



# Alaska Oil & Gas Association

## HB 288 Testimony

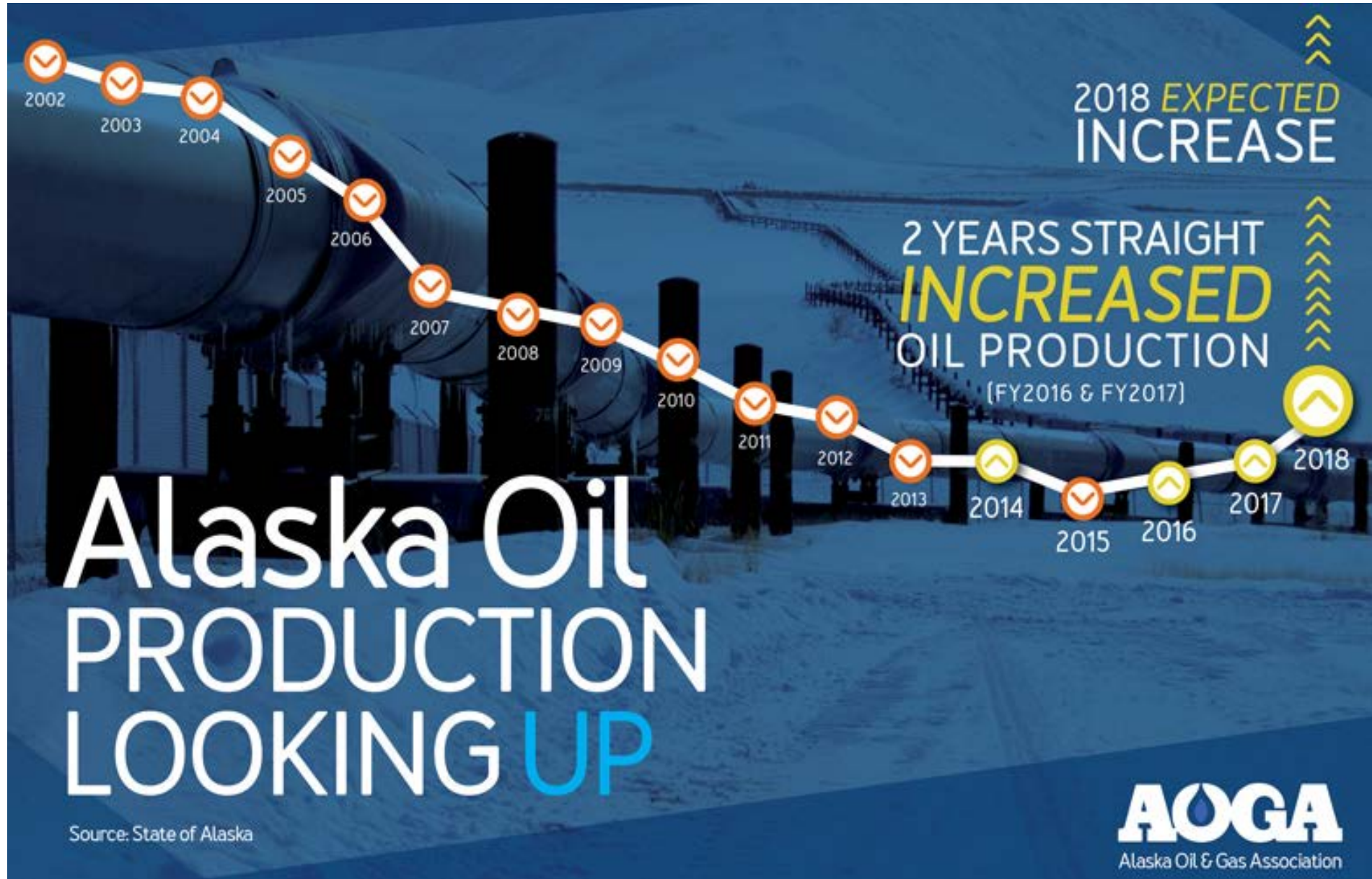
House Resources Committee

January 29, 2018

# AOGA Membership

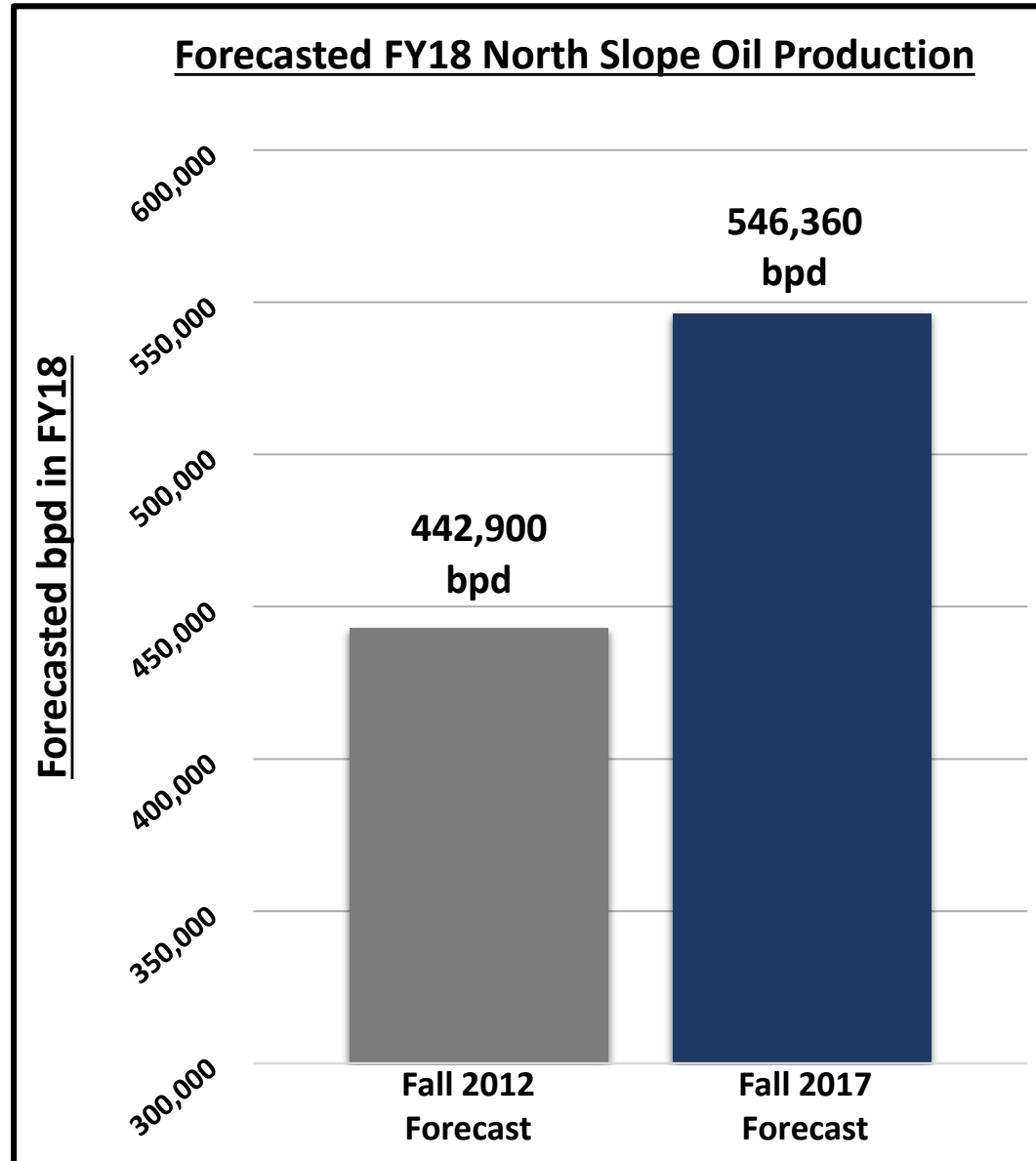


Production  
Increased Two  
Years in a Row



## Increased Investment Increased Production

Source: Fall 2012 & Fall 2017 Revenue  
Sources Books, Department of Revenue



### Difference in Production

**103,460 bpd**

Additional barrels per day (bpd) projected in FY18 North Slope production than in FY12

### Difference in Revenue

**~\$300 million**

If production would have been as forecasted in FY 12 (442,900 bpd), State revenue would be approximately \$300 million less than is predicted for FY18 State due to increased North Slope production



# What has the State Gained?

*Note: All figures reflect Unrestricted General Fund (UGF) dollars*

Increased FY18 revenues resulting from improved North Slope production will provide funding for important government services

**~\$300 million state revenue could be used to fund:**

**Dept. of Corrections**  
\$267 million

**University of Alaska**  
\$317 million

Almost the entire UGF budgets  
of DNR, F&G, DEC, DOT, & Law

**COMBINED:**  
\$318 million

**Dept. of Public Safety**  
\$159 million

**Court System**  
\$105 million

**Dept. of Education**  
~25% of UGF Budget

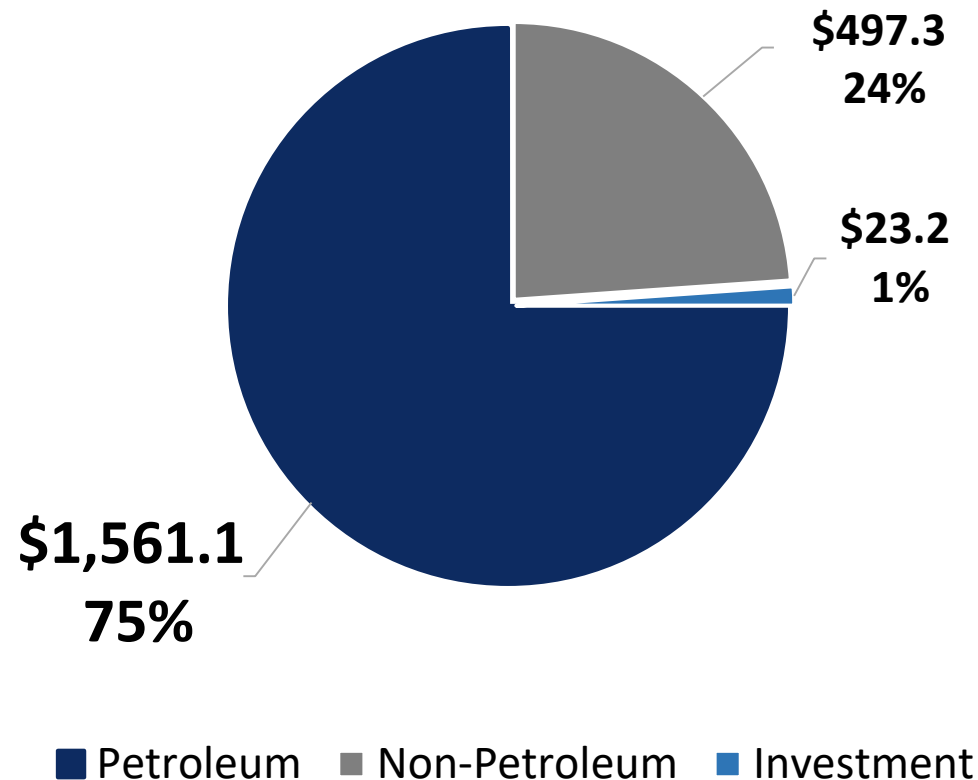
**Dept. of H&SS**  
~30% of UGF Budget

## Oil Revenues are Majority of Unrestricted General Funds

Source: Fall 2017 Revenue Sources Book, Department of Revenue

Note: All graph figures in millions

### FY18 Unrestricted General Fund (UGF) Revenues



**\$442.9 million**

FY17 local property taxes

**\$393 million**

FY18 restricted revenue

**~\$2.4 billion**

Predicted total to be to State & local communities in FY 18

# Mega Resources

Source: USGS

RESOURCE POTENTIAL	
STATE LAND	FEDERAL LAND
<b>Cook Inlet</b> 599 mbo and 19 tcf gas	<b>Offshore Arctic</b> 27 bbo and 132 tcf gas
<b>Onshore North Slope</b> <u>Conventional</u> 5 bbo and 35 tcf gas <u>Heavy/Viscous</u> 24-33 bbo <u>Unconventional</u> 2 bbo and 12 tcf gas	<b>NPR-A</b> 8.8 bbo and 39.2 tcf gas  <b>ANWR</b> 10 bbo and 3.5 tcf gas
mbo - million barrels of oil    bbo - billion barrels of oil    tcf - trillion cubic feet	

# Current U.S. Production

*Note: All oil production figures are in  
barrels per day*

## United States Oil Production Projection

U.S. Energy Information Administration  
October 2017

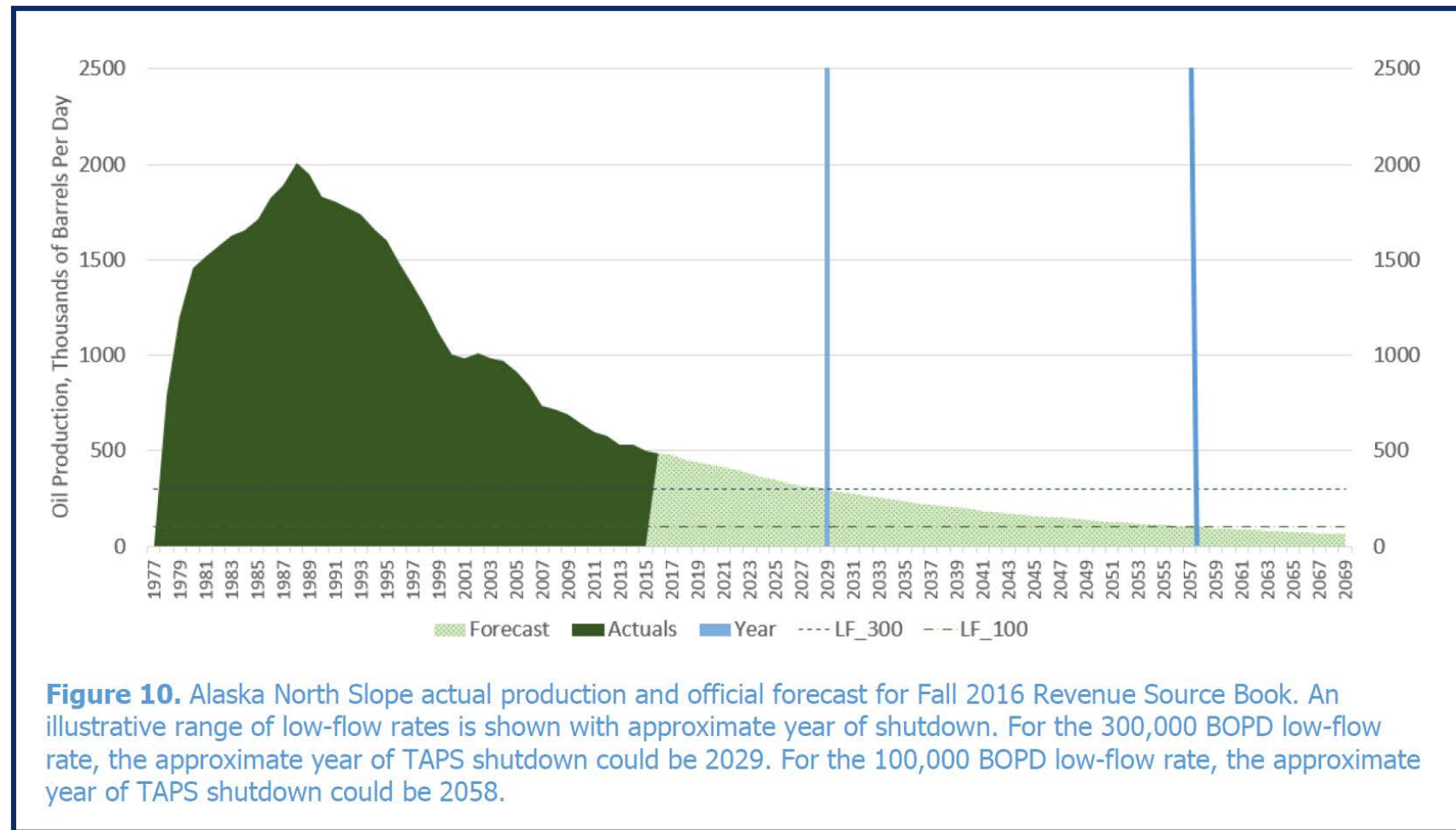
<u>Location</u>	<u>Oil Production Barrels Per Day</u>
<u>Total United States Production</u>	<u>9,637,000</u>
Texas	3,767,000
North Dakota	1,164,000
New Mexico	528,000
<b>Alaska</b>	<b>507,000 (5% of total US)</b>
Oklahoma	491,000
California	471,000

US production predicted to grow –  
Will Alaska's mega resources be part of the mix?



# Alaska Needs Investment for Long-Term Future

Source: Alaska's 10-Year Oil Production Outlook & Potential New Developments. Alaska Department of Natural Resources, Division of Oil & Gas. February 2017

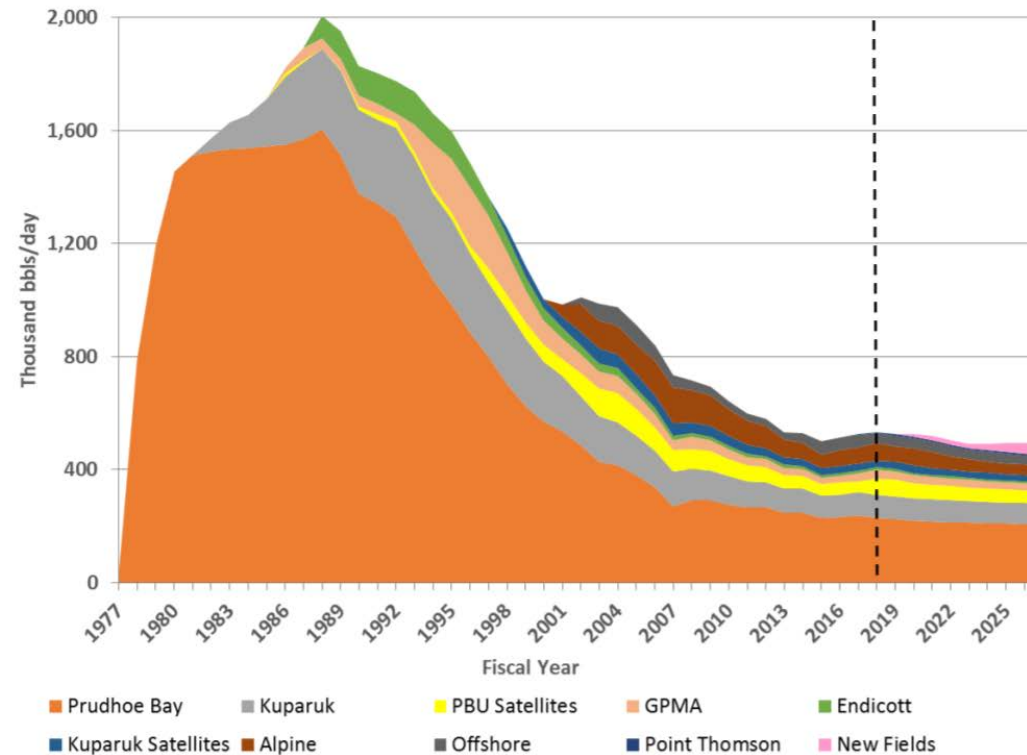


Absent new investment, production continually declined

# Current Forecast is Improved

Source: DOR Presentation to Senate Finance. Fall 2017 Revenue Forecast. January 22, 2018

## PRODUCTION FORECAST: ANS History and Forecast by Pool



Source: Department of Revenue and Department of Natural Resources

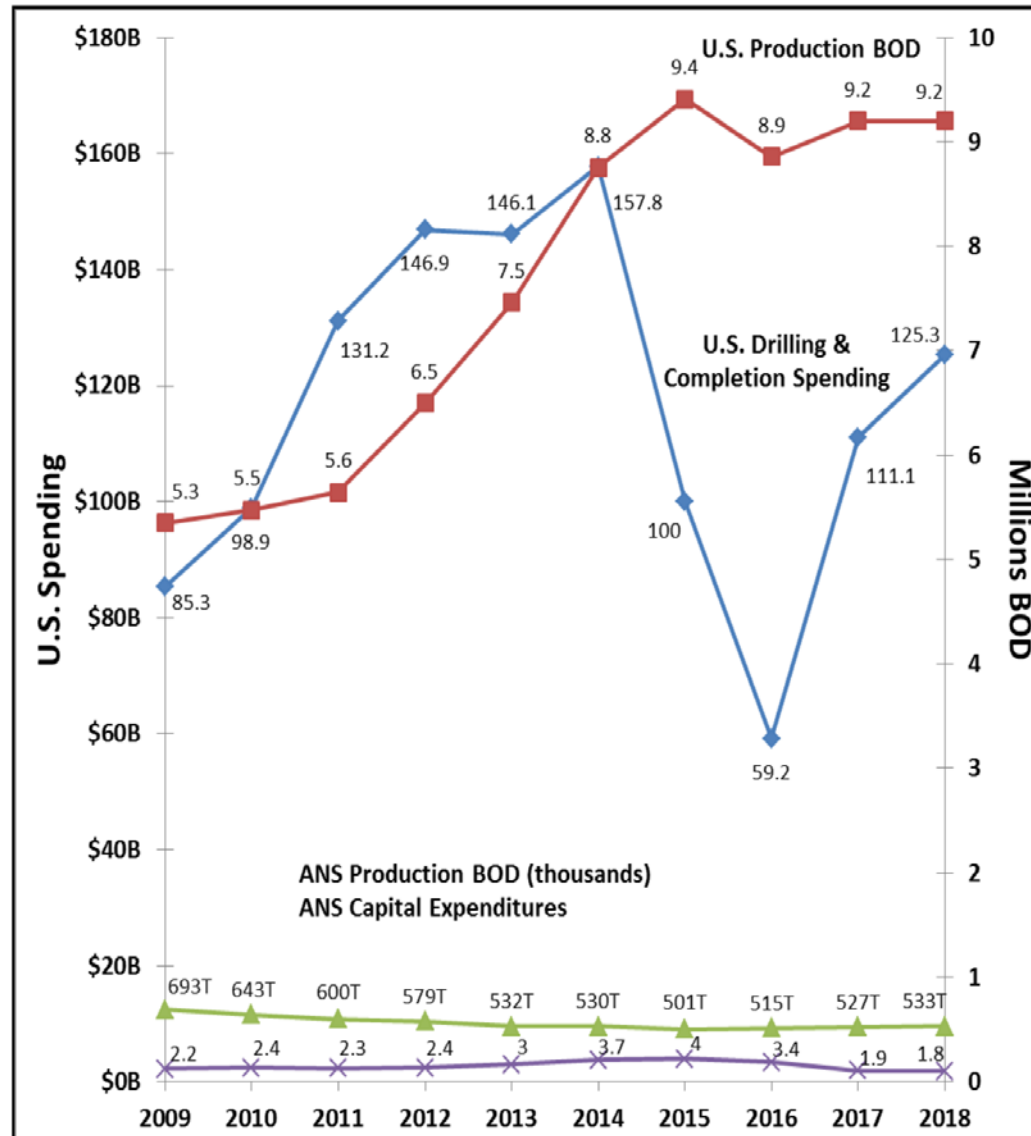
ANS = Alaska North Slope; PBU = Prudhoe Bay Unit; GPMA = Greater Point McIntyre Area

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The latest production forecast shows improvement, but forecast relies on continued investment

# Alaska Needs Investment to Grow Production

Source: "Growing Alaska's Oil Economy."  
Presented by Sam Mazzeo, Senior VP, Wells  
Fargo Bank, N.A. November 16, 2017



Source: U.S. Energy Admin, Spears & Associates; Alaska Revenue Sources Book

- Currently, Alaska is only capturing 1.7% of total US investment, or approximately \$1.9 billion in capital.
- Based on recent history, it takes at least \$3.6 billion of Alaska capital investment to grow production.
- How does Alaska compete for an increase in capital necessary to grow production past 2018?

# Unstable Tax Policy

Eight changes in 13 years is not stable tax policy.

Dates	Tax Policy Change	Increase/ Decrease?	AOGA Position
Feb. 2005 - March 2006	Aggregated ELF - Administrative decision altering gross production tax	<b>Tax Increase</b>	Opposed
April 2006 - July 2007	Petroleum Production Tax (PPT)	<b>Tax Increase</b>	Opposed Final Version
July 2007 - 2013	Alaska's Clear and Equitable Share (ACES)	<b>Tax Increase</b>	Opposed
2010	Cook Inlet Recovery Act	<b>Incentives for Industry</b>	Supported
2014	SB 21	<b>Both</b>	Supported, with concerns
2016	HB 247 - Gov. Walker's oil tax reform	<b>Tax Increase</b>	Opposed
2017	HB 111	<b>Tax Increase</b>	Opposed
2018	Proposed HB 288	<b>Tax Increase</b>	Opposed

## HB 288 Negatively Impacts Industry

- HB 288 increases cost of the minimum production tax by 75%
- HB 288 would be the third straight year of increasing oil and gas production taxes, which does not improve investment climate reputation
- By increasing taxes, HB 288 will increase costs
- By increasing costs, HB 288 will reduce competitiveness
- By reducing competitiveness, HB 288 will likely reduce investment.

### Why 75%?

$$\text{GVPP } \$47.14 * 4\% \\ = \$1.8846/\text{barrel}$$

$$\text{GVPP } \$47.14 * 7\% \\ = \$3.2998/\text{barrel}$$

$$\$1.8846 * 1.75\% = \\ \$3.2998$$

**Reduced investment means fewer jobs, less production, lost revenue, & smaller growth to Alaska's economy**

## Stable Tax Regime Essential for Economic Growth

Source: Northern Opportunity: Alaska's Economic Development Strategy, Alaska Department of Commerce, Community, and Economic Development. Pg 17.

### Northern Opportunity *Alaska's Economic Development Strategy*



**Objective:** Strengthen existing resource extraction industries, including the Oil and Gas and the Mining Sectors

**Objective Partners:** Alaska Oil and Gas Association, Alaska Miners Association, Resource Development Council Alaska, Council of Alaska Producers, Alaska Support Industry Alliance, DED, Alaska Minerals Commission, Alaska Native Corporations, Alaska Gasline Development Corporation, AIDEA.

**Objective Resources:** Alaska's congressional delegation, Alaska's abundant natural resources, AIDEA's infrastructure funding.

#### Action Items:

- Promote a consistent business environment that includes a stable tax regime, a development and exploration mentality at regulatory agencies, and encouragement of responsible oil, gas, and mining exploration and production.

## Question

Does HB 288  
help achieve  
this goal?

