

SENATE JOURNAL
ALASKA STATE LEGISLATURE
TWENTY-FIFTH LEGISLATURE
SECOND SPECIAL SESSION

Juneau, Alaska

Thursday

October 18, 2007

First Day

Pursuant to the September 4 Proclamation of the Governor calling for the convening of the Second Special Session of the Twenty-fifth Legislature, the Senate was called to order by President Green at 8:05 p.m.

The roll showed nineteen members present. Senator Cowdery was excused from a call of the Senate.

The prayer was offered by the Chaplain, Senator Olson. Senator Hoffman moved and asked unanimous consent that the prayer be spread. Without objection, it was so ordered.

Dear Lord Jesus,

As we gather here together on this eve of Alaska Day, we pray and thank you for this opportunity that we have to be in this United States of America.

Watch over us now as we look into the issues of the special session. We pray that wisdom will prevail and the spirit of cooperation will dwell within us. We pray for your special anointing, Lord, tonight.

Lord, we thank you for the Summer – the safety for most. Also watch over our families: those that aren't here and those that want to be.

In your precious name, Amen.

Senator Davis led the Senate in the Pledge of Allegiance.

Certification

Senator Stevens moved and asked unanimous consent that the journals for the first day of the First Special Session and the Final Supplement for the First Session and the First Special Session be approved as certified by the Secretary. Without objection, it was so ordered.

Introduction of Senate Floor Staff

Senator Elton introduced the Senate floor staff for the Second Special Session:

Molly George, Assistant Sergeant at Arms
Jessica Smith, Senate Page
Katie Smith, Senate Page
Elisabeth Wertheimer, Senate Page

Messages from the Governor**Executive Proclamation**

Under the authority of art. II, sec. 9, and art. III, sec. 17, of the Alaska Constitution, and in the public interest, I call the Twenty-Fifth Legislature of the State of Alaska into its second special session at Juneau, Alaska in the legislative chambers on October 18, 2007 at 2:00 p.m. to consider the following subjects:

1. relating to oil and gas production taxes and conservation surcharges on oil and making related amendments;
2. making statutory changes to place certain positions for auditing oil and gas tax and royalty matters in the exempt service of the State Personnel Act;
3. authorizing the public disclosure of certain taxpayer information relating to oil and gas production taxes;
4. relating to the sharing between state agencies of certain oil and gas tax and royalty information.

Dated at Anchorage, Alaska this 4th day of September, 2007.

/s/

Sarah Palin
Governor

Introduction and Reference of Senate Bills

SB 2001

SENATE BILL NO. 2001 BY THE SENATE RULES COMMITTEE
BY REQUEST OF THE GOVERNOR, entitled:

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to the issuance of advisory bulletins and the disclosure of certain information relating to the production tax and the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; amending the State Personnel Act to place in the exempt service certain state oil and gas auditors and their immediate supervisors; establishing an oil and gas tax credit fund and authorizing payment from that fund; providing for retroactive application of certain statutory and regulatory provisions relating to the production tax on oil and gas and conservation surcharges on oil; making conforming amendments; and providing for an effective date."

was read the first time and referred to the Resources, Judiciary and Finance Committees.

The following fiscal information was published today:

Fiscal Note No. 1, Department of Revenue
Fiscal Note No. 2, Department of Natural Resources
Fiscal Note No. 3, zero, Department of Administration

Governor's transmittal letter dated October 17:

Dear President Green:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting a bill to make Alaska's oil and gas production tax system one that is clear and equitable. This legislation would provide the

necessary tools to protect the state's interests as it moves forward with the industry on a mutually beneficial basis in the exploration and development of Alaska's oil and gas resources.

The bill would amend the current production tax on oil and gas under AS 43.55 and would amend other statutes to aid in the administration and enforcement of the production tax. It accomplishes six primary goals: (1) requires more complete reporting of tax-related information by producers, explorers, and operators; (2) establishes rules for the sharing of confidential information between state agencies; (3) ensures the public disclosure of important production tax information; (4) provides various tools to help the Department of Revenue (department) administer the tax; (5) institutes clear fiscal terms for explorers and producers; and (6) establishes an oil and gas tax credit fund to ensure our incentive programs function effectively.

To accomplish the first goal, the bill specifies extensive annual reporting requirements for producers and explorers and makes clear that the department also has authority to require monthly reporting of tax information. The information would provide the department's production tax auditors the tools necessary to conduct thorough and accurate production tax audits and would help the department better monitor costs that may be claimed as deductions or used to obtain tax credits. In addition, the bill would authorize the department to require reporting of forward-looking information, such as producers' budgets for future expenditures. The department needs this kind of information for accurate revenue forecasting. The bill would provide for penalties of up to \$1,000 per day for failure to file certain required reports, in addition to other remedies under current law.

The second goal is accomplished by clearly providing for the Department of Revenue and the Department of Natural Resources to share extensive producer and explorer information, while maintaining the confidentiality afforded under current law. This information sharing would improve administration of both agencies' programs and increase efficiency, since the two agencies often have similar data needs under their respective tax and royalty programs.

To fulfill the third goal, the bill would make clear that the department may publish production tax information aggregated among at least three taxpayers. This would include information on taxes paid, values of oil and gas produced, capital expenditures and other costs, tax credits, and more. Publishing such information would give the public confidence that Alaska is receiving its equitable share of our natural resource value.

As one means of achieving the fourth goal, the bill would provide for placing petroleum revenue auditors into the exempt service. This would help the state retain and attract the necessary expertise by giving the departments flexibility in setting salaries that compete with similar positions in the private sector. Petroleum revenue auditors currently employed with the state would have the option to remain with their union or to be moved into the exempt service.

Another tool is an extension of the statute of limitations for oil and gas production taxes. The bill would increase the time allowable for the department to conduct audits and assess tax deficiencies from three to six years. This change would give the department's oil and gas production tax auditors more time to conduct accurate and thorough audits and to make sure that producers are paying the correct amount of tax under the law.

The fifth goal requires a means to clearly establish how we value oil produced in Alaska and then how we will share that value with those who find, drill, and develop these nonrenewable resources. The bill requires the department to spell out in regulation which costs may be deducted against the tax. It would also expand the list of cost categories that are not allowed to be deducted.

One disallowed category consists of costs for repair, replacement, or deferred maintenance of facilities or equipment, including pipelines, associated with an unscheduled interruption of or reduction in the rate of oil or gas production or with an oil spill or other unpermitted release of a hazardous substance. The bill contains a limited exception, for example, for natural catastrophes beyond the producer's control. Another disallowed category consists of costs to build or operate a refinery or crude oil topping plant. In addition, the current partial disallowance for dismantlement, removal, or abandonment costs is expanded to be a complete exclusion.

When it comes to sharing the value of the resource, the bill puts the state's share at 25 percent of the value after appropriate costs have been deducted. As prices, and profitability, rise, so does the state's share of the value. Once the net value of a barrel reaches \$30.00 on an annual basis, the state's share increases by 0.2 percent for every dollar increase above that trigger. The bill would ensure a certain amount of state production tax revenues by setting a floor on the tax paid by certain highly productive fields. This floor is 10 percent of the gross value of the oil and gas produced from those fields.

The sixth, and final, goal of the bill is to ensure the effectiveness of our credit incentive programs. The bill would establish an oil and gas tax credit fund that is financed with a percentage of oil and gas production tax receipts. The bill would give the department the ability to expend these funds in order to purchase credits from explorers and small producers. The intent of the incentive credit program is to attract new companies and new investment to our state in the pursuit of oil and gas resources. While we have succeeded in attracting new entrants, these companies have run into problems finding purchasers for the credits accumulated from their investments. If they cannot monetize these valuable credits, the purpose of the program is defeated.

With these changes, our state will have the necessary tools to protect Alaska's interests when it comes to appropriately valuing oil and gas production in this state. Alaska's share of the costs of investment would fall to 45 percent, while increasing our share of the net revenues to 48 percent. We would be able to tell the public, with confidence, that we are getting a fair share of the value derived from these non-renewable resources.

I urge your prompt and favorable action on this legislation.

Sincerely,

/s/

Sarah Palin
Governor

Unfinished Business

HB 87

President Green made the following appointments:

Citizens' Advisory Commission on Federal Areas

Senator Huggins

Rod Arno

Rick Halford

Announcements

Announcements are at the end of the journal.

Adjournment

Senator Stevens moved and asked unanimous consent that the Senate stand in adjournment until 9:30 a.m., October 22, 2007. Without objection, the Senate adjourned at 8:15 p.m.

Kirsten Waid
Secretary of the Senate

Announcements

Americans with Disabilities Act Notice - Persons with disabilities who require special accommodation or alternative communication formats to access committee meetings may contact the appropriate committee office or the Legislative Information Office in their community. Reasonable advance notice is needed to accommodate the request. For further information, call the ADA Coordinator at 465-3854 Voice/465-4980 TDD.

STANDING COMMITTEES

+ indicates teleconference
= indicates bill previously heard/scheduled

COMMUNITY & REGIONAL AFFAIRS

Oct 23	Tuesday	Beltz 211	3:30 PM
	-- Meeting Postponed --		
+ SB 161	COASTAL MANAGEMENT PROGRAM		

RESOURCES

Oct 19	Friday	Butrovich 205	9:00 AM
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Sponsor Presentation:		
	Governor's Production Tax Team		
	Information, Tools & Clearer Rules		
	-- Testimony <Invitation Only> --		
Oct 20	Saturday	Butrovich 205	8:00 AM
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Sponsor Presentation:		
	Governor's Production Tax Team		
	Alaska's Global Competitiveness		
	Under ACES		
	-- Testimony <Invitation Only> --		

RESOURCES (continued)

Oct 21	Sunday	House Finance 519	1:00 PM
	-- Time and Location Change --		
	Joint with House Oil and Gas Committee		
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Sponsor Presentation:		
	Governor's Production Tax Team		
	ACES Preserves Investment Climate &		
	Sectional Analysis		
	-- Testimony <Invitation Only> --		
Oct 22	Monday	Butrovich 205	10:00 AM
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Legislative Advisors/Consultants		
	-- Testimony <Invitation Only> --		
Oct 23	Tuesday	Butrovich 205	9:00 AM
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Industry and Associations		
	-- Testimony <Invitation Only> --		
	Public Testimony at 6:15 - Time limit		
	may be set		
Oct 24	Wednesday	Butrovich 205	9:00 AM
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Industry Major Producers		
	ExxonMobil, BP, ConocoPhillips		
	-- Testimony <Invitation Only> --		
	Public Testimony at 6:15 - Time limit		
	may be set		
Oct 25	Thursday	Butrovich 205	9:00 AM
+ SB2001	OIL & GAS TAX AMENDMENTS		
	Tentative agenda: Continuation/Callbacks		
	Previous Presenters: Industry and/or		
	Administration		
	-- Testimony <Invitation Only> --		

RESOURCES (continued)

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Oct 26 Friday Butrovich 205 9:00 AM
+= SB2001 OIL & GAS TAX AMENDMENTS
-- Testimony <Invitation Only> --

Oct 27 Saturday Butrovich 205 9:00 AM
+= SB2001 OIL & GAS TAX AMENDMENTS
-- Testimony <Invitation Only> --

JOINT COMMITTEES

LEGISLATIVE BUDGET & AUDIT

Oct 18 Thursday House Finance 519 10:30 AM
Presentation by Dr. Pedro Van Meurs and Daniel Johnston:
How PPT in its current structure compares to similar oil
provinces around the globe; and a discussion of costs.
Questions and Answers
All Legislators/Staff invited to attend

OTHER MEETINGS

MINORITY CAUCUS

Oct 18 Thursday Butrovich 205 8:15 PM
Minority Caucus

MISCELLANEOUS MEETINGS

Oct 18 Thursday Senate Chamber 8:00 PM
SENATE SESSION
Special Session Subjects:
1. Relating to oil & gas production taxes and conservation
surcharges on oil and making related amendments
2. Making statutory changes to place certain positions for
auditing oil & gas tax and royalty matters in the exempt service
of the State Personnel Act
3. Authorizing the public disclosure of certain taxpayer
information relating to oil & gas production taxes
4. Relating to the sharing between state agencies of certain oil
& gas tax and royalty information

VPSO TASK FORCE

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Nov 05	Monday	Kodiak Inn	9:00 AM
+	-- Teleconference --		
	Village Public Safety Officer Task Force		
	Opening Remarks - Senator Olson		
	VPSO Program Overview - Comm Monegan		
	Public Input and Discussion		
	Closing - Sen Olson & Task Force Members		