

TITLE: Preliminary Spring 2008 Forecast

PREPARED BY: Department of Revenue, Tax Division

PURPOSE: To provide the Department's preliminary revenue forecast for FY 2008 and FY 2009
The final Spring 2008 forecast will be released April 11, 2008.

DATA SOURCES: Department of Revenue Forecast
Treasury Division
Office of Management and Budget
Permanent Fund Corporation
Alaska State Accounting System

ASSUMPTIONS:

The forecast assumes the tax laws in place as of January 1, 2008.

Production forecast volumes are in millions of barrels per day.

Forecasted WTI crude oil prices are obtained from the February 26, 2008 forecasting session.

The forecasted differential between ANS and WTI is \$2.50 per barrel for FY 2008 and FY 2009.

For FY 2008, we use nine months of actual prices and three months of forecasted prices which leads to an average price of \$84.18 per barrel. For FY 2009, we use the price forecast from the February 26 forecasting session.

For FY 2008, we use seven months of actual volumes, one month of estimated volumes from unofficial data, and four months of forecasted volumes of 0.724 million barrels per day. Together, these lead to an annual average of 0.720 million barrels per day for the fiscal year.

For FY 2009, we forecast production volume of 0.678 million barrels per day.

Other assumptions include the Trans Alaska Pipeline System tariff, transportation costs required to estimate value at the wellhead, refinery margins and the inflation rate for FY 2009.

This forecast does not include potential revenue to the state from TAPS tariff refunds to shippers as ruled by the Alaska Supreme Court in 2007.

Key data used to estimate the production tax are detailed in the table "Basic Data Used for Oil & Gas Production Taxes."

DISCLAIMER:

The Department of Revenue uses an engineering consultant in conjunction with assistance from the Department of Natural Resources and the Alaska Oil & Gas Conservation Commission to derive its biannual production forecast.

The department may adjust its production forecast as it continually examines reservoir performance, the pace and scope of new field development, and re-evaluates downtime of fields due to pipeline closures on the North Slope.

All inputs may be revised before the final forecast.

Figure 2-2. Total State Government Revenue by Major Component, FY 2007 and Forecasted FY 2008-2009
\$ Million

	History FY 2007	Forecast FY 2008	Forecast FY 2009
OIL REVENUE			
<u>Unrestricted</u>			
Property Tax	65.6	60.4	59.1
Corporate Petroleum Tax	594.4	607.6	692.8
Production Tax	2,208.4	4,853.3	3,949.6
Royalties (including Bonuses, Rents & Interest)	<u>1,613.0</u>	<u>2,163.4</u>	<u>1,989.0</u>
Subtotal	4,481.4	7,684.7	6,690.5
<u>Restricted</u>			
Royalties to Perm Fund & School Fund (includes Bonuses & Rents)	545.7	738.1	680.3
Tax Settlements to CBRF	101.9	434.0	20.0
NPR-A Royalties, Rents and Bonuses	<u>12.8</u>	<u>5.2</u>	<u>5.1</u>
Subtotal	660.4	1177.3	705.4
Subtotal Oil Revenue	5,141.8	8,862.0	7,395.9
OTHER REVENUE (EXCEPT FEDERAL & INVESTMENT)			
<u>Unrestricted</u>			
Taxes	437.3	413.9	385.2
Charges for Services	28.5	28.6	28.6
Fines and Forfeitures	7.8	8.6	8.6
Licenses and Permits	42.0	41.6	40.9
Rents and Royalties	11.8	16.4	10.1
Other	<u>9.7</u>	<u>32.7</u>	<u>19.3</u>
Subtotal	537.1	541.8	492.7
<u>Restricted</u>			
Taxes	105.9	135.4	137.9
Charges for Services	228.2	254.2	280.3
Fines and Forfeitures	22.7	33.7	33.0
Licenses and Permits	35.6	38.6	38.3
Rents and Royalties	5.8	5.3	5.3
Other	<u>286.7</u>	<u>122.5</u>	<u>124.0</u>
Subtotal	684.9	589.7	618.8
Subtotal Other Revenue (Except Federal & Investment)	1,222.0	1,131.5	1,111.5
FEDERAL REVENUE			
<u>Restricted</u>	<u>1,971.9</u>	<u>2,520.4</u>	<u>2,605.4</u>
Subtotal Federal Revenue	1,971.9	2,520.4	2,605.4
INVESTMENT REVENUE			
<u>Unrestricted</u>			
Investments	137.1	268.0	89.6
Interest Paid by Others	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>
Subtotal	140.1	271.0	92.6
<u>Restricted</u>			
Investments	44.7	56.3	14.0
Constitutional Budget Reserve Fund	180.7	225.5	320.2
Other Treasury Managed Funds	41.2	2.2	4.3
Alaska Permanent Fund (GASB) (1)	<u>3,471.2</u>	<u>2,574.3</u>	<u>2,569.3</u>
Subtotal	3,737.8	2,858.3	2,907.8
Subtotal Investment	3,877.9	3,129.3	3,000.4
Grand Total	12,213.6	15,643.2	14,113.2

(1) Both realized and unrealized gains and losses are included per GASB 34 as interpreted by the Finance Division of the Department of Administration in its Comprehensive Annual Financial Report.

Figure 2-4. Total State Government Revenue, FY 2007 and Forecasted FY 2008-2009
\$ Million

Revenue Source	History	Forecast	Forecast
	FY 2007	FY 2008	FY 2009
<u>Unrestricted</u>			
Oil Revenue	4,481.4	7,684.7	6,690.5
Non-Oil Revenue	537.1	541.8	492.7
Investment Earnings	<u>140.1</u>	<u>271.0</u>	<u>92.6</u>
Subtotal	5,158.6	8,497.5	7,275.8
<u>Restricted</u>			
Oil Revenue	660.4	1,177.3	705.4
Non-Oil Revenue	684.9	589.7	618.8
Investment Earnings	3,737.8	2,858.3	2,907.8
Federal Revenue	<u>1,971.9</u>	<u>2,520.4</u>	<u>2,605.4</u>
Subtotal	7,055.0	7,145.7	6,837.4
Grand Total	12,213.6	15,643.2	14,113.2

Figure 2-8. Alaska Crude Oil and NGL Production, FY 2007 & Forecasted FY 2008-2009
Million barrels per day

	History FY 2007	Forecast FY 2008	Forecast FY 2009
<u>Alaska North Slope</u>			
Prudhoe Bay (1)	0.274	0.291	0.282
Aurora	0.011	0.009	0.008
Borealis	0.016	0.010	0.012
Midnight Sun	0.004	0.002	0.002
Orion	0.009	0.011	0.011
Polaris	0.003	0.003	0.006
Lisburne	0.012	0.011	0.011
Niakuk (2)	0.005	0.005	0.004
Point McIntyre	0.018	0.028	0.026
Raven	0.002	0.001	0.001
Kuparuk	0.122	0.112	0.101
Meltwater	0.003	0.003	0.002
Tabasco	0.004	0.003	0.003
Tarn	0.018	0.016	0.015
West Sak	0.019	0.016	0.016
Milne Point (3)	0.022	0.022	0.019
Schrader Bluff	0.011	0.013	0.012
Endicott (4)	0.016	0.014	0.014
Badami	0.001	0.000	0.000
Alpine (5)	0.105	0.081	0.069
Fiord (6)	0.009	0.018	0.020
Nanuq (7)	0.009	0.017	0.008
Ooguruk	0.000	0.000	0.009
Northstar	<u>0.046</u>	<u>0.035</u>	<u>0.028</u>
Total Alaska North Slope	0.740	0.720	0.678
Change from prior period	(0.105)	(0.020)	(0.041)
% change from prior period	-12.5%	-2.7%	-5.8%
<u>Cook Inlet</u>			
	0.018	0.014	0.013
Change from prior period	(0.000)	(0.004)	(0.001)
% change from prior period	-1.3%	-21.5%	-7.1%
<u>Total Alaska</u>			
	0.758	0.734	0.692
Change from prior period	(0.106)	(0.024)	(0.042)
% change from prior period	-12.2%	-3.1%	-5.8%

- (1) Includes NGLs
(2) Includes West Niakuk
(3) Includes Sag River
(4) Includes Eider and Sag Delta
(5) Includes Qannik
(6) Includes Fiord-Kuparuk
(7) Includes Nanuq-Kuparuk

- (8) Percent change calculation may vary from calculation using production volumes due to rounding.

Basic Data Used for Oil & Gas Production Taxes

	FY 2007 History	FY 2008 Forecast	FY 2009 Forecast
State Production Tax Revenue			
Millions of Dollars	2,208.4	4,853.3	3,949.6
Key Assumptions			
Price of ANS WC in dollars per barrel	61.63	84.18	83.04
Transit Costs & Other in dollars per barrel	5.96	6.26	5.38
ANS Wellhead in dollars per barrel	55.67	77.92	77.66
Production in barrels per day	739,702	719,766	678,300
Royalty barrels per day	92,463	89,971	84,788
Taxable barrels per day	647,239	629,795	593,513
Lease Expenditures in Millions of Dollars			
Operating Expenditures [OPEX]	2,081	2,148	2,304
Capital Expenditures [CAPEX]	1,578	2,130	2,304
Total Expenditures	3,659	4,278	4,608
Implied Data			
Credits from CAPEX in Millions of dollars	315.6	208.0	433.6
Lease Expenditures per barrel of oil produced			
OPEX	7.71	8.18	9.31
CAPEX	5.84	8.11	9.31
Total Expenditures	13.55	16.28	18.61
Average Production Value per Barrel [Pre-Tax]	42.12	61.64	59.04
Production Tax Collected per Taxable Barrel	9.35	21.11	18.23

Notes

- 1 The information in the table above reflects basic North Slope data assumptions, and does not capture all the detail inherent in the accurate calculation of production tax liabilities.
 - 2 Costs for FY 2007 are unaudited. Cost data reported June 2006 through December 2006 are actual while January 2007 through May 2007 are estimates.
 - 3 Costs for FY 2008 and FY 2009 are estimated after having reviewed the annual filings from oil companies and incorporating adjustments based on our assessment of future cost increases.
 - 4 CAPEX credits are spread out over two years as specified in HB 2001. In addition, the assumptions for the transitional credits and the \$12 million credits for small Alaska producers are not included in the table.
- The average production value per barrel presented in this table would differ from estimates the oil companies would prepare for tax liability purposes for several reasons: [a] the data in the chart are North Slope wide averages; [b] different companies have different cost structures and operate in different fields; [c] a company computing this average for tax liability purposes would only include the barrels it gets to keep, i.e., the company would exclude the barrels it pays in royalty.
- 6 FY 2008 ANS West Coast price forecast includes nine months of actual prices, which raise the forecast price from \$82.51 to \$84.18.