

ALASKA DEPARTMENT OF REVENUE

News Release

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William A. Corbus, Commissioner

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Oil prices up, production decline continues

JUNEAU – Department of Revenue Commissioner Bill Corbus today released a price and production preview that confirms continued high prices for Alaska North Slope crude oil but recognizes a continuing decline in ANS production.

“Governor Frank Murkowski is absolutely right to put a high priority on the administration’s proposed Petroleum Production Tax (PPT),” Corbus said. “High near-term ANS prices help push unrestricted general fund revenues to more than \$3 billion for Fiscal 2006 and 2007, but oil prices are very volatile and “what goes up can also come down.”

Revenue officials project crude oil prices on the West Coast at \$58.72 per barrel for FY '06, reflecting a 35 percent increase over the FY '05 level of \$43.43 per barrel. The department forecasts ANS crude oil prices will decline to \$53.60 per barrel in FY '07 and to \$46.90 per barrel in FY '08.

The department’s long-term forecast for Fiscal '09 and beyond is \$25.50 per barrel.

Corbus noted that Henry Hub natural gas prices are also at historical highs. The department expects that gas to average \$9.73 per million BTU in FY '06, a 57 percent increase from \$6.18 per million BTU in Fiscal '05. Natural gas prices are also projected to dip by \$2 per million BTU, to \$7.53 per million BTU in FY '07 and to \$6.89 per million BTU in Fiscal '08.

“The North Slope production decline has slowed,” Corbus said, “and new smaller fields are coming on-line, but we continue to lower crude oil production projections.”

Forecasted FY '06 North Slope production of 853,000 barrels per day is down 6.9 percent from the Fiscal '05 average of 917,000 barrels per day. FY '06 production is down over 54 percent from the peak output of 2 million barrels per day achieved in Fiscal '88.

The commissioner said the department anticipates that production will continue to decline over the next decade with volumes falling to 772,000 barrels per day in 2016, an average annual decline of 1.5 percent per year from FY '06 to FY '16.

“A combination of price and production factors indicate that the state will receive unrestricted general fund revenues of about \$4 billion from crude oil production activities in FY '06 and \$3.4 billion in FY '07,. This includes royalties, production taxes, property taxes and corporate income taxes,” Corbus said.

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“Petroleum revenues will account for 89 percent of Alaska general fund revenues through Fiscal '08 and 70 percent through FY 2013,” the commissioner added. “The revenue forecast provides the governor, legislators and the public with a timely summary of state revenues and a forecast of future revenues.”

“However, it is realistic to remember,” Corbus cautioned, that there are always risks in forecasting, in fact, the pipeline leak that occurred on March 3 is reducing production volumes by 90,000 barrels per day, and that is not factored into the forecast.”

The Spring 2006 Revenue Sources Book will be published in full and will be available in early April. It will be available on the Department of Revenue Tax Division web site at www.tax.state.ak.us

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