

**Questions for the Alaska Department of Revenue
Presented by the Legislative Budget and Audit Committee
October 16, 2007**

Initial Policy Question on Heavy Oil

1. What defines legacy fields? The Administration suggested that legacy fields will have a minimum or tax floor. Under the proposed definition, will fields not yet in development become legacy fields some point in the future - for example when their owners have recaptured their investments many times over?
2. How will the Administration's plan deal with investment in heavy oil fields in times of low oil prices? In other words, how does a gross floor fit with encouraging expensive heavy oil production? How will heavy oil produced from legacy fields be dealt with?
3. How does the Administration's plan reconcile encouraging management of the risks of relatively new and untested asset facilities required for heavy oil development with the notion that any costs associated with State defined "improper maintenance" will not be deductible?

HB 3001 Fiscal Note

4. Does the Administration have reconciliation between the HB 3001 fiscal note and FY 2006 and 2007 actuals? (Has a general reconciliation been performed between the forecasting models and the specific models used for the fiscal notes? How do these compare with the differences between projections and actuals from prior years?) Please give us copies of the underlying HB 3001 model and data, and, if different, the current model used for ACE's projections.

The Department of Revenue recently published the PPT Implementation Status Report that stated "revenues are falling far short of what was expected when PPT was passed."

The PPT Implementation Status Report further states: "In FY 2008, based on forecasted price and production levels, the PPT is expected to generate about \$250 million over that which would have been generated under the ELF system. However, this is more than \$800 million less than what was predicted in the PPT fiscal note."

In the PPT fiscal note the DOR forecast revenue for FY 2008 was \$1.485 billion (approximately \$700 million more than the ELF status quo). Based on the PPT estimated monthly payments made to date, the PPT will bring in over \$2 billion this year. If the trend continues, a like amount will be paid in 2008. That is over a half billion dollars *more* than was projected in the FY 2003 fiscal note.

LB&A Questions to DOR

5. Please reconcile the projections shared with the public in the PPT Implementation Status Report with the actual payments being made by the producers. The payments made to date this year are:

January	\$125,314,170.38
February	\$126,442,395.30
March	\$140,441,189.71
April	\$158,210,793.88
May	\$193,260,239.50
June	\$184,572,810.28
July	\$213,518,760.18
August	\$166,661,938.33

6. On the topic of forward looking projects, including FY 2008, what are current forward-looking DOR projections based on? Forward looking data from major taxpayers? Is the DOR getting this data voluntarily from taxpayers and should those same kinds of disclosures be made mandatory? Does the State have enough data to tell yet if forward looking projections from taxpayers are a good way of estimating forward costs? Are there better ways, or even if taxpayers' estimates are not a very good way, are they the best source we have?

7. In the September 18, 2007, presentation to House members, the DOR stated that it is trying to revise its models to incorporate a relationship between prices and costs. What do we know about the relationship between oil price and oilfield costs including the all important question of time lag and "stickiness"?

Higher Reported Costs

8. Are taxpayers filing aggressive returns which overstate or mischaracterize costs?

9. Does the Administration have any preliminary indications that taxpayers are filing aggressive returns which under current law (1) overstate deductions or credits or (2) mischaracterize operating costs as capital costs? Are there "unusual" or unexpected taxpayers who appear to be carved out of other taxpayers either for the specific ability to take advantage of the ability to use the \$12 million per producer filing under AS 43.55.024 (c) or that incidentally qualify for that credit?

10. Are the hoped for effects of the legislation occurring on a time scale and magnitude that was not anticipated?

11. We would like a break down of capital costs for the period 2001 through the most recent information (including those filed for purposes of the AS 43.55.023 TIE credits).

LB&A Questions to DOR

Please supplement this with any information the State may have received voluntarily. Please lay out any applications under the .025 Exploration Credit program since its inception. Please have the DNR provide a review of wells drilled in the state in that period. It would be helpful to also add seismic shot during the same time period with a breakdown by area, i.e. offshore state land, offshore federal land, onshore state land, NPRA, inside unit boundaries and outside unit boundaries. **[This subject is addressed again under the heading of “Exploration Credits” where two more questions are posed.]**

12. Have costs to do the same work actually increased?
13. What data does the State have that shows whether North Slope cost increases were more or less than cost inflation found elsewhere in the world wide oil patch?
14. Does the State have any data concerning “gold-plating”? Does the state have Authorization for Expenditures (AFEs) or other data from the TIE period that can be compared with AFEs or other data from the post July 2006 period and, if so, please present that information?
15. Does the State have any data on the relative costs of new opportunities compared with the relative costs of older opportunities? Does the state have any data on the relative costs of opportunities foregone in the past but undertaken recently?
16. Can the costs of corrosion and other costs that would be disallowed under SB 80 -- had it been in effect -- be identified or broken out from other costs submitted?

Modeling Data

At the September 4, 2007, press conference four projects were presented.

17. Please provide details, costs, timing, revenue, and other critical assumptions and modeling on each of these projects and comparisons.
18. Are these figures over the life of the field/project?
19. Were other state and federal taxes computed before measuring the producer’s share?
20. Were the field/project figures based on producers that would have had access to TIE credits or to new investors?
21. Please provide a copy of the model or models that produced the revenue alternatives presented September 4, 2007, including work for years beyond FY 2008.

LB&A Questions to DOR

22. Does the state have a North Slope model on a field by field basis? Can the state break down the data it has on a field by field basis? Does the state have information on an AFE or other project basis?

23. Please provide any additional models or modeling where “the numbers speak for themselves” if what they say is critical to the proposals, and that modeling has not been asked for directly elsewhere.

Government Take Metrics

24. Please make available the data and reports from experts and consultants behind the international comparison material presented at the September 4 and 18, 2007, presentations.

25. If not detailed in those reports, please provide details and assumptions and modeling behind the government take metrics. Are these for a given year, or at a single reference price, etc.? Who are our peers? Are these full cycle and do they include gas or are they purely oil?

Exploration Incentives

26. Please provide a history of all requests for exploration credits and which were denied and which were granted for the following two exploration incentive programs:

AS 38.05.180(i)

AS 41.09.010 (1994-2007)

Tradeable Credits

27. Please provide specific information on the rate at which credits are being traded. For instance, are they trading for less than 50 cents on the dollar, less than 75 cents on the dollars, and are nay trading in the 90 cents plus on the dollar range?

Total Petroleum Revenues

28. In order to have the full oil and gas industry payments to the State we are requesting the numbers for fall 2007 in the following categories:

- a. Corporate Petroleum Tax
- b. Petroleum Property Tax
- c. Oil and Gas Royalties
- d. Bonuses, Rents and Interest
- e. Deposits to the CBRF