

I am opposed to Senate Bill 21. It doesn't require any specific TAPS throughput increase or investment to qualify for tax breaks. What evidence do we have that lowering tax rates will increase TAPS throughput. To the contrary, from 1996 to 2006, the throughput from Kuparuk decreased at about 7% per year as the tax rate went down from 12% to 1%. If we just look at those data, we would conclude that, since lowering tax rate decreases throughput, we should increase tax rate to increase throughput.

Gov. Parnell has bet that lowering taxes by more than 20% will increase throughput by greater than 20%. This is needed to make up for the loss of tax income to the state due to the tax rate decreasing. Where is the analysis to back this up? I urge the Senate to assess how much extra drilling successes is needed to recoup the losses from reduced tax rates and the likelihood that industry will make the necessary investment.

Obviously, increasing throughput by itself will not benefit the state of Alaska if the net result is a lowering of income to the state from what we are now receiving or would receive under the present tax structure if the throughput rate in the future continues its present decline. There is also the time value of money. If we give up, say, \$10 billion over the next 5 to 10 years because of reduced tax rates, will we get back more than that, say, starting 10 years from now to make up for the near-term loss?

I urge you to keep some progressivity and to not give the producers in the legacy fields tax breaks for any oil produced under the current decline curve. We should only give a tax reduction for oil produced in excess of the projected decline rate.

I am a retired engineering faculty member from the University of Alaska.

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