THE STATE
of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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March 3, 2020

The Honorable Bert Stedman
Co-Chair, Senate Finance Committee
State Capitol, Room 516
Juneau, AK 99801

The Honorable Natasha von Imhof
Co-Chair, Senate Finance Committee
State Capitol, Room 518
Juneau, AK 99801

Dear Co-Chairs Stedman and von Imhof:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) regarding the presentation to the Senate Finance Committee on January 23, 2020. Please see the questions in italics and our responses immediately below the questions.

1. ***Provide information about what the statutory appropriation calculation for purchasable credits for FY 2020 would be.***

Based on the 2019 fall forecast, the FY 2020 statutory appropriation calculation would be $135 million.

2. ***Provide information about credits purchased on the secondary market.***

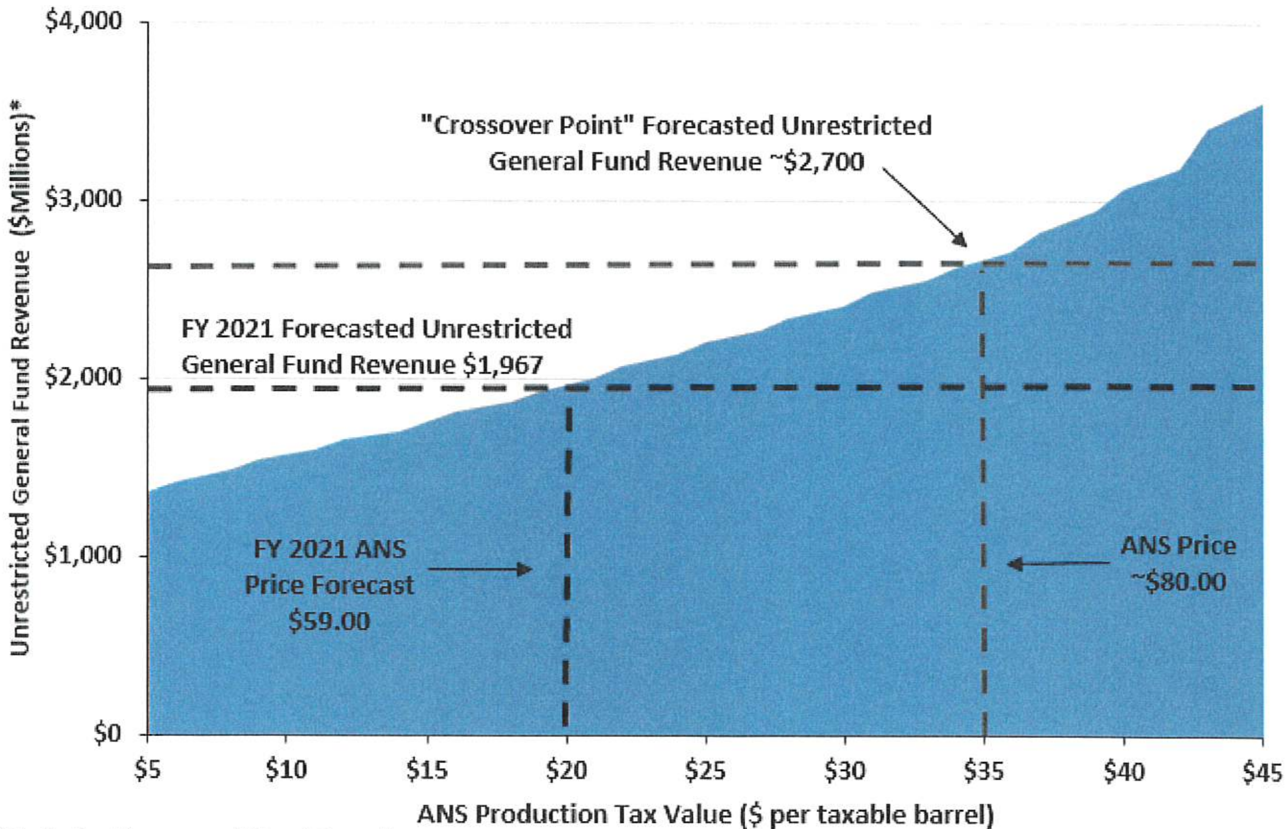
Certain outstanding oil and gas tax credits may be either transferred (sold to another producer which then may use the credits against a tax liability) or assigned (sold to another entity such as a financial institution which would not have a tax liability but would receive the cash disbursement from future state purchase). According to information reported to the department, since FY 2004, approximately $200 million of credits have been transferred. From FY 2013 to date, approximately $590 million of credits have been reported to the department as assigned. The balance of the tax credits available for purchase by the state that are assigned is about $320 million.

Credit transactions on the secondary market typically include a discount to face value for the credits. The department does not receive information about the sale price or discount.

Also, on January 29, the Annual Oil & Gas Tax Credit Payments report was released to the Legislature and is also posted on our website. The report contains the details related to the cash disbursements in calendar year 2019 and the remaining balances of tax credits.

3. Provide a chart showing the production tax "crossover point" between gross and net tax, based on Production Tax Value (PTV).

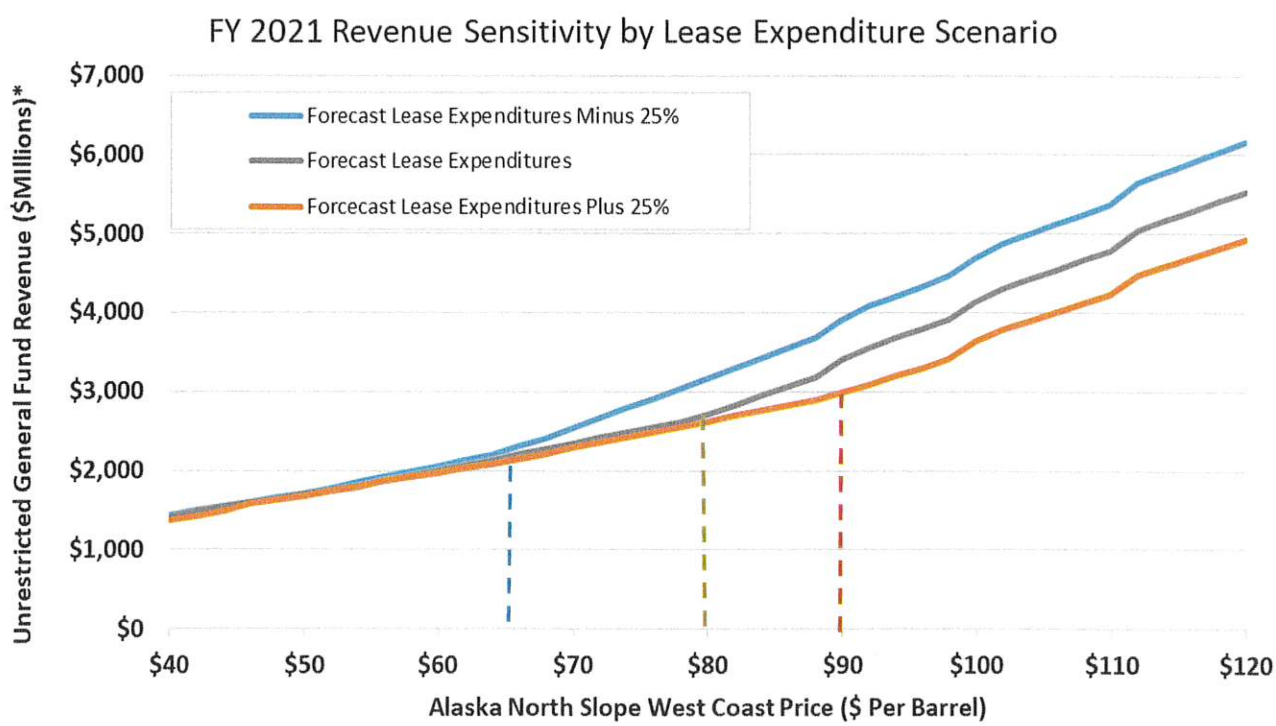
The production tax for the North Slope involves two separate calculations: a gross tax calculation based on the Gross Value at Point of Production (GVPP) and a net tax calculation based on Production Tax Value (PTV). Generally speaking, at higher profit levels, a producer's tax liability will be based on the net tax calculation and at lower profit levels, a producer's tax liability will be based on the gross tax calculation. The "crossover point" is the point at which the net tax calculation (including applicable credits) exceeds the gross tax calculation. This point varies for each producer and is shown as an aggregate calculation in this chart. Under the fall 2019 forecast for FY 2021 production tax, the "crossover point" occurs at an ANS price of about $80 per barrel, which corresponds with an average PTV per taxable barrel of approximately $35.



*Excludes Permanent Fund Transfer

4. Provide sensitivity analysis showing how the "crossover point" between gross and net production tax varies based on lease expenditures.

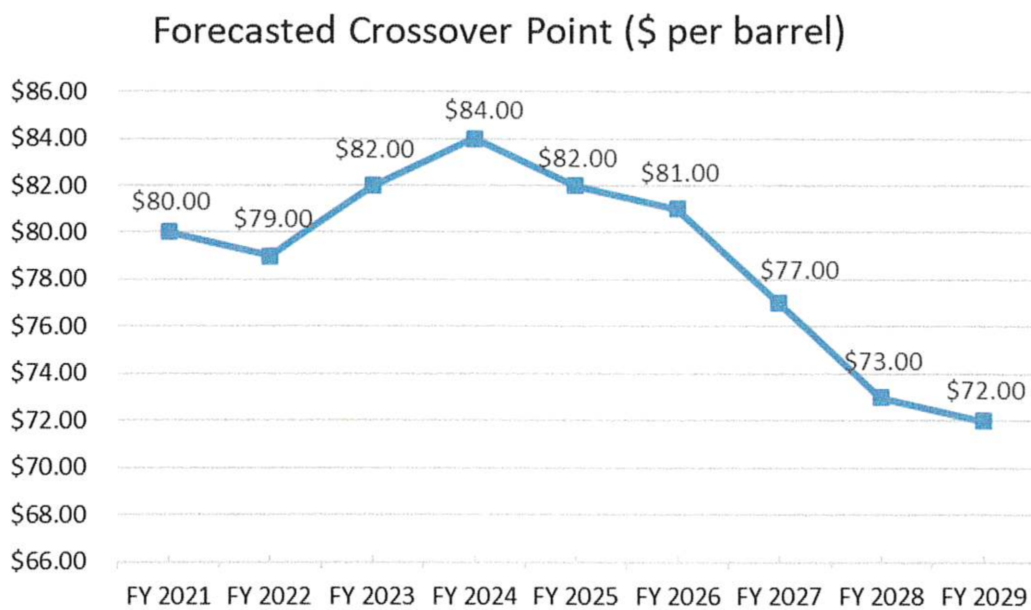
The below chart shows forecasted Unrestricted General Fund (UGF) revenue, excluding Permanent Fund transfer, for FY 2021 at a range of ANS oil prices. In addition to the official forecast, two additional lines are included showing what this calculation would look like if all oil and gas lease expenditures were 25% higher or 25% lower than forecast. Under the official forecast, the "crossover point" between gross and net production tax occurs around $80 per barrel. Under the alternative scenarios, holding all else equal, the crossover point would occur around $65 barrel in the low cost scenario and around $90 per barrel in the high cost scenario.



Note: Dotted lines represent forecasted "crossover points"
**Excludes Permanent Fund Transfer*

5. ***Provide information on how the "crossover point" between gross and net production tax changes throughout the forecast.***

The "crossover point" between gross and net production tax is largely a function of both production and lease expenditures. The fall 2019 forecast assumes increasing lease expenditures and declining production over the next several years. Then, once new fields come online, the forecast assumes this trend will reverse later in the decade. Thus, the "crossover point" is expected to increase to around $84 per barrel in FY 2024, before declining to the low $70s by the end of the decade. Note, this is an aggregated calculation among all companies and each producer's individual tax situation will differ. In addition to production and lease expenditures, other factors also impact the "crossover point" including Gross Value Reduction, carry-forward lease expenditures, and netback costs.



6. Provide "Count the Cash" petroleum net fiscal impact information in per-barrel terms.

The table below takes the "Count the Cash" table from slide 34 of the January 23 presentation and converts the values to per-barrel terms. This analysis divides the numbers in slide 34 by total Alaska North Slope production.

"Count the Cash" Petroleum Net Fiscal Impact Dollars per total barrel	**History FY 2018**	**History FY 2019**	**Forecast FY 2020**	**Forecast FY 2021**
Alaska North Slope Production (Barrels per Day)	*518,488*	*496,933*	*492,063*	*490,466*
Petroleum Property Tax (State Share)	$ 0.64	$ 0.66	$ 0.68	$ 0.66
Petroleum Corporate Income Tax	$ 0.35	$ 1.20	$ 1.17	$ 1.20
Production Tax (1)	$ 3.96	$ 3.28	$ 2.11	$ 1.83
Oil & Gas Royalties (Includes Rents, Interest & Bonuses)	$ 7.21	$ 8.25	$ 6.85	$ 6.10
Other (2)	$ 0.77	$ 1.07	$ 1.17	$ 0.47
Total Petroleum Revenue	**$ 12.94**	**$ 14.46**	**$ 11.98**	**$ 10.26**
Credits Purchased by the State (Assuming Statutory Appropriation)	*$ (0.41)*	*$ (0.55)*	*$ (0.01)*	*$ (0.93)*
Lease Expenditures Earned & Carried Forward (Tax Value)	*$ -*	*$ (1.05)*	*$ (0.91)*	*$ (2.59)*
Petroleum Revenue to State, Net of Above	***$ 12.52***	***$ 12.86***	***$ 11.06***	***$ 6.75***

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

Sincerely,

Michael A. Barnhill

Michael A. Barnhill
Deputy Commissioner, Department of Revenue