Testimony of the
Alaska Oil & Gas Association
To
SENATE FINANCE on CS SB 305 (RES)

April 8, 2006

Thank you for the opportunity to testify on the Committee Substitute to Senate Bill 305. My name is Judy Brady. I am the executive director of the Alaska Oil & Gas Association. We are a private non-profit trade association whose 17 member companies represent the majority of the oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

You know our member companies. Each of these companies has as much at risk as the State of Alaska in the outcome of this legislation.

In the next years – these companies will give the final grade on the success or failure of this legislation –they will either continue to invest in Alaska...at the levels needed to stop the production decline....or they won't.

Believe me – the oil and gas companies operating in Alaska want this experiment in tax strategy to be successful.

And it is an experiment.

This legislation is unprecedented.
As Dr. Pedro Van Meurs has said – the PPT will make Alaska's tax system unique in the world.
It represents the largest tax increase against a single industry in the history of the United States.
It has the paradoxical goals of increasing taxes and, at the same time, attracting more investment.
Alaska's tax system will be either a model or a "lesson".

This is a huge challenge for the Legislature and for the industry.

AOGA is now running our first television ad in 15 years. It is 30 seconds. It covers 50 years. It is about the next 50.

Oil and gas.
Alaska's industry.
50 years strong.
34,000 jobs.
90% of the state's general fund.
This is the past.
The future?
It is being written in Juneau.
Today!

We are worried.
You should be too.

What are we worried about?

A half empty oil pipeline.
Declining oil production on the North Slope.
Declining oil and gas production in Cook Inlet.
That the high prices are masking the effects of falling production.

We worry about how this legislation will affect the industry's ability to stop the decline.

The precarious balance between increasing taxes – increasing investment.
We worry that every time you change the tradeoffs - you risk that balance.

If the tax rate is too high and - in addition - too much value is taken off the medium to high price end - Alaska jumps to the "high cost – high tax" quartile of worldwide competition for investment – without the reserve sizes to justify the jump.

It is entirely possible for Alaska to price ourselves out of the investment market.

How much is too much?

As more information is made available through these hearings, concepts of what is "too much" and what is "reasonable" - for Alaska's environment - are evolving.

Dr. Finizza, Econ One Research, told the House Finance Committee on Thursday: "In trying to determine what range it is reasonable to have taxes... above (20/20) I think you should be cautious. I wouldn't go above that, personally."

How much is too much? What is reasonable for Alaska's resource base?

When the economists finish talking about full cycle net present value and post take development and discount rates – I would suggest you apply one more test – the "look out the window test".

Who's out there and how much are they investing? Just how competitive is Alaska right now – at the highest oil prices in years? Why aren't companies who are now investing in Canada and the U.S. investing here? We all really need to understand why we don't have 10 new exploration companies testifying at these hearings. We need to understand how to use this legislation to make Alaska *more* competitive.

We worry that as you continue to chop away at the incentives for investment you inadvertently ratchet the tax rate up even higher.

We worry about the concept of slap shot "progressivity" through a windfall profits tax. Some ideas, historically, have never worked out the way they were intended – a windfall profits tax is one of them. We seem to have lost track of the fact that a net profits tax *is* progressive.

And as to the question of whether it might be a good move to set tax rates high and "then lower them later if Alaska doesn't get investment"...Dr. Van Meurs warned that "it takes 10 years to recover your investment position" if you lose it with a faulty tax strategy.

This tax legislation is not intended to lose Alaska's investment position – it is intended to improve it. We don't have 10 years to get it right.

You have heard from every consultant and every company that this tax legislation must be transparent; to be effective, it must be simple. PPT is an experiment in tax policy. Experiments take extra caution. All of us need to understand it – the tradeoffs – the likely consequences. If it is to be effective, the state and the companies must understand it in the same way.

Right now AOGA's Tax Committee is working on technical amendments – which we hope will promote this understanding – or at least help clarify where there is a difference of opinion. We will submit these amendments for your consideration next week.

You are spending hundreds of hours asking the right questions.
Thank you.
Keep asking them.
Please don't pass this legislation out until you are satisfied you have the answers you need.

How is Alaska challenged?
What is the production potential
  -of the North Slope legacy fields?
  -of heavy oil?
  -of wildcatting?
  -of Cook Inlet?
How can we insure this production?
How can we attract the investment required?
Who is our competition?

And the most important question – How can Alaska break out of the pack?

The stakes are very high.   You *are* writing Alaska's future.

Thank you.