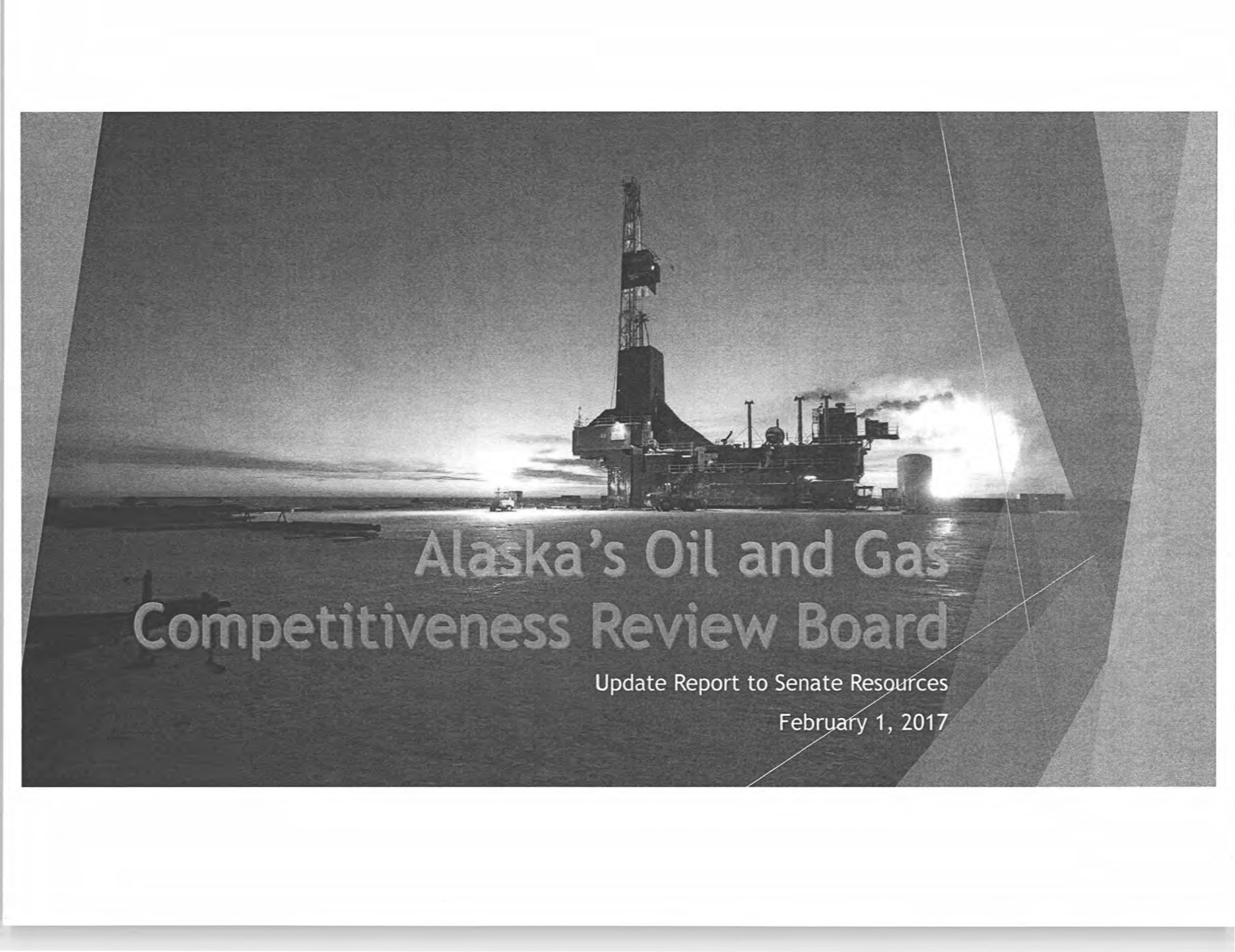


02/01/2017
Presentation:
Update on the
Oil and Gas
Competitiveness
Review Board

<TARGET><BILL></BILL><SUBJECT>02-01-2017 Presentation
Update on the Oil and Gas Competitiveness Review
Board</SUBJECT><COMM>SRES30</COMM></TARGET>

A black and white photograph of an offshore oil rig at sunset. The rig is silhouetted against a bright, glowing sky where the sun is setting. The rig's structure, including a tall derrick and various platforms, is visible. The water in the foreground is dark, with some reflections. The overall scene is industrial and atmospheric.

Alaska's Oil and Gas Competitiveness Review Board

Update Report to Senate Resources

February 1, 2017

Overview

- ▶ History of the Oil & Gas Competitiveness Review Board (OGCRB)
- ▶ Future Deliverables from the OGCRB
- ▶ Cook Inlet and Middle Earth under HB247
- ▶ Deliverables update

Oil and Gas Competitiveness Review Board

- ▶ Formed as part of SB 21
- ▶ Created to
 - ▶ Establish and maintain salient data regarding oil and gas exploration, development, and production
 - ▶ Advise the Alaska Legislature on the state's fiscal system, labor pool, and regulatory competitiveness
- ▶ Comprised of:
 - ▶ 2 public members
 - ▶ 3 administration department heads
 - ▶ 1 commissioner from the Alaska Oil and Gas Conservation Commission
 - ▶ 3 oil and gas subject matter experts
 - ▶ 2 industry trade group representatives
- ▶ **Initial report was delivered to the legislature in March 2015 comparing Alaska's competitiveness to oil and gas producing peers around the world**

Oil & Gas Competitiveness Review Board

PREVIOUS BOARD MEMBERSHIP

NAME	APPOINTED	RESIGNED/CHANGE	REASON
Hendrix, Tom Non-Profit Trade Association	7/1/2014	October 2015	Professional Commitments
Merrick II, Joseph Public	7/1/2014	September 2015	Professional and Personal Commitments
Foerster, Cathy Chair of AOGCC/Designee	7/1/2014		*CURRENT MEMBER*
Rodell, Angela Commissioner/Revenue/Designee	7/1/2014	December 2014	Administration Change (position has been filled with the appropriate staff per statute)
Balash, Joseph Commissioner/Natural Resources/Designee	7/1/2014	December 2014	Administration Change (position has been filled with the appropriate staff per statute)
Maloney, Tom Public Financial Analyst	7/1/2014		*CURRENT MEMBER*
Moriarty, Kara Non-Profit Trade Association	7/1/2014		*CURRENT MEMBER*
Brown, Rodney Public	7/1/2014	July 2015	Personal Commitments
Ryan, Kristin Commissioner/Environmental Conservation/Designee	7/1/2014		*CURRENT MEMBER*
Stokes, Pete Public/Petroleum Engineer	7/1/2014	July 2015	Professional Commitments (suggested Tom Walsh as a new member)
Freeman, Curt Public/Geologist	7/1/2014	September 2015	Professional Commitments

Oil & Gas Competitiveness Review Board

CURRENT BOARD MEMBERSHIP

NAME	APPOINTED	REAPPOINTED	EXPIRES
Ford, G. Wyche Non-Profit Trade Association	3/14/2016		7/1/2018
Beltrami, Vincent Public	10/26/2015		7/1/2017
Foerster, Cathy Chair of AOGCC/Designee	7/1/2014	4/19/2016	
Hoffbeck, Randall Commissioner/Revenue/Designee	12/16/2014		
Mack, Andrew Commissioner/Natural Resources/Designee	7/1/2016		
Maloney, Tom Public Financial Analyst	7/1/2014	7/1/2016	7/1/2020
Moriarty, Kara Non-Profit Trade Association	7/1/2014		7/1/2017
Pawlowski, Bob Public	3/14/2016	7/1/2016	7/1/2020
Ryan, Kristin Commissioner/Environmental Conservation/Designee	7/1/2014		
Walsh, Tom Public/Geologist	3/14/2016		7/1/2019
Van Dyke, William Public/Petroleum Engineer	6/21/2016		7/1/2019

Future Deliverables

- ▶ Next deliverable was due January 15, 2017: Provide written findings and recommendations regarding:
 - ▶ The state's tax structure and rates on oil and gas produced south of 68 degrees North latitude;
 - ▶ A tax structure that takes into account the unique economic circumstances for each oil and gas producing area south of 68 degrees North latitude;
 - ▶ A reduction in the gross value at the point of production for oil and gas produced south of 68 degrees North latitude that is similar to the reduction in gross value at the point of production in AS 43.55.160(f) and (g); and
 - ▶ Other incentives for oil and gas production south of 68 degrees North latitude.
- ▶ Final statutorily required deliverable due January 31, 2021: Provide written findings and recommendations regarding:
 - ▶ Changes to the state's fiscal regime that would be conducive to increased and ongoing long-term investment in and development of the state's oil and gas resources;
 - ▶ Alternative means for increasing the state's ability to attract and maintain investment in and development of the state's oil and gas resources; and
 - ▶ A review of the current effectiveness and future value of any provisions of the state's oil and gas tax laws that are expiring in the next five years.

Cook Inlet Tax Structure Changes

Provision	Prior Tax and Credit Provisions	After House Bill 247
Base tax rate (applied to PTV).	35%	No change.
Tax Ceiling - oil.	\$0/bbl (oil production tax free) ceiling expires 2022	\$1.00/bbl permanent tax ceiling
Tax Ceiling - gas.	Average 17.7 cents/mcf, ceiling expires 2022	Average 17.7 cents /mcf permanent tax ceiling.
Qualified Capital Expenditure (QCE) Credit.	20% of eligible expenditures.	Reduced to 10% on Jan. 1, 2017, then repealed Jan. 1, 2018.
Well Lease Expenditure (WLE) Credit.	40% of eligible expenditures.	Reduced to 20% on Jan. 1, 2017, then repealed Jan. 1, 2018.
Net Operating Loss (NOL) Credit.	25% of loss.	Reduced to 15% on Jan. 1, 2017, then repealed on Jan. 1, 2018.
Exploration Tax Credits.	30% or 40% for qualifying exploration. expired July 1, 2016	No change

Middle Earth Tax Structure Changes

Provision	Prior Tax and Credit Provisions	After House Bill 247
Base tax rate (applied to PTV).	35%	No change.
Tax Ceiling.	4% of gross value for first seven years if production begins before 2027.	No change.
Capital, Well Lease, Net Operating Loss Credits.	Same as Cook Inlet (20% QCE, 40% WLE, 25% NOL).	Rates reduced Jan. 1, 2017 (10% QCE, 20% WLE, 15% NOL) Credits maintained at reduced rates.
Exploration Tax Credits.	30% or 40% for qualifying exploration, expires Jan. 1, 2022. For work performed prior to July 1, 2016, qualifying new areas qualify for 80% credit for wells and 75% credit for seismic.	30% or 40% for qualifying exploration, expires Jan. 1, 2022. For qualifying new areas, 75% credit for seismic sunsets July 1, 2016, but 80% well credit applies to wells drilled or spudded prior to July 1, 2017.

January 15, 2017 Deliverable Status

“Due to passage of HB 247 this past legislative session, which over the next two years will phase in significant changes to the oil and gas tax credit and tax system in Cook Inlet and Middle Earth, the Oil & Gas Competitiveness Review Board is recommending an extension to this report deadline to January 15, 2019. This extra time would allow for a full review of the impacts of the recent tax and credit changes prior to submission of the report. The Board respectfully requests your consideration for this extension.”

Report Extension and Resource Access Request for the Oil & Gas Competitiveness Review
Board 12-20-2016

January 15, 2021 Deliverable Status

- ▶ AOGA has commissioned Wood MacKenzie to perform a competitiveness study on the competitiveness of the Alaska Tax Regime
- ▶ DNR/DOR are in process of commissioning a similar study using a similar scope of work and similar deliverables
- ▶ OGCRB has been asked to provide a third party analysis of the studies to delineate similarities and differences in the study conclusions (this request has not yet been presented to the full board)

THANK YOU

For additional information please contact:



Stephanie Alexander
Oil & Gas Competitiveness Review Board Liaison
(907) 465-6829
Stephanie.Alexander@alaska.gov

O&GCR Board Website Location:
dor.alaska.gov



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE
State Office Building
333 Willoughby Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

February 21, 2017

The Honorable Cathy Giessel
Alaska State Senator
Chair, Senate Resources Committee
State Capitol Room 427
Juneau, AK 99801

Dear Chair Giessel:

The purpose of this letter is to provide you with a response to the question asked of the Department of Revenue during the Senate Resources Committee hearing on February 1, 2017. Please see the question in italics and our response immediately below the question.

1. Provide the committee with an estimate of the total costs for this board to date.

The Department of Revenue has roughly spent over \$75,000 on the Oil & Gas Competitiveness Review Board since its first meeting in October 2014. This amount is an estimate of staff time, travel, services and commodities.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall Hoffbeck".

Randall Hoffbeck
Commissioner



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

State Office Building
333 Willoughby Avenue, 11th Floor
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Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

February 6, 2017

The Honorable Cathy Giessel
Alaska State Senator
Chair, Senate Resources Committee
State Capitol Room 427
Juneau, AK 99801

Dear Senator Giessel:

In my testimony in Senate Resources on Wednesday, February 1st, I said that the Department of Revenue had no funding for the Oil and Gas Competitiveness Review Board. During my presentation I was unaware that in the fiscal note for SB 21 the Legislature had provided funding for some of the ongoing costs for the Oil and Gas Competitiveness Review Board. The fiscal note added \$24,600 to the Department of Revenue Commissioner's Office budget and referenced an existing position that was funded in the amount of \$157,800. The referenced position was eliminated during FY 15, prior to my coming to the Department. The \$24,600 remains in the Department of Revenue's budget, but is largely insufficient to support the work of an outside consultant to assist in analyzing and comparing oil and gas fiscal systems.

I apologize for the misinformation and hope this will clarify the record. Please do not hesitate to contact me if you have further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall Hoffbeck".

Randall Hoffbeck
Commissioner