THE ALLIANCE
...for responsible development of Alaska's Oil, Gas & Mineral Resources

May 16, 2016

Senator Peter Micciche
Alaska State Capitol
Room 514
Juneau AK, 99801

Senator Micciche:

You asked the Alliance to provide specific recommendations on the bill before Senate Finance, CSHB247 Rules, amended House. As you are aware, the Alliance has opposed any changes to our current tax structure. That opposition has not changed, however, the recommendations below would make a terrible bill somewhat better.

The policy recommendation is to maintain a long-term, significant source of revenue for the state by:

- Encouraging investment when oil prices rebound
- Incentivizing activity that leads to production in existing fields and in exploration and development that will lead to new production.

With that background we provide the following recommendations with regard to CSHB247 (RLS) amended House:

Cook Inlet:

- Delete the repeal of the Cook Inlet tax cap.
- Restore the 25% NOL that was in the Governor's Bill.
- Restore the 20% Qualified Capital Expenditure.
- Maintain the 40% Well Lease Expenditure through 2016; 30% in 2017; 20% in 2018; 10% in 2019; 0 in 2020.
- Utilize the Oil and Gas Competitiveness Review Board Recommendations on the Cook Inlet Tax System due January 2017 as a guide for future decisions.

Middle Earth:

- Keep the Middle Earth credits as they were in the Governor's bill

North Slope:

- Maintain the 35% North Slope NOL Credit as the Governor's bill did.
- Maintain the North Slope Minimum Tax "floor" that is in current law.
- Eliminate Repurchase Caps.
- New oil becomes legacy oil after 10 years.

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- Allow sunset of exploration credits while extending the Frontier credit to 7/1/17 and allow single well completion.

Statewide:

- Reduce statute of limitations from 6 years to 3 years. This would resolve the interest rate/compounding issue and put Alaska in line with other states.
- Affirm that the production tax return is an annual tax return, not a monthly tax return, and that the calculation of tax should be done on an annual basis with estimated monthly payments as is currently provided for in current law.
- Eliminate Section Q as non-state leases still pay production taxes and should be eligible for state credits.

CSHB247 was passed by the House and Commissioner Hoffbeck told your committee the Governor would support that version. According to the 5-13-16 DOR fiscal note on the bill, there would be no new revenue in FY 17 and only a $15 million budget savings with the changes to Cook Inlet and Middle Earth.

The above recommendations would be consistent with the bill in providing no new revenue in FY 17, but would eliminate the $15 million budget savings. Given the choice between jeopardizing any future investment or production in Cook Inlet and Middle Earth and the corresponding energy security and revenue for the state, or reducing the FY 17 budget by $15 million, we support a budget reduction.

Thank you for your consideration,

Peter J. Stokes
President
Alliance Board of Directors

cc: Members of Senate Finance Committee