

Production Optimism

Is it possible there's just too much information out there? That's the way I felt when trying to put together this article on Proposition 1. There are so many numbers being thrown around in the articles and reports I've read on Oil Tax Reform in Alaska that most of us will have a hard time separating the wheat from the chaff. Ultimately, the word that defines the whole discussion is "production", and is the real theme of the debate.

A number that shows how ACES, the oil tax system we've had for the last seven years, has failed us, is the average 6% decline in production that ACES was not able to halt. Last year the decline was over 8%. The latest report for this year shows a decline of only 0.13%. That is dramatic change caused by projects that were planned, but not economically feasible before tax reform, to get green-lighted after tax reform made them look better. It's not about whether the oil companies can make money on a project, but whether they can make more money here than somewhere else. ConocoPhillips reported to their investors making \$40/bbl from Lower 48 production, while in Alaska it's around \$34/bbl. Alaska is competing with the world for the limited resources they have to invest.

The old ACES system contained many credits unrelated to production. The More Alaska Production Act (MAPA/SB21) has removed most of those, instead focusing on credits for actually producing new oil. The smaller companies that have been using the exploration credits the last few years are now looking to produce, so it's perfect timing for the independent producers. It's important that more companies get involved in our oil industry, bringing competition and diversification.

Something else we need produced is jobs. An average number of 840 jobs were being created yearly before ACES. After ACES came into effect, the number of new jobs dropped in half. Currently under tax reform, jobs are booming on the North Slope.

For many years now, the North Slope producers have had to re-inject natural gas back into the fields to keep the pressure up. Enough time has passed that they are now able to siphon off more of the gas; this along with the new oncoming gas production in Point Thomson is finally going to allow us to have enough gas to fill a large pipeline. It's critical to keep the oil fields producing so that we can also produce the 3.5 billion cubic feet of natural gas per day needed to supply the Alaska LNG project, which besides lowering all of our utility bills, will help fund the state.

To consider the principle behind Oil Tax Reform, pull out your last pay stub and look at what you paid in taxes. Now imagine that your company alone had a special tax that doubled what you had to pay out. How long would you keep working there? Every project that the oil companies do is evaluated based on cost and returns. If the tax system adds too much cost then they'll just do one of the many other development projects they have lined up around the world. If you want some real proof of how taxes affect the oil business, take a look at how much activity is going on in the Cook Inlet where there are essentially no production taxes.

ACES came into being in 2007 in the midst of the VECO scandal. As Roger Marks, the petroleum economist points out, "The hysteria of the time gave us ACES: a fluke of history. Afterward, higher oil taxes remained as a misdirected punitive relic of that unfortunate time". Oil Tax Reform came back on

the table in 2010, as it was realized what we had lost with ACES. The Bipartisan Coalition controlled our legislature and so nothing happened, even though polls showed an overwhelming majority of Alaskans were in favor of reform. Even the anti-reform legislators admitted that ACES needed fixing. Oil Tax Reform was a hot issue in the 2012 elections, and the voters replaced a few members of the coalition based on it. The Governor and the legislators in 2014 were finally able to achieve the goal and pass MAPA to reverse our production decline.

In the end, the pivotal issue that Proposition 1 centers around is whether or not production can be increased. Many on the YES side are pessimistic and don't believe that we can increase production even though we have some of the largest reserves in the world. Governor Parnell was an optimist, and along with our legislature believed that we could increase production, and strove to accomplish that. I will be an optimist on Tuesday, August 19th and vote NO on 1.