



House Resources Committee HB 111

Kara Moriarty, President/CEO
February 22, 2017

AOGA members



Guiding Principles to Measure Progress

Production

Investment

Competitiveness

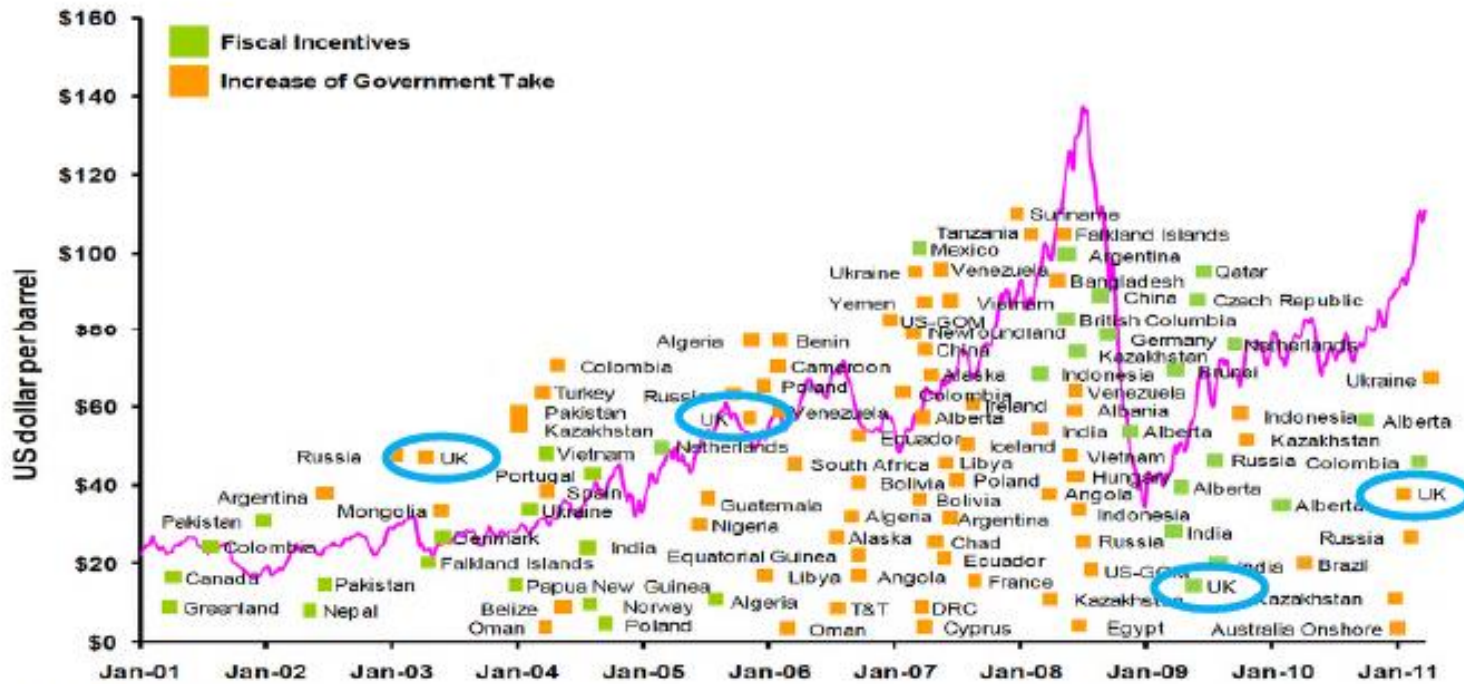
Revenue

“Fair Share”

Alaska is Not the Only Government Changing Taxes!

Regimes routinely ranked most stable by International Oil Companies (IOCs) appear multiple times below

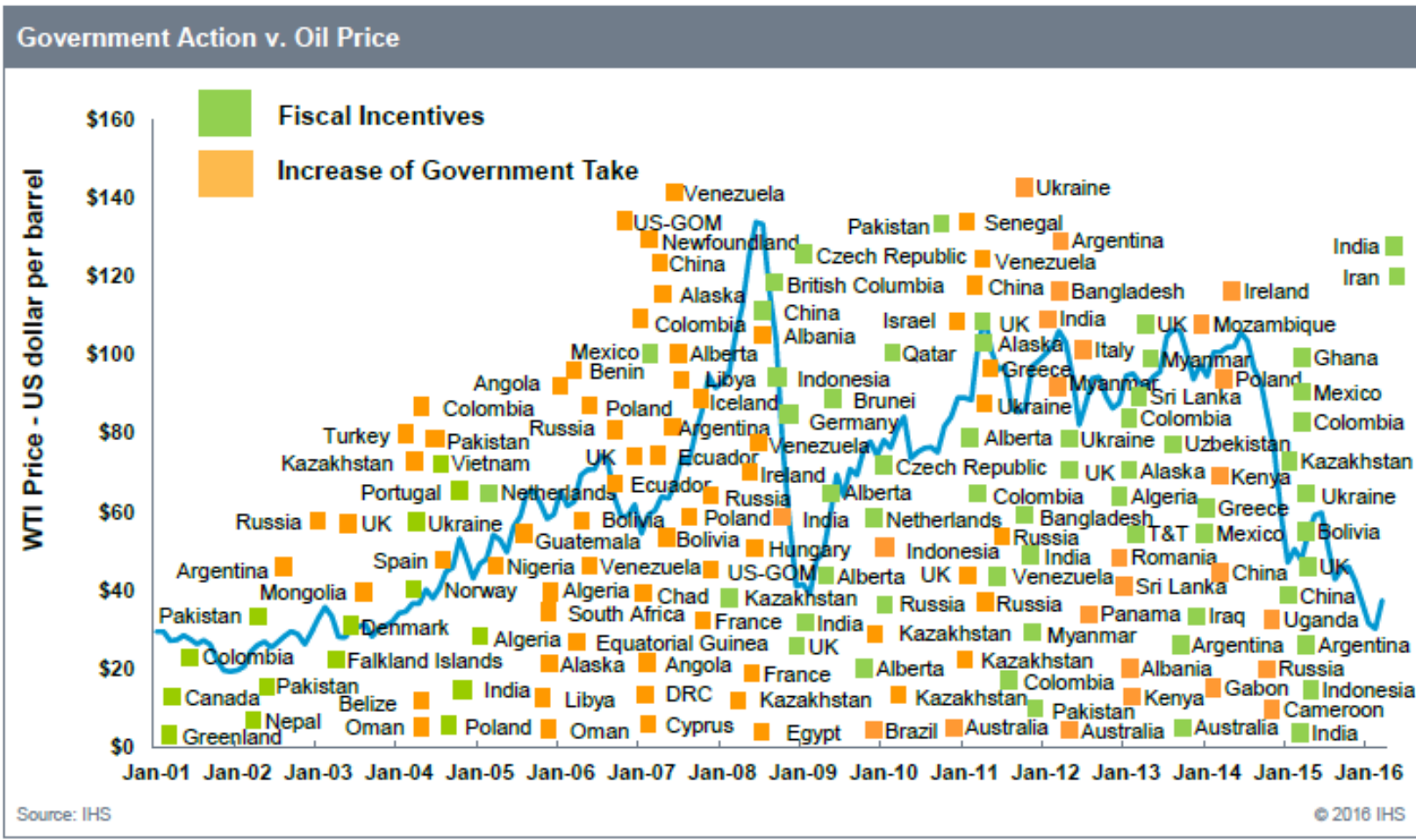
Figure 1: Government Action Reflecting Commodity Prices



Source: IHS CERA

The period of 2012 to 2016 is populated with many more changes similar to the above

Government Reaction to Market Changes Lookback to the Future?



From Dr. Atul Arya, IHS Energy Presentation
to AK Oil & Gas Competitive Review Board, May 2016

HB 111 – Version 30-LS0450\O

Raises Oil Taxes

HB 111 by Section	Tax Increase	Credit "Reform"
Sec. 1 - Increase Interest	*	
Sec. 2 - Raise Min. Tax from 4% to 5%	✓	
Sec. 3 - Harden the Floor	✓	✓
"Migrating" Credits	✓	✓
Sec. 4 - Technical to conform Sec. 2 & 3	N/A	N/A
Sec. 5 - Change NOL from 35% to 15%	✓	✓
Sec. 6 - No cash payments for NOL	✓	✓
Sec. 7 - Changes Per-barrel "credit"	✓	
Sec. 8 - Only Middle Earth credits get cash		
Sec. 9 - Limits cash payment to \$35M	✓	✓
Limits threshold to 15K/bpd	✓	✓
Sec. 10 - Changes GVPP Determination	✓	
Sec. 11 - Repeals cash payment structure		✓
Sec. 12 - 16: Effective dates/conforming	N/A	N/A

****Increasing Interest is not a tax increase, but will be added cost to industry.***

Section 1: Increases Interest Rate

- **AOGA supports current interest structure & rates – especially considering the lengthy statute of limitations.**
- **Companies have repeatedly testified that resolution of open tax years should be accelerated, not delayed.**
- **It is in no one's best interest to delay resolution solely to avoid interest on an amount in dispute.**
- **Six years of compound interest will not be an incentive for state to finish audits.**

Section 1 increases costs, and has nothing to do with tax credits.

Section 2:

Raises Minimum Tax from 4% to 5%

- Represents a 25% increase for each taxpayer subject to the minimum tax.
- “Infinite increase” for smaller companies/newcomers who do not yet pay the 4% tax, they go from 0% to 5%.
- Will mean more money in taxes, and less money spent in development and/or exploration.
- Industry has testified that this increase alone would likely lead to the reduction of one drilling rig for at least 6 months.

Section 2 is a tax increase and has nothing to do with tax credits.

Section 3, Part one: “Harden the Floor”

- For companies, large & small, that may have credits from prior year investments, not allowing the credits to be applied to the minimum tax floor delays and possibly denies economic recovery.
- For some companies, using tax credits against the minimum tax is the only way they can continue to invest – especially in low price environments.
- Coupled with raising the minimum tax, will represent a significant increase.
- This change is analogous to the federal and state government not allowing corporate losses to be applied against corporate income tax.

Section 3 is a tax increase and changes a key provision of the purpose of credits.

Section 3, Part two: “Migrating” Credits

- Represents a tax increase.
- This provision would require a producer to file perfect monthly installments/estimates or run the risk of losing valuable tax credits.
- Makes the system more complex by moving the tax into more of a monthly tax versus what it currently is – an annual tax.
- This creates uncertainty for companies in estimating their tax burden.
- If credits are not allowed to be carried forward or transferred, they would be lost.

Section 3 is a tax increase and changes a key provision of the tax system.

Section 5: Changes the NOL from 35% to 15%

- Immediate tax increase.
- Eliminates approximately 60% of the value of the NOL.
- The NOL was established as an integral part of Alaska's net based tax system, from the beginning in PPT.
- The NOL has generally matched the tax rate.
- Penalizes companies for investing in Alaska while they are losing money.

Section 5 is a tax increase and changes a key provision of the tax system.

Section 6: NOL credit no longer eligible for cash payment from the state

- All cashable North Slope credits are eliminated in this section; only the NOLs would remain.
- For companies exploring or with limited production, the NOL has served as the playing field leveler, attracting companies to invest in high cost projects.
- This proposed change is a “double whammy” when combined with the reduction of the NOL as it severely impacts smaller companies and explorers, especially those who have made significant discoveries.

Section 6 is a tax increase and changes the playing field for new/small companies.

Section 7: Changes the per-barrel credit

- Immediate tax increase on the core fields that underpin where just over 90% of North Slope production comes from.
- Per-barrel was designed to add a progressive element to the tax system, so it is structural, not really a “credit”.
- Legislative consultants, *enalytica*, described per barrel credit as a “misnomer” – “The credit against the production tax is not really a credit; it has an explicit tax-rate-setting goal.” – 6/17/15

Section 7 is a tax increase and fundamentally changes the structure of SB 21.

Quotes from Tax Division Director Alper on per-barrel tax credits

“Some of them (credits) are integral parts of the tax regime; the 20% capital credit in ACES, the per-barrel credit in SB 21, those are very much offsets to what would otherwise be a very high tax rate.” – Senate/House Joint Resources – 6/17/15

“With SB 21 the credit is an offset to the tax and is designed to create a progressive element, a little bit lower tax rate at lower prices, a higher tax rate at higher prices, so it’s hard to really consider them a credit in the context of an inducement to doing work. It’s really what we are calling an integral part of the system.” – Senate/House Joint Resources – 6/17/15

Section 7 is a tax increase and fundamentally changes the structure of SB 21.

Section 9: Further restricts eligibility of cash payments

- It is unclear to industry how this would be applied and to which companies.
- Companies would be restricted to \$35 million per year.
- Only those companies with fewer than 15,000 barrels per day of production would qualify.

Section 9 is a tax increase and changes a key provision of the purpose of credits.

Section 10: Gross value at the point of production cannot go below zero

- This impacts those fields with excess marine transportation or pipeline tariffs, such as those farther from TAPS.
- Would change the structure of the production tax.
- Disguised tax increase.
- Creates uncertainty as to how a producer is to evaluate potential investment opportunities or calculate its production tax.

Section 10 is a tax increase and has nothing to do with tax credits.

HB 111 – Version 30-LS0450\O

Raises Oil Taxes

HB 111 by Section	Tax Increase	Credit "Reform"
Sec. 1 - Increase Interest	*	
Sec. 2 - Raise Min. Tax from 4% to 5%	✓	
Sec. 3 - Harden the Floor	✓	✓
"Migrating" Credits	✓	✓
Sec. 4 - Technical to conform Sec. 2 & 3	N/A	N/A
Sec. 5 - Change NOL from 35% to 15%	✓	✓
Sec. 6 - No cash payments for NOL	✓	✓
Sec. 7 - Changes Per-barrel "credit"	✓	
Sec. 8 - Only Middle Earth credits get cash		
Sec. 9 - Limits cash payment to \$35M	✓	✓
Limits threshold to 15K/bpd	✓	✓
Sec. 10 - Changes GVPP Determination	✓	
Sec. 11 - Repeals cash payment structure		✓
Sec. 12 - 16: Effective dates/conforming	N/A	N/A

****Increasing Interest is not a tax increase, but will be added cost to industry.***

Would you invest in Alaska if tax policy changed 7 times in 12 years?

Dates	Tax Policy Change	Increase / Decrease?	AOGA Position
Feb. 2005- March 2006	Aggregated ELF – Administrative decision altering gross production tax	Tax Increase	Opposed
April 2006- July 2007	Petroleum Production Tax (PPT)	Tax Increase	Opposed Final Version
July 2007- 2013	Alaska’s Clear and Equitable Share (ACES) *	Tax Increase	Opposed
2010	Cook Inlet Recovery Act	Incentives for Industry	Supported
2014	SB 21	Both	Supported, with concerns
2016	HB 247 – Gov. Walker’s oil tax reform	Tax Increase	Opposed
2017	<i>Proposed HB 111 – House Resources</i>	<i>Tax Increase</i>	<i>Opposed</i>

* Some provisions of ACES made retroactive to enactment of PPT, others to 1/1/2007

Few other regions consider oil/gas changes more than Alaska.

Guiding Principles to Measure Progress

Production

Investment

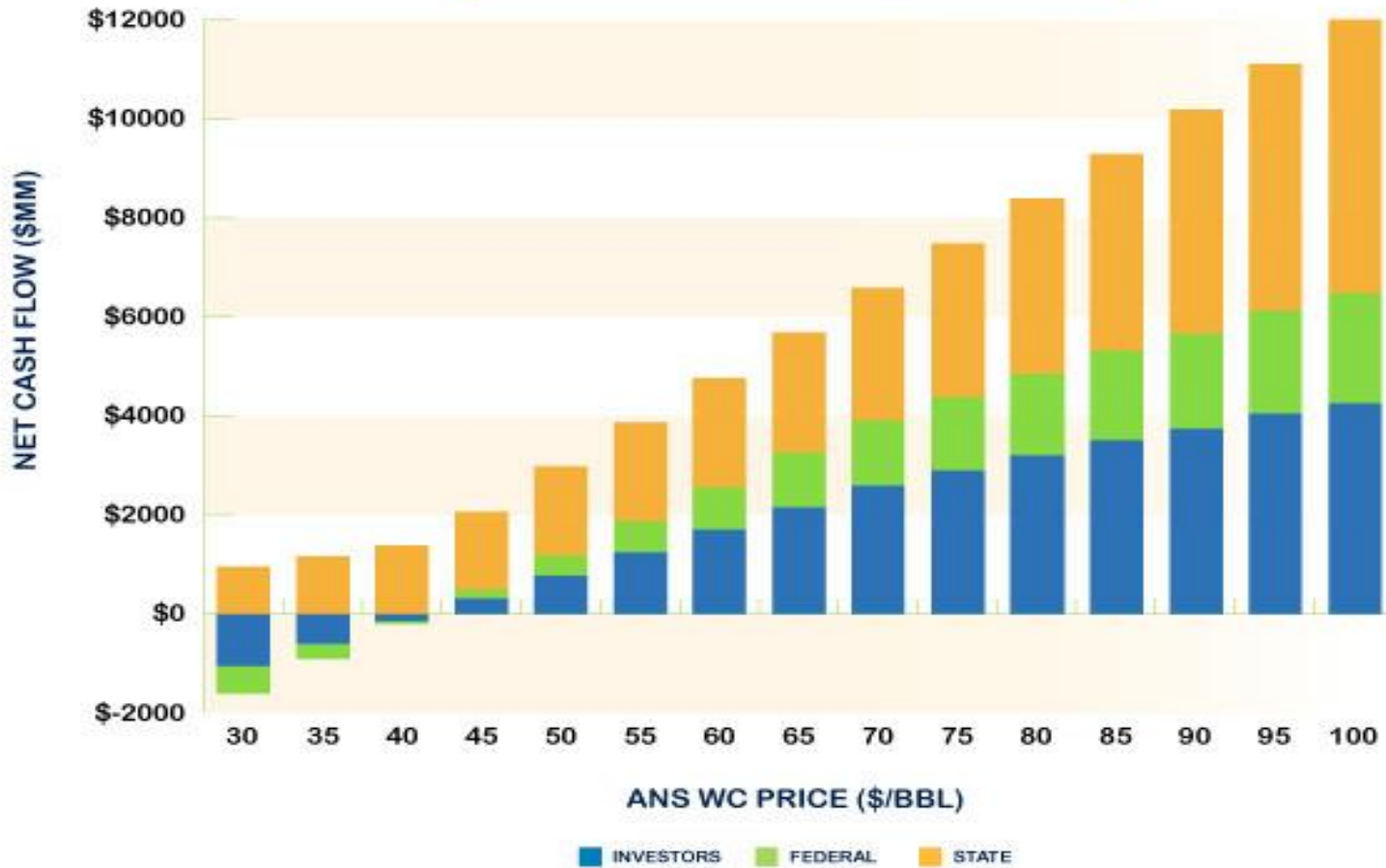
Competitiveness

Revenue

“Fair Share”

What is "Fair" Share?

What is government share?



Source: Department of Revenue, Fall 2016.