



AOGA

OIL & GAS:

**FUELING
ALASKA'S
ECONOMY**

House Resources Committee

CSSB21 (FIN) am(efd fld)

March 27, 2013

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AOGA Member Companies

PIONEER
NATURAL RESOURCES ALASKA



Apache



Hilcorp Alaska, LLC

ExxonMobil



TESORO



bp

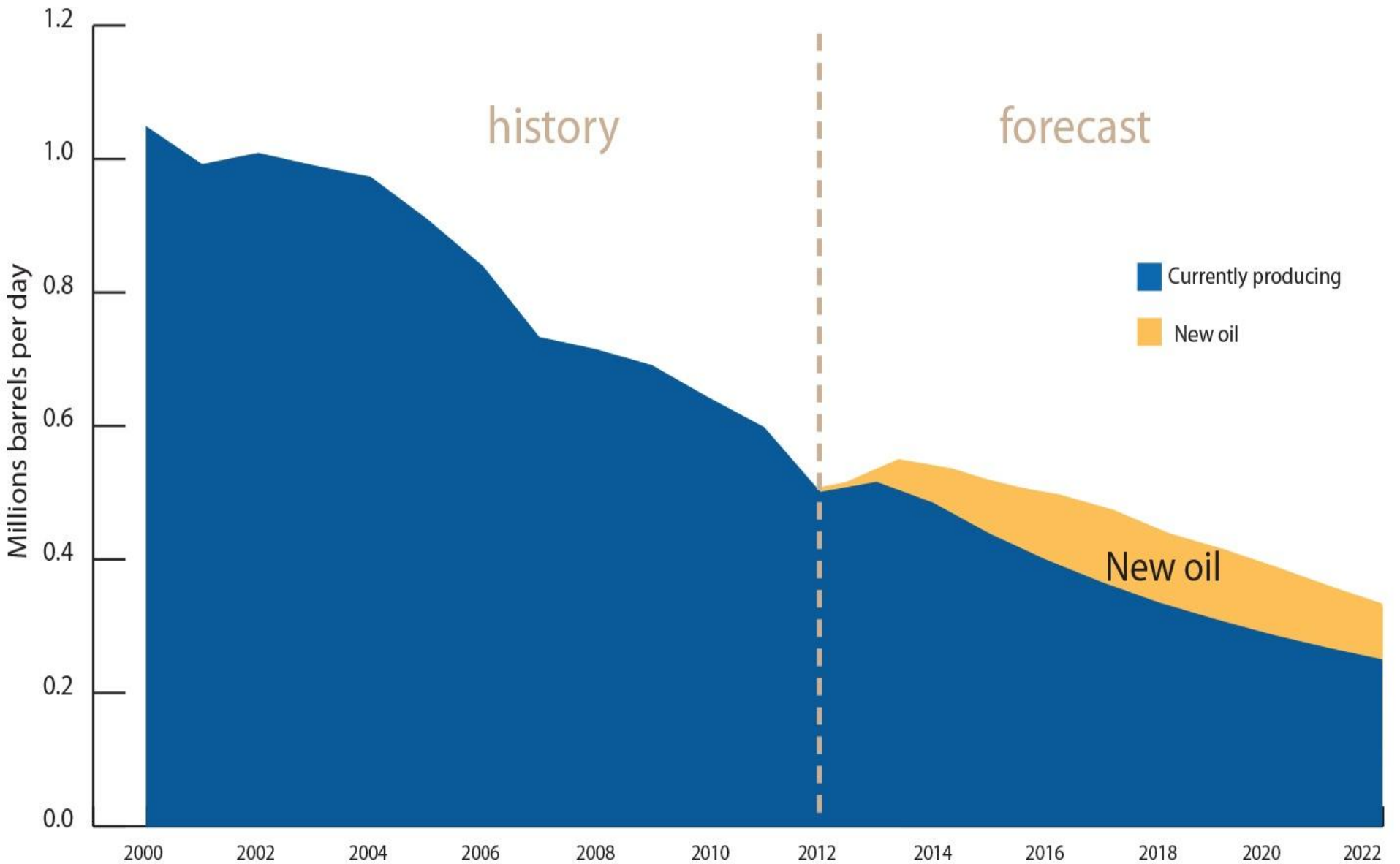


petroleum



Alaska North Slope Production

FY 2000-2012 and Forecasted FY 2013-2022



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 artificially creates “winners & losers”*

CSSB21 (FIN) am(efd fld) 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 brings extraordinary complexity to the tax.
 - 3) The repeal of progressivity is consistent with all of the Governor's core principles.

CSSB21 (FIN) am(efd fld) Component: Increasing the Base Tax Rate

- ***AOGA does not endorse increasing the base tax rate to 35%***
 - 1) Increasing the base tax rate burdens every investment case with a higher tax rate.
 - 2) Increasing the base tax rate is contrary to the Governor's second principle. It would not encourage new production.

CSSB21 (FIN) am(efd fld) Component: Tax Credits

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

1) AOGA does not support the 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

CSSB21 (FIN) am(efd fld) Component: Tax Credits

2) AOGA is concerned 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.

CSSB21 (FIN) am(efd fld) Component: Tax Credits

3) AOGA supports amending CSSB 21 to extend 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

CSSB21 (FIN) am(efd fld) Component: Tax Credits

4) AOGA supports the transferability of “Loss Carry Forward” credits

- a) New companies are many times not yet producing or producing only small volumes of oil/gas and have little to no tax liabilities.
- b) Maintaining the ability to transfer their losses to others allows companies to monetize the investments they have already made.

CSSB21 (FIN) am(efd fld) Component: Tax Credits

5) AOGA supports the new proposed manufacturing credit

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

CSSB21 (FIN) am(efd fld) Component: Gross Revenue Exclusion (GRE)

AOGA supports concept, but concerned about breadth of applicability

- 1) CSSB 21 attempts to expand GRE to 80-90% of the potential development on North Slope in legacy fields.
- 2) Current language causes concerns due to uncertain nature of the applicability.
- 3) Companies won't know if they qualify for GRE until after investment is made, so they won't be able to use the GRE as a factor when determining economics.

AOGA Recommendation:

Need additional clarity and certainty surrounding GRE for legacy fields

CSSB21 (FIN) am(efd fld) Component: Competitiveness Review Board

AOGA does not support the concept of a Competitiveness Review Board

- 1) Does not meet Governor's principle for durability
- 2) Tax certainty is in jeopardy with each annual report
- 3) Confidentiality concerns

CSSB21 (FIN) am(efd fld) Component: Statutory Interest Rate

AOGA supports the lowering of the statutory interest rate

- 1) Because the current Federal Reserve rate is very low, the current statutory interest rate is 11% APR.
- 2) When coupled with a six year, statute of limitations, the current interest rate adds uncertainty for taxpayers.
- 3) Lowering the interest rate provides some certainty to taxpayers.

Components Not Addressed in CSSB 21 (FIN) am(efd fld)

1) *Minimum Tax*

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

2) *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 (FIN) am(efd fld)

Cornerstone for significant and crucial tax reform

- Support the elimination of progressivity
- Support the concept of gross revenue exclusions
- Support the transferability of loss carry forward credits
- Support the manufacturing credit
- Support lower statutory interest rate

AOGA Concerns with CSSB 21 (FIN) am(efd fld)

- Base tax rate is too high
- Serious concerns with how the bill addresses tax credits (QCE elimination, no extension of small producer and exploration credits)
- Does not support the Competitiveness Review Board
- Gross Revenue Exclusions for legacy fields needs clarity and certainty.
- Identified other ways to improve policy (repeal minimum tax, and allow DOR to use joint-interest billings)