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Governor Sean Parnell
STATE OF ALASKA

April 18, 2012

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault,

Alaska's oil belongs to Alaskans, and oil production drives Alaskan opportunity. Alaskan engineers, contractors, and maintenance personnel earn their livelihoods from oil production; but so – indirectly – do restaurateurs, retailers, working men and women of all trades, and business owners. Oil production also supports the public sector, providing revenue that creates opportunities for schools, public safety, roads, libraries, energy infrastructure, and many other services for Alaskans.

Alaskans are well aware that oil production from the legacy fields is declining. The costs of maintaining a declining field go up, and higher cost barrels of oil get left in the ground if they are not economic to produce. That is the risk – that without meaningful tax change for legacy fields as well as new fields, a larger percentage of Alaskans' resource will remain locked in the ground. We can avoid this risk and ensure a more prosperous future for Alaskans if we are willing to continue working to increase oil production in all of Alaska's fields.

We must take decisive action to ensure that Alaska's petroleum resources are developed sensibly, starting with a tax structure that is designed not to maximize short-term revenues, but rather to ensure Alaska's long-term competitiveness. The Legislature has completed much study, the public is better informed, and the House and Senate now have positions on the table.

I am submitting a piece of legislation that blends the positions of the House and Senate into a comprehensive approach that will bring economic opportunity to Alaskans for generations to come. Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill proposing amendments to Alaska's oil and gas production tax. The bill would provide tax incentives for the oil and gas industry to increase exploration for new sources and greater development of existing fields.

The bill incentivizes new oil and gas production on the North Slope by providing a 30 percent exclusion, based on gross value at the point of production, from the production tax value used to calculate the base rate and the progressivity tax for the first ten years of sustained production from fields that were not, as of January 1, 2008, within a unit or in commercial production. For currently producing North Slope fields, the bill establishes an exclusion of 40 percent of gross value at the point of production from the monthly production tax value used to calculate the progressivity tax. The bill caps progressivity by establishing a 60 percent maximum rate. Finally, the bill would extend tax incentives for well lease expenditures available elsewhere in the state through AS 43.55.023(l) to North Slope activities and would allow producers to apply tax credits in one year. These changes are designed both to encourage development of new, currently undeveloped leases or properties, and from known fields in the state.

These changes to Alaska's oil tax regime would foster new production sources and encourage further development of current sources to stem the decline in North Slope production.

I urge your prompt and favorable action on this measure.

Sincerely,

Sean Parnell

Sean Parnell
Governor

Enclosure