®arctic slope regional corporation

March 6, 2017

The Honorable Geran Tarr, Co-Chair
The Honorable Andy Josephson, Co-Chair
House Resources Committee
State Capitol, Juneau AK 99801

Dear Representative Tarr and Representative Josephson,

I write to you today on behalf of Arctic Slope Regional Corporation (ASRC) regarding HB 111, *Oil & Gas Production Tax; Payments; Credits*. ASRC has serious concerns with the impacts this bill will have in its current form. ASRC is the largest Alaskan-owned company with approximately 10,000 employees nation-wide, with nearly half of those employees in Alaska. ASRC was established pursuant to the Alaska Native Claims Settlement Act in 1971 as a for-profit business to utilize our natural resources to provide for the economic and social well-being of our Iñupiat shareholders. ASRC has a shareholder base of approximately 13,000.Iñupiat. My testimony today will address how ASRC sees HB 111 impacting our businesses, investments, and shareholders.

ASRC is in a unique position as the largest locally owned Alaskan business; we are an ANCSA Corporation, land owner, a lessor, a producer, and an explorer. Because of our various ties to the industry, HB 111 impacts us in several ways. Like the State of Alaska, the majority of ASRC's revenue base and investments are associated with the oil and gas industry. We feel the impacts to changing oil price, production outputs, TAPS throughput, and exploration investments just as the State of Alaska does. These impacts ripple through the Alaskan economy. We all know the statistics on TAPS throughput and declining production—this is a topic that is always on the forefront of my mind as I'm sure it's on yours. We are at a critical time where we must reinvigorate the industry that we *all* depend on, not further burden it with taxes. This uncertainty creates a high-risk, unstable business environment in Alaska. . With current production boons in the Lower 48, Alaska must remain competitive and attractive to industry; we cannot achieve this with a fickle tax structure and high-cost exploration and production. It is time for us to start managing Alaska's financial affairs like a business and not based on emotions or misguided ideology. If the legislature fails to take a pragmatic approach to providing fiscal certainty for the state's dominant industry, our financial woes will continue to conflict spiral. This reckless behavior must stop.

As an Alaskan-based company, ASRC will always operate in Alaska; this is our home and the home of our shareholders. The Iñupiat thrived on the North Slope long before the discovery on Prudhoe Bay—and ASRC will continue to invest in Alaska and our region. However, even companies like ASRC who are committed to operating in Alaska will have to reconsider our investments with the current form of HB 111 in mind. Rather than penalizing companies committed to Alaska who are riding out the current economic downturn, the legislature should work to create a tax system that stimulates investments, encourages business, and works to brings jobs and production back up.

Alaskan companies, like ASRC, should not be disadvantaged for our commitment to the State's welfare and to the well-being of our shareholders. Instead, we should work together to create a fair and balanced structure which incentivizes companies and spurs increased production and exploration. Complicating and increasing the current tax structure does nothing to benefit the State of Alaska, the Alaskan economy, ASRC, Alaskans. Rather, it sends a chill over the economy which reverberates across the State. This inconsistent, unpredictable, and ever-changing tax structure in Alaska is incredibly short-sighted and will result in additional lay-offs, reduced drilling rigs, limited capital investment. Companies with the ability to invest elsewhere will do so. Meanwhile, nothing will be done to repair our fiscal gap, promote increased production, and increase throughput into TAPS—which we all rely on as the artery of the Alaskan economy.

Simply put, it is bad policy to keep changing the oil tax regime. There have been three changes to Alaska's oil tax regime since 2013, seven in the last 12 years. These frequent changes are reactionary and do not provide the stability companies need to make long-term investment in our State. ASRC specifically will be impacted by yet another change to the oil tax policy in several ways.

First, HB 111 would implement a Gross Minimum Tax of 5% for all production, this in an increase from 4%. This 25% hike in tax will impact capital reserved for future investments and particularly impact small businesses. With no option for a Small Producer Credit or credits for New Developments, this tax structure discourages exploration, investment, small businesses, and entrepreneurship. The erosion of these credits does not benefit the State in the long term. It will impact first and foremost Alaskan businesses like ASRC who are putting money into our economy and exploring new opportunities for the State.

Secondly, Net Operating Loss, or NOL credits will be reduced from 35% of loss to 15% of loss and will not be eligible against the Gross Minimum Tax. With current oil price environment, frozen investments, shut down rigs, and thousands of Alaskans out of work, it is nonsensical to reform a system which alleviates losses the industry is currently facing. For ASRC, NOL credits can be a determining factor as to whether a project proceeds, and with respect to the Gross Minimum Tax—a producer could be losing money and would still need to pay the Gross Minimum Tax. The changes to the NOL credits eliminate the mechanism Alaskan businesses like ASRC use to continue to invest in a low-price environment where companies will most certainly incur a loss. To ASRC and other companies working in Alaska, this sends a message that when times are tough, the State is no longer a partner.

Thirdly, the State purchase of NOL credits will be reduced from $70 million per year to $35 million per year, with eligibility diminished from those producers with less than 50,000 BOPD to those that produce less than 15,000 BOPD. With the recent influx of independents and small businesses investing in Alaska's oil and gas industry, as well as Native Corporations like ASRC who are beginning to take a more active role, the State's shift in policy is unsustainable for small companies and will significantly impact **Alaska** Native Corporations. The lack of certainty in Alaska's tax regime is bad business and disproportionately impacts small businesses and companies attempting to ride out the economic downturn in the industry.

Lastly, HB 111 impacts the per-barrel tax credits which were designed to be a progressive "credit" tied to oil price. HB 111 would not allow the per-barrel tax credit against the Gross Minimum Tax and would alter the current structure for "Old Oil." Previously, the per-barrel tax credit was linked to the price of oil in order to provide relief for industry in low-price environment. By altering this credit, the State is eliminating mechanisms which encourage production and investments at any price.

More instability to the oil tax regime, more burdensome taxes to the oil and gas industry, and reduction in credits to Small Businesses, Net Operating Loss, and other credits will not result in more jobs, more investment, increase production, increased throughput to TAPS, or offset Alaska's fiscal deficit. On the contrary, it will most certainly result in continued job loss, reduced investment, production, and exploration, and further suffocate an already struggling industry—an industry we **ALL** rely on. For these reasons, ASRC does not support HB 111. We support sound tax policy and a healthy industry which promote responsible exploration, production and incentives to spur additional investment throughout the State.

ASRC encourages the Committee and the legislature to consider our concerns and engage with ASRC and others in the industry to construct a fair and balanced tax structure that works for all Alaskans. Through collaboration with Alaska businesses, we can address the fiscal deficit and stimulate growth without sacrificing the lifeblood of our economy. HB 111 does not accomplish this, it would be one step forward and five steps back for Alaska's economy, at the expense of Alaskan businesses and industry partners. We cannot control the price of oil, but we can determine what kind of business environment Alaska will have and what kind of partner the State of Alaska will be—both of these factors are significant considerations that will drive investment regardless of the price environment.

Thank you for your time and consideration of this correspondence. Please feel free to contact me or ASRC Director of Government Affairs, Shalon Harrington (sharrington@asrc.com), if you have any questions or need additional information.

Quyanaqpak,
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