House Resources Committee

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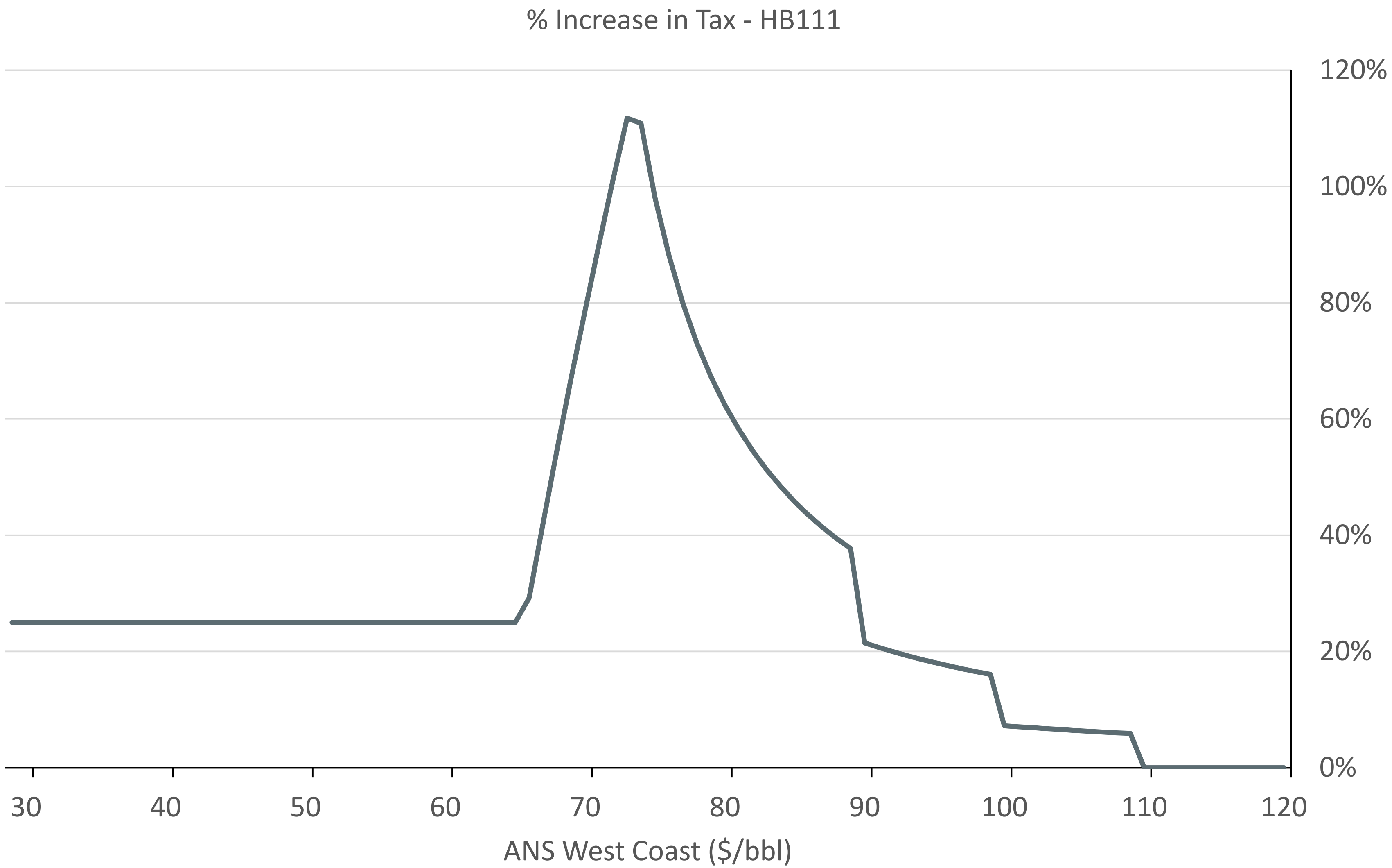
HB 111 – Significant Change in the Cost of Business

- Minimum tax rate increase (4% to 5%) is a 25% tax increase
- Per barrel tax credit reduction
  - Fundamentally changes tax rates
  - Tax doubles at certain prices
- Interest change punitive – State largely controls the pace of audits
- “Migrating” tax credit change
  - Creates a monthly tax
  - Inconsistent with an annual tax

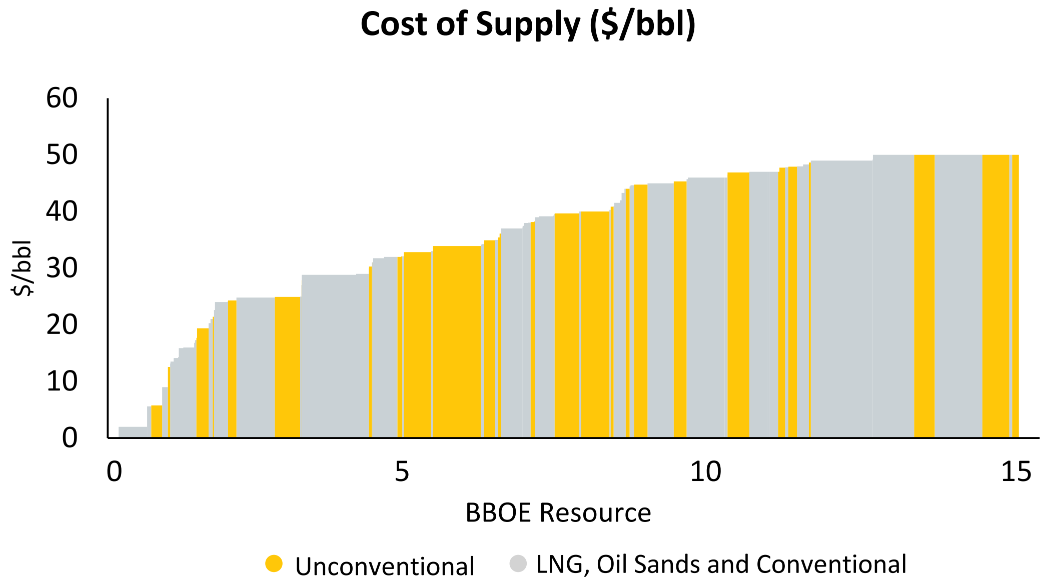
Increasing taxes makes Alaska less competitive

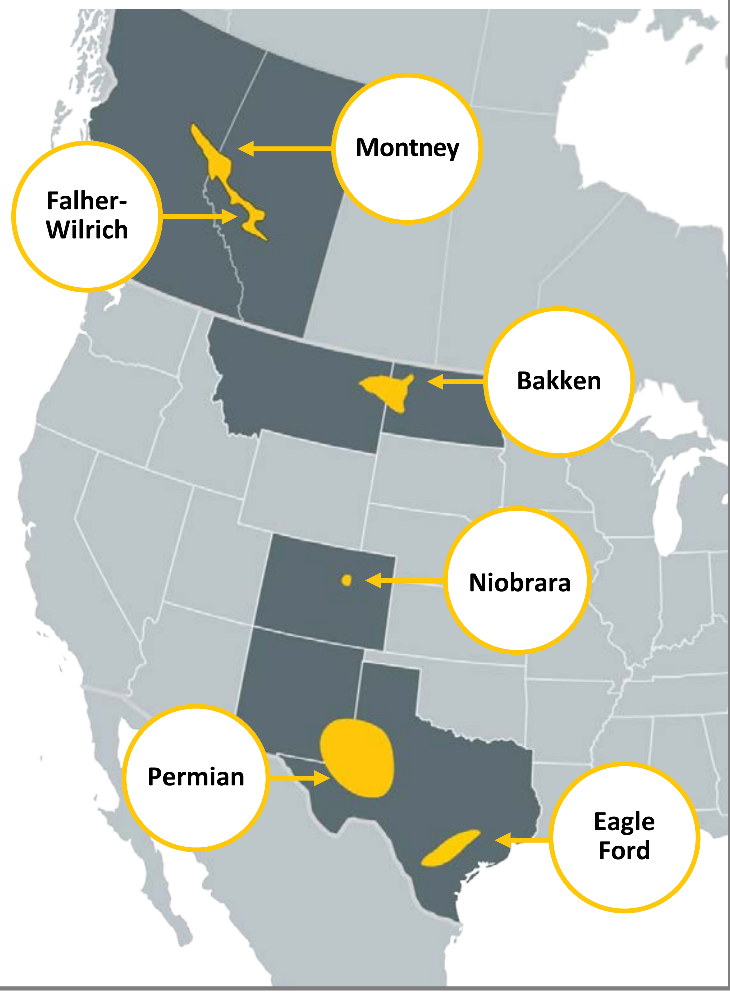
Increase in FY 2018 Production Taxes – HB111



Fall 2016 RSB Data

Unconventional: Top-Tier Resource Base and Growing[1]





- Flexible, short-cycle investments with low execution risk
- High-margin production drives cash flow growth
- Prudent development pace maximizes value

~7 BBOE RESOURCE
~$35/BBL AVERAGE COST OF SUPPLY

[1] Source is ConocoPhillips 2016 Analyst & Investor Meeting (November 10, 2016)

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“Migrating” Per Barrel Tax Credits

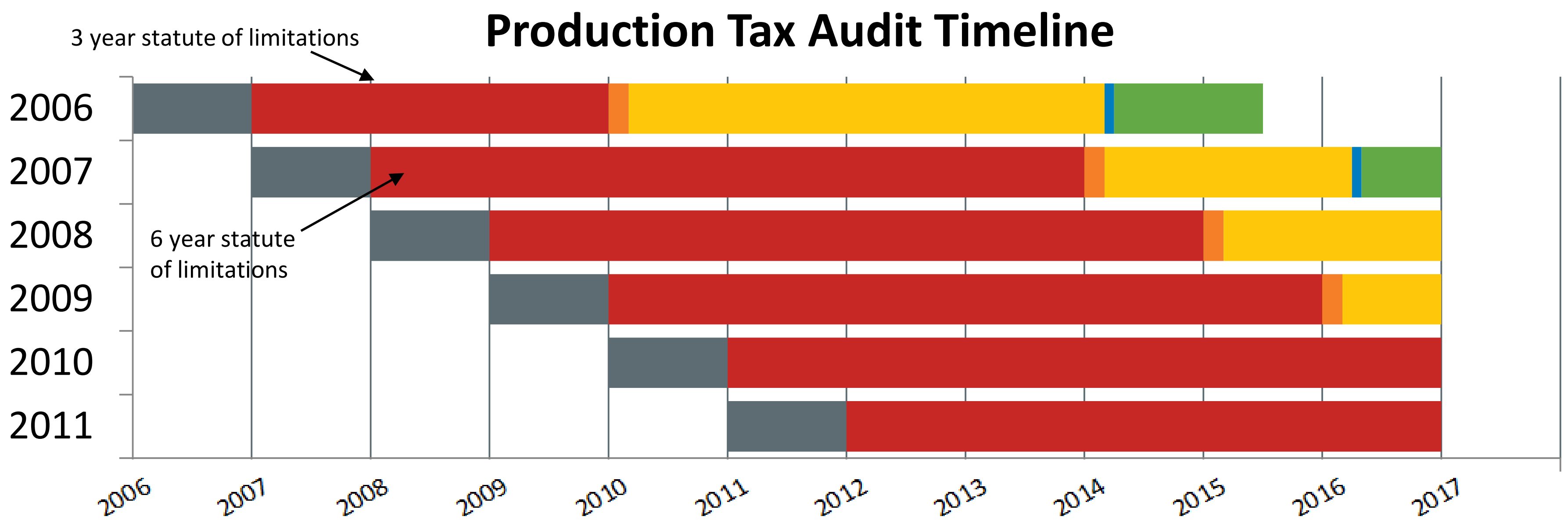
- Production tax is imposed annually

- Estimated payments are made monthly, an annual tax return is filed in March

- Proposed change for tax credits moves toward a monthly tax
  - Increases the complexity of an already complex tax
  - Creates an imbalance in an annual tax system – all other components are calculated on an annual basis

- No such thing as “migrating” credits – the tax system was meant to be on an annual basis

Basis For Interest Change Unsupported



- Tax Year
- Audit – ACES regulations not finalized until 2010
- Informal Appeal
  - 60 days to file from Notice & Demand
  - Appeals Officer assigned (w/in Dept.)
- Informal Decision
  - No deadline for decision
  - Decision is issued
- Formal Appeal
  - 30 days to file appeal
- Hearing
  - Office of Administrative Hearings
  - Assigns Administration Law Judge
  - No deadline for decision
  - Decision is issued

The pace of this timeline is largely determined by the State

Wrap up

- HB111 represents a significant increase in the base tax structure in an already high cost environment– moves Alaska in the wrong direction
- The changes to use of per barrel credits and interest are not supported – simply a tax increase
- Hardening the floor – another tax increase
- SB21 is working – it has stimulated investment resulting in jobs, production, and increased State revenue – let it continue to work