

FALL 2013 REVENUE FORECAST OVERVIEW



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Alaska Department of Revenue

**Presentation to Resource Development
Council**
2/06/2014



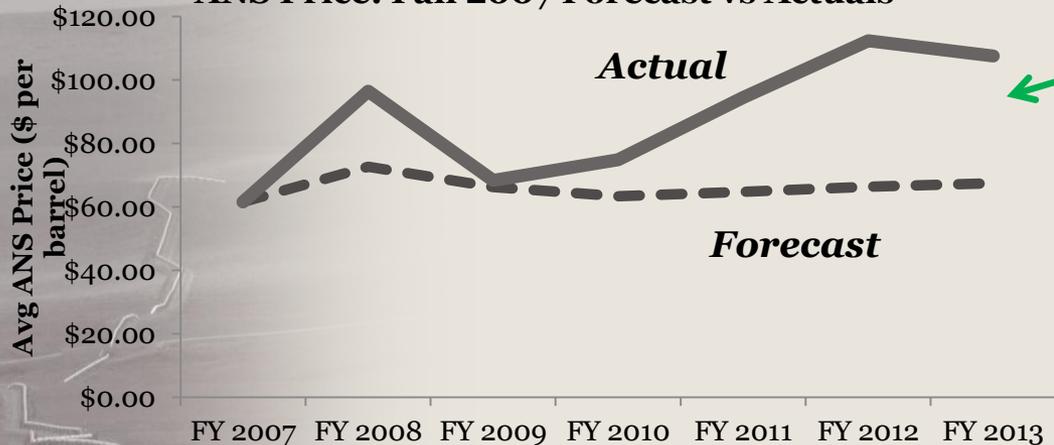
DISCLAIMER

- The Revenue Source Book is a *forecast*.
- As a forecast, it is subject to many variables and degrees of uncertainty.
 - Examples: oil price, market performance etc.
- Since 2012, the Department of Revenue has worked to refine the forecast methodologies to better incorporate and account for these uncertainties.



PRICES & PRODUCTION FORECASTS: WHAT ACES PROMISED

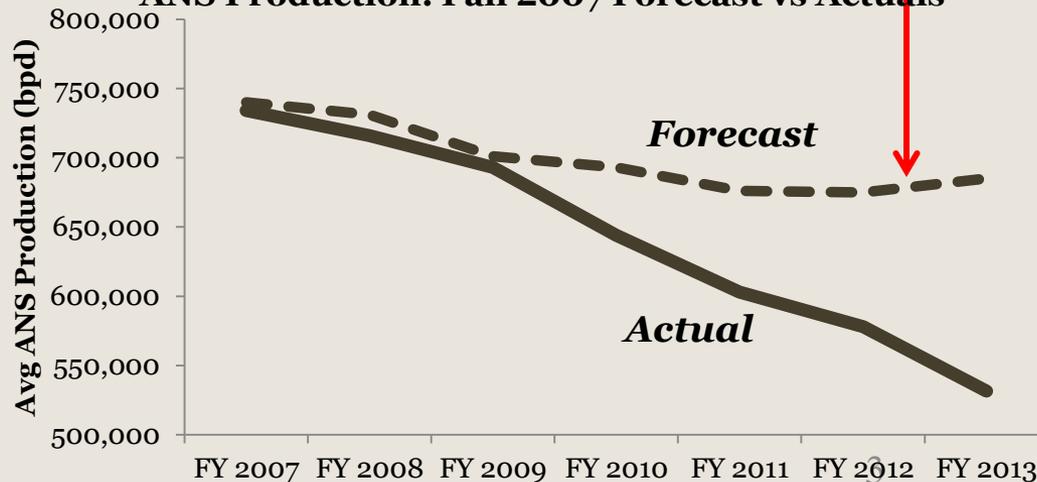
ANS Price: Fall 2007 Forecast vs Actuals



2013: Prices **UP** 70%

2013: Production **DOWN** 22%

ANS Production: Fall 2007 Forecast vs Actuals



UNDER ACES, TAX RATES VARIED SIGNIFICANTLY ON A MONTHLY BASIS

FISCAL YEAR 2009

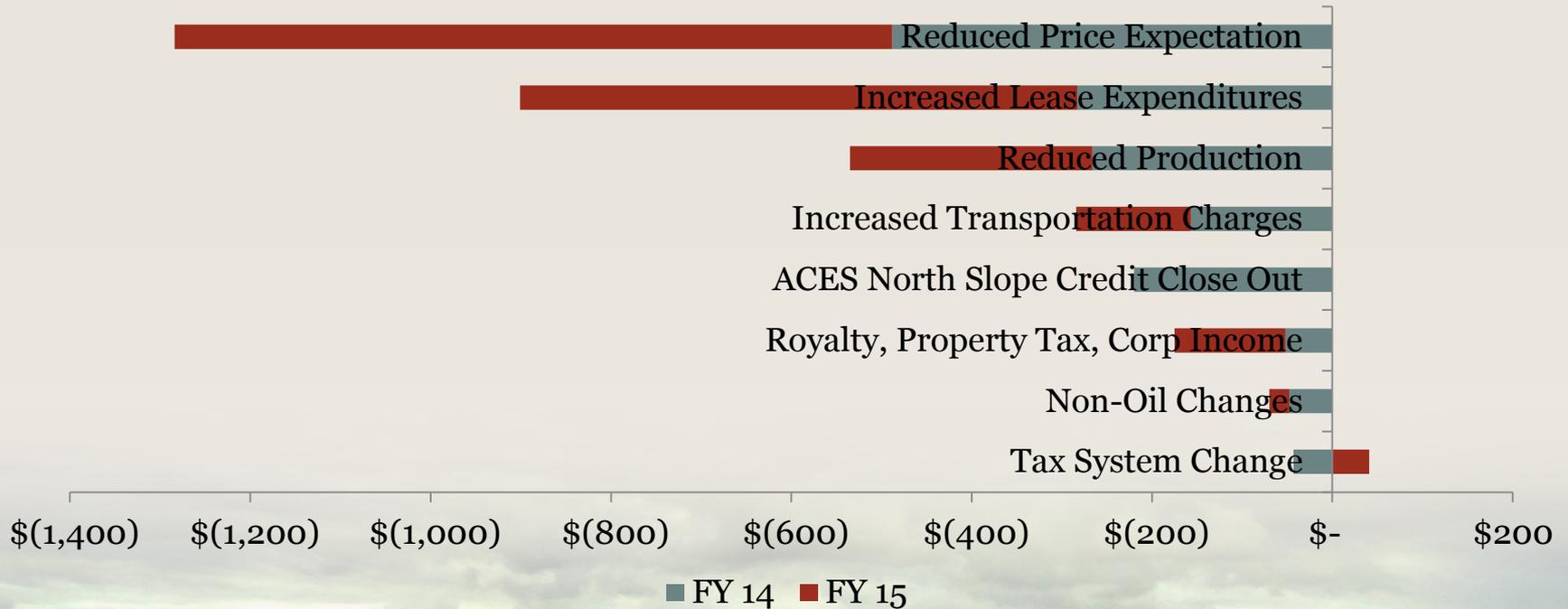
	July	August	September	October	November	December	
Oil Price	\$132.87	\$115.98	\$101.86	\$73.65	\$53.94	\$37.70	
Total barrels per month	20,174,640	17,230,458	21,197,405	23,080,737	22,846,738	22,727,030	
Royalty & Federal barrels	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	
Taxable barrels per month	17,325,693	14,381,511	18,348,458	20,231,790	19,997,791	19,878,083	
Wellhead value	\$126.37	\$109.48	\$95.36	\$67.15	\$47.44	\$31.20	
Gross value of taxable bbls	\$2,189,447,867	\$1,574,487,850	\$1,749,708,987	\$1,358,564,721	\$948,695,216	\$620,196,200	
Deductible Opex	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	
Deductible Capex	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	
Taxable value	\$1,872,781,200	\$1,257,821,183	\$1,433,042,320	\$1,041,898,054	\$632,028,549	\$303,529,533	
Base rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Base tax	\$468,195,300	\$314,455,296	\$358,260,580	\$260,474,514	\$158,007,137	\$75,882,383	
Taxable value per barrel	\$108.09	\$87.46	\$78.10	\$51.50	\$31.60	\$15.27	
Progressive tax rate	26.6%	23.0%	19.2%	8.6%	0.6%	-	
Progressive tax	\$497,397,040	\$289,102,592	\$275,726,004	\$89,595,168	\$4,057,416	\$0	
Tax before credits	\$965,592,340	\$603,557,888	\$633,986,584	\$350,069,682	\$162,064,553	\$75,882,383	
Credits applied	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	
Tax after credits	\$936,442,340	\$574,407,888	\$604,836,584	\$320,919,682	\$132,914,553	\$46,732,383	
Effective tax rate on net	50%	46%	42%	31%	21%	15%	
	January	February	March	April	May	June	Total
Oil Price	\$39.01	\$42.78	\$47.75	\$46.56	\$58.23	\$69.80	\$68.34
Total barrels per month	21,812,241	20,747,934	23,020,348	20,160,047	22,186,732	17,785,719	252,970,029
Royalty & Federal barrels	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	2,848,947	34,187,360
Taxable barrels per month	18,963,294	17,898,987	20,171,402	17,311,100	19,337,785	14,936,772	218,782,669
Wellhead value	\$32.51	\$36.28	\$41.25	\$40.06	\$51.73	\$63.30	\$61.84
Gross value of taxable bbls	\$616,496,702	\$649,375,248	\$832,070,320	\$693,482,668	\$1,000,343,635	\$945,497,689	\$13,178,367,102
Deductible Opex	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$170,833,333	\$2,050,000,000
Deductible Capex	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$145,833,333	\$1,750,000,000
Taxable value	\$299,830,035	\$332,708,581	\$515,403,653	\$376,816,001	\$683,676,969	\$628,831,022	\$9,378,367,102
Base rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Base tax	\$74,957,509	\$83,177,145	\$128,850,913	\$94,204,000	\$170,919,242	\$157,207,756	\$2,344,591,775
Taxable value per barrel	\$15.81	\$18.59	\$25.55	\$21.77	\$35.35	\$42.10	\$44.27
Progressive tax rate	-	-	-	-	2.1%	4.8%	7.1%
Progressive tax	\$0	\$0	\$0	\$0	\$14,642,885	\$30,434,227	\$1,200,955,332
Tax before credits	\$74,957,509	\$83,177,145	\$128,850,913	\$94,204,000	\$185,562,128	\$187,641,982	\$3,545,547,108
Credits applied	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$29,150,000	\$349,800,000
Tax after credits	\$45,807,509	\$54,027,145	\$99,700,913	\$65,054,000	\$156,412,128	\$158,491,982	\$3,195,747,108
Effective tax rate on net	15%	16%	19%	17%	23%	25%	34%
						Less adjustments	\$83,792,561
						TOTAL TAX	\$3,111,954,547

FALL 2013 HIGHLIGHTS

- Oil price and production levels have been reduced relative to the 2013 Spring Forecast.
- Correspondingly, unrestricted revenues have been revised down from the Spring 2013 Forecast.
- Revenues are similar under both the More Alaska Production Act (MAPA) and ACES in FY 2014 – FY 2017
 - Revenue impacts from recent changes to the production tax system are minimal compared to other factors (price, production and expenditures).
- Substantial (~\$10 billion) increase in new private sector spending in the oil and gas sector.
- Oil companies project increased North Slope production following the increased activity.
 - DOR continues to prudently assess potential production and will include new projects as they meet our risk thresholds.
- State investment earnings are strong.



MAJOR CONTRIBUTORS OF CHANGES IN REVENUE FORECAST (FY14-15)



Note: "Major Contributors" do not reflect all of the factors associated with the revised forecast and are intended to depict the relative scale of the impact of certain variables on the forecast. These values are approximations and are not intended to represent exact calculations due to the interdependence among variables.

CONTRIBUTORS OF CHANGES IN FY 2014 REVENUE FORECAST

Component	Fall 2013 Forecast	Spring 2013 Forecast	Change
ANS Production (thousand bbl/day)	508.2	526.6	-18.4
ANS Price	\$105.68	\$109.61	-\$3.93
ANS Deductible Lease Expenditures (\$million)	\$6,600	\$6,146	+\$454
Transportation Costs	\$10.11	\$8.87	+\$1.24

- Average Production Tax Value per barrel is reduced by \$9.23
- ACES tax rate reduced from 38.6% to 34.9%
- MAPA tax rate is 35%



CONTRIBUTORS OF CHANGES IN FY 2015 REVENUE FORECAST

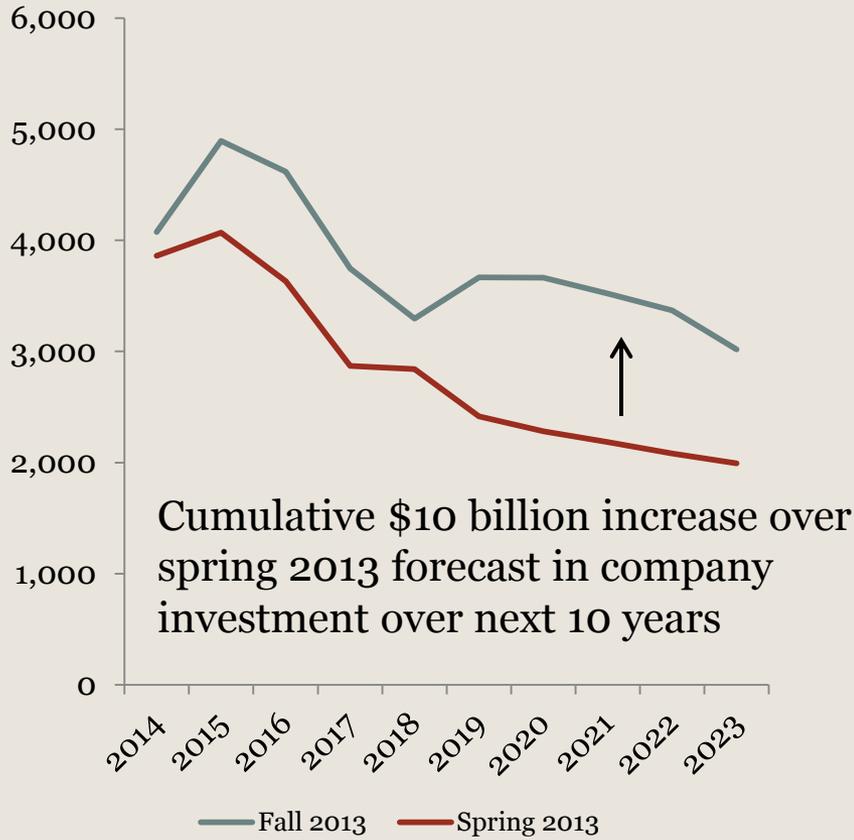
Component	Fall 2013 Forecast	Spring 2013 Forecast	Change
ANS Production (thousand bbl/day)	498.4	512.8	-14.4
ANS Price	\$105.06	\$111.67	-\$6.61
ANS Deductible Lease Expenditures (\$million)	\$7,294	\$6,294	+\$1,000
Transportation Costs	\$10.03	\$9.03	+\$1.00

- Average Production Tax Value per barrel is reduced by \$14.90
- ACES tax rate reduced from 38.6% to 32.6%
- MAPA tax rate is 35%

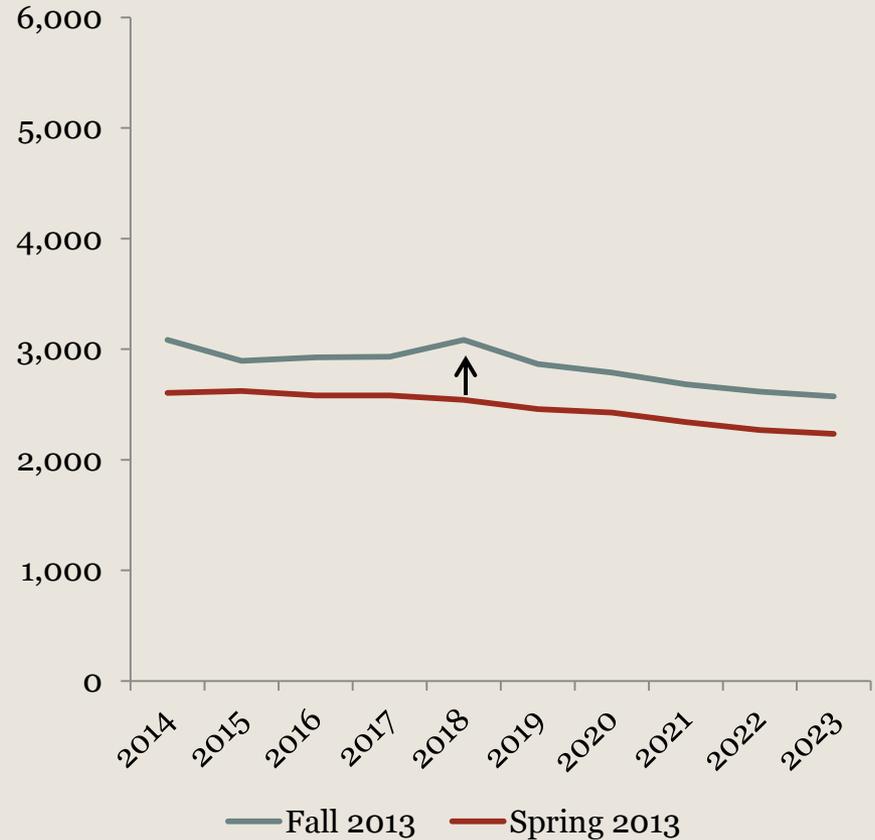


LEASE EXPENDITURE FORECAST CHANGE

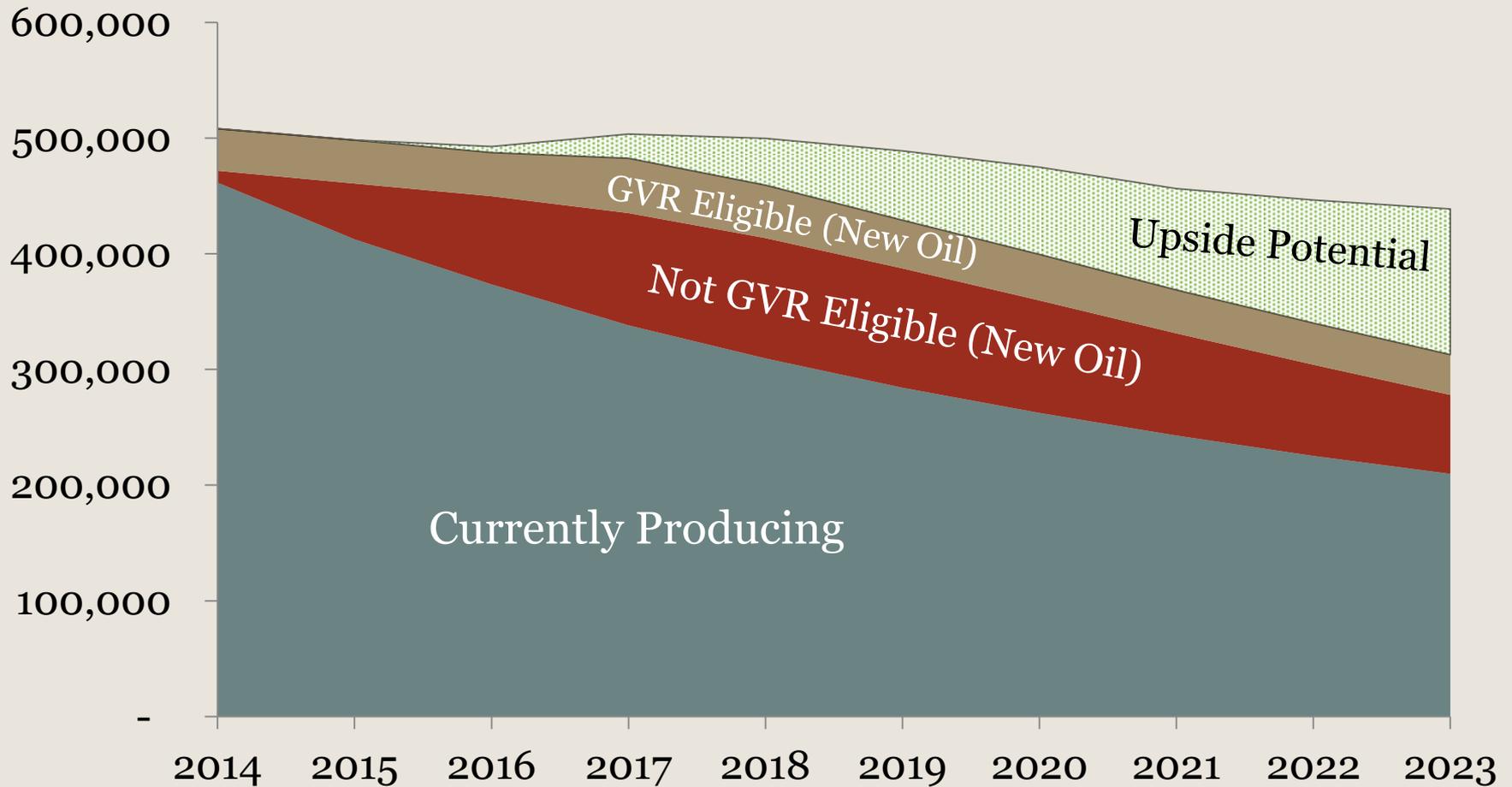
CAPEX



OPEX

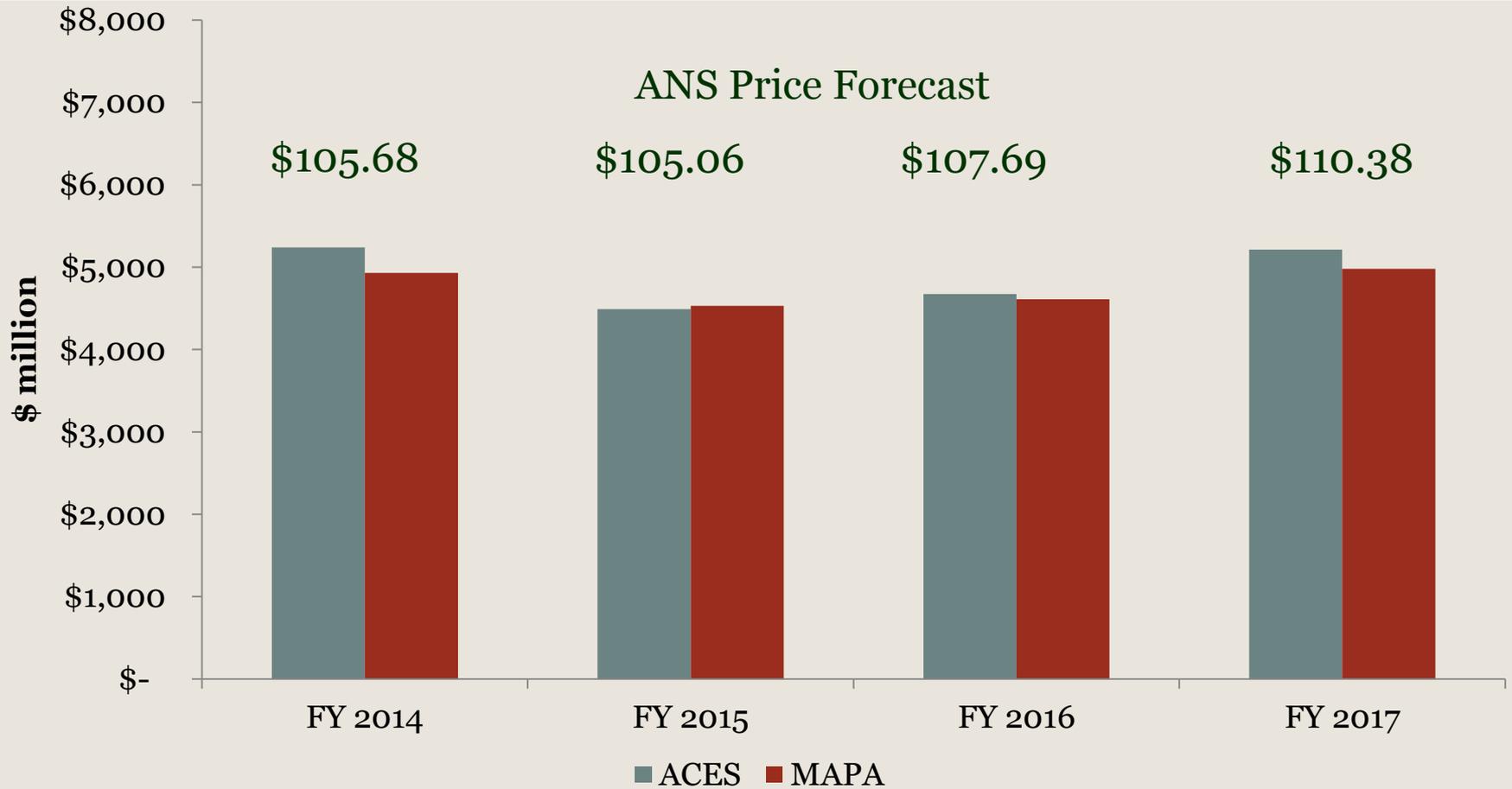


PRODUCTION FORECAST



*According to company data, the potential for revenue growth is strong

REVENUE UNDER DIFFERENT TAX SYSTEMS



*MAPA and ACES provide similar revenues at forecast prices, costs, and production levels

MORE ALASKA PRODUCTION ACT

- MAJOR PROVISIONS -

- Eliminated the progressive portion of the production tax on oil and gas produced after January 1, 2014.
- Increased the tax rate from 25% to 35%.
- Eliminated credits for qualified capital expenditures made after January 1, 2014 north of 68 degrees (North Slope).
- Increased support for explorers and new entrants through the *Net Operating Loss Credit* to 45% until January 1, 2016 and 35% thereafter.
- Created incentive for new oil production:
 - 20% - 30% of the gross value at the point of production for oil produced from (1) units formed after Jan. 1, 2003 (2) new participating areas (3) expansions of participating areas in units formed before Jan. 1, 2003.
- Created a credit per taxable barrel of oil produced:
 - \$5 for GVR (aka GRE)
 - \$0 - \$8 for non-GVR(aka GRE) oil (i.e. *Legacy production*)
- 10% Corporate Income Tax Credit for in-State Manufacturing/Modification (Service Industry)

THANK YOU!



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For more information go to
<http://www.revenue.state.ak.us/MAPActDocuments.aspx>