

ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

Sponsor Statement **House Bill 63 Alaska Fair Share Bill**

Eleven of the last fourteen North Slope oilfields that have come into production since 1989 pay none, or almost none (less than 1%) of Alaska's 15% Production Tax. That exemption applies whether oil is at \$10/barrel, and profit margins are low, or at \$30, \$40 and \$50/barrel when profit margins balloon. At \$20/barrel, profit margins are high enough that BP announced last year it would use excess profits at that price, and above, to send to shareholders in increased dividends, and to engage in a corporate stock buy-back program (BP announcement attached).

According to the Department of Revenue, current laws, with the existing system of exemptions, allowed producers roughly \$1 billion more in profits from North Slope operations last fiscal year than the state received in total North Slope Tax and Royalty revenues. Oil averaged roughly \$31.50/bbl last year. At the \$41/bbl oil has averaged the first seven months of the fiscal year, the margin by which corporate profits exceed state revenue for North Slope operations would jump to over \$2 billion (Alaska Department of Revenue, 2005 estimate).

The Governor recently did what he felt was possible without a statutory change, and made a real but relatively small dent in this imbalance. Absent the Governor's proposal, current law would send roughly 95 million barrels of ANS crude oil out of state at a Production Tax of between 0% and 1% in FY '06. Under the Governor's proposal, roughly 85 million barrels still remain subject to a Production Tax of between 0% - 1%. This year, Kuparuk, North America's 2nd largest field, will pay less than a 1% production tax, and Tarn, a Kuparuk satellite that produces 8 million barrels/year, will pay a production tax of 0%. At \$41/bbl, even with the Governor's proposal, the Department of Revenue estimates oil company profits will exceed total state North Slope oil revenue by roughly \$2 billion. At \$31/barrel, that gap still approaches \$1 billion.

The Fair Share Bill is not a so-called "Shelf the ELF" proposal. "Shelf the ELF" proposals seek to impose a flat 15% tax on all fields, at all prices. This bill recognizes smaller and older fields should receive some tax relief under the ELF (Economic Limit Factor). But it provides for a modestly higher Production Tax at higher oil prices, and a lower Production Tax at lower prices. It also allows the ELF to reduce a field's Production Tax below the maximum rate of 15%, but sets a modest minimum Production Tax of 5%.

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HB63 also provides for tax relief and incentives. It expands the current “Royalty Relief” law from 2003’s HB 28, using the standards and procedures in that law, and provides that any additional taxes imposed by this bill may be waived upon a showing by a producer that tax relief is needed to make development of a new field, or continued production at an older field economically feasible. Tax relief is also provided at very low prices to further encourage development.

In all, the bill provide Alaskans with a fair share at average and higher prices, when production is quite profitable, and producers with fair tax relief and additional incentives at low prices, so they can have assurances that taxes will not be too high when production is less profitable.

Oil is a non-renewable resource, and state tax laws should reflect the state’s interest in meeting our Constitutional mandate that the state “provide for the utilization, development and conservation of all natural resources belonging to the state, including lands and waters, for the *maximum benefit of the people.*” Alaska Const. Art. 8 Sec. 2.