



# Alaska Oil & Gas Association

## HB 411 – Oil & Gas Production Tax

House Finance Committee  
April 11, 2018

# AOGA Membership



# Unstable Tax Policy

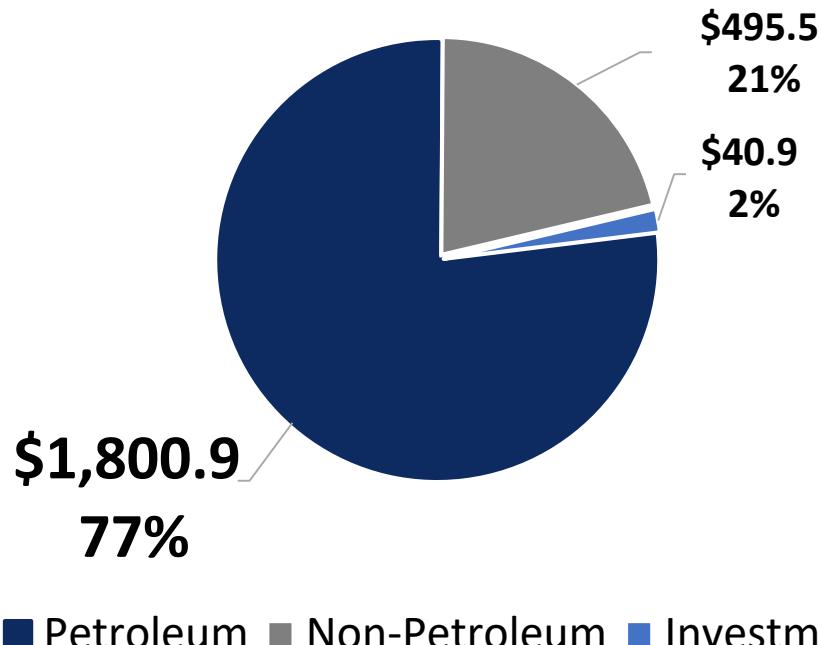
Dates	Tax Policy Change	Increase/Decrease?	AOGA Position
Feb. 2005 - March 2006	Aggregated ELF - Administrative decision altering gross production tax	Tax Increase	Opposed
April 2006 - July 2007	Petroleum Production Tax (PPT)	Tax Increase	Opposed Final Version
July 2007 - 2013	Alaska's Clear and Equitable 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	HB 111	Tax Increase	Opposed
2018	Proposed HB 411	Tax Increase	Opposed

*Potentially 8 changes in 13 years*

# Oil Revenues are Majority of Unrestricted General Funds

## FY18 Unrestricted General Fund (UGF) Revenues

*values in millions*



FY17 local property taxes

**\$443 million**

FY18 restricted revenue

**\$413 million**

**\$2.7  
BILLION**

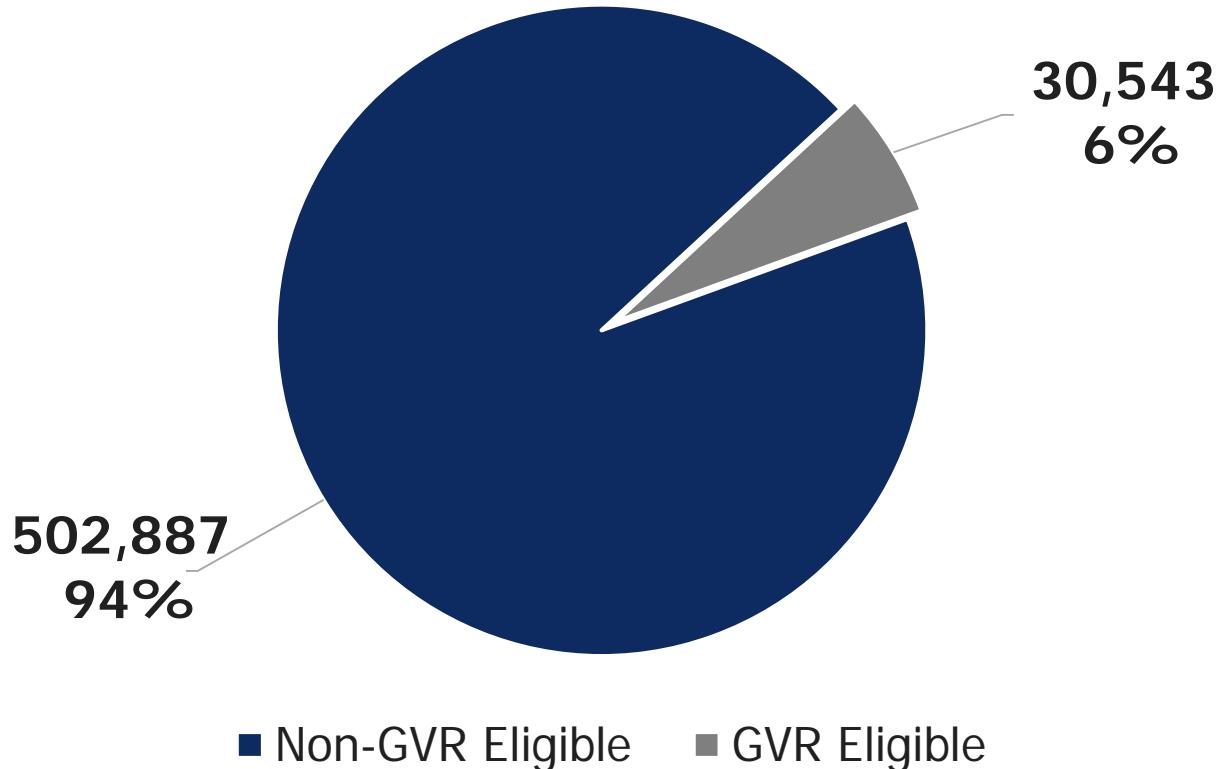
FY18 Predicted State & Local  
Oil Revenues

Source: Spring 2017 Revenue Sources Book, Department of Revenue

# What Portion of Current Production is New Oil?

## FY19 North Slope Production Non-GVR vs GVR Oil

*barrels of oil per day*



Source: Fall 2017 Revenue Sources Book, Department of Revenue

GVR: Gross Value Reduction, i.e. new oil

# Alaska Needs Investment

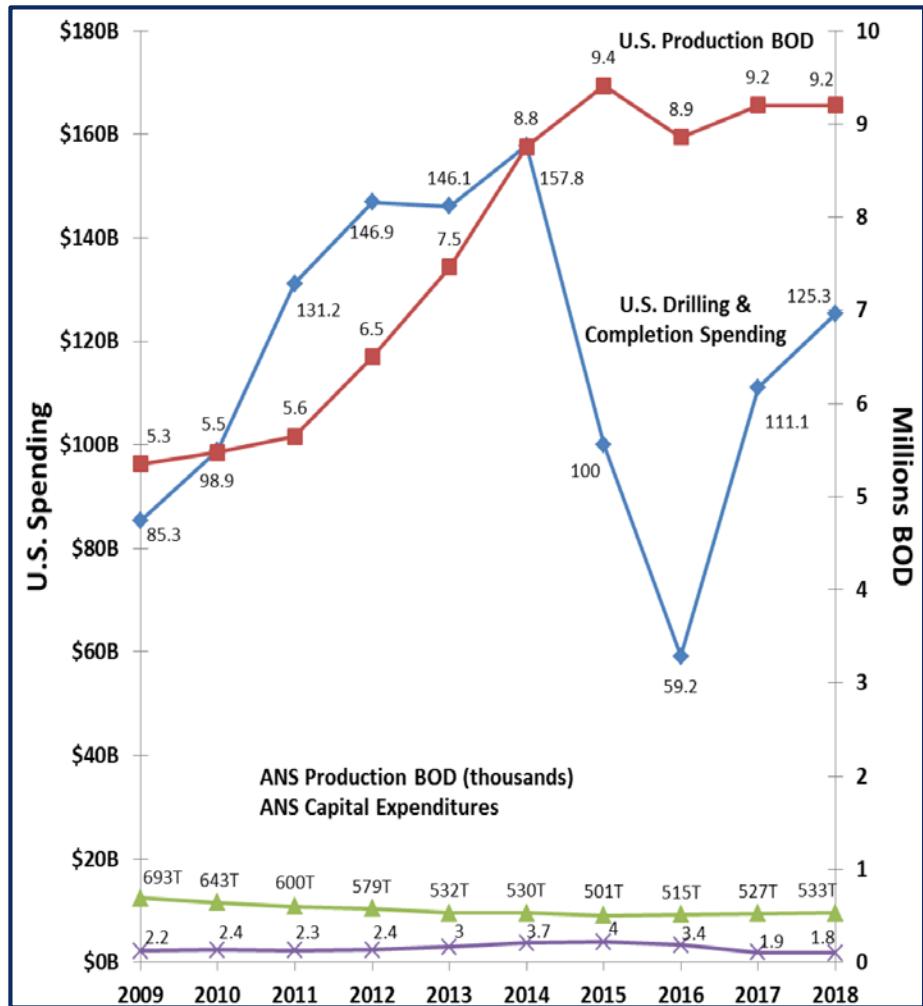
Today, Alaska is only capturing 1.7% of total U.S. investment, or ~\$1.9 billion in capital.



Recent history shows Alaska needs at least \$3.6 billion of investment capital to grow production.



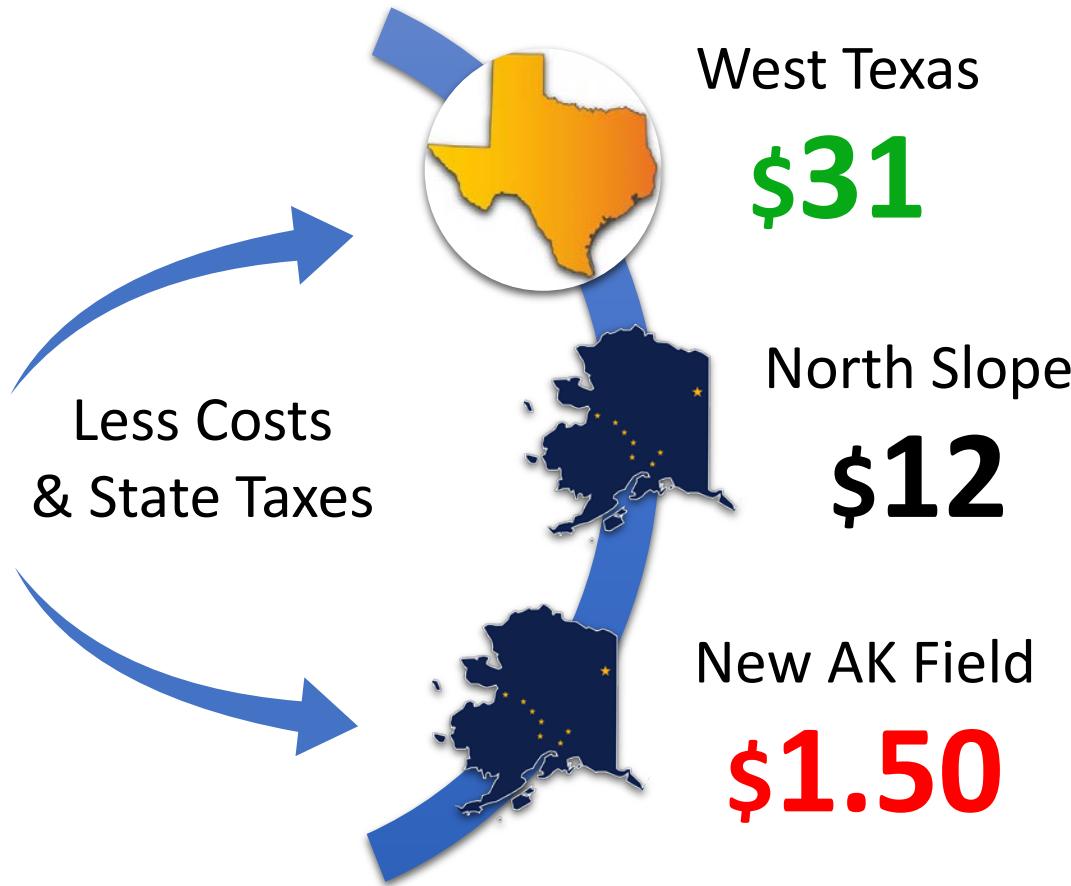
How does Alaska compete for the investment capital necessary to grow production beyond 2018?



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

# How much do producers earn?

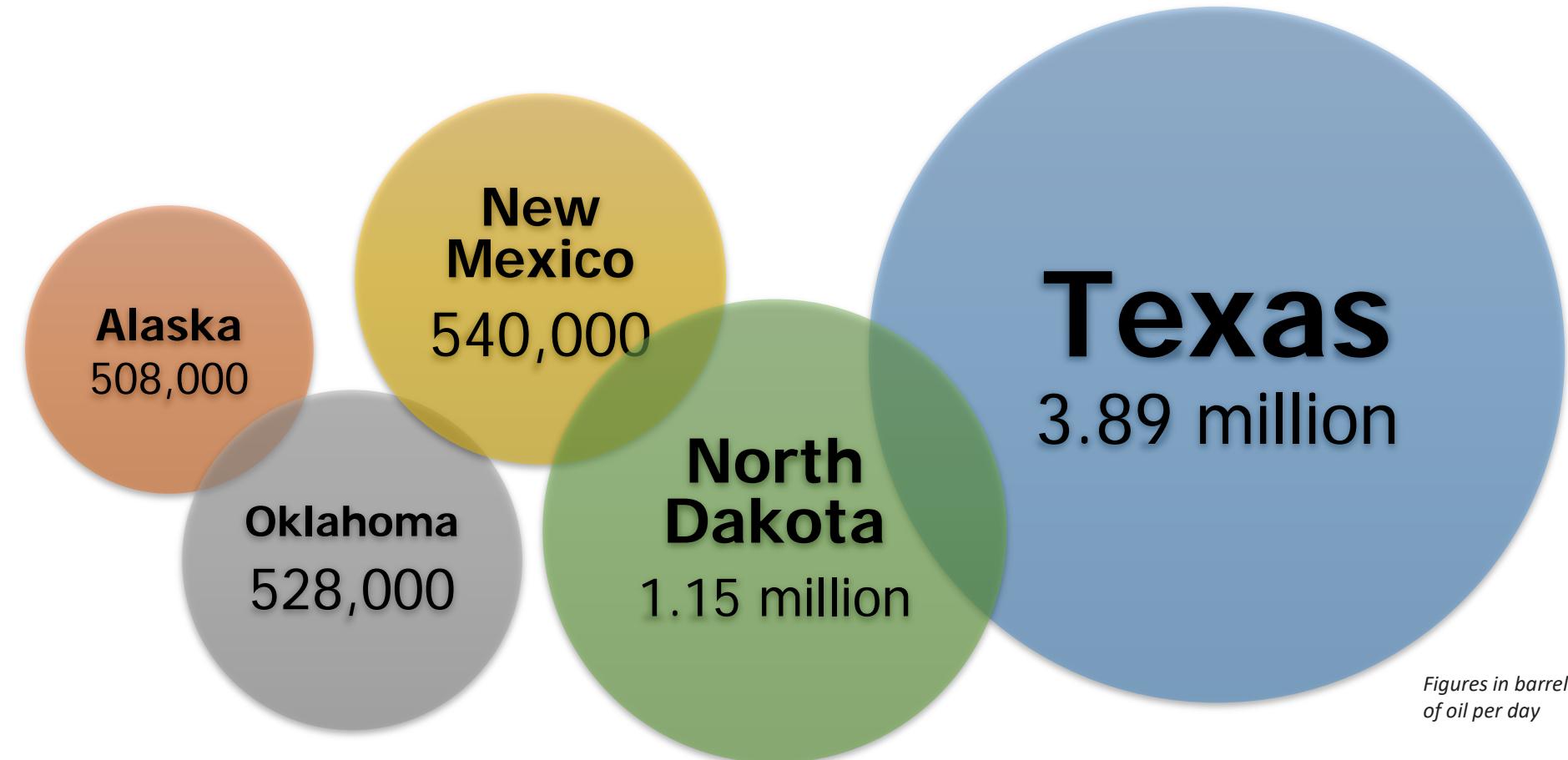
Source: Alaska Legislature's Oil Consultant.  
*Oil & Gas 102.* Jan. 31, 2018



*Where would you invest?*

# Alaska is Falling Behind

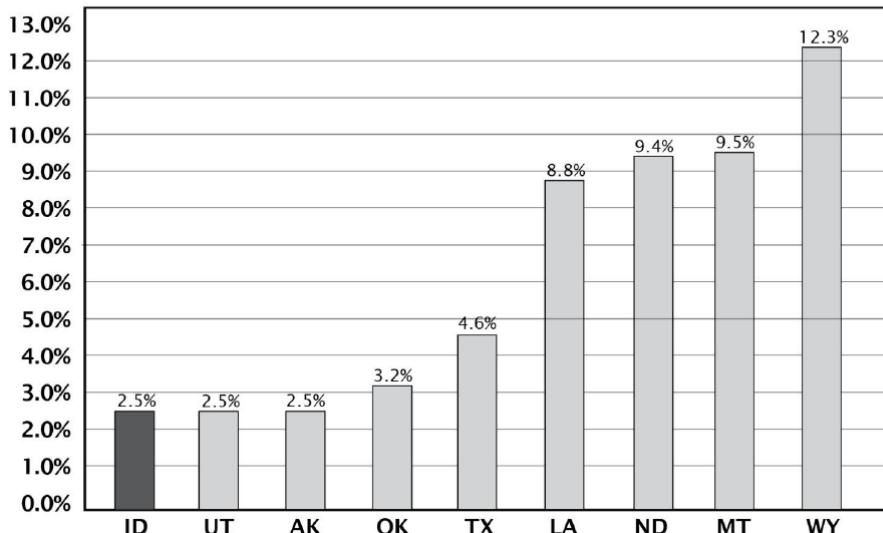
Source: U.S. Energy Information Agency – January 2018 Oil Production



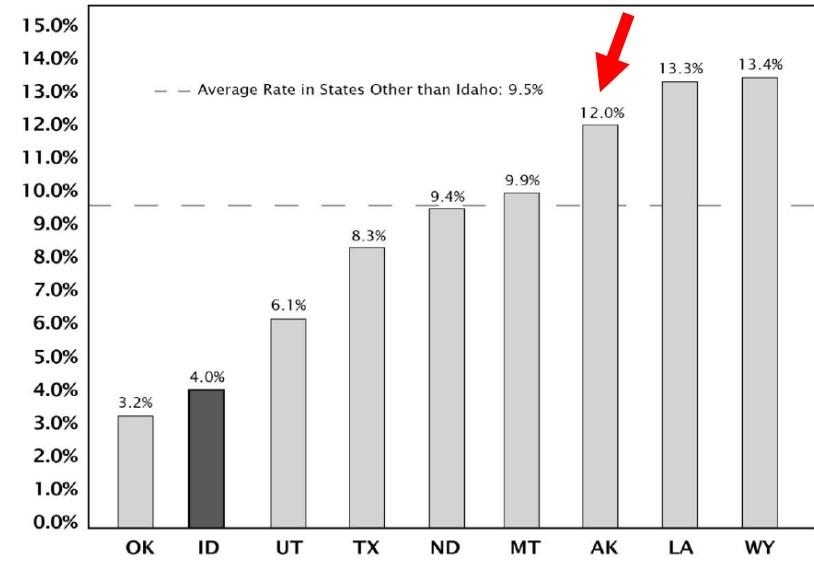
*Alaska now ranks 5<sup>th</sup> among U.S. oil producing States*

# Fact: Alaska's tax rate exceeds U.S. average

EFFECTIVE TAX RATES  
SEVERANCE AND PRODUCTION TAXES  
Fiscal Year ended 6-30-16



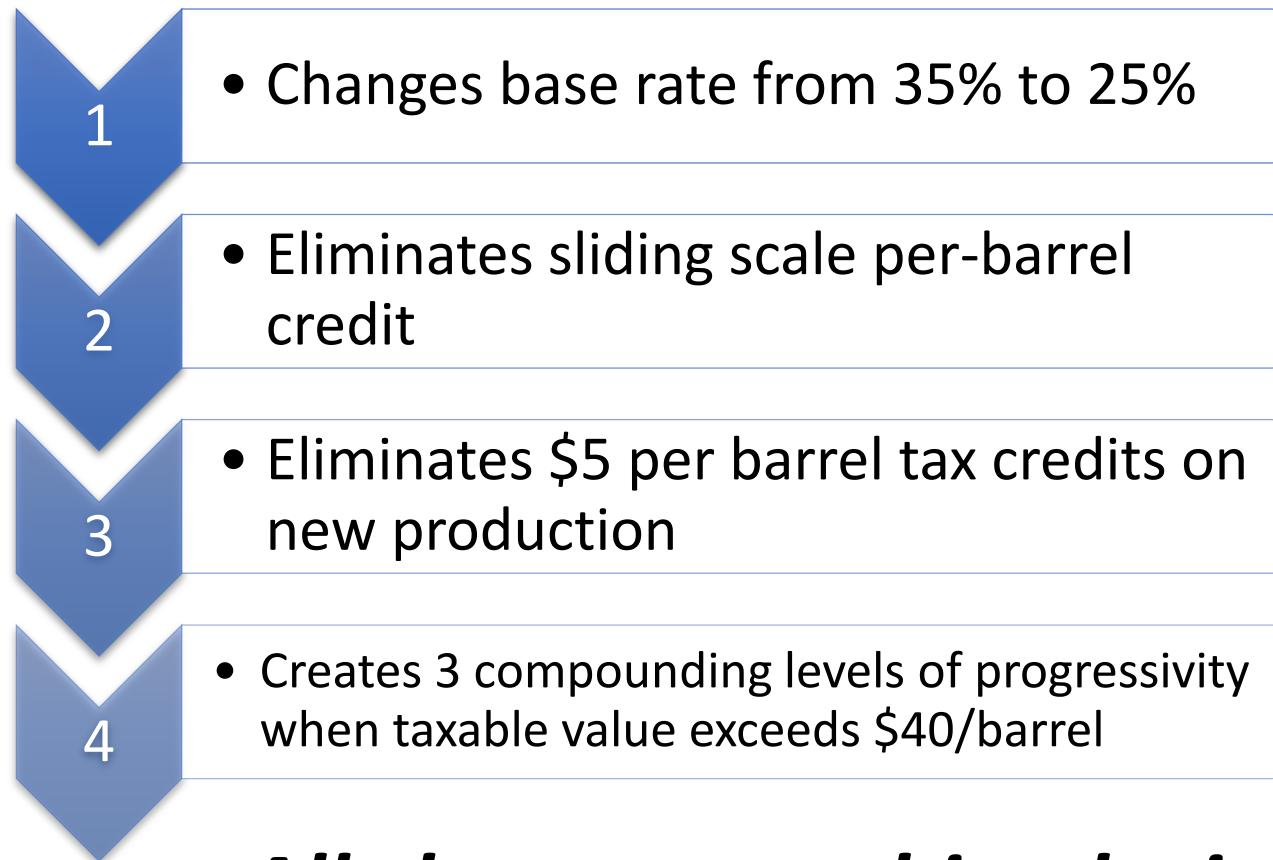
EFFECTIVE TAX RATES  
INCLUDING AD VALOREM TAXES  
Fiscal Year ended 6-30-16



Source: Idaho Department of Lands. (2017). 2016 Oil and Gas Taxation Comparison.

*Investment decisions are based  
on ALL tax rates.*

# HB 411 Major Policy Changes

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- 1 • Changes base rate from 35% to 25%
  - 2 • Eliminates sliding scale per-barrel credit
  - 3 • Eliminates \$5 per barrel tax credits on new production
  - 4 • Creates 3 compounding levels of progressivity when taxable value exceeds \$40/barrel

**All changes combined triple production tax at current prices**

# Per Barrel Credits “Integral”

*“The credit against the production tax is not really a credit; it has an explicit tax-rate-setting goal.”*

Enalytica, Legislative Consultant – June 17, 2015

*“With SB 21 the (per barrel) 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.”*

DOT Tax Division Director – June 17, 2015

*“(per barrel credit) is an adjustment of effective tax rate to offset high royalty at low prices.”*

Roger Marks, Legislative Consultant, April 15, 2017

# Speaker Edgmon on Industry Taxes

Speaking about broad-based and the potential for industry taxes:

“I don’t see that (industry taxes) on the table.”

- Speaker of the House Bryce Edgmon  
Resource Development Council Breakfast Forum  
January 4, 2018

# The Walker Administration Opposes HB 411



“The Administration does not support this bill (HB 411) and we do not support changing the oil tax system at this time.”

- Commissioner Sheldon Fisher  
House Finance Committee  
April 10, 2018