Testimony of Resource Development Council for Alaska to
Senate Finance Committee,
Regarding CSSB192(RES)
March 16, 2012

Good morning Co-Chairs Stedman and Hoffman and members of the committee. My name is Rick Rogers, Executive Director of the Resource Development Council for Alaska (RDC). RDC is a statewide membership-funded non-profit trade association representing the common interest of the Forestry, Fishing, Tourism, Mining and Oil and Gas industries in Alaska. Our membership is truly a broad cross section of Alaska businesses including the aforementioned industries as well as communities, all twelve Alaska Native Regional Corporations, organized labor, utilities and support business that recognize the important role resource development plays in our economy.

RDC thanks the committee for this invited testimony. I regret being unable to be with you today in Juneau, and appreciate the LIO and staff facilitating testimony from Anchorage. I have prepared no slides for today's presentation.

RDC is appreciative of this committee's recognition of the need to improve the investment climate in Alaska's oil and gas industry to stem TAPS throughput decline. I hope to emphasize the sense of urgency and the broad base of support from RDC membership towards meaningful adjustment to the production tax to achieve a more attractive investment climate in Alaska. Some of the most vocal proponents of production tax reform among our membership are not directly involved in the oil and gas industry. The business community is fearful what continued TAPS throughput decline will do to our economy as a whole.

We are convinced that ACES in its current form is retarding investment and contributing to an accelerating production decline. Alaska is sitting on the edge of a fiscal cliff. A sobering outlook can be found in the Governor's budget, the ten-year budget projection that shows several plausible scenarios with significant budget deficits by 2014. While meaningful tax reform will result in short-term revenue decline, long term it is imperative that we sacrifice some short-term tax revenues to reinvigorate production. From the RDC perspective, this is about acting in the long-term interest of Alaskans.

The long-term discussion needs to be how to encourage more production. Taxing ourselves to prosperity is not a strategy. The CS to SB192 as currently drafted will not provide the improved business climate that results in the investment needed to increase production.

- The changes to the progressivity formula in CSSB192(RES) are insufficient to change investment behavior. RDC has heard this from both industry and the Department of Revenue.

- The allowances for new production in the bill have minimal impact, approximately $25 million per year according to the Department of Revenue March 14 testimony to this committee.

- The gross minimum tax is a tax increase of up to $400 million per year at $40 oil and according to the bill's sponsor statement this is a tax increase at prices up to $70/bbl. We cannot expect tax increases to stimulate investment.

This is a historic turning point for Alaska. Rhetoric characterizing tax reform as a "give away" that legislators must "stand up to" unfortunately mischaracterizes the objective. The Senate Finance Committee is faced with making tough choices necessary to empower the private sector to increase Alaska's productivity to the ultimate benefit of its citizens. We are looking to the Senate Finance committee to provide the leadership necessary to make meaningful reforms that will result in needed investment and resulting production.

Ironically as currently drafted the bill is a giveaway because it will not increase production, which I think we all agree is the ultimate objective. RDC is interested in meaningful results that move the needle, slowing and then reversing production decline. As currently drafted CSSB192(RES) will not move the needle. PPT and then ACES tripled production taxes since 2005, contributing to an accelerating production decline in spite of robust oil prices. DOR analysis suggests this bill makes little difference compared to ACES. Tripling up while "tweaking" down is not going to result in the investment needed to move the needle to increase investments that will lead to more production.

Some have suggested meaningful tax reform that really makes a difference to the investment climate is somehow inconsistent with Title 8 of Alaska's constitution. I do not recall Governors Hammond, Sheffield, Cooper, Hickel, Knowles or Murkowski being accused of failing to uphold Alaska's constitution when they had far lower oil and gas production taxes than we do today. These governors presided under more balanced fiscal regimes, and RDC encourages this legislature to return to a more balanced fiscal regime for the mutual benefit of Alaska and the industry. This is not to suggest we support going back to the economic limit factor (ELF), but clearly we need something far more substantive than CSSB192(RES) as currently drafted.

RDC supports HB110 because it will move the needle. The producers have committed $5 billion in new investment if meaningful reform such as HB110 passes, and they have said that $5 billion is just a start. While some have criticized the validity of those commitments, I cannot envision a rational corporate strategy that would make those types of commitments and then not follow through.

Investment decisions are made based on a multitude of variables, few of which the Alaska Legislature has any control over. Alaska is one of the highest-cost jurisdictions in the world. Alaska has immense challenges due to limited infrastructure, federal jurisdiction over wetlands, limited drilling seasons and other hurdles. Companies need to assess project economics on all these variables, and burdening production with taxes that are too high has discouraged investment. We should be in a boom of investment at $120 oil, but we are seeing flat investment and an associated accelerating decline curve. For example, Conoco Phillips Alaska capital investment is flat in Alaska vs. a 104% increase in the Lower-48 (2010-2011).

I understand the Senate has rejected HB110 and has chosen a different path. RDC does not care which legislative vehicle gets us across the goal line. We do care that it is substantive, significant, and meets the objective of encouraging private capital to return to the North Slope. The legislature is setting the stage for Alaska's future. Will it be a future of accelerating declines or a flattening decline curve and eventually increased production? If SB192 is the vehicle of choice, it needs far more meaningful adjustments to progressivity or adjustments to other "levers" to approximate a revenue curve more in keeping with HB110.

RDC is glad that exploration credits, which are working, have not been reduced or removed in CSSB192(RES). Exploration is an important element, however exploration credits need to be part of a broader approach leading to increases in near term and long-term production. When new oil is found we need an investment climate to encourage its production.

Geology, federal regulatory oversight, remoteness, high costs, short drilling seasons, and volatile commodity prices are all out of the State's control. The bottom line is tax policy is one of the few variables in the oil and gas business that the State can control. We are going to get what we ask for. If we continue with a policy that discourages investment and directs it elsewhere, Alaskan's better start battening down the hatches as we are entering a very dark time for Alaska's economy that I fear it will make the 80's look like a walk in the park.

A better approach is to make substantive changes that result in compelling fiscal terms leading to robust activity to slow and reverse the production decline. This discussion is about what is best for Alaska, not what is best for the oil and gas industry. The oil and gas industry has the capacity to do great things in Alaska; we need to set the stage and turn it loose. We did not get to 16.5 billion barrels of production by being timid. It's time for some bold action to get Alaska back on track.

The producers are the ones making the investments. There are many places for the industry to invest and Alaska does have to compete. Consultants can offer helpful direction, but the companies at the end of the day are the ones making the investments. Please listen to them and take to heart the criteria that companies look at when deciding where to invest.

Thank you Chairman and members of the committee for hearing from RDC on this most important issue for Alaska's future.