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

March 27, 2013

The Honorable Lyman Hoffman
Alaska State Senator
State Capitol, Room 11
Juneau, AK 99811

Dear Senator Hoffman:

Dear Senator Hoffman:

I am writing in response to the questions that you posed to the Department of Revenue in an email to Deputy Commissioner Tangeman dated March 18, 2013. Your email requested modeling on several production tax proposals at various oil prices and production scenarios. Your questions are printed below, followed by our responses to your questions.

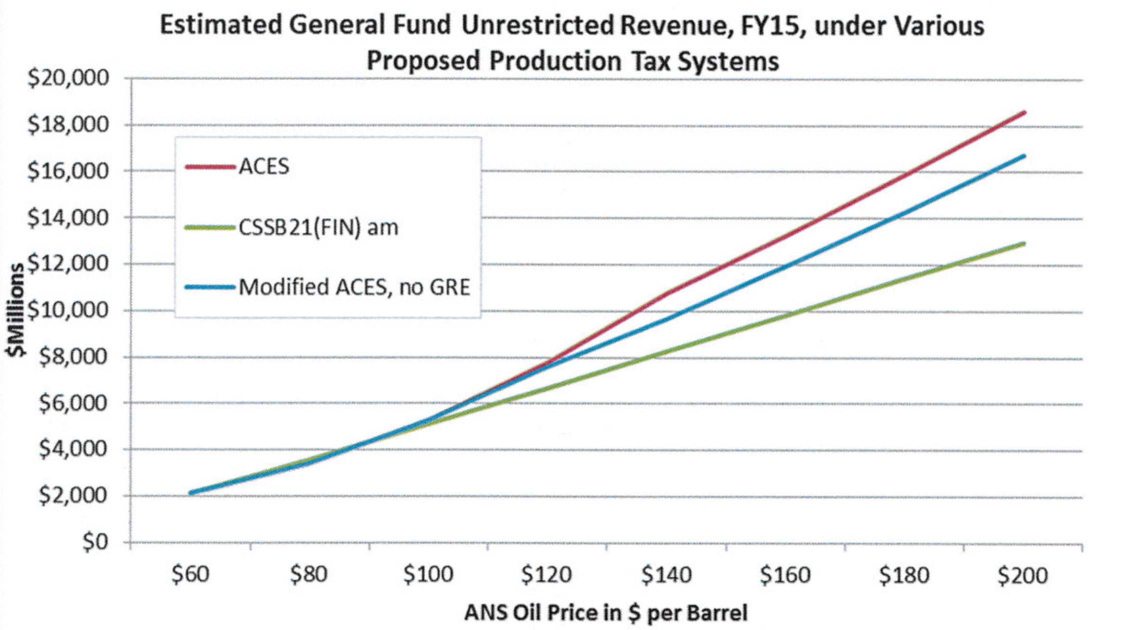
> *Senator Hoffman would like some modeling done on 3 scenario's:*
>
> *1 The S. Finances 35-5*
> *2 The current bill 35/33-5*
> *3 Aces .4 progressivity to 40% net. Above 40% go to .1 with a max at 50%*
>
> *He'd like to see all models/ graphs started at $60 bbl in $20 intervals up to $200.*
>
> *He would also like to see these all done at 20% above the current Revenue Forecast production level.*

Following are two analysis comparing ACES, CSSB21(FIN) am, and "Modified ACES" with 0.4% progressivity up to a 40% tax rate, then 0.1% progressivity up to a 50% maximum rate. As clarified by email on March 26, we have excluded the 33% tax rate from our analysis. The first analysis compares estimated General Fund Unrestricted Revenue under each system in FY 2015 at a range of prices. The second analysis compares government take under each system in a typical year at a range of prices.

For this analysis, you also requested to see the impacts of production 20% higher than forecast in the Fall 2012 revenue forecast. DOR maintains it is not conducive or realistic to arbitrarily adjust production by a flat percentage, and therefore we have not undertaken this analysis at this time.

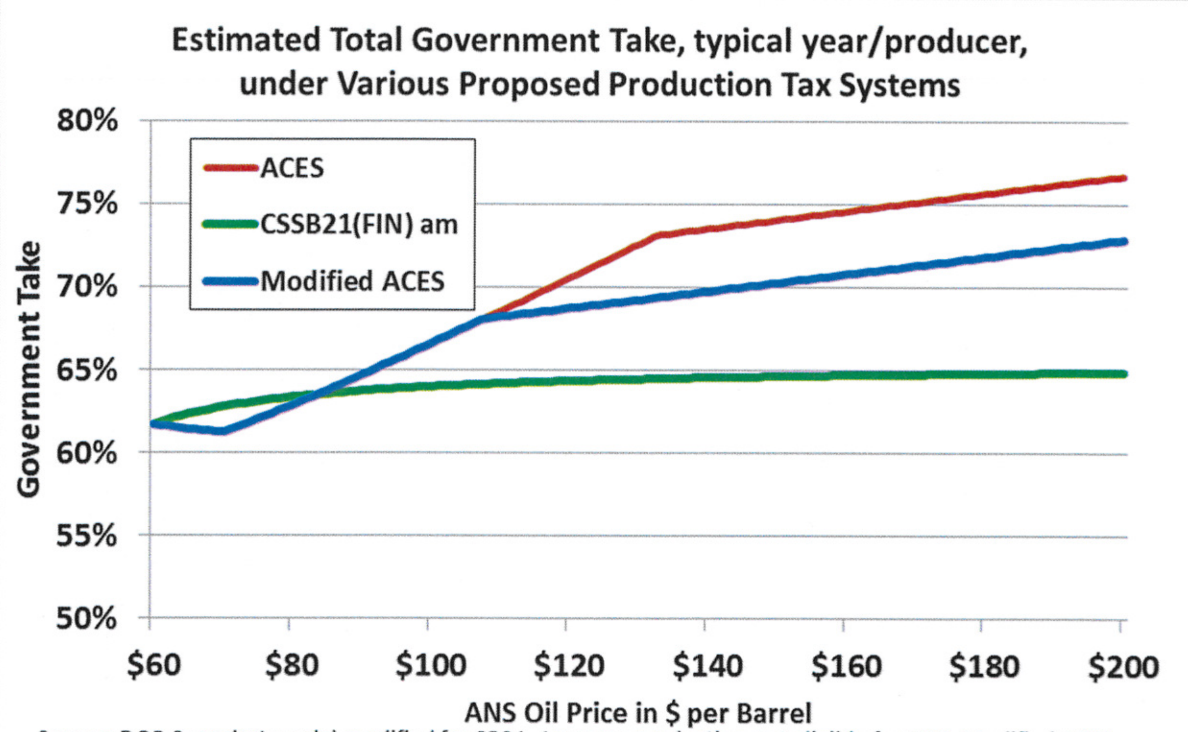
As an alternative, we have developed several additional production illustrative scenarios for use in DOR fiscal notes and presentations this year. We would be happy to work with you to show the impacts of these scenarios on the herein discussed complement of fiscal systems if that would be helpful.

Figure 1: Provided below are estimated general fund unrestricted revenues under each of the three systems listed, at oil prices of \$60 to \$200 per barrel in intervals, using our Fall 2012 production forecast for FY 2015.



Source: Fall 2012 Forecast model modified for SB21. Production tax for CSSB21(FIN) includes median range of GRE. Modified ACES as requested with 0.4% progressivity to total tax rate of 40%, then to 0.1%progressivity with a maximum total tax rate of 50%.

Figure 2: Provided below are estimated total government tax percentages under each of the three systems listed, at oil prices of $60 to $200 per barrel in intervals, assumptions a typical year and producer with $10 / barrel transportation costs and $30 / barrel lease expenditures.



Source: DOR Snapshot model modified for SB21. Assumes production not eligible for GRE. Modified ACES as requested with 0.4% progressivity to total tax rate of 40%, then to 0.1% progressivity with a maximum tax rate of 50%.

We hope that our answers have addressed your questions. Please do not hesitate to contact me if you have further questions.

Sincerely,

Bruce Tangeman

Bruce Tangeman
Deputy Commissioner