

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

May 10, 2004

12:55 p.m.

**TAPE(S) 04-52**

**MEMBERS PRESENT**

Senator Scott Ogan, Chair  
Senator Ralph Seekins  
Senator Ben Stevens

**MEMBERS ABSENT**

Senator Thomas Wagoner, Vice Chair  
Senator Fred Dyson  
Senator Kim Elton  
Senator Georgianna Lincoln

**COMMITTEE CALENDAR**

CS FOR HOUSE CONCURRENT RESOLUTION NO. 39(RLS) am  
Establishing the Alaska Royalty and Revenue Committee.

MOVED SCS CSHCR 39(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HCR 39

SHORT TITLE: ALASKA ROYALTY AND REVENUE TASK FORCE

SPONSOR(S): RULES BY REQUEST OF ECON DEV, INT TRADE & TOURISM

05/06/04	(H)	READ THE FIRST TIME - REFERRALS
05/06/04	(H)	RLS
05/06/04	(H)	RULES TO CALENDAR PENDING REPORT
05/06/04	(H)	MOVED TO BOTTOM OF CALENDAR
05/06/04	(H)	IN RULES
05/06/04	(H)	RLS AT 1:30 PM CAPITOL 124
05/06/04	(H)	Moved CSHCR 39(RLS) Out of Committee
05/06/04	(H)	MINUTE(RLS)
05/07/04	(H)	RLS RPT CS(RLS) NT 4DP 3NR
05/07/04	(H)	DP: COGHILL, KOTT, MCGUIRE, MORGAN;
05/07/04	(H)	NR: BERKOWITZ, KERTTULA, ROKEBERG
05/07/04	(H)	TRANSMITTED TO (S)
05/07/04	(H)	VERSION: CSHCR 39(RLS) AM
05/08/04	(S)	READ THE FIRST TIME - REFERRALS

05/08/04 (S) RES  
05/10/04 (S) RES AT 0:00 AM BUTROVICH 205

**WITNESS REGISTER**

Representative Cheryll Heinze  
Alaska State Capitol  
Juneau, AK 99801-1182  
**POSITION STATEMENT:** Sponsor of HCR 39.

Mr. Pat Owens, Executive Director  
Resource Development Council (RDC)  
No address provided  
**POSITION STATEMENT:** Opposes HCR 39.

Ms. Judy Brady, Executive Director  
Alaska Oil and Gas Association  
No address provided  
**POSITION STATEMENT:** Opposes HCR 39.

Mr. Larry Howell, General Manager  
Alaska Support Industry Alliance  
**POSITION STATEMENT:** Opposes HCR 39.

**ACTION NARRATIVE**

**TAPE 04-52, SIDE A**  
^#HCR39

**HCR 39-ALASKA ROYALTY AND REVENUE TASK FORCE**

**CHAIR SCOTT OGAN** called the Senate Resources Standing Committee meeting to order at 12:55 p.m. Present were Senators Ben Stevens, Dyson, Seekins and Chair Scott Ogan. The first order of business to come before the committee was CSHCR 39(RLS).

**SENATOR WAGONER** moved to adopt SCS CSHCR 39(RES), version \W. There were no objections and it was so ordered.

**REPRESENTATIVE CHERYLL HEINZE** explained that many of the royalty taxes had not been looked at since the 1980's and the emphasis should be on how competitive Alaska is globally. She said the whole point to forming this committee is that it needs to send a message to industry that two consultants are being hired to do the work, the legislature isn't.

MR. PAT OWENS, Executive Director, Resources Development Council (RDC), said RDC is a statewide non-profit organization that represents companies from Alaska's oil and gas, mining, tourism and fishing industries. He was concerned with the resolution for a couple of reasons. It was not introduced until May 6, only four days earlier, and it needs more time to be thoroughly evaluated. He thought HCR 39 could send negative signals to existing and perspective investors in Alaska's oil patch. He urged members to focus on improving Alaska's competitiveness in order to grow the state's oil and gas industry rather than focusing on increasing taxes to the existing industry if the resolution passes.

CHAIR OGAN agreed that the bill was rushed and that there are significant changes from the original version. He asked if Mr. Owens wanted to comment on the changes, particularly page 1, line 13. The MacKenzie Report, commissioned by the Alaska Oil and Gas Authority (AOGA) said basically that Alaska is not that competitive, that it needs to do more to encourage the industry. He said the legislature needs good information to make good policy.

MR. OWENS said he appreciated the attention he is paying to the issue.

MS. JUDY BRADY, Executive Director, Alaska Oil and Gas Association, cautioned the committee against passing this resolution. She relayed a question that her exploration and production companies have heard from the headquarter offices: If the legislature increases oil and gas taxes in Alaska, taxes on their projects increase? At least two companies are making decisions now about whether or not to invest in new projects that will determine new production 5 to 10 years from now. She said HCR 39 is sending a mixed message to the industry that Alaska is considering raising their taxes. Her companies want Alaska policies to be clear and stable.

CHAIR OGAN said he thought that could be an accurate perception of the original resolution, but that is why it was changed. Legislative Budget and Audit (LB&A) has the authority to do a study if it wishes and it should already have accurate information.

MS. BRADY suggested that legislation should not be introduced because of the message it sends. Right now a lot of phone calls are being made [about taxes going up] and that's not good. LB&A could be simply directed to do a study.

CHAIR OGAN asked her to pass on the message that HCR 39 is different and have them comment on what is before them now. He has worked awfully hard to encourage development in the state and is not trying to discourage it in any way.

MR. LARRY HOWELL, General Manager, Alaska Support Industry Alliance, said his 25,000 to 30,000 contracting members are concerned with HCR 39 because it creates the perception that oil and gas taxes will be increased although the bill has obviously been changed. This bill focuses on the oil and gas industry and this is something that colleagues on both sides have told his members they would not do.

In addition, the Alliance believes this is very poor timing as gas line negotiations are going on right now that are important to the industry. "Increased taxation and a change to the Alaskan fiscal tax regime slows capital spending. I kid you not, contractors are on the first lines when it comes to slowed capital spending. We're the first to feel the pain when it comes to layoffs and that decrease in capital spending."

He suggested that a good study could be done by four of five firms worldwide, but it would be very expensive. It would most likely demonstrate that Alaska is clearly a very expensive and costly place for investment. It needs to be competitive around the globe.

CHAIR OGAN said that 90 percent of the work he does in the legislature is on resource issues. He probably doesn't need a study to tell him that Alaska is challenged with the highest operating expenses in the world. It takes years to attract new money for a new project to the state, but it only takes 15 minutes at a board meeting to have that money go away. This resolution has been changed to tell LB&A to give the legislature good information to make good decisions. He has a constitutional responsibility to make the best choices for Alaska.

MR. HOWELL said he appreciated his efforts.

CHAIR OGAN moved to amend the title on line 1 by adding "competitiveness of the" in front of "state's oil and gas "requesting a study and report on the competitiveness of the state's oil and gas tax and royalty structures". He then put forth Amendment 1, again. There were no objections and it was so ordered.

CHAIR OGAN moved Amendment 2 to delete "although" on line 13. After some discussion, he withdrew it.

CHAIR OGAN said he wanted to change "consultant" to "consultants" on lines 2, 6, 9 and 18 and to change the grammar accordingly.

SENATOR STEVENS moved that as conceptual Amendment 3. There were no objections and it was so ordered.

CHAIR OGAN wanted to consider making the date September 15 on line 20.

REPRESENTATIVE HEINZE pointed out that the House felt very strongly about making the date later rather than too soon.

CHAIR OGAN dropped his suggestion. There was no further discussion.

SENATOR WAGONER moved to pass SCS CSHCR 39(RES), version \W from committee with individual recommendations and attached fiscal note.

CHAIR OGAN said that LB&A has discretionary funds to spend on this committee and suggested amending the fiscal note to zero. There were no objections and the zero fiscal note was adopted and SCS CSHCR 39(RES) moved from committee.

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There being no further business to come before the committee, Chair Ogan adjourned the meeting at 1:35 p.m.