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ALASKA STATE LEGISLATURE
House District 35

MEMORANDUM

From: Representative Paul Seaton
To: House Members
Date: April 17, 2011
RE: Department of Revenue prediction on new field revenue under HB 110

During debate of HB 110 you may recall that I raised the objection to not knowing the interaction between the low tax rate and high credit rate for wells under the new field development. I received the analysis on April 14th of the new proposed development by Great Bear Petroleum but it did not contain identification of the additional items used in modeling. I received that response on Friday, April 15th and have included these for each member's information.

Figure 2 shows state revenue or loss at price scenarios between \$60.00 and \$120.00 per barrel. The ANS price forecast for 2011 and 2012 are \$91.00 and \$94.00 per barrel. As you can see this is midway between the \$80/barrel red line and the \$100/barrel green line. **Figure 2** shows that we would be using over \$1 billion a year of royalty to offset losses created by Great Bear production from the credits and tax rates of HB 110 through 2016. We would continue to lose about \$250 million a year through 2020 and would still be reducing royalties to compensate for losses from HB 110 in 2025.

Figure 1 shows that through 2016 we would need to return to Great Bear all royalty, state income tax, property tax, and pay an additional quarter billion dollars per year from others sources of state revenue.

Since the Great Bear project is anticipated to take place under any tax regime, creating a negative revenue for years under the 40% tax credit and 15% base tax rate with stepped progressivity needs to be carefully analyzed as we deal with this tax bill in the future.

State of Alaska
Department of Revenue

Commissioner Bryan Butcher



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The Honorable Paul Seaton
State Capitol Room 102
Juneau AK, 99801

April 14, 2011

SUBJECT: Response to Modeling Request for Great Bear Type Development

Dear Representative Seaton:

The purpose of this document is to respond to a request for modeling of the fiscal impact of a Great Bear type development, under the tax provisions of HB 110.

On February 24, 2011, the Department provided the House Resources committee with modeling demonstrating the potential fiscal impact to the state of a Great Bear type development. On April 8, 2011, Louie Flora in your office submitted the following follow-up request:

Instead of having the Great Bear production combined with legacy field production, [Representative Seaton] would like to see the Department's analysis of Great Bear as a single new company in a single new unit and what this would look like to the state revenue under HB 110 using the following Great Bear assumptions:

- *200 Wells per year at \$10 million each = \$2 Billion per year CAPEX*
- *15 years of production – Great Bear phase one*
- *Oil Price points of \$60, \$80, \$100, \$120*
- *Base Rate as in HB 110*
- *40% well lease expenditure credit.*

In the analysis that follows in this document, we incorporated the assumptions you provided with some additional assumptions necessary to complete the request:

- The provisions of HB 110 are incorporated in accordance with the final version of the bill as it passed the House on March 31, 2011.
- Operating and additional capital expenditures were added, to account for facilities spending and other lease expenditures in addition to well-related expenditures.
- For the well lease expenditure credit, we assume that half of the total capital spending will qualify for the additional credit through 2020 only (the “sunset date” for the 40% well lease credit as defined in HB110).

- Production starts in 2014 and peaks at 295,000 barrels per day in 2028. The production profile comes from the ‘Potential Oil Production Profile’ presented by Great Bear on February 18, 2011, and includes certain assumptions made by Great Bear.
- We assume the development will qualify for the 15% base rate under HB 110 for the first seven years of production.

Figure 1 illustrates the impact on state revenues for the first fifteen years of production of the Great Bear type development at four different flat oil prices (\$60, \$80, \$100 and \$120 per barrel) under HB110. The lines in the chart represent the total annual revenue to the state each year, net of credits, under each price scenario.

Over the 15-year period specified, the cumulative state revenues (including production tax after credits, royalty, state corporate income tax, and property tax) from such a field under these assumptions would be between zero (at \$60 oil) and \$28 billion (at \$120 oil). Note that these amounts understate the total benefit to the state, as there will also be significant production and revenue beyond the initial 15-year development period. Also, the state will benefit in a broader sense from increased TAPS throughput and jobs.

Figure 1

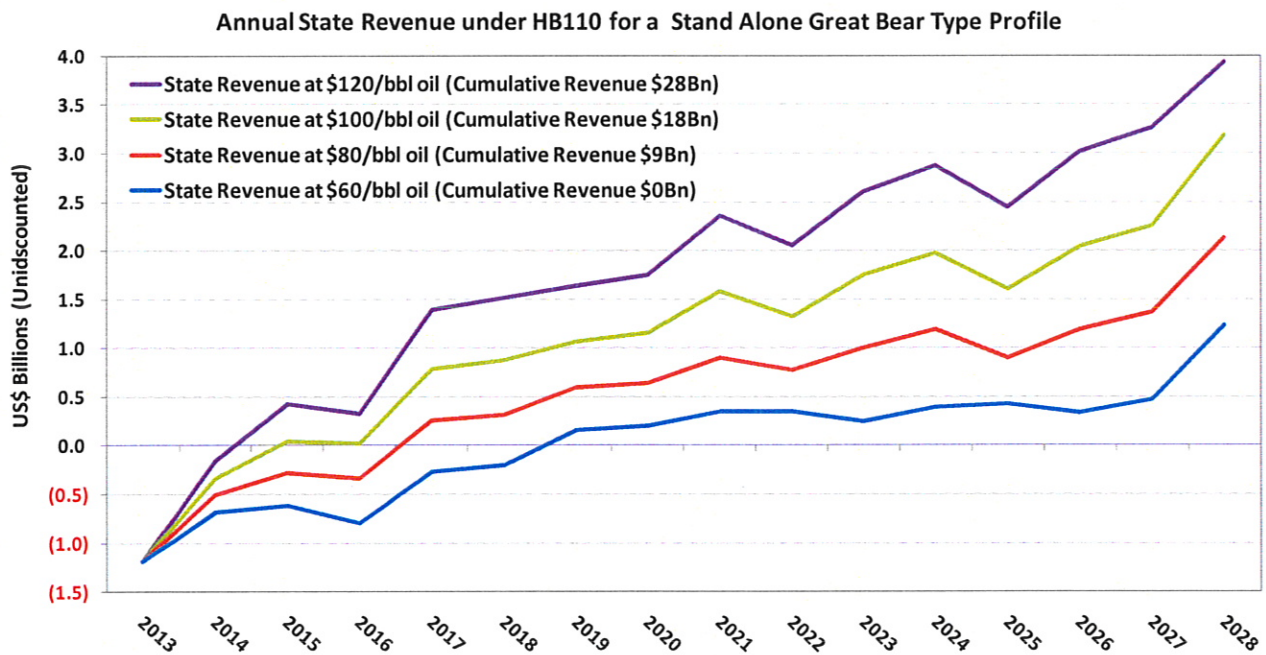
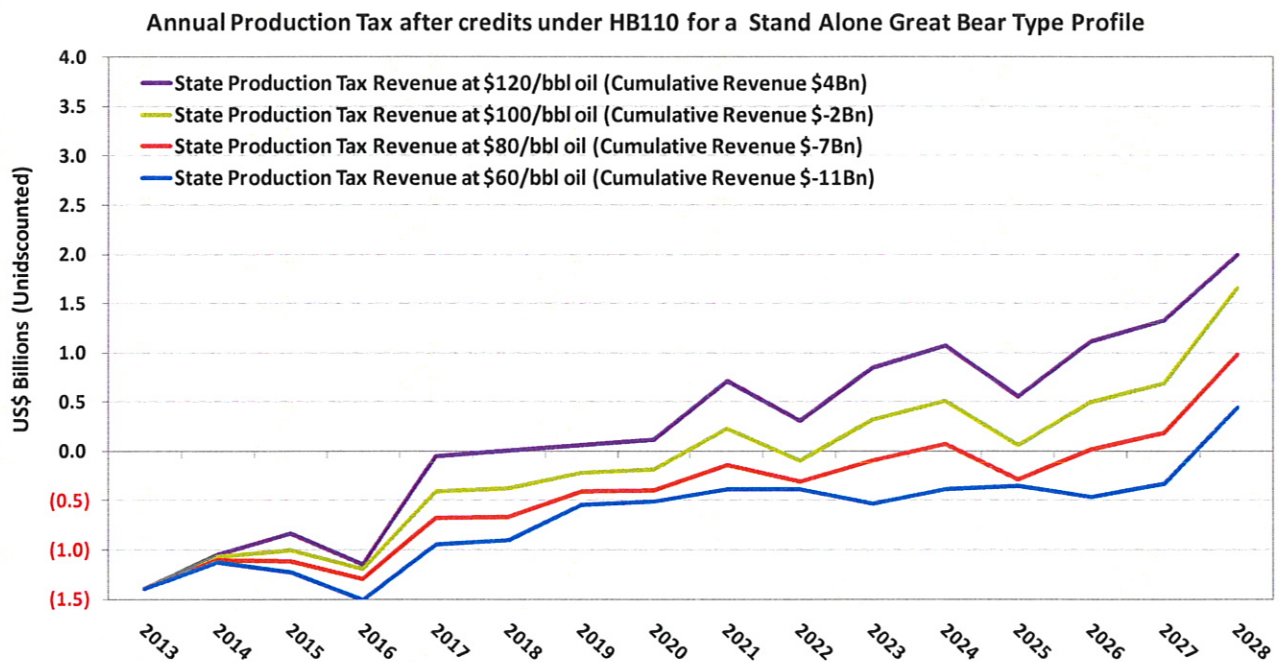


Figure 2 illustrates the impact on production tax only (net of credits) for the first fifteen years of production of Great Bear type development. The lines in the chart represent the annual production tax revenue (net of credits) under each price scenario. Due to the size of the development and the significant level of capital spending required (over \$2 billion per year for all 15 years shown), production tax after credits is negative for the first several years of production under all price scenarios.

Over the 15-year period, the cumulative production tax revenues (after credits) from such a field under these assumptions would be between -\$11 billion (at \$60 oil) and \$4 billion (at \$120 oil). These amounts should not be considered in isolation because they do not consider other state revenues such as royalty, corporate income tax, and property tax. Also, beyond the initial 15-year development period, production tax will not be offset by such high capital costs and credits. Again, the state would benefit in a broader sense from increased TAPS throughput and jobs.

Figure 2



We hope our response fully answer your questions. Note that the analysis presented here is one of many potential scenarios for new production that could be encouraged by HB 110, and does not necessarily represent a Department of Revenue forecast or expectation.

Sincerely,

Bruce Tangeman
Deputy Commissioner