



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Revenue

TAX DIVISION

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March 28, 2022

The Honorable Neal Foster
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol Room 505
Juneau, AK 99801

The Honorable Kelly Merrick
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol Rooms 511
Juneau, AK 99801

Dear Co-Chairs Foster and Merrick,

The purpose of this letter is to provide you with a response to the question asked of the Department of Revenue regarding the Spring 2022 forecast presentation to the House Finance Committee on March 16, 2022.

- 1. Please provide an explanation of the five-day lookback that is used to develop the price forecast and provide an example of what the price forecast would look like if a 30-day lookback were used instead.***

The Department of Revenue utilizes futures market prices for Brent Crude to derive the oil price forecast. The futures market is an exchange where participants buy and sell contracts for future goods at a set current price. These contracts are traded separately by month and taken together, form a timeseries that can be used to estimate future values. Presumably, the futures market contract prices incorporate market expectations about future prices and supply/ demand fundamentals.

The Department of Revenue's Spring 2022 Alaska North Slope (ANS) oil price forecast was calculated by taking the median value of closing prices for the five trading days ending March 9, 2022 for Brent Crude futures traded on the Intercontinental Exchange (ICE) market. The median value was evaluated for each month traded on the futures market, and monthly values were averaged to derive a Fiscal

Year (FY) average forecast. An assumed ANS-Brent differential was applied to the monthly futures values for FY 2022 only. ANS oil price forecasts for FY 2023+ were rounded to the nearest whole dollar.

The five-day lookback was used to incorporate the most up-to-date information, while also smoothing for any anomalies in that five-day period. This approach also helps remove a potential source of bias from picking a single day's price outlook for the forecast.

Per the Committee's request, we have prepared an alternative calculation for the Spring 2022 oil price forecast, using the same methodology except incorporating the last 30 trading days instead of the last five trading days. The below table shows this alternative calculation along with the official Spring 2022 ANS oil price forecast.

Dollars Per Barrel		
Fiscal Year	Official Forecast (Median 5-Day lookback from 3/9/2022)	Alternative Calculation (Median 30-Day lookback from 3/9/2022)
FY 2022	\$91.68	\$87.59
FY 2023	\$101.00	\$85.00
FY 2024	\$90.00	\$79.00
FY 2025	\$82.00	\$75.00
FY 2026	\$77.00	\$74.00
FY 2027	\$75.00	\$73.00
FY 2028	\$74.00	\$72.00
FY 2029	\$74.00	\$72.00
FY 2030 *	\$75.00	\$74.00
FY 2031 *	\$77.00	\$75.00

* FY 2030 and FY 2031 projections are calculated from the FY 2029 futures market using a 2.25% inflation rate assumption.

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

Sincerely,

DocuSigned by:

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Colleen Glover
 Tax Director