

Alaska Oil and Gas Association



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COMMENTS OF THE ALASKA OIL & GAS ASSOCIATION ON SB 192 SENATE RESOURCES COMMITTEE FEBRUARY 28, 2012

Co-Chairmen Paskvan and Wagoner, Members of the Committee: good afternoon. For the record, my name is Kara Moriarty and I'm the Executive Director of the Alaska Oil and Gas Association (AOGA). Thank you for the invitation and opportunity to testify on Senate Bill 192, specifically the Committee Substitute (CS) work draft adopted last Friday, referred to as version "B".

Before I get into the specifics of the bill, I'd like to take a few moments, especially for those watching at home, to describe AOGA, our diverse membership and our process in evaluating public policy proposals before adopting a position.

AOGA is a business trade association whose mission is to foster the long-term viability of the oil and gas industry for the benefit of all Alaskans. We represent 16 member companies that represent the breadth and scope of the industry in Alaska.

Starting in Cook Inlet, we represent companies with both an on-shore and off-shore presence. We represent long-time Cook Inlet employers like Marathon and Tesoro. We also represent two of the newest players in the Inlet, Apache and Hilcorp, as well as XTO who has been producing oil from two traditional platforms for some time.

Geographically, moving to the northeast to Valdez, we represent one of the smallest refineries in the United States, Petro Star and the largest employer in the area, Alyeska Pipeline Service Company.

Moving up the Richardson Highway, we represent three member companies in the Fairbanks/North Pole area; with Petro Star's refinery in North Pole and the refinery operated by Flint Hills. Alyeska also maintains a significant office and workforce in Fairbanks.

We represent companies with interests all across the North Slope, both onshore and offshore, from legacy companies such as BP and ExxonMobil, to the two newest producers, Pioneer and eni petroleum, and the newest explorer, Repsol. Although Chevron divested its assets in Cook Inlet, it still has interests on the North Slope.

Finally, we also represent Shell and Statoil who are focused on developing federal resources.

All told, AOGA's members hold active leases for more than 1.2 million acres of state land. There is little doubt we represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

One of the key purposes of AOGA is to provide a forum for the discussion of matters of general interest to its members, and it is the policy of AOGA that there has to be 100% consensus before any positions are taken on tax policy matters.

AOGA did not support the changes that were made to the production tax system in 2006 and 2007. We believed then and we believe now that the current tax makes Alaska uncompetitive for investment dollars for long-term development and production. All of my member companies, from explorers like Repsol, to refineries like Flint Hills, to producers like Pioneer and BP believe meaningful changes to the tax system are necessary to stem the decline in oil production.

We have been asked to give our opinion of the CS before you and were asked if my member companies believe this will "move the needle" in making Alaska more competitive and a better place to do business.

AOGA does not support this CS. Not one of my member companies believes this work draft results in meaningful reform.

The CS proposes to make very slight changes to the progressivity provisions of the production tax system. One of the most egregious provisions of the current tax is the fact that as the price of oil increases, and as a higher tax is implemented, all prior dollars are taxed at the higher rate. One approach to address this is through a bracketing concept that sets tax rates at different levels as the price increases, so that each level is taxed only once, setting a specific rate for each bracket, thus moderating the impact of higher tax rates.

The CS does nothing meaningful to change this onerous provision, thus continuing an imbalance in the risk-reward investment environment in Alaska. It does not improve Alaska's competitiveness and although we have billions of barrels of reserves, this CS does not create a business climate where the reward can be commensurate with the risk.

The Senate Bi-Partisan Working Group recently issued a press release outlining what the caucus wants from oil reform. In it the caucus stated three things (1) Increased Oil Production, (2) More Jobs for Alaskans, and (3) Sustainable State Revenue Over the Long Term.

We support all three tenets of those goals, but in essence those three items boil down to just one - increased production. Without increased production there is no sustainable revenue. Without increased production and revenue, jobs throughout Alaska are in danger. And as I stated earlier, AOGA does not believe this CS will increase production.

Without bold and meaningful reforms, Alaska's production will continue to decline at a rate that, according to the Office of Management and Budget, creates potential deficits as early as 2015 growing larger in each succeeding year.

From AOGA's perspective we have a production problem that will soon result in a serious revenue problem for the state. In 2006 and 2007 many companies testified that ACES would not attract the investment Alaska needs to change the production curve and you haven't. In fact production is significantly lower today than what Alaska was forecasting when it passed ACES in 2007.

One only needs to look to Cook Inlet for guidance. Co-Chair Wagoner and many members of the Legislature reacted to Cook Inlet production concerns with bold and meaningful tax reforms targeted at making Cook Inlet commercially attractive. By all accounts these reforms have been successful.

Alaska needs to appreciate the North Slope production problem with the same level of concern and react with similar bold and meaningful reforms. The overall government take in Alaska is too high and we have continued to testify and support the components in the Governor's proposal as a first step in providing meaningful reform. Tax policy does affect business decisions, and this CS will not improve my Board members' ability to attract the investment dollars needed to change Alaska's course. The competition for these dollars is real, and we encourage the committee to put Alaska in a better and more competitive position.

Thank you for the opportunity to testify and I'm happy to take any questions the committee may have.