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# Production exceeds Revenue forecast

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North Slope and Cook Inlet crude oil production estimates have been revised upward, according to an updated production and revenue forecast released by the state Department of Revenue on April 7.

“Based on actual production data we have seen an increase of 13,600 barrels per day of North Slope oil in the current year compared to what we had forecast just five months ago,” state Revenue Commissioner Angela Rodell said in a statement issued with the revised forecast.

That increase, plus a slightly higher average oil price now predicted for state fiscal year 2014, which ends June 30, is worth about \$374 million to the treasury in additional income, compared with what was forecast in December.

The additional revenues will mainly have the effect of reducing a projected large deficit for the current fiscal year previously estimated at about \$1.8 billion.

The new estimate is for production to average 521,800 barrels per day, or b/d, for the current state fiscal year. The previous estimate, released in early December, was for production to average 508,200 b/d for the period.

Using the new estimate, North Slope production will decline 1.8 percent from the previous year, an improvement over the historic long-term decline of 6 percent from the North Slope fields. The Revenue Department estimated a 4 percent annual decline in its December forecast, assuming some increase in production activity, but the increased activity has exceeded predictions.

As for the expected oil price, the revised forecast assumes an average price of \$106.61 per barrel for the fiscal year, up from \$105.58 per barrel predicted last December.

Cathy Foerster, chair of the state’s independent oil and gas regulatory commission, verified the increase in North Slope activity.

“Over the past year Prudhoe Bay has seen a 35 percent increase in well work activity and the Kuparuk River field has seen an 18 percent increase. Perhaps the best news is that the Prudhoe Bay and Kuparuk annual (production) declines appear to be slowing. The last time I looked at the rolling 12-month decline numbers Prudhoe was at 2 percent and Kuparuk was at 4 percent, compared to their usual decline of 6 percent,” Foerster said in comments April 7 to the state Senate’s special TAPS Throughput Committee.

Estimates for Cook Inlet oil production were also revised upward to 14,500 barrels per day for the fiscal year compared with 13,500 barrels per day projected in the December forecast, according to the Revenue Department.

The increased North Slope production, which has been measured in actual production tallied through February, or the first eight months of the fiscal year, is mainly a result of higher levels of drilling and major maintenance “workovers” on older producing wells, activity that picked up after the Legislature passed a revision in the state petroleum production tax last year.

Major field operators BP and ConocoPhillips have both hired new drill rigs in the producing fields.

The new estimate assumes some maintenance downtime for production facilities in June, the last month of the fiscal year, which would curtail some production, Rodell said.

If the maintenance takes less time than expected, production rates could remain strong. Production from the Slope has been stronger than expected and if the current trend were to hold, without any production facilities downtime, the average would be about 526,000 b/d, Revenue officials have said.

Rodell cautioned that the spring forecast is an update of the 2013 fall forecast that was assembled when the previous oil production tax, known as ACES, was still in effect. A revision on the tax, passed by the Legislature last year in Senate Bill 21, took effect Jan. 1.

“The coming fall 2014 forecast will be the first under the new tax system and the first budget cycle companies can evaluate projects with tax certainty. I expect to see many questions answered between now and then, hopefully resulting in high enough levels of certainty to begin incorporating new production into our revenue forecast,” Rodell said in the statement.

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