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Opinions

Low oil prices create opportunity for Alaska to manage its own oil and gas investment better

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Alaska has long struggled with finding the best way to tax oil and gas production to get the maximum economic value from the state's resources. This struggle has shaped the oil and gas tax system since the discovery of oil in Cook Inlet in 1957. It intensified with the first flow of North Slope oil out of Prudhoe Bay in 1977, and almost 39 years later, consumes us still.

The current debate revolves around the billions the state is spending on tax credits as an incentive for continued oil and gas exploration, development and production. With the current downturn in oil prices, tax credits have become an important legislative issue. In considering what happens next, it is time to think about the state's oil and gas tax policy and whether changes are in order.

With the discovery of oil in Alaska, rather than develop the resource itself, the state opted to offer leases to companies with the expertise to explore for and produce Alaska's oil and gas. In exchange for them taking the risks of exploring for and developing our oil, we give the companies a share of the profits and significant rights.

As a landowner, Alaska captures value from oil production through royalty payments set in contract. As a sovereign government, Alaska captures value through a production tax that compensates the state and its residents for the taking of its nonrenewable oil and gas resources.

In the decades since oil was first produced, the state's production tax policy has focused on tax incentives as the primary tool to keep declining oil and gas fields in production longer and to attract new exploration and development to the state. As oil production on the North Slope predictably declined and Inlet oil and gas exploration stagnated, multiple incentives were added. Tax credit programs were designed to deal with varying fossil fuel resources and types of companies, different production goals, and the geological conditions in different regions of the state. The result is a complex web of tax credits and other incentives, some applicable statewide and others targeted to a specific region or type of company.

What the various tax incentives and credits have in common is the shifting of revenue from the state to oil and gas companies. Through reduced tax revenue or direct cash payments from the state, Alaska is a major indirect investor in oil and gas exploration and development, sharing in the risks of company investment decisions but not the decision-making. The assumption is if the state puts more money in the control of the companies, they will invest in Alaska and the investment will result in greater revenues to the state in the future through increased production.

There are very few requirements for an oil and gas company to qualify for Alaska tax credits. In effect, any oil or gas project qualifies for credits, regardless of a company's financial capability, expertise, or the viability of the project. Because of taxpayer confidentiality, the state does not have access to the information needed to assess the state's return on its investment. The state is relying on the unquantified assumption its multibillion-dollar investment will ultimately pay off in new production and additional revenue that makes the investment worthwhile.

Falling oil prices have exposed the flaws in our oil and gas tax policy. Now is the time to consider a new policy, one that gives Alaska more control over and more knowledge about oil and gas development in our state. We can begin with scaling back tax credits and other tax incentives. From there, we can explore other opportunities for improving oil and gas production in the state. Options include direct state investment in projects using stringent criteria for approval; encouraging collaboration and cooperation between companies in the use of existing infrastructure to achieve more efficient development; and using tax credits sparingly with a higher bar for approval and making data submission a requirement of any tax incentive program.

As the owner of a vast and valuable natural resource, it is time to find better ways to manage the development of Alaska's oil and gas.

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The views expressed here are the writer's own and are not necessarily endorsed by Alaska Dispatch News, which welcomes a broad range of viewpoints.