

Alaska Oil and Gas Association



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Kara Moriarty, President & CEO

February 3, 2022

VIA EMAIL: Senator.Shelley.Hughes@akleg.gov

Senator Shelley Hughes
Alaska State Capitol
120 4th Street, Room 30
Juneau AK, 99801

RE: Senate Bill 13, Oil and Gas Property Tax

Dear Senator Hughes:

The Alaska Oil and Gas Association (AOGA) has reviewed Senate Bill 13 (version B), which proposes a 50% increase to oil and gas property taxes, from 20 to 30 mills. On behalf of our membership, we write to express our opposition to this legislation. This letter is an update to our letter of opposition sent to Senator Begich in the 2021 regular session.

Our previous letter outlines the numerous ways 2020 was a challenging year for the oil and gas industry in unprecedented ways. While oil prices have increased since the height of the pandemic, most of those challenges remain.

Even though the Energy Information Administration and the International Energy Administration have both forecasted the continued strong demand for oil and gas to remain for the next several decades, the current federal administration does not seem to prioritize oil and gas development in this country. Instead, they want to threaten our energy independence, and have encouraged foreign countries to increase production, versus encouraging increased production in America.

Furthermore, the industry is experiencing increased pressure from financial institutions refusing to fund projects – or even bank with – companies operating in the Arctic, increasing the difficulty in securing financing for projects to move forward. In fact, the Legislature's consultant gave a presentation to the Legislature during the third Special Session in September 2021 where they identified over eighty institutions who have stated

they will no longer invest in fossil fuel projects in the Arctic or will divest from any current investments they have in the Arctic.

For companies who are not seeking external financing, competition exists internally for their own limited capital dollars. Alaska projects compete for investment against lower-cost projects in other oil producing locations, and with other types of energy projects. The competition for capital has never been greater, both internally and externally; any additional financial burdens will undoubtedly impact investment decisions and the competitiveness of Alaska compared to other regions.

Finally, the industry has yet to recover the extreme loss of jobs caused by the economic shock of the pandemic. In October 2021, the State of Alaska Department of Labor and Workforce Development issued a report regarding unemployment rates, comparing the number of jobs in a variety of industries from September 2019 to September 2021. The report showed the oil and gas industry was still experiencing the highest percentage of job losses, even greater than that experienced by the hospitality and tourism industries. Statistics from recent months show there has been minimal improvement or jobs gains and oil and gas remains behind all other sectors in regaining the percentage of jobs lost.

As we stated in our previous letter of opposition, the proposed tax increase in Senate Bill 13 is problematic for two primary reasons: 1) it represents a gross tax increase irrespective of oil price, current costs, or health of industry; and 2) it calls into question the State of Alaska's oil and gas tax policy goals. Our members would agree with the Sponsor Statement that "frequent changes to taxes on variable commodity prices" make investment decisions challenging. However, a fixed cost of this nature does not consider fluctuations in oil price, production, or other circumstances that impact profitability. Therefore, for the same reason this proposal may appear a "predictable revenue source" for the state and not subject to market changes, it is of great concern to industry, not only regarding the existing high cost of operating in Alaska, but to overall competitiveness of the region.

Further, while it is most certainly the purview of the Alaska State Legislature to review and adjust Alaska's oil and gas tax structure, whether intentional or not, tax proposals of this kind have a ripple effect. Investors become unsure what State of Alaska leaders are seeking as a policy goal; increased jobs, oil production, and long-term economic growth, more companies exploring in Alaska, or simply short-term revenue? The world market is ever-changing and as highlighted above, Alaska projects compete for global capital like never before. Given this reality, we encourage any proposed tax to clearly identify the policy goal it is trying to achieve, and for it to be thoroughly analyzed as one part of an overall system of competitiveness.

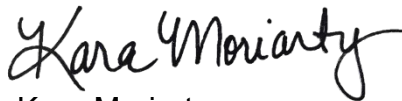
Since the 2013 tax changes, North Slope production has stabilized, with production numbers now increasing to a projected 486,000 barrels per day in FY22, and 500,200 in FY23, according to the State's production estimates. By all objective measures, the

current tax structure is achieving its goals and working, showing durability even through a global pandemic.

In the oil and gas business, stability is critical to investment and project assessments made years in advance. Ensuring Alaska remains a competitive jurisdiction, for the benefit of all Alaskans, is undoubtedly a shared goal. Pulling one lever of Alaska's tax and royalty regime without an in-depth understanding of what it does to the overall fiscal system can result in unintended consequences.

Thank you for this opportunity to provide comments.

Sincerely,

A handwritten signature in black ink that reads "Kara Moriarty". The signature is fluid and cursive, with the first name "Kara" being more prominent than the last name "Moriarty".

Kara Moriarty
President/CEO
Alaska Oil and Gas Association

CC: Senator Tom Begich, Minority Leader, Bill Sponsor
Senator Robert Myers, Vice Chair, Senate Community & Regional Affairs Committee
Senator Lyman Hoffman, Senate Community & Regional Affairs Committee
Senator David Wilson, Senate Community & Regional Affairs Committee
Senator Elvi Gray-Jackson, Senate Community & Regional Affairs Committee