

Alaska Oil and Gas Association



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March 9, 2021

VIA EMAIL: Senate.Resources@akleg.gov

Senator Josh Revak, Chair
Senate Resources Committee
Alaska State Capitol
120 4th Street
Juneau AK, 99801

RE: Senate Bill 61, Oil/Gas Lease: DNR Modify Net Profit Share

Dear Chairman Revak:

The Alaska Oil and Gas Association (AOGA) has reviewed Senate Bill 61 (ver A), which would authorize the Department of Natural Resources (DNR) Commissioner to modify net profit share leases (NPSLs) in cases where it is determined oil and gas production would otherwise become uneconomic. On behalf of our membership, we write to express our support for this legislation.

As for many, 2020 was an unprecedented year for the oil and gas industry. From an international price war rapidly increasing the world's oil supply, to a global pandemic drastically reducing demand, the global market changed seemingly overnight. Alaska's industry faced crises of storage capacity, an oil price collapse of record proportions, and a significant decrease in operations to ensure the health and safety of our workforce and communities we operate in. For the first time since 1977, drilling on the North Slope virtually stopped in response to the COVID-19 pandemic. In less than a year, Alaska's oil and gas sector lost more than 2,000 jobs.

While today, oil prices are slowly rising and production has largely rebounded, the ripple effects of 2020 and significant fiscal impacts are still being felt. Ensuring Alaska's fields are economic and the state's fiscal regime remains competitive is key to the recovery of Alaska's largest industry.

Senate Bill 61 provides an additional regulatory tool in the State's toolbox to incentivize and grow oil and gas production, and does so at a pivotal time, particularly for the State of Alaska. Increased production would lead to more revenue to the state through royalties and taxes paid.

Under current law, the DNR Commissioner can modify royalty rates for oil and gas leases in cases where it is demonstrated, by a rigorous standard of proof, that the economics warrant a change and it is in the best interest of the State. This has proven to be a necessary and effective tool, providing flexibility in managing different cost structures, market dynamics, and project economics. By extending the same authority to NPSLs under similar circumstances, Senate Bill 61 provides an additional lever to pull, on a case-by-case basis, to help extend the life of a field.

Oil and gas production, especially in the Arctic, is subject to ever-changing market factors over the life of a project. Companies make sizable investments without seeing returns for years in most cases, all while being impacted by global and market forces out of their control. Providing DNR the option to better align the lessor and lessee(s) of a particular development, and to determine the most appropriate tool while doing so (e.g. potential royalty or NPSL modification), maximizes the potential for increased production, and thus State revenue, that might not otherwise be realized.

Similar to the current royalty modification process, Senate Bill 61 enables DNR to, under specific conditions, modify NPSLs as a means to 1) incentivize production by improving general project economics and 2) extend the life of an existing field when the cost of aging assets may otherwise prematurely shut-in production. This in turn heightens the potential for State revenue generation through added royalties, severance tax, and lowered per barrel tariff on the Trans Alaska Pipeline System (TAPS), increasing net revenue back to the State.

Better aligning the State of Alaska with its industry partners towards a shared goal of increased production is in both parties' best interest. Ultimately, all Alaskans benefit from increased production through a strong economy and good-paying jobs, as well as increased royalties and taxes that fund the Permanent Fund and essential state services.

AOGA thanks the bill sponsor for bringing this legislation forward and encourages the passage of Senate Bill 61. Thank you for your consideration and the opportunity to provide comments.

Sincerely,

A handwritten signature in black ink that reads "Kara Moriarty". The signature is written in a cursive, flowing style.

Kara Moriarty
President/CEO
Alaska Oil and Gas Association

CC: Senate President Peter Micciche, Vice Chair, Senate Resources Committee
Commissioner Corri Feige, Department of Natural Resources
Deputy Commissioner Sara Longan, Department of Natural Resources