THE STATE of ALASKA
GOVERNOR SEAN PARNELL

Department of Revenue

COMMISSIONER'S OFFICE
Bryan Butcher, Commissioner

333 Willoughby Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

April 10, 2013

The Honorable Bill Stoltze
The Honorable Alan Austerman
Alaska State Representatives
Co-Chairs, House Finance Committee
State Capitol Rooms 515 and 505
Juneau, AK 99801

Dear Representatives Stoltze and Austerman:

The purpose of this letter is to provide you with a response to some of the questions that came up during the House Finance Committee meeting April 9, 2013. This includes follow-up questions during DOR testimony and a presentation about decline rates by EconOne. Additionally, we are including responses for additional questions that were provided to the department through the committee chair.

1. Provide fiscal impact of the current version of SB21, assuming a 3% production decline beginning in FY 2017.

Figure 1 and 2 at the end of this document present the summary fiscal analysis assuming the Spring 2013 forecast, at 33% and 35% base rates. We also include below that, a comparison of what the fiscal impact would be in each year assuming a 3% decline rate beginning in FY 2017.

2. Provide information about the number of wells drilled, in a recent year.

Attached please find a series of charts provided by AOGCC showing current and historical data for exploratory, development, and service wells. These and other useful charts are available through AOGCC's website at http://doa.alaska.gov/ogc/ActivityCharts/achtindex.html. Any detailed questions about these slides should be directed to AOGCC.

3. Provide EconOne slide 5 at $110, $120, and $130 real.

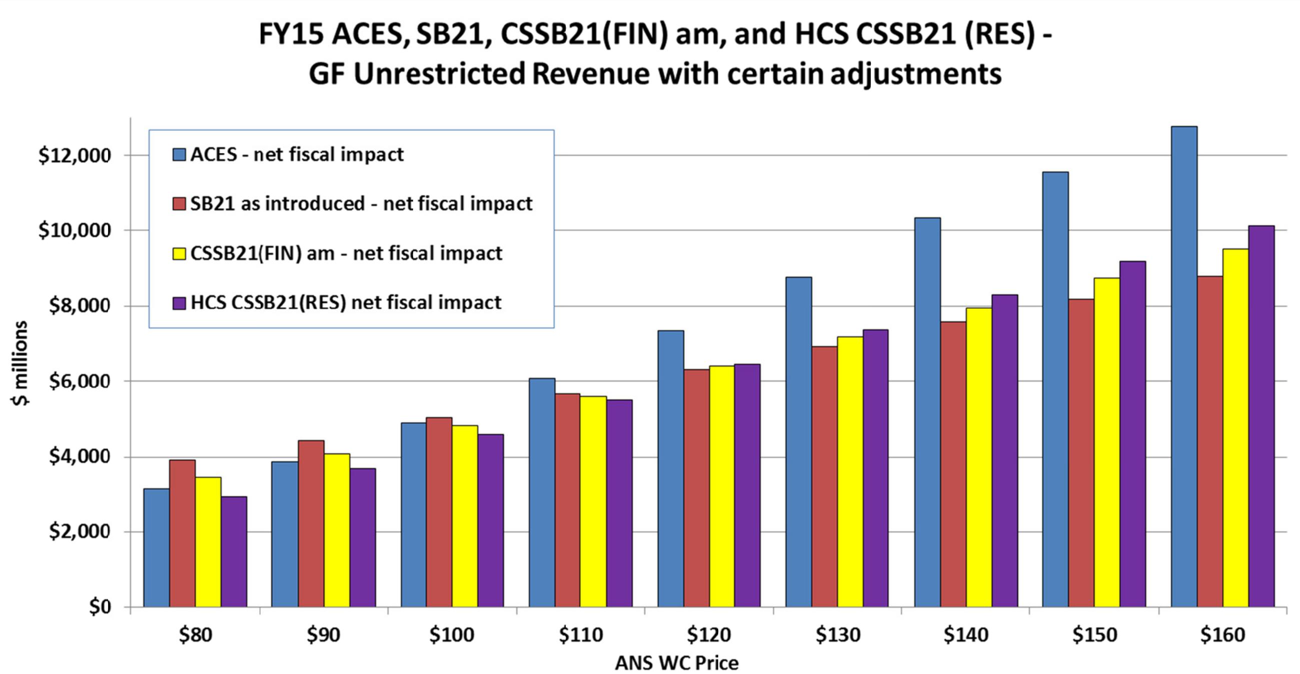
See attached EconOne slide deck that responds to this request.

4. Provide another copy of EconOne slides regarding activity in Alberta.

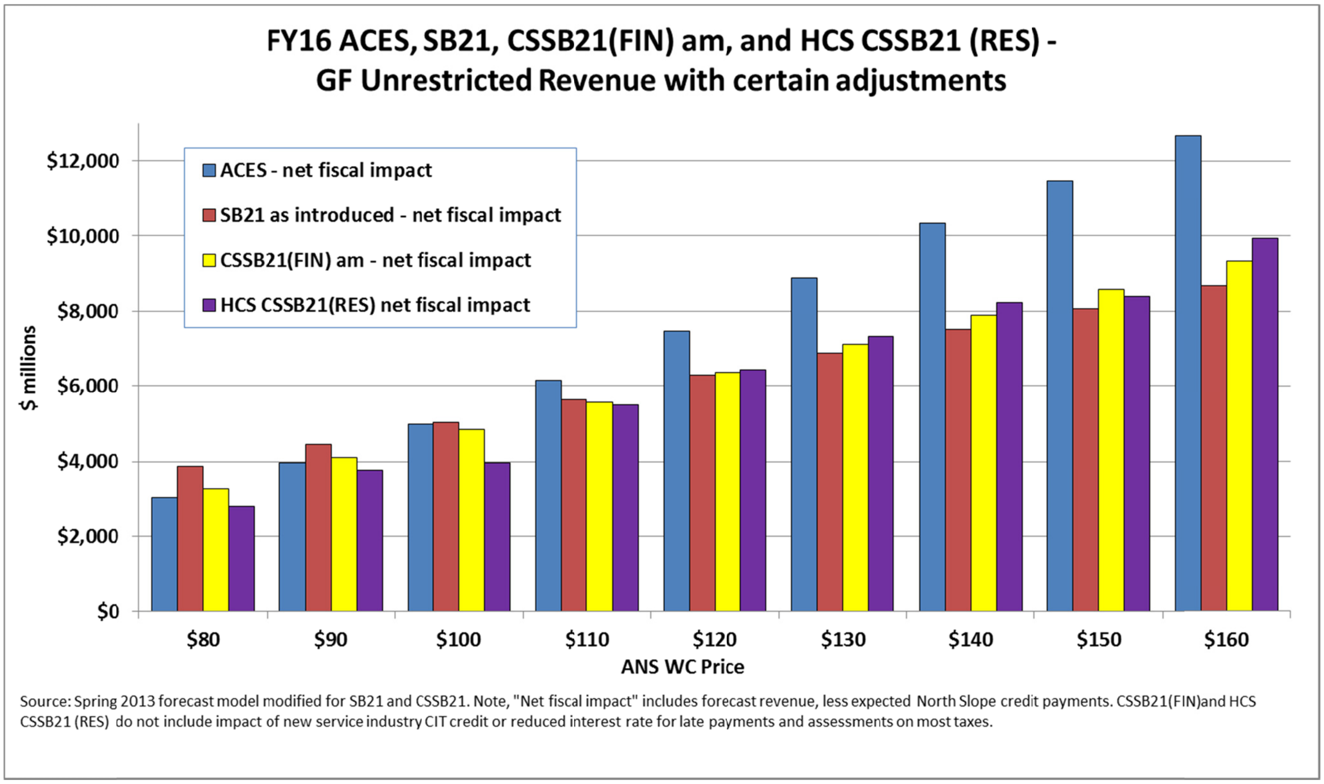
See attached EconOne slide deck that responds to this request.

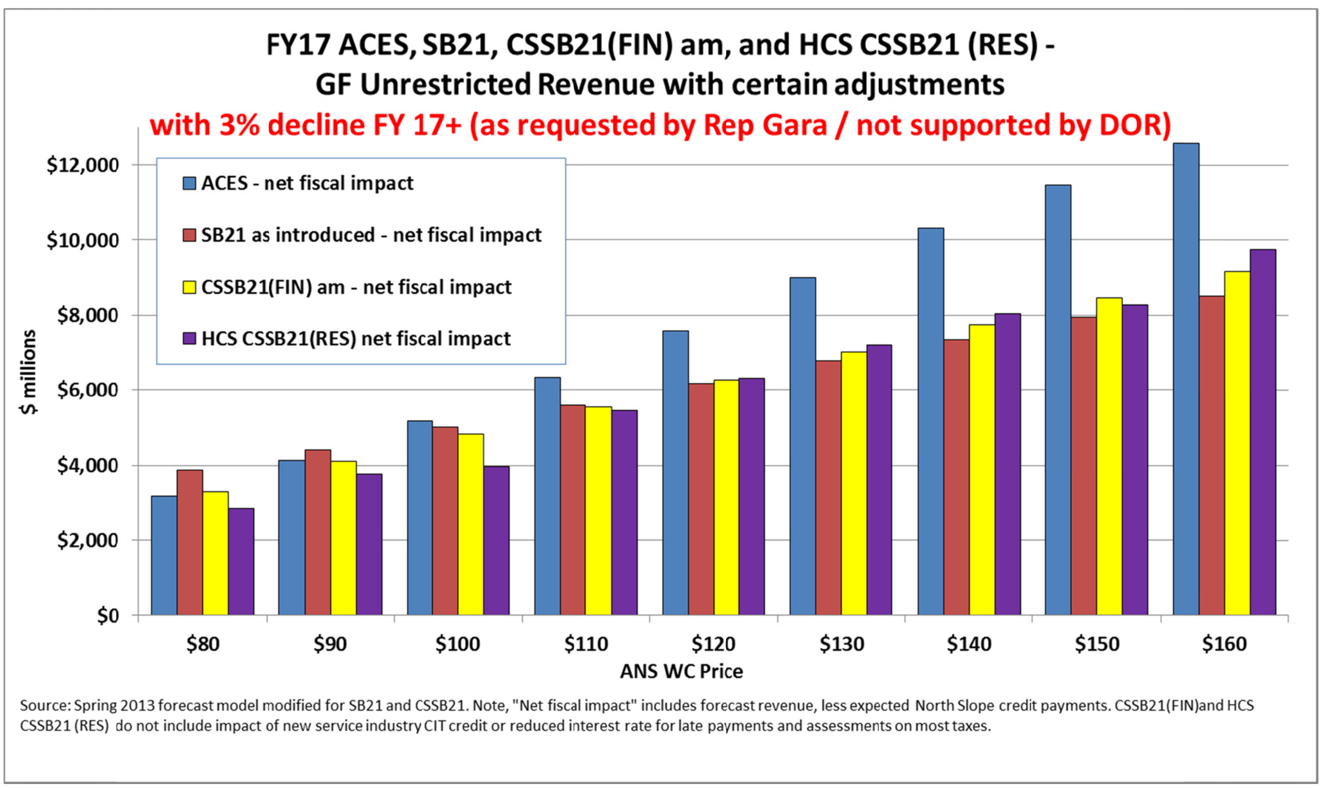
5. We would like to see charts showing a comparison of the current bill, and the other committee version of SB 21 modeled by consultants – and compared to the revenue ACES would generate, with the decline curve the Department of Revenue uses in its latest forecast until 2016, and a 3% decline curve in production starting in 2017. Conoco predicts that 3% rate for the Legacy Fields starting in 2017 – and predicts newer fields will likely reduce that decline curve further. But we will just ask for a model that uses the 3% decline rate starting in 2017. We would like to see these charts for 2014 – 2020, and price ranges from $80/barrel to $160/barrel.

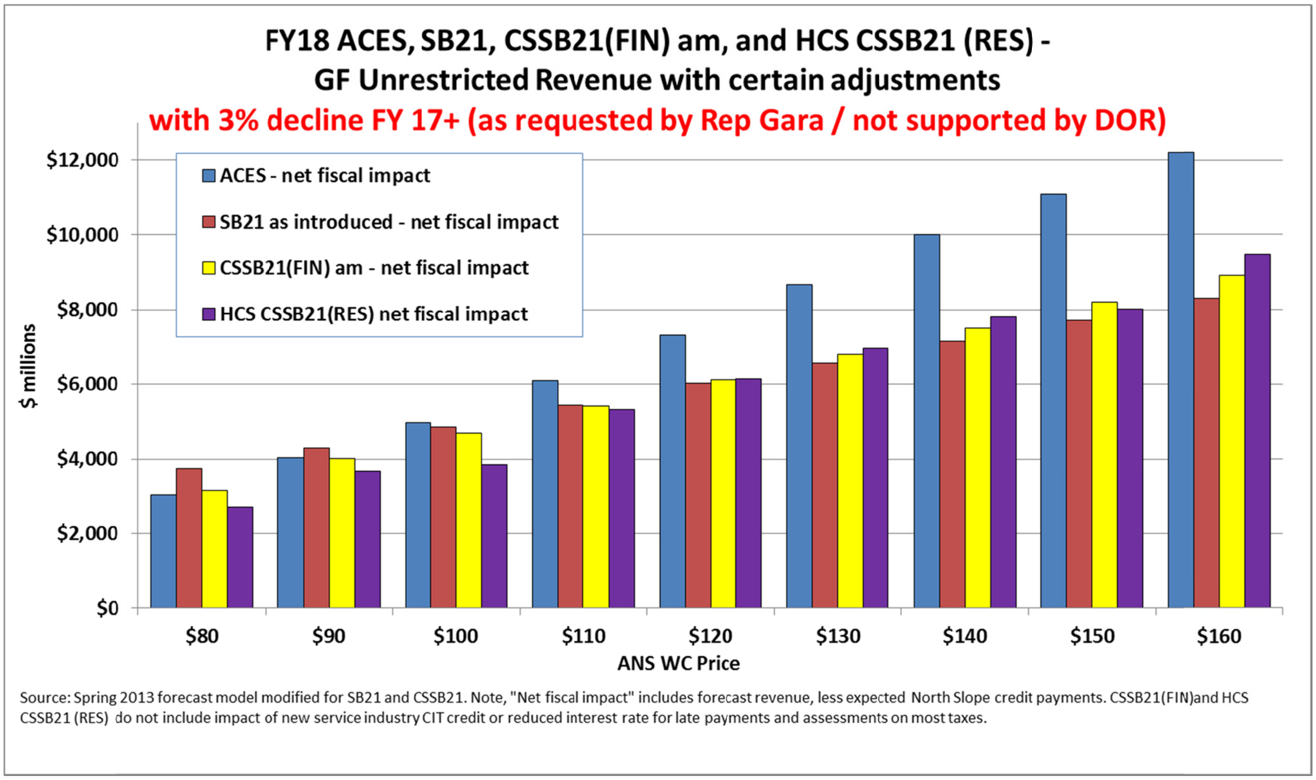
See following bar charts for FY 2015-FY 2019 comparing estimated General Fund Unrestricted Revenue under the three tax systems. For purposes of this request we include the net fiscal impact of each tax system, adjusting for refunded North Slope credits. For this analysis we have assumed a 3% production decline rate beginning in FY 2017. This decline rate is as requested by Representative Gara and DOR does not endorse or support this assumption. Note that we have included FY 2015-FY 2019 only. FY 2014 is not representative of the fiscal impact of proposed legislation as the effective date of the legislation is in the middle of the fiscal year. FY 2020 is beyond the scope of our fiscal note.

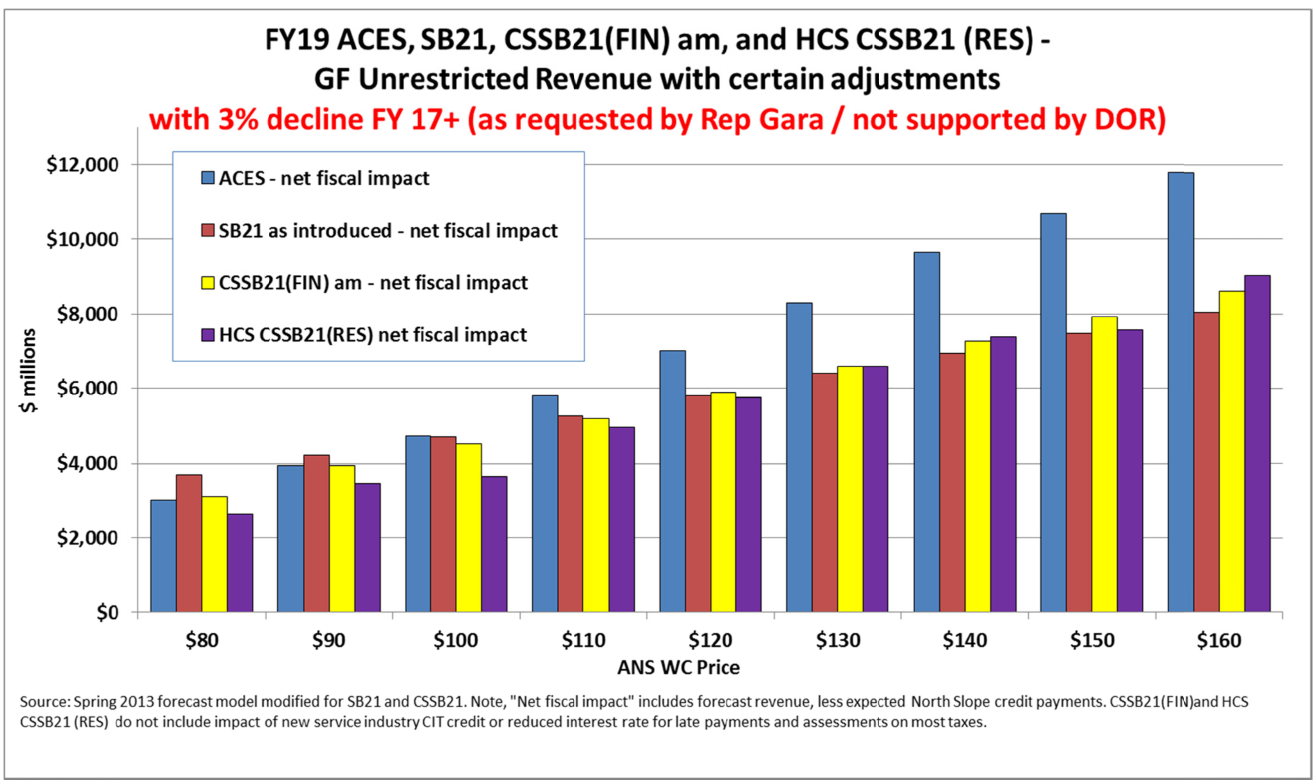


Source: Spring 2013 forecast model modified for SB21 and CSSB21. Note, "Net fiscal impact" includes forecast revenue, less expected North Slope credit payments. CSSB21(FIN) and HCS CSSB21 (RES) do not include impact of new service industry CIT credit or reduced interest rate for late payments and assessments on most taxes.


FY16 ACES, SB21, CSSB21(FIN) am, and HCS CSSB21 (RES) -
GF Unrestricted Revenue with certain adjustments
ACES - net fiscal impact
SB21 as introduced - net fiscal impact
CSSB21(FIN) am - net fiscal impact
HCS CSSB21(RES) net fiscal impact
$ millions
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$80
$90
$100
$110
$120
$130
$140
$150
$160
ANS WC Price
Source: Spring 2013 forecast model modified for SB21 and CSSB21. Note, "Net fiscal impact" includes forecast revenue, less expected North Slope credit payments. CSSB21(FIN)and HCS CSSB21 (RES) do not include impact of new service industry CIT credit or reduced interest rate for late payments and assessments on most taxes.


FY17 ACES, SB21, CSSB21(FIN) am, and HCS CSSB21 (RES) -
GF Unrestricted Revenue with certain adjustments
with 3% decline FY 17+ (as requested by Rep Gara / not supported by DOR)
ACES - net fiscal impact
SB21 as introduced - net fiscal impact
CSSB21(FIN) am - net fiscal impact
HCS CSSB21(RES) net fiscal impact
$ millions
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$80
$90
$100
$110
$120
$130
$140
$150
$160
ANS WC Price
Source: Spring 2013 forecast model modified for SB21 and CSSB21. Note, "Net fiscal impact" includes forecast revenue, less expected North Slope credit payments. CSSB21(FIN)and HCS CSSB21 (RES) do not include impact of new service industry CIT credit or reduced interest rate for late payments and assessments on most taxes.


FY18 ACES, SB21, CSSB21(FIN) am, and HCS CSSB21 (RES) -
GF Unrestricted Revenue with certain adjustments
with 3% decline FY 17+ (as requested by Rep Gara / not supported by DOR)
ACES - net fiscal impact
SB21 as introduced - net fiscal impact
CSSB21(FIN) am - net fiscal impact
HCS CSSB21(RES) net fiscal impact
$ millions
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$80
$90
$100
$110
$120
$130
$140
$150
$160
ANS WC Price
Source: Spring 2013 forecast model modified for SB21 and CSSB21. Note, "Net fiscal impact" includes forecast revenue, less expected North Slope credit payments. CSSB21(FIN)and HCS CSSB21 (RES) do not include impact of new service industry CIT credit or reduced interest rate for late payments and assessments on most taxes.


FY19 ACES, SB21, CSSB21(FIN) am, and HCS CSSB21 (RES) -
GF Unrestricted Revenue with certain adjustments
with 3% decline FY 17+ (as requested by Rep Gara / not supported by DOR)
ACES - net fiscal impact
SB21 as introduced - net fiscal impact
CSSB21(FIN) am - net fiscal impact
HCS CSSB21(RES) net fiscal impact
$ millions
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$80
$90
$100
$110
$120
$130
$140
$150
$160
ANS WC Price
Source: Spring 2013 forecast model modified for SB21 and CSSB21. Note, "Net fiscal impact" includes forecast revenue, less expected North Slope credit payments. CSSB21(FIN)and HCS CSSB21 (RES) do not include impact of new service industry CIT credit or reduced interest rate for late payments and assessments on most taxes.

6. From EconOne's April 9 presentation, we would like the chart on page 6 to reflect the following scenarios:

a. The decline rate reflected in the DOR Spring 2013 Revenue Forecast;
b. and, starting in 2017, a 3% decline rate.
c. Also, produce these scenarios assuming prices between $90 and $140 per barrel.
d. Also, include a bar on the chart assuming the same decline rate under SB21 as under ACES.
e. Also, show how much new oil in annual barrels will be needed to make up for the loss of revenue by adopting the various versions of SB21 under these requested assumptions.

See attached slide deck from EconOne that responds to this request.

We hope that the answers set forth above have addressed your questions. Please do not hesitate to contact me if you have further questions.

Sincerely,

Bruce Tangeman
Deputy Commissioner

Attachments:
- Alberta Benchmark slides from EconOne
- Drilling and well charts from AOGCC
- Modified slides from EconOne April 9, 2013 presentation

Cc: House Finance Committee Members

Figure 1: Fiscal Impact Summary table, Spring 2013 Forecast Assumptions, 33% base rate

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Spring 2013 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-$725	-$1,400	-$1,725	-$1,875	-$1,650	-$1,525
2. Base tax rate changed to 33% of production tax value	$425	$825	$875	$875	$800	$750
3. Limitation of credits for qualified capital expenditures for North Slope	$300	$675	$650	$525	$475	$450
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	$0	-$25	-$25	-$50	-$25	-$50
6. Provision requiring credits be taken over 2 years eliminated[2]	-$225					
7. Amendment to the community revenue sharing fund	$0	$0	$0	$0	$0	$0
8. Credit of $5 per taxable barrel / Sliding scale credit per taxable barrel based on oil price	-$425	-$825	-$775	-$750	-$700	-$675
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	$0	$0	$0	$0	$0	$0
12. Small producer credit extended to 2022	$0	$0	$0	-$25	-$25	-$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	**-$650 to -$700**	**-$750 to -$800**	**-$1000 to -$1050**	**-$1300 to -$1350**	**-$1125 to -$1175**	**-$1100 to -$1150**
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		$150	$150	$150	$150	$150
Impact on Operating Budget of increase in Net Operating Loss credits		-$30	-$30	-$30	-$30	-$30
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production[3]	**-$800 to -$850**	**-$630 to -$680**	**-$880 to -$930**	**-$1180 to -$1230**	**-$1005 to -$1055**	**-$980 to -$1030**

Total Fiscal Impact with 3% decline rate in FY17-FY19 - does not include potential revenue impacts from potential increases in production[3] (3% decline rate as requested by Rep Gara / not supported by DOR)	**-$800 to -$850**	**-$630 to -$680**	**-$880 to -$930**	**-$1205 to -$1255**	**-$1130 to -$1180**	**-$1130 to -$1180**

[1]The impacts listed are based on production and prices as forecasted in our Spring 2013 revenue forecast. The forecasted oil prices are between $109.61 and $118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2]Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $375 million, with $225 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3]NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

Figure 2: Fiscal Impact Summary table, Spring 2013 Forecast Assumptions, 35% base rate

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Spring 2013 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-$725	-$1,400	-$1,725	-$1,875	-$1,650	-$1,525
2. Base tax rate changed to 35% of production tax value	$550	$1,050	$1,100	$1,100	$1,000	$925
3. Limitation of credits for qualified capital expenditures for North Slope	$300	$675	$650	$525	$475	$450
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	$0	-$25	-$25	-$50	-$25	-$50
6. Provision requiring credits be taken over 2 years eliminated[2]	-$225					
7. Amendment to the community revenue sharing fund	$0	$0	$0	$0	$0	$0
8. Credit of $5 per taxable barrel / Sliding scale credit per taxable barrel based on oil price	-$425	-$825	-$775	-$750	-$700	-$675
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	$0	$0	$0	$0	$0	$0
12. Small producer credit extended to 2022	$0	$0	$0	-$25	-$25	-$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	**-$525 to -$575**	**-$525 to -$575**	**-$775 to -$825**	**-$1075 to -$1125**	**-$925 to -$975**	**-$925 to -$975**
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		$150	$150	$150	$150	$150
Impact on Operating Budget of increase in Net Operating Loss credits to 35%		-$40	-$40	-$40	-$40	-$40
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production[3]	**-$675 to -$725**	**-$415 to -$465**	**-$665 to -$715**	**-$965 to -$1015**	**-$815 to -$865**	**-$815 to -$865**

Total Fiscal Impact with 3% decline rate in FY17-FY19 - does not include potential revenue impacts from potential increases in production[3] (3% decline rate as requested by Rep Gara / not supported by DOR)	**-$675 to -$725**	**-$415 to -$465**	**-$665 to -$715**	**-$990 to -$1040**	**-$915 to -$965**	**-$940 to -$990**

[1] The impacts listed are based on production and prices as forecasted in our Spring 2013 revenue forecast. The forecasted oil prices are between $109.61 and $118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2] Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $375 million, with $225 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3] NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.