

February 28, 2007

Senator Charlie Huggins, Chair  
Senate Resources Committee  
State Capital Room 205  
Juneau, AK 99801-1182

The Honorable Chair & Members of the Senate Resource Committee,

The Alaska State Chamber of Commerce is concerned about SB 80. SB 80 changes the tax structure of the recently enacted Petroleum Production Tax (PPT). The State Chamber believes changing the tax structure so quickly will have long- term negative impacts on the future of Alaska's economy. We believe that the consequences as a result of SB 80 have not been fully considered with regards to all businesses in Alaska.

The State Chamber of Commerce strongly believes that SB 80 takes the wrong approach in creating a fair business environment. No business can possibly prosper or operate in a rapidly changing business climate. We urge the legislature to not pass this legislation from committee.

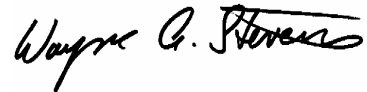
With the passing of the PPT legislation last year, the state effectively tripled the production taxes on the oil industry in Alaska. Last year's action will result in roughly a \$1 billion increase in revenues to the state this fiscal year. Under the enacted legislation, Alaska's oil producers are allowed to deduct operating costs from taxes. In addition, they are also allowed to take a 20% tax credit for capital investments as an incentive for improving North Slope infrastructure. To counter-balance deductions the legislature implemented language that disallows deductions arising from fraud, willful misconduct, or gross negligence.

SB 80 aims to preclude expenditures associated with improper maintenance of property or equipment. What exactly is improper maintenance? SB 80 does little to define improper maintenance, potentially creating more confusion and litigation. SB 80 appears to limit any type of deduction if shown it was due to improper maintenance. Doubtfully, any company would throw away millions of dollars in shipping Alaska's oil just to save a few dollars on pipe. Any company grossly negligent in its operations is already unable to use any deduction whether it is for maintenance or anything else. Then for what purpose does SB 80 serve Alaska? Enacting SB 80 won't give Alaska more oil, will not make up for lost state revenues due to offline pipe nor will it create more jobs or force any company to sign a gas pipeline contract.

The State Departments of DEC, DNR and the AOGCC have all raised critical concerns about SB 80, primarily the ability to implement the legislation should it become law. These departmental concerns also note that the words “improperly maintained” may have serious conflicts with existing standards to protect the state from faulty maintenance.

SB 80 seems incongruent with existing state agencies while creating instability in the business environment by re-addressing the same tax structure in less than a year. No business can possibly prosper or operate in a rapidly changing business climate. The State Chamber of Commerce strongly believes that SB 80 takes the wrong approach in creating a fair business environment. We urge the legislature to not pass this legislation from committee.

Yours in economic prosperity,

A handwritten signature in black ink that reads "Wayne A. Stevens". The signature is written in a cursive, flowing style.

Wayne A. Stevens  
President/CEO