ALASKA OIL & GAS ASSOCIATION
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April 23, 2026

Senator Cathy Giessel, Chair
State Capitol Room 121
Juneau AK, 99801

Re: SB 280 Invited Testimony on April 23

Dear Senator Giessel:

Thank you again for the opportunity to testify on SB 280 version G. The technical portions of testimony are submitted for the record below.

AOGA is the professional trade association representing the majority of oil and gas production, exploration, refining, and transportation activities in Alaska.

AOGA's members are proud to be one of the bright spots in Alaska's economy. As highlighted in the recently released McKinley Research Group report, the oil and gas industry supports more than 70,000 jobs, contributed $3.5 billion in state and local revenue in FY25. We are expected to invest $22 billion from 2025–2030 and contract with more than 1,000 Alaska businesses each year. With your permission, Madame Chair, we ask that the report be put in the record.

On tax matters, our positions are developed carefully and with member review because these issues are complex and very consequential.

First—we support the goal of delivering gas to Alaskans and monetizing North Slope gas resources for the benefit of all Alaskans.

A large-scale North Slope gas project is important for Alaska's long-term economic future. We acknowledge that it is a challenge to fund multibillion-dollar projects in Alaska that will incur a tax burden years before production starts and revenue is generated. However, AOGA cannot give unqualified support to broad property tax relief without acknowledging that municipal buy-in is imperative to the process.

It is also important to highlight the millions in property taxes paid to local communities by AOGA members. For context, in FY25, the industry paid nearly $720 million in property taxes to the State,

$576 million of which was distributed to local communities. This revenue matters to them and is a critical piece of our social license to operate in Alaska.

We appreciate the Committee taking this issue on.

That said—this Committee Substitute, SB 280 version G, has expanded beyond the purpose of resolving a long-standing challenge to gasline project economics posed by the current oil and gas property tax structure, and that's where our concerns begin. It now includes provisions decoupling oil and gas lease expenditures, taxpayer confidentiality and prevailing value sections, as well as an income tax on pass-through entities. All of these additions would immediately and retroactively impact current oil and gas operations, regardless of any future gas project.

My testimony will cover multiple sections of the CS from sections 20 through 33, to which AOGA is opposed.

Decoupling oil and gas lease expenditures (Sec 28-30)

I'll start with our review of – and opposition to Sections 28-30. It is unclear what problem in existing law this legislation is intended to address, particularly before the commencement of a major North Slope gas project. Currently, oil production on the North Slope results from exploration for, and development of oil – not gas. When an oil well produces fluids, the fluids are a mixture of oil, water, and gas that is sent to a processing facility (or gathering facility). At the facility, the oil is separated from the water and gas. Water is cleaned and re-injected to help with oil production, and the gas is used in operations or re-injected for reservoir pressure. The separated oil is transported to market.

Senate Bill 138 (2014) and its implementing regulations recognized that lease expenditures are incurred to produce oil and that to produce oil the cost of removing the water and gas is to prepare the oil for market. Yet, Sections 28-30 may be read to assume oil production inherently includes "costs to explore for, develop, or produce gas deposits located in the state north of 68 degrees North…" when it does not.

Since legislative changes are presumed to be made on purpose, and to be meaningful, not cosmetic, this proposed change puts both taxpayers and the Department of Revenue in a precarious position. How is a taxpayer supposed to prove that lease expenditures were for oil production when producing that oil necessitates the removal of gas? Lease expenditures are incurred to explore for, develop, and produce oil and to attempt an allocation of oil costs to gas will be artificial, subjective, and almost certain to create disputes for both taxpayers and the Department of Revenue.

On the North Slope, oil and gas operations are fully integrated. This kind of change can artificially inflate taxable oil value and, depending on how costs are allocated, could make otherwise economic production uneconomic, leaving barrels in the ground.

Related to that, in Sections 29 and 30 the bill directs the state to allocate costs using BTU equivalency. That may sound technical, but in practice it can significantly shift costs in a way that increases tax exposure and does not fairly represent the cost of producing oil.

As an example, Prudhoe Bay is currently producing around 245,000 barrels a day of oil. It also produces and injects approximately 7.7 BCF of gas a day. Using the BTU ratio of 6 mcf of gas to 1 barrel of oil the result is 84% of the BOE is gas that's being reinjected. Using this BTU equivalency could unintentionally disallow reasonable costs associated with oil production from being deducted against production tax liability and could ultimately jeopardize future oil recovery.

Taxpayer confidentiality and prevailing value (Sec 20, 21, 26, and 27)

Moving on to Sections 20, 21, 26, and 27.

Section 20 creates an additional and unnecessary valuation process for state oil and gas royalties. Current statutes, regulations, and leases already contain provisions to ensure that the State receives fair market value for its oil and gas. There are "higher of" provisions, as well as "minimum value" provisions in the new form leases. This new Section 20 provision creates a cumbersome, administrative burden on the Department of Natural Resources to determine a monthly "prevailing value" before the lessee even files their royalty reports and may contradict current lease language.

From our review, it appears that Section 21 proposes to amend AS 43.05.230(a) by making it lawful for the Department of Revenue to disclose what is currently taxpayer confidential information. Section 26 repeals AS 43.55.020(f) in its entirety and reenacts it to establish a mandatory valuation standard for tax purposes. Section 27 adds a new subsection (o) to AS 43.55.020 requiring the Department of Revenue to make specified disclosures for the valuation related to both oil and gas. These disclosure requirements take immediate effect and apply regardless of whether a natural gas project is involved.

Similar to royalty valuation, there are already statutes and regulations in place to ensure that the State gets fair market value for production tax purposes. AOGA's members are unaware of any valuation problems in the existing statutes that require a policy shift to repeal and reenact AS 43.55.020(f), impose a mandatory monthly price for production tax purposes determined and published by the Department of Revenue prior to the due date for the monthly production tax filings and to require new public disclosures by the Department for both oil and gas. We respectfully caution the committee that our review of these sections raised antitrust concerns because it appears the Department of Revenue will be required to publish, coordinate, and share proprietary oil and gas prices. By sharing competitively sensitive data, this new proposed process heightens the risk of antitrust violations.

Income tax on pass-through entities (Sec 23-25)

Sections 23–25 of this bill propose a new income tax on privately held oil and gas pass-through entities with "taxable income" greater than $1 million, which includes producers, processors, as well as oil and gas transporters by pipeline and maritime transportation.

As AOGA has previously testified, this proposal represents a significant policy shift that has not received adequate vetting or independent modeling and continues to raise serious concerns regarding its structure, its potential impacts, and its targeted and retroactive nature.

Last year my predecessor at AOGA submitted a letter to the Senate Finance Committee outlining several core concerns with this pass-through entity framework. Many of those items remain unresolved. These comments included the inconsistent treatment of tax loss years, impractical implementation timelines and retroactivity, unclear aggregation and reporting requirements, and fundamental structural differences in how pass-through entities are taxed.

To date, there has been no independent analysis showing which businesses would be impacted or how far this policy reaches. Depending on interpretation, it could affect Cook Inlet producers, private explorers and wildcatters, gasline developers, carbon sequestration and storage companies, and even private transporters and maritime shippers.

The provision assumes parity between pass-through entities and C-corporations that does not exist in practice. These structures are fundamentally different in how they are taxed and how they treat losses and income and applying a corporate-style tax to pass-through entities risks creating new inequities. At a time when independent operators and private capital are playing a critical role in advancing development in both Cook Inlet and the North Slope, this kind of targeted policy chills investment in areas where we need it most.

Stepping back, the core issue is this:

This bill combines a major infrastructure policy with multiple, complex tax changes—all at once. In our view that creates risk. Alaska's tax system is interconnected. Small changes in one area can have large, unintended consequences elsewhere. Without full modeling and a deliberate process, it's very easy to get that wrong.

And just as importantly, investors are watching how these decisions are made. Stability and predictability matter, especially in a basin with long project timelines like Alaska.

Our recommendation is straightforward, keep the bill focused.

If the objective is to advance a North Slope gas project, focus on the pipeline framework, the property tax structure, and make sure communities are protected.

Then take the broader tax changes—like the pass-through entity tax and production tax modifications—and evaluate those separately, with the time and analysis they require.

Alaska has a real opportunity here. But large projects depend on certainty. The state's role should be to reduce risk, not introduce new layers of it.

AOGA appreciates the Committee's work on SB 280 and looks forward to continued engagement as the bill moves through the process.

Sincerely,

Steve Wackowski
President/CEO
Alaska Oil and Gas Association