



PRESS RELEASE

For Immediate Release: April 22, 2010

Legislature Transmits Gas Tax Decoupling Bill to Governor; SB 305 Must be Signed by April 30

(Juneau, Alaska) – The State Legislature has transmitted a bill (SB 305) that would separate the state’s natural gas taxing structure from that of crude oil to Governor Sean Parnell for his signature.

After an extensive review, first initiated by the Legislative Budget and Audit Committee in 2008 and continued through two subsequent legislative sessions, majorities of both the Senate and House of Representatives ultimately agreed to decouple Alaska’s oil and gas taxes before the open season for the TransCanada-AGIA gas pipeline begins on May 1.

“The Legislature engaged in a serious debate over the decoupling issue, in which the administration participated at every level,” said Sen. Bert Stedman, R-Sitka. “They have a full understanding of the issue and the urgency for getting the bill signed. We have transmitted the bill in a timely manner, to allow the attorney general time enough to conduct a final review and give his approval. I look forward to seeing the bill become law.”

“The Legislature is very concerned about the potential long-term loss of revenue that could result if gas and oil are still taxed under the current system when the open season for the gasoline commences on May 1,” said Senate President Gary Stevens, R-Kodiak. “We have sent the bill to the Governor for his consideration, and hope he will reflect the will of the Legislature by signing it before April 30.”

Under current Alaskan law oil and natural gas are taxed at one rate based on the combined BTU equivalent value of both commodities. However, as has been the case over the last several years, oil and gas can have vastly different economic value. Recently, oil has been trading at 15 to 20 times the value of gas and based on U.S Department of Energy forecasts, the two commodities are expected to stay within those relative ranges over the next decade.

When oil is priced significantly higher than gas, Alaska’s coupled tax structure allows lower-value gas to dilute the revenues generated by higher-value oil. The net effect is lower tax liabilities for producers and reduced revenue for Alaska. Under forecasted production and pricing scenarios, the state could see a

\$1.5 to \$2.0 billion loss in revenue once gas begins to flow through the pipeline. In other words, Alaska would be getting no money for its gas and even less money for its oil.

“The tax inducement provisions of the Alaska Gasline Inducement Act (AGIA) lock in our current gas tax structure for the first ten years of commercial production,” Stedman said. “If we fail to act now, a major North Slope gas sale will have a dilutive effect on our oil revenue stream that is simply unacceptable. We’re not only exposing the state to unnecessary financial risk, but we are creating economic instability and financial uncertainty for partners looking to invest in our natural gas pipeline project.”

Speaking about the legal risk to the State, attorney Sen. Joe Paskvan, D-Fairbanks said, “There are a number of legal opinions which have touched upon the legal risk of acting before or after May 1. The only way that a definitive answer would be received is in the context of litigation against the state, with the Alaska Supreme Court or other appellate court publishing a decision on a matter of first impression. We do not know, and cannot know, the definitive answer as to what the court’s legal conclusion might be regarding a later decoupling. Therefore, it is prudent and wise to act now when prompt action can be taken to avoid any legal risk to the treasury.”

The solution is SB 305, which separates oil and natural gas for purposes of calculating their production tax value. With the May 1st deadline just nine days away, the Governor must act immediately to decouple our oil and gas taxes and to protect the state’s long-term financial interests, Stedman said.

###

For more information, please contact: Miles Baker, Office of Senator Bert Stedman, at 465-3873.