Alaska Oil and Gas Association

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VIA EMAIL: Senator.Tom.Begich@akleg.gov

Senator Tom Begich
Alaska State Capitol
120 4th Street, Room 11
Juneau AK, 99801

RE: Senate Bill 13, Oil and Gas Property Tax

Dear Senator Begich:

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.

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, operations changed seemingly overnight. Alaska's industry faced crises of storage capacity, an oil price collapse of record proportions, and cutting back operations to ensure the safety of our workforce and communities. For the first time since 1977, drilling had virtually stopped on the North Slope in reaction to the COVID-19 pandemic. In less than a year, the sector lost over 3,000 jobs. Simultaneously, Alaska's industry was targeted with an oil tax ballot measure aiming for a massive production tax increase of 150-300%.

While today, oil prices are slowly rising and production has largely rebounded, the ripple effects of 2020 and significant financial losses are still being felt. Our industry remains optimistic about Alaska's potential, but volatility remains elevated and economic recovery will take time. Furthermore, we believe Alaskans spoke clearly in November 2020 by voting down Ballot Measure 1 (19OGTX), a tax increase on industry, by 58% to 42%.

Recent events aside, 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 that "frequent changes to taxes on variable commodity prices" make investment decisions challenging, as outlined in the Sponsor Statement. However, a fixed cost of this nature does not take into account 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 functions of industry, not only in regard to 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? Lengthening the life of production? More companies exploring in Alaska? Or simply short-term revenue? The world market is ever-changing and Alaska has to 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.

In 2013, taking into account the system as a whole, the State of Alaska passed a balanced production tax with the policy goal to increase exploration and production. Per state officials, Alaska's 2019 oil and gas exploration season saw its highest activity level in 20 years. Once the industry is back on-step, recent discoveries and projects on the horizon have the potential to add an additional 2.6 – 3.1 billion barrels of oil down the pipeline. Since the 2013 tax changes, North Slope production has stabilized, and in FY19 was 75,000 barrels/day above what was forecasted under the former tax structure. 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 are made years in advance. 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. The Alaska State Legislature contracts with consultants for the purpose of providing analysis and advice. We suggest thoroughly evaluating this proposal with in-depth analysis of potential impacts. Proposing this type of targeted tax increase sends a discouraging signal to industry, impacting investment decisions and potentially the long-term economic health of the state. Especially given the unprecedented economics of late, we encourage the Legislature to work with their consultants to inform how the industry has changed over the course of the last 24 months before making any changes.

As Alaskans ourselves, we recognize the very serious nature of the state's ongoing budget deficit and the reality that all revenue ideas should be up for consideration. However, given both its delicate economic timing and ultimate impact on investment, it is our expectation that should this legislation be enacted, the intended outcome of increased revenue to the state will not be realized.

Ensuring Alaska remains a competitive jurisdiction for the benefit of all Alaskans is undoubtedly a shared goal. Therefore, AOGA does not recommend the passage of Senate Bill 13. Thank you for this opportunity to provide comments.

Sincerely,

Kara Moriarty

Kara Moriarty
President/CEO
Alaska Oil and Gas Association

CC: Senator Shelley Hughes, Chair, Senate Community & Regional Affairs Committee
Senator Robert Myers, Vice Chair, Senate Community & Regional Affairs Committee