

HB

2001

(10/30/07)

PUBLIC

TESTIMONY

CVT
Blue

Thank you for allowing me ^{an} opportunity to testify on our flawed oil tax ~~system~~.

While I often times have reservation about referring to the sale of our states resources as a tax, it seems to ~~be~~ the word that has been given us and most easily communicates fiscal policy debate.

It is ~~is~~ my understanding that this committee is responsible for assessing the value of our oil resources and determining a fiscal policy that allows the state to place our oil into the market so as to "maximize the benefit" to the state.

It appears to me that this committee and indeed the legislature as a whole has abdicated ~~these~~^{gated} these responsibilities.

~~Why don't we take a look back~~

It's pretty clear that the Oil Industry wrote the PPT and submitted it through Gov. Murkowski.

~~It seems to me~~

This leaves the state in the unfortunate position of having to stumble into traps the industry has inserted into this complex piece of legislation. It condemns the state to a future of litigation.

The Big 3 have some of the best lawyers in the world and they love Monkeewrench law.

Just throw a monkeewrench into the already slow moving gears of justice and ~~that~~ the result is dozens of courtrooms jammed with cases similar to the Exxon Valdez damage case, now stretching into it's 30th year.

One of the reasons the Big 3 love this scenario is because the state pays the legal bill for our lawyers and theirs.

Thanks to a net profits based tax structure.

These goons write off the cost of their hired guns against ~~the~~ taxes owed the state. Or is it a direct credit? Who knows! The PPT is so flawed and complicated even our lawyers can't agree.

The legislative abdication of its responsibilities has not only led to a giveaway of our greatest resource it has put the state in a perpetual state of litigation.

Thank for that one!

Keep it simple we said. Citizens and oil experts alike warned of the perils of this type

~~at net based tax~~ at net based tax

Keep it simple we
~~had~~ said.

Gross tax ^{Point of} Production
~~based~~ tax.

For reasons that defy logic
you folks in Juneau ~~along~~
~~Republican party lines~~ decided
The cries of impoverishment
oozing from the Big 3 should
be rewarded ~~sweeteners~~, layered
with ~~credits~~ and ~~topped~~
with ~~clawbacks~~.

And reward these admitted
crooks you did.

Sweetener's layered with deductions, wrapped with credits, and topped with clawbacks.

Clawbacks! I see even our representatives are too embarrassed to defend this bit of creative accounting.

5 years of rebate, at state expense, for investment in infrastructure, a retroactive giveaway of state funds to perhaps the most profitable industry in the history of the world.

How do you explain this. The fact is it's indefensible

Please Give us a break.

If this special session ends with these "kickbacks" still intact even the least observant of us will know the fix is in.

Clawbacks

I thought it ~~was~~ some sort of joke at first. ~~Some say~~ OR maybe ~~some sort of~~ a ~~mistake~~ red herring to distract us while the rest of the bill was jammed down our throat.

I'd like to ask
this committee to
add a gross production
tax facet to this
piece of legislation.
I'd like to see
the state reap it's fair
share of the oil run-up.
Increasing from 2.5%
of every dollar starting
at \$50 per barrell
5% from \$40 per barrell

7.5% from \$70 per barrel
and topping out at
10% for every dollar
~~per barrel above~~
~~\$70~~ when the price
of oil bests \$80
per barrel.

These numbers
certainly could be
fine tuned by finance
or the Revenue Dept.
But you get the idea

Keep it Simple
The state deserves
it's fair share of
\$100+ a barrell oil
and it's your
constitutional obligation
to see that she gets
it -

Thank you
and good luck

Mark Sharp
907 479 5657

GREATER * FAIRBANKS CHAMBER OF COMMERCE

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October 29, 2007

The Honorable Sarah Palin, Governor
and
The Alaska State Legislature
Alaska State Capitol
Juneau, Alaska 99801

Dear Governor and Legislators:

The mission of the Greater Fairbanks Chamber of Commerce is to advocate for, and support, a strong investment and economic development climate in our community and our state. With this commitment in mind, the Chamber was a close observer of last year's PPT discussion. So it follows that this year's debate on a proposed replacement is being monitored just as carefully.

When all tax policy is concerned, the Chamber recognizes the delicate balance that must be struck. The State's petroleum assets are non-renewable. As such there is only one opportunity to receive fair value from the severed resource. On the other side of the fulcrum lies the responsibility to implement a tax structure conducive to enhancing future revenue opportunities through creation of a positive investment climate for businesses large and small.

Last year the Chamber supported replacing the obsolete ELF system with PPT, a plan designed to star revenues to the State that would satisfy a contemporary notion of "fair share". Of equal importance to Chamber members was PPT's tax credit program designed to kick-start an investment cycle that would help sustain the State until commercial quantities of North Slope natural gas could be delivered to market. The Chamber remains a strong advocate for both of these vital development objectives.

The Administration's ACES proposal has raised much concern among Chamber membership regarding the prudence of completely revamping a tax system that has been on the books only a short time. As proposed, ACES would change every single one of the PPT variables. These include:

- Net Rate
- Floor Rate
- Progressivity Rate
- Progressivity Starting Point
- Investment Tax Credit Structure

The Department of Revenue, in its August 2007 PPT Implementation Status Report, acknowledges that it is too early to tell if the PPT system will have the desired effect. So while it might be entirely possible that PPT will need some minor modifications to achieve the intended purpose, how do we know what these might be absent a sufficient assessment period?

PPT has returned a level of revenue to the State which is substantially higher than the ELF system it replaced. Yet, the Status Report complains that industry capital and operating costs have exceeded projections and as a result anticipated tax revenues

Benefactors

DIAMOND

Alaska Pipeline Service Co.
BP Exploration
Cotton Petroleum
Fairbanks Daily News Miner
Fairbanks Memorial Hospital
& Donnell Center
Hill Hills Resources Alaska
GCI
Sutrina's Flowers & Gifts
Wells Fargo

PLATINUM

Alaska Airlines
AT&T Alaska
Golden Heart Utilities
Mt. McKinley Bank
Phone Directorate Company
The Carbon Center

GOLD

Alaska Railroad
Alaska USA
Denali State Bank
Design Alaska
Dorson, LTD
First National Bank Alaska
Laborers Union Local 042
Military & Civilian KCU
Northern Bank
The Docking Co.
Unibell Coal Mine

SILVER

AFC
A/S Merrill
Blue Wire Technologies
Enron/Mobil
Fairbanks Building &
Construction Trades
Fairbanks Natural Gas
Flowing Alaska
Fred Meyer
DVA
Key Bank of Alaska
Personal Plus
Sethna Ford, Lincoln, Mercury
Tanana Valley Clinic
YQTE
UAF

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have not met expectations. The Report goes on to acknowledge the recent spate of extraordinary price increases for labor and materials that have beset the industry.

Upward spiraling cost trends defy accurate projections. Anybody in business during the 1970s or early 80s can attest to this. Revamping PPT to take a larger tax cut serves only to exacerbate this cost pressure. And it certainly does not work to achieve the investments the State needs on the North Slope. A final word on costs, the Department of Revenue Spring 2007 Revenue Source Book was prescient in its closing statement regarding PPT. "The PPT system is designed to encourage additional investment. If PPT is successful, costs will increase in the near term and production will increase shortly thereafter."

Of concern to all State residents is the implication that PPT deliberations were subject to undue influence. Much of the discussion on PPT centered on whether the tax rate should be 20% or 25%. Strong personalities on both sides argued the relative merits of each alternative. Yet, it's important to note that ultimately the Legislature did what legislatures do -- it compromised. In this case at a very predictable rate of 22.5%. While this was not the level the Chamber supported, membership understands the value in compromise and reconciliation in the interest of achieving a greater goal.

The Chamber membership applauds the Administration's efforts to enhance the quality of information flowing to and from State agencies as well as improving the structural flow of information among its various departments. Furthermore, the Chamber supports the Administration's desire to improve the level of expertise applied to complex tasks necessary to validate compliance with State law. These are prudent managerial objectives which could likely be accomplished in a non-statutory manner.

In summary, the Greater Fairbanks Chamber of Commerce supports the Administration's efforts relating to the gathering and sharing of information as well as the need to attract higher levels of expertise in certain tax accounting fields. With respect to the Administration's tax proposal, it is clear that ACES cannot possibly serve the State's interest in fostering a stable investment climate necessary to secure sustainable levels of North Slope oil production. Therefore, the Chamber cannot support the Administration's desire to completely overhaul the PPT tax system after just one year of experience.

Sincerely,

Charlie Bockley
GCCC Board Chair

Brian E. Hove
GCCC Government Relations Committee Chair

Benefactors

DIAMOND

- Alaska Pipeline Service Co.
- BP Exploration
- ConocoPhillips
- Fairbanks Daily News Mirror
- Fairbanks Memorial Hospital & Health Center
- Front Hills Resources Alaska LLC
- Santitas Flowers & Gifts
- Wells Fargo

PLATINUM

- Alaska Airlines
- AT&T Alaska
- Golden Heart Utilities
- MC McKinley Bank
- Phone Directories Company
- The Carlson Center

GOLD

- Alaska Railroad
- Alaska USA
- Bank of Alaska
- Design Alaska
- Dayco, LTD
- Frost National Bank Alaska
- Laborers Union Local 012
- Military & Civilian FCU
- Northstar Bank
- The Bowling Co.
- United Coal Mine

SILVER

- ACS
- ACS Media
- Blue Wire Technologies
- Canon Mobile
- Fairbanks Building & Construction Trades
- Fairbanks Natural Gas
- Flowline Alaska
- Fred Meyer
- GVEA
- Key Bank of Alaska
- Personnel Plus
- Shelburne Ford, Lincoln, Mercury
- Tanana Valley Clinic
- TORE
- UAF

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October 30, 2007

TESTIMONY ON HB 2001, ACES

My alternative to ACES is called **TRIPS**, Taxes, Royalties and Infrastructure for the Petroleum Sector. There are some, albeit few, sections of ACES that would be useful but the basic principles at work that require a wholesale reworking of the Bill are:

- Virtually all oil bearing structures on state lands have been explored so there's little reason to provide incentives to the industry to explore where they have already exploited everything they could. BP made this clear in their statement that 70% of their future investment would be in the greater Prudhoe area where they are obligated to wisely extract the hydrocarbons pursuant to the applicable leases and AOGCC guidelines. If producers don't provide full and efficient extraction in the operation plans submitted to the Division of Oil and Gas, leases may be subject to revocation and "there's always other fish in the sea". We should not give existing producers kickbacks where they're obligated to do the job properly and within technological feasibility and economic limits under their existing lease contracts and applicable law. With the price of oil above \$80 there should be little left to recover in our legacy fields and we must demand that the ADOG conduct the mandated evaluations of the economic feasibility of heavy oil extraction now while we still have light oil to mix into TAPS shipments and the price is still high enough to warrant extraction without subsidy.
- Where extraction of heavy or viscous oils is necessarily tied to the availability of lighter oils, the ADNR and AOGCC must conduct the proper technology and economic analyses to insure the optimization of revenues from regulation of the rates heavy and light oils are extracted. The ADNR and AOGCC must thereafter issue the necessary directives to lessees to insure that lessees are producing each type of hydrocarbon on their leases in manner that optimizes the total revenues to the state. There is no quantifiable correlation between the oil production rates or total state revenues and the tax rates so the proper oversight of our regulatory agencies, ADNR/ADOG must be conducted to insure that they regulate lessees to the optimal benefit of the state in conformance with Article VIII Section 2 and the applicable statute, regulations and lease provisions. Only then could the legislature determine if additional tax write-offs and credits would be necessary to ensure maximum benefit to the state and even then it would be preferable to provide ADNR/ADOG additional tools for incentivizing development because they could apply such incentives with surgical accuracy to specific leases and production units where taxes, no matter how specific, would tend to waste considerable revenue to produce the same hydrocarbon production/revenues.
- The fair legislative investigation of this tax matter mandated by Article I Section 7, necessitates that this committee call ADNR/ADOG to testify on its approval of unit and lease operation plans and explain: their best interest findings, the economic feasibility findings for hydrocarbon extraction required by lease provisions as associated with lease/unit plans of operation; and what their projections are for production at specific fields and for specific hydrocarbons in an effort to reach the maximal benefit to the state. Unless and until ADNR/ADOG produces findings that royalty relief is necessary to reach optimal production rates, any subsidy envisioned in tax write-offs and credits could only produce a negative fiscal note. Moreover, any fiscal note produced absent this detailed investigation would be arbitrary and capricious where there would be no basis for relating what production/revenue was already required of

producers in comparison to what the tax legislation was predicted to create. The sad fact of the matter is that ADNR/ADOR has never performed any independent economic feasibility analyses of the operation plans proffered by producers to evaluate whether the state was receiving, or would receive in the future, maximum benefit from the producers' plans of operation. This administrative dereliction of duty must be rectified before the legislature can move forward with any additional incentives to industry beyond what is already provided for in AS 38.05.180. The producers have not utilized the current royalty reduction incentives and should not be allowed to "buffalo" an ill informed legislature into granting an "end run around" the ADNR/ADOR regulations that were specifically designed to prevent such relief without a thorough economic assessment that shows a clear justification for relief. The applicable statutes and regulations actually envision that operational plans required to generate optimal production over the life of the field may in fact demand that lessees operate at a net loss near the end of the field life. Where the legislature imposes write-offs and credits over this regulatory scheme, tax revenues could be eliminated and we might even have to pay producers 20% of costs where they generated no tax revenue at all due to write-offs. This situation would clearly require posting of a negative fiscal note that would violate the constitutional mandate to maximize public benefit. The legislature must first require ADNR/ADOG to exhaust their administrative duties and lessees must also first exhaust their administrative remedies before any additional incentives such as write-offs or credits are offered.

- If absolutely necessary, we can subsidize production of hydrocarbons that are difficult to develop by adjusting royalty rates instead of taxes. This would allow for lease by lease evaluation that is clearly more sensible than the broad subsidies to all operations. The royalty rates apply to gross production so the 19% range I've suggested has more than enough value available to provide incentive for development of heavy oils and remote gas should existing lessees submit, or new lessees sign on, to the new adjusted royalty rates that express the relative accessibility and marketability of specific lease types at specific distances from established infrastructure.
- The testimony clearly enforced the principle that "if you build it they will come". Angola got a \$1 billion for its leases and rabid global competition because the oil co's knew there was oil to develop. If there's oil/gas to be found, the state should find it and define the field before it puts out leases so it can garner the highest bids among many competitors. The state would also be better able to predict development, classify fields to establish proper royalty rates and determine appropriate deadlines for relinquishment. The more we improve information on prospective fields and insure access, the less we need speculators that demand high rates of return. When we eliminate the discovery and access impediments we essentially only need contractors to build the production facilities and pump the oil as regulated by ADNR and AOGCC.
- If we have to subsidize the industry we should do it in a way that benefits other businesses and public interests. Taking money from royalties to improve transportation to the fields/pipelines floats everybody's boat. The heavy lift helicopters and low impact transport would also reduce tundra impacts, allow a longer exploration season and year round deliveries to isolated drilling/production pads. They would also be extremely effective tools for getting spill response equipment to remote sites and help repair global warming damage in remote areas that is directly caused by the oil we peddle.
- Our economic future through 40 - 60 years depends on our ability to market gas and the gas will not be marketable until the relative BTU value of gas approaches the price of oil BTUs, (PVM said it was at 40% of oil because Northern Tier coal companies successfully marketed their coal to power plants). The relative BTU value of gas can only be increased by de-valuing coal as a

power plant fuel with a federal carbon tax. The carbon tax would also likely save us as much in damages to infrastructure from global warming as we would make on oil exports, billions and billions in prevented damage that we wouldn't have to otherwise spend our revenue on to mitigate. If we can't muster the ethics to pursue a carbon tax for its environmental benefit, we should at least pursue a state and federal carbon tax to increase the value of our gas in an effort to make the gas pipeline economical. The gas problem can only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.

- Providing tax incentives to explore or produce on federal land will mostly provide returns for the federal gov't, leaving us with enormous development bills and not much revenue to show for it. Granting these tax write-offs without careful consideration of what will/should be required of producers under existing leases could well reduce revenues from taxes to zero and the additional payment of credits could even require the state to pay the producers for exporting the oil. The least negative impact to exploration from any tax increase can be accomplished by increasing the corporate income tax on hazardous operations because an increase in state corporate tax is used as a direct offset to federal income taxes so there's no net increase in taxes on the oil co's. The increased income tax will also allow Alaska to extract a fairer share of income from production of oil on federal lands and even more so from the federal outer continental shelf, (i.e. the 90/10 vs 50/50 royalty split, justice w/o a court). The progressive sales tax will also capture additional revenue from federal OCS leases that is otherwise escaping sufficient state capture.
- If we allow the oil co's to write off their Alaskan expenses it would tend to increase the price of our hydrocarbons and make them less competitive on the open market. Taxes do have an effect on corporate behavior and only taxing the gross at the point of export or in-state delivery will serve to keep a market check on expenditures in-state and therefore keep our hydrocarbons as cheap as possible in the market. We have recently discovered from RCA and FERC tariff proceedings that the state and consumers have been overcharged for TAPS costs by as much as \$3/bbl and a sales tax levied at the point of export must be imposed to insure the lowest overall transportation costs where a prior administration has illegitimately surrendered our right to challenge tariffs overcharges in the prior TAPS tariff settlement agreement. We would surely have a strong case for upholding the gross tax where it measures the oil value IN ALASKA. Both PPT and ACES are inviting fly by night wildcatters that will sell their credits and leave. The majors will be just as susceptible to the notion that spending controls are less of a priority given that they can sell the credits for marginal projects if they fail. Why not just take the money we'd spend on write-offs and credits and provide the needed oversight to exploration contractors we hire on a competitive bid? Existing lessees are already required to produce all hydrocarbons as is economically feasible and can apply for royalty relief if prices do not support optimal production rates.
- The discrepancies between projected revenues and collected revenues under PPT suggests that either the state is incapable of properly assessing tax provisions or that tax payers are withholding taxes. Both results suggest we must have a simple tax structure to avoid revenue shortfalls and costly litigation. Moreover, the complicated write-offs and credits would make it nearly impossible for ADNR/ADOG to properly assess appropriate plans for operation of leases/units if ADNR/ADOG was indeed inclined to properly implement their leases, statutes and regulations. Such an impairment of the lease contracts may well be interpreted as violating Article I Section 15 of the state constitution barring such impairment.

- The whole TRIPS scheme is designed to enhance certainty of development, (pre-defined leases and improved access), while alleviating risk due to low prices but eliminating any windfalls to industry, (the progressive sales tax spanning a \$190 price range). Although I haven't done a precise analysis of the total government take, I strongly suspect that these rates would keep us below the Norwegian standard of 78% gross government take up to about \$70/bbl and I would suggest lowering the base oil sales tax and/or raising the new class of corporate income tax until this parity was reached. I'm sure that the Norwegians never anticipated the blistering oil market we have today and so did not include progressivity. The gas problem can only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.

**Proposed Principles and Rates for Design of an Oil Tax Bill:
Production and Corporate Income Taxes, Royalty Rates and Lease Provisions with
State Commitments to Exploration, Infrastructure and Carbon Conservation**

Raw Oil/Gas Sales Taxes: The gross tax on raw/unrefined hydrocarbons sold in/from Alaska shall be set at the value of the hydrocarbons at the Alaskan terminus of export or point of sale within Alaska in order to provide a market check on production costs and pipeline tariffs in furtherance of the relative competitiveness of Alaskan resources, (e.g. Valdez Marine Terminal for TAPS oil, Drift River or KPL Dock for Cook Inlet oil and gas, at the Canadian border in the case of gas transport by pipeline, at any in-state refinery or point of sale). This tax system would also encourage export of value added petrochemical and refined products. The suggested tax rates for crude oil are as follows:

1. There shall be a minimum sales tax of 15% of gross value for oil prices between \$0 and \$20/bbl;
2. At \$21/bbl the sales tax increases to 15.5% and increases by a rate of 0.5% for each \$1/bbl increase in price to \$30 ;
3. At a price of \$31/bbl the sales tax shall be raised to 20.2% of gross value and shall increase at a rate of 0.2% for each \$1 in value per barrel until a price of \$110/bbl at which point the tax will have accumulated increases to provide a rate of 36% of value;
4. At a price of \$111/bbl the sales tax shall be assessed at 36.1% of value and shall increase at a rate of 0.1% for each \$1 in value per barrel until a price of \$210/bbl at which point the sales tax will have reached its maximum rate of 46% of value.

Corporate Income Tax: A distinct class of Alaskan corporations shall include those operations that handle substantial quantities of hydrocarbons and other hazardous materials, as classified by the ADEC, and be subject to a corporate income tax of 14%. The safety and security issues presented by these operations require significant oversight, security and public safety assets that warrant an enhanced level of corporate classification in such regard.

Royalty Rates: Lease bidders will proffer a signing bonus payment and a bid above an adjustable royalty floor/minimum established between 1% for the least marketable hydrocarbon, (e.g. inaccessible, undefined gas fields), to a maximum of 20% for the highest wellhead value hydrocarbon, (e.g. well defined, light and accessible liquids such as those at Point Thompson). Each new lessee shall consent to an adjustment of its royalty rate every 5 years after production startup that reflects any increase or decrease in the market valuation of the BTU content of the hydrocarbon(s) under development and/or by a substantial improvement in accessibility of leased properties as generated by state efforts. Lessees shall provide all necessary information needed to assess the accessibility of lease holdings and the

relative BTU value of Alaskan hydrocarbons. The ADNR/ADOG shall provide a report to the legislature at the beginning of each general session all best interest findings relative to oil and gas development and suggest any additional statutory provisions necessary to advance the optimal development of the state's hydrocarbon resources from existing and proposed leases/lease sales.

Hydrocarbon Exploration, Production and Transport Lease Provisions: ADNR and AOGCC, shall in their administration of lessees operations, conduct the necessary analyses and issue appropriate directives to lessees to provide for the revenue optimizing extraction rates and use of technologies with respect to recovery of viscous and heavy oil recovery as such extraction may be tied to concurrent availability of lighter oils. All new leases shall have relinquishment provisions that reflect the realistic development timelines given the difficulty perfecting necessary permitting and development tasks. All lessees consent to regulation and assistance by the ADEC to effectively utilize and otherwise abate or sequester greenhouse gases released by exploration, production, transport, power generation and refinery operations associated with its leases. Lessees shall proportionately supply all necessary fuel for state aircraft, vessels and vehicles used to assist and administer lessees' operations.

Exploration Commitment: In order to exact the highest signing payments and royalty bids and to provide for a most efficient and predictable development of Alaska's hydrocarbon resources, the ADNR will commit to obtaining the services of exploration experts, whether contracted or employed, with the most advanced geologic mapping and analysis capability to define hydrocarbon resources to their greatest practicable extent prior to leasing of hydrocarbon fields to enhance "prospectivity".

Infrastructure Commitment: The ADOT in an MOU with DNR shall employ all due diligence in coordinating interested state and federal agencies to develop, subsidize or otherwise facilitate transportation of exploration and production materials to proposed leasing areas and for access of gas by Alaskan communities. A dedicated 4% portion of total royalty payments shall be set aside for this Safe Transport Development fund. The ADOT shall minimally provide heavy lift helicopters and other low impact vehicles to advance preservation of sensitive areas, enhance spill response, protect wildlife and maintain security in leasing areas as training for their primary public safety and security duties that shall include repair and prevention of Global Warming impacts across Alaska. The ADOT shall also advance planning and construction of ports, port services, rail systems and pipelines necessary to promote efficient materials transport along established Alaskan transport corridors and extensions along the AGIA certified ROW(s).

Carbon Conservation Commitment: The state shall employ all due diligence with appropriate funding of legislative and regulatory efforts to establish in state and federal law establishing a transferable carbon tax and to additionally advance CO₂ sequestration and secondary utilization, methane capture and abatement, and Arctic-appropriate carbon-neutral energy generation technologies using a dedicated 4% portion of total royalty payments. The ADEC shall develop regulations establishing a carbon tax, appropriate emissions standards and/or other carbon limiting constraints upon hydrocarbon lessees. The ADEC shall conduct the necessary analyses to establish abatement technology standards and pursue advancement of the best available technologies with a bi-annual \$3 million grant funding that may accumulate beyond the \$3 million level to ensure appropriate funding of appreciably superior and effective technologies.

Alaska Trucking Association, Inc.

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www.aktrucks.org

Oil Tax Issues (PPT)
House Resources Committee
Aves D. Thompson

HB2001

October 30, 2007

Thank you. Mr. Chairman and members of the committee, I am Aves Thompson, Executive Director of the Alaska Trucking Association. The Alaska Trucking Association is a state wide organization representing trucking interests from Barrow to Ketchikan. In 2008, our association celebrates its 50th Anniversary of serving the interests of the trucking industry in Alaska. Our more than 200 members represent all of the diverse trucking operations in the state and many associate members who provide goods and services to our industry. It is important to note that, in Alaska, trucking employs over 20,000 people - 1 out of 14 workers. Trucking payrolls are over \$900 million annually and several thousand family-owned and corporate trucking businesses (most have less than 10 employees) operate in Alaska.

On behalf of ATA, I want to make several observations about PPT issues.

It has been said many times that, in developing our natural resources, our constitution requires that we seek maximum return to the citizens of Alaska. While it seems that the emphasis has been on raising taxes to increase tax revenue to the state, we believe that the better way to maximize benefits to Alaskans is to provide good paying, long term jobs for this and future generations.



If you got it, a truck brought it...

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The State needs to focus on how to slow the decline of production. To accomplish that objective, investments need to continue in existing fields, investments need to be made in heavy oil and investments need to be made to promote the development of new fields. Existing field development should be the first priority. Most of the new production, in recent years, has occurred in existing fields. Without this base production, heavy oil and other new field development will face major additional challenges.

The oil and gas business is capital intensive and it takes many years for return on investments to occur. Increases to taxes lengthen that recovery time and can negatively impact project economics and investment decisions.

We believe that it is important in setting tax policy to produce adequate revenues for the state but more importantly, encourage further investment in the development of our abundant resources.

We urge you keep the tax rate low and use incentives to encourage increased development investment. As stated earlier, we believe that the better way to maximize benefits to Alaskans is to provide good paying, long term jobs for this and future generations. Investment, not taxes, will provide the jobs we need to ensure our future.

Thank you for your attention. I will try to answer any questions.



If you got it, a truck brought it...



ANCHORAGE CHAMBER
OF COMMERCE

1016 W. Sixth Avenue, Suite 303

Anchorage, AK 99501

October 22, 2007

Dear Governor Palin & Legislators:

The Anchorage Chamber of Commerce appreciates the Administration's desire to revisit the Petroleum Production Tax to ensure that the most vital component of our state's tax regimen was the result of sound public policy. Still, we have some significant concerns regarding this review.

First, we are concerned that there has been a headlong rush to prejudge the PPT as "unfair" to Alaskans. The illegal actions of some legislators and special interests have understandably cast a cloud of suspicion on this legislation. It should be kept in mind, however, that many supported the PPT who had no involvement in any improper activities. A large number of upstanding legislators and organizations, including the Anchorage Chamber, supported the passage of PPT as a sensible balance between increased state revenues and incentives for investment; therefore, we respectfully ask that you not start your analysis from the standpoint that the current law of the land is wrong or in any manner "unfair." Review the PPT thoroughly, for all our sakes, but have an open mind to the possibility that the PPT, in fact, is the best option for Alaska despite the unfortunate circumstances surrounding its original passage.

Second, we are concerned that there is insufficient evidence concerning the actual impact of the PPT. It is our understanding that the original PPT legislation contained a provision whereby it would be thoroughly reviewed at the end of five years. Thus, with less than a full-year's worth of data to analyze, a declaration that the PPT is not working would appear hasty and not fully informed. It should also be noted that during the past year the taxation landscape was significantly altered by the temporary shut-down of a significant component of the North Slope fields; therefore, the available data cannot be said to represent a typical year. From all review, the PPT brought in significantly more revenues to the State than the previous ELF system.

Third, we are very concerned about creating an impression that Alaska's tax platform is volatile and undependable. The Anchorage Chamber is not advocating that we need 30 years of certainty in our tax structure but we are concerned that we are faced with the possibility of three distinct methods of taxing petroleum within three years. Even though you will be debating a tax that directly deals only with a certain segment of the economy, it nonetheless, creates an unmistakable reputation that Alaska is a location that is more interested in *taxing* industry than in *growing* industry. Such a reputation is harmful to all business sectors and ultimately, to all Alaskans.

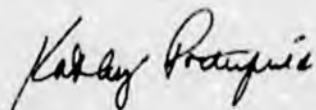
Fourth, we are concerned about the emphasis placed on increased revenues for the state. Without the political will to create a sensible economic plan for the State of Alaska, the Anchorage Chamber is concerned that we are behaving as if we are communally addicted to "oil money." As North Slope production invariably declines, we seem overly zealous to prop up our standard of living by simply increasing our take. What was a fair take 10 years ago is no longer "fair." What was fair last year now appears to be no longer "fair." History is devoid of instances in which a thriving economy has been built on the model of maximizing the government take. In contrast, history teaches us the important lesson that vibrant and flourishing economies spring from environments where the government encourages investment and entrepreneurship. It is ultimately self-defeating for Alaska to increase its short-term revenues at the expense of chilling long-term investment.

Finally, despite these significant concerns the Anchorage Chamber remains optimistic. As a State, we can prosper and we have the ability to make Alaska's future bright. The only question is whether we have the courage, the discipline and the will to resist the path of least resistance and instead focus our efforts on the hard, yet ultimately rewarding work of building a sound economic future. Toward this end, we respectfully ask that during this special session you do these four things:

1. **Review the PPT to ensure it is sound public policy but do not discard it simply because of the circumstances surrounding its passage; and**
2. **If there is legitimate doubt concerning the effect of the PPT, do not be afraid to allow the PPT to exist for sufficient time to allow reliable data to be generated, which is consistent with the original legislation that provided for a review at the conclusion of five years; and**
3. **Take all appropriate cautions to protect Alaska's reputation as a stable tax environment that encourages and promotes business opportunities and investment; and**
4. **Consider any revenue enhancements only in conjunction with actually developing a fiscal plan – a spending and savings plan - for the State of Alaska.**

Thank you for your service to our State and we wish you a very successful special session.

Sincerely,



Kathleen Porterfield
Anchorage Chamber Board Chair



Stacy Schubert, IOM
President

CC: Anchorage Chamber Board of Directors

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October 31, 2007

Subject: Tax deductions not investments

Number of pages including cover: 3

In testimony before Alaska legislators it has been suggested Alaska should be happy to have current oil taxes reduced to zero by cost deductions because it will mean more taxes later, because it is an investment in Alaska. Incredible! It appears oil company lobbyists have, through repetition of the message, convinced many legislators and even voters that cost deductions to oil taxes represent an investment in Alaska resources. This is a gross distortion of the word investment. Investment in an enterprise implies increased future equity. Incremental investment implies incremental equity.

When we buy stock in a company we buy equity. Each dollar invested buys some portion of the company in perpetuity, or until that equity is sold in the marketplace or has no further value. Each dollar invested increases the investor's proportion of future profits. Further, equity typically implies voting rights. Equity holders as a whole control the board, and thus the company. An increment in investment typically means increased knowledge and control of a business, voting rights. Incremental investments are matched by an incremental percentage share in profits. Incremental investment implies an incremental share. Each dollar invested necessarily results in an increased share in future profits.

When we share the risk with a company we expect to obtain equity. Otherwise, if we don't share risk, return is guaranteed by the company up front and the investment is not an equity, it is a debt, a bond. Investments then result in either guaranteed debt or increased equity.

* Tax write offs are not investments for the government. Tax deductions are not investments because they do not result in an incremental share, an incremental control, or a guaranteed future return. Tax write offs then represent payments to companies which

are not investments. They are incentive gifts. Each dollar of deduction does not result in an incremental percentage share in future profits. Each dollar of write off does not provide an incremental knowledge or control of a company, nor increased debt from the company. Each dollar of write off merely provides an increased probability of protracted auditing and litigation.

If the legislature truly wishes to invest in Alaska's oil resources, it should either buy a majority interest in exploration companies or create state owned exploration companies similar to the Alaska Railroad. Alaska should have every right to explore and even develop its own tracts, especially once those tracts have been put up for auction with no bid, or once the lease holder has made no effort at development for an extended period. This approach of true equity investment provides a true investment for Alaska, one controlled by and employing Alaskans. It further provides true incentives to oil companies to avoid land banking oil reserves and to get on with development.

The legislature has set out to fairly increase oil taxes in times of high prices. A haze of repetition and complexity appears to be mesmerizing many with the notion that an incentive gift is an investment, that a tax reduction is an investment. Cost deductions, if necessary, must have reliable predictable limits. It is easy to err in assumptions when setting tax rules. It is thus important to be conservative in assumptions. A tax set too high can readily be reduced, even retroactively, but this is not so for a tax set too low.

The legislature has a duty to maximize return on Alaska's resources. Hopefully it will not fail in that duty because the forest can not be seen for the trees and the haze.

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A gross tax plus floor is essential to prevent sudden massive oil company expenditures from drying up Alaska's tax revenue. Oil companies object to a fixed trigger point because inflation can drive up costs over the years. One approach to solving this problem is to automatically increase the trigger points annually based on the current price index (CPI).

Chuck Logsdon Testimony to House Resources—October 30, 2007

For the record my name is Chuck Logsdon. I am a petroleum economist currently working as a consultant to the Alaska Oil and Gas Association. Today I am testifying as a citizen from Palmer.

I like the PPT as it is currently structured. I believe it strikes a good balance between obtaining a fair share of the "economic rent" for the State from its production tax, while at the same time providing incentives to encourage reinvestment of industry profit. Reinvestment that will be crucial to keep oil flowing in the pipeline.

In particular, I like the use of net cash flow as the tax base. From an economist's perspective this is an efficient way of taxing business activity as it directly recognizes the ability to pay the tax in an industry with extremely high upfront capital costs. I also like the progressive rate schedule applied to the tax base because once again, it directly matches the tax to the ability of industry to pay the tax.

I also believe the tax credits in the PPT are set about right. Set too high, tax credits can create the incentive to gold plate and as a result high administrative costs to prevent this from happening. The combination of a tax based on net production value along with attractive tax credits is a solid step toward encouraging the investment needed to keep the TAPS flowing.

Obviously the choice of tax rate is a tough call and a lot of information and comparisons have been generated to try to help policy makers in making the decision as to where that rate should be set. I believe that the current PPT sets this rate about right both for base rate and progressivity.

As you may have gathered, I do not like resource production taxes that ignore the cost of extracting the resource in the tax base. Because resource deposits vary widely in their development costs, such taxes generally require complex tweaking to make adjustments to reflect these differences in the ability to pay the tax. We already have a royalty share that is based on the gross value at the point of production that is the same regardless of profitability or lease location. To encourage resource development it makes sense to go to the net for our production tax and apply it universally.

On efficiency grounds I also do not like fixed floor taxes. However, since government services are an important economic safety net a floor may be necessary but it should be kept low. As a result I like the tax floor mechanism in the PPT.

I would like to see these key provisions of the PPT remain as they are.

Thank you Mr. Chairman for the opportunity to testify.