THE STATE of ALASKA
GOVERNOR BILL WALKER

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March 26, 2016

The Honorable Mark Neuman and the Honorable Steve Thompson
Alaska State Representatives
Co-Chairs, House Resources Committee
State Capitol Rooms 505 and 515
Juneau AK 99801

Dear Co-Chairs Neuman and Thompson,

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue regarding the preliminary Spring 2016 revenue forecast during our presentation to the House Finance Committee on March 22, 2016. Please see questions in italics and our responses immediately below the questions.

1. *At what price do GVR-eligible fields begin to pay production tax?*

   The attached analysis prepared for Representative Gara and dated February 2, 2016 estimated that, for an illustrative GVR-eligible field, there is not a production tax liability until the oil price exceeds about $72 per barrel. See responses to questions 4 and 7 in the attached analysis for details of this estimate. The exact price will vary depending on specific economics for different fields and producers. At prices below $72 per barrel, companies may still contribute other revenue to the state such as royalty, property tax, and corporate income tax.

2. *Does the revenue forecast include any additional significant investments in the Trans-Alaska Pipeline System (TAPS) to allow it to operate at lower production levels as indicated in the forecast?*

   Yes, our TAPS tariff model does incorporate additional capital and operating expenses associated with operating the pipeline at lower production levels, down to about 300,000 barrels per day. Incorporating these additional expenses into the cost of service model, combined with lower throughput, results in the estimated weighted average TAPS tariff in the preliminary Spring 2016 forecast increasing from $6.11 per barrel in FY 2015 to $13.02 per barrel in FY 2026.

   Currently, the TAPS operator has not defined what additional capital and operating expenditures, or technical changes, would be needed to operate at levels below 300,000 barrels per day. As such, our TAPS tariff model does not at this time incorporate additional expenses associated with operating the pipeline below 300,000 barrels per day.

3. *What is the current balance of the Oil & Gas Tax Credit Fund established under AS 43.55.028?*

   As of March 23, 2016, the balance of the Oil & Gas Tax Credit Fund is approximately $28 million. This amount represents remaining funds for FY 2016, after $500 million was transferred at the beginning of the fiscal year. This remaining balance was incorporated into the estimate of credits eligible for refund in FY 2017, as presented in the preliminary Spring 2016 forecast.

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

Sincerely,

Randall Hoffbeck
Commissioner

Attachments:

Director Alper to Representative Gara 2/2/16