STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-3500
fax: 907-465-3532

550 West 7th Avenue #1700
Anchorage, Alaska 99501
907-269-7450
fax 907-269-7463
www.Gov.Alaska.Gov
Governor@Alaska.Gov

Governor Sean Parnell
STATE OF ALASKA

April 29, 2010

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault,

Under the authority vested in me by Art. II, Sec. 15, of the Alaska Constitution, I have vetoed the following bill:

HCS CSSB 305(FIN)

"An Act providing that the tax rate applicable to the production of oil as the average production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas produced outside of the Cook Inlet sedimentary basin and used in the state increases above $30 shall be 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value and $30, or the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between that average monthly production tax value and $92.50, except that the total rate determined in the calculation may not exceed 50 percent; providing for an increase in the rate of tax on the production of gas as the average production tax value on a BTU equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary basin and not used in the state increases above $30; relating to payments of the oil and gas production tax; relating to the lease expenditures that may be deducted when determining production tax value; relating to availability of a portion of the money received from the tax on oil and gas production for appropriation to the community revenue sharing fund; relating to the allocation of lease expenditures and adjustments to lease expenditures; and providing for an effective date."

HCS CSSB 305(FIN) would impose a new, complex and costly tax regime on certain categories of Alaska oil and gas production. The legislation would decouple oil and gas production taxes and provide one tax calculation for oil, Cook Inlet gas, and gas used in-state and another, separate tax calculation for non-Cook Inlet gas that is exported out of state.

The legislation imposes a significant overall tax increase on these operations which diminishes Alaska investment and job prospects during these globally challenged economic times.

Second, the legislation creates more uncertainty and destabilizes Alaska's fiscal environment right at a time when companies are holding multiple open seasons for a large diameter Alaska natural gas pipeline. Changing the tax regime at this time, and potentially doing it all over again after an open season, creates even more uncertainty around company investment decisions. Future Alaska jobs depend upon having more fiscal stability in Alaska's environment, not less.

Third, the Department of Law has advised me that this bill is not needed at this time to protect the State's interests in obtaining a fair return for its oil and gas assets because the Legislature retains broad discretion to change tax laws. And, to the extent that the Alaska Gasline Inducement Act (AGIA) locks in the production tax obligation at the start of the open season, it locks in the tax only as to gas for which firm transportation capacity is acquired during the first binding open season. The AGIA tax inducement does not lock in the production tax obligation for oil.

For these reasons, I have vetoed the bill. I will continue working with the Legislature to do all the State can to stimulate responsible oil and gas exploration and development so Alaska's resources flow to Alaskans and markets beyond, and so our citizens have good paying jobs into the future.

Sincerely,

Sean Parnell

Sean Parnell
Governor

Enclosure

STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-3500
fax: 907-465-3532

550 West 7th Avenue #1700
Anchorage, Alaska 99501
907-269-7450
fax 907-269-7463
www.Gov.Alaska.Gov
Governor@Alaska.Gov

Governor Sean Parnell
STATE OF ALASKA

April 29, 2010

The Honorable Gary Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Stevens,

Under the authority vested in me by Art. II, Sec. 15, of the Alaska Constitution, I have vetoed the following bill:

HCS CSSB 305(FIN)

"An Act providing that the tax rate applicable to the production of oil as the average production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas produced outside of the Cook Inlet sedimentary basin and used in the state increases above $30 shall be 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value and $30, or the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between that average monthly production tax value and $92.50, except that the total rate determined in the calculation may not exceed 50 percent; providing for an increase in the rate of tax on the production of gas as the average production tax value on a BTU equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary basin and not used in the state increases above $30; relating to payments of the oil and gas production tax; relating to the lease expenditures that may be deducted when determining production tax value; relating to availability of a portion of the money received from the tax on oil and gas production for appropriation to the community revenue sharing fund; relating to the allocation of lease expenditures and adjustments to lease expenditures; and providing for an effective date."

HCS CSSB 305(FIN) would impose a new, complex and costly tax regime on certain categories of Alaska oil and gas production. The legislation would decouple oil and gas production taxes and provide one tax calculation for oil, Cook Inlet gas, and gas used in-state and another, separate tax calculation for non-Cook Inlet gas that is exported out of state.

The legislation imposes a significant overall tax increase on these operations which diminishes Alaska investment and job prospects during these globally challenged economic times.

Second, the legislation creates more uncertainty and destabilizes Alaska's fiscal environment right at a time when companies are holding multiple open seasons for a large diameter Alaska natural gas pipeline. Changing the tax regime at this time, and potentially doing it all over again after an open season, creates even more uncertainty around company investment decisions. Future Alaska jobs depend upon having more fiscal stability in Alaska's environment, not less.

Third, the Department of Law has advised me that this bill is not needed at this time to protect the State's interests in obtaining a fair return for its oil and gas assets because the Legislature retains broad discretion to change tax laws. And, to the extent that the Alaska Gasline Inducement Act (AGIA) locks in the production tax obligation at the start of the open season, it locks in the tax only as to gas for which firm transportation capacity is acquired during the first binding open season. The AGIA tax inducement does not lock in the production tax obligation for oil.

For these reasons, I have vetoed the bill. I will continue working with the Legislature to do all the State can to stimulate responsible oil and gas exploration and development so Alaska's resources flow to Alaskans and markets beyond, and so our citizens have good paying jobs into the future.

Sincerely,

Sean Parnell
Governor

Enclosure