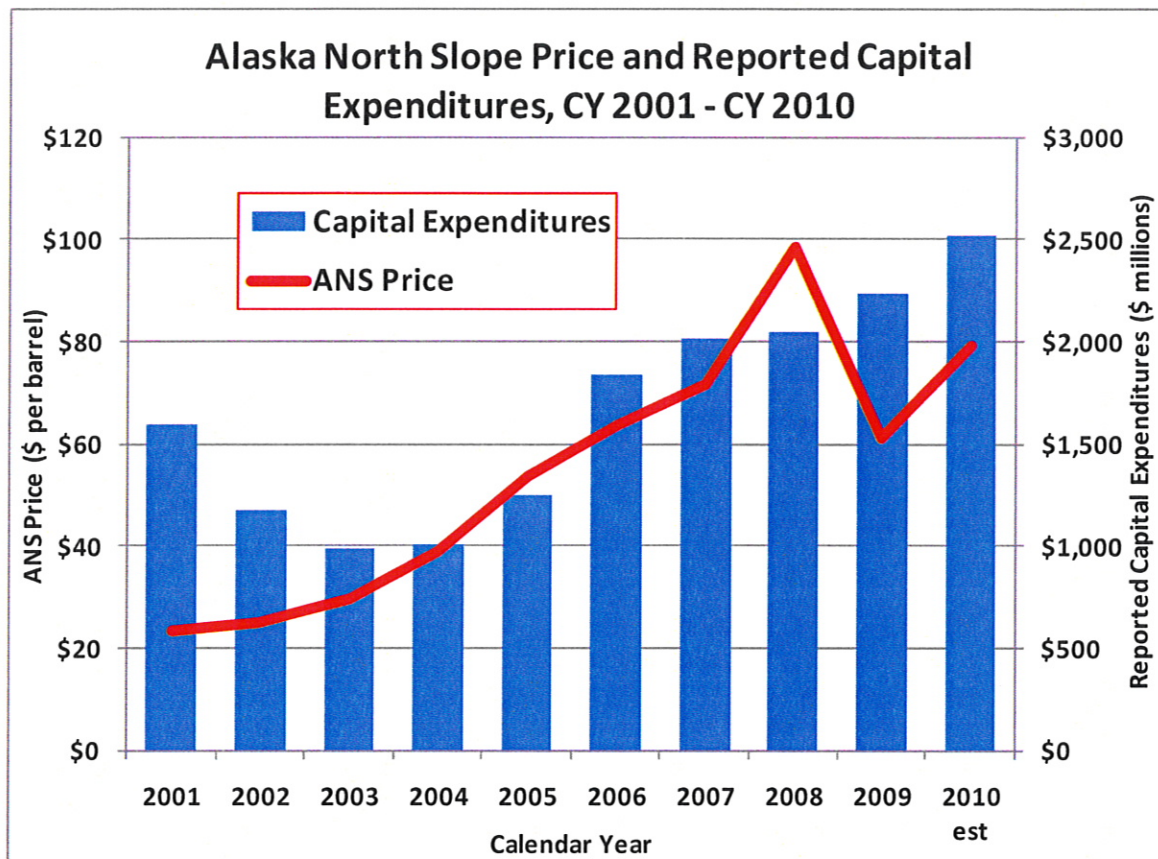
Under AS 43.05.230 (e), the Department would be able to release information about classification of capital spending only to the extent that it could be compiled as a general statistic that would prevent the identification of a particular return or report.

Under AS 43.55.890, the Department can publish information on qualified capital expenditures, as defined in AS 43.55.023, if aggregated among three or more producers or explorers, by month or calendar year and lease or property, unit, or area of the state.

(2) The committee requested statistics comparing the price of oil to historical production and investment in fields

The following two charts present ANS oil prices compared to historical production, and total reported capital expenditures. The Department does not have capital expenditure information for years prior to 2001.





(3) The committee requested information about what companies (other than the “Big 3”) have projects that are included in the “under development” and “under evaluation” categories of our production forecast, as well as projects that are not included in our forecast.

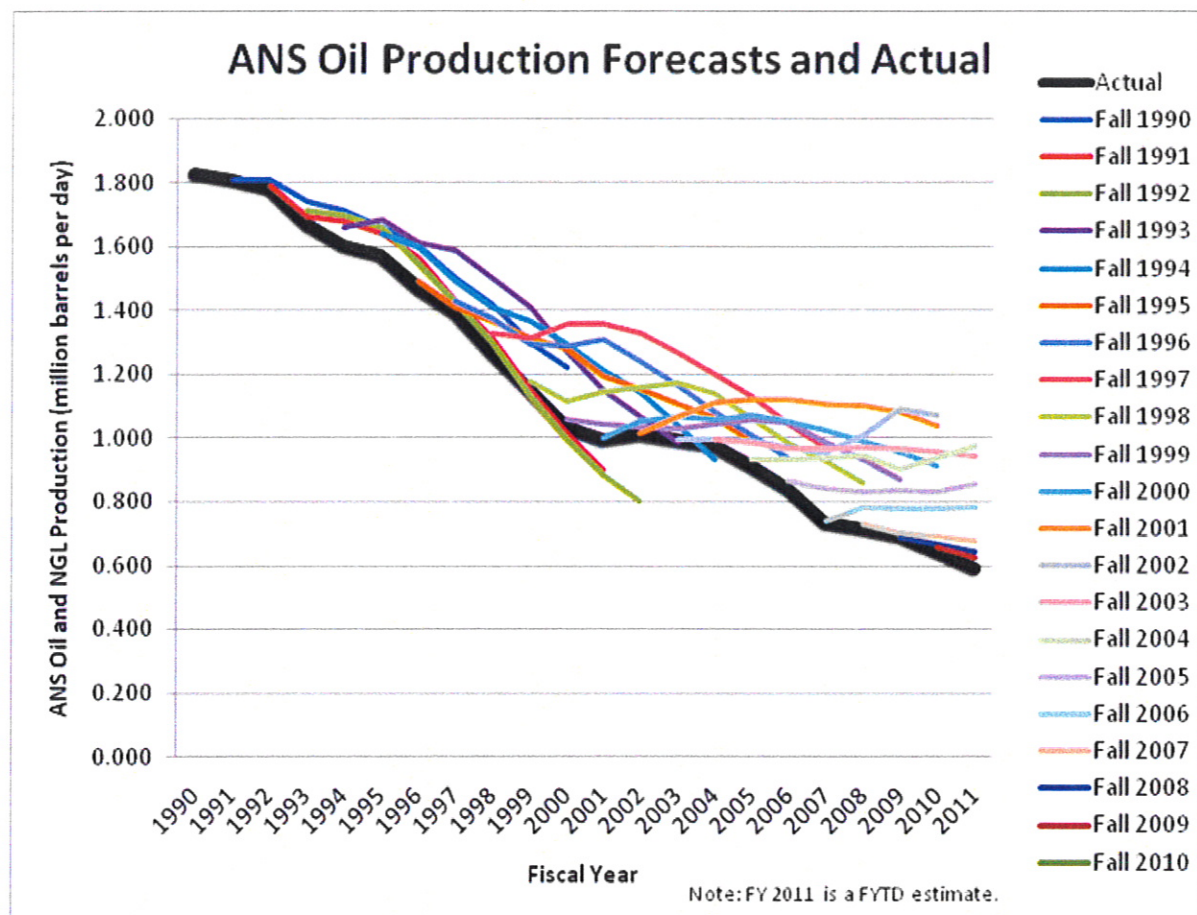
The following projects were identified by our production forecasting consultant as significant projects being pursued by operators other than ConocoPhillips, BP, and ExxonMobil. This list is compiled using public information from the Department of Natural Resources, and reporting in Petroleum News and other media sources.

We include production in our forecast from Badami (operated by Savant), Nikaitchuq (operated by ENI), Oooguruk (operated by Pioneer), and Umiat (operated by Renaissance).

We are not yet including production in our forecast from the Beechy Point Unit (operated by Brooks Range Petroleum), Dewline Unit (operated by Ultrastar), and South Miluveach Unit (operated by Brooks Range Petroleum). We also are not yet including production from Ugnu (various operators), or the Outer Continental Shelf (various operators).

(4) The committee requested a chart showing all DOR's production forecasts since 1990, and actual production.

The chart below shows the Department of Revenue's Alaska North Slope (ANS) production forecasts from fall 1990 to fall 2010. The forecasts are for both oil and natural gas liquids (NGLs).



(5) The committee asked about types of information that other countries require and make available, that we could possibly make available in Alaska.

In 2007, Gaffney, Cline & Associates reviewed reporting and disclosure requirements in other oil and gas producing countries. Their findings were summarized in a memorandum dated October 19, 2007, and a PowerPoint presentation dated October 20, 2007. Both documents will be made available to the committee.

(6) The committee asked if any producers have actually paid the 87% marginal production tax rate.

There was a period of four months in mid-2008 during which oil prices reached levels, when combined with the average level of lease expenditures, produced production tax values for some taxpayers that reached or exceeded the \$92.50 per barrel inflection point that is associated with

the 87% marginal production tax rate that has been presented in this committee. The months and associated prices are as follows:

| <u>Month, Year</u> | <u>ANS Oil Price (\$/bbl)</u> |
|--------------------|-------------------------------|
| May 2008 | \$125.41 |
| June 2008 | \$133.78 |
| July 2008 | \$132.87 |
| Aug 2008 | \$115.98 |

Although taxpayer confidentiality provisions prohibit DOR from disclosing specific information about any taxpayer, it is fair to say that several taxpayers experienced marginal tax rates at or very near the published 87% rate during these four months.

(7) To Department of Law as well as Revenue: Why is more data available in other countries and based upon existing US laws, why is this information not available to the US. Are there any laws in the U.S. that prevent companies from providing more data?

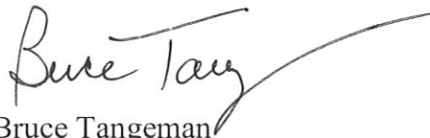
The data currently made available is based on the statutes and regulations currently in place in Alaska. AS 43.55.890 specifically authorizes the Department to release certain information related to the production tax. Otherwise, the Department may publish aggregated statistics that do not identify a particular project or taxpayer under 43.05.230 (e).

We are not aware of any provisions at the federal level that would prevent Alaska from requiring more information specific to the state.

(8) Provide a break-out of the ANS forecasted production (slide 12 of the DOR 2/11 presentation) that separates production, evaluation, and development by producer.

AS 43.55.890 states, "the department may publish the following information under this chapter, if aggregated among three or more producers or explorers...." Providing production forecast information at the requested level of detail is not allowed under statute.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Tangeman", with a long, sweeping horizontal line extending to the right.

Bruce Tangeman
Deputy Commissioner