Fall 2011 Revenue Forecast and Tax Credit Update

Presentation to the
Senate Resources Committee
January 27, 2012
Alaska Department of Revenue

Presentation Requested on the Following Items

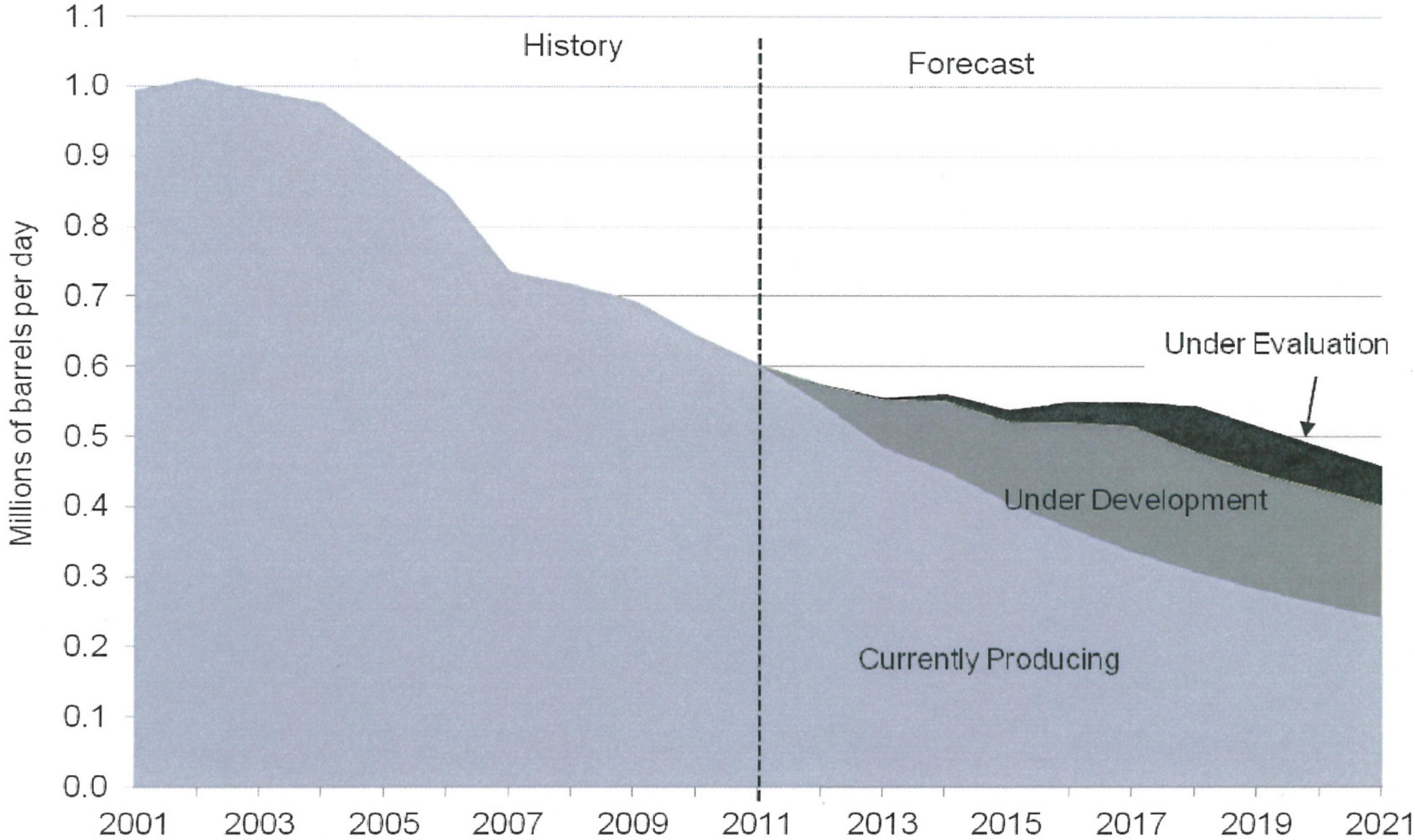
- **Fall 2011 Forecast**
- **Tax Credits**
- **Tax Revenue Management System**
- **Production Tax Audits**
- **Staffing Levels for Audits**
- **Data Assessment Project**
- **Regulations**

Fall 2011
Oil Production
Forecast

Factors That Affect Production Forecasting

1. **GEOLOGY**
   - Rock type and formation characteristics
   - Depth, thickness, pressure
   - Oil & gas characteristics (oil gravity, viscosity, water content, etc.)
2. **DEVELOPMENT PLAN**
   - Well density and development rate
   - Well bore size and completion technique
   - Artificial lift and enhanced oil recovery
   - Facilities & surface operations
3. **COMMERCIAL**
   - Project economics
   - Oil price and market conditions
   - Government Policy: access, regulation, taxation
4. **PRODUCTION PROFILE**
   - History, stage of depletion
   - Use production profile to extrapolate trends
5. **TIMING!**

ANS Production, FY 2001-2011 and Forecast FY 2012 - 2021



Source: Fall 2011 Revenue Sources Book

ANS Production Forecast and Decline Rates, FY 2012 - 2021

Fiscal Year	Currently Producing	% Change from Prior Year	Under Development	Under Evaluation	Total ANS	% Change from Prior Year
2011	0.603	(6.3%)	0.000	0.000	0.603	(6.3%)
2012	0.548	(9.1%)	0.026	0.001	0.574	(4.7%)
2013	0.485	(11.6%)	0.069	0.001	0.555	(3.3%)
2014	0.451	(6.9%)	0.099	0.010	0.561	1.0%
2015	0.406	(10.0%)	0.115	0.017	0.538	(4.1%)
2016	0.369	(9.1%)	0.151	0.029	0.550	2.1%
2017	0.336	(9.1%)	0.179	0.034	0.549	(0.1%)
2018	0.307	(8.5%)	0.171	0.066	0.544	(0.9%)
2019	0.282	(8.1%)	0.166	0.066	0.515	(5.4%)
2020	0.262	(7.4%)	0.164	0.061	0.486	(5.6%)
2021	0.241	(7.7%)	0.161	0.056	0.458	(5.8%)

Source: Fall 2011 Revenue Sources Book

What if Oil Production went to 300,000 b/d in FY13?

If Production was 300,000 barrels per day* ...

Projected GF Unrestricted Revenue would be:	$3,900,000,000
Projected FY13 budget is:	$6,430,000,000
Budget to Revenue Shortfall would be:	$2,530,000,000

This magnitude of shortfall could be made up by:

- Every Alaska resident paying the state $3,500
- Or a statewide sales tax of up to 38%
- Or a statewide flat income tax of up to 14%

*Assumptions used in this analysis:
Fall 2011 oil price forecast assumption of $109.47 for FY13
Tariff assumed to be $10 per barrel
Marine costs assumed to be $4 per barrel
Lease expenditures assumed to be 75% of forecast FY13 expenditures
Credits assumed to be 75% of forecast credits taken against tax liability
Corporate income tax assumed to be 75% of forecasted CIT
Sales tax of approximately 15% would raise approximately $1 billion
Income tax of 5.6% of federal adjusted gross income would raise approximately $1 billion

Production Forecast – Improvements in Methodology

- Created standardized reporting forms for production forecasting information.
- Petroleum Engineer and Petroleum Economists compiled the forecast information from electronic reports rather than interpreting data provided by operators in various formats.
- Compliance and standardization improved with regard to reported downtime.
- Production forecasting requires consideration of each project's geology, development plans, production profiles, decline curves and timing.
- Department uses extensive well and field specific data acquired from producers, AOGCC, and DNR.
- New field development is very important in mitigating decline rates.
- Current engineering consultant is a member of the Society of Petroleum Evaluation Engineers (SPEE)
- Forecast included estimating decline curves for thousands of producing wells

Fall 2011
Oil Price and
Revenue Forecast

Fall 2011 DOR Oil Price Forecast

	Real $		Nominal $	
	WTI	ANS	WTI	ANS
FY 2011 (actual)	89.39	94.49	89.39	94.49
FY 2012 (projected)	88.71	106.66	90.92	109.33
FY 2013	91.97	104.20	96.62	109.47
FY 2014	92.75	101.29	99.88	109.08
FY 2015	93.50	98.52	103.21	108.75
FY 2016	93.60	95.27	105.90	107.79

*Note: FY 2012 forecast includes one quarter of actual prices.

Forecast is made in terms of Real WTI , then adjusted using 2.5% inflation rate and a forecast differential to ANS.

Source: Fall 2011 Revenue Sources Book

FY 12 & FY 13 General Fund Unrestricted Revenue Forecast

Revenue Type	FY 12 ($M)	% Total	FY 13 ($ M)	% Total
Royalty - Net PF / SF	$ 2,085.2	23.4%	$ 1,962.0	23.9%
Production Tax	$ 5,376.4	60.2%	$ 4,715.8	57.4%
Corp Income Tax	$ 662.1	7.4%	$ 728.4	8.9%
Property Tax	$ 91.7	1.0%	$ 89.7	1.1%
Subtotal Oil Revenue	**$ 8,215.3**	**92.0%**	**$ 7,496.0**	**91.2%**
Non-Oil Revenue	$ 712.6	8.0%	$ 721.7	8.8%
Total Revenue	**$ 8,927.9**	**100.0%**	**$ 8,217.7**	**100.0%**

Source: Fall 2011 Revenue Sources Book

Production Tax Credits Update

Credits Applied Against Production Tax Liability, by Fiscal Year ($M)

	Pre-2008	2008	2009	2010	2011*	2012*	Total
Capital Expenditure Credit	292	219	278	342	345	360	1,837
TIE Credits	171	73	0	0	0	0	244
Small Producer Credits	46	31	27	27	41	35	208
Exploration Credits	48	55	28	42	19	5	196
Totals	557	378	333	412	405	400	2,485

*estimated pending final true-up

Transferable Tax Credits Certificates Claimed by Fiscal Year ($M)

Credit Type	Pre-2008	2008	2009	2010	2011	2012*	Total
Capital Expenditure - .023(a)(1)	52.3	78.4	66.9	114.9	160.7	83.4	556.7
Capital Expenditure Exploration - .023(a)(2)	15.9	13.3	42.6	34.7	4.6	0.4	111.5
Net Operating Loss .023(b)	38.1	85.5	153.8	140.4	188.6	8.3	677.7
Well Lease Expenditure - .023(l)					9.4	23.8	33.2
Exploration -.025	93.2	85.5	56.6	99.5	2.4	2.5	339.7
Total	199.6	325.7	320.0	389.5	365.7	118.4	1,718.9

* through December 2011

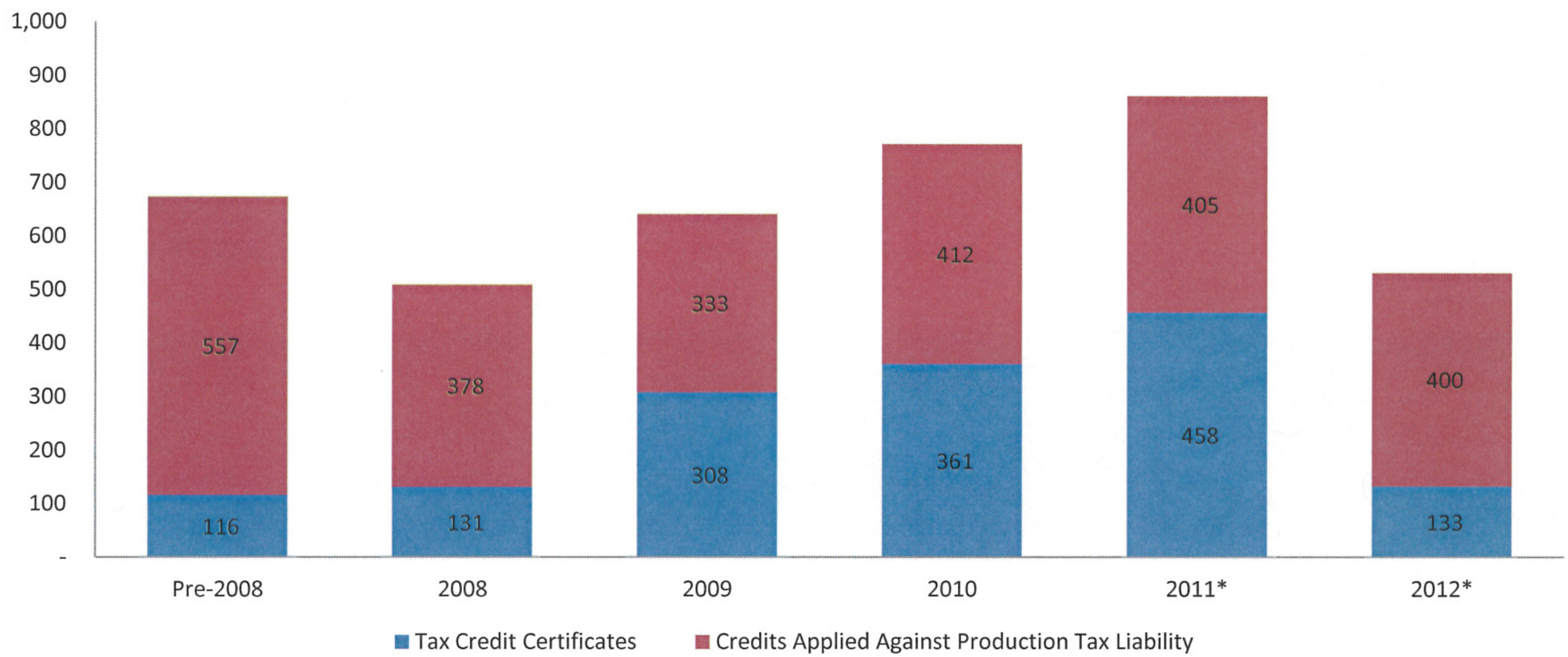
Transferable Tax Credit Certificate Activity by Fiscal Year ($M)

	Pre-2008	2008	2009	2010	2011	2012*	Total
Issued	116.0	130.8	308.0	361.3	458.0	132.9	1,507.1
Refunded	(54.6)	(54.1)	(193.1)	(250.5)	(450.2)	(273.5)	(1276.1)
Transferred/ Applied to Taxes	(52.3)	(62.7)	(46.6)	(20.0)	(7.4)	0	(189.0)
Activity by year	9.1	14.0	68.3	90.8	.3	(140.5)	
Transferable Tax Credit Certificates Outstanding	13.0	13.1	91.5	182.3	182.6	42.0	42.0

* through December 2011

Production Tax Credits

By Fiscal year



* Estimates pending final true-ups

Production Tax Credits

Total Production Tax Credit Impact through FY 2012
($M)

	Pre-2008	2008	2009	2010	2011*	2012*	Total
Tax Credit Certificates	116	131	308	361	458	133	1,507
Credits Applied Against Production Tax Liability	557	378	333	412	405	400	2,485
Total by Year	673	509	641	773	863	533	3,992

*Estimated pending final true-ups