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Governor Sean Parnell
STATE OF ALASKA

July 26, 2011

The Honorable Doc Hastings
Chairman
House Natural Resources Committee
United States House of Representatives
1324 Longworth House Office Building
Washington, DC 20515

The Honorable Edward Markey
Ranking Member
House Natural Resources Committee
United States House of Representatives
1324 Longworth House Office Building
Washington, DC 20515

Dear Chairman Hastings and Ranking Member Markey,

The State of Alaska provides the following comments for the July 27, 2011 hearing, entitled "State Perspectives on Offshore Revenue Sharing."

Before focusing on the issue of revenue sharing, it is important to consider the current state of American energy production. There is a growing recognition in this country that the United States needs more domestic oil and gas production. Borrowing nearly 40 cents on the dollar to buy oil and gas from foreign governments, some of which oppose our fundamental principles of freedom, is an untenable situation. This is especially true at a time when our nation faces record levels of debt and millions of our citizens are unemployed. Congress must not only change policies to encourage more domestic oil and gas production, it should consider substantial permitting and litigation reform.

The good news is that the resources necessary to change course are available. The Alaskan Outer Continental Shelf (OCS) is estimated by the United States Geological Survey to contain 27 billion barrels of oil and 132 trillion cubic feet of natural gas. If produced, this oil and gas would generate thousands of jobs and billions of dollars in revenue to the federal treasury. Alaskan OCS oil would also prolong the life of the Trans Alaska Pipeline System (TAPS), a multi-billion dollar asset, paid for by the American people over the years through tariffs on North Slope oil. TAPS once transported over 2.0 million barrels a day. Today, it is shipping only about 600,000 barrels per day and declining at seven percent per year. As production continues to decline, the challenges of

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maintaining operation become increasingly more difficult. It is unclear if TAPS will be able to continue operation below about 300,000 barrels per day.

Although Congress has granted coastal states significant authority over the development of offshore waters in legislation such as the Deepwater Port Act, Outer Continental Shelf Lands Act (OSCLA), and the Coastal Zone Management Act (CZMA), a critical missing element is offshore revenue sharing with the states. It is not only fair to share part of the revenue from offshore development with coastal states, it is a vitally important part of an overall strategy. Communities in coastal states like Alaska are often concentrated in coastal areas. Development of offshore resources will require large, often complicated, construction projects. Such development increases demands on ports, transportation services, fuel supplies, pipeline and transmission corridors, and other vital infrastructure.

It is important to note there is precedent to support revenue sharing for energy production. The Mineral Leasing Act give states approximately 50 percent of the governmental revenues derived from production on federal lands within their borders. The Reclamation Fund then ensures that additional revenues are returned to eligible western states. Additionally, those states receive "Payments in Lieu of Taxes," a federal-state partnership designed to compensate for the impact federal lands have on state tax bases.

One model to consider is the framework Congress passed in 2006, which opened part of the Gulf of Mexico to drilling. Under the formula, 37.5 percent of revenues are provided to the coastal state and 12.5 percent is directed to the Land and Water Conservation Fund.

We would suggest a similar model, which instead dedicates 12.5 percent of OCS revenues to develop renewable energy. This would ensure that revenues from non-renewable resources – oil and gas – would be used to assist local communities and others in making the transition to renewable energy.

I urge bipartisan support for OCS revenue sharing with states. I have recently joined governors from other coastal states in writing a letter to the Senate Committee on Energy and Natural Resources on this issue. A copy of that letter is attached. I respectfully request that my comments and the attached letter be included in the hearing record.

Sincerely,



Sean Parnell
Governor

Enclosure