



AOGA

Alaska Oil & Gas Association

HB 411 – Oil & Gas Production Tax

House Finance Committee
April 11, 2018

AOGA Membership



Unstable Tax Policy

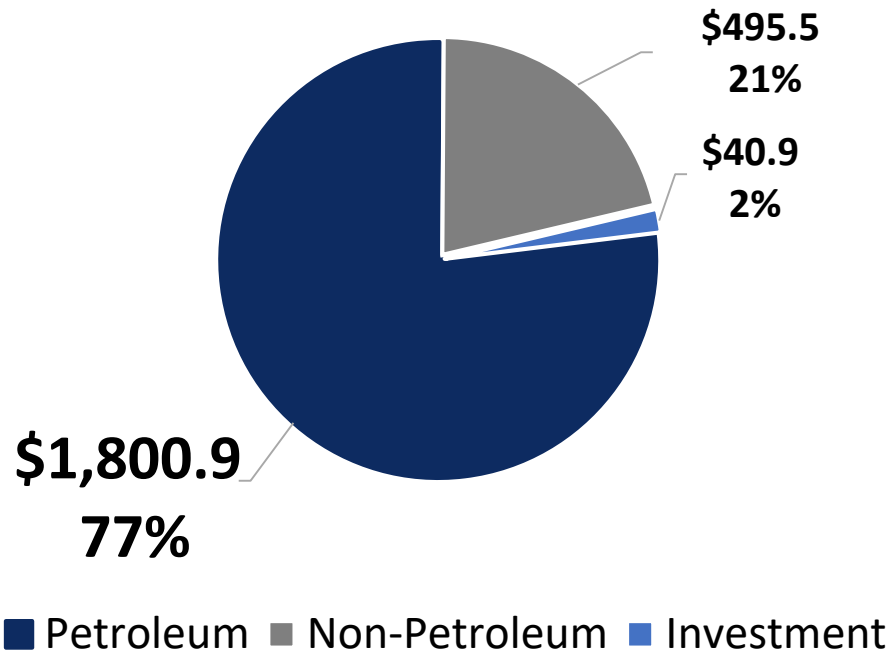
Dates	Tax Policy Change	Increase/ Decrease?	AOGA Position
Feb. 2005 - March 2006	Aggregated ELF - Administrative decision altering gross production tax	Tax Increase	Opposed
April 2006 - July 2007	Petroleum Production Tax (PPT)	Tax Increase	Opposed Final Version
July 2007 - 2013	Alaska's Clear and Equitable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

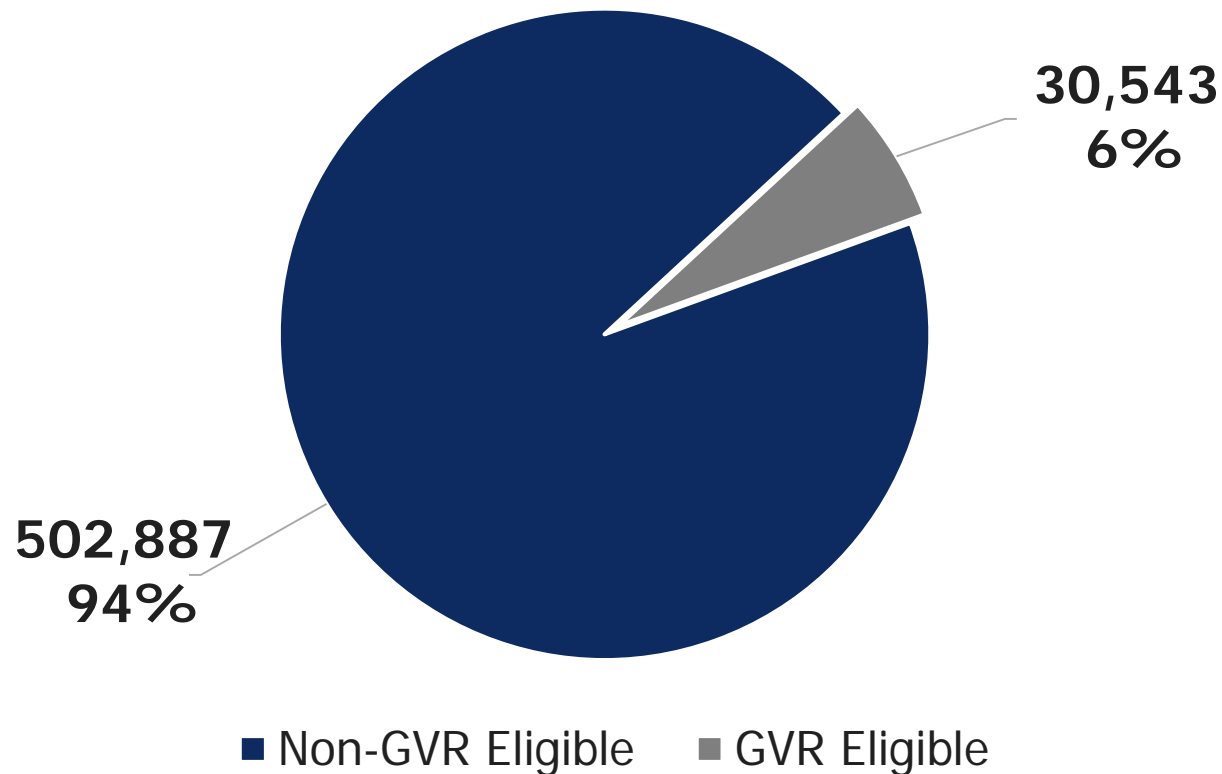
Source: Spring 2017 Revenue Sources Book, Department of Revenue

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

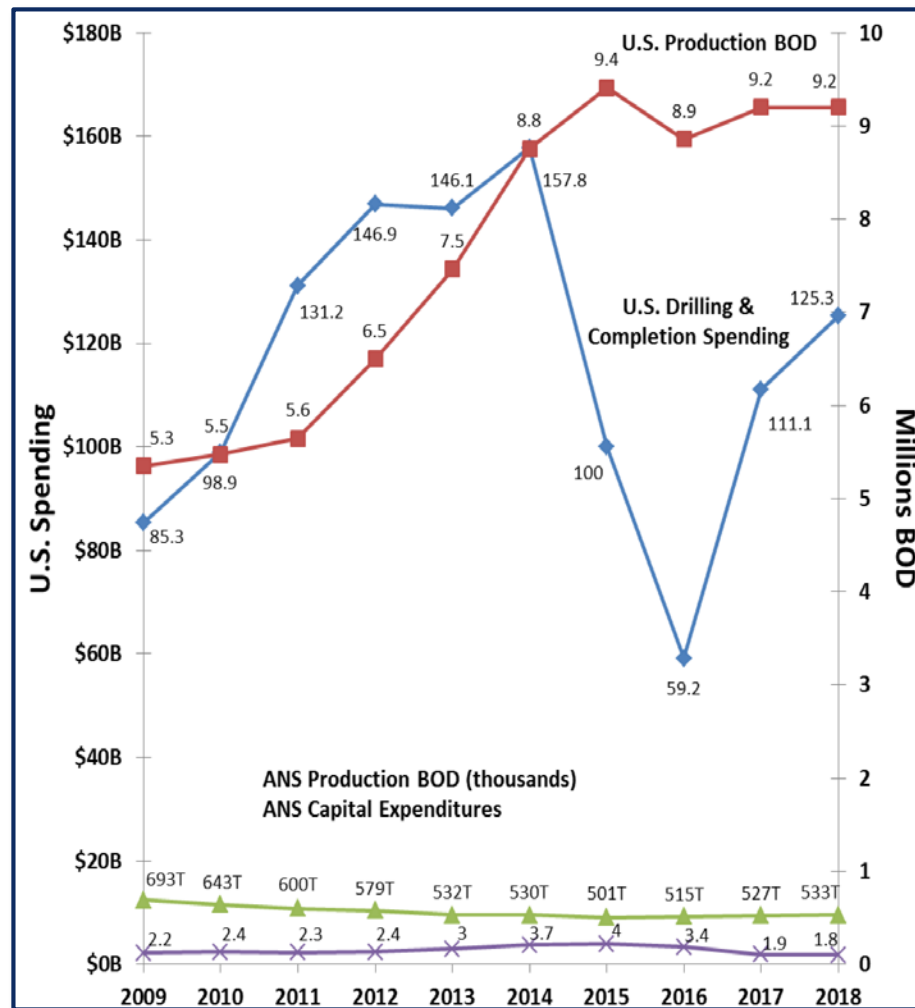
Today, Alaska is only capturing 1.7% of total U.S. investment, or ~\$1.9 billion in capital.



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



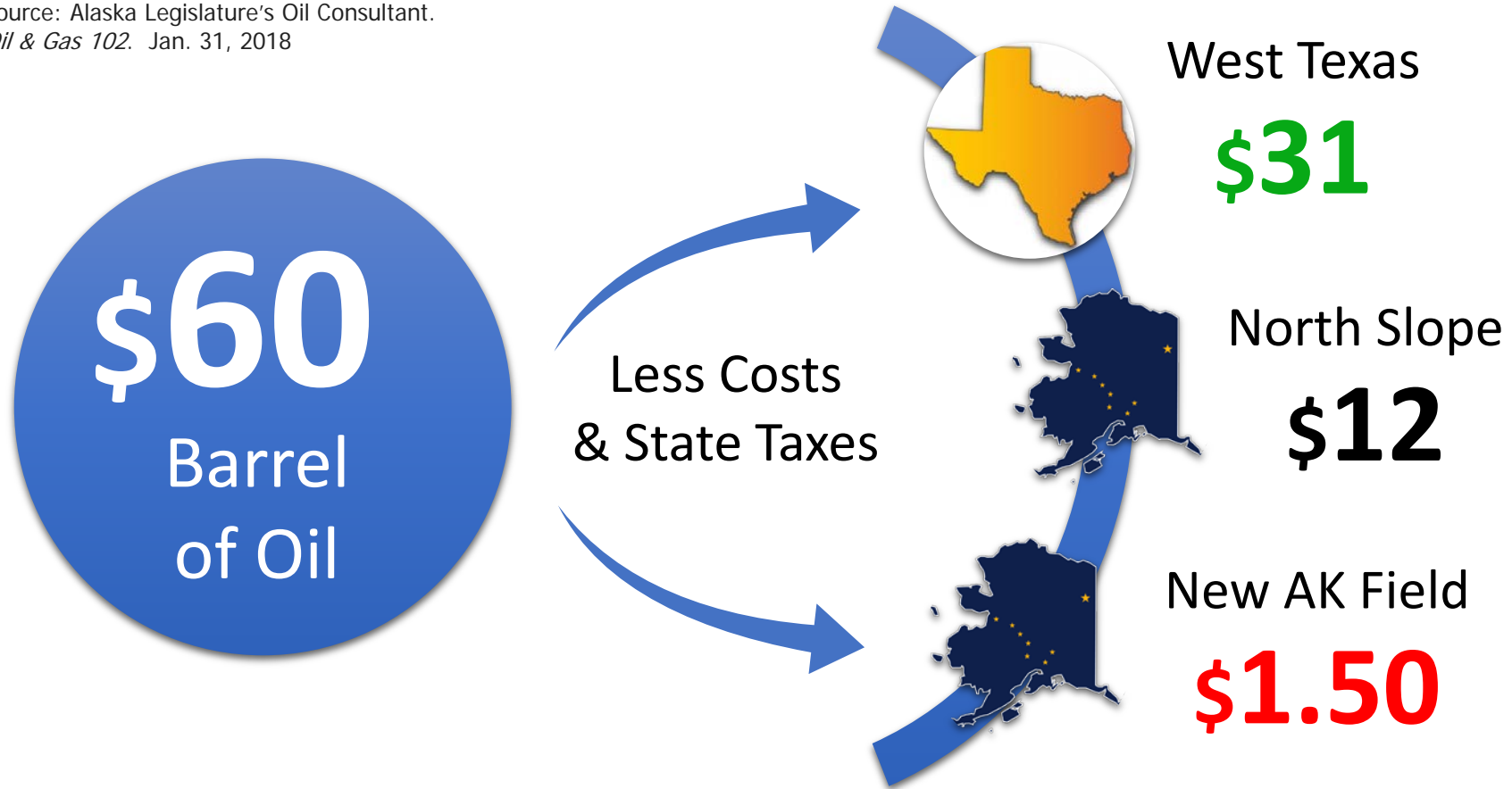
How does Alaska compete for the investment capital necessary to grow production beyond 2018?



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

How much do producers earn?

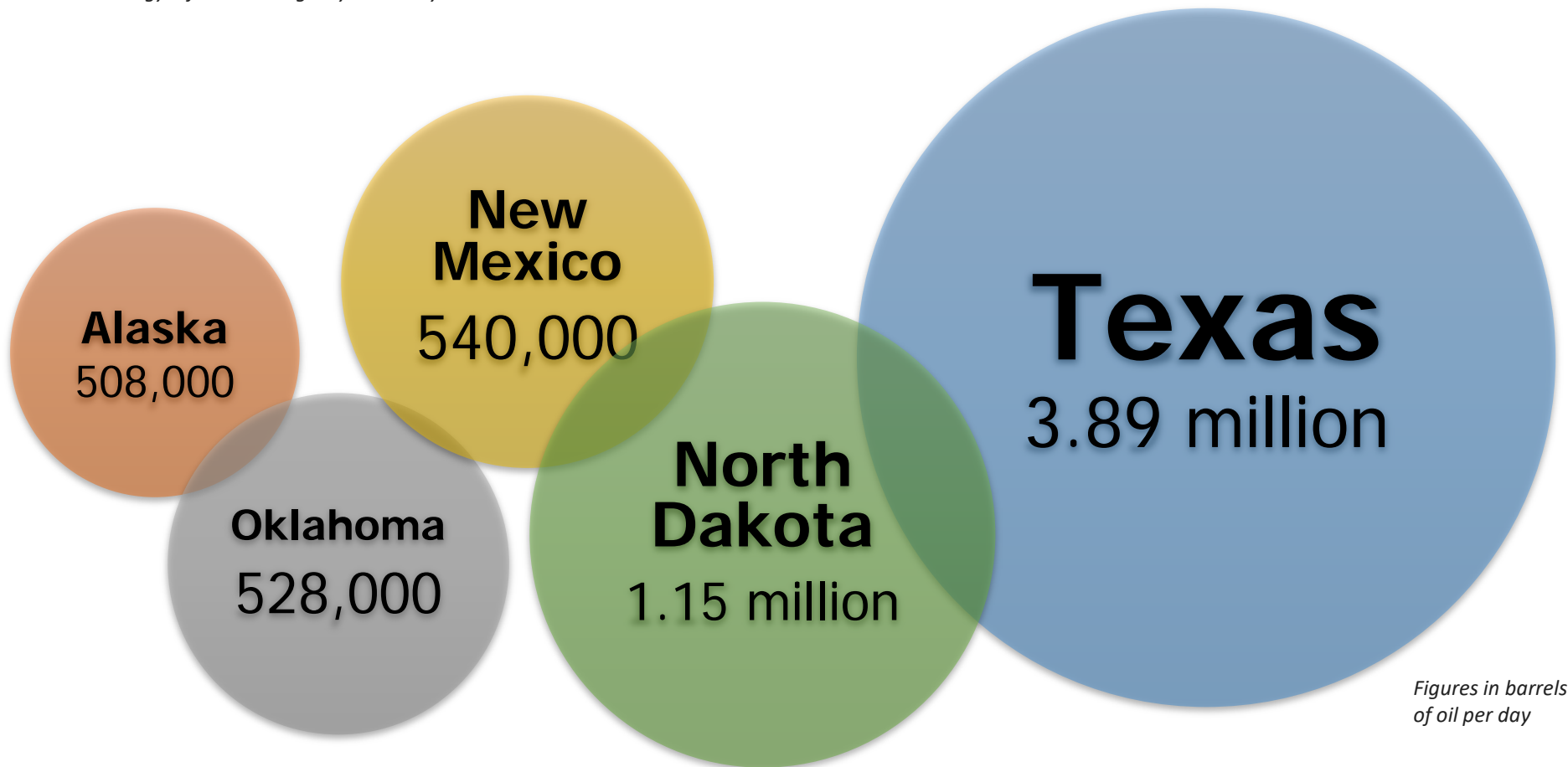
Source: Alaska Legislature's Oil Consultant.
Oil & Gas 102. Jan. 31, 2018



Where would you invest?

Alaska is Falling Behind

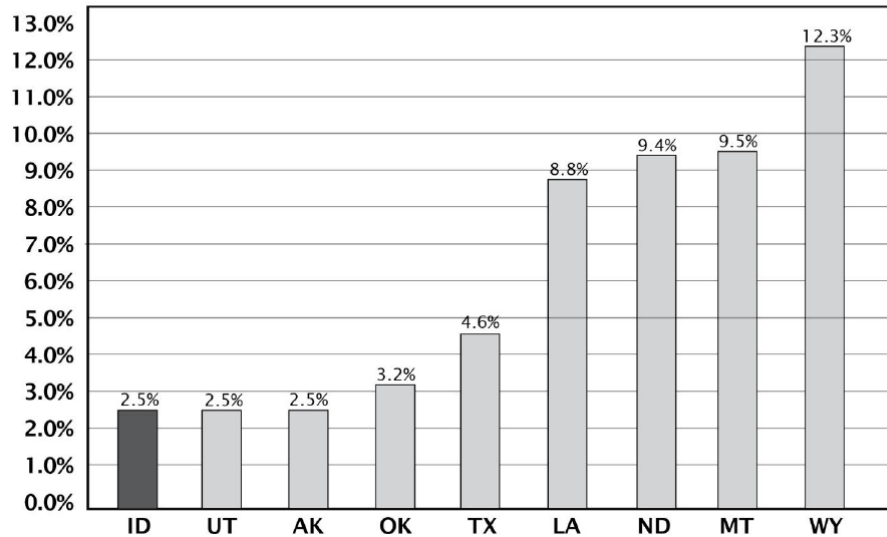
Source: U.S. Energy Information Agency – January 2018 Oil Production



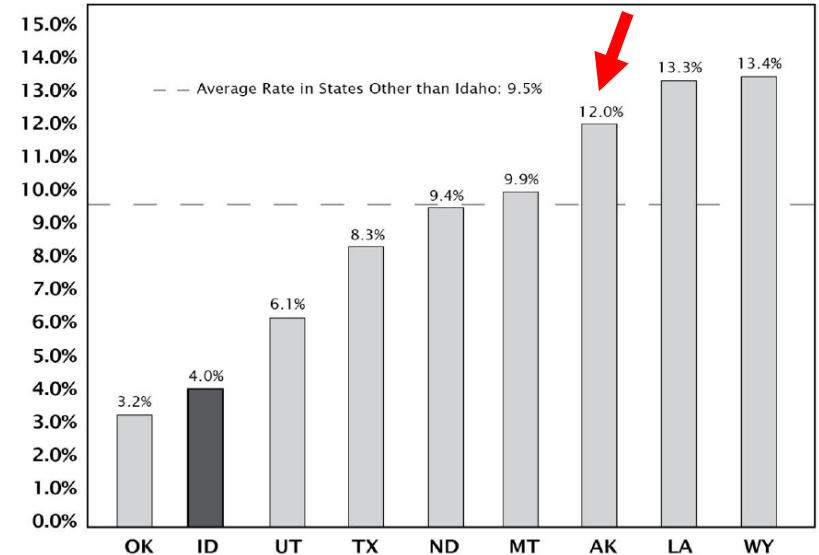
Alaska now ranks 5th among U.S. oil producing States

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

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.”

DOR 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