

ALASKA STATE LEGISLATURE

OIL AND GAS FISCAL SYSTEM WORKING GROUP

SEN. CATHY GIESSEL
Co-Chair
State Capitol, Room 427
Juneau, AK 99801-1182

REP. GERAN TARR
Co-Chair
State Capitol, Room 126
Juneau, AK 99801-1182

COMMUNICATION

To: The Honorable Pete Kelly, President of the Alaska State Senate
The Honorable Bryce Edgmon, Speaker of the Alaska State House

From: Senator Cathy Giessel, Working Group Co-Chair
Representative Geran Tarr, Working Group Co-Chair

Re: Status of Working Group Formed by House Bill 111 (Chapter 3, SSLA 17)

Date: January 2, 2018

Honorable Speaker Edgmon and President Kelly,

The purpose of this report is to meet the intent of Section 32 of House Bill 111 (Chapter 3, SSLA 17), the section of law creating a bicameral, bipartisan working group to analyze the State of Alaska's oil and gas fiscal regime (the Working Group).

The Working Group was charged

"to analyze the state's fiscal regime for oil and gas, review the state's tax structure for and rates on oil and gas produced in the state, recommend changes to the legislature for consideration during the Second Regular Session of the Thirtieth Alaska State Legislature, and develop terms for a comprehensive fiscal regime..."¹

House Bill 111 passed the Alaska Legislature and was signed into law in July 2017. Shortly thereafter we were appointed Co-Chairs of the Working Group and immediately commenced planning the next steps.

¹ House Bill 111, Section. 32 (a).

In outlining a framework for the Working Group to meet its primary objective, issuing robust and relevant recommendations, we developed a secondary and necessary objective: raising the literacy level on the topic of oil and gas for both members of the group, and, by extension, the legislature.

To that end, planning began in August for a group of six prospective Working Group members to personally meet energy industry stakeholders in Houston, Texas. The meetings were a unique opportunity to speak with individuals and companies to understand, in detail, the factors that trigger and move capital to different locations around the globe. These meetings were planned to take place in the city with the world's highest concentration of energy firms and experts.

Additionally, the members planned extended briefings with the three consultancies based in Houston that are on contract with the legislature through the Legislative Budget & Audit Committee (LBAC). While finalizing plans for the mid-September trip, Hurricane Harvey impacted the east coast of Texas, flooding much of Houston. As a result, on relatively short notice, we were forced to cancel the meetings.

The loss of the opportunity the Houston meetings provided underlined the need for some introductory level course on petroleum fiscal systems for members of the Legislature. We worked with the LBAC to bring two of the three consultancies from Houston to Anchorage, and host an all-day course that was open to legislators, staff, members of the executive branch, members of the press covering energy issues, and the public.

The introductory course, also called an Oil Fiscal 101 Course, was scheduled for October 18, 2017. In3nergy and Palantir, the two consultancies, were contacted, and several meetings took place with the presenters to ensure as much material could be adequately covered for the benefit of the attendees.

While planning the course, we discussed the Advisory Group, which is described in detail in HB 111:

(c) The co-chairs of the working group may form an advisory group to the working group, composed of members who are not legislators and who have expertise and skills to assist in the review and development of a new plan for the tax structure for and rates on oil and gas produced in the state. The members of an advisory group may include commissioners or employees of state departments, members of the oil and gas industry or trade associations, and economists.²

² House Bill 111, Section. 32 (c).

As we considered the description of the Advisory Group, two things became apparent. Firstly, the law clearly intended for a legislative group, made up of citizen lawmakers, to avail itself of as much expertise in the field of oil and gas that was possible. This was affirmed by the fact that House Bill 111 also charged the Working Group to make use of consultancies under contract with LBAC.³

Secondly, the Oil and Gas Competitiveness Review Board (Review Board), created in 2013 by Chapter 10, SLA 13, neatly fit the description of an Advisory Group outlined in House Bill 111: the membership and mission of the Review Board broadly mirrors the language that envisioned an Advisory Group in House Bill 111. Furthermore, as a body that had a record of dutifully meeting for several years and producing deliverables, the Review Board had the capacity to assist the Working Group without requiring a lengthy orientation.

The Review Board leadership was contacted and, after meeting with us and contemplating our invitation, agreed to be the Advisory Group. We look forward to working with this diverse group of subject matter experts, as well as providing them with a venue to facilitate tangible input.

On October 18, the Oil Fiscal 101 Course was successfully convened. We must note that, for being held on a state holiday (Alaska Day), the course was well attended in-person by dozens of members from the House and Senate, legislative staff, staff from the Department of Natural Resources and the Department of Revenue, energy industry stakeholders, reporters, and the public. Additionally, the course was live-streamed to nearly one-hundred other legislators and staffers.

The course was a great success, based on feedback received by those who attended in person and by the live-stream. The presentations and videos are publicly available, and we intend to offer the all-day course again, during the Second Regular Session in Juneau.

We formally invited members of our respective bodies to become part of the Working Group in late October 2017. The membership from each body includes legislators from both the Resources and Finance Committees. Since these standing committees would review virtually any legislation related to oil and gas, sourcing members from them was deliberate and necessary.

On October 24, 2017, the Working Group held its organizational meeting in Juneau during the Fourth Special Legislative Session. The introductory meeting consisted of formally announcing the composition of the Advisory Group, distributing certain annual reference materials, and scoping for future meetings.

³ House Bill 111, Section. 32 (d).

The full Working Group was unable to meet for the rest of 2017, but as Co-Chairs we kept in close contact and continued our discussions on plans going forward.

Nevertheless, we are pleased with the progress made in such a short timeframe that spanned a historic number of special sessions. We offer the preceding timeline of progress made so far.

Our plan now is for the Working Group to meet on Thursday, January 18th with a report from the Advisory Group regarding updates of former reports it issued under the auspices of the Review Board. We will then formally poll Working Group members regarding their wishes to continue in their capacity as members of the Working Group. Following this, we will establish a meeting schedule for both the Working Group, and the Advisory Group constituted under Section. 32 (c) of House Bill 111, for 2018.

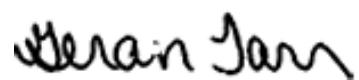
Therefore, we submit to you the recommendation that the Working Group remain constituted as an ad hoc group, committed to a goal of providing recommendations at a future time once the Working Group has had sufficient time to complete its work.

May this communication serve as our Working Group's intent to meet the deliverable outlined in Section. 32 (a) of House Bill 111.

Respectfully,



Senator Cathy Giessel
Working Group Co-Chair



Representative Geran Tarr
Working Group Co-Chair