

Alaska Oil and Gas Association



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TESTIMONY BY THE
ALASKA OIL AND GAS ASSOCIATION
TO THE SENATE JUDICIARY COMMITTEE
REGARDING SB 2001 & CSSB 2001(RES)
ON THE TOPIC OF "PERSONNEL ISSUES: AUDITORS"

October 29, 2007

Mr. Chairman and Members of the Committee:

For the record, my name is Thomas K. Williams, and I am Senior Royalty & Tax Counsel for BP Exploration (Alaska) Inc. I am appearing before you today to testify in my role as chair of the AOGA Tax Committee.

My present testimony pertains to the topic of "Personnel Issues: auditors" as scheduled for consideration today.

AOGA concurs with the State's goal of having a staff of highly capable, experienced, and professional auditors for oil and gas audits. Such an audit staff is essential for legislators, government officials and the public to have full confidence that Alaska's tax laws are being firmly, fairly and consistently enforced. Establishing this confidence will help provide stability in the state fiscal regime. It should also, we anticipate, lead to increasing transparency in the administration of the taxes that will enable our members to report and pay the correct amount of tax as it becomes due. In saying this, of course, I do not mean to disparage any auditor currently working for the State.

In this regard, we would point out that the Legislature, in changing the production tax, can make it fairly direct and straightforward for the state auditors to audit, or make it a nightmare for them that is almost as impossible to audit and enforce on a consistent principled basis as it will be for taxpayers to comply with it correctly. The difference lies in whether, in circumstances deemed appropriate by the Department of Revenue ("DOR"), producers and explorers may rely on an operator's joint-interest billings to them. If allowed by DOR, such billings would still be adjusted to remove expenditures in them that are specifically disallowed in AS 43.55.-165(e) or to adjust those that are subject to allocation under AS 43.55.165(g) and (h).

AOGA is worried that repealing AS 43.55.165(c) and (d) could deprive DOR of this important tool, and we have prepared a "white paper" to explain our basis for this concern. Rather than take the Committee's time to discuss that paper, I could, with the Chairman's

permission, distribute copies of it to the members of the Committee now, or I could hand them out during a break or at the conclusion of this hearing.

Turning now to the matter of the particular “Personnel Issues” involved in strengthening DOR’s oil and gas audit capabilities, there are two basic approaches you could take. One is to engage outside auditors on a contract basis to supplement DOR’s present audit team. The other is to hire new auditors as state employees. We see pluses and minuses for either approach, with no clear recommendation to offer you.

If you opt to hire the new auditors as state employees as the Administration proposes, there is the further question about whether to put them in the “exempt” category of state service. Although we might wish we could offer you useful advice, we do not believe we are qualified to speak on this matter, nor do we see it as an appropriate one for us to be commenting on.

Thank you for giving AOGA this opportunity to testify.