ALASKA STATE LEGISLATURE

REPRESENTATIVE LES GARA

February 20, 2013

Governor Sean Parnell
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Parnell:

I am writing to you for information to help us analyze the proposed changes to our oil tax system. As you know, I and others have filed legislation that rewards companies that invest in new Alaskan production with reduced tax rates. But we don't focus our bill on just lowering rates with the hope and no binding commitment that companies will voluntarily take large tax breaks they are allowed to spend anywhere in the world, and decide to reinvest them in Alaska. I believe rules should be written conditioning the tax break on Alaskan reinvestment.

The largest part of your legislation eliminates Alaska's windfall profits share – called progressivity – and reduces the state's share for our oil by roughly $1.5 billion per year at today's oil prices. So we do have a disagreement on how best to protect Alaskans, our treasury, and how to write effective reform legislation that will increase Alaska production. Basically, I and my co-sponsors believe that reasonable tax reductions should only come with new Alaska production, or investments aimed at new Alaska production. We don't want to reward companies that take our revenue and spend it outside Alaska.

Here is the information I request:

1. **A list of the companies you discussed ACES with in 2009 and their assessments of how that system was working.**

   In 2009 you announced in that you had surveyed 10 oil companies, only 2 of which supported changes to ACES. See Dec. 20, 2009 *Petroleum News.* According to the *Petroleum News*:

   "Parnell also said that he has already discussed ACES with 10 oil companies. Of those, he said, "four to five" thought the tax system was 'just fine', while 'two or three' thanked the state for the tax credit program, and two companies wanted to see ACES changed."

   I would like to know which oil companies said ACES was fine, which ones thanked you for the credit system, and which ones asked for changes. Of the latter, what changes did they ask for? That will help us review oil company testimony as we hear it in committee, and help up keep up with what seem like changing positions as companies are offered greater and greater tax rollbacks, which they, of course, would love to accept.

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2. **A ten-year list of Alaska investment commitments from the oil industry and the estimated production increases from those investments sufficient to justify the lost revenue from ending progressivity.**

   In 2010 you agreed with us that you wanted to keep Alaska's windfall profits share in ACES, so that as oil prices rose to very high levels and companies were making record or near record profits, Alaska should share fairly in those profits. You noted that eliminating progressivity would allow companies to take that money out of state, and your current bill includes no requirement that the $1 - $2 billion companies will be given in tax breaks by eliminating progressivity will be spent in Alaska. You stated:

   "I'm not interested in changing progressivity so they [the companies] can take that money and invest it somewhere else. If they're willing to invest it here, I'm open to considering it, but I'm standing up for Alaskans in this, not some other country." Jan. 24, 2010, *Petroleum News,* <u>ACES Working Well But Needs Adjustment</u>.

   I would like to see a ten year list of those Alaska investments companies have committed to that will bump their investment up generate sufficient revenues to replace the $1.5 billion we are losing in progressivity at current prices, and that they will not use any of that money to spend in other countries.

3. **An explanation of why you no longer favor tax credits for Alaska investment after years of saying they would increase oil production**.

   In 2010 you offered HB337 which proposed to keep ACES, with the following adjustment, which you said would fix the problems you saw in ACES after working with it for three years as governor and lieutenant governor. HB337 proposed to increase the tax credits we give companies for drilling development wells in existing fields from 20% of capital costs to 30%. That would have cost the state roughly $250 million in state revenue losses, compared to the roughly $1.5 billion the current law gives away at current prices.

   In your bill before the last Legislature, HB 110, after you hired new staff, you again increased the credits you would give to companies, offering to have the state pay 40% of well expenditures for companies drilling in existing fields. Again, you claimed that this would incentivize new production.

   But in this year's bill you have reversed course, and eliminated these credits you had previously stated in your prior two bills would incentivize needed production from existing fields.

   I would like to know the information you had that showed those credits worked, and why you have reversed course suddenly in this year's bill. I would also like to know why you moved from an original bill in 2010 that would have simply adjusted these incentives, at a state cost of about $250 million per year, to the current bill's provision eliminating our windfall profits share which will cost Alaskans roughly $1.5 billion a year in lost revenue, and that does not include any provision requiring companies to re-invest that money in Alaska.

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Thank you. This information will be useful if we can receive it before amendments are due in the House Resources Committee.

Best Regards,

Representative Les Gara

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