

HB

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<TARGET><BILL>HB 111</BILL><SUBJECT>HB
111</SUBJECT><COMM>SRES30</COMM></TARGET>

Alaska State Legislature House Resources Committee

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SPONSOR STATEMENT

HB 111: OIL AND GAS PRODUCTION TAX; PAYMENTS; CREDITS

HB 111: "OIL AND GAS PRODUCTION TAX; PAYMENTS; CREDITS" was introduced to reform the oil and gas production tax regime as a component of protecting Alaska's fiscal future. This legislation builds on the passage of HB 247 in 2016, which primarily scaled back tax credits available in Cook Inlet. If the oil and gas tax structure is left untouched it is estimated by the Alaska Department of Revenue that there will be \$1.6 billion in purchasable credits outstanding in 2026.

The House Finance committee substitute includes the following major provisions:

*** Eliminates North Slope Purchasable Tax Credits**

Net operating loss (NOL) credits occur when an oil and gas company has insufficient tax liability against which to apply allowable cost deductions (lease expenditures). Unique to Alaska, the state may pay cash for NOL credits long before there is taxable production. At continuing low oil prices, the program is not affordable and is being eliminated.

*** Allows 100% of Net Operating Losses to Carry Forward to Production**

In place of the NOL credit program, companies will be allowed to carry forward 100% of their losses to when they have taxable production. Companies can then use their accrued NOLs to offset their production tax obligation. This is more in line with other oil and gas regimes.

*** NOL 10% Reduction Starting After Seven Years**

As an incentive for companies to get to production sooner, the carried-forward NOLs are reduced by 10% of their original value each year after seven years. Example: a company carries forward a \$1 million loss from its first year of activity and \$1 million its second year; if taxable production is not achieved by year eight, the first million becomes \$900,000; if no production by year nine, the first million becomes \$800,000 and the second is worth \$900,000, and so on.

*** NOL Carry Forwards Apply Only to a Field Where Earned**

Known as "ring fencing," carried forward NOLs may only be applied against production tax obligations generated by the field where the loss accrued. Without ring fencing, a major producer could purchase a non-producing field and use the carried-forward expenditures associated with that field to offset their tax obligations from productive fields, reducing their production tax obligation without necessarily producing additional oil from the purchased field. Ring-fencing is an incentive to bring new fields into production because production is the means to recover costs for that field.

*** Repeals Sliding Scale Per Barrel Credit**

The sliding scale per barrel credit applies to fields that do not qualify for "new oil" incentives. The credit changes the effective tax rate depending on the price of oil. This is an unusual and mild form of progressivity; as oil prices decrease, the tax reduction increases and the effective tax rate decreases. Repeal of the credit simplifies the tax system and is more in line with other oil and gas tax regimes.

*** Lowers the Tax Rate from 35% to 25%**

The current 35% tax rate was a component of the reverse progressivity provision created by the per barrel tax credit; the 35% percent tax rate would be reached only at very high oil prices starting at around \$160 per barrel. To adjust for the repeal of the sliding scale per barrel credit, the tax rate is lowered to 25 percent of net profits.

*** Adds 15 percent bracketed supplemental tax**

By eliminating the per barrel tax credit, HB 111 removes the subtractive progressivity factor. In its place, the bill adds a more standard bracketed supplemental tax. The base tax rate is set at 25%. The additional tax is 15% triggered at a production tax value of \$60. For example, at ANS oil prices of \$120, after \$40 in transportation costs and lease expenditures are deducted, the production tax value is approximately \$80. When the production tax value is above \$60, the tax would be 25% of the first \$60 plus 40% of the \$20 difference.

*** Hardens minimum floor**

When the state instituted a net profits production tax in 2006, a minimum tax was included to ensure that the state would not receive less revenue than it would under the prior gross value tax system. The minimum tax rate is 4% of the gross value at the point of production when oil prices are above \$25; the rate steps down as oil prices decline to zero. HB 111 hardens the minimum tax floor so that no credits can bring the tax rate below the current minimum production tax rate. An exemption is made for the small producer credit, which is in the process of sunseting.

*** Repeals extra 10% gross value reduction for higher royalty fields**

In 2013, SB 21 added a gross value reduction (GVR) to exempt 20% of new production from the production tax. An additional 10% GVR was provided to fields with a royalty rate of more than 12.5% for a total GVR of 30%. Royalty is Alaska's ownership interest in oil and gas production and a negotiated term in the leases. The tax system should not be a mechanism for reducing the value of our ownership interest.

*** Repeals third-party assignments of credits**

An amendment to the production tax in 2013 allowed companies to use tax credits as collateral for loans or sell credits to a bank or investment institutions with no requirements for where or how the money was spent. To protect the state's interests moving forward, the provision is repealed. With the repeal of the North Slope NOL credit, only activities in the area outside the North Slope and Cook Inlet (Middle Earth) will have tax credits eligible for cash purchase so the impact of this repeal is minimal.

*** Allows certain taxpayer information to be publicly disclosed**

Due to taxpayer confidentiality requirements, the Department of Revenue is often hampered in how much otherwise publicly available tax information can be discussed with legislators and the public. HB 111 allows disclosure of otherwise publicly available oil and gas production tax information; or tax credit information related to credits for gas storage facilities, liquefied natural gas storage facilities; oil and gas service industries; in-state manufacture of urea, ammonia, or gas-to-liquid products; or in-state oil refinery infrastructure.

*** Adds new information requirements for tax credits and lease expenditures**

In order for decision-makers and the public to have a better understanding of how and where tax credits and lease expenditures are incurred and how successful they might be at incentivizing production, HB 111 requires taxpayers to report information to the Department of Revenue; credit and basic lease expenditure information will be made public in an annual report. Taxpayers shall file a description of the expenditure and a description of the lease or property for which the expenditure was incurred. The lease and property descriptions will assist in implementing the ring fencing requirement.

*** Fiscal Impact**

The bill increases revenues by \$100 to \$200 million at oil prices between about \$40 and \$100. At higher prices, total revenue is nearly unchanged from the current tax based on SB21. The fiscal impact for FY 2018 is approximately \$20 million. Additionally, nearly all future obligation for cash credit appropriations is eliminated.

HB 111 - Sectional Analysis and Explanation of Changes

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Intent		Section 1. Contingent on passage of a fiscal plan, a substantial portion of outstanding purchasable credits will be purchased.	Delete intent language.
GVR Sunset	AS 31.05.030(n). AOGCC determines the commencement of regular production for purposes of the gross value reduction.		Section 1. Deletes reference to 10 percent gross value reduction under AS 43.55.160(g) in accordance with sunset of the provision.
Public Information	AS 40.25.100(a). Deposition of tax information.		Section 2. Amends disclosure of tax information in accordance with new provisions allowing certain tax credit and lease expenditure information to be made public.
Interest	AS 43.05.225. The interest for oil and gas delinquent taxes is 7% above the federal discount rate for three years, after which there is no interest.	Section 2. Removes the three year limit on accrual of interest.	Section 3. Same.
Public Information	AS.43.05.230(a). Disclosure of tax returns and reports.	Section 3. Amends allowable disclosures in accordance with a new information disclosure report and DNR pre-approval.	Deleted in accordance with deletion of the disclosure report and DNR pre-approval requirement.
Public Information	AS.43.05.230(l). Disclosure of tax returns and reports.	Section 4. Allows certain tax credit information to be made public.	Section 4. Same.
Public Information	AS 43.05.230. Disclosure of tax returns and reports.		Section 5. Adds subsection (m) allowing Dept. of Revenue disclosure of otherwise publicly available production tax information; or tax credit information related to gas storage, service industries, processing facilities, refineries. Adds subsection (n) making public certain information regarding refinery tax credits.

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Public Information	AS.43.05.230. Disclosure of tax returns and reports.	Section 5. Allows certain confidential taxpayer information relating to tax credits to be disclosed to legislators in executive session in conformance with a signed confidentially agreement.	Deleted.
Tax Rate	AS 43.55.011(e). Tax rate for oil and gas is 35%. Gas rate changes to 13 percent of the gross value after January 1, 2022.		Section 6. Changes tax rate to 25% after January 1, 2018. Retains 2022 change to gas rate after 2022; amended in accordance with secondary tax bracket provision in AS 43.55.011(g).
Minimum Tax	AS 43.55.011(f). North Slope minimum tax is 4% of the gross value at ANS oil prices above \$25; the rate steps down as oil prices decline.	Section 6. Sets minimum tax at 5% at ANS oil prices of \$50 or more; at 4% at ANS prices less than \$50; removes stepped down rates.	Deleted.
Oil & Gas Production Tax	AS 43.55.011(g). Establishes the progressivity factor for production produced before January 2, 2014 under a previous tax structure.		Section 7. Establishes an additional 15% tax bracket triggered at a production tax value of \$60 (equal to approximately \$100 ANS). The additional tax only applies to the amount above that value.
Oil & Gas Production Tax	AS 43.55.011. Oil and gas production tax.	Section 7. Adds new subsections: (q) tax credit may not be used to reduce a tax obligation below the minimum floor; (q) and (s) ensures companies receive benefit from the gross value reduction; (r) prevents sliding scale per barrel credits earned in one month from being used to offset another month's tax liability in a calendar year.	Section 8. Retains (q) - adjusted in accordance with deletion of changes to the minimum tax; deletes (r), previous (s) becomes (r). Original (r) deleted due to repeal of per barrel credits.
Gas Tax Payment	AS 43.55.014. Payment in gas of tax for gas.		Section 9. Conforming amendment to new tax rate in AS 43.55.011(e).

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Tax Payment	AS 43.55.020(a). Payment of tax.	Section 8. Conforming amendments.	Section 10. Conforming amendment to the new tax rate and the repeal of AS 43.55.160(g) (10% GVR).
Tax Payment	AS 43.55.020(g). Payment of tax.		Section 11. Conforming to new tax rate.
Tax Payment	AS 43.55.020(h). Payment of tax.		Section 12. Conforming to new tax rate.
Tax Payment	AS 43.55.020(k). Payment of tax.		Section 13. Conforming to new tax rate.
Tax Payment	AS 43.55.020(l). Payment of tax.		Section 14. Conforming to new tax rate.
Net Operating Loss	AS 43.55.023(b). Sets North Slope net operating loss credit at 35%.	Section 9. Eliminates net operating loss credits for the North Slope.	Section 15. Same; amended in accordance with repeal of AS 43.55.160(g).
Net Operating Loss	AS 43.55.023(c). Net operating loss credits may not be used to reduce tax liability below zero.	Section 10. Amended to reflect that no credit maybe used to reduce tax payments below the minimum floor.	Section 16. Same.
Net Operating Loss	AS 43.55.023(d). Establishes transferable tax credit certificates subject to purchase by the state for credits under this section.	Section 11. Removes the ability for taxpayers to apply for purchase of net operating loss credits.	Deleted.
Non-transferable Tax Credits	AS 43.55.024(g). Nontransferable tax credits may not be used to reduce tax liability below zero.	Section 12. Amended in accordance with hardening the minimum floor.	Deleted.
Per Barrel Credit for "New" Oil	AS 43.55.024(i). The \$5 per barrel credit for new oil may not be used to reduce tax liability below zero.	Section 13. Amended in accordance with hardening the minimum floor.	Section 17. Same.

HB 111 - Sectional Analysis and Explanation of Changes

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Sliding Scale Per Barrel Credit	AS 43.55.024(j). Sliding scale per barrel credit for North Slope oil; \$0 per barrel when the gross value price is \$150 or more to \$8 when the price is under \$80.	Section 14. Amends the per barrel credit to \$8 when gross value is less than \$60; \$7 at \$60 to less than \$70; \$6 at \$70 to less than \$80; \$5 at \$80 to less than \$90; \$4 at \$90 to less than \$100; \$3 at \$100 to less than \$110; and zero when gross value is \$110 and above.	Deleted - per barrel credit is repealed.
Dry Hole Credit	AS 43.55.025(g). Establishes transferable exploration credits .	Section 15. Establishes that the new dry hole credit is not transferable.	Deleted - dry hole credit is deleted.
Exploration Credit	AS 43.55.025(i). Exploration credits may not be used to reduce tax liability below zero.	Section 16. Amended in accordance with hardening the minimum floor.	Section 18. Same.
Dry Hole Credit		Section 17. Adds a new subsection AS 43.55.025(q): An explorer is eligible for a 15% purchasable tax credit of exploration expenditures incurred for drilling that results in a dry hole based on meeting certain conditions.	Deleted - dry hole credit is deleted.
Oil & Gas Tax Credit Fund	AS 43.55.028(a). Established an oil and gas tax credit fund for cash purchases of tax credit certificates.	Section 18. Amends the tax credit fund in accordance with the removal of the ability for taxpayers to apply for a cash payment for net operating loss credits.	Deleted - no change to current statute.
Oil & Gas Tax Credit Fund	AS 43.55.028(e). Sets a \$70 million per company limit on cash payments for tax credits; limited to companies with not more than 50,000 barrels production.	Section 19. Reduces the limit on cash payment of tax credits to \$35 million per company; limits to companies with not more than 15,000 barrels per day production.	Deleted - no change to current statute.

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Tax Credit Information	AS 43.55.030. Filing of statements.	Sections 20 - 22. Requires taxpayer to report information to DOR related to tax credits, including description of the expenditure,detailed description of expenditure purpose; description of lease or property where incurred.	Sections 19 - 20. Adds language to include information for both tax credits and carried forward lease expenditures; removes requirement to report detailed description of the purpose of the expenditure.
Gross Value at the Point of Production	AS 43.55.150. Determination of gross value at the point of production.	Section 23. Adds a new section to AS 43.55.150 to ensure that the gross value at the point of production does not go below zero.	Section 21. Same.
Production Tax Value	AS 43.55.160(a). Determination of production tax value; calculation.		Section 22. Conforming amendment to new tax rate.
Production Tax Value	AS 43.55.160(e). Determination of production tax value; carried-forward annual loss.	Section 24. Conforming amendment.	Section 23. Conforming amendment in accordance with net operating loss carry forward provision in Section 26.
Production Tax Value	AS 43.55.160(f). Determination of production tax value; 20% gross value reduction.		Section 24. Conforming amendment to new tax rate.
Production Tax Value	AS 43.55.160(h). Determination of production tax value; net value factors for oil after 2022.		Section 25. Conforming amendment to the new tax and the calculation of the second bracket.
Net Operating Loss Carry Forward	AS 43.55.165(a). Lease expenditures.	Section 25. Allows 50% of net operating losses to carry forward to production when operating losses can be applied against the producer's tax liability.	Section 26. Adds AS 43.55.165(a)(3): Allows 100% of net operating losses to carry forward to production.

HB 111 - Sectional Analysis and Explanation of Changes

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Net Operating Loss Carry Forward	AS 43.55.165. Lease expenditures.	Section 26. (m) Provides a seven year uplift of seven percentage points above the federal reserve rate. (n) Directs DNR to develop regulations to establish a pre-approval review process for lease expenditures that will generate a carry forward annual loss.	Deleted.
Net Operating Loss Carry Forward	AS 43.55.165. Lease expenditures.		Section 27. (m) Reduces the 100% carry forward lease expenditures by 10% of the full original value, each year after seven years. (n) Ring-fence provision. A carried forward lease expenditure can only be applied to the lease or property where the expenditure was incurred.
Competitive Review Board	AS 43.98.050. Competetive Review Board; duties.		Section 28. Conforming amendment to the repeal of AS 43.55.160(g).
Repeals		Section 27. Repeals AS 43.55.028(g)(3) (split cash payments); and adds the repeal of AS 43.55.029 (assignment of tax credits to third-party assignee).	Section 29. Repeals AS 43.55.024(j)(sliding scale per barrel credit); AS 43.55.029 (assignment of tax credits to third-party assignee); AS 43.55.160(g) (10% gross value reduction for higher royalty fields).
Cook Inlet Working Group		Section 28. Establishes a legislative working group to analyze the Cook Inlet fiscal regime.	Section 30. Same.

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Applicability		Section 29. Provisions relating to the minimum tax, migrating credit, net operating loss credit, and repeal of 3rd party assignments apply on or after January 1, 2018.	Section 31. Provisions relating to the minimum tax floor, net operating loss credit, and repeal of 3rd party assignments apply on or after January 1, 2018.
Transition: Carried-forward Losses		Section 30. DOR may purchase tax credit certificates issued for credits earned before January 1, 2018; the new NOL carry forward provisions apply to lease expenditures incurred on or after January 1, 2018.	Deleted.
Transition: Carried-forward Lease Expenditures			Section 32. The net-loss carry forward provisions apply to lease expenditures incurred on or after January 1, 2018.
Transition: Tax Credit Assignments		Section 31. The department may continue to apply and enforce tax credit assignments to third-parties for credits applied for before January 1, 2018.	Section 33. Same.
Transition: Payment of Tax; Filing		Section 32. Taxpayers shall pay the tax as provided in current law for a tax or installment payment for production before January 1, 2018.	Section 34. Same.
Transition: Gross Value Reduction			Section 35. A taxpayer who produces oil or gas before January 1, 2018 qualifies for an extra 10 percent gross value reduction as provided in current law for the oil and gas produced before that date.

HB 111 - Sectional Analysis and Explanation of Changes

Provision	Current Law	CSHB 111 (RES) ver N	CSHB 111(FIN) ver L
Transition: Retroactivity of Regulations			Section 36. Allows for retroactivity of regulations to carry out this act.
Retroactivity		Section 33. The change to delinquent interest in sec. 2 is retroactive to January 1, 2017.	Section 37. Same except refers to section 3 of this Act.
Effective Dates		Section 34. The intent language, delinquent interest provision, Cook Inlet Working Group, and retroactivity of delinquent interest are effective immediately.	Section 38. The working group, retroactivity of regulations and delinquent interest rate are effectively immediately.
Effective Dates			Section 39. New language relating to carried-forward operating losses takes effect on January 1, 2018.
Effective Dates		Section 35. All other sections take effect January 1, 2018.	Section 40. All other sections take effect January 1, 2018.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version:	CSHB 111(FIN)
Fiscal Note Number:	3
(H) Publish Date:	4/9/2017

Identifier: HB111CS(FIN)-DOR-TAX-04-07-17
 Title: OIL & GAS PRODUCTION
 TAX;PAYMENTS;CREDITS
 Sponsor: RESOURCES
 Requester: House Finance Committee

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1250 UGF Rev (UGF)	20,000.0		85,000.0	90,000.0	100,000.0	145,000.0	190,000.0
Total	20,000.0	0.0	85,000.0	90,000.0	100,000.0	145,000.0	190,000.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 1,200.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/18

Why this fiscal note differs from previous version:

Revised to reflect work draft House Finance committee substitute.

Prepared By: Ken Alper, Director
 Division: Tax Division
 Approved By: Jerry Burnett, Deputy Commissioner
 Agency: Department of Revenue

Phone: (907)465-8221
 Date: 04/07/2017 01:00 PM
 Date: 04/07/17

**REPORTED OUT OF
HFC 04/08/2017**

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

Analysis

Bill Background

This legislation would make multiple changes to Alaska's oil and gas production tax and tax credit statutes. Various credits have been added to statute since 2003, with state repurchase beginning in 2007. Through the end of FY 2016, about \$8 billion in tax credits have been received by companies. This includes both credits used against tax liability and credits repurchased by the state; it also includes activity on both the North Slope and other areas of the state. A substantial number of companies rely on these credits to support and subsidize their Alaska operations. For work done in 2015, the producers earned credit certificates for up to 85% of the cost.

The Legislature passed HB247 in 2016. That bill was primarily focused on scaling back credits available in Cook Inlet. Those changes, combined with the sunset of most exploration credits that also occurred in 2016, reduces the state's estimates of future credit demand. Nevertheless, the volume of tax credit certificates eligible for state purchase continues to grow in part due to Governor Walker vetoing most of the FY2017 appropriation to the tax credit fund (AS 43.55.028). If annual appropriations continue according to the statutory formula, the current forecast indicates \$1.6 billion in purchasable credits outstanding in 2026. Additionally, there have been several large discoveries recently announced on the North Slope; if any of these were sanctioned and built it could result in additional billions in credit liability that under current law could be payable far in advance of any additional tax or royalty revenue from the development.

With the changes made in this legislation, the state will cease offering transferrable or cashable tax credit certificates for work done on the North Slope. Instead, companies would be expected to carry forward their losses until such time as they owe a tax liability to the state, at which time they could be used to offset the company's oil and gas production taxes. Additionally, the state's contribution towards many projects will be reduced. Additional provisions of the bill will increase the oil and gas production tax under certain circumstances.

Summary of Revenue Impact

The bill's fiscal impacts can be divided into two categories: increases to revenue (taxes), and reductions in the demand for tax credit repurchases (appropriations). The cover page table only includes the revenue items as it is impossible to predict future appropriations. Savings due to reductions in demand for future appropriations to purchase tax credits are noted in the summary table on page 4. The table shows the impact at forecasted oil prices. Additionally, the bar charts on page 5 examine the average total impact at a wide range of possible oil prices.

The initial revenue impact from this bill would be concentrated in changes to the base production tax and the per-taxable barrel credit. The tax rate is reduced from 35% to 25%, although a "bracket" of progressivity is added so that portion of production tax value greater than \$60 per barrel would be taxed at 40%. At the same time, the sliding scale per-barrel credit of between \$0 to \$8 is repealed.

In general, this moves the "crossover point" between the gross minimum tax (unchanged in this version) and the net profits tax much lower- from roughly \$75 per barrel to \$55. The bill would result in a tax increase at oil prices between roughly \$50 and \$100 per barrel, and is roughly revenue neutral at higher prices.

Additionally, HB111 prevents certain credits from being used to reduce tax payments below the minimum tax, a concept colloquially known as "hardening the floor." This will have a smaller revenue impact that disappears in future years as the price of oil increases.

Also, a small indeterminate amount of additional revenue would come from the elimination of the "zero interest rate" provision after three years of production tax delinquency.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB111

Analysis**Implementation Cost**

The changes anticipated in this bill will require somewhat substantial reprogramming of the Tax Revenue Management System and Revenue Online tax portal. Based on the required changes after the passage of HB247 in 2016, we currently assume a one-time cost of about \$1,200,000 to accomplish this. We do not anticipate any additional costs to administer the tax program. There will also be a need for substantial amendments to existing regulations to fully implement the changes.

Detail of Specific Provisions

- 1) Eliminates the 35% Carried Forward Annual Loss Credit (also known as "NOL") rate for the North Slope, effective 1/1/18. This change would eliminate reduce the future liability from this credit. Instead of the credit, taxpayers will be able to carry forward their excess lease expenditures to be used against future taxes. The value of carried forward expenditures begins to decrease by 10% per year if unused for seven years. Additionally, carried forward expenditures can only be used to offset revenues from the lease or property where they were originally incurred, a concept generally referred to as "ring fencing." This change would not impact the existing credit certificates, estimated at about \$900 million that will be in company hands at the end of 2017 given no further action.
- 2) Hardens the floor, so no credits can be used to reduce payments below the minimum tax. An exception is made for the small producer credit
- 3) Production eligible for the gross value reduction (GVR) only pays a minimum tax based on 4% of their adjusted gross value, after subtraction of the GVR. This results in an effective 3.2% gross minimum tax on new oil.
- 4) The base tax rate for the North Slope is reduced from 35% to 25%; an additional 15% progressive surcharge is added to that portion of production tax value greater than \$60 per barrel.
- 5) The sliding scale per-barrel credit on non-GVR oil is eliminated. This means that the calculated tax rate (25%, plus possible progressivity) and the effective tax rate will be the same.
- 6) The Gross Value at the Point of Production for a given property can't go below zero. This would only impact a very high tariff (likely remote) field at very low prices, so those fields could not have negative wellhead value that could offset other tax liability.
- 7) Eliminates the zero interest rate for delinquent taxes that currently take effect after three years of delinquency. This provision was added in HB247 to incentivize DOR to accelerate the tax audit process. However, the larger concern is that it remains in effect for the entirety of any tax appeal or litigation, reducing any incentive on the part of companies to settle a tax issue.
- 8) The 30% Gross Value Reduction for high royalty fields on state land is eliminated. All GVR is limited to the 20% category.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB111

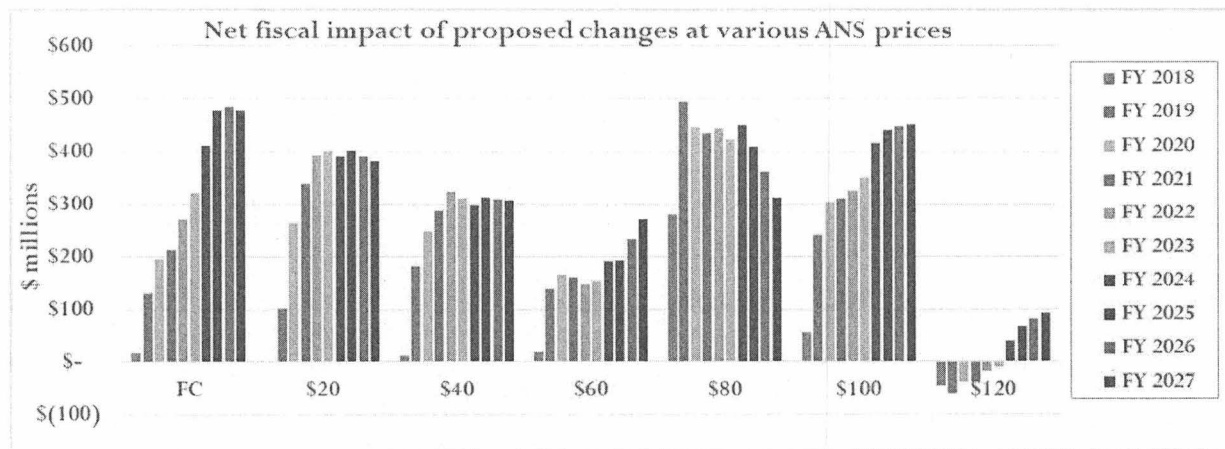
Analysis

Provisions in CSHB 111 (FIN) \M and their Estimated Fiscal Impact based on Fall 2016 Forecast (\$millions) - Fall 2016 FC PRICE Revised 4-7-17 by Dept. of Revenue

Description of Provision	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
1. Effective 1/1/18, Operating loss credit eliminated for North Slope and replaced with carry-forward lease expenditures provision. A company may carry forward 100% of North Slope lease expenditures not deducted against tax, but can only use to offset gross value from the lease or property where earned. After 7 years, carry-forward reduced by 10% of original value each year.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2. Only small producer credits can reduce tax below the minimum tax effective 1/1/18.	\$20	\$15	\$0	\$0	\$0	\$0	\$0	-\$10	-\$25	-\$55
3. Existing minimum tax rates retained, and GVR reduces basis for minimum tax, effective 1/1/18.	\$0	\$0	\$0	\$0	-\$5	-\$5	\$0	\$0	\$0	\$0
4. Effective 1/1/18, base tax rate for North Slope changed from 35% of PTV to 25%; an additional 15% progressive surcharge applies to that portion of PTV above \$60 per barrel.	\$0	-\$10	-\$10	-\$15	-\$20	-\$20	-\$35	-\$45	-\$60	-\$70
5. Sliding scale per-taxable-barrel credits eliminated, effective 1/1/18.	\$5	\$210	\$185	\$250	\$340	\$405	\$510	\$610	\$630	\$620
6. Gross value at point of production (GVPP) cannot go below zero effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7. Interest on delinquent taxes continues to accrue after 3 years, retroactive to 1/1/17.	Indeterminate - likely positive for state.									
8. Eliminate 30% GVR option effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional impact of implementing above provisions together vs standalone.	-\$5	-\$130	-\$85	-\$135	-\$170	-\$190	-\$200	-\$215	-\$200	-\$210
Total Revenue Impact	\$20	\$85	\$90	\$100	\$145	\$190	\$275	\$340	\$345	\$335
A. Budget impact of operating loss and carry-forward lease expenditures changes effective 1/1/18.	\$0	\$45	\$105	\$115	\$125	\$135	\$135	\$140	\$140	\$140
B. Budget impact of only small producer credits can reduce tax below minimum tax effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
C. Budget impact of minimum tax changes effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
D. Budget impact of North Slope tax rate changes effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
E. Budget impact of eliminating sliding scale per-taxable-barrel credits, effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
F. Budget impact of GVPP cannot go below zero effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
G. Budget impact of interest accrual changes, retroactive to 1/1/17.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
H. Budget impact of eliminating 30% GVR option effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional impact of implementing above provisions together vs standalone.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Budget Impact	\$0	\$45	\$105	\$115	\$125	\$135	\$135	\$140	\$140	\$140
Total Fiscal Impact - (does not include potential changes in investment)	\$20	\$130	\$195	\$215	\$270	\$325	\$410	\$480	\$485	\$475
Tax impact of carry-forward lease expenditure balances - current law	\$14	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tax impact of carry-forward lease expenditure balances - proposed	\$90	\$150	\$225	\$280	\$335	\$390	\$455	\$520	\$580	\$640
Change in year-end balance due to proposal	\$76	\$150	\$225	\$280	\$335	\$390	\$455	\$520	\$580	\$640

NOTE: The fiscal impact of this proposal is an estimate based on the Fall 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes, and do not include any changes in company behavior as a result of this proposal. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Net Fiscal Impact of CSHB111(FIN) \M at Various Prices





ALASKA STATE LEGISLATURE

SENATE RESOURCES COMMITTEE

SEN. CATHY GIESSEL
Chair
State Capitol, Room 427
Juneau, AK 99801-1182
(907) 465-4843 Fax 465-3871

Sen. John Coghill, Vice-Chair
Sen. Kevin Meyer
Sen. Shelley Hughes

Sen. Bert Stedman
Sen. Natasha Von Imhof
Sen. Bill Wielechowski

Summary of Senate CS for CS for HB 111 \P

Eliminates the state's cash exposure by ending the program of refundable oil and gas tax credits to small or new companies. Transitions to a system of carrying forward operating losses for use against future tax liability, while protecting the basic tax components in statute today.

Eliminating refundable tax credits

- Ends refundable credits statewide and repeals the tax credit fund; credits issued for work done through 2017 are refundable by appropriation instead. (Sec. 15-17, 25, 32)
- Concludes the multi-year effort to eliminate tax credits used against liability, except for the local energy source work developing in Middle Earth. (Sec. 25)
- Preserves Middle Earth credits as non-refundable, and allows the company earning the credits to apply them against the corporate income tax as well as against production tax; also, applies timelines to encourage prompt issuance of Middle Earth credits. (Sec. 2, 11, 12, 14, 26, 27)
- Ensures the expiring in-state refinery and LNG storage facility credits remain refundable through appropriation. (Sec. 3-6)

- Expands opportunities for companies holding credits to realize value of those credits by enabling credits – a company’s own or purchased from another – to be used against prior liabilities once those liabilities come due. (Sec. 7, 9, 13, 28)

Transition to carry-forward loss system while protecting SB 21 tax

- Repeals the net operating loss credit statewide. On the North Slope, shifts to a system of carrying forward lease expenditures unable to be deducted in the current year as a mechanism to recover costs, and provides non-cash support for new developments through an uplift. (Sections 10, 21, 23, 25, 29)
- Protects the tax structure in place, including a flexible floor for new oil and small producers, and affirming a hard floor against losses. (Sections 10, 23)

Miscellaneous

- Reduces the interest rate on delinquent taxes and extends the time during which interest accrues. (Section 1)



ALASKA STATE LEGISLATURE

SENATE RESOURCES COMMITTEE

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Sen. Bert Stedman
Sen. Natasha Von Imhof
Sen. Bill Wielechowski

Sectional Analysis: Senate CS for CS for HB 111 \P

Section 1 Amends AS 43.05.225, Administration of Revenue Laws, Interest.

Beginning Jan. 1, 2018, delinquent taxes bear interest at 3 points above the 12th Federal Reserve District annual rate, compounded quarterly. Applies to all delinquent taxes (not only oil and gas production taxes) under Department of Revenue's administration.

Section 2 Amends AS 43.20.044(a), Alaska Net Income Act, Exploration incentive credit.

The exploration tax credit under AS 43.55.025 can be applied against the corporate income tax of the company that incurred the credit.

Section 3 Amends AS 43.20.046(e), Alaska Net Income Act, Gas storage facility tax credit.

The tax credit for gas storage facilities is no longer refundable from the Oil and Gas Tax Credit Fund under AS 43.55.028, as the fund is repealed in Sec. 25. The tax credit remains refundable by appropriation. As rules for refundability are attached to the Oil and Gas Tax Credit Fund, which is repealed, refundability would now be subject to the same rules in new Sec. 6.

Section 4 Amends AS 43.20.047(e), Alaska Net Income Act, Liquefied natural gas storage facility tax credit.

The tax credit for LNG storage facilities is no longer refundable from the Oil and Gas Tax Credit Fund under AS 43.55.028, as the fund is repealed in Sec. 25. The tax credit remains refundable by appropriation. As rules for refundability are attached to the Oil and Gas Tax Credit Fund, which is repealed, refundability would now be subject to the same rules in new Sec. 6.

Section 5 Amends AS 43.20.053(e), Alaska Net Income Act, Qualified in-state oil refinery infrastructure expenditures tax credit.

The tax credit for in-state refineries is no longer refundable from the Oil and Gas Tax Credit Fund under AS 43.55.028, as the fund is repealed in Sec. 25. The tax credit remains refundable by appropriation. As rules for refundability are attached to the Oil and Gas Tax Credit Fund, which is repealed, refundability would now be subject to the same rules in new Sec. 6.

Section 6 Adds a new section to AS 43.20, Alaska Net Income Tax.

Applies rules for refundability in the former Oil and Gas Tax Credit Fund to the income tax credits for instate refineries, LNG storage facilities and gas storage facilities refundable by appropriation. The Department of Revenue, in making refunds, may not discriminate among the three credits; must grant a preference for Alaska hire, and must ensure the claimant has no outstanding liability to the state.

Section 7 Amends AS 43.55.023(c), Oil and Gas Production Tax, Tax credits for certain losses and expenditures.

Enables taxpayers to apply credits issued under AS 43.55.023 against prior year taxes, interest, penalties, and fees related to the oil and gas production tax, including against amended oil and gas production taxes, providing the assessment was not subject to an administrative procedure or litigation.

Section 8 Amends AS 43.55.023(d), Oil and Gas Production Tax, Tax credits for certain losses and expenditures.

Conforming to the Section 25 repeal of the Oil and Gas Tax Credit Fund and elimination of refundable tax credits.

Section 9 Amends AS 43.55.023(e), Oil and Gas Production Tax, Tax credits for certain losses and expenditures.

A taxpayer can use a transferrable tax credit certificate issued under AS 43.55.023 against prior year taxes, interest, penalties, and fees related to the oil and gas production tax, including against amended oil and gas production taxes, providing the assessment was not subject to an administrative procedure or litigation.

Section 10 Adds a new subsection to AS 43.55.024, Oil and Gas Production Tax, Additional nontransferable tax credits.

Tax credits under AS 43.55.024(c), small producer credit, and AS 43.55.024(i), per-barrel credit for new oil, may be used to reduce taxes below the minimum, but not below zero, including in a year in which the sliding scale per-barrel credit under AS 43.55.024(j) is used. The taxpayer will decide the ordering of the credits when calculating tax liability.

Section 11 Amends AS 43.55.025(a), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration.

The tax credit in AS 43.55.025 to be applied against production tax or corporate income taxes.

Section 12 Amends AS 43.55.025(f), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration.

Allows the tax credit in AS 43.55.025 to be applied against production tax or corporate income taxes. Directs the Department of Revenue to grant or deny a credit application under AS 43.55.025 within 120 days of application.

Section 13 Amends AS 43.55.025(h), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration.

A taxpayer may apply credits issued under AS 43.55.025 against prior year taxes, interest, penalties, and fees related to the oil and gas production tax, including against amended oil and gas production taxes, providing the assessment was not subject to an administrative procedure or litigation.

Section 14 Amends AS 43.55.025(i), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration.

Credits under AS 43.55.025 can be applied against production tax or corporate income tax, but cannot be used to reduce taxes below zero.

Section 15 Amends As 43.55.028(e), Oil and Gas Production Tax, Oil and gas tax credit fund established; cash purchases of tax credit certificates.

As the Oil and Gas Tax Credit Fund is repealed in Sec. 25, ensures credits earned before Jan. 1, 2018, can be refunded by appropriation. Removes the maximum amount per year a company can receive in refunds and makes conforming changes. Maintains requirements that only companies producing less than 50,000 barrels per day can receive cash payments.

Section 16 Amends AS 43.55.028(g), Oil and Gas Production Tax, Oil and gas tax credit fund established; cash purchases of tax credit certificates.

Conforming to the repeal of the Oil and Gas Tax Credit Fund in Sec. 25, and to the transitioning of the LNG storage facility, gas storage facility, and instate refinery credits to refundable by appropriation in Secs. 3-6. Maintains Alaska hire preference when allocating funds to pay credits. Removes partial-value repurchase rules.

Section 17 Amends AS 43.55.028(j), Amends AS 43.55.028(g), Oil and Gas Production Tax, Oil and gas tax credit fund established; cash purchases of tax credit certificates.

Conforming to the repeal of the Oil and Gas Tax Credit Fund in Sec. 25 and to the repositioning of the gas storage, LNG storage, and refinery credits as refundable by appropriation in secs. 3-6.

Section 18 Amends AS 43.55.029(a), Oil and Gas Production Tax, Assignment of tax credit certificate.

Conforming to the Sec. 25 repeal of AS 43.55.023(b), net operating loss credit.

Section 19 Amends AS 43.55.160(d), Oil and Gas Production Tax, Determination of production tax value of oil and gas.

Conforming to the Sec. 25 repeal of AS 43.55.023(b), net operating loss credit.

Section 20 Amends AS 43.55.160(e), Oil and Gas Production Tax, Determination of production tax value of oil and gas.

Conforms to Sec. 21 changes to lease expenditures and to the Sec. 25 repeal of AS 43.55.023(b), net operating loss credit.

Section 21 Amends AS 43.55.165(a), Oil and Gas Production Tax, Lease expenditures (as amended by Sec. 29, ch.4, 4SSLA 2016 – House Bill 247).

For the North Slope only, lease expenditures include those incurred in a previous year that were not deducted in determining production tax value and were not the basis of a credit.

Section 22 Amends AS 43.55.165(f), Oil and Gas Production Tax, Lease expenditures.

Conforms to the Sec. 25 repeal of AS 43.55.023(b), net operating loss credit.

Section 23 Adds new subsections to AS 43.55.165, Oil and Gas Production Tax, Lease expenditures.

Lease expenditures carried forward under Sec. 21 generate a 10% increase in value (uplift), compounded annually, for seven years. Only companies without commercial production when the expenditure occurred are eligible for the uplift. The increased value (uplift) can be applied generally providing the producer holds interest in the leases on which the expenditure generating the uplift occurred and the leases entered production.

Specifies that current year lease expenditures are to be applied before carry-forward lease expenditures when calculating tax liability. In applying carry-forward lease expenditures, a producer only needs to apply the amount that would reduce taxes to the equal amount under the minimum tax, and not to zero. Carry-forward lease

expenditures in excess of the amount applied to reduce taxes to the equal of the minimum tax are carried forward to a future year.

Section 24 Amends AS 43.55.170(c), Oil and Gas Production Tax, Adjustments to lease expenditures.

Conforms to the Sec. 25 repeal of AS 43.55.023(b), net operating loss credit.

Section 25 Repeals multiple sections of statute:

AS 43.55.023(b)	Net operating loss credit
AS 43.55.028(a)	Oil and gas tax credit fund, fund established
AS 43.55.028(b)	Oil and gas tax credit fund, fund consists of money to the fund and earnings on the fund
AS 43.55.028(c)	Oil and gas tax credit fund, statutory minimum calculation
AS 43.55.028(d)	Oil and gas tax credit fund, fund management
AS 43.55.028(f)	Oil and gas tax credit fund, money in fund does not lapse
AS 43.55.028(h)	Oil and gas tax credit fund, not a dedicated fund
AS 43.55.028(i)	Oil and gas tax credit fund, qualified capital expenditure definition in relation to the fund section of statute

AS 43.55.029(b)(4) Assignment of tax credit certificate, assignment must contain an account with a bank with which to receive funds when credit certificate is repurchased

Section 26 Applicability language related to the new ability to apply AS 43.55.025 credits to corporate income tax liability.

Allows use of credits earned in prior years to be applied against corporate income taxes.

Section 27 Applicability language related to the new timelines in Sec. 12 for the Department of Revenue to grant or deny applications for credits under AS 43.55.025.

Applications received before Jan. 1, 2017, will be considered received on the immediate effective date of the legislation.

Section 28 Applicability language related to credits used against prior years' production tax liability.

Tax credit certificates can be applied against tax liability, regardless of when tax credits were issued.

Section 29 Applicability language related to lease expenditures.

Clarifies the new treatment of lease expenditures and uplift apply to lease expenditures incurred from Jan. 1, 2018, and forward.

Section 30 Transition language related to the changes in the interest rate on delinquent taxes.

Section 31 Transition language related to carry-forward annual losses.
Ensures losses incurred through 2017 receive current statutory treatment.

Section 32 Transition language related to transferrable tax credit certificates.
Ensures the state may repurchase tax credit certificates issued for work done through 2017.

Section 33 Transition language related to the Oil and Gas Tax Credit Fund.
The balance of the fund lapses into the general fund.

Section 34 Sets an immediate effective date for Secs. 2, 7, 9, 11-14, and 26-28.
Sections relate to the ability to apply credits under AS 43.55.025 to corporate income taxes as well as to production taxes; and to apply credits issued under AS 43.55.023 and AS 43.55.025 to prior year liabilities.

Section 35 Sets an effective date for Sec. 21 based on the effective date of changes made in HB 247 of 2016.

Section 36 Sets a Jan. 1, 2018, effective date for all other sections.

HB111 Opposing Document – Sample Letters in Opposition

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1. Allison Griffith
2. Kevin Gunnip
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5. Guy Turner
6. Randy Akers
7. Dana and Deborah Hahn, Eagle River
8. Josie Hickel
9. Paul Friese
10. Ella Ede

1.

From: Allison Griffith [
Sent: Tuesday, March 07, 2017 11:25 AM
To: LIO Anchorage <Lio.Anchorage@akleg.gov>
Cc: Allison Griffith <
Subject: HB 111 Oil & Gas Taxes

Honorable Members – House Resource Committee,

Please consider my input in this written testimony, as an objection to the consequences that would be caused by enacting this legislation as currently drafted.

I can support, to some degree, careful modification to the current cashable tax credit formulas and the current pay-out plans.

Other proposed changes effect the fundamental tax policy that was enacted through voter supported SB21, and HB247.

Please drop or significantly reduce the proposed tax increase in HB 111. We must continue to show Alaska is open for business, and support our resource development industries.

Thank you,

Allison Griffith

Anchorage, AK 99516

2.

From: Kevin Gunnip [
Sent: Tuesday, March 07, 2017 11:22 AM
To: LIO Anchorage <Lio.Anchorage@akleg.gov>
Subject: HB111 Testimony

Honorable Members – House Resource Committee,

Please consider my input in this written testimony, as an objection to the consequences that would be caused by enacting this legislation as currently drafted.

Although I do agree that some careful modification to the current cashable tax credit formulas and the current pay-out plans may deserve some adjustments.

Other proposed changes effect the fundamental tax policy that has been enacted through SB21 (and supported by the voters), and HB247.

Please drop or significantly reduce the proposed tax increase in HB 111. We must continue to show Alaska is open for business, and support our resource development industries.

We are operating in a world economy, we must keep Alaska competitive, and not push businesses away.

Kevin Gunnip | Account Manager | Lynden Transport

3.

From

Sent: Monday, March 06, 2017 5:04 PM

To: lhsres@akleg.gov.

Subject: Opposed to HB 111

To Whom It May Concern:

I am a constituent in South Anchorage and am opposed to HB 111. Please keep oil taxes the same.

Almost exactly one year ago, my position with an oil and gas support company was eliminated due to the lack of work from clients because of the low oil prices. Please do not add any more burden to these companies who fuel jobs and Alaska's economy.

I believe HB 111 will NOT make Alaska better and will likely result in less investment, less production, fewer jobs, and a deepening recession. It will create more situations like mine: job losses to an educated workforce who contribute to the economy and community.

Unfortunately, due to my teaching schedule at UAA, I am unable to testify in person. Please accept this email as my testimony against HB 111.

Thank you,
~Josie Wilson

4.

-----Original Message-----

From: Rosemary Tower

Sent: Monday, March 06, 2017 9:23 PM

To: House Resources <lhrsres@akleg.gov>

Cc:

Subject: HB 111

I oppose HB 111

Rosemary Tower

Sent from my iPhone

5.

File HB111

From: Guy Turner

Sent: Tuesday, March 07, 2017 7:19 AM

To: Rep. Andy Josephson <Rep.Andy.Josephson@akleg.gov>

Subject: Budget

Exxon makes major investment, but not in our state! No pro-business, consistent plan in Alaska! Increasing oil flowing through the pipeline can be done, but the budget committee must get their act together quickly, without taxing the people and destroying the PFD. Cut 20% across all state agencies, and we will balance the check book. The sucking sound in this state otherwise will be do to the **budget committee**.

This particular project from Exxon Mobil goes back a couple of years. However, management felt compelled to say it's confident that it can comply because it anticipates pro-business, pro-American worker fiscal policies. So yesterday it announced MAJOR investment in the lower 48. Sadly the proper actions by the budget committee does not include Alaska in their announcement.

Exxon makes major investment, but not in our state! No pro-business, consistent plan in Alaska! Increasing oil flowing through the pipeline can be done, but the budget committee must get their act together quickly, without taxing the people and destroying the PFD. Cut 20% across all state agencies, and we will balance the check book. The sucking sound in this state otherwise will be do to the **budget committee**.

This particular project from Exxon Mobil goes back a couple of years. However, management felt compelled to say it's confident that it can comply because it anticipates pro-business, pro-American worker fiscal policies. So yesterday it announced MAJOR investment in the lower 48.

Get the oil we have flowing with an increase in volume created by pro-business policies, and the increase in volume will help pay once again for our operating budget that is over bloated currently. The increase of activity to get more oil flowing will off set the jobs cut to the state agencies.

Regards, Guy

6.

From: Akers, Randall

Sent: Monday, March 06, 2017 4:17 PM

To: Rep. Andy Josephson <Rep.Andy.Josephson@akleg.gov>; Rep. Geran Tarr <Rep.Geran.Tarr@akleg.gov>; Rep. Dean Westlake <Rep.Dean.Westlake@akleg.gov>; Rep. Harriet Drummond <Rep.Harriet.Drummond@akleg.gov>; Rep. Justin Parish <Rep.Justin.Parish@akleg.gov>; Rep. Chris Birch <Rep.Chris.Birch@akleg.gov>; Rep. DeLena Johnson <Representative.DeLena.Johnson@akleg.gov>; Rep. George Rauscher <Rep.George.Rauscher@akleg.gov>; Rep. David Talerico <Rep.David.Talerico@akleg.gov>; Rep. Mike Chenault <Rep.Mike.Chenault@akleg.gov>; Rep. Chris Tuck <Rep.Chris.Tuck@akleg.gov>

Subject: re: HB11

Dear Respected Members of the Alaska State House Resources Committee

I am writing this letter to fully oppose HB11. I am very cognizant of the budget deficit we Alaskans face and understand we are all "panicking" a bit. However, to take our spending woes and simply pass them onto our most valued businesses and resource is not only wrong, but quite foolish.

With the ongoing decline in oil prices and the already loss of jobs and income here in Alaska due to these low oil prices, and now to think it is sound legislation to simply tax the oil / gas industry more is just the wrong thing to do at this juncture.

As I pondered writing this letter I began to look at how many times we have changed our oil tax structure, and not surprising to many of you, but to me it was, we have changed this structure 7 times in 12 years. How do we expect anyone to plan a future with that many changes in this many years? I liken this to raising my daughter, if I gave her rules to live / abide by and every other year changed my mind and gave her a new set of rules, she'd probably need a counselor by now.

We came together as a community, and as a State and passed SB21. After which we experienced a slight revitalization in the Oil / Gas sector. And now only a year later we are again wanting to change the structure? What message does that send to any / all perspective investors or companies regarding looking to Alaska as a possible location to invest in? More importantly what message does that send to those companies that HAVE invested in our State? This is NOT the message nor the time to hamper, hinder or further erode the business we have within the Oil / Gas Sector.

We have dug a hole with this deficit, to try and fill that hole with a bunch of "oil" is not what is needed. We need these producers to increase production, increase development, increase their stake in our State, and HB11 will do exactly the opposite. Please send the right message to our biggest resource and job sector, send the message we WANT them here.

I respectfully ask that you to PLEASE REJECT in its entirety, HB11.

Sincerely,

Randy Akers

Technical Sales Representative

State of Alaska

Pentair Valves & Controls

Anchorage, Alaska 99518

United States

7.

From: Dana Hahn

Sent: Monday, March 06, 2017 4:28 PM

To: Rep. Andy Josephson <Rep.Andy.Josephson@akleg.gov>

Subject: HB111

Hello Representative Josephson,

Thank you for taking my input regarding HB111.

While my wife and I do not work for the oil industry, we are very concerned about jobs for our fellow Alaskans. Increasing taxes yet again on an industry that is struggling to compete with other projects, will not encourage investment here and therefore cost even more jobs. More investment means more production and more revenue for the state.

We encourage you to look at the long term in regards to taxation on the oil industry.

Sincerely,

Dana and Deborah Hahn

Eagle River AK 99577

8.

From: Josie Hickel [
Sent: Wednesday, March 08, 2017 3:41 PM
To: House Resources <lhsres@akleg.gov>
Subject: Testimony HB 111

March 8, 2017

House Resources Committee

Alaska State Capital

Juneau, AK 99801

Dear Co-Chairs Tarr and Josephson and Members of the Committee:

My name is Josie Hickel, and I am the Senior Vice President of Energy & Resources for Chugach Alaska Corporation (Chugach). As an Alaska Native corporation, we serve the interests of the Alaska Native people of the Chugach region and represent more than 2,600 shareholders. It is our duty to provide opportunities to our shareholders to support our culture and values. As such we are committed to profitability, celebration of our heritage and ownership of our lands. A healthy Alaskan economy is key to our ability to maintain our commitment to our shareholders and to our heritage.

Chugach companies have supported the oil industry for more than 25 years. Our services include drilling support, oil spill response, project management, safety, administrative and other professional services. Chugach businesses employ more than 6,000 people worldwide, and over 600 Alaskans, many of whom are shareholders.

I am writing in opposition to HB 111, and to voice concerns over the proposal of yet another change in the oil tax structure in Alaska. Our state has long been dependent on the oil and gas industry to support our state government and to provide jobs and other economic and social support for Alaskans. Businesses look for political and economic stability when making decisions on where to invest. If Alaska can't be competitive and provide a stable cost structure, we will lose investment dollars to other states or regions that can provide stability. Less oil in the pipeline increases cost and creates greater challenges related to maintaining infrastructure.

Another change to Alaska's oil taxes will further compound these challenges, which, in turn, will lead to lower throughput.

Alaska needs the investment and stability of a healthy oil and gas industry for the future of our State and our people. Simply put, HB 111 bites the hand that feeds, with no long-term benefit. Any fiscal plan for the State should take into consideration the negative impacts we will face by driving away an industry that has long sustained our way of life.

Respectfully,

Josie Hickel

SVP Energy & Resources
Chugach Alaska Corporation

www.chugach.com



Anchorage, AK 99503

9.

From: Paul Friese [
Sent: Tuesday, March 07, 2017 10:51 AM
To: Rep. Andy Josephson <Rep.Andy.Josephson@akleg.gov>; Rep. Geran Tarr
<Rep.Geran.Tarr@akleg.gov>
Cc: Paul Friese <
Subject: Subject: HB 111

Honorable Members – House Resource Committee,

Please consider my input in this written testimony, as an objection to the consequences that would be caused by enacting this legislation as currently drafted.

Although I do agree that some careful modification to the current cashable tax credit formulas and the current pay-out plans may deserve some adjustments.

Other proposed changes effect the fundamental tax policy that has been enacted through SB21 (and supported by the voters), and HB247.

Please drop or significantly reduce the proposed tax increase in HB 111. We must continue to show Alaska is open for business, and support our resource development industries.

They are operating in a world economy, we must keep Alaska competitive.

Best regards,

Paul Friese |VP Alaska Sales | Lynden Transport, Anchorage

10.

From: Ella Ede

Sent: Wednesday, March 08, 2017 4:17 PM

To: Rep. Andy Josephson <Rep.Andy.Josephson@akleg.gov>

Subject: NO on HB111

Dear Representative Josephson,

I strongly oppose HB111. Our state needs stable tax policy, not more changes for the 7th time in 12 years. Increasing taxes and decreasing incentives for the oil and gas industry is not the right approach to get more oil in the pipeline or more revenue for our state.

As a life-long Alaskan, I have first-hand experience working in the industry. I am also one of those over 9,000 people laid off in the past two years due to cuts. My family has made major adjustments to our personal budget and expenditures. As I have personally made hard choices, the industry has done the same. They have cut budgets, contracts, and staff because they had no choice.

HB111 would be a detriment to an already struggling industry. Raising taxes on companies that are reporting negative cash flow positions is not sound tax policy. Raising taxes and eliminating tax credits could slow or stop investment. Alaska needs that investment now more than ever to keep oil production up to protect Alaskan jobs and businesses as well as the revenue that production generates for the state.

The current oil tax system is balanced, setting a higher minimum floor than the previous tax system, while setting a stable and predictable rate when oil prices rise again. At current prices, Alaska's oil tax policy has brought hundreds of millions of dollars more in tax revenue to the state than it would have under the previous system.

It takes an annual industry investment of \$3 to 4 billion to keep production levels stable on the North Slope. This requires a durable and competitive tax policy to fund Alaska projects. The investment in Alaska and Alaskans is what we need – **more investment, more oil in the pipeline, more jobs for Alaskans.**

Please kill HB111.

Thank you,

Ella Ede

Anchorage, Alaska 99508

HB111 Supporting Document – Sample Letters in Support

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1. Lynn Spence, Homer
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7. Marna Kranenburg
8. Ed Wesley
9. Fwak
10. Jill Wittenbrader, Kodiak

1.

From: Lynn Spence

Sent: Monday, March 06, 2017 6:54 PM

To: House Resources <lhsres@akleg.gov>

Subject: SB21

I support the repeal of SB21. I believe in this oil climate it is not in the state's best interest to give tax credits and tax breaks to oil companies. Alaska has proven to be a reliable, safe, and profitable place for oil companies. I believe they can pay their fair share to the state without these financial incentives that other Alaskan businesses do not receive.

Lynn Spence

Homer, AK 99603

2.

From: Cynthia Morelli
Sent: Tuesday, March 07, 2017 9:06 AM
To: House Resources <lhsres@akleg.gov>
Subject: HB 111

Dear Alaskan Representatives,

Please, it is certainly past time to undo the financial give aways to big oil by our state. I am in favor of ending the tax breaks and payments to companies making record profits. Let's prioritize education, the lifeblood of the future of this state.

Sincerely,
Cynthia Morelli
Homer, Alaska 99603

3.

From: Judy
Sent: Tuesday, March 07, 2017 4:15 PM
To: House Resources <lhrsres@akleg.gov>
Subject: HB 111

Alaska House Resources Committee Testimony House Bill 111

I have lived in Alaska since 1963 and speak as a resident, wife, mother, grandmother, and member of my community. I have lived here long enough to remember when we had no money but leaders who gave us a vision for the future. I have seen improvements in our infrastructure, educational systems, and cultural and community development resources. Much of this has been made possible by the development of our natural resources, the wealth that was granted as part of our statehood compact.

We are not the only ones who have benefitted from this wealth. Those who have developed these resources and built the pipeline and other infrastructure have also benefitted, some beyond their wildest dreams. They, like us, are subject to the whims of the marketplace. Because we have all benefitted, we must also sacrifice during tough times. All Alaska residents have already sacrificed through reductions in services, cuts in our schools and, last year, with half of our Permanent Fund Dividends. Now it is time for the industry that has made so much from our resources to contribute more in production taxes. Those who can least afford it have already paid through their PFDs.

Judy

Juneau, AK

Judy

4.

From: Voyage Thirty-four

Sent: Tuesday, March 07, 2017 9:06 AM

To: Sen. Gary Stevens <Sen.Gary.Stevens@akleg.gov>; Rep. Louise Stutes
<Rep.Louise.Stutes@akleg.gov>

Subject: HB 111

This bill seems like a step in the right direction when it comes to taxing oil companies. I urge you both to support it and/or similar bills to increase oil production taxes.

Thank you,

Mike Sirofchuck

--

___ Sent from my turquoise Princess rotary phone ___

5.

From: Eric Knudtson

Sent: Wednesday, March 08, 2017 12:23 PM

To: House Resources <lhsres@akleg.gov>

Subject: HB111 and HB133:

Dear Sirs:

Please pass both HB bill 11 and HB133. Cut oil company subsidies and raise oil tax rates! If you fail to do so, Alaskans could end up paying taxes and/or giving up a portion of their permanent fund earnings to pay off what current law has us OWING to oil companies! I support balancing our budget with income taxes and permanent fund dividend cuts, but lets not use our money to pay off DEBTS to oil companies.

Thank you,
Eric Knudtson
Homer, AK 99603

6.

From: Breena Walters [
Sent: Wednesday, March 01, 2017 3:02 PM
To: Rep. Geran Tarr <Rep.Geran.Tarr@akleg.gov>
Subject: In Support of HB111

Hello Representative Tarr,

I am a resident of Soldotna, Alaska and I wanted to write you in support of House Bill 111. I appreciate the tax restructuring and credit restructuring plan that you have laid out. I feel it is fair and gives oil and gas companies enough incentive to develop in Alaska, but not at the expense of the Alaskan people. I think that, in a market where oil and gas are no longer the "hot commodity" it is unwise for the state to continue to invest in the development of companies such as BP and Conoco Phillips. I appreciated your clause that gives credits to smaller companies that produce less than 15,000 barrels daily, it seemed an adequate compromise that encourages small business growth and yet does not allow larger, established companies to take advantage of Alaska's credit system. I appreciate you putting a bill together that, seems to me to be, bi-partisan and that puts Alaskans first, not the oil companies. Thank you,

Breena Litzenberger

Blazy Construction, Inc.

7.

From: marna kranenburg [
Sent: Wednesday, March 01, 2017 3:45 PM
To: Rep. Geran Tarr <Rep.Geran.Tarr@akleg.gov>; Rep. David Guttenberg
<Rep.David.Guttenberg@akleg.gov>; Sen. John Coghill <Sen.John.Coghill@akleg.gov>
Subject: HB111

Thank you Rep. Tarr for taking the lead on this difficult issue.

I support HB111 and your efforts to reform our complicated and unfair subsidization of the oil industry.

I wish I could speak more eloquently on the bill, but most of it is over my head.

That said, ANY reform that curbs the amount of money we give to big oil as they realize huge yearly profits while we are cutting jobs is A-OK in my book.

Keep up the good work.

Marna Sanford

District 4B

8.

From: Ed Wesley
Sent: Wednesday, March 01, 2017 5:22 PM
To: Rep. Geran Tarr <Rep.Geran.Tarr@akleg.gov>
Subject: HB 111

My name is Edward Wesley. I have been a resident of Alaska since 1973. I worked on the Alaska Pipeline for several years. I support responsible resource development. I support HB 111 because it offers an opportunity for the oil companies to participate with a fair share of tax credits during our state budget deficits.

Sent from my iPhone

9.

From: Fwak
Sent: Wednesday, March 01, 2017 5:35 PM
To: Rep. Geran Tarr <Rep.Geran.Tarr@akleg.gov>
Subject: House Bill 111

I support house bill 111

Sent from my iPhone

10.

From: Jill Wittenbrader

Sent: Wednesday, March 01, 2017 5:51 PM

To: Rep. Geran Tarr <Rep.Geran.Tarr@akleg.gov>; Rep. Andy Josephson
<Rep.Andy.Josephson@akleg.gov>

Cc: Sen. Gary Stevens <Sen.Gary.Stevens@akleg.gov>; Rep. Louise Stutes
<Rep.Louise.Stutes@akleg.gov>

Subject: HB 111

Dear Co-chairs,

I support passage of HB 111. Please pass this bill to curb subsidies to the oil companies. Help reduce our deficit and get top dollar for our oil. If they don't want it now they will someday and we need to get top dollar for it, it's a limited resource.

Thanks

Jill Wittenbrader

Kodiak, Alaska

Sent from my iPad

Alaska's Oil and Gas Production Tax Tax Credits History

2006 – The Petroleum Production Tax (PPT)

In 2006, after fifty-one years of a gross value oil and gas production tax, Alaska switched to a net profit tax system known as the Petroleum Production Tax or "PPT." Reasons for the change included that the existing gross tax system resulted in almost no production tax revenue from even very productive fields; the system was unable to adjust for increasing oil prices and differences in field conditions between the North Slope and Cook Inlet; and it provided insufficient incentives for investment in Alaska's oil and gas fields. The PPT was intended to increase Alaska's share of oil production revenue and provide incentives for oil and gas companies to invest in the state.¹

- Major Producers' Incentives. It was believed that the tax advantages of the net profit system would increase the major producers' (ExxonMobil, BP, ConocoPhillips) investment in enhanced production from the large legacy Prudhoe Bay and Kuparuk oil fields. A taxpayer could deduct certain operating and capital lease expenditures as part of the calculation for determining their tax liability. In addition, the PPT offered a 20 percent tax credit for qualified capital expenditures. In effect, the more a producer spent in Alaska's oil fields, the lower their tax.
- Independent Companies' Incentives. The PPT offered several tax credits to encourage independent companies to explore for and develop smaller oil fields. Companies could accrue the 20 percent credit for qualified capital expenditures, including exploration costs. In addition, a producer with less than 100,000 barrels production per day could qualify for up to a \$12 million tax credit provided the producer had a positive tax liability. The PPT also provided a credit of up to \$6 million annually for oil or gas produced from leases outside Cook Inlet and the North Slope (known as "Middle Earth").
- Net Operating Loss. The PPT provided for a carried-forward annual loss credit, referred to as net operating loss (NOL). Net operating losses are lease expenditures that would be deductible except when the deduction would cause the net value of taxable oil and gas to be less than zero. A percentage of the lost deductions are converted to tax credits that can be applied against future tax obligations. The PPT provided for a 20 percent net operating loss credit.

The NOL credit was introduced primarily as a benefit to independent companies who would not have enough oil production to generate a tax liability against which to apply their lease expenditure deductions. The major producers were expected to have enough production tax liability to realize the full benefit of their deductions in the year the expenditure occurred.

- Tax Credit Purchase. Because explorers and new producers would not produce enough oil or gas to have much of a tax liability against which to apply tax credits, independent companies doing business in the state asked the legislature to establish a credit purchase program. As originally introduced, the PPT legislation allowed certain tax credits to be transferred and traded on the open market. Since the market was limited to the three major producers, independent

¹ The gross value is determined at the point of production by subtracting transportation costs from the destination sales price (transportation costs include pipeline tariffs). With a net tax, the net income value is determined by deducting from the gross value certain lease expenditures.

- companies were concerned they would not receive full value for their credits, while the buyer could apply 100 percent of the credit against the buyer's tax liability.

The final PPT included a provision for the state to provide for the purchase of certain tax credits. Because legislators and administration officials worried about the potential impact to state revenue should oil prices drop, purchases were limited to companies producing not more than 50,000 barrels of oil per day and there was a \$25 million cap per company. In addition, an applicant was required to incur a qualified capital expenditure or be the successful bidder for a state oil and gas lease within 24 months after applying for a transferable tax credit certificate. The purchase payment could not exceed the total of the expenditures or bid.

Tax credits that qualified for purchase were the net operating loss credits, qualified capital expenditure credits and credits offered under a 2003 exploration credit program.

2007 – Alaska's Clear and Equitable Share (ACES)

In 2007, changes were made to the PPT under the Alaska's Clear and Equitable Share Act or "ACES." The changes were made because of lower tax revenue from higher than anticipated lease expenditure deductions. A corruption scandal that tainted the vote of several legislators during the PPT debate led legislators to be more receptive to making changes. Though the administration considered switching the tax system to a gross value tax, they concluded that a gross tax was not flexible enough to address the differences between oil and gas fields, and didn't account for expensive resource development such as heavy oil. Among other things, ACES retained the PPT tax credits and cash purchase program; and established an oil and gas tax credit fund to pay for the credits.

The Oil and Gas Tax Credit Fund and Credit Purchases

ACES established the oil and gas tax credit fund as a way to purchase qualifying credits more efficiently. The amount of money available to the fund was based on a set percentage of production tax revenue; 10 percent when oil prices were \$60 or more, 15 percent when oil prices were less than \$60. The \$25 million cap established under the PPT was repealed. The \$25 million per company cap was lifted because small producers found the cap too low to be useful.

In response to legislators' questions regarding what would happen to the fund if oil prices dropped, an administration official explained that regulations would determine how to allocate payments when there was an insufficient fund balance. He said, "a long period of low prices could lead to insufficient money in the fund after lots of credits have been paid out, and the legislature might choose to not spend the money on credits." He stated that remaining credits not purchased by the state could either be carried forward or transferred to another taxpayer who had sufficient tax liability.²

- Appropriations to the Oil and Gas Credit Fund. In 2008, the first year after the oil and gas tax credit fund was created, the legislature followed the prescribed formula in appropriating money to the fund. Starting in 2009, the legislature provided an open-ended appropriation to cover all tax credit purchase applications. During the following years the legislature continued this

² Senate Resources Committee, October 22, 2007, page 31; Senate Judiciary Committee, October 30, 2007, page 24-25.

practice, creating an expectation among oil and gas companies that all qualifying credits would be purchased.

- Easing Restrictions. In 2010, the requirement that an applicant incur a qualified capital expenditure or buy a state oil and gas lease to qualify for a purchase payment was repealed. This was done to help companies get project financing – companies looking to invest wanted to know they would get full value for the credit without worrying about whether the credit would meet the investment requirement. The legislature also added a new tax well lease expenditure credit program targeted at Cook Inlet gas exploration and production. The new credits could be purchased by the state.
- Tax Credit Purchases and Private Financing. In 2013, the legislature passed an amendment to the production tax that specifically allowed for the assignment of production tax credits to a third-party assignee without the state's consent. This meant companies could use their tax credits as collateral for loans or sell credits to a bank or investment institution.

There is evidence the provision went farther than intended. The provision was offered as an amendment in House Finance to a Senate bill dealing with fish taxes. An administration official testified that the amendment would help open private equity markets to smaller investors in the state. When asked about whether the provision applied to North Slope producers, the maker of the amendment said she "believed that the amendment applied only to Cook Inlet and Middle Earth" and to gas. The senator whose bill was being amended stated "The goal was to bring additional gas to Cook Inlet consumers." As it turned out, the amendment applied to both oil and gas and to all net operating loss, qualified capital expenditure and well lease expenditure credits.³

- The Sure Thing. In 2015, a Wall Street Journal article titled "How Wall Street Makes Money on Alaska's Oil Tax Breaks" described how Alaska oil and gas companies would sell their rights to a credit or use the rights as collateral for a loan. The companies would give up between five to twenty percent to a lender or buyer, who would get the right to collect the entire state payment. It has become apparent that lenders saw little risk given the state's track record in fully funding tax credit cash purchase applications.
- Not Such a Sure Thing After All. The estimated amount of purchasable credits grew from \$180 million in 2009 to \$700 million in 2015. In 2015, the legislature passed an open-ended appropriation to cover all purchase applications. Had the statutory formula been followed, approximately \$91 million would have been available for appropriation. With oil prices plummeting and a \$3 billion deficit, the governor vetoed \$200 million of the appropriation. In 2016, facing a \$4 billion deficit, he vetoed \$430 million, leaving the \$30 million required by the statutory formula. The question remains how to deal with the remaining tax credit purchase applications.

³ House Finance Committee Minutes, April 12, 2013, page 4-5.

2013 – Senate Bill 21

In 2013, oil and gas companies' discontent with some ACES provisions and concerns about declining North Slope oil production and the fracking boom in the Lower 48 led the Parnell administration to introduce Senate Bill 21. Administration officials also expressed concern that their analysis of \$6 billion in tax credits found no direct connection to future production. They worried that if oil prices dropped and company investments increased, the state budget would have a deficit of billions of dollars and the state would "still be on the hook for the credits."⁴

- Tax Credit Policy Change. For North Slope companies, SB 21 changed the state's oil tax policy from tax credits based on investment to credits based on production; the more production from a field, the lower the tax. The theory was that companies would be more inclined to invest in the state and increase their production.⁵
- SB 21 Tax Credit Changes.
 - SB 21 repealed the qualified capital expenditure credit for North Slope oil and gas activities. The credit remained in place for other areas of the state.
 - SB 21 included a gross value reduction (GVR) where a certain percentage of "new oil" on the North Slope would be tax-free. The bill added a \$5 per barrel credit for production that qualified as new oil subject to the gross value reduction. The GVR and new oil credit applied for the life of the field.
 - For production that did not qualify as new oil, such as oil from the Prudhoe Bay oil field, a sliding-scale production based tax credit was added; from \$8 per barrel when the gross value of oil was \$80 or less, to \$1 per barrel between \$140 and \$149 gross value, and zero after that. The credit is not available for purchase by the state.
 - For the North Slope, SB 21 increased the net operating loss credit to 45 percent until 2016 to ease the transition away from qualified capital expenditure credits. After 2016, the percentage was set at 35 percent – the same as the new production tax rate of 35 percent. For other areas, the rate was set at 25 percent.
- 2014 Repeal Referendum. In 2014, public dissatisfaction over the new oil and gas production tax system prompted a citizens' referendum to repeal SB 21. The repeal would have reinstated ACES in its entirety. Among other issues, supporters of the repeal argued that over time an increasing percentage of oil would qualify for the new oil tax breaks and the state's percentage of profit would decrease indefinitely into the future. There were also concerns that tax credits on production would not encourage Alaska investment since the credits did not require instate investment. The opposition argued SB 21 was working to attract Alaska investment and would increase state revenue over the long-term by increasing production. The referendum failed by a vote of 99,855 (52.7%) to 89,608 (47.3%).

⁴ Senate Special Committee on TAPS Throughput, January 22, 2013, pages 11-12; Senate Resources Committee, February 11, 2013, page 10.

⁵ Senate Resources Committee, Econ One, February 13, 2013, page 22.

2016 – HB 247

Starting in 2015, oil prices dropped from over \$100 per barrel to below \$40 per barrel. With a \$4 billion deficit, the state could no longer afford all the tax credit incentives offered as part of Alaska's oil and gas production tax. To ease the pressure on future state budgets, the administration introduced and the legislature passed HB 247 making changes to several tax credits.

- HB 247 amended Cook Inlet tax credits to phase out by 2018, including the net operating loss credit. For Middle Earth, credits were approximately halved. The bill also placed a cap on cash purchases to individual companies; \$35 million would be purchased at full value, and another \$35 million discounted by 25 percent. Any additional credits would have to be carried into a future year for either a cash purchase or use against a tax liability.
- For North Slope activities, HB 247 added a provision to the gross value reduction setting a time limit on how long the oil would be considered "new" oil excluded from taxation. The reduction expires after seven years of production or three years if the price of oil is greater than \$70 per barrel.

2017 – What's Next

Most of the changes in HB 247 took effect on January 1, 2017. There are still credit programs and other provisions that could cost the state millions, possibly billions, in the coming years.

- Net Operating Loss. The North Slope net operating loss credit remains at 35 percent. Without changes, there is the risk the credits could take the production tax to zero and increase the amount of credits available for purchase. The risk increases with continuing low oil prices and increasing North Slope activities.
- Minimum Floor. Starting with the PPT, the production tax included a tax floor of not less than four percent of the gross value when oil prices were more than \$25 per barrel. While the sliding-scale per barrel tax credit cannot reduce a North Slope producer's tax liability below the floor, net operating loss credits can take the tax to zero. Purchasable credits can take the tax below zero.
- Migrating Credits. Currently, a taxpayer can apply sliding-scale per barrel tax credits that cannot be used in one month to offset a tax liability from a different month in that calendar year. This occurs in a year where the minimum tax is in effect in some months and not in others in a year.
- Outstanding Credit Purchase Applications. The Department of Revenue's Fall 2016 Forecast estimates there will be over \$887 million in outstanding credits available to purchase at the end of fiscal year 2018, assuming around \$74 million is appropriated under the credit fund statutory formula. If cash purchases continue to be permitted and appropriations are limited to the statutory formula over the next decade, this balance is expected to grow to \$1.6 billion by the end of fiscal year 2026.

Senate Resources Committee

HB 111 – Oil Tax Reform/Increase
Kara Moriarty, AOGA President/CEO
April 17, 2017



AOGA 40 YEARS of PRUDHOE BAY

AOGA Membership



GLACIER



Hilcorp

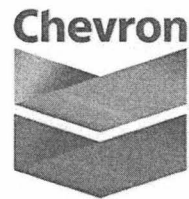


CAELUS
Energy Alaska

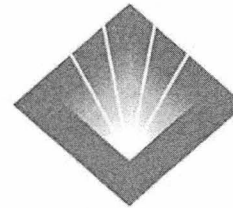


BlueCrest
Energy

PETRO STAR INC.

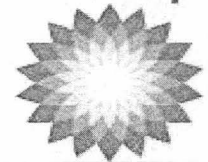


Chevron



TESORO

bp



ExxonMobil



FURIE
Operating Alaska LLC



Alyeska pipeline
SERVICE COMPANY

AOGA 40 YEARS OF PRUDHOE BAY

Oil & Gas Fuels Alaska's Economy

- 1/3 of All Alaska jobs (110,000 jobs) attributed to industry
- Industry contributed \$2.1 billion in FY 2016 to Alaska governments (state & local)
- Every direct job = 20 more jobs throughout Alaska (private & public)
- Every dollar in wage = \$8 more
- 85% of State's unrestricted General Fund since statehood

No other industry in Alaska comes close to this level of economic activity

Principles to Measure Success

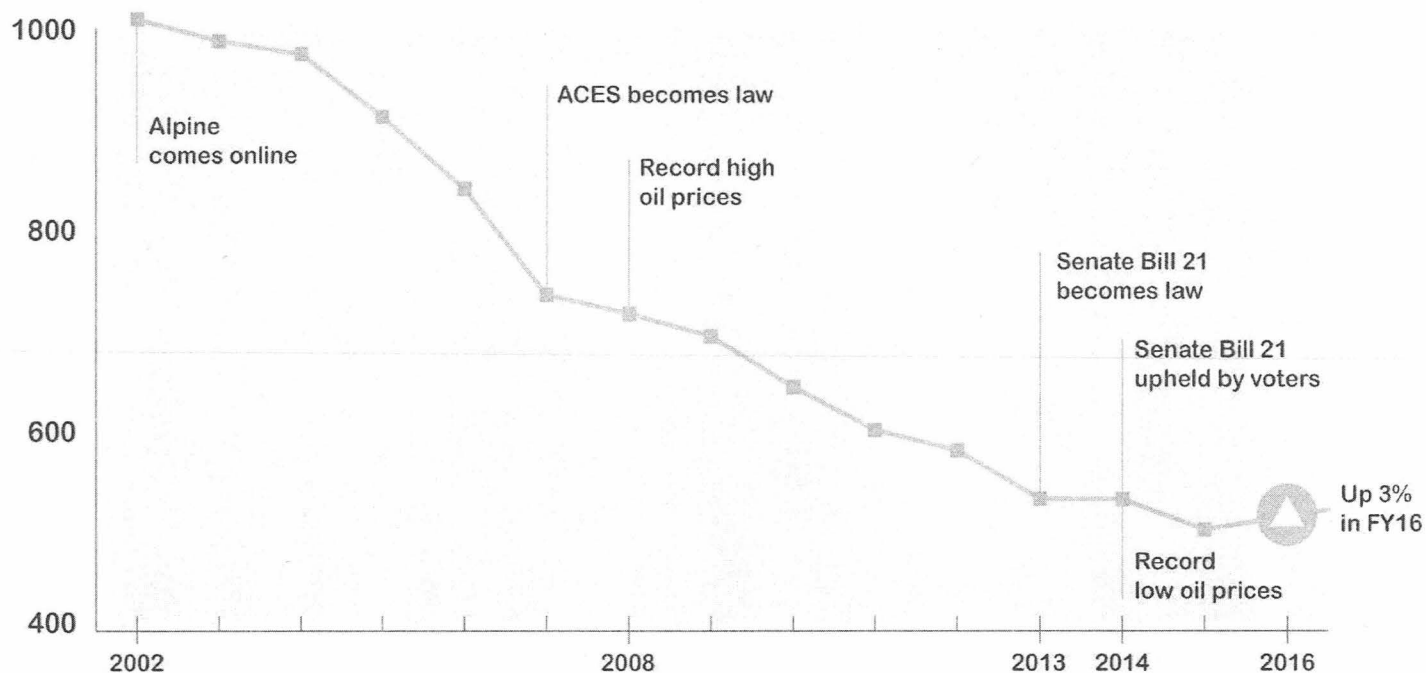
- Production
- Investment
- Competitiveness
- Revenue
- “Fair Share”

Production has Increased

Alaska Oil Production

2002 - 2016

(Average in Thousands of Barrels per Day)



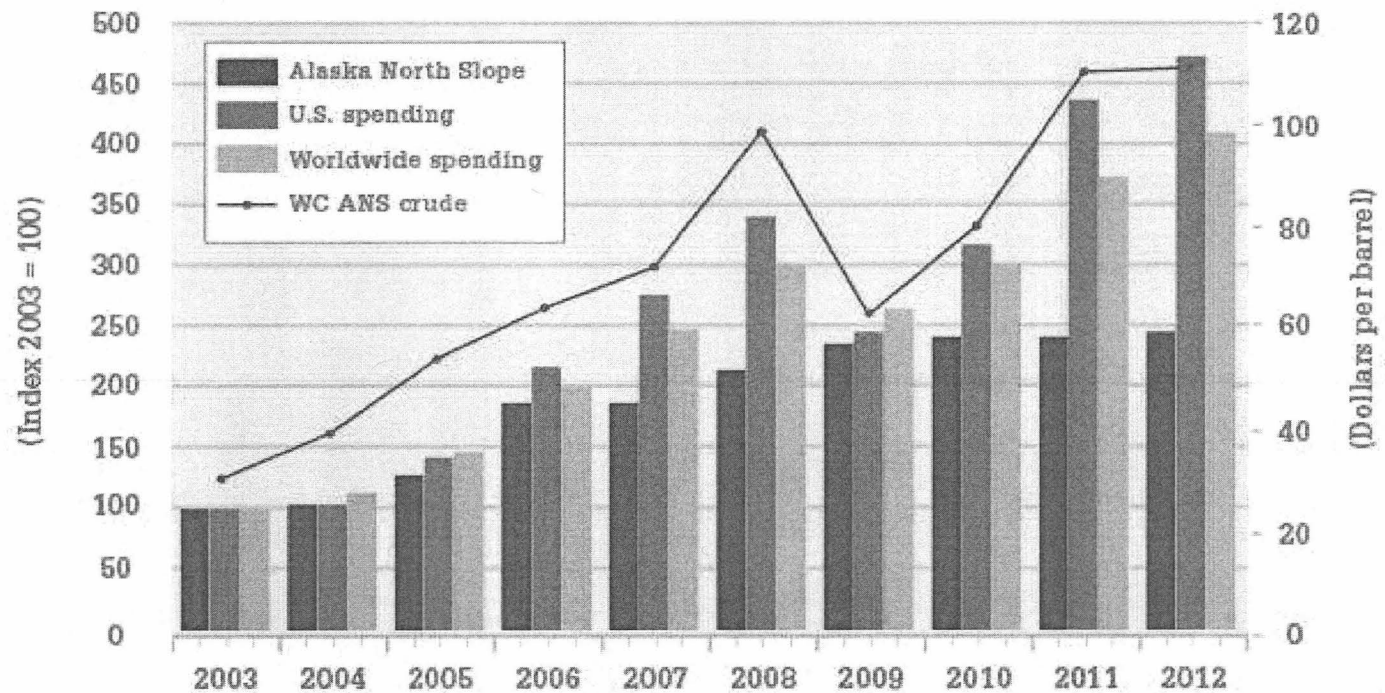
YTD ~558,000 barrels per day –

First Quarter 2017 = Highest Quarter since 1st Quarter 2013

Investment Had Been Flat

Estimated capital spending* for exploration and development Alaska North Slope vs. U.S. and worldwide for the years 2003 – 2012

AOGA



*North Slope figures based on tax return information; U.S. based on top 50 public companies; worldwide based on top 75 public companies
Source: Econ One Research

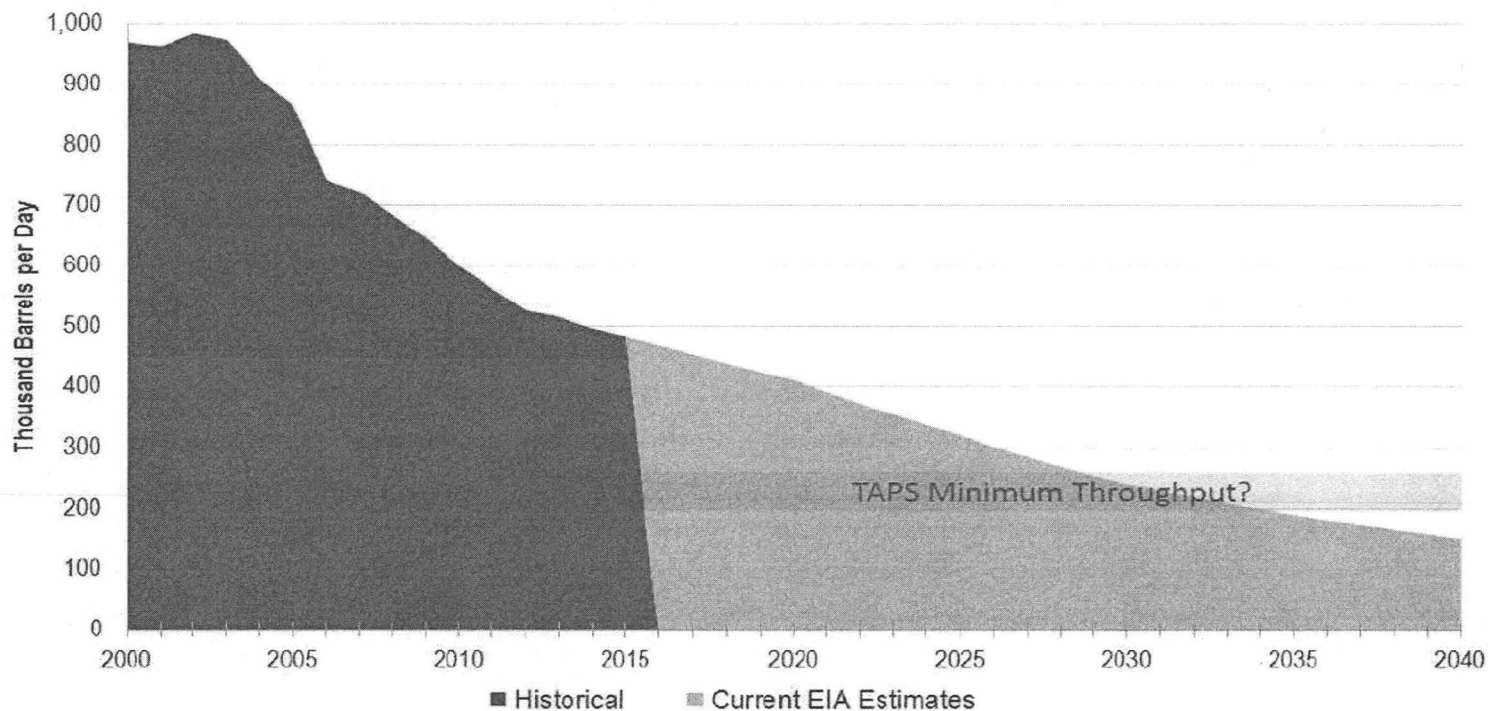
Investment Increased at Low Prices

	Average Oil Price	Spending (\$millions)	Production / day (000)	Production / year (million)	Per Barrel		
					Tarriff & Transport	Opex & Capex	Total Cost
2007	71.76	3,201	734.2	268.0	5.40	11.94	17.34
2008	98.18	3,560	715.4	261.1	6.05	13.63	19.68
2009	61.27	3,688	692.8	252.9	6.38	14.58	20.96
2010	79.28	3,525	642.6	234.5	6.01	15.03	21.04
2011	109.86	3,858	599.9	219.0	6.67	17.62	24.29
2012	110.84	2,975	579.3	211.4	8.37	14.07	22.44
2013	107.6	4,442	531.6	194.0	9.76	22.89	32.65
2014	97.74	5,212	530.4	193.6	10.42	26.92	37.34
2015	52.09	5,615	501.0	182.9	9.72	30.71	40.43
2016	43.04	4,842	514.9	187.9	9.88	25.76	35.64

Source: DOR Jan 2017 Presentation & Revenue Sources Book

Alaska Needs Investment

Alaska Oil Production 2000 - 2040



Source: EIA Estimates from Annual Energy Outlook 2016

Source: Energy Information Administration, Fall 2016



Exciting Recent Discoveries

"Hilcorp delivers new rig to North Slope Moose Pad expansion"

Alaska Dispatch News, October 13, 2016

"Greater Prudhoe Bay area production had less than a 1% decline in 2016"

Platts, December 2016

"Caelus aims to unlock vast Torok oil resource"

Alaska Journal of Commerce, September 16, 2015

"Production begins at Point Thomson on Alaska's North Slope"

Oil & Gas Journal, April 22, 2016

"Surprising Alaska oil-lease sale draws big bids"

Alaska Dispatch News, December 15, 2016

"ConocoPhillips orders monster rig to set new drilling standard and tap new field in Alaska"

Alaska Dispatch News, October 6, 2016

"Ahtna completes exploration well near Glennallen, plans tests for potential gas"

Petroleum News, December 11, 2016

"Caelus claims Arctic oil discovery that could rank among Alaska's biggest ever"

Alaska Dispatch News, October 4, 2016

"Hilcorp files new development plan for Liberty prospect"

Alaska Dispatch News, May 31, 2016

"Development Of Huge North Slope Alaska Oil Discovery Moving Forward (Armstrong's Pika Unit)"

Fairfield Times, March 1, 2016

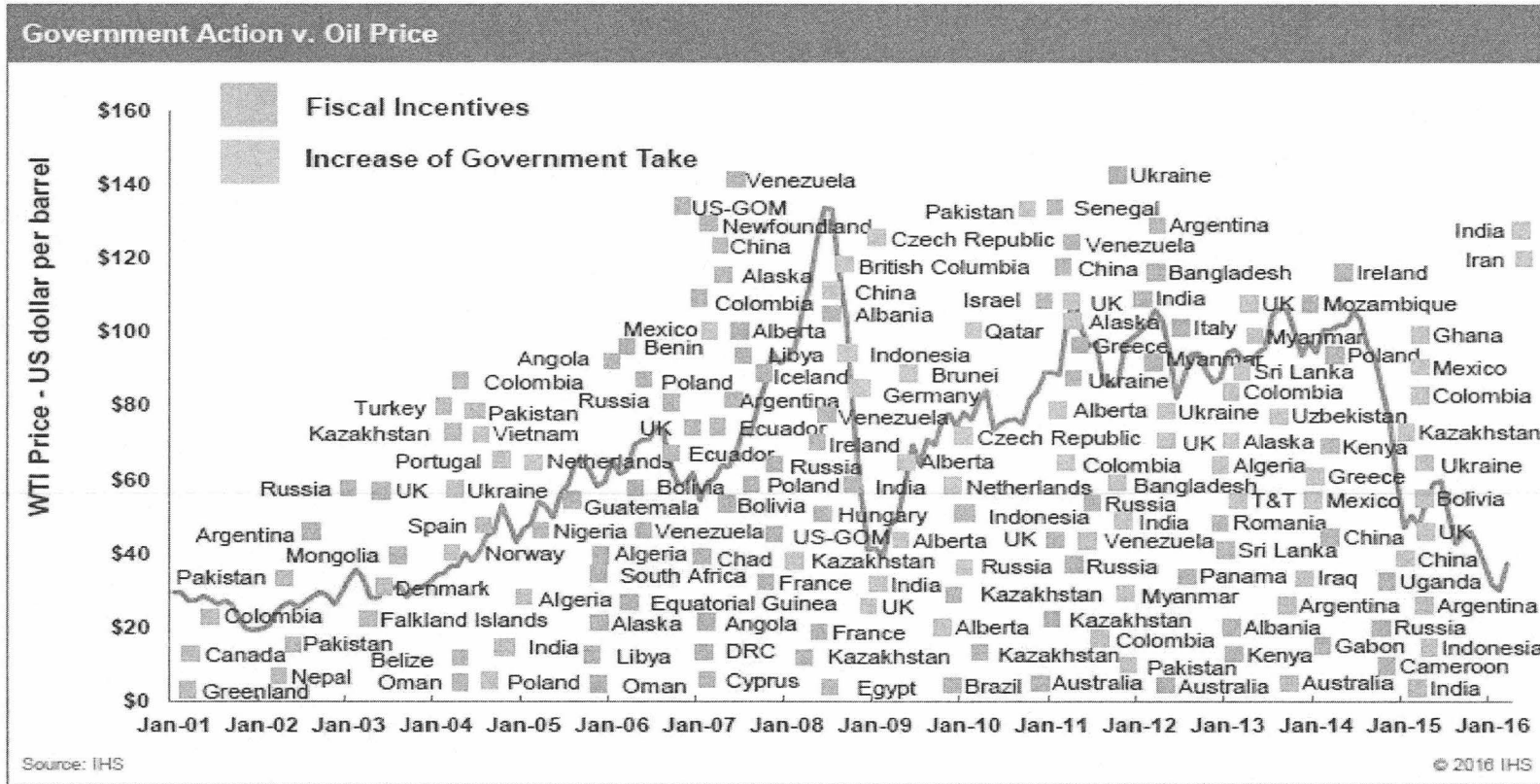
"ConocoPhillips announces Alaska discovery with daily production potential of 100,000 barrels"

Alaska Dispatch News, January 13, 2017

Majority of Alaska's Changes in "Wrong Direction"

Dates	Tax Policy Change	Increase / Decrease?	AOGA Position
Feb. 2005- March 2006	Aggregated ELF – Administrative decision altering gross production tax	Tax Increase	Opposed
April 2006- July 2007	Petroleum Production Tax (PPT)	Tax Increase	Opposed Final Version
July 2007- 2013	Alaska's Clear and Equitable Share (ACES) *	Tax Increase	Opposed
2010	Cook Inlet Recovery Act	Incentives for Industry	Supported
2014	SB 21	Both	Supported, with concerns
2016	HB 247 – Gov. Walker's oil tax reform	Tax Increase	Opposed
2017	<i>Proposed HB 111 – House Resources</i>	<i>Tax Increase</i>	<i>Opposed</i>

Alaska only region increasing take in 2016



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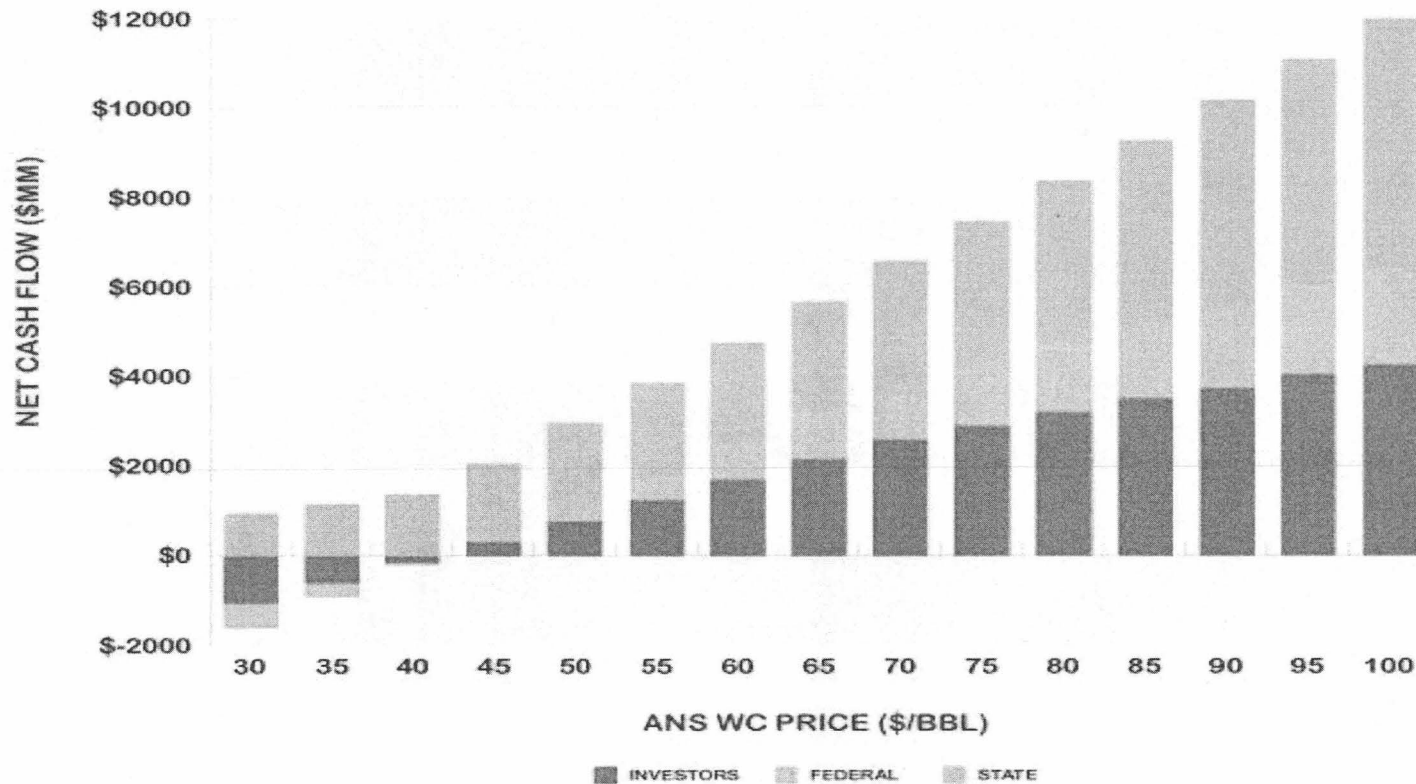
21



Source: IHS Energy, May 2016

What is "Fair Share"?

What is government share?



HB 111 Goes Beyond Governor's Goals

HB111 resolves four high priority concerns identified by the governor:

1. Transition Alaska away from the business of providing cash credits / rebates to the oil and gas industry
2. Reduce the state's liability related to potential large future investments
3. Defer the state's direct participation in the cost of a new project until it comes into production
4. The oil industry should participate as part of the overall fiscal plan for Alaska

Source: DOR Presentation 4/14/17

HB 111 Eliminates More than Cash Credits

HB 111 eliminates not only those credits that can be redeemed for cash for those who produce no more than 50,000 taxable barrels per day, but the bill also:

- Eliminates another portion of Gross Value Reduction (GVR)
- Devalue NOL (non-cashable & cashable)
- Eliminates Sliding scale per-barrel credit

Sliding scale credit fundamental part of SB 21 tax system

Quotes from DOR Tax Director Alper, Senate/House Resources, June 2015

“Some of them (credits) are integral parts of the tax regime; the 20% capital credit in ACES, the per-barrel credit in SB 21, those are very much offsets to what would otherwise be a very high tax rate.”

“With SB 21 the credit is an offset to the tax and is designed to create a progressive element, a little bit lower tax rate at lower prices, a higher tax rate at higher prices, so it’s hard to really consider them a credit in the context of an inducement to doing work. It’s really what we are calling an integral part of the system.”

HB 111 Provisions Alter the Structure of SB 21

- Changes the base tax rate from 35% to 25%
- Eliminates sliding-scale credit causing large tax increases in the \$45-80 range
- Creates progressive higher tax brackets
- Changes NOL credits to carry forward loss deductions
- Eliminates 10% GVR
- Hardens the Floor
 - Infinite tax increase for some companies
- Creates ring fences

HB 111 NOL Conversion is Flawed

- Legislative consultants confirmed that industry can not be “made whole” by converting NOL credits to a carry forward loss deduction
- Mechanism needs to be established to maintain as much value as possible to allow for continued investment
- Companies need to recover 100% of costs, with uplift for time value of money

Carry Forward Deductions

- Some have suggested that carry forward deductions are a subsidy, which is simply not true. Why?
 - 1) Net operating loss (NOL) deductions allow for the recovery of essential costs when companies lose money
 - 2) NOL encourage continued investment
 - 3) Recovery of NOL is a critical feature of any net based tax system
 - 4) Impeding the recovery of NOL adversely affects the timing when the benefits from the NOL are realized for the producer/explorer/investor

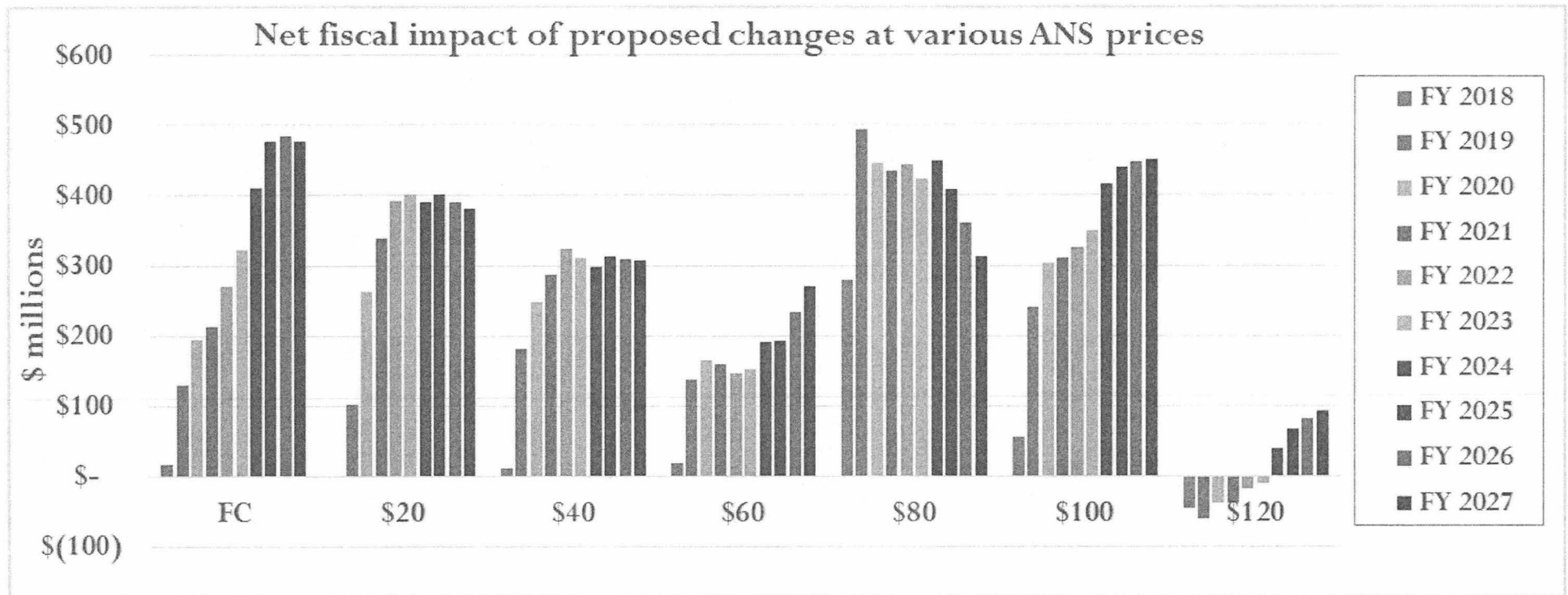
Carry forward deductions should never be considered a subsidy

HB 111 Changes Many Other Provisions of SB 21

Other provisions that do not pertain to cash credits:

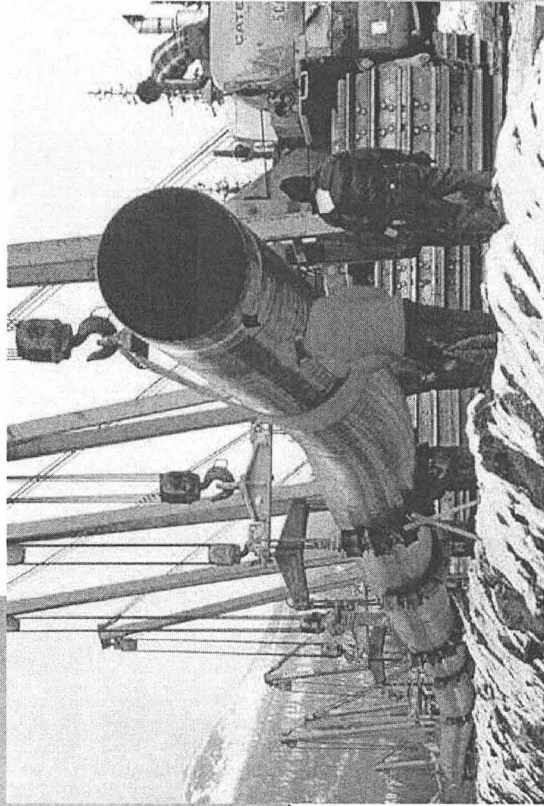
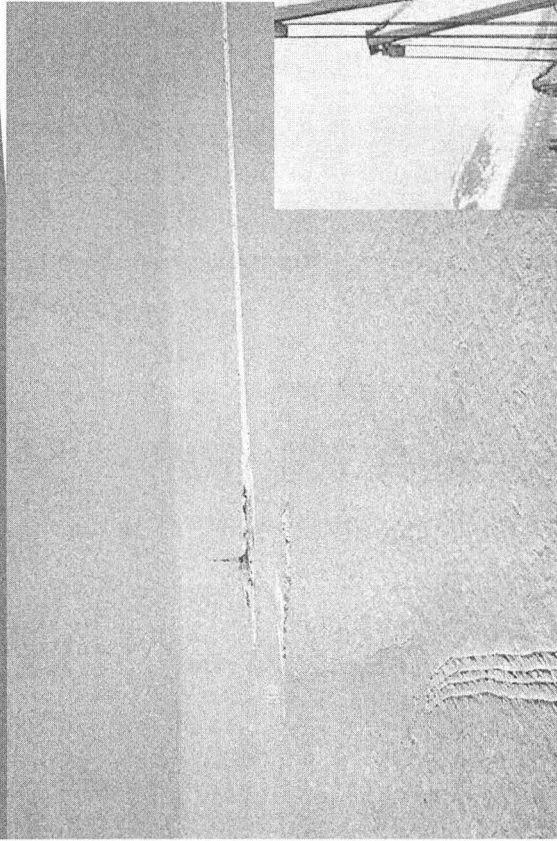
- **Increase Total Interest Costs**
- **Additional Unnecessary Tax Disclosure**
- **Gross Value of Point of Production can not go below zero**
- **Eliminates Assignability of Tax Credits to 3rd Parties**
- **Adds Cook Inlet Working Group**

HB 111 is a Significant Tax Increase

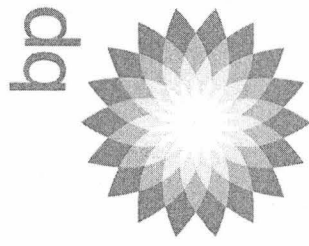


Assuming DOR Price Forecast, HB 111 raises taxes \$100-400+million
Source: DOR Presentation, 4/14/17

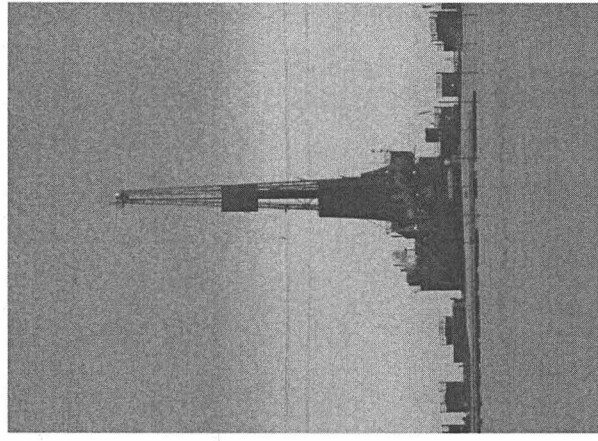
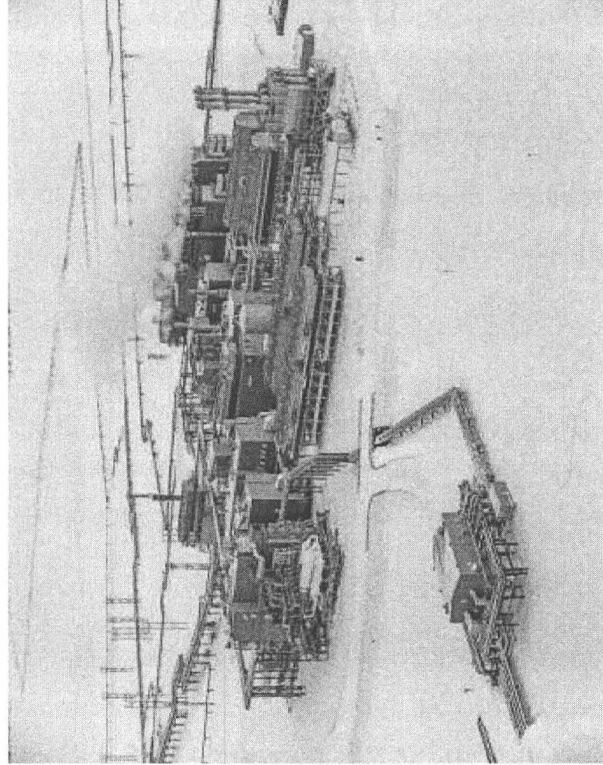
“Couldn’t Be Done...”

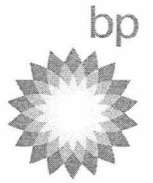


Senate Resources Committee
Hearing: HB 111
April 17, 2017



Damian Bilbao
VP Commercial Ventures





Key messages

- Policy drives investment decisions – and SB 21 has made Alaska more competitive for investment.
- Alaska is competing against many other places with lower costs to produce oil – many within the United States.
- North Slope decline rates will reflect policy – and decline rates make a large difference on money to permanent fund

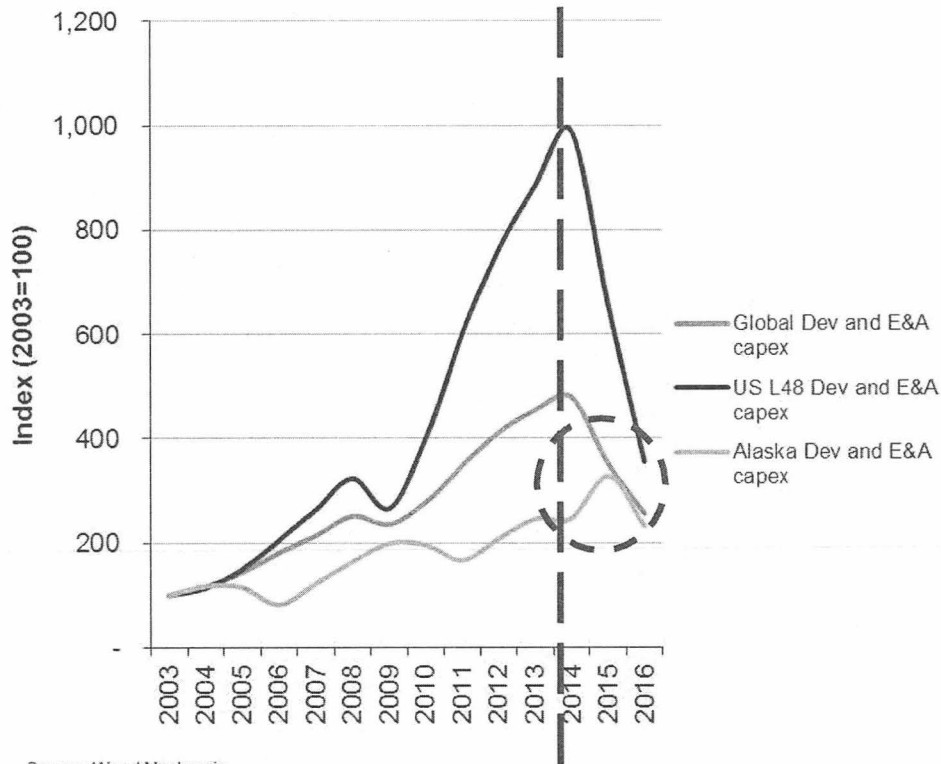


Pioneering the Past, Fueling Alaska's Future

Policy matters and drives investment

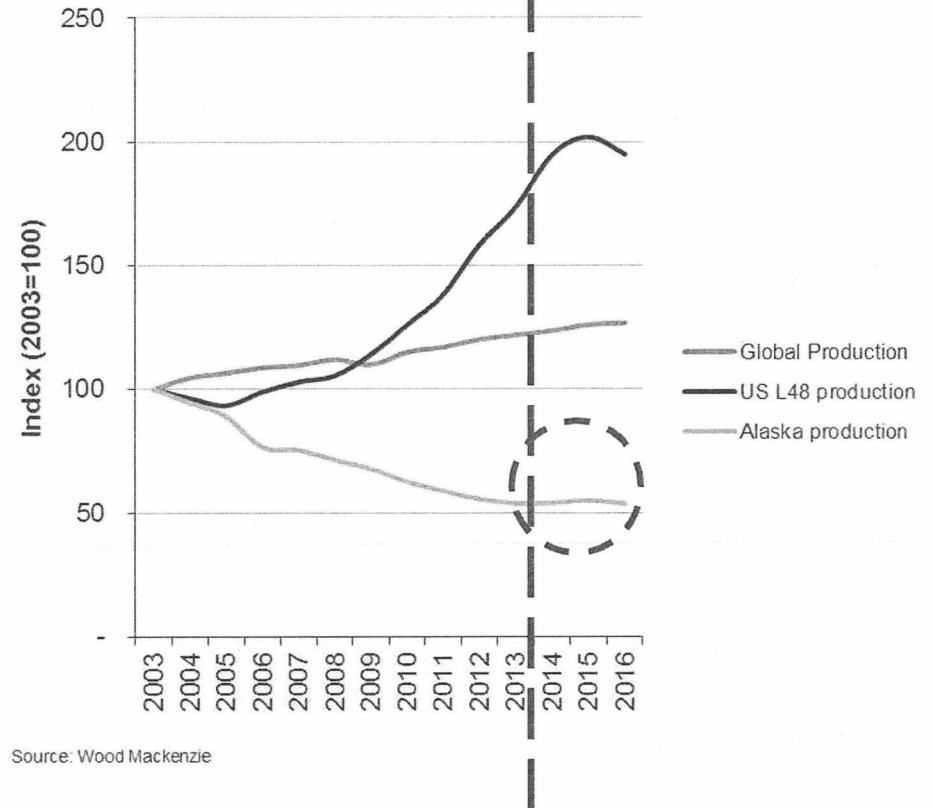


Investment trends by region



Source: Wood Mackenzie

Production trends by region

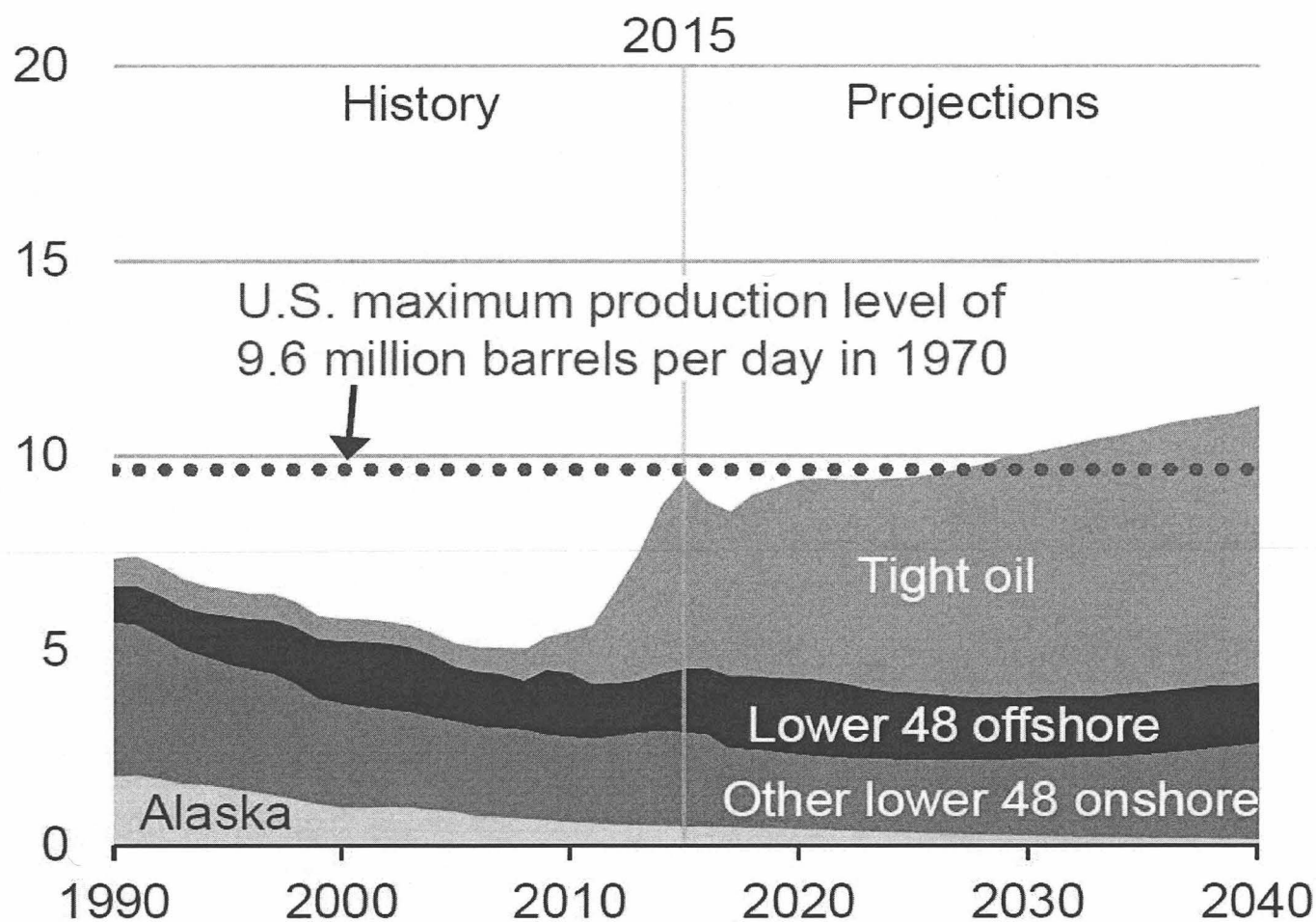


Source: Wood Mackenzie

US oil potential is large and competitive



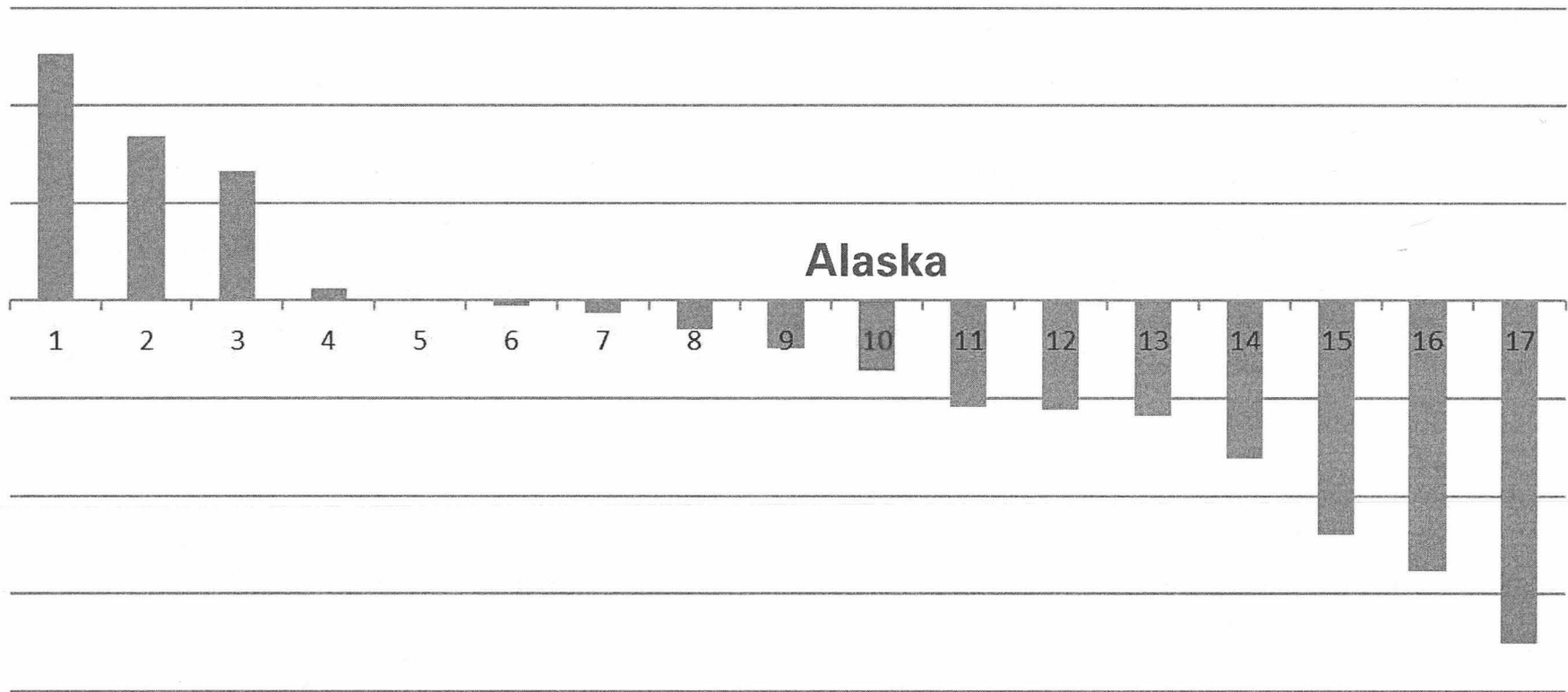
U.S. crude oil production
million barrels per day



Source: EIA, Annual Energy Outlook 2016

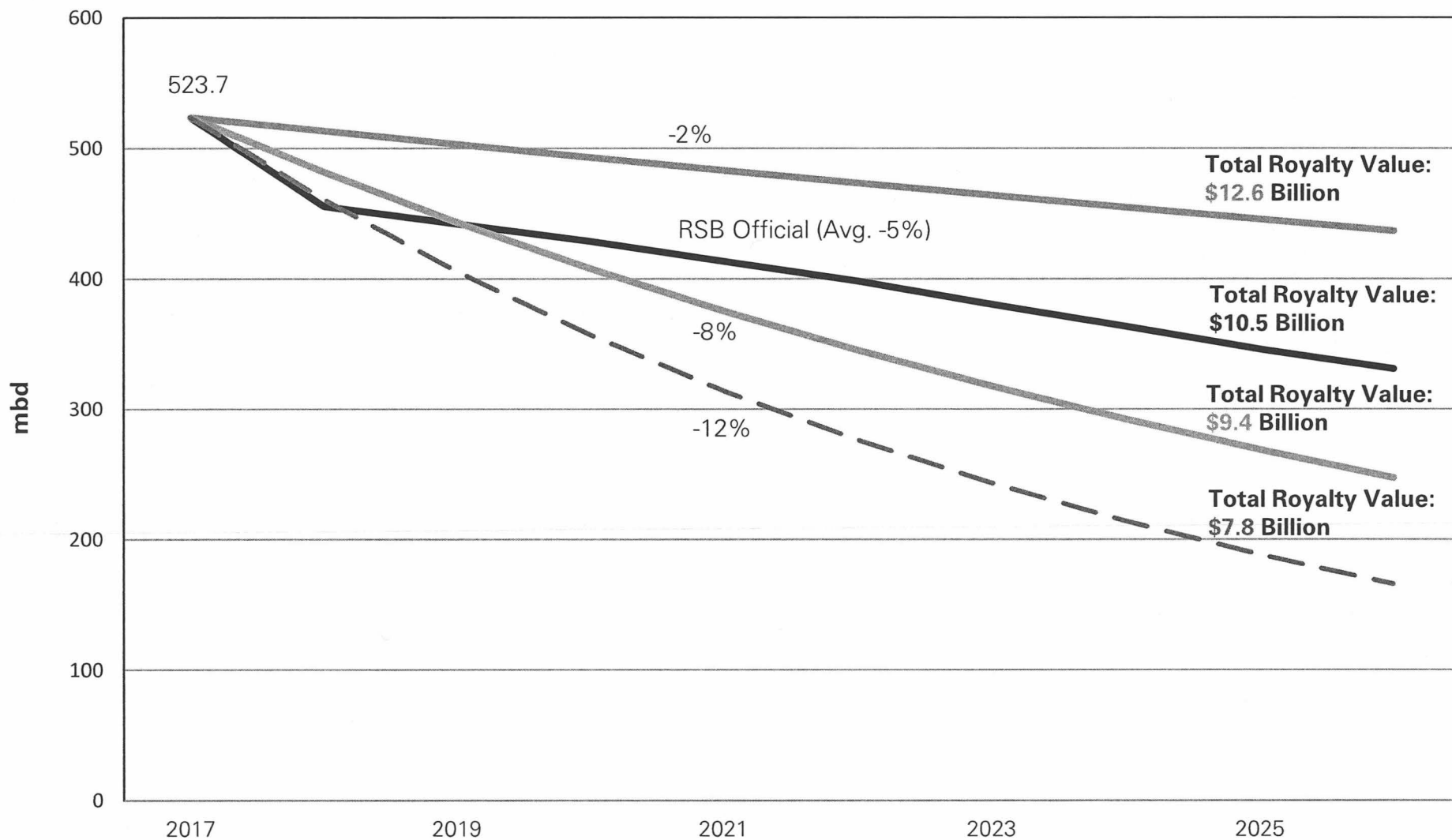
BP Alaska within the BP upstream portfolio

2016 Free Cash Flow (\$m)

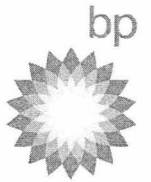


- BP Alaska 2016 cash flow in comparison with other BP regions

The right policy can make big difference on North Slope decline



Royalty estimates based on Spring 2017 Revenue Sources Book (RSB) production and ANS wellhead prices



Suggested Principles for Alaska Policy

- Encourage more oil down TAPS
- Extend the life of backbone fields - Prudhoe Bay & Kuparuk
- Encourage more independents looking for oil and gas
- Don't pick winners and losers



Pioneering the Past, Fueling Alaska's Future

Senate Resources Committee

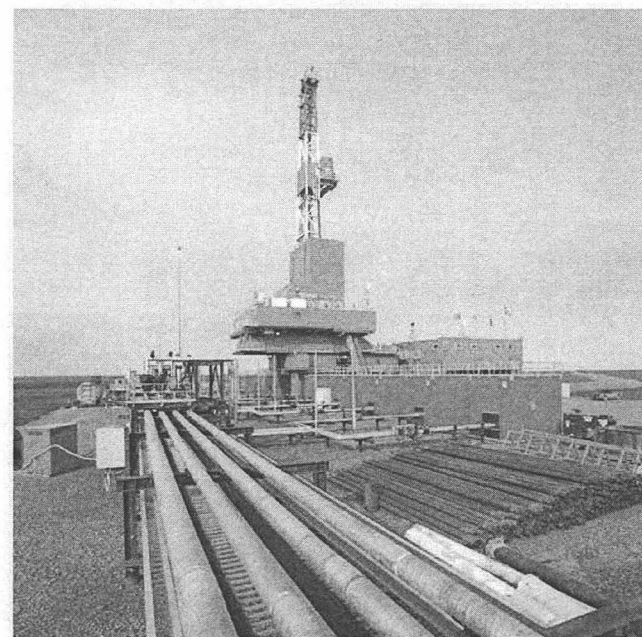
CSHB111(FIN)

Paul Rusch, VP Finance
ConocoPhillips Alaska

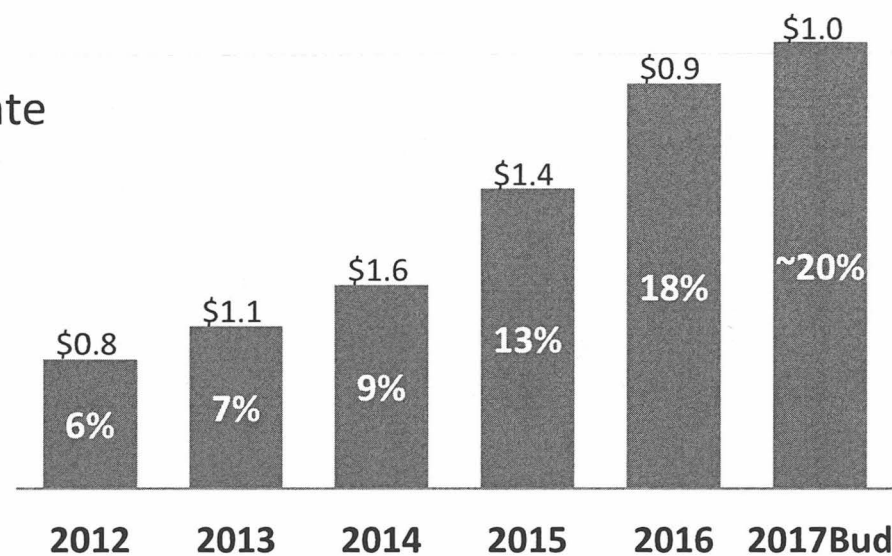
April 17, 2017

Activities Since Tax Reform (SB21) Passed

- Added two rigs to the Kuparuk rig fleet, 2013-2014
- Two new-build rigs delivered in 2016
 - Doyon 142 and Nabors CDR3
 - Averaged 5 rigs at Kuparuk/Alpine during 2016
- Sanctioned ERD Rig in 2016
- North East West Sak – DS1H
- New drill site at Kuparuk (DS 2S) – on stream a year ago
- Sanctioned 18 additional wells at Alpine CD5
- Sanctioned Greater Mooses Tooth 1 in 2015
- Permitting Greater Mooses Tooth 2
- Willow discovery and acquisition of 737,000 state and federal acres in December 2016 lease sale
- Significant other industry investment



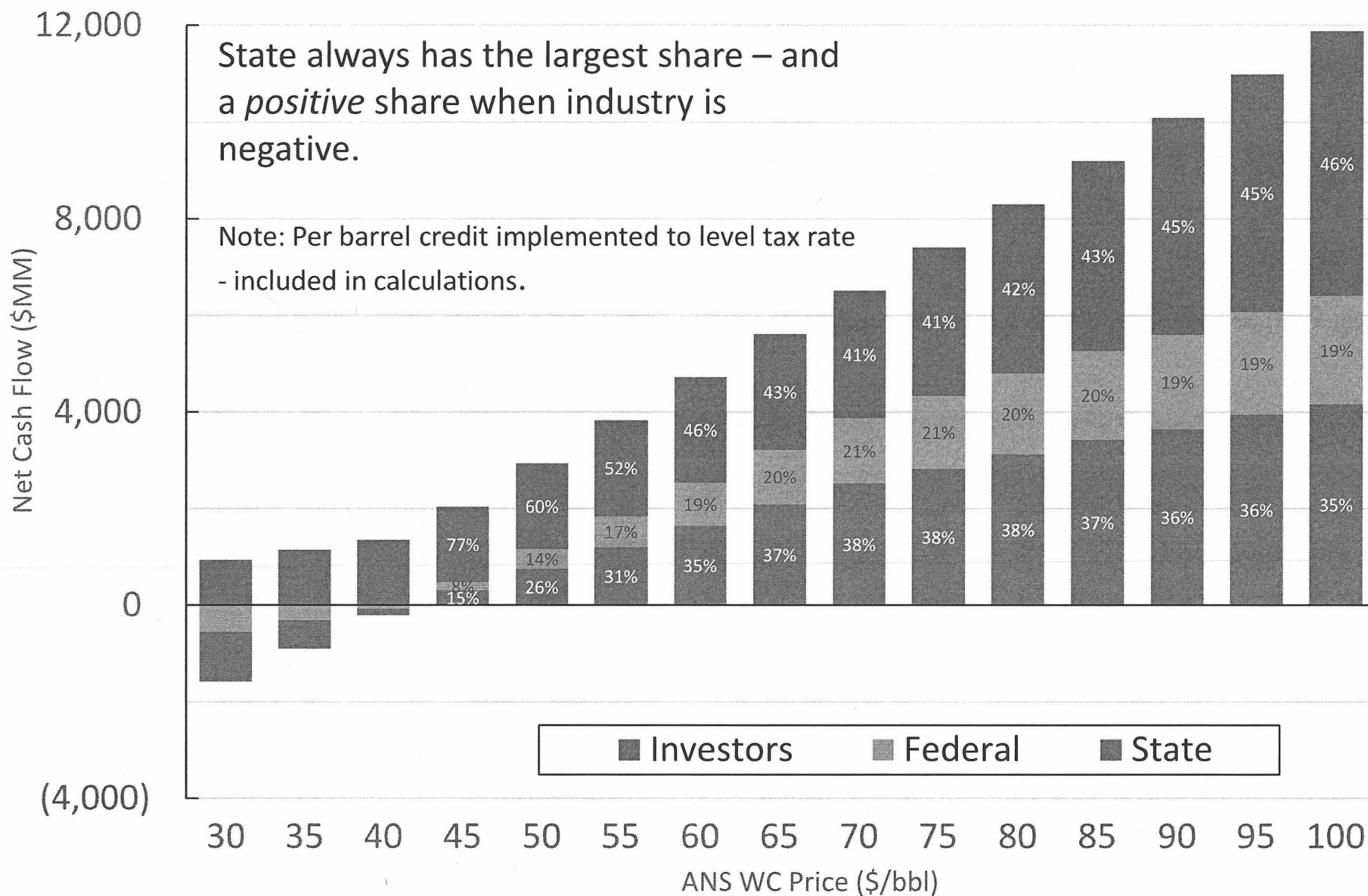
Alaska Capex as % of COP Total (\$B)



North Slope oil production grew 2% in 2016, the first growth in 14 years.

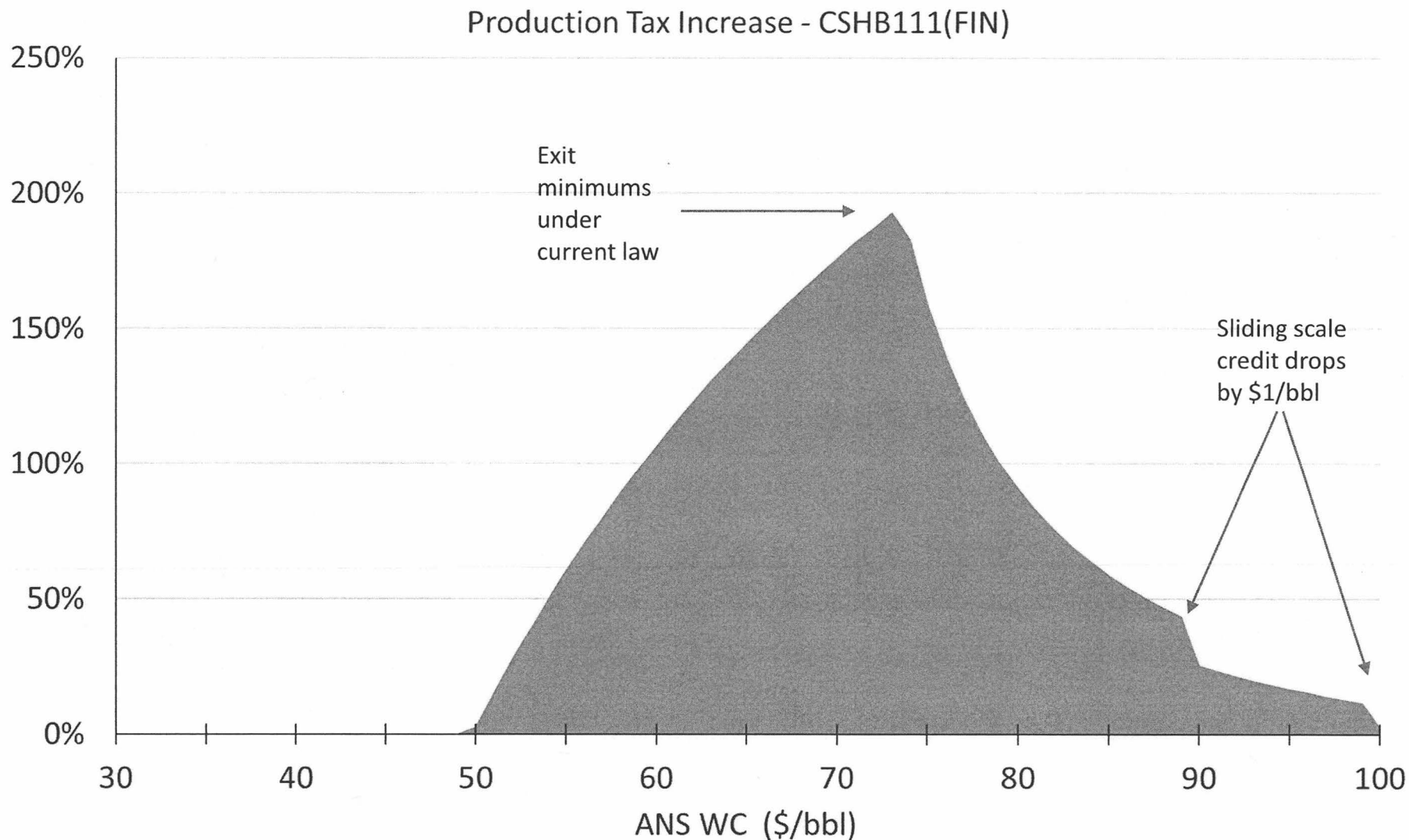
Source: Alyeska Pipeline Service Company Press Release December 30, 2016

FY 2017 Producer Share vs ANS WC - Fall 2016 RSB Assumptions



State share shown excludes tax credits other than per barrel tax credits.

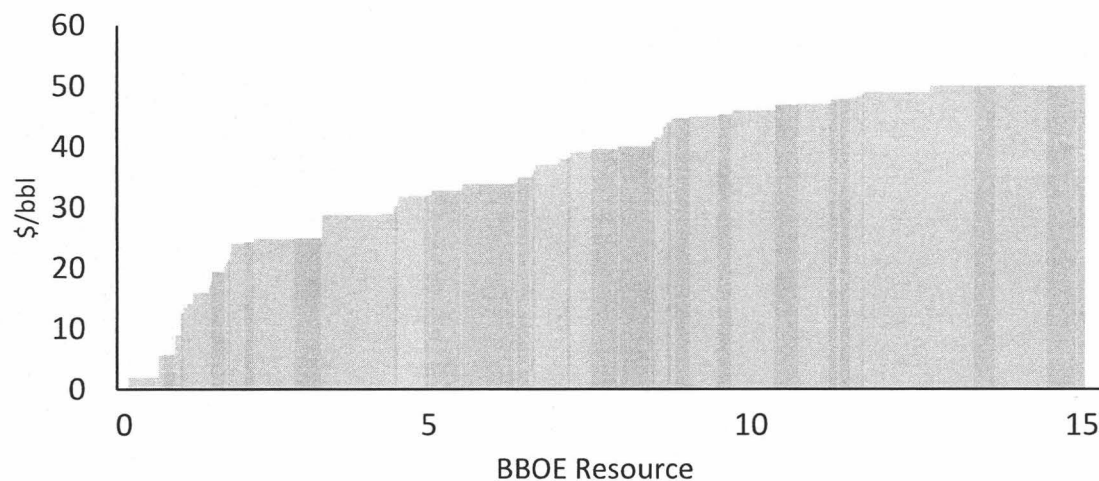
CSHB111(FIN) Represents a Significant Increase in Production Taxes



Assumptions: Fall 2016 Revenue Sources Book Data for FY 2018

Unconventional: Top-Tier Resource Base and Growing¹

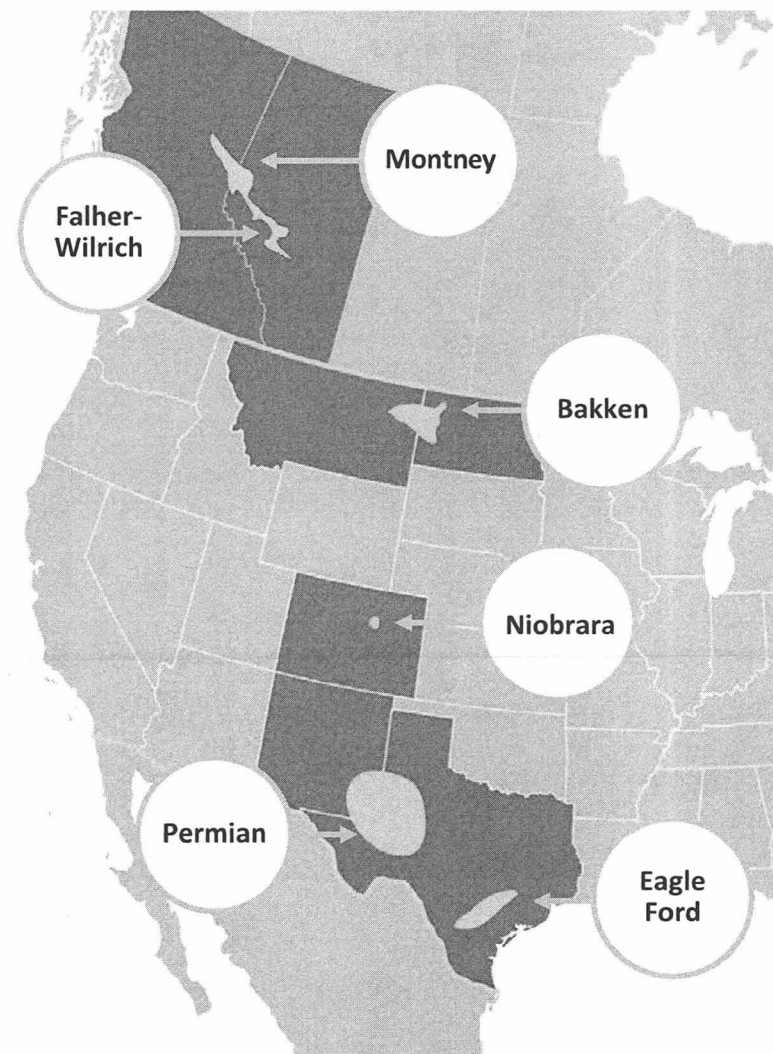
Cost of Supply (\$/bbl)



● Unconventional ● LNG, Oil Sands and Conventional

- Flexible, short-cycle investments with low execution risk
- High-margin production drives cash flow growth
- Prudent development pace maximizes value

~7 BBOE RESOURCE
~\$35/BBL AVERAGE COST OF SUPPLY



¹ Source is ConocoPhillips 2016 Analyst & Investor Meeting (November 10, 2016)

CSHB 111(FIN) – Significant Change in the Cost of Business

- CSHB111(FIN) represents a significant tax increase in an already high cost environment – moves Alaska in the wrong direction
 - 100% to 200% increase in production taxes at prices between \$60 and \$80/bbl
- Interest change punitive – State largely controls the pace of audits
- Hard floor negatively impacts investments in periods of low oil prices
- NOL provisions need improvement
 - No objection to recharacterizing as deductions vs. credits
 - Ring fencing and diminution of NOLs forces investors to reduce spending in low price environments to avoid NOLs
 - Disclosure requirements potentially violate taxpayer confidentiality
 - Potential for administrative burden/controversy

Increasing taxes makes Alaska less competitive

Caelus Energy Alaska

Senate Resources Committee



April 17, 2017

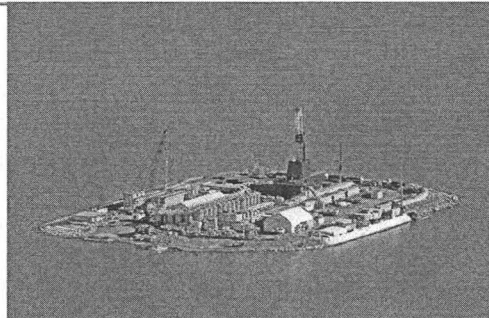
Casey E. Sullivan, Director Government and Public Affairs

Proven Explorer and Developer

- ❖ Privately held E&P company formed to pursue Alaska's North Slope opportunities
- ❖ Seasoned team with strong Apollo Global Management equity sponsorship
- ❖ Worldwide successes
 - Triton (W Africa, S America)
 - Kosmos (Ghana)
 - Pioneer (Alaska)
- ❖ Significant Alaska North Slope experience & assets
 - 100% Caelus operated
- ❖ Over \$2 billion invested in Alaska to date
 - \$300 million 2016 capital budget
- ❖ Attracted to Alaska
 - Abundant land and resources
 - Competitive oil tax system – SB 21



North Slope Exploration & Development Program

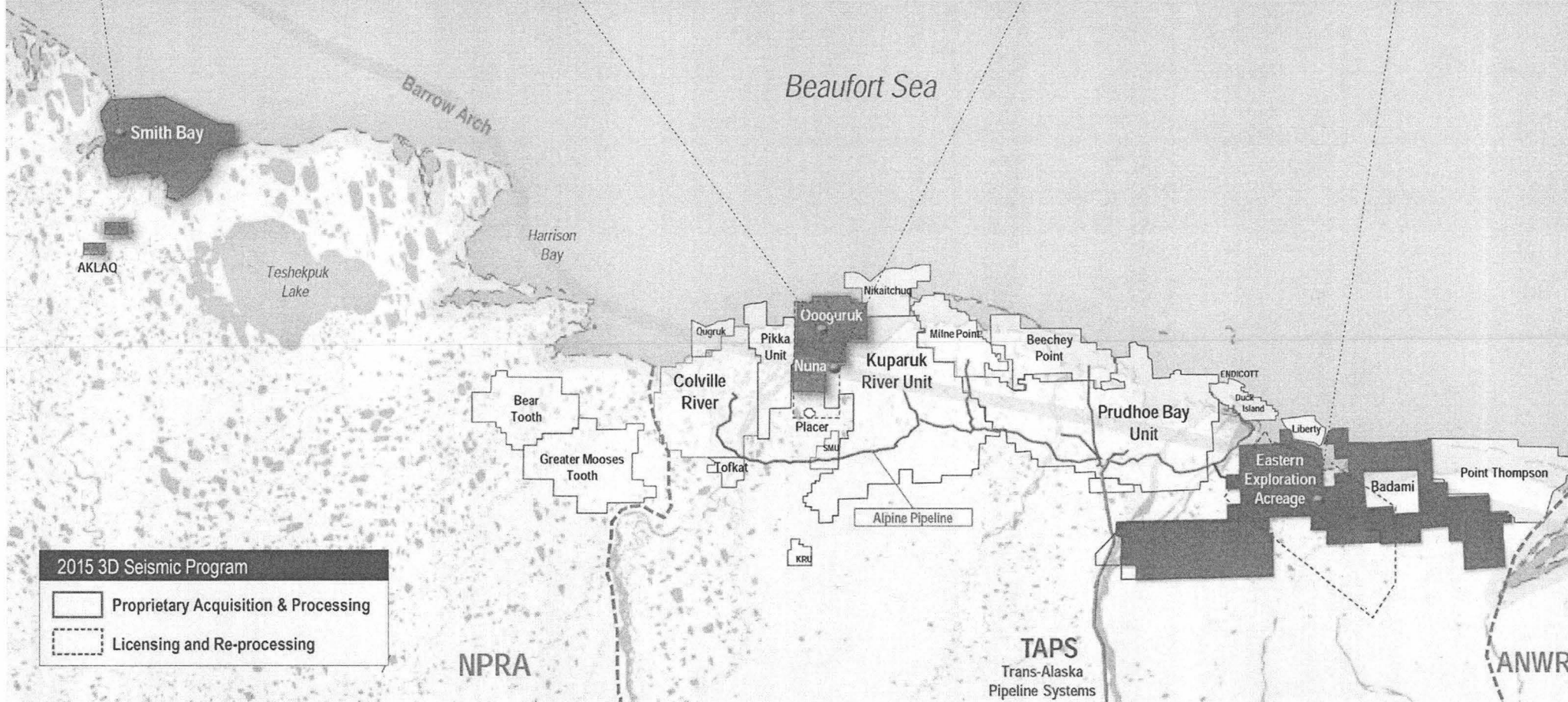


Smith Bay Exploration Tulimanig

Oooguruk Unit (ODS/OTP)

Nuna Drill Site

Eastern ANS Exploration Acreage



Overview

- ❖ Caelus holds 100% interest
- ❖ 2 wells confirm reservoir deliverability
- ❖ 2,800 BOPD flowed from 1st Torok well
- ❖ 100 – 150 + MMBO 2P reserves
- ❖ 20,000 to 25,000 BOPD peak production
- ❖ Completed 22-acre NDS drill pad & road
 - 600,000 CY gravel / 27,000 loads



Economic Impact

- ❖ 300 FTE contractor construction / drilling jobs
- ❖ **\$2.2 Bn in royalties and taxes**

Next Steps

- ❖ Investor Confidence: Price & Policy
- ❖ Construct Modules / Install Flow lines



Values based on \$70/flat NPV-20

Overview

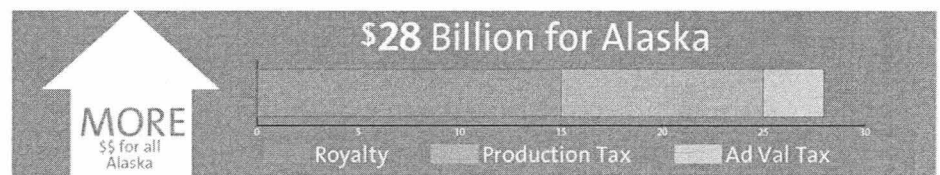
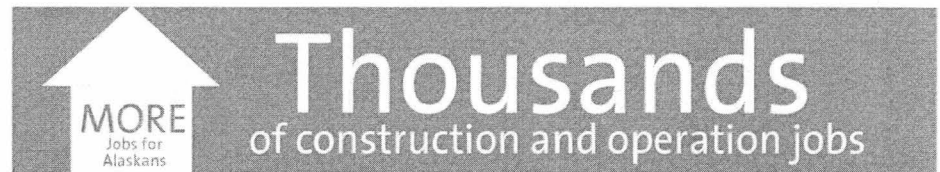
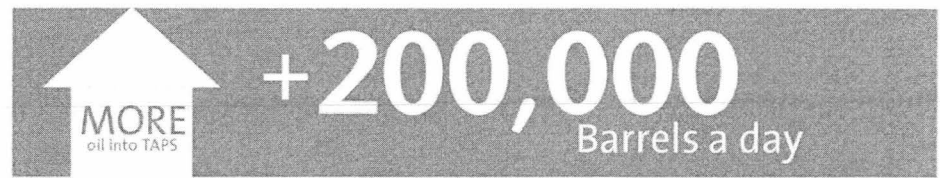
- ❖ Multiple Brookian fan complex spanning 300 mi²
- ❖ ~1,000 feet of gross pay encountered in two wells
- ❖ ~200 feet of net pay encountered in CT-1 and CT-2
- ❖ Log & Lab analyses confirms:
 - Oil ranging from 40-45 ° API gravity
 - 1.8 -2.4 Bn BBL net recoverable oil

Economic Impact

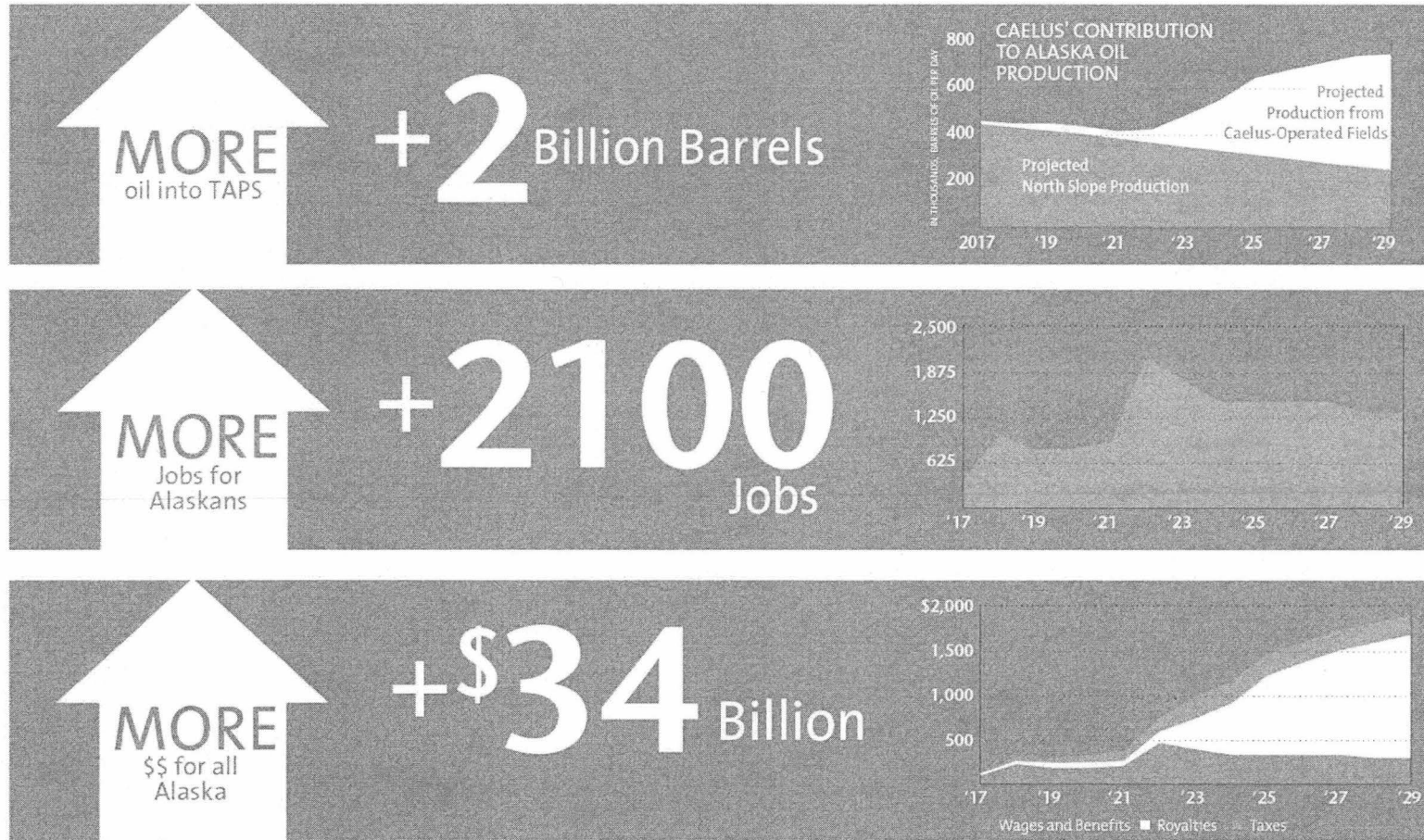
- ❖ Thousands of construction jobs at peak
- ❖ \$28 Bn in royalties, taxes and wages
- ❖ 200,000 BOPD peak flow

Next Steps

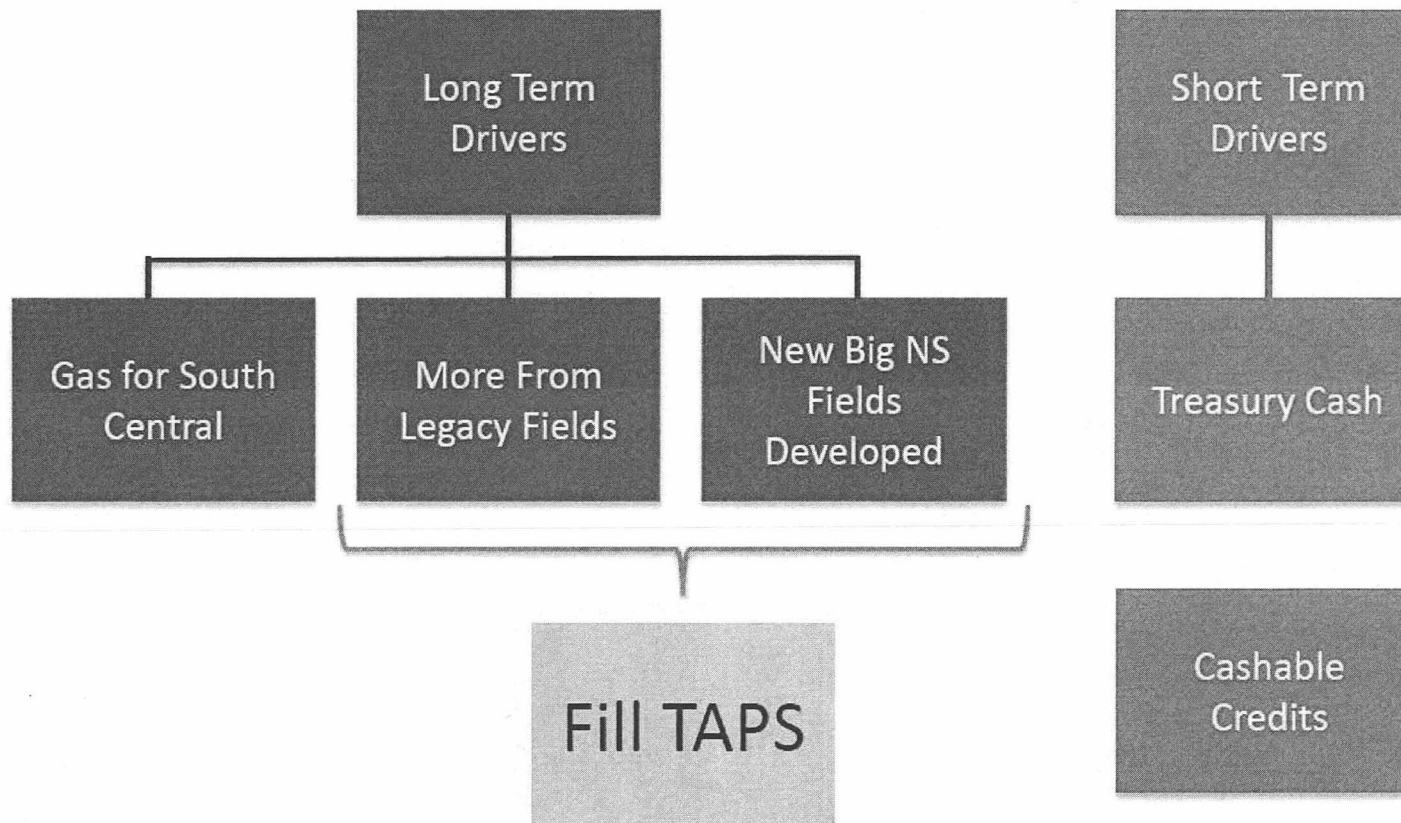
- ❖ 2018 winter appraisal well being planned
- ❖ Environmental studies
- ❖ Continued community engagement



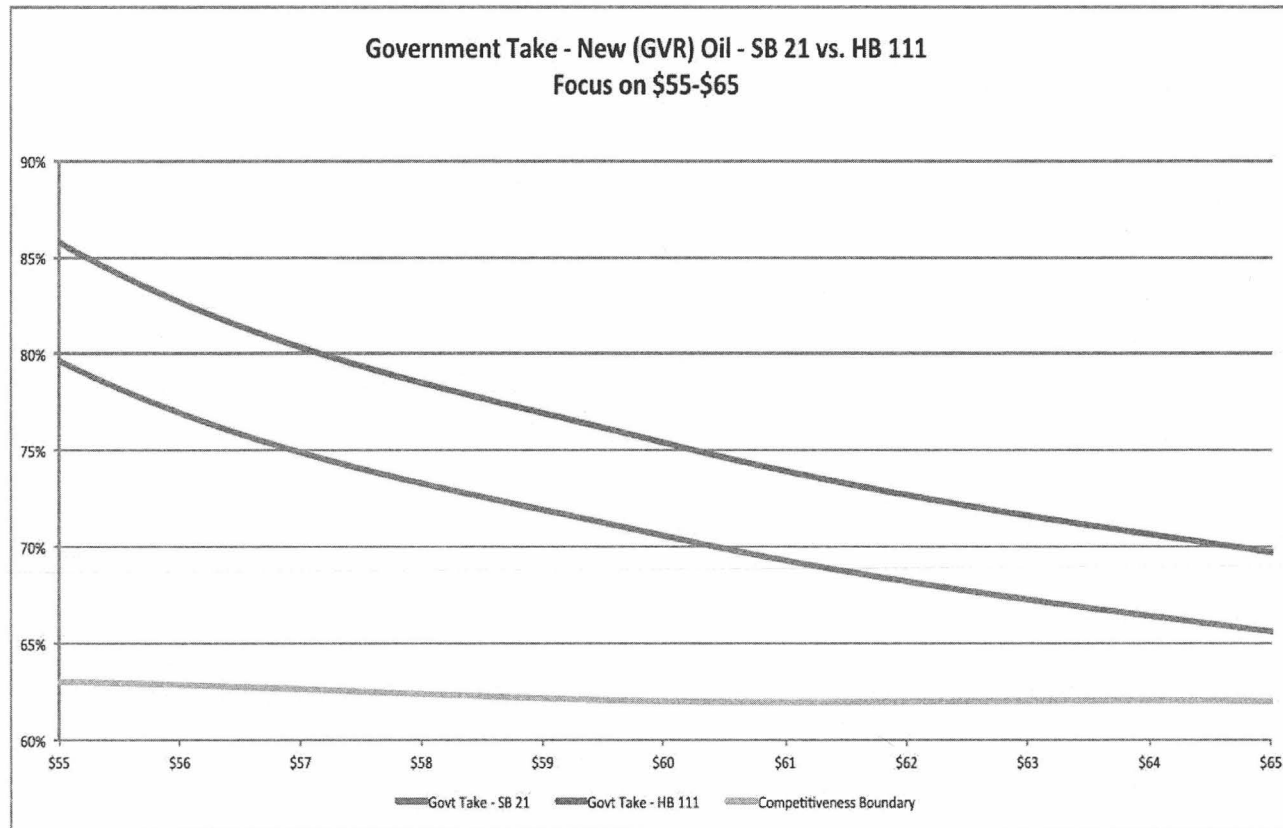
Caelus projects could help produce a new age of renewed North Slope activity and production for the benefit of all Alaskans



This is How We See Alaska's Priorities



Represents a significant tax increase that negatively impacts project economics & will result in further chilling of investment, hampering development of new fields



On New Oil: “Effect is a tax increase at lower prices (due to the hard floor)”

Tax Director Ken Alper/ Sen Resources / April 14, 2017

- ❖ Original profits based system: level playing field for new and legacy players
 - “NOL credit aims to equalize tax system impact” – Enalytica / April 2016
 - SB 21 conscious efforts to encourage new oil / players
 - HB 247 “reformed” North Slope
 - Reduced SB 21’s GVR / capped credit on North Slope

- ❖ Shift from a NOL credit to a deduction for small companies is major policy shift
 - The NOL deduction cannot match the value of the NOL credit
 - Low price + hard floor reduces NOL / per bbl value = tax increase
 - Time limited carry forward = permanent loss of deduction value
 - No uplift as recommended by consultants for time-value

- ❖ Hard minimum tax for GVR fields represent a significant tax increase
 - Immense regressive tax = adverse effect on current future investments
 - \$5 per barrel credit enacted in SB 21 – incentivize production of new fields
 - Hard Floor vs Per bbl = Loss of significant value at current prices plus.

“Every regime, everywhere you go, allows, especially with a development like Smith Bay, everyone who develops gets to deduct the cost of what it took them to get that production from future revenues from that project. Every regime.”

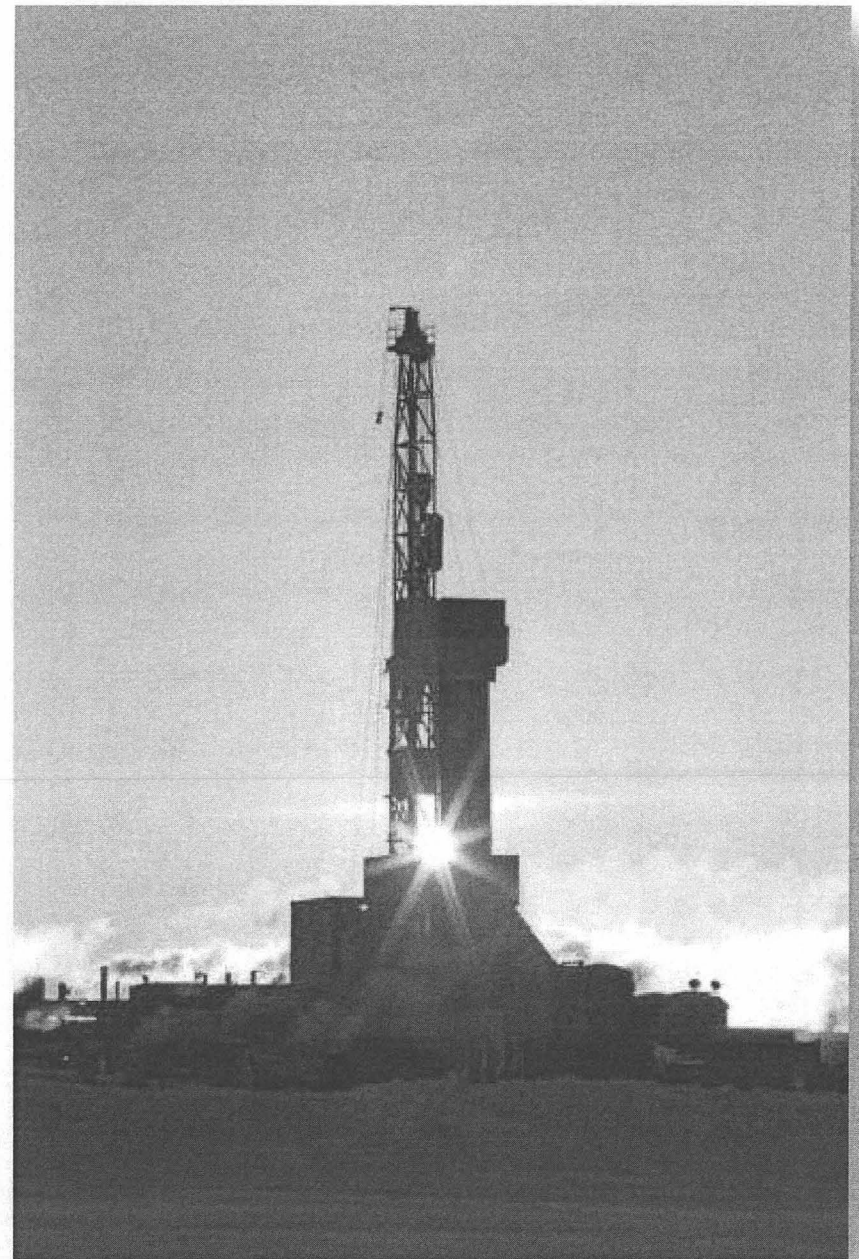
“To deny that would really move Alaska to the bottom of the competitive scale.”

Castle Gap Advisors
Senate Resources Committee,
March 1, 2017

- ❖ Policy Goals: More Production for AK
 - More oil, jobs and revenue
 - Supports families, PFD, economy

- ❖ Need sound fiscal system to grow business
 - Keep small players competitive
 - Full recovery of costs + is critical to competitiveness
 - Keep Alaska in the running for investment dollars

- ❖ Refundable credits and certificates
 - Keep secondary market open
 - Other refund solutions



Alaska's Future is our Future: Let's Get To Work!



Thank you!



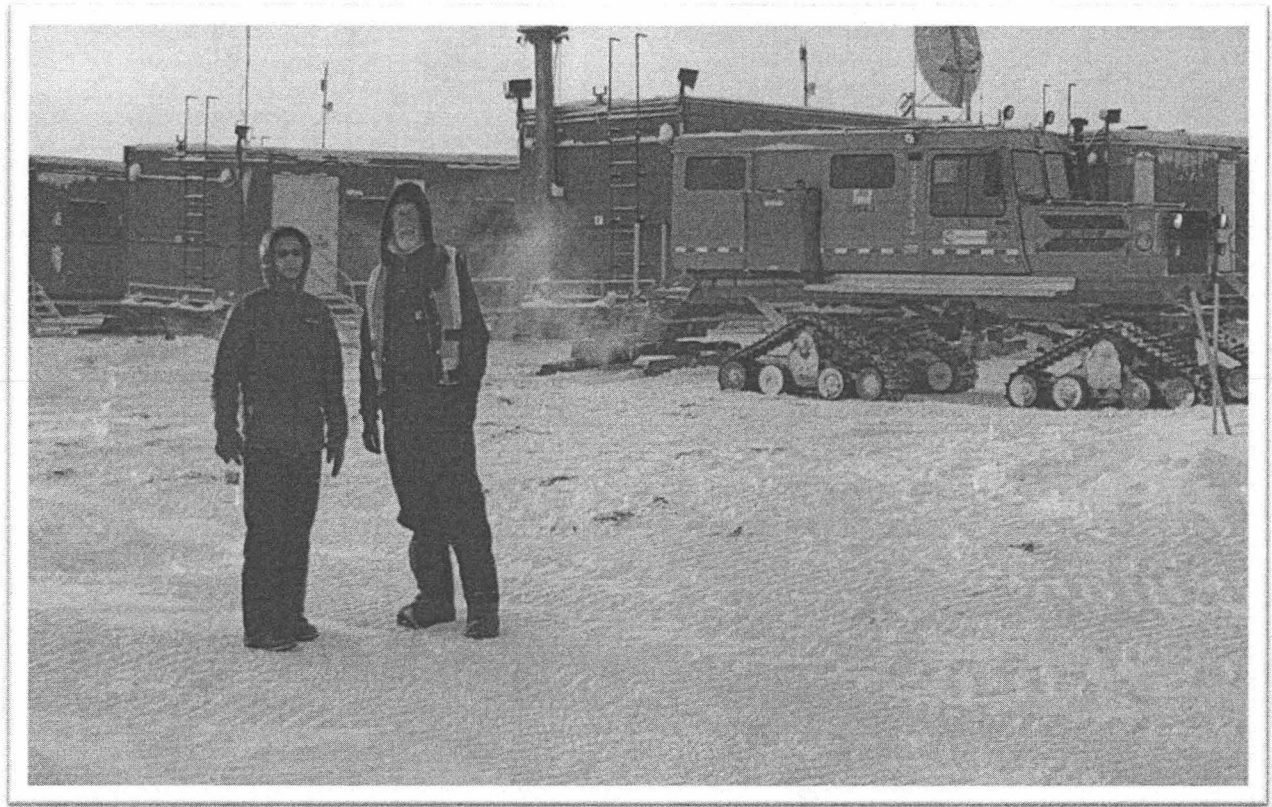
Senate Resources Committee

Jeff Hastings

Chairman, Chief Executive Officer

Managing Partner

April 17, 2017

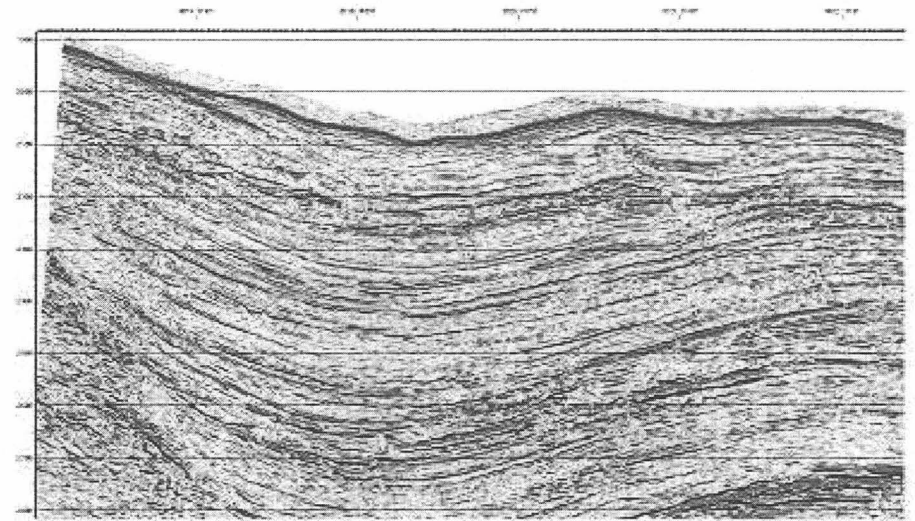


SAExploration – Born in Alaska

- Our team has been partnered with the Kuukpiik Corporation for the past 20 years
- The company employs an average of 400 people per year
- The Kuukpiik-SAE JV is a consistent revenue source to
 - ◆ Kuukpiik Corporation and its shareholders
 - ◆ The village of Nuiqsut
 - ◆ The hundreds of Alaskan families that benefit from each program
- **We are committed to preferentially hire Native Alaskans and Alaska residents**
 - ◆ We are proud of our 80%+ Alaskan hire rate
- We primarily use Alaskan subcontractors and suppliers

Our Core Business – Collecting Seismic Data

- Seismic Operations are the pointy end of the spear – we create the data so exploration wells can be drilled
- Seismic data is critical information, essential to the success of an exploration program
- Recently, use of new technology is producing higher resolution images of the subsurface
 - ◆ Information that is a direct correlation to the new discoveries which have recently been announced
- The information gathered from the seismic data is critical to finding new opportunities, new reserves to sustain us into the future

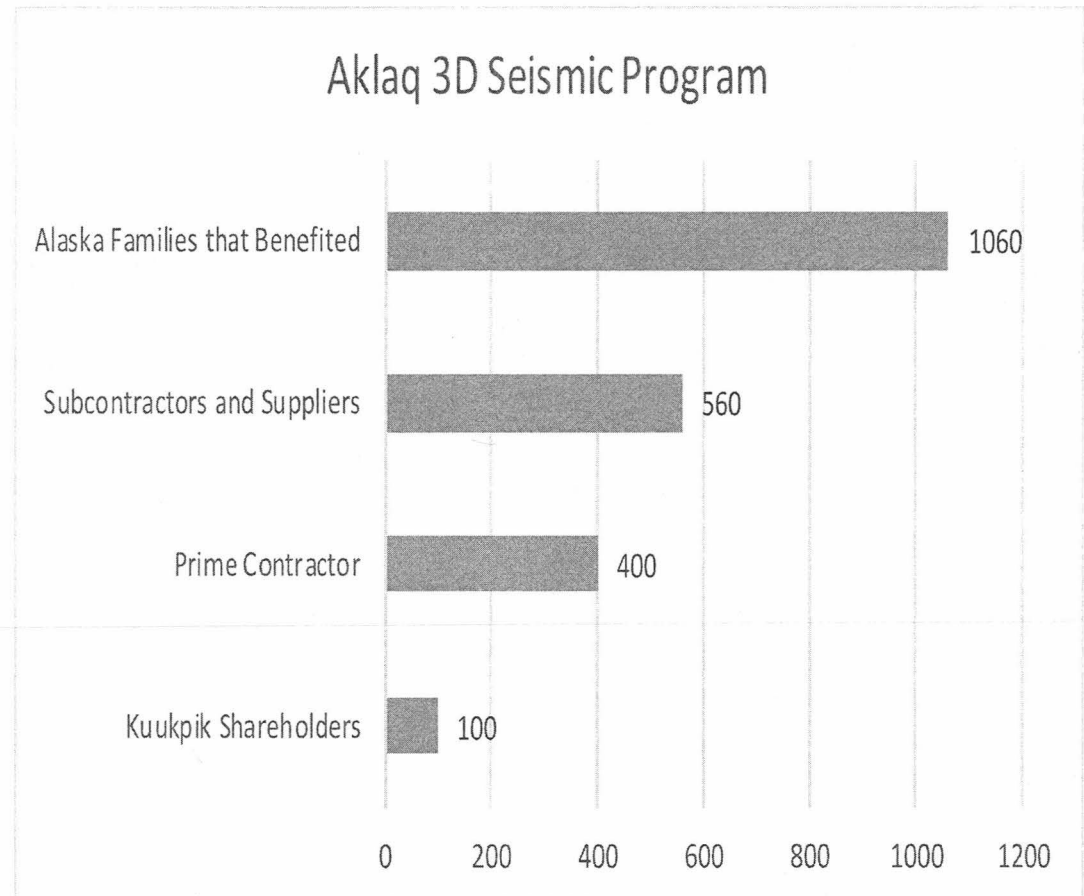


190+ Alaska Suppliers

- Afognak Leasing, LLC
- Air Liquide America LP
- Airport Equipment Rentals
- Alaska Air Taxi, LLC
- Alaska Charter & Transport
- Alaska Clean Seas
- Alaska Communications System
- Alaska Emergency Medicine
- Alaska Frontier Constructors
- Alaska Hydraulics, Inc.
- Alaska Industrial Hardware
- Alaska Mining & Diving Supply
- Alaska Pavement Maintenance
- Alaska Printing, Inc.
- Alaska Process Industry C
- Alaska Pure Water Product
- Alaska Rubber
- Alaska Safety
- Alaska Serigraphics
- Alaska Sportsman's Lodge
- Alaska Steel Co.
- Alaska Tent & Tarp
- Alaska Textiles Inc.
- Alaska Urgent Care, LLC
- Alaska Waste
- Alaska Welding Works
- Aldrich Offshore Services
- ALMx-Security Inc.
- Alutiq Oilfield Solutions
- American Marine Corporation
- Anchorage Waste
- Arctic Fox Environmental
- Arctic Office Products
- Arctic Slope Telephone association
- Arctic Wire Rope and Supply
- Atlas Fluid Controls Corp
- B & J Sporting Goods
- Bald Mountain Air Service
- BDO USA, LLP
- Beacon Occupational Health
- BeadedStream LLC
- Best Western Bidarka Inn
- Best Western King Salmon
- Big Ray's
- Boldings Enterprises LLC
- Brooks Range Supply
- Budget Rental car of Anchorage
- Builders Choice Inc.
- Canterwoods Cabins LLC
- Caribou Construction Inc.
- Carlile Transportation Systems
- Central Pacific Rebuilders
- CH2M Hill Alaska Inc.
- Challenger Learning Center
- City of Homer P/H
- Clean Harbors Exploration
- Coburn's Machine Shop
- Container Specialties
- Corvus Specialty Equipmen
- Crowne Plaza Anchorage
- Cruz Construction, Inc.
- Cummins Northwest LLC.
- D & D Equipment Service
- Delta Leasing, LLC
- Delta Western Inc.
- Desperate Marine LLC
- Discovery Luxury Rentals
- Doodlebugger Consulting
- Ekelund Excavating Inc.
- Emerald Alaska/NRC Alaska
- Enstar Natural Gas
- Fairfield Nodal
- Fairweather Science, LLC
- Fairweather, LLC
- Far North Supply
- Ferguson Enterprises, Inc
- Frigid North Company
- Frontier Paper, Inc. - DO
- Frontier Precision Inc.
- Garness Engineering Group
- Garness Industrial Products
- GBR Equipment, Inc.
- GCI Communication Corp
- Glacier Exploration Surveyors
- Glass Doctor of Fairbanks
- Grant Aviation
- H & H Industrial Inc.
- MW Fire Protection
- Holiday Inn Express Anchorage
- Ice Services, Inc.
- Inupiat Resources LLC
- J & J Janitorial Services
- K & L Gates, LLP
- Ketek Group Inc.
- Kuukpik Arctic Services
- Kuukpik Corporation
- Kuukpik Fuel
- Kuukpik Hotel
- Land's End Resort
- LTR Training Systems, Inc
- Lynden Transport Inc.
- Magic Industries, Inc.
- Magic Metals, Inc.
- MagTec Alaska, LLC
- Main Street Hotel
- Mapmakers Alaska
- Marine Chemist Consulting
- Marsh Creek
- Millennium Alaskan Hotel
- Minto Development Corpora
- Mom's Laundry Service
- Municipality of Anchorage
- N C Machinery
- Nana Oilfield Services
- Naniq Global Logistics
- Nanuq Inc
- Nenana Heating Services
- Nikiski Fuel
- North Slope Borough
- North Slope Telecom
- North Star Terminal & Stevedore
- Northern Air Cargo, Inc
- Northern Oilfield Services
- Northern Sled Works
- Northwest Geophysics, LLC
- Ocean Sonics Ltd
- Olgoonik Fairweather, LLC
- Owl Ridge
- Pacific Alaska Leasing CoPacific Power Group, LLC
- Pacific Western Equipment
- Peak Oilfield Service Co
- Peregrine Falcon Alaska
- Petro Marine Services
- Petroleum newspaper
- Polar Wire Products, Inc.
- Premier Alaska Tours
- Prudhoe Bay Hotel
- Quality Inn - Kenai
- Reanier & Associates
- Rebel Seismic Supply, Inc
- Restoration Science & Eng
- Rotating Services, LLC
- Rough Woods Inn
- Sala LLC Remote Medical Services
- Shoreside Petroleum Inc.
- Skidmore Mac
- Smultea Environmental
- Snug Harbor Seafood's
- Soloy Helicopters, LLC
- Sophie Station
- Stephen R Braund & Assoc.
- Steve's Chevron Service I
- Sukup Geophysical Consulting
- Surveyors Exchange Co
- TekMate, LLC
- Coast International Inn
- Theisen Ventures
- True North Oilfield Servi
- UMIAQ, LLC
- Unitech of Alaska, Inc.

Benefit from a Single Program

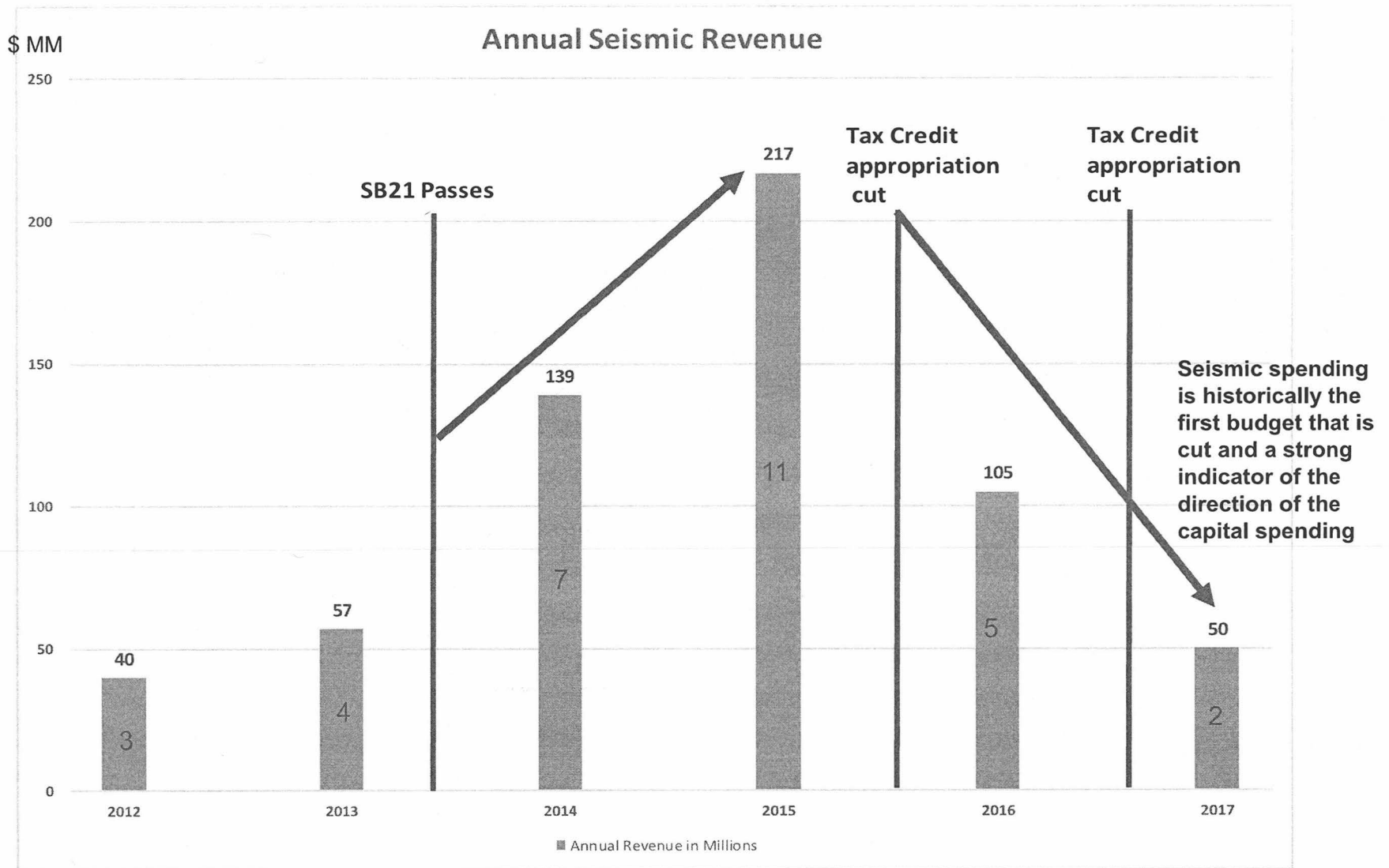
- How does a seismic program benefit Alaskan contractors and their families?
- The graph to the right is a snapshot of a single program “Aklaq”, acquired in winter of 2016
- More than 1000 Alaska employees and their families gain a direct benefit
- The majority of the revenue generated is paid to subcontractors and suppliers who are Alaskan
- In the case of the Aklaq program of the \$57 million in revenue \$49 million was earned by Alaskan contractors and suppliers



Why is Seismic Exploration Different?

- Seismic Exploration is really about creating an image of the subsurface so that Oil Companies can develop prospects and decide where to lease and where to drill new exploration wells.
 - ◆ We do not drill for or develop oil
 - ◆ Seismic data is typically sold or licensed to oil companies
 - ◆ *We do the CAT scan.....we are not the surgeons*
- This was contemplated when the tax credit system was first created.
 - ◆ Special provisions were written for .023 and .025 credits specifically to incentivize companies to collect seismic data because without it, there is less exploration drilling
 - ◆ Seismic is treated differently because the companies that pay to have seismic collected may not be the company that will ever drill wells.
 - ◆ The simple explanation for the tax credit system for seismic is that the state agreed to pay tax credits to companies willing to invest in seismic, and every time that seismic data is sold or licensed to an oil company, the state gets a piece of the action, or a refund of part of their credit. The state ALSO gets to own the seismic data and can do whatever it wants with the data after 10 years.

Historical Seismic Investment



The Impact of HB 111 Version on Kuukpiik SAE

- There is no clear view or timeline for paying seismic exploration tax credits.
 - ◆ When will the .025 seismic tax credits be processed? – These are simple applications compared to drilling and yet the DOR has been holding these for over a year
 - ◆ When will the .023 and .025 seismic tax credits be paid?
- Recent interpretations of the regulations have completely eliminated the already thin secondary market
- DOR Tax Division Advisory Bulletin 2017-01 says that legacy field producers cannot use any of our tax credits to reduce their tax below the 4% minimum– It effectively eliminates our ability to sell the few certificates they have even issued.
- The impact on this Alaska company, our Alaska subcontractors and all the Alaskan families that make their living through these companies is significant

What Can You do to Help?

- Create a timeline for processing seismic exploration .025 credits
 - ◆ It was never envisioned that seismic explorers would drill for oil or have production. The obligation was to fund the seismic program and provide the data to the state so that DNR scientists have the best information to value the states leases.
- Re-establish the Secondary Market
 - ◆ Allow seismic tax credits to be used by producers to reduce their tax below the 4% minimum
- Create a payment plan and stick to it
- The State of Alaska created a program to incentivize the seismic industry to invest millions and hire thousands of Alaskans. Our work is first step in putting more oil down the pipeline. We played by the rules you set out and now we need the State to live up to their end of the deal.

The Reality

- For SAE, the delayed tax credit payout forced the company to a crossroads
 - ◆ Option 1: seek protection under the chapter 11 bankruptcy code and leave all our Alaska vendors hanging
 - ◆ Option 2: restructure the company and work with our Alaskan subcontractors and suppliers to find a way to extend payments
- We chose to restructure – eliminating 98% of our shareholders equity, the majority of which was held by employees, many of whom are Alaskans

We are Alaskans and are committed to staying

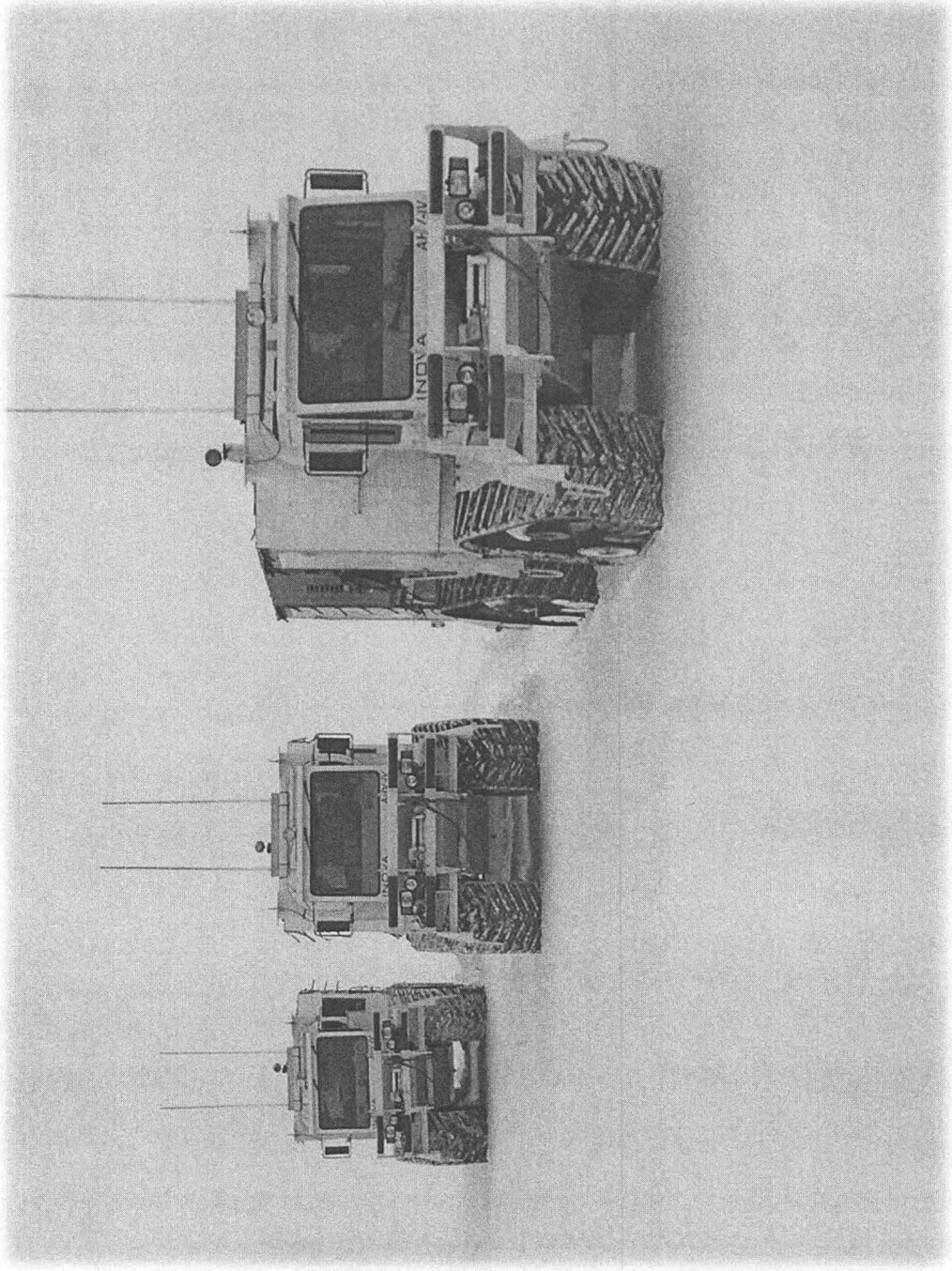


The village of Nuiqsut



SAE's Alaska HQ in South Anchorage

Thank You

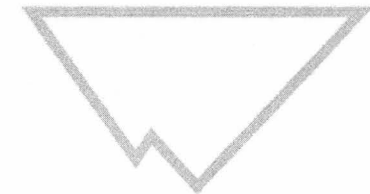


 **KUUKPIIK SAE**

 **SAExploration**

Petroleum Fiscal Design CSHB 111

CASTLE**GAP**



Castle Gap Advisors, LLC.

April 18, 2017

Senate Resources/Senate Finance Committees

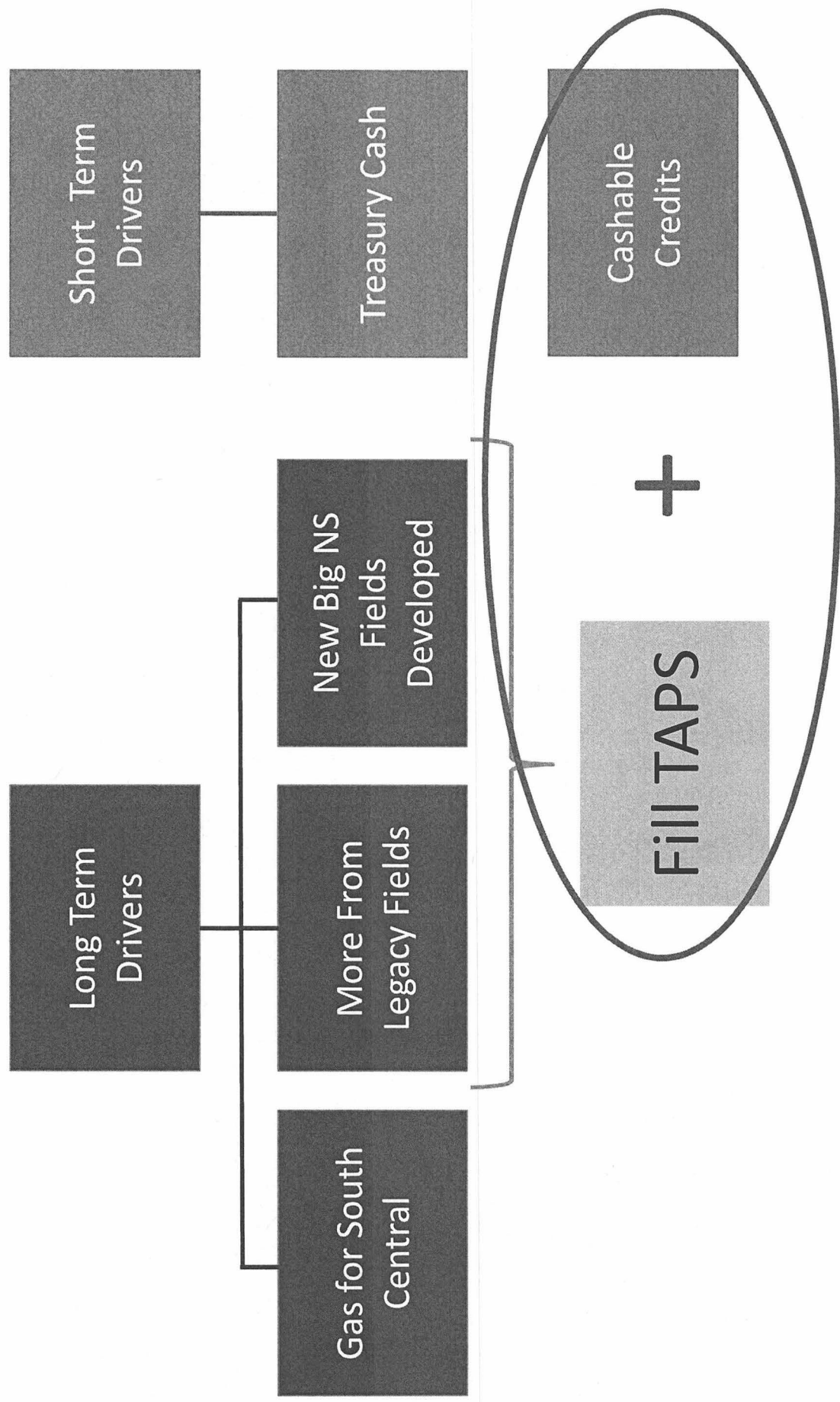
CASTLE**GAP**

Table of Contents

- Recap From Prior Testimony
- Observations & Suggestions

RECAP FROM PRIOR TESTIMONY

Alaska's Priorities – The Current Challenge



Observations From Prior Testimony

- We see a common understanding of the overarching strategic drivers
 - More Oil to fill TAPS
 - State can't afford to pay for cashable credits
 - Some go further to see the need for increased state revenues today

- Cashable Credits
 - Our experience in other regimes is that the producers have mechanisms that allow full recovery of their costs.
 - Industry in their testimony all agree that they need the right to fully recover their costs
 - All mentioned that the current system, which includes per barrel credits and a gross minimum tax results in Carry Forward NOLs not producing the same tax saving benefit as the cashable credits – i.e. The “Lost NOLs”

OBSERVATIONS AND SUGGESTIONS

Overall

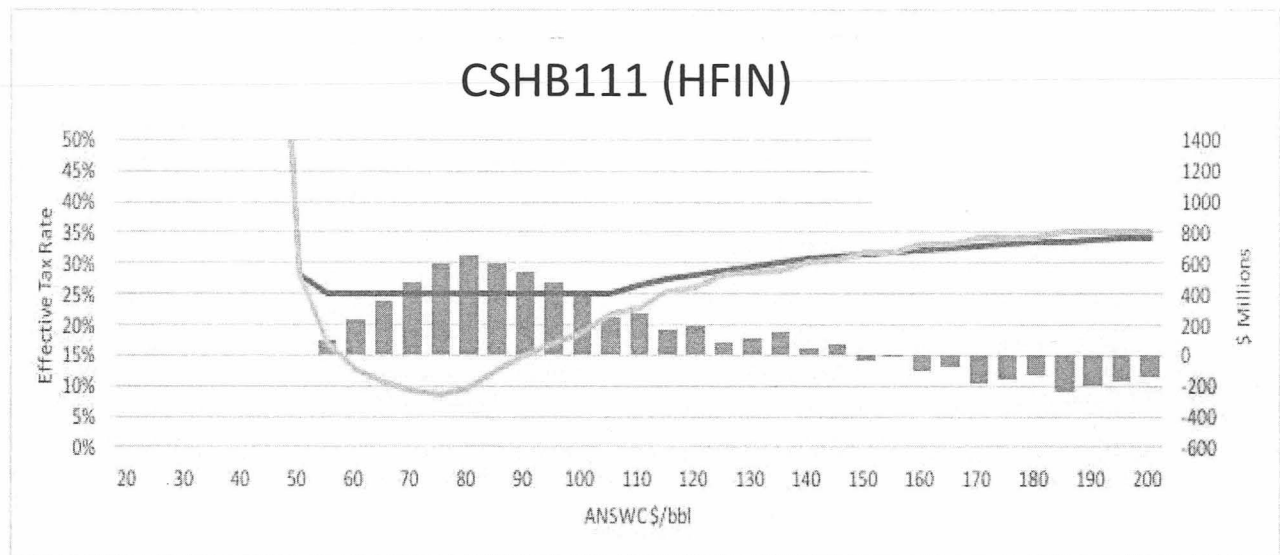
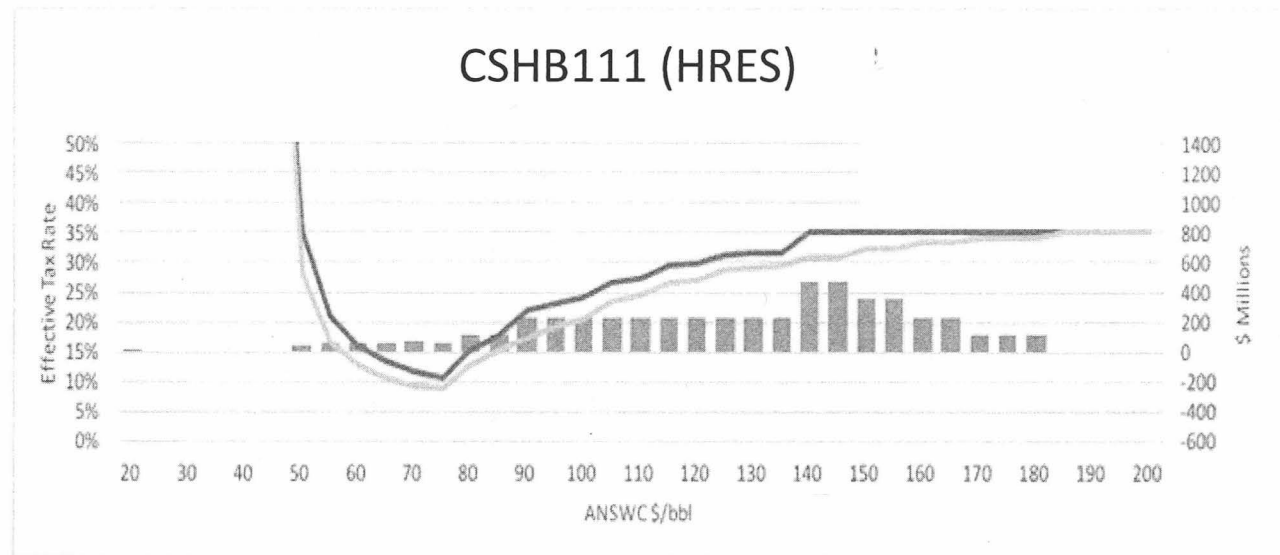
- Alaska has an overall complex system for administering energy taxation
 - This has likely led to the frequency of change
 - Functional interdependencies make even a small fix difficult at best
- Too many items tied to price versus profitability or unit profitability
 - The ever changing world of energy and the resultant price and cost structures will ensure the original intent can't be maintained for very long
 - Need to try and make things as self-correcting as possible
- Over the last decade the \$100s of Billions spent in countries and states with higher non-producer take than Alaska should cause a greater focus on aspects other than the rate to make Alaska as competitive as possible for investment capital
- Coming up with a simple system to generate the expected state revenues is not that difficult, but dealing with all the nuances will take time to make sure all constituencies are heard and all issues addressed

Overall

- As a legislature, if you want to be able to make changes that are most responsive to achieving goals and to be durable over time you need real and timely data
- The “Flaw of Averages” would suggest that working with estimates or averages will likely continue to result in a less than effective structure for all parties
- Complexity in Alaska is further exasperated by the common ownerships of wells, fields, plants, pipes, ships, etc.. Given some of those are regulated entities, and subject of numerous past litigations, it will be difficult for parts of industry to come forward
- Need to find a mechanism to get good data and information

HB111 Review/Comments

- HB111 perceptions, understandings, and dialogue have all changed immensely since we began advising the legislature.



Ring Fencing

- State Concern: Paying (through tax savings or credits) without actual new hydrocarbons flowing to market

- Operator concern: The need to separate costs (1) between various projects using common facilities and (2) possibly between oil and gas

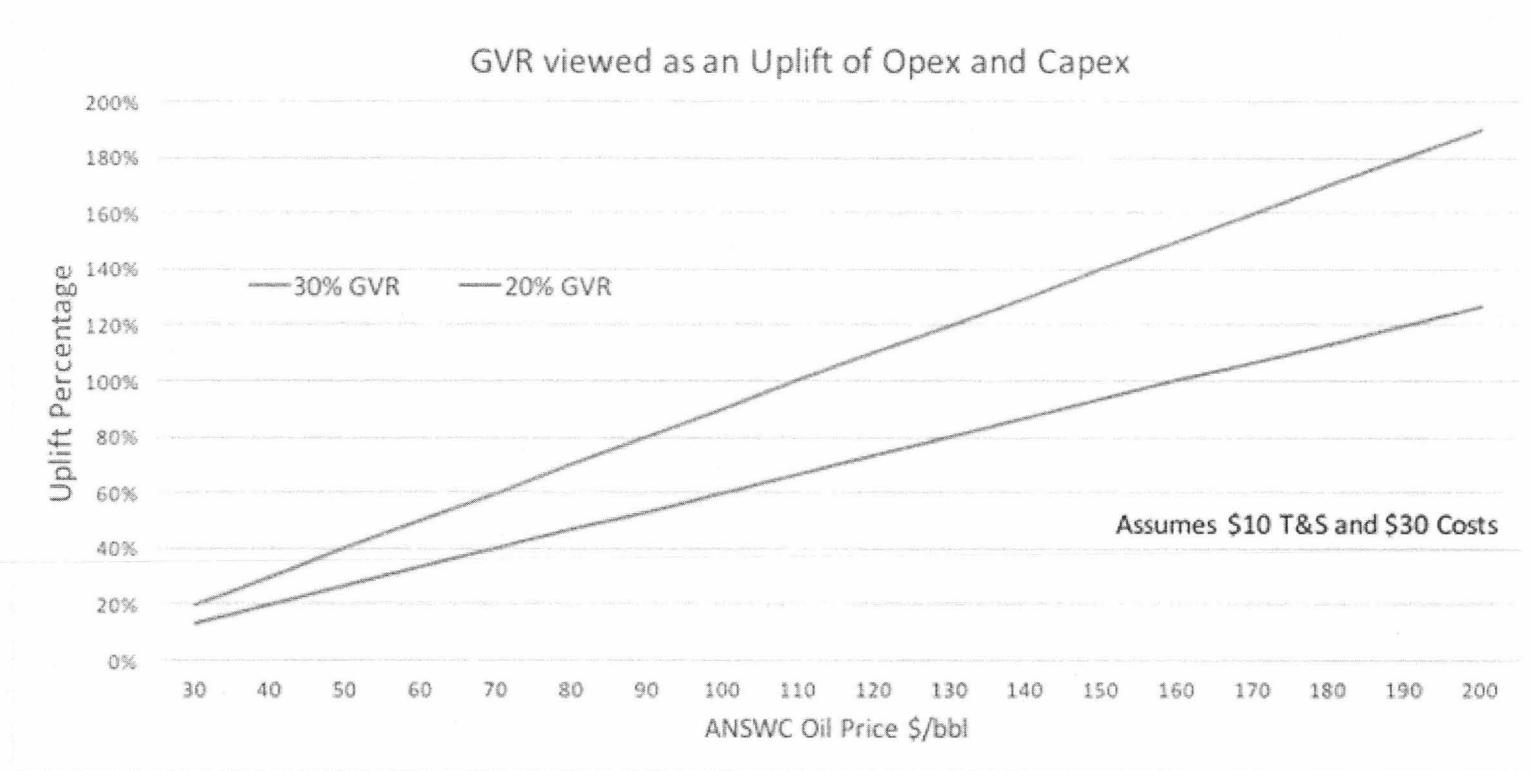
- Suggested Solution:
 - For an existing unit or field on production business as usual with any NOL created being used to offset future segment taxable income
 - For a new field or unit, direct costs associated with a potential new development will be calculated and held until commercial production is established. Once that occurs then all NOLs for that new entity will be available to be used in the taxpayer's segment return

Transparency

- The Oil and Gas Industry, and the royalty and taxes they pay are the economic engine of Alaska. Issues related to oil and gas should be top priority for the legislature
- Key data and information not readily supplied to each legislator
- Suggested Actions:
 - Both a physical and online ‘book’ of Alaska oil and gas statistics should be published and reviewed by DNR and AOGCC no later than the first week of the legislative session
 - Book to contain historical and projected curves or charts of production, spending, projects, jobs, wells, seismic, license rounds, etc.. all broken down to the lowest level of granularity possible
 - Pre session workshop to go over the current state of the global energy picture with multiple views on supply, demand, pricing, emerging technology, industry disrupters, the LNG market, etc., and the impact this all might have on activity in Alaska’s energy sector

Gross Value Reduction (GVR)

- The GVR can be viewed as an uplift to current costs as it serves to reduce the Production Tax Value just as current costs do



- This is a "Progressive" tax reduction tool that grows with price
- Do not see why the extra 10% is need to bring a project on stream. The availability of the 20% GVR with Royalty relief should be sufficient

Tax Rate and Per Barrel Credits

- To create a durable structure, a simplified system needs to be put in place when time allows
- As previously recommended, we would go with a stepped or bracketed net system that would have the various steps based on unit profitability
 - Low initial rate to mimic low taxes for Cook Inlet and other projects like heavy oil
 - Can progressively go higher as unit profitability grows
 - Self corrects for changing price and cost environments

Put the Barrel Credits in Perspective

- In a world of 500,000 bopd, \$10 T&S, \$30 Costs
 - \$55, \$65, \$75 per barrel market price
 - All values rounded and in \$Billion

	55	65	75
Market Value	10.0	11.9	13.7
Transp & Shpg	1.8	1.8	1.8
Royalty	1.0	1.3	1.5
Costs	5.5	5.5	5.5
Taxable Value	1.7	3.3	4.9
Tax @ 35%	0.6	1.2	1.7
Per Barrel Credits	1.4	1.4	1.4
Gross Min Tax	0.3	0.4	0.5

- Alaska is in a gross minimum tax world until somewhere around \$75/bbl, and even this may move higher as costs rise with the rise in the price of oil

Review: Timing of Cost Recovery is Critical

- Presented on Saturday 4 different recovery scenarios that yielded significantly different economic results

– Accelerated	20% IRR	\$27 NPV(10)
– Depreciated	14%	\$14
– Cashable	27%	\$46
– 50% reduction	6%	-\$12

- In this simple example there is considerable difference in economics between the Accelerated and the Cashable versions
- Our modeling for a new North Slope field shows a gap of 3-4% IRR difference between Cashable credits (assuming being paid when earned) versus any form of CF NOL recovery

Created a Full Lifecycle Model

- Model ran on a possible North Slope new field
 - \$10Bn total Capex, roughly \$6Bn before first production
 - \$9Bn in total Opex
 - 40 year project life
 - 1 Bn barrels produced
 - Average 12.5% royalty

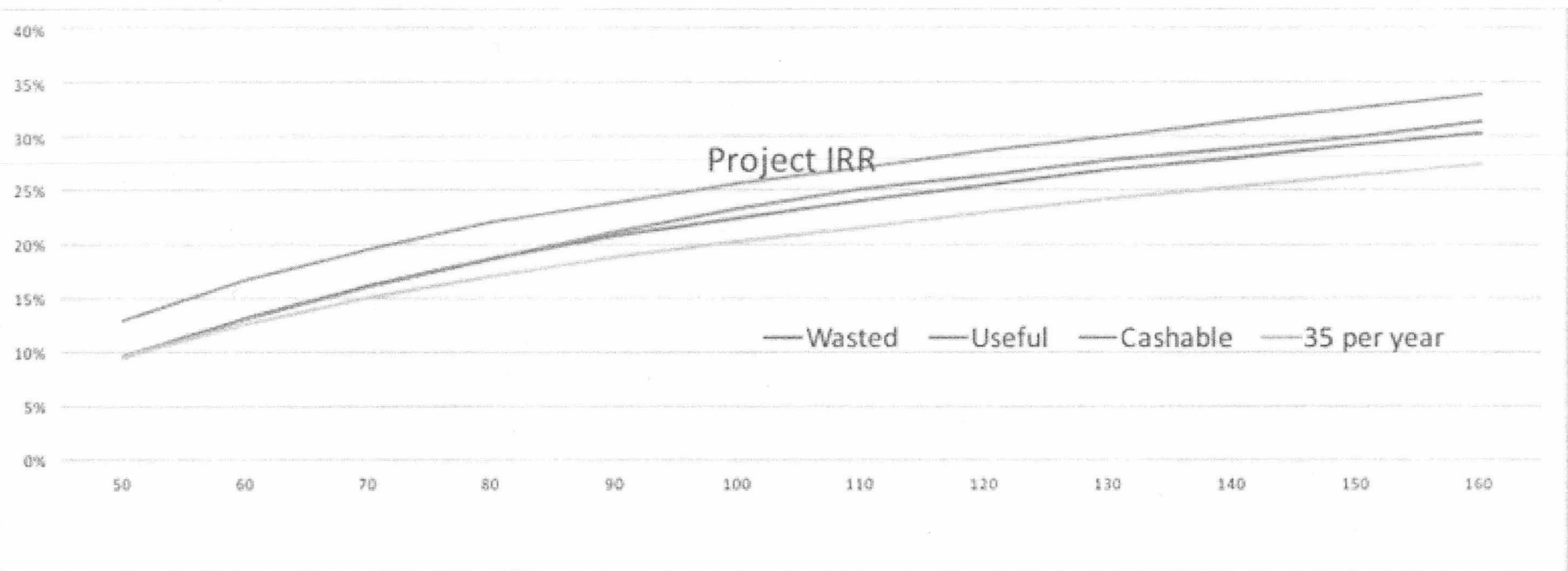
- Run with 35% tax and credits as well as 25% tax and no credits

Cashable Credits

- New and existing producers were encouraged by the possibility of receiving early cash return for their investments toward bringing new hydrocarbons into production.
- Current practice is to pay a maximum of \$35 million per taxpayer per year
- For a new large North Slope field that has a maximum CF NOL of \$5bn
 - If converted to credits @35% would take 50 years to get paid back
 - If converted to credits @25% would take 35 years to get paid back
 - Both options would suffer from significant lost time value of money

Bridging the Gap – Project IRR

- Type project run to compare immediately cashable credits (Cashable) against current structure with CF NOL (Wasted), current structure with NOLs 100% effective (Useful) and cashable credits recovered at a maximum of \$35 million per year (35 per year)
- Even with considerable uplift, the rate of return gap does not close much at all; you can however, use uplift to equate cash flows.



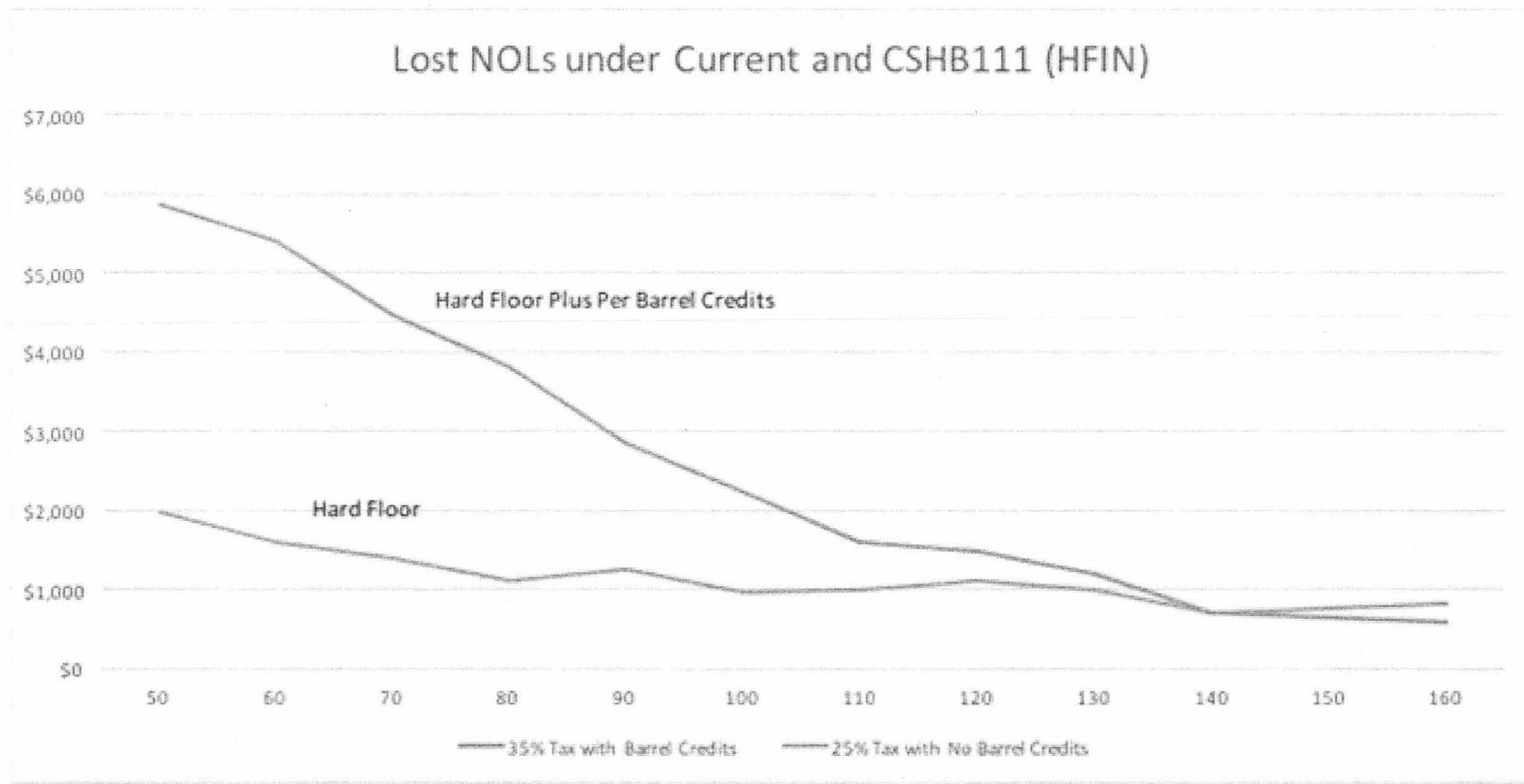
Project Rerun at 25% Tax and No Credits

- Note that the curves for NOLs and Optimized NOLs are almost identical
- The only difference is the impact of the gross minimum tax in about 4 years.
- The gap between cash now and deduction later is still significant.

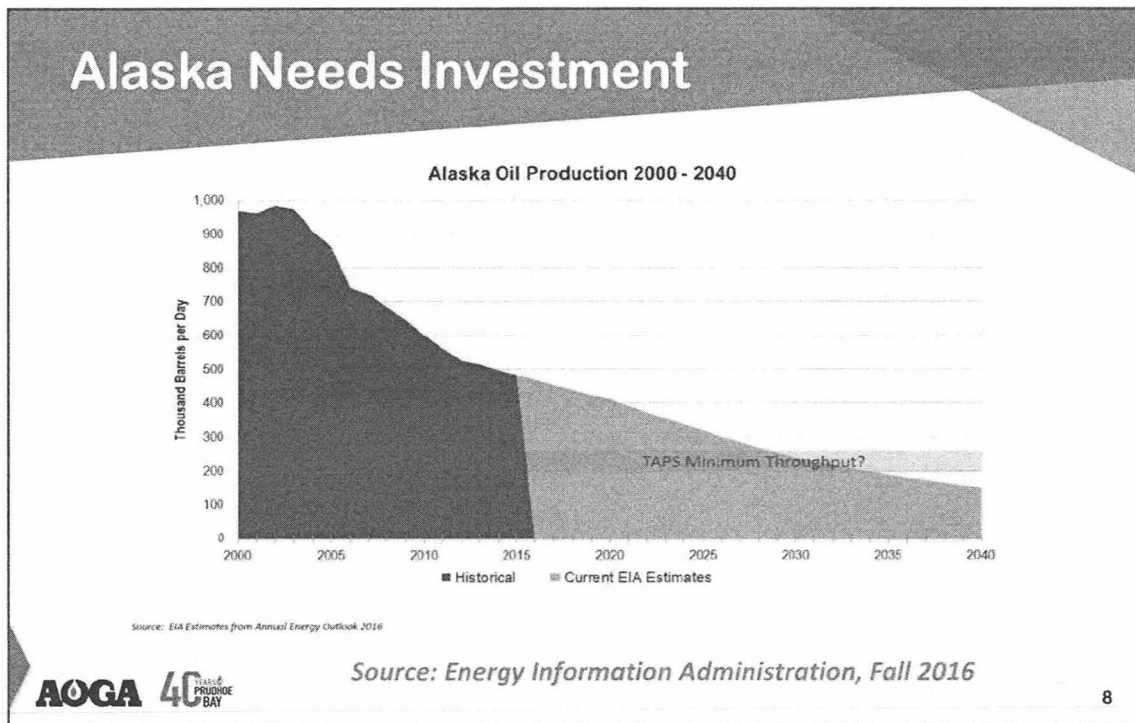


“Lost NOLs”

- The large North Slope type field was run, across a range of flat nominal pricing, under the current structure (assuming CF of NOLs) and under the structure posed by CSHB111 (25% tax rate no credits)
- The removal of the per barrel credits greatly reduces the amount of “Lost NOLs”



Optimizing Model Results



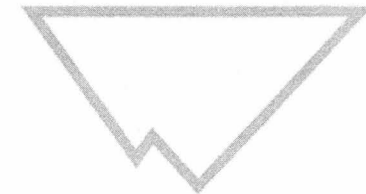
POTENTIAL NEW PROJECT ANNOUNCEMENTS (AOGA)

- "Hilcorp delivers new rig to North Slope Moose Pad expansion" - Alaska Dispatch News, October 13, 2016
- "Greater Prudhoe Bay area production had less than a 1% decline in 2016" - Photo, December 2016
- "Caelus aims to unlock vast Torok oil resource" - Alaska Journal of Commerce, September 16, 2015
- "Production begins at Point Thomson on Alaska's North Slope" - Oil & Gas Journal, April 22, 2016
- "Ahtna completes exploration well near Glennallen, plans tests for potential gas" - Petroleum News, December 11, 2016
- "Caelus claims Arctic oil discovery that could rank among Alaska's biggest ever" - Alaska Dispatch News, October 4, 2016
- "Hilcorp files new development plan for Liberty prospect" - Alaska Dispatch News, May 31, 2016
- "Development Of Huge North Slope Alaska Oil Discovery Moving Forward (Armstrong's Pika Unit)" - Fairhead Times, March 1, 2016
- "ConocoPhillips announces Alaska discovery with daily production potential of 100,000 barrels" - Alaska Dispatch News, January 13, 2017

- Indicative profiles of timing of investment and production are necessary to understand the impact of your fiscal system (and proposed changes) on state revenue and producer economics

Castle Gap Advisors, LLC

CASTLE**GAP**



Contact Information:

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Christina Ruggiero

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christina@castlegapep.com

CASTLE**GAP**

4.19.2017

Senator Giessel, Senate Resources Chair
State Capitol, Room 427
Juneau, AK 99801

RE:HB111

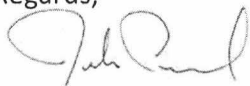
Senator Giessel,

As President of Davis Constructors & Engineers, Inc., I would like to offer the following on HB111:

- The oil industry has and continues to pay most of the state's taxes. To say that the oil industry needs to contribute more as their share is unwise.
- Alaska cannot increase oil production by increasing taxes. Alaska cannot tax away the industry's incentive to invest and still expect to have a sustainable economy.
- The oil industry has traditionally accounted for 88 percent of Alaska's General Fund revenues and is the largest property tax payer in the North Slope Borough and Kenai Peninsula Borough. Even in these times of low oil prices, oil provides 67 percent of the state's unrestricted revenues and supports one-third of our economy.
- Oil tax reform in 2013 made Alaska more competitive and a more attractive place to invest. Oil companies have responded with over \$5 billion in new projects. Alaska saw no production decline in 2014, a slight dip in 2015, followed by the first production uptick in 14 years in 2016. Oil tax reform played a significant role in the production increase in 2016.
- The Department of Revenue conceded HB 111 represents a significant tax increase, but has failed to produce any models of economic impacts to jobs, oil production or the state's economy.

Please call me with any questions that you may have. We need a stable tax environment for industry investment.

Regards,



Josh Pepperd

PETITION for ACTION to CLOSE ALASKA'S BUDGET GAP

Governor Walker, Senator Micciche, Representative Knopp, Representative Chenault, and Finance Committees:

As your concerned constituents, we, the undersigned, wholeheartedly support your efforts to close Alaska's \$2.7 billion budget gap this year. Legislation, such as HB 115 and HB 111, would equitably share the burden of supporting our state services and economy by: using a portion (4.75%) of the market value of the Permanent Fund for government operations, protecting a dividend of over \$1000/person, reinstating a state income tax (15% of federal income tax), and adjusting the oil and gas production taxes.

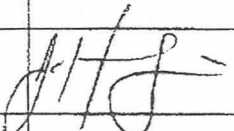
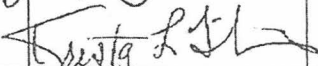
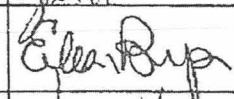
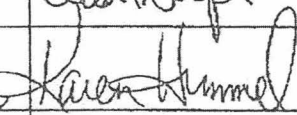
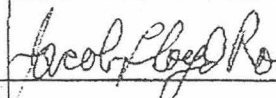
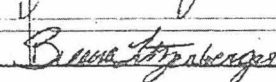
CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	ZIP CODE	DATE
SOLDOTNA	<i>Barbara Jewett</i>	Barbara A Jewett	99669	3/11/17
SOLDOTNA	<i>Richard Johnston</i>	Richard Johnston	99669	3/11/17
NIKISKI	<i>John Dachtel</i>	John Dachtel	99611	3/13/17
SOLDOTNA	<i>Denise Newbould</i>	Denise Newbould	99669	3/14/17
SOLDOTNA	<i>Jennifer Pearl</i>	JENNIFER PEARL	99669	3.14.17
SOLDOTNA	<i>[Signature]</i>	ES Schmitt	99669	3/14/17

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Kasilof	Gail Knobf	Gail Knobf		99610	3/10/17
Kenai	Aileen Smalley	Aileen S. Smalley		99611	3/10/17
SOLDOTNA	Robin Ross	ROBIN ROSS		99669	3-9-17
SOLDOTNA	Margaret Muller	MARGARET MULLEN			3/9/17
	Maya Chay	MAYA CHAY		99611	3/9/17
Nikiski	H. S. Norwood	H S Norwood		99635	3/9/17
Soldotna	Cathleen Rolpe	Cathleen Rolpe		99669	3/9/17
Kenai	Heidi Chay	HEIDI CHAY		99611	3/9/17
Kenai	Patrick Malone	Patrick Malone		9964	3-15-17
Sterling	David Atekeson	David Atekeson		99672	3-15-17
Kasilof	Donna Rea	Donna Rea		99610	3-16-17

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CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
SOLDOTNA		JEFF SIRES		99669	03/07/16
Soldotna		KRISTA TIMLAN		99669	03/09/17
Kenai		E. Ken Bryson		99611	3/9/17
Soldotna		Karen Hummel		99669	3/9/17
SOLDOTNA		JACOB LLOYD ROSS			3-9-17
Soldotna		Beera Litzberger		99669	3-9-17

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Soldotna	Gail Dunce	Gail Dunce		99669	3/16/17
Soldotna	Michael Merritt	Michael Merritt		99669	7-18-17
Soldotna	JUNE A STURKE	JUNE A STURKE		99669	3/18/17
Soldotna	Richard D. Rega	Richard D. Rega		99669	3/20/17
Soldotna	Maria Dixon	MARIA DIXSON		99669	3/20/17
Kenai	Elaine Larson	Elaine Larson		99611	3/22/17
Kenai	Dorothy Gray	Dorothy Gra		99611	3/22/17
Kenai	Susan Bradley	Susan Bradley		99611	3/22/17
Soldotna	Lois Pillifanti	LOIS PILLIFANTI		99669	3-22-17
Kasilof	Gail Knobf	Gail Knobf		99610	3/22/17
Soldotna	Sherry Kasokanis	Sherry Kasokanis		99669	3-22-17

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CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Anchorage	<i>Kathy Kelly</i>	Kathryn Kelly		99517	3/24/17
Anch.	<i>Peter Mijos</i>	Peter Mijos		99508	3/24/17
Anch	<i>Stephen Livingston</i>	Stephen Livingston		99517	3/24/17
Anch.	<i>S. Thome</i>	Schauna Thome		99517	3/24/17
Anch	<i>Dana Durham</i>	Dana Durham		99587	3/24/17
Anch	<i>Evan Anderson</i>	Evan Anderson		99504	3/24/17
Anch	<i>Kevin Cassidy</i>	Kevin Cassidy		99516	3/24/17

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME
Anchorage	<i>Barbara Hood</i>	Barbara Hood
Anchorage	<i>Sarah McCabe</i>	SARAH McCab
Anchorage	<i>Deborah Va</i>	Deborah Va
Anchorage	<i>Patrick Carnahan</i>	Patrick Carnahan
Anchorage	<i>Mara Carnahan</i>	Mara Carnahan
Anchorage (Minds) ¹⁹² ₁₄	<i>Adler Carnahan</i>	Adler Carnahan
STERLING	<i>Joseph L. Kasler</i>	JOSEPH L. KASLER
sterling	<i>Joseph L. Kasler</i>	Joseph L. Kasler
sterling	<i>Barbara Schmidt</i>	Barbara Schmidt
Kenai	<i>Barbara Schmidt</i>	Barbara Schmidt
Kenai	<i>Paul Dale</i>	Paul Dale

ZIP CODE	DATE
99507	3/24/17
99516	3-24-2017
99508	3/24/17
99501	3/24/17
99501	3/24/17
99501	3/24/17
99672	3/27/2017
99672	3/27/2017
99669	3/27/17
99611	3/27/17
99611	3/27/17

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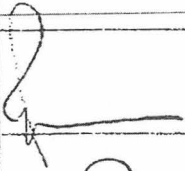

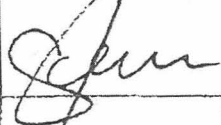
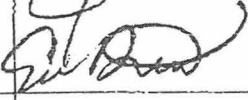
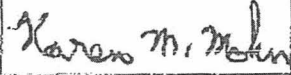
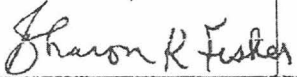
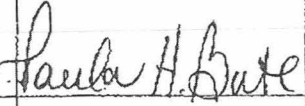
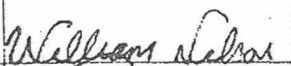


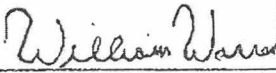
CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Kasilof AK	<i>Linda Pepi</i>	LAURINDA PEPI		99610	3/23/17
Kenai	<i>Brenda Dale</i>	BRENDA DALE		99611	3/23/17
Sterling	<i>Catherine Turner</i>	CATHERINE TURNER		99672	3/28/17
Sterling	<i>Mary Shewalter</i>	MARY SHEWALTER		99672	3/28/17
Homer	<i>Eileen Mullen</i>	EILEEN MULLEN		99603	3/28/17
SOLDATWA	<i>Jean M Brockel</i>	Jean Brockel		99669	3/29/17

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CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Soldotna	<i>Margaret Hoop</i>	Margaret S. Hoop		99669	3-22-17
Soldotna	<i>Sherri Miller</i>	Sherri Miller		99669	3-22-17
SOLDOTNA	<i>Rosemary Reeder</i>	Rosemary Reeder		99669	3-22-17
Kenai	<i>Lorraine Crawford</i>	LORRAINE CRAWFORD		99611	3-22-17
SOLDOTNA	<i>Jeff Fox</i>	JEFF FOX		99669	3/22/17
Soldotna	<i>Laura Pillifant</i>	Laura Pillifant		99669	3/22/17

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Nikiski		Penny McClain		99610	3/30
Soldotna		Trena Richards		99669	3/31
Nikiski		Chris Jensen		99635	8/4/11 7/3/11
Sterling		Cynthia Detron		99672	4/1/17
Kenai		Karen M Mohn		99611	4/2/17
Nikiski		Sharon K Fisher		99611	4/2/17
Nikiski		PAULA H. BUTE		99611	4/2/17
Kenai		William Nelson		99611	4-2-17
Soldotna		Chuck Davis		99669	4-3-17
Soldotna		Deborah F. DAVIS		99669	4-3-17
Nikiski		WILLIAM WARREN		99611	4.3.17

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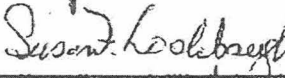
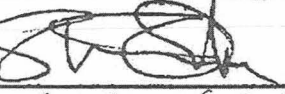

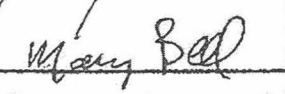
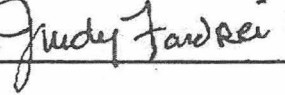
CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET ADDRESS	ZIP CODE	DATE
Soldotna		David C. Schrier		99669	3/30/17
Kenai		Joanna M. Holler		99611	3/30/17
Kenai		LAURA KNACKSTEDT		99611	3/30/17
Kenai		Shirley M. Henley		99611	3/30/2017
Homer		Deborah S. Smith		99603	3/31/2017
Soldotna		Eva Knutson		99669	3/30/17
Soldotna		Linda		99669	3/30/2017

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	ZIP CODE	DATE
Sterling	<i>Darlene Fisher</i>	Darlene FISHER	99672	3/23/17
STERLING	<i>James M. Fisher</i>	JAMES M. FISHER	99672	3/23/17
Soldotna	<i>Elizabeth H. Lawson</i>	Elizabeth H. Lawson	99669	3/23/17
Soldotna	<i>Avin L. Hershberger</i>	AVIN L. HERSBERGER	99669	4/2/17
Kenai	<i>Elizabeth Leduc</i>	Elizabeth Leduc	99611	4/6/17
Soldotna	<i>Dorothy Hill</i>	Dorothy Hill	99669	4/6/17
Copper Landing	<i>James Leduc</i>	James Leduc	99669	4/7/17
Copper Landing	<i>Theresa Leduc</i>	Theresa Leduc	99669	4/7/17
Kenai	<i>Beverly Kruger</i>	Beverly Kruger	99611	3/30/17
KENAI	<i>John Kruger</i>	JOHN KRUGER	99611	3/30/17
Soldotna	<i>Cathleen Bost</i>	Cathleen Bost	99669	3/30/17
Centraf	<i>Sharon Wiseman</i>	Sharon Wiseman	99669	3/30/17

PETITION for ACTION to CLOSE ALASKA'S BUDGET GAP

Governor Walker, Senator Micciche, Representative Knopp, Representative Chenault, and Finance Committees:

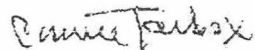
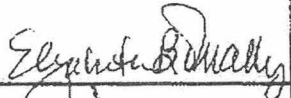



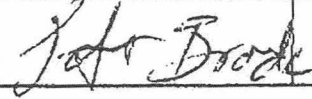
As your concerned constituents, we, the undersigned, wholeheartedly support your efforts to close Alaska's \$2.7 billion budget gap this year. Legislation, such as HB 115 and HB 111, would equitably share the burden of supporting our state services and economy by: using a portion (4.75%) of the market value of the Permanent Fund for government operations, protecting a dividend of over \$1000/person, reinstating a state income tax (15% of federal income tax), and adjusting the oil and gas production taxes.

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	ZIP CODE	DATE
Soldotna		Stephanie Queen	99669	4/4/17
Fairbanks		Susan F. Loshbaugh	99709	4/4/17
KASLOF		STEVE OTTENGROBER	99610	5 APR 17
Ridgeway		Martha J. Wallace	99669	4/4/17
K-Beach		Mary Bell	99669	5/4/17
K-Beach		Judy Fandrei	99611	5-6-17

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CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	ZIP CODE	DATE
Soldotna		Connie Tarbox	99669	4/10/17
Anchorage		Elizabeth Belgard-DMalley	99501	4/10/17
Palmer		Kathleen R. Jones	99645	4/10/17
Palmer		W. Chris Jones	99654	4/10/17
Soldotna		Mike Burnham	99669	4/10/17
Bird Creek		Pat Brode	99540	4/11/17

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	STREET	ZIP CODE	DATE
ANCHORAGE, AK	<i>Susan K Metcalf</i>	SUSAN METCAL		99503	16 APR 2017
Anchorage, AK	<i>Van Elliot</i>	Van Elliot		99561	April 16, '17 2017
Anchorage	<i>DR M Male</i>	DR M Male		99515	4/14/17
Anchorage	<i>RACHELI FELLER</i>	RACHELI FELLER		99501	4/10/17
Anchorage	<i>Cynthia Wentworth</i>	Cynthia Wentworth		99540	4/10/17
ANCHORAGE AK	<i>Mary Eickm</i>	Mary Eickm		99540	4/17/17
ANCHORAGE	<i>Joan Daniels</i>	JOAN DANIELS		99540	4-14-2017
Anchorage	<i>Mei Mei Evans</i>	Mei Mei Evans		99507	4-17-2017
ANCHORAGE	<i>SHARON VAISSIERE</i>	SHARON VAISSIERE		99516	4-17-2017
ANCHORAGE	<i>RITA EAGLE</i>	RITA EAGLE		99508	4/17/2017
Anchorage	<i>Joy E. Bartke</i>	Joy E. Bartke		99516	4/17/17
Anchorage	<i>Clare Lathimer</i>	Clare Lathimer		99540	4/17/2017

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	ZIP CODE	DATE
ANCHORAGE	[Signature]	Jane Andrews	99590	4-10-17
Stirling	Brenda Trefon	Brenda Trefon	99672	4-12-2017
Soldotna	Sally S. Jackie	Sally Tachick	99669	4/14/2017
Dist 31	Leslie Motton	Leslie Motton	99669	4/14/17
Soldotna	[Signature]	Charles A LaForge	99669	4-17-17
Niiskalik	[Signature]	mike chubuk	99659	4-17-17
KENAI	[Signature]	MARIE WYNE	99611	4-18-17
Soldotna	[Signature]	Austin Johnson	99669	4-18-17
Kasilof	[Signature]	Catherine Cassidy	99610	4-19-17

CITY IN WHICH REGISTERED TO VOTE	SIGNATURE	PRINTED NAME	ZIP CODE	DATE
ANCHORAGE	[Signature]	Jane Andrews	99590	4-10-17
Stirling	Brenda Trefon	Brenda Trefon	99672	4-12-2017
Soldotna	Sally S. Jackie	Sally Tachick	99669	4/14/2017
Dist 31	Leslie Motton	Leslie Motton	99669	4/14/17
Soldotna	[Signature]	Charles A LaForge	99669	4-17-17
Niiskalik	[Signature]	mike chubuk	99659	4-17-17
KENAI	[Signature]	MARIE WYNE	99611	4-18-17
Soldotna	[Signature]	Austin Johnson	99669	4-18-17
Kasilof	[Signature]	Catherine Cassidy	99610	4-19-17

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CS HB 111(FIN)

**Oil and Gas Production Tax and Credits:
Analysis of House Finance Committee Substitute**

Presentation to House Finance Committee

Ken Alper, Tax Division Director
Alaska Department of Revenue

April 7, 2017



Changes in Finance Committee Substitute

- 1. Minimum Tax (Floor)**
- 2. Treatment of North Slope NOLs**
- 3. North Slope Production Tax**
- 4. GVR / New Oil Provisions**
- 5. Other (mainly non-fiscal) Provisions**
- 6. Items from Resources CS that are removed in this version**
- 7. Fiscal Analysis**

Minimum Tax (Floor)

In these sections **purple printing** indicates new or changed sections in CS HB111(FIN)

Rate

- HB111(RES) increased the floor to 4% at all prices below \$25 and to 5% at prices above \$50
- HB111(FIN) keeps current minimum tax: 1% above \$15; 2% above \$17.50; 3% above \$20, and 4% above \$25

“Hardening” versus Credits

- HB111(RES) prevented all credits from being used below the minimum tax
- HB111(FIN) does not harden the floor vs. the small producer credit

Minimum Tax (Floor)

“Hardening” for GVR-eligible “New” Oil

- Current law, the \$5 per-barrel credit can reduce tax liability to zero
- HB111(RES) created a hard “adjusted” minimum tax where the 20%-30% reduction was applied before calculating the minimum tax. Effective minimum tax rate of 2.8% to 3.2%
- HB111(FIN) keeps the adjusted minimum tax structure, although by eliminating the 30% GVR the effective minimum tax is always 3.2% of gross

Treatment of North Slope NOLs

Carry-Forward

- The 35% “Net Operating Loss” credit for the North Slope is eliminated, and replaced with a carry-forward structure
- HB111(RES) allowed for 50% carry-forward of losses, with “uplift” of ~8.5% / year for seven years
- HB111(FIN) allows for 100% of losses to carry forward, although without “uplift”
 - After seven years, carried forward value begins to decrease by 10% per year
 - Carried forward expenditures can only be used to offset value from the lease or property where they were incurred (“ringfence”)

North Slope Tax Rate

- Current (SB21) law is 35% of Production Tax Value (PTV) less a per-barrel credit between \$0 and \$8
- HB111(RES) shifted the per-barrel credit by \$2 at a wide range of oil prices
- HB111(FIN) reduces the base tax rate to 25% and eliminates the sliding scale per barrel credit
 - Matches original proposal for SB21 at oil prices below about \$90-95
- Adds a bracket of “progressivity,” with a 15% surtax on that portion of PTV greater than \$60
 - The “bracketed” structure is very different from ACES, without marginal tax issues. More like HB110 (2011)
 - Effective tax rates closely track SB21 above \$100 oil
 - Aligns value of carry-forward with the effective tax rate₆

Gross Value Reduction (GVR)

- HB111(FIN) keeps the 3.2% modified hard floor introduced in CSHB111(RES)
- Keeps the \$5 per barrel credit, which was eliminated for legacy production
 - Likely effect of this is that GVR production will pay no more than the minimum tax at nearly all possible prices
- Eliminates the 30% GVR for high royalty fields. All GVR-eligible production will only receive the 20% benefit

Other Changes

Interest Rates

- No change from Resources. The “zero after three years” provision for delinquent production taxes is eliminated

Transparency & Reporting

- Technical changes from Resources. Annual DOR report expanded to include credits earned but not cashed, as well as more lease expenditure information
- Reporting of lease expenditures by lease is the basis of the data used to build the “ringfence”

GVPP can't go below zero

- Keeps same language from H(RES) version

Other Changes

Migrating Credits

- Issue is made moot due to repeal of the sliding scale per barrel credit in AS 43.55.024(j)

Assignment

- Repeals ability to assign certificates to a financier in AS 43.55.029

Cook Inlet Working Group

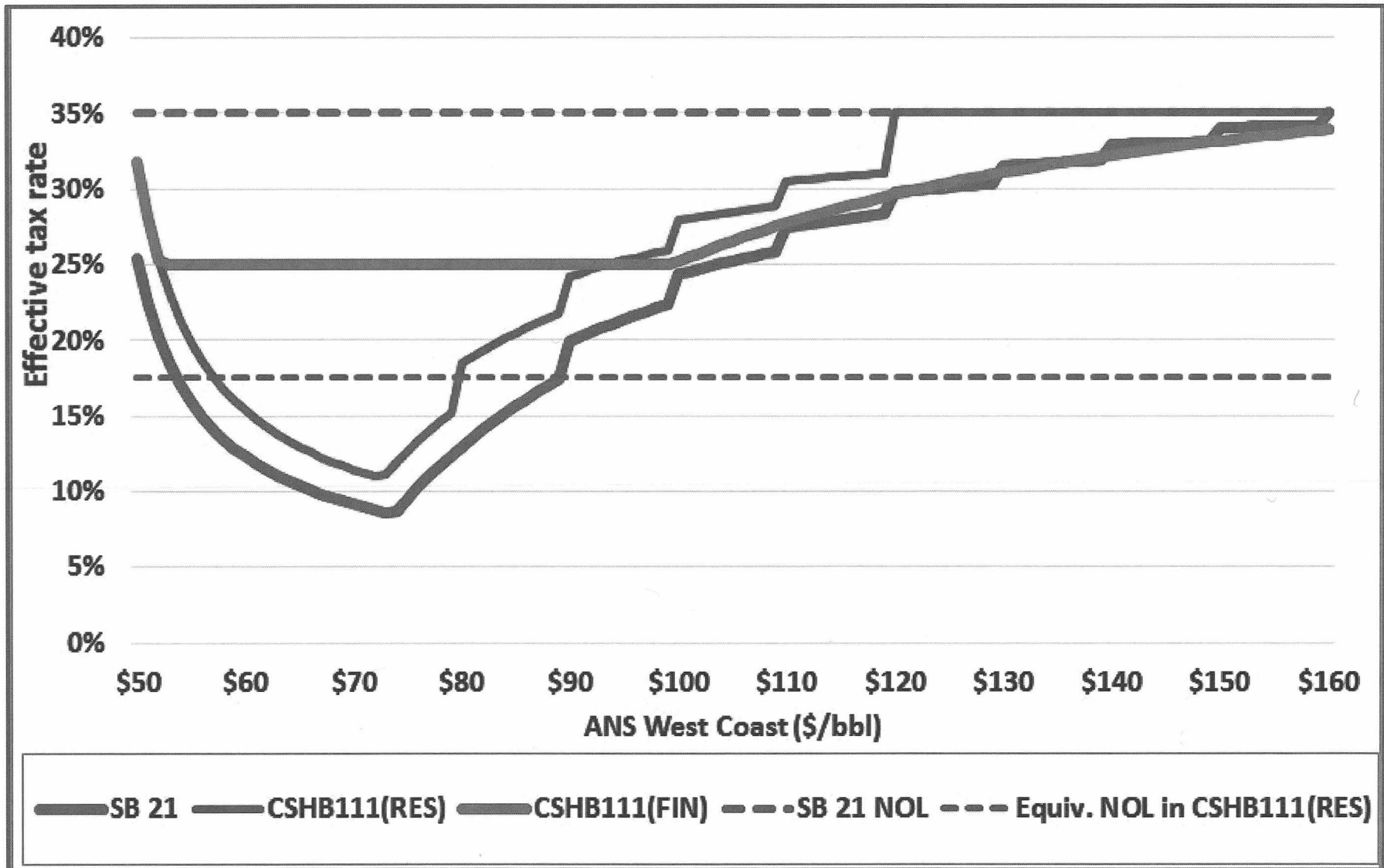
- Although CSHB111(FIN) does not address any Cook Inlet tax or credit issues, it establishes a new legislative working group to look at possible future changes

Items Removed from Resources Version

- Intent language regarding appropriations
- Executive sessions / legislative access to confidential information
- DNR Pre-approval process
- Dry Hole Credit
- No changes made to per-company credit cap, haircut, or barrels per day cash thresholds

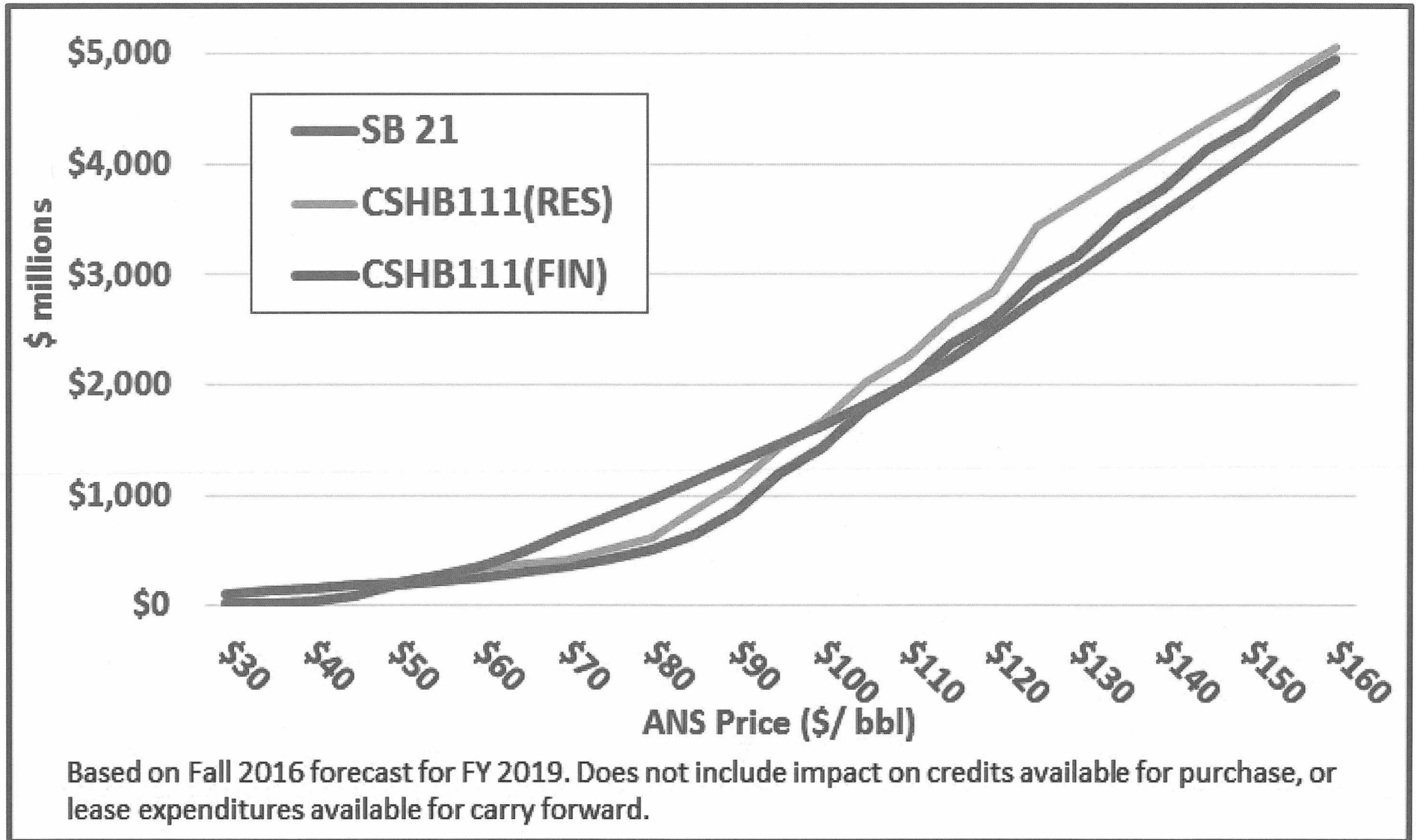
Fiscal Analysis

Effective Tax Rates (Legacy / non-GVR oil)



Fiscal Analysis

Total Production Tax Revenue (FY2019)



Fiscal Note Summary- Tax

- The tax impact is concentrated in the \$55 to \$90 oil price range
 - Difference between the current effective tax rates, based on 35% of net less the per-barrel credit, and a flat 25% of net
 - “Crossover” between gross and net taxes moves substantially lower, from about \$75 to about \$55
- Comparably small revenue impact at higher prices

Fiscal Note Summary- Budget

- Additional impact due to near-total elimination of cash payments for tax credits (reduced spending)
 - Long term forecast for this is \$150 million / year
 - Does not include what “would be” the liability for possible future large projects
 - The associated projects don’t come into production during the fiscal note period

Fiscal Analysis

Fiscal Note Table- impact at forecast prices

Provisions in CSHB 111 (FIN) \M and their Estimated Fiscal Impact based on Fall 2016 Forecast (\$millions) - Fall 2016 FC PRICE

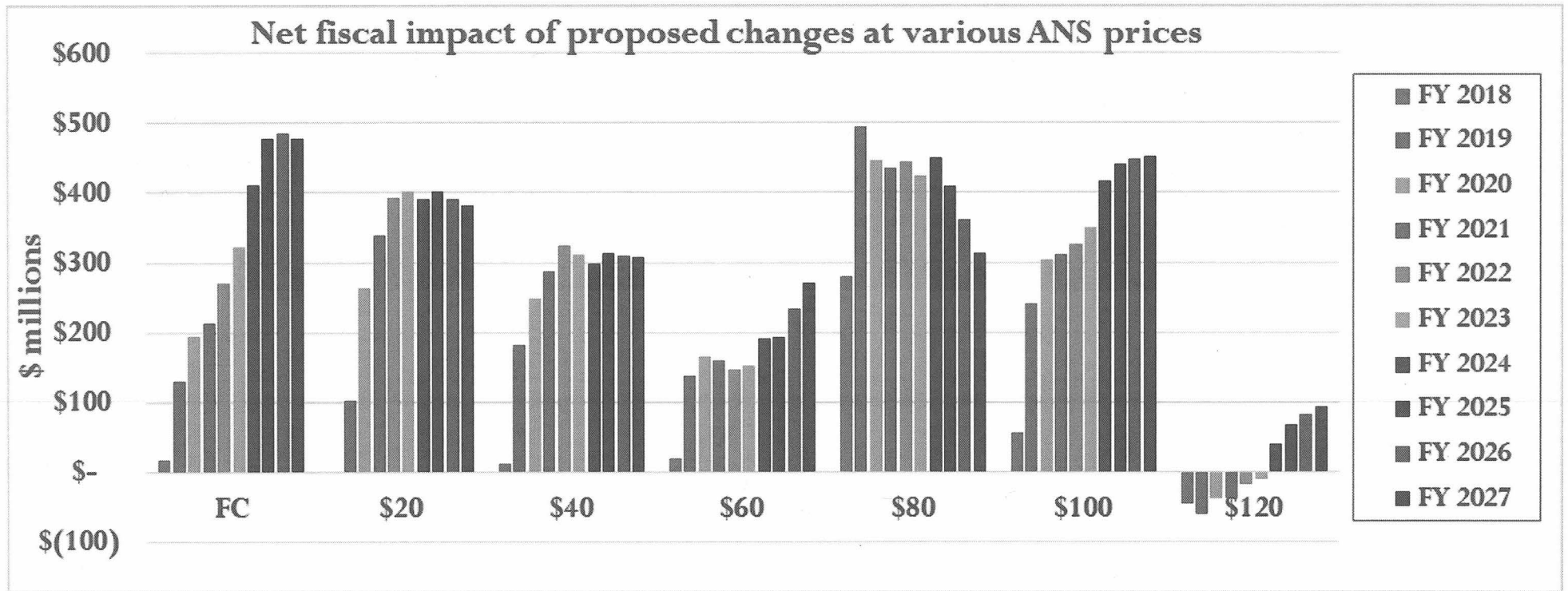
Revised 4-7-17 by Dept. of Revenue

Description of Provision	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
1. Effective 1/1/18, Operating loss credit eliminated for North Slope and replaced with carry-forward lease expenditures provision. A company may carry forward 100% of North Slope lease expenditures not deducted against tax, but can only use to offset gross value from the lease or property whre earned. After 7 years, carry-forward reduced by 10% of original value each year.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2. Only small producer credits can reduce tax below the minimum tax effective 1/1/18.	\$20	\$15	\$0	\$0	\$0	\$0	\$0	-\$10	-\$25	-\$5
3. Existing minimum tax rates retained, and GVR reduces basis for minimum tax, effective 1/1/18.	\$0	\$0	\$0	\$0	-\$5	-\$5	\$0	\$0	\$0	\$0
4. Effective 1/1/18, base tax rate for North Slope changed from 35% of PTV to 25%; an additional 15% progressive surcharge applies to that portion of PTV above \$60 per barrel.	\$0	-\$10	-\$10	-\$15	-\$20	-\$20	-\$35	-\$45	-\$60	-\$70
5. Sliding scale per-taxable-barrel credits eliminated, effective 1/1/18.	\$5	\$210	\$185	\$250	\$340	\$405	\$510	\$610	\$630	\$620
6. Gross value at point of production (GVPP) cannot go below zero effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7. Interest on delinquent taxes continues to accrue after 3 years, retroactive to 1/1/17.	Indeterminate - likely positive for state.									
8. Eliminate 30% GVR option effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional impact of implementing above provisions together vs standalone.	-\$5	-\$130	-\$85	-\$135	-\$170	-\$190	-\$200	-\$215	-\$200	-\$210
Total Revenue Impact	\$20	\$85	\$90	\$100	\$145	\$190	\$275	\$340	\$345	\$335
A. Budget impact of operating loss and carry-forward lease expenditures changes effective 1/1/18.	\$0	\$45	\$105	\$115	\$125	\$135	\$135	\$140	\$140	\$140
B. Budget impact of only small producer credits can reduce tax below minimum tax effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
C. Budget impact of minimum tax changes effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
D. Budget impact of North Slope tax rate changes effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
E. Budget impact of eliminating sliding scale per-taxable-barrel credits, effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
F. Budget impact of GVPP cannot go below zero effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
G. Budget impact of interest accrual changes, retroactive to 1/1/17.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
H. Budget impact of eliminating 30% GVR option effective 1/1/18.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional impact of implementing above provisions together vs standalone.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Budget Impact	\$0	\$45	\$105	\$115	\$125	\$135	\$135	\$140	\$140	\$140
Total Fiscal Impact - (does not include potential changes in investment)	\$20	\$130	\$195	\$215	\$270	\$325	\$410	\$480	\$485	\$475
Tax impact of carry-forward lease expenditure balances - current law	\$14	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tax impact of carry-forward lease expenditure balances - proposed	\$90	\$150	\$225	\$280	\$335	\$390	\$455	\$520	\$580	\$640
Change in year-end balance due to proposal	\$76	\$150	\$225	\$280	\$335	\$390	\$455	\$520	\$580	\$640

NOTE: The fiscal impact of this proposal is an estimate based on the Fall 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes, and do not include any changes in company behavior as a result of this proposal. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Fiscal Analysis

Fiscal Note Table- impact at range of prices



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Thank You!

Contact Information

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CS HB 111(FIN)

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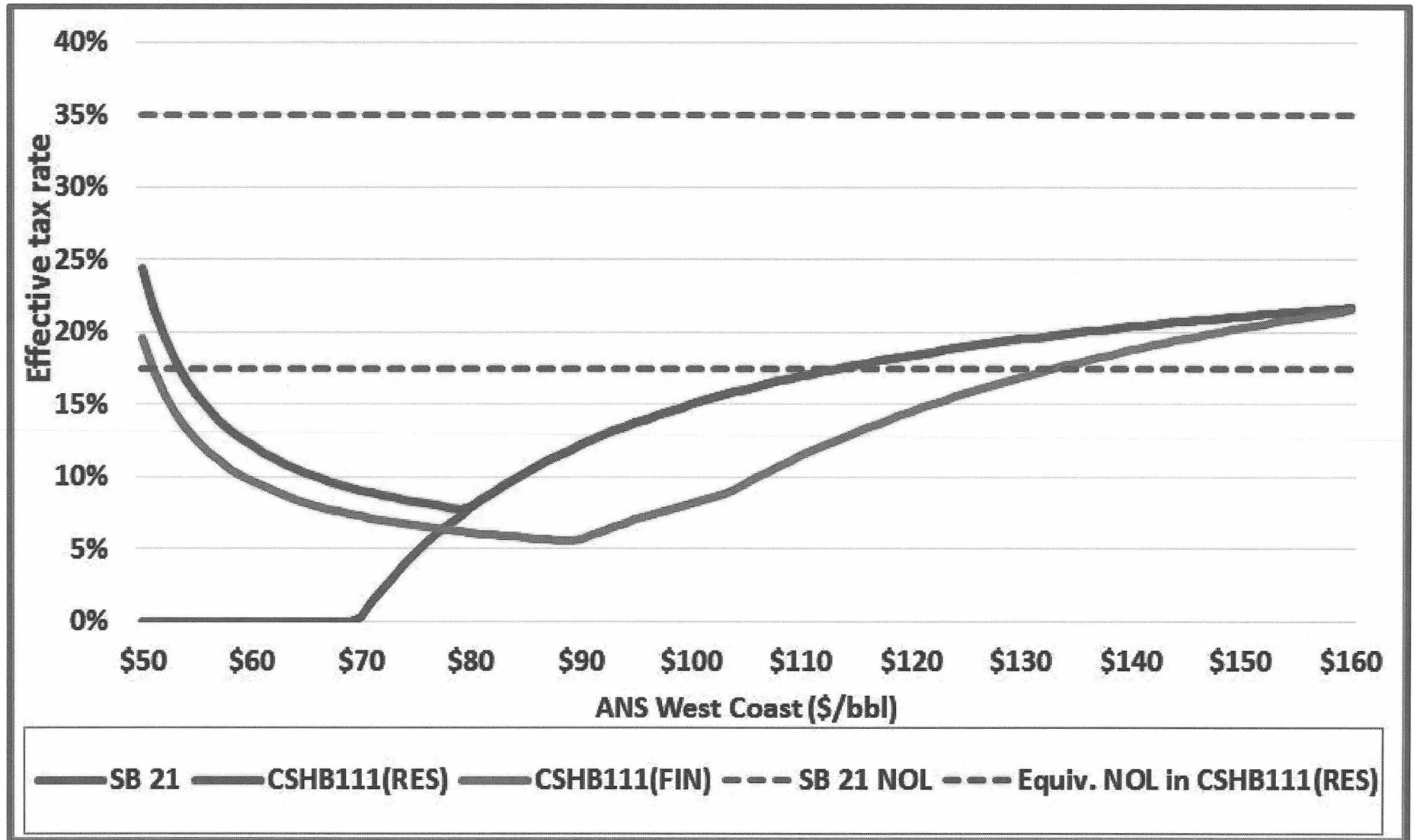
April 7, 2017



Fiscal Analysis

Effective Tax Rates (New / GVR oil)

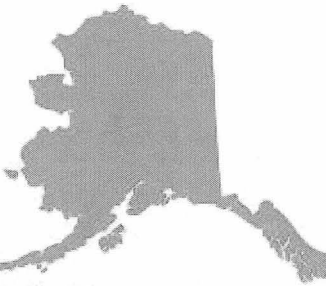
(add between slides 11 and 12 of presentation)



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Department of Revenue
Ken.Alper@Alaska.gov
(907) 465-8221

Evaluation of HB 111

Roger Marks

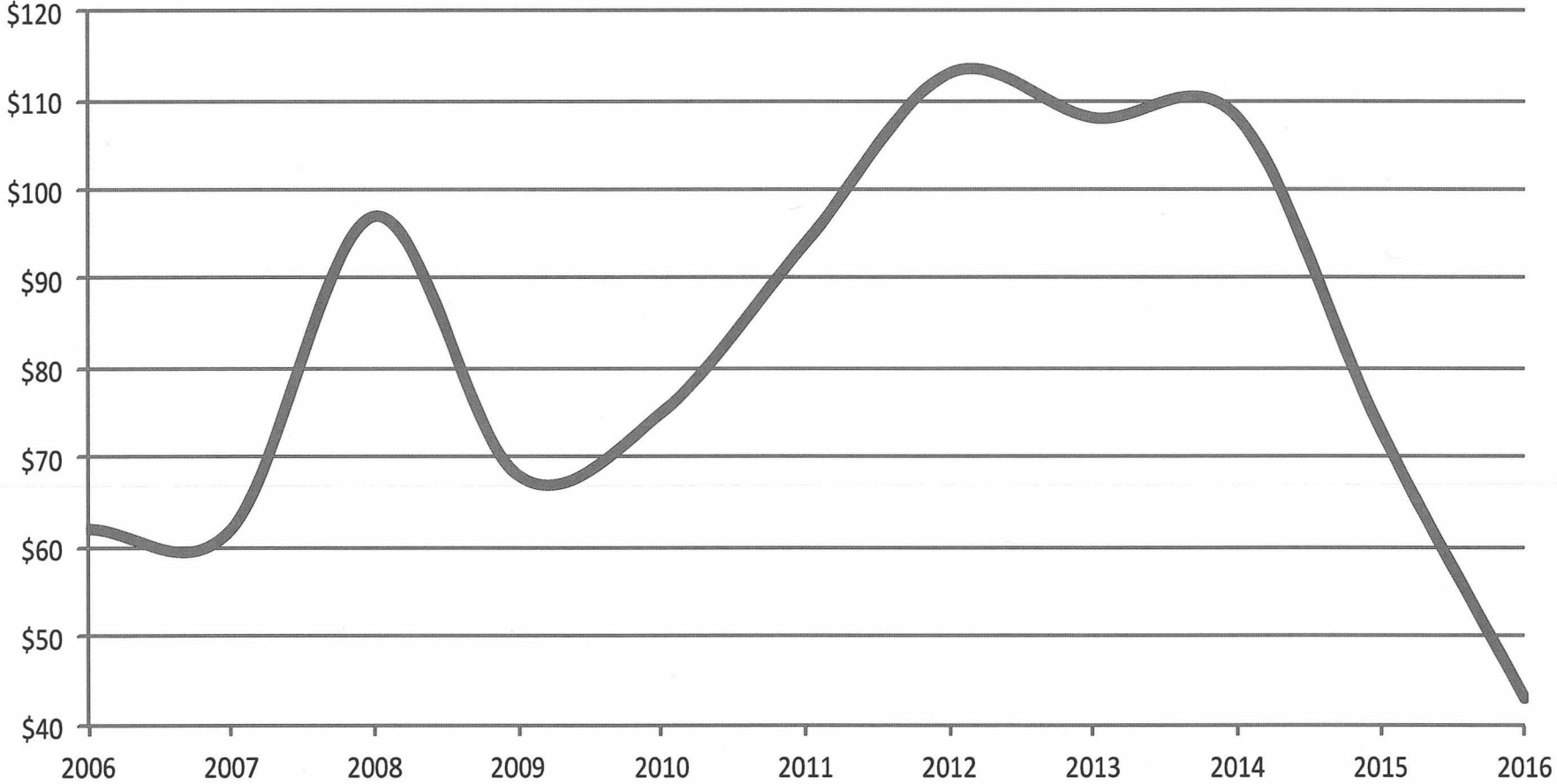
Senate Resource & Finance

April 15, 2017

Roger Marks - Background

- **Since 2008**: Private consulting practice in Anchorage specializing in petroleum economics and taxation
 - Clients include: State of Alaska Legislature, federal government, local municipalities, University of Alaska, oil and gas explorer/producers, pipeline companies, commercial/investment banks, private equity firms
- **1983-2008**: Senior petroleum economist with State of Alaska Department of Revenue Tax Division
 - Statutory and regulatory design
 - Economic and commercial valuation of exploration, development, production, transportation, refining, marketing, taxation
 - Analysis of international competitiveness
 - North Slope gas commercialization

North Slope Oil Price (\$/bbl) The Alignment of Misery



Two Themes

1. The alignment of misery:

- The state's budget woes from lower oil taxes are matched by the taxpayers' having less income to pay them

2. How is the misery of low prices allocated between State and taxpayers under SB 21 and HB 111?

Fair Share:

Understanding Impacts to All Parties

- State
 - Development of resources for maximum benefit of its people
- Taxpayers
 - Investor demands
 - Competitive opportunities
 - Cash flow constraints

Current North Slope Income Legacy Fields (Old Oil)

• <u>ANS Market Price (\$/bbl)</u>	\$55	
• Less Transportation		<u>(\$10)</u>
• <u>GROSS Revenue</u>	\$45	
• Less Upstream costs		<u>(\$23) *</u>
• <u>DIVISIBLE Income</u>	\$22	
• Less State Taxes & Royalties		(\$11)
• Less Federal Income Tax		<u>(\$4)</u>
• <u>PRODUCER after-tax net income</u>	\$7	

* DOR average estimate based on reported and audited costs. Including transportation, Alaska about \$5-\$15/bbl higher than average Lower 48 costs. Newer oil upwards of \$10-\$20/bbl more expensive.

Economic Barometer on Fair Share: “Government Take”

Defined: Percentage of divisible income that goes to government

Allows:

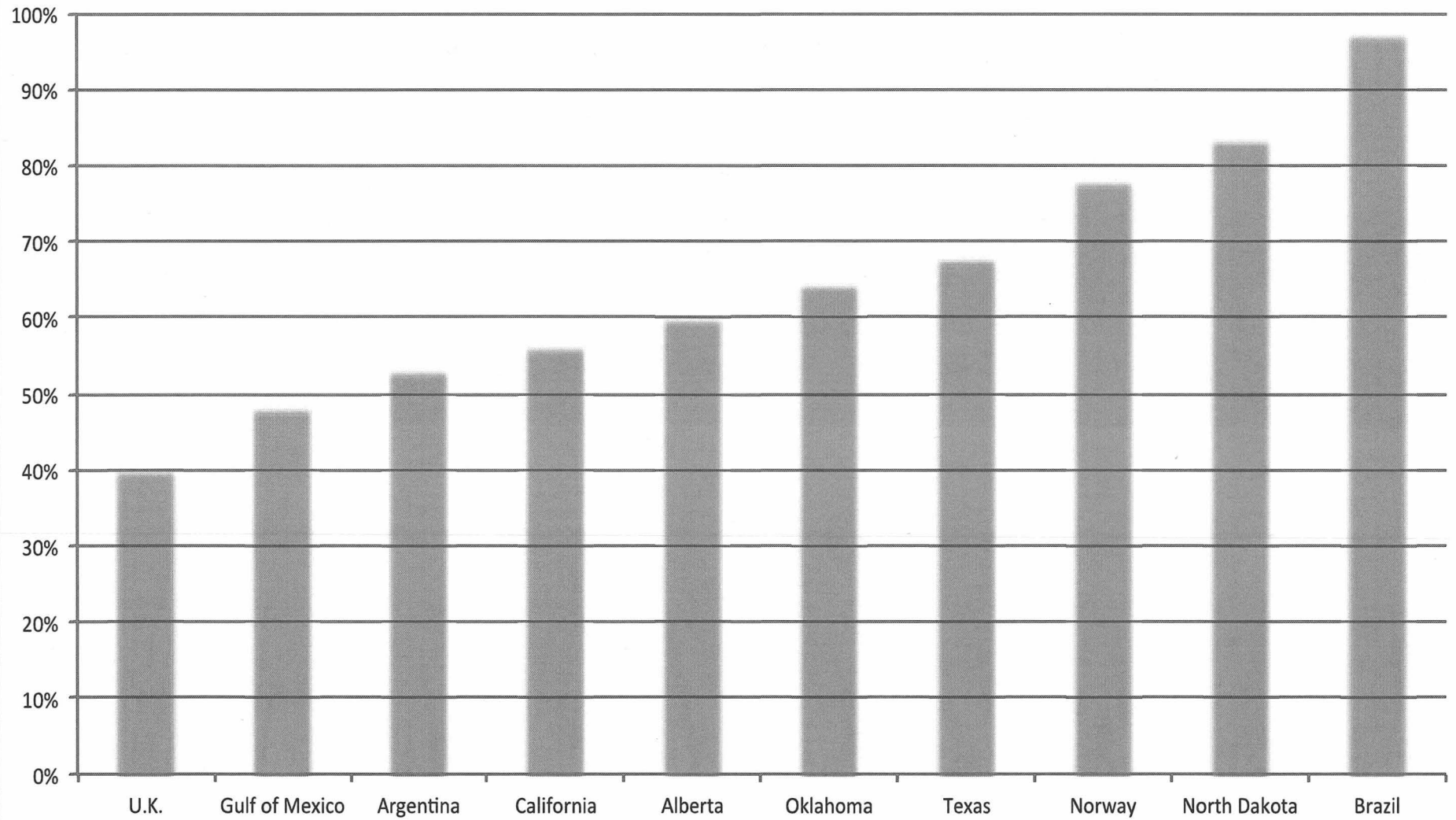
Look at tax on its own terms

Systematic comparison to other similar jurisdictions

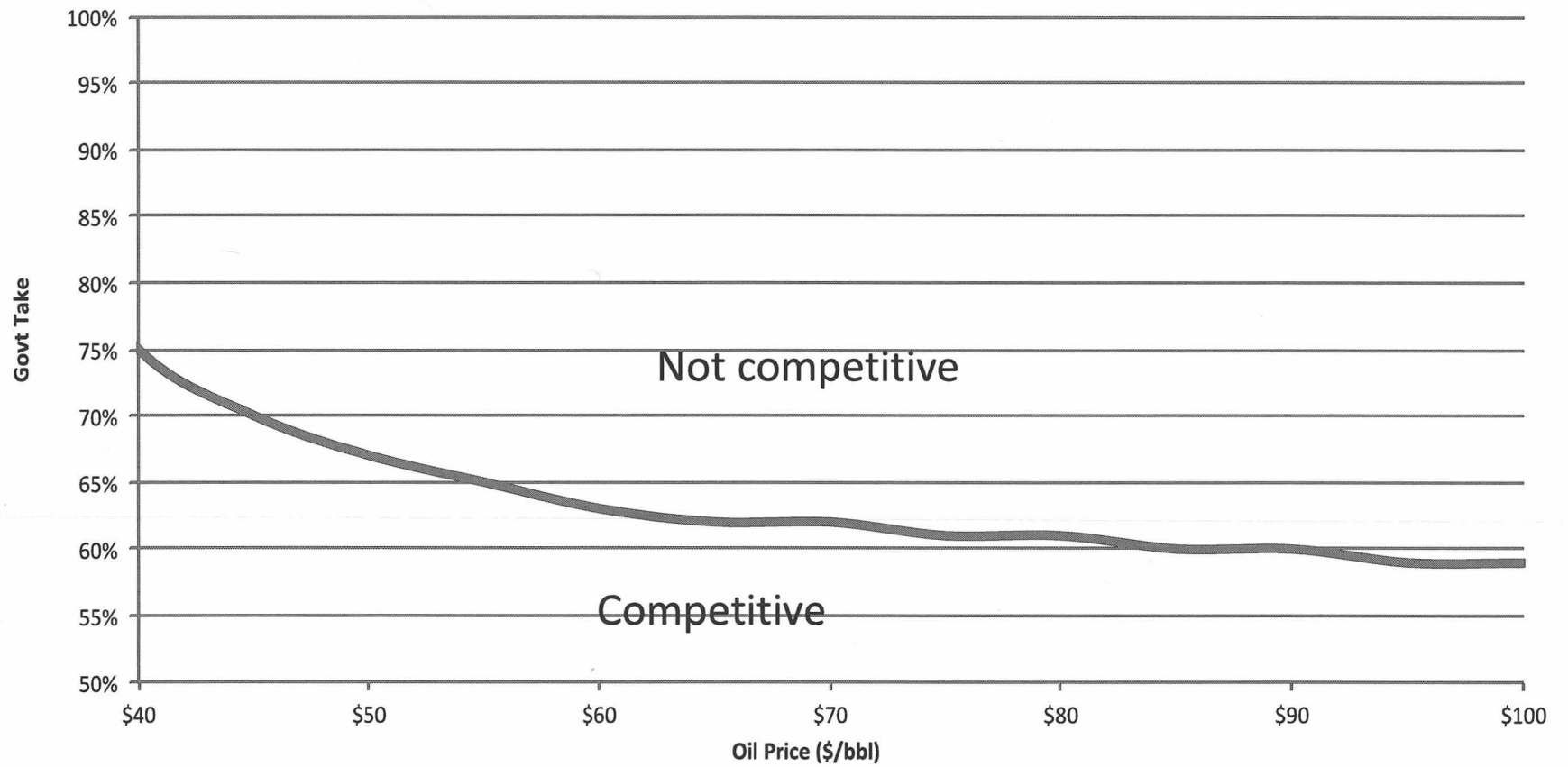
Compare proposal to status quo

Looks at all taxes / royalties

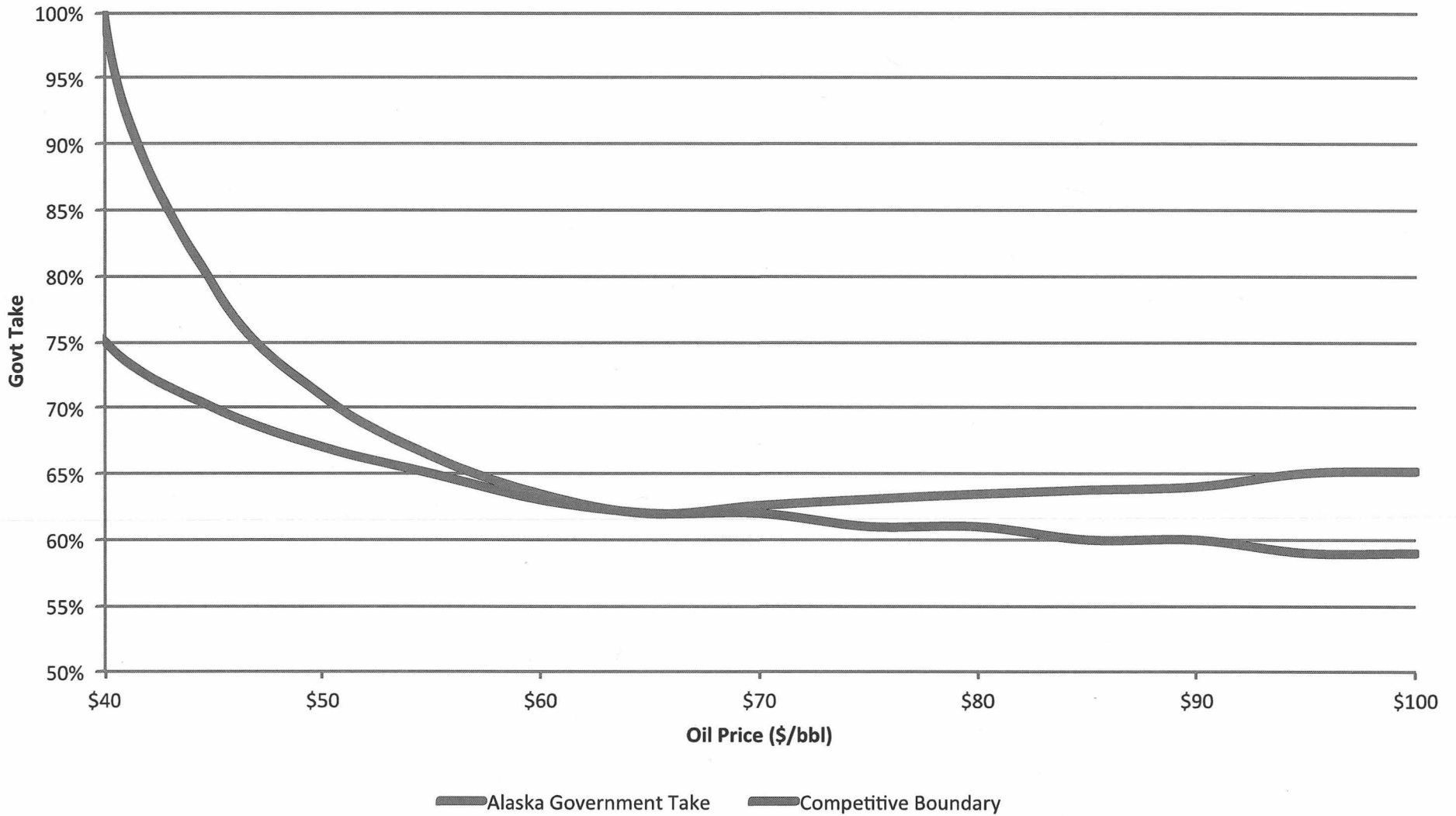
Government Take @ \$55/bbl Market Price



Government Take Competitive Boundary



Government Take SB 21 (Legacy Fields)



At \$55/bbl every 1% change in take is worth about 40 cents/bbl in producer after-tax income

Calculation of SB 21 Tax

Higher of

– Net calculation

OR

– Gross Minimum Tax (market price less transportation):

4% of gross*

Can use loss carryforward credits to bring tax below gross minimum

* Legacy fields are on gross minimum tax until about \$65/bbl

Basic Net Calculation for North Slope Legacy Fields (Old Oil)

Net calculation:

35% X Net Value

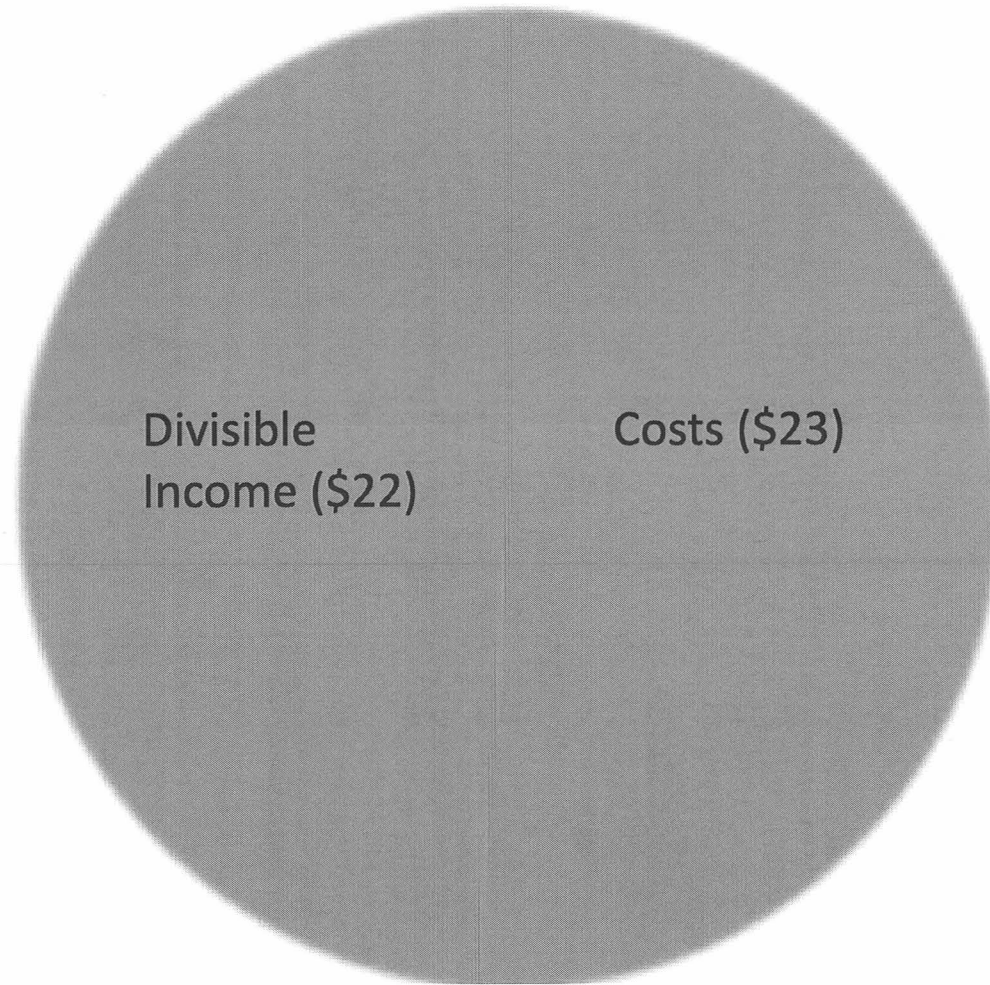
less sliding scale per barrel produced credit

Sliding Scale Credit Per Barrel Produced Calculation : Legacy Fields

- Gross value less than \$80/bbl: \$8/bbl
- \$80-\$90/bbl: \$7/bbl
- \$90-\$100/bbl: \$6/bbl
- \$100-\$110/bbl: \$5/bbl
- \$110-\$120/bbl: \$4/bbl
- \$120-\$130/bbl: \$3/bbl
- \$130-\$140/bbl: \$2/bbl
- \$140-\$150/bbl: \$1/bbl
- Over \$150/bbl: \$0/bbl
- For old oil cannot use credit to bring tax below gross minimum tax

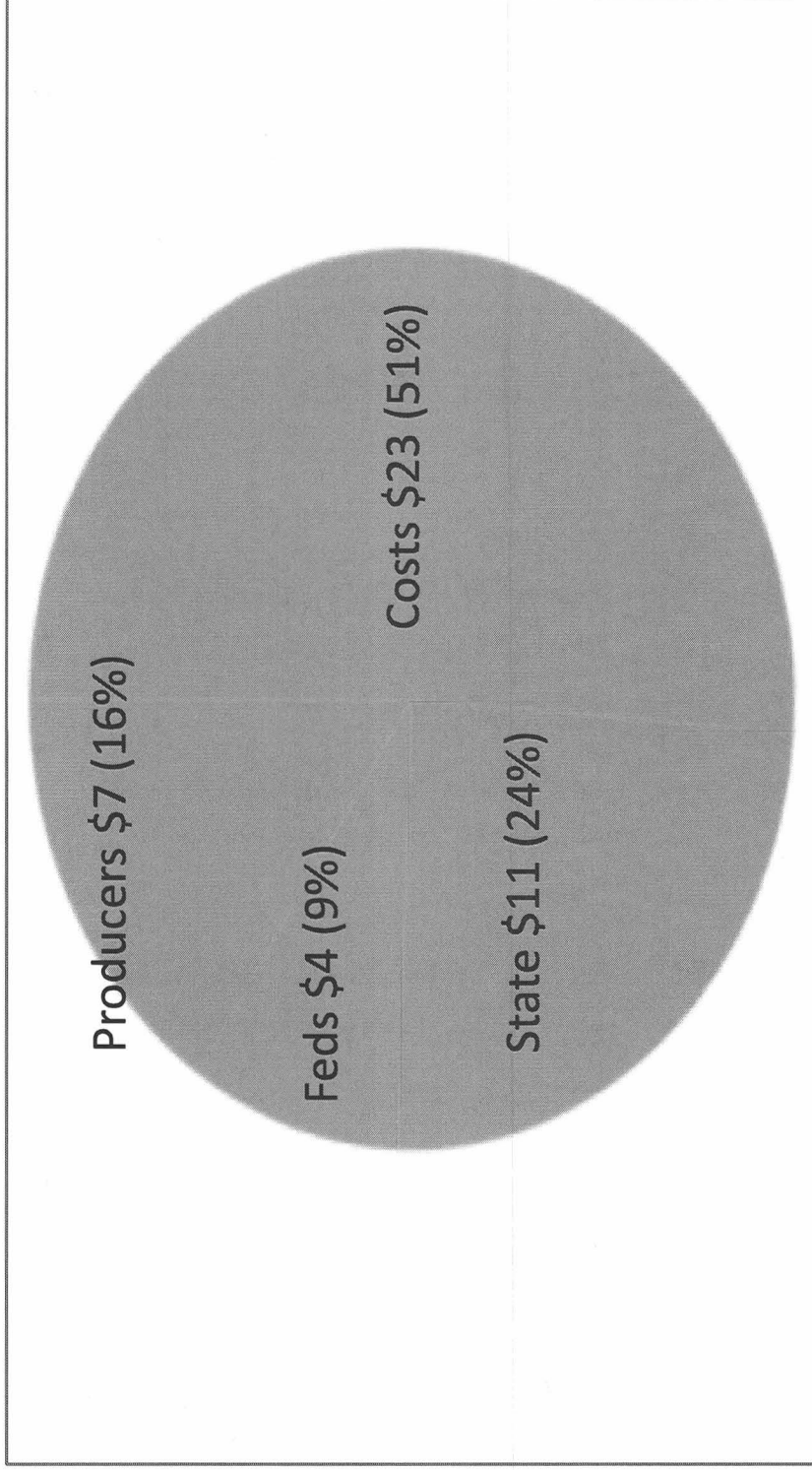
The \$45/bbl Gross Pie

(\$55/bbl market price)



With gross as the basis, half of the royalty is a payment on cost

The \$45/bbl Gross Pie (\$55/bbl market price)



January 2016: The \$20/bbl Gross Pie

(\$30/bbl market price)

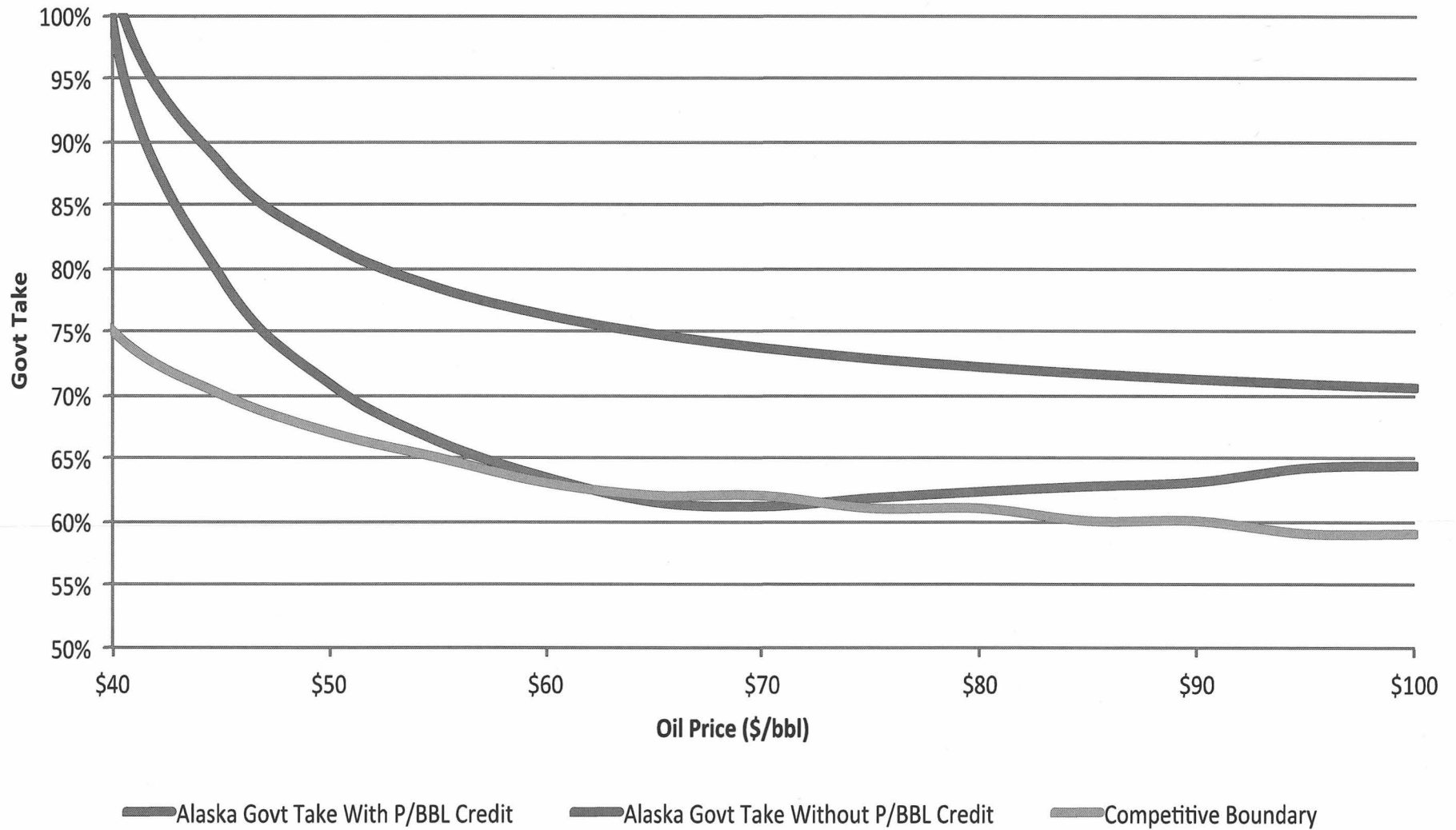
Costs	\$23/bbl	(115%)
State	\$4/bbl	(20%)
Feds	-\$2/bbl	(-10%)
Producers	-\$5/bbl	(-25%)

- Taxpayers pay 16% of \$20, plus property tax, while they are \$3 in the hole
- Government take is off the charts (**Slide 10**)

Disadvantage of Taxes & Royalties Based on Gross (vs. Net)

- Ever increasing gross/net value divide
- Net more reflective of actual economics
 - Under gross a field with \$20/bbl costs is taxed the same as a field with \$50/bbl costs
 - A net system automatically adjusts
- Some other jurisdictions do tax on gross
 - Alaska's high costs exacerbate the problem
- At prices under \$65/bbl Alaska essentially operating on a gross system

Govt Take With & Without Per Barrel Credit - SB 21 Legacy Fields



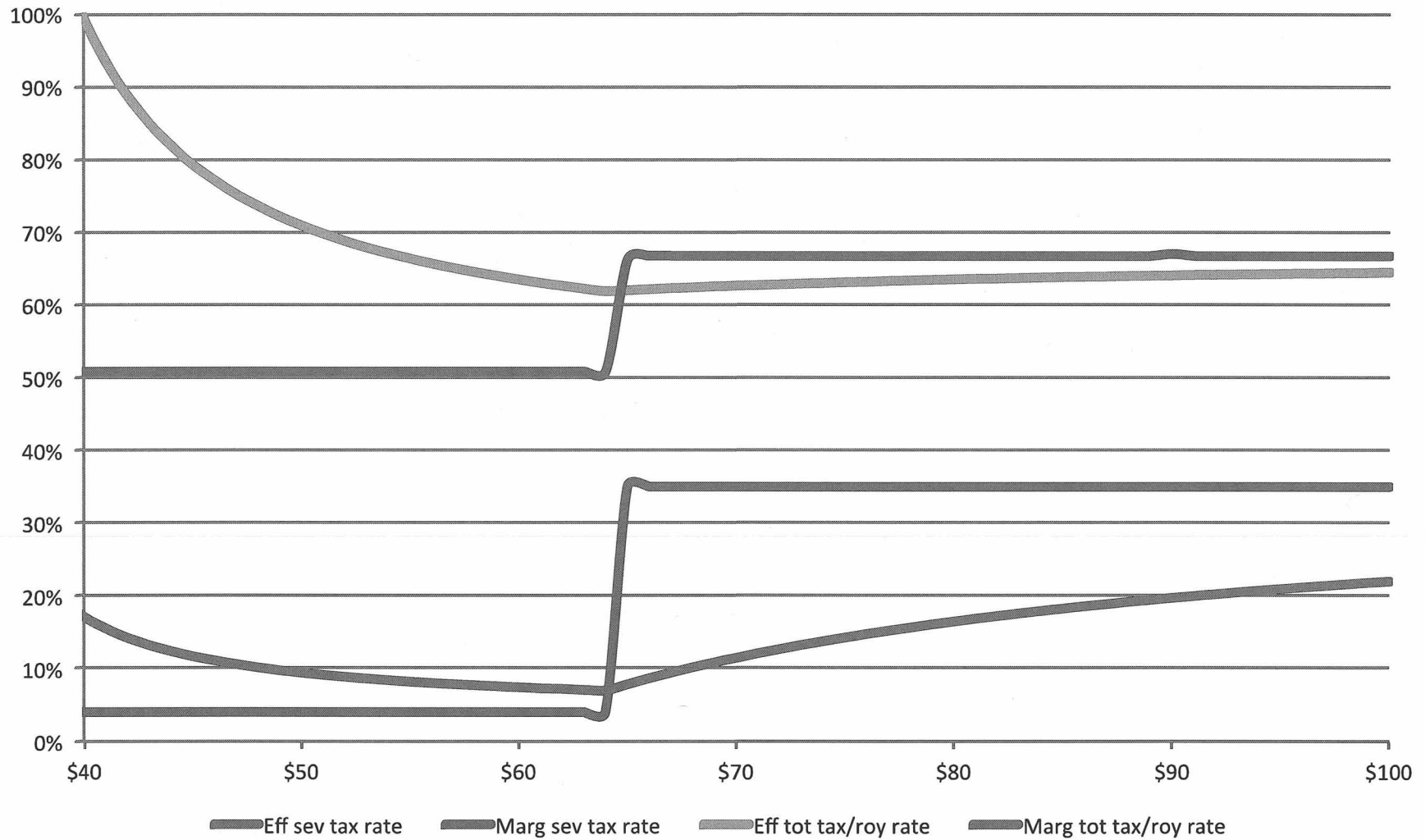
Summary: Sliding Scale Per Barrel Produced Credit

- Adjustment of effective tax rate to offset high royalty at low prices
- Economically should not be considered a credit or called a credit
- An important feature

Tax Rate Vocabulary

- Statutory Rate:
 - Nominal rate in tax code applied to some base that may be increased or decreased by other factors
- Effective Rate:
 - Tax as percentage of pre-tax income (divisible income)
- Marginal Rate:
 - How much additional tax is when price goes up \$1
- Can look at the production tax in isolation or all taxes and royalties as a whole
- Investor economics depend on the total payments to government without regard to specific sources

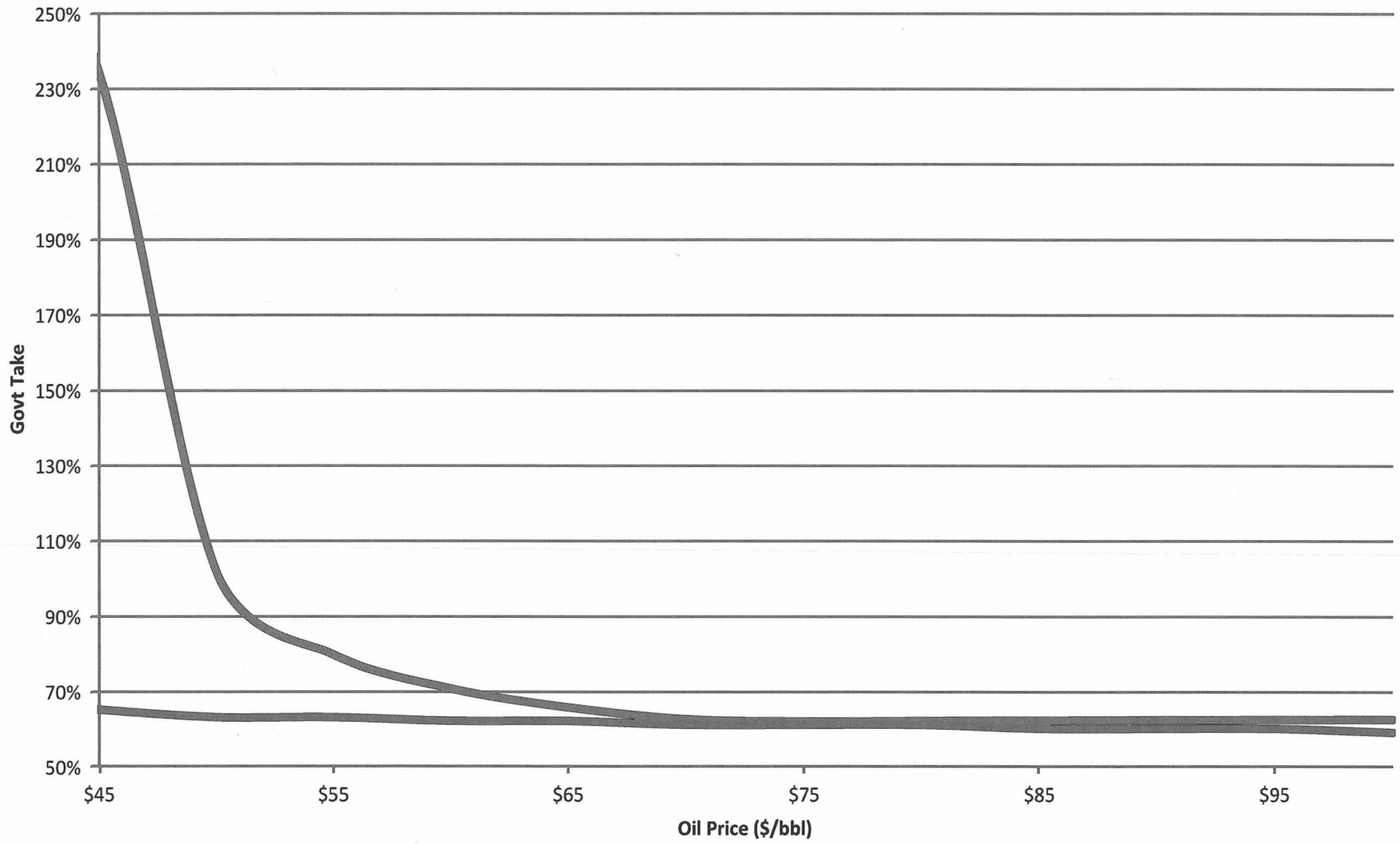
Effective and Marginal Prod Tax & Total Tax/Roy Rates - SB 21



New Oil

- Defined
 - Units created after 2002
 - Fields in older units created after 2011
 - Extensions of existing fields
 - About 5%-10% of total oil
- Can cost \$10-\$20/bbl more than legacy fields
- Differential tax provisions
 - Gross reduced by 20% in calculating production tax value
 - (Reduced by 30% for high royalty fields)
 - Per barrel credit set at \$5/bbl at all prices
 - Can use per barrel credits and loss carryforward credits to bring tax below gross minimum tax

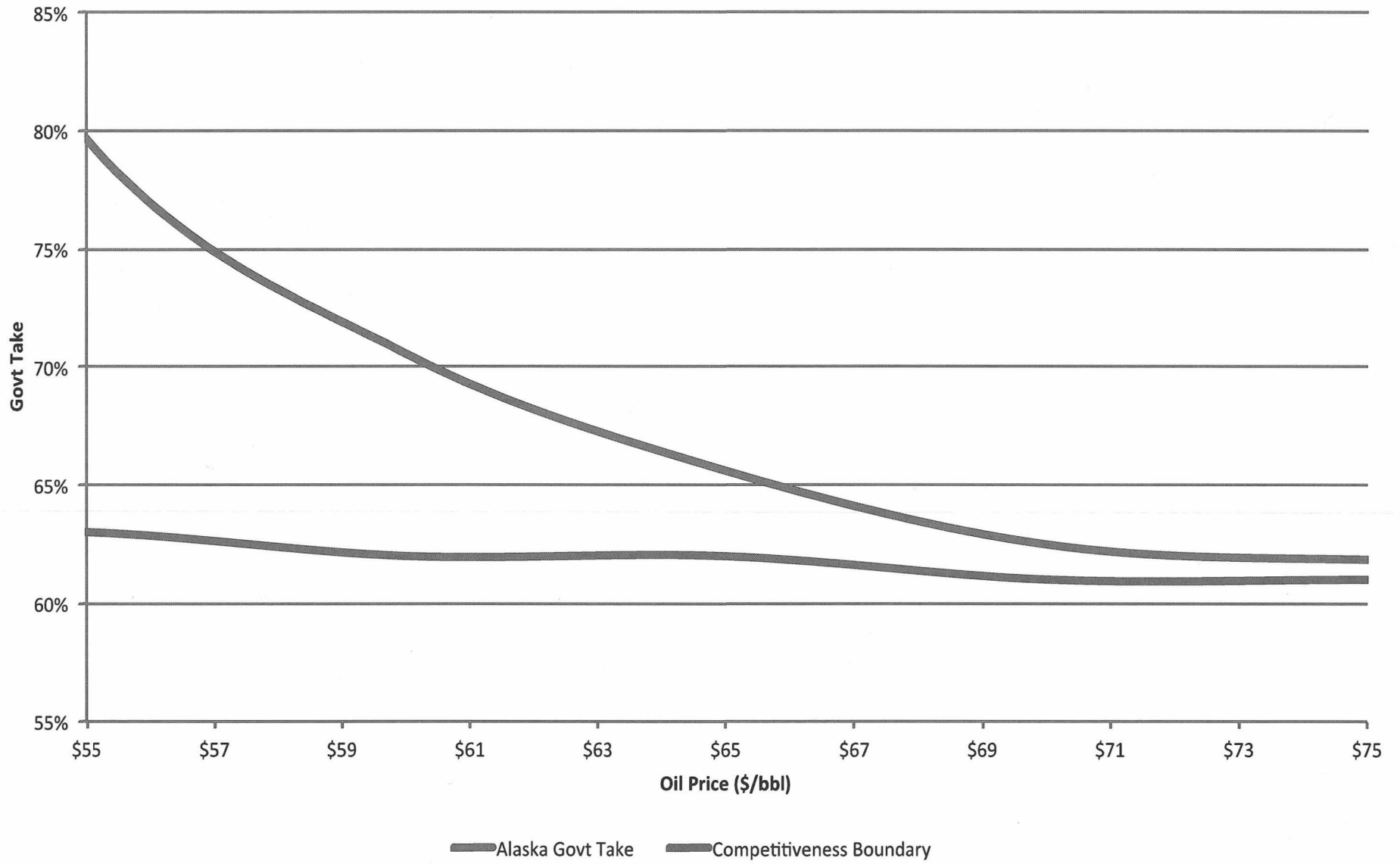
Govt Take for New (GVR) Oil - SB 21



— Alaska Govt Take — Competitiveness Boundary

Govt Take for New (GVR) Oil - SB 21

Focus on \$55-\$75



Major Economic Provisions of HB 111

North Slope

- Floor hardened to gross minimum tax
- No per barrel credits for legacy fields
- Base rate on net reduced from 35% to 25%
- Progressivity after ptv exceeds \$60
- Fields are ring-fenced for exploration/development
- Elimination of refundable credits
- After 7 years losses carried forward lose 10%

Ring Fencing / Refundable Credits

- PPT was set up in 2006 to ring fence a company's operations North Slope-wide
 - A company with production could offset its exploration / development costs
 - This provided a very significant net present value benefit
- Refundable credits were originally designed to put explorers/developers on an even basis with producers
 - A company with no offsetting income could realize the tax value of expenditures in the same timely manner
- By ring fencing exploration / development separately and eliminating the refundable credits, the net present value of exploration / development costs are significantly diminished to **everyone**
- The state's cash affordability of refundable credits is an issue
- The way most of the rest of the world does it:
 - In many places company operation's are ring-fenced jurisdiction-wide on income-based taxes
 - Explorers / developers carry their losses forward without refundable credits until they have offsetting income

Reduction of Carried Forward Losses After 7 Years

- If losses are incurred and not deducted:
 - Production tax value artificially elevated
 - Application of the nominal tax rate will result in an artificially elevated tax
- Punishes taxpayers for delays not of their doing

Hardening the Floor

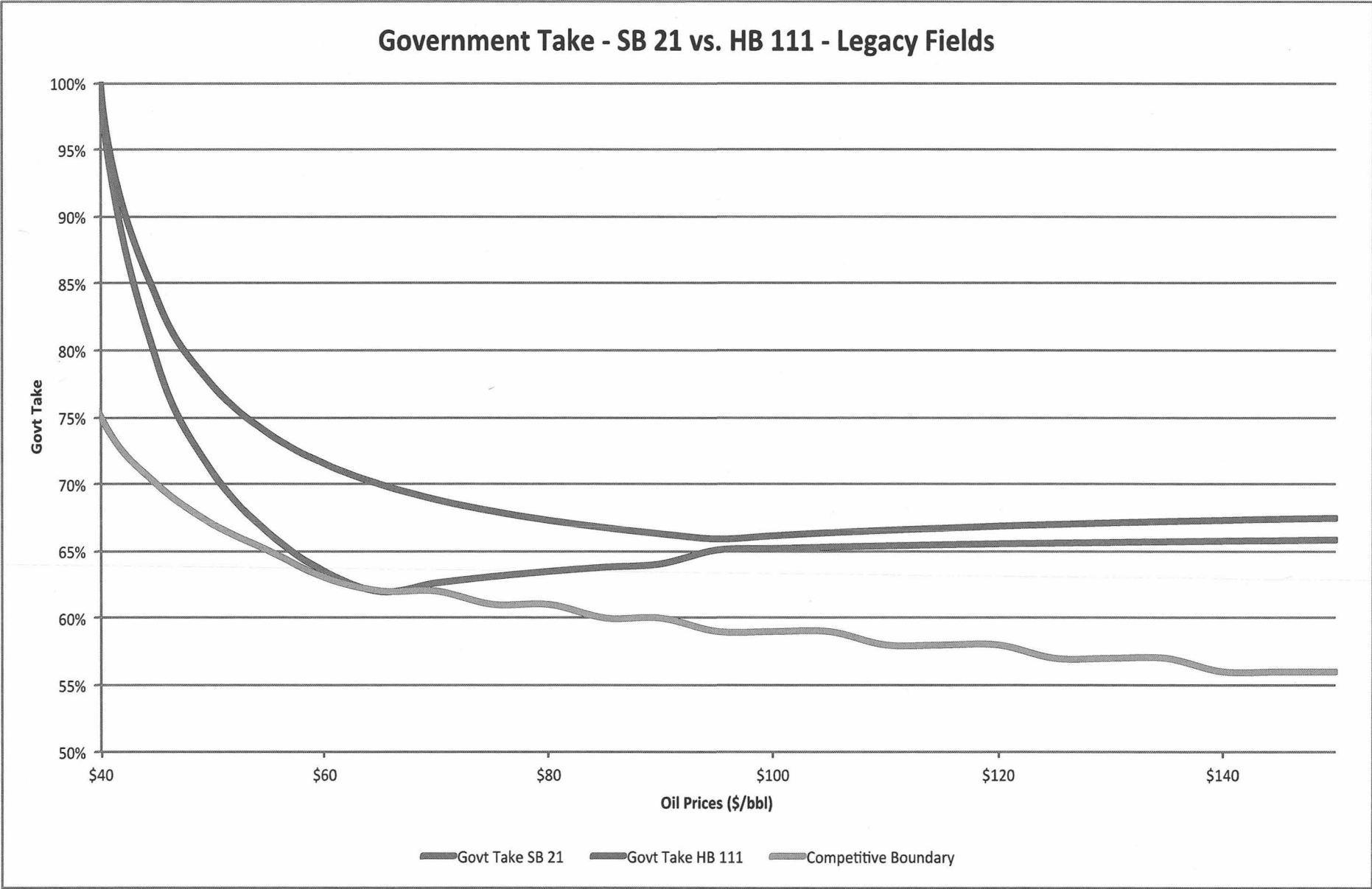
- Losing costs
 - Suppose gross value is \$21/bbl
 - Suppose upstream costs are \$25/bbl
 - So there is a \$4/bbl loss
 - There are two parts to the \$25/bbl cost:
 - Part that took income down to zero (\$21/bbl)
 - The other part that took income below zero (\$4/bbl). This is the loss.
 - When paying on the gross minimum tax, by hardening the floor, and carrying the losses forward, only those latter costs get recovered. The former never do.
- January 2016 Situation **(Slide 16)**:
 - With the hard floor, taxpayers would have been \$3 in the hole, then paid royalties and property tax, and then paid production tax.

Section 21: Gross Value May Not Be Less Than Zero

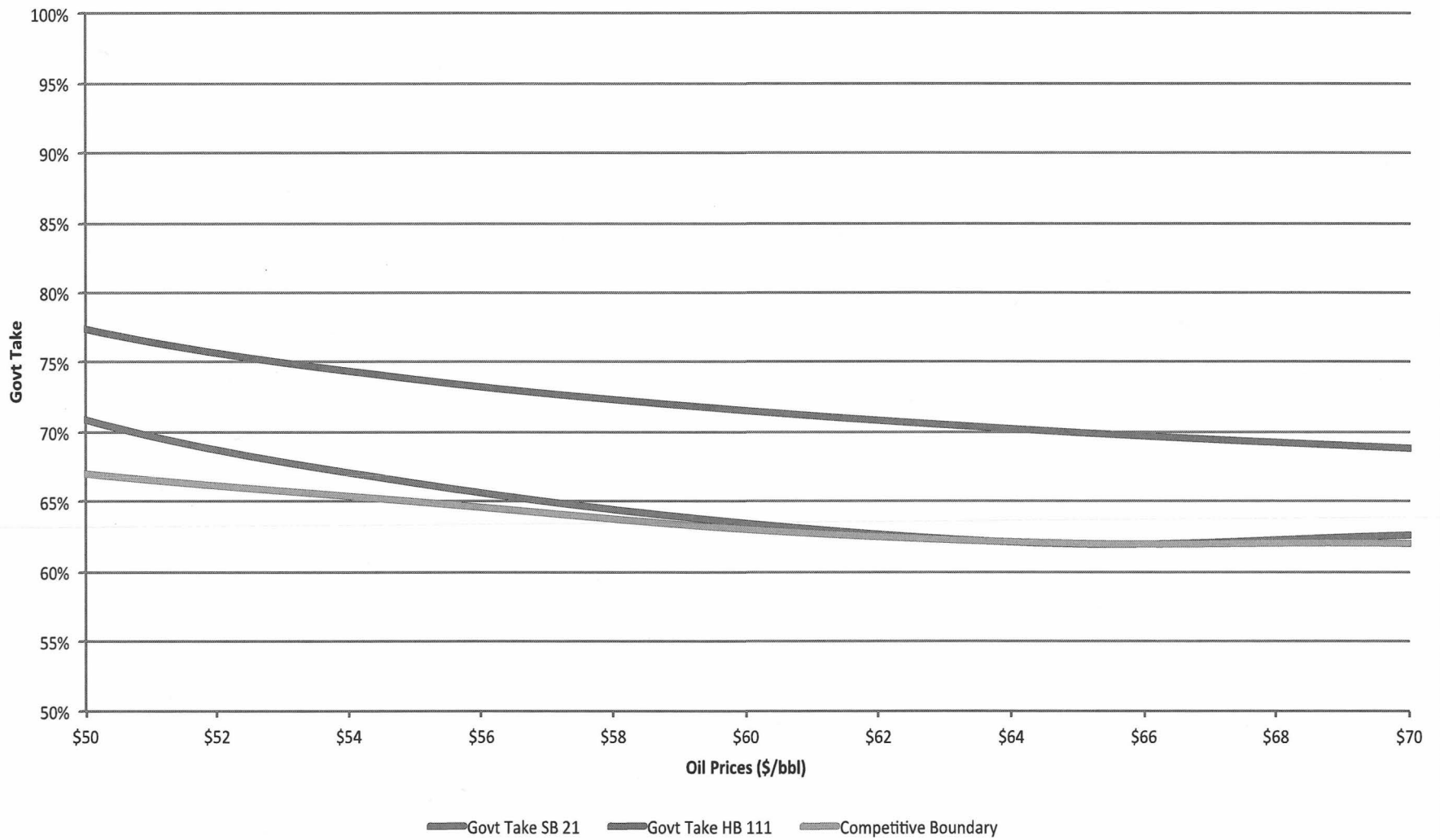
- High pipeline costs are not a trivial occurrence
 - Pt Thomson, Smith Bay, etc.
- In circumstances of high pipeline costs and low prices gross value could be less than zero
- Production tax value (ptv) is gross value less upstream costs
- Losses are negative production tax value
- If gross value has a floor of zero, those costs that brought ptv below zero are never recovered

Government Take: Legacy Fields

Government Take - SB 21 vs. HB 111 - Legacy Fields

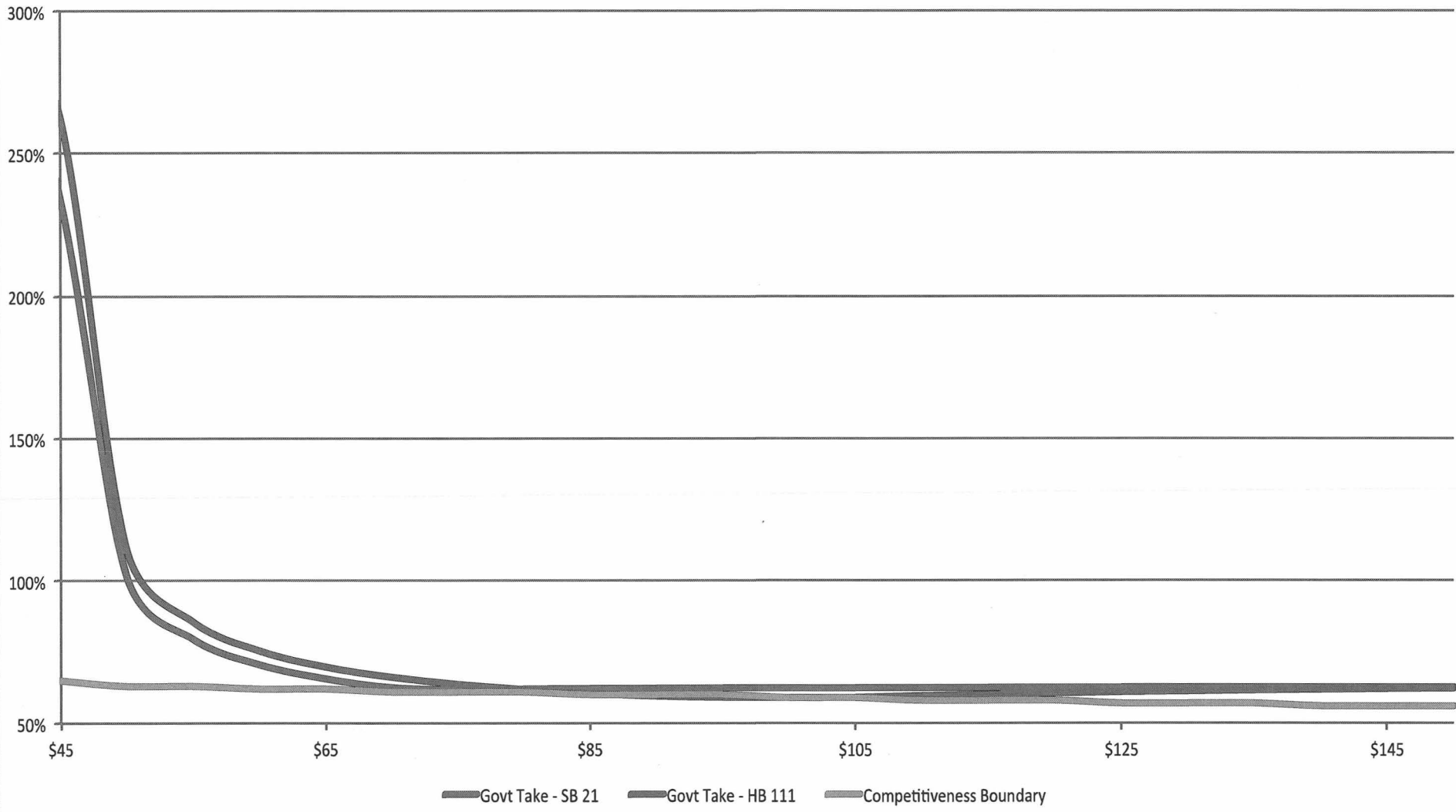


Government Take - SB 21 vs. HB 111 - Legacy Fields Focus on \$50-\$70

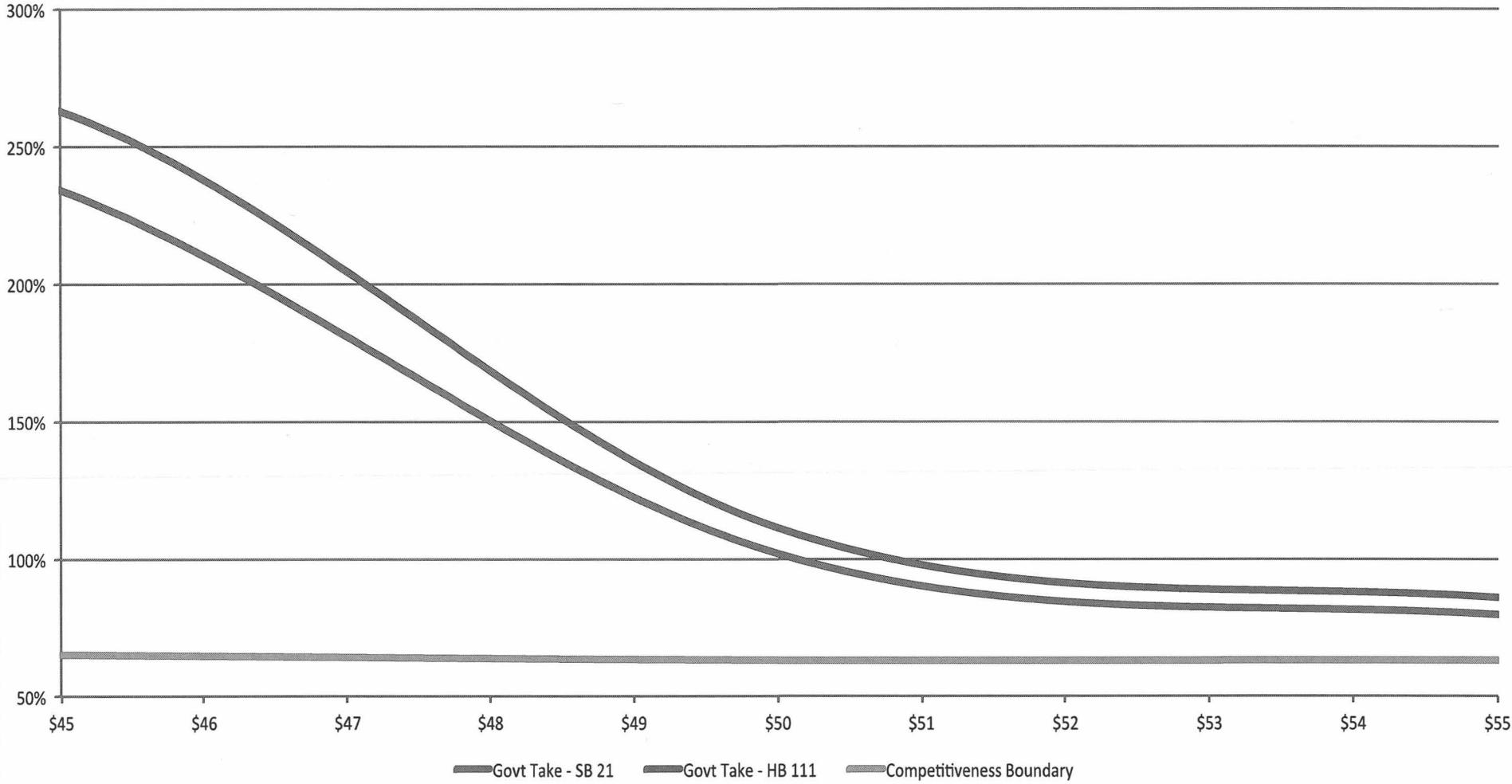


Government Take: New (GVR) Oil

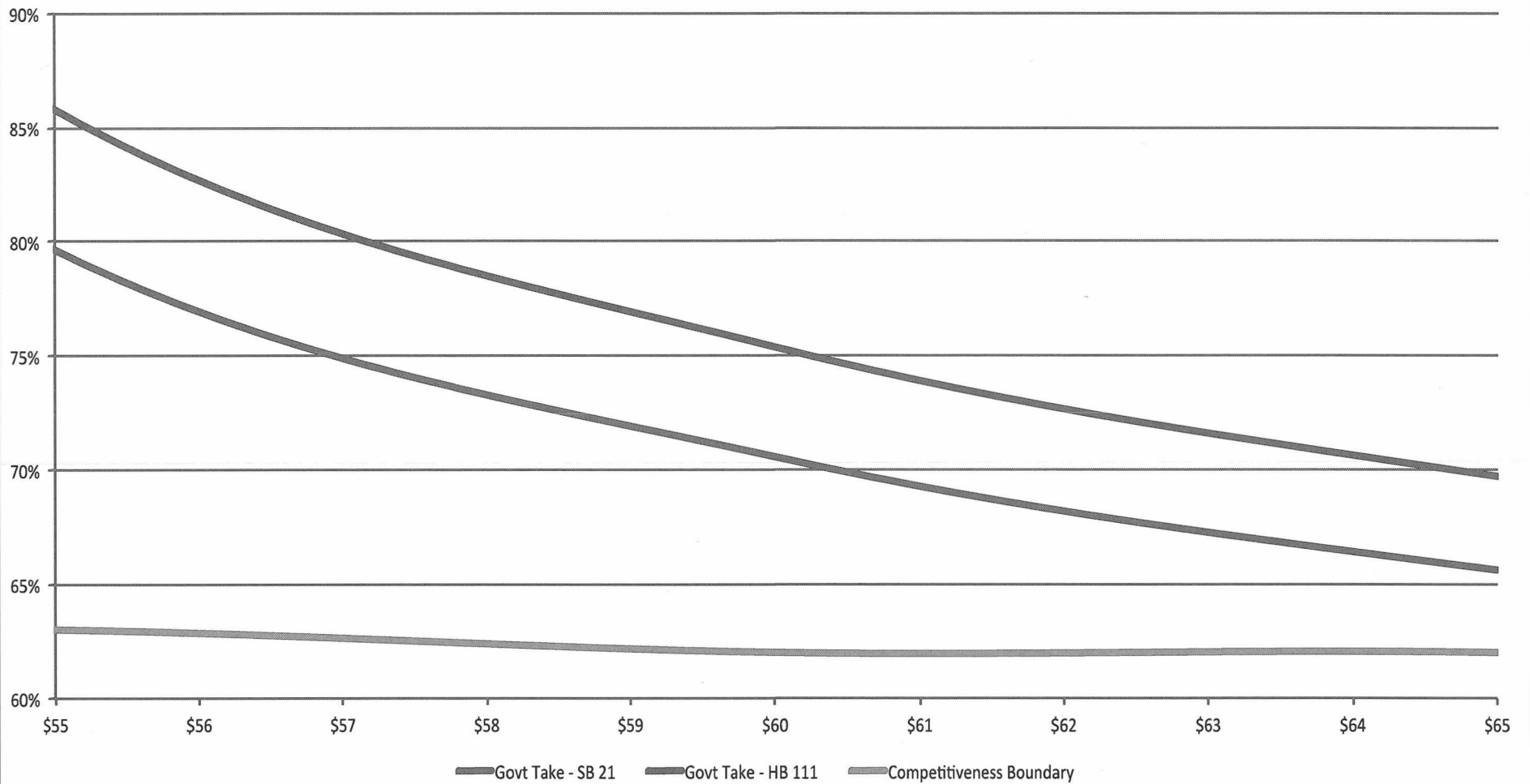
Government Take - New (GVR) Oil - SB 21 vs. HB 111



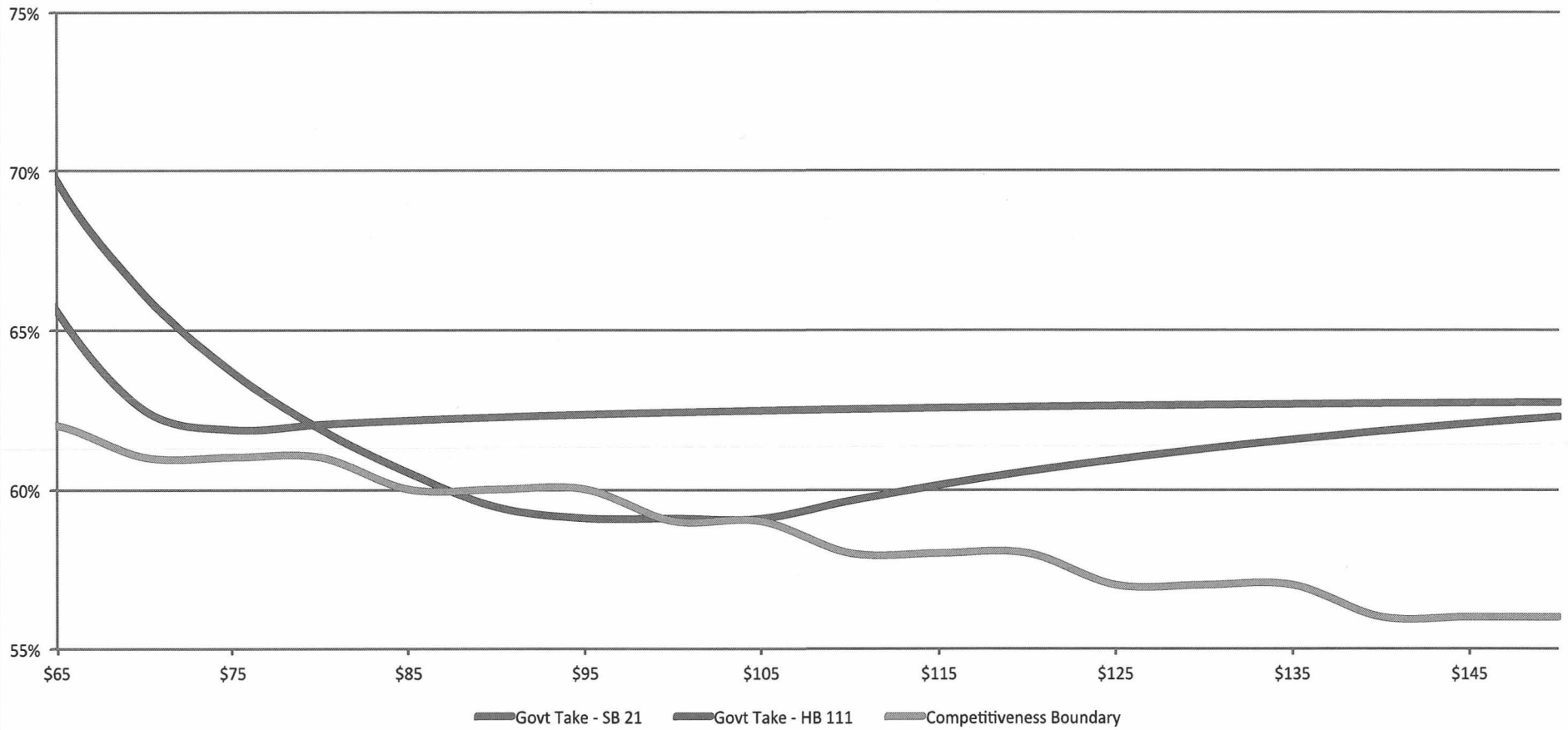
Government Take - New (GVR) Oil - SB 21 vs. HB 111 Focus on \$45-\$55



Government Take - New (GVR) Oil - SB 21 vs. HB 111 Focus on \$55-\$65



Government Take - New (GVR) Oil - SB 21 vs. HB 111 Focus on \$65-\$150



Observations on Gross & Net Taxation

- Gross value is higher than net value
- Gross tax rates will generally be lower than net tax rates
- At low prices net value will be small and gross taxes will generally be higher than net taxes
- As prices increase, and costs become an increasingly smaller share of gross value, net taxes will generally be higher than gross taxes

Conclusion

- Notwithstanding the havoc low prices have played with the state budget
- How is the misery of low prices allocated between State and taxpayer?
- Generally there is a basic risk/reward symmetry in the world between how investors and governments share downside risk and upside potential **(Slide 30)**
- Alaska appears at odds with the general pattern



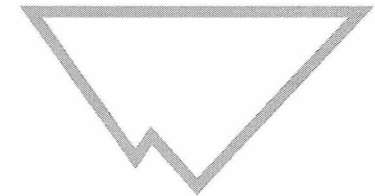
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907-250-1197

Petroleum Fiscal Design HB 111

CASTLE**GAP**



Castle Gap Advisors, LLC.

April 15, 2017

Senate Resources/Finance Committees

CASTLE**GAP**

Agenda

- Consultant experience, perspective and role
- Stage setting concepts
- Review of main economic points of HFIN CS for HB111

EXPERIENCE, PERSPECTIVE & ROLE

Experience and Perspective

- Combined over 40 years of energy industry experience
 - Engineer to Senior Management at major oil company with roles in operations, regulatory compliance, commercial and large project development
 - Executive at recognized consultancy with a primary role related to providing overall petroleum and fiscal system design advice to governments and national oil companies
 - Executive at one of the top three oil field service companies

- Fiscal Background
 - Designed or redesigned petroleum fiscal systems for multiple countries
 - From new emerging countries like East Timor with no prior energy infrastructure, to Iraq with extensive energy assets just emerging from years of war and conflict
 - Re-opening to foreign investors in Saudi Arabia and Kuwait
 - Master plans and production sharing contract design for Middle East, AsiaPac and Latin America countries
 - Multiple license rounds design and execution

Expertise

- We bring the experience of on the ground practitioners that have worked directly for over two dozen foreign governments and analyzed in depth dozens more
- We have built simple and complex models to aid in the understanding of optionality, risk management and decision making
- We have negotiated multi-billion dollar contracts with multiple governments as well as producers of all sizes
- We have upstream and midstream backgrounds, including LNG project development

OUR APPROACH

Our Approach to Fiscal Design

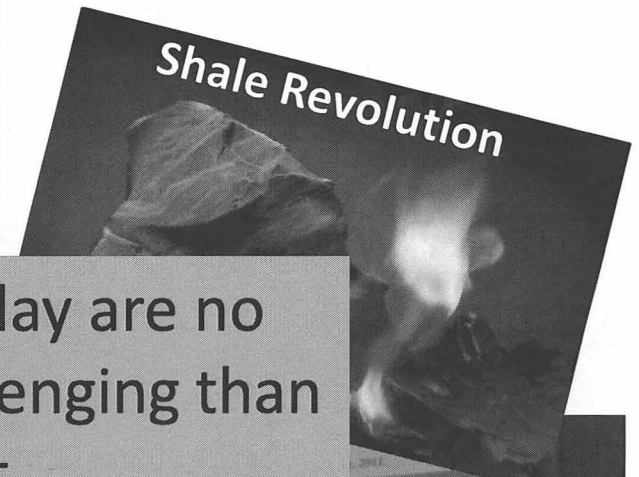
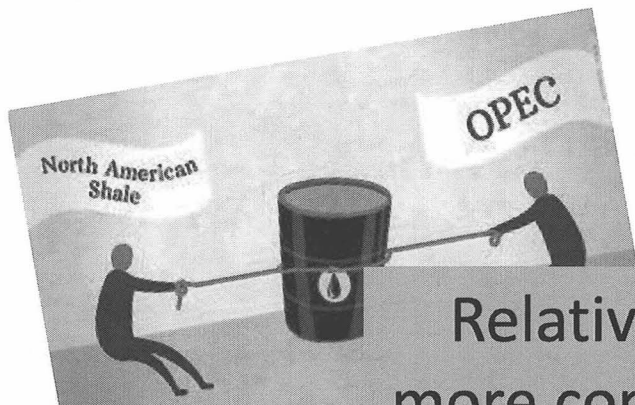
- First, understand from a high level or macro perspective the general landscape of oil and gas developments within country based fiscal systems
- Second, agree the drivers for any change to your existing fiscal structure
- Third, review multiple options played out in different future scenarios to improve chances of realizing goals
- Last, draw conclusions of competitiveness drawn from all aspects of a multifaceted system

Our 100,000 Foot Overview

- Use scenario planning to prepare for unexpected market changes
 - Now in the fifth down cycle of my career
- Change (in fiscal parameters) does not necessarily mean “instability”, but change in the “wrong direction” usually does
- Fiscal systems built for predicted future outcomes ‘fail’ sooner or later
 - Exemplified by triggers tied to specific, non-adjusting **terms like prices**
 - New trend is self-correcting terms
- For understandable reasons, sovereigns focus on the near term, many times putting longer term, more ‘profitable’ goals at risk

INDUSTRY BACKGROUND

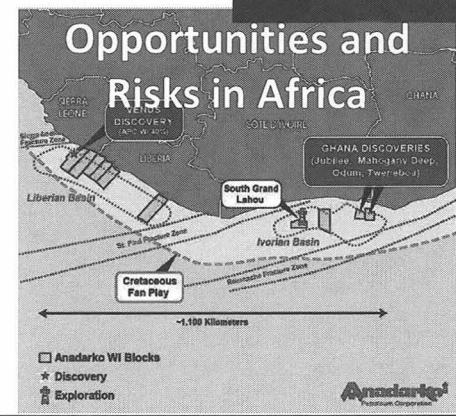
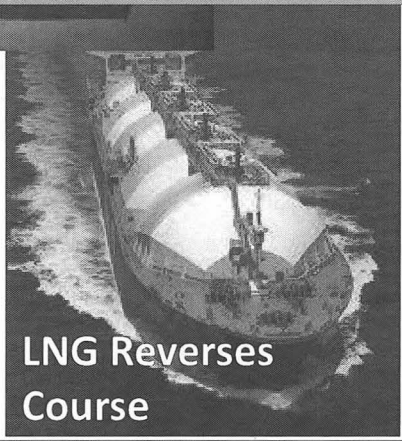
The Oil Patch's Only Constant Change!



Mexico Energy Reform

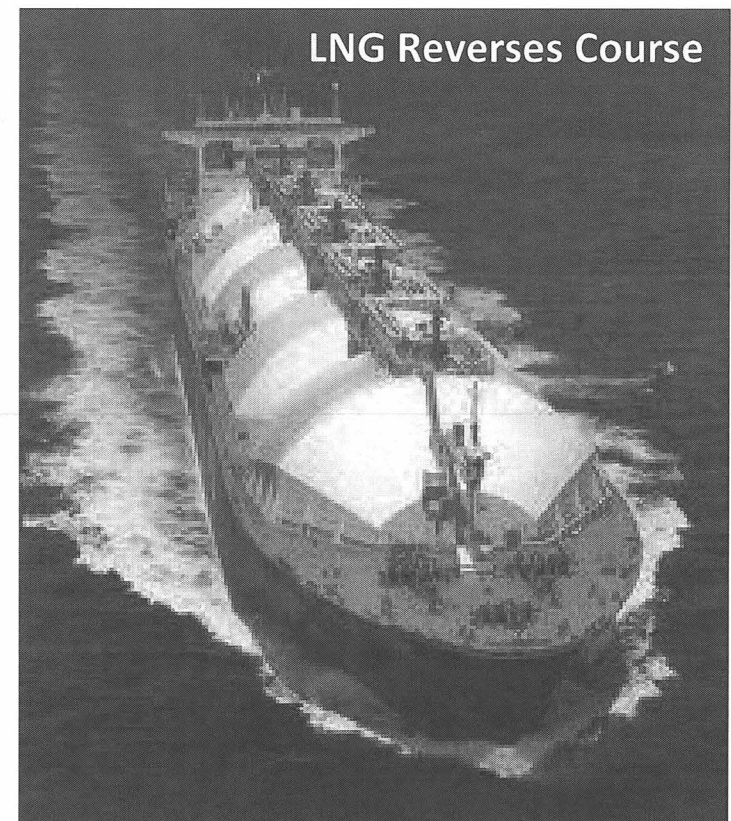
Relatively speaking, things today are no more complex, dynamic or challenging than they were in the past

How do you design a "stable fiscal regime" in a world that is anything but stable?

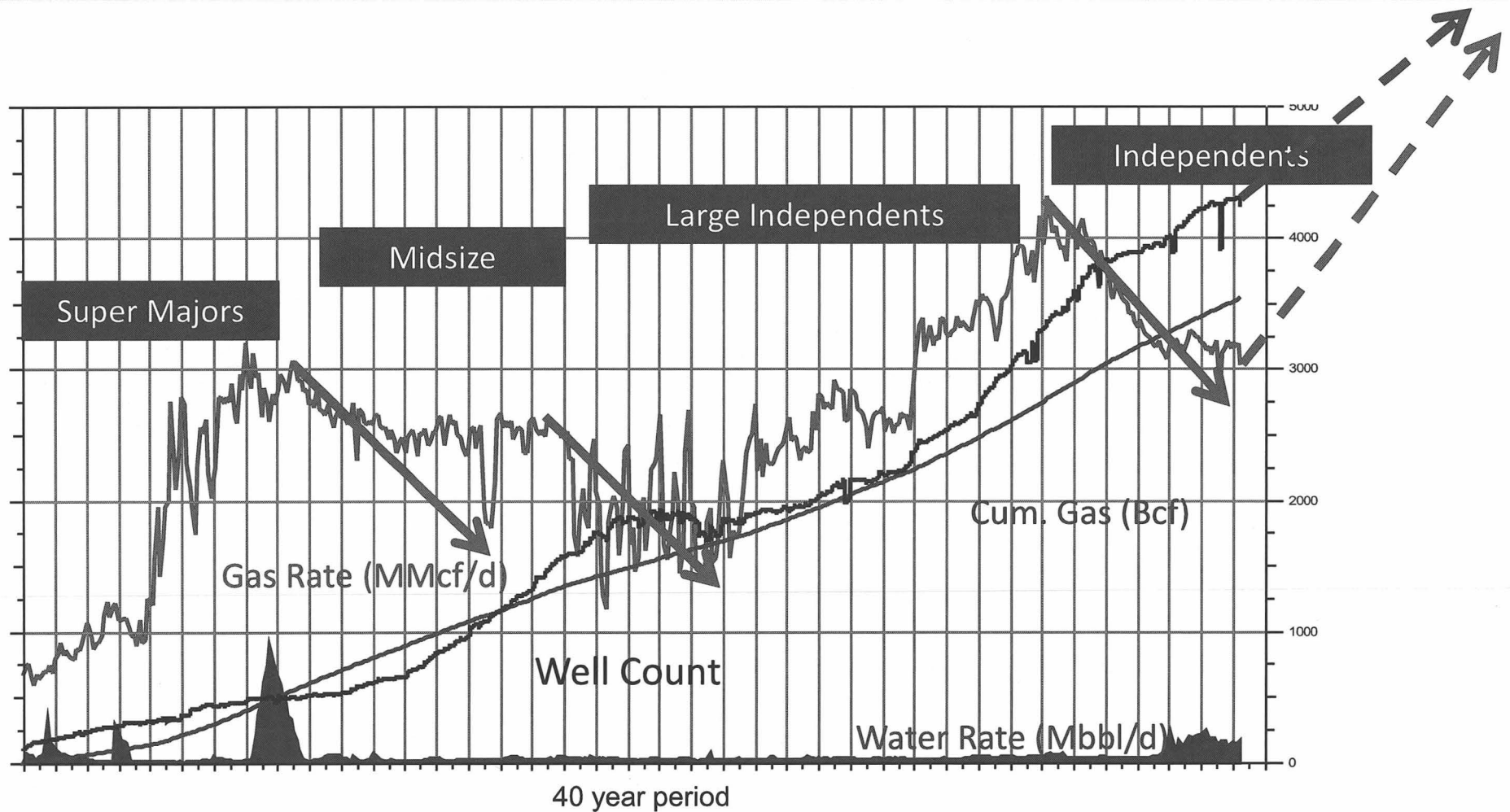


Change Can Be Rapid.....and Significant

- US 2005
 - Common wisdom was the US would be IMPORTING >8 bcf/d of LNG (gas) by 2015
 - 40+ regasification terminals in permitting
- US 2015, just one decade later
 - Developed a 180 year supply of natural gas
 - 40+ filings for liquefaction terminals
 - Plans for EXPORTING >8 bcf/d LNG
- >16 bcf/d supply/demand flip in 10 years
- This development impacted field and project timing on 5 continents

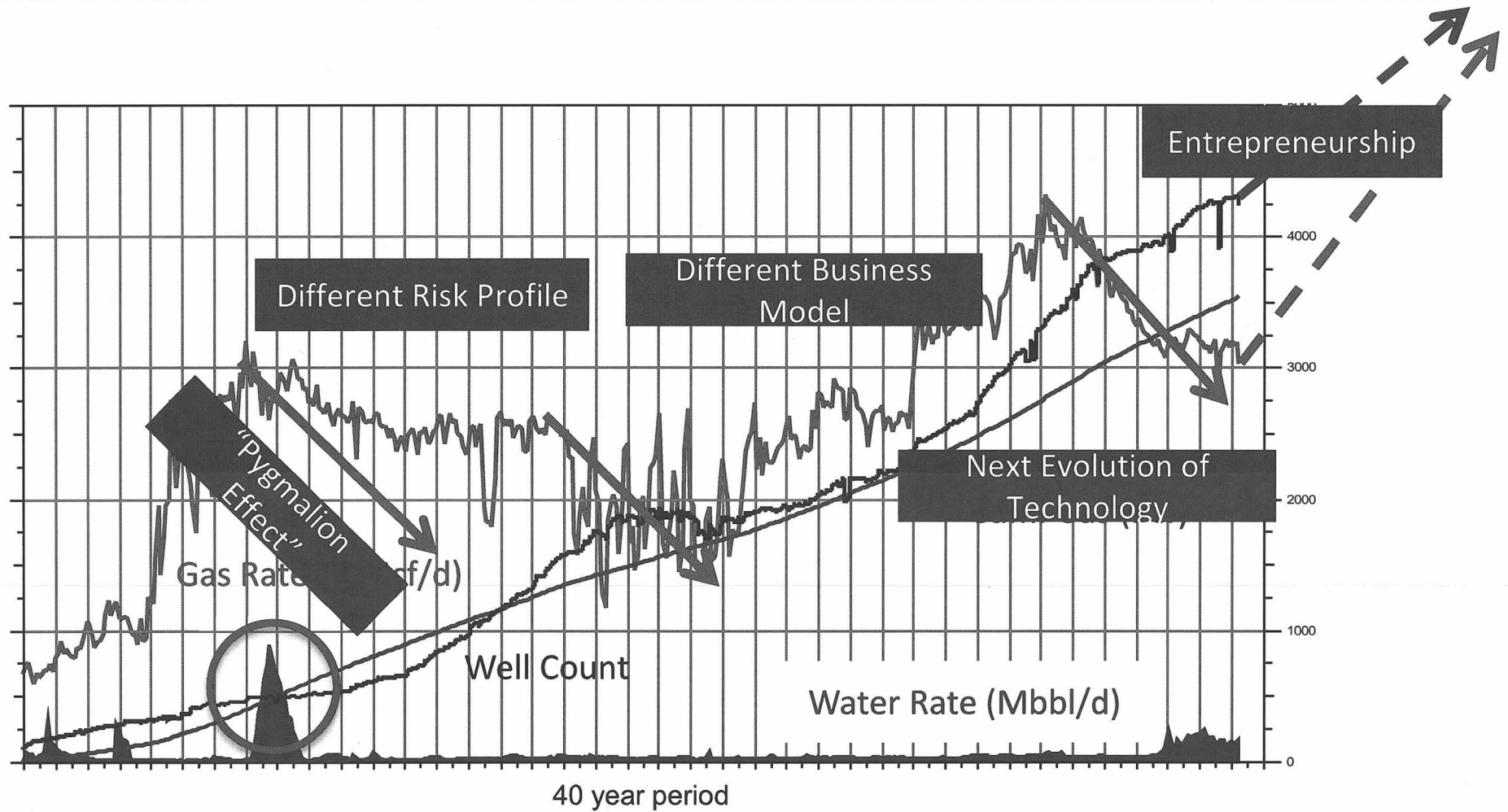


New Operators Unlock Upside Potential



Given up as all but dead, 3 times, this field has lived on another 30 years!

This Happens for a Number of Reasons



Unaware of any major field that has been developed and abandoned by the same large IOC

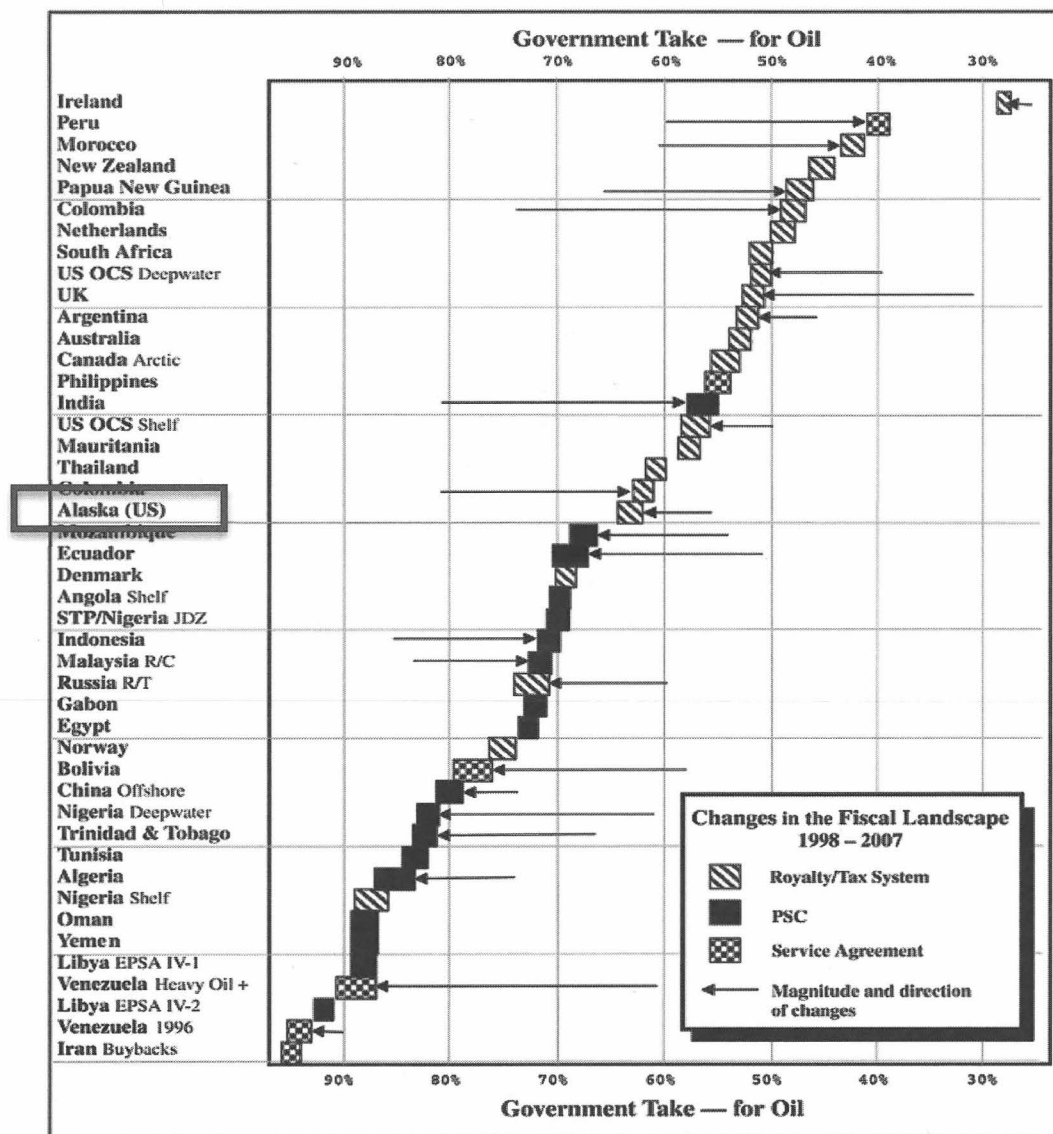
In Summary

- Change in the oil patch is continuous and that should be incorporated into your thinking as you put together a petroleum tax policy
- There is no ideal or best fiscal system as countries are very different in their resources and their needs. However, there are 'durable' key principles emerging
- Any proposed increase in taxation, no matter the magnitude, will likely not have any industry support
- New players are very important as they have an excellent track record of unlocking significantly more production from what are otherwise considered mature, even dying, areas

HOW DOES ALASKA COMPARE TO OTHER REGIMES?

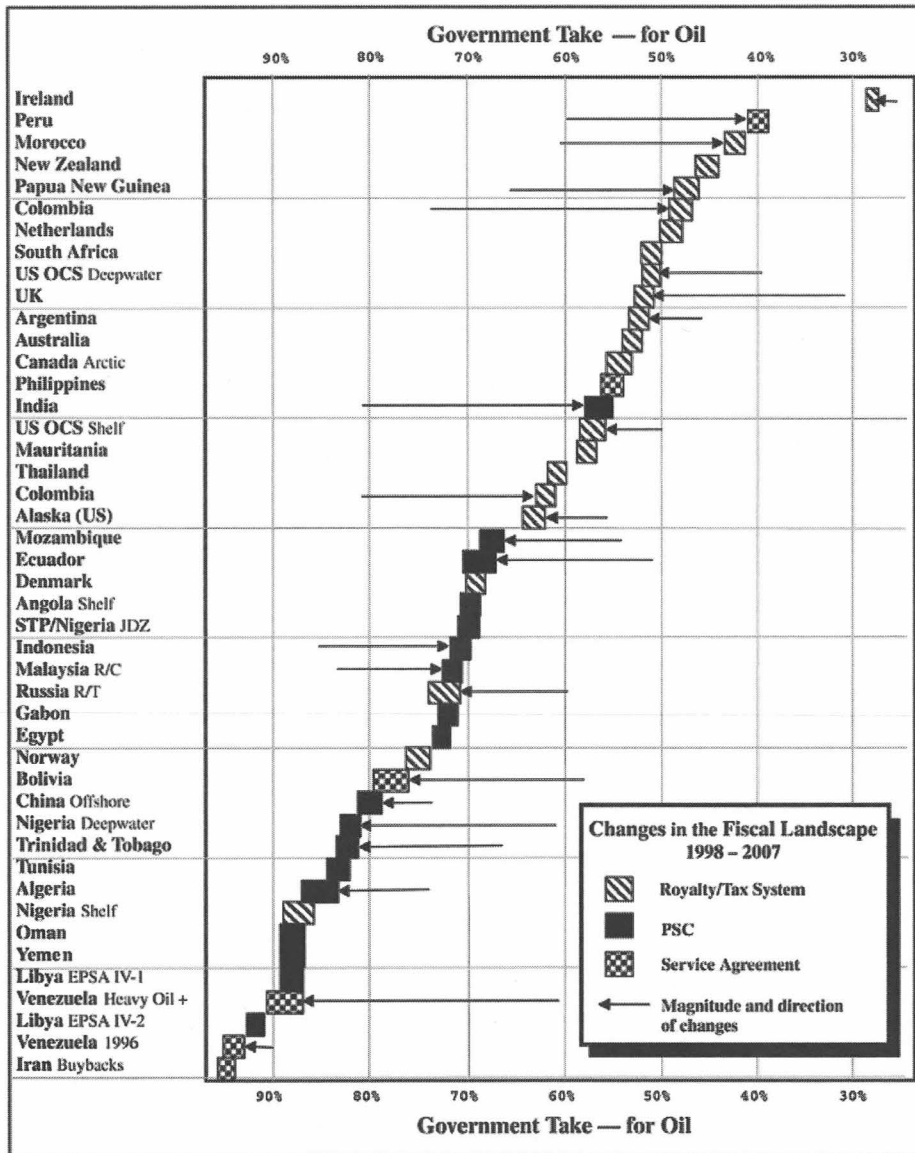
Typical Available Comparison Data

- Various consultants and data firms produce comparison reports of fiscal regimes
- Before drawing a conclusion as to your competitiveness you need to ask, “What exactly is being compared?”
 - Full Cycle Economics?
 - Marginal Dollar Splits?
- What operator payments were included and what were excluded?



Source: Daniel Johnston 2008

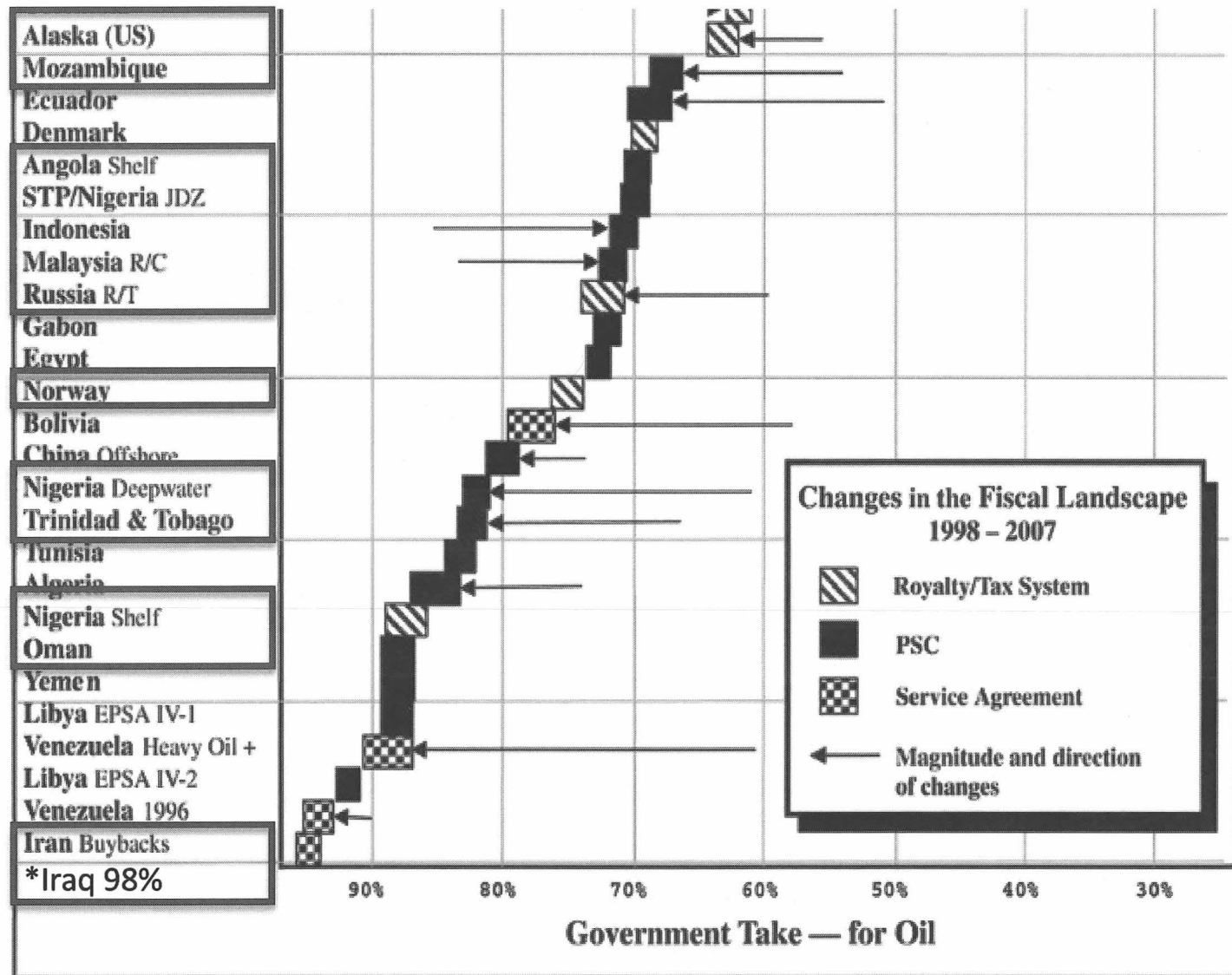
Charts such as this are Not Predictors of Producer Investment Activity or Competitiveness



Source: Plot from Daniel Johnston


- Chart shows marginal dollar take (or non-producer share)
 - Lower take on the right
 - Higher take on the left
- Arrows show movement from 1997 to 2007
- A rational argument from this chart is that the bulk of the investment dollars would be spent in countries at the top of the table
- But, where did industry spend its money?

Billions of Industry Capital is Spent in Countries with a “Worse” Government Take



Source: Plot from Daniel Johnston, Projects from BP, XOM & COP Analyst Presentations

What These Charts Don't Tell Us - Quick Comparison AK v. TX

- First, chart does not include “private” royalty
 - Legacy lease: 12.5% royalty
 - New state land lease: 20% royalty or
 - New private leases: ranging from 15% to over 30% royalty? 
- TX state severance and ad valorem gross taxes range from 4% to 10%
- Acreage is changing hands at \$2500/acre to over \$30,000/ acre
- Typical 300M to 500M bbl EUR Eagleford horizontal shale well on 160 acre spacing
 - 1. Acreage purchase, averages from \$5 to \$15/bbl
 - 2. Drilling Capex roughly \$4-7MM or \$8 to \$18/bbl
 - 3. Operating expenses \$8 to \$10/bbl
- Total estimate operator cost ~\$20 to \$40/bbl
- Using \$60 flat oil pricing, in Texas the split is roughly 30% Operator, 70% Others

Other US jurisdictions would yield a similar comparison

Norway, High Government Take, Yet High Activity

Loss carry forward

- Companies that do not have any taxable income may carry forward losses and uplift to subsequent years, with interest. These rights follow the ownership interest and may be transferred. Companies may also apply for a refund of the tax value of exploration costs in connection with the tax assessment. These rules are intended to ensure that exploration costs are treated in the same way for tax purposes regardless of whether or not a company is liable to pay tax.
- The petroleum taxation system is based on the rules for ordinary company taxation. Because of the extraordinary returns on production of petroleum resources, the oil companies are subject to an additional special tax. In 2017 the ordinary company tax rate is 24 %, and the special tax rate is 54 %. This gives a marginal tax rate of 78 %. In 2016 the rates were 25 % and 53 %.

Investment based deductions

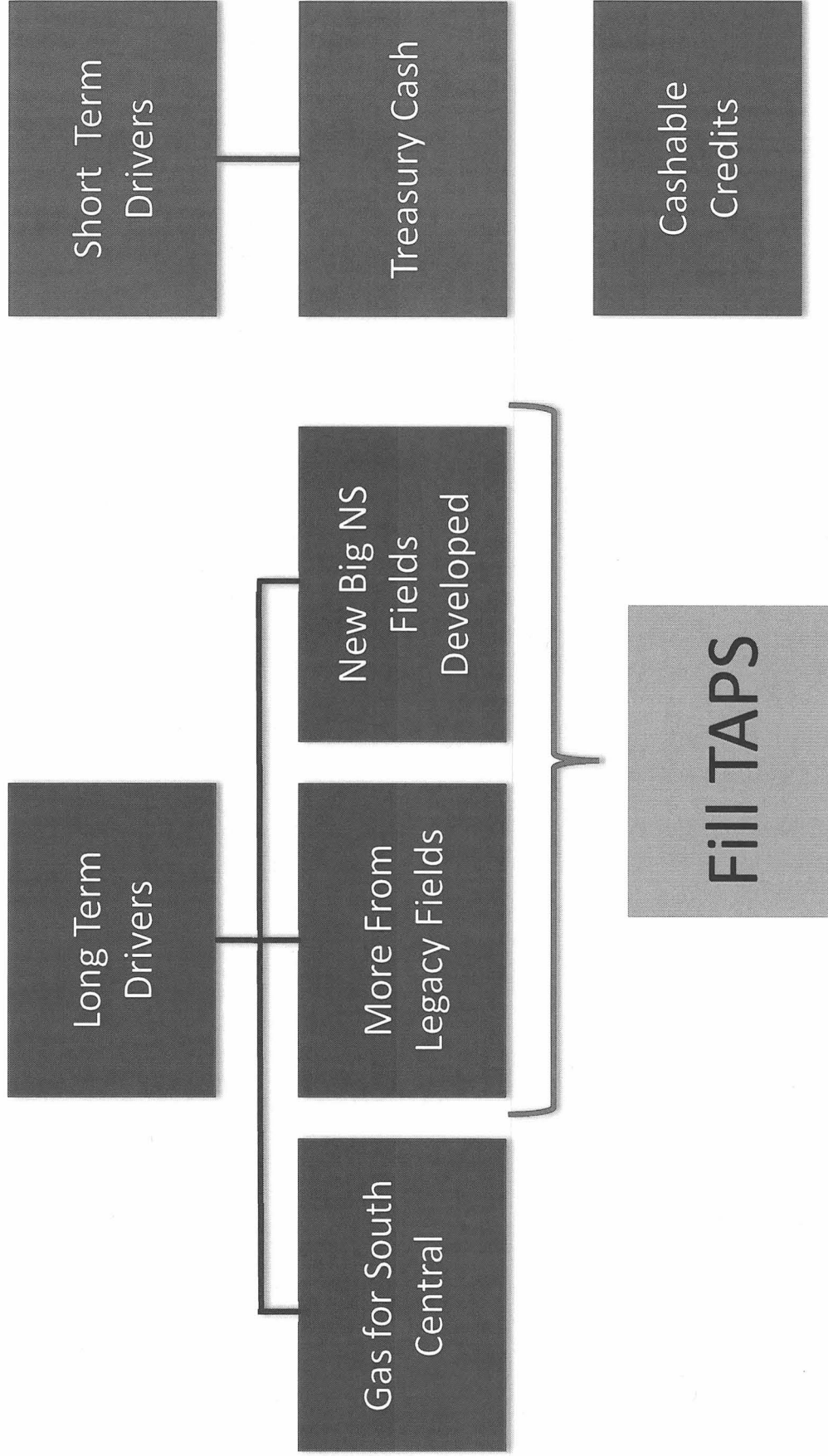
- When the basis for ordinary tax and special tax is calculated, investments are written off using straight-line depreciation over six years from the year the expense was incurred.
- To shield normal returns from the special tax, an extra deduction is allowed in the special tax base, called uplift. This currently amounts to 21.6 % of the investments (5.4% per year for four years starting with the investment year). In 2016 the total uplift was 22 %.

In Summary

- Position on a marginal dollar tax curves is not an indicator of competitiveness or likely capital investment amounts
- All other parameters equal, an increase in non-producer take will generally negatively impact producer economics
- Because all things are never equal, an increase in the tax rate does not automatically mean a regime is less competitive
- A proper comparison requires investigation into and understanding of all the key aspects of competing fiscal structures

OUR ALASKA UNDERSTANDING

This is How We See Alaska's Priorities

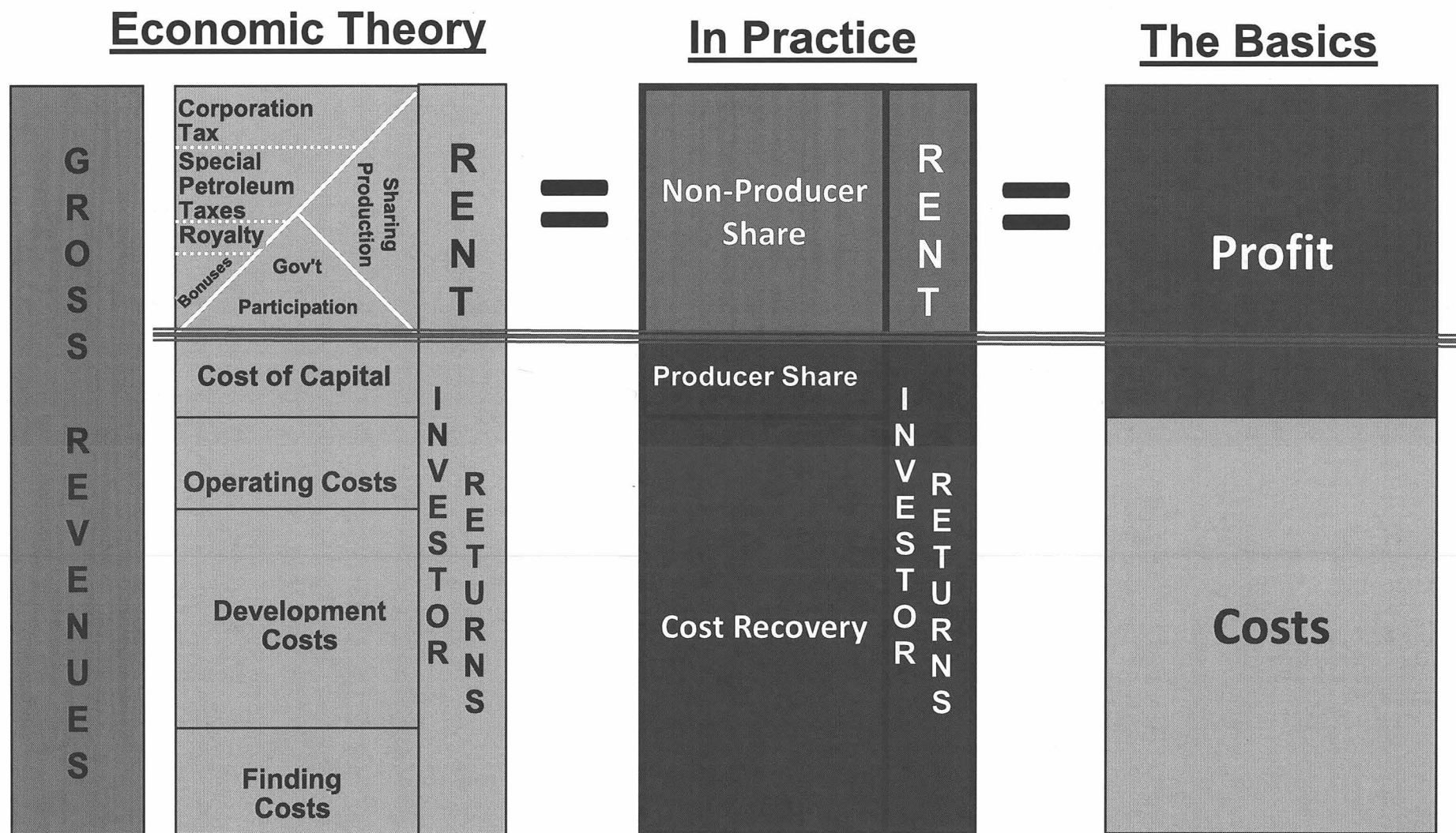


Our Recommendations via Prior Testimony

- Restructure to a mainly net based self-correcting petroleum taxation system that automatically takes less at low **margins** and more at high **margins** that would have durability and compete extremely well against most other regimes
- Through a multi-step building progressive system, eliminate most of the other special and unique aspects of the current system like barrel credits, CI/ME/NS ring fencing, heavy oil extras, etc. while offering a degree of differentiation
- Eliminate cashable credits. With the elimination of special features, carry forward NOLs should be near 100% used and useful with producers receiving the “full” tax benefit of deducting their costs and NOLs
 - With some form of uplift to account for time value of money

GENERAL CONCEPTS

Philosophy of Fiscal Design



Reality is a constant adjustment of terms to achieve goals.

How is a “Fair” Split of Profit Viewed?

■ Company perspective

– Cover their cost of capital plus some ‘extra’ to cover:

- Location or situational risk premium
- Exploration success rate (i.e. successes have to pay for failures)
- Research and Development (i.e. new technology means more oil recovered)
- Corporate overhead
- **Non-allowed expenses** (varies by regime)

■ Government Perspective

– New to energy or highly dependent on energy income

- Guaranteed revenues from day 1
- Local content – people, services, materials

– When ‘experienced’ and not really dependent on oil income

- Constant activity and jobs
- Multi-generational value generation and growth
- Local company participation

Example of Alaska Change

- This chart exemplifies how quickly things can change from when particular legislation was passed

	Spending (\$millions)	Production / day (000)	Production Year (million)	Per Barrel			
				Tarriff & Transport	Opex & Capex	Total Cost	
2007	3,201	734.2	268.0	\$ 5.40	\$ 11.94	\$ 17.34	PPT
2008	3,560	715.4	261.1	\$ 6.05	\$ 13.63	\$ 19.68	ACES
2009	3,688	692.8	252.9	\$ 6.38	\$ 14.58	\$ 20.96	
2010	3,525	642.6	234.5	\$ 6.01	\$ 15.03	\$ 21.04	
2011	3,858	599.9	219.0	\$ 6.67	\$ 17.62	\$ 24.29	
2012	2,975	579.3	211.4	\$ 8.37	\$ 14.07	\$ 22.44	SB21
2013	4,442	531.6	194.0	\$ 9.76	\$ 22.89	\$ 32.65	
2014	5,212	530.4	193.6	\$ 10.42	\$ 26.92	\$ 37.34	
2015	5,615	501.0	182.9	\$ 9.72	\$ 30.71	\$ 40.43	HB247
2016	4,842	514.9	187.9	\$ 9.88	\$ 25.76	\$ 35.64	HB111

Source: DOR, Ken Alper

- Any further changes to fiscal policy needs to anticipate change in parameters and all possible scenarios

Let's Go Back to Circa 2006

- Total Costs were about \$15/bbl
 - Gross tax is 0% at \$15 and below,
 - Appears not meant to be any tax when there was no profit
 - The 4% at the \$25 price was meant to be applicable once PTV rose to \$10/bbl

- While the cost structure of Alaska has changed the structure of the gross minimum tax has by default become something very different than when it was enacted

- As a regressive tax, the gross minimum hits low profitability operations hardest
 - As prices rise, PTV may not rise but the amount of the minimum tax grows

Fiscal Design Takeaways

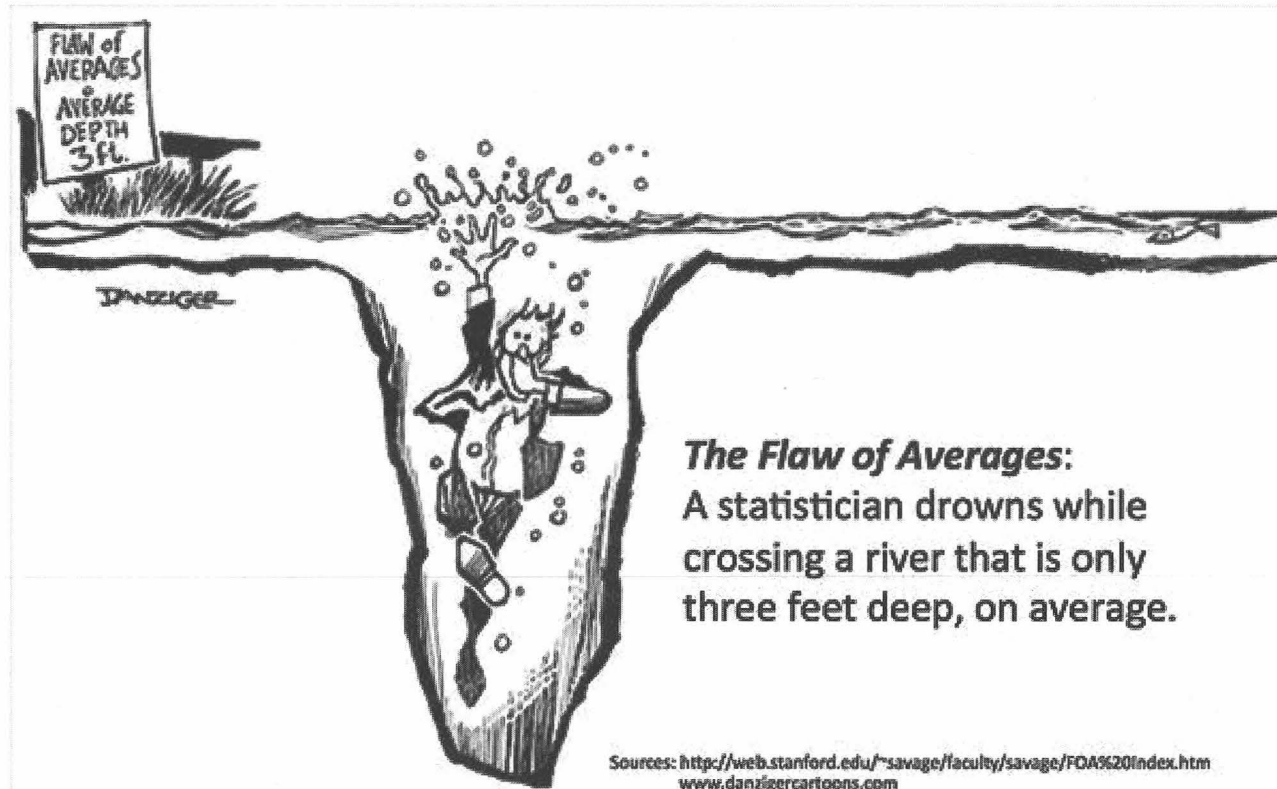
- There is no 'ideal' structure for taxing oil and gas, thus each taxing regime is to an extent unique
 - Over time some aspects or tools have consistently worked better than others

- Regimes generally try to level the playing field or provide as much balance as possible between:
 - Incumbents and new operators
 - Large companies/producers and small companies/producers
 - Exploration for new resources and production enhancement of existing fields

- **All petroleum taxation structures in use today have biases**
 - Companies will optimize their operations and profits
 - Which sometimes leads to unintended results

Flaw of Averages – Avoid Unintended Consequences

- Building a system off of economic runs based on “averages” does not address outliers, which are the very things that need to be addressed



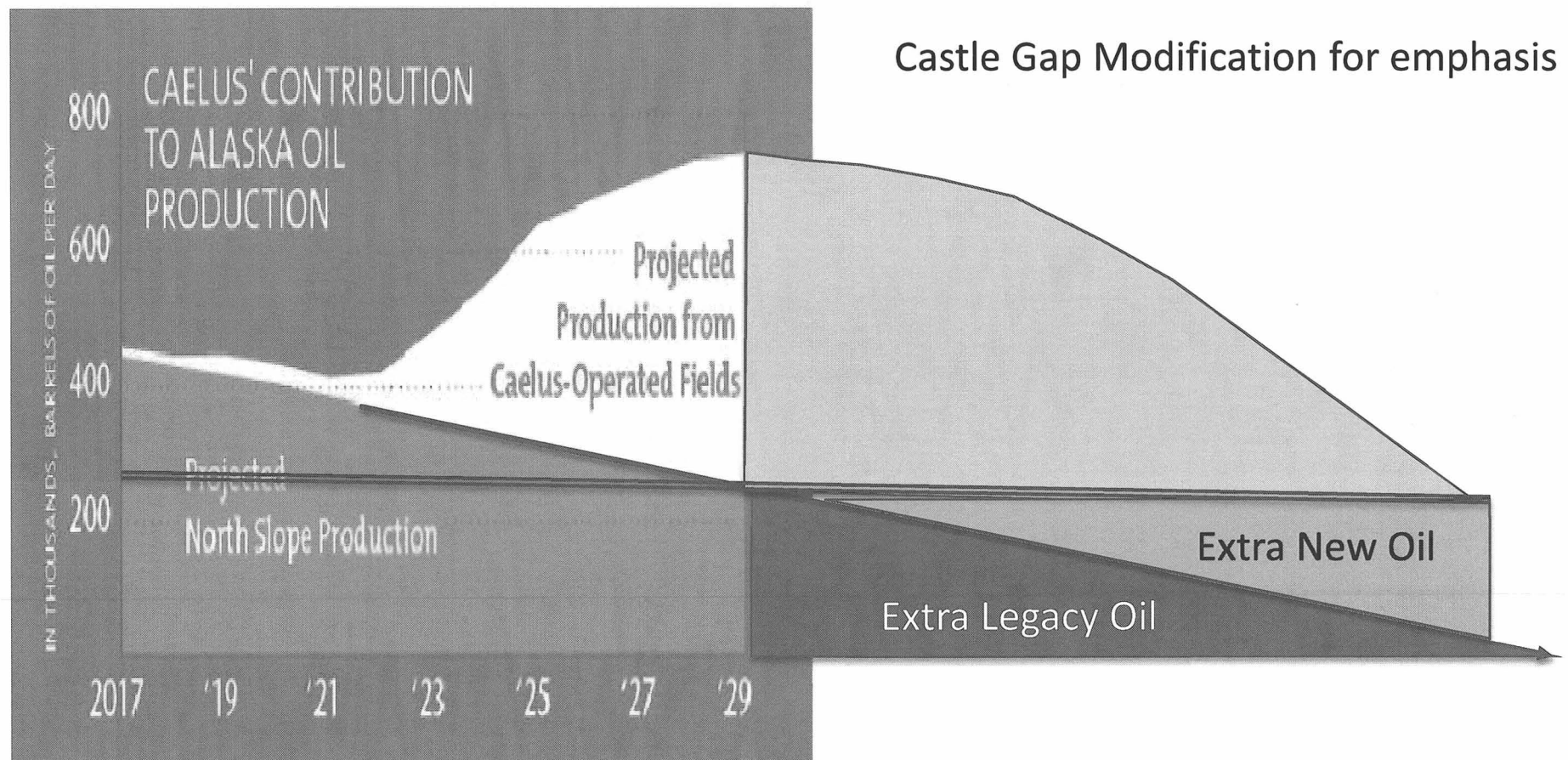
- There is no existing or proposed field or operator that matches Alaska averages of +/- \$10 transport and \$30 lease costs

Design Fiscal System Around Real Possibilities

- It is realistic to only think in terms of 1 or 2 new prospects coming on line each year
- Each of those prospects will have a +/- 5 year lead time in practice
- Thus, there are only 5 to 10 different possible new fields to look at for what may be possible in the next 5 years
- They should each be modeled independently and collectively to understand the impact of your fiscal system on their economics

MORE OIL IN THE PIPELINE

Longer Life of TAPS – Needs New NS Production



- **\$8Bn to \$50Bn** additional revenue to Alaska

- This needs to be included in any 'analysis' when looking at how to incentivize major new NS discoveries through the extended development and production phases
- Existence of extended life of TAPS may also encourage additional work in legacy fields

**TIME VALUE OF MONEY
OR
WHY IT'S NOT ALL ABOUT THE RATE**

Time Can Have More Impact Than Tax Rate

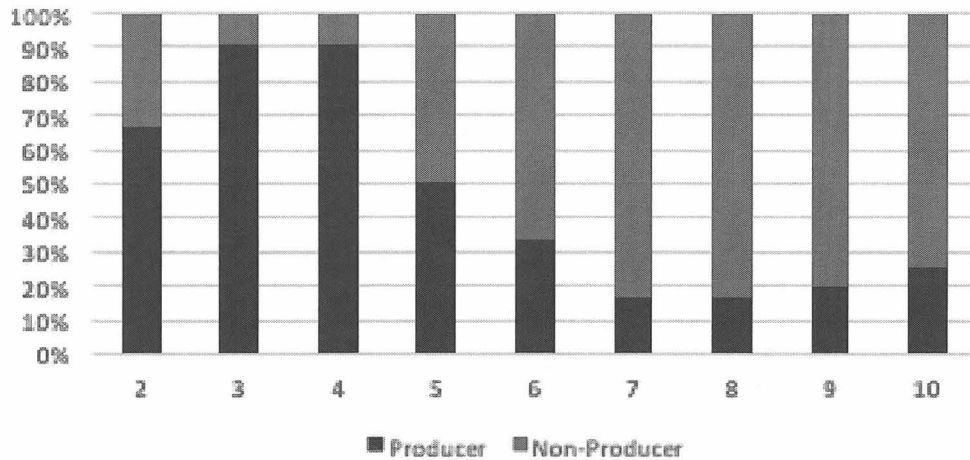
- Modeled a hypothetical field for purposes of only showing the effect of timing on producer economics

- All model runs are based on the same data
 - Year 1 an investment of 100
 - Years 2 through 10 there is 400 of revenue
 - 100 cost recovery
 - 300 of profit split between producer and government

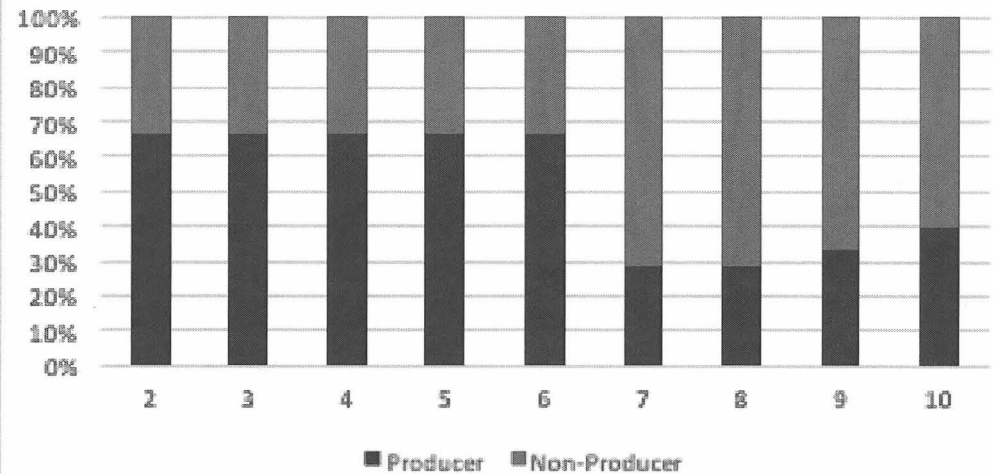
- Depending on how cost recovery is handled, the results range from very doable and profitable project to a project that would not get developed

Timing of Producer Take – Traditional

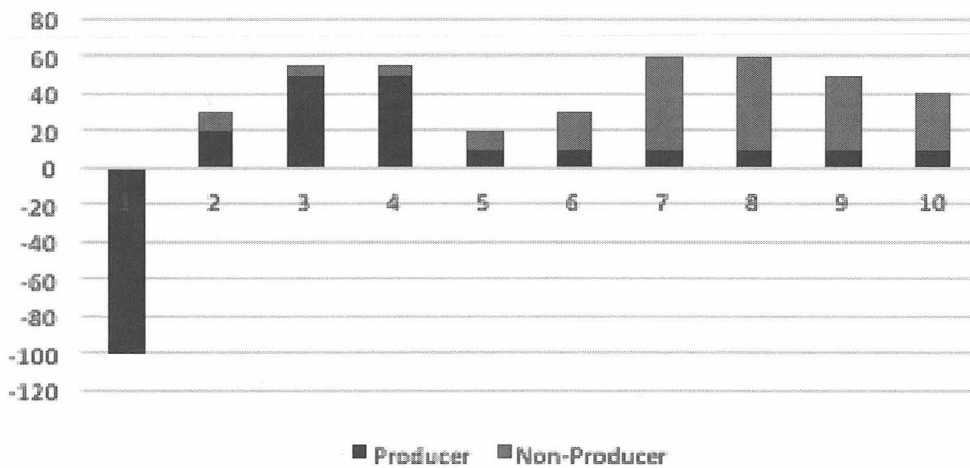
Accelerated Cost Recovery



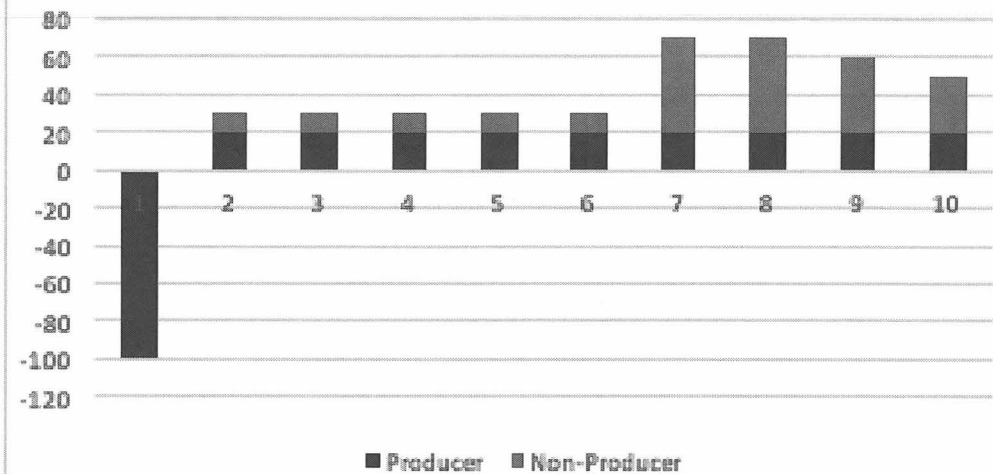
Delayed Cost Recovery



IRR=20%, NPV=\$27

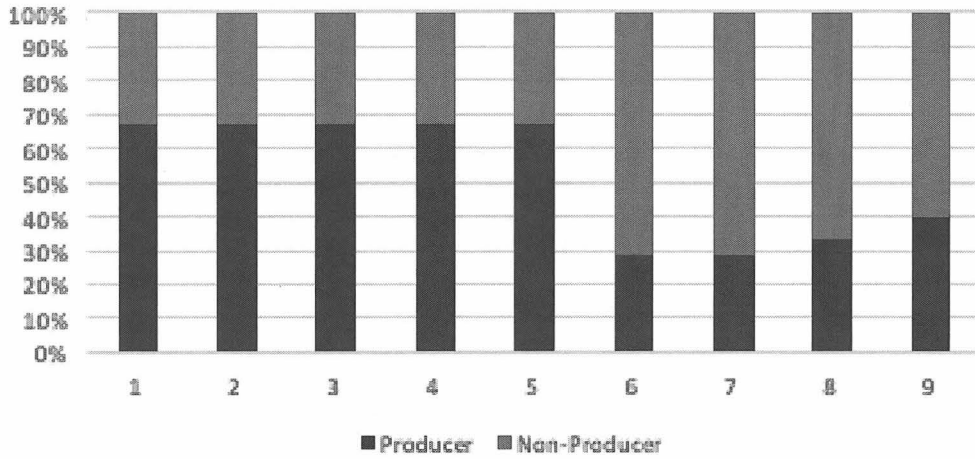


IRR=14%, NPV10=\$14

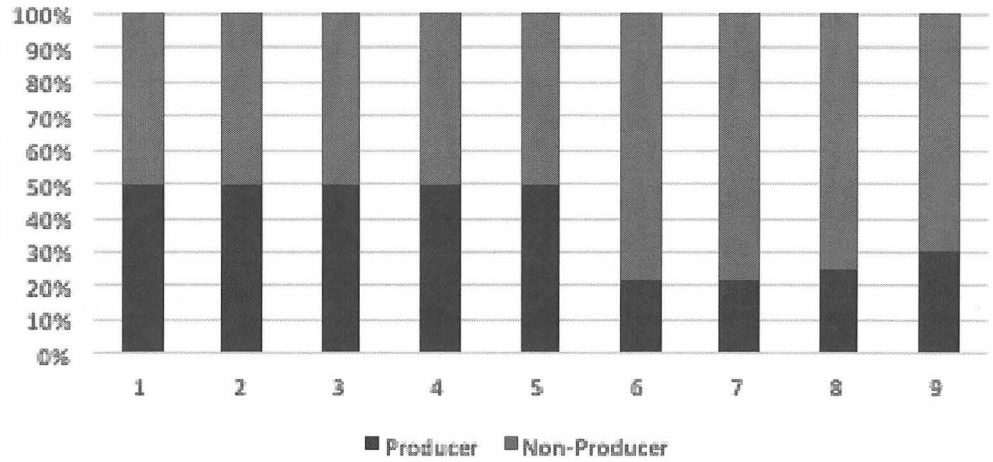


Non-Traditional Take

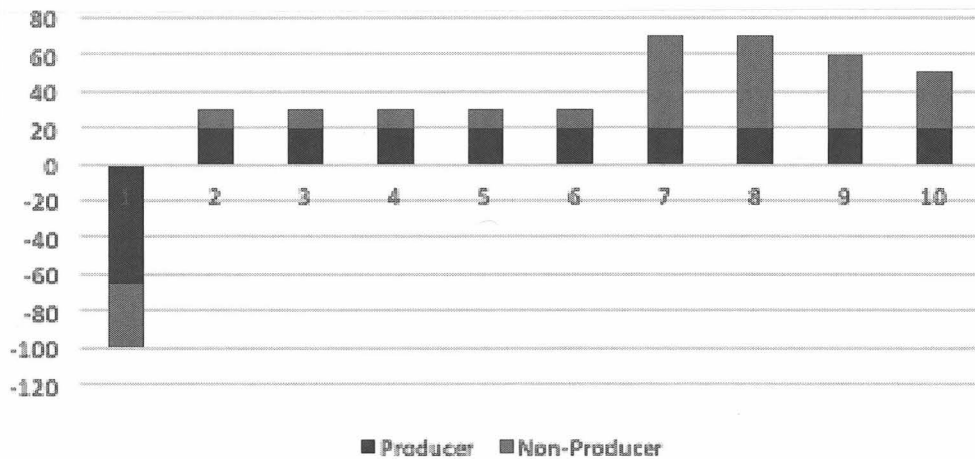
Cash Credits



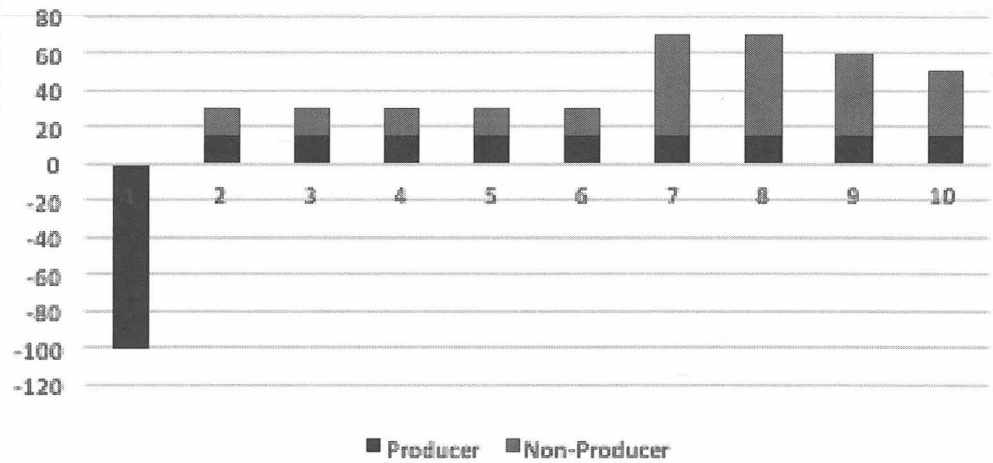
50% NOL



IRR=27%, NPV=\$46



IRR=6%, NPV=-\$12



IMPACT OF CSHB 111

Price Range Model Results

- Assumptions
 - Non-GVR is about 450,000 bpd
 - GVR is about 50,000 bpd
 - \$10/bbl transportation and shipping
 - \$30/bbl operating and capital costs
 - 12.5% royalty
- Two Effective tax rate curves
 - Status Quo (SB21/HB247)
 - With changes to structure parameters
- After a change is made a green Delta State Take bars will appear
 - This shows how much state revenues increase or decrease with each structural change

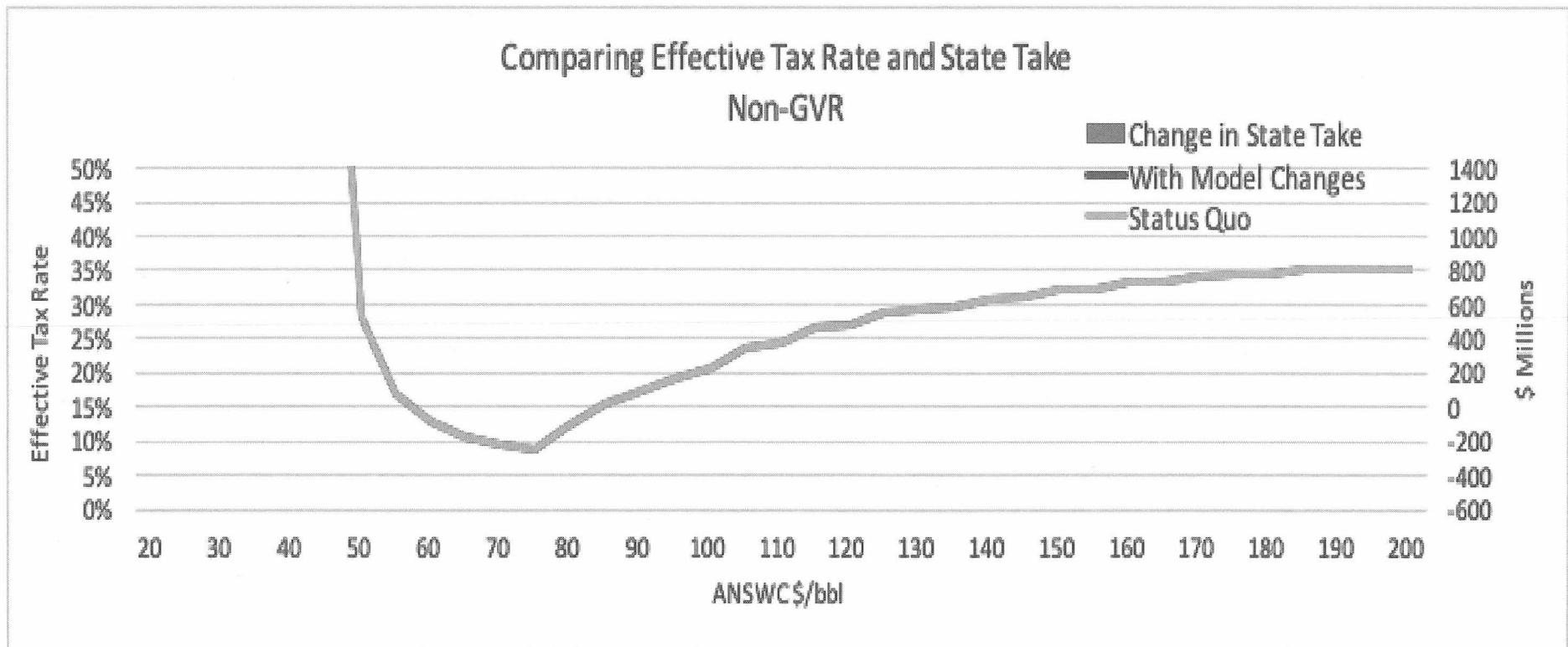
Current tax credits price based

Proposed changes PTV based.

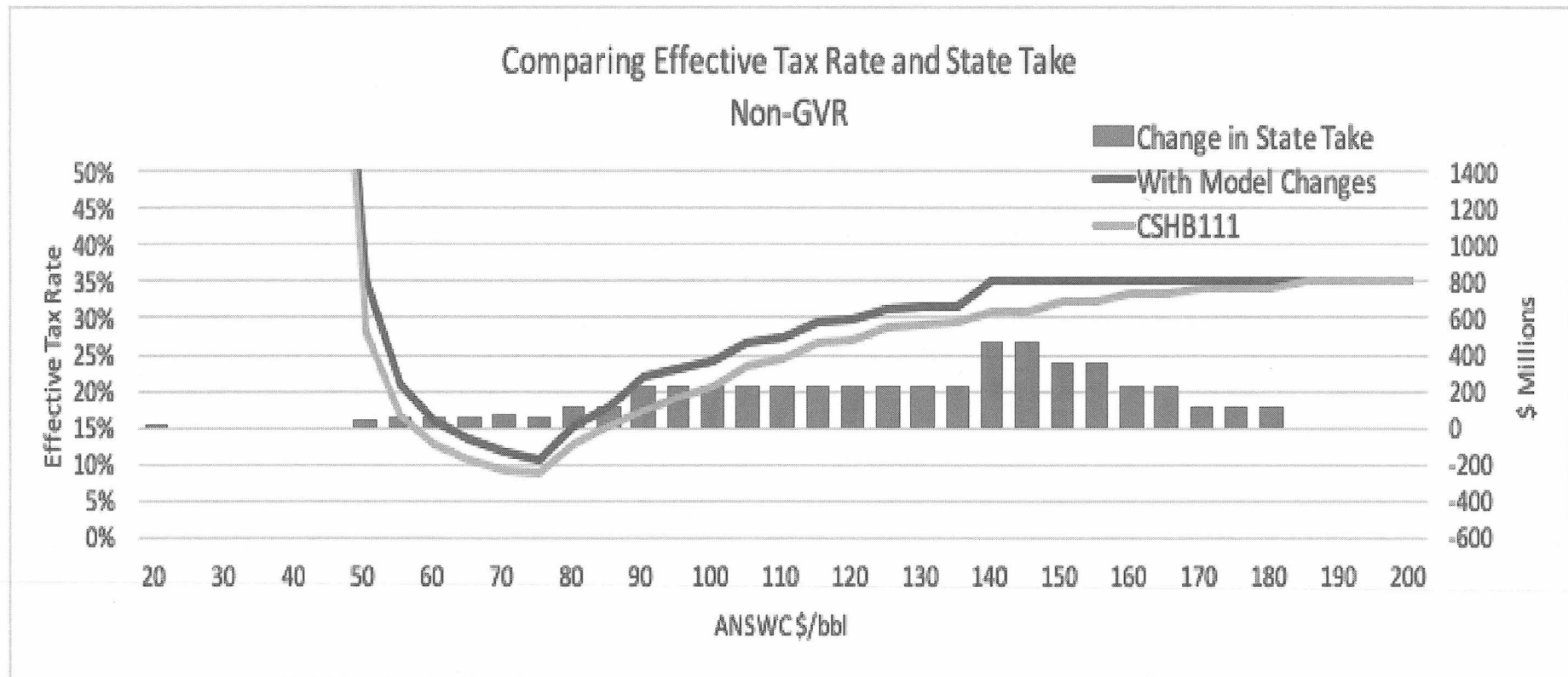
A different cost structure yields a totally different set of gains and losses

Status Quo.....\$10 T&S, \$30 Lease Costs

- The curve is the effective petroleum tax rate
- The per barrel credits reduce the effective tax to less than 10% at which point the gross minimum tax is controlling



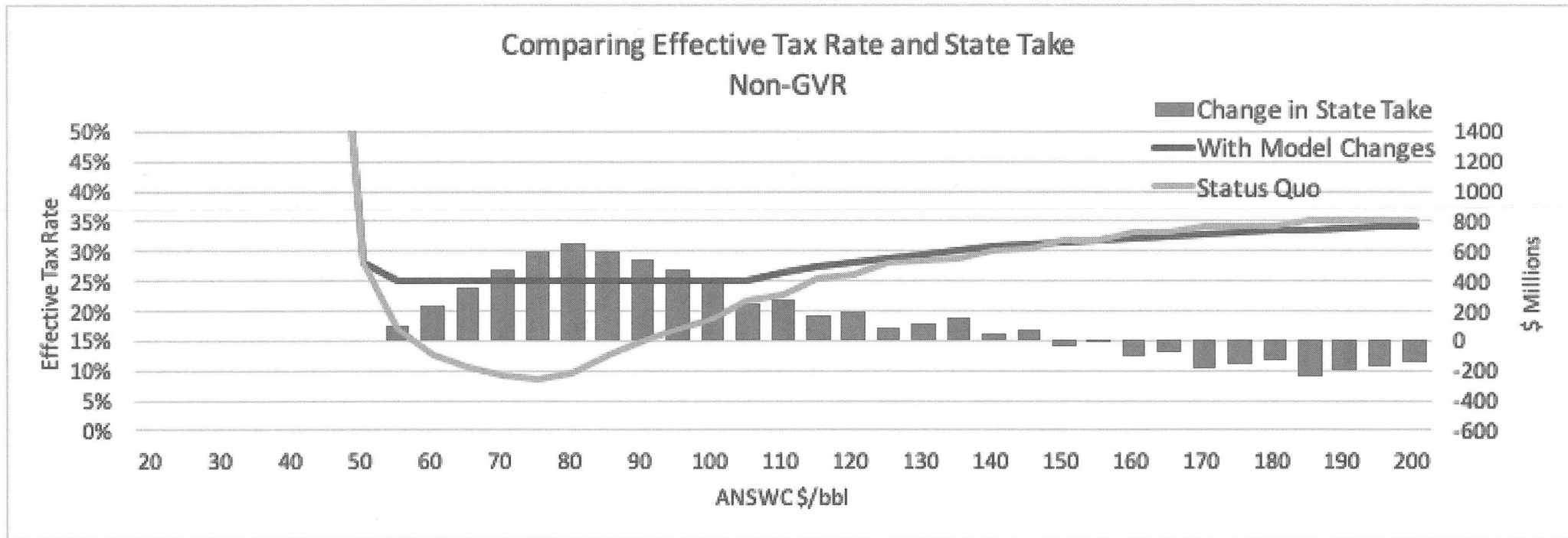
CSHB 111 (HRES)



- Between \$50 and \$90/bbl relatively small amount of state take increase
- Per barrel credits degrading sooner cause the increases above \$90/bbl

CSHB 111 (HFIN)

- Tracks the Status Quo relatively closely above \$120 per barrel
- Between \$80 and \$120/bbl, the state take rapidly rises as the per barrel credits reduce the status quo relative to a flat proposed 25% net tax
- Under \$80/bbl, the difference shrinks as the gross minimum tax controls
- Largest increase about \$600 million per year at \$80/bbl



HANDLING NOLS

Handling NOLs

- Standard is to allow producers to recover their costs
 - Preferred regimes assess tax mainly after costs are recovered

- Two key parameters to NOL recovery
 - Time
 - Uplift
 - Dozens of variations involving these parameters

- In Alaska, the presence of per barrel credits and gross minimum tax render a significant portion of the NOLs ineffective at lowering taxes owed

- This is covered in the next presentation.

Senator Giessel,

Please include this testimony regarding HB 111 into the record for this bill. I am opposed to this bill as written especially as it pertains to retroactive changes. Can you imagine making an investment in a home after visiting a bank and getting a certain interest rate only to have the bank independently change it after you signed! You wouldn't like it nor would you ever do business with that bank again. If we retroactively change our tax structure I imagine the oil companies will feel the same about our state.

Alaska's oil businesses need a stable and predictable regulatory and tax environment. This bill does not provide this. Oil production cannot be increased by increasing taxes. However, the state can tax away the industry's incentive to explore and produce oil and gas. While it is tempting to collect every dollar possible from the oil industry through increased taxation, doing so makes Alaskan projects less competitive with those elsewhere and robs the companies of the investment capital they require to expand existing fields and discover new ones. In the long run, increasing taxes on the industry will do more harm to Alaska's economy. Conversely, more investment means more production, more revenue for the state, and more jobs for Alaskans.

Alaska cannot control the price of oil, but it can control what kind of business climate we create here: one that encourages continued investment and more oil for TAPS. The current oil tax system is balanced, setting a higher minimum floor than the previous tax system, while setting a stable and predictable rate when oil prices rise again. At current prices, Alaska's oil tax policy has brought hundreds of millions of dollars more in tax revenue to the state than it would have under the previous system. Under the current oil tax system, Alaska's share is higher than the producers' at every price point. In fact, the state gets paid even when companies are operating at a loss because it still collects royalties, property tax, and a gross production tax.

New oil plays by ConocoPhillips, Caelus, and Armstrong could trigger a major reversal in TAPS throughput by adding up to 550,000 barrels per day of new oil into the pipeline with commensurate economic benefits across the state. Maintaining a stable tax policy with incentives to invest is key to seeing these projects come into production.

The new 2017 oil tax policy proposal (HB 111) represents the seventh major tax change in the last 12 years. Imposing significant tax increases and eliminating access to critical incentives will do nothing to increase production. It creates more harm to Alaska's largest industry and the state's economy as a whole.

Doug Vincent-Lang

4-17-17

Dear Senate Resources Committee members.

Thank you for the opportunity to testify. For the record, my name is Rada Khadjinova

As an engaged Alaskan, serving on boards of two municipal commissions and managing an engineering consulting company, I care most about the wellbeing of our state and people. For over 20 years, I have been fortunate to call Alaska home. My family includes my parents, their children and great children who love Alaska just like I do. I am a product of the University of Alaska system, most recently of its graduate program in Environmental Permitting. I come from Russia, which I left due to upheavals and unpredictable policies of the early 90s.

The fact that HB 111 passed the House, indicates there is a notable number of legislators convinced they are doing the right thing. All we have to do, they say, is strike the right balance, given the oil prices are different now than what they were before. It's a fact, Alaskans cannot control the oil price, but we can control what kind of business climate we create here. Hopefully the one that encourages continued investment into projects that increase production into TAPS, the lifeblood of our economy.

HB 111, if passed, could be compared with cutting open our golden goose, and grabbing those remaining eggs before they get a chance to mature and bring value in a form of projects that employ thousands of oilfield and support industry workers and in a form of taxes to the State.

What the legislators have been considering up to this point is a tax model. As far as I am aware, there is no systematic analyses that documents billions of dollars at risk of going to other regions where price of doing business is lower and policies are more stable.

Legislators and citizens alike should insist on knowing all the facts about what's to be gained and more importantly what's to be lost with passing of HB111.

Thank you.

Dear Chairperson Giessel and Senate Resource Committee Members:

I am providing my objection to House Bill 111. The new version of HB 111 would change the state's petroleum production tax for the third time since 2013 and the seventh time in 12 years. It will push Alaska to the bottom of the competitive rung and will drive away new investment dollars, forcing more job loss, decreasing oil production and deterring investment in Alaska's oil fields. The oil industry has traditionally accounted for 88 percent of Alaska's General Fund revenues and is the largest property tax payer in the North Slope Borough and Kenai Peninsula Borough. Even in these times of low oil prices, oil provides 67 percent of the state's unrestricted revenues and supports one-third of our economy. Alaska cannot control the price of oil, but it can control what kind of business climate we create here: one that encourages continued investment and more oil for TAPS. I have observed long-time Alaskan families lose their jobs in the oil industry and related contracting services and move out of State over the last year. These were smart hard working families that were good at their jobs and volunteered their time and money to non-profit organizations, local schools, and their local communities. We need a durable and competitive tax policy to fund Alaska projects and stop the loss of employment for Alaskans.

Thank you for your service and consideration.

Julie Lina

Anchorage Alaska, 99516

Dear Senator,

I am writing in support of HB 111, the oil and gas production tax payments and reform bill. I support this bill because it moves Alaska closer to a fair deal on our oil. As our state faces another year of budget crisis, and you and your colleagues face hard decisions on how to get our state back on track, making sure we aren't paying out more money to oil companies than we are getting back just makes sense.

I urge you to support this bill, to support Alaskans and make the hard decisions required to help our state get out of debt.

Thank you,

Jason Vukovich

My name is Maynard Tapp and testifying for the health of the state of Alaska.

Senator Giessel represents me via our district N in south Anchorage. She is a strong supporter of the State of Alaska and does an amazing job in keeping us within our spending limits in a fair and responsible way.

Please defeat any proposed taxes against the oil and gas industry which challenges increasing production.

I am sure you have seen the State of New York advertising for companies to invest in New York by offering a tax credit.

Alaska should do the same by protecting what we have.

A couple years back Senate Bill One devised a new tax structure that has slowed if not stopped the reduction in production of oil going through the pipeline. Alaskan's should not break their word when encouraging people/companies to invest in new production.

The best solution seems to be in defeating HB111 and supporting SB26. We cannot afford to create a new unending administrative bureaucracy to collect taxes.

Please do what is necessary to increase revenues to the State of Alaska by creating the environment that increases production of oil & gas in the pipeline.

Thank-you for your time.

Dear Senator Giessel,

I am writing to all members of the Senate Resources Committee to express my opposition to House Bill 111. Alaska cannot afford to lose any oil & gas investment and increasing taxes on an already struggling industry will do just that. If anything, Alaska should be looking for ways to encourage more investment.

As manager of an engineering consulting firm, I've been experiencing the effects of low oil prices on our industry. Oil & gas companies are not completing projects and we in turn are not being hired. Our Alaska staff has been reduced from 85 to 55 staff in the past year, a 35% cut because we don't have oil & gas work that traditionally sustained our operation.

Think long term and for our future. Oil and the TAPS pipeline is the lifeblood of Alaska. Yes, we need to change that, but it will take decades to realistically not rely on oil. For our future we need to encourage more oil & gas investment and that won't happen by raising taxes on a struggling industry.

Thank you,

Jeff Baker

Anchorage

Jeff Baker, PE

omment

Senator,

I have attached AGC's letter of comment on HB111. I support not revisiting taxation of the oil companies to solve our budget gap. An incremental fine tuning of the credits would be less onerous.

Personally I feel that Alaskan's have gone without paying an income tax long enough. I was surprised this year when the Senate came out against it.

- I feel an income tax would be appropriate.
- Limiting the PFD to \$1,000.00 .
- Keep the pressure on the University system and State Government to justify their programs.
- Increase the numerous taxes that already exist. (gas, hunting and fishing for example) Your studded tire tax did seem rather steep. How about \$25.00 a tire?

Anyway, I know you're busy and are already looking into all the above. Keep up the good work.

Thanks-

Richard Green

Richard Green

Fairbanks, Alaska 99712

Senator Giessel

As a business owner that relies heavily on Alaska Oil and Gas in the State of Alaska, I ask you to not pass HB 111. I feel that we cannot continually change the tax structure for the Oil and Gas industry in our state. I am probably one of the few that supports an income tax as well as looking at other sources of revenue for our state. I am willing to pay my fair share as others should as well, but I am very concerned that loading up Oil and Gas at this time is not the answer. I appreciate the work you do in these challenging times.

Respectfully Kenny Gerondale

President/Construction Machinery Ind. LLC

Ken Gerondale

Senator Giessel,

I would like to voice my concerns about HB 111. I think messing with the oil taxes now is just not a sane act when we are so dependent on the revenue we still do realize from the oil production. We have seen the impressive results of the tax reform in 2013, even an increase in oil production in 2016 versus a sure loss year after year prior to reform.

To increase taxes now while the oil companies are facing tough times will send the absolute wrong message. The years ahead are going to be difficult enough for the state, let alone the act of oil companies pulling back investment dollars due to an unstable, rising tax trend.

I understand the total government take from the oil production is about 70% currently, the State taking the most now. Seems like we are getting more than our "fair share".

Please understand we rarely get work from the oil companies. We aren't stumping for work with this email. I think we have had 2 oil company jobs since 1998, and not big jobs at that. But I do know indirectly the oil companies have put food on our tables, our employees' and I'm sure 90% of those working in the state, if not 100%. Their generosity has helped hundreds of nonprofits as well, serving the unemployed. Without the jobs direct and indirect that the oil companies provide, there would be such a loss of population, the remaining folks would pay much more for food, gas, electricity, transportation, etc. Housing will of course be much cheaper for many years as there will be almost no buyers on the market.

I would like to see the current fields reworked to their maximum capabilities, new fields developed in a streamlined fashion, people working. Don't apply the brakes by passing HB 111.

Thank you,

Bryce Erickson

I know that you as a member of the legislature share the same aim as all of us to grow and prosper our economy for present and future generations. In order to accomplish this, we need to make our State attractive to both invest in and develop our natural resources.

Unfortunately, I don't think CSHB 111 is the right way to accomplish our goal. We desperately need a long term stable and affordable tax structure that will attract investment capital and resource development firms and make us competitive in the national and international market place. Repeated changes or attempts to change or complicate the tax environment send a negative message

We need to remember that incentivizing development will ultimately grow our tax base and economy whereas disincentives will have the opposite effect.

I urge you to cease further action on CSHB 111.

Thank you for your time and dedication to our State's affairs.

Howard Grey

Senator Giessel

I am astonished that the Alaska Legislature is again considering yet another change to the state's oil taxation.

Alaska's oil is not in competition with Alaska. Alaska's oil is in competition with other projects elsewhere in the world.

Our job is to figure out how to make Alaska's oil more attractive to investors than other options available to them, irrespective of the state's other revenue streams and expenditures. Changing tax laws every few years is not the way to get our oil produced and sold.

This isn't about oil companies. It's about producing and selling our most lucrative natural resource. Plans for oil taxation need to be made for the long term, much longer than a state election cycle.

I used to work in the oil industry. I've been out of work for a year and a half. I would really like to go back to work. I would really like for the State of Alaska to stop creating this tax ambiguity so that oil projects can come on line. The oil industry has a substantial multiplier effect. The engineering company my husband works for has decreased its workforce by 30% due to the lack of oil and gas projects.

We are not feeling at all confident about Alaska's future.

Our oldest daughter is in college and cannot find a single internship in Alaska. She won't be returning this summer. Several of her friends are in similar situations.

Can you tell us for certain this is temporary?

Are we on the right path?

It doesn't feel like it.

Sincerely,

Trish Baker

Senators,

The current version of HB111 needs work. I have lived and worked in the Alaska oil industry since 2000. Over the last 8 years I have worked for independent oil companies- Pioneer Natural Resources and Caelus Energy Alaska. These companies were attracted to Alaska because of a favorable fiscal environment. This allowed the development of the Oooguruk field as well as the discoveries at Nuna and Smith Bay.

I believe current version of HB111 is bad for the oil industry and needs to be modified if Alaska wants to attract and retain independent oil explorers and producers.

- Taxes the legacy fields, but creates additional on new producers which puts them at a disadvantage
- The move from credits to deductions is admirable, but the loss in value is substantial and will hurt new players
- If you go to a deduction – please don't time limit the NOL = permanent loss of deduction
- And, provide an uplift (10-15%) to the NOL to allow for time value of money. Dollar invested today should be worth that same dollar tomorrow.
- Do not harden the floor against the \$5 per barrel credit, major tax increase for small players

- Policy goal should be encourage investment from players big and small
- HB 111 will chill future investments and hamper timely development of new fields
- More production is the answer – more oil, more jobs and more revenue for Alaska (PFD and essential services)

Vern Johnson

Senator Giessel,

I have lived in Alaska and worked in Alaska's oil and gas industry since graduating from college in 1990. I have worked for Caelus Energy Alaska and its predecessor Pioneer Natural Resource Alaska for 12 years, the last 7 of which as Operations and Production Manager for Alaska. I have seen first-hand the success possible from state incentives provided to smaller producers like Caelus and Pioneer. Unfortunately, more recently I have experienced the challenges our industry faces in acquiring funding for our new developments such as Nuna and Smith Bay when the state Legislature too often changes tax policy and fails to incentivize smaller independent producers.

I oppose the current version of HB111, as I believe it will deter the additional investment our state so dearly needs to increase production. My concerns over HB111 include:

- Taxes the legacy fields, but creates additional on new producers which puts them at a disadvantage
- The move from credits to deductions is admirable, but the loss in value is substantial and will hurt new players
- If you go to a deduction – please don't time limit the NOL = permanent loss of deduction
- And, provide an uplift (10-15%) to the NOL to allow for time value of money. Dollar invested today should be worth that same dollar tomorrow.
- Do not harden the floor against the \$5 per barrel credit, major tax increase for small players
- Policy goal should be encourage investment from players big and small
- HB 111 will chill future investments and hamper timely development of new fields
- More production is the answer – more oil, more jobs and more revenue for Alaska (PFD and essential services)

Thank you for your consideration, and I urge you to support a tax policy that will balance incentives for new developments with fair and equitable taxes

Thank you,

David Hart

Anchorage, Alaska

Hello,

My name is Roy O. Walluk jr.

Live in Nome Alaska.

I oppose HB111

Thank you

If the State of Alaska wants to remain competitive with the Lower 48, then adding new oil & gas taxes is not the right answer. I am an engineer for Caelus Energy and have been working in the Alaska oil industry for 30 years since I came to work for Arco after graduating from college. I have raised my family here and have called Alaska home. I am concerned that I will be not be able to continue to call Alaska home. We are fighting to get investment dollars to fund our Alaska projects and the competition is the unconventional shale in the Lower 48. The economics of our Alaska projects are challenged compared to the projects in the Lower 48 not only due to the high cost of operating in Alaska, but because of the potential tax increases that are being considered. Just the fact that portions of the legislature are considering changing oil taxes again in a negative way chills the potential for investment dollars to come to Alaska projects.

I would like my children to have an opportunity to work in the Alaska oil industry for the next 30 years. But the only way that is going to happen is for new projects to be developed. The best way for new projects to occur is to maintain appropriate tax credits for new investment and to maintain current tax rates. Tax credits counter Alaska's high cost environment and allow the state to compete with other Lower 48 or international oil investments. I am very concerned that Caelus Energy's new North Slope projects will be shelved or delayed because they can't compete with the economic returns of low-risk Lower 48 projects. Higher taxes will discourage future investment. Companies also are very nervous about another change to the tax structure. Tax policy stability is a key factor for many companies. Another change will cause them to look elsewhere to make investments. We need tax stability to encourage continued investment and to get more oil into the pipeline.

New technology and huge shale developments are driving investment dollars into places like Texas and North Dakota. If that continues, I'll be forced to move to Texas where the work is being done. I don't want that to happen.

So again, I am strongly in opposition to HB111. The state needs to become competitive with the Lower 48 where the oil boom is taking off again. It is critical for Alaska's long term future and viability.

Andy Bond

HB 111 is flawed

Here's why:

- Taxes the legacy fields, but creates additional on new producers which puts them at a disadvantage
- The move from credits to deductions is admirable, but the loss in value is substantial and will hurt new players
- If you go to a deduction – please don't time limit the NOL = permanent loss of deduction
- And, provide an uplift (10-15%) to the NOL to allow for time value of money. Dollar invested today should be worth that same dollar tomorrow.
- Do not harden the floor against the \$5 per barrel credit, major tax increase for small players
- Policy goal should be encourage investment from players big and small
- HB 111 will chill future investments and hamper timely development of new fields
- More production is the answer – more oil, more jobs and more revenue for Alaska (PFD and essential services)

Robert Tirpack

Dear Esteemed Members of the Senate Resource Committee,

I am a lifelong Alaskan, 2nd generation, testifying now on behalf of my 3rd Generation Alaskan daughters and my 4th Generation Alaskan grand-children. Your actions on Oil & Gas taxes may well make the difference about whether they will be able to live in Alaska and whether there will be a 5th Generation of my family calling Alaska home. Much of my family has already left the State to seek better fortunes elsewhere.

My testimony is simple and I while I'm certain you've all heard it before, I am determined to say it again in the hope that these Fundamental Principles will carry the day.

#1 - We simply must stop changing taxes on the Industry. Stability attracts investment capital. Volatility chases it away. Without investment capital, the Petroleum Industry declines and we have long-term budgetary issues that will eventually become insurmountable. With investment capital, our Petroleum Industry can flourish and the State can and will prosper for generations to come.

#2 - There is so much darned Alaskan oil underground that we won't be able to capture it in my daughter's lifetime or my grand-daughters lifetime. In order to use that resource for the good of our State, we need to turn it into cash money, and, hopefully, into hard asset infrastructure from there. Incentives that help monetize the resource are good. Tax credits are good. We need more of them.

This bill contemplates fewer incentives. Offering fewer incentives guarantees that the State will enjoy lower royalty payments. Adding incentives will guarantee the State will enjoy higher royalty payments. Simple stuff. It matters not how often we all hear that tax credits are giveaways and that we don't have the money to pay them. We most certainly do. We collected the royalties. They may be encumbered differently or accounted for differently, but we still collect the royalties.

Even when or if production credits bring the production taxes to zero, the royalty payments make it worth doing. And, I've heard that there are some very rare cases where production taxes went negative. Who cares? If these are small anomalies, then the "cure" is worse than the "ailment". Fiscal certainty is more important than maximizing our take on a single circumstance, especially since that circumstance was likely very marginal to begin with and wouldn't have been developed at all without these very incentives. And then we'd have nothing. This is the exact point of incentives. To call them give-a-ways is patently false no matter how often folks repeat it. Please don't get caught in the weeds. Stick with the basic premise. Incentives are good. Change of tax structure is bad.

#3 - If it ain't broke, don't fix it! Production is increasing for the first time in a long time... . Not fast enough for my liking, but still increasing. If the price comes up a bit, maybe the increase to production could rise faster. This is a very good situation. Tinkering with tax structure now would be irresponsible.

It IS NOT WISE strategy to be trying to suck a few extra bucks out of the margin and/or stick it to the Oil Companies just a tiny bit more for whatever moral reason folks might think they have.

It IS WISE to have prosperous Oil Companies making tons of money, scrambling to invest more in Alaska, hiring Alaskans to do the exploration and development work and then paying more royalties to the State.

#4 - We do not have a revenue problem in this State. We have a spending problem in this State. We must not reward the spenders and penalize the producers. It is simply not sustainable to do so.

Thank you.

Sincerely, Jim Scholz, Lifelong Alaskan from Sitka, looking out for my 4th generation Lifelong Alaskan Grand-daughter and all of the other youngsters.

Dear Senator Giessel,

My name is Aaron Helmericks, I've lived in Alaska my whole life and I'm a third generation Alaskan. My family and my wife's, she is from Hoonah, have lived here before it became a state. We are tied to the land and we need to find a balance for what the State of Alaska needs now but also for our future.

For this reason, I'm contacting you in reference to HB 111 which you are currently reviewing. We need a tax policy that will incentive more production not increase tax on a currently declining resource. HB 111 would change the state's petroleum production tax for the third time since 2013 and the seventh time in 12 years. We are a resource state and need to stop scaring away the needed external investment to turn our economy around in the future. The State of Alaska cannot control the price of oil, but it can control what kind of business climate we create here; one that encourages continued investment and more oil for TAPS. There have been new oil fields discovered by ConocoPhillips, Caelus Energy, and Armstrong that could trigger a major reversal in TAPS throughput by adding up to 550K barrels per day of new oil into the pipeline. Finding ways to show external financial sectors that Alaska is a place to invest will have corresponding economic benefits across the state. One of the key steps to do this is maintaining a stable tax policy with incentives to invest, which will allow more jobs and more revenue for Alaska.

Because of the current oil market, we have hard economic times both for the state as well as for the people living here. Nevertheless, let us not make decisions for a quick dollar that harm our economy in the long run far greater than the few millions we stand to gain in the short term.

Thank you for your time,

Aaron

Senator Giessel,

My name is Faith Martineau, and I respectfully request that you oppose HB 111.

I grew up in Eagle River, graduated from UAA, and hope to raise my family here in Alaska because I love this state. I currently work for Caelus Energy, a little oil and gas company that made big news with our est. 2 billion barrel Smith Bay discovery. Caelus' presence in Alaska and on the North Slope is evidence that the tax regime established SB 21 successfully attracted investment in remote exploration. With the major modifications to that system under HB 247 last year and discussion of further detrimental changes in the form of HB 111, that attraction is vanishing.

I've previously testified to members of the Legislature on similar occasions in an attempt to articulate the real harm that additional oil and gas taxes have on a company like my own, Caelus. If I worked for a larger company, like ConocoPhillips, Exxon, or BP, I would probably not be privy to the difficult conversations that our managers and executives are having with potential investors. As it is, even as a staff-level employee, I know exactly how awful Alaska's situation looks to our backers, who see lower cost, lower risk-of-return opportunities in the Lower 48 and elsewhere as obvious alternatives to continuing to pursue exploration and future development on the North Slope.

At risk of repeating what I sure has been described by many, more expert than I, HB 111 will absolutely stifle investment in Alaska and especially in new fields that are essential to extending the life of TAPS. Contrary to what some may believe, the testimony provided by an expert like Pat Foley, our Senior VP of Alaska Operations, is not conjecture by an executive trying to protect his bottom line, it's the

truth:

- Time-limiting net operating losses will negatively impact our business.
- Hardening the floor against the \$5/barrel credit will negatively impact our business.
- Changing the existing tax regime - for the seventh time in 12 years
- will absolutely, negatively impact our business.

Eventually the combination of a stifling tax system and unstable commodity prices make it impossible to continue operating at current levels. With HB 111 looming, I fear for my job, and I fear for my family.

Please consider the real people who will be hurt by this damaging legislation. I again ask that you please oppose HB 111.

Thank you,

Faith Martineau

Dear Chairperson Giessel and Senate Resource Committee Members:

I write to express my objections to House Bill 111. While it is tempting to collect every dollar possible from the oil industry through increased taxation, doing so makes Alaskan projects less competitive with those elsewhere and robs the companies of the investment capital they require to expand existing fields and discover new ones. In the long run, increasing taxes on the industry will do more harm to Alaska's economy. Conversely, more investment means more production, more revenue for the state, and more jobs for Alaskans. The oil industry has traditionally accounted for 88 percent of Alaska's General Fund revenues and is the largest property tax payer in the North Slope Borough and Kenai Peninsula Borough. Even in these times of low oil prices, oil provides 67 percent of the state's unrestricted revenues and supports one-third of our economy.

As you are aware, the new version of HB 111 would change Alaska's petroleum production tax for the seventh time in 12 years and represents a significant increase in taxes that was worse than the previous version from the House Resources Committee. It is a re-write of the current voter-approved tax regime, which has attracted major industry investment and resulted in the first year-over-year increase in North Slope production in 14 years. As a Caelus employee I am very well aware of the positive effects of the recently changed tax policies.

HB 111 will weaken Alaska's competitive position for attracting the investment, both monetary and labor, required to develop major new prospects and increase production. HB 111 is a marked increase in taxes at low prices, which will surely lead to a diminished Alaskan economy.

New oil plays by Caelus, and others, could trigger a major reversal in TAPS throughput by adding up to 550,000 barrels per day of new oil into the pipeline with commensurate economic benefits across the state. Maintaining a stable tax policy with incentives to invest is key to seeing these projects come into production.

Alaska cannot control the price of oil, but can control the business climate created here, one that encourages continued investment and more oil for all Alaskans. Please don't support HB 111.

Thank you for your consideration.

Respectfully submitted,

Dale Hoffman, CPL

I oppose HB 111 and I urge the Senate Resources Committee to stop HB 111.

HB 111 will weaken Alaska's competitive position for attracting the investment required to develop major new prospects and increase production. The bill is a sharp increase in taxes at low prices, which is a sure recipe for more economic contraction.

The new version of HB 111 will push Alaska to the bottom of the competitive rung and will drive away new investment dollars, forcing more job loss, decreasing oil production and deterring investment in Alaska's oil fields.

Alaska cannot control the price of oil, but it can control what kind of business climate we create here: one that encourages continued investment and more oil for TAPS.

Please stop HB 111. Thank you for your attention, and your service to Alaska.

Stephen T. (Steve) Grabacki, FP-C

Dear Senators,

I am the SVP Energy & Resources for the Chugach Alaska Corporation, and a constituent of Senator Cathy Giessel from South Anchorage. Our company businesses and employees depend on a healthy and vibrant oil & gas industry and stable regulatory climate to remain viable and competitive in attracting industry development and long term investment.

I am writing to oppose HB 111 as it is currently written. Yet another change and significant increase in taxes on the oil & gas industry will only serve to drive away investment from the industry that is the largest contributor to the state economy. I urge you to not be short sighted, increased taxes will make Alaska less competitive and result in lower investment, lower production and will deteriorate long term growth and potential in our all important oil & gas industry.

Sincerely,

Josie Hickel

Dear Senator Giessel

I am opposed to HB111 and for very good reason.

This is a broken record. What makes you think increasing taxes on the Producers will do us anything but harm? You and I along with the entire State is in the oil business and it appears our legislature is doing its level best to run them out of the State.

Do you guys ever think about anything besides new taxes? We passed SB 21 and that should have been that period.

As a reminder - We are down to 295 employees from almost 900. Explain to me how punitive taxes on an already overtaxed industry is going to help?

How about focusing on more oil in the pipeline?????

I am sorry this email sounds a bit direct - but this is so frustrating. I have personally testified many times and emailed. Frankly one of the house members emailed me back and said the State has never changed tax policy - only at the request of the Producers and that Caelus is not being truthful about Smith Bay - Really?

Cathy Duxbury



ASSOCIATED GENERAL CONTRACTORS of ALASKA

8005 SCHOON STREET, SUITE 100 • ANCHORAGE, ALASKA 99518
TELEPHONE (907) 561-5354 • FAX (907) 562-6118

April 17, 2017

Senator Cathy Giessel
State Capitol, Room 427
Juneau AK, 99801

Re: House Bill 111

Dear Senator Giessel,

The Associated General Contractors of Alaska is a trade association representing over 640 Alaskan businesses in the construction industry. On behalf of the AGC and those businesses, we offer the following comments on House Bill 111.

AGC has significant concerns with HB 111 and request you not pass this bill. The entire premise of the bill is to get the oil industry to contribute more to the fiscal gap without regard for the long-term economic and job impacts to our state. This bill represents a significant tax increase in an already high cost environment, and moves Alaska in the wrong direction.

North Slope oil production grew 2% in 2016, the first growth in 14 years. There is indisputable proof that the current tax structure and incentives are working and should not be changed. You cannot expect to continue to increase production by increasing taxes.

These constant changes to Alaska's oil and gas taxes creates an uncertain investment climate for our business community. In the last 11 years alone there have been six changes to our oil and gas taxes. Changing them again does not give industry confidence to continue to invest in Alaska.

If the Senate evaluates credits, we recommend taking a very incremental approach to limit the state's exposure while not significantly altering the economics of development projects in Alaska.

Sincerely,

John MacKinnon, Executive Director
AGC of Alaska

Dan Hall, President
AGC of Alaska



1016 W Sixth Ave., Suite 303

Anchorage, AK 99501

April 17, 2017

Dear Senate Resources Committee,

The Anchorage Chamber of Commerce today announced opposition to House Bill 111, a bill aimed at altering production taxes on the oil and gas industry for the seventh time in 12 years. The Anchorage Chamber of Commerce is a strong advocate for a solution to the state's ongoing fiscal crisis, which will need to involve reductions in government spending, a restructuring of the permanent fund, and possibly a new broad-based tax. The Anchorage Chamber has consistently advocated for a fair, competitive, and stable oil tax environment as foundational to Alaska's economic stability. In response to the introduction to this bill, Anchorage Chamber of Commerce Chairman JR Wilcox issued the following statement:

"There is an urgent need for the legislature to take responsible and decisive action during this legislative session to address the state's serious fiscal problems. The gap between government revenue and expenditure is manifestly unsustainable, and the failure to resolve the issue is creating a damaging climate of uncertainty for the state's business community. Trying to address the fiscal crisis through another change to the production tax system will only compound our economic and budgetary problems. This would curtail much-needed investment in the oil & gas sector and distract from the urgent matters at hand. Only through encouraging investment will we increase production, resulting in a vibrant economy and more government revenues."

The Anchorage Chamber will continue to oppose tax increases on the oil and gas industry and actively advocate on behalf of its members on the importance of creating a stable business climate.

Sincerely,

Bruce Bustamante
President

My name is Steve St.Clair I live in the Matsu and I am representing myself. I oppose HB 111. It has been proven SB 21 is working during low oil prices. If it is working, why change it. Again, this body is seeking a solution to a problem that does not exist.

BP reported they made \$85 million in Alaska this year and paid \$464 million in taxes and royalties. I know these numbers are probably not entirely true and use fuzzy math, similar to what you all have do this year. But in the end, BP paid 82% of their revenue in the form of taxes and royalties. I have heard many say oil companies need to pay more. To those I ask; would you pay 82% of your annual income to the government and still be motivated to work? If you say yes, you are either an idiot or have no idea of the impact of the loss of 82% of your income.

If legislators were forced to pay 82% of their income back to the government, their pay would look something like this. Legislators earn a base pay of \$50,000 a year and would pay \$41,000 back to the government if taxed at 82%. This means they would take home \$9000 a year or \$750 a month or \$187 a week or \$4.68 an hour. I do think \$4.68 an hour is too much for most of you, but you can see the point I am trying to make.

When it comes to tax credits, they all need to stop and a 3 year moratorium be put in place. We as a state cannot afford it. Additionally, we have a deadbeat governor who won't pay off credits we already owe. If after the 3 years we have not paid those who have already earned credits, the moratorium stays in effect until they are paid off.

I urge members to vote no on this bill, potentially split this bill, severely amend it, but as it stands now this is another bad bill.

To my Alaskan Senate,

I Thomas Willard a life-long Alaskan and Mat-Su resident, adamantly oppose HB 111 and the massive strain it adds to the already strained populace. I personally cannot afford and have been shown no proof that our government has done anything to earn the extra money or warrant the necessary growth of our government. I have never once seen our government do anything to combat the cost of living here, one of the highest in the nation. All I have seen is our Government time and again try to take take take from the people it purports to represent.

It is time for our government to take a time out and only fund the essentials. It needs to be sat down and remain in the confines of a realistic budget. This government of ours needs to take a step back and look at more interesting options, such as pulling excessive funds from boroughs and municipalities that are wasting money. An example of such waste is the ridiculous overpass being altered on Mudloon rd. in Anchorage. I cannot think of a greater waste of money while this legislature decides whether or not they are going to steal even more money from the Alaskan populace. You have failed to protect our dividend half of which you know was stolen by this legislature. Our economy is going to die with careless acts such as this. People are going to leave and businesses will follow.

You stand at a unique fork in the road right now. You can take the slow path back to prosperity, where the government makes the hard cuts on itself and goes without all the bloated programs we don't need, E.G. the contracts for the DMV express. There is plenty more to cut, according to what I've read the Senate Majority does not support this tax, and you know there are hard cuts yet to be made. The other road you can take is one we seem to have already put our foot on as a state. A road that leads to misery and the downfall of our great state. We as Alaskans have already have to endure one year where a near record dividend was cut in half and stolen. For what?

A government cannot exist with a peaceful, happy, prosperous-populace without a strong economy. Perhaps as Alaskans we don't need government employees to do things like, clean up parks, perhaps it is our time to step up and spend our time on the things our government money is being wasted on. Maybe interesting ideas should be used, such as, instead of points off licenses for non-moving violations(non-dangerous violations I.E. Registration, no front license plate, or failure to register) these infractions could be met with community service and all the things our government doesn't need to be doing for us.

I do sincerely hope, you as our collective senate listen to you constituency. We are watching and we are paying attention. There is only so much we can endure as people and businesses.

Thank you for your time,

Thomas S. Willard

Good morning, my name is Keith Silver and I do not work for an oil producer or service company. I am however, a long term resident of Alaska and as such, have a vested interest in resource development. Resource development is very expensive in Alaska due to weather conditions and lack of affordable access. One of many factors that companies have to deal with is the fiscal policy in the jurisdiction in which they are considering investing their billions of dollars. That fiscal policy needs to be competitive, fair, and consistent. HB111 fails the consistency test, simply because it changes the taxes for the 7th time in 12 years. It fails the fairness test because it changes and eliminates many of the credits currently available. It is also not competitive with most other jurisdictions when you take into consideration the weather and access issues here in Alaska.

Those of here in Anchorage are in a building that is heated and powered by affordable natural gas that incentive credits helped to bring to market. Without those credits, we were being told that Anchorage was going to have to import natural gas to heat our homes and buildings as well as power our infrastructure. It is a perfect example of how incentive credits can work.

Recently, Caelus Energy announced they found a large oil field on state land northeast of Barrow. Repsol and Armstrong also announced they found a large oil field on state land. It would be a costly mistake to discourage them and other similar explorers from developing such promising prospects.

Thank you for the opportunity to address you. I urge the committee to not pass HB111.



**GENERAL
TEAMSTERS
LOCAL 959
STATE OF ALASKA**

Affiliated with the International Brotherhood of Teamsters
Rick Boyles, Secretary-Treasurer
520 E. 34th Ave., Suite 102, Anchorage, Alaska 99503
Phone (907) 751-8501 • Fax (907) 751-8599

April 18, 2017

Honorable Giessel
Senate Resources Committee

Re: HB 111 Oil Gas Production Tax

Dear Senator Giessel:

Our Union represents active and retired Teamsters throughout the state, employed by Alyeska Pipeline, Houston Contracting, Norcon, Lynden, Weaver Brothers, Usibelli Coal Mine, Doyon, Nanuq, Matson, Alaska Frontier Constructors, Totem Ocean Express, AT&T, South Peninsula Hospital, Northern Air Cargo, to name a few. On behalf of our members we negotiate with our employer's good wage and benefit packages. Our members must have jobs to provide for their families and enjoy the beauty of our state.

I am writing this letter to share some of our concerns regarding the unintended consequences with the passage of HB 111 on our workforce and the long term financial situation of Alaska.

We appreciate those that have introduced bills to help bridge the budget shortfall. We understand the need to make tough decisions to balance our budget. We support adjustments to the permanent fund, thoughtful reductions to the state budget, and new revenue sources to assist in obtaining that goal.

When legislation is being considered that could negatively impact the exploration and production of current and future oil, we become very concerned. Continuing to increase the flow of oil in our pipeline should be a priority. The States' economic viability thrives on revenue, more production means more revenue. For our Teamster members as well as other industry workers more production means more jobs.

As each of you know, it is the oil industry who continues to generate the most in revenue to the State, in spite of oil price declines. Over the years billions of dollars of oil revenue has been used to fund our Capitol budget, improving our infrastructures around the state. Oil/gas revenue has paid for our public schools, public safety, sport facilities and convention centers. The revenue from this industry also created our savings accounts and Permanent Fund.

With that being said we ask that during your deliberations of this bill you carefully consider the impact of current and future production, especially in times of low oil prices. As many of you may recall Teamsters did support SB 21, as did an overwhelming

April 18, 2017

majority of the public. As a result the industry invested into projects such as CD-5 and Sharks Tooth which has put hundreds of people to work.

Currently we have members working on the GMT-1 project for ConocoPhillips, a new drill site west of CD-5. Nanuq, one of our largest contractors on the North Slope, has been awarded the job of building an 8 mile gravel road, the ice roads for this project and a 10 acre gravel pad for the future drill site. Nanuq also is drilling all the VSM holes to be set for the pipeline that will be constructed. Houston Contracting was awarded all the pipelines for this project. The GMT-1 project alone so far has created around 300 jobs for our Teamster members and countless other jobs, for other unions, businesses and vendors. ConocoPhillips kept their commitment to this project in spite of the decline in oil prices. ConocoPhillips and Armstrong Oil, whom we have Teamster members building ice roads for their project through Nanuq, have made huge investments in the North Slope. Stability in the oil industry is important when it comes to investment. Investment leads to new development and that leads to jobs.

In conclusion, please consider the unintended consequences that the passage of HB 111 could have on the current and future economic viability of our state. We ask that HB 111 not move from committee.

Your time and consideration of this important matter is greatly appreciated.

Sincerely,

TEAMSTERS LOCAL 959



Rick Boyles
Secretary-Treasurer

Copy: Sen. Coghill, Hughes, Meyer, Stedman, Von Imhof, Wielechowski



DATE: April 17, 2017
TO: Chair Cathy Giessel
FROM: Kate Blair, Government and Public Affairs Manager, Tesoro Alaska
RE: Copy of Public Testimony on House Bill 111 CS

Thank you for the opportunity to testify before you today on House Bill 111.

For the record, my name is Kate Blair and I am the Government and Public Affairs Manager for Tesoro in Alaska.

Tesoro Corporation, a Fortune 100 company, is an independent refiner and marketer of petroleum products. Tesoro operates seven refineries in the western United States with a combined capacity of over 895,000 barrels per day and ownership in a logistics business, which includes interest in Tesoro Logistics. Tesoro has a proud Alaska legacy, with our first refinery located in Nikiski which has a crude capacity of 72,000 barrel per day. Tesoro Alaska assets also include a 69-mile common-carrier pipeline from Nikiski to the Ted Stevens International Airport and the Port of Anchorage, where refined products such as jet fuel, ultra-low sulfur diesel, and gasoline, are stored and transported throughout the state. The existence of in-state refineries has helped underpin the growth of the international air cargo business, for which Anchorage boasts one of the top 5 cargo airports in the world.

The Kenai refinery is able to meet most of the state's demand for gasoline, and therefore a majority of the gasoline consumed throughout the state has been refined right here in Alaska. Even far from major markets, the reliability of our gasoline supply is excellent because of the refinery's ability to meet the needs of the Alaska market.

Additionally, Tesoro Alaska's refinery and logistics operations employ approximately 250 family wage jobs in Nikiski and Anchorage, and have greater than 97% Alaska hire rates.

Please allow us to first begin by stating that Tesoro, as an independent integrated refining, logistics, and marketing company, does not weigh in on what the oil and gas production taxes in Alaska should be, as we are not a production tax payer in Alaska. We would, however, like to take this opportunity to reiterate that in-state oil production matters. Any loss of production, either from Cook Inlet or North Slope, would affect the in-state refinery and potentially make our economics more challenging.

Tesoro relies on access to in-state crude through production in Cook Inlet and the North Slope. At its peak, the Cook Inlet basin produced more than 200,000 barrels per day, and in 2016, Cook Inlet produced just over 16,500 barrels per day. We refine every drop of oil that comes out of the Cook Inlet basin, and we purchase North Slope crude, shipping it from Valdez for refining in Nikiski or to our refineries along the west coast. On average, we purchase up to 160,000-170,000 barrels per day of ANS, accounting for approximately one-third of daily production flowing through



the Trans-Alaska Pipeline System. Earlier this year, Tesoro signed a royalty oil contract with the State that allows us to purchase 20,000- 25,000 barrels per day of the State's royalty share of oil, with a benefit to Alaska of \$45-56 million.

The increased investment and production since the passage of the Cook Inlet Recovery Act and Senate Bill 21 have resulted in a stable, local supply for the majority of our crude. Even with production from both basins, we must supplement our crude supply with light, sweet crude from foreign and other domestic sources.

Declining production in either region would result in our Kenai refinery importing more crude to meet the demands of the market. Coupled with extremely high natural gas costs for an energy- intensive process, importing a majority of our crude supply could make local refining a less economical option than shipping in refined products from other areas of the West Coast. This could ultimately affect the stable, local supply of transportation fuels from which Alaskans have relied for the past 48 years.

One particular concern Tesoro has with the current version of the bill is the added language around refinery tax credit transparency. We believe the information required in the current version is Confidential Business Information, disclosing publically what companies pay for a particular project through a description of expenditures potentially violates anti-trust laws, considering the few contractors in Alaska that provide particular services. Additionally, the current transparency language also requires the Department of Revenue to make public the potential monetary benefits to the state, or residents of the state, of the projects claimed under the refinery tax credit. There is no clear mechanism to calculate the potential benefits, so therefore the output will be subjective and open to political distortion.

As you assess oil and gas production changes, we ask that you consider how the modifications will affect production, and in turn, in state manufacturing. We are proud to partner with the people of Alaska as the providers of reliable transportation fuel, and hope to continue to do so for years to come.

Thank you for the opportunity to speak today, and I would be happy to answer any questions either now or after the hearing.

Resource Committee Senators,

I would like to voice my opposition to HB111. State revenues from Oil Industry taxes is a function of (throughput) X (Tax \$\$\$'s per barrel). There will be a direct negative correlation on throughput when the margin realized by the producers is reduced. A proposal for short term gain, and creating a long term loss in throughput, is real and not in the best interest of the State. I would much rather find ways to incentivize production and exploration expansion and ensure long term revenue security.

Allowing this bill to move forward would be a mistake

John Lau

Written Testimony for House Resources Committee on HB 111

April 17, 2017

Senate Resources Committee
Alaska State Capitol
Juneau, AK 99801

Dear Chairwoman Giessel and Members of the Committee:

NANA companies have provided services to the oil industry for over 30 years, including major producers, ConocoPhillips, BP, ExxonMobil and Alyeska Pipeline Services, as well as independent producers who are expanding opportunities in Alaska's oil and gas sector. We specialize in multiple disciplines, including engineering and design, project management, project controls, procurement construction management, camp services, catering, surveying and environmental sciences. The oil and gas sector is important to NANA businesses and the future of the State of Alaska. It is one avenue for NANA to meet its mission to provide benefits to our more than 14,300 Iñupiat shareholders in the form of dividends and jobs. NANA has concerns about HB 111 and the impact it will have on the long-term economic health of the State.

Increases in Oil and Gas Taxes

HB 111 threatens the stability of the current oil and gas tax structure and will make Alaska less competitive for investment from large producers and independents. When investment decreases, businesses like NANA lose opportunities to obtain and retain work. This threatens the jobs and futures of our shareholders and employees who have built lives for themselves and their families through opportunities created by the development of the oil and gas industry in Alaska.

Though it is important for the State to address its fiscal needs, increasing taxes on the oil and gas sector threatens the longer term fiscal health of the State. Tax reform was adopted in 2013 to increase Alaska's attractiveness for investment and to slow the decline of production. Since 2013, we have seen an increase in investment from major producers and independents. An increase in taxes on this sector increases barriers to investment by making Alaska less competitive and reinforcing that the State does not have a stable tax policy for oil and gas. Maintaining a stable tax environment ensures that new investments are made to keep production up, that Alaska remains competitive, and ensures that the long-term fiscal health of the State is maintained for future generations.

Middle Earth Oil and Gas Tax Credits

One aspect of the bill NANA is pleased with and we encourage the Committee to ensure is continued is that the Middle Earth tax credits are held harmless. As with over all oil and gas investment in Alaska, it is difficult to attract new investment in areas outside of major fields. NANA is interested in exploring for natural gas in the Kotzebue basin for use at the Red Dog Mine and communities located in the area. The Middle Earth Tax credits provide NANA, and others, the opportunity to attract investment for exploration.

Conclusion

NANA recognizes the need to address the State's fiscal situation due to the importance of the basic services the State provides to our shareholders and employees across the State. We employ 5,000 Alaskans, approximately 1,500 shareholders, and, as an Alaska-owned business, we have a long-term investment in the success of the state. We continue to encourage the Legislature to implement a long-term fiscal plan that includes broad-based measures. This can be accomplished without impairing a specific industry, or to the detriment of Alaskan families, especially those in rural areas, who already pay the highest cost of living in the State.

NANA urges you not to raise taxes on Alaska's oil and gas sector. Keep Alaska competitive and provide a stable investment environment for the oil and gas sector, and protect the future of our state.

Sincerely,

A handwritten signature in cursive script that reads "Elizabeth Cravalho". The signature is written in black ink and is positioned above the printed name and title.

Elizabeth Cravalho
Vice President, External & Government Affairs

Dear Senators,

I'm concerned with the current version of HB 111. Baker Hughes employees over 150 employees in the state and I'm very worried that implementation of current version HB 111 will create further hardship on our industry and potential further business decline.

We believe that the state should encourage investments into the Oil and Gas industry. The current version applies taxation that hinders smaller, yet critically important, operators from entering the market and put investments into the state. The frequency of Alaska's O&G taxation changes are concerning when compared to other states of our nation. The many flaws of the current HB 111 have been communicated (preferred treatment for legacy fields, limited time of loss deductions, and many more).

I thank you for reviewing HB 111 and to find a better solution for all possible investors into the state.

Best regards,

Christian Klotz | Area Manager

Baker Hughes | Alaska

Loss Recovery: Under SB 21 and Possible Modifications

Roger Marks
Senate Resources
April 19, 2017

Preamble

- SB 21 is a net tax with a 35% rate
- There is a floor on that net tax equal to 4% of gross value
- Looked at North Slope non-GVR oil
 - Loss mechanisms for GVR oil are similar

Definition of Loss Recovery

- 35% of loss value is used to reduce taxes in future years

Losses under SB21

- Definition of loss:
 - Because there is a floor of zero on production tax value (PTV) (net value)
 - A loss is a cost (upstream “lease expenditure”) not deductible in calculating PTV
- Costs are recovered under SB 21 where 35% of losses becomes a credit to either:
 - Reduce tax in future years
 - Sell to another taxpayer
 - Cashed out by State with limitations
- Can bring tax below gross floor
- Any unused loss credits can be carried forward

SB 21: Generating a Loss Year 1

ANS Price	\$30
Transp Cost	<u>(\$10)</u>
Gross Value	\$20
Upstream Costs	<u>(\$25)</u>
PTV	\$0
Loss	\$5
Loss Carryforward Credit (LCFC) 35% of loss	\$1.75

SB 21 Year 2: Using the Loss Credit @ \$55 Price

ANS Price	\$55
Transp Cost	<u>(\$10)</u>
Gross Value	\$45
Upstream Costs	<u>(\$25)</u>
PTV	\$20
Tax before LCFC	\$7
LCFC	<u>(\$1.75)</u>
Tax before p/bbl credit	\$5.25
Per barrel credit	<u>(\$3.45)</u>
Tax	\$1.80
Gross minimum	\$1.80

Modifications

- Instead of converting the loss to a credit at 35%, the loss itself is carried forward and deducted along with the other lease expenditures
 - No longer refundable
 - No longer transferable: losses stay with the company that earned it
- Floor is “hardened”: cannot use losses to bring tax below the gross minimum
- Unused losses can still be carried forward

Modification: Generating a Loss Year 1

ANS Price	\$30
Transp Cost	<u>(\$10)</u>
Gross Value	\$20
Upstream Costs	<u>(\$25)</u>
PTV	\$0

Loss \$5

Loss is Carried Forward

Modification Year 2: Carrying the Loss Forward @ \$55 Price

ANS Price	\$55
Transp Cost	<u>(\$10)</u>
Gross Value	\$45
Upstream Costs	<u>(\$25)</u>
PTV	\$20
Loss carried forward	<u>(\$5)</u>
Tax base	\$15
Tax before p/bbl credit	\$5.25
Per barrel credit	<u>(\$3.45)</u>
Tax	\$1.80
Gross minimum	\$1.80

SB 21 Year 2: Using the Loss Credit @ \$40 Price

ANS Price	\$40
Transp Cost	<u>(\$10)</u>
Gross Value	\$30
Upstream Costs	<u>(\$25)</u>
PTV	\$5
Tax before LCFC	\$1.75
LCFC	<u>(\$1.75)</u>
Tax before p/bbl credit	\$0.00
Per barrel credit	<u>(\$0.00)</u>
Tax	\$0
Gross minimum	\$1.20

LCFC brought tax below the gross minimum

Modification Year 2: Carrying the Loss Forward @ \$40 Price

ANS Price	\$40
Transp Cost	<u>(\$10)</u>
Gross Value	\$30
Upstream Costs	<u>(\$25)</u>
PTV	\$5
Loss carried forward	<u>(\$1.57)</u>
Tax base	\$3.43
Tax before p/bbl credit	\$1.20
Per barrel credit	<u>(\$0.00)</u>
Tax	\$1.20
Gross minimum	\$1.20

LCFC could not bring tax below the gross minimum

Tax increases under the proposal from \$0 to gross minimum



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907-250-1197

ALASKANS SUPPORTING A SUSTAINABLE AND GROWING ECONOMY

The signers of this petition are asking lawmakers to continue the successful business partnership our state has with the oil and gas industry. The current tax system encourages exploration and production of new oil fields that create jobs, revenue and long term economic stability for all Alaskans. KEEP and its supporters oppose tax increase provisions in CS HB 111 (FIN).

Alaska's abundant natural resources are the envy of the world. We should market those resources. We should maintain stable and competitive tax policies. We should, on a sustainable basis, balance our budget. And we should quit threatening our investors with uncompetitive taxes.

The KEEP Alaska Competitive coalition, 5,000 members strong, is made up of businesses, Alaska Native organizations, labor groups and individual Alaskans who know that stable tax policies and promoting investment in resource development will secure Alaska's economic future.

Name	Post Code	Name	Post code
Ramona M.	99502	Eileen W.	99577
Faith M.	99577	Barbara N	99669
Mikele B.	99515	Joe F	99577
Jeff T.	99507	Shiela C	98507
Blake S.	99654	Mary A	99516
Roger B.	99515	Rich M	
Richard L.	99556	Joy M	99709
Patricia L.	99556	Brian F.	99686
Christine R.	99516	Holly R.	99623
Kathleen W.	99507	Patrick W.	99520
Shawn A.	99516	scott w.	83525
Jane K.	99517	Jason S.	99654
Dorelynn M.	99523	Craig O.	99603
Terri A.	99504	Kurt O.	99654
		Alexandra	
Grey M.	99801	P.	99645
Nancy D.	99672	John W.	99518
Bill D.	99672	Kevin C.	99645
John G.	99645	Ted L.	99687
Michael C.	99623	Dixie B.	99654
Travis J.	99567	Kristie B.	99669
Deonn T.	99623	Teddy B.	99507

KEEP ALASKA COMPETITIVE

Richard D.	99577	Tuckerman	
Steve R.	99502	B.	99669
Amanda O.	99635	Virginia S.	99654
Todd P.	99623	Cheryl M.	99709
Scott S.	99801	Sam M.	99503
Guy H.	99508	David W.	99801
Loretta S.	99669	Rachel D.	99567
Paul M.	99517	Cathy F.	
Manuel A.	99515	Louis A.	99577
Kynna S.	99645	Kadin Y.	99567
Rick S.	99743	Tami Y.	99567
Tim C.	99669	Ryan M.	99507
Tiffany C.	99901	Ralph S.	99515
David Z.	99567	Rayann C.	99603
Dorene F.	99705	Libby D.	99707
Vivian S.	99701	Michael C.	99516
Mike S.	99504	Keith S.	99515
Michael M.		Juanita R.	99669
Christina M.	99516	Melissa G.	99504
Laurie A.	99669	Glen O.	99654
Robert A.	99669	Jesse C.	99556
Diane M.	99587	Lon W.	99502
Sev S.	99503	Bradley K.	99515
Michael G.	99654	Jennifer C.	99556
Kerry Z.	99577	Gerald W.	99501
Linda Z.	99577	Regina D.	99611
Carmen W.	99502	Neal	99611
Michael M.	99623	Phillip C.	99687
Jeff S.	99515	Jeff G.	99709
Brooke S.	99508	Randall K.	99709
Mike H.	99708	Jennifer B.	99577
Jody S.	99623	Bob H.	99712
Melody G.	99517	Jim J.	99515
Lorin V.	99517	Thomas D.	99611
Scott C.	99504	Mike R.	99573
Ruth M.	99516	Maria T.	99577
Walter M.	99611	Paul T.	99669
Carol I.	99508	Susan H.	99515
Pamela S.	99760	Sammy A.	99517
Arlene S.	99503	Dale B.	99725
Ricky C.	99654	Thomas K.	99504
steven c.	99517	Susan V.	99515
Mardee S.	99645	Lukas M.	99709
		Joshua W.	99502

KEEP ALASKA COMPETITIVE

Phillip D.	99577	JARED B.	99507
Tony C.	99901	Corri F.	99674
James B.	99567	Timothy F.	99645
Terry H.	99610	Wendy M.	99645
Joshua G.	99504	Jana S.	99516
Wilbur O.	99515	Hank B.	99706
Debra M.	99611	Bonny S.	99504
Walter M.	99611	Tom W.	99508
Laurie R.	99507	Margaret N.	99507
Evert L.	99654	Steven T.	99504
Fred N.	99926	Paulette M.	99516
Drew M.	99502	Bob S.	99508
Suzan J.	99686	Nancy T.	99709
		Rosemarie D.	99801
Mark W.	99645	Cynthia H.	99709
Paul F.	99654	Michael M.	99516
Ken G.	99502	Garnet K.	99645
Craig E.	99504	Jim P.	99701
Kevin G.	99577	Stephen L.	99577
Ken H.	99709	Al S.	99516
John M.	99518	Lee M.	99516
Ludy A.	99515	Christie W.	99502
Mary Z.	99687	Cary L.	99587
Elena P.	99518	Sinclair W.	99517
Ines G.	99518	Neil M.	99801
albert I.	99712	Joe B.	99516
James T.	99516	Micheal F.	99507
Rob N.	99516	Daniel D.	32819
scott e.	99507	AARON F.	99712
Nathan T.	99705		99504-
		Scott S.	3901
Sheri C.	99635	Jlm D.	99516
Amanda H	99502	Samantha D.	99516
Frank F.	99515	Steve K	99507
Karleen W.	99654	Scott E H	99515
Brian D.	99516	Cheryl F	99517
Shanna D	99507	Michael M	99502
Allen I	99508	Thomas H	99645
Russell V.	99501		99518-
		Larry H	1550
Stacy Y.	99577	Mike M	99507
Laura K.	99516	Grace G	99587
Cynthia R.	99502		

KEEP ALASKA COMPETITIVE

Kristina W.	99516	justin d	99645
Debbie H.	99567	Matt F.	99517
Leah G.	99623	Tye H.	99507
Amanda D.	99507	Kathleen O.	99501
Julie M.	99645	Kevin D.	99516
Roberta R.	99516	Steve F.	99518
Jen S.	99501	Kurt W.	99507
John D.	99674	Kevin R.	99515
Jooseph M.	99516	Greg O.	99762
Veronica K.	99567	Andrew C.	99669
Craig J.	99515	Ryan E.	99504
Myrna M.	99517	Andrew Z.	99503
Beth W.	99654	karen k.	99507
Julie G	99709	Jeremiah J.	99507
Darrell P.	99503	Ronald D.	99516
Pamela P.	99503	Scott R.	99518
Jacob B.	99801	Carl S.	99518
Brent M.	99518	Craig T.	99577
Lisa V.	99623	Nick K.	99515
Bret C.	99516	Kelly D.	99508
Sonia H.	99577	Michael S.	99669
Albert S.	99577	Judith H.	99516
Thomas T.	99518	Shawna A.	99567
Tarek S.	99502	Robert D.	99516
Colleen C.	99654	Michael F.	99502
James C.	99507	Bob K.	99515
Josie W.	99515	Kissee D.	99567
Russell S.	99517	Joey C.	99654
James P.	99503	Melonnie A.	99577
Chuck C.	99603	Jim S.	99501
Eugene W.	99516	Nick P.	99502
Meg D.	99687	Melanie P.	99516
Jamey B.	99688	Kenneth Y.	99567
Benjamin S.	99507	linda I.	99577
Randy E.	99516	Ragan A.	99567
		Matthew	
Dan M.	99507	M.	99502
Robert S.	99567	Steve R.	99516
Carrie K.	99508	Daniel O.	99502
Kirk C.	99508	Jaquel S.	99515
Steve P.	99577	Robert R.	99709
Lee L.	99516	Donald M.	99645
Hal I.	99502	Jennifer M.	99709
Cory B.	99835	Laura D.	99645

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Omid R.	99515	Dan G.	99611
Deedre N.	99502	James C.	99507
Patrick R.	99502	David B.	99507
Cari-Ann C.	99515	Carol F.	99517
Beki K.	99507	Jill S.	99611
Ron H.	99516	Drema F.	99567
Paul K.	99507	Kelly D.	99518
Kay S.	99516	Tammy O.	99502
Maynard T.	99503	Rebecca G.	99516
Dave C.	99669	Kemp W.	99515
Don H.	99508	Michael B.	99502
Kimberley G.	99517	Randy K.	99502
Laurie m C.	99515	Susan D.	99502
Dave B.	99515	Jennifer I.	99577
Sam W.	99523	Steve W.	99654
Saud A.	22042	David S.	99577
James B.	99516	David R.	99540
William H.	99515	Beth K.	99518
Shelby V.	99516	Sarah W.	99516
Dave H.	99507	Leslie D.	99515
George M.	99654	Deantha C.	99507
Stan B.	99516	Jesse B.	99577
Michael O.	99517	John S.	99503
William K.	99516	Jenifer A.	99645
Dow O.	99645	Vern J.	99516
Kelli L.	99577	Scott O.	99516
Traci R.	99518	Shawn P.	99515
Tracy S.	99801	Wayne W.	99504
Kenneth C.	99516	Lance M.	99517
Diane C.	99516	Harry G.	99518
David K.	99516	Michael J	99507
Coral H.	99712	James H.	99516
Larry G.	99504	Jesse T.	99504
Michel C.	99507	Dylan D.	99645
Heidi D.	99522	James L.	99516
Hans R.	99502	Ella E.	99508
Scott M.	99502	Tanja D.	99508
Con B.	99508	Shaina A.	99502
Eileen F.	99515	Clint W.	99523
Stephen J.	99516	Chris H.	99577
Mark L.	99654	Portia B.	99515
Mark T.	99645	Brandy D.	99515
Deb M.	99515	Steve H.	99508

KEEP ALASKA COMPETITIVE

Brian S.	99669	Jeremy P.	99505
Darlene O.	99517	Scott S.	99507
Eric D.	99654	Josie H.	99516
Richard Y.	99577	Bill J.	99516
Clara S.	99507	Jessica P.	99515
Kodi L.	99654	Collin P.	99517
Jeffrey L.	99654	Patrick R.	99503
Randy A.	99507	Bill B.	99503
Nancy H.	99645	Ryan M.	99654
Aras W.	99517	Greg E.	99669
Donna C.	99687	Roy R.	99654
Russ E.	99654	Cam T.	99517
Katie S.	99516	James F.	99567
Joseph H.	99928	Sarah A.	99502
Lisa A.	99516	Mary W.	99515
Dave C.	99645	Julie L.	99516
Steven C	99645	Matt J.	99515
Pete S	99517	Gilbert W	99516
Nanette R	99504	Mike M.	99522
Yolanda B	99654	Billy W.	99654
Francois D	99508	Jason W.	99577
Phylis S	99654	Brien R.	99516
Brenda R	99502	Robb C.	99502
Mel	99504	Michelle T.	99517
galen n	99508	Andrew L.	99577
Michael R	99502	Don R.	99501
David S	99515	Weston H.	99508
Michael R.	99502	Clif B.	99515
Yvonne S.	99507	Michael H.	99504
Chad S.	99611	Allison C.	99507
Lana J.	99587	Skyler P.	99507
Katrina M.	99705	Kathy E.	99502
Drue P.	99501	Richard J.	99521
Robert A.	99577	David H.	99507
James L.	99516	Lauren R.	99504
Curtis B.	99654	Joe M.	99515
Gary F	99623	Scott H.	99515
Mindy T	99926	Melonnie a.	99577
Donald B	99824-5402	Savannah A.	99502
Theresa S	98502	Clint R.	99515
Johnny M	99687	Pat F	99516
Jane E	99516	Jacob C	99507
Aaron G	99518	Sheyna W.	99502
Charles U	99517	Sid V.	99502

KEEP ALASKA COMPETITIVE

Shirley B	99645	Casey S.	99517
Jennifer M	99502	Jared M.	99518
Elias W	99669	Erin R	99515
Logan H	99502	Justin B	99577
Holly W	99516	Karl M.	99501
Jeff D	99517	Sandra U.	99687
Timothy J	99516	Carter H.	99507
		Christopher	
james s	9669	G.	99518
F F	99516	John S.	99502
Jean M	99709	Natalia M.	99515
Pamela A	99507	Lucas H.	99518
Roger W	99517	Isaac P	99516
Leslie H	99901	Mark R.	99504
LORI N	99516	Thomas F.	99507
Stephen K	99515	Robert M.	99516
john w	99802	Gerry S.	99502
Tamara S	99645	Scott W.	99502
Bryan C	99502	Sam C.	99507
Shelby M	99516	John L.	99508
Brian R	99518	Joshua D.	99654
Maynard G	99577	Judd J.	99503
Christopher			
G	99645	Roman A.	99504
Tamera L	99504	Bobby R.	
james u	99518	Michael L.	99516
Peter L	99516	Ben A.	99516
James C	99502	Thor B.	99517
Janece H	99511	Jason W.	99516
Dennis S	99672	Cathy D.	
Michael R	99709	Melonie A.	99577
Susan H	99502	Lisa H.	99516
Kim M	99516	Dawn P.	99508
Kraig M	99669	Rick B.	99501
Gary S	99701	Joe R.	99515
Walbert S	99516	Gary D.	99503
Johna B	99611	David M.	99517
Arden M	99654	I'm jace D.	99516
sam m	99516	Sarah S.	99502
Todd B	99503	Damian B.	99516
Glenda F	99611	Ashley B.	99504
Susan C	99577	Al S.	
Jared P	99611	Renee L.	99502
Val H	99518	Rebecca L.	99515

KEEP ALASKA COMPETITIVE

Austin P	99508	Galen N.	99508
Randolf B	99709	Brian S.	99515
Mark G	99517	Tyrell A.	9515
Cory Q	99515	melonnie A.	99577
Kevin T	99516	Louis A.	99577
Lance R	99708	Kevin W.	99515
David L	99508	Hans N.	99517
Heather J	99507	Mary W.	99515
Todd S	99635	Ben B.	99515
Bob S	99516	Daniel .S	99507
Mark H	99516	Curtis T.	99503
Charles S	99502	Carl P.	99516
Daphne L	99577	Alex H.	99516
William S	99669	Alicia W.	99515
Jillian J	99516	Kim G.	99507
Genevieve S	99709	Robin P.	99510
Dina W	99507	Evan G.	99507
Matt N	99502	Walter P.	99501
Jake A	99611	Jim P.	99577
Nathaniel S	99577	Gail P.	99501
Terrence H	99709	Elizabeth S.	99502
Victoria S	99508	Laurie F.	99517
Jason M	99501	Jeanine S.	99516
Cynthia B.		Dani M.	99516
Brian H.	99516		
Jack M.	99709		

Written Testimony for CSHB 111 (H.FIN)
For Senate Resources Committee

Submitted by Sarah Obed
Vice President of External Affairs for Doyon, Limited

April 18, 2017

Introduction

Doyon is the state-chartered Alaska Native Claims Settlement Act regional corporation for Interior Alaska. Doyon has over 19,500 shareholders, most of whom reside within the state.

Doyon's mission is to continually enhance our position as a financially strong Native corporation in order to promote the economic and social well-being of our shareholders and future shareholders, to strengthen our Native way of life, and to protect and enhance our land and resources.

Doyon is the largest private landowner in the state, and one of our highest priorities is the continued exploration for oil and gas resources on lands owned by the state and Doyon in the Minto Flats/Nenana Basin. Doyon has approximately 250,000 acres of leases from the State and Mental Health Trust, and Doyon pays \$3 dollars per acre, per year in rentals for these leases. This is where Doyon's exploration focus remains. However, success in the Nenana Basin would demonstrate potential in the much larger and geologically similar Yukon Flats basin. One of the most prospective parts of the Yukon Flats is near Steven's Village, only thirty miles from the Trans-Alaska Pipeline System.

Middle Earth Exploration and Potential

The structure of the Alaska oil and gas production tax is vital to the exploration and development of areas of the state sometimes referred to as "Middle Earth," which encompasses all areas of the state south of the North Slope and outside of Cook Inlet. Middle Earth includes the Nenana Basin and Yukon Flats in central Alaska where Doyon holds oil and gas interests, including several hundred thousand acres of state leases. Middle Earth also includes Kotzebue, Copper River, Bristol Bay, and the Aleutians. These areas are uniquely situated and the opportunities and challenges for economic development and oil and gas exploration and development are dramatically different than the opportunities and challenges on the North Slope and in Cook Inlet.

Currently there is no oil or gas production in Middle Earth and the prospective basins are unexplored or underexplored, with no commercial discoveries. Federal and state studies indicate that many of the basins in Middle Earth are highly prospective areas for oil and gas. Some areas are near infrastructure and could be quickly developed to bring oil and gas into production in the near future. There are great opportunities for major oil and gas discoveries that could accelerate economic development and provide jobs, local sources of gas to communities, revenues from royalties, lease rentals, and taxes, and also valuable well and seismic data.

There are several Middle Earth projects that are moving forward and production tax credits impact these projects and the appetite for investment in them. Doyon has drilled three wells showing oil and gas, and shot seismic in the Nenana Basin and Yukon Flats. Doyon has advanced its projects from unknown potential to the demonstration of an active hydrocarbon system. The system present includes good source rocks, excellent reservoir rocks, and a near gas discovery. These opportunities are roughly 40-60 miles from the Trans-Alaska Pipeline and the likely route of a major gas line, and can provide gas to Fairbanks. These projects are already spurring economic development and providing revenue to the state and localities—Doyon has paid the state millions in lease rentals over the last several years. This is further exemplified by Doyon’s continued exploration, which includes a 64 square mile 3D seismic shoot that is currently underway.

The oil and gas production tax credits are vital to Middle Earth exploration and development, but the amount of credits associated with Middle Earth activity is miniscule compared to the total amount of credits in the state. Total rebates to Doyon for the ten year period are estimated to be approximately \$64 million, or less than 7 million dollars per year on an annualized basis. Because Doyon’s prospects are near infrastructure, the minimum economic size needed to develop an initial discovery is 30-40 million barrels when oil is in the \$50-70 bbl range. A single oil discovery could yield several hundred million dollars in oil royalties alone, and the Nenana basin has multiple opportunities for accumulations well in excess of the minimum field size. Success with one of these traps strongly suggests that there will be success with many others. There are also significant opportunities for gas production, estimated to yield enough gas to supply Fairbanks for decades. In addition, over 30 local groups provided services for Doyon’s 2016 programs and over 150 people were directly employed. Such opportunities are repeatable throughout the basin, and would also lead to multiple opportunities throughout the Yukon Flats.

Overwhelmingly, Doyon’s oil and gas exploration investment dollars in the Nenana basin have gone into State of Alaska and Alaska Mental Health Trust (“MHT”) lands. In addition to several hundred thousand acres of state leases, Doyon holds about 9,500 acres in a Mental Health Trust lease. By comparison, Doyon owns only about 43,000 acres in the basin. The vast majority of seismic Doyon has gathered has been on state lands, the wells that Doyon has drilled have been on state and MHT leases, and the well Doyon drilled last summer targeted a trap located on both state and Doyon lands. The all-weather road access constructed by Doyon has been on public land—state, MHT and City of Nenana. Other traps imaged in the central part of the basin are on shared lands, and traps in the northern and southern parts of the basin will all be on state lands. The state and MHT will continue to benefit from lease rentals and will benefit from royalties if production commences. Further, production from all lands in Alaska, public and private, is subject to production taxes.

Doyon Oil Field Services

The Doyon Family of Companies includes several businesses providing oilfield services. These businesses include Doyon Drilling, our premiere company, which owns eight advanced drill rigs specifically designed to operate in Alaska’s northern climates, including rigs specifically designed for deep exploration in unexplored areas with little or no infrastructure. Doyon Associated, our joint venture with Associated Pipeline Contractors, works to improve North Slope construction efficiencies and is committed to environmental and workforce safety. Doyon Remote Facilities

and Services provides camp services, and Doyon Anvil, our joint venture with Alaska Anvil Incorporated, provides engineering and design, process safety, risk management, project management and construction coordination support services.

The success of the Doyon Family of Companies directly impacts Alaska's residents and economy. Doyon and our oil field services companies are based in Alaska and have excellent records of hiring Alaska residents. Most of Doyon's 19,500 shareholders reside in Alaska. The result is that the benefits of our activities and profits stay in Alaska.

Our businesses, like the Alaskan economy, depend on a healthy and sustainable economy, with a competitive investment climate. In this low oil price environment, our businesses have had to adapt to a downturn in investment, and as such Doyon urges the Alaska State Legislature to minimize changes to the oil and gas tax policy. As Doyon must look to the future for business opportunities on behalf of our shareholders and employees, the state of Alaska must also consider crafting long term policies that yield positive economic and social impacts through jobs, training, workforce development and investment.

In Summation

We applaud the deletion of portions of earlier versions of HB 111 that would have repealed the ability to obtain rebates for loss credits under AS 43.55.023(b) for expenditures for Middle Earth activities. The loss credit is an important incentive, and the fact that it was reduced from 25% to 15% for Middle Earth activities *just last year through the passage of HB 247* justifies leaving the program alone.

It is important to keep the loss credit as a cashable credit, because there is currently no oil and gas production in Middle Earth, so the ability to use expenditures as deductions or any carried-forward loss against production tax liability would of little use for the foreseeable future. While leaving the loss credit and the ability to monetize it untouched are important, HB 111 nevertheless creates a less competitive environment in the oil and gas sector, and contributes to the ongoing instability in taxation and regulation by the state of Alaska for this industry.

Further, several components of HB 111 would directly and negatively impact oil and gas exploration and development in Middle Earth.

- AS 43.55.029 allows an applicant for a tax credit certificate under AS 43.55.023 or AS 43.55.025 to assign the certificate and proceeds to third parties. This is a useful option that facilitates investment in, and financing of, oil and gas exploration and development projects—with no negative financial impact to the state. Yet HB 111 would repeal AS 43.55.029, removing the ability to assign certificates. Given that exploration credits under AS 43.55.025 have sunset everywhere but Middle Earth, and that the qualified capital expenditure credit under AS 43.55.023(a) and well lease expenditure credit under AS 43.55.023(l) are only available for Middle Earth projects after 2017, the repeal of the ability to assign certificates under these programs would directly harm Middle Earth projects.

- Last year, the legislature expanded public disclosure of information regarding tax credits to include the names of companies from which the state purchased credit certificates and the amount purchased from each company each year. Now, before the Alaska Department of Revenue has even published that information, HB 111 would add additional reporting and disclosure requirements, including descriptions of expenditures and the properties for which the expenditures were incurred. Not only could this create excessively cumbersome reporting requirements, but it may lead to disclosure of commercially sensitive information that is rightfully held confidential under current law.
- HB 111 would make a number of changes to the oil and gas production tax regime, including changing the tax rate and limiting the application of tax credits against the North Slope minimum tax. These changes create instability for the oil and gas industry and would hamper exploration and development. The limitations on the use of tax credits would further constrain the secondary market for tax credit certificates, which is important given the lack of adequate appropriations to the Oil and Gas Tax Credit Fund.



121 W. FIREWEED SUITE 120 | ANCHORAGE, ALASKA | 99503 | 907.563.9229 | ALASKAMINERS.ORG

April 20, 2017

Re: **House Bill 111**

Dear Members of the Senate Resources Committee:

The Alaska Miners Association (AMA) writes to oppose HB 111: "An Act relating to the oil and gas production tax, tax payments, and credits; relating to interest applicable to delinquent oil and gas production tax; and providing for an effective date."

AMA is a non-profit membership organization established in 1939 to represent the mining industry throughout Alaska. The AMA has a diverse membership composed of more than 1,800 members that come from eight statewide branches: Anchorage, Denali, Fairbanks, Haines, Juneau, Kenai, Ketchikan/Prince of Wales, and Nome. Our members include individual prospectors, geologists, engineers, vendors, suction dredge miners, small family mines, junior mining companies, and major mining companies. AMA members look for and produce gold, silver, platinum, molybdenum, lead, zinc, copper, coal, limestone, sand and gravel, crushed stone, armor rock, and other materials.

While the mission of AMA is to promote responsible mineral development in Alaska, we write to you today to urge a stop to HB111 because not only is a healthy oil and gas industry crucial for a healthy mining industry, a healthy oil and gas industry is good for Alaska. Many of you know that AMA produces an annual "Issues of Concern" document that is provided to your offices at the beginning of each Legislative session. For several years, a position pertaining to the oil and gas industry has appeared under our "critical items" to demonstrate our belief that it is vital for Alaska to have oil and gas policy that incentivizes the industry to continue to invest in our state.

HB111 is not that kind of policy. Rather than encouraging oil investment, it is the 7th change in 12 years and creates new, punitive changes to the oil and gas tax structure that will result in less investment, less production, fewer jobs, and a deepening recession.

AMA encourages you to abandon this legislation and look to the larger issue at end: a sustainable budget for Alaska, with spending reductions, use of Permanent Fund earnings, and new revenue from broad-based taxes, not increased taxes on existing taxpayers who are already a significant part of the revenue base.

Thank you for the opportunity to comment on this important issue.

Sincerely,

Deantha Crockett
Executive Director

30-LS0450\P
Nauman
4/22/17

SENATE CS FOR CS FOR HOUSE BILL NO. 111()
IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTIETH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE RESOURCES COMMITTEE

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to the oil and gas production tax and credits against the oil and gas**
2 **production tax; relating to certain tax credits under the tax on corporations and the**
3 **refund of those credits; relating to the applicability of certain credits earned under the**
4 **oil and gas production tax to the tax on corporations; relating to interest applicable to**
5 **delinquent taxes; relating to lease expenditures; and providing for an effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 *** Section 1.** AS 43.05.225 is amended to read:

8 **Sec. 43.05.225. Interest.** Unless otherwise provided,

9 (1) a delinquent tax **under this title**

10 (A) [UNDER THIS TITLE,] before January 1, 2014, bears
11 interest in each calendar quarter at the rate of five percentage points above the
12 annual rate charged member banks for advances by the 12th Federal Reserve
13 District as of the first day of that calendar quarter, or at the annual rate of 11

1 percent, whichever is greater, compounded quarterly as of the last day of that
2 quarter;

3 (B) [UNDER THIS TITLE,] on and after January 1, 2014, and
4 before January 1, 2018 [EXCEPT AS PROVIDED IN (C) OF THIS
5 PARAGRAPH], bears interest in each calendar quarter at the rate of three
6 percentage points above the annual rate charged member banks for advances
7 by the 12th Federal Reserve District as of the first day of that calendar quarter;

8 (C) [UNDER AS 43.55,] on and after January 1, 2018 [2017,

9 (i) FOR THE FIRST THREE YEARS AFTER A TAX
10 BECOMES DELINQUENT], bears interest in each calendar quarter at
11 the rate of three [SEVEN] percentage points above the annual rate
12 charged member banks for advances by the 12th federal reserve district
13 as of the first day of that calendar quarter, compounded quarterly as of
14 the last day of that quarter; [AND

15 (ii) AFTER THE FIRST THREE YEARS AFTER A
16 TAX BECOMES DELINQUENT, DOES NOT BEAR INTEREST;]

17 (2) the interest rate is 12 percent a year for

18 (A) delinquent fees payable under AS 05.15.095(c); and

19 (B) unclaimed property that is not timely paid or delivered, as
20 allowed by AS 34.45.470(a).

21 * Sec. 2. AS 43.20.044(a) is amended to read:

22 (a) A taxpayer may apply as a credit against the tax levied under this chapter

23 (1) the exploration incentive credit authorized by AS 27.30;

24 (2) the alternative tax credit for oil and gas exploration authorized
25 by AS 43.55.025.

26 * Sec. 3. AS 43.20.046(e) is amended to read:

27 (e) Subject to AS 43.20.057 [THE REQUIREMENTS IN AS 43.55.028(j)],
28 the department may [USE AVAILABLE MONEY IN THE OIL AND GAS TAX
29 CREDIT FUND ESTABLISHED IN AS 43.55.028 TO] make a [THE] refund applied
30 for under (d) of this section in whole or in part if the department finds that, after
31 application of all available tax credits, the claimant's total tax liability under this

1 chapter for the calendar year in which the claim is made is zero.

2 * **Sec. 4.** AS 43.20.047(e) is amended to read:

3 (e) Subject to AS 43.20.057 [THE REQUIREMENTS IN AS 43.55.028(j)],
4 the department may [USE MONEY AVAILABLE IN THE OIL AND GAS TAX
5 CREDIT FUND ESTABLISHED IN AS 43.55.028 TO] make a refund or payment
6 under (d) of this section in whole or in part if the department finds that, after
7 application of all available tax credits, the claimant's total tax liability under this
8 chapter for the calendar year in which the claim is made is zero.

9 * **Sec. 5.** AS 43.20.053(e) is amended to read:

10 (e) Subject to AS 43.20.057 [THE REQUIREMENTS IN AS 43.55.028(j)],
11 the department may [USE MONEY AVAILABLE IN THE OIL AND GAS TAX
12 CREDIT FUND ESTABLISHED IN AS 43.55.028 TO] make a refund or payment
13 under (d) of this section in whole or in part if the department finds that, after
14 application of all available tax credits, the claimant's total tax liability under this
15 chapter for the calendar year in which the claim is made is zero.

16 * **Sec. 6.** AS 43.20 is amended by adding a new section to read:

17 **Sec. 43.20.057. Credit refunds and payments.** (a) Subject to appropriation
18 for a purpose described in this section, the department may make a refund or payment
19 claimed under AS 43.20.046, 43.20.047, or 43.20.053.

20 (b) The department shall adopt regulations to carry out the purposes of this
21 section, including standards and procedures to allocate available money among claims
22 for refunds and payments under AS 43.20.046, 43.20.047, and 43.20.053 when the
23 total amount of the applications for purchase and claims for refund exceeds the
24 amount of available money appropriated for the purposes described in this section.
25 The regulations adopted by the department

26 (1) may not, when allocating available money under this section,
27 distinguish an application for a claim for a refund or payment under AS 43.20.046,
28 43.20.047, or 43.20.053; and

29 (2) must, when allocating available money under this section, grant a
30 preference, between two claimants, to the claimant with a higher percentage of
31 resident workers in the claimant's workforce, including workers employed by the

1 claimant's direct contractors, in the state in the previous calendar year; in this
2 paragraph, "resident worker" has the meaning given in AS 43.40.092(b).

3 (c) If a claimant has an outstanding liability to the state directly related to the
4 claimant's oil or gas exploration, development, or production and the department has
5 not previously reduced the amount paid to that claimant for refund because of that
6 outstanding liability, the department may pay only that portion of a refund that
7 exceeds the outstanding liability. After notifying the claimant, the department may
8 apply the amount by which the department reduced payment for a refund because of
9 an outstanding liability to satisfy the outstanding liability. Satisfaction of an
10 outstanding liability under this subsection does not affect the claimant's ability to
11 contest that liability. The department may enter into contracts or agreements with
12 another department to which the outstanding liability is owed. In this subsection,
13 "outstanding liability" means an amount of tax, interest, penalty, fee, rental, royalty, or
14 other charge for which the state has issued a demand for payment that has not been
15 paid when due and, if contested, has not been finally resolved against the state.

16 * Sec. 7. AS 43.55.023(c) is amended to read:

17 (c) A credit or portion of a credit under this section

18 (1) may not be used to reduce a person's tax liability under
19 AS 43.55.011(e) for any calendar year below zero;

20 (2) may, if [, AND ANY UNUSED CREDIT OR PORTION OF A
21 CREDIT] not used under this subsection, [MAY] be applied in a later calendar year;

22 (3) may, regardless of when the credit was earned, be used to
23 satisfy an outstanding tax, interest, penalty, fee, or other charge related to the tax
24 due under this chapter, including an amount assessed as a result of an amended
25 return under AS 43.55.075(b), that has not been subject to an administrative
26 proceeding or litigation.

27 * Sec. 8. AS 43.55.023(d) is amended to read:

28 (d) A person that is entitled to take a tax credit under this section that wishes
29 to transfer the unused credit to another person [OR OBTAIN A CASH PAYMENT
30 UNDER AS 43.55.028] may apply to the department for a transferable tax credit
31 certificate. An application under this subsection must be in a form prescribed by the

1 department and must include supporting information and documentation that the
2 department reasonably requires. The department shall grant or deny an application, or
3 grant an application as to a lesser amount than that claimed and deny it as to the
4 excess, not later than 120 days after the latest of (1) March 31 of the year following
5 the calendar year in which the qualified capital expenditure or carried-forward annual
6 loss for which the credit is claimed was incurred; (2) the date the statement required
7 under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified
8 capital expenditure or carried-forward annual loss for which the credit is claimed was
9 incurred; or (3) the date the application was received by the department. If, based on
10 the information then available to it, the department is reasonably satisfied that the
11 applicant is entitled to a credit, the department shall issue the applicant a transferable
12 tax credit certificate for the amount of the credit. A certificate issued under this
13 subsection does not expire.

14 * Sec. 9. AS 43.55.023(e) is amended to read:

15 (e) A person to which a transferable tax credit certificate is issued under (d) of
16 this section may transfer the certificate to another person, and a transferee may further
17 transfer the certificate. Subject to the limitations set out in (a) - (d) of this section, and
18 notwithstanding any action the department may take with respect to the applicant
19 under (g) of this section, the owner of a certificate may apply the credit or a portion of
20 the credit shown on the certificate

21 (1) [ONLY] against a tax levied by AS 43.55.011(e); however [.
22 HOWEVER], a credit shown on a transferable tax credit certificate may not be applied
23 under this paragraph to reduce a transferee's total tax liability under
24 AS 43.55.011(e) for oil and gas produced during a calendar year to less than 80
25 percent of the tax that would otherwise be due without applying that credit; any [.
26 ANY] portion of a credit not used under this paragraph [SUBSECTION] may be
27 applied in a later period; or

28 (2) regardless of when the credit was earned, to satisfy an
29 outstanding tax, interest, penalty, fee, or other charge related to the tax due
30 under this chapter, including an amount assessed as a result of an amended
31 return under AS 43.55.075(b), that has not been subject to an administrative

1 **proceeding or litigation.**

2 * **Sec. 10.** AS 43.55.024 is amended by adding a new subsection to read:

3 (k) In a calendar year for which a tax credit under (j) of this section is used to
4 reduce a producer's tax liability below the amount due under AS 43.55.011(e), a tax
5 credit under (c) or (i) of this section may be used to reduce the producer's tax liability
6 for that year below the amount calculated under AS 43.55.011(f), but not below zero.
7 The department may not restrict the order in which the credits under (c), (i), and (j) of
8 this section are applied when calculating tax liability under this chapter.

9 * **Sec. 11.** AS 43.55.025(a) is amended to read:

10 (a) Subject to the terms and conditions of this section, a credit against the
11 [PRODUCTION] tax levied by AS 43.55.011(e) **or AS 43.20** is allowed for
12 exploration expenditures that qualify under (b) of this section in an amount equal to
13 one of the following:

14 (1) 30 percent of the total exploration expenditures that qualify only
15 under (b) and (c) of this section;

16 (2) 30 percent of the total exploration expenditures that qualify only
17 under (b) and (d) of this section;

18 (3) 40 percent of the total exploration expenditures that qualify under
19 (b), (c), and (d) of this section;

20 (4) 40 percent of the total exploration expenditures that qualify only
21 under (b) and (e) of this section;

22 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
23 section, of the total exploration expenditures described in (b)(1) and (2) of this section
24 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
25 section;

26 (6) the lesser of \$25,000,000 or 80 percent of the total exploration
27 drilling expenditures described in (m) of this section and that qualify under (b) and
28 (c)(1), (c)(2)(A), and (c)(2)(C) of this section; or

29 (7) the lesser of \$7,500,000 or 75 percent of the total seismic
30 exploration expenditures described in (n) of this section and that qualify under (b) of
31 this section.

1 * **Sec. 12.** AS 43.55.025(f) is amended to read:

2 (f) For a production tax credit under this section,

3 (1) an explorer shall, in a form prescribed by the department and,
4 except for a credit under (k) of this section, within six months of the completion of the
5 exploration activity, claim the credit and submit information sufficient to demonstrate
6 to the department's satisfaction that the claimed exploration expenditures qualify under
7 this section; in addition, the explorer shall submit information necessary for the
8 commissioner of natural resources to evaluate the validity of the explorer's compliance
9 with the requirements of this section;

10 (2) an explorer shall agree, in writing,

11 (A) to notify the Department of Natural Resources, within 30
12 days after completion of seismic or geophysical data processing, completion of
13 well drilling, or filing of a claim for credit, whichever is the latest, for which
14 exploration costs are claimed, of the date of completion and submit a report to
15 that department describing the processing sequence and providing a list of data
16 sets available;

17 (B) to provide to the Department of Natural Resources, within
18 30 days after the date of a request, unless a longer period is provided by the
19 Department of Natural Resources, specific data sets, ancillary data, and reports
20 identified in (A) of this paragraph; in this subparagraph,

21 (i) a seismic or geophysical data set includes the data
22 for an entire seismic survey, irrespective of whether the survey area
23 covers nonstate land in addition to state land or land in a unit in
24 addition to land outside a unit;

25 (ii) well data include all analyses conducted on physical
26 material, and well logs collected from the well, results, and copies of
27 data collected and data analyses for the well, including well logs;
28 sample analyses; testing geophysical and velocity data including
29 seismic profiles and check shot surveys; testing data and analyses; age
30 data; geochemical analyses; and tangible material;

31 (C) that, notwithstanding any provision of AS 38, information

1 provided under this paragraph will be held confidential by the Department of
2 Natural Resources,

3 (i) in the case of well data, until the expiration of the
4 24-month period of confidentiality described in AS 31.05.035(c), at
5 which time the Department of Natural Resources will release the
6 information after 30 days' public notice unless, in the discretion of the
7 commissioner of natural resources, it is necessary to protect
8 information relating to the valuation of unleased acreage in the same
9 vicinity, or unless the well is on private land and the owner, including
10 the lessor but not the lessee, of the oil and gas resources has not given
11 permission to release the well data;

12 (ii) in the case of seismic or other geophysical data,
13 other than seismic data acquired by seismic exploration subject to (k) of
14 this section, for 10 years following the completion date, at which time
15 the Department of Natural Resources will release the information after
16 30 days' public notice, except as to seismic or other geophysical data
17 acquired from private land, unless the owner, including a lessor but not
18 a lessee, of the oil and gas resources in the private land gives
19 permission to release the seismic or other geophysical data associated
20 with the private land;

21 (iii) in the case of seismic data obtained by seismic
22 exploration subject to (k) of this section, only until the expiration of 30
23 days' public notice issued on or after the date the production tax credit
24 certificate is issued under (5) of this subsection;

25 (3) if more than one explorer holds an interest in a well or seismic
26 exploration, each explorer may claim an amount of credit that is proportional to the
27 explorer's cost incurred;

28 (4) the department may exercise the full extent of its powers as though
29 the explorer were a taxpayer under this title, in order to verify that the claimed
30 expenditures are qualified exploration expenditures under this section; and

31 (5) if the department is satisfied that the explorer's claimed

1 expenditures are qualified under this section and that all data required to be submitted
 2 under this section have been submitted, the department shall issue to the explorer a
 3 production tax credit certificate for the amount of credit to be allowed against
 4 [PRODUCTION] taxes levied by AS 43.55.011(e) and AS 43.20; for a production
 5 tax credit under (a)(4) of this section, the department shall grant or deny an
 6 application, or grant an application as to a lesser amount than that claimed and
 7 deny it as to the excess, not later than 120 days after the date that the department
 8 has received the application and all data required to be submitted under this
 9 section; notwithstanding any contrary provision of AS 38, AS 40.25.100, or
 10 AS 43.05.230, the following information is not confidential:

- 11 (A) the explorer's name;
- 12 (B) the date of the application;
- 13 (C) the location of the well or seismic exploration;
- 14 (D) the date of the department's issuance of the certificate; and
- 15 (E) the date on which the information required to be submitted

16 under this section will be released.

17 * Sec. 13. AS 43.55.025(h) is amended to read:

18 (h) A producer that purchases a production tax credit certificate may apply the
 19 credits against its production tax levied by AS 43.55.011(e). Regardless of the price
 20 the producer paid for the certificate, the producer may receive a credit against its
 21 production tax liability for the full amount of the credit, but for not more than the
 22 amount for which the certificate is issued. A production tax credit or production tax
 23 credit certificate allowed under this section may

- 24 (1) not be applied more than once;
- 25 (2) be applied
 - 26 (A) in a later calendar year; or
 - 27 (B) regardless of when the credit was earned, to satisfy an
 28 outstanding tax, interest, penalty, fee, or other charge related to the tax
 29 due under this chapter, including an amount assessed as a result of an
 30 amended return under AS 43.55.075(b), that has not been subject to an
 31 administrative proceeding or litigation.

1 * **Sec. 14.** AS 43.55.025(i) is amended to read:

2 (i) For a production tax credit under this section,

3 (1) a credit may not be applied to reduce a taxpayer's tax liability under

4 (A) AS 43.55.011(e) below zero for a calendar year;

5 (B) AS 43.20 below zero for a tax year; and

6 (2) an amount of the production tax credit in excess of the amount that
7 may be applied for a calendar or tax year under this subsection may be carried
8 forward and applied against the taxpayer's tax liability under AS 43.55.011(e) in one
9 or more later calendar years or under AS 43.20 in one or more later tax years.

10 * **Sec. 15.** AS 43.55.028(e) is amended to read:

11 (e) Subject to appropriation for a purpose described in this section, for a
12 credit earned before January 1, 2018, the [THE] department, on the written
13 application of a person to whom a transferable tax credit certificate has been issued
14 under AS 43.55.023(d) or former AS 43.55.023(m) or to whom a production tax credit
15 certificate has been issued under AS 43.55.025(f), may [USE AVAILABLE MONEY
16 IN THE OIL AND GAS TAX CREDIT FUND TO] purchase, in whole or in part, the
17 certificate. [THE DEPARTMENT MAY NOT PURCHASE A TOTAL OF MORE
18 THAN \$70,000,000 IN TAX CREDIT CERTIFICATES FROM A PERSON IN A
19 CALENDAR YEAR.] Before purchasing a certificate or part of a certificate, the
20 department shall find that

21 (1) the calendar year of the purchase is not earlier than the first
22 calendar year for which the credit shown on the certificate would otherwise be allowed
23 to be applied against a tax;

24 (2) [THE APPLICATION IS NOT THE RESULT OF THE
25 DIVISION OF A SINGLE ENTITY INTO MULTIPLE ENTITIES THAT WOULD
26 REASONABLY BE EXPECTED TO APPLY AS A SINGLE ENTITY IF THE
27 \$70,000,000 LIMITATION IN THIS SUBSECTION DID NOT EXIST;

28 (3) the applicant's total tax liability under AS 43.55.011(e), after
29 application of all available tax credits, for the calendar year in which the application is
30 made is zero;

31 (3) [(4)] the applicant's average daily production of oil and gas taxable

1 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
2 the application is made was not more than 50,000 BTU equivalent barrels; and

3 (4) [(5)] the purchase is consistent with this section and regulations
4 adopted under this section.

5 * **Sec. 16.** AS 43.55.028(g) is amended to read:

6 (g) The department shall adopt regulations to carry out the purposes of this
7 section, including standards and procedures to allocate available money among
8 applications for the purchase of credit certificates [PURCHASES UNDER THIS
9 CHAPTER AND CLAIMS FOR REFUNDS AND PAYMENTS UNDER
10 AS 43.20.046, 43.20.047, OR 43.20.053] when the total amount of the applications for
11 purchase exceeds [AND CLAIMS FOR REFUND EXCEED] the amount of
12 [AVAILABLE] money appropriated for the purposes described in this section [IN
13 THE FUND]. The regulations adopted by the department

14 [(1) MAY NOT, WHEN ALLOCATING AVAILABLE MONEY IN
15 THE FUND UNDER THIS SECTION, DISTINGUISH AN APPLICATION FOR
16 THE PURCHASE OF A CREDIT CERTIFICATE ISSUED UNDER FORMER
17 AS 43.55.023(m) OR A CLAIM FOR A REFUND OR PAYMENT UNDER
18 AS 43.20.046, 43.20.047, OR 43.20.053;

19 (2)] must, when allocating [AVAILABLE] money [IN THE FUND]
20 under this section, grant a preference, between two applicants, to the applicant with a
21 higher percentage of resident workers in the applicant's workforce, including workers
22 employed by the applicant's direct contractors, in the state in the previous calendar
23 year. In [; IN] this subsection [PARAGRAPH], "resident worker" has the meaning
24 given in AS 43.40.092(b) [;

25 (3) MUST PROVIDE FOR THE PURCHASE OF THE AMOUNT
26 EQUAL TO THE FIRST 50 PERCENT OF THE CREDIT REPURCHASE LIMIT
27 FOR EACH PERSON UNDER (e) OF THIS SECTION AT A RATE OF 100
28 PERCENT OF THE VALUE OF THE CERTIFICATE OR PORTION OF THE
29 CERTIFICATE REQUESTED TO BE PURCHASED AND THE AMOUNT EQUAL
30 TO THE NEXT 50 PERCENT OF THE CREDIT REPURCHASE LIMIT FOR
31 EACH PERSON UNDER (e) OF THIS SECTION AT A RATE OF 75 PERCENT OF

1 THE VALUE OF THE CERTIFICATE OR PORTION OF THE CERTIFICATE
2 REQUESTED TO BE PURCHASED].

3 * Sec. 17. AS 43.55.028(j) is amended to read:

4 (j) If an applicant [OR CLAIMANT] has an outstanding liability to the state
5 directly related to the applicant's [OR CLAIMANT'S] oil or gas exploration,
6 development, or production and the department has not previously reduced the amount
7 paid to that applicant [OR CLAIMANT] for a certificate [OR REFUND] because of
8 that outstanding liability, the department may purchase only that portion of a
9 certificate [OR PAY ONLY THAT PORTION OF A REFUND] that exceeds the
10 outstanding liability. After notifying the applicant [OR CLAIMANT], the department
11 may apply the amount by which the department reduced its purchase of a certificate
12 [OR PAYMENT FOR A REFUND] because of an outstanding liability to satisfy the
13 outstanding liability. Satisfaction of an outstanding liability under this subsection does
14 not affect the applicant's ability to contest that liability. The department may enter into
15 contracts or agreements with another department to which the outstanding liability is
16 owed. In this subsection, "outstanding liability" means an amount of tax, interest,
17 penalty, fee, rental, royalty, or other charge for which the state has issued a demand
18 for payment that has not been paid when due and, if contested, has not been finally
19 resolved against the state.

20 * Sec. 18. AS 43.55.029(a) is amended to read:

21 (a) An explorer or producer that has applied for a production tax credit under
22 AS 43.55.023(a) or (l) [AS 43.55.023(a), (b), OR (l)] or 43.55.025(a) may make a
23 present assignment of the production tax credit certificate expected to be issued by the
24 department to a third-party assignee. The assignment may be made either at the time
25 the application is filed with the department or not later than 30 days after the date of
26 filing with the department. Once a notice of assignment in compliance with this
27 section is filed with the department, the assignment is irrevocable and cannot be
28 modified by the explorer or producer without the written consent of the assignee
29 named in the assignment. If a production tax credit certificate is issued to the explorer
30 or producer, the notice of assignment remains effective and shall be filed with the
31 department by the explorer or producer together with any application for the

1 department to purchase the certificate under AS 43.55.028(e).

2 * **Sec. 19.** AS 43.55.160(d) is amended to read:

3 (d) Irrespective of whether a producer produces taxable oil or gas during a
4 calendar year or month, the producer is considered to have generated a positive
5 production tax value if a calculation described in (a) of this section yields a positive
6 number because the producer's adjusted lease expenditures for a calendar year under
7 AS 43.55.165 and 43.55.170 are less than zero as a result of the producer's receiving a
8 payment or credit under AS 43.55.170. An explorer that has taken a tax credit under
9 **former** AS 43.55.023(b) or that has obtained a transferable tax credit certificate under
10 AS 43.55.023(d) for the amount of a tax credit under **former** AS 43.55.023(b) is
11 considered a producer, subject to the tax levied under AS 43.55.011(e), to the extent
12 that the explorer generates a positive production tax value as the result of the
13 explorer's receiving a payment or credit under AS 43.55.170.

14 * **Sec. 20.** AS 43.55.160(e) is amended to read:

15 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170
16 **incurred to produce oil or gas from leases or properties north of 68 degrees**
17 **North latitude** that would otherwise be deductible by a producer in a calendar year
18 but whose deduction would cause an annual production tax value calculated under
19 (a)(1) or (h) of this section of taxable oil or gas produced during the calendar year to
20 be less than zero may be used to establish a carried-forward annual loss under
21 **AS 43.55.165(a)(3)** [AS 43.55.023(b)]. However, the department shall provide by
22 regulation a method to ensure that, for a period for which a producer's tax liability is
23 limited by **AS 43.55.011(o)** [AS 43.55.011(j), (k), (o), OR (p)], any adjusted lease
24 expenditures under AS 43.55.165 and 43.55.170 that would otherwise be deductible
25 by a producer for that period but whose deduction would cause a production tax value
26 calculated under **(a)(1)(E)** [(a)(1)(C), (D), (E), OR (F), OR (h)(3)] of this section to be
27 less than zero are accounted for as though the adjusted lease expenditures had first
28 been used as deductions in calculating the production tax values of oil or gas subject to
29 any of the limitations under **AS 43.55.011(o)** [AS 43.55.011(j), (k), (o), OR (p)] that
30 have positive production tax values so as to reduce the tax liability calculated without
31 regard to the limitation to the maximum amount provided for under the applicable

1 provision of AS 43.55.011(o) [AS 43.55.011(j), (k), (o), OR (p)]. Only the amount of
2 those adjusted lease expenditures remaining after the accounting provided for under
3 this subsection may be used to establish a carried-forward annual loss under
4 AS 43.55.165(a)(3) [AS 43.55.023(b)]. In this subsection, "producer" includes
5 "explorer."

6 * Sec. 21. AS 43.55.165(a), as amended by sec. 29, ch. 4, 4SSLA 2016, is amended to read:

7 (a) For purposes of this chapter, a producer's lease expenditures for a calendar
8 year are

9 (1) costs, other than items listed in (e) of this section, that are

10 (A) incurred by the producer during the calendar year after
11 March 31, 2006, to explore for, develop, or produce oil or gas deposits located
12 within the producer's leases or properties in the state or, in the case of land in
13 which the producer does not own an operating right, operating interest, or
14 working interest, to explore for oil or gas deposits within other land in the
15 state; and

16 (B) allowed by the department by regulation, based on the
17 department's determination that the costs satisfy the following three
18 requirements:

19 (i) the costs must be incurred upstream of the point of
20 production of oil and gas;

21 (ii) the costs must be ordinary and necessary costs of
22 exploring for, developing, or producing, as applicable, oil or gas
23 deposits; and

24 (iii) the costs must be direct costs of exploring for,
25 developing, or producing, as applicable, oil or gas deposits; [AND]

26 (2) a reasonable allowance for that calendar year, as determined under
27 regulations adopted by the department, for overhead expenses that are directly related
28 to exploring for, developing, or producing, as applicable, the oil or gas deposits; and

29 (3) lease expenditures incurred in a previous calendar year,
30 subject to (m) - (p) of this section, that

31 (A) met the requirements of AS 43.55.160(e) in the year that

1 the lease expenditures were incurred;

2 (B) have not been deducted in the determination of the
3 production tax value of oil and gas under AS 43.55.160(a) or (h) in a
4 previous calendar year;

5 (C) were not the basis of a credit under this title; and

6 (D) were incurred to explore for, develop, or produce an oil
7 or gas deposit located north of 68 degrees North latitude.

8 * Sec. 22. AS 43.55.165(f) is amended to read:

9 (f) For purposes of AS 43.55.023(a) [AND (b)] and only as to expenditures
10 incurred to explore for an oil or gas deposit located within land in which an explorer
11 does not own a working interest, the term "producer" in this section includes
12 "explorer."

13 * Sec. 23. AS 43.55.165 is amended by adding new subsections to read:

14 (m) A loss carried forward under (a)(3) of this section shall increase in value
15 at a rate of 10 percent, compounded annually. An increase in value under this
16 subsection begins to accrue on January 1 of the calendar year immediately following
17 the calendar year in which the loss was accrued and no longer accrues on
18 December 31 of the calendar year immediately preceding the calendar year in which a
19 carried-forward annual loss is applied. An increase in value accrued under this
20 subsection has no value except as applied in this section. An increase in value may not
21 accrue

22 (1) for a partial calendar year;

23 (2) for more than seven calendar years, consecutive or nonconsecutive;

24 or

25 (3) on a loss carried forward by a producer that, during the calendar
26 year in which the loss was accrued, had commercial production of oil or gas produced
27 from a lease or property located north of 68 degrees North latitude.

28 (n) A loss carried forward under (a)(3) of this section may be applied only in a
29 calendar year after application of a producer's lease expenditures that are incurred in
30 that calendar year.

31 (o) An increase in value accrued under (m) of this section may be applied only

1 in

2 (1) a calendar year in which the producer applying the increase in value
3 under (m) of this section

4 (A) has production of oil or gas from a lease or property that
5 includes land north of 68 degrees North latitude; and

6 (B) holds a right, title, or interest in the lease or property where
7 the lease expenditure was incurred that accrued the increase in value; and

8 (2) the calendar year commercial production begins on the lease or
9 property where the lease expenditure was incurred that accrued the increase in value or
10 in a later calendar year.

11 (p) During a calendar year in which a taxpayer is subject to the tax under
12 AS 43.55.011(f), the amount of annual carried-forward loss applied in that year is
13 equal to the amount, when combined with the lease expenditures of the current year,
14 necessary to reduce the amount calculated under AS 43.55.011(e) to the equivalent
15 amount of tax due under AS 43.55.011(f). An amount of carried-forward annual loss
16 in excess of the amount described in this subsection may continue to be carried
17 forward.

18 * **Sec. 24.** AS 43.55.170(c) is amended to read:

19 (c) For purposes of AS 43.55.023(a) [AND (b)] and only as to expenditures
20 incurred to explore for an oil or gas deposit located within land in which an explorer
21 does not own a working interest, the term "producer" in this section includes
22 "explorer."

23 * **Sec. 25.** AS 43.55.023(b), 43.55.028(a), 43.55.028(b), 43.55.028(c), 43.55.028(d),
24 43.55.028(f), 43.55.028(h), 43.55.028(i), and 43.55.029(b)(4) are repealed.

25 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 **APPLICABILITY: TAX CREDITS UNDER AS 43.55.025 APPLIED AGAINST**
28 **TAX DUE UNDER AS 43.20.** AS 43.20.044(a), as amended by sec. 2 of this Act, and
29 AS 43.55.025(a), (f), and (i), as amended by secs. 11, 12, and 14 of this Act, apply to a tax
30 credit that has been earned under AS 43.55.025, regardless of when the credit was earned.

31 * **Sec. 27.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 APPLICABILITY: APPLICATION FOR A PRODUCTION TAX CREDIT UNDER
3 AS 43.55.025(a). AS 43.55.025(f), as amended by sec. 12 of this Act, applies to an
4 application for a production tax credit under AS 43.55.025(a)(4), regardless of when the
5 application was submitted, except that, for the purposes of AS 43.55.025(f), an application
6 received before January 1, 2017, shall be considered received on the effective date of this
7 section.

8 * **Sec. 28.** The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 APPLICABILITY: CREDIT CERTIFICATE CARRYBACK. AS 43.55.023(c), as
11 amended by sec. 7 of this Act, AS 43.55.023(e), as amended by sec. 9 of this Act, and
12 AS 43.55.025(h), as amended by sec. 13 of this Act, apply to a transferable tax credit
13 certificate that has been issued under AS 43.55.023(d) or a production tax credit certificate
14 that has been issued under AS 43.55.025(f), regardless of when the certificate was issued.

15 * **Sec. 29.** The uncodified law of the State of Alaska is amended by adding a new section to
16 read:

17 APPLICABILITY: LEASE EXPENDITURES. AS 43.55.165(a)(3) and 43.55.165(m)
18 - (p), added by secs. 21 and 23 of this Act, apply to a lease expenditure incurred on or after
19 the effective date of secs. 21 and 23 of this Act.

20 * **Sec. 30.** The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 TRANSITION: INTEREST ON DELINQUENT TAXES. Notwithstanding the
23 effective date of sec. 1 of this Act, a delinquent tax under AS 43.55 bears interest in each
24 calendar quarter of 2017 as provided under AS 43.05.225(1) as that paragraph read on the day
25 before the effective date of sec. 1 of this Act.

26 * **Sec. 31.** The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 TRANSITION: CARRIED-FORWARD ANNUAL LOSSES. (a) Notwithstanding the
29 repeal of AS 43.55.023(b) by sec. 25 of this Act and the amendments to AS 43.55.160(d) and
30 (e), 43.55.165(f), and 43.55.170(c) by secs. 19, 20, 22, and 24 of this Act, a taxpayer who
31 incurs a carried-forward annual loss before the repeal of AS 43.55.023(b) by sec. 25 of this

1 Act that qualifies for a carried-forward annual loss credit under AS 43.55.023(b) may apply
2 for a credit or tax credit certificate under AS 43.55.023(d), subject to the requirements of
3 AS 43.55.160(d) and (e), as those subsections read on the day before the repeal of
4 AS 43.55.023(b) by sec. 25 of this Act.

5 (b) The Department of Revenue may continue to apply and enforce AS 43.55.023(b),
6 as that subsection read on the day before the repeal of AS 43.55.023(b) by sec. 25 of this Act,
7 for a carried-forward annual loss incurred before the repeal of AS 43.55.023(b) by sec. 25 of
8 this Act.

9 * **Sec. 32.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 **TRANSITION: PURCHASE OF TRANSFERABLE TAX CREDIT**
12 **CERTIFICATES.** On and after the effective date of secs. 15 - 17 of this Act, the department
13 may, subject to AS 43.55.028(e), (g), and (j), as amended by secs. 15 - 17 of this Act,
14 purchase a transferable tax credit certificate issued under AS 43.55.023(d) or former
15 AS 43.55.023(m) earned for activity occurring before the effective date of secs. 15 - 17 of this
16 Act.

17 * **Sec. 33.** The uncodified law of the State of Alaska is amended by adding a new section to
18 read:

19 **TRANSITION: OIL AND GAS CREDIT FUND.** Subject to appropriation, the
20 balance of the oil and gas tax credit fund created under AS 43.55.028(a) and repealed by sec.
21 25 of this Act lapses into the general fund.

22 * **Sec. 34.** Sections 2, 7, 9, 11 - 14, and 26 - 28 of this Act take effect immediately under
23 AS 01.10.070(c).

24 * **Sec. 35.** Section 21 of this Act takes effect on the effective date of sec. 29, ch. 4, 4SSLA
25 2016.

26 * **Sec. 36.** Except as provided in secs. 34 and 35 of this Act, this Act takes effect January 1,
27 2018.