

## Alaska Oil and Gas Association

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### AOGA Testimony on Senate Bill 86

#### Senate Finance Committee

April 2, 2015

Good Afternoon Co-Chairs Kelly, MacKinnon and members of the Committee. For the record, my name is Sarah Erkmann and I'm the External Affairs Manager for the Alaska Oil and Gas Association, commonly referred to as "AOGA".

AOGA is a professional trade association whose mission is to foster the long-term viability of the oil and gas industry in Alaska for the benefit of all Alaskans. Thank you for the opportunity to testify today on Senate Bill 86, an act relating to a refined fuel surcharge; relating to the motor fuel tax; relating to a qualified dealer license; and providing for an effective date.

AOGA represents the majority of oil and gas producers, explorers, refiners, transporters and marketers in Alaska. Our current members include: Alyeska Pipeline Service Company, Apache Corporation, BP, Caelus Energy, Chevron, eni petroleum, ExxonMobil, Hilcorp, Petro Star, Repsol, Shell, Statoil, Tesoro, and XTO Energy. Because this legislation is a tax related matter, this testimony has the unanimous consent from all of these companies; producers and refiners alike.

As a bit of history, Alaska has had some sort of oil spill cleanup fund in place since 1976 when the state created the Coastal Protection Fund during the construction of the Trans-Alaska Pipeline System or TAPS. Over time, the fund morphed into the Oil Spill Mitigation Account, then the Oil Spill Reserve Account, then in 1986, into what it is today, the Oil and Hazardous Substance Prevention & Release Response Fund, or what it is commonly referred to as the “470 Fund”, a reference to the bill number that created it. Revenues generated by SB 86 could be deposited into the prevention account of this fund.

In addition to the hundreds of millions of dollars invested each year by the industry in Alaska to prevent, prepare and respond to the release of hazardous substances, AOGA has long supported fair and equitable efforts to ensure the State of Alaska is also financially prepared.

To date, the state has collected a surcharge only on the oil and gas industry to pay for the “470 fund”. As it is, if an oil industry related incident occurs, the industry is on the hook for and repays costs associated with the response, as do some other industries. However, that’s not the case across the state. Yet, the oil and gas industry is the only industry that has been assessed a specific surcharge to pay for the purposes of this fund, even though the state utilizes the fund for a variety of other industries and individual Alaskans. To date, the oil and gas industry has contributed more than \$350 million through this surcharge for the 470 Fund.

AOGA has been engaged in the policy decisions surrounding the 470 Fund since its inception. In 1994, AOGA supported the legislation that split the initial surcharge into two separate accounts, one for response and one for prevention. AOGA did not oppose the modification to the surcharge in 2006 because the total taxable amount remained at 5 cents per barrel.

Despite the stated purpose of cleaning up and preventing spills, previous Administrations and Legislatures allowed for the fund to be used for non-spill projects such as campgrounds, state airports, tank farm remediation, privately owned greenhouses and new ferries. DEC and the Legislature should be commended because it appears these types of expenditures are no longer being appropriated from the fund, but the corpus of the fund may have been unnecessarily reduced during years when these types of appropriations were authorized.

Although oil and gas production currently accounts for 100 percent of the surcharge for the fund, DEC annual reports show that, from Fiscal Year 2010 – FY 2014, oil production and exploration and natural gas production altogether amount to less than 29% of total spill volume.

AOGA endorses the same position as the Oil and Gas Transition Team for the Walker/Mallott administration, which advocated for the State to utilize other revenue sources before increasing the surcharge on the oil and gas industry. Senate Bill 86 does broaden the contributing efforts of others that use the fund's services.

Additionally, AOGA advocates for DEC to continue to identify efficiencies internally. To that end, AOGA has identified suggestions for DEC's consideration and will work with the State to further identify cost reductions without diminishing the state's strong oversight and regulation of the industry.

We also encourage the State to adopt other policies to assist the state in recovering costs from other users who are not currently reimbursing the State after a response. In FY 14, DEC billed more than \$3 million to various industries and recovered one-third of that amount. To strengthen the State of Alaska's oil spill preparedness and response, there must be an effort to recover more than 30 percent of the state's costs.

In closing, AOGA is not opposed to Senate Bill 86. It DOES broaden the contributions of others that use the fund's services without significantly impacting our member companies.

Thank you.