

ALASKA DEPARTMENT OF REVENUE

News Release

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Oil revenue forecast: prices high, production declines

JUNEAU – Revenue Commissioner Bill Corbus today released the fall 2005 revenue forecast confirming high prices being paid for Alaska North Slope crude oil but recognizing a decline in ANS production that has continued since 1988.

“Oil revenues continue to dominate unrestricted revenues and are expected to provide 85 percent of unrestricted revenues through FY '08 and 75 percent through FY '11,” Corbus said.

The department forecasts ANS crude oil production at 865,000 barrels per day for FY '06, a 5.6 percent decrease from FY '05 when crude oil production averaged 917,000 barrels per day. It also projects a continuing decline in production over the next decade as volumes fall to 800,000 barrels per day in 2016, an average annual decline of 0.75 percent per year from FY '06 to FY '16.

Crude oil prices on the West Coast are projected at \$57.30 per barrel for FY '06 and reflect a 32 percent increase over the FY '05 level of \$43.43 per barrel. The department forecasts ANS crude oil prices will decline to \$40.95 per barrel in FY '07. The department forecasts prices of \$25.50 per barrel beyond 2008.

The forecast updates production volume details including decreases due to unplanned disruptions, maintenance or repair work that may reduce crude oil flow. “The forecast also includes an extensive discussion of natural gas supply and demand,” the commissioner said.

“Taken together,” Corbus added, “these factors indicate that the state of Alaska will receive about \$4 billion from crude oil production activities in FY '06. This includes royalties, production taxes, property taxes and corporate income taxes.”

The state general fund will receive approximately \$3.4 billion of those revenues or about 89 percent of Alaska general fund revenues. About \$600 million will go to the Alaska Permanent Fund.

“The revenue forecast provides the governor, legislators and the public with a timely summary of state revenues and a forecast of future revenues,” Corbus said. “However, there are risks in forecasting.”

“In calendar year 2005 crude oil prices exhibited the greatest volatility since 1990,” the commissioner added. “It is not inconceivable that prices could decline faster than projected.”

“Beginning with this forecast the department will show expected Henry Hub natural gas prices,” said Dr. Michael Williams, chief economist for the Department of Revenue. “However,” Williams added, “this forecast does not include any revenue from possible North Slope natural gas sales.”

The entire 100+ page Revenue Sources Book can be found on the Department of Revenue Tax Division web site at: www.tax.state.ak.us

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