Summary
February 13, 2014

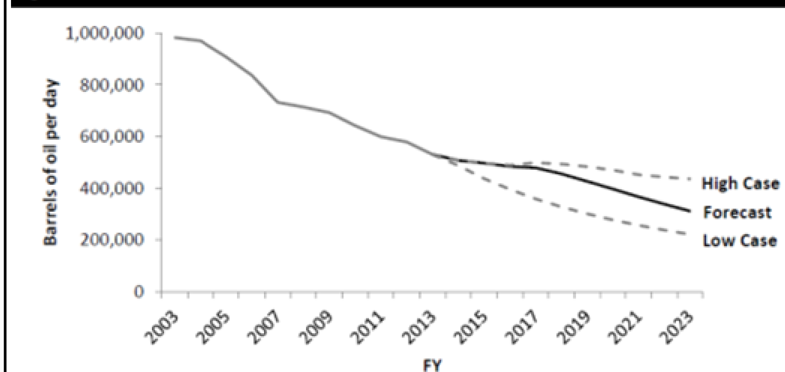
Brief on Alaska Department of Revenue Production Forecast

February 2014 Department of Revenue (DOR)

DOR has been asked what the "un-risked" or "old methodology" curve might look like. The "un-risked" forecast appears in Figure 4-F in the fall 2013 Revenue Sources Book as the "high case" on page 45.

The production forecast is just one piece of the revenue forecast. As such, the production forecast is an estimate of production based on a conservative assessment of what is happening today and what we know today. It is neither a prediction nor a foretelling of Alaska's future. It does not include potential production from projects initiated after the development of the forecast in August of 2013. Nor does it include potential production from current or future exploration activities. It also does not include production from technological improvements allowing for the enhanced recovery of conventional fields or development of unconventional (heavy/shale) oil resources.

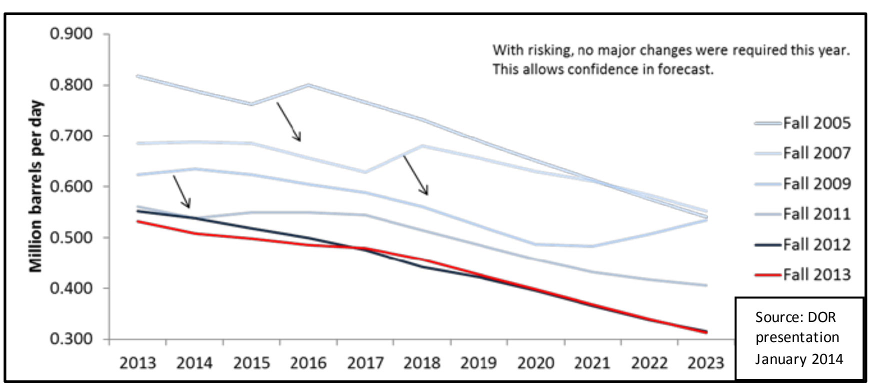
Figure 4-F: ANS Oil Production Forecast



Source: Fall 2013 Revenue Sources Book, p. 45

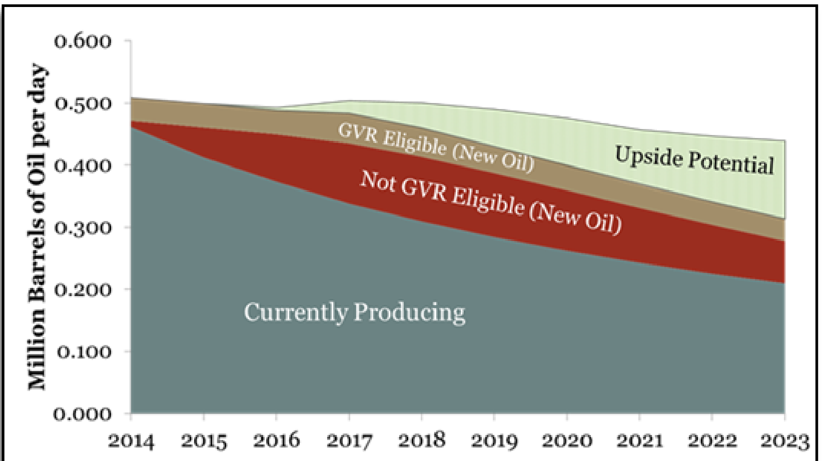
Since the fall 2012 forecast, the Department of Revenue has employed a production forecast methodology that accounts for uncertainty in future production. This change was undertaken as part of a constant effort to improve the quality of work that is used by the public and its representatives to make decisions.

A review of previous forecasts revealed a pattern of consistent overestimation in projections of future oil production. The department determined that a primary driver of these errors was that projects that were expected to occur were included in the forecast at their full planned value. In the best case, all projects would come in on-time, on-budget, and on-target. In reality, projects in the early stages of evaluation and development require some level of capital investment and the use of specialized equipment. Therefore, there is potential for these projects to be delayed or abandoned. Since no production data exists,



there is also uncertainty around what the actual performance will be should a specific project progress. The department now includes only a portion of the full potential production commensurate with the level of uncertainty that surrounds it.

While the "high case" includes some new development already in progress, it does not incorporate potential developments that are in very early stages of company assessment, regardless of whether they have been announced the media. The department cannot provide any information regarding specific projects due to taxpayer confidentiality laws. Prospects are added incrementally in the forecast when the resources have been discovered, evaluated, tested, are actively being pursued by a company, and meet our prudent thresholds of likelihood.



Source: DOR presentation to legislative committees January 2014

The "high case" can also be viewed as a realistic "upside potential" of projects already in the forecast. In addition, there is also significant potential for production to exceed even this "high case." Examples of potential additional production that is not currently included in the forecast are discoveries from current exploration work within the Central North Slope, further incremental oil recovery efforts within legacy fields, heavy oil development, and shale oil. Furthermore, there is substantial undiscovered potential in the Arctic National Wildlife (ANWR) 1002 area, the federal Outer Continental Shelf (OCS), and National Petroleum Reserve- Alaska (NPR-A).

Prepared by: The Alaska Department of Revenue
P.O. Box 110400
Juneau, AK 99811
(907) 465-2300

www.dor.alaska.gov