AOGA

OIL & GAS:
FUELING ALASKA'S ECONOMY

Senate Finance Committee
CSSB 21

March 5, 2013

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AOGA Member Companies

PIONEER NATURAL RESOURCES ALASKA

Statoil

XTO ENERGY

REPSOL

Apache

Hilcorp Alaska, LLC

ExxonMobil

bp

Alyeska pipeline SERVICE COMPANY

TESORO

PETRO STAR INC. EXCELLENCE IN ENERGY

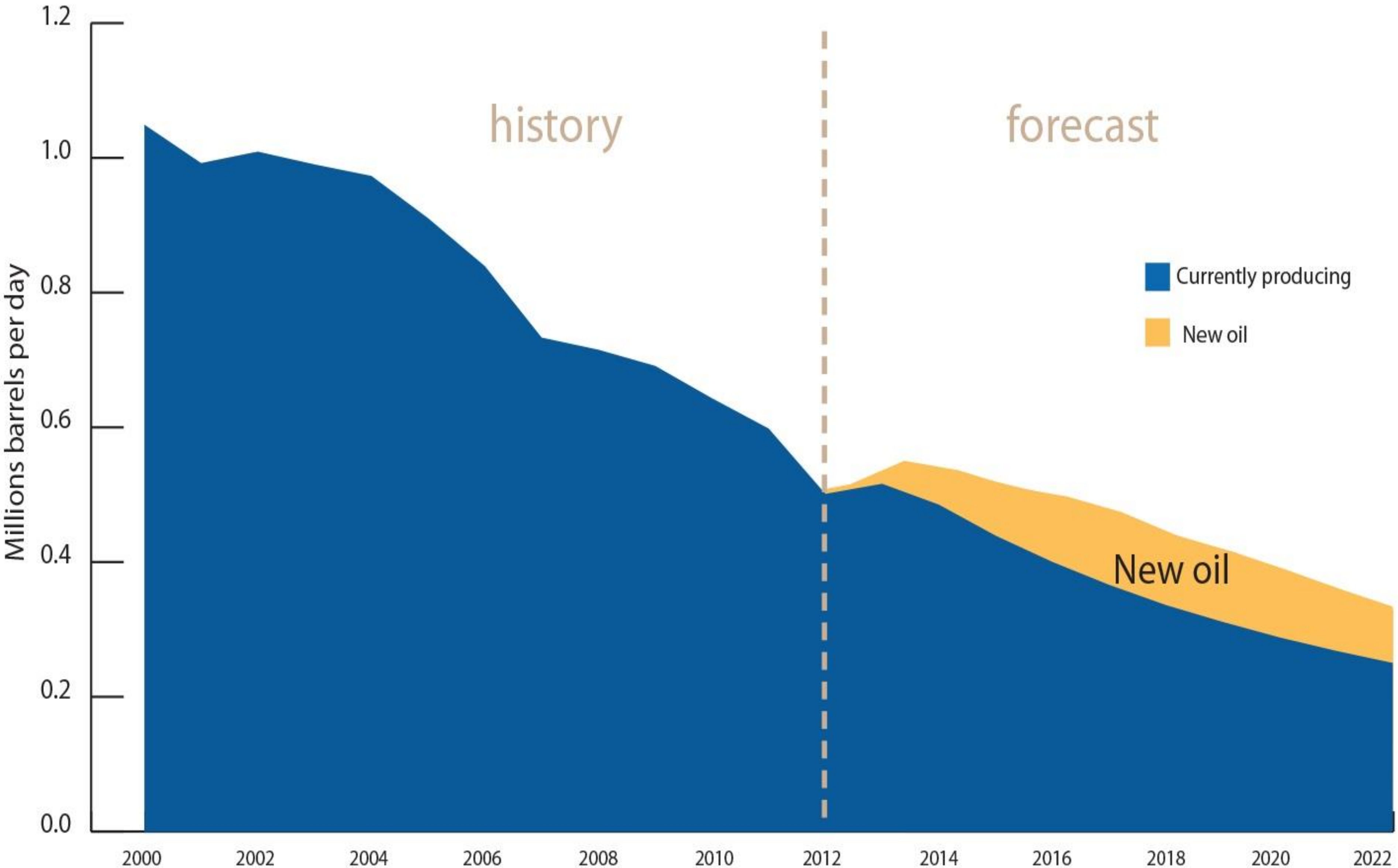
eni petroleum

Chevron

FLINT HILLS RESOURCES Alaska

Alaska North Slope Production

FY 2000-2012 and Forecasted FY 2013-2022



Source: Department of Revenue – Dec. 2012

Governor Lays out Principles for Oil Tax Reform

Anchorage Daily News, Jan. 6, 2013:

Reform must:

- Be fair to Alaskans
- Encourage new oil production
- Be simple and restore balance
- Be durable and long-term in nature

Governor Lays out Principles for Oil Tax Reform

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Reform must:

- Be fair to Alaskans
- Encourage new oil production
- Be simple and restore balance
- Be durable and long-term in nature
- *AOGA Recommendation: Avoid changes that artifically creates "winners & losers"*

CSSB 21 (RES) Component: Progressivity

- *AOGA supports the elimination of progressivity*

1) Progressivity is the single most influential component of Alaska's tax structure negatively impacting investment decisions.

2) Progressivity bring extraordinary complexity to the tax.

3) The repeal of progressivity is consistent with all of the Governor's core principles.

CSSB 21 (RES) Component: Increasing the Base Tax Rate

- *AOGA does not endorse increasing the base tax rate to 35%*

1) Increasing the base tax rate adds an additional burden to the worst case scenario when oil prices are low or project costs are high.

2) Increasing the base tax rate is contrary to the Governor’s second principle. It would not encourage new production.

CSSB 21 (RES) Component: Tax Credits

There is no tax credit liability for the State until the investor invests here

1) *AOGA does <u>not</u> support repeal of Qualified Capital Expenditure Credits (QCE)*

   a) Elimination of QCE would undo significant part of competitive environment
   b) Repeal likely creates "winners & losers"
   c) Consider expanding the scope of the "well lease expenditure" tax credit

CSSB 21 (RES) Component: Tax Credits

2) AOGA is not certain that the potential benefit of a $5/bbl tax credit will be offset by other burdens

a) Weight of the benefit in respect to other changes is hard to measure.
b) Applaud the concept of tying incentives to the goal of increased production.
c) Consider what the credit will mean to a small producer with little production as opposed to the legacy producers that already have established large scale production.

CSSB 21 (RES) Component: Tax Credits

3) AOGA supports extension of Small-producer & exploration tax credits

a) Attracts new players to Alaska

b) From testimony…has made a material difference for some companies

c) Exploration credits bring about exploration in a timely fashion

CSSB 21 (RES) Component: Tax Credits

4) AOGA opposes the current proposal to bar almost completely the transferability of "Loss Carry Forward" credit

- 10 year shelf life is unrealistically short

- AOGA Recommendation:

Increase the shelf life to 15 years

CSSB 21 (RES) Component: Tax Credits

5) AOGA does not think the “anti-stackable” section is necessary

- Current statute already addresses this concern

6) AOGA supports the new proposed manufacturing credit

- May not have great impact on the reduction of the current production decline.
- Step in the right direction in creating more Alaska jobs and investment.

CSSB 21 (RES) Component: Gross Revenue Exclusion (GRE)

AOGA supports concept, but concerned it will be not apply to majority of current production

- Misses 80-90 percent of potential production

- Fields likely to lose out from GRE: Prudhoe Bay, Kuparuk, Lisburne, Milne Point, Endicott, Niakuk, Point McIntyre, Alpine, PBU Satellite fields (Aurora, Borealis, Midnight Sun, North Prudhoe Bay, Orion, and Polaris) and Kuparuk satellites (Meltwater, NEWS, Tabasco, Tarn and West Sak)

AOGA Recommendation:

More needs to be done for these fields

CSSB 21 (RES) Component: Competitiveness Review Board

AOGA does not support the concept of a Competitiveness Review Board

a) Does not meet Governor's principle for durability

b) Tax certainty is in jeopardy with each annual report

c) Confidentiality concerns

Components Not Addressed in CSSB 21 (RES)

1) Minimum Tax

- *AOGA Recommendation: Minimum Tax should be repealed.*

2) Statute of Limitations & Statutory Interest

- AOGA Recommendation: Either shorten the period for DOR determinations from 6 years back to 3 years, or eliminate the 11% minimum interest rate, or both

3) Joint Interest Billings

- AOGA Recommendation: Restore language specifically authorizing DOR to rely on joint-interest billings if it chooses to do so.

AOGA Supports Components of CSSB 21 (RES)

Cornerstone for significant and crucial tax reform

- Support the elimination of progressivity
- Support the concept of gross revenue exclusions
- Support the extension of the small producer & exploration tax credits
- Support the manufacturing credit

AOGA Concerns with CSSB 21 (RES)

- Base tax rate is too high, even at 25%
- Serious concerns with how the bill addresses tax credits (QCE elimination, changing the loss carry forward credit, “anti-stackable” provision)
- Does not support the Competitiveness Review Board
- Gross Revenue Exclusions should be expanded to fit the majority of projects in legacy fields
- Identified other ways to improve policy (repeal minimum tax, change statute of limitations/interest rate, and allow DOR to use joint-interest billings)