Oil Tax Fact Sheet, Jan, 4, 2012:

1. Background (so you understand the system)

The main problem is that the Governor's bill reduces the tax rate for existing fields - in exchange for no commitments of new work (by reducing the tax surcharge while companies reap windfall profits at high prices).

Governor's Bill: The Governor wants to reduce the base tax for new fields from 25% of profits - to 15% - no matter how productive those fields are. But the biggest point, and loss for the state is that he wants to reduce the tax ***on all fields*** by cutting the rate taxes increase at high, windfall prices. Under current law a small progressive tax increase starts only after a company has made $30 in profit on a barrel of oil. At that point, after a company makes it's $30/barrel in profit, current law slowly raises the tax rate by 4/10 of one percent for every dollar that price of oil rises after the point the company makes $30 on that barrel of oil. Until $30 is made in profit the tax rate remains at the base 25%. And, we charge no ACES production tax until companies start making a profit.

In all, when the Governor's proposal in full implementation - it will cost $8 billion in tax losses over its first 5 years. He also increases the tax credit from 20 to 40% for doing "in field" work - that is - work in fields they've already developed, and, likely, that they were going to do anyway. Paying companies for work they were already going to do is poor policy. I could see focusing an additional tax credit on new, needed Heavy Oil production, but he doesn't do that.

House Democrats Proposal: HB 239 - requires companies to do needed development work in Alaska to buy down their tax rate with tax credits: They can get increased credits by: increasing their last 3 year average well expenditures; or exploring new, unexplored fields (units), which we want; or by building the new, expensive processing facilities to separate water, oil and gas for placement into the pipeline - right now independent companies (except for ones in Alaska history) cannot get access to existing processing facilities, and the cost of a new processing facility often kills a new development.

2. Why The Public Should Be Concerned:

The Democratic plan requires new Alaska investment and exploration in Alaska to get a tax break. The Governor just gives $8 billion away over 5 years on a hope, wing and prayer that companies will reinvest in Alaska.

Giving corporations $1.8 billion/yr, with no requirement of doing additional work, hiring Alaskans, and exploring needed new fields is folly. Given the free choice just to keep the money - companies will keep it, and take it to Houston and London. That's what they did before 2007, when the old ELF system charged a near 0% Production tax on 15 of 19 North Slope fields. Any new field that wasn't massive would pay a 0% tax.

When taxes were low before 2007, production was declining at the same rate it is today, and we had 40% less investment on the North Slope, and 40% fewer jobs. Just giving money away in low taxes has never worked, and won't work this time.

You don't negotiate from your knees by handing over $8 billion over five years, with the naive hope that companies choose to reinvest that money in Alaska, with no binding requirements that they do so. Last time we had low taxes in Alaska, with no requirement of reinvestment in Alaska - companies just kept the money, and didn't re-invest it at acceptable rates.

The Governor's plan is Trickle Down Economics. Give oil companies a free $8 billion in tax breaks over the next 5 years, and hope they choose to reinvest it in Alaska. We should require new Alaska investment and hiring, and new exploration, before giving away money.

We need more exploration and production in Alaska, even though this year exploration will be at its highest level in 20 years. New oil from existing fields, alone, cannot reverse the decline in Alaska production. That's why our plan focuses on new fields. The Governor focused on that point in early comments; until Exxon and BP, which will receive the bulk of the tax credits, testified they would not invest in new exploration units under the Governor's Bill. Conoco was non-committal. Conoco did announce, prior to 2011, before the Governor introduced his plan, that they were committed to exploring and producing in NPR-A - so that new development cannot be attributed to his tax bill.

The Plan introduced by House Democrats is far more effective.

It grants tax reductions only if companies do oil field development work in Alaska that we want them to do. Our plan requires that they invest in Alaska and create employment to buy down their tax rate with earned tax credits. We need new exploration. Democrats offer a larger tax credit for investment in exploration in new fields. We need to make new fields economic to produce. We offer a larger tax credit for companies who build the processing facilities needed to put new oil into the pipeline. We want more well development. We offer a tax credit of companies increase their last 3 year average of well development investments.

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