arctic slope regional corporation

March 27, 2013

Representative Eric Feige
Co-Chair
House Resources Committee
Alaska State Legislature
State Capitol Building
Barnes 124
Juneau, AK 99801

Representative Dan Saddler
Co-Chair
House Resources Committee
Alaska State Legislature
State Capitol Building
Barnes 124
Juneau, AK 99801

Dear Co-Chairs Feige and Saddler:

On behalf of Arctic Slope Regional Corporation, I am writing to share with you ASRC's position on oil tax reform, specifically SB 21. Thank you for your leadership on this issue and for the opportunity to weigh-in on this important piece of legislation.

By way of background, ASRC is the largest Alaskan-owned company with approximately 10,000 employees worldwide, with approximately 5,000 employees in Alaska. ASRC represents the business interests of 11,000 Iñupiat shareholders who primarily reside within the boundaries of the North Slope.

The ASRC enterprise is heavily invested in this state. In Alaska we provide quality services to the oil and gas industry through our subsidiary ASRC Energy Services; we draw crude from the Trans Alaska Pipeline System to process through our refineries in North Pole and Valdez- supplying marine, jet and home heating fuel and ultra-low sulfur diesel to the Alaskan market through our subsidiary Petro Star, Inc.; we are involved in commercial construction projects through our subsidiary ASRC Construction Holding Company; and, we are a resource owner, developer and explorer in this state.

Some of our ownership interests are subject to Section 7(i) of the Alaska Native Claims Settlement Act, and our ability to explore, develop and produce on those lands benefit every region in this state. The absence of a stable tax regime and positive investment climate for the oil industry has a material negative impact on how we develop or not develop those lands.

I submit our comments from the perspective of an employer and a company with an enterprise involved in the value chain of oil development in this state, from exploration through refining product and all services in-between.

There are some positive aspects to SB 21, and areas in need of improvement. Here are some areas of the bill ASRC wishes to highlight:

- The community sharing provision is a good start, and we encourage the Legislature to continue to consider linking it to a percentage of the tax, versus the current language of a legislative appropriation. We feel this is a more objective approach to sharing revenues with Alaskan communities.

- We support the 35% Loss Carry Forward (LCF) Credits, as currently written. They enable explorers, small producers, majors and organizations like ASRC to receive carry-forward loss credit, through a transfer, refund or tax deduction. This flexibility is attractive to ASRC.

- We support the $5 per barrel tax credit for producers of oil.

- We support the 10% service credit because it stimulates the economy within the service industry. Our subsidiary, ASRC Energy Services, employs thousands of Alaskans, and this credit could help us revamp our fabrication and construction services in the state.

- As currently written, we are concerned that this legislation will negatively impact our ability as a small producer, through our subsidiary, ASRC Exploration LLC, and the ability of other small producers, to maintain or grow existing production for the following reasons:

    1. The elimination of “a credit for a qualified capital expenditure incurred to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude” after December 31, 2013 would cause small producers to invest less of their capital in marginal exploration and development opportunities in their leaseholds. It is not good for new investment.

    2. As currently written, the Gross Revenue Exclusion (GRE) does not allow for new oil within the existing small producer units or PA’s. This will cause the small producer to invest less of its capital in marginal development opportunities within their units or PA’s.

    3. By not extending the Small Producer Credit under AS 43.55.024 to 2022, current small producers would be less likely to explore for and develop any oil and gas deposits on leaseholds outside of their units that could add new production to their unit positions.

    4. Deletion of the proposed modification of the Exploration Tax Credit (ETC) that eliminated the 3-mile buffer for drilling and extended the deadline for ETC’s to 7/1/2022 would remove any incentive for a small producer to add new production to its unit or create other opportunities for new production.

- With respect to gross revenue exclusions (GRE), while we feel the base tax rate of 35% is too high, we could support it *if* it were coupled the following changes:

    1. Remove language contained in **Section 29** that currently requires the well to be "accurately metered and measured to the satisfaction of the Commissioner of the Department of Revenue." It is unclear what "to the satisfaction of the Commissioner" means, and it creates ambiguity at a time when we need certainty. This language implies that there is an absence of this practice, and ASRC, as a small producer, stands by its metering and measuring practices, which are currently monitored by the AOGCC. Further, in its current form, producers do not have certainty that a new well will be eligible for the 20% GRE. If the State wants new oil, then any new well should count for that exclusion.

        Layering on an addition approval process between ADOR and ADNR for "new oil" would be onerous and inefficient. We support having new wells eligible for the GRE. Removing this language would eliminate the dual approval process obligation and give incentives for new production, thus making investments that grow production more attractive.

    2. Remove the language also contained in **Section 29** that creates a requirement that the producer "demonstrates to the Department of Revenue the volume of oil or gas produced from that well." This requirement would be burdensome, expand State bureaucracy, and would inhibit oil and gas investment. If a well is drilled and it produces oil or gas, simply put, it should qualify.

This has been a long and challenging process. I sincerely believe we all want what is best for Alaska, our economy and the industry on which our state is dependent. As an employer, service provider, resource owner, explorer, producer and developer, ASRC is in a unique position to provide comments. While some may be looking at this issue through a narrow lens, we have the fortune to see this issue from several important viewpoints. ASRC strategically plans for a sustainable future in Alaska and we support a healthy and robust oil industry here. Again, thank you for your leadership on this issue and for the opportunity for input into the process.

Respectfully,
ARCTIC SLOPE REGIONAL CORPORATION

Richard K. Glenn
Executive Vice President
Lands and Natural Resources